



Will HEXO (TSX:HEXO) Kill Canopy Growth (TSX:WEED) Stock?

Description

HEXO Corp. ([TSX:HEXO](#))(NYSE:HEXO) was once [cannabis royalty](#). In just three years, the stock rose from \$0.50 to \$10. The recent marijuana pullback has hampered expectations, but HEXO's management team continues to invest in its long-term strategy.

If successful, HEXO's differentiated approach could spell trouble for other pot stocks, namely **Canopy Growth Corp.** ([TSX:WEED](#))(NYSE:CGC). That's because HEXO is creating a scalable cannabis platform, while peers like Canopy are betting they can dominate the market alone.

Will HEXO eventually kill cannabis competitors like Canopy? First, we'll need to dig into its platform approach.

Platform and win

Platforms are powerful, just ask big tech. Over the years, **Shopify Inc.** and **Microsoft Corporation** have mastered the art of platforming. Since cracking the code, both stocks are up by more than 1,000%.

What is platforming? It's exactly what it sounds like: building a platform so other things can be built on top of it. In the case of Microsoft, its Windows platform enables every application and activity that PC users use. For Shopify, it's all of the businesses and third-party features built on top of its e-commerce platform.

Take away the platforms and everything else disappears. That results in extreme levels of stickiness and customer retention. It also encourages development.

Companies can build and monetize software for Windows and Shopify users without needing to build or maintain the underlying operating system. That's a huge plus.

HEXO is applying the tech approach of platforming to the cannabis industry. Most pot companies are completely relying on themselves to grow, package, brand, and distribute cannabis products. That's

not a platform.

HEXO, meanwhile, is simply building the base infrastructure, allowing other companies to build on top of it. Now that's a platform.

Here's an example. HEXO currently has its basic infrastructure in place, including a 1.7 million square feet of grow facilities, a 730,000 square feet processing center, a 34,000 square feet of research and development space, and a 59,000 distribution centre.

This year HEXO partnered with **Molson Coors Canada Inc.** to co-create cannabis-infused beverages. The joint venture will fuse HEXO's cannabis infrastructure with Molson's existing brand and marketing power.

This is the power of HEXO's platform model. Rather than building brands from scratch, it can tap into pre-existing global powerhouses.

Molson doesn't need to build its own cannabis infrastructure, while HEXO can leverage Molson's reputation and reach. HEXO is allowing any outside company to partner with it, and next year, it wants to create joint ventures targeting cosmetics, sleep aids, edibles, and more.

A tougher path

Under its differentiated platform model, HEXO could potentially partner with dozens of Fortune 500 companies, including Molson, **Coca-Cola Co**, **Nestle SA**, **Danone SA**, **L'Oreal SA**, and many more. How does that compare to a competitor like Canopy Growth?

Canopy already has an exclusive partner, **Constellation Brands, Inc.** ([NYSE:STZ](#)), which has invested more than \$4 billion in the company.

Constellation is a powerhouse in its own right, owning globally-recognized brands like Corona, Modelo, and Robert Mondavi wines. It's the third-largest beer supplier in the U.S.

But no matter how powerful Constellation is, it's still just *one* company. HEXO, by comparison, can partner with *dozens*.

This December, HEXO and Molson plan on selling their first CBD-infused beverage products in Canada, shortly followed by THC-based versions.

HEXO, of course, would like these products to succeed, but even if they fail, it can partner with additional brands to experiment with other form factors. Canopy doesn't have such an advantage given it can only sell what Constellation prefers.

The alcohol market has annual worldwide sales exceeding \$1 trillion. Cannabis beverages have the potential to rival this figure, far outpacing sales of traditional cannabis flowers and concentrates.

If I'm betting on a company to capitalize, my money would be on HEXO's platform model, not Canopy's exclusive partnership.

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