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1968

ANNUAL REPORT

FRUEHAUF TRAILER COMPANY OF CANADA LIMITED



FRUEHAUF TRAILER COMPANY OF CANADA LIMITED

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders of the Fruehauf Trailer Company of Canada Limited will be held on Thursday, April 24, 1969 at 2.30 p.m. (Toronto Time) at the Executive Offices, 2450 Stanfield Road, Dixie, Town of Mississauga, Ontario.

Proxies will be solicited from Shareholders when the Notice of Annual Meeting and Proxy Statement are mailed on or about April 4, 1969.

TRANSFER AGENT AND REGISTRAR

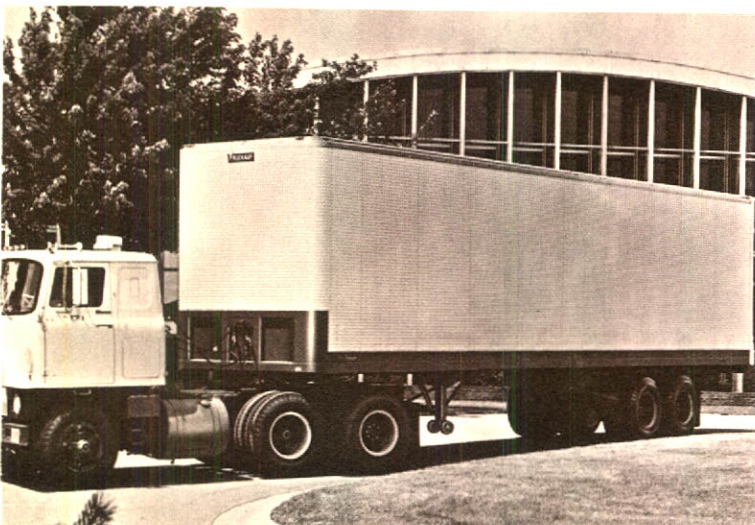
National Trust Company, Limited,
Toronto and Montreal

SOLICITORS

Borden, Elliot, Kelley & Palmer,
Toronto, Ontario

AUDITORS

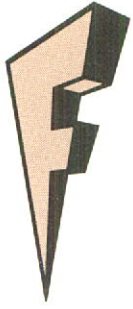
Touche, Ross, Bailey & Smart,
Toronto, Ontario



MODEL "F" VAN—The all new Model "F" Van introduced in October 1968. This beaded panel trailer has prepainted aluminum panels for minimum maintenance — lightweight for maximum load carrying capacity.

FINANCIAL HIGHLIGHTS

	1968	1967
Net Sales	\$21,367,992	\$22,952,426
Earnings before Taxes on Income	2,280,782	3,348,376
Per cent to Sales	10.7	14.6
Net Earnings	1,081,782	1,570,376
Per cent to Sales	5.1	6.8
Per Share	1.20	1.74
Dividends per Share75	.75
Net Assets (Book Value) per Share	16.53	15.39
Total Assets	26,926,953	23,619,559
Working Capital	12,279,152	12,358,891
Number of Shareholders	371	391
Number of Employees	792	846



DIRECTORS

W. E. Grace	<i>President of the Company and President of Fruehauf Corporation, Detroit, Michigan</i>
D. A. Grinstead	<i>Vice President of the Company Toronto, Ontario</i>
W. T. McDougall	<i>Treasurer of the Company Toronto, Ontario</i>
B. M. Kirsten	<i>Vice President and General Manager Fruehauf Division, Fruehauf Corporation Detroit, Michigan</i>
R. D. Rowan	<i>Vice President—Finance Fruehauf Corporation, Detroit, Michigan</i>
E. L. Rushmer	<i>Secretary of the Company and Vice President and Secretary, Fruehauf Corporation Detroit, Michigan</i>
R. J. Telford	<i>Retired: Previous Vice President of the Company, Toronto, Ontario</i>

OFFICERS

W. E. Grace	<i>President</i>
D. A. Grinstead	<i>Vice President</i>
W. T. McDougall	<i>Treasurer</i>
E. L. Rushmer	<i>Secretary</i>
A. Purdon	<i>Assistant Secretary</i>

BULK FLOUR—This all aluminum tank trailer provides the ultimate in maximum load capacity for transporting dry flowable products in bulk. Unloading is performed with its own built in pressure discharge system.



