

Specialty Pharmaceuticals

Cara Therapeutics Inc. (CARA) - BUY

Price: **\$13.64**
Fair Value Estimate: \$25.00
52-Week Range: \$10.40-\$23.25
Market Cap (MM): \$308
Shr.O/S-Diluted (mm): 22.6
Average Daily Volume: 242,656
Dividend: NA
Book Value: \$1.33

FYE: Dec	2013A	2014E	2015E
EPS:	\$(0.74)A	\$(1.20)E	\$(1.52)E
Prior EPS:	\$(1.60)	\$(1.45)	\$(1.70)
P/E:	NA	NA	NA

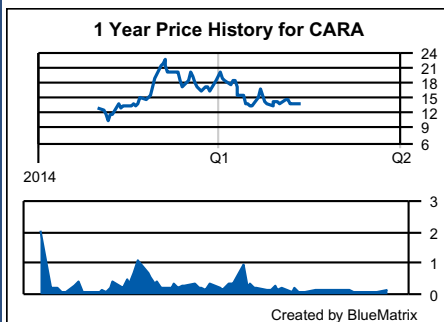
Quarterly EPS:

	2013A	2014E	
Q1	\$(0.42)A	\$(0.22)A	--
Q2	\$(0.38)A	\$(0.27)E	--
Q3	\$(0.38)A	\$(0.35)E	--
Q4	\$(0.49)A	\$(0.36)E	--

FYE: Dec	2013A	2014E	2015E
Revenue (M):	\$11.9A	\$6.0E	\$5.8E

Quarterly Revenue (M):

	2013A	2014E	
Q1	\$0.1A	\$0.2A	--
Q2	\$10.1A	\$0.0E	--
Q3	\$0.8A	\$5.8E	--
Q4	\$1.0A	\$0.0E	--



Equity Research
Note

CARA: 1Q14 Clinical Progress Continues 2H14 should have meaningful catalysts

INVESTMENT CONCLUSION:

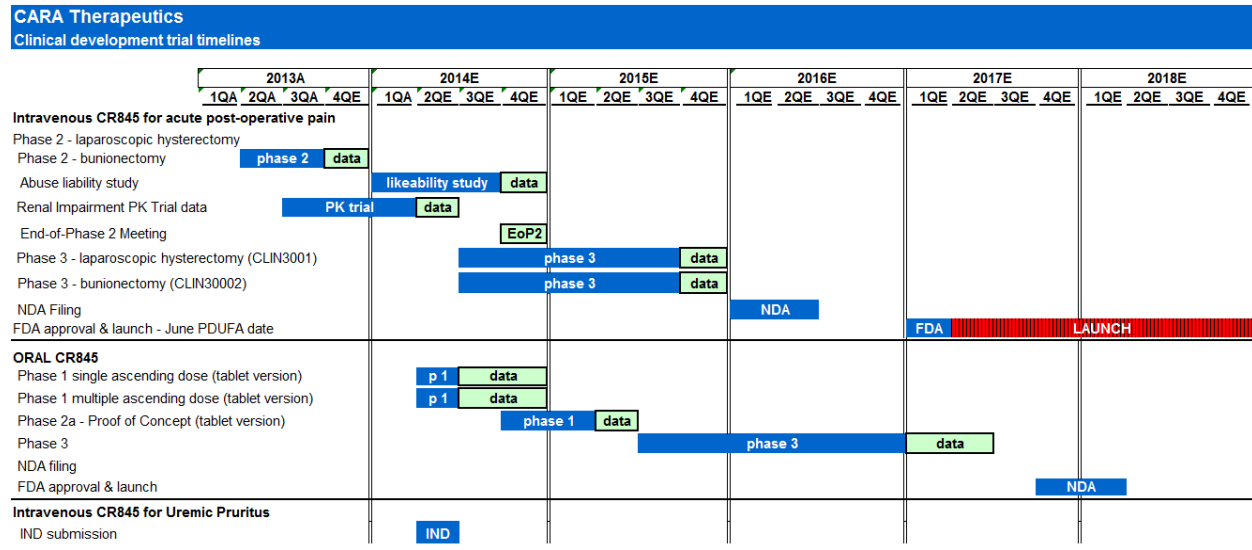
CARA reported 1Q14 earnings after the close last night reporting an EPS of (\$0.22), compared to Janney estimates of (\$0.30) and consensus of (\$0.16). On the call, management continued to speak positively about the forward progress of their lead product candidate CR845 (IV administered kappa-opioid for acute pain) as the PK data from their renal impairment study confirmed excretion and dosage adjustments. Though still waiting for guidance from the DEA and CSS (which management believes should be coming shortly) in order to initiate the Human Abuse Liability (aka drug likeability) study, top-line data is still expected in 4Q14. The results from this study should help CARA better understand the potential for abuse of the product and even more importantly, where it may be evaluated as a scheduled or non-scheduled product. CARA continues to manage their burn rate in a cost effective manner, which is always a plus in our book. Maintain Buy rating, \$25 fair value.

