

Blackwood Hodge



Corporate Information

Locations

Blackwood Hodge (Canada) Limited

Directors

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

F. J. King
President
Blackwood Hodge (Canada)
Limited

F. G. Mundy
Executive Vice President
Blackwood Hodge (Canada)
Limited

R. Thacker
Consultant

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

C. M. Laidley
Business Consultant

Officers

A. C. Richards
Chairman

F. J. King
President

F. G. Mundy
Executive Vice President –
Finance & Administration

N. E. Warry
Secretary

Head Office

10 Suntract Road, Weston, Ontario M9N 3N5
Tel.: (416) 244-2531
MAILING ADDRESS:
P.O. Box 1004, Station A, Weston, Ontario M9N 3N5
CABLE ADDRESS:
Suntract Toronto – Telex No. 069-65801

Blackwood Hodge Equipment Limited

Eastern Division

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

Central Division

10 Suntract Road, Weston, Ontario M9N 3N5
Branches: London, Ottawa, Sudbury, Timmins,
Sault Ste. Marie, Elliot Lake and Thunder Bay, Ontario.

Western Division

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

Suntract Rentals Division

10 Suntract Road, Weston, Ontario M9N 3N5
Branches: Scarborough, Hamilton, Ottawa, Kingston,
Sudbury, Thunder Bay, London, Waterloo, Guelph,
Elliot Lake and Sault Ste. Marie, Ontario.

Blackwood Hodge Equipment Limited

Eastern Division

D. G. Roberts
Vice President – General Manager

W. Hachey
Vice President – Customer
Services

R. Manetta
Vice President – Finance & Admin.

Central Division

V. T. Ward
Vice President – General Manager

F. J. Castron
Vice President – Manager
Northern Operations

Western Division

J. R. Letwin
Vice President – General Manager

Suntract Rentals Division

T. H. Hamilton
Vice President – General Manager

Bankers

Canadian Imperial Bank of Commerce
Credit Lyonnais Canada

Auditors

Deloitte Haskins + Sells
Chartered Accountants

Legal Counsel

Smith, Lyons, Torrance, Stevenson
& Mayer

Registrar and Transfer Agent

National Trust Company Limited

Stock Listings

Toronto Stock Exchange

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

In 1983, economic conditions affecting the industries we serve continued to deteriorate and resulted in a further drop in demand for equipment and services supplied by Blackwood Hodge. Sales and rentals in 1983 compared to the corresponding figures in 1982 were down by 31% in the first six months and by 14% over the year. The turnover reflected the sales from inventories in the second half of the year referred to below in addition to normal trading.

In the face of these marketing conditions, the company had little alternative but to continue to reduce expenses, largely through rationalization of our branch operations, with further reductions in staffing levels. In addition, we undertook aggressive sales programs at low margins in order to reduce inventory levels.

The loss for 1983 before extraordinary items and taxes, of \$5,890,000, is far from satisfactory, but as a result of the reduction in operating costs and in interest charges due to the lower level of inventories, it is lower than that for 1982 in spite of the decrease in turnover.

As foreshadowed in the latest interim report we have reviewed the valuation of inventories. That report also indicated that one of the company's major suppliers was in financial difficulty. In view of the continuing economic uncertainties and the unresolved situation of the supplier, we have considered it prudent to write down inventories by \$6,523,000. In addition we have written off the balance of goodwill of \$1,039,000 due to its loss of value.

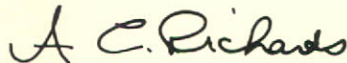
There are some signs of improvement in our markets but it would be unwise at this early stage of 1984 to attempt to forecast the outturn for the year. However, operating costs and interest charges will show further reductions due to their effect being in force for a full year, and to a continuing decrease in inventories.

We believe that Blackwood Hodge is well positioned to take advantage of any opportunities that may arise in the various markets we serve.

On October 17th, 1983, Sir William Shapland retired from the Board of Blackwood Hodge (Canada) Limited. Sir William served as Chairman of the Board from April 21st, 1972. We wish him well in his retirement.

A great source of encouragement to management and your Board of Directors has been the response of employees at all levels to the problems and challenges presented in these difficult times. On your behalf, we express our sincere thanks to our employees for their efforts and loyalty.

By Order of the Board



A. C. Richards, Chairman



F. J. King, President

Toronto, 17th May, 1984

December 31	(\$000)	
	<u>1983</u>	<u>1982</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank indebtedness (Note 4)	\$11,004	\$20,985
Notes payable (Note 5)	14,387	15,307
Accounts payable and accrued charges	8,362	6,292
Other taxes payable	806	815
Due to affiliated companies	395	403
Current portion of long-term debt (Note 6)	4,712	2,550
Deferred income taxes	<u>—</u>	<u>320</u>
Total current liabilities	39,666	46,672
Notes payable – due after one year (Note 5)	130	480
Long-term debt (Note 6)	15,681	17,601
Deferred income taxes	<u>—</u>	<u>1,132</u>
Total liabilities	<u>55,477</u>	<u>65,885</u>
Shareholders' equity:		
Share capital (Note 7)	5,672	5,672
Appraisal surplus	5,496	6,354
Retained earnings	<u>3,978</u>	<u>15,120</u>
Total shareholders' equity	<u>15,146</u>	<u>27,146</u>
Total	<u>\$70,623</u>	<u>\$93,031</u>

