HEXO Is on the Move

Description

Investors in **Hexo** (TSX:HEXO)(NYSE:HEXO) stock should take note of the cannabis firm's several strategic moves made recently. The Canada-based marijuana producer is busy executing its disclosed partnerships-led growth strategy, with several announcements coming out during the past four short weeks. The latest activity could impact valuation, even in the near term.

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What has Hexo done recently?

In just four weeks, Hexo has made significant moves on the capital markets and operationally. Here are some of the notable actions management has taken since mid-April.

Capital markets activity

The company filed a $1.2 billion base-shelf prospectus on April 15. The filing signalled management's serious intention to raise significant sums of capital for growth projects. The payment, on May 3, of $28.9 million to fully repay a syndicated credit facility with **Canadian Imperial Bank of Commerce** (CIBC) and **Bank of Montreal** (BMO) reduced leverage and interest risk.

However, the announcement of a $150 million at-the-market (ATM) on May 11 signalled management's imminent moves on acquisitions and partnerships. The ATM allows the company to sell new shares directly to the public from time to time. The funds will be used to finance the ongoing U.S. expansion program, integrate a recently acquired Zenabis, improve production lines at the flagship Ontario facility, and boost working capital levels.

Operational developments

Hexo launched six new beverages in Canada on April 14. The company is moving to extend its market leadership in the beverages segment through the Truss Beverages partnership with **Molson Coors**. Consolidating leadership in a growing market segment could make the company a long-term winner. Though at its nascent stages, the cannabis-infused beverages segment could be a huge multi-billiondollar market. And HEXO is already replicating early success in the United States.

We saw the company announce a brand partnership with REQ, an award-winning digital marketing agency in America on May 13. Hexo is already investing in strongly marketing its brands in the U.S. after recently launching operations in Colorado.

“REQ will evaluate HEXO’s brand presence on- and offline in the U.S. market and evolve the Powered by HEXO brand in preparation for an exciting period of expansion and growth,” Management explained in a statement on Thursday.

The company made another significant move on Friday, May 14. Hexo announced the acquisition of a 50,000-square-foot manufacturing facility in northern Colorado for an undisclosed amount. The facility is already zoned for the production of “a full range of cannabinoids.” Word is that the U.S. facility is capable of processing non-beverage cannabinoid products, too.

The marijuana producer could just have put together what its undisclosed future U.S.-based partners desire before coming on board its “*Powered by HEXO*” platform.

Investor takeaway

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Although shareholder dilution is a concern, it can be justified by quick execution for growth. The company’s management is moving fast on the operational side. And such quick execution matters; It could justify dilution pains for current shareholders if it produces quick results.

Hexo is putting together all the necessary pieces for its partnerships-led growth strategy into the United States. Management is still silent about who the company’s consumer packaged goods (CPG) partners are. But judging by the speed at which execution is going, something very significant could be in the pipeline.

Although there are still some significant marketing challenges for CBD as far as the U.S. Food and Drug Administration is concerned, partnerships with larger, well-established, and experienced non-beverage CPG firms help the company in navigating hurdles. The company won’t walk alone.

Simply put, here is a Canadian cannabis firm that could give its United States-based competitors a tough game. Hexo stock investors may justifiably expect the firm to be a serious contender in the CBD market tussles in America — more so given its prior success with partnerships in Canada. The company is making some good, purposeful, and well-timed moves before U.S. federal legalization intensifies local competition for capital on the open markets.

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