Canopy Growth Corp. Investors Learn the Hard Way That Profits Matter

Description

Canopy Growth Corp. (TSX:WEED) announced on June 27 that its operations lost $15.2 million on $39.9 million in revenues. The reaction from investors since then has been rather muted, although its stock is down almost 4%.

While the top line is rocketing higher, unfortunately, so too is the bottom line. Losses, along with other business-specific and industry-related issues, have its stock in a funk not seen for a very long time.

It's been almost three months since I last wrote about Canada's largest medical marijuana company. Lots has happened to Canopy and the rest of the industry in a few short months, and while I generally see WEED in a positive light, I think investors need to remember why they buy stocks in the first place.

To make money!

Anyone who bought Canopy stock in the euphoria last November or this year in early February and is still holding is sitting on a 40% paper loss with not much hope for recovery in the second half of 2017.

Of course, when you'd bought its stock, I'm sure you weighed the risks against the rewards associated with owning a money-losing operation in a very young industry with a lot of potential regulatory roadblocks ahead.

You did, right? Oh, you didn't? My condolences.

Earnings count 90% of the time

Almost every publicly traded stock, no matter how great the business behind it is, must answer the earnings bell at some point in its young history.

Sure, there are outliers, like **Amazon.com, Inc.**, **Netflix, Inc.**, and **Shopify Inc.** here in Canada. They're given considerable leeway while they scale their businesses to the appropriate moment when volume more than makes up for low prices.

However, these are unusually rare circumstances where a business changes how we live our lives, whether it be personally or professionally.

Unless Canopy fits the Amazon mould and is somehow uniquely changing our lives, which, at the moment, isn't something we can easily determine so early in the game, earnings become the default financial indicator that all investors must rely on to skate through an unknown future.

How long do we have to wait?

That's the $20 million question. If I had the answer, I doubt I would be sitting here typing away at my computer. I'd be out on a lake somewhere enjoying the summer, but I digress.

Fool.ca contributor David Jagielski recently recommended investors consider **MedReleaf Corp.** (TSX:LEAF), a Toronto-based cannabis producer, because it is grown organically without the need for acquisitions. It's one of the only profitable cannabis producers anywhere, and its stock is up 10% since a poor first-day return when it went public in June.

He's right. Profits matter.

"Since inception, MedReleaf's objective has been the creation of long-term shareholder value, a trait shared by all great companies, regardless of industry," wrote Neil Closner, MedReleaf's CEO in the company's annual message. "It is a laser-like focus on this key objective that has driven every strategic and operational decision that management has made and that we will continue to make as we work to extend our leadership position within the cannabis industry."

MedReleaf's financials show that as its production facility in Markham, Ontario, got to 100% capacity in the fourth quarter of 2016, its cash cost per gram sold dropped by 46% in fiscal 2017. Also, its adjusted product contribution per gram sold increased by 19% — a telltale sign of a good business operation.

Bottom line

I still think Canopy has an opportunity to be the world's largest cannabis company, but that's going to mean as long as 36 months without profits.

My suggestion is to buy some MedReleaf stock to go with your Canopy shares. That way, you lower your risk profile while staying in the game.

After all, profits matter.

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