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Aurora Cannabis, Inc. (ACB.CA)

Business Update Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, everyone. Welcome to Aurora Cannabis Conference Call. 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 risk and uncertainties relating to Aurora's future financial or business performance. Actual results can 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 findings and registration statements. These documents may be accessed via SEDAR and EDGAR databases. I like to remind everyone that this call is being recorded Thursday, February 6, 2020. I would now like to introduce Mr. Michael Singer, Executive Chairman and Interim CEO of Aurora Cannabis. Please go ahead, Mr. Singer.

Michael Singer

Executive Chairman, Aurora Cannabis, Inc.

Good afternoon and thank you for joining us today on short notice. Joining me on the call today is Glen Ibbott, our CFO. Well, I'm pleased to be addressing you in this new role and I want to thank the Board of Directors for placing their trust in me to lead Aurora during this important period in our journey. Glenn and I plan to take you through the CEO succession plan and the independent board appointments we announced after market closed. We will also detail our business transformation plan to significantly reduce SG&A and capital expenditures near time – near term as we work to better align our resources to current market condition. And, finally, we will discuss our preliminary quarterly results, certain accounting decisions taken, and amendments to our credit facility before taking your questions.

In terms of succession, the board has asked me to execute our plan until a permanent CEO is appointed. This change has Terry's full support and he recognizes that the next leg of our journey will be best led by a CEO with a different skill set. I am excited to help execute our near-term plans, which we believe are necessary to position Aurora for long-term shareholder value creation. The board has already hired an executive search firm and efforts are underway to find the best possible candidate to be the permanent CEO.

Many of you know Terry and his tremendous legacy at Aurora. Terry deserves an immense amount of credit as an icon and visionary in the cannabis industry and for building what we believe is the world's leading cannabis company. On behalf of the board of directors and our entire team, I want to thank Terry for his leadership over the years. He will remain on the board during this transition.

Part of our succession plan includes expanding the board to ensure proper governance, oversight and skills. Aurora's strong market position enabled us to attract Lance Friedmann and Michael Detlefsen to join our board, which will increase to 10 directors, seven of which will be independent. We are excited to welcome Lance and Michael and eager to leverage their extensive consumer package goods experience.

We expect to see cannabinoids grow as a category and believe Lance's tenure at Kraft and Mondelez will be helpful as we drive brand growth. Michael brings extensive strategic transformation and optimization experience that will add an important and new dimension to our board. These decisions of the executive and board levels are designed to provide our stakeholders comfort that we have carefully planned for this transition and have the support of the whole organization for the business shifts we are about to execute. It is important for our investors to know that these changes represent the start of a fundamental change in focus for Aurora as we look to generate sustainable, profitable growth which is even more important in the context of our business rationalization. As you know, we have been building Aurora to capitalize on a global opportunity which meant investing in infrastructure and people and allocating capital to projects around the world. We remain firmly of the opinion that a tremendous global opportunity still exists. But Aurora needs to rationalize the business today and drive as quickly as we can to generating positive cash flow.

Consequently, we intend to significantly reduce SG&A and capital spending and have taken a hard look at our balance sheet. While Glen will provide more details on each of these items, as a whole, we believe they will dramatically improve our P&L even on our current revenue run rate and should result in an improved balance sheet. We believe they will also help us conserve cash near term which should result in a balance sheet that better reflects the environment today.

Speaking of the market, let's start with Canada. We believe Canada is a solid market with lots of potential but one that will take time to develop. We have discussed most recently in our Q1 call in November of last year that the Canadian cannabis industry has been facing a number of headwinds including slow rollout of retail stores in key provinces, changes to inventory and purchasing patterns of the provincial distributors, and changing consumer preferences in the dried flower segment. All of these challenges have persisted into our fiscal Q2 and are largely still headwinds today.

While the pace of retail openings is out of our control, today, we are planning to fix the things within our control to enable Aurora to be a sustainable company regardless of market dynamics at play. For example, we plan to begin distribution to the provinces next week for our new dried flower brand [ph] Daily Special 00:06:04 to compete in the value segment of the market. We believe this brand will offer consumers some of the highest quality dried flower at a competitive price point. However, we believe the most impactful actions we can take are those that reset our cost structure which will allow us to thrive under any market conditions.

The international opportunity is also developing, and we believe we are uniquely positioned to capitalize on it over time. We recently announced EU GMP certification has been received at our third facility in Bradford known as Aurora River and that we've resumed sales into Germany after a short pause due to a regulatory process. We believe the international opportunity is as exciting as the opportunity we see in Canada. However, similar to what we're experiencing in Canada, the market evolution in countries like Germany is progressing slower than we or the industry had previously expected.

There is tremendous potential, and we're prudently allocating the right level of resources to enable us to capture it today, and this will allow us to better capitalize and take advantage of the long-term international opportunity from a position of strength in the future.

So, in summary, we believe our succession plan, expansion of the board, and the rationalization of our business will make Aurora much stronger and more focused than ever before. We believe these are the right moves at the right time and put our shareholders in the best position for value creation.

At this point, let me turn the call over to Glen.

Glen W. Ibbott

Chief Financial Officer, Aurora Cannabis, Inc.

Thank you, Michael; and good evening, everyone. Let me first begin with an overview of the cost rationalization initiatives we announced in our press release this evening.

To better align our business with the current cannabis market conditions in Canada, we are making transformational changes to our expenses and cash requirement including plans for a significant decreases in SG&A expenses and a reduction in capital investments. These changes will help improve our balance sheet and importantly support our focus on creating a sustainable platform for long-term growth.

We view this opportunity not only as a reset of our company, but quite frankly also at the reset of our relationship with investors and the broader capital markets. In the coming quarters, we expect to demonstrate the tangible results of this plan and look forward to building a record of delivery on what we say we're going to do.

Focusing on SG&A, we now plan to manage the business to an SG&A range of CAD 40 million to CAD 45 million per quarter, which we expect to achieve as we exit our fiscal Q4 2020. Clearly, this represents a substantial decrease from our Q2 on audited preliminary SG&A range of CAD98 million to CAD 108 million.

To achieve this, management will focus the business on its core operations in the Canadian consumer market, the Canadian medical market, and the established international medical market. We will also continue to pursue our US strategy in a manner that is consistent with financial discipline we are outlining here today.

As part of our planned operational changes, we are eliminating almost 500 full-time equivalent positions across most departments and locations, but mainly focused on corporate staff where we are reducing approximately 25% of existing positions. This was an incredibly difficult decision and not one taken lightly, but it is a critical step in our plan to put Aurora on a near-term path to profitability. So both Michael and I would like to take this opportunity to thank the [indiscernible] 00:09:50 employees for their dedicated service to Aurora. Severance and other onetime charges related to these cost reductions are expected to be approximately CAD 2 million to CAD 4 million and have been incurred profitable on our fiscal second and third quarter of this year.

In addition to the staffing reductions, we are also restructuring spending plans on information technology projects. So, the marketing initiatives, contractors and professional services and other nonrevenue generating third-party costs. An important part of this initiative is to instill a culture of financial discipline across all of our operations. As such, we believe there may be further opportunity to reduce the complexity of our organization and find additional medium-term cost efficiencies.

