

## Cara Therapeutics (CARA - \$22.39)

2Q15 in line, 2H15 has multiple catalysts in store

CARA reported 2Q15 last night after the close with top and bottom line roughly in line with expectations. CARA remains a development and not an earnings story at this time. On the development front the company remains on track to initiate an IV CR845 adaptive pivotal trial in abdominal surgery and a Phase 2a for Oral CR845 in OA in 3Q15. CARA recently reported positive Phase 2 data for CR845 in Uremic Pruritus and expects to meet with the FDA in 2H15 to discuss plans for a Phase 3 registration trial. Due to positive Phase 2 pruritus data last month we see CARA as de-risked and reiterate our Buy rating and our \$30 PT.

- **Multiple catalysts remain on track for 2H15.** CARA reported 2Q15 last night after the close with top and bottom line roughly in line with expectations. CARA remains on track to initiate a Phase 3 laparoscopic abdominal surgery (3Q15), start a Phase 2a for an Oral version of CR845 in 3Q15 with data likely by year end. CARA plans to meet the FDA on the Phase 3 plan for CR845 for uremic pruritus by year end 2015, around which point CARA plans to apply for orphan drug status and breakthrough designation.
- **We see Pruritus a real potential blockbuster.** The recent positive Phase 2 data in uremic pruritus is a significant positive for CARA, in our opinion. The pruritus indication could be first-in-class blockbuster (if eventually approved) for the broader, non-uremic pruritus indication. There are approximately 400K patients in the US that undergo dialysis, ~50% experience pruritus. On a broader scale ~20M Rx's are written annually off label for general pruritus, with no approved therapies.
- **Reiterate Buy rating, \$30 price target.** Our price target is based on sum-of-the parts with IV CR845: \$12/share; oral post-op pain: \$4/share; IV uremic pruritus: \$7/share; oral general pruritus: \$5/share, and cash (end'16) and technology value: \$2/share.

*Healthcare/Biotechnology*

Ticker: **CARA**  
Rating: **Buy**  
Price Target: **\$ 30.00**

### Trading Data:

Last Price (08/10/2015)	\$ 22.39
52-Week High (08/05/2015)	\$23.39
52-Week Low (10/13/2014)	\$7.53
Market Cap. (MM)	\$511.0
Shares Out. (MM)	22.8

### Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
<b>FY-16E</b>	(0.34)	(0.34)	(0.37)	(0.38)	(1.45)	NA
<b>FY-15E</b>	(0.21)A	(0.25)A	(0.29)	(0.34)	(1.10)	NA
<b>FY-14A</b>	(0.22)	(0.16)	(0.28)	(0.18)	(0.85)	NA
<b>FY-13A</b>	NA	NA	NA	NA	(0.74)	NA

### James Molloy

Managing Director /  
Specialty Pharmaceutical &  
Biotechnology Analyst  
(857) 317-5061  
jmolloy@laidlawltd.com

Source: Company data and Laidlaw & Company estimates

FOR ANALYST CERTIFICATION AND DISCLOSURES, PLEASE SEE DISCLOSURES SECTION AT THE END OF THIS REPORT. This report has been prepared by Laidlaw & Co (UK), Ltd. Investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. All prices are those current at the end of the previous trading session unless otherwise indicated. Prices and consensus estimates are sourced from a reliable market source

Figure 1: Variance analysis

<b>CARA Therapeutics</b>					
<b>Quarterly variance analysis</b>					
(000's except per share)	2Q14A	2Q15A	2Q15E	Variance	% Y/Y
License & milestones	\$302	\$0	\$0	\$0	NA
Collaborative revenues	658	874	500	\$374	33%
<b>Total Revenue</b>	<b>\$960</b>	<b>\$874</b>	<b>\$500</b>	<b>\$374</b>	<b>-9%</b>
COGS	0	0	0	0	NA
<b>Gross Profit</b>	<b>960</b>	<b>874</b>	<b>500</b>	<b>374</b>	<b>-9%</b>
SG&A Expense	1,472	1,922	2,000	(78)	31%
R&D Expense	3,200	4,684	3,750	934	46%
<b>Operating Income</b>	<b>(3,712)</b>	<b>(5,732)</b>	<b>(5,250)</b>	<b>(482)</b>	<b>54%</b>
Int inc (exp), net	56	13	25	(12)	-77%
<b>Pretax Income</b>	<b>(3,656)</b>	<b>(5,719)</b>	<b>(5,225)</b>	<b>(494)</b>	<b>56%</b>
<b>Net income (loss)</b>	<b>(3,645)</b>	<b>(5,684)</b>	<b>(5,225)</b>	<b>(459)</b>	<b>56%</b>
Weighted avg. shares (000)	22,608	22,828	28,858	(6,030)	1%
Fully diluted shares (000)	23,686	22,828	31,608	(8,780)	-4%
<b>Earning per Share (EPS)</b>	<b>(\$0.16)</b>	<b>(\$0.25)</b>	<b>(\$0.18)</b>	<b>(\$0.07)</b>	<b>55%</b>

