Renaissance Capital IPO Research

Energy-Alternatives

Codexis (CDXS)

27-May-2010

Shell Oil-backed developer of biocatalysts for biofuel and pharma applications.

Investment Rating: Marketperform

Pricing Update

Stock Data *(in mil, except per share)*

Current Price (27-May-2010)	$10.88
Shares Outstanding	38.9
Market Capitalization	$422.8
Enterprise Value	$322.1

IPO Data

Offer Date	4/21/2010
Offer Price	$13.00
Price Range	$13.00 - $15.00
Shares Offered (% insider)	6.0 (0%)
Deal Size	$78.0
Use of Proceeds	Working capital

IPO Underwriters *(*bookrunner)*

Credit Suisse*	Piper Jaffray
RBC Capital Markets	Pacific Crest

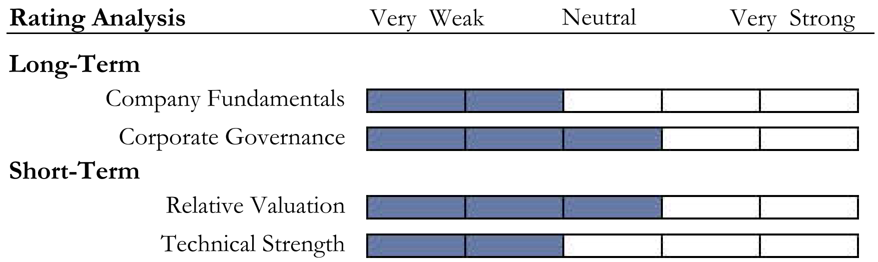
Key Financial Data

Income Model			*FY Ended Dec*
($ in mil)	**2009A**	**2010E**	**2011E**
Sales	$82.9	$95.4	$112.6
EBITDA	-7.4	1.5	9.3
EPS	**-0.62**	**-0.29**	**-0.13**

Balance Sheet	*As of 3/31/10 (adj. for IPO)*
Cash	$107.3
Total Assets	151.9
Total Debt	6.7
Shareholders' Equity	104.9

Corporate Data

Employees	290
Year Founded	2002
Headquarters	Redwood City, CA
Phone Number	(650) 421-8100
Web Address	www.codexis.com



Prices at low end of range; 1Q results/guidance in line. Codexis successfully priced its IPO in the face of an increasingly turbulent IPO market, selling 6 million shares at $13, the low end of its proposed range. After rising as much as 15% in its first week of trading, momentum has since fizzled and the stock fell to a post-IPO low on Thursday, closing at $10.88. While we are maintaining estimates in line with guidance offered on the first quarter conference call, we were encouraged by continued momentum in the pharma pipeline and the potential for a $4.7 million DOE grant for its carbon capture technology.

Still valued at premium to close peer Verenium. On an enterprise value basis ($322M), Codexis is valued at a sizeable premium to Verenium ($129M) despite similar technology platforms and potential end markets. While Codexis' stronger balance sheet and cash flow from its success in the pharmaceutical space support a premium valuation argument, without more insight into actual revenue contribution from the biofuels market, the risk-reward here is neutral at best (3x 2011 sales; 35x EBITDA). Our DCF analysis supports a fair value of $11 per share. That said, we acknowledge that shares are likely to remain volatile, responding more to market developments and new relationship announcements rather than traditional valuation benchmarks.

Despite intriguing opportunity, Codexis is still a high risk story. Because biocatalysts have potential in a variety of industrial applications, Codexis has the opportunity to leverage its platform across a number of large end markets. However, its key advanced biofuels technology remains unproven at commercial scale, and its future success hinges on a one-sided collaboration agreement with Shell. Without a clear road map to growth, risks to this story are difficult to quantify. That said, the breadth of Codexis' potential addressable markets makes it difficult to rule out homerun potential, keeping our overall rating in the marketperform category.

