

CODEXIS, INC.

Q4 Review

Post-close, emerging biofuels/enzyme manufacturer Codexis released Q4 results ahead of consensus expectations and provided 2011 guidance in line with consensus expectations. Although the main growth opportunity still focuses in the biocatalyst/biofuel space, the company also appears to be making good progress in other cleantech verticals, in our view. Within the carbon management segment, we believe R&D agreement with Alstom has the potential to materialize into a significantly bigger revenue opportunity. Chemicals segment will be the near-term opportunity following the Mayxgen IP acquisition, which will ramp up R&D and SG&A spending in 2011. Although Shell/Cosan JV will not be contributing any revenue in 2011, we remain optimistic about the potential yield improvement opportunity in ethanol production once the JV receives shareholder approval in 1H11. We remain constructive on the longer-term outlook, but recognize the execution risks inherent in many of their business verticals. We maintain our 2-EW, \$11 PT.

Key Takeaways: (i) Earnings losses are narrowing significantly compared to street estimates and prior quarters despite low product gross margins. This doesn't necessarily mean that the company will produce positive (and sustainable) earnings in the near-term as the majority of revenues are still derived from grants and collaborative R&D revenues. In addition, R&D and SG&A costs are expected to increase to fund the Chemicals segment build out. (ii) Alstom collaborative R&D is currently in the beginning testing phases (expected to last 6-9 months). (iii) Shell/Cosan JV recently received European regulatory approval and is now waiting shareholder voting. (iv) Company has established more customer relationships including DSM, Dainippon in the quarter. (v) Potential revenue slowdown in Q1 due to higher generic volume mix and less milestone reward payments compared to 2010.

CDXS: Quarterly and Annual EPS USD

FY Dec	2009		2010		2011			Change y/y	
	Actual	Old	New	Cons	Old	New	Cons	2010	2011
Q1	N/A	0.00A	0.48A	0.48A	-0.02E	-0.06E	-0.05E	N/A	-113%
Q2	N/A	-0.15A	-0.15A	-0.15A	-0.01E	-0.05E	-0.06E	N/A	67%
Q3	N/A	-0.08A	-0.08A	-0.08A	-0.02E	-0.05E	-0.06E	N/A	37%
Q4	N/A	-0.03E	-0.01A	-0.06E	-0.05E	-0.04E	-0.03E	N/A	-300%
Year	N/A	-0.35E	-0.35A	-0.36E	-0.11E	-0.19E	-0.20E	N/A	46%
P/E			N/A			N/A			

Source: Barclays Capital
Consensus numbers are from Thomson Reuters

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PLEASE SEE ANALYST(S) CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 7.

Stock Rating	2-EQUAL WEIGHT
	Unchanged
Sector View	2-NEUTRAL
	Unchanged
Price Target	USD 11.00
	Unchanged

Price (03-Feb-2011)	USD 9.15
Potential Upside/Downside	+20%
Tickers	CDXS

Market Cap (USD mn)	485
Shares Outstanding (mn)	34.22
Free Float (%)	62.78
52 Wk Avg Daily Volume (mn)	0.1
Dividend Yield (%)	N/A
Return on Equity TTM (%)	-37.40
Current BVPS (USD)	3.04

Source: FactSet Fundamentals

Price Performance	Exchange-Nasdaq
52 Week range	USD 14.98-6.88



[Link to Barclays Capital Live for interactive charting](#)

