My Take on Aurora Cannabis's (TSX:ACB) 2019 Earnings Release

Description

Cannabis earnings continued on Thursday with **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) taking centre stage. For the fiscal year 2019 ended June 30, Aurora announced an astounding improvement in EBITDA and sales. The company also outlined its international strategy, particularly for the U.S. market and its growing relationship with the UFC.

Although Aurora reported an adjusted EBITDA loss of $11.7 million, the company improved its earnings by 68% compared to the previous-quarter loss of $36.6 million in Q3 2019. At this point in Aurora's growth, negative EBITDA is not necessarily a cause for alarm as long as it is within reasonable limits.

Sales increased 629% from fiscal year 2018

Cannabis sales increased by 629% to 57,442 kilograms in the fiscal year 2019. This sales increase led to a 349% increase in 2019 net revenue to $247.9 million.

Lower cannabis prices reduced what would have been a more substantial effect on income from sales growth. Resulting from a bulk wholesale business strategy, Aurora's cannabis prices declined to $5.32 per gram from $6.40 in 2019.

Nevertheless, lower costs boosted margins, offsetting the influence of the price reduction. On a per-gram-sold basis, the cash cost to produce declined 20% to $1.14. Thus, Aurora's margin as defined by the difference between price and cost rose by $0.06 in 2019.

Aurora controlling risk in growth strategy

Shareholders should be cautious not to invest in headstrong expansion strategies that could lead to failure. Luckily, Aurora understands the difference between strategic growth and arrogance.

Aurora is maintaining its level of growth within sustainable limits. Aurora released the following statement: “Aurora will take a balanced approach to these investments with a focus on operating a sustainable and profitable business.”

Heavy losses from costly expansions are frequent in competitive industries. Enterprises like **Canopy Growth** and **Uber** are losing money at alarming rates. Canadian investors should ensure that the stocks in their portfolio are not hemorrhaging too much cash during expansions.

UFC partnership pivotal to international strategy

Aurora CEO Terry Booth commented on the company’s international strategy in the United States: “We are working to extend our reach in the U.S. markets. Our partnership with the UFC (Ultimate Fighting Championship) is a basis for exploring CBD-from-hemp and hemp food products.”

Aurora’s U.S. strategy targets high-margin market opportunities that are legal at both state and national levels. After the passage of the U.S. Farm Act, Aurora considers the U.S. the largest consumer market for hemp-derived CBD products in the world.

Aurora dumps TGOD shares at 50% internal rate of return

By far the most exciting announcement was Aurora’s divestiture of its **Green Organic Dutchman** shares for $3 per share and a gross amount of $86.5 million, representing a 50% internal rate of return.

The Green Organic Dutchman announced lacklustre earnings in August for the quarter ended June 30. Revenue growth is a critical performance target in the spotlight during earnings post-legalization in Canada, and TGOD failed to impress.

The Dutchman announced a meagre 20% increase in revenue to $2.9 million. While its revenue growth may be low, this new player in the cannabis market is still preparing for full commercialization. Its performance over the next two quarters will be critical to determine the brand’s competitiveness.

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Date
2025/08/16
Date Created
2019/09/12
Author
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