

Adventures in Venture Capital

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When *OT Practice* last heard from brothers John Farrell, OTR/L, and Henry Hoffman, MS, OTR/L, they were trying to grow their 2-year-old company, Affordable Therapy Equipment, Inc. That was 2003 (see *OT Practice*, January 27, 2003, pp. 21–22), and the company, which manufactured several exercise devices for stroke rehabilitation and trained both clients and therapists how to use the equipment, was small. In fact, it was just the two brothers, who handled everything from answering phones to manufacturing and shipping their products to serving as the sales force and training instructors. They lived in different states and coordinated their business activities via telephone and e-mail. They were growing steadily, but to keep growing, they knew they would have to meet some new challenges.

The pair had been conducting weeklong equipment training sessions for clients six times per year—in North Carolina where Farrell lived, and in Hoffman’s home base of South Carolina. “That was very exciting,” Hoffman says, “but a couple of limitations started happening. One was that stroke survivors couldn’t travel to our locations, and the other was that therapists wanted to become trained on the equipment so they could offer it in their clinics in different parts of the country and around the world.” The brothers began offering a few spots in the training sessions to occupational and physical therapists for continuing education units (CEUs). However, the number of therapists seeking training kept increasing, and Farrell and Hoffman had to find a way to meet demand. By partnering with three continuing education companies—Motivations, Inc.; National Rehabilitation Services, Inc.; and Education Resources, Inc.—they were able to market

and teach 40 classes a year for therapists. Persons recovering from strokes participated in each session to show the therapists how to fit and use the devices properly. Although the services the company offered were expanding, Farrell and Hoffman faced another limitation.

“We needed the capital to grow,” explains Hoffman. “So we put a business plan together with help from one of our friends, and we contacted different types of companies that like to help start-up businesses and invest in them. It came down to two investors who were looking at us very closely. One was a \$400 million company called Trex, which [manufactures] plastic and wood decks, and the other was a company called CHMG Capital, which is a home health company. For 2 months John and I threw ideas back and forth, had debates and discussions on which way to go and with which investor. It was a matter of going with one investor who would give us larger capital but we would lose control, versus another investor that would give us a little less capital but we would remain in control.” They chose CHMG, which allowed them to retain control of their company and also gave them an ally with a health care background. “The key thing for us was keeping control, but what our choice boiled down to was that we would also have a strategic partner. To the other company, which wasn’t familiar with [the intricacies of] the medical profession, it was about venture capital—we were just an investment,” says Farrell. “I think what would have happened in that situation is that we would have run through the money very quickly as opposed to building a relationship with a partner who was already familiar with Medicare, billing, all the systems and software—[CHMG] already had that in place, so we didn’t have to spend our money on those things, then turn right around and ask for more. Plus, our investor gave us a lot of benefits in the beginning—people to work on the payroll, legal assistance, and so on.”

With the infusion of capital, Farrell and Hoffman were finally able to move their operation into one facility, located in Charlotte, North Carolina. “That meant that we had all the business functions under one roof, which made things easier for us, and that we were located in a city with a major airport, which is important because every weekend we were traveling to teach CEUs,” says Hoffman. The move happened in August 2004, but that wasn’t the only change. “Once we were there,” Hoffman explains, “we switched our name from Affordable Therapy Equipment to Saebo, Inc. One thing we learned in the beginning is that being OTs, you aren’t always business-savvy. Our investors kept telling us about the importance of branding your company and your name. So we changed it to Saebo. It means nothing to someone who hears it, but to us it’s a very important and inspirational name.” The letters are an acronym for their grandmother’s name, Sara Eileen Booth, who passed away in the late 1980s. “She was a wonderful woman, and our mission is to be like her on a daily basis,” Hoffman adds. The branding effort didn’t stop with the company name change. The brothers also changed the names of their products, so that everything they do now has Saebo attached to it. For instance, the Functional Tone Management System, a dynamic forearm and hand orthosis that facilitates grasp and release activities, became the SaeboFlex. A device called the Hemi-Glide was renamed SaeboGlide.

At the time of the move, Farrell, Hoffman, and Mike Barnard, a Saebo salesman, were the only employees, and they had trained 112 therapists in how to use their devices. They had 2,000 square feet of office space. As of presstime, Saebo has 13 employees (including three occupational therapists and two physical therapists) occupying 8,000 square feet of office space and has trained another 700 therapists through their weekend CEU program. The company has trained staff in 17 of the top 25 rehabilitation hospitals (as named by *U.S. News & World Report*) in the use of their equipment and has sold 1,500 SaeboFlex units since last August. In addition,

Saebo is going global. The company has a subsidiary in the United Kingdom and offered its first CEU there in August 2005. In October it offered its first CE course in Greece. In addition, Saebo has a contract with HealthSouth, one of the country's largest health care service companies, to provide a national training program for its therapists. And, the company recently entered into a joint venture with their original investor to set up Saebo neurorehabilitation clinics throughout the United States.

Farrell and Hoffman know that a critical part of their success is being able to support the effectiveness of their products and programs through research. "Right now we're working with the University of Maryland, which is in the process of getting [institutional review board] approval as well as [National Institutes of Health] funding for a study with the SaeboFlex," Farrell says. "We found that as a result of the SaeboFlex, people are getting better quicker if we get to them sooner. We're seeing tremendous results with the acute population [in] getting their hand function back when we start them on it early. So we decided to start a research study with the Kessler Institute for Rehabilitation in East Orange, New Jersey, on their acute population." In addition, Saebo has established a scientific advisory board to help the company set research goals and contributes to product development and improvement.

When it began in 2001, Farrell and Hoffman's company made \$7,000 in profits. It continued to grow, earning \$225,000 in 2003. The boost from investors, which began in 2004, has helped the brothers turn their initial two-person operation into a thriving company that expects to see \$2 million in profits in 2005. Saebo currently is developing a line of gross motor equipment to complement the SaeboFlex. The company also will release a new splint later this year called SaeboStretch, which the owners believe will "revolutionize splinting for the upper-extremity

neurohand.” In addition, they plan to hire more therapists and increase the number of CEUs Saebo offers, as well as increase the company’s sales force.

Although they are delighted with Saebo’s success, Farrell and Hoffman say that the most important thing to them is to keep their company therapy-driven for as long as possible. “A lot of times you see people who start businesses like ours go out and get engineering firms to help them develop their products,” Farrell says. “Then everything gets overbuilt and overthought. I think from a clinical end, being therapists ourselves is part of why we’ve been so successful. We have our finger on the pulse of what our therapists need and want because we’re grounded in therapy.” Adds Hoffman, “We see an average of 20 therapists every weekend, and we get to really talk to them and educate them, to hear what they’re seeing in the clinic and share their frustrations. It’s been a wonderful experience. Even if this company hadn’t reached the level it’s currently at or doesn’t go where we project it to go, we can’t take back the fact that we’ve had an enjoyable ride just to see so many OTs on a weekly basis. To be able to talk to them and relate to them and share the same issues is just wonderful.”

To contact Farrell and Hoffman, send an e-mail to sales@SAEBO.com. For more information on the CEU schedule for 2006, call 888-284-5433 or go to www.saebo.com.

[Caption for Picture1.jpg] Occupational therapists John Farrell and Henry Hoffman designed the SaeboFlex for use in stroke rehabilitation.

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[Column] Entrepreneurial Resource