



Will Cronos (TSX:CRON) Stock Move Higher After a 25% Decline Last Week?

Description

Shares of leading cannabis company **Cronos Group** ([TSX:CRON](#))([NASDAQ:CRON](#)) fell over 25% in the last week. Why did Cronos Group investors lose a quarter of their market value in the week ended on November 15, 2019?

Cronos Group announced its third-quarter results on November 12 and reported sales of \$12.7 million — 238% higher compared to sales of \$3.76 million in the prior-year period. It's adjusted earnings per share (EPS) rose from -\$0.04 to \$0.53 in the same period.

Though the company reported strong sales in Q3, it was around \$3 million lower than consensus estimates and resulted in a sell-off. Further, cannabis giants such as **Aurora Cannabis** and **Canopy Growth** too reported underwhelming quarterly results last week, resulting in a bloodbath.

Key highlights for Cronos Group in Q3

In the third quarter, Cronos Group expanded its brand portfolio and included additional brands to target growth in the adult-use cannabis market. It closed the acquisition of [Redwood in Q3](#). Redwood manufactures and distributes hemp-derived cannabidiol-infused skincare and personal care products.

These products are sold online and via premium retail and hospitality channels under the Lord Jones brand. In the September quarter, this brand launched several new products in the U.S. market. Lord Jones has partnered with luxury shoe brand owner Tamara Mellon to develop a hemp-derived CBD formula in the foot application space.

Lord Jones products are sold in 800 premium stores that include Sephora, SoulCycle, and Neiman Marcus. Cronos Group is looking to capitalize on the increasing demand of hemp-based CBD products with the Lord Jones brand.

The company is looking to gain leadership in the hemp-based CBD space and launched the Peace+ in the U.S. The Peace+ would begin selling hemp-derived CBD tincture products across 1,000 stores in the U.S.

What next for Cronos Group and investors?

In the third quarter, Cronos Group added Alberta to its domestic distribution network for adult-use products. The company believes the adult-use cannabis market in Canada is still in its infancy and has tremendous potential to grow over the next decade.

During the earnings call, Cronos Group CEO Michael Gorenstein stated, "The number of retail stores as well as warehousing and logistic needs are in the process of catching up to meet the demand of consumers. As a result, we are still not able to fully reach the long-term total addressable market represented by this population."

Cronos Australia completed its IPO and raised \$20 million in equity capital. Cronos Group holds a 31% ownership stake in Cronos Australia. The company wants to adopt an asset-light model in Australia and expects to import and distribute Peace Natural-branded products for the medical cannabis market in the country. This IPO will help Cronos accelerate growth in Australia and gain a strong foothold in medical cannabis in Asia-Pacific.

Cronos will work with farmers and suppliers to support capacity needs instead of vertically integrating the entire supply chain. The company hopes to improve operational efficiency with this model and drive profit margins higher.

Similar to peer cannabis companies, Cronos has focused on expanding its product portfolio via partnerships and acquisitions. It is optimistic about the ever-growing medical cannabis space globally and is spending millions in capital expenditure and research.

However, as we have seen that majority of sales are still dependent on Canadian sales. The slow rollout of retail stores and competition from illegal markets will weigh in on the top line, at least in the short term.

Cronos Group stock has already lost 74% in market value since March 2019. Has it bottomed out or will the bear run further decimate the stock as 2019 comes to a close?

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