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Costco Wholesale Corporation (NASDAQ: COST)

A wonderful business at a price that asks for perfection

RATING	PRICE (7/20/26)	FAIR VALUE	12-MO TOTAL RETURN	WE'D BUY AT
HOLD	$935.80	$900	–3.2%	~$780

We are initiating on Costco with a HOLD and a $900 fair value.

Let's be clear up front: Costco is one of the best businesses in the world. A 92.2% U.S. renewal rate, a membership-fee annuity that grew 11% last quarter, 38% return on invested capital, net cash, and a culture that turns customer loyalty into a widening moat. Nothing in this report disputes the quality. This is the rare case where our HOLD is entirely about **price**, not the company.

At roughly **47x trailing and ~41x forward earnings**, COST trades toward the top of its own ten-year range and at nearly triple the retail-staples sector median. That multiple prices in a decade of flawless execution. The business can compound earnings at 10–12% for years and the *stock* can still go nowhere — or fall — if that premium simply normalizes toward its own history. The risk here isn't the company; it's the multiple.

So we'd rather wait. Our fair value of $900 sits a touch below the current price and well below the ~$1,077 street average. We would become enthusiastic buyers in the **low $800s**, around a 34x multiple. Wonderful company; we're simply not willing to pay this price for it.

SNAPSHOT	
Market cap	~$408B
Shares outstanding	~443M
Trailing P/E	~47x
Forward P/E (FY26E)	~45x
10-yr average P/E	~39x
PEG ratio	~3.9
Dividend / yield	$5.88 / 0.63%
Renewal (U.S./Canada)	92.2%
Paid members	82.9M
ROIC	~38%
Cash & investments	~$20B
52-week high	$1,096.50
52-week low	$844.06
Street consensus	Hold, ~$1,077

Prices as of the July 20, 2026 close. FY = fiscal year ending late August/early September.

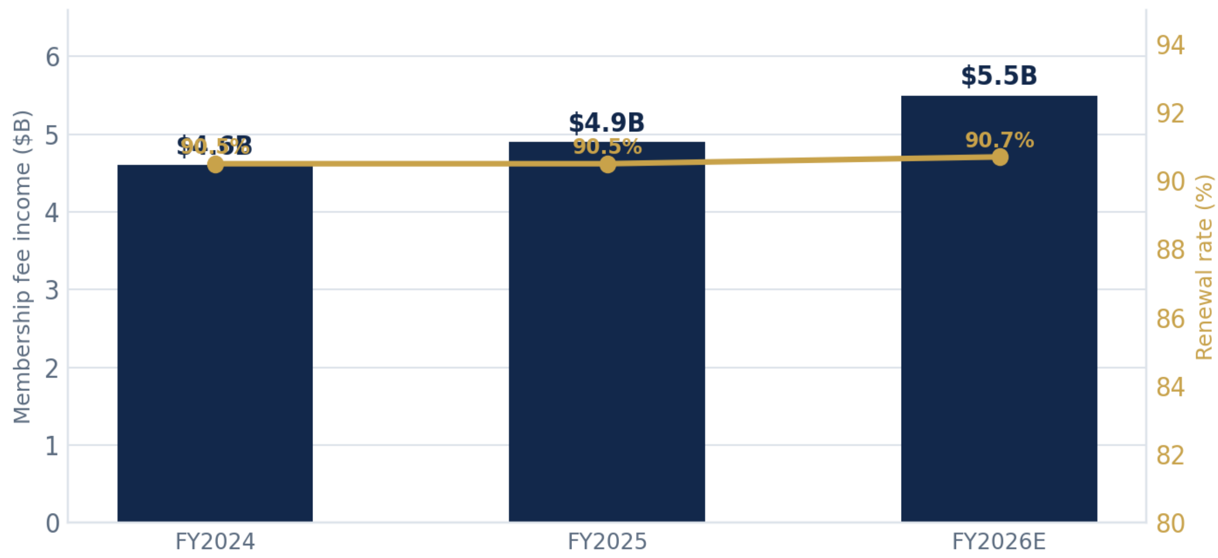
1 · Why Costco deserves a premium (just not this one)

The membership model is the whole company

Most retailers make money selling goods. Costco barely does — it runs the merchandise close to break-even and makes its profit on **membership fees**. Last quarter that fee income was $1.37B, up 10.7%, at margins that flow almost entirely to the bottom line. That is a subscription business wearing a warehouse costume, and it is why the market rightly awards Costco a premium the average retailer will never earn.

