July 5, 2012

Solazyme, Inc.

(SZYM:NASDAQ)

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Company Comment

Alternative Energy: Alternative Fuels and Chemicals

Downgrading to Market Perform as Rally Takes Valuation to 96% of DCF

Recommendation. Over the past six months, SZYM shares have been highly volatile amid the turbulent broader market, but all in, they have gained 19% year-to-date, making them the **only** stock with a positive YTD performance in the Gen2 biofuel peer group, as well as one of the best-performing clean tech stocks overall. For context, the WilderHill Clean Energy Index is down 9% YTD. With SZYM shares having topped our $14.00 target price and within striking distance of our DCF estimate, they have easily the highest multiple in the peer group, and we believe the risk/reward profile has become less attractive. Thus, we are **downgrading Solazyme from Outperform to Market Perform.**

- **Valuation-based downgrade.** This is purely a valuation-based downgrade. The rating change should not obscure the fact that we remain positive on Solazyme's underlying fundamentals. The versatility of Solazyme's algae-produced oils opens the door to wide-ranging opportunities across the fuel, chemical, personal care, and nutrition markets. The company has also done well in hitting its stated milestones, such as finalizing the Brazilian joint venture with Bunge and signing an offtake agreement with Dow Chemical. The balance sheet, with the largest cash balance among peers, is also in enviable shape, and we don't anticipate any equity issuance by the company until 2013. Of course, we balance our positive view on the technology platform with scale-up and project financing risks.
- **Reviewing peer ratings.** Following this rating change, Solazyme becomes our third **Market Perform**-rated stock in the biofuel arena. The key difference is that our rating on our other two Market Performs – Amyris and Codexis – reflects more fundamental concerns about their business models, as opposed to valuation. We continue to have Outperform ratings on Ceres, Gevo and KiOR. All of these companies are in the pre-earnings stage, and all except Codexis have an ongoing operating cash burn for the time being. We project that the first year of sustained profitability will be 2014 for KiOR and Solazyme; and 2015 for Amyris, Ceres, Codexis, and Gevo.

Valuation. We have long acknowledged that trying to determine "fair value" for a company like Solazyme, with a peer group still primarily consisting of private companies, can be a somewhat academic/arbitrary exercise. Consistent with peers, we apply a discounted cash flow approach to arrive at a DCF value of $14.71/share. After the recent gains, the shares are currently at 96% of DCF, and, as shown on page 2, the other Gen2 stocks range from 52% to 84%. Although Solazyme's multiple is not excessive in absolute terms – in the past, we had looked at 100% of DCF as the floor of what ought to be a reasonable valuation in this space – there has clearly been a general re-rating of pre-earnings companies in the context of a highly risk-averse market. (To put it another way, the market's implied discount rates have become quite a bit higher than the 15-20% we continue to use in DCF calculations.) With this in mind, while an even higher multiple than 96% might be justified in principle, at this point we are of the view that SZYM shares are fairly valued, and we see better opportunities elsewhere in the group.

Non-GAAP EPS	Q1 Mar	Q2 Jun	Q3 Sep	Q4 Dec	Full Year	GAAP EPS Full Year	Revenues (mil.)
2011A	$(0.56)	$(0.36)	$(0.19)	$(0.20)	$(1.02)	$(1.36)	$39
Old2012E	(0.21)A	(0.26)	(0.29)	(0.31)	(1.07)	(1.33)	54
New2012E	**(0.21)A**	**(0.26)**	**(0.29)**	**(0.31)**	**(1.08)**	**(1.33)**	**54**
Old2013E	(0.28)	(0.34)	(0.30)	(0.21)	(1.13)	(1.38)	130
New2013E	**(0.28)**	**(0.34)**	**(0.30)**	**(0.21)**	**(1.13)**	**(1.38)**	**130**

Rows may not add due to rounding and changes in the share base. Non-GAAP EPS excludes extraordinary items.

