

Company Sponsored Research
Update Note
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Packaged Food

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Blue Star Foods Corp. (NASDAQ: BSFC)

Advancing RAS Business Coupled with Continued Sales Momentum

Investment Highlights:

- Blue Star announced financial results for the third quarter ended September 30, 2021.** The company reported net revenues of \$3.73 million, an increase of 75% from \$2.129 million in Q2 2021 and a decrease from \$3.98 million in prior year. Cost of goods sold decreased to \$3.1 million, as compared to \$3.4 million in Q3 2020. This decrease is primarily attributed to decreasing revenue. Commission expense increased to \$23,932 due to higher commission revenues over the quarter. Salary and wage expenses also showed an increase from \$282,279 to \$419,445 from the 2020 to 2021 period, which was mainly a result of the recent acquisition. Depreciation and amortization expense increased to \$143,199 as a result of the higher depreciation due to recent acquisition offset by a decrease on amortization on ROU asset. Increasing legal and professional fees and stock compensation drove other operating expenses to \$575,824. Interest expense decreased from \$188,501, to \$55,486. Net loss was \$161,788, as compared to a net income of \$538 for the three months ended September 2020. This increase in net loss is primarily attributable to increase in salaries and wages and other expenses. *While Covid continued to pressure top line growth year over year, the long-term outlook is still very positive in our view if the company can execute on the enormous RAS market opportunity.*
- Blue Star announced continued advancement of RAS facility in British Columbia and NASDAQ Uplisting.** The company's common stock was approved to list on the NASDAQ Capital Market under the symbol "BSFC" and started trading on November 3, 2021. The company additionally consummated an underwritten public offering price of \$5 per share for total gross proceeds of \$4 million, before deducting underwriting discounts, commissions, and other expenses. Blue Star's RAS division selected Deep Bay, British Columbia as the location for its new land based 1,500 metric ton steelhead salmon farming facility. Taste of BC additionally has made progress on the preliminary design of the new facility with its engineering partner PR Aqua, ULC.
- 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

Price- Volume History



Source: Yahoo Finance

Key Statistics

Price (As of 11/30/2021)	\$2.95
Valuation	\$10.00
52 Week Range	\$1.01-\$8.00
Average Daily Volume	34,409
Shares Outstanding (M)	23.34
Market Capitalization (M)	72.49
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	3.73A	11.31E
4Q	2.69A	5.79E	14.92E
FY	14.11A	14.13E	45.23E

EPS(\$)

Dec. FY	2020A	2021E	2022E
1Q	(0.05)A	(0.03)A	0.01E
2Q	(0.20)A	(0.02)A	0.02E
3Q	(0.00)A	(0.01)A	0.02E
4Q	(0.01)A	(0.01)E	0.04E
FY	(0.25)A	(0.04)E	0.08E

Third Quarter 2021 Results

For the three months ending September 30, 2021, Blue Star Foods Corp. (“BSFC”) reported total revenue of \$3.73 million, as compared to \$3.98 million for the same period last year, primarily due to the decrease in poundage sold because of the COVID-19 pandemic. BSFC’s net loss for Q3 2021 was \$161,788, compared to a net income of \$538 in the year-ago period. The extent to which BSFC will be affected by COVID-19 will largely depend on future developments and restrictions including around variants, which may disrupt interactions with customers, suppliers, staff and advisors which cannot be accurately predicted, including the duration and scope of the pandemic, governmental and business responses to the pandemic and the impact on the global economy, customers’ demand for products, and BSFC’s ability to provide products.

Liquidity and Balance Sheet

As of September 30, 2021, BSFC’s cash and cash equivalents were equal to \$0.20 million, as compared to \$0.06 million on December 31, 2020. Total current assets increased by 6.1% to \$5,018,892; current liabilities decreased by approximately 20% to \$5,844,769 as of September 30, 2021. BSFC has long-term debt of \$31,531, an increase from \$0 on December 31, 2020. Net cash used for operating activities during the nine-month period ended September 30, 2021 totaled approximately \$1.0 million, compared to positive operating cash flow in prior period. *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.*

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 Nasdaq stock exchange we believe has further improved 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.
- 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 receives 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

FY Ends on December 31																		
(\$ in M)	FY19A	FY20A	1Q21A	2Q21A	3Q21A	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	3.73	5.79	14.13	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	3.06	4.63	11.05	6.76	7.44	8.45	10.87	33.52	37.72	38.89	44.34	53.50	73.43	99.49
Gross Profit	3.22	1.49	0.30	0.57	0.67	1.16	3.08	2.28	2.51	2.85	4.06	11.70	19.42	20.07	27.81	41.69	73.49	127.01
Costs & Expenses																		
Commissions	0.11	0.10	0.00	0.01	0.02	0.01	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	0.42	0.58	1.44	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	0.14	0.10	0.39	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	0.58	0.58	1.95	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	6.67	8.67
Total Operating Costs & Expenses	7.17	3.29	0.75	0.94	1.16	1.27	3.99	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)	(0.4922)	(0.11)	(0.91)	0.35	0.40	0.46	0.92	2.12	7.89	8.18	13.61	23.52	46.47	89.86
D&A	0.22	0.27	0.04	0.06	0.14	0.10	0.39	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)	(0.35)	(0.01)	(0.51)	0.53	0.59	0.67	1.19	2.98	9.83	10.18	16.82	28.92	56.91	108.14
Interest Expense, net	1.07	0.87	0.11	0.10	0.06	0.11	0.38	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	(1.75)	0.08	0.03	0.39	0.00	0.50	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)	(0.16)	(0.23)	(0.79)	0.34	0.38	0.44	0.90	2.07	7.84	8.13	13.56	23.47	46.42	89.81
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	1.88	1.95	3.34	5.88	11.75	22.50
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)	(0.16)	(0.23)	(0.79)	0.34	0.38	0.44	0.90	2.07	5.95	6.17	10.22	17.60	34.67	67.31
Discontinued Dividend	0.11	0.11	0.03				0.03											
Adj. Net Income Attributable To Common Shareholders	(5.10)	(4.56)	(0.51)	(0.44)	(0.16)	(0.23)	(0.82)	0.34	0.38	0.44	0.90	2.07	5.95	6.17	10.22	17.60	34.67	67.31
Earnings per Share (Reported) from Cont Ops (in \$)																		
Basic	(0.31)	(0.25)	(0.03)	(0.02)	(0.01)	(0.01)	(0.04)	0.01	0.02	0.02	0.04	0.08	0.22	0.23	0.34	0.50	0.77	1.22
Diluted	(0.31)	(0.25)	(0.03)	(0.02)	(0.01)	(0.01)	(0.04)	0.01	0.02	0.02	0.04	0.08	0.22	0.23	0.34	0.50	0.77	1.22
Weighted Average no. of Shares outstanding (in M)																		
Basic	16.20	18.26	19.59	19.76	23.18	24.18	21.68	24.38	24.58	24.78	24.98	25.18	26.68	27.18	30.18	35.18	45.18	55.18
Diluted	16.20	18.26	19.59	19.76	23.18	24.18	21.68	24.38	24.58	24.78	24.98	25.18	26.68	27.18	30.18	35.18	45.18	55.18

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