



5 Reasons Aphria Inc (TSX:APHA) Wants Investors to Reject the Hostile Takeover

Description

Last week, three developments occurred that could influence **Aphria Inc's** (TSX:APHA)(NYSE:APHA) fate as the target of a [hostile takeover bid](#) by **Green Growth Brands**.

First, it was announced that the initial meeting between Aphria and GGB was brokered by Aphria's legal advisor, thereby indicating that the bid had not initially been hostile. Second, a third-party report showed that the short-seller claims against Aphria were inaccurate, demonstrating the company's value to potential buyers. And third, Aphria's stock tanked after a massive four-day rally, putting its price within striking distance once again.

Basically, several conditions for GGB to acquire Aphria are now in place. But in the face of the ongoing bid, Aphria is advising its shareholders not to sell. The following are the five main reasons why:

Undervaluation

In a summary on its website, Aphria alleges that GGB's bid is a 23% discount to its stock's 20-day volume-weighted average prices. This is in contrast to other takeovers in the cannabis sector, which have been at premium prices. GGB's offer is [1.57 of its shares](#) for each Aphria share. With GGB trading at \$5.9 (as of this writing), its offer is just a hair below Aphria's NYSE stock price. However, Aphria only needs to fall slightly for GGB's offer to represent a premium.

Delisting

Aphria contends that the GGB acquisition, if successful, will result in Aphria being delisted from the NYSE and TSX. This would make it difficult for Aphria to raise equity financing, as it would no longer have these exchanges to sell shares on. Whether this turns out to be the case will depend on how many Aphria shares GGB can acquire.

Shares for shares instead of cash

Aphria is criticizing GGB for offering its own shares in exchange for Aphria shares instead of cash. Aphria management considers this a bad deal, calling GGB an “unproven company” with little experience in the cannabis industry. A quick glance at GGB’s website shows that the company does have a line of cannabis products for sale along with operations in several U.S. states. However, actual production capacity is not clear.

Synergies (or lack thereof)

Aphria claims that GGB doesn’t have synergies with Aphria’s own business and that a buyout would add little to Aphria’s operations. If this is the case, then the buyout would not be a material benefit to shareholders.

Potential downside

A final point Aphria raises against GGB is that its shares are risky and have considerable downside. This point could be overblown: GGB’s stock has been fairly stable in the \$5-\$5.9 price range over the past month, which would not make it volatile compared to typical cannabis stocks. Aphria cites GGB’s “pre-bid” trading range of \$3-\$4 as a point of concern, but Aphria’s own shares have been as low as \$5 as recently as December. Cannabis is a volatile sector, and GGB is no exception to that rule, but its shares actually look remarkably stable so far in this (admittedly young) year.

For Aphria, this takeover drama is nowhere near over. As for its shareholders, they might want to wait to see some financial news from GGB before trading their shares in for something less proven.

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