



## Why Surging Pot Demand Has Aurora Cannabis Inc (TSX:ACB) CEO Losing Sleep

### Description

**Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) went on a minor rally this week, rising 9% between Monday and mid-day Thursday. The rally came after an explosive second quarter, which saw [gross revenue rise 430%](#). Although the news in the quarterly report wasn't all positive, with the company swinging to a [\\$240 million net loss](#) from a \$104 million profit in Q1, it was undoubtedly a great quarter purely in terms of growth.

Now, however, the CEO of Aurora sees a new challenge on the horizon — something he says that he's "losing sleep" over. It's an issue that could impact all cannabis producers in a big way, even though Aurora has been the only company to sound the alarm so far. Although, in many ways, this coming challenge is a "great problem to have," it could also prove a major stumbling block if it goes the wrong way.

### Oversupply concerns

Earlier this month, Aurora CEO Terry Booth told a **Cannacord Genuity** analyst that he "loses sleep" over surging demand for pot. Citing an "oversupply situation," he said it might be up to five years until supply catches up to demand.

The current high demand for legal pot means plenty of business for cannabis growers like Aurora. In its most recent quarter, the company posted record sales in no small part because of its newfound recreational pot business. As more jurisdictions legalize pot, demand will only increase.

While excessive demand is a great problem to have, it's not exactly a non-issue. When a company cannot supply everybody in a given market, it misses out on sales it would have made had supply been adequate. In the weeks after cannabis was legalized nationwide, many stores were sold out for weeks. As a result, cannabis producers missed out on sales when customers headed back to the black-market dealers they had been relying on before pot was legalized.

## Recreational cannabis sales up

There's no denying that Aurora is making a lot of sales in the era of legalization. In Q2, the company made about \$21 million in recreational cannabis sales — approximately 40% of its total sales. Had legalization not occurred, its revenue would have been substantially lower. The impact of legalization on the company's profit situation is less clear. To prepare for legal pot, cannabis producers had to invest massively in new production capacity and supply chain logistics. Had that not been the case, Aurora's operating loss may have been lower.

## Foolish takeaway: Aurora's business is booming

Regardless of what happens with cannabis supply and demand in the next five years, it's clear that Aurora's business is booming. With gross sales up 430% in its most recent quarter, it's probably the fastest-growing company on the TSX. Although the company's net loss in that quarter was scary to look at, it's notable that the operating loss was actually down about \$20 million from Q1. This shows that, in one way or another, surging demand for legal pot is working well for Aurora.

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