

14 November 2019

**Subject** Management Discussion and Analysis for the nine months period ended Sep 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 nine months period ended Sep 30, 2019 as follows:

**Management Discussion and Analysis**  
**For the 9 Months Period Ended 30 September 2019**

**Summary of Performance**

**Sales Revenue**

For the period of nine months ended 30 September 2018 and 2019, the Company recorded total sales revenue of THB 983.36 million and THB 557.33 million respectively. This equals to a sharp decline of 43.32% year on year. Domestic sales revenue dropped 43.28% 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 the number of tourists especially from China which is our target customers. The number of Chinese tourists slid about 1% from the same period last year (source: International Tourist Arrivals to Thailand January-August 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 43.48% 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 September (3M YoY)**

Sales by geography	Consolidated financial statements				Change Increase/(Decrease)	
	For Three Months Period Ended 30 September					
	2018		2019		THB mm	%
	THB mm	%	THB mm	%		
<b>Sale Revenue</b>						
Revenue from selling product under Company's trademark						
1) Facial skincare	150.26	57.57	110.27	57.50	(39.99)	(26.61)
2) Body care	21.68	8.31	8.63	4.50	(13.05)	(60.19)
3) Facial cleansing	38.81	14.87	23.04	12.01	(15.77)	(40.63)
4) Body cleansing	24.25	9.29	14.27	7.44	(9.98)	(41.15)
5) Sunscreen	7.16	2.74	1.65	0.86	(5.51)	(76.96)
6) Giftset	14.09	5.40	26.06	13.59	11.97	84.95
Total revenue from products under Company's trademark	256.25	98.18	183.92	95.90	(72.33)	(28.23)
Deduct Sales discount	(6.47)	(2.48)	(11.01)	(5.74)	(4.54)	70.17
<b>Total sales</b>	<b>249.78</b>	<b>95.70</b>	<b>172.91</b>	<b>90.16</b>	<b>(76.87)</b>	<b>(30.78)</b>
Other income <sup>1</sup>	11.21	4.30	18.88	9.84	7.67	68.42
<b>Total revenue</b>	<b>260.99</b>	<b>100.00</b>	<b>191.79</b>	<b>100.00</b>	<b>(69.20)</b>	<b>(26.51)</b>

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 (9M YoY)

Sales by geography	Consolidated financial statements				Change Increase/(Decrease)	
	For Nine Period Ended 30 September					
	2018		2019		THB mm	%
	THB mm	%	THB mm	%		
<b>Sale Revenue</b>						
Revenue from selling product under Company's trademark						
1) Facial skincare	737.89	71.87	389.81	64.07	(348.08)	(47.17)
2) Body care	34.21	3.33	27.44	4.51	(6.77)	(19.79)
3) Facial cleansing	64.34	6.27	54.54	8.96	(9.80)	(15.23)
4) Body cleansing	80.14	7.81	39.09	6.43	(41.05)	(51.22)
5) Sunscreen	24.19	2.36	14.95	2.46	(9.24)	(38.20)
6) Giftset	59.88	5.83	55.55	9.13	(4.33)	(7.23)
Total revenue from products under Company's trademark	1,000.65	97.47	581.38	95.56	(419.27)	(41.90)
Deduct Sales discount	(17.29)	(1.68)	(24.05)	(3.95)	(6.76)	39.10
<b>Total sales</b>	<b>983.36</b>	<b>95.79</b>	<b>557.33</b>	<b>91.60</b>	<b>(426.03)</b>	<b>(43.32)</b>
Other income <sup>1</sup>	43.30	4.21	51.07	8.40	7.77	17.94
<b>Total revenue</b>	<b>1,026.66</b>	<b>100.00</b>	<b>608.40</b>	<b>100.00</b>	<b>(418.26)</b>	<b>(40.74)</b>

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 Jun 30, 2019 and 30 Sep 2019 (3M QoQ)

