

Company Sponsored Research
Update Note
01/13/2022

Packaged Food	
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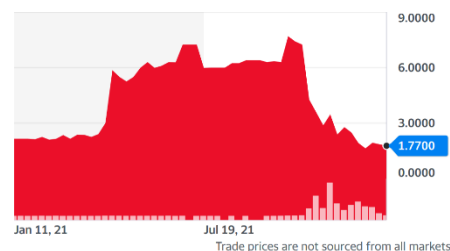
Blue Star Foods Corp. (NASDAQ: BSFC)

Disrupting Atlantic Blue Crab Market

Investment Highlights:

- Blue Star Foods has developed a unique Recirculatory Aquaculture System (RAS) allowing company to potentially achieve higher margins due to RAS's ability to control Atlantic Blue Crabs' molting cycle.** Based on the technology Blue Star possesses, they are seeking to sell higher priced crabs during the off-season, November to March, attributable to the incremental demand and insufficient supply from other blue crab shedding facilities. In early 2022, Blue Star will initiate operations at its pilot facility to optimize the process, train employees, and secure crab supply before moving to the commercial RAS farm in early 2023. Blue Star expects harvest and revenue to experience continuous and steady growth starting in 2022. We believe this is a positive development that allows Blue Star to potentially seize the off-season market opportunity with a high anticipated profit margin.
- "Live Crab in Demand" based on controlling molting cycle.** Blue Star selected soft shell crabs, which are hard-shell crabs going through the molting process. Atlantic Blue Crab or *Callinectes sapidus* were specifically selected, which are harvested along the Gulf Coast of Texas, Louisiana, Florida, and north all the way to New Jersey with high populations found around the Chesapeake Bay. They require an optimal water temperature to molt out of the hard shell, which can be provided by Blue Star's Bio-Plan. The system functions to maintain optimal water conditions in each stage, which is at the core of the engineering and design of the facility allowing "Live Crab in Demand" all year-round. The RAS facility has five stages: inspection, hibernation, ready to molt, molting, and harvesting. The advancement and completion of the RAS facility, we believe is a fundamental step that separates Blue Star apart from its competitors and creates a competitive barrier.
- Valuation models indicate upside potential.** The salmon market is estimated to be approximately \$17 billion globally 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 \$9.00 per share, contingent on successful execution by the company.

Price- Volume History



Source: Yahoo Finance

Key Statistics

Price (As of 01/12/2022)	\$1.77
Valuation	\$9.00
52 Week Range	\$1.01-\$8.00
Average Daily Volume	16,906
Shares Outstanding (M)	24.58
Market Capitalization (M)	43.45
Number of Analysts Covering	1
Enterprise Value/Revenue	6.51

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	16.02E
FY	14.11A	14.13E	46.33E

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	0.08E
FY	(0.25)A	(0.04)E	0.10E

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



Facts Atlantic Blue Crab

WHAT are soft shell crabs (SSC)?

Soft shell crabs are actually "hard shell crabs" that are going through the molting process. This is not a separate species, they are simply getting rid of their old shell as part of the natural growing process.

HOW does the process happen?

To trigger the molting process, the crab releases enzymes which separate its old shell from the underlying skin. Over the course of several weeks, the crab then grows a new, soft, paper-like shell under the old shell. The crab then ingests enough water to bloat itself, loosening the old shell.

WHICH are the best species of SSC?

Among the top rated harvested as soft-shell crab are mud crabs, widely used in Southeast Asia, the Japanese blue crab, velvet crabs of the coast of Malaga in Spain, but the most prominent and best rated species due to its taste is the Atlantic Blue Crab or *Callinectes sapidus*.



Although Atlantic Blue crabs are found along the Atlantic coast the largest biomass is found in the Chesapeake Bay with other biomass areas along the Gulf Coast of Texas, Louisiana and Florida.

WHEN is SSC season?

Soft shell crab season starts in spring through fall along the Gulf Coast, it usually starts in early April and runs through October or early November with slightly shorter seasons along the Chesapeake and East Coast. Soft shell crabs are not in season during the winter months, when we see very few crabs after the water temperature drops below 50°F.

