



## ”Business Plan”

### Founder

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## II. Executive Summary



Aquaco Farms is designed to be one of the largest saltwater grow-out facilities in Florida and will provide a sustainable, highly sought after commodity in the seafood industry. An industry where consumers are demanding a change in the way seafood is sourced and purchased today.

The premise of offering locally-raised Florida Pompano that is delivered within 24-36 hours after harvest and never frozen has been well received among future clients. This high margin fish has only been limited on menus due to the challenge of meeting demand from wild stock. In 2013 there were 500,000 lbs caught in Florida and sold by commercial fishermen. This is compared to the 1,200,000+ pounds a year to be produced @ Aquaco Farms. With the advent of US domestic-based aquaculture, we can now farm the Pompano in large tanks and eliminate the variables that lead to the limited wild harvest while maintaining the quality, taste and high value of the species.

Aquaculture is an industry lead primarily by research in academia here in the US. It is one of the few areas that has seen a large lag in the science/biology and the commercialization of such work. Aquaco Farms has the financial and operational knowhow to change this paradigm. The team consists of the best talent in the field of aquaculture, biology and engineering as well as the proven leadership to manage successful operations.



**Joe Cardenas**  
Founder & CEO



**Dr. Nick Brown**  
Chief Biologist



**Toby Overdorf**  
Environmental Engineer



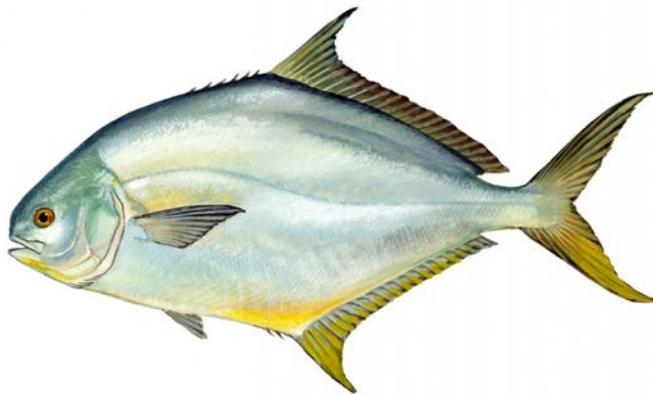
**Paul Hundley**  
Site Engineer /Design

With a location that is proximate to our target market, we will have a central distribution point and minimal transportation costs. On site will be our administrative offices, grow-out / juvenile centers, hatchery, procession plant and distribution center. At full production we will be harvesting 20,000+ lbs a week and have a just-in-time method of production and stock management. The early net margins of 38% increases with efficiencies gained in genetic breeding programs as well as secondary sources of revenue such fish waste, wetland mitigation plants (mangroves) and eventual outsourcing of processing plant and hatchery services that could bring an additional 25% or more in revenue.

While our facility is designed to raise a number of salt water species, we selected the Florida Pompano due to a number of favorable factors:

Fast growth (egg to harvest in 8 months, high market price in comparison to other farmed species, ability to thrive at high tank density, existence of established hatchery process, market size of 1.25 lbs is ideal for shipping and packaging, processing Pompano is minimal with most distributors preferring whole fish in addition to the lack of current competition in the market.

Aquaco Farms presents an opportunity to invest in a stable industry such as agriculture with a focus on the only protein source that has the ability to meet the pace of demand through expansion. Not the case for cattle, row crops or other livestock due to land availability in the US.



The up-front capital and resources behind the Company have positioned Aquaco Farms to move forward with scalable operations. The next phase will be funded via a Series A round of private capital that is comprised of preferred shares in the Company. This \$4mm raise funds the capex portion of the build which includes land, infrastructure, buildings, FF&E and working capital for the first 18 months of the project.

The return on investment will come via 12% preferred dividend for Series A share holders. That interest will be returned via profit distributions with an 80%-20% biased towards Series A vs common shares. Once the interest from deferred dividend interest has been fully paid, all shares earn pro-rata distributions based on equity position in the company. The distributions will begin in the 3<sup>rd</sup> year of production as the farm reaches full tank (grow-out) capacity.

### III. Aquaco Farms & the Industry

The primary goal is to be a fully integrated Mariculture facility that delivers a consistent product of Florida Pompano to our end users, the patrons of Florida's restaurants and seafood outlets. With a successful blueprint in hand, the broader opportunity will be realized in multiple locations while recognizing the efficiencies in having a single hatchery, integrated feed operations and established logistics in place for distribution. The characteristics that make a farmed species so valuable also make it a tremendous cooperative opportunity among peers in the state. With a central point of processing and distribution for other farms, the advantages of a just-in-time shipping process will provide a tremendous value over today's flawed seafood wholesale and brokerage industry.

AQUACO will produce and deliver over 1,200,000 pounds of Florida Pompano annually. This will result in annual EBITDA of over \$1,100,000 in the first year of full scale operations with both efficiencies and increased production leading to larger profits moving forward. With an initial net margin of 38%, this area will also experience growth due to economies of scale and integration of outsourced services.

Logistically the distribution channel will reach from Orlando to Miami and still be within 2.5 hours of facility operations and out of state orders will be met via air freight within that same channel.

Guaranteeing product can be delivered from tank to table within 24-36 hours.



## Business Philosophy

Inevitably a company faces potential tradeoffs between profits, customer experience, and ethically questionable practices. There are no better examples of this than in the Seafood Industry that has been notorious for mislabeling product, disenfranchising core producers (commercial fishermen) and creating an overtly negative reputation among clients. By providing a straight forward pricing matrix, consistent supply chain and exceptional customer service, you fundamentally change the rules of the game being played today. These values and sets of expectations flow down to the entire org chart. In an industry entrenched in questionable practices there is a new set of expectations that will quickly result in unparalleled client retention and core growth with the right types of clients. In addition, contrary to other farm operations where you have severe separation of duties and roles, AQUACO encourages staff to be cross trained in various aspects of the operations. Every employee needs to possess a fundamental understanding of how key each component of production from eggs to harvest impacts the bottom line.

## Clients

The objective is to establish a network of 60-70 restaurants as well as diversification into hotels, resorts and specialty retailers. This will be further outlined, but each harvest provides an opportunity to service a cross section of end users. The “A” grade for example will be sold and delivered to high-end restaurants whose clients and chefs appreciate the highest quality of our product.



## The Industry

The Seafood Industry as a whole is a system based on brokered product and importing/exporting of perishable goods. The fact that you have variables in weather, fish migration, seasonality etc all make wild caught supply a challenge.

Picture this scenario... Seafood wholesaler calls Captain Jim on his boat while offshore and asks him to bring back 1,000 pounds of swordfish, 500 of Mahi and 2,000 of red snapper. If you ever fished in your life, you know how ridiculous this would be.

What does happen is this... Captain Jim comes to the dock with 1,200 pounds of King Fish that nobody a minute prior was aware or prepared to receive. At this point we hope the fish has been properly iced and caught within the past 24-36 hours. Wholesaler picks it up, if you're lucky they process the fish and freeze it. Why? Because that fish was dead the minute it was taken from the water and the clock was ticking on freshness and health safety. Plus that wholesaler needs to call a broker who then needs to locate a buyer. This can take days to locate while that fish is stored in large freezers.

