

FRUEHAUF

ANNUAL REPORT 1984



Financial Highlights

	1984	1983
Net Sales	\$124,575,714	\$76,704,083
Earnings before Taxes on Income	12,155,574	5,484,559
Percent to Sales	9.8	7.1
Net Earnings	7,169,574	3,470,559
Percent to Sales	5.8	4.5
Net Earnings per Share	2.65	1.28
Dividends per Share	.30	.05
Book Value per Share	25.21	22.58
Total Assets	87,750,252	79,771,715
Working Capital	56,083,711	48,531,251
Number of Shareholders	250	279
Number of Employees	1,040	842

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Annual Meeting of Shareholders

The Annual Meeting of Shareholders of Fruehauf Canada Inc. will be held on Friday, April 19, 1985, at 11:00 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 28, 1985.

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

Report on Operations 1984

To Our Shareholders:

The 1984 year proved to be the long awaited recovery year, at least for your Corporation. Net earnings of \$7.2 million were achieved on sales of \$124 million.

The year set an all time record in dollar sales and achieved the second highest net earnings, surpassed only in 1979. Net earnings after taxes on income of \$7,169,574 more than doubled the \$3,470,559 earned in the preceding year. Earnings were \$2.65 per share compared to \$1.28 per share a year earlier and very close to the \$2.73 record year. Total sales for the period were \$124,575,714, an increase of 62% over the \$76,704,083 in the 1983 year and 24% higher than the previous record of \$100,535,167 in 1979.

The year began with a sound order backlog, gained momentum and reached a peak at mid year. In the second half of the year although order input levelled somewhat, input was sufficient to maintain a strong production rate throughout the entire year. Orders for production at year end were approximately equal to the healthy level with which our Corporation entered 1984.

Dividends

During the year, two dividends of 15 cents per share each were paid. The total current year dividends, 30 cents per share, compares to 5 cents per share paid in 1983. Fruehauf Corporation (U.S.), the major shareholder, once again waived its right to dividends. This action by Fruehauf Corporation has a decided beneficial effect on working capital as well as enhancing the equity position of all other shareholders.

Costs and Expenses

With continued close controls over costs throughout this year of recovery, we have realized significant benefits of scale from the higher production rates. Cost of sales as a percent of sales of 86.8% in 1984 reflects a considerable improvement from the 89.1% of the previous year. We are constantly striving to improve our cost ratios and are encouraged by the recent trend in this regard.

Selling and administration expenses also showed a marked improvement in the year dropping to 5.3% of the higher sales level as against 6.5% in 1983. We consider that the control of expense throughout periods of increasing volume is a most important challenge to management. To achieve effective results we employ volume related controls and we insist upon the use of such objective target criteria. Consistently applied, the method has been responsible to a large extent for our considerable success in controlling expenses.

Depreciation expense in the year was down 8.2% although depreciation of leased equipment increased as a result of the increase in leased equipment in the latter part of the previous year. The lower depreciation on fixed assets results from our controlled acquisition program, with additions being held within amortization levels. In addition, no major tooling expense was required in 1984.



Financing Operations

Revenue from our combined financing portfolios was up only slightly over the previous year. Revenue from our notes receivable portfolio increased 20%. However, at the same time interest earnings on market securities declined virtually an identical dollar amount. This reduction in earnings on securities resulted from the lower level of funds available. Revenues of \$3.8 million are a record and coupled with the ability to finance using internally generated funds, provides a significant benefit to earnings.

Investment in installment contracts at year end of \$19 million represents an increase of 36% over the prior year end. The current growth in this important portfolio results from our efforts to obtain increased participation in the financing of our sales. The current investment portfolio is at the highest level in our history.

In the current year, our customer purchases were primarily for cash or conditional sale financing. As a result, there was no growth in our lease portfolio. We believe that leasing as an alternate financing vehicle will have only limited appeal and that the main growth potential will continue to be in conditional sale type financing.

Taxes on Income

Information with respect to our tax provision is included for the first time as Note 5 to the financial statements. The 1984 effective rate was 41.02% as compared to 36.73% a year earlier. In the current year, the items reducing the effective rate were greater in almost every instance, but their relationship to the higher pre-tax earnings results in lower adjustments on a percentage basis.

