Moschovakis Capital

Costco Wholesale Corporation

COST

EQUITY RESEARCH REPORT

September 18, 2026

CONFIDENTIAL — FOR INFORMATIONAL PURPOSES ONLY | NOT INVESTMENT ADVICE

COST — Costco Wholesale Corporation

Report Date: 2026-09-18

Analyst: Moschovakis Capital Research

EXECUTIVE SUMMARY

Metric	Value
Recommendation	HOLD
Current Price	$893.93 USD / €778.26 EUR
Fair Value (Base Case)	$893.93 USD / €778.26 EUR
Margin of Safety	0.0%
Target Entry (HOLD)	$805 USD / €702 EUR

Return Profile	Value
Dividend Yield	0.66% (based on $5.88 declared annual dividend and current price)
Expected Dividend Growth	13% latest increase; 8% long-term assumption
Expected Price Appreciation	6.2% CAGR (base case)
Total Expected Return (Base)	7.0% CAGR
Bear Case Total Return	0.7% CAGR
Bull Case Total Return	10.5% CAGR
Probability-Weighted Return	6.3% CAGR

Risk Assessment	Value
Wealth Preservation Score	63 / 100
Downside Protection Score	70 / 100
Quality Score	60 / 100
Risk Level	MODERATE (valuation-driven)
Probability of >50% Loss	<10%
Recession Profile	RESILIENT

One-Line Thesis:

Costco preserves capital through a durable membership model, near-zero net debt, and recurring fee income, but at 45x trailing earnings the current price offers no margin of safety yet still clears the 7% hurdle only under a benign base case, making it a HOLD until a 10% lower entry price rebuilds compensation for the valuation risk.

INVESTMENT THESIS

You own a membership business disguised as a retailer. Costco collects $5.3 billion in annual membership fees in fiscal 2025, up 10% year over year, and those fees flow almost entirely to operating income because merchandise sells at near break-even. The renewal rates tell you the moat is intact: 92.2% in the U.S. and Canada and 89.7% worldwide in the June 2026 quarter. That recurring fee stream gives Costco a recession-resilient profit floor that a pure merchandise retailer does not have. Even if comparable sales stall in a downturn, the fee income keeps the company profitable and underpins moderate downside protection.

The problem is the price. At $893.93, the stock trades around 45.5 times trailing earnings, 41.4 times forward earnings, and 28.2 times EV/EBITDA. Those multiples are lower than the five-quarter range shown in the provided data, but they remain a large premium to any normal consumer defensive business. The base case in this report produces a 7.0% total return only by assuming 8% annual EPS growth and a terminal multiple of 35x ten years from now. That outcome is plausible for a company of Costco's quality, but it delivers exactly the hurdle rate, not a margin of safety. The bear case, with 3% EPS growth and a 31x terminal multiple, returns only 0.7% per year. The probability-weighted return is 6.3%, below the 7% required to beat inflation plus a 4% high-yield account after fees and taxes.

Downside protection here comes from the business, not the valuation. Costco holds net cash, not net debt. The provided data shows cash and short-term investments near $11.1 billion against total debt of about $10.2 billion on one summary, and an even larger net cash position on another. Return on invested capital is estimated at 37% and return on equity at 26.6%, which signals real competitive advantage. The shares are not being diluted: the share count change is roughly negative 0.09% year over year. The dividend is small at about 0.66% yield, but the board just raised it 13% from $1.30 to $1.47 per quarter, and the payout consumes only about 30% of trailing earnings. A 30% revenue decline in a severe recession would hurt merchandise volume, but the membership fee base and the near-zero financial leverage give the company enough cushion to avoid permanent impairing financing.

The current valuation is what keeps this a HOLD rather than a BUY. Koalagains calls the stock "heavily overvalued" and says the market is "pricing the stock for absolute perfection." Stockoscope estimates the price is 37% above a blended intrinsic value and 41% above a DCF value. Analyst targets average $1,069.20, implying 19.6% upside from $893.93, but that upside assumes the multiple does not compress meaningfully. For a wealth preservation mandate, you do not pay 45x earnings for a 3% net margin retailer when a 10% pullback would restore enough expected return to clear the hurdle with a margin of safety. The entry target is $805, where the base case total return reaches roughly 8%. Until then, the stock belongs on the watchlist, not in the portfolio.

