Are Pot Stocks in Danger of Running out of Money?

Description

There are a lot of changes happening in the cannabis industry, and many companies might not be left standing for long. It's likely that they'll end up being acquired — or simply run out of money. One cannabis CEO is very skeptical about what the future will hold for some companies, believing that the money is going to run out sooner or later and that they'll be left high and dry.

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Origin House (CNSX:OH) was acquired earlier this year, and CEO Marc Lustig spoke with *BNN Bloomberg* recently. In that interview, he expressed doubt as to the health of the industry. He called some of the valuations in the industry "insane" and said, "They can't be sustained. Ultimately, they're going to run out of money and the rubber is going to hit the road when they go to ask somebody for more money."

It's a fair comment to make given that many companies in the industry are producing significant losses and burning through lots of cash all in the name of expansion and growth. It creates a vicious cycle where more money is needed in order to finance growth — the very growth that bleeds money itself.

Even some of the biggest companies in the industry haven't been able to avoid those problems. **Canopy Growth Corp** (TSX:WEED)(NYSE:CGC) has achieved strong sales growth, but without gains or investment losses pulling the company into profitability, I'm not confident that the company would be able to do so on its own through day-to-day operations.

Why relying on growth alone won't last

Canopy Growth has been playing up the growth game very well, convincing investors to buy based on future expectations rather than on what the reality is today. Nowhere is that more evident than in the company's so-called deal with **Acreage Holdings,** which really isn't a deal until the U.S. legalizes marijuana. It's a condition that might take years and even then isn't guaranteed to get done.

However, that was still enough to generate hype around the stock and send it up in price, although it could very easily fall through, especially with not all Acreage shareholders being terribly excited about the possibility of locking into the agreement today.

Convincing investors of growth may be a good strategy for generating excitement around the stock in the short term, but it’s not sustainable beyond a limited time frame. Results will have to follow eventually, and while Canopy Growth may not be a big risk today, the same cannot be said for other pot stocks.

A good example is **MedMen Enterprises Inc** (CNSX:MMEN), which has struggled so far this year, dropping more than 15% in value since January. Plagued with cash flow problems and now a struggling stock, it’s a company that needs to turn things around in a hurry. Its very growth is putting a lot of strain on its financials. Investors are no longer just buying the stock up based on promises of future growth anymore, which could mean big problems down the road.

Bottom line

The industry is still in its very early stages, and the pretenders won’t last for long. They’ll either be absorbed by bigger players like Canopy Growth or just simply close up shop.

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