

22nd Century Group, Inc. (XXII - \$0.82 - Buy)

COMPANY NOTE

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

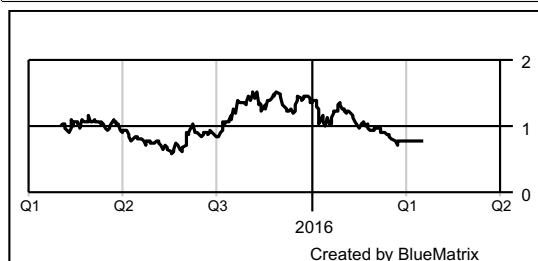
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Stock Data		04/29/16
Price		\$0.82
52 Week Range		(\$0.56 - \$1.75)
Price Target		\$4.50
Market Cap (mil)		\$62.02
Shares out (mil)		76.01
3-Mo Avg Vol		424,948
Cash per share		\$0.16
Total Debt (mil)		\$0.62

Revenues (\$ millions)					
Yr Dec	2015A	2016E		2017E	
	Actual	Curr	Prev	Curr	Prev
Mar	0.6	2.6	-	3.8	-
Jun	2.3	2.7	-	4.1	-
Sep	2.7	3.2	-	4.1	-
Dec	2.9	3.8	-	6.4	-
YEAR	8.5	12.3	-	18.4	-

EPS (\$)					
Yr Dec	2015A	2016E		2017E	
	Actual	Curr	Prev	Curr	Prev
Mar	(0.06)	(0.03)	-	(0.03)	-
Jun	(0.02)	(0.03)	-	(0.03)	-
Sep	(0.04)	(0.03)	-	(0.03)	-
Dec	(0.04)	(0.03)	-	(0.01)	-
YEAR	(0.16)	(0.12)	-	(0.10)	-
P/E	(0.05)	(0.07)	-	(0.08)	-

One year price history XXII



Annual Meeting Highlights

22nd Century reiterated its goals for this year as well as the challenges it faces at its annual meeting the past weekend. In the medium term the key to the shares remains the company's application with the FDA for a reduced exposure designation for its Brand A, low-nicotine cigarette. In addition, 22nd Century continues to work on building sales of REDSUN and MAGIC, increasing contract manufacturing, garnering a partner for X-22 and building its partnership with Anandia for research into developing cannabis plants with low levels of THC for the hemp market and high levels of CBD for the medical marijuana market.

We are hopeful the FDA will act expeditiously on the company's application with requesting a reduced exposure designation for its VLN (very-low nicotine) cigarettes. The FDA has shown interest in the past encouraging low-nicotine cigarettes and we expect the agency to complete its process by early next year. This could have a significant impact on the value of the company since it would be the first modified risk application approved by the FDA and we believe could result in 22nd Century licensing its technology to large tobacco companies with wider distribution.

This morning 22nd Century announced it has entered into a supply agreement with Celanese Corporation for the rights to use Celanese CelFX filter on the company's MAGIC, RED SUN, and MOONLIGHT brands. MAGIC has had a slower start than we expected and this change is designed to make the product more attractive to European tastes. The company also continues to expand the markets it serves. Last month, the company announced a purchase order from Quay Tobacco for MAGIC VLN cigarettes and RED SUN high nicotine cigarettes.

We have been disappointed in the BAT relationship since BAT has yet to exercise any its options on the research license with 22nd Century, but if it does, payments could total \$7 million over a couple of years. If BAT does not exercise its options, the agreement lapses in October of 2017.

Another major effort of management is attracting a research partner to fund Phase III clinical trials for 22nd Century's X-22 smoking cessation product. The company is casting a wide net for partners and using all aspect of its technology to interest potential partners. For instance, funding of X-22 could give a partner preferred access to the modified risk product. This would be valuable to multiple players in the space.

Contract manufacturing will be an important source of revenue and cash flow for the company over the coming quarters and we believe 22nd Century continues to make progress. There are a variety of bids, large and small, in process and this could be a catalyst for the shares in the near term.

The company's interest in Anandia and research into control of cannabinoids could be a significant source of value for the company. Industrial hemp and medical marijuana would benefit from the company's technology and we believe recent events, such as Pennsylvania's legalization of medical marijuana, and ballot initiatives in Nevada and Florida to legalize recreational and medical marijuana respectively, and possible ballot initiatives to allow recreational marijuana in Arizona, California, Maine, Massachusetts, Michigan, Montana and New Mexico are positive for the company. Anandia has exclusive rights in Canada and the pair share co-exclusive rights for the rest of the world. The technology is a result of Jonathan Page's work sequencing 30,000 genes in the Cannabis sativa genome. Control of these genes will allow 22nd Century to control the level's of THC and other cannabinoids in cannabis. In addition to the significant opportunity in medical marijuana, and ultimately recreational marijuana, control of these genes could be used to lower THC levels in hemp, which is restricted in the EU and Canada to less than 0.3%.

