

HEAD OFFICE: WALKERVILLE, ONTARIO

Annual Report of  
Hiram Walker-Gooderham & Worts Limited

*For the year ended August 31*

**1943**



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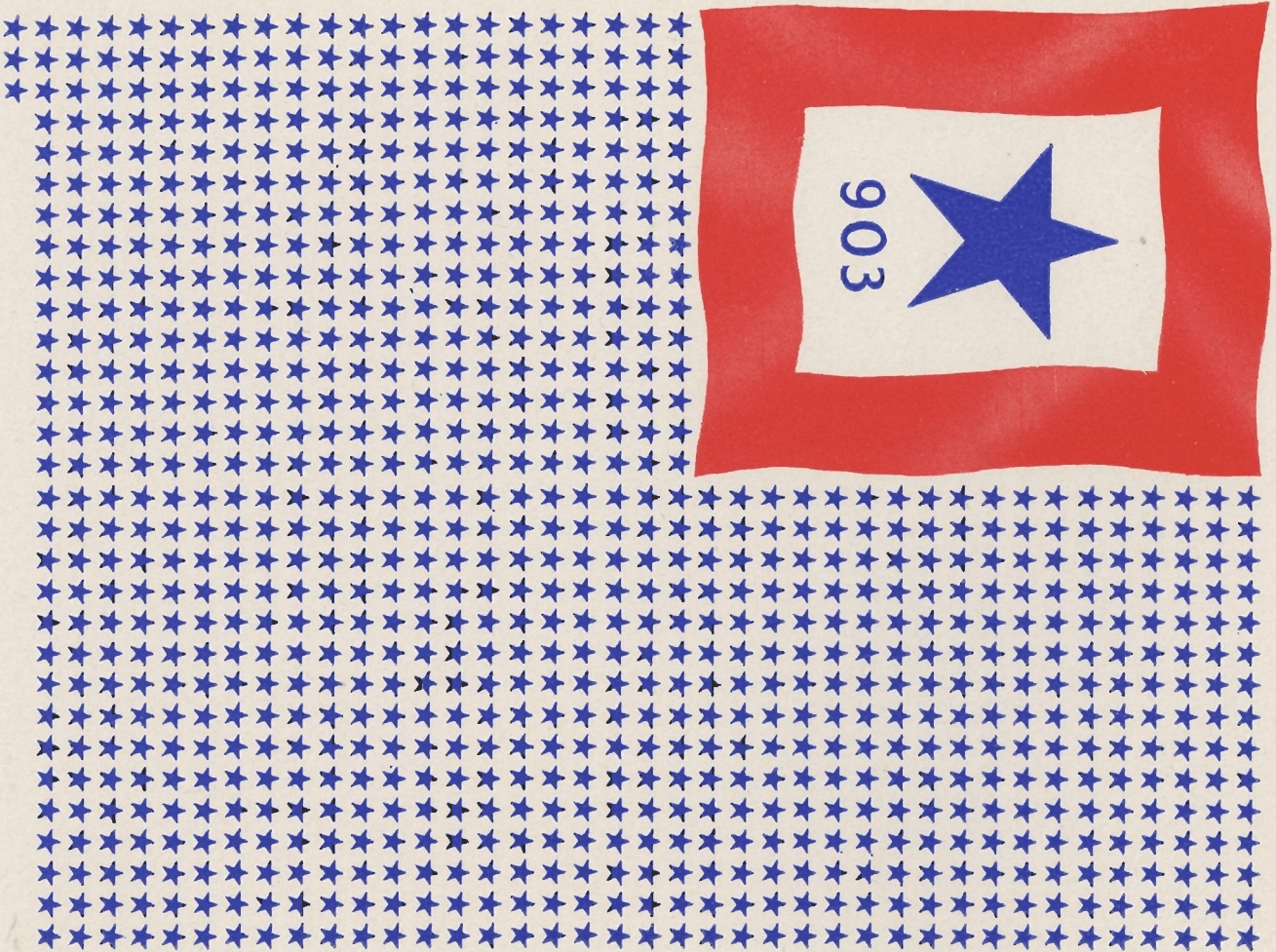
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McGILL UNIVERSITY



**Annual Report of**  
**HIRAM WALKER-**  
**GOODERHAM & WORTS**  
*LIMITED*

*For the year ended August 31, 1943*



A total of 903 employes of the Company  
have joined the armed forces of the United States,  
Canada and Great Britain.

