

C

STEINBERG
Inc.

Annual
Report
1981

Quebec



Ontario



The Prairies



Arizona



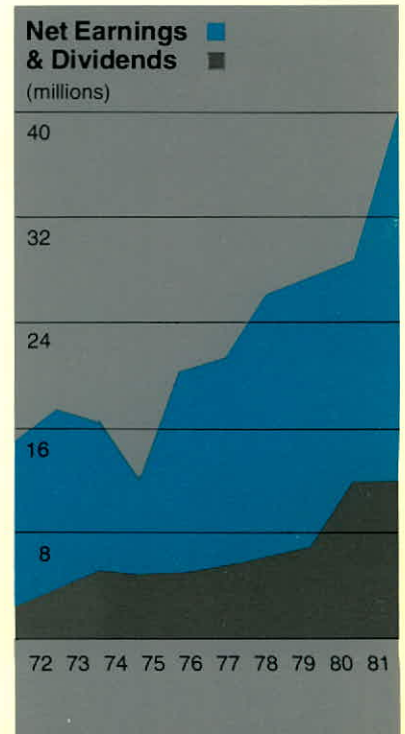
Steinberg ...
responding to
challenge and
new opportunities

Contents

Financial Highlights.....	1
Report to Shareholders.....	2
Financial Review.....	4
Key Financial Indicators.....	6
Divisional Operating Review.....	8
Smitty's Super Valu, Inc.....	11
Steinberg Inc. and Subsidiary Companies	
Consolidated Statements of Earnings and Retained Earnings.....	15
Consolidated Balance Sheet....	16
Consolidated Statement of Changes in Financial Position.....	18
Notes to Consolidated Financial Statements.....	19
Auditors' Report to the Shareholders.....	25
Ivanhoe Inc. and Subsidiaries....	26
Consolidated Statements of Earnings and Retained Earnings.....	27
Consolidated Balance Sheet....	28
Auditors' Report to the Shareholders.....	28
Consolidated Statement of Cash Flow and Changes in Financial Position.....	29
Notes to Consolidated Financial Statements.....	30
Ten Year Statistical Review.....	32
Directors and Officers.....	34
Steinberg in the Community... Inside Back Cover	

Financial Highlights

(in thousands of dollars except per share items)	1981 \$	1980 \$	1979 \$
Sales and Operating Revenue	2,806,409	2,247,272	2,082,710
retail food	2,434,831	1,916,202	1,763,399
general merchandise	236,927	227,568	236,515
manufacturing (external sales)	70,176	47,360	32,755
restaurants	45,379	40,823	32,454
real estate operations (external) ...	19,096	15,319	17,587
Net Earnings	39,480	27,961	26,851
retail and manufacturing operations	33,342	22,815	20,409
real estate operations	6,138	5,146	6,442
per dollar of sales and operating revenue	1.41¢	1.24¢	1.31¢
Cash Flow from Operations	82,255	60,082	57,103
Working Capital	144,628	98,926	106,780
Shareholders' Equity (common and Class "A")	260,406	232,086	215,222
Per Common and Class "A" Share			
net earnings	4.86	3.24	3.78
dividends	1.00	1.00	0.86
book value	36.60	32.76	30.43
return on average equity	14.02%	10.24%	13.00%



Report to Shareholders

We are pleased to report another successful business year. This is not uncommon for Steinberg Inc. and, of course, the successful operation of any enterprise is the responsibility routinely expected of management. But Canadian business operates in such a distorted and unfamiliar climate these days that there is a special gratification in achievement.

Inflation continues to be the major concern of the Canadian people in all provinces; unemployment and high interest rates are producing considerable distress. These factors present problems that are common to all forms of business, notably the hazards of attempting to make long-range plans for an increasingly uncertain future.

They create special problems for an organization such as ours which, through its retailing operations, is in daily touch with and strongly dependent upon the support of millions of Canadian citizens, for they are unsettled and unsure how to balance the power of their disposable income between the family needs of today and their uncertain expectations for tomorrow.

In such a situation Steinberg Inc. is not only proud to have managed its own affairs with reasonable profit but to have maintained also a maximum concern for its customers and to have strengthened the liaison with the thousands of men and women within the organization who enable it to fulfill its responsibilities.

The consolidated results for the fiscal year ended July 25, 1981 show considerable improvement over those of the previous year which were adversely affected by labour difficulties.

—Consolidated sales and operating revenue of over \$2.8 billion represented an increase of 24.9% over the 1980 figure of \$2.2 billion.

—Consolidated net earnings, after taxes, amounted to \$39,480,000, up 41.2% over last year's total.

—Per share earnings improved from \$3.24 to \$4.86.

These results reflect the widely differing conditions under which the various segments of our business operated. They include also the contribution of the substantial new additions made to our retail and support facilities.

The acquisition late in January of Smitty's Super Valu, Inc., a highly successful retail chain in Phoenix, Arizona, followed a long period of search by our senior management. Smitty's, which is described at greater length elsewhere in this report, enjoys the largest share of market in the Phoenix area. We believe that its potential for further growth in Arizona and the south-western United States is considerable.

