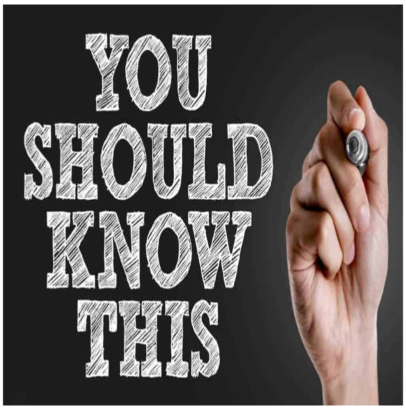

More Bad News for Canopy Growth Corp (TSX:WEED): License Restrictions

Description

Canopy Growth Corp (TSX:WEED)(NYSE:CGC) had a bad week last week. Not only did the company miss big on its latest earnings report, but its home province of Ontario released more information surrounding how the retail market will be managed, and it's also not good for Canopy Growth.

Previously, we had learned that a producer would be limited to one retail location, but the big question was always how related companies would be defined and treated, which has now been clarified.

Under the *Cannabis License Act* in Ontario, if producers own more than 9.9% of a company's voting rights, then the company will be considered to be an affiliate and will be unable to get a license. Affiliates and growers will share one retail license.

Why this is a big blow to producers

Canopy Growth recently acquired Hiku Brands, which owns Tokyo Smoke, a popular retailer that the company was hoping would help develop its stores. Canopy Growth had high hopes for opening many stores, particularly in Ontario, and under these rules that simply isn't going to happen and that's going to have a big impact on its prospects for growth.

While it doesn't prevent Canopy Growth's products from making its way into retail, it does prevents the grower from having much of an influence into what a retail store looks like and the ability to affect branding.

Marketing is very restrictive in the cannabis industry, but one way that companies can create some sort of a brand loyalty is through the in-store experience.

Experience is a big part of consuming cannabis, and it's what companies were looking to sell consumers on. Without that component, however, it's taking away a big advantage that a company like Canopy Growth thought it would have.

It also makes the issue of gaining significant market share that much more difficult. More control over retail would have meant that Canopy Growth could have given its products more of a spotlight and preference for consumers. With limited ownership in retail, a grower won't have much influence in ensuring that their products have prime shelf space.

Smaller cannabis producers will effectively be given more of an opportunity to compete against the big guys, which will ensure that consumers win in the end, as it'll be price and quality that will distinguish which products get featured in a store, rather than who owns it.

Bottom line

Canopy Growth's prospects don't look as bright as they did before this news, and it might be harder than ever to justify investing in the stock.

It's been trading at expensive multiples to sales, and with the company continuing to struggle to turn a profit from operations, there's a lot of work that needs to be done before the stock can be considered a good investment.

The stock could be headed further down in price and interested investors might want to wait out more of a decline before deciding to buy.

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