



## Things are Getting More Interesting in the Marijuana Industry

### Description

Recently it was announced that **Constellation Brands, Inc.** ([NYSE:STZ](#)) was purchasing a 9.9% stake in marijuana producer **Canopy Growth Corp** ([TSX:WEED](#)) for approximately \$245 million. While this values the entire company for approximately \$2.5 billion in comparison to Friday's closing market capitalization of \$2.2 billion, there's a lot more good news for investors than this simple investment.

In addition to the additional cash injection from which will lead to the building of more growing facilities and higher revenues, Canopy Growth Corp now has a partner with a market capitalization of more than US\$40 billion and pockets deep enough to raise more money if needed. To boot, the company CEO (of Constellation Brands, Inc.) expects marijuana to be legalized across the United States in the future which means that the company is getting in on the ground floor with this Canadian gem. Essentially they want to be first out of the gate once marijuana is legalized in the United States.

For shareholders of Canopy Growth Corp, an untapped market would be either selling marijuana into the United States in the future, or possibly the company would be retained as a consultant for Constellation Brands, Inc. as they set up shop on a national scale. For those not in the know, Constellation Brands, Inc. is a national alcohol distributor responsible for many brands including Corona Beers and Robert Mondavi Wines. Effectively, they have a significant amount of know how in terms of distributing highly regulated products.

### What other potential does this offer investors?

Given that one of the United States' biggest alcohol distributors wants to be in at the ground floor as a minor partner, it leads to the potential for other companies to ponder the same thing. Is this a business that makes sense from a strategic perspective for others? The short answer in the province of Ontario is yes, but more for the producers of spirits or alcohol than for tobacco companies. The reason is due to distribution.

From an operations perspective however, marijuana must be grown similar to tobacco which results in the potential for the tobacco industry to become more interested in the product once the industry becomes big enough, potentially even purchasing an entire marijuana producer such as Canopy

Growth Corp in the future. For investors who believe this is a far fetched idea, the size of each company must be considered. At a current valuation of \$2.5 billion, Canopy Growth Corp could easily be swallowed whole by tobacco company **Philip Morris International Inc.** ([NYSE:PM](#)) which has in excess of US\$7 billion in cash on the balance sheet.

Assuming that any tobacco company wanted to purchase the expertise of Canada's biggest marijuana producer for the purpose of scaling production, the company could easily pay a very large premium and still make a substantial amount of profit from their marijuana acquisition.

With the first of what is expected to be many acquisitions or mergers in this new industry, investors now have a much better idea of what positive surprises can be expected in the future. How much of a premium each deal will bring remains to be seen.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. NYSE:PM (Philip Morris International Inc.)
2. NYSE:STZ (Constellation Brands Inc.)
3. TSX:WEED (Canopy Growth)

## PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
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## Category

1. Investing

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ryangoldsman

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