

Company Announcement
ASX: HPC

DATE: 26/04/2022

All amounts in \$US and unaudited unless otherwise specified

Q1 FY22 Quarterly Report and Appendix 4C

Hydralyte North America delivers strong Q1 FY2022 revenue growth

KEY HIGHLIGHTS

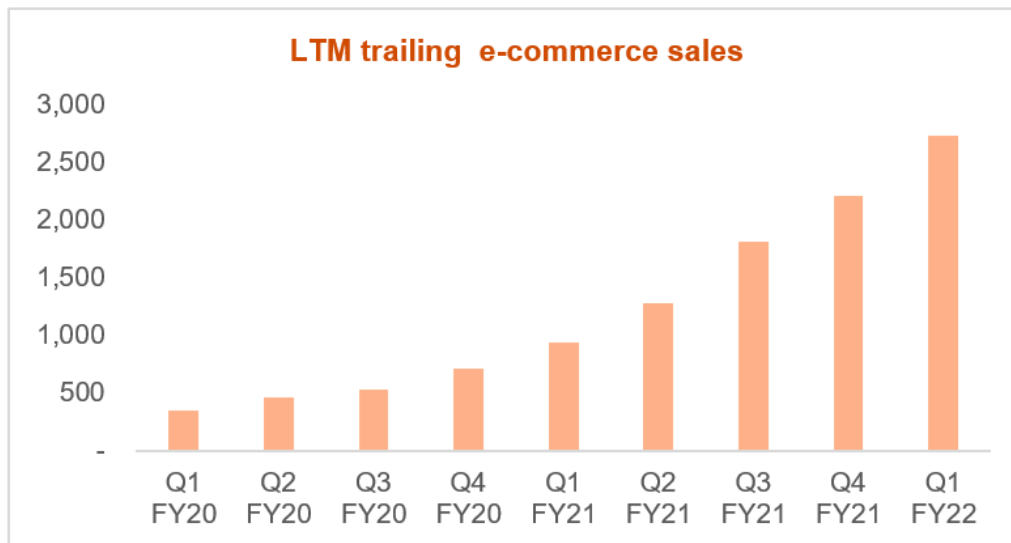
- Hydralyte North America achieves strong revenue growth of 119% on prior corresponding period ('PCP') to \$1.9m (Q1 FY2021: \$0.9m)
 - Q1 FY2022 revenue, in a typically softer quarter of the year, marks a 9% increase on the last quarter (Q4 FY2021: US\$1.7m)
 - Gross margin increased 7 percentage points from the last quarter to 50% (Q4 FY2021: 43%)
 - Prominent North American actress and entrepreneur with over 33 million Instagram followers, Shay Mitchell, secured as partner in growth and brand ambassador
 - Board and advisory team strengthened with the appointments of Ms Margaret Hardin as a Non-Executive Director and Ms Vanessa Dew to the advisory board
 - Ms Hardin is an experienced CEO, CFO, and COO who grew two US companies to more than USD\$100M revenue during her tenure – former Ergobaby CEO
 - Ms Dew is a US-based entrepreneur and investor, co-founding and acting as Chief Sales Officer of US kombucha brand Health-Ade
 - Additional product development initiatives progressing on 13 products – new product launches set to support HPC growth strategies in the coming months
 - Strong foundation laid heading into the seasonally advantageous North American summer months
-

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 Appendix 4C for the period ended 31 March 2022 (the 'quarter').

