# Why Canopy Growth Stock Fell 72% Last Year

### Description

Similar to most other cannabis stocks, **Canopy Growth** (TSX:WEED) trailed the broader markets by a wide margin in 2022. Currently valued at a market cap of $1.6 billion, Canopy Growth stock fell by 72% last year and is now down 96% from all-time highs.



But Canopy Growth has a well-established presence in Canada and is among the largest marijuana producers in the world. So, let's see what impacted WEED stock in 2022 and if it can stage a comeback this year.

## A look at Canopy Growth's profit margin

At its peak, Canopy Growth was valued at more than 25 times forward sales. Right now, WEED stock is priced at less than four times fiscal 2024 sales (ending in March). Canadian cannabis companies have been under the pump since 2019 due to an increase in competition and cannibalization from a thriving black market, thereby accelerating cash-burn rates and weakening their balance sheets.

In the last three years, Canopy Growth's gross margins have narrowed significantly. Further, its revenue in fiscal Q2 of 2023 grew by just 10% to $118 million.

In recent years, Canopy Growth and its peers focused on expanding sales of high-margin products such as edibles and marijuana concentrates to drive bottom-line growth. But its falling gross profits indicate Canopy's plan is still a work in progress.

The company is now looking to exit an oversupplied Canadian retail market and create a presence south of the border in the hope that marijuana will be legalized at the federal level in the United States. In fiscal 2022, Canopy's operating expenses totaled $450 million, and it also reported a net loss of $302 million. So, a divesture of its Canadian business will help reduce losses and free up liquidity to gain a foothold in the world's biggest cannabis market.

Canopy has partnerships with a few cannabis operators in the U.S., allowing it to have a presence in21 states in the country.

But it might take at least a few more years (if not more) for recreational marijuana to be legalized federally in the U.S.

## Is WEED stock a buy right now?

In the September quarter, Canopy Growth's recreational marijuana sales fell by 35%, its B2B (business-to-business) model declined by 40%, and retail sales were down 23%. In the last two years, recreational sales have fallen by 37% from $61 million.

The company also reported a negative free cash flow of $135.4 million in the quarter — an increase of 34% year over year. It ended the quarter with more than $1 billion in cash, indicating Canopy Growth will have to shore up profits and race toward profitability within the next 36 months.

It might be tempting to invest in Canopy Growth stock, given its deep pockets and leadership position in Canada. But it would be prudent to wait until cannabis is legalized in the U.S. to even think about this fundamentally weak stock right now.

Analysts remain bullish on WEED stock and expect shares to gain more than 30% in 2023. But for me, it remains a high-risk bet with little upside potential.



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