



Aphria Inc (TSX:APHA): Should You Buy the Cannabis Mega-Merger?

Description

The merger between **Aphria** (TSX:APHA)(NYSE:APHA) and **Tilray** ([NASDAQ:TLRY](#)) is set to close soon. This month, the two companies will be meeting to vote on the deal. Next month, the deal is expected to close. When it does, the combined company will trade on the NASDAQ as TLRY.

The biggest event in the cannabis space since legalization, Aphra/Tilray's merger has major implications for investors. In this article, I'll explore whether it's worth investing in the merger by buying Aphria stock today.

Legalization is coming to the U.S.

One point in favour of investing in Aphria is the fact that cannabis is being legalized in the United States. Just recently, adult-use cannabis was [legalized in New York](#), bringing us to a total of 15 U.S. states that have legalized weed. With every state that legalizes cannabis, a whole new recreational market opens up. And Aphria/Tilray is perfectly positioned to serve them. Tilray is physically located in the United States, which may provide advantages in procuring supply deals in the country. Between the two of them, Aphria and Tilray have nearly two million feet of production space. Taken together, these factors point to the possibility of Aphria/Tilray being a major player in the new U.S. recreational weed market.

Tilray will be one of the world's biggest cannabis companies

Following the merger, the new Aphria/Tilray entity ("Tilray") will be one of the biggest cannabis companies in the world.

Presently, **Canopy Growth** is the world's largest cannabis company by market cap.

Aphria has a \$4.44 billion market cap. Tilray has a US\$3.5 billion market cap (about CA\$4.4 billion). If the merged entity is worth the same as both companies together, then it's worth about \$9 billion at today's prices. Of course, stock prices can change, and they do fluctuate all the time. By the time the

Aphria/Tilray merger closes, both stocks could be worth less than they are today. Still, if current trends prevail, it looks like the new Tilray will be the second-largest marijuana company after Canopy Growth. According to Aphria, it will be the [largest by revenue](#).

Foolish takeaway

After Canada legalized marijuana, cannabis stocks broadly underperformed. Legalization was somewhat disappointing, because it didn't lead any of the major Canadian producers to profitability. Revenue increased dramatically, but the big companies' net losses mostly only got worse. A lot of that was due to non-cash charges like asset impairment. But most big weed companies didn't become cash flow positive after legalization either.

Today, we've got an even bigger development underway for the cannabis industry: legalization in the United States.

While it's not looking like Joe Biden is going to legalize marijuana anytime soon, many individual states are moving in that direction. Just recently we saw New York make its move. Other states have plans to legalize or decriminalize in the near future. Quite likely, this will lead to increased revenue for cannabis companies. With legalization comes entirely new markets for them to sell to. But it remains to be seen whether this will be enough to save big cannabis companies like Aphria/Tilray from their persistent losses. Ultimately, only time will tell.

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