

## Kinsale

### 4Q22 Earnings: A Strong Quarter Suggests More of the Same to Come, But Valuation Seems Full; Neutral

KNSL reported a strong 4Q22 and we expect its financial results to exhibit positive momentum over the medium term. Kinsale is a high-quality E&S franchise that is benefiting from the current environment but should also perform well through the underwriting cycle. Still, we remain Neutral on the stock given its valuation and the risk of multiple compression when P&C pricing eventually turns.

- EPS above expectations.** KNSL reported 4Q22 operating EPS of \$2.60, well above our \$2.10 estimate and consensus of \$2.13. KNSL's underwriting margins were higher than our model (CR 72.4% vs. 78.3%E or +\$0.48 per share), driven by favorable attritional (55.6% vs. 59.0%E) and expense (19.9% vs. 20.5%E) ratios. Reserve releases were a touch lower (-3.3% vs. -3.5%E) but were more than offset by lower catastrophe losses (0.2% vs. 2.3%E). The 4Q22 core combined ratio (ex. cats and PYD) was 75.5%, down from 78.6% in 4Q21 and better than our 79.5% assumption. Investment income was stronger as well (+\$0.15 per share vs. our model), driven by strong operating cash flows and higher new money rates. Of note, KNSL was able to reduce the duration of its investment portfolio in 2022, from 4.3 years at 12/31/21 to 3.5 years at 12/31/22, while improving yields from 2.5% to 3.0%. Net written premiums of \$242.1 million rose +36.4% from 4Q21 vs. our +34.1% assumption.
- Raising EPS estimates.** We are increasing 1Q23 EPS from \$2.07 to \$2.23 and 2023 EPS from \$9.18 to \$9.97. We think KNSL's very strong 4Q22 attritional loss ratio of 55.6% benefited from management's practice of setting more conservative loss picks earlier in the year and unwinding part of the buffer in the second half. Thus, in our opinion, 4Q22 is not a good base for 2023 and the full year 2022 AY loss ratio of 58.8% is a better starting point. With respect to expenses, management's commentary on cost control suggests scope for improvement in an already very strong 2022 expense ratio of 20.2%.
- Multiple drivers of upside for KNSL given favorable operating environment, but valuation seems full.** These drivers include: (1) premium growth – we are assuming 20% gross premium growth from 2023-2025 vs. +40% historical growth from 2019-2022, management commentary seems to suggest stronger growth prospectively; (2) AY loss ratio – we are assuming a flattish ratio in 2023 vs. 2022, but a positive pricing spread in 2023 could reduce it further; (3) expense ratio – we are also assuming a flattish ratio in 2023 vs. 2022, which again could be conservative given management's focus on cost control; (4) investment income – scope for upside from organic growth, higher yields, and at some point potentially increasing duration. However, our concern is that KNSL still trades at a significant premium vs. the sector even after giving it credit for most of these benefits. Also, although the stock could justifiably trade at a permanent (albeit lower) premium versus peers for structural reasons (high quality franchise, above-average growth), we believe its current valuation multiple has an embedded benefit from the favorable P&C environment, which is not permanent and will eventually deteriorate.

## Neutral

**KNSL, KNSL US**  
Price (16 Feb 23): \$292.01

▲ Price Target (Dec-23): \$290.00  
Prior (Dec-23): \$270.00

## Insurance - Life & Nonlife

### Pablo S. Singzon <sup>AC</sup>

(1-212) 622-2295  
pablo.s.singzon@jpmorgan.com  
Bloomberg JPMA SINGZON <GO>

### Jimmy S. Bhullar, CFA

(1-212) 622-6397  
jimmy.s.bhullar@jpmorgan.com

### Nicholas M Annitto

(1-212) 622-6705  
nicholas.annitto@jpmorgan.com

### Scott Haveman, CPA

(1-212) 622 9937  
scott.haveman@jpmchase.com  
J.P. Morgan Securities LLC

## Key Changes (FYE Dec)

	Prev	Cur
Adj. EPS - 23E (\$)	9.18	9.97
Adj. EPS - 24E (\$)	11.39	12.50

## Quarterly Forecasts (FYE Dec)

Adj. EPS (\$)	2022A	2023E	2024E
Q1	1.63	2.23	
Q2	1.92	2.45	
Q3	1.64	2.42	
Q4	2.60	2.86	
FY	7.80	9.97	12.50

## Style Exposure

Quant Factors	Current		Hist %Rank (1=Top)			
	%Rank	6M	1Y	3Y	5Y	
Value	99	98	96	99	97	
Growth	4	5	5	8	2	
Momentum	3	6	22	11	28	
Quality	7	8	9	8	14	
Low Vol	80	78	76	81	86	
ESGQ	77	75	74	84	-	

