

14 August 2019

Subject Management Discussion and Analysis for the six months period ended Jun 30, 2019

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 six months period ended Jun 30, 2019 as follows:

Management Discussion and Analysis
For the 6 Months Period Ended 30 June 2019

Summary of Performance

Sales Revenue

For the period of six months ended 30 June 2018 and 2019, the Company recorded total sales revenue of THB 733.57 million and THB 384.43 million respectively. This equals to a sharp decline of 47.59% year on year. Domestic sales revenue dropped 46.25% from the same period of the previous year due to an unfavorable condition of the Company's traditional trade channel as the Company appointed a large-sized distributor for the channel since the first quarter of 2018 but later terminated the contract with the distributor which is effective on 30 June 2019. During the period, the Company was unable to make any sales through traditional trade channel or assign a new distributor while the contract was still applicable. After the termination, the Company stipulated a new policy to engage in distributing products for the channel itself starting July 2019. Initially, the Company will focus on distributing its products through big wholesaler stores in most provinces and supporting smaller retailers through sales materials.

Besides the distribution disruption, negative factors affecting tourism in Thailand still emerged and caused a material fall in number of tourists especially from China which is our target customers. The number of Chinese tourists slid about 8% from the same period last year (source: International Tourist Arrivals to Thailand April-June 2019, Ministry of Tourism & Sports). The Company was fully aware of the situation and took actions by implementing new strategies and marketing plans to achieve better reach of both existing target customers and new customers.

International sales revenue also experienced a similar degree of decline by dropping 51.85% compared to the same period last year as sales in China stagnated since the end of last year. Nevertheless, the Company's business expansion to the Philippines helps extend the customer base and diversify its revenue streams which mitigate the risk of reliance on sales in China. At present, the Company's products are well-received in the Philippines but still could not make up for the slowdown in sales in China. The Company is committed to expanding further to other potential countries and is in the process of conducting market feasibility studies in certain markets.

Apart from that, the Company was adversely affected by the compliance with the new Thai Financial Reporting Standard 15 (IFRS 15) regarding revenue from contracts with customers for the first time which is effective since 1 January 2019.

Table 1 : Sales Revenue by Product Line for the Three Months period ended 30 June (3M YoY)

Sales by geography	Consolidated financial statements				Change Increase/(Decrease)	
	For Three Months Period Ended 30 Jun					
	2018		2019		THB mm	%
	THB mm	%	THB mm	%		
Sale Revenue						
Revenue from selling product under Company's trademark						
1) Facial skincare	278.96	73.60	116.28	58.39	(162.68)	(58.32)
2) Body care	11.14	2.94	10.77	5.41	(0.37)	(3.32)
3) Facial cleansing	13.16	3.47	21.95	11.02	8.79	66.79
4) Body cleansing	33.69	8.89	14.59	7.33	(19.10)	(56.69)
5) Sunscreen	8.16	2.15	5.46	2.74	(2.70)	(33.09)
6) Giftset	16.76	4.42	12.83	6.44	(3.93)	(23.45)
Total revenue from products under Company's trademark	361.87	95.47	181.88	91.33	(179.99)	(49.74)
Deduct Sales discount	(2.65)	(0.70)	0.30	0.15	2.95	(111.32)
Total sales	359.22	94.77	182.18	91.48	(177.04)	(49.28)
Other income/1	19.78	5.23	16.95	8.52	(2.83)	(14.31)
Total revenue	379.00	100.00	199.13	100.00	(179.87)	(47.46)

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 (6M YoY)

Sales by geography	Consolidated financial statements				Change Increase/(Decrease)	
	For Six Period Ended 30 Jun					
	2018		2019		THB mm	%
	THB mm	%	THB mm	%		
Sale Revenue						
Revenue from selling product under Company's trademark						
1) Facial skincare	587.61	76.75	279.54	67.10	(308.07)	(52.43)
2) Body care	12.53	1.64	18.82	4.52	6.29	50.20
3) Facial cleansing	25.53	3.33	31.49	7.56	5.96	23.35
4) Body cleansing	55.90	7.30	24.82	5.96	(31.08)	(55.60)
5) Sunscreen	17.03	2.22	13.30	3.19	(3.73)	(21.90)
6) Giftset	45.79	5.98	29.50	7.08	(16.29)	(35.58)
Total revenue from products under Company's trademark	744.39	97.22	397.47	95.41	(346.92)	(46.60)
Deduct Sales discount	(10.82)	(1.41)	(13.04)	(3.13)	(2.22)	20.52
Total sales	733.57	95.81	384.43	92.28	(349.14)	(47.59)
Other income/1	32.09	4.19	32.18	7.72	0.09	0.28
Total revenue	765.66	100.00	416.61	100.00	(349.05)	(45.59)

