

Cara Therapeutics Inc. (CARA)

Overweight

Cash and Plan Could Open Door For New Pain Rx Paradigm

CONCLUSION

Cara reported 2013 financial results and provided an update on development progress for kappa-opioid agonist CR845. The company ended the year with \$12M and subsequently completed its IPO netting \$56M, which should fund the completion of clinical development for I.V. CR845, consistent with our previous projections. The abuse liability study is expected to start and complete in 2H14 - although we had expected these results in 2Q14, we don't view the new timelines to be material to the program. Cara now also intends to file an IND for pruritis yet in '14, an indication not included in our valuation at this time.

- **I.V. 845 remains on track to start the Phase III program this year.** Additionally, single and multiple ascending dose studies of the oral tablet formulation should complete this year. Note, we don't include oral CR845 in our valuation so the result of these studies could point to a significant source of upside, in our view. Nor do we include the pruritis potential. Kappa-opioid agonists have proven effective in this indication and at least one agent is approved in Japan. Cara believes that up to 60% of dialysis patients experience pruritis. As is the case with pain, we believe CR845 should be uniquely positioned in pruritis due to the agent's lack of CNS effects.

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\$17.31

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
FY15E Rev (mil)	—	US\$0.0
FY14E EPS	—	US\$(0.56)
FY15E EPS	—	US\$(1.00)
52-Week High / Low	US\$23.25 / US\$10.40	
Shares Out (mil)	21.8	
Market Cap. (mil)	US\$377.4	
Book Value/Share	US\$3.00	
Net Cash Per Share	US\$3.20	
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
2013E	—	—	—	0.0	11.0	34.3x	—	—	—	(0.49)A	(0.74)A	NM
2014E	0.0	0.0	0.0	0.0	0.0	NA	(0.10)	(0.13)	(0.16)	(0.20)	(0.56)	NM
2015E	—	—	—	—	0.0	NA	—	—	—	—	(1.00)	NM

