

Initiation Report

BLUE STAR FOODS CORP.



Company Sponsored Research
Initiation of Coverage
07/19/2021

Blue Star Foods Corp. (OTC:BSFC)

Packaged Food

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Successful International Seafood Business Targeting the High Growth RAS Market

Investment Highlights:

- Blue Star Foods Corp. (BSFC) offers investors the opportunity to invest in a successful international seafood business, with significant growth potential with its recent expansion of its focus to the highly disruptive and high growth recirculation aquaculture system (RAS) market.** BSFC is targeting the growing demand for high quality seafood products worldwide, while focusing on responsible and environmentally sustainable practices. Sustainability is a huge part of Blue Star's business model and a key point of differentiation from other seafood companies with the Chairman also functioning as Chief Sustainability Officer, implementing sustainability across the whole company's operations. *With ESG focused investing becoming the standard, we think BSFC is likely to receive more meaningful investor attention.* Additionally, the upcoming anticipated (Q3 2021) listing on the Nasdaq stock exchange should further improve corporate visibility among the investment community. We believe Blue Star Foods can achieve strong revenue growth over the long term, further bolstered by its acquisition of Taste of BC Aquafarms, a RAS salmon farming operation in British Columbia, Canada. Taste of BC Aquafarms are pioneers in the RAS industry, with the longest running full grow-out salmon farm in North America. BSFC is targeting to increase RAS salmon capacity to 21,000 MT by 2028 (versus just 100 MT currently). A 1,500 MT facility translates to an annual revenue of ~\$12.3 million and net profit of \$5.5 million according to the company, indicating significant operating leverage.
- Blue Star's land-based RAS salmon farming technology brings proven operators to targeting a large and attractive addressable market.** We believe that RAS is the future of the industry, as it offers a potentially more viable, safe, and sustainable alternative to conventional aquaculture, as well as wild fish stocks. The land-based RAS system used by Taste of BC allows them to produce fish with minimum environmental impact. There is no use of antibiotics or pesticides, as well no harmful byproducts disposed in the surroundings. Additionally, the system is modular and predictable, enabling its scalability.
- Valuation models indicates upside potential.** The salmon market is estimated to be approximately \$17 billion globally¹ driven by a rapidly expanding population. *BSFC offers investors a unique combination, unlike many of its competitors, of both an ESG integrated model in an existing seafood products business, as well as exposure to the high growth RAS market.* We used a blended discounted cash flow analysis and peer comp valuation analysis, with a mix of similar seafood and aquaculture companies. Our combined valuation analysis indicates a fair value for Blue Star's shares of \$10.00 per share, contingent on successful execution by the company.

Company Description

Blue Star Foods Corp is an integrated ESG seafood company that processes, packages and sells refrigerated pasteurized Blue Crab meat, and other high-value seafood products. It has also entered and its targeting expansion in the RAS salmon farming industry, with its recent acquisition of Taste of BC Aquafarms. The company was founded in 1995 and is headquartered in Miami, Florida

Price-Volume History



Key Statistics

Closing Price (As of 07/16/2021)	\$7.25
Valuation	\$10.00
52 Week Range	\$1.01-\$8.00
Average Daily Volume(th)	0.57
Shares Outstanding (M)	22.99
Market Capitalization (M)	\$166.66
Number of Analysts Covering	1
Enterprise Value/Revenue	7.4

Revenue (\$ in millions)

Dec. FY	2020A	2021E	2022E
1Q	4.57A	2.49A	9.05E
2Q	2.86A	5.05E	9.95E
3Q	3.98A	5.86E	11.31E
4Q	2.69A	6.81E	14.92E
FY	14.11A	20.21E	45.23E

EPS (\$)

Dec. FY	2020A	2021E	2022E
1Q	(0.05)A	(0.03)A	0.01E
2Q	(0.20)A	(0.01)E	0.02E
3Q	(0.00)A	0.01E	0.02E
4Q	(0.01)A	0.03E	0.03E
FY	(0.25)A	0.01E	0.08E

Investment Thesis

Blue Star Foods is targeting the growing demand for seafood worldwide while focusing on responsible and environmentally sustainable practices. Sustainability is a core part of Blue Star's business model and a key point of differentiation from other seafood companies. The majority of BSFC's crab meat is sourced from local fishermen in Phillipines and Indonesia, who are paid a premium to ensure sustainable practices are followed during harvesting. Additionally, all suppliers are certified by the British Retail Consortium (BRC) and are audited annually to ensure safety and quality of the product. BSFC is led by CEO, John Keeler who is recognized as a leader in the sustainable seafood industry. Blue Star released its First GRI Standard Sustainability Report January 2021, showing the company's performance during past 2 years against globally recognized, quantifiable and standardized ESG key performance indicators. Another point of differentiation of the company is its environmentally friendly packaging, which since its introduction in 2003, *has resulted in savings in excess of one million metric tons of carbon dioxide emissions versus metal can packaging material.* With ESG investing gaining traction, we believe BSFC is likely to benefit from greater investor attention. The upcoming planned listing on the Nasdaq stock exchange will also further improve visibility among investors, while potentially providing greater liquidity. Blue Star Foods has made several acquisitions as part of a strategy to incorporate different parts of the seafood value chain. BSFC acquired Coastal Pride, a profitable business with over \$10 million in sales focused on importing pasteurized crabmeat. *This acquisition was attractive in our view given the back office synergies and ability to remove duplicate overhead costs.* The most recent acquisition of Taste of BC Aquafarms gives BSFC entry into the attractive Recirculating Aquaculture System (RAS) industry. *Taste of BC are pioneers in the RAS industry, with longest running full grow-out salmon farm in North America.* The company's Little Cedar Falls brand steelhead salmon has been in the market since 2013, and impressively generates revenue and is expected to be profitable in 2021, something quite notable in the RAS industry. We are impressed by its unique modular system that can dramatically scale operations. Taste of BC is expected to scale its operations to produce 21,000 MT of product by 2028, versus just 100 MT of current production. Consequently, we model revenue for RAS operations to increase dramatically to more than \$170 million by 2028, compared to just \$0.7 million currently. Recirculatory Aquaculture Systems (RAS) are a highly disruptive technology that harvests fish in indoor tanks in a controlled environment. It is sustainable and environmentally friendly, versus conventional open-net aquaculture which is detrimental to the environment. *We believe land-based RAS salmon farming can meet the gap between the growing global demand for seafood and a supply that is limited by its environmental impact.* The addressable market opportunity is large and growing. The market size for Salmon is estimated to be \$17 billion globally and the volume for all Salmon worldwide is estimated to be 3.7 million tons in 2021 and projected to reach 4.0 millions tons by 2023¹. *While other companies are pursuing a similar RAS strategy, we believe that the opportunity is massive leaving space for multiple winners and that Blue Star holds key competitive advantages with its acquisition of an already revenue generating and profitable business.*

