



Why Did HEXO (TSX:HEXO) Cannabis Stock Jump 38%?

Description

HEXO ([TSX:HEXO](#))(NYSE:HEXO) stock has been in trouble. Since April, shares have shed 75% of their value. This once multi-billion-dollar stock is now being valued at just \$750 million.

HEXO isn't alone. The entire industry has experienced intense pain this year. Most cannabis ETFs are down at least 50%. Nearly every pot stock has been crushed. Yet the pain could finally be over.

Over the last several days, HEXO stock has popped as much as 38%. Several other marijuana companies are also showing renewed strength. Has the [cannabis bear market](#) finally ended?

Expectations have cratered

Marijuana stocks have been punished this year, and HEXO helped lead the way. In July, co-founder Adam Miron stepped down as chief brand officer, effective immediately. The surprise departure was followed in October by the company's CFO Michael Monahan, whose resignation was also effective immediately.

As HEXO's leadership experienced rapid turnover, investors got nervous. In mid-October, the biggest axe fell after the company dramatically revised its financial forecast. The stock fell 20% in one day after management cut its fourth-quarter revenue forecast in half. It also completely rescinded its 2020 guidance, which called for \$400 million in sales. The company cited "lower-than-expected product sell through," which is basically a longer way of describing weak sales.

By the end of October, shares slid another 7% following a concerning quarterly conference call that didn't reaffirm any 2020 sales targets. With all this bad news priced in, however, it could be time to strike.

Finally a value?

HEXO is now one of the cheapest cannabis stocks on the market. Its \$750 million market cap is still

respectable, but it's dwarfed by several multi-billion-dollar competitors. Yet even with slashed forecasts, the company is still making real progress. This fiscal year, the company is expected to surpass \$100 million in sales. Next fiscal year, that figure could approach \$250 million. If true, shares trade at just three times 2021 sales.

The most exciting part, however, isn't the near-term sales ramp. Every cannabis company has been expecting rapid sales growth for *years*. It'll come, but profitability isn't guaranteed. That's because cannabis, just like any other commodity, will increasingly face commoditization. In the future, cannabis companies will only have two ways to win: become low-cost producers or create world-class brands capable of sustainable pricing power.

Judging by its unique strategy, HEXO is clearly opting for the latter. In a nutshell, the company is creating the world's first cannabis platform. This strategy has worked well for high-flying tech companies like **Shopify** and **Microsoft**, and if HEXO is successful, it could easily become the largest competitor in the industry.

As the name suggests, platforms allow other things to be built *on top* of them. E-commerce tools are built on top of Shopify, while software companies build on top of Microsoft Windows. Similarly, HEXO is betting Fortune 500 companies will want to build on top of its cannabis platform.

What are the benefits to doing so? In theory, HEXO wants any company in the world to be able to tap into its infrastructure to co-create cannabis-based products quickly, with quality and compliance ensured. That's compelling, and HEXO has already attracted blue-chip partners like **Molson Coors Canada**.

Every other pot stock is either a pure-play producer, like **Green Organic Dutchman Holdings**, or beholden to a single partner, like **Cronos Group**. HEXO is breaking the mould, allowing *any* company to use its platform. It's a risky play that is yet to be tested at scale, but the long-term upside to this approach could be lucrative. Due to the recent stock price pop, it seems as if the market finally agrees.

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