

Company Announcement
ASX: HPC

DATE: 31/01/2025

Q4 FY24 Quarterly Report and Appendix 4C: Divestiture of non-US assets leaves company debt free with US\$3.2m (A\$5.14m) at bank

KEY HIGHLIGHTS

- Completion of divestiture of non-US assets following sale to Prestige Consumer Healthcare Inc, with the transition scheduled to conclude on 15 February 2025
- Divestiture generated ~US\$9.5m (A\$15.2m) in proceeds, strategically allocated to extinguish debt and strengthen its cash balance to support growth strategy for continuing operations
- The Company is now solely targeting the US market, with a near-term focus on driving growth in ecommerce through its established position on Amazon
- Quarterly unaudited revenue from continuing US operations of US\$768,000 – up 28% on the prior quarter (Q3 FY24 US net sales: US\$598,000)
- Gross margins of 65% (historical average: 50%-60%) following focus on high-margin SKUs and streamlined approach to continuing operations
- Net cash used in operating activities of US\$3.08m – included several one-off costs totaling ~US\$2.36m relating to redundancies, divestiture transition, completion of marketing and debt facility repayments
- Net cash from operating activities accounting for one-off costs was US\$729,000 with expectations to trend lower in coming quarters
- Cash of \$US3.2m (A\$5.14m) at quarter end following recognition of one-off transition costs – further savings expected to be recognised following additional staffing departures in Q1 FY25 and reallocation of CFO duties to Australia
- Following departure of Chris Kavanaugh as CFO on 3 January 2025, Mr Matt Ng (HPC's former VP of Operations) will lead new, cost effective Australian-based finance department
- January 2025 US ecommerce sales to-date now in double digit growth against the prior year comparative period (PCP)

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 31 December 2024 (the “quarter”). All amounts disclosed herein are unaudited and are denoted in USD unless otherwise stated.

Operations:

Divestiture of Non-US Assets and streamlined operations:

During the quarter, the Company finalised its 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 assigned and transferred the exclusive right to sell HydraLyte products, and associated intellectual property rights, to Prestige in all relevant jurisdictions other than the USA (the '**Sale**') (refer ASX announcement: 2 October 2024).

Under the terms of the Agreement, HydraLyte USA received a total consideration of ~US\$9.5m (A\$15.2m) for the exclusive sales rights, associated IP and stock, as well as prepaid inventory.

As part of the Sale, the Company entered into a Transition Services Agreement ("TSA") with Prestige, which covers a period of operational transition, and certain other related agreements. The transition period is scheduled to close on 15 February 2025.

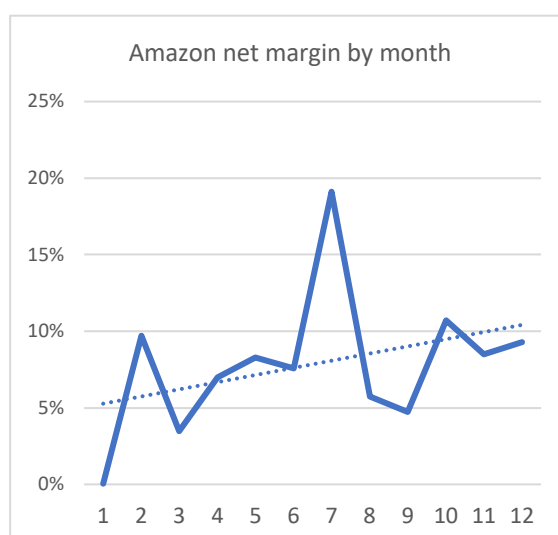
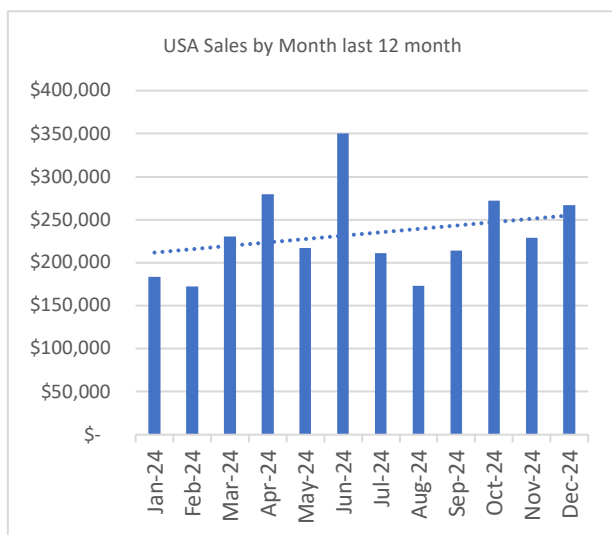
With the funds from the Sale, the Company repaid its A\$8.2m debt facility with Pure Asset Management (refer ASX announcement: 27 March 2024). Following the Sale, the Company shifted its focus to the US as its core market.

