My Expectations on Aurora Cannabis Inc.'s (TSX:ACB) Upcoming Earnings Release

Description

It has been a long while since marijuana producer **Aurora Cannabis** (TSX:ACB) made a quarterly earnings announcement. The last report was released in May, and investors may be anticipating hearing management's updated views, as the company gives the market a peep into its internals before end of this month, just a few weeks before recreational marijuana legalization sales kick off in Canada.

The earnings cut-off date of June 30 is probably way off considering the rate at which new market developments are taking place in the nascent cannabis industry, so management's commentary, including any other new information that may be released during the earnings announcement may be much more valuable for stock valuation than actual historical earnings performance.

Revenue growth aside, there are a few areas I would be most interested in, as Aurora presents its last earnings before recreational market kicks off, giving the market another chance to assess the company's readiness for success in the new market.

Revenue performance

There won't be any MedReleaf results consolidation just yet, as the acquisition transaction closed after June 30, but the coming results will present the first full quarter of CanniMed Therapeutics consolidation. The last quarterly installment only included 16 days of CanniMed revenue, showing a strong 211% jump in revenue to $16.1 million from just $5.17 million in sales in a comparable quarter last year.

Even stronger top-line growth could be reported this time, as the company debuted export shipments to Italy in April and made some shipments to Malta in June.

However, I will not be very much elated by revenue growth at this point, as Canadian medical marijuana sales may soon be dwarfed by recreational sales revenues.

International revenue performance

Will export sales to Germany be consistent? Growth in this market was stalled by limited product supplies during a previous quarter as the company's only European Union Good Manufacturing Practices (E.U. GMP) certified facility was running at full capacity and no other supplies were available, as **Cronos Group** cancelled a supply contract late 2017.

Only exports from GMP-certified facilities are acceptable into Europe, and the company is constructing all its facilities to be GMP compliant.

Liquidity

I have no worries about Aurora's funded capacity, as productive capacity expansion costs seem very low in the industry. I would be interested in the cash-burn rate, though, as a gauge for potential future dilution. Aurora had $231 million in cash and cash equivalents on March 31, and the $200 million debt facility from **BMO** closed this month may be potentially enough to finance expansion plans before huge cash flow growth kicks in post October 17.

Productive efficiency

The company's cash costs to produce a gram of cannabis rose to $1.53 during the quarter ended March 31, 2018, up from $1.41 by December 2017. I would expect this cost metric to slide back down, increasing investor confidence in the company's ability to generate good margins in the recreational market, where lower-priced wholesale sales to some provinces will eat into profit margins. Lower production costs will validate management's prior claims that Aurora is a low-cost producer.

That said, this cost metric is not directly comparable to that of competitors like **Aphria**, which incurs less than a dollar to produce a gram of marijuana, but I wish management won't discontinue reporting on this metric, as **Canopy Growth** did two earnings releases ago.

Inventory growth

Does the company have enough product inventory to meet anticipated demand surge in October? Production is ramping up with more facilities coming online, but June inventory levels will give an indicator of the aggressive growth star's readiness in obtaining first-mover advantages in the adult-use market by making vast product quantities available nationwide on day one of sales.

Aurora Sky construction progress

The facility at the Edmonton airport was scheduled to be complete by mid-year 2018, and some sections are already licensed for production. Investor assurance on this facility's readiness to meet a recreational marijuana demand surge will be a big positive. I will be expecting management to discuss this issue in the coming management discussion and analysis.

Investor takeaway

Revenue and profitability figures by June may not significantly inform investment decision making this September, as market focus has turned to the anticipated adult-use market, but cost-management performance will be key.

More weight may be placed on management commentary, and I would be interested in hearing more about the company's U.S. listing plans, too.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ACB (Aurora Cannabis)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/08/28
Date Created
2018/09/22
Author
brianparadza