

# Canopy Growth is burning cash

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Why would anyone want to be a shareholder in Canopy Growth Corporation?

Canada's licensed commercial cannabis producers are losing bucketloads of cash, and Canopy Growth is no exception.

Last year, they burned through 70 million dollars!

Of course, their gross profit was \$74 million. But cash flow is the important financial statement here.

Canopy could produce the best cannabis in the world, but if your total cash flow from operations is negative year after year... how are you going to keep the grow lights on?

The grassroots cannabis industry in British Columbia never deals with these problems. Here, the basic axiom of every business still stands: one's costs must not exceed one's revenue.

In a complex business in a complex economy, the dynamics of accounting allows us to calculate more minutely. A company can take losses because they have a plan to make money for shareholders and recoup all the losses... eventually.

But this is different.

Free cash flow filters out all the accounting gimmicks enforced by industry and government bodies. Free cash flow takes into consideration the important factors.

Namely, what kind of money Canopy Growth has to produce cannabis people actually want to buy.

Canopy's cash flow from operating activities and investing activities are negative. A measure of how much a company earns or consumes, the only thing Canopy is burning is cash.

Their positive cash balance in "financing activities" can come from selling shares. However, given the context, it is suspicious without further research.

It may indicate Canopy's need for a large loan that supports ongoing negative cash flows from operating activities.

The problem ultimately rests with shareholders. People investing in this company are allowing Weed to reach all new highs.

Seems like the more Canopy loses, the more valuable they become in the eyes of the stock market gamblers.

In 2016, you could buy Canopy stock for \$2-3 a share. Now, only three years later, it's \$55-65 per share. A 2000% increase.

Canopy is supposed to make money for its shareholders. But these people seem content gambling in the stock market casino.

Yet, in 2016, Canopy burned through \$3.5 million. In 2018, they burned through \$70 million.

Of course, I'm sure Canopy has a long-term plan to make money for its investors. There is always hyping up future legalization sales. Merging with other LPs seems to be a popular strategy. There's also reaching out to experienced growers in BC Bud.

Additionally, global markets are warming to legalization. Just wait until the federal government of the United States opens its pot borders.

In the meantime, the everyday reality is: lose money.

It's apparently what investors want to hear.

They like the transfer of wealth from shareholders to consumers.

Because anyone sending money to Canopy is doing just that. Donating their money so Canopy can fill government-mandated pot stores with cannabis products.

And granted, I am picking on Canopy. They are not the only LP in this position.

Money invested in these companies is capital. Capital that is quickly burned to subsidize the company's customers.

It's an insane perversion of genuine, free-market capitalism. But when a central bank commands one side of every transaction...

Now, don't misunderstand me, if you bought Canopy shares in 2016 and you cashed them out April 30, 2019, you made money.

(Actually, you reversed the depreciation of the fiat currency by investing it, but I digress.)

This market boom is a bubble fuelled by the central bank's artificially low interest rates. A few slight interest rate adjustments last year are likely enough to trigger a correction.

It's only a matter of time.

And a company like Canopy just isn't worth the risk.