HydraLyte®

743 Prospect Street
La Jolla, CA 92037

Company Announcement
ASX: HPC

DATE: 28/11/2024

US operations update: Ecommerce growth and cost reductions underpin group EBITDA momentum

HIGHLIGHTS

- **Divesture of non-US assets in last month for US$9.5m (c. A$13.7m) allowed HPC to extinguish debt facility with Pure Asset Management and provides balance sheet strength to focus on US-only operations**
- **Execution of new US-only strategy to cut costs and focus on high-margin SKUs aimed at generating growth through established ecommerce channels**
- **Key overhauls include termination of low-profitability stock keeping units (SKUs) and exits from low-volume, low-margin retail partnerships, alongside successful launch of higher-margin SKUs and popular products with the potential for better re-sale rates**
- **Divesture of non-US assets allows for considerable simplifications in operations allowing for further cost savings**
- **Unaudited September quarter for US operations showed a 32% improvement in quarterly EBITDA, marking the group's best quarterly EBITDA result with continued improvements expected**
- **Across new product lines, the 'Liver Detox' SKU is now a key driver of the improvement in performance metrics including profitability and return on marketing spend; unaudited sales of the Liver Detox SKU have increased by 75.6% on a Moving Annual Total (MAT) basis since December 2023, with growth anticipated to trend higher**
- **Liver Detox SKU has generated US$1.26m (c. A$1.93m) in unaudited sales in the last 12 months underpinning the Company's total US unaudited sales of US$3.15m (c. A$4.8m) for the 12-month period**
- **Unaudited sales of the Liver Detox SKU in October CY24 were US$130,691 (c. A$200,908) a monthly gain of 35% on September CY24 unaudited sales**
- **Sales of Liver Detox SKU underpinned total October CY24 sales of ~US$250,512 (c. A$385,955) on an unaudited basis**
- **Liver Detox SKU and expansion of Hydration Plus range anticipated to underpin sales growth from continuing US operations over coming quarters**
- **Positive EBITDA trend further supported by balance sheet strength following US$9.5m (c. A$13.7m) sale of non-US assets, extinguishment of debt facility and capital flexibility to pursue US growth**
- **Subsequent to the asset sale, Chief Financial Officer Mr Chris Kavanaugh has tendered his resignation from January CY25 which will contribute to further cost savings**

Hydration solutions company **The Hydration Pharmaceuticals Company Limited (ASX: HPC) ("Hydralyte USA" or "the Company")** is pleased to provide the following update, highlighting recent momentum in the unaudited sales profile from its continuing US operations, following the strategic sale of the group's non-US assets for US$9.5m (c. A$13.7m) (the **"Transaction")** (*refer ASX Announcement 2 October 2024*).

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The divesture of the Company's non-US assets has allowed Hydralyte USA to extinguish its previously held debt facility with Pure Asset Management (refer ASX announcement: 27 March 2024, while providing approximately US$3.6m (c. A$5.1m) on top of the group's existing cash reserves to accelerate sales growth in the US market and pursue cashflow breakeven status in the coming quarters.

The Company advises that Mr Chris Kavanaugh has tendered his resignation as Chief Financial Officer, effective 3 January 2025.

Recent sales growth and reduction in EBITDA loss:

Since the completion of the Transaction, the Company has implemented a number of strategic changes to the business in pursuit of its stated aim to simplify operations and drive growth through high-margin sales channels with an ongoing reduction in per-unit operating costs.

The Company's US strategy is predominantly focused on scalable ecommerce channels, leveraging its established footprint with Amazon USA and driving growth through key products. Most recently, this has been led by the growth of the Hydralyte Plus Liver Support Formula, which is now a major driver of profitability, and tangible improvements in per-unit marketing spend.

Post-Transaction, the Company has prioritised the following core strategic changes:

- Exiting low-volume and low-margin retailers
- Discontinuing low-margin SKUs
- Writing off obsolete inventory
- Undertaking targeted market research to inform the launch of higher margin SKUs and popular products with higher repeat sale rates

Execution in pursuit of these strategic pillars has resulted in ongoing cost reductions from continuing operations, complemented by strong recent sales momentum for key products leveraging the Company's established footprint across key US ecommerce channels.

Recent growth has been underpinned by the success of the Liver Detox SKU, which is now the group's biggest seller by product category. In the last 12 months (from October 2023), Liver Detox product sales have totaled US$1.26m (c. A$1.93m), underpinning the Company's total US sales of US$3.15m (c. A$4.8m) for the 12-month period.

Annual sales of US$1.26m (c. $A1.93m) represent a 75.6% increase on a Moving Annual Total (MAT) basis since December 2023, with monthly sales momentum expected to underpin further growth in 2025.

Recent momentum was highlighted by the three-month trading period from August to November on Amazon, where the Company generated consistent weekly increases in Liver Detox sales compared to the prior year period. The increased sales underpinned an overall growth rate of 54% YoY, which increased to 67% YoY when adjusted for 2023 Fall Prime Day sales (10-11 October 2023) where higher product discounts were used.

