Aurora (TSX:ACB) Stock: Restructuring, Layoffs, and More

Description

On June 23, 2020, leading marijuana producer **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) provided an update with respect to its business transformation plan. Aurora Cannabis executed a material reduction in its corporate- and production-level employees as well as third-party consulting and professional spending.

This includes a 25% reduction in the company's selling, general, and administrative (SG&A) staff and a 30% reduction in production staff. While the SG&A layoff will be with immediate effect, production staff capacity will move lower over the next two quarters.

Aurora Cannabis has forecast its fiscal first quarter of 2021 SG&A run-rate at $42 million. In the March quarter, the company's SG&A expenses stood at $75.1 million. Aurora Cannabis is confident about generating higher levels of revenue in the upcoming quarters without a corresponding level of growth in SG&A expenses.

Aurora stock moved 10% higher in early market trading yesterday on this news. However, these gains were wiped out, and Aurora stock ended the day at a loss of 0.8%.

Aurora Cannabis will focus production at manufacturing facilities

Aurora plans to close operations at five facilities over the next two quarters and focus production and manufacturing at its larger scale and higher efficient facilities. It announced sites at Aurora Prairie, Aurora Mountain, Aurora Ridge, Aurora Vie, and Aurora Eau will close.

Aurora expects to consolidate Canadian production and manufacturing at Aurora Sky, Aurora River, Polaris, and Whistler Pemberton facilities by the end of the September quarter. The company is also looking to ramp up production at its Nordic facility in Europe to keep up with demand in these markets.

Aurora estimates asset impairment charges of up to $60 million in the fourth quarter of 2020. It will also

record a $140 million charge in the carrying value of inventory. Aurora Cannabis is optimistic about the company's focus on maintaining production efficiencies and yield improvements.

It expects the facility closures to be accretive to gross margins, as the shift towards large production facilities will result in economies of scale. Aurora forecasts a material reduction in per-unit cost of goods by the third fiscal of 2021.

Aurora Cannabis CEO Michael Singer stated, "With today's announcement we have achieved our stated SG&A run-rate target and expect to operate at approximately $42 million for the first quarter of fiscal 2021 … This has not simply been a cost cutting exercise. We have undertaken a strategic realignment of our operations to protect Aurora's position as a leader in key global cannabinoid markets, most notably Canada."

Will Aurora stock move higher in 2020?

Aurora stock has returned 145% since it reported fiscal Q3 2020 results in May. Its revenue was up 35% sequentially at $75.5 million in Q3 while its cash balance rose to $230.2 million. The company had then reaffirmed its target of achieving positive EBITDA in the first quarter of fiscal 2021.

Aurora Cannabis used $154.6 million in cash in Q3. Though its cash requirement fell by 43%, the company's liquidity will make investors nervous. It raised equity capital several times in the last year, which diluted investor wealth. The company's board of directors recently authorized a US$350 million at-the-market offering.

Aurora is confident its facility rationalization and inventory revaluation will improve gross margins and accelerate its ability to generate positive cash flow. If Aurora Cannabis can manage to lower costs and generate a positive EBITDA without a drastic fall in revenue, its stock can stage a comeback in 2020.

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