

Company Announcement
ASX: HPC

DATE: 31/7/2024

Q2 FY24 Quarterly Report and Appendix 4C: Record Gross Profit benchmark of \$1.5m hit for second time and 52% Reduction in Adjusted EBITDA Loss on PCP

KEY HIGHLIGHTS

- Record gross profit benchmark of US\$1.5m achieved for second time
- 52% reduction in adjusted EBITDA from PCP to -\$0.7m (Q2 FY23: -\$1.5m) – lowest since IPO
- Marketing costs as a percentage of net revenue amounted to 26% in Q2 FY24, down from 36% in Q2 FY23 and 37% in Q1 FY24
- Net sales of US\$2.75m – up 24% on the previous quarter (Q1 FY24: US\$2.21m)
- Net cash used in operating activities of US\$1.28m, a 13% decrease on PCP (Q2 FY23: US\$1.48m)
- Gross margin increased 4ppt on PCP (Q2 FY23: 50%) to 54%
- Continued execution of stated strategy to reduce cash expenditure and extend cash reserves
- Discussions continue on the sale of the Company or divestiture of assets

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 30 June 2024 (the “quarter”).

Financial overview:

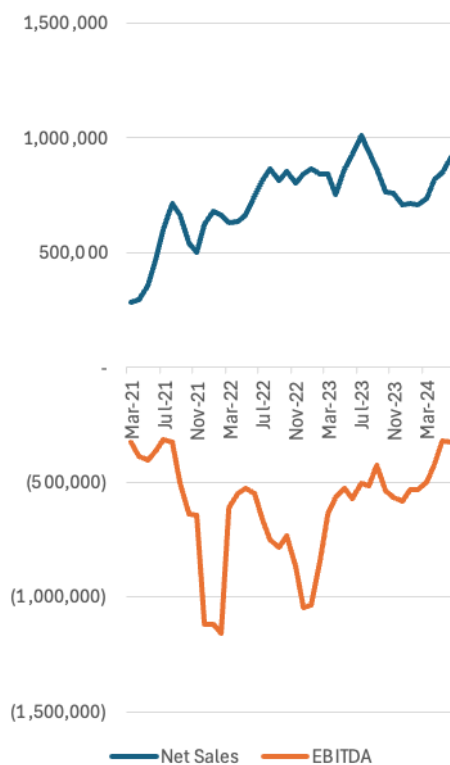
During the quarter, the Company continued to deliver on its stated strategy of maintaining sales, while delivering a material reduction in operating expenses. This was achieved while also increasing inventory for the North American Summer season, a traditionally higher sales period for the Company.

The focus on profitability and cash preservation resulted in net cash used in operating activities decreasing to US\$1.28m, a 13% reduction on the previous corresponding period (PCP) (Q2 FY23: US\$1.48m).

Revenue for the quarter increased by 24% on the previous quarter (Q1 FY24: US\$2.21m) to US\$2.75m. Primarily as a result of the Company's reduction in marketing and advertising expense in order to prioritize cash preservation and profitability, revenue decreased 1% on PCP (Q2 FY23: US\$2.78m), remaining relatively flat with significant improvements to net margin and EBITDA.

EBITDA loss decreased 43% on PCP (Q2 FY23: US\$1.71m) to a record low of US\$0.97m. After adjusting to remove obsolete inventory write-offs from retired stock keeping units (SKUs) as a result of a SKU and profit optimisation strategy, EBITDA loss for the quarter was \$0.67m, a 52% decreased loss from PCP adjusted EBITDA (Q2 FY23: US\$1.48m)

Rolling 3-Month Average Net Sales and EBITDA



Canadian ecommerce operations continued to show strong growth and underpinned the Company's performance in the quarter. Ecommerce sales in Canada for the quarter increased 44% on PCP (Q2 FY2023: US\$0.41m) to US\$0.59m. Canada bricks and mortar sales decreased 13% on PCP to US\$1.12m due to a lag in orders resulting from inventory system issues at the Company's top Canadian retailer, which have since been resolved.

US sales for the quarter increased 40% on the previous quarter (Q1 FY24: US\$0.67m) and 4% on PCP (Q2 FY2023: US\$0.91m) to US\$0.94m, driven primarily by the addition of a new medical supply customer in the quarter.

