



## Where Could Canopy Growth (TSX:WEED) Be in 3 Years?

### Description

Is **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) heading into freefall? The stock fell by 14.4% to \$36.41 after [the largest cannabis producer](#) reported \$1.28 billion losses in the first quarter of fiscal 2020 ended June 30, 2019. It was a far cry from the \$90 million loss in Q1 of fiscal 2019.

Likewise, Canopy's operating loss rose by 300.65% to \$123 million in the June quarter compared with the same quarter a year ago. The latest earnings result is a sign that Canopy would not be profitable anytime soon.

The midterm future is very foggy for the once much-admired Canadian cannabis company. Canopy Growth's board of directors, of which the majority are **Constellation Brands**-appointed, is now running the show.

### Fallout

If you were to predict the future of Canopy Growth three years down the road, you'd have to dig deep to find a silver lining. The company's founder and former CEO Bruce Linton is out of the picture. But acting Chief Executive Mark Zekulin said they're working behind the scenes.

The colossal loss doesn't comprise cash but a mere accounting entry. Constellation Brands, Canopy's business partner and significant shareholder, is delaying in order to exercise its warrants to buy shares of Canopy. The American beverage giant has so far shelled out \$5.3 billion, but could buy more shares in 2020.

Canopy Growth still has \$3.1 billion cash in its war chest as of June 30, so there is no urgency on Constellation Brands' part to exercise the warrants. However, it's not clear whether the Corona beer maker intends to acquire a majority stake in Canopy.

Canopy Growth's sold \$90.5 million worth of recreational and medical cannabis during the quarter; however, it fell short of the \$109 million consensus estimate. In fairness, the average selling price for recreational marijuana declined from the March quarter. Sales of recreational marijuana accounted for

86% of the total.

The company is excited about the prospects of edibles and cannabis-infused beverages in Canada. Come December this year, Canopy Growth expects to see a rise in cannabis revenues and hopefully profit.

## No more grand plans

Bruce Linton had ambitious dreams for Canopy Growth, and Constellation Brands bought into the idea by investing a fortune. Unfortunately, the excessive spending and mounting losses were too much to bear.

Canopy's interim head Zekulin told investors that the multi-year period of intensive spending and building is almost over. The focus now is to evolve from builders to operators over the rest of this fiscal year.

It appears that the way to profitability is through the value-added products with a high margin. Management believes that the company would be a revenue machine in the edibles and cannabis-infused beverage market.

I can only say where Canopy Growth would be in three years after the next two quarterly earnings. With the cloud of uncertainty over the company, WEED will hit its 52-week low of \$34.36 next then and sink deeper. The sell signals are strong.

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