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AMRS - Q1 2016 Amyris Inc Earnings Call

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PRESENTATION

Operator

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I will now turn the call over to Peter DeNardo, Director of Investor Relations and Corporate Communications.

Peter DeNardo - *Amyris, Inc. - Director, IR & Corporate Communications*

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 today you will hear discussions of non-GAAP financial measures. Reconciliation of these non-GAAP measures to the most comparable GAAP financial measures 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. It's 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 closing of committed financing, our plan to potentially divest a business, and financial results for 2016 and beyond. These statements are based on Management's current expectations. And as a result of future events, may differ materially due to risks and uncertainties, including those detailed in the Company's recent SEC filings and the Risk Factor section of its quarterly report on Form 10-Q filed today.

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 filings for a detailed discussion on 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*

Thank you, Peter. Good afternoon, and thank you for joining us today. In the first quarter, we executed on our strategy of focusing our business in personal care, health, and industrial performance markets. Through partnerships and collaborations that help us accelerate adoption and enable our mission of making renewable products become mainstream.

In the quarter, we realized 50% product sales growth over the first quarter of 2015. We delivered continued operating cost reductions with 15% lower SG&A costs. We executed a significant expansion of partnerships with our first $100 million offtake agreement for farnesene, and we demonstrated our proven ability to continue to finance our growth through the support of our strong shareholder base.

We continue--we've continued to limit sales of fuels and are delivering significant growth in high value markets. We are enabling our partners to disrupt their end markets. Our continued success is scaling up and manufacturing multiple high value molecules from renewable sources and delivering these at lower cost and with better performance than existing sources is the best proof that we've built the leading industrial biotechnology platform. And we are starting to see this delivery in our business results.

During our call today, I will provide performance highlights from our quarter and an update on our strategy, and will end with our outlook for the year.

Raffi Asadorian, our CFO, will review our financial highlights for the quarter. Let's review our performance highlights for the quarter and since the start of the year. First, we delivered 50% growth in renewal product sales compared to the first quarter of 2015. We experienced strong growth from our personal care segment as expected. This is typically our slowest quarter of the year, and despite that, we are on track to achieve 100% renewable product sales growth for the full year compared to 2015.

We signed our first major pharmacy offtake agreement valued at over $100 million for the health and nutrition market. We expect this to be the first of several major pharmacy offtake agreements this year. After two to three years of application development with excellent partner relationships, we are now converting each of these applications into long term supply agreements that we expect to deliver significant cost and performance improvements with the power to disrupt the respective end markets.

Third, we have lowered our SG&A cash costs by 15% and expect continued reductions over the remainder of 2016. We are on track to deliver on our target on cash operating expense between $70 million and $75 million for the year. This is a $10 million to $15 million reduction over 2015.

Fourthly, we've completed $40 million of new financing from existing investors that combined with the $40 million to $60 million of proceeds we expect from the sale of non-core assets, is expected to support our business growth going forward.

Fifth, we partnered with the Gates Foundation once again to help further reduce the cost of artemisinin, one of the leading malaria treatments. We are very aligned on the portfolio of solutions to eradicate malaria, and we'll apply the world's leading synthetic biology platform to achieve this.

We believe our technology has stabilized prices over the recent years and now is the moment to go further with lowering the cost to make more treatments available and save more lives.

And lastly, in addition to these achievements, after our seasonal shutdown, we recently successfully restarted our manufacturing in Brotas, Brazil, and have successfully delivered on all our year-to-date paved milestones for our collaboration partners.

In summary, we're pleased with where we're at thus far in the year. And we are on track to deliver on our 2016 goals.

Our strategy remains to focus on growing revenue while reducing costs and our cash burn with a plan of generating positive cash flow from operations in 2017. We expect our revenue to grow by over 100% this year and have visibility on over $500 million of annual revenue by 2020, most of this from current partners and current production applications. Our revenue is growing in each of our three focus markets. First, we expect our personal care business to generate over $45 million in revenue this year. This includes our flavor and fragrance activity, our business-to-business cosmetic ingredients activity, and our cosmetic molecule platform business. This compares to $25 million from the segment in 2015.

