

## The Smart Money Is Selling Aphria Inc.: Should You Sell Too?

### Description

Many value investors — myself included — will often check a company's insider ownership stats as one of the first research tools.

The thought process is simple. Management teams with a large ownership position want shares to head higher, so they can get even richer. If the folks in charge don't have a meaningful stake in the company, it may indicate they're only around to collect a paycheck. They will be less motivated to ensure the share price goes up and more interested in keeping their jobs.

Say a CEO owns \$20 million worth of stock and collects a \$1 million annual salary. Sure, he wants to keep his job. Of course he does. But he clearly wants the share price to go up even more.

Many investors will take this logic one step further. If insiders are buying shares actively (rather than just receiving stock options), then it's a bullish signal. After all, these folks know the company well. If insiders are actively selling, then it's bearish. After all, who sells a stock they think will go higher?

The latter is happening at **Aphria Inc.** (TSX:APH). How should investors play it?

### Aggressive selling

Aphria insiders have been unloading millions of shares over the last six months.

Let's start with Cole Caciavillani, the company's co-founder. On March 1, he sold one million shares for an average price of \$6.66 each. Before that he unloaded 50,000 shares on January 23 for \$5.58 each.

Aphria's other co-founder has been an aggressive seller as well. John Cervini also sold one million shares on March 1.

Other insiders have also been selling. CEO Victor Neufeld sold 70,000 shares on March 9 and 10 for an average price of approximately \$6.70. Director Dennis Staudt sold 40,000 shares on March 9. Carl Merton, the company's CFO, also joined the party, selling 20,000 shares on the same date.

In total, Aphria insiders sold some 2.1 million shares for gross proceeds of more than \$10 million.

But at the same time, there have been some buyers. Board member Arlene Dickinson (yes, that Arlene Dickinson) purchased 4,400 shares on the open market on January 19. Director Robert Kozlov purchased 10,000 shares in October and November. In addition, both co-founders continue to hold large amounts of shares.

Bears might argue Dickinson's purchase of 4,400 shares might not mean much for someone who's wealthy enough to appear on CBC's *Dragon's Den*. In addition, Dickinson received 50,000 stock options with an exercise price of \$3.70 when she was named to the board back in October.

## What should investors do?

While I believe insiders selling shares is usually pretty bearish, investors can at least be comforted by knowing both co-founders still own a large position.

On September 19, the company disclosed Caciavillani and Cervini collectively owned more than 21 million shares (or 23.7% of the company) between them. Even after selling a million shares each, both are still substantially invested in Aphria's future.

Aphria, like many marijuana stocks, is extremely overvalued on traditional metrics. It trades at nearly 90 times trailing earnings and nearly 50 times trailing sales. The company is profitable, but if it weren't in the pot sector, it would likely barely register on most investors' radars.

Ultimately, insider selling is usually a negative signal. While there are plenty of legitimate reasons for an insider to sell, usually one doesn't go about selling a stock they think is going much higher. I would guess Aphria's management shares my opinion about shares being overvalued and sold while the price was high.

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