

Company Announcement
ASX: HPC

DATE: 28/4/2023

Q1 FY23 Quarterly Report and Appendix 4C: 44% decrease in cash used compared to prior quarter while achieving fourth consecutive quarter of record growth

KEY HIGHLIGHTS

- Net cash used in operating activities in Q1 FY2023 reduced by 44% on prior quarter to US\$1.45m (Q4 FY2022: \$2.6m)
- US\$2.55m in net sales generated in Q1 FY2023 - 34% increase on the PCP (Q1 FY2022: US\$1.9m) and highest quarterly sales to date
- Growth underpinned by 63% rise in sales to major Canadian retail groups on PCP
- Amazon US YoY subscription growth grew 78% to 4,222 - up from 2,362 same time last year
- 8 products in development – including additional co-branded SKUs with entrepreneur and brand ambassador Ms Shay Mitchell
- Continued strategic initiative to reduce expenditure and extend cash reserves through significant reduction in marketing spend following heavy brand investments in 2022
- US\$3.1m cash balance at quarter-end provides sufficient capital to progress growth opportunities ahead of peak sales period during North American summer, with a further A\$5.5m accessible through an undrawn loan facility

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 March 2023 (the “quarter”).

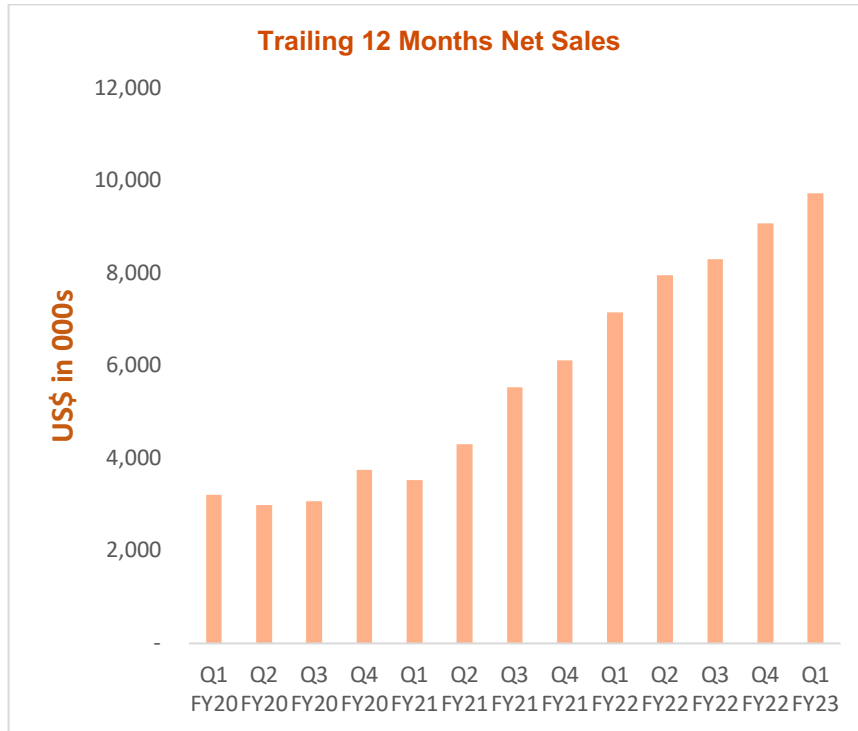
Financial overview:

Revenue for the quarter increased 34% on the prior corresponding period (PCP) (Q1 FY2022: US\$1.90m) to US\$2.55m - highlighting the fifth consecutive quarter of revenue growth.

