**March 8, 2024**

# Neptune Point Fisheries Inc. (NPF)

## Situational Assessment & Strategic Option Evaluation

**Prepared for:**
The Board & Shareholders of NPF

**Prepared by:**
Sanderson & Harrop Consulting LLP

## Executive summary

In the following report we examine four strategic proposals for NPF from both a quantitative and qualitative basis while considering the corporation's key objectives and goals.

All proposals have been thoroughly reviewed and the recommendations provided have considered all relevant qualitative and quantitative factors. All recommendations have considered NPF’s key objectives, core values, strategic fit, and market projections. The following four proposals have been evaluated using this process.

The first proposal of investing in Tillyton Salmon Farms Ltd. (TSF) aligns directly with NPF’s mission, vision, and core values. However, per review of qualitative factors, TSF does not align with the key objective of adding two new product lines, as it will only be introducing farmed salmon. Investing in TSF will not increase the annual revenue growth to 10% or the EBITDA margin to 18% by 2026.

Additionally, the investment carries significant financial risk due to the required capital expenditure of $10M. This is largely due to a loan being required in addition to the cash requirement to meet the purchase price, all despite the discount as the equity value is $13.73M compared to the $10M. Based on these factors it is recommended that the TSF investment not be pursued.

The second proposal is the creation of a state-of-the-art cold storage facility. The facility meets the quantitative key objectives of increased revenue growth of 10%- and three-year average EBITDA margin of 18% by 2026. Despite the positive quantitative factors, the cold storage facility does not meet any qualitative goals that NPF has outlined. The facility won’t provide any further products under the Neptune’s Tasties brand, as it would be considered a service rather than a product.

Cold storage facilities have seen increasing demand, but the capital required for the building would be $8.25M in addition to maintenance of state-of-the-art technology being utilized at the facility.

Based on the work performed and analysis of NPF’s corporate objectives, it is recommended that NPF doesn’t move forward with the cold storage facility proposal.

The third proposal is building out multiple seafood retail stores. This option shows significant promise from a quantitative perspective as there is less upfront investment, $5.25M, compared to the other proposals. Additionally, once the stores are running, they will be able to financially sustain themselves based on the projections performed. Despite the lower entry cost and sustainability, the locations would not meet NPF’s key objective of an 18% 3-year average EBITDA margin.

The retail location's largest deficiency is that of the alignment with NPF’s mission, vision and values or key objectives. None of these qualitative factors are met and therefore, it is recommended that the proposal not be pursued.
The fourth and final proposal is the acquisition of Cabot Bay Fisheries Inc. (CBF). This proposal shows promise as it meets NPF’s quantitative objectives regarding average EBITDA margin of 18% and revenue growth of 10% by 2026. In addition, CBF has positive strategic alignment with NPF’s mission, vision, and values. The additional product offering will help NPF grow their customer base and meet the key objective of having three products under the brand Neptune’s Tasties. Due to the positive qualitative and quantitative fit, it is recommended that NPF pursue 100% acquisition of CBF.

Other Items that have been analyzed include but not limited to:
- Review of NPF vision, mission, and values.
- If NPF’s core values are being met.
- Key success factors/stakeholder preferences.
- Constraints that NPF may encounter.
- Financial analysis and assessment.

Detailed appendices and exhibits containing all quantitative and qualitative analysis are used for the above recommendations. Further analysis and expansion of factors to be considered for each proposal are also provided.

In conclusion, this report recommends that NPF pursue 100% acquisition of CBF over other strategies to achieve future corporate objectives.

Table of Contents

## Introduction

In this report, we will analyze the four strategic options that NPF is considering. The profitability of each option will be assessed, as well as the alignment with NPF's mission, vision, values, and key financial objectives. The advantages and disadvantages will also be reviewed, along with an overall recommendation on which option to pursue, how to implement it, and how it will impact NPF financially. The options being considered are:

1. Invest in Tillyton Salmon Farms Ltd. (TSF)
2. Expand cold storage facilities.
3. Open seafood retail locations.
4. Acquire Cabot Bay Fisheries Inc. (CBF)

Additionally, we will assess NPF's current mission, vision, and values, performance on key success factors, current strategy, and constraints. Financial analysis will be performed, and financing will be discussed as well. Finally, we will discuss the operational issues NPF is facing and provide recommendations.

## Situational Analysis

### Vision

The purpose of a vision statement is to depict an organization's future direction and inspire and guide its internal audience. NPF's vision statement is forward-looking and emphasizes its dedication to delivering quality products to customers, which aligns with the company's core values. However, it should integrate NPF's active involvement in sustainable practices which contribute to NPF's vision of a 'future with thriving natural seafood populations.'

### Mission

A mission statement should articulate a company's strategic direction, fundamental purpose, and guiding principles. NPF's mission statement expresses the company's purpose and principles of delivering sustainable, high-quality seafood products while protecting the ocean. However, it should also include its value proposition of offering MSC certified products, its strategic direction, and specify the key customer group & geographic reach (Eastern Canada).

### Core Values

- Build long-term, loyal, and trustworthy relationships with local fishing enterprises.
    - **MET**: NPF has built a good reputation with local fishing enterprises and is well known in the industry for their team's experience and commitment to sustainable practices.
- Continually improve our harvesting and processing procedures to embrace best practices, benchmark against the industry's best, and maintain MSC and BRCGS certifications in good standing.
    - **MET**: NPF continually invests in its equipment to improve operational efficiency. They have maintained their certifications with excellent ratings.

- Nurture our brand by ensuring that our products continue to exceed customer expectations.
    - **PARTIALLY MET:** NPF has well positioned their brand, Neptune's Tasties, to be known for high quality and ethically sourced products. However, NPF competes with many companies who offer a wider product mix at affordable prices.
- Treat our crews and employees with respect and ensure that a safe working environment is our number one priority.
    - **MET**: NPF treats their staff members with respect, as reflected in the company's low employee turnover rate. The company has an experienced captain who ensures a safe working environment.
- Respect and protect the environment and the fish populations for future generations.
    - **MET**: NPF is dedicated to sustainable fishing and business practices.

**Key Success Factors**

| **Key Success Factor** | **NPF's Current Performance** |
|---|---|
| Established relationships with suppliers, distributors, and partners | **PARTIALLY MET**: NPF has a strong local reputation in the seafood industry, however, does not have many long-term customer contracts with larger companies. |
| Vertical integration | **MET**: NPF harvests and processes seafood, and they sell products to wholesalers. |
| Diverse product offerings | **NOT MET**: NPF only offers two types of seafood: halibut and shrimp. |
| Strong brand name recognition and reputation | **MET**: NPF's brand, Neptune's Tasties, is known for its high quality and ethically sourced products. |
| Investment in new technologies and innovations | **PARTIALLY MET**: NPF invests in equipment to improve operational efficiency but does not focus on research & development or data analytics. |

**Key Stakeholder Preferences**

1. Colan McPherson
    - Embraces innovations for current operations but risk-averse towards new strategies.
    - Believes in protecting the ocean for future generations.
2. Yvonne McPherson
    - Believes in expanding NPF's product mix to attract more customers.
    - Prioritizes having a strong brand recognition.
3. Kurt McPherson
    - Interested in reducing operating costs and environmental impact.
    - Prefers interacting with employees over paperwork.
4. Allan McPherson
    - Willing to take risks if there is support.
    - Believes in adopting and improving new technologies.

**Current Strategy**

NPF prioritizes quality and sustainably sourced shrimp and Greenland halibut. This has helped position NPF as a highly reputable and ethical company within the industry and to customers. However, NPF's revenues are subject to fluctuating quota limits and market prices. These factors have resulted in unstable revenues and recent declining profits. Furthermore, there is a significant risk in relying on two species and having seasonal operations. NPF also focuses on technological improvements to reduce operating costs and maximize profits. In addition to vertically integrating processes, this strategy has helped NPF minimize operating costs.

