



MedReleaf Corp. Stabilizing After an Initial Public Offering

Description

Almost three weeks ago, shares of **MedReleaf Corp.** (TSX:LEAF) became available to investors on the Toronto Stock Exchange after completing the Initial Public Offering (IPO) process.

After opening very softly, the good news for investors is, the share price has started to stabilize around the \$8.50 mark. While this is higher than the opening share price on the first day of trading, investors must not forget that the IPO price was originally set at \$9.50 per share. Since the beginning of trading on June 8, shares have held a range between \$6.81 and \$9.65, showing that the demand for investment in the marijuana industry may be waning.

With a share price close to \$8.50 and a 10-day simple moving average (SMA) of \$8.78, shareholders may be sitting in wait, ready to weight their options as more clarity will soon be provided by the company. The first earnings announcement as a public corporation will be this coming Wednesday, June 28, 2017.

While there have been other marijuana companies that have already been through this process, and expectations have been broadly set for all participants in this space, there are still a number of important things to consider once the numbers are released and company management hosts the conference call.

First, the revenues and expenses are going to be evaluated very carefully to determine the cost (and value) of production. In the marijuana industry, the increase in value of the inventory has been added to the top-line revenue numbers in most cases. Although this goes against the traditional accounting methods, investors will still be considering this very carefully as it represents the future potential for revenues and profits.

Given the nature of the business, revenues can only be generated if there is product to sell, which means growing more marijuana. Going through the financials, investors need to be looking for an update on the growing capacity of the company in addition to the price which can be charged for every unit sold. In addition to the average price per unit, investors may also gain significant value from understanding the amount of average revenues from each transaction in addition to how many

transactions each customer makes per month or per year.

MedReleaf Corp. (like all marijuana companies) is still currently working to bring on new customers to generate business. While this part of the business will evolve over the next 12-18 months, it's important to understand that the cost to acquire each customer will only be justified if they become a regular customer. What we have learned from competitors is, the cost to acquire a customer can easily outweigh the revenues and profits they will produce. More information on this will be found in the cash flow statement.

While this is the first earnings release since the IPO, investors may extend a honeymoon period to company management on a lot of issues, but one thing that is for sure is that the future potential of the company will be put under the microscope.

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