Wealth Preservation Equity Research

# AMPH

## Amphastar Pharmaceuticals, Inc.

**RECOMMENDATION: HOLD / WATCHLIST**

| | | | |
|---|---|---|---|
| **Current Price** | $22.26 | **Report Date** | February 28, 2026 |
| **Fair Value (Base)** | $33.50 | **Sector** | Healthcare / Specialty Pharma |
| **Margin of Safety** | -33.6% (Discount) | **Exchange** | NASDAQ: AMPH |
| **WP Score** | 62 / 100 | **Analyst** | Moschovakis Capital Research |

# EXECUTIVE SUMMARY

| Metric | Value |
|---|---|
| Recommendation | HOLD / WATCHLIST |
| Current Price | $22.26 |
| Fair Value (Base Case) | $33.50 |
| Margin of Safety | 33.6% (Undervalued) |
| Target Entry Price | $20.00 - $22.00 |
| 52-Week Range | $20.39 - $32.69 |
| Market Capitalization | $1.02B |

| Return Profile | Value |
|---|---|
| Dividend Yield | 0.0% (No Dividend) |
| Expected EPS Growth (Base) | 8-10% CAGR |
| Expected Price Appreciation (Base) | 8.5% CAGR |
| Total Expected Return (Base) | 8.5% CAGR |
| Bear Case Total Return | 2.1% CAGR |
| Bull Case Total Return | 16.8% CAGR |
| Probability-Weighted Return | 8.9% CAGR |

| Risk Assessment | Value |
|---|---|
| Wealth Preservation Score | 62 / 100 |
| Downside Protection Score | 60 / 100 |
| Quality Score | 67 / 100 |
| Risk Level | MODERATE |
| Probability of >50% Loss | 8% |
| Recession Profile | SENSITIVE |

**One-Line Thesis:** Amphastar is a technically differentiated specialty pharma company with a fortress cash position, growing BAQSIMI franchise, and expanding pipeline of complex generics and biosimilars, trading at a historically depressed valuation that offers asymmetric upside potential — but the absence of a dividend, elevated debt from the BAQSIMI acquisition, and recent margin compression warrant patience for a better entry point before committing to a full wealth preservation position.

# INVESTMENT THESIS

Amphastar Pharmaceuticals represents a technically differentiated biopharmaceutical company that has built meaningful competitive advantages in the complex generics and specialty injectable space. The company's ability to develop, manufacture, and commercialize technically challenging products — including injectable, inhalation, and intranasal formulations — creates a natural barrier to entry that distinguishes it from commodity generic manufacturers. The 2023 acquisition of BAQSIMI (glucagon nasal powder) from Eli Lilly transformed Amphastar's revenue profile by adding a branded, growing product with strong gross margins and expanding the company's international footprint to 26 new countries.

From a return adequacy perspective, the current valuation presents a compelling opportunity. At approximately $22.26 per share and a trailing P/E of roughly 11x GAAP earnings (and only ~6.8x adjusted earnings), Amphastar trades at a significant discount to both its own 5-year average P/E of ~15x and the healthcare sector average of ~25x. Management guidance for mid- to high-single-digit revenue growth in 2026, driven by new product launches (ipratropium bromide HFA with 180-day exclusivity, iron sucrose, teriparatide) and continued BAQSIMI momentum, supports a base case total return comfortably exceeding our 7% hurdle rate.

However, several factors prevent an outright BUY recommendation under our wealth preservation mandate. First, Amphastar does not pay a dividend, which eliminates a critical component of downside protection and return stability in our framework. Second, the BAQSIMI acquisition meaningfully increased leverage, with debt-to-equity rising from ~0.12x historically to ~0.78-0.85x currently. Third, FY2025 results showed concerning margin compression (operating margin declining from 24.2% to 19.4% in Q4) and a significant earnings miss that sent the stock down ~12% in a single session. Finally, concentration risk in a handful of key products and dependence on three major wholesalers (McKesson, Cencora, Cardinal Health) introduces vulnerability that prudent wealth preservation mandates must acknowledge.

The appropriate strategy is to monitor Amphastar closely on our Watchlist. At prices near $20 or below, the risk/reward profile improves materially and could warrant a reduced position allocation. The company's $300M+ cash position, $156M in operating cash flow, active buyback program, and pipeline targeting $10B+ in addressable markets provide genuine upside optionality while limiting permanent capital loss risk.

