



Hot Marijuana IPOs: What's Next for This Flourishing Industry

Description

Provider of technology infrastructure for the marijuana industry **Akerna** ([NASDAQ:KERN](#)) has been one of the hottest IPOs of the cannabis industry in recent months. Since listing via a merger of special purpose acquisition company, **MTech Acquisition Corp.** and marijuana regulatory compliance technology provider **MJ Freeway LLC**, the company saw its price more than triple in two days to US\$65 a share, then pull back sharply to close US\$21.60 per share at the end of June 2019.

Clearly, there is plenty of hype still surrounding the legal cannabis industry, providing investors with speculative opportunities to generate significant returns. Akerna provides marijuana cultivators, sellers and governments with technology platforms that allow them to track cannabis across all segments of the supply chain, from seeds to final products distributed to retail consumers.

Since its inception in 2010, it has made US\$10 billion in sales and plans to scale its products to meet demand from the growing legal marijuana market.

Akerna's software includes inventory control and growth management applications for cultivators, which allow them to boost efficiency. It also offers data solution applications that allow governments to track cannabis plants from seed to sale. This permits more effective monitoring of the burgeoning legal marijuana industry and its regulatory compliance while enhancing consumer safety.

Is this the next hot marijuana IPO?

An impending IPO is vaporizer manufacturer **Pax Labs** founded in 2007, which is focused on the design and development of vaporizers and other delivery systems for cannabis flower and oil. The consumption of marijuana through vaporizers and similar devices is expected to become one of the most widely accepted methods for consuming the psychoactive substance.

Pax' devices have become highly popular, and their rapidly growing acceptance, along with rising demand saw the company ink deals with **Aphria** and **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) to obtain supplies of cannabis extracts for its Pax Era pen-and-pod vape devices.

Aurora is among my [top picks](#) in the industry because of its focus on bulking up its production and processing capacity as well as its reported low production cost of \$1.42 per gram of dried cannabis sold. This, along with its ever-expanding distribution network makes it one of the best positioned large-scale cannabis cultivators to take advantage of the anticipated surge in demand for marijuana once edibles, extracts and topicals are legalized.

Aurora's appeal as an investment is enhanced by its leading position in Latin America. It has established operations in Colombia and Uruguay, the latter of which was the first country to legalize the adult recreational consumption of marijuana. Colombia, because of its [unique characteristics](#), including temperate equatorial climate zones and unique globally recognized cannabis strains, is set to become a leading marijuana cultivating jurisdiction.

Aurora is developing 124,000 square feet of greenhouse space in Colombia and a further one million square feet in Uruguay. It also has the only GMP-compliant cannabis science laboratory in South America, which is in the process of being developed to provide 150,000 kilograms of extraction capacity annually.

While these characteristics make Aurora a compelling proposition for investors seeking exposure to cannabis, there is a major shake-up looming for cultivators because there are very few barriers to entry. As growers focus on cutting costs and building capacity, it will create a "race to the bottom," where margins will become so thin that many cultivators will no longer be able to compete forcing them to shutter operations.

Technology applications are where the real intellectual capital, competitive advantage and the potential to build a wide economic moat exists.

What does it all mean?

Investors should to watch the cannabis IPO space closely, as companies offering marijuana delivery systems, biotechnology solutions and technology platforms to manage what will be ever-steeper regulatory requirements will eventually possess the widest moats. It is here that the real profits can be made, particularly as cannabis consumption becomes more mainstream and the market expands globally to be worth around US\$66 billion in the next five years.

This will trigger a scramble among the major cultivators like Aurora as they transition from energy intensive indoor cultivation to open-air greenhouses in jurisdictions with favourable climates such as Colombia and bolster efficiency by adding technology platforms to their operations.

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