



## What I Like About Aphria Inc.'s Latest Acquisition

### Description

**Aphria Inc.** (TSX:APH) announced on January 15 its plan to acquire a smaller but highly regarded privately held Canadian marijuana licensed producer Broken Coast Cannabis Inc. in a \$230 million cash plus stock deal set to close on January 31.

The deal brings into Aphria's fold a high-quality indoor cannabis producer, creates a combined entity with access to over 40, 000 registered patients, as well as extends Aphria's long-term anticipated productive capacity to over 230,000 kilograms of dried cannabis per annum.

Aphria's stock closed up 20.42% to \$21.70 during that trading day in a celebrated share price rebound for the growing cannabis firm, as investors priced the news into Aphria's stock.

There's a lot to like about this latest Aphria deal.

### Elevated status

The latest acquisition will no doubt significantly elevate Aphria's ranking in the marijuana sector to surpass close competitors **Aurora Cannabis Inc.** ([TSX:ACB](#)) and **MedReleaf Corp.** (TSX:LEAF) in operating earnings and probably revenue generation for the next few quarters.

Aphria may become the second-largest Canadian marijuana firm in terms of potential revenue this year, unless Aurora manages to successfully acquire **CanniMed Therapeutics Inc.** in the [open hostile takeover bid](#).

### Geographic diversification

Broken Coast has more than 10,000 registered patients it is bringing into the Aphria family, with more than half of these clients based in western Canada, thus extending Ontario-based Aphria's market reach into the west coast.

The deal allows Aphria to establish a strong market presence in British Columbia (BC) and provides it with a valuable opportunity for cross selling product offerings to the merged +40,000 client portfolio.

### **Strong brand equity**

Broken Coast is a well-established and award-winning small cannabis player that has created a significant following and customer loyalty over the years in BC.

The company was recognized in three of the seven cannabis producer categories of the Lift Canadian Cannabis Awards in 2015, including scooping the award for best customer service. Broken Coast was a winner again in the best customer service category in 2016, and the company was a winner in the top Indica strains categories in both 2016 and 2017.

Such back-to-back recognition among top licensed producers by voting consumers may indicate a strong brand following for Broken Coast offerings, and the brand may further strengthen within the Aphria portfolio given a higher marketing budget and a broader market reach.

### **Investor takeaway**

Broken Coast has generated positive adjusted operating earnings since 2015, yet the small cannabis firm sells some of its dried cannabis strains at a mere \$4 a gram. This could be strong validation that the company is a viable low-cost indoor marijuana producer and a perfect fit for Aphria, which has been a low-cost leader for some time in the industry, and there could be significant synergistic benefits between the two firms.

That said, I'm not too sure why Aphria wants to maintain Broken Coast as an independent subsidiary and allow it to determine own corporate strategy after taking over 100% control of the investee, but the idea of maintaining current management and production teams in place confirms that Aphria has faith in the current leadership, and Broken Coast may continue building on its legacy as an award-winning brand, even under Aphria's control.

Aphria probably has a good long-term thing growing, and I will be watching whether the [sudden increase in production costs](#) per gram last quarter will reverse going forward.

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