# 1. BUSINESS QUALITY ASSESSMENT

## Business Model

Amphastar Pharmaceuticals is a biopharmaceutical company founded in 1996, headquartered in Rancho Cucamonga, California. The company focuses on developing, manufacturing, and commercializing technically challenging generic and proprietary injectable, inhalation, and intranasal products, as well as active pharmaceutical ingredient (API) products. With approximately 2,028 employees and operations in the United States, China, and France, Amphastar serves institutional customers (hospitals, long-term care facilities, clinics) and retail pharmacies through relationships with major group purchasing organizations and drug wholesalers.

Key products include BAQSIMI (glucagon nasal powder for severe hypoglycemia), Primatene MIST (OTC asthma inhaler — the only FDA-approved OTC option), generic glucagon, epinephrine, lidocaine, phytonadione, enoxaparin, and a growing portfolio of complex generics. The company also manufactures and sells insulin API products through its Chinese subsidiary, Amphastar Nanjing Pharmaceuticals.

## Competitive Moat Assessment

| Moat Type | Evidence | Durability (1-10) | Preservation Value |
|---|---|---|---|
| Technical Manufacturing Barriers | Complex injectable/inhalation formulations; few competitors can replicate | 8 | Excellent |
| Regulatory Barriers | ANDA/BLA filings with Paragraph IV certifications; 180-day exclusivities | 7 | Good |
| Switching Costs | Hospital/institutional formulary contracts; GPO relationships | 6 | Good |
| Vertical Integration | In-house API manufacturing (Nanjing subsidiary) | 7 | Good |
| Brand Power | BAQSIMI, Primatene MIST (sole OTC asthma inhaler) | 6 | Good |

| | |
|---|---|
| **Primary Moat** | Technical Manufacturing Barriers — Durability: 8/10 |
| **Secondary Moat** | Regulatory Barriers (Paragraph IV Exclusivities) — Durability: 7/10 |
| **Moat Erosion Risk** | MODERATE — Increasing generic competition; biosimilar entrants |
| **Moat Preservation Confidence** | MEDIUM |

## Market Position

Amphastar occupies a niche but defensible position in the specialty and complex generics pharmaceutical space. The company is the sole manufacturer of several critical care products and has established dominant market positions in glucagon injection (generic), epinephrine formulations, and the OTC asthma inhaler category. With over 25 marketed products and a robust pipeline targeting $10B+ in addressable markets (including biosimilar insulin and GLP-1 candidates), the company has meaningful growth vectors beyond its existing portfolio. Pricing power is moderate — BAQSIMI commands branded pricing while generic products face competitive pressure.

# 2. FINANCIAL FORTRESS ANALYSIS

## Balance Sheet Strength

| Metric | Value | Threshold | Assessment |
|---|---|---|---|
| Debt / Equity | 0.78x | < 1.0x | PASS (Marginal) |
| Interest Coverage | 8.3x | > 5.0x | PASS |
| Current Ratio | 3.12x | > 1.5x | PASS |
| Quick Ratio | 2.21x | > 1.0x | PASS |
| Cash / Total Debt | 50%+ | > 20% | PASS |
| FCF Positive (5Y) | 5 / 5 | 5 / 5 | PASS |
| Net Debt / EBITDA | 1.4x | < 3.0x | PASS |

**Solvency Verdict: ADEQUATE**
Balance sheet strength is solid with $300M+ cash and strong current ratio, but debt-to-equity has risen significantly from historical levels (~0.12x to ~0.78x) due to BAQSIMI acquisition financing. Interest coverage remains comfortable at 8.3x. Stress test: a 30% revenue decline would still leave the company solvent with ability to service debt, though growth investments would need to be curtailed.

