3 Reasons Canopy Growth (TSX:WEED) Stock Is Tanking

Description

Canopy Growth Corp (TSX:WEED)(NYSE:CGC) has been having a terrible run in 2019. Having sunk to $21 on Wednesday, its returns have officially become negative for the year. The stock got off to a good start early on, rising by 75% in January.

More recently, however, it has been struggling under growing losses and concerns about the quality of its management. Shortly after CEO Bruce Linton was fired, Canopy embarked on a freefall that has continued until today.

The question investors need to ask themselves is whether the stock can ever recover. To answer that question, we need to look at the company's management and their approach to growth.

Management shake-up

Shortly after Canopy released its Q1 results, the company's board fired CEO Bruce Linton, saying they were "not happy" with his performance. The company didn't give specific reasons, though likely pertain to the company's growing losses under his leadership.

Not only did Canopy lose enormous sums of money this year, but a major component of the increase in expenses was share-based executive compensation.

When your company is losing money, such an expense can be tough to justify. Although the board has to approve compensation, it may have been unhappy about the amount Linton & co were asking.

Canopy's biggest loss ever

Speaking of losses, Canopy recently posted an enormous one. In Q1, the company reported a staggering $1.28 billion net-loss, the biggest ever for a cannabis company.

Most of that loss was due to extinguishment of warrants from the company's **Constellation Brands** deal–a one-time financing factor that won't recur.

Nevertheless, it's still a huge red mark on the balance sheet, and the company's loss from operations ($123 million) was also enormous. The operating loss increased from $30 million in the same quarter a year before, but was down sequentially.

Revenue growth lower than competitors

It's no secret that cannabis companies are posting incredible revenue growth. Where 50% year over year is considered exceptional for most industries, marijuana producers have been growing by hundreds of percentage points.

Canopy is no exception, having grown at 260% year over year in its most recent quarter. However, that growth figure is actually on the low end for a marijuana company in 2019. **Aphria,** for example grew at 969% year-over-year in its most recent quarter, and others are hovering around 300%.

Growth set to slow

A final factor that could be hurting Canopy is the fact that its growth is set to slow.

The most recent quarter's 260% year-over-year revenue growth is largely due to a sales boost from adult-use cannabis legalization. That's a one-time event that added tens of millions of dollars to Canopy's revenue last year.

When Canopy releases earnings this year, it's comparing one quarter with legal cannabis, to a previous quarter without it. Naturally, year-over-year revenue growth will be massive. When we look at sequential growth, however, things are much more moderated.

That's because, sequentially, Canopy is comparing one post-legalization quarter to another one. Starting next year, the same will be true of year-over-year comparisons. When that comes to pass, revenue growth rates will slow down considerably.

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