1. BUSINESS QUALITY ASSESSMENT

Costco operates membership warehouses in 14 countries plus Puerto Rico and Taiwan. It ended fiscal 2025 with 914 locations after adding 24 net new warehouses: 15 in the U.S., 2 in Canada, and 7 in Other International. The scale is the third-largest retailer globally by revenue, with annual net sales of $269.9 billion in fiscal 2025, up 8%, and total revenue near $275 billion or more on a trailing basis. The average warehouse produces around $270 million in annual sales, which is more than double a typical Walmart Supercenter and gives Costco enormous purchasing leverage with suppliers.

The moat rests on four layers. First, the membership structure locks in recurring revenue. Customers cannot walk in without paying an annual fee, and renewal rates stay above 90% in North America and near 90% worldwide. That fee stream is the profit engine. Second, the limited-SKU, high-volume model creates cost advantages. Costco carries far fewer items per category than a traditional retailer, which concentrates buying power and speeds inventory turnover. Third, Kirkland Signature private label generates over $75 billion in annual sales and gives Costco pricing leverage and member loyalty that brand-name competitors cannot replicate. Fourth, vertical integration in high-frequency items such as the $4.99 rotisserie chicken, supported by a company-owned poultry plant in Nebraska, protects price points and member traffic. These layers are durable. E-commerce competition from Amazon and scale retailers like Walmart threatens the top line, but the in-store treasure hunt and bulk consumables format remain difficult to disrupt.

The financial profile confirms high-quality earnings generation despite thin reported margins. Gross margin runs near 12.9% and net margin near 3.0%, which appears fragile on the surface but reflects the membership model: merchandise sales earn little by design, while fee income drives operating profit. In the May 2026 quarter, net

sales grew 12%, comparable sales grew 10%, and digitally-enabled sales grew 21%. Membership fee revenue grew 11% to $1.37 billion. That mix shows the core value proposition is still pulling traffic and converting it into recurring fee income.

Geographically, the U.S. dominates, followed by Canada and Other International. Canada sales reached $36.92 billion in the latest annual period shown, with operating income of $1.85 billion. Other International sales reached $38.27 billion with operating income of $1.66 billion. The international operations are growing, but the U.S. remains the profit backbone. The moat is strongest in mature North American markets and still developing in newer international markets such as China, where the warehouse club format is less penetrated. Regulatory and supply-chain complexity across 14 countries adds cost, but the diversified sourcing strategy described in SEC filings reduces dependence on any single supplier.

The business is understandable, not in secular decline, and defensive enough for a wealth preservation mandate. The primary threat to the moat is not competition but a slow deterioration in bulk-shopping preferences or a renewal-rate decline. The data shows management already flagging cautious renewal-rate guidance, with new member growth at 4.1%. That is the metric to watch, because the entire profit model depends on fee renewal. For now, the moat is wide and durable, and the quality of earnings is high even if accounting margins look thin.

2. FINANCIAL FORTRESS ANALYSIS

Costco's balance sheet is the strongest part of this investment case. The company holds net cash, not net debt. One Yahoo Finance summary shows total cash of $11.13 billion against total debt of $10.23 billion, resulting in net cash of about $0.9 billion. A separate finspry.com dataset shows debt-to-equity at 0.26 and debt-to-EBITDA at 0.59. A third Yahoo Finance line shows debt-to-equity of 60.26%, which includes a broader debt definition. In all versions, leverage is low. Current ratio sits around 1.06 to 1.07, consistent with a heavily inventory-financed retailer that relies on supplier payment terms rather than long-term borrowing.

Cash flow quality supports the solvency assessment. Operating cash flow on a trailing basis is approximately $15 billion, and levered free cash flow is approximately $6.95 billion. Free cash flow margin is roughly 3.2% of revenue, which looks small only because Costco operates on a high-volume, low-margin model. The absolute dollar generation is large and recurring. The company produced positive free cash flow in every period shown in the provided data. No restatements, auditor warnings, going-concern issues, or accounting concerns appear in the search results.

Interest coverage is not directly provided, but with debt near $10 billion and operating income near $10.4 billion in the latest annual period shown, coverage is comfortably above any threshold. Debt-to-EBITDA near 0.6 and net cash position mean the company can survive a severe recession without refinancing pressure. The provided data does not include a debt maturity schedule, so a precise cliff analysis is not possible, but the absolute level of debt relative to cash flow makes a refinancing crisis unlikely.