## 4Q22 Results

EPS: \$2.60A vs. \$2.10E

NPW growth: +36.4% vs +34.1%E

Comb. ratio: 72.4% vs. 78.3%E

Sources for: Style Exposure – J.P. Morgan Quantitative and Derivatives Strategy; all other tables are company data and J.P. Morgan estimates.

## See page 12 for analyst certification and important disclosures.

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### Price Performance



### Company Data

Shares O/S (mn)	23
52-week range (\$)	334.99-187.03
Market cap (\$ mn)	6,746.24
Exchange rate	1.00
Free float(%)	94.5%
3M - Avg daily vol (mn)	0.15
3M - Avg daily val (\$ mn)	42.6
Volatility (90 Day)	48
Index	RUSSELL 2000
BBG BUY HOLD SELL	4 4 1

### Key Metrics (FYE Dec)

\$ in millions	FY22A	FY23E	FY24E
<b>Financial Estimates</b>			
NEP (Premium)	794	1,062	1,314
Underwriting income	175	227	277
Net investment income	25	75	99
Operating income	200	302	376
Adj. PBT	196	287	361
Adj. net income	180	232	292
Adj. EPS	7.80	9.97	12.50
BBG EPS	7.32	8.88	10.55
DPS	0.52	0.56	0.64
Investments	743	962	1,239
BVPS	32.27	41.57	53.29
NAVPS	-	-	-
<b>Margins and Growth</b>			
Adj. EPS growth	35.9%	27.8%	25.4%
<b>Ratios</b>			
Adj. tax rate	18.6%	19.0%	19.0%
Loss ratio	57.7%	58.4%	58.7%
Combined ratio	77.9%	78.6%	78.9%
Invest inc. % of Investments	-	-	-
Regulatory solvency ratio	-	-	-
Leverage (Debt/Debt+Equity)	-	-	-
ROE	25.0%	27.1%	26.5%
<b>Valuation</b>			
Dividend yield	0.2%	0.2%	0.2%
Adj. P/E	37.4	29.3	23.4
P/BV	9.0	7.0	5.5

### Summary Investment Thesis and Valuation

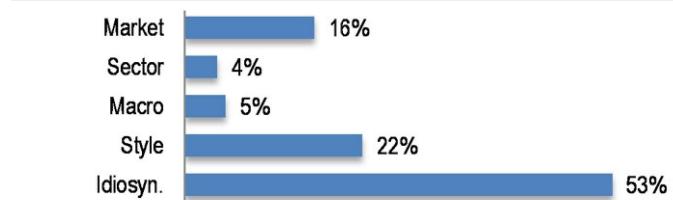
#### Investment Thesis

We affirm our **Neutral rating**. KNSL is the only publicly traded P&C insurer that operates exclusively in the E&S insurance market with a focus on small commercial accounts. Our long-term outlook for KNSL is positive given its large addressable market, superior technology platform, and low cost base, which we view as a sustainable competitive advantage. Still, the stock's valuation seems full at current levels and we are concerned about the risk of multiple compression as the P&C pricing cycle moderates.

#### Valuation

We are raising our December 2023 price target from \$270 to \$290 given the increase in our EPS estimates. Our price target assumes a 4.3x P/BV target multiple on 2025 book value and a 20x P/E target on 2025 EPS. These target multiples are well above peers', which we believe is supported by KNSL's above-average premium growth (long-term low-to-mid teens growth versus mid-to-high single-digit growth for most large commercial peers) and margin profile (high 70s to low 80s CR versus 85- 90% for peers). KNSL trades at 9.0x BV, well above the specialty peer average (ex. PLMR) of 2.1x and commercial peers at 1.8x.