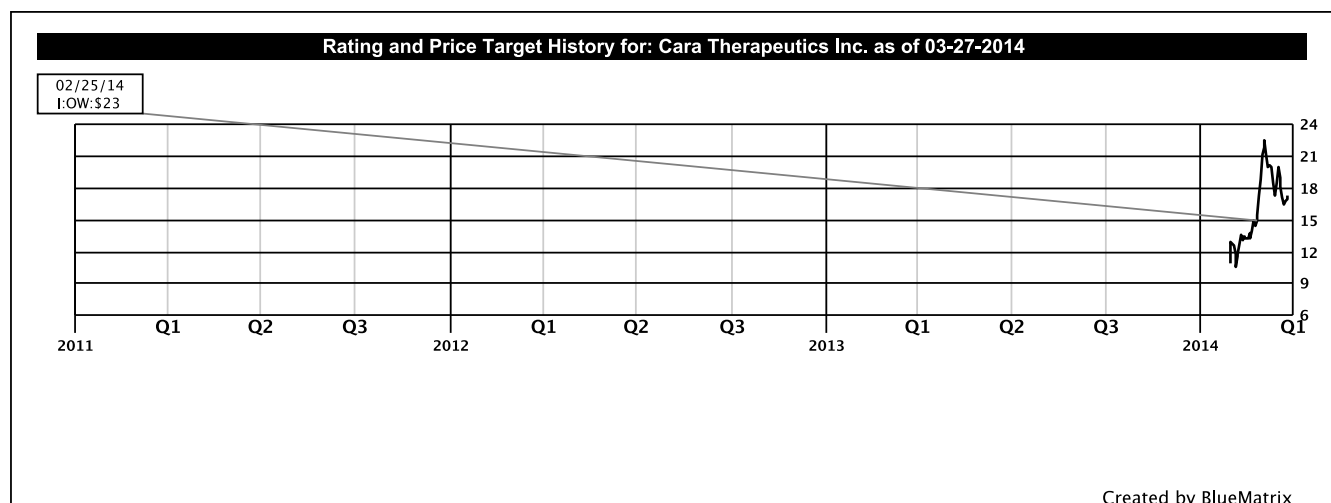
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Cara (\$ in thousands, except per share amounts)	2011	2012	1st 9 months 2013	4Q13	2013	1Q14E	2Q14E	3Q14E	4Q14E	2014E	2015E	2016E	2017E	2018E
Income Statement														
Revenue														
License and milestone fees	-	1,190	9,637	-	9,637	-	-	-	-	-	-	7,400	6,900	-
% total revenue		100%	88%		81%	na	na	na	na	na	na	100%	34%	0%
Revenues under collaborative agreements	-	-	1,354	973	2,327	-	-	-	-	-	-	-	-	-
% total revenue		0%	12%		19%	na	na	na	na	na	na	0%	0%	0%
Product sales and royalties	-	-	0	-	-	-	-	-	-	-	-	-	13,324	102,320
% total revenue		0%	0%		0%	na	na	na	na	na	na	0%	66%	100%
Total Revenues	-	1,190	10,991	973	11,964	-	-	-	-	-	-	7,400	20,224	102,320
Costs & Expenses:														
Cost of product revenue	-	-	0	-	-	-	-	-	-	-	-	-	4,250	26,311
R&D	7,159	4,597	6,707	1,978	8,685	2,500	3,500	4,500	6,000	16,500	36,373	40,059	30,939	30,103
SG&A	2,407	2,829	2,457	1,100	3,557	1,000	1,000	1,200	1,500	4,700	7,658	11,504	20,650	24,162
Total Operating Expenses	9,566	7,426	9,164	3,078	12,242	3,500	4,500	5,700	7,500	21,200	44,030	51,563	55,839	80,576
Operating Income (loss)	(9,566)	(6,236)	1,827	(2,105)	(278)	(3,500)	(4,500)	(5,700)	(7,500)	(21,200)	(44,030)	(44,163)	(35,616)	21,744
Investment income	-	-	0	-	-	-	-	-	-	-	-	-	-	-
Interest expense	(95)	-	(3,724)	9	(3,715)	-	-	-	-	-	-	-	-	-
Other expense	(180)	(66)	0	-	-	-	-	-	-	-	-	-	-	-
Income (loss) before income taxes	(9,841)	(6,302)	(1,897)	(2,096)	(3,993)	(3,500)	(4,500)	(5,700)	(7,500)	(21,200)	(44,030)	(44,163)	(35,616)	21,744
Income tax (benefit) provision	(35)	(31)	(27)	(3)	(30)	(1,225)	(1,575)	(1,995)	(2,625)	(7,420)	(15,411)	(15,457)	(12,465)	7,610
Tax rate	0	0	0	0.0%		35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Net operating loss offset			0	3	3	-	1,575	1,995	2,625	6,195	15,411	15,457	12,465	(7,610)
Net income (loss) available to common stockholders	(9,806)	(6,271)	(1,870)	(2,093)	(3,963)	(2,275)	(2,925)	(3,705)	(4,875)	(13,780)	(28,620)	(28,706)	(23,150)	14,134
Net income (loss) to common shareholders - basic	(9,806)	(6,271)	(979)	(2,093)	(3,072)	(2,275)	(2,925)	(3,705)	(4,875)	(13,780)	(28,620)	(28,706)	(23,150)	14,134
Net income (loss) to common shareholders - diluted	(9,806)	(6,271)	(1,870)	(2,093)	(3,072)	(2,275)	(2,925)	(3,705)	(4,875)	(13,780)	(28,620)	(28,706)	(23,150)	14,134
Basic Earnings Per Share	(1.21)	(0.75)	(0.10)	(\$0.49)	(\$0.74)	(\$0.10)	(\$0.13)	(\$0.16)	(\$0.20)	(\$0.56)	(\$1.00)	(\$0.87)	(\$0.60)	\$0.33
Diluted Earnings Per Share	(1.21)	(0.75)	(0.18)	(\$0.49)	(\$0.74)	(\$0.10)	(\$0.13)	(\$0.16)	(\$0.20)	(\$0.56)	(\$1.00)	(\$0.87)	(\$0.60)	\$0.28
Basic Shares Outstanding	8,089	8,322	10,202	4,288	4,133	21,842	22,498	23,173	23,868	24,584	28,499	33,039	38,301	42,287
Diluted Shares Outstanding	8,089	8,322	10,202	4,288	4,133	21,842	22,498	23,173	23,868	24,584	28,499	33,039	38,301	50,745

Proprietary to Piper Jaffray & Co. March 29, 2014
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Current disclosure information for this company can be found at:
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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

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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OW]	350	59.12	84	24.00
HOLD [N]	222	37.50	22	9.91
SELL [UW]	20	3.38	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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