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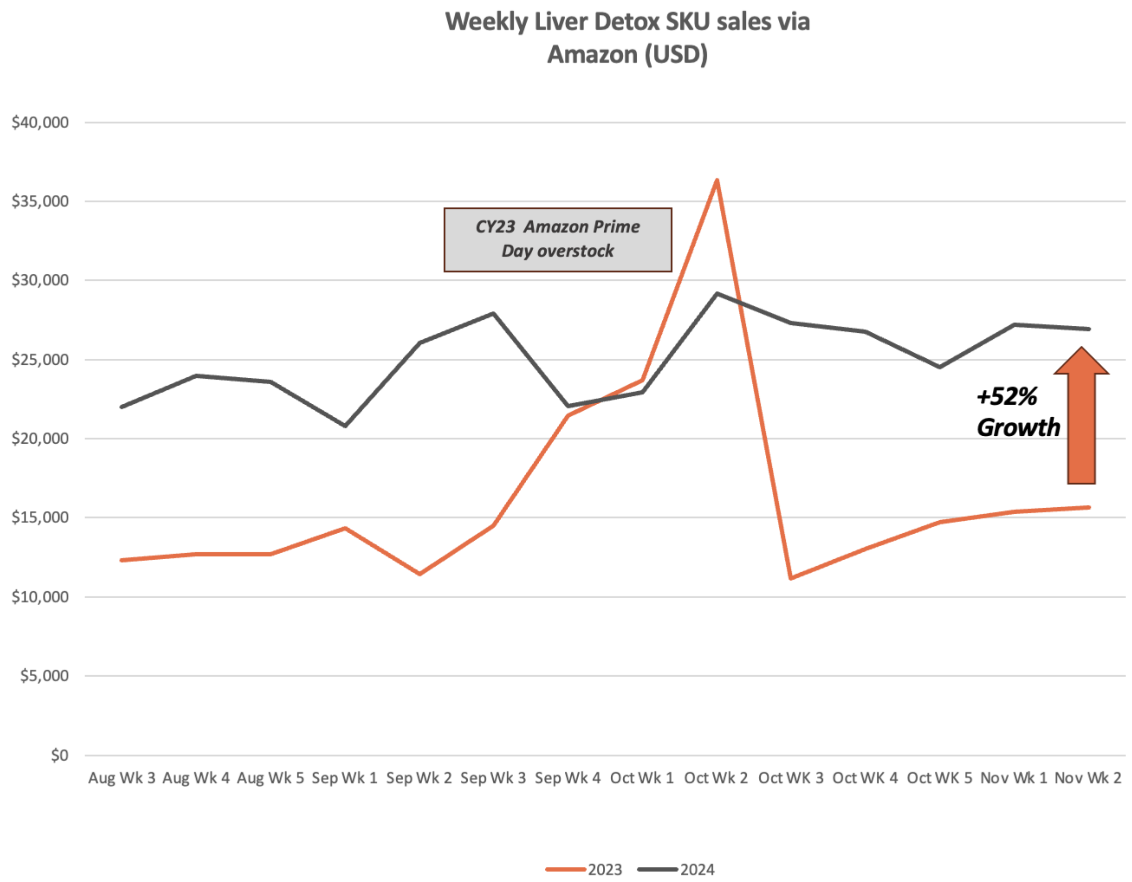

In addition, per-unit Liver Detox SKU sales are now generating a 3-4% increase in gross margins after the Company successfully implemented a packaging switch from pouches to boxes. Hydralyte USA now views the success of the Liver Detox SKU as a core growth driver heading into CY2025 and over the medium-term.

Along with an improved sales profile, the group's focus on costs and operating efficiencies have generated ongoing monthly increases in EBITDA, in line with the Company's strategy to achieve profitability from continuing US operations.

The Company has identified additional areas of the business where further possible operational expenditure savings may be generated into 2025, as operations are streamlined to focus on US growth through high-margin ecommerce channels.

These initiatives are expected to be supported by the extra balance sheet strength resulting from the sale of the group's non-US assets, which allowed the Company to extinguish its debt facility and provide a cash buffer to implement its targeted US growth strategy.

