

Our Purpose

To make better hydration solutions and make a difference doing it.

Our Ambition

To own hydration in the family home.

August 2023 Investor Presentation
– Capital Raising



Co-owner Shay Mitchell: actress, producer and super influencer with +53m followers worldwide



Low
Sugar



More
Electrolytes



Hydration
Acceleration
Formula



Doctor Approved,
Rapid
Rehydration

Disclaimer

This investor presentation (**Presentation**) has been prepared by The Hydration Pharmaceuticals Company Limited ACN 620 385 677 (**Hydralyte North America** or the **Company**) and is dated 3 August 2023. This Presentation has been prepared in relation to a 1 for 2.27 non-renounceable non-accelerated pro rata entitlement offer of new ordinary fully paid shares in Hydralyte North America (**Entitlement Offer**) and a placement of shares to professional and sophisticated investors (**Placement**). The Entitlement Offer and Placement are referred to as the **Capital Raising** or the **Offer**. For every two shares issued under the Offer, investors will be offered one free attaching option exercisable at \$0.070 and expiring on 31 December 2025 (**Options**). The Entitlement Offer and the offer of Options to Placement participants will be made under a prospectus issued under section 713 of the Corporations Act 2001 (Cth) (**Corporations Act**) (**Prospectus**).

This Presentation contains summary information about Hydralyte North America and its activities as at the date of this Presentation. The information in this Presentation is of a general nature and does not purport to be complete or comprise all information which a shareholder or potential investor may require in order to determine whether to deal in Hydralyte North America shares or that would be required in a prospectus or product disclosure statement prepared in accordance with the requirements of the Corporations Act. It should be read in conjunction with Hydralyte North America's other periodic and continuous disclosure announcements lodged with the Australian Securities Exchange, which are available at www.asx.com.au.

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The Prospectus will be available following its lodgment with ASIC and ASX. Any eligible shareholder who wishes to participate in the Entitlement Offer should consider the Prospectus in deciding whether to apply under the Entitlement Offer. Anyone who wishes to apply for Hydralyte North America shares under the Entitlement Offer will need to apply in accordance with the instructions contained in the Prospectus.

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Past performance

Past performance information, including past share price performance, should not be relied upon as an indication of future performance.

Investment risk

An investment in Hydralyte North America shares is subject to investment and other known and unknown risks, some of which are beyond the control of the Company. Hydralyte North America does not guarantee any particular rate of return or the performance of its shares.

Future performance

This Presentation contains certain references to forecasts, estimates, assumptions and other forward-looking statements and statements regarding the intent, belief or current expectations of Hydralyte North America. The words "likely", "expect", "aim", "should", "could", "may", "anticipate", "predict", "believe", "plan" and other similar expressions are intended to identify forward-looking statements.

Forward-looking statements, opinions and estimates provided in this Presentation are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions. Forward-looking statements are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. This Presentation contains such statements, which are subject to risk factors associated with an investment in Hydralyte North America. The Company believes that these statements are reasonable, but they may be affected by a range of variables which could cause actual results or trends to differ materially.

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Financial data

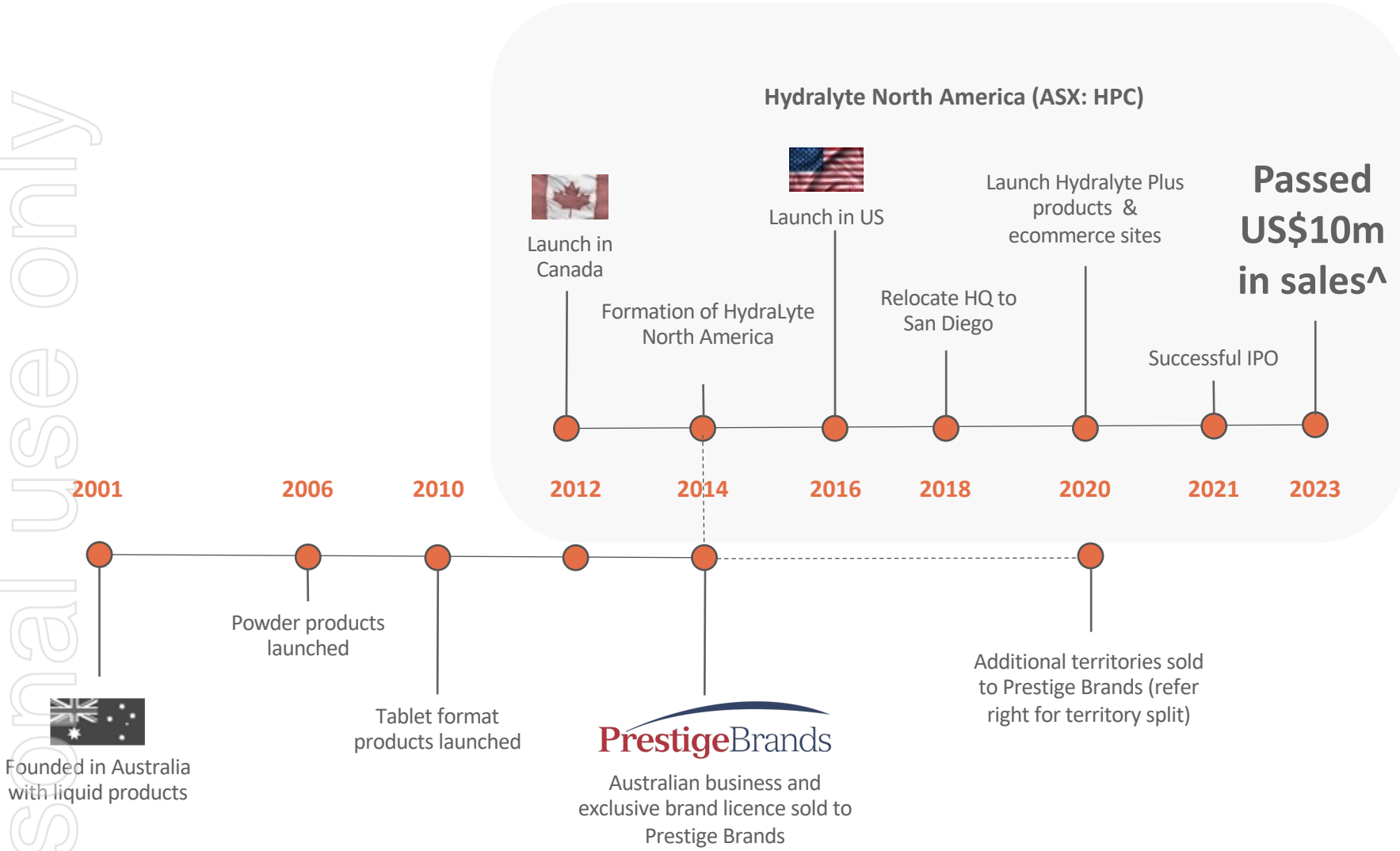
All references to dollars (\$) and cents are to Australian currency, unless otherwise stated.

Market and industry data

This Presentation contains data relating to the industries, segments and markets in which the Company operates (**Industry Data**). Unless otherwise stated, this information has been prepared by Hydralyte North America using both publicly available data and its own internally generated data. Hydralyte North America's internally generated data is based on estimates and assumptions that the directors and management of the Company believe are reasonable. In addition to the Industry Data, the Presentation contains third party market data, estimates and projections. There is no assurance regarding the accuracy of such information, and neither the third party information nor the Industry Data has been independently verified by Hydralyte North America.

A North American focused company with Australian heritage

Personal use only



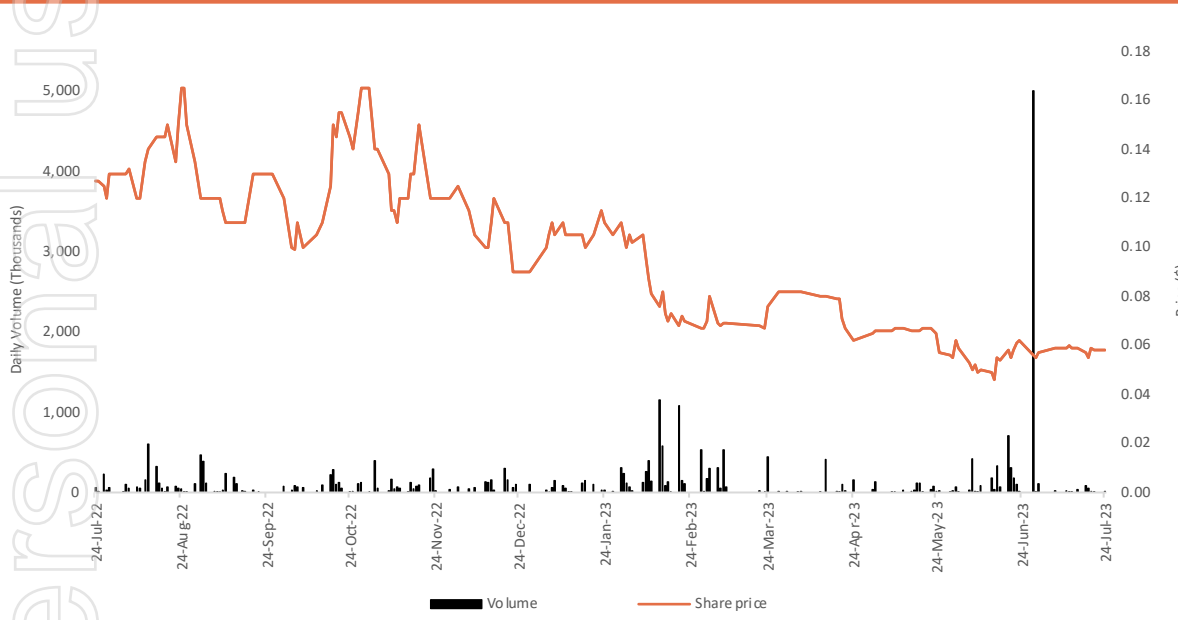
[^]Trailing 12 months through June 2023

Corporate overview

Snapshot

ASX code:	HPC
Shares on issue:	164.3m
Market capitalisation (at \$0.06 per share):	~A\$9.86m
Options on issue (exercisable between \$0.20 and \$1.45):	38.9m
Warrants (associated to debt facility with Pure Asset Management)	22.4m
Performance rights	2.9m
Cash at bank (as at 30 June 2023):	US\$1.7m

