

GAMBLES CANADA LIMITED

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ANNUAL REPORT / 1969



For the year ended January 31, 1970



GAMBLES CANADA LIMITED

1530 Gamble Place, Winnipeg 19, Man.

DIRECTORS

A. W. K. BESANT	D. R. GIBSON
J. B. CHEYNE	A. G. KIRKNESS
S. J. COPPINGER	E. J. McCREADY
B. F. DAVIDSON	B. F. RUTHERFORD
P. C. FIKKAN	R. B. SUTHERLAND
B. C. GAMBLE	J. A. WATSON

OFFICERS

R. B. SUTHERLAND	<i>President and Chief Executive Officer</i>
A. W. K. BESANT	<i>Executive Vice President and Chief Operating Officer</i>
J. B. CHEYNE	<i>Vice President For Merchandising</i>
J. L. MacDONALD, C.A.	<i>Vice President and Treasurer</i>
W. R. TEMPLIN	<i>Vice President and Secretary</i>
J. A. WATSON	<i>Vice President</i>
B. F. DAVIDSON	<i>Assistant Secretary</i>

BUYING OFFICES:

1530 Gamble Place, Winnipeg 19, Man.
1395 Ellice Avenue, Winnipeg 21, Man.
7622 Keele Street, Toronto, Ont.

Five Merchandising Divisions Serving Canadian Shoppers:

DIVISION	CHIEF OPERATING OFFICER	NUMBER OF MERCHANDISING UNITS
Gambles Discount Department Stores	W. G. SPALDING	5
Gamble Drugs	W. R. KOLTEK	1
Macleods	P. C. FIKKAN	
Macleods Family Shopping Centres		77
Macleods Authorized Dealer Stores		159
Marshall Wells	S. J. COPPINGER	
Marshall Wells Stores		34
Marshall Wells Franchised Dealer Stores		268
Industrial Sales Warehouses		10
Stedmans	E. J. McCREADY	
Stedman Variety Stores		121
Stedman Franchised Dealer Stores		218
Total Merchandising Units		<u>893</u>

PRESIDENT'S REPORT

Corporate Name

Our new name, GAMBLES CANADA LIMITED, appears for the first time on the cover of this report. It is felt that this new name better emphasizes the corporation's participation in the entire Canadian merchandising scene rather than tending to reflect a specific section of the company's activity.

Organization

Our company was saddened by the death of the Hon. G. S. Thorvaldson, Q.C., during the past year. As a Director, he was closely associated with the company and contributed much to its activities over a period of 25 years.

Resignations from the Board of Directors were received from Messrs. C. C. Raugust, A. C. Shedden, J. W. Tackaberry and S. P. Woolever which were regretfully accepted.

Appointed to the Board of Directors were Messrs. A. W. K. Besant, S. J. Coppinger, D. R. Gibson, E. J. McCready and J. A. Watson, all of whom are active officers of the company with the exception of J. A. Watson, President of Gamble-Skogmo, Inc., Minneapolis.

During the year, Mr. A. G. Kirkness, President and a Director of the company, and Mr. B. F. Rutherford, President of Macleods and a Director of Gambles Canada Limited, retired from active service, having reached their normal retirement age.

Mr. R. B. Sutherland, President of Marshall Wells Limited, was appointed President and Chief Executive Officer of the company. Mr. A. W. K. Besant, formerly General Manager of Clark's-Gamble of Canada Limited, was appointed Executive Vice President and Chief Operating Officer.

Operations

1969 was a year of continuing growth for the company with consolidated net sales reaching a record \$186,135,840. Expansion of existing and development of new retail units contributed substantially to this increase, the full benefits of which were partially offset by the decline in the prairie economy.

Net income was \$3,153,738. The decline was due principally to a substantially lower gross profit outcome from sales. The company's policy of maintaining retail price levels wherever possible by absorbing all or a portion of rising costs of merchandise had a significant impact on profits. Adding to this inflationary pressure were increased operating expense, higher interest charges, and non-recurring expenses much of which related to the development of new and expanded retail outlets.

A program of converting company-owned retail outlets to franchised units was implemented during the year. These rural stores provide an opportunity for profitable investment by independent merchants who remain our customers, and releases capital to the company for development in the larger urban and metropolitan markets. Twenty of these stores have already been converted and plans are for a greater number of conversions during 1970.

Financial Review

The company's financial condition improved during the year with net worth at January 31, 1970 of \$44,446,000, an increase of \$3,154,000 from the previous year. Capital expenditures for the year amounted to \$4,513,000 which includes cost of constructing a new distribution centre and office facilities for Stedmans Division in Toronto, Ontario. The company is completing arrangements for long term financing through its real estate subsidiaries of approximately \$4,000,000 of real properties including the new Toronto distribution centre. The former Stedman warehouse and office premises have been sold.