Consolidated Statement of Loss and Retained Earnings

	(\$000)	
year ended December 31	1983	1982
Sales and rentals	\$86,242	\$100,694
Costs and expenses	<u>86,103</u>	<u>99,539</u>
Earnings from operations	139	1,155
Interest earned	<u>389</u>	<u>569</u>
Earnings before interest charges	<u>528</u>	<u>1,724</u>
Interest charges – current	4,173	7,447
– long-term	<u>2,245</u>	<u>3,089</u>
Total interest charges	<u>6,418</u>	<u>10,536</u>
Loss before the undernoted	5,890	8,812
Write-down of inventories to estimated net realizable value	6,523	—
Write-off of goodwill due to permanent decline in value	<u>1,039</u>	<u>—</u>
Loss before income taxes	13,452	8,812
Income taxes (Note 8)	<u>1,452</u>	<u>4,580</u>
Loss for the year	12,000	4,232
Retained earnings, beginning of year	<u>15,120</u>	<u>19,147</u>
	3,120	14,915
Appraisal surplus realized on sale of properties	<u>858</u>	<u>205</u>
Retained earnings, end of year	<u>\$ 3,978</u>	<u>\$ 15,120</u>
Loss per share	<u>\$ 4.91</u>	<u>\$ 1.73</u>

See Notes to the Consolidated Financial Statements

Consolidated Statement of Changes in Financial Position

	(\$000)	
year ended December 31	<u>1983</u>	<u>1982</u>
WORKING CAPITAL PROVIDED		
Sale of property, plant and equipment	\$ 3,487	\$ 2,258
Decrease in instalment receivables	<u>—</u>	<u>342</u>
Total	<u>3,487</u>	<u>2,600</u>
WORKING CAPITAL APPLIED		
To operations		
Loss for the year	12,000	4,232
Items not affecting working capital		
Depreciation and amortization	(1,535)	(1,417)
Amortization of goodwill	(249)	(249)
Write-off of goodwill	(1,039)	—
Deferred income taxes	<u>1,132</u>	<u>836</u>
Applied to operations	10,309	3,402
Property, plant and equipment	2,007	3,151
Decrease in notes payable	350	718
Decrease in long-term debt	1,920	2,175
Increase in instalment receivables	<u>1,243</u>	<u>—</u>
Total	<u>15,829</u>	<u>9,446</u>
Decrease in working capital	12,342	6,846
Working capital, beginning of year	<u>22,772</u>	<u>29,618</u>
Working capital, end of year	<u>\$10,430</u>	<u>\$22,772</u>

See Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

December 31, 1983

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, and that company's wholly-owned subsidiary, Suntract Manufacturing Co. Ltd.

Foreign currency translation

Transactions in foreign currencies have been translated into Canadian dollars at rates prevailing at the time of the transactions. 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 inventory

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 and interest), 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 under capital lease is the discounted value of lease obligations. The Company, in 1977, had land and buildings appraised and recorded the resulting values at that time by eliminating accumulated depreciation and adjusting the asset accounts to appraisal value.

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

Buildings	2 1/2%
Equipment	10% - 20%
Rental Fleet	14% - 25%

Income taxes

Income taxes are accounted for using the tax-allocation basis, under which income taxes are pro-

vided in the year transactions affect net income, regardless of when such transactions are recognized for tax purposes. Timing differences relate primarily to claiming capital cost allowance for tax purposes in excess of depreciation recorded for buildings, equipment and the rental fleet.

2. Inventories

	1983	1982
Equipment for resale	\$20,749,000	\$37,627,000
Parts and supplies	10,602,000	15,627,000
	<u>\$31,351,000</u>	<u>\$53,254,000</u>

3. Property, Plant and Equipment

	1983	1982
Land	\$ 4,741,000	\$ 5,140,000
Buildings	10,056,000	11,726,000
Equipment	6,356,000	6,902,000
Rental fleet	8,143,000	8,710,000
Equipment under capital lease	1,059,000	1,350,000
	<u>30,355,000</u>	<u>33,828,000</u>
Less accumulated depreciation and amortization	11,970,000	12,428,000
	<u>\$18,385,000</u>	<u>\$21,400,000</u>

Land and buildings are recorded at their going concern value, 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

	1983	1982
Current operating loan	\$ 1,936,000	\$ 2,364,000
Outstanding cheques	1,068,000	621,000
Bankers' acceptances	8,000,000	18,000,000
	<u>\$11,004,000</u>	<u>\$20,985,000</u>

The current operating loan bears interest at 1/4% over the bank's prime rate which at December 31, 1983 was 11%. Bankers' acceptances bear interest at rates varying between 10 1/2% and 11 1/3%. Refer to Note 6 as to security.