U.S. Clean Technology

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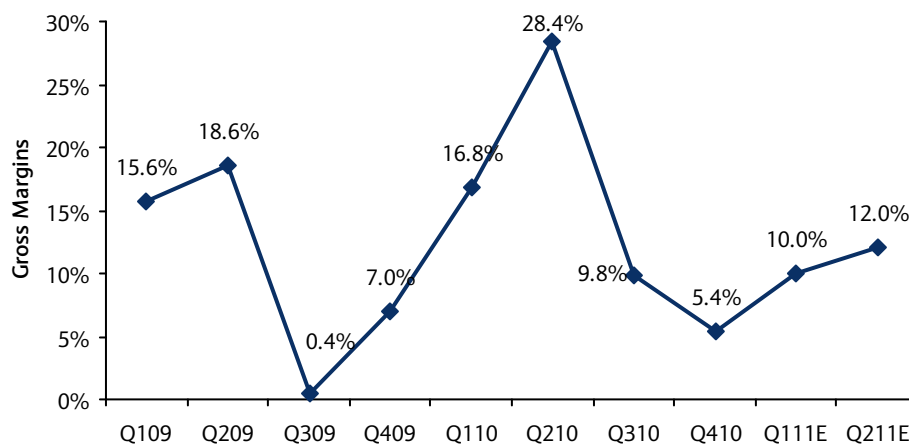
Positives

- **Alstom R&D Agreement:** The company announced that it is participating in a R&D agreement with Alstom, a leader in transportation infrastructure, transmission, and power generation. This agreement is considered a testing phase and is expected to last approximately 6 to 9 months to see if Codexis' product application is suitable, similar to how the Shell agreement first started off. Management expects revenues in this business line to increase in 2011, although it will not contribute significantly to the bottom line compared to the Shell/Codexis collaborative agreement.
- **Shell/Cosan Joint Venture and R&D Collaboration:** The JV received European regulatory approval earlier this month and now waits for shareholder approval. The company is focusing on the low hanging fruits and is concentrating on improving yields of enzymes to gain additional R&D payments. Management did indicate that revenues from the collaborative R&D agreement with Shell are expected to remain flat Y/Y due to lower milestone revenue payments (attributed to 2009 payment recognized in 2010) and similar scientist headcount of 128. That said, the progress appears on track and shareholder approval is expected within the 1H11.
- **Chemicals Market Potential:** The company announced preliminary plans to pursue the \$4 billion detergent alcohol market, which culminates from the Maxygen acquisition story. Management will have full ownership in product sales in this market and expects to rapidly progress, however, meaningful revenues are not expected until after 2011.
- **Customer Relationships:** The company announced several customer relationships this quarter including a biocatalysis collaboration with Dainippon Sumitomo Pharma, an enzyme supply agreement with DSM, and continuing relationships with Merck and Pfizer. Sales from innovators will generate higher revenue and gross margin.
- **Grant Revenues:** Grant revenues are expected to increase for full year 2011 because of a DOE grant announced two quarters ago.

Concerns

- **2011 Guidance:** 2011 revenue guidance was generally in line with street estimates and lacked the upside from Shell/Cosan JV contribution. That said, management highlighted that guidance does not include potential chemical revenues, which could likely materialize in 2H11 and drive upside to consensus estimates.
- **Lower Recognition of Milestone Payments in 2011:** The company recognized additional milestone revenue payments this year because of recognition of a 2009 milestone. In 2011, management expects to see a decline in milestone revenue payments compared to 2010.
- **Lower Product Gross Margins:** The company recorded Q4 gross margin of 5.4%, down from the previous quarter of 9.8%. Product gross margin is attributed to the sales mix between generic and innovator pharmaceutical companies. This quarter saw a higher proportion of generic manufacturers than innovators. Although management has high visibility into pharmaceutical sales, the timing and recognition of the consumer mix could put slight margin pressure in 2011 as revenues from generic manufacturers are expected to be recognized in March 2011. That said, continuing sales to Pfizer and Merck could soften the margin squeeze.

