128th ANNUAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30th.

1956

John Labatt Limited

LONDON · CANADA

128 ième RAPPORT ANNUEL

POUR L'ANNÉE TERMINÉE LE 30 S

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ANNUAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30

1956

Annual and Special General Meeting
of Shareholders

JANUARY 18, 1957

Directors

W. H. R. JARVIS	Toronto, Ontario
V. P. CRONYN	London, Ontario
R. G. IVEY, Q.C.	London, Ontario
HUGH A. MACKENZIE	London, Ontario
A. S. GRAYDON	London, Ontario
ARTHUR SULLIVAN, Q.C.	Winnipeg, Manitoba
LOUIS P. GÉLINAS	Montreal, Quebec
JOHN P. LABATT	Winnipeg, Manitoba

Officers

W. H. R. JARVIS	President
J. H. MOORE	Vice-President and General Manager
J. B. CRONYN	Vice-President, Production
J. D. VARNELL	Vice-President, Marketing
A. S. GRAYDON	Secretary
J. W. CARSON	Treasurer

Divisional Managers

N. E. HARDY	General Manager, Ontario
W. L. SHORTREED	General Manager, Quebec
JOHN P. LABATT	General Manager, Manitoba

Solicitors

Ivey, Livermore & Dowler, London

Auditors

Clarkson, Gordon & Co., London

Transfer Agents

The Canada Trust Company, Toronto and Winnipeg, The Royal Trust Company, Montreal, Vancouver and Halifax, and The Bank of Montreal Trust Company, New York, U.S.A.

Registrars

The Royal Trust Company, Toronto, Winnipeg and Halifax, The Bankers' Trust Company, Montreal, The Canada Trust Company, Vancouver, and The Bank of Montreal Trust Company, New York, U.S.A.

The Directors' Report

TO THE SHAREHOLDERS:

The Board of Directors submits herewith the 128th Annual Report of John Labatt Limited and its subsidiaries for the year ended September 30, 1956, together with the consolidated balance sheet, financial statements and auditors' report.

Conditions in the Industry

Industry sales volume did not reach expected levels in your Company's major markets due to unfavourable weather conditions which reduced demand during the high volume summer period.

The keenly competitive nature of the industry noted in the previous Report was intensified during the year and marketing costs consequently increased.

Generally speaking, other industry costs increased, too, particularly in the case of raw materials, labour and distribution.

Brewers absorbed these cost increases during the year and continued to carry the burden of heavy federal, provincial and municipal taxes which, in your Company's case, exceeded $18,000,000, or 650 percent more than the net profit earned by the Company.

Of grave concern against this background was the fact that certain provincial governments were looking to the brewers as a source of additional revenue. It was agreed throughout the industry that brewers could not absorb further government levies. In making representation to the governments involved, the industry suggested that in view of government surpluses there was no justification for increased taxation of any kind, much less further discrimination against the brewing industry which is already taxed disproportionately in relation to all but one other Canadian industry.

Your Company's Position

As a result of the unfavourable weather conditions and the intensified competition, your Company experienced a slight decrease in total sales. As the year ended, it was noted that sales in Manitoba and in certain areas of Ontario were improving in response to long-term marketing programs, and these improvements have since continued. Throughout the year sales increases were recorded in Quebec and these increases, which improved your Company's position in this market, were accelerated with the opening of the new brewery in June.

Highlights of the Financial Statements

Comparison of Financial Position

	1956	*1955*	*1954*
Shareholders' Equity	$21,641,294	$20,682,143	$18,437,840
Debentures and Mortgages	8,081,500	8,512,500	6,737,544
Fixed Assets	29,912,646	26,937,536	26,467,112
Accumulated Depreciation	11,721,881	10,275,344	10,058,585
Working Capital	8,238,002	6,738,135	5,642,362

