

Company Announcement
ASX: HPC

DATE: 31/08/2022

H1 FY2022 Half Year Report and Appendix 4D: Hydralyte North America achieves record sales growth and continues gross margin increase

KEY HIGHLIGHTS

- US\$4.1m in net revenue achieved, highlighting a record and 80% growth on prior corresponding period ('PCP') (H1 FY2021: US\$2.3m)
- H1 FY2022 revenue marks an 8% increase on the last half (H2 FY2021: US\$3.8m)
- Record HY revenue underpinned by net sales of US\$0.95M in June - demonstrates strong traction ahead of peak demand season of North American summer
- H1 FY2022 result supported by 50% increase in sales through Canada's largest retailer in Q2, new product launches and ongoing eCommerce sales
- Continued gross margin increase to 54% or US\$2.2m, representing a 9 percentage point increase from the last half (H2 FY2021: 45%)
- Partnership established with leading North American entrepreneur and prominent actress, Ms Shay Mitchell with brand ambassadorship commencing during H1
- Maiden in-person Hydralyte event with Shay Mitchell with reach exceeding 4.4m social media impressions during H2 FY2022
- Work towards 12 product launches well progressed – Two new products shipped in H1 FY2022 with majority to launch during H2 FY2022

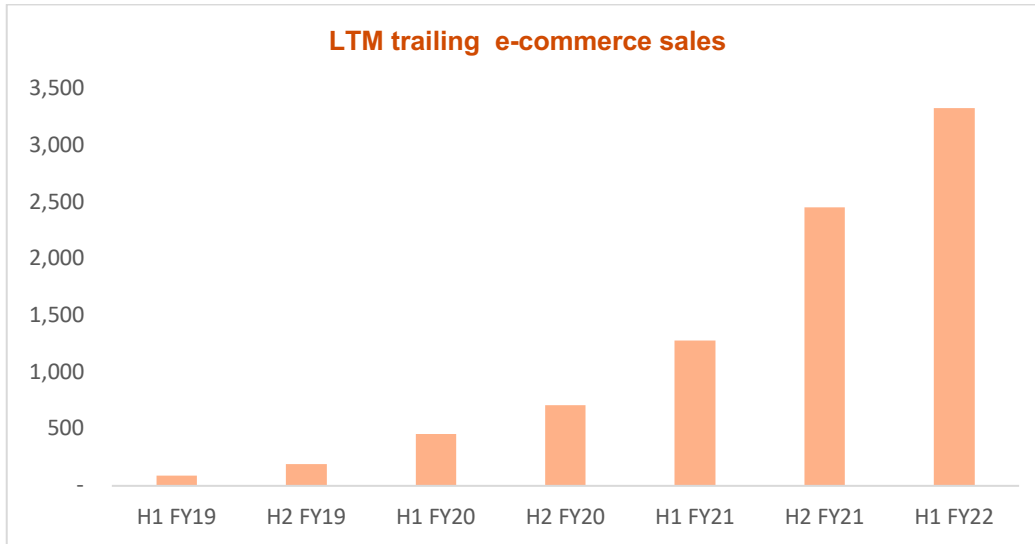
Hydration solutions company **The Hydration Pharmaceuticals Company Limited (ASX: HPC)** ("**Hydralyte North America**" or "**the Company**") is pleased to provide a summary and update on its half year activities and Appendix 4D for the six-month period ended 30 June 2022 (the "half year" or "H1 FY2022").

Financial overview:

Net revenue for the half year increased to US\$4.1m, highlighting a record half year result for the Company. This marked an 80% on the prior corresponding period ("PCP") (H1 FY2021: US\$2.3m) and 8% on the previous half (H2 FY2021: US\$3.8m).

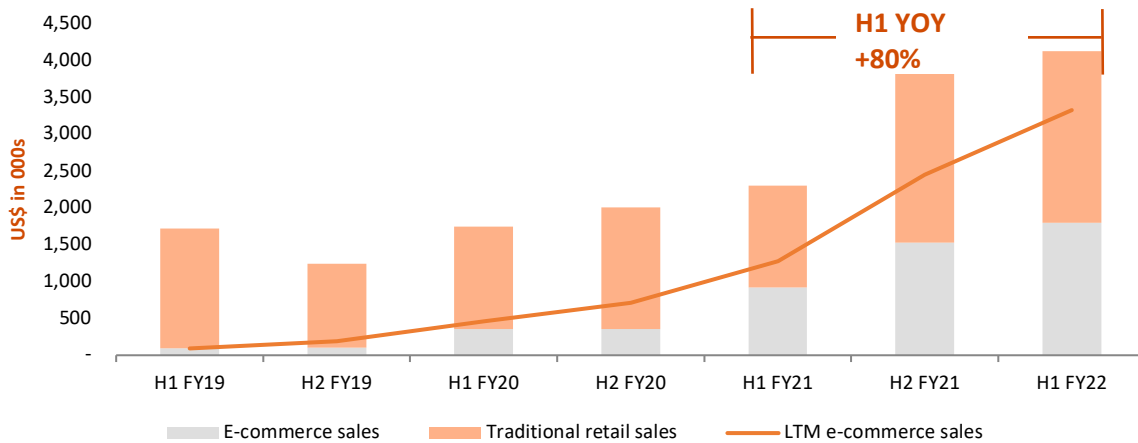
The strong revenue increase was underpinned by a higher volume of shipments into new and existing North American retailers, record retail shelf sell-through, multiple new product launches and continued sales to retail customers through eCommerce channels.

