



5 Must Watch Items as Aurora Cannabis (TSX:ACB) Reports Quarterly Earnings on Thursday

Description

Leading marijuana producer **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) is set to release its fiscal first quarter 2020 results for the period ended September 30 after market close on November 14.

Management has strictly refrained from giving any prior earnings guidance this time, which is understandable after some recent humiliation where both revenue and adjusted earnings before interest, tax, depreciation, and amortization (EBITDA) guidance were missed.

That said, maybe management just wants to surprise the market this time around.

There's significant potential for both a huge positive and a crushing negative surprise when the company reports on Thursday, and investors may want to have a special focus on these reportable lines in the coming earnings release.

Wholesale sales

Wholesale sales contributed about \$20 million or over 21% of quarterly cannabis net revenue in the recent past quarter, up 869% sequentially, and was therefore an important revenue growth driver.

But the wholesale market was a source of financial disaster for another marijuana grower, **HEXO**, which was [dealt a double blow in the wholesale market](#) as reported in its recently reported quarter that ended in August. Significant inventory is expected to be returned from wholesale clients (and the company is selling wholesale acquired product at prices below its acquisition cost).

A similar fate could face Aurora, a bigger supplier to the wholesale market.

Average product pricing trend

There has been some early signs of price competition in the budding pot market in Canada recently as

realized prices are falling and provincial distribution channels have increasingly accumulated inventory during the past nine months due to slow growth in effective demand. Fewer than desirable retail outlets are to blame.

The question for Aurora is whether this weakening pricing power will be absorbed by growing sales volumes and how the resultant mix will affect the company's revenue growth and profitability targets. The company's earnings targets could be compromised.

Organigram Holdings recently guided for a weak quarter – pricing issues and sales returns were the source of its problems – and the stock tanked nearly 20% on Tuesday.

Adjusted EBITDA

A growing investor focus is on the profit generation potential of the industry, and an encouraging picture on the firm's adjusted EBITDA trend could lift investor spirits considerably.

The company saw a 68% sequential improvement in adjusted EBITDA during the last reported quarter, to a loss of \$11.7 million. As a good measure of operating and cash flow generation potential, a break even in this earnings measure this quarter could be a great achievement.

Export market growth

The company has been exporting to Germany for several quarters now, and the company used to lament the lack of inventory to fully capitalize on the budding EU market.

Now that the firm's flagship production facility is fully licensed and productive capacity has exponentially grown, it's only natural to expect growing shipments to Germany and other European markets too.

Last quarter's exports were still below \$5 million and the company would do well to show us some good numbers in this segment going forward.

Cash burn

The company is evidently very low on cash resources, yet several of its growth projects are still incomplete.

It's therefore important to monitor how the company is preserving its liquidity, as approaching the debt markets again in the near term may not be ideal. Financiers may not be as bullish on the industry due to recent general low-to-negative sentiment on marijuana growth stocks.

Approaching the equity market during this period of low share prices isn't a great option either.

I wouldn't be surprised if management announces some drastic plans to preserve cash, including even the suspension of some facility construction projects.

Investor takeaway

There are many more data points that investors will want to monitor as the aggressive leader in the marijuana space reports earnings on Thursday. But keep in mind that the marijuana industry is still in its infancy, and volatility quarter to quarter should be expected.

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