Pot Stock Earnings: 3 Takeaways This Week

Description

HEXO (TSX:HEXO)(NYSE:HEXO) and **Neptune Wellness Solutions** (TSX:NEPT)(NASDAQ:NEPT) reported earnings this week. The pot stocks have been making strong progress in improving production efficiency, profitability, and market share.

From the earnings conference calls, shareholders in these marijuana enterprises learned about how well company management is meeting crucial performance goals. Here are the top three takeaways from pot stock earnings this week.

Expect efficiency improvements from pot stocks

Marijuana firms are working diligently to improve production efficiency. The COVID-19 crisis might be a hindrance for many companies, but the pandemic is also uncovering crucial areas where these companies can cut fat out of the production process.

For example, HEXO saw the firm's cost per gram to produce fall as payrolls dropped. Before the pandemic, the company may have been overstaffing growing or distribution operations.

The HEXO leadership acknowledged this unexpected impact of the COVID-19 restrictions in its conference call to shareholders. Therefore, the firm could potentially take this as a sign that they can create leaner operations.

Alternatively, HEXO may want to accept a higher cost per gram to produce in anticipation of soaring demand. There's nothing wrong with maintaining flexible operations.

Past investments to fuel near-future profitability

The pot stocks have been on spending sprees to increase the capacity to produce a slew of marijuana products. Expensive investments on unused capacity mean negative adjusted EBITDA and margins in the short-term.

As demand and sales soar, the cannabis enterprises are quickly beginning to reach capacity. At least, that's the goal anyway. Neptune Wellness and HEXO expect that their past and current sales activities will help them reach profitability soon.

Successful sales and marketing campaigns are crucial for these pot stocks to utilize all available manufacturing capacity. By reaching maximum production volume, these marijuana enterprises will boost profit margins and achieve a positive adjusted EBITDA.

The fight for market share continues

Expensive marketing and sales campaigns have been weighing down pot stock profitability. Further, the intense competition between legal and illegal distributors have pushed down prices. This war for market share will not end overnight.

HEXO has emerged as a winner in the battle over market share. Focusing on the supplier market, HEXO has garnered a 30% market share in its cannabis product segments.

Neptune Wellness did not give a precise estimate of the firm's market share in its earnings conference call. Ambiguity aside, shareholders can use growing revenue as an imperfect proxy for market share approximations. Neptune's CEO, Michael Cammarata, anticipates revenue growth of 300-400% in the first quarter of 2021 over the same quarter last year.

Foolish takeaway on pot stocks

Neptune Wellness and HEXO are both very cheap stocks. Canadian investors can buy Neptune for less than $4 per share. Likewise, HEXO sells for less than $2 per share. If you are looking for cheap high-growth stocks to add to your retirement portfolio, these are two excellent choices.

No investment comes without risk, but the beauty in buying cheap stocks is that you buy unlimited potential gains for a small potential loss. Your maximum losses for Neptune Wellness and HEXO stock are less than $400 and $200, respectively.

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2. OTC:NEPT.F (Neptune Wellness Solutions)

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