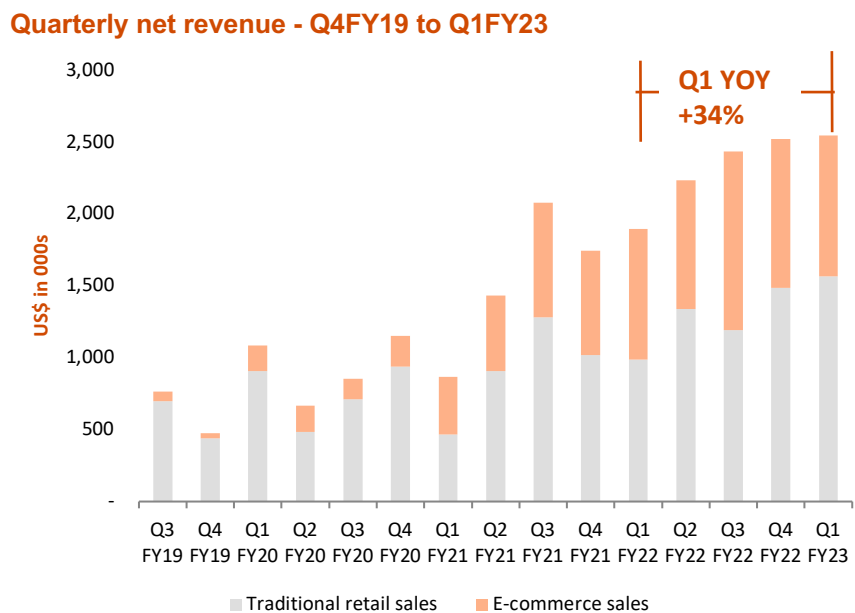
The significant rise in Q1 FY2023 revenues are attributed to continued strong growth through bricks and mortar channels and ongoing ecommerce sales growth.

Amazon Canada quarterly sales were up 28% on the PCP to CAD\$0.54m (Q1 FY2022: CAD\$0.41m). Via traditional bricks and mortar retailers in Canada, year-to-date sales through the country's leading pharmacy chain, Shopper Drug market grew 135% on the prior quarter.

The following chart displays the trailing 12 months net sales for the three years ending Q1 FY2023:



The following chart displays the strong YoY growth:



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The following table summarises change in revenues and gross margins into Q1 FY2023:

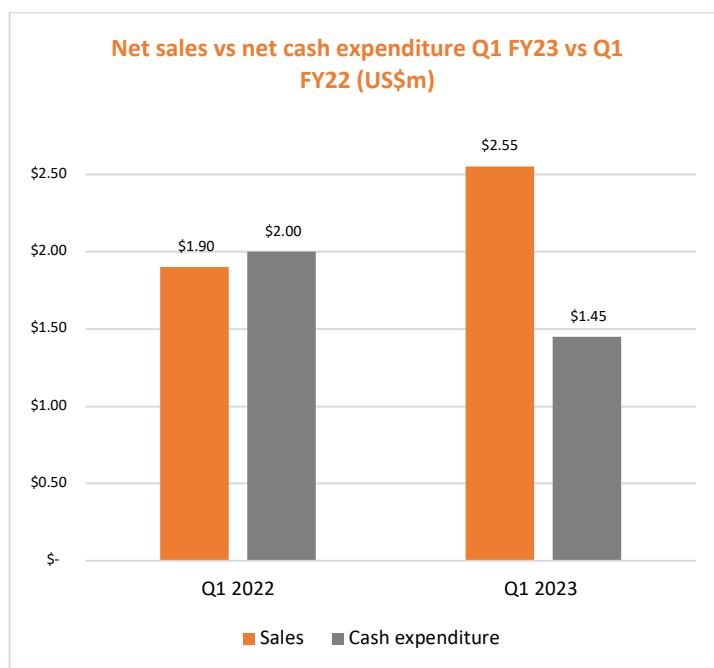
	Q1 FY22	Q4 FY22	Q1 FY23	QoQ change	YoY change
Total net revenue	1,897	2,523	2,549	1%	34%
<i>E-commerce sales</i>	908	1,035	981	-5%	8%
<i>Traditional retail sales</i>	989	1,487	1,568	5%	58%
Gross Margins	974	1,234	1,216	-1%	25%
Gross Margin %	51%	49%	48%	-1	-4

Gross margin as a percentage of net sales decreased slightly by 4 percentage points on the PCP (Q1 FY2022: 51%), and by 1 percentage point on the last quarter (Q4 FY2022: 49%) to 48%. This is attributable to increased inventory reserves as well as air freight costs, both of which are expected to subside through the course of FY2023. In the transition to prioritising cash preservation, the Company has modified its product profile to eliminate the lowest performing products.

Hydralyte North America is now selling these low performing products off through discount channels to focus on its strongest selling inventory and was therefore left with temporarily repressed margin from this process. Although the percentage margin decreased from the prior quarter, the margin dollars were flat due to a 1% increase in net revenue.

