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Aurora Cannabis, Inc. (ACB.CA)

Q4 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Aurora Cannabis, Inc.'s Fiscal Year and Fourth Quarter 2026 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 call is being recorded today, Thursday, June 11, 2026.

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

Kevin Niland

Senior Director-Strategic Finance & Investor Relations, Aurora Cannabis, Inc.

Hello and thank you for joining us. With me is Miguel Martin, Executive Chairman and CEO; and Simona King, CFO. Earlier this morning, we filed our fiscal year fourth quarter 2026 financials for the period ending March 31, 2026, and issued a news release containing both our annual and quarterly results. The financial statements, MD&A and news release are available on our IR website, it can also be accessed via SEDAR+ and EDGAR. In addition, you will find the supplemental information deck on our IR website.

Our discussion today serves as a reminder that certain matters could constitute forward-looking statements and are subject to risks and uncertainties relating to our future financial or business performance. Actual results could differ materially from those anticipated in those forward-looking statements. Risk factors that may affect actual results are detailed in our annual information form and other periodic filings and registration statements. These documents may similarly be accessed via SEDAR+ and EDGAR.

Following our prepared remarks, we'll 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

Executive Chairman & Chief Executive Officer, Aurora Cannabis, Inc.

Thanks, Kevin. Fiscal 2026 was a strong year for Aurora. Net revenue meaningfully exceeded our outlook, adjusted EBITDA was above the midpoint of our guided range, and we improved adjusted net income by more than CAD 12 million. I'll walk through the key financial metrics in a moment, but it's important to underscore that our performance is driven by two strategic pillars.

First, we are anchored by our leadership in medical cannabis across nationally legal markets. More than a decade ago, we anticipated that medical cannabis was poised to be the most attractive and durable segment of this industry, and we invested accordingly, building the science, infrastructure and regulatory capabilities that allow us to serve patients with consistency, quality and scale.

Today, Aurora is one of Canada's largest global medical cannabis companies, a leading exporter of medical cannabis and a trusted supplier to international markets through our world-class GMP certified facilities. We are market leader in Canada, Germany, Australia and Poland, the four largest nationally legal medical cannabis markets.

The majority of our manufacturing capacity is produced within our EU GMP and TGA GMP certified facilities, operating under strict international standards. And only a small group of producers, Aurora among them, hold the certifications required to ship directly into European and Australian medical markets. Our integrated model of manufacturing and distribution also drives lower production costs through higher yields, potency improvements, and ongoing operational efficiencies.

Second, we remain highly disciplined in our financial management. Cost efficiencies enabled us to expand our annualized adjusted gross margin and increase adjusted EBITDA while maintaining a strong balance sheet. This discipline positions Aurora well for the future, as we continue to navigate evolving industry dynamics that we will discuss in greater detail shortly.

Here are some highlights from fiscal year 2026. First, net revenue rose 11% to CAD 321 million, driven by double-digit growth in global medical cannabis. This exceeded the top end of our guided range by CAD 8 million. Notably, about 55% of our net revenue was generated outside of Canada.

Second, adjusted gross margin rose to 64%. This reflects the benefits of our investments in the value chain, science and plant genetics, as well as operational efficiencies and capacity improvements.

Third, adjusted EBITDA grew 32% year over year, reaching CAD 54 million. And finally, we ended the year with one of the strongest balance sheets in the industry, with CAD 165 million of cash and cash equivalents with no debt.

As the industry evolves, maintaining our leadership in global medical cannabis requires even greater focus, especially as competition and pricing intensify. In the fiscal fourth quarter, we took deliberate steps to sharpen that focus by initiating our exit from certain markets within the lower-margin Canadian consumer segment, which we expect to complete by the end of September. While this transition carried one-time cash impacts during the quarter itself, it positions us to reprioritize resources, allowing us to maximize the opportunities in the more profitable global medical cannabis space.

We also divested our lower-margin plant propagation business by selling our controlling stake in Bevo. Together, these actions allow us to deploy capital more effectively and enhance profitability over time. In April, we acquired Safari Flower Company, an established Canadian-based EU GMP certified cannabis cultivator and manufacturer, for approximately CAD 26.5 million. This acquisition marks an important milestone as we continue to purposefully invest in expanding our EU GMP capacity to help fuel growth by supplying flower in the expanding international markets.

In our view, Canada remains the best place to grow high-quality premium GMP flower in the world. Safari Flower's 59,000 square foot indoor cultivation and manufacturing facility in Ontario is closely aligned with our existing cultivation and manufacturing sites, strengthening our position as one of the largest Canadian exporters.