**Key Constraints**

**Qualitative Constraints**

- Quota limits: The amount NPF can harvest is restricted by regulated quotas and NPF only harvests two species.
- MSC certification: NPF can only purchase from other MSC certified suppliers.
- Dividend policy: NPF prefers not to pay dividends to keep excess cash for unexpected expenses.

**Quantitative Constraints**

- Debt-to-assets ratio: Cannot exceed 60%.
- Line of credit: Can borrow up to $2 million.
- Term loan: Requires annual principal payments of $500,000.

**Key Objectives**

By 2026, the company's key objectives are the following:

- Increase annual revenue by 10%
- Have 3 different product offerings under the brand Neptune's Tasties
- Add two additional product lines.
- Increase three-year average EBITDA margin to 18%

**Financial Analysis and Assessment**
Refer to Exhibit 1.0 - Financial Ratio Analysis

**Liquidity**
NPF's current ratio has experienced a downward trend over the past three years, decreasing from 0.8 in 2022 to 0.6 in 2023. This ratio is significantly below the industry benchmark of 2.50, which indicates potential liquidity issues. NPF may encounter difficulties in converting their current assets into cash to meet short-term obligations, such as their line of credit or trade payables.

**Solvency**
The total debt-to-assets ratio for NPF has steadily declined over the past three years to 46.8% in 2023, which is well below the industry average and Colan's expectation of 60%. This aligns with NPF's conservative strategy of maintaining a strong balance sheet with minimal debt to navigate industry fluctuations. The ratio reflects NPF's financial stability, and they do not heavily rely on external financing.

**Profitability**
NPF's 2023 net profit margin of 4.7% is below the industry average of 8.6%. This is an indication that NPF is less effective in generating profits from the firm's investments compared to its industry peers, which impacts NPF's net profit margins.

**Financing**
NPF has access to two additional sources of financing. They have an option to raise finance through debt with a term loan or through equity by issuing preferred shares.

**Term Loan: Merit Credit Union (Debt):** Merit Credit Union has offered NPF a loan of $8M, secured by vessel Charlie K, the processing plant and any new property, plant, and equipment. Interest is 8% on the loan, payable monthly. The entire principal is due at the end of the term of the loan, in 10 years.

**Issuance of Preferred Shares: Michelle Paterson (Equity):** Michelle, Yvonne's sister wants to invest $5M in NPF. She will be eligible for a cumulative dividend of 6% annually. Michelle is a lawyer by professing specializing in regulatory compliance in the fishing and seafood industry. She will be a voting member on the board and be part of the executive management team.

**Internal & External Analysis**
See Appendix I and II.

## Proposal #1: Invest in Tillyton Salmon Farms Ltd. (TSF)

### Quantitative Analysis

### Valuation

A discounted cash flow valuation (Exhibit 1.1) of TSF was completed and valued at $45.78 million. A 30% share would be worth $13.73 million. The purchase price is $10m. Therefore, NPF would purchase TSF at a discount making it an attractive investment opportunity from a quantitative standpoint.

TSF's FMV of net assets is $33.348m, therefore a 30% would be $10 million. The equity value (NPF's share) is $13.73 and therefore NPF would be buying TSF at a bargain. The equity value is greater than the FMV of net assets and could be attributed to TSF's revenue growth, suggesting the presence of goodwill owing to its optimized technology and operations.

### Financial Key Objectives

Exhibit 1.2.

| | |
|---|---|
| Annual revenue growth of 10% by 2026 | **Not Met** |
| Three-year average EBITDA margin of 18% by 2026 | **Not Met** |

### Uncertainty of Assumptions and Missing Costs

1. TSF assumes 10% of the harvest will not survive. If this percentage increases, the valuation would be impacted as revenue drops.
2. The spot selling price determines the selling price. Therefore, the price is likely to change daily. If the price drops steadily, it could impact the revenues, cash flow and the valuation of TSF.
3. The 15% discount rate used is based on the level of risk associated with an investment in TSF. If the risk associated with the investment increases, the equity value of TSF would drop.
4. TSF may need a line of credit to improve the cash flow in 2024 (exhibit 1.1). Therefore, interest expense should be considered.

### Qualitative Analysis

### Key Objectives

| | |
|---|---|
| Have 3 different product offerings under their brand Neptune's Tasties by 2026 | **Met** - NPF would sell salmon, shrimp, and halibut. |
| Add two additional product lines by 2026. | **Not Met** – Only farmed salmon will be added. |

**Strategic Alignment**

| | | |
|---|---|---|
| Mission | Aligned | Like NPF, TSF wants to grow and harvest high-quality and tasty salmon. TSF is committed to ethical and sustainable practices for aquaculture. |
| Vision | Aligned | With farmed salmon, NPF can be assured that the ocean salmon will continue to thrive as customer demand is met with farmed harvest. |
| Core | Partially Aligned | Both TSF and NPF want to ensure that the best breeding and harvesting practices are adopted and want to maintain the fish population. Partially aligned as limited information exists on how TSF exceeds customer's expectation and treat crew and employees |

**Pros**

1. Farmed fishing provides stable revenue for NPF, addressing concerns about quota limits and declining fish populations affected by environmental challenges such as global warming-induced droughts. [1]
2. Jerod and Lydia, seafood farming experts, can bring valuable insights to NPF through their association with TSF, enhancing decision-making.
3. Year-round harvesting can boost NPF revenue and profitability compared to seasonal operations
4. Aquaculture minimizes overfishing risk, aligning with NPF and TSF's commitment to sustainable seafood practices.

**Cons**

1. There is reputational risk involved in farming salmon as it is known to use antibiotics and pesticides. This could drive down demand, thereby reducing the profits earned by NPF.
2. NPF will only have significant influence over TSF, not control – Jerod and Lydia will own 70% of TSF together and therefore have the final say in any decisions for TSF.
3. There is a threat that other countries like the USA would be able to produce farmed seafood at much cheaper prices, thereby reducing the demand for local salmon.
4. Populated cages increase stress in fish which reduces their immunity to fight diseases[2]. This could impact the quantity of salmon harvested and impact profitability of TSF.

[1] https://www.pac.dfo-mpo.gc.ca/pacific-smon-pacifique/environmental-impacts-environnementaux-eng.html

[2] https://spca.bc.ca/programs-services/farm-animal-programs/farm-animal-production/fish-farming/

**Financing Requirements**
To acquire 30% of TSF, NPF needs $10M for purchasing shares. NPF currently has access to an $8M Merit Credit Union term loan (debt) and $5M from a potential preferred share issuance (equity) to Michelle Patterson.

NPF's shareholders prefer for the debt-to-assets ratio to not exceed 60%, therefore the company can borrow a maximum of $9.233M from debt financing resources (Exhibit 1.3), which exceeds the total of $8M term loan. Therefore, $5M preferred shares from Michelle Patterson are needed to cover the rest of the $2M financing requirement of this proposal.

**Financial Reporting Implications**
- IAS 41: TSF's agricultural inventories (salmon) are classified as biological assets and should be measured using the net realizable model at fair value less estimated selling costs.
- IAS 28: The investment in TSF will be recorded under the equity method. Consolidated financial statements are not required as NPF will have significant influence (not control).

**Tax Implications**
- Investment income from TSF will be taxed at 34% (NPF's tax rate).
- Capital dividends paid out of TSF's capital dividend account are tax-free to NPF.

## Proposal #2: Cold Storage Facility

### Quantitative Analysis

**Net Present Value**
Per Exhibit 2.1, the net present value of the Cold Storage Facility proposal is $2.58M. Based on this, the Cold Storage Facility would provide a consistent revenue stream for NPF. Therefore, this appears to be a profitable investment that can add value to NPF.

