# Is OrganiGram (TSX:OGI) Stock a Buy Before Earnings?

### Description

Shares of pot stock **OrganiGram** (TSX:OGI)(NASDAQ:OGI) have been decimated in the last 15 months. The stock is trading at $2.16, which is 80% below its record high. OGI stock is down 30% in 2020 as well. However, marijuana stocks are making a comeback in recent months as several of them including OGI have cut costs, exited unprofitable operations, and reduced cash burn.



The demand for recreational cannabis products is also on the rise after the easing of COVID-19 lockdown restrictions. OrganiGram will be reporting its results for the quarter ended in May, on July 21, 2020. Should you buy the stock before its earnings?

## OrganiGram expects revenue to decline on a sequential basis

OrganiGram delayed its quarterly earnings announcement by a week due to coronavirus-related difficulties. Further, the pot giant confirmed it expects revenue to decline in the fiscal third quarter, compared to the second quarter of 2020.

OrganiGram also reduced its workforce by 25% to cut sales, and other operating expenses to improve the bottom-line and meet lower demand. The company expects its wholesale revenue to be muted in Q3 due to pandemic-related issues.

This should concern investors, as overall cannabis sales have increased in Canada. While monthly marijuana sales were forecast at $151 million between December 2019 and February 2020, it is forecast at $181 million for March and April 2020, according to Statistics Canada.

OGI ended the February quarter with a cash balance of $41.2 million. OrganiGram has focused on lowering operational costs for a while. In April this year, it laid off 45% or 400 employees. In June, the company issued 21 million shares for gross proceeds of $49 million.

Given its cash burn of $8 million in the first six months of fiscal 2020 and recent cost reduction efforts, OGI is well poised to ride the ongoing downturn.

On the flip side, OGI dependent on its large customers. In the Q2 earnings call, the company confirmed its three largest customers each account for over 10% of sales. The company's debt balance of $87 million and customer profile might concern long-term investors.

## Will OGI's Cannabis 2.0 products drive sales higher?

Cannabis 2.0 products might provide a lifeline to OrganiGram and peers. Cannabis 2.0 includes cannabis-infused derivative products such as vapes, beverages, concentrates, and edibles.

OGI was one of the early movers in the 2.0 space and launched its first batch of related products in December last year. It also launched Edison + PAX Era distillate vape cartridges in the fiscal second quarter of 2020.

In April 2020, OGI launched Trailer Park Buds, a recreational marijuana brand in a license agreement with the makers of Canada's Trailer Park Boys TV show which has a cult following. However, Health Canada stopped OGI from marketing Trailer Park Buds making it difficult for the company to create a recognizable brand among a slew of similar products.

## The Foolish takeaway



OGI is not out of the woods and might continue to experience volatility in the near-term. It is well poised to benefit from its early-mover advantage in the derivatives space.

Further, while focusing on profitability, the cannabis producer continues to expand its international presence as can be seen with its recent supply contract with Israel-based Canndoc.

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