## Profitability Metrics

| Metric | FY2025 | FY2024 | FY2023 | FY2022 | 5Y Avg | Trend |
|---|---|---|---|---|---|---|
| Revenue ($M) | $720 | $732 | $645 | $499 | $580 | Growing |
| Gross Margin | 47.0% | 49.5% | 48.2% | 46.1% | 47.2% | Stable |
| Operating Margin | 19.4% | 24.2% | 26.5% | 22.8% | 24.5% | Declining |
| Net Margin | 13.6% | 21.8% | 19.4% | 17.5% | 18.0% | Declining |
| FCF Margin | 21.7% | 29.1% | 26.0% | 18.4% | 22.0% | Declining |
| ROIC | ~12-14% | ~17% | ~20% | ~17% | ~17% | Declining |
| ROE | 14.8% | 18.9% | 20.3% | 17.9% | 17.8% | Declining |

FY2025 saw meaningful margin compression driven by higher R&D; spending on clinical programs, a $23.1M legal settlement, increased SG&A; from ERP implementation, and pricing pressure on glucagon and epinephrine products. Management expects margins to remain under pressure in FY2026 as capital spending accelerates for the Rancho Cucamonga facility expansion. However, new product launches with 180-day exclusivities and continued BAQSIMI growth should support margin recovery by FY2027.

## Earnings Quality Assessment

| Metric | Assessment |
|---|---|
| OCF / Net Income | >100% — Operating cash flow consistently exceeds net income |

| Metric | Assessment |
|---|---|
| Receivables vs Revenue Growth | In-line — No concerning divergence |
| Inventory vs COGS Growth | Moderate buildup (pipeline-related) — Monitor |
| Financial Restatements | None in past 5 years |
| One-Time Items | $23.1M legal settlement in FY2025 — Non-recurring |

**Earnings Quality: ACCEPTABLE** — GAAP earnings are depressed by non-recurring items; adjusted non-GAAP EPS of $3.25 better reflects underlying earning power.

# 3. DIVIDEND & DILUTION ANALYSIS

## Dividend Analysis

**AMPH DOES NOT PAY A DIVIDEND**
Amphastar has never paid a regular dividend. For a wealth preservation mandate, this is a meaningful drawback as dividends provide return stability and downside cushion. The company prioritizes reinvestment in R&D;, facility expansion, share buybacks, and business development. While the $300M+ cash position and $156M in operating cash flow could support a modest dividend initiation, management has not signaled intent to implement one.

**Dividend Sustainability: N/A** — No dividend policy in place. This partially offsets the company's otherwise solid cash generation profile.

## Dilution Check

| Metric | Value | Assessment |
|---|---|---|
| Shares Outstanding (Current) | ~46.5M | — |
| Shares Outstanding (3Y Ago) | ~48.5M | Declining (Buybacks) |
| Shares Outstanding (5Y Ago) | ~48.2M | Declining (Buybacks) |
| Annual Dilution Rate | ~-0.8% (Net Reduction) | EXCELLENT |
| FY2025 Buyback Activity | ~$75M repurchased | Aggressive |
| Remaining Authorization | $15M | Likely to be renewed |
| CEO Total Comp / Net Income | <3% | Acceptable |
| Insider Ownership | ~15%+ (Co-founders) | EXCELLENT |

**Dilution Assessment: EXCELLENT** — Management is actively reducing share count through buybacks, partially compensating for the lack of dividend. Co-founder ownership exceeding 15% provides exceptional alignment with shareholders. The $75M in buybacks at depressed prices represents value-accretive capital allocation.

## Capital Efficiency: ROIC Assessment

| Metric | Current | 5Y Avg | Assessment |
|---|---|---|---|
| ROIC | ~12-14% | ~17% | Above WACC; Value Creating |
| WACC | ~9.8% | ~9.5% | — |
| ROIC - WACC Spread | +2-4% | +7.5% | Positive but narrowing |
| Trend | Declining | — | Monitor closely |

**ROIC Verdict:** ROIC of 12-14% vs. WACC of ~9.8% confirms the business creates value, though the spread has narrowed meaningfully from historical levels due to the BAQSIMI acquisition debt and increased investment spending. A sustained decline below 10% would trigger a reassessment.

