

Aurora Cannabis Inc. Goes on an Acquisition Spree: What's in it for Investors?

Description

Aurora Cannabis Inc. ([TSX:ACB](#)) is going full throttle on an acquisition spree that could create a marijuana behemoth and a formidable player in the nascent cannabis industry.

Aurora was one of the most active companies in the cannabis deals space in November, making one announcement after another and entering strategic deals. Coupled with federal and provincial governments' regulatory frameworks announcements, the whole sector has had some very violent reactions to stock prices.

The most important factors, however, are if these corporate actions are accretive to the business growth agenda and if meaningful shareholder value could be generated in the foreseeable future, allowing the currently rich stock valuations to eventually catch up with fundamentals in the next few years.

On November 23, Aurora announced some interesting acquisition deals.

Aurora intends to acquire a smaller, recently licensed marijuana grower, H2 Biopharma, based in Lachute, Quebec, and has acquired a leading greenhouse designer Larssen Ltd. which is very active in designing production facilities for several Canadian marijuana producers.

Greenhouse designing firm Larssen Ltd.

Aurora is into engineering design now after the acquisition of Larssen Ltd., a greenhouse design firm in November, leading to the formation of Aurora Larssen Projects Inc. (ALPS).

While there is so much activity in the marijuana sector, as licensed producers and prospective entrants in the cannabis cultivation space rush to expand productive capacity, I am not so convinced that greenhouse designing as a business line is a high-growth business.

However, the business line seems to generate some great operating margins, with Aurora guiding for 40% EBITDA margins for ALPS.

ALPS is expected to generate about \$6 million in revenue for 2018; however, this is a time when the greenhouse design service is at potential peak demand in Canada, as entrepreneurs jostle for higher-productivity positions for a recreational marijuana demand boom post 2018.

Most noteworthy, ALPS has a wide global reach, with clients in the United States, Canada, Europe, and Asia, giving Aurora some undoubted revenue-diversification effects.

The business will likely be a slow growth, high-margin consulting enterprise.

Most interesting, Aurora mentioned that ALPS is currently offering its services to more than 15 cannabis industry clients worldwide, including five Canadian licensed producers (LPs). Aurora intends

to vet the Canadian deals and “any Canadian project deemed not to be in the best interest of Aurora shareholders will be notified that ALPS will no longer participate in such project.”

This means a potential revision of contracting terms. If the five LPs budge to Aurora’s aggression, then Aurora may report more than the \$6 million projected revenue for 2018 or even better operating margins.

If the process isn’t fruitful, Aurora may terminate the “unprofitable” contracts and report lower revenues from ALPS next year.

H2 Biopharma

Aurora intends to acquire H2 Biopharma, a prospective cannabis grower with an incomplete 48,000-square-foot facility estimated to productive about 4,500 kilograms of dried cannabis per annum, bringing Aurora’s total facilities to four for a total of more than 940,000 square feet of production facility space, capable of producing north of 113,000 kilograms of dried cannabis per annum.

This deal is very accretive to Aurora’s growth ambitions in the marijuana space, and it directly adds to its productive capacity growth and magnifies Aurora’s presence in the Quebec market.

Growth through acquisitions has become a critical strategic factor, as it reduces the time necessary for an LP to be ready for the anticipated demand boom in 2018. Aurora has avoided the pains of new licence applications and the down-time lag from planning to construction completion.

Investor takeaway

Aurora’s recent acquisitions activity is directly in line with its aggressive growth strategy, but the acquisition of an engineering firm, Larssen, is more of a profitable, diversifying move.

The recent [triple-digit surge in Aurora’s share price](#) has presented it with more purchasing power to go on an acquisition spree, as its appreciated currency buys more shares for less, thereby accelerating growth with lower dilution effects — that’s good for shareholders.

We await the outcome of Aurora’s [hostile takeover bid](#) for **CanniMed Therapeutics**.

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