

Company Announcement
ASX: HPC

DATE: 31/1/2023

Q4 FY22 Quarterly Report and Appendix 4C: Another consecutive record quarter of growth achieved

KEY HIGHLIGHTS

- **US\$2.52m in net sales generated in Q4 FY2022 - 45% increase on prior corresponding period ('PCP') (Q4 FY2021: US\$1.74m)**
- **Highlights largest quarterly sales to date - going against the traditional seasonal downturn in Q4 following the North American summer months**
- **Growth underpinned by 69% rise in sales to major Canadian retail groups on PCP**
- **Amazon YoY subscription growth up 108% from 1,962 same time last year to 4,093 subscribers at end of FY2022**
- **Gross margin up 5 percentage points from the PCP to 48% (Q4 FY2021: 43%)**
- **Q4 FY2022 sales takes total unaudited FY2022 revenue to US\$9.09m – a 49% increase on FY2021**
- **Co-branded product with brand ambassador Shay Mitchell launched – marketing initiatives around launch unlocked a cumulative audience of 85m peopleⁱ**
- **Multiple new products currently in development – including additional co-branded SKUs with entrepreneur and brand ambassador Ms Shay Mitchell**
- **A\$12m loan facility secured providing considerable flexibility**
- **Q4 FY2022 included one off investments in marketing totalling approximately US\$445,000 which are anticipated to broaden brand awareness and increase efficiencies**
- **Operational expenditure expected to decrease through reduced spend on digital marketing implemented in Q1 FY2023 and ongoing consolidation in key markets**

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 31 December 2022 (the "quarter").

Financial overview:

Revenue for the quarter increased 45% on PCP (Q4 FY2021: US\$1.7m) and 4% on the previous quarter (Q3 FY2022: US\$2.4m) to US\$2.52m - highlighting another consecutive quarter of revenue growth in a traditionally seasonally down quarter.

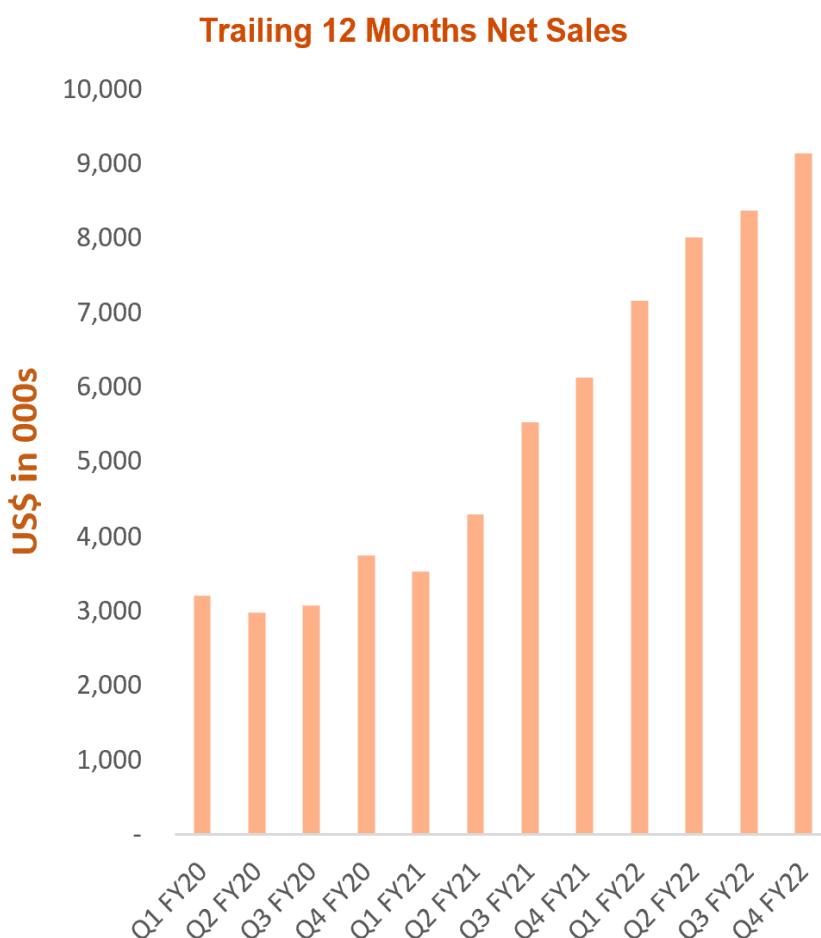
Q4 FY2022 net sales takes total unaudited FY2022 revenue to US\$9.09m, marking a 49% increase on the PCP (FY2021: US\$6.1m).

