

Aurora Cannabis Inc.: Does an Acquisition of CanniMed Therapeutics Inc. Bring U.S. Marijuana Regulatory Risk?

Description

Aurora Cannabis Inc. ([TSX:ACB](#)) successfully negotiated for a [friendly takeover](#) of **CanniMed Therapeutics Inc.** (TSX:CMED) in a deal announced Wednesday morning, as the two marijuana firms finally agreed on an upsized \$1.1 billion Aurora offer for all outstanding CanniMed shares after a bloody hostile takeover ensued in November last year. Since CanniMed has some operations in the United States, should investors discount Aurora's share price for any U.S. federal-level marijuana legalization risks right away?

CanniMed currently operates two growth facilities totaling a combined 247,000 square feet. The first is a 193,000-square-foot facility located in Saskatchewan, which has a current productive capacity of 7,000 kilograms of dried cannabis per annum, and it has expansion plans to add another 62,000 square feet of productive space for another 7,000 kilograms of annual capacity.

The second facility is located in White Pine, Michigan, and presently provides support to the company's bio products and bio pharm divisions. The Michigan facility consists of 35,000 square feet of production and office space as well as 19,000 square feet of underground growth chambers that are currently under construction.

CanniMed has always identified its Michigan facilities as its key asset, which could be developed to produce over 50,000 kilograms of cannabis per annum, but as recent market developments have shown, there is a big risk for Canadian marijuana firms to have any exposure to U.S. marijuana activities, and the issue is a hanging cloud on **Aphria Inc.** (TSX:APH) right now.

Cannabis production and handling is yet to be legalized at a federal level south of the border, and there is still no visibility when the current controlled-drug status of marijuana at the U.S. federal level will be legally changed to avoid any federal prosecution for state-licensed marijuana players in the nation.

Not a violation yet

CanniMed announced in December 2017 that it received municipal approval from Carp Lake Township, Michigan, "to apply for State of Michigan licences for both the production and processing of medical cannabis."

Upon receipt of state licences, CanniMed intends to apply for federal approval to conduct medical cannabis research through the U.S. Food and Drug Administration and the Drug Enforcement Administration.

Therefore, it is safe to assume that CanniMed is not yet in violation of any U.S. federal laws regarding marijuana activities, and it seems like the company intends to totally avoid prosecution risks by obtaining federal research licences for the drug first.

It is a good thing that CanniMed's Michigan operations are not yet state licensed to produce any marijuana; otherwise, Aurora would face the same U.S. federal risk that is threatening to lead to Aphria being de-listed from the TSX; the main exchange issued a staff notice to that potential effect in October last year.

Further, CanniMed has always stressed the point that it "will continue to abide by all federal policies and laws regarding the production of cannabis in the United States and does not currently plan to begin medical cannabis production until a federal research licence has been received."

CanniMed is not yet required to provide additional disclosure to the Canadian Securities Administrators and the TSX, as Aphria currently does. This additional disclosure requirement is a daunting task that added 13 pages to Aphria's 29-page Management Discussion and Analysis of its latest quarterly results for the three months ended November 2017.

Investor takeaway

Aurora's \$1.1 billion acquisition of CanniMed is the biggest-ever cannabis deal that could create the largest marijuana stock by market cap, threatening to displace market leader **Canopy Growth Corp.** from the pole position. The deal brings premium-quality medical cannabis assets from CanniMed into Aurora's portfolio and grows Aurora's registered patient portfolio to about 40,000 active clients.

CanniMed has been a purely medical cannabis company since debuting marijuana operations in Canada, and the company is waiting for a federal medical marijuana research licence in the United States before growing cannabis down south.

I strongly believe that Aurora is not yet exposed to U.S. federal legal risks pertaining to marijuana-related business operations, and its share price may therefore not attract a valuation discount on that aspect.

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