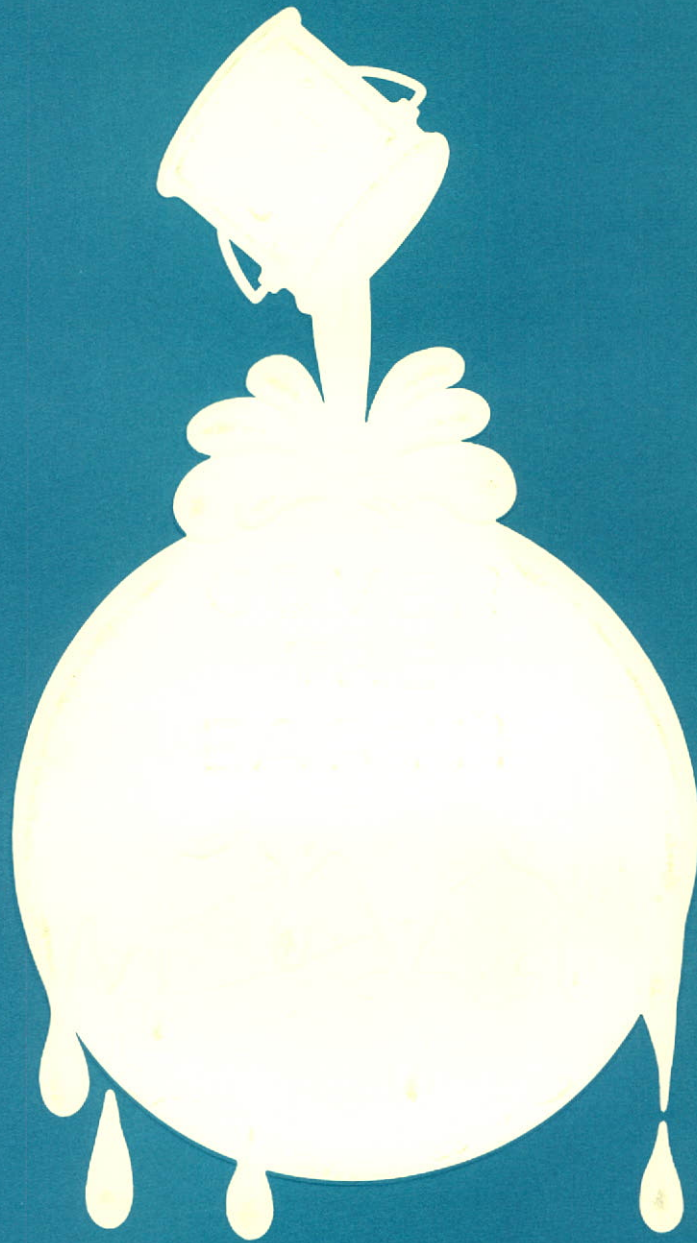


ANNUAL REPORT 1965



PURVIS HALL

THE SHERWIN-WILLIAMS COMPANY

NOV 4 1965

OF CANADA, LIMITED

THE SHERWIN-WILLIAMS COMPANY
OF CANADA, LIMITED
AND SUBSIDIARIES

FINANCIAL HIGHLIGHTS

	1965	1964
Net sales	36,120,471	35,369,794
Income Before Taxes on Income	1,468,359	1,869,927
Taxes on Income — estimated	643,000	850,000
Net Income	825,359	1,019,927
Per Share of Common Stock	2.60	3.46
Cash Dividends Declared:		
Preferred	242,200	242,200
Common	382,024	292,136
Working Capital	11,540,634	11,330,386
Ratio of Current Assets to Current Liabilities	3.18 to 1	4.21 to 1
Expenditures for Plant Additions	567,907	381,543
Provision for Depreciation	363,098	383,726
Shareholders Equity:		
Preferred	3,460,000	3,460,000
Common	10,260,480*	12,159,345
Outstanding Shares at August 31:		
Preferred	34,600	34,600
Common	224,720	224,720
Number of Shareholders at August 31:		
Preferred	509	545
Common	470	472
Number of Employees at August 31	1,738	1,752

*See Note A to the financial statements for explanation of special charge to earned surplus.

