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# Aurora Cannabis, Inc. (ACB.CA)

Q2 2020 Earnings Call

## CORPORATE PARTICIPANTS

### Michael Singer

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

### Glen W. Ibbott

*Chief Financial Officer, Aurora Cannabis, Inc.*

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## OTHER PARTICIPANTS

### Vivien Azer

*Analyst, Cowen and Company, LLC*

### Christopher M. Carey

*Analyst, Bank of America Merrill Lynch*

### Owen Bennett

*Analyst, Jefferies LLC*

### Jeffrey L. Kratky

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### John Zamparo

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning, everyone and welcome to the Aurora Cannabis Second Quarter Fiscal 2020 Conference Call for the three months ending in December 31, 2019.

Listeners are reminded that certain matters discussed in today's conference call or answers that may be given to questions asked could constitute forward-looking statements that are subject to the risks and uncertainties relating to Aurora's future financial or business performance. Actual results could differ materially from those anticipated in these forward-looking statements. The risk factors that may affect results are detailed in Aurora's annual information form and other periodic filings and registration statements. These documents may be accessed via SEDAR and EDGAR databases.

I'd like to remind everyone that this call is being recorded today, Thursday, February 13, 2020. I would now like to introduce Mr. Michael Singer, Interim Chief Executive Officer and Executive Chairman of Aurora Cannabis. Please go ahead, Mr. Singer.

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### Michael Singer

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

Good morning, everyone and thank you for joining today's call. With me today is Glen Ibbott, our Chief Financial Officer. Given that we just addressed the market last week with a very fulsome call on our succession plans, board expansion, business rationalization and pre-release of certain Q2 financial information, I think this call will be a bit shorter than normal. I'll do a quick review of the quarter, including operational highlights. Then Glen will discuss our financial results in greater detail, followed by a question-and-answer session.

To start things off, I'd like to address the current state of the market which I briefly summarized on last week's call. First, the past year has been challenging for the broader cannabis industry, with issues of retail constraints, evolving consumer demand, and provincial distributor inventory management adjustments.

As we said in our first quarter conference call, it's important to remind ourselves that the Canadian consumer market is just over a year old and will take time to develop. But we remain extremely bullish on the long-term potential of the Canadian medical and consumer markets, as well as established international medical markets. We firmly believe cannabis is a secular growth story, but as is the case with all growth industries, we need to be patient as the markets evolve.

With that as a backdrop, and consistent with what we told you last week, our total net revenue, excluding provisions, totaled CAD 67 million for Q2. We did not record some product return and price reduction provisions that Glen will address shortly. It's worth highlighting that our core consumer revenue actually saw modest growth quarter-over-quarter before the impact of these returns and price reductions.

We are proud of our strong cultivation capability, highlighted by over 30,000 kilograms of production in fiscal Q2. Our Q2 2020 gross margins on cannabis net revenue of 44% were impacted by the provision for returns and price reductions we took in the quarter. I'm also proud to report that our high-tech cultivation facilities continue to deliver leading indoor cash cost to produce below CAD 1 a gram and in this quarter, came in at CAD 0.88 per gram on the heels of CAD 0.85 per gram in Q1.

While we continue to leverage our coast-to-coast supply agreements to offer a broad range of premium consumer products across Canada, Aurora also remains focused on supplying medical patients with consistent premium products. In Q2 2020, the number of total active registered patients of 90,307 was relatively steady compared to Q1, which in the phase of market challenges demonstrates the value of Aurora's products and patient loyalty to the Aurora family of brands.

We are a few weeks into the second wave of legalization of Cannabis 2.0 products and I'm very proud of the Aurora team, particularly, their focus and energy around the Cannabis 2.0 launch at the end of 2019.

We began loading in small volumes in Q2 2020 with positive market feedback from distributors and retail customers about our product quality. Those products include vapes, concentrates, gummies, chocolates, mints and cookies and they are available in markets across the country. We are selectively partnered with a variety of organizations, prioritized our resources and build the inventory to ensure that our consumers across Canada will have access to our high-quality derivative products.

Our assumption is that the Cannabis 2.0 market will also develop slowly with previously discussed market constraints affecting the rollout. But the good news is we're managing the business accordingly and feel very confident about our prospects.

I'd now like to turn the call over to Glen who will discuss the financial highlights of the second quarter and then we'll open up the line to questions. Glen?

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## **Glen W. Ibbott**

*Chief Financial Officer, Aurora Cannabis, Inc.*

Thanks Michael, and good morning everyone. The figures, I'll be going over today, can be found in our Financial Statements and MD&A and are all in Canadian dollars. For our second quarter fiscal 2020, the period from

October 1, 2019 to December 31, 2019, we saw our net revenue excluding provisions of CAD 10.6 million, came in at CAD 67 million.

Our total cannabis net revenue, excluding provisions, came in at CAD 63 million for the quarter. A bit more specifically, our medical cannabis revenue in Canada remained steady quarter-over-quarter at CAD 26 million. Our Canadian consumer cannabis delivered CAD 33.5 million and our international medical dropped to CAD 1.8 million.

If we get into a bit more detail as I just noted, during Q2 2020, our Canadian medical cannabis net revenue came in at CAD 26 million. Our patient base continues to exceed 90,000 clients, which although being relatively flat quarter-over-quarter, is indicative of our strong medical position as that market also faces headwinds, mainly from cannibalization into the consumer market. We continue to work at maintaining and growing our leading position and are making certain internal operational changes that are designed to maximize the lifetime value for our key patients.

