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Aurora Cannabis, Inc. (ACB.CA)

Q4 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Aurora Cannabis Inc., Fourth Quarter 2021 Results Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded. I will now turn the conference over to your host, Ananth Krishnan, Vice President Corporate Development and Investor Relations. Please, go ahead.

Ananth Krishnan

Vice President-Corporate Development & Investor Relations, Aurora Cannabis, Inc.

Thank you, John, and thank you all for joining us for Aurora Cannabis fourth quarter fiscal 2021 conference call. This is being recorded today, Monday, September 27, 2021.

With me today are Aurora CEO, Miguel Martin; and CFO, Glen Ibbott. After the close of markets today, Aurora issued a news release announcing our financial results for the fiscal fourth quarter and fiscal year 2021. The release and the accompanying financial statements and MD&A will be available on our website or on our SEDAR and EDGAR profiles. In addition, you can find a Q4 Supplemental Information deck on IR website.

Listeners are reminded that certain matters discussed in today's conference call could constitute forward-looking statements that are subject to the risks and uncertainties related to Aurora's future financial or business performance. Actual results could differ materially from those anticipated in these forward-looking statements. The risks – 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 the SEDAR and EDGAR databases.

Since we're conducting today's call from respective remote locations, we may experience technical issues. We thank you in advance for your patience. Following the prepared remarks by Miguel and Glen, we will conduct a question-and-answer session. We ask that analysts limit themselves to one question. For retail and institutional investors, we will review questions through the chat function of the webcast link.

With that, I would like to turn the call over to Miguel. Please go ahead.

Miguel Martin

Chief Executive Officer & Director, Aurora Cannabis, Inc.

Thank you, Ananth. We made significant strategic and financial progress during fiscal year 2021. In fact, as of fiscal Q4, I can safely say we're in the best shape the company has ever been in. While there's certainly more work to do, Aurora is on the right course to build shareholder value, particularly from these levels. Building value starts with profitability on an adjusted EBITDA basis. The entire team is focused on this effort, and additional facility closures we announced last week is another proof point to show that these actions are well under way.

Building on that, let me speak to a few more data points that underscore our progress into 2021 and how that sets the table for value creation in 2022. First, Aurora is and remains the number-one Canadian LP in global medical cannabis revenue with margins over 60%. This is nearly double what we see in the adult recreational segment. For that reason, we will happily continue to allocate resources to the Canadian, European, or Israeli medical markets, where our regulatory expertise, science, testing and compliance combine to create a portable and profitable model.

The second lever we're pulling is expense reduction. As you know, we're on track to deliver another CAD 60 million to CAD 80 million in incremental cost savings, and it's important to note that these savings won't affect any planned growth initiatives. These additional savings will also clear a path to being adjusted EBITDA positive by the first half of our next fiscal year, even if revenue was to remain constant with our fiscal 2021 fourth quarter levels. That said, we do not expect revenue – that said, we do expect revenue growth in 2022.

Another value creation data point that complements our P&L is the balance sheet. In a growing, dynamic and fragmented market, our regulatory expertise and number-one position in Canadian medical are a further advantage with a strong balance sheet. I'm pleased to say that we have vastly improved ours with approximately CAD 400 million of cash as of Friday, no secured term debt and access to $1 billion of capital under our shelf prospectus. We've also gotten better at managing our operating cash flow, reducing the need for incremental capital.

We also expect to leverage our significant investments in R&D and monetize a world-leading science and innovation program. The foundation of this is what we believe to be the world's largest dedicated cannabis breeding and genetics facility located in Comox, British Columbia. And lastly, we've strengthened our executive team by bringing in two highly skilled individuals in the areas of operations and HR: Alex Miller and Lori Shick, respectively.

With that as a backdrop, I want to remind our listeners that Aurora is comprised of four distinct complementary components: First, a number-one ranked Canadian medical business by revenue in the largest federally regulated medical market in the world; second, is our international medical business, which ranks as the second largest Canadian LP by revenue. Net revenue from these two businesses increased 18% during fiscal 2021; third is our science and innovation business unit, where we're monetizing our intellectual property in genetics and biosynthesis; and finally, fourth, our Canadian adult recreational business, where we've already made progress, although challenges remain.

Let's take a deeper dive on medical cannabis as it really serves as a solid foundation for our future. Domestically, we represent about a fifth of the Canadian medical market, but only about 1% of the population are currently medical cannabis patients. While our market share is roughly double [ph] that of (05:21) our next closest peer, the top five LPs within the Canadian medical channel represent less than 40% of the market. This gap represents Aurora's opportunity to expand our presence and we have done so through significant investment to help doctors and patients fully appreciate the benefits of medical cannabis. That outreach includes education.

Aurora's investments in sophisticated technology, coupled with unparalleled professional counseling and guidance in navigating medical cannabis alternative treatments have enabled us to provide an end-to-end patient experience for a growing clientele of recurring Canadian patients. About 80% of our Canadian medical cannabis net revenue is constituted by cannabis insured and/or subsidized patient groups, which sets up the medical channel as a very solid core revenue group. Also, our infrastructure to support a direct-to-patient distribution model which begins with patient querying and then transitions to onboarding, medical consultation and filing prescription fulfillment across a variety of price points, all being a key factor of our success.

To improve our Canadian medical business further, we are now leveraging technology on our patient intake and user experience to lower wait times, raise service levels and increase product choices. This is a key driver of margin. In its totality, our market position in Canadian medical, our innovation and tactical execution have created a tangible barrier to entry, which is good news for shareholders, as we grow other parts of the business.

