

# Schneider Corporation

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**AUG 10 1993**

Annual Reports  
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## FINANCIAL HIGHLIGHTS

(Year ended October 25, 1986)

	(thousands of dollars except where noted)	
	1986	1985
Sales	648,468	648,598
Earnings before extraordinary items	1,102	2,009
Per share, in dollars	.42	.76
Percent of sales	.17	.31
Percent of shareholders' opening equity	1.87	3.24
Net earnings (loss)	1,102	(2,036)
Per share, in dollars	.42	(.77)
Percent of sales	.17	(.31)
Percent of shareholders' opening equity	1.87	(3.28)
Dividends paid	1,167	1,167
Rate per share, in dollars	.44	.44
Working capital	21,995	22,786
Working capital ratio	1.42	1.41
Shareholders' equity at end of year	58,715	58,780
Per share, in dollars	22.15	22.17

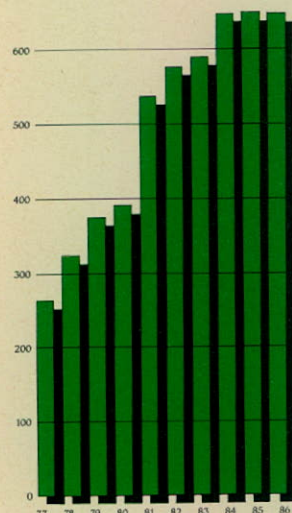


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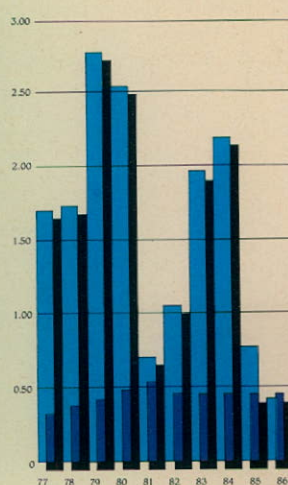
# SCHNEIDER CORPORATION ANNUAL REVIEW 1986

**Sales**  
in millions of dollars

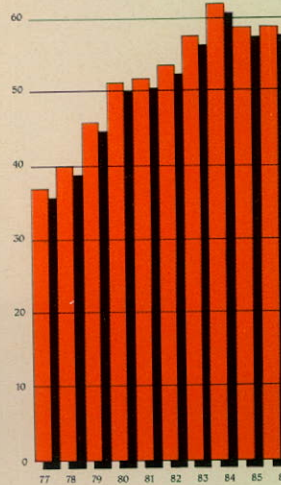


**Earnings per share before extraordinary items**  
in dollars

■ Dividends

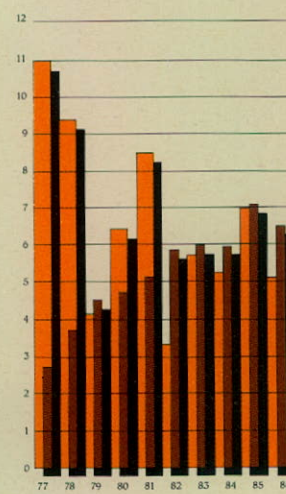


**Shareholders' equity at end of year**  
in millions of dollars

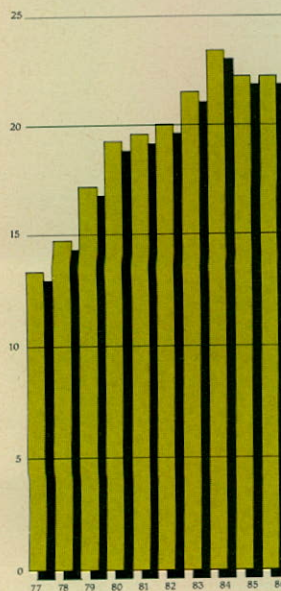


**Capital expenditures and Depreciation**  
in millions of dollars

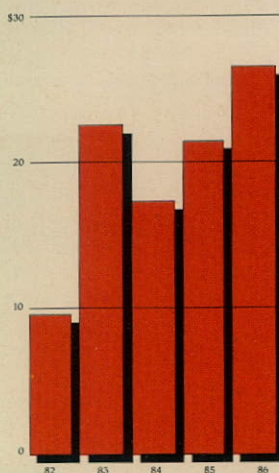
■ Depreciation



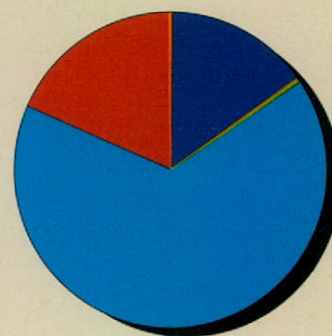
**Equity per share at end of year**  
in dollars



