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APHA.TO - Aphria Inc and Tilray Inc Combine to Create Largest Global Cannabis Company

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PRESENTATION

Operator

Good morning, and welcome to today's conference to discuss the strategic business combination of Aphria and Tilray. (Operator Instructions) I would now like to turn the conference to Carl Merton, Aphria Chief Financial Officer. Mr. Merton, please go ahead.

Carl A. Merton - Aphria Inc. - CFO

Thank you. Good morning, everyone, and thank you for joining us to discuss Aphria and Tilray's announcement to strategically enter into a business combination creating a leading global cannabis company. By now, everyone should have access to the business combination press release we issued jointly this morning. The press release and supplemental presentation are available on the Investors section of Aphria's website at www.aphriainc.com and Tilray's website at www.tilray.com.

For further information on the terms and condition of Aphria and Tilray's definitive arrangement agreement pursuant to a plan of arrangement, please refer to the agreement in its entirety, which will be available on SEDAR at www.sedar.com, on EDGAR at www.sec.gov.

Joining me on today's call from Aphria are Irwin, our Chairman and CEO; from Tilray, their CEO, Brendan Kennedy; and CFO, Michael Kruteck.

Before we begin, please remember that during the course of this call, management may make forward-looking statements. These statements are based on management's current expectations and beliefs and involve known and unknown risks and uncertainties, which may prove to be incorrect, and actual results could differ materially from those described in these forward-looking statements.

Please note the text of Aphria and Tilray's press release issued today for a discussion on risks and uncertainties associated with such forward-looking statements, and now I'd like to turn the call over to Irwin.

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Irwin D. Simon - *Aphria Inc. - CEO & Chairman*

Thank you very much, Carl, and welcome, Brendan and Michael, and good morning, everyone. Thank you for joining us today and especially on a short notice. This is an exciting day for both companies, including our 2,500 employees around the world and for the cannabis industry and for patients and consumers.

We're bringing together 2 world-class companies that share a culture of innovation, brand development and cultivation to enhance our strong Canadian, U.S. and international scale as we pursue opportunities for accelerated growth with the strength and flexibility of our balance sheet and our access to capital.

This business combination creates the largest global cannabis company with an attractive financial profile. On a combined basis, we'll have a pro forma revenue approaching CAD 900 million for the last 12 months reported by each company, which is the highest in the global cannabis industry. And together, Aphria and Tilray will have great financial strength and flexibility. In Canada, we'll extend Aphria's strong foundation as a leading license producer with -- combined with Tilray. We will create the leading adult-use cannabis company with gross revenue of nearly \$300 million for the last 12 months reported for -- by each company. We believe it is a key competitive strength for our combined companies given the rapid developing opportunities for growth in the Canadian adult-use in the medical cannabis marketplace.

You heard me say before, what a difference a couple of years makes at Aphria, and it's true. We've extended our leadership position in Canada, enhanced our operations in Germany and Greater Europe. And most recently, with the acquisition of SweetWater Brewing Company, we have positioned us well in the consumer packaged goods and beverage business.

Now with today's announcement on the business. We are strengthening ourselves again and the foundation in Canada, adding greater capabilities in the U.S. and internationally. We're poised for continued growth across multiple geographies and increasingly well positioned in the U.S., Europe and for potential, which will happen one day, legalization of cannabis. We are connecting with new and existing consumers, where and when they want to shop whether it's brick-and-mortar locations, via e-commerce and even in food services for certain products.

Focusing on the Aphria and Tilray's business combination in more detail. We're excited about the opportunity for approximately CAD 100 million in annual pretax cost synergies within 24 months following the completion of this transaction. This will also be a positive platform for future business accretion as we integrate our 2 businesses together.

Our business combination with Tilray aligns with our strategic focus and emphasis on our highest return priorities as we strive to generate value for all our stakeholders. The combined company supported by low-cost, state-of-the-art cultivation, processing manufacturing facilities will enhance Aphria's existing complete portfolio of carefully curated brands for Cannabis 2.0 across all our consumer segments that are sold through our distribution partners. Internationally, the combined company will be well positioned to pursue our growth opportunity with Aphria's medical cannabis and distribution footprint in Germany and Tilray's EU GMP, low-cost cannabis production facility in Portugal, which has export capabilities and tariff-free access to the European Union to meet increasing global demand for medical cannabis.

In the U.S., the combined company will have a strong consumer packaged good presence and infrastructure with 2 strategic pillars, including most recent acquired SweetWater Brewing Company, a cannabis lifestyle branded craft brewer; and Manitoba Harvest, a pioneer in the branded hemp CBD and wellness products. These 2 businesses represent over \$120 million in U.S. sales. We look to build upon our existing distribution partnerships in the U.S. and internationally.

From a financial perspective, Aphria has generated positive adjusted EBITDA over the last 6 quarters, providing a robust platform for future profitability and cash flow generation for the combined companies together. This collectively, with the strength of the combined company's balance sheet, cash balance and access to capital, is expected to help accelerate global growth and deliver attractive returns for our stockholders.

We provided an overview of the transaction structure, initial announcement of the governance of the company and the path forward in closing this transaction in our investor deck. The stock-for-stock business combination has been unanimously approved by Aphria and Tilray Board of Directors. Once the business combination is complete, Aphria's shareholders will own approximately 62% of the outstanding shares of the combined company on a fully diluted basis.