**Key Objectives**
Refer to Exhibit 2.2.

| | |
|---|---|
| Annual revenue growth of 10% by 2026 | **Met** |
| Three-year average EBITDA margin of 18% by 2026 | **Met** |

**Analysis Assumptions/Missing Costs**

- Cash flow projections are based on estimates provided by Allan McPherson - these figures are approximations and projections may differ from actuals.
- It is assumed that 75% capacity will consistently be obtained year-to-year.
- Assuming seafood quota's year-to-year won't positively/negatively affect the market as a whole.
- A spoilage allotment should be recorded based on facilities with similar technology.
- Assumptions that materials needed for construction are readily available for the operational target of 2025. Backorders should be considered.

### Qualitative Analysis

**Cold Storage Facility Sector**

- NFP could take advantage of Canada's Department of Fisheries and Oceans (DFO) investing over CAD $25M in fishing and processing.[3]
- Significant surge in online grocery shopping has increased demand for cold storage facilities.[4]
- Vendors are putting an emphasis on having inventory stored at a facility with the latest technology to ensure quality products for the customer.

---

3 https://www.seafoodsource.com/news/supply-trade/canada-dfo-announces-over-cad-25-million-of-investments-in-newfoundland-fishing-and-processing#:~:text=Canada's%20Department%20of%20Fisheries%20and,province%20of%20Newfoundland%20and%20Labrador.

4 https://www.globenewswire.com/en/news-release/2023/11/30/2788337/28124/en/Global-Cold-Storage-Construction-Industry-Report-2023-Market-to-Reach-32-8-Billion-by-2030-U-S-Market-is-Estimated-at-3-1-Billion-While-China-is-Forecast-to-Grow-at-16-4-CAGR.html

**Relation to NPF Objectives**

| | |
|---|---|
| Have 3 different product offerings under their brand Neptune's Tasties by 2026 | **Not Met.** Cold storage would add a service but not a product line. |
| Add two additional product lines by 2026. | **Not Met.** Cold storage would add a service but not a product line. |

**Strategic Alignment**

| | | |
|---|---|---|
| Mission | **Aligned** | Cold storage would meet the requirements of having state of the art technology and create an environment for a consistent product for the end customer. |
| Vision | **Aligned** | Cold storage facility would allow for greater preservation of foods resulting in delivering quality seafood to international customers. |
| Values | **Partially Aligned** | The cold storage facilities are aligned with the majority of NPF's five core values. |

**Pros**

- Creates further diversification of NPF's revenue streams and increased cash flows to allow for further internal expansion or improvements.
- Demand for state-of-the-art cold storage facilities is increasing in the industry, reducing risk of investment for NPF.
- Latest trends in food preferences lend themselves to having a facility with the most up to date food preservation technology like the ones NPF is considering.
- Creates more jobs in the community which NPF prides themselves on supporting.

**Cons**

- Significant capital expenditure is required to enter the market as well as staying up to date technologically over time, resulting in expensive upkeep.
- NPF would take on significant liability for storage of third parties supplies due to wastage, which would result in more expensive and scarce insurance providers willing to insure the space and inventory.
- Seafood populations are on the decline which could result in smaller quotas and therefore excess capacity for NPF's facility, creating inefficiencies.
- Allows for introduction of another revenue stream but does not help NPF in introducing a new product line for consumers.

**Financing Requirements**

To invest in a cold storage facility, NPF will need $8.25M in cash for initial investments. NPF currently has access to an $8M Merit Credit Union term loan (debt) and $5M from a potential preferred share issuance (equity) to Michelle Patterson.

NPF's shareholders prefer for the debt-to-assets ratio to not exceed 60%, therefore the company can only borrow a maximum of $8.18M from the debt financing resources, which is not enough for the initial investment (see Exhibit 2.3). The remaining can be funded by NPF's current cash on hand (Exhibit 2.3). With this financing combination, NPF will have sufficient funds for this proposal while still maintaining their debt-to-assets ratio under 60%.

**Financial Reporting Implications**

- IAS 16: Building and equipment will be capitalized and amortized over their estimated useful lives.
- IAS 2: Normal spoilage costs are recorded as part of inventory, and abnormal spoilage is expensed in the period it occurs.

**Tax Implications**

- The building qualifies for CCA of 6%, and the equipment qualifies for CCA of 20% and accelerated investment incentive.
- Any capital gain from the sale of land will be taxed on disposal.
- Upon disposal of the building, any recapture or terminal loss must be recognized. Capital losses from the building can offset land capital gains, reducing overall tax liability. Unused losses can be carried forward indefinitely.

## Proposal #3: Seafood Retail Locations

### Quantitative Analysis

**Net Present Value**
Exhibit 3.1 shows that this proposal has an NPV of $7.2M, which means that it is a viable option from a quantitative perspective because NPF would gain money.

**Cash Flow Projection**
Exhibit 3.2 shows that NPF would have negative cash flows in the first two years and positive cash flows thereafter. This is a positive sign because it means that the stores will be able to sustain themselves once they are up and running.

**Key Objectives**
Refer to Exhibit 3.3.

| | |
|---|---|
| Annual revenue growth of 10% by 2026 | **Met** |
| Three-year average EBITDA margin of 18% by 2026 | **Not Met** |

**Assumption Uncertainty & Missing Costs**
- The revenue and expense estimates provided may not be accurate, which would impact on the NPV and cash flow projection. NPF does not have the historical financial data for Larina's business.
- Does not consider unexpected costs that may be incurred. This would worsen the projections.
- Financing costs are not considered. Interest would reduce the NPV and cash flows.

### Qualitative Analysis

**NPF's Key Objectives**

| | |
|---|---|
| Have 3 different product offerings under their brand Neptune's Tasties by 2026 | **Not met.** NPF would create a new brand name for the stores. |
| Add two additional product lines by 2026. | **Undetermined.** It is unclear if NPF will add new product lines. |

**Strategic Alignment**

| | | |
|---|---|---|
| Mission | **Partially Aligned** | NPF would sell high quality products but cannot guarantee that they are ethically sourced if they come from outside suppliers. |
| Vision | **Not Aligned** | NPF would sell its products to local restaurants and consumers, not across the globe. |
| Values | **Partially Aligned** | This proposal aligns with most of NPF's values. However, it is questionable whether they can maintain their MSC and BRCGS certifications. |

**Pros**

- The landlord will paint the stores and remove outdated equipment. These improvements could attract more customers and increase revenue.
- Larina will help NPF run the business and build relationships with suppliers during the first year. This can help lower costs and increase EBITDA.
- Expanding into retail can increase brand awareness for NPF, resulting in customer loyalty and an increase in revenue.
- Provides stable revenue all year round. Retail sales of fish and seafood in Canada are expected to grow to $6.4 billion by 2027, compared to $5.4 billion in 2022.[5]

**Cons**

- NPF may compete with its own customers if it opens retail stores, which could decrease overall revenue.
- NPF does not have experience in the retail industry, which has strong competition. This may impact profits.
- NPF would rely on various suppliers to obtain products to sell. If there is a disruption in supply, customers may become frustrated and seek other stores for their needs.
- NPF's MSC certification is at risk if suppliers are not following sustainable fishing practices. A 2021 study found that 50% of consumers are becoming more eco-friendly, so it is important that NPF does not break its trust with consumers since it could harm their reputation of being ethical.[6]

**Financing Requirements**

To invest in opening retail stores, NPF will need $5.25M in cash for initial investment in equipment and leasehold improvements. NPF currently has access to an $8M Merit Credit Union term loan (debt) and $5M from a potential preferred share issuance (equity) to Michelle Patterson.

---

[5] https://agriculture.canada.ca/en/international-trade/market-intelligence/reports/sector-trend-analysis-fish-and-seafood-trends-canada

[6] https://theroundup.org/environmentally-conscious-consumer-statistics/

NPF’s shareholders prefer the debt-to-assets ratio to not exceed 60%, therefore, the company can only borrow a maximum of $6.38M from debt financing resources (Exhibit 3.4). The $8M Merit Credit Union term loan is sufficient to cover this proposal.

