Canopy Growth Corp's (TSX:WEED) Earnings Soar in Record-Breaking Q3

Description

Yesterday, **Canopy Growth** (TSX:WEED)(NYSE:CGC) released its earnings report for Q3 fiscal 2019 — a period that included three full months of legal cannabis sales. The results exceeded all expectations. Not only did Canopy succeed in delivering positive net income; it narrowed its operating loss, and grew revenue enough to pull ahead of its main competitor, **Aurora Cannabis**.

The report also showed that Canopy's retail strategy is putting it well ahead of the competition and virtually guaranteeing it the number one spot in the near to medium term. The good news couldn't come at a better time, as Canopy struggled in Q2 with slowing revenue growth, which put it temporarily behind Aurora in terms of sales. Now, things are looking up for Canopy on almost every front. The following are just a few highlights from Canopy's all-around great Q3 report.

Record-breaking revenue

Canopy broke a cannabis industry revenue record in Q3, achieving $98 million in gross sales and $83 million in net revenue. These are well ahead of Aurora's revenue figures for the same period, cementing Canopy's status as the king of the cannabis castle. Net revenue was up 282% year over year, which is a mighty fine growth rate. It was made possible by 7,300 kilograms of legal recreational cannabis sales, which goes to show that legalization is working wonders for the company.

Positive net income

Now for the part nobody expected: Canopy posted positive net income in Q3 to the tune of $74 million. Although Canopy's revenue figures were roughly in line with analyst estimates, the positive net income was totally unexpected. Granted, as is usually the case when cannabis companies post positive earnings, they were mostly a result of financial changes; the big contributor was changes in the fair value of financial assets and liabilities. However, there were some encouraging signs on the operating front as well.

Operating loss gets smaller

Canopy has a long history of running operating losses, and Q3 was no exception to that pattern. However, the loss from operations in Q3 was smaller than Q2's $211 million loss — coming in at just $157 million. On a year-over-year basis, the operating loss grew, but quarter by quarter, it got smaller, which goes to show that Canopy is inching closer and closer toward profitability.

Foolish takeaway on Canopy's Q3 earnings

Overall, Canopy's Q3 earnings report was everything investors could have hoped for. The company returned to frothy revenue growth after beginning to stall in Q2. It achieved positive net income after several quarters of mounting losses. It trimmed $50 million off of last quarter's loss from operations. And it proved that its retail strategy is working, selling 7,300 kilograms of legal recreational cannabis. Any doubt that Canopy was Canada's number one pot stock has been obliterated. The only question is how much further it has to go.

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Date
2025/08/24
Date Created
2019/02/15

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