Over the last several weeks, our leadership team has done an extensive evaluation of our existing capital projects and made difficult decisions with respect to either continuing or ratcheting back further investment in each. In terms of capital expenditures for the second half of our fiscal 2020, we expect to reduce the level to below $100 million. This compares the almost $225 million in the first half of 2020. To be clear, this reduction in our capital investment does not mean we don't intend to grow but it does mean that generally we believe our assets today are sufficient to supply the Canadian market for the foreseeable future.

Future capital allocation decisions will be scrutinized first and foremost through a lens of optimizing near-term investor returns. Once we have established and proven our ability to generate cash flow, we will be in a better position to evaluate projects that are more strategic in nature but always through the lens of profitability and return on investment. As our press release outlined, today we're also announcing amendments to our secured credit facilities, which we believe will better align the company's balance sheet and cash flow expectations with current market conditions. We believe the amendments will also give us much greater financial flexibility and provide clarity for our investors as it relates to the stability of our balance sheet and the time line to being EBITDA positive. I'd like to thank our banking partners for their continued strong support of the company.

The amendments include the complete removal of all EBITDA ratio covenants which originally have been set to commenced in the period ending September 30, 2020, the complete removal of the fixed charter coverage ratio covenant, an adjustment of the total funded debt-to-equity covenant to 0.2:1 commencing in our fiscal third quarter 2020 from the 0.25:1 that had been put in place till now. Also, a reduction of the total facility size available by $142 million which includes cancelling Facility B which have been tagged for the full Aurora Larssen Projects, and use of the restricted cash of $45 million to pay down the Facility B term debt. So currently outstanding unsecured debt following the facilities fee paydown is $162 million.

Also, there's an introduction of a new minimum liquidity covenant of $35 million dollars. And, finally, there's the introduction of a covenant requiring Aurora to achieve positive EBITDA threshold beginning in fiscal Q1 2021 that we believe are consistent with these announced changes. These thresholds are mid-single digits for the first couple of quarters of fiscal 2021, increasing in the back half to a total of $51 million of positive EBITDA cumulative for the entire fiscal 2021 year.

We've also announced today that we've undertaken a thorough review of business operations and current public market valuations and have concluded that certain of our assets and goodwill values as at December 31, 2019 warranted revaluation and adjustment. Therefore, when we report our second quarter next week, we will record impairments on certain intangible assets and property, plant and equipment in the range of CAD 190 million to CAD 225 million; and we'll write down goodwill in the range of CAD 740 million to CAD 775 million.

The good news is that, following these noncash charges, we believe we have a much more conservative balance sheet and will remain compliant with our revised total-debt-to-equity covenant. Impaired assets are primarily associated with our operations in South America and Denmark where the markets are taking much longer to develop than we had originally anticipated.

It is important to note that our core Canadian cannabis assets are not impacted by these noncash charges. We believe that the long-term opportunity for Aurora remains very compelling despite a slower-than-anticipated rate of industry growth in the near term. We also believe our approach to rationalizing the business and conservatively improving our balance sheet positions Aurora in a more stable position for sustainable growth going forward.

Finally, I would like to take a moment to talk about how all of these changes will help to address our liquidity position. As of December 31, 2019, our consolidated cash position was CAD 156 million excluding CAD 45 million of restricted cash. We have utilized our at-the-market financing program and have raised gross proceeds of CAD 325 million in our 2020 fiscal year-to-date and have approximately CAD 200 million remaining through that facility.

Our announced reductions in CapEx and SG&A here should provide comfort to investors that we are laser-focused on the health of our balance sheet and that our plan is to generate cash from our cannabis operations as soon as possible. We expect that utilization of the remaining ATM capacity will be sufficient to fund our operations' remaining to fund the operation's remaining capital expenditures to the point where positive EBITDA and free cash flow are achieved.

I'd now like to review certain unaudited preliminary fiscal second quarter financial results. For our Q2 2020, we expect cannabis revenues to be approximately CAD 62 million to CAD 66 million net of excise tax. We then expect to record provisions for returns, price reductions, and future provisions of approximately CAD 12 million. Almost all of this provision relates to products that were sold in previous quarters for the most part in the first half of calendar 2019. Therefore, net cannabis revenue after giving effects to this offset are expected to be between the CAD 50 million to CAD 54 million.

These revenue results reflect consistency in our Canadian medical revenues, a decrease in international revenues for the short-term German supply interruption to much lower bulk sales. It is worth noting that Aurora's consumer cannabis revenues reflect a modest quarter-over-quarter growth prior to applying these offsetting return and price reduction allowances.

In terms of costs, we expect our Q2 cash cost to produce per gram of dry cannabis to remain below CAD 1, while sales and marketing expenses are expected to be between CAD 28 million and CAD 32 million. And general and administrative expenses are expected to be between CAD 70 million and CAD 75 million.

Finally, I'd like to provide a bit of color on our outlook for fiscal Q3. Our expectation for cannabis revenue in the third quarter is that it is likely to continue to be impacted by the general industry headwinds mentioned above. Although, as Michael noted earlier, we are launching a strong brand into value segment we think it's best to be prudent in our expectations for the next while. As such, we expect Q3 will likely show little to no growth relative to fiscal Q2's cannabis revenues of CAD 62 million to CAD 66 million prior to the Q2 return provisions.

In summary, while we are bullish on the long-term potential of the global cannabis market, we are cautious in our short-term outlook for the Canadian market. Until we see material growth in Canadian retail store licensing, we are being careful with our revenue growth expectations and are managing our business to achieve positive EBITDA under a very low growth scenario for the next few quarters. We will report our full fiscal 2020 second quarter financial results on February 13, next week.

With that, I will turn things back to Michael.

Michael Singer

Executive Chairman, Aurora Cannabis, Inc.

Thank you, Glen. In closing, our organization is focused on the execution of our transformational business plan. We are best positioning Aurora for sustainable long-term growth, and the opportunities we have ahead are robust, particularly in Canada and internationally, but we need to manage our business for the realities of today's market.

Aurora remains uniquely positioned in the cannabis industry and is poised for future success with our robust, low-cost, high-scale cultivation capabilities, high-potency premium cannabis, with strong brand positioning, and a track record of product development and innovation to connect with new and existing consumers, strengthening our competitive advantage.

Our leadership team, along with the support of our board of directors, is focused on creating value for shareholders, and today is an important step forward towards that objective. We look forward to updating you on our progress.

We appreciate your participation on today's call. Glen and I are now available to take your questions. We would like to keep the questions focused on the information we're announcing today, and we'll speak more about Q2 when we host our formal conference call next week. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question is from Vivien Azer with Cowen and Company. Please proceed.

