

Forward-Looking Revenue Estimates for the Marijuana Industry

Description

For those trying to estimate the amount of potential of the industry, a good starting point is estimating total revenues before running through the income statement.

As no reasonable estimate is available to figure out just how much the average Canadian will spend “getting high.” Investors need to allow themselves more leeway than usual when putting the pieces together. To project revenues, we must first understand just how many people will be buying the product. In Canada, there are currently 36.3 million people (100%), of which, 7.9 million (21.7%) will not be of legal age to purchase the product once it becomes legal. We are left with 28.4 million individuals.

Of those that are left, there are a significant number that are simply too set in their ways to become regular users. Those over the age of 55 account for 10.94 million (30%) which are expected to have very little impact of the top or bottom lines of companies such as **Canopy Growth Corp.** ([TSX:WEED](#)) or **MedReleaf Corp.** (TSX:LEAF). When estimating total revenues for the industry, we will exclude these individuals.

After removing those on opposite ends of the age spectrum, we are left with those who are between the age of majority and age 49. Although not every person will be a marijuana user (some for personal reasons and others for health reasons, whereas others may not try the product for religious reasons), we can still include the total number of approximately 17.5 million (48.3%) as average marijuana users.

As a reminder, the new laws governing the marijuana industry allow for each individual to have a small number of plants for personal consumption, leading to lower revenues for the industry. The assumption is that the heavy users will mostly grow their own marijuana instead of purchasing the product.

With close to 17.5 million users spending money to purchase marijuana, we have to estimate the total amount of money each person will spend on the product. With no basis for comparison, we can assume that the “average” will be the same as the average as for alcohol consumption. With that number estimated at approximately \$600 per person for the 2016 year, the high and low (or reasonable) estimates for future years will be as follows:

17.5 million x \$600 = \$10.5 billion

17.5 million x \$300 = \$5.25 billion

Although these numbers seem very high, investors still need to understand what this represents. When using the \$5.25 billion as an estimate, this translates to the average person purchasing enough marijuana for 30 joints throughout the year. Although this may seem normal for certain users (the heavy users), it is fair to assume that even the low-end estimates remain very high, leading investors to remain cautious.

CATEGORY

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1. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

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