Corporate Foods Limited

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Annual Report 1980

CORPORATE FOODS LIMITED

Divisions
Canada Bread
Dempster's Bread
Gainsborough Kitchens
Sunibake

Directors
Norman T. Currie
H. W. Blakely
R. G. Dale
L. D. Irwin
W. T. Murchie
J. A. Schollar
J. A. Telfer

Management
Norman T. Currie, President and Chief Executive Officer
R. H. Bonus, Senior Vice-President
L. D. Irwin, Vice-President and Secretary
D. W. Langlois, Vice-President, Finance
E. vanWijk, Vice-President, Sales and Marketing

T. A. Burns, Manager, Internal Audit
J. L. Chizick, Marketing Manager, Fresh Product Group
R. J. Cunningham, Manager, Distribution Systems
J. G. Foy, Manager, Employee Relations
G. B. Hicks, Plant Manager, Toronto
E. K. Kunz, Manager, Information Systems
F. Leithinger, Manager, Equipment Repair Centre
W. J. Lewicki, Manager, Production
M. J. MacIsaac, Manager, Purchasing
J. F. Maund, Sales Manager, National Accounts
D. M. Moore, General Sales Manager
P. A. Nelson, Director, Technical Services
L. J. Palko, Corporate Controller
F. A. Prime, Production Manager, Ottawa
E. E. Quigley, Manager, Route Planning
L. C. Rumohr, General Sales Manager, Sunibake Division, Ottawa
J. Segatti, Plant Manager, Toronto
W. F. Stubbs, Marketing/Sales Manager, Frozen Product Group
A. H. Telfer, Plant Manager, Toronto
A. A. Vesely, Production Controller
W. J. Worotny, Production Manager, London

Auditors
Clarkson Gordon, Toronto

Registrars and Transfer Agents
Canada Permanent Trust Company,
Toronto, Montreal, Winnipeg

Debenture Trustee
Canada Permanent Trust Company, Toronto


Dempster's Canadiana
Canadiana Country Bran
slow baked bread made from hard spring wheat, blended with bran
for flavour, goodness and important fiber for your diet.
24 oz 680 g
Dempster's Canadiana
Canadiana wheat'n oats
Dempster's Canadiana
Canadiana Stone Ground
Dempster's Canadiana
Canadiana Country Grains

Directors' Report

To Our Shareholders:

Net earnings of Corporate Foods Limited for the 52 weeks which ended December 27, 1980, were $1,501,971, or $4.58 per share, compared with $1,620,968, or $4.96 per share for the 52 weeks which ended December 29, 1979. Of these amounts, net earnings from Ontario operations accounted for $700,971 for the 1980 period compared with $799,334. The balance, $801,000 compared with $821,634, was from our equity in the net earnings of other bakery companies in Canada and abroad.

The decline in the earnings of our Ontario operations is attributable mainly to two factors; first, a price increase which we made to cover higher ingredient costs had to be rescinded because competitors tried to absorb these increases in their costs without raising their prices. Ultimately, they had to recognize these higher ingredient costs in their prices and when they did, we were able to do so as well. However, the enforced delay in reacting to sharply increased input costs affected our earnings by approximately $200,000 after tax.

The second factor was less significant. Operations of the Sunibake Division, which we acquired from Morrison Lamothe Limited, resulted in a minor loss after charging interest on the original investment. In addition, the distribution system of this division had to have an extensive overhaul. This project was completed early in 1981 and we now expect to achieve the results we had originally planned.

In this respect, it should be kept in mind that the increased total volume resulting from the acquisition has justified completion of a new roll line in our main Ottawa plant with resulting production efficiencies there.

In our past reports, we have noted the high level of capital expenditure which we had to accept in order to make our Company the most efficient in the industry. The fact that this objective is being attained is reflected in improved productivity during 1980. Direct and indirect labour productivity as measured in pounds produced per manhour, improved by 10.3 percent.

We expect further improvements in efficiency during 1981 and, for the longer term, believe we will be able to bring our Company's profitability at least to the food industry average.

With the satisfactory improvement in our plant operations, we will be able to concentrate on profitability at the sales end. As noted above, our level of profitability is below that for the food industry as a whole. In our Ontario operations, for instance, our level of profitability is only 8/10ths of 1 percent of sales. This is substantially below the figure for the food industry, which is 2.3 percent.

We do have the opportunity to at least match the food industry performance in this respect. The basic structure of our pricing and discounting needs to be redesigned and our plans for 1981 in these areas should, along with the cost efficiencies contribute to an improved ratio of profit to net sales.

