

Canopy Growth Corporation

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Why Canopy Growth's deal with Constellation was the best - and worst - thing for the shares

For Canadian cannabis company Canopy Growth Corp (NYSE:CGC, TSX:WEED), an additional US\$4bn investment from beer producer Constellation Brands Inc (NYSE:STZ) may have felt like a godsend, boosting its shares double digits after less-than-impressive quarterly results.

However, trader and market commentator Tim Collins said the deal may be the worst thing to ever happen to Canopy in the short-term, shaping the company's narrative in a way that makes unattached Tilray Inc (NASDAQ:TLRY) the more appealing cannabis stock.

\$CGC getting money from \$STZ may have been the worst thing that could happen to it (short-term) from a stock performance standpoint when you compare it to \$TLRY

However, unless TLRY gets a cap raise done soon, CGC made the better long-term move

— Tim Collins (@RetroWallSt) September 18, 2018

"Everyone loves a mystery; the excitement of the unknown, the potential of what may come," Collins told Proactive Investors in an email. "Without a deal, bulls can dream about whatever potential fits their narrative."

The deal gave Constellation a 38% stake with the option to scoop up even more shares, bringing its ownership stake to 50%.

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Constellation can buy another 88.5 million shares for just over US\$40 per share and then an additional 51.3 million shares at the volume weight average price at the time of exercise.

"The potential for a 'dream' deal is gone. Pushing shares speculatively higher loses appeal when Constellation can buy them 'below' market. Would they quickly sell? Probably not, but you can never say never," said Collins.

Canopy secured long-term stability via its deal, but lightning almost never strikes the same place twice.

It's unlikely another deal like this will come its way, shifting investor attention to the potential of other cannabis stocks, like Tilray.

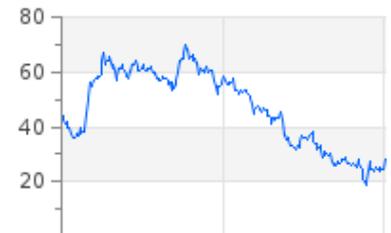
"Anticipation flew past unabated excitement straight into delirium and short-squeezes," said Collins, who is well-known for his options trading strategies.

However, don't expect Canopy Growth to go up in smoke anytime soon.

Price: 26.39

Market Cap: \$9.23 billion

1 Year Share Price Graph



December 2018 June 2019 December 2019

Share Information

Code: WEED

Listing: TSX

52 week High Low
70.98 18.23

Sector: Cannabis

Website: canopygrowth.com

Company Synopsis:

Our vision is to be the number one cannabis company in the world. From product and process innovation to market execution and everything in between, we are driven by a passion for leadership, a commitment to drive the industry forward, and above all else, providing medical and recreational cannabis consumers the best possible experience.

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When comparing the two cannabis companies, Collins notes that at the end of the day, Canopy has the money in the bank.

Tilray has the higher market cap but Canopy has US\$4bn in cash while Tilray's balance sheet is less impressive.

The company raised around US\$150m in its initial public offering in July, but Collins forecasts a secondary offering on the horizon if Tilray doesn't land a multi-billion dollar deal of its own.

"It's going to need a doozy of a deal to keep the price elevated. It's simply hard to imagine any big name will pay significantly more in terms of valuation than what Constellation paid for CGC," said Collins.

For those debating between Canopy Growth and Tilray, Collins said that he would bet on the company with money in the bank rather than money on paper.

--At the time of publication, Collins had a position in Tilray put butterfly options

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