Now envision this... Seafood wholesaler or restaurant calls Aquaco Farms on Sunday afternoon. Joe, I need 1,000 lbs of Pompano on Tuesday morning and please have it delivered by 9am. In fact, please deliver 1,000 lbs every week at the same time going forward. No guess work, no question of how many pounds to expect or quality of the product. This changes the entire dynamics of an otherwise broken Seafood brokerage / wholesaler business model that deals in frozen or imported fish.

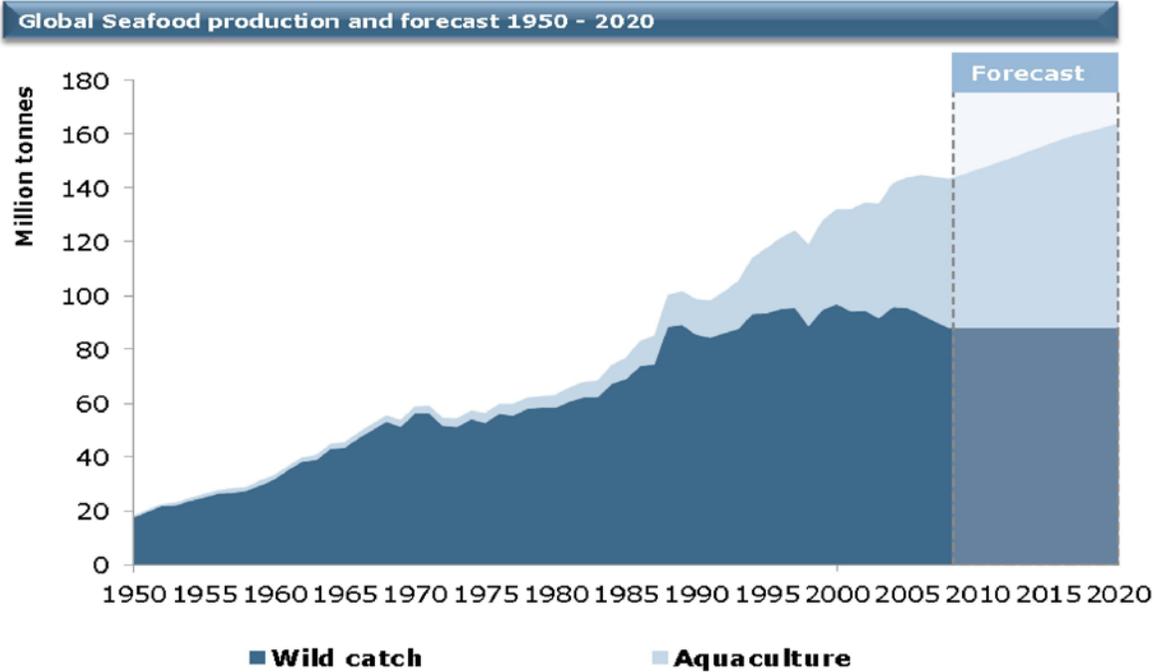
## Advances in Aquaculture

With declining domestic wild catch numbers, short supply has been mitigated by fish imports into the USA. As you see in the below chart however, there is a crossroads of supply and demand that eventually hits critical mass.

Due to this limited supply of fish for a growing consumer base, aquaculture slowly started to evolve in the 70's and 80's and was much more robust on the international scene. The US aquaculture base had historically been revolved around catfish, trout, shrimp, tilapia, crawfish and ornamental species for aquarium use. The advent of better technology and research started to bring on other food species in later years. Currently the environment in Florida is prime for aquaculture expansion. We have tremendous infrastructure already fueling the start of new entities throughout the state.

## Wild catch supply cannot increase

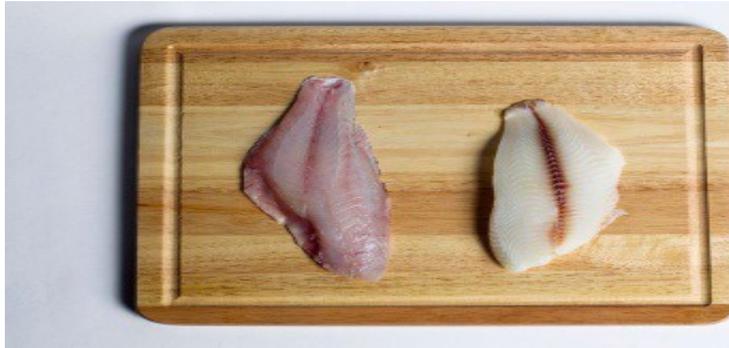
50% of the industry responsible for 100% of the growth in demand



### Fighting Fish Fraud

Mislabeling of fish is a tremendous problem for not just the consumer, but also the restaurant serving the fish. They take on the potential negative press and push back that comes with increased product testing. According to an NPR report in 2013, a third of all seafood is mislabeled and sold as a higher grade fish. <http://www.npr.org/sections/thesalt/2013/02/21/172589997/one-in-three-fish-sold-at-restaurants-and-grocery-stores-is-mislabeled>. With new technology, fish DNA can now be tested inexpensively and there is more and more oversight coming down from FDA, USDA, and Homeland Security who oversee imported goods.

Aquaco farms eliminates this by providing whole body fish that are easily recognizable for the great species they are. See example below:



**Which is the \$19.99 Red Snapper and which is the \$3.99 a lb Tilapia?**

Among other actions, most high-end retailers and restaurants have focused on buying whole fresh fish and skin-on fillets, making it easier to identify the species. This is how Aquaco Farms delivers their product to the consumer.

Other Problems....

Chefs are constantly in search for the next great seafood dish. Unfortunately God has already shown us what our oceans have to offer. This leads to marketing, creative branding and eventual exploitation of what we already have in front of us. Funny what's in a name and how it can influence our decisions. Best example is in the "Chilean Sea Bass". Few know this was a grand marketing scheme brought on in the 1980's to sell the otherwise unfavorable Patagonian Toothfish. A pure marketing invention was born.



In the 80's fishermen caught them as by-catch in their deep nets and threw them back. Someone saw an opportunity and renamed and rebranded the fish. The Chilean Sea Bass is not even a bass, it's a member of the cod family. Due to plain taste and easy cooking standards, they went from trash fish to Dish of the Year in 2001 by Bon Appetite Magazine to almost fished to extinction by 2008.

Other great examples...

- Orange Roughy first appeared in the 1970s and quickly became a high priced entrée. Would not have sold as well under the prior name of Slimehead.



- In the 1990's sales of Goosefish skyrocketed after being thrown back by fishermen for decades. The new name of Monkfish was born and sales took off.



- Sea urchins only became scarce when they recently began to be labeled under the Japanese name "Uni".
- The Basa is another marketing ploy to sell the formerly referred to Vietnam River Catfish. They are fed cheap diets and pumped with antibiotics only to be sold as Basa or Pangasius on menus. Often mislabeled for Grouper.
- The latest craze is over a fish named the Asian Sea Bass (aka Barramundi). This is a mostly farmed, fresh water fish with fast growth. Sustainability is a key selling point. However, the name is misleading in that the fish is not caught in the sea at or is even a Bass.



### Quality of product:

Do you know why you pay more for “fresh”, never frozen fish? (don’t confuse the two by the way as one doesn’t mean the other).

