

Company Announcement
ASX: HPC

DATE: 17/10/2022

\$12m loan facility secured to capitalise on recent growth across North America

HIGHLIGHTS

- **Two tranche secured loan facility from existing substantial shareholder, PURE Asset Management**
 - **Funding includes detached warrants which will be issued to PURE Asset Management through the utilisation of each loan tranche – First tranche warrants will be exercisable at \$0.29**
 - **Funds to be deployed predominately towards continued marketing activities to support national Canadian distribution, rapidly expanding US store growth and online sales**
 - **Additional capital to be used to expedite ambassador partnership with leading US entrepreneur and influencer Shay Mitchell ahead of personalised co-branded product launch in Q4 FY2022**
 - **Provides financial flexibility to accelerate the next phase of company growth, following continued rapid growth over the North American summer period**
 - **Record net sales in the September quarter highlighted by a 62% increase on Amazon USA – new capital to underpin marketing and further ecommerce sales growth**
 - **Ecommerce revenue underpinned by an ongoing rise in Amazon USA subscriptions which have grown at 5% to 12% per month during FY2022**
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Hydration solutions company **The Hydration Pharmaceuticals Company Limited (ASX: HPC) (“Hydralyte North America” or “the Company”)** is pleased to advise that it has entered into a A\$12m two-tranche secured loan facility (the “facility”) with boutique asset manager and existing substantial shareholder PURE Asset Management Pty Ltd (“PURE” or “PURE Asset Management”).

The funding provides the Company with considerable financial flexibility to invest in marketing activities to support national Canadian distribution, rapidly expanding US store growth and online sales.

Strategically, the timing and quantum of the cash injection provides the Company with the balance sheet strength to accelerate the momentum it gained during the northern summer period and consolidate its platform for long-term growth.

Key terms of the funding

Hydralyte North America can access A\$6.5m following the execution of the facility agreement and, subject to satisfaction (or waiver by PURE) of certain conditions (see Schedule 1 for further details), the Company can access the remaining A\$5.5m within 365 days from the execution of the facility agreement.

The repayment date is 48 months after the utilisation date of the first tranche and includes an interest rate of 10% per annum (payable quarterly).

The facility is secured by a first ranking security interest over the assets of the Group.

The first tranche of funding will be deployed towards the ongoing execution of targeted marketing strategies, in conjunction with expanded inventory investment to match growing demand.

Further details are provided in Schedule 1 to this announcement.

Warrants

As part of the funding package, the Company will issue 22,413,794 warrants to acquire fully paid ordinary shares (**Shares**) to PURE (or nominee) on drawdown of the first tranche, utilising the Company's existing capacity under ASX Listing Rule 7.1 (**First Tranche Warrants**).

The First Tranche Warrants will be exercisable for Shares at an exercise price representing the lower of:

- \$0.29;
- a 20.0% discount to the price of any change of control transaction; and
- an 'anti-dilution price adjustment' price (see Schedule 1).

Subject to drawdown of the second tranche of the loan and approval of the Company's shareholders for the purposes of Listing Rule 7.1, the Company will issue to PURE (or nominee) the number of warrants over Shares calculated in accordance with the formula in Schedule 1. (**Second Tranche Warrants**).

Using the 'floor price' for the purposes of the formula, this would result in the issue of 36,666,667 warrants.

The Second Tranche Warrants will be exercisable for Shares at an exercise price representing the lower of:

- 150% of the trailing volume weighted average price of shares immediately prior to the second tranche utilisation notice, subject to a floor price (minimum) of \$0.15 and a price cap (maximum) of \$0.40;
- a 20.0% discount to the price of any change of control transaction; and
- an 'anti-dilution price adjustment' price (see Schedule 1).

If the warrants are exercised, the proceeds are expected to provide sufficient funding to extinguish the loan in full, or the funds can be applied to future corporate funding requirements.

Operational update

Operationally, Hydralyte North America's activities in the September quarter were highlighted by rapid growth across ecommerce channels, particularly through Amazon USA where quarterly sales rose by 62% from the prior year comparative period (PCP).

