



Why Did Hexo Stock Drop 10% on Tuesday?

Description

There's really only one word that can describe what happened to **Hexo** ([TSX:HEXO](#))([NASDAQ:HEXO](#)) on Tuesday: *ouch*. Shares fell to 52-week lows at \$0.73 per share, down 10% at its lowest point.

What happened?

The small-cap stock continued to drop since announcing its [losses](#) late last year and even since appointing a new chief financial officer at the beginning of 2022. Hexo announced a loss of \$116.9 million in the first quarter, along with a "new strategic plan" to reduce costs and create synergies.

That loss was a whopping 2,683% increase from the same time the year before, ahead of an overhaul of operations. It was the nail in the coffin, it seemed, since Chief Executive Officer Sebastien St-Louis and Chief Operating Officer Donald Courtney left Hexo in October.

So what?

While Hexo management has moved on, investors it seems have as well. Hexo right now looks like a loss at a time when investors aren't looking for risk in their portfolio. The company didn't maintain internal control over financial reporting, and that has to change.

To do this, the company will have to follow through with its plan to decrease costs as well as create acquisitions that could accelerate the company towards profitability. To do this quicker, Hexo [management](#) stated it will now focus on medical cannabis, expecting to create \$50 million in synergies from recent acquisitions. This is an increase from \$35 million previously announced.

Now what?

Let's say Hexo checks all of these boxes. Is it still the cannabis company you want in your portfolio long term? Probably not. Supply and demand remain an incredible problem for cannabis companies.

Meanwhile, the days of unprofitable marijuana companies should soon be over. Whether that means Hexo is purchased or collapses remains to be seen.

That being said, Hexo may also be undervalued given that it's now at \$0.73 per share. In fact, analysts still give it a consensus target price of \$1.49, which is double today's price. While that's not that impressive, given that it traded at \$14 at its 52-week high, it's something.

Hexo stock announced its next earnings report would be Mar. 8, 2022. So, investors still have time to decide.

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