

Firm sees China in its future

Santa Barbara's TrueVision enters international venture

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Santa Barbara-based medical equipment maker TrueVision Systems plans to enter a joint venture with one of the biggest health care technology firms in China.

TrueVision makes a 3-D heads-up display system that attaches to microscopes used in brain, spine and eye surgery, along with software that helps guide the surgeon's cuts. Think "Avatar" meets neurosurgery.

The firm signed a deal outlining a joint venture with the Weigao Group, a publicly traded Chinese medical device and equipment maker with a \$29 billion market capitalization. In the venture, a new Weigao subsidiary would make and sell TrueVision's 3-D system in China, and the Santa Barbara company would continue to sell U.S.-made systems in the domestic market.

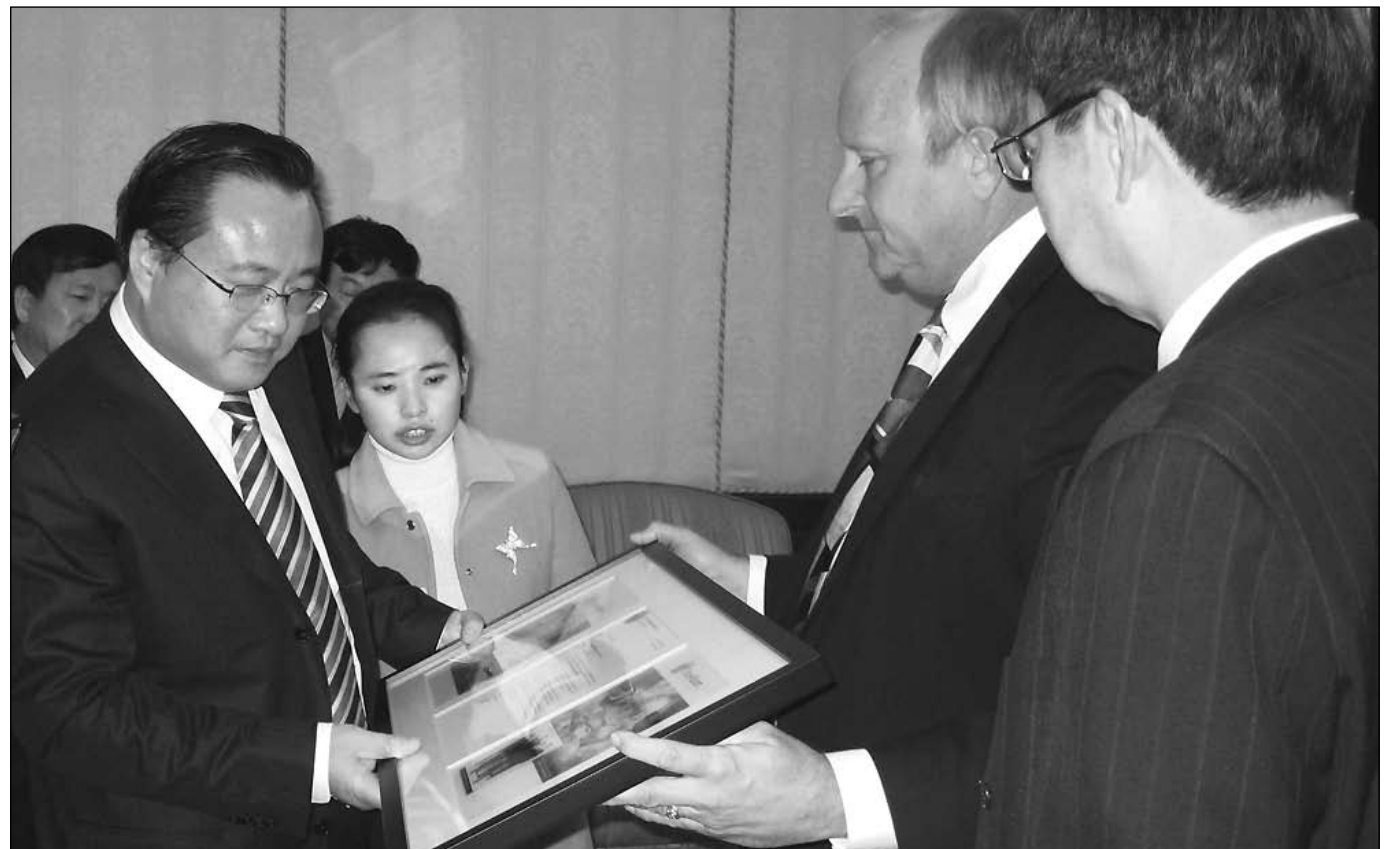
"I don't think there's an American company today that shouldn't have a China strategy. It's too big to be left out of," said Forrest Fleming, chief executive of TrueVision. "It's like saying, 'I got left out of the Internet.'"

