provigo

Provigo Inc./Annual Report 1973

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Principal subsidiary companies

Provigo (Montreal) Inc.

Provigo (Ottawa) Inc.

Provigo (Quebec) Inc.

Provigo (Saguenay) Ltée

Provigo (Sherbrooke) Inc.

AVA Warehouse Market Ltd.

Beau Fruit Ltée

J. V. Hallé Inc.

Les Aubaines Alimentaires Ltée

Les Placements Denault Inc.

Annual Meeting

The Annual General Meeting of Shareholders will be held at the Commerce House, 1080 Beaver Hall Hill in Montreal, on Tuesday the 29th day of May 1973, at 10:30 a.m.

Vous pouvez obtenir la version française de ce rapport en vous adressant au Secrétaire, Provigo Inc., 800 ouest, boulevard Dorchester, Montréal 101, Quebec.

Provigo Inc.
Annual Report 1973

Results in Brief

	52 weeks ended January 27 1973	52 weeks ended January 29 1972	Increase in percentage
Sales	$251,966,000	$222,558,000	13.2%
Income before extraordinary items	2,849,000	2,202,000	29.4%
Extraordinary items	154,000	262,000	—
Net income	3,003,000	2,464,000	21.9%
Earnings per share			
Before extraordinary items	76¢	59¢	28.8%
After extraordinary items	80¢	66¢	21.2%
Dividends paid per share	21¢	17¢	23.5%

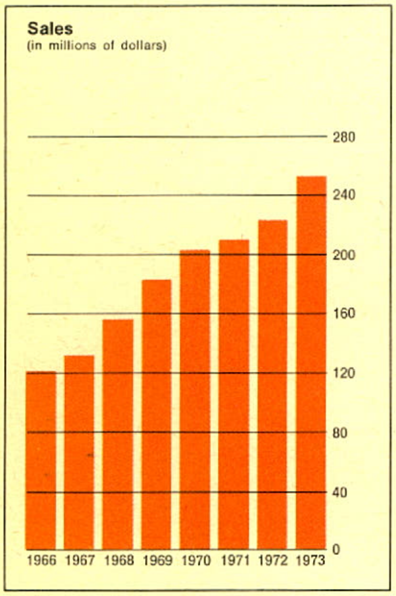
provigo

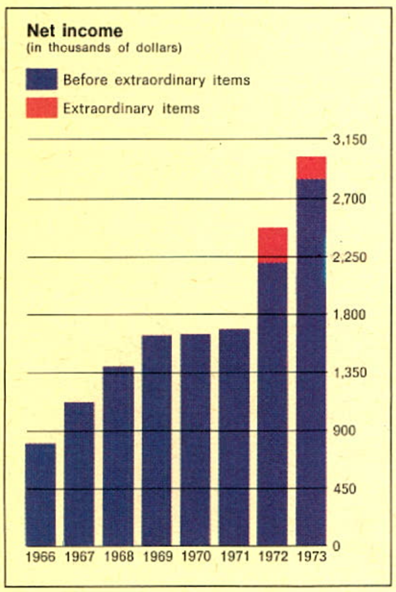
Report to the Shareholders

In 1972 the food industry shared in the growth of the Canadian economy. Poor weather conditions throughout North America, however, upset the balance in supply and demand for several agricultural commodities. Associated with ever increasing operating costs, particularly for labour, this situation was to lead to numerous price increases.

The food industry absorbed the effects of these influences for some time, but towards the end of the year appreciable price increases prompted several protests from consumers. A Government inquiry on food prices eventually revealed that the industry, far from taking advantage of the circumstances, was concentrating on reducing the effects of the price spiral. Provigo, in collaboration with its retailers, was able to keep to a minimum these inevitable but necessary increases.

Within this context of renewed economic activity, coupled with increasing costs and prices, Provigo completed another excellent year. On behalf of the Board of Directors, we are pleased to submit this 11th Annual Report reviewing results of operations and commenting on future activities.





