Great News, Aurora Cannabis Inc. (TSX:ACB) Investors: The Company Has Found a Smart Way to Exploit the U.S. Marijuana Market!

Description

Guess what? **Aurora Cannabis Inc.** (TSX:ACB) has found a way to exploit the U.S. marijuana market without risking regulatory violations.

Marijuana investors may remember how **TMX Group Inc.**, owner of the TSX, warned listed Canadian marijuana producers of delisting if they operate in U.S. states where marijuana is illegal. The move even prompted companies like **Aphria Inc.** (TSX:APH), which was aggressively pursuing expansion in the U.S., to divest some of its assets in the nation in recent months to avoid regulatory action.

Given the backdrop, Aurora Cannabis's latest announcement warrants serious investor attention. With rival **Canopy Growth Corp.** (TSX:WEED)(NYSE:CGC) recently getting its stock listed in the U.S., Aurora's latest deal could even be seen as a step in a similar direction.

What Aurora Cannabis plans to do

On June 20, Aurora Cannabis announced plans to spin off its subsidiary, Australis Capital, as a separate entity to be listed on the Canadian Securities Exchange (CSE). Here's the real deal: the press release stated that Australis "intends to acquire ownership interests in a variety of opportunities and asset classes, primarily in the cannabis and real estate sectors in the United States."

Clearly, Aurora is targeting the U.S. marijuana markets through Australis.

In fact, Aurora's press release stated how the fragmented U.S. marijuana market — cannabis is an illegal Schedule 1 substance at federal level in the U.S., but medical marijuana is legal in 29 states — presents a "compelling opportunity" for "well-connected and capitalized companies to invest in U.S. assets."

Read between the lines, and it's easy to understand Aurora's plans: it will spin off its U.S. assets into a separate company and not list it on the TSX. By doing so, Aurora will be able to access and expand in the high-potential U.S. marijuana market while adhering to regulatory requirements.

It’s a smartly structured deal that should benefit shareholders, as I explain below.

A bit about Aurora’s U.S. assets

Without going into the technicalities, I’d like to highlight two points about the deal.

First, Australis has 50% stake in a joint venture which purchased 24.5 acres of land in Washington in 2015 to set up cannabis production facilities. Those plans were put on ice, but once Australis should now be able to monetize the land and proceed with the facility.

Two, as part of its acquisition of CanniMed Therapeutics earlier this year, Aurora acquired stake in SubTerra, a “plant-based pharmaceutical manufacturer.” SubTerra currently doesn’t deal in cannabis but recently applied for a licence to the State of Michigan to research, produce, and process medical cannabis. Australis will now own this stake in SubTerra.

As an Aurora Cannabis shareholder, here’s how you stand to benefit.

What Aurora Cannabis shareholders will get

The deal is structured as such that every Aurora Cannabis shareholder will get one share and one share warrant in Australis for every 20 shares held in Aurora for no extra cost. Each warrant will further entitle shareholders to buy one Australis share for $0.25 one year after the distribution. Non-Canadian resident shareholders of Aurora will get cash instead of shares in Australis.

For example, let’s say you own 200 shares in Aurora Cannabis. You will get 10 shares of Australis and 10 warrants on the date of distribution. After a year, you can exercise those 10 warrants to purchase 10 additional shares of Australis for $0.25 each, regardless of its then share price. In other words, as an Aurora shareholder, you’d become a shareholder in Australis as well as soon the company goes public.

Sounds like a good deal, doesn’t it?

Foolish takeaway: Is Aurora Cannabis eyeing a U.S. listing?

The Australis spin-off is a well-thought-out deal, as it also entitles Aurora Cannabis to acquire a significant stake in Australis through exercisable share warrants over a period of 10 years, subject to receiving TSX and other regulatory approvals and the conditions that Australis’s operations should adhere to U.S. federal and state laws.

This clause clearly hints at Aurora’s plans to acquire a majority stake in Australis at some point in the future, which would also pave the way to its listing in the U.S., much like Canopy.

For Aurora Cannabis shareholders, this deal is yet another feather in the cap for the company, even as it continues to expand aggressively via acquisitions and prepares itself to make the most of the legalization of recreational cannabis in Canada.

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