Aurora Cannabis Stock: What Caused the Q3 Revenue Declines?

Description

The embattled marijuana producer **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) is still undergoing a second wave of business transformation, but a key segment is still generating persistent yet serious problems for the firm, thereby weakening its stock price.

The truth is, recreational marijuana sales are still expected to be the major revenue growth driver for Canadian pot companies. When this segment's sales stutter, it's a huge concern for Aurora Cannabis stock valuation. Shares traded 7% lower on Friday as investors assessed the marijuana company's latest quarterly earnings results for its fiscal third quarter 2021 which ended on March 31 of this year.

What happened?

Aurora Cannabis's net revenue for the March quarter at $55.2 million was down 18% sequentially from December 2020 levels and 25% weaker year over year.

Although medical cannabis revenue increased by 17% annually, adult-use sales declined by 53% from comparable levels last year, and they were 37% lower on a sequential quarterly basis.

As a result, adjusted EBITDA losses worsened sequentially to a $24 million loss for the quarter, and the total Q3 net loss was a painful $164.7 million or $0.85 per diluted share.

The company's recreational cannabis segment continues to present recurring problems for the firm. Medical cannabis sales remain stable, with medical cannabis derivatives at record highs last quarter, but the adult-use products portfolio has brought so much anguish and suffering for investors.

Among the several moving parts that caused painful revenue declines are three significant factors that Aurora Cannabis stock investors need to watch closely during the remainder of 2021.

Three causes of Aurora Cannabis's revenue decline last quarter

First, we know that provincial bodies reduced their ordering activity during the period as COVID-19 restrictions negatively impacted sales. There was no pantry loading as there was during the first wave of the coronavirus pandemic in 2020. This phenomenon wasn't unique to the firm as its peers like Aphria (now **Tilray**) suffered sales losses too.

However, the company had two unique issues that exacerbated its situation.

The company was going through a transition in its sales functions when Aurora Cannabis decided to shift from an internal sales force to an outsourced marketing model. Management reports that there was a temporary decrease in the number of sales representatives for ACB's products during the quarter. Has Great North Distributors (the new marketing agent) sorted the issue? Hopefully, this phenomenon is just but history today.

Most noteworthy, ACB initiated a major product swap initiative recently, and this temporarily reduced orders from provinces as they worked through recent deliveries of new stocks. The company has been upgrading the THC (a psychoactive cannabinoid) content in its product offerings to attract higher demand. Management then reported about $88 million in inventory write-downs for the quarter. Perhaps higher THC offerings will improve future market uptake for the company's products.

Foolish bottom line

Aurora Cannabis has created a very concerning reputation of disappointing its stock investors, and the latest earnings results were no different. However, it's also possible that the company is turning a curve this time around given the ongoing restructuring exercise and product portfolio transformations.

All three of the highlighted causes of revenue declines for ACB seem temporary as Canada wins the fight over COVID-19 through vaccinations. Aurora Cannabis stock investors should watch this ailing giant closely. It could pleasantly surprise them during subsequent quarters of the calendar year 2021.

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