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Annual Report of

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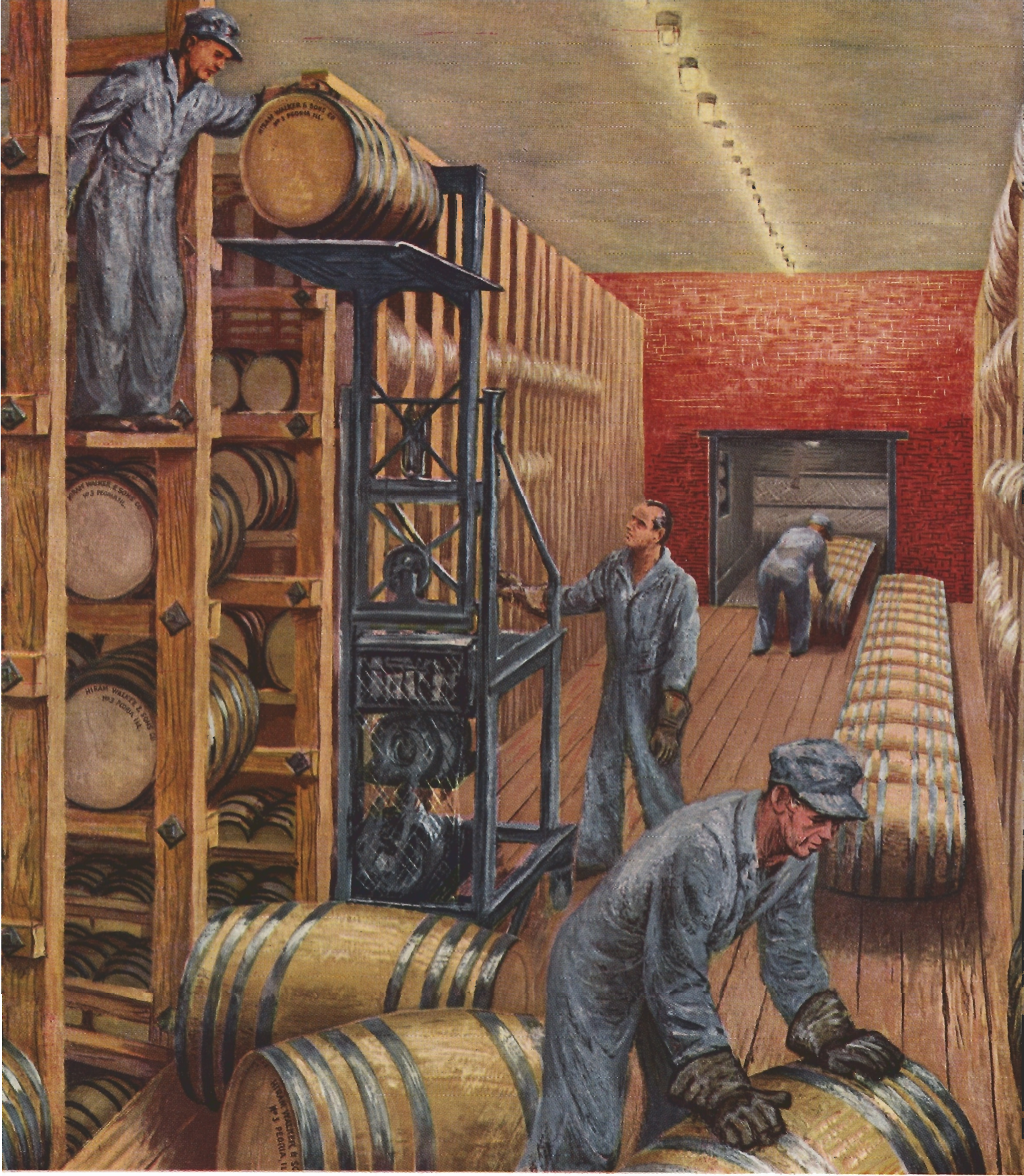
Hiram Walker-Gooderham & Worts Limited

FOR THE YEAR ENDED AUGUST 31, 1945

Annual Report of
Hiram Walker-Gooderham & Worts
Limited

For the year ended August 31, 1945

The cover illustrates the entrance to the head offices of Hiram Walker-Gooderham & Worts Limited, at the distillery of Hiram Walker & Sons Limited, Walkerville, Ontario.



