

How Well Did Aurora Cannabis Inc (TSX:ACB) Really Do in Q1?

Description

Aurora Cannabis Inc ([TSX:ACB](#))(NYSE:ACB) released its quarterly earnings on Monday as the company continues to see significant growth. During the quarter, Aurora generated nearly \$30 million in sales, which is more than triple the \$8 million that it brought in a year ago. However, let's look beyond the top line to see whether Aurora had a good quarter — and whether these results make the stock a good buy or not today.

Softer gross profit on lower unrealized gains

Despite the significant increase in sales, the company's gross profit of \$8 million was actually less than it was a year ago, even though the company had a fraction of the sales. The big culprit behind the weak gross profit was fair value changes in inventory. A year ago, the company added \$3.6 million to its gross profit as a result of changes in fair value. This year, however, it incurred a cost of over \$12 million for a total swing of over \$15 million.

Changes in fair value are common for cannabis companies, and it was only a matter of time before we saw the reverse effect happen where profits were negatively impacted by the changes. With a lower gross profit, there was even less for Aurora to cover its operating expenses.

Expenses continue to soar

While the company may boast that its sales were up 260%, it won't be so quick to tout that its operating expenses were up a whopping 1,072%. General and administration expenses together with sales and marketing costs totaled more than \$65 million this past quarter. Just those two line items alone would be well above the \$10 million in expenses that Aurora incurred last year, when those items made up less than \$7 million.

The company has also been heavily involved in [acquisitions](#) over the past year, and costs related to those activities also soared to nearly \$15 million, up from just \$340,000 a year ago.

Investment-related gains propel the company into the black

In what's become a recurring theme in the world of cannabis stocks, it was not the company's operations that produced a positive net income number for Aurora. Rather, it was gains from investments that helped the company achieve a significant profit of over \$100 million. A deemed disposal of investment and unrealized gains on derivatives contributed \$230 million to the company's bottom line and helped flip an operating loss of more than \$111 million into a profit of \$104 million.

Investors should be weary of these gains, because just like the fair value changes we saw higher up in its financials, we could see a reversing trend here as well, especially as pot stocks drop in value. When a company can't produce a profit from its day-to-day operations, that should raise concerns for investors.

Should you buy Aurora?

Aurora's stock has been very [volatile](#) over the past year, and it's a risky buy to say the least. I'm not impressed with the company's performance in Q1, as sales growth alone shouldn't justify the premium that the stock currently trades at. Year to date, the stock has declined 2%, but it would have to decline a whole lot more before being considered a good buy.

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