GSW Limited – GSW Limitée Annual Report for the year ended Dec. 31, 1972

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GSW Limited — GSW Limitée

BOARD OF DIRECTORS

P. de Gaspé Beaubien
G. M. Farquharson, Q.C.
G. R. Gardiner
Miss M. P. Hyndman, Q.C.
F. R. Johnson
D. S. R. Leighton
J. K. Louden
G. S. MacDonell
R. A. Stevens
Ben Wosk

OFFICERS

G. R. Gardiner, *Chairman*
R. A. Stevens, *Vice-Chairman*
G. S. MacDonell, *President and Chief Executive Officer*
F. O. Price, *Group Vice-President*
L. Hollander, *Group Vice-President*
M. S. Hartley, *Vice-President — Research and Development*
G. S. Dickson, *Vice-President — Supply*
W. H. Hogg, *Vice-President*
G. M. Farquharson, Q.C., *Secretary*

SHARE TRANSFER AGENTS

Preferred Shares, The Canada Trust Company
Common Shares, National Trust Company Limited

BANKERS The Bank of Nova Scotia

AUDITORS Clarkson, Gordon & Co.

GSW LIMITED-GSW LIMITÉE Head Office —
45 St. Clair Ave. West, Toronto, Ontario

Report of the Board of Directors

TO THE SHAREHOLDERS:

1972 was a record year for sales and profits. Sales increased to $112,084,000 from $99,091,000 in 1971. Your company's sales, after adjusting for the effects of inflation, have doubled over the past five years.

Earnings before extraordinary items increased to $2,686,000 and $1.26 per share, from $1,536,000 and 71¢ per share in 1971. After extraordinary items, 1972 earnings were $3,544,000 and $1.68 per share, compared to $2,708,000 and $1.30 per share in 1971. The extraordinary income tax credits, arising from the loss carry-forwards of subsidiary companies, have now been largely used up and none are anticipated for next year.

All divisions in the continuing operations of the company increased their sales and profits over 1971. In our last annual report to you, we stated that the greatest problem we faced was to return the U.K. Division to a profitable operation. This was attempted by phasing out unprofitable lines, but further difficulties were experienced and operating losses continued. Your Board then made the decision to discontinue all operations in the U.K., which was accomplished in the latter part of 1972. The net losses and costs incurred in this wind-up amounted to $290,000, and have been charged as an extraordinary item in the Income Statement for the year.

Although several acquisition opportunities were advanced and investigated during the year, none were consummated, and the year's growth was all internal. We will continue to seek investment opportunities which will return sufficient earnings on the investment, and which will further strengthen the company in those business areas defined in our long range plans.

This year our investments for the future in the areas of research and development, licensing of technology, product engineering, tooling, marketing and consumer research, were the largest in the company's history. As in the past, all of these expenditures have been expensed as incurred. The R & D Centre, which was established early in the year under the guidance of Maurice S. Hartley, Vice-President, Research and Development, has already made important contributions to our future growth and earnings.

ORGANIZATION AND PERSONNEL: 1972 saw major changes in the executive management of the company. Mr. Ralph M. Barford was the President and Chief Executive Officer of your company during the years 1962 - 1972. Under his outstanding leadership, your company has grown to its present position as a major Canadian-owned manufacturing company. It now has the financial, technical, marketing, and most importantly, human resources to move confidently into the future.

To pursue another career of his own choosing, and at his own request, Mr. Barford resigned in August 1972 as President and as a Director.

Mr. Robert A. Stevens, who had made a major contribution to the growth of the company over the past ten years, resigned as Group Vice-President, but remains as Vice-Chairman of the Board, and as a member of the Executive Committee.

Mr. George S. MacDonell was elected President and Chief Executive Officer of the company.

Mr. William H. Hogg, Vice-President, will retire early in 1973, after fifty-two years service with the company in various capacities. In recent years, Mr. Hogg's responsibilities were primarily in Industrial Relations, where he made a major contribution to the excellent employee relations enjoyed by the company.

Mr. Frank O. Price, formerly Vice-President of Manufacturing and Engineering, was appointed Group Vice-President, Consumer Products.

Mr. Lou Hollander, Vice-President, was appointed Group Vice-President, General Products.

Mr. George S. Dickson, Vice-President, was appointed Vice-President, Supply.