- Two main reasons
  - a. Transportation costs. It simply costs more \$\$\$ to fly a crate of Florida lobster to China than it is to process and freeze while putting in a shipping container and taking 7-10 days to arrive in port.
  - b. Mostly however the higher cost is due to 30% product loss before it gets to end user. Spoilage creates a large margin loss for many unfrozen producers and hence higher end cost.

Aquaco farms benefits from prime location for distribution and quality of their product. There is zero product loss!

### Previously frozen fish

95%-100% of fish you see at the local Publix counter has been previously frozen. Once a fish is thawed, the clock is ticking. If not thawed that same day, purchased and eaten that night, the quality and taste of that fish deteriorates quickly.

At the very least, you hopefully know a lot more about the broken model that is today’s Seafood industry. Better yet, you have realized the need for a consistent, traceable, sustainable product that can be taken live from their tanks and be on a restaurant’s table in 24-36 hours.

### Why Florida is a natural hub for the aquaculture industry:

- 1) **Talent!** There are over 10 Universities and Colleges that offer degrees and or programs for aquaculture.
  - University of Florida
  - University of Miami
  - Florida Atlantic University
  - Nova Southeastern University
  - Hillsborough Community College
  - Florida Institute of Technology
  - Indian River State College
  - And others who offer course study on the subject



- 2) **Climate**, major savings for Mariculture operators who spend large portions of their operating budgets to either warm their water or truck it 100s of miles inland from the sea.
- 3) Concentration and **reputation** in the state for our high quality of seafood among tourists and residents alike. There is already an established positive mindset towards seafood exported from Florida and consumed within.

What's ahead in the industry?

The largest change to take place in the aquaculture industry is in partnerships and potential co-ops. Similar to other industries (citrus, cattle, sugar, rice etc), our industry is no different in recognizing the benefit of shared resources and distributions. This is an area AQUACO tends to lead and center the tipping point vs. traditional wholesale/brokerage channels. This will require the success of fellow farmers and additional grow-out facilities to take advantage of the efficiencies and cash flow of the entities. Soon you will have farmed Cobia, Pompano, Shrimp etc all leaving same processor and heading out on a common distribution path. Focused primarily on taking advantage of the just-in-time process aquaculture is able to provide. With over 570 fish wholesalers in Florida alone, there is a tipping point in which a co- op environment is going to thrive.

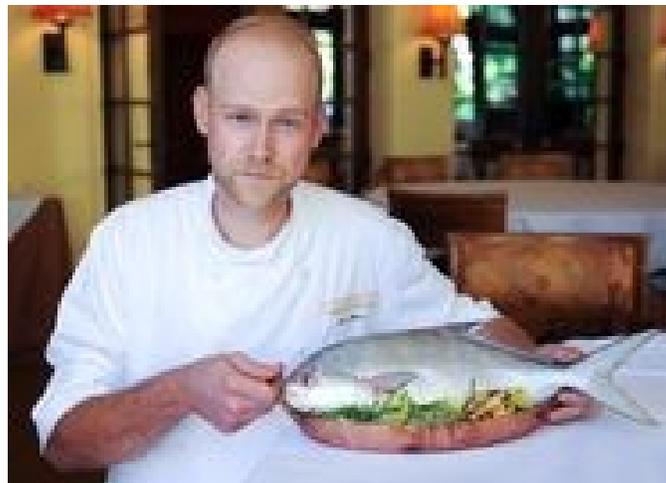
## Company strengths

AQUACO takes a hybrid approach to what is already working in aquaculture and adds what needs to be improved in order to make it even more successful. The main reason why this concept is new to market is simple. Starting at its core, aquaculture is a more advanced form of agriculture. The natural attractants to this industry has historically been farmers from typical agriculture industry looking to diversify or marine biologists/scientists looking to take their research to market. Neither of which have a tremendous level of talent or skill in taking their product directly to market. The problem is not growing a Pompano to market size (the technology and skill to do this has been around for some time). The opportunity lies in proper marketing, distribution of the product and expanding a brand for this amazing food species.

AQUACO asked restaurateurs and top chefs what they would pay for a Florida Pompano delivered to their restaurant to better understand the margins when going through the wholesale process. The consensus was \$9-10 per pound on the low side. So now that fish which costs \$3.50-\$3.75 to produce is an extremely profitable species. This is later described in the financial section in greater detail.

At AQUACO's core is the balanced approach in managing the operations. As mentioned earlier, the truest form of a successful farm operation is one that fully integrated. However it's neither wise nor effective to do so initially. For example, AQUACO has selected a vendor that will provide fry

(Juvenile Pompano) to the farm at approx. 45-60 days of age. This eliminates the high cost of operating a hatchery as well as 18% of the grow-out time out of the equation. We also will use a local feed mill operator to produce the feed vs building an onsite feed mill. Helping us concentrating on the core business which is growing out a market size Pompano and selling direct through in-house sales.



**Chef Rick Mace of Café Boulud on Palm Beach – features several recipes with Pompano and quoted; “diners should not consider a visit to our fair state complete without a taste of pompano. Pompano are a delicious, mild-flavored fish. It has firmness, a clean taste and a good fat content but [it’s] not oily like mackerel or bonito”**

## IV. Product & Pricing

### Florida Pompano (*Trachinotus Carolinus*)

The Pompano was so popular in the 1800's in Florida that they named a City after the species in 1880 (Pompano Beach, FL). At the time they were commonly seen off the beaches and in inland water systems. With the introduction of commercial fisheries, the population tailed off until 1995 when the State banned nets for their harvest. While the species has returned to healthy numbers, they remain a challenging target commercially due to their limited size and total harvestable pounds on a large scale.

Several factors went into the selection of this species:

- Fast Growth (Egg to Harvest in 7-9 months)
- High Market Price in comparison to other farmed species
- Ability to thrive at high tank density (with good water quality you can raise 20,000+ lbs of Pompano in a (40,000 gallon tank)
- Amount of research already done on the species in terms of diet, cultivation, water quality standards etc
- Market size of 1.25 lbs is ideal for shipping and packaging
- Processing Pompano is minimal with most chefs preferring whole fish. This cuts down on both cost and waste.
- Lack of current competition in the market.

### Pricing

#### Average Sales Price:

Grade	% of Harvest	Price per lb	Units	\$\$\$ per grade
Grade A	65.00%	\$7.00	13000	\$91,000
Grade B	25.00%	\$5.75	5000	\$28,750
Grade C	8.00%	\$3.50	1600	\$5,600
Grade D	2.00%	\$2.00	400	\$800
	100.00%		20000	\$126,150
			ASP:	<b>\$6.29</b>

\* based on average weekly harvest of 20,000 units.

This photo was taken by AQUACO at local Wholefoods and was a “Special” being run that day. Typical retail price is \$17-18 per lb.



The Pricing model listed above is based on a typical weekly tank harvest of 20,000 fish. The various grades are due to the size and quality variation that will first be present in the grow-out phase. There will be sorting of the fish throughout the process to minimize size discrepancy. Selective breeding will lead to a more standard sizing as well and minimize variation.