KEY POINTS:

- **1Q14 financials convey a developmental stage company:** CARA reported 1Q14 earnings after the close of the market last night with an EPS of (\$0.22) compared to Janney estimate of (\$0.30) and consensus of (\$0.16). The difference between the estimates was a more conservative R&D spend in 1Q. That R&D spend should up-tick in the 2H14, as CARA's clinical pipeline heads into two large Phase 3 for IV CR845.
- **Pipeline continues forward progress:** Management confirmed on yesterday's call that the renal impairment PK study read out as expected.. The Human Abuse Liability study is also still on track to initiate this year and read out by the end of the year, 4Q14. Additionally, Phase 1 data from the single and multiple-ascending dose trials utilizing the tablet formulation is expected to read out in 2H14 as well.
- **What the Human-Abuse Liability data could mean:** The Human-Abuse Liability trial (top-line 2H14) is, in our opinion, an important catalyst for CARA. By enlisting the guidance of the FDA, DEA and CSS in establishing the proper protocol for a the potential support for CR845 to be evaluated as an unscheduled opioid helps to de-risk this event. Being a kappa-opioid receptor agonist, one of the significant benefits over most current acute pain treatments is that it does not produce the euphoria typically seen in mu-opioids like morphine and its derivatives. With this lack of euphoria, there is a decrease in the potential for abuse and addiction. If CR845 shows very low likability in the Human Abuse Liability study, we believe that CR845 may qualify as a schedule IV or even possibly an unscheduled opioid. This would be a significant commercial advantage over current treatments in terms of safety and easy of prescribing.
- **Maintain Buy rating, \$25 fair value:** We value CARA at \$25/share based on a sum-of-the-parts with CR845 sales of at \$22.50/share based on a 4x multiple of 2019 US sales discounted 5 years at 20% to account for the risks remaining in this program. Our remaining \$2.50/share value is based on cash (end 2014) and technology value.

**Research Analyst Certifications and Important Disclosures
are on pages 4 - 5 of this report**

EXHIBIT 1:



Source: Company reports and Janney estimates

Specialty Pharmaceuticals
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EXHIBIT 2:
CARA Therapeutics
Quarterly income statement

(\$000 except per share)	2013A				2013A Year	2014E				2014E Year
	1QA	2QA	3QA	4QE		1QA	2QE	3QE	4QE	
Revenues										
CR845 - IV version										
CR845 - oral version										
License & milestones		\$9,637			\$9,637			\$5,750		\$5,750
Collaborative revenues	\$54	500	\$800	\$973	2,327	178	150			328
Total Revenue	\$54	\$10,137	\$800	\$973	\$11,964	\$178	\$150	\$5,750	\$0	\$6,078
Expenses:										
Cost of Revenue (COGS)										
Gross Margin	54	10,137	800	973	11,964	178	150	5,750	-	6,078
Research and development	1,850	2,250	2,607	1,978	8,685	2,201	2,500	3,500	3,800	12,001
General and administrative	800	810	847	1,059	3,516	1,398	1,500	1,650	1,650	6,198
Total operating expenses	2,650	3,060	3,454	3,037	12,201	3,599	4,000	5,150	5,450	18,199
Income (loss) from Operations	(2,596)	7,077	(2,654)	(2,064)	(237)	(3,421)	(3,850)	600	(5,450)	(12,121)
Interest income (expense), net	(1,345)	(1,345)	(1,034)	(32)	(3,756)	22	(500)	(500)	(500)	(1,478)
Other (exp) gain, net										
Income (loss) before taxes	(3,941)	5,732	(3,688)	(2,096)	(3,993)	(3,399)	(4,350)	100	(5,950)	(13,599)
Income tax exp (benefit)	(9)	(9)	(9)	(3)	(30)	(16)				
Net Income (Loss)	(3,932)	5,741	(3,679)	(2,093)	(3,963)	(3,383)	(4,350)	100	(5,950)	(13,583)
Preferred stock conversion					891					
Earning per Share (EPS)	(\$0.25)	\$0.37	(\$0.10)	(\$0.49)	(\$0.96)	(\$0.22)	(\$0.27)	\$0.01	(\$0.36)	(\$0.85)
Adj EPS ex-1x & non-cash items		\$0.37			(\$0.74)			(\$0.35)		(\$1.21)
Weighted avg. shares (000)	15,550	15,550	38,410	4,288	4,133	15,654	15,904	16,154	16,404	16,029
Fully diluted shares (000)						17,404	17,404	17,654	17,904	17,592

