



Aurora Cannabis (TSX:ACB): 5 Transformative Moves in May

Description

Aurora Cannabis's ([TSX:ACB](#))(NYSE:ACB) management is frantically rushing against time to restructure the Canadian marijuana firm's business so as to achieve a positive operating earnings target by the third calendar quarter of 2020. The company has so far announced five disposal and acquisition transactions in May. Will the latest strategic moves help management hit near-term profitability targets?

Aurora Cannabis stock price [has rallied since mid-May](#) after the company announced an encouraging set of quarterly financial results.

Laying off hundreds of workers and suspending several construction projects allowed ACB to rationalize business expenses since February 2020. This was just a starting point towards transforming the marijuana company's fortunes.

Here are five smart moves management has made so far in May to make Aurora's positive adjusted EBITDA target achievable by September.

Aurora Cannabis disposed its hemp subsidiaries in May

The Canadian hemp growth play has dismally failed to take off for Aurora. Its European hemp subsidiaries haven't performed to satisfaction either. The marijuana firm decided to totally dispose of its former Agropur UAB and Borela UAB hemp businesses this month for an undisclosed amount.

Further, the company has sold Hempco Food and Fiber assets in Canada and will be winding down the hemp subsidiary's remaining operations this quarter.

Management explained that hemp investments were made to provide the firm with a cheap source of cannabidiol (CBD) extracts. However, hemp biomass is in oversupply now, while high-potency outdoor-grown cannabis is also providing extracts at very low costs.

"As such, management does not consider the hemp production and foods business to be core to

Aurora's future..." reads a statement in the company's latest fiscal Q3 2020 financial statements.

The hemp businesses were projected to require further capital expenditures while generating operating losses for the next 18 months. The company expects to save about \$3 million a quarter in operating expenses.

Disposal of Exeter Greenhouse facility

Aurora has been holding its Exeter land and greenhouse property as an asset available for sale since November last year. The company finally found a buyer for the property in May and accepted a \$9 million offer.

The greenhouse was acquired through MedReleaf and was valued at over \$20 million in June last year. An \$11 million impairment charge was taken on the property recently to bring the balance to just \$8.6 million by March 31. Millions have been lost in buying and retrofitting this property. However, the company will save on any further capital expenditures and future operating expenses related to this property.

Sale of Jamaican properties

The company sold its idle Jamaican property for gross proceeds of US\$3.4 million, or roughly CA\$4.8 million. These assets were being held on the books at \$4.2 million.

Disposal of greenhouse construction subsidiary ALPS

Aurora's greenhouse consulting and construction business has been returned back to its original founder in May. ALPS no longer fits into the company's core business, as management reverses earlier aggressive growth maneuvers.

New cannabis greenhouse construction projects are increasingly scarce in Canada. Licensed producers are facing the realities of an oversupplied marijuana market. ALPS didn't generate any revenue for several quarters, yet it was gobbling millions in quarterly operating expenses.

The company will retain a preferential pricing services agreement with ALPS for ongoing maintenance or engineering services be required in the future.

Acquisition of Reliva LLC

I was a bit surprised when Aurora announced the acquisition of U.S.-based hemp outfit Reliva LLC on Wednesday. The company is still making hemp acquisitions while divesting from non-viable Canadian and European hemp businesses during the same month.

Perhaps the U.S. hemp playfield is much better. Reliva is said to have generated positive operating earnings for several quarters already. The US\$40 million all-stock acquisition is expected to be immediately accretive to ACB's adjusted EBITDA while requiring no immediate future capital

expenditures.

Aurora has always wanted to enter the United States market, and Reliva's access to over 20,000 mass retail outlets in America is something management considered a valuable asset. That said, **Canopy Growth** recently suspended U.S. hemp grow operations. This rings some distant alarm bells somewhere in my mind.

Happy investing.

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