



# Information Asymmetry

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## Speaking Points

1. Aphria Incorporated
2. The “Scandal”
3. Timeline of Events



# 1. Aphria Incorporated

Company Background





— Vic Neufield,  
CEO and President of Aphria Inc.



## Financial Performance

- Peter Lynch – Fast Grower
- 80% sales growth
- 6x net income
- 3x net margin



## 2. The “Scandal”





*We believe something very sinister may be happening with this company*

~Gabriel Grego

hedge fund manager, Quintessential Capital Management





Andy DeFrancesco  
CIO of Scythian  
Owner of Delevaco  
Advisor to Neufield



# What would you do as an Investor?

- Implications of Overvalued Assets
- Legality Issues
- Short Sellers



### 3. Timeline of Events

December 3<sup>rd</sup>, 2018

Public Release of Information  
QCM

December 4<sup>th</sup> –  
December 6<sup>th</sup>

Stock Price Dips  
\$10 → \$5

Jan 30<sup>th</sup>, 2019

Stock Price Recovers  
\$10

## Aphria

### Executive Summary

Quintessential Capital Management has opened a SHORT position in Aphria (NYSE: APHA).

In this report we present the results of our in-depth, investigative due diligence on Aphria and its related entities.

What would seem at the surface as a successful cannabis company, hides instead a more sinister reality. Based on a careful collection, analysis and interpretation of the facts, we are of the strong opinion that Aphria is part of a scheme orchestrated by a network of insiders to divert funds away from shareholders into their own pockets.

The scheme we reconstructed is simple: insiders acquire stakes in virtually worthless corporate entities overseas through shells companies located in jurisdictions where beneficial owners are kept secret. Shortly afterwards, insiders cause the public companies they control (or influence) to acquire these shells at enormous and unjustified markups, thereby generating large profits for themselves and setting up the end buyer, Aphria shareholders, for likely vast write offs in the near future.

In most instances, the entities acquired by Aphria exhibit little or no sales and operating activity, minimal assets and questionable corporate governance. Insiders seem to exaggerate the nature of these entities, for example quoting what we believe are grossly inflated revenue figures or trying to portray expensive donations as "purchase orders".

More worryingly, we noticed what appear to us as systematic attempts to hide the true nature of these transactions, for example changing the names of the shell companies involved in a way that makes it harder to link them to Aphria's insiders. These M&A transactions are entirely financed by copious and dilutive share issues.

Because Aphria generates a minimum amount of sales relative to its market cap, we believe that, the uncovering of this alleged scheme, coupled with a massive asset write-off, would have catastrophic consequences for its share price.

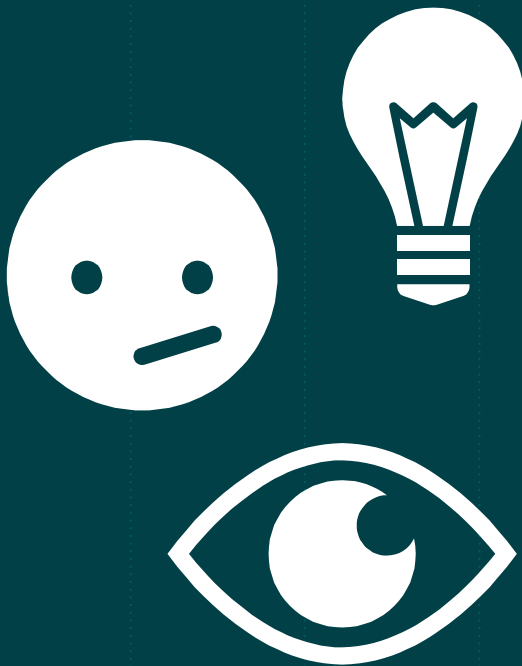
Quintessential Presentation on Aphria - December 3, 2018



# Discussion

## Information Asymmetry

- Management vs. Investors
- “Efficient” Market Theory
- Bubbling Cannabis Industry

