



## Cronos Group (TSX:CRON) Stock: 1 Management Decision That Delays Growth in the U.S. Market

### Description

**Cronos Group** ([TSX:CRON](#))([NASDAQ:CRON](#)) finally reported its delayed fourth0quarter and full-year 2019 results on March 30. Much to investors' disappointment, the company's quarterly revenue growth in Canada was negative and massive inventory charges drowned spirits. There's one more piece of information that could warrant a downward revision to the marijuana firm's potential revenue growth rate.

For a start, this was the company's first set of financial results since adopting the United States dollar as primary reporting currency while changing the corporate domicile from Canada to the U.S. and switching financial reporting standards from International Financial Reporting Standards (IFRS) to U.S. Generally Accepted Accounting Principles (U.S. GAAP).

The high-level shift came after an acquisition of Redwood, a U.S.-based hemp subsidiary, which owns the Lord Jones brand. Such massive corporate changes may indicate a shift in the firm's focus from the Canadian cannabis market to a the U.S. hemp market. Only two reporting segments were shown: a "U.S." segment" and a "Rest of the World" segment.

### Did CRON investors expect too much?

Investors anticipated that Redwood would significantly lift the company's income statement by contributing a lot more revenue. The new subsidiary contributed less than US\$2.7 million to the company's US\$7.3 million fourth-quarter revenue, though at a more respectable 53% gross margin. A lot of work still needs to be done to grow the Lord Jones brand. Perhaps investors were expecting too much.

The market also anticipated a grand U.S. market entry for the company's new hemp brand PEACE+. Riding on **Altria's** vast distribution network south of the border, the new brand could quickly gain traction and visibility in a much larger market.

Altria is a major institutional investor in Cronos Group stock, and its offer to carry the PEACE+ brand across its U.S. outlets was obviously out of a natural common interest with CRON investors. The new brand's success would help protect and support its huge \$2.4 billion investment in the marijuana firm.

## A concerning management decision...

I find one piece of information embedded in Cronos Group's latest financial results release is very concerning.

"Cronos Group made the decision to pause distribution of PEACE+™ hemp-derived CBD tinctures through Altria Group. Inc.'s ("Altria") sales and distribution network." The company "remains focused on meeting the demands of adult consumers and will continue to evaluate other product formats and categories" that it believes "may be more suitable for the PEACE+™ brand in the evolving environment."

Is the Altria distribution plan failing already? Rather, here's a more specific question: Is the new PEACE+ brand's trial period already showing disappointing results?

The American hemp industry also has to deal with a [concerning dark cloud](#) hanging over its marketing strategies. And this clouds the company's growth prospects in a potentially huge and promising market.

## ...and significant execution risk

Perhaps I am reading too much into this latest piece of information. But this could point to the significant execution present in Cronos Group stock today.

The company is trying to grow a significant presence down south. Management is also preparing to launch production from Israel very soon, and the company's [disruptive cannabinoids from fermentation project](#) is still in the early stages and yet to get licensed by Health Canada.

Moreover, it had a very promising opportunity to grow exports to Germany. Several months down the line, there aren't any results to show as of yet.

## Foolish bottom line

There are very few well-capitalized firms in the marijuana space today, and CRON ranks very high among them. The strong balance sheet allows management to focus on innovation and execution, while not worrying too much about dilutive financing.

An investment in the company's stock today could see outsized gains, as the ambitious pipeline projects finally begin to generate results. However, there's significant execution risk, and caution is required.

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