**Financial Reporting Implications**

- IFRS 16: Record the lease ROU asset and liability at cost, amortized over the five-year lease.
- IAS 16: Amortize leasehold improvements over its useful life, and the useful life may be renewed to align with the lease agreement.

**Tax Implications**

- Income tax rate of the seafood retail stores will be 30%.
- If new equipment or leasehold improvements uses a CCA of 20% to amortize, any recaptures or terminal loss at the end of five-year need to be applied after disposal.

## Proposal #4: Acquire Cabot Bay Fisheries Inc. (CBF)

### Quantitative Analysis

**Valuation of CBF**

Exhibit 4.1 values 100% of CBF's equity at $15.7M. Under Option 1, acquiring 60% of CBF would result in a $1.94M discount. Under Option 2, acquiring 100% of CBF would result in a $3.23M discount. NPF can acquire CBF at a discount under either option, which makes this an attractive investment.

**Key Objectives**

Refer to Exhibit 4.2.

| | |
|---|---|
| Annual revenue growth of 10% by 2026 | **Met for both options.** |
| Three-year average EBITDA margin of 18% by 2026 | **Met for both options.** |

**Assumption Uncertainty**

CBF's valuation is based on unaudited operating income figures provided by the sole shareholder of CBF, David Capriola. These amounts may be overstated to appear more attractive. The use of a 6.7 times free cash flow industry multiple is an estimate as operating expenses, margins, and revenues may vary among companies.

### Qualitative Analysis

**External Analysis**

The snow crab segment in Eastern Canada is experiencing rapid growth over the recent years, driven by increasing crab quotas and record prices. The export value of snow crab from Eastern Canada was estimated to grow to over $1 billion in 2023.[7] Local communities in Eastern Canada oppose foreign ownership in the fishing and seafood industry as they believe it hurts smaller businesses.[8]

**NPF's Key Objectives**

| | |
|---|---|
| Have 3 different product offerings under their brand Neptune's Tasties by 2026 | **Met.** The three products will be snow crab, shrimp, and Greenland halibut. |
| Add two additional product lines by 2026. | **Not met.** Only one additional product line will be added (snow crab). |

[7] https://www.saltwire.com/atlantic-canada/business/snow-crabbers-set-for-a-billion-dollar-haul-in-newfoundland-and-labrador-100714456/

[8] https://www.saltwire.com/atlantic-canada/business/nl-releases-report-on-foreign-investment-in-fish-processing-100787849/

**Strategic Alignment**

| | | |
|---|---|---|
| Mission | **Partially aligned** | Similar to NPF, CBF prioritizes premium products, and ethical & sustainable business practices. However, CBF has less of a focus on using state-of-the-art equipment. |
| Vision | **Aligned** | CBF's high-quality products will help NPF achieve their vision of delivering exceptional & sustainable seafood to customers. |
| Values | **Aligned** | CBF aligns with all five of NPF's core values. |

**Pros**

- Cost-saving synergies and acquiring shrimp processing customers from CBF's customer base can help NPF lower operating costs and increase EBITDA revenues.
- CBF's products are sustainable and high quality, which aligns with NPF's vision and core values.
- Snow crab segment is expected to rapidly grow, which can contribute to the target of 10% annual revenue growth.
- Two existing employees at CBF can take on management roles, which will save NPF hiring/training costs.

**Cons**

- The snow crab segment remains susceptible to fluctuations in selling prices and quotas, which could negatively impact NPF's revenue and EBITDA.
- Poor reputation of foreign investment from locals could negatively impact NPF's revenue.
- NPF is not experienced with the snow crab segment which could hinder operations and revenue growth.
- NPF would not meet their key objective of adding two additional product lines, as CBF only has one product line.

**Financing Requirements**

To acquire CBF's shares, NPF will need $7.5M in cash for 60% of ownership, and NPF has access to an additional $5M note payable to David for the remaining 40%. NPF currently has access to a $8M Merit Credit Union term loan (debt), and $5M from a potential preferred share issuance (equity) to Michelle Patterson, for a total of $13M.

Per Exhibit 4.3, the company can borrow up to $10.4M of debt to acquire 60% of CBF, and up to $10.2M of debt to acquire 100% of CBF while still maintaining the debt-to-assets ratio of 60%. NPF has sufficient funds to finance either option.

**Financial Reporting Implications**

- IFRS 10: NPF will acquire control of CBF which requires consolidated financial statements. Intercompany transactions/balances should be eliminated.
- IFRS 3: Any non-controlling interest and/or goodwill from the acquisition must be recorded.

**Tax Implications**

- CBF will have a deemed year end immediately before the acquisition.
- Net capital losses, Allowable Business Investment Loss, and non-capital losses from property expire at the deemed year end if not utilized. Non-capital losses become restricted and may potentially be carried forward if certain criteria are met.

**Recommendations**

**Decision Matrix Criteria**

1. Strategic Fit: Whether the proposal fits with NPF's vision, mission, and values of the company.
2. Long-term sustainability: How the new investment will help NPF grow revenue, stabilize their profit margins to be able to grow and sustain themselves.
3. Meeting Goals and Objectives: The strategic option chosen should achieve the goals for NPF by 2026 that were set out by the board as outlined on Page 10.
4. Upfront investment required and availability: The amount of money required to invest in a proposal and whether NPF will be able to secure finance to facilitate the investment.
5. Competitive advantage and other considerations: Anything that may improve NPF's position as compared to competitors.

| Strategic option | Strategic fit (Vision, mission, values) | Long-term Sustain-ability | Meeting company goals and objectives | Upfront investment required and financing availability | Competitive advantage & other considerations |
|---|---|---|---|---|---|
| Invest in TSF | ✓ | X | X | $10m upfront; $8m debt and $5m preferred shares | Would not be weather dependent.<br><br>Operations can continue all year round to meet the growing demand over the next 25 years. |
| Cold storage facility expansion | ✓ | ✓ | × | $4.93M. Financing available | Creates an additional revenue stream. Also allowing for control of high product transportation standards from catch to vendor. |
| Open seafood retail locations | × | ✓ | × | $5.25M; financing available | Would provide revenue year-round. Retail sales of seafood is a growing segment in Canada. |

| | | | | | |
|---|---|---|---|---|---|
| Acquire 100% of CBF | ✓ | ✓ | ✓ | $12.5M. Financing available | Introduces a new product offering (snow crab) that has a rapidly growing segment and integrates an additional processing plant.<br><br>Synergies can reduce costs and increase EBITDA and revenue. |

**Recommendations based on decision matrix**

**Do not invest in TSF**

- TSF is aligned with NPF's mission, vision & core values and NPF would be associated with farmed fishing which promotes sustainable fishing practices.
- Will not meet NPF's key objective of adding two more product lines by 2026, as only farmed salmon will be the additional product line.
- The only cash flow that they will receive from TSF will be dividend income, only if declared.
- Since NPF will own 30% of TSF, any share of net income will be recognized as equity income and not contribute to NPF's revenue growth.

**Do not expand cold storage facilities**

- The cold storage facility is aligned with NPF's vision and mission to deliver high quality products using the latest technology.
- Appears to be sustainable in the long-term as it increases NPF's annual revenues and EBITDA .
- NPF has sufficient financing for this proposal.
- This proposal does not meet any qualitative key objectives such as creating a new product line under Neptune's Tasties or a new product under NPF.
- Hurdles around obtaining insurance for cold storage facilities can result in significant risk surrounding liability costs for NPF.

