



## Is Aurora Cannabis Inc. (TSX:ACB) Abandoning This Strategic Investment?

### Description

On a widely publicized strategic investment in which **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) had the option to buy a controlling stake in a new and purposefully growing cannabis stock, management has not only allowed the option to lapse, but went on to dispose of 14.58% of the company's equity position just when the investee was closing a new bought deal financing round. Could Aurora totally exit its position in **Green Organic Dutchman Holdings** (TSX:TGOD) soon?

There have been some interesting developments as far as Aurora's position on TGOD is concerned lately, starting with the expiration of an extend option for Aurora to increase its stake in the investee on October 12.

### Expired options

As a cornerstone investor, and as part of an investor rights agreement, Aurora had the milestone option (among several others) to purchase a further 8% stake in TGOD (on a fully diluted basis) from treasury for cash at a 10% discount to the 10-day volume-weighted-average price (VWAP) 90 days after the investee's stock listed on the TSX.

TGOD debuted trading on the TSX on May 2 this year.

Aurora failed to take up this option, even after its expiry date was extended by a month, all the other three milestone options expired in September, and the company no longer has the option to buy a discounted stake in the investee to build up a controlling position.

### Director resignation

In its quarterly financial results for the quarter ended September 30, 2018, Aurora reclassified its investment in TGOD from *investment in associates* to *marketable securities* and booked an unrealized gain of \$144 million on the position as it noted that "the company no longer held significant influence in TGOD due to the resignation of its board representative from TGOD's board of directors and other

qualitative factors.”

Aurora no longer has board representation at TGOD, gave up the options to buy a discounted stake, and went on to dispose part of its 17% stake in the investee.

## Then the partial equity disposal

Aurora announced on October 18 that it had disposed of 14.58% of its stock position in TGOD by selling 5,783,200 shares on the open market between October 10 and October 16. The company now owns 13.2% of TGOD issued shares, and 15.3% on a fully diluted basis.

The company hints that it may continue to sell.

“Aurora may, from time to time and at any time, acquire or dispose of shares and/or warrants of TGOD ... in the open market or otherwise, and reserves the right to dispose of any or all of its Securities in the open market or otherwise at any time and from time to time, and to engage in similar transactions with respect to the Securities, the whole depending on market conditions, the business and prospects of TGOD and other relevant factors,” the press release stated.

## There were some reasons to sell

Aurora didn't have much in its cash coffers last quarter, with a closing cash balance of under \$150 million by September 30. The decision to invest further in TGOD might have required a new and dilutive equity raise or the disposal of other securities in its investment portfolio. At this juncture, management might have weighed the options and concluded it was wise, not only to allow the options on TGOD to expire, but to also dispose some stake in the young organic cannabis firm to fund better ranking investment opportunities ... like Choom Holdings.

The company could draw on the **BMO** bank line of credit, but I wouldn't personally borrow funds to buy an equity stake — more so in a high-risk marijuana stock that currently has no product to sell in Canada until later in 2019 when facilities come online. Potential product surpluses could start to hit the market by that time, as many facilities under construction today in Canada will have been completed.

With more than 500,000 kilograms in funded productive capacity today, excluding the TGOD purchase agreement, the relative value of TGOD in Aurora's production portfolio has significantly declined.

## Foolish bottom line

It's very possible and likely that Aurora may exit the TGOD position in the short term, but the company may not sell right now as the investee's equity has [taken a severe beating](#) lately. The institutional investor may decide not to sell into a weak market, but I may not be surprised if Aurora decides to exit the position as the stock substantially recovers. After all, the shares are marketable securities now, with little strategic value attached to them, unless if the signed supply agreement specifies a minimum equity threshold.

## CATEGORY

1. Investing

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### **Date**

2025/08/22

### **Date Created**

2018/11/22

### **Author**

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