Canopy (TSX:WEED) and Drake Break Up: Why the Deal Went up in Smoke

Description

The cannabis industry has been attracting attention from the entertainment industry for quite some time. There is a term for it: celebrity "cannapreneurs." The portmanteau comes from the words *cannabis* and *entrepreneur.* Thanks to their social media presence and connections with the right "audience," many celebrities are ideally positioned to market their cannabis-based products/brand.

These celebrities include Snoop Dogg, Whoopi Goldberg, Seth Rogan, *and* Drake. With a net worth of around US$180 million, Drake is one of the wealthiest rappers in the world. The Canadian-born rapper tried to launch a cannabis brand called More Life Growth in conjunction with **Canopy Growth** (TSX:WEED)(NYSE:CGC). However, the two partnering entities recently parted ways.

Canopy Growth and Drake

Canopy Growth went into an agreement with Drake which stated that the company would revamp a Scarborough-based facility. Together, the two business entities (More Life Growth is also a licensed brand) would sell recreational marijuana and derivative products in the country. The agreement was a 40/60 partnership in which Drake had the upper hand (60% stake).

Even though the venture was announced in 2019, no significant progress was made, and a few days ago, Canopy representatives stated that the company has divested from this project, and both entities have parted ways. Canopy took a $10.3 million impairment charge and is now using the Scarborough site as an R&D facility.

Even before the deal went south, the CEO expressed in an interview that the arrangement wasn't progressing the way it was expected to. More Life Growth was focused more on a cannabis-oriented real estate play, which Canopy didn't think was a profitable line of business, especially in a COVID-ridden world.

Is Canopy a good buy?

Canopy is one of the largest cannabis players, not just in the country but in the world. The company is gearing up for the major U.S. play ahead of legalization. And in this scenario, divesting from a major U.S. name might not seem prudent, but where Canopy parted ways from Drake, it kept Martha Stewart — another major name.

But Canopy isn't a good buy because of its allegiances with the well-recognized celebrity names. It's a good cannabis play because of the strong financial position, manageable debt, and powerful cash position. After it completes its **Supreme Cannabis** acquisition, Canopy is expected to become the third-largest cannabis company in the country.

The cannabis company has a strong balance sheet (for both long and short term), and it's well positioned to make a play for U.S.-based cannabis businesses as soon as the federal government legalizes marijuana.

Foolish takeaway

Canopy stock has come a long way down from its yearly peak (55%). It might not be as discounted as it's ever going to be in the near future, but it might be at an enticing price point. The U.S. marijuana legalization is expected to give many Canadian weed stocks a significant boost, and Canopy is one example.

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