



Aurora Cannabis Inc. (TSX:ACB): Could This Be the Best Stock News Release for the Month?

Description

The aggressively growing Canadian pot stock **Aurora Cannabis Inc.** ([TSX:ACB](#)) has been on a rampant acquisition spree this year with severely dilutive consequences for existing shareholders. The company has released a plethora of news pieces in May, starting with the conclusion of the CanniMed acquisition on May 1, and including the record breaking, high-profile, and evidently expensive **MedReleaf Corp.** (TSX:LEAF) acquisition at a huge premium.

On top of the massive dilution, the massive growth in acquisitions “goodwill” on Aurora’s balance sheet, which highlights overpayments on acquired tangible assets, could be a recipe for disaster if this intangible asset has to be written off if business integration efforts don’t execute very well or the new subsidiaries fail to generate desired growth and the asset is impaired.

In the midst of acquisitions and related updates, Aurora has recently issued a press release that, I believe, offers better hope to existing shareholders.

The big news

Aurora has struck a new deal in Germany, as read in the company’s latest news release on May 28, titled “Accelerating Growth and Market Penetration in Germany.”

The company, through its wholly owned subsidiary Pedanios GmbH, has “signed a collaboration agreement with Heinrich Klenk GmbH & Co. KG, one of Europe’s largest medicinal plant companies,” which allows Aurora to access a distribution channel of over 25,000 pharmacies throughout Germany and Europe.

This is huge.

Aurora’s Pedanios had more than 1,500 pharmacies as distribution points in Germany by the end of 2017, and the new deal allows Aurora to compete better for European market share against privately held Tilray, which has access to 16,000 pharmacies in Germany.

Aurora had been severely [challenged in the Germany territory](#) when **Cronos Group Inc. (TSX:CRON)(NASDAQ:CRON)** announced its deal with G. Pohl-Boskamp GmbH & Co. KG, which gave Cronos access to over 12,000 distribution pharmacies across the country, while cancelling its supply deal with Aurora's Pedanios in December last year.

The latest deal has allowed Aurora to launch a new Germany focused cannabis brand, "Cannabis Klenk," to be produced in Canada and sold in Germany by Pedanios "through Klenk's existing and wide-reaching pharmaceutical wholesale distribution network."

Klenk, with a long history of operations (90 years) in Germany, could resonate well with the European market, giving Aurora some marketing edge in the territory, while the wide distribution network allows the brand to have a wider reach in the growing cannabis market.

In fact, it appears the Cannabis Klenk-branded products may be ready to hit the shelves in Germany any time, as the news release states that they are "currently held in over 20 distribution hubs located across Germany to facilitate fast and uncomplicated access, as well as same-day delivery service to pharmacies where available."

Why could this be the best news for May?

High productive capacities for cannabis, without wider and vibrant distribution networks, may not really deliver the desired financial growth for any marijuana player. Hence, the creation and expansion of Aurora's distribution network in the nascent Germany and E.U. territory is much better news than the overpriced egoistic acquisitions of late, which could add more "intangible" goodwill to the balance sheet than they contribute to earnings growth.

Aurora's goodwill figure last quarter, at \$883 million, contributed a hefty 53% to the company's \$1.67 billion book value of total assets after its high-priced acquisition of CanniMed, and the latest record acquisition of MedReleaf at record deal valuation levels will compound the issue.

Imagine what would happen if this sizeable asset figure were to be written down after a failed integration attempt, or if the new subsidiaries severely underperform!

Investor takeaway

Aurora's attempts at increasing its distribution network and investments in product depth could be more accretive to growth than [high-value acquisitions](#) in an already overpriced marijuana equity market right now, making the latest Germany deal a very positive news piece.

However, more analysis may be needed to gauge how much in additional revenue the Klenk deal could deliver for Aurora going forward.

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