The health market is one of our fastest growing businesses, including in new collaborations. And we anticipate that it will represents around $20 million of our revenue this year. This business was not meaningful to our revenue in 2015.

We also expect the industrial performance market to deliver around $20 million this year and it is where we are experiencing the fastest growth in farnesene derivatives, and long term demand for farnesene for the polymers, adhesives, and industrial lubricant end markets. This segment generated less than $10 million in 2015.

Our revenue from these markets is derived from three core activities inside of Amyris. First, we partner with the world's leading brands to develop and formulate farnesene derivatives that enable them to reduce their manufacturing cost and deliver performance advantaged products to their customers. This comes from our distinctive ability to provide the lowest cost access to a C15 that has very interesting chemistry and enables our partners to do chemistry that otherwise would not be affordable.

Secondly, we bioengineer, scale and produce organisms that produce target chemistry, target molecules, and industrial scale at a disruptive cost that enables our partners to grow and compete profitably. In many cases, we are enabling them to gain share from established competitors while providing their customers with distinctive performance properties. This is where the power of our best in class synthetic biology platform is being applied. We're not just forming partnerships. We're delivering real technology, delivering real products, and growing top line revenue while reducing our costs.

Thirdly, we provide partners access to our technology platform to help them build capability and to help accelerate the development of the bio economy. We call this Amyris Bio Services.

We do all of this through a focused business model of partnership and collaboration. We have 14 significant partnerships and most are growing and expanding their work with us. This model enables us to do what we do best and benefit from our partners' market know-how and market access to reduce our business risk. We don't work on products we hope customers will buy. We work on products customers need and our partners are paying us to help scale and manufacture these products for their long term.

Now, let me turn to Raffi for detailed financial results and then I'll provide some color on our outlook for 2016.

Raffi Asadorian - *Amyris, Inc. - CFO*

Thank you, John, and good afternoon, everyone. We are certainly encouraged by our first quarter progress on building and converting our collaboration and product sales pipeline thus far in 2016. We expect more pipeline conversion in the near future as we execute on our plan focused on our four strategic relationships.

As John already mentioned, our success with this focus is evident in the new significant farnesene supply agreement we announced last month with our strategic partner that plans on introducing disruptive technology in a large nutraceutical market segment.

Before reviewing our results for the quarter, I would like to take a moment to discuss our recently closed financing disclosed earlier today, which along with the expected proceeds from our previously announced planned strategic transaction, we expect to provide us with the capital needed to execute our 2016 plan.

In addition to the previously announced $20 million shareholder closed in February and the $5 million equity investment from the Bill and Melinda Gates Foundation that we announced in April, we announce today the initial closing of a new investment from another existing investor for a total of $15 million in new capital. This investment is set to close in two tranches - an immediate $10 million tranche closed today, and another $5 million tranche in the third quarter.

The investment is in the form of convertible notes that are repayable monthly in cash or stock at the Company's option over the 18-month term. More details on the terms of this transaction are provided in our security filing today.

Our debt balance has been reduced by $130 million since the first quarter of 2015, largely due to the support of our key shareholders, Temasek and Total, and their conversion of debt-to-equity in July 2015. We plan on making further improvements to our capital structure over the next 12 months, as we focus on delivering our 2016 plan.

We appreciate the continued backing from all our existing investors and strategic partners who are supporting our goal to make renewables mainstream. This goal is being achieved as we advance our partner pipelines towards executed agreements.

Now let's move on to first quarter results. First quarter revenues were $8.8 million, compared with $7.9 million in the first quarter of 2015. Contributing to revenue in the quarter was $5.7 million in collaboration revenue, about flat with the year-ago period, and product sales of $3.1 million, which was up 50% over the first quarter of 2015.

