



## Did Investment Portfolios Save These 2 Canadian Pot Companies' Income Statements Again Last Quarter?

### Description

Leading Canadian pot companies, including **Aurora Cannabis Inc.** ([TSX:ACB](#)) and **Canopy Growth Corp.** ([TSX:WEED](#)), have been reporting positive net income figures of late, yet are making sizeable operating losses that were larger than quarterly revenues, thanks to their outperforming strategic investment portfolios.

The two companies have been reporting big amounts in unrealized gains on financial assets, namely stocks and derivatives positions in smaller marijuana players.

During the [quarter ended December 31, 2017](#), Aurora managed to override a \$16 million loss from operations into \$7.2 million net profit for the quarter, mainly due to a \$3.7 million unrealized gain on marketable securities and a whopping \$22.8 million unrealized gain on debentures.

On a similar note, Canopy turned a \$26 million loss from operations from quarterly revenues of \$21.7 million into a net profit of \$11 million for the quarter, solely as a result of \$35 million from "fair value changes on financial assets" and a one-time gain on the disposal of Agripharm Corp. of \$8.82 million.

While not expecting these companies to report better operating earnings soon, I'll be watching their investment portfolios, which may have fared differently between December 31, 2017, and March 30 this year.

### Aurora Cannabis Inc.

Aurora's investment portfolio gains in the quarter ended December 2017 were mostly from its shareholding in and derivatives on **Radiant Technologies Inc.** ([TSXV:RTI](#)) stock. On March 31, Radiant's stock was trading 16% lower than its December 31, 2017 price of \$1.76 a shares. Aurora may report unrealized losses on both its equity and derivative positions on Radiant, and these may significantly drag down its earnings results for the quarter.

The company's stake in Australia-listed pot grower **Cann Group Ltd.** could still generate unrealized gains for Aurora, as the stock closed 8.76% higher by the end of the accounting period and could add

about AUD\$6.9 million (\$6.83 million) to Aurora's portfolio value.

I will be looking forward to seeing how Aurora accounts for its new CanniMed position, as the company announced that it had successfully acquired the target on March 28, two days before the books closed for the financial period. CanniMed is now a subsidiary of Aurora and would neither qualify for an equity method accounting nor be treated as a financial asset, yet the company might not have been ready to consolidate the results.

However, the [investment in Liquor Stores N.A. Ltd.](#) was at a premium, and the stock plummeted nearly 18% from its \$12 trading range in February (the month Aurora made its investment) to around \$9.80 by end of March. Aurora's private placement in **Micron Waste Technologies Inc.** is too small to make a significant difference.

### **Canopy Growth Corp.**

Canopy amassed significant gains on its 11% stake in Australia-listed **AusCann Group Holdings Ltd.** when the stock rallied late 2017. However, the stock has soared even further this year, with a sharp 116% spike between January 3 and January 9 this year. The stock had partially corrected to an 83% gain by March 31.

Canopy owned 29,865,000 shares in AusCann by December 31, and it had 7,677,639 options on the stock that were exercisable at AUD\$0.20 a share and will expire in January 2020. Assuming no disposals, then the company's share position was probably up over 95% or by AUD\$22.8 million (\$22.57 million) by the end of March; add to this the gain on stock options, and the gains become even more massive.

The company's investment portfolio may have grown significantly on its 24% interest in cannabis grower **TerrAscend Corp.** too. Canopy had nearly 22.57 million common shares of TerrAscend and had over three million stock options on the stock by December 31. TerrAscend's share price was up over 65% to \$5 a share by March 31!

### **Foolish bottom line**

While Canopy's investment portfolio may still cushion the leading marijuana producer from reporting significant bottom-line losses for the just-ended quarter, the same cannot be said for Aurora, whose acquisitions-led aggressive growth strategy during the quarter might be significantly expensive, while the investment portfolio components did not perform so well last quarter.

While my rough estimates may not be on point, Aurora's investments portfolio may not save the income statement again in the next quarterly results. That said, we shouldn't be looking forward to these companies' strategic investments for short-term profit generation, as the source isn't sustainable, but the investments are meant to be strategic and accretive to long-term growth.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. TSX:ACB (Aurora Cannabis)

2. TSX:WEED (Canopy Growth)

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