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AMRS - Q2 2016 Amyris Inc Earnings Call

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen and welcome to the Amyris second quarter 2016 conference call. (Operator Instructions) This call is the property of Amyris and any recording the or production or transmission of this call without the express written consent of Amyris is strictly prohibited. As a reminder, today's call is being recorded. You may listen to a webcast replay of this call by going to the investor section of Amyris website.

I would now like to turn the call over to Peter DeNardo, Director of Investor Relations and Corporate Communications. You may now begin.

Peter DeNardo *- Amyris, Inc. - Director-IR*

Thank you, Israt. Good afternoon and thank you for joining us this afternoon. With me today are John Melo, our Chief Executive Officer; and Raffi Asadorian, our Chief Financial Officer. Please note that on this call you will hear discussions of non-GAAP financial measures. Reconciliation of these non-GAAP measures to the most comparable GAAP financial measures is contained in the news release distributed today, which is available at investors.Amyris.com. The current report on Form 8-K furnished with respect to our press release is also available on our website as well as on the SEC's website at SEC.gov.

During this call, we will make forward-looking statements about events and circumstances that have not yet occurred, including projections of Amyris's operating activities, anticipated closings of financings or collaborations, our plans to potentially divest non-core assets, and financial results for 2016 and beyond.

These statements are based on management's current expectations, and actual results and future events may differ materially due to risks and uncertainties, including those detailed in the Company's recent SEC filings and the Risk Factors section of its quarterly report on Form 10-Q filed on May 10, 2016. Amyris disclaims any obligation to update information contained in these forward-looking statements whether as a result of new information, future events, or otherwise.

Please refer to the Amyris SEC filing for detailed discussions of the relevant risks and uncertainties. Before we begin today I'd like to note that included in our webcast is a slide presentation we will refer to in today's presentation. I will now turn the call over to John Melo. John?

John Melo *- Amyris, Inc. - CEO and President*

Thanks, Peter. Good afternoon and thank you for joining us today.

We are very pleased with our strong execution in the second quarter. We are delivering on our key promises and have commitments for over 90% of this year's revenue and over 70% of 2017's revenue. We successfully transformed our Company beyond biofuels and into the leading industrial biotechnology company.

During our call I'll cover three things. Our second quarter performance, details underpinning our second-half revenue, and our roadmap to continued execution and liquidity. Raffi will cover our financial performance and outlook in more detail.

The second quarter was our best ever quarter in terms of signing new partnerships and combined with our more recent partnership announcements is expected to provide a significant uplift in the second half of 2016 revenue. The agreements we signed in the second quarter have delivered over $20 million in cash payments year to date and are expected to represent about half our collaboration revenue for the full year. Further, we believe our long-term growth potential has been significantly accelerated through the agreement with Ginkgo Bioworks, which we expect will more than double the number of products we scale and produce next year.

Revenue for the second quarter of 2016 was $9.6 million compared to revenue of $7.8 million in the second quarter of 2015. The revenue growth was driven by another consecutive quarter of 45% plus product sales growth. As a result of the Novvi funding, successful scale up and market acceptance of our nutraceutical product and the strong continued growth in our personal care business we are running the Brotas plant at full capacity and expect to ship over $30 million of product revenue in the second half of this year.

We set out a number of key milestones at the beginning of the year that we believe will enable us to widen our competitive advantage and accelerate commercialization of our technology. Let me now provide details on each of the key activities completed this quarter.

First, we signed a significant long-term collaboration agreement with Givaudan for the development of a number of cosmetic active ingredients whereby Givaudan will fund the development of new molecules with a long-term supply agreement to scale up, and we'll produce them upon completion of the development. This is a broad category expansion beyond our prior relationship with Givaudan in fragrances to apply our platform for the production of cosmetic active ingredients to be scaled up for global commercialization at our manufacturing facility.

We expect first product revenue from this partnership at the end of 2017 and an annual run rate upon scale-up of the products under contract of over $50 million a year.

During the quarter, we also furthered our successful track record in the flavors and fragrance area by beginning commercialization of a novel fragrance product for Takasago. This is our fourth successful commercialization of a fragrance ingredient. This is a sector where we are partnered with four of the top five companies and are on track to become one of the largest suppliers of key ingredients to these partners.