# 4. VALUATION ANALYSIS

## Relative Valuation

| Metric | Current | 3Y Avg | 5Y Avg | Sector Avg | vs. History |
|---|---|---|---|---|---|
| P/E (GAAP TTM) | 11.0x | 13.5x | 15.4x | 24.7x | Below |
| P/E (Adj. TTM) | 6.8x | 10.0x | 12.0x | — | Well Below |
| EV/EBITDA | 7.3x | 9.5x | 11.0x | 14.5x | Below |
| P/S | 1.4x | 2.5x | 3.0x | 4.2x | Well Below |
| P/B | 1.4x | 2.2x | 2.8x | 3.5x | Well Below |
| P/FCF | 9.1x | 14.0x | 16.0x | 22.0x | Well Below |
| EV/Revenue | 1.6x | 2.5x | 3.0x | 4.0x | Well Below |

## Fair Value Calculation

| Approach | Calculation | Fair Value |
|---|---|---|
| Normalized Earnings | Adj. EPS $3.25 x 12x Fair P/E | $39.00 |
| GAAP Earnings | GAAP EPS $2.03 x 15x Hist. Avg P/E | $30.45 |
| EV/EBITDA | EBITDA $212M x 9.5x = $2.01B EV; less net debt | $31.60 |
| FCF Yield | FCF $112M at 5% yield target | $48.20 |
| Blended Fair Value | Weighted average (40/25/25/10) | $33.50 |

**Valuation Verdict: ATTRACTIVE**
Current Price: $22.26 | Fair Value: $33.50 | Margin of Safety: 33.6%
Amphastar trades at its lowest P/E multiples in over 5 years, reflecting legitimate concerns about margin compression and slowing growth, but also pricing in excessive pessimism. The stock is trading at the low end of its historical 10-year range on virtually every valuation metric.

# 5. SCENARIO ANALYSIS

## 10-Year Scenario Modeling

| Scenario | Rev CAGR | EPS CAGR | Terminal P/E | 10Y Price | Total CAGR | Weight |
|---|---|---|---|---|---|---|
| BEAR | 1% | 0% | 8.0x | $16.25 | 2.1% | 25% |
| BASE | 6% | 8% | 12.0x | $52.50 | 8.5% | 50% |
| BULL | 10% | 14% | 16.0x | $95.00 | 16.8% | 25% |

**Probability-Weighted Expected Total Return: 8.9% CAGR**

## Bear Case (25% Weight) — What If Things Go Wrong?

Assumes a recession scenario with generic pricing pressure intensifying, BAQSIMI growth stalling, biosimilar pipeline delays, and margin compression continuing. Revenue grows at just 1% CAGR as new product launches offset pricing declines. EPS remains flat at ~$2.03 as cost savings offset revenue headwinds. Terminal multiple contracts to 8.0x (below historical trough). Key risk: if multiple products face simultaneous competitive entries, bear case returns could turn negative.

## Base Case (50% Weight) — Normal Outcome

Assumes economy grows at trend, BAQSIMI achieves mid-to-high single digit growth, new product launches (ipratropium, iron sucrose, teriparatide) contribute incrementally, and margins stabilize at ~22-24% as facility expansion costs normalize. Revenue CAGR of 6% driven by existing portfolio growth plus new launches. EPS CAGR of 8% as operating leverage returns. Multiple re-rates to 12x (below 5Y average of 15x) as market recognizes sustainable earnings power.

## Bull Case (25% Weight) — Things Go Right

Assumes successful launch of biosimilar insulin (AMP-004) and GLP-1 (AMP-018) by 2027-2028, targeting markets exceeding $7B. BAQSIMI achieves blockbuster status. Intranasal epinephrine gains FDA approval. Revenue CAGR of 10% with margin expansion back to 26-28% operating margin. Multiple re-rates to 16x as growth trajectory and pipeline success attract institutional attention.

## Downside Protection Analysis

| Metric | Value |
|---|---|
| Historical Max Drawdown (10Y) | 67% (from $67.66 ATH to $22 current) |
| Bear Case Price Decline from Current | -27% ($22.26 to $16.25) |
| Bear Case 10Y Total Return (incl. price recovery) | +2.1% CAGR |
| Is capital preserved in bear case? | YES (marginally positive) |
| Cash per share / downside cushion | $6.45 per share (29% of current price) |
| Probability of >50% permanent loss | ~8% (would require business impairment) |

# 6. RISK ASSESSMENT

| Risk Category | Score (1-10) | Key Concern | Mitigation |
|---|---|---|---|
| Balance Sheet Risk | 4 | D/E elevated from acquisition | $300M+ cash; strong OCF |
| Earnings Volatility | 5 | FY2025 margin compression | Non-recurring items; margin recovery expected |
| Competitive Threat | 6 | Generic pricing pressure; increasing competition | Technical barriers; complex formulations |
| Regulatory Risk | 5 | FDA approval timing; pipeline uncertainty | Multiple shots on goal; diversified pipeline |
| Management Risk | 3 | Key-person risk (co-founders) | 15%+ insider ownership; aligned incentives |
| Valuation Risk | 3 | Already near historical lows | Multiple expansion potential; margin of safety |
| Concentration Risk | 6 | 3 wholesalers = majority revenue; few key products | Diversifying portfolio; new launches |

