Should Investors Be Concerned About Canopy Growth Corp's (TSX:WEED) Q1 Results?

Description

While the euphoria and excitement around a $5 billion deal with **Canopy Growth Corp.** (TSX:WEED)(NYSE:CGC) and **Constellation Brands** has led to the cannabis stock hitting over $40 a share for the first time since June, investors shouldn't lose sight of the fact that Canopy Growth recently reported its quarterly results, which weren't all that impressive.

Although Canopy Growth did grow its sales by 63% from a year ago, there were still many things on its financials that raised concerns for me, and that investors shouldn't ignore. The obvious one is the big net loss the company reported totaling over $90 million, which was nearly 10 times the loss that Canopy Growth recorded a year ago.

What makes that number even more concerning is that this occurred after the company benefited from fair value changes in its biological assets of over $30 million, which was more than triple the $9 million gain that it posted a year ago.

Why did the company still post such a big loss?

Costs have soared across the board, plain and simple. Gross margins have declined as well, as a year ago, Canopy Growth kept 55% of its sales after direct costs, compared to just 43% this past quarter. In terms of dollars, however, the change amounts to a little more than $2 million.

The big increase came from the company's operating expenses, however, where costs more than tripled from a year ago. In particular, share-based compensation was more than 10 times higher than it was last year, rising by more than $20 million. General and administration expenses were up $12 million, or 161% higher than a year ago.

As a result, Canopy Growth's loss from its operations grew from just $4 million last year up to $31 million this past quarter. It also didn't help that the company incurred over $60 million in other costs, which were mainly related to its investments and acquisitions. That turned a bad quarter into a downright awful one.

Is cash a problem?

Investors also shouldn't ignore the company's cash flow statement, as there are concerns there as well. In the past quarter, Canopy Growth used $67 million in cash from its operations and needed to issue $600 million in debt. While the injection of cash from Constellation will help in a big way, if Canopy Growth doesn't start generating more cash on its own, then it's still going to be a problem down the road. The company's ambitious growth and plans for expansion around the world mean that it's going to be burning a lot more cash in future quarters.

Bottom line

If you're only looking at sales growth, then Canopy Growth did well this past quarter. However, if you're considering any figures below the top line, then it's a much different story. Cannabis investors have by and large turned a blind eye to the losses that marijuana companies have incurred with regularity, blaming it on early growth and expansion.

The problem is that sooner or later, investors are going to be expecting some more tangible results, and it can't just be future expectations that keep pushing the stock price higher. At some point those future results should start being realized, otherwise, the stock could be headed for a big correction.

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