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Aurora Cannabis, Inc. (ACB.CA)

Q4 2024 Earnings Call

CORPORATE PARTICIPANTS

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Simona King
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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Aurora Cannabis, Inc. Fourth Quarter 2024 Results Conference Call. All participants will be in a listen-only mode and a question-and-answer session will follow the formal presentation. This conference is being recorded today, Thursday, June 20, 2024.

I would now like to turn the conference over to your host, Kevin Niland, Director of Strategic Finance and Investor Relations. Please go ahead, sir.

Unverified Participant

Hello, everyone, and thank you for joining us. On the line with me are Miguel Martin, CEO; and Simona King, CFO. This morning, we filed our 2024 fiscal year and fourth quarter financials for the period ending March 31, 2024 and issued a news release containing both our annual and quarterly results. Our financial statements, MD&A and this news release are available in our IR website, can also access via SEDAR+ and EDGAR. In addition, you will find a supplemental information deck on our IR website.

For today's conference call, listeners are reminded that certain matters could constitute forward-looking statements and are subject to risks and uncertainties related to our future or financial or business performance. Actual results could differ materially from those anticipated in those forward-looking statements. The risk factors that may affect actual results are detailed in our Annual Information Form and other periodic filings and registration statements. These may be accessed or may similarly be accessed via SEDAR+ and EDGAR. Following prepared remarks by Miguel and Simona, we will conduct a question-and-answer session with our covering analysts.

With that, I'll turn the call over to Miguel. Please go ahead.

Miguel Martin

Chief Executive Officer & Director, Aurora Cannabis, Inc.

Thank you, Kevin. We are very pleased to report that 2024 was our strongest ever fiscal year. I will highlight some specific metrics related to our performance momentarily, but more generally, we believe our accomplishments can best be attributed to the following. First, our business model is centered on our Medical cannabis leadership within nationally legal markets. Aurora's front line positioning in the industry's highest margin segment is the direct result of the competitive advantage we've built through our manufacturing network of indoor EU GMP-certified facilities that serve the diverse needs of our patients across the world.

Second, our financial discipline, which has been demonstrated primarily by increasing our adjusted gross margin, already among the highest in the industry, through sustainable cost reductions, consistently generating positive adjusted EBITDA and bolstering our balance sheet by maintaining a healthy cash balance and substantially reducing debt. All of these factors support our goal of achieving positive free cash flow by the end of this calendar year.

Turning now to some highlights for fiscal 2024. First, net revenue rose 21% on a trailing 12-month basis. Second, adjusted gross margin was 49%. Third, we had positive adjusted EBITDA in each of our four fiscal quarters, marking the first time in Aurora's history that we've reported positive adjusted EBITDA on an annual basis. Fourth, we ended the year with a very sound balance sheet characterized by about CAD 180 million in cash on hand with plenty of firepower as needed. With this momentum, we're in a strong position as we head into fiscal year 2025.

Now let's look more deeply into Q4, beginning with our Global Medical Cannabis business, which increased 20% compared to the year-ago quarter and delivered 68% of our total revenue and 90% of our adjusted gross profit. In Canada, we grew revenue by nearly 10% due to higher sales to insurance-covered patients and upheld our number one position in medical cannabis while growing our market share. We attribute our growth to a broad and attractive product assortment, positive sales mix, and most importantly, product innovation.

The Canadian medical market has experienced a lot of disruption over the past several years, which is all the more reason why our focus on serving insured patient groups supported by continuous pipeline of exciting next-generation cultivars is critical to both holding and growing our market share. However, we are also encouraged to be seeing increased interest from unions and other entities that are considering adding medical cannabis as a benefit to their members along with more clinical trials being conducted by the traditional medical establishment. Both of these developments could expand the addressable usage market rather meaningfully.

Recall that only about 1% of the Canadian adult population are medical cannabis patients, so there's plenty of upside opportunity. Excellence in Canada has also enabled us to learn and become adept at navigating other nationally legal cannabis markets with great flexibility while making thoughtful investments based on opportunity size and overall economics. Whereas in some international markets we are the manufacturer, wholesaler and sales organization, in others, we are the manufacturer and partner with world-class wholesalers and sales organizations.

