The Annual Financials of Canopy Growth Corp. Aren't All Good

Description

A few weeks ago, **Canopy Growth Corp.** (TSX:WEED) announced results for the final quarter of the 2017 fiscal year. The good news for the year ended March 31 is that investors did not overreact in either direction. Instead, shares, which traded around the $8 mark before the announcement, closed the week on July 7 at a price of $7.80.

Given the status of the industry, investors seem to be in more of a waiting pattern than anything.

As is the case with new industries, or new "high-growth" companies, investors can rationalize a lot of very bad news for a very long time before things really need to get better with. In the case of Canopy, the yearly results may be starting to prove this point.

When going through the annual report, investors can generally compare the fiscal years of 2017 and 2016 very easily. The numbers are listed side by side.

Beginning with the balance sheet, it is difficult to make much of a comparison given that the company went public during the year and the shareholders equity section changed drastically. Additionally, any mergers and/or acquisitions undertaken by the company will alter the balance sheet.

Although the total amount of assets have increased dramatically, this number has been significantly offset by an increase in share capital and not the liabilities. From an investor's perspective, this translates to the raising of equity.

If we look next at the income statement, we can see that the company has continued to lose money. During fiscal 2016, the company lost a total of $2.75 million based on revenues of $12.7 million. The loss is approximately 21.6% of revenues. As the industry expanded significantly during fiscal 2017, the total loss did as well.

This year, the company lost a total of $15.2 million from revenues of $39.9 million. The loss has accelerated to 38% of revenues. Clearly, things are getting worse and not better.

With the hope that many of these expenses are one-time items, such as the cost to acquire a customer, it is important to consider the cash flow statement to figure things out.

Beginning with fiscal 2016, the company reported cash flow from operations (CFO) in the amount of negative $13.5 million. Consistent with the losses, the CFO for fiscal 2017 increased to negative $27.1 million.

For those who believe in the long-term bull case for this company (or the industry), the good news is that although the negative CFO doubled, it was based on revenues which increased by 214%.

According to the cash flow statement, things are improving for the company as we move closer and closer to the legalization of marijuana.

Although the company is clearly not able to continue operating under present conditions, the good news for investors is that the market is expected to change drastically in a period of less than one year. Until that time, investors choosing to hold the name for the long term need not worry. As of the end of March 2017, there was no less than $101 million in cash sitting on the balance sheet.

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