



## Investing in Cannabis? Buy This Canadian Cannabis Edibles Play

### Description

Anticipation of cannabis legalization in the U.S. is driving a tremendous amount of hype around TSX-listed cannabis stocks today. That said, these cannabis stocks have seen some recent downside. Indeed, investors appear to be pricing in valuation risk with these stocks, many of which are perfectly priced.

That said, some cannabis stocks are still performing quite well. Among the group of TSX-listed cannabis stocks I've got on my watch list right now is **Organigram** ([TSX:OGI](#))([NASDAQ:OGI](#)). This company is looking to capitalize on the [growth potential](#) of value-added products. A recent deal has spurred interest in this stock. And I think that interest is warranted.

Accordingly, here's more on the deal and what it means for shareholders.

### Organigram's EIC acquisition paves the way for growth

Organigram recently announced the acquisition of The Edibles & Infusions Corporation. This deal has been made with various "milestones considerations" but will amount to between \$13 million and \$22 million, depending on whether various targets are hit.

I like the way this deal is structured. Indeed, Organigram is prudently paying for growth that materializes, rather than potential. Unlike other deals that have been done on a purely speculative basis, Organigram appears to be taking a more conservative approach. That's good.

The deal is also attractive from a product diversification and margin expansion standpoint. Edibles are among the "Cannabis 2.0" value-added segment investors have a keen eye on right now. This deal could prove to be very beneficial for Organigram over the long haul, particularly as the company looks to grow profitably over time.

Organigram will try to leverage the white label services of the soft chew company to increase its range of product offerings. It will also use EIC's highly automated manufacturing facility in Winnipeg to produce cannabis-infused edibles.

This facility's custom-built depositor line produces cannabis-infused edibles from raw materials without human intervention. This R&D facility, combined with EIC's research licence, is a significant addition to Organigram's portfolio, essentially placing it at the top of the Cannabis 2.0 product market.

## What this means for investors

Edibles is one of the fastest-growing segments in the overall Canadian market. At least 75% of the edibles comprise soft chews and related format, representing approximately 4.4% of the Canadian recreational market.

Investors can expect two key benefits from of this deal.

First, there's a tremendous amount of growth built into the edibles market right now. Organigram expects this segment to grow from its current market share of 4.4% to a significant 12-15% once its new product offerings go public and more regulatory changes are introduced. This offers investors a chance at healthy capital appreciation over time.

Secondly, this deal will expand Organigram's product offering significantly. EIC's existing operations produce a wide range of Cannabis 2.0 products such as pectin-gelatin doses, sugar-free gummies, cannabis-infused toffee and caramel, and fruit purees. Edibles are high-margin products, which directly translate to better long-term profitable growth for investors.

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