Financial Review

Sales increased by more than $29,000,000, reaching $251,966,000. This amount includes the sales of Les Aubaines Alimentaires Ltée for twelve weeks beginning November 6, 1972, the date of its acquisition. Cumulative sales increases were 8.7% after 12 weeks, 11.5% after 28 weeks, 12.2% after 40 weeks, and 13.2% for the full year, a progression which vigorously underlines sales as the key element in a distribution operation.

Net earnings before extraordinary items were 29.4% higher, reaching a record level of $2,849,000 (76¢ per share). Extraordinary gains raised net earnings to $3,003,000 (80¢ per share) or 21.9% more than in the previous year.

During the past year the Company paid dividends, amounting to $784,000 to some 2,300 shareholders. For the second year in a row, the Directors raised the quarterly dividend by one cent, from 5¢ to 6¢ a share, effective January 1973.

Purchases of fixed assets totalled $3,065,000, excluding $1,200,000 pertaining to the consolidation of Les Aubaines Alimentaires Ltée. Depreciation charges amounted to $1,050,000. Working capital stands at $7,815,000, a reduction of $823,000. Capital expenditures for the current year are projected at about $6,000,000.

Review of Activities

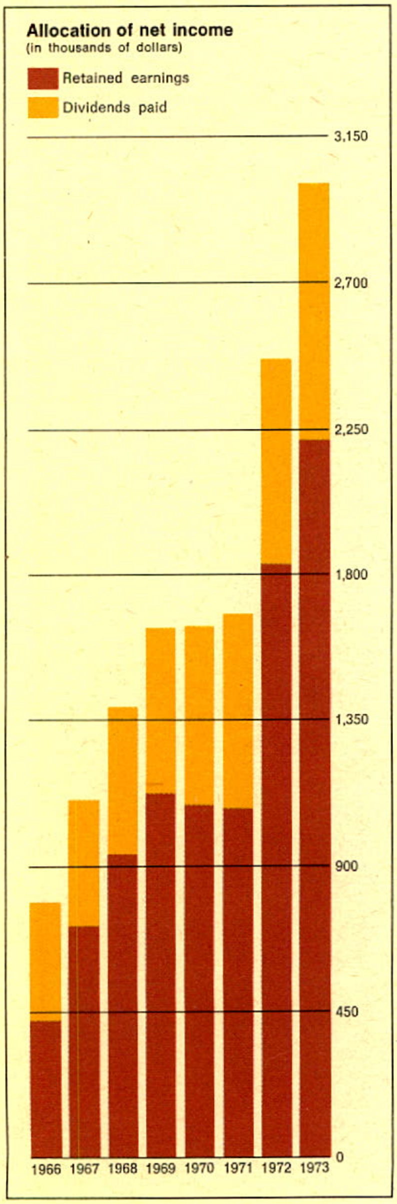
Classification of affiliated stores

The successful establishment of new group identities for the affiliated stores was one of the noteworthy achievements of the past year.

In last year's annual report, we announced our intention of regrouping the affiliated members operating under 19 voluntary banners. An intensive marketing and classification analysis suggested that three broad categories would fulfill the marketing and merchandising requirements of an independent grocer who joins a voluntary group.

Three new groups were thus established — **Provigain, Provibec, Provipop** — creating a family relationship and yet preserving the individuality of each group. Formally inaugurated between October 1972 and February 1973, they have been received with an enthusiasm that has both cemented relationships with present clients and permitted the intensification of a recruiting campaign.

We are pleased to note, at this point, that grocers affiliated with Provigo won 4 out of 6 prizes, including the award for the "Best Grocer of the Year", awarded by the Quebec Food Retailers Association.



Private Brand Products

The ever growing demand for "Provigo" brand products is most satisfying and encouraging. The more than 300 different items that now carry our private label have achieved a remarkable sales level as well as considerable favourable comments on their quality. This program is an important asset for the Company and a key merchandising tool for our clients.

