

Nov 07, 2018

**Subject** Management Discussion and Analysis for the nine months period ended September 30, 2018

**To** The President  
The Stock Exchange of Thailand

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 nine months period ended September 30, 2018 as follows:

**Management Discussion and Analysis**  
**For the nine months period ended September 30, 2018**

**Results of Operations**

**Sales Revenue**

For the nine months period ended 30 September 2017 and 2018, Sales revenue of the Company was recorded at THB 1,256.44 million and THB 983.36 million respectively or equivalent to a drop of 21.73% which is considered a consecutive decline from the last quarter due mainly to a slump of 52.42% in international sales revenue compared to the same period of the previous year. The reason for this is that the product delivery was delayed after the license was issued from China Food and Drug Administration (CFDA) at the beginning of 2018 as the Company had to redesign its packaging to comply with the requirements of the license and adjust its sales structures for overseas business expansion. Additionally, the Company continued to be adversely affected by news related to manufacturers of substandard products and the closure of the biggest wholesale skincare market in the country last April. This caused problems for distribution channels of the Company's customers, as they had to postpone their purchase orders of the Company's products. As result, domestic sales experienced a major decline especially revenue generated via traditional trade channels.

The Company is aware of the situation and its impacts and already overhauled its strategies and marketing plans since August 2018 to address issues with affected existing customers as well as reach new customer base. Domestic sales revenue for the nine months period ended 30 September 2017 and 2018 stood at THB 798.52 million and THB 765.46 million respectively or dropping slightly at a rate of 4.14%. With regard to sales by product line, almost product lines experienced declines in sales revenue compared to the same period of the previous year resulted from the fall in overall sales revenue of the Company with the exception of facial cleansers and gift sets which grew at a rate of 6.70% and 50.72% respectively thanks to the introduction of gift sets targeting tourists and focusing on duty free shop distribution and the promotion of the products in the Philippines during the end of September 2018 while facial cleansing products gained most popularity from customers in the Philippines.

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

Product Line/ Business Group	Consolidated financial statements				Change Increase/(Decrease)	
	For Three Months Period Ended 30 September					
	2017		2018		THB mm	%
	THB mm	%	THB mm	%		
<b>Sale Revenue</b>						
Revenue from selling product under Company's trademark						
1) Facial skincare	295.04	76.47	150.28	57.58	(144.76)	(49.06)
2) Body care	21.24	5.51	21.68	8.31	0.44	2.07
3) Facial cleansing	11.26	2.92	38.80	14.87	27.54	244.58
4) Body cleansing	30.23	7.84	24.24	9.29	(5.99)	(19.81)
5) Sunscreen	12.42	3.22	7.16	2.74	(5.26)	(42.35)
6) Giftset	19.88	5.15	14.09	5.40	(5.79)	(29.12)
Total revenue from products under Company's trademark	390.07	101.11	256.25	98.19	(133.82)	(34.31)
<u>Deduct Sales discount</u>	(6.03)	(1.57)	(6.47)	(2.49)	(0.44)	(7.30)
<b>Total sales</b>	384.04	99.54	249.78	95.70	(134.26)	(34.96)
<b>Other income<sup>1</sup></b>	1.78	0.46	11.21	4.30	9.43	529.78
<b>Total revenue</b>	385.82	100.00	260.99	100.00	(124.83)	(32.35)

Notes: <sup>1</sup> Other income comprises mainly of interest income and services revenue

Table 2: Sales Revenue by Product Line for the nine Months Period Ended 30 September

Product Line/ Business Group	Consolidated financial statements				Change Increase/(Decrease)	
	For nine Months Period Ended 30 September					
	2017		2018		THB mm	%
	THB mm	%	THB mm	%		
<b>Sale Revenue</b>						
Revenue from selling product under Company's trademark						
1) Facial skincare	996.54	78.86	737.88	71.87	(258.66)	(25.96)
2) Body care	41.61	3.29	34.22	3.33	(7.39)	(17.76)
3) Facial cleansing	60.30	4.77	64.34	6.27	4.04	6.70
4) Body cleansing	94.40	7.47	80.14	7.81	(14.26)	(15.11)
5) Sunscreen	50.02	3.96	24.19	2.36	(25.83)	(51.64)
6) Giftset	39.73	3.14	59.88	5.83	20.15	50.72
Total revenue from products under Company's trademark	1,282.60	101.49	1,000.65	97.47	(281.95)	(21.98)
<u>Deduct Sales discount</u>	(26.16)	(2.06)	(17.29)	(1.69)	8.87	(33.91)
<b>Total sales</b>	1,256.44	99.43	983.36	95.78	(273.08)	(21.73)
<b>Other income<sup>1</sup></b>	7.21	0.57	43.30	4.22	36.09	500.55
<b>Total revenue</b>	1,263.65	100.00	1,026.66	100.00	(236.99)	(18.75)

Notes: <sup>1</sup> Other income comprises mainly of interest income and services revenue

