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1986

**FRUEHAUF**

ANNUAL REPORT





# Financial Highlights

	1986	1985
Net Sales	\$140,577,303	\$115,796,580
Earnings before Taxes on Income	10,218,492	10,605,470
Percent to Sales	7.3	9.2
Net Earnings — From Operations	5,446,492	6,317,470
Percent to Sales	3.9	5.5
Gain on Land Sale	1,784,000	—
Combined Net Earnings	7,230,492	6,317,470
Net Earnings per Share – before extraordinary item	2.01	2.33
– after extraordinary item	2.67	2.33
Dividends per Share	.30	.30
Book Value per Share	30.16	27.52
Total Assets	97,675,824	93,453,261
Working Capital	69,471,870	61,537,885
Number of Shareholders	165	213
Number of Employees	966	965

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## Annual Meeting of Shareholders

The Annual Meeting of Shareholders of Fruehauf Canada Inc. will be held on Friday April 24, 1987, at 11:30 a.m. (Toronto time) at the Head Office of the Company, 2450 Stanfield Road, Mississauga, Ontario.

Proxies will be solicited from Shareholders when the Notice of Annual Meeting and Proxy Statements are mailed on or about March 25, 1987.

Head Office:  
Fruehauf Canada Inc.  
2450 Stanfield Road  
Mississauga, Ontario  
L4Y 1S3

FRUEHAUF BOYS LIPSON  
MANAGEMENT  
MAR 30 1987  
MCGILL UNIVERSITY

# Report on Operations 1986 To Our Shareholders

The 1986 year represents the highest sales volume in our history. Sales were intensified in the latter part of the year as a result of customer demand for deliveries before the January 1st reimposition of Ontario Sales Tax on transportation equipment. Combined net earnings, the second highest in our history, benefitted from a gain on the sale of land.

Combined net earnings were \$7,230,492, \$2.67 per share and include \$1,784,000, 66 cents per share, net after tax gain on sale of excess land. Net earnings in the previous year were \$6,317,470, equal to \$2.33 per share. Total sales for the year were \$140,577,303 an increase of 21% above the \$115,796,580 sales in 1985.

The year began with a strong opening backlog of orders for production and was bolstered by the Ontario budget announcement in January of 1986. This Provincial budget reimposed 7% Sales Tax on all transportation equipment delivered after December 31, 1986, creating a demand for equipment which grew as the year progressed. While the full one year advance announcement allowed purchasers time to be selective on price - the situation reversed itself in the fourth quarter as almost all manufacturers booked firm orders for production through year-end.

## Dividends

During the year two dividends of 15 cents each were paid. The major shareholder, Fruehauf Corporation (U.S.), waived its right to both dividends. In 1985 similar dividends were paid and similar action was taken by the major shareholder; both instances having a beneficial effect on our working capital.

## Costs and Expenses

The year, while achieving the record volume, was one of very competitive selling. Consequently margins were reduced and the relationship of cost to selling price increased. Cost of sales as a percent of sales in 1986 was 88.9%, up from 87.4% in the preceding year.

Selling and administrative expenses as a percent to sales fared somewhat better. Expenses were 5.5% in 1986, down from 5.9% a year earlier, basically reflecting the benefits of scale from the significantly higher volume.

Depreciation expense in the year was at a slightly higher level than the previous year, almost entirely the result of a higher depreciation in our revenue producing lease fleet. Lease depreciation was up 38% while fixed assets depreciation rose only 2% as overall asset acquisitions were again held within cost amortization levels.

### Financial Operations

The 1986 year was not the most favourable period for our financing operation. Although sales volume increased 21%, a significant portion of the volume was by large fleets who purchased for cash or consistently have had their own separate banking arrangements. Thus we were not able to increase our financing portfolios. Additionally, interest rates on market investments throughout 1986 were on average below rates of the previous year. Consequently earnings from this source were down in comparison to 1985. Our combined finance and interest revenue at \$4.1 million was down 7% from the record \$4.4 million set in 1985.

Installment contract investment at year end of \$22 million is off 3% from the record high portfolio of the preceding year. At the same time our lease portfolio of \$2.6 million also reflects a slight trend away from this financing vehicle with customers opting for direct ownership. We are still confident of the continued viability of our financing programs, their benefit to us and to our customers over the long haul.

### Strength and Investment

Our funds management throughout the year has resulted in a further strengthening of our balance sheet position. The ratio of current assets to current liabilities of 6.2 to 1, up from 4.8 a year earlier, provides a strong base for future operations. Our book value of \$30.16 per share is at an all time high, the previous record of \$27.52 having been set in 1985.

