CRYSTAL | EQUITY RESEARCH

FANHUA, Inc.

Update Report

March 26, 2020

FANH / NASDAQ

Buy

Unchanged

$35.00

(Changed from $41.00)

CAPITALIZATION	
Ordinary Shares Outstanding	1,342.2 ml.
ADR's Outstanding	27.6 ml.
Market Capitalization	$1,493.8 ml.
+ Debt	-0- ml.
- Cash	24.4 ml.
Enterprise Value	$1,469.4 ml.
Book Value	$ 293.7 ml.
Working Capital	$ 294.0 ml.
Dividend / ADS	$1.20 / ADS

Balance sheet figures as of 9/30/19 in US$

MARKET DATA	
Recent ADS Price, US$	$22.26
52 Week High/Low	$35.55 - $16.19
Inside Ownership	21.0%
Institutional Ownership	15.0%
Flotation, Ordinary Shares	856.0 ml.
Flotation, ADS	14.0 ml.
Average Daily Volume, ADS	280 K
Short Interest	8.2%
Beta	1.50

Source: Bloomberg LP

INVESTMENT RETURNS	FANH	Sector
Return on Equity	9.8%	12.0%
Return on Assets	5.2%	1.5%
Return on Capital	8.8%	4.3%

Source: Crystal Equity Research

FINANCIAL PROFILE US$	FY18	FY19
Sales	$504.9 ml.	$532.3 ml.
EBITDA	$ 65.8 ml.	$ 67.4 ml.
EPS / ADS	$1.43	$0.50

Source: Company Reports

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INVESTMENT SUMMARY

Business Model. Fanhau's online-to-offline business model proves timely for China's current economic distress. Brought about by a health crisis in early 2020, millions have been driven into quarantine and onto their computers for work as well as every-day transactions.

Quarter Results. Otherwise strong in terms of sales growth and profits, the quarter ending December 2019, was clouded by a one-time expense related to the write down of the investment in an affiliate. The non-cash charge trimmed earnings per share to a net loss of RMB0.21 or US$0.02.

Financial Position. Fanhua headed into the first quarter 2020, arguably the most difficult economic period in China's recent history, with a strong balance sheet. The Company has no debt and cash totaled RMB169.7 million (US$24.4 million) at the end of December 2019.

Guidance. Management guides for RMB50 million in operating profit in first quarter 2020.

Valuation. In our view, FANH remains undervalued even in the wake of a compression in valuation metrics in response to the threat of a viral outbreak of pandemic proportions that has decimated world equity markets. Continued profitability is a strong driver of value.

Rating and Price Target. We rate FANH at Buy with an adjusted price target of $35.00.

INDUSTRY: INSURANCE SERVICES	FANH: NASDAQ

SUMMARY

Fanhua's financial report confirmed that the China independent insurance agency closed out the fourth quarter and year ending December 2019, with strength. Yet, all eyes and ears were on management's guidance for the first quarters in 2020, and the impact on sales and earnings by government policies as China grapples with an outbreak of a new and deadly virus. During the earnings conference call following announcement of financial results, management disclosed that so far no employees had contracted the virus. The excellent track record may largely be due to the capacity of Fanhua's online-to-offline business model that has allowed the Company to quickly shift agent recruiting, sales training, customer acquisition, and customer service to virtual channels on digital platforms. We believe Fanhau's is better equipped than many in the China consumer financial services market to cope with current interruption of conventional business activity. In our view, that makes Fanhua a strong candidate for a long-term investment.

Management allows that sales of some life insurance products involving significant investment often require an in-person meeting, but that other, less complex policies can be easily handled with virtual presentations and digital payments. Consequently, management's guidance for the first quarter ending March 2020, is quite optimistic at least RMB 50 million (US$7.2 million) in operating income.