12 month share price and volume (24 July 2022 to 24 July 2023):



Major shareholders (as at 24 July 2023):

Woobinda Nominees Pty Ltd (Mr Dan O’Brien)	9.13%
HSBC Custody Nominees (Australia) Limited	8.42%
Merrill Lynch (Australia) Nominees Australia Pty Ltd	7.52%
Super Radek Pty Ltd (Mr Radek Sali)	7.49%

Top 20 shareholders: 62.09%

Board and Management:

Chairman:	Mr George Livery
Chief Executive Officer:	Mr Oliver Baker
Chief Financial Officer:	Mr Chris Kavanaugh
Non-executive Director:	Mr Adem Karafili
Non-executive Director:	Ms Gretta Van Riel
Non-executive Director:	Ms Margaret Hardin
US Advisor:	Mr Brandon Fishman

An experienced Board, management and advisory team

Disciplined governance and extensive expertise in growing consumer products companies



Oliver Baker

CEO

Former General Manager of Swisse Wellness USA and China (sold for \$1.7Bn)



George Livery

Chairman

Former Director of Strategy & Corporate at Swisse Wellness



Adem Karafili

NED

Former Managing Director and COO of Swisse Wellness



Gretta Van Riel

NED

Ecommerce expert, founder of Drop Bottle and Skinny Me Tea. Forbes 30 under 30



Chris Kavanaugh

CFO

20 years of experience running finance and operations for growing startups from inception to US\$30M+ in revenue



Margaret Hardin

NED

Former CEO and CFO of major US product companies, Baby super Brands, Ergo Baby and Munchkin



Brandon Fishman

US Advisor

Founder and CEO of VitaCup, vitamin-infused tea and coffee product, surpassed \$20m in sales in 5 years

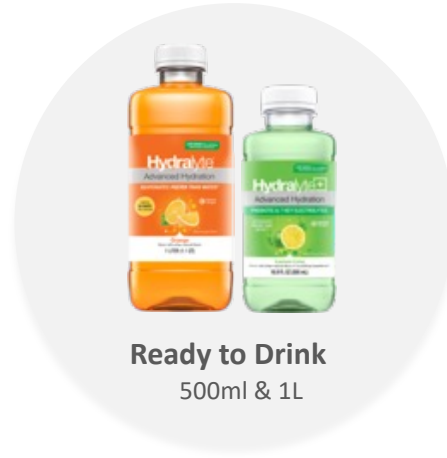
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Product range

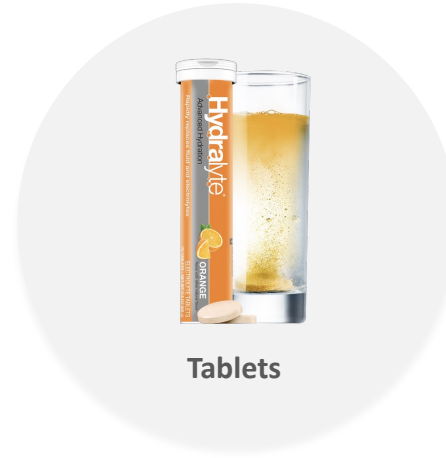
Solutions at the intersection of daily rehydration and drinkable vitamins, leading industry innovation

Original Rapid Rehydration

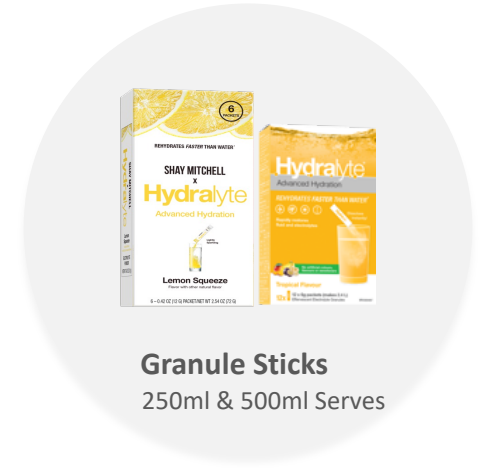
Our proprietary formula across multiple formats, flavors and serving sizes



Ready to Drink
500ml & 1L



Tablets

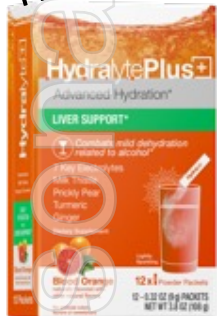


Granule Sticks
250ml & 500ml Serves

2 in 1 Rapid Rehydration Plus Daily Wellness

HPC'S #1 SKU in USA

Just launched



Hydration Plus Liver Support

- 7 Key Electrolytes
- 6 Antioxidants
- Ginger & Turmeric, Milk Thistle
- Prickly Pear



Hydration Plus Apple Cider Vinegar

- 4 Key Electrolytes, Apple Cider Vinegar
- Vitamins B12 & B6
- Vitamin C



Hydration Plus Collagen

- 5 Key Electrolytes
- Verisol Collagen™
- Vitamin C
- Zinc



Hydration Plus Immunity w/ Elderberry

- 7 Key Electrolytes
- Vitamin C
- Magnesium
- Zinc

Investment highlights

Established market presence, significant cash burn reduction, still in strong growth

Established operations

- Established supply chain, shelf presence, sales trajectory and local management team
- Scalable manufacturing and improved product strategy delivered **strong gross margin Q2 FY23: ~50%**

Significant Sales Growth

- Trailing 12 months revenue of **~US\$10.3m and growing**
- **Record revenue of US\$2.8m in Q2 FY23** (up 24% on pcp), delivered ahead of peak sales period of North American summer
- Amazon Prime Day **delivers ~\$US120,000** in gross sales in 48 hours

Proven Canadian business

- **#2 Hydration brand in Canadian** pharmacy/grocery with national distribution, ~21% share*
- Canadian **regulation slows new market entrants**
- **#1 SKU in Category** on Amazon for Prime Day

Source: *IQVIA 52 Weeks Category Data for Food Drug and Mass. Excludes Fridge Items. Through August 22



Top 50 in AFR Fast 100 and Fast Global

Extensive Canadian footprint with US and international expansion

Key Market Highlights



- #1 In tablets and powders
- #2 Rapid rehydration brand



- ~10,000 Retail doors
- 5 SKUs in Plus range to deepen category expansion

New Markets



- Huge AUS fanbase
- All products rated 4.5 stars +
- Just launched in Whole Foods



- Chinese market has long established trust with AUS health and wellness brands
- Just launched on T-Mall

Global retail snapshot

Canada retailers

US / UK / China

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Recent financial highlights & Q2 FY2023 results

Q2 FY23 financial highlights

Trailing 12 month revenue to June 2023

US\$10.3m ↑

↑ ~28% on PCP
(unaudited)

