Could Tilray (NASDAQ:TLRY) Outpace Aurora Cannabis (TSX:ACB) and Canopy Growth (TSX:WEED) in Europe?

Description

Tilray (NASDAQ:TLRY) broke the news on Wednesday that its wholly owned subsidiary in Portugal completed its first-ever harvest of medical cannabis, and the company is poised to significantly increase product sales to Europe this year. With this announcement, should investors expect the cannabis producer to beat competitors **Canopy Growth** (TSX:WEED)(NYSE:CGC) and **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) in Europe revenue growth this year?

A closer look at the three companies' distribution channel strength, productive capacity, and historical performance in the emerging high-margin medical cannabis market could help us have a better picture of which one could lead in a European cannabis market, which is expected at **BMO** to reach the $30 million mark in seven years' time.

Productive capacity comparisons

Tilray has invested in a 250,000-square-foot grow facility in Portugal, and the company has a 60,000-square-foot E.U. GMP-certified facility in Nanaimo, Canada.

Canopy purchased a 430,000-square-foot operating greenhouse in Denmark and obtained an open licence to produce any amount of cannabis and extracts from it. The company has over 500,000 square feet of E.U. GMP-certified production space in Canada, and management could channel all produce to Europe should it so decide.

Aurora's 100,000-square-foot retrofitted facility in Denmark is ready for production with an estimated annual output of 8,000 kilograms; first sales are expected this year. The company's second Denmark facility is under construction and expected to come online by mid-year 2020, producing over 120,000 kilograms of marijuana from 1,000,000 square feet of productive space. Further, the company has two E.U. GMP-certified facilities in Canada that could produce a combined 11,800 kilograms of marijuana for the European market alone.

Distribution arrangements

All three companies have made strides in establishing vibrant distribution channels across Europe.

Tilray is in partnership with NOWEDA, a cooperative owned by 9,000 pharmacists and one of the largest wholesalers and distributors in Germany — a highly promising medical cannabis growth market. The company also distributes product through partnerships with pharmaceutical wholesalers GEHE, Alliance Healthcare, Pharma Privat, and Phoenix in cooperation with pharma logistics partner Paesel + Lorei, which has a deep experience in narcotics handling.

Aurora has import licences in Poland, Czech Republic, Luxembourg, and Italy. The company has a leading edge in Germany through its subsidiary there, which has access to over 3,000 German pharmacies; the subsidiary is in a collaboration agreement with mighty Heinrich Klenk GmbH & Co. KG, one of Europe's largest medicinal plant companies with distribution access to over 25,000 pharmacies throughout Germany and Europe. With that collaboration, the company launched a new cannabis brand,"Cannabis Klenk," to target Europe last year.

Canopy's subsidiary Spektrum Cannabis GmbH now has access to over 1,200 Germany pharmacies as distribution points. The company has generated impressive sales numbers from Europe over the past 12 months.

Historical sales run rate in Europe

Here is where Tilray has faltered historically.

Over the first nine months of 2018, the company only managed to book US$1.84 million, despite having a licence to sell a full spectrum of high-value cannabis oils to Germany (unlike competitors who could only export dried flower).

Canopy booked $7.94 million from German sales in first nine months of last year and $10.64 million for the year, and the company has a near 250-kilogram quarterly sales rate in Germany.

Aurora was neck to neck with the global leader after generating $7.8 million Europe sales in the first nine months of 2018 and booking $10.63 million revenue from the continent last year. Although quarter-on-quarter growth was flat during the year, the company blamed the lack of available product to sell. Things are going to be different after recent licence receipts.

The verdict

All three companies will have local European production by the end of this year. Tilray could have enjoyed first-mover advantage, as it was the first to export a full product spectrum there, but the company was slow to boost productive capacity. The competition came hungrily for its pie, and they wanted it more.

Today, its two leading competitors enjoy a better quarterly sales run rate, have strong distribution channels, and, most importantly, they have bigger facilities in the E.U. territory that will be supported by even larger E.U. GMP-certified facilities at home, and they are better placed to cement their market lead.

It will be a tough challenge to outgrow them, and there is the new threat from Israel to watch out for and some growing competition from local producers to worry about.

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