

Company Announcement
ASX: HPC

DATE: 31/10/2024

Q3 FY24 Quarterly Report and Appendix 4C: First positive operating cash flow quarter underpinned by strong financial and operational performance

KEY HIGHLIGHTS

- **Positive net operating cash flows of US\$0.6m – marks maiden positive operating cashflow quarter and validation of Company’s push to profitability**
- **Revenue for the period of US\$2.4m – underpinned by US\$1.21m in ecommerce sales, aligned with the Company’s revised strategy of driving online sales**
- **54% reduction in adjusted EBITDA loss on PCP to -\$0.6m (Q3 FY23: -\$1.3m) – second consecutive record low since IPO**
- **Gross margin up 7% on last quarter to 61% and +3% on PCP**
- **Marketing costs as a percentage of net revenue were 24%, down 30% in the PCP**
- **Divesture of non-US assets to Prestige Consumer Healthcare Inc and associated subsidiaries completed post quarter end**
- **Total proceeds of ~US\$9.5m (A\$13.7m) included US\$8.3m for all non-US territories plus US\$1.2m for stock and inventory (subject to final adjustments).**
- **Company retains full ownership of US-based operations, which are achieving annualised revenue of US\$3.5m (unaudited, based on Q3 FY24 annualised)**
- **US assets have considerable scope to grow with recently introduced cost efficiencies – Ongoing focus on achieving cashflow breakeven**
- **Divesture allows for repayment of debt with objective to fund the Company on a reduced size and expense base for a minimum of twelve months**
- **Near-term growth strategy will focus on scaling ecommerce channels and products - follows recent momentum on Amazon USA, which has generated five consecutive months of positive net contribution margin**

US-focused Hydration solutions company, **The Hydration Pharmaceuticals Company Limited (ASX: HPC) (“Hydralyte USA” or “the Company”)** is pleased to provide the following update on its operational and financial performance for the three-month period ended 30 September 2024 (the “quarter”).

Financial overview:

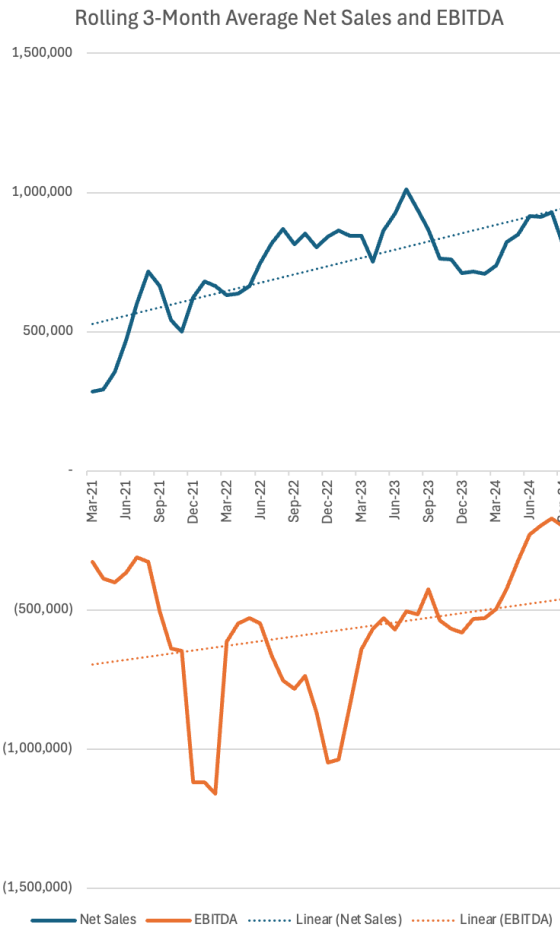
During the quarter, the Company continued to deliver on its stated strategy of maintaining sales, while delivering a material reduction in operating expenses.

The focus on profitability and cash preservation resulted in HPC’s maiden quarter of positive net cash from operating activities of \$0.6m, compared to a loss of US\$0.8m in the previous quarter, and a loss of US\$1.5m in Q3 FY23. The significant improvement was a result of the continued reduction in expenses, as well as more favourable payment terms negotiated with suppliers.

Revenue for the quarter remained relatively consistent at US\$2.4m underpinned by sales across North America and a reduction in marketing and advertising expenses and unprofitable SKUs in order to prioritise cash preservation and profitability. This led to improvements to net margin, cash flow, and EBITDA.

EBITDA loss decreased 54% on PCP (Q3 FY23: US\$1.3m) to a record low of US\$0.6m. A result of the continued strong gross profit combined with reduced expenses.

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In preparation for the sale of the non-US assets and territories, the Company focused on Canadian sales growth. This resulted in Canadian ecommerce operations underpinning the Company’s performance in the quarter. Ecommerce sales in Canada increased 33% on PCP (Q3 FY2023: US\$0.49m) to US\$0.59m. Canada bricks and mortar sales increased 2% on PCP to US\$1.08m.