In terms of international medical, we're leveraging core capabilities from Canada as new countries look at launching medical cannabis. This is a distinct advantage over our peers, creating a deep moat around our business. A data point here is our leading position in Germany in dried flower with a growing share of the oil market there. In France, Aurora and [ph] FE Farm (07:05) were selected in October of 2020 by the National Agency for the Safety of Medicines and Health Products to supply the entire medical cannabis pilot program with dried flower. We won three of the nine tender lots, which includes all available dried flower lots and just delivered our first shipment in August.

In Israel, we delivered an CAD 8-million cannabis shipment in July as part of our supply agreement with Cantek. We believe this is the largest single shipment of cannabis that Israel has received. Speaking of Israel, we are excited to announce an extended supply agreement with Cantek, under which we just received PO for a further CAD 9-million shipment, which we expect to deliver in fiscal Q2. Our compliant expertise was responsible for the extension, all good news.

Of course our expertise in medical cannabis and ability to operate within a highly regulated framework gives us a great opportunity to expand in the global adult recreation. History demonstrates that medical regimes eventually evolve to adult recreation, as companies like Aurora that have a proven ability to operate in federally regulated systems, will have an advantage when new markets open up.

Let's pivot to Canadian adult recreation. Those who follow the market are well aware of industry-wide challenges, but I'll bring up two points. First, while fixing this segment will clearly take longer than expected, we did grow 8% sequentially compared to fiscal Q3, and are seeing early signs that our focus on higher quality, higher potency, higher margin products is beginning to pay dividends. Specifically, our sales mix was positively impacted by growth of about 400 basis points in the same round, offset by a modest decline in Daily Special. The growth in San Rafael represents over 20% increase in dollar terms. We believe this momentum should continue with additional premium product introductions and a focus on innovation throughout all categories.

Second, we believe the adult recreation segment is in the process of bottoming out and is now poised to rebound, given new store openings and rising consumer demand. The dried flower recreation category in Canada is a tale of two markets. First, the high-margin premium dried flower category where margins are 50% or higher, and second, the discount flower category, where many SKUs are breakeven or even negative margin. Our strategy centers on that premium category. We are not going to be chasing unprofitable market share. We're going to be chasing profitable dollars.

Furthermore, our focus on product innovation and manufacturing excellence is squarely aligned with the expectation of our retail partners.

So with the segment discussion out of the way, let me pivot to our P&L, and our primary goal of adjusted EBITDA profitability. Aurora has identified cash savings in the midpoint of our previous guidance of CAD 60 million to CAD 80 million. We plan to deliver CAD 30 million to CAD 40 million of those savings within the next 12 months and the remainder within 15 months. We expect approximately 60% of the savings will come from asset consolidation, operational, and supply chain efficiencies. For example, last week, we announced internally a plan to centralize much of our Canadian production at our River facility in Bradford, Ontario and the resultant closure of our Polaris facility. We expect the remaining 40% of savings to be sourced through SG&A and keep in mind that these efficiencies are incremental to the approximately CAD 300 million of total cost reductions achieved since February of 2020.

Again, expense reductions, margin improvements and sustainable cash flow generation won't inhibit our growth plans. To be clear, to reach adjusted EBITDA profitability by the first half of the next fiscal year, we do not expect any revenue growth in the Q4 2021 levels. But I hope you can tell, we are positioned for top line growth in 2022, and with that, adjusted EBITDA profitability should follow.

With that, I will turn the call over to Glen.

Glen W. Ibbott

Chief Financial Officer, Aurora Cannabis, Inc.

Thanks, Miguel, and good afternoon, everyone. I appreciate you joining us today and your patience with our slight delay in getting earnings out as we finished off the last bits of our audit. Before I get to our Q4 results, I'd like to take a moment to review the success of our business transformation program over the past year.

As Miguel referenced, our financial fundamentals are in better shape now than they have been for several years. Our balance sheet, after having paid off the CAD 90 million secured term debt in June, and having invested approximately CAD 30 million into our new insurance structure in September, still sits at around CAD 400 million of cash as of Friday. That is excellent, considering we started Q4 with CAD 520 million, and paid out CAD 120 million in debt reduction and investment. And the debt and insurance actions will save us almost CAD 35 million in annual cash flow.

Our core medical businesses continue to deliver overall growth and enviable margins that generally sits at 60% or better, but as the resultant gross profit dollars being an absolutely critical driver of our path to positive EBITDA. And of course, our SG&A and CapEx are a fraction of what they used to be, which is clearly good news for our investors.

So now to Q4 results, which I believe demonstrated the importance of Aurora's diversified business in both consumer and medical markets across 12 countries. Overall, Q4 net cannabis revenue before provisions was CAD 55.7 million. Our medical cannabis segment continues to excel, generating CAD 35 million in sales and a gross margin of 68%. This represents about 63% of our Q4 revenue and almost 80% of our gross profit. Our consumer cannabis business delivered CAD 20.2 million excluding provisions, and a gross margin of 31%. So, overall, Q4's gross margin was 54%, just north of CAD 30 million gross profit.

This makes Aurora one of the leading, if not the best, gross profit generators in [ph] the Canadian (12:54) cannabis industry. SG&A remained well-controlled, resulting in an improvement in adjusted EBITDA excluding [ph] restructuring costs (13:02). While still negative, the CAD 13.9 million, it is heading in the right direction.

Now, a bit more detail on each of our business segments. Our Canadian medical revenue was CAD 26.4 million in Q4, essentially flat quarter-over-quarter, despite the impact of competition from continued store openings in the consumer market. Our Canadian medical patients can be segmented into two groups: those with cost reimbursement coverage; and those without the reimbursement program. Our success is really driven by our high-volume insured patient groups, whose reimbursement makes them return buyers, and this is why we have made patient groups with reimbursement coverage, a high-focus priority in our medical business. That said, we may see some migration of price sensitive non-reimbursement patients from the medical channel to the adult recreation channel, as that market continues to develop over time.

