

# **ADWAYS**

# **FULL YEAR**

# **FY2019**

PRESENTATION MATERIAL  
MAY 12, 2020

TOKYO STOCK  
EXCHANGE MOTHERS  
STOCK CODE: 2489

**ADWAYS INC.**  
Founder and CEO, Haruhisa Okamura

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Chapter1 : **Full-Year FY2019 results**

# 1. Full-Year FY2019 Performance

# FY2019 Consolidated Performance Forecast Values and Results

(JPY mn)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent
FY2019 Forecast	38,000	200	230	30
Results	37,304	197	406	164
*Progress rate	-1.8%	-1.4%	+76.9%	+449.1%

Initial forecasts are those announced in the Results Summary dated November 1, 2019.

\* Figures are rounded off to the second decimal place

# FY2020 Consolidated Performance Forecast Values

(JPY mn)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent
FY2020 Forecast	41,662	402	418	137
FY2019 Results	37,304	197	406	164
*FY2019 YoY	+11.7%	+104.4%	+2.8%	-16.7%

\* Figures are rounded off to the second decimal place

# Cumulative Quarterly Results (YoY)

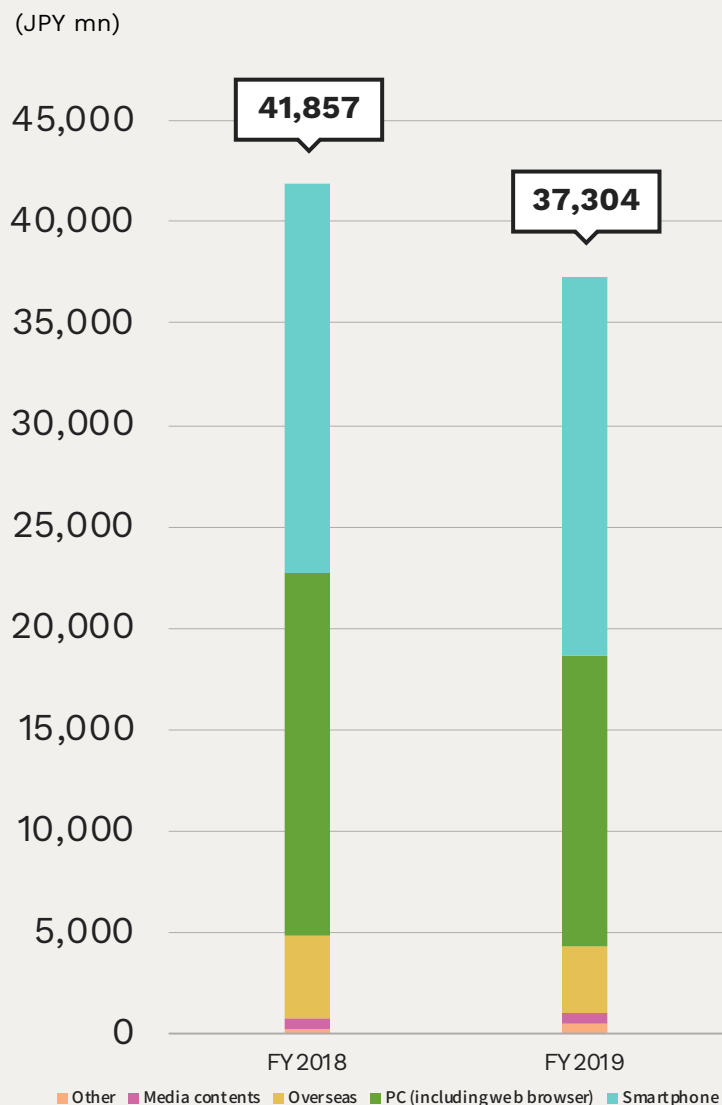
(JPY mn)

	FY2019 Cumulative	YoY FY2018 (Cumulative)		
		Result	Change (JPY mn)	Change (%)
Net sales	37,304	41,857	-4,552	-10.9%
Gross profit	6,504	7,225	-721	-10.0%
SG&A expenses	6,307	6,503	-195	-3.0%
Operating profit	197	722	-525	-72.7%
Ordinary profit	406	903	-496	-55.0%
Profit attributable to owners of parent	164	738	-574	-77.7%

**Net sales** YoY **4,552mn** **Decreased** (-10.9%)

**Operating profit** YoY **525 mn** **Decreased** (-72.7%)

# Net Sales (YoY Change)



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**Domestic Advertising . . . JPY 33,047 mn**

**YoY: JPY -3,930 mn (-10.6%)**

**Smartphone . . . JPY 18,645 mn**  
(Mainly app advertising)

**YoY: JPY -457 mn (-2.4%)**

While UNICORN sales and promotions for mobile payment apps and the like increased, advertising budgets were cut for some game app clients, so there was a slight decrease overall.

**PC . . . . . JPY 14,402 mn**  
(PC web advertising and smartphone web advertising)

**YoY: JPY -3,473 mn (-19.4%)**

Advertising budgets for finance-related clients shrank, leading to an overall decrease. Due to stricter ad placement practices in adherence with laws enacted in the previous fiscal year, there was a decline in ad-spending by e-commerce related businesses that continued in the present.

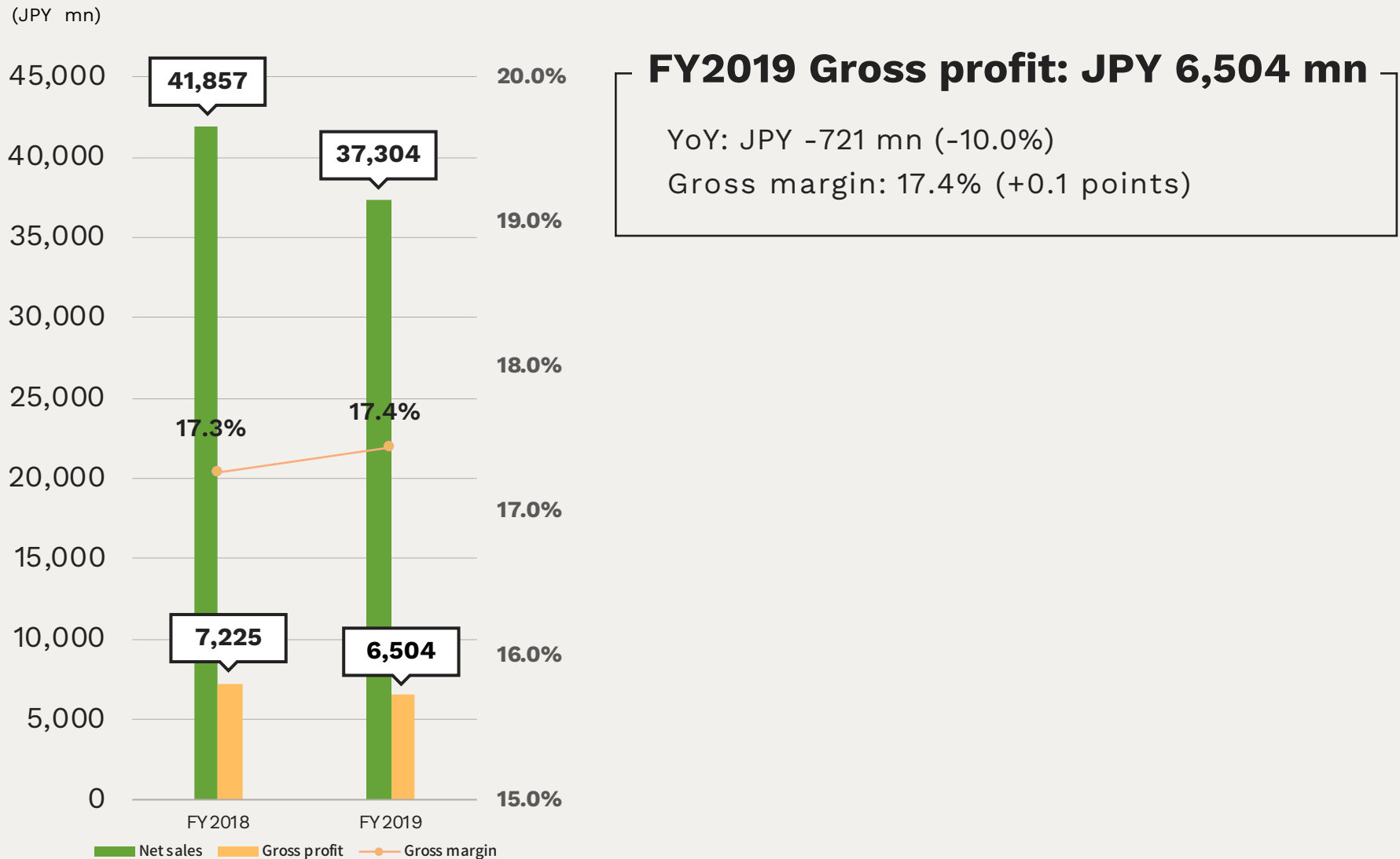
**Overseas . . . . . JPY 3,202 mn**

**YoY: JPY -882 mn (-21.6%)**

while achieving solid sales growth, MBO was implemented at some subsidiaries and removed from the scope of consolidation, leading to an overall decline.

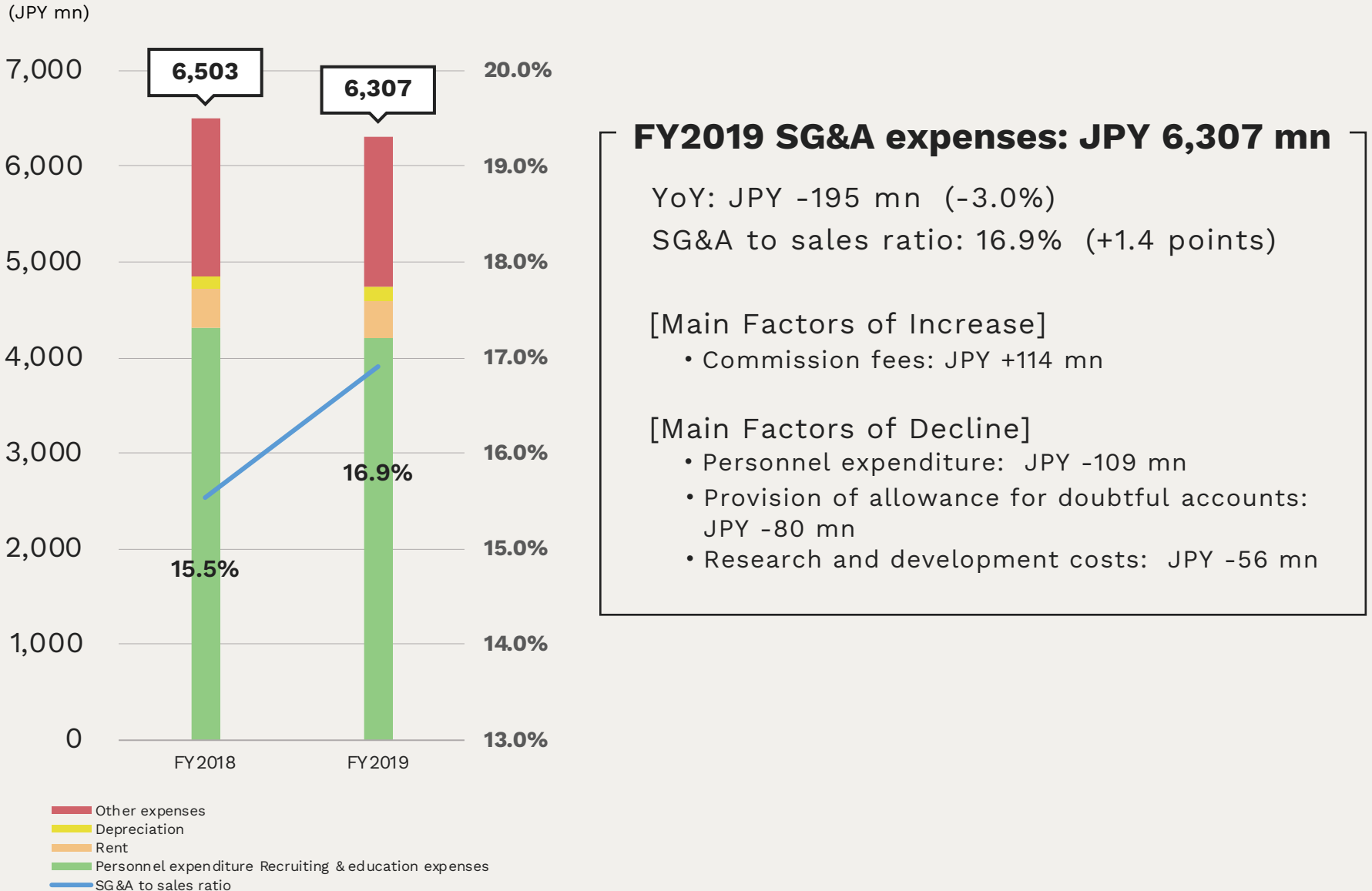
\*The accounting periods of our overseas subsidiaries excluding India end in December, so their FY2019 Q4 (October - December) figures are consolidated with the Adways Group's FY2019 Q4 (January - March) figures.

