Why Charlotte's Web (TSX:CWEB) Stock Is Crashing Today

Description

Today, shares of **Charlotte's Web** (TSX:CWEB) were down more than 15% by midday. That's because earlier in the day, the company announced that it would be issuing shares that would help it raise $67.5 million. The offering would be for 10 million shares at a price of $6.75. There is an option for an additional 1.5 million shares that, if exercised fully, could lead to Charlotte's Web raising more than $77.6 million in total.

Not only does the deal mean more dilution for shareholders, but it's at a lower price than where the stock closed at on Monday — $7.32. And so it's no surprise that there's been a sell-off happening as a result. Any time there's a hint that there may be downward pressure on a stock price, many investors may look to sell their shares to minimize potential losses.

Should long-term investors be concerned?

Equity issues are nothing new for the cannabis industry, as cash is always at a premium in the industry. In the press release, Charlotte's Web said that the "net proceeds from the offering are expected to be used primarily to fund the company's business development and for general working capital purposes."

It's those last few words that may irk investors, as any time you see a vague reason such as "general working capital" for the reason of an equity issue, it suggests that the company may not have sufficient cash on hand. There could be many bankruptcies in the cannabis industry due to COVID-19, and so it's definitely going to raise some eyebrows when a cannabis company is raising money to fund its day-to-day working capital needs.

The Colorado-based cannabis company released its most recent quarterly results on May 14. It reported that as of March 31 it had US$53 million of cash on hand. That's down from US$68.6 million on December 31, 2019. During the first three months of the year, Charlotte's Web burned through US$14.9 million just from its day-to-day operating activities. And while that would suggest that its cash on hand may be sufficient to last multiple quarters, the COVID-19 pandemic may be stretching its operations thin, especially if sales haven't been strong.

Is Charlotte's Web a buy on the dip?

With the stock falling on Tuesday, it could be an opportune time for investors to consider buying it. It was about a month ago that the stock was trading below $6.20. There's a possibility that it could continue to go lower, but maybe not all that much. Outside of the March market crash, where it fell to just above $4 a share, the stock has seen fairly stable support around $5.70, and in May it even hit a high of more than $10.

The closer the stock gets to $6 the better of a buy it becomes. Although Charlotte's Web has failed to post a profit in its last three quarters, that hasn't normally been the case for the company. And if it can get back to breakeven, it could again become one of the safer cannabis investments to hold. And now, with an influx of cash coming the company's way, liquidity is something that investors may not have to worry about for a while.

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