Our leadership positioning across several countries in Europe and in Australia stems directly from what we've learned in over 10 years of medical cannabis experience in Canada and we are able to leverage our world-class manufacturing in Canada to ship EU GMP products around the world. International medical cannabis grew nearly 40% during Q4 as I will now explain.

Let's first discuss Australia, where we experienced significant sales growth. Recall that in February, we acquired the remaining 90% equity interest in MedReleaf Australia, which holds the number two position in the rapidly growing AUD 400 million market, the largest medical market in the world outside of North America. This transaction positions us to deliver increases to our profitability in Australia through higher revenue contributions and higher gross margins. The Australian market is a clinician-led product distribution model that closely aligns with our operational success. The high regulatory standards of the Therapeutic Goods Administration, which is responsible for regulating the supply, manufacturing and advertising of therapeutic goods, makes it challenging for new entrants while providing an advantage to companies like Aurora that are dedicated to quality and compliance and are able to meet those requirements.

In March, we became one of the first Canadian-licensed producers to receive good manufacturing practice certification from the TGA for our largest Canadian manufacturing facilities, River and Ridge, strengthening our dedication to supporting the continued growth and development of the Australian medical cannabis market. Being one of the select few Canadian LPs with EU GMP and TGA GMP-certified facilities with close to 90% of our annual production coming from these facilities, Aurora is uniquely positioned to be able to pursue new growth opportunities in Australia as well as other key global markets. In addition to adding to our range of dried flower, the license also granted us approval to broaden our product offerings to include pastilles or gummies, oils and our newly launched resin cartridges.

Following this landmark certification, we announced the expansion of MedReleaf Australia's portfolio with the introduction of a new range of premium dried flower products and resin cartridges manufactured at our EU GMP and TGA GMP-certified facilities. The new dried flowers are proprietary cultivars grown exclusively by Aurora while another previously existing proprietary cultivar has been relaunched under the Aurora brand. The new resin cartridge products are offered by our Aurora and IndiMed brands and are full spectrum, ensuring a comprehensive cannabinoid profile for a more effective and balanced experience. We're excited to be offering an expanded range of innovative and differentiated products that cater to the market demand for a range of options without compromising on quality.

MedReleaf Australia now focuses on three core brands; CraftPlant, offering a handcrafted premium range of products; Aurora, for innovative and affordable options; and IndiMed, providing a company funded concession range, supporting access to individuals who may not be able to avail of this treatment through self-paid channels.

Moving on now to New Zealand, we celebrated our first shipment of Aurora-branded premium dried flowers during the first quarter of fiscal year 2025, representing a significant milestone in medical cannabis accessibility for the country. The initial product portfolio includes cultivars grown exclusively by us with each strain meticulously bred and cultivated to address a variety of patient needs. We view New Zealand as an emerging market poised for growth, where we can leverage symmetry with our leadership in Australia.

Let's now delve into our European operations. In Germany, we believe that the official passing of the Cannabis Act and descheduling of cannabis has fueled the expansion of medical cannabis. The country is already our largest European market, and we are currently one of only three companies with a domestic cultivation facility. We hold the number two market share for flowers, the number one market share for self-payers and have 3 of the top 10 cultivars by volume sales.

With cannabis descheduling, more patients gain access to treatment, reinforcing our dedication to patient outreach and comprehensive access to quality medical cannabis. The reclassification of cannabis as a nonnarcotic should also inspire more patients to actively consult with their physicians, facilitating greater access, education and awareness to medical cannabis. All in all, this change presents long overdue reform in favor of a more accessible medical cannabis market and commitment to patients.

In Poland, our second largest European market, we are the number two cultivar and number two market position by volume. We grew sales during Q4 compared to the year-ago period and remain excited by the opportunities this growing market presents. In the UK, patients are responding favorably to the launches of our next-generation cultivars, which has led to a significant increase in sales in the final two quarters of this fiscal year. We also partnered with Script Assist, a cutting-edge prescription platform, that now includes our extensive range of medical cannabis products from our portfolio. In doing so, we can further improve the landscape in the UK by providing patients with access to premium, high-quality products along with valuable information to guide them through their medical cannabis journey.