Notes (Continued)

5. Notes Payable

Notes payable are secured by liens on specific items in the equipment inventory, bear interest at rates from 7% to 13³/₄% at December 31, 1983 and are payable within 1 to 26 months.

6. Long-term Debt

	1983	1982
Term bank loans . . .	\$16,650,000	\$16,000,000
Loans - affiliated companies	3,331,000	3,435,000
Obligations under capital leases	274,000	507,000
Mortgage	138,000	209,000
	<u>20,393,000</u>	<u>20,151,000</u>
Less portion included in current liabilities	4,712,000	2,550,000
	<u>\$15,681,000</u>	<u>\$17,601,000</u>

On April 12, 1984, the company renegotiated the repayment terms and collateral on its term bank loans.

The parts inventory and rental fleet have been pledged as security for \$7,000,000 of the term bank loans. The remaining term bank loans, bankers' acceptances of \$8,000,000, and the current operating loan of \$1,936,000 are secured by a collateral mortgage on certain lands and buildings and a general assignment of book debts. The term bank loans bear interest at 1% over the bank prime rate, which at December 31, 1983 was 11%.

Under the amended terms, \$7,000,000 of the term bank loans are subject to certain restrictive covenants, which include non-repayment of its loans from the affiliated companies and the waiver of declaration of any dividends until February 28, 1985, the maturity date of the loan.

Loans payable to affiliated companies have no fixed terms of repayment and generally bear interest at rates from 8% to 9%. Interest on these loans amounted to \$218,000 (1982 - \$210,000).

Obligations under capital leases bear interest at rates from 5% to 15% and expire at varying dates to December 31, 1987.

The mortgage, bearing interest at 7⁷/₈%, is repayable within three years and is secured by property.

The portions of long-term debt, as amended, due to mature are as follows:

1984	\$ 4,712,000
1985	8,636,000
1986	3,019,000
1987	695,000
No fixed terms	<u>3,331,000</u>
	<u>\$20,393,000</u>

7. Share Capital

Authorized:

An unlimited number of no par value common shares.

Issued and fully paid:

2,445,450 common shares

Options to purchase 36,000 shares at \$4.28 per share are outstanding to employees under the Company's employee stock option plan. These options may be exercised on a cumulative basis at 20% per year and expire on April 30, 1985. To December 31, 1983 no options have been exercised.

8. Income Taxes

The income tax recovery of \$1,452,000 (1982 - \$4,580,000) results from a reduction of deferred income taxes.

In addition, the company has an unrecorded loss carry-forward of approximately \$8,300,000 which expires in 1990. No recognition has been given in these financial statements to the potential reduction of income taxes which may result from the utilization of this loss.

9. Commitments

The subsidiary company has entered into operating leases for business premises for periods up to 5 years. Annual rental costs approximate \$594,000.

10. Contingent Liabilities

The Companies are contingently liable with respect to instalment sales contracts and customers' notes discounted aggregating \$3,178,000 (1982 - \$7,969,000).

11. Segmented Information

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

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, 1983 and the consolidated statements of loss 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, 1983 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 2, 1984; as to Note 6, April 12, 1984.

Deloitte Haskins + Sells
Chartered Accountants

Products

Cedarapids/EI-Jay

Iowa Manufacturing Co.

Subsidiary of Raytheon Company

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

Hitachi

Marubeni Construction Machinery Canada Ltd.

Hydraulic excavators and front shovels.

Suntract

Suntract Manufacturing

Stationary and portable crushing and screening equipment for the aggregate industry, conveyors and storage silos, bulk material handling equipment and custom steel fabrications.

Wagner

Wagner Mining Equipment Company

A Division of Paccar Co.

Underground mining and tunneling vehicles, Scooptrams, Teletrams, trucks and utility vehicles.

RayGo

RayGo

Self-propelled vibratory compactors.

Earth and landfill compactors, asphalt rollers and BARCO pavement planing machines.

Bucyrus-Erie

Bucyrus-Erie Company

Cranes, clamshells, draglines, shovels, hydraulic excavators, backhoe-loaders.

Champion

Champion Road Machinery Limited

Motor graders.

Eagle

Eagle Iron Works

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

Esco

Esco Limited

Manganese wear parts, buckets, teeth and adapters.

Gomaco

Gomaco Corporation

Concrete construction equipment. Pavement planing machines.

Goodyear

Goodyear Canada Inc.

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

MWM-Murphy Diesel

Murphy Diesel Company

Air and liquid cooled diesel engines, marine engines and generator sets.

Northwest

Northwest Engineering Company

Draglines, cranes and front shovels.

RayGo Wagner

Subsidiary of Allied Systems Company

Industrial and forestry material handling equipment, log stackers, chipdozers, container handlers and steel product handling equipment.

Terex

Terex Corporation

Earthmoving equipment.

crawler tractors, rubber tired dozers, crawler loaders, rubber tired loaders, log loaders, scrapers and rear dumps.

Titan

General Motors of Canada Limited

Off-highway diesel electric haulers.



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