



Hexo Corp (TSX:HEXO) to Acquire Newstrike Brands: 3 Reasons Why It's a Good Move

Description

It was announced today that **Hexo Corp** ([TSX:HEXO](#)) is acquiring **Newstrike Brands Ltd** (TSXV:HIP) for an estimated \$263 million in what is going to be an all-stock deal.

Investors will recall that last year Newstrike was the third wheel in a [deal](#) between **Aurora Cannabis Inc** and CanniMed Therapeutics. Ultimately, Newstrike was left out in the cold after looking like it may have been involved in the acquisition. Nonetheless, it has found a partner today and it could prove to be a great combination.

Why the move is a good one for Hexo

Hexo has not been heavily involved in acquisitions the way some of its peers have been, but this will certainly help the company in a number of different ways.

The first is through capacity, as Hexo will add 470,000 square feet worth of production space once development is completed. Given the support shortages in the industry, it's a race to add capacity and acquisitions are an easy way to accomplish that.

Second, Hexo estimates that annual synergies of \$10 million can be realized with the two companies working together. Cannabis companies are facing many challenges turning a profit and Hexo has been no exception. The closer it can get to that elusive breakeven point, the more attractive the stock will be to investors.

Another big reason that this will benefit Hexo is branding. Newstrike is backed by the Tragically Hip, and the iconic band will add some high-profile names into the mix. With advertising being highly restrictive in the industry, any type of association and connection that brands can make with consumers is going to be a big advantage, especially amid all the competition.

Hexo is expecting big things from the deal and anticipating a lot of growth as a result. Hexo Corp CEO Sebastien St. Louis has high hopes. "With Newstrike, we're adding talented employees and

infrastructure to take HEXO to the next level on our journey to become one of the largest cannabis companies in the world. We're extremely proud of our record of execution, and today are committing to achieving over \$400 million in net revenue in 2020."

To put that into perspective, in the trailing 12 months, Hexo has done just \$9 million in sales. Getting to \$400 million as early as 2020 would be no small feat for the company. Whether investors believe that is a realistic target is another story, however. Growth has been all the hype in cannabis, and it's certainly playing up to that level.

Bottom line

Hexo's stock has nearly doubled in the past 12 months leading up to this announcement, and this move certainly makes the company's operations much stronger. Hexo already has a strategic [deal](#) in place with **Molson Coors** to work on beverages, and this is just the latest strategic move that the company has made to position it for success in the industry.

That said, the stock is still a very expensive one that I'd be hesitant to buy today. Hexo will have to come out with some strong results this week before it's able to convince me that it's a good buy.

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