The 60% growth in product revenues was driven by our personal care segment and the shipment of a newly launched ingredient to one of our key partners, which was delayed past the fourth quarter of last year.

Our personal care business made up 92% of the total product sales in the first quarter, which was in line with our expected product mix to deliver higher value products. The remaining amount of this new ingredient that was produced and not shipped in the first quarter will be sold during the second, while the production of the second batch is expected to begin again in the third quarter of this year.

As John mentioned, we continue to build a healthy pipeline of potential collaboration and we expect to execute on closing some of these in the current quarter, which will provide additional cash beyond the committed financing we've raised year-to-date.

Q1 adjusted cost of product sold, which excludes depreciation, inventory provisions, and excess capacity charges, was $6.1 million, compared with $2.7 million for the first quarter of 2015. The increase was driven by our new personal care ingredient shipped during the quarter, for which we incurred startup related costs that were expensed during the period. The startup related costs with this new personal care ingredient more than offsets the positive impact from a favorable revenue mix of 92% of our sales in the quarter from higher value personal care products. The favorable product mix was in line with our plans, while the startup costs were higher than planned, as this was the first ever bio production of this new ingredient.

The upfront startup cost investment is expected to provide solid returns when we manufacture our second batch of this product in the third quarter of this year.

Moving now to our operating expenses. First quarter adjusted operating expenses representing combined R&D and SG&A expenses, excluding stock-based compensation and depreciation and amortization, was $20 million, down $1.5 million for the same period last year. The decline was driven by a $2.1 million reduction in G&A expense driven by our continued implementation of cost control measures as previously announced. On a GAAP basis, Q1 2016 SG&A expenses of $12.2 million represented a decline of 15% from the year-ago quarter.

We continue to target full year 2016 cash operating expenses of about $70 million to $75 million. Our first quarter run rate adjusting for nonrecurring items and for the timing of certain expenses is already tracking close to this range.

Moving now to cash flow for the quarter. Free cash flow in Q1 was negative $24 million, a decline from prior year, which included the closing of several large collaborations with inflows of $28.2 million in the first quarter of 2015. New cash outflows in the quarter were lower than last year driven by the timing of closing collaborations and working capital and startup costs related to the new ingredient production.

Our reported net loss for Q1 2016 was $15.3 million, or $0.07 per basic share. Included in the net loss was a gain from changes in fair value of embedded derivatives and extinguishment of debt. Adjusted net loss, excluding these items and stock-based comp, was $34.7 million, or $0.17 per basic share.

In summary, we have lots of work to do, but we are pleased with our progress in our commercial pipeline and the conversation to agreement, with further expected conversions in the second quarter as mentioned earlier. This combined with our progress in controlling and reducing our operating expenses is what we need to continue to deliver the rest of this year.

We are also thankful for the continued support of our existing investors to ensure our capital structure supports the delivery of our objectives for the year.

Now let me turn the call back over to John.

John Melo - *Amyris, Inc. - CEO*

Thanks, Raffi. Let me now review our outlook for the remainder of the year. In the coming months, our progress can be measured by the following. We are in the process of extending our agreement with Total for another five years and expect to include several industrial performance applications that will help us expand near term product sales and support their mission of increasing renewables to become 20% of their total revenue over the next 20 years.

We're executing on two to three major collaborations, including those that I mentioned earlier in the pharmaceutical sector. We expect to close one additional pharmacy offtake with a potential value of over $75 million. We're completing the divestiture of non-core activities to generate cash and further reduce our OpEx while focusing on our core strengths. These divestments are expected to be completed in the second half of 2016.

And finally, we will do these things while maintaining vigilance on our cost structure with the goal of achieving $70 million to $75 million in annual OpEx for 2016 and a reduction in overall cash burn. These steps will continue to improve our financial position, strengthen our business, and more broadly help us deliver our mission of making renewables mainstream while building shareholder value.

