Projecting Revenues for Canopy Growth Corp. for 2018

Description

As the marijuana industry is still in its infancy, projecting the total potential revenues and earnings into the future is not very easy to do. In the past week, an article was published about the total potential for the marijuana industry; the article can be found here. The numbers were projected by using the average amount of money spent on alcohol per adult, which led a number of people to believe that the estimate of $5 billion was much too low, as not enough weed could be smoked on a monthly or weekly basis. Investors need to remember that any estimates of this new industry are exactly that: estimates.

When considering the amount of capital expenditures (capex) of Canada's largest marijuana company over the past few years (and the revenues that follow the capital expenditures), investors may be able to arrive at a credible estimate for top-line revenues. The expectation is that by looking at historical trends of capex and the revenues that followed the investments in long-term capital, investors can potentially project out a baseline amount of revenues on a go-forward basis. Essentially, we're looking for a clearer picture for the future.

To estimate the revenues for the next fiscal year, we will look at historical levels for **Canopy Growth Corp.** (TSX:WEED) over the past several years. For fiscal 2015, the company spent close to $15.4 million in capex, which led to revenues of $12.7 million (82% of capex) the following year. For fiscal 2016, capex totaled $12.2 million, which was then followed by revenues of $39.9 million in fiscal 2017. The increase in revenues on a year-over-year basis was $27.2 million, and the total amount of capital expenditures over this two-year period was $27.59 million.

Given the amount of revenues for the past full fiscal year was approximately 144% of the two previous years' capex, we can potentially estimate the amount of revenues for the 2018 fiscal year as:

144% X ($29.53 + $12.2 + $15.39) = $82.25 million.

To make things even more interesting, the company has also spent close to $10 million on capex this year. Given that the company has learned how to ramp up production after many years of practice, revenues could be even higher than the projected $82 million.

When looking at the numbers for the first quarter of this fiscal year, revenues have already grown to

$15.87 million, as the company is clearly reaching better economies of scale. At $15 million per quarter, revenues are expected to be more than $120 million for the year. It is clear that the company is either ramping up production at a much faster rate (for new projects), or taking a considerable amount of time to realize the absolute full potential of each new project that is being undertaken.

For investors holding shares in this company, it will be critical to understand the importance of patience, both with the company's ability to grow their product in addition to the entire marijuana industry, which will need to time to come to fruition as things shake themselves out.

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