Figure 1: Gross Margin Trends

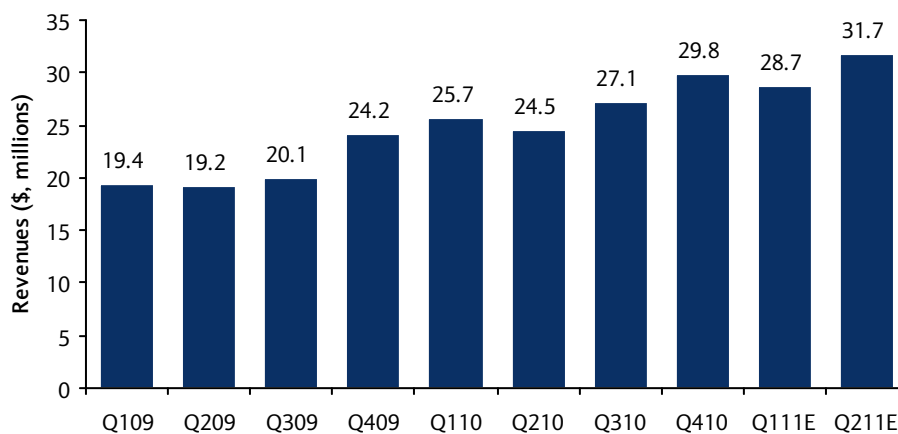


Source: Company Reports, Barclays Capital Research

Earnings Review

- **Revenue:** Q4 revenue of \$29.8 million was above our previous estimate of \$26.5 million and consensus estimate of \$25.5 million. Full year revenue of \$107.1 million was above our estimate of \$103.8 million and street estimate of \$103.4 million.

Figure 2: Revenue Trends



Source: Company Reports,

- **Gross Margin:** Q4 product gross margins of 5.4% declined from the previous quarter of 9.8%.
- **EPS:** Q4 EPS of -\$0.01 was above our prior estimate of -\$0.03 and consensus estimate of -\$0.06. Full year 2011 EPS was -\$0.35 vs. consensus estimate of -\$0.36.
- **Guidance:** Management announced 2011 revenue guidance of \$120 million or more with adjusted EBITDA of \$5 million or greater.

Figure 3: Q4 Earnings Review

Financial Summary	Q410		
FYE: Dec	BarCap Old	BarCap New	Street Mean
Revenue (\$M)	\$26.5	\$29.8	\$25.5
Gross Profit	\$20.1	\$21.7	\$18.2
GM %	75.8%	72.7%	71.1%
R&D	\$12.8	\$13.3	
SG&A	\$7.9	\$8.6	
Total Operating Expenses	\$20.7	\$22.0	\$20.5
Operating Profit	(\$0.6)	(\$0.3)	(\$2.4)
OM %	-2.4%	-1.0%	-9.2%
Other Income (Expense)	\$0.0	(\$0.1)	\$0.5
Profit Before tax	(\$0.6)	(\$0.4)	(\$1.9)
Taxes (Benefit)	\$0.3	\$0.1	\$0.5
Net Income	(\$0.9)	(\$0.5)	(\$2.4)
Diluted EPS	(\$0.03)	(\$0.01)	(\$0.06)

Source: Company Reports, Barclays Capital Research

Note: All figures are in USD millions unless otherwise noted

Figure 4: 2010 Earnings Review

FYE: Dec	FY10A		
	BarCap Old	BarCap New	Street mean
Revenue (\$M)	\$103.8	\$107.1	\$103.4
Gross Profit	\$85.7	\$89.1	\$72.5
GM %	82.6%	83.2%	70.2%
R&D	\$51.8	\$52.4	
SG&A	\$33.1	\$33.8	
Operating Expenses	\$84.9	\$86.2	\$81.4
Operating Profit	(\$7.4)	(\$7.1)	(\$8.9)
OM %	-7.2%	-6.7%	-8.6%
Other Income (Expense)	(\$0.9)	(\$1.0)	(\$0.8)
Profit Before tax	(\$8.3)	(\$8.2)	(\$9.7)
Taxes	\$0.6	\$0.4	\$0.6
Net Income	(\$9.0)	(\$8.5)	(\$10.3)
EPS	(\$0.35)	(\$0.35)	(\$0.36)