BSFC's recent entry into the RAS market has significantly increased its addressable market opportunity. RAS technology has the potential to disrupt seafood production worldwide

Blue Star Foods offers investors a unique way to invest in an environmentally friendly seafood manufacturer. Being an early entrant in the RAS market and working with an established operator positions the company to gain market share in this high growth space. BSFC's combination of a successful existing ESG integrated model, as well as a high growth RAS business is a key differentiator

¹ Statista. Global salmon market size forecast 2018-2023, <https://www.statista.com/statistics/934232/global-salmon-market-size/>

Company Overview

Formed in 2017, Blue Star Foods, Corp. is an integrated ESG seafood company that processes, packages and sells refrigerated pasteurized Blue Crab meat, and other high-value seafood products. Headquartered in Miami, Florida, BSFC is primarily an importer of blue and red crab meat from Indonesia, the Philippines and China and distributes it in the United States and Canada under its brand names such as Blue Star, Oceanica, Pacifika, Crab & Go. In 2020, nearly 90% of product sourcing was from the Philippines (46%) and Indonesia (44%). *Sustainability is the key pillar of BSFC's business model.*

Blue Star Foods Corp is a sustainable and environmentally friendly seafood company that sells Blue Crab meat, and other high-value seafood products

BSFC offers a unique traceability system, which tracks the movement of every Blue Star product from the point of catch to the point of sale. All crab meat is sourced under the FDA approved Hazard Analysis Critical Control Point (HACCP) Plan. Additionally, all suppliers are certified by the British Retail Consortium (BRC), an international 'gold standard' for safety and quality standards. BSFC's warehouse facility in Miami, Florida is the only crab meat facility in the US which is certified and audited by the BRC. We view this sustainability expertise as extremely appealing in this ESG focused investment environment.

BSFC also leads the industry in sustainable packaging via its patented Eco Fresh Crab Meat Pouches. These pouches have been proven to consume less energy, emit lower amounts of greenhouse gases and require less waste management than cans or cups. BSFC notes that a 1 lb pouch realizes a 60% material greenhouse gas release savings compared to a 1 lb can, and a 35% savings compared to a 1 lb cup. The end consumer can view all pertinent information on the production side such as the harvester's name, vessel, gear, and fishing grounds by scanning a QR code using the BSFC app.

With the recent acquisition of Taste of BC, Blue Star is entering the RAS space with high value seafood species such as Steel Head Salmon and Soft-Shell Blue Crab. We believe that RAS is the future of the industry, as it offers a potentially more viable, safe, and sustainable alternative to conventional aquaculture as well as wild fish stocks. The land-based RAS system used by Taste of BC allows them to produce fish with minimum environmental impact. There is no use of antibiotics or pesticides, as well no harmful byproducts disposed in the surroundings.

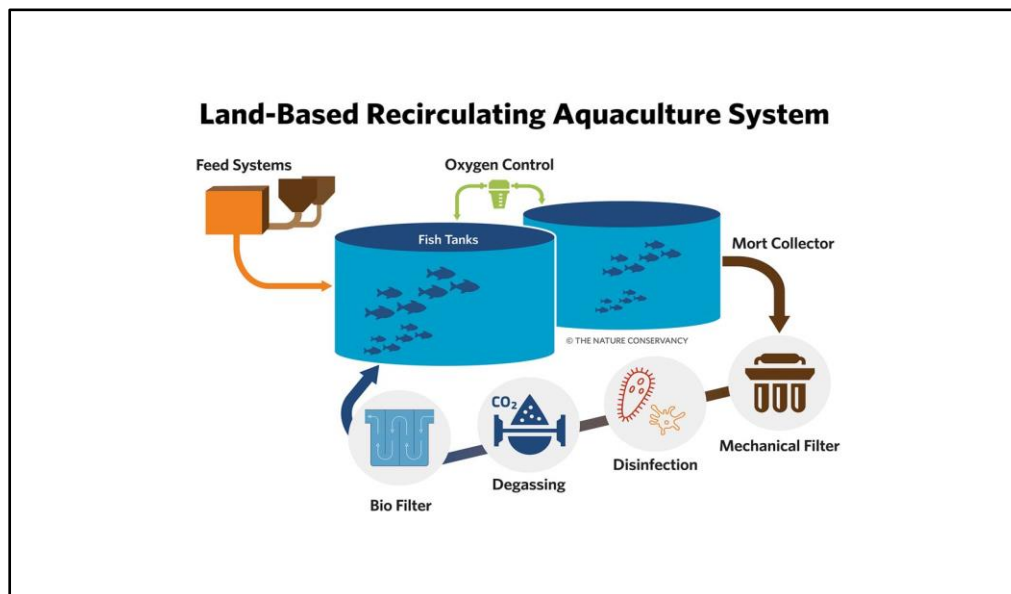
Taste of BC has produced over 500,000 lbs. of Steelhead Salmon since 2012. It is the oldest operating Salmon RAS in North America. Being an early entrant in the space, it has perfected the system overcoming initial issues such as taste, early maturation and coloration. It is now well positioned to expand its operations.

We note that Taste of BC's RAS technology is highly scalable, such that implementation in large-scale facilities can be carried out by simply adding modules and upscaling design. BSFC plans to significantly scale production at Taste of BC, targeting to reach ~21,000 MT of product in 2028 (versus just 100 MT currently). It plans to expand in five phases – Phase 1 (1,500 MT), Phase 2 (1,500 MT), Phase 3 (3,000 MT), Phase 4 (6,000 MT) and Phase 5 (9,000 MT). The total capital expenditure is estimated to be more than \$400 million.