REPORT ON OPERATIONS 1968

TO OUR SHAREHOLDERS:

The demand for commercial trailers in 1968 exceeded the previous year and your Company increased its share of this market. However, the commercial trailer market fell short of industry expectation as many fleets deferred new equipment purchases while the Ontario based Motor Transport Industrial Relations Bureau, representing sixty-six member companies, negotiated labour contracts. These negotiations extended from April to September. More trailer orders were received by your Company during the fourth quarter than in any other quarter of the year. As a result of this order influx, the Company enters 1969 with the highest commercial trailer backlog in its history.

SALES AND PROFITS

Total sales of all products were \$21,367,992, down from the previous year's all time high of \$22,952,426. Commercial volume of \$20,862,640 was exceeded only by the 1966 record, \$21,181,195. Net earnings, after taxes on income were \$1,081,782 down from \$1,570,376 in 1967. Net earnings for the current year are equal to \$1.20 per share and represent 5.1% of sales.

DIVIDENDS

On April 8, 1968 your Company paid a dividend of seventy-five cents per share based on the 1967 earnings. The Company believes the 1968 results to be only a temporary decline and fully expects subsequent periods to return to a more desirable level of earnings. In view of this, the Board of Directors declared a dividend of seventy-five cents per share on February 19, 1969. This dividend is payable March 21, 1969 to holders of record on February 28, 1969. This makes the fifth consecutive year in which your Company has declared a dividend. The major shareholder, Fruehauf Corporation, has once again waived its right to the dividend permitting the funds otherwise payable to be available for working capital purposes. At the same time, this action enhances the equity position of all other shareholders.

DEPRECIATION AND TAXES

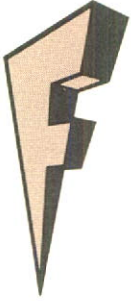
For financial reporting purposes, the Company follows a practice of depreciating equipment on a straight line basis from the date of acquisition of each asset. Charges against operations for depreciation are based on the average life expectancy of the various classes of assets. Total depreciation charges for plant and equipment in the current year amounted to \$343,490, an increase of 12.3% over the previous fiscal period. At the same time maximum capital cost allowance is claimed for tax purposes, enabling us to conserve cash. To provide for the time when depreciation charged in the financial statements may exceed capital cost allowance for tax purposes, a reserve for deferred taxes is maintained.

We are also able to defer the time of payment of income tax on profit related to equipment sold under installment contracts. The total tax payment deferred to date is \$1,039,441. This amount will not be payable in the current year, however, it is shown as a current liability since the installment contracts are included in current assets.

PRODUCTION AND SERVICE OPERATIONS

During the first quarter of the year manufacturing proceeded at a high level of production. However, it soon became apparent that mid-year production would be at a much reduced level. With this outlook we took the opportunity to schedule the changeover to our completely new Model "F" van trailer. A complete rearrangement of the manufacturing facility was effected and entirely new production tooling installed. The expenses in connection with this changeover have been absorbed in the current year. The investment in tooling will be amortized over the future periods of model production. The manufacturing techniques used in production of the Model "F" van trailer are a new concept in trailer production. The program is now beginning to reach the potential anticipated.

In early 1968 most of the Canadian provinces authorized the increase in maximum width of highway vehicles from 96 inches to 102 inches. This change generated immediate demand for wider trailer equipment to enable transport



operators to take advantage of the increased freight capacity. As a part of our "F" van change-over we have incorporated production features which enable us to produce units in either width. This two width feature has also been incorporated into our other trailer models where customers can benefit from the extra width.

During the year we completed the expansion of our Montreal branch which was begun in 1967. We did, however, suffer an eleven week work stoppage immediately following the extension. The branch returned to work on October 21st under a three year labour contract. With the completion of the Montreal extension our current branch facilities enlargement program has been achieved. We now have in full operation the new branch at Quebec City as well as enlarged facilities at Montreal, Calgary and Edmonton. All of these locations have been provided with the most modern and efficient service repair tools and equipment available, as have our other locations. We are continually evaluating equipment and making replacements based upon factual study.

