

Company Sponsored Research
Update Note
08/20/2021

Blue Star Foods Corp. (OTC: BSFC)

Expanding RAS Business with New Acquisition and Strengthened Financial Position

Investment Highlights:

- Blue Star announced financial results for the second quarter ended June 30, 2021.** The company reported net revenues of \$2.13 million, a decrease of 14.3% from \$2.49 million in 1Q 2021, as the industry wide supply chain issues such as port congestion and a shortage in reefer containers continue to impact sales and prevent the company from filling all orders it received in Q2 2021. Total cost and expenses were \$0.84 million, a 12% increase from Q1 2021, primarily due to the one-time legal fees for the private placement, the acquisition of Taste of BC Aquafarms and the NASDAQ application process. Net loss was \$0.44 million, or 0.02 per basic and diluted share in Q2 2021, as compared to \$0.48 million or \$0.03 per basic and diluted share in the previous quarter. Blue Star just completed its second acquisition of Taste of BC and is currently applying for building permits for its next 1,500 MT facility, which we view as a milestone for the company to entry into a massive “Food-Tech” market and to scale its RAS technology in a modular and replicable manner. *We expect steady topline growth from the company’s RAS business with its acquisition of Taste of BC, as well as increasing orders received, as it expands partnership with leading foodservice warehouse suppliers, and view the company as well positioned to expand its operations.*
- Blue Star announced a strengthened financial position to support its business expansion.** As of June 30, 2021, Blue Star’s cash and cash equivalents were equal to \$1.63 million, as compared to \$0.06 million on December 31, 2020. The company raised \$3 million through a private placement, further strengthening its financial position and enabling the company to finance new orders and work towards meeting the NASDAQ up-listing requirements. *We view Blue Star as having a healthy balance sheet to support its further growth and business expansion.* The company’s management recently presented at Diamond Equity Research Emerging Growth Invitational, investors can watch the presentation and Q&A session [here](#).
- Valuation models indicate 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.* Our combined valuation analysis maintains 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

Packaged Food

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Price- Volume History



Source: Yahoo Finance

Key Statistics

| | |
|-----------------------------|---------------|
| Price (As of 08/19/2021) | \$6.00 |
| Valuation | \$10.00 |
| 52 Week Range | \$1.01-\$8.00 |
| Average Daily Volume | 335 |
| Shares Outstanding (M) | 23.34 |
| Market Capitalization (M) | 140.02 |
| Number of Analysts Covering | 1 |
| Enterprise Value/Revenue | N/A |

Revenue(\$ in million)

| Dec. FY | 2020A | 2021E | 2022E |
|---------|--------|--------|--------|
| 1Q | 4.57A | 2.49A | 9.05E |
| 2Q | 2.86A | 2.13A | 9.95E |
| 3Q | 3.98A | 5.86E | 11.31E |
| 4Q | 2.69A | 9.73E | 14.92E |
| FY | 14.11A | 20.21E | 45.23E |

EPS(\$)

| Dec. FY | 2020A | 2021E | 2022E |
|---------|---------|---------|-------|
| 1Q | (0.05)A | (0.03)A | 0.03E |
| 2Q | (0.20)A | (0.02)A | 0.02E |
| 3Q | (0.00)A | 0.01E | 0.02E |
| 4Q | (0.01)A | 0.06E | 0.03E |
| FY | (0.25)A | 0.00E | 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 Philippines 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/>

