CRYSTAL | EQUITY RESEARCH

FANHUA, Inc.

Update Report

May 29, 2020

FANH / NASDAQ

Buy

Unchanged

$32.00

(Changed from $35.00)

CAPITALIZATION	
Ordinary Shares Outstanding	1,353.9 ml.
ADR's Outstanding	27.6 ml.
Market Capitalization	$1,255.7 ml.
+ Debt	-0- ml.
- Cash	71.1 ml.
Enterprise Value	$1,184.6 ml.
Book Value	$ 263.1 ml.
Working Capital	$ 237.3 ml.
Dividend / ADS	$1.25 / ADS

Balance sheet figures as of 3/31/20 in US$

MARKET DATA	
Recent ADS Price, US$	$18.55
52 Week High/Low	$35.55 - $16.19
Inside Ownership	21.4%
Institutional Ownership	30.0%
Flotation, Ordinary Shares	856.0 ml.
Flotation, ADS	14.0 ml.
Average Daily Volume, ADS	231 K
Short Interest	8.0%
Beta	1.00

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

Quarter Profits. Fanhua reported RMB 60 million (US$8.5 million) in operating income, representing an operating profit margin of 8.3%.

Online Sales. Active users of Fanhau's *Baowang* Internet sales channel at *Baoxian.com* increased 71.4% year-over-year, providing evidence Fanhua's early transition to online sales channels paid off well under the unusual circumstances presented by health crisis in China.

Guidance. Management remains confident in ability to generate profits, providing guidance for operating income of at least RMB 70 million (US$10.0 million) in the June quarter. Our earnings model has been updated to reflect reported results and management's guidance.

Undervaluation. Based on a comparison of valuation metrics for a peer group of China-based financial services companies with common stock listed in U.S. exchanges, we believe FANH shares remain undervalued. Using the peer group valuation metrics the instrinsic value of FANH is $US 31.36 per ADS.

Target Price. We have adjusted our target price for Fanhua ADS to $32.00 based on current market valuation metrics.

INDUSTRY: INSURANCE SERVICES	FANH: NASDAQ

SUMMARY

The first three months of 2020, was filled with challenge for Fanhua as the Company navigated work stoppages and stay-at-home orders by local governments desperately to stop spread of a coronavirus. The first quarter report revealed the bad news of lower revenue from insurance premiums as well as with indications the Company's on-line platforms may have helped mitigate the negative effects of consumers sheltering at home. Shareholders appear to take in stride news that the Company had to make additional adjustment to the value of its investment in CNFinance by recording a significant loss as CNFinance recorded an non-cash expense related to anticipated credit losses.

Despite the tough quarter, Fanhua management appears to remain confident the Company can continue to turn a profit. Guidance for the June quarter is operating profit of RMB 70.0 million (US$10.0 million). We believe continued profitability bodes well for consistency in the Company's dividend payout. Indeed, the board of directors recently declared the expected regular dividend.

RECOMMENDATION

While we have retained our Buy rating of FANH shares, our target price has been adjusted to US$32.00 (from US$35.00) to reflect changes in valuation metrics in the U.S. equity market. We continue to compare FANH to a group of China-based financial services companies with common stock listed or quoted on U.S. stock exchanges. The market appears to be taking into consideration reduced demand for insurance products as China's economy deals with the coronavirus pandemic as well as the added costs of providing for employee safety and security. After recent price correction the stock is even more undervalued than ever in comparison to this peer group. It is noteworthy that the new target price coincides with a line of volume-related price support/resistance that has developed in historic trading of the shares. Better than expected fundamental performance as reported in coming quarters could help push the stock back to this level.