Second, in keeping with our stated goal of our first-quarter call of executing on 2 to 3 major collaborations, and pursuing emerging growth opportunities in the biopharmaceutical sector we also announced a collaboration with Johnson & Johnson Innovation for its Janssen Biotech company for biosynthetic drug discovery and just announced another with Biogen to develop a lower-cost drug manufacturing technology using our platform. We expect to sign one more significant partnership to end the year on the high-end of our range and have now established our platform as a key enabler for innovation in small molecule development and potential alternative new host for production where the existing platform is not very efficient.

Through our microPharm discovery and production platform, we will seek to develop a customized library of natural and natural-like compounds to test against Janssen's targets for more rapid integrated discovery and production of therapeutic compounds. Nature has the potential to provide an array of new and interesting drugs and our platform has the potential to create them.

This was an important win for us with a great partner and it potentially opens a new area of compounds that has never been accessible for new drug discovery.

The Biogen partnership is one of the most exciting projects we have in our portfolio and it has the ability to make a transformative change to the biopharmaceutical sector. The project is focused on using Amyris's advanced microbe engineering technology to evaluate and develop multiple host microorganisms as alternatives to mammalian cell lines for the production of therapeutics.

What this means is that our partner would be able to employ a more efficient production process using our engineered organisms versus using cells from mammals in their R&D and production efforts.

Others have attempted this many years ago before exponential improvements in technology and failed. Given our world leading technology, we believe we are well-positioned to deliver value to our partner and the entire sector. This could make life-saving therapeutics more accessible to a growing worldwide population. When successful, this could be a game-changing development when it comes to the effective and more efficient production of biopharmaceuticals.

Biogen will fully fund this project with the first phase expected to be completed within 12 months.

Third, another exciting project for the Company is our previously announced collaboration with DARPA where we are targeting development of over 400 different molecules over the next three years, all of which we are able to commercialize at our discretion. We have continued to make excellent progress on this collaboration, having met the first two milestones with a significant acceleration expected in the second half of the year. We made very good progress this quarter with several of our existing partners expressing interest in commercializing several of the early molecules from this program.

Fourth, we continue to advance on our non-core asset transactions which we closed our first in early July and remain on track for another in the third quarter. We have already received several offers for one of the main assets under a structure that will allow us to continue to manufacture and supply products under a long-term supply agreement to the eventual buyer of the business. We expect to deliver $2 million to $3 million of additional cost reduction from the sale of these assets with minimal impact to this year's revenue and gross margin.

Consistent with our objective of monetizing certain assets, we recently announced a new partner in our Novvi joint venture with a committed equity investment from ARG, the oldest refining company in the US. ARG is an ideal partner to support the commercialization of Novvi products, alongside the existing long-term contracts already solidified. With Novvi now funded, we are realizing immediate benefit in terms of Amyris lower cash cost and we will realize around $2 million of revenue in the second half from the supply of farnesene to Novvi to meet their strong demand.

This is the first major transaction representing around 20% of our $40 million to $60 million target for cash generated from noncore asset sales.

Fifth and very importantly, at quarter-end we announced an additional license and partnership agreement with Ginkgo Bioworks to accelerate the commercialization of high-performance bio-based products. As part of the initial license arrangement we have received $15 million from Ginkgo.

While we were unable to record the $15 million in the second quarter as revenue, we do expect this will mostly be accounted for as revenue in the third quarter. We believe this unique pairing of two companies with known R&D leadership in the space and robust Amyris manufacturing capabilities in Brazil will more rapidly deliver on the promise of industrial biotechnology to make renewable products mainstream.

Our teams are already collaborating on effectively aligning R&D and other resources to take more than 70 products the partnership will have under contract for delivery to the world's leading brands across industrial and personal care markets. This partnership is all about more capacity to accelerate products to market and help us both be more efficient and effective.

Finally, alongside the signing of new partnerships, during the second quarter we continued on our path of reducing our SG&A expenses with a decline of 21% compared to the year-ago period. This decline was driven by a concerted effort to focus on projects that create significant value for our partners and us and have the fastest time-to-market. We expect further reductions in the second half of the year. Raffi will provide further details later.

In addition to the achievement of key objectives, we also executed operationally during the quarter and delivered solid revenue growth and underpinned our revenue growth for the second half of 2016 as well as underpinning 70% of next year's product revenue and collaborations. Specifically, we delivered 47% product sales growth over the second quarter of 2015, while eliminating loss making fuel sales.