We are on track to deliver on our outlook for non-GAAP revenue for the year of about $90 million to $105 million. We appreciate the continued support of our shareholders, the commitment of our team inside Amyris, and the collaborators and partners who have worked with us to build the leading synthetic biology platform in the world, and share our mission of making renewable products mainstream.

I would now like to open the line for any questions you may have. Eric, can you help us open the line?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Sven Eenmaa, Stifel.

Sven Eenmaa - *Stifel Nicolaus - Analyst*

Yes, thanks for taking my question. I wanted to first ask about the revenue cadence. How do you think about evolution of this year, next quarter versus second half versus fourth quarter of the year?

John Melo - *Amyris, Inc. - CEO*

Sven, thank you for making the call. And when you talk about that evolution, are you thinking about top line revenue?

Sven Eenmaa - *Stifel Nicolaus - Analyst*

Yes.

John Melo - *Amyris, Inc. - CEO*

So when you think about our top line revenue through the year, what I would suspect is you'll see it grow into the second quarter. I'd probably say gradual growth the second quarter, maintaining that growth rate at about the same level into the third quarter, and then a strong fourth quarter. And that strong fourth quarter is really based on the farnesene contracts, both the one that we've just announced, and another that we plan on announcing over the next couple of quarters that will underpin most of that fourth quarter revenue. So unlike prior years, again steady growth quarter-on-quarter, first quarter, second quarter, third quarter. Maintaining significant growth versus last year, and sequential growth quarter-on-quarter. And then, a big fourth quarter.

Sven Eenmaa - *Stifel Nicolaus - Analyst*

Got it. And--.

John Melo - *Amyris, Inc. - CEO*

--It's not very different I think than what's expected today in the market.

Sven Eenmaa - *Stifel Nicolaus - Analyst*

And thinking about the next quarter and quarter after, is that--remains being primarily driven on personal care or how should we think about the mix? I understand pharmacy is likely late in the year. But in the coming quarters, is that (inaudible) to continue to shift, but the products which were delayed from the fourth quarter?

John Melo - *Amyris, Inc. - CEO*

Yes, I would see personal care still making up a good portion of the second quarter, not as much as the 90% or more that we saw in the first. So if the first was predominantly personal care, second quarter will continue to be weighted towards personal care, but adjusting a bit across the mix, and then if I think about what the third and the fourth quarter looks like, the fourth quarter will be almost evenly split. Actually, I'd say fourth quarter two thirds industrial and health, one third personal care, and then the third quarter evenly split.

Sven Eenmaa - *Stifel Nicolaus - Analyst*

Got it. That's very helpful. And in terms of just the current quarter, so we understand the gross margin dynamics. I think you mentioned previously that there is--you had some finishing items you need to kind of sort out on the cost structure side. Was that what kind of drove the gross margin and headwinds in the current quarter, and what is the normalized gross margin to be here as we go through the rest of the year?

John Melo - *Amyris, Inc. - CEO*

Yes, what I would expect to see for the rest of the year is a direct gross margin in the 50% to 60% range. I think in the first quarter--not I think, I mean I know--in the first quarter we had about a couple of million dollars or so hit the direct gross margin line, that was directly related to finishing costs associated with the launch of a new product. We know that it was a new product. We know that we rushed it to make sure we met the customer need, and that had a lot of extra startup costs that we know going into the rest of the year do not exist.

Sven Eenmaa - *Stifel Nicolaus - Analyst*

Great. And the last two question, first is what was the kind of average selling price in the quarter? And the second is how do you think about the cash utilization for the year?

John Melo - *Amyris, Inc. - CEO*

Yes, we are--on the ASP side, just to hit that for a second, our ASP for the first quarter was about $13.90 per liter. So that gives you a sense of where we were for it. I expect as the mix moves further away from personal care for the rest of the year, that to come down slightly. So it won't stay at $13.90, but that gives you the first quarter.