International medical sales declined from CAD 5 million in Q1 to CAD 1.8 million in Q2, as a temporary sales restriction due to a permitting issue impacted our sales in Europe. As we announced early last week that issue has now been resolved. I'm pleased to note that our products are once again available for sale as we fill back orders and return the growing European medical from the previous run rate.

Similar to the Canadian market, we expect our European business, particularly, our German business to grow sequentially, but in the short term, slower than originally anticipated. A recent EU GMP certification of our Aurora River facility with a run rate of approximately 30,000 kilogram annually will allow us to allocate significantly more products for export markets as they develop.

Consumer cannabis net revenue, excluding provisions, was CAD 33.5 million, up 11% from the prior quarter. In Q2, we recorded a provision of CAD 10.6 million against revenue which captured the impact of returns from provinces and price reductions that we had agreed to. This included our assessment across the provincial ordering system for products still being at risk. The significant majority of this provision was related to products sold much earlier in calendar 2019.

In Q2, we saw pick up in ordering of 1.0 products late in the quarter, and also had a good launch into the 2.0 system with approximately CAD 3 million in deliveries to provinces in late December. However, during the quarter, we did see a drop-off in our market share in flower as the market shifted significantly towards value brands, which we define as retailing for less than CAD 9 per gram.

Lastly, we launched our competitive brand in this category, Daily Special, at a price point and an average potency that we think is a very compelling proposition for the consumer. In fact, we believe it will compete strongly with the grey market, and help grow the overall size of the legal segment. We'll clearly be monitoring our performance here closely.

During Q2 2020, the company generated CAD 2.4 million in wholesale bulk revenue as compared to CAD 10.3 million in the prior quarter. As we said before, we are opportunistic with wholesale and do not attempt to predict quarter-to-quarter revenue levels. Our average Q2 net selling price for cannabis of CAD 5.54 per gram, represented a slight decrease from the CAD 5.68 reported in the prior quarter. This decrease is primarily attributable to the previously mentioned returns and lower per gram selling prices for wholesale cannabis.

We produced over 30,000 kilograms of cannabis in Q2 as compared to 41,000 kilograms in the prior quarter. In Q2, we took decisions at the cultivation level to prioritize planting of higher potency, but slightly lower yielding cultivars at our major facilities. We also took the opportunity to conduct some R&D with potential new high-THC cultivars.

In Q3 and Q4 of 2020, we expect our continued refinement of yield and operational efficiencies deliver production at a quarterly rate that averages 150,000 kilograms annually. Our cash cost to produce per gram of dried cannabis increased slightly to CAD 0.88 per gram up CAD 0.03 from the prior quarter. We are pleased that we continue to deliver on a very important KPI for our operations, sub CAD 1 cost to produce. This is the leverage that allows us to launch [indiscernible] (00:10:33) to value market while maintaining strong, healthy and sustainable margins.

Shifting now to SG&A, for Q2, 2020, we reported just shy of CAD 100 million per SG&A versus CAD 81 million the last quarter. The increase is primarily due to an increase of salaries and benefits from targeted corporate head count additions and annual merit increases and investment in consumer education for the Cannabis 2.0 product rollout and campaign expenses related to the launch of the Aurora Drift brand.

I want to stress that we recognize the importance of reducing our cost structure and as reported last week, we have taken decisive action to make change immediately. Consequently, as discussed last week, we expect to manage our business to an estimate target range of CAD 40 million to CAD 45 million per quarter, which we plan to achieve as we exit fiscal Q4, 2020.

Clearly, this represents a substantial decrease from today's reported number. To achieve this, we are focusing on our core operations in the Canadian consumer market, the Canadian and established international markets and certain US initiatives. An important part of this initiative is to reduce the complexity of our business and to instill a culture of financial discipline across all of our operations. As such, we believe there may be further opportunity to find additional medium-term cost efficiency.

Turning to our balance sheet, I'd like to highlight once again the amendments to our credit facilities that were announced last week. These amendments include the complete removal of all EBITDA ratio covenants that had originally been set, commenced in the period ending September 30, 2020; the complete removal of the fix charge coverage ratio covenant; adjustment of the total funded debt-to-equity covenant of 0.2 to 1 commencing in our fiscal third quarter 2020 from the 0.25 to 1, they've been in place till now; Introduction of a new minimum liquidity covenant of CAD 35 million; and the introduction of the covenant requiring Aurora to achieve positive EBITDA threshold at the beginning of fiscal Q1 2021, that we believe are consistent with our announced changes.

These thresholds are mid-single digits for the first couple of quarters of fiscal 2021, increasing in the back half of the year for a total of CAD 51 million cumulative to the entire fiscal year. We also used CAD 45 million in restricted cash to pay down our debt and thereby reduce debt servicing costs. And finally, we downsize the total facility by CAD 96.5 million through the elimination of facility D which have been earmarked specifically for the construction of Aurora Sun. When we reduced the scope of Aurora Sun significantly, facility D was no longer available or necessary. I should emphasize that we saw both actions as net positives for the company's financial position.

Staying with the balance sheet, you will note that we finalized the goodwill and intangible and PP&E asset impairments in our Q2 financial statements totaling CAD 762 million for goodwill and CAD 210 million for intangible and PP&E asset impairments, both within our previously disclosed ranges.

