

## Cara Therapeutics Inc. (CARA)

Overweight

### Steady Progress and Strong Balance Sheet

#### CONCLUSION

Cara reported 1Q14 earnings yesterday, with no surprises as financial and clinical timelines appear unchanged from those stated on the prior quarter's call. Quarter-end cash was \$67M and management believes that should fund through both Phase III studies for I.V. CR845 in post-op pain, expected to read-out in 2H15 following the end-of-Phase II meetings and Phase III starts in 2H14. The human abuse liability study is on track for start and finish in the 2nd half, with the goal of no DEA scheduling for CR845. We reiterate our \$23 price target and Overweight rating on Cara based on the compelling existing clinical data and novel candidate drugs.

- Cara remains on track for filing the 3rd IND for I.V. CR845 later this quarter, in uremic pruritis (UP) for patients on dialysis. Recall that partner Maruishi has completed a Phase I in UP that demonstrated favorable safety and tolerability. We do not include the UP opportunity in our valuation pending greater validation, however note that the data looks promising so far and another kappa-opioid agonist is already approved in Japan for the indication.
- Also upside remains from oral CR845 in our valuation at this time. The company expects to start and complete single-ascending-dose and multiple-ascending-dose studies for the oral tablet formulation in the 2nd half. An oral capsule formulation successfully completed a Phase I, however the company is seeking superior bioavailability with the tablet formulation. Successful development in chronic pain would represent a significant market opportunity, we believe, particularly if oral '845 can be marketed/prescribed with no scheduling. Cara intends to develop the oral agent through Phase IIa and then seek a marketing partner. The oral formulation is also already partnered in Japan (Maruishi) and S. Korea (CKD).

#### 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\$13.64

TARGET: US\$23.00

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\$23.00
FY14E Rev (mil)	US\$0.0	US\$0.2
FY15E Rev (mil)	—	US\$0.0
FY14E EPS	US\$(0.56)	US\$(1.19)
FY15E EPS	US\$(1.00)	US\$(1.40)

52-Week High / Low	US\$23.25 / US\$10.40
Shares Out (mil)	21.8
Market Cap. (mil)	US\$297.4
Avg Daily Vol (ooo)	243
Book Value/Share	US\$4.10
Net Cash Per Share	US\$4.30
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	24.8x	—	—	—	(0.49)	(0.74)	NM
2014E	0.2A	0.0	0.0	0.0	0.2	1,486.8x	(0.22)A	(0.28)	(0.34)	(0.43)	(1.19)	NM
2015E	—	—	—	—	0.0	NA	—	—	—	—	(1.40)	NM