The quality shows up in the renewal rate: **92.2% in the U.S. and Canada, 89.7% worldwide**. Nine of ten members re-up every year, and the deferred-membership liability on the balance sheet keeps climbing, a leading indicator that the annuity is getting larger, not smaller. Paid memberships reached 82.9M, and higher-fee executive members — the most loyal, highest-spending cohort — grew 9.6% to 41.2M.

Fig. 2 — The annuity that earns the premium: recurring fees, ~90% renewal



Source: company filings. Q3 FY26 membership fee income $1.37B (+10.7%); U.S./Canada renewal 92.2%, worldwide 89.7%; 82.9M paid members. FY26E annualizes the 36-week run rate.

A flywheel, not a gimmick

The mechanism compounds: low prices drive membership growth; more members mean more buying power; more buying power means lower prices. Fiscal Q3 2026 showed the flywheel spinning — net sales up 11.6% to $69.15B, comparable sales up 9.8% (up 6.6% stripping out gasoline and currency), and digitally-enabled comparable sales up 21.5%. Return on invested capital sits near 38%, the balance sheet holds ~$20B of cash against modest debt, and free cash flow is abundant. This is a genuinely elite operator. None of that is in dispute.

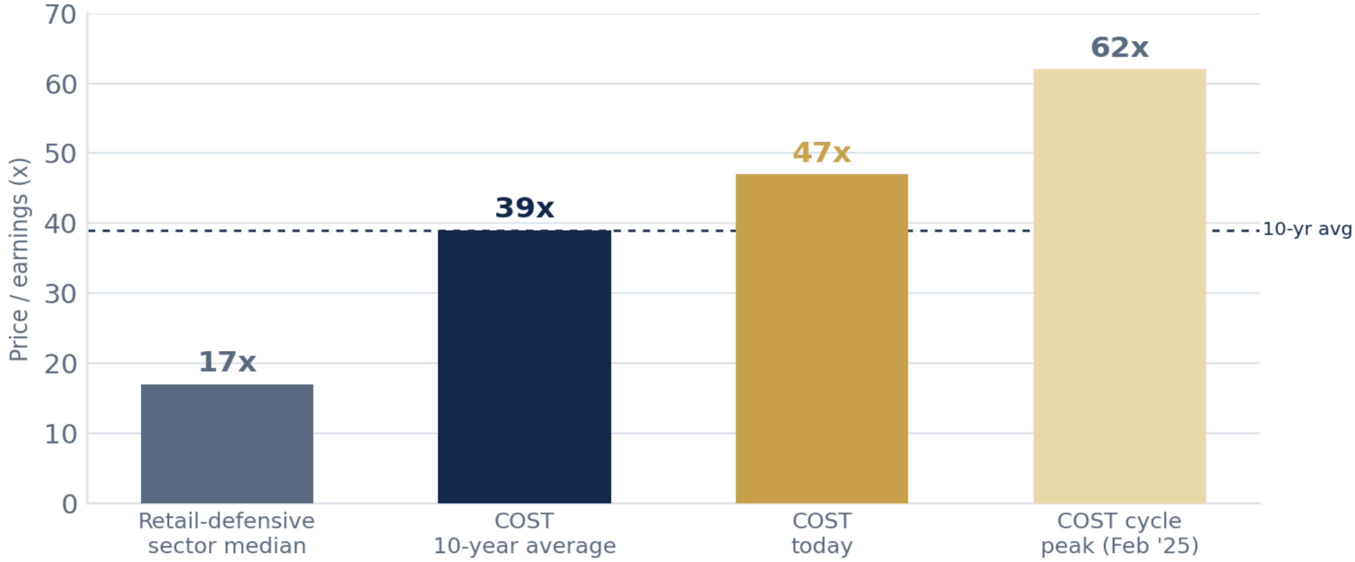
2 · The problem is the price

Here is the entire bear case in one sentence: a great business bought at a great price is a great investment, but a great business bought at a demanding price is merely a great business. Costco today is the second kind.

