



In the Wild West of Cannabis Investing, Aurora Cannabis Inc. Stock Is About to Get Shot

Description

The pivotal duel in any old Western film typically ends up poorly for one fellow — in the case of **Aurora Cannabis Inc.** ([TSX:ACB](#)), it is in being “quick to the draw” that will ultimately turn out to be the cause of a lot of pain moving forward for current investors.

Aurora has been among the most aggressive cannabis producers in terms of consolidation, [acquiring](#) CanniMed Therapeutics Inc. earlier this year for \$1.2 billion, and more recently [agreeing to acquire](#) **MedReleaf Corp.** ([TSX:LEAF](#)) for \$3.2 billion. In upping the ante, Aurora CEO Terry Booth has continued to move full steam toward becoming the biggest publicly traded cannabis producer in the world (and arguably the best) through paying exorbitant premiums for what could only be considered already extremely overpriced peers.

If a stock is what I think it is — a partial ownership of a string of future cash flows that can be discounted to a net present value today — then by all accounts, Mr. Booth and I will likely have very different models when it comes to proving that the \$3.2 billion valuation (which includes a 34% premium) for MedReleaf makes any sense whatsoever.

During Aurora’s news conference in which Mr. Booth announced the deal, it became clear that the company’s management team really had no idea how it came up with the valuation of MedReleaf’s shares. Aurora’s CEO argued that he had some sort of magical “secret sauce” valuation model (likely with some pretty impressive assumptions built in), which provided the metrics for Aurora to go ahead with the deal. Of course, the specifics metrics the company used, the assumptions built into any model (if one exists), and the actual fundamental reasoning behind the deal were not expanded.

The eagerness to be the biggest as fast as possible is seen in many other sectors Canadian investors will be familiar with; junior mining firms have for years consolidated in a similar fashion, making some investors on the venture exchange very rich (and leaving many penniless). When the need for scale surpasses reason, investors ought to stand back and take a minute to assess the situation. In doingso, it will become clear that the M&A folks at these firms have absolutely no idea what they're doing —a fact that concerns me greatly and one that should also concern the broader market.

Stay Foolish, my friends.

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