



Are MedReleaf Corp. Owners Looking to Cash Out?

Description

For the better part of the past year, the cannabis industry has kept the TSX afloat. As the market has struggled to achieve positive returns, the **Canadian Marijuana Index** has returned a whopping 129%. Year-to-date (YTD), the market has not been as kind to the industry, however. It is down approximately 11% despite — or perhaps because of — several high-profile takeovers. Yesterday, the news came out that one of the largest players in the industry, **MedReleaf Corp.** (TSX:LEAF) was actively seeking a buyer.

Quick exit

It was less than a year ago that MedReleaf completed the cannabis industry's largest IPO in North America. On June 1, 2017, it raised \$75 million on the open market, which valued the company at \$869 million. It priced its shares at \$9.50. As of today, its share price has almost tripled and it has a \$2.195 market capitalization. Are the owners looking for a quick exit based on the recent strength of the industry? It's quite possible.

Rumoured buyer

It appears that MedReleaf has reached out to several of the larger players in the industry. **Canopy Growth Corp.** ([TSX:WEED](#)), **Aurora Cannabis Inc.** ([TSX:ACB](#)) and **Aphria Inc.** (TSXV:APH) have all been approached. Surprisingly, Aurora Cannabis appears to be the front-runner and is in serious negotiations with MedReleaf.

Aurora is fresh off the largest acquisition in the history of the cannabis sector. The ink is barely dry on its \$1.1 billion dollar deal for **CanniMed Therapeutics** in an all-stock deal. The company only announced the completed acquisition this past Tuesday, May 1. Aurora's purchase of CanniMed began as a hostile takeover at \$24 per share. In the end, Aurora upped its offer by almost 80% to \$43 per share to gain CanniMed support. CanniMed's shareholders made out like bandits, while Aurora's shareholders have struggled. The latter company's share price has lost 42% of its value since the new offer was announced.

If Aurora were to acquire MedReleaf, it would create the largest pot company by market capitalization.

The question that Aurora shareholders must weigh is this: is it too much, too soon?

All-stock deals are bad for the acquirers

Research suggests that shareholders of companies being acquired benefit most from takeovers. Likewise, in all-stock deals such as the aforementioned CanniMed acquisition, evidence suggests that shareholders of the acquiring company often lose out. The reason is simple: in an all-stock deal, the current shareholders of the acquiring company lose through the dilution of their equity stake in the new company.

MedReleaf's share price is currently down 20% YTD and approximately 31% from its 52-week high of \$31.25. Given the high premiums paid for CanniMed and more recently Aphria's acquisition of Nuuvvera, it isn't unrealistic to expect that MedReleaf shareholders would expect nothing less than a 40% premium as of its most recent closing price.

There is no doubt that the cannabis industry is going to consolidate. As a shareholder, I would much rather be the acquired party than the acquirer in these deals. MedReleaf is thus worth watching.

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2. TSX:WEED (Canopy Growth)

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