SeaDragon

Funding for expansion

Fish oil factory on approach

Food & beverages

SeaDragon (SEA) is a final-stage fish oil processor based in Nelson, New Zealand. Its existing 300 tonne (t) capacity plant produces omega-2 oils for the global dietary supplements market. A new 5,000t omega-3 plant is nearing completion, with production expected by December 2015. We see entry into the omega-3 market as a game-changer for SEA because the market is ~50 times larger (by volume) than the omega-2 market and the new factory is capable of allowing SEA to produce more value-added products.

Year end	Revenue (NZ$m)	PBT* (NZ$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
03/14	3.1	0.4	0.0	0.0	N/A	N/A
03/15	6.3	(2.8)	(0.2)	0.0	N/A	N/A
03/16e	12.3	(0.7)	0.0	0.0	N/A	N/A
03/17e	27.5	4.6	0.1	0.0	10.5	N/A

Note: *PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments.

Omega-3 plant – a game-changer

We see the production of omega-3 oil from the new factory, built at a cost of NZ$9.2m, as a game-changer for SEA. While omega-2 remains an important product, supply continues to be an issue. Sourcing of deep-sea fish livers (DSFL) for the production of squalene is dependent on re-signing ongoing supply contracts. SEA plans to source increasing amounts of unrefined fish oil for omega-3 production from local New Zealand fisheries. Supply certainty and proximity, together with certification from New Zealand's Ministry of Primary Industries, should provide SEA with a significant competitive advantage.

Funding in place

The pro rata rights issue of NZ$9.0m should provide sufficient funds to complete the omega-3 factory, including the fractionation plant and to upgrade the omega-2 factory. We have not forecast a restoration of dividends; however, our forecasts show net cash of NZ$6.4m by FY18.

Valuation: Dependent on production ramp up

Our DCF valuation of NZ$0.021 assumes that omega-3 production will reach capacity by FY19 and that omega-2 production will increase to 460t by FY19. The current share price is assuming that omega-3 production will be a moderate success. It is pricing in production reaching a maximum of ~34% of capacity. We think that the achievement of SEA's fundamental value using a DCF valuation will depend on production levels reached by the omega-3 plant rather than on issues with demand. Volume demand is forecast by Frost and Sullivan (2013) to grow by CAGR of 6.1% through to 2020. We think that SEA has the capacity to win market share, because it has a quality product sourced from sustainable, traceable fisheries.

20 August 2015

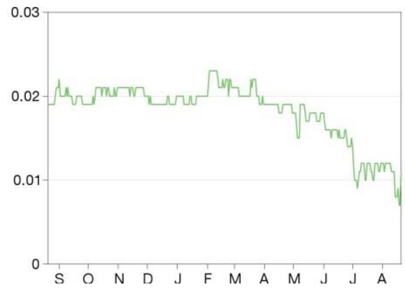
Price*	**NZ$0.011**
Market cap	**NZ$21m**

*The 1,126m rights (SEARA.NZX) are trading at NZ$0.001

NZ$/US$1:66; NZ$/€0.59

Net debt (NZ$m) at March 2015	2.5
Shares in issue* *Before rights issue of up to 1,126m shares	1,876m
Free float	37%
Code	SEA
Primary exchange	NZX
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(41.8)	(60.2)	(60.2)
Rel (local)	(40.8)	(59.8)	(62.9)

52-week high/low	NZ$0.023	NZ$0.007

Business description

SeaDragon (SEA) is a manufacturer of specialist fish oils for the global dietary supplements market. Its main products are omega-2 known as squalene (from shark livers) and from CY Q416 omega-3 oils. The company is based in Nelson, New Zealand.

Next event

AGM	17 September 2015

Analysts

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Edison profile page

Investment summary

Company description: Fish oil processor

SEA is a processor and refiner of fish oils, based in New Zealand (NZ). It has been involved for some years in processing deep-sea shark livers (DSSL) and deep-sea shark liver oil (DSSLO) into omega-2, a product used in cosmetics and as a dietary supplement. SEA provides the 'first stage' processing, importing the shark livers/oil and exporting squalene in bulk. A purpose-built omega-3 plant is nearing completion, with production expected to commence December 2015. The company budgets to produce 282t of omega-3 by 31 March 2016. It plans to relocate omega-2 production to the new facility, which has been designed to accommodate additional processing facilities if required.

