

Company Announcement  
ASX: HPC

DATE: 30/4/2024

## **Q1 FY24 Quarterly Report and Appendix 4C: 43% Reduction in YoY Net Operating Cash Use to Record Low**

### **KEY HIGHLIGHTS**

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- Net cash used in operating activities reduced to US\$0.83m, a 43% decrease on PCP (Q1 FY23: US\$1.45m) and down 27% on previous quarter (Q4 FY23: US\$1.14m) – marking the seventh consecutive quarter of reductions
- Net sales of US\$2.17m – up 2% on the previous quarter (Q4 FY23: US\$2.13m)
- Unfilled orders from out of stock inventory for the quarter resulted in a net sales reduction of US\$0.45m
- After accounting for US\$0.45m in unshipped orders due to out of stock inventory, underlying sales growth for Q1 FY24 increases to 23% on the prior quarter to US\$2.62.
- Gross margin increased 3ppt on PCP (Q1 FY23: 47%) to 50%, increasing to 56% when adjusted for once-off inventory writedowns
- Gross margin negatively impacted by inventory write-off of \$0.13m in the shift towards the high profitability SKUs, reducing margin by 6ppt from 56% to 50%
- Marketing costs as a percentage of net revenue decreased to 37% - down from 48% in Q1 FY23
- Amended funding agreement signed with Pure Asset Management providing additional funds to the Company
- New funds will be used in order to seek to implement a sale of the Company for the benefit of stakeholders
- Continued execution of stated strategy to reduce cash expenditure and extend cash reserves

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Hydration solutions company **The Hydration Pharmaceuticals Company Limited (ASX: HPC)** (“Hydralyte North America” or “the Company”) is pleased to provide the following update on its operational and financial performance for the three-month period ended 31 March 2024 (the “quarter”).

**Financial overview:**

During the quarter, the Company continued to deliver on its stated strategy to maintain sales growth with a material reduction in net operating expenditure. This focus on cash preservation resulted in net cash used in operating activities decreasing to US\$0.83m, highlighting a 43% reduction on the previous corresponding period (PCP) (Q1 FY23: US\$1.45m) and a 27% reduction on the previous quarter (Q4 FY23: US\$1.147m).

Revenue for the quarter increased by 2% on the previous quarter (Q4 FY23: US\$2.13m) to US\$2.17m. Quarterly revenue was impacted by inventory issues during January, which accounted for approximately US\$0.45m in unshipped orders. Adjusted net sales after accounting for these unshipped orders resulted in a 23% increase on the previous quarter.

The Company has rectified these inventory issues and has been back in stock on key products since mid-quarter. The Company expects only a minor impact from out-of-stocks during Q2 FY2024.

Canadian operations continue to show strong growth and underpinned the Company's growth trajectory in the March quarter. Sales in the territory for the quarter increased 7% on PCP (Q1 FY2023: US\$1.33m) to US\$1.43m. Canada ecommerce sales increased to 52% on PCP to US\$0.49m.