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

Table 3 : Sales Revenue by Geography for the Three Months period ended March 31, 2019 and 30 Jun 2019 (3M QoQ)

Sales by geography	Consolidated financial statements				Change Increase/(Decrease)	
	For Three Months Period Ended					
	31 March 2019		30 June 2019		THB mm	%
	THB mm	%	THB mm	%		
Sale revenue						
1. Sale revenue from domestic customers	170.86	78.57	128.82	64.69	(42.04)	(24.60)
2. Sale revenue from overseas customers	31.37	14.43	53.36	26.80	21.99	70.10
Total sales	202.23	93.00	182.18	91.49	(20.05)	(9.91)
Other income¹	15.23	7.00	16.95	8.51	1.72	11.29
Total revenue	217.46	100.00	199.13	100.00	(18.33)	(8.43)

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

Table 4 : Sales Revenue by Geography for the Three Months period ended 30 Jun 2019 (3M YoY)

Sales by geography	Consolidated financial statements				Change Increase/(Decrease)	
	For Three Months Period Ended 30 June					
	2018		2019			
	THB mm	%	THB mm	%	THB mm	%
Sale revenue						
1. Sale revenue from domestic customers	258.31	68.16	128.82	64.69	(129.49)	(50.13)
2. Sale revenue from overseas customers	100.69	26.57	53.36	26.80	(47.33)	(47.01)
Total sales	359.00	94.72	182.18	91.49	(176.82)	(49.25)
Other income¹	20.00	5.28	16.95	8.51	(3.05)	(15.25)
Total revenue	379.00	100.00	199.13	1.00	(179.87)	(47.46)

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

Table 5 : Sales Revenue by Geography for the Six Months period ended 30 Jun 2019 (6M YoY)

Sales by geography	Consolidated financial statements				Change Increase/(Decrease)	
	For Six Months Period Ended 30 June					
	2018		2019			
	THB mm	%	THB mm	%	THB mm	%
Sale revenue						
1. Sale revenue from domestic customers	557.61	72.83	299.71	71.94	(257.90)	(46.25)
2. Sale revenue from overseas customers	175.96	22.98	84.72	20.34	(91.24)	(51.85)
Total sales	733.57	95.81	384.43	92.28	(349.14)	(47.59)
Other income¹	32.09	4.19	32.18	7.72	0.09	0.28
Total revenue	765.66	100.00	416.61	100.00	(349.05)	(45.59)

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

Cost of Goods Sold

Cost of goods sold for the six months period ended 30 June 2018 and 2019 stood at THB 221.68 million and THB 117.82 million respectively, equivalent to a 46.86% decrease. Cost of goods sold to sales revenue ratio edged up slightly from 30.22% to 30.65% as a result of the changing sales mix that each product line contributed to total sales.

Table 6: Cost of Goods Sold by Type of Expenses for the Six Months period ended 30 Jun (6M YoY)

Cost of sales	Consolidated financial statements				Change Increase/(Decrease)	
	For Six Months Period Ended 30 Jun					
	2018		2019		THB mm	%
	THB mm	%	THB mm	%		
Raw material and packaging	179.04	80.77	71.50	60.69	(107.54)	(60.06)
Labor costs	21.98	9.92	11.33	9.62	(10.65)	(48.45)
Depreciation costs	8.64	3.90	10.06	8.54	1.42	16.44
Freight expenses	0.68	0.31	0.55	0.47	(0.13)	(19.12)
Others ¹	11.34	5.12	24.38	20.68	13.03	114.9
Total cost of sales	221.68	100.00	117.82	100.00	(103.87)	(46.86)
Proportion of cost of sales to sales revenue (%)	30.22		30.65			
Gross Profit Margin (%)	69.78		69.35			

Note: ¹ Other costs of goods sold mainly comprise warehouse rentals, utility charges and other expenses related to production.

Gross Profit

Gross profit for the period of six months ended 30 June 2018 and 2019 were THB 511.89 million and THB 266.61 million respectively or equivalent to gross profit margin of 69.78% and 69.35% respectively. The small drop in gross profit margin of the Company was derived from the adjustment in production plan to reflect the slowdown in sales revenue during the first half which resulted in stable production cost including depreciation of plant and machinery that contributed to higher share of cost of goods sold. In addition, the Company executed sales promotional campaigns for slow moving inventories that accounted for lower gross profit.