Demand for fish oils is strong, with global prices rising due to lower catches and increased demand for omega-3 and squalene products. SeaDragon is focusing on sourcing fish for the production of omega-3 from sustainable fisheries in NZ waters and the south-western Pacific.

Valuation: Adjusting for execution risk

Our DCF valuation of SEA is 2.1c per share based on a WACC of 13.7% and a terminal growth rate of 2%. This valuation assumes the omega-3 plant reaches 60% capacity by FY18 and 80% capacity by FY19. If 80% capacity is reached one year earlier, our DCF increases by 19% to 2.5c per share.

The current share price assumes the omega-3 factory only reaches 34% capacity in the long term. We think that as SEA proves that it can secure the necessary raw materials and produce to the market's quality standards, the gap between the share price and our DCF valuation will close. We expect this to happen around FY17.

Financials: Moving from losses to profitable growth

We expect SEA will be profitable from FY17, provided it can ramp-up production of omega-3. Our forecasts assume raw materials will be available for production of 336t of omega-2 in FY17, increasing to 443t in FY18, and that omega-3 production will increase to 2,990t by FY18. Our assumed gross margins of 44% for omega-2 and 35% for omega-3 remain unchanged during the forecast period. Overheads are assumed to remain largely fixed, with annual increases of 2%.

Sensitivities

For omega-2 the biggest issue remains sourcing of raw material. Squalene supplies depend on sufficient sharks being supplied to SEA in the September-to- March period. Omega 2, with a sales price five times that of omega-3 and a superior gross margin, remains important to the profitability of SEA. Our FY18 forecasts assume gross profit contribution of 51% from omega-2 and 49% from omega-3.

Successful commissioning of the new omega-3 facility and the subsequent ramping-up of production is expected to be a key determinant of value for SEA. The factory is overbudget on both cost and time and therefore for investors, it will be a case of 'seeing is believing'.

The company is also exposed to exchange rates for both raw materials supplies and sales of products to customers. It does have some domestic sales, but the bulk is exports.

Company description: Adding omega-3

SeaDragon (SEA) is a Nelson, NZ-based refiner and processor of fish oils, primarily for use in the cosmetic, nutraceutical and pharmaceutical industries. It has over 20 years' industry expertise and knowledge in the production of squalene, sourced from shark livers to produce omega-2 fish oils. The omega-2 plant has a capacity of 300t (extendable to 500t with minimal capital cost) and until FY Q316 omega-2 has been its only product. A new fit-for-purpose omega-3 plant with a capacity of 5,000t will begin production in FY Q316. We expect that the move to omega-3 production will be a company-changing move, because it will enable SEA to participate in a much larger market while leveraging the reputation it has established as an omega-2 producer supplying a clean, green, sustainable, high-quality product.

SEA was listed on NZX in 2012 via a reverse takeover of a small listed shell, Claridge Capital. In 2014, it secured its first material contracted supply of deep-sea shark liver (DSSL) used to produce omega-2. This has assisted in the company's ambition to achieve consistency of production and growth of the omega-2 product as shown by FY15 revenues.

Development of omega-3 production

The construction of the fit-for-purpose 5,000tpa capacity omega-3 processing plant was commenced in October 2014. Production delays, mainly caused by stricter building codes following the 2013 Seddon earthquake and the need to futureproof the site, have caused the cost and the timeline to exceed expectations. The initial cost estimate of NZ$6m is now NZ$9.2m and the completion/commissioning date is now late in FY Q316 instead of March 2015. The company estimates that it will produce 37t of omega-3 by 31 December 2015 and 282t by 31 March 2016.

The rationale for commencing omega-3 production includes:

- the widely acknowledged health benefits of omega-3 which is causing demand to increase. Frost and Sullivan (2013) estimated that total revenue in global omega-3 polyunsaturated fatty acids (PUFA) ingredients market was US$2.6b and was expected to reach US$4.9m by 2020;
- the expectation that demand for omega-3 will continue to exceed supply;
- leveraging NZ's reputation for oceans that are clean, pure, fresh and cool;
- benefiting from NZ's reputation for producing high-quality food products, under robust food safety conditions and standards;
- proximity to the supply of raw material, which means that SEA can guarantee freshness;
- SEA's reputation for providing a high-quality omega-2 product;
- well-developed customer relations formed from selling omega-2;
- limited competition in the Asia-Pacific region; and
- growth in demand from Asia, in particular for an increasingly wealthy and health-conscious China.

