



## What Aurora Cannabis Inc's (TSX:ACB) \$290 Million Deal Means for Investors

### Description

Cannabis stocks surged higher once again on Monday on news that **Aurora Cannabis** ([TSX:ACB](#)) had made a [massive \\$290 million M&A investment](#). The company, which has made 10 acquisitions in the past two years, recently announced that it had closed up a deal to buy **ICC Labs Inc** (TSXV:ICC).

ICC Labs is a Vancouver-based CBD oil manufacturer with a focus on the South American market. The company mainly produces CBD extracts for medical marijuana patients. The company also recently received a licence to produce recreational cannabis for the Uruguay market. On ICC's website, the company claimed that this licence was "the first of its kind worldwide."

This is clearly big news for Aurora. Although the company has completed [many acquisitions](#) recently, the ICC purchase was one of the largest. The question, therefore, is how will this acquisition affect Aurora and, perhaps more importantly, its investors?

To answer that question, we need to look at Aurora's reason for acquiring ICC.

### International expansion

In an interview, Aurora's CEO said that the motive for the acquisition was to increase Aurora's international footprint. This may indicate that Aurora has **Canopy Growth** in its sights, as that company has, to date, been Canada's biggest cannabis exporter.

Foreign markets are an important source of revenue for Canada's cannabis companies. Despite legalization coming in about a month, international markets still have more cannabis customers than the domestic market does. So, increasing its international footprint is a way for Aurora to compete with Canopy.

And the ICC deal may help it do just that. Notably, the purchase will make Aurora the biggest supplier of cannabis oil in Uruguay, as ICC has a 70% market share in that country. The company also serves a number of other South American markets, so it will significantly increase Aurora's presence in the region.

## Balance sheet effects

So far, we have seen one clear benefit that ICC will bring to Aurora's business. By increasing Aurora's market share in Latin America, it will no doubt increase the company's sales.

But will the hefty \$290 price tag be worth it?

That depends on whether ICC is able to generate positive bottom-line earnings for Aurora. As of its most recent statements, Aurora had about \$217 million in cash. Even factoring the CAD-USD exchange rate, the company is still shy of the \$290 million needed to conclude the ICC deal without debt or equity financing. Either Aurora will have to sell equity to finance the purchase — which will dilute current shareholders' ownership — or it will have to borrow money.

Either way, if the investment does not generate positive net income for Aurora in short order, it will probably have a negative effect on its balance sheet. And as of its most recent earnings statement, ICC appears to be losing money.

That does not necessarily mean that the investment is a bad move, however. Legal cannabis is still a young market, and it remains to be seen what the future holds. Legalization *could* move cannabis companies closer to profitability by increasing sales and reducing the red tape associated with medical marijuana. It could also have the opposite effect of increasing net losses by driving prices down.

All in all, I'd say proceed with caution when it comes to cannabis stocks like Aurora.

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