



What the Latest Aurora Cannabis (TSX:ACB) Acquisition Means for Investors

Description

It's been a busy week for the cannabis industry. Between **Canopy Growth Corp's** recent [earnings announcement](#) and Ontario's plan for "brick-and-mortar" cannabis sales, there's been a lot to keep up with. And now, there's another big development:

Aurora Cannabis Inc ([TSX:ACB](#)) has completed its acquisition of Anandia Laboratories Inc. The acquisition had been announced earlier in the year and was completed on August 14. As a result of the acquisition, Aurora will acquire a number of cannabis research assets in areas like genomics, metabolite profile, and plant breeding. It will also gain a number of plant-testing services.

What does this acquisition mean, and how will it affect Aurora's fortunes?

It helps to start with earnings.

Earnings implications

Like many other cannabis companies, Aurora has been seeing negative earnings. In particular, its net income was -\$19.22 million in the most recent quarter. Despite massive year-over-year revenue growth of 211%, the company is still seeing losses as a result of high operating costs. This presents a structural problem for the company: if it can't keep cost of revenue down, then increasing revenue could mean increasing losses.

Might the Anandia acquisition improve Aurora's revenue picture?

It's possible. Anandia is a service company that does contract work for clients. Although there are no earnings reports available for Anandia, service companies generally have higher profit margins than manufacturers. If this holds true for Anandia, then the company could improve its parent company's margins. The effect would probably be small, however, as Anandia's revenues are only a tiny fraction of Aurora's.

Core business implications

Beyond any additional revenue Anandia generates for Aurora, it could also help with Aurora's existing product lines. Anandia is a highly reputed cannabis research firm headed by a globally renowned cannabis scientist. The firm's expertise could improve Aurora's sales by providing insights on how to grow cannabis in different ways.

The company's genetics research might uncover ways to grow high-THC cannabis in lower-heat environments. It might lead to new product lines with higher profit margins. It could improve yields by helping minimize diseases. Granted, these points are all speculative. But history shows that genetic improvements in plant-based products can result in more profits for their vendors — especially if they're patented. If Anandia can help Aurora in this regard, then it may minimize or even reverse the company's mounting losses.

Bottom line

It's been a busy few years for Aurora. The acquisition of Anadia labs is just one of many the company has recently completed. With its recent acquisitions, Aurora has increased its global presence, diversified its offerings, and grown its research base. Whether this helps the company reach profitability remains to be seen. But one thing is certain: Aurora will be one to watch in the months ahead.

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Date

2025/08/25

Date Created

2018/08/18

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