The omega-3 fish oil refinery will be the largest and most technically advanced facility in Australasia. It will be capable of producing 5000tpa which is 5.6% of FY13 global production of 88,650 tonnes of refined oil including concentrates.[1] However, when one takes into account the amount of omega-3 products produced to make concentrates, as well as unconcentrated omega-3, SeaDragon's annual capacity is a modest 2.5% of estimated 2015 global annual production of ~200,000t. The market is expected to grow at CAGR of 6.1%[2] until 2020, which means that if we assume that it will take approximately four years for SEA to reach full production by 2020, the

[1] Global EPA and DHA raw material, GOED, 2013.

[2] Frost and Sullivan, (included as a forecast for FY15 in the 2013 report).

market will have reached ~253,000t and SEA's production would account for 2.0% of world demand.

The dimension of the company-changing nature of the omega-3 plant is illustrated by SEA's claim that at 80% capacity, its revenue from omega-3 would be NZ$30m with EBITDA estimated at NZ$10m. This compares with EBITDA losses of NZ$2.2m in FY15.

Competitive advantage from quantity and proximity of supply

A study undertaken by the Liggins Institute of the University of Auckland (published in January 2015) found that;

- 29 out of a sample of 32 fish oil tablets sold in NZ had less than the quantities of PUFA specified on the product label; and
- more than half the sample exceeded the recommended levels of oxidisation.

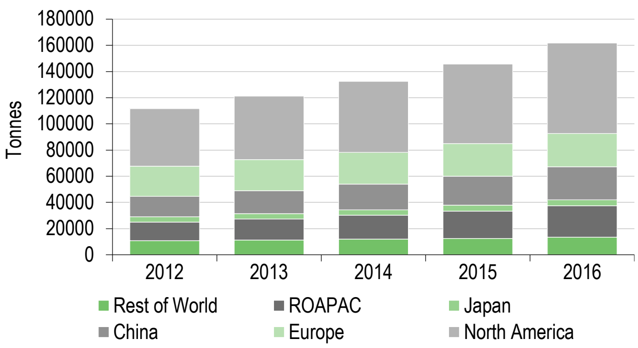
The health impacts of oxidisation require further investigation, but from the study it appears that time from the catch to processing is one of the key contributors to increases in oxidisation levels.

The SEA omega-3 product will use sustainably-harvested NZ-caught fish and bring these to market in the shortest possible time, which should assist in both the minimisation of oxidisation and the production of a quality product. SEA plans to process oils from south-western Pacific caught tuna and South American sourced anchovy, before adding locally caught hoki and farmed king salmon. All NZ-sourced fish will come from fisheries that have been classified as sustainable. The market advantage for SEA is that it will be able to differentiate its products for consumers so that they can identify the source of fish, its freshness and the sustainability characteristics.

The omega-3 market

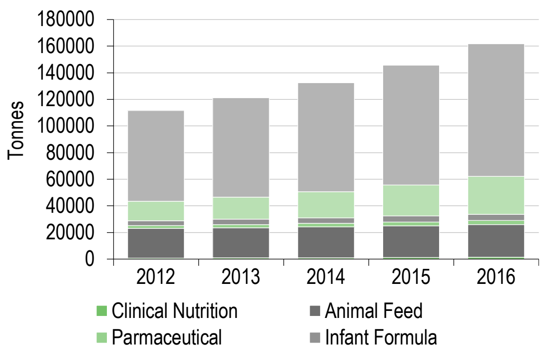
The initial market targeted by SEA is the dietary supplements market, which accounts for about 80% by volume and ~50% by value of the total market. However, other segments such as food and beverage and pharmaceuticals are growing at faster rates and attract significantly higher prices and therefore higher gross margins. For example, the price of fish oil supplied for pharmaceuticals is ~six times the price of fish oil supplied to the dietary supplements market. However, to enter the food and beverage and pharmaceutical markets requires further investment in plant and processes to ensure that the product meets the standards required.

