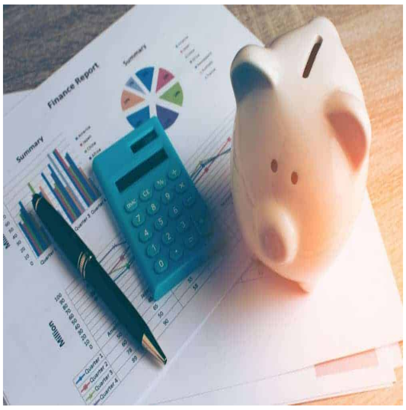

What Tilray Inc's (NASDAQ:TLRY) $400 Million Debt Offering Means for Investors

Description

Tilray (NASDAQ:TLRY) has cemented its place on the Mount Olympus of cannabis. Once overshadowed by rival **Canopy Growth**, Tilray has since climbed to a valuation so high, it threatens Canopy's own. In fact, for a brief moment last month, Tilray's market cap *eclipsed* that of Canopy. That rally passed after Tilray shares slid over 50% in a few weeks, but shortly thereafter they started rising again.

Currently, Tilray trades for around $150, up from $116 five days ago. But recently, Tilray made an announcement that had some market commentators scratching their heads.

On Wednesday, the company announced that it was borrowing $400 million through a private bond placement — a move that will increase its debt almost tenfold. The company cited several reasons for the placement, including working capital, financing for future acquisitions, and paying off a $9.1 million mortgage. These are all valid reasons for borrowing money. But will the $400 million worth of debt help Tilray deliver value to shareholders?

It helps to start by looking at how the placement could affect revenue growth.

Revenue growth

Tilray, like many cannabis companies, is growing revenue at a steady clip. Its revenue growth outpaces Canopy's at 95.2% year over year. It goes without saying that this is significant growth. But **Aurora Cannabis**, which has higher *total* revenue than Tilray, is also *growing* revenue faster at 223% year over year.

Using its competitors as a basis for comparison, I conclude that Tilray could be growing revenue faster. The question is, will the $400 million in debt help? In some scenarios, yes. If Tilray uses the lion's share of the loans to acquire profitable companies as subsidiaries, then it may work. But that depends on which companies Tilray acquires. Early stage startups with no assets except for IP will not make the cut. If Tilray's goal is to increase revenue by acquisitions, then it needs to find strong companies to buy out — but many of those are already being gobbled up by Tilray's competitors.

Investors spared from dilution … for now

One upshot of Tilray's bond placement is that it will spare investors from the fate of equity dilution. Whenever a company issues stock, each existing shareholder's stake becomes proportionately smaller. This is a problem facing many other cannabis companies at the moment, including Canopy, which was diluted significantly by the $5 billion investment it received this past summer.

Because debt financing leaves ownership unchanged, opting for it may benefit Tilray investors in the long term. This assumes, however, that Tilray uses the money to drive revenue and earnings. If the company does not turn a profit on the investments it makes with its newfound war chest, then it will have a debt burden with significant interest expenses that will eat away at shareholder value just as surely as equity financing would.

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