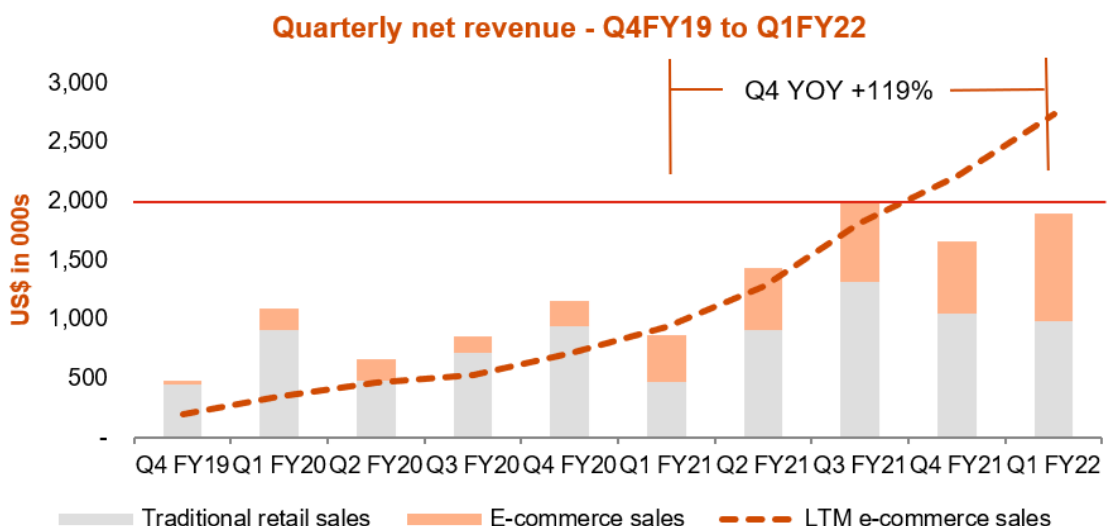
Financial overview:

Revenue for the quarter increased 119% on PCP (Q1 FY2021: \$0.9) and 9% on the previous quarter (Q4 FY21: US\$1.7m), resulting in strong quarterly revenues of US\$1.9m. The significant rise in revenues can largely be attributed to ongoing product uptake in the US and Canada through traditional bricks and mortar retail stores, as well as continued growth in online sales.

The following chart displays the eCommerce trailing 4-quarter growth through Q1 FY2022:



The following chart displays the strong YoY growth setting the foundation going into the stronger summer months in North America:



Marketing spend remained flat to the last quarter at \$1.3M as the company continues to invest in the marketing flywheel with initiatives including Shay Mitchell, China distribution partnership, eCommerce website revamps, and continued investment in driving online sales growth.

EBITDA loss remained largely flat from the last quarter at US\$1.87m (Q4 FY2021: US\$1.85m) as the company continued to invest in hiring and marketing initiatives going into the stronger summer months in North America.

Gross margin as a percentage of sales continued to increase pleasingly to 50%, up 7 percentage points on the last quarter (43% Q4FY2021). The increase is mainly attributable to reduced air freight costs in the quarter. Hydralyte North America held US\$8.76m in cash at the end of the quarter, leaving the Company well capitalized with the financial flexibility to progress growth initiatives and revenue generating opportunities to leverage the upcoming North America summer months.

	Q1'21	Q4'21	Q1 FY'22	QoQ Change	YoY Change
Total Unaudited Net Revenue	866	1,746	1,897	9%	119%
<i>E-commerce revenue</i>	397	727	919	26%	131%
<i>Traditional retail revenue</i>	468	1,019	978	(4%)	109%
Gross Margins	47%	43%	50%	16%	4%
EBITDA*	(919)	(1,848)	(1,924)	(4%)	(109%)

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

Strengthened board and management:

The Company bolstered its Board and advisory teams during the quarter with the appointments of two experienced US executives. Ms Margaret Hardin was appointed to the Board as an Independent Non-Executive Director and Ms Vanessa Dew joined Hydralyte North America's advisory team. Both appointments bring extensive experience in the US market and offer diverse skillsets which the Company will leverage.

Ms Hardin is a global products senior executive and board director, who has previously scaled two consumer goods companies to generate more than USD\$100 million in revenue. Ms Dew, an entrepreneur and investor is the co-founder and Chief Sales Officer of Health-Ade, one of the largest kombucha brands in the USA. Both currently work with several emerging, innovative brands advising on growth opportunities.

Appointment of prominent North American actress and entrepreneur:

During the quarter, the Company entered into a binding deal memorandum with prominent North-American actress and entrepreneur Ms Shay Mitchell. Ms Mitchell is now a brand ambassador and equity partner, providing Hydralyte North America a key relationship in its prominent operating markets.

As per the terms of the agreement, Ms Mitchell was issued new fully paid ordinary shares equal to USD\$250,000 at an issue price per share of the 10-day VWAP (volume weighted average price) immediately prior to the date of the agreement, which will be subject to voluntary escrow. Ms Mitchell will also be issued a further grant of shares equal to USD\$250,000. For the full details regarding the agreement, please refer ASX announcement 29 March 2022.