MARKETING: In order to provide better and more efficient coast-to-coast appliance home service to our customers, the McDonald Appliance Service Company, which was acquired late in 1971, has been fully integrated into the GSW Home Service organization.

Early in 1973, the Appliance Division presented the largest and most innovative dealer shows in our history in Toronto, Vancouver, Winnipeg, and Montreal. The new products featured at these shows have been widely accepted by the trade.

During the year, all of the divisions successfully introduced new products for their respective markets.

MANUFACTURING: Due to the great increase in the production demands on the London Plant, we are now in the process of moving the production of ranges into the Weston Plant, water heaters into the Fergus Plant, and air conditioners into the Belwood Plant. All of these moves are designed to improve product quality and manufacturing efficiency.

OUTLOOK: We look for 1972's economic expansion to broaden its base, and expect that the current strong economic growth will continue in 1973.

All of our divisions are well positioned in their markets, and we expect their growth to continue.

To the 3,400 employees of GSW, the Board expresses its thanks for their contribution to the 1972 performance of the company.

On behalf of the Board,

Geo MacDonell

G. S. MacDonell,
President.

Facts in Brief

GSW LIMITED-GSW LIMITÉE and its subsidiary companies	1972	1971
	($000's except per share data)	
Sales	$112,084	$99,091
Net income before extraordinary items	2,686	1,536
Net income after extraordinary items	3,544	2,708
Dividends on preferred shares	123	125
Earnings per common share:		
before extraordinary items	1.26	.71
after extraordinary items	1.68	1.30
Bank indebtedness	9,951	7,532
Current assets	41,918	35,826
Current liabilities	27,733	24,819
Current ratio	1.5 to 1	1.4 to 1
Working capital	14,185	11,007
Shareholders' equity	$ 16,758	$12,974

Consolidated Statement of Income ($000's)

YEAR ENDED DECEMBER 31, 1972 (with comparative figures for 1971)
GSW LIMITED — GSW LIMITÉE and its subsidiary companies

	1972	1971
Net sales	$112,084	$99,091
Income before undernoted items	$ 7,363	$ 5,459
Interest on long-term debt	235	251
Interest on other loans	687	707
Depreciation and amortization	843	765
	1,765	1,723
Operating income from continuing operations	5,598	3,736
Income taxes	2,658	1,932
Net income from continuing operations	2,940	1,804
Operating loss on discontinued operations (note 6)	254	268
Net income before extraordinary items	2,686	1,536
Extraordinary items:		
Income tax reduction from application of loss carry-forwards of subsidiary companies	1,148	1,172
Losses and costs relating to the discontinuance of operations (note 6)	(290)	
	858	1,172
Net income for the year	$ 3,544	$ 2,708
Earnings per common share before extraordinary items	$ 1.26	$ .71
Earnings per common share after extraordinary items	$ 1.68	$ 1.30

(See accompanying notes)

Consolidated Balance Sheet
December 31, 1972 ($000's)

(with comparatives figures for 1971)

GSW LIMITED-GSW LIMITÉE and its subsidiary companies (note 1)
(Incorporated under the laws of Canada)

ASSETS	1972	1971
Current assets:		
Cash	$ 233	$ 113
Accounts receivable	17,109	15,613
Inventories, valued at the lower of cost and market	23,902	19,552
Prepaid expenses and manufacturing supplies	674	548
Total current assets	41,918	35,826
Fixed assets:		
Land, buildings and equipment, at cost	19,916	19,641
Less accumulated depreciation	13,469	12,934
Total fixed assets	6,447	6,707
Other assets:		
Prepaid income taxes	473	469
Goodwill, engineering, tooling and patent costs, less amounts written off	1	1
Total other assets	474	470

On behalf of the Board:

G. S. MacDonell, Director

R. A. Stevens, Director

Total assets	$48,839	$43,003

LIABILITIES AND SHAREHOLDERS' EQUITY	1972	1971
Current liabilities:		
Bank indebtedness (note 2)	$ 9,951	$ 7,532
Accounts payable	14,322	14,984
Income and other taxes payable	2,509	1,948
Dividends payable	31	31
Long-term debt due within one year	920	324
Total current liabilities	27,733	24,819
Provision for warranties	1,458	1,400
Long-term debt (note 3)	2,890	3,810
Total liabilities	32,081	30,029
Shareholders' equity:		
Share capital (notes 4 and 5) —		
5% cumulative preferred shares of $100 each redeemable at $105		
Authorized, less redeemed 24,463 shares		
Outstanding:		
24,463 shares (154 shares were purchased for cancellation in 1972)	2,446	2,462