# Hiram Walker - Gooderham & Worts Limited

WALKERVILLE, ONTARIO, CANADA

*Incorporated December 31, 1926, under the laws of the Dominion of Canada*

## BOARD OF DIRECTORS

H. C. HATCH  
HOWARD R. WALTON  
T. H. GIBBONS

J. F. LASH, K.C.  
F. K. MORROW  
E. D. GOODERHAM  
LEIGH M. MCCARTHY

R. A. MCKINLAY  
GEO. T. CHISHOLM  
B. E. FORD

## EXECUTIVE COMMITTEE

H. C. HATCH

T. H. GIBBONS

HOWARD R. WALTON

## OFFICERS

*President and Chairman of  
the Board*

H. C. HATCH

*Secretary*

FLETCHER RUARK

*Vice-President*

HOWARD R. WALTON

*Comptroller*

B. E. FORD

*Assistant Secretary*

W. G. GOOK

*Vice-President*

T. H. GIBBONS

*Treasurer*

H. O. C. PALMER

## AUDITORS

PRICE, WATERHOUSE & Co.  
TORONTO, NEW YORK & LONDON

## BANKERS

THE BANK OF TORONTO, TORONTO, ONT.  
GUARANTY TRUST CO. OF NEW YORK, NEW YORK, N.Y.

## TRANSFER AGENTS

NATIONAL TRUST CO. LIMITED, TORONTO, ONT.  
BANKERS TRUST CO., NEW YORK, N.Y.

## REGISTRARS

THE TORONTO GENERAL TRUSTS CORPORATION, TORONTO, ONT.  
GUARANTY TRUST CO. OF NEW YORK, NEW YORK, N.Y.

# Report of Directors

for the fiscal year ended August 31, 1943

*To the Shareholders of*

Hiram Walker-Gooderham & Worts Limited:

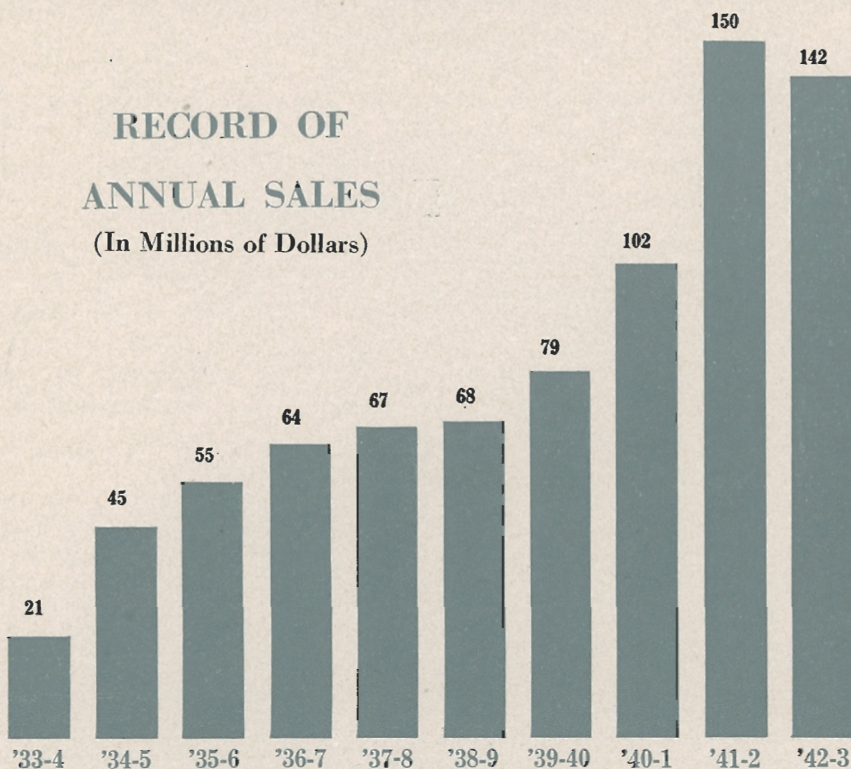
For more than a year now the entire productive capacity of all beverage distilleries in the United States and Canada has been engaged in the production of alcohol for war and other essential industrial uses. Your Company occupies a major role in producing this vital war material. With the complete cessation of beverage production a year ago, the Company adopted a policy of rationing its products to its various markets. Officials of the United States War Production Board recently announced that no beverage production would be permitted in 1943 and probably none in 1944. This means that further curtailment of beverage sales is necessary in order to maintain the Company's policy of prudent utilization of inventories as announced in last year's annual report.

