

# Costco

## Investment Thesis 2026 03 15

Costco operates membership warehouses and e-commerce platforms in the U.S., Puerto Rico, Canada, Mexico, the U.K., Japan, Korea, Taiwan, Australia, China, Spain, France, Iceland, New Zealand, and Sweden. As of February 15, 2026, Costco had 924 warehouses globally, including 634 in the United States and Puerto Rico, 114 in Canada, 42 in Mexico, 37 in Japan, 29 in the United Kingdom, 20 in Korea, 15 in Australia, 14 in Taiwan, 7 in China, 5 in Spain, 3 in France, 2 in Sweden, and 1 each in Iceland, and New Zealand. Costco operated 747 gas stations at the end of 2025. The company plans to open 21 additional new warehouses, including three relocations, in the remainder of fiscal 2026.

Costco's model focuses on limited selections of national and private-label goods, offered at low prices to drive high sales volumes and quick inventory turnover. (Costco often sells inventory before it is required to pay for it.) When combined with the operating efficiencies achieved by volume purchasing, efficient distribution, and reduced handling of merchandise in no-frills, self-service warehouse facilities, these volumes and turnover enable Costco to operate profitably at significantly lower gross margins than most other retailers.

In addition, the annual membership fees paid by customers are a significant source of revenue. Executive membership penetration continues to rise (11% higher than a decade ago), lifting the profitability of Costco's recurring fee base and merchandise sales, as these members spend 3 times more on average than a basic member. Membership renewal rates are high: 92.7% (U.S./Canada), 90.2% (worldwide).

Over the past five years, Costco has generated an average return on invested capital of 24.6%, well above its 7.4% cost of capital. Because of Costco's wide moat, these returns should persist for at least two decades. Costco's competitive dominance is exemplified by its sales per square foot of over \$2,000, which is more than double that of Walmart and nearly 5 times as much as Target. Inventory turns remain best in class at about 30 days compared with Walmart's 40 days and Target's 61 days.

I own Costco because:

- Costco is focused on middle and upper middle-class consumers.
- The goods it sells are high quality. Its prices offer genuine savings. Its product mix is quite good.
- Domestically and internationally there is still significant opportunity for expanding the number of locations.
- Customers are loyal, see the value of shopping at Costco, and (through annual membership fees) are a very meaningful source of recurring revenue.

## Prospects over the next 9 to 12 months

Based on the ratings of 29 analysts, Costco has a consensus price target of **\$1,063**, with a high of **\$1,225** (Morgan Stanley) and a low of **\$769** (Roth Capital). I have a fair value of \$921.91 on the stock. My price assumes an earnings growth rate of 13%, an EPS of \$19.23, and a PE ratio of 35. (The average PE for the last 5 years is 44.69.) Currently, Costco's stock price is a little over 9% above my fair value. Our position is up about 11%. If this were a company which I did not believe was great, I'd be tempted to sell at this level and pocket our gains. However, I believe Costco is a great company that I was finally able to buy at fair price. I don't see selling any of our position. And, if the stock price fell below \$900 again, I would buy more.

