



## Is Canopy Growth (TSX:WEED) Stock a Buy After Founder's Departure?

### Description

Leading cannabis firm **Canopy Growth Corp** ([TSX:WEED](#))(NYSE:CGC) stunned the market on Wednesday last week after announcing the immediate departure of its Co-CEO and Board Chairman Bruce Linton and his ouster from the board. Is the stock a buy after this fundamental leadership change?

A growing number of institutional investors in a growth stock can be a great thing, and we celebrated the inclusion of Canopy on the **S&P/TSX Composite** as well as the record \$5 billion investment by **Constellation Brands**, but true to their calibre, and as [previously discussed](#), institutional investors can have a significant influence on corporate governance and business strategy.

We have just witnessed the shocking ouster of the key man, the visionary, the co- chief executive, the board chairman and the iconic face of the world's largest marijuana company being thrown overboard the dream ship he constructed and commanded from the humble chocolate factory begins to an \$18 billion dollar firm.

Why would a key employee leave so abruptly?

The market can only speculate on why Mr Linton was terminated from his well-deserved positions, but there have been growing [concerns and worries](#) over the path to profitability in the company's cannabis operations. The latest set of numbers didn't impress, rather they hurt Constellation Brands's bottom line too.

To the extent that the new CEO will successfully steer the ship into operating profitability, Bruce's departure could mark a significant strategic shift in the company's focus from a high powered acquisitions led growth profile with mounting losses to a profitability focused growth trajectory and a market share consolidation phase that investors will greatly love.

On the other hand, the new leader could face a tough challenge in the Canadian space. The revenue decline in the medical cannabis segment over three consecutive quarters and organic sales weaknesses shown in the latest set of results could have been a result of some structural issues, including a weaker than expected product demand, falling average prices and subsequently increasing

effective average excise tax rates due to the fixed \$1 a gram tax on sales below \$10 per gram.

The company must internally to lower production and operating expenses per gram, as well as externally to vigorously defend its seemingly shrinking local medical cannabis market share.

There's no doubt that Canopy is about to undergo a strategic refocus, probably instituted and influenced by Constellation Brands, and the new henchman will have an over \$4 billion deep resource wallet to finance whatever new growth and profitability strategy the board has in mind.

I'm cautiously optimistic on the global cannabis market leader's stock.

A new focus on rescuing the bottom line would be welcome, and a transition from a visionary, growth at any cost leadership style to a more traditional, tamed, operations and logistics focused one could mitigate cash flow bleeding and improve operating margins.

That said, some potential growth opportunities could unfortunately be foregone in the pursuit of near term profitability as a new management philosophy is adopted and there's the potential for key employee turnover and demoralised staff after the "family" head is momentarily and unceremoniously dismissed.

Further, the timing of the chief executive's departure just three days after a quarter close may be suspicious. The most recent quarter to June could have produced some numbers as poor as the recently released March earnings.

The downtrend in the share price that began in May could persist for longer and provide better entry points for long term investors, unless there's a clearly bullish fundamental news release the likes of an appointment of a highly esteemed new CEO or a better quarterly report mid-August.

Happy investing Fools.

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brianparadza

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