

January 17, 2012

Rating: BUY

Target Price: \$6.00

All figures in C\$, unless otherwise noted

Changes Today?	New	Old
Rating	n/c	BUY
Target	n/c	\$6.00
EPS 2012E	n/c	\$0.03
EPS 2013E	n/c	\$0.10
Revenue 2012E (MM)	n/c	\$19.2
Revenue 2013E (MM)	n/c	\$28.4

Share data

Shares O/S (MM)	49.7
Market Cap (MM)	\$149.5
Enterprise value	\$126.9
Net cash (Q2/F12)	\$17.7
Fiscal year end	28-Feb

Financials	2012E	2013E	2014E
Revenue (MM)	19.3	28.4	40.7
EPS (Adj.)	0.03	0.09	0.19
Net income (MM)	1.5	5.3	11.5
P/E adj. (x)	N/A	32.5	15.0

Company Description: Neptune manufactures and markets Neptune Krill Oil, a proprietary astaxanthin-containing omega-3 phospholipid ester formulation targeting multiple consumer, nutraceutical, and medical markets.

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Neptune Technologies & Bioresources Inc.

(NTB – TSXV; NEPT – NASDAQ, \$2.85)

Solid Q3/F12 Revenue and EBITDA Show U.S.

Distributors Are Profitably Driving NKO Sales - BUY

- ▶ **Q3/F12 Revenue and EBITDA Beat our Forecasts:** Neptune reported Q3/F12 results on Tuesday morning that beat our forecasts both on revenue (\$5.12 million vs. our \$4.85 million forecast) and EBITDA (\$1.1 million vs. our \$0.985 million forecast). Consolidated EBITDA that incorporated R&D expense for soon-to-be-spun-out Neuro-BioPharm was (\$0.74 million), but we base valuation on core nutritional supplement business. Revenue was up 20% YoY from \$4.3 million in Q3/F11 and EBITDA up 29% YoY from \$0.765 million in Q3/F11. Neptune is well-capitalized, with \$17.7 million in cash and total debt of \$3.1 million at quarter-end. Conference call is at 4:30 pm EST; dial-in (877) 380-5664.
- ▶ **Solid Quarter Supports Positive Outlook on Which BUY Rating Is Based:** We believe Q3/F12 data provides supporting evidence that Neptune's core NKO/EKO omega-3 nutritional supplement franchise is performing well, favourably impacted by expanding U.S. distribution network (with Walgreens and Pharmavite, others) last year. Accordingly, we are **maintaining our BUY rating and \$6.00 target price** based on 20x EPS, 12.5x EV/EBITDA (F2014 forecasts), supplemented by value for 58% equity ownership stake in cardiovascular spin-out Acasti Pharma (APO-V).
- ▶ **Robust Suite of Value-Enhancing Milestones on the Horizon:** In the next few quarters, we anticipate several key events that could create additional value in Neptune's NKO® franchise. For example, we will closely monitor the pace of capacity expansion at Neptune's Sherbrooke, QC-based krill oil production facility, which should lift annual krill oil processing capacity from 150 metric tonnes currently to 300 metric tonnes by Q4/F13. Separately, we are cautiously optimistic that long-standing functional food-medical food partners Yoplait and Nestle will report clinical data by Q1/F13 (trials are completed by both firms), and NKO®-containing product launches by either or both firms would be a major revenue driver in F2013/14. In the background, we expect patent disputes with Norwegian peer Aker BioMarine to continue into F2013; though the

Please see end of this report for important disclosures

U.S. Patent Office chose to review claims published in Neptune's '348 and '825, we see minimal business risk to Neptune from review and substantial upside if at least some patented claims on krill oil medical use and methods of production are upheld on review.

- ▶ **No Formal Update on Acasti's CaPre™ Clinical Program, but We Expect Data by Calendar Year-End:** Neptune owns 58% of the shares outstanding in cardiovascular omega-3 drug developer Acasti Pharma, for which no formal update on patient enrolment was provide in financial data reported on Tuesday morning, but which our model assumes will advance to data by year-end. Ongoing studies include the Canada-based placebo-controlled multi-dose 429-patient Phase II dyslipidemia study that began in Oct/11 (12-week blood lipid and safety data expected by Q4/F13) and two separate Phase I/II studies intended to define safe dosing level and duration in both healthy volunteer and hypertriglyceridemia subjects (60-patient four-week open-label study and 174-patient eight-week open-label study, data from both expected in H2/F13). Phase I/II clinical risk is practically nil in our view, but stakeholders are clearly more focused on how CaPre™ impacts blood lipid chemistry in the Phase II Canadian trial – if CaPre™ lowers blood triglyceride and LDL-cholesterol while elevating HDL-cholesterol, as earlier published humans studies suggests, CaPre™ could emerge as a best-in-class lipid-modulating agent in both consumer and clinical markets, and would be highly attractive to partners.