Q2 Gross Margin

~50%

↑ From 47% last quarter and
15% in 2020

Cash burn reducing

US\$1.48m ↓

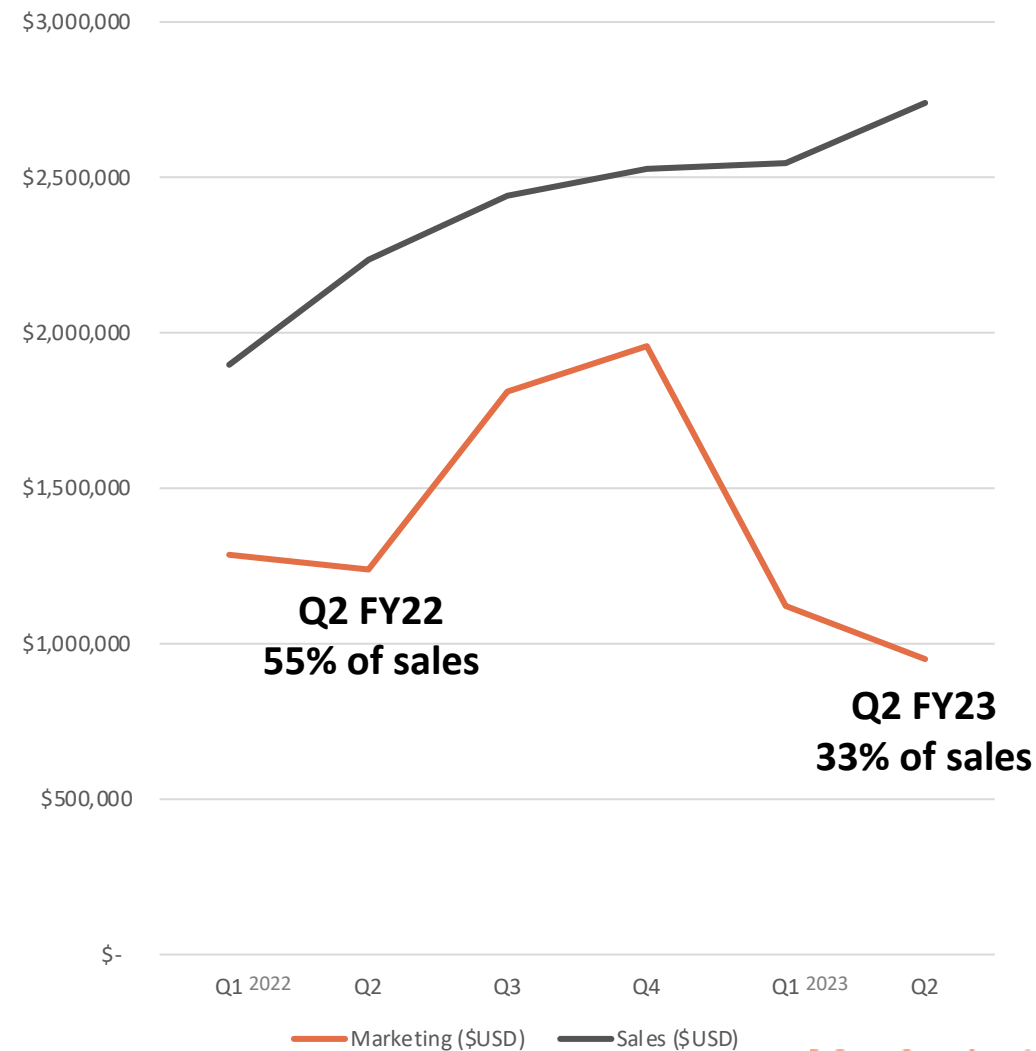
Down
~US\$1.1m on Q4 FY22

48 hour gross sales for
Amazon Prime Day (July)

\$120k

#1 SKU in Canadian electrolyte
category

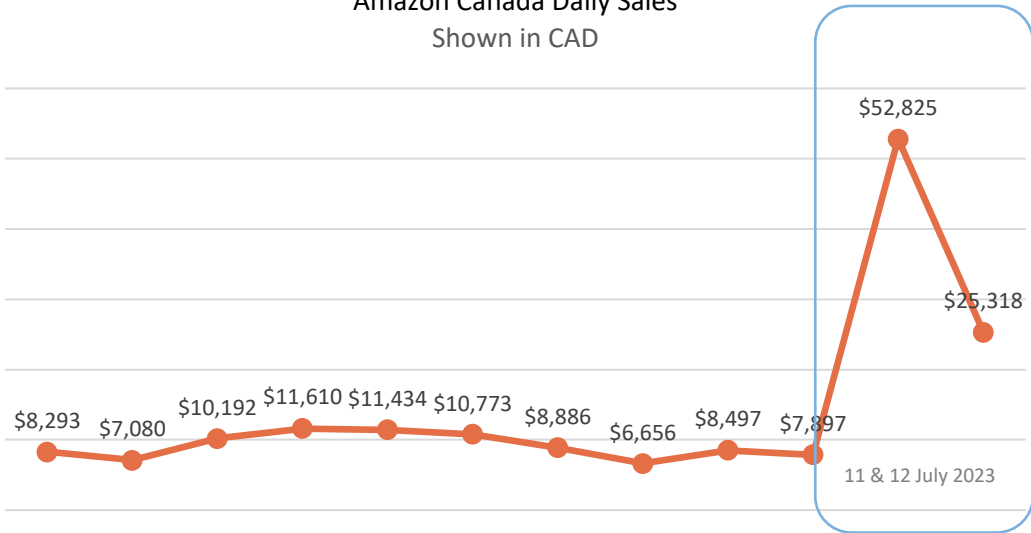
Net sales vs marketing expenditure by quarter (USD)



Amazon Prime Day 2023: US\$120k combined gross sales

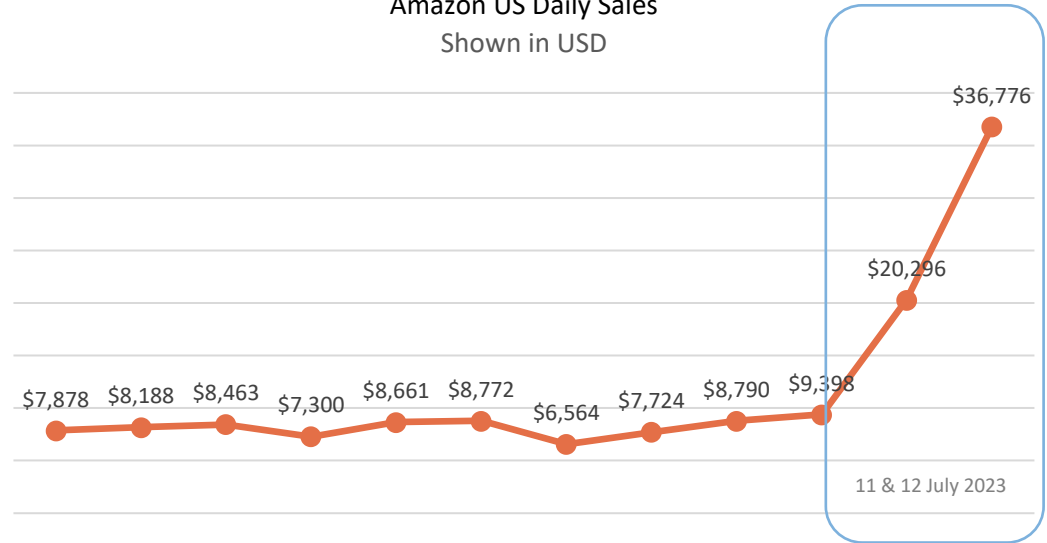
Hydralyte reaches #1 in the Canadian Electrolyte Category during Prime Day

Amazon Canada Daily Sales
Shown in CAD



Deal Feature: Top 5 Prime Day deal on Wall St Journal

Amazon US Daily Sales
Shown in USD



Best Sellers in Electrolyte Replacement Supplements

<p>#1</p> <p>Hydralyte Electrolyte Powder Packets Variety Pack Berry/Orange/Lemonade 30 Pack Hydration Mix to Prevent and Relieve...</p> <p>★★★★☆ 627</p> <p>\$40.99</p>	<p>#2</p> <p>Vega Sport Hydration Electrolyte Powder Lemon Lime (40 Servings) Vegan Hydrator, Keto Friendly, Gluten Free, Non Dairy, Sugar...</p> <p>★★★★☆ 779</p> <p>\$23.02</p>	<p>#3</p> <p>Hydralyte Electrolyte Powder Tropical Variety Flavors of Electrolytes All Natural Hydration Solution Safe for the Whole Family ...</p> <p>★★★★☆ 72</p> <p>\$30.74</p>	<p>#4</p> <p>Key Nutrients Electrolytes Packets - Tropical Peach Mango 20 Pack - Electrolyte Powder - No Sugar, No Calories, Gluten Free - Powder...</p> <p>★★★★☆ 9,987</p> <p>\$16.99</p>
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Buy Side FROM WSJ

PRIME DAY MONEY STYLE HOME ELECTRONICS WELLNESS TRAVEL GIFTS DEAL

Buy Side from WSJ is a reviews and recommendations team, independent of The Wall Street Journal newsroom. We m [Learn more.](#)

SHOPPING HOLIDAYS > PRIME DAY

The 100 Best Amazon Prime Day Deals 2023

Prime Day is here and now is your chance to score big savings on Buy Side recommended deals

