

Cara Therapeutics Inc. (CARA)

Overweight

Early Data Enhances Prospects for Broad, Differentiated '845 Potential

CONCLUSION

Cara reported that the Phase Ib for I.V. CR845 in dialysis patients met the objectives of the trial: proving safe and tolerable, with linear pharmacokinetics, and also significantly reduced itch in patients with moderate-to-severe uremic pruritis. Data from a Phase II in uremic pruritis is expected 1H15. We don't have itch in our valuation at this time; however, this data is encouraging and we look forward to the Phase II data as well as that from Japanese partner Maruishi which is conducting Phase Is in acute pain and pruritis. The Maruishi data may be available yet this year and could have predictive value for use of the candidate beyond post-op pain setting currently assumed in our projections. We reiterate our Overweight rating and \$30 price target on Cara.

- **Recent data opens the door to a transformational next 12 months.** Cara recently reported positive human abuse liability data for I.V. '845 which, in our view, looked meaningfully superior to Schedule IV comparator pentazocine. The results may support Schedule V or even non-scheduling, we believe, however our base case assumption is Schedule IV status. The end of Phase II meeting which we expect to occur in 1Q15 may provide some clarity on scheduling, however the primary outcome of the meeting will probably be simply finalization of the two Phase III studies in hard and soft tissue to start we anticipate in 1Q. These should be fairly standard acute pain studies and we anticipate that at least one of them can be completed in 2015.
- **The Phase II and what Phase I told us.** The Phase II in pruritis will enroll dialysis patients with "worst itching" scores of 4.0 or greater (from a 10.0 point scale). Patients will randomized to I.V. '845 or placebo and treated for two weeks. The primary endpoint will be improvement from baseline in the worst itching score at the end of two weeks. Secondary endpoints will evaluate changes in patients' quality of life. In the Phase I study, three patients were enrolled with worst itching scores of 4.0 or greater at baseline. Each of the patients received three-times-a-week I.V. '845 (2 at 1 ug/kg, 1 at 2.5 ug/kg) and all three had scores under 1.0 at the end of the one-week dose period.

RISKS TO ACHIEVEMENT OF PRICE TARGET

Failure of lead candidate I.V. '845 in pivotal studies, DEA scheduling, or safety signals.

COMPANY DESCRIPTION

Cara develops novel peripherally-restricted candidates for pain indications.

PRICE: US\$9.54

TARGET: US\$30.00

DCF of I.V. CR845 revenues for post-op pain in the U.S.

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Changes	Previous	Current
Rating	—	Overweight
Price Tgt	—	US\$30.00
FY14E Rev (mil)	—	US\$2.3
FY15E Rev (mil)	—	US\$0.0
FY14E EPS	—	US\$(0.98)
FY15E EPS	—	US\$(1.68)
52-Week High / Low	US\$23.25 / US\$7.53	
Shares Out (mil)	22.7	
Market Cap. (mil)	US\$216.6	
Avg Daily Vol (ooo)	115	
Book Value/Share	US\$2.44	
Net Cash Per Share	US\$2.57	
Debt to Total Capital	0%	
Div (ann)	NA	
Fiscal Year End	Dec	

