**BUSINESS PERFORMANCE REPORT**

*(For the accounting period from 01st Jan to 30th Jun 2019, based on consolidated financial statement)*

**Planning team – Everpia JSC**

* ***The rise of global heat has made a significant impact on Everpia's core businesses, leading to unfavorable performance in the first 6 months of 2019 as both revenue and profit declined over the same period in 2018.***
* ***The new businesses are still in the early stages of implementation with product launching and piloting activities.***
* ***The new bedding collection 2020 with 53 design patterns made of cotton, satin, modal, tencel, micro fabric received positive feedback from agents with a total value of pre-orders increased up to 25% over the previous year.***

 **Business performance review**

1. ***Business performance overview:***

|  |  |  |  |
| --- | --- | --- | --- |
| **Items** | **1H2019** | **1H2018** | **+/- (%)** |
| Net revenue | 428,095 | 502,099 | -14.7% |
| Cost of Goods sold | 291,025 | 341,161 | -14.7% |
| Gross profit | 137,070 | 160,938 | -14.8% |
| Selling expense | 84,894 | 73,027 | 16.3% |
| General administrative expense | 47,805 | 49,313 | -3.1% |
| Profit before tax | 14,852 | 41,780 | -64.5% |
| Net profit after tax | 10,412 | 33,154 | -68.6% |

**Revenue** decreased 14.7% due to several reasons, including objective and subjective. The objective ones are: (i) the hot weather during the 1st half 2019 affected by El Nino phenomenon, leading to the under-expectation low demand for padding and bedding products. (ii) more severe competition on the market. On the subjective side, the Company has a few changes in sales policy in the direction of gradually limiting promotions for normal products.

**Gross profit** remained at 32%, as same as last period although gross margins of each business were slightly changed.

**Selling expenses** increased by 16%, of which the ratio on revenue increased from 14.5% to 19.8%, mostly due to: (i) recruiting new sales team for new business of Curtains and Kingkoil spring mattress (labor cost increased by 30%); (ii) rental costs for 05 new showrooms opened in 2019, including 3 showrooms in Hanoi, 1 in Da Nang and 1 in Ho Chi Minh (outsourcing costs increased 39%). These are necessary investment to enhance brand identity for the new product lines. The results are expected to be reflected in revenue in the coming time.

1. ***Structure of revenue and gross profit by business line***

The weather in the first half of year has a great impact on the bedding sales, causing the decline of its proportion on total revenue from 56% to 51%, and at the same time pushing up the proportion of padding sales to 41%.

|  |  |  |  |
| --- | --- | --- | --- |
| **Item** | **1H 2019** | **1H 2018** | **+/-** |
| **Net sales** | **428,095** | **Proportion** | **502,099** | **Proportion** |   |
| Bedding | 219,085 | 51% | 280,570 | 56% | -22% |
| Padding | 174,358 | 41% | 180,736 | 36% | -4% |
| Cleaner | 33,565 | 8% | 39,973 | 8% | -16% |
| Other | 1,086 | 0% | 819 | 0% | 33% |
| **Gross profit** | **137,070** | **Gross margin** | **160,938** | **Gross margin** |  |
| Bedding | 62,433 | 28% | 74,146 | 26% | -16% |
| Padding | 73,262 | 42% | 77,741 | 43% | -6% |
| Cleaner | 1,431 | 4% | 8,232 | 21% | -83% |
| Other | -56 | -5% | 819 | 100% | -107% |

****

**Bedding business:**

At the end of the first 06 months of 2019, bedding sales decreased by 61 bil. over the last period, equivalent to 22%, in which:

* **Agent sales (B2C)** dropped by 11% due to: (i) diminished consumption affected by weather; (ii) the promotion program on Lunar new year only applied to the long-time inventory patterns or made from long-time inventory fabric, but no longer applied to the last 03 collections, PE mattress and spring mattress. This policy, although negatively impacting on revenue, contributed to improving the gross profit margin of the bedding segment (*rise from 26% to 28%*).
* **Enterprise & hotel sales (B2B)** decreased by 25% on the situation of the slowing down growth of resort real-estate industry and fiercer competition, especially in price. Eventhough the number of B2B orders increased slightly ~5% over 2018, the large orders were minor. According to the Vietnam National Administration of Tourism, the growth rate of tourist accommodation establishments in 2018 was only 9% while the number of rooms reached 8% - the lowest in the last 08 years, the number of new-opened large-scale projects was low. This causes more or less difficulties in finding hotel orders.
* **Bedding export sales** declined 35% because a big Korean customer supposed to stop oderding due to price problem, in the context that cheap-price Chinese export goods have been pouring massively to Asian market due to the effect of China-US trade war. Instead of depending on a few large customers, Everpia has explored new customers from Korea, US, Japan. These customers had visited the factory and evaluated the facilities. They are enquiring samples and later on will consider establishing relations with Everpia.

****

**Padding business:**

****Padding sales decreased slightly by 4% compared to the same period in 2018, primarily because the Company had to reduce the selling price for some low-grade padding, which is in fierce competition as the result of the increase in suppliers entering market. For high-class padding, due to the large technical barrier, the Company has been currently maintaining good sales. The adjustment in selling prices also made padding gross margin a little shrink from 43% to 42% in the first half of this year.

