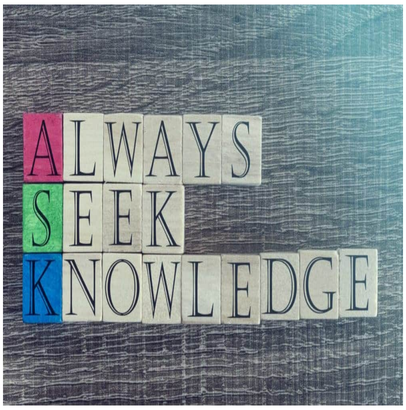

3 Strong Reasons Aphria Inc's (TSX:APHA) Board Won't Negotiate With Green Growth Brands (CSE:GGB)

Description

The **Aphria Inc** (TSX:APHA)(NYSE:APHA) board on Wednesday issued a strong worded, well-crafted refusal of **Green Growth Brands'** (CSE:GGB) hostile takeover bid, even after the bidder had earlier indicated its willingness to negotiate for a potential review of the terms of its offer on January 31 and the target's stock rallied on speculation that a better negotiated deal could be forthcoming.

The target company advised and encouraged its shareholders not to tender their shares in the running hostile bid, citing 10 strong reasons why its board unanimously believes that the hostile bid must be rejected.

Among the well-presented arguments against the Green Growth (GGB) bid are the significant undervaluation of the target's equity, which the target's board describes as a 35% discount to its shares' closing price on February 3 "in sharp contrast to the median 46% premium in recent takeover transactions involving other Canadian licensed cannabis producers."

If ever there was a chance at takeover negotiations, valuation issues can always be adjusted, much like what happened with **Aurora Cannabis** and CanniMed in a similarly hostile manoeuvre that later became a negotiated arrangement.

However, the target has raised some non-reconcilable issues that totally dismiss any hopes for a negotiated outcome between the two marijuana firms, three of which are presented below.

Potential TSX and NYSE delisting

Green Growth has cannabis operations in the United States, where marijuana is federally a Schedule 1 heavily controlled illegal drug. Equity exchanges' policy guidelines may require that any cannabis firm conducting business in a federally illegal jurisdiction be delisted from the TSX and **TSX Venture Exchange,** and the target's shares may also be delisted from the **New York Stock Exchange** for violating federal laws.

Delisting from the major North American exchanges may trigger significant share price weaknesses as market liquidity quickly evaporates. Several institutional investors with strict policy mandates not to invest in smaller and relatively less liquid exchanges like the CSE will have to exit the ticker in droves, triggering a sell-off that may take several years to recover from.

Most noteworthy, the target's stock is a strong constituent of the **S&P/TSX Composite Index**, Canada's major market index that is replicated by many large passive and enhanced investment funds, and other savvy investment strategists who will be forced to dump the shares upon delisting from the TSX.

Investors may be significantly disadvantaged if the company leaves the major exchanges, and management has a duty to safeguard investor interests. This issue may render any takeover negotiations highly unlikely.

GGB's limited liquidity

The target's management views GGB as a highly illiquid company with minimal assets, and they may therefore not be interested to tying the company's fortunes to a potential liability to future growth. The board feels that Green Growth's potential to raise financing is highly doubtful, and this position may be supported by the bidder's inability to raise the full $300 million it intended to support its hostile bid.

Interestingly, GGB's CEO was recently quoted as suggesting that acquisition negotiations should not only include valuation issues, but should also consider how the target can be helped to finance its business. What's there to talk about then if the target company's management doubts the bidder's financial strength and its ability to raise capital?

Inexperience

GGB is indeed a young company created in 2018 that is growing fast through an acquisitions led strategy. Aphria sees the company's management as highly inexperienced in running a cannabis business, let alone at the grand scale that the target is now operating at internationally.

I am buying into the above argument, especially as GGB is yet to show its success and track record in integrating acquired business. The small company intends to control a significant 36% stake in Aphria, a much bigger corporation that's in the process of consolidating new strategic acquisitions that are critical to its global expansion strategy.

No synergistic benefits are foreseen here.

Investor takeaway

Green Growth Brands' hostile bid to acquire Aphria may have hit a concrete wall, and the arguments that the target's management presented against the open bid appear strong enough to dent any hopes of a negotiated deal.

Even if the target may [potentially be in a tight position] in raising new financing before the report from independent directors' inquiry into the troublesome Latin American deals is made public, its directorate is unanimously opposed to the open acquisition bid, and any chances for negotiation are very slim unless the bidder has a new trick under its sleeve.

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brianparadza