

Company Announcement
ASX: HPC

DATE: 29/07/2022

All amounts in \$US and unaudited unless otherwise specified.

Q2 FY22 Quarterly Report and Appendix 4C: Hydralyte North America Achieves Record Revenue and Gross Margin

KEY HIGHLIGHTS

- Record net revenue achieved in Q2 with US\$2.2m in net sales, representing 56% growth on prior corresponding period ('PCP') (Q2 FY2021: US\$1.4m)
- Q1 FY2022 revenue marks an 18% increase on the last quarter (Q1 FY2022: US\$1.9m)
- Record quarterly revenue underpinned by monthly net sales of US\$0.95m in June – demonstrating strong traction ahead of North American summer months
- Q2 FY2022 result supported by biggest Canadian retailer's in market sales up more than 50% in Q2 from the prior corresponding quarter, new product launches and eCommerce
- Continued gross margin increase to 57% or US\$1.3m, representing a 9 percentage point increase from the last quarter (Q1 FY2022: 48%)
- Maiden in-person Hydralyte event with Shay Mitchell with reach exceeding 4.4m social media impressions post quarter end
- Progressing on 12 product launches – Two new products shipped in Q2 and more launching in Q3

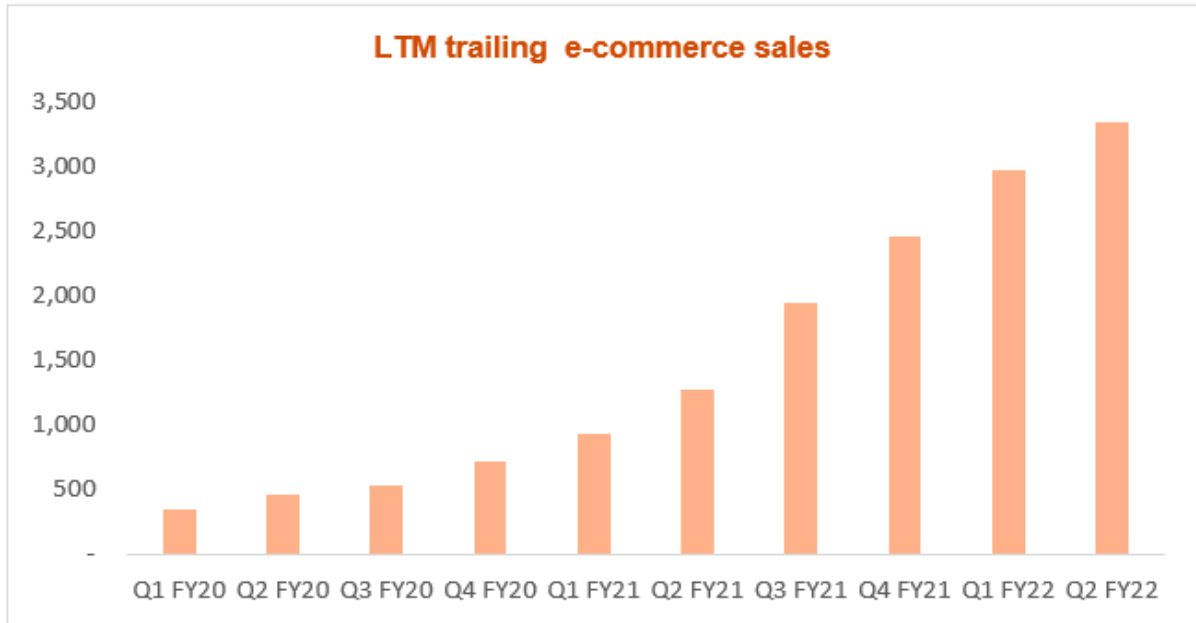
Hydration solutions company **The Hydration Pharmaceuticals Company Limited (ASX: HPC)** ("Hydralyte North America" or "the Company") is pleased to provide an update on its quarterly activities and Appendix 4C for the three-month period ended 30 June 2022 (the "quarter").

Financial overview:

Revenue for the quarter increased 56% on PCP (Q2 FY2021: US\$1.4m) and 18% on the previous quarter (Q1 FY2022: US\$1.9m), resulting in record quarterly net revenues of US\$2.2m. The rise in revenues is attributed to higher shipments into new and existing North