The rise in Q4 FY2022 revenues are attributed to strong growth through ecommerce channels including Amazon and higher sales through North American retail outlets.

Amazon US quarterly sales were up 32% on the previous corresponding period (PCP) to US\$0.7 (Q4 FY2021: US\$0.5m). This was underpinned by continued growth in Amazon subscribers, which increased 108% from 1,962 to 4,093 at the end of the quarter.

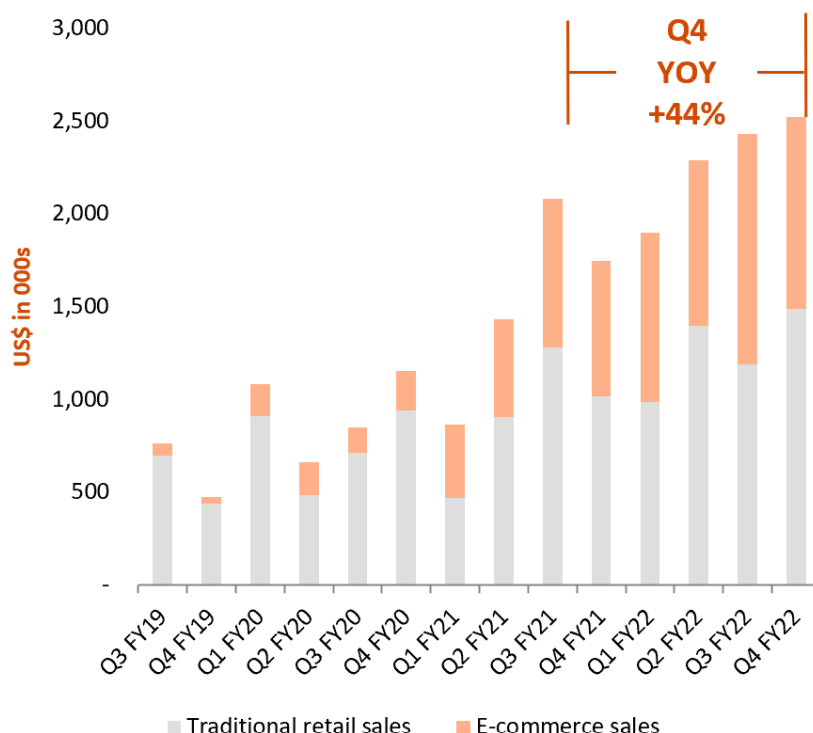
Through traditional bricks and mortar retailers in Canada, the Company witnessed strong product uptake through Walmart Canada, with year-to-date retail sales up 51%.

The following chart displays the trailing 12 months net sales for the three years ending Q4 FY2022:



The following chart displays the YoY growth:

Quarterly net revenue - Q4FY19 to Q4FY22



The following table summarises change in revenues and gross margins into Q4 FY2022:

	Q4 FY21	Q3 FY22	Q4 FY22	QoQ change	YoY change
Total Unaudited Net Revenue	1,746	2,434	2,523	4%	44%
<i>E-commerce sales</i>	727	1,243	1,035	-17%	42%
<i>Traditional retail sales</i>	1,019	1,192	1,487	25%	46%
Gross Margins	744	1,234	1,216	-1%	64%
Gross Margin %	43%	51%	48%	-2	6

Hydralyte North America invested US\$1.97m in marketing during the quarter. These funds were deployed to multiple initiatives including a China distribution partnership, ecommerce website relaunch, events to build the partnership and launch a product with brand ambassador Shay Mitchell, and continued investment to underpin online sales growth. Upon completion of the majority of these key marketing initiatives completed in FY2022, the Company is focused on cost reduction initiatives to decrease expenditure throughout FY2023.