# Gross Profit (YoY Change)

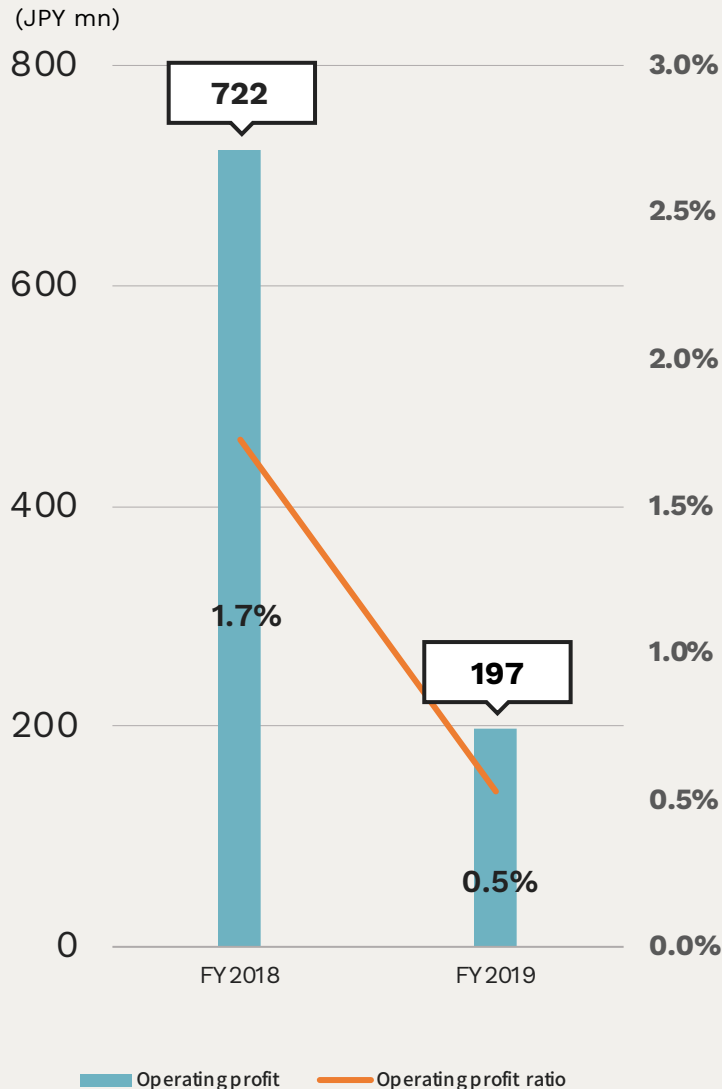




# SG&A Expenses (YoY Change)



# Operating Profit (YoY Change)



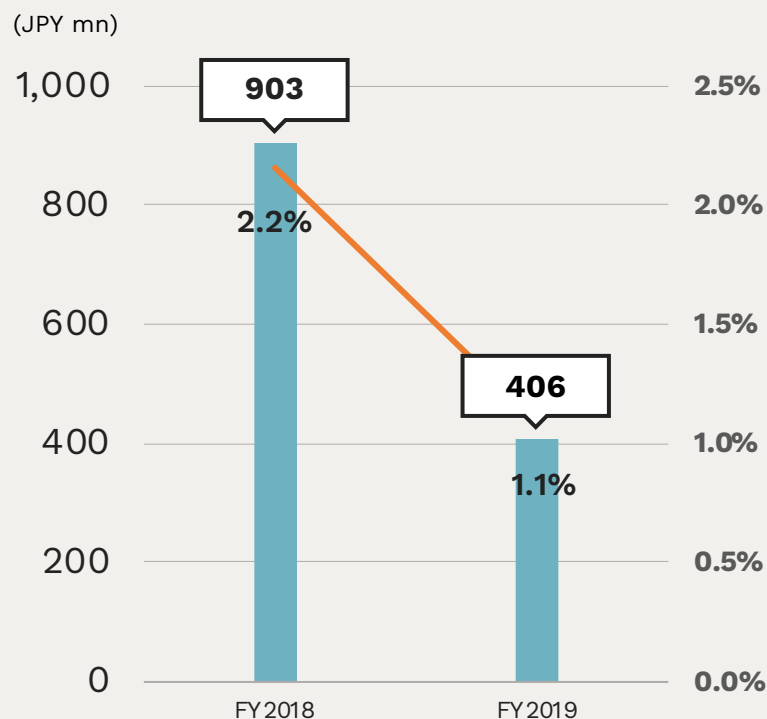
**FY2019 Operating profit: JPY 197 mn**

YoY: JPY -525 mn (-72.7%)

Operating margin: 0.5% (-1.2 points)

Decreased due to decline in sales

## Ordinary Profit (YoY Change)

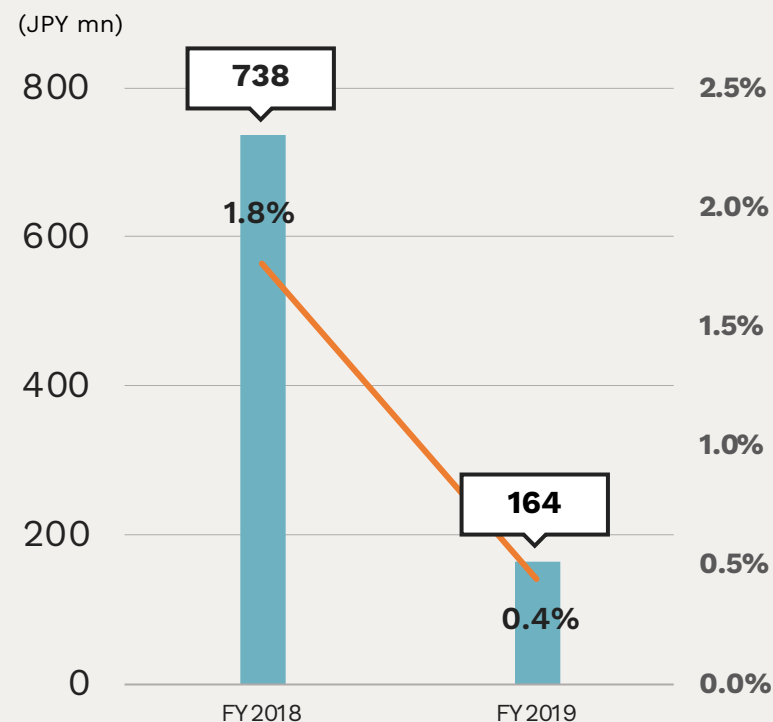


**FY2019 Ordinary profit: JPY 406mn**

YoY: JPY -496 mn (-55.0%)

Ordinary profit margin: 1.1% (-1.1 points)

## Profit Attributable to Owners of Parent (YoY Change)

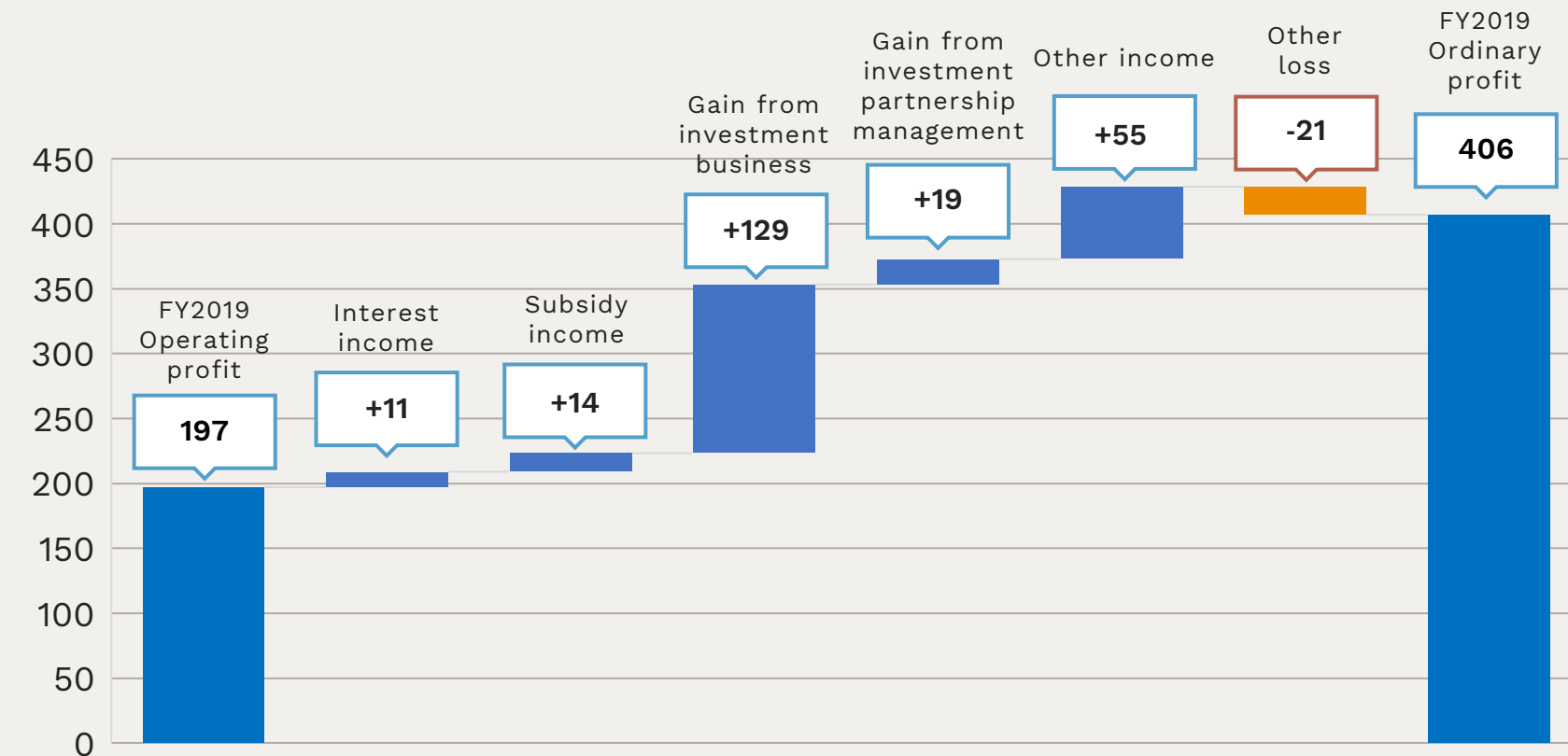


**FY2019 Profit attributable to owners of parent : JPY 164 mn**

YoY: JPY -574 mn (-77.7%)

Net Income margin: 0.4% (-1.4 points)

# Breakdown of FY2019 Ordinary Profit

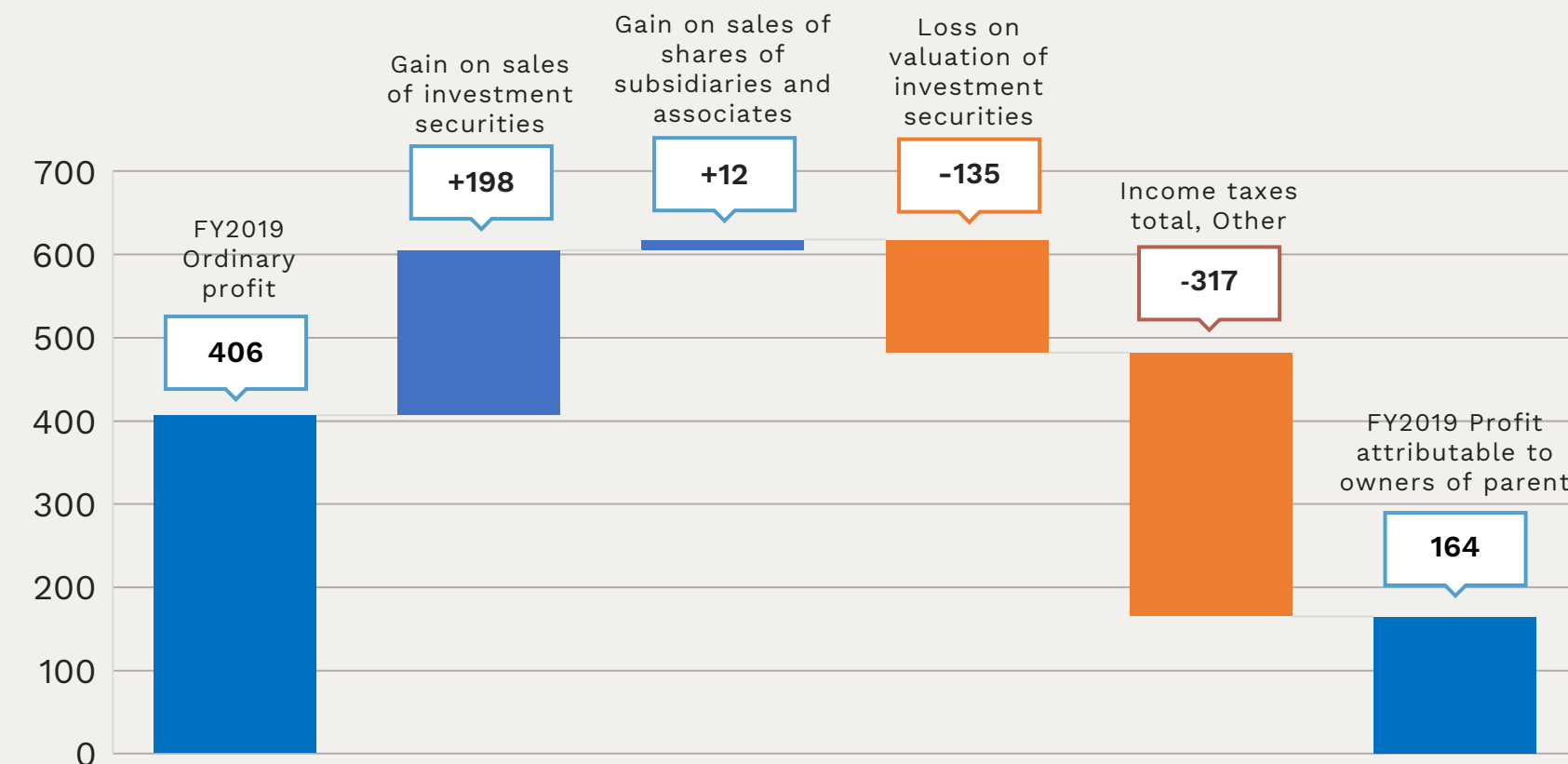


(JPY mn)

Interest income	• • •	JPY +11 mn
Subsidy income	• • •	JPY +14 mn
Gain from investment business	• • •	JPY +129 mn

Gain from investment partnership management	• • •	JPY +19 mn
Other income	• • •	JPY +55 mn
Other loss	• • •	JPY -21 mn

# Breakdown of FY2019 Ordinary Profit Attributable to Owners of Parent



(JPY mn)

**Gain on sales of investment securities**

• • • JPY +198 mn: No. of individual stocks (6 companies)

**Gain on sales of shares of subsidiaries and associates**

• • • JPY +12 mn

**Loss on valuation of investment securities**

• • • JPY -135 mn: No. of individual stocks (13 companies)

**Income taxes total, Other**

• • • JPY -317 mn

Chapter2 : **Fourth quarter** results

# 2 FY2019 Q4 Performance

# Quarterly Results (YoY, QoQ)

(JPY mn)

	FY2019 Q4	YoY FY2018 Q4			QoQ FY2019 Q3		
		Result	Change	Change (%)	Result	Change	Change (%)
Net sales	10,155	9,330	+824	+8.8%	9,125	+1,029	+11.3%
Gross profit	1,854	1,672	+182	+10.9%	1,680	+174	+10.4%
SG&A expenses	1,656	1,637	+19	+1.2%	1,576	+80	+5.1%
Operating profit	198	34	+163	+472.6%	103	+94	+90.7%
Ordinary profit	264	228	+35	+15.7%	163	+101	+62.3%
Profit attributable to owners of parent	309	346	-37	-10.8%	83	+225	+271.4%

**Net Sales**    YoY **Increased**    JPY +824 mn (+8.8%)  
                   QoQ **Increased**    JPY +1,029 mn (+11.3%)

**Operating profit**    YoY **Increased**    JPY +163 mn (+472.6%)  
                               QoQ **Increased**    JPY +94 mn (+90.7%)

# Q4 Net Sales/Operating Profit Factors

[Net Sales QoQ (by Segment)]

	This quarter (FY2019 Q4)	Previous quarter (FY2019 Q3)	Change
Smartphone	4,957	4,765	+191
PC	3,784	3,379	+405
Overseas	1,167	704	+463
Total	9,909	8,849	+1,059

[Operating Profit QoQ (by Segment)]

	This quarter (FY2019 Q4)	Previous quarter (FY2019 Q3)	Change
Smartphone	699	605	+94
PC			
Overseas	-50	-79	+28
Total	649	525	+123

(JPY mn)

## [Main factors]

### **Smartphone** [Net sales: JPY 191 mn increase]

While game app advertisement placements declined in January and February, they increased in March. Due to increased disposable time owing to the impact of the novel coronavirus, comic app advertisements increased, and mobile payment app advertisements performed well.

