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HOWARD ROSS LIBRARY
OF MANAGEMENT
AUG 6 1979
MCGILL UNIVERSITY

GESCO

GESCO DISTRIBUTING LIMITED / ANNUAL REPORT 1978

**GESCO
DISTRIBUTING
LIMITED**

Directors

H.R. Bennett, Partner
Richardson Securities of
Canada, Toronto
R.R. Hall, Q.C., Barrister and
Solicitor, Toronto
Allan Shnier, Winnipeg
Cecil Shnier, Winnipeg
Irving Shnier, Toronto
Norman Shnier, Toronto
Philip Shnier, Toronto
N. Starr, C.A., President
Acklands Ltd., Toronto

Officers

Irving Shnier,
Chairman of The Board
Norman Shnier, President
Allan Shnier, Vice President
Philip Shnier, Vice President
Cecil Shnier, Vice President and
Secretary
A.E. Rosenhek, Vice President
Ian H. Collinge, Vice President
David A. MacDonald,
Vice President
B. Nesar, Vice President
E.M. Casey, M.C.I., Treasurer,
National Credit Manager
K.H. McManus, R.I.A., C.I.M.,
P. Mgr., Controller,
Administration Manager

Transfer Agent and Registrar

The Royal Trust Company,
Toronto, Winnipeg,
Calgary

Auditors

Touche Ross & Co., Toronto

Listed on

The Toronto Stock Exchange

Head Office

1965 Lawrence Avenue West,
Weston, Ontario.

Financial Highlights

	1978	1977
Sales	\$ 70,630,061	\$ 64,417,440
Income from operations (before depreciation and interest)	\$ 723,882	\$ 672,774
Net income (loss)	\$ 121,689	\$ (240,119)
Earnings (Loss) per share	\$ 0.12	\$ (0.23)
Number of shares outstanding	1,025,000	1,025,000
Working capital	\$ 7,590,959	\$ 7,748,634
Current ratio	1.42/1	1.49/1
Inventory	\$ 12,550,169	\$ 12,400,119
Receivables	\$ 12,693,772	\$ 10,449,245
Sinking Fund Debentures	\$ 780,000	\$ 885,000
Shareholders' Equity	\$ 8,211,147	\$ 8,089,458

To our Shareholders

Gesco Distributing Limited reports sales for its fiscal year ended September 29, 1978 of \$70,630,000 compared with \$64,417,000 in the previous fiscal year.

Our sales increase was achieved in the face of a flat year in the Home Building, Home Furnishings, and Home Improvement fields in Canada, and the achievement is a tribute to the fine calibre of our Marketing Managers, and their staffs, and the acceptability and value of the products that we distribute.

The Company's Operations showed a loss of \$111,000 or \$0.11 per share compared with a loss of \$240,119 or \$0.23 per share in the previous year. Our profitability was adversely affected by pressures on gross margins, by increased costs of carrying our inventories, by unfavourable foreign exchange rates and also by extraordinary bad debt charges.

The loss for the previous year included an item of \$47,000 covering Gesco's share of the loss in an associated company - Profile Expanded Plastics Ltd. During the year under review the Company had an opportunity to liquidate its investment in this associated company and accordingly our 50% share was sold, at a profit of \$232,996. After taking into account this extraordinary profit, our final results showed a profit of \$121,689 or \$0.12 per share versus a loss of \$240,119 or \$0.23 per share the previous year.

In the course of our last fiscal year, and continuing to date in the current fiscal period, great improvements have been achieved in Gesco's physical distribution functions. These functions are performed for our Marketing Units by Gesco Warehousing and Distributing, which is responsible for physical facilities, order processing and transportation. The Toronto on line order processing and inventory system has been supplemented by a branch data collection system, now in operation in Winnipeg and scheduled to go in operation at other locations during this year. This system enables the Company to process branch activities overnight on its Toronto computer, using long distance night lines. It eliminates mail delays on incoming data and reduces error possibility.

Gesco's Marketing Units are G.E. Shnier Co., Eagle Distributing Co., Phoenix Floor & Wall Products and General Foam & Cushion. Each of our units have produced sales above the average in their industry. G.E. Shnier Co. markets carpets made to our specifications by leading Canadian mills. They are sold under the brand names RICHMOND and Ezy-Fit and these brands are among the leaders in market penetration in Canada. G.E. Shnier Co. also markets our own brand POLY-STAR Carpet Cushion and sponge cushion manufactured by Waterville Cellular Products.