The importance of the beverage distilling industry's contribution to the war effort is illustrated by the fact that it has become the largest single producer of alcohol. It is also significant in these days of heavy governmental expenditures that the alcoholic beverage industry contributes more than any other to federal, state and provincial treasuries. The taxes paid during the year by your Company alone to all governments aggregated \$88,449,242. In addition, very substantial revenues were derived by various state and provincial governments from state liquor taxes and from the sale of our products through their own liquor control agencies.

## Sales and Earnings

The sales of the Company aggregated \$142,017,948 compared with \$150,492,421 in the previous year. This decline reflects a substantial

**RECORD OF  
ANNUAL SALES**  
(In Millions of Dollars)



reduction in the gallonage of beverage products sold, a direct result of the Company's rationing policy adopted in the fall of 1942. However the decline was largely offset by higher excise taxes, increased demand for higher priced whiskies, and larger sales of alcohol for war and other essential industrial uses.

Net income for the year before provision for income and excess profits taxes was \$21,740,542 compared with net income of \$17,741,916 for the preceding year before income and excess profits taxes and a provision for contingencies of \$1,500,000. Income and excess profits taxes amounted to \$12,495,399 against \$9,118,337 in the previous year.

The net profit for the year amounted to \$9,245,143, equivalent to \$12.03 per share on the common stock after providing for dividends on the preference stock. For the preceding year the net profit was \$7,123,579, or \$9.07 per common share.

# Balance Sheet

The effect on the financial condition of the Company of operating for nearly one year with no beverage production and with the consequent curtailment of beverage sales is illustrated by the following comparative, condensed tabulation of consolidated assets and liabilities as of August 31, 1942 and August 31, 1943:

ASSETS	August 31, 1942	August 31, 1943	Increase or Decrease
Cash . . . . .	\$ 8,819,665	\$ 13,983,043	\$ 5,163,378
Government securities . . . . .	943,000	10,464,100	9,521,100
Receivables . . . . .	24,205,934	10,607,712	13,598,222
Inventories . . . . .	43,195,428	38,717,169	4,478,259
Other assets . . . . .	23,115,024	22,872,819	242,205
	\$100,279,051	\$ 96,644,843	\$ 3,634,208
<b>LIABILITIES</b>			
Bank loans . . . . .	\$ 9,881,416	\$ —	\$ 9,881,416
Other current liabilities . . . . .	16,141,143	18,774,579	2,633,437
Funded debt . . . . .	21,529,215	19,930,240	1,598,975
Reserves . . . . .	4,274,854	3,689,424	585,431
Capital stock . . . . .	28,457,975	28,457,975	—
Surplus . . . . .	19,994,448	25,792,625	5,798,177
	\$100,279,051	\$ 96,644,843	\$ 3,634,208

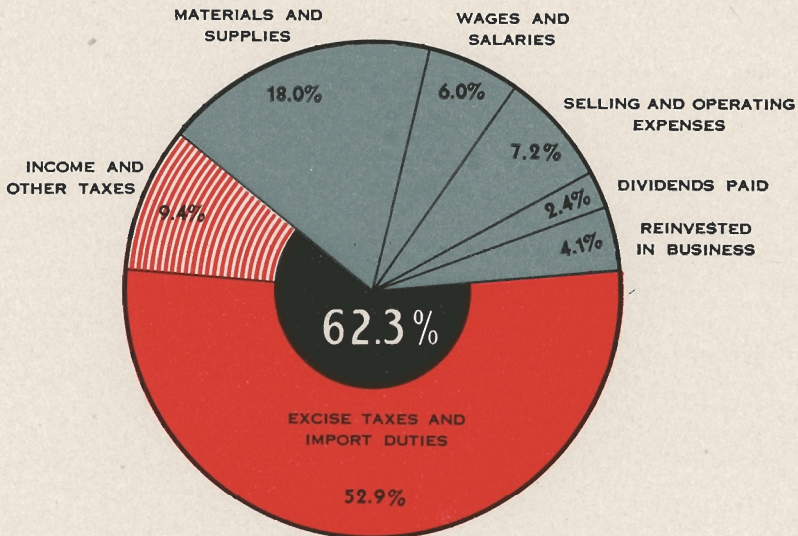
Present wartime conditions have resulted in substantial reductions in receivables and inventories with compensating increases in cash balances and government securities. However the 1942 figures reflect a normal condition for your Company, whereas the 1943 figures do not. With the slackening of wartime demands for alcohol and the resumption of beverage production by distillers, the operations of the Company should quickly revert to a more normal basis. This will involve a program of building up inventories depleted during the war and a substantially higher level for receivables accompanied by material reductions in cash balances and government securities.

