

Smooth Sailing in Tricky Waters

Embla's CEO, David Baker, is no stranger to navigating rough seas, and the recent acquisition of the Sandman® sleep diagnostic business from Covidien® is sure to give the former naval architect yet another adventure.

David Baker's odyssey from naval architect to CEO of Embla® Systems is a remarkable journey with no end in sight. As a former ship designer involved with ice-breaking vessels in the Canadian North, Baker has a knack for getting where he wants to go, even when the road ahead is bumpy.

After all, when two of the largest sleep diagnostic companies in the world come together, things can get tricky. On paper, Embla acquired the Sandman® sleep diagnostic business from Covidien®, but Baker is quick to point out that companies are not ultimately about paper, but instead about customers. In this case, a lot of customers. Indeed, the combined entity will be the world's largest company to focus entirely on sleep diagnostics, with close to 1,700 customers in the United States, and 2,500 worldwide—offering sleep diagnostic products, support, and service.

For Baker, the road to serving all these customers started with a connection that few could have predicted would lead to the Embla juggernaut. During his nautical career, Baker oversaw a monitoring system that measured the pitch, roll, and surge of ships, initially supply vessels in the North off Scotland and subsequently in the Canadian Arctic. One of Baker's programmers on this system knew someone who worked at the local hospital. "This person who worked at the hospital was late for a meeting at the pub," says Baker. "Our programmer went to find him, and ended up finding him at a sleep lab."

Baker eventually helped the sleep lab to digitize its records, providing them with a data acquisition system that replaced their paper. Along with his associates, Baker started a company called Melville Software, creating a product called Sandman in 1992. In 1993, Baker released the Sandman system in the United States, and Nellcor purchased Melville Software in 1995. The company changed hands a few more times before Tyco Healthcare bought it in 2000, and in 2007 Tyco became Covidien.

As Sandman changed hands, Baker joined a company in 2005 that would later be named Embla. The circuitous route brings Baker back to his roots, where he hopes to reinvigorate the Sandman brand, while also integrating Embla's REMbrandt and RemLogic™ software platforms. Our editor sat down with the CEO of Embla to get a feel for the new company, and the inevitable changes ahead.

HOW DID YOU END UP IN THE UNIQUE POSITION TO PURCHASE COVIDIEN'S SANDMAN® SLEEP DIAGNOSTIC BUSINESS?

In 2005 I was asked to join Embla, as it was known then, by a new board of directors who came in wanting to revitalize the

company. We changed the structure of the organization from one based in Iceland, with somewhat tenuous offices and facilities throughout the rest of the world, and moved the organization closer to our customers in Europe and in North America—setting up offices in Denver, CO. We have grown and maintained the office that we have in Buffalo, NY, while also growing the other office we have in Amsterdam.

This is really full circle for me. I started Sandman. We sold it to a large organization that got larger and larger, and I think they probably lost focus as to what is really important—which is customer relations and helping customers get what they need. It's timely that Embla was presented with an opportunity to buy it back and it's an exciting time for me, and for the staff and customers who have come full circle with me.

EMBLA WAS ALREADY BIG, SO WHY DID YOU WANT TO GET BIGGER?

We were big, but we were not that big. We probably only had about 10% to 12% of the global sleep diagnostic market. This acquisition gives us about another 5% to 7% market share in the United States. From a global perspective, we also expect to go up about another 5% to 7%, so we think we will be around 20% globally and will be able to recognize the benefits from the merger of the two companies in fairly short order.

Sandman does have some presence in Asia, but not very much. We wanted to get larger, so we can have a broader base of resources, a larger research and development budget, which would allow us to get into new and exciting phases of sleep medicine.

There is home sleep testing in North America, and wireless technology which is picking up a bit in Europe. Without a large entity, it's difficult to have the sort of bandwidth you really need to stay on top of the game. Covidien is a large entity, but they focused on slightly different types of products in different marketing spaces. Sleep is still a niche market. To serve it right, you have to be a responsive company that is focused only on sleep.

ARE MORE ACQUISITIONS A POSSIBILITY DOWN THE ROAD?

We have a lot to go through with the current acquisitions, and I don't want to be biting off more than we can chew. I don't want to ever compromise the customer or the technical support. With that said, the organization is always looking to grow, and we are looking at new technologies and new opportunities. Remember that sleep as it exists today is a 30- to 40-year-old technology. The type of testing you do now is similar to the type of testing you were doing many years ago. I think our growth is going to come from continuing to make people aware of what sleep is, and make it much easier for people to access sleep studies.

