Canopy Growth Corp (TSX:WEED) Makes a Mistake

Description

During the after-market hours on February 20, leading marijuana firm **Canopy Growth** (TSX:WEED)(NYSE:CGC) filed an amended and restated Management Discussion and Analysis (MD&A) for its recently released mixed quarterly earnings results for the three-month period ended December 2018.

The company filed its financial statements on February 14, and there was a small error in management's commentary on the quarterly and year-to-date operating performance that the company has identified and decided to fix quickly.

What was the error?

In its initial management's discussion and analysis of financial condition and operating results for the three and nine months ended December 31, 2018, the company erroneously reported a nine-month adjusted EBITDA loss of $69 million. This was way too low a year-to-date figure.

The correct figure was supposed to be an adjusted EBITDA loss of $155 million.

Management has since corrected this number, stating that the mistake emanated from a "formula error in the spreadsheet supporting the year-to-date adjusted EBITDA loss calculation."

Was this a material error?

Anyone who has been closely following the company's disclosure of a "previously identified material weakness" since early 2017 in which management concluded that "the company did not maintain effective internal controls over corporate-wide End User Computing spreadsheets" may be quick to think that maybe something has significantly gone wrong with the company's books.

But no, this error doesn't look material in any significant sense.

The said formula error affected a single non-GAAP profitability measure and had no effect on the company's main financial results reported on the income statement, the cash flow statement, and its balance sheet. The situation could, however, have been different had this error been located in the main financial statements named above, as this could have potentially shaken investor confidence and trust in the company's financial reporting quality.

I have seen one or two companies make glaring errors right in the statement of cash flows, the correction of which would have affected balance sheet and income statement figures, but Canopy's minor "misdeed" here is just a small embarrassment to the CFO that wouldn't normally concern investors, and I doubt the market will read much into it.

Most importantly, Canopy's disclosed weaknesses in the use of manual and complex spreadsheets was "most significantly around the valuation of inventory and biological assets and the related classification of line items on the Consolidated Statements of Operations," and the company has been addressing them since.

The company is implementing an enterprise resource planning system that is expected to go live in October this year that will automate and standardize business processes across the group. This will further reduce any chances of human error.

Investor takeaway

The leading marijuana producer made a minor error in its MD&A this month, but there seems to be no reasonable basis to worry about the matter. However, I would have personally freaked out if this error affected reported financial statements.

Unless a restatement of prior released financial statements has been necessitated by a financial reporting standard, any error induced restatement of prior results could reflect badly on a company's reputation, and for Canopy's sake, I am glad the corrected error had nothing to do with its sacred financial statements.

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Date
2025/09/09
Date Created
2019/02/22
Author
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