We intend to leverage our extensive plant science and operational expertise to increase the supply of high-quality EU GMP-manufactured flower, which further enhances our leadership in these expanding, high-margin and highly regulated markets. Our investments in plant science will provide us with new disease-resistant cultivars that deliver higher yields per square foot and consistently achieve high potency results, driving a 40% increase in EU GMP capacity over the last five years.

This enhanced supply chain that we control and manage will enable us to capture greater international market share while delivering superior value to our most respected patients worldwide. We expect Safari to deliver positive adjusted EBITDA contributions in fiscal year 2027 with incremental benefits in fiscal year 2028 and beyond.

Last month, we announced the expansion of our medical cannabis portfolio across Canada, Europe, Australia and New Zealand, reinforcing our medical-first strategy and our leadership in regulated international markets. These launches span dried flower, pre-rolls and edibles, and are all designed to meet clear patient and prescriber demand for high-quality, consistent and reliable products.

What's important here is that these innovation launches are not one-off events. They reflect the strength of our global GMP supply network and our ability to deliver at scale. From the broadened offerings in Canada, Germany and Poland, to expanded formats in Australia and New Zealand, we're deepening our presence in the markets that matter most.

Now, let's discuss the dynamics of our individual medical cannabis markets. Germany was the biggest contributor to our double-digit international revenue growth in fiscal 2026 as we benefited from strong commercial execution and a well-established reputation with wholesalers, distributors and pharmacists. While we continue to offer a broad mix of core and premium products, we've also expanded our lineup to include more value-focused options without compromising on quality.

As new competitors enter the market, we are seeing increased price pressure, though, so far, it's largely concentrated in the value segment. Because the core and premium categories represent most of our volume, we have held our leading market share, but we continue to monitor conditions closely and have adjusted pricing where appropriate.

Our diversified product portfolio, strong brand equity and disciplined pricing strategy position us well to maintain leadership even as competition evolves. This is best evidenced by two of our proprietary cultivars ranking number 1 and number 3 by sales this quarter. We are one of three active in-country producers of medical cannabis,

carrying a production and R&D license under the German cannabis law. Because of this, we are in a strong position to serve all medical markets in Europe.

To drive more EU GMP production and gain incremental share in this rapidly growing market, we undertook a major expansion at our facility in Leuna, which will increase capacity, improve product quality and drive cost efficiency. Our intention is for this site to mirror the performance of our Canadian sites based on the same industry-leading genetics and product standards. Leuna's expansion will be completed in the first half of fiscal year 2027 and, combined with the introduction of our proprietary cultivars, is expected to double its annual flower output.

In Australia, we continue to hold a key leadership position. We are actively working to shift our sales mix towards core and premium products in response to the growing interest by both prescribing physicians and patients for a variety of premium products. Australia already offers one of the broadest product format ranges outside of North America, providing us with the ability to fully leverage our diverse portfolio beyond flower and oils.

In Poland, we hold the number 1 market share position, supported by strong commercial execution and our ability to having successfully navigated the shift from telehealth-driven prescribing to clinic-based prescribing. After Germany, Poland was the second largest contributor to our growth in international markets in fiscal year 2026. We've maintained strong relationships with regulators throughout this transition. And recent increases in the annual import limits further strengthen our growth outlook. We are confident in our ability to sustain this leadership position. Our highly skilled local team continues to engage effectively with key stakeholders. And our expanding portfolio of high-quality medical cannabis product ensures we can meet evolving patient and prescriber needs.

Across other parts of Europe, we are encouraged by the potential developments in markets such as France, Ukraine, Switzerland, Spain and Austria. Our success in entering new jurisdictions stems from the stringent and ever-increasing regulatory standards woven into our operations, coupled with the strength of our GMP certified product portfolio, which positions us to move quickly and compliantly as new markets come online.

I do want to briefly address the recent cannabis rescheduling developments in the United States. If enacted, this would represent a meaningful step towards modernizing US cannabis policy and aligning it more closely with international regulatory frameworks. We are encouraged by the direction of the process and are considering reevaluating our US strategy. As one of Canada's largest exporters of GMP manufactured medical cannabis, we believe that with our operational, commercial and regulatory expertise, we are uniquely positioned to react and benefit from the opportunities of further medical cannabis market expansion at the federal level in the United States.

That said, due to the current regulatory uncertainty that remains, we have nothing definitive to announce at this time and look forward to further updates from the US administration in the coming months.