Continued scrutiny of the return on the company's invested capital is bringing about redirection of investment to those areas where future profitability is indicated by changing marketing and distribution patterns.

Outlook

The decade of the sixties just ended witnessed a vigorous development and expansion program in all areas of the company. Our broadly-based foundation establishes us in a strong, competitive position ready for even greater growth for which the long-range outlook is most promising. There are some uncertainties in the year that lies immediately ahead of us. Deflationary pressures, including curtailment of consumer credit, will have its influence on sales growth. The Prairies, which is the company's principal market, are in a period of economic adjustment with no plans for increased capital outlays during 1970.

To meet this challenge, marketing plans are underway to direct sales and development efforts into a more profitable mix of merchandise and into areas presenting the best opportunity for sales growth. The cost/price squeeze experienced in 1969 has brought about a close examination of all operating costs. A program of careful expense control has been implemented and this along with the restructuring of many of our operating functions will improve the profitability on the sales that we generate.

Despite the uncertainties for 1970, our development plans, combined with better marketing and cost control, will enable us to resume the upward trend in our earnings.

We extend our appreciation to our customers for their valued patronage, to our staff for their efforts and loyalty and to our suppliers for their understanding and support.

On behalf of the Board.



R. B. Sutherland.

GAMBLES CANADA LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET (Note 1)

January 31, 1970, with comparative figures for 1969

ASSETS

	1970	1969
Current Assets:		
Cash	\$ 3,226,302	536,349
Customers' charge and instalment accounts less allowance for doubtful accounts and unearned interest \$1,472,744 (1969 - \$1,788,871)	12,241,686	13,406,891
Income tax instalments recoverable	235,831	—
Note receivable	—	515,000
Due from parent company, Gamble-Skogmo, Inc.	10,240,612	9,120,128
Due from subsidiary company, Growth Acceptance Corporation Limited (Note 1)	520,818	183,604
Inventories, at the lower of replacement cost or net realizable value	38,375,042	42,893,080
Prepaid expenses	699,684	570,068
Total current assets	65,539,975	67,225,120
Special refundable tax, deferred	—	99,858
Investments:		
Wholly-owned subsidiary not consolidated, at cost plus retained earnings (Note 1):		
Growth Acceptance Corporation Limited	768,230	733,827
Cash surrender value of life insurance	20,551	130,616
Other, at cost	763,269	778,653
	1,552,050	1,643,096
Land and buildings, at net realizable value (Note 8)	902,500	—
Fixed assets, at cost less accumulated depreciation and amortization (Note 2):		
Construction in progress, at cost	1,600,224	—
Buildings and equipment	17,181,952	16,714,306
Leasehold improvements	541,835	576,026
Land, at cost	3,617,996	3,797,477
Net fixed assets	22,942,007	21,087,809
Unamortized debt discount and issue expenses	792,303	855,263
Excess of cost of subsidiaries over equity at date of acquisition	8,930,305	8,930,348
	<u>\$100,659,140</u>	<u>99,841,494</u>

See accompanying notes to consolidated financial statements.

(Subject to the accompanying report of Peat, Marwick, Mitchell & Co., Chartered Accountants, dated April 8, 1970)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1970	1969
Current Liabilities:		
Accounts payable and accrued expenses	\$12,273,551	11,478,395
Income taxes payable	—	2,008,306
Accrued contributions to retirement security plan	684,428	1,060,565
Current portion of long-term debt	4,626,799	379,793
Total current liabilities	17,584,778	14,927,059
Long-term debt (Note 3)	38,368,736	43,434,532
Minority interest in consolidated subsidiaries	177,488	187,724
Deferred income taxes (Note 5)	82,221	—
Shareholders' equity:		
Capital stock:		
Cumulative redeemable first preference shares of the par value of \$20 each. Authorized 140,000 shares; none issued	—	—
Class A non-voting shares without nominal or par value. Authorized 740,000 shares; issued 290,000 shares	72,500	72,500
Class B shares without nominal or par value. Authorized and issued 10,000 shares	2,500	2,500
	75,000	75,000
Retained earnings	44,370,917	41,217,179
Total shareholders' equity	44,445,917	41,292,179
Lease commitments (Note 4)		
Contingent liabilities (Note 7)		
	\$100,659,140	99,841,494

On behalf of the Board:

