



Aphria Inc. (TSX:APHA) Does a Good Thing

Description

Aphria (TSX:APHA)(NYSE:APHA) stock skyrocketed 14% on Friday after a smaller U.S.-focused cannabis player announced its intention to make an all-stock hostile takeover bid on the troubled low-cost marijuana producer, but I find the company's December 27th corporate governance change a more compelling move that deserves investor celebration.

Aphria announced the removal of founder Vic Neufeld from the board chair position, effective immediately, and the appointment of Irwin D. Simon as his replacement in an attempt to advance the "company's governance best practices, with the board now comprised of 10 directors with a majority, or six directors, that are independent."

After [recent short-seller allegations](#) of shareholder front running by insiders, the company is making frantic efforts to repair its corporate governance image and has reiterated its commitment to "strong corporate governance and promoting a culture of integrity and ethical behaviour throughout the organization."

I'm in favour of this move.

It may appear like the company's founder and now former board chairman's purported ties with a controversial co-founder named in the Latin America acquisition deals could have impaired shareholders' trust, and his replacement with an independent person is a great show for the company's efforts to repair its reputation by removing inherent conflicts of interests in the dual CEO and board chair positions.

The problem with CEO/board chair positions

A company's board has the overall mandate of protecting shareholder interests and promoting best corporate governance practices for the benefit of all stakeholders, who include company executives and the minority shareholder.

If the CEO, the top executive insider, also holds the office of board chairman, it is possible that

personal interests as a company executive conflict with board chair roles, impair professional judgement, and result in the chair person influencing the board in promoting the executive's interests over those of minority shareholders.

It is therefore good corporate governance practice to have the CEO and board chair positions held by two separate individuals to promote the independent functioning of the board for all stakeholders' benefit; Aphria has done well to take away the board chair role from the current CEO and director.

Could there be more to come?

The company's board recently created an independent committee to review the controversial LATAM acquisitions in an effort to calm a freaking market. The review's results aren't communicated yet, but one can begin to anticipate the next board actions, as the company abruptly "demotes" the CEO by taking away his top board position while a critical review is underway.

Can the new board have the guts to fire or censure a founding CEO if there were any controversial LATAM misdeeds?

An independent board can be expected to keep executives in check and is better placed to champion and protect shareholder interests. There could be some significant management shakeups in 2019 if the short-seller accusations hold any water.

A hostile takeover bid

It's amusing that a smaller and recently CSE-listed **Green Growth Brands** believes it can successfully carry out an [Aurora-CanniMed](#) thing on a beleaguered Aphria.

Green Growth is referencing a bid premium of 45% on its target based on its internally believed \$7 a share market price for its stock, just as its shares hit a 52-week high of \$5.25.

Aphria management is justified in vehemently declining this inferior all-stock offer, which is based on a price that the bidder's shares have never traded at yet and significantly discounts the target's current market price based on 20-day volume-weighted average price (VWAP) metric. VWAP is best used when share prices have been very volatile, and in this case, Green Growth's share price wildly rallied in December.

Although Green Growth's stock is growing fast, I don't think Aphria's shareholders could confidently believe that they could sell their converted shares at \$7 in the open market if a deal closes when the bidder's stock is yet to trade at that price level.

What's surprising is that Green Growth claims to have the backing of some holders of a 10% interest in Aphria.

Investor takeaway

Investors may warm up to the company's new efforts at improving its corporate governance structure,

after short-seller allegations of insider malpractices in controversial acquisitions deals. The board has done well to change the top guard, but the move could predict potential management shakeups in the near future as potential class-action lawsuits come in 2019.

I'm not convinced about the sincerity of Green Growth's hostile takeover bid.

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