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Aphria takes medical marijuana model to U.S. with $25 million investment in Florida

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Rows of cannabis grows in Aphria's greenhouse. Dax Melmer for National Post

Medical marijuana producer Aphria Inc. is expanding into the lucrative U.S. market with an initial $25 million investment to set up shop in Florida, which recently legalized pot for medical use.

The foray is its first major step in a U.S. expansion strategy through a series of transactions. The result will be a new company called Liberty Health Sciences Inc., a subsidiary of Canadian Securities Exchange-listed SecureCom Mobile Inc. that will acquire Chestnut Hill Tree Farm, which is one of the seven companies licensed in Florida to dispense marijuana to patients.

The company, which will operate in the U.S. as Aphria USA, plans to expand into the 28 states that have legalized medical marijuana, it announced after markets closed Tuesday. It will also raise $35 million through a private placement.

“Now it’s time for the next chapter of the Aphria growth story,” said Vic Neufeld, Aphria’s chief executive officer, who will be appointed to Liberty’s board.

The company looked into states where recreational marijuana is also legal, but none of them allowed an operation as large as Aphria wants.

“If we can’t go big, we’re not going at all.”

Florida’s demographics and regulations were most attractive from Aphria’s standpoint. The company has also identified three other states it is interested in entering in the near future.

Liberty will license the Aphria brand in exchange for a three per cent royalty on sales. It will also licence Aphria's intellectual property in exchange for shares in Liberty. Aphria will appoint two nominees to Liberty's five-person board of directors and own 37.6 per cent of Liberty shares.

The investment comes after recent comments by U.S. attorney general Jeff Sessions widely interpreted as reassuring that there will not be a crackdown on the contentious status of marijuana in the U.S. Despite the legality of weed in several states, it remains illegal at the federal level, leading to a confusing regulatory environment for companies and investors.

That disconnect between state and federal laws presents Canadian companies with a unique competitive advantage. Aphria will focus on the medical market because it is least contentious at the federal level, Neufeld said.

The move from Aphria, "a very sophisticated and large player in the sector," points to the increasing "investability" of the U.S. marijuana sector, said marijuana analyst Vahan Ajamian.

"We view this transaction as a clear signal that the skittishness some investors have regarding investing in the U.S. marijuana sector is diminishing," he wrote in a note Wednesday.

Aphria, which grows products in greenhouses based in Leamington, Ont., has established itself as a leading low-cost marijuana, growing at less than $2 a gram. Growing costs are an important metric in the burgeoning sector as an influx of expected competition will drive prices down and compress margins.

Aphria also has an ownership stake in Copperstate Farms, an Arizona based medical marijuana producer and holds an eight per cent interest in Canadian-listed CannaRoyalty, which holds a portfolio of U.S.-based marijuana-related companies.

Though Canadian companies can not legally export their products into the U.S., the expertise they have gained are a valuable export many are hoping to sell in an increasing number of countries where marijuana is legal in some form.

"We believe as the opportunity set in the U.S. continues to grow, Canadian licensed producers will be primed to invest in U.S. operators that will likely want to leverage the technical proficiency and know-how accumulated as a result of the robust regulatory framework found in Canada," said Matt Bottomley an analyst at Canaccord Genuity.

Shares in Aphria rose five per cent Wednesday to trade at $7.21 per share in mid-afternoon trading on the Toronto Stock Exchange.

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