Exhibit 1: Omega-3 ingredients (shipments in tonnes)



Source: Frost & Sullivan, 2013

Exhibit 2: Omega-3 end-use markets (tonnes)



Source: Frost & Sullivan, 2013

The fish species required for omega-3 production include:

- anchovies which are sourced from three suppliers in Peru. The plan is to use anchovies initially and then to add more NZ/South Pacific-sourced raw materials;
- hoki which is available from May to July and is sourced from NZ fisheries;

- tuna from Fiji, the Philippines and American Samoa; and
- farmed salmon, which is available all year and is sourced from three suppliers in NZ.

The omega-2 market

SEA produces food-grade omega-2 and supplies the nutraceutical market, rather than the cosmetic and pharmaceutical markets.

Until the signing of supply contracts in March 2014 for up to 580t of DSSL and DSSLO, SEA's production of omega-2 products had been constrained. To produce squalene the DSSL first has to be turned into DSSLO with a conversion rate of 75% (ie 1,000kg of DSSL equals 750kg of DSSLO). The DSSLO is then processed to extract the squalene at a conversion rate of 67% (ie 750kg of DSSLO equals 503kg of squalene). DSSL is able to be stored for extended lengths of time in frozen form without degradation, thus SEA will hold the inventory in storage and progressively draw down the inventory as it makes deliveries against its two major sales contracts. These contracts for the 2014/15 season have enabled SEA to run its omega-2 plant at 50% capacity for 12-18 months (ie to September 2015).

The overall market is growing at a CAGR of 10.3% and is expected to be valued at US$177m by 2019. Growth is largely driven by China which is the world's biggest consumer of omega-2.[3] While demand in China remains strong to date and is expected to remain so, it is possible that the rate of growth could begin to slow. The largest sectors are cosmetic and pharmaceutical products where CAGR is estimated at 7.0% to 7.2% respectively between 2014 and 2019.

We expect that when the company can secure supply contracts and when it moves into the new omega-3 refinery, where its production will be able to be performed to a higher standard, then SEA is likely to grow its revenue in line with the market rate of 10.3% pa until 2019.

Opportunity – go up the value chain

Currently, SEA sits at the low end of the fish oils value chain. The dietary supplements market, while large, is a low value market on a per tonne basis. In the case of omega-3 the dietary supplement market will pay an average of US$13,350 per tonne. However, omega-3 for infant nutrition can command over US$86,000 per tonne.[3] The difference is largely down to the amount of processing and quality of the final product.

As indicated in its 2015 annual report, SEA plans to move into further processing to enable it to manufacture products for functional foods and to produce omega-3 concentrate for both the dietary supplement and pharmaceutical markets. This will require further investment in plant and equipment. The company currently has not provided any timing about when this plan may be executed and thus it does not feature in our projections.

Board

A new chairman, Colin Groves was appointed in June 2015 to replace Dr Doug Wilson. Mr Groves is a chartered accountant and is currently the chairman of NZ's largest smartphone application development company MEA Mobile and the Agri Group of Companies, which includes the leading dairy consumables business Deosan. He has spent 23 years with Tetra Laval as director of mergers and acquisitions and has had extensive experience in the global food packaging and production business.

Other directors are:

[3] Markets and Markets, 2014

- Patrick Geals has a background in sales and marketing and business development in UK, Europe and USA. He has been in NZ since 1994 and most recently has been CEO of the New Zealand Organic Dairy Farmers Co-operative and its subsidiary Organic Dairy.
- Richard Alderton is filling the role of CEO while a replacement for Ross Keeley is being sought. He was previously CEO of DeLaval Oceania.
- Matthew McNamara is the CEO of BioScience Managers with 25 years' experience in the healthcare and medical sciences sector. He has spent 11 years in sales and marketing with Merck & Co and in general management with Johnson and Johnson Medical. Matthew's alternate is Jeremy Curnock Cook, who is managing director of Octa Phillip Bioscience Managers and former head of the life science private equity team at Rothschild Asset Management.
- Stuart Macintosh is a director and controlling shareholder of MerSea Holdings, which holds 42.3% of SEA. His experience includes 11 years at multinational food group Cerebos Greggs.

Ross Keeley and Tim Preston are currently directors but intend to retire at the AGM on 17 September 2015.

Management

Richard Alderton heads SEA as acting CEO. He has stated that he will continue as CEO until a permanent CEO is announced. Richard has also agreed to join the board. His appointment is subject to a shareholder vote at the AGM.