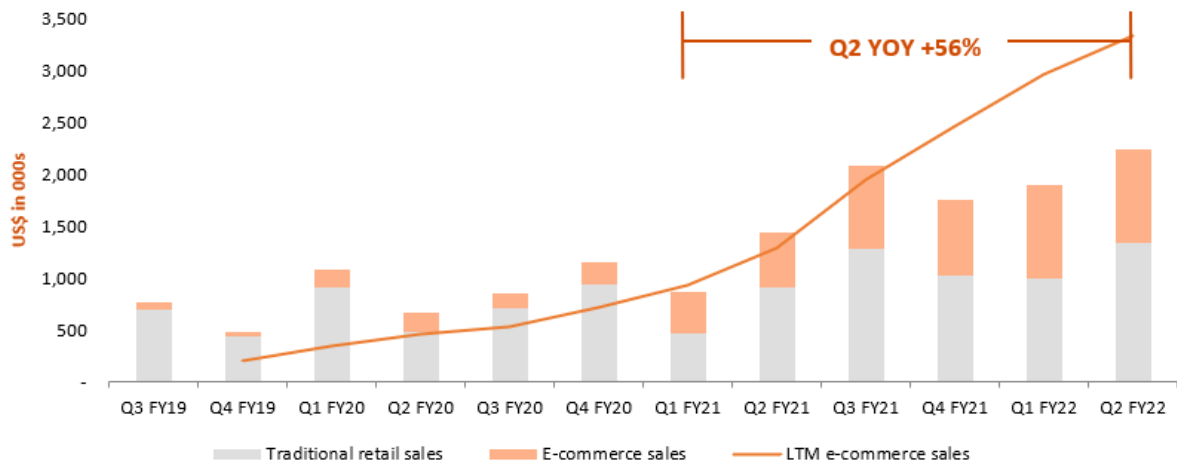
American retailers driven by record retail shelf sell-through, new product launches and ongoing sales to retail customers through eCommerce channels.

The following chart displays the eCommerce trailing 4-quarter growth through Q2 FY2022:



The following chart displays the strong YoY growth (Q2 FY2022 beat seasonally highest Q3 FY2021):

Quarterly net revenue - Q4FY19 to Q2FY22



Marketing spend for the quarter was US\$1.2m, down from US\$1.3m in Q1 FY2022, while marketing spend as a percentage of net sales decreased from 68% in Q1 FY2022 to 55% in Q2 FY2022. It should be noted that a \$250,000 payment in the form of an equity was granted to prominent actress and entrepreneur, Shay Mitchell, which is not included in marketing expense in line with accounting standards. Despite a reduction in marketing expenditure, the Company continued to invest in multiple marketing activities including the appointment of Shay Mitchell, China distribution partnership, eCommerce website revamps, and continued investment to drive online sales growth.

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EBITDA loss decreased 21% on the last quarter by US\$0.4m to US\$1.5m, compared to a loss of US\$1.9m in Q1 FY2022. The EBITDA improvement was driven by a US\$0.4m improvement in gross margin to US\$1.3m (Q1 FY2022: US\$0.9m).

Due to timing, although EBITDA improved by US\$0.4m, cash expenditures for the quarter increased mainly due to a decrease in payables of US\$0.3m and an increase in inventory of US\$0.4m, among other working capital changes.

Gross margin as a percentage of sales continued to increase pleasingly to 57%, up 9 percentage points on the last quarter (Q1 FY2022: 48%). The increase is mainly attributable to reduced airfreight costs during the quarter and continued sales of new and more profitable products combined with a higher margin customer mix.

The following table summarises change in revenues and gross margins into Q2 FY2022:

	Q2 FY21	Q1 FY22	Q2 FY22	QoQ change	YoY change
Total Unaudited Net Revenue	1,434	1,897	2,235	18%	56%
<i>E-commerce sales</i>	527	908	896	1%	70%
<i>Traditional retail sales</i>	907	989	1,339	35%	48%
Gross Margins	46%	48%	57%	18%	23%
EBITDA	(1,101)	(1,920)	(1,510)	21%	37%

Operational overview:

Partnership with prominent North American Actress and brand ambassador, Ms Shay Mitchell commences:

Hydralyte North America began its partnership with North American brand ambassador and equity partner, Shay Mitchell. Ms Mitchell is an accomplished actress, entrepreneur and mother. She has a significant social media presence, boasting an Instagram following three times larger than some of America's most prominent athletes and almost forty times some of Australia's leading influencers.

Ms Mitchell's social media presence continues to grow, particularly following her recent pregnancy and now stretches to 33.9m Instagram followers, 2.9m Twitter followers, 4.21m YouTube subscribers and 7.3m followers on TikTokⁱ.

The commencement of the partnership was highlighted through the first of a number of social media posts from Ms Mitchell from her Instagram accountⁱⁱ and interviews with North American news outlets including the New York Postⁱⁱⁱ, Yahoo^{iv}, MSN^v and Today's Parent^{vi}.

As part of the ongoing engagement, Ms Mitchell will provide insight into Hydralyte North America's social media strategy to increase brand awareness and underpin potential sales growth. This will be complemented by Ms Mitchell utilising her own social media channels for additional posts featuring Hydralyte North America products, as well as attending two-in-person events during 2022.

Maiden in-person event and marketing activation with Shay Mitchell in Canada:

As part of Hydralyte North America's focus on increasing brand awareness in Canada, the Company advanced plans to host a marketing activation and event in Toronto alongside Shay Mitchell.

Hydralyte North America and Ms Mitchell collaborated on the organisation of the event during the quarter, which was focused on a healthy day with Hydralyte and Shay Mitchell and promoting the use of the Company's product in sport and recreational activities.