Bull Insights

- Gov't mandates and subsidies could drive demand for advanced biofuels
- R&D partner Shell is the leading distributor of biofuels: 9B liters in 2009
- Has supplied enzymes for Merck's Januvia, the world's fastest-growing drug
- Investors include Shell, Chevron, Pfizer, GE and reputable venture firms

Bear Insights

- Advanced biofuels are unproven at scale and market is highly competitive
- R&D agreement with Shell accounts for a substantial majority of sales (76%)
- Shell has no obligation to commercialize product and could scale back funding
- The stock has traded off -18% in the aftermarket and stands at a post-IPO low

Company Fundamentals — Rating: Weak

Overview:

Codexis develops and optimizes biocatalysts, which are enzymes or microbes that can be used in a variety of industrial applications as an alternative to complex and expensive chemistry-based processes. A 2002 spinoff of Maxygen, the company has invested 8 years and $200 million in its proprietary technology platform and has commenced product sales in the pharmaceutical industry, where it currently provides enzymes and enzyme-derived inputs to leading firms such as Merck and Pfizer. However, with an increasing share of revenues coming from a five-year R&D collaboration agreement signed with biofuels leader Shell Oil in 2007, the stock is a play on the potentially-lucrative advanced biofuels market.

Rating Rationale:

Because biocatalysts can operate near room temperature and pressure, they have the potential to replace a variety of chemistry-based industrial processes that are both energy and capital intensive. As a result, Codexis aims to leverage its technology platform across a number of large end markets. However, its products have not gained traction to date outside the pharma industry. Further, this small and unprofitable company relies on its parent for critical IP and its fortunes are increasingly tied to a one-sided collaboration agreement with Shell.

Business:

Has developed a proprietary platform for designing optimized biocatalysts using advanced genetic modification techniques and software. In 2006, entered into a research agreement with Shell to develop biocatalysts for breaking down renewable non-food plant materials (cellulosic biomass) and converting them into ethanol and/or biodiesel (76% of sales). Agreement was expanded in 2007 and extended for a five-year term; provides annual R&D funding of $350-$450k per full-time employee equivalent (128 as of Dec. '09), in addition to a $20 million up-front fee and milestone payments. Shell maintains an exclusive option to commercialize technology in exchange for per-gallon production royalties. Codexis has commercialized its technology in the pharmaceutical market (22% of sales), where it provides biocatalyst screening panels, screening and optimization services, proprietary biocatalysts, and biocatalyst-derived inputs for 20 customers including Dr. Reddy's, Merck, Pfizer and Ranbaxy Labs. Maintains a small direct sales force in the US and Europe. Licenses core technology from parent Maxygen (NASDAQ: MAXY) and must pay royalties on biofuels-related revenues. Relies on third-party manufacturers for commercial-scale production. Conducts research and pilot-scale manufacturing in Redwood City, CA; also has research facilities in Singapore and Budapest. Targets opportunities in other bioindustrial markets including carbon emissions, water treatment and chemicals. Owns 35 issued patents and 115 applications.

Competition:

The advanced biofuels market is increasingly competitive with several biocatalyst firms forging collaborations or ventures to develop their technology. Key partnerships include Novozymes/Inbicon, DuPont Danisco Cellulosic Ethanol, DSM/U.S. DOE, Mascoma/Chevron and Verenium/BP. Primary competitors on the pharmaceutical side: Novozymes and Amano Enzyme.

Key Issues:

Advanced biofuel technology is unproven at commercial scale and could be rendered obsolete by numerous competing technologies. Shell has engaged multiple firms with competing biofuels technology. Has a limited operating history and expects to incur losses for the foreseeable future. Top 5 customers are 90%; related party Shell is 76% and four pharma firms are 14% (63% of pharma sales). In late 2010, Shell has the right to reduce the number of funded research employees by 75%, or terminate the agreement altogether on 270 days' notice. Even if Codexis develops viable technology, Shell is not obligated to commercialize the product or use Codexis as a supplier. Collaboration with Shell has one-way exclusivity for Codexis through Nov. 2012; Shell will also control IP produced under the agreement, regardless of its decision to commercialize. Demand for cellulosic biofuels will fluctuate with the price of petroleum-based alternatives and it will likely rely on tax credits, subsidies and other incentives. Auditor identified significant deficiency in internal controls.

Income Statement Data			
FY Dec ($ in mil)	**2007**	**2008**	**2009**
Sales	$25.3	$50.5	$82.9
EBITDA	-34.2	-36.0	-7.4
Net Income	-39.0	-45.1	-20.3
Cash Flow Data			
CFFO	-$6.5	-$36.3	-$8.7
Less: Capex	8.2	8.5	10.8
Free Cash Flow	-14.7	-44.9	-19.5
Revenue Mix			
Shell R&D Agreement	33.5%	59.9%	75.6%
Pharmaceuticals	45.1%	33.4%	22.4%
Other R&D/Grants	21.5%	6.7%	2.0%
Pharmaceuticals			
Product Sales	$11.4	$16.9	$18.6
Product Gross Margin	27.1%	21.8%	10.1%

