



HEXO Stock Delays the Release of Q2 Results: Should Investors Be Worried?

Description

HEXO Corp ([TSX:HEXO](#))(NYSE:HEXO) and other pot stocks have been erratic over the past several weeks. The markets as a whole have been unstable. And that's made already volatile pot stocks even more of a roller-coaster ride of late.

HEXO is a shadow of the company it once was. It no longer has its aggressive \$400 million sales forecast for fiscal 2020 and the excitement surrounding the stock has waned. Earlier this month, the company announced more bad news: it would be delaying the release of its second-quarter results and expects to record an impairment charge as well.

The company's been busy restating and refiling financials

In early January, HEXO announced it had completed refiling and restating its year-end results for fiscal 2019. The company had to make corrections, including to its deferred tax liability that was overstated. Earlier this month, the company refiled its management discussion and analysis (MD&A) for fiscal 2019 as well as for the quarter ending October 31, 2019. News of another filing delay now in the second quarter is par for the course given the company's recent track record.

This latest update also comes after HEXO announced in February that it would be changing its auditors, and that a member of its board of directors, Nathalie Bourque, was resigning in yet another [high-profile departure](#). There is no reason given for the changes and to suggest any would be pure speculation.

It's not unusual for a company to change auditors. But given the restatements, refilings, and now a "significant" write-down – expected to be as much as \$280 million, according to BNN Bloomberg – things are not going smoothly at HEXO, to say the least.

Why should investors care?

It may seem like a lot of paperwork going on, and correcting and changing numbers, that's taking

place. But it could be a cause for concern. If a company's financials are not correct then investors cannot rely on them. Knowing there may be an adjustment later on makes it harder to evaluate a company's performance. And at this point, it would be hard to take HEXO's financials at face value and assume that they will remain unchanged.

Should you consider buying HEXO stock today?

In the past year, HEXO's stock has fallen around 90%. That's a mammoth decline even in the pot sector where valuations have been [cratering](#) in recent months. But the danger is that HEXO's shares can always go lower. A low share price shouldn't be the reason to invest in the company. And investors shouldn't ignore the problems relating to the company's financials. They may be signs of poor governance and controls.

Someone inputting the wrong number on a balance sheet or income statement doesn't mean that HEXO can't efficiently grow pot or that there's no market for its products. But it could be symptomatic of a company that isn't running a tight ship. And at a time when investors are carefully looking at which cannabis companies are safe buys and still investable, any hint that a company may be shirking its responsibilities can send the stock into the gutter.

HEXO may be a tempting buy due to its low price. However, investors are better off waiting for the company to show some consistency and reliability in its quarterly reports before making any investment decision.

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