In Switzerland, where we first launched in Q2, we are becoming the trusted favorite for patients and are currently widening distribution channels in the country. In total, Medical cannabis adjusted gross margin reached 66%, the highest level we've ever achieved as we benefited from sustainable cost reductions and improved efficiency in manufacturing operations. This is an increase from comparable prior year quarter and substantially above our 60% target.

Turning back to Canada, our focus on portfolio optimization and strategic allocation of product to higher margin medical markets resulted in an expected revenue decline in the Consumer cannabis business. This was coupled with a decrease in adjusted gross margin because of a less favorable product mix.

Finally, our investment in the controlled environment agricultural industry through Bevo resulted in strong revenue for Q4, down only slightly from the year-ago quarter due to the seasonality of this business. Recall that approximately 65% to 75% of Plant Propagation revenue is earned in the first half of the calendar year as orders are fulfilled. The Bevo team is utilizing our former cannabis facilities to enter the profitable cultivated orchid market while our current vegetable and plant propagation business already generates a steady, predictable financial performance, albeit on a seasonal cadence.

Over the next several years, we think our shareholders will benefit from the value creation coming from this segment as we expect the acceleration of Bevo's business plan to drive revenue and adjusted EBITDA growth. These achievements were made possible through the efforts and dedication of our team who enable everything we do.

On that note, let me now take this opportunity to introduce Simona King, our new CFO, who brings over 20 years of global finance experience at Fortune 500 pharmaceutical and biotech companies. Her wealth of knowledge in highly regulated healthcare spaces is already proving to be an asset to Aurora as we pursue our purpose of opening the world to cannabis.

And with that, I would now like to turn the call over to Simona for a detailed financial overview.

Simona King

Chief Financial Officer, Aurora Cannabis, Inc.

Thank you, Miguel, and good morning, everyone. I'm very excited to be here as the newest member of Aurora's leadership team. Since joining in February, I have been focused on determining how I can best leverage my deep knowledge and experience in the pharmaceutical and biotech industries to contribute to the company's next phase of growth. I also look forward to sharing the company's progress with our analysts and investors over the coming quarters.

Thanks to our outstanding people, 2024 was Aurora's strongest fiscal year ever. As we look towards the new fiscal year, we intend to build on our prior accomplishments by further strengthening our business through sound execution of our medical cannabis strategy and delivering sustainable improvements to our financial performance.

Let's now review our results for the fourth quarter, which ended on March 31, before providing some commentary on our expectations for the first quarter of fiscal year 2025, which ends on June 30. In the fourth quarter of fiscal year 2024, we delivered revenue growth of 5% over the prior-year period to CAD 67.4 million. This growth notably included a 20% increase in sales from our high-margin Global Medical Cannabis segment, resulting in net revenue of CAD 45.6 million.

On profitability, consolidated adjusted gross margin was 49%, resulting in adjusted gross profit of CAD 33.3 million compared to CAD 31 million in the year-ago period. Driven by our focus on leadership in global medical markets, Medical cannabis represented 68% of total net revenue for the fourth quarter and 90% of total adjusted gross profit. This marked an increase from 59% in the year-ago period for net revenue and 75% for adjusted gross profit. Adjusted EBITDA was CAD 1.9 million for the quarter, which marked our sixth consecutive quarter of positive adjusted EBITDA and a record of CAD 12.8 million for the fiscal year.

Let's now go into our results by segment. Medical cannabis net revenue rose by 20% to CAD 45.6 million, which consisted of nearly 10% growth in Canadian Medical cannabis and nearly 40% growth in international Medical cannabis. The increase in Canadian Medical was due to increased sales to insurance-covered patients and increased basket sizes. The increase in international Medical cannabis was due to higher sales in Australia, driven by significant overall growth in that market in addition to stronger sales from increased market share in Poland and the UK, as customers in those and other European markets have positively reacted to our Canadian-grown high-quality cultivars.

We continue to see strong performance in Germany, given our leadership position in dried flower and look forward to continuing market growth as more patients gain access to medical cannabis following recent regulatory changes that took effect on April 1. Note that following the acquisition of MedReleaf Australia in February, we have yet to record a full quarter of revenue from MedReleaf Australia to their customers as we continue to sell through the existing inventory in the market. We expect to see the full benefit of this incremental revenue following the first quarter of fiscal year 2025.

