

Company Announcement
ASX: HPC

DATE: 31 January 2022

Q4 FY21 Quarterly Report and Appendix 4C

Hydralyte North America grows Q4 revenue 44% on prior corresponding period

KEY HIGHLIGHTS

- Hydralyte North America posts strong quarter of US\$1.66m in unaudited net sales, representing 44% YoY revenue growth for the quarter, in what is typically a seasonally softer period coming out of the peak summer season.
- E-commerce net sales increased 186% on the prior corresponding period due to stronger trading with Amazon USA and Amazon Canada.
- Gross Margin dollars improved by 157% YoY on the quarter.
- Major distribution agreement executed with Chinese distributor WPIC, which specialises in taking Canadian-based brands onto B2C platform Tmall.com.¹
- Successful December 2021 IPO listing, raising AUD\$17m with strong support from Australian institutional and sophisticated investors.
- Up to 5 new products are planned to launch in the first half of 2022 across both the USA and Canada.

Hydration solutions company, The Hydration Pharmaceuticals Company Limited (ASX: HPC) (“Hydralyte North America” or “the Company”), is pleased to provide an update on its quarterly activities and cash flows for the three months ending 31 December 2021 (Q4 FY21).

Hydralyte North America posted a strong quarter with unaudited net sales of \$US1.7m in what is typically a seasonally softer period coming out of the peak summer season. The result reflects a 44% year over year increase. The Company expects future growth relative to prior periods to be inconsistent up until Q3 FY22, due to abnormal trading trends resulting from the impacts of COVID-19 lockdowns in FY20 and H1FY21.

COVID-19 had a pronounced impact on bricks and mortar retail sales throughout 2020 and the first half of 2021 leading to inconsistent sales as Canada came in and out of lockdowns. This is most pronounced between Q4FY20 and Q1FY21. In addition,

¹ Please refer to section 9.5.11 of the Prospectus dated 3 November 2021 and announced to the ASX on 10 December 2021 for further details.



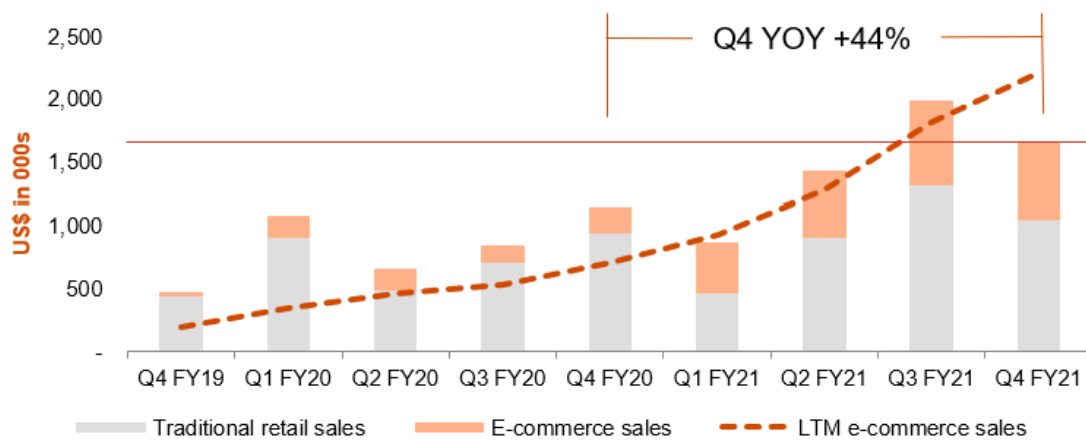
Loblaws and Walmart Canada switched their wholesale arrangements in Q4FY20 leading to an unseasonal sales spike.

	Q4'20	Q3'21	Q4 FY'21	QoQ Change	YoY Change
Total Unaudited Net Revenue	1,154	1,990	1,662	(16%)	44%
<i>E-commerce revenue</i>	214	675	613	(9%)	186%
<i>Traditional retail revenue</i>	939	1,315	1,049	(20%)	12%
Gross Margins	24%	43%	43%	0%	78%
EBITDA*	(923)	(1,515)	(1,684)	(11%)	(83%)

*EBITDA as calculated does not include ESOP expense of \$1.47M in Q4 upon IPO

- The company expects growth on prior periods to be inconsistent up until Q3 2022 as it trades against periods of COVID-19 lockdowns in 2020 and H1 2021.