Source: Company reports and Janney estimates

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IMPORTANT DISCLOSURES

Research Analyst Certification

I, Chiara Russo, the Primarily Responsible Analyst for this research report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views I expressed in this research report.

Janney Montgomery Scott LLC ("Janney") Equity Research Disclosure Legend

Cara Therapeutics Inc. currently is, or during the past 12 months was, a Janney Montgomery Scott LLC client. Janney Montgomery Scott LLC, provided investment banking related services.

Janney Montgomery Scott LLC managed or co-managed a public offering of securities for Cara Therapeutics Inc. in the past 12 months.

Janney Montgomery Scott LLC received compensation for investment banking services from Cara Therapeutics Inc. in the past 12 months.

Janney Montgomery Scott LLC intends to seek or expects to receive compensation for investment banking services from Cara Therapeutics Inc. in the next three months.

The research analyst is compensated based on, in part, Janney Montgomery Scott's profitability, which includes its investment banking revenues.

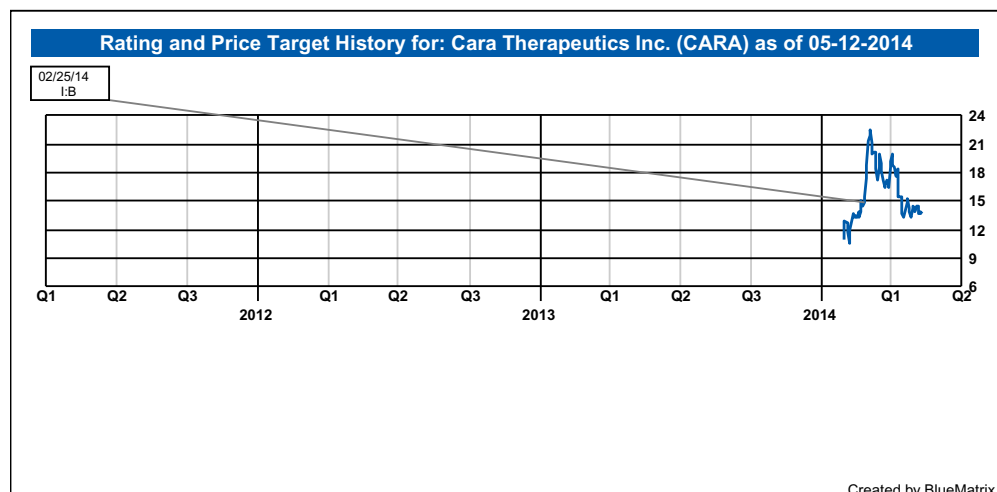
Definition of Ratings

BUY: Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

NEUTRAL: Janney believes that the subject company is fairly valued and will perform in line with comparable companies within its sector. Investors may add to current positions on short-term weakness and sell on strength as the valuations or fundamentals become more or less attractive.

SELL: Janney expects that the subject company will likely decline in value and will underperform comparable companies within its sector.

Price Charts



Janney Montgomery Scott Ratings Distribution as of 3/31/14

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [B]	218	51.12	44	20.18
NEUTRAL [N]	205	48.12	21	10.24
SELL [S]	3	0.70	0	0.00

***Percentages of each rating category where Janney has performed Investment Banking services over the past 12 months.**

Other Disclosures

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