Finally, turning to Canada. Medical cannabis net revenue grew annually due to higher sales from insured patients who benefited from a broader portfolio assortment. For many years, our medical platform in Canada has been characterized by dependable market share, high barriers to entry, the regulatory expertise, investment in technology and distribution, and an unwavering commitment to science, testing and compliance. Historically, our direct-to-patient model, which does not rely on provincial wholesalers or private retailers, has allowed Aurora to achieve sustainable gross profit margins. However, with changes to the federal reimbursement program effective April 1, we expect that this external regulatory change will both impact our top line and adjusted gross margins beginning in fiscal year 2027. We recognize the near-term impact of the shift in pricing and believe that we have

the capabilities, financial resources and resilience to successfully navigate this change while continuing to invest in growing international opportunities.

Let me now turn the call over to Simona.

Simona King

Chief Financial Officer, Aurora Cannabis, Inc.

Thank you, Miguel. Let's review our fiscal fourth quarter 2026 compared to the prior-year quarter, and then discuss our fiscal year 2027 outlook.

First, net revenue increased 10% to CAD 84.8 million, driven by 14% growth in global medical cannabis revenue, including a 19% increase internationally. [ph] 58% (00:13:53) of our total net revenue was generated outside of Canada during the quarter, reflecting the continued shift in our business as we expand our presence internationally. Second, we delivered industry-leading adjusted gross margins of 60%, thanks to our continued focus on global medical cannabis and our operational improvements that are supporting lower manufacturing costs. Third, adjusted EBITDA was CAD 9.2 million, in line with our implied quarterly range. And adjusted net income was CAD 5.6 million.

In medical cannabis, net revenue rose 14% to CAD 77.1 million, inclusive of 19% growth internationally, setting a new record for Canadian and international net revenue. We benefited from increased distribution in Germany and growth in Poland, which combined with continued strong contributions from Canadian medical related to a broader product assortment. Medical cannabis comprising 91% of net revenue compared to 88% in the prior year and the majority of our adjusted gross profit.

Adjusted gross margin for medical cannabis held strong at 66%. And we did see a decrease from the prior year due to the sale of lower-margin products and strategic price reductions in certain markets. Our investments in the value chain, operation, science and genetics provide us with an important advantage, allowing us to maintain strong margins in these competitive and dynamic markets.

Consumer cannabis net revenue was CAD 3.6 million, down from CAD 8.2 million. The year-over-year decrease is the result of our international shift to wind down the segment as we allocate cannabis flower to the higher-margin medical cannabis segment.

Adjusted SG&A increased to CAD 40.3 million, up from CAD 35.4 million. The year-over-year change primarily reflects the CAD 1.9 million expected credit loss related to the insolvency of two customers, with the remaining increase driven by inflation-related labor costs, increased head count to support international revenue, and additional professional fees associated with public company requirements.

Adjusted net income was CAD 5.6 million compared to CAD 15.3 million in the prior year. The CAD 9.7 million decrease primarily relates to an increase in adjusted SG&A of CAD 4.9 million, a decrease in foreign exchange gains and interest income of CAD 10.3 million and CAD 4.5 million, respectively.

Our balance sheet remains one of the strongest in the global cannabis industry. We held approximately CAD 165 million of cash, cash equivalents and short-term investments and no debt. We also have access to a shelf prospectus filed on February 14 of this year (sic) [last year] through which we can issue a variety of securities during the 25-month period that it remains effective.

We also have an at-the-market program that allows us to issue up to \$100 million of common shares. We have ample liquidity and can be opportunistic with respect to investing in ourselves, as needed, while also pursuing additional acquisitions.

Free cash flow was CAD 0.3 million compared to CAD 5.2 million in the prior year, decreasing CAD 4.9 million, primarily due to a decrease in gross profit before fair value adjustments of CAD 5.3 million.

Let me now provide our outlook for fiscal year 2027, which ends on March 31, 2027. Our expectations reflect the strategic actions we've taken to strengthen the business, specifically our exit from the low-margin Canadian consumer and plant propagation businesses. These decisions allow us to reallocate resources towards evolving and more attractive global medical cannabis market. We believe this is our highest return opportunity to create value.

While we remain optimistic in our long-term trajectory, fiscal 2027 will be a reset year, shaped by changes to reimbursed pricing in Canadian medical that can only be partially offset by international growth. Over the next few quarters, we are purposely investing in our international business through strategic sales initiatives and EU GMP capacity expansion to support growth in our most profitable markets.

Total net revenue is expected to decline and be more in line with our cannabis net revenue result in fiscal year 2025 following the changes in Canadian medical, partially offset by international growth driven by Germany and Poland. Adjusted gross margins are expected to be in the mid to high-50s, driven by higher revenue contributions from Europe and the exit from the lower-margin businesses. These benefits will partially offset lower margins in Canadian medical following the reduction to the reimbursement rates.

Adjusted SG&A is expected to remain broadly in line with the prior fiscal year. Adjusted EBITDA is expected to vary quarter over quarter, leading to lower annual adjusted EBITDA compared to the prior fiscal year. This change in expectations is due to the revision in reimbursed pricing that drives lower net revenue and adjusted gross profit contributions.

