Aurora Cannabis Inc (TSX:ACB) Is Raising $750 Million: Time to Buy the Stock?

Description

Aurora Cannabis Inc (TSX:ACB)(NYSE:ACB) is one of the largest and fastest-growing cannabis companies in the world. With $54 million in revenue and 360% year-over-year net revenue growth last quarter, it's second only to **Canopy Growth Corp** in size. For a brief period, Aurora actually managed to eclipse Canopy by revenue, bringing in $29 million in the quarter ended September 31, 2018 (Canopy had $23 million in sales in the same period).

Although Canopy is back at the top of the cannabis kingdom, Aurora is still a force to be reckoned with. Recently, the company made headlines by hiring billionaire Nelson Peltz as an advisor and rolling out a brand new retail strategy. Now, the company is back in the news after announcing its intention to raise $750 million for an ambitious global expansion plan. A fundraising round that large is always a big deal, but will this be enough to make Aurora a buy?

Let's take a close up look at what the company plans to do with the money.

What the money will be used on

When Aurora announced its $750 million fundraising plan to regulators, it said that the main objective was to raise money for global expansion. Global reach is a huge priority for cannabis companies, with Canopy having previously said that it wants to be #1 in at least 11 international markets.

Canadian companies enjoy a first mover advantage in many of these foreign markets, some of which have just recently legalized medical cannabis, so capturing market share early can pay off long term.

Currently, Aurora distributes cannabis in 24 countries across five continents. That's already an impressive reach. $750 million worth of investment could grow that reach even further by increasing Aurora's infrastructure (e.g., grow sites) in the countries it serves, and facilitating expansion into more countries.

Debt and dilution

$750 million worth of global investments could go a long way. The question is whether the money spent will be worth the cost. To answer that question, we need to look at where the money is coming from.

Aurora can raise money in two ways: through debt, or by selling stock. If the company opts for debt financing, it will leverage its balance sheet, resulting in monthly interest payments that will eat into its earnings. If the company opts for equity financing, on the other hand, it will reduce the size of each shareholder's stake in the company.

Initially, the influx of cash from an equity financing round offsets the effect of dilution, but if the money is spent in a way that's not ROI positive, the net effect will be a reduction in the value of each share.

Foolish takeaway

Aurora Cannabis is an established player in the cannabis scene, having already grown its revenue to $50 million per quarter in a few short years. The next step for the company is generating profit on that revenue. Although Aurora has had positive net income before, the company still loses money from operations. Whether $750 million will help it turn that around remains to be seen. There's no denying, however, that Aurora is a fast-growing company with potential upside.

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