Working capital at December 27, 1980, was $1,618,000 compared with $1,834,000 at December 29, 1979. Our plant expansion and modernization programmes have been completed and the resulting reduction in required capital expenditures will enable us to rebuild working capital.

Net sales increased from $63,970,000 in 1979 to $79,570,000 in 1980. For the most part, this increase reflects the inclusion of sales of the Sunibake Division for the full year together with price increases.

puff pastry
frozen dough ready to roll
Gainsborough
frozen ready to bake
12 tart shells
keep frozen
9oz 255g
Gainsborough
12 mini tart shells
frozen ready to bake keep frozen
7oz 198g
for savoury & sweet fillings
6 English muffins
frozen ready to heat
6 muffins à l'anglaise
Gainsborough
split for toasting
easi-dough
à garder congelée
pâte brisée congelée
20oz 567g
Gainsborough
3 pie shells
9" dia
15oz
425g
Gainsborough
keep frozen
à garder congelées
6 crumpets
frozen ready to heat
congelées prêtes à réchauffer
Gainsborough
3 croûte
profondes
old fashioned style
deepdish
pie shells
9" dia

Our Dempster's Division recorded dramatic increases in sales of the "Canadiana" wheat breads as consumers continue to favour whole grain products.

Dempster's pioneered the development of multigrain breads, such as "Stone Ground", and have continued to maintain their leadership. For 1981, the market plan includes the introduction of new products. We have identified several opportunities in this respect which satisfy our criteria for new products.

The Gainsborough Division had another record year with improved sales and earnings. For 1981, we are planning new product introductions and the development of new territories.

The dealer profit improvement programme, which we initiated three years ago, has reduced the total amount travelled by drivers and dealer/sales personnel by more than one million miles. This has given our sales people more selling time and, in addition, has reduced the cost of gas, oil and maintenance. We also believe that this has, in amount and by example, made a significant contribution to our country's energy conservation programme. We expect to make further savings in 1981.

The price increases for our products have unfortunately had to be quite substantial—a serious matter when it involves basic food. It should, however, be kept in mind that of the 13 cents increase in the price of a loaf of bread during 1980, 8 cents is directly attributable to the federal government's decision to increase the limit on the price of wheat sold for use in Canada from $5.00 per bushel to $7.00 per bushel. This was done to correspond to trends in world prices which did rise to bring the domestic price for Canadian wheat to the new upper limit. While a move to world pricing is desirable (as in the case for energy) it should have been achieved on a more gradual basis.

The effect at the consumer level of these policies on wheat pricing is another example of the contribution of government pricing and marketing policies to higher living costs made, apparently without recognizing the impact of such policies on those with low incomes and large families to support.

It is to be hoped that more thoughtful consideration of the impact of these policies will encourage the federal authorities to stay within the new $7.00 a bushel limit until July, 1982, which was the plan when the legislation was introduced last July.

In summary, 1980 was a difficult year and it was disappointing that profit levels were only barely maintained. However, we do expect improvement during 1981. The expectation is based, not only on the improved efficiency in both production and sales demonstrated in 1980, but also, and especially, on the performance of our strong management group and its dedication to the attainment of corporate goals. We also thank our employees and dealers for their strong support during 1980.

On behalf of the Board,

President and Chief Executive Officer

CORPORATE FOODS LIMITED
(Incorporated under the laws of Ontario)

Balance Sheet

December 27, 1980 (with comparative figures at December 29, 1979)

Assets	1980	1979
Current:		
Short-term investments, at cost (approximates market)	$ —	$ 33,436
Accounts receivable (note 2)	8,753,030	6,353,179
Income taxes recoverable	111,150	561,596
Inventories of ingredients, finished product and supplies at the lower of cost (first in, first out) and replacement cost	1,710,946	1,306,335
Prepaid expenses	168,874	131,030
	10,744,000	8,385,576
Investments:		
Shares of other bakery companies	4,010,158	3,576,092
Mortgages receivable	144,688	91,766
	4,154,846	3,667,858
Property, plant and equipment, at cost:		
Land	971,378	903,986
Buildings	5,797,477	5,613,476
Automotive equipment	570,477	338,061
Bakery and other equipment	17,511,663	16,232,836
	24,850,995	23,088,359
Less accumulated depreciation and amortization	11,193,521	10,034,076
	13,657,474	13,054,283
Other assets:		
Unamortized debenture discount	38,221	45,752
Goodwill	1,252,476	
	1,290,697	45,752
	$29,847,017	$25,153,469

