

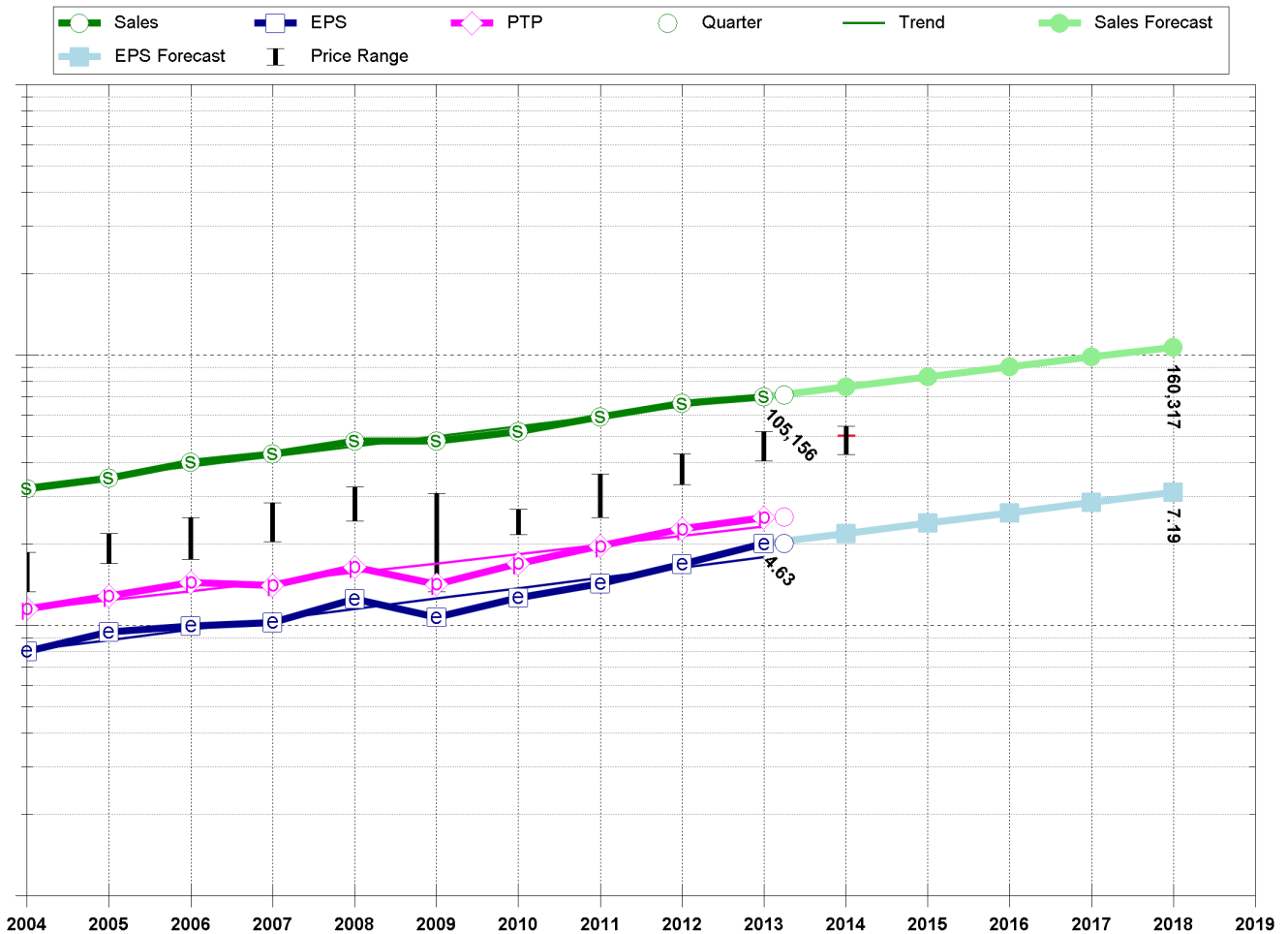
Company	Costco Wholesale Cor		Date	1/17/2014	
Prepared by	Noake		Data taken from	BI Stock Data	
Where traded	NAS	Industry	Discount Stores		
Capitalization ---	Outstanding Amounts	Reference			
Preferred (\$M)	0.0	% Insiders	% Institution		
Common (M Shares)	438.0	0.6	80.6		
Debt (\$M)	4,987.0	% to Tot Cap	30.8	% Pot Dil	1.0

