



Aurora Cannabis Inc. Makes Another Big Acquisition as it Continues to Take Over the Industry

Description

Aurora Cannabis Inc. ([TSX:ACB](#)) continues to wheel and deal, as it looks to establish its position at the top of the cannabis industry. Fresh off an acquisition earlier this year, Aurora continues to be relentless in its pursuit of market share, as this week it announced that it would be acquiring **MedReleaf Corp.** ([TSX:LEAF](#)) for \$3.2 billion in what is the biggest acquisition in the industry.

The deal is all in stock, which shouldn't be a surprise to investors given that Aurora doesn't even have a quarter of a million dollars in cash on its books. We're still likely to see many acquisitions take place in the industry, as the market is still very fragmented with companies looking to battle it out for customers once legalization takes place.

With sales of just \$42 million in the trailing 12 months, MedReleaf is being valued at a price-to-sales multiple of over 76, which would suggest that Aurora is paying a big premium for the medical marijuana company. However, the sad reality is that this not a high valuation given what we've seen in the industry so far, and it's only a little higher than the 73 times sales that Aurora paid in its previous [purchase](#).

Significant growth potential

Combined, the two companies together would be able to produce an estimated 570,000 kg of pot per year. Aurora's CEO Terry Booth is optimistic that the deal will mean big things for the company — not just in Canada, but globally as well. Booth stated, "This is a transformational transaction that brings together two pioneering cannabis companies, both committed to high technology, high-quality and low-cost production, to create a powerful platform for accelerated growth and success on a global scale."

While recreational pot is not legal just yet, cannabis for medicinal purposes is, and it has many opportunities to grow, as many people use the drug for pain relief, and we've even seen Shoppers Drug Mart ink deals with cannabis companies, [including Aurora](#), in anticipation of the opportunities that will exist for pot in its industry.

Investor reactions remain mild

By the end of trading on Monday, there wasn't much of a movement from either stock, as investors appeared unconvinced that the deal will go through, as it still requires the approval of shareholders.

Should you consider buying Aurora or MedReleaf today?

While valuations have come down in the industry from their astronomical values last year, prices still remain high given the level of sales that have been generated by cannabis companies, and profits in the industry have been scarce. And while optimism is high that growth will be significant, I'm skeptical about how much demand there will be — both domestically and around the world.

With many cannabis companies flooding the TSX, and competition being significant, it's not going to be easy to gain market share with barriers to entry being minimal for those that want to start growing their own pot. Aurora may have amassed significant production capacity, but it could just be creating an inventory problem if it has no one to sell all that pot to.

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