Acquisition of "Les Aubaines Alimentaires Ltée"

On November 6, 1972, the Company acquired all of the outstanding shares of Les Aubaines Alimentaires Ltée, which owns and operates four supermarkets in the Trois-Rivières region: two are located in Trois-Rivières itself, one in Cap-de-la-Madeleine and one in Grand'Mère. Two stores are already being expanded and renovated. Having successfully followed a policy of discount pricing for many years, Les Aubaines Alimentaires presently has a yearly volume of some $12,000,000. Present management will remain with the Company.

AVA Warehouse Markets

This division's continued progress is evidenced by a considerable sales increase during the past year. AVA markets opened in Saint-Léonard, Lachine and St-Laurent, all on the island of Montreal, and in Granby, bringing the number of warehouse markets in this part of the organization to twelve. Three more, presently under construction in Cornwall, Drummondville and Laval, will open in 1973.

Certain improvements have been made in the AVA concept while preserving the original principle of "offering food products at discount prices in a context devoid of accessory services". Regular volume increases attest to continuing favourable consumer acceptance of this formula.

Convenience Stores

As a result of several market studies, Provigo intends to develop a chain of convenience stores called **"Provi-soir"**, with the first units opening in 1974. In addition to operating during conventional hours, these stores will respond to consumer needs by remaining open Sundays and every night. Industry statistics indicate that this market offers excellent potential; in the past year, convenience stores sales increased by 19% and openings by 14%.

The objectives of this endeavour are to generate additional sales, increase our share of this market and to permit several grocers to operate a business which promises an interesting future.

New Distribution Centre

Construction will commence in June 1973 on a new 300,000 sq. ft. distribution complex, the present one having become inadequate for our growing needs. The new centre will be built on 1,250,000 square feet of land located at the intersection of Industrial Boulevard and the Laval Autoroute in the City of Laval, a few miles from our present location.

The project is to be internally financed by working capital, but if any refinancing is deemed advisable, the Company is confident of achieving it on favourable terms.

Designed to permit future expansion to double its initial capacity, the warehouse will consolidate the distribution of dry groceries and frozen foods, to retailers and institutions in the Montreal region. We expect to move into the new centre in early 1974.

Other Developments

The Sept-Iles distribution centre was enlarged by 25,000 square feet and outfitted with modern equipment in order to share in the expansion of economic activity in the area.

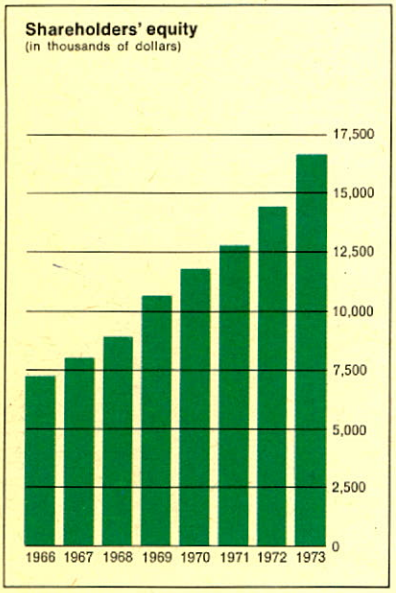
The Company, which owns and operates several PROVIGAIN supermarkets, now intends to further develop this program. In 1973, 4 new outlets are planned for shopping centres or other strategic locations in the communities of Ste-Foy, Charlesbourg, Montmagny and Chicoutimi.

The PRESTO Cash and Carry depots also had a good year. Three new units were added during the year in Sept-Iles, Hull and Thetford-Mines, the latter having been converted from a regular wholesale warehouse.

Administration

Four major labour agreements were renewed: three are for three-year terms, while the fourth is a two-year contract. The renewal of the agreement covering the Montreal area labour force was affected by a two-week work stoppage.

During the course of the past year, we completed the first stage of a data centralization project. This phase consisted of the creation of the programs and master files that will be instrumental in the collection of data from our distribution centres which will be linked to the central computer. This system was implemented in the Montreal distribution centre in October 1972.
When completed, the data centralization will result in improved control procedures as well as timely access to a data bank covering all aspects of our operations.
In 1973, we expect to connect another three or four of our distribution centres to this system.