Adjusted gross margin from Medical cannabis was 66%, up from 60% in the year-ago period and the highest margin we have ever generated. This was the result of several factors, including sustainable cost reductions, higher selling prices in Australia, which is positively impacting our international business and improved efficiency in our production operations with our shift to supplying the European markets from Canada as the impact of closing our Aurora Nordic production facility is now flowing through our financials. While we expect to experience quarterly variability in our adjusted gross margins based on the seasonality and changes to geographic sales mix, we project that a consistent margin of 60% or greater is likely to be achievable.

Consumer cannabis net revenue was CAD 10.2 million, down from CAD 14.5 million a year ago. The decline was expected result of our decision to prioritize the supply of our GMP-manufactured products to our high-margin international business rather than the consumer business, which offers lower margins. Adjusted gross margin for Consumer cannabis was 16% compared to 25% in the prior-year period due to sales of lower margin products compared to last year.

And Plant Propagation net revenue was CAD 10.4 million, down slightly from CAD 10.8 million in the year-ago period due to the timing of revenue and seasonality. You will recall that Bevo delivered higher revenue in the late winter and spring month, which should result in about 65% to 75% of revenue and up to 80% of EBITDA in the first half of a calendar year, which equates to our fiscal fourth quarter and first quarter periods. Plant Propagation adjusted gross margin was 25%, down from 36% in the year-ago period due to timing of higher margin product revenue.

Our consolidated adjusted SG&A rose to CAD 31.6 million, up from CAD 27.4 million last year due to the incremental SG&A following the acquisition and full ownership of MedReleaf Australia.

Now, moving to our balance sheet, which remains one of the strongest in the global cannabis industry, we held approximately CAD 100 million in cash and cash equivalents as of March 31 after having fully repaid our remaining CAD 7.3 million of convertible senior notes with cash. This last repayment marked the conclusion of nearly CAD 540 million in debt repayments over the last 3 years, which has saved Aurora significant ongoing cash interest payments. Our cannabis operations are now completely debt free while our Bevo business holds CAD 57.3 million in debt.

In terms of our cash flow, we made significant progress during the fourth quarter towards our goal of positive free cash flow by end of calendar year 2024. Cash used in operating activities fell by CAD 0.7 million to CAD 21.1 million, but excluding changes in noncash working capital and discontinued operations, cash used actually improved by CAD 3.1 million to CAD 10.5 million from CAD 13.6 million during the year-ago period. This was due to both increased revenue and an improved contribution margin.

Finally, as we are already nearing the end of our next fiscal quarter on June 30, we wanted to provide our outlook for this three-month period. Consolidated net revenue for the first quarter fiscal year 2025 is positioned to deliver an increase in the mid- to high-teens from the fourth quarter of fiscal year 2024. The cannabis segment should see increases to net revenue driven by growth in high-margin international medical cannabis revenue. The recent regulatory reforms in Germany are expected to increase the size of the market combined with continued strength in our key European markets as well as incremental revenue from the acquisition of MedReleaf Australia.

Our Plant Propagation segment typically experiences a seasonally higher quarter as it completes its peak spring floral sales period. Consolidated adjusted gross margin for each individual segment are typically similar on quarter-over-quarter basis with the higher mix contribution from Plant Propagation expected in Q1 fiscal year 2025. Positive adjusted EBITDA should be higher compared to the fourth quarter as a result of revenue growth combined with comparable consolidated margins and operating cash flow is expected to improve compared to the fourth quarter.

And finally, we see our target of positive free cash flow by end of calendar year 2024 as being achievable because of the following. First, we expect to see continued increases in global medical cannabis, building on the growth we are expecting in the first quarter of fiscal year 2025, driven by the full recognition of revenue in Australia as well as further growth in our key European markets. Second, operating expenditure and gross margins are positioned to be in line with previously stated targets, leading to continued strong positive adjusted EBITDA. And finally, disciplined working capital management and maintenance capital expenditure of approximately CAD 2 million per quarter.

To conclude, our team's strategic focus, combined with our operational excellence have strengthened our financial condition over this past year. As we look ahead, we are pleased with our leadership positioning in the high-margin global medical cannabis segment, which we believe will enable us to generate dependable revenues and EBITDA growth over the long term while in the near term actualize our goal of positive free cash flow.