### **PC** [Net sales: JPY 405 mn increase]

Major consumer finance advertisements increased, and the budget for credit card advertisements increased since it was year-end.

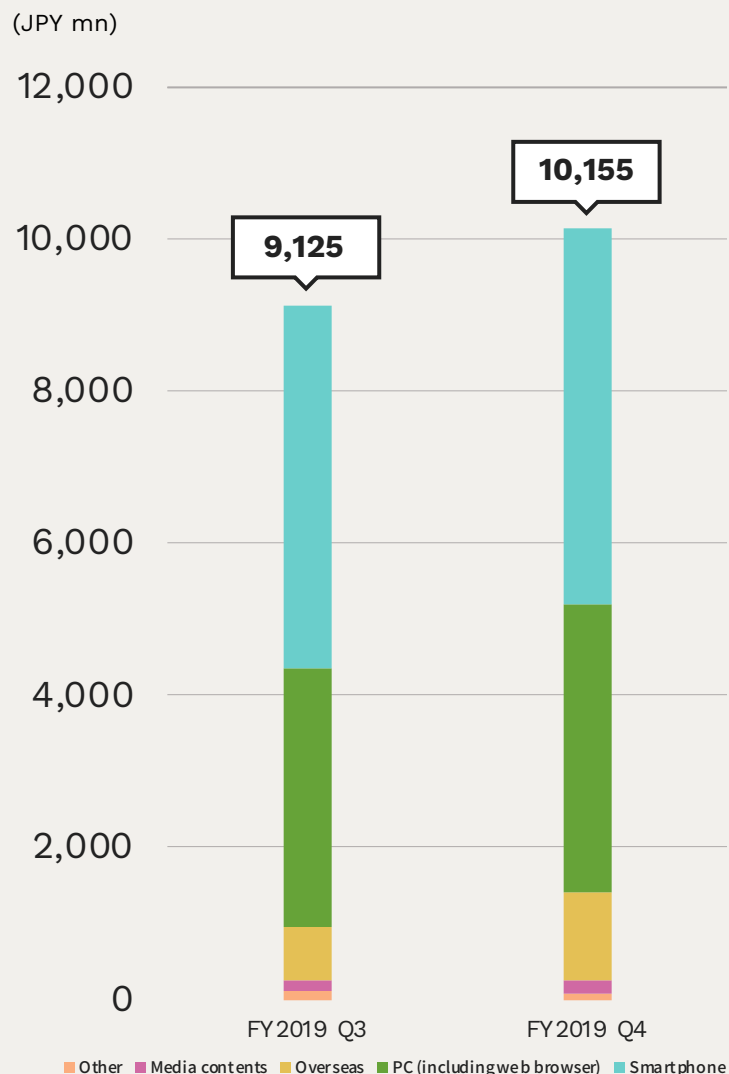
Due to increased disposable time, the advertising budget for VOD (video on demand) increased.

### **Overseas** [Net sales: JPY 463 mn increase]

Net sales increased due to a big campaign from major game client in China and growth in brand advertising in Taiwan.



# Net Sales (QoQ Change)



**Domestic Advertising . . . JPY 8,742 mn**

**QoQ: JPY + 596 mn (+7.3%)**

**Smartphone . . . JPY 4,957 mn**  
(mainly app advertising)

**QoQ: JPY +191 mn (+4.0%)**

While game app advertisement placements declined in January and February, they increased in March. Due to increased disposable time owing to the impact of the novel coronavirus, comic app advertisements increased, and mobile payment app advertisements performed well.

**PC . . . JPY 3,784 mn**  
(PC web advertising and smartphone web advertising)

**QoQ: JPY +405 mn (+12.0%)**

Major consumer finance advertisements increased, and the budget for credit card advertisements increased since it was year-end. Due to increased disposable time, the advertising budget for VOD (video on demand) increased.

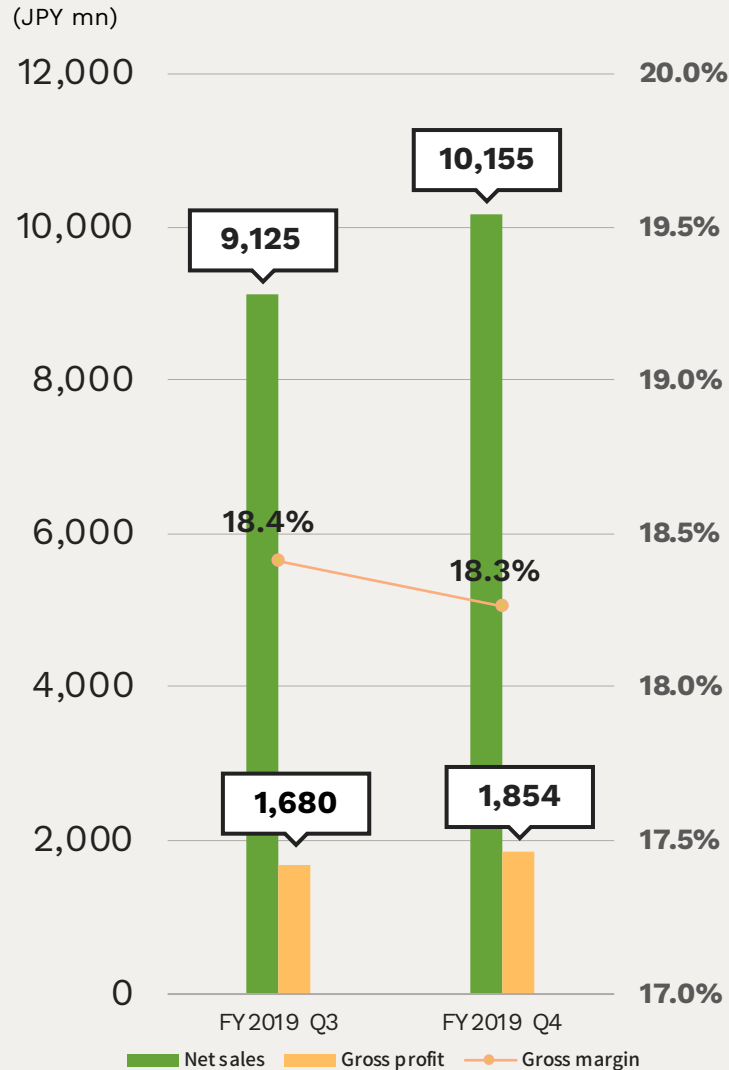
**Overseas . . . . . JPY 1,167 mn**

**QoQ: JPY +463 mn (+65.7%)**

Net sales increased due to a big campaign from major game client in China and growth in brand advertising in Taiwan.

\*The accounting periods of our overseas subsidiaries excluding India end in December, so their FY2019 Q4 (October – December) figures are consolidated with the Adways Group's FY2019 Q4 (January – March) figures.

# Gross Profit (QoQ Change)

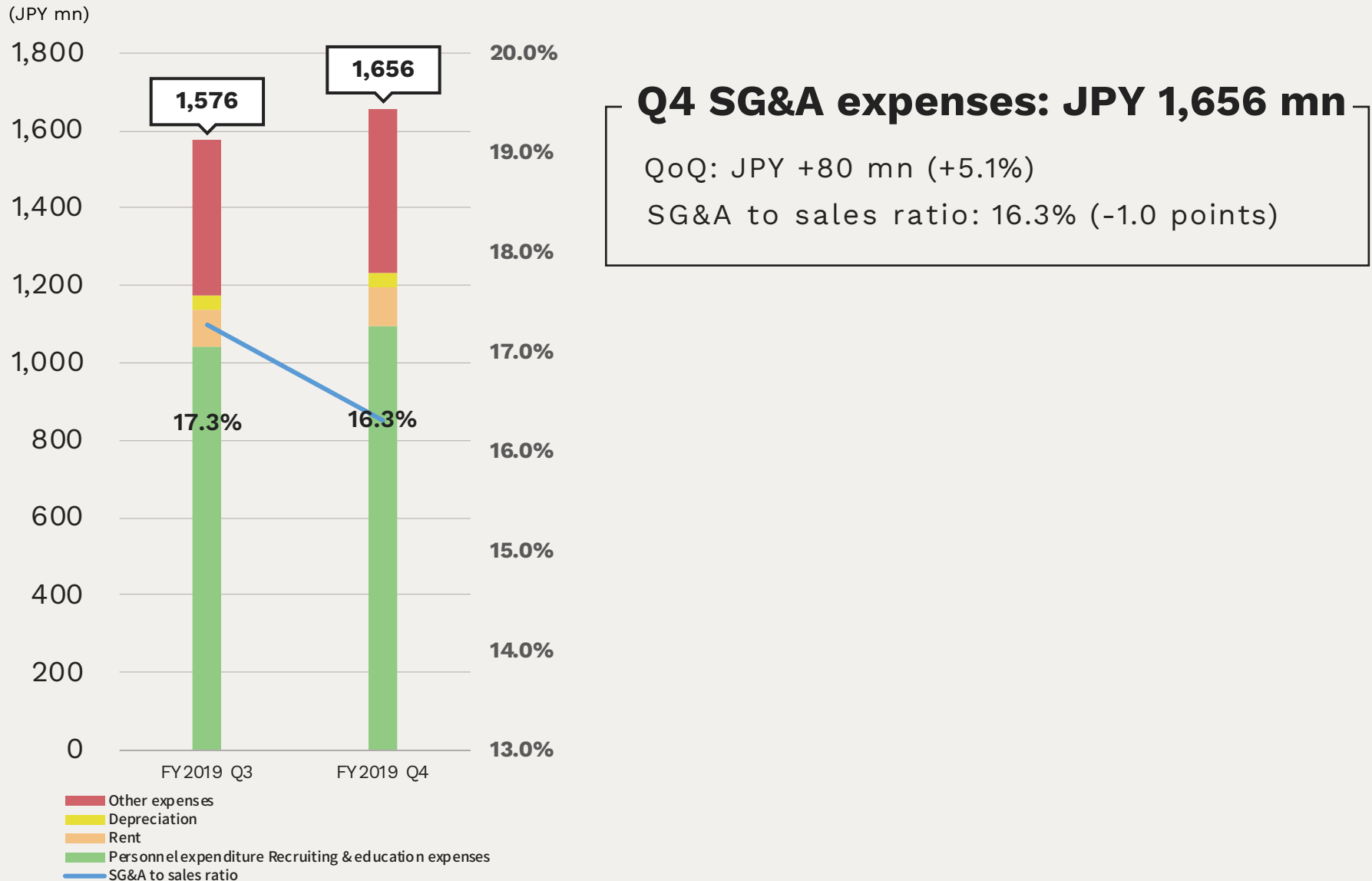


## Q4 Gross profit: JPY 1,854 mn

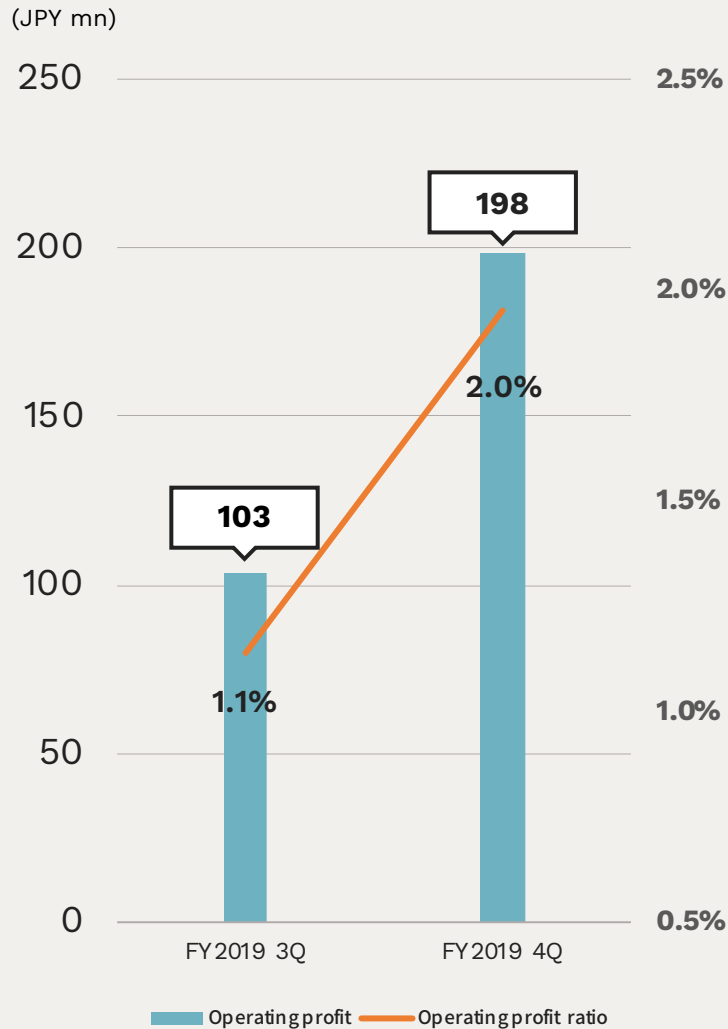
QoQ: JPY +174 mn (+10.4%)