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

Miguel Martin

Executive Chairman & Chief Executive Officer, Aurora Cannabis, Inc.

Thanks, Simona. We have built one of the most attractive global medical cannabis growth platforms in the world, anchored by a sizable footprint in Canada, Europe, Australia and New Zealand. Our performance in fiscal year 2026 demonstrated the strength, durability and scalability of our operating model, developed and executed by a talented global team. While the operating and competitive environment is evolving, we are taking decisive actions now to lay the foundation for our next phase of growth.

To do so, we plan to leverage the same capabilities that built our leadership position so that we can ultimately generate new records for revenue and adjusted EBITDA. The targeted investments we are making today in market share, GMP capacity, product innovation and international expansion are designed to position Aurora among the few companies equipped to navigate increasing GMP standards and deliver sustained long-term growth. As we progress throughout the year, we look forward to providing updates in converting the growing CAD 9 billion global medical cannabis opportunity into sustained shareholder returns.

Operator, we're now ready to take questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Thank you. Our first question comes from the line of Derek Lessard with TD Cowen. Please proceed with your question.

Derek J. Lessard

Analyst, TD Cowen

Yeah. Good morning, everybody. Congratulations on a great year, Miguel and team.

Miguel Martin

Executive Chairman & Chief Executive Officer, Aurora Cannabis, Inc.

Good morning, Derek. How are you doing?

Derek J. Lessard

Analyst, TD Cowen

Very good. Thanks. So I – just maybe wondering if we can just touch on the annual guide, to begin with. Clearly, there's no real operational challenges expected, so the lower expectations seem to be tied to the lower reimbursement in Canada. Just wondering if you're able to isolate sort of that impact specifically on your revenue and your gross profit or EBITDA lines, perhaps margins as well?

Miguel Martin

Executive Chairman & Chief Executive Officer, Aurora Cannabis, Inc.

Yeah. Listen, it's a great question. And I think – let me start and I'll let Simona sort of finish up on it. Specifically, the VAC change, which was effective April 1, is about a 30% reduction in the reimburse rate for those products. And so, right off the top, you sort of face that. Those products are sort of evolving and that benefit is sort of evolving. But that's a big chunk. I mean, that, isolated, on that piece of the revenue was about a 30% hit to the top line reimbursement, which flows through.

Obviously, getting out of consumer, while it really doesn't have a profitability impact, there's a revenue impact and somewhat similar with Bevo. So, I think all of those are there, but in the offset is the continued growth in international. But Simona, anything else on the modeling?

Simona King

Chief Financial Officer, Aurora Cannabis, Inc.

Yeah. I mean, just to elaborate a little bit and reinforce on Miguel's statement is that we do not break out adjusted gross margins in our medical businesses in Canada and international. But the change in the reimbursed pricing in Canada is a driver of our margin expectations, the mid to high-50s percent, and why we still believe that international margins continue to be strong. And so, we're purposely investing in our international business to drive that growth in what we're seeing in Europe and the other regions outside of Canadian medical.

Miguel Martin

Executive Chairman & Chief Executive Officer, Aurora Cannabis, Inc.

And, I guess, the only other point on the Canadian medical part and the margin guidance, I think, is a big part of the modeling is we still expect to be able to grow share. So, the overall pool and that benefit and the patients

coming into it continue to be solid and steady. It's just the reimburse rate. So, the historical ability to grow share of that business should still remain.

Derek J. Lessard*Analyst, TD Cowen*

Q

Okay, that's fair. And maybe just spending a little bit of time on the recent Safari Flower acquisition. And more specifically, how should we be thinking about it in terms of, I guess, the accretion in fiscal 2027, some potential synergies and, I guess more broadly, around the current integration progress?

Miguel Martin*Executive Chairman & Chief Executive Officer, Aurora Cannabis, Inc.*

A

Well, I think the most important point is the importance of Germany. So Germany is the largest and fastest, sort of growing by tonnage market in the international market. And obviously, us and everybody else is talking about Germany. Germany is incredibly strict when it comes to the GMP standards and your ability to get qualified medical products into it.

Safari fits directly in that. They were a GMP. They adopt some of the same standards we do. They operate in Germany today, both as a cultivator and as an operator in that market. And so, I think the way to look at it for Safari is as – we just sort of gotten into it and it is absolutely accretive from the get go, and we think there's a lot of upside.

So in terms of synergies, if you think about their cultivation and their overall operations, it allows you to produce a significant amount of GMP flower for that market, which has been steady and growing. And we think the standards there continue to sort of get tougher, so we like it a lot.

