STANFORD
GRADUATE SCHOOL OF BUSINESS

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COSTCO WHOLESALE CORPORATION FINANCIAL STATEMENT ANALYSIS (A)

INTRODUCTION

Margarita Torres first purchased shares in Costco Wholesale Corporation in 1997 as part of her personal investment portfolio. Between 1997 and 2002, she added slightly to her holdings from time to time when the company sold stock for what she felt was a reasonable valuation, and up to that time she did not sell any of her shares. Having watched Costco grow from 265 warehouses to 365 worldwide, and from sales revenue of $21.8 billion to $34.1 billion, she wondered what factors led to such successful growth. She also wanted to determine whether those factors would hold consistent going forward.

At this point, Costco was one of a special breed of retailers called wholesale clubs. Unlike other retailers, wholesale clubs required that customers purchase annual memberships in order to shop at their stores. Costco operated a chain of warehouses that sold food and general merchandise at large discounts to member customers. The company was able to maintain low margins by selling items in bulk, keeping operating expenses to a minimum, and turning inventory over rapidly. Costco's closest competitors were SAM'S Club (a division of Wal-Mart) and BJ's Wholesale, which both operated as wholesale clubs. Other competitors included general discounters (such as Wal-Mart), general retailers (such as Sears), grocery store chains (such as Safeway), and specialty discounters (such as Best Buy).

Torres first considered investing in Costco because she herself was a member. She was impressed by the company's low prices and noticed in particular that her local Costco was always crowded. She decided to research the company and started, as always, with their annual reports. She discovered a company with tremendous growth potential, strong operational efficiency, and a dedicated management team – and a stock selling at a reasonable price. Now, in July 2002, having profited well from her investment, she decided it was time to update her analysis and determine whether the company was still operating efficiently.

Brian Tayan prepared this case under the supervision of Professor Maureen McNichols as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

INDUSTRY OVERVIEW – RETAIL

Department Stores

The retail industry in the United States was transformed in the late 1800s by the rise of department stores and general merchants. Companies such as R.H. Macy & Company (founded in 1858) and Bloomingdale Brothers, Inc. (1872) opened stores in New York City and subsequently began to expand across the country. Department stores became famous not only as places to shop, but also as destinations for the new pastime of window-shopping. These stores revolutionized retailing by offering a variety of products in one location and by developing a reputation for excellent customer service. Other innovations included free delivery of purchases and the ability for customers to make purchases using store credit.

The most dominant department store for most of the 20th century was Sears, Roebuck and Company. Founded in 1893 as a mail-order company, Sears opened its first retail store in 1925. By 1945, Sears achieved $1 billion in sales. Throughout the 1950s and 1960s, the company expanded aggressively across the country, selling everything from clothing to appliances to televisions and home repair items. Trying to find success in ventures beyond retailing, the company had owned at one point Allstate Insurance (home, life and auto insurance), Coldwell Banker (real estate broker), and Dean Witter Reynolds (stock brokerage). Sears also launched the Discover credit card. From the mid-1970s through 2002, however, the company struggled, and all of these companies were being sold off. In 2001, Sears had sales of $41 billion and Federated Department Stores, which owns Macy's and Bloomingdales, had sales of $16 billion.[1]

Discount Stores

The 1960s witnessed a new breed of retailer, the mass discounter. These companies originally targeted lower income consumers with a broad product line similar to that of Sears and other department stores. Discounters, however, differentiated themselves by de-emphasizing the shopping experience and instead focused on delivering items at the lowest price. In 1960, discounters had combined sales of $2 billion. Over the next four decades, discounters prospered.

In mid-2002, the largest discounter was Wal-Mart, founded by Sam Walton. Walton started his career as a management trainee at J.C. Penney and later as a franchiser of five-and-dime stores. In 1962, he opened the first Wal-Mart store in Rogers, Arkansas. The operating philosophy of Wal-Mart was simple: offer products to customers at the lowest price possible, locate stores in rural locations, where they can serve the average American, maintain a clean store environment where customers will want to shop, hire energetic employees who provide outstanding customer service, treat employees as "associates" and manage them with an open-door policy where they can express complaints or make suggestions freely. In fact, Walton was famous for allowing employees at any level to walk into his office with comments on how to improve Wal-Mart.

Wal-Mart's subsequent growth was unprecedented. Sales were $44 million in 1970. They had grown to $1.2 billion by 1980 and to $26 billion by 1989 when Walton retired as CEO. For the fiscal year ended January 31, 2001, Wal-Mart had sales of $218 billion. The company operated over 4,400 locations worldwide.

[1] Federated sales for fiscal year ended February 2, 2002.

Wal-Mart also expanded its product offerings. Wal-Mart stores sold clothing, health and beauty products, prescriptions, electronics, sporting goods, music, and toys. In 1983, Wal-Mart opened its first SAM'S wholesale club to compete with Price Club. In 1987, Wal-Mart opened its first Supercenter, which included a full-sized grocery store along with the complete product line of a traditional Wal-Mart store. By 2000, Wal-Mart was also selling its products online through Walmart.com.

During this era of Wal-Mart expansion, another type of discounter developed, specializing in the sale of only one category of product, such as electronics, hardware, or furniture. Dubbed "category killers," these companies looked to beat discounters at their own game by achieving even greater efficiencies of scale. Although not all specialty discounters gained lasting success, several continued to dominate their respective categories, including Home Depot, Circuit City, and Walgreens.

Discounters and specialty discounters had been very successful stealing sales from department stores. As a result, general merchandisers from Sears to J.C. Penney have been forced to reinvent themselves in order to stay in business. Whether they would succeed, however, was still in question. Montgomery Ward, a once-formidable competitor to Sears, was forced to shut down its stores in 2000 after 128 years of operations.

Wholesale Clubs

The early 1980s saw the introduction of a new trend in retailing – the wholesale club. Wholesale clubs are based on the same premise as discounters: offer the best value to shoppers. They delivered that value, however, in a different way. First, customers purchased an annual membership in order to shop in the stores. Second, the clubs carried a very limited selection of goods, generally 4,000 SKUs compared to 40,000 SKUs at most grocery stores. Whereas discounters and specialty discounters carried a broad product line, clubs generally carried one or two brands in each category. Third, the clubs sold items in bulk. By limiting the selection of goods and selling in bulk, clubs were able to negotiate discounts from vendors and pass on those discounts to customers in the form of lower prices. These two factors also allowed clubs to turn inventory over faster. Fourth, the clubs kept operating expenses to a minimum. Low operating expenses were essential in order for them to maintain profitability, because they worked on very low gross margins. Clubs achieved low operating expenses by running their stores in warehouse-style facilities and by reducing stocking costs. Wholesale clubs saw annual revenue and earnings growth of 12 - 15 percent during the 1990s compared to 5 - 6 percent annual growth for general retailers.

Wholesale clubs expanded internationally with limited success. They gained traction in Canada and Mexico, but growth was not as effective in Europe, South America, and Asia. Although prices of wholesale clubs were attractive to international consumers, there were many challenges in growing internationally, including differences in consumer purchasing behavior, less space at home for consumers to store bulk items, high real estate costs for warehouses, government regulations, and difficulties in implementing a distribution system (see Exhibit 1).