VALUATION

Price/Sales	2.5 X
Price/Cash Flow	33.4 X
Price/EPS	80.7 X
Price/Book Value	3.3 X
Consensus EPS 2020	NA
Forward PE	NA

TTM ending 3/31/20

OPERATING PROJECTIONS

	2019A	1Q20A	*2Q20E*	*3Q20E*	*4Q20E*	*2020E*
Sales	$479.1	$102.1	*$105.1*	*$127.5*	*$143.1*	*$477.8*
Operating Income	$ 67.4	$ 8.5	*$ 10.2*	*$ 16.6*	*$ 18.6*	*$ 53.9*
Net Inc	$ 27.1	$ 6.5	*$ 11.7*	*$ 16.2*	*$ 17.5*	*$ 51.9*
CFO	$ 25.6	$ 19.1	*na*	*na*	*na*	*$ 66.2*
EP/ADS	$0.50	$0.12	*$0.21*	*$0.29*	*$0.32*	*$0.95*

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

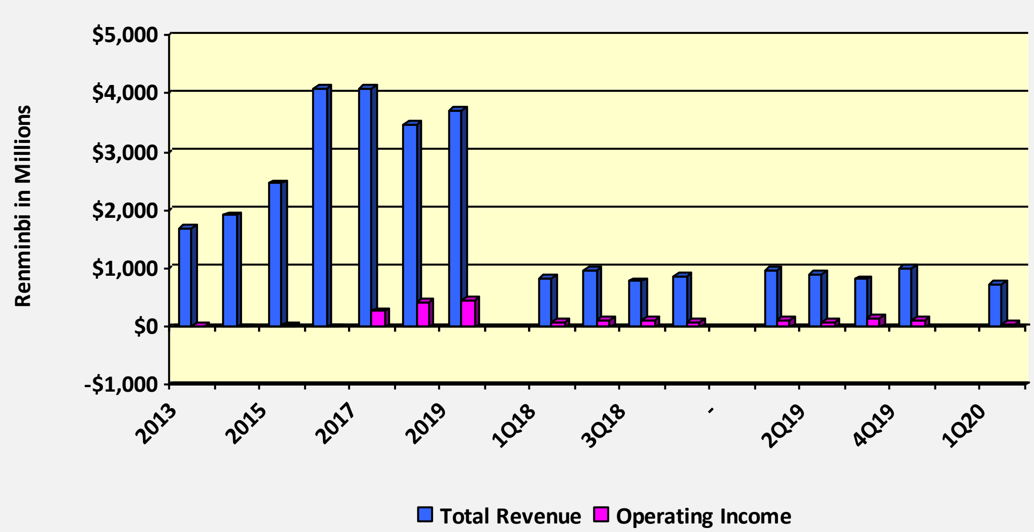
FIRST QUARTER 2020 FINANCIAL RESULTS

As expected, Fanhua reported dramatically lower sales in the first quarter ending March 2020, as work stoppage and stay-at-home orders imposed by local and national government authorities impacted most of the quarter. Sales totaled RMB 722.6 million (US$102.1 million), representing a 25.6% decline compared to the same quarter in the previous year and a 28.6% sequential decline. Sales of property and casualty policies, which represented 3.5% of Fanhua's total sales, experienced the greatest impact. The product category declined by 34.4% year-over-year as sales of automobiles and residential property came to near standstill during the quarter. Life insurance policy activity, which is Fanhua's most significant source of revenue, declined year-over-year by 27.2%. This was largely due to the ban on typical in-person sales interactions and the disruption in Chinese consumer routines that trigger decisions about life planning surrounding the New Year. Claims adjustment activity appeared to be the least dislocated as revenue declined by a modest 2.6% year-over-year.

Total cost of sales slipped slightly in the quarter as some costs could not be adjusted in step with the drastically slowed sales activity. However, for the life insurance segment cost of sales for the life insurance segment was trimmed to 68.4% compared to 70.0% in the year-ago period. Property and casualty cost of sales increased to 66.7% compared to 64.6% in the same quarter last year. It was the claim adjusting segment that experienced the greatest increase in costs as a percentage of sales from 57.3% in the year-ago period to 64.7%.

Total operating profit was RMB 60.0 million (US$8.5 million), representing an operating profit margin of 8.3%. This compares to a profit margin of 13.0% in the same quarter in the previous year and 11.3% in previous three months. Operating expenses remained fairly constant in the quarter as new spending for employee safety and health replaced savings from the reduction in operating activity in the period.

Chart I: Historic Sales and Operating Income



Source: Company Reports

Investments

A key take-away from Fanhua's quarter report was the dramatic change in the Company's investment income, which was significantly lower in the quarter at RMB8.9 million (US$1.3 million). This compares to RMB 36.8 million (US$5.5 million) in the same quarter in the previous year. The comparison of investment income in the U.S. dollar is also impacted by the fluctuation in the dollar/renminbi exchange rate. The decline was largely due to decreases in yields on short-term investments as Fanhua shifted its portfolio to include more bank paper. We also note that total short-term investments has declined from a year ago as the Company liquidated some short-term investment assets for the repurchase of common stock and other cash requirements.

