



## Aurora Cannabis (TSX:ACB): The \$1 Billion Question

### Description

My, how times have changed.

Just a year ago, hopes were riding high for the cannabis industry, which was eagerly anticipating the arrival of Cannabis 2.0 in Canada. The new laws were set to approve a number of products that remained illegal after 2018's initial legalization. Hope ran high that these new products would lead to higher profits for Canada's licensed producers.

It never panned out. Nearly a year after Cannabis 2.0, major weed companies are still losing money with no end in sight. In some cases, the new product categories are enjoying higher profit margins than traditional cannabis, but sales aren't high enough to make a big difference.

This fact alone is reason to be wary of marijuana stocks. If higher margin products aren't going to save "big weed," then it's not clear what ammo they have left to use.

For one cannabis company, though, there are even bigger problems to contend with.

### Aurora Cannabis

**Aurora Cannabis Inc** ([TSX:ACB](#))(NYSE:ACB) is, like most cannabis companies, losing money. In its most recent quarter, it posted a \$137 million net loss and an \$83 million loss from operations.

What's really alarming is that Aurora is dealing with far bigger issues than that. Most notably, it has to contend with a mountain of questionable goodwill on its balance sheet. As of its most recent quarter, ACB had \$2.4 billion in goodwill.

Goodwill is always a fairly iffy balance sheet item, but in Aurora's case, it's really starting to look bad. In Q2, Aurora took \$762 million in goodwill impairment charges and \$210 in impairment charges on PPE. That was enough to trigger a stunning loss.

Now, however, the company could be looking at an even bigger goodwill writedown—upwards of a

billion dollars.

## The problem with MedReleaf

To understand why further writedowns are almost inevitable for Aurora, we need to look at one of its biggest acquisitions:

*MedReleaf.*

MedReleaf is an Ontario-based cannabis producer that Aurora paid US\$2.64 *billion* to acquire. At the time, that was [CAD\\$3.2 billion](#).

One of MedReleaf's most noteworthy assets at the time of acquisition was an Exeter greenhouse. It was a cannabis greenhouse that was expected to produce 105,000 kilos of annual output for Aurora. Those 105,000 kilos represented the vast majority of the 140,000 kilo output MedReleaf was to produce in total.

However, supply chain issues at Exeter became too big a burden for Aurora to bear, and the company wound up selling Exeter for a mere \$8.6 million—a fraction of the \$26 million MedReleaf originally paid for the facility.

With Exeter gone, MedReleaf can only produce 35,000 kilos annually for Aurora. According to Fool.com contributor Sean Williams, that much production capacity can be [bought for \\$100 million](#).

## How big a writedown Aurora could take

If Sean Williams is correct and that 35,000 kilos in cannabis production capacity is only worth \$100 million, then the vast majority of the MedReleaf goodwill on Aurora's balance sheet will have to be written down.

The company's Q3 balance sheet doesn't specify how much of its goodwill came from MedReleaf. However, the acquisition cost \$2.64 billion. Aurora has \$2.4 billion in goodwill remaining after the prior quarter's \$762 million in writedowns.

These facts suggest that MedReleaf still makes up a the majority of Aurora's goodwill. If MedReleaf's value is written down to \$100 million, then investors need to brace for another billion dollar loss at minimum.

Not a pretty picture, to say the least.

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