A No-Nonsense Look at Canopy Growth Since Its IPO

Description

Even if you aren't a big investor, chances are you're still aware that the marijuana industry has been the hottest thing since the internet on the stock market.

For the last two or three years, investors have gained (and lost) a lot betting on these stocks, with **Canopy Growth Corp.** (TSX:WEED)(NYSE:CGC) emerging as one of the top players in this young industry.

Yet even as stocks go up and down, there is still a lot of opportunity to grow in the future. Wall Street estimates that worldwide, cannabis sales could be worth up to US$75 billion a decade from now.

Millennials love marijuana

Part of the reason stocks like Canopy have done so well is that a new wave of investors have entered the market. In fact, Canopy is one of the most popular marijuana stocks held by millennials, based on the 20 most widely held stocks on Robinhood.

To give you an idea of how crazy this is, that means more people own Canopy than other stocks like **Facebook** or **Amazon**.

What millennials like is two-fold: its powerhouse of production and global expansion. While the company tends to keep its exact numbers close to its chest, Canopy has been acquiring and expanding at a rapid pace, setting itself up so that estimates are the company can produce well over 500,000 kilograms of marijuana per year.

It's been no secret that the company has also looked to the United States to further its expansion. Canopy has been acquiring licenses to produce hemp across the country, creating partnerships along the way to set themselves up for when marijuana is likely legalized south of the border.

But beyond the U.S., Canopy has a presence in about 16 countries as of writing, meaning it's not just banking on North America to make a buck. As I've mentioned, there is a huge global opportunity in the works, and Canopy wants a piece of the action.

Whether it's through medical marijuana, hemp-based products, edibles, makeup, you name it, Canopy is taking over the marijuana market in pretty much any way that exists.

So why has the stock been dropping?

A fine balance

Since its initial public offering (IPO) Canopy has skyrocketed from $0.75 per share in July, 2010 to around $70 per share last summer before coming down after legalization.

It then rebounded in the new year and almost reached all-highs before slumping again to where it trades now at $46.61 per share. But still, if we're to look at where it all began, that's an increase of 6,115%!

The slump comes down to the quarterly reports. Across the board, marijuana stocks have been reporting losses, and yet still spending shareholder and partnership dollars to expand its cannabis empire.

Things recently came to a head for Canopy, where after reporting a loss of $323.4 million, founder and CEO Bruce Linton was fired.

Basically, shareholders have to decide if they're willing to wait for U.S. legalization, ramped up production, and the slew of other projects the company has in store. That's because this company is looking at that decade-ahead number, and not the numbers hitting the earnings report right now.

Those projects cost money, but those costs only come once. Once you take those costs out, things look a bit different.

So let's look at Canopy's bottom line. In its most recent quarterly report ending Mar. 31, 2019, Canopy reported $68.9 million in gross recreational sales, $13.4 million in medical sales, and net revenue of $94.1 million for the quarter.

Its gross profit was $14.97 million for the quarter, which led to a gross margin of 16%, down from 34% the same time last year, and 22% in Q3.

Much of this loss came down to one-time costs, according to Canopy, including $24 million operating expenses for facilities that either aren't cultivating, not yet harvesting, or under-utilized; a weather event; and other "one-time activities" that it doesn't foresee affecting future operations.

However, it does foresee future costs related to ramping up production during its "start-up phase."

So if we cut out those one-time costs, we can get to what investors should really be looking at. With gross profit at $14.97 million, investors should just look at operating expenses of $253.5 million.

So if we take out all those one-time costs, that means the company's total loss for the quarter was $238.5 million. While it's still high, it's about $100 million less than the $323.4 million shown on the quarterly report.

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