Turning to the liquidity as at December 31, 2019, our consolidated cash position was CAD 156 million, excluding CAD 45 million of restricted cash. We had used our At-the-Market financing program and had raised gross proceeds of CAD 325 million in the period from July to December 2019. We have roughly CAD 200 million remaining under the existing ATM program.

Our announced reduction in CapEx and SG&A costs should provide comfort to our investors and we are laser focused on the health of our income statement and balance sheet. We expect the utilization of the remaining ATM capacity should be sufficient to fund operations and the remaining capital expenditures to the points where positive EBITDA and free cash flow were achieved.

Driving Aurora to be a profitable and robust global cannabis company is extremely important to our team as our call last week demonstrated. Our goal is to manage the business with a high degree of fiscal discipline and we look forward to sharing further developments and progress with you in the coming quarters.

I'll now turn the call back to Michael.

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## Michael Singer

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

In conclusion, we continue to focus on what we can control in an evolving market, consistent execution, operational excellence and our focus on operating a sustainable business. And in turn, that short-term focus will allow Aurora to be a leader as the global cannabis trend takes hold and numerous exciting markets developed. I have no doubt that we have the right team and the right plan to execute against that opportunity, and position our shareholder for value creation especially from these levels.

I'd now like to ask the operator to open up the call for questions.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] The first question is from Vivien Azer of Cowen. Please go ahead.

**Vivien Azer**

*Analyst, Cowen and Company, LLC*

Thank you. Good morning.

Q

**Michael Singer**

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

Good morning.

A

**Glen W. Ibbott**

*Chief Financial Officer, Aurora Cannabis, Inc.*

Good morning.

A

**Vivien Azer**

*Analyst, Cowen and Company, LLC*

So, I just wanted to touch on your comment around the rollout of 2.0. It makes perfect sense that the provincial boards are taking a more cautious approach. And are you – as you collaborate with them in terms of inventory load, given some of the write-downs that we've seen from you as well as the industry, but I think it would be helpful to understand what your current capacity run rate is, because it's pretty striking to me that edibles seem to be fairly consistently out of stock; where they are in stock, it seems to be that you guys have chocolates available. But it's kind of few and far between when we've been both on the website as well as in brick and mortar. So, where are you from a capacity standpoint on edibles specifically from a 2.0 standpoint, and how would you anticipate that run rate [ph] evolving (00:17:35)? Thanks.

Q

**Glen W. Ibbott**

*Chief Financial Officer, Aurora Cannabis, Inc.*

Sure, Vivien. Yeah, in – where is the run rate going. We haven't found that the upper limit on the gummies demand yet, but we do have to say that it is constrained somewhat by the provincial ordering. There have been a couple of, I would say, hiccups. As we've gone through this, we had one fairly minor short-term extraction issue, but that line is back on. We've also run into a few issues of packaging et cetera, et cetera, just the usual kind of scaling up types of items.

A

So those are behind us. It looks like we're, kind of, in full production right now, but again the gummies, they are selling out as soon as we can get them to the provinces. The provinces are ordering in a very, you can say, prudent way I think. They would rather stock out as opposed to being overstocked. So a little bit early to figure out exactly how you know where the upper limits are there. We don't have constraints on our lines per se, I mean, at least at the anticipated levels.

We do have plans for larger scale lines that are in place in our new Polaris building as needed, so we introduced at higher capacity as the market develops. What we're trying to do as we talked about before is to be more prudent with our capital and make sure we spend it as soon as we see the demand. I don't see any constraints in

our production capacity over the next number of quarters and by the time we get to that point, [indiscernible] (00:19:20) introduced higher capacity if we need it.

**Vivien Azer**

*Analyst, Cowen and Company, LLC*

Q

Well, that's helpful. Thank you, Glen. But maybe we can just quantify that a little bit. So in terms of like what you're able to produce versus what you're able to ship on, are you guys like running at an eight hour shift full utilization and you're building inventory and then you're only shipping 10% of what you produce? I'm just trying to get my head around that.

**Glen W. Ibbott**

*Chief Financial Officer, Aurora Cannabis, Inc.*

A

I don't have the exact numbers for you, Vivien. I will track them down in terms of percentages that we're shipping versus what we're producing. I know we've had somebody ordering as – it's interesting to watch the week-by-week order and there would be weeks that are 100% above the previous week, and will drop down again back to 50%. I won't use the word volatile, but very early stage and I think [indiscernible] (00:20:18) products are moving. So, we think follow-up with specific sort of utilization rates of the lines right now.

**Operator:** The next question is from Chris Carey of Bank of America Merrill Lynch. Please go ahead.

**Michael Singer**

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

A

Good morning, Chris.

**Christopher M. Carey**

*Analyst, Bank of America Merrill Lynch*

Q

So, good morning. So, I guess for my first question, I'm just trying to understand why CAD 45 million in SG&A is the right number or more specifically, how you're thinking about the ability to flex down that cost structure if needed. And I guess, underlying that question is if gross margins stay at this current level and I understand excluding the provisions, but even then the gross margins have been coming down, which seems to be the trend if the category is increasingly going to value, which would imply that you're going to need pretty significant acceleration in revenue to kind of hit that EBITDA positive for fiscal Q1, 2021. And so just really simply put, I guess, what I'm trying to get at is this concept of you might need to actually flex down that cost even more and maybe just how you're thinking about your capacity to actually make those changes to hit that fiscal Q1 2021 EBITDA covenant if indeed you have to do something like that? Then I have a follow up.