On behalf of the Board:

NORMAN T. CURRIE, *Director*

W. T. MURCHIE, *Director*

(See accompanying notes to financial statements)

Auditors' Report

To the Shareholders of Corporate Foods Limited:

We have examined the balance sheet of Corporate Foods Limited as at December 27, 1980, and the statements of earnings and retained earnings and changes in financial position for the fifty-two week period then ended. Our examination of the financial statements of Corporate Foods Limited and of the companies accounted for by the equity method of which we are the auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. With respect to the financial statements of other companies accounted for by the equity method of which we are not the auditors, we have carried out such enquiries and examinations as we considered necessary to rely on the reports of their auditors.

Liabilities and Shareholders' Equity	1980	1979
Current:		
Bank loans and outstanding cheques (note 2)	$ 3,659,932	$ 1,668,961
Accounts payable and accruals	3,977,943	3,678,032
Payable to parent company	572,118	496,896
Dividends payable	17,188	17,188
Long-term debt—current portion (note 3)	638,671	332,899
Obligation under capital leases—current portion	260,142	251,932
Deferred income taxes—current portion	—	105,500
	9,125,994	6,551,408
Long-term liabilities:		
Long-term debt (note 3)	4,533,054	3,689,752
Obligation under capital leases	2,062,582	2,211,263
Deferred income taxes	2,803,000	2,186,000
	9,398,636	8,087,015
Shareholders' equity:		
Share capital—		
Authorized:		
50,000 $2.75 cumulative Series 'A' preference shares with a par value of $49 each, redeemable at $52.75		
1,000,000 common shares without par value		
Issued and outstanding:		
25,000 preference shares	1,225,000	1,225,000
312,940 common shares	133,748	133,748
	1,358,748	1,358,748
Retained earnings	9,963,639	9,156,298
	11,322,387	10,515,046
	$29,847,017	$25,153,469

(See accompanying notes to financial statements)

In our opinion, these financial statements present fairly the financial position of the company as at December 27, 1980 and the results of its operations and the changes in its financial position for the fifty-two week period then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Toronto, Canada,
February 18, 1981.

Clarkson Gordon
Chartered Accountants

Statement of Earnings and Retained Earnings

for the fifty-two weeks ended December 27, 1980
(with comparative figures for the fifty-two weeks ended December 29, 1979)

	1980	1979
Revenues:		
Net sales	$79,571,346	$63,969,959
Interest on short-term investments and other income	178,426	182,169
	79,749,772	64,152,128
Expenses:		
Cost of sales	67,519,843	54,037,618
Selling and administrative expense	8,703,325	7,120,396
Depreciation and amortization	1,557,064	1,068,201
Interest on long-term debt and on capital lease obligations	784,569	582,579
	78,564,801	62,808,794
Earnings before income taxes	1,184,971	1,343,334
Income taxes:		
Current	(26,500)	(71,000)
Deferred	510,500	615,000
	484,000	544,000
Earnings before equity in income of other bakery companies	700,971	799,334
Equity in income of other bakery companies	801,000	821,634
Net earnings for the period	1,501,971	1,620,968
Retained earnings, beginning of period	9,156,298	8,167,374
	10,658,269	9,788,342
Dividends—preference shares	68,750	68,750
—common shares	625,880	563,294
Retained earnings, end of period	$ 9,963,639	$ 9,156,298
Earnings per common share	$4.58	$4.96

(See accompanying notes to financial statements)

Statement of Changes in Financial Position

for the fifty-two weeks ended December 27, 1980
(with comparative figures for the fifty-two weeks ended December 29, 1979)

	1980	1979
Funds provided:		
Operations (excluding other bakery companies)	$2,895,118	$2,545,773
Dividends from other bakery companies	313,574	157,166
Obligation under capital leases	158,385	123,434
Proceeds from redemption of preferred shares of other bakery company	55,860	55,860
Proceeds from sale of fixed assets	75,373	—
Issue of notes payable	1,500,000	—
Issue of share capital	—	18,683
Total funds provided	4,998,310	2,900,916
Funds used:		
Purchases of fixed assets (including assets acquired under capital leases)	2,209,987	2,812,324
Reduction of long-term debt and obligation under capital leases	963,764	586,161
Investments in other bakery companies	2,500	—
Dividends	694,630	632,044
Issue of mortgages receivable	59,000	—
Purchase of goodwill	1,284,591	—
Total funds used	5,214,472	4,030,529
Decrease in working capital	(216,162)	(1,129,613)
Working capital, beginning of period	1,834,168	2,963,781
Working capital, end of period	$1,618,006	$1,834,168

