



Calls and IV Surge in Struggling Cannabis Producer Hexo

Ticker/Price: HEXO (\$2.30)

Analysis:

Hexo (HEXO) calls hot early with buyers of 2,900 February \$2 calls \$0.40 to \$0.45 and volume above 12,775X in the opening 90 minutes with 30 day IV now up 21.6% and the calls trading above \$0.70. HEXO shares have been weak with the rest of the Cannabis space but look to be putting in a large weekly bull engulfing reversal candle. The \$489M Company is a Canadian producer expecting \$75M in sales in FY20. It sees tailwinds from a continued acceptance of Cannabis, a \$50B US market potential and \$40B market in Europe with estimates of a \$250B global market. HEXO creates branded, consistent, quick onset and offset cannabis experiences for sleep, sport, sex, and fun delivered through a full range of “Powered by HEXO” products developed in-house and in partnership. It has a best in class infrastructure, operations, and scale in one of the lowest cost production centers in Canada. It continues to invest in R&D and is securing key partnerships while also improving operations. It is innovating products with Beverages, Vapes, Edibles, and Topicals expected in the future. HEXO sees positive EBITDA in 2020 and targets long term gross margins of 40-45%. Analysts have an average target of \$3 and short interest is at 12% of the float. HEXO has seen a lot of negative news flow recently with lowered guidance, raising funds, and cutting 1/4 of its workforce. Cantor started shares Underweight on 11/5 with a \$2.40 target noting the company has big visions but yet to show the ability to achieve targets. Roth Capital lowered its target to \$2.50 pushing out its view for profitability until late 2020.

Hawk Vision:



Hawk's Perspective: HEXO is purely speculative but the IV move and calls bid up significantly from the initial alert is intriguing with this weekly reversal candle, potential to see Cannabis names rebound a bit as tax selling subsides.

Confidence Ranking: \$\$