



Aurora Cannabis Inc. in a New Equity Raise: What Does This Mean for Investors?

Description

Aurora Cannabis Inc. ([TSX:ACB](#)) announced a new \$50 million bought deal equity financing early morning on Tuesday and up-sized the public offering to \$60 million before mid-morning, as the company entered a revised agreement with a syndicate of underwriters led by **Canaccord Genuity Corp.**

Before we go further, I would like to note the similarity of the latest capital-raising announcements to Aurora's \$40 million bought deal private placement of 7% convertible debentures announced early morning on April 11 this year, which was quickly up-sized to \$75 million early in the afternoon on the same day.

In the latest up-sized capital-raising deal, Aurora is offering 20,000,000 common units of the company at \$3 per share, which was essentially equivalent to the current market price when the stock opened at \$3.02 on Tuesday.

This seems to be a well-timed offer, announced just when positive investor sentiment has returned to the market with generally positive recreational cannabis legalization frameworks news from provincial governments feeding investor greed every week.

It's therefore not surprising that there could be an over subscription to this "hot" offering, especially considering the underwriters' quick negotiation for an up-size to the deal. The underwriters do have an over-allotment option to purchase up to 3,000,000 additional units, which I think they will scoop up too for gross deal proceeds of \$69 million.

In view of the currently bullish investor sentiment in the marijuana sector generally, and on Aurora's aggressive growth plan execution in particular, I believe this offering will be quickly taken up by bigger institutional investors who may have quickly tipped the underwriters to negotiate with Aurora for an up-size to the deal.

Most noteworthy, the deal will most likely result in an increase in institutional shareholding in Aurora, the benefits of which could be likened to the ones [I highlighted for Canopy Growth Corp.](#) in March.

These include a more stable share price and better intrinsic valuation for Aurora stock, but also include the risk of a deep share price plunge when the “big elephants” exit the stock if management messes up in executing the aggressive growth plan.

Minor setback

Current shareholders who are not able or are unwilling to partake in this latest equity raising exercise will see their stake in Aurora be marginally diluted from November 2, after the new equity financing deal closes.

Furthermore, most of the share price growth momentum in Aurora stock will evaporate from the TSX, as new investors who are keen on opening a new position in Aurora stock may rush to scoop the shares from the new offering, thus dampening share price growth on the open market until the issue is fully allotted.

Investor takeaway

Aurora is raising new equity to further execute its aggressive growth plan before recreational marijuana legalization arrives by July 2018 as well as to fund its international expansion program.

The company will have almost \$195 million in cash if the latest equity financing deal is successful; that is a significant liquidity boost to fund future growth plans in an attempt to challenge market leader Canopy Growth Corp. in market share growth.

However, Aurora’s aggressive growth plan and subsequent capital-raising programs are coming at a significant cost of dilution to current shareholders’ interests in the company. This dilution is also slowing down share price growth, although it grows the book value of the total firm.

I fear there could be further dilution soon if the company wins the Germany tender, as new equity will be required to set up cannabis production operations there in 2018, while Aurora still has to fund the new state-of-the-art facility, the Aurora Sky’s construction, which is scheduled to be completed by midyear next year at a cost of \$100 million.

In light of these developments, share price growth may be slower than that for competitors in the near term as Aurora balloons its outstanding share count.

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