

GESCO DISTRIBUTING LIMITED / ANNUAL REPORT 1977



HOWARD ROSS LIBRARY
OF MANAGEMENT
AUG 6 1978
MCGILL UNIVERSITY

**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
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

	1977	1976
Sales	\$64,417,000	\$67,929,000
Income from operations (before depreciation and interest)	\$ 673,000	\$ 1,747,000
Net (loss) income	\$ 240,000	\$ 389,000
(Loss) earnings per share	\$ (0.23)	\$ 0.38
Number of shares outstanding	1,025,000	1,025,000
Working capital	\$ 7,749,000	\$ 7,961,000
Current ratio	1.49/1	1.45/1
Inventory	\$12,400,000	\$13,244,000
Receivables	\$10,449,000	\$11,597,000
Sinking Fund Debentures	\$ 885,000	\$ 979,000
Shareholders' Equity	\$ 8,089,000	\$ 8,330,000

ERRATUM

**In the Financial Highlights box on the
inside front cover the item:**

Net (loss) income \$ 240,000

should read:

Net (loss) income \$ (240,000)

To our Shareholders

Reduced activity in the Home Building and Home Improvement fields, coupled with inflationary pressures on costs, resulted in a difficult year for Gesco Distributing Limited, and a loss for the fiscal period under review. The loss actually occurred during the first half of our year. During that time we continued the programme of dropping product items that were not successful and we merged the operations of Cardinal Industries into those of G.E. Shnier Co. and Eagle Distributing Co.

These moves, and some seasonal recovery in sales, enabled profitable operations for our second half, but the full year's operations, nevertheless, were at a loss.

Our total sales for the year ended September 30, 1977 were \$64,417,000. Our loss before consolidation of our 50% share of Profile Expanded Plastics Ltd. was \$193,116 or \$0.19 per share, and after the share of the Profile loss, \$240,119 or \$0.23 per share. Previous year's sales were \$67,928,00 and profit was \$454,800 before share of loss (\$0.44 per share), and \$388,800 (\$0.38 per share) after share of loss.

The Gesco share of loss at Profile Expanded Plastics Ltd. was reduced to \$47,000 vs \$66,000 the previous year. This company now appears to have established an acceptable base for its business. Its operations for the past three months have been profitable and it has an order back-log assuring continued profitability in the near future. Long term prospects also continue to appear favourable, and certain expansion studies are underway.

The floor covering industry, in which Gesco is considerably involved, appears headed for a continuation of a flat or difficult year in 1978. Consumption growth will slow down and over-capacity will result in highly competitive conditions. Gesco will continue to market aggressively and at the same time monitor all costs to keep them in check to the greatest degree possible.

In October 1976, based on the previous year's performance and the outlook at that time, we declared a dividend of 25c per share. During 1977, because of adverse conditions, no action was taken with respect to dividends. Your company hopes to resume a dividend programme as soon as any indications of improvements in the Canadian economy and in company performance demonstrate themselves.

In the present economic atmosphere, there is considerable turmoil in business. Weaker operations are withdrawing and others have merged. Gesco has been offered additional lines for distribution and has accepted some opportunities and is examining others. Sales generated from these lines will not begin to reflect in our operations until the second half of our 1978 year and should then be a cushion against general sales flattening, and loss of sales from discontinued lines.

The decline in the value of the Canadian dollar has had a negative effect on Gesco's operations during the year under review. A significant expense was incurred in the conversion of U.S. dollar debt; and the increased cost of imported goods, resulting from the dollar devaluation has had an adverse effect on sales and on the profitability of the imported goods. Although sales of imported goods are unlikely to recover in volume, price adjustments are currently in effect enabling profitability on those products still imported.

The functions of Gesco broadly divide into two main divisions. On the marketing side, we are challenged by a decrease in consumer confidence and the erosion of purchasing power, and by extremely competitive conditions.

On the Physical Distribution side, our opportunities continue to enlarge as all ingredients in the physical distribution functions grow in importance relative to the value of actual goods produced and sold. Gesco continues to lead in the calibre of its marketing organization, and the sophistication of its physical distribution or "operating" staffs continues to develop rapidly. Special acknowledgement is made to our managers and supervisors who are faced with the problems of maintaining human productivity in difficult times and conditions.