Ecommerce revenue growth was underpinned by an ongoing increase in Amazon USA subscriptions, which have grown at 5% to 12% per month during FY2022.

Further confirmation of the Group's diversified growth across US and Canadian ecommerce channels was evidenced through strong uptake on Walmart Canada (year-to-date sales up 92%) and Shoppers Drug Mart, which remains the Company's largest customer in Canada with year-to-date sales growth of 47%.

The Company's growth was particularly encouraging as 2021 saw an intense and prolonged heat wave in Canada that saw a beyond seasonable sales spike.

Recent sales momentum has been complemented by an effective marketing strategy, including the successful recruitment of leading entrepreneur and influencer Shay Mitchell.

Ms Mitchell supported the brand through an in-person event Q3 FY2022, along with multiple social media posts. Key initiatives in Q4 will be led by the release of a new co-branded Hydralyte flavour personally endorsed by Mitchell. As a gauge of Mitchell's popularity in the Company's core target markets, her social media presence currently stands at 34.6m Instagram followers, 2.9m Twitter followers, 4.23m YouTube subscribers and 7.3mm followers on TikTok¹.

Hydralyte was also able to achieve its record net sales growth despite a challenging operating environment for supply chain logistics, which has affected multiple sectors in the wake of the pandemic. With its expanded balance sheet strength, the Group will also be focused on streamlining its US and Canadian logistics channels, where it's targeting improved economies of scale to further drive margin growth from its current sales trajectory.

Along with inventory growth and ecommerce, the Group has also allocated additional funds for deployment in product development & manufacturing, as well as increasing China distribution and sales. Additional capital will be utilised to provide flexibility and allow the business to take advantage of additional opportunities as they arise

Management commentary:

Chief Executive Officer Mr Oliver Baker said: *"We are very pleased to have secured new funding from PURE Asset Management. As an existing substantial shareholder, PURE has been a supporter of our journey for nearly 2 years. The terms of the funding reflect their confidence in our ability to meet our large ambitions for the brand, with a four-year repayment period, it allows considerable time for the Company to expedite its growth trajectory.*

"Crucially, the injection of new funding will be used to drive continued growth anchored around three key parts of the business. Firstly, our National Canadian store distribution. Secondly, our US Ecommerce business and lastly the launch of Shay's co-branded SKU which is generating significant buzz in the market.

¹ As at 10 October 2022

"Following record sales growth in the northern summer, Hydralyte North America remains positioned to continue to scale up serving the lucrative and fast growing hydration market. We're excited to further build on the Company's inherent product advantages through product innovation, low sugar and great taste."

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

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Schedule 1 – Terms of Facility and Warrants

Facility

The loan is documented in a facility agreement between the Company, its subsidiaries and PURE Asset Management Pty Ltd in its capacity as trustee for The Income and Growth Fund (**Pure**) (**Facility Agreement**) dated 14 October 2022 (**Facility Date**) together with a General Security Deed between the same parties dated the same date.

The facility is a \$12,000,000 two-tranche facility (the **Facility**) comprising:

- a **First Loan** of A\$6,500,00 to be utilised within 14 days after the Facility Date; and
- a **Second Loan** of A\$5,500,000 to be utilised within 365 days of the Facility Date.

The conditions that the Company must satisfy in order to access the Second Loan are:

- shareholder approval being obtained (or not required) for the issue of the warrants relating to the Second Tranche Warrants;
- 'total return on advertising spend' (calculated as total group gross sales divided by total group marketing expenditure) being greater than or equal to 2.2x for a minimum of three months in a five month period prior to utilisation;
- Group gross sales being greater than or equal to US\$1.1 million for a minimum of three months in a five month period prior to utilisation; and
- no event of default or review event continuing or expected at the time.

The Repayment Date is 48 months after the utilisation date of the First Loan.

Interest is payable quarterly at a rate of 10.0% per annum (or 15.0% if a default or review event is subsisting).

The Company may repay the loan prior to the Repayment Date in tranches of \$500,000 if it gives PURE at least 30 business days' notice and pays a 2.5% repayment fee on the repayment amount.