Sales by geography	Consolidated financial statements				Change Increase/(Decrease)	
	For Three Months Period Ended					
	30 June 2019		30 September 2019		THB mm	%
	THB mm	%	THB mm	%		
<b>Sale revenue</b>						
1. Sale revenue from domestic customers	128.82	64.69	134.46	70.11	5.64	4.38
2. Sale revenue from overseas customers	53.36	26.80	38.45	20.05	(14.91)	(27.94)
<b>Total sales</b>	<b>182.18</b>	<b>91.49</b>	<b>172.91</b>	<b>90.16</b>	<b>(9.27)</b>	<b>(5.09)</b>
Other income <sup>1</sup>	16.95	8.51	18.88	9.84	1.93	11.39
<b>Total revenue</b>	<b>199.13</b>	<b>100.00</b>	<b>191.79</b>	<b>100.00</b>	<b>(7.34)</b>	<b>(3.69)</b>

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

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

Sales by geography	Consolidated financial statements				Change Increase/(Decrease)	
	For Three Months Period Ended 30 September					
	2018		2019		THB mm	%
	THB mm	%	THB mm	%		
<b>Sale revenue</b>						
1. Sale revenue from domestic customers	207.84	79.64	134.46	70.11	(73.38)	(35.31)
2. Sale revenue from overseas customers	41.94	16.07	38.45	20.05	(3.49)	(8.32)
<b>Total sales</b>	<b>249.78</b>	<b>95.70</b>	<b>172.91</b>	<b>90.16</b>	<b>(76.87)</b>	<b>(30.78)</b>
<b>Other income<sup>1</sup></b>	<b>11.21</b>	<b>4.30</b>	<b>18.88</b>	<b>9.84</b>	<b>7.67</b>	<b>68.42</b>
<b>Total revenue</b>	<b>260.99</b>	<b>100.00</b>	<b>191.79</b>	<b>100.00</b>	<b>(69.20)</b>	<b>(26.51)</b>

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

Table 5 : Sales Revenue by Geography for the Nine Months period ended 30 Sep 2019 (9M YoY)

Sales by geography	Consolidated financial statements				Change Increase/(Decrease)	
	For Nine Months Period Ended 30 September					
	2018		2019		THB mm	%
	THB mm	%	THB mm	%		
<b>Sale revenue</b>						
1. Sale revenue from domestic customers	765.45	74.56	434.16	71.36	(331.29)	(43.28)
2. Sale revenue from overseas customers	217.91	21.23	123.17	20.24	(94.74)	(43.48)
<b>Total sales</b>	<b>983.36</b>	<b>95.79</b>	<b>557.33</b>	<b>91.60</b>	<b>(426.03)</b>	<b>(43.32)</b>
<b>Other income<sup>1</sup></b>	<b>43.30</b>	<b>4.21</b>	<b>51.07</b>	<b>8.40</b>	<b>7.77</b>	<b>17.94</b>
<b>Total revenue</b>	<b>1,026.66</b>	<b>100.00</b>	<b>608.40</b>	<b>100.00</b>	<b>(418.26)</b>	<b>(40.74)</b>

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

### Cost of Goods Sold

Cost of goods sold for the nine months period ended 30 September 2018 and 2019 stood at THB 319.38 million and THB 180.38 million respectively, equivalent to a 43.52% decrease. Cost of goods sold to sales revenue ratio edged down slightly from 32.48% to 32.36% because 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 Nine Months period ended 30 Sep (9M YoY)

Cost of sales	Consolidated financial statements				Change Increase/(Decrease)	
	For Nine Months Period Ended 30 September					
	2018		2019		THB mm	%
	THB mm	%	THB mm	%		
Raw material and packaging	256.39	80.28	109.18	60.53	(147.21)	(57.42)
Labor costs	30.97	9.70	15.90	8.81	(15.07)	(48.66)
Depreciation costs	13.14	4.11	15.32	8.49	2.18	16.59
Freight expenses	1.44	0.45	1.62	0.90	0.18	12.50
Others <sup>1</sup>	17.44	5.46	38.36	21.27	20.93	120.08
Total cost of sales	319.38	100.00	180.38	100.00	(138.99)	(43.52)
Proportion of cost of sales to sales revenue (%)	32.48		32.37			
Gross Profit Margin (%)	67.52		67.63			

**Note:** <sup>1</sup> 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 nine months ended 30 September 2018 and 2019 were THB 663.98 million and THB 376.95 million respectively or equivalent to gross profit margin of 67.52% and 67.63% respectively. The small drop in gross profit of the Company was derived from the slowdown in sales revenue during the nine months of this year. In addition, gross profit margin edged up slightly as a result of the changing sales mix that each product line contributed to total sales.

