



## Forget Canopy Growth Corp (TSX:WEED): This Marijuana Company Has Stronger U.S. Operations

### Description

The cannabis market has come a long way in Canada. Recreational and medical uses of marijuana are now legal. While most alternative products are still illegal, the recent lifting of the restrictions on recreational weed could create a bit of a snowball effect. For instance, cannabis-infused drinks should become legal in Canada by this fall.

Despite these advances in Canada, though, the U.S. remains the largest cannabis market in the world, which is why many Canadian-based pot firms conduct their operations primarily in the U.S., while others are exploring ways to move south of the border.

Cannabis companies can do business in the U.S. by moving into states that have legalized marijuana. Alternatively, pot firms can invest in the hemp market. Hemp, a non-psychoactive brand of cannabis, [became legal in the U.S.](#) at the Federal level late last year.

## This Canadian cannabis company operates in the U.S.

**Curaleaf Holdings Inc** ([CNSX:CURA](#)) is a Vancouver-based cannabis company whose core operations are conducted in the U.S. The firm went public last year in what was the largest marijuana IPO in history. Curaleaf operates 33 dispensaries, 12 cultivation facilities, and 10 processing sites in various U.S. states. Though the bulk of the company's operations are located in Florida (where medical uses are legal), Curaleaf targets highly-populated limited license states. The company currently has a presence in 12 U.S. states.

Further, Curaleaf is currently developing a two-acre greenhouse facility in New Jersey. Late last year, the eastern states' relevant authorities overwhelmingly voted in favour of three bills that would legalize the recreational use of marijuana. A few key developments later, and New Jersey is as close as ever from being the 11th U.S. state with legal recreational weed. The pot market in the Garden State is expected to close in on annual sales of \$1 billion by 2022.

## Recent financial results

Curaleaf recently reported its fourth-quarter and full year financial results for 2018. For the fourth quarter, total revenue climbed to \$31,961 up 49% from the third quarter and a whopping 408% compared to the same period from the previous fiscal year.

Curaleaf's gross profit margin was also a respectable 50%. For the full year, total revenue grew to \$77,057, a 298% increase from the previous year, and gross profit soared by 46% (up from 16% for 2017). While the company isn't profitable yet, few cannabis companies are at this point.

## Challenges

Despite the opportunities present in the U.S., marijuana remains a control 1 substance is still illegal at the federal level. This factor presents important obstacles for Canadian companies that have decided to conduct business in the U.S.

First, the interstate transport of cannabis is illegal, which means that companies such as Curaleaf have to rely on whatever assets they possess within a state to grow as much cannabis as they can within that state, hence the importance of Curaleaf's greenhouse facility in New Jersey.

Second, tax laws in the U.S. are extremely unfavorable to cannabis companies. Certain limitations imposed by the IRS designate cannabis companies as drug traffickers, which prevents them from benefiting from certain tax deductions. The bottom line of cannabis firms would receive a boost were these restrictions lifted.

## Is it a buy?

Curaleaf is foregoing the booming Canadian cannabis market to focus on the U.S. While that is not necessarily a bad strategy, the company is facing — and will continue to face — important challenges due to the fact that marijuana is still classified by the federal government as a schedule 1 substance.

Although Curaleaf is one of the largest cannabis companies by market cap, the company isn't projected to be one of the leaders in terms of production capacity. However, Curaleaf's profit margins are poised to remain high due to the company's vertically integrated structure. Still, all things considered there are probably better options at the moment for investors looking to benefit from this high-growth industry.

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