Apart from the \$125 million (U.S. funds) paid to acquire Smitty's, your company made capital expenditures of some \$41 million in Canada. These enabled us to open a number of new stores, to continue our chain-wide program of store modernization and to complete the major part of a new meat processing plant at Rexdale, Ontario. The coming on stream of this

new plant will see a unique installation in the Canadian food retailing industry — one which we believe will improve significantly our competitive position in the Ontario retail food market over the long term.

Consistent with previous decisions, your company took steps during the year to rationalize a number of low profit or non-profitable operations. The assets of Cartier Sugar were sold to Atlantic Sugar Limited and the Cartier plant was closed; Steinberg Inc. now holds 47.5% of the voting shares of Atlantic. In addition, Steinberg Foods closed its delicatessen operation and ceased manufacturing certain low-volume bakery items.

It had been anticipated that substantial losses would be suffered in relation to lands acquired in the U.S. by Ivanhoe Inc. and its subsidiaries. These losses now appear to have been minimized through institution of legal actions, out of court settlements and some land sales.

Two of the qualities which have long been identified as characteristic of Steinberg's are the ability to innovate and the willingness to accept the risks inherent in innovation. The Ontario meat plant is a case in point. Another is the dramatic Lupton-Duvall multiple-boutique store in the Cavendish Mall which features top-line gift and household items. A third is the experimental "Jadis" warehouse store in Montreal which is testing customer reaction to the substantial economies available through old-style, do-it-yourself merchandising.

We foresee additional opportunities to strengthen and expand many of our divisions and subsidiaries in the current (1982) fiscal year. Store opening and modernization programs are being continued.

A trial group of franchised convenience food stores will be opened; these will offer consumers a wider



Jack Levine,
President

Laszlo

choice of product than is usually found in "dépanneur" stores. Through Ivanhoe Inc., the company will participate in major reconstruction and expansion of the Rockland Shopping Centre in the Town of Mount Royal as well as in the expansion of the highly successful Carrefour Laval complex.

At Steinberg's we recognize that corporate planning is, at best, an imprecise exercise. Yet we are committed to it, believing that it gives us a better perception of both our actual performance and our future prospects. During the past year we have been able to extend and intensify it throughout the company.

We have developed a strategic planning system which calls on the



Melvyn A. Dobrin,
Chairman of the Board

Laszlo

ideas, energies and initiatives of a broad cross-section of senior management, drawn from all divisions and subsidiaries. These men and women first met in a three day seminar two years ago. That gathering was an inquiry to determine how best to develop a continuing line of approach to the future and how the creative abilities of our key personnel could contribute most effectively. It was the determination of "a plan for planning".

From that first seminar grew subsequent conferences which, in turn, explored the history, characteristics and achievements of the Steinberg enterprise and endeavoured to identify some activities toward which our united energies should be directed. Later a top-level strategic planning committee was formed to give direction to the effort and external consultants were engaged to help develop the planning process.

The third seminar was held in June 1981. It resulted in the formation of a group of enthusiastic task forces, each

charged with a specific area of responsibility. Already a dozen or more such groups are actively studying our present problems and examining the practicality of new courses of action.

Based on the findings and recommendations of each of these task groups, the company's senior management and, ultimately, the Directors will be better informed — better able to assess the future and to determine where the company's resources may be used to maximum advantage.

Those engaged, including the most senior members of management, are fully committed to the undertaking. Their work, we are convinced, will contribute greatly to the continued success of Steinberg Inc. in responding to new challenges and opportunities.

On behalf of the Board,

Chairman of the Board

President

November 3, 1981

Steinberg Inc. and its subsidiaries demonstrated substantial growth and improved financial results for the fiscal year ended July 25, 1981. The company's internal growth, highlighted by strong performance by its manufacturing, retail food and real estate operations in Canada, was complemented by the acquisition in mid-year of a supermarket chain operating in Phoenix, Arizona.

Sales and Operating Revenue

Consolidated sales and operating revenue advanced by 24.9% from the previous year to \$2,806,409,000. Growth was achieved in virtually all of the company's businesses, with manufacturing achieving increased external sales of 48.2%, retail food 27.1% (of which 13.1% was from internal growth and 14.0% from an acquisition), real estate 24.6% and restaurants 11.2%. The 4.0% increase in general merchandise retailing sales reversed an actual 3.8% decline in sales experienced during the previous year.

Net Earnings

Consolidated net earnings (after provision for an extraordinary expense of \$1,162,000 net of taxes) increased by 41.2% over the previous year to \$39,480,000, mainly derived from a 46.1% increase in retail and manufacturing earnings (of which 2.5% was accounted for by the net contribution from the mid-year acquisition of Smitty's Super Valu, Inc.) and a 19.3% increase in earnings from real estate operations.

Earnings per common and Class "A" share (after an extraordinary item) rose to \$4.86 compared to \$3.24 last year, reflecting both the considerable improvement in consolidated net earnings referred to above and a slight reduction in preferred share dividend obligations.

Earnings per dollar of sales and operating revenue improved by 13.7% over last year to 1.41 cents. This reflected the combined impact of a 3.0% improvement in pre-tax earnings per dollar of sales and operating revenue, and a 5.6% reduction in the company's effective tax rate.