And I think we'll know more. We've just only been in there a couple of months, but there's a lot to like there. Introducing our genetics, introducing some of our proven cultivation practices and the operations that we have in Germany all make that sort of a multiplier for what they were already doing at a pretty high level.

Derek J. Lessard*Analyst, TD Cowen*

Q

Thanks for that, Miguel. I'll re-queue.

Miguel Martin*Executive Chairman & Chief Executive Officer, Aurora Cannabis, Inc.*

A

Thank you so much, Derek.

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

Frederico Gomes*Analyst, ATB Cormark Capital Markets Inc.*

Q

Hi. Good morning, guys. Thank you for the question here. I have a question on the US and, obviously, I heard your comments, Miguel. But we've already got medical cannabis rescheduling there. I think that's your focus, is medical. So, thinking if you wanted to, you could probably already enter medical-only markets and you would

have no issues with your listing. So, how should we think about that in terms of big picture here, what would be your strategy if you were to actually enter the US market? Thank you.

Miguel Martin

Executive Chairman & Chief Executive Officer, Aurora Cannabis, Inc.

A

Well, good morning, Fred. It's a great question. I think we're about two months away from seeing the promulgation of some of these regs. Obviously, the announcement that we saw, the US entity up-listing is encouraging, particularly with the New York Stock Exchange. And we've heard conversations of US entities exporting out of the US into international markets that we service. So, we're looking at it.

There is sort of a potential opening that if the US is exporting medical products in the cannabis space from the US to, say, Europe, it potentially could go the other way. Clearly, there's sort of three buckets I would describe. First is the opening to research, which hasn't been talked a lot about, but we think is a significant component to the federal de-schedule to Schedule III, and we're excited about that and potentially working with some US entities on that. And with a decade-plus of medical experience, you can imagine that a lot of those entities, whether at the university level or in the private sector, would be deeply interested in a company like Aurora as a partner on the research.

Secondly would be the potential partnership. Again, applying the GMP and medical sort of grade standards of production and delivery to patients. And there's been some early announcements in the US around CBD and potential pathways there for the Medicare and Medicaid system. And then lastly, like you said, is the potential import and export of that.

Now, the specific point of acquiring medical-only assets in the US for a Nasdaq-listed entity, we'll sort of see. But in the interim, there's a lot. But I think in the short term, in the next few months, as we see the promulgation of some of the regulations, we're there. And importantly, the 280E conversation doesn't affect us. And I know that's a big part of what's going to happen there and safer banking and other aspects, but companies like Aurora have sort of a clean run at it as we see the regs come out.

Frederico Gomes

Analyst, ATB Cormark Capital Markets Inc.

Q

Thank you. Appreciate that. I'll hop back in the queue.

Miguel Martin

Executive Chairman & Chief Executive Officer, Aurora Cannabis, Inc.

A

Thank you, Fred.

Operator: Thank you. Our next question comes from the line of Bill Kirk with ROTH Capital Partners. Please proceed with your question.

Bill Kirk

Analyst, ROTH Capital Partners LLC

Q

Hey. Good morning, everybody. I was hoping to keep the reimbursement conversation going. I guess, what changed in consumer behavior have you seen so far, right? I think we're a couple of months in. So, what change have you seen so far? Are patients trading down to lower-priced products or have the producers effectively just lowered price to offset the lower reimbursement and therefore keep out-of-pocket costs unchanged? I'm just trying

to figure out the mechanism of the lower reimbursement and why things need to change when there still is a substantial reimbursement.

Miguel Martin

Executive Chairman & Chief Executive Officer, Aurora Cannabis, Inc.

A

Well, Bill, good morning. It's early days in this. The effect of change was only in April 1. But as of right now, the patient patterns don't seem to be changing. So the way it historically works and as you know, the vast majority of this system is in the veterans benefit. So the veterans have a prescription, they have an allocation. And pre April 1, that reimbursement rate was at about a 30% higher. That's the reimbursement rate to the licensed producer. I can only speak to what we've done, which is, continue to offer the same service.

So in terms of choice of medications, which is really driven by the conversation not between us and them, but between them and their physician, we haven't seen a lot of changes, whether that's been in format, whether that's been in price point. And we'll have to sort of keep seeing where it goes, but it's predominantly the reimbursement rate that has changed.

Bill Kirk

Analyst, ROTH Capital Partners LLC

Q

Okay. And then, going back to the US portion of the conversation. You touched on it, Miguel, but would you expect a market to emerge for exporting product into the US? And in that context, why would it be different in Canada? Why would the US consider importing product when Canada doesn't really import product?

Miguel Martin

Executive Chairman & Chief Executive Officer, Aurora Cannabis, Inc.