This ties to our stated business plan of achieving about 50% growth or better in product sales. This was mainly driven by our personal care segment which continued to exhibit robust growth and significant contribution from flavors and fragrances in cosmetic ingredients.

I am pleased to report that in May we completed the shipments of our newest disruptive fragrance product which has been enthusiastically accepted by our customer. We are starting production of our second run of this fragrance ingredient this month, which will be equal in size to the shipments in Q1 and Q2 combined. This meets the strong demand our customers are experiencing.

Our cosmetic ingredients business also contributed a strong product sales growth, driven by continued in-customer demand. Our distributors are selling twice as much volume as they did in 2015 as a result of this demand, which is driven by strong market acceptance of our sugar squalane, which is continuing to take market share from olive and shark squalane. We are the purest most sustainable source of squalane and can guarantee our customers long-term price and volumes. This has helped switch many of the leading brands to our product as they see a high-performance emollient and want stable price and supply.

Looking forward to the second half, we expect continued growth in personal care while our industrial and health segments ramp up significantly under existing contracts with existing customers. Our Brotas plant is running flat out to reach the demands for farnesene into industrial and nutraceutical markets, and flavor and fragrance products, in the second half of this year. Our nutraceuticals partner has completed the construction of its plant and storage facilities and has secured several very large end customers and is preparing for the launch of its highly disruptive commercial product.

Our first shipments to our partner will begin at the end of the third quarter.

As a reminder, our five-year supply agreement with them is expected to generate revenue for Amyris of over $100 million. And we are encouraged by our partner's excitement and accelerated progress. This agreement is expected to generate about $10 million of revenue this year and about $15 million next year.

In addition to our nutraceuticals partner, the other large supply of Biofene to a customer will be to our partner Novvi, who is now ramping up its production after receiving a new equity injection from ARG. The combined demand of farnesene from Novvi and our nutraceuticals partner is a result of our focused approach on strategic partnering to grow product sales.

We expect further wins for farnesene with strategic partners in the second half of this year. But the current demand from these two partners alone is putting our Brotas capacity at full utilization.

This is the key reason why we plan on doubling our production plant at Brotas and why in recent months we have also been progressing our partnership with CJ Bio to increase manufacturing capacity for farnesene. The strategic nature of our farnesene supply and technology collaborations to many of our customers has led to discussions with three of our current partners where they have approached us about deepening their strategic relationship with us. These discussions are progressing well and we believe have a strong potential to generate $70 million to $100 million of incremental non-dilutive funding to fully support our growth plans in the short to medium term.

In summary, while we still have work to do in the second half of the year we are pleased with our recent execution on many fronts. We believe our progress will enable us to post a solid year with revenue levels above $90 million, all while reducing operating expenses and positioning Amyris to generate positive cash flow from our operations in 2017. These efforts are expanding our competitive lead and our market access to support mainstream commercialization of renewable products for a better planet and sustainability for our Company.

Now, let me turn to Raffi for a detailed review of our financial results and to provide an overview of our plan to ensure adequate liquidity and improve capital structure.

Raffi Asadorian - *Amyris, Inc. - CFO*

Thank you, John, and good afternoon, everyone. To summarize the quarter, we have executed superbly in business development with our best ever quarter signing new partnerships. We successfully met our product sales target of about 50% for the quarter, particularly remarkable given that we discontinued fuel sales this year and we reduced our SG&A expenses by 21%.

The new collaborations will provide strong uplift to the second half revenues to close out a solid year.

Focusing on our capital structure and liquidity for which progress was made in Q2 remains a high priority going into the second half of the year. We've taken several steps to bolster our cash position in Q2 and more recently including closing a $5 million equity investment from the Bill and Melinda Gates Foundation which has been included on our balance sheet as restricted cash. However, despite the accounting classification, we remain at our full ability to use; the issuance of $10 million of convertible notes and a $5 million loan to Foris Ventures, which is affiliated with one of our longtime Board members.

And third, closing the new collaboration agreements that John discussed earlier, including the license and partnership agreement with Ginkgo Bioworks which brought in $15 million in cash a couple of weeks ago with another $5 million expected in March, subject to certain conditions. As previously communicated, our plan for funding in the second half of the year is primarily expected from non-dilutive sources of capital, including the closing of a second part of our non-core asset sale expected in the third quarter, which is expected to be a significant portion of the $40 million to $60 million expected asset sale proceeds previously communicated.

