



Inside the Biggest Cannabis Deal in History

Description

When **Constellation Brands Inc.** ([NYSE:STZ](#)) announced their \$5 billion purchase of **Canopy Growth Corp.** ([TSX:WEED](#))(NYSE:CGC) stock, it sent ripples across the financial industry, and every major financial news site covered the story. Speculation about similar deals with other pot companies swirled. It ignited a massive rally in Canopy shares, which [rose 83%](#) in just a few weeks.

The hype was largely justified.

Constellation's investment was the largest deal in the history of the cannabis industry. The rally it set off made Canopy a \$11 billion company. And now, as a result of the deal, Canopy will have roughly \$4.5 billion to spend on new investments.

The only question is, what does all mean for investors?

It helps to start with the reason behind the deal.

Why Constellation bought Canopy

Constellation's purchase made it a 38% owner in Canopy. It was the second major deal involving the two companies; the first, in 2017, was worth approximately \$245 million.

These investments were strategic moves for Constellation, a beer manufacturer. Broadly speaking, the beer manufacturing industry is facing tough times. Worldwide, total beer sales are flat while per-capital consumption is falling. Mordor Intelligence anticipates an abysmal 3.1% annual growth rate for the industry through 2023.

Despite this, Constellation is seeing earnings growth of 86.6% year-over-year. Clearly this is a company that knows how to grow in a stagnating market. And according to CEO Rob Sands, it's all thanks to the company's investments in growth initiatives. This includes investments in unorthodox product categories—and cannabis, an up-and-coming competitor to alcoholic beverages, is the ultimate such category. Constellation has even floated the idea of creating cannabis infused beverages in partnership with Canopy, although no plans are set in stone.

The takeaway?

One of the world's most successful alcoholic beverage makers is betting big on Cannabis, which bodes well for cannabis investors because it means trends favour this emerging product category.

What the investment means for Canopy

The Constellation investment will give Canopy a [quick cash injection](#) of about \$4.5 billion. In contrast, the company currently has \$657 million in cash on hand. This means that the deal will increase Canopy's cash holdings by six times. That's a huge increase in funds. It means, among other things, that Canopy can make massive investments without needing to borrow money. In a recent statement, the company's CEO said that he intended to use the money to increase market share in 11 foreign countries. Other possible investments include infrastructure, new product categories, and R&D.

One final thing bears mentioning about the Constellation-Canopy deal:

The agreement includes warrants that could increase Constellation's stake to 50%. It also gives Constellation the right to nominate four of the seven members on Canopy's board of directors. Constellation is perfectly positioned to acquire Canopy as its wholly-owned subsidiary. This too may be great news for Canopy shareholders, as acquisitions are typically made at prices above the stock's market value. The recent deal is a perfect example of this: Constellation bought its Canopy shares at \$48 when they were trading at \$32 at the time.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:CGC (Canopy Growth)
2. NYSE:STZ (Constellation Brands Inc.)
3. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

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

Category

1. Investing

Date

2025/08/20

Date Created

2018/08/30

Author

andrewbutton

default watermark

default watermark