## SWOT Analysis

### Strengths:

- Ability to compete directly against a limited supply of wild stock that is at 50% the total annual harvest vs. AQUACO’s 1,200,000 lbs per year.
- Advantageous timing in the “farm-to-table” trend that is already taking hold in the food / restaurant industry. Retail establishments are listening to consumers who favor traceability of their products, use of local product & growers and a deeper concern for how far their food travels to end up on the plate.
- Proximity to client base. This results in the fish never being frozen and delivered fresh within 24 hours of harvest.
- Consistency in supply vs. the historical wholesale model providing just-in-time processing and shipping which simply does not exist outside of the farm model today.
- Sustainable production with zero impact to our wild populations.
- Having a CEO with a business/finance background vs. that of a farmer or scientist. The farmer does not realize the financial component of the task at hand and commonly include vital errors such as dedication of R&D of the species, cash flow management, capital requirements, effective budgeting etc.

- The scalability and consequent benefits do not end with one location. In fact the margins increase significantly when you add multiple locations and take advantage of redundancy in a hatchery and feed mill.
- Lower operating costs vs. a typical recirculation aquaculture system due to key partnerships, lower utility needs, easier access to source and discharge permits/costs.

### Weaknesses:

- The initial cost savings of outsourcing aspects of the project would be an inherent risk if not organically integrated within the first 3 years. Such as hatchery operations, processing, and potentially feed management systems.
- Selecting a site for the right water permitting features. It cannot be built anywhere which is both a challenge initially and a competitive advantage moving forward.
- Initial reliance on outside vendors for fry and feed. While there are both financial and risk benefits from outsourcing these key components, it does require additional due diligence in creating redundancies in supply as well as selecting proper vendors from the start.
- Variable cost of raw materials for feed can fluctuate depending on market demand/supply. This is the farm's largest expense line item and can have effect on margins.
- Sourcing of key staff with warm water marine species experience in addition to general farm operations. There are viable candidates which have been contacted and pending further dialogue, but the field is more limited as you get specific in species and our farm model. This is only important for 2-3 key roles as the rest of talent can be trained and need minimal experience.

### Opportunities:

- Future Organic label for Aquaco Farm products. Currently the USDA issues the organic requirements and labeling approval for food and they have been developing a set of standards for products of aquaculture. This labeling will enhance the marketing/price points for our product by an additional 20-25% as seen in other agriculture products.

- Future revenue stream is present in the sale of fish waste as organic fertilizer. This already takes place on other large scale operations and turns an expense line item into additional revenue.
- Once the hatchery operations are integrated, there is also a financial benefit to selling Pompano eggs and fry to the competition both domestically and internationally. This is a double edge sword, but ignoring competition is ill advised and finding a way to profit from it is not.
- Aquaco Farms will be the first operational Pompano provider in the US. The competitive advantage will be there to build long term relationships with buyers both in the State and nationally.

### **Threats:**

- “Act of god events” – this refers to floods, hurricanes, tornados etc. This is mitigated by our in-land location away from the shore in addition to redundancy in electrical generators and the soundness/strength of the structure and design of facility.
- Disease – can be mitigated with proper operating procedures and bio security protocols. The benefit of an in-tank vs. pond system is that you also can isolate a disease to one tank and minimize loss as well as treat the early onset of any potential disease.
- Security – Both BIO and physical security on site. Important protocols need to be in place to ensure zero cross-contamination of tanks and equipment as well as treatment of outside disease brought onto the farm.
- Mislabeled species being sold as Pompano. Over 30% of fish sold is mislabeled today and the mitigant here is the whole body fish we sell to our clients. You can fake a tilapia fillet for red snapper fillet, but only in fillet form and to a bland palate. Otherwise a whole Pompano is easily recognizable. Wild caught fish pass through so many channels and touch so many hands it is hard to catch this fraud. With our direct sales approach, there is no benefit or middleman to mislabel our product.
- Highly farmed and inferior product named Golden Pompano. This is a variety of fish grown in Asian markets and is highly farmed and sold abroad. To get the product to the US, it needs to be frozen and sent via crate vessel which greatly diminished the quality. As it is, the meat is inferior to our Florida species and is hard to pass the eye of most chefs and distributors.

- National economic recession. This is a high-end fish compared to shrimp or tilapia, lending itself more vulnerable if discretionary income is reduced on grand scale.

### Golden Pompano vs Florida Pompano



## V. Marketing Plan

### Market research

AQUACO LLC has spent nearly two years on both primary and secondary research related to the grow- out of the Florida Pompano and the related in-land facility needs.

Secondary research began in 2013 on a separate aquaculture project that was looking for financing. Joe Cardenas, the founder was directly involved in reviewing the request. It began with benign review of financial proforma, budget forecasts, construction costs etc. This then lead to additional research using published information such as industry profiles, trade journals, newspapers, magazines, census data, USDA studies, Florida Dept. of Agriculture research, University papers and various studies that have been published over the past 25 years on the subject.

While that particular project was found not to be viable due to the margins of the fresh water species being presented, it did open the thought process towards other species that could change the game. The next year+ was spent reading more material than could be found on the topic of mariculture and the Florida Pompano. Research transitioned over to primary means and discussions took place with other farm operators, fellow attendees and presenters at various aquaculture trade shows as well as restaurateurs and fish wholesalers / brokers to better understand the industry.

There was no current competition to study, but several visits to similar farms were made in order to better understand the process and the operations. This included farms who produced catfish, crustaceans, Bass and various test facilities researching Pin Fish, Cobia and Shrimp. In addition, a great deal of time was spent with staff at MOTE Research Center, Auburn University and the Harbor Branch Oceanographic Institute in Ft. Pierce, FL that houses an aquaculture department and full time staff. These visits and conversations were helpful in interpreting the various studies done on Pompano and how that would be helpful in a large scale commercial operation.

The market research also helped gain a better understanding of the price and distribution channels for the product at various points in the cycle of producer to end user. This is where the inefficiencies of today's wholesale and brokerage industry became evident and the high demand for Florida Pompano was realized.

## Economics

Currently Commercial Fishermen account for approximately 500,000 lbs of Florida Pompano a year. To put in comparison, that is enough for one large seafood restaurant chain in Florida to provide a single dish every night in each location. Aquaco Farms is designed to produce 2x that amount and will still leave a large void in the high demand for Pompano. This allows for the marketing at the top of the consumer market with high-end restaurants, resorts and other clients in the US.

The growth potential for an industry leader such as AQUACO LLC will be matched by the increased demand for this highly regarded ocean species. There can be a 2<sup>nd</sup> and 3<sup>rd</sup> location built and still not satisfy the demand for the species. At that time diversification into other species and will further spark growth of the company and pursuit by outside buyers.

## Barriers to entry

“If it’s that profitable why doesn’t everyone else do it?????” This is a common question and one that had no immediate answer at first glance. Only until you take on the task of venting such a project do you better understand the questions and consequent answers.

- Barriers:
  - High capital costs – Even with a scaled approach and outsourced model for high capital components such as a hatchery and feed mill, it’s not a small number in terms of getting a Mariculture venture off the ground. The capex is approximately 50-60% of the total farm budget. AQUACO is reducing the capital costs involved by negotiating equity / revenue swaps in areas such as land purchase, certain consulting contracts etc.
  - High production costs – This is where most aquaculture ventures fail, in not truly recognizing the costs involved and working capital needed. COGS is made up of feed costs (70-75% of COGS), labor, purchase of fry, and other variables. These fish take 7-9 months from egg to harvest and adequate capital is needed short term to bridge the point of company cash flow. 30-35% of total equity raise for AQUACO is dedicated towards working capital.
  - Consumer acceptance and brand recognition – The term “farm –raised” is not a negative, but has to be positively positioned and branded as a “same as wild caught” campaign in terms of taste, value and acceptance. In the marketing section will elaborate on how to quickly overcome a certain level of ignorance by consumers. Fortunately the Pompano is highly recognized among chefs, however it is not assumed all of their end users are as familiar.

