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Industrial Acceptance Corporation

Limited

Annual Report 1948

INDUSTRIAL ACCEPTANCE CORPORATION LIMITED

A National Service

I.A.C

A Canadian Company

53 Branches from Coast to Coast

Head Office
TORONTO, ONT.

Executive Office
MONTREAL, QUE.

INDUSTRIAL ACCEPTANCE CORPORATION
LIMITED

▼

Annual Report

of the

BOARD OF DIRECTORS

YOUR Company completed its most successful year of operations in 1948 and entered into the new year with the largest recorded volume of time purchase contracts on its books, representing the retail obligations of 113,362 persons. In the last annual report we pointed out that the effect on the Company's business of restrictions on imports of automobiles and other durable goods imposed by the Dominion Government could be offset by the probability of substantial production in Canada, and a tendency to increased instalment buying as well as increased selling prices of such goods. These factors did contribute to offsetting any effect on our business due to such restrictions. Thus far there has been little change in the three factors enumerated, although it is possible that during the current year the buying public may have the benefit of at least moderate price decreases in a number of types of durable consumer goods.

It seems questionable at this time whether there will be any substantial slackening in Canadian production for domestic use so far as the principal items of interest to this company, i.e., automobiles, are concerned. According to the published records of automobile registrations, more than half of the motor cars in use in Canada today are over 10 years of age. Indeed, approximately 20% are 15 or more years old. Under prewar conditions cars were scrapped at an average age of 10 years. It appears, therefore, that production at current levels will be required for some time to come to meet even the most urgent replacement demands, quite apart from the normal increase in the use of motor cars.

The outlook for 1949 earnings is satisfactory; the prospects of the automobile industry discussed above and the indications of an increasing percentage of time payment sales of durable consumer goods are important elements in this forecast which is also based on the large unearned income account carried forward into the year, an amount somewhat in excess of that carried forward in 1948.

From time to time recently opinions have been expressed that instalment credit has been increasing at too rapid a rate or that it has reached excessively high levels. The facts do not substantiate these opinions, as an examination of the figures covering the unit volume of motor vehicle financing reported by the Dominion Bureau of Statistics will show. According to the Bureau, the number of new units financed in relation to total new motor vehicle sales throughout Canada for the first 11 months of 1948 was slightly less than 24%, which represents an increase of approximately 3% from the preceding year, and is still far short of the 35% to 40% range which was the ratio in prewar years. While similar statistics are not available for other durable consumer goods, there is reasonable evidence that the trend in respect of such goods has not differed substantially.

Your Company's consolidated balance sheet, profit and loss and earned surplus statements for the year under review also carry the 1947 figures for comparative purposes. We will, therefore, partially at least, depart from the practice of quoting comparisons in this report. Details of secured note issues, debentures outstanding, preferred and common stocks appear on a separate statement immediately following the consolidated balance sheet.

Earned income for 1948 reached a new high, and after deducting interest charges on secured term and demand notes, there remained an income of $4,611,110. General and administrative expenses, including depreciation of office equipment and automobiles in company use, increased to $2,490,343. Including dividends of $25,000 received from an affiliated company, the balance of net earnings available for capital obligations, income taxes and dividends was $2,071,111 against $1,227,691 in 1947.

The first charge against these net earnings was interest on the Company's 3½% and 4% 20-year debentures, which was covered in the ratio of 12.5 times to 1. After income taxes and preferred dividends, the latter having been covered 8.3 times, there remained $1,018,288, representing earnings on the common stock of $4.05 per share on the equivalent of 251,133 paid-up common shares outstanding at the year end. Comparative results for 1947 were $497,685 or $2.02 per share on the equivalent of 246,996 shares outstanding at the end of that year.

In 1948 your Company entered the fire and casualty insurance field by acquiring a 92% interest in Progressive Insurance Company of Canada, which operates under a Dominion Charter and is licensed to carry on a general insurance business, life insurance excepted. While this insurance company was acquired primarily to underwrite the substantial insurance volume available through Industrial Acceptance Corporation Limited, it is not the intention to limit its operations to this source of business. Your Company's investment in this subsidiary is $365,240.

