



Should Aurora Cannabis Inc. Investors Worry as More CanniMed Therapeutics Inc. Investors Opt for Cash?

Description

Aurora Cannabis Inc. ([TSX:ACB](#)) announced on March 9, that it has already been technically successful in taking over **CanniMed Therapeutics Inc.** (TSX:CMED), as about 70.66% of total outstanding shares of the target firm had been tendered into Aurora's ongoing updated offer by March 8.

Aurora is commencing the conversion of the tendered 17.85 million CanniMed shares into 50.6 million Aurora common shares at the stated conversion terms in the tender offer, which has been extended to March 25, as well as making the cash payments to those CanniMed investors who chose to take up the limited cash option.

What's interesting about this transaction so far is that the proportion of tendered CanniMed shares to total outstanding shares, at 70.66%, is approximately equal to the portion of the limited cash offer that Aurora and CanniMed specified for the conversion option. Aurora reported that, of the \$140 million cash that's available to CanniMed investors, "approximately \$98 million" has already been taken up, representing a 70% cash offer uptake.

It can be projected that CanniMed shareholders are fully taking up the available cash offer, as [previously discussed](#), and this move, while very prudent, may also be reflective of something undesirable for Aurora ... more on this later.

CanniMed shareholders are undeniably better off taking up the cash offer, as the cash portion makes them marginally better off financially than a full stock-for-stock conversion into Aurora shares, and this will remain so as long as Aurora's share price remains below the \$12.65 Volume Weighted Average Price used in the valuation of the deal.

Aurora shares have dipped nearly 10% from the deal reference price, and so has the valuation of CanniMed stock in the deal, which fell from \$43 a share and now stands at \$38.76 per share at Aurora's current price of \$11.40 as of Tuesday (assuming an all-stock conversion at 3.40 rate), or \$39.32 a share assuming a full uptake of the \$140 million cash offer, which includes \$5.70 in cash and

2.9493 Aurora shares per each CanniMed unit.

We can see that even as the value of CanniMed implied by an all-stock conversion has fallen by 9.86% during this current general marijuana stock valuation dip, the cash offer cushions CanniMed's valuation and limits the valuation decline to 8.56%.

If CanniMed investors are choosing cash, it means they risk limiting their participation in any rally in Aurora stock to just the stock portion of the cash infused option, but it requires an 11% recovery in Aurora's stock price to elevate CanniMed's valuation back to \$43 a share.

However, if Aurora's share price remains below \$12.65, they get more value by accepting cash and buying Aurora stock on the open market, assuming insignificant transaction costs.

Since there will be a time lag between Aurora accepting the tendered shares and making the cash payouts, CanniMed shareholders are likely making the assumption that Aurora stock will not rise by a significant magnitude in the near term. In fact, if they anticipate a rally, they are comfortable that it won't be that big enough to make them regret their decision to forego nearly half an Aurora share for each CanniMed share tendered.

Investor takeaway

Cash is king, or at least it is being viewed as such in this Aurora-CanniMed transaction, as it is much more certain that \$5.70 will be received per each tendered CanniMed share.

Considering that CanniMed was trading at just \$8 a share on June 26 last year, eight months ago, affected investors wouldn't mind taking some cash off the table, as much of the offered Aurora shares are pure profit and allow CanniMed investors to cash out a portion of the original investment and "play with the house's money," as fellow Fool contributor Joey Frenette [suggested](#).

If that's not the case, then CanniMed investors, among them very savvy institutional money managers who pushed for the deal, are expecting Aurora stock to remain depressed in the near term.

That said, we shouldn't read too much into the cash uptake, as it only requires CanniMed investors to give up 0.4507 of a single Aurora share and get 2.9493 shares of the same, representing a cash-out of just above 13% of one's CanniMed position at a favourable valuation, leaving 87% still invested in the marijuana playbook through Aurora stock.

It's a small a cash out.

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Date

2025/08/20

Date Created

2018/03/14

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