RECOMMENDATION

Management's confidence that Fanhua can remain profitable even during a period of unprecedented economic upheaval in its target market informs the reiteration of our Buy recommendation for FAHN. That said, our target price is reduced to US$35.00 (from US$41.00) based on revised earnings expectations and an unfavorable shift in valuation metrics. Management guidance is lower than our estimates going into the earnings report, but our assumptions and figures had been formulated far ahead of any news of a potential health crisis in China. Our earnings model for 2020 now reflects some negative impact from the economic slowdown in China at least through the third quarter. Second, a reduction in appetite for risk is to be expected to prevail for some months to come. Consequently, we expect valuation metrics to remain suppressed in the near-term. More details on our estimates and revised valuation can be found on pages 7 and 8 of this report.

VALUATION

Price/Sales	3.4 X
Price/Cash Flow	69.6X
Price/EPS	54.1 X
Price/Book Value	6.4 X
Consensus EPS 2020	NA
Forward PE	NA

TTM ending 12/31/19

OPERATING PROJECTIONS

	2019A	1Q20E	2Q20E	3Q20E	4Q20E	2020E
Sales	$479.1	*$123.9*	*$134.3*	*$134.8*	*$143.1*	*$536.2*
Operating Income	$ 67.4	*$ 7.0*	*$ 15.4*	*$ 17.5*	*$ 18.6*	*$ 58.5*
Net Inc	$ 27.1	*$ 9.4*	*$ 15.3*	*$ 16.8*	*$ 17.5*	*$ 59.1*
CFO	$ 25.6	*na*	*na*	*na*	*na*	*$ 74.4*
EP/ADS	$0.50	*$0.17*	*$0.28*	*$0.31*	*$0.32*	*$1.07*

US Dollars in millions except per share earnings
**Fourth quarter 2019 net income includes a one-time expense related to impairment of assets.*

Company Reports and Crystal Equity Research Estimates

RECENT DEVELOPMENTS

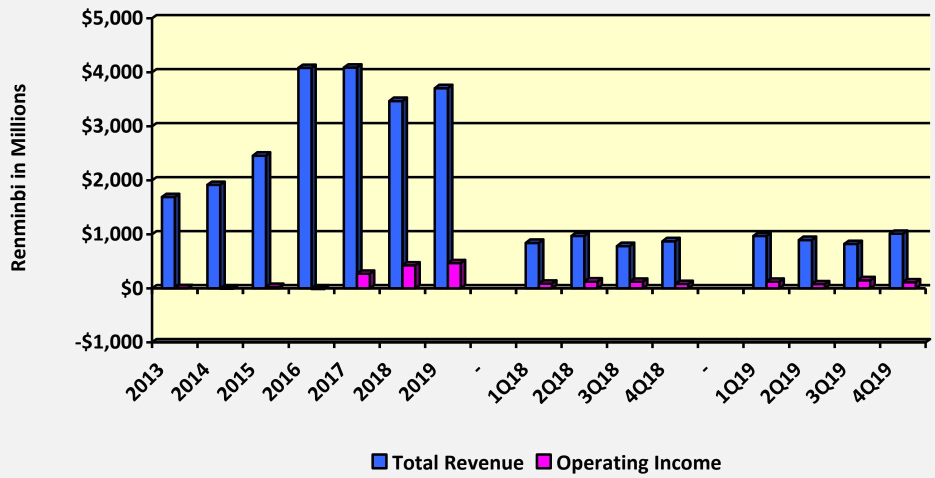
The merits of Fanhua's online-to-offline business model came into full view in the last three months. In our initial report on the Company published on July 19, 2019, we noted the digital disruption taking place in China's insurance industry. Called collectively 'insurtech,' digital technologies such as mobile apps, can facilitate access to insurance for Chinese consumers. Indeed, the Chinese consumer has come to expect simpler, more transparent interactions with insurance providers and their agents. We noted in our investment case that Fanhua is leveraging both business-to-business and business-to-consumer technologies using Internet websites, mobile applications and the popular WeChat messaging, social media and payments platform. Fanhua launched its *CNpad* portal for auto insurance sales agents in January 2012. Since then the Company has added other platforms for both sales personnel and consumers, including the *Lan Zhanggui* platform launched in September 2017 to serve independent sales agents. Consumers can select and pay for insurance directly on the Company's proprietary *Boawang* insurance sales platform.

