



Bigger Bubble: Cannabis or Cryptocurrencies? It's Looking Like Cannabis Has the Edge

Description

In yet another head-scratcher of an acquisition, **Aurora Cannabis Inc.** ([TSX:ACB](#)) has agreed to buy **CanniMed Therapeutics Inc.** (TSX:CMED) in a deal which values the upstart company at approximately US\$1 billion. This deal effectively makes Aurora the king of the playground, as the combined market capitalization of Aurora and CanniMed will officially surpass that of **Canopy Growth Corp.** ([TSX:WEED](#)), the leader in the Canadian cannabis industry, since marijuana companies were first invited to trade on the TSX.

This deal further supports a bubble-like acquisition environment in the sector in which cannabis firms are doubling their acquisition offers in very short amounts of time. The reported \$24 per share hostile bid made by Aurora in November surged to more than \$50 per share as of Tuesday, as Aurora fought to get its deal approved by CanniMed shareholders in an effort to become the world's largest publicly traded cannabis firm.

While a combined Aurora-CanniMed entity may indeed benefit from some synergies relating to scale and production cost reductions long term, the reality remains that the combined entity will need to produce and sell a heck of a lot of marijuana at higher margins if this deal is going to be even remotely justified over the long haul.

A price tag of more than \$1.2 billion (a price which has fluctuated recently due to the structure of the deal being primarily a share-swap) for a company with less than \$5 million in revenue and an operating loss of more than \$1 million in its most recent quarter is one of the biggest acquisition multiples I've seen in some time. The deal will also result in a \$9.5 million breakup fee CanniMed (and therefore Aurora) will need to pay to **Newstrike Resources Ltd.**, the cannabis grower backed by the Tragically Hip, increasing the transaction price further.

Bottom line

I am now convinced that the cannabis bubble we have in Canada is out of control and has officially expanded to unheard of and ridiculous proportions. I am considering taking short positions against all

of the major Canadian cannabis firms, given the unrealistic valuation bumps these producers are receiving currently.

As Warren Buffett said, too bad we don't have long-dated put options available on cryptocurrencies or cannabis, as I would go crazy there. Puts are also very expensive, given the volatile nature of the sector. That said, I'm keeping my eye on Aurora puts in the near term.

Stay Foolish, my friends.

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1. Editor's Choice

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2. TSX:WEED (Canopy Growth)

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