



Why Did OrganiGram Holdings Fall 20% Yesterday?

Description

Another cannabis stock bites the dust after it reported preliminary quarterly earnings. Shares of **OrganiGram Holdings** (TSXV:OGI)([NASDAQ:OGI](#)) fell close to 20% yesterday after the company announced its preliminary fiscal fourth quarter of 2019 (year ended in August).

In fiscal 2019, OGI estimates sales of \$80.4 million, a rise of 547% year over year. The company has estimated net profit at \$16.3 million. However, OGI expects lower sales in the fourth quarter and \$1.6 million of packaging inventory adjustments in the August quarter to result in a negative adjusted EBITDA.

OGI expects to report improvement in the cost of cultivation per gram on a sequential basis as the harvested volume in yield per plant were normalized in the fourth quarter.

OGI CEO Greg Engel stated, "While Q4 2019 did not meet our overall expectations, we have not only emerged as one of the national leaders in the industry with significant growth expected in net revenue and strong market share, we expect to report positive adjusted EBITDA for the year.

He added, "And we remain relentlessly focused on running a profitable business which earns attractive returns on investment for our shareholders over the near and long term. We are encouraged by Ontario's recent announcement to expand the retail network and believe this should be an important catalyst to drive further growth for us and the industry as a whole."

[Similar to other cannabis companies](#), OGI has also been impacted by the lack of a robust retail network and slower than expected store openings in key provinces such as Ontario.

OGI further stated that market share is an important indicator of success for licensed producers, and sell-through to the end consumer is also a solid predictor of long-term sustainable growth. OrganiGram has a sales network across 10 Canadian provinces.

Although OGI has not given the market share it occupies in the cannabis market, it claims to have an enviable share in Canada's adult-use recreational space. OGI is one of the major players in Ontario and according to Ontario Cannabis Store; its OrganiGram's Edison brand was among the top-three

selling pre-rolls in the province.

A look at OGI's expectations

OrganiGram satisfied with its liquidity and capital reserve to fund operations and complete the expansion of its Moncton campus. At the end of the August quarter, OGI's cash and short-term investments will be close to \$48 million while total debt will be \$49.6 million.

In the first quarter of fiscal 2020, OGI has already shipped more sales compared to the same point in the August quarter. However, the company has refrained from providing guidance for the November quarter.

OrganiGram is on track to launch vape pens in mid-December, while cannabis-infused chocolate products will be launched in early 2020. While OGI and several other cannabis companies remain optimistic about long-term growth, there's a certain amount of uncertainty in a highly regulated market struggling with oversupply and lower than expected demand.

OGI stock is currently trading at \$3.57, which is 68% below its 52-week high. Analysts have an average target price of \$8.24 for OGI which is 125% above the current trading price at writing.

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Date

2025/07/06

Date Created

2019/11/13

Author

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