**Price range per Class A share at October 31 1982-1986**  
in dollars



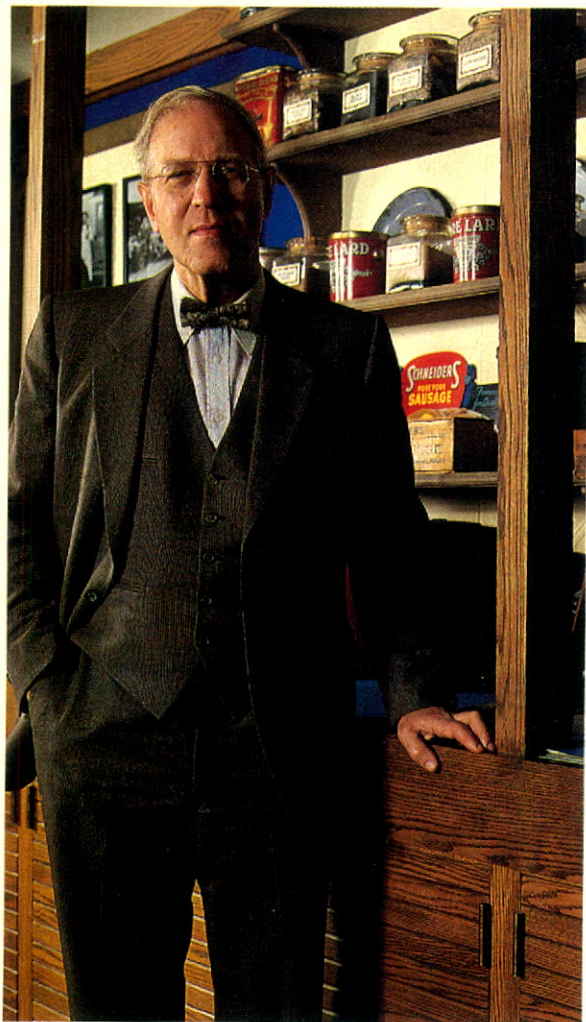
**1986 sales dollars analysis**



- **Earnings before extraordinary item .2¢ (\$1,102,000)**  
For dividend payments, retained in business for continuous operations and future growth.
- **Employees 18.1¢ (\$117,129,000)**  
Wages and benefits.
- **Operating expenses 14.5¢ (\$94,489,000)**  
Supplies, utilities, marketing, finance and administration, maintenance, distribution, depreciation.
- **Income taxes .1¢ (\$883,000)**  
Federal and Provincial.
- **Materials 67.1¢ (\$434,865,000)**  
Meat, other ingredients and packaging.



## CHAIRMAN'S LETTER TO SHAREHOLDERS



F.P. Schneider  
Chairman and President, Schneider Corporation

**T**he 1980's are proving to be a period of great change, for all levels of industry and government. Functions of the major financial houses are becoming blurred, corporate takeovers are altering the names of household institutions, and Canada's relationship with the United States is currently moving towards a more restrictive way of life, despite government initiatives for freer trade.

On the corporate scene, changes in company structure are also frequent, as organizations strive to suit a shifting marketplace. Here, at Schneiders, we are no exception to this rule. The fiscal year of 1986 has again been a period of modernization and adjustment, as we streamline our corporate structure to meet the new consumer age, and adapt our products and policies accordingly.

Chief among the changes has been the unification of the operating companies under the title of J.M. Schneider Inc. As a result, I believe we have a more efficient and unified structure than ever before, enabling us to pool our production and distribution facilities, and to better serve a wide variety of markets.

Within the company itself, major changes have been made. Operations, Finance and Administration, and Sales and Marketing, have been reorganized to provide products and services in the most cost-efficient manner. Sales and Marketing, for instance, has been divided into three areas, Grocery, Retail Meat, and Foodservice, with each Division becoming the direct responsibility of a Vice-President of the company. Complete integration and restructuring is now in place, and as a result, we are ready to move forward in 1987 with well-founded hopes for strong and continuing growth.

Costs directly attributable to these processes were \$3,106,000, with an impact on earnings of \$.65 per share. To give you an idea of how to evaluate earnings – if these special, non-recurring integration and restructuring costs had been excluded, your earnings per share would have been \$1.07, which is \$.31 better than the comparable results of the previous year, before extraordinary items. This level of earnings represents a 4.8% return on opening shareholders' equity, and is far short of what we need in order to diversify and grow as we should. While costs have been reduced during fiscal 1986, as a result of



the integration program, the real benefits will not be felt until 1987.

Because of the internal changes taking place, as well as pressure in the marketplace, dollar sales in fiscal 1986 were virtually unchanged from the previous year. However, we are confident that with the improved company structure, and the aggressive new policies now in place, sales will move ahead in fiscal 1987, with a consequent increase in the return on the equity invested in the company.

Turning to other matters, I would like to report on changes to our Board of Directors. During the 1986 fiscal year, we accepted the resignation of two Board members because of possible conflicts of interest. Milo D. Shantz had been a member of the Board for several years, and made a valuable contribution during his tenure; Jim A. Schollar was only a recent appointment. These resignations were accepted with regret, with our appreciation for both long and short-term periods of service.

Dawson C. Jamieson our Senior Vice-President and Chief Financial Officer for many years, and an employee of the company since 1941, also retired early in calendar 1987, and we owe him a very large debt of thanks. Fortunately, however, we will still be able to profit from his wide knowledge and experience, as he continues to serve as a member of our Board of Directors.

Gerald A. Hooper, C.A., came on staff in 1986, as Vice-President of Finance and Administration for our operating company, J.M. Schneider Inc. He has had familiarity with our financial affairs for some time as a senior partner of a major auditing firm of chartered accountants, and has now been appointed Chief Financial Officer of Schneider Corporation.

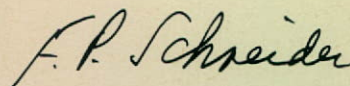
Douglas W. Dodds has served as President of our operating company, J.M. Schneider Inc., for more than a year. We greatly appreciate the work he has done during this difficult period of integration and restructuring. The groundwork that has been laid as a result will, I sincerely believe, bring this company to levels of growth and increased earnings that will justify the faith of you, the shareholder, in the future of this company.

It has been particularly gratifying, in view of the number of changes we have undergone, to note the degree of investor interest in our shares and their increased market value

over the course of the year. During the fiscal year, the price of Class A shares rose by 24.4%, from \$21.50 as of October 31, 1985 to \$26.75 at the end of fiscal 1986.

