Why Cronos Group Inc's (TSX:CRON) Q4 Results Weren't Good Enough to Give the Stock a Boost

Description

Cronos Group (TSX:CRON)(NASDAQ:CRON) released its quarterly results yesterday in what was its first quarter that included recreational pot sales. The period ending December 31 saw revenues increase from $1.6 million to $5.6 million, for a year-over-year improvement of 248%. Although dried cannabis sales of $4.2 million were the bulk of the company's top line, it was cannabis oil that saw the biggest growth with revenues increasing by more than 800%.

However, as we've seen with other cannabis companies, the problem is not the top line, it's everything that falls beneath it. Operating expenses and cost of sales saw significant increases and eliminated any benefit from an improved sales number, and it ultimately posted an operating loss of $11.5 million.

Gross profits took a big chunk out of the company's top line

Last year, Cronos benefiting from fair-value adjustments that actually increased its gross profit by nearly $2 million. This past quarter, however, we saw the opposite happen, as the company was left with just $900,000 in gross profit. The danger with these fair-value adjustments is that they can swing in either direction, and that makes earnings reports for marijuana companies especially volatile and sometimes unpredictable.

However, even if the company had a strong gross profit, it wouldn't have mattered, as operating expenses were still far and away higher than Cronos's top line.

Operating expenses soar 328%

It's a bad sign when your expenses rise at a higher rate than sales, and that's what Cronos saw happen in this past quarter. Operating expenses totalling $12.4 million were well up from the $2.9 million the company incurred a year ago. General and administrative expenses of $5.9 million were already more than last year's tally. However, sales and marketing expenses saw the biggest increases, rising 853% year over year, and research and development costs of $2.4 million weren't incurred last year.

As a percentage of revenue, operating expenses represented 222% of sales compared to 180% a year ago. It helps to put into perspective that while there was a big increase, perhaps it wasn't astronomical given the growth the company experienced. However, it's still something that Cronos will want to keep an eye on to ensure costs don't get out of control.

The reason for the increases in costs, according to the company, came as a result of an increase in consulting fees and costs related to the **Altria** investment in addition to bringing on more staff in what's been a very high-growth period for the industry.

Is Cronos a buy?

The stock didn't get much love from investors on these results, as it declined by a little more than 1% on Tuesday. However, given that its share price had doubled in the past three months and Cronos is trading around all-time highs, the company was going to need something big to pull its price up even higher. Compared to its peers, I'd say Cronos did how I would have expected — lots of sales growth and even higher expenses. And that's just not going to be enough to justify this expensive stock trading at an even higher premium.

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