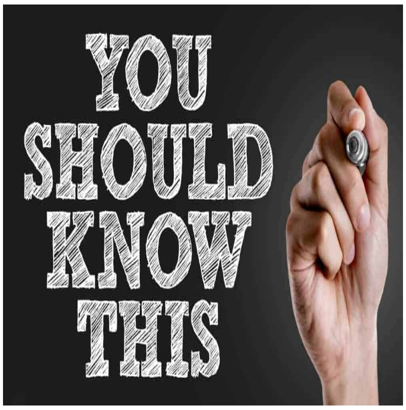

4 Takeaways from Canopy Growth Corp's (TSX:WEED) Q3 Results

Description

Canopy Growth Corp (TSX:WEED)(NYSE:CGC) released its quarterly results this week, which showed sales skyrocketing from a year ago. The company's net revenues reached over $83 million during the quarter, which was up 283% from the $22 million that Canopy Growth posted in the prior year. However, let's dig a little deeper into the results to see just how well the company did and whether it's a good buy today.

Gross margin down overall

What's surprising is that despite being up more than $60 million increase in its top line, Canopy Growth's gross margin was actually down by around $4 million from last year. The company incurred significant inventory costs during the quarter, which brought down its gross margin and chipped away the benefit from the increase in sales.

Operating expenses continue to outpace revenues

As much as sales grew, operating expenses grew even faster. Operating expenses of $170 million quadrupled the $43 million in costs that Canopy Growth incurred a year ago. The company spent the most on general and administrative costs, which at over $46 million were more than all of its operating costs a year ago.

This has unfortunately become the reality for many pot stocks – rising sales and even higher expenses . As a result of the increase in expenses, Canopy Growth ultimately posted a loss from operations of $157 million, which is well up from the $26 million loss it recorded a year ago.

Net income boosted by other income

Despite lower margins and rising expenses, Canopy Growth still recorded a net income of $75 million for the period. The reason for that is the other income of $235 million, which gave the company's financials a big boost. The main item added to other income was a fair value gain of $186 million as a result of change in fair value of convertible notes. Another $36 million came from value changes to the values related to warrants.

Cash flow statement shows significant cash burn

In its cash from operations, Canopy Growth used up more than $97 million in cash to fund its operating activities. It also used up $1.4 billion in cash related to investing activities, with just under $800 million relating to the purchase of marketable securities.

As a result of the significant use of cash, Canopy Growth had to issue more than $5 billion in shares and warrants during the quarter.

Bottom line

While Canopy Growth did achieve significant sales growth thanks to recreational pot sales, it's the rest of the financials that should have investors a little worried. Even with such a significant increase in sales, Canopy Growth's financials don't look much stronger. As a result, they are still largely dependent on other income in determining whether the company will be able to turn a profit or not.

That's a problem, as it means that the company's day-to-day operations is not profitable, nor is it producing positive cash flow. I would hazard against investing in a company that has to rely on other sources of revenue in order to turn a profit, as it suggests that its fundamentals are a problem. Positive sales growth is about the only positive takeaway from these results, which certainly isn't enough to make Canopy Growth a buy for me, especially given how expensive the stock is.

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