

Company Announcement
ASX: HPC

DATE: 31/10/2022

Q3 FY22 Quarterly Report and Appendix 4C: Hydralyte North America delivers another consecutive record quarter of growth

KEY HIGHLIGHTS

- Q3 record net revenue achieved with US\$2.44m in net sales - 17% increase on prior corresponding period ('PCP') (Q3 FY2021: US\$2.08m)
 - Growth on the PCP is particularly encouraging due to intense and prolonged heatwave in Q3 FY2021 which led to a beyond seasonable sales spike
 - Additional US\$0.8m in revenue secured post quarter end provides strong start to Q4 FY2022 – an 85% increase on October 2021 sales (PCP: US\$432,000)
 - Q3 FY2022 growth underpinned by 56% rise in sales to major Canadian retail groups
 - Amazon YoY subscription growth up 167% from 1,529 same time last year to 4,076 subscribers at end of Q3 FY2022
 - Amazon USA sales up 62% on Q3 FY2021 – Ecommerce subscriptions continue to grow at 5% to 12% per month
 - Gross margin up 4 percentage points from the PCP to 51% (Q3 FY2021: 47%)
 - 9 new products launched during quarter including powder flavours, effervescent tablets and powder tubs
 - New product launches unlock access to broader demographic and the sports section of major retailers in the US
 - 8 products in development – includes co-branded SKU with entrepreneur and brand ambassador Ms Shay Mitchell
 - Shay Mitchell SKU expected to launch in coming weeks across retail and ecommerce channels to provide catalyst for Q4 FY2022 sales growth
 - Subsequent to the end of the period, the Company secured a A\$12m loan facility – provides considerable financial flexibility for the next 24 months
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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 September 2022 (the “quarter”).

Financial overview:

Revenue for the quarter increased 17% on PCP (Q3 FY2021: US\$2.1m) and 9% on the previous quarter (Q2 FY2022: US\$2.2m). This highlights another consecutive record revenue for the Company and is particularly encouraging as the PCP was affected by an intense and prolonged heat wave in Canada that saw a beyond seasonable sales spike.

The rise in Q3 FY2022 revenues is attributed to strong growth through ecommerce channels including Amazon and increased sales through North American retail outlets.

Amazon US quarterly sales rose by 62% from the prior year comparative period, underpinned by customer subscriptions which have grown at 5% to 12% per month during FY2022. Total subscribers currently stand at 4,076, which is a 166% increase on the same period last year.

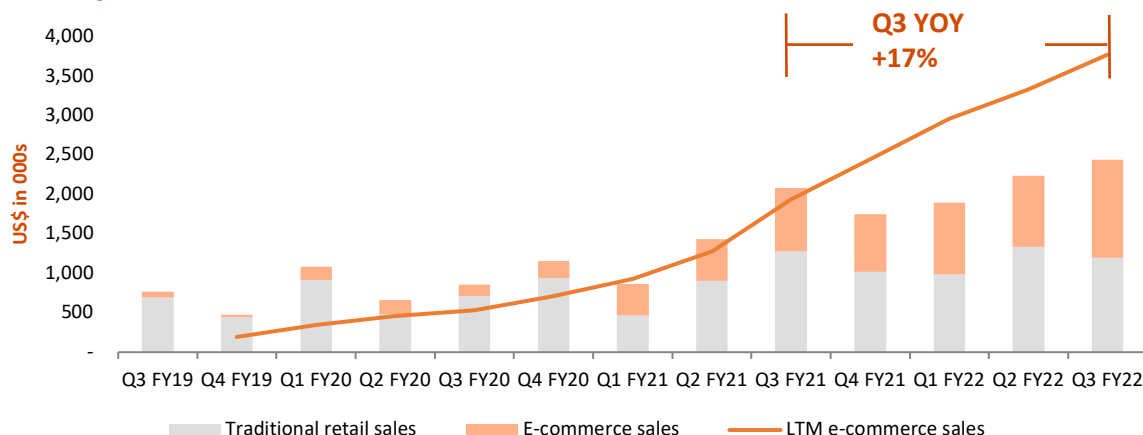
Through traditional bricks and mortar retailers in the US and Canada, the Company witnessed strong product uptake through Walmart Canada and Shoppers Drug Mart, with year-to-date retail sales up 92% and 47% respectively.

The following chart displays the eCommerce trailing 4-quarter growth through Q3 FY2022:



The following chart displays the strong YoY growth:

Quarterly net revenue - Q4FY19 to Q4FY21



Hydralyte North America continued to invest in marketing, with a total marketing spend for the quarter of US\$1.59m. These funds have been deployed to multiple initiatives including a China distribution partnership, eCommerce website relaunch, events to build the partnership with celebrity Shay Mitchell, and continued investment to drive online sales growth.

Gross margin as a percentage of net sales increased 4 percentage points from the PCP (Q3 FY2021: 47%), but decreased from the last quarter by 6 percentage points (Q2 FY2022: 57%). This decrease is mainly attributable to standard cost variance caused by increased air freight.

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

	Q3 FY21	Q2 FY22	Q3 FY22	QoQ change	YoY change
Total Unaudited Net Revenue	2,081	2,235	2,441	9%	17%
<i>E-commerce sales</i>	799	896	1,243	39%	56%
<i>Traditional retail sales</i>	1,283	1,339	1,198	-11%	-7%
Gross Margins	47%	57%	51%	-6	4
EBITDA	(1,502)	(1,611)	(2,347)	-46%	-56%

With a continued marketing investment, product development initiatives and ongoing product manufacturing and operating costs to service pending product demand, EBITDA loss totalled US\$2.3m.