BSFC's RAS technology is highly scalable. It aims to increase capacity by ~210x over the next 7 years

Although the capital investment is larger than the traditional sea-cage approach, any increase in costs could potentially be offset by better efficiency and feed conversion, reduced environment impact, and effective disease control. Besides, land-based facilities located closer to major food markets can help reduce transportation costs, reduce the carbon footprint, and cut the time needed to provide fresh seafood to the end market.

Example of Land-Based RAS Facility



Source: The Nature Conservancy

The company sees significant growth potential in salmon farming, as salmon is now the United States second most popular seafood item in terms of per capita consumption. The U.S. imported more than \$2.6 billion worth of Atlantic salmon in 2016, according to the US Department of Commerce. Taste of BC's Little Cedar Falls brand steelhead salmon has been in the market since 2013, this business, which is run by a proven operator, increases BSFC's chance of success.

BSFC has an established brand in the Salmon market, which should bolster its growth prospects

Corporate Timeline

- June 2021: Blue Star completes the acquisition of Taste of BC Aquafarms, a recirculating aquaculture system (RAS) salmon farming operation in British Columbia, Canada.
- May 2021: Blue Star signs agreement with leading national foodservice warehouse supplier to supply crab meat of up to \$31 million for a 12-month term
- April 2021: Blue Star Foods files application to list on the Nasdaq
- January 2021: Blue Star Foods Corp. Releases its First GRI Standard Sustainability Report 2020
- November 2019: Blue Star completes the acquisition of Coastal Pride, a business specializing in importing pasteurized and fresh crabmeat primarily from Mexico and Latin America.
- March 2017: Blue Star Foods Launches Traceability and Data Collection Tools for Blue Swimming Crab in Indonesia
- January 2017: Launched Trace Cab, its cloud-based traceability app
- May 1995: John Keeler & Co (which later became Blue Star Foods Corp) is formed

Potential Catalysts

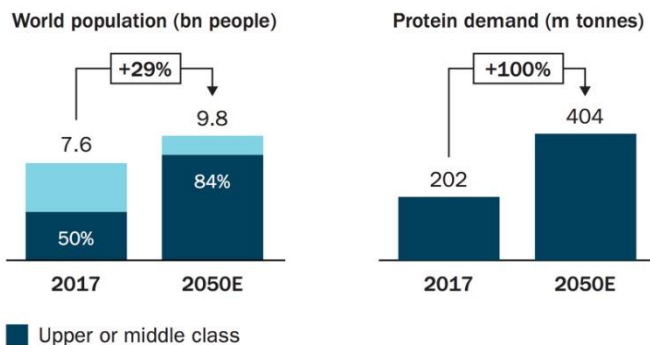
- Expansion within the RAS market with the growth of Taste of BC Aquafarms, a RAS salmon farming operation in British Columbia, Canada
- Additional large sales agreements, like the recent multi-million-dollar supply agreement with a national foodservice warehouse supplier
- Uplisting to the Nasdaq Capital Market, which should increase investor exposure and market liquidity
- Reopening of the U.S. economy should benefit BSFC, specifically as the restaurant and cruise businesses returns to normal
- Additional accretive acquisitions, driving top line and bottom line
- Strong quarterly results, driven by both existing business and RAS opportunity

Large Market Opportunity

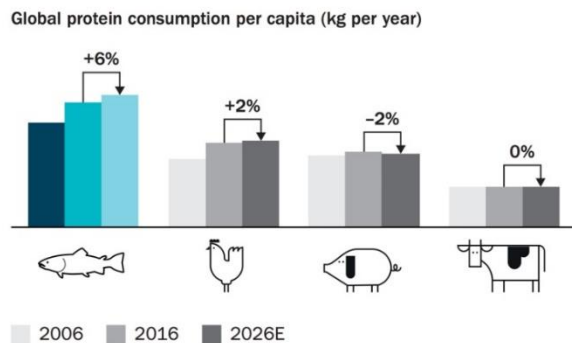
Unlike other seafood companies, Blue Star Foods is an integrated ESG seafood company focused on sustainable and environmentally friendly sourcing and processing of its products. The company’s ESG focused business model is a key point of differentiation versus conventional seafood companies. We believe that the seafood market has significant growth potential, driven by global population growth, and rising consumption. Coupled with this, increased awareness and focus on sustainable sourcing and protecting marine ecosystems should benefit companies like BSFC.

The United Nations estimates that there will be close to 9.7 billion people on our planet by the year 2050, a significant increase from the existing population estimates of 7.7 billion. Overall protein consumption is predicted to nearly double² by 2050, with marine-based proteins gaining growing market share. The Food and Agriculture Organization of the United Nations (FAO) estimates that fish consumption per capita globally will rise from 20.5 kg in 2016 to 21.3 kg by 2027. With the wild fish catch market on the decline, aquaculture has the potential to meet the growing demand.

Protein demand expected to double by 2050



Fish consumption growing faster than other protein sources

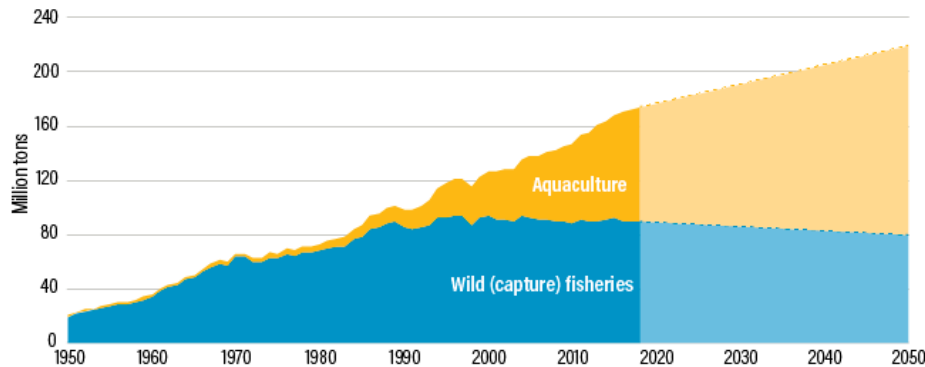


Source: Benchmark Holdings Plc

² OECD/FAO (2017), OECD-FAO Agricultural Outlook 2017-2026, OECD Publishing, Paris. http://dx.doi.org/10.1787/agr_outlook-2017-en

Aquaculture now provides for more than 50% of all the fish consumed globally³ and future increases in world fish consumption will need to come from aquaculture. According to Kontali, fish from aquaculture will grow faster than any other main source of animal protein, with a 2014 – 2024 estimated supply CAGR of 2.8%. Aquaculture production is expected to reach ~140 MT by 2050, far higher than the wild catch fish. Salmon farming is expected to play an important role in this development.