FINANCIAL

Our investment in installment contracts increased \$1,966,550 in the year, as our customers continue to take advantage of the ability to finance equipment purchased directly with the manufacturer and seller. Equipment leased to customers increased \$648,175 representing an increase of 35.1% over the previous year. Both of these financing methods have long term benefits for Fruehauf as they generate finance revenue and rental income over future years.

Capital expenditures amounted to \$447,408, compared with \$785,351 in 1967. The current year includes the factory changeover associated with the Model "F" van and the balance of the Montreal Branch expansion. The major part of the branch expansion program covering four locations was accomplished in the previous year. In the past five years the capital investment made to improve earnings potential has been approximately \$2¼ million.

Working capital decreased slightly to \$12,279, 152 maintaining a sound ratio of current assets to current liabilities, 2.5 to 1. The increase in

accounts receivable as well as the increase in inventories reflects the greater volume of business in the closing months of the current year. Bank loans were employed to provide funds for the investments in customer financed and leased equipment of the current year. The total of such loans outstanding at December 31 was \$3,860,000.

INDUSTRY AND OUTLOOK

Our increase in commercial business enabled us to again improve our position of leadership in the truck trailer industry. With the van trailer as the backbone of the trailer market we feel confident that our new Model "F" van will enable us to reach new heights in market penetration. This model is adaptable to all requirements of truck transportation from dry freight cargo to exacting standards of low temperature foamed-in-place insulation. Through our association with Fruehauf Corporation (U.S.), we have available all of the benefits of its technology and developments in the "Total Transportation" concept.

Our forecast for the coming year indicates an improved volume and higher earnings and is supported by the fact that we enter 1969 with the highest order backlog in our history. We are fortunate in having completed our production rearrangement so that we are now able to reap the maximum benefit from the current high level of demand.

* * *

Your Directors express their appreciation to all of the employees, and to our distributors and dealers, for their continuing efforts in contributing to the success and progress of the Company. We also wish to thank our shareholders and customers for the confidence shown in our activities and products.

On behalf of the Board

W. E. Grace
President

D. A. Grinstead
Vice President

March 24, 1969

STATEMENT OF NET EARNINGS

YEARS ENDED DECEMBER 31, 1968 AND DECEMBER 31, 1967

REVENUES	1968	1967
Commercial sales	\$20,862,640	\$20,077,962
Government sales	505,352	2,874,464
NET SALES	<u>\$21,367,992</u>	<u>\$22,952,426</u>
Finance revenue	1,105,839	919,850
Miscellaneous	39,230	45,129
	<u>\$22,513,061</u>	<u>\$23,917,405</u>
COST AND EXPENSES		
Cost of products and service sold, other than items below	\$16,652,542	\$17,354,237
Selling and administrative expenses	1,764,335	1,729,576
Depreciation	1,103,420	870,094
Taxes—property, payroll and miscellaneous	325,636	286,365
Interest (including \$172,266 in 1968 and \$203,104 in 1967 on long-term debt)	386,346	328,757
	<u>\$20,232,279</u>	<u>\$20,569,029</u>
EARNINGS BEFORE TAXES ON INCOME	\$ 2,280,782	\$ 3,348,376
Taxes on income (including deferred amounts of \$387,800 in 1968 and \$182,400 in 1967)	1,199,000	1,778,000
NET EARNINGS	<u>\$ 1,081,782</u>	<u>\$ 1,570,376</u>

BALANCE SHEETS • FRUEHAUF TRAILER COMPANY OF CANADA LIMITED (Incorporated under the laws of the Province of Ontario)