The disposal of a parcel of excess land at a \$1.8 million after tax gain will allow these funds to be employed gainfully in the business.

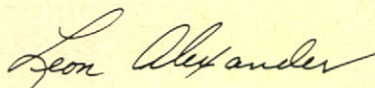
During 1986 we deferred our proposal to upgrade several branch facilities pending further cost analysis. These plans have not been abandoned and we now expect to proceed on at least two locations during 1987. We are now targetting a total of \$1½ to \$2 million for these upgrades in the coming year.

### Outlook

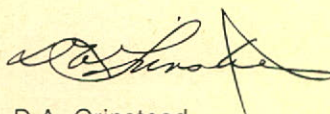
Our present new trailer backlog is at a satisfactory level, providing every indication for a continuing strong rate of production through the first half of 1987. Our ability to provide a full line of trailer models will permit us to take immediate advantage of changing freight movement trends as they develop. Given a consistency in the overall Canadian economy, which is generally forecasted, 1987 should be another good year for Fruehauf.

Our products are well received and we are recognized as the leader in the industry. Our achievements and our strength for the future are based on our people and their commitment to our customers. We take this opportunity to express our sincere appreciation to all who support Fruehauf — our employees, our customers and our suppliers, and to our shareholders.

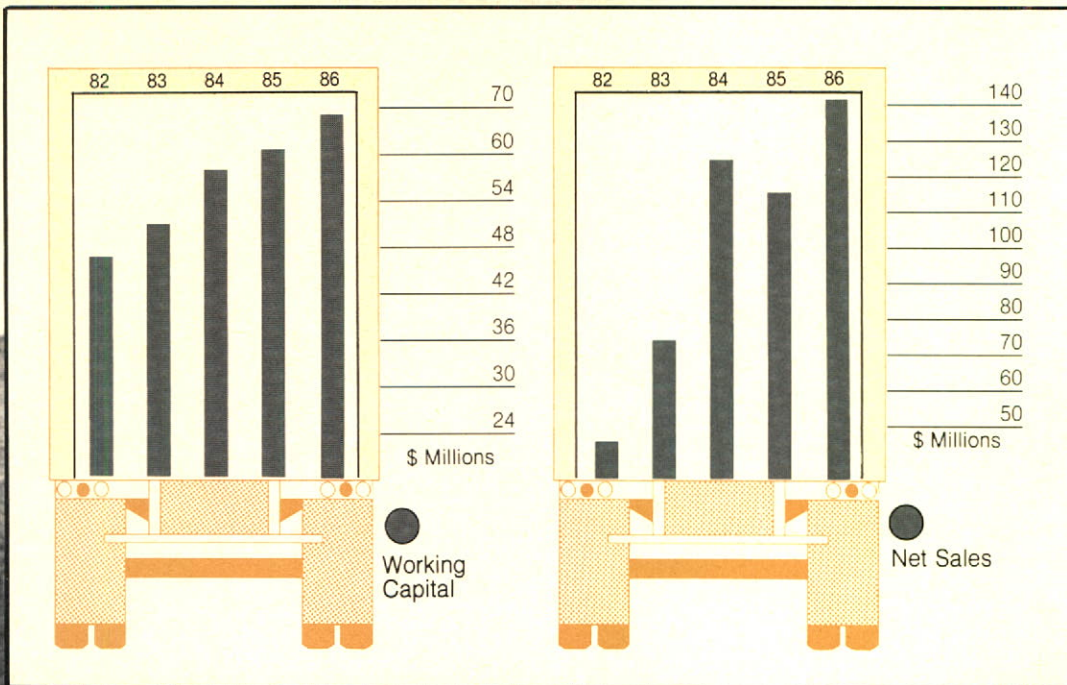
On Behalf of the Board



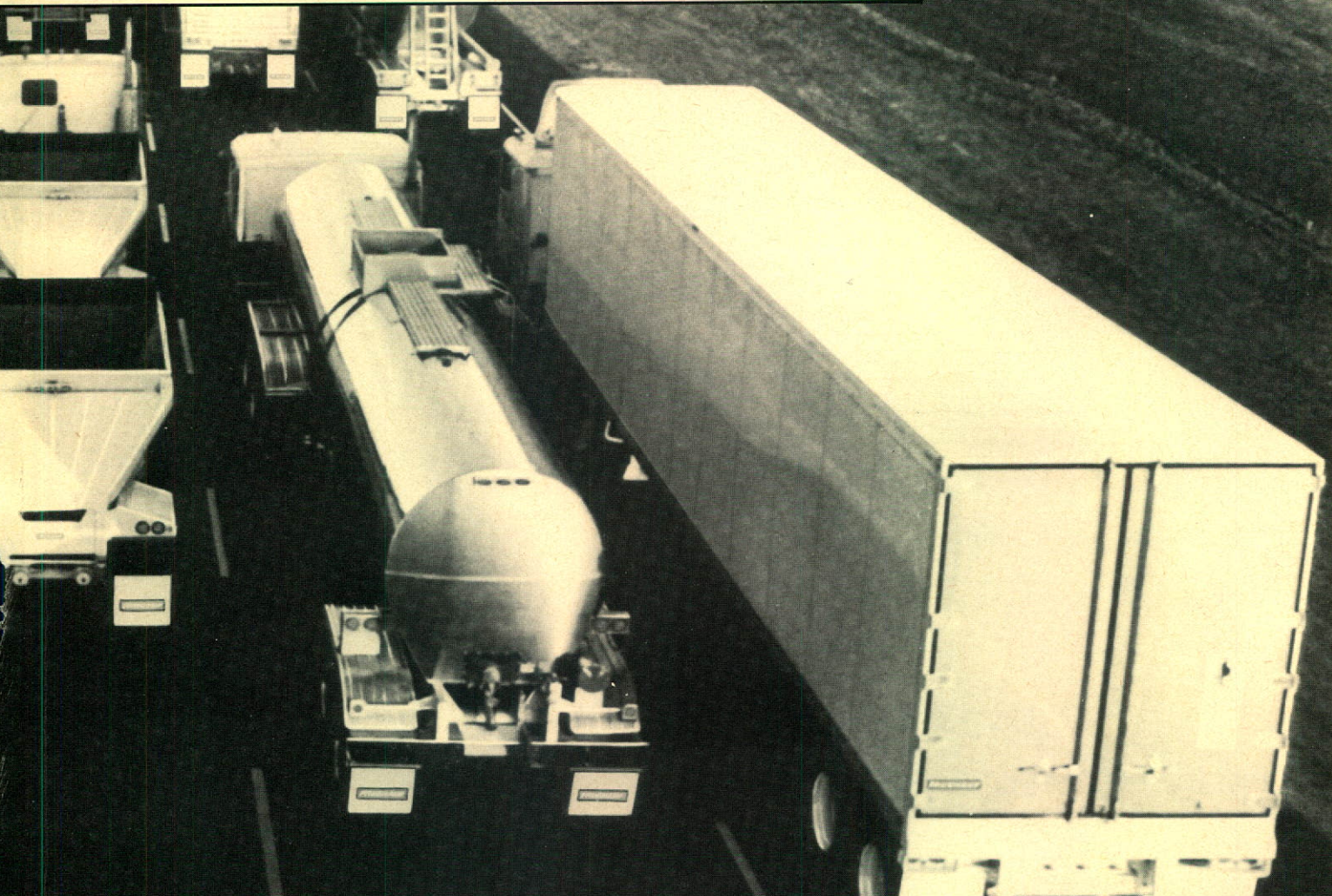
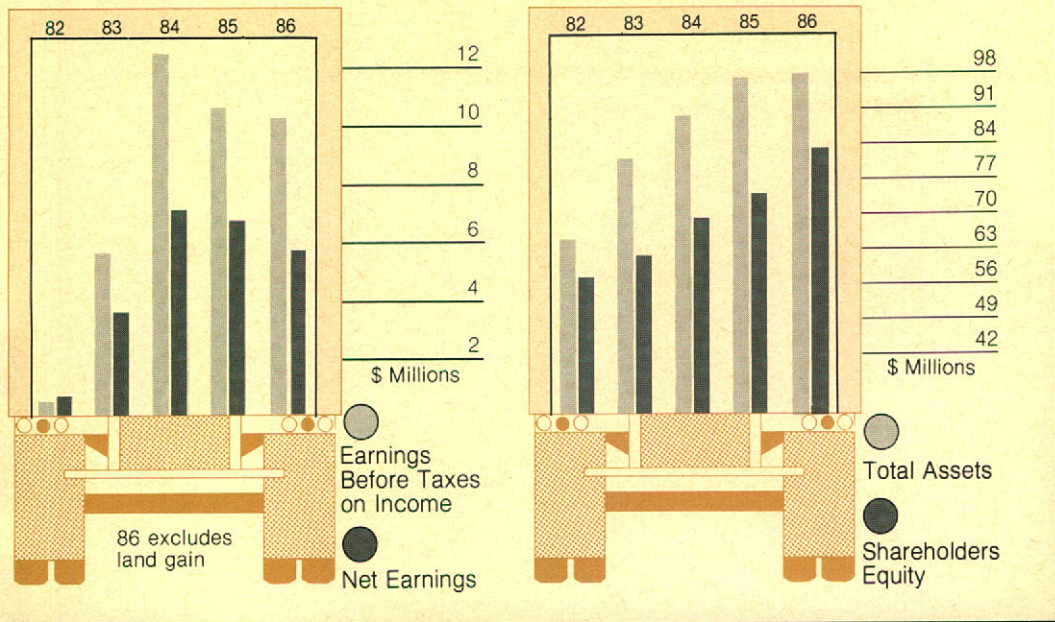
L. Alexander,  
President