Exhibit 1 – Financial Summary

<i>(C\$000, except EPS)</i>	2010A	2011A	2012E	2013E	2014E
Total revenue	\$12,606	\$16,734	\$19,235	\$28,388	\$40,690
<i>Revenue growth (%)</i>	<i>(\$6%)</i>	<i>33%</i>	<i>15%</i>	<i>48%</i>	<i>43%</i>
EBITDA	\$663	\$2,924	\$3,689	\$7,837	\$14,016
<i>EBITDA growth (%)</i>	<i>(83%)</i>	<i>341%</i>	<i>26%</i>	<i>112%</i>	<i>79%</i>
<i>EBITDA margin (%)</i>	<i>5%</i>	<i>17%</i>	<i>19%</i>	<i>28%</i>	<i>34%</i>
Net Income (ex one-time)	(\$1,881)	\$798	\$1,513	\$5,289	\$11,468
EPS (basic)	(\$0.05)	\$0.02	\$0.03	\$0.10	\$0.21
EPS (fd)	(\$0.04)	\$0.02	\$0.03	\$0.09	\$0.19
P/E (fd)	NA	NA	107.8x	33.9x	15.7x
EV/EBITDA	238.1x	NA	42.8x	20.1x	11.3x

Source: Byron Capital Markets, Neptune Technologies & Bioresources

Valuation

- ▶ **Core Investment Thesis Is Unchanged, Maintaining BUY Rating and \$6.00 Target Price:** Q3/F12 financial data gives us confidence that U.S. retail distribution partners are performing well on driving NKO®/EKO sales in consumer markets, providing a solid revenue floor from which sales can grow once additional distributors are in place and once Yoplait/Nestle launch omega-3 phospholipid ester-supplemented products into global markets. We maintain our BUY rating and \$6.00 target price on Neptune, based on average of 20x adjusted F2014 EPS (\$0.21) and 12.5x EV/F2014 EBITDA (\$14.0 million), to which we add \$1.80 for Neptune's 58% equity

stake in Acasti Pharma (APO-V), which we independently cover and to which we ascribe a BUY rating and \$3.50 target price. Acasti reported its Q3/F12 results as well, but results were immaterial to valuation driven more by CaPre™ clinical developments.

