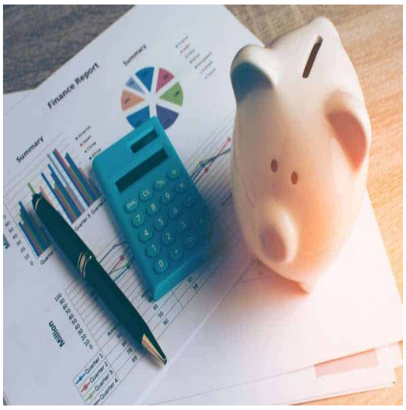

Breaking Down Canopy Growth Corp's (TSX:WEED) Awful Q2 Results

Description

Canopy Growth Corp (TSX:WEED)(NYSE:CGC) saw its share price tank after releasing quarterly results this past week that showed sales falling well short of expectations. Posting a loss has not been that big of a deal for cannabis stocks thus far, but missing on sales could be disastrous for an industry that has long promised astronomical growth.

For the quarter, analysts were expecting the company to hit sales of around $60 million. Instead, Canopy Growth recorded just $23 million in sales, a year-over-year increase of 33%. It's a catastrophic miss for a company that's been the poster boy for the cannabis industry, and it could have investors second guessing the industry's ambitious growth targets.

Not only did Canopy Growth miss on sales, but its financials were downright brutal.

Changes in fair value cripple the company's gross margin

Investors might recall that in prior periods, Canopy Growth and other pot stocks getting a big benefit from changes in fair value where gross profits sometimes eclipsed sales, making them look a little funny. As expected, the pendulum finally swung back, and this quarter Canopy Growth incurred fair value losses totaling more than $40 million, pulling its gross profit into the red.

Shared-based compensation weighs down financials even further

Operating expenses totaled more than $180 million in Q2 and were nearly seven times the $27 million incurred a year ago. Share-based compensation was a big driver behind the increase, making up nearly $100 million of those expenses, compared to just $7 million in the prior year.

Also showing significant increases were general and administrative costs, which grew from $8 million to $37 million. Sales and marketing costs saw a similar increase, going from $7 million up to $39 million.

Last year, Canopy Growth came close to breaking even on its operations, but this year it was deep in the red with a loss of more than $214 million. Other expenses related to fair value saddled the company with an additional $111 million, which led to an overall net loss of $330 million for the quarter.

Is Canopy Growth falling behind its peers?

Earlier in the week we saw other big-name cannabis companies release their earnings, which showed much stronger results. **Aurora Cannabis** saw its top line more than double from the prior year, while **Tilray Inc** was able to grow its sales by 85%.

It's likely that we'll see Canopy Growth bounce back next quarter, especially with recreational sales playing a big role in those results, but other producers will also see a boost, which could be a warning sign that the company may be losing its position in the industry.

Should you consider buying the stock?

Canopy Growth was down big as a result of the disappointing earnings, and it's not a stock that I would consider buying anytime soon. These results have likely created a lot of doubt as to whether the company will be able to achieve the growth needed to justify its high stock price. It's a very risky investment today, and the stock could see a lot more bearish activity in the weeks and months to come.

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