Online Retailers

In 2000, online retailers were thought to be the next dominant player in retailing. Shipping items from centralized distribution centers, online retailers were thought to have a fundamental cost advantage over brick-and-mortar retailers. However, consumers did not change behavior to make a substantial portion of their purchases online. As a result, by 2002, online retailers had not gained the sales volume necessary to realize efficiencies of scale. The high cost of shipping and the inability of customers to inspect goods before purchasing were thought to be two main impediments. Although customers adapted to purchasing certain categories through the Internet, such as electronics, software, books, and music, online retailers had not yet become a major threat to traditional retailers or discounters.

INDUSTRY GROWTH

Despite the fabulous growth in revenue for discounters and warehouse clubs, sales for the retail industry as a whole grew roughly in line with GDP. According to *Survey of Current Business*, retail and wholesale trade activities in the United States totaled $1.6 trillion or 16 percent of GDP in 2001[2]. In 1960, retail and wholesale trade were substantially smaller ($68.8 billion) but still represented approximately 15 percent of GDP[3]. In this sense, retail was a mature industry with companies achieving growth in excess of GDP only by stealing sales from competitors or by expanding beyond the United States. GDP growth over the forty-year period 1960 to 2000 was 8 percent per year in nominal dollars. GDP growth from 1990 to 2000, when inflation was low, at 5.9 percent per year (see Exhibits 2 and 3).

COSTCO AND THE COMPETITION

Costco History

In 1975, Sol Price opened the first wholesale club, named Price Club, in San Diego, California. Operating on a membership basis, the club sold goods in bulk to small business owners. Business owners could buy staple items including consumer product, canned foods and beverages, and tobacco products for resale in their own stores. Customers typically purchased products at Price Club for their personal use as well.

Going public in 1980, Price Club expanded rapidly throughout California and the West, as well as select locations in Canada and Mexico. The company merged with Costco in 1993.

Operating under the same business model as Price Club, Costco Wholesale was founded in 1983 by Jeffrey Brotman and James Sinegal. The company went public in 1985 and used proceeds to fund expansion in the Pacific Northwest and Canada. In 1985, merchandise sales were $336 million and membership fees just over $4 million.

With the success of the wholesale club concept, competition soon followed. Wal-Mart entered the industry by creating SAM'S Club, Kmart opened Pace Clubs, and BJ's Wholesale began operations in the Northeast. By the early 1990's, the industry had too many players. In 1993, a wave of consolidation took place, as SAM'S purchased Pace Club and Costco purchased Price Club (creating Price/Costco, which later simplified its name to just Costco). The two main survivors, Costco and SAM'S, were left with 85 percent of the market.

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[2] U.S. Census Bureau, *Statistical Abstract of the United States: 2001* (Washington, DC, 2001), p. 418.
[3] U.S. Census Bureau, *Statistical Abstract of the United States: 1962* (Washington, DC, 1962), p. 317.

Costco Strategy

In 2001, Costco was the largest wholesale club in the industry with sales of $34 billion. The company, however, was smaller than SAM'S in number of warehouses (365 for Costco vs. 528 for SAM'S). Costco differentiated itself from SAM'S by targeting a wealthier clientele of small business owners and middle class shoppers (see Exhibit 4).

Costco, through its history with Price Club, took great pride in having invented and developed the club warehouse concept. The company demonstrated its value to customers by refusing to mark up products more than 14 percent over the distributor's price. By comparison, a typical retailer marked up products 25 percent to 40 percent. Although selling items in bulk allowed for many operating efficiencies, management's main focus was on delivering the lowest per unit price on the products it sold. For example, a 100 fl. ounce container of Tide liquid detergent would sell at a general retailer for $8.99, or $0.0899 per fl. ounce. At Wal-Mart, a 100 fl. ounce container sold for $7.44, or $0.0744 per fl. ounce. Costco sold the same detergent in a 300 fl. ounce container at a price of $17.99, or $0.06 fl. per ounce. Costco was able to sell at such a low per unit cost precisely because of its bulk packaging. The size of the container, however, was not maximized in order to compel consumers to purchase more goods. Costco had a policy of not increasing the size of a container unless it resulted in a lower per unit cost. That is, they would not sell Tide detergent in containers greater than 300 fl. ounces unless the resulting price was less than $0.06 per fl. ounce. They believed that lowering the unit price of goods was what allowed them to deliver value to the customer.

Selling through Costco was a mixed blessing for product manufacturers. On the one hand, Costco offered a broad distribution channel that brought increased revenues. In addition, Costco only purchased a handful of SKUs from its vendors. This allowed manufacturers to greatly reduce production costs. For example, when Costco ordered toilet paper from Kimberly Clark, it ordered one color, one print, and one ply. This allowed Kimberly Clark to set up the production line only once and run continuous batches of the same product, lowering per unit production costs. On the other hand, because Costco was a powerful purchaser, it could demand that production savings be passed on to itself in the form of lower prices. As a result, the manufacturer would see increased revenues, but increases in profits would be limited. Costco passed these savings on to its own customers. The result was lower profits throughout the supply chain.

Costco created value for the customer through these savings. This drove the value of its membership and allowed Costco to raise fees over time. In 1986, Costco's membership fee was $25. By 2002, it was $45. The more savings Costco was able to pass on to customers, the more it would be able to increase its membership fee over time.

Costco also delivered value to customers by expanding its selection of name-brand products and by adding ancillary services. Costco offered such items as Levi's jeans, Polo bed comforters, and Compaq computers. Through its proprietary brand, Kirkland, the company offered everything from cheese and ice cream to cookware and vitamins. Kirkland products were developed wherever Costco recognized a need for high quality, low cost items that did not exist in the market. In addition, Costco added photo development services, pharmacies, gas stations, and tire changing stations in many of its stores. The company also increased its fresh food department and added high-end wines and jewelry in an attempt to serve the needs of its customers. In fact, with $500 million in wine sales in 2001, Costco was the largest retailer of wine in the United States.

All of these services were aimed at increasing the number of visits that members made to Costco stores per year and increasing the total dollars spent per customer per year. Increased sales per customer translated into increased sales per store.

Besides offering the lowest cost products, Costco claimed to have the best operating efficiency in the business.[4] Operating efficiency was essential, given the company's low gross margin. This efficiency was the result of a very cost-conscious culture. In fact, the company reported operating margins down to the basis point in its annual report.

Expenses were minimized through various methods. Stores were run in no-frills warehouse facilities, reducing capital expenditures. Whenever possible, goods were not individually stocked on shelves; instead, a forklift delivered a pallet directly onto the warehouse floor, reducing labor costs. The company distributed goods to its stores through a cross-docking procedure, in an effort to reduce transportation costs. Instead of paying for half-full trucks to deliver products directly from the manufacturer to the warehouse, trucks met at distribution hubs called cross-docks. The manufacturers unloaded full truckloads of products at the cross-dock locations. Costco employees then consolidated and reloaded products into trucks bound for each specific store location. This ensured that trucks were always operating at full capacity, from the manufacturer to the store. Cross-docks never stored inventory, so that all of the items delivered were reloaded and shipped that same day.

Costco profited richly from this strategy. In 1985, the company had a net loss of $3 million on product sales of $336 million. By 2001, the company's profit had soared to $602 million on product sales of $34 billion (see Exhibit 5).[5]

SAM'S Club

SAM'S Club, operated by Wal-Mart, was Costco's largest wholesale club competitor. SAM'S outnumbered Costco in terms of number of warehouses and worldwide members. However, Costco had larger total revenues, sales per store, and operating income.

A few factors limited SAM'S performance. First, SAM'S traditionally catered to a lower income customer than Costco. As a result, SAM'S customers tended to spend less per visit than Costco's.

