



## The Legalization of Cannabis Edibles Will Trigger the Next Wave of Marijuana IPOs

### Description

Marijuana stocks remain under considerable pressure, as a range of calamities and fears that the global legal marijuana market won't be as large as originally claimed weigh on their value. These growing concerns have done little to curb the rash of [impending](#) initial public offerings (IPOs) for the legal cannabis industry, which is being touted as a superior alternative to pharmaceuticals, liquor, and tobacco.

### Growing popularity of cannabis beverages

Canada's legalization of cannabis edibles, extracts, and topicals on or before October 17, 2019, will be the next boon for Canadian pot stocks. The industry segment is estimated to worth somewhere between \$2.5 billion and \$2.7 billion annually and will have higher margins than cultivating dried flower. This creates a significant incentive for those companies involved in the manufacture of products containing cannabis extracts to IPO.

The Toronto Stock Exchange, especially the TSX Venture Exchange (TSXV), is becoming increasingly popular among companies seeking access to capital by going public. One cannabis company slated to IPO on the TSXV is brewer Province Brands.

It is leading the charge to formulate and market craft beer brewed from cannabis rather than infused with the drug. The brewer's first beer was an alcoholic beverage brewed from hemp, and it is in the process of preparing a second that will be brewed from marijuana and made available once cannabis edibles are legalized. The company is constructing a 123,000 square foot brewery in Ontario and has already raised capital through a series of private offerings, with a series of patents pending for its marijuana brews.

A recent marijuana beverage IPO on the Canadian Stock Exchange (CSE) is **BevCanna Enterprises** (CSE:BEV). It is a manufacturer of cannabis-infused white-label drinks which debuted on the CSE on July 2, 2019; however, its stock has declined by 28% since then.

BevCanna owns a 100-acre outdoor cultivation site in British Columbia and has a 40,000 square foot Hazard Analysis Critical Control Points (HACCP) bottling and manufacturing facility. During its first phase of development, it intends to produce alkaline spring water bottled at the source, carbonated water, flavour-infused water, soluble powders, shots, and concentrates.

The growing consensus among industry pundits is that cannabis-brewed and -infused drinks in Canada will dominate the market, but that is all dependent on the legalization of edibles, marijuana-infused products, and extracts. According to Health Canada regulations, it will take 60 days from the date of legalization for it to process and approve the sale of cannabis-infused products.

That makes December 16, 2019, the earliest date that such drinks can hit the shelves and become available to consumers. There are also strict limitations on the tetrahydrocannabinol (THC) content, which is restricted to a maximum of 10 milligrams, and alcohol terminology cannot be used.

Established liquor and cannabis cultivators are also preparing to release cannabis beverage products. **Molson Coors** has created a [joint enterprise](#) with **Hexo** (TSX:HEXO)(NYSE:HEXO) focused on non-alcoholic cannabis-infused beverages through a standalone company in which it will have a controlling 57.5% interest. The cultivator has almost 1.8 million square feet of growing facilities that can produce 150,000 kilograms annually.

In March 2019, Hexo became the first marijuana company to join Food & Consumer Products of Canada, setting itself up to become a leading edibles and beverage producer. Its alliance with Molson Coors will allow it to leverage off that company's experience in the production and sale of packaged alcoholic beverages and relationships in a heavily regulated industry.

Hexo, compared to many of its Canadian peers, is also an low-cost operator reporting a fiscal third-quarter 2019 cost of sales of \$2.26 per gram. That underscores the considerable profitability of the joint venture with Molson Coors, where margins on cannabis beverages, like edibles, are expected to be significantly higher than on dried flower produced for recreational use.

## Foolish takeaway

The legalization of edibles, extracts, infused, and topical cannabis products will cause the domestic market to expand rapidly, with some analysts expecting it to be worth anywhere up to \$3 billion annually. That opportunity will trigger a raft of IPOs, as companies focused on manufacturing food and drink products seek to cash in on the growing popularity of marijuana products.

### CATEGORY

1. Cannabis Stocks
2. Investing

### TICKERS GLOBAL

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