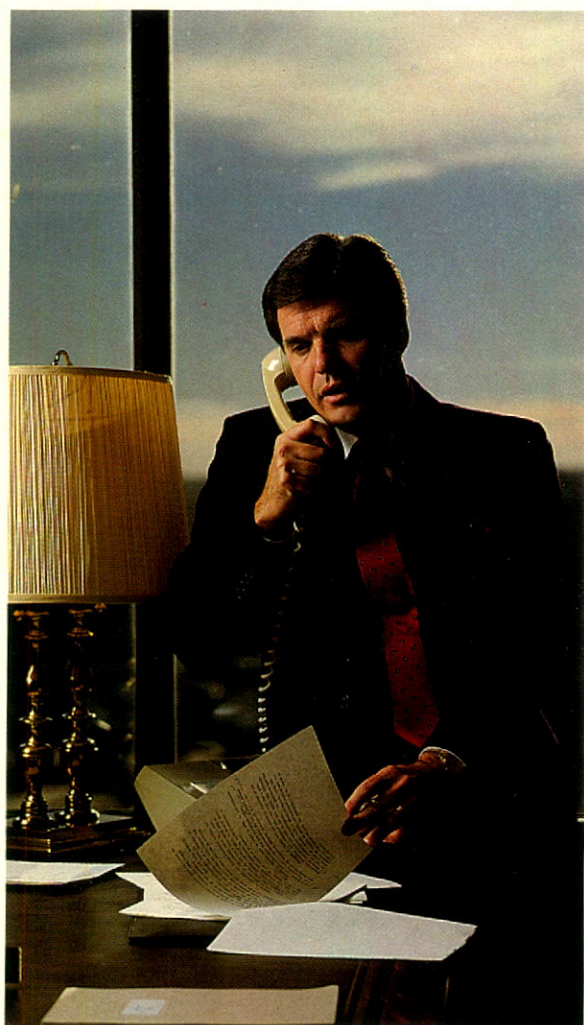
Our major financial goal continues to be the reversal of recent trends, by the earning of a significant return on shareholders' equity. This can be achieved by continued careful planning and execution, as well as through our traditional strengths of reliability and excellence, as the company progresses towards the ideal combination of products and market.

I do thank all our employees for their fine efforts during this year of change, and our shareholders for their continued support.



F.P. Schneider  
Chairman and President  
Schneider Corporation





Douglas W. Dodds  
President, J.M. Schneider Inc.

Our strength, at Schneiders, has always rested on the high quality of our products and our employees, the standards we represent, and our tradition of reliability and excellence. With the onset of the Eighties, however, and the changing demands of the consumer, we have had to add a new dimension to our reputation – the ability to respond to and take advantage of change. The 1980's have reduced some of the traditional markets of the past – but have also revealed opportunities that should introduce a new age of success for our company.

The main focus of Schneiders, in 1986, has been founded on the twin principles of consolidation and growth. On the one hand, we have built on established markets; on the other, we have taken advantage of the expanding areas that are opening up in the food industry of the Eighties.

### CHANGING TASTES

Food habits in Canada and the U.S. have been evolving rapidly, as recent market surveys show, and the range of dishes we eat today would have astonished our pioneer forebears. Canada's cultural blend now represents all parts of the globe, with foods and spices in the shops which were unknown fifteen years ago. Demographics have also changed the picture. The 'baby boom' generation, with its tastes for rich and varied cuisine, has grown to be a central force in the marketplace. The demand for red meats continues to change, as older sectors of the population become more conscious of diet and health. For both young and old, calorie-counting has become a major concern.

Change is represented, not only in what we eat, but how we eat it. We dine out more, and spend less time in our kitchens when we are at home. Canadians are demanding more convenience products, quicker service, better information, and greater novelty in fresh and frozen foods. The microwave oven, with its quick reheating abilities, has expanded the range and variety of items that even short-menu chain restaurants can offer. There is no doubt that there has been a revolution in the way we eat, and with change occurring at the speed it does today, further shifts will follow.



## CONSOLIDATION – AND GROWTH

Consolidation and growth have been key philosophies in the streamlining of the company operations, which have undergone major change in 1986 to suit the changing marketplace. As outlined in the Chairman's report, Schneider Corporation has now only one subsidiary, J.M. Schneider Inc., a single company with an effective management team, greatly improved chains of communication, and a more efficient use of its varied and flexible facilities. Our goal is not only to consolidate our market share, but to expand it – as well as to emphasize more value-added products. And for the widening range in food tastes, our Research and Development Division is working on exciting new concepts, as well as updating more traditional items.

## SEPARATE FUNCTIONS – CLOSER LINKS

The meat processing industry has traditionally been one of low returns on sales, while being extremely labour-intensive. There is therefore no room for high overheads, and cost controls are of the greatest importance. Simplification of the company structure, therefore, was a matter of the greatest urgency for 1986, in order to enable our company to match the changing times.

We have therefore drawn together all the companies that were previously isolated in different organizations, and have restructured them as Divisions within J.M. Schneider Inc. This means that, while management control remains at the core of the company structure, duplication of many administrative services has been removed. Where there were five companies, each with its own internal services, now there is one, with a single administrative process woven through all shared activities.

These changes not only yield direct administrative savings, but also improve communications within an obviously streamlined structure. As a result, systems work more efficiently, and productivity is higher.

One of the most satisfactory results of the reorganization process has been the marked improvement in employee morale, with happier working relationships as a result. For example, in fiscal 1986, seven separate two-year contracts were ratified with bargaining units within the company, which were fair to employees and well in line with industry standards.

## FLEXIBILITY

It is perhaps important to note that flexibility is of exceptional importance in a company such as ours. Few other industries experience, as we do, the day-to-day fluctuations in the price of raw materials, and the consequent swings in direct costs and value of inventory. Few others experience such changes in consumer tastes and variety of product demand. It is fortunate that today's market analysis can produce material of such sophistication and detail, to enable us to plan for further changes in the demographic structure, and tailor our products accordingly.

We are therefore working to reduce future vulnerabilities in this area, by broadening our product base, intensifying our market analysis procedures, and concentrating on value-added products.

The practice of strengthening existing products, thereby enhancing our tradition of quality and reliability, is a strategy as old as the company itself. The marriage of past strengths and modern expertise is one of the cornerstones of management's objectives. It is on this solid foundation that Schneiders is preparing for the exciting years that lie ahead.



Douglas W. Dodds  
President  
J.M. Schneider Inc.



### OPERATIONS

**M**anufacturing has greatly benefited from the new improvements in the corporate structure, as the three areas of Frozen Foods, Cheese, and Meat Manufacturing have been drawn together under the umbrella of J.M. Schneider Inc. This has resulted in a more sophisticated, productive organization, with the best features of each company incorporated into one unit, improved systems support, and managers no longer isolated from each other in different companies.