As a consequence, in January 2020, when China authorities decreed work stoppages and home confinement across the country, Fanhua was in a good position to shift sales agent recruitment, sales training, customer acquisition, and customer service to a virtual environment. At the end of December 2019, the Company had accumulated 2.7 million registered members on *Boawang.com*, of which 341.657 actively used the platform to select and pay for insurance coverage during 2019. *Baowang* users have increased over 25% annually over the past four years.

The *Lan Zhanggui* platform for sales agents had accumulated 1.1 million registered users by the end of December 2019. During the year 2019, over 152,000 agents used the platform, up by 1.3% from the previous year. While that may suggest tepid growth, we note that the increase took place during a period of time when the China regulatory authorities were calling on insurance agencies to register sales agents. The regulatory move triggered an exodus of individuals from the industry and a significant reduction in sales force for many insurance companies.

The quality of Fanhua's interactions with sales agents can be observed data reported by the Company in the year-end announcement. The number of top-performing sales agents who sold at least one policy during the year increased to 394,327 in 2019, representing a 65% increase in this group year-over-year. The increase suggests that the sales agents who have remained with the Company have become more active in their role, delivering better sales performance overall. We believe this is due in large part to the Company's *1000 Reserve Entrepreneurial Sales Team Campaign,* which was initiated in the second half of 2019. The effort is intended to bring about more systematic qualification and recruiting of professional insurance personnel, who are committed to industry. When Fanhua reports financial results for the first quarter 2020, we expect an update on progress toward the goal of having 1,000 such teams by the end of March 2020. That said, we also believe the availability of digital technologies and online platforms for training and supervision have contributed to the favorable sales agent metrics reported in the fourth quarter 2019.

Chart I: Historic Sales and Operating Income



Source: Company Reports

FOURTH QUARTER 2019 RESULTS

The insurance industry in China was already undergoing a change as China regulatory efforts were underway to tighten up business practices in the banking, insurance and investment sectors. Fanhua was no exception in experiencing a change in business mix and a loss of certain revenue sources. The Company reported a reduction in premiums for individual life insurance products that began in 2018 and continued through the first half of 2019. Nonetheless, in the three months ending December 2019, net revenue in the life insurance segment grew 17.9% year-over-year. The growth was driven by a 13.5% increase in first year commissions. However, it was a dramatic expansion of renewal commissions by 35.8% year-over-year that really turned the heat up on life insurance revenue in the fourth quarter 2019. Strength in renewal commissions suggests strong customer retention that derives from a satisfactory experience on the Company's online platforms as well as congenial sales agent interaction. In our view, this bodes well for strong performance in future periods.

The property and casualty segment experienced a significant year-over-year decrease in sales by 25.4% in the fourth quarter 2019. The reduction was due to the discontinuation of several insurance products by underwriters as well as a decline in auto insurance policies. As a consequence the property and casualty insurance segment declined to 2.9% of Fanhua's total revenue.

By contrast fees from claims adjusting services increased to 11.5% of the Company's top-line. Claims adjusting fees increased 19.3% year-over-year in the December 2019 quarter due in part of an expansion of medical insurance claims.

Costs of commissions and fees fluctuated higher in the fourth quarter to 68.5% of total sales. Selling expenses also increased to 7.6% of total sales after reaching a low of 4.8% as a percentage of sales in the previous quarter.

Fanhua reported a one-time charge in the quarter related to the write-down in value of an investment in CNFinance Holdings Ltd. totaling RMB322.7 million (US$46.3 million). The write-down in the value of the affiliate was triggered by accounting standards that call for an annual test in the value of assets based on a projection of future revenue and earnings. The write-down in the fair value of CNFinance is a non-cash charge that did not impact operating cash flow, but trimmed an estimated RMB0.30 per share from reported earnings. In terms of earnings per ADS expressed in US dollars we estimate the impact was a reduction in reported earnings by US$0.84 per ADS.

