



# CHARDAN

**Company Update**

March 14, 2019

Industrial & Consumer Technology

## 22nd Century Group, Inc. (XXII - \$2.06 - Buy)

## COMPANY 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	03/14/19
Price	\$2.06
52 Week Range	(\$1.58 - \$3.29)
Price Target	\$11.50
Market Cap (mil)	\$256.76
Shares out (mil)	124.64
3-Mo Avg Vol	1,905,910
Cash (mil)	\$56.4
Total Debt (mil)	\$1.5

Revenues (\$ millions)					
Yr Dec	2018A	2019E		2020E	
	Actual	Curr	Prev	Curr	Prev
Mar	6.1	-	-	-	-
Jun	6.9	-	-	-	-
Sep	6.3	-	-	-	-
Dec	7.1	-	-	-	-
YEAR	26.4	20.0	-	20.0	-

EPS (\$)					
Yr Dec	2018A	2019E		2020E	
	Actual	Curr	Prev	Curr	Prev
Mar	0.01	-	-	-	-
Jun	(0.05)	-	-	-	-
Sep	0.04	-	-	-	-
Dec	(0.07)	-	-	-	-
YEAR	(0.06)	(0.15)	-	(0.15)	-

### One year price history XXII



## XXII (Buy, PT\$11.50). HHS Secretary Supports Gottlieb Nicotine Agenda

22nd Century shares rose Thursday in response to testimony from Health and Human Services Secretary Alex Azar to the Senate Finance Committee that indicated support for departing FDA Commissioner Scott Gottlieb's nicotine and tobacco agenda.

The Senate Finance Committee held hearings on Thursday on the President's 2020 HHS budget and heard testimony from Secretary Alex Azar. Senator Sherrod Brown (D-OH) asked the Secretary: "Will you commit to reducing nicotine in cigarettes to non-addictive levels." In response the Secretary indicated full support for this initiative, responding, "Absolutely. That's the nicotine rule that we'll be working on as the commissioner laid out an agenda on nicotine reduction in tobacco products." After answering other questions related to Gottlieb's tobacco initiatives, the Secretary stated that Gottlieb's "agenda on tobacco and cigarettes is my agenda." Finally, Senator Brown asked, "And you of course will hold the next FDA commissioner accountable on these important priorities." Secretary Azar responded, "Absolutely."

The full throated response is positive for 22nd Century but Azar is not the FDA Commissioner and it will be two to three months (or longer) before there is another FDA commissioner. We believe it is most likely the NPRM on mandating a non-addictive level of nicotine in combustible cigarettes will wait for a new Commissioner.

There is tremendous institutional momentum in the FDA's decade's long endeavor to reduce cigarette smoking. While the NPRM has been delayed due to the Government shutdown and now Gottlieb's resignation, we expect the process to move forward this year.

**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.

## Required Research Disclosures



Created by: BlueMatrix

### Distribution of Ratings/IB Services Chardan Capital Markets

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [BUY]	65	66.33	16	24.62
HOLD [NEUTRAL]	25	25.51	2	8.00
SELL [SELL]	0	0.00	0	0.00
NOT RATED [NR]	8	8.16	0	0.00

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### DISCLOSURES

#### RATINGS

**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.

#### 22nd Century Group, Inc. (XXII) - \$2.06 - Buy)

Price Target                      \$11.50

#### VALUATION:

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#### 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.

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