Progressive Insurance Company of Canada commenced business on August 1, 1948, thereby having only five months of operations in that year during which an operating loss of $22,653 was sustained. Because of the small percentage of premiums earned in this period, as well as certain non-recurring organization expenses, this loss was a normal expectancy and was provided for prior to arriving at the consolidated earnings quoted above.

During the year your Company issued $10,000,000 of 12-year 3½% secured notes, series "D", secured under the Deed of Trust which secures "A","B" and "C" notes, as well as those notes issued to the Company's bankers. At the end of the year there were outstanding $46,750,000 of such notes, $20,000,000 of which were in the form of term notes maturing from October 1, 1950 to June 1, 1960, and the balance in the form of demand notes held by the banks with which your Company does business. Recently arrangements have been made for the issue of an additional $5,000,000 of such secured notes, series "E", at 3½%, maturing in 15 years, so that the Company's secured borrowings are now divided almost equally between term notes and demand notes.

Last August the shareholders authorized the splitting of the then existing "A" shares to twice that number of ordinary shares, thus eliminating from your Company's common stock the designation "A" which had ceased to have any significance since for many years it has represented the only outstanding common shares.

We would like to express the thanks of the Board to the personnel—men and women alike—for the part they played in the results for the year. The statements that you have before you and the good relations which the Company enjoys with its thousands of dealers and instalment sales purchasers from coast to coast are the best measure of the efficiency with which they have performed their duties.

On behalf of the Board,

Russell D. Bell, Chairman.

J. P. A. Smyth, President.

February 14, 1949.

INDUSTRIAL ACCEPTANC
AND SUBSIDIA

Comparative Consoli
as at 31st Decemb

ASSETS

	1947		1948	
Current Assets:				
Cash		$1,496,506		$1,452,507
Notes and accounts receivable—				
Consumer instalment obligations	$42,558,621		$49,196,606	
Dealers' acceptances on motor vehicles and appliances	13,522,001		14,292,481	
Direct secured instalment loans	2,315,070		2,793,557	
Factoring receivables	36,590		—	
Repossessions in companies' possession at approximate market values	28,585		43,559	
Other instalment obligations secured by liens or guarantees	689,680		663,501	
Sundry receivables	287,129	59,437,676	296,052	67,285,756
Marketable securities—at cost (Quoted market value $401,500)		—		401,312
		60,934,182		69,139,575
Other Assets:				
Prepaid expenses	151,891		200,235	
Contribution to staff pension plan, less amounts written off	55,826		44,799	
Office equipment and automobiles (at cost, less reserves for depreciation of $123,535 in 1948)	162,375		263,949	
Discount on sinking fund debentures, less amounts written off	85,716		105,265	
Goodwill	1	455,809	1	614,249
		$61,389,991		$69,753,824

Approved on behalf of the Board

R. D. Bell
J. P. A. Smyth } Directors.

E CORPORATION LIMITED
RY COMPANIES

dated Balance Sheet
er 1947 and 1948

LIABILITIES

	1947		1948	
CURRENT LIABILITIES:				
Secured demand notes		$33,000,000		$26,750,000
Bank loans of subsidiary companies		2,098,500		1,950,000
Accounts payable		121,847		168,292
Accrued interest on term notes and debentures		84,938		120,021
Reserve for claims payable by insurance company		—		40,097
Income and excess profits taxes		425,118		474,247
Dealers' credit balances		1,183,267		3,041,090
		36,913,670		32,543,747
DEFERRED INCOME AND RESERVES:				
Unearned service charges (to be taken into earned income as related receivables mature)	$2,344,809		2,683,423	
Unearned premiums of insurance company	—		225,040	
Reserves for losses and contingencies	926,176	3,270,985	1,179,381	4,087,844
SECURED TERM NOTES		10,000,000		20,000,000
DEBENTURES		3,900,000		4,775,000
MINORITY INTEREST IN CAPITAL STOCK AND SURPLUS OF INSURANCE COMPANY		—		31,760
CAPITAL STOCK AND SURPLUS:				
Preferred stock	3,000,000		3,000,000	
Common stock	2,035,308		2,090,115	
	5,035,308		5,090,115	
Earned surplus	2,270,028	7,305,336	3,225,358	8,315,473
		$61,389,991		$69,753,824

For details of secured term notes, debentures and capital stock see following page.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the books and accounts of Industrial Acceptance Corporation Limited and its subsidiary companies for the year ended 31st December, 1948 and we have obtained all the information and explanations which we have required.