A

Well, I think we have to see the regs. I mean, my point was more that as we've heard conversation that a US entity might ship, say, GMP flower or compliant medical products into Europe, there are opportunities potentially for it to come back. But yes, you're correct, right now in Canada there is a prohibition on products coming into the market. So, maybe that ends up being the case, but it's only a one-way stream.

I think given the economics and the price per gram that you see in a medical market, say, in Poland, Germany, UK and Australia, they're plenty compelling. And the pricing that we see in the US probably doesn't make it as compelling a financial opportunity. I think the research is a huge one and really opens up a lot of things for the industry. I think the genetics and manufacturing practices.

And this is no disrespect to the US companies, but Canadian companies on the medical side, producing in a GMP facility for over a decade, there's just advantages to that, the advantages to the genetics, the cultivation practices, all of that. And I think that is clearly applicable in a federal medical construct in the US. And so, the – and potential importing of flower from, I don't know, Germany or some European entity in the US is the least of the sort of economic opportunities, I think, for the Canadian LPs.

Bill Kirk

Analyst, ROTH Capital Partners LLC

Q

And if I can keep going, like, I think I know the answer. But are there any US GMP growers or GACP growers?

Miguel Martin

Executive Chairman & Chief Executive Officer, Aurora Cannabis, Inc.

A

Yes. Yes. Now, the standards – so I mean, I think everyone is aware, GACP varies a bit. GMP has some nuances, particularly in cannabis. Now, in pharmaceutical GMP, it's very prescriptive. But due to the evolving nature of this agricultural product, we do see some differences. But yes, there are certified GMP facilities. And yet, it's not as prevalent and it's not as consistent in the application in, say, Germany or Poland. And just to be specific, those countries audit our facilities. So those are German auditors coming to Canada to audit a Canadian facility. So it's their standard, not our standard or, say, a American standard in the question that you're posing. So it does require a bit of navigation.

Bill Kirk

Analyst, ROTH Capital Partners LLC

Perfect. That's exactly what I was looking for. Thank you.

Miguel Martin

Executive Chairman & Chief Executive Officer, Aurora Cannabis, Inc.

You're very welcome, Bill.

Operator: Thank you. Our next question comes from line of Pablo Zuanic with Zuanic & Associates. Please proceed with your question.

Pablo Zuanic

Analyst, Zuanic & Associates LLC

Thank you and good morning, everyone. Miguel, can you just give a general view, a general outlook for the German medical market? I mean, imports in the first quarter were down sequentially. Your thoughts there would help.

And the second question, it's a bit of a two-part question. I guess, I'll let you answer the first question first. Let's start with that.

Miguel Martin

Executive Chairman & Chief Executive Officer, Aurora Cannabis, Inc.

Okay. So in Germany, it is a very healthy market, it's a very large market. We like it for a lot of reasons. First, there is not as much pricing pressure at the top. So there is a recognition of premium and core medical products, not just, say, discount products that you see in certain markets. So that's one.

Secondly, the ecosystem between the direct-to-patient delivery through the mail, a very well-developed telehealth system, proper manufacturing, GMP standards, strong regulators, all speak to a very solid, well thought out, integrated medical cannabis system. And like we said, pricing at the bottom is a bit compressed. But overall, Pablo, where we sit in it, we see growth. We also, as you know, have a production facility in Germany, so have a lot of investment in that market.

There is potential legislation that we'll know more about in the fall. It really falls in sort of two potential areas. We'll have to see where it lands in terms of – one is the potential reduction in aspects of the telehealth requiring some version of a face-to-face interaction. We've seen that in Poland. We've been able to navigate it well and come out the other side in a strong way. The other aspect we think is a bit less likely, but we'll have to see, is a potential prohibition on the delivery of medical cannabis products through the mail, like it is today.

So more to follow on that, but I think it's a great market. It's a very highly regulated market, what we like. And I will say, we do think the GMP standards are going to continue to tighten, which we'll make it. But overall, we've seen growth in that market, and we see that continuing.

Pablo Zuanic

Analyst, Zuanic & Associates LLC

Q

Thank you. And then – look, this is a two-part question. One, if you want to do a postmortem or lessons learned from your acquisition in Australia of MedReleaf, I see the numbers are down. Although now you're breaking Australia and New Zealand, so I don't know if your numbers are comparable. Not sure what happened exactly in the fourth quarter there. But any postmortem you can give?

And then, as you think about acquiring downstream assets in Europe – if you were to, right? That's an assumption – where would that make sense, and where would it be allowed, right? Because the rules vary in terms of how much you can control downstream. Thank you.

Miguel Martin

Executive Chairman & Chief Executive Officer, Aurora Cannabis, Inc.

