

Canopy Growth Corp.: When the Going Gets Weird, the Weird Turn Pro

Description

Just a week or so ago, **Canopy Growth Corp.** (TSX:CGC) was derided for having little or no profits, a huge valuation, and weird, wild intraday price swings. Shorts were salivating, jumping on the seemingly overvalued equity when, suddenly, Canopy management decided to convince its competitor, **Mettrum Health Care** (TSX:MT), to take \$430 million worth of its paper in a takeover.

If executed, this takeover would give the combined companies almost 50% of the entire Canadian medical cannabis market. It seems Canopy has torn a phrase from the late Hunter S. Thomson: "When the going gets weird, the weird turn pro."

Over the last two or three days, Canopy has traded like an institutional stock, showing little volatility, while establishing price stability that is uncharacteristic of this high flyer in the nascent cannabis equity sector.

How can this weird change be explained?

The Mettrum deal cements the fact that at these high price levels, Canopy's stock is attractive enough for competitors to accept as consideration for a takeover. This deal signals to investors that the Canopy market capitalization is not as far-fetched as punters presumed only a short time ago.

The recent stability in price illustrates that a big money broker is supporting and championing the stock at these levels. A big money market maker or two must have taken a large share position in Canopy, which they are protecting at the current price level. The short whisperers are muted, at least for the moment.

However, there is a cautionary tale in the Canopy/Mettrum deal that must be considered. The deal allows Mettrum to take unsolicited bids to purchase the firm from other parties until the closing date in early 2017. Canopy has the right to match these unsolicited offers. In the event that another bid for Mettrum materializes and Canopy does not match the new, larger offer, Mettrum must pay a \$10 million break-up fee to Canopy.

In this weird, wild, wonderful Canadian cannabis equity market, anything can and will happen. Mettrum might find the temptation irresistible if a new player appears flashing cold, hard cash. If Canopy doesn't rise to the occasion and outbid other potential players, it will lose credibility and market share. Volatility will ensue, upsetting Canopy's price chart and leaving the stock vulnerable to short predators.

In any new investment play, it takes time for the markets to separate the wheat from the chaff. In the 1920s, it was radio firms that traded crazily until the market sorted them out. In the 80s, it was the personal computer companies. In the 90s, only a few entities survived the dot com boom unscathed. Today, in Canada, it is the cannabis market where a new "King of the Hill" contest is being waged.

Many times, the victors of these evolutionary economic skirmishes are the firms which were the first movers in their industry. Canopy is the standard-bearer in this campaign, and it has my bet that it will

prevail.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:WEED (Canopy Growth)

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