



Rutgers Employee Stock Ownership Plans & Equity Compensation Conference



VGS

visual graphic systems inc.

TURTLE & HUGHES

ELECTRICAL & INDUSTRIAL DISTRIBUTOR



MENKE & ASSOCIATES, INC.

ESOP ADVISORS AND INVESTMENT BANKERS

Paul Theodore, President and CEO

Visual Graphic Systems, Inc.



VGS

visual graphic systems inc.

- Headquartered in Carlstadt, New Jersey
- Design, assembly, and manufacturing company focused on displays, signs, menu boards and other similar items primarily for the food service industry

VGS History

1981 – Company Founded As An Architectural Signage Manufacturer

1997 – VGS Diversifies Into Foodservice and Retail

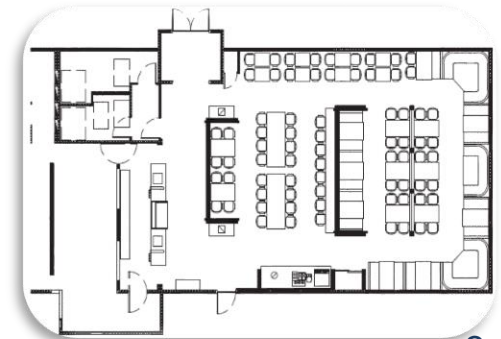
2001 – Studio D Established to Formalize Design Process for Sales Support

2013 – VGS Acquires Competitor Posterloid Further Diversifying it's Menuboard Business

2015 – VGS Begins Stock Buy Back Program of Majority Shareholders

2017 – Strategic Decision to Invest Further to Make Studio a “Boutique” Design Agency

- The Company helps brands like Dunkin, Subway, YUM! (Taco Bell, KFC and Pizza Hut), Boar's Head and many other roll out new branding across their stores, helping to redesign their signage and overall décor to improve presentation, while also manufacturing the new signage and graphic elements.
- Today VGS works with 12 of the top 20 food service brands in the U.S.

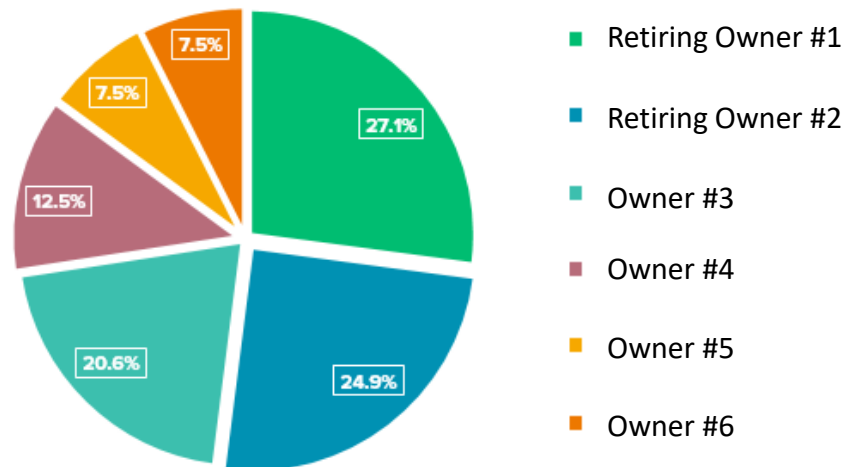




- The Company sold 100% of the issued and outstanding stock to the ESOP on April 4, 2018.
- Retained S-Corp status
- Primary drivers of deal:
 - Retiring owners – valuation, cash, legacy
 - Other owners – retaining upside, valuation, interest
- Financing was 90% seller notes to maintain flexibility. All notes are interest only with BOD meeting twice annually to declare principal payments depending on debt covenants
 - Retiring owners – 5 year notes at 4.5% interest
 - Other owners – 10 year notes at 7.5% interest
- Key employees each received a supplemental equity plan.