Secondly, closing on new collaborations in our pipeline as well as cash from existing collaborations where payments are due or milestones are expected to be achieved. And finally, funding from existing partners who are vested in the success of Amyris and who have already indicated investment interest through non-dilutive capital.

In addition to funding, our focus on improving our capital structure continues. Just one year ago, we converted $175 million of debt to equity, including future mandatory conversions of debt. Since then, we have refinanced certain other debt to provide more flexible payment terms as our focus has been on minimizing cash payments.

Along these lines, as previously announced, concurrent with the execution of the Ginkgo partnership agreement, approximately $30 million of senior secured debt previously held by Hercules will be amended to extend the maturity to 2019. Monthly debt repayments will be eliminated and the restrictive financial covenants will also be eliminated.

This is anticipated to be a catalyst to amend or refinance other debt with near-term maturities which will allow us the space to reach our plan of positive cash from operations by the end of 2017. Our near-term goal is to extend the majority of debt maturities to 2019 while at the same time minimizing our cash debt service. We expect these discussions to be completed by the fourth quarter.

Now let me take you through our second-quarter results.

Second-quarter revenues were $9.6 million compared with $7.8 million for the second quarter of 2015. Including the $15 million received from Ginkgo Bioworks related to the license agreement completed on June 28, our second-quarter revenues would have been around $25 million. This would've made it our best ever revenue quarter.

The 22% reported revenue growth in the quarter was driven by a 47% increase in product sales growth, led by our personal care business despite deciding not to sell any diesel fuel in the quarter. On a comparable basis, excluding diesel sales in 2015, product sales growth would have been 86% in the quarter compared to last year. Contributing to the reported revenue in the quarter was $4.7 million in collaboration revenue which was relatively flat to the second quarter last year. Non-GAAP revenue, which represents our collaboration inflows and product revenues, increased 138% in the quarter compared to the prior year to $12.4 million. The increase was driven by the product revenue growth just mentioned plus growth in cash from new collaborations with Givaudan and DARPA and an existing collaboration with Firmenich.

As mentioned, growth in product revenues continued to be driven by our personal care business. The completion of shipments in May of our first-ever production run of a new disruptive fragrance ingredient was a huge success albeit delayed from its original timelines. We are currently in production of the second run of this product that is expected to ship in the fourth quarter and is expected to be the same value as the first- and second-quarter shipments combined.

For batch number two our partner has aligned with us on specifications that we expect will result in an expected 50% lower cost reduction, leading to an improved margin.

The rest of the product sales were driven by continued growth in our squalane sales as John mentioned earlier. Continued strong end-user demand for this cosmetic ingredient has led us to ramp up production efforts to full capacity at our North Carolina CMO facility as sales expectations remain high for the rest of the year. Our Brotas facility is also running flat out to meet the second-half demand, driven by our customers in the nutraceuticals, F&F and cosmetics businesses.

Adjusted gross profit which excludes depreciation, inventory provision and excess capacity charges was $5.6 million compared with $2.3 million for the second quarter of 2015. The improvement was mainly driven by improved product mix as we decided to discontinue sales of our loss-making diesel sales and replaced this with higher-margin fragrance and cosmetic ingredient product sales. The resulting adjusted gross margin for the quarter was 58% compared to 29% in the second quarter of 2015.

Second-quarter selling, general and administrative expenses declined 21% compared to the second quarter last year. Partially offsetting this was an increase in our R&D expenses, mainly driven by the cost of new technologies developed under our DARPA program in Q2. Adjusted operating expenses representing combined R&D and SG&A expenses excluding stock-based compensation and depreciation and amortization were $20.8 million, down from $21.3 million from the second quarter of 2015. Included in the quarter were some nonrecurring expenses that negatively affected what we consider the run rate.

We continue to target full-year 2016 cash operating expenses within the previously disclosed range of around $75 million. I'd like to highlight that, through the first half of the year, our adjusted OpEx run rate was approximately $76 million, which excludes certain nonrecurring expenses.

With continued steps to reduce operating expenses, including the effect of the non-core asset sales we believe we will meet our adjusted operating expense targets for the year.

