



Why Cronos Group Stock Fell 17% in May

Description

As the cannabis industry matures, investors have gotten less patient about quarterly results. If companies don't blow through analyst expectations, their stocks get punished.

That's definitely the case for **Cronos Group** ([TSX:CRON](#))([NASDAQ:CRON](#)), which reported Q1 2019 results May 9 that didn't quite hit the bar.

On the top line, revenues were \$6.5 million, which was 120% higher than the \$2.9 million in sales a year earlier. However, analysts were expecting \$7.0 million, a \$500,000 miss. On the bottom line, analysts were expecting a US\$0.03 loss in the quarter; Cronos delivered a US\$0.36 profit.

Don't get too excited about the earnings beat, however. The company records the warrants issued to **Altria** and the Anti-Dilution Rights related to the \$2.4 billion investment it made in Cronos as derivative liabilities produce gains and losses from quarter to quarter based on the fair value of those derivative liabilities. In the first quarter, that worked out to a non-cash unrealized gain of \$436.4 million. If you focus on the operating loss, Cronos was able to reduce that by 75% in the quarter to \$558,000.

Another data point to reflect on from the quarter is the company's cost per gram. Although it was 14% lower than a year earlier at \$2.69, it's a long way from being competitive should the wholesale and retail price of cannabis continue to decline.

While the report wasn't terrible, the fact that the company isn't anywhere near its 2020 target capacity of [117,000 kilograms](#) by the end of 2020 has investors wondering if it's unrealistic.

Another possible reason for Cronos stock being lower in May is the number of short sellers it attracts. As of the middle of the month, 15.9% of Cronos' shares were short, the second-highest percentage for cannabis companies trading on the **TSX** behind only **Tilray** at 21.4%.

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