Gross margin: 18.3% (-0.1 points)

# SG&A Expenses (QoQ Change)



# Operating Profit (QoQ Change)



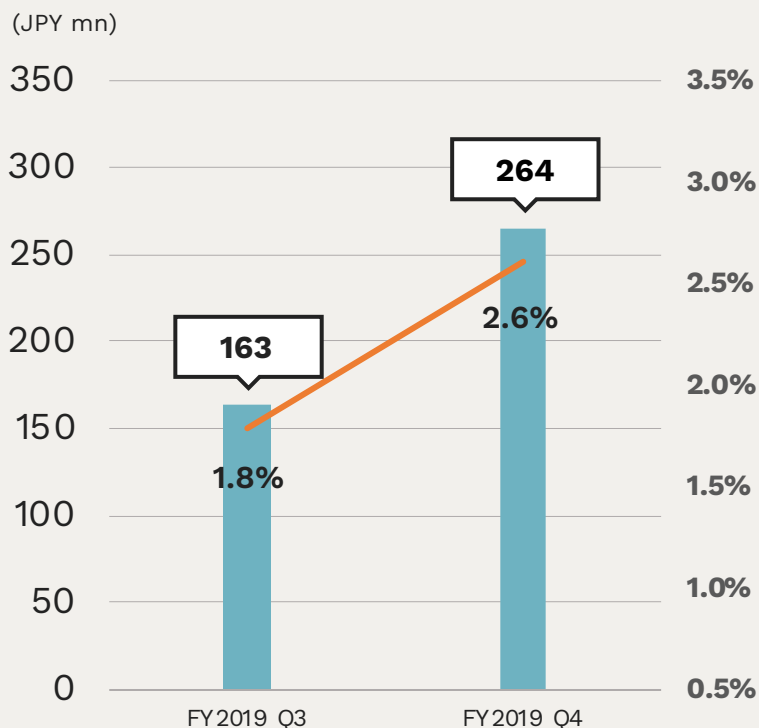
## Q4 Operating profit: JPY 198 mn

QoQ: JPY +94 mn (+90.7%)

Operating profit margin: 2.0% (+0.9 points)

- Increased due to increase in gross profit

## Ordinary Profit (QoQ Change)

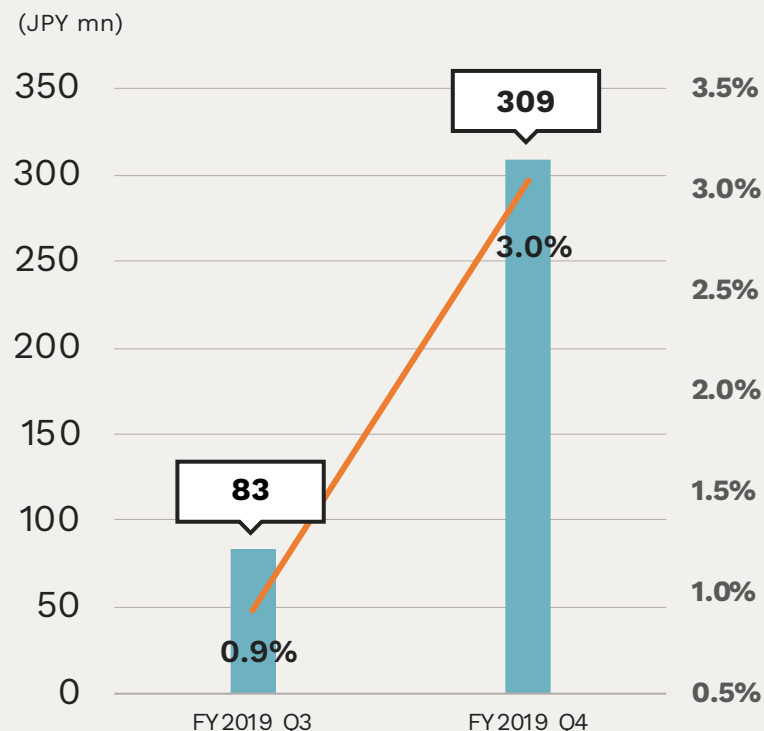


### Q4 Ordinary profit: JPY 264mn

QoQ: JPY +101 mn (+62.3%)

Ordinary profit margin: 2.6% (+0.8 points)

## Profit Attributable to Owners of Parent (QoQ Change)

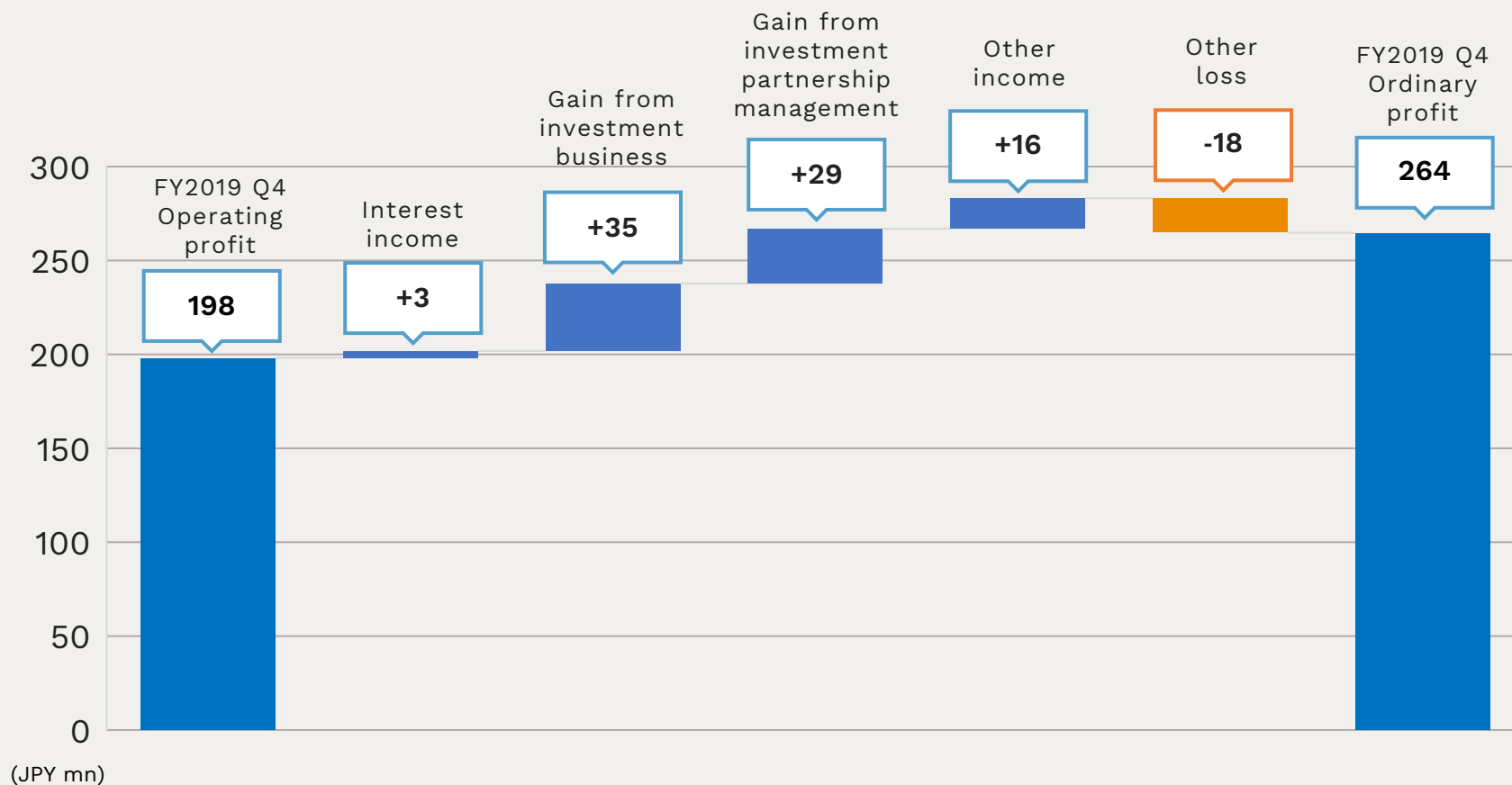


### Q4 Profit attributable to owners of parent: JPY 309 mn

QoQ: JPY +225 mn (+271.4%)

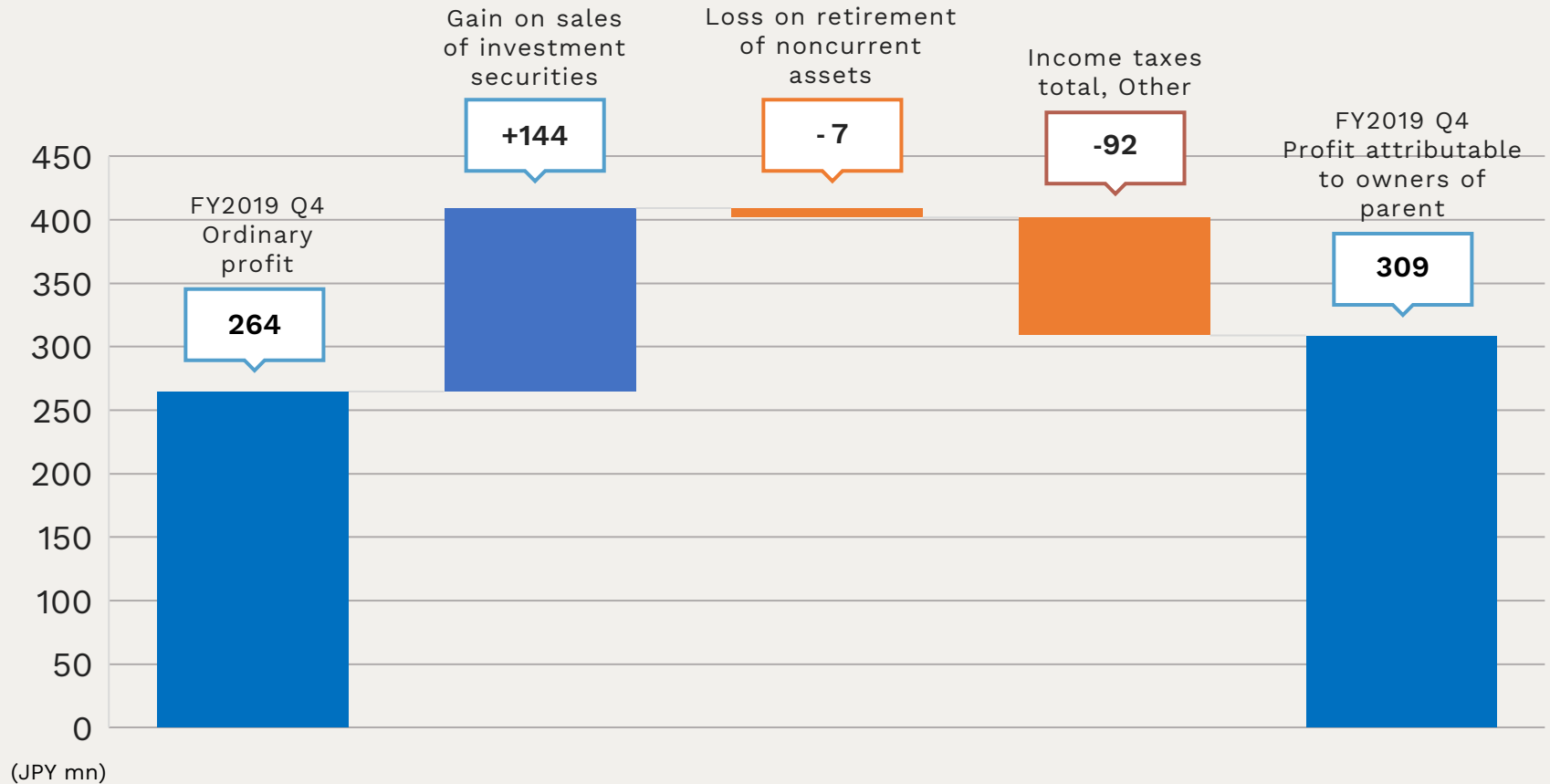
Net profit margin: 3.0% (+2.1 points)

# Breakdown of FY2019 Q4 Ordinary Profit



Interest income	.....	JPY +3 mn
Gain from investment business	.....	JPY +35 mn
Gain from investment partnership management	...	JPY +29 mn
Other income	.....	JPY + 16 mn
Other loss	.....	JPY - 18 mn

# Breakdown of Q4 FY2019 Profit Attributable to Owners of Parent



**Gain on sales of investment securities** • • • JPY +144 mn: No. of individual stocks (2 companies)

**Loss on retirement of noncurrent assets** • • • JPY -7 mn

**Income taxes total, Other** • • • JPY -92 mn

# FY2019

## Shareholder Returns

Chapter 3 : **Shareholder Returns**

3.



# Shareholder Returns

FY2019  
Dividend

JPY **2.50** per share

## Dividend Guidance

Regarding dividends for FY2018–FY2020, we aim to provide dividend per share calculated from the dividend payout ratio based on the current fiscal year excluding the first year (Note: the current fiscal year is the 20th, thus the dividend payout ratio will be 19%), or JPY 2.50 per share (corresponding to 19%) with an increase of JPY 0.10 per share every fiscal year, whichever is higher. Based on the above, the dividend for FY2019 is JPY 2.50 per share.