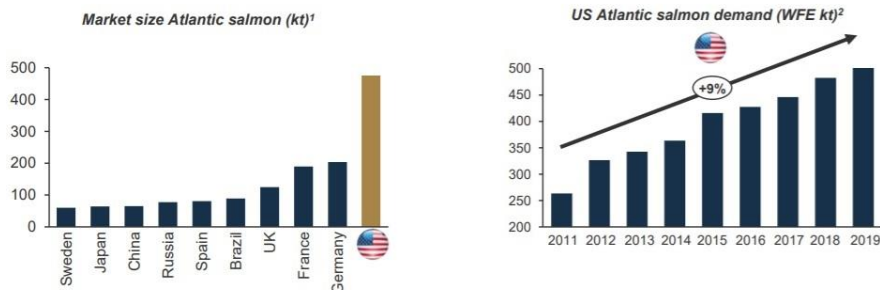
Aquaculture to account for majority of supply going forward



Source: World Resources Institute

However, the traditional aquaculture operations that have risen to meet the growing demand have brought their own new environmental problems. They include conversion of valuable wetland habitats (such as mangroves), use of wild-caught fish in feeds, high freshwater demand, water pollution, and the effects of escaped farm fish on wild fish.

The conventional aquaculture industry generated an estimated 2.7 million metric tons of Atlantic salmon in 2020, according to the UN Food and Agriculture Organization (FAO). The United States is the single largest market for Atlantic salmon and the demand is increasing rapidly. However, on a per capita basis, the U.S. lags many other countries in salmon consumption.



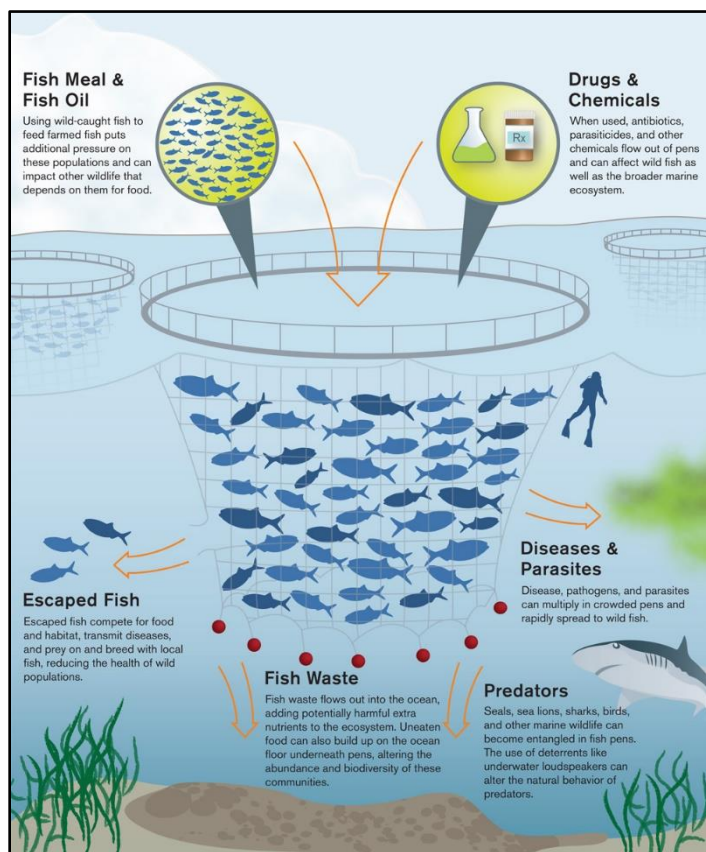
Source: Kontali (Salmon world 2020 and Salmon Market Analysis 2018)

³ Food and Agriculture Organization of the United States. The State of World Fisheries and Aquaculture 2020, <http://www.fao.org/state-of-fisheries-aquaculture>

The majority of salmon is produced in sea-based net pens or cages, primarily off the coasts of Norway and Chile. However, these sea-based fish farming areas are located remotely and require significant transportation and logistics costs, thereby adding to the carbon footprint.

In addition, the conventional aquaculture industry faces numerous challenges. Sea-based farmed fish in open net experience significant risks and costs related to disease, sea lice and other parasite management. It requires the continuous use of pesticides and other prevention methods. Further, farmed salmon also escape into the surrounding waters, that may interfere with the local ocean ecosystem and wild salmon. Additionally, farmed fish waste is directly disposed into the ocean.

Sea-cage Aquaculture Environmental Issues



Source: Ocean Conservancy

Moving aquaculture inland into land-based recirculating systems is one of the best ways to reduce or eliminate environmental impacts from sea-based farming fish. Recirculating aquaculture systems (RAS) is a technology that creates suitable aquatic conditions for aquaculture using indoor tanks, pumps, aerators and filters. Land-based RAS is an extremely exciting innovation not only because of the reduction in environmental effects but also because it creates the opportunity for aquaculture to take place anywhere, including in urban areas. Recirculating systems

are capable of reusing ~90% of culture water. Also, solid waste, ammonium, and CO₂, are either removed or converted into non-toxic bio products (fertilizers). We think land-based salmon farming projects has the potential to disrupt the industry. Blue Star management notes that a 1,500 MT land-based RAS salmon facility translates to an annual revenue of ~\$12.3 million and net profit of \$5.5 million.

Economics of Land-Based RAS Facility is Attractive

Economics of 1,500 MT Facility	
Facility Capacity	1,500 MT
CapEx	\$29.3M
Time To Production	28 Months
Full Harvest	37 Months
Annual Revenue	\$12.3M
Annual Net Income	\$5.5M
Net Income Margins	44.7%
Payback Period	8.3 Years

Source: Blue Star Management Presentation

Against this backdrop, industry players are making significant investments in building new capacity for land-based salmon farming systems. According to Benchmark Genetics, there are land-based salmon production facilities with a combined capacity of more than 2 million tonnes in the pipeline. Nearly 90% of which are in RAS. Some of the major additions in the future include – Aquacon building 100,000 MT, Nordic Aquafarms building 66,000 MT and Pure Salmon adding 25,000 MT.