We report that in our opinion the above consolidated balance sheet and accompanying consolidated statements of earned surplus and profit and loss are properly drawn up so as to exhibit a true and correct view of the state of the combined companies' affairs as at 31st December, 1948 and the results of the operations for the year ended on that date according to the best of our information and the explanations given to us and as shown by the books of the companies.

MONTREAL, 12th February, 1949.

McDONALD, CURRIE & CO.
Chartered Accountants.

INDUSTRIAL ACCEPTANCE CORPORATION LIMITED
AND SUBSIDIARY COMPANIES

Details of Secured Term Notes, Debentures and Capital Stock as at 31st December, 1947 and 1948

		1947		1948
SECURED TERM NOTES:				
Series "A" 2¼% due 1st October, 1950		\$ 3,000,000		\$ 3,000,000
Series "B" 2½% due 1st October, 1952		4,500,000		4,500,000
Series "C" 2¾% due 1st October, 1954		2,500,000		2,500,000
Series "D" 3½% due 1st June, 1960		—		10,000,000
		10,000,000		20,000,000
DEBENTURES:				
Authorized		5,000,000		5,000,000
Issued—sinking fund debentures due 1st Nov., 1966—				
Series "A" 3½%	2,000,000		2,000,000	
Less: Purchased and cancelled	50,000	1,950,000	100,000	1,900,000
Series "B" 3½%	2,000,000		2,000,000	
Less: Purchased and cancelled	50,000	1,950,000	100,000	1,900,000
Series "C" 4%	—		1,000,000	
Less: Purchased and cancelled			25,000	975,000
		3,900,000		4,775,000
PREFERRED STOCK:				
Authorized and issued—				
15,000 5% cumulative redeemable shares of \$100 each		1,500,000		1,500,000
15,000 4¼% cumulative redeemable shares of \$100 each		1,500,000		1,500,000
		3,000,000		3,000,000
COMMON STOCK:				
As at 31st December, 1947—				
Authorized—150,000 class "A" shares without nominal or par value				
Issued—130,000 shares		2,207,600		
Less: Amounts not yet called on 7,224 shares		172,292		
		2,035,308		
As at 31st December, 1948—				
Authorized—300,000 shares without nominal or par value				
Issued—260,000 shares				2,207,600
Less: Amounts not yet called on 9,852 shares				117,485
		\$2,035,308		\$2,090,115

INDUSTRIAL ACCEPTANCE CORPORATION LIMITED
AND SUBSIDIARY COMPANIES

Comparative Consolidated Profit and Loss
for the years ended 31st December 1947 and 1948

		1947			1948	
Earned income			$4,380,333			$6,532,526
Interest on current borrowings including secured notes			1,535,611			1,921,416
			$2,844,722			$4,611,110
General and administrative expenses.. including—		$1,634,208			$2,441,671	
Taxes other than taxes on income..	15,009			41,754		
Executive officers' salaries and bonuses	112,207			152,931		
Legal fees	26,277			30,307		
Directors' fees and salary	6,000			10,895		
Provision for depreciation of office equipment and automobiles		44,823			48,672	
Losses paid by insurance company and provision for outstanding claims		—	1,679,031		74,656	2,564,999
			1,165,691			2,046,111
Dividends received from affiliated company			62,000			25,000
			1,227,691			2,071,111
Interest on debentures and amortization of discount		119,076			164,564	
Provision for income and excess profits taxes		488,118			749,509	
Preferred dividends		122,812	730,006		138,750	1,052,823
			497,685			1,018,288
Dividends on common shares			181,347			312,958
Balance for the year, transferred to consolidated earned surplus			$316,338			$705,330

INDUSTRIAL ACCEPTANCE CORPORATION LIMITED
AND SUBSIDIARY COMPANIES

Comparative Consolidated Earned Surplus for the years ended 31st December 1947 and 1948

	1947	1948
Balance at beginning of year	$2,013,690	$2,270,028
Balance for the year from consolidated profit and loss	316,338	705,330
Transfer from reserve for contingencies	—	250,000
	2,330,028	3,225,358
Expense of issue of 4¼% preferred shares	60,000	—
Balance at end of year	$2,270,028	$3,225,358

Transfer Agent

Montreal Trust Company, Toronto, Ont., and Montreal, Que.

