



## Why Cronos Group Inc. (TSX:CRON) Could Be a Better Buy Than Canopy Growth Corp (TSX:WEED)

### Description

There is lots of competition in the cannabis industry already, and any edge that a company can achieve could easily set it apart from the rest, especially when it comes to producing a superior product and in helping to make the business more profitable.

On Tuesday, **Cronos Group** ([TSX:CRON](#)) ([NASDAQ:CRON](#)) announced a deal with Ginkgo Bioworks Inc. where the two companies would partner together to develop cannabis in a lab rather than having to grow and extract chemicals from a plant. Ginkgo has a decade of experience working with microorganisms and designing them for various types of products, including pharmaceuticals.

### Why does this matter?

Ginkgo's technology can help to make the extraction process a lot more efficient, and while the cannabinoid molecules would be the same as those extracted from a plant, more could be obtained through this process. In the news release announcing this deal, it also notes that "the use of Ginkgo's platform is expected to unlock access to potentially medically important and valuable cannabinoids that are present only in low quantities in the plant."

By being able to extract more medical benefits from cannabis, that could put Cronos ahead of its peers in the medical marijuana market. The opportunity could create a lot more potential products that could treat patients, and that would lead to even greater demand for cannabis.

One product that could be attractive to non-medicinal users would be tetrahydrocannabivarin (THCV), which, unlike tetrahydrocannabinol (THC), can help give people a high without making them hungry, which is one of the known side effects of pot. THCV is difficult to extract from a plant and would be in much lower quantities than would be available under Ginkgo's process. For the recreational market, THCV would certainly have a lot of appeal to users and could help Cronos differentiate its products from its peers.

The other big benefit from this process is that not only would Cronos be able to extract more molecules

from this process, but it would also be more cost efficient to do so. For one, the company wouldn't have to purchase all the space and farms that its peers do, and that will not only keep its need for capital down, but operating expenses will also be much lower than that of a typical cannabis company.

By focusing on efficiency, Cronos can utilize the technological benefits of producing cannabis in a lab and keep its costs lower and more predictable. One of the advantages of this is that its financials will be more useful. For example, in **Canopy Growth's** ([TSX:WEED](#))(NYSE:CGC) [latest quarterly report](#), the company got a big boost from gains related to its plants. That volatility makes it difficult for investors to be able to predict how a company like Canopy Growth will be able to perform in the future. Cronos will be able to avoid that with lab-created pot, which should make its margins more consistent.

### Bottom line

While Canopy Growth may be the [dominant player](#) in the industry today, with this deal Cronos could prove to be more efficient and unlock a lot more growth potential. Being able to produce a quality product while making a profit is something that's still a challenge in the industry, and Cronos may have found a way to do it.

### CATEGORY

1. Investing

### TICKERS GLOBAL

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2. NASDAQ:CRON (Cronos Group)
3. TSX:CRON (Cronos Group)
4. TSX:WEED (Canopy Growth)

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