

Energy

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Industry Brief

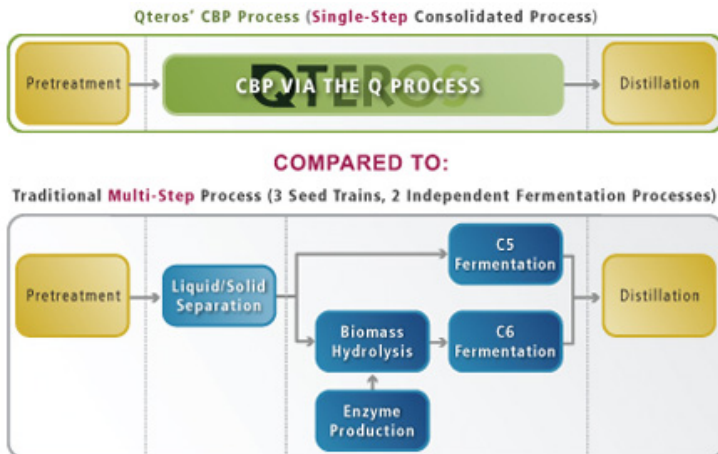
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Alternative Energy - Alternative Fuels: Industry Tidbit

Qteros: Thoughts from the Road on the Future of Cellulosic Ethanol

Yesterday, we hosted a series of investor meetings with management from Qteros, Inc. Qteros, based near Boston, is a privately held developer of Gen2 biofuels – specifically, cellulosic ethanol. In this brief, we highlight our main takeaways. On page 2, we also include a comparative table highlighting the similarities and differences between Qteros and the three public Gen2 companies that we currently cover – Amyris, Codexis, and Gevo.

Cellulosic ethanol is the next generation of ethanol, which is traditionally produced either from corn (in the U.S.) or sugarcane (in Brazil). This remains an early-stage industry, with de minimis production globally, but the economics are potentially very lucrative, given that costly traditional feedstocks can be replaced by low-value non-food biomass. Qteros, for example, achieved a total cash production cost of \$2.40/gal last year and is targeting \$1.50/gal by mid-2011 and \$1.00/gal by 2013. By comparison, at current corn prices of ~\$7.00/bushel, just the corn itself equates to \$2.50/gal (before netting out co-product revenue). In addition, cellulosic ethanol avoids the “food vs. fuel” controversy that intensifies whenever agricultural prices spike – as is currently the case.



Source: Qteros

Qteros has developed a proprietary technology platform – called Consolidated Bioprocessing (CBP) – that enables production of cellulosic ethanol from virtually any cellulosic biomass. As shown in the adjacent diagram, the name refers to the fact that CBP is a single-step process, in contrast to some other models of cellulosic ethanol production, which involve multiple steps and thus additional expense.

The key element of CBP is the company’s proprietary microorganism, the Q Microbe. This is an anaerobic organism with a combination of characteristics that streamline cellulosic ethanol production. The Q Microbe is feedstock-agnostic, allowing use of such diverse feedstocks as corn stover, sugarcane bagasse, and switchgrass. The Q Microbe naturally produces most of the enzymes required to break down biomass into fermentable sugars (pentose and hexose),

eliminating separate unit operations and minimizing the need for costly external enzymes. In addition, pretreatment expenses (including energy inputs) are reduced, because the Q Microbe naturally digests and ferments oligomeric sugars.

Qteros has a capital-light commercialization strategy, aimed at technology licensing. In addition to gaining access to CBP technology, licensees get a comprehensive, turnkey Process Design Package (PDP) – comprising all the know-how required to construct and operate a commercial-scale cellulosic ethanol plant. In January, Qteros announced a strategic partnership with Praj Industries, a leading Indian-based engineering firm that designs and builds biofuel plants, mainly in Asia and South America. (Praj is roughly analogous to ICM, the leading U.S. ethanol plant designer.) The two companies are currently focusing their efforts on developing PDPs for feedstocks that include sugarcane, corn, and wheat residuals, with the goal of achieving commercial readiness by year-end 2012. The sales/marketing focus is on Praj's existing base of 450+ ethanol customers – spread across 50+ countries – who may want to add co-located cellulosic capabilities to their existing ethanol plants. Further down the road, Qteros and Praj may broaden their partnership to include additional feedstocks, and potentially other end products as well.

Please read domestic and foreign disclosure/risk information beginning on page 3 and Analyst Certification on page 3.

