

Blackwood Hodge



Blackwood Hodge (Canada) Limited

1985 Annual Report

Corporate Information

Blackwood Hodge (Canada) Limited

Directors

A. C. Richards
Chairman of the Board
Blackwood Hodge p.l.c.

F. G. Mundy
President & Chief Executive Officer
Blackwood Hodge (Canada) Limited

K. C. Scobie
Group Managing Director
Blackwood Hodge p.l.c.

J. G. Torrance, Q.C.
Partner
Smith, Lyons, Torrance,
Stevenson & Mayer

C. M. Laidley
Business Consultant

Officers

A. C. Richards
Chairman

F. G. Mundy
President &
Chief Executive Officer

J. R. Letwin
Vice President – Sales

G. R. Hough
Financial Controller

N. E. Warry
Secretary

Head Office

10 Suntract Rd., Weston, Ont., M9N 3N5
MAILING ADDRESS:
P.O. Box 1004, Stn. A., Weston, Ont., M9N 3N5
CABLE ADDRESS:
Suntract Toronto – Telex No. 069-69888

Blackwood Hodge Equipment Limited

Locations

Western Division

Highway 6 North, Regina, Sask., S4P 3C2
Branches: Saskatoon, Saskatchewan, Winnipeg,
Manitoba, Thunder Bay, Ontario, Edmonton,
Alberta, Langley, British Columbia.

Central Division

10 Suntract Rd., Weston, Ont., M9N 3N5
Branches: Ottawa, Sudbury, Timmins,
Sault Ste. Marie, Elliot Lake, Ontario.

Eastern Division

1945-55th Ave., Dorval, Que., H9P 1G9
Branches: Ste. Foy, Val D'Or, Quebec,
Labrador City, St. John's, Newfoundland,
Dartmouth, Nova Scotia, and Moncton,
New Brunswick.

Suntract Rentals Division

10 Suntract Rd., Weston, Ont., M9N 3N5
Branches: Scarborough, Hamilton, Ottawa,
Kingston, Sudbury, Thunder Bay, Guelph,
and Kitchener, Ontario.

Blackwood Hodge Equipment Limited

Western Division

J. R. Letwin
Vice President – General Manager

Central Division

V. T. Ward
Vice President – General Manager

T. H. Hamilton
Vice President Sales

F. J. Castron
Vice President – Manager
Northern Operations

Eastern Division

D. G. Roberts
Vice President – General Manager

W. Hachey
Vice President – Customer Services

Suntract Rentals Division

E. J. Dale
Regional Manager – South

L. C. Comeau
Regional Manager – North

W. D. Lafreniere
Regional Manager – East

Bankers

Canadian Imperial Bank of Commerce,
Credit Lyonnais Canada

Auditors

Deloitte, Haskins + Sells
Chartered Accountants

Legal Counsel

Smith, Lyons, Torrance,
Stevenson & Mayer

Registrar & Transfer Agent

National Trust Company

Stock Listings

Toronto Stock Exchange
Symbol – BHG

Si vous désirez recevoir un exemplaire en français du rapport annuel Blackwood Hodge (Canada) Limited, veuillez vous adresser au service des finances, Siège social, 10 Suntract Road, P.O. Box 1004, Station A, Weston, Ontario M9N 3N5

Report to Shareholders

Following the return to profitability in 1984, we are pleased to report further progress with Net Earnings in 1985 of \$3,612,000 compared to \$1,127,000 for the previous year.

The improvement in economic conditions which assisted our recovery in 1984 continued during 1985, resulting in a turnover of \$113,419,000 compared to \$102,885,000 for 1984, an increase of 10%.

An important contribution to the increase in profit came from the decrease in interest charges of \$1,500,000 resulting from both lower interest rates and lower borrowings which followed the reduction in inventory, property, plant and equipment achieved in 1984.

In the latter part of the year, the Company was named sole distributor in Manitoba and Ontario for equipment lines manufactured by Komatsu of Japan. The initial inventory for this new franchise and a build-up in anticipation of major sales in other franchises early in 1986, produced higher inventory levels at year end. A similar increase in notes payable reflects inventory financing from the respective manufacturers.