Vivien Azer

Analyst, Cowen and Company, LLC

Q

Hi. Good evening. Thank you. Just two questions, please. Michael, a strategic one for you, and then, Glenn, financial one for you. So, Michael I heard you loud and clear on the geographic priorities it makes sense Canada your home market where you've committed a lot of infrastructure, definitely generate the operating leverage. Could you be a little bit more specific in terms of how you define developed international and then outside of developed international like how are you thinking about like what you're going to do with those assets because with South Africa and Denmark developing more slowly than anticipated it could present risk of further asset write downs? Thanks.

A

Sure. Hi, Vivien. So, we obviously believe in the core part of our business, which is why we're focusing our business today and rationalizing our business towards those opportunities. International opportunities continue to be important. But again, we're focusing on those markets that we believe will provide near-term value for us. And so, any investment of our capital, or our shareholders capital has to be with an eye on bringing near-term positive returns for our investors.

In additional markets that like you say we may have certain asset, part of the write downs today that we've taken or certainly with regards to our Latin American operations, it's not to say that we don't believe in those markets and their potential in the future; it's just that we're taking a pause; and until we see that demand significantly increase, we're certainly taking a view of focusing again more on our core business and key international markets where we see the initial return and less focused on those new market opportunities until that global demand picks up.

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

A

So, Vivien, it's Glen. I'm just going to jump in quickly to respond to one thing you mentioned there. We try to be very conservative. The write-downs that you've seen are taken pretty much most of the book value off for South American and Danish assets. So, as we've gone through this exercise of looking at our balance sheet, we've really tried to be prudent I think in looking at forecasts over the next number of years regionally, in Canada, etcetera, with the eye to I'm going to say minimizing the likelihood of write-downs in the near future.

But we all know that this is a volatile market. So, I'm not making promises but that was part of our consideration was to err on the conservative side and not to be shy about taking an impairment where an impairment was warranted.

Vivien Azer
Analyst, Cowen and Company, LLC

Q

Thanks, Glen and Michael, both. That was really helpful. And then just, Glen, back to you. I guess it's actually two questions, I apologize. The price reductions and the future provisions, what products – and the returns, what types of products does that apply to specifically please?

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

A

Yeah. It was the lower potency dried cannabis products for the most part. And, Vivien, we've talked before. There was a lot of inventory put into the channel mid-2019 by most of the LPs. And we thought, just as we got towards the end of the year and they're rationalizing, they're driving their inventories down. It was products like one of strains called Banana Split that we're not producing anymore They have 14% PHE and it just wasn't selling. So, we either offered price reductions to the provinces, which was reflected in the allowance. It took returns and we may have repackaged and use them in extraction so it's not completely wasted. But this is a provision that almost wholly relates to product that we're not sold in Q2 within prior quarters. So, I just trying to make the point so that people understand that this isn't a provision against our Q2 revenue even though it's the first time [indiscernible] 00:24:07 so it looks kind of large in relation to Q2. But again, most of it is a product that was sold in the spring and early summer of 2019.

Q

And so, there's not going to – so, you're not rolling banana split the risk of another wave of return provisions on low potency, dried flower specifically would be what?

A

Yeah. It's quite low and again in the spirit of being very conservative and prudent. We actually went through all of the inventory sitting with the provincial distributors denied anything that looked like it was moving slowly or low potency and set up a provision for it. And so, that was [indiscernible] 00:24:46 things that came back in January all that captured in our Q2 provisions. So, then we tried to scrub it pretty thoroughly at the end and make sure that grower resetting the company and resetting the balance sheet. But we're not looking at at – we're trying to be conservative. I'll leave it at that.

Q

Okay. That's nice to hear. I'll jump back in the queue. Thanks.

A

Thanks.

A

Thank you.

Operator: Our next question is from Tamy Chen with BMO Capital Markets. Please proceed.

A

Hey, Tammy.

A

Hi, Tammy. Tammy, you may be on mute.

Tamy Chen
Analyst, BMO Capital Markets (Canada)

Q

Sorry. Can you hear me?

A

Yeah.

Tamy Chen
Analyst, BMO Capital Markets (Canada)

Q

Okay. Thanks. My first question is on the write-downs you've taken for goodwill, and some intangibles, and some PP&E, you said that most of it related to the international businesses. I'm just wondering, it seems apparent that from both your news today and from some of the peers that the outlook and the dynamic in the Canadian market has certainly changed the not generally lived up expectations. So, I'm just wondering did you take a look at the goodwill and other asset values that relates to the Canadian business and just wondering why there was not impairments taken from the Canadian side given how the dynamics have changed in the Canadian market.

A

Yeah. Sure, Tamy. So, listen, yes, of course, we've scrubbed everything in this quarter. And to be quite frank, and we all know when you look at valuations, a lot of the value is being driven under the long-term potential of these markets.

So, as we look at the Canadian market, I haven't seen anybody backing off of the long-term potential here. We all know that there's an accessible market, which is pretty large. And so, the question is how long is it going to take to get there and how long until we can actually access that?

So, when we looked at our forecast in the Canadian market and, believe me, we used to talk with lots of valuation experts in our country that's with our auditors. We made sure we were being very conservative and prudent, particularly over the next number of years, and then we're using all of the third-party data and the consensus of market sizes and when they will be there and being very kind of cautious on what share of that market we're going to take.

But when you peel all of that back, Tamy, the Canadian market potential is still there. So, what you're really seeing is just it's going to take us longer to get there. And, therefore, when you do the value, it looks a little bit lower.

But we don't – none of our assets like MedReleaf, CanniMed and the Aurora assets, [indiscernible] 00:27:28 included, our core cannabis assets are still doing very well and, yeah, we believe they're going to serve us well for the long term. So, that's what's underpinning the valuation. Just not to get too technical but, of course, we always need to pay attention to the market capital capitalization. The market is right when I look at the company. And so when we looked at December 31, despite our positive attitude towards the long term, we and the market recognized that, in the short term, there's some headwinds as Michael said. So, that's what's reflected I think in the goodwill right now, but the assets themselves are operating really well. I think I mentioned today we continue to produce sub-CAD 1 in our production cost. So, at the end of that, that piece of business is very healthy.

Tamy Chen
Analyst, BMO Capital Markets (Canada)

Q

Okay. Thanks. And just a follow-up, on the permanent CEO search, just wondering if – to the extent that you can, if you can provide a bit more color in terms of anticipated time line. You mentioned that the board has already engaged search firms. The scope of the search, just a bit more color on that search would be helpful. Thank you.

Michael Singer
Executive Chairman, Aurora Cannabis, Inc.

A

Sure, Tamy. Yes. So, as I noted earlier, we have been – we've engaged obviously a global firm several weeks back and are in a – currently in an active process for that. At this time, I think it's – we're not going to provide much color, but we are certainly looking for a new CEO, a new permanent CEO, that certainly will fit right into where we see the industry growing into. So, it's somewhat likely somebody with CPG experience and ability to sort of take the company -it's going to have a much stronger balance sheet and be in a much stronger financial position to sort of leverage that into an opportunity, a more global opportunity, as we see demand picking up if you want to know later quarters.

Operator: Our next question is from David Kideckel with AltaCorp Capital. Please proceed.

A

Hi, David.

A

Hi, David.