Eagle Distributing Co. markets Armstrong Floor Products and Ozite Carpets. Distribution rights for both these brands were expanded recently but sales increases have not developed as rapidly as projected during our 1977-78 year, partly because of business conditions, and more so because of a strike at an important supplier. These products should contribute favourably to our current year's sales and profits.

Phoenix Floor and Wall Products imports and markets ceramic floor and wall products and vinyl and carpet floor mats and runners. Ceramic tiles in domestic and commercial applications are increasing in use in North America, and Phoenix is targetting to attain an important position in the market place.

General Foam and Cushion fabricates and markets foam cushioning which is used primarily in upholstered furniture. General Foam operates fabricating facilities in Toronto, Winnipeg and Montreal and is a major supplier in its field.

Gesco's fields of activity, Marketing and Physical Distribution, continue to demand higher degrees of sophistication. Gesco's staffs have responded magnificently to the need to learn and live with new systems and we are proud of and grateful to our many dedicated employees who have applied themselves unstintingly throughout a difficult year.

The year we are presently in is being projected as fairly flat as far as general business activity is concerned. Gesco, however, will increase its sales and through full use of its people and facilities, have a profitable year, providing our own current levels of activity are sustained.



Norman Shnier,
President
FEBRUARY 1979

Statement of Income for the year ended September 29, 1978

(With comparative figures for 1977)

	1978	1977
Sales.....	\$ 70,630,061	\$ 64,417,440
Profit on redemption of debentures.....	\$ 2,335	\$ 762
Income from operations before the following.....	723,882	672,774
	<u>726,217</u>	<u>673,536</u>
Depreciation and amortization of fixed assets.....	254,958	244,391
Amortization of other assets.....	4,450	8,180
Loss on foreign exchange.....	108,213	115,000
Interest, including interest on long-term debt of \$66,616 (1977 - \$72,106).....	846,180	882,122
Interest income.....	(163,277)	(71,038)
	<u>1,050,524</u>	<u>1,178,655</u>
Loss before income taxes.....	324,307	505,119
Recovery of income taxes (Note 4).....	213,000	312,000
Loss before the undernoted.....	111,307	193,119
Share of loss of associated company.....	—	47,000
	<u>111,307</u>	<u>240,119</u>
Loss for the year before extraordinary item.....	111,307	240,119
Extraordinary item - gain on sale of associated company (Note 5).....	232,996	—
Net income (loss) for the year.....	<u>\$ 121,689</u>	<u>(\$ 240,119)</u>
Earnings (loss) per share, Based on 1,025,000 shares outstanding		
Loss before the undernoted.....	(\$0.11)	(\$0.19)
Share of loss of associated company.....	—	(0.04)
Extraordinary item.....	0.23	—
	<u>0.23</u>	<u>(0.04)</u>
Net income (loss) for the year.....	<u>\$0.12</u>	<u>(\$0.23)</u>

Statement of Changes in Financial Position for the year ended September 29, 1978

(With comparative figures for 1977)

	1978	1977
Source of funds		
Proceeds on disposal of investment and other assets, net.....	\$ 421,530	\$ —
Disposal of fixed assets, net.....	17,627	38,124
	<u>439,157</u>	<u>38,124</u>
Application of fund to operations		
Loss for the year before extraordinary item.....	111,307	240,119
Deduct non-cash charges		
Depreciation and amortization of fixed assets.....	(254,958)	(244,391)
Amortization of other assets.....	(4,450)	(8,180)
Decrease in deferred income taxes.....	213,000	27,000
Share of loss of associated company.....	—	(47,000)
	<u>64,899</u>	<u>(32,452)</u>
Additions to fixed assets.....	361,028	177,764
Redemption of 8% sinking-fund debentures Series A.....	105,000	105,000
Increase in other assets.....	65,905	—
	<u>596,832</u>	<u>250,312</u>
Decrease in working capital.....	157,675	212,188
Working capital at beginning of year.....	7,748,634	7,960,822
Working capital at end of year.....	<u>\$7,590,959</u>	<u>\$7,748,634</u>



See accompanying notes to financial statements.