Rating Change

Old: Outperform 2 New: **Market Perform 3**

Current and Target Price

Current Price (7/3/2012)	$14.18
Target Price: Old: $14.00	New: NM
52-Week Range	$27.47 - $7.68
Suitability	Venture Risk

Market Data

Shares Out. (mil.)	60.1
Market Cap. (mil.)	$852
Avg. Daily Vol. (10 day)	792,021
Dividend/Yield	$0.00/0.0%
Book Value (03/12)	$3.82
LT Debt (mil.)/% Cap.	$18/7%

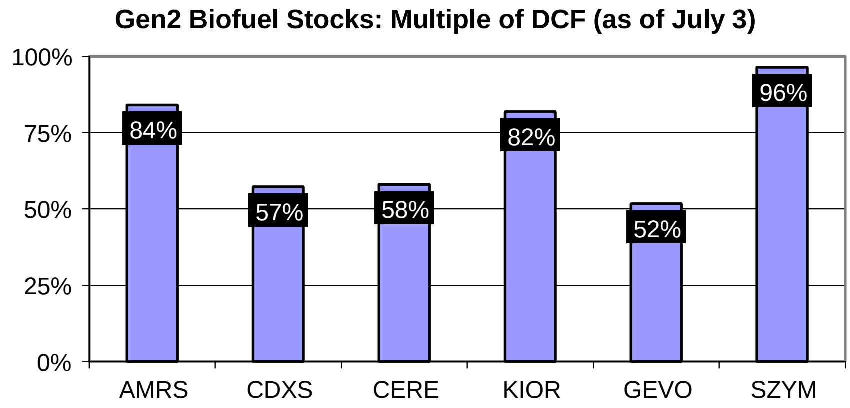
Earnings & Valuation Metrics

	2011A	2012E	2013E
P/E Ratios (Non-GAAP)	NM	NM	NM
EBITDA (mil.)			
Old	$(47)	$(77)	$(84)
New	$(47)	$(77)	$(84)
Cash Flow/Share			
Old	$(0.90)	$(1.00)	$(0.94)
New	$(0.90)	$(1.00)	$(0.94)

Company Description

Solazyme, Inc., based in South San Francisco, California, is a developer and early-stage producer of algae-based oils for renewable chemicals, nutrition products and advanced biofuels. The company is focusing on sugarcane as its primary feedstock.

Please read domestic and foreign disclosure/risk information beginning on page 4 and Analyst Certification on page 4.



Source: Thomson, Raymond James estimates

DCF Calculation

Operating CF, 2012 ($ MM)	($60.3)
Operating CF, 2013 ($ MM)	($66.2)
Operating CF, 2014 ($ MM)	$74.2
Operating CF, 2015 ($ MM)	$236.1
Terminal CF growth rate	10%
Total DCF to 2013 (at 20%)	**$1,273.9**
Per fully diluted share	**$14.71**

Source: Raymond James estimates

Solazyme, Inc.

QUARTERLY INCOME AND CASH FLOW (MILLIONS)