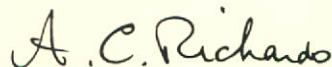
Although we do not anticipate any improvement in economic conditions in 1986, we believe that the range of equipment and parts franchises now held will enable the Company to show continued progress this year.

The Board has given consideration to the declaration of a dividend in respect of 1985 but has decided not to do so until the Company's debt to equity ratio has been further reduced and in order to conserve working capital. Should progress continue as planned during the year, your Board would hope to recommend a dividend payment for 1986.

The Board was pleased to announce at the Annual General Meeting in May 1985 the appointment of Mr. Kenneth C. Scobie as a Director of the Company. Mr. Scobie is Group Managing Director of Blackwood Hodge p.l.c.

The improvement in the financial performance would not have been achieved without the energy and enthusiasm of the management and staff of your company. On your behalf we express our sincere thanks to all employees for their dedication.

By Order of the Board

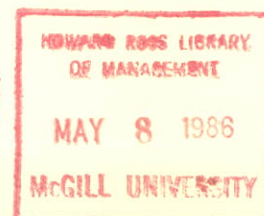


A. C. Richards, Chairman



F. G. Mundy, President

Toronto, 4th April, 1986



BLACKWOOD HODGE (CANADA) LIMITED

(Under the Canada Business Corporations Act)

Consolidated Balance Sheet

December 31	(\$000)	
	<u>1985</u>	<u>1984</u>
ASSETS		
Current assets:		
Cash	\$ 72	\$ 87
Accounts receivable	17,667	18,007
Instalment and mortgages receivable	1,488	2,423
Inventories (Note 2)	29,007	24,550
Due from affiliated company	—	83
Total current assets	48,234	45,150
Mortgages receivable – due after one year	1,467	1,503
Instalment receivables – due after one year	382	491
Property, plant and equipment (Note 3)	15,734	15,007
Total	<u>\$65,817</u>	<u>\$62,151</u>

Approved by the Board of Directors

F. G. Mundy, Director

J. G. Torrance, Director

See Notes to the Consolidated Financial Statements

December 31	(\$000)	
	<u>1985</u>	<u>1984</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank indebtedness (Note 4)	\$10,849	\$13,008
Notes payable (Note 5)	10,427	6,263
Accounts payable and accrued charges	8,013	8,727
Taxes other than income taxes	854	977
Due to affiliated companies	815	192
Current portion of long-term debt (Note 6)	<u>4,689</u>	<u>3,757</u>
Total current liabilities	35,647	32,924
Notes payable – due after one year (Note 5)	191	57
Long-term debt (Note 6)	<u>10,094</u>	<u>12,897</u>
Total liabilities	<u>45,932</u>	<u>45,878</u>
Shareholders' equity:		
Share capital (Note 7)	5,672	5,672
Appraisal surplus	3,672	3,762
Retained earnings	<u>10,541</u>	<u>6,839</u>
Total shareholders' equity	<u>19,885</u>	<u>16,273</u>
Total	<u>\$65,817</u>	<u>\$62,151</u>

Consolidated Statement of Earnings and Retained Earnings

	(\$000)	
year ended December 31	1985	1984
Sales and rentals	\$113,419	\$102,885
Costs and expenses	106,635	96,694
Earnings from operations	6,784	6,191
Interest earned	425	571
Earnings before interest charges	7,209	6,762
Interest charges – current	2,181	3,210
– long-term	1,341	1,840
Total interest charges	3,522	5,050
Earnings before undernoted	3,687	1,712
Loss on disposal of properties	75	717
Earnings before income taxes and extraordinary item	3,612	995
Income taxes (Note 8)	1,629	103
Earnings before extraordinary item	1,983	892
Extraordinary item – reduction of income taxes on the application of loss carry-forward (Note 8)	1,629	235
Net earnings for the year	3,612	1,127
Retained earnings, beginning of year	6,839	3,978
	10,451	5,105
Appraisal surplus transferred on sale of properties	90	1,734
Retained earnings, end of year	\$ 10,541	\$ 6,839
Earnings per share before extraordinary item	\$.81	\$.36
Earnings per share after extraordinary item	\$ 1.48	\$.46