The Facility includes a 1.5% establishment fee, payable on the utilisation date of the First Loan, and a line fee of 2.0% of the value of the Second Loan, payable on utilisation of the Second Loan.

The Facility includes the following covenants:

- from utilisation of the First Loan, minimum cash covenant at all times of US\$750,000;

- from utilisation of the Second Loan, minimum cash covenant at all times of US\$1,500,000;
- at all times:
 - default event: quarterly gross profit less than or equal to US\$750,000, tested each financial quarter-end; and
 - review event: quarterly gross profit less than or equal to US\$1,00,000, tested each financial quarter-end.

The review event can be cured by clearing the test hurdle at a subsequent quarter.

The Facility is secured by a first-ranking general security over all present and after-acquired property of the Company and each Group entity in all relevant jurisdictions.

Warrants

First Tranche Warrants

The Company and PURE have entered into a Warrant Deed dated the Facility Date as part of the funding package.

The Company will issue 22,413,794 warrants to acquire fully paid ordinary shares (**Shares**) to PURE (or nominee) on drawdown of the First Loan, utilising the Company's existing capacity under ASX Listing Rule 7.1 (**First Tranche Warrants**).

The First Tranche Warrants will be exercisable for Shares at an exercise price (**First Tranche Exercise Price**) representing the lower of:

- \$0.29;
- a 20.0% discount to the price of any change of control transaction; and
- an 'anti-dilution price adjustment' price (see below).

Second Tranche Warrants

Subject to drawdown of the Second Loan and approval of the Company's shareholders for the purposes of Listing Rule 7.1, the Company will issue to PURE (or nominee) the number of warrants over Shares calculated as follows (**Second Tranche Warrants**):

Second Tranche Warrants = Second Loan amount ÷ Second Tranche Exercise Price

The Second Loan amount is \$5,500,000

The **Second Tranche Exercise Price**, which for the purposes of the number of Second Tranche Warrants is calculated at the time of utilisation of the Second Loan, is the lower of:

- 150% of the trailing volume weighted average price of shares immediately prior to the second tranche utilisation notice, subject to a floor price (minimum) of \$0.15 and a price cap (maximum) of \$0.40;
- a 20.0% discount to the price of any change of control transaction; and
- an 'anti-dilution price adjustment' price (see below).

Using the 'floor price' for the purposes of the formula, this would result in the issue of 36,666,667 warrants.

The Second Tranche Warrants are exercisable at an exercise price representing the Second Tranche Exercise Price that applies at the time of exercise of the Second Tranche Warrants.

Anti-dilution price adjustment

If the Company makes an issue of equity securities (or a series of consecutive issuances of equity securities in any period not exceeding 12 months), other than the exercise or conversion of options, rights or other convertible securities on issue at the Facility Date, and the diluted amount of those equity securities (in aggregate) exceeds 15% of the number of Shares on issue immediately before the announcement of the issue or first issuance, the anti-dilution price adjustment price of the Warrants will be calculated in accordance with the following formula:

$(A + B) / C$, where:

- **A** is the market capitalisation of the Company on the trading day prior to the announcement of the issue of equity securities;
- **B** is the number of equity securities the subject of the issue multiplied by their issue price; and
- **C** is the number of Shares on issue immediately before the announcement of the issue of equity securities plus the diluted amount of the issued equity securities.

Expiry of the Warrants

The Warrants expire on the date that is 7 days prior to the Repayment Date of the Loan (being 48 months after utilisation of the First Loan).

Prohibited issuances

The Company may not issue any shares other than ordinary shares while the Warrants are on issue (absent PURE's consent).

Other terms

The Warrants:

- do not confer any entitlement to dividends or other distributions, nor any right to attend or vote at a general meeting of the Company;
- have no entitlement to participate in a new issue of capital offered to shareholders without first being exercised;
- will not be quoted on ASX, however the Company will apply for quotation of the Shares issued on exercise of the Warrants; and
- contain standard adjustment terms, consistent with the ASX Listing Rules, in the event of a bonus issue, pro rata issue, reorganisation or reconstruction of capital.

Ends