



## What to Look for as Cannabis Companies Move Into M&A Mode

### Description

According to a survey conducted by consultancy firm EY, ~87% of Canadian cannabis companies believe that the industry is inevitably going to consolidate over the next three years.

The cannabis industry is soaring into the atmosphere, and several pot firms are slated to go on their own acquisition sprees. Such acquisitions are driving the euphoria of investors to even higher levels, and as a result, deal announcements are a major driver of the short-term results. Unfortunately, many cannabis investors probably don't fully understand or care about the real value behind such deals; they'll just take management's word for it. They have no choice, after all.

Fair enough. But here's why I'm not a fan of any M&A activity that's being made at current levels:

In many previous pieces, I've noted that you're essentially gambling at this point, since it's not just political developments that are driving up pot stocks; it's the announcement of acquisitions, which will likely come at a fast and furious rate over the next few years.

Speculative investors and gamblers don't care what's being acquired and for what price; they're just euphoric over management's overly bullish sentiments and the fact that such M&A efforts will lead to much higher growth at some point down the road. To these speculators, it's all about the very short term and not about the long-term consequences of potentially overpaying for such acquisitions.

At these levels, any cannabis firm is paying a gigantic premium to scoop up smaller firms. The valuations of acquisitions are suspect at these levels, as are the valuations of any large cannabis firm that's been driven up by pure speculation and the FOMO (fear of missing out) mentality.

Since it appears that this kind of consolidation is inevitable over the next three years, I believe large firms such as **Aphria Inc.** (TSX:APH), **Canopy Growth Corp.** ([TSX:WEED](#)), **MedReleaf Corp.** (TSX:LEAF), and **Aurora Cannabis Inc.** ([TSX:ACB](#)) should put the brakes on [acquisition activities](#) for now and wait until the [next correction](#) wipes over +60% of the value off all Canadian cannabis firms. If firms become overly active before such a correction, I'd recommend running for the hills, because I think there's very little value to be had in scooping up ridiculously priced firms, regardless of the potential synergies.

Over the next three years, such a correction is likely inevitable, and it's after such a correction that big firms should be pulling the trigger on deals — at a much cheaper, but still probably expensive price.

At this point, most acquisitions are for the sake of driving near-term results. Even if a target firm is deemed a great fit, I believe excessive premiums paid are a destroyer of value given that cannabis stocks, I believe, are close to peaking.

Stay hungry. Stay Foolish.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. TSX:ACB (Aurora Cannabis)
2. TSX:WEED (Canopy Growth)

## PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

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