

Costco Wholesale Corp - Financial and Strategic Analysis Review

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Reference Code: GDRT28577FSA

Company Snapshot

Key Information

Costco Wholesale Corp, Key Information	
Web Address	www.costco.com
Financial year-end	August
Number of Employees	3,04,000
NASD	COST
Source : GlobalData	

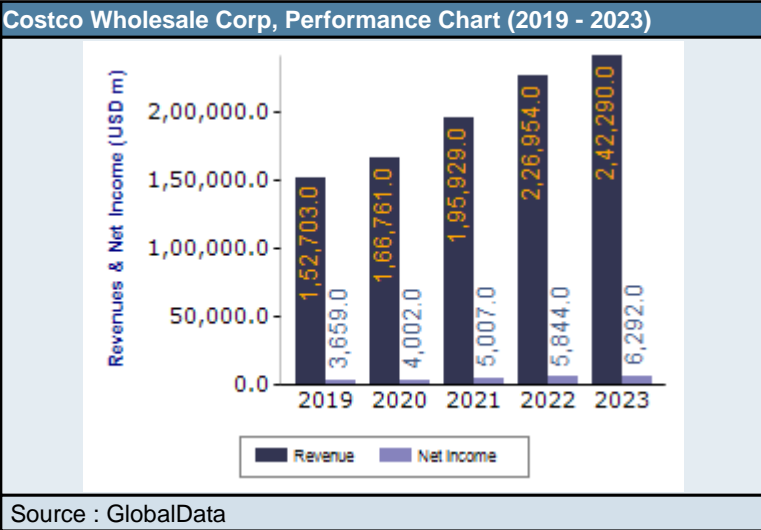
Key Ratios

Costco Wholesale Corp, Key Ratios	
P/E	38.95.00
EV/EBITDA	.00
Return on Equity (%)	NA
Debt/Equity	NA
Operating profit margin (%)	NA
Dividend Yield	0.51
Note: Above ratios are based on share price as of 28-Sep-2023	
Source : GlobalData	

Share Data

Costco Wholesale Corp, Share Data	
EPS (USD)	NA
Book value per share (USD)	NA
Shares Outstanding (in million)	444.45
Source : GlobalData	

Performance Chart



Company Overview

Costco Wholesale Corp (Costco) owns and operates a chain of membership warehouses. These warehouses offer various products such as groceries, candy, appliances, tires, toys, hardware, automotive supplies, sporting goods, jewelry, watches, garden and patio, tickets, health and beauty aids, housewares, apparel, furniture, office supplies, domestics, postage, produce, meat, deli, meat, and bakery products. It also owns and operates various self-service gas stations.

SWOT Analysis

Costco Wholesale Corp, SWOT Analysis	
Strengths	Weaknesses
Distribution Network	Low Liquidity
Financial Performance	
Inventory Turnover Ratio	
Opportunities	Threats
Food and Grocery Retail Market in North America	Manpower Costs in US
Global Online Retail Market	Intense Competition
	Risks Associated with Suppliers
Source : GlobalData	

Financial Performance

The company reported revenues of (US Dollars) US\$226,954 million for the fiscal year ended August 2022 (FY2022), an increase of 15.8% over FY2021. In FY2022, the company's operating margin was 3.4%, compared to an operating margin of 3.4% in FY2021. In FY2022, the company recorded a net margin of 2.6%, compared to a net margin of 2.6% in FY2021.

Key Information

Costco Wholesale Corp, Key Information			
Corporate Address	999 Lake Dr, Issaquah, WA, 98027-, United States	Ticker Symbol, Stock Exchange	COST [NASDAQ]
Telephone	+1 425 3138100	No. of Employees	3,04,000
Fax		Fiscal Year End	August
URL	www.costco.com	Revenue (in USD Million)	₹ 2,26,954.0
Industry	Retail, Wholesale & Foodservice		
Locations	Australia, Canada, China, France, Iceland, Japan, Mexico, South Korea, Spain, Taiwan, United Kingdom, United States		
Source : GlobalData			

Company Overview

Costco Wholesale Corp (Costco) owns and operates a chain of membership warehouses. These warehouses offer various products such as groceries, candy, appliances, tires, toys, hardware, automotive supplies, sporting goods, jewelry, watches, garden and patio, tickets, health and beauty aids, housewares, apparel, furniture, office supplies, domestics, postage, produce, meat, deli, meat, and bakery products. It also owns and operates various self-service gas stations. The company also manages pharmacies, optical dispensing centers, food courts, gas stations, and hearing-aid centers and provides tire installation services. It operates membership warehouses in Canada, the US, Puerto Rico, the UK, South Korea, Mexico, Japan, Spain, France, Taiwan, Australia, Iceland, and China. Costco is headquartered in Issaquah, Washington, the US.

