



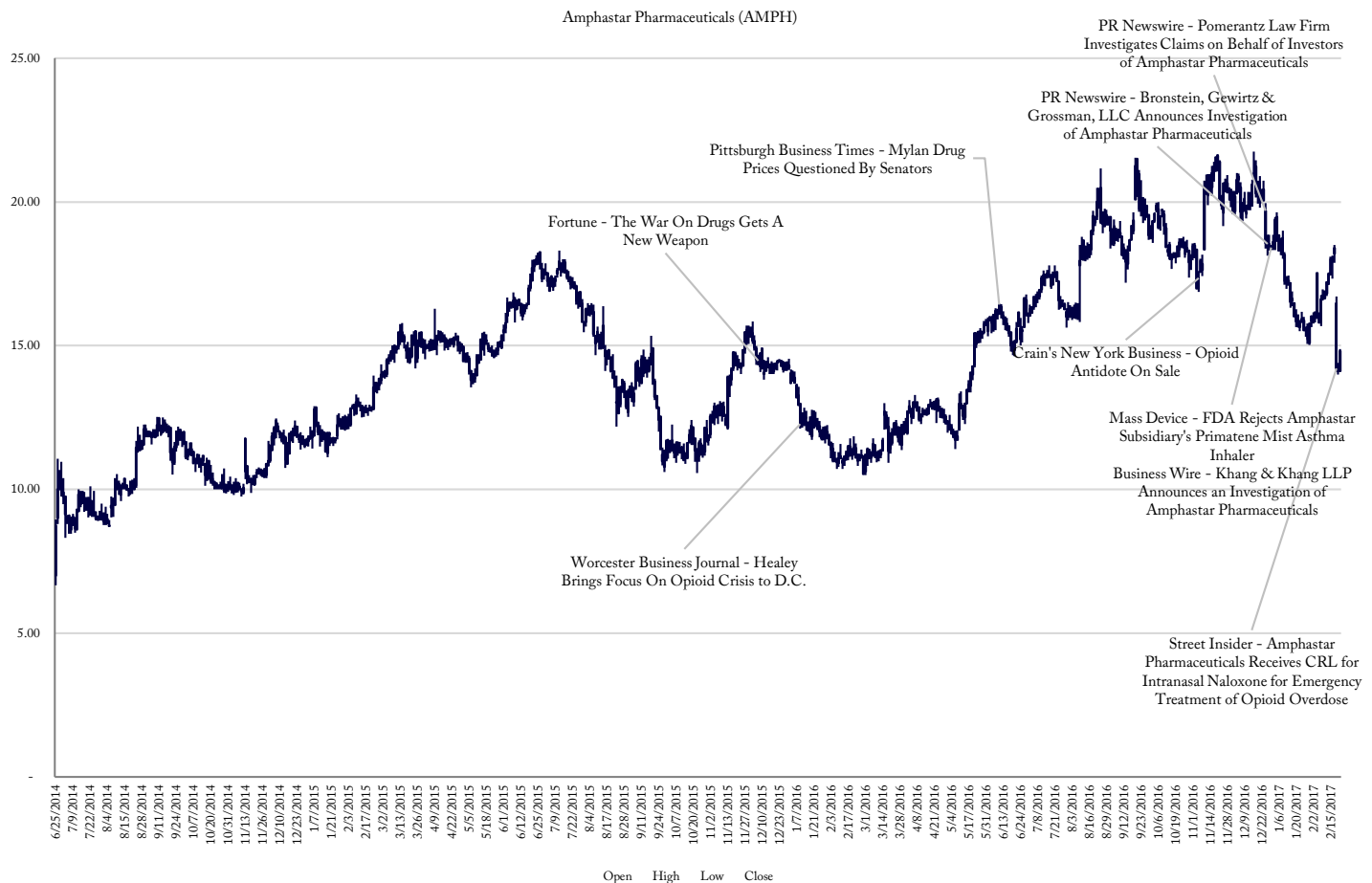
## WHAT'S GOING ON WITH AMPHASTAR PHARMACEUTICALS?



Richard Suvak, MSF CFA

From the company's website, "Amphastar Pharmaceuticals, Inc. is a specialty pharmaceutical company that is engaged in development, manufacture and marketing of generic and proprietary injectable and inhalation products."

So, they're a pharmaceutical. An interesting industry these days. And if you've been keeping up with headlines, that means they are the devil. The real devil, not Tom Brady (read [Brady Is The Devil](#) for that story). Sometimes, their stock reflects the tumultuous relationship pharmaceuticals have with the public. The stock waxes and wanes based on articles, legal actions and the passing of judgment by the Food & Drug Administration. However, there is one inescapable truth to the company – it has a product that is in demand. Devil or not, this is the holy grail of all companies - to make something that is needed.