Moving now to cash flow for the quarter, free cash flow in Q2 was a negative $17.4 million compared with a negative $28.8 million for the second quarter of 2015. The improvement was driven by our product revenue and gross profit increase in the quarter as well as higher collaboration inflows and focused cost reduction efforts. We are on the right path with more to come in the second half of the year.

Our reported net loss for Q2 2016 was $13.6 million or $0.06 per basic share. Included in the net loss in 2016 was a gain from changes in fair value of embedded derivatives of $20.9 million. This compared with a reported net loss of $47.1 million or $0.62 per diluted share in the second quarter of 2015, which included a non-cash gain of $28.8 million related to change in fair value of derivatives offset by $36.6 million expense, related to acceleration of amortization of debt discounts.

Adjusted net loss for the second quarter of 2016, excluding these items and stock-based compensation, was $32.7 million or $0.15 per basic share. This compared with an adjusted net loss of $37.3 million or $0.47 per share for Q2 2015.

In summary, the quarter was a success in delivering upon the objectives we set out at the beginning of the year. Although the accounting treatment for the Ginkgo license fee did not allow us to recognize the Ginkgo revenue in the quarter, we believe our full-year goals will still be achieved, given the number of collaborations recently signed and in the pipeline as well as product sales pipeline to be delivered.

Our production facilities are running at full capacity to deliver on the demand in the second half of the year so we need to ensure we execute and deliver to our customers as planned.

Now let me turn the call back over to John.

John Melo - *Amyris, Inc. - CEO and President*

Thanks, Raffi. Let me now summarize where we are today and where we are headed as a business. We completed one of our best quarters in terms of execution and would have posted one of our best revenue quarters ever had we been able to recognize the Ginkgo payment during the second quarter. Coupled with this we improved our liquidity situation by pushing out the debt formally held by Hercules and have plans to negotiate moving the maturities of certain other debt out as well. We have several active participants engaged in the purchase of one of our assets that we believe, combined with the ARG investment in Novvi, will result in proceeds near the high end of our $40 million to $60 million target for cash from noncore asset sales.

We are in active discussion with several of our current partners to deepen the nature of our relationship and these expansions have the potential to result in $70 million to $100 million of non-dilutive funding to support our short- to medium-term growth. We also completed several key partnership and collaboration agreements in the second quarter that have generated over $20 million in cash year to date. Here again, one of our strongest quarters ever in executing on business developed opportunities and we executed on plan with key agreements in the biopharma space by partnering with some of the top companies in the sector and are on target to deliver at the high end of our target with three major new partnerships this year in the biopharma segment.

We have successfully transitioned our business beyond biofuels and into the leading industrial biotechnology company. We have the leading product portfolio and partner portfolio in the industry. We have the only proven platform to scale and manufacture highly engineered organisms that produce target molecules for our customers and we have a predictable strain engineering platform that has made the dream of synthetic biology an industrial reality.

Our partnership with Ginkgo Bioworks marks the start of an additional key revenue-generating activity - technology licensing to enable others to engineer and scale so that we can accelerate the transition to sustainable chemistry for our planet. We expect to do more licensing deals into the future and for these to represent around 20% of our revenue in the short to medium term. We have concluded two additional MOUs for technology licensing and are just at the start of discussions with several more.

Tesla was a good example for us with their technology deals with Mercedes and Toyota. We believe, now that our platform has proof of leadership, this is a significant opportunity and very aligned with our mission.

To summarize, our core business is applying our technology platform to engineer and scale the molecules our customers need to win with their customers. These products are competitively advantaged for our partners and are replacing non-sustainably sourced materials. We are targeting our technology at health and nutrition, personal care, and industrial markets where our products are demonstrating best-in-class performance and where we can sell price competitively. These are the markets we are winning in today.

Our business model is to partner for sales and marketing channels and to collaborate for development targets. This business model is providing us with a significant competitive advantage through the short-term collaboration payments that more than cover the costs of our core technology and provides us the space to scale product revenues and become a highly profitable company long term from the product supply agreements linked to the partner collaboration agreements.

As we said before, every dollar today from a collaboration payment is at least $2 a year of product revenue from that partner. We are very excited about our partnership with Ginkgo. We believe it can help us both grow faster with lower costs and have the potential to significantly accelerate the number of products we scale for our partners. This momentum, coupled with our business focus and solid execution, we believe, support our 2016 revenue plan and represents over 70% of our 2017 revenue.

I would now like to open the line for any questions you may have. Can I ask Israt to open the line for us?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Jeff Osborne, Cowen and Company.

