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Toll-Free: 866-928-0928 ♦ www.DawsonJames.com ♦ 101 North Federal Highway - Suite 600 ♦ Boca Raton, FL 33432

22nd Century Group, Inc. (NASDAQ: XXII)

May 10, 2023

Buy: Q1 Review. Raising Revenue Estimates.

James McIlree, CFA
561-237-2709
jmcilree@dawsonjames.com

We are raising our revenue estimate for this year and next after the company posted Q1 revenue of \$22 million, 11% higher than our \$19.7 million estimate. We have raised our revenue estimate for this year and our revenue and EBITDA estimates for 2024, based on the growth of VLN, the company's CDMO initiative and capacity expansion in the hemp/cannabis segment.

Q1 revenue of \$22 million exceeded our \$19.7 million estimate. Tobacco revenue of \$8.9 million fell short of our \$10.2 million estimate as the company focused on the VLN launches and high-grading the contract manufacturing business, which should result in higher gross margins in the coming quarters. Revenue from the hemp/cannabis segment was \$13 million, substantially higher than our \$9.5 million estimate and 40% higher than Q4.

The company guided to revenue this year of \$105 to \$110 million. At the midpoint, this is 73% higher than revenue in 2022 and exceeds our prior revenue estimate of \$93.3 million and consensus of \$95.5 million. We have raised our revenue estimate for this year to \$103 million, about \$46 million from the tobacco segment and \$57 million from the hemp/cannabis segment.

Gross margin remained depressed for both the tobacco and hemp/cannabis segments. We expect gross margin to improve each quarter over our forecast horizon. Tobacco margins are forecast to improve based on a greater contribution from the higher-margin VLN business and hemp/cannabis margins are expected to increase significantly as the company's capacity expansion enables the company to forego purchases on the spot market. We also expect margins to continue to improve in 2024 as the CDMO business has a more meaningful impact on the hemp/cannabis business.

Cash at quarter-end was \$16 million, excluding \$7.5 million of restricted cash required under the company's debenture. The company expects the hemp/cannabis business will be cash flow positive by early 2024 and the tobacco business by the second half. We have assumed equity raises to fill the gap.

Valuation: Our \$4.50 price target is based on a multiple of sales range between 4x and 5x and the Q4 2024 run rate revenue of \$240 million. The multiple range is consistent with the comp group of tobacco, hemp/cannabis and AgTech companies. Our prior price target of \$8.50 was based on a sum-of-the-parts methodology.

Risks to Target: Our price target assumes success in VLN launches this year and this could take longer than estimated, and/or its partner could demand different terms than assumed. We assume significant margin expansion in both the tobacco and hemp segments which will be driven partly by capacity utilization. Our forecasted growth in the company's hemp segment this year could be impacted by price pressures.

Current Price	\$0.71		
Price Target	\$4.50		
Estimates	F2022A	F2023E	F2024E
Revenues (\$M's)	\$ 62.1	\$ 103.0 E	\$ 192.5
1Q March	\$ 9.0	\$ 22.0 A	\$ 35.0
2Q June	\$ 14.5	\$ 23.0 E	\$ 45.0
3Q September	\$ 19.4	\$ 26.5 E	\$ 52.5
4Q December	\$ 19.2	\$ 31.5 E	\$ 60.0
	F2022A	F2023E	F2024E
EPS (diluted)	(\$0.31)	(\$0.27)E	(\$0.06)
1Q March	(\$0.05)	(\$0.1)A	(\$0.03)
2Q June	(\$0.06)	(\$0.07)E	(\$0.02)
3Q September	(\$0.06)	(\$0.07)E	(\$0.01)
4Q December	(\$0.12)	(\$0.05)E	\$0.00
EBITDA (\$Ms)	\$ (39.7)	\$ (51.0)	\$ (4.5)
EV/EBITDA (x)	-4.2x	-3.2x	-36.7x
Stock Data			
52-Week Range	\$0.61	-	\$2.70
Shares Outstanding (mil.)			222.5
Market Capitalization (mil.)			\$158
Enterprise Value (mil.)			\$165
Debt to Capital			19%
Cash (mil.)			\$23.7
Cash/share			\$0.11
Average Three Months Trading Volume (K)			781
Insider Ownership			3.3%
Institutional Ownership			18.8%
Short interest (mil.)			9.9%
Dividend / Yield			\$0.00/0.0%