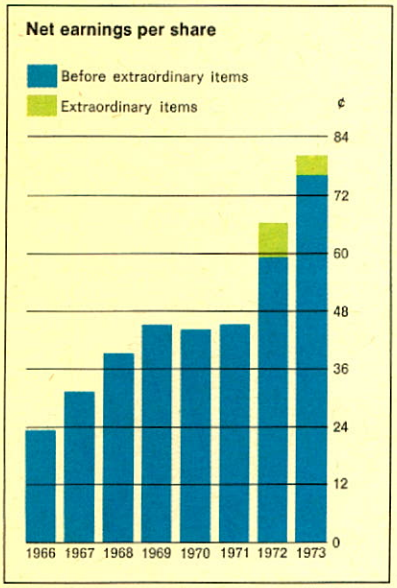


Outlook

This year the major priority will be granted to the increasing of sales.
The revamped merchandising program led by the new groups, the recruiting of new members, and the addition of new retail outlets, both conventional supermarkets and AVA warehouse markets, should all translate into accelerated sales growth.

The improvements in cost control procedures and productivity achieved during the past few years should contribute to a further increase in our present margin of net profit.

Competition will undoubtedly remain very keen in the food industry, but we are confident of attaining new highs in both sales and net earnings in fiscal year 1974.



In November 1972, Mr. Roland Provost retired as Vice-President and Director of the Company. A senior officer for many years, he contributed greatly to the progress and success of Provigo. We wish to express our most sincere appreciation for his active contribution to the affairs of the Company.

We take this opportunity to wholeheartedly thank our clients, suppliers, personnel and shareholders for their cooperation and constant support.

Chairman of the Board and Chief Executive Officer

President and General Manager

Montreal, April 30, 1973.

Consolidated Statement of Income

Year Ended January 27, 1973

	1973	1972
	(thousands of dollars)	
Net sales	$251,966	$222,558
Cost of sales and operating expenses (after deducting interest earned – $165,000 in 1973, and $148,000 in 1972)	244,382	216,128
Income before the undernoted deductions	7,584	6,430
Deductions:		
Depreciation (note 2)	1,050	868
Interest and amortization of financing expenses and discount on long-term debt	675	637
Other interest	234	306
	1,959	1,811
Income before income taxes and extraordinary items	5,625	4,619
Income taxes	2,776	2,417
Income for the year before extraordinary items	2,849	2,202
Extraordinary items (note 5)	154	262
Net income for the year	$ 3,003	$ 2,464
Earnings per share:		
Before extraordinary items	$0.76	$0.59
After extraordinary items	$0.80	$0.66

(See accompanying notes to financial statements)

Consolidated Balance Sheet
January 27, 1973

Assets

	1973	1972
	(thousands of dollars)	
Current		
Cash	$ 3,373	$ 3,254
Accounts receivable	6,378	5,997
Inventories, at the lower of cost and net realizable value	17,659	14,058
Short-term notes and mortgages receivable	165	215
Prepaid expenses and deposits	542	449
	28,117	23,973
Investments		
Long-term notes and mortgages receivable	919	895
Investments in associated companies and others, at cost	231	218
	1,150	1,113
Fixed (note 2)		
Land, buildings and equipment, at cost	19,208	15,674
Less accumulated depreciation	6,589	5,809
	12,619	9,865
Financing expenses and discount on long-term debt, balance to be amortized	306	339
Excess of cost of subsidiaries over value of their net tangible assets at dates of acquisition	4,410	3,429
	$46,602	$38,719

On behalf of the Board:

Antoine Turmel, *Director*

René Provost, *Director*

Liabilities

	1973	1972
	(thousands of dollars)	
Current		
Cheques issued and not paid	$ 4,664	$ 4,546
Bank loans	2,370	1,794
Accounts payable and accrued charges	9,507	7,256
Income and other taxes payable	2,965	1,119
Dividends payable	224	186
Current instalments on long-term debt	572	434
	20,302	15,335
Deferred income taxes	87	169
Long-term debt (note 3)	9,595	8,838
Shareholders' equity		
Capital stock (note 4)		
Authorized 7,000,000 common shares without par value		
Issued and outstanding 3,738,872 shares (1972 – 3,730,872)	5,062	5,002
Retained earnings	11,556	9,375
	16,618	14,377
	$46,602	$38,719

(See accompanying notes to financial statements)

Consolidated Statement of Retained Earnings
Year Ended January 27, 1973

	1973	1972
	(thousands of dollars)	
Balance at beginning of year	$ 9,375	$ 7,730
Add:		
Net income for the year	3,003	2,464
	12,378	10,194
Deduct:		
Dividends declared and paid during the year	598	633
Dividends declared and payable during the following year	224	186
	822	819
Balance at end of year	$11,556	$ 9,375

(See accompanying notes to financial statements)

Consolidated Statement of Source and Application of Funds

Year Ended January 27, 1973

	1973	1972
	(thousands of dollars)	
Source of funds		
Net income for the year	$3,003	$2,464
Depreciation	1,050	868
Amortization of financing expenses and discount on long-term debt	33	35
Decrease in deferred income taxes	(82)	(99)
Funds from operations	4,004	3,268
Increase of long-term debt	757	4,418
Sale of fixed assets	461	551
Issue of shares	60	13
	5,282	8,250
Application of funds		
Purchase of fixed assets	4,265	1,660
Increase in investments	37	297
Financing expenses and discount on long-term debt	—	201
Increase in excess of cost of subsidiaries	981	13
Dividends	822	819
	6,105	2,990
Net increase (decrease)	(823)	5,260
Working capital at beginning of year	8,638	3,378
Working capital at end of year	$7,815	$8,638

(See accompanying notes to financial statements)

Auditors' Report

To the Shareholders of Provigo Inc.

We have examined the consolidated balance sheet of Provigo Inc. and its subsidiaries as at January 27, 1973 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended, and have obtained all the information and explanations we have required. Our examination of the financial statements of Provigo Inc., and those subsidiaries of which we are the auditors, 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. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion and according to the best of our information and the explanations given to us, and as shown by the books of the companies, these consolidated financial statements are drawn up so as to exhibit a true and correct view of the state of the affairs of the companies as at January 27, 1973, and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Canada, April 16, 1973.

CLARKSON, GORDON & CO.
Chartered Accountants

Notes to Consolidated Financial Statements

January 27, 1973

1. Principles of consolidation

The consolidated financial statements include the accounts of the Company and all its subsidiaries. The results of operations of a subsidiary acquired during the year are included in the consolidated statement of income from the date of acquisition.

2. Fixed assets

	Cost	Accumulated depreciation	Net book value 1973	Net book value 1972
		(thousands of dollars)		
Land	$ 2,072	$ —	$ 2,072	$1,864
Buildings	8,911	1,705	7,206	5,361
Equipment	8,225	4,884	3,341	2,640
	$19,208	$6,589	$12,619	$9,865

The companies follow the policy of depreciating their fixed assets in accordance with the straight-line method at the rates of 2½% and 5% for buildings, and of 10% and 12½% for equipment, except for automotive equipment, which is depreciated at the rate of 30% in accordance with the diminishing balance method.

3. Long-term debt

	1973	1972
	(thousands of dollars)	
Provigo Inc.		
6% Sinking fund debentures, series A, maturing January 15, 1985	$ 749	$ 790
8¼% Serial debentures, maturing July 15, 1981	3,000	3,000
9½% Sinking fund debentures, series B, maturing July 15, 1991	2,000	2,000
Provigo (Sherbrooke) Inc.		
6½% Sinking fund debentures, series A, maturing November 1, 1976	588	678
Provigo (Saguenay) Ltée		
6¼% Sinking fund debentures, series A, maturing March 15, 1980	957	982
Other long-term debt		
Notes, mortgages and other long-term debt, varying maturity dates until 1992 of which $1,800,000 are guaranteed ($1,435,000 in 1972)	2,873	1,822
	10,167	9,272
Less portion shown in current liabilities	572	434
	$ 9,595	$8,838

Minimum annual instalments on long-term debt due in each of the five years following January 27, 1973 are:

1974	$ 572,000
1975	912,000
1976	811,000
1977	1,206,000
1978	715,000
	$4,216,000

4. Capital stock

During the year the Company issued 8,000 shares for a cash consideration of $60,000 as a result of options being exercised.

As at January 27, 1973 the Company had reserved 132,050 shares for issuance under the following options granted to key employees:

Number of shares	Price	Exercisable to
5,800	$5.00	October 1, 1973
16,250	8.31	January 8, 1974
85,000	9.83 (min.)	May 23, 1974
25,000	8.75	January 11, 1979
132,050		

5. Extraordinary items

	1973	1972
Net gain on sales of fixed assets, including a recovery of income taxes of $44,000	$128,000	$ —
Recovery of income taxes as a result of the carry-forward of a subsidiary's losses of prior years	26,000	62,000
Gain on sale of a subsidiary	—	200,000
	$154,000	$262,000

6. Commitments

The basic annual rental under long-term leases expiring more than three years after January 27, 1973 aggregates $792,000 of which $735,000 relate to immovable properties and $57,000 to equipment.

At January 27, 1973 certain companies had guaranteed various loans aggregating $220,000 and a long-term lease expiring in 1989 with an annual rental of $26,000.

7. Pension plan

On January 1, 1973 the Company introduced a pension plan covering its management personnel. At January 27, 1973 the unfunded prior service pension costs were $580,000 and these will be funded over the next 18 years.

8. Remuneration of senior officials

The total remuneration paid in 1973 by the Company and its subsidiaries to the Company's directors and senior officers amounts to $425,000.

Eight-Year Review

Operating Results (in thousands of dollars)	1973	1972	1971	1970 (2)	1969 (3)	1968	1967	1966
Sales	$251,966	$222,558	$209,035	$202,366	$182,230	$155,860	$131,157	$120,363
Income before depreciation, income taxes and extraordinary items	6,675	5,487	4,514	4,212	4,085	3,520	2,808	2,072
Depreciation	1,050	868	864	685	606	602	560	525
Income taxes	2,776	2,417	1,975	1,888	1,842	1,528	1,144	754
Income before extraordinary items	2,849	2,202	1,675	1,639	1,637	1,390	1,104	793
Extraordinary items	154 (1)	262 (1)	—	—	—	—	—	—
Net income	3,003	2,464	1,675	1,639	1,637	1,390	1,104	793
Dividends paid	784	633	596	548	511	453	387	368
Financial position (in thousands of dollars)								
Working capital	$ 7,815	$ 8,638	$ 3,378	$ 3,681	$ 4,339	$ 4,344	$ 4,482	$ 3,715
Fixed assets (Net)	12,619	9,865	9,624	9,224	7,877	7,342	6,964	7,127
Total assets	46,602	38,719	37,312	37,940	34,909	28,108	26,594	23,185
Long-term debt	9,595	8,838	4,420	5,453	5,622	5,647	6,184	6,004
Shareholders' equity	16,618	14,377	12,719	11,703	10,598	8,886	7,954	7,208
Performance								
Net earnings per share								
Before extraordinary items	76¢	59¢	45¢	44¢	45¢	39¢	31¢	23¢
After extraordinary items	80¢	66¢	45¢	44¢	45¢	39¢	31¢	23¢
Dividends per share	21¢	17¢	16¢	16¢	14¢	12.8¢	10.9¢	10.5¢
Return on average shareholders' equity								
Before extraordinary items	18.4%	16.3%	13.7%	14.7%	16.8%	16.5%	14.6%	11.0%
After extraordinary items	19.4%	18.2%	13.7%	14.7%	16.8%	16.5%	14.6%	11.0%
Shares outstanding at year end (in thousands)	3,739	3,731	3,726	3,722	3,652	3,550	3,537	3,507

(1) See note (5) to the Consolidated Financial Statements for the year ended January 27, 1973.