Fanhua also has long-term equity investments in related financial services businesses. Given that the Company holds minority positions in each of these operations, its proportionate share of the operating results for each is included as a non-operating item labeled as income or loss from affiliates. In the March 2020 quarter the net results was a loss of RMB 12.3 million (US$1.7 million), a results which shareholders might find jarring given that these investments have historically been a source of solid income. Furthermore, Fanhua had already reported a significant write down in value related to CNFinance in the final quarter of 2019. The most recent negative net result is due primarily to a reported net loss at CNFinance on the recognition of potential credit losses that could ensue due to the economic impact of the coronavirus pandemic. The provision for credit losses is a non-cash expense and was triggered by GAAP standards for reporting current expected credit losses.

Fanhua did not separately report the financial results of its equity investments, but shareholders can see the public financial filings of CNFinance and Puyi. In the first quarter ending March 2020, CNFinance reported a net loss of RMB 65.7 million (US$9.3 million) on RMB $493.7 million (US$69.7 million) in total revenue. The provision for credit losses totaled RMB 220.8 million (US$31.2 million) in the March quarter, swamping the net interest and fee income earned on the CNFinance portfolio. Interest and fee income declined 44.4% year-over-year as CNFinance sidelined by work stoppage and stay-at-home policies prevented site visits and counseling that typically help moderate delinquency rates.

In the quarter ending March 2020, Puyi reported a net loss of RMB 22.6 million (US$3.2 million) on total sales of RMB 62.4 million (US$9.0 million). Puyi delayed opening certain of its offices even after various jurisdictions reopened for regular work and travel. Puyi management reported that even as recently as mid-May 2020, some of its wealth management clients had not returned to routine activities and continued to practice extensive social distancing.

EQUITY INVESTMENTS

Investment	Status	Finance Services	% of Equity
CNFinance Holdings Ltd.	CNF: NYSE	Home equity loans	18.5%
Puyi, Inc.	PUYI: Nasdaq	Wealth management	4.5%
Shenzhen Chetong Network Co., Ltd.	Private	On-line insurance claims	14.9%

Fanhua's balance sheet reflects a total value of RMB 351.9 million (US$49.7 million) in affiliate investments. This compares to RMB 363.4 million (US$52.2 million) at the end of 2019. During 2019, Fanhua had recognized an impairment charge related to a decline in the value of its investment in CNFinance. The charge totaled RMB 322.7 million (US$46.3 million).

SALES ACTIVITY

Data on Fanhua's sales for performance in the first quarter 2020 report demonstrates that the Company did not let up on goals to meet regulatory requirements and improve professionalism of its force. Fanhua had 650,065 sales agents at the end of March 2020, down 3% sequentially and down 24% from a year-ago. Throughout 2019 and into the first months of 2020, a large number of agents have been severed as the Company enforced China regulations requiring registration of all insurance sales agents. Fanhua continues to recruit experienced professionals from within the insurance industry to join as 'sales entrepreneurs' to lead newly organized sales teams. Sales agents worked from 753 outlets after the Company added 3 offices in the first quarter 2020 and 58 over the last year.

The Company's online sales channel *Lan Zhanggui* handled 50% of Fanhua's premium revenue in the first quarter 2020, most of which was for life insurance policies. The number of users registered on the *Lan Zhanggui* platform increased to 1.2 million in the quarter, out of which 30,389 remained active users.

The *Baowang* platform at *Baoxian.com* for sales agents also experienced an increase in registered members to 2.8 million. Importantly, active users increased to 142,004 users in the quarter compared 82,869 in the same quarter a year ago. We believe the 71.4% year-over-year increase in active users was due in part to the pandemic circumstances in the period that drove more people than usual to digital channels to manage personal investments.