Sales Expenses

Considering sales expenses, the Company posted sales expenses for the six months period ended 30 June 2018 and 2019 of THB 262.49 million and THB 200.16 million respectively. This is equivalent to a significant decline of 23.75 % compared to the same period last year. This shows that the Company managed to properly slash sales expenses from the previous year to be in parallel with the plunge in sales revenue. Nevertheless, some of the sales expenses did not adjust promptly and did not fully mirror the slowdown in revenue as there is a lead time for certain expenses that the Company must plan in advance such as advertising expenses spent on various media. Furthermore, the Company introduced its new products in the second quarter of 2019 which are 4 formulas of SnailWhite Gold Tripple Lift Serum and Prettii Face Serum. Marketing communication was conducted nationwide for these new products. Additionally, marketing efforts were put continuously in the Philippines. Consequently, sales expenses to sales revenue ratio escalated moderately from 35.78% to 52.07% as the Company incurred additional expenses from its marketing.

Table 7: Sales Expenses by Type of Expenses for the Six Months period ended 30 Jun (6M YoY)

Selling expenses	Consolidated financial statements				Change Increase/(Decrease)	
	For Six Months Period Ended 31 March					
	2018		2019		THB mm	%
	THB mm	%	THB mm	%		
Advertising and promotional expenses	236.74	90.01	174.47	87.01	(62.27)	(26.30)
Sales employee cost	12.75	4.85	16.69	8.32	3.94	30.90
Freight expenses	3.00	1.14	3.00	1.50	-	-
Others ¹	10.52	4.00	6.35	3.17	(4.17)	(39.64)
Total selling expenses	263.01	100.00	200.51	100.00	(62.50)	(23.76)
% to sales revenue		35.85		52.16		

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

Administrative Expenses

The Company's administrative expenses for the six months period ended 30 June 2018 and 2019 were THB 75.19 million and THB 82.63 million respectively. This jump in administrative expenses of 9.89% year on year was derived from higher employee expenses to support more workloads and more units from business expansion of the Company and its subsidiaries.

Table 8: Administrative Expenses by Type of Expenses the Six Months period ended 30 Jun (6M YoY)

Administrative expenses	Consolidated financial statements				Change Increase/(Decrease)	
	For Six Months Period Ended 31 March					
	2018		2019		THB mm	%
	THB mm	%	THB mm	%		
Administrative employee cost	46.83	62.28	56.00	67.77	9.17	19.58
Miscellaneous expenses	12.96	17.24	8.74	10.58	-4.22	(32.56)
Depreciation and amortization	7.21	9.59	6.74	8.16	-0.47	(6.52)
Tax and other fee	6.45	8.58	8.00	9.68	1.55	24.03
Others ¹	1.74	2.31	3.15	3.81	1.41	81.03
Total administrative expenses	75.19	100.00	82.63	100.00	7.44	9.89
% to sales revenue	9.82		19.83			

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

Net Profit

The Company posted net profit of THB 175.13 million and THB 10.82 million for the six months period ended 30 June 2018 and 2019 respectively, equivalent to a huge drop of 93.82%. Net profit margin also plummeted from 22.87% to 2.60%. The fall in net profit margin was from the deceleration in sales revenue and the higher sales and administrative expenses mentioned earlier.

Financial Position

Total Assets

As of 30 June 2019, the Company's total assets stood at THB 4,997.97 million, shrinking 5.01% from the end of last year. The majority of total assets consists of cash and equivalents, short-term investments, trade receivables and other receivables and inventories and property, plant and equipment. Cash spent and repayments of loans from financial institutions mainly contributed to the mild drop in total assets.

Total Liabilities

As of 30 June 2019, the Company held total liabilities of THB 169.07 million, falling at a rate of 57.02% from the end of last year. Total liabilities declined as a result of the decrease in loans from financial institutions, trade payables and other payables.

Shareholders' Equity

As of 30 June 2019, shareholders' equity of the Company was recorded at THB 4,828.89 million. The minor drop in shareholders' equity of 4.77% was mainly due to declining retained earnings as a result of the recent dividend payment in May.

Financial Ratio

Financial Ratio	As of June 30, 2019
Liquidity Ratio (times)	27.80
Debt to Equity Ratio (times)	0.04
Return on Equity - ROE (%)	0.45
Return on Assets - ROA (%)	0.43
Net Profit Margin (%)	2.60

Please be informed accordingly.

Yours Sincerely,

Mr. Piyawat Ratchapolsitte

Chief Financial Officer