



Aphria (TSX:APHA) Merger Makes it the Biggest Weed Company Now

Description

The Canadian Cannabis sector has seen a lot of acquisitions and mergers, but few of them have been as extensive and potentially explosive as the reverse merger of **Aphria** (TSX:APHA)(NYSE:APHA) and **Tilray** ([NASDAQ:TLRY](#)). The two major Canadian players were often considered the underdogs of the sector. Even now, the combined market capitalization of the [two companies](#) comes close to the industry leader **Canopy Growth** that currently has a market capitalization of \$19.2 billion.

But the merger is expected to make the resulting company the largest global weed company. The deal was announced in December 2020, and the merger is expected to finalize by the second quarter of 2021.

Combining the strengths

The merger serves to combine the strengths of two great companies. Aphria used to be the “dark horse” stock of the sector and is currently probably the only company of its size that has managed to reclaim the valuation it had in the early marijuana boom. The merger of the two companies will bring together at least 16 major underlying brands.

Through Tilray, Aphria will also have access to a significant Cannabis beverage market segment. The merger is expected to make the combined company the largest in the world by revenue generation. Since it's a reverse merger, Tilray shareholders will get to keep their shares, whereas Aphria shareholders will receive 0.8381 Tilray shares for each Aphria share.

The best part of this merger is how complementary the two companies, their product portfolio, and their exposure to different markets are to each other. Aphria has a strong presence in Germany, while Tilray is dominant in other European countries, solidifying the combined strength in the emerging European market.

A hopeful outlook

The merger could not have come at a better time. The industry has been looking positive ever since Joe Biden became the president, as federal legalization might now be on the horizon. More states are expected to legalize Cannabis, and since the U.S. is a significantly larger market than Canada, state-wise or all-out federal legalization can create a huge number of new customers for Canadian marijuana companies.

If the merged Tilray and Aphria can solidify their U.S. presence and buy/acquire more production facilities and distribution businesses in the country before the weed is localized by the federal government, they might be able to dominate the market and get the early bird advantage. While many local businesses are emerging, relatively few would have the reach and resources comparable to what the combined company will have.

Foolish takeaway

Tilray is currently trading at a 54% discount from [its recent peak](#), and Aphria is at a 35.4% discount. If you want exposure to the resulting company, buying Aphria shares makes more sense than buying Tilray shares directly, as per the current valuation of both companies. But the balance might tip as we move closer to the finalization of this merger.

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