

Aug 14, 2018

Subject Management Discussion and Analysis for the six months period ended June 30, 2018

To The President
The Stock Exchange of Thailand

Do Day Dream Public Company Limited (the "Company" or "we" or "our" or "us") would like to inform management discussion and analysis for its results of operations from the consolidated financial statements for the six months period ended June 30, 2018 as follows:

Management Discussion and Analysis
For the six months period ended June 30, 2018

Results of Operations

Sales Revenue

For the six months period ended 30 June 2017 and 2018, the Company's sales revenue stood at THB 877.83 million and THB 765.66 million, dropping 12.78% from declining revenue from overseas. This was a result of the delay in product delivery in China after the Company was granted a license from China Food and Drug Administration (CFDA) during the beginning of 2018 as the Company had to redesign and adjust product packaging according to the granted license as well as change sales structures to be more appropriate. Furthermore, the Company was negatively affected by news related to manufacturers of substandard products and the closure of the biggest wholesale skincare market in the country in April. This significantly limited distribution channels for the Company's customers and they delayed their purchase orders of the Company's products. Consequently, domestic sales fell especially revenue generated from traditional trade channels. Domestic sales for the period of 6 months ended 30 June 2017 and 2018 were THB 560.92 million and THB 557.61 million respectively or decreasing at an anemic rate of 0.59%. Considering revenue by product line, almost all product lines recorded declines in sales revenue compared to the same period of the previous year given the mentioned drop in overseas sales revenue except revenue from gift sets which doubled or grew at a rate of 130.68% over the same period of the previous year. The jump in revenue came from the introduction of gift sets targeting tourists and focusing on duty free shop distribution.

Table 1 : Sales Revenue by Product Line for the Three Months Period Ended 30 June

Product Line/ Business Group	Consolidated financial statements				Change Increase/(Decrease)	
	For Three Months Period Ended 30 June					
	2017		2018		THB mm	%
	THB mm	%	THB mm	%		
Sale Revenue						
1. Revenue from selling product under Company's trademark						
1) Facial skincare	404.57	77.96	279.01	73.62	(125.56)	(31.04)
2) Body care	16.55	3.19	11.12	2.93	(5.43)	(32.81)
3) Facial cleansing	27.47	5.29	13.12	3.46	(14.35)	(52.24)
4) Body cleansing	45.69	8.80	33.70	8.89	(11.99)	(26.24)
5) Sunscreen	24.36	4.69	8.12	2.14	(16.24)	(66.67)
6) Giftset	6.69	1.29	16.78	4.43	10.09	150.82
Total revenue from products under Company's trademark	525.33	101.23	361.85	95.47	(163.48)	(31.12)
<u>Deduct Sales discount</u>	(8.13)	(1.57)	(2.62)	(0.69)	5.51	(67.77)
Total sales	517.20	99.67	359.23	94.78	(157.97)	(30.54)
Other income¹	1.73	0.33	19.77	5.22	18.04	1,042.77
Total revenue	518.93	100.00	379.00	100.00	(139.93)	(26.97)

Notes : ¹ Other income comprises mainly of interest income and services revenue

Table 2 : Sales Revenue by Product Line for the Six Months Period Ended 30 June

Product Line/ Business Group	Consolidated financial statements				Change Increase/(Decrease)	
	For Six Months Period Ended 30 June					
	2017		2018		THB mm	%
	THB mm	%	THB mm	%		
Sale Revenue						
1. Revenue from selling product under Company's trademark						
1) Facial skincare	701.50	79.91	587.61	76.75	(113.89)	(16.24)
2) Body care	20.37	2.32	12.53	1.64	(7.84)	(38.49)
3) Facial cleansing	49.04	5.59	25.53	3.33	(23.51)	(47.94)
4) Body cleansing	64.17	7.31	55.90	7.30	(8.27)	(12.89)
5) Sunscreen	37.60	4.28	17.03	2.22	(20.57)	(54.71)
6) Giftset	19.85	2.26	45.79	5.98	25.94	130.68
Total revenue from products under Company's trademark	892.53	101.67	744.39	97.22	(148.14)	(16.60)
<u>Deduct Sales discount</u>	(20.13)	(2.29)	(10.82)	(1.41)	9.31	(46.25)
Total sales	872.40	99.38	733.57	95.81	(138.83)	(15.91)
Other income¹	5.43	0.62	32.09	4.19	26.66	490.98
Total revenue	877.83	100.00	765.66	100.00	(112.17)	(12.78)

Notes : ¹ Other income comprises mainly of interest income and services revenue

Table 3 : Sales Revenue by Geography for the Three Months Period Ended 30 June

Sales by geography	Consolidated financial statements				Change Increase/(Decrease)	
	For Three Months Period Ended 30 June					
	2017		2018			
	THB mm	%	THB mm	%	THB mm	%
<u>Sale revenue</u>						
1. Sale revenue from domestic customers	298.62	57.55	258.51	68.21	(40.11)	(13.43)
2. Sale revenue from overseas customers	218.58	42.12	100.72	26.58	(117.86)	(53.92)
Total sales	517.20	99.67	359.23	94.78	(157.97)	(30.54)
Other income^{/1}	1.73	0.33	19.77	5.22	18.04	1,042.77
Total revenue	518.93	100.00	379.00	100.00	(139.93)	(26.97)