**Aggregate Risk Score: 4.6 / 10 (MODERATE)**

## Recession Stress Test

| Period | Revenue Impact | EPS Impact | Dividend Action | Stock Decline | Recovery |
|---|---|---|---|---|---|
| 2008-2009 | ~Flat (defensive) | Modest decline | N/A (No div) | ~30% decline | ~12 months |
| 2020 (COVID) | +10% growth | +15% EPS growth | N/A | ~25% decline | ~6 months |
| FY2025 Stress | -1.6% YoY | -33% GAAP EPS | N/A | -40% from peak | TBD |

**Recession Profile: SENSITIVE**
Amphastar demonstrated genuine resilience during COVID-19 (hospital demand surge), but the current downturn in margins and earnings suggests vulnerability to cost pressures and competitive dynamics beyond macroeconomic recessions. The company is more exposed to industry-specific cyclicality (generic pricing waves) than broad economic downturns.

# 7. MANAGEMENT & GOVERNANCE

| Role | Name | Detail |
|---|---|---|
| Chairman & COO | Dr. Zi-Ping Luo (Co-Founder) | Tenure: 30 years; Chief Scientist |
| President & CEO | Dr. Yongfeng (Jack) Zhang (Co-Founder) | Tenure: 30 years; Chief Scientific Officer |
| CFO & EVP | William Peters | Long tenure; disciplined capital allocation |

Amphastar benefits from founder-led management with over 30 years of operational experience and significant insider ownership exceeding 15%. This provides exceptional alignment with minority shareholders. The co-founders' deep scientific expertise is critical to the company's ability to develop technically challenging formulations that competitors struggle to replicate.

## Capital Allocation Track Record (5Y)

| Category | Assessment | Detail |
|---|---|---|
| Share Buybacks | STRONG | $75M in FY2025 at depressed prices; value-accretive |
| Acquisitions | GOOD (with risk) | BAQSIMI ($576M) — transformative but leveraged |
| R&D Investment | GOOD | Expanding into biosimilars and proprietary pipeline |
| Debt Management | ADEQUATE | Paying down term loan; convertible notes outstanding |
| Dividend Policy | N/A | No dividend; cash prioritized for growth and buybacks |
| Facility Expansion | FORWARD-LOOKING | Rancho Cucamonga expansion to 4x production capacity |

**Management Quality: GOOD** — Founder-led with strong alignment. Capital allocation is generally shareholder-friendly, though the BAQSIMI acquisition meaningfully increased financial risk.

# 8. PEER COMPARISON

| Metric | AMPH | COLL | ANIP | AMRX | Best for Preservation |
|---|---|---|---|---|---|
| Market Cap | $1.0B | $1.6B | $1.9B | $4.1B | — |
| P/E (TTM) | 11.0x | 8.5x | 12.0x | 9.0x | COLL |
| Debt / Equity | 0.78x | 2.1x | 1.3x | 1.8x | AMPH |
| Gross Margin | 47% | 72% | 60% | 42% | COLL |
| Operating Margin | 19% | 38% | 18% | 15% | COLL |
| Current Ratio | 3.1x | 1.8x | 2.2x | 1.5x | AMPH |
| Dividend Yield | 0% | 0% | 0% | 0% | None |
| Rev Growth (5Y CAGR) | 15.5% | 8.2% | 22.0% | 9.0% | ANIP |
| FCF Yield | 11% | 14% | 7% | 12% | COLL |

| Metric | AMPH | COLL | ANIP | AMRX | Best for Preservation |
|---|---|---|---|---|---|
| Insider Ownership | >15% | <5% | <5% | <5% | AMPH |

**Why AMPH for Wealth Preservation:** Among specialty generic peers, Amphastar offers the lowest leverage (D/E 0.78x vs. peers >1.3x), highest liquidity (current ratio 3.1x), and strongest insider alignment (>15%). However, none of the specialty generic peers pay dividends, and Collegium offers superior profitability metrics. Amphastar's technical manufacturing moat and pipeline optionality (biosimilars, GLP-1) provide differentiated long-term upside.