What ~47x actually asks of you

At ~47x trailing and ~41x forward earnings, the earnings yield is roughly **2.1%**, plus a 0.63% dividend. You are paying nearly triple the retail-staples sector median (~17x) and a clear premium to Costco's own ten-year average multiple (~39x). For that price, the market is assuming Costco compounds earnings at a double-digit clip for a very long time *and* that investors keep paying a near-record multiple for it. Both can happen. But you are not being paid to be wrong about either.

Fig. 1 — Priced like no other retailer



Source: trailing P/E per stockanalysis.com / fullratio / GuruFocus, July 2026 (COST ~46–47x; 10-yr avg ~39x; retail-defensive median ~17x; Feb 2025 peak ~62x).

The multiple is the risk — not the business

Run the arithmetic. Costco grows earnings ~11% a year. If the multiple simply drifts from ~41x forward back to its own ten-year average near 39x, that drift quietly eats most of a year's earnings growth. If it normalizes toward the low 30s — still a large premium to any peer — the stock can fall ~20% while the business does nothing wrong at all. This is not hypothetical: it is exactly what happened to Walmart in the 2000s, a wonderful company whose stock went sideways for roughly a decade while its high-2000s multiple slowly deflated. Great company, dead money, because the entry price already banked the future.

3 · The debate, adjudicated

We hold this position loosely, because the bull case is strong and has humiliated valuation-based skeptics for over a decade. Here is the honest exchange.

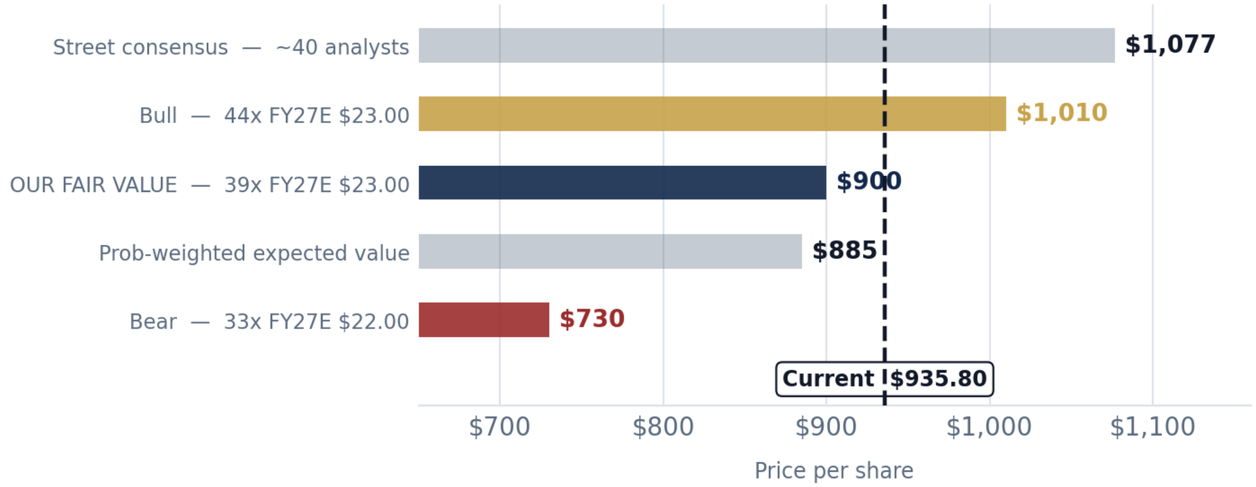
THE BULL CASE (why it stays expensive)	OUR RESPONSE (why we still wait)
Quality compounds. A 90%+ renewal annuity growing double digits, with decades of white-space runway. Pay up for the best; time in the stock beats timing the entry.	Agreed on the business — disagreed that quality suspends the laws of valuation. At ~41x forward you have pre-paid years of that compounding. We want the compounding *and* a sane entry, not one at the expense of the other.
It has always looked expensive. COST has traded 40–60x for a decade and kept winning. Selling on the multiple has been a losing trade the whole way up.	True, and we say so plainly — this is the strongest bull point. But “it worked before” is not a valuation argument, it's momentum. A ~62x peak in early 2025 was followed by a de-rating to ~47x. The multiple does mean-revert; the timing is just unknowable.
The membership model justifies a software-like multiple. Recurring, high-margin, sticky fee income should be valued like a subscription business, not a retailer.	Partly fair, and it's why our fair value still embeds a large ~39x premium, not a retailer's 17x. But membership fees are ~2% of revenue; the other 98% is thin-margin merchandise that grows with the consumer, not with software economics. The blend does not support 47x.
Cash keeps compounding, special dividends recur. ~$20B of cash throws off rising interest income and periodic special dividends that reward holders while they wait.	A real positive, and we credit it — but a special dividend every few years is a low-single-digit sweetener, not a thesis. It does not close a 20%+ valuation gap if the multiple normalizes.