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In addition, upon completion of the business combination, I will become Chairman of the Board and CEO of the combined company. My friend and partner, Brendan Kennedy, current CEO of Tilray, who you'll hear from today shortly, will be joining the combined company's Board of Directors. Brendan is a pioneer in the global cannabis industry, and it has been a tremendous pleasure getting to know him and working with him. I will look forward to working with him and their teams to execute our corporate strategy and integrate the 2 companies' culture.

The combined company Board of Directors will consist of 9 members, 7, which including myself, are current Aphria directors; and 2 from Tilray, including Brendan and a director to be designated. Together with approximately 2,500 employees around the world and being sold in more than 10 countries, we will bring cultivation, manufacturing scale, product breadth and market-leading brands to consumers and patients globally. We are fortunate to have a best-in-class management team and Board of Directors with strong track records in consumer packaged goods and cannabis experience internationally.

The combined company will have principal offices in Canada, Toronto, Leamington and Vancouver Island; the United States, New York and Seattle; Portugal; and Germany. We expect to operate under the Tilray corporate name. We expect the business combination to close in the second quarter of calendar year 2021 following the receipt of regulatory approval and shareholder approvals from both companies.

Now I'd like to review a few of the strategic financial and business rationale for a business combination in more detail, then I'll turn it over to Brendan to review a few additional reasons why we find this business combination so exciting and compelling.

First, as I mentioned earlier today, together, Aphria and Tilray will be the leading adult-use cannabis Canadian-licensed producer based on revenue for the last 12 months reported by each company by combining their respective brands, distribution networks and world-class facilities. In Canada's \$3.1 billion adult-use retail market, the combined company will have the lowest cost production with a state-of-the-art facilities. In addition, the combined companies will have a portfolio of carefully curated brands across all consumer segments that are sold through its distribution partners.

On a pro forma basis for the period of August to October 2020, the combined company will have a market share approaching 20%, the largest share held by any single license producer in Canada and 700 basis points higher than the next closest competitor. While we're pleased to be in this position, together, we are striving to be at least a 30% market share or better over time. We expect to achieve this growth with new products, brand innovation and strong growth across our existing products and brand. For example, expansion to edibles, gummies, chocolates and beverages and taking share away from the illicit market.

In the United States, the combined company will have a strong consumer packaged good presence and infrastructure with 2 strategic pillars, including SweetWater, as I mentioned before, a cannabis lifestyle branded craft brewer; and Manitoba Harvest, a pioneer in the branded hemp, CBD and wellness product with access to 17,000 stores in North America.

The combined company is expected to leverage SweetWater's craft beer manufacturing and distribution network to build brand awareness for the combined companies' leading brands, be it craft beers, hard seltzers and other beverages as we seek to take advantage of the opportunities for both the adult-use and health and well-being beverages, which is a \$200-plus billion market. We also expect to pursue the opportunity to expand with new or existing CBD or other cannabinoid products, leveraging Manitoba's Harvest strong hemp and wellness product platform.

In the U.S. when regulators allow, the combined company expects to be well positioned to compete in the U.S. cannabis market given its existing strong brands and distribution system in addition to its track record of growth in our consumer packaged goods world. The U.S. is expected to be the largest market opportunity globally. Our combined company will be ready.

It's amazing to think about how we are ready in the market in the U.S. with our combined hemp/beverage offerings. We're building our brands. We expect to introduce our combined cannabis lifestyle brands in the U.S. ahead of legalization, and we're doing this without even touching the plant. We believe we have a great opportunity for continued growth in the U.S. and the Canadian beverage industries by leveraging SweetWater's innovation, knowledge and expertise to introduce adult-use cannabis brands via craft beers and other beverages. This includes leveraging Aphria and Tilray's proven distribution network to sell SweetWater's 420 cannabis lifestyles brands in Canada.

We also hope to leverage opportunities through Tilray's already well-established relationship with InBev. As I mentioned earlier, as noted in today's press release and supplemental presentations, our teams identified approximately \$100 million of annual pretax cost synergies, which we'll know we'll get over the next 24 months. We expect to achieve these cost synergies in key areas of cultivation, production, supply chain, cannabis production purchasing, sales and marketing and corporate expenses. This is projected to include the opportunities for Aphria Leamington, Ontario operations to provide additional volume for Tilray's brands and to replace the need for Tilray to purchase wholesale cannabis from other licensed producers. Tilray's London, Ontario facility will also provide Aphria with excess capacity to increase its production of additional form factors, including their branded edibles and beverages. We are considering to utilize Tilray's existing Nanaimo, British Columbia facility for Aphria's premium Broken Coast brand. And let me tell you something, we need that production for Broken Coast, which has tremendous consumer demand.

On a combined basis, our company plans to capitalize on growth opportunities throughout the broadened product offerings and additional factors with the aim of increasing adult-use cannabis brand availability across certain Canadian provinces to expand customer base with the combined company's scalable infrastructure. Internationally, the combined company will have the opportunity to reach additional pharmacies and patients via our distribution relationship. The combined company is expected to unlock significant shareholder value.

We believe Aphria and Tilray complementary scalable medical adult-use cannabis business will help strengthen our leadership position in Canada and expand our reach in the U.S. and internationally through our world-class cultivation and manufacturing as well as our diversified product portfolio and distribution footprint.

We are incredibly excited about this opportunity to work together to create the largest global cannabis company in line with our mission to inspire and power the worldwide community to live their very best life. I look forward to leading the talented teams of both Aphria and Tilray with a portfolio of medical, wellness and adult-use brands that consumers love.