Source: Company Reports, Barclays Capital Research

Note: All figures are in USD millions unless otherwise noted

Figure 5: Income Statement

FYE: December	Fiscal Year 2010				Fiscal Year 2011				Fiscal 2010E	Fiscal 2011E
	Q1	Q2	Q3	Q4E	Q1E	Q2E	Q3E	Q4E		
Revenues										
Product	\$6.3	\$8.5	\$9.5	\$8.6	\$9.3	\$10.0	\$10.8	\$11.7	\$32.8	\$41.8
Related party collaborative R&D	\$16.0	\$14.7	\$16.2	\$19.3	\$15.5	\$16.4	\$16.4	\$17.2	\$66.1	\$65.5
% of total revenues	62.4%	59.9%	59.7%	64.7%	54.1%	51.6%	47.1%	42.9%	61.8%	48.4%
Collaborative R&D	\$0.7	\$0.9	\$1.1	\$1.5	\$2.4	\$3.8	\$6.0	\$9.6	\$4.0	\$21.8
Government grants	\$2.7	\$0.5	\$0.4	\$0.5	\$1.6	\$1.6	\$1.6	\$1.6	\$4.1	\$6.2
Carbon Management R&D	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total revenues	\$25.7	\$24.5	\$27.1	\$29.8	\$28.7	\$31.7	\$34.8	\$40.1	\$107.1	\$135.2
Cost of product revenues	\$5.2	\$6.1	\$8.6	\$8.1	\$8.3	\$8.8	\$9.5	\$10.3	\$18.0	\$37.0
QoQ % change	8.9%	16.4%	41.0%	-5.1%	2.7%	5.6%	8.0%	8.0%		
Product profit	\$1.1	\$2.4	\$0.9	\$0.5	\$0.9	\$1.2	\$1.3	\$1.4		
Gross profit	\$20.5	\$18.4	\$18.6	\$21.7	\$20.3	\$22.9	\$25.2	\$29.8	\$89.1	\$98.3
Product margin	16.8%	28.4%	9.8%	5.4%	10.0%	12.0%	12.0%	12.0%	45.1%	11.6%
Gross margin	79.7%	75.2%	68.4%	72.7%	70.9%	72.2%	72.6%	74.4%	83.2%	72.7%
Operating expenses										
Research and development	\$13.0	\$13.0	\$13.1	\$13.3	\$12.9	\$14.3	\$15.6	\$18.0	\$52.4	\$60.9
SG&A	\$8.6	\$8.7	\$7.9	\$8.6	\$9.2	\$10.1	\$11.1	\$12.8	\$33.8	\$43.3
Total operating expenses	\$21.6	\$21.7	\$21.0	\$22.0	\$22.1	\$24.4	\$26.8	\$30.9	\$86.2	\$104.1
Operating income (loss)	(\$1.1)	(\$3.3)	(\$2.5)	(\$0.3)	(\$1.7)	(\$1.5)	(\$1.5)	(\$1.1)	(\$7.1)	(\$5.9)
Interest income	\$0.0	\$0.0	\$0.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.2	\$0.1
Interest expense and other net	(\$0.4)	(\$0.7)	(\$0.0)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$1.2)	(\$0.6)
Net income before tax	(\$1.4)	(\$3.9)	(\$2.4)	(\$0.4)	(\$1.9)	(\$1.6)	(\$1.6)	(\$1.2)	(\$8.2)	(\$6.3)
