

Company Announcement
ASX: HPC

DATE: 02/10/2024

Divestiture of non-US assets for ~US\$9.5m (~A\$13.7m) allowing for payoff of A\$8.2m debt facility while funding expansion of US business

HIGHLIGHTS

- Divestiture of HydraLyte's non-US assets to Prestige Consumer Healthcare Inc and associated subsidiaries.
- Total proceeds of ~US\$9.5m includes US\$8.3m for all non-US territories plus US\$1.2m for stock and inventory (subject to final adjustments).
- The sale price of ~A\$13.7m represents a significant premium over HPC's market capitalisation of A\$2.7m at 30 September 2024.
- Company retains full ownership of US-based operations, which are achieving annualised revenue of US\$3.8m (unaudited, based on Q2 FY24 annualised) – US assets have considerable scope to grow.
- Divestiture allows for the full repayment of debt and provides new capital to drive sales and margin growth from continuing US operations.
- Near-term US market growth strategy will focus on scalable ecommerce channels and products – follows recent momentum on Amazon USA, which has generated five consecutive months of positive net contribution margin.
- Divesting the non-US territories greatly simplifies the business structure and allows for a significantly reduced cost base with a deleveraged balance sheet.
- Additional cost efficiencies will be implemented with a focus on achieving cashflow breakeven.

Hydration solutions company **The Hydration Pharmaceuticals Company Limited (ASX: HPC)** ("**HydraLyte US**" or "**the Company**") is pleased to announce that it has entered into an Intellectual Property Sales Agreement (the '**Agreement**') with Prestige Consumer Healthcare Inc. and associated subsidiaries (together, '**Prestige**'). Pursuant to the Agreement and associated arrangements, the Company will assign and transfer the exclusive right to sell HydraLyte products, and associated intellectual property rights, to Prestige in all relevant jurisdictions other than the United States of America.¹

¹ The historical arrangements between the Company and Prestige are described at section 9.5.2 of the Company's initial public offering prospectus dated 3 November 2021 (available at www.asx.com.au).

Under the terms of the Agreement (which is dated 1 October 2024), HydraLyte US will receive consideration of US\$8.25m plus the value of stock and prepaid inventory in the relevant jurisdictions, valued at approximately US\$1.2m (subject to post-completion adjustments). The final cash consideration, including stock and prepaid inventory, is expected to be approximately US\$9.5m (A\$13.7m).

All conditions precedent to completion of the Agreement have been satisfied and the Agreement will complete in the coming days.

The Company has also agreed a Transition Services Agreement with Prestige, which covers the period of operational transition, and certain other related agreements.

With the funds received from the sale, the Company will repay its existing A\$8.2m debt facility owed to Pure Asset Management (refer ASX announcement: 27 March 2024), with the remaining cash at bank to be used towards closing and restructure costs and advancing operations in the US market. The Company is focussed on achieving scale and cashflow breakeven in the US, targeting profitability in the future.

Use of Funds:

Sources of Funds	Uses of Funds
Territory sale – US\$8.25m	Debt repayment – US\$5.89m
Inventory/asset sale* - US\$1.20m	
Total available funds – US\$9.45m	Balance of funds for restructuring and working capital – US\$3.56m

*Unaudited management estimate. Final balance will be determined post-completion.

Rationale:

On 27 March 2024 the Company announced that it intended to seek a sale transaction. Since that time, the Board has considered a range of options to divest part or all of the Company's business.

The Board considers that the Prestige transaction will effectively deleverage the Company's balance sheet and provide HydraLyte US with an opportunity to pursue its growth strategy in the potentially lucrative US market for the benefit of shareholders. This US growth strategy will be underpinned by a significant increase in balance sheet strength, with no debt and a stronger cash position to flexibly pursue targeted opportunities for sales and margin growth.

Streamlined operations:

HydraLyte US will focus on driving growth and unlocking value from its US-based assets. At present, HydraLyte US's operations are annualising net revenues of approximately US\$3.8m on an unaudited basis based on Q2 FY24.

The Company will maintain a presence with American bricks and mortar retail outlets but its targeted growth strategy in the US market will focus on ecommerce channels, where it already has an established footprint.

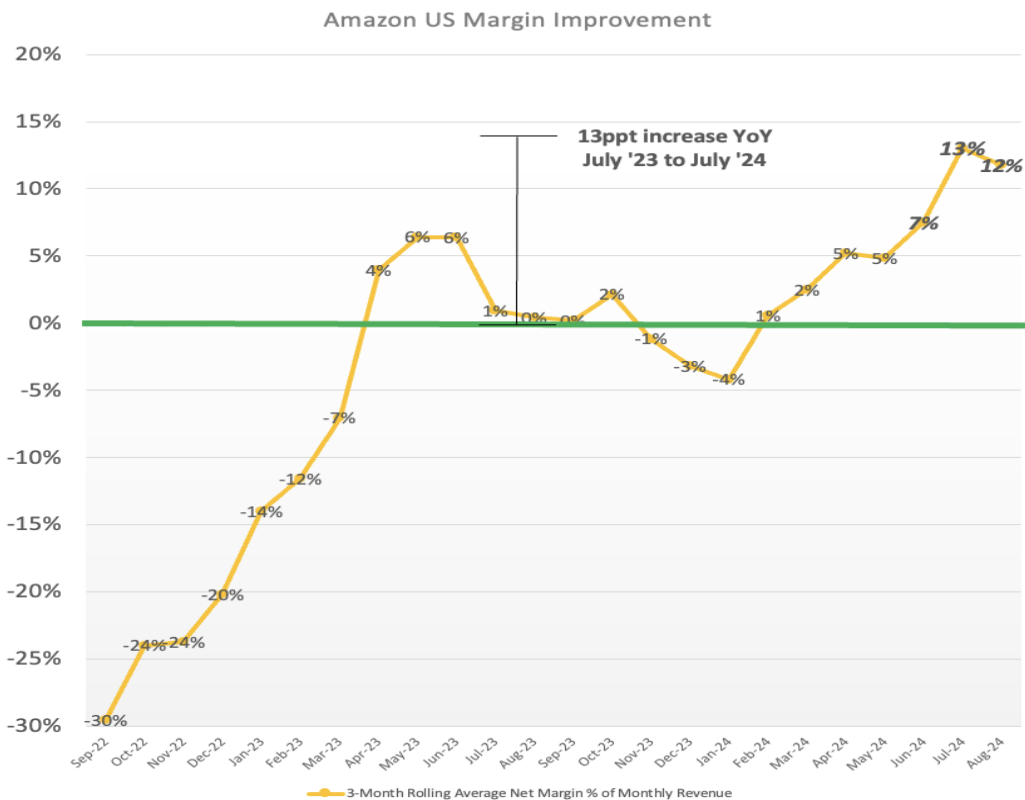
Most recently, the Company has achieved considerable net margin growth since Q1 CY23. Further, Amazon USA has achieved five consecutive months of positive net contributions and margin growth.

