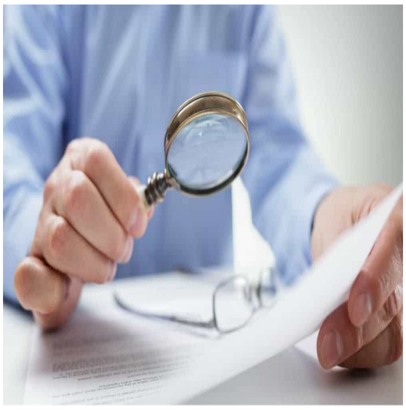

Breaking Down Aurora Cannabis Inc's (TSX:ACB) Q2 Results

Description

Aurora Cannabis (TSX:ACB)(NYSE:ACB) released its quarterly results this week. And while the company showed impressive year-over-year sales growth, it posted a significant loss of $240 million. Let's take a closer look at the results to see what happened and assess whether the stock is a good buy today.

Is the revenue growth a disappointment?

Starting from the top, Aurora's net revenues reached $54 million, which is more than quadruple the $12 million in sales it achieved a year ago. Although that's an impressive year-over-year growth rate, it's a big reduction from the expectations that analysts were expecting earlier in the year. Aurora sent out a warning that it was going to miss by a lot, so investors and analysts could adjust their expectations.

With the quarter including recreational sales for the bulk of it, analysts were expecting a big quarter from the cannabis company. However, missing estimates is something that hasn't been out of the norm for marijuana companies these days, and so it shouldn't come as a big surprise that Aurora felt the need to adjust expectations for the quarter.

Expenses continue to soar

One of the big concerns for cannabis stocks is their rising expenses. From just $23 million in expenses a year ago, Aurora incurred more than $112 million this past quarter. The biggest increase came from general and administrative costs, which rose by $36 million, or 376%, from a year ago.

While it's normal to expect see costs increase along with revenues, they shouldn't outpace them. With gross profits up only $26 million, there was no chance that Aurora was going to be able to post an operating profit. Its loss of $80 million was a big decline from the $16 million loss it incurred previously.

Other income and expenses aren't helping the bottom line

anymore

One of the dangers in living and dying by investment gains and losses is that they can and will fluctuate a lot. While last year the company got a $26 million boost as a result of unrealized gains and other income, this quarter Aurora added a whopping $200 million in expenses as a result of impairment charges and unrealized losses.

The danger for investors is that these non-operational items can result in big swings in the financials, rendering them almost useless. To say Aurora posted a big profit or loss essentially means very little, since it may not be representative of the company's operations. Investors should instead focus on the operating income or loss line, as that will give a much more accurate depiction of how the company performed during the quarter than net income will.

Bottom line

It wasn't a very impressive quarter from Aurora given the significant increase in sales. Accelerating costs are putting a lot of pressure on the company's financials and it's just not a good, safe investment today. While the stock could have a lot of upside, it also carries quite a lot of risk as well. Until things start to settle down, investors would be wise to wait in the sidelines.

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