Second, until 2000, SAM'S lacked a differentiated operating strategy in the Wal-Mart Corporation. Most SAM'S clubs were located adjacent to a Wal-Mart store, offering the same products at the same prices. Many shoppers patronized Wal-Mart without seeing the need to pay a membership fee to enter SAM'S. As a result, many of the cost savings that the two companies enjoyed in real estate development, product purchasing, and delivery were more than offset by decreased sales at SAM'S.

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[4] Wal-Mart would not break out detailed operating information on SAM'S for comparison.
[5] Fiscal year ended September 2, 2001.

Third, SAM'S suffered large amounts of management turnover during the 1990s. SAM'S saw four different presidents come and go between 1994 and 1998. In contrast, James Sinegal and Jeff Brotman had been in charge of Costco since the company's founding.

In 2001, SAM'S began undergoing transformation. Its president, Thomas Grimm, was providing stronger leadership to the organization. He was pursuing an aggressive push to regain the lead from Costco by increasing the rate of expansion in warehouse stores. In fiscal year 2002, SAM'S was planning to open 80 new warehouses. The company had also outlined new plans to renovate older warehouses, add higher-end merchandise to appeal to wealthier clientele, and introduce ancillary product lines similar to Costco's in order to increase customer visits.

Most importantly, SAM'S and Costco's expansion plans would pit the two warehouse clubs directly against each other in local markets. Traditionally, SAM'S and Costco did not have a large number of stores competing in the same markets. The majority of SAM'S Clubs were located in the South and most Costco's were in the West. With plans for both clubs to enter each other's markets, it was unclear how much cannibalism would take place. One indication came from a recent Costco store, which opened in the Dallas market in 2000. Although SAM'S already had 14 warehouses in Dallas, Costco claimed that their own first-year sales were in line with historical averages, approximately $55 million (see Exhibit 7).

BJ's Wholesale Club

BJ's Wholesale Club was a small but efficient competitor to Costco. BJ's was founded in 1984 in Medford, Massachusetts. By 2002, the company had 130 warehouses, all located in the United States. 2001 sales were $5 billion, on a membership of 6.7 million. BJ's strategy was similar to Costco's: to target small business owners and middle-class customers, include high-value goods in the product line to increase sales per customer, and increase store visits through ancillary products.

BJ's strategy diverged from Costco's in that its stores were smaller (110,000 square feet versus 148,000 square feet), it carried more SKUs (6,000 per store versus 4,000 per store), and it marked up select items more than 14 percent, which was Costco's limit. Also, BJ's spent more money on flooring, lighting, and signage in its warehouse facilities in an attempt to improve the shopping atmosphere.

The results were mixed. In more recent years, BJ's had achieved sales and profit growth greater than Costco's. BJ's customers visited its stores 12 times per year versus 9 times for Costco and SAM'S. BJ's also reported gross margins of 9.2 percent, which allowed it to claim that its operations were even more efficient than Costco's[6]. On the other hand, sales per store were only $55 million versus $101 million at Costco, and its membership fee was not as high as Costco's ($40 for a basic membership versus $45) (see Exhibit 8).

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[6] A direct comparison of gross margins between the two companies is misleading in that BJ's cost of goods sold figure includes procurement expenses. Costco excludes such expenses from cost of goods sold. Both methods are acceptable under GAAP. BJ's accounting method results in shifting costs from operating expenses to cost of goods sold, decreasing its reported gross margins, decreasing operating expenses, but leaving operating profits the same. Information is not available in the BJ's annual report to allow us to quantify the company's procurement expenses.

REVIEW OF COSTCO OPERATIONS

Torres had been following Costco's progress for five years, but decided that it was time to run a more thorough analysis. From an operational standpoint, Costco had seen tremendous growth during this period. But how had the company been affected by growth? Had its operational efficiency changed? How had it financed the growth and how had its capital structure evolved?

Torres typically evaluated her investments using two methods: ratio analysis and cash flow analysis. Ratio analysis involved comparing different line items in public financial statements to see how they change over time or how they compare to similar companies. Cash flow analysis involved analyzing a company in terms of the cash it generates from operating activities, investment activities and financing activities. The objective of cash flow analysis was to understand what cash requirements are needed to fund the business, the sources of that cash, and the use management makes of free cash flow.

First, she decided to focus on ratio analysis and leave cash flow analysis for another time. She decided to organize her analysis into three parts: common-size financial statements for Costco over the past five years, a sustainable growth model of Costco over the same period, and a benchmark of Costco against its competitors in important industry ratios.

Common-Size Statements

Common-size income statements expressed the line items of a company's income statement as a percent of revenues. Looking at Costco's income statement, Torres noticed that there were two revenue lines: net sale of goods and membership fees. In creating her common-size income statement, she decided to use net sales of goods as the point of comparison (100 percent) and express other line items, including membership fees, as a percentage of net sales. Her rationale was that this allowed for a clearer reflection of gross and operating margins. Using this format, she was able to analyze the profit structure of Costco over time.

Common-size balance sheets expressed the line items of a company's balance sheet as a percent of total assets. Using this format, she was able to analyze the asset structure of Costco over time and understand how its assets were funded (see Exhibit 9).

Sustainable Growth Model

The sustainable growth rate was the rate at which a firm could grow while keeping its profitability and financial policies unchanged[7]. The sustainable growth model allowed an analyst to isolate the drivers that have led to changes in historical growth in order to isolate causes of change. This model could be decomposed into four steps.

Step 1: Profitability and Earnings Retention

At the end of each year, the return that a company realized on equity capital could either be reinvested back in the business or paid out to investors in the form of dividends and common stock repurchases. If no dividends or share repurchases were made and earnings were reinvested back into the business at the same incremental rate of return, the company's return on equity

[7] Sustainable growth model taken from: Palepu et al., *Business Analysis & Valuation: Using Financial Statements* (South-Western College Publishing, Cincinnati, 2000), Chapter 9.

would hold constant over time. In reality, however, companies frequently experienced changes in their return on equity, and most companies distributed some portion of earnings to investors. As a result, at the highest level, the company's sustainable growth rate could be expressed as the product of the following two ratios:

* Earnings Retention Ratio = 1 – Dividend Payout Ratio

* Return on Equity (ROE) = Net Income / Owner's Equity

If a company retained all of its earnings, its dividend payout ratio was 0 and its earnings retention ratio was 1. As it paid out more of its earnings in dividends, its earnings available for reinvestment in the business necessarily go down. Return on equity measured how much profit is generated in net income for every dollar invested in equity capital.

Step 2: Leverage

The ROE component could be expressed as the product of two ratios: financial leverage and return on assets. Issuing debt allowed a company to increase its return on equity, so long as the return on invested capital is greater than the cost of debt. For example, if a company's core business earned 15 percent return on invested capital and it could borrow debt at 10 percent, financial leverage would increase its ROE. Financial leverage was expressed as the ratio

* Financial Leverage = Assets / Owner's Equity

Assets represented the sum of capital employed in the business at any given time. Likewise, return on assets was a measure of the business' overall profitability, making no distinction between funds due to shareholders and funds due to creditors. Return on assets was expressed as the ratio

* Return on Assets (ROA) = Net Income / Assets

By breaking down Costco's ROE into these components, Torres could better understand how leverage influenced its return on equity. She could also analyze how the increased asset base from warehouse expansion was affecting the company's profitability.

