

Bonovo Orthopedics Inc.

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Written By Bob Kronemyer (Contributor)
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Summary: East meets West in the orthopedics field with the establishment of Bonovo OrthopedicsI, an Arizona-based manufacturer and distributor of orthopedic products and services that is targeting the China market, with its estimated population of 1.3 billion. In addition to distributing products for Western companies, Bonovo Orthopedics manufactures and sells it own domestic line of spine, hip, and knee implants. The company also acts as an original equipment manufacturer in China for partnering firms.

Further Analysis:	Title	Magazine	Issue	Article ID
	Start-Up Previews (03/2009)	<i>IN VIVO</i>	Mar. 2009	<u>2009800058</u>
	China: The Wild, Wild East for Medical Devices	<i>Start-Up</i>	May 2008	<u>2008900096</u>

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Bonovo Orthopedics Inc.

Orthopedics products and training targets China

2415 East Camelback Road

Suite 700

Phoenix, AZ 85016

Phone: (602) 381-2586

Web Site: www.bonovo-ortho.com

Contact: Peter Slate, CEO

Industry Segment: Orthopedics

Business: Medical device manufacturing and distribution in China

Founded: July 2008

Founders: Hansen Yuan, MD, CTO; Stephen Hochschuler, MD (Texas Back Institute); Frank Philips, MD (Rush University Medical Center); Robert Scribner (Crosstrees Medical); Xiaoling Liang (Beijing Orthopedic Innovations Inc.); Peter Slate

Employees: 200

Financing to Date: \$7 million

Investors: Private investors

Board of Directors: Hansen Yuan; Peter Slate; Xiaoling Liang

Scientific Advisory Board: Stephen Hochschuler; Frank Philips; Robert Scribner; Paul McAfee (St. Joseph's Medical Center, Baltimore)

East meets West in the orthopedics field with the establishment of **Bonovo Orthopedics Inc.**, an Arizona-based manufacturer and distributor of orthopedic products and services that is targeting the China market, with an estimated population of 1.3 billion.

"We provide a complete solution for Western companies that wish to gain access to the Chinese orthopedics market," says CEO Peter Slate. "Although the China market is expanding rapidly, there are few established Chinese brands known for product quality. We believe we have a real opportunity to become a leading Chinese brand in orthopedic care."

In addition to distributing products for Western companies, Bonovo Orthopedics manufactures and sells its own domestic line of spine, hip, and knee implants. The company also acts as an original equipment manufacturer (OEM) in China for partnering firms. Bonovo has two manufacturing facilities in Northern China and a distribution center in Shanghai, and sells its products through a network of distributors located throughout China.

To promote awareness and use of Bonovo's orthopedic products and services within the Chinese health care community, the company has recently opened The Bonovo R&D and Training Center, currently located at Hospital 306 in Beijing. Slate says that Bonovo's investors and advisors comprise top orthopedic surgeons from throughout the world. "These individuals have helped drive adoption for some of the leading orthopedics products that are used in the US and Europe." According to Richard Grant, president of sales and marketing, "Our investor base is committed to training the Chinese surgeon community at our R&D and training center on the latest Bonovo orthopedic products."

All of Bonovo's distributed products are FDA approved or have a European CE mark. "FDA and CE file data can be leveraged to accelerate a product's path through the State Food and Drug Administration (SFDA)," Grant notes.

Slate and the other five co-founders were inspired to start their enterprise in an effort to bring the latest standards of care in orthopedics to the most populated country on earth. Bonovo was formed by establishing a holding company in the US, then rolling three Chinese orthopedic firms into that company as subsidiaries. "While Bonovo is a new company, our China subsidiaries have been recognized as innovators in the Chinese orthopedic industry for over 15 years," explains CTO Hansen Yuan. For instance, co-founder Xiaoling Liang was founder and president of Beijing Orthopedic Innovations Inc. prior to its merger with Bonovo Orthopedics.

Slate's own background includes founding CEO of Arizona Technology Enterprises LLC (a leading technology commercialization and investment firm). He also served as director of corporate development at Baxter International Inc. Yuan is a professor emeritus of orthopedic and neurological surgery at the State University of New York, Upstate Medical University. "Dr. Yuan has trained over 50 of the top board-certified orthopedic surgeons in China and is the named inventor on more than 100 patents," Slate says. Yuan also serves on the corporate and medical advisory boards of some of the world's leading orthopedic firms.

Currently, Chinese health care is predominately paid out-of-pocket. "However, the Chinese government is making significant investments in its health care system, including allocating more money toward reimbursement of products," Slate notes. "We also believe that the growth of the private health care insurance market and the increasing middle-class population will contribute to the expansion of the orthopedic market opportunity in China."

Bonovo has internally developed over 20 different orthopedic implant products for spinal fusion and joint (hip and knee) replacement, which are sold under the name China Great Wall. Products include cages, rods, screws, and plates. "We entered the total joint replacement business by acquiring a hip and knee manufacturing company in Tianjin," Slate says.

Many of Bonovo's competitors are also viewed as potential partners in select Chinese markets. These players include **Kanghui Medical Innovation Co. Ltd.**, **Trauson (Jiangsu) Medical Instrument Co. Ltd.**, **Johnson & Johnson's DePuy Orthopaedics Inc.**, and **Zimmer Holdings Inc.**

Although the worsening economic downturn has impacted business globally overall, health care in China "is growing at a healthy rate," Slate reports. "Across medical devices, we are seeing over 20% annual growth in many areas." Despite economic woes, health care remains at the top of the Chinese government's investment agenda. "The downturn in the market has forced US companies to look outside the United States for opportunities," Slate says.

Bonovo operates mostly through a network of about 70 independent distributors in China. The company also has over 30 internal sales personnel to support those distributors. Typically, the international product line commands a price premium in comparison with the domestic product line. "However, we believe we can change that equation by developing a brand known for quality and technology leadership, so that when the Chinese surgeon is deciding between our national Chinese brand of comparable quality to Western products,

the surgeon will choose Bonovo," Slate says. Revenues for 2008 were about \$7 million (US). The company expects these revenues to double in 2009, fairly evenly between proprietary products and distribution.

Over the past few years, the Chinese yuan "has enjoyed a favorable exchange rate to the US dollar," Slate continues. "This has allowed us to benefit from buying in US dollars and selling in China, where 100% of our revenue is denominated in local currency. Regardless, any company doing business internationally must develop a prudent strategy to manage currency exchange-rate fluctuation."

Bonovo is continually developing strategic distribution partners. "We anticipate the number of our partnerships to grow significantly over the next several years," Slate conveys. "We are also acquiring licensing rights to Western products. A major advantage of the licensing structure is that when we take the lead on regulatory affairs, we are able to fast track Chinese regulatory approval."

A robust R&D pipeline is a given with the company's list of orthopedic luminaries. "Our investors, advisors, and board members have been the inventors of many major products in the orthopedic market," Slate points out. In addition, many of the newer therapies in the US are now starting to emerge in China. Slate is particularly enthused about the growth prospects for motion preservation products and biologics (regenerating tissue and assisting in bone growth). "We believe our products will improve the quality of life of the Chinese population," he states.

Chinese surgeons are also more open to trying new technologies and procedures, according to Slate, because there is less of an installed base of technology. "Chinese physicians have an entrepreneurial spirit and are hungry for training on new technologies," he says. "The top-tier hospitals in China desire to use the latest technology. We strive to be a premier Chinese health care brand and the preferred provider of orthopedic products." **Bob Kronemyer**