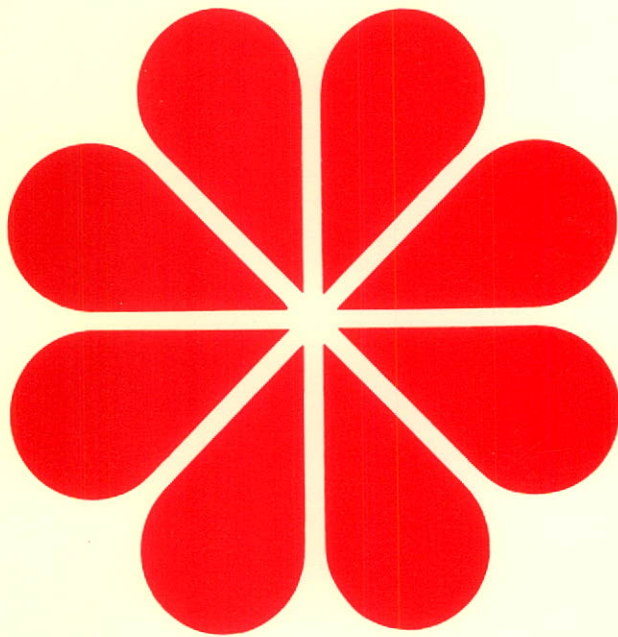


The Becker Milk Company Limited

# Annual Report

Year ended April 30, 1987



**Becker's**<sup>®</sup>

**FRESH  
& READY  
FOODS**



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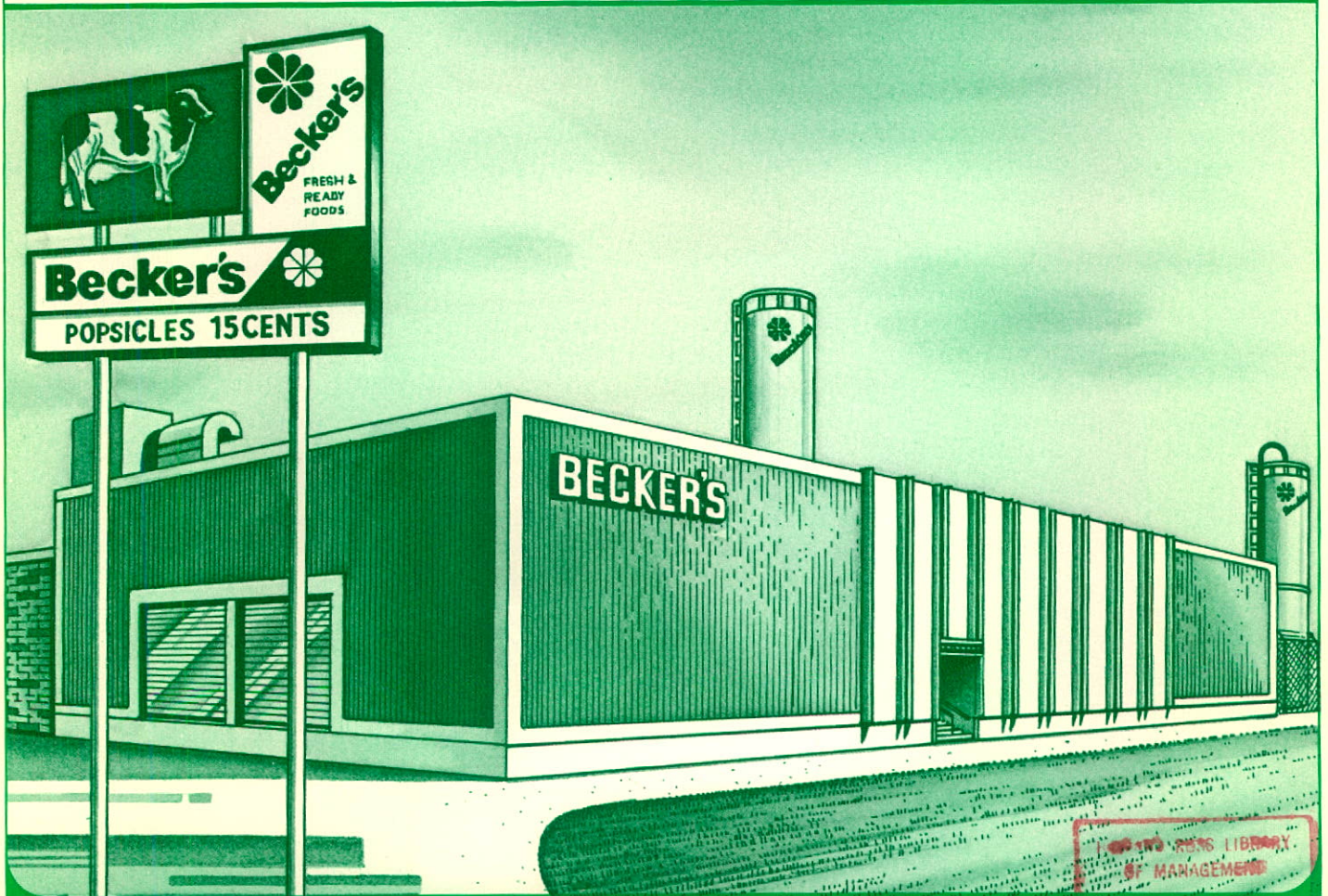
In Ontario

