Canopy Growth (TSX:WEED) Stock Sinks After Quarterly Results

### Description

Shares of cannabis giant **Canopy Growth** (TSX:WEED)(NYSE:CGC) fell over 20% on May 29, 2020. The company announced its fiscal fourth-quarter 2020 results on Friday. It reported revenue of $107.9 million and a net loss of $3.72. Company sales experienced a 13% sequential decline and were below analyst estimates of $128.4 million. Analysts also forecast Canopy's net loss at $0.59 per share.



Canopy Growth disappointed investors and analysts with its less-than-impressive performance, dragging the stock lower by a significant margin. Canopy Growth stock is currently trading on the TSX at a price of $24.2. This is 67% below its record high.

Let's deep dive into its Q4 results to see what else drove Canopy Growth's stock price lower.

## COVID-19 pandemic impacted Canopy Growth sales

Canopy Growth's sales were impacted by the ongoing COVID-19 pandemic. The cannabis heavyweight had to close its retail stores in March. This drove recreational sales lower by 14%. Further, Canopy's business-to-business sales also declined by 31% sequentially. This decline was marginally offset by growth in cannabis derivative products, oils, and soft-gels.

Canopy Growth's sequential revenue decline impacted its profitability. It reported impairment and restructuring charges of $743 million in Q4. Further, rising operating costs widened the company's loss.

While Canopy Growth withdrew its previous milestone for achieving a positive EBITDA and a net profit, investors need to understand that the coronavirus is a near-term headwind. The impairment and restructuring costs are not recurring in nature. This means as the Canadian economy reopens, Canopy's sales might recover in the next two quarters.

## What next for investors?

Canopy Growth's earnings miss should not come as a big surprise. The company management, in fact, forecast restructuring charges between $700 million and $800 million in Q4. Its operating expenses rose 17% quarter over quarter as well. A company posting a revenue decline and an increase in expenses will experience a massive erosion in its bottom line.

However, Canopy Growth is better poised than most pot stocks to make it through this downturn. It ended Q4 with cash and cash equivalents of $2 billion. Company CEO has David Klein has focused on improving the bottom line, and Canopy managed to reduce cash burn in the fourth quarter.

The cannabis firm is part of a high-growth market. The marijuana industry is still in nascent stages of growth and Canopy's leadership position will help it drive top line at a rapid pace. Despite a sequential decline in Q4, Canopy Growth's sales were up 76% year over year in fiscal 2020.

The Cannabis 2.0 products will be another growth driver for the firm. **Constellation Brands** is Canopy's largest shareholder, and the former's expertise in beverage production will be leveraged over the next few years to introduce a robust lineup of cannabis-infused products.

Canopy Growth is the largest pot producer in the world, and it might invest in acquisitions especially when valuations are currently cheap. However, it recently reduced production capacity in Canada by 40%. The marijuana giant closed two greenhouses in British Columbia and an indoor facility in Saskatchewan to lower costs.



Canopy's recent results notwithstanding, it remains a solid long-term bet given an expanding addressable market coupled with the backing of Constellation Brands and its leadership position.

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