Thank you for your time. I'll now turn the call back to Miguel.

Miguel Martin
Chief Executive Officer & Director, Aurora Cannabis, Inc.

Thanks, Simona. We've certainly proven ourselves to be strong and resilient despite the challenges we have faced. At the same time, we've been successful in attracting fresh talent to our organization, including new leadership and board members with pharmaceutical and CPG experience. We've also made substantial progress in rightsizing this business over the past four years. This reset has made us leaner and more agile and has enabled us to focus squarely on the most attractive segment of our industry, medical cannabis.

The medical cannabis sector continues to grow rapidly and Aurora is well positioned to benefit from these positive changes. We are excited to see patient access increase globally and are encouraged by the evolving regulatory environments in key international markets. For these reasons, we are confident in our future and our ability to achieve positive free cash flow by the end of this calendar year.

And with that, operator, please open the lines for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Our first question comes from the line of Matt Bottomley with Canaccord Genuity. Please proceed with your question.

Matt Bottomley
Analyst, Canaccord Genuity Corp.

Q

Yeah. Good morning, everyone. I guess for my question then, we can keep it maybe more general to any markets where this is specific, but I'm just curious on the international front what you can see that's actually trackable right now and the visibility you have of potentially an increased cadence on revenues. I know there's typically some variability there, but I'm most interested in Germany and some of the narrative around doctors maybe more willing or able to prescribe cannabis now and if there's anything that's been tangible that can be seen? So, it doesn't really necessarily just have to be Germany, but any commentary on international markets and what you can see with respect to traction being gained that might be tangible in your results in several quarters from now?

Miguel Martin
Chief Executive Officer & Director, Aurora Cannabis, Inc.

A

Sure, Matt. Well, good morning, and thanks for the question. So, as you know and others know, syndicated data typically that we see in other industries is not available. What we do see is that the regulatory agencies have certain reporting mechanisms, and I'll go into the ones that we know. You start with the tonnage or the licenses that – through the permitting process that come through and you can typically see that 90 days in arrears. Then in Germany, particularly, you can also see manufacturer shipments by the governments that go in. Now, none of the licensed producers can be the pharmacist, so it's LP to wholesale, but there's not – there's no way to return it. So, there's no – not just sort of net out returns like maybe you do in Canadian Consumer and we get that quarterly in Germany. It's a little more opaque in Poland, usually get something about every six months. And then, for Australia, the TGA, the regulatory agency there, provides market shares of manufacturer shipments to wholesale, not wholesale to pharmacy, on a quarterly basis. And it's a panel in Australia that only represents probably 20% to 22% of the pharmacies and those shipments, so it's representative of that panel.

Now, specifically for Germany, we've seen that the most sort of tangible or asset of the regulatory changes has been the ease in which patients can get prescriptions and through electronic means and even through vehicles that don't even have to be in Germany, call it telemedicine. We've seen this rapid increase in the number of patients getting prescriptions.

Now, the net effect on volume, I think we have to wait a little bit. I know that there's been a lot of conjecture about are you going to see that market double, triple or whatnot? I think it's early to get there. We're definitely going to see an increase because of the access – increased access in prescriptions of patients. But it's going to probably take a quarter for that data set to sort of catch up and see what the shipments are.

Beyond that if you look at the other countries, there are not as sort of predictable or transparent shipments with the possible exception of the UK, you see something in the UK quarterly similar to what you see in Germany. I don't know, Matt, did that answer your question?

Matt Bottomley
Analyst, Canaccord Genuity Corp.
Q

No, no. That's great. Appreciate that. I know it's something that from a lot of US operators, there's a lot of data that you can subscribe to out there, so I'm just curious as international becomes more relevant now just to sort of keep an eye on those things, I appreciate it. And I just wanted to ask one more quick one, more of a housekeeping. I apologize if this was kind of in the prepared remarks already, but if you look at the difference from the profitability and I understand the comments on the cash flow, but from your adjusted EBITDA contribution, everything on a sequential basis was largely flat except Bevo was slightly up. So can you just maybe give me a little more color on what the drivers was for the slight sequential downtick in the adjusted EBITDA in absolute dollars?