Our international medical revenue was CAD 8.6 million, down slightly quarter-over-quarter, but up 88% versus the year ago. In Q4, this business delivered a 72% margin, beating our mid-60s expectations. This exceptional result was driven mainly by country mix. Our Q4 international margin also benefited from the transfer of almost all of our

European supply to our Nordic facility in Denmark and while there were no sales to Israel in Q4 as Miguel noted, we did deliver approximately [ph] CAD 1 million (14:34) of medical cannabis to Israel in early July and have a further CAD 9-million shipment planned for next month.

BDS Analytics estimates a market size of about CAD 3.2 billion by 2025 for just Germany, Poland, UK, France and Israel. With that context, it is clear why international medical is worthy of our focus and investment and why our leadership internationally is an important driver of long-term shareholder value. Our Q4 consumer revenue of about CAD 20 million, including provisions was an increase of 8% compared to Q3. We are seeing signs of [ph] Aurora's shift (15:13) to the higher-margin core and premium segments that will underpin our future success in this market.

As Miguel noted, Q4 saw a step forward for our San Rafael '71 brand and this contributed to an increase in our average net selling price per gram of dried cannabis.

Now, for SG&A, which includes R&D. It remains well-controlled coming in at CAD 44.8 million in Q4 excluding restructuring, a 30% decrease compared to last year. And while we've made a lot of progress in driving down SG&A over the past 12 months, as Miguel stated earlier, we are implementing further measures to take out costs that should get us well below the CAD 40-million quarterly run rate, by the time we exit the fiscal year.

So, pulling all of this together, we generated an adjusted EBITDA loss in Q4 2021 of CAD 13.9 million, excluding restructuring one-time costs. This represents about an CAD 18-million improvement year-over-year and a CAD 2.6-million improvement from the prior quarter.

To help investors think about our path to EBITDA profitability, I'll provide some thoughts on how the cost reduction plans that Miguel described will flow through the P&L. Approximately 60% of cash savings are expected to be realized in cost of goods as inventory is drawn down. This should occur over several quarters, as our lower production costs structure shows up in finished goods. We expect the remaining 40% of cash savings to show up in SG&A. These savings will be seen as they are executed, beginning with Q2 of this fiscal year.

I noted earlier that we are financially stronger today than we have been for several years, particularly with respect to our materially improved balance sheet and financial firepower. We started Q4 with CAD 520 million in cash. During the quarter, we paid out our term debt facility using almost CAD 90 million to do so. This frees us from restricted debt covenants and results in principal and interest savings of approximately CAD 6 million per quarter, which moves us further towards positive free cash flow in the coming quarters.

Despite paying off our term debt, we still ended the quarter with CAD 440 million of cash. Additionally, we have the $1-billion shelf prospectus, including the full amount of the $300 million at the market facility still available. These are available as financial firepower, as we prepare for strategic and accretive opportunities.

So, to wrap up, what I hope you take away from our Q4 financial results is the following: Aurora has a clear path forward to being adjusted EBITDA positive by the first half of our next fiscal year through actions that we control, and we have significantly strengthened our balance sheet with more cash and working capital, and having eliminated secured term debt.

Now I'll the call back to Miguel.

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

Thanks, Glen. Before we go to Q&A, I want to talk briefly about our science and innovation business group, which we feel is a real differentiator. We launched this group last May with the goal of commercializing patented and patent-pending technology, which we believe will be key to developing cannabinoid production and biosynthesis in the plant itself.

Through licensing agreements, Aurora and 22nd Century Group share the global IP rights that are key in commercializing key aspects of cannabinoid production and biosynthesis in plants. We believe the long-term market for cannabinoid molecules produced through biosynthesis or the plant will be incredibly profitable, and we've seen global market size estimates of CAD 10 billion by 2025.

As I said, this is a long-term effort, but one that we believe will ultimately allow companies to bring a wide array of new-generation products to the market. When someone else is using the technologies and infringing our rights, we expect to be compensated, either willingly or through legal action.

In addition to IP, our industry-leading genetics and breeding program is positioning Aurora to win in the flower and concentrate consumer categories. This program is expected to not only drive more revenue by injecting rotation and variety into our product pipeline, but also greatly improve the efficiencies of cultivation through higher-yielding plants, higher cannabinoids, and better disease resistance.

Our team has been able to screen over 7,000 unique cultivars in 2021 alone. In August and September of 2021, Aurora launched the first three new proprietary cannabis cultivars in our San Rafael brand, all of which have distinct terbium profiles and high THC potency. We're already seeing the results through nearly CAD 1 million in sales since their launch. The genetics and breeding program, which is an asset-light business model, is always expected to generate high-margin revenue through license agreements.

So, to wrap up our call today, I'd like you to take away the following. First, we are the number-one Canadian LP in the global medical business by revenue, which is a huge and growing total addressable market. Second, the expertise here will transfer to adult recreation. As medical-only jurisdictions continue to open up, Aurora will be the partner of choice. Third, despite cost savings that will get us to profitability, we are still developing proprietary and protected premium product that is being sold and licensed. Innovation will be the lifeblood of success in this industry and positive cash flow and a strong balance sheet will be required. Not all of our competitors have this, but Aurora does.

Lastly, Canadian recreation will come back, but that timeline won't impede our strategic or financial progress. Aurora has shown an incredible agility over the last two years. The final leg of our transformation is well underway, and with the unique attributes that we bring to this dynamic opportunity, I've never been more confident where the company is, as we head into fiscal 2022.

We look forward to sharing further progress in upcoming calls. And that concludes our prepared remarks. Before moving to analyst questions, I'll answer a few questions from our retail shareholders who were invited to submit questions ahead of today's call.

