



Hexo (TSX:HEXO) Stock Trades Lower After Q4 Results

Description

Shares of Canada-based cannabis company **Hexo** ([TSX:HEXO](#))(NYSE:HEXO) have fallen over 5% in the last two days. The stock is currently trading at \$2.95, which is a whopping 74% below its 52-week high.

Investors were spooked after Hexo stock announced its [preliminary results earlier this month](#), which were significantly below estimates. Prior to this, Hexo and peers were impacted by the vaping scandal, regulatory issues, and concerns with stock valuations, which has extended the sell-off significantly.

Hexo reports its fiscal fourth-quarter results

Yesterday, Hexo announced its fiscal fourth quarter of 2019 (year ending in July) results. The company reported sales of \$15.4 million, up from \$13 million in the third quarter.

Earlier this month, Hexo stated that it expected sales between \$14.5 million and \$16.5 million in the July quarter. Analysts expected Hexo to post sales of \$16.04 million. The top-line miss resulted in a 3% fall on October 29.

Hexo CEO and co-founder, Sebastien St-Louis stated, "We are at the end of the first year of adult use legalization in Canada, which was an incredible year full of successes and challenges across the industry. We've gone from \$4.9 million to \$59.3 million in gross revenue in just one year. This type of revenue growth is a testament to the company's resilience and capacity to pivot in the face of uncertainty."

Hexo ended the July quarter with a cash balance of \$139.5 million. It has a credit facility of \$65,000 with a syndicate of Canadian banks. Around \$50,000 of this debt is a term credit, while the rest is a revolving line of credit.

The debt will be used to finance the expansion of the Gatineau campus as well as the leasehold improvements at Hexo's Belleville facility without diluting the shareholder stake of Hexo.

Hexo is optimistic about its latest product launch

I had outlined the illegal market as a [major threat for cannabis companies](#) earlier this month. The illegal cannabis market in Canada accounts for 40% of total recreational sales due to lower product prices. In order to tackle this competition, Hexo launched a new product called Original Stash, which is priced at \$4.49 per gram, or \$125.7 per ounce.

This price point is lower than that of products in the illegal market. While Hexo expects Original Stash to meet the illegal sales head-on, a lower-priced product will also help in improving sell-through and might be a key driver of sales in fiscal 2020.

What next for Hexo and investors?

Hexo stock has already burnt considerable investor wealth in the last year. Now it is looking at Cannabis 2.0 to drive sales in 2020 and beyond. Cannabis-infused edibles, vapes, and concentrates will be available on retail shelves by mid-December this year and will be a key driver for Hexo and peer marijuana companies.

Due to less-than-expected demand, Hexo has decided to scale down operations in certain facilities. It has looked to reduce cost structure and eliminated 200 positions across all departments.

Hexo has suspended cultivation at the Niagara facility as well as in the Gatineau facility, which is about 200,000 square feet. The current annualized production run rate is about 80,000 kg of dried cannabis equivalents.

The cost-reduction plans should boost profit margins for the firm. Hexo is still reporting an adjusted loss, and increased operating leverage will lead to a rise in stakeholder confidence.

In fiscal 2020, Hexo wants to drive sales through new product offerings and leverage analytics for robust decision making. It will continue to invest in research and development and expand partnerships to target growth and expansion.

Analysts tracking Hexo have an average target price of \$6, which is 100% above the current trading price.

CATEGORY

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