Step 3: Turnover and Margins

A company's return on assets could be further broken down into two components to determine whether increased sales or increased margins accounted for changes in profitability. The first ratio was asset turnover. Asset turnover measured how many dollars in sales were made for each dollar in assets. The second component was net income margin, which measured how much profit was generated per dollar of sales.

* Asset Turnover = Sales / Assets

* Net Income Margin = Net Income / Sales

Relating this to Costco, she could see how an increase in the asset base affected both sales and net margin.

Step 4: Pretax Income and Tax Effect

The fourth step was to decompose the net income margin into pretax return on sales and the tax effect.

* Pretax Return on Sales = Pretax Income / Sales

* Tax Effect = 1 – Tax Rate

This last step allowed her to determine whether changes in the net margin were driven by operating efficiencies or the ability of Costco management to influence its tax rate.

Reviewing these ratios together, she was able to pinpoint which aspects drove the profitability of Costco over time. She was most interested in determining whether Costco had grown at a sustainable rate, or whether growth had been too fast or too slow. She could determine this by finding a deterioration in certain ratios. Finally, she considered how new store openings impacted the ratios (see Exhibit 10).

Benchmarking Ratios

As the third step in her ratio analysis, Torres wanted to get a better sense for how Costco compared to main competitors in operational efficiency. She decided to use a competitive set of Sears, Wal-Mart, and BJ's Wholesale.

In a retail setting, the gross margin was a reflection of how much the retailer marked up items for resale. This ratio reflected roughly the pricing strategy of each company.

* Gross Margin = (Sales – Cost of Goods Sold) / Merchandise Sales

Operating margin was a reflection of how much profit a retailer generated from selling its items after paying all operating expenses. For Costco and BJ's, she included membership fees in revenues.

* Operating Margin = (Revenues – Cost of Goods Sold – Operating Expenses) / Revenues

Net margin, described above, was a bottom-line reflection of profitability taking into account all sources of revenue and expenses from continuing operations.

* Net Margin = Net Income / Revenues

The current ratio was a reflection of a company's short-term liquidity. A ratio greater than 1 indicated that short-term assets were sufficient to service short-term liabilities. Historically, a company with a high current ratio was thought to be secure. However, managers came to realize that tying up too many funds in short-term assets was an inefficient use of capital. Subsequently, many companies sought to maintain a current ratio closer to 1. As a result, whether a company with current ratio equal to 1 was operating efficiently is open to an analyst's interpretation.

* Current Ratio = Current Assets / Current Liabilities

Inventory turnover was a reflection of how long inventory remains in the store before sale. Companies with high inventory turnover were at a competitive advantage because they tied less money up in unsold inventory and because they had the flexibility to adjust their product mix more frequently.

* Inventory Turns = Cost of Goods Sold / [(Opening Inventory + Ending Inventory) / 2]

Average collection period for receivables measured how many days, on average, it took for a company to receive collections from customers.

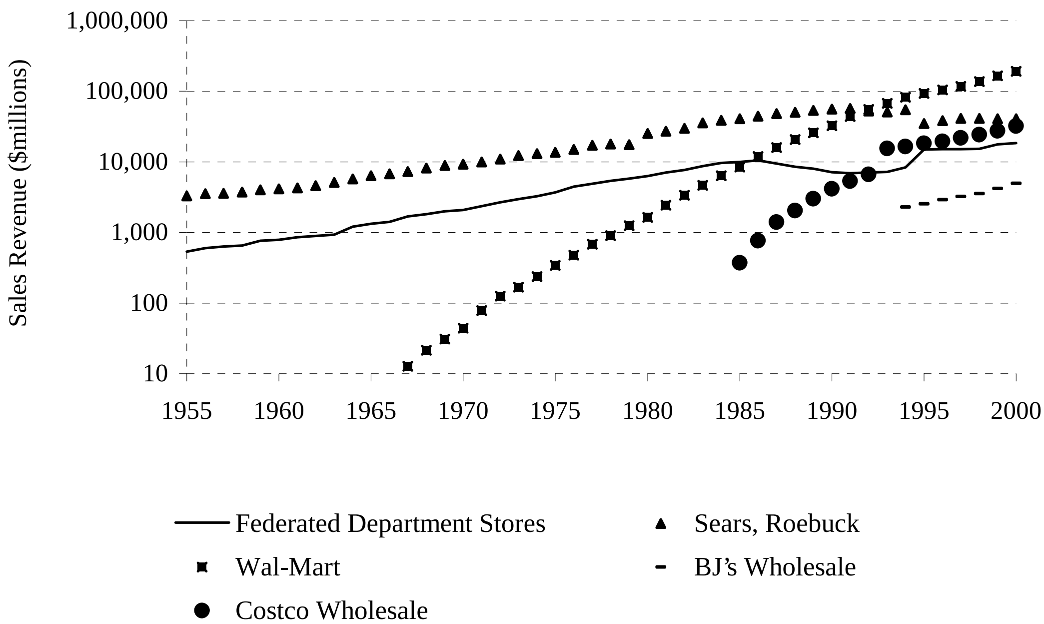
* Average Receivables Period = 365 Days * Accounts Receivables / Sales

Average payables period measured how many days, on average, it took a company to pay suppliers.

* Average Payables Period = 365 * Accounts Payable / Cost of Goods Sold

In reviewing these numbers, Torres considered how they reflected the differences in strategies between Costco and its competitors. She also wondered what they implied about competitive differences in the companies (see Exhibit 11).

Exhibit 1
Sales Revenue for Major Retailers, Logarithmic Scale (1955 – 2000)



Company	CAGR of Sales, 1990 – 2000
Federated	9.9%
Sears, Roebuck	- 3.1%
Wal-Mart	19.4%
BJ's†	NA
Costco††	22.8%
Gross Domestic Product	5.9%

NB: Federated Department Store sales 1987-1989 estimated. Company operated in bankruptcy during this period.

† BJ's growth rate from 1994 to 2000 was 13.6%.

†† Costco merged with Price Club during this period, which greatly increased sales. In 1992, the year before the merger, Costco had sales of $6.6 billion. In 1993, the combined companies reported sales of $15.5 billion.

Sources: Value Line Company Reports on Federated Department Stores, 1955 - 2000
Value Line Company Reports on R.H. Macy, 1955 - 1985
Value Line Company Reports on Sears, Roebuck, 1955 – 2000
Value Line Company Reports on Wal-Mart, 1965 – 2000
Value Line Company Reports on Costco, 1985 – 2000
Value Line Company Reports on BJ's Wholesale, 1994 - 2000

Exhibit 2
Retail and Wholesale Trade as a Percentage of GDP†

	1950	1960	1970	1980	1990	2000
Gross domestic product, $bn	241	415	801	2,708	5,546	9,873
Retail & wholesale trade, $bn	41	64	121	437	884	1568
Retail & wholesale trade, as % of GDP	17%	15%	15%	16%	16%	16%

† In current dollars

Source: U.S. Bureau of Economic Analysis, *Survey of Current Business*, 1952, 1962, 1972, 1982, 1992, 2001

Exhibit 3
Per Capita Income†

	1950	1960	1970	1980	1990	2000
Gross domestic product, $bn	1,892	2,918	5,069	12,276	23,215	36,174
Personal income, $	1,502	2,283	4,101	10,205	19,614	30,069
Disposable personal income, $	1,369	2,026	3,591	8,869	17,176	25,379
Personal consumption exp., $	1,270	1,838	3,164	7,741	15,327	24,534

