



Why Tilray Stock Fell Almost 60% in 2022

Description

Similar to most other [Canadian cannabis stocks](#), **Tilray** ([TSX:TLRY](#)) underperformed the broader markets by a wide margin in 2022. Shares of the Canadian marijuana giant fell close to 60% in the last 12 months and are currently trading 92% below all-time highs. Let's see why.

Industry-wide issues

Canadian marijuana producers have been wrestling with a variety of industry-wide issues ever since pot was legalized in the country in October 2018. Tilray and its peers were initially impacted by the slow rollout of retail stores in major provinces as well as competition from a thriving black market.

Soon after marijuana was legalized in Canada, several producers went on a shopping spree and acquired competitors at a hefty premium to increase market share and enter other verticals. They also increased production capacity at an accelerated pace to benefit from economies of scale.

However, a thriving black market and lower-than-expected demand resulted in lukewarm sales and tepid revenue growth in the last four years. Further, overvalued acquisitions led to multi-billion-dollar write-downs, while rising competition and oversupply of cannabis resulted in negative profit margins.

To offset high cash-burn rates, almost every cannabis company on the TSX raised equity or debt capital several times, leading to a weak balance sheet and shareholder dilution.

Cannabis remains illegal south of the border

Shortly after the presidential election in the U.S. in late 2020, cannabis stocks gained pace in the following months. Investors expected the U.S. Democratic Party to legalize or at least decriminalize marijuana at the federal level.

Further, it was also anticipated that the SAFE Banking Act would pass in the U.S. Congress, providing traditional access to capital to marijuana businesses in the country.

But these expectations did not materialize, which accelerated the selloff among pot stocks in 2022. The Canadian cannabis market is quite small compared to the U.S. market. If recreational marijuana were legalized in the U.S., Canadian licensed producers would be well poised to benefit by gaining access to a rapidly expanding multi-billion-dollar market.

The legalization of pot in the U.S. will be a key tailwind for Tilray and its peers in the upcoming decade.

What's next for Tilray stock and investors?

Tilray is currently valued at a [market cap](#) of US\$1.68 billion and reported sales of US\$628.37 million in fiscal 2022 (ended in May). Valued at less than three times trailing sales, Tilray expects sales to surpass US\$4 billion annually by fiscal 2024, which is quite an ambitious goal.

For Tilray to achieve its revenue-growth forecasts, it will have to acquire companies aggressively or depend on legalization in the United States and Europe. It ended the August quarter with less than US\$500 million in cash, suggesting Tilray will have to infuse additional capital to pursue inorganic growth.

Alternatively, Tilray is positioned to cash in if the U.S. and other markets legalize pot for recreational use. In 2021, Tilray disclosed a strategic transaction with MedMen, a multi-state operator in the United States. Tilray acquired US\$165.8 million of convertible debt in MedMen, which will convert into ownership in the event of marijuana legalization.

Tilray also acquired multiple distilleries and beer breweries to enhance its distribution network and enter the edibles segment.

Similarly, Tilray has a sizeable presence in Germany, which is on track to legalize adult-use cannabis in the next two years.

The Foolish takeaway

Tilray remains a high-risk bet due to industry-wide challenges impacting the company as well as uncertainties surrounding pot legalization in international markets. Analysts remain bullish on the stock and expect it to surge over 80% in the next 12 months.

CATEGORY

1. Cannabis Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:TLRY (Aphria)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. araghunath
2. tmfwordnerd

Category

1. Cannabis Stocks
2. Investing

Tags

1. Editor's Choice

Date

2025/06/27

Date Created

2023/01/04

Author

araghunath

default watermark

default watermark