	Qteros (private)	Amyris (AMRS)	Codexis (CDXS)	Gevo (GEVO)
Product Description	Cellulosic ethanol for fuel end markets	Farnesene for fuel and chemical end markets	Biocatalysts for production of pharmaceuticals and, longer-term, biofuels and chemicals	Isobutanol for fuel and chemical end markets
Main Strategic Partners	BP, Valero, Praj Industries	Total, Procter & Gamble, Grupo São Martinho	Shell, Cosan, Alstom	Total, Lanxess
Commercialization Plan	Commercial readiness of process design packages for Praj-built ethanol plants expected by year-end 2012	First commercial plant, in Brazil, using sugarcane, set to start up in 1H12	Current focus is on sugarcane in Brazil, with timing dependent on progress of Shell-Cosan joint venture	First commercial plant, in Minnesota, using corn, set to start up in 1H12

Source: Company filings and reports

Company Citations

Company Name	Ticker	Exchange	Currency	Closing Price	RJ Rating	RJ Entity
Amyris, Inc.	AMRS	NASDAQ	\$	29.54	3	RJ & Associates
BP plc	BP	NYSE	\$	47.58	2	RJ & Associates
Codexis, Inc.	CDXS	NASDAQ	\$	10.55	3	RJ & Associates
Gevo, Inc.	GEVO	NASDAQ	\$	18.55	2	RJ & Associates
Valero Energy Corp.	VLO	NYSE	\$	27.75	3	RJ & Associates

Notes: Prices are as of the most recent close on the indicated exchange and may not be in US\$. See Disclosure section for rating definitions. Stocks that do not trade on a U.S. national exchange may not be approved for sale in all U.S. states. NC=not covered.

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Strong Buy (SB1) Expected to appreciate, produce a total return of at least 15%, and outperform the S&P 500 over the next six to 12 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, a total return of at least 15% is expected to be realized over the next 12 months.

Outperform (MO2) Expected to appreciate and outperform the S&P 500 over the next 12-18 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12-18 months.

Market Perform (MP3) Expected to perform generally in line with the S&P 500 over the next 12 months.

Underperform (MU4) Expected to underperform the S&P 500 or its sector over the next six to 12 months and should be sold.

Suspended (S) The rating and price target have been suspended temporarily. This action may be due to market events that made coverage impracticable, or to comply with applicable regulations or firm policies in certain circumstances, including when Raymond James may be

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Outperform (MO2) The stock is expected to appreciate and outperform the S&P/TSX Composite Index over the next twelve months.

Market Perform (MP3) The stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities.

Underperform (MU4) The stock is expected to underperform the S&P/TSX Composite Index or its sector over the next six to twelve months and should be sold.

Raymond James Latin American rating definitions

Strong Buy (SB1) Expected to appreciate and produce a total return of at least 25.0% over the next twelve months.

Outperform (MO2) Expected to appreciate and produce a total return of between 15.0% and 25.0% over the next twelve months.

Market Perform (MP3) Expected to perform in line with the underlying country index.

Underperform (MU4) Expected to underperform the underlying country index.

Raymond James European Equities rating definitions

Strong Buy (1) Absolute return expected to be at least 10% over the next 12 months and perceived best performer in the sector universe.

Buy (2) Absolute return expected to be at least 10% over the next 12 months.

Fair Value (3) Stock currently trades around its fair price and should perform in the range of -10% to +10% over the next 12 months.

Sell (4) Expected absolute drop in the share price of more than 10% in next 12 months.

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Aggressive Growth (AG) Medium or higher risk equities of companies in fast growing and competitive industries, with less predictable earnings and acceptable, but possibly more leveraged balance sheets.

High Risk (HR) Companies with less predictable earnings (or losses), rapidly changing market dynamics, financial and competitive issues, higher price volatility (beta), and risk of principal.

Venture Risk (VR) Companies with a short or unprofitable operating history, limited or less predictable revenues, very high risk associated with success, and a substantial risk of principal.

