Aurora Cannabis Inc (TSX:ACB): What to Look Forward to in Monday's Earnings Report

Description

Aurora Cannabis (TSX:ACB)(NYSE:ACB) will release its first quarterly results generated after recreational marijuana legalization during pre-market hours on Monday. Management's earnings guidance has helped analysts adjust their expectations for the upcoming earnings instalment, so the element of big surprises may be limited, but will the upcoming report be impressive?

Most investor concern is on whether marijuana firms can actually scale up operations and generate the astronomical revenue growth rates that can justify their lofty stock valuations, so we currently look to revenue growth in the hope that profitability growth will follow later as sales volumes surpass the recently rising breakeven points.

Will all segments report growth?

My sincere hope is that no segment in Aurora's revenue generating lines will generate negative growth as what shockingly happened in a recent quarter where weaker organic medical cannabis sales were masked by new consolidations.

For starters, the company's management has guided for net revenues of $50-55 million for the quarter, which results in a sequential quarter-on-quarter growth rate of over 68% and a year-on-year growth of 327% based on the low end of the guidance.

This is an impressive growth rate, but we should factor in the fact that some of this growth is also from previously partially consolidated subsidiaries like MedReleaf, which are fully consolidated this time.

The company reported a proforma revenue figure of $35.8 million in the previous instalment. Adjusting the growth rate for partial consolidations would give us a sequential quarterly growth rate of 39.9%, which is still somewhat impressive, but investors may be interested in knowing the full details of what drove this near 40% growth in Aurora's business revenues.

The company says, "revenue growth for the quarter was driven by the company's strong position in the adult consumer use market in Canada, continued shipments of medical cannabis to Aurora's expanding base of approximately 71,000 patients in Canada, and relatively stable, supply restricted shipments, to its growing international markets."

The medical cannabis line may have returned to growth as active patient numbers have grown from 67,484 during a previous quarter, boosting investor confidence that this segment may actually survive cannibalization from recreational product sales.

I want hemp product sales at Europe's largest hemp operation Bolera and Agropro, and **Hempco Food and Fiber's** recent return to growth to meaningfully contribute to top-line growth too, but these operations are still relatively small as compared to the recently expanded cannabis business line.

Patient counselling, construction services, and cannabis accessories are potentially slow growth drivers.

Anandia Labs is another new subsidiary that can be expected to see growing revenues, as its product testing business may enjoy more client volumes after adult-use market legalization. Bolera, Agropro, and Anandia produced $1.6 million revenue on a fully consolidated basis in a previous quarter. Could there be surprise growth from these three new subsidiaries? We'll see on Monday.

Operating expense management

I would be concerned if new acquisitions significantly added to Aurora's historically ballooning operating expense burden where general and administrative costs grew 59% sequentially and sales and marketing expenses almost doubled sequentially in the previous quarter, but management has guided for flatter operating expenses this time.

I hope there won't be negative surprises here, otherwise the company will continue to see its breakeven revenue figure ever climbing higher with no near-term end in sight, yet management has guided for positive operating margins by mid-year this year.

Production cost performance

We have seen Aurora reporting declining average costs per gram produced in the most recent quarters as it achieved efficiency improvements at CanniMed facilities and also realized some production economies of scale.

That said, management may already be envious of **Organigram Holdings**, which reported insanely low cash costs of production at $0.54 per gram from an indoor facility recently. It would be favourable to see the company continue to reduce costs as it scales up, as cost profiles could be an important source of competitive advantage as the market matures and cannabis products flood the market in a few years.

Investor takeaway

Aurora's earnings guidance was given after the quarter had already closed, so there could be little room for variations and surprises on revenue performance but it will be important to closely monitor the sources of growth and their sustainability in the upcoming quarterly instalment.

A return to high-margin medical cannabis sales growth would be favourable, while some uptick in hemp sales will be pleasant but my focus would also be on operating cost management success too as this is an important profitability driver going forward.

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