Balance Sheet as at September 29, 1978

(With comparative figures for 1977)

ASSETS	<u>1978</u>	<u>1977</u>
Current		
Accounts receivable	\$ 12,693,772	\$ 10,449,245
Income taxes recoverable	—	349,448
Advances to associated company	—	73,428
Inventory	12,550,169	12,400,119
Prepaid expenses and sundry assets	399,548	263,365
	<u>25,643,489</u>	<u>23,535,605</u>
Investment in associated company (Note 5)	—	187,004
Fixed assets (Note 2)	1,142,444	1,059,981
Other assets	152,744	86,839
	<u>\$ 26,938,677</u>	<u>\$ 24,869,429</u>
 LIABILITIES		
Current		
Bank indebtedness, secured	\$ 8,730,241	\$ 7,793,452
Accounts payable and accrued liabilities	9,217,289	7,888,519
Sinking-fund payment due within one year	105,000	105,000
	<u>18,052,530</u>	<u>15,786,971</u>
8% sinking-fund debentures Series A (Note 3)	675,000	780,000
Deferred income taxes	—	213,000
	<u>—</u>	<u>—</u>
 SHAREHOLDERS' EQUITY		
Capital stock		
Authorized 1,500,000 shares without par value	2,493,750	2,493,750
Issued 1,025,000 shares	5,717,397	5,595,708
Retained earnings	8,211,147	8,089,458
	<u>\$ 26,938,677</u>	<u>\$ 24,869,429</u>

On behalf of the Board

 Director
 Director

Statement of Retained Earnings for the year ended September 29, 1978

(With comparative figures for 1977)

	<u>1978</u>	<u>1977</u>
Retained earnings at beginning of year	\$ 5,595,708	\$ 5,835,827
Net income (loss) for the year	121,689	(240,119)
Retained earnings at end of year	<u>\$ 5,717,397</u>	<u>\$ 5,595,708</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENT SEPTEMBER 29, 1978

1. Summary of significant accounting policies

a. Inventory

Inventory is stated at the lower of cost and net realizable value, cost being determined substantially on a first-in, first-out basis.

b. Fixed assets

Fixed assets are stated at acquisition cost, less accumulated depreciation and amortization.

Depreciation and amortization are provided on a straight-line basis at the following rates:

Machinery and equipment	10%
Office equipment	10%
Motor vehicles and fork lift trucks	30%
Leasehold improvements	Remaining life of the lease

c. Other assets

Other assets are valued at cost less amortization.

d. Foreign currency translation

Current assets and current liabilities in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the balance sheet date.

e. Income taxes

Income taxes are based on accounting income which differs from taxable income. Differences generally arise because items of income and expense, such as depreciation, are reflected in different time periods for financial accounting purposes than for tax purposes. The result of this policy is to defer income taxes otherwise payable.

2. Summary of fixed assets

	1978		1977	
	Cost	Accumulated depreciation and amortization	Net	Net
Leasehold improvements	\$ 546,669	\$ 261,485	\$ 285,184	\$ 260,369
Machinery and equipment	1,067,917	434,621	633,296	572,639
Office equipment	266,484	149,840	116,644	115,847
Motor vehicles	130,593	62,077	68,516	70,840
Fork lift trucks	440,016	401,212	38,804	40,286
	<u>\$2,451,679</u>	<u>\$1,309,235</u>	<u>\$1,142,444</u>	<u>\$1,059,981</u>

3. 8% sinking-fund debentures Series A

These are secured by a first floating charge on all the assets and property of the Company and mature on February 1, 1984. Sinking-fund payments are required on February 1 in each year as follows:

1979	\$105,000
1980 to 1984 inclusive	135,000

The terms of the trust deed securing the debentures allow dividends to be paid as long as the working capital of the Company after payment of such dividends exceeds the greater of \$5,000,000 and the funded indebtedness of the Company.

In addition, the amounts that can be paid out in the form of redemption of debenture principal, repurchase of capital stock and dividends cannot exceed 80% of net income since September 30, 1968.

4. Income taxes

The Company has a loss for income tax purposes of \$513,000 available to be claimed against any future taxable income until 1983. This loss for tax purposes has been increased by the effect of the government's 3% inventory allowance.

Recovery of income taxes reflects the drawdown of previously accumulated deferred income taxes as a result of the reversal of timing differences.

