



Aphria Inc's (TSX:APHA) CEO Just Departed: Time to Worry?

Description

In early January, Vic Neufeld, the CEO of **Aphria Inc** (TSX:APHA)(NYSE:APHA), announced that he would be stepping down to pursue “personal priorities.” The same day, co-founder Cole Cacciavillani said he will be resigning from his role overseeing Aphria’s growing operations.

The transition process began immediately, and both Neufeld and Cacciavillani will be officially leaving their positions “at the appropriate time.”

At such a critical time in the company’s history, what are investors to make of this? Is trouble brewing at this young cannabis company?

Timing is suspect amid fraud allegations

When asked by analysts why they were both stepping down, Neufeld specifically mentioned a report released in December alleging Aphria was a “shell game.” On its latest quarterly conference call, he said that it “was just time for us to move aside,” adding that the moves have “nothing to do with the short-sellers’ report, the review, [or] the valuation of assets.”

In a short-seller report issued on December 4, Quintessential Capital, which holds a sizable short position, relayed its belief that Aphria’s stock will go to \$0.

“First of all the company seems to be setting up, if our thesis is correct, for a giant asset write off,” the firm’s founder said. “We believe they’re going to have a hard time raising new cash, and of course long-term the survival of the company depends on cash’s oxygen.”

At the core of its claim lies the belief that Aphria overpaid for acquisitions in Latin America to enrich company insiders, some of which had financial interests in the acquired companies.

Aphria’s management team released a statement saying the report was a “malicious and self-serving attempt to profit by manipulating Aphria’s stock price at the expense of Aphria’s shareholders.” This is the classic canned response to reports like this. Instead of responding line-by-line to the report, companies often write off the charges as purely motivated by profit. While this is likely true—it is, after

all, the goal of an asset manager—it doesn't automatically negate the report's thesis.

Defending itself against the Latin American acquisitions, the company responded that it received "financial advice and fairness opinion from a reputable firm that the consideration it offered was fair to the company and its shareholders." The company receiving a gold star from a firm that it's paying isn't all that surprising. Instead of justifying the acquisition in more detail, management seems to have shifted the blame to another organization.

Aphria's value is significantly damaged

Even if the report is baseless, it will still have a large impact on Aphria's valuation. Since the cannabis explosion began, investors have bid up the prices of pot companies in anticipation of being acquired.

The *New York Times*, for example, recently ran an article saying that "big companies are unlikely to make major moves in the American market until recreational use of THC products is legal at a federal level." That means every independent producer can grow with significantly less competition, positioning themselves as prime acquisition candidates over the next 12 to 24 months.

But according to a recent Bloomberg report, the odds of Aphria being acquired "has likely decreased significantly in the short term following release of the short report." The departures of Neufeld and Cacciavillani are the first steps in mending that situation.

I would argue that the odds of being acquired have diminished for much longer than the short term. With plenty of other beaten-down acquisition options with less baggage, like **Tilray Inc** or **Green Organic Dutchman Holdings Ltd**, there's no reason for pot investors to take the extra risk with Aphria.

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