Land-based salmon farms using RAS are anticipated to grow exponentially

BSFC with the longest running full grow-out land-based salmon farm in North America is an early entrant in this emerging space, with a demonstrated track record of selling seafood products. As consumers globally shift their preference to socially and environmentally conscious firms, we expect BSFC to benefit and gain market share from conventional seafood firms. The declining wild fish catch market and environmental concerns around conventional aquaculture farms will continue to offer opportunities for BSFC to deliver sustainable revenue and profitability growth. However, RAS is highly capital intensive and BSFC may need to seek financing options to fund its expansion plans. BSFC expects total capital expenditure of ~\$410 million by 2028.

Competition

The global aquaculture market is growing rapidly because of rising demand for seafood, driving an increase in fish farming as wild-caught supply falls short of demand. It is now increasingly vital for the fishing industry to develop ways to grow sustainably without overusing natural resources, the most important factor that determines production. This presents tremendous growth potential for Blue Star given its land-based RAS salmon farm projects which are environmental friendly. The company currently competes specifically in the salmon market, with its Little Cedar Falls brand steelhead salmon which has been in the market since 2013.

The international seafood industry is intensely competitive and highly fragmented. BSFC competes with both sea-based salmon farms as well land-based RAS salmon farms. We note that the open net sea-based farming technique is older and more widespread in use. Within the open net sea-based farms, the primary competitors include Mowi, Cermaq, Agrosuper, Leroy Foods, Salmar and Grieg Seafood. In contrast, RAS technique is new and currently there are only three RAS farms in production in North America including one owned by BSFC. The other two are owned by Aquabounty and Atlantic Sapphire. However, land-based RAS salmon farming is picking up momentum and multiple new projects are in the pipeline with more companies trying to establish presence in this new emerging growth area.

BSFC's expansion activities are highly dependent on securing funding, as adding new RAS capacity is capital intensive. The company is currently carrying out site selection for its new 1,500 MT expansion which is likely to be completed by 2024. We note that BSFC faces competition in this space from large and established players such as Atlantic Sapphire who has access to more resources and capital given its much larger size. BSFC could therefore be at a temporary disadvantage compared to other large aquaculture companies with established sources of funding.

Competitive Landscape RAS and Conventional Open Net

North America RAS Farms in Production		North America RAS Farms Announced & In Development			International Sea-Cage Operation	
Name	Capacity	Name	Capacity	Location	Name	Capacity
Taste of BC Aquafarms (now Blue Star Foods)	100 MT	Taste of BC Aquafarms (now Blue Star Foods)	Phase 1 - 1,500 MT	British Columbia	Mowi	417,000 MT
Atlantic Sapphire	10,000 MT		Phase 2 - 1,500 MT	British Columbia		
	25,000 MT		Phase 3 - 3,000 MT	British Columbia		
Aquabounty	1,200 MT		Phase 4 - 6,000 MT	British Columbia		
			Phase 5 - 9,000 MT	British Columbia		
		Nordic Aquafarms	33,000 MT	Maine	Cermaq	192,000 MT
			33,000 MT	California		
		Whole Oceans	20,000 MT	Maine	Agrosuper	188,000 MT
		West Coast Salmon	15,000 MT	Nevada	Leroy	180,000 MT
		Aquacon	100,000 MT	Maryland	Salmar	158,000 MT
		Pure Salmon	25,000 MT	Virginia	Grieg Seafood	83,000 MT

Source: Blue Star Management Presentation

Valuation

Blue Star is an integrated ESG seafood company with limited direct publicly traded comparable companies. It is challenging to value Blue Star using a single method of traditional valuations. We have therefore valued it using a blended discounted cash flow analysis and technology value analysis, with a mix of similar seafood and aquaculture companies.

Comparable early-stage biotech and aquaculture companies

Name	Ticker	Market Cap (\$ mn)	Fwd EV/Sales (x)	Fwd P/E (x)
RAS Farms				
Aquabounty Technologies Inc.	AQB	356.5	47.0	NM
Atlantic Sapphire ASA	AASZF	857.9	128.0	NM
Mean		607.2	87.5	NM
Median		607.2	87.5	NM
Seafood Companies				
Mowi ASA	MHGVY	13,173.0	4.0	24.1
Leroy Seafood Group	LYSFF	4,900.0	0.3	17.5
Mean		9,036.5	2.1	20.8
Median		9,036.5	2.1	20.8
Blue Star Foods Corp	BSFC	166.7	8.4	1384.1

Source: Diamond Equity Research Analysis/Capital IQ

in \$ mn	BSFC (ex RAS)	RAS
2026E Sales	50.14	45.05
Multiple (x)	2.0	5.5
EV	100.28	247.77
Total EV	348.06	
Cash	1.52	
Debt	4.13	
Implied equity	345.44	
Implied equity present value	187.71	
Shares (mn)	22.99	
Fair value per share (\$)	8.17	

Source: Diamond Equity Research Analysis/BSFC Filings

In the above comparison, we have identified four public-listed companies, based primarily on their business focus on RAS and sea-based farming. We note that RAS focused companies trade at a significant premium to the sea-based operations. We think that RAS focused companies are a more suitable peer group given that majority of BSFC revenue will come from RAS business going forward. From our analysis and based on reasonable assumptions *which investors can alter given their expectations*, we arrived at a valuation. We use sum of the parts (SOTP) valuation to arrive at the fair value of BSFC. We value legacy business (crab meat) at 2x and RAS

business at 5.5x forecasted 2026E revenue. This gives us a *valuation of \$8.17 per share*. We acknowledge the difficulty of direct comparison due to the limited number of public-listed companies engaged in land-based RAS operations.

To strengthen our fair-value estimate, we created a discounted cash flow model to analyze the intrinsic value of the business, based on the large addressable market and the above market studies. We have projected figures for legacy (crab meat) and RAS separately. We have created a top-down model to value both the businesses.