## Dividend Policy for Next Year Onward (FY2018 – FY2020)

**FY2018**

**Dividend payout  
ratio of 18%**

or

**JPY 2.40 per share**

Whichever is higher

**FY2019**

**Dividend payout  
ratio of 19%**

or

**JPY 2.50 per share**

Whichever is higher

**FY2020**

**Dividend payout  
ratio of 20%**

or

**JPY 2.60 per share**

Whichever is higher

※However, please take note that it is possible for the dividend policy to change due to changes in the business climate such as significant performance fluctuations and sizable M&A deals in the future.

# 4.

Chapter 4: **Business Overview**

# BUSINESS OVER VIEW

# Impact of the Novel Coronavirus (COVID-19)

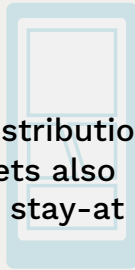
Since our areas of business are primarily online, there was no major impact on performance in FY2019.

## Comic apps

**Size of business: Large**

**Impact: Positive**

Due to various publishers offering free distribution, installations increased. Advertising budgets also trended upward with the continuation of stay-at home order.

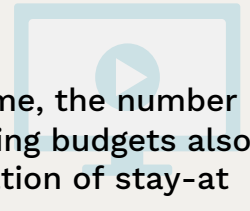


## OTT (over the top)

**Size of business: Medium**

**Impact: Positive**

With the increase in disposable time, the number of new subscribers grew. Advertising budgets also trended upward with the continuation of stay-at home order.

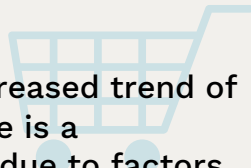


## E-commerce

**Size of business: Small**

**Impact: Somewhat positive**

Sales remained strong with the increased trend of online consumption. However, there is a possibility that sales will decrease due to factors such as production stop.



## Game apps

**Size of business: Large**

**Impact: Somewhat negative**

Demand grew with the increase in disposable time. However, due to new releases being delayed because of developers' circumstances, it is possible there will be an impact on advertisement distribution.



# Impact of the Novel Coronavirus (COVID-19)

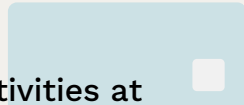
Since our areas of business are primarily online, there was no major impact on performance in FY2019.

## Finance

**Size of business: Large**

**Impact: Somewhat negative**

There was contraction of some activities at advertisers. Due to policies limiting the acquisition of new customers, advertising budgets are also tending to shrink.



## Overseas advertising

**Size of business: Medium**

**Impact: Somewhat negative**

In January and February, which correspond to FY2020 Q1\*, performance slowed in China, Taiwan, etc., but as of March, it is on course for recovery.

\*Since December is the end of the fiscal year for overseas subsidiaries, events at these companies in January to March impact our Group's performance for FY2020.

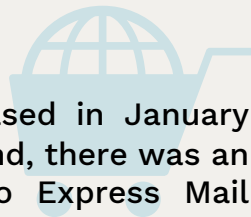


## Cross-border e-commerce

**Size of business: Small**

**Impact: Negative**

While forwarding to China increased in January and February due to special demand, there was an impact starting in March due to Express Mail Service being suspended.

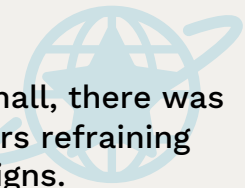


## Brands

**Size of business: Small**

**Impact: Negative**

While the impact in FY2019 was small, there was an impact due to various advertisers refraining from or delaying marketing campaigns.



# Impact on Adways Group in FY2020

It is currently difficult to forecast future trends due to the spread of novel coronavirus infections, but based on trends in the online advertising industry and clients' industries, the status of ad placements, the working arrangements/conditions of our Group's officers and employees, and other factors in FY2019 Q4, at this point in time, we forecast that the impact on our Group in FY2020 will be minimal.

However, the forecast is subject to change based on the spread of novel coronavirus infections and when the pandemic ends. Going forward, if significant changes in the forecast are observed, we will notify stakeholders promptly.

# Impact of the Novel Coronavirus (COVID-19)

Preventing the spread of infection and ensuring employees' safety are our top priorities. We switched to telecommuting at an early stage (February 28) and have maintained our business performance.



## Telecommuting rate

# 96%+

\*Data for April 2020

- External communication switched to online platforms
- Travel times shortened or eliminated
- More efficient meetings



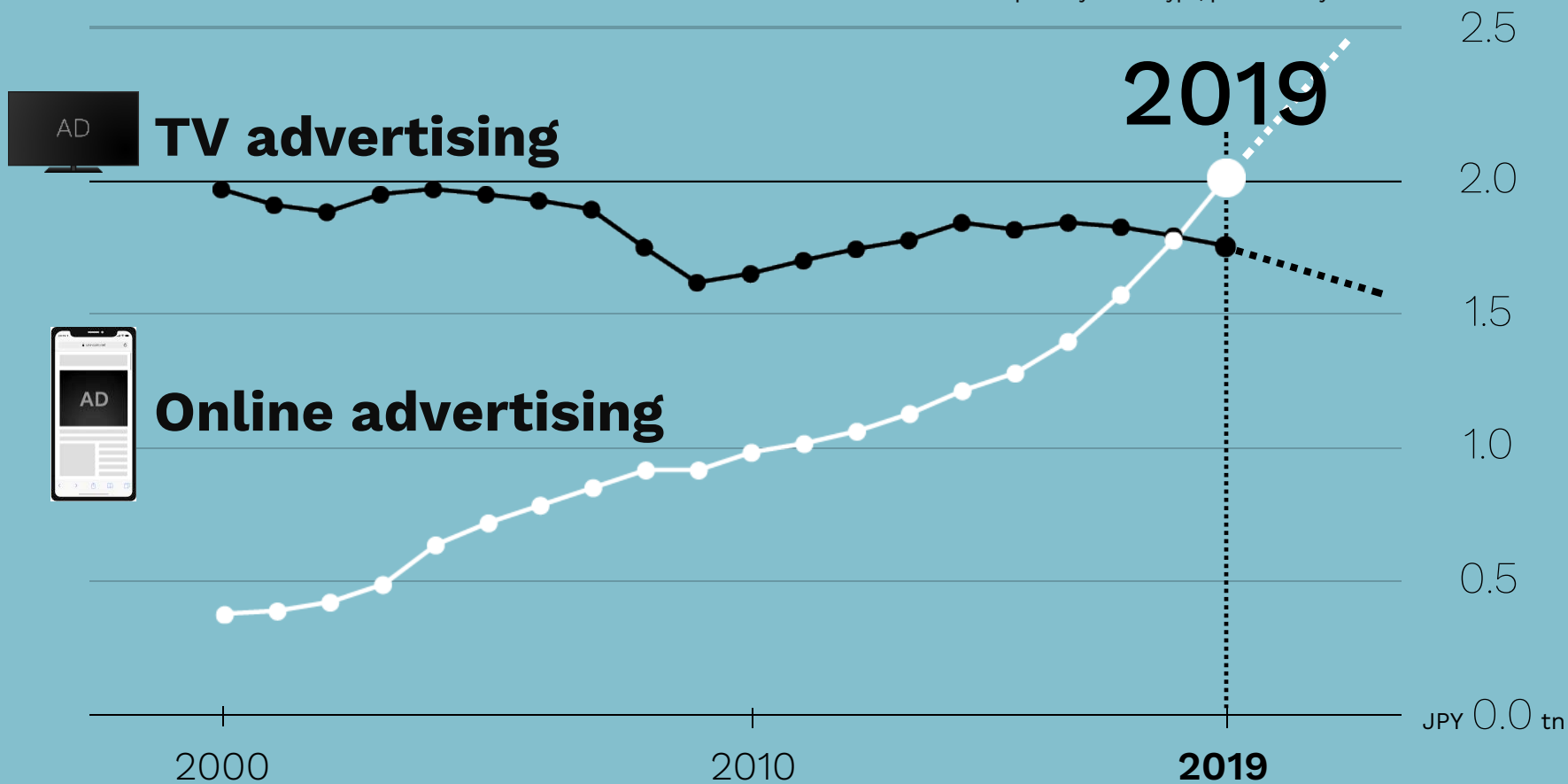
**Operational  
efficiency  
maintained or  
improved**

Even after the coronavirus pandemic has subsided, we will continue to allow teleworking and realize work styles that suit employees' lifestyles.

# Market Growth

second quarter

Source: 2019 ad spend by media type, published by Dentsu



**2019** Online advertising finally to surpassed TV advertising.

# Aiming to Further Expand Our Business Domain Based on a Strategy Leveraging Our Strengths

## Performance Ads

Experience and expertise in high-performance ad management using an industry-leading, fully-automated system focused on app clients

**Adways' area of expertise**

## Branding Ads

Realizing interactive creative ad formats which generates high user engagement and virtual experience on digital for users based on display, video, 3D and AR. Also, optimizing the campaign to meet the KPI based on real-time data.

**New area for expansion**





# Capital and Business Alliance with Hakuhodo DY Media Partners

On November 22, 2019, with the aim of enhancing collaboration in the field of online advertising for brand advertisers mainly in the app marketing area, we entered into a capital and business alliance agreement with Hakuhodo DY Media Partners.

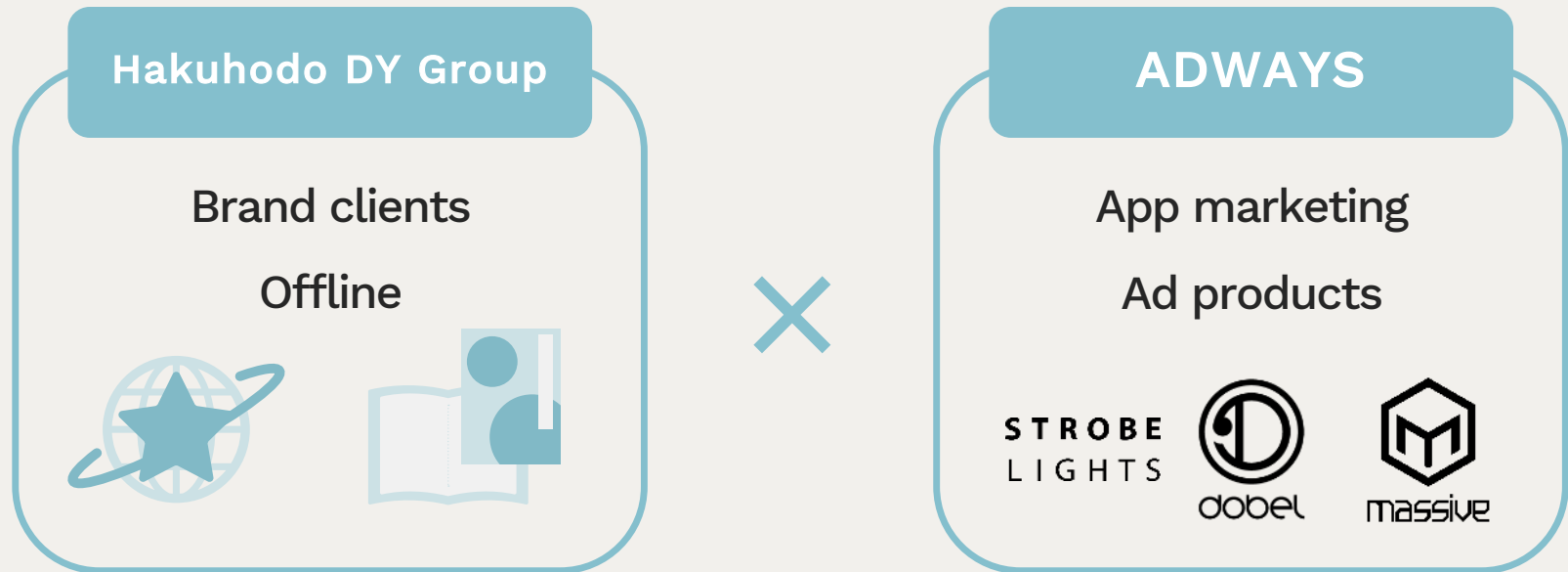
We offer our strengths to Hakuhodo DY Group's clients.



# Progress of Capital and Business Alliance

Fourth quarter

We will increase our market share by jointly offering high-level service



We will offer clients efficient, high-value promotions by combining our ability to implement digital advertising, creativity, and development capabilities in the ad technology field with Hakuhoodo DY Group's strong network with media content holders and ability to deliver high-level marketing strategy.

# New Initiatives for Brand Advertisers

# Pursuing Ground-Breaking Advertising Methods

Fourth quarter

Aiming to implement clients' desired marketing plans

## Creative formats

**Banner / Video**  
**Reward Video**  
**Native / Interactive**



## Targeting

**Context / Location**  
**Career / Whitelist**  
**Demographics**

We are expanding and improving targeting functions with UNICORN to better support the implementation of clients' desired marketing plans by combining rich creative formats using creative-tech with highly accurate targeting.

# Rich Media Ads

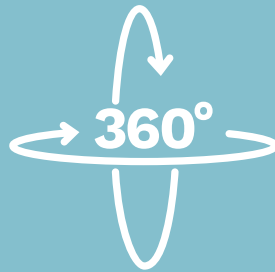
Fourth quarter

## Interactive Ads



Ads that let users take actions such as tapping while watching and choosing the story, having a simulated experience of the content

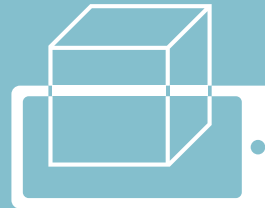
## 3D Ads



A whole new type of interactive ad that lets users rotate products 360°, zoom, change colors, etc.

## Launched

## AR Ads



Ads that use smartphone and tablet cameras to display 3D models of products in real life space when pointed at actual backgrounds

## New!

## Branded Mini-Game Ads



Creating customized branded games as ad creative and distribute the ad inside game apps. Ads that let users play games within the ad placement

In contrast to conventional ads that tend to be one-way and which users passively watch, these ads can increase brand awareness and interest by offering a rich, user experience based on their interests.