CHINA ECONOMY UPDATE

During the earnings conference call Fanhua management made reference to an anticipated stimulus plan for China's economy. China's central government put most of the country in shutdown by late January 2020, in an attempt to halt the spread of the coronavirus. Work stoppages were gradually lifted, with the lockdown in Hubei province, the origination point of the virus, finally lifted the third week in March 2020. The PRC indicated that by mid-March 2020, nearly 90% of industrial companies were back in production, but small- and medium-size businesses were only at about 50% in operation.

Beijing Street Scene, March 7, 2020

There are various estimates on the economic impact of China's shutdown, with Goldman Sachs estimating a 9% decline year-over-year in China's gross domestic product in the first quarter of 2020. Policy makers are apparently weighing the plans for an economic restart with the possibility of a second wave of infections in the coming months.

Thus far China's various government agencies have initiated a mix of programs to provide businesses with financial support and inject money into the economy. Taxes have been reduced on small businesses and banks have been instructed to defer loan payments. Additionally, the government is investing infrastructure projects, although it is not clear how quickly such investments will impact the economy.

<u>Corporate Guidance in Recent Financial Reports</u>

Recent earnings reports from other China companies with shares listed in the U.S. market also provide insight into the state of the China economy and the status of the consumer finance and insurance sectors. For example, LexinFintech Holdings (LX: NYSE) recently reported a short-term interruption in business during the first quarter 2020, resulting in what appears to be a negative impact on asset quality for LexinFintech's consumer finance portfolio in the March quarter. During LexinFintech's earnings conference call on March 24, 2020, management described expectations for a gradual recovery for the China consumer. LexinFintech management suggested credit quality for their consumer finance portfolio is stable but that charge-off of bad loans could increase in the next few months. Improvement could come finally in the third quarter 2020.

Additional insight is provided by yet another recent earnings report from Noah Holdings Ltd. (NOAH: Nasdaq), a provider of wealth and asset management services in China. Noah is among the few public companies providing guidance for the year 2020. That said, Noah management commented during the Noah earnings conference on March 24, 2020, that travel, work and social constraints in China were impacting the face-to-face interactions that are needed to properly serve its clients. Nonetheless, Noah management guided for moderate growth in total transaction value in 2020, a metric used to measure the company's wealth management activities. Noah management also announced planned investments in information technology infrastructure and online platform development to better facilitate virtual business activities. Noah expects to invest amount equivalent to as much as 5% of 2020 revenue such projects.

Importantly, Puyi, Inc. (PUYI: Nasdaq), a wealth management services provider in China, provided detailed guidance for the first six months of 2020. During a conference call on the date of this report, Puyi management commentary echoed that of Noah Holdings in terms of the impact of traffic controls and travel bans. On-site customer interactions are vital for Puyi's distribution of its privately fund investment products. The majority of Puyi's offices opened following the extended Chinese New Year break. However, some offices remain closed even the third week in March 2020, as some clients have continued social distancing by choice. Fanhua owns 4.5% of Puyi's common stock and reports it proportionate share of Puyi's results in other income.

Another view on Fanhua's target market is provided by comments from the management of Yintech Investment Holdings (YIN: Nasdaq) during that company's earnings conference call on March 17, 2020. Both companies cater to middle income individuals in China. Yintech's investment and trading services are provided exclusively through an online platform. Consequently, Yintech management provided an upbeat prognosis for 2020. Yintech's specific guidance for the first quarter 2020, is for commissions and fees from consumer trading basically flat compared to commissions reported by Yintech in the December 2019 quarter. It appears that Yintech expects little change in consumer behavior even during a period of unprecedented economic upheaval in the China economy.

REVISED EARNINGS MODEL

Fanhua management provided guidance first quarter 2020 that was lower than our estimates going into the earnings report. Granted those expectations had been formulated far ahead of any news of a potential health crisis in China. The review of recent financial reports and commentary from other China companies in the financial services and consumer finance market in China appears to confirm the guarded tone in Fanhua's guidance.

