



Should You Buy Canopy Growth Corp's (TSX:WEED) Venture Spin-Off?

Description

Last Thursday, **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) spun off its venture arm, **Canopy Rivers** (TSXV:RIV). It was a resounding success. In light of the [euphoria around all things cannabis](#), this wasn't all that surprising.

The subscription was oversubscribed. In other words, demand for the offering outstripped supply. This is great news for the company. Initially, the company set out to raise \$60 million. It ended up raising \$104 million.

It was a complicated, reverse takeover in which Canopy Rivers acquired all outstanding shares of AIM2 Ventures, and subsequently began trading as Canopy Rivers under the symbol RIV. Upon listing, Canopy Growth owns approximately 25% of the newly publicly traded company and 90% of the voting shares.

What is Canopy Rivers?

Canopy's management compares the spin-off to Google Ventures. Its goal is "to pursue investment opportunities in the emerging global cannabis sector." This is fairly broad in scope. In essence, the company invests in up-and-coming cannabis companies who represent different parts of the supply chain.

The investment theory in of itself is an intriguing proposition. Although it does have a stake in other producers, it goes beyond cannabis production and looks at emerging tech, logistics, genetics, and more.

Does it make a good investment?

The problem with IPOs is those late to the game typically miss out. The only benefactors from the Canopy Rivers issue thus far were those who got their hands on the initial subscription receipts which were valued at \$3.50 per share. These receipts give holders the right to exchange receipts for common shares at a one-to-one ratio.

How did those late to the game fare? Not so great.

On the first day of trading, the company opened at \$10.75, reached a high of \$11.78 before closing the day at \$8.75 per share. The end result was an 18% drop from the opening price. The stock has seen several double-digit daily losses. As of writing, the stock is trading at \$7.06 per share, down almost 35% from its opening price.

Fool contributor Joey Frenette [warned investors](#) before the IPO. In his words, “most investors should take a rain check on the Canopy Rivers IPO.” It turns out this was well-timed advice.

Wait for the dust to settle

According to the company’s pro-forma financial statements, it has a book value of \$305 million. As of writing, Canopy Rivers is trading at a valuation of \$1.2 billion, or approximately four times book value. Surprisingly, this is quite reasonable given the current valuations of some of the more notable players in the cannabis industry. Its majority shareholder Canopy Growth is trading at almost 12 times book value.

Regardless, this issue will continue to be volatile in the short term. The industry is experiencing rapid price swings. Given that Canopy Rivers is trading on the venture exchange, it is even more vulnerable to sector weakness. That being said, it is certainly one to watch for as the dust settles.

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