# Costco Wholesale

**COST** • CONSUMER DISCRETIONARY • INDEX CONSTITUENT

## Costco sells two things. The membership drives roughly three-quarters of operating income.

**THIS ISSUE** COST

Costco, a current constituent at **~1.82% index weight**, runs a membership-fee retail model: **annual fees contribute roughly 75% of operating income**, while merchandise sells at low single-digit margins. Member renewal has held above **90%** for more than a decade. Trades at ~47× P/E (TTM), a premium to the broader retail sector.

| $275B | 147M | ~92% | ~47× | 931 |
|---|---|---|---|---|
| FY2025 REVENUE | CARDHOLDERS | US & CANADA RENEWAL | P/E (TTM) | WAREHOUSES |

### BUSINESS MODEL & REVENUE DRIVERS

## What Costco Actually Sells

The visible product is merchandise: roughly 4,000 SKUs moved fast, at margins thinner than most retailers could survive on. The quieter product is the membership card itself (~$65–$130 a year), held by **147 million cardholders worldwide**, per company disclosures.

The card is where the margin sits. **Annual membership fees contribute roughly 75% of operating income**, recurring and insulated from the merchandise side. Thin margins are deliberate: gross profit goes back into shelf prices. Costco was selling subscriptions decades before streaming made them fashionable; the membership fee dates to 1983.

MEMBERSHIP FEES AS A SHARE OF…

| | |
|---|---|
| REVENUE | ~2% |
| OP. INCOME | ~75% |

### COMPETITIVE MOAT

## Why This Is Hard to Replicate

Scale gives Costco lower unit prices than smaller formats typically secure, by industry estimates. The $1.50 hot-dog combo, unchanged since 1985, is that discipline made visible. A constrained SKU count concentrates volume per item, and that volume is what wins the supplier terms. The narrow assortment is the point.

Matching the cost structure requires warehouse density and member volume together, which has made the model difficult to replicate at scale. **Vendor leverage, private-label share, and member loyalty** reinforce one another as the warehouse base grows.

PRODUCTS STOCKED (SKUS)

| | |
|---|---|
| SUPERMARKET | ~30,000 |
| COSTCO | ~4,000 |

### OPERATING STRENGTHS

## Three Structural Advantages

**12–13×**

INVENTORY TURNOVER

Sells through inventory in **27–30 days**, inside vendor payment terms. Goods turn before they're paid for.

**~$30B**

NET PROPERTY & EQUIPMENT

Costco **owns most of its warehouses outright**, real estate many rivals rent.

**~67%**

US-SOURCED MERCHANDISE

Limits exposure to **tariffs and cross-border supply disruption** relative to peers with offshore reliance.

GROWTH CATALYSTS

## What Grows the Business Next

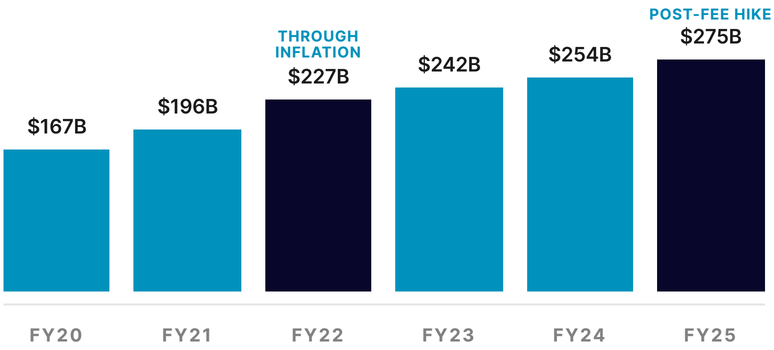
**International is the headline.** About 30% of warehouses now sit outside the US, according to company filings; South Korea, Australia, and China renew in line with the domestic business, a sign the format travels. The September 2024 fee increase, the first since 2017, raises per-member fees as renewals come due, with no volume growth required.

- Kirkland Signature share gains. The private label continues to take share within categories, holding margin at the house level rather than the vendor's
- Instacart partnership. Same-day delivery without direct logistics investment, extending reach into trips the warehouse format doesn't capture
- E-commerce and warehouse cadence. Online remains a smaller share of revenue and represents potential upside, while warehouse openings have run at roughly 25–30 per year

HISTORICAL CONTEXT

## FY2020 – FY2025 Revenue Trajectory

+65% 5-YEAR REVENUE GROWTH




SOURCE COSTCO 10-K FILINGS, BLOOMBERG

Revenue grew through pandemic disruption, the 2022 supply-chain inflation cycle, and the 2022–23 drawdown across consumer stocks. Revenue rose in each of the six years shown, and earnings kept growing through 2022. The FY2025 bar is the first full year with the September 2024 fee increase in effect. The business also stayed profitable through the 2008–09 recession.

| | | |
|---|---|---|
| CARDHOLDERS | 106M → 147M | +39% |
| RENEWAL (US & CANADA) | ~91–93% range | 10+ yrs |
| FEE HIKE | First since 2017 | Sept 2024 |

*More than 9 in 10 renew.* **Every year. For more than a decade.**

VALUATION & INVESTMENT THESIS

## Trading at a Premium Multiple

Costco trades at **~47× P/E** (TTM), a premium to the broader retail sector. What the market is paying for is a renewal rate held above 90% for more than a decade and a fee stream that contributes roughly three-quarters of operating income.

For the multiple to hold, **member growth and renewals have to keep doing the work**. The merchandise side was never built to.

KEY RISKS

## What Could Change the Story

- **Renewal erosion** as Amazon Prime and discount formats pressure a maturing base
- **Multiple compression**, with the ~47× (TTM) multiple sensitive to any slowdown in member growth
- **Margin squeeze** from commodity inflation on already-thin merchandise economics
- **International execution risk** as warehouse expansion accelerates in newer markets
- **Fee-increase reliance**, since per-member fee growth depends on periodic hikes; the 2024 increase was the first since 2017

WHAT THIS MEANS FOR YOU

## The Index Angle, in Plain Terms

### IN YOUR INDEX FUND

*If you hold a fund that tracks the Nasdaq-100 Index®, you already own this.*

- Index composition follows transparent eligibility criteria, and COST is a current constituent at **~1.82% index weight**: roughly $1.82 of every $100 tracking the Nasdaq-100 sits in Costco
- It's the store you already shop at, with **147M cardholders** worldwide and ~92% of US and Canada members renewing each year
- The annual fee, rather than the markup on the rotisserie chicken, contributes roughly three-quarters of operating income

### DECODING THE JARGON

*Two terms doing the heavy lifting in this issue.*

- **P/E (price-to-earnings).** At ~47×, the market pays $47 today for each $1 of annual earnings, well above most retailers. It is a bet on the fee stream holding up
- **Renewal rate.** The share of members who pay the annual fee again. Holding above 90% for more than a decade is what makes the fee stream behave like a subscription

BOTTOM LINE

Inside the Nasdaq-100®, COST behaves more like a subscription business than a retailer. **The multiple reflects fee economics, not merchandise margins.**

ABOUT THE SERIES

*The* ***Nasdaq-100®*** *is a globally recognized index of 100 of the most innovative large cap companies listed on the Nasdaq Stock Market®. The* ***Inside the Index*** *series profiles one constituent each issue, from software to soft drinks and computer chips to potato chips, exploring what makes each business distinctive and the metrics investors should know.*

**SOURCES** **NASDAQ GLOBAL INDEXES, BLOOMBERG, FACTSET. DATA AS OF 7/14/2026.**