D.A. Grinstead,  
Vice President



**Down the road you'll**



**be glad it's Fruehauf.**

*Fruehauf produces all of these models — part of our total commitment to the transportation industry.*

# Auditors' Report

The Shareholders  
Fruehauf Canada Inc.

Touche Ross & Co.  
Chartered Accountants  
P.O. Box 12  
First Canadian Place  
100 King Street West  
Toronto, Ontario M5X 1B3  
Telephone: 416 364-4242  
Telex: 065-24310

 Touche Ross

## AUDITORS' REPORT

The Shareholders,  
Fruehauf Canada Inc.

We have examined the balance sheet of Fruehauf Canada Inc. as at December 31, 1986 and the statements of net 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 financial statements present fairly the financial position of the Corporation as at December 31, 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.

*Touche Ross & Co.*

Toronto, Ontario,  
February 16, 1987.

Chartered Accountants

Touche Ross International



# Statement of Net Earnings

Years Ended December 31

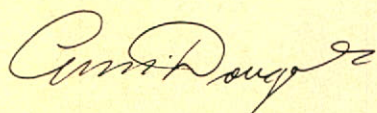
	1986	1985
<b>REVENUES</b>		
Net sales	\$140,577,303	\$115,796,580
Finance and other interest	4,102,918	4,410,348
	144,680,221	120,206,928
<b>COSTS AND EXPENSES</b>		
Cost of sales	124,950,308	101,183,826
Selling and administration	7,755,569	6,796,867
Depreciation	1,755,852	1,620,765
	134,461,729	109,601,458
<b>EARNINGS BEFORE TAXES ON INCOME AND EXTRAORDINARY ITEM</b>	10,218,492	10,605,470
Taxes on income (Note 5)		
Current	5,305,000	3,899,400
Deferred	(533,000)	388,600
	4,772,000	4,288,000
<b>EARNINGS BEFORE EXTRAORDINARY ITEM</b>	5,446,492	6,317,470
<b>EXTRAORDINARY ITEM</b>		
Gain on sale of land, net of \$212,000 income taxes	1,784,000	—
<b>NET EARNINGS FOR THE YEAR</b>	\$ 7,230,492	\$ 6,317,470
Earnings per share before extraordinary item	\$2.01	\$2.33
Earnings per share after extraordinary item	\$2.67	\$2.33

# Balance Sheet

As at December 31

Assets	1986	1985
<b>Current Assets</b>		
Cash and short-term notes	\$12,961,829	\$4,122,249
Trade receivables		
Current accounts	25,965,566	21,328,338
Installment contracts (Note 1)	22,012,698	22,617,239
Inventories (Note 2)	21,843,214	29,870,693
<b>Total Current Assets</b>	<b>82,783,307</b>	<b>77,938,519</b>
Equipment Leased to Customers (Note 3)	2,642,586	2,975,665
<b>Fixed Assets</b>		
Land	652,612	740,509
Buildings and equipment	12,644,488	12,285,463
Machinery and other equipment	12,344,543	11,782,593
	25,641,643	24,808,565
Less accumulated depreciation	13,391,712	12,269,488
	12,249,931	12,539,077
<b>Total Assets</b>	<b>\$97,675,824</b>	<b>\$93,453,261</b>

On behalf of the Board



Director



Director

# Fruehauf Canada Inc.

Incorporated under the Canada Business

Corporations Act

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## Liabilities and Shareholders' Equity

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	1986	1985
<b>Current Liabilities</b>		
Accounts payable		
Trade	\$9,382,353	\$10,483,608
Affiliates (Note 4)	1,811,588	3,716,526
Taxes on income		
Current	474,196	—
Deferred	1,643,300	2,200,500
<b>Total Current Liabilities</b>	<b>13,311,437</b>	<b>16,400,634</b>
<b>Deferred Taxes on Income</b>	<b>2,747,200</b>	<b>2,594,000</b>
<b>Shareholders' Equity</b>		
Capital stock		
Authorized		
Unlimited number of shares of		
one class		
Issued and outstanding		
2,705,775 shares	5,149,063	5,149,063
Retained earnings	76,468,124	69,309,564
	<b>81,617,187</b>	<b>74,458,627</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$97,675,824</b>	<b>\$93,453,261</b>