**Glen W. Ibbott**

*Chief Financial Officer, Aurora Cannabis, Inc.*

A

Yeah. Chris, [indiscernible] (00:22:02) key question. [indiscernible] (00:22:04) been spending a lot of time on that. The targeted rates that we put out there in terms of coming out of Q4 and into Q1 is a point in time. We have targets for Q4 itself and further targets passed into Q1 and in fact, into Q2. So, there are some changes [indiscernible] (00:22:22) business that we made immediately or some that required negotiation with other parties.

We think we can have place for Q4 and then there are other actions that we can take that will impact the company's cost structure in the fall. I don't want to get into the specifics because they all require – most of them require negotiation of other folks but while they require us repositioning some other assets.

I think the key when we look at the company is about reducing complexity and if I can decode that a little bit, what we're really talking about is that the fundamental drives the cash flow and the profits of this company in the future of what we described to gain core Canadian cannabis in medical and consumer and certainly international markets that have certain near-term potential. But as it stands right now, with this group of assets, that's what we need to focus on.

As you know for various reasons, just in terms of [indiscernible] (00:23:33) company, the industry in developing [indiscernible] (00:23:36) today. We do have a lot of complexity in the business, and lots of non-core parts of the business that we're looking at. How do we rationalize that, how do we streamline this business, and just spend their time. Our energy and our focus on that core business has been to drive the cash flow and profit. So to your point, do we see further opportunity? Yeah, we do. But again, it's a matter of timing and that's why, when we work with our syndicate of banks, we set EBITDA covenants that kicked in, in fiscal Q1, our EBITDA threshold and started off modestly and moved forward.

The other part of your question, I think this is important. I know I'm going on too long but this is an important part. We are being prudent with our revenue projections here and constructing the company to meet those prudent revenue projections. But listen, there are upside opportunities here. We just want to make sure we've got a cost structure that those upside opportunities, should they arrive fall to the bottom line, instead of getting consumed by SG&A.

So that's what we're doing there is continuing to drive costs out. I hope we don't take – for a moment, we don't believe in this market, and we believe that there'll be some good news. We've passed over a year with a lot of certain negative moves in the industry. We believe there will be good news, whether it's Alberta [indiscernible] (00:25:04) last week or just a stronger cadence of retail stores or Ontario [indiscernible] (00:25:11) consultation on [ph] their plants and (00:25:13) things like that. That's upside. We want to build the company where that's upside and we're not dependent or not showing up [indiscernible] (00:25:22) shows up excellent or if it's more EBITDA, it's not getting consumed in corporate overhead.

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**Christopher M. Carey**

*Analyst, Bank of America Merrill Lynch*

Q

Okay, thanks. And then I guess for – shifting gears a little bit. So, over the past couple of quarters, so you've produced about 50,000 kilograms more than you sold, right. And I guess with the expectation for cannabis revenue, excluding provisions to be flat quarter-to-quarter, there's still slow store rollout in Canada, it's progressing, but slowly. I mean, it seems like this dynamic of producing well above what you're selling is going to sustain. I think that leads to an important question not just for Aurora, but for this entire industry, and I guess that question really is when would you consider maybe shuttering capacity or at least slowing the rate of volume that's coming off your production line because you're still, if I understand your comments in your prepared remarks correctly looking for about 38,000 kilos of quarterly production, which will continue to materially outpace what you're selling. And I just wonder when we see the individual companies or the industry starting to take a closer look at just how much volume they're bringing into this market relative to how much the market can actually withstand. Thanks so much for that.

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**Glen W. Ibbott**

*Chief Financial Officer, Aurora Cannabis, Inc.*

A

Yeah. Yep. Absolutely critical question for us and [indiscernible] (00:27:01) the industry. Now, we're actively – we've got some [indiscernible] (00:27:10) way to really evaluate the impact under a number of different scenarios. And also on the new product launches, don't forget, I mean, we haven't launched all the products that we can

under juvenile legislation and as those come out of the next several months or several quarters, we are looking at consumption as some of them are highest consumers of say [indiscernible] (00:27:36). So, we will evaluate. We are evaluating, but differently.

And [indiscernible] (00:27:42) come to a conclusion where we need to reduce the level of production within the company. The point that Michael's emphasized [indiscernible] (00:27:55) fiscal discipline. Certainly, we had to view at one point several years ago that the market would have developed to a point where we could – and certainly out of our existing assets [indiscernible] (00:28:07) itself whatever we are producing. So now, in the short-term that's not necessarily true but we'll see as we introduce some of these new products and see what the demand for those new products are. But rest assured, something we're paying little closely – close attention to and we're definitely looking at everything in this [ph] company (00:28:27) for a fiscal win. So we won't allow that situation to persist [indiscernible] (00:28:33) we don't see our ability to [indiscernible] (00:28:35).

**Operator:** The next question is from Owen Bennett of Jefferies. Please go ahead.

**Owen Bennett**

*Analyst, Jefferies LLC*

Good morning, guys.

Q

**Glen W. Ibbott**

*Chief Financial Officer, Aurora Cannabis, Inc.*

Hi, Owen.

A

**Owen Bennett**

*Analyst, Jefferies LLC*

[indiscernible] (00:28:45) questions please. And first of all, don't want to lay with the point on SG&A book but it seems quite an aggressive target. I was just wondering which would be helpful from our perspective if you could pull those different [indiscernible] (00:28:59) you identified, you could quantify that in terms of how much savings you see coming from each. And then, my follow up is just around the Daily Special launch. What price point that's coming in and in your internal projections, are you assuming any cannibalization of the mid-price [indiscernible] (00:29:17) with Daily Special [ph] and when that's (00:29:19) launched? Thank you.