David Kideckel

Q

Hi. Thanks for taking my call. So, a couple of questions. First, I want to say congrats, Michael Singer, on your [indiscernible] 00:29:43 CEO appointment. You mentioned at the outset you fundamentally bring a different skill set versus the previous of Terry Booth. So, I'm just wondering because a lot of our investors are asking like what is the different skill set that we can communicate with your skills versus Terry Booth first?

Michael Singer
Executive Chairman, Aurora Cannabis, Inc.

A

Sure. So, look, the plan that we've laid out, the strategic plan that we've presented to our investors today is one where we really sort of pivoting as an organization and really have to become more financially disciplined than ever before. This is an exciting time for the company. And we're obviously – I think my background more on I guess I was a – I've been a CFO in the pharmaceutical industry for almost 20 years experienced obviously operating from a financial discipline point of view really ensuring that we drive this company in a much more mature manner towards near-term profitability something that obviously I have more experience doing, and why the board felt very confident in putting me into that role.

We're going to work very closely with our management team. Everybody is aligned here internally in terms of what we need to do to ensure that we drive this company to profitability. And my background and my skill set is one where I can ensure that we are going to sort of stay focused in ensuring we meet that key objective which is what we've laid out today.

David Kideckel

Q

Okay. That's very helpful. Thanks, Mike. My next question is just going back to the US opportunity [indiscernible] 00:31:27. I'm reading in your press release – Aurora's press releases, cannabis still seems to be the major focus of interest although there are plenty of international including United States opportunities. So, how should analyst and the general investor community be thinking about Aurora? Is this with a short-term Canadian play as far as derivatives are concerned? And once that comes on line in the US as far as any legal opportunities come around like [indiscernible] 00:32:01, for example, like what is what is the story line for Aurora right now?

A

Well, the US market is an incredible large market with tremendous opportunity and one that we continue to have our eye on. So, it isn't something that we are certainly going to ignore even though we're focused on driving this company to profitability. But what I can tell you is the opportunities that we're going to explore and we continue to look at are ones that are going to be accretive to Aurora as we reposition the company. And one that is cash flow positive.

So, in other words anything that we look at has to meet certain key criteria that we've laid out today, which will continue to strengthen our balance sheet and not putting us in a position where we have to dig deeper into our pockets. So, we see the US market and a number of opportunities fit that specific sort of criteria, which is at minimum the things we're looking at but things that are complementary to Aurora as we're positioned today. And so that effectively remains sort of the criteria that we would consider for furthering those opportunities.

David Kideckel

Q

Okay. Thank you so. So, just to go back then to the Canadian market I mean is it fair to assume for analysts and investors that Canada or derivatives in particular is still your primary focus or should be even shipping our sites to other markets.

A

Hey, Dave. It's Glen. Listen, I think we're all aware that cannabis is probably the most advanced opportunity for us. We have the market share of the production facilities. And go so far to say is it – if we think about all of our opportunities over the next short while, this is where we'll generate the cash. This is where it we'll generate a profit. We have to make sure that we stay focused on that opportunity.

As you know, in this industry globally, there are a lot of things to look at and pay attention to. But fundamentally, we need to drive that cash in profitability. So that's why we're kind of reemphasizing a focus on the core. As Michael described, if there are and there are opportunities in the states or globally that make sense and fit our criteria, then of course we'll proceed with those.

But the criteria being focused on in financial discipline and returns, short-term returns. So I think that's the way we think about it. Don't read us in our [indiscernible] 00:34:39 in Canada thinking that we've stopped growing or doing is focusing on this opportunity to generate cash profit and then making sure that we make decisions for prudent use of our capital.

Q

Thanks, Glen.

Operator: Our next question is from Chris Carey with Bank of America Merrill Lynch. Please proceed.

A

Hi, Chris.

A

Hi, Chris.

Christopher M. Carey
Analyst, Bank of America Merrill Lynch

Q

Hi. Good evening. Can you hear me?

A

Yeah.

A

Yes, we can.

Christopher M. Carey
Analyst, Bank of America Merrill Lynch

Q

Okay. Thanks. And so, I guess I'm just trying to square some numbers. So, if I take your cash X restricted last quarter of about CAD 150 million and you got about CAD 150 million this quarter, and you've issued about CAD 250 million in stock under the ATM I guess I get free cash burn of over CAD 250 million in the quarter. Number one. Maybe I'm wrong there but it seems like that's what the math is suggesting.

And then the credit facility has been reduced by about CAD 140 million. And so, is there anything remaining on that facility? Because I had understood that it was about CAD 200 million of cap as of last quarter. And I guess what I'm getting at here is if I look at the free cash burn this quarter and some of the initiatives that you're announcing are really going to be hitting in the fiscal Q4 and you've only got CAD 200 million left on the ATM I mean it seems like cash is still going to be pretty tight. So, maybe just help me pull the gap a little bit. Am I wrong on some of those numbers? I guess I'm just trying to get a sense of the cash bridge and it still seems like things are going to be really lean into the fiscal year-end. So, that's my first question.

A

Yeah. Hey, Chris. So yeah. I know exactly what you're trying to get at here. So yeah. Just to be clear, as I mentioned, CapEx is about CAD 100 million, that's meant over the second half so that's like Q3 and Q4. And then we did see in terms of operating results that in Q3 will probably look like Q2. We haven't told you what we expect for Q4. We're just trying to be cautious and prudent.

So, I would say that I think you're talking on a number of CAD 200 million in the quarter. Don't get to that number because certainly you see – if you do your math over the half where you might get the numbers like that. So, I'm not going to tell you for a moment that it's not tight. We are operating. And I think that it's not tight. We are operating as to – because we recognize the current market conditions. So the – driving the cost down, we talked about our exit rating in Q4. I think it probably picked up from our comment, but a lot of that has happened today. It's just that there are some initiatives that take a little bit of time to implement, and they're going to play out over the next quarter or so. So we're kind of not sort of overpromise here, but there is – we let go almost 500 people, most of them today, and we've reset all our budgets internally, most of it today.

So we expect kind of – here we are mid-quarter in Q3 that we will start to see some improvement. What we were talking about in terms of where the quarters go, we were talking about top line. We're trying to be prudent on the top line on the revenue side. So, Chris, yes, I'm not – we're not flush with cash, but we think that with the access to the ATM and these changes here should allow us to get to the cash flow positive situation that we're trying to get to.

Q

Okay. Thanks, Glen. And just to confirm on that, how much is left, that's not my second question, but just it was in the first. How much is left on the credit facility? Is there or is there anything left said another way.

A

Yeah. There's some – listen, we've kind of defined our press releases. We have reduced the amount under the term debt facilities, so [indiscernible] 00:38:51 we're going to back off. But there is some left on the revolver. I'm going to say probably accessible in the amount of CAD 25 million. It's not a huge amount there, Chris. The ATM, there's about CAD 200 million left on that as we stand here today, and that's the I guess basic [indiscernible] 00:39:17 with the cash. Yeah. I'll leave it there.

A

And, Chris, just to sort of it there.