Ms Mitchell will help broaden the brand awareness, consulting on social strategy, using her own social media channels, and curating promotional events. Her extensive reach across social media channels includes boasting over 32.5 million Instagram followers, 3 million Twitter followers, 4 million YouTube subscribers and over 6 million followers on TikTok.

As part of Hydralyte North America's product development initiatives the Company has begun to collaborate with Ms Mitchell to create a new flavor of Hydralyte specifically designed for the actress.

Additional growth initiatives:

Further product development initiatives remain a focus, with the Company progressing 13 of new products for launch into the US and Canadian market. These product launches are set to coincide with the peak of the North American summer, providing potential increased uptake and enhanced sales.

The quarter has laid a strong foundation for the Company to capitalise on its growing brand awareness ahead of the North American summer. Increasing revenues and footprint in traditional bricks and mortar stores across the US and Canada in the period continue to support HPC's growth strategies with the strengthening of the board and advisory team in conjunction with the appointment of brand ambassador Shay Mitchell.

Comments on Cash Flows:

The company can report that it is on track to meet its business objectives that sit behind the use of funds table. The following table represents the use of funds raised in the IPO since the 14 December 2021 IPO date:

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	(933,415)
New product Development	1,000,229	(61,930)
Operating expenditure	2,429,127	(635,882)
Working Capital	1,000,229	(920,283)
Costs of the IPO Offer	1,643,233	(1,447,967)
Total	12,145,633	(3,999,477)

Cash and cash equivalents for the quarter ending 31 March was \$8.8M, leaving 4.3 quarters of cash at the current run rate. It is expected the run rate will be positively impacted with growth and other measures.

Additional Information:

Payments to related parties and their associates for the quarter were \$2,717 for IT services, excluding payments to directors for remuneration as disclosed in the remuneration report.

Management commentary:

Hydralyte North America CEO Oliver Baker said: *"Progress made during the quarter has put us in an excellent position to continue to support our revenue growth plans through increasing our brand awareness and product development."*

"Bringing Shay on board ahead of the pending North American summer is set to significantly ramp this up. She has an extensive following on social media and a track record of building brands using her own style, passion and authenticity."

"Now heading into the summer months in North America demand for our product is expected to increase in line with seasonality which may further add to our growing revenues through increased cash collection. I look forward to updating shareholders on progress made by the Company through the following months."

ENDS

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

For further information:

Investors/Media

Henry Jordan

Six Degrees Investor Relations

0431 271 538

henry.jordan@sdir.com.au

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")

3/31/2022

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	1,740	1,740
1.2 Payments for		
(a) research and development		
(b) product manufacturing and operating costs	(1,055)	(1,055)
(c) advertising and marketing	(1,095)	(1,095)
(d) leased assets		
(e) staff costs	(548)	(548)
(f) administration and corporate costs	(924)	(924)
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Government grants and tax incentives		
1.8 Other (provide details if material)	(152)	(152)
1.9 Net cash from / (used in) operating activities	(2,034)	(2,034)
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)		
3.2	Proceeds from issue of convertible debt securities		
3.3	Proceeds from exercise of options		
3.4	Transaction costs related to issues of equity securities or convertible debt securities		
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	0	0

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	10,673	10,673
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,034)	(2,034)
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)		
4.5	Effect of movement in exchange rates on cash held	126	126
4.6	Cash and cash equivalents at end of period	8,765	8,765

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	8,765	10,673
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)	8,765	10,673

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	0
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.</i> <i>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)	(2,033)
8.2 Cash and cash equivalents at quarter end (item 4.6)	8,765
8.3 Unused finance facilities available at quarter end (item 7.5)	0
8.4 Total available funding (item 8.2 + item 8.3)	8,765
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	4.31
<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 beginning mid-year FY22.	
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: No steps have been taken 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. Based on this 4C document, the company has over a year of cash on hand at the current run rate and expects operating cash flows to improve through the year with growing revenue and margins.

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.

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: 26 April 2022

By the board
Authorised by: _____
(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.