ASSETS	December 31, 1968	December 31, 1967
CURRENT ASSETS		
Cash	\$ 149,058	\$ 123,378
Trade receivables		
Installment contracts (including installments of approximately \$8,224,600 maturing after one year) less unearned finance charges of \$1,796,483 at December 31, 1968 ..	\$11,967,900	\$10,001,350
Accounts receivable	2,932,863	2,561,819
	<u>\$14,900,763</u>	<u>\$12,563,169</u>
Inventories (Note A)	5,105,328	4,800,554
Prepaid expenses	62,319	64,650
	<u>62,319</u>	<u>64,650</u>
TOTAL CURRENT ASSETS	<u>\$20,217,468</u>	<u>\$17,551,751</u>
INVESTMENTS AND OTHER ASSETS		
Equipment leased to customers—at cost less accumulated depreciation of \$2,319,261 at December 31, 1968 (Note A) ..	\$ 2,496,318	\$ 1,848,143
Miscellaneous accounts and investments	133,719	158,329
Special refundable tax	—	85,806
	<u>\$ 2,630,037</u>	<u>\$ 2,092,278</u>
PROPERTY, PLANT AND EQUIPMENT—at cost		
Land	\$ 560,188	\$ 560,188
Buildings and equipment	3,048,902	2,937,502
Machinery and other equipment	3,034,809	2,793,773
	<u>\$ 6,643,899</u>	<u>\$ 6,291,463</u>
Less accumulated depreciation	2,564,451	2,315,933
	<u>\$ 4,079,448</u>	<u>\$ 3,975,530</u>
TOTAL ASSETS	<u>\$26,926,953</u>	<u>\$23,619,559</u>

LIABILITIES AND SHAREHOLDERS' INVESTMENT

CURRENT LIABILITIES

	December 31, 1968	December 31, 1967
Notes payable to bank—secured	\$ 3,860,000	\$ 1,250,000
Accounts payable and accrued expenses		
Trade accounts	\$ 1,732,856	\$ 1,393,899
Salaries, wages and employee benefits	373,143	366,103
Taxes other than taxes on income	234,239	256,905
Interest	47,020	17,068
	<hr/>	<hr/>
	\$ 2,387,258	\$ 2,033,975
Taxes on income	24,000	479,866
Deferred taxes on income	1,039,441	1,072,600
Due to Fruehauf Corporation	550,617	356,419
Sinking fund payment due within one year	77,000	—
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	\$ 7,938,316	\$ 5,192,860

OTHER LIABILITIES

Deferred taxes on income	\$ 506,300	\$ 192,200
4% Note to Fruehauf Corporation	1,875,000	2,500,000
5 $\frac{1}{4}$ % Sinking Fund Debentures, Series "A" due November 1, 1976; redemption price to November 1, 1969, 102% decreasing $\frac{1}{4}$ of 1% each year thereafter (annual sink- ing fund requirements of \$150,000)	1,700,000	1,849,000
	<hr/>	<hr/>
	\$ 4,081,300	\$ 4,541,200

SHAREHOLDERS' INVESTMENT

Capital stock, without nominal or par value		
Authorized 2,000,000 shares		
Issued and outstanding 901,925 shares	\$ 5,149,063	\$ 5,149,063
Earnings retained for use in the business	9,758,274	8,736,436
	<hr/>	<hr/>
	\$14,907,337	\$13,885,499

COMMITMENTS AND CONTINGENT LIABILITIES (Notes B and C)

On behalf of the board

W. T. McDougall, Director
R. D. Rowan, Director

TOTAL LIABILITIES AND SHAREHOLDERS' INVESTMENT	<hr/> <hr/>	<hr/> <hr/>
	\$26,926,953	\$23,619,559

STATEMENT OF EARNINGS RETAINED FOR USE IN THE BUSINESS

YEARS ENDED DECEMBER 31, 1968 AND DECEMBER 31, 1967

	1968	1967
Balance at beginning of year	\$ 8,736,436	\$7,226,004
Net earnings for the year	1,081,782	1,570,376
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Less	\$ 9,818,218	\$8,796,380
Cash dividends paid (Note D)	59,944	59,944
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Balance at end of year	<u>\$ 9,758,274</u>	<u>\$8,736,436</u>