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Cara (\$ in thousands, except per share amounts)	2011	2012	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E	2016E	2017E	2018E
<b>Income Statement</b>												
<b>Revenue</b>												
License and milestone fees	-	1,190	9,637	-	-	-	-	-	-	7,400	6,900	-
% total revenue		100%	81%	0%	na	na	na	0%	na	100%	34%	0%
Revenues under collaborative agreements	-	-	2,327	178	-	-	-	178	-	-	-	-
% total revenue		0%	19%	100%	na	na	na	100%	na	0%	0%	0%
Product sales and royalties	-	-	-	-	-	-	-	-	-	-	13,324	102,320
% total revenue		0%	0%	0%	na	na	na	0%	na	0%	66%	100%
<b>Total Revenues</b>	<b>-</b>	<b>1,190</b>	<b>11,964</b>	<b>178</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>178</b>	<b>-</b>	<b>7,400</b>	<b>20,224</b>	<b>102,320</b>
<b>Costs &amp; Expenses:</b>												
Cost of product revenue	-	-	-	-	-	-	-	-	-	-	4,250	26,311
R&D	7,159	4,597	8,685	2,201	3,500	4,500	6,000	16,201	36,373	40,059	30,939	30,103
SG&A	2,407	2,829	3,557	1,398	1,000	1,200	1,500	5,098	7,658	11,504	20,650	24,162
<b>Total Operating Expenses</b>	<b>9,566</b>	<b>7,426</b>	<b>12,242</b>	<b>3,599</b>	<b>4,500</b>	<b>5,700</b>	<b>7,500</b>	<b>21,299</b>	<b>44,030</b>	<b>51,563</b>	<b>55,839</b>	<b>80,576</b>
<b>Operating Income (loss)</b>	<b>(9,566)</b>	<b>(6,236)</b>	<b>(278)</b>	<b>(3,421)</b>	<b>(4,500)</b>	<b>(5,700)</b>	<b>(7,500)</b>	<b>(21,121)</b>	<b>(44,030)</b>	<b>(44,163)</b>	<b>(35,616)</b>	<b>21,744</b>
Investment income	-	-	-	22	-	-	-	-	-	-	-	-
Interest expense	(95)	-	(3,715)	-	-	-	-	-	-	-	-	-
Other expense	(180)	(66)	-	-	-	-	-	-	-	-	-	-
<b>Income (loss) before income taxes</b>	<b>(9,841)</b>	<b>(6,302)</b>	<b>(3,993)</b>	<b>(3,399)</b>	<b>(4,500)</b>	<b>(5,700)</b>	<b>(7,500)</b>	<b>(21,121)</b>	<b>(44,030)</b>	<b>(44,163)</b>	<b>(35,616)</b>	<b>21,744</b>
Income tax (benefit) provision	(35)	(31)	(30)	(16)	(45)	(57)	(75)	(193)	(15,411)	(15,457)	(12,465)	7,610
Tax rate	0	0		0.5%	1.0%	1.0%	1.0%	0.9%	35.0%	35.0%	35.0%	35.0%
Net operating loss		106,300	(24)	(8)	37	94	169	169	15,580	31,036	43,502	35,892
Net operating loss offset			3	-	45	57	75	177	15,411	15,457	12,465	(7,610)
<b>Net income (loss) available to common stockholders</b>	<b>(9,806)</b>	<b>(6,271)</b>	<b>(3,963)</b>	<b>(3,383)</b>	<b>(4,455)</b>	<b>(5,643)</b>	<b>(7,425)</b>	<b>(20,928)</b>	<b>(28,620)</b>	<b>(28,706)</b>	<b>(23,150)</b>	<b>14,134</b>
Add back: induced conversion of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-
Less: net income attributable to participating securities	-	-	(891)	-	-	-	-	-	-	-	-	-
<b>Net income (loss) to common shareholders - basic</b>	<b>(9,806)</b>	<b>(6,271)</b>	<b>(3,072)</b>	<b>(3,383)</b>	<b>(4,455)</b>	<b>(5,643)</b>	<b>(7,425)</b>	<b>(20,928)</b>	<b>(28,620)</b>	<b>(28,706)</b>	<b>(23,150)</b>	<b>14,134</b>
<b>Net income (loss) to common shareholders - diluted</b>	<b>(9,806)</b>	<b>(6,271)</b>	<b>(3,072)</b>	<b>(3,383)</b>	<b>(4,455)</b>	<b>(5,643)</b>	<b>(7,425)</b>	<b>(20,928)</b>	<b>(28,620)</b>	<b>(28,706)</b>	<b>(23,150)</b>	<b>14,134</b>
Basic Earnings Per Share	(1.21)	(0.75)	(\$0.74)	(\$0.22)	(\$0.28)	(\$0.34)	(\$0.43)	(\$1.19)	(\$1.40)	(\$1.21)	(\$0.84)	\$0.47
<b>Diluted Earnings Per Share</b>	<b>(1.21)</b>	<b>(0.75)</b>	<b>(\$0.74)</b>	<b>(\$0.22)</b>	<b>(\$0.28)</b>	<b>(\$0.34)</b>	<b>(\$0.43)</b>	<b>(\$1.19)</b>	<b>(\$1.40)</b>	<b>(\$1.21)</b>	<b>(\$0.84)</b>	<b>\$0.39</b>
Basic Shares Outstanding	8,089	8,322	4,133	15,654	16,124	16,607	17,106	17,619	20,425	23,678	27,450	30,306
<b>Diluted Shares Outstanding</b>	<b>8,089</b>	<b>8,322</b>	<b>4,133</b>	<b>15,654</b>	<b>16,124</b>	<b>16,607</b>	<b>17,106</b>	<b>17,619</b>	<b>20,425</b>	<b>23,678</b>	<b>27,450</b>	<b>36,368</b>

Comprehensive income (loss)

Proprietary to Piper Jaffray & Co. May 14, 2014

CARA: Charles Duncan; 212.284.2505

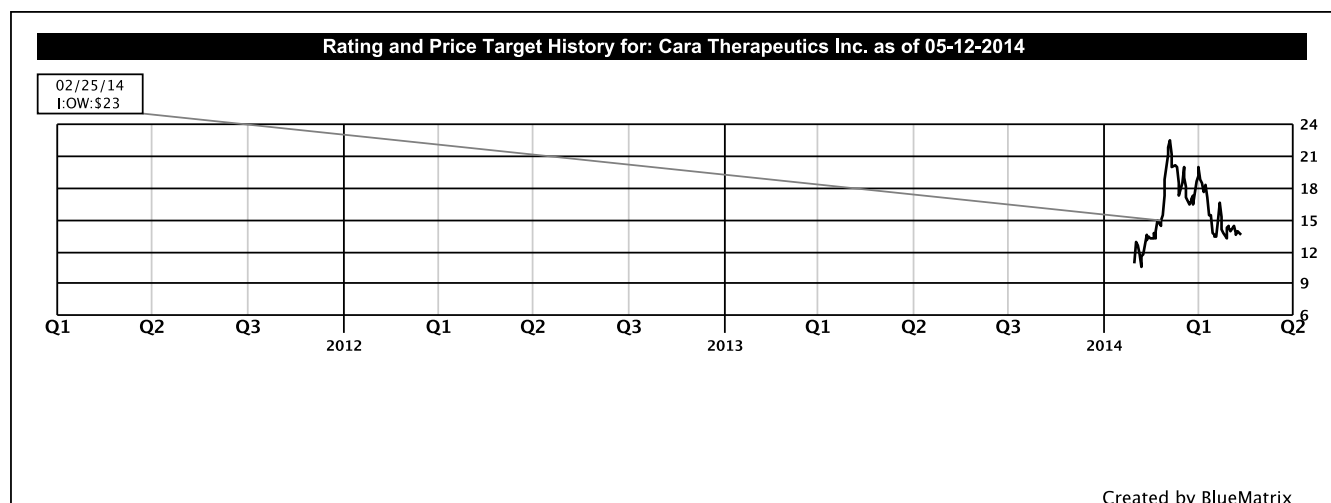
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\$4.1

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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OW]	354	61.46	87	24.58
HOLD [N]	204	35.42	20	9.80
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## Analyst Certification — Charles C. Duncan, PhD, Sr. Research Analyst — Roy Buchanan, Ph.D., Research Analyst

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