



Canopy Growth (TSX:WEED) Increases U.S. Investment: Is This Accretive to Growth?

Description

Canadian marijuana and hemp giant **Canopy Growth Corp** ([TSX:WEED](#))(NYSE:CGC) announced a fresh hemp acquisition of a prominent United States hemp outfit on Thursday, and the company's latest move may better position it for success in the nascent cannabis market south of the border.

What we know so far

The acquired company, AgriNextUSA is a hemp outfit co-founded by U.S. hemp pioneer Geoff Whaling who was a strong advocate for the newly legalized industry. The new acquisition had a strong vision to conquer the U.S. hemp market by operating at a higher level in the value chain — a view that is strongly supported by Canopy Growth.

The vision involves creating Hemp Industrial Parks “such as [the one previously announced](#) in New York State,” across America that will process the entire hemp crop “from root to tip” into “advanced materials, cosmetics, energy, fibre and textiles, food and protein production and the health and wellness” products like cannabidiol (CBD) oils while providing local farmers with regional destinations for their crop.

There seems to be a perfect strategic fit with this deal that will allow Canopy to serve several industry verticals while strongly positioning itself for a strong presence in the U.S. cannabis market in the future when it becomes federally legal to do so.

The latest acquisition's total consideration is undisclosed, but it was on a cash basis. We'll get more detail in the coming quarterly financial statements.

In summary, instead of buying up primary production assets like it did with cannabis in Canada, Canopy's hemp business in the United States will be focused on manufacturing and new product development, leaving the farming of hemp to those who know it best, the American farmers.

A perfect market development strategy?

There's cutthroat competition in the nascent U.S. hemp industry.

Unlike in Canada, where cannabis firms enjoyed some level of regulatory barriers to entry as Health Canada was a bit slow to issue new production and sales licenses to applicants, giving the early entrants some first mover advantages and wide room to knit their expansion strategies, the U.S. hemp space is a totally different playing field.

In the spirit of empowering American farmers, the new *U.S. Farm Bill 2018* opened up the hemp industry to all, and there aren't any significant barriers to market entry for those with access to the land, so a market development strategy that involves investing in primary agriculture is bound to face stiff competition from local farming communities.

Instead, investing in assets higher in the value chain is a more respectable entrepreneurial venture, and Canopy's decision to build hemp industrial processing parks looks a better placed option in trying to conquer the new market.

How accretive?

Agriculture is a profitable business, but the value added and margins created by a company that does the processing, manufacturing and distribution may be much higher. Barley and sorghum farmers are not really as profitable as beer brewers in the alcoholic beverages market.

The new business plan allows Canopy to operate in several different industries including construction materials, synthetics and the legacy CBD cannabis oil line at a grand scale.

To think that Canopy will run multiple industrial parks in the United States stirs investor interest, especially if we deduce that the company is indeed building up some serious infrastructure that will make it a strong force to contend with in a new cannabis market when the legal framework finally allows.

Investor takeaway

Canopy Growth looks well positioned to rule the global cannabis market, and is well resourced to follow through on its expansion strategy after a \$5 billion investment by **Constellation Brands**.

Management's chosen strategic play in the United States looks a brilliant grant entrance by a global giant into a big, highly competitive new market and it positions the company for some significant success.

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