4 Ways the Aphria Inc (TSX:APHA) Takeover Bid Could Play Out

Description

Aphria Inc (TSX:APHA)(NYSE:APHA)'s **Green Growth Brands** takeover drama is in the news again. After a first offer was proposed and rejected in December for $2.8 billion, Green Growth came back in January with a $2.35 billion offer. Aphria once again rejected Green Growth's advances, and has openly referred to the takeover bid as "hostile" in a press release.

It's clear that Green Growth is hungry for Aphria. But with Aphria's management rejecting all offers, it's not clear how this drama is going to play out. However, it's possible to narrow the possibilities down to four scenarios–some good for Aphria shareholders, others bad.

Green Growth raises bid and Aphria accepts

The easiest way for Green Growth to successfully acquire Aphria would be to raise its offering price and make another proposal to Aphria's board. In a press release, Aphria management said that Green Growth's offer undervalued their company, which would seem to imply that they'd accept an offer at a higher price.

The question is, what price do they think is fair? No company is worth an unlimited sum, and Green Growth has limited assets. It also seems that Aphria management questions the value of Green Growth shares, so an all-stock deal looks like it's out of the question.

Green Growth makes a tender offer

A second possible scenario is Green Growth making a tender offer to Aphria shareholders, bypassing the need for Aphria management to approve the deal. The problem with this approach is that Green Growth would need to make a lucrative cash offer to persuade Aphria shareholders to sell–and every offer they've made so far has undervalued the stock compared to 30-day average prices, giving investors no incentive to sell.

Green Growth buys Aphria shares on the open market

One way to pull off a hostile takeover is to buy shares on the open market. This could theoretically work, because just 13.71% of Aphria shares are owned by insiders–the only faction known to be opposed to the deal in principle. However, this approach is unlikely to work in practice, because Green Growth is trying to buy Aphria at a price lower than its current stock price–not to mention the fact that said stock is currently on a bull run.

Green Growth withdraws

The fourth and most likely outcome of Green Growth's takeover bid is that the company eventually gives up on trying to buy out Aphria. I consider this outcome likely because the more Aphria's share prices go up, the less likely Green Growth is to pull off either a friendly deal, a tender offer, or an open market buyout. As of this writing, Aphria's market cap was $3.25 billion–well ahead of what Green Growth thinks it's worth.

It's unlikely that Green Growth will be able to buy Aphria by exchanging Green Growth shares for Aphria shares, as the former company is worth about four times as much as the latter by market cap. Green Growth could pursue the deal through financing, but with Aphria edging closer and closer to $4 billion, raising the funds will be hard. Absent some miracle I don't think this deal will happen.

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