Operating profits improved in virtually all of the company's businesses. As detailed in the "Results by Business Segment" Note 16(a) to the consolidated financial statements, the 37.4% improvement in consolidated operating profit resulted from a 44.5% improvement in the food retailing and manufacturing segment, a 29.7% improvement in the real estate segment, and a 16.5% decline in the general merchandise retailing segment. As detailed in the "Results by Geographic Area" Note 16(b) to the consolidated financial statements, the company's return on net assets for its United States operations was significantly lower than on its Canadian operations. This apparent discrepancy arises principally from two factors: (a) operating profit of United States operations includes Smitty's Super Valu, Inc. for only the second half of the year; and (b) the net assets of United States operations reflect the impact of purchase accounting for the acquisition of Smitty's Super Valu, Inc. which incorporated the re-statement of that subsidiary's assets at their fair market value, whereas the net assets of Canadian operations are recorded at their historic net book values.

Substantially higher investment income, principally derived from interest and dividend income on the company's portfolio of short-term investments, helped to offset part of the significant increase in the company's interest expenses.

Income Taxes

This year's provision for current and deferred income taxes of \$16,967,000 represents an effective income tax rate on consolidated pre-tax earnings of 29.0%. This reduction from the normal statutory rate of 51% in Canada is accounted for by the combined effect of inventory tax credits, investment tax credits, reduced rates applicable to manufacturing and processing operations, tax exemptions on dividend income and reduced rates on inter-company interest income.

Assets and Liabilities

Consolidated assets increased by \$281 million or 36.8% during the year to a level of \$1.04 billion. This substantial increase was represented by a \$128 million increase in current assets, a \$107 million increase in net fixed assets, a \$35 million increase in intangible assets and an \$11 million increase in other assets, largely reflecting the considerable cash flow from operations as well as the acquisition of Smitty's Super Valu, Inc. during the year.

The \$128 million or 37.4% increase in current assets was principally due to a \$63 million or 30.9% increase in inventories on hand, resulting from the opening of new stores, the acquisition of Smitty's, expansion of existing stores, and opening of new support facilities (a meat processing plant and a warehouse), as well as higher costs of inventories arising from inflation. Short-term marketable securities increased by \$32 million or 41.3% during the year, reflecting the company's substantially improved operating cash flow and including \$12 million of marketable securities held by Smitty's.

Additions to fixed assets were derived principally from net capital expenditures of \$41 million together with \$98 million of net fixed assets attributed to the acquisition of Smitty's.

The company's capital expenditure program for this year encompassed the opening of four supermarkets (including one combination store of more than 65,000 square feet), the renovation of four supermarkets, the opening of 16 Valdi limited-line grocery stores and four restaurant units, the opening of a meat processing plant and warehouse facility, the expansion of a shopping centre and the conversion of a self-service department store into a Lupton-Duvall specialty merchandise store. This internal growth was augmented by the mid-year acquisition of Smitty's Super Valu, Inc. which operated 19 retail complexes (including 12 large super-combination stores exceeding 100,000 square feet each, four combination stores and three supermarkets) at the date of acquisition and which opened its 20th store, a large super-combination store, shortly thereafter.

Consolidated long-term debt increased by \$164 million or 87.8% during the year, arising principally from interim term bank loans incurred to finance the acquisition of Smitty's Super Valu, Inc. together with the inclusion of that subsidiary's long-term debt obligations.

Shareholders' Equity

The book value of common and Class "A" shareholders' equity increased by \$28 million or 12.2% to \$260 million at

year-end or \$36.60 per common and Class "A" share outstanding, an increase of \$3.84 or 11.7% over the previous year. Return on average common and Class "A" equity increased to 14.02% from 10.24%.

Quarterly performance

The company's financial results on a fiscal quarterly basis (3 quarters of 12 weeks each and a 16 week fourth quarter) for this year with comparative data for the previous two years are summarized below:

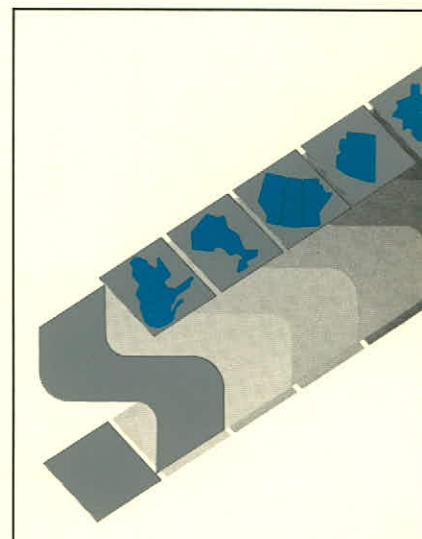
(Thousands of dollars except per share items)

	Quarter I		
	First 12 weeks		
	1981	1980	1979
	\$	\$	\$
Sales & Operating			
Revenue	551,145	486,800	448,780
Net Earnings	6,764	6,920	2,478
Earnings Per Share	0.79	0.81	0.35