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

Sales by geography	Consolidated financial statements				Change Increase/(Decrease)	
	For Three Months Period Ended 30 September					
	2017		2018		THB mm	%
	THB mm	%	THB mm	%		
<u>Sale revenue</u>						
1. Sale revenue from domestic customers	237.60	61.58	207.85	79.64	(29.75)	(12.52)
2. Sale revenue from overseas customers	146.44	37.96	41.94	16.07	(104.50)	(71.36)
<b>Total sales</b>	<b>384.04</b>	<b>99.54</b>	<b>249.78</b>	<b>95.70</b>	<b>(134.25)</b>	<b>(34.96)</b>
<b>Other income<sup>1</sup></b>	<b>1.78</b>	<b>0.46</b>	<b>11.21</b>	<b>4.30</b>	<b>9.42</b>	<b>529.21</b>
<b>Total revenue</b>	<b>385.82</b>	<b>100.00</b>	<b>260.99</b>	<b>100.00</b>	<b>(124.83)</b>	<b>(32.35)</b>

Notes: <sup>1</sup> Other income comprises mainly of interest income and services revenue

Table 4: Sales Revenue by Geography for the nine Months Period Ended 30 September

Sales by geography	Consolidated financial statements				Change Increase/(Decrease)	
	For nine Months Period Ended 30 September					
	2017		2018		THB mm	%
	THB mm	%	THB mm	%		
<u>Sale revenue</u>						
1. Sale revenue from domestic customers	798.52	63.19	765.46	74.56	(33.06)	(4.14)
2. Sale revenue from overseas customers	457.92	36.24	217.90	21.22	(240.02)	(52.42)
<b>Total sales</b>	<b>1,256.44</b>	<b>99.43</b>	<b>983.36</b>	<b>95.78</b>	<b>(273.08)</b>	<b>(21.73)</b>
<b>Other income<sup>1</sup></b>	<b>7.21</b>	<b>0.57</b>	<b>43.30</b>	<b>4.22</b>	<b>36.09</b>	<b>500.55</b>
<b>Total revenue</b>	<b>1,263.65</b>	<b>100.00</b>	<b>1,026.66</b>	<b>100.00</b>	<b>(236.99)</b>	<b>(18.75)</b>

Notes: <sup>1</sup> Other income comprises mainly of interest income and services revenue

### Cost of sales

Cost of goods sold for the nine months period ended 30 September 2017 and 2018 was THB 397.57 million and THB 319.38 million respectively, equivalent to a 19.67% drop from the same period of the previous year. Cost of goods sold to sales revenue ratio modestly rose from 31.64% to 32.48 % as a result of the reduction in production capacity to be in line with a slowdown in inventory turnover from sales revenue setbacks. This reduction in production capacity is expected to affect fixed cost allocation and marginally increase production costs.

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

Cost of sales	Consolidated financial statements				Change Increase/(Decrease)	
	For Three Months Period Ended 30 September					
	2017		2018		THB mm	%
	THB mm	%	THB mm	%		
Raw material and packaging	119.21	85.73	77.35	79.17	(41.86)	(35.11)
Labor costs	12.28	8.83	8.99	9.20	(3.29)	(26.79)
Depreciation costs	3.76	2.70	4.50	4.61	0.74	19.68
Freight expenses	0.36	0.26	0.77	0.79	0.41	113.89
Others	3.44	2.48	6.09	6.23	2.65	77.03
Total cost of sales	139.05	100.00	97.70	100.00	(41.35)	(29.74)
Proportion of cost of sales to sales revenue (%)	36.21		39.11			
Gross Profit Margin (%)	63.79		60.89			

**Table 6:** Cost of Goods Sold by Type of Expenses for the nine Months Period Ended 30 September

Cost of sales	Consolidated financial statements				Change Increase/(Decrease)	
	For nine Months Period Ended 30 September					
	2017		2018		THB mm	%
	THB mm	%	THB mm	%		
Raw material and packaging	335.97	84.51	256.39	80.28	(79.58)	(23.69)
Labor costs	37.44	9.42	30.97	9.70	(6.47)	(17.28)
Depreciation costs	11.40	2.87	13.14	4.11	1.74	15.26
Freight expenses	1.20	0.30	1.44	0.45	0.24	20.00
Others	11.56	2.91	17.44	5.46	5.87	50.78
Total cost of sales	397.57	100.00	319.38	100.00	(78.20)	(19.67)
Proportion of cost of sales to sales revenue (%)	31.64		32.48			
Gross Profit Margin (%)	68.36		67.52			

### Gross Profit

Considering gross profit, for the period of nine months ended 30 September 2017 and 2018, the Company posted gross profit of THB 858.87 million and THB 663.98 million respectively or equivalent to gross profit margin of 68.36% and 67.52% respectively. The decline in gross profit margin of the Company was derived from a significant drop in overseas sales revenue as well as cost of goods sold that adjusted upward slightly from the change in production plan.

### Selling expenses

Sales expenses for the nine months period ended 30 September 2017 and 2018 stood at THB 440.31 million and THB 371.71 million respectively. This is equivalent to a drastic fall of 15.58% compared to the same period last year. This figure shows that the Company significantly cut on sales expenses from the previous year according to the drop in sales revenue. However, sales expenses to sales revenue ratio edged up a little from 35.04% to 37.80% as the Company incurred marketing expenses from new products launched in October.