Chris Hamblett - *Cowen and Company - Analyst*

This is Chris on for Jeff. Thanks for taking my call. I wanted to know if there's any plans or discussions around potentially monetizing the Biossance brand. Is that something you guys are considering?

John Melo - *Amyris, Inc. - CEO and President*

We are not disclosing which assets we are monetizing at this point, Chris. But you know if you listen to what I detailed regarding what our business looks like going forward, you know there's probably a lot of opportunity in that area for us.

Chris Hamblett - *Cowen and Company - Analyst*

Got you, okay, thank you. And I know it's still very early. But I wanted to know if there was any early feedback on the success of the Ginkgo collaboration.

John Melo - *Amyris, Inc. - CEO and President*

What I can tell you is in the last month I've seen and spoke to our key customers as well as their key customers and I can tell you that the excitement around the customer base as to the power of the technology and platform that we jointly bring and their desire to throw more molecules in and accelerate some development agreements has been really strong. So, I'd expect that to translate into more products in the portfolio for both companies, incremental collaboration payments and then faster time to revenue for the products we have in the portfolio currently.

Chris Hamblett - *Cowen and Company - Analyst*

Thanks. And then, finally, do you have any plans for additional capacity needs, potentially in 2017?

John Melo - *Amyris, Inc. - CEO and President*

We've spoken about two specific projects. One is doubling the capacity of Brotas. We have several of our existing partners who are engaged with us in a desire to fund that expansion so we are looking to get that completed before the end of the year -- the funding, that is. And the capacity to come on sometime in 2018. We will need more capacity in 2017 -- at the end of 2017. And the partnership we're developing with CJ Bio for farnesene is expected to provide some early volume at the end of 2017.

So, the way you have to think of it is Brotas double capacity to meet the current agreements and the expanded product programs we're getting from Ginkgo and then farnesene moving more and more to CJ Bio and that being our access point for large-volume, low-cost production.

Chris Hamblett - *Cowen and Company - Analyst*

Perfect. Thanks. Thanks for taking the call.

Operator

Sameer Joshi, Rodman and Renshaw.

Sameer Joshi - *Rodman & Renshaw - Analyst*

The first question is just on the overall revenue guidance for the year. I think I heard you saying that you would be able to achieve over $90 million in revenue this year.

If I do the math, so far this year you had around $18 million already booked. Another $15 million in the form of first payment will be coming in. That leaves -- and you already said that you would have asset sale proceeds of up to $60 million. If I just add these numbers the revenue comes up to more than $95 million.

So, should we expect the total revenue in $90 million to $105 million range that was previously given as a target?

John Melo - *Amyris, Inc. - CEO and President*

A couple of things. First of all, the asset sale is not considered revenue for us. So we are not actually looking at the asset sale as revenue. A big part -- so if I think about the chunks of revenue, the fragrance ingredients are strong in the second half. The nutraceuticals are strong in the second half. The cosmetics continued to be strong going into the second half. Ginkgo's payment, as you rightly pointed out, is another big part of that and, in total, I think our intent is to reaffirm the guidance we have out, the $90 million to $105 million you have selected.

So when we said $90 million plus, we were really reaffirming what's out there today and it's really driven by the buckets I just laid out for you.

Sameer Joshi - *Rodman & Renshaw - Analyst*

Okay. So also, during the last call, you had mentioned that you will have more revenues from the industrial and health business in the fourth quarter. I think it was two thirds on that and one third from personal care. Even with these increased like higher 4Q revenues, should we still expect that combination?

John Melo - *Amyris, Inc. - CEO and President*

What I would -- it's almost -- again, we consider health and nutraceuticals one, personal care two and industrial three and what I would -- as far as the categories and what I would expect in the second half is health and nutraceutical is probably around a third. The personal care is probably more like 40 and then the rest in the industrial side. So a little more bias towards the personal care.

Sameer Joshi - *Rodman & Renshaw - Analyst*

And just following up on the previous caller's question about expansion, is the CJ Bio agreement expected to be signed during this month or is there going to be some delay in that?

Raffi Asadorian - *Amyris, Inc. - CFO*

We expect to have it done in the third quarter. So it will be part of our third-quarter results.