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## Statement of Retained Earnings

Years Ended December 31

	1986	1985
Balance at beginning of year	\$69,309,564	\$63,064,026
Net earnings for the year	7,230,492	6,317,470
	76,540,056	69,381,496
Cash dividends (Note 4)	71,932	71,932
Balance at end of year	\$76,468,124	\$69,309,564

## Statement of Changes in Financial Position

Years ended December 31

	1986	1985
<b>Operating activities</b>		
Net earnings before extraordinary item	\$5,446,492	\$6,317,470
Depreciation of equipment leased to customers	393,909	284,892
Depreciation of fixed assets	1,361,943	1,335,873
Deferred taxes on income	(533,000)	388,600
	6,669,344	8,326,835
Changes in non-cash working capital items	1,462,795	(6,575,507)
Net cash from operations	8,132,139	1,751,328
<b>Investing activities</b>		
Purchase of fixes assets – net	(1,072,797)	(669,545)
Sale of land	1,913,000	—
Equipment leased to customers	(60,830)	(1,797,904)
	779,373	(2,467,449)
Dividends	71,932	71,932
Increase (decrease) in cash during the year	8,839,580	(788,053)
Cash and short-term notes: Beginning of year	4,122,249	4,910,302
End of year	\$12,961,829	\$4,122,249

# Notes to Financial Statements

December 31, 1986

## Summary of Accounting Principles

### Inventories

Inventory is stated at the lower of cost (determined on the first-in, first-out method) and net realizable value.

### Equipment Leased to Customers

Leased equipment is stated at cost, less accumulated depreciation which is provided for on a straight-line basis to a projected lease terminal value. Rental payments are recognized as income over the term of the lease.

### Fixed Assets

The Corporation records fixed assets at their historical cost. Depreciation is provided on a straight-line basis over the life expectancy of the asset. Buildings and machinery and equipment are depreciated over 25 to 40 years and 5 to 10 years respectively.

### Taxes on Income

The Corporation claims maximum reductions available for income tax purposes in any fiscal period and follows the tax allocation method of accounting for income taxes.

### Pensions

The Corporation has non-contributory pension plans covering substantially all employees. Current service costs of pension benefits are accrued and funded on a current basis. Past service costs are amortized and funded over periods not exceeding fifteen years.

### Note 1 — Installment Contracts

At December 31 installment contracts are stated after deduction of deferred finance charges of \$5,079,493 for 1986 and \$5,932,297 for 1985 and include installments due after one year of approximately \$17,430,000 for 1986 and \$19,200,000 for 1985.

### Note 2 — Inventories

	December 31, 1986	December 31, 1985
New trailers	\$ 4,221,920	\$ 6,442,632
Production parts, work in process and raw materials	11,559,110	17,037,657
Service parts and orders in process	3,915,803	4,326,365
Used trailers	2,146,381	2,064,039
	<u>\$21,843,214</u>	<u>\$29,870,693</u>

### Note 3 — Equipment Leased to Customers

Accumulated depreciation at December 31 is \$877,554 for 1986 and \$660,668 for 1985.

### Note 4 — Transactions with Affiliates

Shares of the Corporation are 91% owned by Fruehauf Corporation (U.S.). The major shareholder waived its rights to dividends declared in 1986 and 1985.

Under a long standing agreement Fruehauf Corporation (U.S.) provides technical assistance on products and methods for which a fee is paid. In addition the Corporation purchases production components from the major shareholder and its affiliates in the normal course of business. Costs and expenses include costs arising from these transactions, primarily purchases of production components aggregating approximately 6.7% of total costs and expenses for 1986 and 11.0% for 1985.

### Note 5 — Taxes on Income

The Corporation's effective income tax rate is made up as follows:

	1986	1985
Combined basic Canadian Federal and Provincial income tax rate	49.76%	49.70%
Increase (decrease) in income tax rate resulting from:		
Federal income tax surcharge	1.50	0.77
Manufacturing and processing allowance	(5.55)	(5.20)
Inventory allowance	(.21)	(4.06)
Other	.18	(.97)
Effective income tax rate for the year	<u>45.68%</u>	<u>40.24%</u>

### Note 6 — Pensions

Based on actuarial valuations and estimates, unfunded service costs of pension plans at December 31 amount to approximately \$7,500 for 1986, \$7,000 for 1985. Unfunded vested benefits at December 31 were \$Nil for 1986, and approximately \$2,000 for 1985. Total pension expense was \$56,800 in 1986 and \$154,256 in 1985.