We value X-22/Modified risk at \$3 per share and the combined value of the potential BAT royalty stream and commercial products at \$1.50 per share to reflect a modest tempo in the roll-out of commercial products as well as a less steep ramp for the BAT royalties. We have not given any value for the company's 25% ownership of Anandia or its exclusive US rights to four genes required for cannabinoid production in the cannabis plant. However, we think this year could be a pivotal year for the cannabis market given the number of potential ballot initiatives to legalize medical and/or recreational marijuana in states such as California, Nevada, New Mexico, Florida, Ohio, and Maine. Marijuana is now legal at the state level in states with 50% of the US population are more are expected to legalize in November. If this occurs, states with a population of two-thirds of the total population will have legalized marijuana and we think this will force action at the federal level. This could include rescheduling cannabis, changing IRS tax regulations, changing banking regulations or some combination of the three. Any of these would have a significantly positive impact on the industry and players like Anandia and the value of 22nd Century's investment and US rights to Anandia's technology.

The company's monthly burn is \$650,000 per month, or \$7.8 million annually, and excluding BAT milestone payments or partnership payments for X-22, the company estimates it has enough cash through October of this year. We believe the company will extend this date by reducing its burn, but absent commercial license payments from BAT or a sharp ramp in contract manufacturing we expect additional capital will be required in 12-18 months.

Valuation:

We value X-22/Modified risk at \$3 per share and the combined value of the potential BAT royalty stream and commercial products at \$1.50 per share. We have not included a value for the company's investment in Anandia.

Risks to achievement of target price:

Risks to achieving our price target: The industry is subject to significant regulatory constraints, litigation, societal views on smoking and changing legislation. Any one of these could have a deleterious impact on our assumptions. We assume the company is able to monetize its technology in multiple ways, but these are subject to regulatory risk, funding risk and could take longer and cost more than we expect.

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.

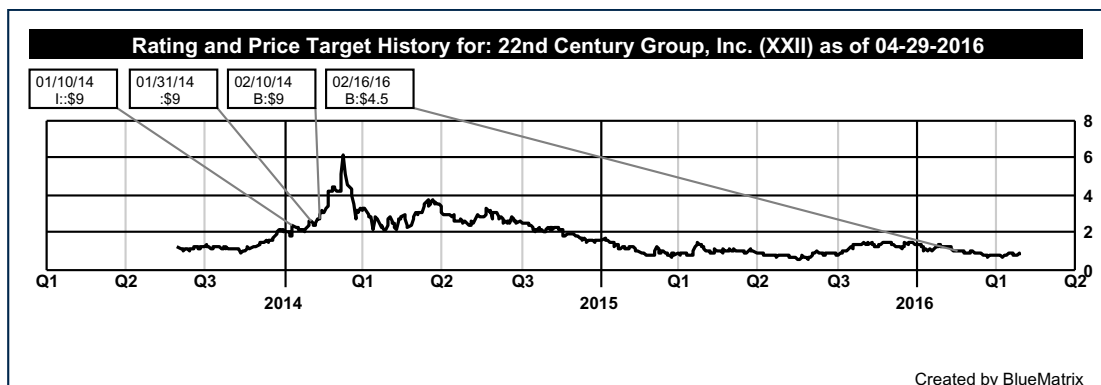
22nd Century Group, Inc
Income Statement \$ in 000s

	2013	2014	2015	Q1 16 E	Q2 16 E	Q3 16 E	Q4 16 E	2016 E	2017 E
Revenue	\$ 7,278	\$ 529	\$ 8,522	\$ 2,550	\$ 2,700	\$ 3,175	\$ 3,825	\$ 12,250	\$ 18,363
Cost Of Goods Sold	462	498	9,103	2,355	2,650	3,008	3,493	11,505	15,082
Gross Profit	6,817	31	(581)	195	50	168	333	745	3,282
R&D	744	1,249	1,669	500	500	300	300	1,600	1,840
G&A	4,107	8,793	7,760	1,500	1,500	1,500	1,500	6,000	6,600
Pre-Mfg. Facility Costs	0	1,177	0	0	0	0	0	0	0
Sales & marketing	9	86	1,358	350	350	350	350	1,400	2,100
Depreciation & Amort.	144	463	676	175	175	175	175	700	770
Opex	5,004	11,768	11,463	2,525	2,525	2,325	2,325	9,700	11,310
Operating Income	\$ 1,812	\$ (11,737)	\$ (12,044)	\$ (2,330)	\$ (2,475)	\$ (2,158)	\$ (1,993)	\$ (8,955)	\$ (8,029)
Interest Expense	(749)	(7)	(22)	(2)	(2)	(2)	(2)	(8)	(8)
Other	122	(30)	889	0	0	0	0	0	0
Warrant Charge	(27,339)	(3,821)	145	0	0	0	0	0	0
Pretax Income	(26,153)	(15,595)	(11,032)	(2,332)	(2,477)	(2,160)	(1,995)	(8,963)	(8,037)
Income Tax Expense	0	0	0	0	0	0	0	0	0
Net before Minority Interest	(26,153)	(15,595)	(11,032)	(2,332)	(2,477)	(2,160)	(1,995)	(8,963)	(8,037)
Minority Interest	0	0	0	0	0	0	0	0	0
Net to Common	\$ (26,153)	\$ (15,595)	\$ (11,032)	\$ (2,332)	\$ (2,477)	\$ (2,160)	\$ (1,995)	\$ (8,963)	\$ (8,037)
Shares	43,635	59,993	68,143	75,970	76,470	76,970	77,470	76,720	83,220
EPS	(\$0.60)	(\$0.26)	(\$0.16)	(\$0.03)	(\$0.03)	(\$0.03)	(\$0.03)	(\$0.12)	(\$0.10)