See Notes to the Consolidated Financial Statements

Consolidated Statement of Changes in Financial Position

	(\$000)	
year ended December 31	<u>1985</u>	<u>1984</u>
WORKING CAPITAL PROVIDED		
From operations		
Earnings before extraordinary item	\$ 1,983	\$ 892
Items not affecting working capital		
Depreciation and amortization	1,407	1,236
Income taxes (Note 8)	<u>1,629</u>	<u>235</u>
Provided from operations	5,019	2,363
Sale of property, plant and equipment	1,820	4,312
Decrease in instalment receivables	109	851
Decrease in mortgage receivables	36	—
Increase in notes payable	<u>134</u>	<u>—</u>
Total	<u>7,118</u>	<u>7,526</u>
WORKING CAPITAL APPLIED		
Purchase of property, plant and equipment	3,954	2,170
Decrease in notes payable	—	73
Decrease in long-term debt	2,803	2,784
Increase in mortgages receivable	<u>—</u>	<u>703</u>
Total	<u>6,757</u>	<u>5,730</u>
Increase in working capital	361	1,796
Working capital, beginning of year	<u>12,226</u>	<u>10,430</u>
Working capital, end of year	<u>\$12,587</u>	<u>\$12,226</u>

See Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

December 31, 1985

1. Significant Accounting Policies

Basis of consolidation

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiary, Blackwood Hodge Equipment Limited.

Foreign currency translation

Transactions in foreign currencies have been translated into Canadian dollars at rates prevailing at the time of the transactions. Monetary assets and liabilities have been translated at the quoted rates of exchange at the end of the year. Gains and losses on foreign exchange are included in the determination of earnings for the year.

Instalment receivables

The profit on sales which are financed by instalment sales contracts is recorded at the time of the sale and the interest earned is recorded over the term of the contract.

Valuation of inventories

Equipment for resale and parts and supplies are recorded at the lower of cost and net realizable value. Rental equipment is recorded at the lower of cost (including repairs), reduced by a provision for decline in value over the terms of the respective rental agreements, and net realizable value.

Cost is on a specific-item basis for equipment and on a first-in, first-out basis for parts and supplies.

Property, plant and equipment

Equipment and rental fleet are recorded at cost, which for equipment held under capital lease is the discounted value of lease obligations. The company has land and buildings appraised periodically and records the resulting values at that time by eliminating accumulated depreciation and adjusting the asset accounts to appraised value.

Depreciation is provided on the straight-line basis at the following annual rates:

Buildings	2½%
Equipment	10% – 20%
Rental Fleet	14% – 25%

Income taxes

Income taxes are accounted for using the tax-allocation basis, under which income taxes are provided in the year transactions affect net income regardless of when such transactions are recognized for tax purposes.

2. Inventories

	1985	1984
Equipment for resale and rental	\$14,090,000	\$12,529,000
Parts and supplies	<u>14,917,000</u>	<u>12,021,000</u>
	<u>\$29,007,000</u>	<u>\$24,550,000</u>

3. Property, Plant and Equipment

	1985	1984
Land	\$ 3,195,000	\$ 3,155,000
Buildings	8,604,000	8,623,000
Equipment	6,598,000	6,511,000
Rental Fleet	8,070,000	8,044,000
Equipment held under capital lease	<u>1,095,000</u>	<u>725,000</u>
	<u>27,562,000</u>	<u>27,058,000</u>
Less accumulated depreciation and amortization	<u>11,828,000</u>	<u>12,051,000</u>
	<u>\$15,734,000</u>	<u>\$15,007,000</u>

Land and buildings are recorded at values based upon appraisals made as of December 31, 1977, with subsequent additions at cost. The excess of appraisal value over depreciated value is included in shareholders' equity.

4. Bank Indebtedness

	1985	1984
Current operating loan	\$ 1,788,000	\$ 4,623,000
Outstanding cheques	1,061,000	385,000
Bankers' acceptances	<u>8,000,000</u>	<u>8,000,000</u>
	<u>\$10,849,000</u>	<u>\$13,008,000</u>

The current operating loan bears interest at ¼% over the bank prime rate which at December 31, 1985 was 10.0%. Bankers' acceptances outstanding at December 31, 1985 bear interest at 10.2%.

