



Canopy Growth Corp's (TSX:WEED) Smart Spin-off, Canopy Rivers Corp. (TSXV:RIV) Is Likely to Be Marijuana's Next Sexy Play!

Description

Canopy Growth Corp. ([TSX:WEED](#))(NYSE:CGC) has arguably been the best cannabis play in the pre-legalization era. Whether the name can continue to outperform its peers in a post-legalization environment is anybody's guess, but as we move past legalization day, one thing is sure:

Canopy CEO Bruce Linton is, by far, the most interesting man in the marijuana market. He's the face of corporate cannabis culture, and thus far, he's shown that he knows where the puck is going next in the nascent industry.

Linton's frequent appearances on *BNN Bloomberg* and other televised financial shows have undoubtedly brought a significant amount of public attention to Canopy as well as the industry.

Whether he's all smiles about a recent deal or distraught about the implications from the black market, the man isn't afraid to open up with the financial media as he commentates on various events happening within the fast-moving field.

While Canopy Growth may seem like the obvious choice to ride the coattails of Linton and company, I'd urge investors to also keep an ear open for Linton's marijuana venture capital spin-off in **Canopy Rivers** (TSXV:RIV), which goes live on the **TSX Venture Exchange** this week.

As you may have heard, many pundits have noted that the cannabis market is slated for rampant consolidation. Large cannabis companies are expected to gobble up their smaller, up-and-coming counterparts. And while that's all happening, disrupted alcohol behemoths, consumer packaged goods firms, and pharmaceutical giants are all probably going to want a [puff out of the cannabis sector](#) to hedge themselves against a potential the "substitution effect."

Aurora strikes out

On one side of the spectrum, you've got [Aurora Cannabis \(TSX:ACB\)](#) with its aggressive M&A strategy. The company made aggressive shareholder dilutive acquisitions early in the game, paying whatever ridiculous premium to grow in size.

Clearly, shareholders weren't a fan of management's seemingly impulsive moves, as shares have underperformed the broader basket of pot stocks so far this year. More recently, Aurora announced its intention to spin off Aurora Australis, a subsidiary that'll focus on both U.S. cannabis and real estate. That's an intriguing move, but nowhere near as compelling as Canopy's more prudent "avoid illegal markets" strategy.

So, how is the cannabis market going to be consolidating, if not fast and furious? There's a limited pool of outstanding marijuana talent out there, after all! Once the good acquisition targets are scooped up, there'll be a limited pick of the litter.

Canopy Rivers: a way to get the small deals flowing minus the dilution

Enter the Canopy Rivers model. Linton's putting his VC hat on and is allowing small, up-and-coming cannabis players the opportunity to join the Canopy family with Canopy's management expertise and capital up for grabs for the low cost of a partial equity stake.

This model is pure genius. And it's a far more prudent way to slowly consolidate the nascent industry without jumping headfirst into the deep end. The VC model will allow Canopy to keep an active eye on the most promising up-and-coming talents in the marijuana pool, allowing Linton to get a more detailed look under the hood of the best-in-breed names that are out there.

If Linton likes what he sees, he'll either scoop up the company if the price is right or initiate a small stake with an exclusive option to scoop it up fully in the future.

This conservative VC model allows Canopy to get a front row seat to future consolidation without the need to increase debt or diluting shareholders to death. Dipping a toe into the cannabis rivers seems like the way to go, and unless Canopy's peers copy its VC strategy, I have no doubt that Canopy will get first dibs on all the top-tier talent. Who knows? The talent rivers may run dry after Canopy's had its fill!

I'd watch Canopy Rivers shares' closely, as they could fly like a bat out of hell once its issues finally go public. The cannabis rivers are flowing with opportunity.

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