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

Selling expenses	Consolidated financial statements				Change Increase/(Decrease)	
	For Three Months Period Ended 30 September					
	2017		2018		THB mm	%
	THB mm	%	THB mm	%		
Advertising and promotional expenses	126.55	85.83	91.95	84.60	(34.60)	(27.34)
Sales employee cost	10.39	7.05	5.82	5.35	(4.57)	(43.98)
Freight expenses	3.64	2.47	1.46	1.34	(2.18)	(59.89)
Others <sup>/1</sup>	6.86	4.65	9.46	8.70	2.60	37.90
Total selling expenses	147.44	100.00	108.69	100.00	(38.75)	(26.28)
% to sales revenue	38.39		43.51			

Notes: <sup>/1</sup> 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 nine Months Period Ended 30 September

Selling expenses	Consolidated financial statements				Change Increased/(Decreased)	
	For the nine months period ended September 30					
	2017		2018		THB mm	%
	THB mm	%	THB mm	%		
Advertising and promotional expenses	387.21	87.94	328.70	88.43	(58.51)	(15.11)
Sales employee cost	25.12	5.71	18.57	5.00	(6.55)	(26.07)
Freight expenses	11.67	2.65	4.92	1.32	(6.75)	(57.84)
Others <sup>/1</sup>	16.31	3.70	19.52	5.25	3.21	19.68
Total selling expenses	440.31	100.00	371.71	100.00	(68.60)	(15.58)
% to sales revenue	35.04		37.80			

Notes: <sup>/1</sup> Other selling expenses mainly comprise market survey expenses and rental expenses for Namu Life Shop

### Administrative expenses

The Company recorded administrative expenses for the nine months period ended 30 September 2017 and 2018 at THB 104.90 million and THB 127.22 million respectively. This equals to an increase of 21.28 % 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 September**

Administrative expenses	Consolidated financial statements				Change Increase/(Decrease)	
	For Three Months Period Ended 30 September					
	2017		2018		THB mm	%
	THB mm	%	THB mm	%		
Administrative employee cost	22.69	54.19	30.40	58.43	7.71	25.36
Miscellaneous expenses	7.14	17.05	5.78	11.11	(1.36)	-23.53
Depreciation and amortization	3.06	7.31	3.82	7.34	0.76	19.90
Tax and other fee	4.01	9.58	3.02	5.80	(0.99)	-32.78
Others <sup>/1</sup>	4.97	11.87	9.01	17.32	4.04	44.84
Total administrative expenses	41.87	100.00	52.03	100.00	10.16	19.53
% to sales revenue	10.85		19.94			

**Notes:** <sup>/1</sup> 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 nine Months Period Ended 30 September

Administrative expenses	Consolidated financial statements				Change Increase/(Decrease)	
	For nine Months Period Ended 30 September					
	2017		2018		THB mm	%
	THB mm	%	THB mm	%		
Administrative employee cost	60.93	58.08	77.24	60.71	16.31	26.77
Miscellaneous expenses	17.99	17.15	18.72	14.71	0.73	4.06
Depreciation and amortization	7.52	7.17	11.03	8.67	3.51	46.68
Tax and other fee	11.10	10.58	9.49	7.46	(1.61)	(14.50)
Others <sup>/1</sup>	7.36	7.02	10.74	8.44	3.37	45.92
Total administrative expenses	104.90	100.0	127.22	100.00	22.31	21.27
% to sales revenue	8.30		10.07			

Notes: <sup>/1</sup> 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 nine months period ended 30 September 2017 and 2018 of THB 253.45 million and THB 175.31 million respectively, equivalent to a 30.83% decline. Net profit margin also experienced a modest drop from 20.06% to 17.08%. The fall in net profit margin was derived from the aforementioned decline in sales revenue especially from overseas, higher cost of goods sold from the adjustment in production plan, sales expense to sales revenue ratio that adjusted upward from the same period of the previous year and rising administrative expenses from higher number of employees to support additional workloads.

### Financial Position

#### Total Assets

As of 30 September 2018, the Company's total assets stood at THB 5,287.57 million, growing at 3.17% from the end of last year. The majority of total assets consists of cash and equivalents, trade receivables and other receivables, inventories and property, plant and equipment. Cash spent for another assets and a repayment of loan was mainly contributed to the drop in total assets (Please see more information: Cash flow from operation)

#### Total Liabilities

As of 30 September 2018, the Company held total liabilities of THB 314.21 million, decreasing 53.38% 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 declined as short-term loans from financial institutions and trade payables fell.

#### Shareholders' Equity

As of 30 September 2018, the Company held shareholders' equity of THB 4,973.36 million. The surge 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 September 30, 2018
Liquidity Ratio (times)	20.61
Cash Conversion Cycle (days)	315.23
Debt to Equity Ratio (times)	0.06
Return on Equity - ROE (%)	4.70
Return on Assets - ROA (%)	4.42
Net Profit Margin (%)	17.08

Please be informed accordingly.

Yours Sincerely,

Mr. Piyawat Ratchapolsitte

Chief Financial Officer