



## Should You Buy Organigram (TSX:OGI) Stock Today?

### Description

The fact that cannabis producer **Organigram Holdings** ([TSX:OGI](#))([NASDAQ:OGI](#)) delivered a 102% year-over-year net revenue growth for the recently reported first quarter of fiscal 2020 doesn't move me as much as a 54% sequential sales increase over a recent previous quarter does.

The year-over-year comparison pits one quarter with very little recreational pot sales generated in just one full month and a few weeks of legalization in 2018 against a full three months of consumer cannabis sales in 2019, so the triple-digit growth doesn't tickle a greedy growth investor's senses that much today, but that is not the most important part.

A recently reported Q1 2020 net revenue of \$25.15 million was 54% higher sequentially and 1.5% better than the \$24.75 million reported for the quarter, which ended month end in May last year (OGI's Q3 2019.)

Although the latest net revenue performance fails to surpass a peak performance of \$26.9 million in net sales by February 2019, I would still applaud the company's recent achievement for one very big reason.

The February 2019 quarter's revenue reading was potentially heavily inflated, as we later saw a \$3.7 million revenue writedown for the fiscal fourth quarter that ended in August. The sum was deducted as provisions for product returns and pricing adjustments on previously invoiced items.

I'd argue that the whole cannabis value chain, down to the retail store, now has a better understanding of customer demand patterns and consumer preferences than it had in, say, December 2018. So, there's a quite a slim chance that Organigram and peers will make new provisions for product returns on recently sold product going forward.

Therefore, the company's latest \$25.15 million revenue figure is likely more dependable than the nearly \$27 million recorded for the December 2018 to February 2019 quarter period due to the customer-knowledge edge gained thus far through the learning curve.

## Margins improvement

[As expected](#), the company released a better set of results this time.

The company's gross margin before fair-value adjustments has recovered to 37% from a low of 5% in a most recent past quarter. I would expect this profitability measure to improve with new edibles and vaporizer product lines after the succesful launches recorded thus far.

Selling, general, and administration expenses have been largely contained at 37% of revenue, and they could shrink further, as economies of scale kick in at higher volumes and revenue levels.

Most noteworthy, Organigram has returned to positive operating margins, as measured by adjusted EBITDA, and that is very encouraging for the company's profitability prospects. Adjusted EBITDA came in at \$4.9 million for the quarter or 19% of net revenue — a strong performance as compared to the past three consecutive quarters.

The return to profitability should be supported by the company's industry-leading, low-cost-producer profile, where cannabis was produced at a cash cost of \$0.61 per gram and "all-in" costs per gram were reported at \$0.87 per gram for the quarter, down sequentially from \$0.66 and \$0.94, respectively.

## Time to buy?

The company's strategic plans remain adequately financed, though at some cost, in terms of dilution, since management embarked on an at-the-money share-issuance program to beef up liquidity. The company still has some lines of credit available to help finance the growing operation.

I'm bullish on the company's preparedness to launch Cannabis 2.0 products right at the onset, and there could be some promise from its biosynthesis investment, which aims to produce cannabinoids at a fraction of traditional cultivation costs (in direct competition with **Cronos Group's** [hyped project](#)).

This a unique marijuana stock that could easily become a formidable low-cost leader and survive the competition, even if average pot prices were to decline further, and I expect operating profits to grow from here.

Maybe it's time to consider taking a bite into this emerging marijuana market winner for its long-term outperformance potential.

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