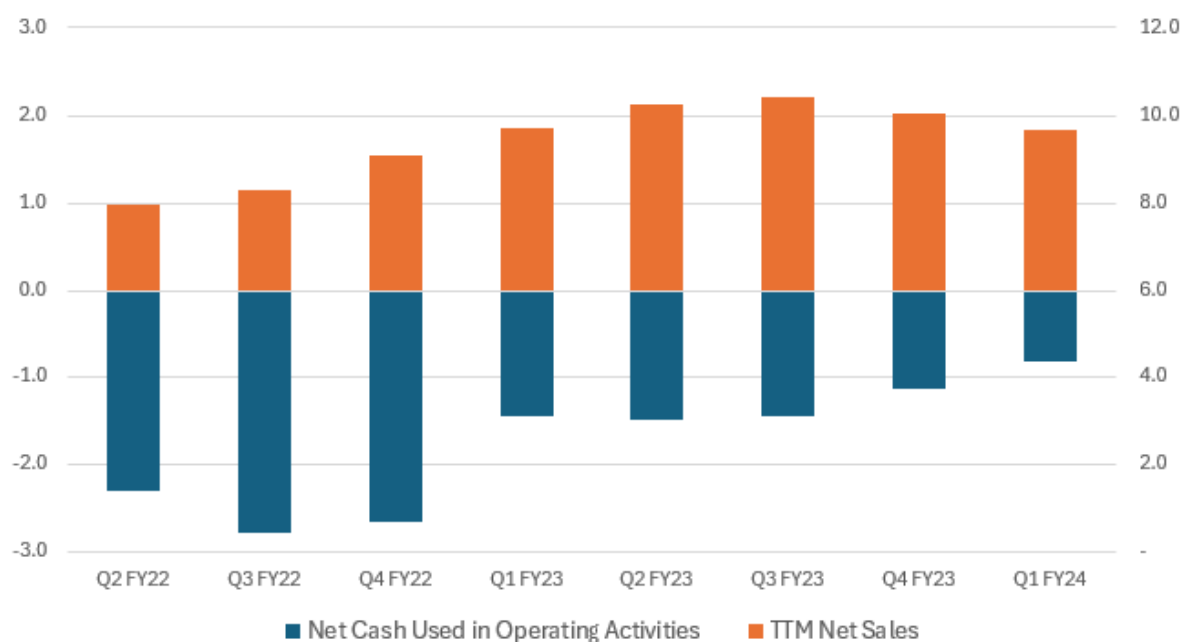
With the strategy of prioritising profitability, the Company increased focus on ecommerce and Canadian retail growth. With less focus on US retail, US sales for quarter decreased 38% on PCP (Q1 FY2023: US\$1.20m) to US\$0.74m.

In the shift to profitable Amazon growth, US ecommerce revenue decreased 5% on PCP (Q1 FY2023: US\$0.67m) to US\$0.64m. Subsequent to quarter end, US ecommerce has shifted to profitable year-on-year growth.

US bricks and mortar revenue decreased 82% on PCP (Q1 FY2023: US\$0.54m) to US\$0.10m. This was largely due to large US retailer, Rite Aid decreasing orders due to restructuring following its bankruptcy in late 2023. The reduction in Rite Aid revenue resulted in a US\$0.25m decrease on PCP. Rite Aid bankruptcy plus trailing net sales deductions caused a one-time negative net sales impact of US\$(0.08m).

The following chart displays the quarterly trailing 12 months net sales and quarterly net cash used in operating activities for the period ending Q1 FY2024:

Quarterly TTM Net Sales and Net Cash Used



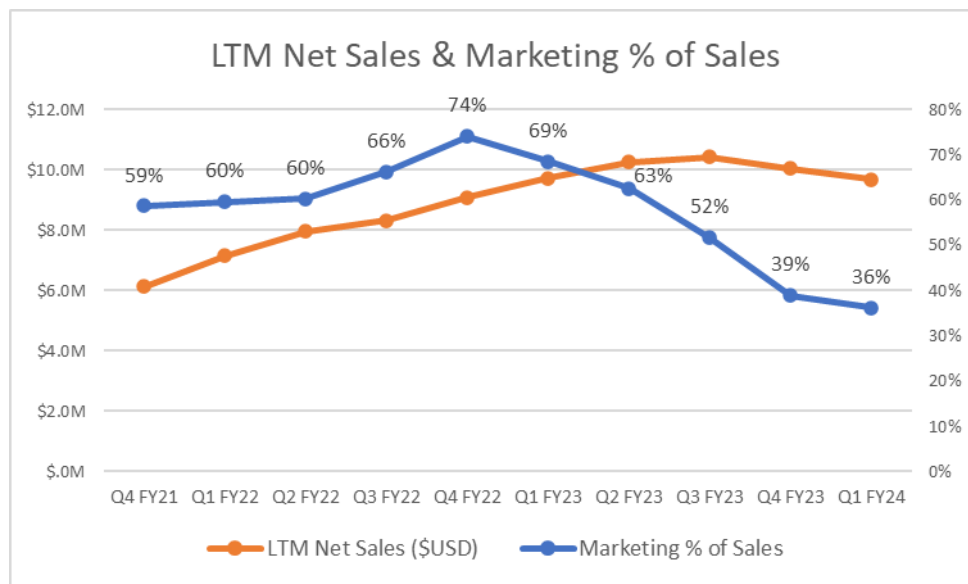
The following table summarises change in revenues and gross margins into Q1 FY2024:

	Q1 FY23	Q4 FY23	Q1 FY24	QoQ change	YoY change
Total net revenue	2,530	2,134	2,171	2%	-14%
<i>E-commerce sales</i>	1,000	996	1,138	14%	14%
<i>Traditional retail sales</i>	1,530	1,138	1,033	-9%	-33%
Gross Margins	1,196	1,302	1,086	-17%	-9%
Gross Margin %	47%	61%	50%	-11 ppt	3 ppt

US\$0.81m was invested in marketing during the quarter, a 11% decrease on the PCP (Q1 FY23: US\$0.91m) and in line with the Company's cash preservation initiatives.