FANHUA TOP INSURANCE INDUSTRY RELATIONSHIPS

Rank	% of Fanhua Sales	Company	Products Represented
#1	23.8%	Huaxia Life Insurance Co., Ltd.	Life insurance
#2	18.3%	Aeon Life Insurance Co., Ltd.	Life insurance
#3	16.1%	Sinatay Life Insurance Co., Ltd.	Life insurance
#4	12.1%	Tian'an Life Insurance Co., Ltd.	Life insurance
#5	<10.0%	Evergrande Life Insurance Co., Ltd.	Life insurance

INSURANCE INDUSTRY UPDATE

China's insurance industry growth has been severely impacted by the coronavirus pandemic. First, conventional sales channels have been closed first by work stoppage and second by social distancing policies. The China Banking and Insurance Regulatory Commission (CBIRC) banned insurance professionals from client meetings or holding group gatherings such as teach-ins or conferences. Insurance firms were prohibited to stage training workshops or conduct sales 'road shows.' These same policies have led to a sudden drop in travel and tourism that trigger purchases of temporary life insurance policies. The Chinese New Year holidays, which are usually a period of peak domestic tourism as well as a large draw for international travelers, were cancelled nearly entirely in 2020.

In the first quarter 2020, China also experienced a dramatic drop in purchases of real estate and automobiles that are typically insured for replacement costs. The sharp decline in sales is not necessarily expected to be caught up in later months as consumers return to more normal work and leisure routines. This is expected to impact both new and renewal insurance policy writing.

In China life insurance products are still primarily sold by agents and other in-person channels. While gaining some ground online sales have lagged behind. Industry analysts with Ernst & Young suggest in a recent report on the China insurance industry that some insurers have stopped expanding their in-house agent networks and may be reconsidering their existing sales force strategies.

Work stoppages and stay-at-home policies were instituted during China's peak life insurance sales season as consumers tend to make life planning decisions in the first months of the year. Life insurers were given support by the CBIRC life insurance division, which provided temporary relief from restrictions on waiting periods and deductible amounts. Additionally the regulator has announced a relaxation in rules to allow insurers to invest in banks' capital replenishment bonds as China policy makers attempt to ease the burden on smaller banks hit by the coronavirus pandemic.

Nonetheless, industry analysts have raised the alarm of pressure on near-term cash flows. We note that in early May 2020, Fitch ratings revised the credit rating outlook from stable to negative for four of sixteen China insurance companies. The four insurers were New China Life Insurance, Sunshine Life Insurance, Sunshine Property and Casualty and Taikang Life Insurance Co., none of which represent significant revenue sources for Fanhau. Fitch affirmed the ratings of the remaining twelve insurers with stable outlook. Fitch reported that the rating actions were the result of an assessment of the impact of the coronavirus pandemic and the completion of pro forma financial analysis that revealed a decline in capitalization due to exposure to risky assets.

Beyond the immediate economic impact of the coronavirus there may be additional industry reform measures that could present market opportunity for independent insurance agents like Fanhua. China's president Xi Jinping has been quoted recently related to the need to make more improvements in China's governance systems for the sake of social protection. Besides changes that make it possible for the insurance industry to more quickly respond with risk protection, the industry may also be pressed to raise consumer education. China policy makers may believe that the industry has a role to play in building awareness of insurance to cushion against loss in the event of unexpected and catastrophic health events like a pandemic.

Clearly there remains considerable market opportunity in China for insurance firms of all sorts. In 2019, China's insurance density as measured by premium per capita was only RMB 3,046. This means that insurance depth or premium as a percentage of gross domestic product was 4.3%. This compares to a global average insurance depth of 6.1%. Even without additional reforms that elevate insurance coverage in the China economy, there appears to be wide open doors for agents to attract and retain customers.

CHINA ECONOMY UPDATE

China reported an unemployment rate for urban areas near 5.9% in late March 2020, an improvement over 6.2% in February. Thus officially unemployment is largely unchanged by the cataclysmic coronavirus pandemic compared to historic rates that have ranged from 4% to 5%. Yet anecdotal evidence suggests that millions could be out of work. The Center of China Studies at the Chinese University of Hong Kong estimates that as many as 80 million were out of work in China at the end of March 2020. This figure includes migrant workers who are occupied in construction, manufacturing and other entry level positions that keep China's economy going but get left out of official statistics.

