

Company Announcement
ASX: HPC

DATE: 31/01/2024

Q4 FY23 Quarterly Report and Appendix 4C: Net cash used in operating activities down 56% YoY to record low

KEY HIGHLIGHTS

- Net operating expenditure down 56% on PCP to US\$1.14m (Q4 FY22: US\$2.62m) and down 21% on prior quarter (Q3 FY23: US\$1.46m) to lowest since listing in December 2021
- Additional cost cutting initiatives continued post quarter end - includes payroll cuts annualised at over US\$0.6m amongst others
- Gross margin increased 12% on PCP (Q4 FY22: 48%) and 2% on last quarter (Q3 FY23: 58%) to 60%
- YoY Gross Profit dollars up 4% to US\$1.26m from US\$1.21m in Q4 FY22
- Q4 FY23 net sales of US\$2.11m – a slight decrease on last quarter due to temporary out-of-stocks on effervescent tablets
- Once-off out of stocks during the period led to estimated unfulfilled orders of ~US\$0.6m, which had an estimated negative net sales impact of ~US\$0.5m; out of stock actively rectified with multiple shipments received
- Q4 FY23 sales also impacted by continued focus on high-margin revenue streams, sacrificing less profitable and lower margin revenue
- FY23 total unaudited net sales of US\$10m – a 9% increase on PCP (FY2022: US\$9.09m)
- Marketing costs as a percentage of net revenue reduced to 43% - down from 94% in Q4 FY22
- Transition to new broker, LeBeau Excel, continues to expand addressable market in Canada and underpin 2-3% improvement in customer net margin
- Ongoing work undertaken to launch high growth ready-to-drink (RTD) product range – manufacturing agreements and purchase orders pending
- Continued execution of strategy to reduce expenditure and extend cash reserves through reduced marketing spend following significant investments in CY2022 to build and establish brand awareness in the North American market

Hydration solutions company **The Hydration Pharmaceuticals Company Limited (ASX: HPC) (“HydraLyte” or “the Company”)** is pleased to provide the following update on its operational and financial performance for the three-month period ended 31 December 2023 (the “quarter”).

Financial overview:

Revenue for the quarter was US\$2.11m, which was a decrease on the PCP and previous quarter. The decline was due to multiple factors, which included temporary out of stocks and the prioritisation of improved profitability over revenue growth.

Temporary out of stocks during the period led to estimated unfulfilled orders of US\$0.6m, which had a negative net sales impact of US\$0.5m. The primary out of stocks were on multiple flavours of effervescent tablets and highlight the ongoing demand for HPC's product suite.

The Company expects a swift recovery from the temporary issue and has received several shipments to improve the situation. HydraLyte expects to realise additional sales from these new shipments during the current quarter and will continue to work to capitalise on the strong demand for the Company's products with North American retailers.

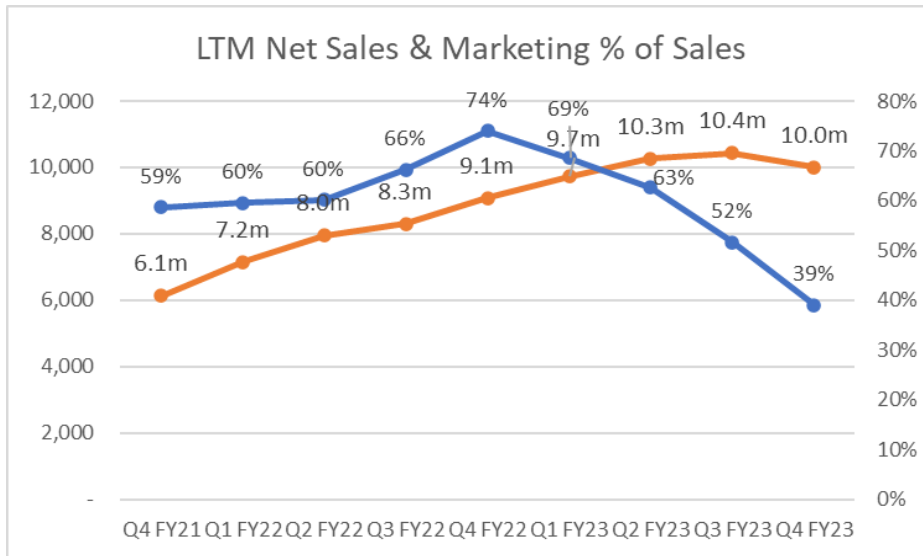
Sales through Amazon Canada increased 35% to CAD\$0.5m, when compared to the PCP (Q4 FY2022 CAD\$0.4m), while US Amazon sales were US\$0.5, down slightly due to the Company's ongoing shift towards improved profitability over revenue growth.