Notes : ^{/1} Other income comprises mainly of interest income and services revenue

Table 4 : Sales Revenue by Geography for the Six Months Period Ended 30 June

Sales by geography	Consolidated financial statements				Change Increase/(Decrease)	
	For Six Months Period Ended 30 June					
	2017		2018			
	THB mm	%	THB mm	%	THB mm	%
<u>Sale revenue</u>						
1. Sale revenue from domestic customers	560.92	63.90	557.61	72.83	(3.31)	(0.59)
2. Sale revenue from overseas customers	311.48	35.48	175.96	22.98	(135.52)	(43.51)
Total sales	872.40	99.38	733.57	95.81	(138.83)	(15.91)
Other income^{/1}	5.43	0.62	32.09	4.19	26.66	490.98
Total revenue	877.83	100.00	765.66	100.00	(112.17)	(12.78)

Notes : ^{/1} Other income comprises mainly of interest income and services revenue

Cost of sales

Cost of goods sold consists of raw material and packaging, salary and wage of production staff, depreciation of property, plant and equipment, transportation and logistics and other costs of sales. Cost of goods sold for the six months period ended 30 June 2017 and 2018 were THB 258.51 million and THB 221.68 million respectively, equivalent to a 14.25% decline from the same period of the previous year. Cost of goods sold to sales revenue ratio moderately climbed from 29.63% to 30.22% due to higher other costs of sales.

Table 5 : Cost of Goods Sold by Type of Expenses for the Three Months Period Ended 30 June

Cost of sales	Consolidated financial statements				Change Increase/(Decrease)	
	For Three Months Period Ended 30 June					
	2017		2018		THB mm	%
	THB mm	%	THB mm	%		
Raw material and packaging	122.46	82.73	97.44	80.72	(25.02)	(20.43)
Labor costs	14.46	9.77	9.68	8.02	(4.78)	(33.06)
Depreciation costs	3.94	2.66	4.44	3.68	0.50	12.69
Freight expenses	0.24	0.16	0.01	0.01	(0.23)	(95.83)
Others	6.92	4.68	9.14	7.57	2.22	32.08
Total cost of sales	148.02	100.00	120.70	100.00	(27.31)	(18.45)
Proportion of cost of sales to sales revenue (%)	28.62		33.60			
Gross Profit Margin (%)	71.38		66.40			

Table 6 : Cost of Goods Sold by Type of Expenses for the Six Months Period Ended 30 June

Cost of sales	Consolidated financial statements				Change Increase/(Decrease)	
	For Six Months Period Ended 30 June					
	2017		2018		THB mm	%
	THB mm	%	THB mm	%		
Raw material and packaging	216.76	83.85	179.04	80.77	(37.72)	(17.40)
Labor costs	25.16	9.73	21.98	9.92	(3.18)	(12.64)
Depreciation costs	7.64	2.96	8.64	3.90	1.00	13.09
Freight expenses	0.84	0.32	0.68	0.31	(0.16)	(19.05)
Others	8.11	3.14	11.34	5.12	3.23	39.83
Total cost of sales	258.51	100.00	221.68	100.00	(36.83)	(14.25)
Proportion of cost of sales to sales revenue (%)	29.63		30.22			
Gross Profit Margin (%)	70.37		69.78			

Gross Profit

Regarding gross profit for the period of six months ended 30 June 2017 and 2018, the Company posted gross profit of THB 613.88 million and THB 511.89 million respectively or equivalent to gross profit margin of 70.37% and 69.78% respectively. The Company's gross profit margin dropped due to the significant decline in overseas sales revenue.

Selling expenses

Sales expenses include advertising and sales promotion expenses, salesforce expenses and transportation expenses. Sales expenses for the six months period ended 30 June 2017 and 2018 stood at THB 292.87 million and THB 263.02 million respectively. This is equivalent to a decrease of 11.35% compared to the same period last year. In addition, sales expenses to sales revenue ratio edged up a little from 33.57% to 35.85% as sales revenue adjusted downward.

Table 7 : Sales Expenses by Type of Expenses for the Three Months Period Ended 30 June

Selling expenses	Consolidated financial statements				Change Increase/(Decrease)	
	For Three Months Period Ended 30 June					
	2017		2018		THB mm	%
	THB mm	%	THB mm	%		
Advertising and promotional expenses	131.06	89.37	131.06	91.38	0.00	0.00
Sales employee cost	8.92	6.08	4.85	3.38	(4.07)	(83.92)
Freight expenses	2.03	1.38	2.06	1.44	0.03	1.46
Others ^{/1}	4.64	3.16	5.46	3.81	0.82	15.02
Total selling expenses	146.65	100.00	143.43	100.00	(3.22)	(2.24)
% to sales revenue	28.35		39.93			