### Note 7 — Segmented Information

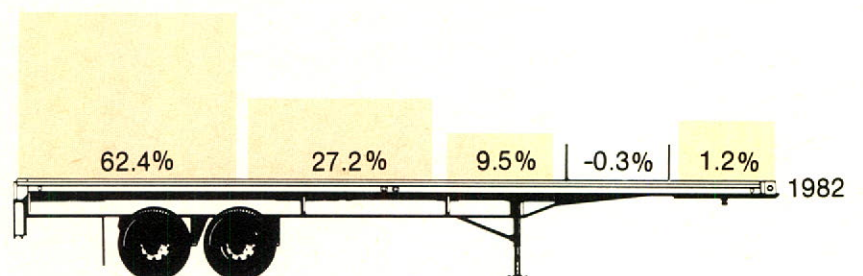
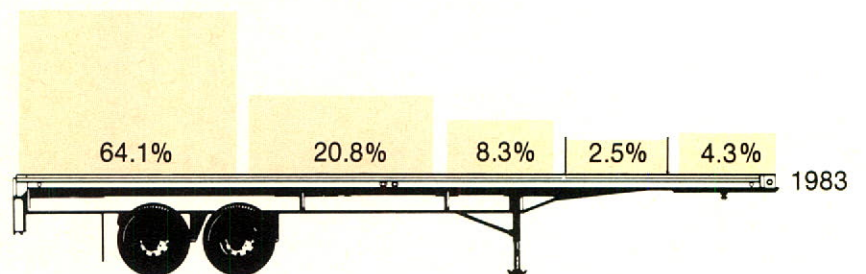
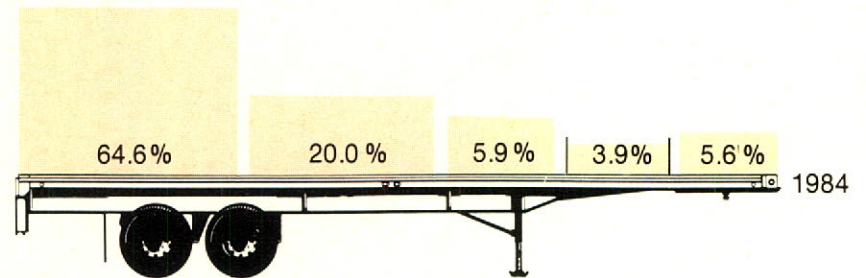
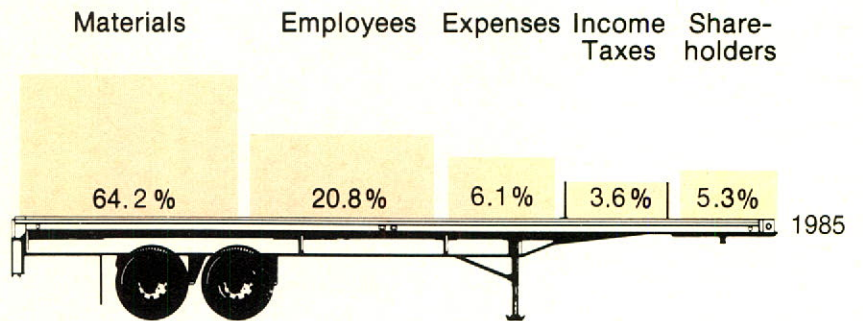
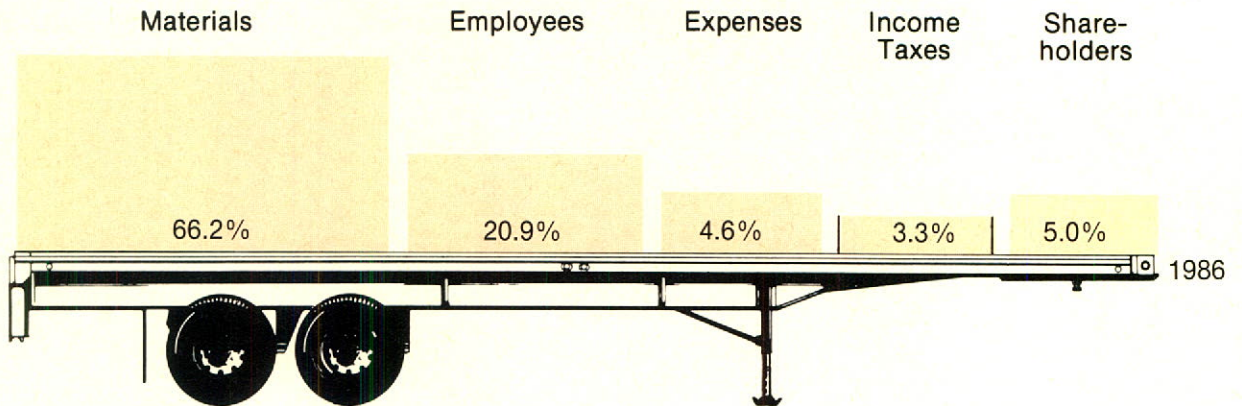
The Corporation is a supplier in the domestic commercial trailer industry and is involved in the manufacture, sales and service of commercial truck trailers including replacement parts thereto. Sales are made directly to transport operators from branch facilities or distributors throughout Canada and finance revenue relates solely to the sale of the Corporation's products.