5. Investment in associated company

The Company sold its 50% interest in its equity investment in Profile Expanded Plastics Limited during 1978.

6. Commitments

a. Lease obligations

Annual rentals payable under long-term leases of premises are approximately \$890,000 (1977 - \$890,000) during each of the years 1979 to 1995 inclusive.

b. Executive pension plan

The unfunded liability with respect to past service amounts to \$293,755 of which \$163,052 payable in instalments on December 15 each year as follows:

1978 to 1979 inclusive	\$25,240
1980 to 1984 inclusive	17,271
1985 to 1987 inclusive	8,739

The balance of \$130,703 may be paid in full or in part at any time prior to December 15, 1984 at the discretion of the Company.

7. Remuneration of directors and senior officers

Remuneration of directors and senior officers, as defined by The Business Corporations Act - Ontario, of the Company included in the statement of income amounts to approximately \$374,000 (1977 - \$376,000).

8. Anti-Inflation Legislation

The Company is subject to the Federal Government's Anti-Inflation Legislation, which became effective on October 14, 1975. This legislation limits increases in prices, profits and compensation payments. The Company is also restricted to a maximum annual dividend of 32¢ per share in the twelve-month period ended October 13, 1979. In the opinion of management, the Company has complied with the Anti-Inflation guidelines in all material respects.

Auditors' Report

The Shareholders,
Gesco Distributing Limited.

We have examined the balance sheet of Gesco Distributing Limited as at September 29, 1978 and the statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at September 29, 1978 and the results of its operations

and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.














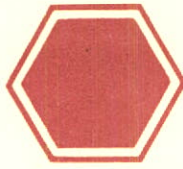
Toronto, Ontario,
November 24, 1978.

Touche Ross and Co.
Chartered Accountants.

Products

Floor coverings, carpets, carpet cushion, tiles, vinyl sheet flooring, cushioned flooring, rubber and vinyl cove base, ceramic floor and wall tile, hardware and specialty products, rubber and vinyl mats, stair treads, stair nosing, adhesives, installation and handling equipment, foam fabrications for furniture, bedding and toy manufacturers, custom packaging and fabricated head pillows and throw cushions, custom foam diecutting, moulded foam products, vinyl runner, synthetic turf.

	Waterville sponge rubber-carpet cushion.
	Armstrong tiles, vinyl sheet flooring, cushioned flooring.
	Celanese carpets.
	Congoleum fine floors.
	GFC polyurethane, neocor, dencor, polyester fibre, foam and cushionings.
	Ozite carpets.
	Richmond carpets.
	Roberts floorcovering accessories and installation tools.
	007 adhesives.
	Polystar urethane carpet cushion.
	Ezy-fit do-it yourself carpets.
ILLINGWORTH CARPETS	Illingworth carpet tiles.
PHOENIX	Phoenix ceramic tiles, floor mats, matting.



GESCO DISTRIBUTING LIMITED

REGIONAL SUPERVISORS

Western E. Rosenhek, Vancouver
Central A. Shnier, Winnipeg
Eastern B. MacNeil, Toronto

G.E. SHNIER CO.

Co-Managers I. Collinge, E. Adams
Head Office 1965 Lawrence Ave. W.
Weston, Ontario.

BRANCHES
Vancouver
Edmonton
Calgary
Regina
Winnipeg
Thunder Bay
London
Ottawa
Montreal
Dartmouth

EAGLE DISTRIBUTING CO.

Co-Managers D. MacDonald, R. Watson
Head Office 1975 Lawrence Ave. W.
Weston, Ontario.

BRANCHES
Montreal
Ottawa/Hull
London
Thunder Bay
Winnipeg
Edmonton
Regina
Saskatoon
Calgary
Vancouver

GENERAL FOAM AND CUSHION

Manager B. Neskar
Head Office 200 Snidercroft Road,
Concord, Ontario.

BRANCHES
Montreal
Winnipeg

PHOENIX FLOOR AND WALL PRODUCTS

Manager B. Palansky
Head Office 111 Westmore Drive,
Rexdale, Ontario.

BRANCH
Winnipeg

GESCO WAREHOUSING & DISTRIBUTING

Managers D. Fenwick -
Eastern Canada.
E. Rosenhek -
Western Canada.