# Progress of UNICORN

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Fourth quarter

## Update Progress of UNICORN

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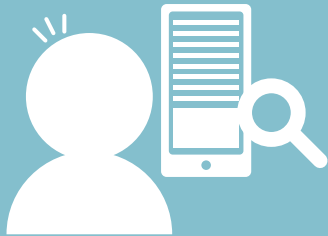
About **UNICORN**

# Targeting

Fourth quarter

NEW!

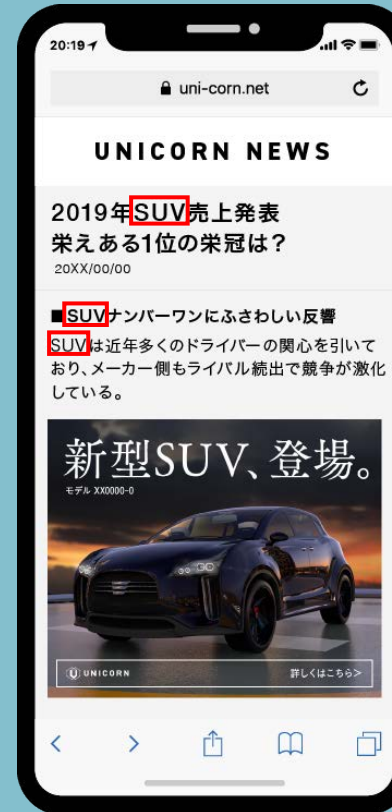
## Contextual targeting



Creating keyword groups for each target and distribute the ad by segmentation based on interests of the target users, furthermore, provide cookie-less targeting based on context of the content.

Brand ads

Ex.) Placing ads within content that includes "SUV" "美容液" :



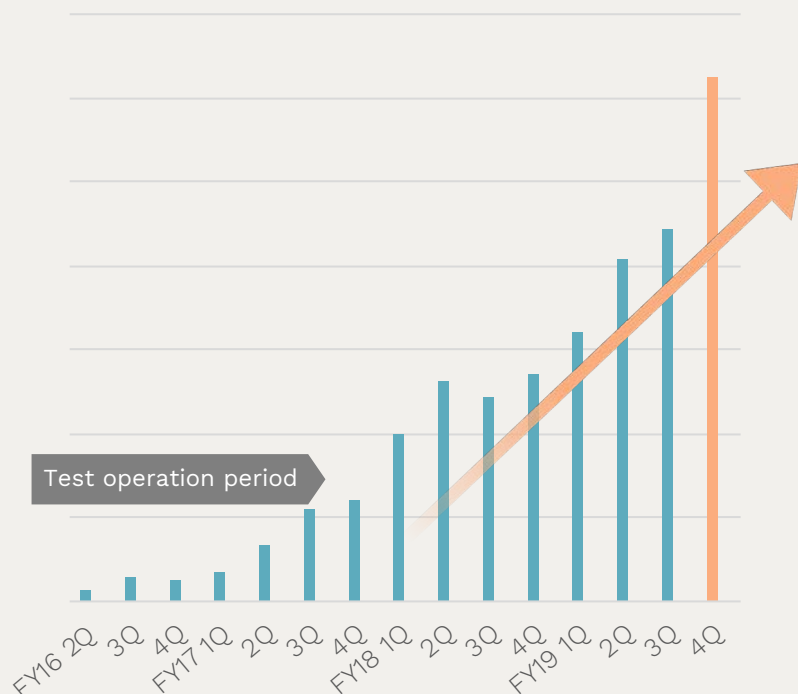
\*Example images

Ad distribution focusing on specific targets is possible by analyzing and inferring users' interests. Advertising will be delivered to users whom clients wish to reach and users who will be receptive to the brand message.

# Progress of UNICORN

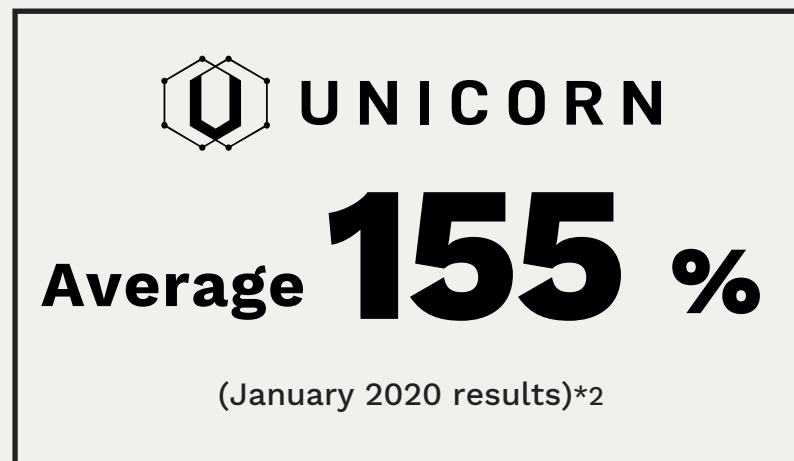
Fourth quarter

## UNICORN Sales



**Record growth rate for net sales**

## ROAS\*<sub>1</sub> of Users Acquired Through UNICORN



**Continuing to achieve high ROAS**

\*<sub>1</sub> ROAS (Return On Advertising Spend) is the rate of return gained against the advertisement expenses; it is the cost effectiveness of advertisements.

\*<sub>2</sub> Aggregate of top five campaigns.

About **UNICORN**

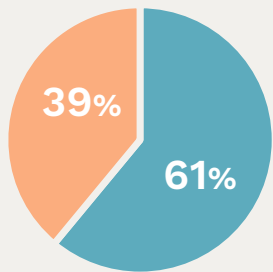


# Progress of UNICORN

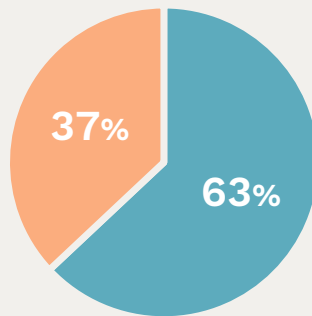
Fourth quarter

## Sales to agencies

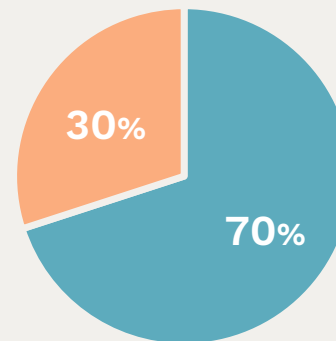
Q1 FY2019 results



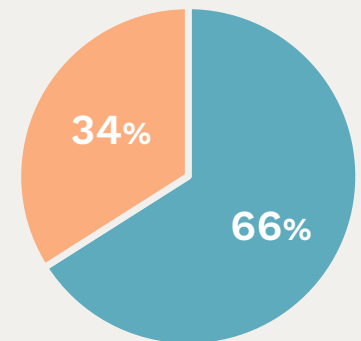
Q2 FY2019 results



Q3 FY2019 results



Q4 FY2019 results



Agencies/direct sales  
Adways

## Growth by working together with major agencies



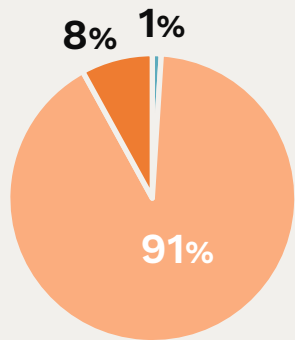
\* In alphabetical order

About UNICORN

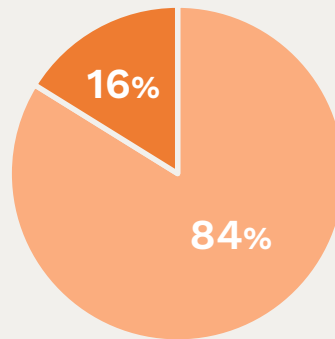
# Progress of UNICORN

Fourth quarter

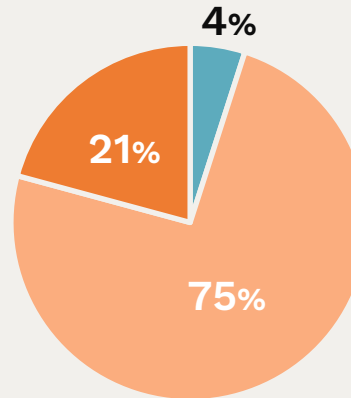
Q1 FY2019



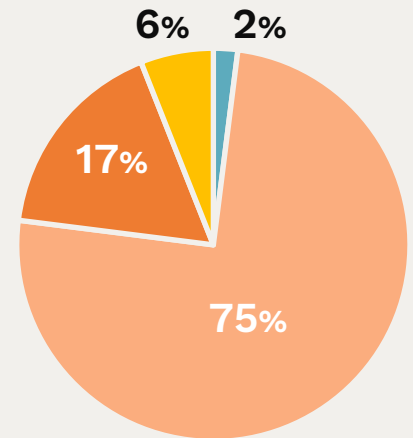
Q2 FY2019



Q3 FY2019



Q4 FY2019



Other VOD Games Comics

## New Campaign Category Growth

Our games, comics, and other existing areas continue to grow steadily, and the new VOD area is expanding. Due to the increased accuracy of machine learning, the speed of category growth is improving.

About UNICORN

# Beyond Everything Internet

インターネットの全てを越えていく

なにこれ  
すげー  
みんなの初めて

OMG, This is Amazing

# **Thank you very much for attending our presentation today**

The information provided in this presentation contains forward-looking statements including Adways Inc.'s current plans, outlook, estimates and forecast related to its business and industry trends. Such statements are subject to certain risks and uncertainties. Actual results may differ from the outlook expressed herein due to risks which may or may not be known at present, uncertainties and various other factors. Adways Inc. makes no warranty that its future outlook and forecasts are accurate, and actual results may differ materially from company estimates and may be worse than those expressed.

Statements made herein are based on information available as of May 12, 2020, and a variety of factors may cause the statements to differ from actual results.

With regard to the impact of the novel coronavirus discussed on pp. 27-28 in particular, please note that it is difficult to predict future trends.

# SUPPLEMENTARY

# 5.

Chapter 5 : **Supplementary materials**

# MATERIALS

# Consolidated Trend of Sales

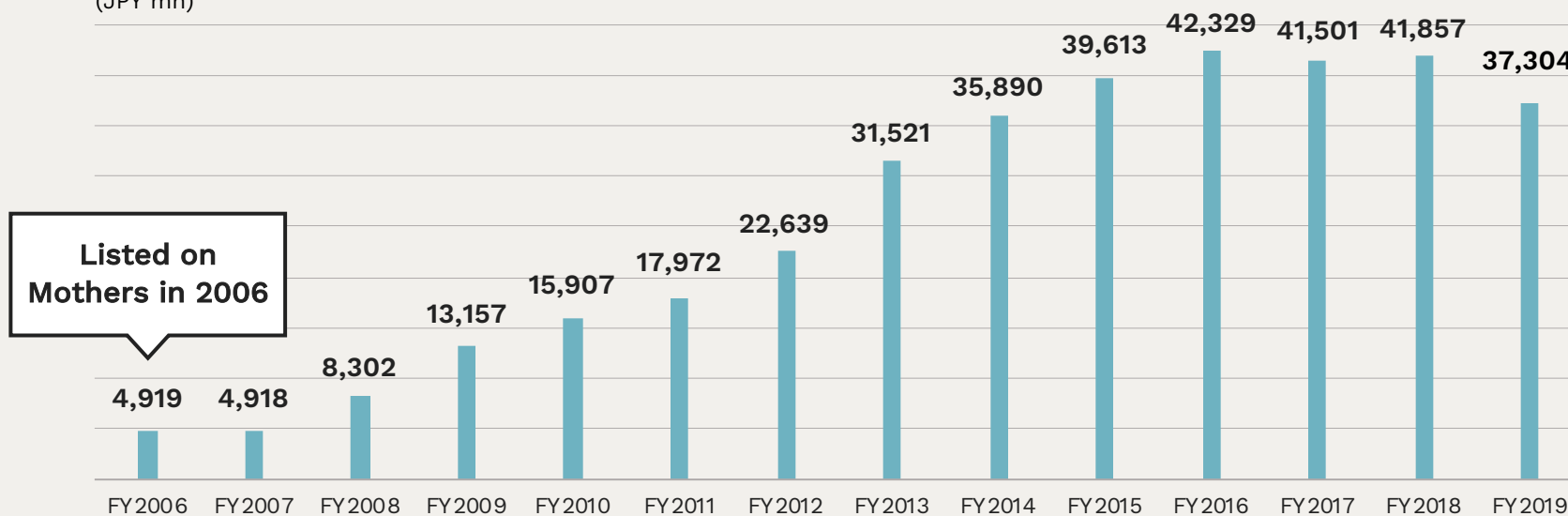
**Focus on PC/feature  
phone affiliate business**