Miguel Martin
Chief Executive Officer & Director, Aurora Cannabis, Inc.
A

Yeah. Simona, you want to grab that? I mean, I'm happy if you want to go ahead.

Simona King
Chief Financial Officer, Aurora Cannabis, Inc.
A

Yeah. Let me do that. So, yeah, Matt, to give a little bit more perspective and context on the adjusted EBITDA for Q4, a couple of factors have come into play and contributed to that and we view this as a temporary situation. So, as you may recall, the acquisition of MedReleaf Australia occurred in February, so we had a partial quarter this fourth quarter of Australia. So, as a result of that, we've seen a incremental SG&A following this acquisition as we now fully own the company, and we also saw revenue – incremental revenue from customers. However, we have not been able to fully recognize that incremental revenue to customers as we're working through our inventory that's currently in the channel, and we actually expect to see that full benefit come through after Q1 fiscal year 2025. And then, on top of that, due to the timing of gross profit from our Plant Propagation business, as you know that.

Matt Bottomley
Analyst, Canaccord Genuity Corp.
Q

Okay. Got it. Appreciate all that, everyone.

Miguel Martin
Chief Executive Officer & Director, Aurora Cannabis, Inc.
A

Thank you.

Operator: Thank you. Our next question comes from line of Frederico Gomes with ATB Capital Markets. Please proceed with your question.

Eric Livshits
Analyst, ATB Capital Markets, Inc.
Q

Hi. Good morning. This is Eric Livshits in for Frederico Gomes, and thank you for taking my question. So, just on the SG&A front, obviously, it ticked higher this quarter due to those integration costs related to MedReleaf. I'm just wondering if you could provide just some more insight into the nature of these costs and when you would expect SG&A to normalize? Thank you.

Miguel Martin
Chief Executive Officer & Director, Aurora Cannabis, Inc.
A

Yeah. I mean I'll start and then Simona, you can pick it up. I think the guidance that we gave in the past did not include running MedReleaf Australia, which is quite a significant piece of business. So, you do have some integration costs, but you are going to have ongoing SG&A costs running that substantial business. And so, we do expect our SG&A to go up. I think from an integration standpoint, you'd see us work through integration costs, call it, probably by the end of the summer. But beyond that, we will have a bit of a higher SG&A line than we've had in the past because we're now running that business over there and there's SG&A costs connected to it.

Simona King
Chief Financial Officer, Aurora Cannabis, Inc.
A

So, yeah, let maybe me add a little bit more, Miguel. So, I know in the past we talked about a adjusted SG&A baseline around the CAD 30 million per quarter impact and that did not include incremental SG&A coming from any future acquisitions. So, as we've seen with MedReleaf Australia, we have taken on partial costs for Q4 and that's reflected in our financials. And as we continue with the follow-on quarters, we do expect that to go up slightly and we continue to manage our SG&A and general expenses very, very carefully. So, this is really a reflection of taking on additional business, which we see, of course, as we will take on the full benefit of that revenue to customers in the follow-on quarters post – after we work through our inventory, that will definitely have an impact to our EBITDA throughout the quarters.

Eric Livshits
Analyst, ATB Capital Markets, Inc.
Q

Great. Thank you. I'll hop back in the queue.

Miguel Martin
Chief Executive Officer & Director, Aurora Cannabis, Inc.
A

Thank you.

Operator: Thank you. Our next question comes from the line of John Zamparo with CIBC. Please proceed with your question.

John Zamparo
Analyst, CIBC World Markets, Inc.

Q

Thank you. Good morning. I wanted to follow up on Australia and just want to better understand your – the start to that market with MedReleaf Australia. The contribution in the quarter from that deal, I think, was just under CAD 3 million. That seems to imply around CAD 20 million annually. I understand that's a pretty small sample size, but it's also meaningfully below the 2023 results, so is there anything you can call out on that and do you still expect that business to contribute what it did previously?

Miguel Martin
Chief Executive Officer & Director, Aurora Cannabis, Inc.

