



Aurora Cannabis Inc. vs. CanniMed Therapeutics Inc.: I'm Not Surprised

Description

I'm not expecting many surprises from the ongoing negotiations between **Aurora Cannabis Inc.** ([TSX:ACB](#)) and **CanniMed Therapeutics Inc.** (TSX:CMED) that could culminate in a friendly merger of the two cannabis giants and possibly result in small player **Newstrike Resources Ltd.** (TSXV:HIP) being taken into the fold.

Aurora may be successful in bringing CanniMed under its control after CanniMed's management has finally agreed to come to the table, and it seems that a negotiated outcome was the only "least risky" outcome for the two firms after there were some tricky short comings in both companies' takeover bid and defence tactics.

Strategy short comings

Aurora's offer placed a ceiling of \$24 per share on CanniMed equity, and the conversion ratio was to be adjusted at the close of the takeover offer. The ceiling threatened to heavily dilute CanniMed shareholders' stake in the combined firm after the most recent marijuana stock rally propelled Aurora's valuation ahead of CanniMed's. There was no guarantee that the offer would be taken up by 66.67% of CanniMed shareholders.

CanniMed management wasn't so confident that shareholders would overwhelmingly vote in favour of its Newstrike deal, as Aurora had already sealed share lockup agreements with CanniMed's major shareholders with about 36% voting power and had already purchased 700,600 shares (nearly 3% stake) in the target, further reducing the number of shares available for the pro-Newstrike vote.

CanniMed's shareholder rights plan of November 28 was ill-timed as a defence tactic and was ceased by regulators on December 27.

Therefore, CanniMed management couldn't confidently go ahead with the shareholder vote. The risk of a less than 50% vote on their proposed deal was too high, considering that some shareholders may have already offered their shares to Aurora in the open hostile bid. Aurora had taken away almost 40% of the vote from management's side, and there was no guarantee of a 100% voter turnout.

If the vote had gone against management, Aurora didn't have much incentive to revise its \$24 ceiling, and CanniMed management, who are also significant shareholders, had more to lose than just their jobs.

Possible way forward

It appears that a negotiated deal was the only least risky option for all parties involved in this hostile takeover scenario.

Aurora seriously needs to secure inventory supplies for its European client base after [losing supplies](#) from **Cronos Group Inc.** and recently winning an important Italian government cannabis supply tender. Product to be supplied to Europe has to come from Good Manufacturing Practices (GMP) certified facilities. CanniMed has significant GMP-certified productive space, and finding alternative GMP-certified licensed marijuana producers in the global market is currently a nightmare.

As I [previously discussed](#) in November last year, "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."

Actually, Aurora may absorb a merged CanniMed-Newstrike powerhouse, but the deal may not be that rosy for Newstrike shareholders.

My fears for Newstrike

Aurora has always heavily criticized CanniMed's offer for Newstrike, arguing that the small firm had no customers and is undercapitalized to finance its expansion programs. However, Newstrike finally obtained a licence to sell cannabis on January 5 and has one big client now, which is, ironically CanniMed.

That said, Aurora may be uncomfortable to pay anywhere near the \$710 million market value of Newstrike today. **Canopy Growth Corp.** ([TSX:WEED](#)) paid \$430 million for an advanced Mettrum Health Corp. last year, and **Aphria Inc.** (TSX:APH) recently paid \$230 million for Broken Coast Cannabis Inc., which had significant brand equity and a vibrant 10,000 registered patient client portfolio.

That said, Newstrike shareholders may still get \$9.5 million in deal termination fees should Aurora and CanniMed leave them in the cold.

Investor takeaway

It's risky to propose that investors buy Aurora stock before the possible news of a combination with CanniMed, but the predatory Aurora will not give up on its quest to become the largest listed marijuana stock in Canada.

Given the high level of aggression in Aurora's executives, they would not want to walk away from a negotiation empty handed, especially after coming so close to a possible deal of the year.

Investors beware: Aurora may pay a hefty price for a desperately desired growth!

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