A

Yeah. I mean, I think in Australia, it's early days. I mean, we like that acquisition. It's a big market. It's a different part of the world. As you mentioned, New Zealand is also quite strong. It is a value market. And so, I think you have to have a bit of eyes wide open in the overall economics of a value market. But the entity we bought and to this day has one of the key leadership positions in that market.

And so, with global medical cannabis, there are going to be some times when certain markets are down and certain markets are up. But overall, if you have a big enough network and you have common sort of development, genetics and a variety of other aspects, you can benefit from it.

Now, lately, our product launches and the investments that we've made in that market are encouraging, patients and physicians starting to see value in more sort of premium products. So I think that would be there.

I'm sorry, what the second question, Pablo, was besides Australia and New Zealand?

Pablo Zuanic

Analyst, Zuanic & Associates LLC

Q

Yeah. The second question, in terms of how – as you see some of your peers acquire downstream assets in the European markets...

Miguel Martin

Executive Chairman & Chief Executive Officer, Aurora Cannabis, Inc.

A

Downstream.

Pablo Zuanic

Analyst, Zuanic & Associates LLC

Q

...yes. How do you think about that? And where is that allowed, because the rules vary by market, right? But speaking about Europe specifically. Thanks.

Miguel Martin

Executive Chairman & Chief Executive Officer, Aurora Cannabis, Inc.

A

Yeah. I mean, listen, I think in this industry you have to be agile. However, Aurora's significant advantage and what we are best at is having this unique genetics facility in the west coast of Canada, which is one of the largest in the world, which has developed world-class, in many cases, patented genetics that not only provide disease resistance, but significant yield and unique product attributes. That's a key advantage for us.

Secondly, cultivation. GMP premium, low-cost cultivation in Canada, which we still consider to be the best place in the world to cultivate these products. And then, situationally, determine where in the value chain we'll partner. Now, typically we – and at the wholesale level, but in some cases we go beyond. I think downstream, as defined to, say, telehealth, retail and those aspects, those are not our core competencies. And we also don't like to compete against our customers. And so, we're focused on the top side of it, which is where, to be honest, we think most of the margin lies and what we're best at. So never say never, but that's really what we've been successful at and what we're focused on going forward.

Pablo Zuanic

Analyst, Zuanic & Associates LLC

Q

Miguel, I want to add one more, if I may here. My apologies.

Miguel Martin

Executive Chairman & Chief Executive Officer, Aurora Cannabis, Inc.

A

Sure.

Pablo Zuanic

Analyst, Zuanic & Associates LLC

Q

As the global medical market continues to grow, is there room for more partnerships with some of the pharmaceutical companies? That was something that was talked about 5, 10 years ago. We haven't heard much about that now. But given the way the markets are developing globally, including the US, maybe that would start to make sense again. How would you think about that? And what I'm saying, does it make any sense in that...

Miguel Martin

Executive Chairman & Chief Executive Officer, Aurora Cannabis, Inc.

A

Listen, that...

Pablo Zuanic

Analyst, Zuanic & Associates LLC

Q

...there's more potential.

Miguel Martin

Executive Chairman & Chief Executive Officer, Aurora Cannabis, Inc.

A

Absolutely. I mean, it is easy to forget, these are medical products that are prescribed by a physician that are received by a pharmacy. And the pharmaceutical companies have lived in that world for a long period of time. We have added a lot of pharmaceutical executive knowledge to our companies. Simona, who's sitting next to me, came from a pharmaceutical company. Many of our operational people came from a pharmaceutical manufacturing entity.

So the development, registration, placement and interaction with the physicians, nurse practitioners and patients, all are core competencies of a pharmaceutical industry. And as you well know, the largest deal that's ever been done with cannabinoids was between two pharmaceutical entities, between Jazz and GW Pharma.

And so, listen, we are a bit on that path for a long time and that's now our sole focus in terms of conservative, regulatory forward medical cannabis regime. And things like research openings in the US, the evolution of these medications for a variety of different indications and conditions, I'll leave it there.

So we're excited about it. We know there'll be competition from a lot of different areas. It is a bit nuanced and a bit different for pharmaceutical companies because of the cultivation of a plant in many cases for this organic material, but not dissimilar to other things that they've seen. So, we'll see. We've seen a lot of industries be interested in cannabis. We're always interested in that. But right now, we're very focused on medical cannabis path and we'll see where it takes us.

Pablo Zuanic

Analyst, Zuanic & Associates LLC

Thank you.

Q

Miguel Martin

Executive Chairman & Chief Executive Officer, Aurora Cannabis, Inc.

You're very welcome.

A

Operator: Thank you. [Operator Instructions] Our next question comes from line of Kenric Tyghe with Canaccord Genuity. Please proceed with your question.