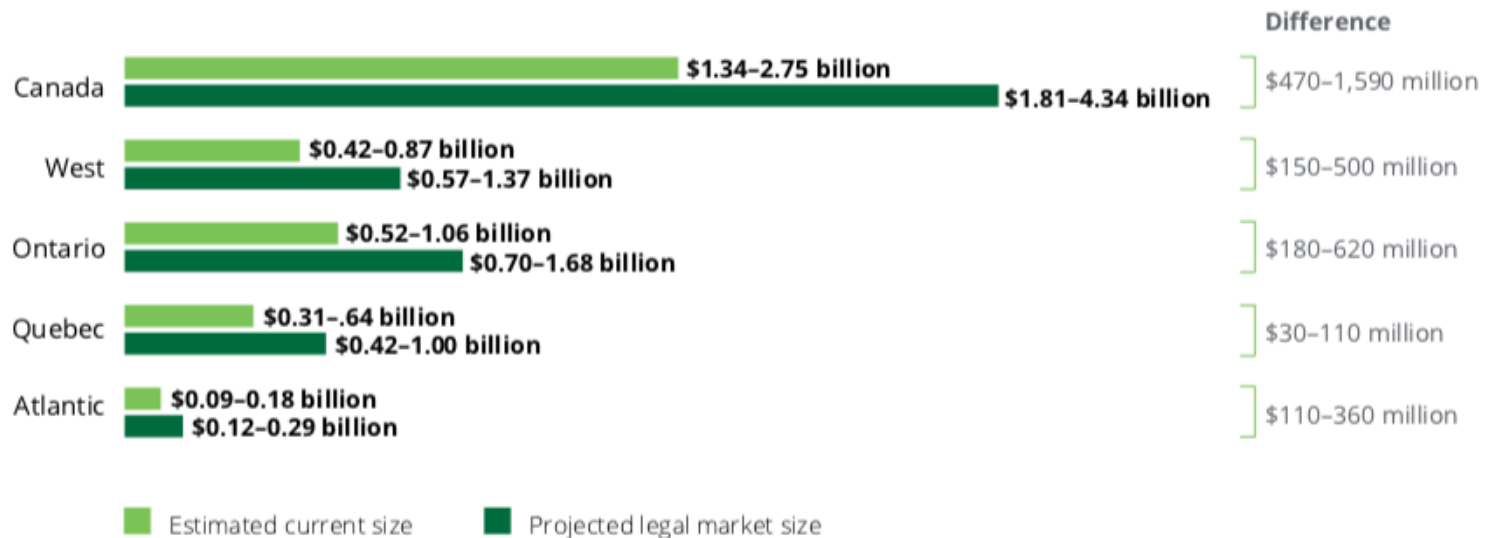


# Thanks!

Any questions?



## Recreational cannabis: market size



**Source:** Deloitte analysis

	Note	For the year ended May 31,	
		2018	2017
<b>Revenue</b>		\$ 36,917	\$ 20,438
Production costs	6	8,692	4,585
Other costs of sales		313	--
<b>Gross profit before fair value adjustments</b>		27,912	15,853
Fair value adjustment on sale of inventory	6	10,327	3,561
Fair value adjustment on growth of biological assets	7	(23,302)	(5,005)
<b>Gross profit</b>		40,887	17,297
<b>Operating expenses:</b>			
General and administrative	23	13,901	4,678
Share-based compensation	24	17,874	2,399
Selling, marketing and promotion		11,873	6,664
Amortization		3,985	956
Research and development		490	492
Impairment of intangible asset		--	3,500
Transaction costs		5,192	--
		53,315	18,689
		(12,428)	(1,392)
<b>Non-operating items:</b>			
Consulting revenue	17	1,244	512
Foreign exchange gain		124	483
(Loss) gain on marketable securities	4	(2,155)	209
(Loss) gain on sale of capital assets	9	(191)	11
Gain on dilution of ownership in equity investee	13	7,535	--
(Loss) gain from equity investees	13	(9,295)	210
Gain on sale of equity investee	13	26,347	--
Deferred gain recognized		1,304	--
Finance income, net	25	5,012	728
Unrealized gain on embedded derivatives	12	4,135	--
Gain on long-term investments	26	26,675	3,571
Unrealized loss on derivative liability	13	(12,451)	--
		48,284	5,724
Income before income taxes		35,856	4,332
Income taxes	15	6,408	134
<b>Net income</b>		29,448	4,198
<b>Other comprehensive loss</b>			
Other comprehensive loss from equity investee	13	(801)	--
<b>Net comprehensive income</b>		\$ 28,647	\$ 4,198
<b>Total comprehensive income is attributable to:</b>			
Owners of Aphria Inc.		28,867	4,198

(In thousands of Canadian dollars)

	Note	May 31,	
		2018	2017
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 59,737	\$ 79,910
Marketable securities	4	45,062	87,347
Accounts receivable		3,386	826
Other current assets	5	14,384	5,571
Inventory	6	22,150	3,887
Biological assets	7	7,331	14,08
Due from related parties	8	--	464
Assets held for sale	13	40,620	--
Current portion of convertible notes receivable	12	19,42	--
		194,612	179,413
Capital assets	9	303,151	72,455
Intangible assets	10	226,444	1,891
Convertible notes receivable	12	16,129	1,534
Interest in equity investees	13	4,966	28,376
Long-term investments	14	46,028	27,788
Deferred tax asset	15	--	3,315
Goodwill	11	522,762	1,200
		\$ 1,314,092	\$ 315,972
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 31,517	\$ 5,874
Income taxes payable	15	3,584	--
Deferred revenue		2,607	2,800
Current portion of promissory note payable	17	610	878
Current portion of long-term debt	18	2,140	765
Current portion of derivative liability	13	3,396	--
		43,854	10,317
<b>Long-term liabilities</b>			
Promissory note payable	17	--	366
Long-term debt	18	28,337	31,420
Derivative liability	13	9,055	--
Deferred tax liability	15	59,253	--
		140,499	42,103
<b>Shareholders' equity</b>			
Share capital	19	1,113,981	274,317
Warrants	20	1,375	445
Share-based payment reserve		22,006	3,230
Accumulated other comprehensive loss		(801)	--
Non-controlling interest	22	9,580	--
Retained earnings (deficit)		27,452	(4,123)
		1,173,593	273,869
		\$ 1,314,092	\$ 315,972