



3 Takeaways As Aurora Cannabis (TSX:ACB) Restructures Again and Misses 2020 Target

Description

The promise to **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) stock investors was for the company to achieve some measure of profitability by December 31, 2020. Management had just under a month left to deliver the goods. [On Wednesday](#), the company abandoned that target altogether and is restructuring operations and debt covenants again.

Aurora Cannabis was about to default on debt covenants

Marijuana producer Aurora Cannabis announced on Wednesday that it has renegotiated its debt covenants and amended its credit facility for the second time this year. The company has extended its credit facility maturity to December 2022. Most noteworthy, the debt facility has been transformed from a minimum EBITDA covenant to a minimum liquidity covenant.

What this means is that Aurora no longer has to comply with an earlier amendment which required that the company achieves positive Adjusted Earnings Before Interest and Taxes, Depreciation and Amortization (EBITDA) by the end of its fiscal second-quarter 2021 which ends on December 31 this year.

“The Agreement is predicated on the company’s ‘back to basics’ regulated consumer packaged goods strategy. This strategy will delay the Company’s ability to achieve positive Adjusted EBITDA as management invests in its consumer business,” the company explains in Wednesday’s press release.

A hunch tells me Aurora was about to default on its debt covenant that required positive adjusted EBITDA by the end of this month. Management then rushed to renegotiate the clause before the critical deadline, and lenders saw no problem with the new deal since the company has adequate cash on hand – \$450 million to be precise.

Otherwise, there was no point in renegotiating the clause two weeks before performance was required, and due. Covenant breaches warrant default, and the company may be required to pay all outstanding

debt once that happens. And a breach of one covenant may mean a breach of every other loan agreement. That's very bad for valuation and such events could mean insolvency when all loans fall due – all at once.

ACB can't competitively produce pot anymore?

ACB has announced another major production facility closure. Once planned to be the largest cannabis greenhouse facility in the world, Aurora Sun has been shuttered effective December 15. The company moves to cut production by 75% at Aurora Sky, a facility designed to produce low-cost cannabis.

Management will pivot to a variable cost structure by increasing spot purchases of dried cannabis flower for the company's needs. The idea is that outsourcing will preserve cash flow while reducing cultivation risks.

I take it that Aurora Cannabis doesn't want to take the risk of overproducing marijuana anymore. The company will instead focus on high margin premium strains and medical cannabis production. It's most likely that margins will fall on ACB's value brands as it acquires more inventory from the wholesale market. Perhaps a focus on premium strain cultivation will help maintain margins for the business. We will have to see as the new consumer business strategy plays out.

Will the company generate positive profits soon?

The company has provided no word as to when it could finally report positive quarterly EBITDA. Aurora will continue to invest in its consumer business in the meantime.

Further, management justifiably claims that "...contributing to the profitability delay is the unpredictability of the current demand environment, including the resurgence of COVID-19."

What *is* intriguing is whether the unpredictability in demand is a separate item from the point on COVID-19. If management views these as two separate but related items, then the statement might mean worse things. The cannabis market profitability outlook is indeed [clouded, from my angle](#).

It could be that the company isn't confident about the demand growth outlook in its current markets, *with or without the coronavirus pandemic*. If so, ACB stock investors should read this as some very concerning disclosure.

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Date

2025/08/22

Date Created

2020/12/16

Author

brianparadza

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