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 | 2Q21A | 3Q21E | 4Q21E | FY21E | 1Q22E | 2Q22E | 3Q22E | 4Q22E | FY22E | FY23E | FY24E | FY25E | FY26E | FY27E | FY28E |
| REVENUE | | | | | | | | | | | | | | | | | | |
| Revenue from Cont Ops: Product Revenues | 23.83 | 14.11 | 2.49 | 2.13 | 5.86 | 9.73 | 20.21 | 9.05 | 9.95 | 11.31 | 14.92 | 45.23 | 57.14 | 58.97 | 72.15 | 95.19 | 146.93 | 226.50 |
| Cost of revenue | 20.61 | 12.62 | 2.18 | 1.56 | 4.10 | 6.33 | 15.34 | 6.76 | 7.44 | 8.45 | 11.16 | 33.82 | 37.95 | 39.13 | 44.58 | 53.75 | 73.69 | 99.76 |
| Gross Profit | 3.22 | 1.49 | 0.30 | 0.57 | 1.76 | 3.41 | 4.87 | 2.28 | 2.51 | 2.85 | 3.76 | 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 | 0.02 | 0.05 | 0.02 | 0.02 | 0.02 | 0.03 | 0.09 | 0.09 | 0.09 | 0.09 | 0.10 | 0.10 | 0.10 |
| Salaries & Wages | 3.90 | 1.29 | 0.38 | 0.23 | 0.70 | 0.97 | 1.81 | 0.80 | 0.88 | 1.00 | 1.32 | 4.01 | 4.59 | 4.73 | 4.87 | 5.01 | 5.16 | 5.32 |
| D&A | 0.22 | 0.27 | 0.04 | 0.06 | 0.10 | 0.17 | 0.43 | 0.17 | 0.19 | 0.21 | 0.28 | 0.86 | 1.94 | 2.01 | 3.21 | 5.39 | 10.44 | 18.27 |
| Other Operating Expenses | 2.95 | 1.64 | 0.32 | 0.64 | 0.59 | 0.97 | 2.15 | 0.89 | 0.98 | 1.11 | 1.47 | 4.46 | 4.13 | 4.25 | 4.38 | 4.51 | 4.65 | 4.79 |
| Operating expenses (RAS) | | | | | | | 0.16 | 0.04 | 0.04 | 0.04 | 0.04 | 0.17 | 0.79 | 0.82 | 1.64 | 3.15 | 6.87 | 8.67 |
| Total Operating Costs & Expenses | 7.17 | 3.29 | 0.75 | 0.94 | 1.40 | 2.14 | 4.59 | 1.93 | 2.11 | 2.39 | 3.14 | 9.58 | 11.53 | 11.90 | 14.20 | 18.17 | 27.03 | 37.15 |
| Adj. EBIT | (3.95) | (1.80) | (0.44) | (0.37) | 0.35 | 1.27 | 0.27 | 0.35 | 0.40 | 0.46 | 0.62 | 1.83 | 7.66 | 7.94 | 13.37 | 23.27 | 46.21 | 89.60 |
| D&A | 0.22 | 0.27 | 0.04 | 0.06 | 0.10 | 0.17 | 0.43 | 0.17 | 0.19 | 0.21 | 0.28 | 0.86 | 1.94 | 2.01 | 3.21 | 5.39 | 10.44 | 18.27 |
| Adj. EBITDA | (3.74) | (1.54) | (0.40) | (0.31) | 0.46 | 1.44 | 0.70 | 0.53 | 0.59 | 0.67 | 0.90 | 2.69 | 9.60 | 9.95 | 16.58 | 28.87 | 56.65 | 107.87 |
| Interest Expense, net | 1.07 | 0.87 | 0.11 | 0.10 | 0.11 | 0.11 | 0.43 | 0.01 | 0.01 | 0.01 | 0.01 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 |
| Other Income / (other Expenses) | 0.00 | -1.76 | 0.08 | 0.03 | 0.00 | 0.00 | 0.11 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Adj. PBT | (5.02) | (4.44) | (0.48) | (0.44) | 0.25 | 1.16 | (0.05) | 0.34 | 0.38 | 0.44 | 0.61 | 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 | 0.00 | 0.00 | 0.00 | 0.00 | 1.83 | 1.90 | 3.29 | 5.82 | 11.59 | 22.44 |
| Non-controlling interest | -0.04 | 0.01 | | | | | | 0.00 | 0.00 | 0.00 | 0.00 | 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) | (0.44) | 0.25 | 1.16 | (0.05) | 0.34 | 0.38 | 0.44 | 0.61 | 1.78 | 5.77 | 5.99 | 10.03 | 17.40 | 34.46 | 67.10 |
| Deemed Dividend | 0.11 | 0.11 | 0.03 | - | - | - | 0.03 | - | - | - | - | - | - | - | - | - | - | - |
| Adj. Net Income Attributable To Common Shareholders | (5.10) | (4.56) | (0.51) | (0.44) | 0.25 | 1.16 | (0.08) | 0.34 | 0.38 | 0.44 | 0.61 | 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) | (0.02) | 0.01 | 0.06 | (0.00) | 0.02 | 0.02 | 0.02 | 0.03 | 0.08 | 0.25 | 0.26 | 0.38 | 0.56 | 0.84 | 1.31 |
| Diluted | (0.31) | (0.25) | (0.03) | (0.02) | 0.01 | 0.06 | (0.00) | 0.02 | 0.02 | 0.02 | 0.03 | 0.08 | 0.25 | 0.26 | 0.38 | 0.56 | 0.84 | 1.31 |
| Weighted Average no. of Shares outstanding (in M) | | | | | | | | | | | | | | | | | | |
| Basic | 16.20 | 18.26 | 19.59 | 19.76 | 19.96 | 20.16 | 19.87 | 20.16 | 20.16 | 20.16 | 20.16 | 21.16 | 22.66 | 23.16 | 26.16 | 31.16 | 41.16 | 51.16 |
| Diluted | 16.20 | 18.26 | 19.59 | 19.76 | 19.96 | 20.16 | 19.87 | 20.16 | 20.16 | 20.16 | 20.16 | 21.16 | 22.66 | 23.16 | 26.16 | 31.16 | 41.16 | 51.16 |

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