



Cannabis Investors, Take Note: This Mistake Cost a Growth Company 35% of its Stock Price!

Description

The cannabis industry has a lot of hype these days regarding how much growth and opportunity will be available and that there may not be enough supply when pot is legalized. However, marijuana companies should be careful in overselling how much growth will be achieved or what the prospects will look like for the industry. After all, with many cannabis companies not posting profits, investors are buying shares based on expectations and future growth.

The danger is that demand might not be as high as expected, specifically for legal marijuana. If consumers see too many obstacles in the new regulations and prefer to continue to go to underground suppliers, the numbers could be a lot less than forecasted.

What could happen if demand falls short of expectations?

There is a recent example that cannabis investors would be wise to review, and that's what happened with **Freshii Inc.** ([TSX:FRII](#)). The company boasted that its growth had been faster than **McDonald's Corporation**, but when Freshii announced last week that it was significantly dropping its forecasts for 2017, the stock saw its share price drop 35% by the close of the day of the announcement.

Freshii previously forecasted that it would add between 150 and 160 net new stores in 2017, but that estimate has since been dropped to 90-95 for a decline of about 40%. In addition, the company trimmed 10% of its expected store growth for fiscal 2019. As a result of these changes, Freshii also had to pull back its sales and EBITDA forecasts.

This is more than just a company missing its forecast

The company's CEO Matthew Corrin tried to do damage control on Wednesday to calm investors, but it yielded no impact on the share price. Investors are used to seeing companies miss forecasts, but when they miss by 40%, that starts to generate questions about how much the CEO's words can be trusted. Many investors are likely wondering if the new forecasts are going to be accurate and if there will be more surprises along the way.

Freshii would have done its investors a favour by providing more conservative estimates for growth, which would have meant less of a miss in the forecast and could have offered a positive surprise if the company exceeded expectations.

This is not the first time we've seen an arrogant CEO promise the world and then come up short. Another IPO this year, **Snap Inc.** ([NYSE:SNAP](#)), has been on a similar ride after raising expectations too high for investors and then failing to deliver. Since its launch, Snap has lost 42% of its value — and the trust of many investors.

Why should cannabis investors care?

Companies like **Canopy Growth Corp.** ([TSX:WEED](#)) and **Aurora Cannabis Inc.** ([TSX:ACB](#)) are banking on large demand coming through the doors when marijuana is legalized. However, if that falls short for whatever reason, the stock prices could see big declines. This is a big risk to investors and why many may be sitting on the sidelines, since a lot of the price for these cannabis stocks is based on future expectations and growth.

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3. TSX:WEED (Canopy Growth)

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