- Training and skills – 80% of the staff will be farm labor. While everyone plays an important role, the 20% making up management is key to the company's success. Recruiting and retaining key staff is vital to long term success.
- Navigating permits and approvals – Fortunately agriculture has a lower requirement in terms of permits etc. However this project does need to gain approval for flow wells tapping into salt water which required approval from South Florida Water Management District. This has been done with other projects in Florida, but does require right partners and consultants to navigate the process.
- Ideal water and site conditions – Site selection is a major component and one of the primary milestones in achievement for the project.

## Product

### Features and Benefits

The primary product for AQUACO LLC and subsidiary Aquaco Farms will be the Florida Pompano. There will be secondary sources of revenue recognized going forward such as egg/fry sales from hatchery, Waste sold for organic fertilizer and shared logistics with other growers in terms of processing and delivery. First and foremost however, we are in the business of raising and selling Fish. In fact, the secondary sources of revenue have not been factored into the financial projections you will see.

Preference is given to the conservative approach of not taking on these ventures until all existing operations have been performing at company standards.

Our product delivers the highest quality of fresh, never frozen Florida Pompano. The benefits of our method is that it allows for just-in-time processing which simply does not exist in the industry outside of a handful of other successful fish farms. Having this consistent source of product for our clients is half the effort of getting a product to be placed as a regular menu item. The other half is a great product and that is spoken for with Aquaco Farms Pompano. The other benefits include proximity to our end users and consequent delivery and consumption within 24-36 hours of exiting the tanks for harvest. The fact that we offer door-to-door delivery of our product 6 days a week only enhances our after-sale service levels.

Pride is taken in ensuring the client receives the grade and size of fish they ordered. This is backed by a product guarantee and replacement if or when necessary.

## Customers

The initial customer base of Aquaco farms will be specialty retail, seafood wholesalers and distributors in the Central & South Florida markets. These wholesalers/distributors service hotel, restaurants, resorts etc. Whether dealing with purchasing agents or chefs/owners directly, the high-end establishments will have a built in clientele demanding the best in Florida Seafood. Partnered with that expectation is the constant drive of top chefs to serve the newest and best quality product. The only limiting factor in the premier of Pompano on a grander scale has been lack of consistent product. Aquaco Farms changes that equation.

As mentioned in earlier section listing our various product grades (A-D), we do have a secondary market for our B&C graded fish which represent 30-35% of product. To clarify, there is no difference with the meat or flesh of all grades of our Pompano. Discrepancy arises from the natural growth rates of the species. Even with sorting within our multi-tank system, you inevitably will have size variation. The B&C fish while just under size for top chefs, are ideal for the Country club & Convention Center market, 2<sup>nd</sup> tier restaurants and independent retailers such as specialty markets. The grade D is less than 5% of a tanks population and are too small but perfectly edible at just under .75 pounds. These will be donated or sold for cost as it is cheaper to do so vs. trying to grow them out any further. If genetically they were meant to be a smaller fish, they will stay a smaller fish!

## Competition

There is currently only one other producer of Florida Pompano in the World located in Dominican Republic and no other domestic producer at this time. This will not remain the case long-term, but there is an enormous competitive advantage in bringing our product to market.

Global Sea Farms Aquaculture is currently operating a test facility in Dominican Republic and has been doing so with limited success since 2010. They were started by two Canadians with a background in investment banking. The Montreal, Canada-based startup is listed on the Canadian Securities Exchange and mulling the possibility of a stock listing on the OTC Markets in the United States this year to “allow American investors to participate in the company’s growth”. AQUACO for the record has no such plans for IPO in immediate future, at least unlike this company until we have a proven track record for what we do. There are more than a few concerns with their model and here are just a few:

- They have been raising Pompano in offshore cages or pens. This is actually an economical way to farm Pompano except for one key component, bio security and disease. You cannot catch, treat or prevent disease in an open cage environment. In fact they lost a large portion of their inventory recently due to disease that could not be treated or dealt with in such a setting. You are at the mercy of the sea and what parasites etc tend to be swimming by.

- In an unlikely scenario where the operators do well despite managing from another Country, survive additional disease outbreaks and losing key personnel, AQUACO has a great competitive advantage in several key areas:
  - Location, location, location. – Even when shipped from the Dominican, it is nearly impossible to do without freezing the product. This will certainly affect the quality of the fish.

Distribution channel – As a true litmus test, if they are profitable and successful in their model, they would have to sell their fish at a price that would make AQUACO a true leader in terms of marginal profit. Currently they have one buyer, Publix supermarkets and are not here to better market their products, instead relying on their brokers to do so for them.

- Cost of Goods Sold – While there are some cost advantages to offshore cages, there are high shipping/transportation costs that more than nullifies those gains. Shipping via containers / vessels is not cheap and certainly more than loading onto a refrigerated box truck and driving to your client. Moreover, they feel the cost effect most in terms of their feed costs. As Aquaco will have delivered feed from an hour away, their feed will need to be shipped and at a high cost with the volumes needed.

#### Indirect Competition

As mentioned, there are no other Florida Pompano growers outside of above mentioned project. The indirect competition however is present and can be seen in these areas:

- The Golden Pompano – while it is an inferior fish, the chance for fraud and mislabeling exists.
- Other farmed species – Fish such as Cobia, Snapper, Grouper etc can all be farmed although present unique challenges individually. The competition is not from the species directly but from the farm-to-table and sustainability model if someone is able to do so in Florida. This presents an opportunity for co-op relationship however and there are more pros than come from other successful farms than cons at this stage of Florida’s Aquaculture Industry.
- Wild Pompano – Not to forget there is a great product directly off our shores. However commercial fishermen are somewhat handicapped by today’s rules of engagement. To start, since 1995 Florida has banned the use of near shore nets. This took a heavy toll on Pompano harvests as they are much less economical to target with hook and line. The other factor is that they are a seasonal species and they are only off of our shores for a few months a year and at that, they swiftly migrate up and down the coast based on water temperature, making it very challenging to target. The key competitive advantages that remain for Aquaco Farms is sustainability, consistent supply and just-in-time processing.

## Promotion

With our target audience being high-end restaurants, hotels, resorts and specialty retailers, Aquaco will initially present our product directly to the chefs, owners, purchasing agents of these entities based within our distribution channel.

While we will have fresh product to deliver as samples to our prospective buyers, we also want them to visit the farm for a multiple of reasons.

- Eliminate any preconceived negative notions of “farmed fish” in regards to conditions they are raised in. Aquaco Farms is designed to maintain the cleanest environment in aquaculture today. That reason is not only for client walk-thru, but also bio security reasons. A clean farm is a disease-free farm and secondarily presents well to guests.
- The local tours will also give a greater sense of farm-to-table marketing that resonates with chefs and carries over to great client loyalty.
- Guest chefs will also be selected to present various recipes for their Pompano at our monthly open-houses. A collection of these recipes will be found on our web site for clients and end- consumers to enjoy in addition to raising awareness of our fresh product.