Q

**Glen W. Ibbott**

*Chief Financial Officer, Aurora Cannabis, Inc.*

Yeah. Owen, thanks. So I guess when we look at SG&A, it's probably worth remembering that just several quarters ago we were running in at CAD 60 million. We ramped up significantly as we took on a lot more activities within the company and tried in fact to accelerate the development of a number of things, whether it's internal IT projects or some of the marketing initiatives. So, we've ramped up from a rate that [indiscernible] (00:29:56) say Q4, Q3 of last year within the CAD 60 million range. So, it's not inconceivable to get back down to that range relatively easy, and then the next steps are basically reducing complexity, which means saying no to a number of clients. We've been a very aggressive company. So, we tend to work to achieve an awful lot in a short period of time. And anything that just drives costs up as opposed to maybe prioritizing the surface focused on the core of the business and certainly deferring some projects.

A

So, I understand from those current levels [indiscernible] (00:30:39) it is an aggressive target – it's an important target and seeing most of the changes that we made last week gave us significantly closer to our target we're

taking up. And it may not be evident but if you remember last week, we said – as our corporate head count, we reduced it by about 25%.

So, there are [ph] CAD 500 million (00:31:03) and see [indiscernible] (00:31:06) driving costs [indiscernible] (00:31:08) plus a number of initiatives. I don't want to get into the details on how much on IT or HR or marketing that we've taken out, but we definitely have taken a lot there and have significantly reduced the burden of some of our subsidiaries as well.

In terms of the Daily Special pricing, we've analyzed all the entries in the markets and it's the lowest pricing per gram and it's also when you look at an important metric, it seems to have developed in that market as [indiscernible] (00:31:45) basically what you're taking for high potency product and again it's the best metric of the competitive products. So it depends – depending on pack size, I mean, go up to [indiscernible] (00:31:59) 15 gram packs and it depends on the [indiscernible] (00:32:02) what pricing is. But [ph] before we leave it there (00:32:05) as it stands right now, we believe it's the sharpest pricing amongst all the competitive offerings.

**Operator:** The next question is from Michael Lavery of Piper Sandler. Please go ahead.

**Jeffrey L. Kratky**

*Analyst, Piper Sandler & Co. (Broker)*

Hi, this is Jeff Kratky on for Michael. Good morning.

Q

**Glen W. Ibbott**

*Chief Financial Officer, Aurora Cannabis, Inc.*

Hey Jeff.

A

**Michael Singer**

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

Good morning.

A

**Jeffrey L. Kratky**

*Analyst, Piper Sandler & Co. (Broker)*

Just one question for me. As you resume sales in Germany, have you seen any impact of distribution after having sales paused?

Q

**Glen W. Ibbott**

*Chief Financial Officer, Aurora Cannabis, Inc.*

Well, there actually was a backlog or set of back orders. Anyway we're continuing to shift there. So just to be clear, this was a - [ph] I mean to (00:32:49) characterize it although, it impacted us in quarter at a relatively minor issue, we continued to ship to Germany and build up the inventory there and we're building up back orders and then we start selling those as soon as we have the permit to actually ship through the pharmacies with that product.

A

So yeah, of course, there's a little bit of catch [indiscernible] (00:33:10) here, but we don't think that we've lost much ground there, we'll regain it fairly quickly. And quite frankly, I'd like to start with the rest of Europe it's not – there's not strong competition there right now. So we should be back on track shortly, let me say, throwing back orders and then getting back [indiscernible] (00:33:36) cadence.

**Jeffrey L. Kratky**

*Analyst, Piper Sandler & Co. (Broker)*

Okay. Thank you. That's all from me. I'll pass it on.

Q

**Glen W. Ibbott**

*Chief Financial Officer, Aurora Cannabis, Inc.*

Thank you.

A

**Operator:** The next question is from Pablo Zuanic of Cantor Fitzgerald. Please go ahead.

**Pablo Zuanic**

*Analyst, Cantor Fitzgerald Securities*

Good morning. Thank you.

Q

**Glen W. Ibbott**

*Chief Financial Officer, Aurora Cannabis, Inc.*

Good morning, Pablo.

A

**Michael Singer**

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

Morning.

A

**Pablo Zuanic**

*Analyst, Cantor Fitzgerald Securities*

Just – my first question is more like a comment. I mean, obviously you are telling us all the right thing in terms of your restructured governance, you're cutting costs, you're adapting the company to a new reality, but there's no guidance, right. So, if you provided more specific guidance and almost a guidance bridge, I think it would help curtail this crisis of confidence that this stock reflects, okay, you're giving us numbers, we're trying to put them together; but the market doesn't buy that.

Q

So, hopefully, at some point, you can provide a bridge because without it I don't know how they stop sliding until of course you show results, but that's just a general comment. I have two questions, one from – if you can just talk about 2.0 because it is relevant to for us to think in terms of how your sales will project over the next few quarters? You say that sales in the March quarter will be flat. So, what does that mean in terms of 2.0, is 2.0 like 5%, 10%? You have to have some visibility.

