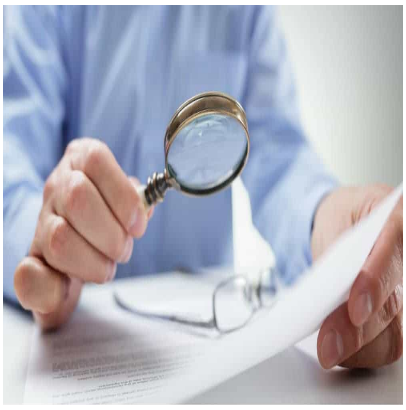

3 Worrying Weaknesses in Canopy Growth's (TSX:WEED) Latest Earnings

Description

The king of cannabis **Canopy Growth** (TSX:WEED)(NYSE:CGC) released its fiscal 2019 earnings and fourth-quarter results for the period ended March 31 on Thursday aftermarket, and shares traded nearly 9% lower, as investors adjusted their valuation opinion on the leading pot stock.

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The company was yet to file its full results on Sedar.com by the time of writing on Friday afternoon, but what exactly could have fueled investor disappointment in the company's latest results?

Here are some preliminary highlights that could explain some of the negatives in Canopy Growth's fourth-quarter results.

A revenue beat, but weaknesses in the core business

The company's quarterly net revenue of $94.1 million was a good 13% higher than what was achieved in a most recent quarter, and the figure did surpass consensus analyst estimates, but one critical revenue growth segment is weakening.

Total cannabis gross revenue, the company's main business, was just $82.3 million if we adjust for the "other revenue" line, which contributed $24.1 million in sales during the fourth quarter. In comparison, cannabis gross revenue during the previous quarter was $90.2 million after adjusting for the $7.5 million in "other revenue" reported in February. This translates to a nearly 9% sequential decline in core business sales generation quarter over quarter.

Suddenly, the 13% growth reported begins to look unimpressive on second thought.

Moreover, the company's medical cannabis sales performance hasn't been that impressive, as the industry inched towards recreational legalization last year. Medical segment revenue was a mere $13.4 million during the last quarter, down nearly 40% from a year ago, and a 28% sequential drop from a previous quarter.

Worse adjusted gross margins

If investors were unimpressed by the 22% adjusted gross margin (before fair-value adjustments) reported for a previous quarter, they will surely not like the sequential drop to under 16% in the same profitability measure achieved during the last quarter.

The company's cash cost of production is still increasing, and it makes sense why management stopped reporting the average cost per gram metrics a while ago. The numbers could have been probably worse.

Increasing operating losses

Canopy Growth is still a high-growth stock, and operating expense growth could be an accompanying feature as the company builds more fighting muscle to grow market share and conquer the global cannabis market.

That said, some of the company's close competitors are increasingly focused on generating positive operating earnings as measured by adjusted EBITDA now, and **Aurora Cannabis** is one of them.

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Canopy Growth is failing on this operating earnings measure, and things are rather getting worse. Fourth-quarter adjusted EBITDA was an increased loss of nearly $98 million, higher than quarterly net revenue. The company seemingly needs a lot more time and multiple revenue growth miracles just to break even.

Foolish bottom line

Canopy Growth will likely take longer to report a positive operating earnings quarter. Investors have shown some disappointment in the latest financial results release, and further details in the full report could worsen the damage on the share price.

The company still has some $4.5 billion war chest held in cash, cash equivalents, and marketable securities that enables it to plan and execute a global offensive in the budding marijuana space, and the recent acquisitions and forays into the United States hemp and CBD market could become worthy growth frontiers.

There could still be some reason to hold the stock, but latest results could exacerbate the turbulence already inherent on industry tickers.

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