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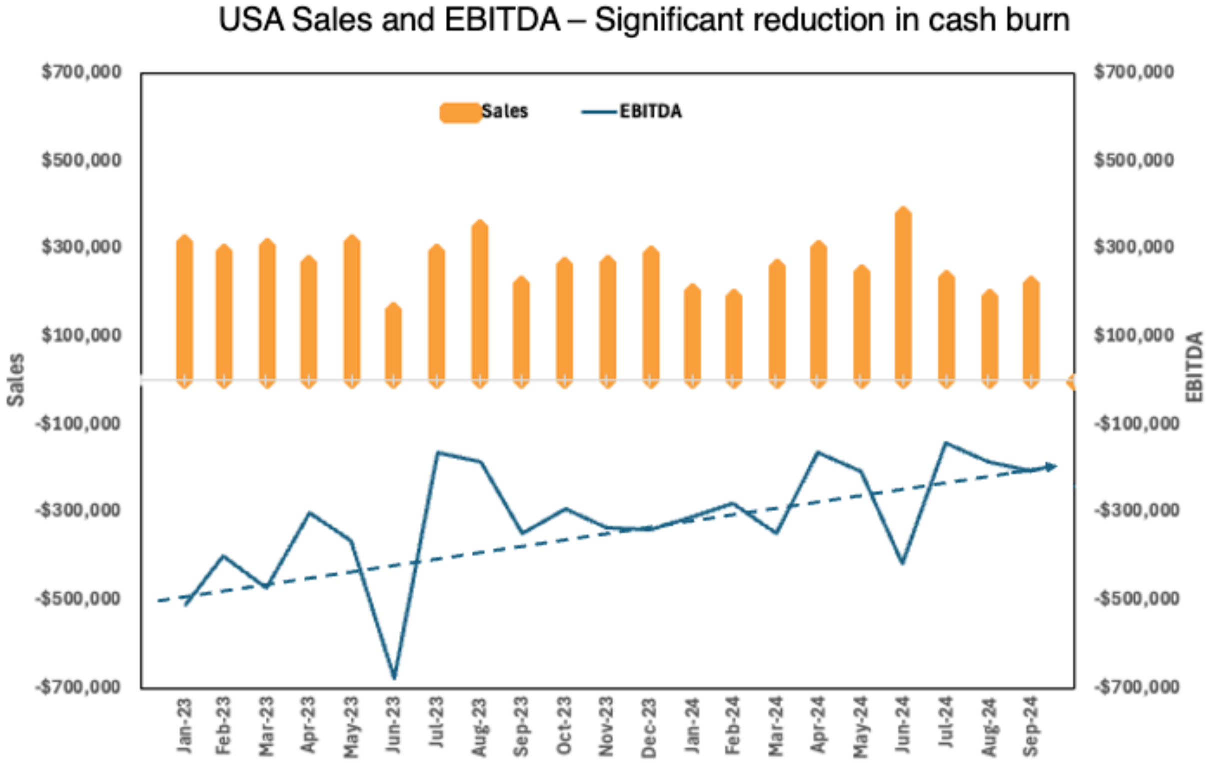

***Above EBITDA is based on 50% of total Company corporate costs and is communicated in USD. Figures have been adjusted to exclude sales and EBITDA to Rite-Aid (declared bankruptcy).**

In line with its stated strategy, the Company's operational priority for its US business is to drive consistent improvements in per-unit margin growth, underpinning a pathway to positive EBITDA and group profits.

The group's unaudited adjusted EBITDA loss for the September quarter amounted to US$532,566 (c. A$819,330), a quarterly improvement of 32% from the three months ended June 2024. The Company has continued to reduce its monthly EBITDA loss from a broadly consistent sales profile, highlighting the effectiveness of opex initiatives implemented in 2024, with further cost reductions expected in 2025.

Led by the growth of its lead Liver Detox product alongside an ongoing focus on cost management, the Company expects to achieve significant momentum in its push towards profitability for continuing US operations over the next 12 months.

CFO transition:

The Company advises that Mr Chris Kavanaugh has tendered his resignation as Chief Financial Officer, effective 3 January 2025. Until this time, Mr Kavanaugh will continue in the role on a part time basis at a reduced salary and will be focused on executing the Company's Transition Services Agreement as part of the Transaction..

The transition highlights the Company's strategy of reducing headcount and streamlining operations following the divesture of non-US assets.

The Board and management would like to take this opportunity to thank Chris for his services to the Company since IPO and wish him well for future endeavors.

Management commentary:

Non-executive Chairman, Mr Adem Karafili said: "*Following the strategic sale of our non-US assets, the Board is committed to overseeing the growth of our US business, with an ongoing focus on cost reductions underpinned by a strong cash position. I'd also like to again take the opportunity to thank Chris Kavanaugh for his contribution to the business. The Board will work together with Chris and the management team over the coming weeks to ensure a smooth transition for the group finance function.*"

Chief Executive Officer, Mr Oliver Baker said: *"We are pleased with the momentum achieved to-date for our US operations, following the strategic sale of the Company's non-US assets which has allowed for the business to extinguish debt facility and simplify its operating structure."*

"Our US growth strategy aims to leverage the IP we have built with respect to product development and distribution channels. By driving sales of high-growth SKUs with a focus on ecommerce, the Company now has a targeted pathway to profitability for its continuing US operations."

"We look forward to providing more updates as we execute on a low-cost, high-margin distribution strategy for our leading range of hydration products in the US market."

ENDS

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

For further information:
Investors/Media
Henry Jordan
Six Degrees Investor Relations
0431 271 538
henry.jordan@sdir.com.au

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.

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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.