Latest Results and Outlook

Recent Financial Trends:

For the three months ended March 2010, total revenues rose 32%, to $26 million, as a result of an 11% increase in R&D collaboration funding from Shell, a 37% increase in pharmaceutical product sales, and a nonrecurring $2.7 million grant from the Singapore government. Operating loss narrowed to -$1.1 million as a 14% decline in R&D expenses and a 1% improvement in pharmaceutical gross margins offset a 42% increase in SG&A expense stemming from public company costs and higher stock compensation. Net loss contracted by a similar magnitude thanks to flat interest expense. Cash flow from operations declined by $3.6 million, to -$12 million, largely due to the timing of payments from Shell.

Outlook:

In its 1Q conference call, management provided full year guidance for sales in the range of $94-$98 million and positive EBITDA. As a result, we are leaving our estimates largely unchanged at $95 million and $1.5 million, respectively. Overhead absorption should drive EBITDA just above breakeven with operating loss contracting to -$11 million. Management expects capex of roughly $12 million for the full year, which should produce free cash flow of -$11 million.

For 2011, we assume a constant growth rate in collaboration (+19%) and product sales (+11%), driving $113 million in total revenues. With additional leverage on R&D and SG&A, we currently model EBITDA of $9 million and an operating loss of -$5 million. Obviously, the early stage of the technology and the limited visibility into collaboration revenues introduces considerable volatility into the model. That said, the company plans to launch pilot facilities for its cellulosic fuels by the end of 2010, and we currently model contributions from biofuels product revenues in 2012, driving a step up in revenue growth through 2014-2015. In the medium term, the company believes the model can support operating margins in the 17-20% range, as it can rely on Shell and its proposed JV partner, Cosan (NYSE: CZZ), for capital-intensive biomass, refining and distribution infrastructure.

Interim Results - *3 months ended*

($ in mil)	**Mar-09**	**Mar-10**	***% Chg***
Sales	$19.4	$25.7	*32%*
Gross Profit	15.6	20.5	*32%*
EBITDA	-3.6	2.4	*167%*
Operating Income	-5.6	-1.1	*81%*
Net Income	-6.1	-1.4	*78%*
EPS	**-0.19**	**-0.04**	***81%***
Cash Flow Data			
CFFO	-$8.4	-12.0	*198%*
Less: Capex	1.3	1.3	*46%*
Free Cash Flow	-9.7	-13.3	*-491%*
Revenue Mix			
Shell R&D Agreement	74.3%	62.4%	
Pharmaceuticals	23.5%	24.4%	
Other R&D/Grants	2.2%	13.2%	
Pharmaceuticals			
Product Sales	$4.6	$6.3	
Product Gross Margin	16%	17%	

Income Statement Data

FY Dec ($ in mil)	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Sales	$82.9	$95.4	$112.6	$142.0	$180.7	$232.3
EBITDA	-7.4	1.5	9.3	17.5	32.4	56.1
Net Income	-20.3	-11.3	-4.9	1.5	14.3	35.7

Balance Sheet Data

($ in mil)	**Actual 3/31/10**	**Post IPO 3/31/10**
Cash	$39.3	$107.3
Total Assets	83.8	151.9
Total Debt	6.7	6.7
Shareholders' Equity	-144.8	104.9

Corporate Governance — Rating: Neutral

Codexis should benefit from management's combined experience in high-tech sectors ranging from chemicals, pharmaceuticals and clean energy. Further, the company has attracted capital from reputable venture firms and industry leaders including Shell, Chevron, Pfizer and GE. That said, only three of seven directors are independent and management compensation is generous for a company of this size; three executives collected more than $1 million in cash and stock in 2009. Additionally, recent turnover at the CFO position is a concern and limited executive ownership (5%) is comprised primarily of cheap options.

Key Executive	Age	Position	Corporate Background
Alan Shaw, Ph.D.	46	CEO	Since 2002. President since inception. Prior to Codexis was Head of New Business Development for Swiss chemical conglomerate Clariant and Managing Director for research chemical provider Lancaster Synthesis.
Robert Lawson	45	CFO	Since November 2009. Held various financial management positions at Intuit between 2001 and 2009. Earlier, spent 15 years at GE.