† In current dollars

Source: U.S. Bureau of Economic Analysis, *Survey of Current Business*, 1952, 1962, 1972, 1982, 1992, 2001

Exhibit 4
Number of Warehouse: Costco, SAM'S, BJ's (1997 – 2001)

	1997	1998	1999	2000	2001
Costco					
Number of stores	274	292	308	331	365
- US	200	211	221	237	264
- Canada	54	56	58	59	60
- Mexico	13	14	16	18	20
- Other international	7	11	13	17	21
SAM'S Club					
Number of stores	475	483	497	512	528
- US	436	443	451	463	475
- Canada	0	0	0	0	0
- Mexico	28	28	31	34	38
- Other international	11	12	15	15	15
BJ's Wholesale					
Number of stores	84	96	107	118	130
- US	84	96	107	118	130
- Canada	0	0	0	0	0
- Mexico	0	0	0	0	0
- Other international	0	0	0	0	0

Sources: Costco Annual Reports, 1997 – 2001. Fiscal years ended Sunday nearest to August 28.
Wal-Mart Annual Reports, 1997 – 2001. Fiscal years ended Sunday nearest January 31.
BJ's Wholesale Annual Reports, 1997 – 2001. Fiscal years ended Sunday nearest January 31.

Exhibit 5
Financial Statements for Costco Wholesale Corp. (1997 – 2001)

Warehouses in Operation	**2001**	**2000**	**1999**	**1998**	**1997**
Beginning of year (including Mexico)	331	308	292	274	265
Openings	41	27	23	19	17
Closings	(7)	(4)	(7)	(1)	(8)
End of year	365	331	308	292	274
Members at Year End (thousands)					
Business (primary cardholders)	4,358	4,170	3,887	3,676	3,537
Gold Star	12,737	10,521	9,555	8,654	7,845

Income Statement (millions)	**2001**	**2000**	**1999**	**1998**	**1997**
Revenue					
Net sales	34,137	31,621	26,976	23,830	21,484
Membership fees and other	660	543	480	440	390
Total revenues	34,797	32,164	27,456	24,270	21,874
Operating expenses					
Merchandise costs	30,598	28,322	24,170	21,380	19,314
SG&A	3,129	2,756	2,338	2,070	1,877
Preopening expenses	60	42	31	27	27
Provision for impaired assets / closings	18	7	57	6	75
Total operating expenses	33,805	31,127	26,596	23,483	21,293
Operating income	992	1,037	860	787	581
Other income (expenses)					
Interest expense	(32)	(39)	(45)	(48)	(76)
Interest income and other	43	54	44	27	15
Provision for merger and restructuring	0	0	0	0	0
Income continuing ops before taxes	1,003	1,052	859	766	520
Provision for income taxes	401	421	344	306	208
Income before cumulative effect of accting	602	631	515	460	312
Cumulative effect of accting, net of tax	0	0	(118)	0	0
Income from continuing operations	602	631	397	460	312
Discontinued operations					
Income (loss), net of tax	0	0	0	0	0
Loss on disposal	0	0	0	0	0
Net Income (loss)	602	631	397	460	312
Net income per common share:					
Basic, before accounting change	1.34	1.41	1.17	1.07	0.76
Cumulative effect of accounting changes	0.00	0.00	(0.27)	0.00	0.00
Basic	1.34	1.41	0.90	1.07	0.76
Diluted	1.29	1.35	0.86	1.01	0.73
Number of common shares for calculation					
Basic	449,631	446,255	439,253	431,012	414,758
Diluted	475,827	475,737	471,120	463,371	449,336

Exhibit 5 (Continued)

Balance Sheet (thousands)	**2001**	**2000**	**1999**	**1998**	**1997**
Current assets					
Cash and equivalents	602,585	524,505	440,586	361,974	175,508
Short-term investments	4,999	48,026	256,688	75,549	0
Receivables, net	324,768	174,375	168,648	171,613	147,133
Merchandise inventories, net	2,738,504	2,490,088	2,210,475	1,910,751	1,686,525
Other current assets	211,601	233,124	239,516	108,343	100,784
Total current assets	3,882,457	3,470,118	3,315,913	2,628,230	2,109,950
Property and equipment					
Land and rights	1,877,158	1,621,798	1,264,125	1,119,663	1,094,607
Building, leaseholds and land improvements	3,834,714	3,007,752	2,444,640	2,170,896	1,933,740
Equipment and fixtures	1,529,307	1,311,110	1,138,568	948,515	840,578
Construction in process	133,995	200,729	176,824	91,901	81,417
Subtotal	7,375,174	6,141,389	5,024,157	4,330,975	3,950,342
Less accumulated depreciation	(1,548,589)	(1,307,273)	(1,117,269)	(935,603)	(795,708)
Net property plant and equipment	5,826,585	4,834,116	3,906,888	3,395,372	3,154,634
Other assets	380,744	329,706	282,200	236,218	211,730
Total assets	10,089,786	8,633,940	7,505,001	6,259,820	5,476,314
Current liabilities					
Short-term borrowing	194,552	9,500	0	0	25,460
Accounts payable	2,727,639	2,197,139	1,912,632	1,605,533	1,394,309
Accrued salaries and benefits	483,473	422,264	414,276	352,903	302,681
Accrued sales and other tax	152,864	159,717	122,932	102,367	90,774
Deferred membership income	322,583	262,249	225,903	0	0
Other current liabilities	231,078	353,490	190,490	136,139	150,823
Total current liabilities	4,112,189	3,404,359	2,866,233	2,196,942	1,964,047
Long-term debt	859,393	790,053	918,888	930,035	917,001
Deferred income taxes and other liabilities	119,434	90,391	66,990	61,483	38,967
Total liabilities	5,091,016	4,284,803	3,852,111	3,188,460	2,920,015
Minority interest	115,830	108,857	120,780	105,474	88,183
Stockholder's Equity					
Preferred	0	0	0	0	0
Common	2,259	2,236	2,214	2,176	2,136
Additional paid in	1,125,543	1,028,414	952,758	817,628	706,324
Other accumulated	(173,610)	(117,029)	(118,084)	(151,842)	(78,426)
Retained earnings	3,928,748	3,326,659	2,695,222	2,297,924	1,838,082
Total stockholder's equity	4,882,940	4,240,280	3,532,110	2,965,886	2,468,116
Total liabilities and shareholder's equity	10,089,786	8,633,940	7,505,001	6,259,820	5,476,314

Source: Costco Annual Reports, 1997 – 2001. Fiscal years ended Sunday nearest to August 28.