A

And Chris, just a sort of – this is where this new mindset in our organization, this notion of financial discipline is really important and why the board felt confident in offering me the opportunity to lead this initiative. We are going to be very, very diligent in ensuring that we are very careful about how we allocate resources. And any resource that we allocate has to provide that near-term return or it's just not worth the investment today.

There'd be a time, a point in time where we could think a little differently about how we're allocating resources. But today, it is really focused on driving exclusively this company to being cash flow positive and we are confident that we have laid out a plan and have access to the funding gap that we need to get this company to meet that objective.

Operator: Our next question is from Michael Lavery with Piper Sandler. Please proceed.

Michael S. Lavery
Analyst, Piper Sandler Companies

Q

Thank you. Good evening.

A

Yeah. Good evening.

Michael S. Lavery
Analyst, Piper Sandler Companies

Q

So when you talk about Canada [indiscernible] 00:40:29, Canada Medical, a established medical in the US, I guess in terms of anything of any consequence that there's not much else but how much in terms of costs would that long-tail have had? Is that a real source of savings more significant than it may seem?

A

I hope I'm interpreting your question properly. There's a lot of complexity in our business and that's really what we've been actively trying to reduce here. We have built the company over the last number of years with a lot of optionality, if you will. And basically, bring our fingers in pretty much every pie. When [indiscernible] 00:41:11 where the value in this industry would obviously be great. I think that's become increasingly clear over the last year or so certainly in the consumer market for instance, the value brand or the value segment is really kind of – basically, the market has taken a hard turn to the value segment; show up with good, potent product at a great price points, you're going to sell a lot of cannabis.

So, as we look at those sorts of situations, the clarity upon how we'll generate cash flow and profit, it does mean that we can look at the rest of our business to reduce complexity. I will, just as an example, an anecdote, we had about 85 different information technology projects on the go because we are expanding kind of all over the globe.

Now, if we pull back and if we [indiscernible] 00:42:01 South America and Denmark just to pause and wait for those markets to develop a lot, that actually has a really important impact to the organization in terms of the sheer effort and amount of money that it costs to do everything all at once.

So, [indiscernible] 00:42:15 just focus on the core and reduce the complexity, and it's actually quite amazing how much cost appraisal [indiscernible] 00:42:22 beyond that. So, we have driven costs out of cost to the organization. We just have to say that there is [indiscernible] 00:42:29 a number of functions that were important to get Aurora to where it is today but if you take out your white sheet of paper and say, where do I need to go forward? You need either less of those functions or reduce part of those functions and so that's some of the decisions we made today. We need to spend less in certain areas, and [indiscernible] 00:42:51 cannabis to get the cash flow.

Q

No, that's helpful. And a little bit maybe following up on Tamy's question, did you look at any capacity rationalization in your – in Canada, in your core markets? And if so, why not any announcements there? Do you feel like you've got the right footprint and what kind of utilization are you running at in terms – relative to your obviously pretty large size?

A

Yeah. I'll just kind of hard to [indiscernible] 00:43:19. I think the financial discipline will take care. We'll continually look at our organization and determine what's needed to go forward. But yet to be determined is how big of a share we've picked up on the value segment for instance. We've built this Ferrari to be in similar race. It's exactly the situation. We are a very augmented low-cost high-scale producer trying to take advantage of that.

So, will see as we move forward and how much of that capacity we can actually utilize or how much of the share market we can capture. We have to [indiscernible] 00:44:05 we're being prudent in our growth consumptions, but it's heartening to hear premium imported in Ontario last week claiming that they'll soon have more stores in Ontario than rest of Canada. I mean I know it's a little bit of political [indiscernible] 00:44:19. But the point is we're not planning for the growth but when it comes, we'll be ready for it.

So, I guess what I'm saying in summary is there is still things to be proven in terms of how much capacity we need but we will take that financial discipline when the situation warrant and we'll make the decision that are most prudent.

Operator: Our next question is from my Doug Miehm with RBC Capital Markets. Please proceed.

A

Hi, Doug.

Douglas Miehm
Analyst, RBC Dominion Securities, Inc.

Q

Thanks very much. Hi. Two questions. The first one really has to do with the pacing of revenues and I'm glad you pointed out the way you did, but to have sort of wide or almost flat growth between Q2 and Q3 on a fiscal basis. Can you explain how your 2.0 sales look relative to your dried flower, then?

Or are you actually going to see growth, but you're just being conservative?

A

The point – I think, by and large, we had a pretty good launch in the 2.0. I mean, we were first into some of the markets. That was great. A lot of our products seem to be well-received. We are trying to be prudent. There just – there's not a lot of resell out there. I think I mentioned, quarter over quarter, in our kind of consumer revenue did grow. We felt most of that in December; a little with 2.0, some of the growth in flower. Quite honestly, I think what [indiscernible] 00:45:51 very closely is our – is our success in the value segment. It's amazing how hard the market has turned over the last few months into the value segment. So, there seems to be a complete abdication of the middle of the market by consumers. Could be they're willing to pay for a premium product. Or they're going hard, they walk into a mechanical store and ask me for – if they need something over 18%. I want the lowest [indiscernible] 00:46:14.

So, again, that's – we're built for that situation. So, we'll see. But that – I think that we're trying to be very cautious in getting too far ahead of ourselves here. We're resetting. But clearly, resetting the organization, the worst thing in the world is to plan for something that's – that -- that may take longer to develop them. [indiscernible] 00:46:37. That's great. That'll just be more money on the bottom line for us, so that's the way we're thinking about it. Plan for a low growth scenario. If it – if it – if it exceeds that, we'll see more money on our EBITDA line, and that would be delightful.

Q

Okay. Perfect. And then just a follow-up question is when you talk about I guess Q1 2021 having a positive EBITDA, can you give us an indication of I guess, number one, what retail store count you're expecting in Ontario at that point to get to, I guess, what – and what's the revenue for that quarter need to be to have positive EBITDA?

A

Okay. So, I'll back into this, in the game plan, and we're trying to plan for a low growth scenario. So, we have an internal forecast and that's all [indiscernible] 00:47:32 with our sales team, [indiscernible] 00:47:32, what we're planning for as a company and where we're talking about an experiment, we'll plan for a low growth.

And so, if we grow only modestly, over the next number of quarters, then – and we either [indiscernible] 00:47:47 meet our EBITDA target, we'll make sure we do. But back to financial discipline, there is a way to operate companies, yes, within the cannabis industry, but [indiscernible] 00:47:57 are all the same age. We've got lots of gray hair here but we know how to operate and drive this company to profitability.

So, we think we've taken the steps now to get us there and we'll continue to look at reducing complexity. But we're – it's not so much about revenue. It's about controlling the costs in the organization...

Q

Yeah.

A

...and – but we, we're quite comfortable with those EBITDA thresholds that I outlined to you.

Operator: Our next question is from Graeme Kreindler with Eight Capital. Please proceed.

A

Hi, Graeme.

A

Hi, Graeme.

