



## Faced With Lawsuits, Could Aphria Inc (TSX:APHA) Still Be a Buy?

### Description

In the cannabis carnage of late 2018, **Aphria Inc** (TSX:APHA)(NYSE:APHA) has emerged as one of the biggest losers. Down some 67% year to date, it's in a much worse position than its peers like **Canopy Growth Corp**, which is itself close to erasing its gains for the year. In Aphria's precipitous fall, bad press has largely been to blame: a [scathing report](#) written by Quintessential Capital Management's Gabriel Grego sent the stock tumbling in early December, a selloff it hasn't recovered from.

Recently, more bad news has added to the heat Aphria is facing: investors have begun suing the company, with one shareholder having already filed papers, and a law firm considering a class-action lawsuit. These lawsuits stem from the claims made in Grego's report, so are in a sense a continuation of that story. To understand whether this will affect Aphria's already-depressed share price, we'll need to look at the reasons shareholders are suing.

### Why shareholders are suing

A Windsor woman is in the process of suing Aphria after losing money on 1700 shares bought between July 17 and December 3, 2018. In her statement of claim, she said she was suing to recover losses caused by misleading statements made by Aphria executives. The plaintiff is pursuing punitive damages which, if successful, could push total damages very high. Her attorneys are also seeking to add more Aphria shareholders to the lawsuit, making it a class action lawsuit.

In essence, the plaintiff and her attorneys believe that Aphria neglected its duties to shareholders by misleading them about its many acquisitions. If this lawsuit holds up, it would likely drive Aphria shares lower, both because the company will have to pay out damages and because it will hurt investor confidence in the company.

### The Gabriel Grego accusations

It appears that the lawsuit in question was inspired in part by Gabriel Grego's report against Aphria published earlier this month. In the report, Grego said that he would be shorting Aphria shares for a number of reasons, namely because the company pursued expensive and "worthless" acquisitions

against shareholder interests.

The report also claimed that insiders profited from these deals, which raises questions of insider trading. Aphria has vigorously defended itself against these accusations, and it appears Grego has walked them back to a degree. But if true, they spell bad news for Aphria shareholders.

## Acquisition questions abound

Long before Grego wrote his report, Aphria faced scrutiny for its [many acquisitions](#), which often came at nosebleed valuations and resulted in substantial dilution of equity. Not all of Aphria's acquisitions have been duds, however. Broken Coast Cannabis, for example, is a major revenue earner for the company. However, it does appear that Aphria has acquired companies whose revenue situation is questionable.

Colcanna Medicinal Extracts, for example, reported \$0 in revenue around the time it was purchased by an Aphria subsidiary for \$84 million. This doesn't prove the allegations against Aphria, of course, but it does cast doubt on the company's investment strategy, which is why I'd hold off on buying its shares for now.

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