**Do not open seafood retail locations**

- NPF would be relying on outside suppliers for products, which puts its MSC and BRCGS certifications at risk if the suppliers are using unsustainable fishing practices.
- NPF would not be adding any new product lines under this option, which goes against the company's key objectives.
- Although NPF would achieve a 17.8% revenue growth rate by 2026, they would not reach the 18% three-year average EBITDA margin objective.
- This is a risky option because NPF does not have any experience in the retail industry, which is a highly competitive industry.

**Acquire 100% of CBF**

- The snow crab segment in Eastern Canada has been rapidly growing with increasing quotas and prices, which can contribute to revenue growth.
- NPF has sufficient financing available and can acquire CBF at a discount, making this a viable investment.
- CBF's products are sustainable and high quality which aligns with NPF's values. This acquisition will help NPF meet the key objective of having three products under the Neptune's Tasties brand.
- Cost-saving synergies, in addition to acquiring additional shrimp processing customers from CBF's customer base, can help NPF lower operating costs, and increase EBITDA and revenues.
- Acquiring CBF can help NPF vertically and horizontally integrate with an additional species and processing plant to improve competitiveness.

**Overall Strategy**

We recommend that NPF acquire 100% of CBF and reject the other strategic options, which will allow NPF to have full control and not be affected by the influence of foreign investments if NPF were to acquire 60% of CBF. The other strategic options do not allow NPF to achieve its goals and objectives, maintain its long-term sustainability, or do not align with its operating strategy. Acquiring a new snow crab processing plant not only diversifies NPF's product lines and income by introducing a new product, but also vertically integrates an additional processing plant to help NPF earn more market shares among other fragmented companies in the fishing and seafood industry to compete with the larger competitors by reducing shipping and admin costs.

**Implementation Plan - Operational Issues**

| Task | Time Frame | Champion | Cost (Estimated) | Other |
|---|---|---|---|---|
| Revise mission & vision statements | Immediately | All stakeholders | N/A | Board approval required for implementation. |
| Ethical issues - Quota limit reporting | Immediately | All stakeholders | $40K Implementation costs of tracking system for suppliers' quota limits<br><br>$60K Annual audit costs | Establish tracing system and internal audit team to audit supplier quota limits |
| Gender Inequality | Immediately | Allan McPherson, Jonathan Patterson | N/A | Establish support groups within the company and provide sensitivity training for all employees. |
| Regulatory compliance | Immediately | All stakeholders | N/A | Establish email notifications, schedule monthly compliance meetings compliance (department heads), and monthly system checks (managers). |
| Shrimp Oil Production | After considering all quantitative and qualitative factors | Kurt McPherson | $640K - new equipment cost | Board approval required for implementation. |
| Lease or Buy - Shrimp Oil Equipment | As soon as the board approves of the shrimp oil | Kurt McPherson | $15K delivery costs for equipment | Board approval required for implementation. |

| | | | | |
|---|---|---|---|---|
| | production | | | |
| MSC Chain of Custody (CoC) Certification | Immediately | Kurt McPherson, Allan McPherson | $250K - one-time MSC assessment fee, and implementation costs for CoC tracking system.<br><br>$120K Annual internal audit and IT costs | Board approval required for implementation. |
| Retirement Income - Tax planning | At retirement (65 years) or before the age of 71 years | Colan & Yvonne McPherson | N/A | To determine how and when they would like to withdraw funds from the RRIF |

**Implementation Plan - Acquire CBF**

| Task | Time Frame | Champion | Cost | Other |
|---|---|---|---|---|
| Financing of Purchase - Board Approval | Immediately | Stakeholders | N/A | Board approval for initiation. |
| Financing of Purchase - Obtain Funding from David | Immediately | Stakeholders | $5M | Board approval required. |
| Financing of Purchase - Merit Credit Union | Immediately | Stakeholders | $7.5M | Board approval required. |
| Purchase Contracts | Immediately | Allan McPherson & | N/A | Must reach out to the legal |

| | | | | |
|---|---|---|---|---|
| | | Colan McPherson | | team to generate legal documents for purchase. |
| Governance Structure Changes | Immediately | Allan McPherson<br><br>Colan McPherson<br><br>Kurt McPherson | N/A | Determine management structure, information processes, and overall operational requirements. |
| Regulatory Compliance | Immediately | Allan McPherson | N/A | Meet with the accounting and legal team to determine all government regulations and reporting requirements are being met. |
| Process & Procedures Review / Implementation | After Purchase | Stakeholders & Management | N/A | Review, adjust and/or implement applicable procedures to CBF facilities that will be synergistic with that of NPF. |

**Financial Forecast & Recommendation**
Refer to Exhibit 5.1 for pro-forma financial statements.

With the acquisition of CBF, NPF's pro-forma income statement appears to be profitable from 2024-2028, with strong annual revenue growth and EBITDA margins. The debt to assets ratio remains under 60% from 2024-2028 per the pro-forma balance sheet. These statements assume an acquisition date of July 1, 2024.

**Key Objectives & Debt-to-Assets Ratio**
Refer to Exhibit 5.1 for detailed calculations.

**Financial Key Objectives & Debt-to-Assets Target Ratio**

| | |
|---|---|
| Annual revenue growth of 10% by 2026 | **Met.** |
| Three-year average EBITDA margin of 18% by 2026 | **Met.** |
| Debt-to-Assets Ratio under 60% | **Yes** |

**Non-Financial Key Objectives**

| | |
|---|---|
| Have 3 product offerings under the Neptune's Tasties brand by 2026 | **Met.** |
| Add two additional product lines by 2026. | **Not met.** |

**Financing**
NPF needs $12.5M to acquire 100% of CBF. NPF’s available financing options are:

1. Cash on Hand
   As of December 31, 2023, NPF has $302K cash on hand. This is not enough to finance the acquisition of CBF.

2. Line of Credit
   As of December 31, 2023, NPF can withdraw $975K from its line of credit.

   Pros
   - The interest rate is lower than the term loan, which means lower interest costs.
   - Using the line of credit will help NPF build a strong credit history, which will help them later if they need to obtain a loan.
   - NPF would only need to pay interest on the amount borrowed, allowing financial flexibility.

Cons

- It is secured by NPF's assets, which puts NPF at risk of losing its assets if they default.
- The interest rate is based on prime plus 1%. If the prime rate increases, this will increase the interest expense.
- This would only provide a fraction of the acquisition purchase price, so NPF would need to look elsewhere to get the remaining funds.

3. Merit Credit Union Term Loan

Pros

- The principal is due in ten years, so NPF only needs to pay the monthly interest costs before then. This means less cash outflows each month until the principal is due.
- This provides the largest amount of financing out of all the options, which reduces the need to look for other financing sources.
- Unlike the equity investment option, NPF would not need to hire an additional staff member under this option, which reduces costs.

Cons

- The loan is secured by the Charlie K, processing plant, and any new property, plant, and equipment. These are major assets, so NPF risks losing them if they default.
- The loan is with a different banking institution, which may make the approval process slower.
- The interest rate is higher (8%) than on the line of credit (6%). This means higher interest costs.

4. Preferred Share Investment by Michelle Patterson

Pros

- Michelle specializes in regulatory compliance in the fishing and seafood industry, which can help NPF ensure regulatory compliance.
- Michelle has a proven record of making things happen. Having her on the team could help NPF stay competitive.
- NPF's assets would not need to be secured as collateral, which lowers the overall risk.

Cons

- The shares are cumulative, so if NPF does not declare dividends each year, it will need to catch up the dividends of prior years' next time it pays.
- Michelle's leadership style is unknown, which could lead to management conflict.
- Michelle wants to provide good retirement income for Yvonne and Colan, but this may lead to decisions that do not align with the mission, vision, or values of NPF.

5. Note Payable from David Capriola

Pros

- NPF would not need to pay the full $12.5M up front, which takes some pressure off their cash flows.
- Annual principal payments of $1M are spread out over time instead of having it all due at once, which is ideal for cash flow purposes.
- David is Colan's long-time friend, so Colan may be able to negotiate more favorable terms.