**Launch and expansion  
of smartphone  
advertising business**

**Focus on  
overseas  
business**

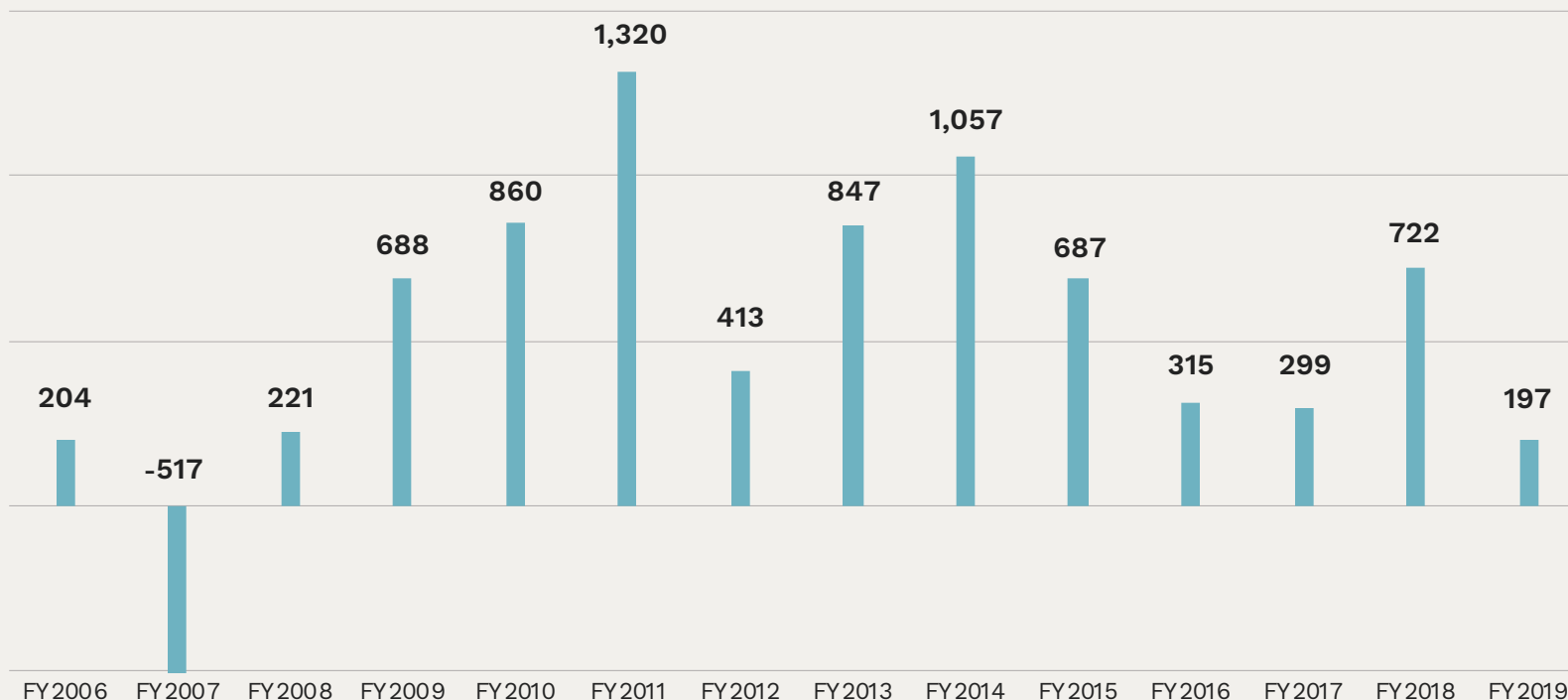
**Focus on new  
products**

(JPY mn)



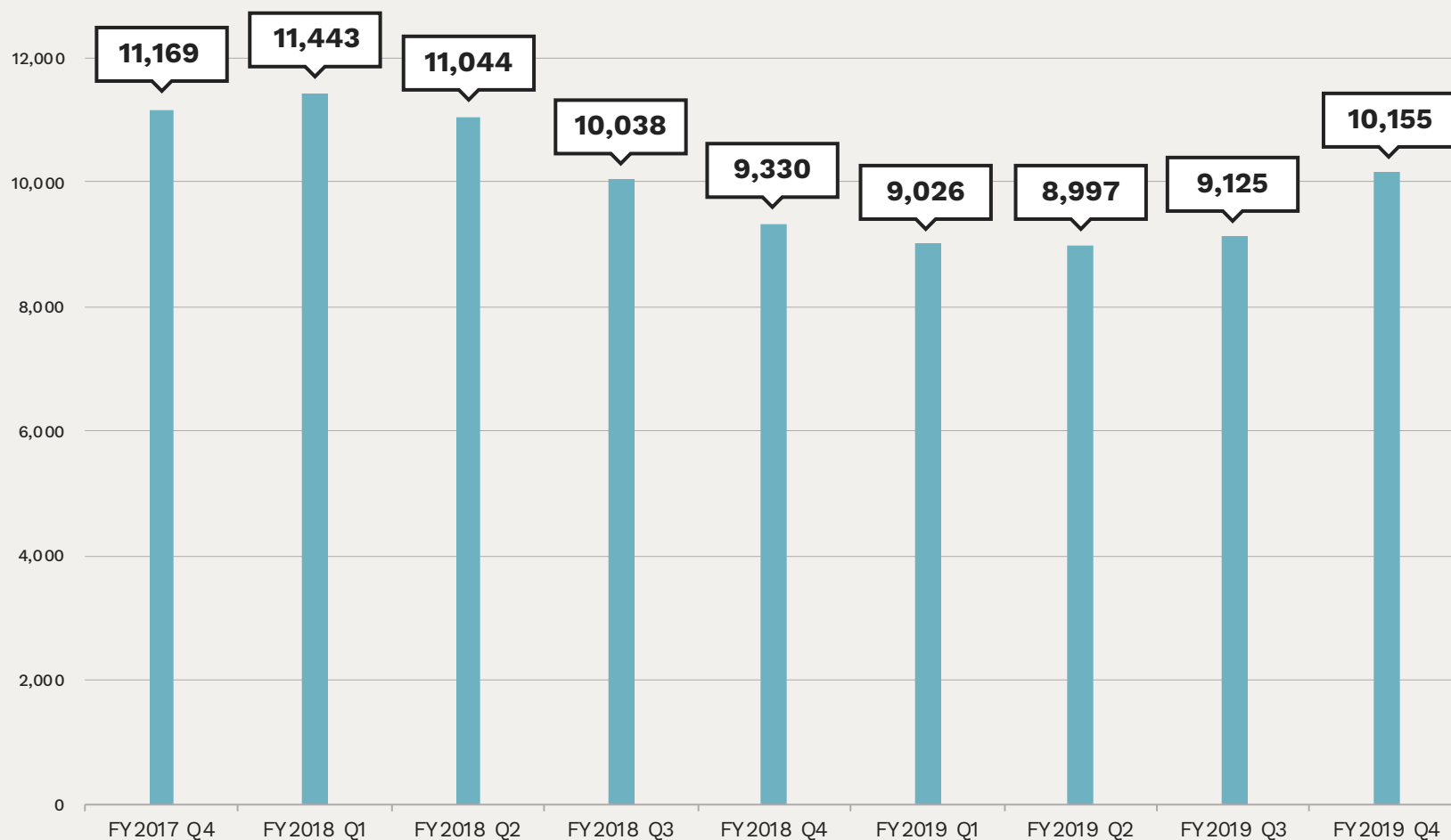
# Consolidated Trend of Operating Profit

(JPY mn)



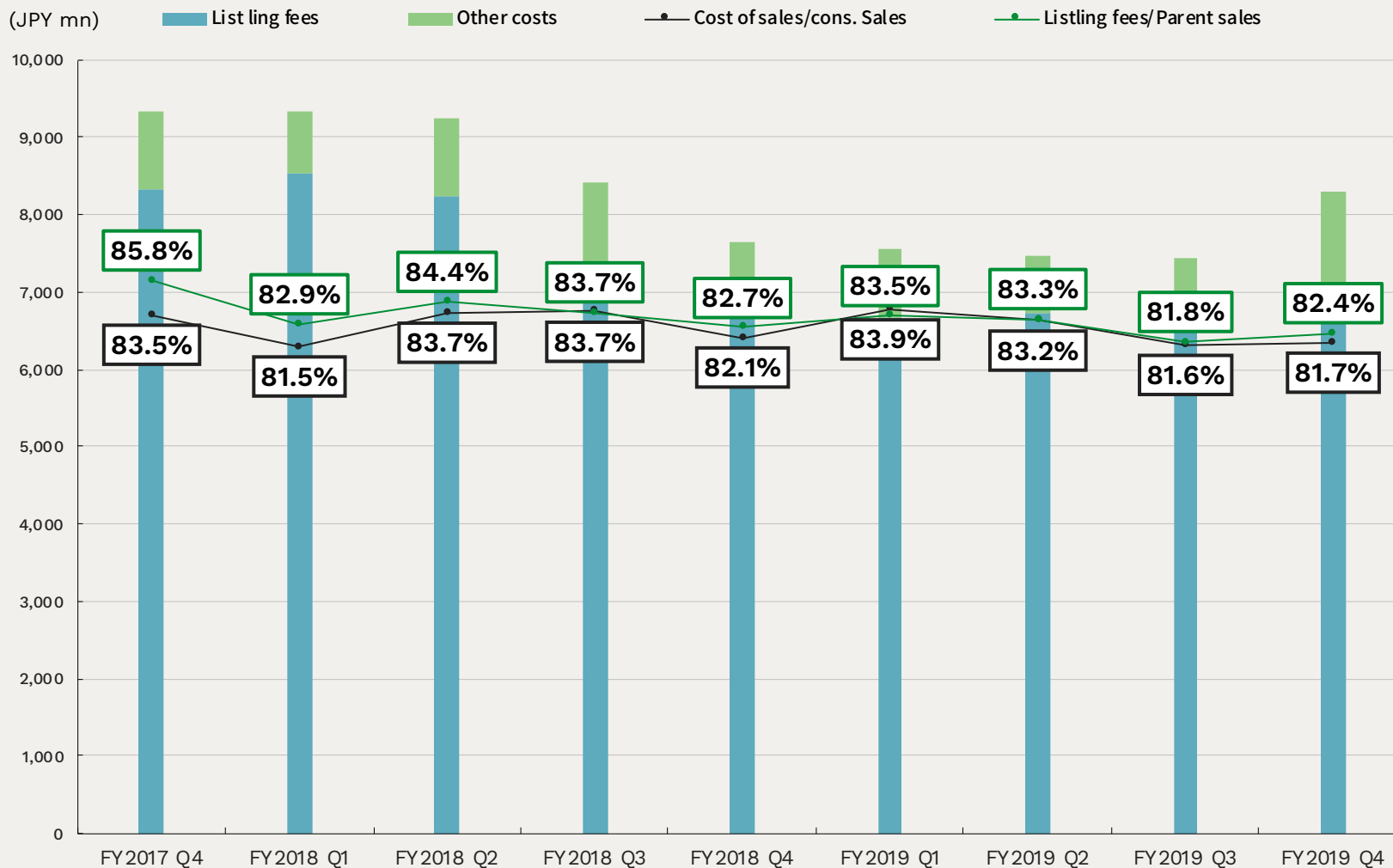
# Quarterly Change in Consolidated Sales

(JPY mn)

