



## Will Canopy Growth Corp (TSX:WEED) Lose Billions in 2020?

### Description

In Q1 of its 2020 fiscal year, **Canopy Growth Corp** ([TSX:WEED](#))(NYSE:CGC) posted a massive \$1.28 billion net loss.

The loss came from the extinguishing of warrants stemming from the **Constellation Brands** deal, which infused the company with billions of dollars in 2018.

Although this was a non-cash charge that won't affect the company's operations, it was nevertheless a wake-up call for the cannabis industry, which has been under scrutiny for running huge losses and paying inflated prices for acquisitions.

Technically, it's possible for Canopy to run an operating profit in 2020. However, it's almost certain that the company's net loss for the year will be over a billion dollars. Here's why.

### Source of losses

Canopy's Q1 loss came primarily from the extinguishing of warrants owned by Constellation Brands.

As part of that company's 2018 deal with Canopy, it acquired the right to purchase billions of dollars worth of Canopy shares.

Had Constellation exercised those warrants, it would have resulted in a \$1.176 billion cash infusion to Canopy. However, Constellation, having publicly expressed disappointment in Canopy's performance last year, opted not to exercise the warrants.

As a result, Canopy "lost" [\\$1.28 billion in total](#) in Q1—a \$1.176 billion accounting loss from the warrants that didn't get exercised plus a \$123 million loss from operations minus a \$32 million profit in the other income category.

## What we're looking at for the full year

In all likelihood, Canopy's losses for the full year 2020 will be far greater than the \$1.28 billion reported in Q1. There are a few reasons for this.

First, Q2 was another loser for Canopy, with a \$374 million net loss and a \$265 million loss from operations.

Second, the loss from operations has been increasing, meaning that the company is losing more and more money even without taking financial changes into account.

Finally, as legalization fades further and further into the rear-view mirror, the chances of Canopy getting a huge revenue boost to cover its growing expenses become slimmer.

For the aforementioned reasons, I'm expecting Canopy to lose money in the next two quarters and run a loss in excess of a billion dollars for the full fiscal year 2020.

## Foolish takeaway

In the lead-up to legalization, Canopy Growth Corp was widely regarded as the most promising cannabis company in the world.

My, how things have changed.

Now losing more money than any of its peers, it's become one of the weakest performers in its industry.

At this point, there are several cannabis stocks out there that appear to have better long term prospects than Canopy. **Aphria** recently posted [two consecutive quarters of positive net income](#), and even **Aurora Cannabis** isn't losing the kind of money that Canopy has been lately.

Personally, I'm staying away from marijuana stocks in general, but Canopy in particular is one to avoid for at least the next year.

### CATEGORY

1. Cannabis Stocks
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