Left to Right: Frank H. Dingethal, Director of Meat Manufacturing, John E. Lauer, Vice-President - Operations.

### STREAMLINING THE PRODUCT

As well as aligning the corporate systems, it has been essential to improve productivity and efficiency, if Schneiders is to – not merely retain – but improve its position in an increasingly competitive market. Management has worked towards this objective in a number of ways. Adjustments have been made in some processes, to enhance product quality. Packaging has been redesigned, with the help of the latest equipment and technology, and a \$5.1 million capital expenditure program has been implemented, devoted almost exclusively to productivity-enhancement within the operations area.

Another improvement gained by restructure has been the consolidation of all company delivery systems. Much progress has already been made, and further streamlining is underway. History has shown that whenever Schneiders' own delivery service is used, customer service improves as a result.

### KEEPING PACE WITH CHANGE



Left to Right: Allan H. Orth, Director of Personnel and Public Relations, Gerald S. Fischer, Director of Finance, Gerald A. Hooper, Vice-President - Finance and Administration.



## SALES AND MARKETING

As part of the policy of ongoing review, and with the awareness that markets are changeable, an Optimization Program has been set up, in conjunction with systems analysts from the University of Waterloo. This program not only makes use of the best modern resources available, in order to develop such techniques as better cost formulations and cost pricing techniques, as well as the most efficient use and manufacture of materials; it also takes advantage of the extensive local resources to hand, and brings Schneiders in closer touch with the community. In addition to this joint program, CAD/CAM systems are at work in many areas of the plants. Computer-Assisted Manufacturing programs monitor several production processes, while Computer-Assisted Design programs are helping to design completely new manufacturing systems.

### THE SCHNEIDERS TEAM

The ability to work as a team has been one of the key goals at Schneiders, both at the management level, and within the company as a whole. The people on these pages are part of a new management group that has been put in place over the past year. They have been appointed for their experience and management skills, but above all, for their ability to provide leadership for their 3500 fellow employees who are the real strength of the Schneiders team.

We are happy to find that improved employee morale has been a major, tangible benefit of the company's streamlining. Management is now working towards increased employee participation as well as a return to the "shared values" that were a foundation of the Schneiders family of the past.

**S**ales and Marketing falls into three main categories – Grocery, Retail Meat, and Foodservice – each with clearly specified areas of interest and activity. For the first time, the Division's operations are governed by a marketing strategy that has been tailored to fit the markets served by Schneiders, and is specifically suited to the changing needs of today.



Left to Right: William D. McMichael, Vice-President, Sales and Marketing – Grocery Division, James E. Faulkner, Director of Sales – Grocery Division.

### GROCERY DIVISION

This Division has been fully integrated into the Schneiders corporate structure, with clearly defined functions of marketing and product development, as well as increased sales targets. These will be achieved in various ways: by rationalization of the present grocery product line, to eliminate slow-moving products; by expansion of the distribution base; and by the launch of several new product lines with enhanced sales programs, to give each the best possible backup support.

Integration of the Grocery Division with Retail Meat and Foodservice has resulted in a number of benefits, both in



### SALES AND MARKETING

administration procedures, and in an improved resource base. Perhaps most important has been the benefit of the Schneider name, which has greatly enhanced the profile of the Division.

In addition, the distribution base of the Division has been expanded in two ways: by increasing geographic coverage, and by spreading the business through a broader customer base, to reduce dependence on changes in any particular customer group or region. These improvements are backed by strong advertising programs, as well as by new packaging and design, in order to increase consumer awareness of Schneider products.

#### RETAIL MEAT DIVISION

New directions in this Division have been of particular importance, since domestic sales were suffering from increased costs, fluctuating hog prices, and considerable uncertainty in the marketplace. There are therefore three strategic priorities: the evaluation of current products, the development of new markets by expanding product lines, and the increase of geographic coverage. These strategies should not only anticipate future problems in the Meat

Division, but bring about marked increases in sales and productivity.

#### Success Stories

Cheese continues to be a mainstay of the Grocery Division, particularly since all products are now sold under the Schneider label. A success story, in this area, has been the exceptional growth in the sale of cheese slices in Ontario, which last year came from modest beginnings to an impressive 15% of market share. Concentration on this continuing trend, together with implemented consumer and trade activity, and tie-ins with the Retail Meat Division on other products, should ensure a period of continuing growth in 1987.

#### Re-evaluation . . .

An essential part of product development is the evaluation of current items, as consumer tastes shift and alter. It is possible to develop new markets for existing products by improving packaging, emphasizing quality, and varying the makeup of the product. Product identification is of great importance, an example being the various 'deli' products, which have all been drawn together under one label, to give each the best possible backup support, as well as association with the quality name of Schneiders.

#### Developing New Markets

The most exciting innovation in 1986 has been the launch of the LIFESTYLE line, with 28 products in the areas of processed and frozen meats and cheese. Reception has been excellent, with listings on a majority of items in all major accounts across Canada.

The LIFESTYLE line has been specifically designed for consumers between 18 and 49 years of age, and its introduction is an example of the important role of Research and Development in designing foods for developing markets. LIFESTYLE products reach out to new consumers in a number of ways: by providing a quality line with less fat, fewer calories, and reduced salt content. However, our demanding set of standards had to be met before they could be marketed. These products had to retain the shelf life of more traditional products, as well as the good quality and taste on which Schneiders has built its name.

The results of these tough criteria have been well



Left to Right: Lewis Bradich, Director of Marketing, Paul E. Lang, Director of Sales - Meat Division, James J. Petrozzi, Vice-President, Sales and Marketing - Retail Meat Division.



rewarded, and no other company has succeeded in reaching this new market. Sales volumes for 1986 more than equalled expectations, and continued growth is anticipated in the coming year, as Schneiders expands within its strongest area, the processed meat sector.

