Aurora Cannabis Inc. (TSX:ACB): The Shocker From Latest Quarterly Earnings Results

Description

Aurora Cannabis (TSX:ACB)(NYSE:ACB) released its first-ever quarterly financial results after recreational pot legalization on Monday to an eagerly anticipating investment community, whose ears were keen to get whatever update on the post legalization market.

Besides the $0.6 million from late shipments to the provinces, the quarter's September 30th cut-off date couldn't reveal much into the much-hyped recreational cannabis segment, but management did well to qualitatively highlight the company's product performance in the short supplied market, where Aurora product is said to rank among the top-selling offerings in the provinces, with 30% of Ontario sales reportedly being Aurora from product.

With a boost in productive capacity from a MedReleaf acquisition and a production ramp up underway, the company is seemingly managing to ship better volumes into its provincial supply agreements to replenish stocks while competitors struggle to cope with early product demand in the nascent market.

The triple-digit revenue growth numbers reported in the company's latest quarterly installment were quite impressive, and the massive net earnings figure was intriguing, but there was a small number that could have shocked anyone had it been reported prominently, but we will discuss this later.

Impressive revenue growth

Aurora reported a 260% year-on-year revenue growth to $29.67 million for the quarter and a 55% sequential top-line growth from a previous quarter. This massive growth was primarily a result of MedReleaf, Anandia Labs, and UAB Agropro and UAB Borela consolidation, which added $11.12 million, $447,000 and $519,000 to the top line, respectively.

The company could have reported a much better growth figure had consolidation started earlier on July 1. Pro-forma revenue was 333% higher than the consolidated figure. New acquisitions exponentially drove Aurora's revenues upwards last quarter, yet the impressive numbers may not be indicative of a more reliable organic business growth trend.

Excluding the new subsidiaries' revenue, Aurora did not perform so well organically, and the consolidations shield some shocking underlying individual performance.

The big shocker

New acquisitions contributed $12.09 million to corporate total revenue last quarter, while older businesses under the Aurora umbrella generated only $17.59 million from product sales and service provision.

These older businesses had generated $19.15 million revenue during a previous quarter!

Organically, the old company generated 8% less revenues during the quarter to September, and a sequential revenue decline had never been reported ever before since Aurora debuted cannabis sales.

Should we read too much into the decline?

It's too early to conclude that medical cannabis sales are declining, even though Aurora had a surprise decline in active medical cannabis patients the previous quarter. The company organically grew patient numbers by 3,640 last quarter, and it follows that organic sales were expected to grow marginally too, if the old trend had persisted.

Most noteworthy, Aurora and CanniMed suppressed bulk sales to build adequate inventory for the new adult-use market, so organic sales could have been shifted to a next quarter. Therefore, the current quarter could generate phenomenal top-line growth, and the 8% drop last quarter may be forgiven.

That said, medical marijuana sales command far better gross margins than recreational sales, with Aurora reportedly selling recreational marijuana to the provinces at around $5.50 a gram, much lower than the $8.39 average price per gram the company realized from predominantly medical sales last quarter.

Margin compression may require cannabis growers to significantly increase sales volumes just to break even, while price competition will intensify as production ramps up across the board. In such a scenario, a growing focus on higher-margin medical cannabis sales could preserve a profitable niche as the direct-to-patient sales model allows for better mark-ups.

Recreational cannabis is driving market hype, but medical marijuana sales may be a vital profit driver as the industry matures. I commend Aurora management for their repeated claims for a continued focus on the global medical cannabis market.

Foolish bottom line

It's too early to read much into Aurora's negative organic sales growth.

The company is one of the leading cannabis players globally, and the company's growth style promises to conquer the entire marijuana market value chain, making the stock a favourite for a long-term hold.

The company is already playing with cannabis-infused beverages ahead of legalization, with a frothy San Rafael filled glass photo shown in the Management Discussion and Analysis, giving promise to some competition against **Canopy Growth's** escapades with **Constellation Brands**.

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