



3 Things to Look for When Canopy Growth Corp (TSX:WEED) Releases Earnings Next Month

Description

The big day is just around the corner. In February, **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) will release its Q3 fiscal 2019 earnings, which will include revenue earned from a full three months of legal cannabis. Although the company's Q2 report did include some initial test shipments of legal pot, its September 30th cutoff date meant it was not a true post-legalization report. The upcoming February earnings will be a better gauge of how the company fared in the first quarter of legal cannabis and may be a bellwether for the cannabis industry as a whole.

When Canopy's Q3 earnings come out, investors will get a glimpse into the company's future. If you're a Canopy investor (or are considering becoming one), here are three things to keep an eye on.

Production capacity

Production capacity is an extremely important metric for Canopy. The square feet of grow space the company has determines how much cannabis it can grow. This is important because a lack of adequate grow space contributed to the post-legalization fiasco where vendors found themselves sold out of cannabis for weeks.

Although "production capacity" is not listed as a line item on Canopy's earnings statements, it is often included in management's discussion and analysis. For example, in the company's Q2 report, management disclosed 4.3 million square feet of indoor grow space. To meet demand, the company will likely have to expand on that, so keep an eye on this number in February.

Costs

Cost control is a major issue at marijuana companies — Canopy included. In Q2, the company's loss ballooned to \$330 million, thanks to increases in spending on general admin, marketing, and share-based compensation. Another contributor was changes in [fair value of biological assets](#), a factor that can't be blamed directly on management but is worth noting.

Canopy's losses can't keep going up forever. The aforementioned Q2 loss was around 150 times what the company lost in the same quarter a year before. Should losses continue mounting at even one-tenth that rate, the result would be a loss greater than what Canopy has in total assets. So, investors will definitely want to keep a close eye on how Canopy is managing those expenses.

Revenue growth

Last but not least, investors should pay attention to Canopy's revenue growth in Q3. Revenue was a major sore spot in Q2: growing at just 33% year over year, it failed to keep up with the company's ballooning costs. Now, 33% is pretty strong growth for most stocks, but it underperforms relative to cannabis industry standards. It's also down from the growth that Canopy had posted in past quarters, where it hit around 60% year over year. If Canopy wants to retain its title as the number one pot producer, it will need to get that revenue growth up, as **Aurora Cannabis** is quickly closing in with [260% year-over-year growth](#) in its most recent quarter.

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