Cons

- This option is only available if NPF buys 100% of CBF's shares.
- Adding more debt would go against Colan's wishes of having a balance sheet with low debt.
- The repayment term is shorter than the term loan, so NPF will have larger cash outlays over the course of the note payable.

**Financing Recommendation**

We recommend taking the $5M note payable and a $7.5M term loan to finance the acquisition of CBF. NPF will need to make principal payments for five years for the note payable, but then they will only have interest expense each month until all the principal for the term loan is due five years later. They will need to make sure that they have enough cash to pay down the loan when it comes due. The updated debt to assets ratio has been calculated for 2024-2028 in Exhibit 5.1 and does not exceed 60%.

**Other Operational Issues**

**Vision & Mission Updates**

The vision statement should incorporate NPF's proactive commitment to sustainable operations. The revised vision statement could be the following:

*"We envision a future of delivering the highest quality seafood to customers while being at the forefront of sustainable and ethical practices to maintain the ocean's thriving natural seafood populations."*

NPF should incorporate its new snow crab processing segment, its key value proposition (MSC certifications) and its target geographic reach into the revised mission statement:

*"Our mission is to consistently deliver high-quality, sustainable, and MSC certified Greenland halibut, shrimp, and snow crab to Eastern Canada. We strive to follow sustainable fishing and processing practices by upgrading state-of-the-art vessels and equipment. We are committed to the fair and respectful treatment of our partners, crews, employees, customers, and suppliers. We are dedicated to protecting the ocean for future generations, ensuring the well-being of oceanic resources."*

**Ethical concern - Quota limit reporting**

Weakness: From prior year, a shrimp supplier, ASI, exceeded their quota limit by fishing in an unrestricted area. This violates sustainable fishing practices defined by MSC and against NPF's value about respecting the environment and fish populations for future generations.

Implication: Purchasing from ASI's over quota limit shrimp violates MSC's ethical qualification. This could cause NPF to lose its MSC certificate, and potentially hurt NPF's reputation if it is not properly resolved.

Suggestion: NPF will immediately cease processing shrimp from ASI that do not meet the required qualifications and initiate a recall of the already sold products. Moving forward, a record of suppliers' quota limits will be maintained and regularly audited. A traceability system to ensure compliance with MSC regulations.

**Balanced scorecard**

The balanced scorecard is used to understand how financial and non-financial measures aspects will help align NPF to their mission, vision, and overall objectives. By creating goals, a method to measure and specified targets, it helps management and employees of NPF to focus on delivering results for the company.

| | Goal | Measure | Target |
|---|---|---|---|
| **Learning & Growth** | Expand product line | # of products sold | Increase to 3 by 2026 |
| | Diverse workforce | % of women as crew & employees | Increase to 15% (crew) and 44% (employees) by 2026 |
| | Keep updated with changes to regulations to ensure compliance | # regulatory workshops<br># of internal compliance meetings | Attend 1 workshop every quarter and have quarterly internal compliance meetings |
| **Business Processes** | Improve accuracy of budget forecasting | Variance % per monthly budgets to actuals | Less than 25% variance between monthly budget vs actuals |

| | | | |
|---|---|---|---|
| | Continually learn about improving sustainable practices | # of relevant industry events attended | Attend at least 1 event monthly |
| | Maintain certifications | # of internal audits performed | Perform company-wide internal audits once a year |
| **Customers** | Keep up-to date on consumer preferences | # of emailed customer surveys completed | 40% increase in competed customer surveys by 2026 |
| | Improve customer satisfaction | Average customer satisfaction rate % | Average customer satisfaction rate 90% based on customer feedback surveys |
| | Grow customer base | # of new emailing list subscribers | 30% increase in new email subscribers by 2026 |
| **Financial** | Increase sales | Annual Revenue Growth Rate | Increase annual growth rate to 10% by 2026 |
| | Increase profitability | EBITDA margin | Increase to 18.1% by 2026 |
| | Maintain strong balance sheet | Debt to Asset Ratio | 60% or below |

**Gender Inequality Issue**

**Issue**
The number of women working at NPF is lower than the national average for the fishing industry based on a recent survey (13% less on the vessels and 9% less in processing plants).

**Analysis**
Women face various challenges in the fishing industry, including:

- Being subject to stereotypes (e.g. women are bad luck on boats, too emotional, etc.).[9] This leads to feelings of inadequacy and reduced motivation.
- Gender wage gap. Women are overrepresented in lower-paying positions in the industry.[10] Their labour is seen as something they do to assist their families, so they get stuck in those positions and struggle to move up to higher paying jobs.
- Crew members work in confined spaces for extended periods of time while out at sea, which increases the risk of harassment because employees are not as closely monitored. Women often deal with abuse on their own because there are not as many support systems in these industries.[11]

**Recommendation**
We recommend having employees go through sensitivity training to bring awareness to these issues. Additionally, NPF should establish a code of conduct that states that harassment of any kind will not be tolerated, and employees are encouraged to speak up if they see mistreatment. NPF can also change its hiring strategy to emphasize its safety culture and make its job postings more inclusive by using language that attracts diverse candidates.[12] Implementing this will align with NPF's values of treating employees with respect.

**Regulatory Compliance**
There are consistent changes to regulatory requirements. Below are a few steps to help prevent non-compliance:

Management Signing up for Email Notifications

- Signing up all management personnel for regulatory updates in the industry versus having to manually search.

Management/Department Meetings (Monthly)

- Monthly meetings for department review are scheduled to discuss regulatory compliance updates.
- Allows time to review regulations and come up with strategies to ensure compliance.

Inventory

- A systems check should be performed on a "per sailing" basis to ensure the ship's method of catch quantity is accurate. This will prevent NPF from going over the species quota.

---

[9] https://pressbooks.lib.vt.edu/fishandconservation/chapter/gender-and-fishing/
[10] Ibid.
[11] https://hakaimagazine.com/news/a-rising-tide-lifts-all-fishers/
[12] https://hbr.org/2019/11/how-to-recruit-more-women-to-your-company

**Shrimp Oil Production**

**Quantitative**
Exhibit 6.1 calculates that NPF can earn $456,200 profit before taxes by selling shrimp oil, compared to $192,000 by selling shrimp waste. Therefore, NPF should adopt the new process of producing shrimp oil to increase profit and EBITDA. Additionally, NPF can achieve the same profit from waste sales by using only 404,586kg of raw material to produce shrimp oil.

**Qualitative**
NPF should consider the following items regarding shrimp oil production:
- Assess technology for quality in shrimp oil processing.
- Evaluate hiring & training needs.
- Confirm MSC certification compliance.
- Analyze market outlook for shrimp oil.
- Identify potential buyers for contractual agreements.

**Lease vs Buy - Shrimp Oil Equipment**

**Quantitative**
Exhibit 6.2 shows that the net advantage to leasing is negative $11K. Therefore, it is better to purchase the equipment than lease.

**Qualitative**
**Lease**
- The lessor owns the equipment. NPF only has the right to use it. This is a good option if the equipment will be used for the short term.
- NPF only needs to worry about the monthly lease payment. Additional costs such as maintenance are not included, which helps NPF financially.
- NPF would not be able to claim CCA because it does not own the equipment. This is a disadvantage from a tax perspective.

**Buy**
- NPF needs to pay both the interest and principal on the loan it takes out to purchase the equipment. If NPF defaults, they risk losing the assets used as collateral.
- If NPF does not plan to use the equipment for the long term, then this may not be a good option because the risks and rewards of ownership would lie with NPF.
- NPF would be responsible for any maintenance costs. This reduces profits.

**Recommendation**
Per Exhibit 6.1, producing shrimp oil appears more profitable than selling shrimp waste, therefore we recommend NPF proceeds with selling shrimp oil, and purchasing the equipment rather than leasing, as buying is cheaper and more suitable long term.