PERFECT PRACTICE Putting Mat

\$100 AT AMAZON \$175 Save \$75

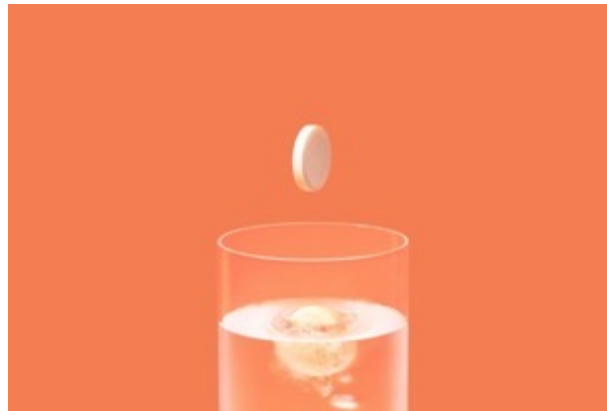
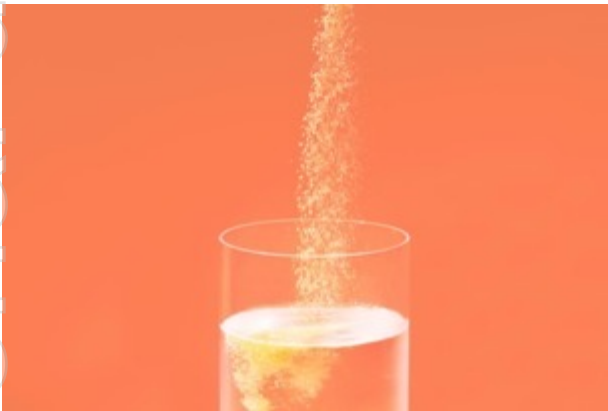
HYDRALYTE Effervescent Electrolyte Powder (30 Pack)

\$16 AT AMAZON \$32 Save \$16

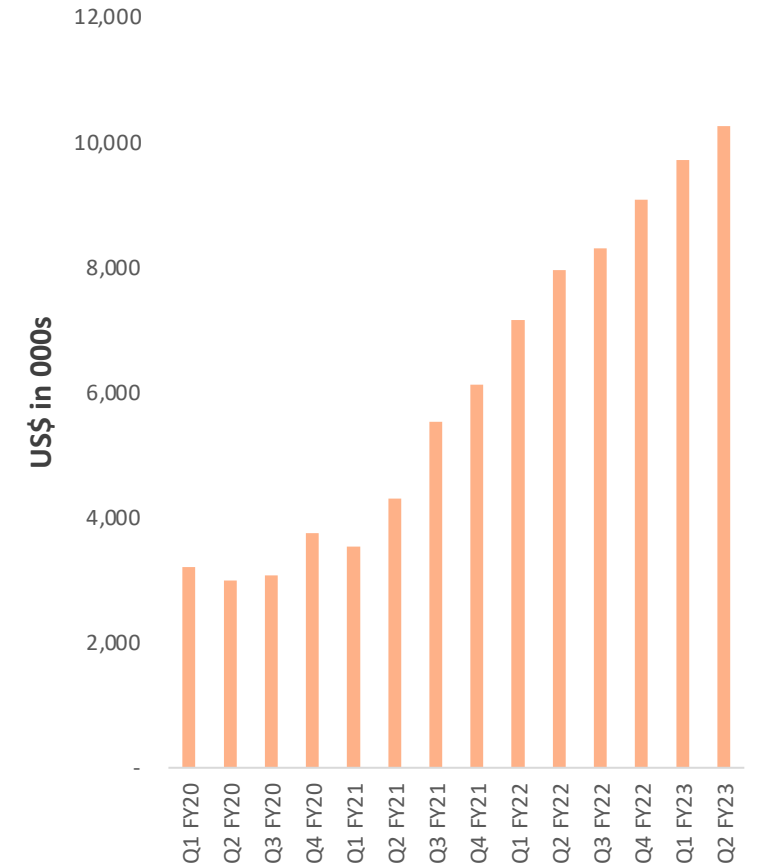
HydraLyte

Revenue growth continues despite reduction in marketing expenditure

- Trailing 12 month revenue of US\$10.3m up ~29% on same period last year
- Q1 FY2023 revenue growth driven by:
 - Ongoing ecommerce sales growth
 - Canadian bricks and mortar sales increases
 - New SKU additions via established sales channels
 - Shay Mitchell partnership



Trailing 12 month net sales



International expansion opportunities – UK sales exceeding expectations

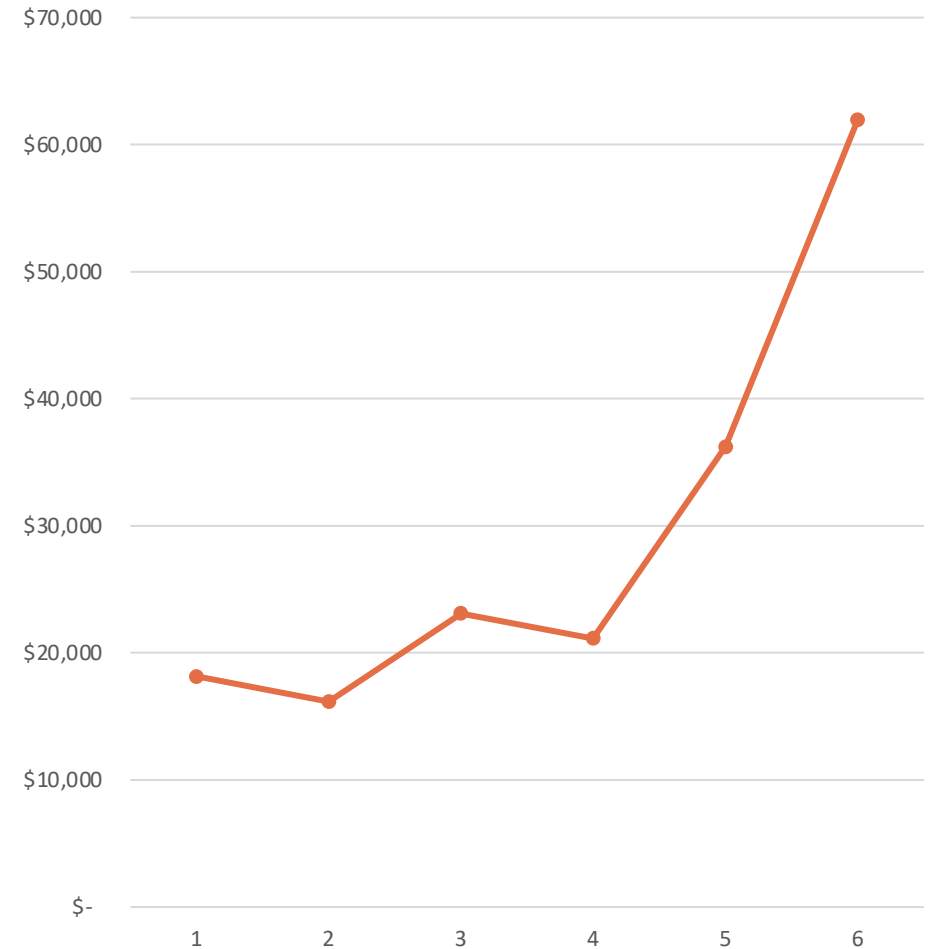
- Products now being sold in Wholefoods and Chemist Warehouse stores across region
- Amazon UK showing promising growth trajectory with minimal marketing expenditure



Prime positioning in Wholefoods Stores (London, UK)



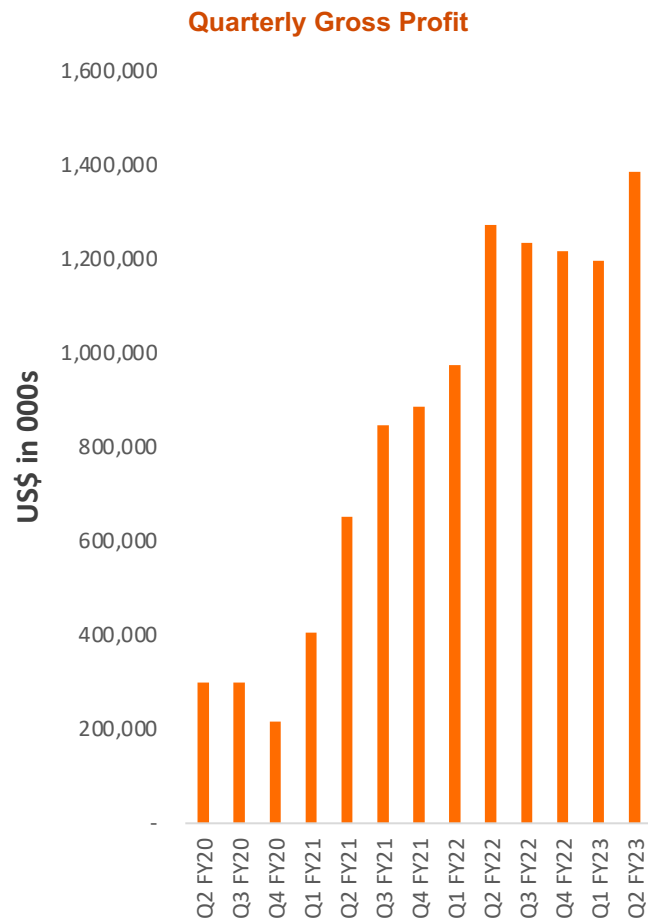
UK revenue by month January to June 2023 (USD)