The management team has also been strengthened with recent appointments:

- Stephen Bayley as CFO in October 2014. He has held senior roles in a broad range of public and private companies.
- Jorn Frisk as procurement manager in January 2015. He has had an international career in operational purchasing and procurement and has spent the last 10 years working in the fishing industry in NZ.
- Campbell Berry-Kilgour as director of sales in October 2014. He is a pharmacologist and he has held a range of marketing and sales management roles in pharmaceutical companies and in NZ natural health companies.
- Mark Gornall as compliance manager in February 2014. He is a food technologist with 16 years' experience in domestic and international seafood industries.

Valuation

We have used DCF techniques to determine our valuation and have contrasted this with the future cash flows implied by the current share price. We have used a WACC of 13.7% and a terminal growth rate of 2%. Our analysis shows that the current share price is only factoring in the omega-3 plant operating at 34% capacity.

Our projections, which assume that the omega-3 plant will be operating at ~60% capacity by FY18 increasing to full capacity by FY19, result in a valuation of NZ$0.021 per share. The terminal value, which is equivalent to a terminal EBITDA multiple of 5.7x, comprises 45% of the total DCF value. We have also used our DCF to back-solve for the amount of omega-3 capacity that is being priced into the current share price. Our calculation leaves the omega-2 production assumptions unchanged and determines that the amount of omega-3 production priced into the current share price is 34%.

Exhibit 3: SEA – DCF

NZ$m	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	Terminal
Free cash flow	(5.6)	1.0	5.3	8.3	10.1	10.3	10.5	11.4	11.6	11.8	12.1
Discount	0.880	0.880	0.774	0.681	0.599	0.527	0.463	0.408	0.359	0.315	0.277
Discounted value	(4.9)	0.9	4.1	5.7	6.0	5.4	4.8	4.6	4.2	3.7	3.4
Terminal value	0	0	0	0	0	0	0	0	0	0	103.4
Sum of PV	34.5										
Terminal value at FY26e	103.4										
Discount factor	0.277										
PV of terminal value	28.7										
PV of enterprise	63.2										
Debt	(0.9)										
Net value to shareholder	64.1										
Number of shares in issue	3003.0										
NPV	$0.0213										

Source: Edison Investment Research

Sensitivities

Execution

The discussion above sets out the current best estimates for the company over the next three years. However, it is dependent on achieving a number of key goals. These include:

- securing the expected supplies of DSSL and DSSLO. The company is confident of renewing contracts on similar terms;
- successful commissioning of the omega-3 plant;
- securing supplies of raw material and customers for the omega-3 plant; and
- securing contracts for the sale for the new omega-3.

Exchange rates

SEA is exposed to exchange-rate movements. It buys the bulk of its raw material in US dollars or euros, and while it does make domestic sales, most of its revenue will come from exports priced in US dollars or euros. All SEA's operating costs are in NZ dollars.

A 10% move in the US/NZ$ and Euro/NZ$ exchange rate is illustrated using FY16 forecasts.

Exhibit 4: SEA – exchange rate impact on FY16e*

	FY16e	FY16e	FY16e
NZ$m	Base	10%	Variance
Revenue	12.3	13.4	1.11
EBITDA	0.2	0.6	0.42
EBIT	(0.6)	(0.1)	0.47
NPAT	(0.5)	(0.2)	0.33
EBITDA margin	1.6%	4.6%	3.0%

Source: Edison Investment Research. Note: *Example assumes a favourable exchange-rate movement. An adverse effect would be equal and opposite.

Share price volatility

SEA will have 3,003m shares in issue (post the current NZ$9.0m capital raise) and the current price is NZ$0.011 per share. The minimum tick size allowed by NZX is 0.1 cents, thus based on the current share price the minimum tick size represents a ~9% movement in the share price. These are significant movements in percentage terms compared to the dollar value of any price movement.

EDISON

Financials

Capital raising

In June 2015, SEA signalled its intention to raise further capital and also announced that its cornerstone shareholder BioScience Managers had advanced NZ$2.5m as an 18% convertible note to be converted to ordinary shares when the rights issue closes. On 18 August 2015, SEA announced the terms of the pro rata three for five renounceable rights offer to raise up to NZ$9m. The issue price is NZ$0.008 and the minimum raise has been set at NZ$2.5m. The TERP is NZ$0.016, compared with the current share price of NZ$0.011. The option is exercisable at NZ$0.015, at any time during the period from 1 October 2015 to 29 September 2018. Bioscience Managers is not participating in the rights offer but has stated that it will participate in any shortfall (which will be subject to a book build) by converting its NZ$2.5m convertible note. The convertible note is subject to shareholder approval at the AGM to be held on 17 September 2015. The capital injection will be used to complete the omega-3 plant, upgrade the omega-2 plant, complete the omega-3 fractionation plant and to provide working capital.