And then how do you see our market progressing? There are other companies, so they are saying 2.0 would be a CAD 1 billion market in a year's time; do you believe that? So just [ph] understand (00:35:09) your competitive position in 2.0, so that's the first question, just more color in terms of how 2.0 can contribute to the company this quarter and going forward in a context from your guidance doesn't seem to be contributing. If you can just give more color on that and then I have a follow up? Thanks.

**Glen W. Ibbott**

*Chief Financial Officer, Aurora Cannabis, Inc.*

A

Yeah. So, okay. I'll just take that. [indiscernible] (00:35:31) with some of your comments. I think you [ph] laid a position (00:35:36) out there. Now, we think we've been pretty directive and provided clarity of our targets on those things within our control. As you all know, over the last couple of years, the challenge for anybody putting guidance out on the revenue line [indiscernible] (00:35:55). And that's even – I'm not just talking about the Aurora, I'm talking about across the industry. And in fact, the recent guidance as the development of the market is kind of taking it, give it some turns and it's kind of a bit of a choppy road on the way from here to there.

We are bullish on the long-term. So, I'm not going to comment on [indiscernible] (00:36:18) analyst projections for the size of the market, but we definitely haven't seen, and either aren't backing off what we think this market can be. But the question is, the roads [ph] we will develop (00:36:31) and how long will that take. So, again back to being prudent with our cost structure that will allow us to be profitable on the entire journey as opposed to hoping for doubling of revenues to become profitable and we don't want to be in that position.

So listen, I don't want to get into this. We're trying to project revenues in a brand new market, in the 2.0 market. What is happening in Q3 where we're [indiscernible] (00:36:58) fairly modest growth is, as I mentioned in my comments, the market on the 1.0 products has taken a hard turn to the value side. It was at 2% of the market in the summer and 17% of the market in December. Meanwhile, while [indiscernible] (00:37:15) is premium, went from mid-30s in the summer down to 70% of the market in December. So, hard turn.

We launched our product that I just described, Daily Special. Last week, we [indiscernible] (00:37:26) to the problems. So I think BC got the first batch yesterday. So it's underway but in terms of this quarter, we're suffering by not being in that market for January and the first week or two of February, meaning half the quarter there, but being in the market, it seems to have the most momentum.

As we look at Q3, we think that approximately 20% of our sales will come from 2.0 products but again trying to be prudent, it's often hard to extrapolate from a week to week. For [ph] Jackson (00:38:04), I had mentioned, to Vivien when she asked the question, I look at weekly sales in 2.0 products and we'll double from one week and [indiscernible] (00:38:12) and then it will pop up again. So, way too early to project there. So we need to just try to be prudent and make sure that if there is additional revenue coming in, that drops to the bottom line. So I hear you on the lack of visibility and revenues, but I have to tell you we're trying to learn from the experiences over the last year or two in this industry that seems a bit pretty risky to be trying to predict the market that is just in the early stages of development.

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### Pablo Zuanic

*Analyst, Cantor Fitzgerald Securities*



Understood. That's very helpful, Glen, thanks. Look just a very quick follow-up. And I know this is more medium and long-term and maybe not relevant today, but when I compare the Canadian market with a lot of the [indiscernible] (00:38:58) market in the US, obviously as we all know the Canadian market has significant restrictions that have help prevented this growth or have curtailed the growth. Do you see any room to lobby the government over the next few months or even year to be able to make some changes that will help the market whether it's in terms of marketing, the way things are communicated online, retailing, distribution. I'm not just talking about opening more stores but just in terms of the restrictions, which I think have helped the market compared to what we see in some parts of the US? Thanks. For that just...

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### Glen W. Ibbott

*Chief Financial Officer, Aurora Cannabis, Inc.*



Sure. So listen, [indiscernible] (00:39:35) I'd love to do that, of course, right. You know it's difficult, if you go into the Canadian cannabis store. It's hard to distinguish sometimes between the different products and that's why the

in-store marketing and education of the budtender and stuff is important to us to make sure that, they understand our products and that they are able to talk intelligently to consumers that want to come in and find the product that meets their needs.

Okay. That be delightful, I have to tell you, I mean if I don't think that we're – that's in the near-term [ph] probably in (00:40:08) Canada. Again, it's the beginning of the industry, but they're focused on the [indiscernible] (00:40:14) safety first side and then seeing how it plays out.

There are promising indications when you see some of the provinces starting to sell about things like bait lounges and lounges right to consume cannabis. That's a nice step forward to more sort of a rational, almost a model that you see in cannabis with either alcohol or something like that. So, you know micromanaging that. We're [indiscernible] (00:40:42) legalize that, little past a year into legalization, just a month past 2.0 legalization. So, I think the focus right now is getting in front of the foundation, right. And then you guys will see where it goes, but we're certainly not banking on that in the near-term.

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**Michael Singer**

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

A

You know, and I'll just add that our Government Relations group are working very hard with the provincial distributors and governments because the purpose here is to try to remove as much as we can out of the black market into the regulated market. And the last numbers I've seen says that the black market is still like CAD 5 billion annual opportunity and the regulated market is somewhere just below – approximately a CAD 1.5 billion. So, you could see the potential there. And the province is due, want to the sort of shift that over to the regulated market. So our teams are working hard. There is an appetite certainly to try to do this as quickly as possible and they are working as quickly, as efficiently as we can with the provinces to make this happen, as quickly as possible.

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**Operator:** The next question is from Matt Bottomley of Canaccord. Please go ahead.

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**Matt Bottomley**

*Analyst, Canaccord Genuity Corp.*

Q

Yeah. Good morning. Thanks for taking the...