R. B. SUTHERLAND, Director
A. W. K. BESANT, Director

GAMBLES CANADA LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

Fifty-three weeks ended January 31, 1970
with comparative figures for 1969

	1970	1969 (Note 6)
Net sales	\$186,135,840	180,077,251
Operating income before charging the undernoted expenses	12,223,523	16,466,955
Expenses:		
Directors' remuneration (including salaries as executive officers)	299,989	255,372
Legal and corporate	104,099	144,681
Depreciation (Note 2)	1,773,277	1,670,915
Amortization of leasehold improvements (Note 2)	58,127	92,272
	2,235,492	2,163,240
Operating income	9,988,031	14,303,715
Other income:		
Dividends	15,000	15,000
Interest	424,889	369,610
Net income of wholly owned subsidiary — Growth Acceptance Corporation Limited (Note 1)	54,403	65,134
	494,292	449,744
Other deductions:		
Provision for contribution to retirement security plans	713,005	1,086,070
Interest — long-term debt	3,023,027	2,576,726
— other	219,224	524,994
Amortization of debenture discount and debt issue expenses	62,960	53,830
	4,018,216	4,241,620
	6,464,107	10,511,839
Income taxes:		
Current	3,724,751	5,611,571
Deferred (Note 5)	24,027	—
	3,748,778	5,611,571
	2,715,329	4,900,268
Minority interest in income of subsidiaries	12,429	12,551
Income before extraordinary item	2,702,900	4,887,717
Extraordinary item:		
Gain on sale of fixed assets	509,032	11,302
Less deferred income taxes thereon	58,194	—
	450,838	11,302
Net income	3,153,738	4,899,019
Retained earnings, beginning of period	41,217,179	36,318,160
Retained earnings, end of period	\$44,370,917	41,217,179

See accompanying notes to consolidated financial statements.

(Subject to the accompanying report of Peat, Marwick, Mitchell & Co., Chartered Accountants, dated April 8, 1970)

GAMBLES CANADA LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Fifty-three weeks ended January 31, 1970
with comparative figures for 1969

	<u>1970</u>	<u>1969</u>
Funds provided:		
Net income	\$3,153,738	4,899,019
Add charges not requiring cash expenditure:		
Depreciation and amortization of fixed assets (Note 2)	1,831,404	1,763,187
Amortization of debenture discount and debt issue expenses	62,960	55,630
Allowance for doubtful long-term note receivable	—	90,249
Minority interest in income of subsidiaries	12,429	12,551
Deferred income taxes (Note 5)	82,221	—
	<u>5,142,752</u>	<u>6,820,636</u>
 Deduct:		
Net income of wholly-owned subsidiary —		
Growth Acceptance Corporation Limited (Note 1)	34,403	45,134
Gain on sale of fixed assets	509,032	11,302
	<u>543,435</u>	<u>56,436</u>
Funds provided from operations	4,599,317	6,764,200
Decrease (increase) in investments	15,384	(11,741)
Recovery of special refundable tax	99,858	142,821
Decrease in long-term note receivable	—	515,000
Proceeds from sale of fixed assets — net	433,905	782,225
Issue of long-term debt less issue expenses	—	6,409,688
Decrease (increase) in cash surrender value of life insurance	110,065	(13,675)
Total funds provided	<u>5,258,529</u>	<u>14,588,518</u>
 Funds used:		
Purchase of fixed assets	4,512,975	2,067,762
Reduction of long-term debt	5,065,796	752,794
Payment of dividends to minority shareholders	11,705	12,411
Purchase of additional shares of subsidiary company	10,917	4,274
Total funds used	<u>9,601,393</u>	<u>2,837,241</u>
Increase (decrease) in working capital	<u>\$(4,342,864)</u>	<u>11,751,277</u>

See accompanying notes to consolidated financial statements.

(Subject to the accompanying report of Peat, Marwick, Mitchell & Co., Chartered Accountants, dated April 8, 1970)

GAMBLES CANADA LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 1970

1. These financial statements represent a consolidation of the accounts of the parent company, Gambles Canada Limited, and those of all subsidiary companies except Growth Acceptance Corporation Limited, a wholly-owned finance company which is excluded because its operations are not in the merchandising field. The net earnings of Growth Acceptance Corporation Limited from the date of acquisition to January 31, 1970 of \$389,929 less the dividends paid of \$121,699, have been added to the carrying value of the investment in the consolidated accounts. The net earnings of Growth Acceptance Corporation Limited for the fifty-three weeks ended January 31, 1970 amounted to \$54,403 and dividends paid during the year aggregated \$20,000.

2. Fixed assets, at cost less accumulated depreciation and amortization consist of:

	1970	1969
BUILDINGS & EQUIPMENT:		
Building, at cost	\$16,796,884	16,759,268
Less accumulated depreciation	4,979,376	4,859,373
Furniture and fixtures, at cost	13,170,616	11,729,659
Less accumulated depreciation	7,826,404	6,963,279
Automotive equipment, at cost	99,162	173,847
Less accumulated depreciation	78,930	48,031
	<u>\$17,181,952</u>	<u>16,714,306</u>
LEASEHOLD IMPROVEMENTS:		
at cost	949,959	974,131
Less accumulated amortization	408,124	398,105
	<u>541,835</u>	<u>576,026</u>

Depreciation has been provided on the diminishing balance method at the undernoted rates:

Buildings	substantially at 5%
Furniture and fixtures	20%
Automotive equipment	30%

Leasehold improvements are being amortized over the unexpired terms of the leases.

3. Long-term debt of the company and its subsidiaries consists of:

	1970	1969
GAMBLES CANADA LIMITED:		
Promissory note—8% (Payable \$3,000,000 U.S. in each of the years 1970 and 1971)	\$ 6,487,500	6,487,500
MACLEOD STEDMAN LIMITED:		
6% Sinking Fund Debenture, due 1984. (Sinking Fund requirements—\$1,000,000 annually in the years 1970 to 1984)	15,000,000	15,000,000
MARSHALL WELLS LIMITED:		
6% Sinking Fund Debenture, Series A, due 1982. (Sinking Fund requirements — \$300,000 annually to 1981, balance to be redeemed in 1982)	4,111,000	4,453,500
6% mortgage, due 1974 (Repayable in monthly instalments of principal and interest of \$336)	17,151	20,071

MARSHALL WELLS REALTY LIMITED:

8 $\frac{3}{4}$ % Series A Secured Note, due 1994. (Payable in quarterly instalments of principal and interest of \$159,405)	6,412,977	6,450,000
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MACLEODS STORE PROPERTIES LIMITED:

First Mortgage Bonds:		
6 $\frac{1}{4}$ % Series A, due December 1, 1980. (Sinking Fund requirements—\$60,000 annually)	645,000	718,000
5 $\frac{7}{8}$ % Series B, due March 12, 1985. (Sinking Fund requirements—\$135,000 annually)	2,025,000	2,160,000

SORENCO LIMITED:

6 $\frac{3}{4}$ % Series A Secured Notes, due May 1, 1987. (Principal amount \$4,901,178 U.S., repayable in quarterly instalments of principal and interest, \$113,468 U.S., to May 1, 1987)	5,022,131	5,168,173
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GAMBLE OF CANADA PROPERTIES LIMITED:

7 $\frac{7}{8}$ % Series A Secured Notes, due November 1, 1987. (Repayable in quarterly instalments of principal and interest of \$83,991)	3,274,776	3,357,081
	42,995,535	43,814,325

Less portion due within one year included in current liabilities	4,626,799	379,793
	<u>\$38,368,736</u>	<u>43,434,532</u>

Long-term debt payable in United States currency has been reflected in the consolidated financial statements at the rates of exchange prevailing at the dates such liability was incurred, which are substantially the same as the rates prevailing at the balance sheet date.

4. The approximate minimum annual rentals of stores and warehouses under leases in effect at January 31, 1970 amounted to \$1,815,941.

5. During the period ended January 31, 1970 the company and its subsidiaries which previously used the taxes payable basis for accounting for taxes on income, adopted the tax allocation basis and accordingly the consolidated net income for the period ended January 31, 1970 is \$82,221 less than the amount which would have been reported if the previous basis had been used. In addition to the deferred income taxes arising in the current period, income taxes were reduced in prior periods by an aggregate amount of \$787,109 as a result of deferring revenues, claiming capital cost allowances and other deductions allowed for income taxes in excess of the related amounts charged in the companies' accounts. No provision is being made in the companies' accounts at this time for the latter amount.

6. Figures for 1969 have been restated to conform to the classification adopted in the year under review.

7. The company is contingently liable in the amount of \$969,469 in respect of notes discounted.

8. During the year the company agreed to sell certain properties to a third party. The transaction was completed on April 8, 1970 and the properties have been segregated and are valued at net realizable value.

PEAT, MARWICK, MITCHELL & Co.

CHARTERED ACCOUNTANTS

500 - 287 BROADWAY AVENUE
WINNIPEG 1, MANITOBA

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Gambles Canada Limited and subsidiaries as of January 31, 1970 and the consolidated statements of income and retained earnings and source and application of funds for the fifty-three weeks 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 consolidated financial statements present fairly the financial position of the companies at January 31, 1970 and the results of their operations and the source and application of their funds for the fifty-three weeks then ended, in accordance with generally accepted accounting principles which, except for the change in the basis of providing for taxes on income as described in note 5 to the consolidated financial statements, were applied on a basis consistent with that of the preceding period.

