Tilray (NASDAQ:TLRY): The Fall of a Weed Stock

Description

Remember **Tilray** (NASDAQ:TLRY)?

During last summer's weed bubble, it was one of the most talked about marijuana producers. Rising 755% from its IPO price in just two months, TLRY gained more than any other weed stock in the same period. At the time, investors were positively euphoric about the company's elite VC backing and access to U.S. distribution networks, both of which seemed like they'd give the company an edge in U.S. exports.

That was then; this is now.

In 2019, Tilray has been absolutely tanking, falling 71% from its peak price as of this writing. Its sell-off has been one of the steepest in this year's marijuana bear market, falling much more than **Canopy Growth** — a stock that's getting thoroughly decimated in its own right.

Why?

Although Tilray is losing money, its earnings figures are no worse than the class average for weed stocks, and its revenue growth has been defying gravity. To understand what's really going on here, we need to look at what sent Tilray skyrocketing to begin with.

Why Tilray took off in the first place

A big part of why Tilray got so hot is the fact that it had its IPO at exactly right time. The company went public in June, around the same time that Canopy's $5 billion M&A deal sent the entire weed sector soaring. As a result, the stock got lifted by sector-wide mania while also enjoying a post-IPO boost.

Tilray also benefited by optimism regarding its U.S. operations. The company was financed by well-connected U.S. backers and was one of the first Canadian marijuana producers to ship cannabis to the U.S. This seemed to bode well for the company's export prospects at a time when more and more American states were legalizing weed.

What went wrong?

The main factor that led to Tilray's rapid demise was the same one that led to its rise: timing.

As the company was born in the weed stock bubble, it was fated to fall when that bubble burst. In October 2018, the entire weed sector began tanking, and after a brief recovery in early 2019, resumed the fall later in the year. Most marijuana stocks are now trading for much less than their June 2018 prices. In this regard, Tilray is no different than its peers.

Another factor that could have contributed to Tilray's decline is its earnings. Although the company is growing revenue like lightning, with revenue up 371% and recreational sales up nearly 100% from the prior quarter, it's still losing money. In Q2, the company lost $35 million on revenue of $45 million, down from a $12 million loss in the same quarter a year before. Tilray's losses are actually fairly small as a percentage of revenue compared to the likes of Canopy. However, this was at one point one of the most expensive marijuana stocks in the world, and when you combine a high peak valuation with huge losses, a sell-off is all but inevitable.

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