5. Notes Payable

Notes payable are secured by liens on specific items in the equipment inventory, certain of which are interest free and others bear interest at rates from 10.4% to 13.75% at December 31, 1985 and mature within 1 to 24 months.

Notes (Continued)

6. Long-term Debt

	1985	1984
Bank term loans	\$10,682,000	\$12,914,000
Loans from affiliated companies	3,333,000	3,466,000
Obligations under capital leases	733,000	188,000
Mortgage	35,000	86,000
	<u>14,783,000</u>	<u>16,654,000</u>
Less portion included in current liabilities . .	<u>4,689,000</u>	<u>3,757,000</u>
	<u>\$10,094,000</u>	<u>\$12,897,000</u>

The bank term loans bear interest at rates from 1/2% to 1% over the bank prime rate, which at December 31, 1985 was 10.0%.

The parts inventory and rental fleet have been pledged as security for the \$5,000,000 bank term loan. The remaining bank term loans of \$5,682,000, the bankers' acceptances of \$8,000,000, and the current operating loans of \$1,788,000 are secured under a fixed and floating charge debenture in the amount of \$30,000,000. Security under the debenture consists of a first charge against specific properties of the company and a second charge on the parts inventory and rental fleet. In addition, these loans are secured by collateral mortgages on other properties of the company and a general assignment of book debts.

The bank term loan of \$5,000,000 is subject to certain restrictive covenants, which preclude repayment of the loans from affiliated companies.

Loans from affiliated companies have no fixed terms of repayment and bear interest at 1% over the bank prime rate. Interest on these loans amounted to \$319,000. (1984 - \$228,000).

Obligations under capital leases bear interest at rates from 8% to 15% and expire at various dates to December 31, 1990.

The mortgage, which is secured by property of the company, bears interest at 7 3/8%, and matures on May 1, 1986.

Long-term debt matures as follows:

1986	\$ 4,689,000
1987	5,484,000
1988	1,117,000
1989	124,000
1990	36,000
No fixed terms	<u>3,333,000</u>
	<u>\$14,783,000</u>

7. Share Capital

Authorized:

An unlimited number of no par value common shares.

Issued:

2,445,450 (1984 - 2,445,450) common shares.

8. Income Taxes

The company has a combined federal-provincial statutory income tax rate of 51.0%. The provision for income taxes is comprised of the following:

	1985	1984
Provision based upon combined federal-provincial statutory rate	\$1,842,000	\$512,000
Decrease (increase) resulting from the following items:		
Inventory allowance	242,000	252,000
Miscellaneous	<u>(29,000)</u>	<u>25,000</u>
	<u>1,629,000</u>	<u>235,000</u>
Recovery of prior years' income taxes	<u>—</u>	<u>132,000</u>
Provision for income taxes	<u>\$1,629,000</u>	<u>\$103,000</u>

At December 31, 1985 the company had a loss carry-forward for income tax purposes of approximately \$4,668,000 (1984 - \$7,890,000) which expires in 1990. Income tax reduction with respect to this loss will be recorded as an extraordinary item when realized. During the current year, income taxes of \$1,629,000 (1984 - \$235,000) were eliminated by the utilization of this loss.

9. Commitments

Operating leases for business premises are in force extending for periods up to 5 years. Annual rental commitments are as follows:

1986	\$508,000
1987	\$367,000
1988	\$343,000
1989	\$297,000
1990	\$227,000

10. Contingent Liabilities

Contingent liabilities with respect to instalment sales contracts and customers' notes discounted amount to \$843,000 (1984 - \$1,256,000).

11. Segmented Information

The dominant business segment is the sale, rental, manufacture and service of heavy equipment in Canada.

12. Related Party Transactions

Transactions with affiliated companies not otherwise disclosed in these financial statements include the purchase of equipment - \$2,400,000.

Auditors' Report

To the Shareholders of
Blackwood Hodge (Canada) Limited

We have examined the consolidated balance sheet of Blackwood Hodge (Canada) Limited as at December 31, 1985 and the consolidated statements of earnings and retained earnings and of 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 December 31, 1985 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.

