Why Is Aurora Cannabis (TSX:ACB) Burning Through Cash?

Description

Recreational marijuana became legal in Canada in October 2018. The hysteria surrounding the industry was unprecedented before and after. But the high returns it promised did not eventuate, leaving investors shocked and awed. The major cannabis companies were showing little or no profit but were burning cash like crazy.

All industries go through birth pains, and the marijuana business is no exception. However, this fast-paced industry also represents big money. Enormous amounts of cash are needed to ramp up production, acquire other cannabis companies, and expand internationally. So, a cannabis company needs deep pockets.

So many millions of dollars are being spent, in fact, that only a few cannabis companies might survive to see the light of day. Let's look at the massive spending undertaken by **Aurora Cannabis** (TSX:ACB)(NYSE:ACB).

Bold moves

This soon-to-be-the-largest cannabis producer grew big via an aggressive M&A strategy. Aurora made several equity investments in various cannabis companies. The most notable was the hostile takeover of a competitor called CanniMed Therapeutics.

The deal was concluded in January 2018 at a cost of $1.1 billion. Aurora paid $1.7 million in cash, and roughly 3.4 million of its own shares. This high-profile purchase propelled Aurora into the limelight.

Soon afterwards, the company made the strategic decision to buy MedReleaf for $3.2 billion in an all-stock transaction. But a problem in using the company's own stocks is shareholder dilution. Luckily, Aurora's stock price soared after the CanniMed transaction and made shareholders happy.

The subsequent merger with MedReleaf brought less satisfaction. This time, the shareholders did *not* benefit from the dilution. Aurora pursued more acquisitions, including 25% of **Green Organic Dutchman**, and 52.7% of **Hempco**, **Alcanna**, and **Radient Technology**.

Besides these costly purchases, Aurora has several subsidiaries including Pedanios, the largest cannabis distributor in Germany; CanvasRx, Canada's largest outreach service for medical cannabis patients; and BC Northern Lights, an indoor growing supplies manufacturer.

You can also count a world-leading greenhouse engineering and design consultancy firm (Aurora-Larssen) and a late-stage ACMPR applicant in Quebec (H2 Biopharma).

Premium weed stock in the making

Aurora bought firms by diluting shareholders, because the company has no wealthy institutional partner to bankroll its purchases. But it seems all Aurora's moves have turned out for the better. The recent acquisitions will help the company produce a powerful portfolio of brands. When that happens, Aurora's position in the cannabis space will be second to none.

Aurora is also hoping to gain a solid foothold in the medical marijuana market, along with the recreational one, since the margins are higher on the medical side. With the largest global presence, Aurora will be able to sell the higher-valued cannabis products in countries where the demand is strong.

According to strategic adviser Nelson Peltz, Aurora Cannabis is moving closer to generating positive EBITDA. Will investors finally make profits on the stock? Maybe, but I'm not prepared to recommend a strong buy. Some analysts predict Aurora's price will double in the next few months. This would mean it hasn't burned cash for nothing.

CATEGORY

1. Cannabis Stocks
2. Investing

POST TAG

1. Cannabis

TICKERS GLOBAL

1. NASDAQ:ACB (Aurora Cannabis)
2. TSX:ACB (Aurora Cannabis)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Cannabis Stocks
2. Investing

Tags

1. Cannabis

Date
2025/06/30
Date Created
2019/08/09
Author
cliew