Ananth Krishnan

Vice President-Corporate Development & Investor Relations, Aurora Cannabis, Inc.

Thanks, Miguel. Prior to analyst questions, we will be addressing three questions from our retail shareholders. So, Miguel, the first question is, when will you be EBITDA positive, and why should investors now believe that the time is right to be EBITDA positive, they've been waiting for profitability.

Miguel Martin

Chief Executive Officer & Director, Aurora Cannabis, Inc.

Ananth, first and foremost, I can absolutely sympathize with the frustration around past milestones not being achieved, but there's a big difference between what we're saying now and what was said then. Those forecasts were based on assumptions of revenue growth and that's not what we're saying here now. We've initiated aggressive cost-saving measures and then when fully implemented, we expect will get us to EBITDA profitability. None of our core businesses need to grow revenue or increase their margin from the Q4.

I think it's also important to understand that we do have a history of delivering on our transformation plans. We've got SG&A from over CAD 100 million a quarter to the low 40s. We've aligned production to sales. We've reduced complexity in our network and sold a number of facilities. We've significantly cut CapEx and improved working capital. And also we have a completely new team that is executing this plan, and that's Lori Schick and Alex Miller, but we have incredible new talent up and down throughout the company.

So as I mentioned, we aren't relying on revenue growth to get us there and – but we still expect to be able to deliver it. So I think that's [indiscernible] (22:34) confidence in this, versus what's been said in the past.

Ananth Krishnan

Vice President-Corporate Development & Investor Relations, Aurora Cannabis, Inc.

Great. Thank you, Miguel. So, our next question is, should we expect to see any acquisitions anytime soon, given where the market is today and the recent consolidations seen in the cannabis sector?

Miguel Martin

Chief Executive Officer & Director, Aurora Cannabis, Inc.

You know, Ananth, we're going to be really consistent on this point. Our primary objective is to be EBITDA positive and nothing is going to take our attention away from this objective. So, I know there are some people that want us to be bigger and to chase market share, but we're not going to do a deal that sacrifices profitability in order to be a bigger, less profitable cannabis company.

So, there's been criticism in the past about the way the company has handled this space and we're going to take a diligent and patient approach to M&A. I think if you look at what's happened in the environment recently, I think being patient and diligent is absolutely the right path.

So, we're going to continue to look and if there's something that makes sense that has a strong, strategic rationale, and that can bolster our ability to make money, we have the balance sheet and we have the ability to do it. But we're not going to rest shareholder capital without a strong business case.

Ananth Krishnan

Vice President-Corporate Development & Investor Relations, Aurora Cannabis, Inc.

Okay, great. And one last question from our retail shareholder base, Miguel, before we kick it over to the analysts. We've seen many of your Canadian LP competitors structure deals to enter the US THC market when it becomes federally legal. Why has Aurora been slow in addressing this key growth market?

Miguel Martin

Chief Executive Officer & Director, Aurora Cannabis, Inc.

Well, first and foremost, I would say we haven't been slow. We've been saying for a long time that the US is going to take longer. May of our peers thought it was going to happen faster and these investments would make more sense. I think investors don't want [ph] a company (24:18) to make a structured deal that may or may not transition into a profitable situation. That doesn't mean we are not looking at the US, but a couple of things there. First is, and I'll keep saying it, our goal is to be EBITDA profitable. That is the unique position, the number-one Canadian LP in terms of medical, the number-one global company in terms of all the things that I mentioned, and the profitability. That's our goal and so, flushing that all down the drain to chase something in the US, I don't think, you know, is important.

Secondly, we just had a big election in Germany and it's a big world out there and I understand the interest in the US, and I've got a tremendous amount of respect for the MSOs and my Canadian LP peers, but if you look at Germany, if you look at Israel, if you look at France, you look at these markets, there is a lot of money to be made and we're doing that, and we're doing I think an exceptional job of that. What the learnings are in those markets, absolutely are applicable to the US and we continue to believe that the path towards the US will be dramatical, will be through federal legalization and decriminalization, and clearly, if you look at the capabilities of Aurora, both in Canada and around the world, we will have a lot of options when the US does open up.

Ananth Krishnan
Vice President-Corporate Development & Investor Relations, Aurora Cannabis, Inc.

That's great. So, at this time, John, I'd like to turn it back over to you to open up the queue for analyst questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Vivien Azer, with Cowen and Co. You may proceed with your question.

Vivien Azer
Analyst, Cowen and Company, LLC

Q

Hi, thank you, good afternoon. Miguel and Glen, I was hoping to dig in please on the consumer cannabis segment. I would like to hear how the quarter settled out relative to your going-in expectations and is there any key call-out in terms of form factor or price point drivers, as it relates to the 8% sequential revenue growth. Thank you.

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

A

Yeah, happy to, and good afternoon, Viv. So, let me kick it off and then I'll share it to Glen. I made the comment that it's a tale of two cities. If you look at the margins of discount flower, in many cases, that's the breakeven and in some cases, and in certain big provinces, they are negative. And so that's just, you know, as this whole thing shakes out. Chasing that and chasing overall market share at the cost of profitability really is not our strategy.

That's not to say it may not benefit others. Where we're going is the higher margin, premium flower and the higher margin concentrates. That's the place where consistently we're seeing almost 2X margins, and if you look at that coupled with the recreation business, because again, if you can use the same products in both recreation and medical, there are efficiencies, and we've seen a big uptick in patients looking for premium products, I think there's a lot of value there.

So it's going to take a bit longer, Viv, I think, in order for that discount flower business to shake out as people try to compete on price, and it will. I mean, there's no way that's sustainable long term. At that point, we've got some great brands and we've got some great capabilities, but at this juncture, we're going to focus on making money. Glen?

