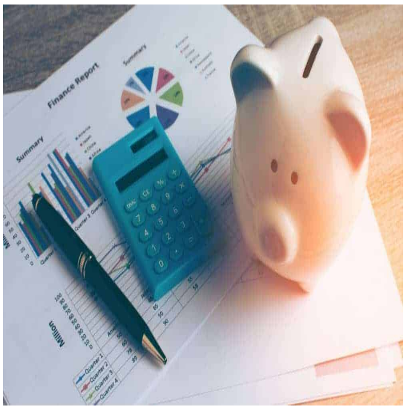

The 3 Most Important Numbers on an Earnings Report

Description

Cannabis stocks have been under the spotlight this year as poor earnings numbers have weighed heavily on the industry.

Canopy Growth Corp (TSX:WEED(NYSE:CGC) is a great example of a company that's seen a big correction in recent months and could be in danger of falling further if it continues to underperform.

Below, I'll look at what are three of the most important numbers investors should be looking at on earnings report and how they've affected Canopy Growth:

Sales

One of the most important numbers for any stock is how strong its sales have been. However, more than just overall sales, the company's forecast for how it will do in future periods is critical.

One of the problems for Canopy Growth is that while the company has done a great job of growing its sales, it has been a bit too aggressive in making its projections.

Prior to legalization, then-CEO Bruce Linton once said he expected to see hundreds of retail stores in the company's home province of Ontario being run by Canopy Growth, which just isn't a possibility under the province's current rules for pot shops. The retail model has struggled on many fronts and it has impacted many pot stocks in the industry.

But it's not as simple as just sales growth as investors will be looking at comparables, and that means looking at organic sales growth.

Simply acquiring companies and being able to add their revenue into the mix isn't going to be enough, investors are going to want to see that the business that was in place a year ago is doing better in the current year.

That's why sales are evaluated against analyst expectations since they will take into account all of those factors.

Operating income

Many investors focus on net income or adjusted earnings figures, but the one that I find most reliable is a company's operating income. Without the noise of net income or the subjectivity of adjusted earnings, operating income tells investors how profitable a company is from its day-to-day operations.

In Canopy Growth's case, it would actually paint a bit of a better picture for the company, as over the past four quarters, its net loss of $1.9 billion has far outweighed its operating loss of $635k during that time.

However, it does give investors a glance at just how much of an impact taxes and non-operating items have been affecting the company's bottom line.

Free cash flow

For me, the most important figure on a company's earnings report is its free cash flow. Accounting income can often be misleading and fail to tell the whole story.

The amount of cash that the company is generating after its day-to-day operations and capital expenditures shows what kind of position it's in and whether it can grow in the status quo or if it'll need to raise funds.

Canopy Growth's negative free cash of $1.4 billion over the trailing 12 months certainly raises some concerns. And while it may be able to benefit from having a big investor backing the company, it's a sign that the company still has a long way to go in becoming a sustainable business.

Bottom line

There can be a lot of noise on a company's earnings report, and by focusing on the three items above, investors can have a more accurate depiction of just how well a company did.

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