This broadening of the product base will not only help to increase overall market share, but will balance the future impact of volatile price changes.

### Expanding The Marketplace

As well as expansion within a given area, Schneiders has been looking to new prospects outside Canada. The Export Division is broadening its market base in the North-eastern United States, by selling more products to existing customers, and by enlarging the sales area as resources and distribution facilities permit. Further afield, the Division is pursuing a number of off-shore opportunities in the highly competitive international commodity market.

In general, all consumer activity during fiscal 1986 was targeted to generate increased trial, repeat purchase, and multiple purchase of brand lines across Canada; and to strengthen Schneiders' current dominant market position. As a result, market share improved in all categories for which survey information was available, and this consumer strategy will therefore be continued into the coming year. Further growth is envisioned through 1987, even in categories which show reduced consumption patterns overall, because of the aggressive trade and merchandising program now in place.

### FOODSERVICE DIVISION

This is perhaps the area of the greatest potential for sales growth, since the market is expanding so rapidly, and it is one that Schneiders is actively challenging.

Food services today cover a widening range of activities, with boundaries stretching from the fast-growing food chains, through company cafeterias, institutions, airline services and hospitals, to government services and homes for the aged. Each of these areas has extensive room for growth in certain directions. It will be the ability to forecast the ways in which these markets will expand, and to adjust



Left to Right: John A. Howard, Vice-President, Sales and Marketing – Foodservice Division, James A. Gordon, Director of Research and Development.

accordingly, that will consolidate and expand Schneiders profitability in this market.

In order to meet this challenge, the Division has restructured its sales force to make the fullest and most efficient use of manpower and resources, and initial sales drives are being concentrated in specific areas. Since the product line has been expanded to include all Schneiders products, the sales force has gained, not only a broader range of goods to sell, but the confidence of knowing that certain products can be tailored to suit the needs of specific national accounts.

A fundamental aspect of the benefits of integration, in this Division, is the current stability of effort and purpose. The sales team is preparing for a strong upswing in sales, backed by the application of excellent promotional support, the spread of Quality Assurance throughout the entire company, and the full resources and strength of the Schneider organization.

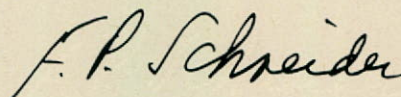


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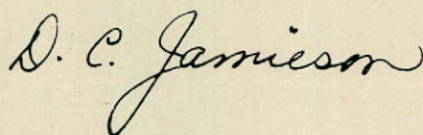
**Consolidated  
balance sheet  
as at  
October 25, 1986**

Assets	(in thousands)	
	1986	1985
Current assets		
Accounts receivable	\$ 30,691	\$ 28,597
Inventories	41,344	46,067
Income taxes recoverable		692
Other	2,430	2,545
Total current assets	74,465	77,901
Investment in associated company		1,895
Fixed assets	57,898	58,954
Other assets		
Production licences and rights	3,189	3,280
Intangible assets	1,693	1,784
Total other assets	4,882	5,064
Total assets	\$137,245	\$143,814

Approved by the Board



F.P. Schneider,  
Director



D.C. Jamieson,  
Director

The accompanying notes are  
an integral part of these statements



Liabilities	(in thousands)	
	1986	1985
Current liabilities		
Bank advances	\$ 5,412	\$ 3,754
Outstanding cheques	8,100	4,306
Accounts payable and accrued liabilities	36,136	37,064
Income taxes payable	512	
Principal due within one year on debentures and loans	1,993	9,719
Current obligations under capital leases	317	272
Total current liabilities	52,470	55,115
Long term debt		
Debentures and loans	22,415	24,351
Obligations under capital leases	648	648
Total long term debt	23,063	24,999
Deferred income taxes	2,997	4,920
<b>Shareholders' equity</b>		
Capital stock	8,439	8,439
Retained earnings	50,276	50,341
Total shareholders' equity	58,715	58,780
Total liabilities and shareholders' equity	\$137,245	\$143,814

## Auditors' Report

To the Shareholders of Schneider Corporation

We have examined the consolidated balance sheet of Schneider Corporation as at October 25, 1986 and the consolidated statements of earnings, 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 October 25, 1986 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.

Kitchener, Canada  
November 28, 1986

*Thorne Ernst & Whinney*

Chartered Accountants



## ANNUAL REVIEW 1986

**Consolidated  
statement of  
earnings  
year ended  
October 25, 1986**

	(in thousands)	
	1986	1985
Sales	\$648,468	\$648,598
Expenses		
Cost of products sold and operating expenses	632,634	633,382
Interest	4,285	5,303
Depreciation and amortization	6,458	7,072
	643,377	645,757
Earnings before undernoted item	5,091	2,841
Integration and restructuring costs	3,106	
Earnings before income taxes and extraordinary items	1,985	2,841
Income taxes	883	832
Earnings before extraordinary items	1,102	2,009
Plant closures and write off of intangible assets		(4,045)
Net earnings (loss)	\$ 1,102	\$ (2,036)
Earnings per share before extraordinary items	\$.42	\$.76
Earnings (loss) per share	\$.42	\$(.77)

**Consolidated  
statement of  
retained earnings  
year ended  
October 25, 1986**

	(in thousands)	
	1986	1985
Balance at beginning of year	\$50,341	\$53,544
Net earnings (loss)	1,102	(2,036)
	51,443	51,508
Dividends		
Class A shares	1,002	1,002
Common shares	165	165
	1,167	1,167
Balance at end of year	\$50,276	\$50,341