Earnings quality is acceptable rather than perfect. The reported net margin near 3% is a function of the membership model, and operating cash flow exceeds net income in the periods shown. Inventory levels are appropriate for the sales base. The Q3 2025 quarterly data contains negative year-over-year figures that conflict with Q1 2025 and with the fiscal 2025 annual results; the source itself flags those growth rates as suspect. Treat that single quarter as data noise, not a signal, because the fiscal-year results and the more recent Q3 2026 results both show solid growth. No evidence exists of revenue recognition problems or one-time gains inflating earnings.

Dilution is a non-issue. Shares outstanding changed by negative 0.09% year over year and 0.00% quarter over quarter. Management is not issuing stock to fund the business. The dividend payout is small relative to earnings

and free cash flow, so the company retains substantial internal capital for growth. Insider ownership is low at 0.17%, and institutional ownership is 73.81%, which is typical for a mega-cap but does little to align management insiders with outside shareholders.

Stress test: if revenue dropped 30% for two years, merchandise gross profit would compress, but membership fee revenue of roughly $5.3 billion would still cover a large share of fixed costs and interest. The company's net cash position means it would not face a debt covenant breach or forced equity raise. The dividend would likely survive, given the low payout ratio and the historical pattern of dividend maintenance. The solvency assessment is FORTRESS by the numbers, tempered only by thin operating margins that leave little room for operational error.

3. DIVIDEND ANALYSIS

Costco pays a real but modest dividend. The board raised the quarterly dividend from $1.30 to $1.47 per share, equal to $5.88 annualized. The dividend is payable August 7, 2026, to holders of record July 24, 2026, with an ex-dividend date of July 24, 2026. At the current price of $893.93, the yield is 0.66%. That is small, but the dividend is not the primary return driver; capital appreciation and membership fee growth are.

The payout ratio is conservative. Trailing EPS sits near $19.64 based on a 45.5 trailing P/E and the current price, so the $5.88 dividend consumes roughly 30% of earnings. Free cash flow per share is approximately $20.47 in the finspry dataset, so the dividend uses about 29% of FCF. Both coverage metrics leave a wide cushion. The company raised the dividend by 13% in the most recent action, which signals confidence in the cash flow stream rather than a need to preserve cash.

Dividend sustainability is ROCK SOLID. The free cash flow coverage is more than three times the dividend. The payout ratio is below any danger threshold, and the company carries net cash. In a recession where EPS dropped 40%, earnings would fall to roughly $11.8, and the $5.88 dividend would still represent a 50% payout, which is sustainable. The company has not shown a dividend cut in the provided data, and the recent increase occurred during a period when management also flagged cautious membership renewal guidance, which strengthens the signal that the board considers the dividend safe.

The limitation is yield. A 0.66% yield does not provide meaningful income protection against a multiple compression. The dividend contributes only 0.66% of the 7.0% base case total return. The rest must come from EPS growth and multiple stability. For a wealth preservation mandate, a secure small dividend is better than an insecure high yield, but it does not offset valuation risk. The dividend alone cannot rescue a buyer who overpays. It reinforces capital preservation only if the entry price is reasonable.

4. VALUATION ANALYSIS

The valuation is the core reason for the HOLD. The current price of $893.93 translates to a trailing P/E of 45.51, forward P/E of 41.43, EV/EBITDA of 28.24, P/FCF of 45.57, P/B of 11.98, P/S of 1.37, and PEG of 3.65. The FCF yield is roughly 1.8% to 2.2% depending on the source. These are premium multiples for any retailer.

Relative to history, the picture is mixed. The five-quarter snapshot from Yahoo Finance shows trailing P/E declining from 60.72 in May 2025 to 45.51 currently, forward P/E from 51.28 to 40.32, price-to-book from 18.04 to 11.97, and EV/EBITDA from 36.18 to 26.92. So the stock is less expensive than it was in 2025, but still far above normal consumer defensive levels. The absence of a five-year average in the provided data makes a precise percentile comparison impossible, but the absolute level is high. Koalagains describes Costco as trading at "massive premiums compared to both its peers and its own historical averages" and puts the stock in a "Wait/Avoid" zone. Stockoscope estimates the price is 37% above a blended intrinsic value and 41% above a DCF value using 7.5% growth for five years, tapering to 3.47% terminal growth, discounted at 7.47%.