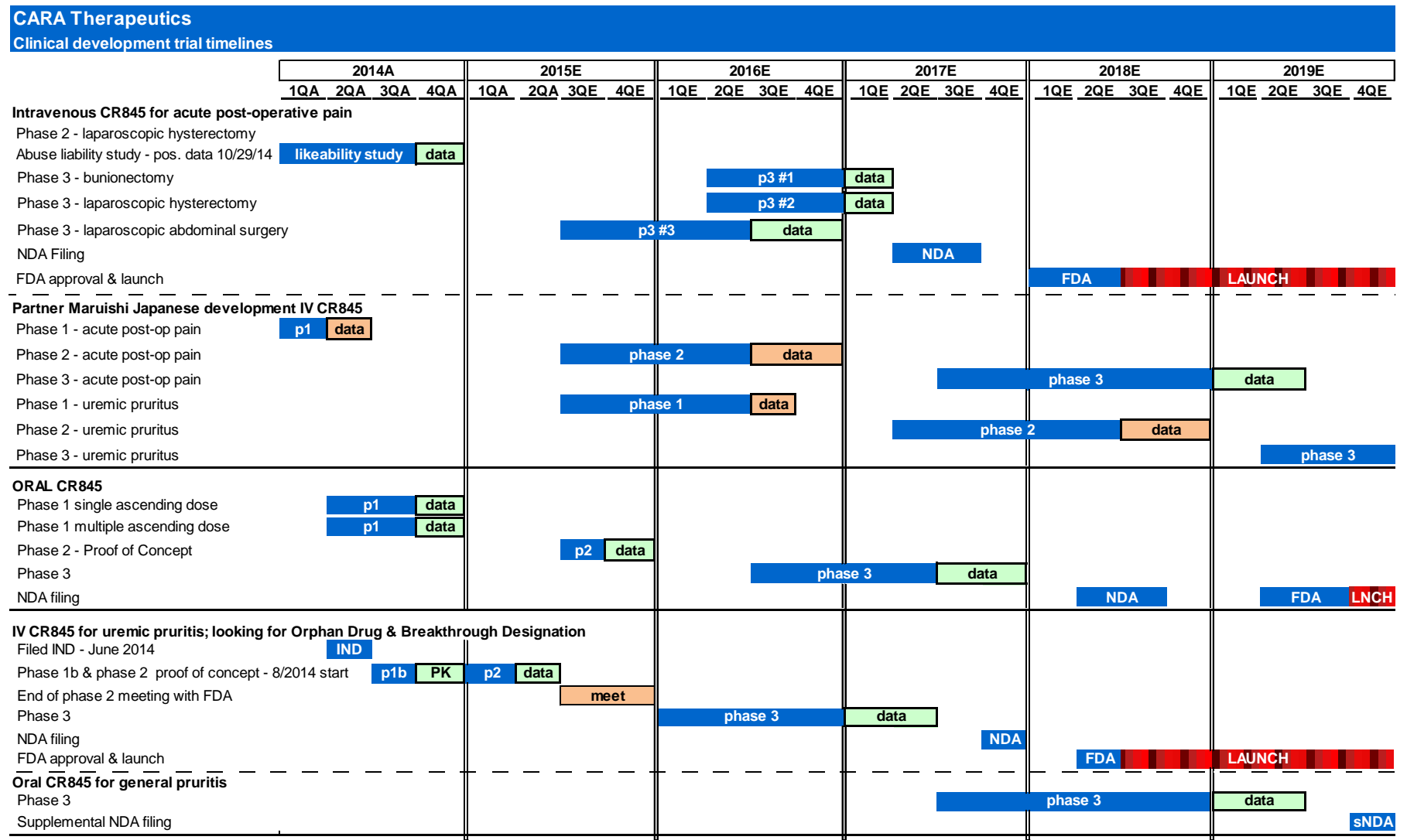
Source: Company presentation, Laidlaw & Company estimates.

