Canopy Growth Drops Drake: Is it the Trendy Stock it Once Was?

Description

Canopy Growth (TSX:WEED)(NYSE:CGC) has been making headlines of late. This time, the news centres on the company's relationship with Canadian rapper Drake.

Canopy Growth has announced it's severing ties with Drake — a move that seems to have taken the market by surprise.

Here's what investors should make of this deal.

Canopy Growth pulls the plug on Drake's More Life

In November 2019, Canopy Growth and Drake announced the launch of More Life, a joint venture that would sell recreational pot and accessories in Canada and around the world. According to the agreement, Canopy decided to turn a Scarborough marijuana cultivation facility into a More Life location for a 40% share in the venture's equity.

Indeed, it was a hot deal at that time. Companies like Canopy Growth were stumbling over themselves to make celebrity deals. Needless to say, this move garnered significant attention among investors and the media.

This March, Canopy terminated the deal it had in place with Drake. As a result, the company removed the minimum royalty obligations of nearly $33.7 million to More Life from its balance sheet. Canopy's CEO said that the partnership was not progressing as they had initially intended it would.

Indeed, More Life continues to hold an active trademark for various hemp and cannabis products and accessories. However, I don't think terminating this deal will be a big blow for this pot player.

Canopy's mixed track record

Canopy has had a mixed track record when it comes to celebrity deals. Take, for instance, the Leafs

By Snoop brand. This collaboration hasn't really resulted in much. Leafs by Snoop has managed to put only a handful of products in the domestic market. Comedian Seth Rogen's Houseplant continues to enjoy some success in the infused beverage space. Lifestyle guru Martha Stewart is also closely associated with Canopy.

That's a lot of celebrity names for one company to deal with. And these celebrity dealings have generated mixed results. Canopy Growth has a range of specialty branded products and cannabis-infused beverages as a result of these deals. And if more marketing becomes allowed in Canada, Canopy Growth's portfolio of IP and branded partnerships is top notch.

For now, Canopy Growth is performing just fine, with or without these celebrity deals.

Bottom line

There's no doubt Canopy Growth has gone mainstream. It's clear the company isn't in need of flashy branding deals as it once was. Indeed, Canopy's cost-cutting efforts appear to be in full swing right now, and I wouldn't be surprised to see other deals fall apart as a result. Canopy has significantly boosted its operational efficiency metrics, and lowered its SG&A by 41% of late, as a result of such moves.

This is broadly bullish for shareholders, and I think the dissolution of this partnership is largely a non-news event. Investors in Canopy Growth need to stay focused on the long term with this stock.

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