With that, I'd like to now turn the call over to Brendan. Thank you, Brendan?

Brendan Kennedy - Tilray, Inc. - Chairman, President & CEO

Thank you, Irwin. Good morning, everyone. Thanks for joining us on the call and webcast today. I'm excited to be speaking with you all in to show the news that's been in the making for some time. As Irwin mentioned, this transaction brings together 2 leading cannabis companies, creating a clear global leader, strengthening our global footprint and positioning the new Tilray for further growth. I believe this transaction is truly in the best interest at Tilray and Aphria and for our shareholders, customers and employees.

At this nascent stage of development and expansion of the global cannabis market, we believe companies with leading geographic scale, product range and brand expertise are most likely to benefit long term. We have pioneered in this industry for the past decade by being opportunistic in assessing ways to strengthen our platform and better deliver on our mission. This transaction is aligned with these goals and presents an excellent outcome for our stockholders through the opportunity to realize the significant value creation through the largest company in the cannabis industry.

At the highest level, the respective positioning of our 2 companies in the market means that we will have a unique opportunity to leverage our combined strengths and capabilities. In turn, we expect to be able to meet the needs of consumers more effectively all over the world in advance patient care. With a strong financial profile, low cost production, leading brands, distribution network and unique partnerships, we believe the combined company will be well positioned to deliver sustainable, attractive returns for stockholders.

Irwin and I have had the opportunity to get to know one another well over the past 12 months. We share a similar vision and mission for global growth and innovation while ensuring we are enhancing the lives of our consumers and patients. I look forward to working with Irwin and the combined company's management team to make our consumer products more accessible around the world.

With the combined company, we expect to leverage both Aphria's and Tilray's commitment and culture of innovation and brand building. The combined company will serve clients with a strong portfolio of Cannabis 2.0 product and sales and service infrastructure supported by leading distribution partners.

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Aphria and Tilray's complementary brands will be available across economy, value, core, premium and premium-plus product offerings. In addition, the combined company will have a complete breadth of products in every major cannabis category, including flower, pre-rolls, oil, capsules, vapes, edibles and beverages. Our product portfolio, including the breadth and depth of our brands, is expected to position the combined company with a more streamlined supply and distribution chain, allowing for more consistency and in-stock positions for all provinces, retailers and consumers.

In Europe, we believe our combined operations help us to establish an unrivaled European platform. Our combined company will be well positioned to pursue growth opportunities with our end-to-end EU GMP supply and distribution chain, which includes Aphria's German medical cannabis distribution footprint and Tilray's European EU GMP low-cost cannabis cultivation and production facility in Portugal. In Germany, Aphria's wholly-owned subsidiary, CC Pharma, will provide the combined company with distribution capabilities for the Aphria and Tilray Medical cannabis brand to more than 13,000 pharmacies. In Portugal, Tilray's EU GMP cultivation and production facility will provide the combined company with the capacity to cultivate and produce medical cannabis products in order to meet international demand and add export capabilities, which provides tariff-free access to the EU.

The combination of Aphria and Tilray will create the global leader in the cannabis industry upon completion of the business transaction. I truly believe that this transaction is a winning combination of Tilray's global pioneering roots and Aphria's culture for innovation. We look forward to achieving greater growth together through our worldwide scale and leading portfolio of adult-use cannabis and medical brands as well as the many transformative opportunities this business combination will bring.

I would now like to turn the call back to Irwin for closing remarks. Irwin?

Irwin D. Simon - *Aphria Inc. - CEO & Chairman*

Thank you, Brendan. I love that Brendan already, he's got me skipping questions and answers. But Brendan, I think what we'll do right now is turn it over to Carl, and you and I are going to answer some great questions out there from our analysts.

Carl A. Merton - *Aphria Inc. - CFO*

Operator, could you start the question, please?

QUESTIONS AND ANSWERS

Operator

Operator Instructions) Your first question comes from the line of Vivien Azer of Cowen.

Vivien Nicole Azer - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Congratulations on the transaction.

Irwin D. Simon - *Aphria Inc. - CEO & Chairman*

Thank you very much, Vivien.

Vivien Nicole Azer - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

So a quick housekeeping item.

Brendan Kennedy - *Tilray, Inc. - Chairman, President & CEO*

Thanks, Vivien.

Vivien Nicole Azer - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Can you guys speak to the change of control provisions as it relates to the ABI joint venture with Tilray, please?

Irwin D. Simon - *Aphria Inc. - CEO & Chairman*

I'm going to let Brendan do that.

Brendan Kennedy - *Tilray, Inc. - Chairman, President & CEO*

So -- that's something that is -- it's a discussion that will have to be had, not only with the team at Fluent, the CEO and the Board there, but then the Board at ABI. And so it's a conversation that'll take place over the coming months as we look to continue to grow and expand that business.

Irwin D. Simon - *Aphria Inc. - CEO & Chairman*

And Vivien, we'd be excited with SweetWater. Today, ABI distributes some of their products around the U.S. in the 27 states. And I think with the relationship that Tilray built with ABI and where the drink market is, I think there's a great opportunity to work with them in regards to innovation, distribution and the next generation of products. And I think -- I got to tell you from my standpoint, I'd be really excited to do that.