In our financial forecasts we have made the following assumptions for FY16:

- SEA issues 1,126,142,517 new shares to shareholders who participate in the rights issue and to BioScience Managers who participate in the book build and convert NZ$2.5m convertible note to equity. No allowance has been included for the conversion of interest accrued to equity (this would not be material to future EPS calculations or to our DCF);
- the total number of shares in issue after the rights issue is 3,003,046,711;
- there are 1,126,142,516 options to be converted at NZ$0.015 between 1 October 2015 and 29 September 2018. Our forecasts assume no conversion, although we note that if our production forecasts are accurate, it is possible that the options will be 'in the money' before the 29 September 2018 expiry date; and
- the total amount raised is NZ$9m which includes the conversion of BioScience Managers NZ$2.5m convertible note.

Share consolidation

The company has announced its intention to undertake a 20:1 share consolidation, which is subject to board approval and sanction from the New Zealand Stock Exchange. The planned share consolidation is to take place after the allotment of SEA securities which is scheduled for 18 September 2015. The maximum number of shares outstanding after the share consolidation will be 150,152,336 shares and the maximum number of options outstanding after the share consolidation is 56,307,125. No adjustment for the proposed share consolidation has been made in our forecasts.

Forecasts

We have revised our forecasts to take into account the additional capital expenditure on the omega-3 plant and the delays in opening the plant. Our revenue forecasts assume that the omega-3 plant will be operating at 29% capacity in FY17 and 60% capacity in FY18, before ramping up to full production from FY19.

Exhibit 5: SEA – FY16 forecast changes

NZ$m	FY16e Old	FY16e New	FY16e Variance (%)
Revenue	27.5	12.3	(55.3)
EBITDA	6.7	0.2	(97.1)
EBIT	5.8	(0.6)	N/M
NPAT	4.5	(0.5)	N/M
EPS (NZ cents per share)	0.24	(0.02)	N/M

Source: Edison Investment Research. Note: N/M is not meaningful.

We have used the company's FY16 revenue and gross profit and overhead forecasts as a basis for forecasting the remainder of the period. We have assumed that the overheads are largely fixed and will increase by 2% per annum over the forecast period.

Exhibit 6: SEA – forecast assumptions

	FY16e	FY17e	FY18e
Omega-2			
Volume (tonnes)	228	336	443
Price (NZ$)	44,350	45,020	45,902
COGS (%)	56	56	56
Omega-3			
Volume (tonnes)	282	1,440	2,990
Price (NZ$)	7,752	8,223	8,388
COGS (%)	65	65	65

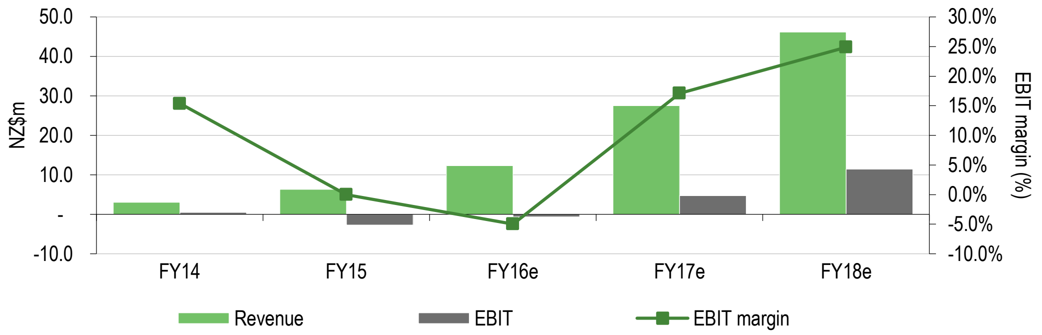
Source: Edison Investment Research

Exhibit 7: SEA – forecasts

NZ$m	FY14	FY15	FY16e	FY17e	FY18e
Revenue	3.1	6.3	12.3	27.5	46.1
EBITDA	1.0	(2.2)	0.2	5.8	12.7
EBIT	0.5	(2.7)	(0.6)	4.7	11.5
NPAT	0.4	(2.8)	(0.5)	3.2	7.8
EBITDA margin (%)	33.4	N/M	1.6%	21.2%	27.5%
EBIT margin (%)	15.4	N/M	N/M	17.1%	24.9%