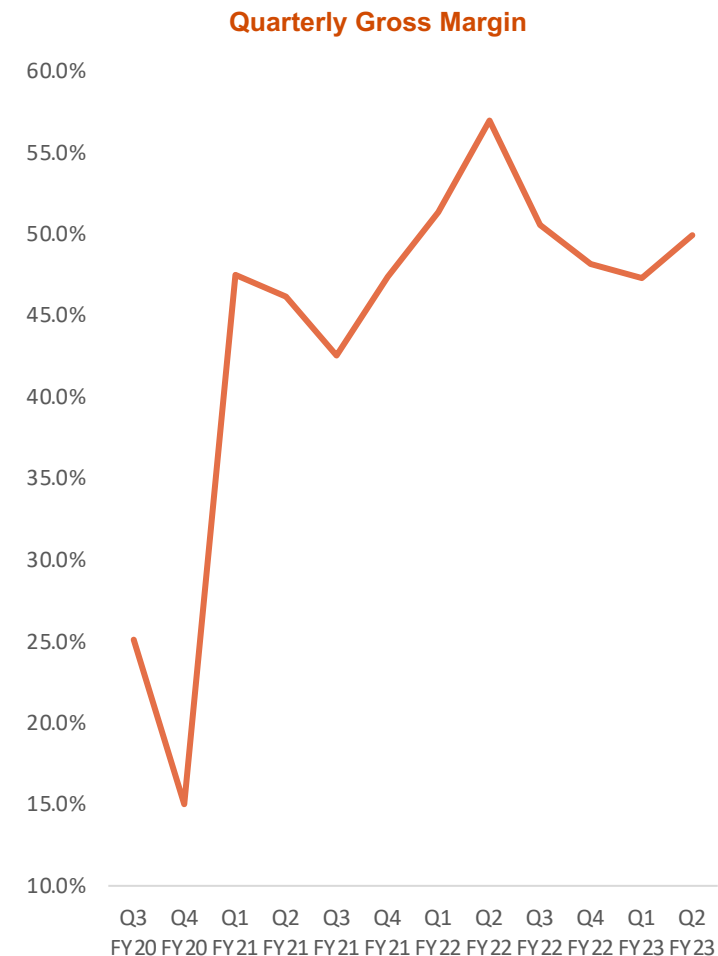
Gross margin remains strong after optimisation of product, supply chain and retailer go-to-market

- Gross margin of ~50% in Q2 FY23 – up from 47% in the last quarter
- Product profile strategically modified in Q1 FY23 – lowest performing products to be eliminated
- New North American manufacturing facilities to assist with margin improvement

Gross margin \$



Gross margin %



Marketing and growth initiatives

Marketing partnership with brand ambassador and co-owner Shay Mitchell

- Ms Mitchell is a Canadian Actress and entrepreneur with ~36.6m Instagram followers
- Co-branded product launched in December 2022 through HPC ecommerce channels and Amazon USA – with Canadian launch pending
- 16 of North America's top influencers were invited for a two-day marketing activation in Miami to promote the partnership
- Event delivered significant social media exposure across HPC's target market – second product being developed for launch in August

Influencer attendees*:



Abbie Herbert
@abbieherbert

14.4m followers



Kristy Sarah
@kristy.sarah

9.6m followers



Bailey Daughenbaugh
@baidaugh

4.6m followers



Lindsay Cusick
@lindsarnold

1.1m followers

Guests had a total of 85m followers combined – providing major exposure ahead of bricks and mortar roll out



Major recent product launches driving incremental sales

#1 SKU launch of 2022 was the Liver Detox which has delivered ~US\$550k of in annual sales (June '23)

Now selling ~US\$2.5-3k per day



Roll over image to zoom in

Hydralyte SPORT
focused Tablets

Launched

2022

2 new sport focused flavors, now top 5 selling HPC SKUs on Amazon Canada

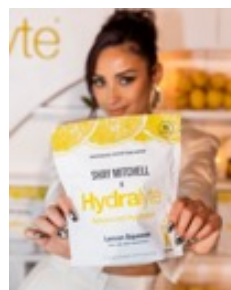


Hydration PLUS Liver Support Tub

Launched

Q2 2023

Tub delivers higher per unit margin on Amazon



Shay Mitchell Co-branded SKU

Launched

Q2 2023

Shay's SKU accepted at both London Drugs and #1 pharmacy Shoppers Drug Mart

Introducing **2 in 1 Rapid Rehydration Plus Apple Cider Vinegar**

Apple Cider Vinegar is a nutritional powerhouse but taste is its main barrier for adoption. *That's where we came in with a sweet take on apple cider vinegar.*

MSRP \$34.99

30

HydraMtePlus+
Fizzy Electrolyte Powder
APPLE CIDER VINEGAR

1 per day

Market proven



Goli is the market leader in ACV gummies with a USA revenue of US\$70m in 2022, from a single SKU ¹.

Launched July

Q3 2023

Taste Perfected (Tested by real people)

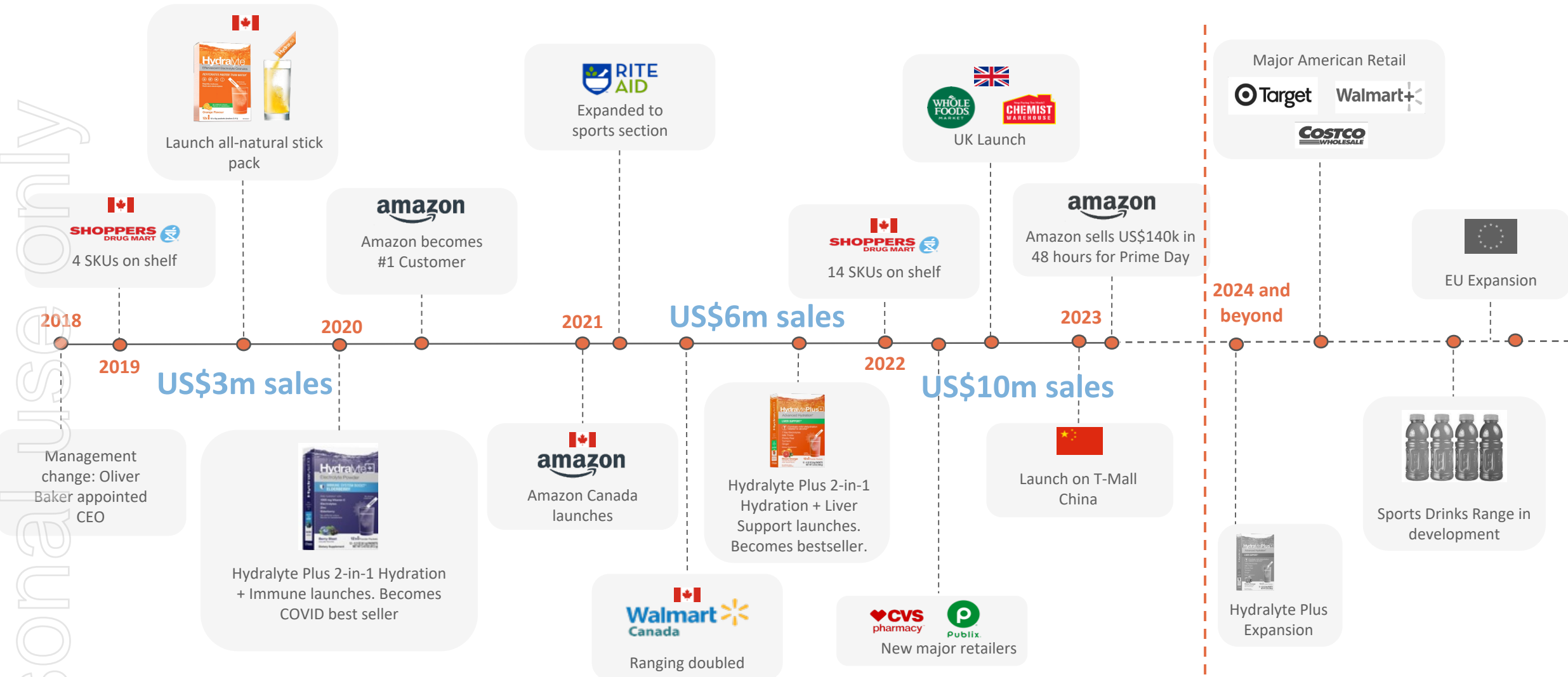
<https://www.youtube.com/shorts/tOFFt9PR2Uo>



1. <https://www.databridgemarketresearch.com/reports/global-apple-cider-vinegar-market>