Job vacancies appear to corroborate the higher unemployment figure. According to the China Institute for Employment Research and the job site Zhaopin.com, job vacancies have dropped by 28% in the first three months of 2020 compared to the last three months of 2019. We also note that China's service sector, which accounts for half the country's employment, reduced total jobs in April 2020. Surveys completed by research firm Markit and CNN Business in April 2020, found numerous companies have institute hiring freezes.

Despite the prospect of rampant unemployment, China is expected to eke out positive growth in 2020. According to a survey of sixty-two analysts completed by Reuters in April 2020, the median forecasted growth rate for China is 2.5% for the year 2020. The same survey in the previous month had found an average forecasted growth rate of 5.4%. The updated prognosis is the slowest pace since the country emerged from the Cultural Revolution in the mid-1970s.

UPDATED PROJECTIONS

Our earnings model has been updated to reflect financial results reported in the first quarter ending March 2020. Since we had overestimated both sales and expenses, operating income in our model was significantly lower than reported operating income. However, we do not attempt to model future one-time charges and expenses such as the adjustment to the value of equity investments that significantly impacted net income. Thus after adjusting for first quarter results our earnings estimate is reduced by a U.S. nickel per share.

Additional adjustments were made to revenue, cost and expenses estimates in the remaining quarters in fiscal year 2020, mostly out of an attempt to render a more conservative earnings estimate. The adjustments take into consideration management's guidance for operating income no less than RMB 70.0 million in the quarter ending June 2020. Management indicated the hurdle is based largely on its operating experience in the month of April and early May 2020. During the earnings conference call Fanhua's CEO also expressed confidence that looming unemployment in China is not likely to threaten insurance premiums in the coming quarters.

Unfortunately, we have limited visibility into the pace of sales activity given that China's public health and business situation remains highly fluid. We note that some jurisdictions have returned to stay-at-home and quarantine policies to control resurgence in the coronoavirus. Consequently, we anticipate that the Company could experience more business interruption in some or all of its markets. We cannot estimate with accuracy the extent or timing of such interruptions.

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.	*3,315.1 mln.*	*4,125.0 mln.*
Operating Income	425.7 mln.	469.4 mln.	*373.5 mln.*	*546.0 mln.*
Earnings / ADS	CNY 9.83	CNY 3.47	*CNY 6.51*	*CNY 8.37*
Cash flow from operations	523.8 mln.	178.3 mln.	*468.8 mln.*	*576.7 mln.*

Source: Company Reports and Crystal Equity Research Estimates

While we have to caution there could be considerable variance in reported financial results from even our revised estimates, we do have confidence at this time that Fanhua can remain profitable and can generate positive operating cash flow. Even with longer or more extensive work stoppage conditions we believe that the Company has reached a point at which enough work can be accomplished online to keep profits flowing. Thus our model does at least deliver the benefit of direction to guide shareholders.

Investment Required to Comply with Online Insurance Platform Regulation

Importantly, our estimates do not include incremental costs and expenses associated with compliance with recently implemented policies of the CBIRC related to the classification of certain business operations as media companies. The new rules could impact *Baoxian.com* as well as sites for *Lan Zhanggui* and *CNPad Auto*. In December 2019, the CBIRC published draft measures on the supervision of internet insurance business, which would require both insurance institutions and self-operated online platforms to obtain Internet communications platform (ICP) licenses. Currently, the Fanhua subsidiary that owns the *www.boaxian.com* domain name holds an ICP license, but it does not hold any insurance operating license. Additionally, it is not yet clear whether the *Lan Zhanggui* or *CNpad Auto* sales support applications will also be subject to the CBIRC draft measure.

We also note that the CBIRC draft measures would also require insurance institutions that engage in online insurance business to have information technology (IT) systems that are certified as Safety Level III. Fanhua management has indicated efforts are already underway to meet this particular requirement.

These regulations were first introduced in November 2015, and have been making a slow but certain march toward enactment. We believe is a matter of implementation that will ultimately answer questions about how these rules may impact Fanhua's various online platforms. We expect that Company to have time to implement remedies to achieve compliance, including application for proper Internet communications and/or insurance operating licenses. Most likely the incremental costs will be seen over time in general and administrative expenses.