Graeme Kreindler
Analyst, Eight Capital

Q

Yeah. Hi. Hi there. Thanks for taking my question. I guess that's a good follow-up in terms of the previous question that was asked. I just want to, as a housekeeping, make sure I heard that the covenant on EBITDA for fiscal 2021, that's CAD 51 billion cumulative for the year. Is that correct?

A

Yeah. It is sort of 80% back end loaded. So, it's – I said mid-single digits for Q1 and Q2. It's [indiscernible] 00:49:00 for Q1 and Q2. So, we basically say that that's it pretty modest or I have to say, if anything, [indiscernible] 00:49:07 has been incredibly supportive. They're a unanimous supporter on the changes we make to [ph] incredibly supportive, unanimously supportive 00:49:11 on the changes we made to our debt agreement. And you can imagine like everybody's worried about their current – our market climate but they still believe in us and believe in what we're doing, and so [indiscernible] 00:49:22. But we're just looking for is just again a whole [indiscernible] 00:49:24 kind of [indiscernible] 00:49:26 to the fire as Michael said, and we're all aligned in the same objective. We will get to EBITDA positive. We just want to see that progress. We'll start of modestly and builds up in such that [indiscernible] 00:49:38 debt matures at the end of that term we'll be probably cash flow positive [indiscernible] 00:49:45. The maturity is [indiscernible] 00:49:47. We're showing the bank positive EBITDA.

Michael Singer
Executive Chairman, Aurora Cannabis, Inc.

A

Yeah. I'll just add. This is Michael. I'll just add that the nice thing about our relationship with our banking system is we found a very creative way to sort of match the new covenants to our strategic plan and it's consistent which we're very confident. And again this drives to our notion of ensuring that financial discipline. We are going to keep a very close eye on that to ensure that we have minimal meet and our objective would be to significantly beat those expectation. And that'll give obviously our bank syndicate confidence. But as you could see by virtue of some of the changes we've made today with our lending certificate they're incredibly supportive of our story and they're great partners, and they just want to effectively see us execute on the strategic plan which is what Glen and I are laser focused on.

Q

Yeah. Okay. Understood. And then just – as I appreciate that commentary. And then as an area of follow-up, there was commentary about I guess the quarter-over-quarter changes in revenue and there was a bit of a decrease in the revenue on the international side mentioning particularly Germany. So, I guess to follow up on the questions about the overall taking a look at the international portfolio you mentioned two specific jurisdictions here. But was there a discussion at all in terms of the German portfolio and what that could look like in terms of carrying value versus expectation giving that the revenue is in there but a bit softer [indiscernible] 00:51:16?

A

Yeah. Interesting with – well there isn't a lot of, say, capital invested in German [indiscernible] 00:51:23 folks over there. We've kind of built that up on a pretty small operation over the last couple of years. So in terms of carrying value, it's not a significant issue for us. That's back on line. I think we did mention we had a bit of an interruption for a regulatory process.

But then it's back on line as of the end of January. I know you expect them to get back quickly because there were rates that were outperforming, continue to grow from there. So it's not the size of Canada by any means at all but it is a healthy place to be in Europe and we'll pretty continue to support that. So but in the end, our particular concern is there would have been just this sort of interruption.

Operator: Our next question is from Matt Bottomley with Canaccord Genuity. Please proceed.

A

Hi, Matt.

A

Hi, Matt.

Matt Bottomley
Analyst, Canaccord Genuity Corp.

Q

I just wanted to – how are you guys doing? I just wanted to follow up a little more on the impairment charges that are going to be recorded. So just in that range of CAD 740 million to CAD 775 million, can you give us any more color on how much whether it's purchase price allocation or actual CapEx invested has gone into South America and Denmark in relation to the quantum of that rate up right there?

A

Yeah. I'll just touch this briefly and then like honestly, we've got a four conference call next week and we can go on with lots of detail as we would like on our Q2 to give you some highlights here. But yeah, South America, you remember when we bought a company called ICC a year a bit ago and that was issued [indiscernible] 00:53:03 works at that time over CAD 200 million obviously we did save a number of shares [indiscernible] 00:53:10 were significantly less. So, anyway, we were carrying a fair amount of value in which was attributed mainly to licenses and some extraction capacity there. We – as Michael said, we saw things that there's an opportunities there. You see a medical market being established in Brazil. But we were aiming cautious, we just want to make sure that we see it develop and understand it completely before we get too far ahead of ourselves. So, the impairment there was mainly around writing down the value of the licenses.

In Denmark, we had basically – we wrote it down our Nordics Sky facility that we have several – of the second facility, we have some of the construction [indiscernible] 00:53:57 capacity before we look at restarting that. So, I mean that was written down a little bit to kind of our market value for what we've constructed there. That's just one of them.

Q

Got it. Thanks. And maybe just a quick follow up just on the search for new leadership here. Is there any other roles or anything on sort of the corporate side or the strategic side that will be included outside of just the CEO position. You guys have had a number of C-suite changes as of late with Neil and Cam and now Terry. So, I'm just wondering if there's a broader search going for other strategic things that the company might be looking at or is this just isolated to the next CEO?

A

So, thank you. Yes. No. It is just isolated to the finding a new permanent CEO. What I can tell you and I think I alluded to this earlier is we've got a I think a tremendous executive team and our team are completely unified here in terms of our strategy going forward. And everybody is going to be keenly focused on ensuring we meet this objective. I think this is a great team to be able to sort of bring in a new CEO and I think we've got a talented team and a skill set that will be able to surround that new CEO with the knowledge of our industry and certainly the knowledge of Aurora so that we give our new CEO, he or she, when she does join or he joins our company, the ability to really sort of take off immediately from the time that the individual starts.

Operator: Our next question is from John Chu with Desjardins Capital Markets. Please proceed.

John Chu
Analyst, Desjardins Securities, Inc.

Q

Hi. I guess my first question was just...

A

Hi.

John Chu
Analyst, Desjardins Securities, Inc.

Q

...looking at where the industry sales are, and then the guidance you're giving for the quarter and then going forward, it looks like you're starting to lose market share of that and maybe comment in terms of is it really going to be the daily special dry flower that's going to help turn that or are you starting to rationalize some of the product lines to help get back up in market share?

A

Sure. Yeah. Listen, a couple of things. Yes, you're probably seeing the same thing we are. Since probably the fall, the phase of [indiscernible] 00:56:13 and the market has shifted – and shifted hard every month into the value segment. And so, we have lost market share in [indiscernible] 00:56:21. We have – because we don't currently have a value brand, as Michael said it starts shipping next week, we have lost some market share in the dry flower, and that's an important segment. So this is [indiscernible] 00:56:34 segment. So we're looking forward to the instruction on that, so that is important. And you're right, there was some share lost there, so we expect to recover that.

But beyond that, I think we have – we continue to look at our brand portfolio for some of those that were targeted at that mid-tier [indiscernible] 00:56:55. We'll look at whether we need to sort of phase those out. So, there are certain cultivars, for sure, that we have phased out. They're just clearly not selling.