Analyst targets support the HOLD. The range is $740 low, $1,069.20 average, and $1,315 high. The average implies 19.6% upside over the next year. Oppenheimer reiterated Outperform on September 16, 2026, with a $1,160 target. A one-year 19.6% price gain plus a 0.66% dividend would produce a 20% total return, but that outcome requires the forward multiple to hold above 40x and earnings to grow. It is not a margin-of-safety return; it is a momentum and quality-premium return.

The base case valuation work in this report assumes forward EPS of $21.58, 8% annual EPS growth for ten years, and a terminal P/E of 35x. That produces a ten-year price target of approximately $1,630. Discount the terminal price back to today at the 7% hurdle rate and you arrive at close to the current price, because the base case total return equals the hurdle. The calculation is: EPS in year 10 equals $21.58 times 1.08^10, which is $46.58. Multiply by 35 to get $1,630. The price CAGR from $893.93 to $1,630 is 6.2%. Adding average dividend yield of around 0.8% gets to 7.0%. The current price is therefore fair value under base case assumptions, with zero margin of safety. That is the definition of HOLD.

5. SCENARIO ANALYSIS

The base case assumes the economy grows at trend, Costco maintains its market position, and the membership renewal rate stabilizes near 90% worldwide. Comparable sales grow in the high single digits, membership fee revenue grows about 8% annually, and gross margin stays near 12.9% because the company keeps investing price savings back into the member value proposition. EPS grows 8% annually from a forward base of $21.58. After ten years, EPS reaches $46.58. The market assigns a 35x terminal multiple, below today's 41x forward multiple and below the 45x trailing multiple. The ten-year price target is $1,630. Price appreciation contributes 6.2% annually and dividends add about 0.8%, for a total return of 7.0%. This scenario is balanced. It does not assume multiple expansion, and it still achieves the hurdle, but it leaves no excess compensation for volatility.

The bear case simulates a recession that cuts comparable sales growth to low single digits, slows membership fee growth to 3%, and forces the company to absorb higher wage and product costs. EPS grows only 3% annually, reaching $29.00 in year ten. The market compresses the multiple to 31x, reflecting slower profit growth and a more cautious consumer. The ten-year price target is $899. Price appreciation is essentially flat, and dividends add about 0.7% annually, yielding a total return of 0.7%. This scenario preserves capital in nominal terms but trails inflation and a high-yield savings account. The downside protection is acceptable for a wealth preservation mandate, but the opportunity cost is real. If the terminal multiple fell to 25x, which is a more severe but historically possible bear outcome, the price target would drop to $725 and the total return would be negative. The provided data does not justify that severity as the base bear case, but it is a live tail risk at a 45x entry multiple.

The bull case requires Costco to re-enter a period of accelerating comps and membership growth, with new member growth moving back above 6% and the U.S.-Canada renewal rate staying above 93%. Digitally-enabled sales continue compounding above 20% and international warehouses scale. EPS grows 11% annually, reaching $61.28 in year ten. The market awards a 38x terminal multiple, still below the peak 2025 readings. The ten-year price target is $2,329. Price appreciation contributes 10.1% annually and dividends add about 0.7%, for a total return near 10.5%.

The probability-weighted return is 6.3%, below the 7.0% hurdle. That is the mathematical statement of the HOLD. The base case alone meets the hurdle, but the bear case drags the probability-weighted outcome below it. You need a better entry price to make the expected return clear the requirement.

Scenario table:

Scenario | 10-Year EPS | Terminal P/E | 10-Year Price Target | Price CAGR | Total CAGR | Weight | Contribution

Bear | $29.00 | 31x | $899 | 0.1% | 0.7% | 25% | 0.2%

Base | $46.58 | 35x | $1,630 | 6.2% | 7.0% | 50% | 3.5%

Bull | $61.28 | 38x | $2,329 | 10.1% | 10.5% | 25% | 2.6%

Expected | | | | | 6.3% | | 6.3%

The calculation steps are explicit. Bear EPS: $21.58 × 1.03^10 = $29.00. Base EPS: $21.58 × 1.08^10 = $46.58. Bull EPS: $21.58 × 1.11^10 = $61.28. Price targets are EPS multiplied by the terminal multiple. Price CAGR is the ten-year target divided by the current $893.93, raised to the 0.1 power, minus one.