**Cleaner business:**

The cleaner segment contributed VND 33.6 billion of revenue in the first 6 months of 2019, down 16% over the same period last year, equivalent to VND 6.4 billion. This is a short-term decline because the Company starts to apply the policy of selecting orders with a profit rate of 5% at least. In addition, the factory renovation has been pushed up to improve the gross profit margin. The Company also put a great effot in expanding customer portfolio through export seminars and exhibitions to new markets such as the America and Asia. The bright light in the cleaner business is the domestic sales, of which the growth was up to 53% thanks to taking advantage of Everpia's existing distribution system. It is expected that the domestic market will continue to be the key strategy in the coming time, besides developing the export market.

 **Highlight events**

* **General shareholders’ meeting 2019** (took place on 19th Apr. 2019) has put through all regular contents with the consensus rate of up to 99%.
* The company had completed the payment of **cash dividends** at the rate of 10% (existing shareholders owning 1 share entitled to earn 1,000 VND) on Jun. 19th, 2019.
* **Agent meeting** introduced the 2020 bedding collection and updated the changes in pre-order policy that took place on all 3 regions, in Hanoi, Da Nang and Ho Chi Minh. This year's collection continues to inherit and promote the success of fabric materials from the previous year, combining with the hot trend of colors and patterns on the market, creating a diverse and quality collection. As a result, the total value of pre-orders from agents enlarges by 25% over the previous year.

From the success of the mini agent meeting model in some provinces in 2018, this year the Company continues to replicate this model to most of general agents with more than 06 sub-agents to strengthen brand identity and support agent sales.

* Realizing the strategy of **expanding the standard distribution network**, in the first 6 months of 2019, Everpia has made 05 new showrooms into operation, including: 03 showrooms in Hanoi (Vincom Ba Trieu, Ngoai Giao Doan, Starlake) , 01 showroom in Da Nang, and 01 spring mattress showroom at Ngo Gia Tu, Ho Chi Minh City. The Company is also in last preparation to open 02 more showrooms in Hue city and Nha Trang - Khanh Hoa to strengthen the brand image in the Central and Southern markets.

**Business plan in the 2nd half**

* **Business activities:**
* **Bedding business:**
* **Distribution system: (i) Showroom network**: In addition to the 17 currently operating showrooms and 02 showrooms that are about to be opened, in the last 6 months of 2019, the Company plans to open 6 new showrooms, of which 04 showrooms in the areas of Ha Dong, Cau Giay and Tu Liem - Hanoi, and 02 showrooms in the South. **(ii) Agent system:** At the end of July, the Company conducted the 2nd agent assessment in the year in order to consolidate the agent system. Based on the assessment results, the Company will close down inefficient agents: low sales, less favorable geographical position, bad debts. Besides, the company also plans to open 20 new agents, focusing mainly in the provinces which have not been fully exploited.
* **Marketing activities:**
1. In 2019, the Company implements **in-depth research** on every major provincial market to efficiently increase sales. This study is also very useful for supporting general agents to expand their sub-agents network (DB1). This is a method of deep exploitation of the market, while helping to increase the cohesion and loyalty of agents with the Company. In addition, the Company continues to provide interior, billboard and advertising support for agents as usual.
2. **Advertisement:** Catching the trend of advertisement in the digital age is Digital marketing, after considering, the Company decided to terminate the Brand representation contract with Kim Tae Hee and focus all resouces in developing Digital marketing. Setting up a professional website for online sales, integrating optimum e-commerce function for entire Company's products and businesses, scheduled to be released in September is the first step of Digital marketing.
3. **Expand product portfolio:** As a leading brand in the bedding market, Everon constantly researches and develops new product lines to best take care of the health of customers, through developing a variety of specific functions such as: back caring, neck and shoulder massage, or improve the convenience for the product such as: comfy pad, rolled spring mattress,…
* **Padding business**

In the context of increasingly fierce competition in the low-end product segment, Everon will focus on promoting mid & high-end product lines that require higher technical levels, bringing better value, although target customers are limited and harder to satisfy. To achieve this goal, Everpia has continually strengthened its internal strength through production reforms, efforts on improving delivery speed as well as professionalism in customer service to reach this target customer base.

* **Cleaner business**

In addition to keeping the current customer portfolio and testing new export markets, the domestic market continues to be the strategic target of the Cleaner business. (…)

* **Other activities:**
* **Factory innovation:** Under the consultation of Korean experts, the greatest achievement of the factory renovation from 2018 to the first 6 months of 2019 is that employees' self-innovation awareness has been significantly improved. More ideas are proposed, the patrols of the Managements also finds fewer issues. This is an important foundation for a broader and deeper reform from now on. In order to build an innovation movement and culture in the Company, the Managements have decided to launch a regular contest on innovative ideas, which will reward a good idea every month based on the expenditure cost savings thanks to that idea. This is said to be the beginning of the internal reform process instead of the current external reform, which is expected to bring positive effects to the optimization of operating costs.

|  |
| --- |
| **For more detail information, please kindly contact:****Planning Team - Everpia JSC***Tel: 0221 – 3791 777 – ext. 348**Fax: 0221 – 3791 999**Email:* *info@everon.com* |