FORMULATING THE SOLUTION TO A PANDEMIC – RAISING TARGET PRICE TO $10

MARKET DATA 03/10/06

NVAX $6.14
Target Price $10
Market NASDAQ
52 Wk Hi - Low $6.15 - $0.70
Market Cap. (MM) $336.0
Shares Out (MM) 54.7
Public Mkt Float (MM) 37.2
Avg. Daily Vol (000) 3,962.1

BALANCE SHEET METRICS (12/31/05)

Cash (MM) $31.9
LTD (MM) $29.0
Debt/Capital 90%
Book Value/Share $0.59

EARNINGS DATA

FY - 12/31 2004 A 2005 A 2006 E
1Q - 03/31 ($0.15) A ($0.22) A ($0.18) E
2Q - 06/30 ($0.22) A ($0.14) A ($0.12) E
3Q - 09/30 ($0.31) A ($0.06) A ($0.05) E
4Q - 12/31 ($0.26) A ($0.08) A ($0.05) E
Full Year EPS (diluted) ($0.94) ($0.51) ($0.46)
Revenue (MM) $8.3 $7.4 $14.9
Cash Burn (MM) ($9.8) ($14.0) ($32.1)

VALUATION METRICS

Price/Earnings NM NM NM
Price/Revenue 40.7x 45.5x 22.6x
Price/EBITDA NM NM NM

We believe execution of Novavax’ VLP vaccine product development strategy has been outstanding so far. We regard the recent announcements of strategic alliances as further evidence of the current Novavax management team’s motivation and breadth of capabilities.

VENTURE CAPITAL INVESTMENT ALIGNED WITH THE LEADING PANDEMIC VACCINE TECHNOLOGY IN DEVELOPMENT

The announcement in February of a direct $20 MM investment by preeminent venture capitalists, Kleiner Perkins Caufield & Byers and Prospect Venture Partners, bolsters our view that Novavax has created the leading vaccine technology in development against pandemic influenza. We believe association with these two firms opens many doors that have potential to help the company identify other key value-added strategic alliances.

ALLIANCE WITH UNIVERSITY OF PITTSBURGH (UP) CREATES A POWERFUL TEAM

UP has demonstrated a commitment to being a world leader in clinical biomedical research and ranks in the top ten for attracting research funding from the NIH. We believe UP’s alliance with Novavax for development of a pandemic influenza vaccine using the company’s VLP technology has the makings of a tremendous research powerhouse in vaccine research.

AGREEMENT WITH PACIFICGMP AND BHARAT BIOTECH (BBIL) EXPEDITES VLP VACCINE DEVELOPMENT AND MITIGATES DEVELOPMENT RISK

We believe the alliance with privately-held PacificGMP puts Novavax a step closer to developing the critical, cost-effective capability to rapidly scale up VLP vaccine production and meet a surge in demand. With unrestricted access to all preclinical and clinical data generated, we believe the alliance with privately-held BBIL positions Novavax to accelerate human clinical validation of its pandemic vaccine in 2006 and further define VLP vaccine clinical strategy in 2007.

FORMULATION SCIENCE EXPERTISE TO SHINE IN 2006

We believe Novavax has a lot more to offer in 2006 with its intention to pursue product development partnerships with its versatile product formulation platform technologies. We are confident in the company’s ability to successfully execute the advancement of one or more of these programs in 2006 and continue to leverage its expertise in formulation science to create shareholder value in 2006.

RAISING PRICE TARGET TO $10 AND REITERATE MARKET OUTPERFORM RATING

We believe Novavax VLP technology to be the best novel flu vaccine technology in development as it could be readily adaptable to emerging pandemic influenza epitopes and scaled up to meet a surge in demand during a pandemic in a cost-effective manner. It therefore represents an emerging alternative to stockpiling traditional vaccines and antivirals against pandemic flu, in our opinion. Further, we believe NVAX to be an attractive acquisition candidate for any of the various vaccine manufacturers focused on seasonal flu. We continue to believe NVAX shares an attractive value and, therefore, reiterate our Market Outperform rating and raise our price target to $10 (40x 2009 EPS of $0.61 discounted annually at 35%) from $6 previously.