Peat, Marwick, Mitchell & Co.

Chartered Accountants

Winnipeg, Manitoba
April 8, 1970

GAMBLES CANADA LIMITED AND SUBSIDIARIES

10 YEAR COMPARISON

	1970	1969	1968	1967
SALES	\$186,135,840	\$180,077,251	\$178,022,215	\$175,451,794
INCOME FROM OPERATIONS	6,436,678	10,484,288	11,292,910	12,319,823
INCOME FROM INVESTMENTS	15,000	15,000	15,000	15,000
CAPITAL GAINS	450,838	11,302	122,013	103,760
INCOME BEFORE INCOME TAXES	6,902,516	10,510,590	11,429,923	12,438,583
INCOME TAXES	3,748,778	5,611,571	6,006,301	6,955,571
NET INCOME	3,153,738	4,899,019	5,423,622	5,483,012
WORKING CAPITAL	47,955,197	52,298,061	40,546,784	32,368,456
FUNDED DEBT	38,351,585	43,414,461	37,717,255	35,045,094
SHAREHOLDERS' EQUITY (3)	44,445,917	41,292,179	36,393,160	30,969,538
DIVIDENDS PAID				
To Preferred Shareholders	—	—	—	—
To Common Shareholders	—	—	—	—
FUNDS RETAINED IN THE BUSINESS				
Income Retained	3,153,738	4,899,019	5,423,622	5,483,012
Depreciation	1,831,404	1,763,187	1,690,415	1,822,037
	4,985,142	6,662,206	7,114,037	7,305,049
VALUE OF EMPLOYEES RETIREMENT SECURITY PLAN TRUST FUND	12,424,883	12,962,225	11,715,702	10,704,282
NUMBER OF EMPLOYEES	4,452	4,685	4,798	4,738
NUMBER OF STORES				
Company Owned	237	261	266	265
Dealer Owned	649	635	641	638
	886	896	907	903

NOTE 1—The year 1966 reflects the results for the full year of all consolidated subsidiaries, and includes an amount of \$390,028 pre-acquisition earnings of a subsidiary acquired during the year.

NOTE 2—The year 1965 reflects the change in accounting period for Gambles Canada Limited from a calendar year to a year ending January 31, and indicates the financial results of the company and its consolidated subsidiaries for the thirteen months ended January 31, 1966.

1966 ⁽¹⁾	1965 ⁽²⁾	1963	1962	1961	1960
\$157,779,780	\$149,495,772	\$127,387,540	\$116,761,004	\$106,907,914	\$106,802,165
10,453,005	11,058,506	9,570,930	8,868,225	7,278,470	7,425,628
2,124,911	216,176	1,525,325	59,775	264,575	367,275
17,817	549,179	—	—	(2,000)	3,063
12,595,733	11,823,861	11,096,255	8,928,000	7,541,045	7,795,966
5,434,187	6,072,246	4,954,434	4,605,661	3,701,804	3,804,614
7,161,546	5,751,615	6,141,821	4,322,339	3,839,241	3,991,352
29,946,814	35,114,620	35,694,761	32,889,715	30,535,508	28,144,416
29,066,250	35,801,875	8,718,500	9,064,500	9,471,500	10,019,000
25,486,526	29,103,046	44,977,479	39,588,154	35,855,199	33,126,029
—	356,775	371,175	366,375	367,975	375,975
1,500,000	973,257	681,321	834,009	742,396	823,472
5,661,546	4,421,583	5,089,325	3,121,955	2,728,870	2,791,905
1,427,995	1,272,254	1,125,787	973,493	926,726	938,770
7,089,541	5,693,837	6,215,112	4,095,448	3,655,596	3,730,675
10,071,708	8,967,836	7,530,865	6,688,971	6,321,432	5,670,126
4,416	4,043	3,958	3,734	3,414	3,333
262	257	247	240	224	211
622	603	605	575	579	564
884	860	852	815	803	775

The consolidated net income has been restated from that previously reported to include for comparison the total income for the year of the consolidated subsidiaries but after deducting minority interest in profits of the subsidiaries. No provision for minority interests in profits of the subsidiaries has been reflected for the years 1960 to 1963.

NOTE 3—The Shareholders' equity for 1965 and subsequent years is after eliminating therefrom the equity acquired in consolidated subsidiaries.