Common shares without par value —

	Authorized	Issued	1972	1971
Class A	682,245	658,421	768	719
Class B	10,000,000	1,373,107	1,620	1,490
	10,682,245	2,031,528	2,388	2,209

	1972	1971
Contributed surplus	308	304
Retained earnings	11,616	7,999
Total shareholders' equity	16,758	12,974
Total liabilities and shareholders' equity	$48,839	$43,003

(See accompanying notes)

Consolidated Statements of Retained Earnings and Contributed Surplus ($000's)

YEAR ENDED DECEMBER 31, 1972 (with comparative figures for 1971)
GSW LIMITED-GSW LIMITÉE and its subsidiary companies

	1972	1971
RETAINED EARNINGS		
Balance, beginning of year	$ 7,999	$ 5,631
Add:		
Net income for the year	3,544	2,708
Adjustment of purchase price of Moffats Limited based on agreement with vendor as to valuation of assets and liabilities at date of acquisition	196	—
	11,739	8,339
Deduct:		
Dividends on preferred shares	123	125
Premium (net) on purchase of subsidiaries	—	215
Balance, end of year	$11,616	$ 7,999
CONTRIBUTED SURPLUS		
Balance, beginning of year	$ 304	$ 270
Add profit on purchase of preferred shares	4	34
Balance, end of year	$ 308	$ 304

(See accompanying notes)

Consolidated Statement of Source and Application of Funds ($000's)

YEAR ENDED DECEMBER 31, 1972 (with comparative figures for 1971)
GSW LIMITED-GSW LIMITÉE and its subsidiary companies

	1972	1971
Funds were derived from:		
Operations —		
Net income for the year	$ 3,544	$ 2,708
Less dividend on preferred shares	123	125
Income retained	3,421	2,583
Depreciation and amortization	843	765
(Increase) reduction in prepaid income taxes	(4)	148
Provision for warranties	58	23
Funds from operations	4,318	3,519
Mortgages payable	—	3,400
Warranty reserve assumed on acquisition of subsidiary	—	577
Adjustment of purchase price of Moffats Limited	196	—
Issue of common shares	179	68
Increase in bank indebtedness (net of cash)	2,299	3,621
	$ 6,992	$11,185
Funds were applied to:		
Purchase of fixed assets (net)	$ 583	$ 4,577
Increase non-cash net current assets	5,477	5,810
Pay premium (net) over book value of subsidiaries acquired	—	215
Reduce long-term debt	920	502
Redeem preferred shares (net)	12	81
	$ 6,992	$11,185

(See accompanying notes)

Notes to Consolidated Financial Statements

GSW LIMITED-GSW LIMITÉE
DECEMBER 31, 1972

1. BASIS OF CONSOLIDATION

The consolidated financial statements reflect a consolidation of GSW Limited — GSW Limitée, GSW Appliances Limited, McDonald Appliance Service Limited, The Easy Washing Machine Company Limited, Duro Aluminium Limited, Knight Industries Limited, GSW Limited (U.K.), Sta-Rite Industries of Canada Limited and several small subsidiaries.

2. BANK INDEBTEDNESS

The bank borrowings are secured by a simple debenture containing a fixed charge on fixed assets and a floating charge on other assets.

3. LONG-TERM DEBT

The long-term debt consists of:

	1972	1971
	($000's)	
6% mortgages payable, due December 31, 1981	$ 3,060	$ 3,230
5% series "B" first mortgage bonds, due April 15, 1973	750	904
	3,810	4,134
Less amounts due within one year	920	324
	$ 2,890	$ 3,810

Annual principal repayments on the 6% mortgages payable amount to $170,000 to 1980, with a final payment of $1,700,000 on December 31, 1981.

4. SHARE CAPITAL

The class "A" and class "B" common shares are equal in all respects except that the class "A" common shares have 100 votes per share and the class "B" common shares have one vote per share. A holder of class "A" common shares, at any time may convert them into an equal number of class "B" common shares. During the year 2,255 class "A" shares were converted into class "B" shares.

5. STOCK OPTIONS

During 1972, the company issued 12,500 class "A" and 28,000 class "B" common shares for a total consideration of $179,000 to employees who had been granted options to purchase these shares under stock option plans. During the year options on 4,500 class "B" common shares were cancelled. At December 31, 1972 options on 1,500 class "A" and 18,000 class "B" shares have been granted but not exercised under these plans.