	Quarter II		
	Second 12 weeks		
	1981	1980	1979
	\$	\$	\$
Sales & Operating			
Revenue	607,420	524,746	515,481
Net Earnings	9,710	4,795	8,905
Earnings Per Share	1.21	0.52	1.25

	Quarter III		
	Third 12 weeks		
	1981	1980	1979
	\$	\$	\$
Sales & Operating			
Revenue	677,484	521,421	470,927
Net Earnings	6,636	4,112	5,081
Earnings Per Share	0.77	0.41	0.72

	Quarter IV		
	Last 16 weeks		
	1981	1980	1979
	\$	\$	\$
Sales & Operating			
Revenue	970,360	714,305	647,522
Net Earnings	16,370	12,134	10,727
Earnings Per Share	2.09	1.50	1.51



Key Financial Indicators

Net Earnings & Dividends per Common & Class "A" Share

(dollars)



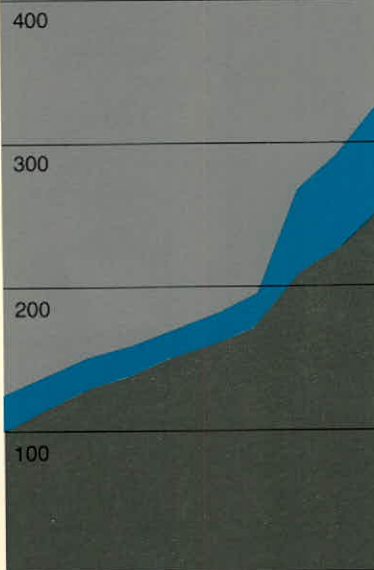
72 73 74 75 76 77 78 79 80 81

■ Net Earnings
■ Dividends

Earnings per share, after provision for preferred dividends, registered a significant improvement this year whether measured before or after extraordinary expenses. Since last year's results were depressed, a more relevant indicator of growth would be comparisons with earlier years. In that respect, this year's earnings per share recorded a compounded average growth of 12.65% over two years and 13.50% over ten years. Dividends paid per share were maintained at last year's rate, resulting in a compounded average growth of 10.76% over ten years.

Book Value of Shareholders' Equity

(millions)



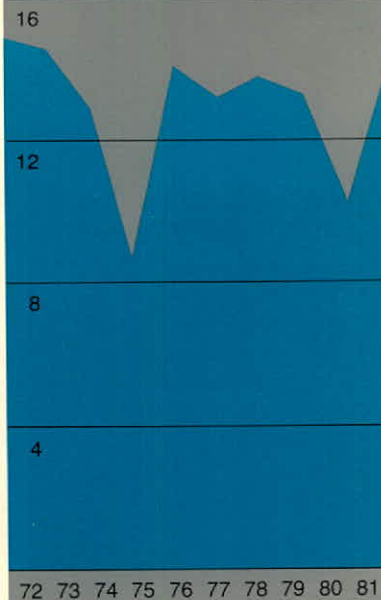
72 73 74 75 76 77 78 79 80 81

■ Common & Class "A"
■ Preferred

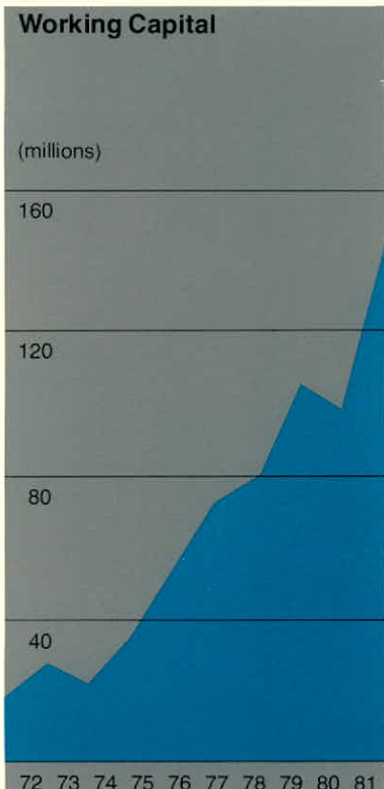
Total shareholders' equity increased by 8.6% this year, as a result of the 12.2% improvement in common & Class "A" shareholders' equity coupled with the 3.8% reduction in preferred share equity arising mainly from the operation of purchase fund obligations. The growth in shareholders' equity over the past ten years has been derived principally from the retention of net earnings, except for 1979 when \$65 million of preferred shares were issued to bolster the capital base.

