



## Did Aurora Cannabis (TSX:ACB) Just Kill Green Organic Dutchman (TSX:TGOD)?

### Description

Last year, **Green Organic Dutchman Holdings** (TSX:TGOD) was the [hottest pot stock](#) on the market. The company went seemingly turned into a \$2 billion marijuana power player overnight. But over the last year, shares have shed 70% of their value. Green Organic's market cap is down to just \$700 million. The entire cannabis industry is being squeezed, but actions by competitor **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) are largely to blame.

On September 4, Aurora liquidated its 10.5% stake in Green Organic and terminated its option to purchase 20% of the company's cannabis production. This has been an ongoing story, weighing on shares for nearly the entire year. While investors continue to abandon the stock, you should pay close attention. Contrary to popular belief, Green Organic is *not* dead. By playing the contrarian, you could double or triple the value of your investment over the next 12 months.

### Here's the deal

On January 5, 2018, Aurora took a 17% stake in Green Organic, with options to eventually increase their ownership to more than 50%. The stake was purchase at a historic low of \$1.65 per share. The investment also granted Aurora the right to purchase up to 20% of Green Organic's annual organic cannabis production, although there were escalators that would eventually allow Aurora to purchase as much as one-third of the annual output.

In addition, Aurora also agreed to help the company construct its next-gen grow facilities with the help of its greenhouse design and consulting subsidiary. According to the original press release, "TGOD has the potential to become one of the lowest-cost cannabis producers in Ontario and beyond."

"Teaming up with Aurora, the industry's innovation leader, provides us with a stable, supportive shareholder, through whom we have access to best-in-class technologies and industry know-how, which we believe will significantly accelerate our time to market," said Csaba Reider, President of Green Organic. "The supply agreement with Aurora validates our strategy to produce premium priced

organic cannabis. With this significant cornerstone investor and customer, we will be able to leverage our deep consumer packaged goods and brand building experience, as well as Aurora's well-established brand recognition, to pursue rapid growth."

## The aftermath

Over the next 18 months, Aurora declined to pick up its options. This January, Aurora purchased Whistler Medical for \$175 million, eliminating its need to rely on Green Organic for organic cannabis. This September, Aurora walked away from the partnership completely. After losing its biggest long-term partner and potential acquirer, TGOD shares now trade at just 2.9 times 2020 sales. That's one of the cheapest multiples in the industry.

But all is not lost. As mentioned, Aurora helped Green Organic design and build their facilities. This guidance will likely help the company achieve industry-low production costs, as production ramps in the fourth quarter.

Additionally, Green Organic now has the opportunity to achieve much higher profitability. Under the previous agreement, Aurora had the right to buy one-fifth of TGOD's production at *wholesale* prices. According to the company, the deal termination "significantly improves TGOD's revenue and gross margin mix due to the repatriation of TGOD's premium organic cannabis previously earmarked for Aurora." Management believes that the "revenue sharing model with Aurora ... would have lowered TGOD's average selling price and margins."

In short, this short-term pain may pave the way for long-term gain. The big uncertainty, however, is if Green Organic can replace Aurora as a customer. According to Cowen analyst Vivien Azer, one of the leading voices in the market, cannabis sales should reach \$80 billion by 2030. He suspects the U.S. could make marijuana federally legal within a decade. That means over the long term, TGOD will likely have no issues selling its output, even if there are a few lean years in the interim.

If the company can achieve progress next year as production ramps, expect the market to re-rate shares quickly. Based on industry valuation multiples, shares could have 100% or 200% upside. It's a big risk that requires patience, but the upside is clear.

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