Financial Strength and Investments

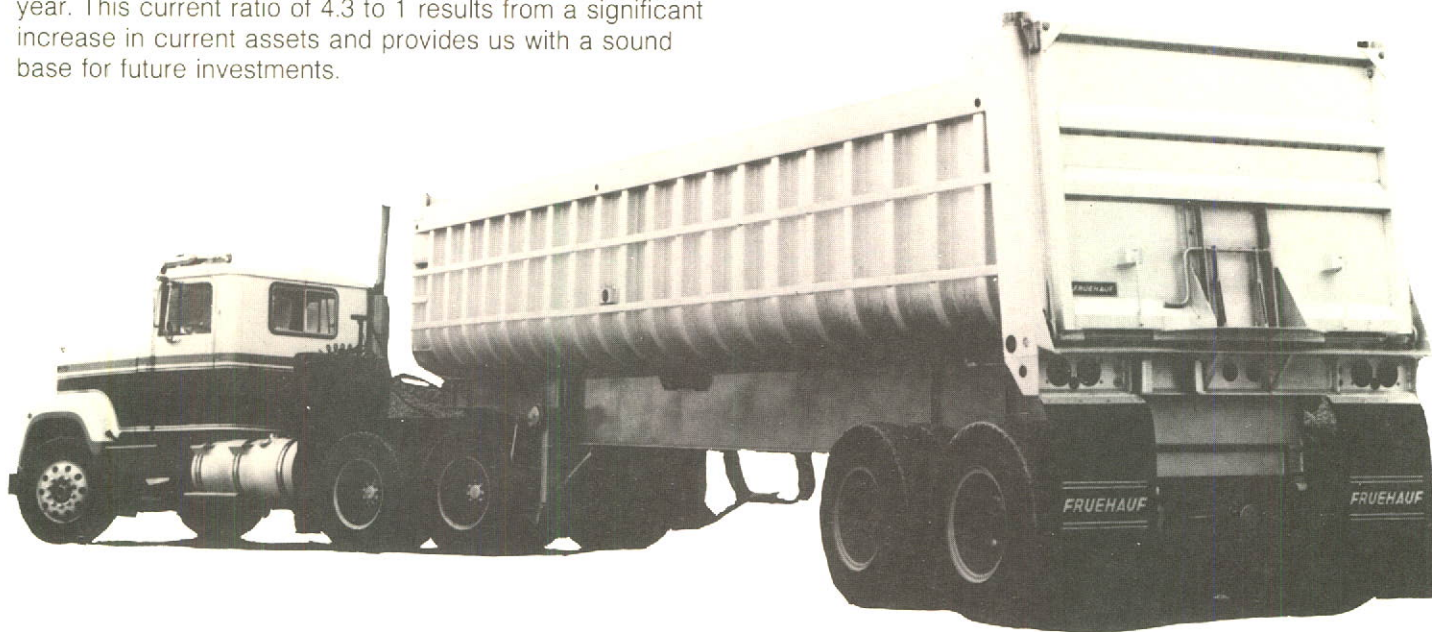
At year end 1984, the ratio of current assets to current liabilities reflected increased strength over the preceding year. This current ratio of 4.3 to 1 results from a significant increase in current assets and provides us with a sound base for future investments.

During the year expenditures on fixed assets were only \$959,000 as acquisitions were held to necessary replacements of existing equipment. As such, expenditures were approximately 75% of the year's depreciation. Over the last 10 year period, apart from the completely new van plant facility, expenditures on fixed assets have been maintained within the depreciation level. We are currently studying branch service facilities with a view to major modifications at certain locations. Such facility rearrangement is dictated by recent changes in highway traffic acts permitting increased trailer lengths. These expenditures may run as high as \$4 million, and will ensure our capability to efficiently service customer needs. The strength of our current financial position readily supports our ability to make the investments contemplated without incurring any long-term debt.