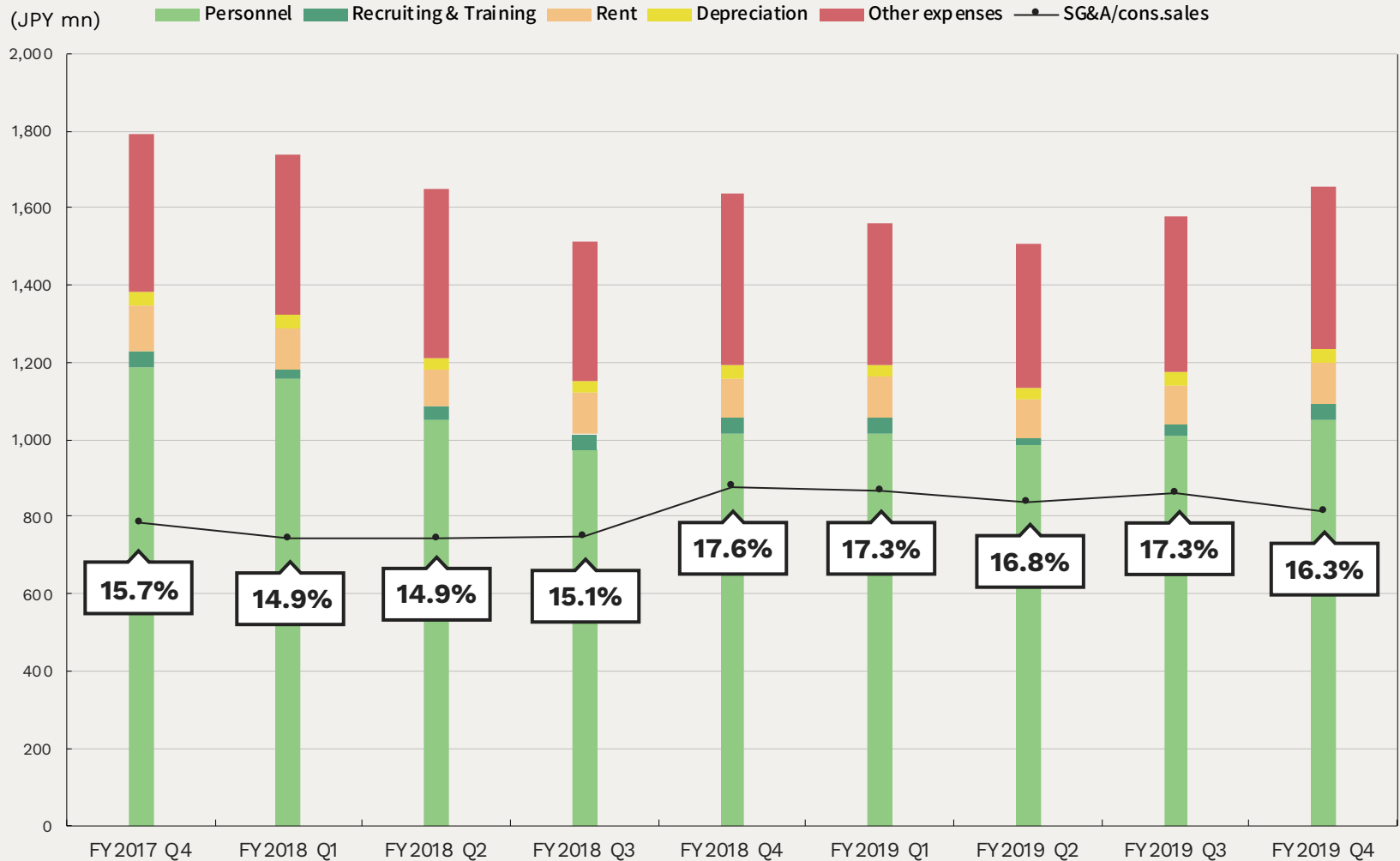




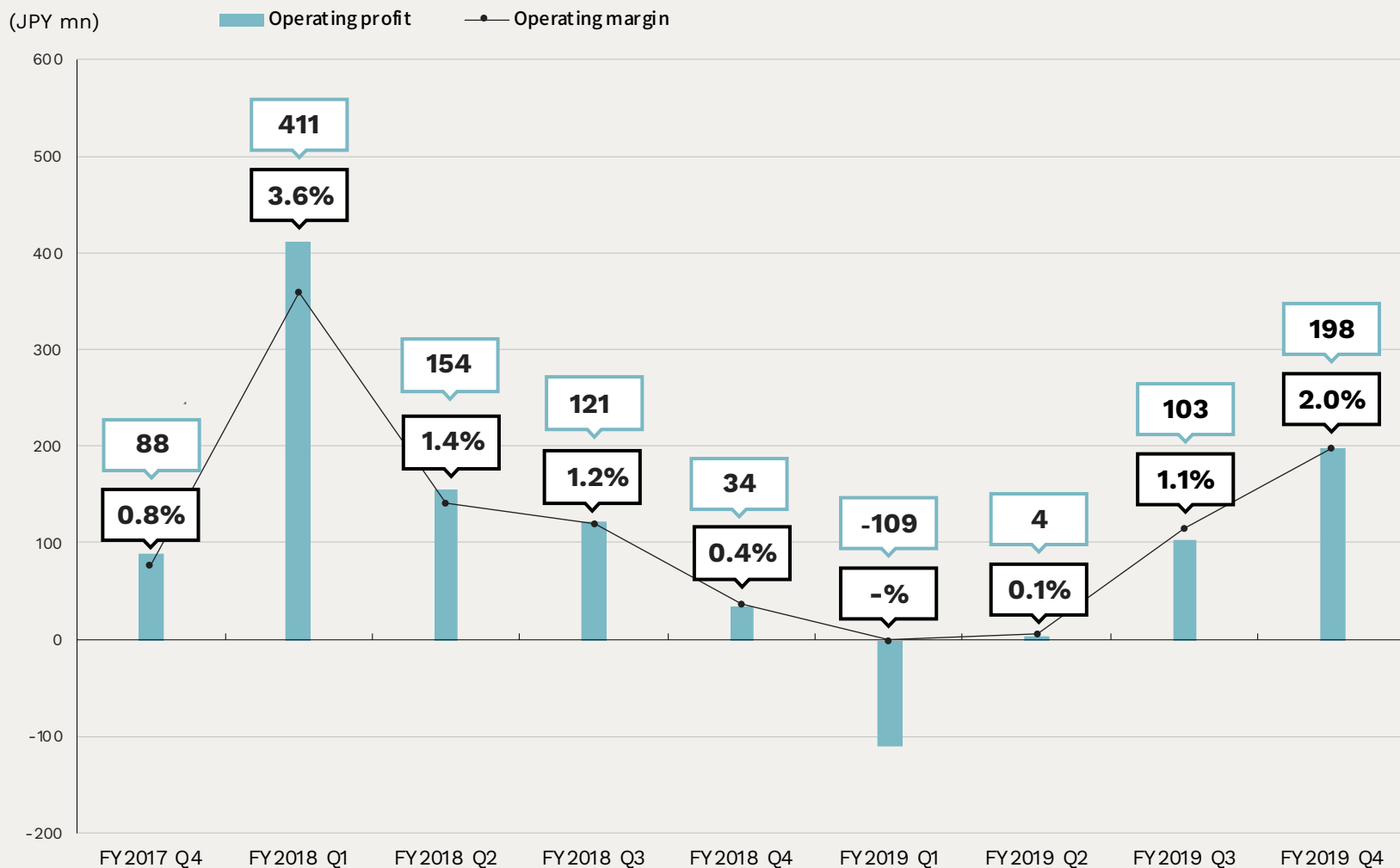
# Quarterly Change in Consolidated Cost of Sales



# Quarterly Change in Consolidated SG&A Expenses



# Quarterly Change in Consolidated Operating Profit

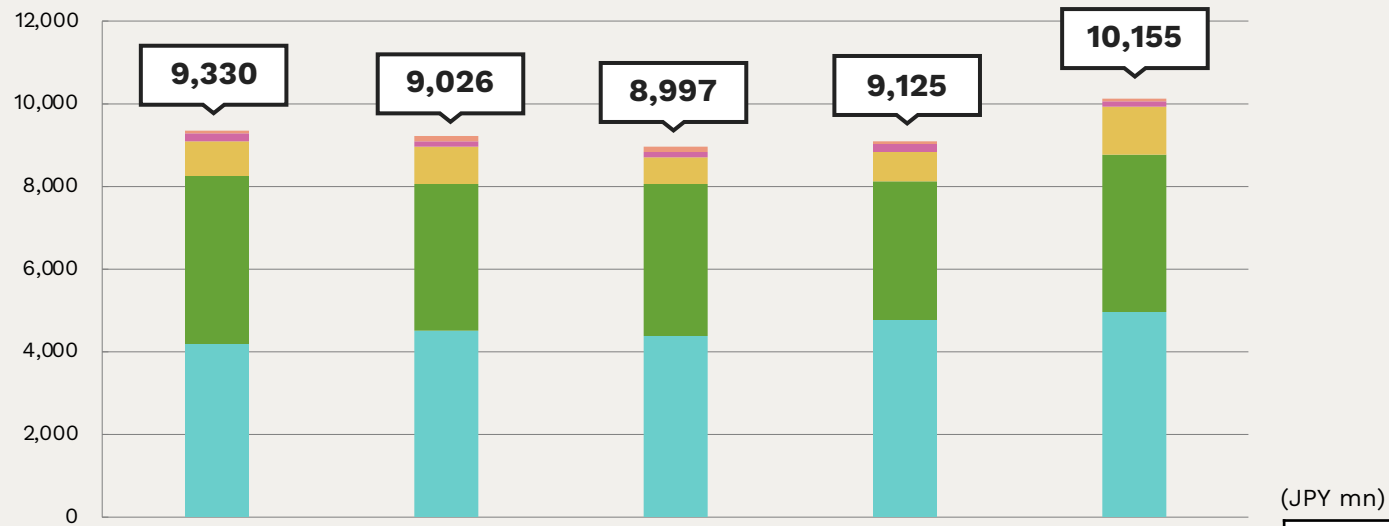


# Consolidated Balance Sheet (QoQ)

(JPY mn)

	FY2019 Q4	FY2019 Q3	Change (JPY mn)	Change (%)
Current assets	16,348	15,077	+1,270	+8.4%
(Cash and deposits)	9,727	9,710	+17	+0.2%
Non-current assets	2,638	2,791	-152	-5.5%
Total assets	18,986	17,868	+1,117	+6.3%
Current liabilities	6,390	5,360	+1,030	+19.2%
Non-current liabilities	147	247	-100	-40.5%
Total liabilities	6,537	5,608	+929	+16.6%
Net assets	12,448	12,260	+187	+1.5%

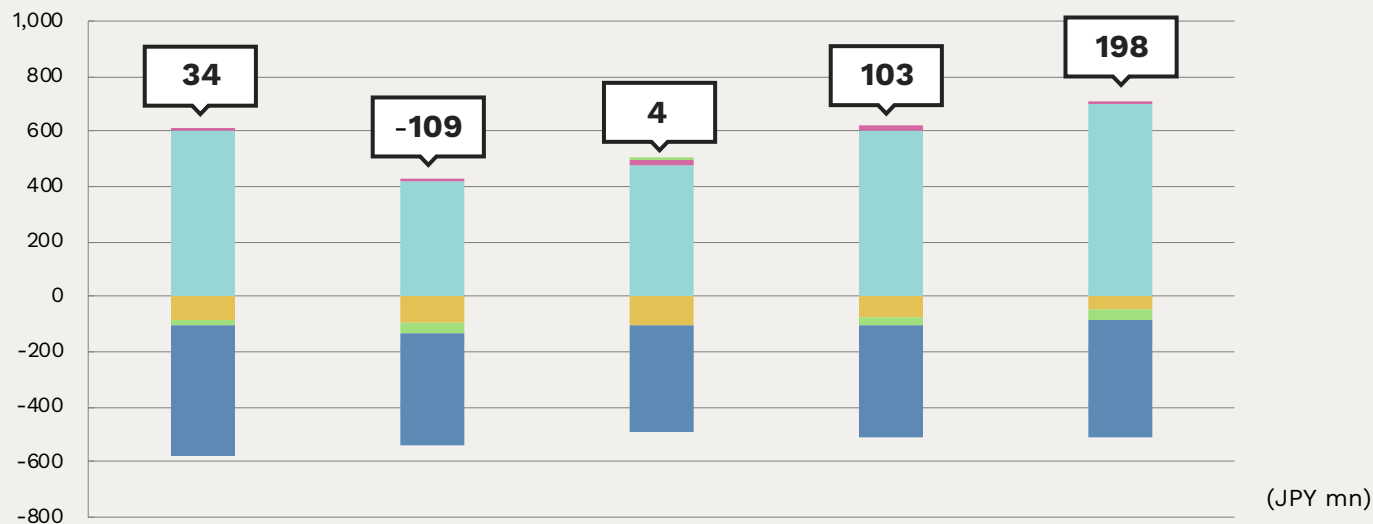
# Quarterly Breakdown of Consolidated Sales by Segment








						QoQ	
	FY2018 Q4	FY2019 Q1	FY2019 Q2	FY2019 Q3	FY2019 Q4	Change	Change (%)
Smartphone	4,198	4,525	4,396	4,765	4,957	+191	+4.0%
PC	4,037	3,567	3,670	3,379	3,784	+405	+12.0%
Overseas	871	705	624	704	1,167	+463	+65.7%
Media contents	156	150	156	153	162	+9	+6.2%
Other	67	78	148	122	82	-40	-32.7%
Total	9,330	9,026	8,997	9,125	10,155	+1,029	+11.3%

\* App Media segment renamed Media contents as of FY2019 Q1.

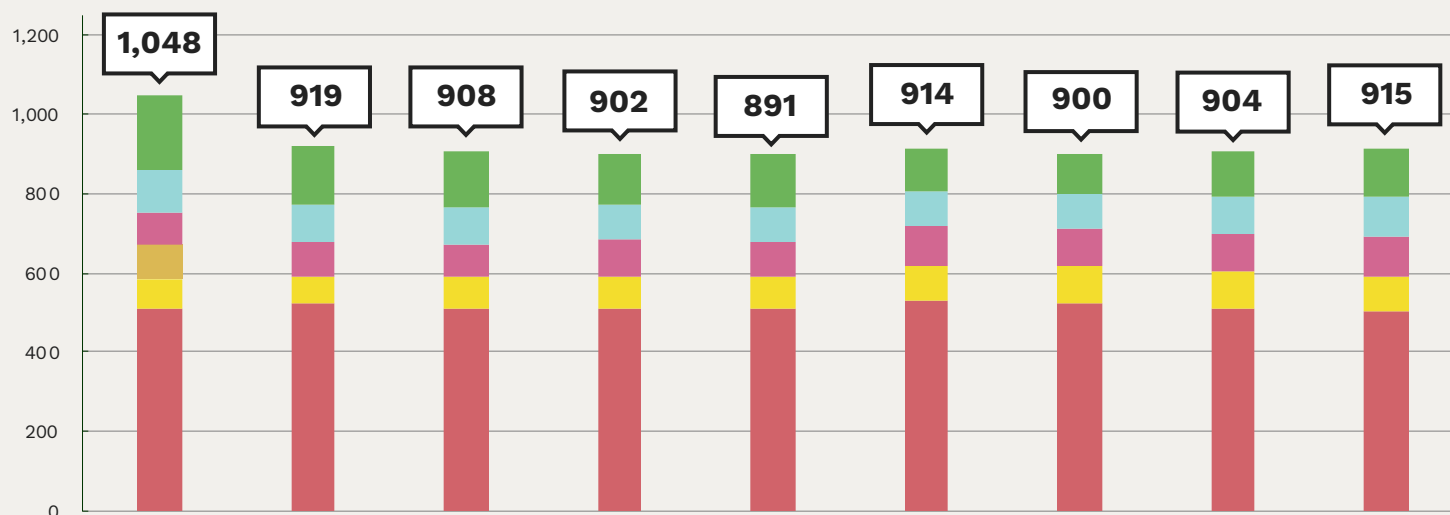
# Quarterly Breakdown of Consolidated Sales by Segment



							QoQ	
		FY2018 Q4	FY2019 Q1	FY2019 Q2	FY2019 Q3	FY2019 Q4	Change	Change (%)
	Advertising	606	416	480	605	699	+94	+15.6%
	Overseas	-86	-94	-100	-79	-50	+28	—
	Media contents	10	15	15	14	10	-4	-27.7%
	Other	-20	-41	1	-21	-38	-16	—
	Eliminations & Corporate	-474	-405	-393	-414	-423	-8	—
Total		34	-109	4	103	198	+94	+90.7%

\* App Media segment renamed Media contents as of FY2019 Q1.

# Quarterly Change in Group Employees



(Persons)		FY2017 Q4	FY2018 Q1	FY2018 Q2	FY2018 Q3	FY2018 Q4	FY2019 Q1	FY2019 Q2	FY2019 Q3	FY2019 Q4
<span style="color: red;">■</span>	ADW Japan	509	521	512	509	510	533	521	512	506
<span style="color: yellow;">■</span>	ADW China	73	72	80	80	78	84	95	91	88
<span style="color: orange;">■</span>	ADW Shanghai (R&D center)	92	0	0	0	0	0	0	0	0
<span style="color: pink;">■</span>	Domestic subsidiaries	79	84	82	93	90	102	99	96	100
<span style="color: lightblue;">■</span>	Overseas subsidiaries (excluding China)	106	98	91	91	90	85	87	92	96
<span style="color: green;">■</span>	Temporary workers, part-time employees	189	144	143	129	123	110	98	113	125
Total		1,048	919	908	902	891	914	900	904	915

\* The number of employees at ADW Shanghai is zero due to a management buyout in March 2018.

# Company Overview

<b>Company name</b>	<b>Adways Inc.</b>	
<b>Founded</b>	<b>February 28, 2001</b>	
<b>Business overview</b>	<b>Internet business</b>	
<b>Founder and CEO</b>	<b>Haruhisa Okamura</b>	
<b>Capital</b>	<b>JPY 1,605 mn</b>	(As of end of March 2020)
<b>Net sales</b>	<b>JPY 37,304 mn</b>	(FY2019, Consolidated basis)
<b>Employees</b> <small>* including temporary workers</small>	<b>915 (for the entire group)</b>	(As of end of March 2020)