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**Glen W. Ibbott**

*Chief Financial Officer, Aurora Cannabis, Inc.*

A

Hi, Matt.

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**Matt Bottomley**

*Analyst, Canaccord Genuity Corp.*

Q

...how are you doing? Thanks for taking the questions. I wanted to touch base, this isn't necessarily a new phenomenon we've been seeing but my guess is that we'll start seeing the impacts in subsequent quarters for dried cannabis bud so can you give any color on how you look at your current inventory balance which I think for just the dried cannabis stock is about CAD 130 million versus the surge in what we've been seeing in dried cannabis that's in various wholesale channels right now. And what should the analyst community as a whole be considering right now with respect to what could occur whether it's commoditization of pricing versus a lot of this product going into cannabis 2.0 production, it just seems like it's been this lingering potential disaster for a couple of months or quarters now and I'm just curious if you could touch on that a bit?

**Glen W. Ibbott**

*Chief Financial Officer, Aurora Cannabis, Inc.*

A

Yeah. I think I get started on that. Well, it has been an issue since the sort of the middle of last year, I guess. So people love to cross the inventories in the industry and try to figure out what are they comprised of, how much is that risk. It's just definitely a differentiation between the quality [indiscernible] (00:43:18) say that. That's defined by the consumers experience and levels of THA, whatever quality cannabis and [indiscernible] (00:43:28) significant amount of lower quality cannabis destined for extraction in the industry that's a bit of a challenge.

We looked at our inventories extended to December 31 definitely even under – I would say relatively pessimistic scenarios, we will be consuming all of that over the next several quarters. So we're not concerned about our inventory as it sits. There was a question earlier about [ph] lot of discussions (00:43:59) something that we're watching [indiscernible] (00:44:04) able to depend on how demand plan develops, but we don't have to take any particular issues in our inventory as it stands at December 31.

So I can't really comment on the rest of the industry but I do take your point that it's a developing issue if [indiscernible] (00:44:26) not able to move that or if you're not producing the quality that consumers are looking for. Now that's really clear that if you're selling flower, so it's not [indiscernible] (00:44:38) extracted, it's going to flower then it better have a high level of THC for the most part while it's not going to move very quickly.

**Matt Bottomley**

*Analyst, Canaccord Genuity Corp.*

Q

Understood. Thanks and if I could just ducktail that into another question just on the international side of things, so what a lot of LPs have been saying certainly over the last year or so is that any sort of excess in capacity for domestic consumption when it comes to inventory could eventually go into international channel. So outside of Germany, I'm just curious if you have any allocation of your product pegged for international export? And given the quantity of the goodwill write-offs that we saw on a couple of those assets, I'm just curious how much capital is going to be allocated internationally going forward. If there's some sort of range for that and what region do you think are more promising than not?

**Glen W. Ibbott**

*Chief Financial Officer, Aurora Cannabis, Inc.*

A

Yeah. I'll let Michael address the capital allocation, but no, listen, with our three facility, particularly, with our river facility just being certified EU GMT, we've got plenty of capacity to serve international markets for the next while. I wouldn't want to tell you that we can – that in the international market, [ph] we can (00:45:55) consume all of that capacity by any means in the short-term. There are developing markets in Europe. We're seeing some of that are looking towards domestic production and the Dutch tenders are kind of on our way.

But I think as we said, it's great long-term opportunity and it's developing little slower than we might have anticipated a couple of years ago. There are other bigger markets that are putting in systems, Brazil, for instance, putting in a medical system, regulations, I think for the next month, so I should be in the clear and in place, looks like Romania would be a sort of a CBD type system, but if possible that we may buy that from our current facilities or maybe some other, but we'll be careful, and maybe Mike will now talk about capital allocation in international market.

**Michael Singer**

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

A

Sure. Sure. So, I think part of what we announced last week in the important discipline that we've now sort of instilled in our businesses, we're going to be very cautious about how we allocate capital and that capital allocation has to provide us with the near-term return that we think is going to be impactful to our business, and beneficial to our investors.

So far with regards to international markets, we're obviously going to focus on key markets that generate revenue today, but always look at opportunities and invest in capital and additional markets where we see that near-term value translating directly to our P&L and of course, our balance sheet. So we'll be very careful and methodical about how we allocate that capital to ensure that we see that immediate value to our story.

**Operator:** The next question is from John Zamparo at CIBC World Markets. Please go ahead.

**John Zamparo**

*Analyst, CIBC World Markets, Inc.*

Thanks. Good morning.

Q

**Glen W. Ibbott**

*Chief Financial Officer, Aurora Cannabis, Inc.*

Good morning, John.

A

**Michael Singer**

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

Good morning.

A

**John Zamparo**

*Analyst, CIBC World Markets, Inc.*

Good morning. My question is on the pricing and in gross margins. So even after adjusting for the provisions, gross margins are down across the board including on consumer and Glen, you talked about the market to pivot towards value in the launch of Daily Special, but when we see average price per gram coming down, is it more a function of mix or price deflation? And I guess, what I'm getting at is, are you seeing price compression even on your premium products?

Q

**Glen W. Ibbott**

*Chief Financial Officer, Aurora Cannabis, Inc.*

Okay. So, quickly no, not on the premium products by and large. I think [indiscernible] (00:48:28) and a few of the others are holding up really nicely. We were impacted although it doesn't seem like a significant amount of revenue. In the overall picture, the revenue in Europe that we didn't pull in this quarter is pretty much all gravy, that's actually positive getting the product over there and not as significantly as you might expect and as you know, we get approximately well 2 or better times pricing in Germany as we do for comparable products in Canada. So that did impact some of the average pricing.