Costco Wholesale Corp - SWOT Analysis

SWOT Analysis - Overview

Costco Wholesale Corp (Costco) is a retailer that operates a chain of membership-only warehouse clubs. Financial performance, distribution network, and inventory turnover ratio are the company's major strengths, even as low liquidity remains a cause for concern. The positive outlook for food and grocery retail market in North America, store expansion, and global online retail market are likely to offer growth opportunities to the company. However, risks associated with suppliers, intense competition, and manpower costs in the US could affect its business operations.

Costco Wholesale Corp - Strengths

Strength - Distribution Network

The company's diversified distribution network helps to gain operational synergies and allow to efficiently cater to its customers. Costco retails and sells food and sundries, fresh foods, and ancillary products through its warehouse club stores across the world. As of August 2022, the company operated 838 warehouses, including 661 owned warehouses and 177 leased warehouses. It had 578 warehouses in the US and Puerto Rico, 107 in Canada, 40 in Mexico, 31 in Japan, 29 in the UK, 17 in South Korea, 14 in Taiwan, 13 in Australia, four in Spain, two each in China and France, and one in Iceland. Costco manages an average of 4,000 active stock-keeping units (SKUs) per warehouse and anywhere from 10,000 to 11,000 SKUs online. Costco also offers gasoline and pharmacy-related services to its members through various pharmacies, gas stations, optical dispensing centers, food courts, and hearing-aid centers. As of August 2022, the company operated 668 gas stations. It also markets products through e-commerce portals in the US, Canada, the UK, Mexico, Taiwan, and South Korea.

Strength - Financial Performance

Strong financial performance increases the company's ability to allocate adequate funds for growth and expansion. In FY2022, the company generated revenue of US\$226,954 million as against US\$195,929 million in FY2021, with an annual growth of 15.8%. The growth in revenue was due to increase in comparable sales, and sales at new warehouses opened in 2021 and 2022. The increase in sales of warehouse ancillary and other businesses, and core merchandise categories also contributed to revenue growth. In FY2022, the company's operating income was US\$7,793 million as compared to US\$6,708 million in FY2021. Improving operating performance indicates the company's focus on efficient cost management. Similarly, its net income grew from US\$5,007 million in FY2021 to US\$5,844 million in FY2022.

Strength - Inventory Turnover Ratio

Improved inventory turnover ratio and lower inventory turnover days signify that the company incurs low inventory carrying costs, which help improve its operating performance. The company's inventory ratio was 8.0 in FY2022. Its inventory turnover ratio was also higher than that of its major competitors, Target Corp and Kohl's Corp, which reported inventory turnover ratios of 6.1 and 4.0, respectively. With the given inventory turnover ratio, the company takes roughly 46 days to complete its sales cycle and clear stock levels, while its competitors take 60 days by Target and 91 days by Kohl's.

Costco Wholesale Corp - Weaknesses

Weakness - Low Liquidity

Low liquidity may place Costco at a disadvantage while it strives to capture any potential growth opportunities arising in the market. At the end of FY2022, the current ratio of the company was 1.0. This was due to 8.7% increase in its current liabilities, which increased from US\$29,441 million in FY2021 to US\$31,998 million in FY2022, owing to increase in accounts payable and accrued expenses. The company's current ratio was below that of its competitors such as Kohl's Corp, which reported current ratio of 1.5 during the same year.

Costco Wholesale Corp - Opportunities

Opportunity - Food and Grocery Retail Market in North America

The company being a retailer of food and grocery products could benefit from the positive outlook for the food and grocery retail market in North America. The company stands to benefit from the positive outlook for the food and grocery retail market in North America. Favorable economic conditions, increasing consumer spending, demand for fresh products, change in consumer preferences, change in shopping culture, busy lifestyle of customers and increasing urbanization are leading to growth in the retail market. According to in-house research, the food and grocery retail industry in North America is forecast to reach a value of US\$2,153.8 billion by 2026 from US\$1,796.6 billion in 2021, growing at a CAGR of 3.7% during 2021-2026. The US accounted for 81.5% of the North American food and grocery retail market value in 2021, followed by Mexico with 10.2% and Canada with 8.4%. Food is the largest segment in the market in North America, accounting for 68.8% of the value, followed by drinks (20.5%), tobacco (7.8%), and household products (3%). Hypermarkets, supermarkets and hard discounters accounted for 59.3% of the food and grocery retail industry in North America, followed by convenience stores and gas stations with 14.8%, food and drinks specialists with 9.6%, online specialists with 1.2%, and others with 15.2%. The company offers food and grocery products, including laundry detergent

and supplies, health and personal care, cleaning supplies, coffee, candy item, candy, paper and plastic products, breakfast, beverages and water, snacks, pantry and dry goods, bakery and desserts, floral, meat and seafood, cheese and dairy, deli, gourmet foods, and household products, wine and wine gift baskets.

