



ALERT: 1 Week Before Aurora Cannabis (TSX:ACB) Earnings

Description

We are a few weeks removed from the next stage of cannabis legalization. Cannabis 2.0 will introduce products like vape pens and edibles into the legal market. **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB), one of the top producers in the world, has seen its stock fall 15.7% month over month. According to Aurora's upcoming events on its main site, the company is set to release its first-quarter fiscal 2020 results after markets close on November 14.

Late last month, I'd discussed [Aurora's value ahead of its earnings release](#). Shares were close to its 52-week low of \$4.59 at the time of this writing.

What to expect from Q1 earnings

Analysts are expecting a big bump in revenue in the first quarter. Unfortunately, the broader sector is still struggling, as we have passed the one-year anniversary of recreational legalization. Inventories are on the rise, but a shortage in legal brick-and-mortar cannabis stores has put pressure on producers. Aurora CEO Terry Booth specifically cited his disappointment with Ontario and B.C.'s rollout in recent months, reserving some praise for Alberta's handling of legalization.

In its fourth-quarter fiscal 2019 report, Aurora's net revenue fell short of expectations. Other top producers faced similar challenges. **Canopy Growth** appeared to be on track for \$1 billion in sales in fiscal 2020, but its first-quarter report disappointed. The company went on to project that it will reach profitability in the next three to five years, which sparked a sell-off in the stock.

Aurora has a large product lineup set for launch in December. Edibles have emerged as the preferred method of consumption for many users. These products have only been available through the black market over the past several years. Aurora chief corporate officer Cam Battley said that legalization "will give the legal industry the real opportunity to make significant strides in replacing black market sales."

The company has set up production hubs in Eastern and Western Canada that will help its roll out of gummies, baked goods, mints, and chocolates in the edible category. It plans to offer vape products

that will target all major consumer segments. The ongoing controversy around e-cigarettes is not expected to have a significant impact on the sale of vape pens in the near term.

Edibles are not set to make a huge impact early in the roll out, but Aurora anticipates that their sale will improve gross margins and adjusted EBITDA. Aurora had hoped to achieve profitability in late fiscal 2019, but it has been forced to push back forecasts. The company now expect positive EBITDA by the second quarter of fiscal 2020, but this is still dependent on a broader retail rollout.

Should you buy Aurora today?

Aurora stock looks tempting at current price levels. The cannabis sector has been pummeled in 2019, and there is a lot of uncertainty as we look ahead to the new year. Shares have retreated to fair value, and there is still high-growth potential in this evolving industry. I'm still looking to stack Aurora stock ahead of earnings.

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