3 Key Takeaways From Canopy Growth's (TSX:WEED) Q4 Results

Description

Canopy Growth Corp (TSX:WEED)(NYSE:CGC) stock has been struggling in recent months amid a disappointing performance in Q4 that's only made things worse. While sales continued to grow, so too did the company's losses, calling into question the likelihood of Canopy Growth becoming EBITDA positive anytime soon.

Here are the three things that stood out to me from the company's most recent quarterly results:

Operating expenses rose 332% while sales grew by 312%

This is a troubling trend for Canopy Growth, as it suggests a lack of efficiency in the company's operations — one that is seeing its expenses climb at a higher rate than its revenues. Canopy Growth saw big increases across all its major expense categories, including share-based compensation that increased by more than $60 million, a near $50 million rise in general and administration expenses, and sales and marketing expenses that were up by $38 million.

The challenge is that with edibles becoming legal later this year, they'll be even more pressure on expenses, and those line items are likely to rise even more.

I'm a bit skeptical as to whether Canopy Growth can actually make any improvements here, yet changes will be needed in order for the company to have any real hope of reaching anywhere near breakeven.

In Q4, the company's loss from operations totalled $174 million, which was more than triple the $51 million loss recorded last year.

Fair value gains of $53.5 million not enough to pull the company into the black

Canopy Growth received a big boost to its gross margin this quarter, as changes in fair value shot its gross profit up to $68 million, which was significantly higher than the $5 million recorded last year. In the prior year, the company incurred a loss of $2.5 million related to changes in fair value.

These fair value changes can create a lot of noise on the company's financials, making it difficult to predict how it will do. What's concerning is that even with a big benefit this quarter, it was still not nearly enough to pull Canopy Growth out of the red.

Gross margins of 15.9% were much lower than 33.6% last year

If Canopy Growth has any hope of being able to reach breakeven, its gross profits (before changes in fair value) will need to be a lot stronger. In Q4, this line item increased by just $7 million despite net sales increasing by more than $71 million.

It's a discouraging sign that could be a problem, especially as more supply hits the markets, putting even more downward pressure on prices. These margins could get squeezed even further, rendering it more difficult to ensure that there's enough left over to cover the company's rising expenses.

Bottom line

There are some big concerns that investors should be aware of judging from Canopy Growth's most recent quarterly results. As well, a great deal of change will be needed in order for the company to have much of a chance of reaching breakeven. As it stands today, unless the company has something significant planned, reaching breakeven doesn't appear to be attainable anytime soon.

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