Opportunity - Global Online Retail Market

The company being an operator of online retail stores, stands to benefit from the growing global online retailing, which provides consumers the convenience of shopping from home. Luxury goods companies strive to raise brand profiles and augment sales by engaging consumers via websites, social media platforms and mobile apps. With the increase in interactive methods and limitless content, retail e-commerce is growing at a faster rate. Increasing internet penetration, user-friendly interface of web portals, enhanced discounts and offers, changing consumer patterns and purchasing power are aiding the growth of e-retail market. According to in-house research, the global online retail sector is expected to reach US\$2,796.4 billion in 2025. Asia-Pacific accounted for 42.8% of the global online retail sector value, followed by the US with 31.2%, Europe with 21.7%, Middle East with 0.7%, and Rest of the World with 3.7%. The growth is essentially the result of increase in internet and smartphone penetration, unending innovation in payment systems, and the consistent streamlining of logistic services, along with exclusive deals and discounts being offered by e-retailers. The company merchandises its products through www.costco.com, www.costco.ca, www.costco.co.uk, www.costco.com.mx, www.costco.co.kr, www.costco.com.tw, www.costco.is, www.costco.fr, www.costco.es, www.costco.co.nz, www.costco.co.jp, and www.costco.com.au. It could further enhance its competitive position in the e-commerce market and help the company to enhance its sale through brand awareness and user-friendly websites. Besides, it will save on operating cost, which is much lower in the online retail format as compared to the physical store format. As the company holds a strong presence in the US, the growing retail market in the US could increase the demand for the company offerings.

Costco Wholesale Corp - Threats

Threat - Manpower Costs in US

Increasing manpower costs could have an adverse effect on the company's margins. It implemented several initiatives to expand its presence, which requires increasing its employee base. However, increasing manpower costs could impact its stability and operational efficiency. The tight labor markets, government-mandated increases in minimum wages, and a higher proportion of full-time employees could result in an increase in labor costs. The federal minimum wage provisions are contained in the Fair Labor Standards Act (FLSA). As of January 2023, the minimum wage rate in the US was US\$7.25 per hour. The minimum wage rate in 29 states and the District of Columbia is more than the federal rate. The hourly wages range from US\$15 in Massachusetts, US\$11 in Florida, US\$13 in Illinois, US\$10.10 in Michigan, US\$13.25 in Maryland, US\$12 in Hawaii, US\$14 in Connecticut and US\$15.5 in California. The minimum hourly wage in the District of Columbia reached US\$16.1.

Threat - Intense Competition

The company operates in a highly competitive retailing industry. The factors that determine the level of competition within the industry include merchandise quality and selection, price, store location, distribution strategy, convenience, and customer service. Costco competes with supercenters, internet retailers, supermarkets, gasoline stations, warehouse clubs, department and specialty stores, hard discounters, and operators selling a single or narrow range of merchandise. Its major customers include Amazon.com Inc, Best Buy Co Inc, BJ's Wholesale Club Inc, Target Corp, The Kroger Co, Walmart Inc, and Kohl's Corp. Some of these competitors have higher operating histories, technical, marketing, distribution, and support resources; greater brand recognition and higher financial capability than the company could restrict the creation of innovative products and business expansion. In May 2023, Amazon.com Inc opened a new fulfillment center in Windsor, Connecticut, the US. In the same month, Walmart Inc opened its high-tech market fulfillment center in Bentonville, Arkansas, the US.

Threat - Risks Associated with Suppliers

Costco's operations are subject to various risks associated with its suppliers. The success of the company depends on its ability to purchase quality merchandise in sufficient quantities at competitive prices. As the quantities the company require continues to grow, there is no assurances of appropriate pricing, continued supply, or access to new products. It purchases product from various domestic and foreign manufacturers and importers. The company's inability to buy suitable merchandise on acceptable terms or the loss of key suppliers could negatively affect its operations. The company may not be able to develop relationships with new suppliers, and products from alternative sources, if any, may be of a lesser quality or more expensive. Also certain suppliers might not comply with the company's packaging, quality control, regulatory, legal, labor, animal welfare and environmental standards. Such deficiencies may delay delivery of merchandise to the company. This failure could lead to recalls and litigation and otherwise damage the company's reputation and its brands, increase costs, and adversely affect business.

NOTE: The above strategic analysis is based on in-house research and reflects the publishers opinion only