Men and methods that make Hiram Walker products are represented in paintings by America's foremost artists for use in advertisements of Imperial Whiskey. Among artists commissioned to paint their interpretations are Thomas Hart Benton, Joseph Hirsch, Paul Sample, Georges Schreiber, and Howard Baer (whose work appears above).

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.
NATIONAL TRUST CO. LIMITED, MONTREAL, QUE.
BANKERS TRUST CO., NEW YORK, N.Y.

REGISTRARS

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

Report of Directors

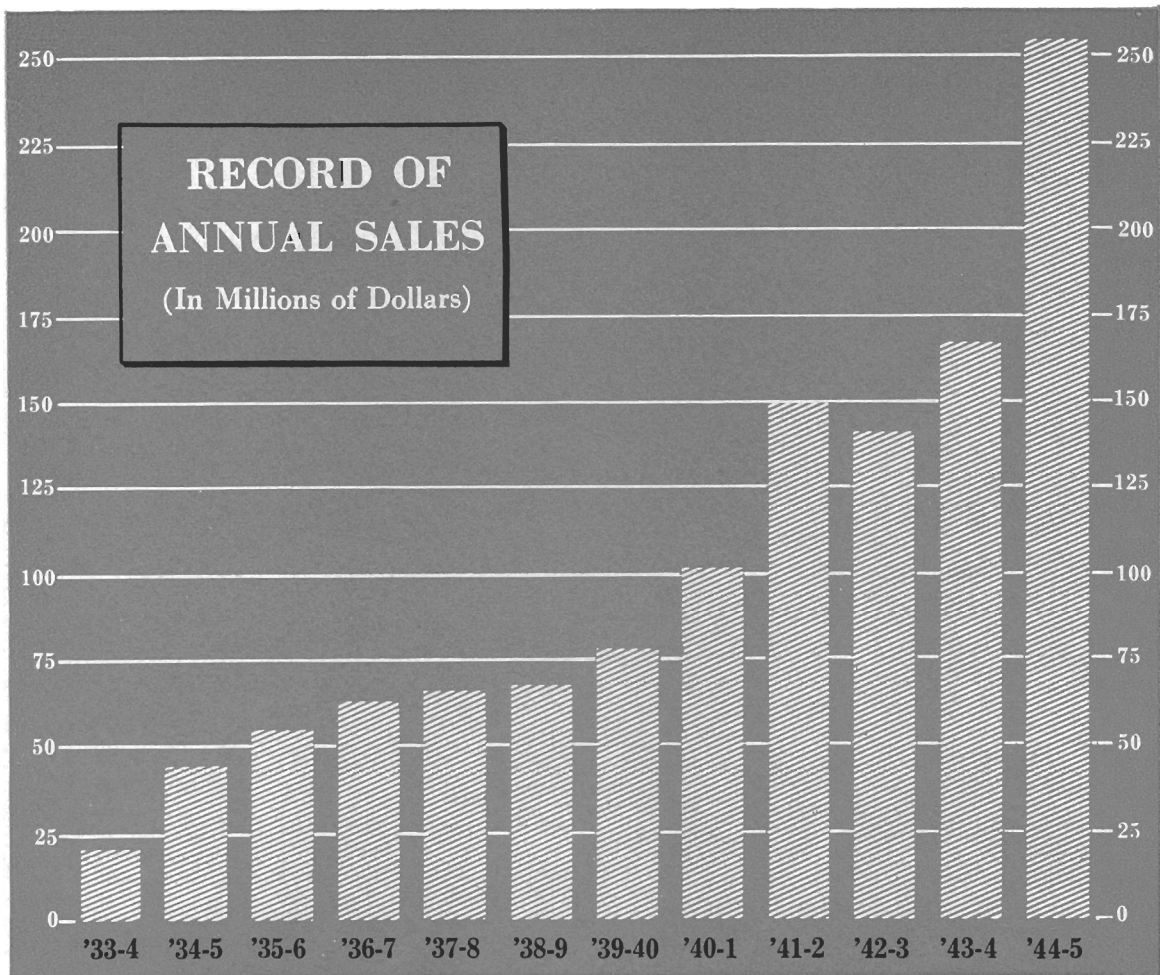
for the fiscal year ended August 31, 1945