## Dividends

Dividends of \$3,446,966 were declared during the year, of which \$560,818, equivalent to \$1.00 per share was paid to holders of preference stock and \$2,886,148, or \$4.00 per share to holders of common stock.



## Distribution of the Sales Dollar in this Fiscal Year



The Company's total tax bill for the year was \$88,449,242 of which \$75,071,528 was excise and import tax used for general government purposes.

## Financial

The consolidated financial statements of the Company and its wholly owned subsidiaries in Canada, Great Britain and the United States presented herewith, follow the Company's usual accounting practice and in conformity with past procedure are expressed in terms of Canadian currency. In stating other currencies in terms of Canadian funds, the general principles of exchange conversion used in the preparation of the consolidated balance sheet as at August 31, 1942, have been employed. Current assets, current liabilities and prepaid expenses have been stated at the official rates in effect August 31, 1943, as established by the Foreign Exchange Control Board of Canada; properties and reserves for depreciation, investments, debentures and debenture stock and unamortized discount and expense applicable thereto, at approximately the rates of exchange prevailing when the assets were acquired or the obligations issued.

With the exception of the provisions for depreciation and for amortization of debenture and debenture stock discount and expense, which were con-

## The Company's Recent Record

Fiscal Year	Sales	Net Earnings	DIVIDENDS		Surplus at end of Year
			Preference Dividends	Common Dividends	
1933-4 . . . . .	\$ 21,071,349	\$3,366,267	\$461,131	\$ ———	\$ 5,594,170
1934-5 . . . . .	45,353,470	3,165,650	460,818	————	8,244,484
1935-6 . . . . .	54,729,133	4,796,120	460,818	990,000	10,580,959
1936-7 . . . . .	63,969,514	6,463,633	460,818	1,443,433	15,140,340
1937-8 . . . . .	67,201,413	6,284,968	460,818	2,896,016	8,576,950*
1938-9 . . . . .	68,325,810	5,295,979	534,092	2,896,016	10,687,311
1939-40 . . . . .	78,678,677	6,065,664	560,818	2,896,016	13,296,141
1940-41 . . . . .	102,156,227	6,921,970	560,818	2,896,016	16,761,277
1941-42 . . . . .	150,492,421	7,123,579	560,818	2,893,549	19,994,448
1942-43 . . . . .	142,017,948	9,245,143	560,818	2,886,148	25,792,625

\*Goodwill, Processes and Trade Marks of \$9,491,525 written off against Surplus in 1937-8

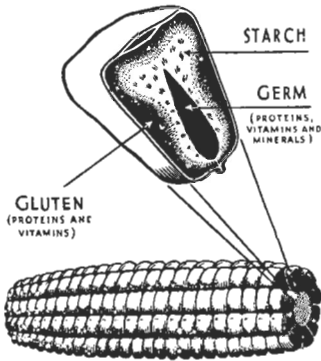
verted at the rates applicable to the relative assets, the consolidated statement of profit and loss has been stated in Canadian currency at the official rates of the Foreign Exchange Control Board of Canada, which rates did not change during the fiscal year.

The net result of all exchange adjustments in consolidation as at August 31, 1943, was a credit of \$904,310 which is shown on the consolidated balance sheet as Foreign Exchange Adjustment in Consolidation.

This year the accounts of the subsidiary companies in Great Britain were closed as of July 31, 1943, for the purpose of allowing the curtailed office staff additional time to close the accounts and prepare the statements. The assets in Great Britain, substantially all of which are located in Scotland, are subject to foreign exchange and other restrictions. At July 31, 1943, the net assets as included in the consolidated balance sheet presented herewith amounted to \$11,082,912 before deducting an amount of \$5,630,240 in respect of the 4½% guaranteed debenture stock which is guaranteed by Hiram Walker-Gooderham & Worts Limited. Included in the net assets mentioned above are current assets of \$7,905,902. The net profits attributable to operations in Great Britain for the eleven months ended July 31, 1943, included in the accompanying consolidated statement of profit and loss amount to \$841,329. Under existing government regulations the transfer of such profits to Canada is prohibited.

During the year, Hiram Walker & Sons Inc., a subsidiary company in the United States, completed the renegotiation of certain war contracts appli-

## Livestock Feeds—An important by-product



For a number of years your Company has been manufacturing, as by-products of its distilling process, a large volume of high-protein and high-vitamin rations for cattle, hog and poultry feeding. Always a substantial form of added revenue to the Company, this production has today assumed an even greater importance as a result of critical shortages of livestock feeds due to the war.