A

Yeah, John. I mean, we do expect it to contribute meaningfully. I guess a couple of things. So, previously, when we were the manufacturer, we sold to our customer, which was MedReleaf Australia. And they – there was revenue recognition at that point. In the transition of the quarter, we recognize revenue when it's sold to the pharmacy. So, it's a consignment model there with the wholesale partners, so there's a timing point in that quarter where you're not seeing full revenue recognition of that business. So, we expect the quarter that we're in that we're seeing now where we have almost complete revenue recognition and the future quarters being significantly stronger, not only from a timing standpoint but also because that market is growing.

So, right now, MedReleaf Australia is the number two based on that sample size that I spoke about earlier, the number two manufacturer. We're launching products right now. We're one of the few in that market with a gummy, they call it a pastille, and with a vape cartridge. So, we're very bullish on that market, but you've got a bit of a timing point in the quarter we just reported because of the consignment and the revenue recognition, but also you've got a growing market. Simona, anything you want to add about that?

Simona King
Chief Financial Officer, Aurora Cannabis, Inc.

A

I think you covered it well, Miguel.

Miguel Martin
Chief Executive Officer & Director, Aurora Cannabis, Inc.

A

All right. Great. Good. John, anything else...

John Zamparo
Analyst, CIBC World Markets, Inc.

Q

Understood.

Miguel Martin
Chief Executive Officer & Director, Aurora Cannabis, Inc.

A

...you want to know that I can add?

John Zamparo
Analyst, CIBC World Markets, Inc.

Q

No. That's helpful. Thank you.

Miguel Martin
Chief Executive Officer & Director, Aurora Cannabis, Inc.

A

You got it. Thank you.

Operator: Thank you. [Operator Instructions] Our next question comes from the line of Pablo Zuanic with Zuanic and Associates. Please proceed with your question.

Pablo Zuanic
Analyst, Zuanic & Associates LLC

Q

Thank you. Good morning, everyone. Miguel, let me just stay with Germany.

Miguel Martin
Chief Executive Officer & Director, Aurora Cannabis, Inc.

A

Yeah.

Pablo Zuanic
Analyst, Zuanic & Associates LLC

Q

I understand the color you gave in terms of the lack of data, but back in April at the Benzinga Conference, some operators there were talking about sales doubling for them, right, in terms of their shipments to pharmacies.

Miguel Martin
Chief Executive Officer & Director, Aurora Cannabis, Inc.

A

Yeah.

Pablo Zuanic
Analyst, Zuanic & Associates LLC

Q

So, you are vertically integrated in Germany, you have local manufacturer, also import from Canada. You have your own wholesale distribution, and then, of course, you also have your sales organization, right? So, you probably have good visibility in terms of what you're sending to a pharmacy market. So, at least if you can quantify or give some color now that we're in the middle of June in terms of whether have you seen volumes double or triple or pretty flat? That's the first question.

And the second part, which is really related to that, is talk about any issues from a demand or supply perspective. And what I mean by that, on the supply side, are there bottlenecks, right? We are hearing that pharmacies cannot cope with a large number of scripts. So, talk about any supply side bottlenecks. And on the demand side, help me reconcile the ratios that we look in the US versus Germany, right? In the US, Pennsylvania, Florida 3.5% to 4% of the population is in the medical program. In Germany, the numbers are not exact, but we calculate 0.3%, right? So, sometimes, we say, well, the market could grow 10 times. But the reality is that it's very different for a doctor, even in Germany, with a change in the narcotic law, to write an Rx prescription versus what we call in the US a recommendation, right? So, from a demand perspective, just help us understand what's a real comparison? If we do 0.3% Germany versus 3.5% in the US, is that the right comparison when we try to assess demand? Thank you. I know there's a lot there. Thanks.

Miguel Martin
Chief Executive Officer & Director, Aurora Cannabis, Inc.

A

It's okay. We don't see doubling. And we probably have one of the largest sales organizations. We have GR resources on the ground, we talk to the government, we see all the same syndicated data. So, a doubling of a business the size of Germany right out of the gate within six months of descheduling, I think, is unrealistic. That being said, a market that size growing 20% to 30%, call it annually at a minimum, is significant. Because one of the things that – you talked about the US, you talk about Canada, one of the things about medical cannabis is that business is really broken up amongst probably at best 6 to 7 LPs, do 80%, 90% of the business. So, like, in Canada, in the [indiscernible] (00:39:22) business, you got to do – you've got to get to about 30, 40 companies to get to 60% of business, so it's a concentrated benefit. So, Pablo, the first point I would say is it's early to understand what's the impact of descheduling, but it's not double, but it could be 20% to 30% every 3 to 6 months, we'll know more in a little bit.

