# Canopy Growth Corp.: Let's Do the Math

## Description

Each investor operates differently, and there are many unique and profitable trading strategies. For the Foolish investor, trying to assign a value to expectations can be hard, but it's something I recommend doing for each stock one owns or intends to own in his or her portfolio. This article will attempt to give a very "rough" pro-forma analysis for **Canopy Growth Corp.** (TSX:CGC) to try to de-mystify how investors are thinking (or not thinking) about the intrinsic value of this company.



**Let's make some assumptions**

Before building our pro-forma analysis, we need to decide on a few critical inputs.

Let's set the pro-forma date to September 30, 2018 (two years down the road from the most recent company financial statements).

Let's also assume the role of a bullish investor and assign the following values to inputs for the company's income statement:

- Annual revenue growth will continue for the next two years at 342% (average quarter-on-quarter revenue growth of 136% to the power of four)
- Annual cost growth will continue for the next two years at 210% due to increased expansion costs (average quarter-on-quarter cost growth of 120% to the power of four)
- SG&A costs, R&D costs, and depreciation/amortization will continue to increase at their year-over-year levels of 212%, 238%, and 218%, respectively. These inputs are essential for the company to continue at this anticipated growth trajectory.
- Unusual expenses (income) will revert towards zero (as they should be unusual).
- The income tax rate for the company will move toward the Canadian average corporate tax rate of 25%. This is an estimate, which may be lower if carry-over losses are considered, but let's keep this conservative considering we're accepting very bullish growth conditions.
- Let's assume the company will continue to make acquisitions and dilute the share structure further. Year over year, the number of shares outstanding have increased by 148%. This is an essential input for us to determine what our earnings per share (EPS) will be, and thus, the price

earnings ratio (P/E ratio) moving forward.

What we get is an estimate of the fully diluted Q3 earnings in 2018 of $0.06 ($0.24 annually), which, at the current price and with an increased number of outstanding shares, would give us a diluted price to earnings ratio of approximately 50.

One thing to note: Canopy Growth's recent financials for September 30, 2016 are listed as Q2 2017 due to their year-end in Q1. Please take note of this when doing your own calculations.

Please also note that the assumptions you enter into your spreadsheet will affect the outputs significantly. Choose them with significant thought and discretion.

These results are interesting and show that investors may be looking to own this stock much longer term than other manufacturing stocks, while either holding more bullish assumptions than myself or believing the long-term growth rate in this industry will remain high and margins will not weaken with competition.

Stay Foolish, my friends.

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**TICKERS GLOBAL**

1. TSX:WEED (Canopy Growth)

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