Key Shareholder	Holdings	Additional Details
Maxygen	17.6%	Parent. NASDAQ-traded (MAXY) biopharmaceutical company focused on developing improved versions of protein drugs using advanced genetic techniques. Received 79% of its holdings (4.7 million shares) as part of licensing agreement.
Shell Oil	16.3%	Controls one board seat. Since November 2006, has invested $66.5 million at an average cost basis of $12 per share.
EDB Investments	9.9%	Investment fund controlled by the Economic Development Board of Singapore, with a focus on biomedical sciences, clean tech and digital media.
CMEA Ventures	8.8%	San Francisco, CA-based venture capital firm. Last investment was $5 million in late 2007 at $12.75 per share.
FirstMark Capital	7.9%	Formerly Pequot Capital Management. Last investment was $5 million in late 2007 at $12.75 per share.
Chevron	4.9%	Last investment was $750,000 in late 2007 at $12.75 per share.

Relative Valuation — Rating: Neutral

On an enterprise value basis ($322M), Codexis is valued at a sizeable premium to Verenium ($129M) despite similar technology platforms and potential end markets. While Codexis' stronger balance sheet and cash flow from its success in the pharmaceutical space support a premium valuation argument, without more insight into actual revenue contribution from the biofuels market, the risk-reward here is neutral at best (3x 2011 sales; 35x EBITDA). Our DCF analysis supports a fair value of $11 per share. That said, we acknowledge that shares are likely to remain volatile, responding more to market developments and new relationship announcements rather than traditional valuation benchmarks.

Valuation Methods

	DCF	Relative
Methodology	Perpetuity	3x 2011 Sales
Implied Value	$11.37	$11.28
Upside/Downside	+5%	+4%

View DCF Model at www.ipointelligence.com/iporesearch/

Comparable Financial Analysis

IPO and Key Peers	*FY*	*Sales (US$)*	*EBITDA %*	*EBIT %*	*Net %*	*Debt-to-Capital*	*MRQ Growth*	*FY09-11 Growth*
Codexis	**Dec**	**$82.9**	**-8.9%**	**-22.2%**	**-24.5%**	**7.0%**	**30%**	**17%**
Verenium	Dec	$64.6	-76.9%	-99.4%	-57.6%	88.5%	-9%	14%
Novozymes A/S	Dec	$1,550.0	27.7%	21.0%	15.0%	26.4%	9%	9%
Metabolix	Dec	$1.3	n/m	n/m	n/m	0.0%	-31%	219%
EnerNOC	Dec	$200.4	2.3%	-4.2%	-4.2%	0.0%	53%	34%
A123 Systems	Dec	$92.3	-88.1%	-104.8%	-104.1%	3.8%	5%	78%
First Solar	Dec	$2,216.0	38.1%	31.7%	29.2%	5.4%	36%	30%
Group Average			**-19.4%**	**-31.1%**	**-24.3%**	**20.7%**	**10%**	**11%**

Note: All dollars are in millions. All financial metrics are based on LTM data; return metrics are based on forward estimates.