Provision for income taxes	(\$0.1)	\$0.1	\$0.3	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.4	\$0.2
Net income (loss)	(\$1.4)	(\$3.9)	(\$2.7)	(\$0.5)	(\$1.9)	(\$1.7)	(\$1.7)	(\$1.2)	(\$8.5)	(\$6.6)
Basic income (loss) per share	(\$0.48)	(\$0.15)	(\$0.08)	(\$0.01)	(\$0.06)	(\$0.05)	(\$0.05)	(\$0.04)	(\$0.72)	(\$0.19)
Diluted income (loss) per share	(\$0.48)	(\$0.15)	(\$0.08)	(\$0.01)	(\$0.06)	(\$0.05)	(\$0.05)	(\$0.04)	(\$0.35)	(\$0.19)
Based Weighted Avg Shares	2.8	26.6	34.2	34.5	34.5	34.5	34.5	34.5	24.5	34.5
Diluted Weighted Avg Shares	2.8	26.6	34.2	34.5	34.5	34.5	34.5	34.5	24.5	34.5
Percent of Sales										
Gross Margin	79.7%	75.2%	68.4%	72.7%	70.9%	72.2%	72.6%	74.4%	83.2%	72.7%
Incremental Gross Margin	70.9%	170.2%	5.5%	116.2%	119.6%	84.5%	77.0%	85.7%	94.4%	32.8%
R&D	50.5%	53.1%	48.2%	44.8%	45.0%	45.0%	45.0%	45.0%	48.9%	45.0%
SG&A	33.5%	35.3%	29.3%	29.0%	32.0%	32.0%	32.0%	32.0%	31.6%	32.0%
Operating Income	-4.3%	-13.3%	-9.1%	-1.0%	-6.1%	-4.8%	-4.4%	-2.6%	-6.7%	-4.3%
Net Income	-5.3%	-16.1%	-10.1%	-1.7%	-6.7%	-5.4%	-4.9%	-3.1%	-8.0%	-4.9%
Tax Rate	5.5%	-2.7%	-12.1%	-19.2%	-3.4%	-3.9%	-3.9%	-5.7%	-5.4%	-4.1%
Pro Forma EBITDA	\$0.7	(\$1.3)	(\$0.5)	\$1.2	\$0.3	\$0.7	\$0.9	\$1.5	\$0.1	\$3.4
% Change Y/Y	-17.2%	-455.7%	8.9%	-27.3%	46.0%	-50.5%	-186.1%	126.8%		
% Change Q/Q	-116.9%	-282.8%	-65.9%	-359.3%	-71.5%	100.6%	25.7%	76.6%		
% Sales	11.8%	-15.9%	-4.8%	13.9%	3.7%	6.8%	7.9%	12.9%		
LTM EBITDA	(\$8.5)	(\$10.2)	(\$5.4)	\$0.1	(\$0.3)	\$1.8	\$3.1	\$3.4	\$0.1	\$3.4
Capital Spending	\$1.3	\$1.9	\$4.2	\$4.2	\$2.3	\$2.5	\$2.8	\$3.2	\$11.6	\$10.8
% of Sales	5.1%	7.8%	15.5%	14.1%	8.0%	8.0%	8.0%	8.0%	10.8%	8.0%
Depreciation	\$1.8	\$1.9	\$2.0	\$1.5	\$2.1	\$2.2	\$2.4	\$2.6	\$7.2	\$9.2
% of COGS	35.2%	31.3%	23.4%	18.5%	25.0%	25.0%	25.0%	25.0%	40.2%	25.0%
FCF Ops Est. (PF EBITDA + NI -Capex)	(\$0.6)	(\$3.2)	(\$4.7)	(\$3.0)	(\$2.0)	(\$1.9)	(\$1.9)	(\$1.7)	(\$11.5)	(\$7.4)

