



What the Tilray-Aphria Deal Means for Cannabis Investors

Description

Boy, has 2021 been an interesting year for deal making. We've seen a tonne of deals proposed and a number of high-profile deals set to close.

Among these, there's a big merger in the cannabis sector investors have their eye on right now. Let's dive into the details for investors interested in what this deal could mean for the global cannabis industry.

Seismic shift about to take hold in the cannabis industry

The [mega-merger](#) that's set to close between Canadian cannabis companies **Aphria** (TSX:APHA)(NASDAQ:APHA) and **Tilray** ([NASDAQ:TLRY](#)) will create the largest cannabis company in the world in terms of sales. This deal moved a step closer to approval recently when shareholders of both companies voted in favour of this deal.

The proposed new company would operate under the Tilray name, with Aphria investors owning 62% of the combined entity. Pooling their resources will give both the companies a better chance at succeeding in a relatively nascent industry. While there will be some managerial and operational hurdles near term, I think such a merger is crucial in the current economic turmoil.

Tilray shares are down 40% year to date, and Aphria is up 60%. So, the success of the new entity largely depends on how these businesses fuse. It is expected that this merged company will generate pre-tax annual cost synergies worth \$100 million.

As global legalization efforts pick up, a company of this size will be hard to ignore. The new Tilray will have a portfolio of growing assets as well as numerous opportunities to expand Cannabis 2.0 products and increase margins over time. For investors buying cannabis companies on the basis of size and market share, the new Tilray is an intriguing choice today.

Risks do exist, so trade carefully

Of course, the combined entity will still have steep competition globally to contend with. The new Tilray will be a behemoth in the Canadian cannabis space. However, the U.S. market is the growth gem most investors are looking to right now.

Unfortunately for Aphria/Tilray investors, these companies are largely locked out of the U.S. THC market for the time being. Yes, some progress is being made in the U.S. CBD market. However, the combined entity will still likely lag its U.S. MSO peers for some time in terms of market share south of the border.

Indeed, it's entirely possible the combined entity could make more headway in terms of U.S. expansion than investors anticipate. That's a possibility. However, investors need to factor in some near-term risks with this stock related to international expansion.

Accordingly, I'm on the fence when it comes to Tilray and Aphria today. This company will be huge, for sure. But whether or not this stock is ultimately profitable over the next few years is the question mark I think will hamper these companies right now.

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