### Performance Drivers



Factors	6M Corr	1Y Corr
<b>Market:</b> MSCI US	0.18	0.40
<b>Sect:</b> Financials	0.37	0.17
<b>Ind:</b> Insurance	0.61	0.48
<b>Macro:</b>		
Economic Surprise	0.25	0.22
US Dollar	0.34	0.16
Non-Energy Commodity	-0.18	-0.09
<b>Quant Styles:</b>		
Momentum	0.55	0.47
Size	0.33	0.29
Growth	-0.41	-0.27

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## Investment Thesis

Please see Page 5 for tables summarizing 4Q22 results. KNSL will hold its earnings conference call at 9:00 AM Eastern on February 17, 2022. The dial-in number for the call is 888-660-6493; code: 3573726. The call replay will be available on <https://ir.kinsalecapitalgroup.com>.

**We affirm our Neutral rating.** We expect KNSL's premiums and margins to benefit from favorable trends in the E&S market, which continues to generate outsized growth at attractive pricing/terms. Also, we think that Kinsale's low-cost operating model is a sustainable competitive advantage across the pricing cycle, especially against higher cost competitors like Lloyd's writers. On the other hand, the stock's valuation is full compared to commercial peers and specialist names even after accounting for KNSL's growth potential and above-average margins. Furthermore, while favorable P&C market conditions are likely to persist through 2023 and will have positive implications for KNSL's reserves and future earnings, the eventual turn in the P&C pricing cycle is a downside risk to its above-average multiple.

### Well-Positioned to Capitalize on Favorable P&C Market

We expect the overall E&S market, where KNSL operates exclusively, to see strong but moderating new business flows and price hikes over time, partly due to more underwriters focusing on growth and greater appetite from admitted markets. Still, we think KNSL can grow premiums at a healthy pace because of its relatively small base as well as the fragmented nature of the pricing cycle whereby certain lines (property, marine) are only beginning to benefit from harder prices despite a slowdown in other lines and/or the broader market. With respect to profitability, we expect the combination of price hikes – historical and prospective – and conservative reserving to support healthy margins at KNSL over the medium term.

### Low Cost Operating Model a Durable Competitive Advantage

KNSL has a proprietary and fully integrated technology platform that it built from the ground up, in contrast to its peers that use unwieldy hybrid systems consisting of legacy platforms and newer technologies. The net result has been an operating model that has the capacity to take on significant business volumes without sacrificing customer responsiveness, underwriting quality, and expense efficiency. With this model, our view is that KNSL will outperform higher cost competitors (especially Lloyd's which is more than 20% of the E&S market) through the pricing cycle. During softer markets, KNSL can grow premiums as others pull back while maintaining above-average profitability. In hard markets, Kinsale can be a price taker and generate an even larger excess return.

### Eventual Turn in Pricing Cycle is a Risk

The P&C industry is well into the current hard market and we expect overall price hikes to moderate as re/insurers re-position themselves for growth (property and catastrophe coverage likely to be the exception in the near term). Given this, we see multiple compression as a risk as pricing/volume swings tend to be more volatile in E&S given its function as a safety valve for P&C. Although we believe that some portion of recent market share gains by the E&S industry are permanent and that KNSL will thrive even if prices soften, our view is that a reasonable valuation analysis will have to look several years out because of KNSL's above-average growth profile and would therefore have to account for how conditions in the P&C market are likely to be at that future time.

## 4Q22 Summary Results

The following tables and charts summarize KNSL's 4Q22 results as well as its operating performance over the past several years:

**Table 1: 4Q22 Earnings: Actual versus Expected**

\$ in millions, %, and bps

	JPM 4Q22E	Actual 4Q22	Actual v. Expected
<b><u>Underwriting Results</u></b>			
Net premiums written (\$)	238.0	242.1	1.7%
Net premiums earned (\$)	222.0	216.1	-2.7%
<b>Loss ratio</b>			
AY loss ratio	59.0%	55.6%	-338 bps
Catastrophe losses	2.3%	0.2%	-206 bps
Unfavorable (favorable) PYD	-3.5%	-3.3%	24 bps
Expense ratio	20.5%	19.9%	-58 bps
<b>Combined ratio</b>	<b>78.3%</b>	<b>72.5%</b>	<b>-578 bps</b>
AY combined ratio ex. cats	79.5%	75.5%	-396 bps
<b><u>Summary Income Statement</u></b>			
Underwriting income	48.3	59.5	\$0.48
Net investment income	14.3	17.7	\$0.15
Taxes and other	(13.7)	(16.9)	(\$0.14)
<b>Operating income</b>	<b>48.9</b>	<b>60.3</b>	<b>\$0.49</b>
Average diluted shares	23.3	23.2	\$0.01
<b>Operating EPS</b>	<b>\$2.10</b>	<b>\$2.60</b>	<b>\$0.50</b>

Source: Company reports and J.P. Morgan estimates.