(See accompanying notes to financial statements)

Notes to Financial Statements, December 27, 1980

1. **Accounting Policies:**

(a) Accounting for other bakery companies—
The Company accounts for its investment in other bakery companies in which ownership is 50% or less on the equity basis, whereby it recognizes in the accounts its proportionate share of those companies' earnings since acquisition rather than when realized through dividends. The excess of the cost of the Company's investment over the underlying value of the investees' net assets is not being amortized in respect of investments acquired before April 1, 1974; for investments made after this date, the excess is being amortized over 15 years.

(b) Assets under capital leases—
Certain leases, which in substance are purchases of fixed assets, are capitalized at the present value of their net minimum lease payments (note 4). Assets under capital leases are amortized on a straight-line basis over their estimated useful lives.

(c) Depreciation—
Depreciation is calculated on the straight-line basis at rates designed to amortize the cost of fixed assets over their estimated useful lives as follows:

Buildings	2%
Automotive equipment	20%
Bakery and other equipment	7½%-33⅓%

(d) Goodwill—
During the year, the Company acquired certain trademarks and distribution assets of the fresh baked division of Morrison Lamothe Inc. The goodwill, represented by the excess purchase price over the fair value of net assets acquired, is being amortized over forty years.

(e) Income taxes—
Income tax provisions in each year reflect available deductions for inventory and manufacturing and process allowances and investment tax credits.

2. **Bank Loans and Outstanding Cheques:** Accounts receivable have been pledged as collateral against bank loans.

3. **Long-term Debt:**

	1980	1979
7% mortgage payable, due November 1, 1981	$ 18,502	$ 43,600
Notes payable, prime bank lending rate plus ½% due September 1, 1983	390,000	520,000
9½% mortgage payable, due March 29, 1984	104,223	108,051
8½% Series 'A' sinking fund debentures, due December 15, 1988	3,159,000	3,351,000
Notes payable, prime bank lending rate due January 18, 1985	1,500,000	—
	5,171,725	4,022,651
Less current portion included in current liabilities	638,671	332,899
	$4,533,054	$3,689,752

Under the terms of a trust indenture, the sinking fund debentures are collateralized by a floating charge on the assets of the Company, and the Company is restricted from declaring common share dividends if net current assets fall below $400,000 after such declaration or if consolidated net assets are less than twice the amount of all long-term debt excluding capital lease obligations and deferred income taxes. Consolidated net assets are defined to include shareholders' equity plus deferred income taxes.
Debenture sinking fund instalments and other long-term debt maturities over the next five years are as follows:
1981—$638,671, 1982—$653,574, 1983—$672,019, 1984—$648,462, 1985—$579,000.

4. **Leases:**

(a) Fixed assets recorded under capital leases are as follows:

	1980	1979
Automotive equipment	$ 464,434	$ 338,061
Bakery and other equipment	2,534,076	2,534,076
	2,998,510	2,872,137
Less accumulated amortization	691,481	398,101
	$2,307,029	$2,474,036

(b) Payments under capital leases (including both principal and interest) are as follows:

1981	$ 439,495
1982	404,025
1983	399,014
1984	363,913
1985	337,512
Subsequent years	1,222,679
	3,166,638
Less interest component	843,914
Net total	$2,322,724

(c) The Company also leases property and equipment under agreements which are classified as operating leases. Minimum annual rentals under these leases over the next five years are as follows:

1981	$926,242
1982	662,966
1983	499,976
1984	289,722
1985	29,379

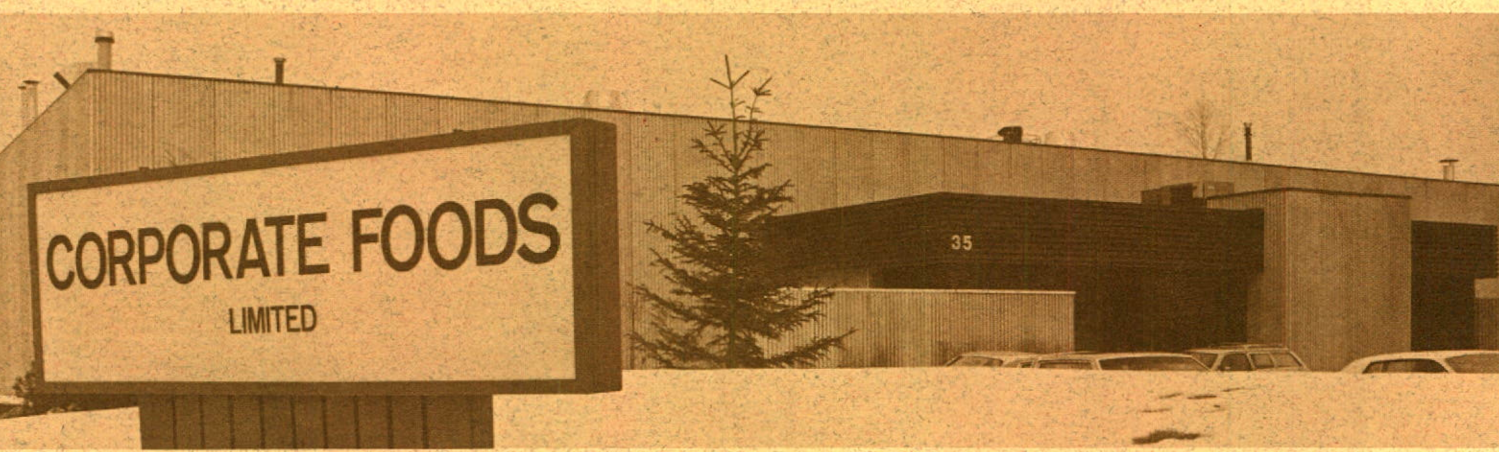
5. **Segmented information:** The Company operates primarily in a single industry consisting of the manufacture and sale of bakery products.

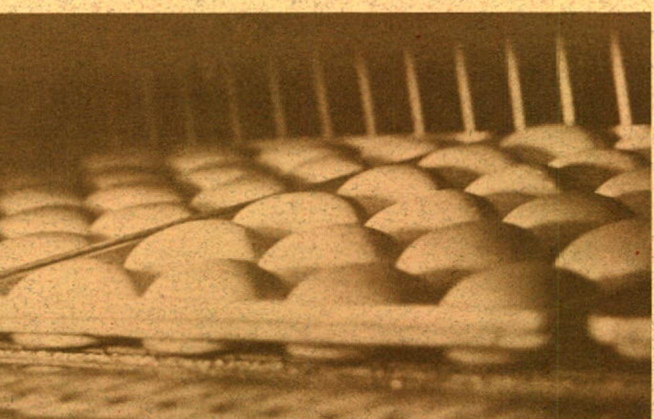
6. **Related party transactions:** A significant portion of cost of sales includes flour purchases substantially all of which are purchased from the parent company.
Management fee revenue and rent from equity accounted bakery companies and net revenue on sales to another related party represent approximately two-thirds of interest and other income.
Long-term debt includes approximately $400,000 in notes payable to related bakery companies at December 27, 1980. Interest on this indebtedness amounted to approximately $70,000 during the year.

Five Year Comparison

	Fifty-two Weeks ending December 27, 1980	Fifty-two Weeks ending December 29, 1979	Fifty-two Weeks ending December 30, 1978	Fifty-three Weeks ending December 31, 1977	Fifty-two Weeks ending December 25, 1976
Net sales - - - - - - -	$79,571,346	$63,969,959	$54,696,222	$52,583,744	$50,623,932
Operating profit before the following - - - - -	3,526,604	2,994,114	2,701,756	2,834,466	2,957,875
Depreciation and amortization - - - - -	1,557,064	1,068,201	946,600	811,762	776,880
Interest on long-term debt -	784,569	582,579	440,165	371,234	371,433
Income taxes—current - -	(26,500)	(71,000)	362,000	698,000	216,600
—deferred - -	510,500	615,000	197,000	(23,000)	589,800
Earnings before equity in income of other bakery companies - - - - - -	700,971	799,334	755,991	976,470	1,003,162
Equity in income of other bakery companies - - -	801,000	821,634	494,107	225,598	315,931
Net earnings - - - - -	$ 1,501,971	$ 1,620,968	$ 1,250,098	$ 1,202,068	$ 1,319,093
Number of common shares outstanding - - -	312,940	312,940	309,800	309,270	308,550
Earnings per common share - - - - - - - -	$4.58	$4.96	$3.82	$3.67	$4.05
Dividends declared per common share - - - -	$2.00	$1.80	$1.20	$ .80	$ .53


FRESH CHECK
FRAICHEUR VÉRIFIÉE
8 hot dog rolls


CORPORATE FOODS
LIMITED
35




Dempster's
Dempster's
specialty breads and rolls