



Hexo (TSX:HEXO) Slashes Product Prices to Take on the Illegal Market

Description

Leading Canadian cannabis company **Hexo Corp.** ([TSX:HEXO](#))(NYSE:HEXO) is taking on the huge illegal market in the country. Hexo has launched Original Stash, a value brand priced at \$4.49 per gram or \$125.7 per ounce.

According to Hexo's press release, the first product from the Original Stash brand will be the OS.210, a hybrid sativa flower blend with 12% to 18% of THC. It will be available in SQDC retail stores starting October 17 and will roll out in the rest of the country over the coming days.

Illegal sales account for 40% of the cannabis market

We have seen that the [illegal market accounts for 42% of total cannabis sales](#) in the country, according to CBC News. This cannibalization is seriously impacting sales for regularized companies, including Hexo Corp.

One of the major reasons for this is the lower product price points in the illegal market. The cannabis cost in the regularized industry increased from \$9.82/gram in December 2018 to \$10.65/gram in June this year.

Comparatively, the illegal market sold cannabis products at an average price of \$5.93/gram in June, down from \$6.51/gram last year.

The price gap has widened from 34% to 44% in six months. So, will Hexo's latest brand be a game-changer for the firm? Will the lower price be attractive for consumers and result in significant incremental sales?

While Hexo's lower-priced product will attract customers the company believes that several consumers are unaware that they are purchasing cannabis from the illegal markets. Hexo CEO Sebastien St-Louis claims, "It is becoming increasingly difficult for the average consumer to distinguish products that are legal, versus those that are not. Illicit cannabis distributors have gone as far as include the mandated Health Canada warnings and THC disclaimers."

He added, "Illegal cannabis websites are well built, allow consumers to purchase online, and products are delivered to their doors. But we know that illegal cannabis products can—and often—contain heavy metals, pesticides, and other contaminants, and that concerns me deeply."

According to Abacus Data, around 33% of Canadians who have purchased cannabis-infused edibles were unaware that the products are still illegal in the country. A further 20% of customers that bought cannabis products from illegal online stores were unaware of the same. Now with its Original Stash product, Hexo wants to educate the average consumer and disrupt the illegal market.

Hexo stock has fallen 71% from 52-week high

Hexo stock has declined almost 71% from its 52-week highs and is trading at \$3.3 per share at writing. The stock lost 23% on October 10 after it [released the preliminary first quarter of fiscal 2020](#) (ended in August) results that were way below estimates. Due to regulatory uncertainties, the company also withdrew its forecast for fiscal 2020.

This guidance saw top cannabis stocks lose significant market value last week. It's quite possible that analysts have overestimated the growth for several marijuana companies and these stocks are moving lower as a result.

The inventory levels are also growing at a rapid pace. One Cannabis Benchmarks report has estimated the supply at five times demand. How much of the rising inventory can be attributed to the illegal market? Will other marijuana manufacturers follow suit and reduce their product prices?

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