



Should You Drop Aurora Cannabis (TSX:ACB) Stock After CEO Exit?

Description

Canada's billion-dollar pot stock, **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) lost 15.2% on February 7, 2020, after the company announced the retirement of founder and CEO Terry Booth. Aurora's board of directors appointed Michael Singer as interim CEO, while Booth will move to a senior strategic advisory role and remain a director.

The other major announcement was Aurora's employee layoff. The company decided to [restructure the workforce](#), resulting in job cuts of 15% or 500 employees. The layoff will result in the elimination of 25% of the corporate positions.

While this move will not impact cannabis production directly, a lower workforce across sales and marketing can negatively impact ACB's top line in fiscal 2020. Aurora Cannabis also announced its intent to reduce capital expenditure in the second half of fiscal 2020 by \$100 million.

Aurora's press release states, "Management today announced sweeping changes intended to rationalize the cost structure and balance sheet going forward. The company believes this will better align the business financially with the current realities of the cannabis market in Canada while maintaining a sustainable platform for long-term growth."

Similar to most pot companies in Canada, the company has been impacted by lower than expected demand in the recreational space. As cannabis is a highly regulated industry, the slow rollout of retail stores has resulted in most marijuana companies reporting sales below consensus estimates. Further, Aurora confirmed an \$800 million write-down of its goodwill which exacerbated the sell-off.

Aurora and several cannabis heavyweights are grappling with mounting losses as well. All of these factors have burnt significant wealth for cannabis investors over the last 12 months. Aurora stock is trading at \$2.26 at writing, or 84% below its 52-week high.

What's next for Aurora Cannabis investors?

Can Aurora Cannabis make a comeback this year or will the stock move lower? In the fiscal second

quarter of 2020, Aurora Cannabis has forecast sales between \$62 million and \$66 million, compared to consensus revenue estimates of \$66 million.

However, after accounting for return provisions, price reductions and future provisions (amounting to approximately \$12 million), net sales will be between \$50 million and \$54 million). Aurora Cannabis will report its second-quarter results on February 13, 2020.

The layoffs might not give a significant boost to Aurora's bottom line in 2020. In fiscal 2019, the company posted an EBITDA loss of -\$156 million and an operating loss of -\$339 million, which was far higher compared to its sales figures of \$248 million.

Another concern for investors will be the company's high debt balance of \$796 million. Aurora reported a cash balance of \$192 million at the end of the September quarter, and with an operating cash flow of -\$218 million, the company might have to look to raise additional capital sooner rather than later.

Aurora Cannabis stock is trading at a price-to-sales ratio of 8.6 and a price-to-book ratio of 0.52. These valuations look reasonable given the expected growth rates in Canada's marijuana market.

However, the company's weak fundamentals coupled with uncertain market demand, the negative impact of illegal sales and falling profit margins make Aurora a risky bet despite its massive decline in the last year.

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