Should You Buy Aurora Cannabis (TSX:ACB) After its 1st-Quarter Performance?

## Description

Yesterday, **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) reported its first-quarter earnings, which ended on September 30. Its revenue of $60.1 million fell below analysts' expectations of $61.33 million. However, its adjusted EBITDA losses came in at $12.1 million better than analysts' expectation of a loss of $14.4 million. Amid weak sales numbers, the company was trading over 2.5% lower in the after-market hours yesterday. So, let's look at Aurora Cannabis's first-quarter performance in more detail to assess whether it would make a good buy right now.



# Aurora Cannabis's first-quarter performance

Year over year, Aurora Cannabis's revenue declined by over 11% amid weak performance from its recreational cannabis segment, which witnessed a 44% decline in its sales. The company's management has blamed reduced orders from the Canadian provinces amid the pandemic for the sales decline. Meanwhile, its medical sales rose in both domestic and international markets, offsetting some of the declines.

Its adjusted gross margin improved from 48% to 54% on the back of increased sales contribution from higher-margin medical cannabis sales and a favourable sales mix amid a shift towards premium products. Also, the company's adjusted EBITDA losses contracted from $58.1 million to $12.1 million. Higher gross margins and cost-reduction initiatives under the business transformation plan helped lower its adjusted EBITDA losses.

With Aurora Cannabis focusing on improving its operational efficiency and effective utilization of its assets, its operating cash flows have improved, thus lowering the need for additional capital. Its net cash burn fell from $142.8 million in the corresponding quarter of the previous year to $16.55 million. Besides, the company closed the quarter with its cash and cash equivalent standing at $424.3 million. So, the company's financial position looks healthy.

# Aurora Cannabis's growth prospects

Amid increased legalization and rising usage of cannabis for medical purposes, the cannabis market is growing. Currently, only 1% of the Canadian population uses cannabis to treat their ailments. So, there is significant scope for growth in the medical cannabis segment.

Meanwhile, Aurora Cannabis is a leader in the Canadian medical cannabis space by acquiring 23% of the market share. With its medical cannabis segment delivering over 60% of gross margins, the company has allocated more resources to the segment to drive growth. It is focusing on educating patients while also navigating them through alternative treatments, which could boost its financials. Additionally, the company looks to increase its international sales by strengthening its position in Israel, the U.K., Australia, and France.

With price being a primary driver in the discount segment, Aurora Cannabis expects the segment to create issues in the future. So, it plans to focus only on the premium and high THC-content products in the Canadian recreational cannabis market. Overall, the company's growth prospects look healthy.

Meanwhile, Aurora Cannabis is yet to post positive adjusted EBITDA. However, its transformational business plan could deliver $60-$80 million of annualized savings by the second quarter of 2023. So, amid these savings and improved sales, the company hopes to post positive adjusted EBITDA in the first half of fiscal 2023.



## Bottom line

Despite the near-term challenges, such as losing market share in the recreational segment, I believe Aurora Cannabis's long-term growth prospects look healthy. The expanding addressable market, rising medical cannabis sales, and its accretive acquisitions could boost its financials in the coming quarters. So, I believe Aurora Cannabis would be an excellent buy for investors with over three years of investment time frame.

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