Quarterly net revenue - Q4FY19 to Q4FY21



Revenue by region

USD in '000s	Q3 FY21	Q4 FY21	Q3 % of Total	Q4 % of Total
USA	953	791	48%	48%
Canada	1,037	872	52%	52%
Total revenue	1,990	1,662		



Hydralyte North America's focus on Amazon and Canadian Bricks and Mortar continues to be successful, with Amazon's USA Q4FY21 revenue up 2.8x on the same period last year and over 500% year-on-year. The sales growth has been led by an effective Amazon advertising strategy and rising popularity of the Hydralyte Original Variety Pack and Hydralyte PLUS Immune Boosters.

Canadian retail continues to trade strongly as Hydralyte North America's largest customer, Shopper's Drug Mart, grew retail sales to consumers by 49% on the quarter and 51% over the course of 2021. The retailer has taken two new products nationally in Q4 2021, the Strawberry Lemonade Effervescent Tablet and the Hydralyte PLUS Prebiotic System balance powder stick. These additions take the Hydralyte range to nine products on shelf at Shoppers Drug Mart.

Hydralyte North America has experienced strong growth whilst also taking proactive steps to build stock and navigate the supply chain challenges felt around the world as a result of the continuing effects of COVID-19. The Company continues to keep all major customers in stock with the Company's best-selling products, with any shortages filled with a balance of air, sea and land freight to ensure supply remains uninterrupted. On key SKUs, Hydralyte North America is currently carrying up to nine months' worth of inventory to mitigate the risk of any sales spikes in 2022 being disrupted by expected further delays in supply.

Gross margin as a percentage of sales for the quarter was up 78% YoY to 43%, despite being softened by continual, proactive air shipments from suppliers to meet rising demand. Gross Margin dollars for the quarter increased by 157% to \$708k YoY.

EBITDA loss for the quarter increased YoY by 83% (exclusive of stock options expense) as the company increased marketing spend by 129% YOY with a continued focus on revenue growth. Additional expense around the IPO also contributed to an increased EBITDA loss.

Hydralyte North America signed a major distribution agreement with Chinese distributor, WPIC, which specializes in taking Canadian-based brands including Lululemon² onto B2C platform T-mall. The partnership is a low-resource, fully outsourced China go-to-market strategy lead by local Chinese team using predominately USA e-comm inventory.

Hydralyte North America attracted new talent to the organization in Q4FY21 appointing a VP of E-comm Sales and Marketing and three new starters across finance and supply, quality and innovation.

New product innovation continues to be a focus of the group, with up to five new products expected to launch in the first half of this year across the USA and Canada. The company also continues to plan for the peak summer season, having met with major retailers to discuss inventory build ahead of this key consumption season.

² Please refer to section 9.5.11 of the Prospectus dated 3 November 2021 and announced to the ASX on 10 December 2021 for further details.



Comments on Cash Flows

The ASX listing date of 14 December 2021 allowed for only 17 days in the quarter for cash disbursements against the use of funds. However, the company can report that it is on track to meet the business objectives that sit behind the use of funds table. The following table represents the use of funds raised from the IPO since the IPO date of 14 December:

Hydralyte Use of IPO Funds

US\$

Use of Funds	Intended Use of Funds Per Prospectus	Funds Used since IPO Date of 14 Dec 2021
Marketing through online and traditional retail channels	6,072,817	(441,994)
New product Development	1,000,229	
Operating expenditure	2,429,127	(83,602)
Working Capital	1,000,229	
Costs of the IPO Offer	1,643,233	(1,447,967)
Total	12,145,633	(1,973,564)

Cash outflows for the quarter were heavier than past quarters due to increased costs surrounding the IPO, including admin expenses not offset to equity with the direct cost of the IPO. These additional outflows for the quarter amounted to \$428k.

In addition to the higher outflows from IPO, a prepayment was made above normal payment terms in order to negotiate a finished goods discount. The amount of this prepayment was \$504k.

Omitting the above extraordinary factors summing to \$932k, the underlying cash outflow for operating activities would decrease to \$1.6M from \$2.6M, leaving approximately seven quarters of cash on the current rate. The company expects quarterly cash flow to improve with growth.

Proceeds from the December IPO were \$12.1M, with \$1.4M of cash outflows in the quarter on capitalised IPO costs.

Cash and cash equivalents for the quarter ending December 31 were \$10.6M.



Additional Information

Payments to related parties and their associates during Q4FY21 was US\$197,834 which consists of payments in the form of cash and equity to entities associated to the current or prior directors.

Note: Unless specified otherwise, all amounts stated in this announcement are in USD and provided on an unaudited basis.

ENDS

This announcement was authorised for release by the Board of Hydralyte North America.