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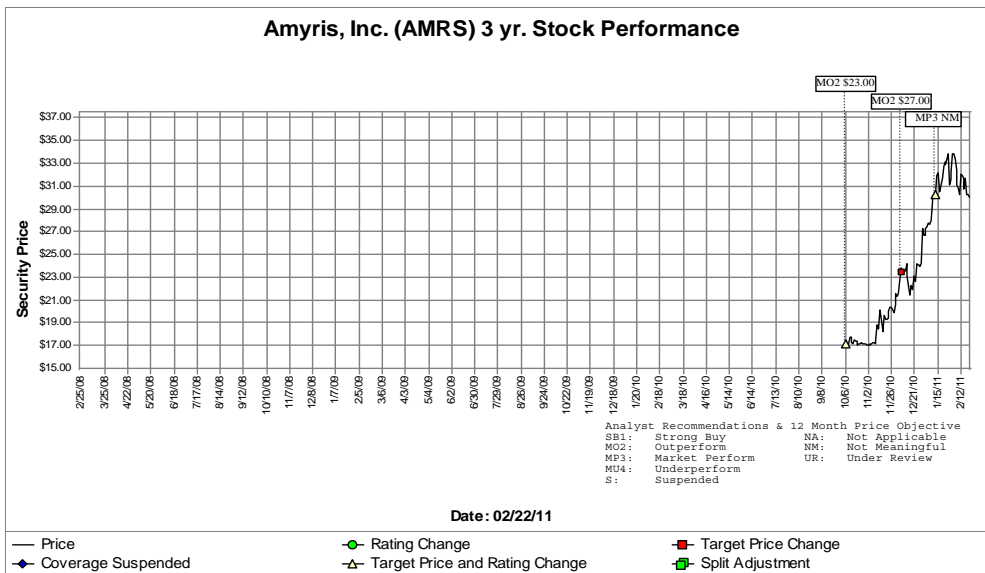
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Company Name	Disclosure
Codexis, Inc.	Raymond James & Associates makes a NASDAQ market in shares of CDXS.
Valero Energy Corp.	Raymond James & Associates received non-investment banking securities-related compensation from VLO within the past 12 months.

Stock Charts, Target Prices, and Valuation Methodologies

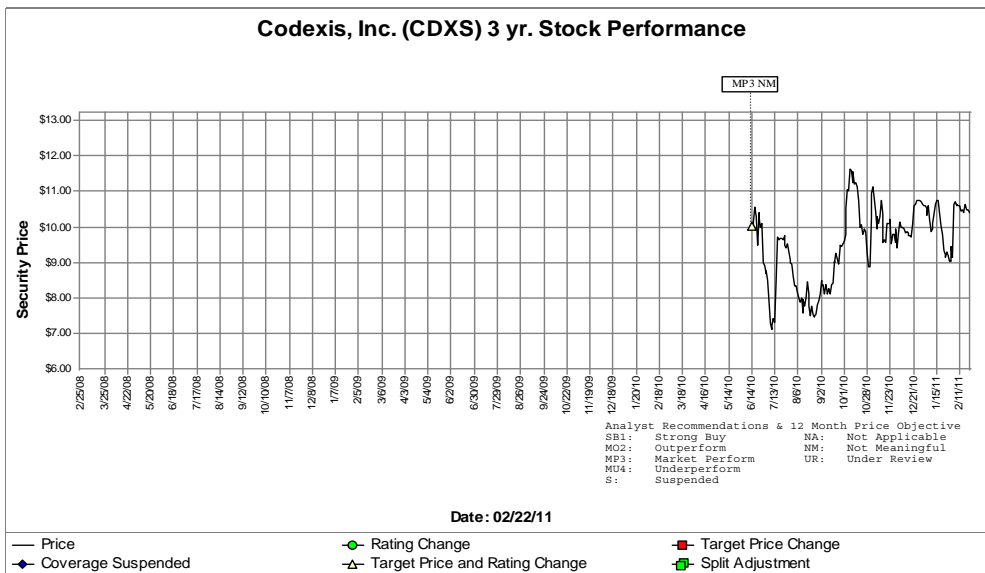
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Target Prices: The information below indicates target price and rating changes for the subject companies included in this research.