# Stock Selection Guide

Symbol: COST

## 1 VISUAL ANALYSIS of Sales, Earnings, and Price

FY2013 Quarter Ending (11/13)	Sales (\$M)	Earnings Per Share
Latest Quarter	25,017.0	0.96
Year Ago Quarter	23,715.0	0.95
Percentage Change	5.5%	1.4%



- |                                   |      |  |      |
|-----------------------------------|------|--|------|
| (1) Historical Sales Growth       | 8.8% | (3) Historical Earnings Per Share Growth       | 9.2% |
| (2) Estimated Future Sales Growth | 8.8% | (4) Estimated Future Earnings Per Share Growth | 9.2% |

## 2 EVALUATING Management

Costco Wholesale Cor

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Last 5 Year Avg.
Pre-tax Profit on Sales	2.9%	3.0%	2.9%	2.7%	2.8%	2.4%	2.6%	2.7%	2.8%	2.9%	2.7%
% Earned on Equity	11.2%	11.8%	11.8%	12.0%	13.7%	10.7%	11.7%	11.9%	13.6%	18.7%	13.3%
% Debt To Capital	14.8%	8.0%	5.8%	20.5%	20.3%	18.7%	16.7%	15.2%	10.1%	31.6%	18.4%

## 3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is building block for translating earnings into future stock prices.

PRESENT PRICE 116.3

HIGH THIS YEAR 126.12

LOW THIS YEAR 98.95

		A	B	C	D	E	F	G	H
	Year	Price		Earnings	Price Earnings Ratio		Dividend	% Payout	% High Yield
		High	Low	Per Share	High A / C	Low B / C	Per Share	F / C * 100	F / B * 100
1	2009	71.0	30.7	2.47	28.7	12.4	0.68	27.5	2.2
2	2010	62.1	50.0	2.92	21.3	17.1	0.77	26.4	1.5
3	2011	84.0	57.7	3.30	25.5	17.5	0.89	27.0	1.5
4	2012	99.3	76.6	3.89	25.5	19.7	1.03	26.5	1.3
5	2013	120.2	93.5	4.63	26.0	20.2	1.17	25.3	1.3
	AVERAGE		61.7		25.4	17.4		26.5	
	CURRENT/TTM			4.64			1.24	26.7	
AVERAGE PRICE EARNINGS RATIO 21.4					CURRENT PRICE EARNINGS RATIO 25.1				

## 4 EVALUATING RISK and REWARD over the next 5 years

Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.

### A HIGH PRICE - NEXT 5 YEARS

Avg. High P/E 25.00 X Estimate High Earnings/Share 7.19 = Forecasted High Price \$ 179.8

### B LOW PRICE - NEXT 5 YEARS

(a) Avg. Low P/E 19.00 X Estimate Low Earnings/Share 4.63 = Forecasted Low Price \$ 88.0

(b) Avg. Low Price of Last 5 Years 61.7

(c) Recent Market Low Price 76.60

(d) Price Dividend Will Support  $\frac{\text{Present Dividend}}{\text{High Yield}} = \frac{1.240}{1.30\%} = 95.4$

Selected Forecasted Low Price \$ 88.0

### C ZONING using 33%-33%-33%

Forecasted High Price 179.8 Minus Forecasted Low Price 88.0 = 91.8 Range. 33% of Range 30.6

Buy Zone 88.0 to 118.6

Hold Zone 118.6 to 149.2

Sell Zone 149.2 to 179.7

Present Market Price of 116.29 is in the **Buy** Zone

### D UPSIDE DOWNSIDE RATIO (POTENTIAL GAIN VS. RISK OR LOSS)

$\frac{\text{High Price} - \text{Present Price}}{\text{Present Price} - \text{Low Price}} = \frac{179.8 - 116.29}{116.29 - 88.0} = \frac{63.46}{28.32} = 2.2$  To 1

### E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

$\frac{\text{High Price}}{\text{Present Market Price}} = \frac{179.8}{116.29} = 1.55$  X 100 = 154.57 - 100 = 54.6 % Appreciation

## 5 5-YEAR POTENTIAL

This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

A  $\frac{\text{Present Full Year's Dividend \$}}{\text{Present Price of Stock}} = \frac{1.24}{116.29} = 0.01 = 1.1\%$  Present Yield

### B AVERAGE YIELD - USING FORECAST HIGH P/E

$\frac{\text{Avg. \% Payout}}{\text{Forecast High PE}} = \frac{26.5\%}{25.00} = 1.1\%$

### C COMPOUND ANNUAL RETURN - USING FORECAST HIGH P/E

Annualized Appreciation 9.1 %

Average Yield 1.1 %

Annualized Rate of Return 10.2 %