



## Is This Aurora Cannabis Inc's (TSX:ACB) Response to Canopy Growth Corp's (TSX:WEED) Latest U.S. Hemp Investment?

### Description

There's a new scramble for the recently federally legalized U.S. hemp market by Canadian marijuana firms, with leading cannabis grower **Canopy Growth** announcing its [plans for a massive hemp investment in New York State](#) on January 14.

Incidentally, on the very same day **Aurora Cannabis's** ([TSX:ACB](#))(NYSE:ACB) spin-off **Australis Capital** (TSXV:AUSA) released news of a US\$3 million investment into one of America's largest integrated hemp outfits, Folium Biosciences.

One would be tempted to think that Australis's latest move is kind of an indirect reply to Canopy's promise to invest US\$100-150 million in a Hemp Industrial Park in the next few months by Aurora Cannabis, as it chooses to enter the U.S. market indirectly through a related party in which it has an option to buy a majority stake when cannabis becomes federally legal down south.

### But how big is Australis's latest deal?

If Folium Biosciences is the "largest vertically integrated producer, manufacturer, and distributor of hemp derived phytocannabinoids in the United States" as Australis claims, then a US\$3 million investment wouldn't reasonably buy a significant stake into the equity of the business, especially considering the \$300 million market capitalization for **Charlotte's Web** and the US\$430 million market cap for **CV Sciences**, the other leading hemp stocks in this space.

If we are to entertain the idea that Aurora wants to carry over its aggressive growth strategy into the U.S., then this deal could be too small for such a strategy to work out, unless there is a bigger game in play.

It's possible that Aurora management may decide to invest alongside the spin-off, and the play would need Australis to make a token move to stifle competing suitors from Folium, then Aurora would make the bigger investment once it secures more liquidity. This idea could make sense considering that

Aurora is concluding a US\$300 million, 5.5% unsecured debenture private placement that could provide up to US\$345 million in cash should the over-allotment option get exercised.

## Improper assertions?

It's arguably improper to say that Aurora is breaking into the American hemp and cannabidiol (CBD) market through its independent spin-off, as the narrative implies that the company's management is exerting undue influence and unwarranted pressure on Australis Capital executives for Aurora's selfish ends. Such an assertion would indirectly imply significant corporate governance malfunctions.

Instead, investors may value the deal in terms of Aurora's option to buy back into Australis Capital when cannabis becomes federally legal down south, but that option is a complex financial asset to price due to the high level of legal and political uncertainty involved. What would be the probability of marijuana being legalized in the U.S. over the next one, two, or five years?

I expect Aurora to make a direct move into the U.S. hemp and CBD market, and I wouldn't count Australis's investment into Folium as Aurora's just yet, although there is possibility that Aurora could follow-on and make a bigger investment into Folium too, establishing a direct influence in one of the biggest hemp operations in the new target market.

## Investor takeaway

Over the last few decades, North American economic sectors have become largely dominated by a few large corporations that take much of the profits. The nascent cannabis industry will likely be no exception, and the battle for market domination will intensify from here.

Aurora Cannabis, although less liquid than cash-rich Canopy Growth, will continue to fight aggressively for market share, and I expect the company to announce a major U.S. hemp investment in the next few months if management still has the desire for growth and the firepower for execution exhibited over the past two years.

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