Glen W. Ibbott
Chief Financial Officer, Aurora Cannabis, Inc.

A

Yeah, thanks. Yeah, we are starting to see – I mentioned on my remarks, I know Miguel echoed this, we are starting to see some of the data that shows us that we are seeing that shift. For instance, our San Raf, even just during the summer has been picking up. I think in Québec we picked up at least 1% or better market share and I know it doesn't always show up in the data like the Headset data and things like that, Québec, I don't think [indiscernible] (28:11). But our average selling price in Québec is 80% higher than Ontario, because of the shift into San Raf, and we've always done well there.

So, we are seeing it. I think it'll take a little bit, you certainly didn't see it in Q4 as much in terms of the revenue, but there's a lot of stuff happening under the covers there where we see our core and premium brands picking up and certainly the innovation that we launched in during the summer and is coming up with and have strong expectations for, but to Miguel's point, we can also see some revenue fall off as we exit unprofitable segments, and I am confident [indiscernible] (28:51) at the gross profit level.

So that's the kind of what's happening there. We're seeing the data, we're seeing some of the traction, but I think it will be reflected in our financials over the next several quarters.

Vivien Azer
Analyst, Cowen and Company, LLC

Q

Okay. So, and I know no follow-ups, but just to clarify, relative to your expectations, maybe just on the premium side, was the premium side of your business on consumer cannabis in line with expectations?

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

A

Yeah, Viv, I'll take that. Listen, I'm never satisfied. Innovation accounts for the vast majority of products. I mean, if you look at the data, and I know you know this better than anybody, the majority of products that's sold in the last 30 to 60 days didn't exist more than 12 months ago. So, our full-year 2022 innovation calendar includes 80 new SKUs versus 85 we put in the market. So what I'd like to see more progress in San Raf and [ph] once they are obsolete (29:43), am I confident that we have the right plans in place and the right amount of infrastructure to meet what we need to do? I do. And so, I think that's a long-winded way to say we're pleased where we're at, but we could always be hungrier to push faster.

Vivien Azer
Analyst, Cowen and Company, LLC

Q

Of course. Thank you.

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

A

Thank you.

Operator: Our next question comes from the line of Pablo Zuanic with Cantor Fitzgerald. You may proceed with your question.

Matthew Baker
Analyst, Cantor Fitzgerald

Q

Good afternoon. This is Matthew Baker on behalf of Pablo. We have two questions today. So firstly, can you discuss which of your cultivation facilities are currently operational and in the case of Aurora Sky, how many rooms are currently operational?

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

A

Matthew, we made this announcement post rationalization that we're going to have – I'll talk about Sky in a second. We have Sky, we have Whistler, we have River, and we have Ridge, and then we have the Nordic facility in Europe. That is a incredibly strong, not only portfolio of manufacturing centers of excellence. Right now, as we've talked about, Sky is operating at about 25%. There's a lot of good work. It is one of the largest facilities in Canada that carries a CUMCS certification, which is quite a challenge and is a requirement for Israeli shipments.

And so, listen, we have plenty of capacity if we needed it, but we have also the flexibility with those facilities to be able to right-size and – as we need be. Glen, anything you want to add to that?

Glen W. Ibbott
Chief Financial Officer, Aurora Cannabis, Inc.

A

Just the second part of your question on Sky. It isn't a matter of rooms, we're actually using most of the rooms. I would just change some of the cultivation habits that we've got in there to produce a higher quality plant. So we're – as Miguel said, we're operating that at 25%, but we have plenty of flex capacity to service Israel, other export markets or any other growth needs that we have, so we feel quite confident. I will add, we've also got our outdoor facility which – called Valley. We saw commercial sales out of Valley last year and we've just taken down a harvest a couple of weeks ago from the first set of – the first harvest [ph] there's another one to come (31:56) in the fall, and we expect that we would see commercial or consumer-grade cannabis coming out of that facility as well. So that's a real win for us.

Matthew Baker
Analyst, Cantor Fitzgerald

Q

All right, thank you for that. For our second question, we wanted to know how you guys feel about the outlook for your export business? And if it's reasonable to assume that this revenue flow could double in full-year 2022 compared to full-year 2021?

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

A

Yeah. Let me [ph] drive (32:28) a little bit about Israel, and then I'll kick it to Glen who can talk about the aggregate. Israel is a very challenging marketplace. The IMCA which is the regulatory authority in Israel, it's one of the strictest in the world. We have a wonderful relationship with the lead regulator there, Yuval Landschaft, and he is quite a leading regulatory figure around the world. They've really taken a hard stance in terms of what it takes that's beyond CMUCS (sic) [CUMCS] (32:54), it's a variety of different pesticides they look for.

So we're not giving guidance on Israel because it continues to move around. We feel really confident that as long as the border is open for imports, we'll continue to be almost unique in our ability to navigate that with high quality, highly regulated and compliant cannabis products. And for a country of 9 million people with over almost 100,000 patients, I think we've done an excellent job, which really sets us up well for new markets coming on.

I mentioned in my prepared remarks about Germany. We're thrilled with that election and having the number-one flower business with also very challenging regulatory environment, sets us up well for that market. Glen?

Glen W. Ibbott A
Chief Financial Officer, Aurora Cannabis, Inc.

Yeah. I'll add Europe for us and this was important [ph] though when we say we're (33:41) operating in 12 countries, we're actually selling and seeing strong growth in a number of really important countries as far as the UK, Poland, of course, Germany. So when we project over the next year, and we're not guiding on this, but our opportunity for growth is certainly the German market, but it's these other markets as well. I mentioned some sizing from BDS and where they expect certain European markets to be by 2025, and that's just as a reminder that those are sizable markets well worth our investment. A lot of that, we are leaders in Europe, but a CAD 3.5-billion market in just those countries I mentioned by 2025 gives us tons of room for growth. And our team there has continued to deliver quarter-after-quarter for a number of years now. So we have a great deal of confidence in our international medical business.