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Becker's  
1-800-368-3682



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BUSINESS LIBRARY  
OF MANAGEMENT  
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MCGILL UNIVERSITY



## Directors' report to the shareholders



We are pleased to present this report to you, showing the results of our operations for the year ended April 30, 1987.

It was a year of continued intensive competition in food industry generally. For food retailing, in our area of operations in southern Ontario, the competitive activity had perhaps even escalated.

Supermarket chains have continued to open huge new "Super" stores which vie for consumer acceptance while many of their older, smaller stores have still remained in operation, striving to keep some of their market share.

In addition to the mounting activities of the local supermarket chains, some new players have entered the field, eager to capture a share of the diminishing Ontario market. Consequently, it has become increasingly important for us to make changes both in the format and the operations of our stores so as to adapt to the transforming market place.

Food service, gasoline sales, video movie rentals and many other new products and services have become significant factors for a successful modern Convenience Store.

Our recognition of the need to make changes and to up-date our established stores is reflected in the results of this past year.

The most notable feature in the results of our thirtieth year of operations is the amount of investment we have made to provide for growth in the physical facilities for our stores, plants and distribution equipment.



Last year, the net increase to the number of our stores was 51, the highest annual increase since 1976, when a net of 66 outlets were added. Then the magnitude of the growth was assisted by the purchase of Cameron's Dairy in Cornwall, which enabled us to enter the Ottawa area market.

This time a very significant part of the increase in the number of stores was accounted for by the acquisition of Shaw's Ice Cream Limited and Shaw's Dairy Stores (London) Limited.

Shaw's, a local family business in St. Thomas, Ontario, have been long established and well accepted in the London area as manufacturers of highly regarded ice cream products and as operators of Dairy and Convenience Stores.

Considering the extent of our own operations in South-Western Ontario, it has been recognized that the combining of the facilities and operations of Shaw's with our own would offer many benefits.

Negotiations with Shaw's resulted in an agreement whereby both of Shaw's companies joined us upon the purchase of all of Shaw's issued shares by a subsidiary of Becker's, Scarborough Fair Convenience Stores Limited. This transaction, although completed during the final quarter of our fiscal year, was effective January 1, 1987.

With this acquisition we have now added 35 Shaw's Dairy Stores to our "Becker Country" and have gained another plant for ice cream production as well as a distribution centre which is well located to serve Becker's stores in the



## Directors' report to the shareholders

Windsor and Sarnia areas with our dairy products.

We were also very fortunate to be able to have the principals of the Shaw's companies, the four sons of the original founder of Shaw's Ice Cream Limited, to join our management team. They continue to direct the operations in St. Thomas and in London and they have brought to us their experience and expertise of many years in the operations of dairy and ice cream production and distribution and of Convenience Stores.

In the growth of the numbers of outlets, other than the addition of Shaw's Dairy Stores, the development is much more significant than it may initially appear by looking at the figure of net additions.

The net figure of 16 stores is the result of the opening of 38 new stores, all offering the new features of a modern Convenience Store. Some of the new stores opened also included gas bars, continuing a trend that had been started some years back to combine the convenience of gas & food essentials at one location.

It is of interest that when we last added stores in more significant numbers, in 1976 and 1977, then the relatively high net additions were helped by the low numbers of stores closed (only 9 in 1976) and by the fact that none of the new stores then incorporated gas bars, fast food equipment or video movie centers, which are now considered essential.

Another aspect of the real growth of our establishment, which is not immediately apparent when looking at store numbers, is the programme of renovations and of the addition of modern facilities to our existing stores. This is an ongoing programme which has recently been accelerated.

The record growth, our investment in the future, has of course resulted in capital expenditures which were also at record levels.

This was a year when the funds generated by our operations were not enough to finance all of our growth and the balance needed was drawn from the funds available to us from our bankers on a long term basis. Our working

capital remains at approximately the same level as at the end of the previous year.