Comparison of Earnings Per Share

	1956	*1955*	*1954*
Net Profits	1.89	2.43	2.29
Depreciation	1.38	1.31	1.23
Cash Income	3.27	3.74	3.52
Income Tax	1.38	2.09	2.12
Cash Income before Income Tax	4.65	5.83	5.64
Number of Shares Outstanding	1,254,995	1,254,995	1,254,995

Several factors affected profits during the year: (1) Reduced sales, especially during the summer months when the benefits of large volume production were lost, (2) Increased costs as already noted, (3) The cost of bringing the new Montreal brewery into production and establishing the Quebec Operating Division, and (4) New government regulations in Manitoba, particularly those which shortened beverage room hours. Further, the policy of claiming maximum depreciation allowable for tax purposes, initiated four years ago, has been continued. As a result, this year depreciation is $474,000 greater than would have been the case under the former policy. However, the year's operations have maintained the Company in a strong financial position and your Directors have approved continuance of the present annual dividend rate.

Production Facilities

Construction of the new Montreal plant was completed on schedule and well within the estimated cost. Brewing operations were commenced in the late spring and the brewery, one of the finest in the world, was officially opened on June 1st. The successful conclusion of this major expansion project is a credit to your Company's engineering and production staffs.

After many months of intensive effort by production and quality control staffs, brewing and bottling of Labatt's Pilsener and "50" Ale at Shea's Winnipeg Brewery Limited was started in August. Introduced to the Manitoba market at local prices, these brands found a ready acceptance and accounted for the year-end sales improvement referred to above.

Facilitating important refinements in the brewing of Crystal Lager Beer, a pure yeast culture plant and a water treatment plant were installed at the London Brewery during the year. This processing equipment is the most modern in Canada, providing new yeast for each brew and assuring from one brew to another the optimum and unvarying mineral content of the special process water.

No changes were made at the Toronto Plant in 1956.

During the year our production staffs at the various plants increased operating efficiency in a continuing effort to effect economies.

Research

The Research and Development Department continued its studies into product quality and processing techniques. One study this year resulted in the already mentioned refinements in the brewing of Crystal Lager Beer and the increased acceptance of this brand in the Ontario market. Other studies assisted in reducing certain production costs.

Personnel

Word of the death on March 31st of Hugh F. Labatt, Chairman of the Board and President of the Company, was received with sincere and very deep regret thoughout the organization. Joining the family firm in 1900 as a Junior, Mr. Labatt advanced through several posts to the position of Secretary-Treasurer in 1911. He was appointed Vice-President and Secretary-Treasurer in 1915 and in 1949 was named Chairman of the Board of Directors. In 1950, when he assumed the Presidency, he became the fourth Labatt to head the Company founded by his grandfather in 1847. For more than 50 years his far-sighted leadership and reasoned counsel were important factors in the Company's increasing success and progress, and his untiring effort was an inspiration to all. His wise and energetic direction will indeed be missed, and his passing represents a very great loss to the Company he served so long and so well.

The Board of Directors on Monday, June 18th, elected W. H. R. Jarvis, a Director of the Company for 16 years, to succeed Mr. Labatt as President. At the same time, Mr. Labatt's nephew, John P. Labatt, now General Manager of the Manitoba Division, was appointed to the Board to fill the vacancy left by his uncle's death.

Following Hugh A. Mackenzie's relinquishment of his duties as Executive Vice-President, your Directors in January appointed J. H.

Moore, formerly Treasurer and Director of Finance, to succeed him as Vice-President and General Manager.

At September 30, 1956, John Labatt Limited was owned by 5,471 Shareholders. Their confidence, interest and support is hereby gratefully acknowledged by the Directors.

In the growing Labatt organization there are now more than 2,000 employees and associates. The Directors greatly appreciated during the past year the very real effort of every officer, employee, distributor and agent in contributing to the Company's progress.

Of interest in 1956 was the signing at the London and Toronto plants of the first three-year Union agreements in the Company's history.

The Outlook

Your Directors are confident that the Company, with its sound financial basis, unsurpassed production facilities and internationally popular brands, will maintain and improve its position among the leaders in an industry which will continue to grow with expanding Canada.