Source: Company Reports, Barclays Capital Research

Note: All figures are in USD million unless otherwise noted

Figure 6: Earnings Drivers

FYE: December	Fiscal Year 2010				Fiscal Year 2011				Fiscal 2010A	Fiscal 2011E
	Q1	Q2	Q3	Q4	Q1E	Q2E	Q3E	Q4E		
Government Grants										
Department of Energy (CC)	\$0.0	\$0.0	\$0.0	\$0.5	\$1.1	\$1.1	\$1.1	\$1.1	\$0.5	\$4.2
Singapore Government	\$2.7	\$0.5	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$3.2	\$0.0
Others	\$0.0	\$0.0	\$0.4	\$0.0	\$0.5	\$0.5	\$0.5	\$0.5	\$0.4	\$2.0
Total Grant Revenues	\$2.7	\$0.5	\$0.4	\$0.5	\$1.6	\$1.6	\$1.6	\$1.6	\$4.1	\$6.2
Collaborative R&D										
Total Collaborative R&D Revenues	\$0.7	\$0.9	\$1.1	\$1.5	\$2.4	\$3.8	\$6.0	\$9.6	\$4.0	\$21.8
QoQ % Change	85.2%	28.7%	25.1%	38.1%	60.0%	60.0%	60.0%	60.0%		
Product										
Total Pharmaceuticals Revenues	\$6.3	\$8.5	\$9.5	\$8.6	\$9.3	\$10.0	\$10.8	\$11.7	\$32.8	\$41.8
QoQ % Change	22%	35%	12%	-10%	8%	8%	8%	8%		
Related Party Collaborative R&D										
Technology Access Fee	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0	\$4.0	\$4.0
Full-time Employee Equivalents (FTE)										
Number of Employees	128	128	128	128	128	128	128	128		
U.S.	98	98	98	98	98	98	98	98		
Hungary	30	30	30	30	30	30	30	30		
Compensation										
U.S.	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4		
Hungary	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4		
Annual FTE Revenues (million)	\$53.7	\$54.6	\$54.6	\$54.6	\$54.6	\$54.6	\$54.6	\$54.6		
Quarterly FTE Revenues (million)	\$13.4	\$13.7	\$13.7	\$13.7	\$13.7	\$13.7	\$13.7	\$13.7		
Milestone Rewards										
Average Compensation per Milestone	\$1.4	\$0.0	\$0.8	\$0.9	\$0.9	\$0.9	\$0.9	\$0.9		
Number of Milestones Realized	1	0	2	5	1	2	2	3		
Total Milestones Revenues	\$1.4	\$0.0	\$1.5	\$4.6	\$0.9	\$1.7	\$1.7	\$2.6	\$7.5	\$6.8
Royalties										
Annual Capacity (in MM of gallons)	Forecasted to begin in 2012									
Quarterly Capacity (in MM of gallons)										
Percent Serviced										
Liters Serviced										
ASP (\$/liters)										
Total Royalties Revenues	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0		
Total Related Party R&D Revenues	\$15.8	\$14.7	\$16.2	\$19.3	\$15.5	\$16.4	\$16.4	\$17.2	\$65.9	\$65.5
Total Revenues	\$25.7	\$24.5	\$27.1	\$29.8	\$28.7	\$31.7	\$34.8	\$40.1	\$107.1	\$135.2
QoQ % Change	6.0%	-4.7%	10.8%	10.0%	-3.8%	10.5%	9.7%	15.3%		
Total COGS	\$5.2	\$6.1	\$8.6	\$8.1	\$8.3	\$8.8	\$9.5	\$10.3	\$28.0	\$37.0
QoQ % Change	8.9%	16.4%	41.0%	-5%	3%	6%	8%	8%		
Product Gross Margins %	16.8%	28.4%	9.8%	5.4%	10.0%	12.0%	12.0%	12.0%		
Gross Margin	79.7%	75.2%	68.4%	72.7%	70.9%	72.2%	72.6%	74.4%		

Source: Company Reports, Barclays Capital Research

Note: All figures are in USD million unless otherwise noted

ANALYST(S) CERTIFICATION(S)

I, Vishal Shah, hereby certify (1) that the views expressed in this research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

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Primary Stocks (Ticker, Date, Price)

Codexis, Inc. (CDXS, 03-Feb-2011, USD 9.15), 2-Equal Weight/2-Neutral

Guide to the Barclays Capital Fundamental Equity Research Rating System:

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In addition to the stock rating, we provide sector views which rate the outlook for the sector coverage universe as 1-Positive, 2-Neutral or 3-Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

Stock Rating

1-Overweight - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

2-Equal Weight - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

3-Underweight - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

RS-Rating Suspended - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including when Barclays Capital is acting in an advisory capacity in a merger or strategic transaction involving the company.