Price Performance - 1 Year



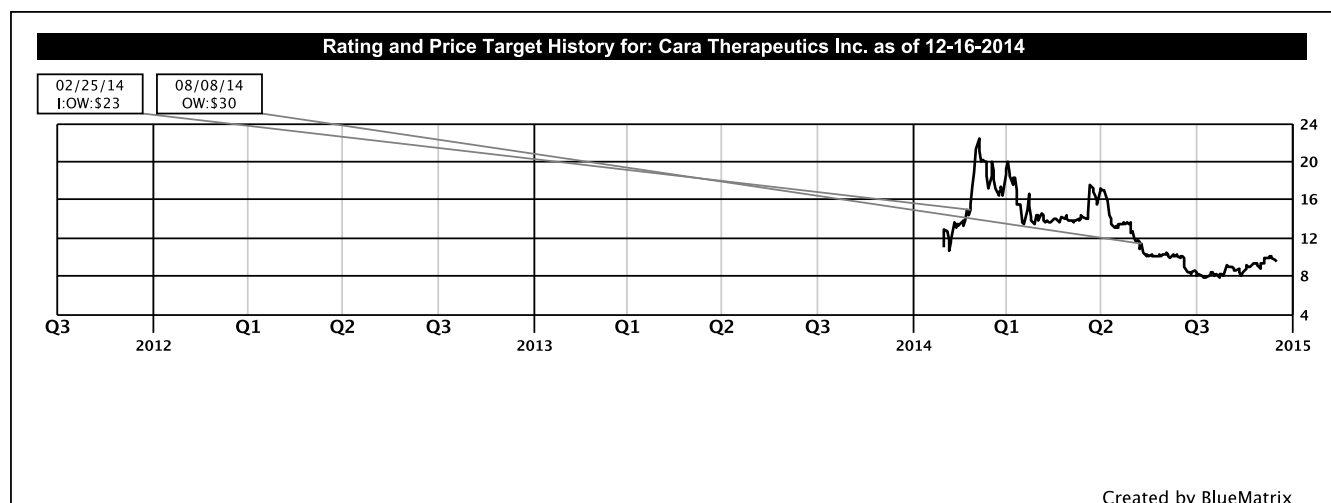
Source: Bloomberg

YEAR	REVENUE (US\$ m)						EARNINGS PER SHARE (US\$)					
	Mar	Jun	Sep	Dec	FY	FY RM	Mar	Jun	Sep	Dec	FY	FY P/E
2013A	—	—	—	0.0	12.0	18.0x	—	—	—	(0.49)	(0.74)	NM
2014E	0.2A	1.0A	1.1A	0.0	2.3	94.2x	(0.22)A	(0.16)A	(0.29)A	(0.32)	(0.98)	NM
2015E	0.0	0.0	0.0	0.0	0.0	NA	(0.38)	(0.42)	(0.43)	(0.44)	(1.68)	NM