Outlook

The past year has truly been a year of recovery for your Corporation. The improvement which began in mid-1983 continued throughout 1984, with consistently strong order input throughout the entire year. From this base, a high rate of production was maintained, bringing with it the benefits of high employment levels. Commensurate with these production rates are the benefits of improved absorption of fixed costs.

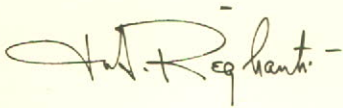
We start 1985 with an order backlog equal to that which we had at the start of 1984 — an encouraging position. We believe the outlook for Canada and your Corporation's business is good for the long haul. With the change of Government there appears to be a new thrust for cooperation with the Provinces with a view to improving business generally. While it is possible that Government expense curtailments may have some immediate dampening effect, such action should result in long range economic benefit for the entire country.



We look forward to the future, and are confident of a strong demand for transportation equipment. Our ability to provide a full line of commercial trailer models and to service customers from coast to coast places your Corporation in a most advantageous position. While we are certain that the future will not be without competition, we are prepared to meet the challenge with confidence resulting from quality product lines. The stability of your Corporation, its proven record in the market place and the abilities of our people are our greatest assurance for the future.

Your directors take this opportunity to express appreciation to our customers for the confidence they have shown in our products and to thank all employees and shareholders for their contributions which made 1984 such a successful year.

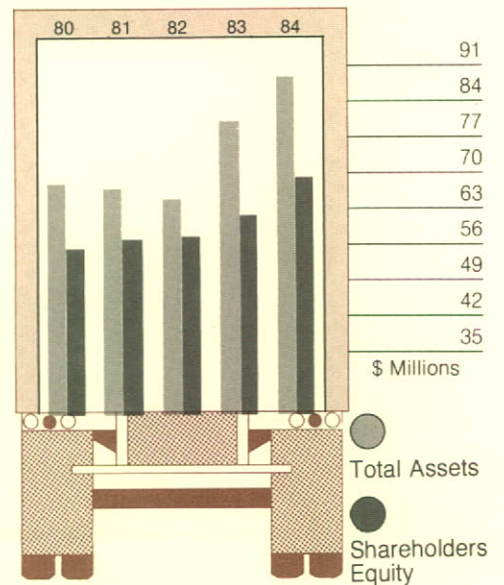
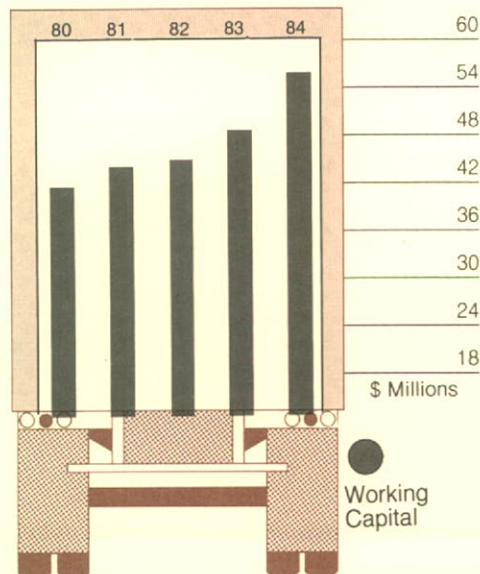
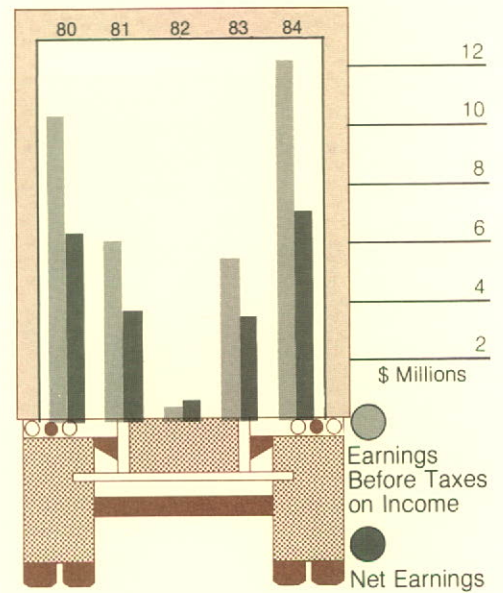
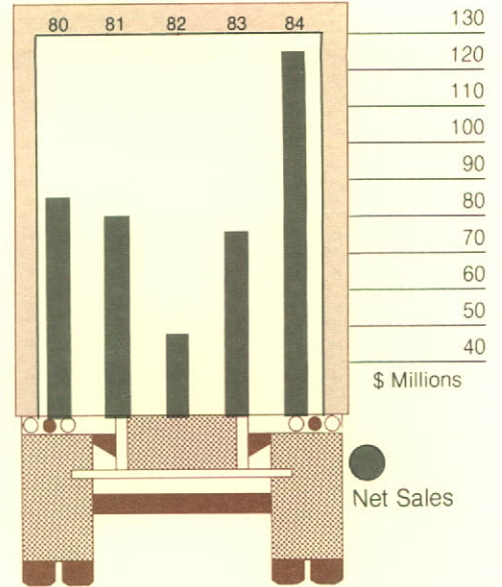
On Behalf of the Board



