



## The \$3.1-Billion-Dollar Time Bomb That Could Sink Aurora Cannabis (TSX:ACB) Stock!

### Description

**Aurora Cannabis Inc** ([TSX:ACB](#))(NYSE:ACB) was one of the worst-performing cannabis stocks of 2019. Starting off the year at \$7.02, it fell to \$2.50 by year's end—a stunning 64% decline.

All cannabis stocks did poorly in 2019, but ACB was one of the worst of the bunch thanks to its massive losses and hiccups in its European operations.

In 2020, the company is facing an even bigger threat. Threatening to give the company one of its largest losses ever, this \$3.1 billion “time bomb” could send the stock below \$1. Although this is not yet a “what-if”, it’s a major risk factor that many analysts are bracing for. And this year, the chickens may finally come home to roost.

### A mountain of goodwill

As of its most recent earnings release, Aurora Cannabis had \$3.1 billion worth of goodwill on its books. Goodwill is the acquisition premium above the book value of a company acquired.

Goodwill can be listed on a company’s balance sheet as an asset as long as it’s producing value for the acquiring company. However, goodwill has to be “tested” every year to make sure that its fair value still exceeds the book value of the acquired company. If it doesn’t, it has to be written down.

### Why that’s bad news for investors

The reason why Aurora’s goodwill could be dangerous for investors is because there is a serious risk of some of it being impaired.

In the lead-up to legalization, there was a [flurry of M&A activity in the cannabis sector](#), with extraordinary premiums having been paid for some of the acquired companies.

One cannabis acquisition that was particularly controversial was Aurora Cannabis' [purchase of MedReleaf for \\$2.64 billion U.S.](#) (about \$3.2 billion CAD). The all-stock deal heavily leveraged Aurora's balance sheet, which the company justified on the basis that it would increase its production capacity.

However, just recently, Aurora sold off a major MedReleaf facility for just \$17 million, a discount to what MedReleaf had paid for the facility prior to the sale, indicating that MedReleaf's production numbers aren't quite what Aurora had expected and that a big write-down may be on the horizon.

## Foolish takeaway

Over the course of 2019, Aurora Cannabis' shares fell far more than those of its peers. At the same time, its losses were nowhere near as bad as other cannabis companies like **Canopy Growth**, whose stock only fell 50% last year.

This suggests that ACB is being priced as though a major disaster is on the horizon. With \$3.1 billion of goodwill sitting uncomfortably on the company's balance sheet, we've got a likely culprit.

It remains to be seen whether Aurora Cannabis will take a huge impairment charge from its MedReleaf-related goodwill, but if it does, it will be bad news for those holding still holding onto ACB this coming February.

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