**Table 2: 4Q22 Earnings: Actual versus JPM Estimates and Consensus**

\$ in millions, %, and bps

	Actual	JPM	%	Consensus	%
Net premiums written	242.1	238.0	1.7%	230.1	5.2%
Net premiums earned	216.1	222.0	-2.7%	221.3	-2.3%
Loss ratio	52.5%	57.8%	-520 bps	56.6%	-403 bps
Expense ratio	19.9%	20.5%	-58 bps	21.3%	-134 bps
Combined ratio	72.5%	78.3%	-578 bps	77.6%	-516 bps
Operating EPS	\$2.60	\$2.10	24.0%	\$2.13	22.3%

Source: Company reports, J.P. Morgan estimates, and Bloomberg.

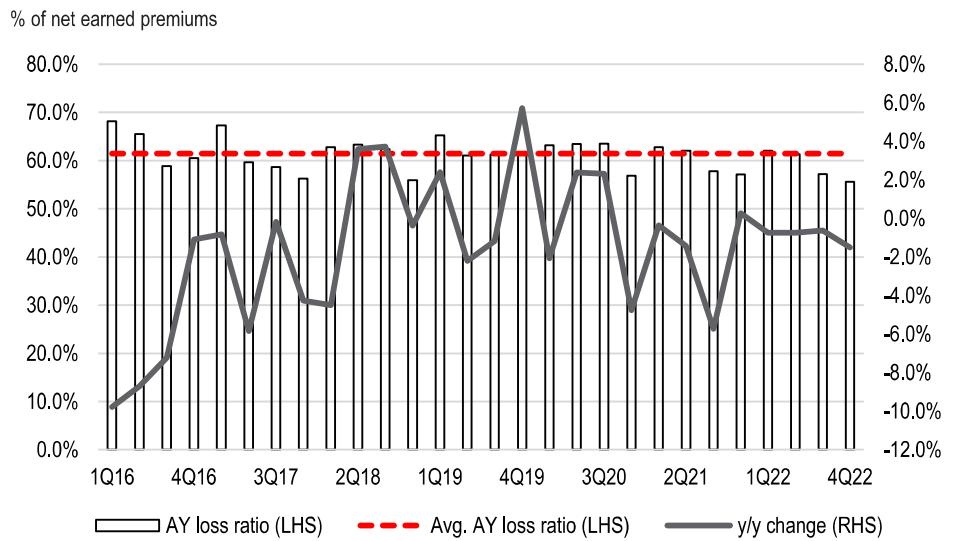
**Table 3: Historical and Operating Performance**