T. J. Reghanti,
President



D. A. Grinstead,
Vice President



Auditors' Report

The Shareholders
Fruehauf Canada Inc.

Touche Ross & Co.
Chartered Accountants

AUDITORS' REPORT

The Shareholders,
Fruehauf Canada Inc.

We have examined the balance sheet of Fruehauf Canada Inc. as at December 31, 1984 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, 1984 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,
February 11, 1985.



Chartered Accountants

Statement of Net Earnings

Years Ended December 31

	1984	1983
Revenues		
Net sales	\$124,575,714	\$76,704,083
Finance and other interest	3,794,638	3,748,636
	128,370,352	80,452,719
Costs and Expenses		
Cost of sales	108,089,708	68,370,393
Selling and administration	6,632,147	4,971,667
Depreciation	1,492,923	1,626,100
	116,214,778	74,968,160
Earnings Before Taxes on Income	12,155,574	5,484,559
Taxes on income (Note 5)		
Current	4,837,300	1,916,000
Deferred	148,700	98,000
	4,986,000	2,014,000
Net Earnings for the Year	\$ 7,169,574	\$ 3,470,559
Earnings per share	\$2.65	\$1.28

Balance Sheet

As at December 31

Assets		
	1984	1983
Current Assets		
Cash and short-term notes	\$ 4,910,302	\$ 8,935,356
Trade receivables		
Current accounts	24,004,809	18,406,798
Installment contracts (Note 1)	18,993,453	13,959,455
Inventories (Note 2)	25,137,516	23,233,319
Prepaid expenses	36,194	37,892
Total Current Assets	73,082,274	64,572,820
Equipment Leased to Customers (Note 3)	1,462,573	1,668,266
Fixed Assets		
Land	740,809	740,809
Buildings and equipment	12,073,530	11,851,745
Machinery and other equipment	11,519,688	10,934,459
	24,334,027	23,527,013
Less accumulated depreciation	11,128,622	9,996,384
	13,205,405	13,530,629
Total Assets	\$87,750,252	\$79,771,715

On behalf of the Board



Director



Director

Fruehauf Canada Inc.

Incorporated under the Canada Business
Corporations Act

Liabilities and Shareholders' Equity

	1984	1983
Current Liabilities		
Accounts payable		
Trade	\$ 9,262,838	\$ 9,877,256
Affiliates (Note 4)	3,050,639	2,975,595
Taxes on income		
Current	2,817,786	1,546,218
Deferred	1,867,300	1,642,500
Total Current Liabilities	16,998,563	16,041,569
Deferred Taxes on Income	2,538,600	2,614,700
Shareholders' Equity		
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	63,064,026	55,966,383
	68,213,089	61,115,446
Total Liabilities and Shareholders' Equity	\$87,750,252	\$79,771,715

Notes to Financial Statements

December 31

Summary of Accounting Principles

Inventories

Inventory amounts are based upon physical determinations during the year and have been stated at the lower of cost or market prices. Cost prices are determined by the first-in, first-out method, and market prices represent the lower of replacement cost or estimated 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 noncontributory 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 \$5,414,736 for 1984 and \$3,675,765 for 1983 and include installments due after one year of approximately \$16,200,000 for 1984 and \$10,700,000 for 1983.

