



## TANAKA CAPITAL MANAGEMENT

### “Once A Lifetime Opportunity”

December 21, 2020

Dear Client

Happy Holidays and hoping you are well and safe!

This is a special letter because we would like to describe what I believe may be a once in a lifetime opportunity for us. Pardon its length, but as Mark Twain said, I didn't have time to make it shorter.

In my 47 years as a research analyst and institutional investor, I have met the managements of thousands of companies and analyzed hundreds in detail. Forty years ago I was lucky to discover Intel, having met a founder, researched it and became convinced it would continue to deliver 50% more value per year with each generation of its microprocessor (Moore's Law). When it became evident that Intel could maintain its 3-year lead over competition and planned to raise its gross profit margins to the 80% level of the drug industry, I thought that it would be an ideal fit for clients and we rode that train for decades.

Amyris reminds me of when I discovered Intel which became a primary driver of the Digital Revolution. We now believe that Amyris will become a primary driver of the Synthetic Biology (SynBio) Revolution where biotechnology innovation is allowing biology to replace high value portions of the chemical industry as we know it (\$765 billion in the US) with cleaner, more pure molecules at cheaper costs.

We have been fortunate to be early in discovering AFLAC (our lowest cost is \$0.17/share). We were also early on ASML and Novellus (key semiconductor equipment suppliers), Dunkin Donuts (revamped shops and formula for continuously refreshing its menu), Subaru (first with 4-wheel drive), Pfizer (5 new blockbuster drugs that analysts refused to believe), Qualcomm (proprietary CDMA software with military grade security for mobile phones), Apple (integrated platform, ease-of-use and design matter), Amazon (faster, better, cheaper online shopping) Tesla (first Buy Side analyst to visit the plant and realized that its electric vehicles and batteries were superior and upgradable wirelessly), and now Amyris.

In the last 3 1/2 years, we have done a deeper dive on Amyris, its scientific platform and the “synthetic biology” industry. Honestly, it has been difficult because there is so little written on this nascent industry and so little Wall Street research on the company given its history and leveraged balance sheet. This only encouraged me as I sensed an opportunity for us to gain an advantage and be early if we would be willing to do the work and ask the right questions —and if Amyris could fix its balance sheet.

Most of our successes have been “platform companies” where they establish a proprietary position and keep adding new products, services and value to customers. Amyris jumped off the page as having

already spent 15 years and \$1.7 billion to understand, catalogue and master biochemical pathways where yeast DNA is engineered to produce different target molecules instead of ethanol when fed cane sugar.

Then we did the fun part and asked a lot of questions. Yes, I was fortunate to have a background in engineering, computer science, financial analysis and all kinds of technologies. It also helped that Ben and I spent some of the last 4 years analyzing biotechnology companies, frankly learning some hard lessons along the way.

I can honestly say that we have done more research than anyone else on Amyris, its risks and opportunities. We would like to think it was time well spent and we believe we will get a handsome return on our investment for our clients. This early work and questions earned us an unusual opportunity to do a Zoom interview with the Head of R&D and the CEO of Amyris to better understand its science. Click on the hotlinks below to see You-Tube videos of my interview in two parts which explain synthetic biology, yeast fermentation and Amyris' position in the industry. Amyris posted it online on 12/11/20 when the stock was at \$3.49/share:

<https://youtu.be/hbAmYkX1Lus>

<https://youtu.be/os5CB2NN5k0>

4 days after the release of our R&D Zoom video, last week on Tuesday (12/15/20), Amyris conducted an Investor Day presentation. Below is a link to a replay of this webcast with slides. The day after the Investor presentation, on 12/16/20, the stock jumped 20% to \$4.12/share on the strength management's comments on the expected sale of 4 molecules which would publicly establish the commercial value of its assets and fix the balance sheet if they could close on these sales.

