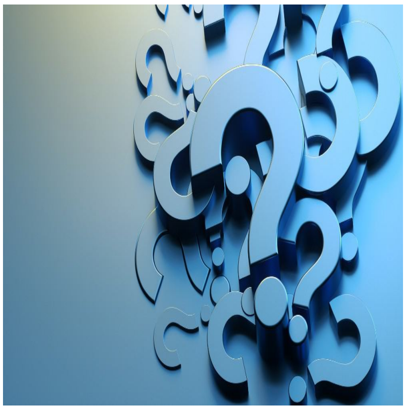

Aurora Cannabis (TSX:ACB) Revenue Falls 26%: Time to Sell the Stock?

Description

This past week, **Aurora Cannabis Inc** (TSX:ACB)(NYSE:ACB) released its earnings for the second quarter of 2020, and they were, predictably, bad.

The company reported a 26% drop in net revenue along with a colossal $1.3 billion GAAP net loss. While the net loss was mostly due to a goodwill impairment charge, the company also reported a $80 million adjusted EBITDA loss that didn't take the impairment into account.

Fortunately for shareholders who were still holding when the earnings report came out, the stock actually rose after it was released, as investors were expecting even worse news. Nevertheless, Aurora's second quarter was remarkably bad across the board. We can start by looking at revenue.

Revenue declines in several business segments

As previously mentioned, Aurora's net revenue declined by 26% sequentially in the second quarter. Breaking it down by business segment, we see a 26% decline in cannabis net revenue, a 10% decline in Canadian and international medical revenue, and a 24% decline in consumer cannabis net revenue.

That latter revenue figure is particularly concerning, as it shows that the company is struggling to keep up recreational sales growth after the initial revenue boost from legalization.

Cost to produce rising

It would be one thing if Aurora were simply seeing large revenue declines. That's a concern, but one that could ultimately be offset by lower costs. However, Aurora's costs are actually rising.

In addition to a 23% increase in selling and admin expenses, they revealed a 4% increase in the cost to produce a gram of cannabis–from $0.85 to $0.88.

Granted, that's not a huge jump. However, in an earnings report that showed revenue declines in almost every category, it doesn't help, and paints a picture of a company that's not likely to become profitable any time soon.

A sluggish forecast

Aurora's Q2 press release ended with a final piece of bad news:

The company expects "modest to no growth" in the third quarter compared to the second quarter. While the company stated that it was "long term bullish" on the cannabis industry's prospects, management believes that the entire cannabis industry will likely see "slower than expected growth" going forward.

It's not spelled out in the press release, but this is very likely due to legalization fading into the rear view mirror. When cannabis was first legalized, it created a totally new recreational market already full of ready and willing customers. Naturally, that resulted in a huge sales boost compared to prior quarters that only had medical cannabis revenue.

Now that legalization is over a year into the past, cannabis companies have to beat prior year quarters that already had recreational sales. That will be increasingly difficult as the novelty of legal weed wears off and customers realize that they can get cheaper prices in the black market.

For this and other reasons, I'd say Aurora is a long-term sell.

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