Did Canopy Growth Corp. (TSX:WEED) Pay Too Much for Hiku Brands Company Ltd.?

Description

Canopy Growth Corp. (TSX:WEED)(NYSE:CGC) announced that it would be acquiring Hiku Brands Company Ltd. on Tuesday. It's just the latest acquisition in a fast-growing industry, where bigger players are consolidating smaller ones into their portfolios. The deal is valued at $269.2 million, but no cash will trade hands, as it is an exchange of just shares.

Hiku shareholders will receive the equivalent of $1.91 for each one of their shares, which is more than 30% higher than the price the shares were trading at on Tuesday. Prior to the deal, Hiku and WeedMD Inc. had entered an agreement to join forces. However, now Hiku has opted to terminate that deal on the grounds that is sees Canopy Growth as being a much better match for the company.

Is Hiku worth the price?

Finding a mathematical way to justify these values is difficult, especially when sales are limited and profits are non-existent. In its most recent quarter, Hiku recorded sales of $246,000 and netted an operating loss of over $7 million. For the 2017 fiscal year, Hiku still only had $761,000 in sales and again was deep in the red with a net loss totaling $5.7 million.

In the trailing 12 months, Hiku's revenues are about $1 million dollars, meaning that Canopy Growth paid a multiple of 269 times the company's sales, which is an astronomical premium, even in the marijuana industry where values are already sky high.

Let's compare the deal against other big purchases we've seen in the industry recently.

Back in January, news broke that **Aurora Cannabis Inc.** (TSX:ACB) was acquiring CanniMed Thereapeutics Inc. for $1.1 billion. At the time, CanniMed's sales in the last 12 months were $15 million, meaning that Aurora paid a multiple of 73 times the company's sales.

Aurora would go on to make an even bigger deal in May when it would acquire **MedReleaf Corp.** (TSX:LEAF) for $3.2 billion. With sales of $42 million, Aurora paid a slightly higher multiple of 76 times sales for the cannabis giant.

As great as Hiku's Tokyo Smoke brand may look to Canopy Growth, the fact is it hasn't established much of a brand, and the deal is a big overpayment for a company that simply hasn't done enough to justify its price tag, much less a 30% premium over its share value.

Should investors be concerned?

Mergers and acquisitions are inevitable in the industry, especially with so many small players vying for space. The problem for investors is that these all-stock deals will dilute their positions, particularly if the market doesn't feel that the acquiring company got enough value in return.

Unfortunately, with profits being hard to find and not a lot of cash on the books, investors will have to get used to these all-stock deals. As companies prepare for legalized marijuana sales this October, costs are only going to go up, and that's going to put even further strain on financials. The big question is whether it will pay off in the end, and it's far too early to tell right now.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:CGC (Canopy Growth)
2. TSX:ACB (Aurora Cannabis)
3. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/08/28
Date Created
2018/07/14
Author
djagielski