



Is Cash Flow a Problem for Aurora Cannabis (TSX:ACB)?

Description

Aurora Cannabis Inc ([TSX:ACB](#))(NYSE:ACB) was recently downgraded by an analyst amid fears that the company's cash burn combined with convertible debt (which is not in the money) due in Q1 could become problematic.

Running low on cash in the industry has, unfortunately, been the norm rather than the exception these days. It's an important issue and one that I highlighted in the company's [most recent quarterly results](#).

Let's take a closer look at how Aurora has done this year to help assess how big of a problem a lack of cash is today.

How much cash is the company burning through?

Over the past nine months, Aurora has used up a combined \$324 million to fund both its operating and investing activities. It's no secret that the company has been recording some significant losses

Although a good chunk of that has related to non-cash items including impairment, the company has also benefitted from fair value gains as well.

One way that Aurora and other pot stocks have been able to alleviate some of their cash needs is by using stock-based compensation. During the current fiscal year, the company has paid nearly \$80 million in compensation through the use of shares.

The problem is that although there are a lot of non-cash items like share-based compensation on its financials, Aurora still used up more than five times the amount of cash that it did a year ago in its day-to-day operating activities.

While that's mainly been a result of the company's growth, the launch of edibles and more pot shops being opened could worsen in future quarters.

Aurora has also been spending a lot on its investing activities, with \$247 million being spent during the

year to acquire property, plant and equipment.

Its cash burn would have been an even bigger problem if the company hadn't gained \$117 million in cash from its acquisitions. That was the main reason that the cash used from the company's investing activities year to date was only \$136 million.

The company had just \$89 million on its books at the beginning of the year, and while that has increased in nine months, that's mainly been due to loans that Aurora has taken out and, to a lesser extent, shares that it has issued.

Bottom line

Yes, Aurora has a big problem with cash burn, as do many of its peers. However, we've known this for some time now. The timing of the analyst's downgrade is a bit odd and makes me wonder if it has more to do with heightened fears as a result of the **CannTrust** [scandal](#).

Heading into this week, Aurora's stock had risen more than 30% year to date, but if we factor out a very bullish January, its share price has actually fallen more than 4% since February.

The company still has a fairly strong valuation in the markets and an equity issue could certainly help alleviate concerns for the time being.

However, with more eyes now on cannabis stocks and their lack of profitability, the company is going to need to tighten up its financials.

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