Marketing costs as a percentage of sales decreased to 37% down from 43% in Q4 FY23 and down from 48% in Q1 FY23.

The following chart reflects the continued success of the company's initiative to conserve capital and focus on sustainable growth:



Gross margin dollars totalled US\$1.09m, down 9% on the PCP, however gross margin as a percentage of net sales increased 3 percentage points on the PCP to 50% (Q1 FY2023: 47%), and down 11 percentage points on the prior quarter. The decrease is attributed to a one-time US\$0.13m write down of inventory expected to become obsolete.

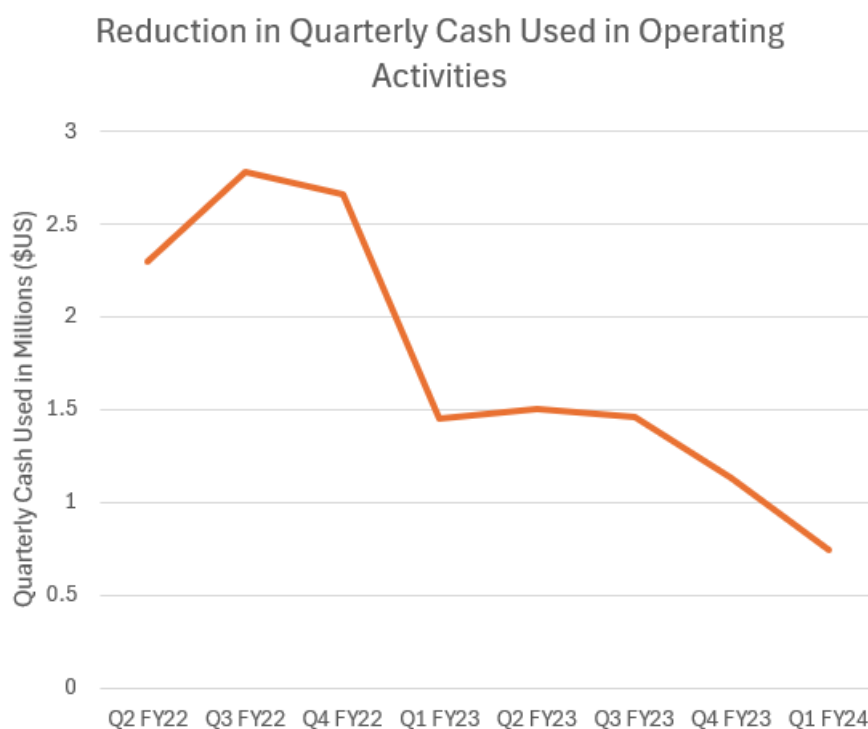
#### **Commentary on cash flows:**

In line with an ongoing focus on cash preservation, net cash used in operating activities decreased 27% on the previous quarter to US\$0.83m (Q4 FY23: US\$1.1m) and decreased 43% on PCP (Q1 FY23: US\$1.5m)-

The Company has maintained a focus on reducing operating expenditure to extend cash life through significant reduction in marketing spend, while leveraging its market footprint to maintain revenue growth. The reduced net cash use in FY2024 is a direct result of this ongoing strategy, which is expected to continue through 2024.