Vivien Nicole Azer - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Sure. That makes perfect sense. And then my real question just on the potential cost synergies. Can you talk about the phasing over the 24 months in terms of the 3 kind of buckets of opportunity?

Irwin D. Simon - *Aphria Inc. - CEO & Chairman*

So from a standpoint, I think there's at least a low-hanging fruit from a public company cost, they'll go away immediately. As you heard me say before, the good news is a lot of Tilray's production today as they buy cannabis from other growers is a big opportunity as we move that into Aphria. It's about 35,000 kilos a year that we'll move into our facility. It's from a low-cost standpoint there.

In regards to sales and marketing, combining our sales force, combining our marketing in regards to just bolstering our marketing, where we're both competing against each other, is big. And then last but not least, in our international, combining our 2 international facilities together and being able to sell through our CC Pharma. So I would say at least half of it in year 1 and half in year 2. And not that I would commit to more, but we think there is beyond the \$100 million of synergies and savings.

And the big thing, Vivien, with this here, with the Canadian LPs to find \$100 million synergies and savings out there is pretty difficult with the growth. So what we will create in accretion and valuation to these combined companies for our shareholders is a big, big part of why this deal makes a lot of sense.

Operator

Your next question comes from [Andrew Copper] of [Fisahl].

Unidentified Analyst

I guess I wanted to ask, at this stage of the Canadian market developments, are there really scale benefits accruing to the larger players? I mean we've seen the smaller players continue to get listings, the price competitions. Are the programs showing any real deference to companies with a full product solution or inclination working to more profitably manage the category.

And one more question within that. You both companies use a brokered sales force. Is there any thought of investing to internalize those capabilities?

Irwin D. Simon - *Aphria Inc. - CEO & Chairman*

So Brendan, do you want to go first? And I can follow-up on that.

Brendan Kennedy - *Tilray, Inc. - Chairman, President & CEO*

Sure. I'll take the first part. Through the meetings with the various provincial Boards, they're looking for benefits and scale. So they're looking for consistent supply, reliable supply on a regular basis, and that has been -- that have been one of the largest challenges in the past. And so I think that, together, there are opportunities from scale across all of the product categories from flower to edibles, from oil to beverages. That's one of the benefit. And with Aphria's strength in Ontario and our strength in Québec, we think that there's a tremendous opportunity for both companies to benefit in the future as the combined company and introduce more of each other's brands in the provinces where we have respective strength.

Irwin D. Simon - *Aphria Inc. - CEO & Chairman*

So just on that, and I echo what Brendan had to say, but I think as we look at the growth in the industry here, number one, with close to a 20% share and us taking another -- going after at least another 10% share and being a big player. And being a big player, what we got to make sure is we bring along the supply, and that's been one of the biggest issues in the industry today, is supply and other stocks.

Number two is innovation in different strains and having the ability to invest in that, being that low-cost producer, and Aphria will continue to drive down cost and be that low-cost producer out there. And we keep hearing about how costs are coming down or pricing is coming down, well, we'll be able to compete. And the industry will continuously change in regards to e-commerce and how it's sold direct to the consumer and how it's marketed to the consumer. So with that, with the industry growing and being a \$5 billion, \$6 billion industry, including what will come from the illicit market, we will be there as the combination as the largest cannabis company in Canada.

With that for Aphria, I mean what Tilray offers us tremendously is the opportunity to get Cannabis 2.0 with their facility in edibles and drinks. They also have additional vape capability and pre-rolls, which we need because of the growth in our industry. So with that, there's a lot that both complement each other from an industry standpoint.

In regards to our sales organization, Great North has done -- Southern Glazer's has done a great job for us. And having those boots on the street, having those merchandisers going in the stores is very helpful. And in my prior world, I've worked with brokers and distributors, so it would be our preference to continue to work with these best.

Operator

Your next question comes from Rupesh Parikh of Oppenheimer.

Rupesh Dhinoj Parikh - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

And congrats on the merger. So I guess just to start out. So maybe a question for you, Irwin. You've obviously done a ton of M&A in your career. And this is a very complex, I think, combination of the 2 enterprises. So what's your confidence in being able to execute on the synergy front and being able to drive that shareholder value over time?

Irwin D. Simon - *Aphria Inc. - CEO & Chairman*

Well, I think step back and a real good question. If you come back and look over 2 years, what has happened at Aphria, where we have created 7 or 8 brands, we have really done a great job on our cultivation, our growth facilities in Leamington, in Vancouver and now in Germany. With that, we've taken a lot of cost to becoming that low-cost producer.

With that, we've had set up the infrastructure in regards to our systems, our finance group, our people, have built a world-class team. So we've had those pillars in place today and now taking Tilray and putting that together with it. And there's a lot of great things that Tilray has done in regards to their Portugal facility, in regards to the Cannabis 2.0.

And one of the big things that I really liked about this deal, it's not like we're left with all these growth facilities that we have to close. And like you heard me say, there's 35,000 kilos that we will move into our facilities, where a low-cost producer will get the ability, and there's a lot of additional overhead that we will absorb. So the combination of the teams, the brands, the strategy, the growth, taking \$100 million of cost out of that and just putting a multiple on that, just think of the value that we create with that.

So why I feel good? Got a great team around me, got some great brands. We're in a really growing, fast-growing industry. And last, but not least, between SweetWater and Manitoba Hemp, and guys, legalization is going to come. And who else is better prepared for it than us?