Source: SEA data, Edison Investment Research

Exhibit 8: SEA – revenue and EBIT



Source: SEA data, Edison Investment Research

Our forecasts are sensitive to the ramp-up of omega-3 production. We have undertaken sensitivity analysis, which shows full production reached by FY18 instead of FY19. The result is a 19% lift in our DCF and a 29% increase in FY18 NPAT.

Exhibit 9: SEA – Sensitivity analysis	FY16e	FY17e	FY18e
Production			
Omega-3 tonnes – forecast	282	1,440	2,990
Omega-3 tonnes – sensitivity	282	1,740	4,140
Variance (%)		20.8	38.5
Revenue (NZ$m)			
Omega-3 tonnes – forecast	12.3	27.5	46.1
Omega-3 tonnes – sensitivity	12.3	30.0	55.7
Variance (%)		8.9	20.8
EBITDA (NZ$m)			
Omega-3 tonnes – forecast	0.2	5.8	12.7
Omega-3 tonnes – sensitivity	0.2	6.7	16.0
Variance (%)		14.7	26.4
NPAT (NZ$m)			
Omega-3 tonnes – forecast	(0.5)	3.2	7.8
Omega-3 tonnes – sensitivity	(0.5)	3.7	10.1
Variance (%)		18.5	29.2
DCF (NZ cents per share)			
Omega-3 tonnes – forecast (cps)	0.021		
Omega-3 tonnes – sensitivity (cps)	0.025		
Variance (%)	18.5		

Source: Edison Investment Research

We have calculated the break-even point in production terms as 200t of omega-2 and 600t of omega-3

Cash flow

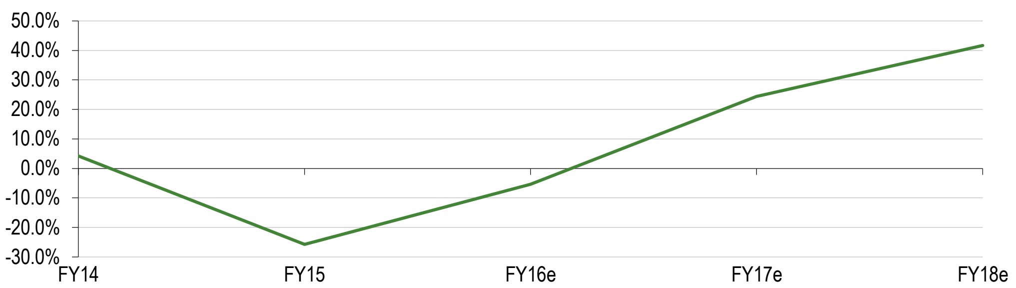
We have assumed that no dividends will be paid during the forecast period.

Balance sheet

We have assumed that the NZ$9.0m capital raise which includes the conversion of BioScience Managers NZ$2.5m convertible note to equity (through participation in the bookbuild for the shortfall) is successful and that this funding will be sufficient to fund the completion of the omega-3 plant and the upgrading of the omega-2 plant. Our forecasts assume a cash balance of NZ$0.9m as at 31 March 2016 following the completion of the plant development.