The event occurred subsequent to the end of the period on 13 July 2022 and was attended by nearly 50 high profile North American social media influencers. This led to significant coverage across a number of social media platforms, which is expected to broaden the Company's profile amongst its target demographic.

Additional marketing and growth initiatives:

To complement the ongoing engagement with Shay Mitchell and to increase market share in Canada during peak summer months, the Company undertook a number of steps towards the commencement of marketing campaigns in Toronto, Ontario and British Columbia.

The Company launched an out-of-home (OOH) marketing campaign which includes the use of buses and elevators across Toronto. The promotion will run through to the end of August and is expected to increase brand awareness into peak demand season of the northern hemisphere summer.

Hydralyte North America has commenced daily in-store merchandising with major retailers in Ontario and British Columbia. The Company increased its daily store visit rate to ensure product was well positioning and any out of stocks could be immediately addressed at highest volume stores across the region.

New product development and recent launches:

Further product development initiatives and launches remain a focus. The Company successfully launched two new products during the quarter, which included Hydralyte+ Liver Support and Hydralyte+ Stress Relief with Ashwagandha. The new stock keeping units (SKUs) are currently being shipped to retailers in the US.

Hydralyte North America is also progressing 12 new products for launch into the US and Canadian market, with the majority set to coincide with the peak of the North American summer, providing potential increased uptake and enhanced sales. The proposed launches will include new flavours, larger serving sizes for the sport and recreational categories and variety packs which has generated strong eCommerce sales to date.

Comments on Cash Flows:

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

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	(2,062,921)
New product Development	1,000,229	(124,740)
Operating expenditure	2,429,127	(1,240,860)
Working Capital	1,000,229	(1,390,989)
Costs of the IPO Offer	1,643,233	(1,447,967)
Total	12,145,633	(6,267,477)

Net cash used in operating activities was US\$2.3m, which included US\$0.4m of inventory stocking as the Company heads into peak demand season during the northern hemisphere summer.

As at 30 June 2022, Hydralyte North America had cash and cash equivalents of US\$6.3m. This provides the Company with the financial flexibility to increase its revenue profile, gross margin and continue to reduce net cash used in operating activities.

Additional Information:

Payments to related parties and their associates for the quarter were \$1,734 for IT services, excluding payments to directors for remuneration as disclosed in the remuneration report.

Management commentary:

Hydralyte North America CEO Oliver Baker said: *"Hydralyte North American has achieved another consecutive quarter of growth and laid a solid foundation moving into the North American summer months.*

"The increase in revenue was underpinned by the ongoing expansion of our traditional retail sales footprint, as well as increasing our product range with existing customers. Ongoing eCommerce sales have also assisted. Pleasingly, gross margin rose 9% on the last quarter, underpinned by a reduction in shipping costs and a mix of higher margin product sales across the board.

"The Company progressed a number of marketing initiatives designed to increase brand awareness in key markets. We have implemented a number of creative marketing campaigns, including events and OOH strategies that have the potential to drive product turnover during the summer months.

“With Shay Mitchell now fully engaged as a brand ambassador and a number of new product launches expected to occur in the coming months, Hydralyte North America remains very well placed to unlock additional shareholder value.”

ENDS

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

For further information:

Investors/Media

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ⁱ As at 29 July 2022

ⁱⁱ <https://www.instagram.com/reel/CdhYa51lgI6/>

ⁱⁱⁱ <https://nypost.com/2022/05/13/shay-mitchell-talks-baby-name-and-favorite-products/>

^{iv} <https://currently.att.yahoo.com/att/exclusive-shay-mitchell-best-advice-205825073.html>

^v <https://www.msn.com/en-us/lifestyle/lifestyle-buzz/exclusive-shay-mitchell-has-the-best-advice-for-moms-on-embracing-their-bump/ar-AAXftMU?li=BBnb7Kz>

^{vi} <https://www.todayparent.com/pregnancy/being-pregnant/shay-mitchell-hacks-for-pregnancy-swelling-and-charley-horses/>

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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")

6/30/2022

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	2,164	3,904
1.2 Payments for		
(a) research and development		
(b) product manufacturing and operating costs	(1,939)	(3,040)
(c) advertising and marketing	(1,058)	(2,170)
(d) leased assets		
(e) staff costs	(634)	(1,189)
(f) administration and corporate costs	(856)	(1,722)
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	(2)	(2)
1.7 Government grants and tax incentives		
1.8 Other (provide details if material)	57	(116)
1.9 Net cash from / (used in) operating activities	(2,268)	(4,334)

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

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Consolidated statement of cash flows	Current quarter \$US'000	Year to date (.....months) \$US'000
(f) other non-current assets		
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	8,650	10,673
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(2,268)	(4,334)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	0	0

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

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	(42)	2
4.6	Cash and cash equivalents at end of period	6,340	6,340

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	6,340	8,650
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)	6,340	8,650

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. 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)	(2,268)
8.2 Cash and cash equivalents at quarter end (item 4.6)	6,340
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	6,340
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	2.8
<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.

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: 29 July 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.