Rupesh Dhinoj Parikh - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Okay. Great. And then maybe just one follow-up question just in terms of the brand. So it seems like the plan is to create -- to maintain both companies' brands. But how do you guys think about maybe -- while the brands are still small, maybe like consolidating under maybe the leading brands of both companies versus keeping this pretty broad brand architecture?

Irwin D. Simon - *Aphria Inc. - CEO & Chairman*

Listen, it's a great point, and I think there's always complexity in brand consolidation, and that's something that we'll look to do. And the thing about this business, there's some fragmentation in the provinces what's strong in Québec versus Ontario, and we'll absolutely look at that as what are the best brands for the different provinces out there.

And kind of what I did at Hain, we had 50 brands and kind of what were the best brands, and one was a blocker and one wasn't and one was, there was a high low. So there's different strategies that we're going to look at for different brands out here.

And the big thing that -- just to talk about -- Tilray has an excellent medical business that will help us tremendously. And I just see so many opportunities in users today in -- looking for medical cannabis and not so much going to the doctors and the clinics, going into retail and looking for products that's going to help them sleep, that's going to help them with pain, that's going to help them with anxiety. And we live in a world today where we need cannabis products for every one of those.

Operator

Your next question comes from Aaron Grey of Alliance Global Partners.

Aaron Thomas Grey - *Alliance Global Partners, Research Division - MD & Head of Consumer Research*

Congrats on the acquisition. I guess one quick one from me. Irwin, Brendan, you just mentioned that it seems like the talks have been in the making for some time. So Irwin, you guys recently completed the acquisition of the SweetWater acquisition. So just wanted to kind of think about the lens you might have looked at through that acquisition if these discussions have been going on, in particular just given the question I've been asking earlier regarding ABI in that JV. We've obviously seen one of your peers kind of leveraging a JV. Within Canada, it's also bring CBD products into the U.S. So just think about how that partnership was thought about in terms of the acquisition, how it could be leveraged kind of going forward, just expanding upon some of the comments you gave earlier.

Irwin D. Simon - *Aphria Inc. - CEO & Chairman*

So again, as I come back and say, there's -- Tilray has some great partnerships. And absolutely, we're going to take advantage of them. And I think the big thing is I come back and say the combination of 2, there's some great partnerships that Tilray has put in place, and I think the combination of Aphria and Tilray together will help these partnerships tremendously.

The other thing what's going to offer is there's going to be opportunities for other partnerships for us that are going to look at where the cannabis world is going and the opportunities there. And then last but not least is we're going to look at other opportunities or other acquisitions, what makes sense for this company and how we can grow it. I think Manitoba Harvest is a great asset coming out of that consumer world. And whether it's hemp, whether it's CBD, whether it's ultimately THC products in that consumer world and what we can do with that is tremendous. I think at the same time, as I said before, in regards to the beverage industry, having ABI with us here and creating CBD, THC drinks, energy drinks, other drinks, which I've been involved with before with the blueprint brand in regards to creating.

So it's just not cannabis in regards to a vape, a flower or a pre-roll. It's now we're in the consumer business. We're in the drink business for -- with Manitoba hemp. We're in the food business. There's the bar business. There's the alcohol business, the medical business. This really brings us a major portfolio of the next generation of products that the combined companies have to work with and which will offer us multiple partners to bring in with us where we think it's necessary.

Aaron Thomas Grey - *Alliance Global Partners, Research Division - MD & Head of Consumer Research*

Great. And then just one more question. Just going back to the cost synergies. You talked about some of the phasing in terms of the 24 months earlier on the question. Just if you could potentially break out just a degree of that CAD 100 million and how it's broken out between kind of those 3 -- between the cultivation, sales and distribution and public company expenses.

Irwin D. Simon - *Aphria Inc. - CEO & Chairman*

So the cultivation production is probably 30%. Sales force efficiencies and consolidation of call order is probably another 10% 15%. A big part of this public company costs is a big part of it and the optimization of the organization. The ultimate opportunities for us is from a big time for us is our additional 2.0 factor and moving them into Tilray's facility has a potential opportunities for us. Taking their GMP-certified products in Portugal and putting them through our CC Pharma distribution, which we distribute to over 13,000 pharmacies is a big, big opportunity for us.

Listen, looking at our financing and our balance sheet, this company combined will have over \$550 million of cash and going out and looking at our opportunities with our debt and our bonds. So we think \$100 million is very much achievable, and we think there's a lot more on top of that.

The biggest thing that's going to drive here is we did this for the \$100 million of synergies and plus, but the assets that are in this combined company and the growth on the top line is going to just drive a tremendous amount of EBITDA and earnings to the bottom line.

Operator

(Operator Instructions) Your next question comes from John Zamparo of CIBC.

John Zamparo - CIBC Capital Markets, Research Division - Associate

I also wanted to follow up on the synergies as well. I appreciate the commentary on cadence and the split between COGS and SG&A. I just want to confirm that, that \$100 million, so right now it does not contemplate capacity reductions. And if so, I guess why not look at a greater level of capacity reduction given the size of the industry and given the combined company sales? And Aphria's large production footprint could probably cover the combined sales. So I guess why not look at that? Or is that still potentially on the table in the future?

Irwin D. Simon - Aphria Inc. - CEO & Chairman

No, that is built into that. So as I said, it would be moving Tilray's production today into Aphria facilities what they procure from other LPs. Nanaimo is still a facility that's out there. And one of the biggest constraints we've had at Broken Coast is just supply, and putting those 2 together are big opportunities. Moving all our Cannabis 2.0 into the London facility is a big opportunity for us. So they're all built into that \$100 million and then along with consolidation of buying packaging.

