This Small-Cap Digital Streaming Company Receives a Hostile Takeover Bid: Is It Worth the Risk?

Description

Las Tuesday, **DHX Media Ltd.** (TSX:DHX)(NASDAQ:DHXM) acknowledged via press release that it was aware of a hostile takeover bid that announced earlier in the day by Sakthi Global Holdings, a subsidiary of Sakthi Global India, a $1.2 billion Indian conglomerate.

The proposed merger consisted of an offer of $5.32 per share, composed of $1.32 per share in cash, along with $4.00 per share in common stock of the combined entity.

The $5.32 offer price would represent a more than 271% premium to the closing price of DHX's TSX-listed shares on Friday and a more than 298% premium to the price the shares closed at on Monday, the day before news broke.

Yet in the company's press release, DHX said that it had yet to receive a response from Sakthi, nor had it been able to verify the ability of the India-domiciled company to carry out such a transaction, in light of Canada's ownership requirements.

It's been an eventful 24 months for the Halifax-based company, to say the least.

First there was the $345 million purchase of the "Peanuts" assets from **Iconix Brand Group Inc,** a deal that probably did more for the estate of the late Charles Schultz than it did for DHX, which was promptly forced to sell nearly half its stake in the Charlie Brown franchise to **Sony Corp** a few years later in an effort to pay down some of its debt.

Then, in early 2018, CEO Dana Landry stepped down to pursue other projects.

In the interim, Executive Chair Michael Donovan has stepped in to serve as chief executive officer while the company continues to search for a replacement.

Meanwhile, under Donovan's leadership the DHX has been able to secure distribution for its content including continued growth of its WildBrain offering and new partnerships with **Apple Inc.** and **Comcast Corporation** for its streaming video on demand content (SVOD).

While the demand for the company's children and family friendly content continues, the online channels have yet to deliver the type of margins that traditional media outlets like cable have traditionally enjoyed, and the result has been a burgeoning debt load that appears to be increasingly difficult to manage.

Just last week, one day after the unsolicited tender offer, the company announced that it had completed the sale of real estate it owned on Toronto's Bartley Drive for gross proceeds of C$12.0 million, with the net proceeds from the sale being used to pay down debt.

Foolish bottom line

Selling real estate assets to pay down your financial obligations is not usually a good sign, unless of course you happen to be in the business of property management.

In light of all that has happened over the past couple of years, the reported offer of $5.32 seems like a fair offer and even a bit on the rich side.

If I were on DHX Media's board of directors, I'd be considering this offer with great care.

Whether it's actually a good faith offer — and whether Canadian regulators would allow it –is a different question altogether.

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