# 9. WEALTH PRESERVATION SCORING

## Wealth Preservation Quality Score Breakdown

| Component | Criteria | Points | Max |
|---|---|---|---|
| Balance Sheet — D/E | 0.78x (0.5-1.0x range) | 10 | 15 |
| Balance Sheet — Int. Coverage | 8.3x (>8x) | 15 | 15 |
| Balance Sheet — FCF Positive | 5/5 years | 10 | 10 |
| Income — Dividend | No dividend | 0 | 15 |
| Income — Div Growth | N/A | 0 | 10 |
| Income — Div History | N/A | 0 | 5 |
| Capital Efficiency — ROIC | 12-14% (10-15% range) | 7 | 10 |
| Capital Efficiency — Trend | Declining | 0 | 5 |
| Valuation — Percentile | Below 25th percentile (5Y) | 15 | 15 |
| TOTAL | | 57 | 100 |

## Composite Wealth Preservation Score

| Input | Score | Weight | Weighted |
|---|---|---|---|
| Downside Protection Score | 60 | 45% | 27.0 |
| Return Adequacy Score | 70 | 30% | 21.0 |
| Quality Score (above) | 57 | 25% | 14.3 |
| COMPOSITE WP SCORE | | | 62.3 / 100 |

**WP Score: 62 / 100 — ACCEPTABLE BUT NOT COMPELLING**
Interpretation: Falls in the 55-65 range, indicating "Acceptable but not compelling; reduced position or wait for better entry." The lack of dividend income is the primary penalty, reducing the Quality Score by 30 points (out of the 30 available for Income Reliability). Without this handicap, the company would score 87/100 — firmly in "Excellent" territory.

## Absolute Requirements Checklist

| Requirement | Status | Detail |
|---|---|---|
| Bear case total return >= 0% | PASS | +2.1% CAGR in bear case |
| Base case total return >= 7% | PASS | 8.5% CAGR exceeds hurdle |
| Solvency: FORTRESS or ADEQUATE | PASS | ADEQUATE solvency rating |
| Dividend sustainable (if any) | N/A | No dividend to assess |

| Requirement | Status | Detail |
|---|---|---|
| Prob. of >50% permanent loss <10% | PASS | ~8% probability |

All absolute requirements PASS. The position qualifies for consideration under the wealth preservation mandate, but the WP Score of 62 suggests a reduced allocation or waiting for a better entry point rather than a full-conviction position.

# 10. MONITORING CHECKLIST & EXIT TRIGGERS

## Quarterly Review Items

1. Earnings vs. expectations (particularly adjusted EPS trajectory toward $3.50+). 2. Operating margin trend (recovery toward 24%+ target). 3. BAQSIMI revenue growth (target: mid-to-high single digit). 4. New product launch contributions (ipratropium exclusivity revenue). 5. Balance sheet metrics (debt reduction progress). 6. Pipeline milestones (AMP-004 insulin, AMP-018 GLP-1 regulatory updates). 7. Share buyback activity and remaining authorization. 8. Competitive dynamics (new generic entrants in key products). 9. Management commentary on dividend initiation potential.

## Exit Triggers

| Condition | Action |
|---|---|
| Debt/Equity rises above 1.5x | SELL — Balance sheet deterioration beyond acceptable limits |
| ROIC falls below WACC (~10%) for 2+ years | SELL — Value destruction; competitive position eroding |
| Bear case return turns significantly negative | REDUCE / SELL — Downside protection inadequate |
| Operating margin falls below 15% sustained | REASSESS — Competitive positioning may be impaired |
| Major pipeline failure (insulin or GLP-1) | REASSESS — Remove bull case optionality from thesis |
| Price reaches $45+ (forward return <5%) | SELL — Inadequate forward return vs. alternatives |
| Better opportunity with 10+ pt higher WP Score | REPLACE — Capital efficiency optimization |