When whole cereal grains are ground, cooked and fermented into alcohol, only two-thirds—the starch content—is consumed. The remaining third, as the above cross section drawing of a corn kernel shows, is rich in proteins and vitamins. It is this remaining third which is processed into livestock feed rations and produced at the rate of literally hundreds of thousands of pounds each week. Two types of products are manufactured: dried grains with a high protein content used primarily in cattle feeding; and dried solubles high in riboflavin, pantothenic acid and niacin—three vitamins highly essential in poultry and hog feeding.

Thus your Company is helping win the war on two fronts—by producing alcohol for use on the combat front, and livestock feed rations on the all-important food front.

(Under normal conditions the Company's distilleries in the United States use more corn than any other grain. However, as The War Production Board has prohibited the use of corn for distilling purposes, they are now using wheat almost exclusively and are recovering livestock feed rations therefrom.)

cable to the fiscal year ended August 31, 1942, which resulted in a net payment to the Treasurer of the United States, after adjustment of tax liability, of \$11,169. Additional contracts for that year are now in the process of being renegotiated. Proceedings relative to renegotiation of war contracts applicable to the fiscal year ended August 31, 1943, have not yet been undertaken. Provision has been made in the accompanying financial statements in respect of the renegotiation of government contracts in an amount which the management considers adequate.

In September of this year, Hiram Walker & Sons Inc., filed with the Commissioner of Internal Revenue, Washington, D.C., applications for relief under Section 722 of the Internal Revenue Code, as amended, with respect to excess profits tax for the taxable years ended August 31, 1941 and 1942. That company will also file in due course a similar application for relief with respect to its excess profits tax for the taxable year ended August 31, 1943. Since the ultimate outcome of the claims is not now determinable, the relief claimed, which is fairly substantial in amount, has not been reflected in the accompanying financial statements.

## Acquisitions

In March of this year a new company, Valliant & Sons Vineyards, Inc., was incorporated under the laws of the State of California, after which it acquired two wineries located at Hollister, California and Santa Rosa, California, together with the wine inventories in storage at the wineries and approximately one hundred acres of vineyards.

The products of the new company are being marketed in the United States under the "Valliant" label by W. A. Taylor & Company, a wholly-owned subsidiary of Hiram Walker & Sons Inc.

## Operations

All plants in the United States and Canada operated at capacity throughout the year. Since the cessation of distilling for beverage purposes on October 8, 1942, in the United States and November 1, 1942, in Canada — the entire capacity of our plants has been devoted to the production of industrial and war alcohol.

The War Production Board in the United States announced in September that there would not be a resumption of distillation for beverage purposes in the year 1943. In mid-October an official of the War Production Board's chemical division, in testifying before the Senate Agricultural Subcommittee, stated that estimated requirements of alcohol for 1944 are 640 million gallons as against a production estimate of 590 million gallons. He further stated that in view of the present requirement and supply situation, the use of distilleries for beverage manufacture may not be justified for the duration.

