Why Canopy Growth (TSX:WEED) Stock Price Fell in 2019

Description

Everyone wants to make millions from marijuana stocks. Unfortunately, pot stocks haven't done too well this past year. The 52-week percentage change in price on **Canopy Growth** (TSX:WEED)(NYSE:CGC) stock is negative 51.54%. Today, it is trading for around $29.91 per share on the **Toronto Stock Exchange**.

Many Canopy Growth bulls are asking themselves, "Why did Canopy Growth stock fall during 2019?" That's not always an easy question to answer.

The entire marijuana industry definitely hit a bubble after Cannabis 1.0. Further, many pot stocks were suffering from day traders and speculators artificially manipulating the price of the stock in search of short-term profits.

After Cannabis 1.0 did so well, traders began calling the legalization of edibles and other CBD derivatives Cannabis 2.0, which only disappointed shareholders waiting for a stock price rebound. Many cannabis investors have gone home losers, cashing in high capital losses. Others who bought near the peak, wait to see if 2020 will be a better year for pot stocks.

Falling free cash flow partly to blame

The easiest way to explain Canopy Growth's poor stock price performance last year is through the firm's free cash flow. Canopy Growth stock's trailing 12-month [free cash flow](#) is negative $1.5 billion. Each quarterly earnings report has dug Canopy Growth into a bigger hole.

As the free cash flows continue to fall, investors push out expected returns to later years. These returns are then discounted by a larger amount, causing the price at which investors are willing to pay for Shopify stock to fall.

For the quarter ended September 2019, Canopy Growth reported the highest loss of free cash flow for the past 12 months at negative $431 million. Free cash flow is the sum of cash flows from operations, investing, and financing, or the cash flows from operations minus capital expenditures.

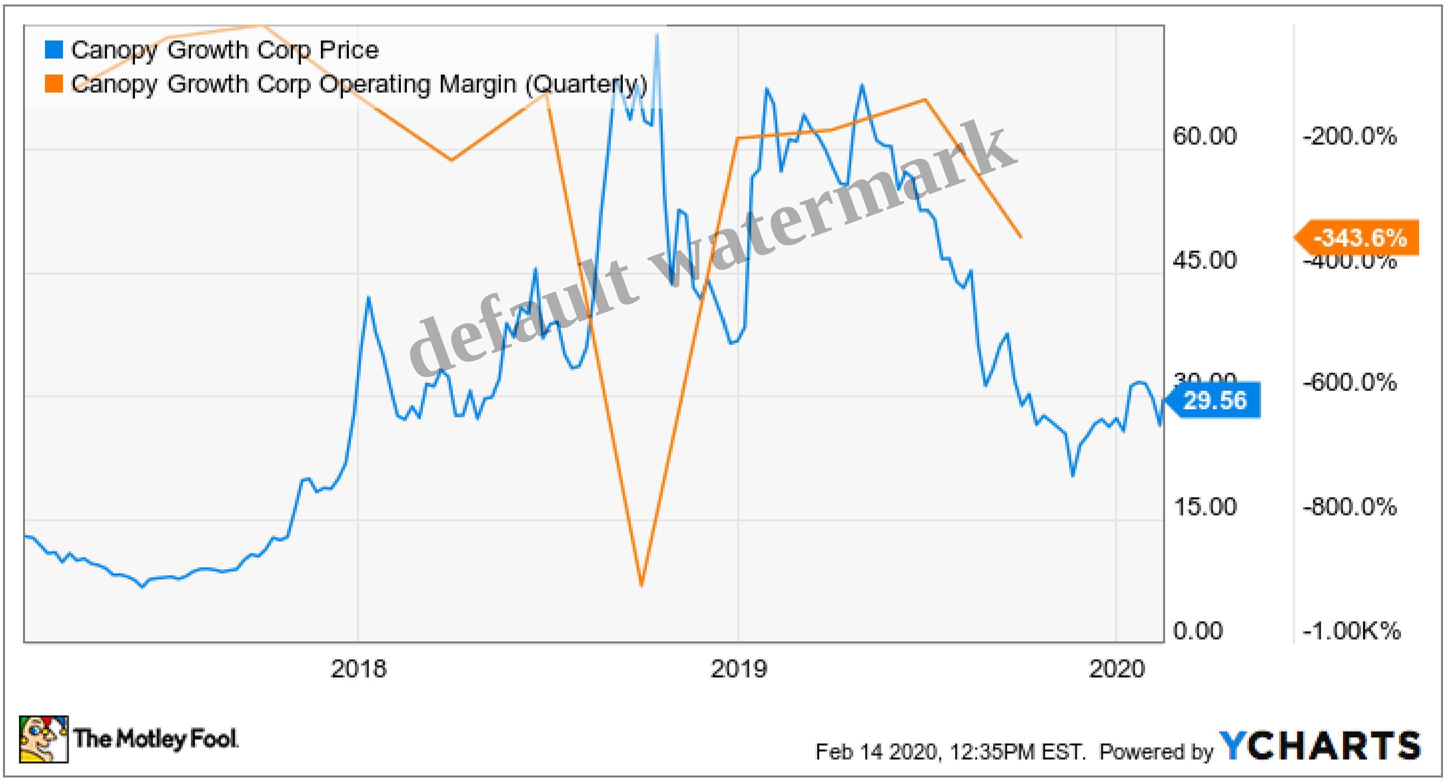
Canopy Growth isn't making any money

For the past 12 months, Canopy Growth has only reported negative cash flows from operations. In other words, investments the company has made in the past are not yielding any returns. Today, the trailing 12-month operating cash flow is negative $682 million.

Moreover, the company is continuing to invest heavily in projects without giving investors a reliable timeframe in which they can start seeing returns from their investment. The trailing 12-month capital expenditures total a negative $827 million. That’s a lot of money to invest in projects when past endeavours have not yet generated any positive income.

Canadians want cheap pot

Analysts have been saying it for a while: Canadians want cheap, black-market weed. Pot growers like Canopy Growth face high costs to produce and acquire weed. Even high-margin pot products and the shift to low-overhead e-commerce may not be enough in the short run to help weed stocks lift their operating margins.



Right now, the operating margin is the driving force behind pot stocks and cannabis news headlines. If you want to make big money on the rise of the cannabis industry, keep an eye on rates of margin growth.

Pot stocks that can report the best margin gains will turn out to be the winners over the next decade. The companies that can best compete by cost to give consumers the best price on their medicinal and recreational marijuana products will attract the most capital.

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