Note 2 - Inventories

	December 31, 1984	December 31, 1983
New trailers	\$ 5,002,661	\$ 3,771,986
Production parts, work in process and raw materials	14,818,223	14,196,475
Service parts and orders in process	3,896,145	3,535,765
Used trailers	1,420,487	1,729,093
	<u>\$25,137,516</u>	<u>\$23,233,319</u>

Note 3 - Equipment Leased to Customers

Accumulated depreciation at December 31 is \$404,306 for 1984 and \$244,308 for 1983.

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 1984 and 1983.

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 9.7% of total costs and expenses for 1984 and 10.9% for 1983.

Note 5 - Taxes on Income

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

	1984	1983
Combined basic Canadian Federal and Provincial income tax rate	49.79%	49.49%
Increase (decrease) in income tax rate resulting from:		
Federal income tax surcharge	—	.77
Manufacturing and processing allowance	(6.06)	(5.89)
Inventory allowance	(3.19)	(4.47)
Investment tax credits	(.26)	(2.71)
Other	.74	(.46)
Effective income tax rate for the year	<u>41.02%</u>	<u>36.73%</u>

Note 6 - Pensions

Based on actuarial valuations and estimates, unfunded service costs of pension plans at December 31 amount to approximately \$19,400 for 1984, \$27,400 for 1983. Unfunded vested benefits at December 31 were \$4,500 for 1984, and approximately NIL for 1983. Total pension expense was \$226,220 in 1984 and \$50,565 in 1983.

Note 7 - Segmented Information

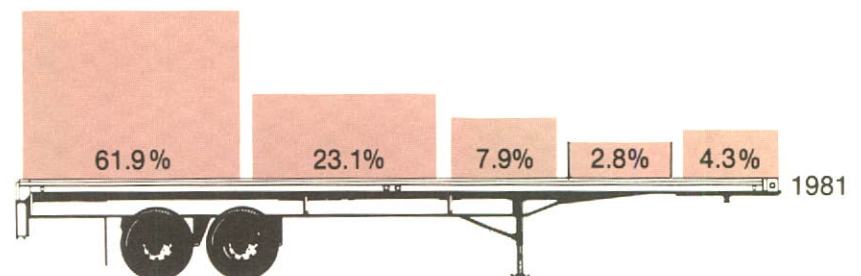
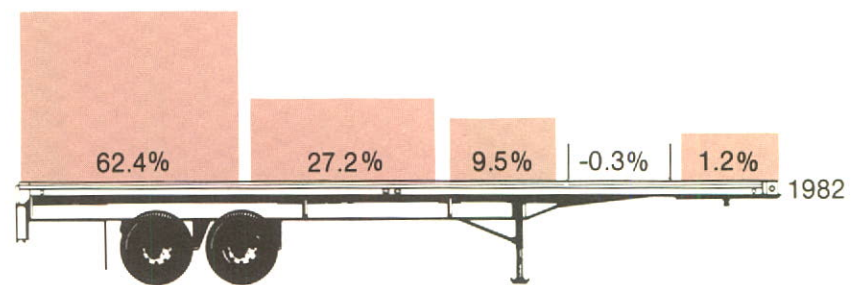
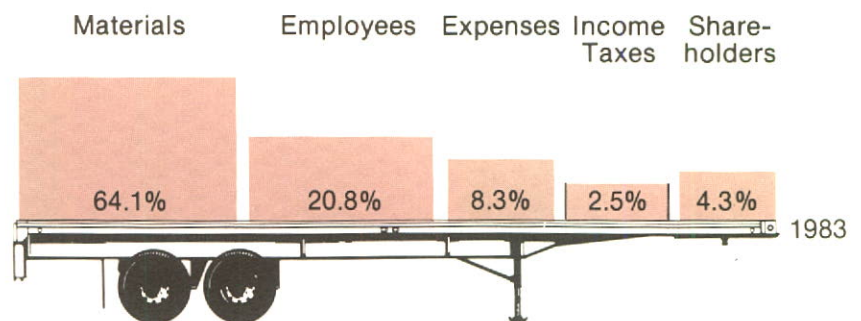
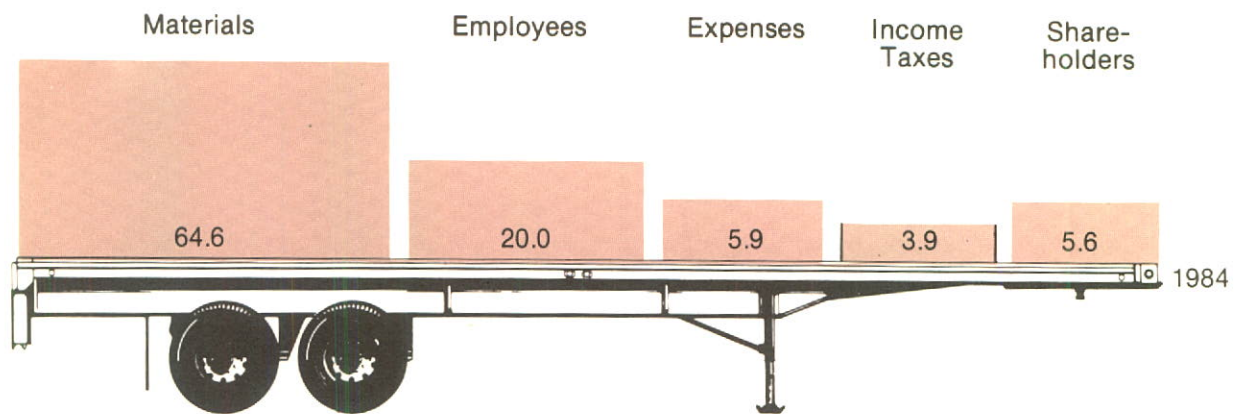
The Corporation is a supplier in the domestic commercial trailer industry and is involved in the manufacture, sales and service of commercial truck trailers including replacement parts thereto. Sales are made directly to transport operators from branch facilities or distributors throughout Canada and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

Statistical Summary

	1984	1983	1982	1981
Income Data				
Sales	\$124,575,714	\$ 76,704,083	\$ 48,383,241	\$ 80,688,550
Finance and Other Interest	3,794,638	3,748,636	3,496,920	3,418,782
Cost of Sales	108,089,708	68,370,393	45,061,975	70,104,569
Per cent to Sales	86.8	89.1	93.1	86.9
Selling and Administration	\$ 6,632,147	\$ 4,971,667	\$ 4,886,075	\$ 6,414,357
Per cent to Sales	5.3	6.4	10.1	7.9
Depreciation				
Equipment Leased to Customers	\$ 208,685	\$ 135,045	\$ 125,323	\$ 153,604
Fixed Assets	1,284,238	1,491,055	1,329,401	1,427,615
Earnings before Taxes on Income	12,155,574	5,484,559	477,387	6,007,187
Per cent to Sales	9.8	7.1	1.0	7.4
Net Earnings	\$ 7,169,574	\$ 3,470,559	\$ 608,387	\$ 3,633,187
Per cent to Sales	5.8	4.5	1.3	4.5
Per Share Outstanding	2.65	1.28	.22	1.34
Capital Investment in Year				
Equipment Leased to Customers	\$ 2,992	\$ 1,495,915	\$ —	\$ —
Fixed Assets	959,014	532,720	473,427	2,284,132
Financial Position Year-End				
Total Assets	\$ 87,750,252	\$ 79,771,715	\$ 64,611,894	\$ 66,569,055
Working Capital	56,083,711	48,531,251	45,746,516	44,317,358
Current Ratio	4.3 to 1	4.0 to 1	12.2 to 1	7.8 to 1
Cash and Short-Term Notes	4,910,302	8,935,356	12,862,593	646,001
Installment Contracts Receivable	\$ 18,993,453	\$ 13,959,455	\$ 14,119,262	\$ 14,778,565
Equipment Leased to Customers—Net	1,462,573	1,668,266	307,396	448,309
Fixed Assets—Net	13,205,405	13,530,629	14,488,964	15,344,938
Shareholders' Equity	68,213,089	61,115,446	57,656,876	57,138,405
Book Value per Share	25.21	22.58	21.31	21.12
Employment				
Number of Employees at Year-end	1040	842	378	688
Shareholders				
Number of Shareholders	250	279	408	442
Dividends per Share	\$.30	\$.05	\$.375	\$.60