The following chart displays the eCommerce trailing HY-quarter growth through H1 FY2022:



The following chart displays the strong HoH growth in net revenue:

Half year net revenue - H1FY19 to H1FY22



Sales and marketing spend for the half was US\$3.9m, up slightly from US\$3.4m in H2 FY2021, while sales and marketing as a percentage of net sales increased from 90% in H2 FY2021 to 95% in H1 FY2022. The Company continued to invest in multiple marketing activities including the appointment of leading entrepreneur and brand ambassador Ms Shay Mitchell (refer ASX announcement: 29 March 2022), China distribution partnership and in-country growth, updates to its eCommerce website, and additional investment to drive online sales growth.

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EBITDA loss increased on the last half by US\$0.1m to US\$3.5m, compared to a loss of US\$3.4m in H2 FY2022. The EBITDA decrease was driven by a US\$0.7m increase in additional expenses offset by a US\$0.5m increase in gross margin (H2 FY2021: US\$1.7m).

EBITDA as a percentage of net sales improved 3 percentage points, cash expenditures for the half, compared to H2 FY2021, rose mainly due to an increase in inventory of US\$0.9m, among other working capital changes.

Gross margin as a percentage of sales continued to increase strongly to 54%, up 9 percentage points on the last half (H2 FY2021: 45%). The rise is mainly attributable to volume discounts and improving air and ocean freight mixture.

The following table summarises change in revenues and gross margins into H1 FY2022:

	1H FY21	2H FY21	1H FY22	HoH change	YoY change
Total Unaudited Net Revenue	2,300	3,828	4,132	8%	80%
<i>E-commerce sales</i>	924	1,526	1,804	18%	95%
<i>Traditional retail sales</i>	1,375	2,301	2,329	1%	69%
Gross Margins	47%	45%	54%	21%	16%
EBITDA	(2,086)	(3,349)	(3,473)	4%	67%

Operational overview:

Operational objectives during the half were primarily focused on the commencement of the Company's partnership with new brand ambassador, Ms Shay Mitchell, as well as a number of other initiatives to underpin sales growth.

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

During the half, Hydralyte North America entered into a binding deal memorandum with North American brand ambassador and equity partner, Shay Mitchell and commenced the partnership with various social media promotions and in-person events.

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 reach continues to flourish, particularly following her recent pregnancy and now stretches to 34.2m Instagram followers, 2.9m Twitter followers, 4.2m YouTube subscribers and 7.3m followers on TikTokⁱ. This provides HPC with an exceptionally large audience to promote the Company's hydration solutions in a push to increase brand awareness across North America and other key markets.

The initiation of the partnership was highlighted through an inaugural social media post 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}. This was the first of a number of planned social media posts, with additional initiatives planned for the H2 FY2022 to coincide with the peak North American summer months.

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Ms Mitchell continues to provide ongoing insight into Hydralyte North America's social media strategy to increase brand awareness and underpin potential sales growth. The partnership will also be complemented by Ms Mitchell 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. The event took place subsequent to the end of H1 FY2021 and was attended by almost 50 high profile North American social media influencers. This is expected to considerably broaden Hydralyte North America's branded awareness and profile in its target demographic

Hydralyte North America and Ms Mitchell collaborated on the organisation of the event during H1 FY2022. The event 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.

Additional marketing and growth initiatives:

To complement the ongoing engagement with Shay Mitchell and to increase market share in Canada during the peak summer months of H2 FY2021, the Company progressed work during the half underpinning the commencement of marketing campaigns in Toronto, Ontario and British Columbia.

The Company launched an out-of-home (OOH) marketing campaign in H1 FY2022 using 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 also 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 positioned and any out of stocks could be immediately addressed at highest volume stores.

New product development and recent launches:

Further product development initiatives and launches remained a focus during H1 FY2022, which led to the launch of two new products during the half. These new high-margin stock keeping units (SKUs) included Hydralyte+ Liver Support and Hydralyte+ Stress Relief with Ashwagandha. The new SKUs are currently being shipped to retailers in the US, with revenue expected to be recorded during H2 FY2022.

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 new products 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:

Net cash used in operating activities was US\$4.5m, which included US\$0.9m of inventory stocking ahead of the peak demand season of the northern hemisphere summer.

Non-cash working capital is expected to decrease as the company expands its portfolio of manufacturers, generating lower lead times, improved margins related to freight and volume discounts.

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. The Company is confident that the Group will be successful in growing the business to a breakeven point and eventually profitability.

Management commentary:

Hydralyte North America CEO Oliver Baker said: *"Hydralyte North American has delivered a very pleasing half year result. Revenue has increased significantly over the previous corresponding period and last half, while marketing spend has only increased slightly. This highlights the strong brand awareness Hydralyte North America has built in key operating markets and leaves us very well positioned as we move into the North American summer months.*

"Sales continued to increase during the half, alongside the Company's ongoing expansion into additional traditional retail outlets. This was coupled with a broadened product range that has continued to resonate with new and existing customers, highlighted by eCommerce sales.

"Pleasingly, gross margin continued to rise on a half-by-half basis, up 9% on the PCP. This was underpinned by management's focus on reducing shipping costs and a mix of higher margin product sales across the board.

"From an operational standpoint, the Company has designed and implemented a number of initiatives to drive brand awareness in the US and Canada. We anticipate that the results from these campaigns and new relationship Shay Mitchell will materialise during H2 FY2022 and look forward to providing ongoing updates to shareholders."

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

ⁱ As at 30 August 2022

ⁱⁱ <https://www.instagram.com/reel/CdhYa51gl6/>

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.todaysparent.com/pregnancy/being-pregnant/shay-mitchell-hacks-for-pregnancy-swelling-and-charley-horses/>

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