

BIOTECH

Panacea gathers steam on its way to Wall Street

By Vandana Sinha
Staff Reporter

Panacea Pharmaceuticals Inc. is starting the next stage of its life, hoping to double the company's venture capital before the year ends and begin the journey to become one of the next local biotechs to go public.

The Gaithersburg company, which makes drugs and diagnostic tests for cancer and neurological diseases, is hitting the circuit for its fifth round of funding. It would like to sell 6 million shares and raise \$25 million to \$30 million in the next six months.

That's a tall order for the 22-person company, more than twice the total of roughly \$22 million in investments previously obtained during its eight-year history.

But Panacea, which has \$2 million committed so far and will likely collect the first portion of the new round in August, needs more cash than it is accustomed to.

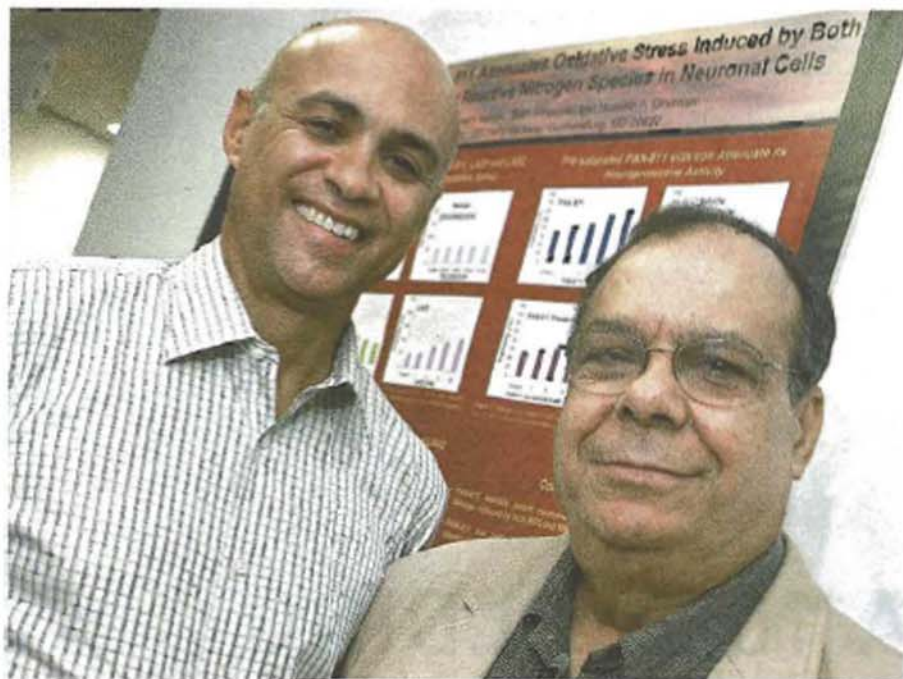
After pushing a liver cancer and stroke drug into the first phase of clinical trials, the company plans to file to go public by the end of next year and therefore needs a plumper cash cushion to be more attractive to a finicky public market for biotech stocks.

"We need to have a certain amount in the budget before we make a good argument for an IPO," said Hossein Ghanbari, CEO, chairman and chief scientific officer. "That would give us more negotiating power."

The company, which makes its revenue from offering cancer-related lab tests, had aimed for \$14 million in its last fundraising round but scored only \$8.9 million before closing the round this time last year.

Panacea opted to take less money, enough to last it through this year, rather than keep the round open for too long just months before wading back in for significantly more dollars — a decision it might duplicate in this fifth round when December rolls around.

CASH CURE-ALL: Panacea's Stephen Keith, left, and Hossein Ghanbari expect to start or complete clinical trials on our cancer diagnostic tests by the end of next year.



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But this time company officials are making what they hope is a more tempting pitch, complete with solid IPO plans.

"It's much more attractive than the last time," Ghanbari said. "A lot of investors understand that."

Panacea is revisiting familiar investment ground in Japan, where most of its investors are based and will receive a translated copy of the new business plan, completed in June.

In addition, company President Stephen Keith said he expects to spend half his time on the road, and in the air, traveling throughout the U.S., Europe and Middle East.

But even if well-armed with cash, Panacea may still face a tough battle in the public markets — described by many financial experts as merciless territory for biotechs without a drug in the final phase of testing.

"There has to be a fairly high level of confidence that there has to be, sort of, no clinical risk left," said Jim Barrett, a general partner at NEA, a Baltimore-based venture capital firm. "It's very difficult for an early stage company without proof of concept to have a decent offering."

Keith is more optimistic about an IPO. He points to recent data by San Francisco consulting firm Burrill & Co., which reported that its biotech index market cap topped a record \$500 billion in April. And despite flattening in May, the index increased by 9 percent in value compared with last year.

"You've seen some companies be successful early stage. You've seen some companies not be so successful late stage" said Keith, also the company's chief operating officer. "You have to meet your milestones."

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