By order of the Board of Directors,

President

November 26, 1956

Clarkson, Gordon & Co.
Chartered Accountants
291 Dundas Street
London
Canada

Montreal, Toronto, Hamilton
London, Winnipeg, Regina
Calgary, Edmonton, Vancouver

Principal cities of U.S.A.
Arthur Young, Clarkson, Gordon & Co.

Telephone 4-1628

AUDITORS' REPORT

To the Shareholders of
John Labatt Limited.

We have examined the consolidated balance sheet of John Labatt Limited and its wholly-owned subsidiaries as at September 30, 1956 and the consolidated statements of profit and loss and earned surplus for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated balance sheet and consolidated statements of profit and loss and earned surplus are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies as at September 30, 1956 and the results of their operations for the year ended on that date, according to the best of our information and the explanations given to us and as shown by the books of the companies.

As required by Section 118 of The Companies Act, Canada, we report that dividends received from partly-owned subsidiary companies have been included in consolidated net profit in an amount which is approximately equal to the interest of John Labatt Limited in the profits earned by such subsidiaries for the year ended September 30, 1956.

Clarkson, Gordon & Co.
Chartered Accountants

London, Canada,
November 26, 1956.

Consolidated Balance Sheet JOHN LABATT LIMITED

AND ITS WHOLLY OWNED SUBSIDIARIES **(Incorporated under the Laws of Canada)**

AS AT SEPTEMBER 30, 1956

(with comparative amounts as at September 30, 1955)

ASSETS

	1956	1955
CURRENT:		
Cash	$ 1,141,144	$ 1,603,151
Marketable securities and accrued interest—at cost which is approximately market value	4,746,602	4,017,078
Accounts receivable less allowance for doubtful accounts	1,611,913	1,572,809
Inventories as determined and certified by the management and valued as set out in Note 1	4,364,976	4,021,067
Prepaid expenses	306,291	254,932
	$ 12,170,926	$ 11,469,037
INVESTMENT IN PARTLY-OWNED SUBSIDIARIES AT COST LESS AMOUNTS WRITTEN OFF	$ 1,299,508	$ 1,394,980
FIXED AT COST:		
Land	$ 1,742,837	$ 1,687,722
Buildings	16,624,309	15,148,629
Machinery and equipment	9,854,541	8,600,735
Trucks and automobiles	1,396,040	1,351,652
Leasehold improvements and other deferred charges	294,919	148,798
	$ 29,912,646	$ 26,937,536
Less accumulated depreciation and amortization	11,721,881	10,275,344
	$ 18,190,765	$ 16,662,192
MARKETABLE SECURITIES SET ASIDE FOR COMPLETION OF PLANT ADDITIONS		$ 2,500,000
MORTGAGES, LOANS AND ADVANCES LESS ALLOWANCE FOR LOSSES	$ 1,563,019	$ 1,468,336
	$ 33,224,218	$ 33,494,545

LIABILITIES

	1956	1955
CURRENT:		
Accounts payable and accrued charges	$ 1,586,944	$ 1,593,179
Dividend payable October 1	376,499	313,749
Estimated taxes payable	1,537,981	2,392,974
Debenture and mortgage principal due within one year	431,500	431,000
	$ 3,932,924	$ 4,730,902
DEBENTURES AND MORTGAGES (Note 2)	$ 7,650,000	$ 8,081,500
CAPITAL AND SURPLUS:		
Capital—		
Authorized—1,500,000 common shares without par value		
Issued—1,254,995 common shares	$ 5,798,048	$ 5,798,048
Earned surplus (Note 3)	$ 15,843,246	14,884,095
	$ 21,641,294	$ 20,682,143
	$ 33,224,218	$ 33,494,545

On behalf of the Board

W. H. R. JARVIS
Director

V. P. CRONYN
Director

The attached "Notes to the consolidated financial statements" should be read with this statement.

