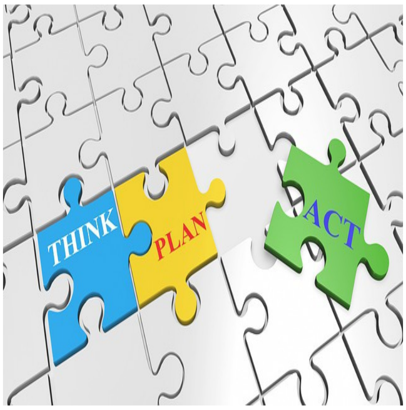

Aurora Cannabis Inc.: Important Takeaways From the Latest Q1 2018 Financial Results

Description

Aurora Cannabis Inc. (TSX:ACB) reported some stellar first-quarter 2018 (Q1 2018) financial results on November 9, 2017. While there wasn't much movement on the stock, as it closed 3% higher, there are some important takeaways from the earnings report that I wish to highlight today.

Strong revenue growth

As I expected for the quarter, Aurora continues to deliver strong quarterly revenue growth — consistent with its aggressive growth strategy.

The company reported record revenue of $8.25 million for the quarter, up 169% from the comparable quarter last year and up 39 % from the previous quarter. Aurora has evidently surpassed its closest competitor **Aphria Inc.** (TSX:APH) on revenue generation for two quarters now, and the gap is widening.

More growth could be expected this quarter, as Aurora begins recognizing export revenues to Germany from sales of internally grown cannabis.

Improved reporting quality

Aurora has further improved the depth of information contained in its financial statements.

Management has gone further to report cannabis oil sales as a separate line from dried cannabis revenue from Canada, giving investors and analysts more clarity on the new product line's performance.

This enhanced information disclosure comes after Aurora started reporting cash costs to produce and sell dried cannabis for the first time during the previous quarterly earnings release in September.

Improving production cost structure

Aurora continues to see sequentially declining costs of producing cannabis, as production and sales volumes continue to rise each subsequent quarter.

The cash cost of sales per gram has declined over five quarters from $2.56 per gram during the quarter ended September 30, 2016, to $1.92 per gram last quarter. Cash costs to produce dried cannabis fell sequentially from $2.13 per gram during the comparable quarter last year to $1.73 per gram last quarter.

However, more progress is required from Aurora on this front, as Aphria and **MedReleaf Corp**. (TSX:LEAF) are managing to produce marijuana and bring it to market at a fraction of Aurora's costs.

Overpowering investment portfolio

Aurora's debentures and marketable securities investments portfolio delivered strong unrealized gains that wiped out narrowing operating losses for the quarter. However, this is not a sustainable source of profitability growth.

First concern: Productive capacity deviations

Aurora reached optimum productive capacity at its 55,200-square-foot Mountain View production facility in Alberta during the last quarter. At 4,800 kg per annum, the realized capacity is 12.5% below the 5,400 kg potential annual productive capacity that management previously guided.

However, upgrades are being installed, so there may be marginal capacity improvements next year, but we will see if Aurora can significantly increase optimum productive capacity, as MedReleaf managed to do at its Markham facility.

Management has increased its expected productive capacity for the 40,000-square-foot facility in Quebec, acquired from bankrupt Peloton Pharmaceuticals. This facility, renamed Aurora Vie, was originally expected to produce 3,800 kg of dried cannabis per year at full capacity. Management now expect to harvest 4,000 kg per annum from the state-of-the-art facility.

Compassionate pricing policy concerns

Approximately 48% of registered patients purchased Aurora products on a compassionate pricing discount last quarter, as compared to 37% the previous quarter and just 25% during the quarter ended September 30, 2016.

This could be a worrisome development, as almost half the clientele base chose to take up the discount, which slows revenue growth.

The discounts drag down realized average selling prices, which improved last quarter due to a 79% growth in premium-priced cannabis oil sales and a 181% increase in higher-priced German dried cannabis sales as well as $1 a gram price increase on dried cannabis effected on both ordinary and compassionate sales in July.

Investor takeaway

Aurora is delivering on its aggressive growth promise, and the stock price has soared after the company closed its latest financing round on November 2.

However, Aurora may suffer from limited productive capacity in the near term and will thus depend on wholesale cannabis purchases to meet growing patient demand. A new facility is coming online before year end though.

The company is investing heavily in growth potential, justifying its growth past Aphria and MedReleaf to become the second-biggest marijuana stock in Canada by market capitalization, behind **Canopy Growth Corp.**

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