

# Why HEXO (TSX:HEXO) Could Be the Cannabis Industry's Next Acquisition Target

## Description

I recently wrote an article on why I believe **Hexo Corp. (TSX:HEXO)**, formerly The Hydropothecary Corporation, was the “[the only cannabis stock I would recommend investors consider](#).” Since my mid-year article, shares of the up and coming cannabis producer increased substantially, nearly doubling to all-time highs in October before coming down to earth (shares are now only 15% higher, which is still not a bad rate of return compared to most other producers since then).

This assessment was of course based on pure conjecture of where I saw Hexo heading [relative to its peers](#), and what drivers might take it higher over the long term either as a standalone business or an acquisition opportunity.

Recent reports highlighting the possibility that Hexo may indeed be the next acquisition target on the block in the Canadian cannabis space have focused on many of the same items I pointed out in my previous piece. Namely, Hexo is in a unique position with respect to the amount of supply the company has secured with end buyers (at a relatively impressive price/margin), a cost per gram that rivals much larger companies, and a management team willing to do what it takes to make deals happen in cannabis sub-niches that don't yet exist (i.e., cannabis infused beverages).

The second largest shareholder in Hexo, Riposte Capital, published a letter in September underscoring concerns with the company's valuation, which apparently has gained significant interest among other cannabis companies in a sector that continues to undergo consolidation.

While it remains unclear exactly which firms may be interested in taking a shot at Hexo, the valuation gap between mid-range producers such as Hexo and its larger peers is hard to ignore, and it appears others in the industry are on the same page in this regard.

## Bottom line

Given the lack of a track record of profitability (or real revenues in many cases, for that matter), long-term investors cannot reasonably take a position in any firm, and any sort of fundamentals that would support a long-term investment or outlook in any producer.

That said, for those speculative types, opportunities remain for those wishing to gamble to place bets on the companies that have demonstrated the ability to secure sales agreements, maintain impressive margins, and have the potential to grow outside of the commoditized cannabis flower into other sectors that should be more profitable in the long-run, such as Hexo.

The management team appears to be more experienced in creating value than most other producers at this point, and the valuation gap between Hexo and others remains unwarranted, especially if an acquisition is really on the table.

Stay Foolish, my friends.

## CATEGORY

1. Investing

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1. TSX:HEXO (HEXO Corp.)

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