TO THE SHAREHOLDERS:

The Consolidated Balance Sheet and the Consolidated Income and Earned Surplus Statement for the Sherwin-Williams Company of Canada, Limited and its subsidiaries at the close of the fiscal year August 31, 1965 are presented herewith. The report on the examination of the financial statements of the Company by your auditors, Messrs. Ernst and Ernst, is also presented.

After depreciation and after all deductions, but before taxes on income, profits from operations amounted to \$1,468,359 against \$1,869,927 last year. After provision for income tax net income amounted to \$825,359 against \$1,019,927 last year, a decrease of 19% approximately. Net income per share of Preferred Stock amounts to \$23.85 against \$29.47 last year, and after dividend on the Preferred to \$2.60 per share on the Common Stock against \$3.46 last year.

It will be noted that there was a modest increase in total sales but sales of paints to markets affected by the 11% Federal Sales Tax were somewhat disappointing. Excessive buying by dealers during the previous fiscal year, in the months immediately prior to the imposition of instalments of the tax, resulted in their inventories being higher than normal. As a consequence, during a substantial part of the period under review, their purchases at the higher prices were restricted. The disruptive effects of the 11% Federal Sales Tax caused distortions and difficulties with results apparent from the figures in the Earnings Statement and Balance Sheet. Sales made by the paint manufacturing industry in general, and by suppliers to the building trade, were similarly affected.

The profit earned by the Winnipeg Paint and Glass Company Limited, which is dependent entirely on the construction industry, was lower as a direct consequence of the application of the 11% Federal Sales Tax on building materials.

In all of our other operations, sales and results in general showed a satisfactory improvement. The Green Cross (Agricultural Chemicals) Division achieved record sales, as did the E. Harris Company which specializes in Graphic Arts products. Sales to industrial users of paint and to the automotive re-finish market were appreciably higher than in the previous fiscal year, and our branch operations were again very satisfactory.

During the year ten new branches were opened, bringing the total in operation to 126, and three were relocated. These new openings were partly responsible for increased branch expenses but, in due course, higher profits from branch operations will result.

Additions were made to the Data Processing applications started during last fiscal year, and there was, as a consequence, an increase in expenses because of the temporary duplication of clerical work. Within a few months very much of the considerable volume of data required for management controls will come

from computer applications, giving us the means of effecting improvements in management techniques, and ultimately, reducing operating expenses in several departments.

A contract for the construction of our new Research and Development Laboratory was signed and construction started in the early summer. It will be completed and in use during 1966, and it will enable us to undertake new research projects, to obtain more efficient technical operations and development activities so very necessary in this highly competitive industry.

At the Annual Shareholders' Meeting held on December 3, 1964, Mr. John A. Fuller was elected to the Board of Directors. Mr. Fuller is well known on the Canadian industrial and financial scene and we consider ourselves most fortunate to have available to us his experience and ability.

Further reorganization of management responsibilities was undertaken and completed successfully during the year. To those of our staff concerned we wish to pay a special tribute and to thank all our employees for their efforts during a somewhat difficult year.