For further information:

Investors/Media

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Disclaimer

This announcement contains “forward-looking statements.” These can be identified by words such as “may”, “should”, “anticipate”, “believe”, “intend”, “estimate”, and “expect”. Statements which are not based on historic or current facts may be forward-looking statements. Forward-looking statements are based on:

- assumptions regarding the Company’s financial position, business strategies, plans and objectives of management for future operations and development and the environment in which the Company will operate; and
- current views, expectations and beliefs as at the date they are expressed and which are subject to various risks and uncertainties.

Actual results, performance or achievements of the Company could be materially different from those expressed in, or implied by, these forward-looking statements. The forward-looking statements contained within the presentations are not guarantees or assurances of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of the Company, which may cause the actual results, performance or achievements of the Company to differ materially from those expressed or implied by forward-looking statements. For example, the factors that are likely to affect the results of the Company include general economic conditions in Australia and globally; exchange rates; competition in the markets in which the Company does and will operate; weather and climate conditions; and the inherent regulatory risks in the businesses of the Company. The forward-looking statements contained in this announcement should not be taken as implying that the assumptions on which the projections have been prepared are correct or exhaustive. The Company disclaims any responsibility for the accuracy or completeness of any forward-looking statement. The Company disclaims any responsibility to update or revise any forward-looking statements to reflect any change in the Company’s financial condition, status or affairs or any change in the events, conditions or circumstances on which a statement is based, except as required by law. The projections or forecasts included in this presentation have not been audited, examined or otherwise reviewed by the independent auditors of the Company. You must not place undue reliance on these forward-looking statements.

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Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

The Hydration Pharmaceuticals Company Limited

ABN

83 620 385 677

Quarter ended ("current quarter")

12/31/2021

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (.....months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	2,090	5,649
1.2 Payments for		
(a) research and development		
(b) product manufacturing and operating costs	(2,166)	(4,011)
(c) advertising and marketing	(1,162)	(3,337)
(d) leased assets		
(e) staff costs	(441)	(1,683)
(f) administration and corporate costs	(852)	(2,940)
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid	37	
1.6 Income taxes paid		
1.7 Government grants and tax incentives		
1.8 Other (provide details if material)	(63)	(1,360)
1.9 Net cash from / (used in) operating activities	-2,558	-7,681
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities		
(b) businesses		
(c) property, plant and equipment		
(d) investments		
(e) intellectual property		
(f) other non-current assets		

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (.....months) \$US'000
2.2	Proceeds from disposal of:		
	(a) entities		
	(b) businesses		
	(c) property, plant and equipment		
	(d) investments		
	(e) intellectual property		
	(f) other non-current assets		
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)		
2.6	Net cash from / (used in) investing activities	0	0

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	12,174	12,174
3.2	Proceeds from issue of convertible debt securities		6,415
3.3	Proceeds from exercise of options		
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(1,405)	(2,144)
3.5	Proceeds from borrowings		
3.6	Repayment of borrowings		
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9	Other (provide details if material)		
3.10	Net cash from / (used in) financing activities	10,769	16,446

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	2,666	1,570
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,558)	(7,681)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	0	0

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (.....months) \$US'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	10,769	16,446
4.5	Effect of movement in exchange rates on cash held	(205)	338
4.6	Cash and cash equivalents at end of period	10,673	10,673

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$US'000	Previous quarter \$US'000
5.1	Bank balances	10,673	1,570
5.2	Call deposits	0	0
5.3	Bank overdrafts	0	0
5.4	Other (provide details)	0	0
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)		

6.	Payments to related parties of the entity and their associates	Current quarter \$US'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	\$235
6.2	Aggregate amount of payments to related parties and their associates included in item 2	0
<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>		

7. Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$US'000	Amount drawn at quarter end \$US'000
7.1 Loan facilities	0	0
7.2 Credit standby arrangements	0	0
7.3 Other (please specify)	0	0
7.4 Total financing facilities	0	0
7.5 Unused financing facilities available at quarter end		0
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		

8. Estimated cash available for future operating activities	\$US'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(2,575)
8.2 Cash and cash equivalents at quarter end (item 4.6)	10,672
8.3 Unused finance facilities available at quarter end (item 7.5)	0
8.4 Total available funding (item 8.2 + item 8.3)	10,672
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	4.17
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
Answer: The company expects improved operating cash flows from revenue and margin growth.	
8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
Answer: There are no current plans to raise additional funds at the time of this document was created.	
8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
Answer: Yes. On the basis that funds were recently raised with the intention of lasting approximately two years from the date of the raise.	
<i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i>	

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 31 January 2022

Authorised by: By the Board
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.