\$ in millions and %

	2016	2017	2018	2019	2020	1Q21	2Q21	3Q21	4Q21	2021	1Q22	2Q22	3Q22	4Q22	2022
<b>Premium Trends</b>															
Gross written premiums	188.5	223.2	275.5	389.7	552.8	168.9	194.1	197.6	203.8	764.4	245.5	277.0	284.1	295.5	1,102.1
% ceded	11.3%	15.1%	14.5%	12.2%	13.5%	14.6%	13.6%	13.6%	12.9%	13.6%	11.8%	12.5%	17.0%	18.1%	15.0%
Net written premiums	167.3	189.5	235.6	342.1	478.2	144.3	167.8	170.7	177.5	660.2	216.5	242.3	235.9	242.1	936.8
% growth y/y	99.1%	13.3%	24.4%	45.2%	39.8%	33.5%	42.6%	39.6%	36.2%	38.1%	50.0%	44.5%	38.2%	36.4%	41.9%
Net earned premiums	133.8	176.1	212.7	283.0	412.8	123.0	137.7	156.9	165.3	582.9	178.6	190.2	209.3	216.1	794.1
% growth y/y	80.0%	31.6%	20.8%	33.0%	45.9%	37.1%	42.0%	44.9%	40.3%	41.2%	45.1%	38.1%	33.4%	30.8%	36.2%
<b>Underwriting Results</b>															
AY loss ratio	63.0%	60.2%	60.9%	62.2%	61.5%	62.8%	62.0%	57.8%	57.1%	59.7%	62.0%	61.3%	57.2%	55.6%	58.8%
Catastrophe losses	0.0%	5.0%	2.6%	1.1%	5.6%	0.1%	2.1%	3.7%	-0.1%	1.5%	0.0%	0.0%	12.5%	0.2%	3.4%
Unfavorable (favorable) PYD	-10.0%	-6.4%	-3.3%	-3.3%	-3.2%	-5.7%	-6.6%	-5.9%	-4.0%	-5.5%	-4.7%	-5.0%	-5.3%	-3.3%	-4.5%
Loss ratio	53.0%	58.9%	60.2%	59.9%	63.9%	57.1%	57.5%	55.7%	53.1%	55.7%	57.4%	56.3%	64.4%	52.5%	57.7%
Expense ratio	21.3%	25.1%	25.1%	24.8%	22.8%	22.9%	21.7%	20.1%	21.4%	21.4%	21.6%	20.5%	19.2%	19.9%	20.2%
Combined ratio	74.4%	84.0%	85.3%	84.7%	86.8%	80.0%	79.2%	75.7%	74.5%	77.1%	79.0%	76.8%	83.6%	72.5%	77.9%
AY combined ratio ex. cats	84.4%	85.3%	86.0%	87.0%	84.4%	85.7%	83.7%	77.9%	78.6%	81.1%	83.6%	81.8%	76.4%	75.5%	79.1%
<b>Investment Results</b>															
Net investment income	7.5	10.6	15.7	20.1	26.1	6.9	7.4	8.1	8.6	31.0	9.1	10.6	13.9	17.7	51.3
% growth y/y	32.7%	41.2%	48.4%	28.3%	29.7%	16.5%	11.8%	15.5%	32.1%	18.9%	30.9%	42.6%	71.2%	106.7%	65.2%
Duration	3.7	3.9	3.9	4.3	4.3	4.3	4.3	4.4	4.3	4.3	4.6	4.2	3.9	3.5	3.5
Gross yield ex. cash (YTD)	2.2%	2.4%	3.0%	3.1%	2.9%	2.6%	2.6%	2.5%	2.5%	2.5%	2.5%	2.6%	2.7%	4.2%	3.0%
Cash and invested assets	480.3	561.1	643.1	908.2	1,300.0	1,400.0	1,500.0	1,600.0	1,700.0	1,700.0	1,700.0	1,800.0	1,900.0	2,200.0	2,200.0
% growth y/y	16.8%	14.6%	41.2%	43.1%	46.6%	36.4%	33.3%	30.8%	30.8%	21.4%	20.0%	18.8%	29.4%	29.4%	29.4%

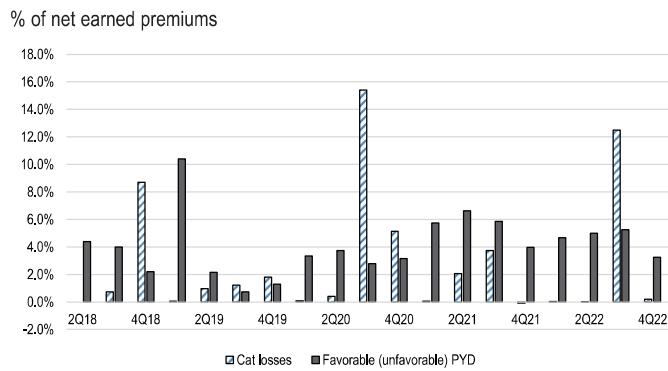
Source: Company reports and J.P. Morgan estimates.