And I think cash utilization, I think you'll see us be negative cash in the second quarter, and then in the third quarter start to bring in quite a bit of cash really from asset sales. And then we expect with the asset sales to actually generate cash in the second half of the year.

Sven Eenmaa - *Stifel Nicolaus - Analyst*

Got it. That's helpful. Thanks so much.

John Melo - *Amyris, Inc. - CEO*

Thanks, Sven.

Operator

Thomas Boyes, Cowen and Company.

Thomas Boyes - *Cowen and Company - Analyst*

Hi, thank you very much for taking my call. Just a couple of quick ones. You had mentioned seasonality as a reason for--or seasonality as typically being a reason for weakness in Q1. Was that for cosmetics specifically, or--and if that was, how should we think about maybe seasonality affecting other segments of the business?

John Melo - *Amyris, Inc. - CEO*

Purely personal care, and very specifically a part of our personal care business, probably a third of the personal care business going forward, is really in the hands of our distributors. And the way the distributors work is they build inventory through the year, and then are light on orders during the first quarter. And that's literally the effect. We've seen that same performance now for the last three years, so it's not surprising to us.

Thomas Boyes - *Cowen and Company - Analyst*

Got it. And just maybe just talk about Biossance and Muck Daddy, what were the best kind of sales channels for those type of products? Or have you seen?

John Melo - *Amyris, Inc. - CEO*

Yes, let me--Thomas, I want to go back to one more thing on the distributor bill.

Thomas Boyes - *Cowen and Company - Analyst*

Of course.

John Melo - *Amyris, Inc. - CEO*

The distributor sales to the end customers in the first quarter did not slow down. What we've been seeing now for about six quarters in a row are very consistent doubling of sales from the distributors down to the brands. So that--those sales are going well. What we're seeing is again how we work with the distributors in the build of inventory that they have through the year. Just to create some distinction there for you.

And then getting back to your Biossance and Muck Daddy question, I'll tell you that with Biossance, we had a very successful show with Home Shopping Network. We really performed at the top tier of their normal performance for a new brand, first time on the show. We have a new show coming up--I think maybe a couple in this quarter that actually we expect will continue to grow our performance on Home Shopping Network. But actually what did the best for us during the quarter was really our online performance. The online store has done terrific for us. We don't see it being the major part of Biossance sales long term, but for now it's really what's carrying Biossance.

I think as we go through the rest of the year, we're in discussions with several retailers and expect to have a major retail channel in place around the mid-point to second half of the year that will actually be the third wave--third channel for Biossance. And that's pretty much what we see going forward, really moving Biossance through those three channels. Our internet channel, Home Shopping Network, and retail we feel being number one, Home Shopping Network number two, and our internet channel being the third in overall driver of sales.

For Muck Daddy, we've had some Muck Daddy sales through Amazon. We've had quite a bit of Muck Daddy sales through catalogs that are carrying the product. And we are in discussions with several retailers, and we think that what will really change Muck Daddy sales during the year is the retail. So Muck Daddy again, because of the unit price, revenue is a lot lower and it does require a significant retail channel to really make a difference on revenue.

Thomas Boyes - *Cowen and Company - Analyst*

Got you. Then just maybe two more for me. One, just how should we think about the OpEx declines throughout the year as costs are being removed--just maybe the cadence throughout the year.

John Melo - *Amyris, Inc. - CEO*

Yes, I would not be surprised to see somewhere between another 10% to 15% reduction from where we are now in the second quarter for OpEx. And then see about that same amount in total reduced in the second half of the year.

Thomas Boyes - *Cowen and Company - Analyst*

Got you. And then last one for me, I was wondering--.

John Melo - *Amyris, Inc. - CEO*

--Just to clarify, Thomas, that the (inaudible) second half--a lot of what you're seeing now and a lot of what you'll see in the second quarter are actions we've already taken, but they were taken late in the first. So the realization of the OpEx will be the second quarter. For the second half of the year, there's a big chunk of costs that come out with our divestments, which is actually what will drive that improvement in the second half.

