



Canopy Growth (TSX:WEED) Stock: Can It Lead the \$70 Billion Cannabis Market?

Description

Leading cannabis company **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) identified Canada, the U.S., and Germany as its core markets during the recent investor day call. Canopy Growth has forecast the global cannabis market to be valued at \$70 billion by 2023.

It forecast the total addressable market (TAM) at over \$60 billion in the U.S. in case the product is declared legal at the federal level. It also forecasts the U.S. CBD market at \$10 billion. The marijuana giant plans to launch 40 CBD products south of the border and [leverage its position](#) as a leader in this segment.

What are the challenges outlined by Canopy Growth?

While the cannabis industry is expected to grow at a rapid pace, Canopy Growth has outlined several issues plaguing marijuana producers. It claims that marijuana is not accepted as a retail product despite its legalization. Several users are still hesitant to start using these products as a result. This continues to impact demand for most licensed producers.

Another issue that continues to impact pot producers is a thriving black market. The company estimates just 40% of Canada's cannabis users buy products from licensed producers.

How does Canopy Growth aim to surpass these challenges?

Canopy Growth revealed that it has taken multiple approaches to tackle these problems — one approach is to focus on introducing cannabis-infused alcohol drinks to consumers. It continues to focus on innovation and develop products such as vapes and gels to generate demand across product categories.

Beverage giant **Constellation Brands** has a 38% stake in Canopy Growth. Canopy CEO David Klein served as the CFO of Constellation Brands prior to this transition. Canopy is well poised to lead the

cannabis-infused beverage market and has shipped over 500,000 beverage drinks since they were launched recently.

Canopy has forecast Canada's beverage drinks market at \$26 billion and expects to account for 5% of this space, according to a [Yahoo! Finance report](#). This indicates an annual revenue of \$1.3 billion for the company. In fiscal 2020, Canopy generated \$399 million in total sales and this figure is expected to reach \$539.5 million in 2021.

In order to offset lower demand due to the above-mentioned reasons as well as a slower-than-expected rollout of retail stores in major Canadian provinces, Canopy Growth is focused on reducing operating costs.

Since the start of 2020, Canopy Growth has laid off 800 employees as it aims to improve profit margins. The company expects this headcount reduction and cost-saving efforts will help it save \$20 million on an annualized basis.

What next for investors?

Canopy Growth stock is trading at \$23.3, which is 57% below its 52-week high and 70% below record highs. Most cannabis companies have lost massive value due to structural issues plaguing the pot industry.

Canopy Growth stock is the largest marijuana company with a market cap of \$8.6 billion. It is valued at 16 times forward sales and continues to post an adjusted loss.

The pot heavyweight will have to reduce losses and drastically improve profit margins as well as grow its top-line at a rapid pace to support its lofty valuation.

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Date

2025/07/02

Date Created

2020/06/25

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