**Figure 1: Historical AY Loss Ratio Trends**



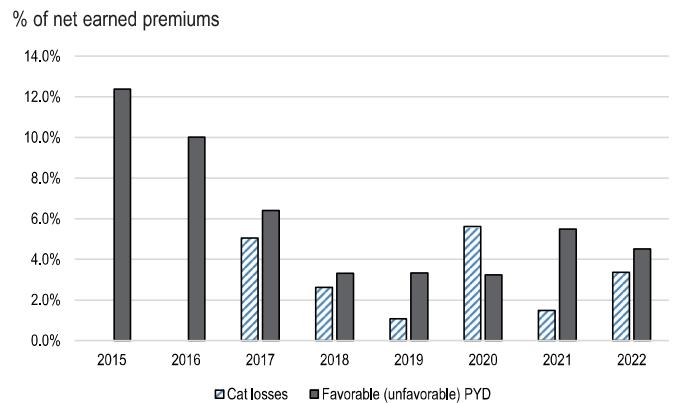
Source: Company reports and J.P. Morgan estimates.

**Figure 2: Historical Catastrophe and PYD Trends (Quarterly)**



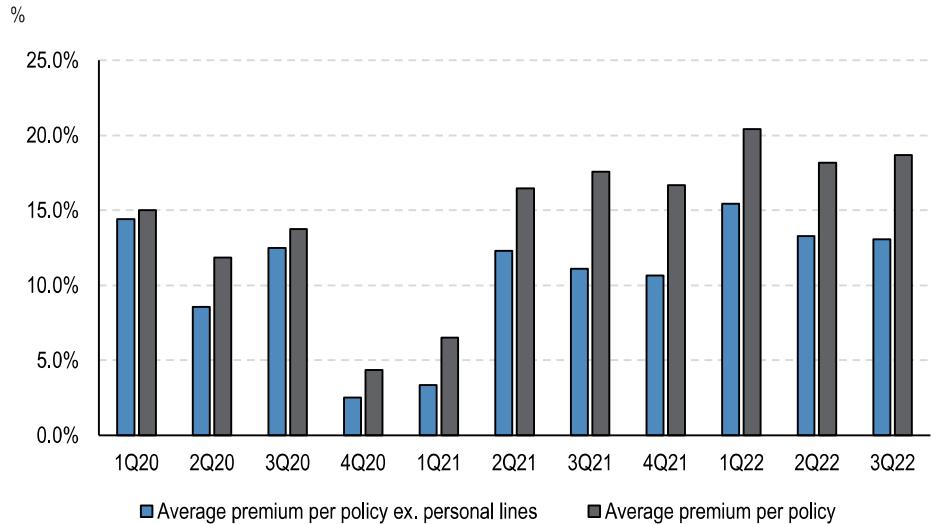
Source: Company reports and J.P. Morgan estimates.

**Figure 3: Historical Catastrophe and PYD Trends (Annual)**



Source: Company reports and J.P. Morgan estimates.

**Figure 4: Year-on-Year % Change in Written Premiums per Policy**



Source: Company reports and J.P. Morgan estimates. Note: Data through 3Q22 since 2022 10-K not yet available.

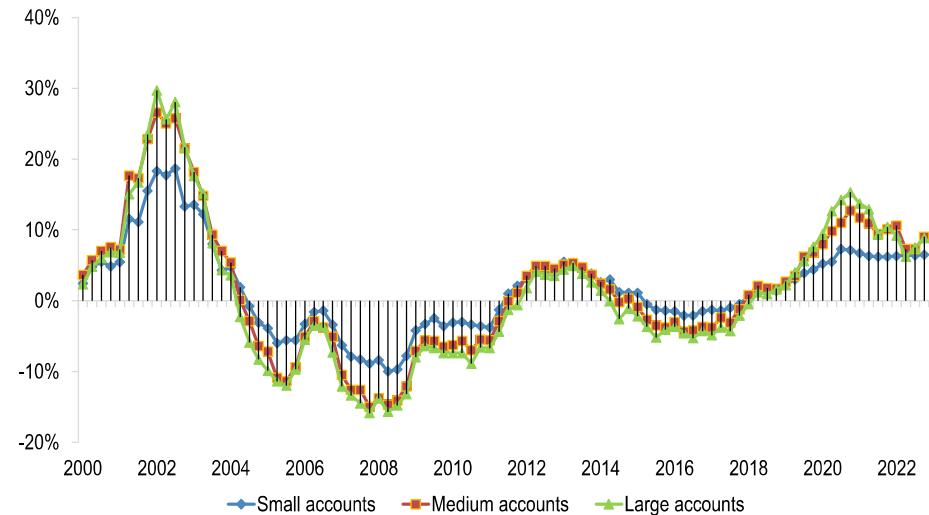
**Table 4: KNSL's Historical New Business Metrics**