For definitions and the distribution of analyst ratings, and other disclosures, please refer to pages 11 & 12 of this report.
INVESTMENT SUMMARY

Novavax, Inc. (NASDAQ: NVAX) is a product development company focused on the research, development and commercialization of its proprietary drug delivery products, vaccines and biological technologies. The company has transitioned from focusing on developing a pipeline of women's health pharmaceuticals to conducting research and development on proprietary formulations of FDA-approved drugs and on next-generation vaccines and biologicals for a variety of infectious diseases. Novavax’ strategy is to leverage its technologies such as Virus-Like Particles (VLP) and developing and licensing Micellar Nanoparticle (MNP) candidates of marketed FDA approved drugs. The VLP technology makes use of recombinant DNA techniques in an insect cell culture expression system to produce egg-free and versatile vaccine manufacturing methods capable of rapidly responding to new strains of seasonal flu, pandemic flu, or other viruses. Novavax uses its proprietary VLP technology for its recombinant proteins and vaccines business. Projects in development using VLP technology include vaccines for influenza, pandemic avian flu, HIV, hepatitis E, melanoma and SARS. The company recently turned its near-term focus to using its VLP technology to develop a pandemic avian influenza H5N1 vaccine. We believe Novavax possesses crucial technology to develop a vaccine against the threat of an influenza pandemic that can be readily adapted to the constantly changing epitopes of the influenza H5N1 virus with a potentially cost-effective, surge-capable production technology. Novavax’ MNP formulations potentially produce safe and efficacious dosage forms of drugs and potentially reduce development time to market. Novavax developed Estrasorb, an FDA-approved topical MNP estradiol emulsion for estrogen replacement treatment of menopausal symptoms, as the first hormone formulation that could be systemically delivered using NVAX’s topical delivery system. Novavax currently has several product candidates in human clinical trials or in preclinical development utilizing MNP technology, including Androsorb, a topical testosterone emulsion. The company’s other technologies include Novasomes (paucilamellar non-phospholipid liposomes) for topical and oral drug delivery and as an adjuvant to enhance vaccine effectiveness; Sterisomes, a sterol-free and oil-free emulsion for depot delivery; and Tolerogens. With the transformation into a company focused on extracting value from its proprietary technologies, Novavax represents an opportunity to invest in a company with multiple licensing opportunities provided by its expertise in formulation science, five platform technologies and deep early-stage pipeline. We also believe the VLP vaccine technology makes NVAX an attractive acquisition candidate. We rate the company Market Outperform and derive a fair value of $10 (40x 2009 EPS of $0.61 discounted annually at 35%) for NVAX shares from $6 previously (35x 2008 EPS of $0.39 discounted annually at 35%).

FIGURE 1: NOVAVAX INC. – KEY MILESTONES

<table>
<thead>
<tr>
<th>Date</th>
<th>Milestone</th>
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<tbody>
<tr>
<td>1H06</td>
<td>Complete H5N1 VLP vaccine process, analytical, and formulation development</td>
</tr>
<tr>
<td>1H06</td>
<td>Complete validation of H5N1 VLP vaccine</td>
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<tr>
<td>1H06</td>
<td>Potential announcement of collaboration to develop an MNP formulation of another FDA-approved drug</td>
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<tr>
<td>1H06</td>
<td>Potential announcement of partnership to market Androsorb</td>
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<tr>
<td>2H06</td>
<td>Demonstrate VLP production at 500 liter scale</td>
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<tr>
<td>2H06</td>
<td>Clinical validation of VLP vaccine production methodology</td>
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<tr>
<td>3Q06</td>
<td>Potential order from governmental health agency for H5N1 VLP vaccine</td>
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<tr>
<td>1H07</td>
<td>Potential order from additional governmental health agencies for H5N1 VLP vaccine</td>
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<tr>
<td>2008</td>
<td>Potential completion of seasonal influenza VLP vaccine development</td>
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<tr>
<td>2008</td>
<td>Potential submission of seasonal influenza VLP vaccine BLA</td>
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</tbody>
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Source: Company reports and Rodman & Renshaw research.
INVESTMENT THESIS REVIEW

Management Putting the Pieces in Place  We believe Novavax’ execution of its business strategy has been outstanding so far. We regard the recent announcements of strategic alliances, with partners who are experienced in manufacturing and vaccine development, as further evidence of the current management team’s motivation and breadth of capabilities. We believe these alliances are significant achievements that help mitigate Novavax’ risk in developing a pandemic influenza vaccine. With these alliances, strategic out-licensing for the marketing of Estrasorb in 2005 , the recent key addition of Dr. Rick Bright to bolster the vaccines research effort, and the raising of $38 MM in additional capital in recent months, we believe the company is on its strongest footing since its transformation as a product development company.

Preeminent Venture Capitalists Make Significant Investment  The announcement in February by Kleiner Perkins Caufield & Byers (KPCB) and Prospect Venture Partners of a $20 MM direct investment in Novavax stock bolsters our view that the Novavax management team has created the leading vaccine technology in development against pandemic influenza. We have spoken to partners at KPCB who agreed that the virus-like particle is a flexible vaccine technology with significant potential for the creation of an effective vaccine against pandemic flu strains, and believe in the potential of Novavax’ vaccine manufacturing approach to rapidly create vaccine production surge capacity. We believe Novavax’ association with these two firms opens many doors that have potential to help the company identify other key strategic alliances and help advance Novavax’ efforts to leverage its product development platform technologies.

