Why Canopy Growth's (TSX:WEED) Biggest Investor Isn't Pleased With Their Results

Description

Remember **Constellation Brands Inc** (NYSE:STZ)?

It's a name that hasn't come up much lately. But last summer, they were all the rage, as their $5 billion **Canopy Growth Corp** (TSX:WEED)(NYSE:STZ) investment was the biggest story at the time. The investment triggered a massive bull market in cannabis stocks, which sent all of the major producers soaring before later crashing in the fall bear market.

Since then, it's been mostly quiet on the Constellation Front. Their investment did infuse Canopy with a giant pile of cash, which it used to finance acquisitions like Acreage Holdings, but other than that, not much has happened… until just recently.

In their Q1 conference call, Constellation executives said that they were not happy with Canopy's full-year results. An unusually blunt statement for a formal corporate event, it could have serious implications for Canopy's short term value. Although Constellation executives were quick to point out that they're still optimistic about Canopy's long term prospects, their recent statement raises questions about the company's operations.

Huge net loss

In his Q1 conference call statement, Constellation CEO Bill Newslands said that he was *"…not pleased with Canopy's recent reported year-end results."* Although his statement was vague, Newlands was almost certainly referring to the company's large and growing net losses.

In Q4, Canopy reported a net loss of $323 million for the quarter and $670 million for the year–both up significantly from the comparable periods a year prior. These massive losses both include non-operating items; however, even the Q4 operating loss was large at $174 million.

Interest expense way up

As a result of the costs it incurred acquiring Canopy, Constellation Brands' interest expense was up by 31% or $40 million in its most recent quarter. The company is also forecasting total interest expenses of $425-$435 million for 2020.

Of course, a big jump in interest is to be expected: $5 billion is a lot of financing. However, if Canopy isn't going to turn a profit any time soon, such massive increases are hard to justify, as they eat into Constellation's profit considerably.

Long term optimism

Despite all the costs they've taken on in acquiring Canopy, Constellation's executives remain optimistic about the investment. In his conference call statement, Newlands said*, "We continue to aggressively support Canopy on a more focused, long-term strategy to win markets and form factors that matter, while paving a clear path to profitability."* This indicates that Constellation Brands executives still believe Canopy has a good future ahead of it.

On the other hand, it's clear that Canopy's growth can't continue at the expense of profits forever. Even excluding non-cash items, the company's losses are often around two times revenue, which isn't long term sustainable. It would be unfortunate if Canopy spent all the money it received from the Constellation deal without generating profit from it. At the rate the company is burning through cash, though, that just might happen.

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