Toronto, Ontario
March 4, 1986

Deloitte Haskins + Sells
Chartered Accountants

Five Year Financial Review

(\$000)	1985	1984	1983	1982	1981
Sales and Rentals	<u>\$113,419</u>	<u>\$102,885</u>	<u>\$ 86,242</u>	<u>\$100,694</u>	<u>\$140,388</u>
Operating earnings	\$ 6,784	\$ 6,191	\$ 248	\$ 1,155	\$ 10,830
Interest earned	425	571	389	569	1,017
Dividend from affiliated company	—	—	—	—	304
Interest expense	3,522	5,050	6,418	10,536	14,398
Loss on disposal of properties	75	717	109	—	—
Write down of inventories to estimated net realizable value	—	—	6,523	—	—
Write-off of goodwill due to permanent decline in value	—	—	1,039	—	—
Income taxes (recovery of)	<u>1,629</u>	<u>103</u>	<u>(1,452)</u>	<u>(4,580)</u>	<u>(1,820)</u>
Net earnings (loss) before extraordinary item	1,983	892	(12,000)	(4,232)	(427)
Extraordinary item – reduction of income taxes	<u>1,629</u>	<u>235</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net earnings (loss)	<u>\$ 3,612</u>	<u>\$ 1,127</u>	<u>\$(12,000)</u>	<u>\$ (4,232)</u>	<u>\$ (427)</u>
Working capital from operations	\$ 5,019	\$ 2,363	\$(10,309)	\$ (3,402)	\$ 1,621
Earnings (loss) per share	1.48	.46	(4.91)	(1.73)	(.17)
Dividends	—	—	—	—	—
Equity per share	8.13	6.65	6.19	11.10	12.83
Shareholders' equity	19,885	16,273	15,146	27,146	31,378
Working capital	12,587	12,226	10,430	22,772	29,618
Total assets	65,817	62,151	70,623	93,031	119,762

Products

Cedarapids

Cedarapids Inc.

A Raytheon Company

Aggregate processing equipment, Cedarapids asphalt mixing and paving equipment. Pavement planing machines.

Dynapac

Dynapac Ltd.

Soil, rockfill and asphalt compactors.

Esco

Esco Limited

Manganese wear parts, buckets, teeth and adapters.

Gomaco

Gomaco Corporation

Concrete construction equipment.
Pavement planing machines.

Hitachi

Marubeni Construction Machinery Canada Ltd.

Hydraulic excavators and front shovels.
Forest harvesting and handling equipment.

Komatsu

Komatsu Canada Ltd.

Dozers, crawler loaders, wheel loaders, hydraulic excavators, motor graders and rear dump trucks.

Terex

Terex Corporation

Dozers, wheel loaders, scrapers and rear dump trucks.

Wagner Mining

Wagner Mining Equipment Co.

A Division of Paccar Co.

Diesel and electric underground mining and tunnelling vehicles, Scooptrams Teletrams, trucks and utility vehicles.

Champion

Champion Road Machinery Limited

Motor graders.

Eagle

Eagle Iron Works

Specialized washing equipment, sand, stone, clay and ore processing.

Fiatallis

Fiatallis North America, Inc.

Crawler tractors and loaders, wheel loaders, scrapers, motor graders, pipelayers and hydraulic excavators.

Goodyear

Goodyear Canada Inc.

Pylon and steel cable conveyer belting, total belt service, air and liquid mine hose.

Ingersoll-Rand

Ingersoll-Rand Canada Inc.

Soil and asphalt compactors, pavement milling machines, landfill compactors, portable air compressors, rotary and crawler drills, drifters, breakers and hammers.

Suntract

Blackwood Hodge Equipment Limited

Manufacturers of stationary and portable crushing and screening equipment for the aggregate industry, conveyers and storage silos, bulk material handling equipment and custom steel fabrication.

Wagner

A Division of Allied Systems Company

Industrial and forest material handling equipment, log stackers, and steel handling equipment.



Blackwood Hodge (Canada) Limited
10 Suntract Road, Weston, Ontario M9N 3N5