The accompanying notes are  
an integral part of these statements



## ANNUAL REVIEW 1986

### Consolidated statement of changes in financial position year ended October 25, 1986

	(in thousands)	
	1986	1985
Cash provided by (used in) operating activities		
Cash from operations	\$ 5,357	\$ 8,053
Net change in non-cash working capital balances relating to operations	6,814	(3,493)
	12,171	4,560
Cash provided by (used in) investment activities		
Additions to fixed assets	(5,072)	(6,983)
Addition to machinery and equipment under capital leases	(356)	(830)
Proceeds on sale of investment in associated company	2,000	
Proceeds on sale of fixed assets	353	608
Acquisitions		(7,376)
Dividends from associated company	30	228
	(3,045)	(14,353)
Cash provided by (used in) financing activities		
Decrease in long term debt	(9,973)	(1,499)
Dividends	(1,167)	(1,167)
Increase in capital lease obligations	356	830
Issue of debenture		15,000
	(10,784)	13,164
Increase (decrease) in bank advances	1,658	(3,371)
Bank advances at beginning of year	3,754	7,125
Bank advances at end of year	\$ 5,412	\$ 3,754
Cash from operations is derived as follows:		
Earnings before extraordinary items	\$ 1,102	\$ 2,009
Adjustments for non-cash items		
Depreciation and amortization	6,458	7,072
Deferred income tax reduction	(1,923)	(922)
(Gain) loss on sale of fixed assets	(145)	100
Share of earnings of associated company	(135)	(206)
	\$ 5,357	\$ 8,053

The accompanying notes are  
an integral part of these statements



## ANNUAL REVIEW 1986

**Notes to  
consolidated  
financial  
statements  
year ended  
October 25, 1986**

**1. Summary of accounting policies**

(a) Basis of consolidation

The consolidated financial statements include the accounts of Schneider Corporation and its wholly owned subsidiary, J.M. Schneider Inc., which was formed during the year by the amalgamation of all of the wholly owned subsidiary companies of Schneider Corporation.

(b) Inventories

Products are valued at lower of cost and net realizable value. Since most products can be sold at any stage in their production, it is not practical to segregate them into raw materials, work in process or finished goods. Cost includes laid down material cost, manufacturing labour and certain elements of overhead to the stage of production completion. Net realizable value is based on the adjusted wholesale trading price at the balance sheet date.

Supplies, which include packaging, maintenance and manufacturing materials, are valued at the lower of cost and replacement cost.

(c) Fixed assets

Fixed assets are stated at cost which includes capitalized interest incurred on major projects during the period of construction. Depreciation is provided on a straight line basis to amortize the cost of the assets over their estimated useful life with estimated useful lives not to exceed certain limits.

	Maximum useful lives	Annual rates of depreciation
Buildings of solid construction	40 years	2.5% to 4%
Buildings of frame construction and improved areas	20 years	5% to 10%
Machinery and equipment	10 years	10% to 20%

Depreciation is not provided on assets under construction.

The capitalized values of machinery and equipment under capital leases are depreciated over the lease terms using a straight line method.

(d) Other assets

Other assets are being amortized on a straight line basis over their estimated lives, such amortization period not exceeding 40 years. The company recognizes permanent impairment in the value of these assets by additional charges against earnings.

(e) Pension plans

The unfunded past service obligation under pension plans is charged against earnings in the year in which it is paid.

(f) Earnings per share

Earnings per share are calculated on the weighted average number of shares outstanding in the year.

**2. Name change**

By Articles of Amendment dated April 29, 1986 the company changed its name from The Heritage Group Inc. to Schneider Corporation.



## ANNUAL REVIEW 1986

3. Fixed assets	(in thousands)			
	1986		1985	
	Cost	Accumulated depreciation	Net	Net
Land and improved areas	\$ 4,593	\$ 492	\$ 4,101	\$ 4,100
Buildings and leasehold improvements	48,768	20,321	28,447	29,425
Machinery and equipment	62,258	39,141	23,117	22,784
Assets under construction	1,349		1,349	1,832
	116,968	59,954	57,014	58,141
Machinery and equipment under capital leases	1,481	597	884	813
	\$118,449	\$60,551	\$57,898	\$58,954

The Board of Directors has approved capital expenditures on future projects of \$7,937,000. An additional \$325,000 is expected to be required to complete projects now under construction.

4. Debentures and loans	(in thousands)	
	1986	1985
12 <sup>3</sup> / <sub>10</sub> % Sinking Fund Debentures, maturing August 15, 1995	\$15,000	\$15,000
10 <sup>3</sup> / <sub>4</sub> % Sinking Fund Debentures, maturing February 1, 1997	6,750	7,200
8 <sup>1</sup> / <sub>2</sub> % Sinking Fund Debenture, maturing June 1, 1991	1,000	1,100
13 <sup>1</sup> / <sub>2</sub> % Loan payable, maturing July 15, 1992. Interest to July 1987 will be forgiven subject to certain conditions	1,500	1,500
Loans payable with interest from 8% to 9 <sup>1</sup> / <sub>2</sub> %, maturing at various dates to January 1, 1989	158	235
Debenture and mortgage payable, repaid during the year		9,035
	24,408	34,070
Less principal included in current liabilities	1,993	9,719
	\$22,415	\$24,351
Interest for the year	\$ 3,009	\$ 2,558



## ANNUAL REVIEW 1986

**Notes to  
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Principal due within each of the next five years is as follows (in thousands):

1987	\$1,993
1988	2,166
1989	2,128
1990	2,158
1991	2,201

The debentures and loans are secured by fixed and specific charges on certain assets and floating charges on all assets of the company.

A trust indenture securing the sinking fund debentures contains certain covenants some of which limit the creation of additional debt and the entering into of long term leases and restrict the use of proceeds from the sale of a substantial part of the company's fixed assets. The company has undertaken not to declare or pay dividends or otherwise make changes in its capital which would have the effect of reducing the company's equity below \$50,000,000. In addition, the company is required to maintain certain other financial ratios.

#### 5. Obligations under leases

##### Capital leases

The following is a schedule of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of October 25, 1986 (in thousands);

1987	\$ 415
1988	366
1989	280
1990	94
1991	9

Total minimum lease payments	1,164
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Less amount representing interest at rates from 10% to 12%	199
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Present value of net minimum lease payments	\$ 965
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This amount is reflected in the balance sheet as current and non-current obligations under capital leases of \$317,000 and \$648,000 respectively.

