Canopy Growth Corp (TSX:WEED) vs. Aurora Cannabis Inc (TSX:ACB): Which Marijuana Firm Had the Better Quarter?

Description

Earnings results for the largest Canadian marijuana firms for the quarter ended September 30, 2018, are out, and the market has reacted with mixed feelings to the performance of the leading players, namely, **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) and **Canopy Growth** (TSX:WEED)(NYSE:CGC).

Here is how the two biggest contenders to the cannabis throne fared last quarter.

Revenue growth

Thanks to the consolidation of three newly acquired subsidiaries, Aurora managed to "cover up" a seemingly shocking 8% sequential decline in total revenue during the last quarter, yet the number of active registered patients increased organically.

If Aurora's organic revenue decline was shocking, then Canopy's 10% sequential revenue decline during the same quarter could have done more to harm to investor enthusiasm. The world's biggest marijuana grower generated $23.3 million in total revenue last quarter, which was lower than the $25.9 million recognized during a previous quarter.

Canopy's stock lost up to 16.5% on the day, as investors registered their disappointment and worry.

Medical cannabis sales remain an important growth and earnings driver, as they generate higher-margin sales, and marijuana firms need to keep this old segment firing on all cylinders.

Inventory growth

This item was the biggest differentiator between the two contending giants.

Canopy harvested 15,217 kilograms of dried cannabis — 157% more than the previous quarter's harvest — and the company held 31,214 kilograms of dried cannabis, 21,499 litres of cannabis oils and

1,497 kilograms of soft gel capsules by end of the quarter. Total cannabis inventory at this giant was worth $171 million by September 30.

In contrast, Aurora only managed a harvest of nearly 5,000 kilograms during the quarter — 125% better than the previous quarter's harvest, but less than a third of Canopy's. Aurora's inventory was valued at $75 million as of September 30.

Aurora is ramping up production to a 150,000-kilograms-per-annum run rate by end of this year, as its flagship 800,000-square-foot Aurora Sky facility gets fully operational, but Canopy's lead remains wide, as the company has a total 4.3 million square feet of licensed productive capacity right now.

Initial recreational sales

Aurora generated $0.6 million from initial adult-use cannabis sales, as it made early supplies into provincial supply agreements. Canopy generated $0.7 million from "test" shipments to the provinces, and the company says the rate of daily shipments has more than doubled this November as compared to October deliveries.

Canopy has annual supply agreements for over 70,000 kilograms. Although its lead in deal sizes might not be substantially wide against Aurora, the company could be a runaway leader in the recreational cannabis market due to its unrivaled inventory and enviable productive capacity should current product shortages persist.

Operating earnings performance

Ballooning operating expenses are the big devil in the two companies' earnings reports.

The combined and larger Aurora incurred $120 million in operating expenses for the quarter — four times the $29.67 million revenue. Canopy also saw its operating expense grow exponentially to nearly $181 million for the quarter, nearly eight times the quarterly revenue.

Marketing and brand awareness moves and administration expenses growth were necessary while entering a new adult-use market, where regulations essentially prohibit much of the critical branding and marketing practices, and Canopy "invested" more than Aurora in these activities.

Overall profitability

Aurora's investment portfolio was the biggest earnings driver that lifted the firm's bottom line from a $112 million operating loss to $104 million in net income for the period, and further gains from marketable securities saw Aurora report a staggering $181 million comprehensive net income for the period.

Canopy's net losses of $330 million were alarming, and the $404 million comprehensive loss wasn't encouraging, as Canopy now has a long way to recover the $500 million deficit in shareholders' equity.

Foolish bottom line

Aurora’s recent acquisitions masked sequential revenue declines, while Canopy had no new subsidiaries to mask the decline, but the latter is better positioned to lead in the recreational market.

It would seem like Aurora outperformed its arch rival financially, but if productivity growth is anything to be considered going into a short-supplied adult-use market, the market leader outperformed by a wider margin, and it will be interesting to view the results early next year.

On a lighter note, Aurora had a much bigger balance sheet of $4.96 billion against Canopy’s $2.98 billion, but 58% of Aurora’s assets was in goodwill. A $5 billion investment by **Constellation Brands** into Canopy has changed the picture going forward.

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2. NASDAQ:CGC (Canopy Growth)
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