22nd Century Group, Inc
Balance Sheet and Cash Flow Statement \$ in 000s

	2013	2014	2015	Q1 16 E	Q2 16 E	Q3 16 E	Q4 16 E	2016 E	2017 E
Cash	5,831	6,403	3,760	6,632	4,600	2,620	791	791	1,967
Due from related party and officers	50	46	0	0	0	0	0	0	0
A/R	0	0	51	288	164	308	514	514	528
Settlement proceeds receivable	0	0	0	0	0	0	0	0	0
Inventory	1,406	2,065	2,706	2,934	3,177	3,470	3,869	3,869	4,319
Prepaid Consulting Fees	0	1,979	0	0	0	0	0	0	0
Prepaid Exp.	458	214	710	770	833	911	1,015	1,015	1,133
Total Current Assets	\$ 7,744	\$ 10,707	\$ 7,228	\$ 10,624	\$ 8,774	\$ 7,309	\$ 6,189	\$ 6,189	\$ 7,947
Patent and Trademark costs	1,545	7,078	7,364	7,303	7,242	7,180	7,119	7,119	6,874
PP&E	2,998	2,851	2,556	2,587	2,614	2,637	2,655	2,655	2,682
Equity Investment	0	1,318	1,223	1,223	1,223	1,223	1,223	1,223	1,223
Total Assets	\$ 12,287	\$ 21,954	\$ 18,371	\$ 21,736	\$ 19,853	\$ 18,349	\$ 17,185	\$ 17,185	\$ 18,726
Bank Loans and N/P	175	495	309	309	309	309	309	309	309
A/P	55	884	1,283	1,391	1,506	1,646	1,834	1,834	2,048
Accrued Expenses	576	1,294	1,644	1,783	1,930	2,108	2,350	2,350	2,624
Deferred Revenue	179	0	0	0	0	0	0	0	0
Total Current Liabilities	\$ 984	\$ 2,673	\$ 3,236	\$ 3,483	\$ 3,745	\$ 4,062	\$ 4,493	\$ 4,493	\$ 4,981
Long-Term Debt	0	605	308	308	308	308	308	308	308
Accrued Severance	0	412	200	131	62	0	0	0	0
Warrant Liability & Other	3,780	3,043	2,898	2,898	2,898	2,898	2,898	2,898	2,898
Shareholder's Equity	7,523	15,220	11,729	14,917	12,840	11,080	9,486	9,486	10,539
Total Liabilities And Equity	\$ 12,287	\$ 21,954	\$ 18,371	\$ 21,736	\$ 19,853	\$ 18,349	\$ 17,185	\$ 17,185	\$ 18,726
Net Income	(26,153)	(15,595)	(11,032)	(2,332)	(2,477)	(2,160)	(1,995)	(8,963)	(7,997)
Depreciation & Amort.	144	463	774	155	159	164	168	646	718
Stock Comp	980	2,293	1,326	350	350	350	350	1,400	1,400
Other	29,386	6,740	2,341	(69)	(69)	(62)	0	(200)	0
Working Capital	(501)	(483)	(731)	(278)	80	(197)	(277)	(672)	(95)
Operating Cash Flow	\$ 3,856	\$ (6,583)	\$ (7,322)	\$ (2,173)	\$ (1,957)	\$ (1,905)	\$ (1,754)	\$ (7,789)	\$ (5,974)
Acquisition of Patents and trademarks	(290)	(727)	(413)	0	0	0	0	0	0
Capx	(3,452)	(212)	(37)	(125)	(125)	(125)	(125)	(500)	(500)
Other	0	(1,769)	0	0	0	0	0	0	0
Investing Activities	\$ (3,743)	\$ (2,708)	\$ (451)	\$ (125)	\$ (125)	\$ (125)	\$ (125)	\$ (500)	\$ (500)
Debt	(1,810)	(4)	(508)	0	0	0	0	0	0
Equity	7,536	9,859	5,592	5,170	50	50	50	5,320	7,650
Other	(9)	7	46	0	0	0	0	0	0
Financing Activities	\$ 5,717	\$ 9,863	\$ 5,130	\$ 5,170	\$ 50	\$ 50	\$ 50	\$ 5,320	\$ 7,650
Change in Cash	\$ 5,830	\$ 572	(\$2,642)	\$ 2,872	(\$2,032)	(\$1,980)	(\$1,829)	(\$2,969)	\$ 1,176

Important Research Disclosures



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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
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