On supply and demand, one of the most important things that is happening in Germany that is allowed is you're allowed to ship cannabis as you are other pharmaceutical products through the mail. And so, the historical delivery of that product through a brick-and-mortar pharmacy as opposed to some of these very large pharmacies that ship through the mail is allowing supply to get there and the government, through their work with the IMCD, has plenty of access to cannabis.

Now, one of the things that is a significant limiter not only in Germany but all around the world is the incredible precision that that product has to have. So, what do I mean by that? First is it has to be EU GMP. That's a very difficult standard from a manufacturing process and it limits the number of people that can produce product for Germany. Secondly, they test it, not your own testing, not the lab of your choice, has to be within 10% on the THCs and on the CBDs. That's easier with a higher potency product, but with a balanced product, it's very difficult. So, that makes it challenging; packaging, permitting, and in order to bring a new product into Germany, takes anywhere between 8 months to 12 months. So, those are all limiters and that's why a company like Aurora that has a history with this does well.

Now, comparison to the US, I don't think you can make that comparison and you brought up one of the primary points of distinction. In the US, as an example, you can go get your medical card and you can walk into a dispensary and buy as much as you want of whatever you want because there's no limit. In Germany, it is a relationship, as it is with other medical products, between a prescribing physician who's prescribing a specific product at a specific dosage and then the patient is getting it fulfilled at a pharmacy. So, if Canada's 1% of the adult population is in the medical system and we expect that to grow, Germany at a 0.2% or 0.3% of the numbers that you quoted, will continue to grow but it's not apples-to-apples in the US.

That being said, being in a traditional pharmaceutical model does allow for a steadier cadence and very importantly allows for good margins because the flow of the economics start with the wholesale price, so you don't see this massive compression in either the self-pay or the insured market that you see in other markets. And so, is it a little bit slower? Yes. Is it a bit more traditional? Yes, both, which we like, but also, like other pharmaceutical products, steadier from a margin standpoint.

Pablo Zuanic
Analyst, Zuanic & Associates LLC
Q

Thank you. That's great color. Can I just do a quick follow up? I mean, when you look at the rescheduling process in the US, how could Aurora benefit or participate in a market we see rescheduling or you don't really see it if it's not legalized at the federal level? Thanks.

Miguel Martin
Chief Executive Officer & Director, Aurora Cannabis, Inc.
A

No. I mean, we – so, Aurora is the largest [ph] Canadian (00:43:05) medical company by far. We have a 31% share of that overall business. We've been at it 10 years. We interact with regulatory agencies all around the world, and as we've mentioned, we have some of the largest EU GMP pharma-grade production facilities. We also have one of the largest genetic facilities on Vancouver Island in cannabis in the world. So, we've long held the position, and I think we've been proven right that the US will be medical first. We also believe that the FDA will regulate cannabis like they regulate almost everything between toothpaste and tobacco, and in that it will be a science-based process.

Aurora being one of the largest in North America and one of the largest in the world, will clearly have significant advantages in order to navigate that system. And just because we don't hold an entity today in the US has no bearing upon that. And everything that we do in Germany, Poland, Czech Republic and Australia with those very strict and organized regulatory regimes will benefit us in the US with the FDA. So, we're very confident that when the US legalizes, we'll be in a great position.

Pablo Zuanic
Analyst, Zuanic & Associates LLC

Q

Thank you.

Miguel Martin
Chief Executive Officer & Director, Aurora Cannabis, Inc.

A

You're welcome.

Operator: Thank you. Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to Mr. Martin for any final comments.

Miguel Martin
Chief Executive Officer & Director, Aurora Cannabis, Inc.

Well, I just want to thank everyone for being on the call. We are very excited about the future for Aurora and medical cannabis and we look forward to communicating with that as we go forward. All the best and we appreciate it. Thank you.

Operator: Thank you. This concludes today's conference call. You may disconnect your lines at this time. Thank you for your participation.