6. RISK ASSESSMENT

The largest risk is valuation compression. At 45.5 times trailing earnings, the stock has already priced in years of consistent execution. The provided data shows the market punished a recent print with a 4.21% decline despite 12% net sales growth, 10% comps, and an 11% membership fee increase. That reaction shows how thin the tolerance is for any deceleration at this multiple. If new member growth stays at 4.1% or falls, and if renewed fee price resistance emerges, the multiple will compress faster than the underlying business deteriorates. The bear case return of 0.7% assumes a 31x terminal multiple, which is still elevated; a full de-rating to 25x would make the bear case negative.

The second risk is membership renewal dependence. Membership fees are the profit engine, and a slowdown in renewals hits operating income disproportionately. Management has already guided cautiously on renewal rates. The current worldwide renewal rate is 89.7%, down from the U.S.-Canada level of 92.2%. If that gap widens, or if the U.S.-Canada rate falls, the market will treat the stock as a declining asset rather than a compounder.

The third risk is the thin margin structure. A 3.0% net margin leaves little cushion against cost inflation, wage pressure, tariff exposure, or supply-chain disruption. The company sued the Trump administration over tariffs on December 2, 2025, and added former Commerce Secretary Gina Raimondo to the board on December 4, 2025, which signals trade policy is a live operational concern. The company sells food, pharmaceuticals, optical products, and fuel, each subject to regulatory compliance and recall risk. A recall of nearly one million bottles of prosecco for shattering risk appears in the data but with no dated impact.

Competition from Amazon and Walmart remains a structural threat, especially in digitally-enabled sales. Costco's digital comps grew 21%, but the base remains small relative to Amazon. The treasure-hunt in-store format is difficult to replicate online, but if consumer behavior shifts away from bulk shopping, the traffic-driven fee renewal machine slows. Macro pressure from inflation and higher interest rates can also reduce discretionary ticket items even if necessities hold up.

Downside protection is real but not absolute. The company's net cash balance sheet, low payout ratio, and recurring fee income mean the probability of a permanent loss greater than 50% is low, estimated below 10%. The 52-week range of $844.06 to $1,096.50 implies a prior drawdown to roughly the current price, and beta is 0.86, below the market. The stock has underperformed the S&P 500 over one and three years, which reduces but does not eliminate the risk of further multiple compression. For a wealth preservation mandate, the business risk is manageable; the valuation risk is the problem that a lower entry price solves.

7. MANAGEMENT & GOVERNANCE

The provided research data contains little direct information on management quality, CEO tenure, compensation, or governance metrics. Jim Sinegal and Jeffrey Brotman founded Costco in Seattle in 1983. The 2024 membership fee increase was only the eighth in company history, which the sources describe as pricing discipline. That restraint is itself a capital allocation signal: management chooses member value over near-term

fee maximization, and that trade-off supports the renewal machine.

Capital allocation over the past five periods shows net income rising from $5.01 billion to $8.1 billion, operating income from $6.71 billion to $10.38 billion, and capital expenditures from $3.59 billion to $5.50 billion. The company reinvests heavily in warehouses and infrastructure rather than buying back stock. Buyback activity is minimal. In the Q3 2025 quarter, shares repurchased totaled only $0.211 billion. Dividends are small and growing. That is a conservative allocation profile, but it also means shareholders get little direct capital return at the current price. The share count is essentially flat, which is a positive for per-share value.

Insider activity shows consistent open-market selling by officers and directors between September 2025 and January 2026, with prices between $862 and $955. No open-market purchases appear. Insider ownership is 0.17%, which is low. The pattern of insider sales is not automatically negative because such sales are routine compensation diversification for mega-cap executives, but it provides no positive alignment signal. Institutional ownership is 73.81%, which is supportive of shareholder discipline.

Governance items include the December 4, 2025 addition of Gina Raimondo to the board, a move described as occurring "on heels" of the tariff lawsuit. The data shows no restatements, no auditor changes, no internal-control weaknesses, no going-concern language, and no governance scandals. Insider sales are the only observable management signal, and they are mixed rather than alarming. The dividend increase from $1.30 to $1.47 demonstrates board confidence in the cash flow engine. Without direct compensation data, management quality is assessed as ADEQUATE to GOOD, with the founding-era pricing discipline and conservative balance sheet as the strongest evidence.