A track record of delivering sales growth

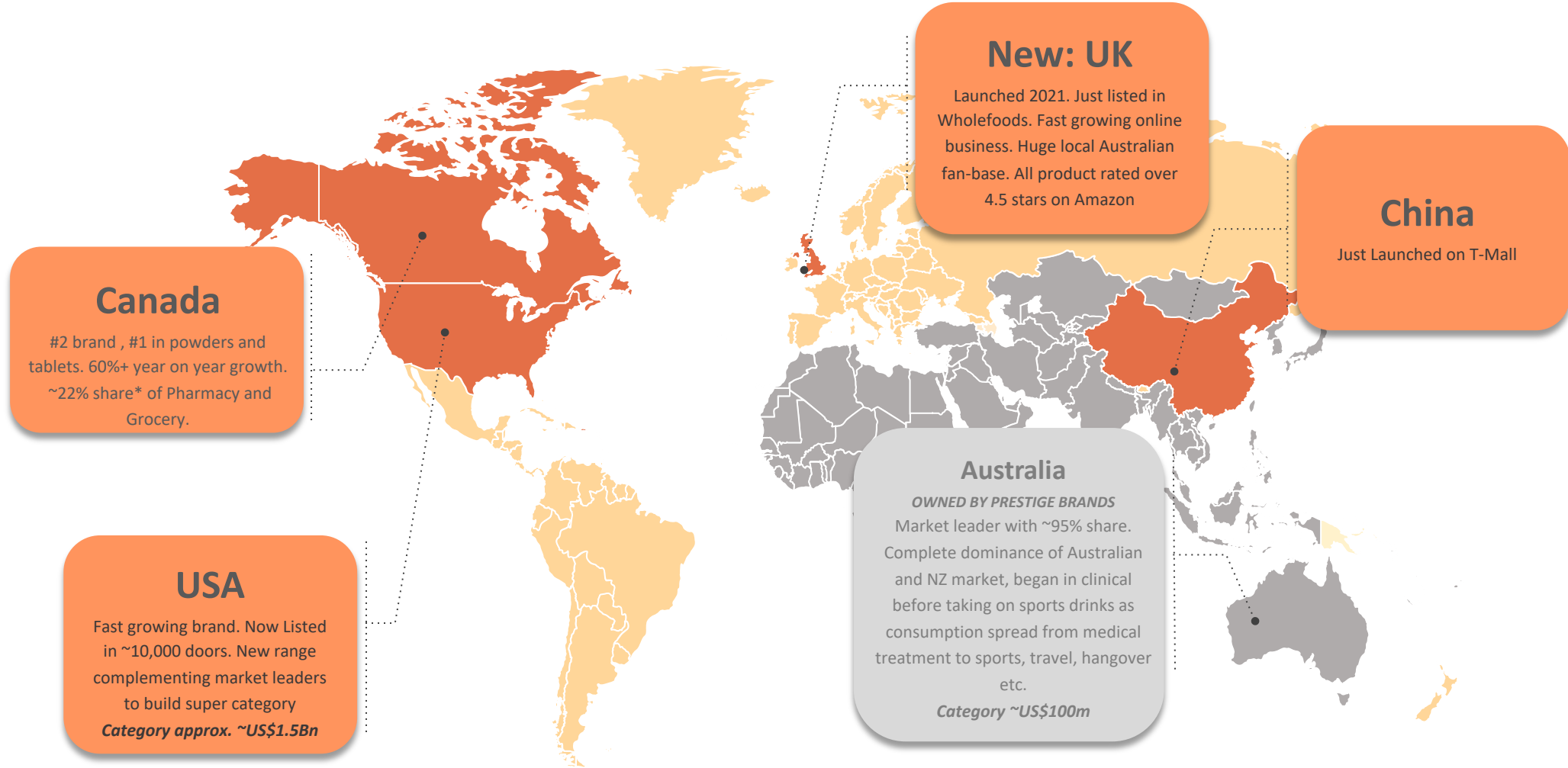
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Opportunity to capitalise on a ~US\$1.5Bn North American market and rest of world

Excludes traditional sports drink market segment

Personal use only



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Offer overview

Transaction details

Raising up to ~\$4.8m by way of a Placement of \$1.5m and Entitlement Offer of up to ~\$3.3m at an Offer Price of \$0.045. In addition Pure Asset Management has agreed to exercise ~7.5m Warrants for proceeds of ~\$0.4m.

Placement

- Placement to raise \$1.5m via the issue of 33.3m New Shares utilising the Company's available capacity under ASX Listing Rules 7.1 and 7.1A.

Entitlement Offer

- Non-renounceable, pro rata entitlement offer to raise up to ~\$3.3m via the issue of 72.6m New Shares on the basis of 1 New Share for every 2.27 Shares held on the Record Date (9 August 2023).
- Partially underwritten by the Lead Manager, up to \$2.5m worth of New Shares.

Offer Price and ranking

- Offer Price of \$0.045 per New Share under the Placement and Entitlement Offer, representing a discount of:
 - 25% to the last close of \$0.06 on 28 July 2023;
 - 25% to the 5-day VWAP of \$0.06; and
 - 23.46% to the 15-day VWAP of \$0.0588.
- New Shares issued under the Offer will rank pari passu with existing Shares on issue (save for the entitlement to subscribe for Options).

Options

- New Shares will be offered under the Placement and Entitlement Offer with one free attaching option for every two New Shares issued (**Options**). The Options will not be listed.
- The Options will have an exercise price of \$0.07 (55.5% premium to the Offer Price) and will expire on 31 December 2025.
- The Options will be offered under a transaction-specific prospectus. The issue of Options to Placement participants will be conditional on shareholder approval at an EGM to be held in mid-September 2023.

Pure Asset Management ("Pure") arrangements

Pure has committed to exercise ~7.5 million (representing 33.3%) of its existing warrants associated with the first tranche of its senior secured loan which will raise total proceeds of ~\$0.4m (subject to completion of the Offer).

- Pure has agreed that the floor price of its remaining 14.9 million Warrants will not adjust downwards in the event of a subsequent equity raising in the future (subject to shareholder approval).
- Pure will support the Offer via a commitment to sub-underwrite approximately \$0.6m worth of New Shares under the Entitlement Offer.
- Total Pure commitment of up to ~\$1 million via Warrant exercise and sub-underwriting participation.
- The undrawn second tranche of Pure debt (A\$5.5m) will be available until 31 December 2024 and drawdown will be subject to Pure's consent.

Lead Manager

- BW Equities Pty Ltd.
- Refer to the summary of the Offer Management and Underwriting Agreement for further details.

Use of funds

Sources of Funds	Amount (AUD)
Capital Raise Funds*	\$4.8m
Pure Warrant Exercise	\$0.4
Total	\$5.2m

Expenditure Item	Amount (AUD)
Marketing and Growth Initiatives	\$1.1m
Working Capital	\$3.7m
Costs of the Offer	\$0.4m
Total	\$5.2m

* The above figures assume the Entitlement Offer is fully subscribed.

Indicative timetable

Event	Date (2023)
Trading Halt	Monday 31 July
Capital raising announced, shares resume trading	Thursday 3 August
Prospectus lodged with ASIC and ASX	Friday 4 August
Record Date for Entitlement Offer (7.00pm)	Wednesday 9 August
Settlement of the Placement	Thursday 10 August
Issue of New Shares under the Placement	Friday 11 August
Entitlement Offer opens	Monday 14 August
Entitlement Offer and Placement Option Offer closes	Monday 4 September
Announcement of results of Entitlement Offer	Thursday 7 September
Settlement of the Entitlement Offer	Friday 8 September
Issue of New Shares and Options under the Entitlement Offer	Monday 11 September
Trading of New Shares issued under the Entitlement Offer	Tuesday 12 September
Despatch of holding statements for New Shares and Options issued under Entitlement Offer	Tuesday 12 September
EGM held	Mid September
Issue of Options to Placement Participants (subject to shareholder approval)	Mid September

* The timetable is indicative and subject to change. HPC reserves the right to vary these times and dates, by agreement with the Lead Manager and subject to the ASX Listing Rules. All times are Melbourne times.

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Risks

This section discusses some of the key risks associated with any investment in Hydralyte North America together with risks relating to participation in the Placement and Entitlement Offer which may affect the future operating and financial performance of Hydralyte North America and the value of Hydralyte North America shares. The risks set out below do not constitute an exhaustive list of all risks involved with an investment in Hydralyte North America. Hydralyte North America seeks to reduce risk to its business through appropriate risk mitigants, however, if any of the following risks materialise, business, financial condition and operating results are likely to be adversely impacted. Before investing in Hydralyte North America, you should carefully consider whether this investment is suitable for you. Potential investors should consider publicly available information on Hydralyte North America (such as that available on the ASX website), and consider consulting a stockbroker, legal advisor, accountant or other professional advisors before making an investment decision.

