



Rating  
**Buy**

North America  
United States

Consumer  
Apparel, Footwear &  
Textiles

Company  
**Michael Kors  
Holdings Ltd.**

Reuters  
KORS.N

Bloomberg  
KORS UN

Exchange  
NYS

Ticker  
KORS

Date  
1 November 2018

Forecast Change

Price at 31 Oct 2018 (USD)	55.41
Price Target	83.00
52-week range	75.41 - 47.62

## Expecting Accelerating Trends in the Americas; Confident on LT Outlook

Our long-term outlook on KORS remains positive, reflecting meaningful margin expansion opportunities and increased product innovation, and we approach the upcoming print (11/7 BMO) with optimism. We expect KORS will showcase an acceleration in trends in North America coupled with a likely FY19 EPS guidance raise. While the high-end of the market remains robust, including favorable peer commentary on the Chinese consumer, we are also encouraged by results from key peer TPR, along with strength in the lower-end market with Steve Madden citing that “wholesale accessories business was the standout in 3Q18”. Additionally, we think fears around China and tariffs are overdone, as the country represents less than 10% of KORS' sourcing with flexibility to move production in as little as six months, and KORS' accessible luxury positioning would somewhat insulate the company from a potential deceleration in Chinese consumption. Buy.

### Raising 2Q Americas Comp to 2.0%; Data Points Suggest Upside to Guidance

We see a strong relationship between KORS' comps and SpendTrend Clothing & Accessories Stores and Fashion/Family Footwear, along with our work on Google Trends, with both suggesting KORS could post a better than expected comp in 2Q (DB -1.3%, Street -0.9%, guidance -LSD). These data points, combined with favorable peer commentary, provide the basis for our increased Americas comp estimate of 2.0% (vs. 1.6% previously). However, several peers highlighted unseasonably warm weather in Europe, as well as weak tourist flows, which prompt us to lower our European comp estimate to -10.6% from -8.6%. Net, our 2Q reported comp estimate is now -1.3% (vs. -1.1% previously, Street -0.9%, guidance -LSD). Additionally, while the fear of a slowdown in Chinese consumption drove a sharp sell-off in the sector, we note that several management teams spoke favorably around the Chinese consumer both at home and abroad. Our revised 2Q comp estimate still represents a meaningful acceleration in the 2-year stack from -10.5% in FY18 and -5.7% in 1Q19 to -3.1% in 2Q19. Our sales forecast for Jimmy Choo is \$115M (Street \$117M, guidance \$110-\$115M). Turning to margins, we expect GPM to expand 35 bps to 60.6% driven mostly by higher retail margins. We note that wholesale margins have a markedly more difficult comparison in 2Q (~500 bps sequentially). Additionally, we anticipate significant SG&A deleverage, resulting in operating margin down 451 bps to 16.2%. Our 2Q EPS estimate remains \$1.07 (Street \$1.10, guidance \$1.03-\$1.08), and our FY19 forecast is \$4.96 (vs. prior \$4.98, Street \$5.04, guidance \$4.90-\$5.00).

### Valuation & Risks

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### Key changes

TP	84.00 to 83.00	↓	-1.2%
EPS (USD)	4.98 to 4.96	↓	-0.2%
Revenue (USDm)	5,122 to 5,107	↓	-0.3%

Source: Deutsche Bank

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	-20.3	-17.4	12.0
S&P 500 INDEX	-7.9	-4.3	4.3

Source: Deutsche Bank

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### Favorable Asia/U.S. Peer Commentary; Slightly More Cautious on Europe

In this report (starting on page 3), we summarize luxury peers' commentary regarding the Chinese consumer, tourism, weather, and performance across various geographies globally. Tapestry noted continued traction with Chinese consumers globally, along with solid results in North America, while Kering's Chinese business did not showcase a sequential deceleration as many had feared. However, tourist traffic at retail remained weak according to Kering, especially in Western Europe. While LVMH's results pointed to a very modest deceleration with Chinese consumers, we note that it moved from "high-teens to mid-teens so it's really not noticeable". Ted Baker noted unseasonably warm weather in the U.K., Europe and the East Coast of the U.S. in September, with V.F. Corp. stating "performance of our European business has been slightly more volatile the past few months, due in part to unusual weather patterns across the continent". Based on these, we do not think KORS' Asia business is at risk for a negative surprise, while we are slightly cautious on results in Europe - particularly given weak tourist trends and unseasonably warm weather.

