

## Aphria Inc.'s Q3 Results Aren't as Impressive as You May Think

### Description

**Aphria Inc.** (TSX:APH) released its third-quarter results yesterday, which sent the stock soaring more than 7%. The stock has faced a lot of controversy already this year, and while the results appear to be encouraging, Aphria didn't do as well as it appeared to have at first glance.

### Revenues up, but so were costs

While the company will boast that its top line doubled from a year ago, the fact of the matter is that the marijuana industry is in its early, high-growth stages, and this type of growth is a lot easier to achieve when sales are still relatively low. The bigger concern is that Aphria's operating expenses are rising at very high rate as well. If we exclude impairment charges last year, then the company's operating expenses increased nearly 170% from a year ago.

Aphria's operating income remained in the negative, although it was a smaller deficit from last year.

### Strong results fueled by non-operating items

Most of the activity in Aphria's financials actually occurred beneath its operating income. The company recorded an unrealized \$17 million loss from its derivatives, but that was offset by a \$15 million gain on investments and a \$26 million gain on its sale of its holdings in Liberty Health Sciences. Aphria also added an extra \$1.6 million through its financing activities.

The end result was a pre-tax profit of \$17 million, which was up from just \$5 million a year ago. However, without the gains that Aphria achieved in this quarter, it would have easily finished in the red. Investors that read the highlights will see that sales doubled, and so did net income, so the company must have had a terrific quarter, but that is a very misleading conclusion to reach given what we see in the financials.

### Investors shouldn't fall for these results

The stock got a very big boost on these results, and I would say it was undeserving. Aphria has shown a to be a reckless company that has walked a fine line between what's legal and what is ethical, and that puts [investors at risk](#). Aphria has shown growth, but it's still well behind giants **Canopy Growth Corp.** ([TSX:WEED](#)) and even **Aurora Cannabis Inc.** ([TSX:ACB](#)) after its [recent acquisition](#).

Sales aside, investors shouldn't ignore the risks that Aphria presents and while the gains may be more than offsetting the losses today, that may not always be the case, and that can lead to a lot of uncertainty and volatility in the stock's value.

### Is Aphria a buy on these results?

Aphria performed as I had expected: strong sales growth but weak earnings numbers that needed to be aided by gains and income not related to its day-to-day operations. While Aphria may boast to be

one of the few companies in the industry that's able to turn a profit, until the company can do so as a result of its regular operations, it's just not that impressive of an accomplishment.

The stock has a lot of risk, and these results do little to change that. Investors would be wise to consider other options.

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