This has also led to the implementation of a strategy aimed at growing the US market revenue underpinned by ecommerce sales, while simultaneously driving margin increase from a lower cost base with reduced staff head count, refined SKU range and established supply chain.

Financial overview:

Sales and gross margin:

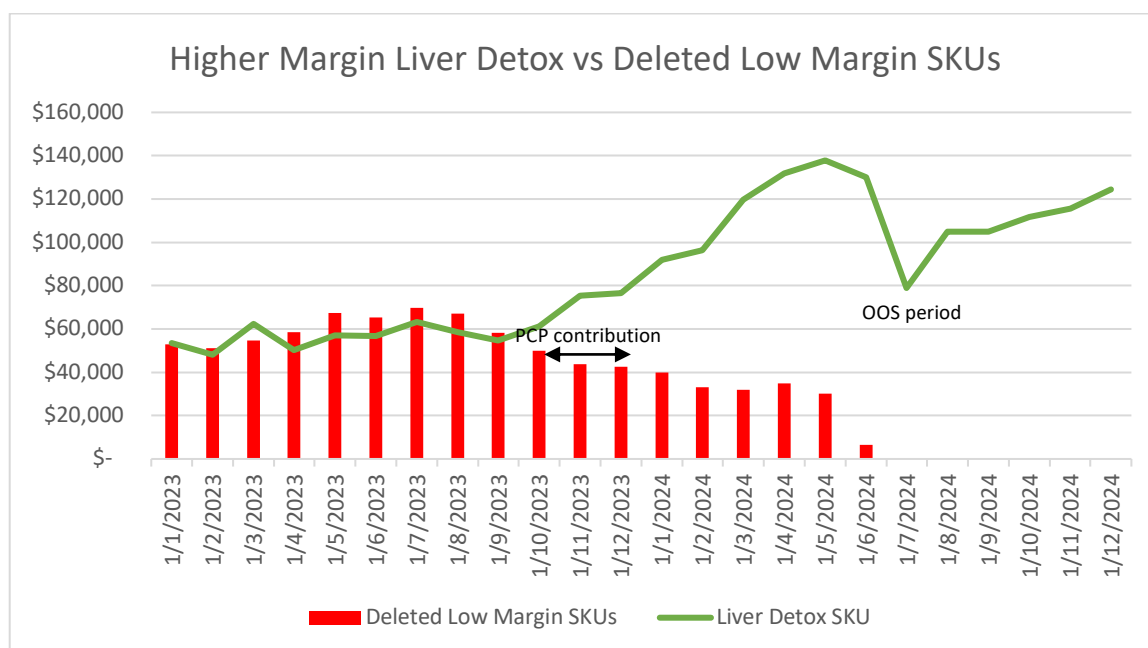
Across continuing US operations, the Company generated quarterly group revenues of US\$768,000. This marked a 28% increase on the previous quarter (Q3 FY24 US net sales: US\$598,000) and a 2% decrease on the prior corresponding period (PCP) (Q4 FY23 US net sales: \$789,000. PCP sales included since deleted, low margin revenue.



Over the course of the last 18 months, the Company exited a number of low-margin retail partnerships, discontinued low margin SKUs and increased focused on prioritising sales of high margin products. This led to gross margins of 65%, exceeding historical averages of between 50-60%.

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December quarter sales leave the Company well positioned to consolidate positive underlying trends in sales of high-margin SKUs and continue its push towards cashflow breakeven.

In addition, the company has been working on formulating 2 new SKUs in adjunct categories to Liver Support with plans to launch them in 2025. This may lead to incremental revenue beyond current baseline of our best sellers.

Cashflow and one-off transition costs:

Net cash used in operating activities was dominated by several one-off costs in connection with the Sale and initiatives to streamline the Company's operations. These were reported as operating cash outflows and funded by proceeds from HydraLyte's divestiture of non-US assets. In addition, in Q3 FY24 a number of supplier and general operational payments were withheld which led to the Company reporting maiden positive cashflow for the last quarter which in turn negatively impacted Q4 FY24.

Transition one-off costs amounted to approximately US\$2.36m of total net cash used in operating activities (total net cash used in operating activities including one of payments: US\$3.08m).