This is a product that will be marketed with grass roots efforts vs. more traditional advertising. While the position of VP of Sales will be vital in this role in due time, it is also an important function of the CEO, Joe Cardenas. He has established relationships within the hospitality and lodging associations as well as serving on the Board (Chairman) of Discover the Palm Beaches, a County agency that distributes bed tax and is comprised primarily of hoteliers and attraction destinations.

Local media will also be attracted to the farm, initially with news of large employment in an otherwise rural area, but also in ongoing focused articles discussing many of the points already outlined in this business plan such as sustainability, renewable energy, hiring of local talent, employing special need students from the local Ernie Els Center of Excellence in Jupiter, FL.

Another key driver of our promotion will be other distributors and wholesalers. While we compete directly when Wild Pompano is caught, there is potential for synergy in supplying them with the high demand of our product. The nature of the industry proves that once a product is hot on the market, you cannot supply enough of it. Species have been fished to the point of near extinction when this happens (think Blue Fin Tuna, swordfish, Chilean Sea Bass, Uni and many others).

Another area warranting time and budget is in trade shows. The seafood purchasing show held in Boston every year is notorious for setting contracts and connecting the wholesaler with the retailer. With this will come improved marketing tools and consequent budget allocation towards improved web design, brochures, truck advertising etc. While we never assume a sale, wholesalers have confirmed that once we have a product there is existing demand. The greater challenge is in finding long term strategic partners while diversifying our base of clients.

## VI. Operational Plan

### Production

Initial production begins off-site at Proaquatix located in Vero Beach, FL. There the eggs are raised in full ocean salinity for 45-60 days and are then delivered to Aquaco Farms less than an hour away. The juveniles are placed in a separate facility on site and quarantined and adjusted to the lower salinity levels on the farm. At this stage they are raised on a separate filtering system for bio security reasons. After 30 days, the juveniles are approximately 2-3 grams and are read to be placed in the grow out center. At this stage, they are raised in tanks that will continue to escalate in size as they mature and they are sorted for more consistent end product. At time of harvest the fish are in the largest tanks (40,000 gallons) and are ready for final grading and packaging.

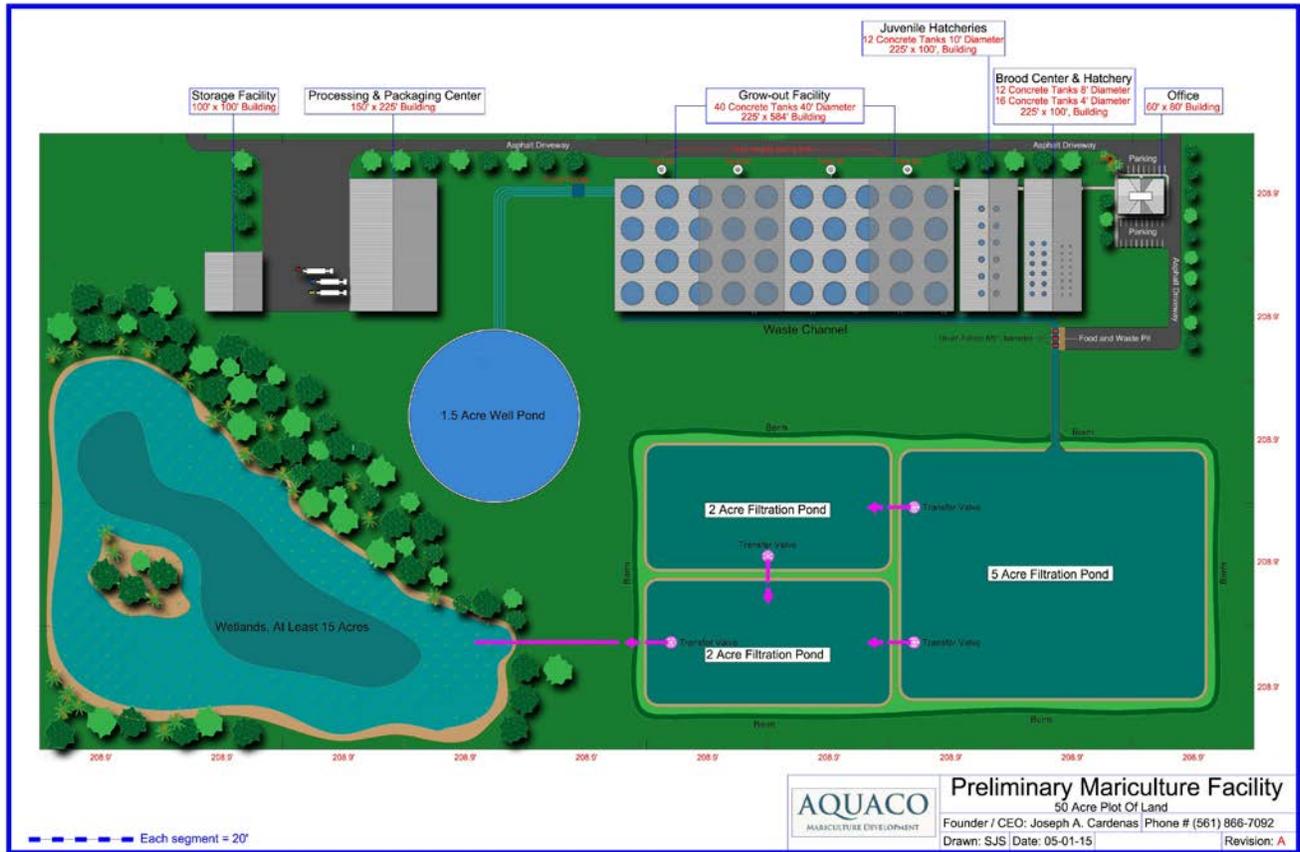
Production costs begin with the purchase of the fry from our vendor. Contracts are still being discussed, but industry average today for each fish is \$.50. That will be based on full scale delivery of 100,000-120,000 fry each month. From the time they are on site the fish are fed a commercial diet and those expenses gradually increase in relation to the amount of feed required. For example, a tank with 25,000 fry may only cost \$300 a month to feed while a tank with 20,000 harvest size Pompano could cost \$30,000 a month.

Throughout all phases of the grow-out process, trained staff is on hand to monitor water quality, fish behavior and multiple feedings per day (4-5x). The Pompano has a short intestinal tract and can process food in 3 hours. This is a reason for their fast growth and ideal selection of species, but also requires additional labor hours do to frequent feeding. Quality control is responsibility of all staff and will also be a full time position on the farm. This individual is responsible for everything from the quality of the juveniles being delivered to the sorting and handling of fish on site all the way to final inspection and grading of the harvest tanks.

As mentioned prior, there is an inevitability of the hatchery and brood stock being vertically integrated into Aquaco Farms operations. This starts by selecting the best genetic specimens from our grow-out facility and placing in a brood tank for later egg rearing. Once a sizable brood stock is in place, we will slowly wean from the vendor and produce fry internally.

### Location

The type of filtration being used on the facility requires certain soil and water conditions to be present. Since we are using a more natural approach to treating our effluent systems, it also requires a larger amount of land. While there are various locations in the state that possess the right qualities, ideally you would want to be below the frost line which would lower need for water heating equipment etc. AQUACO is currently in discussion on such a site with proximity to both I-95 and our client base. Ideal land size is 50 acres for the project and that will allow for both future expansion and flexibility in site layout. Also will accommodate the build out of the future hatchery and feed mill. Below is a rendering of full scale operations @ AquacoFarms:



Important to note that land is already zoned for agriculture which will ease the permitting and timeframe of the build. Permits for the wells will be granted by South Florida Water Management and we have already had pre-application meetings with these agencies to review our project and fully note the approval process parameters. Additional precautions have also been taken in securing the services of a consultant to ease the process for Aquaco who has the experience in working closely with the County and the agencies in mention.