The chart above shows Amphastar's price action since mid-2014. I have made notes of significant events of the past year. Links to the relevant news stories can be found below:

- 12/8/2015 - [The War On Drugs Gets A New Weapon](#)
- 1/11/2016 - [Healey Brings Focus On Opioid Crisis to D.C.](#)
- 6/9/2016 - [Mylan Drug Prices Questioned By Senators](#)



- 11/4/2016 - [Opioid Antidote On Sale](#)
- 12/27/2016 - [Pomerantz Law Firm Investigates Claims on Behalf of Investors of Amphastar Pharmaceuticals](#)
- 12/27/2016 - [Bronstein, Gewirtz & Grossman, LLC Announces Investigation of Amphastar Pharmaceuticals](#)
- 12/30/2016 - [FDA Rejects Amphastar Subsidiary's Primatene Mist Asthma Inhaler](#)
- 12/30/2016 - [Khang & Khang LLP Announces an Investigation of Amphastar Pharmaceuticals](#)
- 2/21/2017 - [Amphastar Pharmaceuticals Receives CRL for Intranasal Naloxone for Emergency Treatment of Opioid Overdose](#)

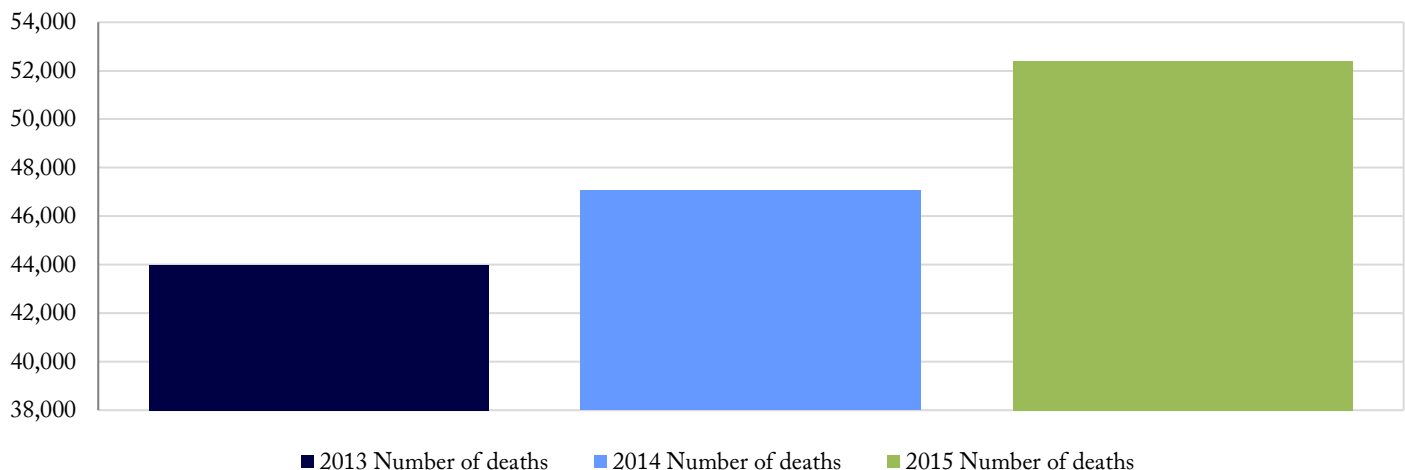
Some of the headlines are scary and investors and the stock have reacted as such. After all, no company wants a class-action lawsuit filed against them. However, knowing that the substance of the investigations and suits is related to Amphastar's increase of prices brings a bit of comfort. But, I recognize that's more of a personal position when it comes to the liability companies have (or don't) when it comes to pricing of their own products. I may be proved wrong, but I don't see how these potential cases have a leg to stand on and are more likely looking for a quick payoff to make them go away. For sake of argument, I'll call those legal blackmail and one of the costs of being a pharmaceutical today.

The ones to note however are the two rejections by the Food & Drug Administration. Those are significant and directly affect the company's bottom line. In both cases, the FDA rejected a new delivery mechanism of one of the company's drugs. No proposed drugs have been rejected. This is critical and lessens the impact of the rejection.

Let's examine the more recent of the two, because this drug is more significant for the future of the firm.