Risk	Description
<p>Option risk</p>	<p>The Offer involves the offer of attaching Options to Entitlement Offer participants and the conditional offer of attaching Options to Placement participants. The offer of Options to Placement participants will be put to shareholders at a General Meeting to be held in September 2023.</p> <p>There is no certainty that HPC shareholders will approve the issue of Options to Placement participants.</p> <p>If the issue of Options to Placement participants is not approved by HPC shareholders then those investors will not receive attaching Options in connection with the Shares issued to them under the Placement.</p> <p>In addition, there is no certainty that HPC shares will trade above the Option exercise price and accordingly there is no certainty that Option holders will realise any value from the Options. In the event that Options are exercised, this will dilute the holdings of existing shareholders.</p>
<p>Hydralyte is a small player in a competitive industry</p>	<p>Hydralyte North America operates in a highly competitive geographic and product market, particularly with regards to prices, shelf space and store placement, brand recognition and new product introductions. The Company currently has a small share of the Healthy Hydration Solutions Market in North America and will need to boost its brand and product recognition in what is a highly competitive industry in order to grow its market share and meet its future growth objectives. Should any of Hydralyte North America's current or future competitors participate more aggressively on price, product, innovation or other means, or if Hydralyte North America is unable to attain its targeted level of brand and product recognition, this is likely to have a material adverse impact on the Company's future financial performance and prospects.</p>
<p>Reliance on third party supply chain and risk of increased costs</p>	<p>Hydralyte North America relies on its supply chains to manufacture and distribute its product, and may experience disruptions and/or cost increases as follows:</p> <ul style="list-style-type: none"> • The availability and price of the raw ingredients and packaging used in Hydralyte North America's products are influenced by global demand and supply factors outside of Hydralyte North America's control, such as the manufacturers' relationships with their suppliers, labour shortages or events such as natural disasters, power outages, disruptions to shipping routes or wars (such as the ongoing war in Ukraine). • Hydralyte North America's relationships with its existing suppliers are not exclusive, and its suppliers also have relationships with third parties (including Hydralyte North America's competitors), which could affect the availability and terms on which products are sourced. • Labour shortages or increased labour costs arising from increased competition for employees, high employee turnover rates, unionisation of workers or increases in minimum wage and other employee benefit costs could have a material adverse effect on Hydralyte North America's business, financial condition and results of operations. <p>There is no guarantee that the Company will be able to pass on increased costs associated with the above factors to its customers (particularly if any costs increases are material). Hydralyte North America may be required to increase the prices of its products to pass on cost increases, which may affect the affordability of the Company's products and reduce sales. Furthermore, the ability and speed with which Hydralyte North America can respond to cost increases by adjusting the prices charged to its customers or sourcing more competitively priced materials may be limited and may result in lower margins on the sale of its products.</p>
<p>IP risks</p>	<p>Hydralyte North America regards its brands, trademarks, domain names, trade secrets, propriety information and similar intellectual property (IP) as important to its success. Due to the nature of the Company's products, the breakdown of active ingredients and product recipes remains broadly consistent across all competitor products and is generally clearly signposted on a product's packaging. In addition, Hydralyte North America's product formulation is built on the WHO formulation for optimal absorption, which is publicly known information. Accordingly, there is limited scope for Healthy Hydration Solutions products, and Hydralyte's products in particular, to obtain IP protection for product formulations. There is a risk that a competitor may release a similar or identical product to a Hydralyte North America product, against which the Company may have little or no recourse. Further, if a manufacturer ceases supplying products or services to Hydralyte North America, the Company may be unable to establish a replacement manufacturer who is capable of producing an identical product..</p> <p>The Company's IP is at risk of unauthorised use or disclosure. While the Company holds registered trade marks for the Hydralyte brand in various jurisdictions, much of its other IP is not protected (or capable of being protected) through other forms of registered intellectual property rights (such as patent or design registrations). To enforce its IP rights, the Company may therefore have to commence expensive and time consuming legal proceedings against third parties who infringe its rights.</p>

Risks

Risk	Description
Reliance on sales channels such as retailers and online distribution partners	Hydralyte North America distributes a significant number of its products to end consumers through various sales channels, including bricks and mortar retailers such as Shoppers Drug Mart and Walmart and online via Amazon's Marketplace. The Company depends on continued access to its sales channels in order to connect with its customers. There can be no guarantee that the Company's relationships with key channel partners will continue, or, if they do continue, that they will operate on the same terms and, in respect of retailers, that they will purchase the same, similar or greater quantities of Hydralyte North America's products as they have historically.
No contracts with customers	Hydralyte North America generates its revenue from uncontracted customer relationships, using the Company's or the customer's standard terms and conditions and purchase orders and invoices. These supply arrangements, which are consistent with the typical terms of supply for participants in the FMCG industry, typically have no minimum volume requirements and can be varied or terminated by the customer on short notice (or no notice) and without penalty. The Company may be unable to maintain its uncontracted relationships on commercially viable terms, which could materially adversely affect its revenue and profitability.
Foreign exchange rate risk	The Company's financial statements are presented in United States dollars, and the Company and its subsidiaries must translate its assets, liabilities, revenue and expenses into United States dollars for external reporting purposes. As a result, significant changes in the value of the United States dollar during a reporting period (in particular, any material depreciation against the Australian dollar or the Canadian dollar) may unpredictably and adversely impact the Company's operating results, asset and liability balances and cash flows.
Reliance on key personnel	Hydralyte North America depends on the talent and experience of its personnel as an important asset. There may be a negative impact on Hydralyte North America if any of its key personnel leave. It may be difficult to replace them, or to do so in a timely manner or at comparable expense. Additionally, any key personnel of the Company who leave to work for a competitor may adversely impact the Company. Hydralyte North America's ability to attract and retain personnel will have a direct impact on its ability to deliver its project commitments. Additionally, increases in recruitment, wages and contractor costs may adversely impact upon the financial performance of the Company.
IT systems risks	<p>In addition to the sale of products via its sales channels, Hydralyte North America operates its own websites for direct purchases from and distribution to customers. Accordingly, the Company's websites, databases, IT, warehouse systems and management systems, and those of its key online sales channels and suppliers, are critically important to its success in attracting and retaining customers and maximising sales conversions from those customers. Hydralyte North America relies on its disaster planning contingencies, and those of its suppliers and sales channels, in order to deal with events such as earthquakes, floods, fires, power grid issues, telecommunication and network failures, terrorist attacks, computer viruses, electronic theft, physical terminal theft, employee language programming errors, operating system failures, third party provider failures and similar disruptions which could result in loss or damage to data and other similar events. Any disruption, if sustained or regular, could lead to a disruption in business operations, which may have an adverse financial impact.</p> <p>In particular, Hydralyte North America collects, processes and stores, through the ordinary course of its business, a wide range of customer data. Despite Hydralyte North America's best efforts to ensure the safe collection, storage and protection of customer data, there is a risk that a data breach may occur, or a third party may gain access to the confidential information of Hydralyte North America's customers or its internal systems. This could result in a breach of law by Hydralyte North America, or a breach of customer agreements, and may attract significant media attention and damage the Company's reputation and brand.</p>

Risks

Risk	Description
Brand or reputation damage	<p>Hydralyte North America's business is dependent on its reputation with customers and consumers, and its 'Hydralyte' branding is of significant value to the business. The reputation and value associated with 'Hydralyte' branding and related intellectual property could be adversely affected by a number of factors, including:</p> <ul style="list-style-type: none"> • quality issues with Hydralyte North America's products; • failure or delay in supplying products; • disputes or litigation with third parties, employees, suppliers or customers; or • adverse media coverage (including social media) or publicity about Hydralyte North America's products or processes. <p>A material adverse impact to the reputation of Hydralyte North America or its brands could negatively affect public perception of Hydralyte North America, demand for its products, customer loyalty and reputation. This could have a material adverse impact on Hydralyte North America's financial and operating performance and future prospects.</p>
Product liability and recalls	<p>As a retailer of products designed for human consumption, Hydralyte North America could be subject to product liability claims if the use of its products is alleged to have resulted in injury. Hydralyte North America engages highly reputable manufacturers with quality control policies, and takes all reasonable precautions to ensure that its products are free from contamination or defects. However, events outside of Hydralyte North America's control could occur. In the event that contamination, mislabelling, misbranding or another such quality control issue occurs in respect of a Hydralyte North America product, this may lead to business interruption, product recalls or liabilities to customers.</p>
Failure to effectively manage inventory	<p>Hydralyte North America may fail to accurately forecast or manage its inventory levels, including if the Company's inventory management system fails or provides inaccurate information. This may result in the Company incurring additional costs and losing revenue. If Hydralyte North America manufactures excess product that it cannot sell in a timely manner, the excess product may need to be sold at a discount, otherwise the excess product may become obsolete and Hydralyte North America may be required to bear the costs of the surplus product and recognise inventory write-down costs. Alternatively, Hydralyte North America may experience disproportionate demand and supply for specific products, or 'out of stock' issues. This may result in lost sales, less than forecast margins and damage to the Company's reputation or brand, which may have a material adverse effect on the Company's financial and operational performance.</p>
Changes in consumer trends and preferences	<p>Hydralyte North America's business is primarily focused on the sale of a range of liquid, tablet, powder and effervescent healthy hydration products, in the Healthy Hydration Solutions Market. This market is subject to continually evolving consumer trends, demands and preferences, including shifts in the beliefs, tastes and dietary habits of end consumers. If Hydralyte North America misjudges or fails to predict consumer preferences or fails to convert market trends into appealing product offerings on a timely basis, this may result in lower revenue and margins and could adversely impact Hydralyte North America's future financial performance.</p>
Failure to execute growth plans	<p>There is a risk that Hydralyte North America may be unable to manage its future growth successfully. The ability to hire and retain skilled personnel as outlined above may be a significant obstacle to growth.</p>
No track record of profitability	<p>Hydralyte North America does not have a track record of profit and there is no guarantee that it will ever be profitable. If it does not achieve profitability it will be unable to pay dividends in the future and capital growth may be less likely.</p>
Additional capital requirements	<p>The Company's capital requirements depend on numerous factors. Depending on the Company's ability to generate income from its operations, the Company may require further financing in addition to amounts raised under the Capital Raising. Any additional equity financing will dilute shareholdings, and debt financing, if available, may involve restrictions on financing and operating activities. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or scale back its research and development and/or clinical trials as the case may be. There is however no guarantee that the Company will be able to secure any additional funding or be able to secure funding on terms favourable to the Company.</p>

