

Company Announcement
ASX: HPC

DATE: 28/2/2023

Summary of financial results for the year ended 31 December 2022

KEY HIGHLIGHTS

- Record unaudited revenue achieved during FY2022 of US\$9.1m – up 49% on the PCP
- Growth underpinned by a 49% sales increase through Canadian retail stores and 54% rise in Amazon US sales – consolidation in major markets ongoing
- Gross margin up 6ppt in FY2022 to 52% - driven by product innovation, marketing of higher-margin stockkeeping units (SKU) and price increases with retail groups
- Brand ambassador agreement secured with prominent North American entrepreneur and actress Ms Shay Mitchell with co-branded SKU launched
- A\$12m two-tranche loan facility entered into with existing substantial shareholder PURE Asset Management provides considerable financial flexibility
- Investment in sales and marketing during FY2022 has led to increased brand awareness in North America with strong foundation laid for FY2023 growth
- Highest ever unaudited monthly net sales achieved in January 2023 of US\$1m – a 70% increase on the PCP (January 2022: US\$585,000)
- Record January 2023 sales achieved outside of North American summer months – sales result attained with a 5% decrease in marketing spend on PCP
- Operational expenditure expected to decrease in FY2023 with reduced spend on digital marketing – Company retained US\$4.7m in cash with A\$5.5m in unused financing facilities as at 31 December 2022

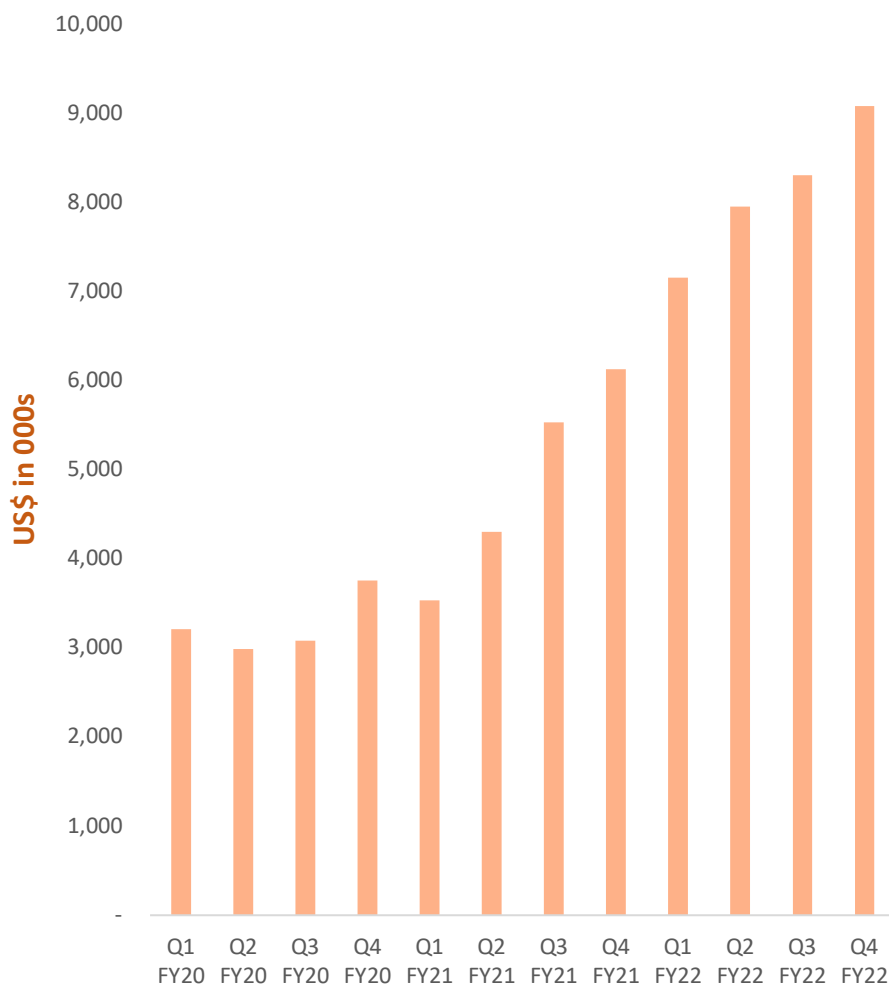
Hydration solutions company **The Hydration Pharmaceuticals Company Limited (ASX: HPC) (“Hydralyte North America” or “the Company”)** is pleased to report on its financial and operational performance for the 12-month period ended 31 December 2022 (“FY2022”), as well as provide an update on activities for Q1 FY2023.