Thomas Boyes - *Cowen and Company - Analyst*

Excellent. The last one for me would just be any update that you had on isoprene or any of the non-personal care molecules and things you've been working on.

John Melo - *Amyris, Inc. - CEO*

We put all that in the industrial performance bucket, and what we can tell you is our partnership with Kuraray is advancing very well. The adoption of farnesene and derivatives in tires is going very well. I think we are now tracking somewhere around 60,000 tires that will be sold in the Japanese market during this year. So we see that going well. We see the performance or the industrial lubricants which are also farnesene derivatives (inaudible) Novvi doing very well. We expect Novvi this year to have somewhere between $6 million to $10 million of revenue, which last year they had less than $2 million, just to give you a sense of the growth Novvi's experienced in the industrial lubricants space.

And then the rest of it we're seeing is really with Cray Valley, Total and some of our health and nutraceutical business that are evenly really growing that's seen derivative activity. So that's kind of the way we're looking at the fene derivatives, our polymers, adhesives, and then what we're seeing go into the (inaudible) tire market, and all of those evenly split for the year in performance materials, lubricants coming on strong as a fourth category of fene derivatives. And then beyond that, at this point we've really focused the portfolio on those activities for industrial performance products. The isoprene project with Michelin and Braskem continues to go, but we don't expect to see product revenue from that project until probably 2020.

Thomas Boyes - *Cowen and Company - Analyst*

Okay.

Operator

Sameer Joshi, Rodman.

Sameer Joshi - *Rodman & Renshaw LLC - Analyst*

Thanks. So the question relates to the sale of non-core assets. The estimate is $40 million to $60 million, and you expect to accomplish this in the third quarter. Are you already in talks with potential buyers, and how long do you think this process will take? And will the $40 million to $60 million recognize in 3Q?

John Melo - *Amyris, Inc. - CEO*

Yes, these are three assets that make up the $40 million to $60 million, the biggest of which we are in a very active sales process led by a niche investment bank. That process is going very well. It has several engaged buyers. And we expect that in the third quarter we should see proceeds from that asset.

Sameer Joshi - *Rodman & Renshaw LLC - Analyst*

And the biggest asset--is it in the $40 million to $60 million range, or is it one of the three assets?

John Melo - *Amyris, Inc. - CEO*

Yes, it's one of the three that make up the $40 million to $60 million, but it is the biggest chunk of the $40 million to $60 million.

Sameer Joshi - *Rodman & Renshaw LLC - Analyst*

Okay. The second question relates to any progress on the Brotas expansion? I know it is early days. It was only announced in March. But has there been any progress on that?

John Melo - *Amyris, Inc. - CEO*

I think the two things I would say--or three things--I'd say a lot of progress. We've got a very good engineering design. We've got our team on the ground really advancing, including using equipment from other assets that we're no longer pursuing as a way to reduce our overall CapEx for the project. So project design, project development, engineering design going very well.

Secondly, we've actually really skilled up the project. Our initial thought was really to utilize equipment that we already have for the most part, and actually what we realized in talking to the--engaging the customers who are interested in participating in the project is that the volume we need is greater than we expected. So this second plant will actually be a replica from a design standpoint of the first plant, with added flexibility so we can make multiple molecules at the same time and make smaller volume molecules without having all the down time when we switch from one molecule to the other. So we're very excited about that. And that's really the second piece of the update.

And the third is that we are very engaged with several partners, and it looks like we've got two or three who are interested in participating in the funding or support for access of funding for the plant, which we expect to be able to announce over the next three to four months.

Sameer Joshi - *Rodman & Renshaw LLC - Analyst*

Okay, so it is still going to be a partner-funded exercise.

John Melo - *Amyris, Inc. - CEO*

Exactly.

Sameer Joshi - *Rodman & Renshaw LLC - Analyst*

Okay. Stepping back, the fragrance ingredient number two that was shipped I think in May, is that--do you know what size it was? Are you disclosing if it's in the $6 million to $8 million, or is it more than that?