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As part of its strategy to generate more profitable Amazon growth, the Company reported gross profits from ecommerce of US\$0.45m, up 16% on the PCP (Q2 FY2023: US\$0.39m). The increase was driven by optimisation of the product mix alongside targeted Amazon advertising.

US bricks and mortar revenue increased 11% on PCP (Q2 FY2023: US\$0.29m) to US\$0.32m.

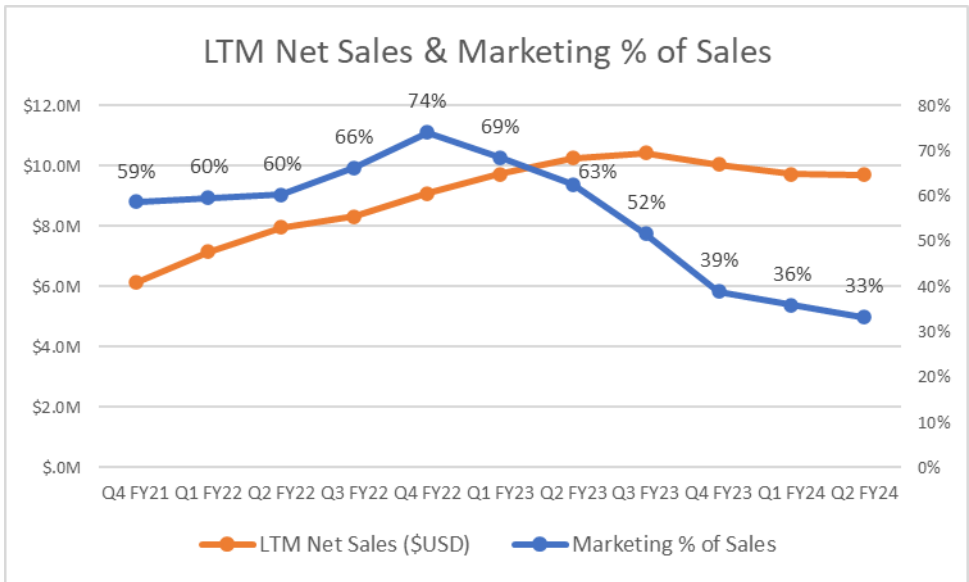
The following table summarises change in revenues and gross margins into Q2 FY2024:

	Q2 FY23	Q1 FY24	Q2 FY24	QoQ change	YoY change
Total net revenue	2,775	2,218	2,750	24%	-1%
<i>E-commerce sales</i>	1,204	1,186	1,304	10%	8%
<i>Traditional retail sales</i>	1,571	1,032	1,446	40%	-8%
Gross Margins	1,385	1,134	1,492	32%	8%
Gross Margin %	50%	51%	54%	3 ppt	4 ppt

US\$0.72m was invested in marketing, a 27% decrease on the PCP (Q2 FY23: US\$0.99m) and in line with the Company’s capital preservation initiatives.

Marketing costs as a percentage of sales decreased to 26% down from 37% in Q1 FY24 and down from 36% in Q2 FY23.

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



Gross margin dollars totalled US\$1.5m, up 8% on the PCP. Gross margin as a percentage of net sales increased 4% on the PCP to 54% (Q2 FY2023: 50%), and up 3% on the prior

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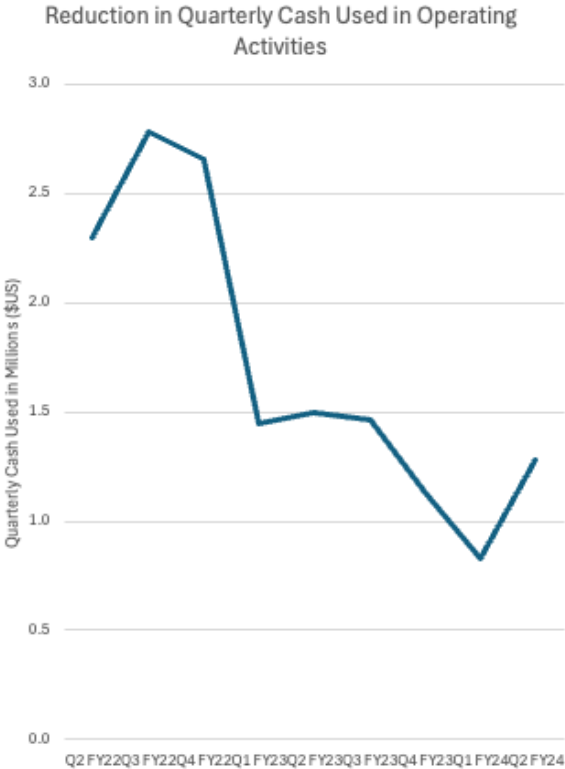
quarter. Drivers of gross margin improvement are a result of continued realisation of supply chain restructuring, optimisation of product mix, and optimising Amazon pricing.