Exhibit 6
Financial Statements for Sears, Roebuck (1997 – 2001)

Stores	**2001**	**2000**	**1999**	**1998**	**1997**
Full-line stores	867	863	858	845	833
Specialty stores	1318	2158	2153	2198	2697
Total	2185	3021	3011	3043	3530

Income Statement (millions)	**2001**	**2000**	**1999**	**1998**	**1997**
Revenues					
Merchandise sales and services	35,843	36,366	36,728	36,704	36,371
Credit and financial products revenues	5,235	4,571	4,343	4,618	4,925
Total revenues	41,078	40,937	41,071	41,322	41,296
Costs and Expenses					
Cost of sales, buying and occupancy	26,322	26,721	27,212	27,257	26,779
Selling and administrative	8,892	8,807	8,418	8,318	8,322
Provision for uncollectible accounts	1,344	884	871	1,287	1,532
Provision for previously securitized receivables	522	0	0	830	0
Depreciation and amortization	863	839	848	1,423	785
Interest	1,415	1,248	1,268	0	1,409
Special charges and impairments	542	251	41	352	475
Total costs and expenses	39,900	38,750	38,658	39,467	39,302
Operating income	1,178	2,187	2,413	1,855	1,994
Other income, net	45	36	6	28	144
Income before income taxes and minority interest	1,223	2,223	2,419	1,883	2,138
Income taxes	467	831	904	766	912
Minority interest	21	49	62	45	38
Net Income Before Extraordinary Loss	735	1,343	1,453	1,072	1,188
Extraordinary loss on extinguishment of debt	0	0	0	24	0
Net Income	735	143	1,453	1,048	1,188
Net income per common share:					
Basic	2.25	3.89	3.83	2.70	3.03
Diluted	2.24	3.88	3.81	2.68	2.99
Number of common shares for calculation	326.4	345.1	379.2	388.6	391.6
Basic	328.5	346.3	381.0	391.7	397.8
Diluted					

Exhibit 6 (continued)

Balance Sheet (millions)	**2001**	**2000**	**1999**	**1998**	**1997**
Assets					
Cash and equivalents	1,064	842	729	495	358
Retained interest in transferred credit card Receivables	0	3,105	3,211	4,294	3,316
Credit card receivables	29,321	18,003	18,793	18,946	20,956
Less allowance for uncollectible accounts	1,166	686	760	974	1,113
Net credit card receivables	28,155	17,317	18,033	17,972	19,843
Other receivables	658	506	404	397	335
Merchandise inventories	4,912	5,618	5,069	4,816	5,044
Prepaid expenses and deferred charges	458	486	512	506	517
Deferred income taxes	858	920	709	791	830
Total current assets	36,105	28,794	28,667	29,271	30,243
Property and equipment					
Land	434	408	370	395	487
Buildings and improvements	6,539	6,096	5,837	5,530	5,420
Furniture, fixtures, and equipment	5,620	5,559	5,209	4,871	4,919
Capitalized leases	544	522	496	530	498
Gross property and equipment	13,137	12,585	11,912	11,326	11,324
Less accumulated depreciation	6,313	5,932	5,462	4,946	4,910
Total property plant and equipment, net	6,824	6,653	6,450	6,380	6,414
Deferred income taxes	415	174	367	572	666
Other assets	973	1,278	1,470	1,452	1,377
Total assets	44,317	36,899	36,954	37,675	38,700
Liabilities					
Current liabilities					
Short-term borrowings	3,557	4,280	2,989	4,624	5,208
Current portion of long-term debt and capital lease obligations	3,157	2,560	2,165	1,414	2,561
Accounts payable and other liabilities	7,176	7,336	6,992	6,732	36,637
Unearned revenue	1,136	1,058	971	815	830
Other taxes	558	562	584	524	554
Total current liabilities	15,584	15,796	13,701	14,109	15,790
Long-term debt and capitalized lease obligations	18,921	11,020	12,884	13,631	13,071
Post-retirement benefits	1,732	1,951	2,180	2,346	2,564
Minority interest and other liabilities	1,961	1,363	1,350	1,523	1,413
Total liabilities	38,198	30,130	30,115	31,609	32,838
Shareholder's equity					
Common shares	323	323	323	323	323
Capital in excess of par	3,500	3,538	3,554	3,583	3,598
Retained earnings	7,413	6,979	5,952	4,848	4,158
Treasury stock - at cost	(4,223)	(3,726)	(2,569)	(2,089)	(1,702)
Deferred ESOP expenses	(63)	(96)	(134)	(175)	(204)
Accumulated other comprehensive loss	(831)	(249)	(287)	(424)	(311)
Total shareholder's equity	6,119	6,769	6,839	6,066	5,862
Total liabilities and shareholder's equity	44,317	36,899	36,954	37,675	38,700

Source: Sears Roebuck Annual Reports, 1997 – 2001. Fiscal years ended Sunday nearest to December 31.

Exhibit 7
Financial Statements for Wal-Mart Corp. (1997 – 2001)

Stores in Operation	**2001**	**2000**	**1999**	**1998**	**1997**
Wal-Mart stores	2,348	2,373	2,389	2,421	2,209
Supercenters	1,294	1,104	713	502	370
SAM'S Clubs	528	512	497	483	475
Other	19	7	4	0	0
Total	4,189	3,996	3,603	3,406	3,054

Income Statement (millions)	**2001**	**2000**	**1999**	**1998**	**1997**
Revenue					
Net sales	191,329	165,013	137,634	117,958	104,859
Other income-net	1,966	1,796	1,574	1,341	1,319
Total revenues	193,295	166,809	139,208	119,299	106,178
Costs and Expenses					
Cost of sales	150,255	129,664	108,725	93,438	83,510
Operating: SG&A	31,550	27,040	22,363	19,358	16,946
Interest Costs					
Debt	1,095	756	529	555	629
Capital leases	279	266	268	229	216
	183,179	157,726	131,885	113,580	101,301
Income Before Taxes, Minority Interest, and Cumulative Effect of Accounting Change	10,116	9,083	7,323	5,719	4,877
Provision for Income Taxes					
Current	3,350	3,476	3,380	2,095	1,974
Deferred	342	(138)	(640)	20	(180)
	3,692	3,338	2,740	2,115	1,794
Income Before Minority Interest and Cumulative Effect of Accounting Change	6,424	5,745	4,583	3,604	3,083
Minority Interest	(129)	(170)	(153)	(78)	(27)
Income Before Cumulative Effect of Accounting Change	6,295	5,575	4,430	3,526	3,056
Cumulative Effect of Accounting Change, Net of Tax Benefit of $119	0	(198)	0	0	0
Net Income	6,295	5,377	4,430	3,526	3,056
Net income per common share:					
Basic, before accounting change	1.41	1.25	0.99	0.78	0.67
Cumulative effect of accounting changes	0.00	(0.04)	0.00	0.00	0.00
Basic	1.41	1.21	0.99	0.78	0.67
Diluted	1.40	1.20	0.99	0.78	0.67
Number of common shares for calculation					
Basic	4,465	4,451	4,464	4,516	4,585
Diluted	4,484	4,474	4,485	4,533	4,592

Exhibit 7 (continued)