To the Shareholders of

HIRAM WALKER-GOODERHAM & WORTS LIMITED:

A victory far speedier than was generally expected has crowned the efforts of our armed forces. None of us need be reminded of the very different circumstances in which we would be living today if we had fallen victims to the forces of arrogance arrayed against us. As we now move forward hopefully into years of peace we must not forget either the fate we have been spared, or the sacrifice of men and materials by which our freedom has been ransomed.

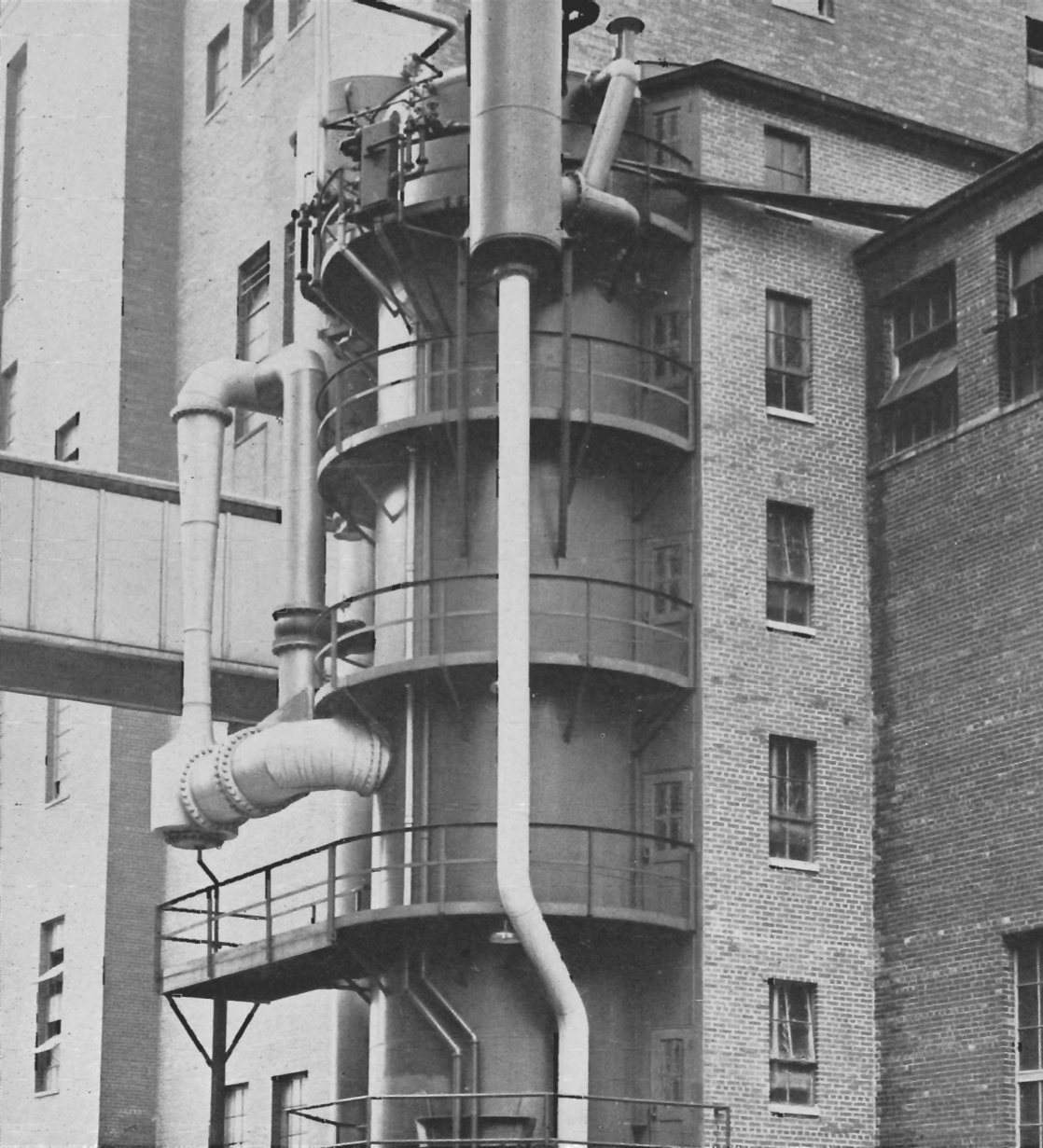
Our industry in general and our Company in particular have established an enviable record of war production. From the time the war opened our manufacturing facilities and our entire organizations have remained continuously available to the munitions authorities of the Allied powers. In October 1942 our distilleries both in Canada and the United States became wholly devoted to the manufacture of war alcohol. With the exception of very occasional intervals, they remained so devoted to the close of the conflict. The diverse and important fields into which our production went afford some idea of the importance of our contribution. We supplied essential alcohol for explosives of all kinds, for synthetic rubber, for medical services, and for the production of technical and scientific instruments. In addition, in November 1943 we were approached by the Chicago Quartermaster Depot of the U.S. Army Service Forces to ascertain if it would be possible for us to package K-Ration meals for the Armed Services. We commenced that operation in February 1944 and from then until we received a stop work order on August 13th, 1945 we packed 68,594,976 meals at our bottling plant in Peoria. The vital character of the war service of our industry has established the importance of maintaining a well organized and efficient distilling industry as a source of national strength in any war emergency.