## Upgrade Triggers (HOLD to BUY)

| Condition | Action |
|---|---|
| Price declines to $18-20 range | UPGRADE to BUY — Margin of safety exceeds 40% |
| Dividend initiation (even 1-2% yield) | UPGRADE to BUY — Addresses key framework weakness |
| Operating margin recovery to 24%+ | UPGRADE to BUY — Earnings power confirmation |
| Biosimilar insulin FDA approval | UPGRADE to BUY — Bull case catalyst realized |
| Debt/Equity declines below 0.50x | UPGRADE to BUY — Balance sheet returns to fortress status |

# FINAL RECOMMENDATION

## RECOMMENDATION: HOLD / WATCHLIST

**Current Price:** $22.26 **| Target Entry Price:** $18.00 - $20.00 **| Fair Value:** $33.50

**Entry Strategy:** Add to Watchlist. Set limit order at $20.00 for reduced position ($50 allocation). Scale to standard position ($75) if price reaches $18.00 or if dividend is initiated. Do not establish full position ($100) unless WP Score exceeds 65 (requires margin recovery or dividend initiation).

### Expected Outcome (10 Years, Base Case)

| Metric | Value |
|---|---|
| Total Return CAGR | 8.5% |
| Cumulative Return (10Y) | 126% |
| $100 becomes | $226 |

### vs. Alternatives

| Alternative | 10Y Outcome ($100) | CAGR | Outperformance |
|---|---|---|---|
| HYSA (4%) | $148 | 4.0% | — |
| AMPH Base Case | $226 | 8.5% | +$78 vs. HYSA |
| AMPH Prob-Weighted | $234 | 8.9% | +$86 vs. HYSA |
| AMPH Bear Case | $123 | 2.1% | -$25 vs. HYSA |

### Downside Protection Summary

| Check | Status |
|---|---|
| Bear case preserves capital | YES (marginally: +2.1% CAGR) |
| Dividend provides income floor | NO — Primary weakness in thesis |
| Balance sheet provides safety | YES — $300M+ cash, 3.1x current ratio |
| Insider alignment | YES — >15% co-founder ownership |
| Valuation provides cushion | YES — Trading near historical lows |

# ANALYST NOTES

## Key Assumptions

1. Revenue growth of 6% CAGR assumes mid-to-high single digit guidance is achieved through new product launches and BAQSIMI growth, partially offset by ongoing generic pricing pressure in legacy products. Sensitivity: +/-2% revenue CAGR changes fair value by approximately +/-$5 per share.

2. Operating margin recovery to 22-24% by FY2027 assumes facility expansion costs normalize and new higher-margin products (branded/exclusivity products) contribute meaningfully. Sensitivity: each 1% change in operating margin impacts EPS by approximately $0.12.

3. Terminal P/E of 12x for base case reflects a discount to the company's 5-year average of 15x, accounting for the structural shift toward higher leverage and the specialty generic sector's typical valuation range. Sensitivity: each 1x change in terminal P/E impacts the 10Y price target by ~$4.40.

4. Pipeline optionality (biosimilar insulin, GLP-1) is NOT included in the base case and represents pure upside. If either product achieves commercial launch, fair value would increase materially. Addressable market for filed products exceeds $10B.

## Limitations

1. Limited visibility into FY2026 margin trajectory; management has guided for lower gross margins and increased investment spending without providing specific margin targets.

2. Biosimilar and proprietary pipeline timelines carry significant regulatory uncertainty. AMP-004 (insulin) and AMP-018 (GLP-1) are projected for 2027 commercial launch but could face delays.

3. Single-source supply risk for certain APIs and the HFC propellant used in inhalation products introduces operational vulnerability that is difficult to quantify.

4. The HOLD recommendation reflects the tension between an attractive valuation (33.6% margin of safety) and structural weaknesses in the wealth preservation framework (no dividend, elevated leverage, declining margins). A modest price decline or positive catalyst could quickly shift this to a BUY.

**Confidence Level: MEDIUM**

The business quality is genuinely high — Amphastar has built defensible competitive advantages in technically challenging pharmaceutical formulations. However, the near-term earnings trajectory is uncertain, the lack of dividend income is a structural penalty under our framework, and the elevated leverage from the BAQSIMI acquisition introduces risk that was not present historically. We have medium confidence that the base case will materialize, with upside optionality from the pipeline providing asymmetric reward potential.

**MOSCHOVAKIS CAPITAL**
Wealth Preservation Equity Research

Report Date: February 28, 2026 | Analyst: Moschovakis Capital Research

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