Commentary on cash flows:

Impacted by timing of inventory payments heading into the summer season, net cash used in operating activities increased 54% on the previous quarter to US\$1.28m (Q1 FY24: US\$0.83m), however it still reflected a 13% decrease on PCP (Q2 FY23: US\$1.48m)-

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. 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 past eight 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

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subject to an ASX waiver that was granted on 24 April 2024. 85m warrants were issued upon acceptance of the A\$1.7m of tranche three debt. 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 2023.

Available funds:

Cash and cash equivalents at the end of the quarter were US\$0.9m. Subject to PURE's approval, the Company may access tranche four and five of the amended agreement. The Company has assessed its cash position relative to the timing of a sale or divestiture of assets. In the advanced stages of discussions, the Company is confident it will continue to operate through an intended transaction. The Company is running on an increasingly leaner basis as the discussions are progressing towards an intended transaction, while maintaining and growing revenue and increasing profitability.

Operational overview:**Progressing Sale of Company or Divestiture of Assets With Continued Focus on Profitability:**

As previously advised, the Company is utilising the additional funding available to advance a sale of the Company or divestiture of assets. This process is ongoing and the Company will provide updates as required by the ASX listing rules and 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. As part of this continued initiative, during the quarter, the Company began manufacturing the first of a new packaging format that is expected to save an additional 4% of net margin on Amazon sales.

Management commentary:

Hydralyte North America CEO Oliver Baker said: *"We've been delighted to maintain a record gross margin and achieve a record EBITDA with continued focus on our most profitable sales channels. Tough cost cuts that were made in the December and March quarters are now starting to hit the bottom line. We continue to focus heavily on improving margin and reducing costs."*

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.

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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")

30 June 2024

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (6 months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	3,075	5,455
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(1,697)	(2,345)
(c) advertising and marketing	(719)	(1,531)
(d) leased assets	-	-
(e) staff costs	(479)	(1,077)
(f) administration and corporate costs	(1,155)	(2,309)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(2)	(100)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	(305)	(207)
1.9 Net cash from / (used in) operating activities	(1,283)	(2,113)
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 (6 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		

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	1,110	1,110
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(24)	(24)
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	1,086	1,086

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,064	1,840
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,283)	(2,113)
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 (6 months) \$US'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,086	1,086
4.5	Effect of movement in exchange rates on cash held	(14)	41
4.6	Cash and cash equivalents at end of period	854	854

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	854	1,064
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)	854	1,064

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>		

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 \$US'000	Amount drawn at quarter end \$US'000
7.1 Loan facilities	5,496	5,496
7.2 Credit standby arrangements		-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	5,496	5,496
7.5 Unused financing facilities available at quarter end*		-
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)	(1,283)
8.2 Cash and cash equivalents at quarter end (item 4.6)	854
8.3 Unused finance facilities available at quarter end (item 7.5)*	-
8.4 Total available funding (item 8.2 + item 8.3)	854
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	0.7
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
Answer: The Company expects net operating cash flows to improve in Q3 FY24 compared to Q2 FY24 due to continued reduction in costs, timing of inventory payments, and continued reduction in EBITDA loss.	
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: The intention of the Company is that the current cash will maintain the Company through an intended transaction. In the event a transaction takes longer than expected to close, the Company has assessed a range of options to help ensure the Company is funded through the close of a transaction.	

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: Yes the Company expects, due to the advanced stages of discussions in selling the Company or divesting assets, the Company will continue its operations and meet its business objectives.

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.

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 July 2024

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.
- * 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 5th without further shareholder approval.