Matthew Baker Q
Analyst, Cantor Fitzgerald

Thank you, guys.

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

Thank you.

Operator: As a reminder, we would like to remind you that we request only one question, please, for the following questioners. Our next question comes from Michael Lavery with Piper Sandler. You may proceed with your question.

Michael S. Lavery Q
Analyst, Piper Sandler & Co.

Thank you. Good afternoon.

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

Good afternoon, Michael.

Michael S. Lavery Q
Analyst, Piper Sandler & Co.

You touched on the IP that you have just before the Q&A and some of the royalty opportunities or ways to monetize that. Can you give us a sense of timing or what we might be able to expect there in terms of how that could unfold?

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

Yeah. It's a great question. So the company had spent a lot of money on this previously and these assets came out of the Anandia acquisition and as we mentioned, we partner with 22nd Century, a company that we all know well. Right now, we're sort of in the early stages of it. All indications are though that the biosynthesis and the IP around those pathways are some of the more important ones for the cannabinoid molecules.

We know some of our peers are doing good work in that space. We also know that in other categories it's a significant piece of business clearly for those companies that don't want to be vertically integrated. So, Michael, I think we're probably – you'll start to see us defend IP which we've started to do. You'll start to see us talk a little bit more specifically about it. We're excited on the Analyst Day to share with you some of the new talent that we've brought into that space both on the science side, as well as on the business development side and I think with that you'll have a better sense on the timing and scope of it.

Clearly, if you look at almost any other category that is evolving like this, there is a significant amount of IP. I would also say that the legal construct to defend it is quite strong. I mean, this is not pie in the sky that the companies are going to be able to defend this type of IP. Obviously, the US is stronger than some other markets, but globally there is a very consistent and well-tread pathway for companies to defend their pathways on biosynthesis in a variety of things. So, we're excited about that.

Michael S. Lavery
Analyst, Piper Sandler & Co.
Q

Okay. Great. Thanks so much.

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

You're very welcome.

Operator: Our next question comes from Andrew Carter with Stifel. You may proceed with your question.

W. Andrew Carter
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Hey. Thanks. Good evening. I know you've mentioned the kind of stores opening, but I guess what we're seeing right now from stores is cannabis beyond saturation and stores aren't getting into some areas where it needs to. The other thing we're seeing is kind of the retail inventory levels are pretty high, relative to where they started the year. So could you just kind of help us understand how your portfolio is positioned kind of to grow with the market, I mean, we're at the end of this quarter, so should we see another sequential increase, taking a lot of heavy lifting cleaning up the portfolio? Just help us with that. Thanks.

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

Yeah, happy to and it's a great question. First and foremost, the retail environment – and this is no disrespect to anybody that's connected to it, is unlike any other regulated product you've ever seen. Out-of-stocks, marketing principles, the inability to have merchandising programs because of the inducement provisions, the differences between province to province, the low penetration of chains, there have been some very good ones, but the overall store count, and then to your point, things coming online and saturation.

And so, I think we're in the early days, Andrew, of a real optimized retail environment. The provincial buyers and decision-makers are also catching up to as we come out of COVID and when you see out-of-stocks from primary brands 30%, 40% of the time and when you see the number-one SKU in Canada only being in about two-thirds of the stores, you see a lot of opportunity for execution. So you asked two – you asked one question and I'll tack on a statement to it.

How do we see our portfolio? We feel really good about our portfolio because we're now putting out high-potency, high-terp products both for us and for some of our partners. I know you're aware of North 40 and the great work they've done. They used some of our genetics with a product called Farm Gas. They've got almost, say, 30 potency. And so that's a big win.

Secondly, we are partnered up with what I would say is probably the best broker network in Canada, through GND, a Division of Southern Glazer, where we're able to make three times the number of calls we made previously and really develop and lever their excellence around that. And so, I'm bullish on our category in the prime areas. I will say though, we're not going to chase market share. If a company right now wants to be top five, they'd have to have a significant piece of discount flower and it's just not a priority for us. I also don't think it's a priority for our retail partners who are looking to hold on a margin and to sell products that move off the shelves.

So, we're going to be consistent in that. We're going to make money. And I think the market will normalize. And we've seen our competitors also sort of pivot to a less – race to the bottom on price and try to focus on some margin accretion.

W. Andrew Carter
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thanks. I'll pass it on.

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

A

You're very welcome. Appreciate it.

Operator: Our next question comes from Heather Ealsky (sic) [Balsky] (39:47) with Bank of America. You may proceed with your question.

Heather Balsky
Analyst, BofA Securities, Inc.

Q

Hi. Thanks. This is Heather Balsky. So, I'm just curious, putting some of the comments together that you've made with regards to consumers' demand for value versus premium, and I think you mentioned that it's taking a bit longer than you originally expected. I'm just curious what you're seeing in terms of now that markets are starting to open up, people are going into the stores more, are you seeing changing trends, any interest from the consumer? We've heard that there's been a fair amount of turnover in the budtender, I guess the budtenders in general, and how that's impacting demand for value versus premium. Just anything you're seeing as markets are opening up.

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

A

Sure. I'd be happy to, Heather. So I think it's a couple of things. One is, everybody is trying to figure out what the new normal looks like and the reality is, particularly on a 28-gram discount flower, it's a challenge to make money on that format. We also see, similar to what you see in Colorado and California, that over time there is a, absolutely a strong group of consumers that will pay more for a premium. This is not going to be the one regulated category where all that is sold is discount and I steal a line from one of my peers, this isn't going to be like everyone just goes and buys moonshine in the alcohol business. Johnnie Walker, Tito's, they're [indiscernible] (41:19) brands. Is it taking a bit longer? Yeah.