I mean one of the biggest cost factors today in the cannabis industries, packaging is one of the highest costs out there. So just combining our purchasing on packaging and looking at different types of packaging and innovation there is something that we're -- will drive a lot of cost.

Our corporate cost, tremendous what it costs from corporate costs and just our Director of Liability Insurance, our Boards, having one Board. So as we go down the list here and we felt it was marked to stop at \$100 million to make sure we felt really good to get that, and there's a second and third list on top of that.

Operator

Your next question comes from Tamy Chen of BMO Capital Markets.

Tamy Chen - BMO Capital Markets Equity Research - Analyst

Irwin, I wanted to revisit one of the previous commentary -- comments that you made thinking about the U.S. strategy and having scale in Canada and other jurisdictions as a key competitive advantage as you push more into the U.S. So with today's announcement as well as previous developments that Aphria has done, could you just elaborate on that again? I mean because you can't ship from Canada to the U.S. direct. You'd be competing with the U.S. MSOs on a state-by-state basis. So could you just help us all understand how all the initiatives that you've done, including this transaction today, would help or accelerate your U.S. THC strategy specifically?

Irwin D. Simon - Aphria Inc. - CEO & Chairman

So good question. Listen, my objective, as I said before, is to get us at least a 30-plus share in Canada, which will get us to become a low-cost producer and will give us a lot of abilities elsewhere around the world. We will have, between Portugal and Germany, 2 of the largest facilities in Europe. And the question you didn't ask me, do I expect ultimately legalization to happen in Europe? I expect, ultimately, next year, there's a good chance it will happen in Germany, I think Portugal. So we will be positioned in regards to having facilities and winning tenders and being part of that with the distribution for the opportunities in Europe. And when legalization happens there, we'll be well positioned for that.

In regards to the U.S., having a good-sized business in the U.S. and whether it's CBD or just having products. Ultimately, right now, we can't own anything in the U.S. that touches a plant. But when legalization does happen, when we have the best of class in Canada, the best of class in Europe

and with legalization and having a business in the U.S. market, being docile in the U.S. market, the opportunity to buy something, to create something will be at our fingertips to go ahead and do it.

So it's not like we're just going to walk into the U.S. market and sort of say what do we do over the next 4 to 5 years. It's either we're going to have to buy something or create something in the U.S. market when legalization does happen, and that's how we plan to do it. And taking our expertise that we've had from Canada, Europe and our expertise of what we've built in brands in the U.S. As you heard me say before, one of the things with Sweet Water, whether it's RIFF, Good Supply or Solei, we'll be selling those brands in alcohol in the U.S. in the very near future.

Brendan Kennedy - *Tilray, Inc. - Chairman, President & CEO*

Tamy, The only thing I would add to what Irwin said is that, currently, the combined companies' products are available in 15 different countries around the world for medical cannabis purposes. And we ship those products internationally for medical cannabis purposes, all GMP-certified. And I strongly believe that there is a high probability that at some point in the future with the legalization of medical cannabis in the U.S., there is an opportunity for medical cannabis to be imported into the U.S., either from Canada or from Europe, just like we see in virtually every other country that we operate. And so that's something that tends to get overlooked. But I think with the legalization of medical cannabis in the U.S., you will see international shipments, and you won't see this reliance on a single-state supply chain to meet medical cannabis needs.

Irwin D. Simon - *Aphria Inc. - CEO & Chairman*

And I agree with what Brendan has said. Listen, we don't know what's going to happen. So my point is this here. If export or import is available, we'll be ready for it. We'll have -- we have facilities in Canada. We have facilities in Europe. We have businesses in the U.S. So it's kind of like -- and with our size and scale and our balance sheet, if it is to buy or build something in the U.S. when legalization happens, we'll have the ability to go ahead and do that.

Operator

Your next question comes from Matt Bottomley of Canaccord Genuity.

Matt Bottomley - *Canaccord Genuity Corp., Research Division - Analyst*

Congrats on the announcement this morning. Just curious on your views on the growth, I guess, trajectory or your growth profile of the combined entity that's set. I guess it was more in your direct control in sort of the first year or so of merging. You've mentioned legalization potentially in EU or maybe longer-term access to THC in the U.S. We're still waiting on FDA commentary on CBD ingestibles. So what part of the company do you think is in your most control to leverage some growth here? Is it going up from your 20% to 30% in Canada?

And then more specifically, if you can comment on the dynamic right now with the assets you have in Europe. So there's some good cultivation exposure in Portugal coming from Tilray. Aphria has very good distribution. So what's the demand profile in those markets today, where if you assume no further legalization, just for the sake of argument, are you able to -- is the demand curve right now more flat than accelerating just given where the current regulations are?

Irwin D. Simon - *Aphria Inc. - CEO & Chairman*

So Brendan, do you want to take Portugal, and then I'll come back and talk about Germany and where I think the other growth pieces are?

Brendan Kennedy - *Tilray, Inc. - Chairman, President & CEO*

Yes. I have a couple of different thoughts there. We're seeing steady growth in international and have predicted that for this quarter and next. I think that -- I do think you are going to see more countries in Europe legalized with the European support of the UN issues over the last month. I predict that -- well, with the UN measures and the fact that France is going to implement rapidly a medical cannabis program, you'll see the 2 largest economies in Europe. Germany and France both have medical cannabis programs. And I think it's extremely likely that you'll see 28 EU member countries legalize medical cannabis -- all 28, so going from 14 to 28 over the course of the next 24 months. And so there are tremendous opportunities for growth, not only in the existing European markets, but in new markets medically, such as France.

