Are Canadian Cannabis Companies Growing Responsibly?

Description

The idea of "responsible growth" is one which underpins the long-term thinking of many investors and executives in mature companies; at a certain point, growing too quickly (either by acquisition or organically) has the potential to invite more long-term problems than near-term benefits for any organization, negating what may otherwise be amazing returns over a short period of time.

With the Canadian cannabis industry currently in overdrive, questions as to how marijuana producers will be able to meet demand quotas while meeting the ethical and regulatory burdens placed on the companies by investors and the government alike remain. With Canada's oligarchy of cannabis producers continuing to consolidate the marijuana production industry, while simultaneously working toward delivering what is expected to be a massive amount of legalized recreational marijuana (a questionable claim, but one which is present nonetheless) by this summer, concerns about how these companies are setting out to achieve their goals have arisen.

In August, I wrote about a recall of approximately $1 million worth of cannabis from **Canopy Growth Corp.'s** (TSX:WEED) subsidiary Mettrum Ltd.; with numerous other recalls issued for Canadian cannabis producers in 2017, I asked the question, "Just how well are Canada's cannabis suppliers currently regulated?"

As with any other industry in its infancy, the answer may be fuzzy; this past week, however, Health Canada announced it would be fining Canadian cannabis producers $1 million per violation for using banned pesticides — a hefty fine, but one which has invited discussion on the cost-benefit analysis of using banned pesticides and achieving sky-high yields, or reaping the cost of lower yields without pesticides.

The impetus for investors to consider the means by which companies achieve sky-high growth rates can be anything from an ethical curiosity to a long-term fundamental investment mandate. Personally, I don't invest in companies without a track record of at least five years — in my opinion, investing in publicly traded securities that have shorter track records is equivalent to penny-stock investing.

The fact that so many cannabis firms are present on Canada's Toronto Stock Exchange has boggled the minds of many in the investment community; the Canadian Venture Exchange has traditionally been the avenue that most venture-stage companies have picked to raise money. The argument that companies such as Canopy Growth Corp., **Aphria Inc.** (TSX:APH), **Aurora Cannabis Inc.** (TSX:ACB), or **MedReLeaf Corp.** (TSX:LEAF) are anything other than venture companies is a view which, in my opinion, can be very dangerous.

As with other venture companies, raising money comes with a whole different set of risks than with mature firms in industries with an established regulatory backdrop, measurable revenue, and earnings numbers, and an agreed upon market size and supply/demand fundamentals.

To the risk takers go the spoils in venture markets during a steady bull market run. I just sure hope the market doesn't turn sour for investors who got into the cannabis industry at its peak.

Stay Foolish, my friends.

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