Return on Average Common & Class "A" Equity

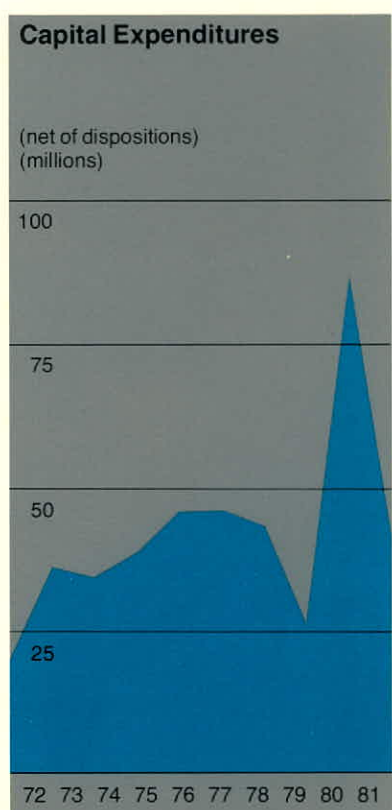
(percentage)



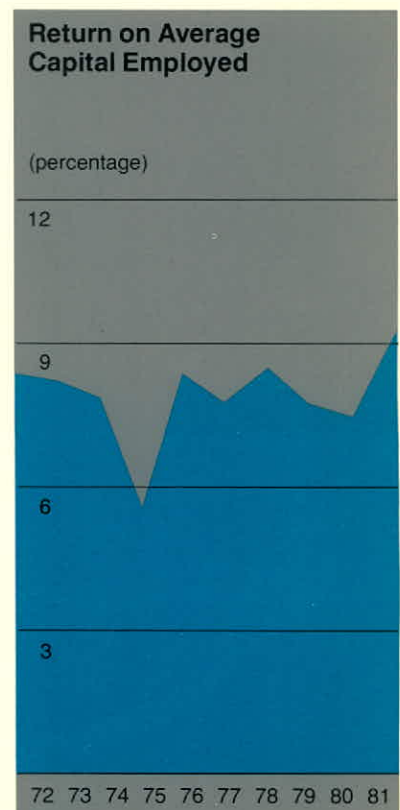
This year's 14.02% return on average common & Class "A" equity exceeded the ten-year average return of 13.02% for this key financial ratio.



Working capital increased by \$46 million or 46.2% to a level of \$145 million, thereby maintaining the company's strong financial position, and representing more than a five-fold increase over ten years. The working capital ratio of 1.44 this year is equal to the company's ten-year average for this ratio.



Capital expenditures of \$41 million this year, although less than half of last year's record level and only about one half of cash flow from operations, do not include the U.S. \$125 million expended in mid-year for the acquisition of Smitty's Super Valu, Inc.



This key indicator of over-all profit performance reached 9.16% this year, establishing a ten-year record for the company and exceeding the ten-year average return of 8.1%.

Divisional Operating Review

Canadian Retail Food Operations

The great bulk of the sales and operating revenue of the company continues to flow from the retail food outlets which now serve some five Canadian provinces. Contributing approximately 77% of such revenue are the original Steinberg stores in Québec, the Hypermarché acquisitions in the same province, the Miracle Food Mart Division in Ontario and Valdi Inc., a rapidly expanding operation which has now extended its early Ontario base to serve all three prairie provinces. Together these outlets showed a sales increase of 13.1% for the year.

The pre-tax contribution from the retail food stores, which had fallen off in 1980, showed a reasonable improvement for the year under review. In part this resulted from a freedom from the costly and disruptive labour troubles that had marked the early weeks of the previous year. However, total operating expenses for the retail food operations were driven considerably higher by the spiralling cost of wages, energy, property taxes, rentals and, of course, borrowed money.

Annual sales per square foot of supermarket selling area totalled \$479. Average sales per store, per week, amounted to \$176,000.

Québec Division

In the fiscal year now ended, Steinberg's Québec food retailing division moved into the unique position of being the only remaining major "chain store operation" in the province, in the accepted sense of the term. Sale by a major competitor of 87 outlets in Québec to another competitive organization which largely follows the franchise formula, leaves Steinberg as the only major retail food organization which by law is denied the opportunity of selling wine to its customers. This

is flagrant discrimination against which we continue to protest to the Québec government.

In the year's atmosphere of increasingly intense competition for consumer support and loyalty, the Québec Division began a program of restructuring which was aimed specifically at the use of new techniques to meet the needs, desires and demands of its very cost-conscious clientele. Service to the customer, the same priority that has sustained and advanced the business for nearly 65 years, was given an in-depth overhaul. A second priority was the year's program of store modernization. One result has been an increase in both the volume of sales and divisional profit margins.

Inflation has had a greater impact on food shopping than perhaps on any other area of disposable-income spending with the exception of big-item hard goods. Meats and groceries have been subject to changes in customer choice largely in favour of lower-priced items, but sales of produce have held up remarkably well to sustain year-end results at or slightly above the budget expectations for sales per employee-hour, per square foot of store space and per customer.

Physical restructuring in the Québec Division has resulted in the complete renovation of four stores, the opening of a new super-store in Saint-Jean and a new frozen food warehouse. The closing of three unprofitable stores and the loss of a fourth by fire

(it was not re-opened) leave the Québec Division with 151 supermarkets. Intrinsic to the restructuring has been strong attention to the company's human as well as capital resources. This and a renewed concentration on merchandising techniques to produce new levels of customer service, are already showing indications of improved personnel morale and enhanced customer loyalty.

A source of pride during the year was the Laval Chamber of Commerce award to Steinberg of a trophy honoring excellence in business and corporate citizenship.

