



Canopy Growth Corp. vs. Aurora Cannabis Inc.: Europe Expansion Strategy

Description

Canadian marijuana companies' expansion activities into continental Europe may prove to be a strategically important move to exponentially grow market base and catapult revenue growth forward in the 500 million plus, high income and rapidly aging population, with **Canopy Growth Corp.** ([TSX:WEED](#)) and **Aurora Cannabis Inc.** ([TSX:ACB](#)) among the handful of early investors into the continent's nascent medical cannabis market.

The two companies do strike me for their overly aggressive overseas growth programs, which sometimes [look too similar in nature](#) but differ in magnitude and timing.

Striking resemblance

There are significant similarities between Canopy and Aurora's European Union (EU) expansion programs, and a remarkable pattern is emerging.

Canopy strikes first, and Aurora, with an almost identical, but magnified move, follows.

When Canopy first acquired Germany's MedCann GmbH (renamed Spektrum Cannabis GmbH) in an all-stock transaction in November 2016, Aurora followed suit with the much-hyped acquisition of the then biggest importer and distributor of medical cannabis in Germany, Pedanios GmbH, in a \$21 million transaction in May of 2017.

Canopy's German subsidiary had about 400 pharmacies as distribution clients by November 2017, while Aurora's Pedanios had 2,000 distributribution clients by December 2017, up from 750 at the time of acquisition.

The latest battle ground is Denmark, which is the second EU country to issue multiple local cannabis production licenses after the Netherlands.

Canopy entered a partnership with Danish Cannabis ApS to create Spectrum Denmark ApS in September 2017, then in December announced plans to construct a 40,000 square meter (about 430,556 square feet) facility in Denmark to be completed in 2018.

In response, this January Aurora announced a partnership in Denmark to construct a much bigger, 1,000,000-square-foot facility in a country that is capable of producing over 120,000 kilograms of dried cannabis per annum.

Both Denmark partnerships have local cultivation licenses.

Higher risk?

Aurora seems to be taking on much higher risk than Canopy in the EU expansion strategy by acquiring more “expensive” stakes in EU establishments and making higher value investments in a nascent and unproven, though promisingly rewarding medical cannabis market.

Should the Germany and broader EU expansion drive fail to generate the expected revenue growth rates, Aurora has much more to lose than Canopy.

Further, Canopy’s market research assumes that cannabis produced from its facility in Denmark “is forecasted to exceed the needs of the Danish market,” with excess to be exported to other EU countries.

If Canopy can exceed Danish market requirements from its Odense facility, which is less than half the size of Aurora’s planned facility in Denmark, then Aurora risks over-investing in that country.

That said, Aurora’s Denmark facility could help produce the much-needed product for export into several EU territories in which Pedanios is striking distribution deals.

And the winner is....

As far as the reported financial results for the six-months ended September 30, 2017, Aurora is currently leading Canopy in revenue growth in the EU. Aurora generated \$1.67 million in Germany export revenue against \$404 thousand generated by Canopy from total exports during the period.

However, both firms are among the few winners in the first stage of the Germany cultivation and supply tender that saw 118 applicants submitting their bids. Their respective local production plans (should they each finally pass the second and final stage), could change the narrative.

Further, as of December 2017, Canopy had over 500,000 square feet of Good Manufacturing Practices (GMP) certified production space against Aurora’s 55,200 square feet, enabling Canopy to feed more export into Europe from Canadian facilities and therefore reducing the need to make huge investments in an untested EU market.

Aurora has a stronger need to invest more in productive capacity than Canopy, both in Europe and in Canada.

However, both firms are trailing behind privately controlled Tilray, which signed a massive distribution

deal giving it access to over 16,000 pharmacies in Germany. Tilray is constructing a production facility in Portugal. **Cronos Group Inc.** signed a distribution deal giving it access to 12,000 pharmacies in Germany and is constructing a scalable facility in Israel targeting the European export market.

Investor takeaway

If you're bullish on the EU cannabis market growth potential, Canopy and Aurora offer good long-term growth prospects. Do check out Cronos Group too: the small contender [could make it big in Europe](#).

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