Registrar

Chartered Trust and Executor Company, Toronto, Ont., and Montreal, Que.

Stock Listing

Montreal Stock Exchange • Toronto Stock Exchange

INDUSTRIAL ACCEPTANCE CORPORATION LIMITED

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Directors

RUSSELL D. BELL
HON. WILFRID GAGNON
JOHN W. McCOLL
ARTHUR J. MORRIS
ARTHUR A. SCHMON
PAUL F. SISE
JOHN P. A. SMYTH
GRANT E. WEMP

Officers

RUSSELL D. BELL
Chairman of the Board

J. P. A. SMYTH
President

G. E. WEMP
Vice-President and General Manager

J. H. RANAHAN
Vice-President and General Sales Manager

J. B. PENNEFATHER
Comptroller

W. MacEWEN
Assistant Vice-President in charge of Credits

L. E. CUTHBERTSON
Secretary-Treasurer

INDUSTRIAL ACCEPTANCE CORPORATION LIMITED

▼

NOVA SCOTIA

Halifax

Sydney

Truro

▼

NEW BRUNSWICK

Edmundston

Fredericton

Moncton

Saint John

▼

QUEBEC

Chicoutimi

Drummondville

Montreal
1411 Crescent St.
907 Mount Royal Ave. E.

Quebec

Rimouski

Rouyn

Sherbrooke

Trois Rivières

Val d'Or

ONTARIO

Barrie

Belleville

Brantford

Chatham

Cornwall

Guelph

Hamilton

Kingston

Kirkland Lake

Kitchener

London

Niagara Falls

*North Bay

Ottawa

Peterborough

Port Arthur

St. Catharines

Sarnia

Sault Ste. Marie

Stratford

Sudbury

Timmins

Toronto

Welland

Windsor

MANITOBA

Brandon

Winnipeg

▼

SASKATCHEWAN

Moose Jaw

*Prince Albert

Regina

Saskatoon

▼

ALBERTA

Calgary

Edmonton

*Grande Prairie

Lethbridge

*Red Deer

▼

BRITISH COLUMBIA

Kelowna

Nelson

Vancouver

Victoria

Denotes Resident Representative

NATIONAL SERVICES OFFERED

by

INDUSTRIAL ACCEPTANCE CORPORATION LIMITED

The facilities of your Company provide a broad credit service for dealers in and purchasers of a wide range of durable goods such as motor vehicles, refrigerators, heating equipment, household appliances, revenue producing machinery and commercial equipment. The organization being National — 53 branch offices from coast to coast — the services provided are patterned to meet an extensive range of credit requirements.

The financing of many dealers commences with the shipment of the merchandise from the manufacturers or distributors and is known as Floor or Inventory Plan financing. This type of financing provides that your Company pays the manufacturer for the merchandise shipped to distributors and dealers, which merchandise is financed while the goods are in inventory, subject to certain limitations and conditions established for the protection of the Company's interests.

As the merchandise moves from the retailer into the hands of the consumer, a percentage of it is sold on credit terms under so-called Instalment, Time-Payment or Budget Plans — designated by your Company as the I.A.C. Merit Plan. Paper thus created by dealers is then purchased by your Company after careful scrutiny of the credit risk — this being known as Retail financing.

Your Company has provided Retail financing for more than a million Canadian purchasers to buy durable goods they need. For these individuals it has made possible the immediate enjoyment of articles of necessity or convenience that might never have been acquired if some means of payment out of income had not been available. The net result has been to widen markets, to lower manufacturing costs and to increase employment.

A policy always followed by your Company is that of wide diversification. The Wholesale and Retail financing of motor vehicles forms the biggest single classification of business and usually this has been followed in volume by Household, Commercial and Industrial business. The latter two classifications have assumed somewhat greater proportions in recent years as there are now comparatively few types of revenue-producing or labor-saving machinery and equipment that do not lend themselves to one of your Company's financing plans.

Through Progressive Insurance Company of Canada all classes of general insurance business, with the exception of Life Insurance, may be written in Canada, thereby further implementing the abovementioned policy.