**MSC Chain of Custody Certification**
Below is guidance on obtaining MSC Chain of Custody (Coc) certification per the MSC's website[13] for NPF's shrimp processing plant.

Certification Requirements

- Products must be:
  - Purchased from certified suppliers.
  - Clearly identifiable.
  - Segregated from non-certified products.
  - Traceable.
- A management system is available to address certification requirements.

Implications for NPF

- Investment in a tracking system to track shrimp through all processing stages.
- Costs associated with training staff and maintaining all necessary documentation.
- Internal audit costs to ensure ongoing compliance.

Certification Auditor's Procedures

- Review documentation.
- Inspect facilities for segregation of certified and non-certified shrimp.
- Interview personnel to assess understanding and implementation.
- Conduct traceability tests to verify accuracy in tracking processes.

It is recommended that NPF implements a CoC tracking system, and an internal audit process to ensure compliance with MSC certifications.

**Tax issue: Retirement Income**
Upon retirement, transfer your RRSP to a RRIF and make mandatory minimum annual withdrawals. Complete the transfer by age 71, where you have the option between receiving an annuity or a lump sum payment.

[13] https://www.msc.org/en-us/standards-and-certification/chain-of-custody-standard

**Annuity**
Advantages:

- Taxed only on the annuity received. Therefore, you can defer taxes to a future year.
- Predictable amounts received can assist with budgeting.
- Upon death of the annuitant, the beneficiary (spouse) can receive the payments from the RRIF rolled over to their RRIF.

Disadvantages:

- Fixed amounts give less financial flexibility.
- May be difficult if you have a large one-time expense to pay for.
- Present value of the annuity of the expected number of years may be less than the present value of the lump sum amount.

**Lump sum payment**
Advantages:

- Would have access to the money, in case of unexpected expenses.
- Would be able to invest the money however you see fit.
- May be able to pass on a portion of the lump sum amount as inheritance to your sons.

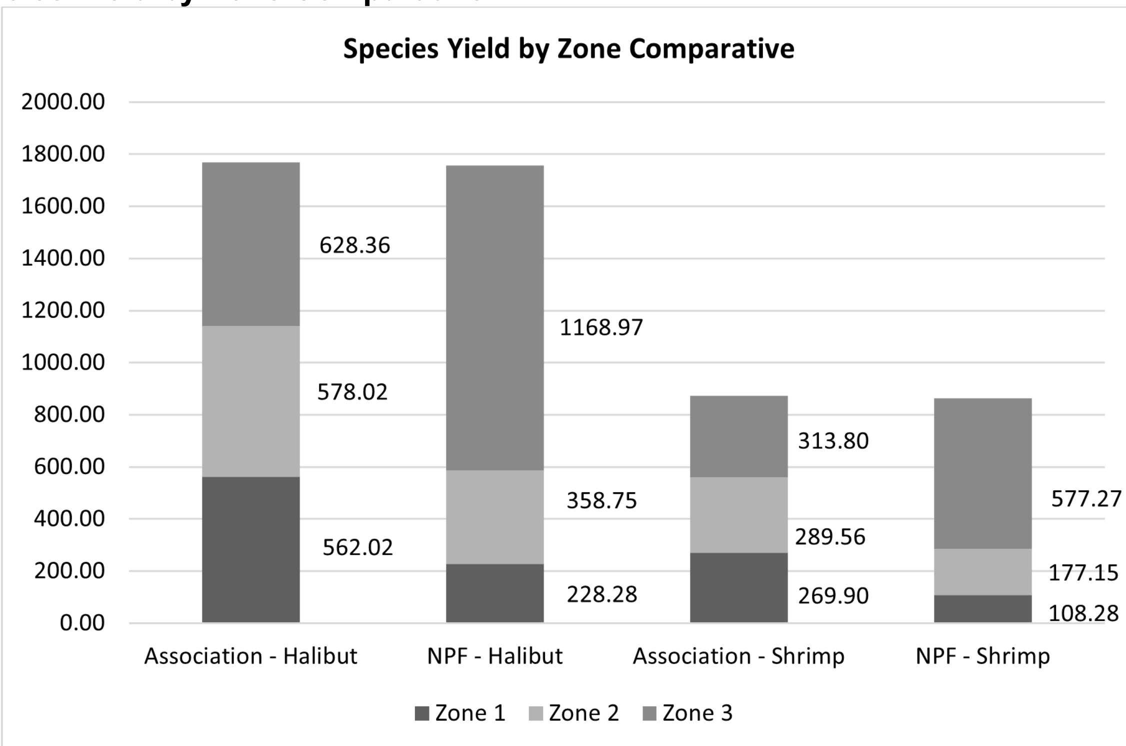
Disadvantages:

- May overspend and not have enough for the future.
- Must pay withholding tax on withdrawals made above the minimum withdrawal amount.
- Income tax must be paid on withdrawal in a year. If the lump sum amount is received, you would be taxed on a higher tax bracket depending on the amount and therefore a larger amount will be deducted in taxes.

## Data Analysis

### Analysis Recommendations

### Species Yield by Zone Comparative




Accessibility note: To view the source data tables, refer to the "Chart reference tables" on page 44.

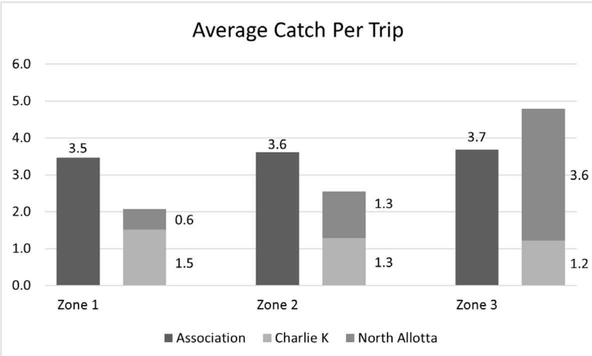
**Analysis**

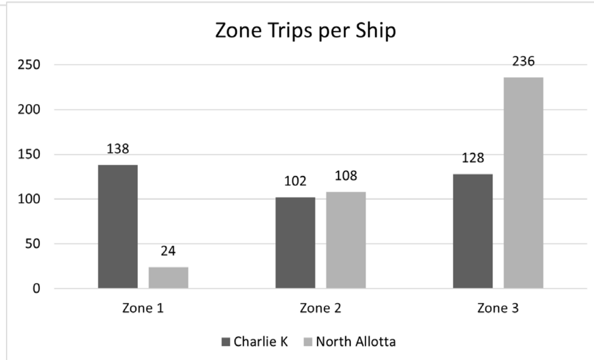
The above illustrates the species caught per year and the proportional zone they were caught in compared to the data the Association collected. NPF has spent significant time traveling to Zone 3 to obtain materially the same quantity of catch, Association catching 1768 halibut and 873 Shrimp to 1756 and 862 for NPF. This is resulting in lesser margins for NPF having to travel to the furthest zone (Zone 3) for no gain in catch totals.

**Recommendation**

Based on the above information and NPF's goal of creating further efficiency regarding fuel costs, it is recommended that a new zone mix be introduced where time is more evenly spent in Zone 1 & 2 to help reduce costs while still achieving catch totals similar to the ones now. This will result in greater profits due to fuel cost reductions.

## Average Catch Quantity per Trip




Accessibility note: To view the source data tables, refer to the "Chart reference tables" on page 44.

### Analysis

The first graph shows the average catch per zone-trip by each NPF ship compared to what the Association has gathered for industry. NPF underperforms in Zone 1 & 2 compared to industry average. The second graph shows the zones NPF's ships spend most of their time in. The Charlie K spends its time in Zone 1 & 2 while catching 1.5 & 1.3 per trip. The North Allotta spends most of its time in Zone 3 catching 3.6 on average. The average catch differences from industry in Zone 1 & 2 could be due to Charlie K's outdated technology and tactics.