JOHN LABATT LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARIES

Statement of Consolidated Profit and Loss

FOR THE YEAR ENDED SEPTEMBER 30, 1956
(with comparative amounts for 1955)

	1956	1955
Consolidated profit before deducting the following charges	$ 5,631,273	$ 7,201,800
Deduct:		
Depreciation and amortization	1,728,143	1,652,304
Interest on debentures and mortgages	330,501	300,397
	$ 2,058,644	$ 1,952,701
	$ 3,572,629	$ 5,249,099
Add:		
Dividends received from partly-owned subsidiaries less amount written off investment	283,438	291,050
Income from other investments	188,342	121,376
Profit on sale of investments and fixed assets	58,932	
Consolidated profit before taxes on income	$ 4,103,341	$ 5,661,525
Estimated taxes on income	1,732,000	2,617,000
Consolidated net profit	$ 2,371,341	$ 3,044,525
Note: The following expenses incurred by the company have been deducted in arriving at consolidated profits—		
Directors' fees	$ 6,750	$ 7,125
Executive remuneration and legal fees	158,095	160,573

Statement of Consolidated Earned Surplus

FOR THE YEAR ENDED SEPTEMBER 30, 1956
(with comparative amounts for 1955)

	1956	1955
Balance at beginning of year	$ 14,884,095	$ 12,639,792
Add:		
Consolidated net profit	2,371,341	3,044,525
Amount written off investment in a prior year	93,804	
Profit on disposal of fixed assets (net)		713,614
	$ 17,349,240	$ 16,397,931
Deduct:		
Dividends paid or declared	$ 1,505,994	$ 1,254,995
Expenses in connection with the redemption and sale of debentures		258,841
	$ 1,505,994	$ 1,513,836
Balance at end of year	$ 15,843,246	$ 14,884,095

JOHN LABATT LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARIES

Notes to the Consolidated Financial Statements

SEPTEMBER 30, 1956

NOTE 1—Inventories

Inventories at September 30, 1956 and 1955 are valued as follows:

	1956	1955
Beer and ale—at the lower of cost or market	$ 2,765,169	$ 2,800,234
Raw materials and supplies—at the lower of cost or market	643,221	500,911
Bottles—at redemption price	609,826	418,649
Kegs—at cost less amounts written off	346,760	301,273
	$ 4,364,976	$ 4,021,067

NOTE 2—Debentures and mortgages

Particulars of debentures and mortgages at September 30, 1956 and 1955 are as follows:

	1956	1955
Authorized (a)	$ 8,500,000	$ 8,500,000
Outstanding:		
4% serial debentures series "A" to mature in equal annual instalments of $425,000 each on March 1, 1956 to 1965 inclusive	$ 3,825,000	$ 4,250,000
4% sinking fund debentures series "A" to mature March 1, 1975 (sinking fund payment of $425,000 per annum commencing 1966)	4,250,000	4,250,000
Mortgages of subsidiaries of Shea's Winnipeg Brewery Limited—principal outstanding	6,500	12,500
	$ 8,081,500	$ 8,512,500
Deduct principal due within one year:		
4% serial debentures series "A" — March 1	$ 425,000	$ 425,000
Mortgages	6,500	6,000
	$ 431,500	$ 431,000
	$ 7,650,000	$ 8,081,500

(a) Under the provisions of the trust deed entered into on February 15, 1955 additional debentures may be authorized from time to time in an unlimited amount provided certain conditions are complied with.

NOTE 3—Earned surplus

The trust indenture relating to the debentures contains a provision whereby dividends may not be declared or paid which would reduce consolidated net current assets (as therein defined) below a certain level. At September 30, 1956 the consolidated net current assets (as so defined) were substantially in excess of such requirements.

NOTE 4—Long term lease

Under a lease entered into during the year ended September 30, 1955 in respect of the occupancy of premises sold by a subsidiary company, an annual rental of approximately $287,000 is payable for the next eight years and substantially reduced rentals are payable under renewal options covering additional periods totalling eight years.