University of Pittsburgh VLP Research Alliance Creates Powerful Research Team  Consistent with its strategy of collaborative research for development of its vaccine against H5N1, the influenza A strain believed to have the greatest pandemic potential, Novavax enlisted the aid of the University of Pittsburgh (UP) in helping the company conduct preclinical work on the efficacy of its influenza VLP vaccine before submitting an Investigational New Drug Application (IND) to the FDA. UP, whose researchers announced in January that they created a genetically engineered avian flu vaccine composed of critical components of H5N1 that completely protected mice and chickens from infection, has demonstrated a commitment to being a world leader in clinical biomedical research and ranks in the top ten for attracting research funding from the NIH. Ted M. Ross, PhD, who will be one of the principal investigators evaluating Novavax’ VLP vaccine at UP, provides tremendous research capabilities with his many years of experience in evaluating immune responses in preclinical models of influenza and HIV vaccines, including VLP-based vaccines. The investigators intend to study the ability of VLP vaccines to elicit an enhanced immune response, which could position an H5N1 VLP vaccine as an important new option in the preparation for a potential pandemic outbreak. UP will also evaluate Novavax’ Novasomes as an adjuvant to augment and/or broaden the overall protective immune response elicited by flu vaccines. The investigators intend to demonstrate the ability of Novasomes to lower the dose of antigen required to provide protection against influenza virus infection. We believe with a powerhouse team aligned to create a practicable vaccine against pandemic influenza, Novavax is firmly positioned to be the vaccine technology leader in the efforts to address the threat of a pandemic.

Addition of Rick A. Bright, PhD, Bolsters an Already Experienced Vaccine Discovery Team  As Novavax’ new Vice President of Vaccine Research, Dr. Bright adds world-class immunology expertise and cutting edge influenza research capabilities to the company. Dr. Bright’s work at the Centers for Disease Control and Prevention (CDC), for example, was seminal research on influenza antiviral drug resistance and led the CDC to recommend against the use of adamantanes for treatment of influenza infection. We believe, with Dr. Bright as the other principal investigator in the evaluation of Novavax’ VLP vaccine, the company is strongly positioned to take the company’s best influenza VLP vaccine candidates against H5N1 from preclinical validation to clinical testing. With Dr. Bright’s broad experience and knowledge of influenza, Novavax also is solidly positioned to adapt its work in H5N1 to the development of effective, next-generation vaccines against seasonal influenza.

Bharat Biotech International Limited (BBIL) Alliance Helps Expedite the Generation of Early Clinical Data and Formulate Clinical Strategy  Under the terms of the agreement, BBIL, an Indian biotech company specializing in biologicals-oriented research, development and vaccine manufacturing, will fund 100% of the preclinical and clinical studies required to market influenza VLP vaccines in India and certain other Asian countries, and assist in developing an efficient vaccine production process in the region. With unrestricted access to all preclinical and clinical data generated, we believe this alliance positions the company to accelerate human clinical validation of its influenza H5N1 VLP vaccine in 2006 and further define its clinical strategy for the company’s influenza VLP vaccines in 2007. Through receipt of double-digit royalties on all future sales within BBIL’s geographic territories, this alliance also potentially represents Novavax’ first opportunity to realize revenues from leveraging its VLP technology outside the U.S.

BBIL Collaboration is a Landmark for Potential Future Alliances  We believe this alliance is Novavax’ first demonstration of the company’s ability to leverage its technological leadership to help advance the development of
its influenza H5N1 VLP vaccine. Thus, we consider this alliance important, not only for the future revenue stream that it potentially provides Novavax, but also because it represents a landmark example of potential future alliances with other parties in H5N1 affected countries. As world governments with limited resources and inadequate pandemic detection and control measure capacities come to realize that, with the current short supply of antiviral drugs, the potential increase in resistance to these antiviral drugs, and vaccine production capacity currently limited, their options for pandemic contingency planning may be inadequate as well. Therefore, the best pandemic contingency planning strategy may be to enlist new vaccine technologies that could be readily adapted to emerging pandemic influenza epitopes and scaled up to meet a surge in demand during a pandemic. We believe a contingency strategy that includes VLP vaccine production capability could be attractive in the early stages of a pandemic because the VLP technology, which utilizes a disposable closed cell culture-based system, obviates the reliance on the supply of embryonated eggs for the production of vaccine while offering the flexibility to be adapted to an emerging epitope and the ability to be rapidly and economically scaled up to meet a surge in demand. Faced with the challenges and the need to potentially sustain an adequate response to an emerging pandemic beyond a few months, we believe interest by other H5N1 affected countries may grow and lead to other alliances with Novavax to develop regional VLP vaccine production capability.