8. PEER COMPARISON

The provided data does not include a direct peer multiple table for Walmart, Amazon, BJ's Wholesale, or Sam's Club. What the data does provide is a qualitative premium comparison: Costco "typically trades at a premium compared to peers like Walmart" on P/E, and Koalagains describes the stock as trading at "massive premiums compared to both its peers and its own historical averages." That absence of peer figures limits a full quantitative ranking, but the dimensions that matter for wealth preservation can still be evaluated.

For solvency, Costco's net cash position and debt-to-EBITDA around 0.6 compare favorably with the broader retail sector, where large operators often carry substantial leverage. For capital efficiency, the estimated ROIC of 37% and ROE of 26.6% rank among the highest in consumer staples, driven by the asset-light membership model and negative working capital. For dilution, Costco's share count is flat to slightly down, while many peers use buybacks to offset dilution; Costco does not need to buy back stock because it does not issue much. For income reliability, Costco's 0.66% yield is below most consumer staples peers, but its payout ratio and coverage are far safer than high-yield retailers. For valuation, Costco's 45x trailing P/E and 28x EV/EBITDA are premium to the sector, and that is the primary reason the stock trails the hurdle on a risk-adjusted basis.

The peer comparison reinforces the HOLD. Costco is the highest-quality operator in the discount warehouse space, likely by a wide margin. But quality without valuation margin does not preserve capital as well as quality at a discount. The stock's premium to peers means that any mean reversion in the sector multiple will hit Costco harder on a relative basis. The Walmart earnings read-through on August 20, 2026 is the most relevant peer event: if Walmart signals soft discretionary demand, Costco's premium multiple faces immediate pressure even if its comps hold up.

9. KEY METRICS SUMMARY

Metric | COST

Market Cap | ~$396.7B (using 443.48M shares × $893.93)

Enterprise Value | $389.5B (per source)

Trailing P/E | 45.51

Forward P/E | 41.43

EV/EBITDA | 28.24

P/FCF | 45.57

P/B | 11.98

P/S | 1.37

PEG | 3.65

ROE | 26.64%

ROA | 10.22%

ROIC | 37.05%

ROCE | 26.42%

EBIT Margin | 3.96%

Operating Margin | 3.82%

Net Margin | 2.99%

FCF Margin | 3.18%

Debt/Equity | 0.26 (finspry) to 0.60 (Yahoo)

Debt/EBITDA | 0.59

Current Ratio | 1.06-1.07

OCF (TTM) | $15B

Levered FCF (TTM) | $6.95B

Dividend Yield | 0.66% (based on $5.88 / $893.93)

Beta (5Y monthly) | 0.86

52-Week Range | $844.06 - $1,096.50

Analyst Target Low/Avg/High | $740 / $1,069.20 / $1,315

Shares Outstanding | 443.48M (446.48M? source slight variation)

Insider Ownership | 0.17%

Institutional Ownership | 73.81%

10. MONITORING CHECKLIST

Item | Threshold to Watch | Action if Triggered

US/Canada renewal rate | Below 91.5% | Re-evaluate moat durability

Worldwide renewal rate | Below 88% | Stress fee income and margins

New member growth | Below 3.5% | Risk flag on fee engine

Comp sales (adjusted) | Below 5% ex-fuel/FX | Downgrade base EPS assumption

Digitally-enabled sales growth | Below 15% | Competition concern

Gross margin | Below 12.5% | Margin compression alert

SG&A % of sales | Above 9.5% | Operating deleverage alert

Dividend action | Cut or freeze | Immediate review of thesis

Net debt position | Turns positive | Solvency re-check

Next earnings | September 24, 2026 | Verify Q4 FY26 results

11. MARKET EXPECTATIONS & CONSENSUS

What the current stock price implies about growth:

The current forward P/E of 41.43 implies that the market expects earnings to compound at a high single-digit to low-double-digit rate for many years with no meaningful multiple compression. At a 41x forward multiple and a 28x EV/EBITDA multiple, the market is pricing roughly 8% to 10% revenue growth with a stable 3% net margin and a durable 90% renewal rate. If EPS grows at 8% annually and the terminal multiple stays at 35x, the base case return is only 7.0%. To justify the current price with a higher required return of 8% to 9%, the market needs EPS growth closer to 10% to 12% or multiple stability above 38x. The implied growth rate is therefore at the upper end of what the business has historically delivered.

Consensus Bull Case:

Analysts expect the low $1,315 target to be reached if comparable sales growth sustains above 6.6%, worldwide renewal holds near 89.7% or improves, new member growth re-accelerates above 4.1%, digitally-enabled sales keep compounding above 20%, and warehouse, e-commerce, and international expansion continue. Oppenheimer's Outperform reiteration on September 16, 2026 with a $1,160 target reflects this view.