# Statistical Summary

	1986	1985	1984	1983
<b>Income Data</b>				
Sales	\$140,577,305	\$115,796,580	\$124,575,714	\$ 76,704,083
Finance and Other Interest	4,102,918	4,410,348	3,794,638	3,748,636
Cost of Sales	124,950,308	101,183,826	108,146,525	68,370,393
Per cent to Sales	88.9	87.4	86.8	89.1
Selling and Administration	7,755,569	6,796,867	6,575,330	\$ 4,971,667
Per cent to Sales	5.5	5.9	5.9	6.4
<b>Depreciation</b>				
Equipment Leased to Customers	\$ 393,909	\$ 284,892	\$ 208,685	\$ 135,045
Fixed Assets	1,361,943	1,335,873	1,284,238	1,491,055
Earnings before Taxes on Income	10,218,492	10,605,345	12,155,574	5,484,559
Per cent to Sales	7.3	9.2	9.8	7.1
Earnings before extraordinary item	\$ 5,446,492	\$ 6,317,470	\$ 7,169,574	\$ 3,470,559
Per cent to Sales	3.8	5.5	5.8	4.5
Per Share	2.01	2.33	2.65	1.28
Net Gain on Sale of Land	1,784,000	—	—	—
Net Earnings for Year	7,230,492	6,317,470	7,169,514	3,470,559
Per Share	2.67	2.33	2.65	1.28
<b>Capital Investment in Year</b>				
Equipment Leased to Customers	\$ 60,830	\$ 1,797,904	\$ 3,072	\$ 1,495,915
Fixed Assets	1,072,797	669,545	959,014	532,720
<b>Financial Position Year-End</b>				
Total Assets	\$ 97,675,824	\$ 93,453,261	\$ 87,750,252	\$ 79,771,715
Working Capital	69,471,870	61,537,885	56,083,631	48,531,251
Current Ratio	6.2 to 1	4.8 to 1	4.3 to 1	4.0 to 1
Cash and Short-Term Notes	12,961,829	4,122,249	4,910,302	8,935,356
Installment Contracts Receivable	\$ 22,012,698	\$ 22,617,239	\$ 18,993,373	\$ 13,959,455
Equipment Leased to Customers—Net	2,642,586	2,975,665	1,462,653	1,668,266
Fixed Assets—Net	12,249,931	12,539,077	13,205,405	13,530,629
Shareholders' Equity	81,617,187	74,458,621	68,213,089	61,115,446
Book Value per Share	30.16	27.52	25.21	22.58
<b>Employment</b>				
Number of Employees at Year-end	966	965	1040	842
<b>Shareholders</b>				
Number of Shareholders	152	213	250	279
Dividends per Share	\$ .30	\$ .30	\$ .30	\$ .05