I should tell you, though, like we have a continuing progress that some of our [indiscernible] 00:57:09 month over month, we're getting even better potencies out of our products. Very reliable, high-potency products. This gives us a lot of confidence for launching the value brand that it can deliver those 18% or higher potencies that the consumers are looking for for THC. And I mean, given the scale and the low-cost production, be able to do it in a very compelling price point, also having very healthy margins for Aurora. So, I don't want to step down around it, like without the value brand, we were losing some share, but here I think we are optimistic that we'll see some recovery there over the next couple of months.

So, all that being said, and I hope that you take this to heart, we're just being very cautious in our estimates for revenues. It's been the story over the last year-and-a half in this industry where expectations are probably way ahead of reality. So, we're just trying to work with reality here. And again, as I mentioned, I think Doug asked the question. We set the business to that reality, and it happened to come in stronger in terms of revenues. Excellent. Falls through the bottom line, we'll all be happy. So, Doug, don't take this as I think too pessimistic. Just take it as us trying to be realistic and working for like the show-me stick. As it arrives, I'll believe it. So, at that point, I want to see

Q

Okay. Great. And then just my second question, in addition to just the covenants that have been imposed, are there actually any restrictions to whether or not you can actually go into the US or internationally above and beyond the covenants further that have been placed by the syndicate?

A

I would say, as long as it's federally legal, certainly, those are opportunities that would sort of be more than satisfactory to our lending syndicate, but they're partners. So, we're certainly going to work with our partners or the banking sort of syndicate to ensure they're comfortable.

And the opportunities we're looking at with certainty, without a doubt, these things that they would be considered or they would feel comfortable with, and obviously stick within the sort of federal sort of legal landscape. That is an absolute minimum criteria for us.

Operator: Our next question is from Pablo Zuanic with Cantor Fitzgerald. Please proceed.

Pablo Zuanic

Q

My questions are actually going to be top line related. I mean, I appreciate everything you've said about the cost rationalization and the CapEx cutback. So, number one, the fact that the market is moving to value in the case of flower, what does that say and bode for 2.0 products, right? Because derivatives obviously are more expensive and most of us are expecting the industry to get relief from 2.0, but given the shift in the consumer to value, does that mean that 2.0 really won't be that big a deal for the industry?

I have a follow-up, but if you can answer that first.

A

Yeah. So, yeah, I apologize if I haven't been clear enough. When I've been talking about the value, I'm talking about the flower...

Pablo Zuanic

Q

No, I understand.

A

...market. Now, listen, the 2.0, we haven't found the lid on demand yet for our gummies and [indiscernible] 01:00:29 and things like that, but it's still a young market. So, we'll test that, and we'll see. But so far so good as we deliver [indiscernible] 01:00:36, they seem to be well received. But I would thing that, over time, you would see similar sort of sentiment even in the 2.0 products. There's going to be people that are always happy to pay for premium product, and then there's going to be people that come in with minimum criterion and say, I want a gummy that delivers this, and I want it at the lowest price possible.

So, this is – again, this is only a month old.

So, this is, again, this is only a month old. So, we haven't seen anything yet. But when you talk to our marketing folks and our sales folks I mean I think it's something that we are planning for. I think you will see a market shift at some point.

So, that's – Pablo, just to be clear is that that doesn't mean that there's diminishment in the expectation but roughly potential order or as the volume here is just to recognize the consumer preferences like the rest of this market evolve quickly. So, we need to be kind of nimble.

And so – we're playing a little catch-up on our value brand in the flower side to try and anticipate going forward. So scale matters, what cost to production matters, all of that. As we look at our business we're talking about financial discipline, there's still area where we need to continue to burn cost out of our manufacturing operations as well, finding ways that continue to reduce [indiscernible] 01:01:51 and logistics we think. But these are all things that it makes sense with any industry rationalize it. And we'll be part of that product to put value in premium even on the 3.0 product. But it's way too early to see those trends yet, but we are planning to [indiscernible] 01:02:10.

Q

Right. And just doing a follow-up. So, do you have a rough estimate of the flower market right now -percentage-wise? What would be the value? I mean is it 60%, 70% to a flower market noise is where you would call value?

A

Yeah. I don't know. We don't give information on our competitors. So some province don't share data. So I really [indiscernible] 01:02:34 probably don't want to go there. Sorry.

Operator: Our next question is from [ph] Adam Buckman 01:02:40 with Caixabank. Please proceed.

A

Hi, Adam.

A

Hi, Adam.

Q

Hi, guys. Thanks for taking my question and apologies if this comes across a bit blind. So, I just wanted to go back to the inventory provisions and returns in Q2. So, obviously, last quarter many of your peers took inventory provisions while you guys didn't.

At that time, I think the team might have said something along the lines that they're comfortable with the current inventory position. I'm just wondering what happened Q-over-Q that change is few? And then how confident you are on a forward basis in your current inventory position?

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

A

Yeah. So, what happened? I think what happened is the problem so just continue to drive even harder than we expected for our price reduction then and return. This is [indiscernible] 01:03:27 moving and depending on the problems they operate under some sort of cap whether it's a working capital maximum that they can have an inventory or physical constraint.

Was that November we're talking? I think at that point, we were still working with provinces then we have – we're satisfied that we have plans of placing flow over products that would [indiscernible] 01:03:50. And then it didn't happen. So I think regarding to the hardware negotiations with provinces in December, our returns in December was our return in January. So that was the provision reflecting. I hear you. Obviously you know that our provisions are not of the magnitude of some of our peers. But they're still there.

So that's definitely mentioned, I think [indiscernible] 01:04:15 asked the question. We did do have pretty struggle on all the inventory fitting out with province to make sure that price reduction were warranted and have a provision for any returns that we think might be of risk.

Michael Singer
Executive Chairman, Aurora Cannabis, Inc.

A

And I'll just add that as Glen said he's taken a real hard look at that. But the purchasing pattern is now of the provincial -- the governments are – have changed dramatically. And so they're no longer purchasing and buying significant inventory, so months of inventory. They're actually buying more frequently. And so that actually reduces the risk of product that's going to be sitting on their shelves. So, they're almost very minimum order quantities. Those are moving and then, of course, they then reorder.

So, the likelihood of – I think, across the industry, you're not going to see the level of returns that have probably popped up over the last couple of quarters just because of the way that its provinces are now purchasing from the licensed producers.

Q

Okay. That's great color. Thanks. So, secondly, just on the value strategy. So, again, like obviously, a couple of your peers started to launch value brands in November and December. So, I'm just kind of wondering what sort of steps you had to go through to get a value brand out there and why it wasn't launched earlier just in reaction to your peers?

A

Yeah. Look, I mean, I'm not going to get in into too much depth. But, I mean, there – we wanted to launch a product that is going to be well-received by the customers, I mean, consistent potency and not making too wide a claim in terms of potency, to make a claim that says it's somewhere between 14% and 22% on your label, and we weren't doing that at all. And I mentioned this just a short while ago, we're seeing just a very consistent level of potency in some of our larger [indiscernible] 01:06:08.