PacificGMP Alliance Brings Aboard Additional Manufacturing Process Design and Scale-Up Expertise To ensure surge capacity, Novavax designed its manufacturing processes around disposable equipment. PacificGMP is ideally suited to support Novavax in the development of a pandemic influenza VLP vaccine production process because they are industry experts in the use of disposable process equipment, such as those designed by Novavax partner, privately-held Wave Biotech LLC. PacificGMP has extensive experience helping other companies use Wave Biotech’s equipment develop processes for the production of antibodies, recombinant proteins, gene therapy and vaccine products. We believe this alliance puts Novavax one step closer to developing the critical, cost-effective capability to rapidly scale up vaccine production and meet a surge in vaccine demand. Because the process involves a closed system, which helps avoid cross-contamination during production runs, we believe this capability has potential to be very readily leveraged into Novavax’ nascent biologicals manufacturing line of business, thus becoming a long-term value-added investment by the company that is not wholly dedicated to vaccine production alone.

Taking the First Steps Toward a Sustainable Market Opportunity in Seasonal Flu Vaccines We believe Novavax is at the forefront of next-generation influenza vaccine technologies during this pre-pandemic period. According to the WHO, three to five million cases of seasonal influenza occur worldwide every year and around 250,000 to 500,000 people die from influenza infection or its complications. By developing its VLP vaccine against H5N1, we believe Novavax facilitates the development of a VLP vaccine against seasonal influenza strains. We believe a seasonal influenza VLP vaccine has potential to create a real long-term and sustainable market opportunity for Novavax.

What to Look for in 2006 We believe that Novavax will continue to leverage its technological leadership in influenza vaccines by focusing on the execution of VLP vaccine development and achieve human clinical validation in 2006. Novavax expects to submit an IND to begin Phase I testing of its avian influenza VLP vaccine in 4Q06 and attempt to complete data collection in early 2007.

- When we recently gleaned details from the Congress conference report on the Department of Defense’s 2006 budget, which was released in December 2005, $3.8 billion was appropriated for avian flu preparedness with HHS receiving the bulk of the appropriations. The report bode well for broad funding of avian flu research and preparedness activities in 2006 and contained language that specifically mentioned the consideration and funding of flu virus-like particles for the first time. Following meetings with leaders on Capitol Hill, Novavax believes that it has four opportunities to bid for government funding in 2006.

  - Initial testing shows that, in its current form, a much higher dose of H5N1 vaccine, up to 12 times as much as originally predicted, will be needed to produce the desired immune response in people. HHS therefore is supporting the development and testing of potential dose-sparing strategies that could allow a given quantity of vaccine stock to be used in more people. Novavax believes a Request for Proposal (RFP) is expected to come out shortly on antigen sparing technologies and believes that the use of VLPs and Novasomes can be very competitive. For example, Novavax previously demonstrated the potential of Novasomes created from H9N2, which is an avian influenza virus responsible for a small outbreak in Hong Kong in 1999. When virus titers for H9N2 Novasome-inoculated Balb/c mice were compared to animals inoculated with H9N2 VLP vaccine plus H9N2 Novasome, a significant (p<0.05) reduction of virus titers in the lung and nose tissues was demonstrated among the VLP plus Novasome vaccinated animals. On Day 5 post-challenge with H9N2, VLP and VLP plus Novasome vaccinated Balb/c mice had virtually no detectable virus. Thus, Novasomes represents a competitive solution as a potential vaccine dose-sparing adjuvant.
Novavax believes an RFP favorable to advancing recombinant flu vaccine technologies and recombinant VLP vaccines will also be announced, potentially in 2Q06. We believe this RFP would be made directly as a result of the Government’s interest in giving priority funding to R&D activities translatable near to medium term into vaccines or treatments against avian flu. We estimate bidding for this RFP could commence in the same quarter with awards announced in 4Q06.

Another RFP may be announced later this year that Novavax believes will encompass the development of a universal flu vaccine. Such an RFP has potential to be the largest appropriation and therefore result in the most competitive bidding.

Novavax also is interested in making an Unsolicited Proposal (UP) to the Department of Health and Human Services (HHS) in which the company highlights its VLP vaccine production surge capacity as a solution to the problem of currently limited egg-based vaccine production capacity. If Novavax is able to execute its tight timeline for developing VLP production process validation, we believe the company could be successful in demonstrating the Government’s need for a vaccine production alternative as part of its pandemic contingency planning strategy and receive an award in the 1H07 timeframe.

Although these RFPs have yet to be announced, we are encouraged by the language in the conference report in which HHS now has push from Congress to allocate funds to researchers working with flu VLPs. The report also encourages CDC to partner with industry in research to ensure surge capacity for a response against a pandemic, which VLP technology provides. Thus, we believe multiple opportunities are potentially in the queue for Novavax to receive revenue from its VLP and Novasome technology. We are confident in management’s ability to execute its product development strategies, which we believe can be leveraged into near-term revenues and turned them into long-term sustainable opportunities.