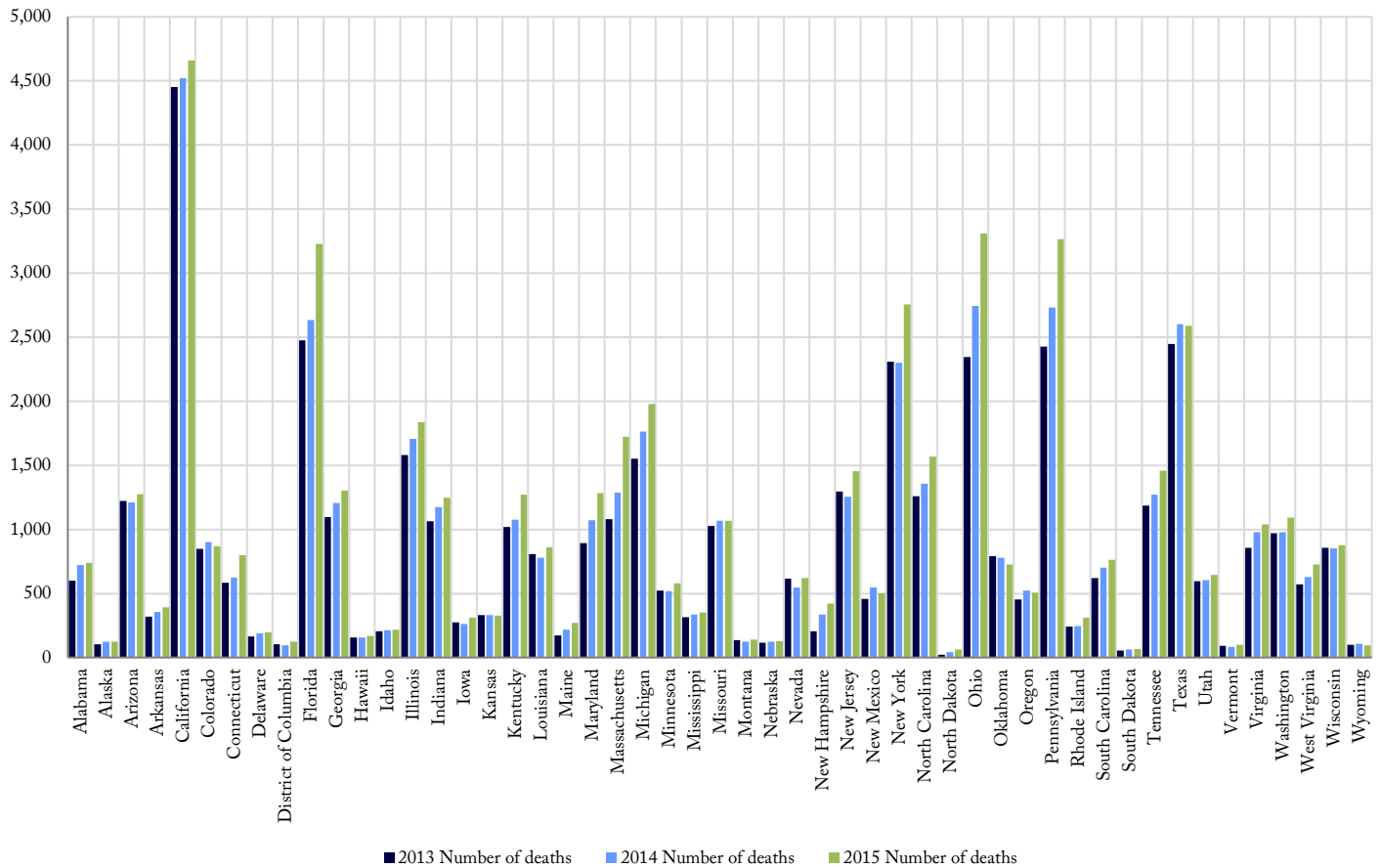
One of Amphastar's key drugs is Naloxone. It treats acute opioid overdose. Amphastar has sold this drug to hospitals and critical care units for several years using pre-packaged syringes. Usage is quite simple – a potential overdose victim is admitted, diagnosis made, injections administered and (hopefully) a life saved. As far as demand for the product goes, I am unaware of a bigger one than the potential to save a life. And in the case of this drug, the demand keeps getting bigger. The charts below show total deaths as a result of Opioid's in the US and by state. Despite what we heard on the campaign trail, Opioid's are not confined to New Hampshire.

## Total US Opioid Deaths





## US Opioid Deaths



Unfortunately, further proof of the increasing need for preventing deaths due to Opioid overdoses comes in the form of an anecdote. That is, Astrazeneca (a major international pharmaceutical) is in the midst of promoting one of their drugs – Movantik. What is Movantik you ask? Well, it’s a drug to treat constipation caused by Opioid use. You’d be hard pressed to have missed their recent ads. So, if Astrazeneca sees enough potential to develop, test and spend significant money to promote a drug which treats the symptoms of another drug, you know there’s a lot of there there.

Therefore, the investment case for Amphastar rests on the following simple thesis – **it develops and markets an in-demand drug which treats a growing problem.** The case is further bolstered by three additional factors:

1. Other drug companies have seen the worth to develop products to counter the side-effects of the product.
2. Investors initially panic when the FDA gives bad news, but the price of the stock recovers – a sign of strength and belief in the underlying company and products.
3. Rejections by the FDA are relatively routine and applying companies can (and do) make adjustments and reapply.

Amphastar Pharmaceuticals has developed an in-demand product which treats a growing problem. Show me any company which has a product a growing list of consumers want and I’ll show you a good investment.