Top-down Revenue Model

RAS Model	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
Prices/Kg	\$6.32	\$6.76	\$7.03	\$7.31	\$7.57	\$7.83	\$8.11	\$8.35	\$8.60	\$8.86
Growth Y/Y%	NM	7%	4%	4%	4%	4%	4%	3%	3%	3%
Total Quantity Sold (kgs)	100,000	100,000	1,600,000	1,600,000	3,100,000	5,750,000	11,750,000	20,750,000	20,750,000	20,750,000
Growth Y/Y%	NM	0%	1500%	0%	94%	85%	104%	77%	0%	0%
<i>Production Units</i>										
<i>Harvesting Capacity (Cumulative)</i>	100	100	1,600	1,600	3,100	5,750	11,750	20,750	20,750	20,750
100% Capacity (MT)	100	100	1,600	1,600	3,100	5,750	11,750	20,750	20,750	20,750
Capacity Utilization	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Harvesting Incremental (MT)	0	0	1,500	0	1,500	3,000	6,000	9,000	0	0
TOTAL REVENUE (\$ in M)	\$0.63	\$0.68	\$11.25	\$11.70	\$23.47	\$45.05	\$95.28	\$173.31	\$178.51	\$183.86
Growth Y/Y%		7%	1564%	4%	101%	92%	112%	82%	3%	3%

Source: Diamond Equity Research Analysis/Blue Star Foods Management Presentation

Based on our understanding of the current blue crab meat pricing provided by the Food and Agriculture Organization of the US (FAO), we believe that selling price per pound should be approximately \$27 per pound. We model around \$53 million in sales by 2028. Based on Fish Pool forward prices, the price of steelhead salmon is expected to be in the range of \$6.30-\$7.00 until 2024. We model around \$173 million in sales for RAS business by 2028.

BSFC (ex RAS)	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
Crab Meat Prices/Pound	\$27.00	\$27.00	\$27.00	\$27.00	\$27.00	\$27.00	\$27.00	\$27.00
Growth Y/Y%	NM	0%	0%	0%	0%	0%	0%	0%
Total Quantity Sold (Pound)	725,000	1,650,000	1,699,500	1,750,485	1,803,000	1,857,090	1,912,802	1,970,186
Growth Y/Y%	NM	128%	3%	3%	3%	3%	3%	3%
TOTAL REVENUE (\$ in M)	\$19.58	\$44.55	\$45.89	\$47.26	\$48.68	\$50.14	\$51.65	\$53.20
Growth Y/Y%		39%	128%	3%	3%	3%	3%	3%

Source: Diamond Equity Research Analysis/Blue Star Foods Management Presentation

Discounted cash flow analysis – BSFC (ex RAS) (Legacy Business)

BSFC (ex RAS) in \$ mn	FY20A	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
Operating Income (EBIT)	(1.80)	0.56	1.80	2.54	2.62	2.69	2.77	2.86	2.94
Less: CAPEX	0.00	0.35	0.80	0.83	0.85	0.88	0.90	0.93	0.96
Add: D & A	0.27	0.35	0.79	0.81	0.84	0.86	0.89	0.92	0.94
Current Assets excl. cash	4.67	4.57	10.04	10.34	10.64	10.95	11.27	11.60	11.94
Less: Current Liabilities	7.26	6.31	8.96	9.10	9.24	9.38	9.53	9.68	9.84
Working Capital	(2.58)	(1.74)	1.08	1.24	1.40	1.57	1.74	1.92	2.10
Increase/(Decrease) in Working Capital:		0.84	2.82	0.16	0.16	0.17	0.17	0.18	0.18
Less: Taxes	0.00	0.00	0.00	0.52	0.54	0.55	0.57	0.59	0.61
Free Cash Flow for the Firm/Equity =		(0.28)	(1.04)	1.84	1.90	1.96	2.02	2.08	2.14
Terminal Value =									25.28
Present Value of Free Cash Flows =		(0.27)	(0.88)	1.40	1.29	1.19	1.10	1.01	11.94
Total Present Value of Free Cash Flows =	16.77								

Source: Diamond Equity Research Analysis/Blue Star Foods Management Presentation

Discounted cash flow analysis – (RAS Business)

RAS (in \$ mn)	FY20A	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
Operating Income (EBIT)		0.09	0.10	6.24	6.49	13.02	25.00	52.88	103.98	107.10	110.32
Less: CAPEX		7.33	7.33	7.33	7.33	29.30	58.60	117.20	175.80	8.93	9.19
Add: D & A		0.06	0.07	1.13	1.17	2.35	4.50	9.53	17.33	17.85	18.39
Increase/(Decrease) in Working Capital:		0.06	0.07	1.13	1.17	2.35	4.50	9.53	17.33	17.85	18.39
% of Sales		10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Less: Taxes		0.00	0.00	1.31	1.36	2.73	5.25	11.10	21.84	22.49	23.17
Free Cash Flow for the Firm/Equity =		(7.23)	(7.22)	(2.39)	(2.19)	(19.01)	(38.85)	(75.42)	(93.65)	75.69	77.96
Terminal Value =											920.03
Present Value of Free Cash Flows =		(6.84)	(6.12)	(1.81)	(1.49)	(11.54)	(21.11)	(36.68)	(40.77)	29.49	348.02
Present Value of Free Cash Flows =	251.14										

Source: Diamond Equity Research Analysis

DCF Fair Value

(\$ in M except per Share data)	
Total Present Value of Free Cash Flows =	267.9
Add: Cash & cash equivalents =	1.52
Less: P.V. of Total Debt o/s (as per latest filings) =	4.13
Less: Preferred Shares	-
Less: Minority Interest	-
Equity Value (Present Value) =	265.31
Number of Shares outstanding (in M)=	22.99
Fair Value per Share (\$)=	11.54

Source: Diamond Equity Research Analysis

Our discounted cash flow analysis provides a fair-value estimate of \$11.54 share, based on the above revenue and cost assumptions. We have also provided a summary of our analysis below.

Valuation Per Share

Fair value from Comparable Analysis	\$8.17
Fair value from Discounted Cash Flow Analysis	\$11.54
Valuation Per Share	\$10.00

We arrive at a blended valuation, which we have rounded to \$10.00, based on the average of comparable valuation analysis and discounted cash flow analysis valuation techniques, a valuation contingent on successful execution by the company

Experienced Management Team

Blue Star’s management team and board of directors have years of experience in sustainable aquaculture. In fact, the CEO is also the Chief Sustainability Officer and has embedded sustainability into the core of all BSFC’s operations. We are encouraged by this experienced team, as their focus on sustainability has created a measurable ESG enterprise within the seafood industry.