Exhibit 2 – Comparable companies for Neptune Technologies

Company	Curr	Symbol	Shares	Share	Market		Enterprise		EV-to-EBITDA			Price-to-earnings		
			Out.	Price	Cap (\$mm)	Value (\$mm)	(T12M)	(FY1)	(FY2)	FY0	FY1	FY2		
			(mm)	14-Jan	(loc curr)	(C\$)	(loc curr)	(C\$)						
<i>Food developers/distributors</i>														
Archer Daniels Midland	US\$	ADM	676.0	\$28.88	19,520	18,799	29,224	28,145	7.9	7.5	7.2	9.5	9.6	8.6
Bunge Limited	US\$	BG	146.6	\$58.42	8,566	8,250	12,869	12,395	7.2	7.5	7.0	14.2	9.9	8.7
ConAgra Foods	US\$	CAG	410.5	\$26.80	11,001	10,595	13,263	12,773	8.0	7.9	7.4	13.5	14.9	13.7
Corn Products International	US\$	CPO	76.0	\$52.39	3,983	3,836	5,450	5,249	6.6	6.5	6.1	16.1	11.2	10.3
Danone	Euro	BN	611.9	€ 47.05	28,788	40,013	37,209	51,717	11.2	10.8	10.0	15.3	16.1	14.7
General Mills (Yoplait)	US\$	GIS	644.8	\$40.55	26,147	25,182	32,412	31,216	10.7	9.7	9.1	16.5	15.6	14.4
Kraft Foods	US\$	KFT	1748.1	\$37.84	66,147	63,706	92,390	88,981	11.6	10.4	9.6	18.7	16.6	15.0
Monsanto	US\$	MON	535.3	\$79.26	42,428	40,862	42,077	40,524	12.9	11.9	10.6	26.8	22.6	19.5
Nestle SA	CHF	NESN	3256.9	CHF 53.20	173,267	186,609	185,310	199,579	11.1	11.8	10.8	19.2	17.3	15.9
Pilgrim's Pride	US\$	PPC	221.4	\$5.98	1,324	1,275	2,558	2,463	NA	NA	5.7	8.7	NA	21.4
Prestige Brands Holdings	US\$	PBH	50.1	\$11.20	561	541	1,035	997	10.5	8.6	6.5	14.2	12.0	10.5
Sanderson Farms	US\$	SAFM	22.2	\$49.63	1,103	1,062	1,377	1,326	NA	7.1	6.1	NA	NA	10.4
Smithfield Foods	US\$	SFD	166.1	\$23.06	3,830	3,688	5,577	5,372	5.0	5.2	5.2	8.0	8.5	8.2
Syngenta AG	US\$	SYT	465.4	\$59.53	27,704	26,682	29,314	28,232	NA	10.1	9.2	NA	15.2	13.5
Tyson Foods	US\$	TSN	370.0	\$19.81	7,330	7,059	8,796	8,471	4.9	4.6	4.2	10.5	9.3	8.3
Average						29,211		34,496	9.0x	8.5x	7.7x	14.7x	13.7x	12.9x
<i>Healthcare product & nutritional supplement developers</i>														
Aker BioMarine	NOK	AKBM	955.4	kr 1.34	1,280	229	1,592	285	40.8	52.8	21.2	NA	NA	NA
Asia Biochem	C\$	ABC	77.0	\$0.15	11	11	68	68	4.6	8.0	5.2	1.0	NA	48.3
Atrium Innovations	C\$	ATB	32.8	\$12.02	394	394	658	658	7.3	7.0	6.4	7.8	7.2	6.5
Austevoll Seafood	NOK	AUSS	202.7	kr 24.60	4,987	892	8,225	1,471	3.3	3.9	5.6	NA	5.7	9.2
Bioexx	C\$	BXI	191.6	\$0.18	34	34	24	24	NA	NA	NA	NA	NA	NA
Burcon NutraScience	C\$	BU	29.8	\$6.39	190	190	181	181	NA	NA	NA	NA	NA	NA
Cyanotech	US\$	CYAN	5.4	\$6.80	37	35	35	34	14.5	NA	NA	21.3	NA	NA
GLG Life Tech	C\$	GLG	27.4	\$1.19	33	33	109	109	NA	NA	8.2	NA	NA	NA
Jubilant Organosys	Rp	JOL	159.3	Rp185	Rp49,921	1,083	Rp58,702	1,274	10.4	7.5	6.5	14.2	9.9	7.1
Koninklijke DSM NV	Euro	DSM	181.4	€ 37.58	6,817	9,475	7,461	10,370	NA	5.7	6.1	12.5	10.2	11.6
Pronova Biopharma	NOK	PRON	300.8	kr 7.00	2,106	377	4,080	730	6.4	6.0	5.2	NA	12.0	7.4
Reliv International	US\$	RELV	12.5	\$1.18	15	14	13	13	4.0	NA	NA	8.4	NA	NA
Average						1,064		1,268	11.4x	13.0x	8.1x	10.9x	9.0x	15.0x
<i>Healthcare product & nutritional supplement distributors</i>														
American Oriental Bioengineering	US\$	AOB	78.6	\$0.88	69	66	98	94	2.7	NA	NA	4.0	4.2	5.8
GNC Holdings	US\$	GNC	87.4	\$28.08	2,453	2,363	3,318	3,195	NA	NA	NA	33.0	NA	NA
Herbalife	US\$	HLF	117.8	\$55.73	6,565	6,323	6,553	6,311	10.8	10.4	9.7	23.4	17.5	16.0
Medifast	US\$	MED	15.4	\$15.33	237	228	225	217	5.9	6.1	5.5	11.4	10.7	9.6
Nature's Sunshine Products	US\$	NATR	15.5	\$14.45	224	216	177	170	5.3	4.8	4.0	16.1	9.4	9.0
Nu Skin Enterprises	US\$	NUS	62.8	\$47.33	2,972	2,863	2,903	2,796	11.7	9.7	8.7	22.4	18.0	16.1
Nutraceutical International	US\$	NUTR	10.1	\$11.51	117	112	146	141	4.4	NA	NA	7.6	NA	NA
Perrigo	US\$	PRGO	93.5	\$97.24	9,097	8,761	9,661	9,305	16.2	12.8	10.8	33.0	20.6	18.3
Schiff Nutrition International	US\$	WNI	21.7	\$9.35	202	195	163	157	5.8	5.5	4.5	18.7	19.2	15.2
USANA Health Sciences	US\$	USNA	16.0	\$31.57	505	486	480	463	5.7	5.7	5.5	11.0	9.8	9.0
Average						2,161		2,285	7.6x	7.9x	7.0x	18.1x	13.7x	12.4x
Neptune Technologies & Bioresources¹	C\$	NTB	42.5	\$2.79	119	114	122	122	41.8	33.1	15.6	139.5	93.0	31.0

¹ EV/EBITDA and P/E multiples based on Byron Capital Markets estimates for F2012 (FY1) and F2013 (FY2), not consensus

Source: Bloomberg

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1 None

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STRONG BUY	The security represents extremely compelling value and is expected to appreciate significantly from the current price over the next 12-18 month time horizon.
BUY	The security represents attractive value and is expected to appreciate significantly from the current price over the next 12-18 month time horizon.
SPECULATIVE BUY	The security is considered a BUY but in the analyst's opinion possesses certain operational and/or financial risks that may be higher than average.
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