## Sales Expenses

Considering sales expenses, the Company posted sales expenses for the nine months period ended 30 September 2018 and 2019 of THB 371.71 million and THB 305.82 million respectively. This is equivalent to a significant decline of 17.73 % 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 this year, which are SnailWhite Gold Tripple Lift Serum, 4 formulas of Prettii Face Serum and Oxe'cure Acne Clear Potion. 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 37.80% to 54.87% as the Company incurred additional expenses from its marketing.

**Table 7:** Sales Expenses by Type of Expenses for the Nine Months period ended 30 Sep (9M YoY)

Selling expenses	Consolidated financial statements				Change Increase/(Decrease)	
	For Nine Months Period Ended 30 September					
	2018		2019		THB mm	%
	THB mm	%	THB mm	%		
Advertising and promotional expenses	328.70	88.43	265.41	86.79	(63.29)	(19.25)
Sales employee cost	18.57	5.00	23.31	7.62	4.74	25.53
Freight expenses	4.92	1.32	4.37	1.43	(0.55)	(11.18)
Others <sup>1</sup>	19.52	5.25	12.73	4.16	(6.79)	(34.78)
<b>Total selling expenses</b>	<b>371.71</b>	<b>100.00</b>	<b>305.82</b>	<b>100.00</b>	<b>(65.89)</b>	<b>(17.73)</b>
% to sales revenue		37.80		54.87		

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

### Administrative Expenses

The Company's administrative expenses for the nine months period ended 30 September 2018 and 2019 were THB 127.22 million and THB 112.97 million respectively. This jump in administrative expenses of 11.20% year on year was derived from Administrative employee and miscellaneous expenses

**Table 8:** Administrative Expenses by Type of Expenses the Nine Months period ended 30 Sep (9M YoY)

Administrative expenses	Consolidated financial statements				Change Increase/(Decrease)	
	For Nine Months Period Ended 30 September					
	2018		2019		THB mm	%
	THB mm	%	THB mm	%		
Administrative employee cost	77.24	60.71	73.56	65.11	(3.68)	(4.76)
Miscellaneous expenses	18.72	14.71	12.60	11.15	(6.12)	(32.69)
Depreciation and amortization	11.03	8.67	9.94	8.80	(1.09)	(9.88)
Tax and other fee	9.49	7.46	10.27	9.09	0.78	8.22
Others <sup>1</sup>	10.74	8.45	6.60	5.85	(4.14)	(38.55)
Total administrative expenses	127.22	100.00	112.97	100.00	(14.25)	(11.20)
% to sales revenue	12.39		18.57			

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

### Net Profit

The Company posted net profit of THB 175.31 million and THB 4.53 million for the nine months period ended 30 September 2018 and 2019 respectively, equivalent to a huge drop of 97.42%. Net profit margin also plummeted from 17.07% to 0.74%. The fall in net profit margin was from the deceleration in sales revenue and the higher sales expenses mentioned earlier.

## Financial Position

### Total Assets

As of 30 September 2019, the Company's total assets stood at THB 4,966.29 million, shrinking 5.37% 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 September 2019, the Company held total liabilities of THB 144.92 million, falling at a rate of 45.41% 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 September 2019, shareholders' equity of the Company was recorded at THB 4,821.37 million. The minor drop in shareholders' equity of 3.24 % was mainly due to declining retained earnings as a result of the recent dividend payment in May.

## Financial Ratio

Financial Ratio	As of September 30, 2019
Liquidity Ratio (times)	32.34
Debt to Equity Ratio (times)	0.03
Return on Equity - ROE (%)	0.48
Return on Assets - ROA (%)	0.46
Net Profit Margin (%)	0.74

Please be informed accordingly.

Yours Sincerely,

Mr. Piyawat Ratchapolsitte

Chief Financial Officer