Figure 2: Valuation

<b>Sum-of-the-parts value: CARA</b>		
Segment	Valuation (000's)	Per share value
CR845 - IV post-op pain	\$347,964	\$12.0
CR845 - oral post-op pain	\$120,988	\$4.0
CR845 - IV uremic pruritus	\$217,406	\$7.0
CR845 - oral general pruritus	\$151,125	\$5.0
Cash (end '16) & tech value	\$74,529	\$2.0
<b>SUM</b>	<b>\$912,012</b>	<b>\$30</b>
Shares out '16E (000)		29,456

Source: Company presentation, Laidlaw & Company estimates.

Figure 3: Clinical trials timeline



Specialty Pharmaceuticals

Jim Molloy (857) 317-5061 jmolloy@laidlawltd.com

Source: Company reports and Laidlaw estimates

Source: Company reports; Laidlaw & Company estimates.

Figure 4: Quarterly Income Statement

<b>CARA Therapeutics</b>										
<b>Quarterly income statement</b>										
(\$000 except per share)	2014A				2014A Year	2015E				2015E Year
	1QA	2QA	3QA	4QA		1QA	2QA	3QE	4QE	
<b>Revenues</b>										
License & milestones		\$302			\$302					
Collaborative revenues	\$178	658	\$1,125	\$914	2,875	\$489	\$874	\$500	\$500	\$2,363
<b>Total Revenue</b>	<b>\$178</b>	<b>\$960</b>	<b>\$1,125</b>	<b>\$914</b>	<b>\$3,177</b>	<b>\$489</b>	<b>\$874</b>	<b>\$500</b>	<b>\$500</b>	<b>\$2,363</b>
<b>Expenses:</b>										
Cost of Revenue (COGS)	-	-	-	-	-	-	-	-	-	-
<b>Gross Margin</b>	<b>178</b>	<b>960</b>	<b>1,125</b>	<b>914</b>	<b>3,177</b>	<b>489</b>	<b>874</b>	<b>500</b>	<b>500</b>	<b>2,363</b>
Research and development	2,201	3,200	6,208	3,459	15,068	3,385	4,684	6,000	7,250	21,319
General and administrative	1,398	1,472	1,250	1,791	6,181	1,822	1,922	2,500	2,500	8,744
Total operating expenses	3,599	4,672	7,458	5,250	21,249	5,207	6,606	8,500	9,750	30,063
<b>Income (loss) from Operations</b>	<b>(3,421)</b>	<b>(3,712)</b>	<b>(6,333)</b>	<b>(4,336)</b>	<b>(18,072)</b>	<b>(4,718)</b>	<b>(5,732)</b>	<b>(8,000)</b>	<b>(9,250)</b>	<b>(27,700)</b>
Interest income (expense), net	22	56	26	22	126	14	13	25	25	77
Other (exp) gain, net										
<b>Income (loss) before taxes</b>	<b>(3,399)</b>	<b>(3,656)</b>	<b>(6,307)</b>	<b>(4,314)</b>	<b>(17,946)</b>	<b>(4,704)</b>	<b>(5,719)</b>	<b>(7,975)</b>	<b>(9,225)</b>	<b>(27,623)</b>
Income tax exp (benefit)	(16)	(11)	(32)	(142)	(201)	(15)	(35)			
<b>Net income (Loss)</b>	<b>(3,383)</b>	<b>(3,645)</b>	<b>(6,275)</b>	<b>(4,172)</b>	<b>(17,745)</b>	<b>(4,689)</b>	<b>(5,684)</b>	<b>(7,975)</b>	<b>(9,225)</b>	<b>(27,573)</b>
<b>Net income to common</b>										
<b>Earning per Share (EPS)</b>	<b>(\$0.22)</b>	<b>(\$0.16)</b>	<b>(\$0.28)</b>	<b>(\$0.18)</b>	<b>(\$0.85)</b>	<b>(\$0.21)</b>	<b>(\$0.25)</b>	<b>(\$0.29)</b>	<b>(\$0.34)</b>	<b>(\$1.10)</b>
Weighted avg. shares (000)	15,654	22,608	22,713	22,791	20,966	22,808	22,828	27,156	27,206	25,000
Fully diluted shares (000)	16,551	23,686	23,677	24,038	21,988	24,103	24,411	28,906	28,956	26,594

Source: Company reports and Laidlaw estimates

Specialty Pharmaceuticals  
Jim Molloy (857) 317-5061 jmolloy@laidlawltd.com

Source: Bloomberg LP: Company reports; Laidlaw &amp; Company estimates.