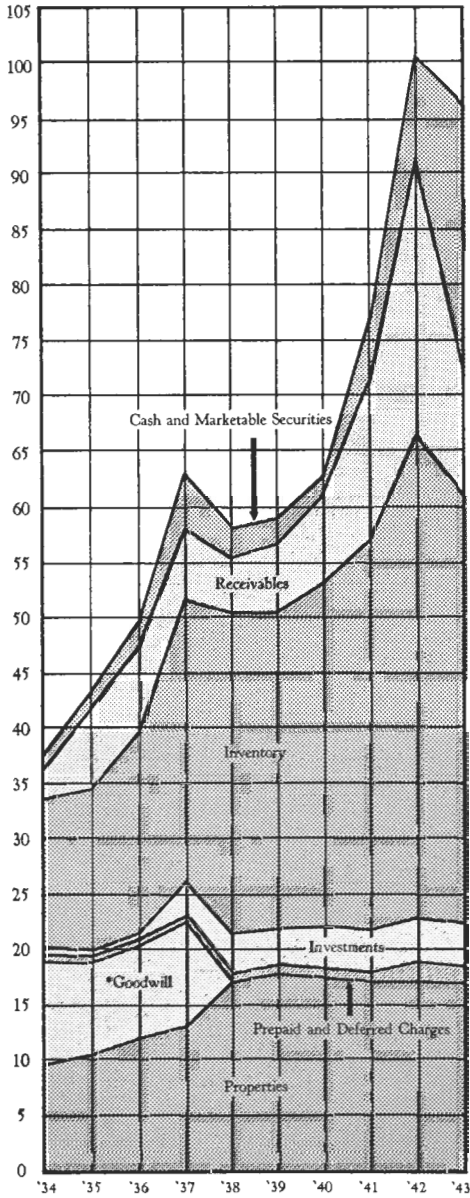
## Scottish Subsidiaries

In Scotland there has been no production of malt whisky since January 1, 1943, and no production of grain whisky since 1940. In the calendar year 1940, both malt and grain distilleries were allotted grain sufficient to produce  $33\frac{1}{3}\%$  of the quantity produced in the twelve months preceding September 1, 1939. In the years 1941 and 1942 malt distilleries were permitted to produce respectively  $33\frac{1}{3}\%$  and  $30\%$  of their base period production. The Ministry of Food has indicated that no cereals can be made available for the distillation of either malt or grain whisky from the 1943 harvest. As was the case last year, we are pleased to report no damage to whisky stocks in Scotland in the past year.

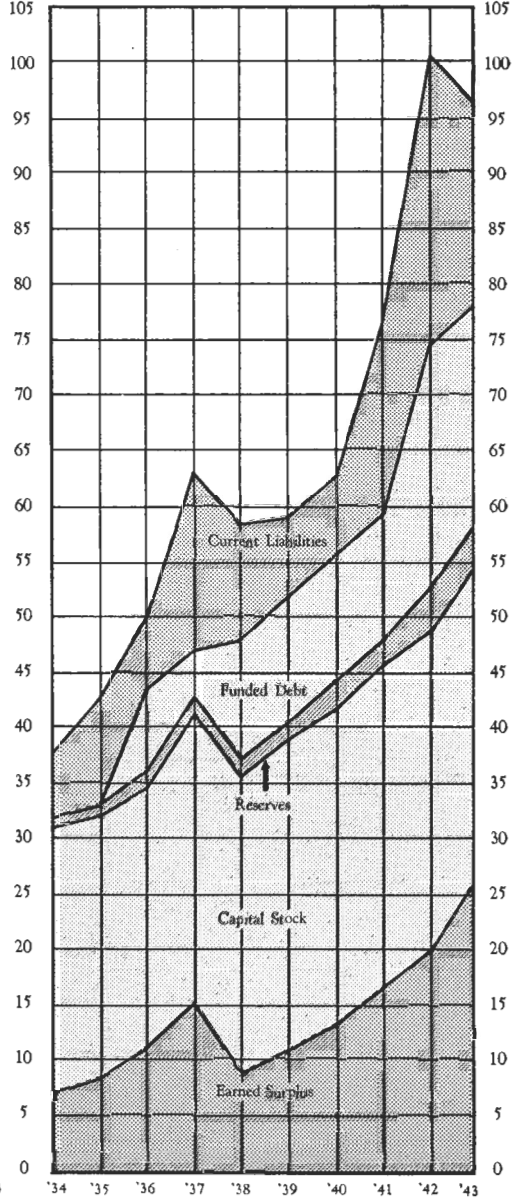
# TREND OF ASSETS AND LIABILITIES 1934-43

(In Millions of Dollars)

## ASSETS



## LIABILITIES



\*Goodwill of \$9,491,325 written off against surplus—Aug. 31, 1938

# General

The post war world is looming ahead of us. One of the encouraging signs of the time is the thought and planning that governments are devoting to the problems of a prosperous peace time economy. The end of the war will undoubtedly result in the opening up of markets in many foreign countries that have been closed among other reasons for lack of shipping facilities. Your Company's activity in any development of expanding markets, domestic or export, is traditional, and your Directors look to the future with confidence.

Throughout the year, the Company has cooperated fully with the various economic and business controls that the United States, Canadian and British governments have set up to facilitate the successful prosecution of the war.

Your Directors wish to record their appreciation of the loyal services of the employees and officers of the Company throughout the year.

*By Order of the Board,*

H. C. HATCH,

*President and Chairman of the Board*

Walkerville, Ontario,  
November 12, 1943

# Hiram Walker - Gooderham & Worts Limited

and Wholly-owned Subsidiary Companies

## Consolidated Statement of Profit and Loss

For the year ended August 31, 1943

*(Stated in Canadian currency on the basis set out in financial section of accompanying Directors' Report  
which also contains data as to earnings in Great Britain)*