A

I think we break this [indiscernible] (00:49:06) MD&A, the wholesale bulk was down significantly. So, [ph] I will not (00:49:10) characterize it as more [indiscernible] (00:49:13) product. So, the prices seem to be holding up actually fairly well. We did have to take some price reductions on some of the inventory that was [indiscernible] (00:49:28) the system, that was lower THC but we're not producing those cultivars anymore, we are producing stuff that are

in demand in the market. So -yeah, let me [ph] quote (00:49:39) for sure, the pricing we're offering on the Daily Special [indiscernible] (00:49:44) extremely competitive.

We are taking advantage of our [indiscernible] (00:49:47) at a very low cost. That will impact the average pricing. But we expect them to see a significantly strong uptick in volume, so we're just being cautious about. [indiscernible] (00:50:03) looks like until we get to that point, but we internally are very excited to take it down into this. There is a reason why we put a lot of capital into our facilities over the last several years, and some of it will scale for sure. But we said well over a year, that with this facility and automation on low level, ultra-low level cost of production of the quality candidates are delivering the 18-plus percent THC cannabis that's going to sell at a very low cost. It was meant to allow us to thrive in any market conditions. As usual in the cannabis market, those market conditions allow it quickly.

So this I think launch being special is our first set of value brand. It will be very important part for us. So, of that, we see extreme price elasticity in that market and see if we can offer [indiscernible] (00:51:12) consumers [indiscernible] (00:51:12) higher THC levels on a consistent basis and offer them the best price in the products in the [indiscernible] (00:51:18). I'm sure you've seen the year analysis of the market and the [indiscernible] (00:51:22) came in at a lower prices and grab a quite a material piece of the market very quickly, simply based on pricing and minimal acceptable level of [ph] cognizance (00:51:34).

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**John Zamparo**

*Analyst, CIBC World Markets, Inc.*

Q

Okay. That's helpful. Thanks. And then my second question is more housekeeping. What are your expectations on working capital investments for Q3 and Q4? Is it fair to think that there are incremental investments to be made given the launch of derivative products and now presumably ramp up in vape products in Alberta?

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**Glen W. Ibbott**

*Chief Financial Officer, Aurora Cannabis, Inc.*

A

Yeah. I think that is true, by and large. As I mentioned earlier, we do need to keep a very close eye on demand, it's developing and while we're putting into their production side of the house. So, in terms of inventory, like continued build of certain inventory types but I think Vivien mentioned earlier, there are a number of our product lines that are selling out very quickly so that's not – we definitely need to continue to invest there. So, there may be some incremental working capital built over the next while we will, of course, be driving cost out of the SG&A traffic. So, I think – overall I think we should be in pretty good shape in terms of our investment and working capital.

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**Operator:** The next question is from Graeme Kreindler of Eight Capital. Please go ahead.

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**Glen W. Ibbott**

*Chief Financial Officer, Aurora Cannabis, Inc.*

A

Good morning, Graeme.

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**Graeme Kreindler**

*Analyst, Eight Capital*

Q

Good morning. Hi. Good morning. Thank you for taking my question. I wanted to ask a question regarding the search for a full-time CEO. Michael, you mentioned in the prepared remarks the difficult period that the industry as a whole has been going through. And in light of that, I was wondering, if that gives you any concerns about finding the right type of candidate, attracting the right type of talent, has that given anyone any sort of pause in terms of

entering the industry at this point of its life cycle, versus what the expectation is and what we've seen in terms of migration of talent, 6, 12 months ago? Thanks.

**Michael Singer**

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

A

Sure, Graeme and good question. And yes it is something that, we initiated obviously prior to the announcement last week. We had very active discussions going into last week's announcement and we were confident that with last week's announcement, we would get additional inbound interest which we've actually seen this week. So we're encouraged about the status of those ongoing discussions.

You know, we're not committing to any time these discussions. It will take time but we're very encouraged by the level of interest that we're seeing and we're very confident that we're going to be able to find the right, long-term permanent CEO that certainly is going to be impactful for our business going forward. And we're – and obviously we'll update the market and our investors as we show tangible progress with regards to that search.

**Graeme Kreindler**

*Analyst, Eight Capital*

Q

Okay, thank you for that. And just to follow up quickly, do you have any sort of hard and fast criteria that you're looking for? And with that, is there a separate committee, search committee that's been established how's that decision-making process being held? Thanks.

**Michael Singer**

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

A

So, so the answer to those two questions are, yes, we the – a number of our independent directors are playing a very active role in this process. And so, we have a lot of hands on deck at the board level to make sure that we certainly attract and secure the right talent going forward. So, we're taking a good look at our business today and where we anticipate our business to go in to the future. And so, what we're looking for is a skillset and obviously an ability to lead this organization into the next generation of products. We see this moving towards more cannabinoids, CPG sort of focus. So, you're going to probably see somebody that has experience in all of those areas and be able to sort of support the business as we look at it going forward.

**Operator:** This concludes the time allocated for the question-and-answer session. I would like to turn the call back over to Michael Singer for closing comments.

**Michael Singer**

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

I would like to thank everyone for joining our call. We look forward, of course, to speaking to you in the next quarter and providing you with more updates. Have a great day. Thank you.

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

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