- We believe the recently released FDA Women’s Health Initiative (WHI) analysis of estrogen-alone therapy is favorable to Estrasorb, Novavax’ estrogen replacement treatment for menopausal symptoms. The study demonstrated that estrogen-alone (conjugated equine estrogen (CEE) at a 0.625 mg once-daily dose) did not increase the risk of coronary heart disease (CHD) in postmenopausal women aged 50 to 79 after an average of 7.1 years of treatment. Additionally, data suggested that estrogen-alone therapy may lower the risk of coronary heart disease among women aged 50 to 59, which should alleviate a lot of the concerns in patients and Ob/Gyns as they start to absorb this new data. Moreover, FDA updated its guidance for the treatment of menopausal symptoms with estrogen therapies and now recommends estrogen use at the lowest effective dose. We believe this recommendation has potential to positively affect the uptake of estrogen replacement therapies such as Estrasorb, which we believe is still a nascent opportunity that has potential to provide Novavax with upside results in royalty revenues in 2006.

- Lest investors forget, Novavax is a product development company with formulation science expertise and five highly leverageable platform technologies. Novavax, for example, developed Estrasorb, an FDA-approved topical estradiol emulsion for estrogen replacement treatment of menopausal symptoms, using the company’s proprietary micellar nanoparticle (MNP) technology. Novavax currently has several product candidates in development by its partners or in preclinical development utilizing MNP technology, including Androsorb, a topical testosterone emulsion.

- Novavax has done well to establish key strategic alliances for the development of its VLP vaccines and we are confident that the company is on track to advance this program in 2006. However, we believe the company has a lot more to offer by pursuing product development partnerships with its versatile platform technologies, thus, we are encouraged by Novavax’ intent to further leverage its expertise in formulation science in 2006. We believe that the MNP technology, in particular, has large, untapped potential applications to improve the safety profiles of marketed, FDA-approved drugs. Novavax itself is using its MNP technology internally to develop patch products of nicotine, clonidine, oxybutinin, and ketoprofen, which are drugs currently approved in other delivery forms. We look for updates to be announced in 2006 on the company’s clinical stage review of these product candidates.

We are confident in the company’s ability to successfully execute the advancement of one or more of these programs in 2006 and continue with their development in 2007 and/or seek partnership opportunities. Thus, we believe 2006 is shaping up to be the seminal year for Novavax to complete its transition into a product development company and continue to increase shareholder value.

**Attractiveness of Novavax as an Acquisition Candidate** Given the cutting edge VLP vaccine production technology that can be translated for the production of seasonal flu vaccines, we believe NVAX to be an attractive acquisition candidate for any of the various vaccine manufacturers, most notably Wyeth, Merck and Medimmune.
**Revenu Forecasts**

**Estrasorb**

We only briefly describe the revenue opportunity from Estrasorb, whose marketing responsibility has been licensed to privately-held Esprit Pharma. We reserve making robust projections until results from several quarters of sales are reported from the collaboration. Thus, we maintain our estimate of Estrasorb peak sales at $12 MM in 2008 but will keep an eye on the effects from the WHI study results and the FDA’s positive recommendations for estrogen-alone therapy for the treatment of women with menopausal symptoms. We still assume that Estrasorb achieves only a 0.3% penetration rate which is very conservative given the benefit seen in women aged 50 to 59 and the pending tremendous growth in this demographic. Should Esprit Pharma’s marketing efforts turn in better results, every $5 MM in Estrasorb revenue results in an incremental $0.01 upside to our earnings estimates.

**Pandemic Influenza (H5N1 VLP) Vaccine**

We believe health agencies worldwide are motivated to implement a cost-effective, alternative solution to stockpiling antiviral drugs and vaccines. We believe that due to the year to year changing epitopes of influenza virus driven by rapid mutation of the avian influenza H5N1 strain, a simple stockpiling strategy of influenza vaccines and antiviral drugs would not be an adequate solution to protect against a pandemic influenza or to contain an outbreak. The potential for to develop a vaccine that confers limited or no protection is high and, with currently limited influenza vaccine production capacity and a long lag time to ramp up production, we believe the rapid scalability and Novavax VLP vaccine production technology’s adaptability to emerging influenza epitopes represents a solution that has a role in pandemic contingency planning that the company can leverage to realize near-term revenues. HHS awarded a $97 MM contract to Sanofi Aventis in April 2005 to purchase a cell culture-based pandemic influenza vaccine based on a sample of H5N1 virus taken from Vietnam in 2004. Federal health officials announced plans on March 6 for a second vaccine to protect people from H5N1 because the virus that is spreading among birds in Asia and Europe has changed significantly in the past year, thus making the previous H5N1 vaccine potentially less effective.