VALUATION AND OUTLOOK

Investors reacted with relief to Fanhua's quarter earnings report, possibly finding consolation in the reported profit despite dramatically lower sales. Guidance for operating profit in the June 2020 quarter could have provided investors with even more comfort. However, what most shareholders needed to hear was that the Company's generous dividend payout policy remains intact. Following the earnings announcement the board of directors reaffirmed the quarter cash dividend of US$0.25 per ADS. At the current stock price the dividend yield is 5.24%.

Recently the stocks of China-based companies may have been negatively impacted by political rhetoric from the Trump Administration in May 2020, threatening the listing status of publicly traded stocks of China-based. The most recent threat is to require China companies to follow U.S. accounting rules in order to maintain U.S. stock exchange listing and quotations. It is not clear whether Fanhua, which is legally incorporated in the Cayman Islands, would be impacted by proposed changes. Fanhua's financial reports have been completed according to U.S. General Accepted Accounting Policies (GAAP) and its auditors have stated they used standards required by the Public Company Accounting Oversight Board (PCAOB).

Fanhua shares are now trading at 18.2 times trailing earnings per share as adjusted for the one-time non-cash charge for impairment of invested assets that was recorded in the fourth quarter 2019. This is well below the earnings multiple near 35.7 times for its peer group of China-based financial services companies. Our practice has been to apply the Company's peer group multiple to our earnings estimate as well as multiples of sales, cash flow and book value. Following recent changes in valuation metrics and the changes in our earnings model, that method now results in an intrinsic value of US$31.46 per ADS. We note this price coincides with a line of volume-related price support/resistance at the US$32.00 price level. Accordingly, we adjust our target price to $32.00.