Ontario Division

The company's supermarket division in Ontario, which operates under the name of Miracle Food Mart, has had a disappointing year, as has the whole food industry of that province. While inflation's effect on the consumer dollar has been severe, it is compounded in Ontario and particularly in the south-western sector, by the depressed condition of the automotive industry. As a result, this division showed sales which, though marginally increased, were considerably below expectations and below the national inflation rate. Costs rose higher than the gain in sales receipts.

The division's response to the current economic problems has been to maintain a strong, positive attitude to challenge. Miracle Food Mart opened three new stores in the year, two in Hamilton and one in Sudbury; 73 outlets now serve Ontario.

A new meat processing plant at Rexdale was completed and test operations are now underway. It is expected that production from this ultra-modern facility will reach its peak by the end of the current calendar year; it is one of the most technologically up-to-date units of its kind on the continent and this, along with a more open working environment arrived at with union participation, is expected to have a good impact on the quality-and-cost-conscious consumer. Both the meat plant and distribution centre are covered by two-year labour contracts.

Difficult times have accented the need for new and more aggressive merchandising in addition to strong advertising. During the year Miracle Food Mart played a constructive role in the National Home Show sector of the Canadian National Exhibition in





Toronto. More than 75,000 visitors from all parts of Canada had the opportunity to sample the company's delicatessen and bakery products.

For the summer season, Miracle Food Mart announced a 60-day price freeze on a list of key items most in demand; the innovation was subsequently followed by competitive retailers.

Accent on positive responses to difficult times will continue next year as Miracle Food Mart brings on stream three new stores in the Toronto area and completely modernizes two more stores, one in Ajax and one in Mississauga.

Oak Pharmacies Limited

Performance of this subsidiary organization, which operates within two of the company's big super-stores, was satisfactory though such stores are still in a developmental stage. Sales figures were up 40% over the previous year. The accent has been on locating pharmacies within these very large food stores and extending their scope by addition of the fullest possible range of health and beauty products. Offering the consumer an almost unlimited selection of brand names is the key to the merchandising program.

Valdi Inc.

This European-style retail outlet, less-than-supermarket in size, lower in price level and having a more limited

range of non-perishable groceries, continues to surpass the good performance of the previous year.

Its expansion into Western Canada which was started last year has continued to meet good acceptance. Valdi stores recorded sales of \$94 million, well above the expected performance for the 12-month period.

At year-end there were 44 Valdi stores operating in Ontario, Manitoba, Saskatchewan and Alberta, nearly double the number at the close of the previous year.

Strong acceptance by the public has naturally evoked a sharpening of competition in some areas, but advertising and merchandising activities have been stepped up to meet such local conditions.

Under scrutiny is the possibility of extending the Valdi operation eastward, possibly on a franchise basis.

American Retail Food Operations

Results of Smitty's Super Valu, Inc. for the 26 weeks following its acquisition are dealt with later in this report.

Department Store Operations

In the face of a decline in consumer spending felt by the entire department store industry, with particularly sharp setbacks felt in Ontario where Miracle Mart stores have suffered from the drastic payroll reductions of the automobile manufacturing industry, this division registered satisfactory performance.

When consumer reaction produces a serious shortfall in sales there are numerous inhibitions to profitability. Advertising budgets must be increased, extra wage costs develop and larger carry-overs of inventory occur which necessitate further control over re-ordering and financing.

Fortunately, Miracle Mart had launched itself on a modernization program that saw 22 of the 32 stores renovated to provide even brighter visual appeal and to adapt department layouts to new and carefully studied

purchasing patterns. The development of merchandising specialists to coordinate efforts of buyers, store personnel and display and advertising forces, has now produced a team in which each specialist is responsible for a particular merchandise grouping. As a result Miracle Mart's customers are assured of improved service in terms of ease of shopping and consistent availability of items sought.

In addition the system permits more rapid processing of purchase orders, more complete data for efficient inventory management (particularly important in times of record high interest rates) and more effective use of store space.

Lupton-Duvall

Traditionally innovative, Steinberg's marked the year with a first-in-America concept which broadens the scope of the company's retailing activity. Replacing a former Miracle Mart at the Cavendish Mall in Montreal, a unique store, operating as a separate division and bearing the distinctively continental name of Lupton-Duvall, was launched in March. It offers quality items (many of them exclusive to Lupton-Duvall) for a wide range of household uses, functional and decorative. The accent is on excellence — in basic quality and design — and each department is physically structured (sometimes on a two or three step level) to create the ambience of an individual boutique. There are 22 such "boutiques" in the complex and elegance of décor sets the tone for the whole operation. We foresee a gradual growth toward profitability as Montreal shoppers accustom themselves to this entirely new type of retailing environment.

Manufacturing Operations

The past year was a year of mixed performance and rationalization by the company's food manufacturing and processing operations. Total sales for these subsidiaries for the year were \$154.9 million, an increase of 29.7% over the previous year. A good deal of the sales increase was due to the excellent performance of Phénix Flour Limited which had a record year. However, overall profitability was affected by the poor year suffered by Cartier Sugar Ltd., which resulted in the eventual closing of that subsidiary.