Gross margin as a percentage of net sales increased 5 percentage points on the PCP (Q4 FY2021: 43%) but decreased from the last quarter by 3 percentage points (Q3 FY2022: 51%).

This decrease is attributable to standard cost variance caused by increased air freight in addition to increased inventory reserves with higher inventory balances to cover the expected growth. Although the percentage margin decreased from the prior quarter, the margin dollars were flat due to the US\$0.2m increase in sales achieved in Q4 FY2022.

Additional details on these marketing investments are included below.

Operational overview:

Streamlined US manufacturing:

The Company received manufacturing approval from Health Canada, which allows its US-based contract manufacturer to commence production of the Company's liquid product range for the Canadian market. This was viewed as a strategic priority and optimises HydraLyte North America's manufacturing process from a centralised production hub, allowing the Company the opportunity to capitalise on its existing North American distribution channels.

The manufacturing approval grant is expected to lead to a reduction in costs of goods sold, cheaper freights and an increase gross margin on the liquid range.

Co-branded product launch with entrepreneur and brand ambassador, Shay Mitchell:

The Company successfully launched its co-branded SKU, alongside Ms Shay Mitchell. The product is now being sold via the Company's ecommerce channels. Amazon USA and major US retailer, RiteAid. Additional bricks and mortar ranging is progressing well and will continue during Q1 FY2023 and beyond.

The launch was complemented by a two-day marketing event in Miami, Florida. At the event, Ms Mitchell and the Company hosted 16 of North America's top influencers, with the aim of leveraging each individual's social media following to drive brand awareness through social media posts. The event was highly successful and allowed the Company to reach a cumulative audience of approximately 85m people¹.

Additional product launch events and new SKUs with Ms Mitchell in both the US and Canada are planned throughout FY2023.

Use of IPO funds:

The Company remains 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 its IPO since the 14 December 2021 (IPO date):

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	(5,374,015)
New product Development	1,000,229	(482,771)
Operating expenditure	2,429,127	(2,726,243)
Working Capital	1,000,229	(1,655,870)
Costs of the IPO Offer	1,643,233	(1,447,967)
Total	12,145,633	(11,686,867)

Commentary on cash flows:

Net cash used in operating activities decreased by US\$0.2m on the previous quarter to US\$2.6m. This was due to a lower build in inventory of US\$0.3m compared to US\$0.5m during Q3 FY2022, prepaid and other assets declined from last quarter by US\$0.4m to US\$1.0m, and product manufacturing and operating payments declined from last quarter by US\$0.1m to US\$1.6m.

Marketing payments increased slightly by US\$0.1m to US\$1.7m on the prior quarter, primarily driven by one-off expenses geared towards brand and sales growth, website development, and Shay Mitchell partnership and events to maximise awareness. This was partially offset by decreases in digital advertising.

The key one-off marketing payments in Q4 FY2022 included:

Rebrand Costs	US\$(114,750)	Building assets to increase brand value
Website Development	US\$(88,100)	Developing HydraLyte website to improve sales
Shay Mitchell Event	US\$(147,275)	Host Shay Mitchell event for launch of co-branded product
Shay Mitchell Asset Creation	US\$(95,653)	Creation of photos and other digital assets for Shay Mitchell

Administration and corporate costs rose because of a large prepayment for annual D&O insurance being recognised in Q4 FY2022. Finance costs included a US\$0.1m payment in relation to the new debt facility finalised during the period.

The quarter over quarter increases in cash used in marketing and administration costs were offset by an increase in customer receipts and a decrease in product manufacturing and operating payments. These positive impacts have a combined improvement of US\$0.4m over the prior quarter.

Inventory value increased by US\$0.3m to US\$3.4m in the quarter. This was primarily prepaid so the increase in inventory value did not heavily impact cash at bank.

With many of the key marketing investments completed during FY2022, the Company has increased focus on reducing capital expenditure to extend cash life through improved return on marketing spend.

From financing activities, cash increased by a net US\$4.1m from the first tranche of the previously mentioned debt agreement after a US\$0.1m transaction fee.

Available funds:

As at 31 December 2022, HydraLyte North America had cash and cash equivalents of US\$4.9m. To increase financial flexibility, the Company also secured an AUD\$12m loan facility from existing substantial shareholder PURE Asset Management that is available in two tranches, with the first tranche drawn in November 2022. Further details of the loan facility are outlined in the Company's ASX release dated 17 October 2022.