We determined a value for the pandemic influenza vaccine opportunity by modeling a seasonal influenza market model and using a 37.3% attack rate to simulate the attack rate (or incidence) of influenza that we expect would occur during a pandemic (see Figure 2). CDC literature reports that the incidence rate for seasonal influenza normally ranges between 15-20%, but during a pandemic, this rate can be as high as 50%, as has been reported for the 1918 pandemic. We believe our model provides a reasonable proxy for what it would cost to protect the world’s population at the CDC’s current vaccine recommendation rate of 60% (i.e., capture rate) during the first wave of pandemic influenza, which we estimate approximates $200-$250 MM in vaccinations. We believe Novavax initially could receive small grants for development versus procurement contracts of VLP vaccines valued in total between $25-$100 MM from the U.S. government and government health agencies around the world as part of a pandemic contingency plan against currently limited vaccine production capacity. Due to the early-stage nature of the VLP technology, we have lowered the value of grants we estimate Novavax would receive for its VLP technology in 2006 from $50 MM to $10 MM. As Novavax achieves clinical milestones with its VLP vaccine, we assume interest in the technology will continue to grow and revenues from VLP vaccine collaborations will begin to contribute. Thus, we believe Novavax may realize advance purchases of pandemic vaccine beginning in 2007, which drive our VLP vaccine revenue projections of $60 MM, $125 MM, and $200 MM from 2007 – 2009.

**Seasonal Influenza Vaccine**

According to the WHO, three to five million cases of seasonal influenza occur worldwide every year and around 250,000 to 500,000 people die from infection or its complications. While over 90% of the deaths occur in persons aged 65 years and older, other groups at high risk for serious complications from influenza are persons with chronic diseases, infants, pregnant women, and nursing home residents. Therefore, influenza remains a leading cause of illness and death around the world and thus continues to present an unmet medical need. Moreover, the WHO Division of Health Situation and Trend Assessment shows that 232,598,000 doses of influenza vaccine were distributed in 2000, or an expenditure of approximately $1.8 billion at the time. Even with flu vaccine production capacity currently limited in capacity, we estimate there were approximately $700 MM in flu vaccines sales in 2005. We believe the global influenza vaccine market is growing 15-23% annually with current vaccination rates, and estimate sales over $2 billion by 2010. Due to the early stage nature of the VLP technology and Novavax’ primary focus on developing a pandemic vaccine, we do not currently include revenues from VLP vaccines developed for seasonal influenza. We believe the ability of Novavax’ VLP technology to improve vaccine surge capacity and offer better profit margins, however, provides Novavax with the potential opportunity to be a significant future player.
**Figure 2: Novavax Inc. – Potential Pandemic Flu Vaccine Revenues Based on a Seasonal Influenza Model**

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<td><strong>Seasonal Flu, U.S.</strong></td>
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<td>Adults, age 51 and older</td>
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<td>Morbidity and Mortality Rate</td>
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<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Children and Adults, age 5 to 50 years</td>
<td>12%</td>
<td>12%</td>
<td>12%</td>
<td>12%</td>
<td>12%</td>
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</tr>
<tr>
<td>Adults, age 51 and older</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Notes:
1. Continental U.S. used as proxy for modeling, adjusting down for greater percentage of world population in warm climates.
2. Used CDC study estimates based on hospital setting data. Estimates for pandemic flu give much higher attack rate. Data not available for outside U.S. therefore used U.S. rates. We estimate incidence is likely higher.
3. Combined figure for both flu and flu-related deaths (e.g., pneumonia). Mortality rate decreases with age as resistance is gained but is complicated by age-related risk factors which relate it.
4. On the recommendation of CDC published study: http://www.cdc.gov/ncidod/eid/vol5no5/pdf/meltzer.pdf. CDC recommended vaccination of 188 million in 2004 (63% vaccination rate), which included 85 million considered at high risk of severe complications.
5. Cost per Dose of Vaccine, ex-U.S. $10 $10 $10 $10 $10 $10 $10
6. Cost per Dose of Vaccine, U.S. $19 $19 $19 $19 $19 $19 $19
7. Used vaccination rate determined from a study of five countries in Europe (German, Italy, Spain, and United Kingdom), Vaccine. 2005 Oct 17:23(4):5055-63, growing at 10% y/y. We estimate worldwide is likely lower but will rise as interest in prophylaxis rises as a result of avian flu.

Source: Company Reports, CDC, U.S. Census Bureau, WHO, and Rodman & Renshaw research.

