# Aurora (TSX:ACB) CEO Foresees Major Marijuana Stock Carnage in 2020

### Description

Cannabis stocks are the fallen stars in 2019. Investors are losing interest in cannabis companies because of their mounting losses, controversies, and scandals. Since April, the market values of big and small players are dropping significantly. The key to regaining the trust of investors is for the marijuana stocks to show profitability.



According to Terry Booth, CEO of **Aurora Cannabis** (TSX:ACB)(NYSE:ACB), the turbulence is not over, and carnage is looming over the next year. Booth is not worrying about the demand for cannabis. He sees the need for producers to reduce production costs in a market beset by oversupply.

## Constant disappointment

Sadly, marijuana investments have been a continual disappointment for investors. It appears that marijuana companies, including Aurora, are presenting ambitious guidance. Instead of delivering, Aurora is burning cash and diluting equity. As a result, the stock is suffering.

As of this writing, Aurora's market capitalization is down to $3.42 billion from $7.63 billion in late August. Similarly, the price has fallen to $3.26 per share. On a year-to-date basis, Aurora is down 52%.

Last month, the company was able to secure a US$400 million at-the-market equity financing program. Booth said the funding would allow this top cannabis producer to handle its operations during the current downtrend.

The high cost of production ($4-$5 per gram) is hurting other cannabis companies. In the coming months, the carnage in the production area will no longer be tolerable. Aurora can withstand the effect, as it is a low-cost player. It's producing cannabis at less than $1. But Aurora will not get into a price war.

However, in case of a price war due to oversupply, the company is best prepared to deal with it. To show good faith and counter the negative impression, Booth bought 270,000 worth of Aurora shares (nearly $1 million) in late November.

## Industry outlook

Aurora’s CEO summarized the industry situation today. Booth said, “Remember, they used to value our companies based on the size of our vault and then based it on the size of our licence, and then they based on the funding capacity and they’re finally moving towards can these guys make money.”

Aurora’s September quarterly report was horrendous. Likewise, with the sizeable convertible debt falling due on March 9, 2020, the company decided for all debtholders to convert into common shares. While the dilution was painful to shareholders, it was the only way Aurora can attract new investors.

The net effect of this convertible debt conversion is a reduction of the market cap to $2.6 billion, with the stock price settling at $2.50 per share. Fortunately, with $153 million in cash as of the quarter ended September 30, 2019, plus the US$400 million funding, Aurora can cover capital-spending plans in 2019.

## Precarious state

The ongoing dilution at Aurora is a deal buster to would-be investors. However, the conversion of its debentures in 2020 as well the $190 million reductions in capital spending will improve the company’s liquidity position.



Aurora is making canny moves to ensure a bright long-term future and maintain its industry-leading position. For investors, fasten your seat belts and adopt a wait-and-see attitude. The ride is going to be turbulent in 2020.

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