Net sales		\$142,017,948	
Cost of goods sold		<u>104,929,620</u>	
Gross profit on sales before deducting provision for depreciation, etc.		\$ 37,088,328	
Add—Other income:			
Dividends and interest on investments	\$ 318,406		
Purchase discounts, storage and rental income, etc.	<u>361,859</u>	<u>680,265</u>	
			\$ 37,768,593
Deduct:			
Selling and general expenses	\$13,893,554		
Executive officers' and directors' salaries. (These officers and directors receive no additional remuneration from any wholly-owned subsidiary company)		230,170	
Legal fees		94,004	
Directors' fees for services as such		20,000	
Debenture and debenture stock interest		608,573	
Amortization of debenture and debenture stock discount and expense		84,806	
Interest on bank loans		20,442	
Provision for depreciation of buildings, plant and equipment		1,054,167	
Other charges		<u>22,335</u>	<u>16,028,051</u>
Net Profit for the year before providing for income and excess profits taxes			\$ 21,740,542
Deduct:			
Provision for income and excess profits taxes in Canada, the United States and Great Britain (after deducting refundable portion of excess profits taxes amounting to \$319,190)			<u>12,495,399</u>
Net Profit for the year carried to Earned Surplus			<u>\$ 9,245,143</u>

NOTE: The companies' proportionate share of the earnings of a subsidiary company not wholly-owned and not consolidated for the fiscal year ended August 31, 1943, exceeded the dividends received from such subsidiary during the same period by an amount of \$74,993.

## Consolidated Statement of Earned Surplus

Earned Surplus as at September 1, 1942		\$ 19,994,448	
Net Profit for the year ended August 31, 1943		<u>9,245,143</u>	
			\$ 29,239,591
Deduct:			
Dividends on preference shares	\$ 560,818		
Dividends on common shares	<u>2,886,148</u>	<u>3,446,966</u>	
Earned Surplus as at August 31, 1943			<u>\$ 25,792,625</u>

# Hiram Walker - Gooderham & Worts Limited

## Consolidated Balance

(Stated in Canadian currency on the basis set out  
which also contains data

### Assets

#### CURRENT ASSETS:

Cash on hand and in banks . . . . .	\$13,983,043	
Government securities—at cost . . . . .	10,464,100	
(Approximate quoted market value at August 31, 1943—\$10,465,400)		
Accounts receivable—trade . . . . .	\$10,757,616	
Accounts receivable—miscellaneous . . . . .	771,789	
	<u>\$11,529,405</u>	
Less—Reserve for doubtful accounts . . . . .	921,693	10,607,712

Inventories at not exceeding manufacturing or purchased cost in the currencies of the countries in which the subsidiaries are located, as determined on the companies' usual basis and certified to by responsible officials of the companies (stated in Canadian currency at official rates of exchange current at August 31, 1943):

Spirits including bottling material on bottled whiskey and excise taxes and customs duties where such have been paid . . . . .	\$29,287,710	
Grains and raw materials . . . . .	811,031	
Barrels, bottles and supplies . . . . .	8,618,428	38,717,169

Total Current Assets . . . . . \$ 73,772,024

CASH SURRENDER VALUE OF LIFE INSURANCE POLICIES . . . . . 380,185

#### INVESTMENTS:

Capital stock of a subsidiary company not wholly-owned and not consolidated, at not exceeding cost . . . . .	\$ 3,491,543	
Common stocks and other investments without quoted market value, at cost . . . . .	159,587	3,651,130

REFUNDABLE PORTION OF EXCESS PROFITS TAXES IN CANADA AND THE UNITED STATES . . . . . 385,677

LAND, BUILDINGS, PLANT AND EQUIPMENT, at cost, except the plant of Gooderham & Worts Limited, at Toronto, which, based on values reported by Canadian Appraisal Company, Limited, on February 1, 1924 with subsequent additions at cost, has a net depreciated value of \$939,220 after deducting capital surplus of \$245,812 . . . . . \$28,720,930  
Deduct—Reserves for depreciation on buildings, plant and equipment . . . . . 11,538,778 17,182,152

#### PREPAID AND DEFERRED CHARGES:

Unamortized debenture and debenture stock discount and expense . . . . .	\$ 377,110	
Prepaid licenses and taxes . . . . .	246,767	
Prepaid insurance . . . . .	545,835	
Miscellaneous charges . . . . .	103,962	1,273,674

GOODWILL, PROCESSES AND TRADE MARKS . . . . . 1  
\$96,644,843

NOTE: The companies' equity in a subsidiary company not wholly-owned and not consolidated has been increased since dates of acquisition as a result of profits less dividends by an amount of \$547,530. A portion of the assets of this company is represented by spirits in Scotland.



