A Swing and a Miss: Why Canopy Growth Corp's (TSX:WEED) Earnings Were Disappointing

Description

It finally happened: **Canopy Growth Corp** (TSX:WEED)(NYSE:CGC), the largest cannabis company by market cap, released its quarterly earnings. The much anticipated results weren't very impressive, however. Let's see why the investing world largely yawned at the pot company's latest financial results.

Revenues keep soaring

To be clear, Canopy remains the leader in the Canadian cannabis market. The firm still holds the largest market share, beating all of its competitors in terms of net revenues. During the last quarter, Canopy's net revenues were $94.1 million (narrowly edging consensus estimates), a 300% year-over-year increase and a 13% increase quarter over quarter. Naturally, most of Canopy's revenues (about 73%) came from the recreational market.

In this department, the firm is truly crushing the competition, as none of its peers comes close to its revenues within the recreational segment. Despite these positive results, however, investors have been relatively immune to soaring revenue figures in the pot industry, as has been the norm for most major pot firms.

So while it's important to point out Canopy's standing in the industry, it's just as important to keep mind that insane revenue growth is widely expected of industry leaders such as Canopy.

Net losses widen

Many pot companies aren't profitable yet. Thus, Canopy posting a net loss isn't particularly surprising. Still, not many people expected such a drop in the company's bottom line. Canopy's $323.4 net loss was a significant decrease from its $74.9 million third-quarter net profit.

Of course, last quarter's net profit was not very impressive, as it was due to a decrease in its share price and the accompanying adjustment related to convertible notes.

That said, the $0.98 adjusted loss per share was wildly off most analyst estimates. The $97.7 million earnings before taxes, depreciation and amortization (EBITDA) was also worse than the consensus analyst estimates.

Although Canopy pinned the losses on sales and marketing investments as well as administrative costs, its bottom line was perhaps the most important factor that led to a decrease of more than 8% in the company's share price.

What happens now?

Investors might also be wary of the fact that gross sales of marijuana, both in the recreational market and the medical market, were down compared to last quarter for the pot company. In particular, Canopy's medical sales took a steep dive of more than 40% quarter over quarter.

On the other hand, the firm recently detailed a plan to enter the U.S. CBD market. By way of a reminder, the sales of CBD derived products are expected to soar past the $10 billion dollar mark in the coming years.

Naturally, this is too big of an opportunity to pass up. Canopy announced it had CBD operations in seven states south of the border already, and at full capacity, these operations could cover more than 4,000 acres. Further, the firm announced that its deal to acquire U.S.-based **Acreage Holdings** pending the relaxation of marijuana laws at the federal level in the U.S. was approved by the shareholders of both companies.

In short, Canopy is set to enter the largest market in the world (in a big way) if the U.S. federal government decides to roll back restrictions on marijuana.

Investor takeaway

Canopy's revenues increased once again, and the firm still holds the largest market share in Canada. Just as important are the pot company's current efforts to enter the U.S. market. If this pans out, Canopy will likely remain the king of the marijuana industry for many years to come.

That said, it's hard to look past the company's widening bottom line. While there's definitely a silver lining, Canopy failed to deliver a stellar performance this time around.

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