> ***The conclusion.*** *We would love to own Costco. We expect that, over a long enough horizon, its earnings will be far higher than they are today. But investing returns come from the gap between price and value, and right now that gap is closed — arguably inverted. A HOLD here is not a criticism of Costco. It is respect for arithmetic. Buy the business; wait for the price.*

4 · Valuation and scenarios

We value COST on forward earnings. Trailing EPS is ~$19.90; we estimate **~$20.75** for FY2026E and **~$23.00** for FY2027E, roughly 11% growth, consistent with recent comps and membership trends. We anchor fair value to Costco's *own* ten-year average multiple (~39x) rather than a peer multiple, deliberately preserving most of the premium the business has earned.

Fig. 3 — Valuation football field: we sit below spot and the street



Source: 2 Comma Investor estimates; street consensus avg ~$1,077 per S&P Global / financecharts, July 2026. Weights: 50% base, 25% bull, 25% bear. Not a price prediction.

Scenario	Wt.	FY27E EPS	Mult.	Value	Return	What has to happen
Bull	25%	$23.00	44.0x	$1,010	+8%	The premium multiple holds near current levels; double-digit comps and membership growth continue; the market keeps paying up for quality.
Base	50%	$23.00	39.0x	$900	–4%	The business compounds ~11%, but the multiple drifts to its own ten-year average. You earn the earnings growth and give back some multiple — roughly flat.
Bear	25%	$22.00	33.0x	$730	–22%	The multiple normalizes toward the low 30s (still a big premium to peers) as growth decelerates or sentiment cools. Business is fine; the stock de-rates.
Weighted EV	100 %	—	—	$885	–5%	Expected value sits ~5% below spot. The distribution is skewed to the downside: more room to fall on a re-rating than to rise on further expansion.

This is a HOLD, not a short. We are not betting against Costco; a great business can grow into a rich multiple given enough time, and shorting quality is a good way to get hurt. We simply see no margin of safety at $935.80 and a distribution skewed to the downside. Our discipline says wait. We would upgrade to BUY in the **low $800s** (~34x forward), where the price would finally offer a cushion rather than demand perfection.

Financial summary

Metric	Q3 FY26A	FY2025A*	FY2026E	FY2027E
Net sales	$69.2B	~$264B	~$283B	~$310B
Membership fee income	$1.37B	~$4.9B	~$5.5B	~$6.0B
Diluted EPS	$4.93	~$18.20	~$20.75	~$23.00
Comparable sales (core)	+6.6%	—	—	—
Digital comps	+21.5%	—	—	—
Paid members	82.9M	—	—	—
Renewal (U.S./Canada)	92.2%	—	—	—
ROIC	~38%	—	—	—
Cash & investments	~$20B	—	—	—
Dividend / share	$5.88/yr	—	—	—

A = actual, E = 2 Comma Investor estimate. Fiscal year ends late August / early September; Q3 FY26 = 12 weeks ended May 10, 2026. *FY2025 full-year figures are approximate. Full-year revenue and EPS estimates are rounded; segment and operating detail are shown where disclosed.