TrueVision will contribute technology, patents and regulatory approvals while Weigao will contribute cash. TrueVision might get a cash payment upfront and some ongoing licensing fees, but the main boon for the company would be stock. It would get a minority stake in the Weigao subsidiary and could see a big payday when the venture is spun out into a public company of its own, as is the plan.

Weigao's shares have done well recently. They traded on the Hong Kong Stock Exchange for \$8.50 or so in early 2007 and have recently topped the \$30 mark.

"The securities market is exploding in China," Fleming said. Much like the U.S. in the 1950s and 1960s, "Everyone is going public."

TrueVision is not the first American firm to enter a joint venture with Weigao. In 2007, Medtronic, one of the largest medical device firms in the U.S., paid



From left, Shutao Sun, mayor of Weihai in the Shandong province of China, and Forrest Fleming, CEO of Santa Barbara's TrueVision Systems, look over plans to start a joint venture between the California company and Weigao Group.

\$221 million for a 15 percent stake in a joint deal to market spine therapies.

Much of the deal flurry is related to China's big plans to drastically expand its health care system in a country with 1.3 billion citizens. The government there plans to spend \$125 billion in the next few years on health care alone, according to its state-run news service.

"Everyone who works gets health care," Fleming said, noting the Chinese government's plans to build more than 5,000 hospitals. "We only have 7,000 hospitals in this country. [The Chinese] are going to buy an unprecedented amount of medical equipment."

One thing that makes TrueVision's product potentially lucrative isn't the hardware but the software. A computer can analyze the image of a patient's eye and display on-screen lines to guide the surgeon's cut. Fleming said early studies suggest the guidance could reduce complications, which in turn could make the TrueVision system the industry standard

for certain procedures.

But exporting software to China brings up the specter of piracy, which has drawn criticism from leaders at Microsoft and other big firms. Fleming said Weigao CEO Chen Xue Li was upfront about the issue.

"He said, 'We understand there's this perception on the part of many American companies. It's not unfounded, especially five or 10 years ago. When we have such opportunity in our markets, we're vulnerable to having crooks and criminals. But how can I run an international company like that? How can I do business with Medtronic if I steal from people?'"

Fleming said that last year TrueVision sold about 25 systems and brought in \$1.7 million in revenue. With China slated to build thousands of hospitals in coming years, thousands of units could be sold, Fleming said.

"I can't even begin to get my head around it," Fleming said. "The vibrancy

of that economy is really beyond description."

Bill Watkins, an economist at California Lutheran University in Thousand Oaks, said stories like TrueVision's are likely to become more common in coming years as highly productive American firms test out vast markets among the developing world's emerging middle class.

"What's going on in China is amazing. With a population that big, a very small percentage can be wealthy and still be bigger than the U.S. population," Watkins said. "The map is similar in India. Their economic growth is huge."

Chinese companies seem eager to work with American business, Fleming said. Barriers remain but likely will continue to fall, Fleming said.

"No one we met spoke English, really," Fleming said. "We had to have translators at every meeting. But for companies that figure it out, there's a huge pot of gold at the end of the rainbow."