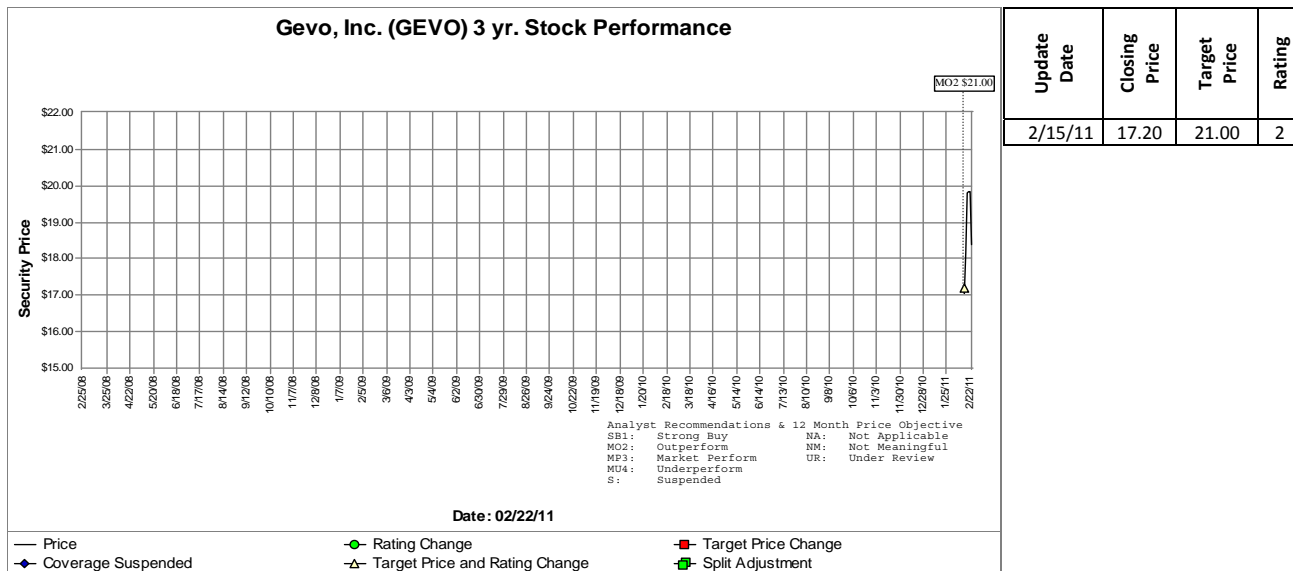
Update Date	Closing Price	Target Price	Rating
1/13/11	30.22	NM	3
12/9/10	23.42	27.00	2
10/7/10	17.10	23.00	2

Valuation Methodology: Our valuation methodology for Amyris is primarily based on discounted cash flow, using 2015 as the terminal year and 20% as the discount rate.



Update Date	Closing Price	Target Price	Rating
6/14/10	10.01	NM	3

Valuation Methodology: Our valuation methodology for Codexis is primarily based on discounted cash flow, using 2015 as the terminal year and 20% as the discount rate.



Valuation Methodology: Our valuation methodology for Gevo is primarily based on discounted cash flow, using 2015 as the terminal year and 20% as the discount rate.

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General Risk Factors: Following are some general risk factors that pertain to the projected target prices included on Raymond James research: (1) Industry fundamentals with respect to customer demand or product / service pricing could change and adversely impact expected revenues and earnings; (2) Issues relating to major competitors or market shares or new product expectations could change investor attitudes toward the sector or this stock; (3) Unforeseen developments with respect to the management, financial condition or accounting policies or practices could alter the prospective valuation; or (4) External factors that affect the U.S. economy, interest rates, the U.S. dollar or major segments of the economy could alter investor confidence and investment prospects. International investments involve additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability.

Specific Investment Risks Related to the Industry or Issuer

Company-Specific Risks for Codexis, Inc.

Lack of Near-Term Profitability

We do not believe that Codexis will achieve sustained profitability until 2014-2015. Similarly, the company's negative cash flow from operations represents another financial challenge and may necessitate outside financing in the future.

Advanced Biofuels Commercialization Risk

Codexis is developing biocatalysts for use in producing two advanced biofuels, cellulosic ethanol and biohydrocarbon diesel. As is true of many early-stage industries, commercialization of advanced biofuels entails numerous risks. For example, the development of technology for converting sugar derived from non-food renewable biomass sources into a commercially viable biofuel is still in its early stages.

Risk Associated with the Shell Relationship

Codexis' current business plan for biofuels is heavily dependent on its collaborative research agreement with Shell. This entails three main risks. First, there is no assurance that this relationship will continue. After November 1, 2010, Shell can terminate the research agreement for any reason after providing nine months' notice. Second, Shell has the right, but not the obligation, to commercialize any technologies developed jointly with Codexis. Third, Codexis has agreed to work exclusively with Shell on biofuels R&D, but Shell is not required to work exclusively with Codexis and in fact has other industry partnerships focused on biofuels.

Competitive Market Environment

Codexis operates within the competitive biotechnology arena. The company's ability to continue developing new product innovations and introducing these into a rapidly evolving market is essential for future success. Several of the company's competitors are larger and have considerably greater financial resources.