Return on invested capital

Exhibit 10: SEA – return on invested capital

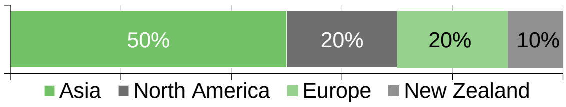


Source: SEA data, Edison Investment Research

Exhibit 11: Financial summary

NZ$000s	2014	2015	2016e	2017e	2018e
31 March	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	3,058	6,322	12,298	27,536	46,138
Cost of Sales	(2,260)	(5,815)	(7,103)	(16,615)	(28,284)
Gross Profit	798	507	5,195	10,921	17,854
EBITDA	1,021	(2,185)	195	5,846	12,677
Operating Profit (before amort. and except.)	470	(2,749)	(611)	4,708	11,484
Intangible Amortisation	0	0	0	0	0
Exceptionals	0	0	0	0	0
Other	0	0	0	0	0
Operating Profit	470	(2,749)	(611)	4,708	11,484
Net Interest	(39)	(60)	(72)	(66)	(28)
Profit Before Tax (norm)	431	(2,809)	(682)	4,642	11,457
Profit Before Tax (FRS 3)	431	(2,809)	(682)	4,642	11,457
Tax	0	(29)	218	(1,486)	(3,666)
Profit After Tax (norm)	431	(2,838)	(464)	3,157	7,790
Profit After Tax (FRS 3)	431	(2,838)	(464)	3,157	7,790
Average Number of Shares Outstanding (m)	1,506.8	1,870.4	3,003.0	3,003.0	3,003.0
EPS - normalised (c)	0.0	(0.2)	(0.0)	0.1	0.3
EPS - normalised and fully diluted (c)	0.0	(0.2)	(0.0)	0.1	0.3
EPS - (IFRS) (c)	0.0	(0.2)	(0.0)	0.1	0.3
Dividend per share (c)	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)	26.1	8.0	42.2	39.7	38.7
EBITDA Margin (%)	33.4	-34.6	1.6	21.2	27.5
Operating Margin (before GW and except.) (%)	15.4	-43.5	-5.0	17.1	24.9
BALANCE SHEET					
Fixed Assets	3,915	6,641	11,238	11,783	12,366
Intangible Assets	0	0	0	0	0
Tangible Assets	3,915	6,641	11,238	11,783	12,366
Investments	0	0	0	0	0
Current Assets	8,254	5,396	9,452	13,662	22,831
Stocks	1,903	1,906	3,051	4,374	6,748
Debtors	1,182	2,974	2,480	4,627	6,646
Cash	5,161	500	3,905	4,645	9,421
Other	8	16	16	16	16
Current Liabilities	(1,393)	(4,099)	(4,207)	(5,805)	(7,766)
Creditors	(1,393)	(1,105)	(1,213)	(2,811)	(4,772)
Short term borrowings	0	(2,994)	(2,994)	(2,994)	(2,994)
Long Term Liabilities	0	0	0	0	0
Long term borrowings	0	0	0	0	0
Other long term liabilities	0	0	0	0	0
Net Assets	10,776	7,938	16,483	19,640	27,430
CASH FLOW					
Operating Cash Flow	(1,524)	(4,273)	(348)	3,974	10,246
Net Interest	(39)	(60)	(72)	(66)	(28)
Tax	(8)	(8)	218	(1,486)	(3,666)
Capex	(726)	(3,314)	(5,403)	(1,683)	(1,775)
Acquisitions/disposals	2,469	0	0	0	0
Financing	5,974	0	9,009	0	0
Dividends	0	0	0	0	0
Net Cash Flow	6,146	(7,655)	3,405	740	4,777
Opening net debt/(cash)	985	(5,161)	2,494	(911)	(1,651)
HP finance leases initiated	0	0	0	0	0
Other	0	0	0	0	0
Closing net debt/(cash)	(5,161)	2,494	(911)	(1,651)	(6,427)

Source: SeaDragon accounts, Edison Investment Research

Contact details	Revenue by geography
110 Forests Rd Annesbrook Nelson 7011 New Zealand 64 3 547 0336 www.seadragon.co.nz	

Management team

Acting CEO: Richard Alderton	CFO: Stephen Bayley
Richard is a board member and will continue to fill the position of CEO until a replacement is found. He was previously the CEO of DeLaval Oceania. He became acting CEO following the retirement of inaugural CEO Ross Keeley.	Stephen joined as CFO in October 2014. He has broad financial experience and has held senior roles in a range of public and private companies.
Procurment Manager: Jorn Frisk	**Director of Sales: Campbell Berry-Kilgour**
Jorn has had an international career in operational purchasing and procurement and has spent the last 10 years working in the NZ fishing industry.	Campbell joined in October 2014. He has held a range of sales and marketing and management roles in pharmaceutical companies and in NZ natural health companies.

Principal shareholders	(%)
Mersea Holdings	42.30
HSBC Nominees (New Zealand)	21.84
Skylog	1.23
Welch Securities	0.88
FNZ Custodians	0.79

Companies named in this report

None mentioned