

Cara Therapeutics Inc. (CARA)

Overweight

Increasing Visibility on Pipeline Progress with Oral & Soon IV Pain Candidates

CONCLUSION

Cara announced the start of Phase Ia/Ib for oral tablet CR845, its peripherally restricted kappa-opioid agonist candidate for chronic pain, ahead of our expectations for a 2nd-half start. While there of course remains significant clinical risk, we believe there was non-zero risk in the initiation of this study, given it is a peptide-based oral therapeutic pain candidate. Hence, we view this good execution as a positive for the company and investors. That said, we aren't yet adding oral CR845 to our valuation as we would like to see the results of the Phase Ia/Ib, expected 4Q (PK, safety, biomarker). Also a key catalyst will be the human abuse liability study, in determining DEA scheduling, but also read on risk of kappa activation. We look forward to additional updates in 2H14 on this broad and novel pain program and thus are reiterating our Overweight rating and \$23 price target on Cara.

- While we continue to keep it out of our model at this time, success for CR845 in chronic pain could be a significant opportunity. Particularly if it can get to market with no DEA scheduling. Recall that Cara intends to develop the oral formulation through Phase IIa and then partner it for marketing. The oral formulation is currently partnered in Japan with Maruishi and S. Korea with CKD.
- We think Cara remains on track for filing its 3rd IND for I.V. CR845 around mid-year. This IND is 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.

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\$14.01

TARGET: US\$23.00

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

Charles C. Duncan, PhD

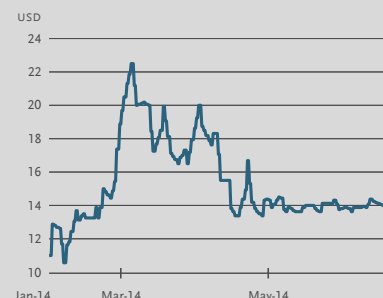
Sr. Research Analyst, Piper Jaffray & Co.
212 284-5025, charles.c.duncan@pjc.com

Roy Buchanan, Ph.D.

Research Analyst, Piper Jaffray & Co.
212 284-9458, roy.d.buchanan@pjc.com

| Changes | Previous | Current |
|-----------------------|-----------------------|------------|
| Rating | — | Overweight |
| Price Tgt | — | US\$23.00 |
| FY14E Rev (mil) | — | US\$0.2 |
| FY15E Rev (mil) | — | US\$0.0 |
| FY14E EPS | — | US\$(1.19) |
| FY15E EPS | — | US\$(1.40) |
| 52-Week High / Low | US\$23.25 / US\$10.40 | |
| Shares Out (mil) | 21.8 | |
| Market Cap. (mil) | US\$305.4 | |
| Avg Daily Vol (ooo) | 140 | |
| 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 | 25.5x | — | — | — | (0.49) | (0.74) | NM |
| 2014E | 0.2A | 0.0 | 0.0 | 0.0 | 0.2 | 1,527.1x | (0.22)A | (0.28) | (0.34) | (0.43) | (1.19) | NM |
| 2015E | — | — | — | — | 0.0 | NA | — | — | — | — | (1.40) | NM |

