

Going Rate for Cannabis Talent: \$5-21 Million Per Employee

Description

The amount of marketing spin that has gone into justifying [ridiculous acquisition prices](#) of late has my head spinning. In a [recent article](#) from fellow Fool contributor Will Ashworth, he noted that **Aphria Inc.'s** (TSX:APH) recent acquisition of Broken Coast Cannabis Inc. was a great deal because "You see this a lot in the tech industry, but sometimes acquisitions are less about the company and more about the talent working there. Neufeld is trying to build a deep bench; acquiring Broken Coast does just that."

Cannabis producers grow plants. Employees of cannabis producers are farmers.

I don't understand, and will never understand, the comparison between a cannabis employee trimming leaves and buds from plants and a high-tech employee with a PhD and a skill set that took a decade or more to perfect.

The argument that attracting talent from other firms should be done at exorbitant prices may be justified in the case of very rare and highly sought-after talent in machine learning or artificial intelligence, as I noted in my [recent article](#) on **Toronto-Dominion Bank's** (TSX:TD)(NYSE:TD) acquisition of a one-year-old machine-learning outfit with 17 employees for more than US\$100 million. Paying \$230 million for a "deeper bench" in the cannabis industry; however, makes no sense to me at all.

The number of employees at Broken Coast is unclear; however, according to multiple online sources, including the company's LinkedIn page, Broken Coast currently has between 11 and 50 employees. This range provides us with an average acquisition price of between \$4.6 million and \$20.9 million per employee.

In other words, world-class machine-learning experts with PhDs and decades of combined experience were just "purchased" for approximately US\$5.9 million apiece in the TD deal, while the going rate for the cannabis farmers in the Broken Coast deal was between \$4.6 million and \$20.9 million.

The other argument commonly made and reiterated by Mr. Ashworth is that Broken Coast provides a premium product to the market at higher retail prices and a lower cost of production than its competition. This may be true; however, until we learn of the actual operating fundamentals of Broken Coast following its integration into parent company Aphria, we will have to take CEO Vic Neufeld's word for it as per the company's press release.

Bottom line

Premium brand or not, the reality is that the Broken Coast acquisition was just another example of the irrational exuberance cannabis firms and marijuana investors are exhibiting in a sector that is still in its infancy. I invite any rational investor to attempt to value what they would pay for Broken Coast's discounted future cash flows and come up with a number. I'm almost entirely certain the number would

not be \$230 million, but maybe financial models don't matter anymore.

Stay Foolish, my friends.

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