

## MARIJUANA

# Canada's Canopy Bets More on U.S. Cannabis Through TerrAscend

By Bill Alpert

Dec. 9, 2022 2:06 pm ET



State-licensed marijuana operators are waiting for Congress to address financial burdens resulting from weed's illegality on the federal level.

JACK GUEZ/AFP/Getty Images

Canopy Growth has a Nasdaq listing and the backing of the alcoholic beverage biggie Constellation Brands

**STZ -1.26% ▼**, but the cannabis producer is confined to its small and unprofitable home market of Canada. So in October, it said it would adjust its investments in several American weed sellers to prepare for the eventual U.S. federal allowance of cannabis sales.

Friday, Canopy (ticker: CGC) made a second bet on U.S. growth. It converted a \$125 million loan into exchangeable shares of TerrAscend **TER -1.35% ▼** (TRSSF), a midsize operator with licenses in states including Pennsylvania, New Jersey, and Michigan.

State-licensed operators like TerrAscend haven't had an easy time raising capital. Marijuana's illegality on the federal level keeps them out of major stock exchanges and the portfolios of most institutional investors. Canopy's debt conversion will help save TerrAscend about \$10 million a year in interest expense, TerrAscend chairman Jason Wild estimates.

State-licensed cannabis operators have waited for Congress to relieve financial burdens resulting from weed's federal illegality, through legislation such as the SAFE Banking Act. But passage remains uncertain: Although Senate majority leader Chuck Schumer (D, NY) supports changes, he still faces opposition by Mitch McConnell (R, KY), the minority leader in the upper house.

The legislative logjam means it is essential that U.S. operators cut costs and become profitable in their operations, says Wild, who also runs a hedge fund that was an early investor in cannabis stocks.

Steep losses at Canadian operators like Canopy and frustration with U.S. federal overhauls have weighed on cannabis shares. At noon Friday, Canopy's stock was down 5% to \$2.92, in a flattish overall market, while TerrAscend's were up 1% to \$1.80.

Canopy has structured its U.S. investments to avoid offending federal prohibitions and, as important, the Nasdaq and Toronto stock exchanges where its shares list. The Nasdaq hasn't signed off yet on the Canadian company's proposed restructuring of its U.S. activities, which also face a shareholder vote. But Toronto has indicated its satisfaction.

Canopy's debt conversion would bring its potential ownership of TerrAscend to 18%. Exercise of some accompanying warrants would lift its TerrAscend stake to 23.4%.

"We plan on being a big part of what they are doing," Wild told *Barron's*.