



This Aurora Cannabis Inc (TSX:ACB) Subsidiary Reported Zero Revenue Last Quarter

Description

For the very first time since consolidation in December 2017, **Aurora Cannabis Inc's** ([TSX:ACB](#)) (NYSE:ACB) engineering, greenhouse design and construction consulting subsidiary, Aurora Larssen Projects (ALPS) reported zero revenue for the most [recently reported quarter](#) ended December 31 last year.

ALPS was an immediately accretive acquisition that contributed to Aurora's revenue growth right after the acquisition transaction was concluded in December 2017. The engineering subsidiary generated steady revenues for three consecutive quarters ended in March, June and September 2018, and then suddenly the wheels came off last quarter.

If one of a high growth company's revenue generating subsidiaries abruptly reports zero revenue for a full quarter, can we confidently proclaim that the consolidated company, as a growth machine, is firing on all cylinders?

Such a question brings up an interesting trivial discussion, but I would wish to bring up the acquisition background first before we go any deeper.

ALPS acquisition background

The acquisition of Larssen, a well-established greenhouse construction engineering firm, was announced in November of 2017, but the terms of the transaction were not publicly disclosed. However, financial statements later reported the deal as a \$9.7 million acquisition, including milestone and contingent payments that would take place later on.

The new subsidiary was said to have a revenue run-rate of \$6 million per annum from 15 running cannabis projects with an expected EBITDA margin exceeding 40%. Since integration in January 2018, the company generated \$5.71 million in revenues to December 2018, which was in line with Aurora's guidance.

Management envisaged that ALPS would develop unique technologies exclusive to Aurora, allow the

company to save big on construction expenses and cash flow, and “given Larssen’s reputation and visibility within the industry,” Aurora would “gain immediate access to an expanded universe of international M&A and partnership opportunities.”

Is the growth machine firing on all cylinders?

I wouldn’t consider ALPS as one of Aurora Cannabis’s most critical revenue generating operations, and definitely not as a cylinder on the growth engine, but as a high potential aftermarket turbo charger that brought more oomph and firepower to the whole machine’s operations.

The new subsidiary was very instrumental in connecting Aurora to new growth partners, especially in the Denmark market, where Aurora partnered with Alfred Pederson & Son to create Aurora Nordic, a European cannabis operation with two facilities, a 100,000 square foot retrofit facility and a new 1,000,000 square foot state of the art grow facility in Odensk and both ALPS designed. The facilities add a massive 128,000 kilograms to the company’s 570,000 kilogram planned productive capacity.

ALPS also stood in the centre of the company’s then strategic investment in The Green Organic Dutchman (TGOD), and also completed the design of the company’s new production facilities to EU GMP standards. Today, all Aurora facilities are being designed to be EU GMP compliant, a critical aspect that allows the company to significantly increase its export presence in a new and severely undersupplied European market.

For the purposes for which it was acquired, ALPS seems to have delivered to expectations thus far.

Slow growth ahead?

It’s normal for a construction engineering company to report zero quarterly revenue. Actually, construction and infrastructure tenders can take longer than three months to be awarded, and depending on the client’s decision making systems and preferences, deals may take even longer to conclude.

A construction company can even go for six solid months without a new contract, and new project wins are not always that predictable, so ALPS performance last quarter may not be telling us much.

That said, the local cannabis industry, an important source of revenue in 2018, isn’t likely to be that vibrant in terms of new facility construction announcements this year. Even if several new facility builds were to be announced, ALPS may still fail to win a significant number of new cannabis clients going forward after becoming a subsidiary of a an aggressive marijuana firm.

It’s tricky to expect licensed cannabis producers to solicit the services of a strong competitor when constructing critical producing assets amid fears that the competitor might gain too much knowledge about their competitive advantages. Production process technologies and cost management will become important competitive factors in the near term as the market matures.

New business may come slowly.

Foolish bottom line

Aurora Cannabis is growing fast, and its greenhouse design arm has [evidently been an important part of the growth story](#), but I don’t foresee this division being directly accretive in the coming quarters on

the income statement, as its construction revenue contribution becomes insignificant due to massive cannabis sales volumes going forward.

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