5 · What we're watching

- **Fiscal Q4 / full-year 2026 results (late September).** The 16-week quarter. We watch core comps (ex-gas/FX), membership fee income growth as the 2024 fee increase laps, and any commentary on a special dividend given the ~$20B cash pile.
- **Monthly sales reports.** Costco reports comparable sales monthly — a near-real-time read on whether the double-digit momentum holds or fades toward the high-single-digit trend of prior years.
- **Membership fee increases and renewal rates.** The fee annuity is the crown jewel. Any wobble in the 92% renewal rate, or the timing of the next fee hike, moves the highest-quality piece of the model.
- **The multiple itself.** The single biggest driver of the next year's return is not the business — it is whether the market keeps paying ~41x forward. A drift toward the low $800s is our signal to upgrade.

6 · Risks to the thesis (both directions)

Because this is a HOLD on a superb company, our risks run both ways — the stock can hurt us by going up as easily as down.

Dir.	Risk	Assessment
UP	**The multiple simply persists**	The core risk to a HOLD on a great business. COST has sustained a 40–60x multiple for a decade. If it keeps doing so, we miss continued upside while we wait. This is why we HOLD rather than avoid, and why we still credit a large premium.
UP	**Growth reaccelerates**	Warehouse expansion, e-commerce (+21.5% digital comps), pharmacy/GLP-1 tailwinds, and international runway could push earnings growth above our ~11%, justifying more of the premium than we assume.
DOWN	**Multiple normalization**	The primary downside. A drift from ~41x toward the ten-year ~39x, or the low 30s, de-rates the stock ~5–22% with no operational miss at all. The higher the starting multiple, the larger this risk.
DOWN	**Comp deceleration**	Recent double-digit comps are partly gasoline and FX-flattered; the core is ~6.6%. A fade toward mid-single digits removes the growth that a premium multiple requires, and multiples compress fastest exactly when growth slows.
DOWN	**Margin pressure**	Costco deliberately runs razor-thin merchandise margins and reinvests scale into price. Cost inflation, tariffs, or a mix shift can pressure the already-slim core margin, and there is little cushion.
—	**Key-person / execution**	Costco's culture is a genuine asset and a genuine dependency. Leadership transitions and any drift in the famously disciplined culture would matter more here than at an average retailer.

The bottom line

> *Costco is a wonderful business — a membership annuity with a 92% renewal rate, a widening moat, 38% returns on capital, and a fortress balance sheet. We have no argument with the company. Our argument is with the price. At ~47x trailing earnings the stock offers no margin of safety, and its next year of return depends less on the business than on whether the market keeps paying a near-record multiple. That is a bet we decline to make here. We would rather own this one lower.*
>
> ***Rating: HOLD. Fair value: $900. We would upgrade to BUY in the low $800s (~34x forward).***

Methodology, sources & disclosures

Methodology

Fair value derived from a probability-weighted scenario analysis applying an exit multiple to fiscal 2027 estimated EPS of ~$23.00 (roughly 11% growth on estimated FY2026 EPS of ~$20.75). The base-case 39x multiple equals Costco's own approximate ten-year average, deliberately preserving the premium the membership model has earned rather than applying a peer multiple. Bull (44x) assumes the near-current premium persists; bear (33x) assumes normalization toward the low 30s, still well above the ~17x retail-staples median. Total return combines the price change to fair value with the ~0.63% dividend yield. This is an opinion of value, not a price prediction.

Primary sources

Costco fiscal Q3 2026 earnings release and management call transcript (quarter ended May 10, 2026; reported May 28, 2026); fiscal 2026 interim Form 10-Q; company monthly sales releases. Valuation, multiple history, and consensus data per stockanalysis.com, fullratio, GuruFocus, financecharts, and macrotrends (July 2026); street average target ~$1,077. All figures reflect information available as of the July 20, 2026 close and are subject to revision; readers should verify the current price and any developments after that date before acting.

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