Balance Sheet (millions)	**2001**	**2000**	**1999**	**1998**	**1997**
Assets					
Cash and Equivalents	2,054	1,856	1,879	1,447	883
Receivables	1,768	1,341	1,118	976	845
Inventories	21,442	19,793	17,076	16,497	15,897
Prepaid Expenses and Other	1,291	1,366	1,059	432	368
Total Current Assets	26,555	24,356	21,132	19,352	17,993
Land	9,433	8,785	5,219	4,691	3,689
Building and Improvements	24,537	21,169	16,061	14,646	12,724
Fixtures and Equipment	12,964	10,362	9,296	7,636	6,390
Transportation Equipment	879	747	553	403	379
	47,813	41,063	31,129	27,376	23,182
Less Accumulated Depreciation	10,196	8,224	7,455	5,907	4,849
Net Property Plant and Equipment	37,617	32,839	23,674	21,469	18,333
Property Under Capital Lease	4,620	4,285	3,335	3,040	2,782
Less Accumulated Amortization	1,303	1,155	1,036	903	791
Net Property Under Capital Lease	3,317	3,130	2,299	2,137	1,991
Other Assets and Deferred Charges	10,641	10,024	2,891	2,426	1,287
Total Assets	78,130	70,349	49,996	45,384	39,604
Liabilities and Shareholder's Equity					
Commercial Paper	2,286	3,323	0	0	0
Accounts Payable	15,092	13,105	10,257	9,126	7,628
Accrued Liabilities	6,355	6,161	4,998	3,628	2,413
Accrued Income Taxes	841	1,129	501	565	298
Long-Term Debt Due Within One Year	4,234	1,964	900	1,039	523
Short -Term Obligations Under Capital Leases	141	121	106	102	95
Total Current Liabilities	28,949	25,803	16,762	14,460	10,957
Long-Term Debt	12,501	13,672	6,908	7,191	7,709
Long-Term Debt Under Capital Leases	3,154	3,002	2,699	2,483	2,307
Deferred Income Taxes and Other	1,043	759	716	809	463
Minority Interest	1,140	1,279	1,799	1,938	1,025
Common Stock	447	446	445	224	228
Capital In Excess of Par	1,411	714	435	585	547
Retained Earnings	30,169	25,129	20,741	18,167	16,768
Other Accumulated Comprehensive Income	(684)	(455)	(509)	(473)	(400)
Total Shareholder's Equity	31,343	25,834	21,112	18,503	17,143
Total Liabilities and Shareholder's Equity	78,130	70,349	49,996	45,384	39,604

Source: Wal-Mart Annual Reports, 1997 – 2001. Fiscal years ended Sunday nearest to January 31.

Exhibit 8
Financial Statements for BJ's Wholesale Corp. (1997 – 2001)

Warehouses in Operation	**2001**	**2000**	**1999**	**1998**	**1997**
Beginning of year	118	107	96	84	81
Openings	12	11	11	12	4
Closings	0	0	0	0	(1)
End of year	130	118	107	96	84
Members at Year End (thousands)					
Business (primary cardholders)	1,552	1,575	1,435	1,296	1,132
Gold Star	5,322	5,021	4,379	3,763	3,465

Income Statement (thousands)	**2001**	**2000**	**1999**	**1998**	**1997**
Revenue					
Net sales	5,161,164	4,828,273	4,115,825	3,476,846	3,159,786
Membership fees and other	118,566	103,822	90,422	75,335	67,556
Total revenues	5,279,730	4,932,095	4,206,247	3,552,181	3,227,342
Operating expenses					
Cost of sales, including buying and occupancy	4,686,429	4,376,451	3,725,638	3,154,017	2,872,303
SG&A	350,000	339,305	293,538	255,087	231,203
Preopening expenses	10,343	8,471	9,536	7,743	3,190
Pension termination costs	0	0	0	1,521	0
Operating income	232,958	207,868	177,535	133,813	120,646
Interest income (expense), net	3,934	5,955	3,785	956	(8,733)
Loss on contingent lease obligations	(106,359)	0	0	0	0
Income before income taxes	130,533	213,823	181,320	134,769	111,913
Provision for income taxes	48,185	82,322	70,171	52,964	43,646
Income before cumulative effect of accounting principle	82,348	131,501	111,149	81,805	68,267
Cumulative effect of accounting changes	0	0	0	(19,326)	0
Net income	82,348	131,501	111,149	62,479	68,267
Net income per common share:					
Basic, before accounting change	1.14	1.80	1.51	1.09	0.91
Cumulative effect of accounting changes	0.00	0.00	0.00	(0.26)	0.00
Basic	1.14	1.80	1.51	0.83	0.91
Diluted	1.11	1.77	1.47	0.82	0.90
Number of common shares for calculation					
Basic	72,519,032	72,870,668	73,657,016	74,804,538	74,962,346
Diluted	73,981,148	74,380,544	75,391,489	76,095,876	75,487,798

Exhibit 8 (continued)

Balance Sheet (thousands)	**2001**	**2000**	**1999**	**1998**	**1997**
Current assets					
Cash and equivalents	87,158	120,392	118,008	12,250	12,713
Accounts receivable	61,027	55,250	51,998	51,134	38,322
Merchandise inventories	560,001	495,285	446,771	372,740	332,274
Current deferred income taxes	27,226	7,677	5,995	7,859	6,826
Prepaid expenses	17,406	15,967	15,482	12,607	14,050
Total current assets	752,818	694,571	638,254	456,590	404,185
Property at cost					
Land and buildings	449,619	364,418	342,817	322,712	282,619
Leasehold costs and improvements	74,647	67,565	59,350	45,861	42,541
Furniture, fixtures, and equipment	369,671	331,129	279,381	236,231	207,127
	893,937	763,112	681,548	604,804	532,287
Less accumulated depreciation	259,562	239,198	201,486	168,957	140,216
	634,375	523,914	480,062	435,847	392,071
Property under capital leases	3,319	3,319	3,319	6,219	6,219
Less accumulated amortization	2,447	2,281	2,115	1,949	1,784
	872	1,038	1,204	4,270	4,435
Deferred income taxes	12,571	0	0	0	0
Other assets	21,248	14,211	11,499	10,923	10,945
Total assets	1,421,884	1,233,734	1,131,019	907,630	811,636
Current liabilities					
Accounts payable	381,112	335,060	346,111	213,702	200,386
Accrued expenses and other current	166,183	147,536	137,641	121,951	71,648
Accrued income taxes	33,352	31,807	20,806	11,757	7,009
Short-term obligations under capital leases	285	240	220	201	185
Short-term contingent lease obligations	44,068	0	0	0	0
Total current liabilities	625,000	514,643	504,778	347,611	279,228
Long-term debt	0	0	0	30,000	42,500
Long-term obligations under capital leases	1,558	1,828	2,050	2,249	2,430
Long-term contingent lease obligations	62,142	0	0	0	0
Other noncurrent liabilities	46,617	44,453	38,431	34,928	36,396
Deferred income taxes	0	7,895	8,362	7,800	4,825
Commitments and contingencies	0	0	0	0	0
Stockholder's equity					
Common stock	744	744	744	738	375
Additional paid in capital	68,574	75,583	85,958	78,376	102,408
Retained earnings	730,851	648,528	517,052	405,928	343,474
Treasury stock, at cost	(113,602)	(59,940)	(26,356)	0	0
Total stockholder's equity	686,567	664,915	577,398	485,042	446,257
Total liabilities and shareholder's equity	1,421,884	1,233,734	1,131,019	907,630	811,636

Source: BJ's Wholesale Annual Reports, 1997 – 2001. Fiscal years ended Sunday nearest to January 31.

