Why Canopy Growth (TSX:WEED) Is the 1 Weed Stock That Won't Run Out of Business

Description

The cannabis industry had a turbulent 2019, and the majority of the players were not reporting profits. This year, however, you might see only one genuinely competent and strong participant to operate and not run out of business. **Canopy Growth** (TSX:WEED)(NYSE:CGC), the sector's bellwether, is back in the saddle.

But is Canopy Growth sure to turn the corner in 2020? The recent earnings surprise indicates that it was able to stop the bleeding. Now, the company has a crack at finally achieving profitability.

Business growth opportunities of a lifetime

New CEO David Klein kicked off the earnings call last February 14, 2020. His said his reason for joining Canopy Growth was because the cannabis market is one of the most exciting business growth opportunities of our lifetime.

The fiscal 2020 third-quarter results were not spectacular, although the company made significant progress. Canopy's CFO Mike Lee gave the financial highlights, beginning with the 13% growth in total net revenue. Its business was able to generate 34% gross margins before fair-value impacts.

Canopy had a loss of $92 million, which is better than the $156 million loss in the previous quarter. Canada's recreational marijuana posted a 10% increase due to balanced growth in the company's B2B and B2C channels. Medical sales saw a 5% quarter-over-quarter increase, including a 3% increase in international medical.

The strategic acquisitions (Storz & Bickel, This Works, and BioSteel) contributed almost 22% to total revenue. Mr. Lee said Canopy Growth will still be facing some headwinds. Management, however, is designing a supply chain and footprint that applies to the market realities today and well into the next couple of years.

Cash rich

Klein admits the road ahead is not going to be an easy one. His topmost priorities are the following: improve Canopy's connection with consumers, bring more focus and discipline to the organization, and define a very visible path to profitability and positive cash flow.

Being a subordinate company of **Constellation Brands** is the advantage of Canopy Growth. The new CEO is assuring investors that the company will not run of cash. Also, the way to win in the market is to possess the most-trusted and most-loved brands.

With an industry that is evolving, Canopy sees the need to focus on specific markets and product lines where the company has the legitimate right to win. Another asset waiting to deliver is the vaunted line of beverage products. Canopy's weed drinks have yet to finish scaling production. Drinkable products are the next big thing.

Beacon of hope

According to Canopy Growth's new CEO, there is a lot of work to be done. The company is taking steps to reduce costs and right-size the business to produce a healthy margin profile and generate cash in the years ahead.

Canopy is hoping the days of burning cash and disappointing sales are over. David Klein is confident that Canopy can capitalize on the opportunity to create an unassailable global position in cannabis. Analysts are forecasting the price of $26.40 today could soar by 127.27% to $60 in the next 12 months. Keep your fingers crossed.

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