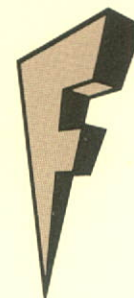
STATEMENT OF WORKING CAPITAL

YEARS ENDED DECEMBER 31, 1968 AND DECEMBER 31, 1967

	1968	1967
SOURCES OF WORKING CAPITAL		
OPERATIONS		
Net earnings for the year	\$ 1,081,782	\$ 1,570,376
Depreciation of equipment leased to customers	759,930	564,313
Depreciation of plant and equipment	343,490	305,781
Increase in deferred taxes on income included in other liabilities	314,100	58,800
	<hr/>	<hr/>
TOTAL FROM OPERATIONS	\$ 2,499,302	\$ 2,499,270
OTHER		
Decrease in miscellaneous accounts and investments .	\$ 24,610	\$ 25,789
Decrease in special refundable tax	85,806
	<hr/>	<hr/>
	\$ 2,609,718	\$ 2,525,059
	<hr/>	<hr/>
APPLICATION OF WORKING CAPITAL		
Cash dividend	\$ 59,944	\$ 59,944
Additions to property, plant and equipment, less disposals	447,408	785,351
Additions to equipment leased to customers, less disposals	1,408,105	724,784
Decrease in long-term debt	774,000	1,024,000
Special refundable tax	59,488
	<hr/>	<hr/>
	\$ 2,689,457	\$ 2,653,567
	<hr/>	<hr/>
NET DECREASE IN WORKING CAPITAL FOR YEAR	\$ 79,739	\$ 128,508
WORKING CAPITAL AT BEGINNING OF YEAR	12,358,891	12,487,399
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WORKING CAPITAL AT END OF YEAR	<u>\$12,279,152</u>	<u>\$12,358,891</u>

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1968



NOTE A—INVENTORIES AND EQUIPMENT LEASED TO CUSTOMERS

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 amount.

A summary of inventories follows

	December 31,	
	1968	1967
New trailers	\$ 885,048	\$ 863,020
Production parts, work in process and raw materials	2,284,361	1,778,072
Service parts and orders in process	1,534,583	1,733,385
Used trailers	401,336	426,077
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	\$ 5,105,328	\$4,800,554

Lease rental payments are recognized as income in the period in which they are earned, and the costs of the equipment are depreciated over their useful lives on a straight-line basis.

NOTE B—LONG-TERM LEASES

The company is lessee under long-term leases for the sales and service branches. The annual rental on such properties will approximate \$178,000 in 1969, exclusive of taxes, insurance, maintenance and repairs, which are also payable by the company. The company has the right to purchase three of these properties and if these rights were exercised, the aggregate purchase price would amount to approximately \$938,477.

NOTE C—PENSIONS

Unfunded past service costs of pension plans covering certain employees amounting to approximately \$304,000 at December 31, 1968, are being amortized over thirty-year periods. The amount charged to operations in 1968 for such plans was \$125,067.

NOTE D—CASH DIVIDENDS PAID

A dividend of \$0.75 per share was paid during the year on 79,925 shares, which excludes the 822,000 shares owned by Fruehauf Corporation which waived its right to the dividend otherwise payable.

NOTE E—EXECUTIVE REMUNERATION

Total remuneration paid by the company during the year to directors and officers of the company amounted to \$62,552.

AUDITORS' REPORT

The Shareholders,
Fruehauf Trailer Company of Canada Limited.

We have examined the balance sheet of Fruehauf Trailer Company of Canada Limited as at December 31, 1968 and the statements of net earnings, earnings retained for use in the business and working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1968 and the results of its operations and the changes in its working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

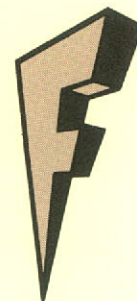
Toronto, Ontario,
February 3, 1969.

Irwin Ross Barclay & Stewart.

Chartered Accountants.