Kenric Tyghe

Analyst, Canaccord Genuity Corp.

Thanks and good morning. Miguel, I hear you on the advantages of genetics and legacy in the international markets, specifically Germany. But could you please tease out just how compelling your value proposition and product offering is just in the context of the strategic actions that you're taking, which could be read as a shoring-up of defenses for potential US export into the German market? Just want to get a read-through there as to the drivers of your strategic actions and how well-moated you think that business is.

Q

Miguel Martin

Executive Chairman & Chief Executive Officer, Aurora Cannabis, Inc.

Yeah. I mean, so first, let me talk about the genetics. The genetics are absolutely critical. So with a sort of a very modern and advanced genetic system that we have, and we're one of the only few companies that have been investing in this, you sort of focused on four key areas. First are the commercial aspects, yield, potency, unique attributes. And that is a significant advantage we have. We've seen situations where the yield per square meter, which is the same input cost in almost every case, between genetics could be as much as 40%. So if you think about a facility that's producing 20 times with almost the same cost structure, you can get it to 28 times.

A

Secondly, key attributes beyond potency, whether that's unique terpenes or other forms of that is uniquely interesting to patients and physicians that are now learning more about a specific indication and a product. And in markets like Germany, we do see a deep interest in those sort of core aspect. That, you can tease out in a genetics piece.

Consistency is a huge part of having a genetic system. And these markets have testing and there are requirements that the product have a high level of consistency as you register it in order to get it into the market. So you think about Germany, if you had variability in your delivery of, say, potency or CBD or core attributes, you can't get the product into the market. And so, that is another aspect.

Disease resistance is another core component. We've seen that cannabis has a couple of core pathogens that really plague most production facilities. Powdery mildew and HLVd, probably the most common. We've recently announced patented genetics with disease resistance, particularly on powdery mildew that we're excited about. And so, I think that is a core advantage.

Now, getting into Germany and places like Poland is not easy and, in many cases, takes a significant amount of expertise and cost. Every single one of these items have to be registered. You have to provide stability and dossiers in order for the German government to approve by item each of these. And then, every single inbound shipment requires a permit and requires those specs to be within a certain range that they test in order to continue to have access to that market. So, it's not easy.

It's the reason why, if you think about Canadian reg, it takes about 30 companies to get you to about a 50 share. In Germany, it's about 4 companies can get you a 50 share. So it's consolidated piece of business. It takes a lot of expertise. And it is portable, which is an advantage for companies like us. If you can do it in Germany, you have gone a long way to, say, doing it in Poland. And as some of the new countries are coming online, France and others, say, Ukraine and Turkey and whatnot, they're adopting many of these standards in the same way. So there's a lot of advantages. But it is not easy, even if you produce high-quality products, to get these products consistently into these highly regulated markets.

Kenric Tyghe

Analyst, Canaccord Genuity Corp.

Q

Thank you. Appreciate the insight there. And just a quick follow-up with respect to pricing, pricing dynamics. You called out taking some strategic pricing action. But also, just more broadly, how are you thinking about the pricing outlook for Germany given the compression we've seen in the last, let's call it, 18 months, which certainly accelerate over the last 12 months? Are we sort of getting there? Do you think there's still a lot of room with respect to pricing? How should we think about pricing dynamics in Germany over the next year?

Miguel Martin

Executive Chairman & Chief Executive Officer, Aurora Cannabis, Inc.

A

Yeah. I mean, I think, from where we sit, which most of our business is in the core and premium pricing, it's solid. We haven't seen a lot of compression. Clearly, there is a lot of compression at the value segment. But unlike other parts of the world, the premium and core segment is a pretty significant part of the overall business. So, I think you have that.

Also, there's really only flower and oil in Germany, so you're not seeing other formats come in that typically have lower margins, I don't know, say, vapes and other aspects of it. So it's flower and oil. Most of the compression we see is at the lower-value segment. There's still quite a bit of the premium and core. And all three segments in our opinion for what we do are growing. And there's not a lot of syndicated data, import and export, but it's a big market. And so there's growth opportunities in core and premium. And in those places, there's an opportunity to have strong margins.

Kenric Tyghe

Analyst, Canaccord Genuity Corp.

Great. Thanks, Miguel. I'll leave it there.

Q

Miguel Martin

Executive Chairman & Chief Executive Officer, Aurora Cannabis, Inc.

You're very welcome.

A

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

Miguel Martin

Executive Chairman & Chief Executive Officer, Aurora Cannabis, Inc.

Well, thanks, everyone. We are incredibly excited about the year we had, but more excited about the year that's in front of us. And we appreciate all of the questions and the interest in Aurora and we'll go from there. All the best. Thank you.

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

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