

## **Southern Imperial, Inc.**

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### **The Illinois Chapter ESOP Company of the Year should be recognized because:**

Southern Imperial is a company with a rich sixty year history. Founded in 1956, the company began as a family owned business and was kept in private hands for forty years until 1996, when the company was then sold to its current employees through the establishment of an ESOP Trust. Since that time, the company has enjoyed steady growth in revenues, profitability, share price, and employee involvement under the ESOP capital structure.

However, in 2014, the company's operations and business was tested unlike any year prior. After a full year of planning and testing, in January 2014 Southern Imperial initiated a company-wide ERP conversion. Unfortunately the implementation did not unfold as planned, and the company's information system crippled its operation and brought it to its knees. Separately, management simultaneously adopted a radical change in pricing philosophy which severely eroded product margins and overall profitability. Lastly, the west coast port strike of 2014 caused significant product shipping delays and customer unrest, leading to further expense to satisfy customer demand. These three events, combined with poor decision-making in a time of uncertainty, struck a heavy toll on the capabilities of the company and its management team. On-time customer deliveries of less than 50%, price concessions, expedited freight charges, incorrect invoices, and other missteps all led to record financial losses in 2014. This, coupled with major increases in working capital, tightening cash reserves, and skyrocketing debt also resulted in a 55% drop in the ESOP share price, taking per share value back to levels not seen since 2003. Amazingly, all of this following a year 2013 that saw record high sales levels, record earnings, and a record share price.

With no strategic change in direction in sight, and the magnitude of these 2014 events as they unfolded becoming increasingly clear, the board of directors acted as swiftly as possible in 4Q14 to alter the course and trajectory of this company struggling for survival.

In January 2015, Steve Vandemore joined Southern Imperial as its Chairman, President and Chief Executive Officer. Steve came to Southern Imperial with over thirty years of operating experience, having spent his most recent fifteen years as a business development executive at Deere and Company (John Deere). The appointment was a win-win for the company and Steve, as he was familiar with the business and the unlimited, yet untapped, potential of Southern Imperial given he had served as a member of its board of directors since 2010.

Over the past fifteen months, Steve has embraced the benefits of the ESOP ownership structure, and has led the company through an amazing turnaround. By taking decisive actions throughout all aspects of the business, he has led the company from the brink of financial collapse, to a position of potential record-

setting performance in 2016. Actions taken and results achieved by the company during this recovery include:

- Over a fifteen month period, Steve will have replaced nearly the entire seven-member Executive Operating Committee (EOC) with best-in-class talent. This includes a new VP, Operations; Chief Financial Officer; VP, Sales and Marketing; Director, Information Technology; Director, Human Resources
- The company was in default of its credit agreement(s) with their bank in 2014, and Steve led the refinancing of the entire business within his first six months on board
- The company was unknowingly selling products to customers at unsustainably low (negative) margins and Steve helped lead his team through a pricing reengineering project that now has product margin performance at historical highs
- On-time deliveries to customers since September '15 has averaged over 93% on-time, compared to the sub-50% performance of 2014
- The company has developed a new brand and corporate logo, signifying a permanent change in the direction and leadership of the company
- Steve introduced process and discipline throughout the company, moving the company quickly towards a team-based, performance-driven culture. As part of this, the company developed the “Vital Few”, “Pillars of Success”, and the “Flight of the Geese” team-based recognition event
- Whereas internal communications were often lax and inconsistent, Steve since his first day in office began holding monthly all-employee meetings to formally communicate company financial performance and important issues impacting employee-owner participation
- The ESOP Committee has been reconstituted to where the company now is holding monthly employee-owner engagement events, where employees can accumulate “participation points” which will lead to year-end prizes, awards, and recognition
- In the end, 2014 was the worst year in the history of the company: record losses, a 2x increase in debt, negative cash flows, and extremely low employee morale. In 2015, the company returned to profitability and positive cash generation, reduced debt by 20%, improved margins to sustainably higher levels, turned over the entire management team, created a culture of team-based performance and employee engagement, all of which will hopefully lead to significant growth in the value of the shares, which just happen to be owned by our employees

