

22nd Century Group

Biotechnology
13 October 2021

Hemp and hops: Two of our favorite things

Price **\$2.94**
Market cap **\$479m**

22nd Century Group (XXII) is poised to benefit from a growing cannabis market and increased demand by cultivators for higher-yielding crops. The upcoming harvest, additional plant lines in 2022–23 and strategic partnerships should boost revenues and accelerate the commercialization of the company’s improved hemp/cannabis lines. Moreover, XXII’s recently announced entry into the less-regulated hops market significantly expands its total addressable market as it leverages its intellectual property (IP) and scale to increase product speed to market.

Share price graph



Accelerating hemp/cannabis commercialization

As North American cannabis markets continue their rapid growth, demand is increasing for plant genetics designed for industrial production. Earlier this year, XXII secured upstream partnerships to grow the first lines of high cannabidiol at its Colorado farm for the late 2021 harvest and additional lines in 2022–23, accelerating the commercialization of its improved hemp/cannabis plant lines as it now controls the complete upstream cannabis capability. Furthermore, XXII leveraged its IP assets by developing key strategic commercial partnerships with breeding partners, biotech firms, etc. Revenues of ~\$4–6m in Q421 should be generated from its upfront IP licensing and the initial crop, ~15% of FY21 consensus revenue. Overall, XXII appears positioned to meet the growing demands for higher-yielding and disruptive plant lines.

Share details

Code	XXII
Listing	Nasdaq
Shares in issue	163m
Net Cash (30 June 2021)	\$59.7m

Business description

22nd Century Group, a Nevada corporation, is a biotechnology and intellectual property company that develops disruptive, plant-based solutions for the life science, consumer product and pharmaceutical markets. It operates in three primary franchise areas: tobacco, hemp/cannabis and hop plants.

A new franchise expands addressable market

In late August, XXII announced its expansion into the European hops market, its newest franchise area. Entry into the global hops market significantly expands the company’s total addressable market, as hops are a critical input for the \$500m global brewing industry. Moreover, the hops market has much lower regulatory barriers than XXII’s other businesses and gives it an opportunity to leverage its IP, proprietary hop plant technology and scale to accelerate the speed to market and ‘bring hop breeding into the 21st century.’

Bull

- Growing cannabis market.
- Entry into hops market significantly expands total addressable market.
- Leveraging strong hemp/cannabis plant line IP.

Larger market provides upside potential

In August, XXII moved its listing from NYSE American to Nasdaq, aligning it with other growth-oriented science and technology companies. At the closing price of \$2.94 on 12 October, the shares are up 42% year to date and trading at a P/revenue of ~9x in FY22e, in line with the company’s cannabis biotechnology peers. With the commercialization of potentially higher-yielding cannabis strains and expansion into a larger and less-regulated hops market, XXII could command higher valuations.

Bear

- Increasing competition in United States and Canada cannabis markets,
- Initial cannabis crop yields could be lower than estimated.
- Cash burn may require further debt or equity funding.

Analysts

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Consensus estimates

Year end	Revenue (\$m)	EBITDA (\$m)	EPS (\$)	P/revenue (x)	EV/EBITDA (x)
12/19	25.8	(20.1)	(0.17)	19.8	17.5
12/20	28.1	(17.6)	(0.14)	18.2	16.1
12/21e	35.5	(18.1)	(0.15)	14.4	12.7
12/22e	56.1	(19.4)	(0.22)	9.1	8.0

Source: 22nd Century Group, Refinitiv

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