So, two things, one, I mean to be completely honest, I probably think it's a month or two to really see the trend and to react to it. And then, we actually have to get a little bit of a – go through a process with [indiscernible] 01:06:24 Canada in terms of approvals and things like that to [indiscernible] 01:06:26 with the provinces.

So, actually, process-wise, it took a little bit longer. So, I'm going to say, that is a – an area that we could have done better in terms of how quickly we go to market. But I will say I'm really eager to see us start shipping next week to [indiscernible] 01:06:41.

And, actually, I'm just trying to be very cautious on this call but I am quite excited about where our pricing [indiscernible] 01:06:47 I think there's been a – from our analysis of those that launched in, in the late fall in October-November, [indiscernible] 01:07:00 share real quickly. So, we'll see. But I hope I'm being as transparent as I can.

Operator: Our next question is from Chris Blake with Laurentian Capital Securities. Please proceed.

Chris Blake

Q

Good afternoon, guys. I just want to follow up on the balance sheet with respect to the imaginarily in the call about having limited cash balances going forward and access to it. Do you have any sense of any or in terms of asset sales, any potential on that or excess land that you can utilize to shore up your balance sheet a little further?

A

I mean, for instance, we've got our – back to the greenhouse in Ontario up for sale I think. So, it's kind of [indiscernible] 01:07:42 it became a surplus asset for us that we can look at our business. We'll look at that. Michael, Michael and Glen, you've got like a reform CFO and current CFO [indiscernible] 01:07:57 and just so you know Michael has been in this industry since 2013 with [indiscernible] 01:08:04 so it's not like he is new to the industry but [indiscernible] 01:08:09 about being CFO or reform CFO, but he is one of the early guys in the industry. So, lots of industry experience [indiscernible] 01:0817 might look at it.

So, of course, we'll come through and as we talked about reducing the complexity of the business look for any opportunity for nondilutive source of cash. So, I think [indiscernible] 01:08:30

Q

Okay. That's helpful. And just lastly in your commentary with respect to the introduction of a new minimum liquidity covenant CAD 35 million. Can I assume is that CAD 35 million restricted cash, a definition of the minimum liquidity covenant or is that a working capital?

A

Well, it is cash, but it's not – technically, it's not [indiscernible] 01:08:53. When we measure you at the end of the quarter, you need to have $35 million cash in the bank. I can tell you, but I went to sleep in it. I have brought $35 million of cash in the bank. But because of [indiscernible] 01:09:06, remember, period-end measurement, we do – gives us a little flexibility should we ever be there, but certainly not our intention to be [indiscernible] 01:09:14. The banks already did. Technically restricted, but it just says you need us and cash in bank your period end.

Q

Okay. Great. That's it for me. Most of my questions have been answered. Thanks.

A

Thanks, [indiscernible] 01:09:25

A

Thank you.

Operator: Our next question is from Glenn Mattson with Landenburg Thalmann. Please proceed.

Glenn G. Mattson
Analyst, Ladenburg Thalmann & Co., Inc.

Q

Hi. Thanks. Most of my questions have been answered already, but curious. On the ATM, that's still kind of overhanging a little bit. This is – love the – love it when it comes out hanging out there. So, can you talk about kind of - [indiscernible] 01:09:51 expense in the tap when necessary or does that mean [indiscernible] 01:09:55 immediately and as quickly as possible? And then – and then lastly, [indiscernible] 01:10:00 have you looked at any private placement strategic investors? Is there any discussion going on with potential investor on that kind of front? Thanks.

A

Yeah. Let me be clear. We're talking about the ATM because we want to you to think in our models that we're going to use that ATM. We've got CAD 200 million there. Chris was asking a little bit earlier. I think it was Chris asking about kind of how do we close the funding gap. We're apparently very transparent here. We expect to use most of that ATM. So, you should expect that there's not – don't look at this number hanging. Look at it as the part of our plan to fund this and have our cash flow product. And we're crystal clear there.

I've forgotten the second half of your question.

Q

Yeah. Sorry. The second is just about [audio gap] 01:10:52

A

Got it.

Q

Is it like the strategic events there? Is it [indiscernible] 01:10:56 discussions? Is there anything – is there something we should consider as we think about going forward?

A

Yeah. No. No. I don't think we'll talk about that if we were talking to a potential strategic investor [indiscernible] 01:11:08. We'll be able to talk to you about it on that call. But if you're asking is there [indiscernible] 01:11:13 like investors sitting on the sidelines, not as of today. I'm not sure that we would go there. But again we'll look at all opportunities.

A

Yeah. We always explore every potential opportunity. I mean, that type of capital is probably expensive, and we have access to capital that we think is less expensive. But we will be sort of very mindful of how we raise capital for our shareholders. But as Glen laid out, I think our ATM certainly gives us comfort that we've got as part of our plan the ability to fill that funding gap with that existing sort of channel.

Operator: Our next question is from David Kideckel with AltaCorp Capital. Please proceed.

A

Hi, David.

A

Hi, David. You're back. You're maybe on mute.

Operator: David, check if you have your line muted, please.

A

Not hearing anything, David.

David Kideckel

Q

Oh, hello. Sorry. Hi. [audio gap] 01:12:22 just wondering based on all the analysts' comments that we've heard so far, is there any other way how do we – I'm just thinking more high level here how do – how does the market want to hear about Aurora and what is their core competence this year. Is it Canada? Is it international? Is it US? What is Aurora's position on this?

A

Well – so what's our core competency? I mean obviously our ability to produce high-quality, low-cost cannabis based on our skylight facility in which division [indiscernible] 01:13:00 form day one. So that is a massive competitive advantage and frankly a key component to working off of as a platform. Our core markets are clearly cannabis that's focused on medical and the [indiscernible] 01:1313 markets which are certainly markets that we think very close attention to, and very focused international markets like Germany which we believe are sort of asset-light opportunities where we see the ability to sort of realize revenues, maybe grow revenues without a significant investment at this time.

A

Yeah. So, David, just to add quickly on Michael's time and about Terry's vision, purposed-built, low- cost, highly automated, high-scale facility. So with our EU GMP certification of our Bradford facility we're kind of over 30,000 kilograms a year of capacity for exports, plus we've got all that the capacity for the Canadian market. So when you think of core competence we think about the ability to deliver great quality cannabis and [indiscernible] 01:14:00 growth of products at a very low cost. And I think that's fundamentally what [indiscernible] 01:14:06 we want to focus on generating cash flow from, and will add to that as the opportunity makes sense.

Operator: Thank you. This does conclude our question-and-answer session I would like to turn the call back over to management for closing remarks.

Unverified Participant

Well, we want to thank everybody for obviously taking the time this afternoon to join our conference call and hopefully understand the strategic plan that we put out in front of you. We're very excited about the opportunity here and our chance to really level set our organization and our spending to the current realities. And we look forward to sort of providing investors with update as time continues, but we're again very optimistic about the plan that we put in place today. So thank you very much for joining the call. Have a great evening.

Operator: Thank you. This does conclude today's conference. You may disconnect your lines at this time. And thank you for your participation.