Earnings & Cash Flow	2008 A	2009 A	2010 A	2011 A	Q1 A	Q2 E	Q3 E	Q4 E	2012 E	Q1 E	Q2 E	Q3 E	Q4 E	2013 E
Product Revenue	$0.0	$0.0	$0.0	$7.2	$4.0	$2.8	$3.6	$5.0	$15.4	$5.9	$8.7	$30.7	$62.2	$107.5
Other	0.9	9.2	38.0	31.8	9.6	10.5	9.5	9.0	38.6	9.0	7.0	4.5	2.0	22.5
Total Operating Revenues	$0.9	$9.2	$38.0	$39.0	$13.6	$13.3	$13.1	$14.0	$53.9	$14.9	$15.7	$35.2	$64.2	$130.0
Cost of Product Revenue, Excl. D&A	0.0	0.0	0.0	2.4	0.6	1.2	2.0	2.9	6.7	3.1	5.9	20.6	40.9	70.5
Gross Margin, Excl. D&A (%)				66.3%	84.0%	57.8%	43.7%	42.7%	56.4%	48.3%	32.3%	32.9%	34.2%	34.4%
Depreciation and Amortization	0.3	0.5	0.8	1.7	0.6	0.9	1.1	1.4	4.0	2.0	2.8	3.8	5.0	13.6
Research and Development	7.5	12.6	34.2	43.9	15.4	15.8	16.4	17.0	64.6	17.5	18.0	18.5	19.0	73.0
Sales, General and Administrative	6.8	9.4	16.6	41.4	14.1	14.6	15.1	15.7	59.5	16.3	17.0	18.0	19.0	70.3
Other Operating Expenses (Income)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating Income	($13.6)	($13.3)	($13.7)	($50.5)	($17.1)	($19.2)	($21.5)	($23.0)	($80.8)	($23.9)	($28.0)	($25.7)	($19.8)	($97.4)
Other Non-Operating Expenses (Income)	(0.3)	(0.2)	(0.3)	(0.5)	(0.3)	0.0	0.0	0.0	(0.3)	0.0	0.0	0.0	0.0	0.0
Interest Expense	1.4	0.5	0.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax Extraordinary Items	0.1	0.0	2.6	3.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income Tax Expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income Before After-tax Extra. Items	(14.8)	(13.7)	(16.3)	(53.9)	(16.8)	(19.2)	(21.5)	(23.0)	(80.5)	(23.9)	(28.0)	(25.7)	(19.8)	(97.4)
After-tax Extraordinary Items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority Interest	(0.1)	(0.1)	(0.1)	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported Net Income	(14.9)	(13.8)	(16.4)	(54.0)	(16.8)	(19.2)	(21.5)	(23.0)	(80.5)	(23.9)	(28.0)	(25.7)	(19.8)	(97.4)
Adjustments for Non-recurring Items	0.1	0.0	2.6	13.3	4.0	3.7	3.8	3.9	15.3	4.1	4.3	4.5	4.8	17.6
Adjusted Net Income	($14.7)	($13.8)	($13.8)	($40.6)	($12.8)	($15.6)	($17.8)	($19.0)	($65.1)	($19.9)	($23.7)	($21.2)	($15.0)	($79.8)
Reported Fully Diluted EPS	($1.66)	($1.38)	($1.42)	($1.36)	($0.28)	($0.32)	($0.35)	($0.38)	($1.33)	($0.34)	($0.40)	($0.36)	($0.28)	($1.38)
Adjusted Fully Diluted EPS	($1.65)	($1.38)	($1.19)	($1.02)	($0.21)	($0.26)	($0.29)	($0.31)	($1.08)	($0.28)	($0.34)	($0.30)	($0.21)	($1.13)
Primary Shares Outstanding, Mil.	8.9	10.0	11.5	39.8	60.1	60.4	60.7	61.0	60.6	70.3	70.6	70.9	71.2	70.8
Fully Diluted Shares Outstanding, Mil.	8.9	10.0	11.5	39.8	60.1	60.4	60.7	61.0	60.6	70.3	70.6	70.9	71.2	70.8
Cash Flow	**2008 A**	**2009 A**	**2010 A**	**2011 A**	**Q1 A**	**Q2 E**	**Q3 E**	**Q4 E**	**2012 E**	**Q1 E**	**Q2 E**	**Q3 E**	**Q4 E**	**2013 E**
Net Income	($14.8)	($13.7)	($16.3)	($53.9)	($16.8)	($19.2)	($21.5)	($23.0)	($80.5)	($23.9)	($28.0)	($25.7)	($19.8)	($97.4)
Depreciation and Amortization	0.3	0.5	0.8	1.7	0.6	0.9	1.1	1.4	4.0	2.0	2.8	3.8	5.0	13.6
Deferred Income Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Non-Cash & Adjustments	1.4	0.5	5.2	16.6	4.8	3.7	3.8	3.9	16.1	4.1	4.3	4.5	4.8	17.6
Operating Cash Flow	($13.2)	($12.7)	($10.3)	($35.6)	($11.4)	($14.7)	($16.7)	($17.6)	($60.3)	($17.9)	($20.9)	($17.4)	($10.0)	($66.2)
Fully Diluted Cash Flow/Share	($1.47)	($1.26)	($0.89)	($0.90)	($0.19)	($0.24)	($0.27)	($0.29)	($1.00)	($0.25)	($0.30)	($0.25)	($0.14)	($0.94)
YOY Change in Revenue	-	892.5%	314.5%	2.6%					38.4%					141.1%
YOY Change in EPS	-	NM	NM	NM					NM					NM

