



## Hexo's (TSX:HEXO) \$70 Million Financing Is Too Little, Too Late

### Description

Initially scheduled for October 24, 2019, **Hexo** ([TSX:HEXO](#))(NYSE:HEXO) has delayed its fourth-quarter earnings report. Hexo announced a \$70 million private placement of convertible debentures led by a group of private investors, including the company's CEO, Sebastian St-Louis. What does this delay mean for you as an investor? Does this mean good or bad news?

Let us take a look at the situation to determine whether or not you should have a vested interest in Hexo shares if you are an avid investor in the pot industry.

### Hexo share price scare continues

For those of you following weed stocks, you already know how alarming the situation is with the overall pot industry. Hexo continues to be alarming for investors recently, and the scares do not seem to end. The stock lost a massive 13.61% value in share price since the past week. Trading at \$3.11 at the time of writing, Hexo is down a massive 72% from its 52-week high of \$10.44 per share.

The [disastrous run for the company](#) continues to worsen, and the latest news is that the company postponed its Q4 2019 earnings report. Pushed back to October 28, 2019, the announcement of a \$70 million financing program is grabbing everybody's attention. What does the \$70 million financing through convertible debentures entail?

### Financing to steady the ship

According to Hexo's CEO, this \$70 million private placement is going to exhibit precisely how confident the company itself is about the value it can bring to shareholders. The group of investors consists of the CEO himself as well as other board members Vincent Chiara, Nathalie Bourque, Adam Miron, and Dr. Michael Munzar.

The company intends to use proceeds from this private placement for the company's general corporate purposes as well as working capital. If you think about it, the company is putting its money where its

mouth is. Securing capital at such a large scale from its top brass should provide investors with a boost in confidence about the company. At least that is what I think Hexo's intent is.

The convertible debentures are expected to mature three years from the issuance date. After closing, the debentures will bear 8% interest. After a year, the holders will have the option of converting them into regular Hexo shares for \$3.16. The fact that the shareholders agreed to conversion at the close to the 52-week low is slightly alarming.

The company reduced its net forecast for the Q4 2019 earnings to around \$14.5 million and \$16.5 million — \$26 million lower than what Hexo previously signaled. Combined with the fact that Hexo withdrew its 2020 financial outlook, which the company announced in June, is also alarming.

## Original Stash

The only thing that might offset this news is the announcement of a low-cost brand, [Original Stash](#). This new brand is an attempt by Hexo to counter the black market's devastating effects on the legal pot industry. Sebastian St-Louis stated that the company's aim with Original Stash is to disrupt the illegal weed market.

The company intends to educate consumers about the importance and actual value of products that are tested and regulated. One of the reasons why the illicit cannabis industry has the upper hand over the legal counterpart is due to the pricing. The move is another promising sign for investors.

## Foolish takeaway

The bloodshed continues for the overall pot industry, and Hexo does not seem well insulated against the horrors. The \$70 million should add to the \$188 million in cash on hand for Hexo to improve its situation in the short term. I feel that the positives of the current situation are not strong enough to outweigh the negatives.

I feel that the \$70 million is coming in a little too late. If the private investment group from within Hexo's ranks was so confident about the company's situation improving, investors should not have agreed on a conversion near the company's 52-week lows. I think you should be wary of Hexo shares right now and wait for it to at least bottom out.

### CATEGORY

1. Cannabis Stocks
2. Investing

### POST TAG

1. Cannabis
2. Editor's Choice

### TICKERS GLOBAL

1. NASDAQ:HEXO (HEXO Corp.)

2. TSX:HEXO (HEXO Corp.)

## **PARTNER-FEEDS**

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

## **Category**

1. Cannabis Stocks
2. Investing

## **Tags**

1. Cannabis
2. Editor's Choice

## **Date**

2025/08/21

## **Date Created**

2019/11/04

## **Author**

adamohtman

default watermark

default watermark