



Aurora Cannabis (TSX:ACB) SOARS 15% in 1 Day Then Loses \$1.8 Billion!

Description

On Tuesday, **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) stock soared 15% on the same day it revealed a \$1.8 *billion* loss. Earnings were released on market close, so the gains came before the loss was revealed. Investors were apparently expecting an earnings beat but were disappointed.

Lately, there's been a lot of optimism surrounding Aurora's cost-cutting strategy. The company has been making great strides in lowering costs for several quarters, which may have caused the pre-earnings jump. The cost cutting wasn't enough to prevent the company's biggest quarterly net loss ever. However, as you're about to see, that loss may be deceiving.

The loss was deceiving

While Aurora's \$1.8 billion loss in Q4 was shocking, it wasn't a true cash loss. It was mainly caused by [impairment](#), an accounting charge that comes when a past acquisition proves less valuable than thought. When you take an impairment charge, your balance sheet assets are reduced. This also causes a charge on your income statement. However, losses incurred this way aren't regular operating losses. They don't impact your cash position and are not recurring.

In situations like this, many analysts prefer to look at adjusted earnings over GAAP/IFRS earnings. On that measure, Aurora fared better. Going by adjusted EBITDA, Aurora lost \$35 million in Q4 — a smaller loss than the \$50.4 million posted a year before. Net cash used in operations was [about \\$64 million](#). These are still losses, no doubt. But compared to the headline \$1.8 billion figure, they're not quite as scary.

Why the stock soared

Ultimately, nobody can say for sure why a stock rose or fell on a particular day.

With that said, it appears that the main reason for Tuesday's gain was that investors were expecting good results from Aurora's quarterly report. That's corroborated by one simple fact: on Wednesday,

after the earnings were released, the stock declined by 17%.

It's not surprising that Tuesday's gains didn't last. \$1.8 billion is Aurora's biggest loss ever, and one of the largest ever posted by any cannabis company. Apparently, the fact that Aurora's Q4 loss was mostly impairment didn't prevent investors from being spooked. However, it's a factor worth keeping in mind. Q4 adjusted EBITDA was actually an improvement over the same quarter a year before. Cash flow from operations wasn't horrible. But Aurora is also seeing its revenue decline, so the long-term picture isn't exactly great.

Foolish takeaway

It's been a long time since we've seen major news from Canada's cannabis giants. After the legalization craze fizzled out, they all but dropped off the map. Aurora's \$1.8 billion loss would have to be the first big story we've seen from them in a while. And it's not a positive. While Aurora's cash flow results were not as bad as its GAAP earnings, it's a company that's seeing its sales decline while taking massive impairment charges. This stock is probably one to avoid for now.

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