Option prices on these shares are as follows:

1,500 class "A" and 3,000 class "B" shares at $5.08 per share;

7,500 class "B" shares at $8.00 per share and

7,500 class "B" shares at $8.75 per share.

The exercise of these options would not materially dilute earnings per share.

6. DISCONTINUANCE OF OPERATIONS

In May 1972, the company decided to wind down and terminate the operations of its subsidiaries doing business in the United Kingdom in view of the substantial losses being incurred. All operations have been discontinued as at the year-end. The net losses and costs incurred in winding down the operations and disposing of assets have been charged to income as an extraordinary item in 1972. No provisions for recoveries of income taxes have been made with respect to these costs and losses, except to the extent of $205,000 in 1971 relating to the provision for losses on the trading account between the parent company and its U.K. subsidiary. The presentation of 1971 operating results has been reclassified to conform with 1972.

7. PENSION PLANS

There are a number of pension plans for present and retired employees of the company and its subsidiaries. During the year amendments were made to certain plans providing for increased benefits. Based upon the most recent actuarial valuations (December 31, 1970) the total estimated unfunded liabilities as at December 31, 1972 amount to approximately $2,600,000 which amount is being amortized principally over the period ended December 31, 1989.

8. REMUNERATION OF DIRECTORS AND OFFICERS

The company has ten directors. The aggregate remuneration of directors (including past directors) as directors was $20,000 in 1972 and $17,000 in 1971. The company has eleven officers of whom five are or were also directors. The aggregate remuneration of officers (including past officers) as officers was $448,000 in 1972 and $440,000 in 1971. No amounts were paid by subsidiary companies to these directors and officers.

9. LEASE AGREEMENTS

Under the terms of various lease agreements the company is obligated to annual rental payments of $250,000.

Auditors' Report

To the Shareholders of

GSW Limited-GSW Limitée:

We have examined the consolidated balance sheet of GSW Limited-GSW Limitée and its subsidiary companies as at December 31, 1972 and the consolidated statements of income, retained earnings, contributed surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972, and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
February 22, 1973.

Clarkson, Gordon & Co.
Chartered Accountants

Divisions of the Company and the products they market

Frank Price — Group Vice-President — Consumer Products Group

APPLIANCE DIVISION
Frank Price, Group Vice-President — General Manager
London, Fergus, Weston, Ont.
Moffat, McClary, GSW
electric ranges
gas ranges
refrigerators
dishwashers
chest freezers
automatic washers
dryers
wringer washers
twin-tub washers
air conditioners

ELEMENT DIVISION
Jack Vincent, General Manager
Weston, Ont.

HOUSEWARES DIVISION
Norm St. Jean, General Manager
Montreal, P.Q.
stainless steel cookware
aluminum cookware
pantryware
enamel cookware
sheet iron cookware

SERVICE DIVISION
Jim Edwards, General Manager
Head Office, Weston, Ont.
GSW Home Service

Lou Hollander — Group Vice-President — General Products Group

FARM EQUIPMENT DIVISION
Paul Rodgers, General Manager
Fergus, Ont.
mechanical feeding equipment
silo unloaders
gutter cleaners
liquid manure spreaders and equipment
steel pens and stalls
vitreous enamel steel silos

PUMP DIVISION
Norm Smith, General Manager
Fergus, Ont. and Ajax, Ont.
Beatty, McDougall and Sta-Rite
domestic water pumps, tanks
and accessories
swimming pool equipment

WATER HEATER DIVISION
Bill Arbuthnot, General Manager
London, Ont. and Dundas, Ont.
electric water heaters
gas water heaters
glass-lined range boilers
galvanized range boilers
glass-lined storage vessels

METALWARES DIVISION
Gord Woodrow, General Manager
Hamilton, Ont.
galvanized ware
dairy pails
stove pipe and elbows
roof drainage
waste paper baskets

BUILDING PRODUCTS DIVISION
Tom Donovan, General Manager
London, Ont.
toilet compartments
metal lockers and gym boxes

INDUSTRIAL DIVISION
Art Jones, General Manager
Fergus, Ont.
wringer washers
Lovell wringers
components

TRAILER DIVISION
Dave Temple, Manager
Fergus, Ont.
boat and snowmobile trailers

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