Accordingly, our revenue and earnings estimates for 2020 have been lowered in expectation of negative impact from the economic slowdown in China. A greater impact is expected in the life insurance segment than in property and casualty policies during the first two quarters of the year. The claims adjusting segment is expected to experience a significant impact from work stoppage in the first quarter with recovery in the balance of the year as claims adjustment personnel are able to return to the Company's various claims adjustment offices around country. We expect some of the claims adjustment work that was missed in the first quarter 2020, to be picked up in subsequent quarters. A summary of our estimates is shown in renminbi in Table I on the following page and in US dollars in Tables II and III on pages 9 and 10 of this report.

Table I: Summary of Historic and Projected Sales and Earnings

RMB	2018 Actual	2019 Actual	*2020 Estimate*	*2021 Estimate*
Sales	3,471.3 mln.	3,706.0 mln.	*3,565.0 mln.*	*4,125.0 mln.*
Operating Income	425.7 mln.	469.4 mln.	*403.4 mln.*	*546.0 mln.*
Earnings / ADS	CNY 9.83	CNY 3.47	*CNY 7.46*	*CNY 8.37*
Cash flow from operations	523.8 mln.	178.3 mln.	*520.6 mln.*	*576.7 mln.*

Source: Company Reports and Crystal Equity Research Estimates

On a cautionary note, we have only modest confidence in being able to accurately predict sales and earnings for any company during the current economic conditions.

- Our model is intended to illustrate a drop in revenue of some magnitude with erosion in profits, but not enough to lead to an operating loss in the first quarter 2020. We have used management's guidance for RMB50 million in operating profit as a gauge for the sales level, but considerable variance is possible if profit margins erode or expand.
- The sales estimates throughout 2020 and into 2021 reflect the assumption that the buying power of the middle-market consumer is China is largely unchanged and that consumer behavior will remain largely as it was prior to the coronavirus outbreak.
- Additionally, our model illustrates the view that China authorities are able to 'right the ship' by the second quarter 2020 and then propel the country into recovery by the final quarter of the year. This view is predicated on the assumption that there is no second infection of coronavirus or that if there is a resurgence in this fast-moving disease, that the lessons learned in the first round are sufficient to allow the country to deal expeditiously with the second wave. If we are incorrect in this assumption, the sales and earnings in the second, third and fourth quarters could be egregiously optimistic.
- Fanhau leadership has pledged uninterrupted compensation for any and all employees who contract the coronavirus as well as a death benefit for the family of employees that succumb to the disease. Although such a pledge could result in incremental operating expenses, our model does not reflect an allowance for such compensation.

VALUATION AND OUTLOOK

Valuation metrics have been slashed in recent weeks in equity markets all over the world. Views on the consumer financial services sectors are no exception. A review of forty companies in the China consumer financial services sector that also have stocks trading in the U.S. equity market, suggests that valuation metrics such as price-to-sales, price-to-earnings, and price-to-book value have been trimmed by 20% to 25% from three months ago.

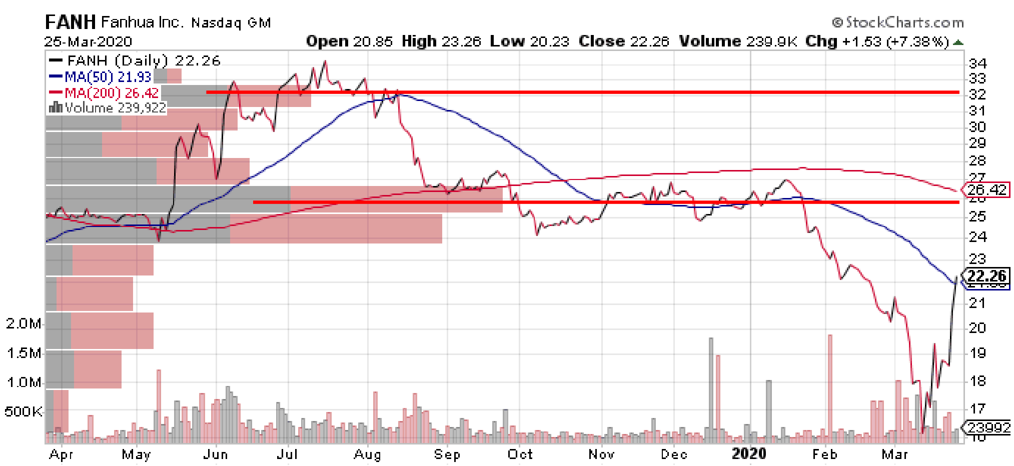
In our view, there are several factors that should be given particular attention in calibrating Fanhau's value.