The answer is: the molting process, when crab molts out of its old, hard shell and before its new shell has hardened, they are one of the tastiest treats due to the amount of enzymes enriching the meat. At that exact moment they hold all the crab flavor without any of the hassle of prying meat from its sharp, thick shell, it's basically seafood in its most perfect state.

Source: Blue Star Food Corp. Presentation



Financial Metrics & Projections

Financial metrics and projections for 10 years incremental and cumulative

Summary	
Scalable - Unit Economics	
Facility Capacity at 100% (dz)	270,000
CapEx	11.8M
Time To Production	16 Months
Annual Harvest (dz)	202,500
Annual Revenue	10.7M
Annual Net Income	4.9M
Annual Net Income Margin	46%
Payback Period	36 Months

RAS Model Millions of USD	RAS - Pilot		Scalable Unit economics								
	2022	Apr - Dec 2023	2024	2025	2026	2027	2028	2029	2030	2031	Total
Harvest (dz)	25,000	130,500	202,500	210,375	223,875	223,875	223,875	223,875	223,875	223,875	1,911,625
Revenue	1.1M	6.6M	10.7M	11.2M	11.9M	12.2M	12.4M	12.6M	12.9M	13.1M	104.8M
COGS + OpEx	0.7M	3.9M	5.8M	5.9M	6.0M	6.1M	6.2M	6.3M	6.5M	6.6M	53.9M
Net Income	0.5M	2.7M	4.9M	5.4M	6.0M	6.1M	6.2M	6.3M	6.4M	6.6M	50.9M
Net Income %	40%	40%	46%	48%	50%	50%	50%	50%	50%	50%	49%

RAS Model MM of USD (cumulative)	RAS - Pilot		2024	2025	2026	2027	2028	2029	2030	2031
Harvest (dz)	25,000	155,500	358,000	568,375	792,250	1,016,125	1,240,000	1,463,875	1,687,750	1,911,625
Revenue	1.1M	7.7M	18.4M	29.6M	41.6M	53.7M	66.1M	78.8M	91.7M	104.8M
COGS + OpEx	0.7M	4.6M	10.4M	16.2M	22.2M	28.3M	34.5M	40.9M	47.3M	53.9M
Net Income	0.5M	3.1M	8.0M	13.4M	19.3M	25.4M	31.6M	37.9M	44.4M	50.9M
Net Income %										49%

Source: Blue Star Food Corp. Presentation

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 faces risks related to the current economic environment including supply chain risks such as worker shortages, transportation delays, and various other covid related disruptions.
- 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																			
(C 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	16.02	46.33	63.74	69.67	83.35	107.09	159.13	238.90	
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	33.87	39.67	41.79	47.29	56.50	76.48	102.59	
Gross Profit	3.22	1.49	0.30	0.57	0.67	1.16	3.08	2.28	2.51	2.85	5.16	12.45	24.07	27.87	36.06	50.59	82.64	136.31	
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	0.88	2.07	2.22	3.43	5.63	10.69	18.52	
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	0.52	2.74	3.72	4.59	6.15	9.72	11.77	
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	9.95	13.62	15.01	17.37	21.41	30.32	40.50	
Adj EBIT	(3.95)	(1.80)	(0.44)	(0.37)	(0.4922)	(0.11)	(0.91)	0.35	0.40	0.46	2.02	2.50	10.46	12.86	18.89	29.19	52.32	95.82	
D&A	0.22	0.27	0.04	0.06	0.14	0.10	0.59	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	2.29	3.36	12.40	14.87	21.90	34.58	62.77	114.09	
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	-1.76	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	2.00	2.45	10.40	12.81	18.64	29.13	52.27	95.76	
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																	
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	2.00	2.45	8.52	10.86	15.30	23.26	40.53	73.26	
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	2.00	2.45	8.52	10.86	15.30	23.26	40.53	73.26	
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	0.08	0.10	0.32	0.40	0.51	0.66	0.90	1.33	
Diluted	(0.31)	(0.25)	(0.03)	(0.02)	(0.01)	(0.01)	(0.04)	0.01	0.02	0.02	0.08	0.10	0.32	0.40	0.51	0.66	0.90	1.33	
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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