Steinberg Foods Limited

Consolidated sales of this company and its subsidiary Multimarques Inc. totaled \$64.1 million, up 5.2% over the previous year. However, pre-tax profitability was adversely affected by an extraordinary expense of \$1.5 million arising from the closing of the unprofitable delicatessen operation and the low volume specialty bakery unit.

There is concern that the gain in sales was less than inflation and that the increase in physical volume which the company hoped to achieve was not realized. The answer has been to intensify not only the efforts to find additional new customers outside the Steinberg structure but to work in close conjunction with the company's own outlets to develop additional sales at the retail level. New products are being offered, particularly in the now-popular line of specialty breads. "Grand Blé" and "Protéines Extra" have won particular acceptance. Additional new products are planned to meet consumer demand and a particularly aggressive program is designed to promote increased sales to other major food chains and to independent retailers in Québec and Ontario.

Cartier Sugar Ltd.

The most important move to rationalize Steinberg's food manufacturing and processing operations was the closing of the Cartier Sugar Ltd. plant in Ville Saint-Pierre, Qué., in mid-summer. This small private company which was acquired by Steinberg in 1971 was simply not large enough to compete effectively and profitably in unstable sugar market conditions. Moreover, substantial capital expenditures which were needed to modernize the plant could not be justified in the face of the declining use of refined sugar and the increased use of sugar substitutes.

The closing was effected with proper advance notice and a co-operative reclassification program for the 122 employees was carried out by the company, the union and government authorities.

Future supplies of sugar at competitive prices have been assured by an arrangement with Atlantic Sugar Limited in which Steinberg now holds a 47.5% equity position.

Phénix Flour Limited

A major contributor to the results of the manufacturing sector was Phénix Flour Limited. Early setbacks in sales resulted in slightly lower volume in metric tons but peak prices for Canadian domestic wheat (\$7.00 per bushel at top) and record prices for mill feeds resulted in higher profitability. The mill enjoyed its most successful year ever, exceeding its budgeted objective by 54.5%.

Expectations for the current year remain high. Prices for feed grains should remain reasonably high. Physically the plant has been improved by new ventilation equipment which through better humidity control makes for better working conditions and more uniform production. Labour relations have been stable and a new level of interaction with employees through training schemes and better communication is providing a very healthy work atmosphere.

Restaurant Operations

Restaurants and fast food outlets in the Multi Restaurants group produced increases in sales and maintained their pre-tax profit contribution. Combined sales for the two main operations, Intercity and Salisbury House, rose to \$45,379,000, surpassing last year's results by 11.2%. Despite declining customer counts throughout this industry and higher costs due to inflation, we maintained our level of customer acceptance thanks to continuing stress on training of staff, service and cleanliness.

A new free-standing chicken and rib restaurant was opened in Brampton,

Ontario. Three outlets closed briefly through a labour dispute were quickly re-opened. We are gratified that relations with personnel have improved.

Claude Laberge has been named Vice-President and General Manager for all restaurant operations in both Québec and Ontario.

Personnel

"People-oriented" has become a buzz word in management circles. Without the benefit of any fashionable phrase, the Steinberg organization has been oriented to people since 1917. From the start it has been an axiom that Steinberg customers and the individuals who serve them are all "people", with human qualities and frailties.

What is more obvious today is that when a retailing organization like this employs some 21,000 Canadians in stores, another 3,000 in warehouses and 2,000 in offices, serving millions of Canadian shoppers, then the matter of needs, wants and desires on the part of the customer, and the responsibilities of employees to meet those needs, cannot be left to chance. Research, planning and training become essentials. This also has been a part of the Steinberg philosophy for many, many years.

One measure of the effectiveness of attention to staff relationships is the degree of loyalty and permanence of the work force. More than 1,000 employees have been with the company between 20 and 30 years. Another group of 241 have passed the 30-year milestone.

One particular current concern is the extent to which decision-making can be shared within the obvious limitations of central guidance and control. A major step in this direction was the decision this year to transfer a greater degree of management of compensation to the individual divisional managements. In the matter of labour relations, negotiations with the very large Montreal bargaining units were, for the first time, conducted under the direct authority of the general managers of each division. Subsequent to the year-end, successful negotiations were concluded with the major bargaining units representing the Montreal area food store, manufacturing and distribution centres employees as well as the Québec and Sherbrooke area food store employees.

Smitty's Super Valu, Inc.

The purchase during the fiscal year of Smitty's Super Valu, Inc., the dominant food retailer in the Phoenix, Arizona market, is probably the most significant step to date in the company's expansion and rationalization program that has been going on over the past number of years.

The search for an appropriate major acquisition was a long and arduous task by the Executive Committee and has been referred to in previous annual reports. During the review process a number of alternative possibilities were looked at, considered seriously and eventually rejected. Smitty's, however, met virtually all of the criteria that had been established for a possible acquisition:

- i) it is engaged principally in food retailing, the area in which the

company has its highest level of expertise; in the period ended August 2, 1981, approximately 78% of Smitty's sales were in this category;

- ii) it is a profitable company that will contribute positively to the company's results — in fiscal 1979 and fiscal 1980, Smitty's had net income of \$7.7 million and \$9.7 million respectively;
- iii) it is in a strong position in its market — Smitty's share of market, as reported by local and industry trade sources, has increased from 18% to 29% over the past five years;
- iv) it is located in a growing market — the population of the Phoenix area, currently 1,600,000, is increasing at a rate of 3.5% per year;
- v) it has good potential for future growth — at present Smitty's operates only in the Phoenix metropolitan area and can readily expand to other major market areas in the southwestern United States;

- vi) it has a strong management team in place — there was no need to send a number of senior employees from our existing operating divisions to Smitty's.