- Potential to remain profitable in first quarter 2020 even during a period of deep economic stress and interruption in business in Fanhua's geographic market.
- Strong balance sheet with no debt and ample cash resources to support operations, particularly if investments are needed to capture market share.
- Well positioned, competitive business model with adequate infrastructure to communicate with employees and customers in either online or offline channels as needed.

Given the uncertainty in the world's economy as all nations continue to grapple with combating the coronavirus threat, it is perhaps too early to attempt to pinpoint value for Fanhua or any other company. Accordingly, we are looking at the Company in terms of a value range. A valuation exercise using metrics of comparable consumer finance sector public stocks suggests the intrinsic value of FANH shares is currently in a range of $26.50 to $35.70. Accordingly, we conclude the stock is undervalued by at least 16%.

If Fanhua delivers the RMB50 million in operating earnings as guided by management for the first quarter 2020, we expect the accomplishment to trigger a favorable revision in sentiment toward the Company. However, investors may not have to wait for the earnings report to benefit from a stock price catalyst. Any news of success in battling the coronavirus outbreak in China should boost the stocks of China-based companies. Unfortunately, negative news on the health crisis could take equity prices lower even if Fanhua meets all fundamental objectives.

We reiterate our Buy rating of FANH with a target price range of $32.00 to $35.00. Our target price range is based on the upper end of the valuation range determined by the comparable valuation method. Also we noted that there is a line of price resistance at the $32.00 price level through could stall progress toward our price target. FANH is most appropriate for investors with a long-term investment horizon and the patience to allow developments in the world economy to play out. The recent collapse of the stock price is largely due to exogenous factors that are beyond the control of management. Those circumstances notwithstanding, with its online-offline business model is better equipped than many in the China consumer financial services market to cope with interruption of conventional business activity. We believe that makes Fanhua a strong candidate for a long-term investment.



ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST.

Table II: Historic and Projected Sales and Earnings					
US Dollars in Thousands	2017	2018	2019	*2020*	*2021*
Agency, life insurance	372,630	417,537	458,736	*463,768*	*537,313*
Agency, property & casualty insurance	208,378	39,720	20,364	*19,493*	*22,388*
Claims adjusting	47,378	47,617	53,234	*52,899*	*55,970*
Total revenue	628,386	504,874	532,334	*536,159*	*615,672*
Agency, life insurance	251,501	282,605	311,144	*321,087*	*370,746*
Agency, property & casualty insurance	188,823	30,369	14,052	*14,080*	*14,552*
Claims adjusting	29,898	28,239	31,529	*31,210*	*31,903*
Cost of sales	470,222	341,214	356,725	*366,377*	*417,201*
Gross profit	158,164	163,661	175,609	*169,783*	*198,470*
Operating expenses:					
Selling expenses	34,088	33,608	39,944	*43,264*	*40,019*
General and administrative expenses	82,096	68,130	68,245	*68,057*	*76,959*
Total operating expenses	116,183	101,739	108,189	*111,320*	*116,978*
Operating income (loss)	41,980	61,922	67,420	*58,462*	*81,493*
Other income (expense)					
Investment income	29,477	28,428	11,358	*5,797*	*5,970*
Interest income	3,979	4,975	406	*-*	*-*
Other, net	2,195	1,717	1,388	*-*	*-*
Total other income (expense)	35,651	35,120	13,572	*5,797*	*5,970*
Income (loss) before income taxes	77,632	97,042	80,572	*64,259*	*87,463*
Provision for income taxes (benefit from)	25,791	32,665	20,658	*19, 278*	*26,239*
Share on profits (losses) in affiliates	16,744	25,375	(32,255)	*14,493*	*7,463*
Net income (loss) from cont. oper.	68,585	89,753	27,659	*59,474*	*68,687*
Discontinued operations, net of taxes	842	-	-	*-*	*-*
Net income of non-controlling interests	(382)	(1,044)	(520)	*(400)*	*(500)*
Net inc. (loss) available to shareholders	69,045	88,708	27,139	*59,074*	*68,187*
Net EPS (loss), available to shareholders	$0.06	$0.07	$0.03	*$0.05*	*$0.06*
Net EPS (loss), ADS	$1.13	$1.43	$0.50	*$1.07*	*$1.24*
Weighted shares outstanding, diluted	1,261,223	1,240,854	1,093,299	*1,100,000*	*1,100,000*
Exchange rate	6.5063	6.8755	6.9618	*6.7000*	*6.7000*
SELECTED MEASURES:					
Sales growth, yr/yr	6.9%	12.1%	9.9%	*0.7%*	*15.9%*
Net income from cont. oper. growth, yr/yr	228.2%	30.9%	-69.2%	*115.0%*	*15.5%*
EPS cont. oper. growth, yr/yr	135.9%	12.4%	-65.0%	*113.7%*	*15.5%*
Gross margin	25.2%	32.4%	33.0%	*31.7%*	*32.2%*
Operating margin	6.7%	12.3%	12.7%	*10.9%*	*13.2%*
Net margin	10.9%	17.8%	5.2%	*11.1%*	*11.2%*
Cost as % of sales	74.8%	67.6%	67.0%	*68.3%*	*67.8%*
Selling expenses as % of sales	5.4%	6.7%	7.5%	*8.1%*	*6.5%*
General & admin. expenses as % of sales	13.1%	13.5%	12.8%	*12.7%*	*12.5%*
Effective tax rate	33.2%	33.7%	25.6%	*30.0%*	*30.0%*