Our sales for 1987 increased by almost 8% to \$336,889,960. The net income showed a decrease of 11%, resulting in earnings per share of \$2.84.

It is unfortunate that our Income Tax rate has, for the second year now, again been increased, this time by an even higher margin than the year before. The higher tax rate actually accounted for over 60% of the decrease in our net earnings for this year.

We must also recall the exceptionally poor weather conditions during last years late summer, a time when we traditionally would have expected excellent sales, especially of ice cream, soft drinks and picnic supplies. Last year the month of September was literally rained out. The effect upon our sales and earnings was quite noticeable.

Taking into account the higher taxes, the extraordinary expenses connected with expansion and the weather conditions during the second quarter of last year, then the net income for the year can be considered as most reasonable.

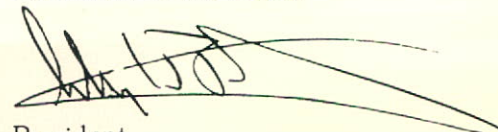
We are confident that the accelerated programme of expansion and renovation will be beneficial and a good investment for the coming years.

With our improved facilities and with the help and co-operation of our loyal and dedicated employees, associates and suppliers, we look forward to another year of growth and prosperity.

Sincerely,



Chairman of the Board



President

July 8, 1987.



## Highlights of the year

Year Ended April 30

	1987 \$	1986 \$	Percentage Change
Sales	336,889,960	312,958,537	7.6
Operating earnings	17,609,876	17,463,329	0.8
Net earnings	4,948,500	5,550,560	(10.8)
Earnings per share	2.84	3.19	(11.0)
Long-term debt	13,982,403	5,078,630	175.3
Shareholders' equity	50,889,022	47,270,842	7.6
Shares outstanding — Class A	5,675	5,675	—
— Class B	1,187,610	1,187,610	—
— Common	540,750	540,750	—
Number of Stores	743	692	7.4



# The Becker Milk Company Limited and Subsidiary Companies

## Consolidated Statement of Retained Earnings Year ended April 30, 1987

	1987 \$	1986 \$
Balance at beginning of year	45,786,099	42,300,412
Net Income	4,948,500	5,550,560
	<b>50,734,599</b>	<b>47,850,972</b>
Dividends — class A preference shares	34,050	34,050
— class B special shares	890,708	1,395,442
— common shares	405,562	635,381
	<b>1,330,320</b>	<b>2,064,873</b>
Balance at end of year	<b>49,404,279</b>	<b>45,786,099</b>

## Consolidated Statement of Income Year ended April 30, 1987

	1987 \$	1986 \$
Sales	336,889,960	312,958,537
Income before depreciation and amortization, interest charges and taxes on income	17,609,876	17,463,329
Depreciation and amortization	5,974,102	5,701,318
Interest charges on long-term debt	1,174,174	834,451
	<b>7,148,276</b>	<b>6,535,769</b>
Income before income taxes	<b>10,461,600</b>	<b>10,927,560</b>
Taxes on income — Note 9		
Current	5,404,100	5,233,000
Deferred	109,000	144,000
	<b>5,513,100</b>	<b>5,377,000</b>
<b>Net income</b>	<b>4,948,500</b>	<b>5,550,560</b>
Earnings per class B and common shares	<b>2.84</b>	<b>3.19</b>



# The Becker Milk Company Limited and Subsidiary Companies

## Consolidated Balance Sheet April 30, 1987

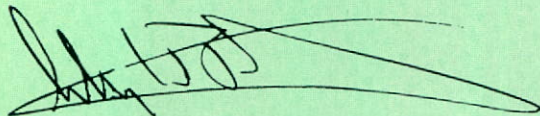
ASSETS	1987 \$	1986 \$
<b>Current</b>		
Cash	77,707	68,550
Accounts receivable	3,214,069	2,757,967
Inventories — Note 2	31,239,002	27,924,195
Corporation income tax refund	781,601	872,827
Prepaid expenses and deposits	1,748,095	457,994
Investments — current portion — Note 3	39,535	140,029
	37,100,009	32,221,562
Investments — Note 3	221,104	118,625
	61,534,495	48,493,094
Fixed — Note 4	61,534,495	48,493,094
	1,532,804	905,377
Other — Note 5	1,532,804	905,377
	100,388,412	81,738,658
	100,388,412	81,738,658

Approved by the Board:

Director



Director





# The Becker Milk Company Limited and Subsidiary Companies

## Consolidated Balance Sheet April 30, 1987

LIABILITIES	1987 \$	1986 \$
<b>Current</b>		
Bank indebtedness	9,667,242	8,383,920
Accounts payable and accrued charges	21,492,294	17,411,615
Dividends payable	648,135	1,512,315
Long term — current portion — Note 6	779,676	1,042,986
Minority interest - current portion - Note 11	888,000	—
	<b>33,475,347</b>	<b>28,350,836</b>
Long term — Note 6	14,090,231	5,185,885
Deferred Income Taxes	1,045,812	931,095
Minority Interest - Note 11	888,000	—
	<b>49,499,390</b>	<b>34,467,816</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share Capital — Note 7	1,484,743	1,484,743
Retained Earnings	49,404,279	45,786,099
	<b>50,889,022</b>	<b>47,270,842</b>
	<b>100,388,412</b>	<b>81,738,658</b>



# The Becker Milk Company Limited and Subsidiary Companies

## Consolidated Statement of Changes in Financial Position Year ended April 30, 1987

	1987 \$	1986 \$
<b>Cash provided (used) by operating activities</b>		
Net Income	4,948,500	5,550,560
Add (deduct) operating items not requiring (providing) cash		
Depreciation	5,854,870	5,584,310
Deferred income taxes	109,000	144,000
Amortization of goodwill	119,232	106,808
Gain on sale of fixed assets	(113,204)	(315,148)
	<b>10,918,398</b>	<b>11,070,530</b>
Net changes in non-cash working capital accounts relating to operations	(705,172)	(3,309,723)
	<b>10,213,226</b>	<b>7,760,807</b>
<b>Cash provided (used) by investing activities</b>		
Purchase of fixed assets	(16,306,113)	(9,852,963)
Proceeds on disposal of fixed assets	710,916	939,773
Acquisition of subsidiary companies - Note 10	(3,852,948)	-
Purchase of goodwill	(10,760)	-
	<b>(19,458,905)</b>	<b>(8,913,190)</b>
<b>Cash provided (used) by financing activities</b>		
Dividends	(2,194,500)	(1,071,066)
Long-term debt	8,346,099	1,304,916
Investments	48,854	(105,968)
Issue of first series - class B shares - by a subsidiary (less redemption \$880,000) - Note 11	1,776,000	-
Other	(4,939)	(36,241)
	<b>7,971,514</b>	<b>91,641</b>
<b>(Decrease) in cash</b>	<b>(1,274,165)</b>	<b>(1,060,742)</b>
<b>Cash and Bank indebtedness at beginning of year</b>	<b>(8,315,370)</b>	<b>(7,254,628)</b>
<b>Cash and Bank indebtedness at end of year</b>	<b>(9,589,535)</b>	<b>(8,315,370)</b>

Notes to Consolidated Financial Statements, April 30, 1987.

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### Principles of Consolidation

The accounts of the subsidiary companies have been included in the consolidation from the date of their acquisition.

#### Income Recognition

Income includes sales by company-owned stores and sales by the company to its franchisees.

Franchise fees are taken into income over the term of the franchise agreement.



# The Becker Milk Company Limited and Subsidiary Companies

## Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined for processing and warehousing inventory on a first-in, first-out basis and for retail store inventories on a first-in, first-out basis applied by the retail-inventory method.

## Depreciation and Amortization

Fixed assets are recorded at cost. Depreciation and amortization have been calculated on the basis of amortizing the depreciable properties over their estimated useful life as follows:

Buildings	— 2 1/2% straight-line
Leasehold improvements	— 10% straight-line
Automotive	— 30% diminishing balance
Store, production and office equipment	— 10% straight-line

## Goodwill

Goodwill includes amounts arising from the excess of the purchase price of shares of subsidiaries over the fair value of net assets at date of acquisition and purchased goodwill.

Goodwill is being amortized on a straight-line basis over a period not exceeding 40 years.

## Income Taxes

Income taxes are accounted for on the tax-allocation method, whereby income taxes are fully provided on reported earnings at current tax rates. Deferred income taxes result from the recognition of the income tax effect of timing differences in reporting transactions for financial and tax purposes.

## 2. INVENTORIES

	1987 \$	1986 \$
Processing and warehousing	1,501,341	1,386,411
Store	29,737,661	26,537,784
	<b>31,239,002</b>	<b>27,924,195</b>

## 3. INVESTMENTS

	1987 \$	1986 \$
Affiliated companies		
— shares at cost	35,051	51
— advances	47,279	77,890
Mortgages and loans receivable	178,309	180,713
	<b>260,639</b>	<b>258,654</b>
Less: Current portion	39,535	140,029
	<b>221,104</b>	<b>118,625</b>

Mortgages and loans receivable mature to 1989 with varying interest rates.