Comparable Valuation Analysis

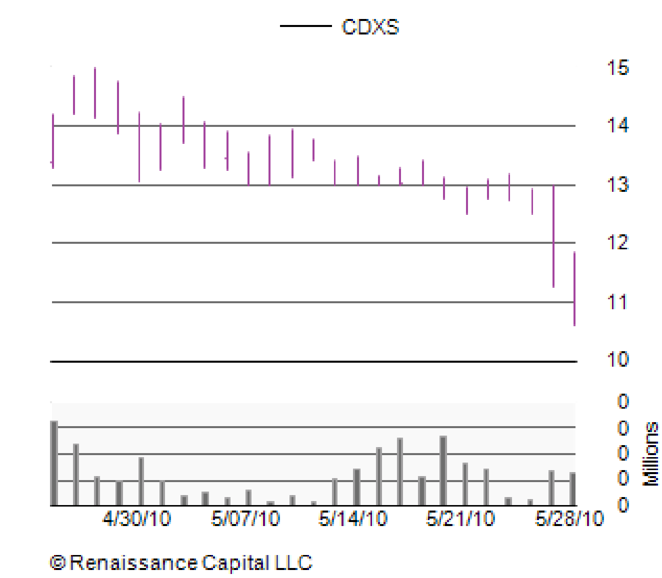
IPO and Key Peers	*Ticker*	*Price*	*Market Value*	*Enterprise Value*	*EV/Sales 2010*	*EV/Sales 2011*	*EV/Sales 2012*	*EV-to-EBITDA 2010*	*EV-to-EBITDA 2011*	*EV-to-EBITDA 2012*	*LT Growth*	*P/B*
Codexis	**CDXS**	**$10.88**	**$422.8**	**$322.1**	**3.4x**	**2.9x**	**2.3x**	**209.3x**	**34.8x**	**18.4x**	**23%**	**4.0x**
Verenium	VRNM	$3.37	$40.6	$129.2	2.0x	1.5x	0.7x	n/m	n/m	n/m	35%	3.0x
Novozymes A/S	NZYMB DC	kr677.00	$7,720.7	$7,893.7	4.8x	4.4x	4.1x	17.1x	15.7x	14.6x	15%	7.0x
Metabolix	MBLX	$14.49	$384.5	$301.7	n/m	20.8x	12.5x	n/m	n/m	n/m	25%	8.2x
EnerNOC	ENOC	$28.34	$681.6	$564.3	2.0x	1.6x	1.3x	20.0x	11.8x	7.6x	54%	3.6x
A123 Systems	AONE	$9.29	$969.3	$579.1	4.2x	2.0x	0.9x	n/m	n/m	12.5x	45%	1.9x
First Solar	FSLR	$115.80	$9,969.5	$9,417.8	3.6x	2.7x	2.3x	11.4x	9.9x	8.7x	18%	3.5x
Key Peer Average					**3.4x**	**3.0x**	**2.4x**	**17.1x**	**15.7x**	**14.6x**	**25%**	**5.0x**
Group Average					**3.3x**	**2.5x**	**1.9x**	**16.2x**	**12.5x**	**10.9x**	**32%**	**4.6x**

Note: All dollars are in US millions except for per share amounts. Averages exclude outliers.

Technical Strength — Rating: Weak

Stock Performance of IPO and its Peer Group

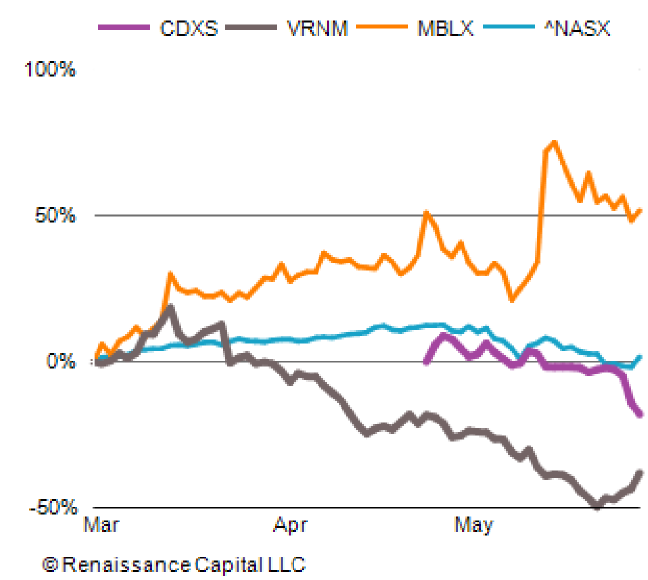
CDXS



IPO Performance Data

First Day	2%
Aftermarket	-18%
Total Return	-16%
Quiet Period Release	6/1/2010
Lock-up Release	10/18/2010
Days to Lock-Up Release	144
Shares Available for Sale	27,977,070
Percent of Total Shares Outstanding	72%

CDXS vs Key Publicly-Traded Peers vs Index



Publicly - Traded Peer Group

Key Peers	*Ticker*	*Stock Price*	*1-Mo. Return*	*3-Mo. Return*	*YTD Return*
Codexis *	**CDXS**	**$10.88**	**-16%**	**-16%***	**-16%***
Verenium	VRNM	$3.37	-16%	-38%	-25%
Novozymes A/S	NZYMB DC	kr677.00	8%	21%	25%
Metabolix	MBLX	$14.49	12%	52%	31%
EnerNOC	ENOC	$28.34	-2%	7%	-7%
A123 Systems	AONE	$9.29	-28%	-44%	-59%
First Solar	FSLR	$115.80	-10%	10%	-14%
Indexes					
Nasdaq	CCMP	2,277.68	-8%	2%	0%
S&P 500	SPX	1,103.06	-7%	0%	-1%
FTSE Renaissance IPO	IPOS	213.37	-5%	0%	-2%

*Stock prices as of 05/27/10. * Returns from IPO.*

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