Canopy Growth (TSX:WEED) Stock Gains 7.4% As Earnings Beat Estimates

Description

Shares of cannabis giant **Canopy Growth** (TSX:WEED)(NYSE:CGC) gained over 7.4% on Monday to close trading at $23.93. Canopy Growth announced its first quarter of fiscal 2021 results and reported revenue of $110.4 million, a growth of 22% year-over-year, and a sequential growth of 2%.

Canopy's net loss stood at $0.30 per share or $128 million, significantly lower than the $1.3 billion loss in the previous quarter. Analysts expected Canopy to post revenue of $112 million and a net loss of $0.35 per share.

We can see while Canopy narrowly missed analyst top-line estimates, it reported a better than expected earnings driving the stock higher. The company's Q1 sales were driven by a 54% growth in medical marijuana products that now account for 31% of total revenue. Comparatively, recreational cannabis sales fell 11% to $44 million.

Canopy's lower than expected loss can be attributed to an 18% reduction in the workforce since the start of this year and targeted marketing and R&D expenses.

Cannabis 2.0 extremely critical for Canopy Growth

Canopy Growth, like most other pot stocks, is trying to gain traction in the Cannabis 2.0 segment. The company recently launched its e-commerce site shopcanopy.com in the U.S. while its First & Free brand has expanded into creams, topicals, and ready-to-drink beverages.

The marijuana giant is expanding its product portfolio and already has four cannabis-infused beverages in the market. Canopy has achieved the top position in the beverage segment in terms of dollar share and claims to account for 74% of ready-to-drink cannabis beverages sold year-to-date in Canada.

It has shipped 1.2 million units of its beverages since the end of March compared to 4.2 million units sold across brands in the U.S. last year. Canopy Growth is backed by **Constellation Brands,** whichwill help it maintain a leadership position in the beverage space.

During the earnings call CEO David Klein confirmed, “Our Cannabis 2.0 portfolio continues to gain momentum, and we’re adapting quickly to the changes in the marketplace and competitive dynamics.”

Canopy’s focus on cost management

While Canopy Growth continues to grow the top-line, its mounting losses remain a concern for investors. The company is focusing on creating a diversified revenue base as well as cost reduction.

In Q1, its operating expenses fell by 23% year-over-year while capital expenditure was “moderate” compared to the prior-year period. Canopy’s cash outflow improved 50% to $181 million and it ended Q1 with $2 billion in cash.

Canopy is confident that its current infrastructure can support a $2.5 billion business without additional spending in capital expenditure. The company’s CFO Mike Lee said, “We’ve already proven that we can deliver 40% plus gross margins and are confident that we will return to that level as we work toward higher capacity utilization across our facilities.”

He added, “Taking beverages as an example, with the robust demand we’re seeing for our beverages, we are ramping up production and the throughput of our beverage facility has doubled in July from June, and we plan to double again in August.”

The Foolish takeaway

Canopy Growth stock is trading 70% below its record highs. While it has managed to reduce losses in Q1, the company is still a work-in-progress and will need to tide over structural issues that continue to impact the Canadian marijuana sector.

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Date
2025/08/22
Date Created
2020/08/11
Author
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