Figure 5: Annual Income Statement

<b>CARA Therapeutics</b>							
<b>Annual income statement</b>							
(\$'000 except per share)	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>	<b>Comments</b>
<b>Revenues</b>							
CR845 - IV post-op pain					\$27,254	\$205,431	Launch 2H18
CR845 - IV Uremic pruritus					3,170	53,291	Launch 2H18
CR845 - oral post-op pain					-	12,500	Launch 2H19
License & milestones	\$302	-	-	-	-	-	
Collaborative revenues	2,875	\$2,363	\$2,000	\$2,000	2,000	2,000	
<b>Total Revenue</b>	<b>\$3,177</b>	<b>\$2,363</b>	<b>\$2,000</b>	<b>\$2,000</b>	<b>\$32,424</b>	<b>\$273,222</b>	
<b>Expenses:</b>							
Cost of Revenue (COGS)	-	-	-	-	4,088	30,815	
<b>Gross Margin</b>	<b>3,177</b>	<b>2,363</b>	<b>2,000</b>	<b>2,000</b>	<b>28,336</b>	<b>242,407</b>	
R&D	15,068	21,319	32,000	34,000	32,250	50,500	
G&A	6,181	8,744	10,000	11,500	22,000	75,000	
Total op exp	21,249	30,063	42,000	45,500	54,250	125,500	
<b>Inc/(loss) from Ops</b>	<b>(18,072)</b>	<b>(27,700)</b>	<b>(40,000)</b>	<b>(43,500)</b>	<b>(25,914)</b>	<b>116,907</b>	
Int income (exp), net	126	77	100	100	100	100	
Other expenses, net	-	-	-	-	-	-	
<b>Inc/(loss) before taxes</b>	<b>(17,946)</b>	<b>(27,623)</b>	<b>(39,900)</b>	<b>(43,400)</b>	<b>(25,814)</b>	<b>117,007</b>	
Income tax exp (benefit)	(201)	-	-	-	-	2,340	
<b>Net income (Loss)</b>	<b>(\$17,745)</b>	<b>(\$27,573)</b>	<b>(\$39,900)</b>	<b>(\$43,400)</b>	<b>(\$25,814)</b>	<b>\$114,667</b>	
<b>Net income to common</b>							
<b>Earning per Share</b>	<b>(\$0.85)</b>	<b>(\$1.10)</b>	<b>(\$1.45)</b>	<b>(\$1.50)</b>	<b>(\$0.85)</b>	<b>\$3.30</b>	
Weighted avg. shares (000)	20,966	25,000	27,456	28,956	30,456	31,956	
Fully diluted shares (000)	21,988	26,594	29,456	31,206	32,956	34,706	

Source: Company reports and Laidlaw estimates

Specialty Pharmaceuticals  
Jim Molloy (857) 317-5061 jmolloy@laidlawltd.com

Source: Bloomberg LP; Company reports; Laidlaw &amp; Company estimates.

## DISCLOSURES:

### ANALYST CERTIFICATION

The analyst responsible for the content of this report hereby certifies that the views expressed regarding the company or companies and their securities accurately represent his personal views and that no direct or indirect compensation is to be received by the analyst for any specific recommendation or views contained in this report. Neither the author of this report nor any member of his immediate family or household maintains a position in the securities mentioned in this report.

### EQUITY DISCLOSURES

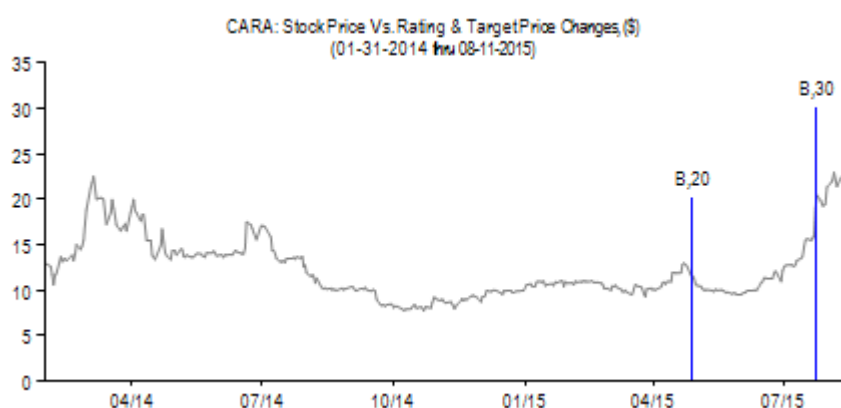
For the purpose of ratings distributions, regulatory rules require the firm to assign ratings to one of three rating categories (i.e. Strong Buy/Buy-Overweight, Hold, or Underweight/Sell) regardless of a firm's own rating categories. Although the firm's ratings of Buy/Overweight, Hold, or Underweight/Sell most closely correspond to Buy, Hold and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis against the analyst sector universe of stocks. An analyst's coverage sector is comprised of companies that are engaged in similar business or share similar operating characteristics as the subject company. The analysis sector universe is a sub-sector to the analyst's coverage sector, and is compiled to assist the analyst in determining relative valuations of subject companies. The composition of an analyst's sector universe is subject to change over time as various factors, including changing market conditions occur. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12-months relative to the analyst's sector universe.

