Which Pot Stocks Can Capitalize on the Cannabis 2.0 Revolution?

Description

The Cannabis 2.0 revolution is here. On October 17, cannabis concentrates and edibles became legal in Canada. This comes a year after full recreational legalization of fresh and dried cannabis flowers, oil, plants, and seeds.

According to international accounting firm Deloitte, "The speed with which Canada's cannabis industry has evolved over the past 18 months has been truly remarkable." The legalization of new form factors like edibles and concentrates adds a new layer of growth that could add significant long-term growth to the industry. "The introduction of these new products is creating new opportunities in product mixes, reaching new cannabis consumers not fully comfortable with traditional consumption methods currently available," Deloitte noted in a recent research report.

If you want to capitalize on the biggest marijuana opportunity since legalization, here's how to invest.

Opening doors

Not every company is prepared to seize the Cannabis 2.0 opportunity. In fact, many pot companies have *zero* exposure, possibly because they're too focused on ramping dry flower production. Over the next few quarters, a number of cannabis producers are expected to bring their first production online. That takes a tonne of money and resources, meaning the majority aren't yet looking to capitalize on adjacent markets.

But just because most pot stocks aren't ready to capitalize doesn't mean there aren't some great investable opportunities. **HEXO** (TSX:HEXO)(NYSE:HEXO) is a great example.

According to HEXO's management team, the company's goal is "to become the premier Branded Ingredients For Food (IFF) cannabis company." Note that it's not trying to grow and sell simple, commoditized cannabis flowers. Instead, it's focused on the market that opened up on October 17: edibles.

HEXO has already become the first cannabis company to join the Food & Consumer Products of

Canada industry association and forged a deal with **Molson Coors Canada** to create cannabis-infused beverages. Over time, the company wants to secure more Fortune 500 partnerships to target cosmetics, health and wellness, and other verticals. When it comes to capitalizing on Cannabis 2.0, HEXO may have the lead.

Trust experience

The only other company with a greater lead may be **Canopy Growth** (TSX:WEED)(NYSE:CGC). That's because it recently partnered with $40 billion brand behemoth **Constellation Brands**, owner of iconic brands like Corona, Model, Pacifico, Robert Mondavi wines, Svedka vodka, and more. If there's any company that can figure out how to turn commoditized ingredients into a global brand powerhouse, it would be Constellation.

With Constellation as a partner, Canopy has access to something few competitors can tap: billions in cash. As of last quarter, Canopy had roughly $3 billion in dry powder. Only a handful of pot stocks have this kind of capital. It's a huge advantage when building out next-gen cannabis products like edibles and beverages.

And unlike the competition, Canopy already has a growing base of repeat customers. This fiscal year, the company should generate more than $400 million in sales. Next year, revenue should double. Long term, if Canopy can nail its consumables business, there could be even more upside.

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