The products that Gesco distributes are ingredients in the Home Furnishing and Home Improvement fields — vital in our economy. Increases in the number of marriages — and home formations — are being forecast and will provide an underlying strength. Gesco will be a leader in the growing functions involving physical distribution. In the New Home Improvement areas, there are signs of improvement and of government actions to stimulate growth and health. These, combined with our own increased efforts lead us to expect an improved year ahead and an increasing and profitable role in future years.



Norman Shnier
President
FEBRUARY 1978.

Statement of Loss for the year ended September 30, 1977

(With comparative figures for 1976)

	<u>1977</u>	<u>1976</u>
Sales	\$ 64,417,440	\$ 67,928,633
Profit on redemption of debentures	\$ 762	\$ 5,875
Income from operations before the following	672,774	1,746,576
	<u>673,536</u>	<u>1,752,451</u>
Depreciation and amortization of fixed assets	244,391	266,979
Amortization of other assets	8,180	6,041
Loss on foreign exchange	115,000	—
Interest, including interest on long-term debt of \$72,106 (1976 - 77,906)	882,122	804,471
Interest income	(71,038)	(169,876)
	<u>1,178,655</u>	<u>907,615</u>
(Loss) income before income taxes	(505,119)	844,836
(Recovery of) provision for income taxes (Note 4)	(312,000)	390,000
(Loss) income before share of loss of associated company	(193,119)	454,836
Share of loss of associated company	47,000	66,000
Net (loss) income for the year	<u>\$ (240,119)</u>	<u>\$ 388,836</u>
(Loss) earnings per share, based on 1,025,000 shares outstanding		
Net (loss) income before share of loss of associated company	<u>(\$0.19)</u>	<u>\$0.44</u>
Net (loss) income for the year	<u>(\$0.23)</u>	<u>\$0.38</u>

Statement of Changes in Financial Position for the year ended September 30, 1977

(With comparative figures for 1976)

	<u>1977</u>	<u>1976</u>
Source of funds		
From operations		
Net (loss) income for the year	(\$ 240,119)	\$ 388,836
Add non-cash charges (credit)		
Depreciation and amortization of fixed assets	244,391	266,979
Amortization of other assets	8,180	6,041
(Decrease) increase in deferred income taxes	(27,000)	50,000
Share of loss of associated company	47,000	66,000
	<u>32,452</u>	<u>777,856</u>
Disposal of fixed assets, at net book value	<u>38,124</u>	<u>6,479</u>
	<u>70,576</u>	<u>784,335</u>
Application of funds		
Additions to fixed assets	177,764	649,835
Redemption of 8% sinking-fund debentures	105,000	105,000
Dividends payable	—	256,250
Increase in other assets	—	67,500
	<u>282,764</u>	<u>1,078,585</u>
Decrease in working capital	212,188	294,250
Working capital at beginning of year	<u>7,960,822</u>	<u>8,255,072</u>
Working capital at end of year	<u>\$ 7,748,634</u>	<u>\$ 7,960,822</u>

See accompanying notes to financial statements.

Balance Sheet as at September 30, 1977

(With comparative figures for 1976)

	<u>1977</u>	<u>1976</u>
ASSETS		
Current		
Accounts receivable	\$ 10,449,245	\$ 11,596,894
Income taxes recoverable	349,448	577,124
Advances to associated company	73,428	—
Inventory	12,400,119	13,243,525
Prepaid expenses and sundry assets	<u>263,365</u>	<u>314,859</u>
	23,535,605	25,732,402
Investment in associated company	187,004	234,004
Fixed assets (Note 2)	1,059,981	1,164,732
Other assets	<u>86,839</u>	<u>95,019</u>
	<u>\$ 24,869,429</u>	<u>\$ 27,226,157</u>
LIABILITIES		
Current		
Bank indebtedness, secured	\$ 7,793,452	\$ 10,387,730
Accounts payable and accrued liabilities	7,888,519	7,018,196
Dividends payable	—	256,250
Due to associated company	—	15,404
Sinking-fund payment due within one year	<u>105,000</u>	<u>94,000</u>
	15,786,971	17,771,580
8% sinking-fund debentures Series A (Note 3)	<u>780,000</u>	<u>885,000</u>
Deferred income taxes	<u>213,000</u>	<u>240,000</u>
SHAREHOLDERS' EQUITY		
Capital stock		
Authorized 1,500,000 shares without par value		
Issued 1,025,000 shares	2,493,750	2,493,750
Retained earnings	<u>5,595,708</u>	<u>5,835,827</u>
	8,089,458	8,329,577
On behalf of the Board	<u>\$ 24,869,429</u>	<u>\$ 27,226,157</u>