John Keeler (Chairman and Chief Executive Officer): Mr. John Keeler founded Blue Star in 1995 and has led the company to become one of the leading marketers of imported Blue Swimming Crabmeat in the United States. He has grown the company to \$20+ million sales annually and is recognized as a leader and innovator in the measurable ESG enterprise model within the seafood industry. Mr. Keeler oversees procurement as well as operating facilities in the Philippines and Indonesia. He is an executive committee member of the National Fisheries Institute-Crab Council and a founding member of the Indonesia and Philippines crab meat processors associations. He was named as the Best CEO in Sustainable Seafood Industry by European CEO Magazine and was a speaker at “The Economist World Ocean Summit” in 2017. Mr. Keeler received his BS in Economics from Rutgers University in 1995 and attended Harvard Business School executive programs in supply chain management, negotiations and marketing in 2005.

Silvia Alana (Chief Financial Officer): Silvia Alana was appointed chief financial officer of Blue Star Foods, Corp. in May 2021. Previously, she has been Corporate Controller of the company since August 2020. Prior to that, Ms. Alana was Global Technical Accounting Manager at Brightstar Corporation from April 2018 to July 2020 and Audit Manager at Crowe Horwath, LLP from July 2016 to April 2018. From May 2013 to February 2015, Ms. Alana was a Senior Accountant in Global Accounting and Reporting Services at Carnival Corporation & Plc. She has also worked as an Auditor in Assurance at Pricewaterhouse Coopers, LLP from January 2010 to May 2013. Ms. Alana graduated with a Bachelor degree in Accounting from Florida International University in 2008 and a Master of Accounting in 2009. Ms. Alana is a Certified Public Accountant.

Nubar Herian (Board Member): Nubar Herian is a member of the Board of Directors of Blue Star Foods, Corp. Currently, he is the chief executive officer of Monaco Group Holdings, a privately-held importer, exporter and distributor of premium gourmet foods to the U.S. foodservice market. He holds a BS in Mechanical Engineering from Florida Atlantic University and an Executive M.B.A. from the University of Miami.

Timothy McLellan (Board Member): Timothy McLellan is a member of the Board of Directors of Blue Star Foods, Corp. He has more than 35 years of operating experience and has served as a seafood executive in both the U.S. and

Asia. Mr. McLellan is currently managing director of Maijialin Consulting Company Ltd. which provides international business development consulting services specific to import/export cold chain supply logistics and foodservice distribution.

Trond Ringstad (Board Member): Trond Ringstad is a member of the Board of Directors of Blue Star Foods, Corp. He has more than 20 years of operating experience as a seafood executive in both the U.S. and Europe. Currently, he is the managing partner of American Sea, LLC, a seafood processing and sales company. Mr. Ringstad graduated from the BI Norwegian Business School with a Degree in International Marketing and has a BA in Business Management from Washington State University.

Risk Factors

- The company's business is dependent on the sale of commodity (crab meat in particular) which is subject to fluctuation. The revenue and profitability could vary significantly due to volatility in the price of crab meat.
- Acquisition is a key part of company's growth strategy. These acquisitions expose the company to potential risks including hidden liabilities, the diversion of resources and management's attention from existing businesses. Failure to integrate acquisitions could adversely impact the future growth prospects.
- The company has aggressive expansion plans for its new business segment. Such expansion would require significant capital. BSFC currently does not have the capital and would need to raise funding to meet its requirements. If the company is not able to raise capital, the growth prospects will get hampered. Even if it can raise capital, it may not be at attractive terms and could also lead to significant dilution.
- The company is highly dependent on its Founder, Chairman and CEO, John Keeler. He has been instrumental in the success of the company so far. The loss or incapacity of Mr. Keeler could negatively impact operations.
- Blue Star expects to complete the uplisting process to Nasdaq by Q3 2021. Any delay or cancellation in the listing process could adversely impact investor sentiment and weigh on the stock price.
- Company's products such as premium grade crab meat, are discretionary purchases for consumers. Any reduction in consumer discretionary spending or disposable income may affect the crab meat industry significantly.
- BSFC competes in a highly fragmented industry. Many of its competitors are large and have access to greater resources compared to BSFC, particularly within RAS.
- The company is dependent on suppliers from Southeast Asia for sourcing its products. It currently gets supplies from 13 plants in Southeast Asia. Any disruption in the supply from these vendors could result in temporary or permanent loss of revenue.

For Full List of Risk Factors Please Read Blue Star Food Corp's Latest Prospectus and/or Annual Filings