US sales for the quarter were US\$0.72m. This was driven primarily by the focus to prioritise Amazon net profitability over growth including a SKU rationalization project. The focus on profitability via Amazon led to a slight decrease on the PCP, while the Company also dealt with impacts associated by the Rite Aid bankruptcy. Following the divestiture of non-US assets, the Company anticipates sales improvements over the coming months.

US sales included US\$0.56m via ecommerce channels and \$0.16m through traditional retail channels. Following the recent divestiture of non-core US assets, the Company remains focused on driving US sales growth.

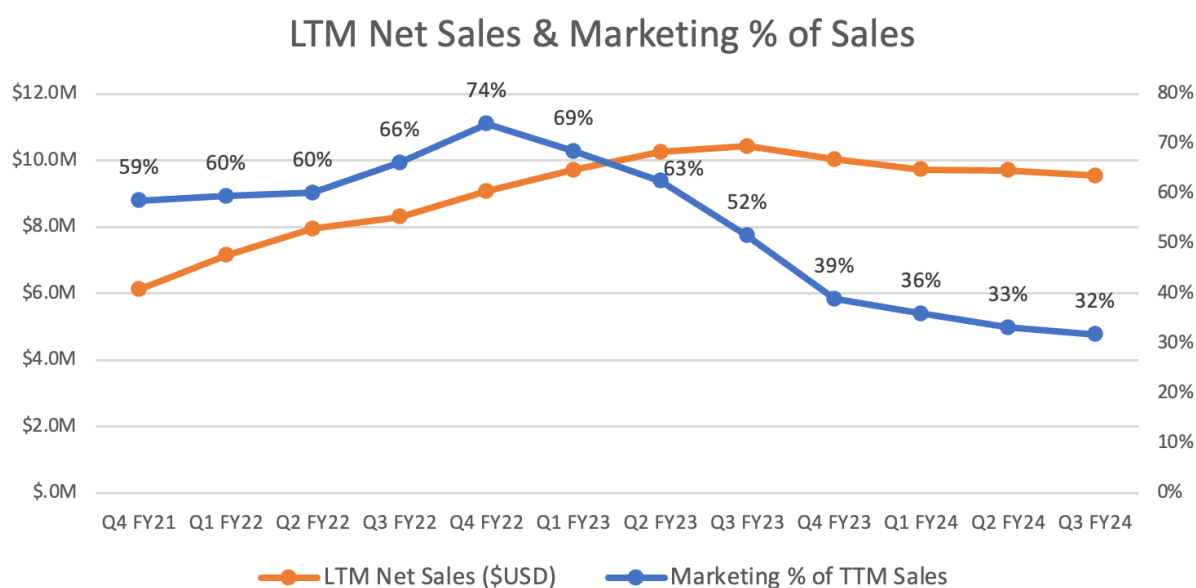
The following table summarises change in revenues and gross margins into Q3 FY24:

	Q3 FY23	Q2 FY24	Q3 FY24	QoQ change	YoY change
Total net revenue	2,603	2,750	2,446	-11%	-6%
<i>E-commerce sales</i>	1,248	1,304	1,210	-7%	-3%
<i>Traditional retail sales</i>	1,355	1,446	1,236	-15%	-9%
Gross Margins	1,510	1,492	1,494	0%	-1%
Gross Margin %	58%	54%	61%	7 ppt	3 ppt
EBITDA	(1,281)	(966)	(593)	-39%	-54%

The Company continued to decrease its marketing spend, which totalled US\$0.6m for the quarter.

This marketing investment marked a 24% reduction on the PCP (Q3 FY23: US\$0.8m) and is in line with the Company’s capital preservation initiatives. Marketing costs as a percentage of sales decreased to 24% down 6ppt from PCP (Q3 FY24: 30%), highlighting the Company’s strong brand recognition in key markets.

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



Gross margin dollars remained flat at US\$1.5m. Gross margin as a percentage of net sales increased 3ppt on the PCP to 61% (Q3 FY2023: 58%), and 7ppt on the prior quarter.

