

Specialty Pharmaceuticals

Cara Therapeutics Inc.

(CARA) - BUY

Price: **\$10.80**

Fair Value Estimate: \$25.00
52-Week Range: \$10.40-\$23.25
Market Cap (MM): \$244
Shr.O/S-Diluted (mm): 22.6
Average Daily Volume: 81,498
Dividend: NA
Book Value: \$1.33

| FYE: Dec | 2013A | 2014E | 2015E |
|------------|-----------|-----------|-----------|
| EPS: | \$(0.74)A | \$(0.84)E | \$(1.06)E |
| Prior EPS: | | \$(1.20) | \$(1.52) |
| P/E: | NA | NA | NA |

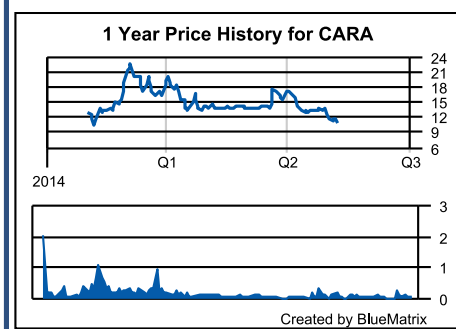
Quarterly EPS:

| | 2013A | 2014E | |
|----|-----------|-----------|----|
| Q1 | \$(0.42)A | \$(0.22)A | -- |
| Q2 | \$(0.38)A | \$(0.16)A | -- |
| Q3 | \$(0.38)A | \$(0.22)E | -- |
| Q4 | \$(0.49)A | \$(0.22)E | -- |

| FYE: Dec | 2013A | 2014E | 2015E |
|--------------|---------|--------|--------|
| Revenue (M): | \$11.9A | \$2.0E | \$0.0E |

Quarterly Revenue (M):

| | 2013A | 2014E | |
|----|---------|--------|----|
| Q1 | \$0.1A | \$0.2A | -- |
| Q2 | \$10.1A | \$1.0A | -- |
| Q3 | \$0.8A | \$0.2E | -- |
| Q4 | \$1.0A | \$0.7E | -- |



Equity Research
Note

CARA: 2Q14 IV CR845 Preparing for Phase 3 Initiation End of 2014 Full of Catalysts

INVESTMENT CONCLUSION:

Last night after the close, CARA reported 2Q14 earnings with an EPS of (\$0.16), compared to Janney estimates of (\$0.27). On the call, management continued to speak positively about the clinical progress of its lead candidate CR845 (IV administrated kappa-opioid for acute pain) as in late July, CARA initiated its Human Abuse Liability (HAL) study with top-line data expected in 4Q14. These likability studies will 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 its burn rate in a cost effective manner, which is always a plus in our book. Late 2014 also brings several key data points that should solidify the value of CR845 program. Maintain Buy rating, \$25 fair value.

KEY POINTS:

- **Managing the cash burn:** CARA reported 2Q14 earnings after the close of the market last night with an EPS of (\$0.16) compared to a Janney estimate of (\$0.27). The two main differences were the \$500K Maruishi milestone payment and higher than expected R&D costs. These costs should continue to accelerate as clinical development continues into 2H14. G&A was in-line with estimates. CARA finished 2Q14 with ~\$63M in cash, enough for operations through 2015.
- **IV CR845 continues to progress with HAL up and running:** In late July, CARA initiated the likeability studies for IV CR845. Though originally thought to be measured against morphine, a schedule II pain killer, the study will be conducted, per FDA guidance with pentazocine, a mixed-action kappa and mu opioid receptor that is a schedule IV substance. Management feels (and we concur) that if IV CR845 has a lower likeability score than pentazocine an easier argument can be made for an approval as a schedule V or even unscheduled opioid given the starting point of a schedule IV versus the original starting point of a schedule II. Data for the HAL study is expected in 4Q14. Phase 3 initiation expected to start shortly after in 1Q15.
- **Got to have a tablet with an IV:** In June, CARA began the single- and multiple dose ascending Phase 1 trials. A tablet formulation will allow for a more commercially viable product as patients can "step-down" from the IV and take home the tablets. Top-line results expected in 4Q14.
- **Dialysis itch? IV CR845 could scratch it:** CARA has also initiated a Phase 2a Proof-of-Concept study of IV CR845 in uremic pruritus (UP) which is very common side of kidney dialysis. Though initially focusing on UP, if successful the program could expand to a more broad and general anti-itch agent. Data is expected 1H15.
- **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:
CARA Therapeutics
Quarterly income statement

