This Pot Stock Is Punishing Shareholders

Description

In 2018, the pot industry has been decidedly mixed. After the euphoria peaked in early January, the TSX marijuana index lost 49% of its value. There are some companies that have flourished, while others have seen their stocks dry up – pun intended.

One company who has self-inflicted wounds is **Aurora Cannabis Inc.** (TSX:ACB). Aurora started off the year with a bang. There was a point in early 2018 when the company challenged **Canopy Growth Corp.** as the largest publicly-listed marijuana company. It didn't last long.

Whereas Canopy Growth has posted positive returns year-to-date, Aurora is in freefall having lost almost 50% of its value. So what happened?

Share dilution

The answer is simple: share dilution. The company has made several high-profile acquisitions. On May 1, it completed the $1.1 billion deal for CanniMed Therapeutics. Less than a month later, it one-upped itself with it announced a $3.2 billion dollar buyout of MedReleaf Corp. These are the largest purchases in the history of the industry.

Following the closing of the MedReleaf deal, Aurora's annual cannabis production capacity jumped to 570,000 kilograms — the largest in the industry. Isn't this supposed to be a positive?

The issue is that these are all-stock deals. I warned investors a couple of times that these all-stock deals almost always benefit the shareholders of the company being acquired. Existing shareholders of the acquirer end up holding the bag. The reason? They see their percentage of ownership in the company shrink.

Need proof? Upon the announcement of the CanniMed deal, Aurora's share price cratered by almost 40% the month following. Since the MedReleaf deal closed, Aurora's share price has lost another 12%. President Steven Dobler sold 1.4 million shares the day before the close of the MedReleaf deal. Coincidence? I'll let you be the judge.

Aurora has made several other smaller purchases over the past few months, all of which further diluted shareholder ownership through the issuance of additional shares, options, and warrants.

Reckless strategy

There is a general sense that Aurora is over-extending itself. The company is racing to be the biggest pot company in the world. Problem is, it's not a race. I would argue that rushing into deals to grow production capacity can lead the company to overpay.

Case in point, the MedReleaf acquisition. Street consensus was that Aurora overpaid for the company. The worst part? When asked about the numbers behind the deal to justify its valuation, Chief Executive Terry Booth responded with "Metrics." Likewise, when asked about the synergies of the deal, Chief Commercial Officer Cam Battley answer was equally concerning: "We don't have an exact calculation of the synergies."

These are weak answers, and shareholders should demand more from management. The company should focus on integrating its many acquisitions. The constant issuance of shares is punishing current shareholders and doing nothing for the company's valuation. In fact, these deals are having the opposite effect. Since Aurora went on its acquisition spree, its market cap has been trending downwards.

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mlitalien