# The Becker Milk Company Limited and Subsidiary Companies

## 4. FIXED ASSETS

	1987 \$	1986 \$
Land	10,929,272	7,789,597
Buildings and leasehold improvements	37,187,283	30,450,302
Store, production, automotive and office equipment	60,567,055	50,142,213
<b>Total fixed assets — at cost</b>	<b>108,683,610</b>	<b>88,382,112</b>
Less: Accumulated depreciation and amortization	47,149,115	39,889,018
	<b>61,534,495</b>	<b>48,493,094</b>

## 5. OTHER

	1987 \$	1986 \$
Assets under construction	3,270	128,905
Goodwill — at amortized cost	1,529,534	776,472
	<b>1,532,804</b>	<b>905,377</b>

## 6. LONG TERM

	1987 \$	1986 \$
Bank loans	12,225,000	4,875,000
Deferred franchise income	192,991	187,272
Mortgages and loans payable	1,890,086	689,005
Deposits and sundry	561,830	477,594
	<b>14,869,907</b>	<b>6,228,871</b>
Less: Current portion	779,676	1,042,986
	<b>14,090,231</b>	<b>5,185,885</b>

The bank loan is unsecured with principal repayments of \$500,000 per annum. Mortgages and loans payable mature up to 1996 with varying interest rates. Principal payments due in the next five years are as follows:

1988	\$194,513
1989	379,739
1990	184,465
1991	41,961
1992	680,899

## 7. SHARE CAPITAL

### Authorized

- 8,000 — \$6 cumulative Class A preference shares redeemable at the stated capital amount
- 2,459,250 — non-voting, non-cumulative, participating Class B special shares
- 640,750 — common shares

	1987 \$	1986 \$
Issued		
5,675 — Class A shares	567,500	567,500
1,187,610 — Class B shares	916,955	916,955
540,750 — common shares	288	288
	<b>1,484,743</b>	<b>1,484,743</b>



# The Becker Milk Company Limited and Subsidiary Companies

## 8. LEASES

The total minimum rental liability under leases for store locations (excluding insurance, property taxes and certain other occupancy charges) and for computer equipment to the date of expiry or option, whichever occurs first, amounts to \$65,058,110.

Future minimum lease payments required under these leases are as follows:

1988	\$12,877,605
1989	11,568,025
1990	9,843,052
1991	8,080,445
1992	5,887,081
later years	16,801,902

## 9. INCOME TAXES

The effective tax rate of 52.7% differs from the statutory combined rates due to the manufacturing and processing tax reduction.

## 10. ACQUISITION

Effective January 1, 1987 a subsidiary company acquired 100% of the issued shares of Shaw's Dairy Stores (London) Limited and Shaw's Ice Cream Limited. The acquisition has been accounted for by the purchase method and earnings from the date of acquisition have been included in the consolidated statement of income.

Details of the acquisition are as follows:

	\$
Tangible assets — fair value	3,384,767
Liabilities — fair value	388,322
<hr/>	
Excess of fair value of tangible assets over liabilities	2,996,445
Goodwill	856,503
<hr/>	
Total purchase price	3,852,948
<hr/>	
Consideration given:	
Cash	1,156,000
2,664,000 first series — class B shares of a subsidiary	2,664,000
Cost of acquisition	32,948
<hr/>	
	3,852,948

Goodwill arising on this transaction is being amortized over 40 years commencing January 1, 1987.

## 11. MINORITY INTEREST

Redemption of the first series — class B shares issued by subsidiary is pursuant to an agreement between the subsidiary and the company and the holders of the first series — class B shares. The holders of such shares have agreed to sell and the subsidiary has agreed to purchase at a price of \$1. per share at the number and at the date set out below.

	Number	\$
January 1988	888,000	888,000
1989	888,000	888,000
<hr/>		1,776,000



# Auditors' Report

To the Shareholders of  
The Becker Milk Company Limited  
and Subsidiary Companies:

We have examined the consolidated balance sheet of The Becker Milk Company Limited and subsidiary companies as at April 30, 1987 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at April 30, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Langlois Hauck Lettner & Co.*