# and Wholly-owned Subsidiary Companies

## Sheet, August 31, 1943

*in financial section of accompanying Directors' Report  
as to assets in Great Britain)*

### Liabilities, Capital Stock and Surplus

#### CURRENT LIABILITIES:

Trade accounts payable.....	\$ 2,889,256	
Other accounts and accruals.....	916,917	
Dividend payable September 15, 1943 on preference stock.....	140,204	
Dividend payable September 15, 1943 on common stock.....	721,537	
Debture and debenture stock interest accrued.....	174,606	
Serial debentures of Hiram Walker-Gooderham & Worts Limited and Hiram Walker & Sons, Inc. maturing November 1, 1943 (\$1,000,000 in United States currency).....	1,100,000	
Sinking fund payment due May 15, 1944 in respect of Fifteen-year 4½% guaranteed debenture stock of Hiram Walker & Sons (Scotland) Limited (£99,752).....	441,901	
Reserves for federal, state and municipal taxes in Canada, the United States and Great Britain.....	<u>12,390,158</u>	
Total Current Liabilities.....		\$ 18,774,579

#### FUNDED DEBT:

Serial debentures of Hiram Walker-Gooderham & Worts Limited and Hiram Walker & Sons, Inc. maturing \$1,000,000 annually November 1, 1944 to November 1, 1956 (\$13,000,000 in United States currency).....	\$14,300,000	
Fifteen-year 4½% guaranteed debenture stock of Hiram Walker & Sons (Scotland) Limited (guaranteed by Hiram Walker-Gooderham & Worts Limited) due May 15, 1953 (secured by deposit with the trustee in Scotland of documents of title to certain whiskey stocks in Scotland included in inventories at \$3,013,605 and by a mortgage on certain properties in Scotland):		
Authorized.....	<u>£2,000,000</u>	
Issued.....	£1,500,000	
Less:		
Purchased through sinking fund.....	£274,200	
Sinking fund payment due May 15, 1944 included in current liabilities above.....	<u>99,752</u>	
	373,952	
	<u>£1,126,048</u>	5,630,240
		19,930,240

FOREIGN EXCHANGE ADJUSTMENTS IN CONSOLIDATION..... 904,310

RESERVE FOR CONTINGENCIES..... 2,785,114

#### CAPITAL STOCK, NO PAR VALUE:

Cumulative dividend redeemable preference—redeemable as to principal at \$20.00 per share (authorized 875,000 shares of which 199,182 shares have been redeemed and cancelled):		
Issued.....	760,000 shares	
Redeemed and cancelled.....	<u>199,182 shares</u>	
Outstanding.....	<u>560,818 shares</u>	\$11,216,360
Common shares:		
Authorized.....	<u>875,000 shares</u>	
Issued and outstanding.....	<u>724,004 shares</u>	17,330,180
		<u>\$28,546,540</u>

EARNED SURPLUS as per statement attached..... 25,792,625  
\$54,339,165

Deduct: 2,467 common shares held by a subsidiary company in the United States—at cost..... 88,565 \$54,250,600

#### CONTINGENT LIABILITY —

Hiram Walker-Gooderham & Worts Limited and one of its subsidiary companies have received municipal income tax demands, aggregating \$1,167,728 from the City of Windsor, Ontario in respect of the years 1941, 1942 and 1943. The companies do not admit liability in respect of such taxes and on the advice of counsel these tax demands are being contested in the courts.

\$96,644,843

Approved on behalf of the Board:

H. C. HATCH, *Director*

HOWARD R. WALTON, *Director*

(Signed) B. E. FORD, *Comptroller*  
November, 8, 1943

# Auditors' Report

*To the Shareholders of*

HIRAM WALKER-GOODERHAM & WORTS LIMITED:

We have examined the consolidated balance sheet of Hiram Walker-Gooderham & Worts Limited and its wholly-owned subsidiary companies, in Canada, the United States and Great Britain as at August 31, 1943, 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 which we required. The accounts of the subsidiaries in Great Britain are included as of July 31, 1943 and the results of their operations are for the eleven months ended on that date. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included such tests of the accounting records and other supporting evidence and such other procedures as we considered necessary.

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, the accompanying consolidated balance sheet and related consolidated statements of profit and loss and earned surplus are properly drawn up in conformity with accepted accounting principles applied on a basis consistent in all material respects with that of the preceding year so as to exhibit a true and correct view of the state of affairs of the combined companies at August 31, 1943, and the results of the companies' operations for the year ended on that date, including the operations of the subsidiaries in Great Britain for the eleven months ended July 31, 1943.

Under Section 114 of The Dominion Companies Act we report that the earnings of the non-consolidated subsidiary company are reflected in the accompanying financial statements only to the extent of dividends received from such subsidiary company.

PRICE, WATERHOUSE & CO.,  
Chartered Accountants.

*Toronto, Ontario, November 8, 1943.*