*Additional information available upon request.*

# Laidlaw & Co (UK) Ltd. has not provided any investment banking services for the company (ies) mentioned in this report over the last 12 months.

### RATINGS INFORMATION

#### Rating and Price Target Change History



#### 3 Year Rating Change History

Date	Rating	Closing Price (\$)
04/28/2015	Buy (B)	11.59

#### 3 Year Price Change History

Date	Target Price (\$)	Closing Price, (\$)
04/28/2015	20.00	11.59
07/24/2015	30.00	20.43

Source: Laidlaw & Company

Created by: Blue-Compass.net

Laidlaw & Company Rating System*		% of Companies Under Coverage With This Rating	% of Companies for which Laidlaw & Company has performed services for in the last 12 months	
			Investment Banking	Brokerage
<b>Strong Buy (SB)</b>	Expected to significantly outperform the sector over 12 months.	0.00%	0.00%	0.00%
<b>Buy (B)</b>	Expected to outperform the sector average over 12 months.	75.00%	32.14%	7.14%
<b>Hold (H)</b>	Expected returns to be in line with the sector average over 12 months.	3.57%	0.00%	0.00%
<b>Sell (S)</b>	Returns expected to significantly underperform the sector average over 12 months.	0.00%	0.00%	0.00%

### ADDITIONAL COMPANIES MENTIONED

### ADDITIONAL DISCLOSURES

As of the date of this report, neither the author of this report nor any member of his immediate family or household maintains an ownership position in the securities of the company (ies) mentioned in this report.

This report does not provide individually tailored investment advice and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. Laidlaw & Co (UK), Ltd. recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities, instruments, or strategies discussed in this report may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them. This report is not an offer to buy or sell or the solicitation of an offer to buy or sell any security/instrument or to participate in any particular trading strategy.

Associated persons of Laidlaw & Co (UK), Ltd not involved in the preparation of this report may have investments in securities/instruments or derivatives of securities/instruments of companies mentioned herein and may trade them in ways different from those discussed in this report. While Laidlaw & Co (UK), Ltd., prohibits analysts from receiving any compensation. Bonus or incentive based on specific recommendations for, or view of, a particular company, investors should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

With the exception of information regarding Laidlaw & Co (UK), Ltd. this report is based on public information. Laidlaw & Co (UK), Ltd makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete and it should not be relied upon as such. Any opinions expressed are subject to change and Laidlaw & Co (UK), Ltd disclaims any obligation to advise you of changes in opinions or information or any discontinuation of coverage of a subject company. Facts and views presented in this report have not been reviewed by, and may not reflect information known to, professionals in other Laidlaw & Co (UK), Ltd business areas. Laidlaw & Co (UK), Ltd associated persons conduct site visits from time to time but are prohibited from accepting payment or reimbursement by the company of travel expenses for such visits. The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices, market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in securities/instruments transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. If provided, and unless otherwise stated, the closing price on the cover page is that of the primary exchange for the subject company's securities/instruments.

Any trademarks and service marks contained in this report are the property of their respective owners. Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data. This report or any portion thereof may not be reprinted, sold or redistributed without the written consent of Laidlaw & Co (UK), Ltd. This report is disseminated and available primarily electronically, and, in some cases, in printed form.

The information and opinions in this report were prepared by Laidlaw & Co (UK), Ltd. For important disclosures, please see Laidlaw & Co (UK), Ltd.'s disclosure website at [www.Laidlawltd.com](http://www.Laidlawltd.com), or contact your investment representative or Laidlaw & Co (UK), Ltd at 546 Fifth Ave, 5th Floor, New York, NY 10036 USA.

© 2015 Laidlaw & Co. (UK), Ltd.

**NOTES:**