FY2022 results summary:

The Company generated US\$9,099,968 in revenue during FY2022, which marked a 49% or US\$3m increase on the previous corresponding period (PCP) (FY2021: US\$6,127,177). The significant surge in revenue is attributed to Canadian retail sales rising by 49% on the PCP,

a 54% increase in Amazon US sales, ongoing subscription growth through Amazon US channels and the addition of multiple retail sales outlets with considerably higher penetration rates.

Trailing 12 Months Net Sales



Gross margin for the period improved by six percentage points, from 46% in FY2021 to 52% in FY2022. The upturn in gross margin for the period follows ongoing product innovation, which led to the introduction of multiple stockkeeping units (SKU) designed for ecommerce sales, pricing increases accepted by major North American retail outlets, marketing of higher margin SKUs, reduced airfreight costs and ongoing optimisation of the Company's manufacturing processes.

	FY21	FY22	YoY change
Total Unaudited Net Revenue	6,127	9,100	49%
<i>E-commerce sales</i>	2,450	4,082	67%
<i>Traditional retail sales</i>	3,677	5,018	36%
Gross Margins	2,790	4,696	68%
Gross Margin %	46%	52%	6%

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During FY2022, HydraLyte North America continued to invest heavily in marketing to create strong brand awareness in its key markets. Marketing initiatives during the period included securing prominent North American actress and entrepreneur, Ms Shay Mitchell as a brand ambassador (refer ASX announcement: 29 March 2022), work associated with the development and launch of the co-branded SKU with Ms Mitchell (refer ASX announcement: 2 December 2022), and a rebrand and optimisation of the Company's wholly-owned ecommerce channels to underpin further sales growth.

The investment in targeted marketing spend has led to a considerable increase in brand awareness in North America, highlighted by ongoing sales growth. As previously advised, HydraLyte North America has implemented a focus on reducing capital. This is expected to allow for the preservation of the Company's existing cash at bank of US\$4.7m and strategic deployment of the A\$12m two-tranche loan facility from Pure Asset Management (refer ASX announcement: 17 October 2023).

Significant growth achieved in Q1 FY2023 to date:

Following the record revenue achievement in FY2022, HydraLyte North America has continued its strong growth during Q1 FY2023. This is underlined by the Company's highest ever monthly unaudited net sales result of US\$1.0m in January 2023.

Sales during January rose 70% on the PCP (January 2022: US\$585,000) and were underpinned by strong demand from Canadian retailers that replenished stock, marketing initiatives associated with the launch of Shay Mitchell's co-branded SKU in the US and higher product demand from a pronounced cough and cold season in Canada.

Importantly, the record monthly sales in January 2023 were achieved outside of the seasonal peak sales period of the North American summer months. Further, the material sales uplift was achieved with a reduction in marketing spend - down 5% on the PCP and 4% on December 2022.

HydraLyte North America is confident that it can maintain that trend in February and March 2023, with additional sales growth alongside a decrease in marketing spend and overall cash expenditure.

Management commentary:

HydraLyte North America CEO Oliver Baker said: *"HydraLyte North America has achieved a considerable amount in FY2022, from both an operational and financial perspective. The Company has delivered a record revenue result, growth in sales across both online and traditional retail channels, as well as improvements to gross margin.*

"The Company also continued to focus on growing brand awareness during FY2022, which was led by an increased focus on marketing spend. This has allowed HydraLyte North America to achieve a dominant brand position in Canada, while unlocking stronger awareness in North America.

"The work undertaken during FY2022 has laid a strong foundation for the Company's growth trajectory in FY2023. This has been demonstrated by a record month in January 2023, achieved outside of peak summer months, with a reduced marketing spend. We look forward to providing further updates over the coming months."

ENDS

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

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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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