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	*410,760*	*537,313*
Agency, property & casualty insurance	208,378	39,720	20,364	*17,662*	*22,388*
Claims adjusting	47,378	47,617	53,234	*49,357*	*55,970*
Total revenue	628,386	504,874	532,334	*477,779*	*615,672*
Agency, life insurance	251,501	282,605	311,144	*282,863*	*370,746*
Agency, property & casualty insurance	188,823	30,369	14,052	*12,138*	*14,552*
Claims adjusting	29,898	28,239	31,529	*30,351*	*31,903*
Cost of sales	470,222	341,214	356,725	*325,352*	*417,201*
Gross profit	158,164	163,661	175,609	*152,427*	*198,470*
Operating expenses:					
Selling expenses	34,088	33,608	39,944	*36,528*	*40,019*
General and administrative expenses	82,096	68,130	68,245	*61,993*	*76,959*
Total operating expenses	116,183	101,739	108,189	*98,521*	*116,978*
Operating income (loss)	41,980	61,922	67,420	*53,905*	*81,493*
Other income (expense)					
Investment income	29,477	28,428	11,358	*5,599*	*5,970*
Interest income	3,979	4,975	406	*409*	*-*
Other, net	2,195	1,717	1,388	*285*	*-*
Total other income (expense)	35,651	35,120	13,572	*6,293*	*5,970*
Income (loss) before income taxes	77,632	97,042	80,572	*60,199*	*87,463*
Provision for income taxes (benefit from)	25,791	32,665	20,658	*17,567*	*26,239*
Share on profits (losses) in affiliates	16,744	25,375	(32,255)	*9,127*	*7,463*
Net income (loss) from cont. oper.	68,585	89,753	27,659	*51,758*	*68,687*
Discontinued operations, net of taxes	842	-	-	*-*	*-*
Net income of non-controlling interests	(382)	(1,044)	(520)	*120*	*(500)*
Net inc. (loss) available to shareholders	69,045	88,708	27,139	*51,878*	*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	*$0.95*	*$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	*7.0000*	*6.7000*
SELECTED MEASURES:					
Sales growth, yr/yr	6.9%	12.1%	9.9%	*-3.4%*	*21.2%*
Net income from cont. oper. growth, yr/yr	228.2%	30.9%	-69.2%	*102.5%*	*22.6%*
EPS cont. oper. growth, yr/yr	135.9%	12.4%	-65.0%	*101.3%*	*22.6%*
Gross margin	25.2%	32.4%	33.0%	*32.0%*	*32.1%*
Operating margin	6.7%	12.3%	12.7%	*11.7%*	*13.1%*
Net margin	10.9%	17.8%	5.2%	*11.8%*	*11.2%*
Cost as % of sales	74.8%	67.6%	67.0%	*68.0%*	*67.8%*
Selling expenses as % of sales	5.4%	6.7%	7.5%	*7.7%*	*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%	*29.3%*	*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	88,296	*90,580*	*108,696*	*123,188*	*410,760*
Agency, property & casualty insurance	5,680	6,084	4,555	4,213	20,364	3,532	*3,623*	*5,072*	*5,435*	*17,662*
Claims adjusting	11,078	12,390	13,267	16,716	53,234	10,227	*13,768*	*13,768*	*14,493*	*49,357*
Total revenue	144,781	130,869	115,191	145,448	532,334	102,054	*105,072*	*127,536*	*143,116*	*477,779*
Agency, life insurance	89,624	74,918	62,820	86,373	311,144	60,363	*62,500*	*75,000*	*85,000*	*282,863*
Agency, property & casualty insurance	3,668	3,988	3,169	3,330	14,052	2,355	*2,428*	*3,551*	*3,804*	*12,138*
Claims adjusting	6,347	7,103	8,269	9,916	31,529	6,612	*7,065*	*8,123*	*8,551*	*30,351*
Cost of sales	99,639	86,009	74,257	99,619	356,725	69,330	*71,993*	*86,674*	*97,355*	*325,352*
Gross profit	45,142	44,860	40,934	45,828	175,609	32,724	*33,080*	*40,862*	*45,761*	*152,427*
Operating expenses:										
Selling expenses	9,632	14,135	5,500	11,074	39,944	8,651	*8,931*	*8,928*	*10,018*	*36,528*
General & administrative expenses	16,673	19,456	14,246	18,360	68,245	15,593	*13,922*	*15,304*	*17,174*	*61,993*
Total operating expenses	26,305	33,591	19,745	29,435	108,189	24,244	*22,853*	*24,232*	*27,192*	*98,521*
Operating income (loss)	18,838	11,269	21,188	16,394	67,420	8,480	*10,226*	*16,630*	*18,569*	*53,905*
Income (loss) before income taxes	24,603	15,361	23,477	17,742	80,572	10,425	*11,676*	*18,080*	*20,018*	*60,199*
Income available to shareholders	21,944	14,277	17,720	(33,875)	27,139	6,467	*11,796*	*16,179*	*17,536*	*51,878*
Net EPS (loss), available to shareholders	$0.02	$0.01	$0.01	($0.03)	$0.03	$0.01	*$0.01*	*$0.01*	*$0.02*	*$0.05*
Net EPS (loss), ADS	$0.39	$0.26	$0.27	($0.60)	$0.50	$0.12	*$0.21*	*$0.29*	*$0.32*	*$0.95*
Weighted shares outstanding, diluted	1,123,330	1,098,215	1,077,781	1,074,291	1,093,299	1,074,291	*1,100,000*	*1,100,000*	*1,100,000*	*1,100,000*
Exchange rate	6.7112	6.8650	7.1477	6.9618	6.9618	7.0808	*6.7000*	*6.7000*	*6.7000*	*6.7000*
SELECTED MEASURES:										
Gross margin	31.2%	34.3%	35.5%	31.5%	33.0%	32.1%	*32.0%*	*32.0%*	*32.0%*	*31.9%*
Operating margin	13.0%	8.6%	18.4%	11.3%	12.7%	8.3%	*9.7%*	*13.0%*	*13.0%*	*11.4%*
Net margin	15.2%	10.8%	20.7%	-21.9%	5.2%	5.9%	*11.2%*	*12.8%*	*12.3%*	*10.8%*
Cost as % of sales	68.8%	65.7%	64.5%	68.5%	67.0%	67.9%	*68.5%*	*68.0%*	*68.0%*	*68.1%*
Selling expenses as % of sales	6.7%	6.3%	4.8%	7.6%	7.5%	8.5%	*8.5%*	*7.0%*	*7.0%*	*7.6%*
General & admin. expenses as % of sales	11.5%	11.3%	12.4%	12.6%	12.8%	15.3%	*13.3%*	*12.0%*	*12.0%*	*13.0%*

CRYSTAL EQUITY RESEARCH, LLC

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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)
Update	5/29/20	$18.55	Buy	$32.00 (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