Canopy Growth (TSX:WEED) Sets Profit Goal for Its Canadian Operations

Description

Canopy Growth Corp (TSX:WEED)(NYSE:CGC) has done a great job of growing its sales in recent quarters. However, recording a positive earnings result has proven to be much more elusive and difficult for the company. When it does post a positive net income figure, it's usually the result of non-operational items that give the company a boost, which isn't something investors can rely on from one period to the next.

That also means that cash flows aren't particularly strong either, and the problem is that it could lead to the company issuing more shares, which will result it downward pressure on its share price. That's something the company wants to avoid, especially with its stock not performing very well lately. As of the end of last week, Canopy Growth's share price has declined more than 18% since the beginning of May.

While the stock is still up around 50% year to date, it's clear that investors have been a bit more hesitant to buy Canopy Growth. One of those reasons is likely the inconsistency in its financials. The company has had to deal with a big miss on revenues late last year, and with a weak bottom line, there are plenty of reasons for investors to be bearish on the company's recent performance.

There is still plenty of hope for the future, especially if its deal with **Acreage Holdings** goes through, but there's still lots of uncertainty surrounding it.

Planning for profitability

One of the ways that the company can try and improve its position with investors is to try and focus on profitability, which is what the company plans to do. Last week, Canopy Growth's CFO Mike Lee said, "We're very clear that when it comes to Canada as a stand-alone business that we expect to be EBITDA positive in the next 18 months."

EBITDA is a more realistic target for the company than net income. It's also likely more relevant for investors, as a good EBITDA number will better reflect aspects of the business that the company has control over during the short term, and will help indicate the direction of its cash flows as well.

Cash is always an important consideration because a lack of it means more debt or equity that needs to be raised in order to fund expansion, and Canopy Growth is looking to minimize its use of equity issues.

In order to finance its operations, the company is looking at many options, including setting up a real estate investment trust or using secured financing. It's good news for investors who may worry about future dilution, but it also underscores why it's important for Canopy Growth to be EBITDA positive and be able to fund its own growth, at least in Canada.

It's clear that the company has set its sights onto the U.S., where it'll likely continue to burn through cash as it looks to dominate that market in the years to come. And that's where cleaning up its house in Canada and ensuring that operations are generating cash will be key in helping the company grow in other parts of the world.

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djagielski