STATISTICAL SUMMARY ON OPERATIONS

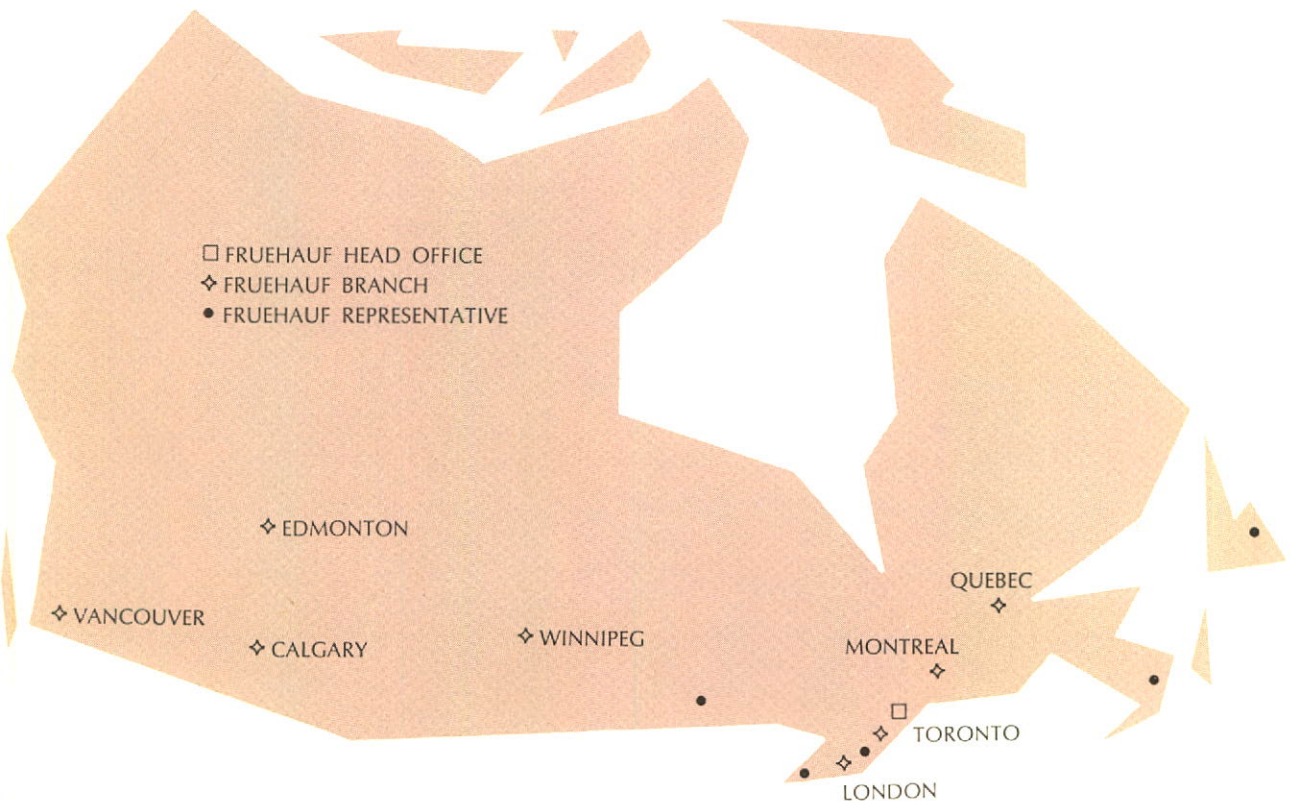
	1968	1967
INCOME DATA		
Sales	\$21,367,992	22,952,426
Finance Revenue	1,105,839	919,850
Cost of Products and Service Sold	16,652,542	17,354,237
Per cent to Sales	77.9	75.6
Selling and Administrative Expenses	\$ 1,764,335	1,729,576
Per cent to Sales	8.2	7.5
Depreciation—Equipment Leased to Customers	\$ 759,930	564,313
—Plant and Equipment	343,490	305,781
Earnings before Taxes on Income	2,280,782	3,348,376
Per cent to Sales	10.7	14.6
Net Earnings	\$ 1,081,782	1,570,376
Per cent to Sales	5.1	6.8
Per Share Outstanding	\$ 1.20	1.74
CAPITAL INVESTMENT		
Equipment Leased to Customers—less disposals	\$ 1,408,105	724,784
Plant and Equipment—less disposals	447,408	785,351
FINANCIAL POSITION YEAR-END		
Total Assets	\$26,926,953	23,619,559
Working Capital	12,279,152	12,358,891
Current Ratio	2.5 to 1	3.4 to 1
Installment Contracts Receivable	\$11,967,900	10,001,350
Equipment Leased to Customers—Net	2,496,318	1,848,143
Property, Plant and Equipment—Net	4,079,448	3,975,530
Shareholders Equity	14,907,337	13,885,499
Book Value per Share	16.53	15.39
EMPLOYMENT		
Number of Employees at Year-end	792	846
SHAREHOLDERS		
Number of Shareholders	371	391
Dividend per Share	\$.75	.75