### Long-Term KORS Bull Thesis & Valuation; PT \$83

KORS continues to progress along its Runway 2020 brand turnaround with an ahead of plan inflection in North American comps, and despite the expected HSD EPS dilution in year 1 from the announced Versace deal (not yet reflected in our estimates; the deal is scheduled to close in 4Q), we view the story positively given: 1) improving top-line performance, reflecting positive reception to new merchandise launches, non-handbag growth (RTW and footwear) and strong Jimmy Choo performance; 2) further margin expansion opportunity; 3) favorable global premium handbag and accessories market; 4) brand and geographic diversification from the addition of Versace, which is guided to be EPS accretive by year 2; and 5) compelling valuation. Our PT of \$83 (from \$84) is based on 16x our FY20 EPS estimate of \$5.20 (from \$5.23) vs. the 5-year average of 13.5x. We note that KORS' turnaround initiatives look underappreciated with KORS trading at ~11x FY20E EPS, which is below its 5-year average of 13.5x. Thus, we expect KORS' multiple to re-rate higher. Downside risks include a longer-than-expected comp turnaround, softer trends at Jimmy Choo, increased leverage resulting from the announced Versace acquisition, and a deceleration in both global luxury and Chinese consumption.

#### Stock option liquidity data

Market Cap (USD)	8,444.5
Shares outstanding (m)	152.4
Free float (%)	100
Volume (31 Oct 2018)	389,192
Option volume (und. shrs., 1M avg.)	1,477,942

Source: Deutsche Bank

#### Forecasts and ratios

Year End Mar 31	2018A	2019E	2020E
1Q EPS	0.80	1.32A	–
2Q EPS	1.33	1.07	–
3Q EPS	1.77	1.78	–
4Q EPS	0.63	0.79	–
FY EPS (USD)	4.52	4.96	5.20
P/E (x)	10.8	11.2	10.7

Source: Deutsche Bank estimates, company data

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## Michael Kors Holdings Ltd (KORS, Buy, \$83 PT)

### Luxury Peer Commentary

TPR spoke favorably about the global premium handbag and accessories market, which they estimate grew at a HSD rate in the September quarter.

Figure 1: Global Premium Handbag & Accessories  
Market Remains Favorable

#### Men's and Women's Premium Handbag and Accessories Market

Sep-16	Flat to up LSD in NA
Dec-16	Flat to up LSD in NA
Mar-17	Flat to up LSD in NA
Jun-17	Flat in NA
Sep-17	Up HSD globally
Dec-17	Up HSD globally
Mar-18	Up LDD globally (HSD in cFX)
Jun-18	Up LDD globally (HSD in cFX)
Sep-18	Up HSD globally (HSD in cFX)

Source: Tapestry Management, Deutsche Bank

We summarize below luxury peers' commentary regarding the Chinese consumer, tourism, weather, as well as performance in North America, Europe and Asia. Based on these, we do not think KORS' Asia business is at risk for a negative surprise, while we are slightly cautious on results in Europe - particularly given weak tourist trends and unseasonably warm weather.

- **Tapestry:** "We are delighted with the traction we are seeing with the Chinese consumer globally. We are really excited about the opportunity in China, the consumer and the category there and the Chinese consumer continues to outpace the growth that we're seeing globally overall. And some of the current fluctuations that we see are nothing new to what we've seen in the last decade, especially driven by, of course, exchange rate fluctuations."
- **Ted Baker:** "Global markets have continued to see challenging external trading conditions which have impacted performance. In the UK, Europe and the East Coast of America, trade has also been affected by the unseasonably hot weather in September. In addition, trading in the UK has been impacted by the well-publicised challenges facing some of our trading partners".
- **LVMH:** "The most noticeable point is in Japan where we saw a significant slowdown in the growth we have had with Japanese customers. Chinese customers saw a little slowdown but we are talking about moving from high-teens to mid-teens so it's really not noticeable. As far as Europe is concerned, the main change that explains the growth – the higher growth in Q3 is Fashion & Leather. Most of the businesses in Fashion & Leather including and Dior have been better in Q3 than they were in H1".
- **Kering:** "The Chinese cluster was up more than 30% worldwide similar to Q2. Chinese spending was partly redirected towards their home markets."

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The growth of the Chinese cluster in Q3 was very close to the one delivered in Q2 and above the one delivered in Q1. Weak tourist traffic at retail, especially in Western Europe. Regarding North America and to be very clear, the growth is principally driven by locals. We've got satisfactory trends with tourists especially from South America and also some European".

- **VFC:** "While the performance of our European business has been slightly more volatile the past few months, due in part to unusual weather patterns across the continent, we have not seen a meaningful change in the trajectory of our business. The weather's been a bit strange there, but we don't really see any change in condition. It's not exactly been easy over the last couple years and we read the same things you do but we haven't seen a material change in the condition of our business in Europe so far. In China, consumer spending in footwear and apparel remains solid, thus far unfazed by geopolitical rhetoric. We've not seen anything per se going on in China that would give us any concern that we're not going to be treated well or we're going to be treated better".

#### Favorable Industry Data

We see a strong relationship between KORS' comps and SpendTrend Clothing & Accessories Stores and Fashion/Family Footwear at 0.61 and 0.77, respectively. Based on these data points, our correlation work suggests there is upside to KORS' comp in 2Q.

Figure 2: Implied Comp Based On Correlation Analysis for KORS

Data since Mar-16 Implies Comp of:	
Using:	KORS
Clothing & Accessories Stores	0.6%
Women's Ready-to-Wear Stores	-1.1%
Women's Accessory, Specialty Shops	-0.2%
Men's & Women's Clothing Stores	0.1%
Luxury Brands	0.2%
Fashion/ Family Footwear	4.8%
Jewelry, Watch, Silverwear Stores	0.0%
<b>Average</b>	0.7%
<b>Average of Shaded Cells</b>	2.7%

Source: Deutsche Bank, SpendTrend, Company Filings

In addition, we point to our correlation analysis on Google Trends, which implies a ~100 bps sequential acceleration in comps as illustrated below (implying total comp of ~1.1% vs. guidance of -LSD).

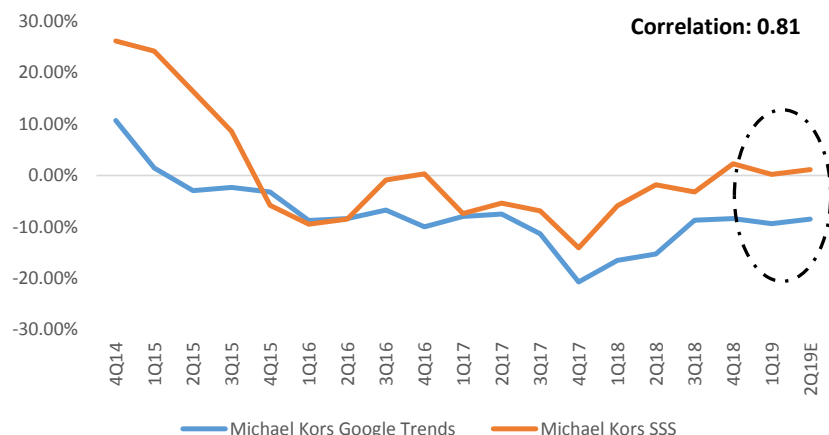
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Figure 3: Google Trends & KORS Comps Correlation Points To Solid 2Q Comp



Source: Deutsche Bank, Google Trends, Company Filings

### Raising 2Q Americas Comp Estimate

For the quarter, we are modeling a -1.3% reported comp decrease (vs. prior -1.1%, Street -0.9%, guidance -LSD), which is based on our expectations of 2.0% (vs. prior 1.6%) growth in North America, -10.6% (vs. prior -8.6%) in Europe, and flat comps in Asia. While this represents a sequential deceleration from 1Q's 0.2%, we note it is mostly a function of lapping tougher compares (Europe is up against flat comps vs. -LDD in 1Q) and FX tailwinds reversing. However, we believe new products continue to gain traction with consumers, and industry data remains favorable. Our sales forecast for Jimmy Choo is \$115M (Street \$117M, guidance \$110-\$115M).

Turning to margins, we expect GPM to expand 35 bps to 60.6% driven mostly by higher retail margins. We note that wholesale margins have a markedly more difficult comparison in 2Q (~500 bps sequentially). Additionally, we anticipate SG&A deleverage, resulting in operating margin down 451 bps to 16.2%. Our 2Q EPS remains \$1.07 (Street \$1.10, guidance \$1.03-\$1.08), and our FY19 forecast is now \$4.96 (vs. prior \$4.98, Street \$5.04, guidance \$4.90-\$5.00).

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Figure 4: KORS Condensed Income Statement (\$M except per share data)

P&L	2016	2017	2018	1Q19	2Q19E	3Q19E	4Q19E	2019E	2020E
Michael Kors	\$4,539	\$4,348	\$4,351	\$1,002	\$1,108	\$1,247	\$1,030	\$4,387	\$4,422
Jimmy Choo			\$223	\$173	\$115	\$170	\$128	\$586	\$656
<b>Net sales</b>	\$4,539	\$4,348	\$4,574	\$1,175	\$1,223	\$1,417	\$1,158	\$4,973	\$5,078
Licensing revenue	\$173	\$146	\$145	\$28	\$35	\$44	\$28	\$134	\$136
<b>Total revenue</b>	<b>\$4,712</b>	<b>\$4,494</b>	<b>\$4,719</b>	<b>\$1,203</b>	<b>\$1,257</b>	<b>\$1,461</b>	<b>\$1,186</b>	<b>\$5,107</b>	<b>\$5,214</b>
Cost of goods sold	\$1,915	\$1,832	\$1,859	\$452	\$495	\$547	\$461	\$1,955	\$1,961
<b>Gross profit</b>	<b>\$2,797</b>	<b>\$2,661</b>	<b>\$2,859</b>	<b>\$751</b>	<b>\$762</b>	<b>\$915</b>	<b>\$725</b>	<b>\$3,152</b>	<b>\$3,253</b>
Operating expenses	\$1,622	\$1,972	\$2,110	\$536	\$558	\$577	\$572	\$2,243	\$2,283
<b>Operating income</b>	<b>\$1,175</b>	<b>\$690</b>	<b>\$749</b>	<b>\$215</b>	<b>\$204</b>	<b>\$337</b>	<b>\$153</b>	<b>\$909</b>	<b>\$970</b>
Other expense, net	(\$4)	(\$5)	(\$2)	(\$1)	(\$1)	(\$1)	(\$1)	(\$3)	(\$3)
Interest expense, net	\$2	\$4	\$22	\$8	\$9	\$7	\$7	\$31	\$19
Foreign currency losses/(gains)	\$5	\$3	(\$13)	\$3	(\$0)	(\$0)	(\$0)	\$2	\$4
<b>Income before taxes</b>	<b>\$1,172</b>	<b>\$689</b>	<b>\$742</b>	<b>\$206</b>	<b>\$196</b>	<b>\$331</b>	<b>\$147</b>	<b>\$880</b>	<b>\$950</b>
Tax expense	\$335	\$137	\$150	\$19	\$32	\$59	\$26	\$136	\$157
<b>Net income</b>	<b>\$838</b>	<b>\$552</b>	<b>\$592</b>	<b>\$186</b>	<b>\$163</b>	<b>\$272</b>	<b>\$121</b>	<b>\$743</b>	<b>\$794</b>
Non-controlling interest	(\$2)	(\$1)	\$0	(\$0)	\$0	\$0	\$0	\$1	\$2
<b>Net income attributable to MKHL</b>	<b>\$839</b>	<b>\$553</b>	<b>\$592</b>	<b>\$186</b>	<b>\$163</b>	<b>\$272</b>	<b>\$121</b>	<b>\$742</b>	<b>\$792</b>
Reported EPS	\$4.44	\$3.29	\$3.82	\$1.22	\$1.07	\$1.78	\$0.79	\$4.87	\$5.20
Adjustments to EPS	\$0.04	\$0.95	\$0.70	\$0.09	\$0.00	\$0.00	\$0.00	\$0.09	\$0.00
<b>Operating EPS (Non-GAAP)</b>	<b>\$4.48</b>	<b>\$4.24</b>	<b>\$4.52</b>	<b>\$1.32</b>	<b>\$1.07</b>	<b>\$1.78</b>	<b>\$0.79</b>	<b>\$4.96</b>	<b>\$5.20</b>
Diluted shares outstanding	189.1	168.1	154.3	152.4	152.4	152.4	152.4	152.4	152.4
<b>Growth Analysis</b>	<b>2016</b>	<b>2017</b>	<b>2018E</b>	<b>1Q19</b>	<b>2Q19E</b>	<b>3Q19E</b>	<b>4Q19E</b>	<b>2018E</b>	<b>2019E</b>
<b>Total SSS (reported)</b>	<b>(4.2%)</b>	<b>(8.3%)</b>	<b>(2.2%)</b>	<b>0.2%</b>	<b>(1.3%)</b>	<b>(0.7%)</b>	<b>(2.3%)</b>	<b>(1.0%)</b>	<b>1.2%</b>
<b>Total SSS (cFX)</b>	<b>(0.9%)</b>	<b>(8.1%)</b>	<b>(3.6%)</b>	<b>(2.2%)</b>	<b>(0.8%)</b>	<b>0.2%</b>	<b>0.0%</b>	<b>(0.6%)</b>	<b>1.7%</b>
<b>Total sales (reported)</b>	<b>7.8%</b>	<b>(4.6%)</b>	<b>5.0%</b>	<b>26.3%</b>	<b>9.7%</b>	<b>1.5%</b>	<b>0.6%</b>	<b>8.2%</b>	<b>2.1%</b>
<b>Total sales (cFX)</b>	<b>11.7%</b>	<b>(4.4%)</b>	<b>3.7%</b>	<b>24.3%</b>	<b>10.2%</b>	<b>2.3%</b>	<b>2.9%</b>	<b>8.7%</b>	<b>2.6%</b>
Op. Ex. \$s (non-GAAP)	16.6%	8.6%	19.8%	25.9%	23.1%	6.9%	(8.2%)	9.9%	1.8%
EBIT \$s (non-GAAP)	(6.5%)	(23.4%)	(16.8%)	44.0%	2.3%	7.6%	75.5%	21.4%	6.7%
<b>Operating EPS</b>	<b>4.7%</b>	<b>(5.4%)</b>	<b>6.7%</b>	<b>64.6%</b>	<b>(19.3%)</b>	<b>0.9%</b>	<b>26.8%</b>	<b>9.8%</b>	<b>4.7%</b>
<b>Margin Analysis</b>									
<b>GPM</b>	<b>59.4%</b>	<b>59.2%</b>	<b>60.7%</b>	<b>62.6%</b>	<b>60.6%</b>	<b>62.6%</b>	<b>61.1%</b>	<b>61.8%</b>	<b>62.4%</b>
YOY change in bps	(120)	(14)	146	229	35	110	70	108	63
Op. Ex. as % of sales (non-GAAP)	34.4%	39.2%	41.9%	43.2%	44.4%	39.5%	48.2%	43.6%	43.8%
YOY change in bps	261	476	270	(141)	486	201	89	172	18
<b>EBIT (non-GAAP)</b>	<b>25.2%</b>	<b>20.0%</b>	<b>18.8%</b>	<b>19.4%</b>	<b>16.2%</b>	<b>23.1%</b>	<b>12.9%</b>	<b>18.2%</b>	<b>18.6%</b>
YOY change in bps	(359)	(513)	(125)	371	(451)	(91)	(19)	(64)	45
<b>Michael Kors Standalone EBIT</b>	<b>24.9%</b>	<b>19.9%</b>	<b>19.7%</b>	<b>20.2%</b>	<b>18.7%</b>	<b>24.5%</b>	<b>15.5%</b>	<b>20.0%</b>	<b>20.4%</b>
YOY change in bps	(382)	(502)	(20)	456	(198)	(38)	(39)	24	46
<b>Jimmy Choo EBIT</b>			<b>0.0%</b>	<b>14.3%</b>	<b>(9.0%)</b>	<b>12.3%</b>	<b>(8.4%)</b>	<b>4.2%</b>	<b>5.9%</b>

Source: Deutsche Bank, Company Filings

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Figure 5: Actual Results vs. Estimates (1Q15 to 2Q19E)

Quarter	Date Reported	Actual	DB	Street	Delta	Result
1Q15	8/22/2014	\$0.64	NA	\$0.54	\$0.10	Beat
2Q15	11/21/2014	\$0.83	NA	\$0.79	\$0.04	Beat
3Q15	3/6/2015	\$1.00	NA	\$0.91	\$0.09	Beat
4Q15	5/22/2015	\$1.29	NA	\$1.23	\$0.06	Beat
1Q16	8/21/2015	\$0.84	NA	\$0.69	\$0.15	Beat
2Q16	11/20/2015	\$1.00	NA	\$0.95	\$0.05	Beat
3Q16	2/26/2016	\$1.16	NA	\$1.12	\$0.04	Beat
4Q16	5/20/2016	\$1.39	NA	\$1.39	\$0.00	Met
1Q17	8/19/2016	\$0.94	NA	\$0.90	\$0.04	Beat
2Q17	11/18/2016	\$1.13	NA	\$1.11	\$0.02	Beat
3Q17	2/24/2017	\$1.37	NA	\$1.32	\$0.05	Beat
4Q17	5/31/2017	\$0.73	\$0.69	\$0.70	\$0.03	Beat
1Q18	8/8/2017	\$0.80	\$0.61	\$0.62	\$0.18	Beat
2Q18	11/6/2017	\$1.33	\$0.83	\$0.83	\$0.50	Beat
3Q18	2/7/2018	\$1.77	\$1.30	\$1.29	\$0.48	Beat
4Q18	5/30/2018	\$0.63	\$0.62	\$0.60	\$0.03	Beat
1Q19	8/8/2018	\$1.32	\$0.92	\$0.95	\$0.37	Beat
2Q19E	11/7/2018	TBD	\$1.07	\$1.10	TBD	TBD

Source: Deutsche Bank, Company Filings, FactSet

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# Appendix 1

## Important Disclosures

\*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Michael Kors Holdings Ltd.	KORS.N	54.65 (USD) 30 Oct 2018	6, 9

\*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <https://research.db.com/Research/Disclosures/CompanySearch>. Aside from within this report, important risk and conflict disclosures can also be found at <https://research.db.com/Research/Topics/Equities?topicId=RB0002>. Investors are strongly encouraged to review this information before investing.

## Important Disclosures Required by U.S. Regulators

Disclosures marked with an asterisk may also be required by at least one jurisdiction in addition to the United States. See Important Disclosures Required by Non-US Regulators and Explanatory Notes.

- Deutsche Bank and/or its affiliate(s) owns one percent or more of a class of common equity securities of this company calculated under computational methods required by US law.

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- Deutsche Bank and/or its affiliate(s) owns one percent or more of any class of common equity securities of this company calculated under computational methods required by India law.

