



## HEXO Finds a New Market: Should Cannabis Investors Celebrate?

### Description

Cannabis producer **HEXO** ([TSX:HEXO](#))(NYSE:HEXO) announced its first-ever product export to Israel on Thursday. The company has finally found a new market for medical marijuana after several quarters of declining segment sales. A [recovering HEXO stock](#) surged more than 5% on the news as investors took notice. However, should the market celebrate this latest win?

### What happened?

HEXO has entered a 24-month supply deal with Israel-based Breath of Life International (BOL Pharma) to export branded medical cannabis products to a new and growing Israeli market.

The company has already made an initial shipment of 493 kilograms of medical marijuana. This is the Canadian marijuana firm's first-ever export of medical cannabis to a foreign market. The company will probably be making regular product shipments to Israel over the next two years.

### Why the new deal matters

The firm's medical cannabis segment has been consistently shrinking over the past five consecutive quarters. The company sold 104 kilograms of medical products during the past quarter to April 30, 2020. Total sales volumes over four consecutive quarters amounted to 477 kilograms only.

The firm has shipped medical product equivalent to a year's segment sales to Israel. That's a significant volume by any standards.

We aren't privy to any pricing details in the wholesale deal. However, given a flooded Canadian pot market, recent inventory write-downs, and increasing desperation to grow revenues, the company was negotiating from a position of weakness. I wouldn't expect management to have scored a significant price increase in a BOL deal.

Notably, the company obtained \$2.18 per gram on wholesale product sales last quarter. If this was the

price settled at in the BOL deal, the latest shipment could mean a 5% sequential revenue growth from the \$22 million reported for fiscal Q3 2020.

## Should HEXO stock investors celebrate?

Entering a new market is a great win for the Canadian firm after its recent pains. Management efforts to stir the company into profitability and positive cash flow are bearing fruit. The latest shipment could be one of many such sales over the next 24 months. Perhaps someone deserves a high five.

Most noteworthy, the business should be doing well for BOL Pharma in Israel. Sourcing marijuana products from Canada means the company can no longer meet demand from internal sources.

I [reviewed BOL Pharma last year](#) before it shelved its plan to list on the TSX and was amazed at its target to grow annual productive capacity from 7,000 kilograms to 328,000 kilograms by the end of this year. The company could have shelved some of those plans, but its market could have grown past current capacity.

That said, investors should celebrate this deal with caution.

## Be cautiously optimistic

Israel was never the ultimate target market for BOL when it filed a prospectus last year. The company was targeting Europe, Australia, South America, and even Canada as prime export markets for its future production.

It's most likely that management at BOL isn't enthusiastic about the local Israeli market's size and growth potential. Perhaps we shouldn't expect much growth from the latest deal, too.

Further, Israel has been a cannabis research ground for decades, and its local firms have many proprietary strains. MedReleaf (Aurora Cannabis's subsidiary) used to boast of such strains from Israel as a treasure trove. The competition will be intense, as local firms grow in the middle-east country.

Most noteworthy, another Israeli firm, Cronos Israel (part of the **Cronos Group**) promised to grow pot at \$0.50 per gram. Canadian firms haven't reached this low-cost threshold yet. It will be a tough challenge to retain any long-term competitive advantages, as locals engage in price competition.

## Foolish bottom line

It's encouraging that the marijuana producer has found a new market for its excess inventory. However, I wouldn't expect the new market to be a long-term growth driver at this moment. I hope to be proven wrong.

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