And then my other point there -- or final point there would be that in the Netherlands and in Switzerland and the Luxembourg, you're seeing adult-use experiments play out, and we'll see those play out throughout the course of 2021. So those experiments are going to take place, and I think that is going to lead to more conversations around adult-use utilization in Europe occurring not only in 2021 but in the following years.

Irwin D. Simon - *Aphria Inc. - CEO & Chairman*

And Brendan, I come back and I -- we all focused on the U.S. And we have 2 great facilities there plus with CC pharma, we have the distribution. And Portugal, which is an incredible asset, which is EU MGP-certified, which means us from a free trade standpoint, we can ship anywhere in Europe. So we're set for Europe, and with Europe, with 600 million people. And we keep focused on the U.S., the U.S., the U.S. I believe Europe will legalize in many of its countries before the U.S. does. So we're absolutely well situated there.

Where do I see the big growth opportunities? Continuously see in Canada with more and more stores opening up in Canada. There's about 1,000 stores today, and they expect to get to 3,000 stores in Canada. So us getting to a 30% market share is worth a lot of dollar growth for us. Aphria getting into Cannabis 2.0, whether it's edibles and drinks and using the SweetWater to expand us and help us with that.

In regards to the U.S., I think the big opportunities with our expertise in the consumer packaged goods world and growing Manitoba Hemp with its product line and working with SweetWater and depending what happens with ABI on the distribution and a beverage opportunity from a standpoint.

So there's lots of levers to pull here for growth, and by no means here, this is just about getting synergies and costs. This is a growth story, and the levers are there, whether it's Canada, whether it's the U.S. and whether it's Europe.

Operator

Your next question comes from Thea Wang of Jefferies.

Thea Wang - *Jefferies LLC, Research Division - Equity Associate*

I'm asking question on behalf of my analyst Owen Bennett, and congratulations on the transaction.

Irwin D. Simon - *Aphria Inc. - CEO & Chairman*

Thank you.

Thea Wang - *Jefferies LLC, Research Division - Equity Associate*

So my question is actually on the beverage. So I know with the combined entity, it's definitely at a much stronger position in offering both CBD wellness or adult-use beverage, and some of your competitors actually have been very bullish on the category despite it's only taking a very small

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amount of the market. So I guess I'm curious about your outlook on the beverage category, specifically. And are you guys looking to potentially prioritize this compared to like other 2.0 products like edibles or vape?

Irwin D. Simon - *Aphria Inc. - CEO & Chairman*

Listen, I think -- with that, I think one of the big things here is Tilray is in the beverage business. So the candy lines of licenses are there for us. Having SweetWater and ABI, we have some pretty good partners here to work on products that taste good innovation.

I think the biggest opportunity has to be, ultimately, one day that we can sell this in convenience stores and supermarkets in a broader way than just being sold through the liquor control boards from a drink standpoint. And with that, I always say the drinks are big opportunities because they can give you a great energy or a great lift or a great high without the calories, without the hangover and with some potential medical benefits or medical effects. So I see such a big opportunity in this beverage category. And with the soda beverage category declining and lots of opportunities in regards to energy drinks and drinks from -- that restore, regenerate, et cetera, big, big, big opportunity for us in the Canadian market, the U.S. market, and also as we develop these drinks, taking them into the international market.

Operator

Your next question comes from Michael Lavery of Piper Sandler.

Michael Scott Lavery - *Piper Sandler & Co., Research Division - Director & Senior Research Analyst*

Congrats as well.

Irwin D. Simon - *Aphria Inc. - CEO & Chairman*

Thank you, Mike.

Michael Scott Lavery - *Piper Sandler & Co., Research Division - Director & Senior Research Analyst*

I want to come back to the U.S. Yes, I know you've mentioned how excited you are about the opportunities in Europe, but I want to come back to the U.S. I know you said that when it's legal, you could buy something or build something, but the buying part is pretty straightforward. As far as the building, I just would love a little more sense of how you think about that?

I know in the release, you mentioned brands and distribution as helps, but it's -- at least in any current system, there's not grocery or alcohol distribution that would seem relevant. So is it really the brands that you're depending on? And if so, how do you measure what the value of those are with consumers and how well-known they are and where that stands today? Or is the assumption that you can build that with the SweetWater relationship in course before legalization comes?

Irwin D. Simon - *Aphria Inc. - CEO & Chairman*

So what I'm really excited about, number one is our intellectual property and our know-how. I mean we have 250,000 -- we'll grow 250,000 kilos of cannabis, different types of strains. We will sell millions and millions of pre-rolls, millions and millions of vapes, millions and millions of flowers, oils. So with that, from an R&D standpoint, from an innovation standpoint, from a quality standpoint, we've kind of figured out the secret sauce of how to do this in the Canadian markets and in the international markets. And we'll transform a lot of that knowledge once we figure out what's the right way to do it in the U.S.

