



What to Make of Canopy Growth Corp.'s Latest Earnings Report

Description

Canada's leading medical marijuana producer and current market darling **Canopy Growth Corp.** ([TSX:WEED](#)) reported its third-quarter results on February 14 for the three- and nine-month period ending December 31, 2017.

Strong results in Q3

Canopy is the largest marijuana producer in the world for good reason, and the company continued to deliver in the third quarter with strong results.

Third-quarter [revenue was up 123% over the year-ago period](#), and sales were up more than 24% over the second quarter.

Product sold — measured in equivalents of dry product — was 2,330 kilograms in the quarter, which was an 87% increase from a year ago; meanwhile, Canopy increased the number of its medical patients by 6,000 in the quarter, or a 10% increase from the period ended September 30.

At the end of 2017, Canopy had approximately 69,000 patients on record compared to 29,000 patients at December 31, 2016. That the company has more than doubled its medicinal user base in less than a year is encouraging, as the cannabis market rushes to get to scale in advance of July 1, 2018, the expected date that recreational pot is expected to become legal.

A look to where the market may be headed

One of the big stories in the marijuana market over the past year has been the widespread adoption of [cannabis oils and gel capsules](#).

In the third quarter, Canopy saw sales of its oils and gel cap products account for 23% of its overall sales, which was an increase over prior periods and helped to raise the company's realized sale price per gram to \$8.30 from \$7.36 a year ago and \$7.99 in the second quarter.

Meanwhile, Canopy managed to lower its average cost per gram to take product to harvest from \$1.25

to \$1.03 over the past year.

This development could potentially have huge implications for the industry as operations begin to reach scale.

In the past, when marijuana was restricted to the black market, value-added products like oils and capsules simply weren't available for consumption, so there's really no telling the potential size of this new market.

There's no turning back now

From the beginning, management at Canopy has been clear about its commitment to developing scale and becoming the world's biggest multi-platform creator of high-value, branded offerings both in Canada but also extending to international markets like Australia and Germany.

A testament to the company's ability to execute this vision was a \$200 million investment by **Constellation Brands, Inc.** and expansion plans that are currently under development to build over five million square feet of greenhouse space and indoor grow facilities.

But every rose has its thorn: be aware of the risks

However, investors should be aware of the risks that aggressive plans for expansion like this can carry.

Canopy has yet to post an annual net profit and burned through \$118 million cash in Q3 alone.

While the company still had over \$230 million of cash on the books at the end of Q3, a lot of this will be drawn down in future quarters, as it continues to invest in expansion projects.

But that doesn't mean the long-term future still isn't bright for this Smiths Falls-based grower, particularly if the company can be successful in tapping into newer markets like oils, gels, and international markets.

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