



Why Did Tilray Stock Rise 25% on Wednesday?

Description

One of Canada's largest cannabis producers **Tilray** ([TSX:TLRY](#))([NASDAQ:TLRY](#)) saw its stock price soar by 24.9% during early trading on Wednesday after posting its first consolidated earnings results. The latest quarterly and fiscal 2021 were largely legacy Aphria results, with just four weeks' contribution from legacy Tilray operations.

The small incremental earnings improvements reported today may amplify future performance achievements going forward.

Tilray reports impressive earnings results, stock soars

Tilray's net revenue for the year at US\$513 million was 27% higher than prior fiscal year sales. This wasn't the best part. Fourth-quarter performance was encouraging.

The company's reported sales of US\$142 million, a 25% growth in net revenue in its fourth quarter that ended May 31, 2021. Fourth-quarter net revenue was a strong US\$142 million despite a 10% decline in distribution revenue in Europe. (Distribution remains the company's largest sales segment).

The strong show during the fourth quarter was mainly driven by a 36% growth in cannabis revenue and a strong show in the company's beverage alcohol revenue at craft beer brewer SweetWater. Cannabis revenue growth went against competitors' general sales decline trend during third-wave lockdowns this year. Sales at SweetWater at US\$15.9 million were sequentially much better than the C\$14.8 million (US\$11.8 million) reported during the most recent quarter.

A quarterly net income of US\$33.6 million may not be that important though, as it came through from a non-operating source that isn't recurring. However, another profitability indicator is very encouraging.

The company could be sustainably profitable – and cash flow positive

Most encouraging is the fact that Tilray could be sustainably profitable and cash flow positive going forward.

The company posted fourth-quarter Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) growth of 285% year over year to US\$12.3 million. This marked a ninth consecutive quarter of positive adjusted EBITDA. Adjusted EBITDA usually shows a business's true earning power before accounting for how it is financed, and Tilray's model is also running at a positive run rate.

Most noteworthy, the company generated positive free cash flow during the just-closed quarter.

Fourth-quarter net cash from operations was a positive US\$8.3 million and a first positive free cash flow of US\$3.3 million breaks new ground.

It can be said that cash flow is king in any business. The cash earning power of a business determines its long-term viability more than accounting net profits can ever do. Cash flow is the lifeblood of any corporation, and Tilray is now capable of generating some of its own. This should reduce its over-dependence on capital markets for "blood donations" through sizeable debt issuances and dilutive equity raises.

When a cannabis [growth-focused business](#) begins to report free cash flows, it deserves some serious attention.

Foolish bottom line

Tilray stock's 25% surge on Wednesday is a good response to some positive news from its latest earnings. Of course, we will dig up and see a few negatives during the remainder of the week when trader emotions settle, and shares may still give up some of today's gains going into the weekend.

If you remain [bullish](#) on the marijuana firm's outlook, pullbacks will be the best entry points. It's usually dangerous to chase high one-day rallies.

The company's future looks encouraging if management can pull off its US\$80 million in cost savings from consolidation synergies over the next 16 months as expected. The company has reported US\$5 million in synergistic benefits so far, and that deserves a round of applause.

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brianparadza

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