Raffi Asadorian - *Amyris, Inc. - CFO*

We've not specifically disclosed that. It's part of the personal care segment. But you can say from Q1 to Q2 it will be fairly similar in terms of size.

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Sameer Joshi - *Rodman & Renshaw LLC - Analyst*

Okay. And then one last one relates to the Gates Foundation (inaudible). What are the resources that are being allocated to that project, and what are the margins from that business?

John Melo - *Amyris, Inc. - CEO*

The margins are fairly limited. And the resources are really more bio-engineering resources and quite limited, maybe a couple of (inaudible) is what we'll have on the project. And we will have a manufacturing partner that will work with us to ensure we scale up fast and reduce the costs aggressively from the current manufacturing cost of the product.

Sameer Joshi - *Rodman & Renshaw LLC - Analyst*

Okay. And sorry I saved the last one, but one last one, if you could just let us know has there been any progress on the Pathways program specifically?

John Melo - *Amyris, Inc. - CEO*

We're seeing a tremendous amount of engagement. And the engagement is coming in the form of industrial partners that want specific molecules in Pathways as well as partners who want the molecules we have for us to develop for them. So quite a bit--I think we'll be announcing some of those over the next couple of quarters. And I think the most important thing is--for us--is that DARPA is very pleased and looking at other ways that we can work together because of the progress we're making and the number of molecules we're developing coming out of that investment.

Sameer Joshi - *Rodman & Renshaw LLC - Analyst*

Great. Thanks a lot and good luck.

John Melo - *Amyris, Inc. - CEO*

Thanks, Sameer. Appreciate it.

Operator

(Operator Instructions) John Ziegelman, Wolverine Asset Management.

John Ziegelman - *Wolverine Asset Management - Analyst*

Hi, guys. I think my questions have been partially answered, so this is more a clarification. For 2016, are you saying your expected gross margins will be in the 50% to 60% range for the year?

John Melo - *Amyris, Inc. - CEO*

That's correct, John.

John Ziegelman - *Wolverine Asset Management - Analyst*

Okay. And then the 10% to 15% reduction in Q2, and then another 10% to 15% reduction in the second half--that's about $3 million each in reduction of operating--.

Raffi Asadorian - *Amyris, Inc. - CFO*

--John, it's 10% to 15% more in the second quarter, and then about the same that you've seen in the first half, first and second quarter sum, delivered in the second half of the year.

John Ziegelman - *Wolverine Asset Management - Analyst*

Got it. So is the quarter $3 million, or about there in savings?

Raffi Asadorian - *Amyris, Inc. - CFO*

Yes, I think the second quarter will be about $3 million savings, and then you'll get about the same in the Q3, Q4 timeframe.

John Ziegelman - *Wolverine Asset Management - Analyst*

All of the second half will be similar to Q3?

Raffi Asadorian - *Amyris, Inc. - CFO*

On a relative basis.

John Ziegelman - *Wolverine Asset Management - Analyst*

Okay. That's what I was trying to get. That's it. Thank you.

John Melo - *Amyris, Inc. - CEO*

Thank you, John.

Operator

(Operator Instructions) And I'm showing no further questions over the phone line. I would like to turn the call back to John Melo for any closing remarks.

John Melo - *Amyris, Inc. - CEO*

Thanks, Eric. I appreciate that. I'd like to thank everyone for joining us today, and appreciate your continued support for Amyris. We look forward to updating you on the continued growth in our business when we report second quarter results in August. In the meantime, Amyris will be reaching out to many investors by presenting at the Oppenheimer Emerging Growth Conference on May 17, the (inaudible) Brazil Investors Conference on May 24, the Cowen 44th Annual TMT Conference on June 1, the Stifel Technology Internet and Media Conference on June 6 and 7. And we hope to see many of you at these events. Thank you and have a good afternoon or good 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.