WILL THERE BE CHALLENGES MERGING THE TWO CULTURES?

Embla has a simple culture. We support our customers. There will be challenges., but the fact that I used to run that business for 10 years will make it easier. It's a big change moving from a large corporation into a much smaller one. There is more flexibility and more openness. People are focused on getting things done, rather than perhaps focusing on a party line or worrying too much about the corporate side of things. I am currently with our sales team, where I'm able to speak with them and answer questions about the products and how we are going to move forward. There are not many people between the top and bottom of the organization.

We have also taken on a substantial part of the Sandman team, particularly those in the tech support organization. We did not want to lose the continuity of tech support, which is a large part of what I believe makes us successful. The cultural challenges will be in getting our new staff on board and showing them that everybody is approachable. The politics that might be involved in a larger company just do not exist with us. The culture is that every customer is important, every contract is important, and communication is paramount. You can see this in the fact that my cell phone number is available on the Web site – I am always available to talk.

WILL THIS MERGER BE TRANSPARENT TO CUSTOMERS?

I think the merger will be almost transparent. It would be naive to think that it would not have some visibility. But as I said before, we have kept the majority of the tech support staff, the sales team, and the training team. These interactions will be the same. The customer will be talking largely to the same people.

We will immediately start cross training, and the customers will start to see the benefits of the enlarged sales and support staff that we'll have because of the merger. What I really do emphasize is customer support. I believe it starts with me, and it goes throughout the entire organization. There are going to be changes for the better, and I think people will see the changes through more accessibility and more visibility. That goes for all of the people at Embla.

I helped start Sandman, so the last thing I want to do is pull the plug on it. I think it's a really wonderful product. Our strategy going forward is going to be to continue to support the three software platforms that we have: Rembrandt, RemLogic and Sandman. We have three applications that basically do the same thing. The strategy will be to allow customers to choose which application they prefer, and have the three platforms seamlessly talk to each other.

The backbone that is going to be consistent across the three platforms is better data and information management, support, and reporting. More important than the name itself, the product will not be discontinued. We are not going to stick a Sandman label on RemLogic. That is why we've had so many Sandman developers and technical support staff join Embla.

THE MEDIA HAS FOCUSED ON SLEEP DISORDERS MORE THAN EVER. SHOULD SLEEP LAB OFFICIALS BELIEVE THE HYPE?

Regis Philbin [from the Regis and Kelly show on ABC] just had a sleep study done a while ago, and it was actually done on our equipment, which was kind of fun. The reason for the increased awareness is that the insurance payers, hospitals, and physicians are saying that it is not just about sleep, it is about the link between sleep and heart failure, hypertension, and all these other comorbidities, which can all be treated individually, but the one that really helps all of them is sleep.

If you can fix someone's sleep, we know that it helps heart failure patients, diabetics, and other groups. This is really a powerful statement.. It is perfectly reasonable that more healthy and stable sleep will make for better health overall.

Awareness will only continue to grow, and I think sleep labs should be excited about that. The explosive part of it, especially in North America, is going to be home sleep testing. We had a bit of a false start last year when CMS came out and said they were going to reimburse it, and it was slowed down by the interpretations that came out of the local coverage determinations. But we are seeing more and more interest from dentists, primary care physicians, and a lot of other specialties within the medical field who are looking at home sleep testing as a way to reach out to people who may not want to go into a hospital or facility for a test. We can show through home testing devices that they do have this breathing constriction during long periods during the night, and their blood oxygen does drop to dangerous levels.

IS YOUR COMPANY WELL PREPARED TO DEAL WITH THE EXPANSION OF HOME SLEEP TESTING?

We are not only well-positioned, but we have been active in the home testing market for many years. One of the unique things about Embla is that we are a global company. In fact, before this acquisition, we had more market share in the rest of the world than in the United States – for example we have approximately 70% market share in Scandinavia alone.

In the rest of the world, home sleep testing is the norm. The Embletta[®], our portable sleep testing, device has been around now for about 7 years. We estimate over a half million studies have been performed using that device.

So home sleep testing is something that Embla has been doing for many years. With our experience in Europe, we think we are incredibly well placed, and more so than anybody else, to offer devices in the United States. Home testing is a well proven and established technology. Rather than having to run out and design something new, we have the world standard home sleep testing device at the moment. We also recently came out with a new and improved version of the Embletta, the Embletta Gold, which is now available in North America, after a successful launch in Europe last fall.

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