Table III: Historic and Projected Financial Results by Quarter

Dollars in Thousands	1Q	2Q	3Q	4Q	2019	1Q	2Q	3Q	4Q	2020
Agency, life insurance	128,023	112,395	97,370	124,519	458,736	*108,696*	*115,942*	*115,942*	*123,188*	*463,768*
Agency, property & casualty insurance	5,680	6,084	4,555	4,213	20,364	*4,348*	*4,638*	*5,072*	*5,435*	*19,493*
Claims adjusting	11,078	12,390	13,267	16,716	53,234	*10,870*	*13,768*	*13,768*	*14,493*	*52,899*
Total revenue	144,781	130,869	115,191	145,448	532,334	*123,913*	*134,348*	*134,783*	*143,116*	*536,159*
Agency, life insurance	89,624	74,918	62,820	86,373	311,144	*76,087*	*80,000*	*80,000*	*85,000*	*321,087*
Agency, property & casualty insurance	3,668	3,988	3,169	3,330	14,052	*3,478*	*3,246*	*3,551*	*3,804*	*14,080*
Claims adjusting	6,347	7,103	8,269	9,916	31,529	*6,413*	*8,123*	*8,123*	*8,551*	*31,210*
Cost of sales	99,639	86,009	74,257	99,619	356,725	*85,978*	*91,370*	*91,674*	*97,355*	*366,377*
Gross profit	45,142	44,860	40,934	45,828	175,609	*37,935*	*42,978*	*43,109*	*45,761*	*169,783*
Operating expenses:										
Selling expenses	9,632	14,135	5,500	11,074	39,944	*12,391*	*11,420*	*9,435*	*10,018*	*43,264*
General & administrative expenses	16,673	19,456	14,246	18,360	68,245	*18,587*	*16,122*	*16,174*	*17,174*	*68,057*
Total operating expenses	26,305	33,591	19,745	29,435	108,189	*30,978*	*27,541*	*25,609*	*27,192*	*111,320*
Operating income (loss)	18,838	11,269	21,188	16,394	67,420	*6,957*	*15,437*	*17,500*	*18,569*	*58,462*
Income (loss) before income taxes	24,603	15,361	23,477	17,742	80,572	*8,406*	*16,886*	*18,949*	*20,018*	*64,259*
Income available to shareholders	21,944	14,277	17,720	(33,875)	27,139	*9,407*	*15,344*	*16,788*	*17,536*	*59,074*
Net EPS (loss), available to shareholders	$0.02	$0.01	$0.01	($0.03)	$0.03	*$0.01*	*$0.01*	*$0.02*	*$0.02*	*$0.05*
Net EPS (loss), ADS	$0.39	$0.26	$0.27	($0.60)	$0.50	*$0.17*	*$0.28*	*$0.31*	*$0.32*	*$1.07*
Weighted shares outstanding, diluted	1,123,330	1,098,215	1,077,781	1,074,291	1,093,299	*1,100,000*	*1,100,000*	*1,100,000*	*1,100,000*	*1,100,000*
Exchange rate	6.7112	6.8650	7.1477	6.9618	6.9618	*6.7000*	*6.7000*	*6.7000*	*6.7000*	*6.7000*
SELECTED MEASURES:										
Gross margin	31.2%	34.3%	35.5%	31.5%	33.0%	*30.6%*	*32.0%*	*32.0%*	*32.0%*	*31.7%*
Operating margin	13.0%	8.6%	18.4%	11.3%	12.7%	*5.6%*	*11.5%*	*13.0%*	*13.0%*	*10.9%*
Net margin	15.2%	10.8%	20.7%	-21.9%	5.2%	*7.7%*	*11.5%*	*12.5%*	*12.3%*	*11.1%*
Cost as % of sales	68.8%	65.7%	64.5%	68.5%	67.0%	*69.4%*	*68.0%*	*68.0%*	*68.0%*	*68.3%*
Selling expenses as % of sales	6.7%	6.3%	4.8%	7.6%	7.5%	*10.0%*	*8.5%*	*7.0%*	*7.0%*	*8.1%*
General & admin. expenses as % of sales	11.5%	11.3%	12.4%	12.6%	12.8%	*15.0%*	*12.0%*	*12.0%*	*12.0%*	*12.7%*