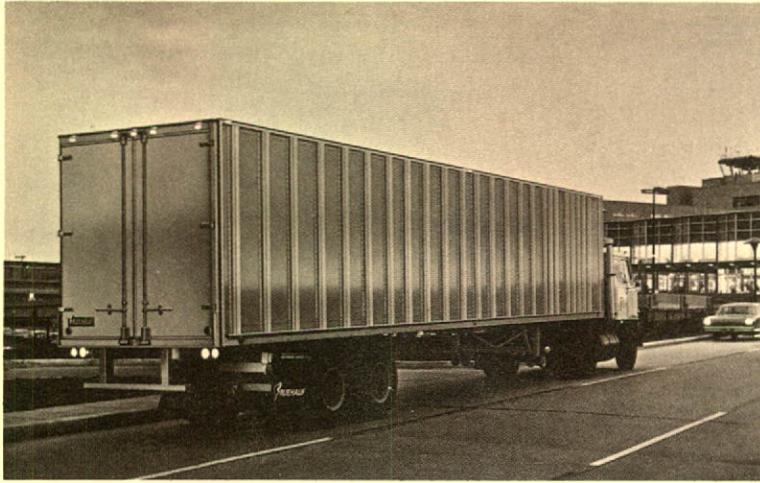
1966	1965	1964	1963	1962
22,911,688	19,348,156	14,867,023	12,627,354	10,787,579
775,477	632,095	654,197	813,864	795,921
17,088,892	15,050,404	11,951,467	10,101,333	8,748,598
74.6	77.8	80.4	80.4	81.1
1,697,042	1,470,490	1,257,888	1,021,817	965,621
7.4	7.6	8.5	8.1	8.9
457,234	295,384	158,510	144,776	87,740
286,138	277,729	261,493	249,104	264,147
3,595,031	2,467,028	1,571,488	1,524,646	1,141,296
15.7	12.8	10.6	12.1	10.6
1,670,031	1,182,028	804,488	1,492,646	1,126,314
7.3	6.1	5.4	11.8	10.4
1.85	1.31	.89	1.66	1.25
988,922	866,050	241,382	201,871	249,793
407,528	426,057	49,642	44,069	5,418
24,192,856	19,511,355	17,754,007	17,524,597	19,195,305
12,487,399	11,551,133	11,558,429	11,921,605	10,476,166
3.0 to 1	4.6 to 1	6.3 to 1	9.4 to 1	3.3 to 1
9,007,303	7,045,080	5,449,427	6,237,809	6,633,085
1,687,672	1,155,984	585,318	502,446	445,351
3,495,960	3,374,570	3,226,242	3,438,093	3,643,128
12,375,067	10,719,973	9,576,945	8,772,457	7,279,811
13.72	11.91	10.64	9.75	8.09
853	781	589	421	554
347	357	355	390	370
.50	.50	—	—	—



CONTAINERS—Here containers are loaded for ocean shipment to foreign ports. Fruehauf containers are designed to exacting standards for road—rail—sea movement. These containers provide the ultimate in safe, low cost transportation.