Sameer Joshi - *Rodman & Renshaw - Analyst*

Third quarter, okay. And as far as the relationship with Biogen and Janssen is concerned, are there any defined milestones and milestone-related payments? Or how are those agreements coming along in terms of revenue recognition?

John Melo - *Amyris, Inc. - CEO and President*

The agreements are signed. There are very defined milestones. We've already received payments actually with Biogen we just signed it so I know we've invoiced. I'm not sure we've received it yet. That's not come in yet but we've already invoiced and there are clear milestones that have payments associated with them so there is cash generated from those agreements.

Sameer Joshi - *Rodman & Renshaw - Analyst*

And are those part of -- considered part of your revenue for the second half?

Raffi Asadorian - *Amyris, Inc. - CFO*

They will be part of the revenue for the second half.

Sameer Joshi - *Rodman & Renshaw - Analyst*

Okay. And just one technical question [left] if you may. You said that the Brotas plant is running flat-out. What is the minimum time between batches that you run that you have to decontaminate or reset? And are there any risks of contamination from one product to the next if you are doing it at full capacity?

John Melo - *Amyris, Inc. - CEO and President*

We have not had any contamination product switching. We are not experiencing any major contamination at the plant currently and the batch to batch, meaning from product to product, we have targeted a couple of weeks; but we are actually doing the product to product switching in around five days. So it's actually working better than we expected in product to product switching and for the rest of the year in Brotas specifically, because of our farnesene demand we are in the process of soon switching for one of the fragrance ingredients. Once that ingredient is done, which will be less than a month of full production, we are going to run the rest of the year flat-out full utilization for farnesene. So no loss in switching back and forth since we'll be running mostly farnesene rest of the year.

Sameer Joshi - *Rodman & Renshaw - Analyst*

Okay. Thanks. I will get back in queue. Thanks.

Operator

(Operator Instructions) Carter Driscoll, FBR Capital Markets.

Carter Driscoll - *FBR Capital Markets - Analyst*

Maybe I can ask just again just the economics, not the payments but the economics of the Ginkgo partnership in terms of the revenue and margin splits you are anticipating. I realize it's early on.

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John Melo - *Amyris, Inc. - CEO and President*

There's two parts of it, Carter. The first is, for all products that are commercialized, there is a 10% royalty that will come to Amyris. And that is, by the way, obviously part of the license and on top of the cash we got paid. I think beyond the 10% royalty there is a 50-50 value share of the margin generated for the production of product.

So you can think of it as whether we produce or not there is a 10% royalty and if we produce there is a 50-50 value share on top of the 10% royalty that is basically splitting the margin and that value share is above the production cost. So you've got to think of it as production cost, 10% royalty, and the rest split 50-50.

What that really works out to be, based on the profile of products they have, which are high-priced, lower volume, very specialized ingredients, what that really represents to us is somewhere around a 50% to 60% gross margin on the products we produce for them.

Carter Driscoll - *FBR Capital Markets - Analyst*

Got it, okay. That's very helpful, thank you. And if I heard you correctly, you mentioned that if a lot of things fall into place -- and I realize they -- right now there's a lot of moving parts in terms of your noncore asset sales, the collaboration, development of -- and build out of certain products, you talked about potentially being cash flow positive by the end of 2017, if I heard correctly. Could you talk maybe a high level -- I'm not trying to box you in but what your model would look like from whether it's a revenue or margin contribution or product versus collaboration sales to reach that cash flow?

And then maybe, again, very high level what you think the balance sheet composition would look like at that point?

John Melo - *Amyris, Inc. - CEO and President*

Yes, I will take part of that and Raffi will talk about the balance sheet composition. So, the way to think of it is, again, between now and the end of the year, with the continued traction on asset sales, we'll actually generate positive cash as a company but obviously asset sales will contribute to that.

As you go into 2017, the mix is not -- we've said publicly that we expect $50 million to $60 million a year in collaboration payments. That's very consistent with where we are and what we expect going forward. And the growth really comes out of product revenue. And the product revenue growth comes out of the collaboration products. As they reach their commercial targets we have long-term supply agreements, and they throw off revenue growth and they also throw off cash.

So, the way to think of it is -- and we said publicly that to expect the minimum of 50% product growth year on year. As we go into next year, based on what's already contracted, we'll actually deliver more than 50% product sales growth, significantly more. Already this year, we'll deliver -- and I think we said this publicly, we'll deliver somewhere over $40 million in product sales.