### Recommendation

NPF should invest in updating Charlie K's technology to create further efficiencies when fishing in Zone 1 & 2. Additionally, NPF should use future data collection by the Association in hopes to improve route and fishing techniques (i.e. depth, time of year or day, etc.).

### Collection

NPF has data collection through their two ships in the form of route, catch data, oceanographic data, and time of year. All of these items have been tracked and compared to similar data the Association has gathered on other fisheries in the area where applicable. The NPF data collection should be analyzed further in regard to Oceanographic data to help improve NPF's fishing techniques in 1 & 2 to help improve catch yield in those zones.

## Appendix I - Internal Analysis (SWOT)

**Strengths**

- NPF has received and maintained its MSC certification from 2016. This helps solidify NPF's reputation for being a company that follows sustainable fishing practices.
- Employee turnover has been low at NPF. This means that NPF has a team of skilled and experienced workers who gain more experience with the company each year.
- NPF has strong controls in place to ensure that the temperatures in the refrigerated and freezer warehouses, along with its delivery trucks, are monitored so that its inventory remains fresh. This reduces NPF's inventory losses.
- NPF's brand, Neptune's Tasties, has a strong reputation for having high quality products that are fresh, tasty, healthy, and ethically sourced. Having a strong brand helps set the company apart from its competitors because customers know the level of quality,they can expect from NPF's products.
- The Charlie K had new equipment added in 2021 that enables products to be frozen onboard. This lets NPF maintain the freshness and high quality of its products.
- NPF has continually kept its equipment up to date, which has lowered NPF's carbon footprint, greenhouse gas emissions, and increased efficiency. This aligns with NPF's values of protecting the environment.

**Weaknesses**

- NPF only has one quota license for Greenland halibut and one for offshore shrimp. This limits the amount of seafood the company can catch, thus restricting potential revenue.
- Derivatives are not being used by NPF to mitigate exchange rate risk. This is a prevalent risk in the industry and could lead to potential losses if not mitigated.
- NPF does not have the resources to invest in R&D. They are potentially missing out on new revenue streams by not researching and developing new products.
- NPF has not been able to secure long-term contracts due to its limited product mix. By relying on a select few product types, NPF is missing out on reaching new customers who are looking to buy other seafood products.
- NPF has excess warehouse space that is not utilized during the off-season. If this were utilized, NPF could gain some extra revenue while waiting for the next harvest season.
- The number of women employed at NPF is significantly below the national average for the industry. By lacking diversity in its workforce, NPF is missing out on the different skills and perspectives that women provide, as well as contributing to the stigma that fishing is a male-dominated industry.

**Opportunities**

- NPF does not sell any of its products online. If they were to open an online store, they could reach more customers and have another revenue stream.
- NPF could take advantage of the increased use of data analytics in the industry to achieve precision fishing and meet its quotas more efficiently.
- The aquaculture segment is growing and could be a way for NPF to diversify its brand and rely less on quotas. It would also provide a year-long source of revenue for the company.
- Customers have been interested in "heat and eat" and "grab and go" seafood meals. The demand for these types of products is expected to increase by 5-10%. NPF could take advantage of this opportunity by expanding its product mix to include ready-made meals.
- The border closures at the height of the pandemic have led to consumers shifting towards locally sourced products.[14] NPF could use this trend to tap into the Canadian market more and strengthen its position in this segment.
- Half of the Canadian population is expected to be made up of immigrants and their children by 2041.[15] If NPF recruits people from various backgrounds, they can gain a wealth of knowledge and skills, especially if the employees have a background in fishing.

**Threats**

- Other countries can produce farmed seafood cheaper than in Canada. NPF may have a difficult time with competitive prices.
- Annual catch quotas for the species that NPF catches are decreasing. This will cause revenues to decline unless NPF finds alternate revenue sources.
- Seafood consumption is expected to decline in Canada. This poses a risk to NPF's revenues because customers may not buy their products as much as before.
- The market price paid to fish harvesters is volatile because it is dependent on supply and demand. This means that revenue will be unpredictable because the price could change at any time, so NPF could fall short of its goals if the price is lower than expected.
- Many species of fish are struggling to adapt to the rising ocean temperatures because of climate change.[16] NPF's annual catch volumes may decrease since there are less fish in the ocean.
- Overfishing is a major threat to the industry because the number of fish that is currently caught worldwide is unsustainable.[17] If this continues, there will not be

---

[14] https://naeco.com/en/news/challenges-and-trends-in-the-fishing-industry-at-the-logistics-level/

[15] https://www150.statcan.gc.ca/n1/daily-quotidien/220908/dq220908a-eng.htm

[16] https://letstalkscience.ca/educational-resources/backgrounders/how-will-climate-change-impact-fisheries

[17] https://www.environment911.org/The-Problems-With-the-Fishing-Industry

enough fish in the ocean for everyone. This threatens NPF’s future livelihood. If NPF cannot earn enough revenue, it may no longer be a going concern.

## Appendix II - External Analysis (PESTEL)

Political Factors:
- Political bodies setting fishing regulations surrounding each species of fish on a yearly basis. This can include size, sex, season in which they can be harvested, and quotas.
- There are significant and strict regulations around food storage and transportation of food from storage to distribution centers or vendors relating to potential further expansion into storage and distribution.

Economic Factors:
- Foreign exchange risk can have a material effect on the profitability of international sales.
- Global pandemic turmoil has caused many companies to shut down or be acquired by larger corporations, increasing opportunity for market share increase.

Social Factors:
- Health trends among the public have shifted consumer purchasing relating to “wild caught” and “antibiotic free”. Seafood perception has shifted to being a healthier option compared to meat.[18]
- Large emphasis from the public on ethically sourced fish and operations that harvest in an ethical manner.

Technological Factors:
- Alignment with universities across the country for research and development projects has allowed for use of the latest technology available in the industry.
- Data collection and new technology can be used to map and execute the factors that produce the largest harvest.

Environmental Factors:
- With global temperature changes this can have a significant effect on oceans PH & water temperatures, resulting in volatile sea creature populations.[19]
- Disease and parasites can have a significant effect on sea food populations, especially in aquacultures.

Legal Factors:
- Limited licensing surrounding harvesting areas and species.
- Employment laws are heavily reinforced and set up to protect the employee from unfair work environments, dismissal, and wage standards. All of which, if not followed, result in fines and/or litigation.

---

[18] https://canadiangrocer.com/demand-traditional-and-plant-based-seafood-rise
[19] https://oceana.org/blog/ask-dr-pauly-how-is-global-warming-affecting-fisheries/

## Chart reference tables

### *Species Yield by Zone Comparative*

*(see chart on page 38)*

| Species Caught | Zone 1 | Zone 2 | Zone 3 |
|---|---|---|---|
| Association - Halibut | 562.02 | 578.02 | 628.36 |
| NPF - Halibut | 228.28 | 358.75 | 1,168.97 |
| Association - Shrimp | 269.90 | 289.56 | 313.80 |
| NPF - Shrimp | 108.28 | 177.15 | 577.27 |
| Grand Total | 1,168.48 | 1,403.48 | 2,688.40 |

### *Average Catch Per Trip*

*(see chart on page 39)*

| Zone | Charlie K | North Allotta | Association |
|---|---|---|---|
| **Zone 1** | 1.5 | 0.6 | 3.5 |
| **Zone 2** | 1.3 | 1.3 | 3.6 |
| **Zone 3** | 1.2 | 3.6 | 3.7 |

### *Zone Trips Per Ship*

*(see chart on page 39)*

| Zone | Charlie K | North Allotta |
|---|---|---|
| Zone 1 | 138 | 24 |
| Zone 2 | 102 | 108 |
| Zone 3 | 128 | 236 |