Company Ownership

August 31, 2017





TURTLE & HUGHES

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Rutgers ESOP Conference

2018

PEOPLE, PRODUCTS & EXPERTISE TO POWER YOUR WORLD

TURTLE.COM
TURTLEINTEGRATED.COM
TSITURTLE.COM

Who We Are

Turtle & Hughes

- Founded in 1923 in New York City
- 100% Employee-owned (30% through an ESOP)
- One of the nation's largest independent electrical and industrial distributors and a growing force in integrated supply
- One of the top 50 woman-owned businesses in the U.S.
- Over 850 employees nationwide

Company Profile

- Financial Stability
- Strong Cash Position
- Controlled Growth



Our Structure

Electrical Distribution

- Headquartered in Linden, NJ
- Electrical and industrial products and value-added engineering services
- 19 branch offices nationwide
- Over 95 years of experience in the market
- Operates in 21 states, Canada, Puerto Rico and Mexico
- S-Corporation



Turtle & Hughes



Electrical Distribution, Integrated Supply, Industrial Infrastructure Consulting

- Customer Focused
- Integrity
- Expertise

Developing Partnerships, Building Trust and Creating Customers for the Long Run.

Electrical Distribution

Billy Wresch: billy@turtle.com, 877.324.4242

Joe Kay: joseph.kay@turtle.com, 732.574.3600

Turtle & Hughes Integrated Supply (THIS)

Rick McQuatters: richard@turtle.com, 315.420.0154

TSI Turtle Services

Christopher Price: cprice@turtle.com, 201.424.4019



Turtle & Hughes

ESOP

- Started in 1975
- Initially used to buy out a founding family member
- Over 650 current Participants
- Largest individual balance over \$4.5 million
- 11 people with balances over \$1 million
- 28 people with balances over \$500,000
- 50 people with balances over \$250,000
- 106 people with balances over \$100,000
- This means that over 15% of our participants have over \$100,000

Turtle & Hughes

ESOP

PROS

- Retirement Benefit for Plan Participants
- Culture of Ownership
 - Employee attraction and retention
 - No Contribution required from participants
 - Ownership mentality, employees go the extra mile
 - People think and act for the long term because they have a long term financial interest in the Company's success
 - Friendly long term capital structure, leads to good business decisions since you are not incented to manage to maximize quarterly earnings
- All of this leads to higher, sustainable profits.

Turtle & Hughes

ESOP

CONS

- Requires significant cash flow to establish
- Dividend (or Distribution) funding can result in allocations that are inconsistent with compensation plans and salary bands
- Can be administratively burdensome
- Generally poorly understood by most employees
- Balances build up slowly over time and this can lead to employee frustration
- Regulatory environment can result in risk to Company
- Requires significant cash flow to address the repurchase obligation



Employee Stock Ownership Plans Fall 2018



MENKE & ASSOCIATES, INC.
ESOP ADVISORS AND INVESTMENT BANKERS



Phillip DeDominicis

Managing Director, Investment Banking, Menke & Associates, Inc.



Chesapeake City, MD
(410) 885-2531
pdedominicis@menke.com

- Last 14 years – senior East Coast partner of Menke & Associates, focusing on ownership transitions through ESOPs. Assisted over 150 companies in designing, adopting and selling shares to new ESOPs.
- Previously 14 years as director of mergers & acquisitions investment banking for Morgan Stanley and Salomon Smith Barney.
- Previously two year as a research process engineer focusing on chemical plant scale ups at the Rohm & Haas.
- Chemical Engineering from the University of Delaware.
- MBA in Finance from UCLA.
- Board member- Boy Scouts of America, Del-Mar-Va Council.
- Board member- St Hubert High School for Girls, Philadelphia.
- Board member- Delaware American Heart Association.
- Board member- NY/NJ Employee Ownership Center.
- Board member- Global Algae Innovations, Inc.
- ESOP speaker - ESOP Association, NCEO & CPA Academy.



Menke & Associates, Inc.

Oldest & largest ESOP Advisor

- **44** years in the business,
- **50** dedicated ESOP specialists; including
- 7 lawyers, 7 investment bankers; 20 recordkeepers

Most ESOPs Created

- Over **3,500**
- We create **1 out of every 5** new ESOPs

Largest Current Number of ESOP Clients

- **1,000+** clients

Most Sophisticated Online ESOP Administration

- **\$4 million** investment

ESOP Owned

- Menke is **70%** ESOP owned



Private company liquidity options

- 1 Sell the company (all or nothing)
- 2 Sell shares to another partner or redeem shares to treasury (still have 100% problem)
- 3 Gift shares to children (no liquidity)
- 4 Sell shares to managers (can't do 100%)
- 5 Sell shares to ESOP (takes time)



Why are ESOPs popular?

They are flexible and satisfy many different situations!

- Sell all shares or just sell some
- Sell shares now or sell shares later, or both
- One partner sells, some partners sell, all partners sell
- Stay, go, change position
- Keep control, sell control
- Never sell the business, sell the business later



Repurchase Obligation

	Shareholder Agreement	ESOP
Timing	All at once upon death or retirement of owner	Spread over lives of many plan participants
Cost	Non-deductible	Deductible or use S Corp tax distribution

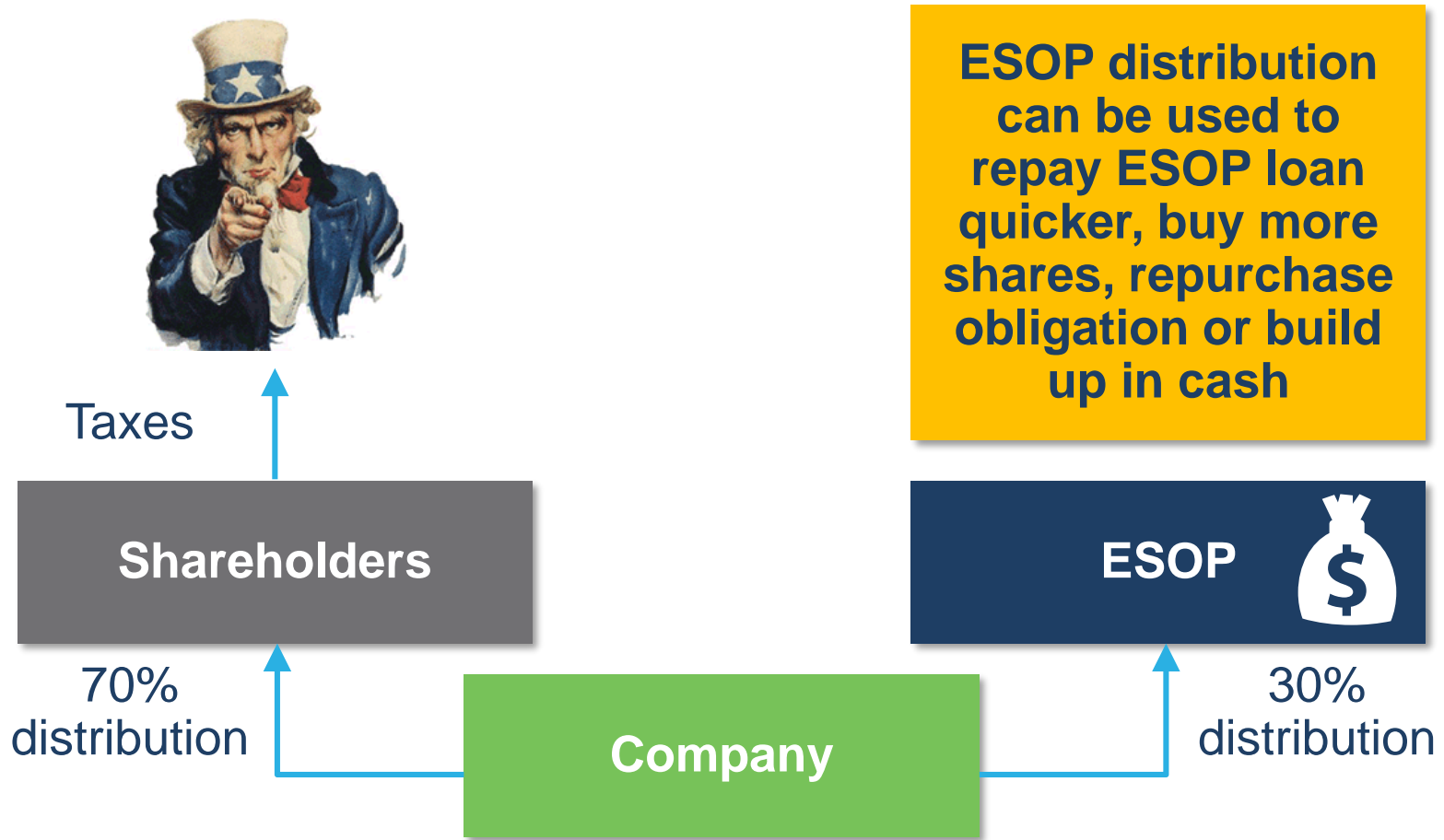


Solution #6

“Two Bangs for the Same Buck”

- Why replace 401(k) match or profit sharing with an ESOP?
 - ESOP is a broader based retirement program – matching plans skewed to savers
 - Replaces short-term, cash benefit with long-term, stock benefit
 - Studies say productivity increases
 - By definition, more stable company for employees

S Corporation – Example 30% Owned by ESOP



S Corporation – 100% Owned By ESOP



A 100% ESOP-owned S corporation pays no more income taxes!



No longer a shareholder need for company distributions, except for repurchase obligations

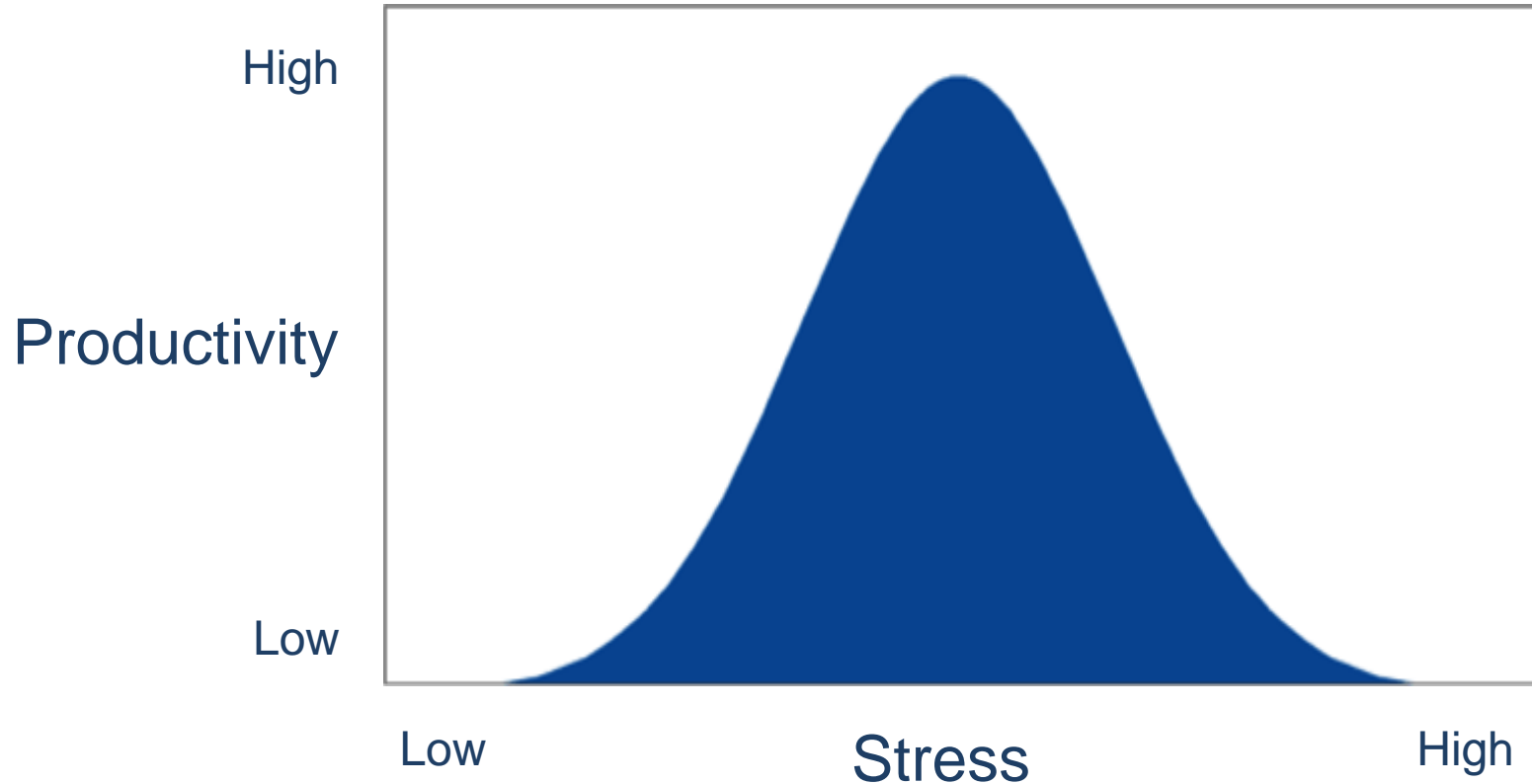


Required Disclosure to Participants

	YES	NO
Individual's Balance/Vested Amount	✓	
Per Share Value of Stock	✓	
ESOP Summary Plan Description	✓	
Company Financial Statements	Not required, but beneficial	✗
Officer Salaries		✗
Company Valuation		✗



Information, Good or Bad, Can Help!



Primary Objective

**Link Employee's Compensation with
the Company's Long-term Value**



Nobody Washes a Rental Car



Employee Investment

- Take care of your company
 - Accountability to the company
 - Accountability to the client
 - Accountability to each other
 - Accountability to yourself
- Loyalty



What is Productivity?

- Increase upside
- Protect downside (fix quicker what has been broken)
- Happier workforce (includes trust, respect, fairness, pride, camaraderie)



Do ESOPs really increase employee productivity?

- In the past 32 years, dozens of independent studies have measured employee productivity ESOP owned vs. non-ESOP owned companies. **The results are indisputable.**
 - Higher sales growth vs. competition and vs. pre-ESOP
 - Higher sales growth per employee
 - Less likely to fail vs. competition
 - Higher employee retention (less layoffs)
 - Lower turnover
 - Higher employee morale
 - ESOPs outperform 401ks, on average
 - Employees have larger retirement savings (4x!!!)
 - Community wealth goes up!

Increase revenues 2% *and* decrease expenses 2%



	Before ESOP	After ESOP	% Change
Sales	\$10,000,000	\$10,200,000	+2%
Expenses	\$9,600,000	\$9,400,000	-2%
Profits	\$400,000	\$800,000	100%



How Do You Create a Community of Stakeholders? Communications!

- Employee involvement happens not because you allow it, but because you structure it
- Provide business performance/financial information
- Train people in business skills, not just job skills
- Get employees involved, individually and in teams, in making more decisions about their jobs
- Have monthly or quarterly meetings on company performance and one annual meeting on ESOP
- None of this is required by law!



BY WEINBRENNER
An Employee Owned Company

**E.B. Bradley
Construction**
40 State Street
Redlands, CA
92399
(909) 585-2000

**Trudy
Hess
Owner**



THE
Chazen
COMPANIES[®]
Proud to be Employee Owned

PRO ELITE STATUS

- PRO ESOP Vested
- PRO 5 Years Service
- PRO 10 Years Service
- PRO 15 Years Service
- PRO 20 Years Service
- PRO 25 Years Service
- PRO 30 Years Service
- PRO 35 Years Service
- PRO Exceed Wellness Goal
- PRO Exceptional Client Care
- PRO Displayed Core Value
- PRO Community Support

PERRY PROTECH
Ryan Porter



The End



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