Exhibit 1. Income Statement

<i>(\$ in 000's except per-share data)</i>	2020	2021	2022	Q1 23 A	Q2 23 E	Q3 23 E	Q4 23 E	2023 E	2024 E
Revenue	\$ 28,111	\$ 30,948	\$ 62,111	\$ 21,962	\$ 23,000	\$ 26,500	\$ 31,500	\$ 102,962	\$ 192,500
Cost Of Goods Sold	26,673	28,879	60,937	23,139	22,550	24,920	26,935	97,544	139,750
Gross Profit	1,438	2,069	1,174	(1,177)	450	1,580	4,565	5,418	52,750
	5.1%	6.7%	1.9%	-5.4%	2.0%	6.0%	14.5%	5.3%	27.4%
R&D	4,128	3,274	6,561	1,517	1,517	1,517	1,517	6,068	6,400
G&A	14,971	25,881	44,517	14,231	14,231	14,587	14,587	57,636	59,076
Other	176	78	7,202	898	0	0	0	898	0
Depreciation & Amort.	1,346	1,248	0	0	0	0	0	0	0
Opex	20,621	30,481	58,280	16,646	15,748	16,104	16,104	64,602	65,476
Operating Income	\$ (19,183)	\$ (28,412)	\$ (57,106)	\$ (17,823)	\$ (15,298)	\$ (14,524)	\$ (11,539)	\$ (59,184)	\$ (12,726)
Interest and other, net	(490)	(4,183)	(3,129)	(359)	(659)	(659)	(659)	(2,335)	(2,634)
Pretax Income	(19,673)	(32,595)	(60,235)	(18,182)	(15,957)	(15,182)	(12,197)	(61,518)	(15,360)
Income Tax Expense	38	14	(434)	0	0	0	0	0	0
Net to Common	\$ (19,711)	\$ (32,609)	\$ (59,801)	\$ (18,182)	\$ (15,957)	\$ (15,182)	\$ (12,197)	\$ (61,518)	\$ (15,360)
Shares (000)	138,813	156,208	192,837	215,784	219,781	222,521	242,538	225,156	277,245
EPS	(\$0.14)	(\$0.21)	(\$0.31)	(\$0.08)	(\$0.07)	(\$0.07)	(\$0.05)	(\$0.27)	(\$0.06)
D&A	1,346	1,248	2,858	881	881	881	881	3,524	3,524
Stock Comp	1,654	3,983	5,489	1,175	1,175	1,175	1,175	4,700	4,700
Other	176	0	9,065	0	0	0	0	0	0
EBITDA	\$ (16,007)	\$ (23,181)	\$ (39,694)	\$ (15,767)	\$ (13,242)	\$ (12,468)	\$ (9,483)	\$ (50,960)	\$ (4,502)

Source: 22nd Century Group, Inc. and Dawson James Securities estimates

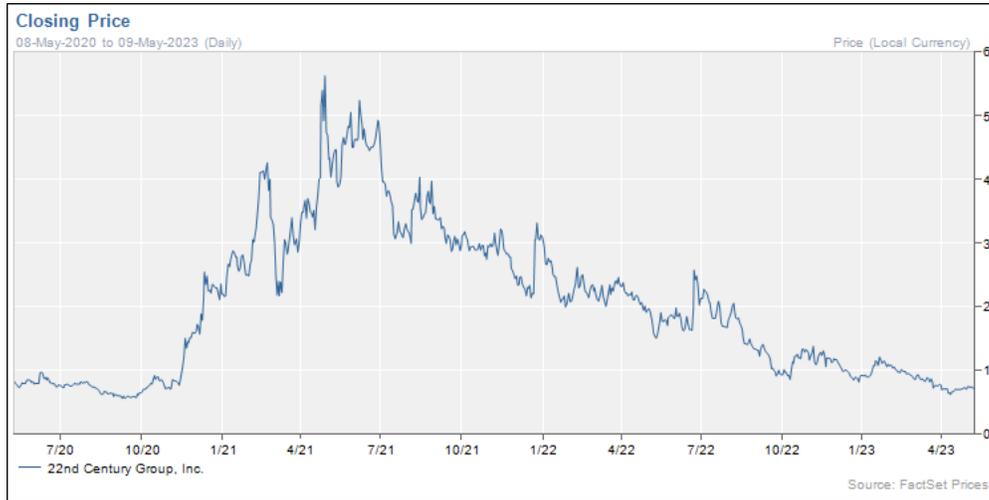
Exhibit 2. Balance Sheet and Cash Flow Statement

