



How High Can Canopy Growth Corp. Grow?

Description

Canopy Growth Corp. (TSX:CGC) is a leader in a brand new business niche that is growing at an astronomical rate. Yet Canopy Growth is currently producing only minuscule profits in this niche. How can an investor handicap Canopy Growth's future profits and anticipate the stock's future price?

One way to figure out Canopy Growth's future profits is to estimate how big its market will be five years from now. I believe that Canopy Growth may be a player in the recreational marijuana market when the drug gets legalized in Canada.

However, I don't think the recreational market will be nearly as profitable. There will be far more competition in that market, because the dosage and purity requirements are not nearly as stringent as in the medical marijuana market.

Let's focus only on the current medical marijuana market to forecast the future extent of Canopy Growth's marijuana sales. How large will the medical market be in Canada five years from now? Canadian veterans give us a hint of potential future consumption in the general Canadian population. Statistics from the Canadian Department of Veterans Affairs for 2015-2016 indicate that 22% of all reimbursements to veterans for medical drugs was for cannabinoid products.

Canopy Growth's fair-weather profits forecast

According to the Canadian Government's numbers, the amount spent on cannabis products averaged \$1,902 per veteran per year. Let's be conservative and assume that the consumption rate of the general Canadian public will be less than half of the veterans' medical marijuana participation rate. This assumption establishes the public participation rate at 10% in 2022. If the general public's per-person, per-annum expenditure mirrors the veterans' numbers at \$1,902, the annual cross-Canada market value for medical marijuana would be over \$6 billion.

If all is fair-weather sailing in the next five years, Canopy Growth could take a 25% share of the Canadian medical marijuana market. If its net margin is 40% on gross annual sales projected at \$1.5 billion, then Canopy Growth's profit would be about \$600 million, or \$4.28 per share. This figure assumes that the outstanding number of Canopy Growth's common shares rises from the current 115

million to 140 million shares through the equity financing it will need to fund capital expenditures for expansion.

The above scenario excludes consideration for sales to the Americas, the U.S. and Europe, new product innovations that may appeal to a broader and higher-scale market, and sales of products appealing to the legal recreational marijuana market, which will appear in a year or two.

This back-of-the-napkin figuring is a simple exercise, but it offers a general idea of the magnitude of Canopy Growth's potential profits. If Canopy Growth earns \$4 per share in five years, then the stock price could be anywhere from \$40 to \$120 per share depending on the multiples the market will award leading cannabis stocks at that time.

So what's today's forecast for the height of Canopy's Growth? Rocky Mountain high!

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