Government Policy Risk

Many national and local policy measures benefit the biofuel industry in the U.S. and internationally. Any of these measures can be amended, suspended, or repealed, and such action could reduce demand for biofuels.

Company-Specific Risks for Amyris, Inc.

Lack of Near-Term Profitability

We do not believe that Amyris will achieve sustained profitability until 2013 at the earliest. Similarly, the company's negative cash flow from operations represents another financial challenge and may necessitate outside financing in the future.

Advanced Biofuels Commercialization Risk

As is true of many early-stage industries, commercialization of advanced biofuels entails numerous risks. For example, in order to become cost-competitive with conventional biofuels (as well as petroleum fuels), Amyris must substantially reduce the production cost of its products through improvement in yields and other manufacturing efficiencies. In addition, if Amyris eventually diversifies its feedstock mix beyond sugarcane, it is important to underscore that the development of technology for converting sugar derived from non-food renewable biomass sources into a commercially viable biofuel is still in its early stages.

Crude Oil and Sugarcane Price Risk

The biofuels produced by Amyris' plants will compete with conventionally refined petroleum fuels. Their price is linked to the price of crude oil. A significant decline in oil prices may render biofuels uneconomic. Amyris' plants also face the risk that their principal feedstock, sugarcane, may significantly rise in price, thereby harming profitability. Amyris' partnerships with Brazilian sugarcane producers reduce feedstock-related risk but do not eliminate it.

Risk Associated with Industry Partnerships

Amyris' commercialization plans are heavily dependent on its industry partnerships. In Brazil, the company's first production facility is a joint venture with Usina Saõ Martinho, in which Amyris will be dependent on its partner for supplying the sugarcane feedstock and partially reimbursing Amyris for the capital costs associated with the facility. In addition, the integrated oil and gas company Total S.A. holds a significant equity stake in Amyris. In certain cases, Total S.A. has the right of first negotiation for commercialization agreements. The relationship with Total S.A. may limit Amyris' ability to form other strategic partnerships and may limit its sales flexibility once commercialization is achieved.

Competitive Market Environment

Amyris operates within the competitive specialty chemicals and biofuel markets. The company's ability to continue developing new product innovations and introducing these into a rapidly evolving market is essential for future success. Several of the company's competitors are larger and have considerably greater financial resources.

Government Policy Risk

Many national and local policy measures benefit the biofuel industry in the U.S. and internationally. Any of these measures can be amended, suspended, or repealed, and such action could reduce demand for biofuels.

Company-Specific Risks for Gevo, Inc.**Lack of Near-Term Profitability**

We do not believe that Gevo will achieve sustained profitability until 2013. Similarly, the company's negative cash flow from operations represents another financial challenge and may necessitate outside financing in the future.

Advanced Biofuels Commercialization Risk

As is true of many early-stage industries, commercialization of advanced biofuels entails numerous risks. For example, in order to become cost-competitive with conventional biofuels (as well as petroleum fuels), Gevo must reduce the production cost of its products through improvements in yields and other manufacturing efficiencies. In addition, if Gevo eventually diversifies its feedstock mix beyond corn, it is important to underscore that the development of technology for converting sugar derived from non-food renewable biomass sources into a commercially viable biofuel is still in its early stages.

Acquisition and Joint Venture Risk

A core element of Gevo's growth strategy is to acquire ethanol plants in order to retrofit them to produce isobutanol. This strategy entails several risks, including (1) uncertain pricing of future acquisitions, (2) timing risk, and (3) integration risk. In addition, the company is pursuing joint ventures with ethanol plant owners, which may not materialize at the expected pace.

Crude Oil and Corn Price Risk

The biofuels produced by Gevo's plants will compete with conventionally refined petroleum fuels. Their price is linked to the price of crude oil. A significant decline in oil prices may render biofuels uneconomic. Gevo's plants also face the risk that their principal feedstock, corn, may significantly rise in price, therefore harming profitability.

Competitive Market Environment

Gevo operates within the competitive specialty chemicals and biofuel markets. The company's ability to continue developing new product innovations and introducing these into a rapidly evolving market is essential for future success. Several of the company's competitors are larger and have considerably greater financial resources.

Government Policy Risk

Many national and local policy measures benefit the biofuel industry in the U.S. and internationally. Any of these measures can be amended, suspended, or repealed, and such action could reduce demand for biofuels.

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