Risks

Risk	Description
Economic conditions	Hydralyte North America's performance will depend to a certain extent on a number of macro-economic factors outside its control which may impact the spending power and habits of its customers. These factors include, among other things, economic growth, unemployment rates, consumer confidence, taxation, inflation, interest rates and the availability and cost of credit. In addition, consumer spending may be affected by a range of factors including higher levels of inflation. Any significant or prolonged decrease in consumer spending could adversely affect the demand for the Company's products.
Share price fluctuation	The Shares will trade on ASX at a price higher or lower than the Offer Price. The price at which the Shares trade will be affected by the financial performance of the Company and by external factors unrelated to the operating performance of the Company, including movements on international financial markets, the level of interest rates and exchange rates, general domestic and international economic conditions and government policies relating to taxation and other matters. There can also be no guarantee that there will be an active market in the Shares. There may be relatively few potential buyers or sellers of Shares on the ASX at any time. All of the above factors may increase the volatility of the market price of the Shares.
Changes in laws and regulations	The advertising, distribution, labelling, production, safety, sale, and transportation in North America of the Company's currently marketed products are subject to various United States and Canada regulations, state food and drug laws; state consumer protection laws; competition laws; various federal, state and local environmental protection laws; and various other federal, state, and local statutes and regulations. Changes to such laws and regulations could increase costs or reduce Hydralyte North America's net operating revenues. In addition, failure to comply with environmental, health or safety requirements and other applicable laws or regulations could result in the assessment of damages, the imposition of penalties, suspension of production, changes to equipment or processes, or a cessation of operations at the Company's manufacturers' facilities, as well as damage to Hydralyte North America's image and reputation, all of which could harm the Company's operating and financial prospects.
Tax risks	There can be no certainty that the current taxation regime in the United States, Canada, Australia or in overseas jurisdictions within which the Company plans to operate in the future will remain in force or that the current levels of corporation taxation will remain unchanged. There can be no assurance that there will be no amendment to the existing taxation laws applicable to the Company, which may have a material adverse effect on the Company's financial position.
Litigation risk	There is a risk that Hydralyte North America may in future be the subject of or required to commence litigation. There is, however, no litigation, mediation, conciliation or administrative proceeding taking place, pending or threatened against the Company. If the Company was to become involved, whether as claimant or defendant, in significant litigation then liability for damages and/or legal costs could result that might have a material adverse effect on the Company's operations, financial performance and prospects.
Force Majeure	Events may occur that negatively impact the Company's financial performance, operations or the price of Shares. These events include but are not limited to acts of terrorism, an outbreak of international hostilities, fires, floods, earthquakes, labour strikes, civil wars, natural disasters, outbreaks of disease or other natural or man-made events or occurrences. Climate change will furthermore increase the likelihood of events such as floods, droughts, fires, heatwaves and cyclones. These events could impact Hydralyte North America by causing increased costs, closures, disruption to operations, lack of access, damage to warehouse or stock, impacts on supply and transportation of product, among other things. The Company has only a limited ability to insure against some of these risks.

Summary of Underwriting Agreement

Offer Management and Underwriting Agreement

The Lead Manager has agreed to lead manage the Placement and Entitlement Offer and partially underwrite the Entitlement Offer (up to a maximum of \$2.5 million worth of Shares) on the terms set out in the Offer Management and Underwriting Agreement between the Company and BW Equities Pty Ltd (**BW Equities** or **Lead Manager**) dated 3 August 2023.

In consideration for its services to the Company, the Lead Manager will receive a fee of 6.0% of the cash proceeds raised under the Placement and the Entitlement Offer on settlement of each component of the Offer. The obligations of the Lead Manager to underwrite the Entitlement Offer pursuant to the Offer Management and Underwriting Agreement are conditional on the satisfaction or waiver of certain standard conditions precedent.

The obligations of the Lead Manager to underwrite the Entitlement Offer are also subject to certain events of termination. The Lead Manager may terminate its obligations under the Offer Management and Underwriting Agreement by notice to the Company, at any time before the Settlement Date, where:

- the cleansing notice to be issued in connection with the Placement is defective;
- a certificate required to be furnished under the Offer Management and Underwriting Agreement is untrue, incorrect or misleading in any material respect;
- quotation of the Placement Shares is not granted in accordance with the Timetable;
- the Company withdraws the Capital Raising or the Prospectus;
- any circumstance arises which requires the Company to repay application money received from applicants or offering applications an opportunity to withdraw their application money;
- any person (other than the Lead Manager) withdraws their consent to the issue of the Prospectus or the inclusion of their name in the Prospectus;
- the Company is required to lodge a supplementary prospectus in accordance with section 719 of the Corporations Act;
- an application is made by ASIC for an order under Part 9.5 of the Corporations Act in relation to the Capital Raising or any of the Capital Raising materials or ASIC commences, or gives notice of an intention to hold, any investigation or hearing under Part 3 of the ASIC Act in relation to the Capital Raising or any of the Capital Raising materials or prosecutes or commences proceedings against, or gives notice of an intention to prosecute or commence proceedings against, the Company;
- the Company is or will be prevented from conducting or completing the Offer by ASIC, ASX or in accordance with the Listing Rules, any applicable laws or an order of a court of competent jurisdiction;
- an event of insolvency occurs;
- the ASX/S&P Small Ordinaries Index falls to a level that is 12.5% or more below its level at market close on the business day immediately preceding the Prospectus Date and is at or below that level:
 - at the close of trading for 2 consecutive business days during any time after the Prospectus Date until the Entitlement Offer Settlement Date; or
 - on the business day immediately prior to the Entitlement Offer Settlement Date;
- *a statement contained in the Capital Raising materials is false, misleading or deceptive in any material respect (including by omission);
- *the Company withdraws any of the Capital Raising materials;
- *the Company defaults in the performance of its obligations under the Offer Management and Underwriting Agreement;
- *a certificate which is required to be furnished by the Company under the Offer Management and Underwriting Agreement is not furnished when required;
- *a representation or warranty on the part of the Company is not true or correct;
- *any adverse change occurs in the assets, liabilities, financial position or performance, profits, losses or prospects of the Company Group from the circumstances existing as at the date of the Offer Management and Underwriting Agreement;
- *the Company contravenes the Corporations Act, its Constitution or the Listing Rules;
- *any event specified in the Timetable is delayed for more than 3 business days without the prior written consent of the Lead Manager (such consent not to be unreasonably withheld or delayed);
- *the Company varies its capital structure or a term of its Constitution before completion of the Capital Raising without the prior written consent of the Lead Manager (otherwise than permitted under the Offer Management and Underwriting Agreement);
- *a government agency commences any public action against a Director in his or her capacity as a Director or publicly announces that it intends to take any such action;
- *either of the following occurs:
 - a general moratorium on commercial banking activities in Australia, New Zealand, the United States of America or Japan is declared by the relevant central banking authority in any of those countries, or there is a material disruption in commercial banking or security settlement or clearance services in any of those countries; or
 - trading in all securities quoted or listed on ASX, or the New York Stock Exchange is suspended or limited in a material respect for more than one day on which that exchange is open for trading; or
- *major hostilities not existing at the Prospectus Date commence (whether war has been declared or not) or a major escalation in existing hostilities occurs (whether war has been declared or not) involving any one or more of Australia, the United States of America, New Zealand, or Japan or a major terrorist act is perpetrated on any of those countries or any diplomatic, military, commercial or political establishment of any of those countries elsewhere in the world.

The events set out in the bullet points marked with an * above do not entitle the Lead Manager to exercise its termination right unless it believes, on reasonable grounds, that the event is likely to have a materially adverse effect on the outcome or success of the Capital Raising, or is reasonably likely to give rise to liability for the Lead Manager under the Corporations Act or any applicable laws.

The Company agrees to indemnify and hold harmless the Lead Manager, its related bodies corporate and their affiliates, officers, directors, employees, agents and advisers (each an **Indemnified Party**), against any loss arising directly or indirectly from a breach by the Company of the Offer Management and Underwriting Agreement or applicable law. These indemnities do not apply to any loss suffered by an Indemnified Party to the extent that the loss results from the recklessness, wilful misconduct, gross negligence or breach of the Offer Management and Underwriting Agreement by the Lead Manager or its Indemnified Parties. The Company and the Lead Manager have also given certain representations, warranties and undertakings.

The Offer Management and Underwriting Agreement is governed by the laws of Victoria.

Thank You

Stay Hydrated

Contact:

Oliver Baker
Chief Executive Officer
Oliver.baker@hydralyte.com

Henry Jordan
Six Degrees Investor Relations
Henry.jordan@sdir.com.au
+61 (0) 431 271 538



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