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ANALYST

Debra Fiakas, CFA is a seasoned, credentialed investment professional with a diversified and successful track record as a research analyst and as an investment banker. Her decade-plus career includes solid experience in all aspects of the equity capital markets with particular emphasis on emerging growth companies operating in the technology sectors. Ms. Fiakas is also the principal member of Crystal Equity Research, LLC.

ANALYST CERTIFICATION

The analyst who is primarily responsible for this research and whose name is listed first on this front cover certifies that: 1) all of the views expressed in this research accurately reflect his or her professional views about any and all of the subject securities or issuers, and 2) no part of any of the analyst's compensation was, is or will be directly or indirectly related to the specific rating expressed by analyst in this research.

RATING SYSTEM

Buy	Price appreciation expected 10% or more over a 12-month period.
Hold	Price appreciation/depreciation expected between 10% and –10% over 12 months.
Sell	Price depreciation expected 10% or more over a 12-month period.

CRYSTAL RESEARCH UNIVERSE

Buys	65%
Holds	10%
Sells	25%
Total	100%

HISTORICAL RECOMMENDATIONS AND TARGET PRICE: Fanhua, Inc. / FANH

Report	Date	Price	Rating	Target Price
Initial	7/19/19	$33.48	Buy	$41.00 (six-month)
Update	9/10/19	$27.02	Buy	$41.00 (six month)
Update	12/5/19	$26.40	Buy	$41.00 (six month)
Update	3/26/20	$22.26	Buy	$35.00 (one year)

DISCLOSURES

Name	**Symbol: Exchange**	**Disclosures**
Fanhua, Inc.	FANH: Nasdaq	D, F, G

Disclosure Key

- A A member or employee of Crystal Equity Research, LLC serves on the board of directors of the company.
- B A controlling member of Crystal Equity Research, LLC has a beneficial interest in the common stock of the company.
- C A person or persons preparing this report or an immediate family member of the preparer has a beneficial interest in the common stock of the company.
- D Crystal Equity Research, LLC received compensation for research coverage from the company or one of its agents. The fees are paid in advance in cash.
- E The company has a convertible issue outstanding.
- F The securities covered in this report can be optioned.
- G The securities covered in this report can be margined.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST