



## Aphria Inc. (TSX:APH) Gets a Failing Grade

### Description

The 17th annual rating of Canada's corporate boards is out. Top Canadian cannabis producers such as **Aphria** (TSX:APHA)(NYSE:APHA) failed miserably.

Should investors be concerned? Or is this merely another of the growing pains new industries face on their way to maturity?

The answer is a little of both I would guess.

However, before you run out and sell your Aphria stock, let's have a closer look at the rankings themselves, what they're meant to indicate, and where Aphria came up short. Only then can we answer this question.

### The rankings themselves

*The Globe and Mail* get markers from the University of Toronto's Clarkson Centre for Business Ethics and Board Effectiveness to rate the corporate governance practices of 237 companies listed on the **S&P/TSX Composite Index**.

The rankings are based on 36 questions worth a total of 100 marks. Specific questions are worth more than others.

The questions are divided into four areas: Board Composition (worth 33 marks), Shareholding and Compensation (30 marks), Shareholder Rights (27 marks), and Disclosure (10 marks).

All of the information used to rank the companies is obtained from their annual shareholder proxy circulars.

The rankings are meant to show which companies in Canada go beyond the regulatory minimums required for keeping investors educated, informed, and treated fairly.

## Who did well?

A total of 30 companies scored 90 or above. That's 13% of the total. A total of 225 got at least 50 marks and passed this year's rankings. Twelve companies or 5% of the 237 got less than 50 out of 100 and failed the corporate governance test.

Companies outside the cannabis realm that failed include **Shopify** (49), **Canada Goose** (43), and **Stella-Jones** (41), a company I've often [recommended](#) to Foolish readers.

The top company on the list is **Manulife Financial**, which received a perfect score. In third place with a score of 98 was **Emera**, the owners of Nova Scotia Power, the utility that supplies my electricity.

But I'm getting off on a tangent.

## Aphria did better than its peers

Aphria got the best score (49) of its trio of peers. **Canopy Growth** and **Aurora Cannabis** finished 236th and 237th with scores of 39 and 28, respectively.

Here's what was said about Aphria's corporate governance that was bad:

"The company received marks for having independent directors on its board, as well as independent directors on its key board committees," wrote Janet McFarland November 25. "But it lost marks because Vic Neufeld is both chairman and CEO. The company has one woman on its board, Renah Persofsky."

I believe that [Vic Neufeld](#), Aphria's CEO and chairman, is one of the best managers in the cannabis industry. That said, Aphria should know better. In a growing industry like cannabis, anything you can do to attract institutional investors is vital to a stock's long-term success.

Let's hope it changes its tune in 2019 and separates the roles. And while it's at it, maybe appoint another woman to its board, because I'm pretty sure women also use pot.

Here's the good stuff:

"Aphria received stronger marks for disclosure than the other two cannabis companies in the **S&P/TSX Composite Index**, scoring 7 out of 10 in the category," McFarland wrote. "It provided detailed director biographies, accurately explained directors' relationships to the company, and fully disclosed the value of all directors' shareholdings."

While disclosure only counted for ten marks, Aphria easily beat Aurora, who got 0 out of 10, and Canopy Growth, which got 3 out of 10.

## Why does it matter?

When it comes to cannabis stocks, investors are dealing primarily with companies that don't make money and have limited revenue generation. That won't always be the case, but for now, that's the situation.

In Q1 2019, Aphria had revenue of \$13.2 million with an adjusted EBITDA loss of \$4.0 million. Those quarterly sales numbers could easily be the daily revenues for Constellation Brands, Canopy Growth's deep-pocketed partner and major investor.

Investors need to know that cannabis companies like Aphria have integrity, not just some of the time, but all of the time.

Good corporate governance is a sign of integrity. Failing this test suggests otherwise.

Should investors be concerned? You better believe it.

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