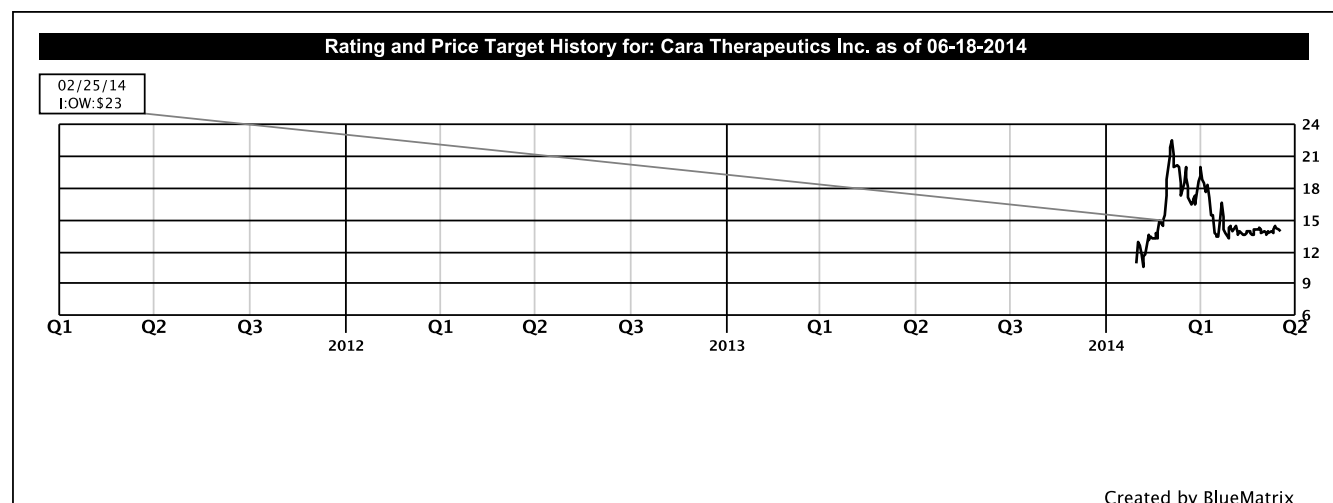
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| Cara (\$ in thousands, except per share amounts) | 2011 | 2012 | 2013 | 1Q14 | 2Q14E | 3Q14E | 4Q14E | 2014E | 1Q15E | 2Q15E | 3Q15E | 4Q15E | 2015E | 2016E | 2017E | 2018E |
|---|---------|---------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|---------|
| Income Statement | | | | | | | | | | | | | | | | |
| Revenue | | | | | | | | | | | | | | | | |
| License and milestone fees | - | 1,190 | 9,637 | - | - | - | - | - | - | - | - | - | - | 7,400 | 6,900 | - |
| % total revenue | - | 100% | 81% | 0% | na | na | na | 0% | na | na | na | na | na | 100% | 34% | 0% |
| Revenues under collaborative agreements | - | - | 2,327 | 178 | - | - | - | 178 | - | - | - | - | - | - | - | - |
| % total revenue | - | 0% | 19% | 100% | na | na | na | 100% | na | na | na | na | na | 0% | 0% | 0% |
| Product sales and royalties | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 13,324 | 102,320 |
| % total revenue | - | 0% | 0% | 0% | na | na | na | 0% | na | na | na | na | na | 0% | 66% | 100% |
| Total Revenues | - | 1,190 | 11,964 | 178 | - | - | - | 178 | - | - | - | - | - | 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 | 3,500 | 4,500 | 6,000 | 16,201 | 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 | 1,000 | 1,200 | 1,500 | 5,098 | 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 | 4,500 | 5,700 | 7,500 | 21,299 | 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) | (4,500) | (5,700) | (7,500) | (21,121) | (9,650) | (10,815) | (11,447) | (12,119) | (44,030) | (44,163) | (35,616) | 21,744 |
| Investment income | - | - | - | 22 | - | - | - | - | - | - | - | - | - | - | - | - |
| Income (loss) before income taxes | (9,841) | (6,302) | (3,993) | (3,399) | (4,500) | (5,700) | (7,500) | (21,121) | (9,650) | (10,815) | (11,447) | (12,119) | (44,030) | (44,163) | (35,616) | 21,744 |
| Income tax (benefit) provision | (35) | (31) | (30) | (16) | (45) | (57) | (75) | (193) | (3,378) | (3,785) | (4,006) | (4,242) | (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% | 35.0% | 35.0% | 35.0% | 35.0% |
| Net operating loss offset | | | 3 | - | 45 | 57 | 75 | 177 | 3,378 | 3,785 | 4,006 | 4,242 | 15,411 | 15,457 | 12,465 | (7,610) |
| Net income (loss) available to common stockholders | (9,806) | (6,271) | (3,963) | (3,383) | (4,455) | (5,643) | (7,425) | (20,928) | (6,273) | (7,030) | (7,440) | (7,877) | (28,620) | (28,706) | (23,150) | 14,134 |
| Net income (loss) to common shareholders - basic | (9,806) | (6,271) | (3,072) | (3,383) | (4,455) | (5,643) | (7,425) | (20,928) | (6,273) | (7,030) | (7,440) | (7,877) | (28,620) | (28,706) | (23,150) | 14,134 |
| Net income (loss) to common shareholders - diluted | (9,806) | (6,271) | (3,072) | (3,383) | (4,455) | (5,643) | (7,425) | (20,928) | (6,273) | (7,030) | (7,440) | (7,877) | (28,620) | (28,706) | (23,150) | 14,134 |
| Basic Earnings Per Share | (1.21) | (0.75) | (\$0.74) | (\$0.22) | (\$0.28) | (\$0.34) | (\$0.43) | (\$1.19) | (\$0.35) | (\$0.38) | (\$0.39) | (\$0.40) | (\$1.40) | (\$1.21) | (\$0.84) | \$0.47 |
| Diluted Earnings Per Share | (1.21) | (0.75) | (\$0.74) | (\$0.22) | (\$0.28) | (\$0.34) | (\$0.43) | (\$1.19) | (\$0.35) | (\$0.38) | (\$0.39) | (\$0.40) | (\$1.40) | (\$1.21) | (\$0.84) | \$0.39 |
| Basic Shares Outstanding | 8,089 | 8,322 | 4,133 | 15,654 | 16,124 | 16,607 | 17,106 | 17,619 | 18,147 | 18,692 | 19,253 | 19,830 | 20,425 | 23,678 | 27,450 | 30,306 |
| Diluted Shares Outstanding | 8,089 | 8,322 | 4,133 | 15,654 | 16,124 | 16,607 | 17,106 | 17,619 | 18,147 | 18,692 | 19,253 | 19,830 | 20,425 | 23,678 | 27,450 | 36,368 |

Proprietary to Piper Jaffray & Co. June 19, 2014
CARA: Charles Duncan; 212.284.2505
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I: Initiating Coverage
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] | 355 | 61.85 | 87 | 24.51 |
| HOLD [N] | 204 | 35.54 | 21 | 10.29 |
| SELL [UW] | 15 | 2.61 | 0 | 0.00 |

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

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- **Underweight (UW):** Anticipated to underperform relative to the median of the group of stocks covered by the analyst.

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