The Company invested US\$0.9m in marketing during the quarter, an US\$0.8m reduction from the US\$1.7m cash used in marketing activities in Q4 FY2022. Upon completion of the majority of key marketing initiatives in FY2022, the Hydralyte North America remains focused on cost reduction initiatives to decrease expenditure throughout FY2023. With the cash preservation initiative, the Company has significantly improved the profit profile of its Amazon distribution channel while still achieving top line growth.

The following chart reflects the significant reduction in cash use while maintaining growth:



Operational overview:**Streamlined Canadian manufacturing:**

The Company has begun manufacturing liquids at its US-based contract manufacturer for the Canadian market. This is viewed as a strategic priority and optimises HPC's manufacturing process from a centralised production hub, allowing the Company to capitalise on its existing North American distribution channels.

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

Commentary on cash flows:

In line with focus on cash preservation, Net cash used in operating activities decreased by US\$1.2m on the previous quarter to US\$1.5m (Q4 FY2022: \$2.6). The decrease was due primarily to lower marketing spend of US\$0.9m compared to US\$1.7m during Q4 FY2022. Staff costs increased by US\$0.4m to US\$1.0m, due to bonus payments relating to growth milestones achieved in FY2022 and are expected to decrease this quarter. Product manufacturing and operating payments declined from last quarter by US\$0.7m to US\$0.9m. Inventory value decreased by \$0.1m to US\$3.3m in the quarter.

With many of the key marketing investments completed during FY2022, the Company has increased focus on reducing operating expenditure to extend cash life through significantly reduction in marketing spend. The significantly reduced net cash use in Q1 FY2023 is a result of this ongoing strategy.

Available funds:

As at 31 March 2023, HydraLyte North America had cash and cash equivalents of US\$3.1m. To increase financial flexibility, during FY2022 the Company secured a A\$12m loan facility from existing substantial shareholder PURE Asset Management (refer ASX announcement: 17 October 2022) with availability in two tranches, with the first tranche drawn in November 2022 while the remaining A\$5.5m from the second tranche remains on hand as required.

Along with inventory growth and ecommerce, the Company has also allocated additional funds for deployment in product development and manufacturing, as well as UK 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.

Management commentary:

HydraLyte North America CEO Oliver Baker said: *"During the period HydraLyte North America delivered a fourth consecutive quarter of revenue growth highlighted by strong execution on the group's strategy to maintain its top line growth trajectory with a disciplined focus on operational costs. The net result was a total of US\$2.55m in net revenue and a material 44% reduction in quarterly operating costs.*

"The record revenue highlights our increased brand awareness in North America, particularly during the winter period, which typically results in seasonally lower demand, and the ongoing effectiveness of marketing initiatives undertaken to build our footprint during FY2022.

“With a further eight products under development, streamlined production processes and established distribution channels, the Company is very well positioned to generate a step-change in growth and earnings over the coming quarters.”

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.

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")

3/31/2023

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	2,726	2,726
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(886)	(886)
(c) advertising and marketing	(907)	(907)
(d) leased assets	-	-
(e) staff costs	(958)	(958)
(f) administration and corporate costs	(1,289)	(1,289)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(137)	(137)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	(3)	(3)
1.9 Net cash from / (used in) operating activities	(1,453)	(1,453)
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 \$A'000	Year to date (3 months) \$A'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		
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		
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	4,688	4,688
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,453)	(1,453)
4.3	Net cash from / (used in) investing activities (item 2.6 above)		

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'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	(64)	(64)
4.6	Cash and cash equivalents at end of period	3,171	3,171

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 \$A'000	Previous quarter \$A'000
5.1	Bank balances	3,171	3,171
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (provide details)		
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	3,171	3,171

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	
6.2	Aggregate amount of payments to related parties and their associates included in item 2	
<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>		

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

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 \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	4,388	4,388
7.2 Credit standby arrangements	3,684	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	8,072	4,388
7.5 Unused financing facilities available at quarter end		3,684
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	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(1,453)
8.2 Cash and cash equivalents at quarter end (item 4.6)	3,171
8.3 Unused finance facilities available at quarter end (item 7.5)	3,684
8.4 Total available funding (item 8.2 + item 8.3)	6,855
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	4.72
<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: 28 April 2023
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Authorised by: The Board
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(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.