



Cannabis Investors: 3 Big Changes Coming Soon to Cronos Group's (TSX:CRON)

Description

Cannabis firm **Cronos Group** ([TSX:CRON](#))([NASDAQ:CRON](#)) reported its [third-quarter financial results](#) on Wednesday this week and management has announced some significant changes to the business. Investors need be aware of the following fundamental changes to the company's future operations and financial results presentations going forward.

Here's what you need to know.

Big change in applicable accounting standards

First, the company will be changing its domicile to the United States and effective December 31, 2019, management will prepare and present financial statements under U.S. Generally Accepted Accounting Principles (U.S. GAAP) and moving away from the International Financial Reporting Standards (IFRS) to which Canadians are normally accustomed.

Although there has been serious efforts toward a convergence in the financial reporting standards from the two accounting standards-setting boards, FASB and IASB over the years, full convergence hasn't been achieved yet.

There are still some differences and management at Cronos Group says "the extent of the impact of this change in accounting framework has not yet been quantified."

The bottom line is that the company's financial statements won't be directly comparable to those of its Canadian peers anymore, and some analyst adjustments may be necessary to perfectly align the reports for any comparables analysis.

If the stock belongs to one's investment portfolio, it may be time to review some important adjustment points between U.S. GAAP reported financials and their IFRS equivalents, especially as they apply to agricultural and manufacturing industries.

Hopefully the company will considerably highlight these changes and help guide Canadian investors.

Repurposing of a flagship production facility

Second is that the company intends to repurpose parts of its flagship production facility at Peace Naturals campus from cultivation activities toward research and development, production and manufacturing of derivative products as well as storage capabilities.

The impact of this decision is still being assessed, but management estimates a one-time charge of up to \$15 million to the income statement heavily weighted into the coming fourth quarter report.

Investor beware: it's possible that the company may post significant losses if there aren't any derivative gains during the quarter.

Latest acquisition brings new corporate order

The acquisition of hemp outfit Redwood in September has led to executive management changes, a new product line launch and, more important, new segment reporting categories.

The company has created a new general manager position and is letting go of its chief operating officer and its chief commercial officer who will both soon be leaving the company.

Moreover, a new hemp brand, the PEACE+™ product line is being launched in the United States targeting wellness enthusiasts and the line will be tested in 1000 stores while management intends to use major shareholder **Altria**'s distribution network to access the U.S. convenience store retail channel to gain consumer insights.

The U.S. CBD market promises to significantly contribute to the company's revenue going forward, and thanks to a strategic partner in Altria, the company is getting a much broader test market of 1000 stores vs. Ontario's 25 stores at present.

In order to add weight to the U.S. market dominance idea, the new segment is big enough to prompt the company to report its financial results in United States dollars and report on only two segments, namely the *U.S.* and *Rest of World* segments. Canadian cannabis operations, which composed the company's core business, may now fall into the "Rest of World" segment.

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