.....  Director

.....  Director

Statement of Retained Earnings for the year ended September 30, 1977

(With comparative figures for 1976)

	<u>1977</u>	<u>1976</u>
Retained earnings at beginning of year	\$ 5,835,827	\$ 5,703,241
Net (loss) income for the year	<u>(240,119)</u>	<u>388,836</u>
	5,595,708	6,092,077
Dividends payable	—	256,250
Retained earnings at end of year	<u>\$ 5,595,708</u>	<u>\$ 5,835,827</u>

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1977

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. Investment in associated company

The Company's investment in Profile Expanded Plastics Limited (50%-owned) is accounted for on the equity basis reflecting the original capital investment and the Company's share of the loss since acquisition.

c. 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

d. Other assets

Other assets are valued at cost less amortization.

e. 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.

f. Income taxes

Income taxes are based on accounting income which differs in some respects 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 a deferral of income taxes currently payable and such deferral is shown in the balance sheet as deferred income taxes.

2. Summary of fixed assets

	1977		1976	
	Cost	Accumulated depreciation and amortization	Net	Net
Leasehold improvements	\$ 474,505	\$ 214,136	\$ 260,369	\$ 241,244
Machinery and equipment	905,470	332,831	572,639	649,705
Office equipment	236,400	120,553	115,847	134,989
Motor vehicles	135,886	65,046	70,840	67,402
Fork lift trucks	402,597	362,311	40,286	71,392
	<u>\$ 2,154,858</u>	<u>\$ 1,094,877</u>	<u>\$ 1,059,981</u>	<u>\$ 1,164,732</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:

1978 and 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 recovery of income taxes has been increased by approximately \$88,000 representing the tax effect of the government's 3% inventory allowance.

5. Commitments

a. Lease obligations

Annual rentals payable under long-term leases

of premises are approximately \$890,000 (1976 - \$940,000) during each of the years 1978 to 1995 inclusive.

b. Executive pension plan

The unfunded liability with respect to past service amounts to \$318,995 of which \$188,292 is payable in instalments on December 15 in each year as follows:

1977 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.

c. Loans of associated company

The Company has guaranteed loans of Profile Expanded Plastics Limited up to a maximum of \$247,000 (1976 - \$245,000).

6. 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 loss amounts to approximately \$376,000 (1976 - \$380,000).

7. 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 32c per share in the

twelve-month period ended October 13, 1978. In the opinion of management, the Company has complied with the Anti-Inflation guidelines in all material respects.

8. Comparative figures

The 1976 comparative figures have been restated to conform with the 1977 presentation.

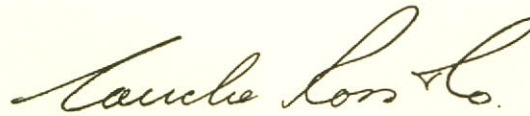
Auditors' Report

The Shareholders,
Gesco Distributing Limited.

We have examined the balance sheet of Gesco Distributing Limited as at September 30, 1977 and the statements of loss, 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 30, 1977 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 15, 1977.

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.



Worthington sponge rubber carpet cushion.



Armstrong tiles, vinyl sheet flooring, cushioned flooring.



Callaway carpets.



Caravelle carpets



Cardinal carpets, mosaics, ceramic wall tile, mats, matting, Karpet Kover.



Celanese carpets.



Congoleum fine floors.



GFC polyurethane, neocor, dencor, polyester fibre, foam and cushioning.



Ozite carpets.



Richmond carpets.



Roberts floorcovering accessories and installation tools.



007 adhesives.



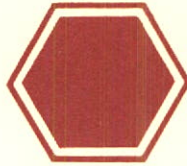
Polystar urethane carpet cushion.



Ezy-fit do-it yourself carpets.

ILLINGWORTH CARPETS

Illingworth carpet tiles.



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
Regina
Saskatoon
Calgary
Vancouver

GENERAL FOAM AND CUSHION

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

BRANCHES

Montreal
Winnipeg

GESCO WAREHOUSING & DISTRIBUTING