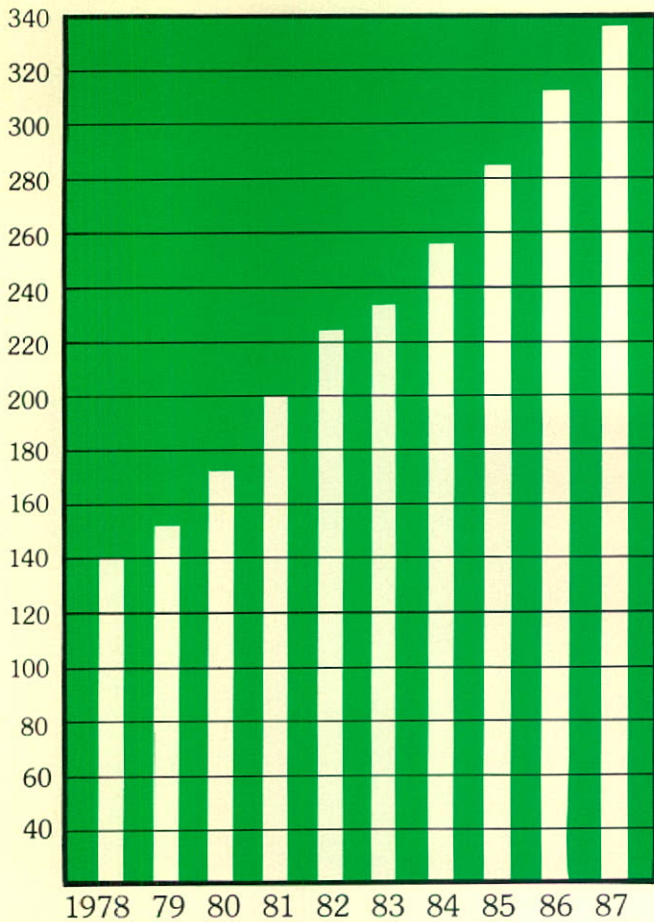
Chartered Accountants  
Toronto, Ontario