Appendix

Income Statement

BSFC : P&L														
FY Ends on December 31														
(\$ in M)	FY19A	FY20A	1Q21A	2Q21E	3Q21E	4Q21E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
REVENUE														
Revenue from Cont Ops: Product Revenues	23.83	14.11	2.49	5.05	5.86	6.81	20.21	45.23	57.14	58.97	72.15	95.19	146.93	226.50
Cost of revenue	20.61	12.62	2.18	4.04	4.10	4.43	15.38	33.82	37.95	39.13	44.58	53.75	73.69	99.76
Gross Profit	3.22	1.49	0.30	1.01	1.76	2.38	4.83	11.41	19.19	19.84	27.57	41.44	73.24	126.75
Costs & Expenses														
Commissions	0.11	0.10	0.00	0.01	0.01	0.01	0.04	0.09	0.09	0.09	0.09	0.10	0.10	0.10
Salaries & Wages	3.90	1.29	0.38	0.61	0.70	0.68	1.85	4.01	4.59	4.73	4.87	5.01	5.16	5.32
D&A	0.22	0.27	0.04	0.09	0.10	0.12	0.41	0.86	1.94	2.01	3.21	5.39	10.44	19.27
Other Operating Expenses	2.95	1.64	0.32	0.51	0.59	0.68	1.78	4.46	4.13	4.25	4.38	4.51	4.65	4.79
Operating expenses (RAS)							0.16	0.17	0.79	0.82	1.64	3.15	6.67	8.67
Total Operating Costs & Expenses	7.17	3.29	0.75	1.21	1.40	1.50	4.23	9.58	11.53	11.90	14.20	18.17	27.03	37.15
Adj. EBIT	(3.95)	(1.80)	(0.44)	(0.20)	0.35	0.89	0.59	1.83	7.66	7.94	13.37	23.27	46.21	89.60
D&A	0.22	0.27	0.04	0.09	0.10	0.12	0.41	0.86	1.94	2.01	3.21	5.39	10.44	19.27
Adj. EBITDA	(3.74)	(1.54)	(0.40)	(0.11)	0.46	1.01	1.00	2.69	9.60	9.95	16.58	28.67	56.65	107.87
Interest Expense, net	1.07	0.87	0.11	0.11	0.11	0.11	0.44	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Other Income / (other Expenses)	0.00	-1.76	0.08	0.00	0.00	0.00	0.08	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Adj. PBT	(5.02)	(4.44)	(0.48)	(0.31)	0.24	0.78	0.23	1.78	7.61	7.89	13.32	23.22	46.16	89.55
Income Tax Expenses (Benefits)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.83	1.90	3.29	5.82	11.69	22.44
Non-controlling interest	-0.04	0.01						0.00	0.00	0.00	0.00	0.00	0.00	0.00
Adj. Net Profit/(Loss) from Continuing operations	(4.99)	(4.45)	(0.48)	(0.31)	0.24	0.78	0.23	1.78	5.77	5.99	10.03	17.40	34.46	67.10
Deemed Dividend	0.11	0.11	0.03	0.03	0.03	0.03	0.11	-	-	-	-	-	-	-
Adj. Net Income Attributable To Common Shareholders	(5.10)	(4.56)	(0.51)	(0.34)	0.22	0.75	0.12	1.78	5.77	5.99	10.03	17.40	34.46	67.10
Earnings per Share (Reported) from Cont Ops (in \$)														
Basic	(0.31)	(0.25)	(0.03)	(0.01)	0.01	0.03	0.01	0.07	0.22	0.23	0.34	0.51	0.78	1.23
Diluted	(0.31)	(0.25)	(0.03)	(0.01)	0.01	0.03	0.01	0.07	0.22	0.23	0.34	0.51	0.78	1.23
Weighted Average no. of Shares outstanding (in M)														
Basic	16.20	18.26	19.59	22.99	23.19	23.39	22.29	24.39	25.89	26.39	29.39	34.39	44.39	54.39
Diluted	16.20	18.26	19.59	22.99	23.19	23.39	22.29	24.39	25.89	26.39	29.39	34.39	44.39	54.39

Income statement – Assumptions:

We forecast revenue using separate projections for legacy (crab meat) and RAS businesses, which are then added to arrive at consolidated revenue figure for the company.

Legacy (crab meat) business: Our revenue estimation is based on expected sales prices of crab meat each year and expected volume of sales per year. The COVID-19 pandemic resulted in decrease in poundage sold, however we expect the poundage sold to increase as the economy reopens and normalcy returns. We assume a price of \$27 per pound and volume of 725,000 pounds for FY21. In addition, we expect the revenue to be modest for this business. We forecast revenue growth of ~3% for the period FY22-FY28.

RAS business: Our revenue estimation is based on expected sales prices of salmon each year and expected volume of sales per year. Based on Fish Pool forward prices, the price of salmon is expected to be in the range of \$6.30-\$7.00 till 2024. We have assumed similar price range for BSFC’s product. We also expect a significant capacity increase and production pickup from FY 2023. We expect the company to reach capacity of approximately 1,600 MT by 2023, 3,100 MT by 2025, 5,750 MT by 2026, 11,750 MT by 2027 and 20,750 MT by 2028. The total capital expenditure is estimated to be more than \$400 million. Based on sales and price trends, we model revenue to increase to \$221.59 million in 2028.

We have provided our modelled cost and margin assumptions details below.

Gross margin (as a percentage of sales)

Year	Margin
2021	23.9%
2022	25.2%
2023	33.7%
2024	33.8%
2025	38.7%
2026	44.5%
2027	51.2%
2028	55.8%

Operating expenses:

i. Commissions:

We expect the commissions as a percentage of overall sales to remain marginal. We expect commissions as a percentage of sales to be around 0.1% -0.2%.

Commissions (as a % of revenue from continuing operations)

Year	Assumed Rate
2021	0.2%
2022	0.2%
2023	0.2%
2024	0.2%
2025	0.1%
2026	0.1%
2027	0.1%
2028	0.05%

i. Salaries & Wages:

We expect salaries & wages as a proportion of sales to decline from 9.2% in FY21 to 2.4% in 2028 as the company achieves economies of scale.

Salaries & wages (as a % of revenue from continuing operations)

Year	Assumed Rate
2021	9.1%
2022	8.9%
2023	8.0%
2024	8.0%
2025	6.7%
2026	5.3%
2027	3.5%
2028	2.3%

iii. D&A

We assume that D&A will average approximately 2.0% of sales during FY21-22 and then decline gradually to reach 8.1% of sales by FY28 the forecast period as capital expenditures increase.

Depreciation & Amortization expenses (as a % of revenue from continuing operations)

Year	Assumed Rate
2021	2.0%
2022	1.9%
2023	3.4%
2024	3.4%
2025	4.4%
2026	5.7%
2027	7.1%
2028	8.1%

Tax rate:

We assume that the company pays no taxes till FY 2023 and then assume an effective tax rate of approximately 21% from 2023-2028.

WACC in DCF:

- Risk premium: We use the S&P U.S. Small cap 600 Index, as we believe it is the best proxy for this company
- Risk-free rate: We use the 10-year U.S. Treasury rate
- Beta: 1.0
- Debt: We assume an interest rate on debt of 9.4%, in line with company’s current interest rate

WACC Inputs	
Risk-free rate	1.5%
Total Equity Risk Premium	10.4%
Beta	1.0
Cost of Equity (CAPM)	11.8%
<hr/>	
Cost of Debt	9.4%
Statutory Tax rate	21.0%
Debt / Capital	2.5%
After Tax Cost of Debt	7.43%
WACC (Debt)	0.2%
<hr/>	
Cost of Equity (CAPM)	11.8%
Equity / Capital	97.5%
WACC (equity)	11.5%
<hr/>	
WACC Conclusion	11.73%
<hr/>	
Long term growth rate (assumed) =	3.0%

Source: Diamond Equity Research Analysis

Disclosures

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