

**22nd Century Group, Inc. (XXII - \$2.44 - Buy)**

**FLASH NOTE**

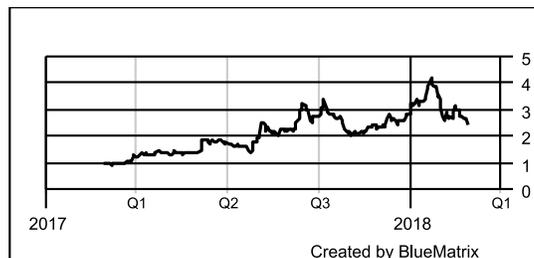
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**Sales and trading** 7 a.m. to 7 p.m. ET, (646) 465-9090

**Sales and trading** 7 p.m. to 7 a.m. ET, (646) 465-9063

Stock Data	02/27/18
52 Week Range	(\$0.89 - \$4.44)
Price Target	\$11.50
Market Cap (mil)	\$301.10
Shares out (mil)	123.40

**One year price history XXII**



For the last note available click here  
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**Gottlieb Remarks Support Our Bullish Stance on XXII**

Recent remarks by FDA Commissioner Scott Gottlieb lay out the FDA's plan for nicotine regulation in a concise and forthright manner and we believe is very supportive of our bullish stance on 22nd Century. Mr. Gottlieb's remarks, to the Society for Research on Nicotine and Tobacco (SRNT) at its annual meeting present the process the FDA will pursue to regulate nicotine levels in cigarettes and the concerns it has regarding other nicotine delivery systems like e-cigs. The speech can be found [here](#).

Mr. Gottlieb indicated the FDA will soon issue an ANPRM (Advance Notice of Proposed Rulemaking) *"aimed at developing a product standard that would limit the amount of nicotine in cigarettes; rendering cigarettes minimally or non-addictive."* The goal of limiting nicotine is reducing addiction, *"By reducing cigarettes' addictiveness, we could help addicted users quit more easily. And we can help keep those who are experimenting – especially young people – from becoming regular smokers."* The benefit of the standard, per Gottlieb is game-changing and could result in saving millions of lives. *"A product standard limiting the amount of nicotine – rendering cigarettes minimally or non-addictive – could help current smokers quit. And such an approach could prevent most future users from becoming addicted and proceeding to regular use."*

The FDA is now in the process of building the record necessary to make this change. The first step is the ANPRM, mentioned early, and the basis for changes to the marketplace will be supported by research such as an article nearing publication that Mr. Gottlieb states, *"includes updated modeling statistics for the potential positive public health impact of such a standard."*

There are some who think this is all well and good but the market is moving to other nicotine delivery systems, like e-cigs, which probably are less harmful than combustible cigarettes and could escape the FDA's oversight. We disagree.

The research shows 90% of smokers start by age 18, 95% by 21 and 99% before they reach 26. Because of this the FDA places significant emphasis on programs and policies that reduce the incidence of smoking by the young, or as Mr. Gottlieb put it, *"no youth should ever start using tobacco products."*

Tobacco products include e-cigs. We'll quote at length because we believe it shows clearly how the FDA views e-cigs as a risk to public health if it ultimately leads to consumption of cigarettes.

*“Later this year, we also plan to launch a full-scale campaign focused on youth use of e-cigarettes and other ENDS...”*

*“a few weeks ago, FDA published data concerning youth initiation on e-cigarettes. It showed that the e-cigs were the most commonly used tobacco product among kids...”*

*“We need to ask ourselves if the e-cig industry is sustainable in the long run, as a viable option for adults, if it leads to a whole bunch of youth initiation on tobacco products. So, we need to do all we can, working together, to address the youth use...”*

*“Even if the data ultimately shows that e-cigs may help reduce smoking rates among adults; the initiation of youth to tobacco products also is big factor in determining net health benefit.”*

We maintain our Buy recommendation on 22nd Century and reiterate our 12-month price target of \$11.50. We believe 22nd Century's patents, covering nicotine regulation in tobacco plants, is a solution to the FDA's pending regulation of nicotine levels in combustible cigarettes. We believe XXII has the opportunity to license its technology to Big Tobacco at a fraction of the cost they are currently contemplating it will take to comply with potential FDA regulations and this could result in a royalties or licensing stream far surpassing today's market cap. While our price target is based on changes in the US market we expect other countries to follow the FDA's lead, opening up additional markets for XXII and higher expected value for the shares.

### **Valuation:**

Our twelve-month price target of \$11.50 is based on the company garnering royalty revenue for its technology on 10% of the US market share in the next five years, discounted at a 20% annual rate.

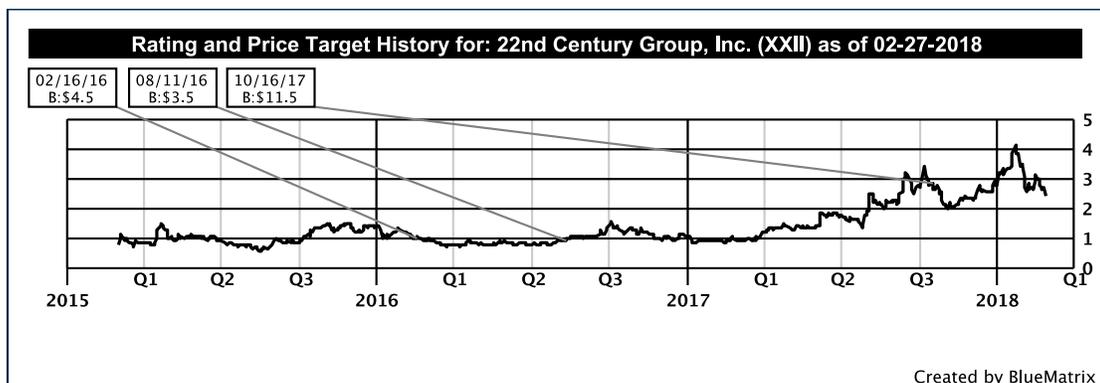
### **Risks to achievement of target price:**

Risks to achieving our price target include delays in the FDA process, ability to find partners for X-22, challenges in attracting contract manufacturing and selling product overseas and possibility of requiring additional capital.

### **Company description:**

22nd Century owns or exclusively controls over 200 issued patents, 50 pending patent applications. The company's proprietary technology enables the control of nicotine levels in tobacco plants by controlling the genes responsible for nicotine production in tobacco plants.

## Important Research Disclosures



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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [BUY]	69	69.70	29	42.03
HOLD [NEUTRAL]	22	22.22	1	4.55
SELL [SELL]	0	0.00	0	0.00
NOT RATED [NR]	8	8.08	0	0.00

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**Neutral:** Returns expected to be in line with sector average over 12 months and indicates total return between negative 10% and 10% over the next 12 months.

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