	2015	2016	2017	2018	2019	2020	2021
Submissions	148,691	186,377	226,000	288,000	380,000	461,000	520,000
Quotes	47,204	80,933	116,000	167,000	234,000	300,000	347,000
Bound policies	8,533	10,929	14,000	18,000	25,000	31,000	36,000
Quotes / submissions	31.7%	43.4%	51.3%	58.0%	61.6%	65.1%	66.7%
Bound / quotes	18.1%	13.5%	12.1%	10.8%	10.7%	10.3%	10.4%
Bound / submissions	5.7%	5.9%	6.2%	6.3%	6.6%	6.7%	6.9%
<b>Growth Rate</b>							
Submissions		25%	21%	27%	32%	21%	13%
Quotes		71%	43%	44%	40%	28%	16%
Bound		28%	28%	29%	39%	24%	16%

Source: Company reports and J.P. Morgan estimates. Note: Data through 2021 since 2022 10-K not yet available.

Figure 5: Average Commercial Premium Rate Changes by Account Size

Year-over-year change (%)



Source: Council of Insurance Agents and Brokers and J.P. Morgan estimates.

## Kinsale (*Neutral*; Price Target: \$290.00)

### Investment Thesis

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### Valuation

We are raising our December 2023 price target from \$270 to \$290 given the increase in our EPS estimates. Our price target assumes a 4.3x P/BV target multiple on 2025 book value and a 20x P/E target on 2025 EPS. These target multiples are well above peers', which we believe is supported by KNSL's above-average premium growth (long-term low-to-mid teens growth versus mid-to-high single-digit growth for most large commercial peers) and margin profile (high 70s to low 80s CR versus 85-90% for peers). KNSL trades at 9.0x BV, well above the specialty peer average (ex. PLMR) of 2.1x and commercial peers at 1.8x.

### Risks to Rating and Price Target

We believe the main upside risks to our rating and price target are:

- **The hard P&C market lasts longer than expected.** Kinsale is seeing higher prices and greater submission flow because of dislocation in the P&C market. If current conditions persist longer than we assume, there could be upside to our forecasts and investor sentiment would likely improve.
- **Premium growth surpasses already elevated expectations.** In our view, part of KNSL's premium valuation is attributable to its above-average growth. We would expect KNSL's valuation multiple to expand if it consistently exceeds growth expectations in the next few years.
- **Margin improvement is greater than assumed.** The combination of earned pricing exceeding loss cost trends and management's conservative reserving suggests margin improvement in the next few years. If KNSL's margin improvement tracks higher than expectations, there could be upside to forecasts.

We believe the main downside risks to our rating and price target are:

- **Increased competition and/or push back from insurance clients dampens the pricing cycle.** The insurance industry is well into the hard market and clients are pushing back more strongly on price hikes while more insurers are deploying capital and positioning themselves for growth. If the cycle begins to turn, there is a risk of multiple compression for insurers that have seen an outsized benefit from higher prices.
- **Adverse loss trends or social inflation re-emerge in casualty reserves.** Although unlikely to be a material risk for KNSL given its specific exposures and low limits, the re-opening of the court system could drive a surge in pent-up liability claims.
- **Unfavorable loss experience emerges from new lines of business.** Kinsale has a strong underwriting track record and it is entering new lines in a strong part of the cycle. Still, given the long-tail nature of casualty coverage, the impact of badly underwritten risks is likely to persist. Also, inflation is a risk for both casualty and property coverages.

