Why Canopy Growth Stock Plunged 66% in 2021

Description

Cannabis giant **Canopy Growth** (TSX:WEED)(NYSE:CGC) saw shares plummet by 66% in 2021. Of course, it wasn't alone. The entire cannabis industry remains a volatile one. And it's one that many Motley Fool investors wonder if they should get out of.

Could there be an opportunity for those seeking gains in 2022 and beyond? Cannabis continues to be legal in much of the world, including more and more states in the United States. Should legalization happen even relatively soon, shares of Canopy Growth may shoot up.

Let's look at why Canopy Growth fell last year and whether Motley Fool investors should see this as a red flag or a "for sale" sign.

Pandemic problems

The pandemic has been incredibly hard on Canopy Growth, which continues to strive towards profit without reaching it. The company had a history of making expensive acquisitions, driving research and development, and spending tonnes to be at the top.

This left it as the largest cannabis company in the world, sure. But it also left it in the rearview as more and more marijuana companies turned a profit. Then the pandemic hit. This left Canopy struggling even more, closing down facilities and seeing production drop in an already difficult environment.

Its latest earnings report tells it all. During the second quarter, Canopy Growth reported a 3% decline in net revenue, and a 13% decline if you excluded acquired businesses. While operating expenses declined by 49% year over year, it came with massive cuts to staff, research and development, administration and more. Finally, it reported a net loss of $16 million, which was an improvement, and adjusted EBITDA loss of $163 million, which was $77 million more than the year before.

Burning through cash

All these cuts come as the cannabis company continues to burn through cash. Between March and September of 2021, Canopy Growth stated that it reduced its cash position by $300 million. It still has $2 billion on the books, but that is a significant number.

That's why it's now divesting itself of basically whatever it can. Recently, that included its C^3 Cannabinoid Compound Company to a German company for around $115.5 million. That hardly makes a dent, but it's a start.

The rest of the plan to bring in cash and burn less will come from its new strategy. That's to take on more of a market share in Canada, especially as growth lags in the United States. Clearly, the pandemic shifted worries away from legalization and towards COVID-19. It's unlikely to move at all until the pandemic is behind the country.

Foolish takeaway

So, should you give up on Canopy Growth? I'd still say, "No." The company could still have an incredibly bright future and see these last few years as a learning opportunity. While it isn't out of luck yet, it certainly grew too fast and furious. That left it in a poor position, as it continues to aim towards a profit.

When the pandemic is over, Canopy Growth should see legalization in the United States. And that will make revenue soar beyond measure. But until then, it remains a volatile stock that may even shrink lower. So, while I wouldn't sell it, I probably wouldn't buy it today either. Simply see this situation as a long-term hold that Motley Fool investors will need to ignore for a while.

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