Operational overview:

Maiden in-person event with brand ambassador Shay Mitchell

Ms Mitchell supported the Company through an in-person event Q3 FY2022, along with multiple social media posts. Key initiatives in the current quarter will be led by the release of a new co-branded Hydralyte flavour personally endorsed by Ms Mitchell.

As a gauge of Ms 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.

New product development and recent launches:

Further product development initiatives and launches remain a focus. The Company successfully launched seven new flavours of effervescent powder sticks, two new flavours of effervescent tablets, and the first Hydralyte powder tub. The effervescent tablets and powder tub helped Hydralyte expand into the sports section in a major retailer for the first time. This is expected to provide additional exposure for the brand across a larger customer demographic.

Hydralyte North America is continuing to progress 8 new products for launch into the US and Canadian markets, including a co-branded product alongside Shay Mitchell. This is expected to launch during the current quarter and underpin additional sales growth for the Company.

Comments on Cash Flows:

The Company advises 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	(3,601,326)
New product Development	1,000,229	(340,490)
Operating expenditure	2,429,127	(2,017,600)
Working Capital	1,000,229	(1,655,870)
Costs of the IPO Offer	1,643,233	(1,447,967)
Total	12,145,633	(9,063,254)

Net cash used in operating activities was US\$2.8m, which is US\$0.5m higher than the last quarter (Q2 FY2022: US\$2.3m). A main driver of the increase in cash use was a build in inventory of US\$0.5m to US\$3.3m, although product manufacturing and operating costs declined from last quarter by US\$0.1m to US\$1.8 (Q2 FY2022: US\$1.9m).

Another driver of the increase in cash used in operating activities was a US\$0.5m increase in marketing expense, which was primarily one-off expenses geared towards brand and sales growth, and building assets around the Shay Mitchell partnership to maximise the impact into the launch. This increase marketing uses is outlined in the following table:

¹ As at 10 October 2022

Increase in Amazon Ad Spend	US\$(205,343)	One-off increase in July and August backed down in September
Increase in Facebook Ad Spend	US\$(135,112)	Largely focused on driving customers into retail locations in Canada and US
Shay Mitchell Photo Shoot	US\$(52,726)	Building assets to maximize Shay Mitchell impact
Shay Mitchell Event Planning Fees	US\$ (50,000)	Shay Mitchell event planning for launch of co-branded product
Shay Mitchell Event and Other PR	US\$ (47,114)	Shay Mitchell PR for event and launch of co-branded product
Video Production	US\$ (18,159)	Video to be used to drive more sales primarily on Amazon, increasing return on ad spend

In addition, administration and corporate costs increased US\$0.3m, which includes \$US0.1m in retailer administrative pass-through costs related to new item setup and display setup, and a US\$0.1m increase in fulfillment and broker fees.

The quarter over quarter increases in cash used in marketing and administration costs were partially offset by an increase in customer receipts and a decrease in product manufacturing and operating costs, having a combined positive impact of US\$0.3m, while inventory still increased by US\$0.5m.

As at 30 September 2022, Hydralyte North America had cash and cash equivalents of US\$3.5m. Subsequent to quarter end, Hydralyte secured a debt in the amount of A\$12m that is available in two tranches, with the first tranche coming available before year end. The details of this debt are outlined in the ASX release dated 17 October. With its expanded balance sheet strength, the Company is also focused on streamlining its US and Canadian logistics channels, targeting improved economies of scale to further drive margin growth from its current sales trajectory.

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

Additional Information:

Payments to related parties and their associates for the quarter were A\$429 for IT services, excluding payments to directors for remuneration as disclosed in the remuneration report.

Management commentary:

Hydralyte North America CEO Oliver Baker said: *"The Company has continued to deliver strong sales growth through the North American summer, which provides a solid foundation for the remainder of FY2022. We have continued to diversify revenue growth through traditional retail outlets, as well as ecommerce channels. The 62% increase in Amazon US sales over the period is testament to this, as well as the increased level of subscription revenue generated from the platform."*

“The Company has continued to invest in marketing initiatives, product development and ecommerce website upgrades, which is expected to translate to further opportunities through the current quarter and beyond.

“We look forward to providing further updates on pending launches and sales growth as developments materialise.”

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")

9/30/2022

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (9 months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	2,318	6,229
1.2 Payments for		
(a) research and development		
(b) product manufacturing and operating costs	(1,792)	(4,825)
(c) advertising and marketing	(1,596)	(4,052)
(d) leased assets		
(e) staff costs	(565)	(1,754)
(f) administration and corporate costs	(1,149)	(3,056)
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	0	(2)
1.7 Government grants and tax incentives		
1.8 Other (provide details if material)	(3)	305
1.9 Net cash from / (used in) operating activities	(2,788)	(7,155)

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 (9 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	6,340	10,673
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,788)	(7,155)
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 (9 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	(87)	(60)
4.6	Cash and cash equivalents at end of period	3,465	3,458

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	3,457	6,340
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)	3,457	6,340

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)	(2,788)
8.2 Cash and cash equivalents at quarter end (item 4.6)	3,465
8.3 Unused finance facilities available at quarter end (item 7.5)	0
8.4 Total available funding (item 8.2 + item 8.3)	3,465
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	1.24
<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: Subsequent to quarter end the company signed a debt agreement to raise AUD \$12m that is available in two tranches, with the first tranche to become available before the year end.	
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 are secured if needed.	
<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: 31/10/2022

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.