Why Canopy Growth Stock Plunged 10% Friday

Description

Canopy Growth (TSX:WEED)(NYSE:CGC) stock plunged 10% on Friday after the pot company reported its second-quarter results. Investors were disappointed, as the company said it would not turn a profit in the second half of 2022.

Revenues declined slightly in the quarter, but the company managed to post a narrower loss. Let's look at the quarterly results in more detail.

Revenue and earnings

Net revenue came in at $131 million for the second quarter of 2022 — a decline of 3% from the second quarter of 2021. Total net cannabis revenue increased by 1% to $95 million in the quarter ended September 30, 2021. Excluding the impact of acquired businesses, net revenue decreased by 13%, and cannabis revenue decreased by 14%.

Meanwhile, net earnings for Q2 2022 amounted to a loss of $16.3 million, or $0.03 per share, which is $80 million narrower than the loss of $96.6 million, or $0.09 per share, in the prior-year quarter. The improvement was mainly attributable to other income totaling $196 million in the second quarter of fiscal 2022, primarily attributable to changes in non-cash fair value of $233 million.

The adjusted EBITDA loss widened by $77 million to $163 million in the quarter due to lower sales and a decline in operating margins, partially offset by the reduction in total selling, general, and administrative expenses. The adjusted EBITDA loss would have been a loss of $76 million when excluding non-cash write-downs of inventory.

Business developments

During the quarter, Canopy Growth maintained its market leadership position in the premium flower category and increased its market share in vapes and edibles across tracked Canadian recreational cannabis market.

Martha Stewart CBD remains one of the fastest-growing CBD brands is now the number three brand among all CBD gummies in the food, drug, and convenience store channel.

The cannabis company launched more than 40 new SKUs worldwide during the second quarter of fiscal 2022.

The new nicotine-free whisl CBD vaporizer was launched in the United States during the quarter. Canopy launched the CBD vape designed for mood management through an exclusive partnership with Circle K.

Following the end of the quarter, Canopy announced an agreement to acquire Wana Brands, North America's number one edible cannabis brand, subject to U.S. THC clearance. This acquisition will help Canopy to strengthen its product, brand, and geographic exposure in the U.S. federal cannabis market.

Canopy Growth delays its profit target

Canopy Growth has delayed its objective of turning a profit in the second half of fiscal 2022 due to slower-than-expected ramp-up of U.S. distribution for BioSteel ready-to-drink beverages and supply issues in Canada. The company hasn't specified a new profitability target.

Canopy CEO David Klein said, "In new industries where the potential is immense, progress is rarely a straight line. With a focused strategy, a foundation for growth, and our burgeoning U.S. ecosystem, Canopy is uniquely positioned to win as the industry matures."

The large-cap company said it is taking a number of steps to improve its performance in Canada and remains optimistic about the medium- to long-term outlook.

Canopy Growth CFO Mike Lee said, "Achieving profitability remains a top priority. We are focused on increasing market share in Canada, premiumizing our product mix and delivering on our cost savings commitment."

The company has achieved $70 million cost savings, including $32 million in the second quarter of fiscal 2022, of the $150-200 million in cost savings expected by the end of the first half of fiscal 2023.

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