1982	1981	1980	1979	1978	1977
\$ 48,383,241	\$ 80,688,550	\$ 85,803,397	\$ 100,535,167	\$ 75,382,328	\$ 58,657,252
3,496,920	3,418,782	2,596,796	2,717,010	2,611,338	2,435,626
45,061,975	70,104,569	71,038,237	84,442,352	62,860,803	49,387,915
93.1	86.9	82.8	84.0	83.3	84.2
\$ 4,886,075	\$ 6,414,357	\$ 5,865,401	\$ 5,353,159	\$ 4,641,935	\$ 4,018,933
10.1	7.9	6.8	5.3	6.2	6.9
\$ 125,323	\$ 153,604	\$ 285,958	\$ 219,612	\$ 312,234	\$ 461,312
1,329,401	1,427,615	921,428	532,106	477,760	450,868
477,387	6,007,187	10,289,169	12,704,948	9,700,934	7,185,551
1.0	7.4	12.0	12.6	12.9	12.3
\$ 608,387	\$ 3,633,187	\$ 6,267,169	\$ 7,377,648	\$ 5,670,934	\$ 4,419,551
1.3	4.5	7.3	7.3	7.5	7.5
.22	1.34	\$ 2.32	\$ 2.73	\$ 2.10	\$ 1.63
—	—	—	—	—	—
608,387	3,633,157	6,267,169	7,377,648	5,670,934	4,419,551
.22	1.34	2.32	2.73	2.10	1.63
\$ —	\$ —	\$ 353,760	\$ 130,553	\$ 809,291	\$ 93,541
473,427	2,284,132	7,482,816	3,086,502	1,406,844	487,349
\$ 64,611,894	\$ 66,569,055	\$ 67,020,237	\$ 65,541,843	\$ 57,125,200	\$ 46,574,491
45,746,516	44,317,358	41,875,407	42,227,936	38,115,160	34,725,033
12.2 to 1	7.8 to 1	5.3 to 1	3.9 to 1	4.0 to 1	6.3 to 1
12,862,593	646,001	4,103,256	4,064,915	8,206,385	6,446,664
\$ 14,119,262	\$ 14,778,565	\$ 15,958,358	\$ 14,265,578	\$ 15,283,484	\$ 14,583,474
307,396	448,309	802,855	813,898	932,665	847,494
14,488,964	15,344,938	14,488,421	7,931,179	5,389,539	4,473,602
57,656,876	57,138,405	55,128,683	50,079,113	43,919,064	39,465,729
21.31	21.12	20.37	18.51	16.23	14.59
378	688	670	1138	1008	779
\$ 408	\$ 442	\$ 404	\$ 412	\$ 419	\$ 428
.375	.60	.45	.45	.45	.425

# Revenue Distribution\*



## Materials

Raw materials, component parts, accessories and trade-in units for resale

## Employees

Wages, salaries and benefits

## Expenses

Operating and general expenses including depreciation and interest expense

## Income Taxes

Federal and provincial taxes on income

## Shareholders

Net earnings after taxes available for dividends and reinvestment for future growth

\*Revenues include sales plus finance and other interest earned in each of the periods.



# Directors and Officers

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## Directors

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L. Alexander  
President of the Corporation and  
President and Chief Executive  
Officer - Trailer Operations,  
Fruehauf Corporation (U.S.)

D.A. Grinstead  
Vice President of the Corporation  
Toronto, Ontario

W.T. McDougall\*  
Vice President - Finance of the Corporation  
Toronto, Ontario

T.N. Combs  
Secretary of the Corporation and  
President and Chief Administrative  
Officer, Fruehauf Corporation (U.S.)

R.F. Darke  
Vice President, General Counsel and  
Secretary, Fruehauf Corporation (U.S.)

A. Paulin\*  
President, H. Paulin & Co. Limited  
Toronto, Ontario

M. Reid\*  
Corporate Director

R.J. Telford  
Retired - former Vice President of the Corporation  
Toronto, Ontario

\*Member, Audit Committee

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## Officers

---

L. Alexander, President  
D.A. Grinstead, Vice President  
W.T. McDougall, Vice President-Finance  
T.N. Combs, Secretary  
B.A. West, Controller  
A. Purdon, Assistant Secretary

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## Share Listing

---

Toronto Stock Exchange

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## Transfer Agents and Registrar

---

National Trust Company  
Toronto and Montreal

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## Solicitors

---

Borden & Elliot  
Toronto, Ontario

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## Auditors

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Touche Ross & Co.  
Toronto, Ontario

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# Fruehauf — Coast to Coast

## ▲ Head Office

2450 Stanfield Road  
Mississauga, Ontario

## ■ Sales and Service

Quebec  
Montreal  
Toronto  
London  
Winnipeg  
Calgary  
Edmonton  
Vancouver

## ● Distributors & Dealers

St. Johns  
Pasadena  
Sydney  
Dartmouth  
Truro  
Campbelltown  
Fredericton  
Saint John  
Moncton  
Ottawa  
Kitchener  
Chatham

## Products

### Vans

Dry Freight  
— Smooth Panels  
— Beaded Panels  
— FRP Panels  
— Drop Frame  
Insulated-Refrigerated  
City Delivery  
Livestock  
Grain Haul

## Platforms

Stake and Rack  
Dumps  
Container Chassis  
Dollies  
Tanks — Steel, Aluminum and  
Stainless Steel  
Liquid Products:  
Petroleum  
Hot Material  
Chemical  
Food Products  
Dry Flowable Bulk Products:  
Cement  
Food Products  
Aggregates  
Construction  
Carryalls — 15 to 100 ton  
Oilfield Floats  
Tilt Decks

