



CannTrust (TSX:TRST) Scandal Hurts the Marijuana Industry

Description

The shares of **CannTrust Holdings** (TSX:TRST)(NYSE:CTST) are down 60.73% year to date. It's hard to imagine the stock of a major cannabis player falling by this much when the sector's organic growth is underway. CannTrust's admission of wrongdoing this month is the latest disgrace to hit the cannabis space.

The scandal could hurt the marijuana industry. The cannabis producers are supposed to squeeze the black market. But CannTrust did the opposite and sold unlicensed cannabis. CannTrust has placed the marijuana industry in a tough spot. New legislative measures might be introduced and more regulatory probes conducted.

Shocking discovery

Health Canada, the regulatory agency in charge of the marijuana industry, discovered the unsound activities following a random inspection in June.

Five cultivation rooms in CannTrust's flagship Niagara greenhouse was cultivating and selling unlicensed cannabis between October 18 and March 19. These cultivation rooms only obtained the proper licences in April.

The deliberate disregard of industry regulations forced Health Canada to place on hold the harvested 5,200 kilos of dried cannabis at the Niagara facility. Meanwhile, CannTrust voluntarily put on hold the equivalent of 7,500 kilos of cannabis production from the company's other facility in Vaughan. All shipments and sales were stopped, too.

According to Health Canada, the suspension is indefinite until such time the overseeing agency deems that CannTrust has fully complied with cannabis regulations in Canada. Thus, the company is doomed and would be unable to execute and implement business strategies.

Consequences

Canopy Growth's firing of CEO Bruce Linton due to excessive spending and mounting losses is still [fresh in the minds of investors](#). This scandal will have serious repercussions, and the axe is falling. An independent "Special Committee" was formed by CannTrust's board of directors to conduct an investigation.

CannTrust's board terminated CEO Peter Acierto with cause effective immediately, and Chairman Eric Paul relinquished his post after being demanded to resign. Special Committee Chairman Robert Marcovitch was appointed as interim CEO.

What is alarming is that Acierto and Paul knew the illicit activities months before it was discovered. Media reports are alleging that based on the company's internal e-mails, both of them were informed in November about the unlicensed rooms growing cannabis.

Aside from the senior leadership changes, CannTrust will make additional operational changes. Completing the investigation is the company's first priority as Health Canada continues with quality product testing. Appropriate actions will be taken after the conclusion of the thorough investigation within the next few days.

Reset and rebuild

Acierto made a fatal error in judgment. He said his team was building a culture of transparency, yet they were skirting Canadian cannabis regulations. Health Canada might decide to impose heavy fines and perform more inspections.

The volume of cannabis production seized by Health Canada is just a small percentage of CannTrust's potential annual production capacity of 400,000 kilograms. That capacity would have allowed CannTrust to assume the [industry-leading position](#). But the company is caged and needs to reset and rebuild. Another cannabis producer taking over is a possibility.

Cannabis producers should learn a valuable lesson and toe the line. CannTrust just lost the trust and confidence of investors.

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