Construction costs are included below:

Total Project Costs: (Including hatchery build-out which will be from company cash flow)

	<u>AC or SFT</u>	<u>\$/unit</u>	<u>Cost</u>
Land (acres)	50.00	15,000.00	750,000.00
New Construction SFT	140,000	19.39	2,714,000.00
Design/Construction Contingency			420,100.00
Site work	50.00	5,000.00	<u>250,000.00</u>
Total Hard Costs			\$4,134,100.00

Cost is **\$3,384,100** when land is leased vs. purchased.

**Personnel**

The Farm when fully staffed will have 31 employees and as additional lines of business are added such as hatchery and feed mill, that number will increase. Of the 31 employees, 14 are unskilled labor, 4 are professional and 13 are skilled labor. Proximate to the site under review is a hot bed of aquaculture talent as mentioned prior. We have 10 Universities in the State with aquaculture programs and degrees, 4 of which are within an hour and a half of the facility (FAU, Indian River State College, Florida Institute of Technology & University of Central Florida). In addition to full-time staff, Aquaco Farms will use consultants to help train and create best practices.

Not included in the above mentioned staffing models is a program being established with the Ernie Els Center of Excellence and other special needs work programs. The Center is a school focused on Autistic children from ages 3-18 and is comprised of a grade school and high school. The Center and related Foundation also has programs such as job placement and training for their students. With a full time supervisor, a select group of students will have the opportunity to work at Aquaco Farms and hopefully find a future career path in aquaculture. The Founder’s son, Jack Cardenas, will be attending the Center and participating in such a program when he graduates.

	units	per unit	2016	2017	2018	2019	2020
<b>Labor</b>							
Grow Out Production Dept. Mgmt. (day/Night)	2	\$45,000	\$0	\$45,000	\$90,000	\$90,000	\$90,000
Grow -Production workers x 10	10	\$22,500	\$0	\$45,000	\$45,000	\$225,000	\$225,000
Juvenile Center Manager x 1	1	\$45,000	\$0	\$45,000	\$45,000	\$45,000	\$45,000
Juvenile Center workers x 3	1	\$25,000	\$0	\$25,000	\$75,000	\$75,000	\$75,000
Grow out Mech. Maintanance	2	\$30,000	\$0	\$30,000	\$60,000	\$60,000	\$60,000
Packing Manager	1	\$35,000	\$0	\$0	\$35,000	\$35,000	\$35,000

Packing workers	2	\$22,500	\$0	\$0	\$22,500	\$45,000	\$45,000
Delivery Drivers	1	\$35,000	\$0	\$0	\$35,000	\$35,000	\$35,000
Fish Feed Mgr.	1	\$35,000	\$0	\$17,500	\$35,000	\$35,000	\$35,000
Quality Assurance Mgr	1	\$31,200	\$0	\$0	\$31,200	\$31,200	\$31,200
	22		\$0	\$207,500	\$473,700	\$676,200	\$676,200

units	per unit	2016	2017	2018	2019	2020
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**Exec & Admin**

President	1	\$125,000	\$0	\$125,000	\$125,000	\$125,000	\$125,000
VP Operations	1	\$95,000	\$0	\$95,000	\$95,000	\$95,000	\$95,000
Consultant(s)	1	\$50,000	\$0	\$50,000	\$50,000	\$50,000	\$50,000
Sales Administrator	1	\$35,000	\$0	\$0	\$35,000	\$35,000	\$35,000
Admin Assistant	1	\$36,000	\$0	\$18,000	\$18,000	\$36,000	\$36,000
Product Sales Manager	1	\$50,000	\$0	\$0	\$50,000	\$50,000	\$50,000
Security / BIO	2	\$30,000	\$0	\$30,000	\$60,000	\$60,000	\$60,000
Clerical PT	1	\$12,000	\$0	\$0	\$12,000	\$12,000	\$12,000
	9		\$0	\$318,000	\$445,000	\$463,000	\$463,000
<b>Net Totals:</b>	<b>31</b>		<b>\$0</b>	<b>\$525,500</b>	<b>\$918,700</b>	<b>\$1,139,200</b>	<b>\$1,139,200</b>

**Key suppliers:**

- Juvenile Pompano: Proaquatix (Formerly Troutlodge Marine)
  - Based in Vero Beach, FL (less than 30 miles away)
  - [www.proaquatix.com](http://www.proaquatix.com)



## Professional and Advisory Roles

- Board of directors - TBD
- Management advisory board
  - \* Bob Nelson, New World Angels
  - \* Christopher Cook, First bank of the Palm Beaches
  - \* Bob Rubin, Rubin Wealth Advisors
  - \* Christopher Callahan, Startup WPB
  - \* Mark Palazzo, TechCXO, LLC
  - \* Monica Van Tassel, Camden Capital
  - \* Geno Valdes, Southern Specialties Group
- Attorney
  - Brad Eavenson, Eavenson, Fraser & Lunsford PL
- Accountant
  - Brian Carroll, Melbourne, FL
- Insurance agent
  - Kyle Henderson, Celedinas Insurance, Palm Beach Gardens, FL
- Banker
  - BB&T, Evan Wyant, PBC Market President
- Consultant(s)
  - Sandy Yosha, DVM, marine science, expert on fish disease/bio security

## VII. Startup Expenses and Capitalization

There are two phases to the project and here is the breakdown of each:

Phase 1: This consists of all the soft costs of the project, land purchase, FF&E, working capital for 18 months and new construction for the 1/10 scale model operations.  
(Construction Budget available for review)

### Site Costs - (Phase 1)

	<u>AC or SFT</u>	<u>\$/unit</u>	
Land (acres)	50.00		-
New Construction SFT	35,000	26.70	934,500.00
Construction Contingency			110,950.00
Sitework	50.00	3,500	175,000.00
Total Hard Costs			1,220,450.00
Architectural/Engineering		50,000.00	
City Use Fees		35,000.00	
Water Testing/Hydrologist		50,000.00	
Aquaculture Consultants		75,000.00	
Permits / Fees		35,000.00	
Legal/Accounting		50,000.00	
Doc Stamp Fees / Title Ins.		-	
Insurance		3,661.35	
Travel		2,500.00	
Total Soft Costs			\$301,161
Soft Cost Contingency			<u>\$30,116</u>
			\$331,277
18 months working capital			\$1,200,000
FF&E			\$317,030
Total Phase 1 Project Costs:			<b>\$3,068,757</b>

Phase 2: This consists of all the soft costs of the project, FF&E, working capital for 12 months and new construction for the full scale operations (Construction budget available for review as well as breakdown of FF&E & working capital needs)

**Site Costs - (Phase II)**

	<u>AC or SFT</u>	<u>\$/unit</u>	
Land (acres)	25.00	15,000.00	-
New Construction			
SFT	120,000	12.39	1,486,750.00
Construction Contingency			148,675.00
Sitework	-	-	-
Total Hard Costs			1,635,425.00
Architectural/Engineering		20,000.00	
City Use Fees		10,000.00	
Water Testing/Hydrologist		-	
Aquaculture Consultants		50,000.00	
Permits / Fees		5,000.00	
Legal/Accounting		15,000.00	
Doc Stamp Fees / Title Ins.		5,723.99	
Insurance		4,906.28	
Travel		5,000.00	
Total Soft Costs			\$115,630
Soft Cost Contingency			<u>\$11,563</u>
			\$127,193
12 months working capital			\$1,200,000
FF&E			\$673,105
Total Phase II Project Costs:			<b>\$3,635,723</b>

## VIII. Financial Plan

### Monthly Net Income Statement

The following statement only includes revenue derived from the direct sale of our Primary product, the Florida Pompano. It is also a snapshot into the first full year of operations. Additional revenue sources going forward as well as increased efficiencies in farm operations and feed will increase revenue up to 25%.