To drive more sustainable revenue growth, the Company is actively shifting product marketing investments towards higher conversion and higher margin products. This was highlighted by the decrease in marketing as a percentage of sales to 43% from PCP (Q4 FY2022 94%) and a 62% decrease in total marketing spend on the PCP (Q4 FY22: US\$2.38m) to US\$0.91m, in line with the Company's cash preservation initiatives.

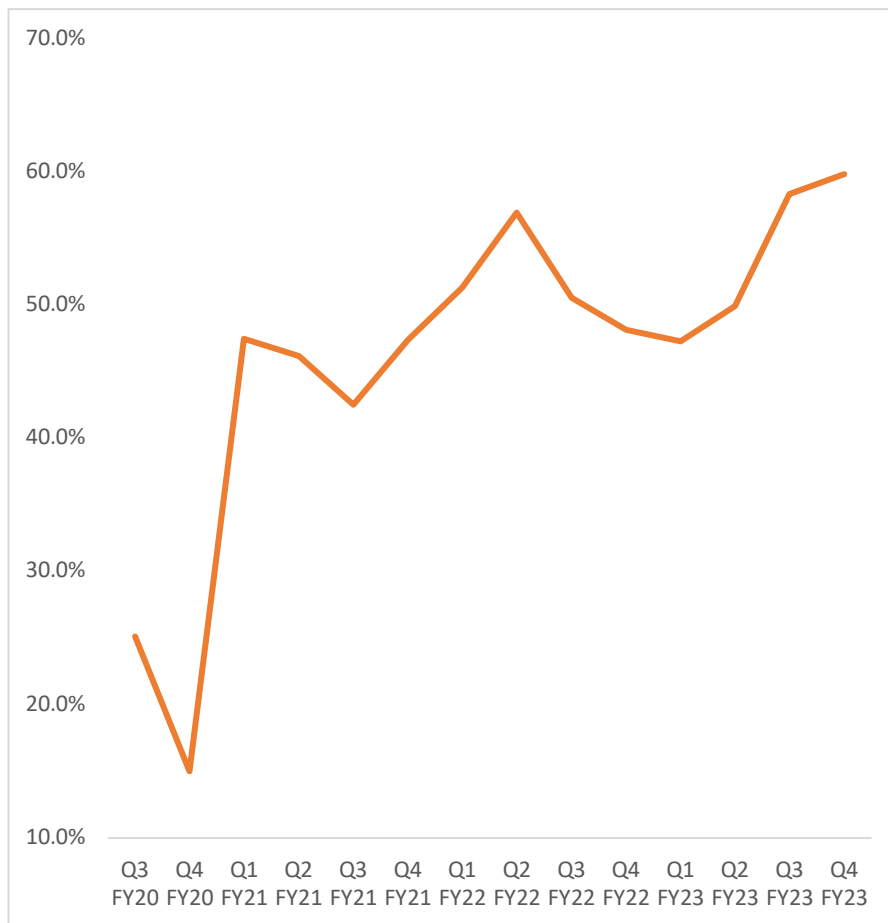
The following table summarises change in revenues and gross margins into Q4 FY2023:

	Q4 FY22	Q3 FY23	Q4 FY23	QoQ change	YoY change
Total net revenue	2,523	2,602	2,109	-19%	-16%
<i>E-commerce sales</i>	1,035	1,248	996	-20%	-4%
<i>Traditional retail sales</i>	1,487	1,354	1,113	-18%	-25%
Gross Margins	1,216	1,518	1,261	-17%	4%
Gross Margin %	48%	58%	60%	1 ppt	12 ppt

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



The following chart highlights the uptrend in quarterly gross margin:



Gross margin as a percentage of sales increased 12% on the PCP to 60% (Q4 FY2022: 48%), and 2 percentage points on the prior quarter (Q3 FY2023: 58%). The pleasing increase is attributed to the cost reduction initiatives including the supply chain optimisation.

Commentary on cash flows:

In line with an ongoing focus on cash preservation, net cash used in operating activities decreased 56% on PCP (Q4 FY22: US\$2.62m) and 21% on the previous quarter to US\$1.15m (Q3 FY2023: US\$1.46m). This marked a record low for the Company and highlights the delivery of HydraLyte's stated strategy and push towards profitability.