For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <https://research.db.com/Research/Disclosures/CompanySearch>

## Analyst Certification

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Paul Trussell

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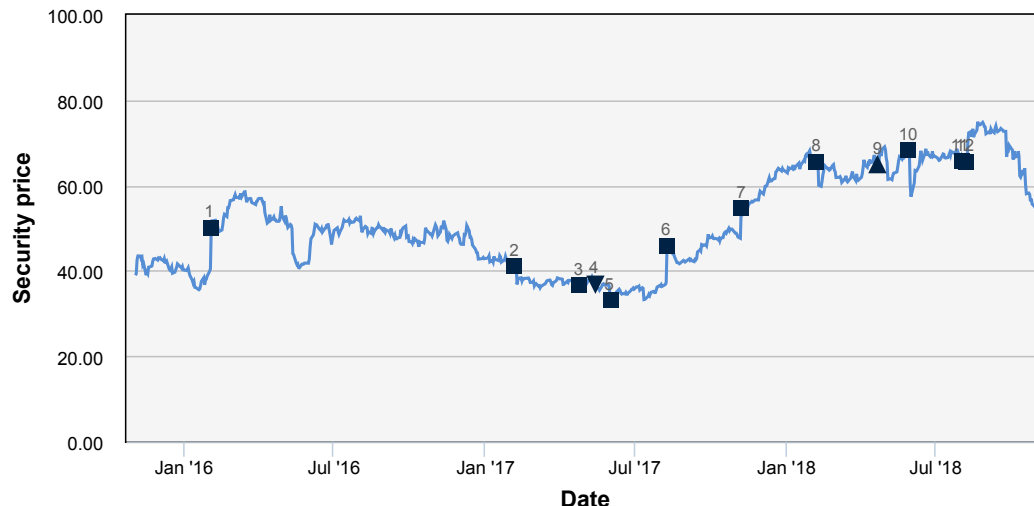
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## Historical recommendations and target price. Michael Kors Holdings Ltd. (KORS.N)

(as of 10/30/2018)



### Current Recommendations

Buy  
Hold  
Sell  
Not Rated  
Suspended Rating

\*\* Analyst is no longer at Deutsche Bank

1.	02/03/2016	Buy, Target Price Change USD 56.00 David Weiner**	7.	11/08/2017	Hold, Target Price Change USD 56.00 Paul Trussell
2.	02/06/2017	Buy, Target Price Change USD 50.00 David Weiner**	8.	02/07/2018	Hold, Target Price Change USD 71.00 Paul Trussell
3.	04/25/2017	Buy, Target Price Change USD 47.00 Vincent Chao, CFA	9.	04/23/2018	Upgraded to Buy, Target Price Change USD 86.00 Paul Trussell
4.	05/15/2017	Downgraded to Hold, Target Price Change USD 40.00 Paul Trussell	10.	05/30/2018	Buy, Target Price Change USD 83.00 Paul Trussell
5.	06/02/2017	Hold, Target Price Change USD 36.00 Paul Trussell	11.	08/02/2018	Buy, Target Price Change USD 82.00 Paul Trussell
6.	08/10/2017	Hold, Target Price Change USD 46.00 Paul Trussell	12.	08/08/2018	Buy, Target Price Change USD 84.00 Paul Trussell

## Equity Rating Key

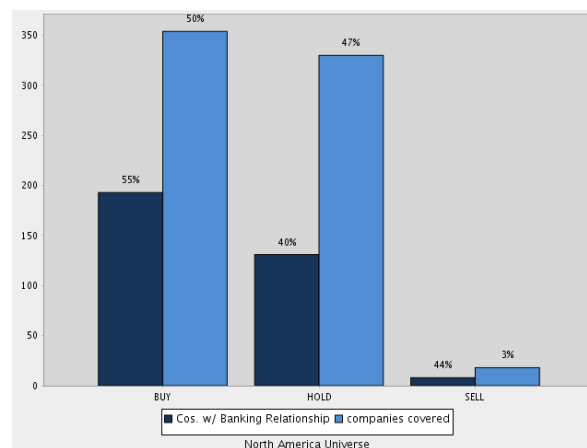
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## Equity rating dispersion and banking relationships



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