



## Tilray Partners With Hexo: What You Should Know

### Description

Cannabis has started gaining broader acceptance, and an increasing number of jurisdictions have legalized it for medicinal, recreational, and other uses. The marijuana market comprises of organizations that engage in or support the distribution, sale, research, and development of recreational and medical marijuana.

This space is at a nascent stage even now, making it attractive to investors seeking exponential [growth](#). Let's take a closer look at this space, particularly focusing on two big shots — **Tilray** ([TSX:TLRY](#))([NASDAQ:TLRY](#)) and **Hexo** ([TSX:HEXO](#))([NASDAQ:HEXO](#)).

### A strategic partnership between two cannabis giants

Tilray announced a strategic deal with Hexo a few days back. This deal will see these two Canada-based cannabis behemoths strike a partnership via a debt deal, where Tilray can take a considerable minority stake in its major rival.

Tilray stated that it would acquire senior secured convertible notes of Hexo of up to US\$211 million at 90 cents on the dollar. Currently, these notes are held by High Trail Capital LP, a hedge fund based in New Jersey. This acquisition will provide Tilray with the right to own 37% of the organization.

Besides the debt deal, these organizations stated they would also engage in a joint venture. This joint venture aims to grow the companies' production of edibles, pre-rolls, and beverages within the coming two years and result in cost savings of \$50 million.

This deal links together two of the largest Canadian cannabis producers, at a time when rampant competition is picking up. Investors may be looking for more nimble companies, and this joint venture certainly is intriguing when it comes to the competitive landscape following this deal.

Additionally, both these organizations are putting in efforts to cut costs, improve margins, and tackle other challenges that the industry is facing right now. That's broadly very positive for both companies.

## Bottom line

There's certainly a lot to like about this partnership deal. Whether this ultimately leads to a merger of these two behemoths remains to be seen. However, continued consolidation in the cannabis sector is something I think will continue to play out in the coming years. Much like other industries in Canada, consolidation is likely to be the only way these companies can gain enough scale to show profitability.

For Hexo, analysts praised this deal, saying that it offers room to grow and increased liquidity to the cannabis player. This comes at a critical time when capital is immensely scarce, particularly for cannabis organizations.

Cannabis stocks are certainly not for the faint-hearted in the near term. However, many investors remain convinced these are solid long-term opportunities. Right now, these two stocks are ones to keep on the watch list. At least, I am.

### CATEGORY

1. Cannabis Stocks
2. Investing

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2. NASDAQ:TLRY (Tilray)
3. TSX:HEXO (HEXO Corp.)
4. TSX:TLRY (Aphria)

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chrismacdonald

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