**U.S. Vaccine Sales**

<table>
<thead>
<tr>
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<tr>
<td>$250,748,108</td>
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<td>$253,834,987</td>
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<td>$257,051,827</td>
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**Ex-U.S. Seasonal Flu**

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<td>$984,584,394</td>
<td>$1,099,661,901</td>
<td>$1,216,567,161</td>
<td>$1,350,370,460</td>
<td>$1,496,732,635</td>
<td>$1,659,016,627</td>
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**Ex-U.S. Vaccine Sales**

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<td>$1,215,332,502</td>
<td>$1,351,945,974</td>
<td>$1,472,452,149</td>
<td>$1,605,772,535</td>
<td>$1,753,784,462</td>
<td>$1,917,737,127</td>
<td>$2,099,368,276</td>
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INVESTMENT RISKS

We highlight and comment below on the key risks in investing in Novavax shares:

- Many of Novavax’ larger competitors are moving away from egg-based vaccine production and toward cell culture-based processes that have potential to eliminate some if not all of Novavax’ advantages. Although we acknowledge that these existing alternative methodologies are at more advanced stages of clinical development when compared to VLP vaccine production technology, to focus merely on the stage of development of competing cell culture-based vaccines over VLP vaccines misses the key tenets of VLP technology’s advantages. It has been documented that the H5N1 strain mutates rapidly and therefore has potential to present epitopes that would only emerge at the onset of a pandemic. In fact, as the WHO and CDC have stated, the emergence of an H5N1 strain that is readily transmissible from human to human would mark the beginning of a new pandemic, however, such a strain has not yet been identified. Therefore, we believe vaccines developed against current H5N1 strains using existing cell culture-based technology have potential to be ineffective against an H5N1 strain that emerges and begins a new pandemic. As we highlighted above, Federal health officials announced plans on March 6 for a second vaccine to protect people from H5N1 because the virus that is spreading among birds in Asia and Europe has changed significantly in the past year, thus making the previous H5N1 vaccine potentially less effective. We believe this paradigm obviates the stockpile of vaccines developed against current H5N1 strains. Thus, we reiterate the key tenet of VLP technology’s advantages over existing technologies is its adaptability to be used in the production of vaccines against H5N1 strains as they emerge.

- Developing process, analytical and formulation methodology are necessary steps in the manufacturing process, as well as for supporting the intellectual property behind it. Although the baculovirus system is not new, the methods to produce VLP vaccine are new and will necessarily need legal protection to maintain Novavax' position as the owner of this technology. These steps are also necessary to complete a file of documents that will be presented to regulatory authorities when Novavax files the Biologics License Application (BLA) for approval to market its VLP vaccine. We believe Novavax senior management has extensive manufacturing experience in vaccine development and is solidly capable of implementing strategies and a schedule that ensures the successful achievement of these milestones.

- Although clinical data and large-scale VLP vaccine production has not been demonstrated, we believe collaboration agreements with privately-held companies, Wave Biotech and CombiMatrix, and especially the recent strategic alliance with PacificGMP, significantly bolster Novavax’ efforts to develop the large-scale production capabilities that would be needed to accommodate a surge in demand for VLP vaccines during a pandemic. Moreover, the newly-minted alliance with Bharat Biotech is expected to help generate crucial VLP vaccine clinical data at virtually no cost to Novavax that the company can use for its U.S. approval. Unencumbered by a strict regulatory process in India, we believe Novavax is on track to generate data it can use to design a clinical strategy that may help expedite its development in the U.S.

- Since H5N1, the avian influenza strain believed to have the greatest pandemic potential, is not yet readily transmissible from human to human, there is potential lag time before significant interest in Novavax’ VLP vaccine is prompted and a picture of the emergent strains in a pandemic of H5N1 appears. We recently noted in our report on Pandemic Influenza that vaccine development costs are an issue that holds back large manufacturers from participating in the development of pandemic influenza vaccines. Thus, without significant financial incentives, flu vaccine manufacturers have held back dedicating significant resources to developing of pandemic influenza vaccines. We believe this is in Novavax’ favor. As we highlighted above, HHS awarded a $97 MM contract to Sanofi Aventis in April 2005 to purchase a cell culture-based pandemic influenza vaccine based on a sample of H5N1 virus taken from Vietnam in 2004 but now believes the strain has mutated significantly enough to warrant the purchase of new vaccine developed against the latest strain. With the impetus growing in the Government to move away from a pure stockpiling pandemic contingency strategy, we believe alternative vaccine production methods such as Novavax’ VLP technology are becoming attractive due to the advantages it offers in vaccine production surge capacity and adaptability against emerging epitopes of influenza. We believe these advantages have brought VLP vaccines to the forefront as the best alternative vaccine technology available, and recently led Congress to push HHS to allocate funds to researchers working with VLPs. We view this as very positive for Novavax VLP technology.