Non-recurring costs recognised during the period included a US\$800,000 payment to finalise prior marketing engagements, US\$264,000 in severance payments to staff and contractors for work associated with the financial transition of the Canadian business to Prestige, ~US\$150,000 in prepayment costs associated with the transition (subject to reimbursement upon completion on 15 February 2024), US\$117,000 in corporate costs and an additional cash payment of \$1.038m to Pure Asset Management in connection with the extinguishing of funds owed as part of previous debt funding arrangements.

Adjusted for these one-off cash payments, net operating cash outflows for the period would have amounted to ~(US\$729,000) (refer table below), which includes US\$437,000 in product manufacturing costs of which a significant component is related to receipt and payment of new inventory to meet 2025 demand.

In turn, operating cash outflows from continuing operations are expected to decrease in the coming months as the Company continues to execute on its US growth strategy from a significantly reduced cost base.

The following table highlights the Company's cashflow and a summary of one-off costs recognised during the quarter:

Cashflows from operating activities:	Per Appendix 4C:	One-off costs:
Receipts from customers	\$US566,000*	-
Product manufacturing and operating costs	-US\$437,000	-
Advertising & marketing	-US\$1,099,000	US\$800,000
Staff costs	-US\$622,000	US\$264,000
Administration and corporate costs	-US\$277,00	US\$117,000
Interest and other costs of finance paid	-\$1,038,000	US\$1,038,000
Other	-US\$171,000	US\$150,000
Total:	-US\$3,089,000	~US\$2.36m
Net cash used in operating activities (exc. one-off costs):		-US\$729,000

*Receipts primarily Amazon which is net of shipping costs

Available funds:

Cash and cash equivalents at 31 December 2024 were US\$3.2m (A\$5.14m). This provides the Company with financial flexibility to execute on its strategy to grow US sales and reduce operating expenditure.

Management changes:

Following the departure of Chris Kavanaugh as Chief Financial Officer on 3 January 2025, the Company has made the strategic decision to transition its financial leadership and systems to an Australian base. The Australian team is led by Matt Ng commencing 3 February 2025. Matt is a former VP of Operations at HydraLyte and has held previous roles with KPMG. The Company anticipates that the transition will provide further operating cost reductions.

Management commentary:

CEO Oliver Baker said: *"The December quarter has been a period of considerable transformation for the Company following the divesture of non-US assets and the introduction of a new strategy to drive sales in US.*

"During the period, a number of initiatives were completed including exiting low-volume and low-margin retail partnerships, the discontinuation of multiple low-margin SKUs, obsolete inventory write-offs and an increased focus on higher margin products with better repeat sales rates.

"Alongside this, the Company completed a number of one-off payments, reduced staffing levels and has emerged debt free. We are confident that this leaves the Company well placed to drive further sales and margin growth over the coming months off a significantly lower cost base."

ENDS

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

For further information:

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Disclaimer

The material contained in this document is of general information about the activities of HydraLyte USA as at the date of this update. All monetary figures quoted within this document are USD unless otherwise specified and are provided on an unaudited basis.

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 USA. 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")

31 December 2024

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (12 months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	556	8,757
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(437)	(3,517)
(c) advertising and marketing	(1,099)	(3,223)
(d) leased assets	-	-
(e) staff costs	(622)	(2,127)
(f) administration and corporate costs	(277)	(3,443)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(1,038)	(1,141)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	(171)	(364)
1.9 Net cash from / (used in) operating activities	(3,089)	(5,059)

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

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Consolidated statement of cash flows	Current quarter \$US'000	Year to date (12 months) \$US'000
2.2 Proceeds from disposal of:		
(a) entities		
(b) businesses	1,200	1,200
(c) property, plant and equipment		
(d) investments		
(e) intellectual property	8,244	8,244
(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	9,444	9,444

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	(4,810)	(4,810)
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	(4,810)	(3,356)

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	1,384	1,840
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(3,089)	(5,059)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	9,444	9,444

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Consolidated statement of cash flows		Current quarter \$US'000	Year to date (12 months) \$US'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(4,810)	(3,356)
4.5	Effect of movement in exchange rates on cash held	288	347
4.6	Cash and cash equivalents at end of period	3,217	3,217

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	3,217	1,384
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)	3,217	1,384

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	-	-
7.2 Credit standby arrangements		-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	-	-
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)	(3,089)
8.2 Cash and cash equivalents at quarter end (item 4.6)	3,217
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	3,217
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	1.04
<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 significantly in Q1 FY25 compared to Q4 FY24 due to reduction of large one off payments and further reduction in headcount.	
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 Q4 FY25. If cash is needed sooner, the company has assessed a range of options to fund the ongoing business.	
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 has calculated the Q4 cash used less one-time payments and determined that the company will continue its operations well into 2025.	
<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 January 2025

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.