Notes: ^{/1} Other selling expenses mainly comprise market survey expenses and rental expenses for Namu Life Shop

Table 8 : Sales Expenses by Type of Expenses for the Six Months Period Ended 30 June

Selling expenses	Consolidated financial statements				Change Increased/(Decreased)	
	For the Six months period ended June 30					
	2017		2018		THB mm	%
	THB mm	%	THB mm	%		
Advertising and promotional expenses	260.66	89.00	236.75	90.01	(23.91)	(10.10)
Sales employee cost	14.73	5.03	12.75	4.85	(1.98)	(15.53)
Freight expenses	8.03	2.74	3.46	1.32	(4.57)	(132.08)
Others ^{/1}	9.45	3.23	10.06	3.82	0.61	6.06
Total selling expenses	292.87	100.00	263.02	100.00	(29.85)	(11.35)
% to sales revenue	33.57		35.85			

Notes: ^{/1} Other selling expenses mainly comprise market survey expenses and rental expenses for Namu Life Shop

Administrative expenses

Key administrative expenses include expenses on employees at the headquarter and the factory office at Rojana Industrial Park. The Company recorded administrative expenses for the six months period ended 30 June 2017 and 2018 at THB 63.04 million and THB 75.19 million respectively. This equals to a jump of 16.16% in administrative expenses compared to the same period of 2017 as driven by higher employee expenses to support more workloads and more units as well as rising depreciation and amortization expenses

Table 9 : Administrative Expenses by Type of Expenses for the Three Months Period Ended 30 June

Administrative expenses	Consolidated financial statements				Change Increase/(Decrease)	
	For Three Months Period Ended 30 June					
	2017		2018		THB mm	%
	THB mm	%	THB mm	%		
Administrative employee cost	25.14	64.05	26.74	65.09	1.60	5.98
Miscellaneous expenses	6.85	17.45	6.14	14.95	(0.71)	(11.56)
Depreciation and amortization	2.37	6.04	3.70	9.01	1.33	35.95
Tax and other fee	3.89	9.91	2.97	7.23	(0.92)	(30.98)
Others ^{/1}	1.00	2.55	1.53	3.72	0.53	34.64
Total administrative expenses	39.25	100.00	41.08	100.00	1.83	(4.45)
% to sales revenue	7.56		10.84			

Notes: ^{/1} Other administrative expenses mainly comprises of impairment of deteriorate products and allowance for doubtful account

Table 10 : Administrative Expenses by Type of Expenses for the Six Months Period Ended 30 June

Administrative expenses	Consolidated financial statements				Change Increase/(Decrease)	
	For Six Months Period Ended 30 June					
	2017		2018		THB mm	%
	THB mm	%	THB mm	%		
Administrative employee cost	38.24	60.66	46.84	62.30	8.60	18.36
Miscellaneous expenses	10.85	17.21	12.94	17.21	2.09	16.15
Depreciation and amortization	4.46	7.07	7.21	9.59	2.75	38.14
Tax and other fee	7.09	11.25	6.47	8.60	(0.62)	(9.58)
Others ¹	2.40	3.81	1.73	2.30	(0.67)	(38.73)
Total administrative expenses	63.04	100.0	75.19	100.00	7.94	16.16
% to sales revenue	7.18		8.57			

Notes: ¹ Other administrative expenses mainly comprises of impairment of deteriorate products and allowance for doubtful account

Net Profit for the period

The Company posted net profit for the six months period ended 30 June 2017 and 2018 of THB 209.06 million and THB 175.13 million respectively, equivalent to a 16.23% decline. Net profit margin also experienced a moderate decline from 23.82% to 22.87% as a result of falling overseas sales revenue.

Financial Position

Total Assets

As of 30 June 2018, the Company's total assets stood at THB 5,542 million, growing at a rate of 1.49% from the end of the previous year. The majority of total assets consists of cash and equivalents, trade receivables and other receivables, inventories and property, plant and equipment. Cash received from the initial public offering (IPO) and cash from operations contributed to the surge in total assets.

Total Liabilities

As of 30 June 2018, the Company held total liabilities of THB 582.25 million, decreasing at a rate of 13.61% from the end of last year. Total liabilities comprise mostly short-term loans from financial institutions, trade payables and other payables and long-term loans from financial institutions. Total liabilities fell as short-term loans from financial institutions and trade payables declined.

Shareholders' Equity

As of 30 June 2018, the Company held shareholders' equity of THB 4,959.75 million. The increase in shareholders' equity was mainly caused by the Company's initial public offering (IPO) as well as the retained earnings from the Company's performance

Financial Ratio

Financial Ratio	As of June 30, 2018
Liquidity Ratio (times)	10.31
Cash Conversion Cycle (days)	282.00
Debt to Equity Ratio (times)	0.12
Return on Equity - ROE (%)	7.06
Return on Assets - ROA (%)	6.32
Net Profit Margin (%)	22.87

Please be informed accordingly.

Yours Sincerely,

Mr. Piyawat Ratchapolsitte

Chief Financial Officer