



Consolidation in the Marijuana Industry: Aurora Cannabis Inc. Wants to Acquire CanniMed Therapeutics Inc.

Description

Yesterday was interesting for investors in marijuana stocks, as the market reacted to **Aurora Cannabis Inc.'s** ([TSX:ACB](#)) proposal to acquire **CanniMed Therapeutics Inc.** (TSX:CMED).

[Consolidation in the marijuana industry](#) is intensifying.

Essentially, Aurora has put on the table an all-share proposal, which is valued at \$24 per CanniMed share — a 57% premium over yesterday's closing price.

CanniMed is soaring almost 40% on the news, and Aurora is down almost 4%.

Strategic rationale

The combined entity would increase each company's respective size, reach, and growth going forward. Access to capital would increase future growth prospects, and the increased liquidity would increase the marketability of the shares.

It would have a market capitalization of roughly \$3 billion, which is comparable to **Canopy Growth Corp.'s** ([TSX:WEED](#)) market capitalization of \$3.8 billion.

It would have 40,000 active, registered patients compared to Canopy's 59,000 registered patients as of June 2017.

And beyond increased size, the combination would increase both companies' international presence, broaden their product offering, and increase their production capability in an environment where the companies' complementary strengths would be leveraged, thereby improving yields, technology leadership, and e-commerce platforms.

Industry standards

Aurora stands to benefit from the history of CanniMed's parent company, Prairie Plant Systems, of

being the sole supplier to Health Canada of medical marijuana.

The company has been in operation since 2000, and during this period it has developed processes and procedures that are in line with pharmaceutical manufacturing standards, so this is a big plus.

Valuations

To be clear, stock valuations in the marijuana industry are surely elevated. CanniMed is reporting net losses, like most marijuana stocks, and valuations are high, based on investor optimism and excitement over this new industry.

And while this excitement is warranted, we must keep in mind that these valuations are trading at levels that are way ahead of actual fundamentals at this time. So, we therefore must tread carefully.

Strategically, this deal is clear and represents good timing for Aurora. Valuation-wise, while the issuance of new shares will dilute current Aurora shareholders in the short term due largely to the elevated valuation paid, in the long term, this merger should provide synergies and increased opportunities to all shareholders involved.

At the end of the day, it comes down to the thing I have been pointing out when discussing marijuana stocks: the opportunity is huge; there is no mistaking that. The question just lies in the price that the market has been paying for these companies' shares and how long it will take for the [actual fundamentals to catch up](#).

Stay tuned. The deal is unsolicited, so the saga is still developing, and there will be more newsworthy events happening this week on this proposal.

CATEGORY

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2. TSX:WEED (Canopy Growth)

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