Now you bring up a really interesting point about the budtender. And I think to be fair about the environment, when you have the environment where there's massive out-of-stocks, when you have an environment where you can't have formalized merchandising programs and you have a market where each of the manufacturers are trying to figure out exactly what is their specific approach and with half the sales, 60% of sales being something that didn't exist a year ago, the budtenders hold an incredibly powerful hold over the consumers and what they are.

Many other companies like us who are starting to develop educational tools from a category standpoint, not just in a self-serving way, and I know the chains are also trying to bring category management principles to it. So I think you're going to see an evolution of it, particularly as we get into concentrates in Gen 2 and Gen 3 products that take a little more explanation. And clearly, like I keep saying, this is not going to be the one geography in the world and the one category where there's not premium products sold for a premium margin.

Heather Balsky
Analyst, BofA Securities, Inc.

Q

All right. Thank you.

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

A

You're very welcome, Heather.

Operator: Our next question comes from John Zamparo with CIBC. You may proceed with your question.

John Zamparo
Analyst, CIBC World Markets, Inc.

Q

Thanks. Good afternoon. I wanted to follow up on a comment you've made, Glen, really just trying to reconcile what we're seeing from data providers at the retail level with the commentary about San Raf, improving and just a modest decline in Daily Special, and what have you seen in [ph] FQ1 (42:52) to date that gives you the confidence that you are turning around in terms of the consumer market.

Glen W. Ibbott
Chief Financial Officer, Aurora Cannabis, Inc.

A

Let me start and then Miguel will add, I'm sure. I just – I think I wanted to make the point that most data that is out there [indiscernible] (43:08) because Québec owns the retail distribution, you don't necessarily get direct data from them in these data sources. They sometimes extrapolate from the rest of Canada or trends. Québec has always been a strong market for us, particularly for San Raf. In fact, most quarters, we sell more flower in Québec, than we do in Ontario, and I made the point that if we're selling a higher margin stuff like the San Raf flower, [indiscernible] (43:35) an ASP of 80% – over 80% greater in Québec than Ontario.

So I think that was the only point, it's just – I know we've asked you to look at the data, but the data is still evolving as well, right? So it's relatively new and there are challenges, I think in interpreting it. I'm not trying to overplay this, but it's just one of our more important markets that's not necessarily reflected wholesomely.

But we have seen – Miguel has talked about innovation being incredibly important. I think we've finally got our pipeline plugged in really well and the introduction of these three new cultivars under San Raf launched in Québec in August and in Ontario [indiscernible] (44:16) provinces in September, we see a really nice reaction to the stuff that's unique, unique terpene profile, mid-20s for several of them in terms of THC potency, and in farmed assets, with the North 40 partnership, we've got a couple of batches that are hitting up at 30% THC and incredible terpene profile.

So, we've got the science and the genetics side plugged in nicely to kind of drive that innovation and quite an innovation launch plan over the next number of quarters. And so that's really where we see that sort of continued shift I think into the – shift into the premium side of the market. Miguel?

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

Yeah. I mean, I guess the only other data point I'd mention is, when you look at competitors, when you put out a high quality product, whether it's new or whether it's an extension, and what do I mean by that? North of a 22 potency in a format that's interesting, potentially high terp levels, is almost uniquely does well. And so, it's not a secret recipe in terms of what is required here in order to meet the consumer needs. Clearly, as someone who has played a lot with market shares, in the premium category is not where I'd want it to be, but I think to Glen's point, if you look at what we were able to do and get over CAD 1 million in revenue out of three brand-new SKUs in a couple of core provinces, I think we're on the right track, and we'll keep pushing on that.

Operator: Thank you. Our next question comes from Frederico Gomes with ATB Capital Markets. You may proceed with your question.

Frederico Gomes
Analyst, ATB Capital Markets, Inc.
Q

Hi. Good afternoon, guys. Thanks for taking my question. I just wanted to touch on your [ph] rec CBD (46:08) segment. I know you guys [ph] set an increment (46:11) there, but can you provide an update on Reliva, the strategy for that segment? Do you guys plan to grow that business or invest any money, or is this not a priority right now? Thanks.

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

Well, this is a great question. Today, we launched a secondary line called KG7 that's got more of a sports orientation to it and actually has a better price point on gummies, which is the largest segment. We continue to have, if not the largest, one of the largest amount of store distribution in the US, and while we are a bit frustrated with the progress that we see at the federal level, we did see what may be the most important state that is left, California, pass an important piece of legislation that will allow CBD to be sold there.

So, I continue to think that our positioning of the brands of choice for mass retail throughout the country in a responsible and compliant way will pay dividends for us. I would also mention it's such a highly variable model that you're just not seeing losses like you see from some of our competitors in that space. So it's a wonderful piece of optionality. We're also starting to see some international markets be interested in what continues to be the number-one Nielsen-ranked brand in CBD, and that would be additive to the overall financials.

Frederico Gomes
Analyst, ATB Capital Markets, Inc.

Q

Thank you. Appreciate that.

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

A

You're very welcome.

Operator: Our next question comes from Tammy Chen with BMO Capital Markets. You may proceed with your question.

Tamy Chen
Analyst, BMO Capital Markets Corp. (Canada)

Q

Hi, good evening. Thanks for the question. I just wanted to ask what's the plan for Sky? You mentioned it's still operating at 25% capacity. I would assume that's not the level of capacity you'd like it to be running at for the status quo and going forward. So, what's the plan with that facility? And can you just confirm with respect to your San Raf sell-in, is that all coming from internal sourcing, or do you procure from third parties for some of that? Thank you.