July 3, 1987

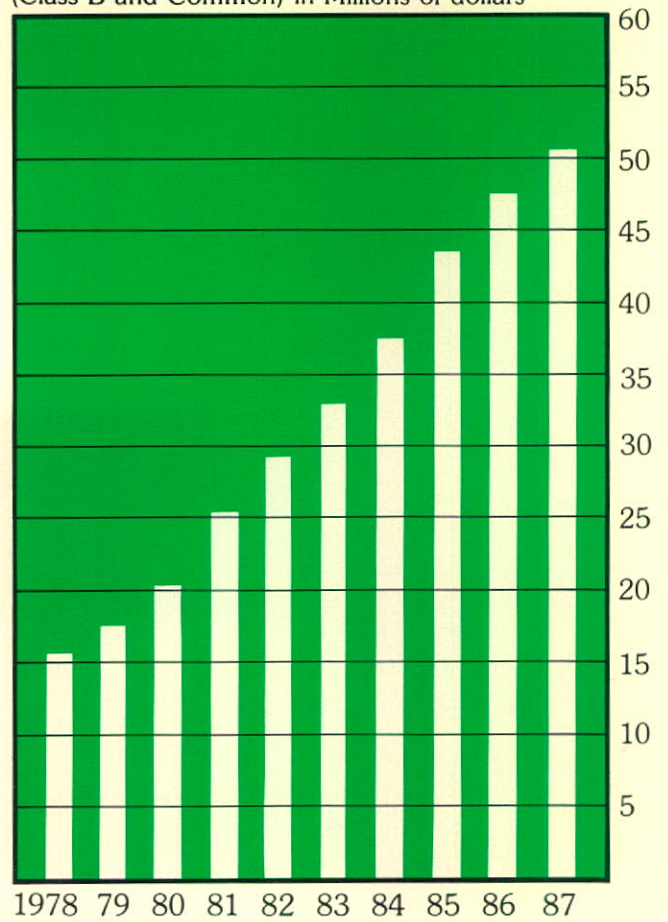


# Financial position

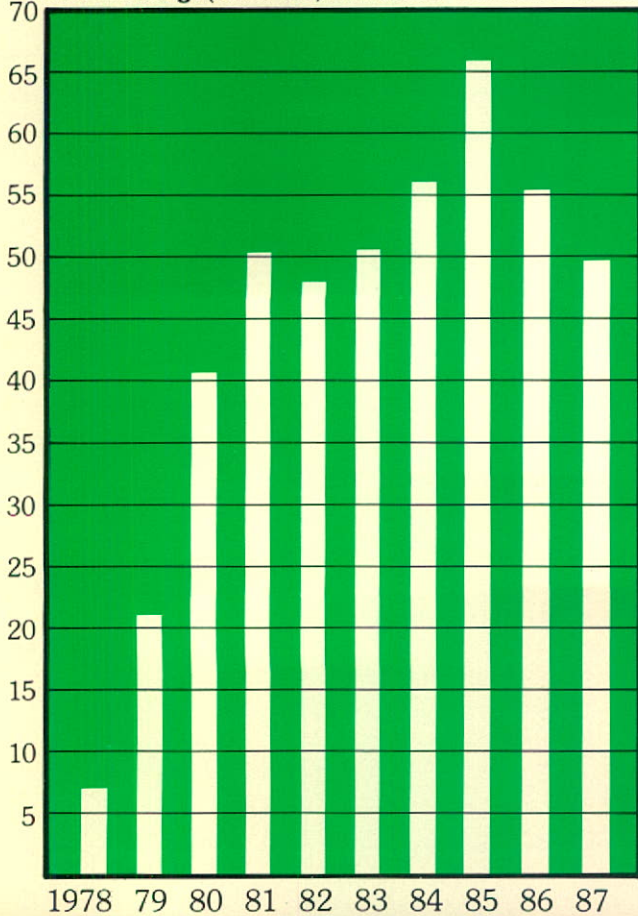
**Total Sales** in Millions of dollars



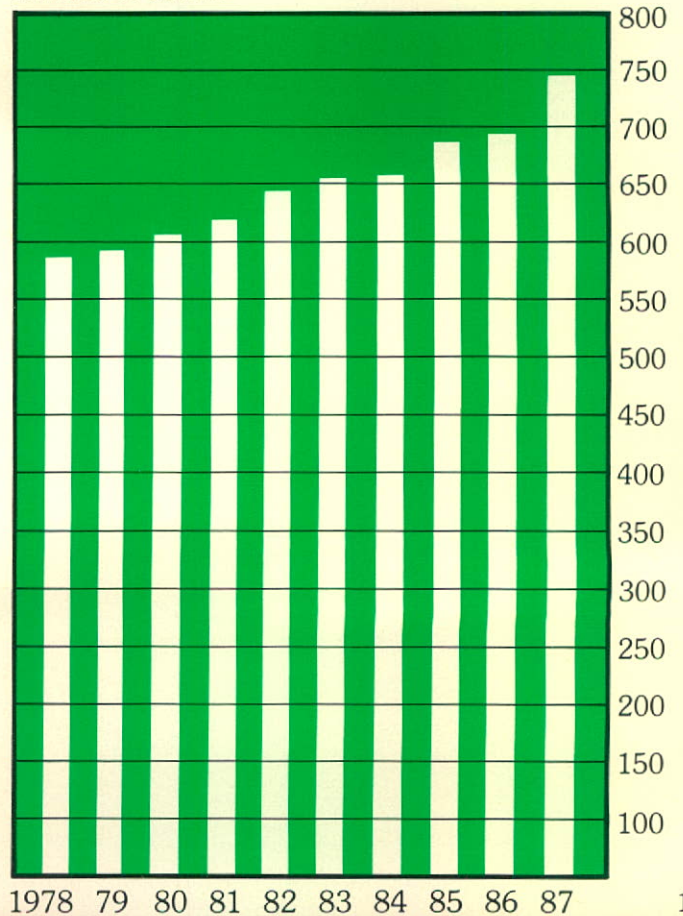
**Shareholders' Equity**  
(Class B and Common) in Millions of dollars



**Net Earnings (after tax)** in Hundred Thousands of dollars



**Number of Stores**





The Becker Milk Company Limited  
**TEN YEARS OF**  
 Year ended

	1987 \$	1986 \$	1985 \$
Sales	336,889,960	312,958,537	283,084,979
Earnings before depreciation and amortization, interest and taxes on income	17,609,876	17,463,329	17,406,529
Depreciation and amortization	5,974,102	5,701,318	4,994,667
Interest	1,174,174	834,451	526,711
Taxes on income	5,513,100	5,377,000	5,768,000
Net operating earnings	4,948,500	5,550,560	6,117,151
Shareholders' equity (Note 1)	50,321,522	46,703,342	43,217,655
Shares outstanding (Note 1)	1,728,360	1,728,360	1,728,360
Net earnings per class B and common share (Note 2)	2.84	3.19	3.86
No. of stores (at end of fiscal year)	743	692	681
Net fixed asset additions	15,595,197	8,913,190	10,638,979

*Notes*

1. Combined Class B and Common.
2. Net earnings per share have been adjusted to allow for the current year Class "A" preference dividend. Dividends on Class "A" Shares from January 1, 1987, to April 30, 1987 amounting to \$11,350 have not been declared and/or allowed in computing the shareholders' equity.