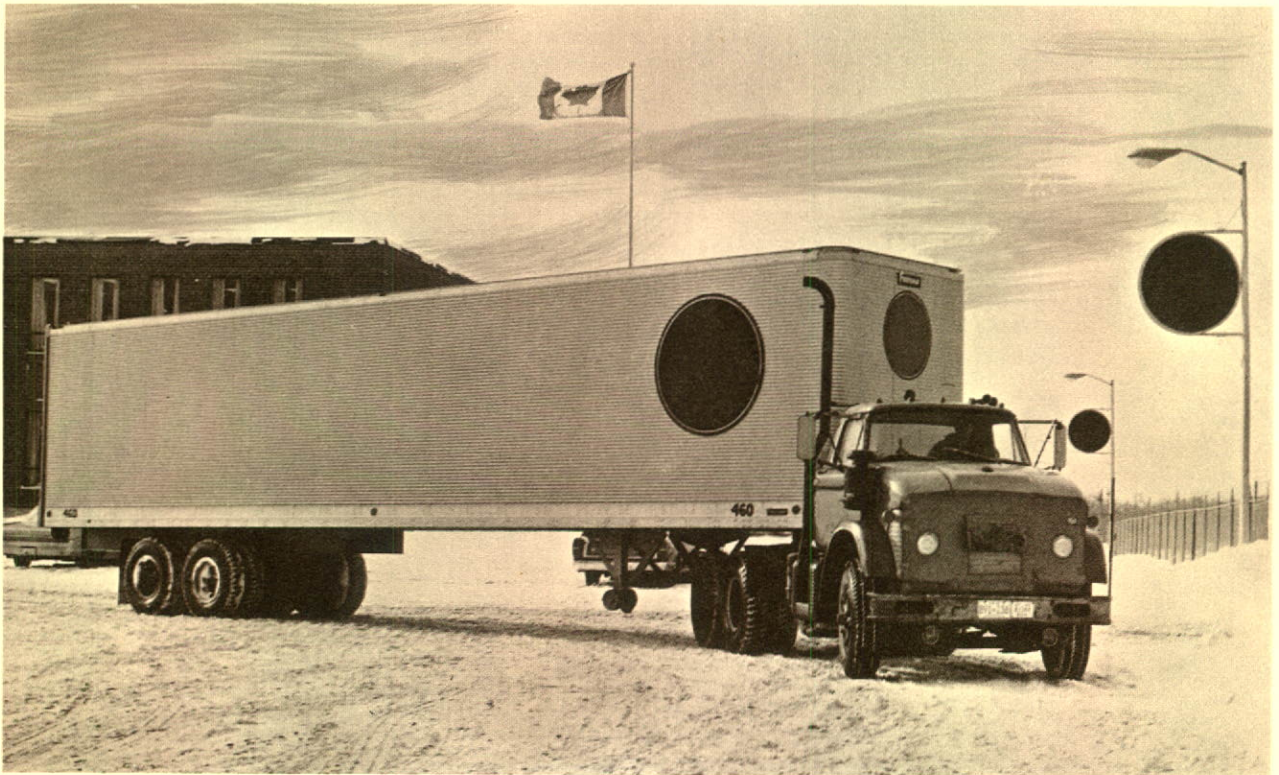


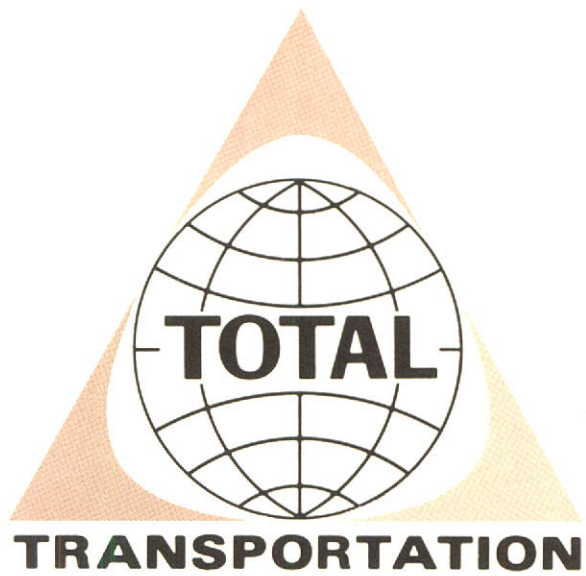
COAST TO COAST—Fruehauf Service covers all of Canada with complete repair facilities at each location. A National Company serving the entire nation.



MODEL "F" EXPOSED POST VAN—A dry freight van with exterior posts and prepainted aluminum panels. This model provides maximum cube and is available in varying combinations of lengths and heights in both 96" and 102" widths.

MODEL "F" BEADED PANEL VAN—This trailer is available as a dry freight model or as an insulated or refrigerated unit. Designed for 96" or 102" width it is produced in lengths and heights to meet shipping requirements.





FRUEHAUF TRAILER COMPANY OF CANADA LIMITED