#### Aquaco Farms Monthly Net Income Statement (post 7th month of Prod.)

#### Aquaco Farms Monthly Net Income Statement (post 8th month of Prod.)

	\$\$\$\$	%
<b>Net Revenue</b>	<b>\$468,750</b>	<b>100.00%</b>
<b>Cost of Goods Sold:</b>	<b>\$261,200</b>	<b>55.72%</b>
<b>Gross Margin:</b>	<b>\$207,550</b>	<b>44.28%</b>
Variable expenses:		
IT - ongoing support	\$500	0.11%
Utilities	\$13,050	2.78%
Office Expenses	\$5,000	1.07%
Misc.	\$6,000	1.28%
Fingerling Transportation	\$750	0.16%
<b>Total Variable Expenses:</b>	<b>\$25,300</b>	<b>5.40%</b>
<b>Net Margin:</b>	<b>\$182,250</b>	<b>38.88%</b>
Fixed expenses:		
Insurance	\$16,372	3.49%
Building expense	\$4,417	0.94%
Lease	\$10,000	2.13%
Vehicles	\$550	0.12%
Vehicle / Equipment Maintenance	\$104	0.02%
Payroll Expenses	\$14,771	3.15%
Labor (Exec - Admin)	\$38,583	8.23%
<b>Total Fixed Expenses:</b>	<b>\$84,797</b>	<b>18.09%</b>
<b>Total Expenses:</b>	<b>\$110,097</b>	<b>23.49%</b>
<b>EBITDA</b>		<b>0.00%</b>
<b>Net Operating Income:</b>	<b>\$97,453</b>	<b>20.79%</b>
<b>Annualized Revenue:</b>	<b>\$1,169,441</b>	

## Projected Phase 1 expenses:

**Fixed Costs (Phase 1)**

	<u>Annual</u>	<u>Monthly Expense</u>
<b>Staff</b>		
Farm labor	207,500.00	17,291.67
Exec & Admin	318,000.00	26,500.00
Payroll Processing Expense	6,500.00	541.67
Soc Sec. Tax (6.2%)	\$32,581	2,715.08
Medicare Tax (1.45%)	\$7,620	634.98
FUTA (.08 of 1st \$7,000)	\$5,040	420.00
	-	-
	577,241	48,103.40
<b>Feed Costs</b>		
Feed for Farm	360,000	30,000.00
	-	-
	360,000.00	30,000.00
<b>Insurance</b>		
Property	15,000	1,250.00
General Liability	10,000	833.33
Workman's Comp	26,275	2,189.58
Machinery	1,000	83.33
Business Peril Insurance	2,500	208.33
Vehicle Insurance	4,000	333.33
Health	21,600	1,800.00
	80,375.00	6,697.92
<b>Lease / Royalty Costs</b>		
Lease / Royalty Costs	60,000	5,000.00
	-	-
	60,000.00	5,000.00
<b>Building expenses</b>		
Property maintenance (grounds)	6,000	500.00
Repairs	5,000	416.67
Trailer Rental	9,000	750.00
Tools and supplies	7,500	625.00
	-	-
	27,500.00	2,291.67
<b>Transportation / Equipment</b>		
Leased Box trucks (Refrigerated) x1	10,200	850.00
Vehicle / Equipment Maintenance	3,000	250.00
Fuel	12,000	1,000.00
Employee Travel Reimbursement	4,200	350.00
	29,400	2,450
<b>Office expenses</b>		
office products	1,200	100.00
office equipment lease	2,000	166.67
Subscriptions / Dues / Memberships	1,200	100.00
Political Donations	0	-
Advertising / Marketing	5,000	416.67
Meals / Entertainment	3,500	291.67

Licenses, Fees	2,500	208.33
POS system and inventory mgmt.	2,000	166.67
Travel	7,500	625.00
Bank Charges	1,000	83.33
Legal Fees	6,000	500.00
CPA (reviewed financials)	14,400	1,200.00
Trade Shows	<u>2,400</u>	<u>200.00</u>
	48,700	4,058

**Misc.**

Freight / Postage	500	41.67
Property Taxes		
Shirts (uniform service)	<u>2,000</u>	<u>166.67</u>
	2,500	208

**Utilities**

Electric	75,000	6,250.00
Water	0	-
Telephone	3,300	275.00
Cable / internet	<u>1,800</u>	<u>150.00</u>
	80,100	6,675

	<b>Annual</b>	<b>Monthly</b>
Total Project Costs	1,205,815.75	100,484.65

### Break-Even Analysis

<b>Monthly COGS &amp; Expenses:</b>	<b>\$371,297</b>
Price per pound	\$6.25
Weight of Market Ready Fish (lbs)	1.25
Per Unit Value	\$7.81
<b>Units needs to cover costs:</b>	<b>47,526</b>

(expected monthly production is 70k-80k units)

<b>Monthly COGS &amp; Expenses:</b>	<b>\$371,297</b>
Monthly Production in Lbs	93,750
Avg. Weight of Market Ready Fish (lbs)	1.25
Avg. # of Units	75,000
<b>Break Even Price Per Pound:</b>	<b>\$3.96</b>

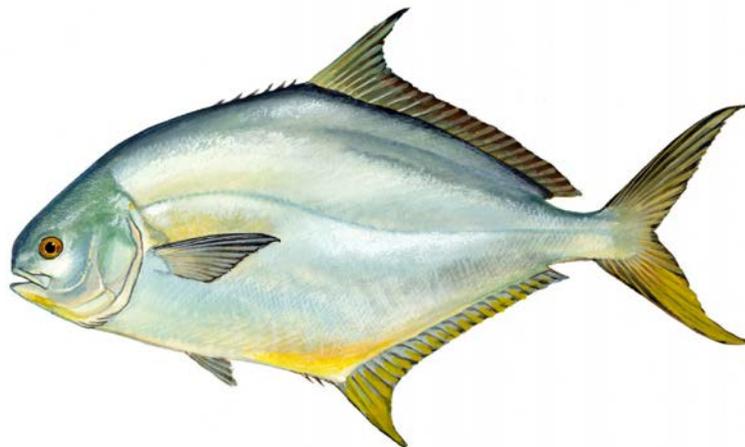
(expected sale price per pound is \$7.50-\$8.00)

\* \$3.96 per pound.

\*\* Average sale price per fish is \$7.81



Thank you for your consideration and time towards this project. I look forward to answering any questions you may have on the material or business in general.



Joe Cardenas, CEO

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