Interest for the year on capital lease obligations amounted to \$127,000 (\$103,000 in 1985).

##### Operating leases

The following is a schedule of future minimum rental payments required under operating leases as of October 25, 1986 (in thousands):

1987	\$ 4,177
1988	3,455
1989	1,984
1990	596
1991	308
Later years	2,084
	<u>\$12,604</u>



## ANNUAL REVIEW 1986

### 6. Capital stock

#### Authorized

5,401,000 Class A non-voting shares  
373,627 Common shares

	(in thousands)	
	1986	1985
Issued		
2,277,528 Class A shares	\$8,205	\$8,205
373,627 Common shares	234	234
	\$8,439	\$8,439

The holders of the Class A shares are entitled to a 24¢ cumulative annual dividend and equal participation with the holders of common shares in annual dividends in excess of 24¢ and in any distribution of assets of the company to its shareholders.

### 7. Integration and restructuring costs

During the year, the company decided to undertake certain integration and restructuring actions to reduce fixed costs and improve future profitability. This involved:

- (a) the amalgamation of all subsidiaries into one operating subsidiary company, J.M. Schneider Inc., and the resultant combination of services and functions
- (b) a voluntary retirement program and other staff reductions

The costs of these actions amount to \$3,106,000 and have been reflected as an unusual expense on the statement of earnings.

### 8. Income Taxes

The company's effective income tax rate on earnings before extraordinary items is made up as follows:

	1986	1985
	%	%
Combined basic Canadian federal and provincial rate	53.3	51.6
Increase (decrease) in income tax rate resulting from:		
Manufacturing and processing deduction	(6.8)	(6.6)
Inventory allowance	(2.6)	(20.5)
Tax paid earnings of associated company	(6.4)	(6.2)
Non-deductible expenses	7.4	12.2
Other	(.4)	(1.2)
	44.5	29.3



## ANNUAL REVIEW 1986

**Notes to  
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October 25, 1986**

**9. Pension plans**

The company charged against income \$718,000 (\$404,000 in 1985) for past service commitments under pension plan agreements. The present value of unfunded past service obligations at October 25, 1986, estimated by the company's actuarial consultants to be \$2,445,000, will be paid in accordance with the provisions of The Ontario Pensions Act.

**10. Other information****(a) Operations**

The company operates substantially in one industry, the processing and distribution of meat and related food products.

**(b)**

	(in thousands)	
	1986	1985
Depreciation	\$6,276	\$6,831
Amortization	\$ 182	\$ 241



## TEN YEAR STATISTICAL REVIEW

	1986	1985	1984	(thousands of dollars except where noted)				1979	1978	1977
	1983	1982	1981	1980						
Sales	648,468	648,598	645,558	590,074	581,071	539,364	391,637	374,374	324,675	262,834
Earnings										
Earnings before income taxes and extraordinary items	1,985	2,841	10,011	9,494	5,125	3,304	11,535	12,164	7,766	7,544
Income taxes	883	832	4,245	4,222	2,238	1,382	4,844	4,620	3,079	2,944
Earnings before extraordinary items	1,102	2,009	5,766	5,272	2,887	1,922	6,691	7,544	4,687	4,600
Earnings before extraordinary items as a percent of sales	0.17	0.31	0.89	0.89	0.50	0.36	1.71	2.02	1.44	1.75
Net earnings (loss)	1,102	(2,036)	5,766	5,272	2,887	1,922	6,691	7,544	4,687	4,600
Net earnings (loss) as a percent of sales	0.17	(0.31)	0.89	0.89	0.50	0.36	1.71	2.02	1.44	1.75
Dividends paid	1,167	1,167	1,167	1,167	1,162	1,390	1,258	1,088	1,011	824
Capital expenditures	5,072	6,983	5,254	5,741	3,329	8,486	6,406	4,104	9,389	11,030
Depreciation and amortization	6,458	7,072	5,960	5,978	5,861	5,129	4,725	4,476	3,674	2,652
Salaries, wages and employee benefits	117,129	126,791	128,316	108,508	100,515	88,924	71,004	61,538	56,501	47,747
Number of employees	3,539	3,971	3,970	3,827	3,817	3,880	3,327	3,131	3,009	2,874
Working capital	21,995	22,786	24,336	22,487	22,333	18,816	23,842	22,304	17,286	18,984
Working capital ratio	1.42	1.41	1.49	1.51	1.62	1.42	1.89	2.11	1.92	2.44
Total assets	137,245	143,814	136,811	126,867	119,715	126,692	95,537	83,627	76,275	65,057
Shareholders' equity at end of year	58,715	58,780	61,983	57,384	53,279	51,300	50,766	45,364	40,118	36,361
Percent return on equity at beginning of year	1.87	(3.28)	10.05	9.90	5.62	3.79	14.75	18.80	12.89	14.25
Per share statistics, in dollars										
Earnings before extraordinary items	0.42	0.76	2.17	1.99	1.10	0.73	2.55	2.78	1.73	1.70
Net earnings (loss)	0.42	(0.77)	2.17	1.99	1.10	0.73	2.55	2.78	1.73	1.70
Dividends paid	0.44	0.44	0.44	0.44	0.44	0.53	0.48	0.40	0.37	0.31
Equity at end of year	22.15	22.17	23.38	21.64	20.10	19.56	19.36	17.29	14.77	13.47



## DIRECTORS AND OFFICERS

### Directors

† **\*Geno F. Francolini, F.C.A.**  
President & Chief  
Executive Officer  
Xenon Capital Corporation  
London, Ontario

**Douglas R.  
Haas-Hawkings**  
Ancaster, Ontario

† **\*Walter J. Hachborn**  
St. Jacobs, Ontario  
President  
Home Hardware Stores  
Limited

† **\*Dawson C. Jamieson**  
Waterloo, Ontario  
Senior Vice-President &  
Chief Financial Officer

† **William H. Kaufman**  
Kitchener, Ontario  
Chairman,  
Kaufman Footwear  
& Kaufman Furniture,  
divisions of  
William H. Kaufman Inc.