Consensus Bear Case:

The bear case centers on new member growth slipping below 4.1%, management's guided renewal-rate declines materializing, price investments pressuring margins, and comparable sales decelerating below 6.6%. The market already showed its sensitivity with a 5.0% post-earnings reaction and a 4.21% decline on a strong Q3 2026 8-K. The low analyst target of $740 implies 17.2% downside from $893.93.

Short Interest:

Not provided in the research data, so days to cover cannot be computed.

Analyst Consensus:

Average target $1,069.20, low $740, high $1,315. Current price $893.93. Implied upside to average target is 19.6%.

Forward Valuation (from live data):

Metric | Value | vs. Sector Avg | Assessment

Forward P/E | 41.43 | Premium | Full

PEG | 3.65 | Expensive | Paying high multiple for moderate growth

EV/EBITDA | 28.24 | Premium | Full

Beta | 0.86 | Defensive | Low market sensitivity but valuation risk remains

What would validate the consensus:

Sustaining or accelerating the 6.6% adjusted comparable sales growth, holding the 89.7% worldwide renewal rate, re-accelerating new member growth above 4.1%, and easing margin pressure from price investments.

Holding the forward multiple above 40x through those prints would validate the average target.

What would disappoint:

New member growth falling further below 4.1%, renewal-rate declines materializing, comps decelerating below 6%, margin compression from continued price investment, and any multiple re-rating toward the 25x to 30x range. Those outcomes would push the stock toward or below the $740 low target.

12. KEY BUSINESS DRIVERS

Driver 1: Comparable sales growth

Why it matters: Comp sales measure whether the traffic-driving value proposition still works.

Current level: 8.8% total five-week; 7.0% ex-fuel/FX; 10% in Q3 FY26.

Bull threshold: 6%+ adjusted comps sustained.

Bear threshold: Below 4% adjusted comps for two consecutive quarters.

Next data point: Monthly sales report after each period.

Driver 2: Worldwide membership renewal rate

Why it matters: Fee income is the profit engine; renewal is the retention that makes it recurring.

Current level: 89.7% worldwide; 92.2% US/Canada.

Bull threshold: Worldwide 90%+ and stable.

Bear threshold: Worldwide below 88% with a downward trend.

Next data point: Quarterly earnings commentary and 10-Q/8-K.

Driver 3: Membership fee revenue growth

Why it matters: Fee revenue converts member loyalty into direct operating income.

Current level: $1.37 billion in Q3 FY26, +11% year over year.

Bull threshold: 8%+ annual growth.

Bear threshold: Below 4% annual growth or a fee-increase delay.

Next data point: Quarterly earnings.

Driver 4: Digitally-enabled sales growth

Why it matters: Digital growth offsets in-store format risk and defends against Amazon competition.

Current level: 20.9% five-week; 21.5% 44-week.

Bull threshold: 15%+ sustained digital growth.

Bear threshold: Below 10% digital growth with no pickup.

Next data point: Monthly sales update.

Driver 5: Gross margin and SG&A leverage

Why it matters: Thin margins mean small shifts in cost or SG&A drive large changes in operating income.

Current level: Gross margin 12.9%; SG&A as a percentage of sales up 11 bps in FY2025.

Bull threshold: Gross margin stable above 12.8% and SG&A leverage improving.

Bear threshold: Gross margin below 12.3% or SG&A deleverage above 20 bps.

Next data point: Quarterly 10-Q.

13. PROXY TRACKERS & LEADING INDICATORS

Proxy | Ticker/Symbol | Relationship | Signal

Consumer Staples Select Sector SPDR | XLP | Leads COST sector sentiment; COST is a major holding | Bullish if XLP breaks above 50-day MA; bearish if it breaks below 200-day MA

Walmart | WMT | Peer read-through for US consumer demand | Bullish if WMT comps and guidance strong; bearish if WMT guides cautious

Amazon | AMZN | E-commerce competition read-through | Bullish for COST if AMZN struggles in grocery; bearish if AMZN accelerates grocery share

US Retail Sales | macro | Monthly consumer spending proxy | Bullish if retail sales beat with strong control-group growth; bearish if core retail sales surprise to downside

Monitoring rule: If XLP breaks below its 200-day moving average while WMT follows with weak comps, re-evaluate COST thesis within five trading days even if Costco's own monthly sales still print positive.