Sector View

1-Positive - sector coverage universe fundamentals/valuations are improving.

2-Neutral - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

3-Negative - sector coverage universe fundamentals/valuations are deteriorating.

Below is the list of companies that constitute the "sector coverage universe":

U.S. Clean Technology

A123 Systems Inc. (AONE)	American Superconductor Corp. (AMSC)	Canadian Solar Inc. (CSIQ)
China Sunergy Co., Ltd. (CSUN)	Clean Energy Fuels Corp. (CLNE)	Codexis, Inc. (CDXS)
Comverge Inc. (COMV)	Ener1, Inc. (HEV)	Energy Conversion Devices (ENER)
EnerNOC Inc. (ENOC)	Evergreen Solar Inc. (ESLR)	First Solar Inc. (FSLR)
GT Solar International Inc. (SOLR)	Itron Inc. (ITRI)	JA Solar Holdings Co., Ltd. (JASO)
LDK Solar Company Limited (LDK)	MEMC Electronic Materials (WFR)	Power-One Inc. (POWER)
ReneSola Ltd. (SOL)	SmartHeat Inc. (HEAT)	Solarfun Power Holdings Co., Ltd. (SOLF)
SunPower Corp. (SPWRA)	Suntech Power Holdings (STP)	Trina Solar Limited (TSL)
Yingli Green Energy Holding Co., Ltd. (YGE)		

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IMPORTANT DISCLOSURES CONTINUED

Codexis, Inc. (CDXS)

USD 9.15 (03-Feb-2011)

Stock Rating

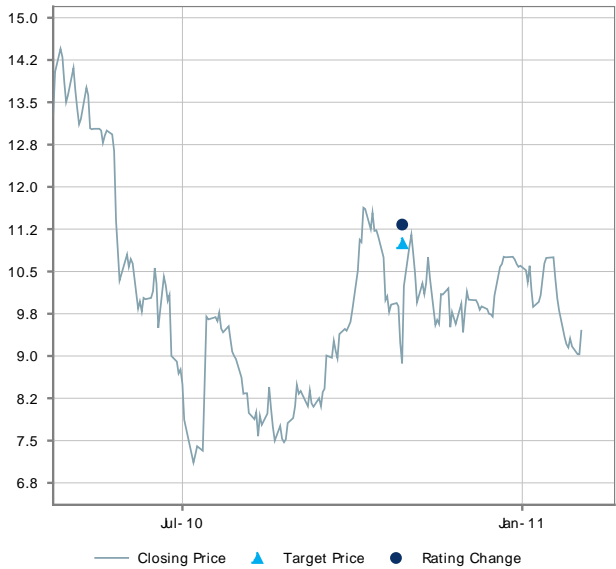
2-EQUAL WEIGHT

Sector View

2-NEUTRAL

Rating and Price Target Chart - USD (as of 03-Feb-2011)

Currency=USD



Date	Closing Price	Rating	Price Target
28-Oct-2010	8.87	2-Equal Weight	11.00

Barclays Bank PLC and/or an affiliate trades regularly in the shares of Codexis, Inc..

Valuation Methodology: Our price target of \$11 is based on a DCF analysis using the following framework: CAGR of 26% from 2011 through 2020, WACC of 6.4%, and a terminal value of 2%.

Risks which May Impede the Achievement of the Price Target: i) Lack of near-term profitability, possibly until 2013, ii) Shell R&D agreement could end earlier than expected, limiting main source of revenues, iii) Cosan & Shell joint venture may be delayed or cancelled, limiting long-term growth prospects and potential revenue source, iv) biofuels industry may not grow as expected, negatively affecting long-term growth potential.

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