Exhibit 9
Margarita Torres: Common-Size Financial Statements for Costco (1997 – 2001)

Income Statement	**2001**	**2000**	**1999**	**1998**	**1997**
Revenue					
Net sales	100.00%	100.00%	100.00%	100.00%	100.00%
Membership fees and other	1.93%	1.72%	1.78%	1.85%	1.82%
Total revenues	101.93%	101.72%	101.78%	101.85%	101.82%
Operating expenses					
Merchandise costs	89.63%	89.57%	89.60%	89.72%	89.90%
SG&A	9.17%	8.72%	8.67%	8.69%	8.74%
Preopening expenses	0.18%	0.13%	0.11%	0.11%	0.13%
Provision for impaired assets / closings	0.05%	0.02%	0.21%	0.03%	0.35%
Total operating expenses	99.03%	98.44%	98.59%	98.54%	99.11%
Operating income	2.91%	3.28%	3.19%	3.30%	2.70%
Other income (expenses)					
Interest expense	-0.09%	-0.12%	-0.17%	-0.20%	-0.35%
Interest income and other	0.13%	0.17%	0.16%	0.11%	0.07%
Provision for merger and restructuring	0.00%	0.00%	0.00%	0.00%	0.00%
Income continuing ops before taxes	2.94%	3.33%	3.18%	3.21%	2.42%
Provision for income taxes	1.17%	1.33%	1.28%	1.28%	0.97%
Income before cumulative effect of accting	1.76%	2.00%	1.91%	1.93%	1.45%
Cumulative effect of accting, net of tax	0.00%	0.00%	-0.44%	0.00%	0.00%
Income from continuing operations	1.76%	2.00%	1.47%	1.93%	1.45%
Discontinued operations	0.00%	0.00%	0.00%	0.00%	0.00%
Income (loss), net of tax	0.00%	0.00%	0.00%	0.00%	0.00%
Loss on disposal	0.00%	0.00%	0.00%	0.00%	0.00%
Net Income (loss)	1.76%	2.00%	1.47%	1.93%	1.45%

Exhibit 9 (continued)

Balance Sheet	**2001**	**2000**	**1999**	**1998**	**1997**
Current assets					
Cash and equivalents	5.97%	6.07%	5.87%	5.78%	3.20%
Short-term investments	0.05%	0.56%	3.42%	1.21%	0.00%
Receivables, net	3.22%	2.02%	2.25%	2.74%	2.69%
Merchandise inventories, net	27.14%	28.84%	29.45%	30.52%	30.80%
Other current assets	2.10%	2.70%	3.19%	1.73%	1.84%
Total current assets	38.48%	40.19%	44.18%	41.99%	38.53%
Property and equipment					
Land and rights	18.60%	18.78%	16.84%	17.89%	19.99%
Building, leaseholds and land improvements	38.01%	34.84%	32.57%	34.68%	35.31%
Equipment and fixtures	15.16%	15.19%	15.17%	15.15%	15.35%
Construction in process	1.33%	2.32%	2.36%	1.47%	1.49%
Subtotal	73.10%	71.13%	66.94%	69.19%	72.14%
Less accumulated depreciation	-15.35%	-15.14%	-14.89%	-14.95%	-14.53%
Net property plant and equipment	57.75%	55.99%	52.06%	54.24%	57.61%
Other assets	3.77%	3.82%	3.76%	3.77%	3.87%
Total assets	100.00%	100.00%	100.00%	100.00%	100.00%
Current liabilities					
Short-term borrowing	1.93%	0.11%	0.00%	0.00%	0.46%
Accounts payable	27.03%	25.45%	25.48%	25.65%	25.46%
Accrued salaries and benefits	4.79%	4.89%	5.52%	5.64%	5.53%
Accrued sales and other tax	1.52%	1.85%	1.64%	1.64%	1.66%
Deferred membership income	3.20%	3.04%	3.01%	0.00%	0.00%
Other current liabilities	2.29%	4.09%	2.54%	2.17%	2.75%
Total current liabilities	40.76%	39.43%	38.19%	35.10%	35.86%
Long-term debt	8.52%	9.15%	12.24%	14.86%	16.74%
Deferred income taxes and other liabilities	1.18%	1.05%	0.89%	0.98%	0.71%
Total liabilities	50.46%	49.63%	51.33%	50.94%	53.32%
Minority interest	1.15%	1.26%	1.61%	1.68%	1.61%
Stockholder’s Equity					
Preferred	0.00%	0.00%	0.00%	0.00%	0.00%
Common	0.02%	0.03%	0.03%	0.03%	0.04%
Additional paid in	11.16%	11.91%	12.69%	13.06%	12.90%
Other accumulated	-1.72%	-1.36%	-1.57%	-2.43%	-1.43%
Retained earnings	38.94%	38.53%	35.91%	36.71%	33.56%
Total stockholder’s equity	48.39%	49.11%	47.06%	47.38%	45.07%
Total liabilities and shareholder’s equity	100.00%	100.00%	100.00%	100.00%	100.00%

Exhibit 10
Margarita Torres: Sustainable Growth Model for Costco (1997 – 2001)

Sustainable Growth Model (millions)	**2001**	**2000**	**1999**[†]	**1998**	**1997**
Net Income	602	631	515	460	312
Owner's Equity	4,240	3,532	2,966	2,468	NA
Return on Equity (ROE)	14.2%	17.9%	17.4%	18.6%	NA
Dividend	0	0	0	0	0
Net Income	602	631	515	460	312
Dividend Payout	0.0%	0.0%	0.0%	0.0%	0.0%
Earnings Retention Ratio	100%	100%	100%	100%	100%
Net Income	602	631	515	460	312
Assets	8,634	7,505	6,260	5,476	NA
Return on Assets (ROA)	7.0%	8.4%	8.2%	8.4%	NA
Assets	8,634	7,505	6,260	5,476	NA
Owner's Equity	4,240	3,532	2,966	2,468	NA
Financial Leverage	2.04	2.12	2.11	2.22	NA
Net Income	602	631	515	460	312
Sales	34,797	32,164	27,456	24,270	21,874
Net Margin (Return on Sales)	1.73%	1.96%	1.88%	1.90%	1.43%
Sales	34,797	32,164	27,456	24,270	21,874
Assets	8,634	7,505	6,260	5,476	NA
Asset Turnover	4.03	4.29	4.39	4.43	NA
Pretax Income (continuing operations)	1,003	1,052	859	766	520
Sales	34,797	32,164	27,456	24,270	21,874
Pretax Return on Sales	2.88%	3.27%	3.13%	3.16%	2.38%
Pretax Income (continuing operations)	1,003	1,052	859	766	520
Taxes	401	421	344	306	208
Tax Rate	40.0%	40.0%	40.0%	39.9%	40.0%
Tax Effect (1 - Tax Rate)	60.0%	60.0%	60.0%	60.1%	60.0%

[†]1999 net income figures used for calculation are before cumulative effect of account change.

Exhibit 11
Margarita Torres: Other Ratios for Costco and Competitors (2001)

Other Ratios (millions)	Costco	Sears	Wal-Mart	BJ's
Cost of Goods Sold	30,598	26,322	150,255	4,686
Merchandise Sales	34,137	35,843	191,329	5,161
COGS	89.6%	73.4%	78.5%	90.8%
Gross Margin	10.4%	26.6%	21.5%	9.2%
Operating Income	992	1,178	11,490	233
Sales	34,797	41,078	193,295	5,280
Operating Margin	2.85%	2.87%	5.94%	4.41%
Net Income	602	735	6,295	82
Sales	34,797	41,078	193,295	5,280
Net Margin	1.73%	1.79%	3.26%	1.56%
Current assets	3,882	36,105	78,130	753
Current liabilities	4,112	15,584	28,949	625
Current Ratio	0.94	2.32	2.70	1.20
Cost of Goods Sold	30,598	26,322	150,255	4,686
Average inventory	2,614	5,265	20,618	527
Inventory Turnover	11.7	5.0	7.3	8.9
Accounts receivable	325	28,155	1,768	61
Merchandise Sales	34,137	35,843	191,329	5,161
Average Receivables Period	3	287	3	4
Accounts payable	2,728	7,176	15,092	381
Cost of Goods Sold	30,598	26,322	150,255	4,686
Average Payable Period	33	100	37	30