With its strengthened balance sheet, the Company will continue to focus 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 China distribution and sales. These objectives will be undertaken in collaboration with stringent cost management initiatives across other aspects of the business with a strong focus on reduced cash burn through improved return on marketing.

Additional Information:

Payments to related parties and their associates for the quarter were AUD\$501 for IT services, excluding payments to directors for remuneration as disclosed in the remuneration report.

Management commentary:

HydraLyte North America CEO Oliver Baker said: *"To have delivered another consecutive quarter of growth highlights another major achievement for the Company. It is also very pleasing that HPC has bucked its traditional seasonal sales trend following the peak North American summer months and delivered a nearly 50% increase on sales throughout FY2022.*

"Operationally, the Company achieved a significant amount during the quarter, which was coupled by a strategic investment in marketing to drive brand awareness. Recent revenue growth is evidence of this and we are confident that we can leverage our established market position to further increase sales, while maintaining a stringent focus on capital expenditure."

ENDS

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

For further information:

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Forward-Looking Statements

This ASX release includes certain forward-looking statements that are based on information and assumptions known to date and are subject to various risks and uncertainties.

Forward-looking statements are based on:

- assumptions regarding the Company's financial position, business strategies, plans and objectives of management for future operations and development and the environment in which the Company will operate; and
- current views, expectations, and beliefs as at the date they are expressed, and which are subject to various risks and uncertainties.

Actual results, performance or achievements could be significantly different from those expressed in, or implied by, these forward-looking statements. Such forward-looking statements are not guaranteeing of future performance and involve known and unknown risks, uncertainties, and other factors, many of which are beyond the control of HydraLyte North America. These factors may cause actual results to differ materially from those expressed in the statements contained in this announcement.

The Company disclaims any responsibility for the accuracy or completeness of any forward-looking statement. The Company disclaims any responsibility to update or revise any forward-looking statements to reflect any change in the Company's financial condition, status or affairs or any change in the events, conditions, or circumstances on which a statement is based, except as required by law. The projections or forecasts included in this announcement have not been audited, examined, or otherwise reviewed by the independent auditors of the Company.

You must not place undue reliance on these forward-looking statements.

¹ Figure represents the cumulative total of followers for the relevant influencer accounts across various social media platforms as at 1 December 2022 – this may not reflect total unique followers

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")

December 31, 2022

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (12 months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	2,577	8,806
1.2 Payments for		
(a) research and development		
(b) product manufacturing and operating costs	(1,558)	(6,320)
(c) advertising and marketing	(1,705)	(5,757)
(d) leased assets		
(e) staff costs	(577)	(2,331)
(f) administration and corporate costs	(1,271)	(4,391)
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid	(91)	(91)
1.6 Income taxes paid	(2)	(4)
1.7 Government grants and tax incentives		
1.8 Other (provide details if material)	(4)	337
1.9 Net cash from / (used in) operating activities	(2,623)	(9,751)
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 (12 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	4,205	4,205
3.3	Proceeds from exercise of options		
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(129)	(129)
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	4,076	4,076

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	3,457	10,673
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,623)	(9,751)
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 (12 months) \$US'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	4,076	4,076
4.5	Effect of movement in exchange rates on cash held	21	(66)
4.6	Cash and cash equivalents at end of period	4,931	4,931

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	4,931	3,457
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)	4,931	3,457

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

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.

7. Financing facilities	Total facility amount at quarter end \$US'000	Amount drawn at quarter end \$US'000
<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>		
7.1 Loan facilities	4,388	4,388
7.2 Credit standby arrangements	3,713	0
7.3 Other (please specify)	0	0
7.4 Total financing facilities	8,101	4,388
7.5 Unused financing facilities available at quarter end		3,713
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)	(2,623)
8.2 Cash and cash equivalents at quarter end (item 4.6)	4,931
8.3 Unused finance facilities available at quarter end (item 7.5)	3,713
8.4 Total available funding (item 8.2 + item 8.3)	8,644
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	3.29
<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:	
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:	
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:	
<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 January 2023

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.

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