

Mossberg's Investor Digest

Best Idea Profile:

Codexis (NASDAQ:CDXS)

DESCRIPTION:

Codexis develops microorganisms and enzymes that enable cost-advantaged production of biofuels, bio-based chemicals and pharmaceuticals. The best way to understand this company is to delve into its parts. CodeXyme enzymes enable fuels and chemicals to be made from renewable resources, versus most of today's fuels and chemicals coming from non-renewable petroleum resources. CodeXol uses detergent alcohols to manufacture surfactants, which are then formulated into household detergents and personal care products that are made from sustainable sources. Pharma is the Company's established and growing business that produces enzymes that are used in the production of drugs, including the blockbuster drugs Lipitor and Januvia. The Company was founded in 2002 in Redwood, California, and has 340 employees. The stock went public in April 2010.

KEY INVESTMENT CONSIDERATIONS:

Uncertainty creates opportunity – Codexis stock has been hurt by change and uncertainty: there has been a turnover at the senior management team (New CEO appointed in June 2012), and the critical research partnership with Shell comes up for renewal in the Fall. The CEO comes from the specialty chemical industry (prior management was more experienced in pharmaceuticals). While a less developed area for Codexis, specialty chemicals have tremendous long-term upside and it makes sense for the Company to have the right leadership to realize the upside. Regarding the Shell partnership, the new COE says continuation of development of cellulosic ethanol could result in growth of the market "from virtually no volume currently to up to 21 billion gallons in the United States alone by 2022."

Pharma business is strong – Pharma business alone justifies the current stock valuation. Pharma's revenues of over \$50 million have more than doubled over the last two years. It has customers representing several of the world's largest pharmaceutical companies, including Merck, Pfizer, TEVA and Bristol-Myers Squibb. Drug companies are adopting Codexis enzymes into their manufacturing processes in order to raise their efficiencies, lower their risks, and decrease costs. An impressive example is the use of these enzymes in a new manufacturing process for Januvia, Merck's first-in-class medication for the treatment of Type II diabetes.

Strong upside in other businesses – Again, the strong partnerships and customers for Codexis' other businesses indicate substantial market potential down the line. Today, CDXS products are not manufactured on a commercial scale because the economics can't compete with existing petroleum-based fuels and chemicals. However, it's a strong bet that Codexis products, especially with the support of the Company's market-leading partners and customers, will be competitive with traditional petroleum. Customers' continuing demand for an environmentally friendly manufacturing process will continue to drive this trend.

Risk – Management is confident Shell will renew its agreement to fund much of the research and development required to commercialize Codexis' CodeXyme cellulose enzymes in the fuels market. Any hiccup in this agreement could further hurt the stock, although much of this uncertainty is already reflected in the shares. The CEO is confident the partnership will continue as it is more than halfway completed and the companies are already discussing market development.

VALUATION:

Investors' inability to look into the future undermines the current price of this stock. The stock is trading near its yearly low despite having one strong business currently generating impressive results and two other businesses with substantial upside. The company has \$64 million in cash and equivalents, zero debt and a cash burn rate of about \$10 million annually.

Codexis, Inc. (NASDAQ:CDXS) Investment Data (as of 7/29/12)

Recent Price	\$3.23
52-Week Range	\$2.96 - \$9.20
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	36 M
Average Trading Volume (3 mos)	170 K
Market Capitalization	\$117 M
Cash	\$53 M
Long Term Debt	0
Enterprise Value (EV)	\$64 M
Book Value	\$2.67
TTM Revenue	\$124 M
P/ Revenue	1x
TTM EPS	(\$0.57)
P/ EPS	NA
TTM EBITDA	(\$6.7M)
EV/ EBITDA	NA

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