E. C. Baldwin

Chairman

Sidney King

President

MONTREAL, QUEBEC

October 14, 1965

THE SHERWIN-WILLIAMS COMPANY

	<i>Assets</i>	
	August 31,	
	1965	1964
<i>Current Assets</i>		
Cash	\$ 51,500	\$ 607,787
Trade accounts receivable, less allowances for doubtful accounts of \$142,000 in 1965 and \$140,000 in 1964	7,018,828	6,344,226
Inventories — principally at the lower of cost (average or first-in, first-out method) or market:		
Finished merchandise	7,366,467	5,790,977
Work in process, raw materials, and supplies	2,399,986	2,116,760
	<u>\$ 9,766,453</u>	<u>\$ 7,907,737</u>
TOTAL CURRENT ASSETS	<u>\$16,836,781</u>	<u>\$14,859,750</u>
<i>Investments and Other Assets</i>		
Common shares of the Carter White Lead Company of Canada Limited, (50% owned) — at cost	\$ 200,000	\$ 200,000
Miscellaneous receivables and advances	58,094	123,905
	<u>\$ 258,094</u>	<u>\$ 323,905</u>
<i>Property, Plant, and Equipment</i>		
— on the basis of cost — Note B:		
Land	\$ 591,893	\$ 639,879
Buildings	4,524,308	4,380,852
Machinery and equipment	7,398,541	7,142,750
Less allowances for depreciation	8,714,636	8,504,248
	<u>\$ 3,800,106</u>	<u>\$ 3,659,233</u>
<i>Deferred Charges</i>		
Advertising stock and supplies	\$ 180,748	\$ 182,271
Prepaid insurance and other items	127,098	123,550
	<u>\$ 307,846</u>	<u>\$ 305,821</u>
	<u>\$21,202,827</u>	<u>\$19,148,709</u>

See notes to the consolidated financial statements.

CANADA, LIMITED AND SUBSIDIARIES

<i>Liabilities, Capital Stock, and Surplus</i>	August 31,	
	1965	1964
<i>Current Liabilities</i>		
Owing to bank	\$ 568,988	\$ —0—
Trade accounts payable	3,453,716	1,869,369
Payrolls, compensation, and other accruals . .	714,181	1,006,538
Taxes, other than taxes on income	372,952	200,401
Taxes on income	186,310	453,056
TOTAL CURRENT LIABILITIES	\$ 5,296,147	\$ 3,529,364
<i>Unfunded Pension Costs Reduced to a Net of Tax basis</i>		
— Note A	2,100,000	—0—
<i>Deferred Taxes on Income</i>		
— Note B	86,200	—0—
<i>Capital Stock and Surplus</i>		
Capital stock:		
Preferred shares, 7% cumulative, par value		
\$100 per share:		
Authorized — 40,000 shares		
Outstanding — 34,600 shares	\$ 3,460,000	\$ 3,460,000
Common shares, no par value:		
Authorized — 225,000 shares		
Outstanding — 224,720 shares	224,720	224,720
Earned surplus	10,035,760	11,934,625
	\$13,720,480	\$15,619,345
	\$21,202,827	\$19,148,709

Approved on behalf of the Board:

H. G. Welsford, Director

J. A. Fuller, Director

STATEMENTS OF CONSOLIDATED INCOME AND EARNED SURPLUS

THE SHERWIN-WILLIAMS COMPANY
OF CANADA, LIMITED
and subsidiaries

	Year Ended August 31,	
	1965	1964
<i>Income</i>		
Net sales	\$36,120,471	\$35,369,794
Dividends received	50,000	45,000
Miscellaneous	28,796	139,016
	\$36,199,267	\$35,553,810
Deductions from income:		
Cost of products sold	\$23,156,329	\$22,245,419
Selling, general, and administrative expenses . . .	10,960,448	10,863,140
Pensions — Note A	314,578	257,436
Interest expense	197,707	143,940
Remuneration of officers and directors' fees . . .	101,846	173,948
	\$34,730,908	\$33,683,883
INCOME BEFORE TAXES ON INCOME . . .	\$ 1,468,359	\$ 1,869,927
Taxes on income:		
Payable currently	\$ 518,550	\$ 850,000
Deferred — Note B	124,450	—0—
	\$ 643,000	\$ 850,000
NET INCOME	\$ 825,359	\$ 1,019,927
Provisions for depreciation included above amount to \$363,098 in 1965 and \$383,726 in 1964.		
Comparative accounts for the year ended August 31, 1964, have been reclassified to conform with the current year presentation		
<i>Earned Surplus</i>		
Balance at beginning of year	\$11,934,625	\$11,449,034
Deduct amount of unfunded pension costs reduced to a net of tax basis — Note A	2,100,000	—0—
	\$ 9,834,625	\$11,449,034
Net income for the year	825,359	1,019,927
	\$10,659,984	\$12,468,961
Cash dividends declared:		
Preferred — \$7.00 per share	\$ 242,200	\$ 242,200
Common — \$1.70 per share (1964 — \$1.30) . . .	382,024	292,136
	\$ 624,224	\$ 534,336
Balance at end of year	\$10,035,760	\$11,934,625

See notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

THE SHERWIN-WILLIAMS COMPANY
OF CANADA, LIMITED
and subsidiaries

August 31, 1965

- Note A — Liability for unfunded past costs of the pension plan, reduced to a net of tax basis, has been provided for by a charge to earned surplus. Operations for the year have been charged with current service costs of pension, which are not significantly higher than payments to pensioners, which was the basis of charge in prior years.
- Note B — Research facilities under construction will be completed at an estimated additional cost of \$1,180,000. Approval has been received for qualification of these facilities, based on intended use, for existing tax benefits. The applicable incentive tax saving of \$38,250 has been credited to allowances for depreciation and will be amortized over the useful lives of the facilities. The tax reduction of \$86,200 resulting from claiming as capital cost allowance the full cost to date of the facilities, has been deferred to be used in future years when depreciation, based on useful lives of the facilities, will be charged to operations but will not be allowed for tax purposes.

ACCOUNTANTS' REPORT

To the Shareholders,

THE SHERWIN-WILLIAMS COMPANY
OF CANADA, LIMITED

We have examined the consolidated balance sheet of the Sherwin-Williams Company of Canada, Limited and its subsidiaries as of August 31, 1965, and the related statements of consolidated income and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of income and earned surplus present fairly the consolidated financial position of The Sherwin-Williams Company of Canada, Limited and its subsidiaries at August 31, 1965, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles which have been applied, except for the change referred to in Note A which we consider proper, on a basis consistent with that of the preceding year.

ERNST & ERNST
Chartered Accountants.

MONTREAL, QUE.
September 28, 1965.

THE SHERWIN-WILLIAMS COMPANY
OF CANADA, LIMITED

Executive Offices 2875 CENTRE STREET, MONTREAL 22, CANADA

Factories Montreal, Toronto, Winnipeg, and Vancouver
and Warehouses Distributing Warehouses and Branches in principal cities

Manufacturers of PAINTS, VARNISHES and ENAMELS for buildings,
for industry, for automobiles, and for marine uses
GREEN CROSS INSECTICIDES, PESTICIDES
and AGRICULTURAL CHEMICALS
The E. Harris Company range of GRAPHIC ARTS products
SUPER KEM-TONE, KEM-GLO, KEM-GLO VELVET and
KEM HI-GLOSS, the world's largest selling paints for home owners

<i>Directors</i>	E. COLIN BALDWIN	A. M. HECTOR	C. E. RECKITT
	R. F. CURLEY	SIDNEY LING	A. W. STEUDEL
	J. A. FULLER	T. R. McLagan	H. G. WELSFORD

<i>Officers</i>	A. W. STEUDEL	<i>Honorary Chairman</i>
	E. COLIN BALDWIN	<i>Chairman</i>
	SIDNEY LING	<i>President and Managing Director</i>
	R. F. CURLEY	<i>Executive Vice-President and Director of Sales</i>
	C. E. RECKITT	<i>Vice-President and Secretary-Treasurer</i>
	A. M. HECTOR	<i>Vice-President and Director of Distribution</i>

THE CANADA PAINT COMPANY LIMITED

Head Office, 2859 Centre Street, Montreal, P.Q.

THE E. HARRIS COMPANY LIMITED

Head Office, 1 Leslie Street, Toronto, Ont.

THE LOWE BROTHERS COMPANY LIMITED

Head Office, 263 Sorauren Ave., Toronto, Ont.

THE MARTIN-SENOUR COMPANY LIMITED

Head Office, 2875 Centre Street, Montreal, P.Q.

THE WINNIPEG PAINT AND GLASS COMPANY LIMITED

Head Office, 179 Pioneer Ave. East, Winnipeg, Man.