And back to what Brendan said, we don't know if we're not going to be able to export products from Canada into the U.S. We -- there's still a lot unknown. But on the other hand, the brand equity, brand equity, brand equity, and if you come back and look at where the valuations are in building out our brands, that's where we're ultimately going to get the value. It's just not a rolled up -- a pre-roll. And consumers today are going to want to buy products that is a brand that they know they're not buying from a local drug dealer or buying it off the street because they know from a quality standpoint, they know the different strains they're getting, and they know what they're buying is a legal product.

The other thing today is, as you grow these products and you have the expertise like we have, you can grow it as cheap as any type of drug dealer or illicit market out there. So it's like buying an alcoholic drink, buying a package of tobacco. You want to buy your brand because you can trust it. You know it is a tested product. You know from a regulatory standpoint, it's gone through all this regulation.

And with that, I think, again, if you come back and you decriminalize the market out there in the U.S., then you've got to legalize it because if you decriminalize it, it just says, "Okay, I'm going to go buy it from the illicit market." And why has the U.S. given up all these tax dollars? Where it will be sold and how it's going to be sold, I don't know yet, but we will be ready because we will be selling into the alcohol trade, we'll be selling into the consumer trade. And between both companies, we'll have close to 15 different brands, different strains, different products that we'll be able to sell into the U.S. And hopefully, we could import products or export products into the U.S. market. Not starting from scratch at all because we have a pretty big blueprint that we can pull different pieces from once we know where legalization goes. And Brendan, you want to add anything, please?

Michael Scott Lavery - Piper Sandler & Co., Research Division - Director & Senior Research Analyst

Can I just ask on the brand piece, I guess I'm trying to understand -- I appreciate the trusted piece for consumers versus illicit trade. That would fit a few hundred brands on shelves and dispensaries in the U.S. today already. And so I guess with that incumbent competition, do you have a sense of how long it takes to build your brands or how they're differentiated?

Irwin D. Simon - Aphria Inc. - CEO & Chairman

Listen, I don't think there's any global brands in the cannabis industry today other than just brands that are sold in each state, and I'm not sure whether it's licensing other brands out there that can be sold on a global basis. But you heard what I said before, we're going to start introducing some of the Aphria Canadian brands in the U.S. in the alcohol industry, and the beer industry come very soon. So hopefully, they will be some of the brands that consumers in the U.S. will get to know. Or with that, as we educate consumers, no different than Molson Canadian beer or beers that came from Canada got to be well-known in the U.S. as strong brands that were in the alcohol and beer industry in the Canadian market and moved into the U.S.

Operator

Our next question comes from Graeme Kreindler of Eight Capital.

Graeme Kreindler - Eight Capital, Research Division - Principal

Wanted to follow up, Irwin, on your comment about the goal of reaching 30% share in Canada. And I appreciate you just spoke extensively about the potential of brands, a diversified platform across a number of products. I was wondering how much does additional consolidation in the Canadian market can drive that number or that goal? Or as we continue to see prices bottom out and see that compression there, you're going to have the potential to bring more of that capacity in-house. But is it more about only a few platforms really being able to survive in this price environment? Perhaps there are some other factors. I'd be curious in terms of how you see that playing out.

Irwin D. Simon - Aphria Inc. - CEO & Chairman

Thank you. Great question. Listen, there's 505 LPs in Canada, and that's a lot of LPs. And what I'll say is this here, listen, there's 1,000 stores, we're going to 3,000 stores, so the market will continuously expand and open. But whether it's Ontario, whether it's Québec, from a technology standpoint, from a replenishment standpoint, what's happening out there at EDI, just in time, it's all changing the way they're ordering because nobody was keeping up with inventories and other stocks, et cetera, and everything from these liquor boards are going digital.

So the smaller companies are going to have a much harder time to compete in the marketplace just because are they going to be able to invest in the brands? Are they going to be able to put the salespeople on the street? Are they going to be able to invest in the technology to be able to get the products to the retailer? At the same time, I think the market continues to grow. And that is taking consumers away from the illicit market, which is still a \$2 billion industry.

And I still think you still take consumers away from the alcohol industry, and that will move over to cannabis. I also think there's a big market out there for the 15 older market that are now using cannabis, not just to relax, but from a sleep, from an anxiety, from a pain standpoint. So that's how we'll get to the 30-plus share. And then on top of that, there's lots of opportunities in innovation and new products in regards to edibles and drinks. We just introduced hashes and oils and stuff like that. So that's how I see us getting to the 30% market in the Canadian market, is taking share, innovation, new products, new stores opening up and just coming out with different strains and going after the 50-plus market and bringing them into the industry.

I think that was our last question. So thank you very much for joining our call today. Carl, Brendan and Michael, thank you very much.

Listen, in summary, this is an exciting step forward for Aphria and Tilray as well as our employees, our investors, our customers, and last but not least, our consumers and patients. We really believe this business combination will create significant value for our stakeholders and will lead to increased accessibility of our products market and, which we talked a lot about today, our brands that will be leading brands and be well-known over the next several years. Our scale and infrastructure in the cannabis industry is expected to set forth us apart from competitors and accelerate our growth. I'm proud of our Aphria and Tilray employees. And I got to tell you, they have worked hard to get to where we are today from a both company standpoint, and they've worked hard to get this completion across the line of these 2 companies. I look forward to working with them and executing on the expanded potential of both companies together.

Thank you once again for joining us on this short notice. We look forward to working altogether. What I'd like to do is wish everybody happy holidays, be safe out there, and look forward to our next call that we can continuously give you updates on everything. Thank you very much, and have a good day.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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