| (\$000 except per share) | 2013A | | | | 2013A Year | 2014E | | | | 2014E Year |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 1QA | 2QA | 3QA | 4QE | | 1QA | 2QA | 3QE | 4QE | |
| Revenues | | | | | | | | | | |
| CR845 - IV version | | | | | | | | | | |
| CR845 - oral version | | | | | | | | | | |
| License | | \$9,637 | | | \$9,637 | | \$302 | \$0 | | \$302 |
| Collaborative revenues/ Milestones | \$54 | 500 | \$800 | \$973 | 2,327 | 178 | 658 | 200 | 700 | 1,736 |
| Total Revenue | \$54 | \$10,137 | \$800 | \$973 | \$11,964 | \$178 | \$960 | \$200 | \$700 | \$2,038 |
| Expenses: | | | | | | | | | | |
| Cost of Revenue (COGS) | | | | | | | | | | |
| Gross Margin | 54 | 10,137 | 800 | 973 | 11,964 | 178 | 960 | 200 | 700 | 2,038 |
| Research and development | 1,850 | 2,250 | 2,607 | 1,978 | 8,685 | 2,201 | 3,200 | 4,100 | 4,300 | 13,801 |
| General and administrative | 800 | 810 | 847 | 1,059 | 3,516 | 1,398 | 1,472 | 1,650 | 1,650 | 6,170 |
| Total operating expenses | 2,650 | 3,060 | 3,454 | 3,037 | 12,201 | 3,599 | 4,672 | 5,750 | 5,950 | 19,971 |
| Income (loss) from Operations | (2,596) | 7,077 | (2,654) | (2,064) | (237) | (3,421) | (3,712) | (5,550) | (5,250) | (17,933) |
| Interest income (expense), net | (1,345) | (1,345) | (1,034) | (32) | (3,756) | 22 | 56 | 50 | 50 | 178 |
| Other (exp) gain, net | | | | | | | | | | |
| Income (loss) before taxes | (3,941) | 5,732 | (3,688) | (2,096) | (3,993) | (3,399) | (3,656) | (5,500) | (5,200) | (17,755) |
| Income tax exp (benefit) | (9) | (9) | (9) | (3) | (30) | (16) | (11) | (10) | (10) | |
| Net Income (Loss) | (3,932) | 5,741 | (3,679) | (2,093) | (3,963) | (3,383) | (3,645) | (5,490) | (5,190) | (17,708) |
| Preferred stock conversion | | | | | 891 | | | | | |
| Earning per Share (EPS) | (\$0.25) | \$0.37 | (\$0.10) | (\$0.49) | (\$0.96) | (\$0.22) | (\$0.16) | (\$0.24) | (\$0.22) | (\$0.84) |
| Adj EPS ex-1x & non-cash items | | (\$0.25) | | | (\$0.74) | | (\$0.14) | | | (\$0.82) |
| Weighted avg. shares (000) | 15,550 | 15,550 | 38,410 | 4,288 | 4,133 | 15,654 | 22,608 | 22,858 | 23,108 | 21,057 |
| Fully diluted shares (000) | | | | | | 17,404 | 24,108 | 24,358 | 24,608 | 22,620 |

Source: Company reports and Janney estimates

Specialty Pharmaceuticals
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EXHIBIT 2:

| CARA Therapeutics Clinical development trial timelines | | | | | | | | | | | | | | | | | | | | | | | | |
|---|-------|-----|----------|------|---------|------|------|------|---------|------|-----|------|---------|-----|-----|------|-------|-----|-----|-----|-------|-----|--------|-----|
| | 2013A | | | | 2014E | | | | 2015E | | | | 2016E | | | | 2017E | | | | 2018E | | | |
| | 1QA | 2QA | 3QA | 4QE | 1QA | 2QA | 3QE | 4QE | 1QE | 2QE | 3QE | 4QE | 1QE | 2QE | 3QE | 4QE | 1QE | 2QE | 3QE | 4QE | 1QE | 2QE | 3QE | 4QE |
| Intravenous CR845 for acute post-operative pain | | | | | | | | | | | | | | | | | | | | | | | | |
| Phase 2 - laparoscopic hysterectomy | | | | | | | | | | | | | | | | | | | | | | | | |
| Phase 2 - bunionectomy | | | phase 2 | data | | | | | | | | | | | | | | | | | | | | |
| Abuse liability study | | | | | | | HAL | data | | | | | | | | | | | | | | | | |
| Renal Impairment PK Trial data | | | PK trial | data | | | | | | | | | | | | | | | | | | | | |
| End-of-Phase 2 Meeting | | | | | | | EoP2 | | | | | | | | | | | | | | | | | |
| Phase 3 - laparoscopic hysterectomy (CLIN3001) | | | | | | | | | phase 3 | | | data | | | | | | | | | | | | |
| Phase 3 - bunionectomy (CLIN30002) | | | | | | | | | phase 3 | | | data | | | | | | | | | | | | |
| NDA Filing | | | | | | | | | | | | | | | | NDA | | | | | | | | |
| FDA approval & launch - June PDUFA date | | | | | | | | | | | | | | | | | FDA | | | | | | LAUNCH | |
| ORAL CR845 | | | | | | | | | | | | | | | | | | | | | | | | |
| Phase 1 single ascending dose (tablet version) | | | | | phase 1 | data | | | | | | | | | | | | | | | | | | |
| Phase 1 multiple ascending dose (tablet version) | | | | | phase 1 | data | | | | | | | | | | | | | | | | | | |
| Phase 2a - Proof of Concept (tablet version) | | | | | | | | | phase 2 | data | | | | | | | | | | | | | | |
| Phase 3 | | | | | | | | | | | | | phase 3 | | | data | | | | | | | | |
| NDA filing | | | | | | | | | | | | | | | | | | | | | | | | |
| FDA approval & launch | | | | | | | | | | | | | | | | | | | | | | NDA | | |
| Intravenous CR845 for Uremic Pruritus | | | | | | | | | | | | | | | | | | | | | | | | |
| IND submission | | | | | IND | | | | | | | | | | | | | | | | | | | |
| Proof-of-Concept Phase 2 | | | | | | POC | data | | | | | | | | | | | | | | | | | |

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.

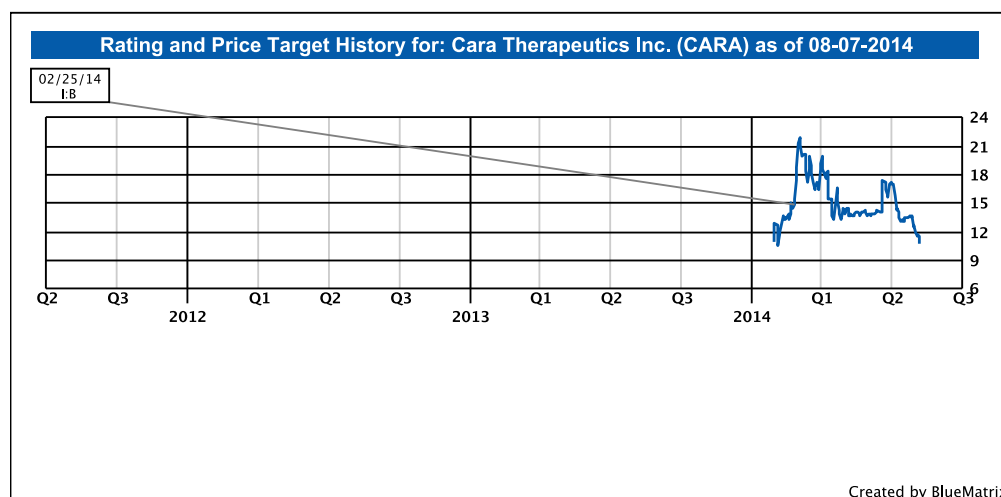
Definition of Ratings

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 6/30/14

| Rating | Count | Percent | IB Serv./Past 12 Mos. | |
|-------------|-------|---------|-----------------------|---------|
| | | | Count | Percent |
| BUY [B] | 207 | 53.80 | 53 | 25.60 |
| NEUTRAL [N] | 176 | 45.70 | 28 | 15.90 |
| SELL [S] | 2 | 0.50 | 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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