



## What Canopy Growth Corp's (TSX:WEED) \$425 Million Hemp Deal Means for Investors

### Description

It's October, and **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) is once again making headlines for M&A activity. But this time, Canopy is the one doing the acquiring. Just recently, the company announced that it had signed a deal to buy out Colorado-based Ebbu for \$425 million worth of stock and cash.

The deal, which will see Canopy pay \$25 million in cash and issue 6,221,210 new shares, increases Canopy's R&D assets significantly. In fact, it appears to be specifically motivated by a desire for new hemp research, as Canopy has agreed to pay Ebbu up to \$100 million more if it hits certain scientific milestones.

Without a doubt, this deal will strengthen Canopy's research efforts. But will it enrich investors? To answer that question, we need to look at why Canopy is making the deal in the first place.

### Product line diversification

It goes without saying that R&D is Canopy's main motive for this acquisition: Ebbu is a research company, after all. But a truckload of scientific knowledge is worth nothing in itself. The real question is how Canopy will use this know-how to generate income.

According to statements made by the company, it is looking to tap Ebbu's knowledge to bolster its own hemp and THC-rich cannabis breeding programs.

Cannabis is a product category that, in itself, has little differentiation. While there are some minor differences between Indica and Sativa strains, or high-THC and low-THC strains, for the most part cannabis flower [is a commodity](#). To avoid competing on price points, cannabis manufacturers will need to differentiate themselves. And it's here that Ebbu's research strength may prove an asset to Canopy: by patenting new strains of cannabis with specific properties, the company may carve out a lucrative niche that competitors can't touch.

### Increased sales?

If Ebbu's research products prove valuable and patent-worthy, then they may drive more sales for Canopy. There is a strong, unmet demand for cannabis strains that offer the benefits of cannabis without the drawbacks. A strain that, say, reduces nausea without getting the user high or gets the user high without causing paranoia would be a breakthrough. Should Canopy be the first to develop such a product and patent it, it could tap whole new swaths of customers that would otherwise not be interested in cannabis.

### Even more dilution

Now for the bad news:

This acquisition is going to cause even more dilution in Canopy shares, which [have been diluted](#) heavily to date. This deal will see Canopy issuing over six million new shares and, unlike the **Constellation Brands** deal, will not bring a boatload of cash into the company to offset the dilution. In fact, the company will be shelling out cash in addition to diluting its equity. For this reason, investors should hope that Ebbu's research innovations start producing income for Canopy in short order. Otherwise, this acquisition may be of questionable value.

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