(2) The financial results for 1970 are based on the unaudited statements for the 52 week period ended January 31, 1970.

(3) The 1966 to 1969 results are the combination of the respective financial years of Provigo Inc., Provigo (Sherbrooke) Inc., and Provigo (Saguenay) Ltée, formely Couvrette & Provost Ltée, Denault Limitée and Lamontagne Limitée.

Over the years, nineteen voluntary groups, each operating under a different banner, were formed or became affiliated through mergers with Provigo. A meaningful corporate image at the retail level became, however, extremely difficult to project despite a sizeable promotional budget.

A new dimension was thus required that would both identify and enhance the diverse character of individual members, linking them all to Provigo.

The straightforward application of the Provigo name and logo to so many different groups would not have achieved this purpose. Thus evolved **Provigain, Provibec,** and **Provipop,** all visually and graphically related to the established Provigo identity.

With these new identities, the affiliated independent retailers at every level now enjoy a broad but unified corporate image, as well as the full impact of being associated to "Provigo" branded products.

provigain

Designed to give each merchant a professional appearance and to avoid the undue categorization of prestige in belonging to one or another of the banners, the new names and their graphic portrayal provide the affiliates with a fully integrated sales and marketing program.

This formula is an important factor in the total merchandising mix of the Provigo affiliate. The real success, we feel, lies in the ability to adapt, within the new groups, to the particular type that is best suited to the needs of any prospective market.

The overall image is successfully transmitted by the "PROVI" prefix and is portrayed by the uniform use of Provigo's distinctive lettering style and the bright orange centre of each logo.

A distinctive logo identifies each group: a bright sun for **Provigain,** the leafy design for **Provibec,** and an "op-art" lighting effect for **Provipop.**

provibec

The launching of this important new development was accompanied by a major multi-media promotional campaign, and spearheaded by a sixteen-week **"Provigala"** contest from March 19th to June 30th, offering prizes totalling $150,000. To launch this most innovative campaign, Provigo sponsored within the framework of Radio Canada's highly acclaimed and prestigious television series "Les Beaux Dimanches", a T.V. special entitled "A ta santé, Jacques!", a tribute to Jacques Normand, one of Canada's most renowned French speaking entertainers.

Provigala's objectives are:

1. To acquaint the consumer with the Provigo family and increase the goodwill of the affiliated stores.

2. To convince the consumer that Provigo-affiliated retailers offer quality products at competitive prices along with the excellent personal services that are the trademark of the independent grocer.

3. To encourage maximum consumer participation in the contest through:

Easy access to the contest.
Intensive point of sales encouragement.
Developing a continuing and warm relationship between the consumer and the retailer.

provigala

provipop

Board of Directors

Marcel Bélanger, C.A.

Bernard Couvrette, Q.C.

The Hon. Paul Desruisseaux, Q.C.

Claude Genest

H. N. R. Jackman, L.L.B.

Jacques Lagassé, N.P.

*Jean-Louis Lamontagne

*René Provost

*Gaston Roy

*J. A. Tremblay

*Antoine Turmel

*Member of the Executive Committee.

Officers

Antoine Turmel,
chairman of the board
and chief executive officer

René Provost,
president and general manager

Jean-Louis Lamontagne,
1st vice-president

J. A. Tremblay,
2nd vice-president

Pierre H. Lessard, C.A.,
vice-president,
finance and administration, and treasurer

Alfred Martel,
vice-president, sales

Ernest Provost,
vice-president,
warehousing and traffic

Gaston Roy,
vice-president, marketing

Gérard Carrière,
secretary

Bankers
Provincial Bank of Canada
Bank Canadian National

Auditors
Clarkson, Gordon & Co.

Registrars and transfer agents
General Trust of Canada,
Montreal.

Guaranty Trust,
Toronto

Head Office
800 Dorchester Boulevard West,
Montreal 101, Quebec