3 Takeaways From Canopy Growth Corp's (TSX:WEED) Q2 Earnings

Description

Yesterday was a big day for the cannabis industry. **Canopy Growth** (TSX:WEED)(NYSE:CGC) released its first post-legalization earnings, and the results were … mixed. Although the report only factored in "limited test shipments into recreational channels," it is our first early glimpse into how legalization is panning out for Canopy. It should be noted that these "test shipments" are valued just $700,000 and are therefore a tiny fraction of the company's total recreational sales for the year. Nevertheless, this is a milestone earnings report that comes at a very pivotal time for Canopy.

So, how did Canada's "king of cannabis" do in Q2?

We can start by looking at revenue growth.

Revenue growth slowed

Canopy's revenue for Q2 was $23 million, which represents 33% growth over the same quarter last year, which is a pretty solid figure in itself; however, it is concerning that this is down from the 63% Canopy achieved in Q1. Drastic revenue growth reductions are usually not a good sign, especially in companies that have not yet become profitable. However, I should be clear once again that these Q3 results only reflected minuscule early recreational shipments. I fully expect Canopy's revenue growth in Q3 to be extremely high.

Loss widens

Here's the part of Canopy's Q2 earnings that worries me the most: the company lost money yet again. Not only that, but the loss is way, way up: in Q2, Canopy lost $330 million compared to $1.6 million a year before. Of course, this loss factors in one-time costs like building infrastructure (e.g., new grow sites and physical storefronts) ahead of legalization. Nevertheless, a loss this big is a serious concern. But before getting too freaked out about it, we should look into the underlying causes.

Expenses up

The big reason Canopy's loss widened in Q2 was that its expenses were up across the board. Sales and marketing costs grew from $7.6 million to $39 million. R&D costs roughly quadrupled. Share-based compensation expenses went into orbit, growing from $5.86 million to $45 million. A lot of these ballooning costs can be explained by the extensive preparations the company underwent ahead of legalization. Still, it has to be said: Canopy is burning through cash.

Bottom line

Canopy's Q2 earnings report comes at a pivotal time for the company. After months of anticipation, we finally have a sneak peek into how it is doing post-legalization. Nevertheless, the total impact of legalization on the results reported yesterday was minuscule. Less than $1 million worth of recreational "test shipments" were included — compared to $23 million in *total* revenue. That is a drop in the bucket compared to what we'll be seeing in Q3, which will factor in almost three full months of recreational sales.

On the surface, I think Canopy's Q2 earnings are concerning. However, I also think that these earnings aren't nearly as important as the ones we'll see posted in three months. I would wait until then before taking a position in Canopy stock.

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