



Why Is Aphria Inc. (TSX:APHA) Stock on a 14% Rally Today?

Description

Aphria (TSX:APHA)(NYSE:APHA) stock rallied as high as 16.8% on Thursday, as news broke out that **Green Growth Brands**, which recently launched a hostile “takeover” bid that essentially undervalued the leading marijuana producer, is willing to change the terms of its offer.

Bloomberg reported early on Thursday that Green Growth is open to negotiations with Aphria over its recent hostile takeover bid that could result in Aphria shareholders controlling about 62% of the new combined firm, with the remainder owned by Green Growth investors and the new strategic financiers.

The bid had received market disapproval, as it undervalued the target, even based on existing market capitalization at bid launch, but as things now stand, there is a very high probability that the offer terms could change, and traders are bidding up the target’s share price in anticipation of a better deal.

I find it interesting that Green Growth management is reported as implying that the merger negotiations could not necessarily be based on the economics of the deal, but they could as well include talks on how Aphria could be helped to finance its businesses.

Green Growth is seeking equity financing to the tune of \$300 million to help back the takeover bid at \$7 a share, and it has so far made progress in securing \$150 million from a firm backed by the wealthy U.S.-based Schottenstein family. Ironically, this family was once involved with Aphria in a U.S. [marijuana licensing deal back in July 2017](#).

The remaining \$150 million investment has not been secured yet, but that issue has not been listed as a condition for the merger in the takeover bid. Aphria management earlier shot down the offer, arguing that it undervalued the company, and they were justified as Green Growth’s share price remained nowhere near the \$7-a-share price point that the bidder had earlier calculated its deal price from.

A tricky coincidence?

It’s a tricky coincidence that Aphria’s outgoing CEO Mr. Vic Nuefield stepped down from the board chairman position on the very same day that Green Growth broke the news of its intention to launch a

hostile takeover bid for the company; the young company claimed to have the backing of 10% stake shareholders of the target.

Mr. Nuefield and another founding member of the company then announced their resignations from executive positions two weeks later. Could these resignations have something to do with the Green Growth hostile bid?

If so, then we may have a case of a company's founding members working with a smaller entity, which the company earlier indirectly financed through an investment fund, and this smaller player, with the assistance from a wealthy family that once worked with the outgoing directors, bidding to acquire a larger Aphria in an all-share transaction.

Who stands to benefit from the transactions becomes a very important question, and investors will look to the independent directors of the target firm to fairly represent their interests in the hostile takeover bid negotiations in which the acquirer is willing to cede the control of its business to its target.

This transaction may make sense if there are some connected investors who have interests in both the target firm and the acquiring firm and would stand to increase their stake and influence in the new combined company after significantly diluting the interests that current independent company directors represent.

Now that the company has replaced the old board chair with an independent one and set up a commission comprised of independent directors to review the Latin America transactions that triggered all the stock's drama in late 2018, the old guard may feel threatened and booted out of a company they created from scratch. Emotional and ego issues may come into play, and some solace may be found through weakening the independent directors' influence in the company through merging with another.

Foolish bottom line

Aphria is going through turbulent times, but shareholders should enjoy the show as long as the share price is recovering, but a lot could happen behind closed doors as warring parties battle for control of the promising cannabis company.

Well, who knows? I'm just a Fool.

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