and Subsidiary Companies

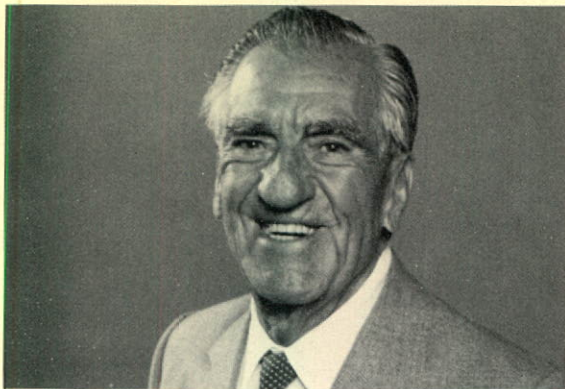
# PROGRESS

April 30

1984 \$	1983 \$	1982 \$	1981 \$	1980 \$	1979 \$	1978 \$
257,226,204	233,113,251	224,571,881	200,981,040	173,953,370	152,885,173	140,039,831
15,817,938	14,774,537	13,458,351	13,211,865	11,169,920	7,163,250	3,676,082
4,405,779	4,182,473	3,967,854	3,255,791	2,740,120	2,659,246	2,568,973
558,053	815,294	146,465	86,568	386,974	412,910	358,165
5,177,332	4,743,300	4,465,490	4,846,000	3,878,000	1,825,000	243,000
5,676,774	5,033,470	4,878,542	5,023,506	4,164,828	2,266,094	505,944
37,589,570	32,983,862	28,978,249	25,033,955	20,904,679	17,462,045	15,660,091
1,728,360	1,728,360	1,728,360	1,720,360	1,720,360	1,720,360	1,720,360
3.26	2.89	2.81	2.90	2.40	1.30	.27
653	653	649	631	619	588	580
8,146,135	3,732,737	9,533,059	10,618,714	4,065,436	2,263,475	3,221,729



# Directors and officers



Frank Bazos



Geoffrey W. J. Pottow



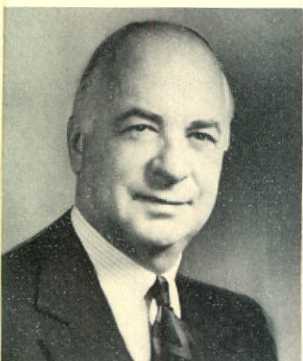
Robert Bazos



Robert W. Lowe



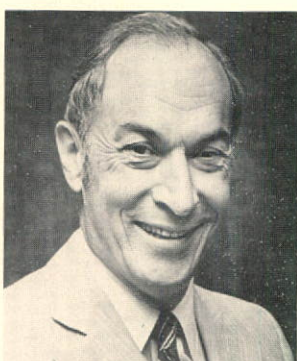
George Panos



R.J. Kane



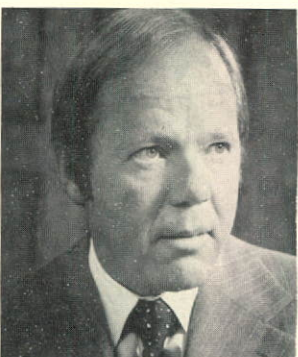
Arvi Magi



E. S. Miles



Harold Keene



R. S. Paddon



Lorne Smith

## Board of Directors

**Frank A. Bazos**  
Chairman of the Board  
The Becker Milk Company Limited

**Robert Bazos**  
President  
Perrette Dairy Limited

**R.J. Kane**  
Executive

**Robert W. Lowe**  
Honourary Vice-Chairman  
The Becker Milk Company Limited

**Arvi Magi**  
Executive Vice-President and  
Secretary Treasurer  
The Becker Milk Company Limited

**E.S. Miles**  
Executive

**R.S. Paddon**  
Queen's Counsel

**George Panos**  
Vice-Chairman  
The Becker Milk Company Limited

**Geoffrey W. J. Pottow**  
President  
The Becker Milk Company Limited

## Officers

**Frank A. Bazos**  
Chairman of the Board  
**Geoffrey W.J. Pottow**  
President

**Robert Bazos**  
Vice-Chairman

**Robert W. Lowe**  
Honourary Vice-Chairman

**George Panos**  
Vice-Chairman

**Arvi Magi**  
Executive Vice-President and  
Secretary Treasurer

**Harold Keene**  
Vice-President

**Lorne Smith**  
Vice-President

**Registrar and Transfer Agent**  
The Royal Trust  
Company, Toronto and  
Montreal

**Auditors**  
Langlois Hauck Lettner & Co.  
Toronto

**Solicitors**  
Aird & Berlis

**Stock Exchange Listing  
of Class "B" Shares**  
Toronto Stock Exchange

**Head office**  
671 Warden Avenue  
Scarborough, Ontario,  
Canada, M1L 3Z7



# Becker Country

In each area on the map is shown the number of stores open in that area at the end of the 1987 and 1986 fiscal year.