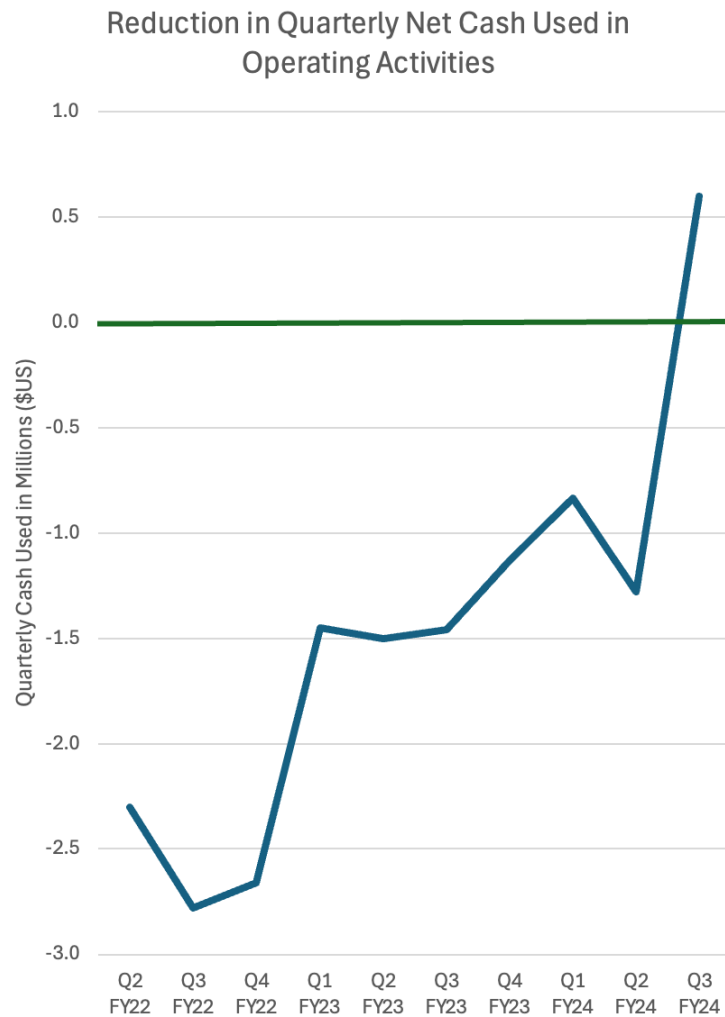
Drivers of gross margin improvement are a result of continued realisation of supply chain restructuring, optimisation of product mix, new Amazon pricing and revising product packaging for the channel.

Commentary on cash flows:

The Company achieved its first cash flow positive quarter since IPO with a positive US\$0.6m net cash from operating activities. This was partially a result of the strategy to reduce expense and increase profitability in order to execute the sale of the non-US assets.

The positive cash flow result was helped by a reduction in non-cash working capital of US\$1.4m during the period. The reduction in non-cash working capital includes a US\$0.3m decrease in receivables, a US\$0.2m decrease in inventory and prepaid deposits, and a US\$1.0m increase in payables and accrued expenses.

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



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Available funds:

Cash and cash equivalents at the end of the quarter were US\$1.2m. Subsequent to quarter end, the Company completed the divestiture of non-US assets resulting in total proceeds of approximately USD \$9.5m (A\$13.7m).

Funds from this transaction will be used to extinguish its debt facility of AUD \$8.2m and fund the US business on a leaner platform and reduced expense scale. The objective is for the remaining funds to last a minimum of twelve months, driving the US business towards profitability.

Operational overview:**Divestiture of Non-US Assets:**

Subsequent to the end of the period, the Company has entered into and completed an Intellectual Property Sales Agreement (the 'Agreement') with Prestige Consumer Healthcare Inc. and associated subsidiaries (together, 'Prestige') (refer ASX announcement 1 October 2024). Pursuant to the Agreement and associated arrangements, the Company has assigned and transferred 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

Under the terms of the Agreement, HydraLyte USA has received 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 total ~US\$9.5m (A\$13.7m).

The Company also entered into 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 is repaying 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.

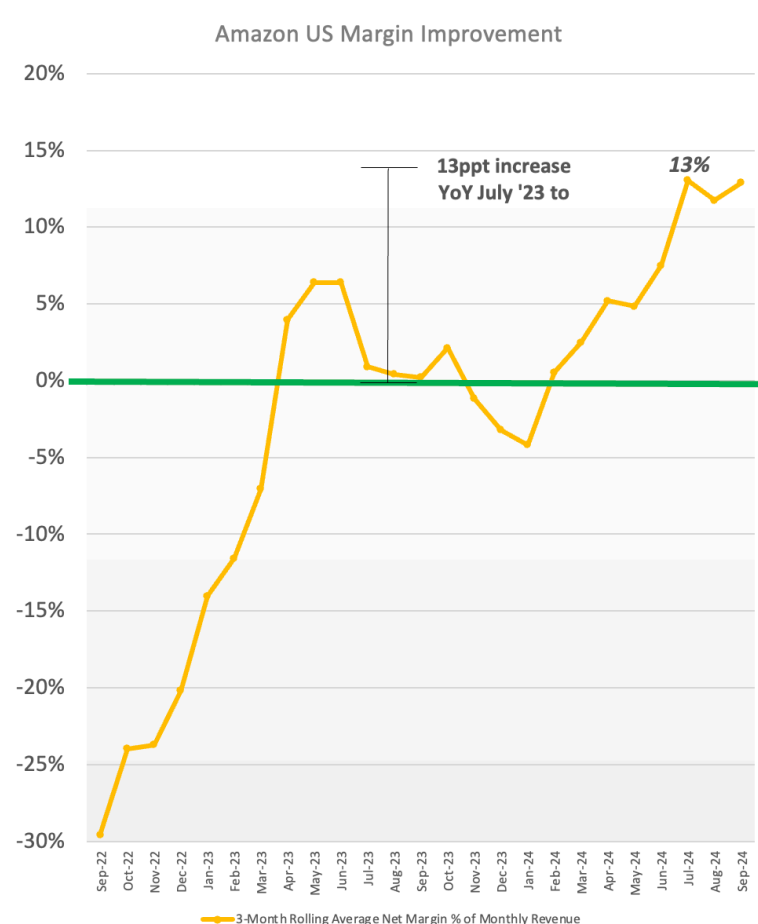
Streamlined operations:

HydraLyte USA will focus on driving growth and unlocking value from its US-based assets. At present, the Company's operations are annualising net revenues of approximately US\$3.5m on an unaudited basis (based on Q3FY24).

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

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).

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 following chart illustrates the significant improvement in Amazon USA 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 will continue to 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 128% growth in monthly sales since August 2023 to over US\$120,000 per month.

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

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 (~A\$5.1m) after paying down debt, HydraLyte USA will be in a position to pursue its pathway to cashflow breakeven from continuing US operations, targeting profitability in the future.

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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:

Hydralyte USA CEO Oliver Baker said: *“The quarterly results show that the Company is well-positioned to drive growth from its streamlined US business, following the successful divestiture of the group’s Canadian assets at an attractive market price. Our first quarter of net positive operating cashflows is a reflection of the Company’s ongoing commitment to drive sales from a lower cost base, with a strategic focus on high-margin channels. With an established presence in the US market, we look forward to providing further updates on the execution of our stated growth strategy heading into 2025.”*

ENDS

This announcement was authorised for release by the Board of Hydralyte USA.

For further information:

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Forward Looking Statements:

This ASX release includes certain forward-looking statements that are based on information and assumptions known to date and are subject to various risks and uncertainties.

Forward-looking statements are based on:

- assumptions regarding the Company’s financial position, business strategies, plans and objectives of management for future operations and development and the environment in which the Company will operate; and
- current views, expectations, and beliefs as at the date they are expressed, and which are subject to various risks and uncertainties.

Actual results, performance or achievements could be significantly different from those expressed in, or implied by, these forward-looking statements. Such forward-looking statements are not guaranteeing of future performance and involve known and unknown risks, uncertainties, and other factors, many of which are beyond the control of Hydralyte North America. These factors may cause actual results to differ materially from those expressed in the statements contained in this announcement.

The Company disclaims any responsibility for the accuracy or completeness of any forward-looking statement. The Company disclaims any responsibility to update or revise any forward-looking statements to reflect any change in the Company’s financial condition, status or affairs or any change in the events, conditions, or circumstances on which a statement is based, except as required by law. The projections or forecasts included in this

announcement have not been audited, examined, or otherwise reviewed by the independent auditors of the Company.

You must not place undue reliance on these forward-looking statements.

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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 September 2024

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (9 months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	2,746	8,201
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(216)	(3,080)
(c) advertising and marketing	(594)	(2,124)
(d) leased assets	-	-
(e) staff costs	(343)	(1,505)
(f) administration and corporate costs	(976)	(3,166)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(3)	(103)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	(193)
1.9 Net cash from / (used in) operating activities	614	(1,970)
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 (9 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)	-	344
3.2	Proceeds from issue of convertible debt securities	-	1,110
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings		
3.6	Repayment of borrowings		
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9	Other (provide details if material)		
3.10	Net cash from / (used in) financing activities	-	1,454

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	854	1,840
4.2	Net cash from / (used in) operating activities (item 1.9 above)	614	(1,970)
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 (9 months) \$US'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	1,454
4.5	Effect of movement in exchange rates on cash held	(239)	(95)
4.6	Cash and cash equivalents at end of period	1,229	1,229

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	1,229	854
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)	1,229	854

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>		

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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)	614
8.2 Cash and cash equivalents at quarter end (item 4.6)	1,229
8.3 Unused finance facilities available at quarter end (item 7.5)*	-
8.4 Total available funding (item 8.2 + item 8.3)	1,229
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	N/A – Cash flow positive
<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: N/A – Cash flow positive	
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: N/A – Cash flow positive	
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: N/A – Cash flow positive	
<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: 31 October 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.

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