

ZELLER'S LIMITED

ANNUAL REPORT TO SHAREHOLDERS

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For Fiscal year ended
January 31st, 1938

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McGILL UNIVERSITY

Board of Directors

WALTER P. ZELLER, Chairman

HERBERT A. HILLS

WM. C. NICHOLSON, K.C.

ROBERT T. HARTT

GILBERT F. BROOKS

MORELL MACKENZIE

T. E. McDERMOTT

Officers

WALTER P. ZELLER President

ROBERT T. HARTT Vice-President

T. E. McDERMOTT Sec'y-Treasurer

Transfer Agents

BARCLAYS TRUST COMPANY OF CANADA

214 ST. JAMES STREET WEST, MONTREAL

Registrar

CHARTERED TRUST AND EXECUTOR COMPANY

132 ST. JAMES STREET WEST, MONTREAL

TO THE SHAREHOLDERS OF ZELLER'S LIMITED:

Continued satisfactory progress is recorded in this, our Sixth Annual Report. Sales and Profits show substantial improvement over the previous year. The increase in Sales is 13.48% and the Net Profit of \$224,227 is 53% greater than that of the previous year. Net Profit is equivalent to five times annual Preferred Dividend requirements and, after the payment of such dividends, represents earnings of a little over \$1.43 per share on the 125,000 Common Shares outstanding.

Expenditures and provisions for taxes, including \$42,000 for Federal Income and Provincial Profits Tax, amount to \$99,421, equivalent to approximately 2¢ of each dollar of sales or 80¢ per share on the outstanding Common Stock.

CAPITAL CHANGES:

A considerable change has been made in the capital structure of the Company. Previous authorized capital of 7,500 6% Non-Cumulative Preferred Shares, of \$100 par value, and 100,000 Common Shares, of no par value, has been changed to 40,000 6% Cumulative Preferred Shares, with a par value of \$25, these shares being callable at 110% of par, and 150,000 Common Shares of no par value. Against this authorized capital there have been issued 30,000 Preferred Shares and 125,000 Common Shares. Preferred Shares were exchanged on the basis of 4 shares of new stock for each share of old. Common Shares were exchanged on an even basis.

The foregoing changes were made in connection with certain new financing which your Directors thought it desirable to undertake. Greenshields & Co. Incorporated purchased from us, for placement with investors, 8,300 shares of Preferred Stock and 25,000 Shares of Common Stock. The net result was to bring into the business new capital to the amount of \$365,750. This not only materially strengthened our current position, but it also leaves us in a position to take advantage of further opportunities for profitable expansion.

The successful conclusion of this financing may be regarded as highly important to the Shareholders. A continuance of our growth will, no doubt, call for additional capital from time to time and the public offering of new Preferred and Common Shares has familiarized investors and the general public with the nature and scope of our business.

BALANCE SHEET:

You will note the Balance Sheet reveals the excellent liquid position of the Company. Current Assets of \$824,119 are more than double Current Liabilities, with Cash and Call Loans of \$375,186 alone equal to all Current Liabilities.

The amount of Debenture Stock outstanding as at January 31st, 1937, was \$200,000. During the year under review \$12,500 was redeemed as required by the provision of the Sinking Fund. In accordance with the conditions relating to the Preferred Stock, 10% of the net profits, less the Annual Sinking Fund requirement of \$12,500 on the Debenture Stock, has been set aside in the Preferred Stock Purchase Reserve Account. Consequently, provision has been made for the redemption during the coming year of \$22,500 Debenture Stock which will leave a balance of this stock outstanding of \$165,000.

Advances were made during the year to Walter P. Zeller Holding Company Limited to enable this wholly-owned subsidiary to take advantage of attractive concessions for advance payments on several mortgages.

You will note the Balance Sheet carries an item of "Investments in and Advances to Zeller's (Nova Scotia) Limited". This is a wholly-owned subsidiary which was formed to develop the Company's business in the Province of Nova Scotia.

NEW UNIVERSAL STORES LTD. (ENGLAND)

The above Company is now operating twelve stores, which formerly were operated by Great Universal Stores, Limited, one of the largest mail order houses in Great Britain. Due to the need of experienced variety store management, your Company was able to obtain control of the above Company through the purchase of 60% of its Ordinary Shares. All of the Preference Shares and 40% of the Ordinary Shares were subscribed and paid for in England.

Due to some confusion on the part of customers in distinguishing between Great Universal Stores and New Universal Stores, it has been thought advisable to change the name of the latter Company, and action is now being taken to effect this change. The name of the Company will be "Hills & Steele, Limited." Mr. H. A. Hills, one of your Directors who was formerly your Vice-President and Assistant General Manager, is now Managing Director of the English Company. Mr. E. P. Steele is Assistant Managing Director and Merchandise Manager. Your Company also sent to England four additional men, all thoroughly experienced in variety chain store operations. While there has not yet been sufficient time for the new management to put the business on a profitable basis, substantial progress has been made to date and the outlook for the Company is encouraging.

NEW STORES IN CANADA:

Your Company is now operating twenty-two stores. Two new stores were added during the past year. One in Brantford, Ontario, in March and another in Port Arthur, Ontario, in October. Leases have been signed for two additional stores, one in a suburban district of Hamilton, Ontario, which will be opened in the early summer, and the other in New Glasgow, Nova Scotia, which will be opened in September. An excellent business site has been acquired in the City of Halifax, Nova Scotia, where a new store will be opened in the early part of 1939.

GENERAL:

Your Management is looking forward to another year of successful operations, although the rather unfavourable general business conditions which exist at the present time make it hardly reasonable to expect that improvement will continue at the same rate as in the past five years. However, the nature of our business is such that it should withstand somewhat better than the average type of retail business the cumulative effects of unemployment and reduction in public income.

It is the opinion of your Management that opportunities for sound growth continue and that the policy of conservative expansion should be maintained.

It is our constant endeavour to maintain the most cordial relations with all employees. This policy includes the granting of vacations with pay and the disbursement of Christmas bonuses. During the past year there was paid in salaries to employees an amount in excess of \$600,000.

The results which have been achieved are to a substantial degree attributable to the splendid spirit of cooperation and loyalty which exists throughout the organization, and I desire to close this report with an expression of sincere appreciation to the entire staff for their efforts.

On behalf of the Board of Directors,

WALTER P. ZELLER,
Chairman.

ZELLER'S

Balance Sheet as at

A S S E T S

Cash on Hand and in Banks	\$ 125,186.54	
Call Loans—Secured	250,000.00	
		\$ 375,186.54
Inventories—Quantities determined by actual count, weight or measurement and priced at the lower of cost or market		409,062.82
Sundry Accounts Receivable and Deposits	\$ 9,414.64	
Less—Reserve for Doubtful Accounts	2,000.00	
		7,414.64
Advances to Employees for Purchase of Capital Stock		2,360.71
Prepaid Expenses and Supplies		20,894.94
Life Insurance—Cash Surrender Value		9,200.00
TOTAL CURRENT		\$ 824,119.65
Investments in and Advances to Subsidiary Companies:		
Zeller's (Nova Scotia) Limited (a wholly- owned Subsidiary)—		
Capital Stock	\$ 44,520.00	
Advances on Account of Purchase of Halifax, N.S., Properties	146,150.00	
		\$ 190,670.00
Walter P. Zeller Holding Company Limited (a wholly-owned Subsidiary)—		
Capital Stock	\$ 1,000.00	
Advances	54,000.00	
		55,000.00
New Universal Stores Limited England (a partially-owned Subsidiary)—		
Capital Stock	175,773.87	
		421,443.87
Fixed Assets—As Valued by the Directors as at 1st March, 1932—with net additions to date at Cost—		
Furniture, Fixtures and Equipment	\$ 575,160.14	
Improvements to Leasehold Premises	907,172.65	
	\$1,482,332.79	
Less—Reserve for Depreciation	451,645.10	
		1,030,687.69
		<u>\$2,276,251.21</u>
Approved on behalf of the Board:		
WALTER P. ZELLER, Director.		
T. E. McDERMOTT, Director.		

Submitted subject to

MONTREAL, 10th March, 1938.

LIMITED

31st January, 1938

LIABILITIES

Accounts Payable—Trade	\$ 75,860.60
Accrued Commissions and Miscellaneous Expenses	51,463.82
Provision for Dominion, Provincial and Municipal Taxes	46,204.30
Rentals Payable on the basis of a percentage of Sales	19,691.02
Provision for Redemption of Debenture Stock	22,500.00
Balance of Purchase Price of Halifax, N.S., Properties	146,150.00

TOTAL CURRENT \$ 361,869.74

Reserve for Interest, Taxes, Insurance and Rentals 16,532.33

DEBENTURE STOCK—

Authorized and Issued—Six Per Cent Cumulative Redeemable Sinking Fund Debenture Stock..... \$ 250,000.00

Less—Redeemed \$ 62,500.00

Redeemable during 1938—shown above 22,500.00

85,000.00

CAPITAL STOCK AND SURPLUS—

Authorized—40,000 Six Per Cent Redeemable Preferred Shares of a Par Value of \$25.00 each

\$1,000,000.00

150,000 Common Shares without Nominal or Par Value

165,000.00

ISSUED AND FULLY PAID—

Preferred:

21,700 Shares issued in exchange for 5,425 Preferred Shares of a Par Value of \$100.00 each outstanding at 31st January, 1937

\$ 542,500.00

8,300 Shares issued for Cash

207,500.00

30,000

\$ 750,000.00

Common:

100,000 Shares outstanding at 31st January, 1937 \$500,000.00

25,000 Shares issued for Cash 125,000.00

625,000.00

125,000

Capital Surplus—Preferred Stock Purchase Reserve \$ 9,922.69

Distributable Surplus 33,250.00

Earned Surplus—per Statement Attached..... 314,676.45

357,849.14

1,732,849.14

There is a Contingent Liability of \$29,000.00 in respect of the guarantee of the Mortgages against the Sarnia Property of Walter P. Zeller Holding Company Limited, occupied under lease by Zeller's Limited.

\$2,276,251.21

ur report of this date.

(Signed) McDONALD, CURRIE & CO.,

Chartered Accountants.

ZELLER'S LIMITED

STATEMENT OF PROFIT AND LOSS

For the year ended 31st January, 1938

SALES	\$5,063,910.41
DEDUCT—	
Cost of Goods Sold, Operating, Selling and Administrative Expenses, exclusive of items shown hereunder..	\$4,620,778.57
Salaries of Executive Officers	36,800.00
Professional Fees	13,793.00
	<u>4,671,371.57</u>
Operating Profit before Provision for Depreciation	\$ 392,538.84
DEDUCT—	
Store Development Expense	\$ 6,617.64
Interest—Sundry	2,272.06
Debenture	11,250.00
Depreciation—Furniture, Fixtures and Equipment and Improvements to Leasehold Premises	106,172.26
	<u>126,311.96</u>
	\$ 266,226.88
DEDUCT—	
Provision for Dominion Income and Provincial Profits Taxes	42,000.00
Net Profit for the Year—transferred to Surplus Account	<u><u>\$ 224,226.88</u></u>

STATEMENT OF SURPLUS

Balance at Credit—31st January, 1937	\$ 138,689.01
Add—Net Profit for the year	224,226.88
	<u>\$ 362,915.89</u>
Deduct—Dividends on Preferred Shares	\$ 37,737.50
Excess Life Insurance Premium over increase in Cash Surrender Value	579.25
Preferred Stock Purchase Reserve	9,922.69
	<u>48,239.44</u>
Balance at Credit—31st January, 1938	<u><u>\$ 314,676.45</u></u>

Montreal,
10th March, 1938.

TO THE SHAREHOLDERS,
ZELLER'S LIMITED,
MONTREAL.

We have examined the books and records of Zeller's Limited for the purpose of establishing its financial position as at 31st January 1938 and we have obtained all the information and explanations which we have required, but we did not make a detailed audit of all the transactions during the fiscal year ended that date.

Effect has been given in the attached Balance Sheet to the incorporation as a wholly-owned Subsidiary, on 5th February 1938, of Zeller's (Nova Scotia) Limited and the transfer to it of the Halifax, N.S., Properties. The Surplus of \$8,004.50 shown in the financial statements as at 31st January 1938 of Walter P. Zeller Holding Company Limited, a wholly-owned Subsidiary, has not been incorporated in the attached statements, nor has effect been given to any profit or loss accruing to your Company from New Universal Stores Limited, a partially-owned Subsidiary, for the period ended 31st January 1938. The financial statements of the latter Company were not available for our inspection at this date.

Based on such examination and subject to the foregoing remarks, we report that, in our opinion, the attached Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs, according to the best of our information and the explanations given to us and as shown by the books of the Company.

(Signed) McDONALD, CURRIE & CO.,
Chartered Accountants.

Operating in the following Cities

LONDON, ONT.

HAMILTON, ONT.

SHERBROOKE, QUE.

ST. CATHARINES, ONT.

KITCHENER, ONT.

FREDERICTON, N.B.

ST. JOHN, N.B.

OTTAWA, ONT.

SARNIA, ONT.

FT. WILLIAM, ONT.

WINNIPEG, MAN.

BELLEVILLE, ONT.

PETERBOROUGH, ONT.

THREE RIVERS, QUE.

LINDSAY, ONT.

GUELPH, ONT.

QUEBEC, QUE.

BARRIE, ONT.

OSHAWA, ONT.

NORTH BAY, ONT.

BRANTFORD, ONT.

PORT ARTHUR, ONT.

Executive and Buying Offices:

1253 MCGILL COLLEGE AVE.

MONTREAL