Company Citations

Company Name	Ticker	Exchange	Currency	Closing Price	RJ Rating	RJ Entity
Amyris, Inc.	AMRS	NASDAQ	$	4.01	3	RJ & Associates
Ceres, Inc.	CERE	NASDAQ	$	9.24	2	RJ & Associates
Codexis, Inc.	CDXS	NASDAQ	$	3.76	3	RJ & Associates
Gevo, Inc.	GEVO	NASDAQ	$	4.88	2	RJ & Associates
KiOR, Inc.	KIOR	NASDAQ	$	9.95	2	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 providing investment banking services to the company. The previous rating and price target are no longer in effect for this security and should not be relied upon.

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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.
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 providing investment banking services to the company. The previous rating and price target are no longer in effect for this security and should not be relied upon.

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Strong Buy (1) Expected to appreciate, produce a total return of at least 15%, and outperform the Stoxx 600 over the next 6 to 12 months.
Outperform (2) Expected to appreciate and outperform the Stoxx 600 over the next 12 months.
Market Perform (3) Expected to perform generally in line with the Stoxx 600 over the next 12 months.
Underperform (4) Expected to underperform the Stoxx 600 or its sector over the next 6 to 12 months.
Suspended (S) The rating and target price 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 providing investment banking services to the company. The previous rating and target price are no longer in effect for this security and should not be relied upon.

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Rating Distributions

	Coverage Universe Rating Distribution				Investment Banking Distribution			
	RJA	RJL	RJ LatAm	RJEE	RJA	RJL	RJ LatAm	RJEE
Strong Buy and Outperform (Buy)	54%	66%	35%	53%	15%	37%	4%	0%
Market Perform (Hold)	39%	32%	56%	30%	8%	24%	0%	0%
Underperform (Sell)	8%	3%	9%	16%	0%	33%	0%	0%

Suitability Categories (SR)

For stocks rated by Raymond James & Associates only, the following Suitability Categories provide an assessment of potential risk factors for investors. Suitability ratings are not assigned to stocks rated Underperform (Sell). Projected 12-month price targets are assigned only to stocks rated Strong Buy or Outperform.

Total Return (TR) Lower risk equities possessing dividend yields above that of the S&P 500 and greater stability of principal.

Growth (G) Low to average risk equities with sound financials, more consistent earnings growth, possibly a small dividend, and the potential for long-term price appreciation.