EXIT TRIGGERS / UPGRADE TRIGGERS (HOLD)

For the current HOLD, the following events would trigger a re-review or an upgrade to BUY:

- Price retraces to $805 USD / €702 EUR: Re-run the model; if base case total return reaches 8%+ with bear case at or above 0%, upgrade to BUY.
- Forward P/E compresses below 35x on stable earnings: Rebuild the entry case; margin of safety may reappear.
- New member growth re-accelerates above 6% and worldwide renewal holds above 90% for two consecutive quarters: This would support a higher base case growth rate and may justify paying closer to the current multiple.
- Dividend yield rises above 0.75% through either price decline or a larger dividend increase: Improves the income cushion and total return.
- A temporary non-fundamental drawdown from sector rotation or a broad market correction: Use the $702 EUR entry target.

For an existing holder, review or reduce if:

- Worldwide renewal rate falls below 88% and the decline is confirmed in consecutive quarters.
- New member growth falls below 3.5% while comp sales decelerate below 4% adjusted.
- Gross margin compresses below 12.3% without a corresponding pickup in fee growth.
- The stock trades above $1,100 USD without a proportionate acceleration in earnings, making the risk/reward worse than cash.
- Any dividend cut or a decision to pause the membership fee increase cycle despite high renewal rates, which would signal management sees structural demand weakness.

FINAL RECOMMENDATION

RECOMMENDATION: HOLD

ANALYST NOTES

Key Assumptions:

- Forward EPS of $21.58, derived from the forward P/E of 41.43 and current price of $893.93.
- Base EPS growth of 8% annually for ten years, consistent with fiscal 2025 net income growth of 10% and recent comp sales in the 7% to 10% range.
- Terminal multiples: 31x bear, 35x base, 38x bull.
- Dividend yield of 0.66% based on the declared $5.88 annual dividend and current price.
- Current USD/EUR conversion of 1.1487, derived from the authoritative price pair.

Limitations:

- The provided data lacks a full five-year fiscal-year series for revenue, EBITDA, EPS, FCF, and margins, so annual growth rates and margin trends are inferred from quarterly and partial annual data.
- No direct peer multiple table is available; peer comparison is qualitative.
- No debt maturity schedule, interest coverage ratio, or detailed management compensation data is provided.
- Short interest and days-to-cover are not available, so the market positioning analysis is incomplete.
- The Q3 2025 quarterly data is internally inconsistent with other periods and is treated as suspect.
- The Vanguard ownership data contains an unexplained inconsistency between a 7.49% stake and a 0-share Schedule 13G amendment.

Confidence Level: MEDIUM — The quality of the business and the balance sheet are well supported by the data, but the valuation conclusion depends on a terminal multiple assumption that cannot be verified against a full historical average. The HOLD recommendation is robust under a range of reasonable terminal multiples from 30x to 38x, but the exact fair value remains uncertain given the data gaps.

Report prepared for Moschovakis Capital. This analysis is for informational purposes only.

CONTINUE THE RESEARCH

This report is one of over 120 equity research analyses published by Moschovakis Capital. Each covers valuation, scenario modelling and risk in the same format as the report you have just read.

Full equity research archive

Latest published research

Enquiries and coverage requests

moschovakiscapital.com

IMPORTANT DISCLOSURES

This report has been prepared by Moschovakis Capital for informational purposes only and does not constitute investment advice, a solicitation, or an offer to buy or sell any security. The information contained herein is based on sources believed to be reliable but is not guaranteed as to accuracy or completeness. Past performance is not indicative of future results. Investing involves risk, including the possible loss of principal. Moschovakis Capital and its affiliates may hold positions in the securities discussed. This document is confidential and intended solely for the recipient. Any reproduction or distribution without prior written consent is prohibited.

EXECUTION INFRASTRUCTURE

For the execution of positions discussed in our research, we use the following platforms for their regulatory standing, liquidity and reliability.

eToro	Equity execution — regulated, social trading infrastructure
Revolut	Multi-currency banking and FX
Interactive Brokers	Institutional-grade brokerage
Vantage	MT4/MT5 execution
Binance	Digital asset infrastructure
Hostinger	Web infrastructure

Referral links: Moschovakis Capital may receive a commission or bonus if you open an account. It does not affect our research.