

This Mysterious Acquisition by Aurora Cannabis Inc. Is Boosting Growth More Than Anticipated

Description

Aurora Cannabis Inc. ([TSX:ACB](#)) went on a rampant acquisition spree in late 2017, which included the full takeover of a greenhouse design and engineering firm Larssen Ltd. to create a new subsidiary named Aurora Larssen Projects Ltd. (ALPS) in a mysterious transaction whose consideration, terms, and performance milestones were never publicly disclosed.

I wrote [my take on this transaction](#), including the acquisition of smaller marijuana producer H2 Biopharma, on December 5; I opined that the Larssen transaction was more of a higher-margin revenue diversification play than a directly accretive marijuana business growth move.

I was wrong.

ALPS engineers have arguably brought more expansion momentum into Aurora than any other acquired asset since December 2017.

In hindsight, the market can now fully comprehend the strategic brilliance of the Larssen move and Aurora management had a big trick up their sleeves when they made the Larssen acquisition announcement on November 23 last year.

How is that?

After the Larssen acquisition, Aurora went entered two significantly big deals in the cannabis industry that dramatically changed its future marijuana productivity profile and outlook, while strategically positioning the company for greater success in a very important growth market, Europe, with ALPS being an important deal breaker in the transactions.

Larssen was a global greenhouse engineering and design consultancy firm that had been constructing greenhouses for 30 years with a strong international client portfolio, designing its structures to Good Manufacturing Practices (GMP) standards — a highly sought after certification for entry into the European Union (E.U.) market.

It was Larssen which identified an opportunity and made the connection between Aurora and Alfred Pedersen & Søn (APS) executives, culminating in the creation of the all-important joint venture, Aurora Nordic Cannabis A/S, in Denmark. APS is one of Europe's largest greenhouse producers of tomatoes and other vegetables.

The new joint venture in Europe is on task to construct a 1,000,000-square-foot cannabis grow facility with 120,000 kilograms per annum capacity, and it's targeting to convert an existing large greenhouse into a marijuana facility capable of churning out 8,000 kilograms of dried product per annum.

ALPS is the designer and probably manager of both Denmark projects, which will allow Aurora to

produce significant volumes of dried cannabis to feed into Pedanios's (Aurora's Germany subsidiary) supply contracts in the new E.U. growth territory.

Also capitalizing on Larssen's extensive engineering experience and connections in the marijuana industry, Aurora became a cornerstone investor in The Green Organic Dutchman (TGOD) — a younger marijuana play that is set to go public this March.

The TGOD deal involves ALPS designing and leading the construction of an 820,000-square-foot marijuana grow facility similar to Aurora's flagship Aurora Sky, with a projected annual productive capacity of 102,000 kilograms, and the completion and commissioning of TGOD's first 150,000-square-foot facility capable of producing 14,000 kilograms marijuana per annum.

Most noteworthy, the TGOD deal includes a supply agreement that could avail to Aurora up to 23,200 kilograms of marijuana from the two TGOD facilities, with an option to increase the annual purchase volume to more than 38,000 kilograms of premium product each year, and Aurora has the option to increase its stake in TGOD to a controlling 51%.

It is evident that Aurora has used Larssen's reputation and visibility within the marijuana and agriculture industries to gain immediate access to a bigger universe of international partnership and acquisition opportunities, and the resultant exponential capacity growth will significantly strengthen Aurora's leading position in the cannabis sector.

Moreover, ALPS is currently overseeing the completion of the acquired 48,000-square-foot H2 Biopharmer facility to GMP standards too at a lower cost for Aurora than it would have been had Larssen been an independent contractor.

Investor takeaway

The acquisition of Larssen has been more accretive to Aurora's aggressive growth strategy and will most likely continue to be so as the new subsidiary completes Aurora's new production facilities at lower costs, while saving the company huge cash outflows.

ALPS will continue generating high-margin revenue from any new contracts, while significantly supporting Aurora's growth capacity this year, enabling the young marijuana growth firm to continue [breathing on market leader Canopy Growth Corp.'s neck](#).

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