

22nd Century Group, Inc. (XXII - \$0.92 - Buy)

FLASH NOTE

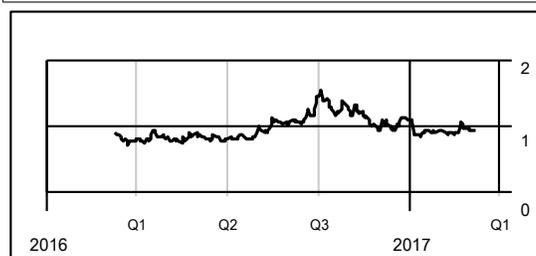
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Sales and trading 7 a.m. to 7 p.m. ET, (646) 465-9090

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

Stock Data	03/08/17
52 Week Range	(\$0.71 - \$1.71)
Price Target	\$3.50
Market Cap (mil)	\$83.43
Shares out (mil)	90.70

One year price history XXII



For the last note available click [here](#)
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Q4 Revenue Exceeds Expectations

Q4 revenue of \$3.3 million was about 7% higher than our \$3.1 million estimate. The company needs to ramp contract manufacturing sales to a higher level in order to cover overhead costs, something we think can happen this year.

22nd Century Group, Inc.
Actual v. Estimates

Q4 16	Actual	Estimates	
Revenue	\$ 3,336	\$ 3,125	6.7%
Cost Of Goods Sold	3,563	2,863	24.5%
Gross Profit	(228)	263	NM
R&D	542	600	-9.7%
G&A	1,394	1,750	-20.3%
Sales & marketing	351	277	26.6%
Depreciation & Amort.	218	211	3.5%
Opex	2,505	2,838	-11.7%
Operating Income	\$ (2,733)	\$ (2,576)	-6.1%
Interest Expense	1	(7)	
Other	(21)	0	
Warrant Charge	6	0	
Pretax Income	(2,747)	(2,583)	
Income Tax Expense	0	0	
Net before Minority Interest	(2,747)	(2,583)	
Minority Interest	0		
Net to Common	\$ (2,747)	\$ (2,583)	
Shares	88,929	90,000	
EPS	\$ (0.03)	\$ (0.03)	

The key for the shares remains monetization of the company's technology to control nicotine levels in tobacco. This can be used for smoking cessation products and 22nd Century is pursuing multiple paths here including applications with the FDA for a reduced exposure designation.

We also believe the technology is suitable for heat-not-burn products that industry leaders like Philip Morris International are pursuing. See [this Bloomberg article](#) for an interesting discussion of heat-not-burn technology. One of the challenges will be delivering precise amounts of nicotine, something tailor made for 22nd Century's IP.

The company hosts a conference call tonight at 4:15 PM Eastern to discuss the results.

Valuation:

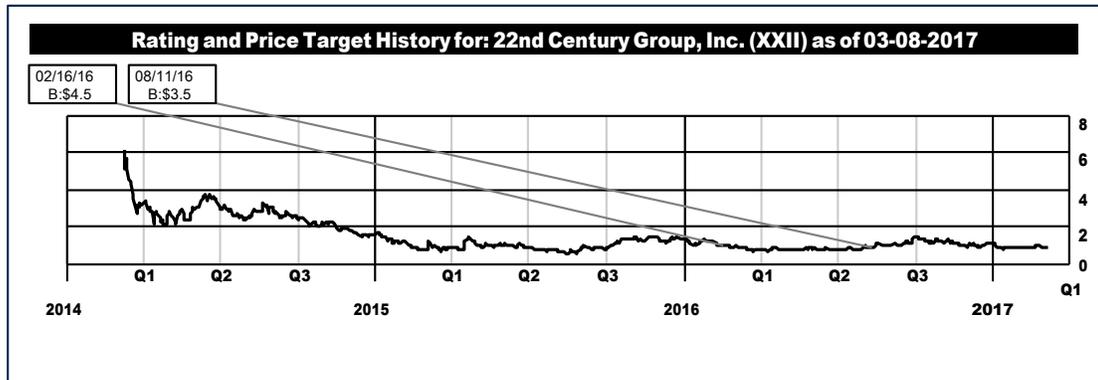
We value X-22/Modified risk at \$2.50 per share and the combined value of the potential BAT royalty stream and commercial products at \$1.00 per share to reflect a modest tempo in the roll-out of commercial products as well as a less steep ramp for the BAT royalties. We have not given any value for the company's 25% ownership of Anandia.

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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Chardan Capital Markets

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [BUY]	57	64.77	17	29.82
HOLD [NEUTRAL]	26	29.55	3	11.54
SELL [SELL]	4	4.55	0	0.00
NOT RATED [NP]	1	1.14	1	100.00

Regulation Analyst Certification ("Reg AC") — JAMES McILREE, CFA

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Buy: Expected to materially outperform sector average over 12 months and indicates total return of at least 10% over the next 12 months.

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.

Sell: Returns expected to be materially below sector average over 12 months and indicates total price decline of at least 10% over the next 12 months.

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