So, you can think of it is you know we'll probably be somewhere closer to the $60 million to $80 million in product sales for next year. We'll have the collaborations on top of that and then the combination of the margin on products and the cash from generating collaborations should get us operationally cash flow positive.

Carter Driscoll - *FBR Capital Markets - Analyst*

Okay and then maybe just take, let's take farnesene, for example. How much of the product cost downs pull into that equation to reach there as well? I mean I think you got a pretty strong path towards significantly reducing that product's cost profile.

Can you talk maybe percentagewise what expectations are built in between now and the end of 2017 more product cost downs, either in aggregate or maybe talk individually about something like farnesene?

John Melo - *Amyris, Inc. - CEO and President*

Yes, I mean you can think of farnesene specifically. I think we've said that farnesene will eventually be about a 30% gross margin product and that our specialty molecules are in the 50% to 60% gross margin. We said that between now and 2020 or by 2020 we expect the mix to be 50% farnesene revenue, 50% specialty product revenue as far as our product revenue mix.

The way that's shaping going into 2017 is not far off. I'd say a little bit higher on the specialty product and a little bit lower mix on the farnesene side.

Carter Driscoll - *FBR Capital Markets - Analyst*

Okay, okay. That's helpful. And maybe just last question. Noncore asset sale, obviously that's going to provide the bulk of what you are hoping to generate this year. You talked about multiple partners. Are they looking at it for different applications?

Again, not trying to box you into -- I think I can come up with a couple of things it might be but are they significantly different types of bidders for these assets? Are there specific hurdles that need to be overcome for you to close? Are you being able to use this as leverage to get a higher price? Just trying to get any type of color about how it's going to close and what form it will look like.

John Melo - *Amyris, Inc. - CEO and President*

No, Carter, very good question. I'll provide color because actually there's two different pieces that you are referring to. There's the asset sale this year and that's -- we've actually -- we have had a -- we hired a boutique bank that's been driving the sales process. They've gone through an auction process. We actually had three or four folks come through in the auction process and now that we are getting to the final stage of that process, selecting a final buyer and we expect the selection to take place this month and then for the close to take place next month.

So, pretty complete process. Good active interest in the business and feel good about that asset sale.

In addition to that, we have recently been approached by several of our current strategic partners who we've been supplying products to and because of the growth of their use of our product, and because of the strategic position of our product in their business, they've become very focused in our long-term sustainability. As part of that, they've approached us about an interesting structure that enables us between, again, a couple of them to access somewhere around $100 million of funding that's non-dilutive based on, again, an interesting structure that we have to work with them that we give them secure supply long term.

So I think that's a key piece of color for you. That the supply of our products to them has now become very strategic to their overall business. They are focused on our sustainability as a company and they've identified an interesting structure that could give them long-term security of supply and give us non-dilutive cash in the short term.

It doesn't change the margin structure of the relationship but it does change our access to non-dilutive funding.

Carter Driscoll - *FBR Capital Markets - Analyst*

So like a special purpose vehicle? Or balance sheet agreement or a JV?

John Melo - *Amyris, Inc. - CEO and President*

I really don't want to disclose more than that at this time.

Carter Driscoll - *FBR Capital Markets - Analyst*

(laughter) That's fine.

John Melo - *Amyris, Inc. - CEO and President*

You know, your fishing is probably not really far off. I just can't disclose more of it at this time.

Carter Driscoll - *FBR Capital Markets - Analyst*

Understood. I appreciate all the color guys. I'll get back in queue. Thanks for answering my question.

Operator

(Operator Instructions) And I'm not showing any further questions at this time.

John Melo - *Amyris, Inc. - CEO and President*

Very good, Israt. I'd like to thank everybody for joining us today and for your continued support of us. We have been through a rough ride in scaling. I think we realized it's just the story of our industry and we are glad to be on the other side and really focused on building on the traction we have. We will, sometime in the second half of the year, be hosting an analyst day really as a result of the Ginkgo deal and all the aspects of it and wanting to provide a lot more transparency around what that means and also and most importantly, the depth of our collaboration portfolio and the number of products that are now committed to long-term and what that means for the long-term annuity that we have built into our collaboration partners. I think it's important to provide transparency around both those topics as well as update you in the overall business and we plan on doing that again second half of the year through an analyst day.

Thanks again and hope everybody has a great evening.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone have a great day.