With key brand investments completed during FY22, the Company continued to execute a number of initiatives to reduce operating expenditure and preserve cash, which included a reduction in marketing spend. The reduced net cash use in FY2023 is a direct result of this ongoing strategy, which is expected to continue into 2024.

Subsequent to the end of the period, the Company continued to reduce expenditure and has implemented a number of payroll cuts which will reduce staff costs by approximately US\$0.6m per annum. This is being undertaken in conjunction with multiple other initiatives which have the potential to further reduce the Company's net operating expenditure during FY24.

Available funds and PURE arrangements:

Conversion of PURE warrants:

During the quarter, the Company raised A\$0.4m via the exercise of Warrants by Pure Asset Management ('PURE'). On 25 October 2023, the Company issued 7,471,261 fully paid ordinary shares in the Company ('Shares') to Pure Asset Management on exercise of that same number of Warrants.

Pure Asset Management arrangements:

In conjunction with the aforementioned new capital, and as approved by shareholders at the general meeting held on 26 September 2023, the Company and PURE have agreed:

- the availability period of the second tranche of PURE's debt (A\$5.5m) will be extended from 14 October 2023 to 31 December 2024; and
- the second tranche will be made available if PURE consents (at its discretion) to make it available at the time the Company seeks to draw it down.

PURE has also agreed that the exercise price of the remaining ~14.9m Warrants will have a 'floor price' of the adjusted price after this capital raising (in circumstances where the exercise price of the warrants could otherwise decrease in the future in the event of a subsequent dilutive capital raising in accordance with their terms of issue) (refer ASX announcement: 24 August 2023).

Available funds:

Cash and cash equivalents at the end of the quarter were US\$1.8m. In addition to cash on hand, at PURE's discretion, the Company may access the second tranche of PURE's debt equal to A\$5.5m. This provides the Company with financial flexibility to deliver on its stated strategy to progress towards profitability.

Management commentary:

HydraLyte CEO Oliver Baker said: *"We are pleased with the results achieved during the December quarter, in which the company continued to deliver significant cost cuts to preserve cash whilst maintaining sales momentum. We overhauled the company's go-to-market in the last six months and*

it's come with short-term pain for long term gain. This is illustrated by a record gross margin even amongst all the operational challenges. Our new sales partners in Canada, healthier revenue streams, and forward looking cost cuts are setting us up for earlier success.

"We also have an exciting product launch expected and look forward to providing updates on that in the coming months."

ENDS

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

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. 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.

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 2023

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	2,485	9,597
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(912)	(3,535)
(c) advertising and marketing	(747)	(3,168)
(d) leased assets	-	-
(e) staff costs	(603)	(2,755)
(f) administration and corporate costs	(1,376)	(5,328)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(130)	(528)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	138	74
1.9 Net cash from / (used in) operating activities	(1,147)	(5,642)
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 (12 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)	-	2,704
3.2 Proceeds from issue of convertible debt securities		
3.3 Proceeds from exercise of options	253	253
3.4 Transaction costs related to issues of equity securities or convertible debt securities	-	(241)
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	253	2,716

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	2,756	4,688
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(1,147)	(5,642)
4.3 Net cash from / (used in) investing activities (item 2.6 above)		

Appendix 4C
Quarterly cash flow report for entities subject to Listing Rule 4.7B

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)	253	2,716
4.5	Effect of movement in exchange rates on cash held	(17)	86
4.6	Cash and cash equivalents at end of period	1,846	1,848

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	1,840	2,756
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)	1,840	2,756

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	Total facility amount at quarter end \$US'000	Amount drawn at quarter end \$US'000
<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>		
7.1 Loan facilities	4,388	4,388
7.2 Credit standby arrangements		-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	4,388	4,388
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)	(1,147)
8.2 Cash and cash equivalents at quarter end (item 4.6)	1,846
8.3 Unused finance facilities available at quarter end (item 7.5)*	-
8.4 Total available funding (item 8.2 + item 8.3)	1,846
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	1.61
<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: Yes the company expects to maintain a similar level of net operating cash flows for the time being, with those cash flows expected to improve with growth and continued cost management.	
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: Yes the company has consistently raised cash to meet the requirements of the company and expect to continue to do so. The company also has a facility in place with Pure Asset Management wherein the company has access, at the discretion of Pure Asset Management, of A\$5.5m.	

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 believes it will be able to continue its operations and meet its business objectives based on the above comments.

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 January 2024

Authorised by: the Board

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.