The history, growth and methods of operations of Smitty's bear a great similarity to those of Steinberg's. The founder of the company, Clyde B. Smith or "Smitty" as he is affectionately known to employees, customers and suppliers, first opened a small butcher shop in Iowa shortly after World War II. The company was incorporated in 1954 and by 1960 was operating six grocery supermarkets in Iowa.

In 1960, Clyde Smith visited Phoenix and recognized that there would be greater opportunities for growth expansion and profitability in that city in the heart of the rapidly developing "Sunbelt" region. The first Phoenix store was opened in February, 1961. The Iowa stores were subsequently disposed of as the company concentrated on expansion in the Phoenix area.

Smitty's currently operates twenty stores along with its own distribution center. Thirteen of the stores are supermarket-department store units of 90,000 to 110,000 square feet, while seven are large supermarkets ranging





from 35,000 to 57,000 square feet. All units have both restaurants and snack bars, full in-store bakeries, service and self-service meat, delicatessen and fish counters, as well as a complete liquor department.

The department stores offer a full range of items to meet the needs of the average shopper. These include men's, women's and children's clothing; shoes; jewelry; sporting goods; hardware; housewares; toys; domestics; cameras and electronics; automotive products; cosmetics, health and beauty aids; sundries; fresh flowers and plants; and a pharmacy. In keeping with a true "one-stop-shopping" concept, all stores also provide in-store banking facilities by a major local savings and loan institution, most have on-premises barber shops and beauty salons and many include services by licensed opticians and optometrists.

Smitty's owns nine of its stores (one on leased land) and leases the balance as well as its distribution center and office building. The company holds land in the Phoenix area for four future stores; construction of two stores will commence during the current fiscal year.

Fixed assets, less depreciation, are carried on Smitty's balance sheet at \$79,602,000 U.S. or \$95,379,000 Canadian.

A landbanking program has been started to provide sites for additional future stores within the growing metropolitan Phoenix area. The company is also currently studying expansion pos-

sibilities into other market areas of the Southwest.

The company has approximately 5,500 full and part time employees, many of whom have spent their entire working career with Smitty's. For example, the store management group has an average age of 35 with an average length of service of more than eleven years. The company places great emphasis on promoting from within whenever possible. For the 26 week period ended August 2nd, salaries, wages and benefits exceeded \$36 million U.S.

The formal acquisition of Smitty's was made by Steinberg B.V., a newly incorporated Dutch subsidiary, for a purchase price of \$125,000,000 U.S. or \$149,775,000 Canadian. The Steinberg balance sheet reflects an amount of \$30,092,000 U.S. or \$36,056,000 Canadian as goodwill representing the difference between the purchase price and the fair value of the assets of the company as acquired, as determined by an independent valuation made by the Manufacturers' Appraisal Company of Philadelphia and Coopers and Lybrand of New York.

For the 26 week period from the date of acquisition to August 2nd (the date of Smitty's fiscal year-end), sales and operating revenue equalled \$223,583,000 U.S., an increase of 16.4% over the comparable 26 week period of the previous year. The current period includes the results of new

stores that were opened in May and July, 1980 and January, 1981.

After deduction of debt service, the heavy expenses associated with the acquisition, and the expenses, charges and accounting changes required by or resulting from the revaluation of company assets as at the acquisition date, Smitty's reported net earnings after taxes for the 26 week period of \$532,000 U.S. or \$648,000 Canadian. After taking into account inter-company interest payments and income taxes on a consolidated basis, Smitty's contributed \$563,000 Canadian or 8 cents per common and Class "A" share to the earnings of the company for the fiscal year.

The Board of Directors of Smitty's is comprised of members of management, representatives from Steinberg and one outside director. The members of the Board are Clyde B. Smith, C. Thomas Hickey (President and Chief Executive Officer), J. Winslow Smith (Executive Vice-President, General Manager and Chief Operating Officer), Stanley F. English (Vice-President, Legal and Corporate Affairs and Secretary — transferred from Steinberg), Melvyn A. Dobrin, Mitzi S. Dobrin, H. Arnold Steinberg and Paul N. Roth (Senior partner in the firm of Schulte, Roth & Zabel, New York). The Board meets on a regular quarterly basis to review operating and financial results, budgets and plans for future development.

Steinberg in the community . . .

- Special equipment for the handicapped (1)
- Support for health institutions and medical research (2)
- Contributing to the performing arts (3)
- Aiding amateur sport development (4)
- Special services to senior citizens (5)
- Scholarships, bursaries and grants to educational institutions (6)



1



2



4



6



5



3



Serving Canadian Families
© since 1917