



Could Aurora Cannabis Inc.'s Hostile Takeover of CanniMed Therapeutics Inc. Be in Jeopardy?

Description

There is growing uncertainty over **Aurora Cannabis Inc.'s** ([TSX:ACB](#)) recently announced intention to acquire all of the outstanding shares of the oldest marijuana producer **CanniMed Therapeutics Inc.** ([TSX:CMED](#)), as the target company shores up its defences against a hostile takeover bid by merging with **Newstrike Resources Ltd.** ([TSXV:HIP](#)).

Aurora announced its intention to [take over CanniMed](#) on November 14, offering existing CanniMed shareholders \$24 a share in an all-stock transaction, which was a significant 56.9% premium to the stock's closing price on November 14 and gave CanniMed executives until Friday, November 17, to respond, or else Aurora would go all out in a hostile takeover bid.

The news resulted in a 30% rise in CanniMed shares the next trading day from a previous close of \$15.30 to close at \$19.80 after hitting an all-time high of \$21.90.

However, CanniMed executives responded by labelling the Aurora announcement an "unsolicited offer," advised shareholders not to "take any action" and, instead, announced CanniMed's serious intention to take over Up Cannabis Inc. through an all-share merger with its parent company Newstrike Resources.

CanniMed executives are clearly not interested in a merger with Aurora and argue that the offer grossly undervalues their company due to Aurora's recently "overvalued" stock price after a [recent run](#).

Takeover defence

CanniMed executives have gone all out to defend the target firm from an Aurora takeover by continuing with their takeover of Newstrike in another all-share transaction deal that could create the fifth-largest cannabis player in Canada.

In taking over Newstrike, CanniMed shields itself from Aurora's hostile takeover, as the new merged entity may be much larger than Aurora is willing to buy, and there are new legal issues that would thwart Aurora's plan, one of them being the \$9.5 million termination fee that CanniMed shareholders

will have to pay Newstrike if they cancel the defensive deal.

Thus, CanniMed shareholders will have to consider the \$9.5 million penalty as a cost in accepting the Aurora offer, and the premium and growth opportunities that Aurora is offering should be compelling enough, or else they will offer their vote to the executives.

Most noteworthy, Aurora has expressly stated that it will not proceed with the CanniMed offer if Cannimed implements defensive tactics or undertakes to complete the Newstrike acquisition.

CanniMed shareholders will vote on the Newstrike acquisition early 2018.

The catch

Aurora's has already locked up about 38% of CanniMed's outstanding shares through an agreement with CanniMed's major shareholders. These shares may therefore not vote in favour of a Newstrike deal in which CanniMed executives need a 50% majority to approve its takeover of Newstrike.

Aurora intends to launch its offer this week, and the offer will be open for 105 calendar days. This is a critically timed offer, as CanniMed investors have to make their decision between the two compelling offers both at the same time.

Final thoughts

Aurora may end up undertaking the CanniMed transaction in another arrangement besides a takeover bid, probably through a partial acquisition if the Newstrike deal goes through.

It seems that Aurora is keen to enter a business combination with CanniMed, as it envies the oldest marijuana player's prowess on the medical cannabis market front.

This is an interestingly developing matter for the nascent cannabis industry that could culminate in the creation of a +\$3 billion cannabis player with strong medical and recreational cannabis competitive advantages that will solidify Aurora's second place to **Canopy Growth Corp.** in the marijuana market.

Aurora looks forward to having more than \$340 million cash in the near term and could possibly offer a little cash top-up to CanniMed shareholders to sweeten a merger deal.

Cam Battley, Aurora's executive vice president, is on record saying Aurora could make CanniMed "sing." Ironically, CanniMed executives seem to prefer singing together with Up Cannabis to the tunes of The Tragically Hip (Up Cannabis's recreational marijuana brand partners) instead.

It's early days to judge if Aurora, the predator, will give up on its quest to garner 66.67% support from CanniMed shareholders, as the new firm could hold some significant market power in the growing global marijuana space, and CanniMed investors will also be considering synergistic benefits and better price discovery in a business combination with an aggressive and heavily capitalized Aurora.

It's game on.

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brianparadza

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