



Is HEXO “Too Quebec to Fail?”

Description

I’m sorry, I just love the term “too Quebec to fail.”

Looking at a number of darling companies that have come out of Quebec, one can certainly make the argument that Quebec-based companies have the uncanny ability to pick up cheap government financing or equity injections right when they’re needed.

Here’s my take on why and how this might impact Quebec-based **Hexo Corp.** ([TSX:HEXO](#)) moving forward.

Hexo’s financial quandary

Similar to most cannabis producers, Hexo has been absolutely ravished by the stock market over the past year. Hexo was one of the first producers to announce layoffs, and has run into a litany of production problems which have stunted any attempts the market tried to make to push the company’s share price higher.

The problems continue to pile on every week, it seems. Most investors have exited the fray, viewing Hexo as too risky.

Here’s why I think they’re wrong.

A (financial) hero for Hexo

Hexo has secured a serious chunk of provincial contracts in Quebec to sell cannabis to the provincial buyer. For a relatively small producer, this has been huge for investor confidence initially.

With the rollout of physical locations across Canada disappointing the cannabis sector, and specifically investors, questions remain as to just how much of the contracted amount Hexo will be able to sell through legal marijuana channels in Quebec.

That said, investors can bank on the Quebec government stepping in and buying weed from Hexo to prop the company up, even if the province has to throw away the product and taxpayers are forced to eat the cost.

The Quebec government will want to have a favourite child to point to in the cannabis sector. Right now, that's Hexo.

The big question for many, however, is whether Hexo will have the ability to ramp up and produce larger amounts in such a scenario.

Demand hasn't been what was expected by investors. Obviously, most cannabis consumption estimates pre-legalization were ridiculous. Thus, Hexo has been forced to lay off workers en masse and close down underperforming facilities.

While I'm in the camp that believes these moves were prudent financial decisions that needed to be made for Hexo to survive, it will be interesting to see what would happen in the scenario described above.

Bottom line

With so many cannabis companies in dire straights now due to a lack of financial discipline in 2017 and 2018, I do believe we'll start to see bankruptcies this year.

That said, I have this funny feeling that Hexo might find a way to hang on — perhaps with a little help — for a lot longer than some of its competitors.

Stay Foolish, my friends.

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