The following chart shows continued reduction in cash used in operating activities consecutively over the last seven quarters:





#### **Available funds and PURE arrangements:**

##### **Pure Asset Management (“PURE”) amended agreement:**

The Company amended the prior agreement with PURE to make available additional tranches of debt, tranches three, four, and five. Tranche three totals A\$1.7m and tranche four and five are A\$1.5m each. The A\$1.7m tranche three was made immediately available to the company subject to an ASX waiver that was granted subsequent to quarter end on 24 April 2024. The Company will issue 85,000,000 warrants in connection with the tranche three funding (**Third Tranche Warrants**). The issue of the Third Tranche Warrants is conditional on shareholder approval as set out in the Notice of AGM released to the market on 23 April 2024. Tranches four and five are subject to the discretion of PURE. For additional details around the amended agreement, please see the Company ASX announcement dated 27 March 2024.

##### **Available funds:**

Cash and cash equivalents at the end of the quarter were US\$2.2m. In addition to cash on hand of US\$1.1m, the Company may access the third tranche of PURE’s debt equal to A\$1.7m. This third tranche was subject to an ASX waiver that was granted subsequent to the quarter end on 24 April 2024.

#### **Operational overview:**

##### **Progressing Sale of Company or Divestiture of Assets:**

As previously advised, the Company is utilising the additional funding available to commence a sale of the Company or divestiture of assets. This process is ongoing and the Company will

provide updates as developments materialise. While advancing the sales process, the Company is continuing to focus on profitable growth through product development and new and existing customer growth.

**Management commentary:**

**Hydralyte North America CEO Oliver Baker said:** *"The March quarter's results again highlighted the company's strategy to maintain revenue growth on a far reduced cost base. This is now the seventh straight quarterly reduction in cash used. We also turned a strategic corner as Amazon USA for the first time is demonstrating profitable growth in the most recent 6-8 week period."*

*"These results highlight the management team's commitment to establishing a stable growth model to support the Board's decision to pursue a strategic sale of the business and obtain maximum value for shareholders. We look forward to providing more updates in the June quarter as discussions with counterparties progress."*

**ENDS**

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

For further information:

**Investors/Media**

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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.

For personal use only



## 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")**

31 March 2024

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$US'000</b>	<b>Year to date (3 months) \$US'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	2,332	2,332
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(456)	(456)
(c) advertising and marketing	(811)	(811)
(d) leased assets	-	-
(e) staff costs	(576)	(576)
(f) administration and corporate costs	(1,265)	(1,265)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(98)	(98)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	41	41
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(833)</b>	<b>(833)</b>
<b>2. Cash flows from investing activities</b>		
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 (3 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)		
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>		

<b>3.</b>	<b>Cash flows from financing activities</b>		
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)		
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	-	-

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	1,840	1,840
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(833)	(833)
4.3	Net cash from / (used in) investing activities (item 2.6 above)		

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (3 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	57	57
4.6	<b>Cash and cash equivalents at end of period</b>	<b>1,064</b>	<b>1,064</b>

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	1,064	1,840
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (provide details)		
5.5	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>1,064</b>	<b>1,840</b>

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	
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>		

<b>7.</b>	<b>Financing facilities</b> <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>	<b>Total facility amount at quarter end \$US'000</b>	<b>Amount drawn at quarter end \$US'000</b>
7.1	Loan facilities	5,496	4,388
7.2	Credit standby arrangements		-
7.3	Other (please specify)	-	-
7.4	<b>Total financing facilities</b>	5,496	4,388
7.5	<b>Unused financing facilities available at quarter end*</b>		1,108
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.		

<b>8.</b>	<b>Estimated cash available for future operating activities</b>	<b>\$US'000</b>
8.1	Net cash from / (used in) operating activities (item 1.9)	(833)
8.2	Cash and cash equivalents at quarter end (item 4.6)	1,064
8.3	Unused finance facilities available at quarter end (item 7.5)*	1,108
8.4	Total available funding (item 8.2 + item 8.3)	2,172
8.5	<b>Estimated quarters of funding available (item 8.4 divided by item 8.1)</b>	2.61
<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: 30 April 2024 .....

Authorised 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.
- \* The company has gone into a trading halt on 31 July 2023 to release the news of a capital raise. As part of the raise, The Hydration Pharmaceuticals Company has conditionally agreed with the debt provider, Pure Asset Management, to release the obligation of providing the second tranche of the debt facility as it is listed in this document with the intention that the capital raise will replace additional debt. The Hydration Pharmaceuticals Company Limited has the right under ASX rule 7.1 to access the second tranche, but the right to access will expire on August 5<sup>th</sup> without further shareholder approval.