The Company will streamline its focus on specific stockkeeping units (SKUs), which have demonstrated high growth and margin in recent quarters. This includes an ongoing focus on the Company's liver

support product, which has demonstrated a 128% growth in monthly sales since August 2023 to over US\$120,000 per month.

Hydralyte US has moved its Amazon packaging to a new format which has led to better product presentation and a higher margin with a reduced fulfillment cost. The liver support range has also been expanded to include three different flavours. Management believes this can be easily replicated across other SKUs in the Company's product suite, which will serve to underpin future sales growth in the US.

The following chart illustrates the significant improvement in Amazon US net margin after advertising spend over the past two years (net margin is defined as gross product margin less cost of fulfillment and delivery, including direct Amazon advertising costs):



The Company believes that it has an opportunity to leverage its existing footprint in the US market to grow the business. With no debt and an expected cash balance of approximately US\$3.6m post-completion (~A\$5.1m), HydraLyte US will be in a position to pursue its pathway to cashflow breakeven from continuing US operations, targeting profitability in the future.

Management has also identified several opportunities to reduce working capital and operating costs (reflecting the reduced size of the business), which will be implemented in the near term.

Management commentary:

Chief Executive Officer, Mr Oliver Baker said: "This transaction represents the best available outcome for our investors and key stakeholders, following the Board's decision to seek a sale transaction.

"Importantly, the Company has freed up capital to extinguish its debt, with additional cash to deploy to accelerate growth in the US market, which is the largest consumer opportunity of all the Company's current and former territories.

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“Hydralyte US has an established footprint in the lucrative US market through both ecommerce and physical store network channels, and we look forward to executing on a more streamlined business strategy to unlock shareholder value.”

Terms of the Agreement:

The material terms of the Agreement and the Prestige transaction are set out in the Annexure.

ENDS

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

For further information:

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Annexure – Material terms of Prestige transaction

Parties	<p>The Hydration Pharmaceuticals Company Limited and certain associated subsidiaries (HPC or Seller).</p> <p>Prestige Consumer Healthcare Inc. and certain associated subsidiaries (Prestige or Buyer).</p>
Transaction documents	<p>The Intellectual Property Sale Agreement is dated 1 October 2024. The remaining documents will be dated on the date of completion of the transaction.</p> <p>Intellectual Property Sale Agreement</p> <p>Sale of all registered and unregistered intellectual property rights, barcode identifiers and stock / inventory in all of the Seller Territories (being all jurisdictions where the Seller held exclusive rights to sell HydraLyte branded products – comprising North and South America, Europe, Russia and China) other than the United States.</p> <p>IP Licence Deed</p> <p>Prestige grants HPC:</p> <ul style="list-style-type: none"> • an exclusive, perpetual, royalty-free licence to use its intellectual property to sell HPC's 'Products' in the United States; and • a non-exclusive, perpetual royalty free licence to use its IP to manufacture HPC's Products in the United States and in Prestige's territories for sale in the United States <p>HPC is permitted to manufacture the HPC Products in Prestige's territories, provided that the Products must be sold in the United States only (and Prestige has the equivalent right).</p> <p>HPC is restricted from being involved in a competing business in the Prestige territories (the world other than the United States).</p> <p>Prestige is permitted to be involved in a competing business in the United States (provided the business does not use the word 'HydraLyte').</p> <p>Deeds of Assignment of Trade Marks</p> <p>Deeds of Assignment pursuant to which the Company assigned all registered trademarks (other than those registered in the United States) to the Buyer.</p> <p>Transition Services Agreement</p> <p>HPC agrees to provide transition services to Prestige for a period of 180 days which may be extended by an additional up to 180 days.</p> <p>The transition services include accounting, receivables and collections, procurement and accounts payable, inventory and logistics services, IT services and product sales and marketing.</p> <p>Prestige to pay a fixed amount totalling US\$60,000 per month, covering a material amount of HPC's corporate overheads during the term.</p>
Consideration	<p>US\$8,250,000 plus the value of stock and prepayments (at cost) of approximately US\$1,193,885 (subject to final adjustments).</p>
Post-transaction Territories and exclusivity	<p>HPC retains all US intellectual property and stock, and has the exclusive right to sell HydraLyte-branded products, in the United States. HPC is permitted to sell HydraLyte-branded products in the United States only.</p> <p>Prestige holds all intellectual property, and has the exclusive right to sell HydraLyte-branded products, worldwide (excluding the United States).</p>