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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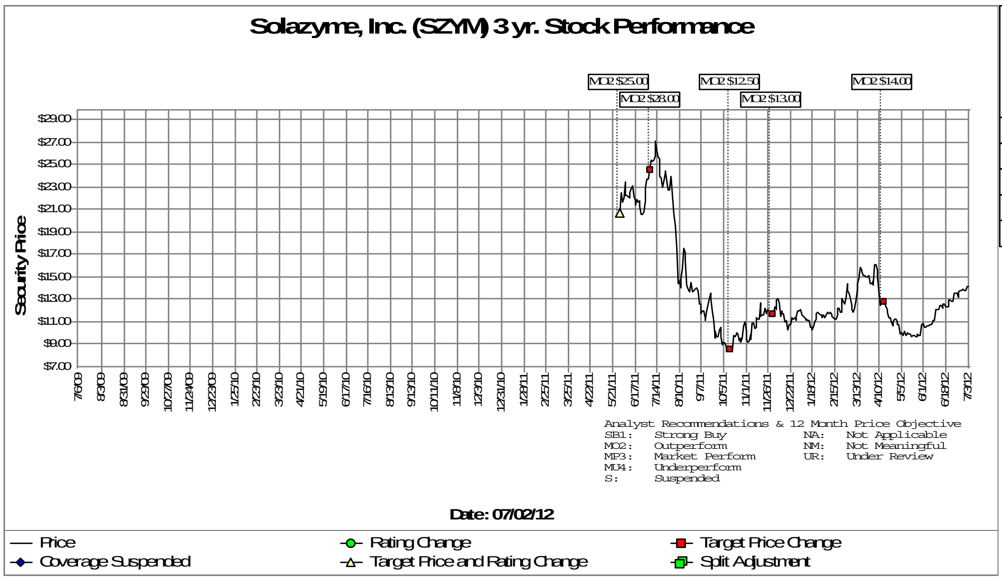
Company Name	Disclosure
Ceres, Inc.	Raymond James & Associates co-managed an initial public offering of CERE shares within the past 12 months.
Codexis, Inc.	Raymond James & Associates makes a market in shares of CDXS.
Gevo, Inc.	Raymond James & Associates makes a market in shares of GEVO.
KiOR, Inc.	Raymond James & Associates makes a market in shares of KIOR.

Stock Charts, Target Prices, and Valuation Methodologies

Valuation Methodology: The Raymond James methodology for assigning ratings and target prices includes a number of qualitative and quantitative factors including an assessment of industry size, structure, business trends and overall attractiveness; management effectiveness; competition; visibility; financial condition, and expected total return, among other factors. These factors are subject to change depending on overall economic conditions or industry- or company-specific occurrences. Only stocks rated Strong Buy (SB1) or Outperform (MO2) have target prices and thus valuation methodologies.

Target Prices: The information below indicates our target price and rating changes for SZYM stock over the past three years.



Update Date	Closing Price	Target Price	Rating
4/12/12	12.75	14.00	2
12/1/11	11.67	13.00	2
10/11/11	8.57	12.50	2
7/6/11	24.50	28.00	2
5/31/11	20.71	25.00	2

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

Risk Factors

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

Conventional Energy Price Risk
Alternative energy competes with conventional energy sources, the most important of which are crude oil, natural gas, and coal. Declines in the price of conventional energy can make alternative energy less competitive, and in some cases make it economically unviable. Consumers are less likely to view alternative energy as a practical option if conventional energy is relatively more attractive from an economic standpoint.

Commerciality and Technology Risk
Not all types of alternative energy are currently commercial, and some may never reach full commercial viability. There is no guarantee that future technological developments will be favorable to alternative energy, and in fact, some developments could render some types of alternative energy obsolete or unattractive.

Public Policy Risk
Many types of alternative energy currently benefit from favorable government policies, including tax incentives for producers and/or consumers, direct and indirect subsidies, and mandatory use requirements. These policies are subject to change and may become less favorable in the future.

Regulatory Risk
Like all subsectors of energy, alternative energy is subject to many government regulations at various levels, including environmental and land use regulations. These rules can reduce the profitability of alternative energy and could potentially result in delay or loss of commerciality.

Company-Specific Risks for Solazyme, Inc.

Lack of Near-Term Profitability
We do not believe that Solazyme will achieve sustained profitability until 2014 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), Solazyme must substantially reduce the production cost of its products through improvement in yields and other manufacturing efficiencies. In addition, if Solazyme 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 Solazyme'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. Solazyme's plants also face the risk that their principal feedstock, sugarcane, may significantly rise in price, thereby harming profitability. Solazyme's partnerships with Latin American sugarcane producers reduce feedstock-related risk but do not eliminate it.

Risk Associated With Industry Partnerships
Solazyme's commercialization plans are heavily dependent on its industry partnerships. For example, the first commercial plant is being built via a joint venture with Roquette. Solazyme is also in discussions regarding production partnerships with Bunge (BG) and Ecopetrol (EC). All such partnerships are subject to terms and conditions that may limit Solazyme's flexibility and may not prove economically advantageous.

Competitive Market Environment
Solazyme 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 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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