- Capital resources will be an ongoing risk. If advanced purchases of VLP vaccine are not made, Novavax must rely on its current resources or further raise capital going forward. Royalties from Estrasorb sales, as well as funds received from licensing agreements for Novavax’ technology will not be enough to sustain the company’s R&D and other uses of capital beyond 2006 as the company burns through its recently-bolstered cash reserves of $52 MM. We believe, as Novavax management executes on its strategy to advance the development of its
pandemic influenza vaccine and executes on its product development strategy to leverage its expertise in formulation science, Novavax stands to reap revenues from collaborations with potential partners interested in utilizing the company’s five platform technologies to improve their product candidates or shorten development time to market. For example, MNP is a versatile technology that can be used as a method for the systemic delivery of a wide variety of FDA-approved drugs and other therapeutic products via topical application. Estrasorb, Novavax’ first approved product developed utilizing MNP technology, is an example of the company’s ability to demonstrate an MNP product’s proof of concept and shorten its development time to market. Novavax is using its MNP technology to develop patch products of nicotine, clonidine, oxybutinin, and ketoprofen, which are drugs currently approved in other delivery forms. The company therefore is poised to pursue multiple partnership opportunities which we believe could help alleviate short-term capital concerns.

• The long-term real opportunity of H5N1 VLP vaccine is contingent on the shift of the avian influenza H5N1 virus to a strain that is easily transmitted from human to human. If the H5N1 strain never mutates to a form that is readily transmissible from human to human, pandemic influenza may never materialize. Even if the H5N1 strain were to mutate to a form highly virulent in humans, a pandemic still may not materialize as containment measures may halt the spread as was the case with the spread of SARS (severe acute respiratory syndrome) in China. SARS showed that in a globalized economy, with high international travel volume, vulnerability to new disease threats is universal. SARS started spreading in February 2003 and affected 30 countries. There were 8,000 cases of the disease, about 800 of them fatal. According to the WHO, SARS caused a loss to Asian economies of at least $30 billion. World government health agencies are mobilizing their plans to prepare for pandemic flu, which include stockpiling antiviral drugs, as well as purchasing vaccines against H5N1 that are produced using traditional methods and using adjuvants to enhance the immunogenicity of current vaccines. These measures may be less effective than a H5N1 VLP vaccine but may confer enough protection to help contain a small outbreak and thus halt the spread of a virulent strain.
## FIGURE 3: NOVAVAX INC. – QUARTERLY P&L

Novavax, Inc. - Quarterly Income Statement  
(all figures in $000s except per share amounts)

|---------------------------|---------|---------|---------|----------|----------|----------|----------|
RODMAN & RENSHAW RATING SYSTEM: Rodman & Renshaw employs a three tier rating system for evaluating both the potential return and risk associated with owning common equity shares of rated firms. The expected return of any given equity is measured on a RELATIVE basis of other companies in the same sector, as defined by First Call. The price objective is calculated to estimate the potential movement in price a given equity could achieve given certain targets are met over a defined time horizon. Price objectives are subject to exogenous factors including industry events and market volatility. The risk assessment evaluates the company specific risk and accounts for the following factors, maturity of market, maturity of technology, maturity of firm, cash utilization, and valuation considerations. Potential factors contributing to risk: relatively undefined market, new technologies, immature firm, high cash burn rates, intrinsic value weighted toward future earnings or events.

RETURN ASSESSMENT
- Market Outperform: The common stock of the company is expected to outperform a passive index comprised of all the common stock of companies within the same sector, as defined by First Call.
- Market Perform: The common stock of the company is expected to mimic the performance of a passive index comprised of all the common stock of companies within the same sector, as defined by First Call.
- Market Underperform: The common stock of the company is expected to underperform a passive index comprised of all the common stock of companies within the same sector, as defined by First Call.

RISK ASSESSMENT
- Speculative – The common stock risk level is significantly greater than market risk. The stock price of these equities is exceptionally volatile.
- Aggressive - The common stock risk level is materially higher than market level risk. The stock price is typically more volatile than the general market.
- Moderate – The common stock is moderately risky, or equivalent to stock market risk. The stock price volatility is typically in-line with movements in the general market.

RATING HISTORY

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<th>Date</th>
<th>Rating</th>
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<tr>
<td>3/13/06</td>
<td>Outperform</td>
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RATING SUMMARY

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<th>Investment Banking Services Provided</th>
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</thead>
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<tr>
<td>Perform</td>
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<td>29%</td>
</tr>
<tr>
<td>Underperform</td>
<td>2%</td>
<td>50%</td>
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</table>

Investment Banking Services include, but are not limited to, acting as a manager/co-manager in the underwriting or placement of securities, acting as financial advisor, and/or providing corporate finance or capital markets-related services to a company or one of its affiliates or subsidiaries within the past 12 months.
ADDITIONAL DISCLOSURES

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ANALYST CERTIFICATION: We, Navdeep S. Jaikaria, Vernon T. Bernardino and Sean S. Wu, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company (ies) and its (their) securities.

A member of one research analyst's (Vernon T. Bernardino) household owns stock in Novavax Inc. None of the other research analysts or the other research analyst's household has a financial interest in the securities of Novavax Inc. (including, without limitation, any option, right, warrant, future, long or short position).

As of February 28, 2006, neither the Firm nor its affiliates beneficially own 1% or more of any class of common equity securities of Novavax Inc.

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