



## Should You Buy Hexo (TSX:HEXO) Before Upcoming Earnings?

### Description

One of Canada's top cannabis companies, **Hexo Corp.** ([TSX:HEXO](#))(NYSE:HEXO) will be releasing its fiscal fourth quarter of 2019 (ended in July) on October 29. Analysts expect Hexo to post revenue of \$25.59 million in the fourth quarter, a rise of 1715% year over year.

Analysts have a high revenue estimate of \$27.46 million and a low estimate of \$20 million. Hexo reported sales of \$1.41 million in the prior-year quarter.

They expect Hexo to post adjusted earnings per share (EPS) of -\$0.05 in the fourth quarter. The high EPS estimate stands at -\$0.01, while the low estimate is about -\$0.11. Hexo reported earnings of -\$0.05 in the fourth quarter of 2018.

## Hexo has beaten earnings estimates in two of the last four quarters

Hexo investors have had a roller coaster ride. The stock rose from \$1.91 in March 2017 to \$10.44 in April 2019 and is trading at \$5.76 at writing. The stock has fallen over the last few months on concerns over its expensive valuation, weakness in the cannabis industry and [regulatory issues plaguing cannabis companies](#).

Hexo shares have also been hurt, as it has missed earnings estimates in two of the last four quarters. In the third quarter of 2019, Hexo reported earnings of -\$0.04, which was 20% above estimates of -\$0.05. In the second quarter of 2019, Hexo's earnings of -\$0.02 were 50% higher than estimates of -\$0.04.

Hexo reported EPS of -\$0.07 in the first quarter, which was 600% below estimates of -\$0.01. In the fourth quarter of 2018, Hexo's EPS of -\$0.05 were 150% lower than estimates of -\$0.02.

## How is Hexo poised for upcoming legalization?

We know that Canada will legalize the consumption of cannabis-based edibles, vapes, beverages and concentrates next month. This may well increase investor optimism, as legalization offers another avenue for cannabis growth.

Hexo Chief Marketing Officer Nick Davies is optimistic about the upcoming legalization. In one Growth Hop report, he states, "Drawing parallels with the technology adoption cycle for new products, the first consumers are led by innovators and early adopters. Once the barriers drop, the leap to majority adoption is not so big. Edibles could have the same effect in the cannabis market, because the perceived risk of trying cannabis is reduced."

Hexo has also partnered with **Molson Coors Canada** (TSX:TPX)([NYSE:TAP](#)), forming a joint venture (JV) to develop non-alcoholic, cannabis-infused beverages for the domestic market. While edibles and beverages will be legalized next month, products will hit the markets by mid-December.

The joint venture will form a new company with an independent management team as well as the board of directors. Molson Coors will have a 57.5% stake in the JV and Hexo will have 42.5%.

The two firms are looking to leverage Molson Coors' expertise in beverage and combine it with Hexo's cannabis know-how.

The cannabis edibles and vapes segment have the potential to grow rapidly. The edibles are already sold in the U.S., where recreational use is legal. [We have seen here](#) that the edibles market is estimated to reach \$4.1 billion in 2022, up from \$1 billion in 2017.

It will be interesting to see how Hexo moves after its earnings release. The stock has gained 6.4% since the start of September.

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