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

A

Great. So, Sky as I mentioned, we have about 25% of the capacity online, but when you have margins in the Israeli business and the international business, it very quickly is an additive piece. As that – those businesses come more online and the difficulties in getting CUMCS certifications, Sky is really important. Also, we're seeing some of those new cultivars I just mentioned now being grown at Sky and seeing a real progress in terms of the overall potency. That's a nice-to-have and if we can get there with the cost structure of Sky, it would be totally additive. So we like what we've done there, it gives us, I think, the best of both worlds in that facility, and we'll sort of see where it goes. Glen, you want to take the second part?

Glen W. Ibbott
Chief Financial Officer, Aurora Cannabis, Inc.

A

Sky operating at current levels, with the type of business we're driving out of there is actually quite a nice cash flow generator. So don't get thrown off by the 25% because that's not a kind of a low-margin facility anymore. It's delivering the stuff that brings higher margins with us, which was a really important part of the repositioning and the improvement in the quality and potency coming out of that facility.

I'm sorry. Your second piece of your question?

Tamy Chen
Analyst, BMO Capital Markets Corp. (Canada)

Q

Oh, I just wanted to ask if, for your San Raf supply, if that's all coming from internally produced products, or do you wholesale some of it.

Glen W. Ibbott
Chief Financial Officer, Aurora Cannabis, Inc.

A

Yeah. Acquired – we've acquired a couple of small batches from some craft growers that are launched under us Growers Stash brand. But San Raf itself, the three cultivars, that's all being driven out of our new genetics, out of our Coast facility, the genetics coming out of Coast.

Tamy Chen
Analyst, BMO Capital Markets Corp. (Canada)

Q

Thank you.

Glen W. Ibbott
Chief Financial Officer, Aurora Cannabis, Inc.

A

Yeah.

Operator: Our next question comes from Doug Miehm with RBC Capital Markets. You may proceed with your question.

Douglas Miehm
Analyst, RBC Dominion Securities, Inc.

Q

Yeah. Good afternoon. A question just has to do with the craft growers and what you see in the Canadian marketplace? We know that earlier in the year they did quite well. They were taking market share from a lot of your LPs. And I'm just wondering if you're seeing that as being sustained, or do you see yourselves and maybe some of the other larger competitors taking that share back from the craft growers.

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

A

Yeah, Doug. It's a great question. Listen, I think there's always going to be a place in the super premium segment, albeit not a lot of volume for a very craft regional grower, similar to what you might see in [ph] microbrewer (51:00) or see in the spirits business. I would say that the large LPs and Aurora really leading the way have upped their game in terms of delivering what the consumer wants. I think you're going to start to see like we saw with the San Raf that the advantages of a large LP, whether that's listings, whether that's retail execution, whether that's innovation, whether that's science are going to come to bear.

It's not − I keep going back to this. It's just not going to be the one category where the large LPs, the top seven only represent 35%, 40% of the business. Might take a little bit longer than we all like, but there are inherent advantages that we all and I think particularly Aurora has, that will allow us to grow profitable market share. Now like I said, if someone wants to chase a bunch of discount flower and get 300, 400 or 500 basis points and lose money particularly on a 28-gram, they can have it. But I think in that core, in that premium space, you're going to see companies like Aurora do very well, particularly as the consumers start to expect more and get more from those large LPs.

Douglas Miehm
Analyst, RBC Dominion Securities, Inc.

Q

Okay. Thank you.

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

A

Very welcome.

Operator: Our next question comes from Adam Buckham with Scotiabank. You may proceed with your question.

Adam Buckham
Analyst, Scotiabank

Q

Hey, guys. Thanks for taking my question. So, I wanted to touchback on Israel. I guess I have two parts. The first one is, thinking about the two large sales that you've made first in July and then I guess the upcoming one, can you maybe talk to how much of this is the relieving of the bottleneck that's occurred there? And then secondly, are you able to comment on how many Canadian LPs are supplying Israel currently?

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

A

Yeah. I don't – I mean, I don't think it's a bottleneck. I was out there in July. The reality is, you've got local Israeli companies that are high quality that are growing cannabis. As I mentioned, the IMCA, which I have a tremendous amount of respect for and I had the pleasure of spending a lot of time with, expects that Israel is going to have some of the most stringent regulatory requirements of any market in the world and be a leader in regulatory compliance. That's really hard.

So, a lot of people would love to access Israel in the margins. I think in order to do that first and foremost, you have to have excellence in regulatory compliance. Secondly, you have to have a really strong partner that can execute on the ground and we're really pleased with our partnership with Cantek. And third, I think you have to make a commitment as a company, long term, and we're – couldn't be happier with all those things coming together.

I would – I don't know all the different LPs that would try to get into Israel. I can imagine, with that margin structure, everybody would love to be able to get into Israel, but, CUMCS, all the pesticide testing, everything that I've mentioned is not easy. And so it's been a handful of companies that have been able to navigate it. I might argue we've done it better than most, but we'll stay on it and we're thrilled about it.

Adam Buckham
Analyst, Scotiabank

Q

Okay. Thanks.

Operator: At this time, we have reached the end of the question-and-answer session. And I will now turn the call over to Ananth for any closing comments.

Ananth Krishnan
Vice President-Corporate Development & Investor Relations, Aurora Cannabis, Inc.

Thanks very much, John, and thanks very much for everyone for joining the call. We look forward to coming back in November and reporting our Q1 fiscal 2022 financial results. Everyone else, please stay safe, and hope to speak to you soon. Thanks so much.

Operator: This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation, and have a great day.