(\$ in 000's)	2020	2021	2022	2023 E	2024 E
Cash & ST Investments	22,342	48,736	21,213	8,724	13,820
A/R	2,159	585	5,641	15,534	29,589
Inventory	2,034	2,881	10,008	13,283	20,466
Insurance Recovery	0	0	5,000	0	0
Prepaid Exp.	1,806	2,183	2,743	2,252	2,252
Total Current Assets	\$ 28,341	\$ 54,385	\$ 44,605	\$ 39,794	\$ 66,127
PP&E	2,483	5,841	13,093	18,918	21,046
Operating Lease	247	1,723	2,675	5,309	5,309
Goodwill	0	0	33,160	33,160	33,160
Patent, Trademark, other intangibles	8,211	7,919	16,853	17,521	16,369
Equity Investment	6,536	2,345	682	682	682
Restricted Cash				7,500	7,500
Other Assets	5,876	3,741	3,583	3,642	3,642
Total Assets	\$ 51,694	\$ 75,954	\$ 114,651	\$ 126,526	\$ 153,835
Bank Loans and N/P	539	596	908	314	314
Operating Lease	247	308	681	862	862
A/P	1,116	2,173	4,168	5,357	8,254
Accrued Expenses & Payroll	4,830	5,014	4,627	8,826	13,598
Accrued excise taxes and fees	0	0	1,423	2,330	2,330
Deferred Income	272	119	831	257	257
Accrued Severance	339	217	380	923	923
Total Current Liabilities	\$ 7,343	\$ 8,427	\$ 13,018	\$ 18,869	\$ 26,538
Long-Term Debt	0	0	3,001	16,571	16,571
Operating Lease	0	1,432	2,141	4,602	4,602
Other	241	21	516	4,736	4,736
Shareholders' Equity	44,110	66,074	95,975	81,748	101,388
Total Liabilities And Equity	\$ 51,694	\$ 75,954	\$ 114,651	\$ 126,526	\$ 153,835
	2020	2021	2022	2023 E	2024 E
Net Income	(19,711)	(32,609)	(59,801)	(61,518)	(15,360)
Depreciation & Amort.	1,345	1,248	2,858	3,524	3,524
Stock Comp	1,654	3,983	5,489	4,700	4,700
Other	2,722	5,272	11,310	856	0
Working Capital	(1,631)	(733)	(11,570)	(6,389)	(13,568)
Operating Cash Flow	\$ (15,621)	\$ (22,839)	\$ (51,714)	\$ (58,828)	\$ (20,705)
Acquisition of Patents and trademarks	(468)	(326)	(772)	(491)	(500)
CapEx	(54)	(745)	(3,657)	(7,910)	(4,000)
Other	16,991	(26,658)	27,007	16,749	0
Investing Activities	\$ 16,469	\$ (27,729)	\$ 22,578	\$ 8,348	\$ (4,500)
Debt	(354)	49	(3,822)	12,607	0
Equity	50	50,826	32,335	45,802	30,300
Other	0	0	2,307	0	0
Financing Activities	\$ (304)	\$ 50,875	\$ 30,820	\$ 58,409	\$ 30,300
Change in Cash	\$ 544	\$ 307	\$ 1,684	\$ 7,929	\$ 5,095

 Source: 22nd Century Group, Inc. and Dawson James Securities estimates

Important Disclosures:

Price Chart:



Price target and ratings changes over the past three years:

- Initiated – Buy – April 13, 2021 – Price Target \$7.00
- Update – Buy – April 15, 2021 – Price Target \$7.00
- Update – Buy – April 19, 2021 – Price Target \$7.00
- Update – Buy – May 7, 2021 – Price Target \$7.00
- Update – Buy – June 1, 2021 – Price Target \$7.00
- Update – Buy – June 11, 2021 – Price Target \$7.00
- Update – Buy – July 2, 2021 – Price Target \$7.00
- Update – Buy – July 23, 2021 – Price Target \$7.00
- Update – Buy – August 6, 2021 – Price Target \$7.00
- Update – Buy – August 31, 2021 – Price Target \$7.00
- Update – Buy – October 18, 2021 – Price Target \$7.00
- Update – Buy – November 5, 2021 – Price Target \$7.00
- Update – Buy – November 22, 2021 – Price Target \$7.00
- Update – Buy – December 9, 2021 – Price Target \$7.00
- Update – Buy – December 23, 2021 – Price Target \$7.00
- Price Target Change – Buy – January 6, 2022 – Price Target changed from \$7.00 to \$8.50
- Update – Buy – January 24, 2022 – Price Target \$8.50
- Update – Buy – February 16, 2022 – Price Target \$8.50
- Update – Buy – February 24, 2022 – Price Target \$8.50
- Update – Buy – March 4, 2022 – Price Target \$8.50
- Update – Buy – May 2, 2022 – Price Target \$8.50
- Update – Buy – May 6, 2022 – Price Target \$8.50
- Update – Buy – May 16, 2022 – Price Target \$8.50
- Update – Buy – June 13, 2022 – Price Target \$8.50
- Update – Buy – June 22, 2022 – Price Target \$8.50
- Update – Buy – July 1, 2022 – Price Target \$8.50
- Update – Buy – July 26, 2022 – Price Target \$8.50
- Update – Buy – August 10, 2022 – Price Target \$8.50
- Update – Buy – September 21, 2022 – Price Target \$8.50
- Update – Buy – October 20, 2022 – Price Target \$8.50
- Update – Buy – October 27, 2022 – Price Target \$8.50
- Update – Buy – November 9, 2022 – Price Target \$8.50
- Update – Buy – November 22, 2022 – Price Target \$8.50
- Update – Buy – February 1, 2023 – Price Target \$8.50

Update – Buy – March 6, 2023 – Price Target \$8.50
 Update – Buy – March 10, 2023 – Price Target \$8.50
 Price Target Change – Buy – May 10, 2023 – Price Target changed from \$8.50 to \$4.50

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- 2) **Neutral:** The analyst believes the price of the stock is fairly valued for the next 12-18 months.
- 3) **Sell:** The analyst believes the price of the stock will decline by at least 20% over the next 12-18 months and should be sold.

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Current as of 1-May-23

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	26	72%	2	6%
Market Perform (Neutral)	10	28%	1	3%
Market Underperform (Sell)	0	0%	0	0%
Total	36	100%	3	9%

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