## Kinsale: Summary of Financials

Income Statement - Annual	FY22A	FY23E	FY24E	Income Statement - Quarterly	1Q23E	2Q23E	3Q23E	4Q23E
Earned premiums	-	-	-	Earned premiums	-	-	-	-
Policy charges and fee income	-	-	-	Policy charges and fee income	-	-	-	-
Net investment income	-	-	-	Net investment income	-	-	-	-
Other income	-	-	-	Other income	-	-	-	-
<b>Total revenues</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>Total revenues</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Insurance and annuity benefits	-	-	-	Insurance and annuity benefits	-	-	-	-
Interest credited	-	-	-	Interest credited	-	-	-	-
Interest expense	-	-	-	Interest expense	-	-	-	-
Acquisition & operating expenses	-	-	-	Acquisition & operating expenses	-	-	-	-
Amortization of acquisition costs (net)	-	-	-	Amortization of acquisition costs (net)	-	-	-	-
Other expenses	-	-	-	Other expenses	-	-	-	-
<b>Total expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>Total expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Pretax income	196	287	361	Pretax income	64	71	70	82
Income taxes	(36)	(54)	(69)	Income taxes	(12)	(13)	(13)	(16)
Total net income	180	232	292	Total net income	52	57	56	67
Total operating income	180	232	292	Total operating income	52	57	56	67
Weighted average diluted shares	23	23	23	Weighted average diluted shares	23	23	23	23
<b>EPS - operating</b>	<b>7.80</b>	<b>9.97</b>	<b>12.50</b>	<b>EPS - operating</b>	<b>2.23</b>	<b>2.45</b>	<b>2.42</b>	<b>2.86</b>
Balance Sheet and Capital Data	FY22A	FY23E	FY24E	Ratio Analysis	FY22A	FY23E	FY24E	FY25E
Shareholders' equity	-	-	-	EPS growth - operating	35.9%	27.8%	25.4%	-
Shareholders' equity ex. AOCI	-	-	-	Book value per share (ex. AOCI) growth	-	-	-	-
Shares outstanding	23	23	23	Return on equity (ROE)	25.0%	27.1%	26.5%	-
				Return on equity (ex. AOCI)	-	-	-	-
Book value per share	32.27	41.57	53.29					
Book value per share (ex. AOCI)	-	-	-	Dividend payout ratio	6.7%	5.6%	5.1%	-
Capital for share repurchases	-	-	-	Total revenue growth	-	-	-	-
Capital for dividends	-	-	-	Total expense growth	-	-	-	-
Dividends	0.52	0.56	0.64	Tax rate	18.6%	19.0%	19.0%	-

Source: Company reports and J.P. Morgan estimates.  
 Note: \$ in millions (except per-share data). Fiscal year ends Dec

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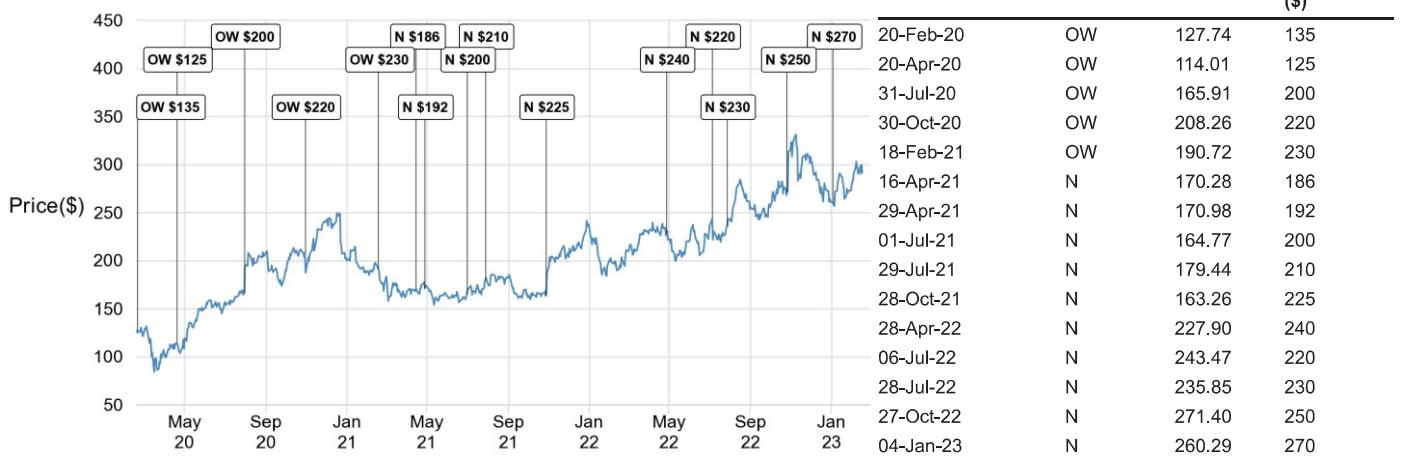
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Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.

Initiated coverage Aug 22, 2016. All share prices are as of market close on the previous business day.

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