



Aurora Cannabis (TSX:ACB) Keeps Burning Cash as Revenue Falls

Description

Aurora Cannabis ([TSX:ACB](#))([NASDAQ:ACB](#)) stock got some attention recently when it rallied 31% over the course of a week. The stock's rally took place between July 11 and July 20. It wasn't the first time that Aurora gained so much in a short time frame, but it was notable for when it happened. Cannabis stocks got a brief jolt of life last month when the U.S. Senate floated the idea of legalizing cannabis. U.S. legalization is thought to be the next big catalyst for cannabis producers, as it could open a legal market 10 times the size of Canada.

It could be that Aurora Cannabis would get a boost from cannabis being legalized in the United States. It would certainly provide the potential for new revenue. Today, though, the company is struggling. Its revenue is down some 11% over the last year, and its losses are growing. ACB hasn't managed to differentiate itself from other cannabis companies in the post-legalization era, and it's starting to show.

Why revenue is falling

In its [most recent quarter](#), Aurora's revenue fell 9% and it lost \$12.2 million. The loss shrank on a year-over-year basis but was still large as a percentage of revenue. The decline in revenue was mainly due to the consumer segment, which shrank nearly 40%. The company attributed the lower consumer sales to pricing pressure.

There are many players in the Canadian cannabis space, and their products are all pretty similar. As a result, they compete on price in a market that's not exactly growing a whole lot, so their sales tend to fall over time. Medical sales tend to be a little better, since medical cannabis is more regulated and is more frequently sold in jurisdictions where recreational cannabis isn't legal.

Still losing money

As mentioned previously, Aurora Cannabis was still losing money in its most recent quarter. The loss declined as a percentage of revenue but was still fairly large. In Q3, Aurora's loss was \$12.2 million, and sales were \$50 million. So, we've got a loss that's about \$24.4% of revenue. It won't be easy to

turn that into a profit. Aurora says that it should be profitable by the first half of 2023, but we're pretty close to 2023 already, and profits are nowhere in sight.

The company's third-quarter press release says that \$150-\$170 million in cost savings will fuel the move toward profitability. That may be the case, but what if sales keep declining? Aurora itself admits that it's facing a lot of price pressure, so it looks like the decline in sales could continue. If it does, then losses could rise.

Foolish takeaway

Aurora Cannabis stock will occasionally get a boost when rumours of U.S. cannabis legalization start to circulate. As we saw last month, it only takes talk of legalization for ACB to rise. Like many [mid-cap stocks](#), it can rally due to something as small as a rumour. That doesn't mean that U.S. legalization will actually save Aurora, though. Maybe ACB would do more sales if the U.S. legalized cannabis, but it wouldn't necessarily become profitable. There's too much competition in its industry for high margins to be achieved.

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