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Cara (\$ in thousands, except per share amounts)	2011	2012	2013	1Q14	2Q14	3Q14	4Q14E	2014E	1Q15E	2Q15E	3Q15E	4Q15E	2015E	2016E	2017E	2018E
Income Statement																
Revenue																
License and milestone fees	-	1,190	9,637	-	302	-	-	302	-	-	-	-	-	7,400	6,900	-
% total revenue	-	100%	81%	0%	31%	0%	na	13%	na	na	na	na	na	100%	34%	0%
Revenues under collaborative agreements	-	-	2,327	178	658	1,125	-	1,961	-	-	-	-	-	-	-	-
% total revenue	-	0%	19%	100%	69%	100%	na	87%	na	na	na	na	na	0%	0%	0%
Product sales and royalties	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13,324	102,320
% total revenue	-	0%	0%	0%	0%	0%	na	0%	na	na	na	na	na	0%	66%	100%
Total Revenues	-	1,190	11,964	178	960	1,125	-	2,263	-	-	-	-	-	7,400	20,224	102,320
Costs & Expenses:																
Cost of product revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,250	26,311
R&D	7,159	4,597	8,685	2,201	3,200	6,208	6,000	17,609	8,000	9,000	9,450	9,923	36,373	40,059	30,939	30,103
SG&A	2,407	2,829	3,557	1,398	1,472	1,520	1,500	5,890	1,650	1,815	1,997	2,196	7,658	11,504	20,650	24,162
Total Operating Expenses	9,566	7,426	12,242	3,599	4,672	7,728	7,500	23,499	9,650	10,815	11,447	12,119	44,030	51,563	55,839	80,576
Operating Income (loss)	(9,566)	(6,236)	(278)	(3,421)	(3,712)	(6,603)	(7,500)	(21,236)	(9,650)	(10,815)	(11,447)	(12,119)	(44,030)	(44,163)	(35,616)	21,744
Investment income	-	-	-	22	56	26	-	-	-	-	-	-	-	-	-	-
Income (loss) before income taxes	(9,841)	(6,302)	(3,993)	(3,399)	(3,656)	(6,577)	(7,500)	(21,236)	(9,650)	(10,815)	(11,447)	(12,119)	(44,030)	(44,163)	(35,616)	21,744
Income tax (benefit) provision	(35)	(31)	(30)	(16)	(11)	(32)	(75)	(134)	(97)	(108)	(114)	(121)	(440)	(442)	(8,191)	7,610
Tax rate	0	0	-	0.5%	0.3%	0.5%	1.0%	0.6%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	26.5%	35.0%
Net operating loss offset	-	-	3	-	11	32	75	118	97	108	114	121	440	442	8,191	(7,610)
Net income (loss) available to common stockholders	(9,806)	(6,271)	(3,963)	(3,383)	(3,645)	(6,545)	(7,425)	(21,102)	(9,554)	(10,707)	(11,332)	(11,997)	(43,590)	(43,721)	(27,424)	14,134
Net income (loss) to common shareholders - basic	(9,806)	(6,271)	(3,072)	(3,383)	(3,645)	(6,545)	(7,425)	(21,102)	(9,554)	(10,707)	(11,332)	(11,997)	(43,590)	(43,721)	(27,424)	14,134
Net income (loss) to common shareholders - diluted	(9,806)	(6,271)	(3,072)	(3,383)	(3,645)	(6,545)	(7,425)	(21,102)	(9,554)	(10,707)	(11,332)	(11,997)	(43,590)	(43,721)	(27,424)	14,134
Basic Earnings Per Share	(1.21)	(0.75)	(\$0.74)	(\$0.22)	(\$0.16)	(\$0.29)	(\$0.32)	(\$0.98)	(\$0.38)	(\$0.42)	(\$0.43)	(\$0.44)	(\$1.68)	(\$1.35)	(\$0.73)	\$0.34
Diluted Earnings Per Share	(1.21)	(0.75)	(\$0.74)	(\$0.22)	(\$0.16)	(\$0.29)	(\$0.32)	(\$0.98)	(\$0.38)	(\$0.42)	(\$0.43)	(\$0.44)	(\$1.68)	(\$1.35)	(\$0.73)	\$0.28
Basic Shares Outstanding	8,089	8,322	4,133	15,654	22,608	22,713	23,394	24,096	24,819	25,564	26,331	27,121	27,934	32,383	37,541	41,449
Diluted Shares Outstanding	8,089	8,322	4,133	15,654	22,608	22,713	23,394	24,096	24,819	25,564	26,331	27,121	27,934	32,383	37,541	49,738
Proprietary to Piper Jaffray & Co. November 22, 2014 CARA: Charles Duncan; 212.284.2505 Current disclosure information for this company can be found at: http://www.piperjaffray.com/researchdisclosures																
				4.3	2.8	2.57										
				\$4.1	\$2.7	2.44										

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R: Resuming Coverage
T: Transferring Coverage
D: Discontinuing Coverage
S: Suspending Coverage
OW: Overweight
N: Neutral
UW: Underweight
NA: Not Available
UR: Under Review

Distribution of Ratings/IB Services Piper Jaffray				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OW]	384	61.54	102	26.56
HOLD [N]	226	36.22	21	9.29
SELL [UW]	14	2.24	0	0.00

Note: Distribution of Ratings/IB Services shows the number of companies currently in each rating category from which Piper Jaffray and its affiliates received compensation for investment banking services within the past 12 months. FINRA rules require disclosure of which ratings most closely correspond with "buy," "hold," and "sell" recommendations. Piper Jaffray ratings are not the equivalent of buy, hold or sell, but instead represent recommended relative weightings. Nevertheless, Overweight corresponds most closely with buy, Neutral with hold and Underweight with sell. See Stock Rating definitions below.

Analyst Certification — Charles C. Duncan, PhD, Sr. Research Analyst — Roy Buchanan, Ph.D., Research Analyst

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