



Is the Lord Jones Acquisition the Right Move for Cronos Group (TSX:CRON)?

Description

Canadian cannabis producers have been looking for ways to penetrate the U.S. market in whatever way that they can. Last week, **Cronos Group** ([TSX:CRON](#))([NASDAQ:CRON](#)) announced that it was going to be acquiring Redwood Holding Group for approximately US\$300 million in a cash-and-stock deal.

It's a big move for Cronos, as it will get access to Lord Jones, a brand owned by Redwood. The health and wellness brand is very popular and carried by Sephora. The move allows Cronos to get into a very hot market in the U.S. that's been growing now that hemp-infused CBD products are legal nationwide.

That's also why Cronos was able to make the acquisition without jeopardizing its listing on the TSX and the NASDAQ. There's a very fine line as to what is and isn't allowed in the U.S., and basically, if it is considered hemp, it's legal.

Big move for Cronos in an emerging segment of the market

Health and wellness is a big area where CBD has been making progress, with customers being able to take bath salts, oils, and lotions to obtain the benefits related to using cannabis. It's one way cannabis companies have been able to get into the consumer goods market and reach a wider base of customers.

With the U.S. market still being off-limits for Canadian companies, this is the next best thing for Cronos. Marijuana legalization may still be years away from becoming a reality, and for the time being, focusing on hemp and related products is the only other option. The challenge is that there are many other companies in the same boat, so the competition is going to be fierce.

That's where Cronos landing a big deal like this gives it a significant advantage over its peers. And one of the reasons it was likely even able to make this deal was because Cronos has a [big investor](#), **Altria Group**, which gives it a lot of resources (and cash) to tap into to help fund its growth.

Why it may not be the best move for the company

While this is a good move for Cronos to get access to the U.S. market, it may be a bit early. The health and wellness segment is a very competitive one, and CBD is still in its very early stages. Cronos has generated less than \$20 million in sales over the past four quarters, so there are still many opportunities for the company to grow just in Canada. Sales growth is important for the stock price to continue to grow, and I'm not sure this is going to achieve enough of it.

The idea that the company is spending a significant amount of cash to invest in the U.S. when it has [lagged](#) behind the top producers in Canada seems to be a bit premature.

Bottom line

The hemp-infused CBD market is a small subset of the cannabis industry, and health and wellness products are even a smaller subset of that. And so, while on paper it might seem like Cronos will be able to grow its business by making this deal, I'm not sure that it'll translate into the numbers that make the investment worth the time and the money given that it may make more sense to focus on the Canadian market instead.

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