

Fast 50: Zonare soars with 2,000% growth

Silicon Valley / San Jose Business Journal - by [Lisa Sibley](#)



Lars Shaw, vice president of marketing for Zonare Systems.

[View Larger](#)

The company is not the first nor the biggest in its field. But Zonare Medical Systems Inc. is creating a distinct technology in the hand-carried ultrasound device market that gives it the top slot as the most rapidly growing company in Silicon Valley on the Business Journal's Fast 50 list this year.

The Mountain View company isn't the only one in the worldwide ultrasound market growing rapidly. Global market sales totaled \$4.4 billion in 2006, excluding upgrades and services, and are expected to grow to \$5.7 billion in 2010 — a compounded annual growth rate of about 6.5 percent — according to a 2007 report by research firm InMedica.

Zonare's sales trail market leaders SonoSite Inc. and General Electric Healthcare, said medical device analyst Raj Denhoy of investment banking firm Thomas Weisel Partners. In the \$444 million hand-carried market in 2007, Weisel said \$205 million went to SonoSite, and GE had \$200 million. Zonare led the second tier with \$27.5 million, Siemens AG had \$10 million and \$1 million went to China's Shenzhen Mindray Bio-Medical Electronics Co.

The firm forecasts the market will reach \$706 million by 2010, projecting SonoSite to capture about \$338 million, GE to take \$286 million, Zonare \$48 million, Siemens \$22 million and Mindray \$12 million.

However, Zonare's revenue growth over the past four years is impressive. From \$1.3 million in 2005 it grew to \$5.6 million in 2006 and then last year's \$27.5 million. Growth continued this year with \$19 million in revenue for the first half of 2008, compared with \$15.7 million for the same period last year.

Dr. Harvey Klein, president of New York-based Klein Biomedical Consultants Inc., follows the company and attributed the company's ability to achieve rapid growth to a focused sales and marketing effort that promotes the concept of "convertibility."

The company's convertible ultrasound system platform was introduced in November 2004 and began commercial shipments in the first quarter of 2005. The system can convert a full-featured, cart-based ultrasound system to a compact, portable system used at a patient's bedside, without compromising image quality. Older ultrasound machines are much larger and not portable.

"The beauty is you can do both with the same unit," said Dr. John Rego, chief of radiology at Kaiser Permanente's San Francisco Medical Center. Rego explained that Kaiser can buy Zonare's device configured to be used either bedside or in a cart format that best fits Kaiser's needs. The hand-held component can be detached from the cart if needed so that it's portable.

Depending on the configuration, he said, the system ranges from about \$30,000 to \$60,000. It's been rolled out nationwide by Kaiser. San Francisco Medical Center has some units, Rego said, including one in the intensive care unit, one in the emergency room, one in radiology and one or two in obstetrics and gynecology.

Zonare company executives and investors declined to comment for this story because the company filed for an initial public offering in July and was in its quiet period when this story was being written.

Klein, for one, said he doubts an IPO will happen given the turmoil in financial markets since Zonare's filing.

"However, no one really knows when market conditions will improve to the point that they will be able to go public," he said.

Zonare has raised more than \$134 million from investors including Kaiser Permanente Ventures, Earlybird Venture Capital, Montagu Newhall Associates Inc., Frazier Healthcare Ventures, Draper Fisher Jurvetson, Merrill Lynch Ventures, CB Health Ventures, Mosaix Ventures, Texas Instruments Inc., 3i Ventures LLC and Ascension Health Ventures.

The company also continues to invest heavily in research and development, Klein said, as well as moving into rapid-growth emerging markets.

"The growth of the company going forward in the next three to five years should far exceed the overall growth of the worldwide ultrasound market, as well as the important U.S. market," Klein said.

In addition, he said the company has continued to improve the performance of its products.

“They have built customer loyalty by offering free upgrades,” Klein said. “The initial strategy of focusing on the radiology and vascular markets — two markets that the company’s sales and marketing personnel knew well from past affiliations — helped to get the company to develop momentum quickly.”

Denhoy said SonoSite is focused more on taking ultrasound to the patient at the point of care and not on trying to replace large, traditional ultrasound machines. He described Zonare’s technology as not as rugged or resistant to fluids as SonoSite’s product and said Zonare doesn’t have much of an impact as a competitor for SonoSite, which Denhoy follows.

“The important distinction is they seem to be targeting different pieces of the ultrasound market.” he said.

Also, the publicly traded Sonosite doesn’t need to raise capital like Zonare does, he said. SonoSite is sitting on about \$300 million in cash.

At-a-glance

Zonare Medical Systems Inc.
CEO: Donald Southard
Year founded: 1999
Number of employees: 183
Headquarters: Mountain View
Phone: 650.230.2800
URL: www.zonare.com