



Will Aphria/Tilray Profit From U.S. Weed Legalization?

Description

Marijuana legalization is coming to the United States.

Just recently, New York lawmakers moved to legalize cannabis in their state. That came after other states like California and Colorado legalized recreational cannabis use. With two of the most influential States having legalized cannabis, it seems like only a matter of time until Joe Biden pursues federal-level decriminalization.

This is a significant development. And Canadian pot firm **Aphria** (TSX:APHA)(NASDAQ:APHA) stands to gain from it. Thanks to its [upcoming merger](#) with **Tilray** ([NASDAQ:TLRY](#)), Aphria will have a substantial physical presence in the United States. That may give it an advantage when selling in that market. In this article, I'll explore how much money Aphria/Tilray could make from U.S. weed legalization.

How much Aphria/Tilray could make from the merger

According to New Frontier, the U.S. legal marijuana industry was [worth \\$13.6 billion in 2019](#). The more states legalize cannabis, the higher that figure is likely to go.

Currently, there are a number of companies supplying recreational and medical marijuana to the United States. That includes both Canadian firms and home-grown U.S. operations like Tilray. If the new Aphria/Tilray company were able to grab 20% of the U.S. marijuana industry, based on 2019 sales numbers, it would generate \$2.72 billion in revenue.

Of course, total legal marijuana sales are likely to be higher in the future, and 20% is just an estimate. But even figuring fairly conservatively, we can see that there is significant potential revenue to be gained here. Tilray is probably *already* getting a nice share of the U.S. marijuana revenue just mentioned. Once the Aphria/Tilray merger closes, APHA investors will get a chunk of it as well. So, for Canadian investors holding APHA stock but not TLRY stock, this is "new" revenue.

How much will current Aphria investors get?

The biggest positive of the Aphria/Tilray merger for Aphria investors is that Aphria is getting the better end of the deal. Aphria shareholders will get 68% of the newly formed company. Therefore, the deal will increase Aphria's stock value. Based on the value of the Tilray shares Aphria is to receive, APHA technically traded at a discount briefly this year. This made it one of the easiest arbitrage opportunities in recent stock market history, though APHA's stock price has since closed the gap.

Foolish takeaway

In recent years, there hasn't been a whole lot of interest in cannabis stocks. After Canadian legalization underwhelmed investors, the cannabis industry went dormant — at least in the media. That's beginning to change. With U.S. legalization looming and the sector's biggest-ever merger set to close, we could see another speculative rally in cannabis stocks. Or, at least, more media coverage.

As of right now, it's unclear whether Joe Biden will move to decriminalize marijuana in the United States. But it's abundantly clear that more and more states are already moving in that direction. As this trend develops, Aphria/Tilray will likely get a lot of the new revenue generated. That's a boon for Aphria shareholders, who will own the lion's share of the newly formed company.

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