1980	1979	1978	1977	1976	1975
\$ 85,803,397	\$ 100,535,167	\$ 75,382,328	\$ 58,657,252	\$ 40,872,708	47,161,334
2,596,796	2,717,010	2,611,338	2,435,626	2,588,410	2,320,268
71,038,237	84,442,352	62,860,803	49,387,915	33,413,631	37,271,914
82.8	84.0	83.3	84.2	81.8	79.0
\$ 5,865,401	\$ 5,353,159	\$ 4,641,935	\$ 4,018,933	\$ 3,371,762	\$ 3,414,829
6.8	5.3	6.2	6.9	8.2	7.2
\$ 285,958	\$ 219,612	\$ 312,234	\$ 461,312	\$ 691,128	\$ 999,485
921,428	532,106	477,760	450,868	454,399	434,194
10,289,169	12,704,948	9,700,934	7,185,551*	5,488,035	6,866,271
12.0	12.6	12.9	12.3	13.4	14.6
\$ 6,267,169	\$ 7,377,648	\$ 5,670,934	\$ 4,419,551	\$ 2,993,035	\$ 3,674,271
7.3	7.3	7.5	7.5	7.3	7.8
\$ 2.32	\$ 2.73	\$ 2.10	\$ 1.63	\$ 1.11	\$ 1.36
\$ 353,760	\$ 130,553	\$ 809,291	\$ 93,541	\$ 91,446	\$ 226,910
7,482,816	3,086,502	1,406,844	487,349	327,018	310,015
\$ 67,020,237	\$ 65,541,843	\$ 57,125,200	\$ 46,574,491	\$ 44,496,305	\$ 43,168,288
41,875,407	42,227,936	38,115,160	34,725,033	31,108,456	28,294,922
5.3 to 1	3.9 to 1	4.0 to 1	6.3 to 1	5.1 to 1	4.5 to 1
4,103,256	4,064,915	8,206,385	6,446,664	7,806,938	1,494,753
\$ 15,958,358	\$ 14,265,578	\$ 15,283,484	\$ 14,583,474	\$ 14,472,937	\$ 17,656,167
802,855	813,898	932,665	847,494	1,292,459	2,239,625
14,488,421	7,931,179	5,389,539	4,473,602	4,501,418	4,629,361
55,128,683	50,079,113	43,919,064	39,465,729	36,196,133	34,285,408
20.37	18.51	16.23	14.59	13.38	12.67
670	1138	1008	779	792	635
\$ 404	\$ 412	\$ 419	\$ 428	\$ 425	\$ 406
.45	.45	.45	.425	.40	.40

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

Directors

T. J. Reghanti
President of the Corporation and
President and Chief Operating Officer,
Fruehauf Corporation, Detroit, Michigan

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 Vice President,
General Counsel and Secretary,
Fruehauf Corporation, Detroit, Michigan

F. P. Coyer, Jr.
Vice-Chairman - Finance and Administration,
Fruehauf Corporation, Detroit, Michigan

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

Officers

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

Share Listing

Toronto Stock Exchange

Transfer Agents and Registrar

The National Victoria and Grey Trust Company
Toronto and Montreal

Solicitors

Borden & Elliot
Toronto, Ontario

Auditors

Touche Ross & Co.
Toronto, Ontario

Fruehauf — Coast to Coast

▲ Head Office

2450 Stanfield Road
Mississauga, Ontario

■ Sales and Service

Quebec
Montreal
Toronto
London
Winnipeg
Calgary
Edmonton
Vancouver

● Distributors & Dealers

Pasadena
Dartmouth
Saint John
Moncton
Ottawa
Kitchener
Sarnia
Windsor
Prince Albert
Saskatoon

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

Truck Bodies

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

Logging Equipment