Amyris also went into more detail on its dominant position on the science, systems, databases and production know-how, a 3-5 year commercial lead over competition with 13 molecules in volume production (nearest competitors have one or two), 17-20 molecules under development, 2-3 new products launched every year and the potential to produce almost any molecule found in nature:

<https://investors.amyris.com/events-and-presentations?item=73>

I hope you can see from the videos and webcast why we have become increasingly convinced of the superiority of Amyris' scientific platform, intellectual property, unique tools, mastery of over 20 biochemical pathways, and expansive and growing database.

The remaining risks are the best kind because they are known and solvable: to become self-sustaining financially, maintain focus and then it's all about execution, execution, execution. Regarding execution, we are comforted that among its board is John Doerr, venture capitalist behind Google and other Silicon Valley successes and known for preaching execution upon objectives.

In the past few months we have sent you our 3 detailed research reports on Amyris which were published by Seeking Alpha on May 29th, September 29th & 30<sup>th</sup>. Based on Ben's earnings model, we

had forecasted that Amyris could deliver by 2024 revenues of \$935 million and EPS of \$0.72/share which could command a price of \$21.60/share. We maintain this price target and point out that while the probability of success has since been enhanced by recent new product announcements and asset sales which could raise \$200 million cash in the next few months, Covid has reminded us that there are risks with any forecasts and with any investment.

We also caution that due to the large short position and the unpredictable timing of asset sales and new product announcements, Amyris' stock price is likely to continue to be volatile in the weeks and months ahead. Nonetheless, we are comforted that in one and two years out, we believe that Amyris' fundamentals will improve dramatically, producing positive cash flow and earnings and introducing even more valuable new products from its rich pipeline.

We are not afraid to be among the first to find new opportunities. It means that sometimes we are too early and you have been patient waiting with us for Amyris to turn the corner financially. However, if we do our homework right, we can enjoy outsized returns. In the last few weeks as we did further research and became more confident of its new product flow and value-creating asset sales, we raised our weightings in Amyris for all clients, so everyone has benefitted from the 50% jump in the last week through Monday 12/21 to \$4.85/share.

We are now more confident Amyris is passing an inflection point and that the public will begin to see the value and power of its R&D pipeline as an "ultimate renewable resource," delivering more new molecules and profitable products every year. In the Holiday spirit, just like we experienced with Intel in the Digital Revolution, we envision that Amyris will be a "gift that keeps on giving" leading the SynBio Revolution with double digit revenue and earnings growth for years to come.

Thank you for your patience.

Please have a happy, healthy and safe Holiday Season and a terrific New Year in 2021!

Best,

Graham  
Ben  
Donna

#### Disclosure

This letter expresses my personal beliefs and opinions relating to the subject matter contained in the article. Other than modest payments from Seeking Alpha for the publication of those articles, I have not been compensated by any entity, and all thoughts, opinions, conclusions and statements contained in this article are my own. Further, I have no affiliations or arrangements of any kind with any entity mentioned in this letter. Finally, I have purchased shares of AMRS and TSLA for myself and for my clients in the past, and if the companies continue to perform as I expect, it is likely that I will purchase additional shares of each, both for myself and for my clients. This report is not, and should not be construed as, a solicitation or offer to buy or sell any securities or related financial products. It has been prepared by me solely from publicly available information. The information contained herein is believed to be reliable but has not been independently verified.

I make no guarantee, representation or warranty, and accept no responsibility or liability whatsoever as to the accuracy, completeness or appropriateness of such information or for any loss or damage arising from the use or further communication of this report or any part of it. Information contained herein may not be current due to, among other things, changes in the financial markets or economic environment. Opinions reflected in this letter are subject to change without notice. This letter does not constitute, and should not be used as a substitute for, tax, legal or investment advice. The letter has been prepared without regard to the individual financial circumstances, needs or objectives of persons who receive it. The securities and investments related to the securities discussed in this letter may not be suitable for all investors. Readers should independently evaluate particular investments and strategies, and seek the advice of a financial adviser before making any investment or entering into any transaction in relation to the securities mentioned in this letter.