**Gordon A. Mackay Q.C.**  
Kitchener, Ontario  
Senior Partner  
Mackay, Artindale, Wunder

**Kenneth G. Murray**  
Ayr, Ontario

† **Frederick P. Schneider**  
Kitchener, Ontario  
Chairman & President

† **Herbert J. Schneider**  
Waterloo, Ontario  
Vice-Chairman

**Howard G. Schneider**  
Kitchener, Ontario  
Vice-President  
Research & Development  
J.M. Schneider Inc.

### Officers

**Frederick P. Schneider**  
Chairman & President

**Herbert J. Schneider**  
Vice-Chairman

**Dawson C. Jamieson**  
Senior Vice-President &  
Chief Financial Officer

**Gordon A. Mackay Q.C.**  
Corporate Secretary

**A. Grace Hartleib**  
Assistant Corporate Secretary

### Officers

**J.M. Schneider Inc.**

**F.P. Schneider**  
Chairman

**D.W. Dodds**  
President

**D.C. Jamieson**  
Senior Vice-President &  
Chief Financial Officer

**G. A. Mackay, Q.C.**  
Secretary

**A.G. Hartleib**  
Assistant Secretary

**G. A. Hooper**  
Vice-President,  
Finance and Administration

**J.A. Howard**  
Vice-President,  
Sales & Marketing  
Food Service Division

**J.E. Lauer**  
Vice-President  
Operations

**W.D. McMichael**  
Vice-President  
Sales & Marketing  
Grocery Division

**J.J. Petrozzi**  
Vice-President  
Sales & Marketing  
Retail Meat Division

**H.J. Schneider**  
Vice-President

**H.G. Schneider**  
Vice-President  
Research & Development

### Important dates for shareholders

Company fiscal year 1987:  
October 26, 1986 to  
October 31, 1987 (53 wks)

Proposed Dividend dates  
Payable: April 15, 1987  
July 15, 1987  
October 15, 1987  
January 15, 1988  
Record: (3 weeks prior to date  
of dividend payable, closest  
Friday)  
March 20, 1987  
June 19, 1987  
September 18, 1987  
December 18, 1987

Fiscal quarter endings:  
1st Quarter  
February 14, 1987  
containing 16 weeks

2nd Quarter  
May 9, 1987  
containing 12 weeks

3rd Quarter  
August 1, 1987  
containing 12 weeks

4th Quarter  
October 31, 1987  
containing 13 weeks

\*Member of Audit Committee

†Member of Executive Committee



## CORPORATE DIRECTORY

### Corporate Head Office

Schneider Corporation  
175 Columbia Street West  
P.O. Box 1620  
Waterloo, Ontario  
N2J 4M3

### Registrar and Transfer Agent

The Canada Trust Company  
Toronto, Ontario

### Auditors

Thorne Ernst & Whinney

### Shares Listed

The Toronto Stock Exchange

### Operating Subsidiary

J.M. Schneider Inc.  
General Office:  
321 Courtland Avenue East  
P.O. Box 130  
Kitchener, Ontario  
N2G 3X8

### Plants

321 Courtland Avenue East  
P.O. Box 130  
Kitchener, Ontario  
N2G 3X8

140 Panet Road  
Winnipeg, Manitoba  
R2J 0S3

Northumberland Street  
Ayr, Ontario  
N0B 1E0

663 Marion Street  
Winnipeg, Manitoba  
R2J 0T3

4305 Dawson Street  
North Burnaby,  
British Columbia  
V5C 4B4

550 Kipling Avenue  
Toronto, Ontario  
M8Z 5E9

1575 Inkster Boulevard  
Winnipeg, Manitoba  
R2X 1R2

4120-98th Street  
Edmonton, Alberta  
T6E 5A2

2687 Slough Street  
Mississauga, Ontario  
L4T 1G2

78 Church Street  
Millbank, Ontario  
M0K 1L0

694 St. Lawrence Street South  
P.O. Box 490  
Winchester, Ontario  
K0C 2K0

### Sales Offices

200 Ronson Drive  
Suite 507  
Rexdale, Ontario  
M9W 5Z9

550 Kipling Avenue  
Toronto, Ontario  
M8Z 5E9

1673 Carling Avenue  
Suite 112  
Ottawa, Ontario  
K2A 1C4

795 Wonderland Road  
Suite 215  
Westmount Centre  
London, Ontario  
N6K 3C2

128 Larch Street  
Suite 303  
Sudbury, Ontario  
P3E 1C2

6600 Cote des Neiges Road  
Suite 130  
Montreal, Quebec  
H3S 2A9

6080 Young Street  
Suite 707  
Halifax, Nova Scotia  
B3K 5L2

5350 Henri-Bourassa  
Boulevard  
Suite 60  
Charlesbourg, Quebec  
G1H 6Y8

140 Panet Road  
Winnipeg, Manitoba  
R2J 0S3

6450 Roberts Street  
Suite 345  
Sperling Plaza  
Burnaby, British Columbia  
V5G 4E1

4060 - 78th Avenue S.E.  
Calgary, Alberta  
T2C 2L8

205 Donaghy Avenue  
North Vancouver,  
British Columbia  
V7P 2L6

### Export Division

321 Courtland Avenue East  
P.O. Box 130  
Kitchener, Ontario  
N2G 3X8

### Distribution Centres

321 Courtland Avenue East  
P.O. Box 130  
Kitchener, Ontario  
N2G 3X8

198 Dawson Road North  
Winnipeg, Manitoba  
R2J 0S7

4060 - 78th Avenue S.E.  
Calgary, Alberta  
T2C 2L8

205 Donaghy Avenue  
North Vancouver,  
British Columbia  
V7P 2L6

### Distribution Terminal

78 Shorncliffe Road  
Etobicoke, Ontario  
M8Z 5K5