Sales and Earnings

Consolidated net sales for the year were \$254,618,161 compared with \$167,051,135 the previous year. This increase is accounted for principally by increased volume of beverage sales and to a lesser extent by higher excise taxes.

Net income for the year before provision for income and excess profits taxes was \$28,717,863 compared with \$19,995,796 the preceding year. Income and excess profits taxes amounted to \$19,306,563 compared with \$12,358,432 in the preceding year. These federal taxes of \$19,306,563 amounted to \$3,969 per employee and \$26.76 per share of common stock or more than six times the dividend paid thereon.



**New Vacuum
Mash Cooler
Installed at
Peoria**

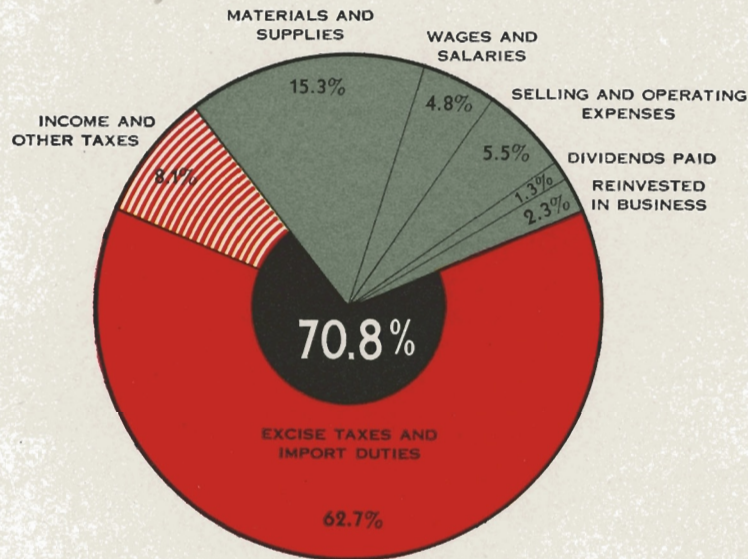
First multi-stage vacuum cooler for distiller's mash was installed in 1945 at Hiram Walker's Peoria plant. With a capacity of 1800 tons a day, it cools mash from 145 deg. F. down to 75 deg. F., thus saving millions of gallons of cooling water.

Net profit for the year after all charges amounted to \$9,411,300 equivalent to \$12.26 per share on the common stock after providing for dividends on the preference stock. Net profit for the preceding year was \$7,637,364 or \$9.81 per common share.

Dividends

Dividends of \$3,446,966 were declared during the year of which \$560,818 or \$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.

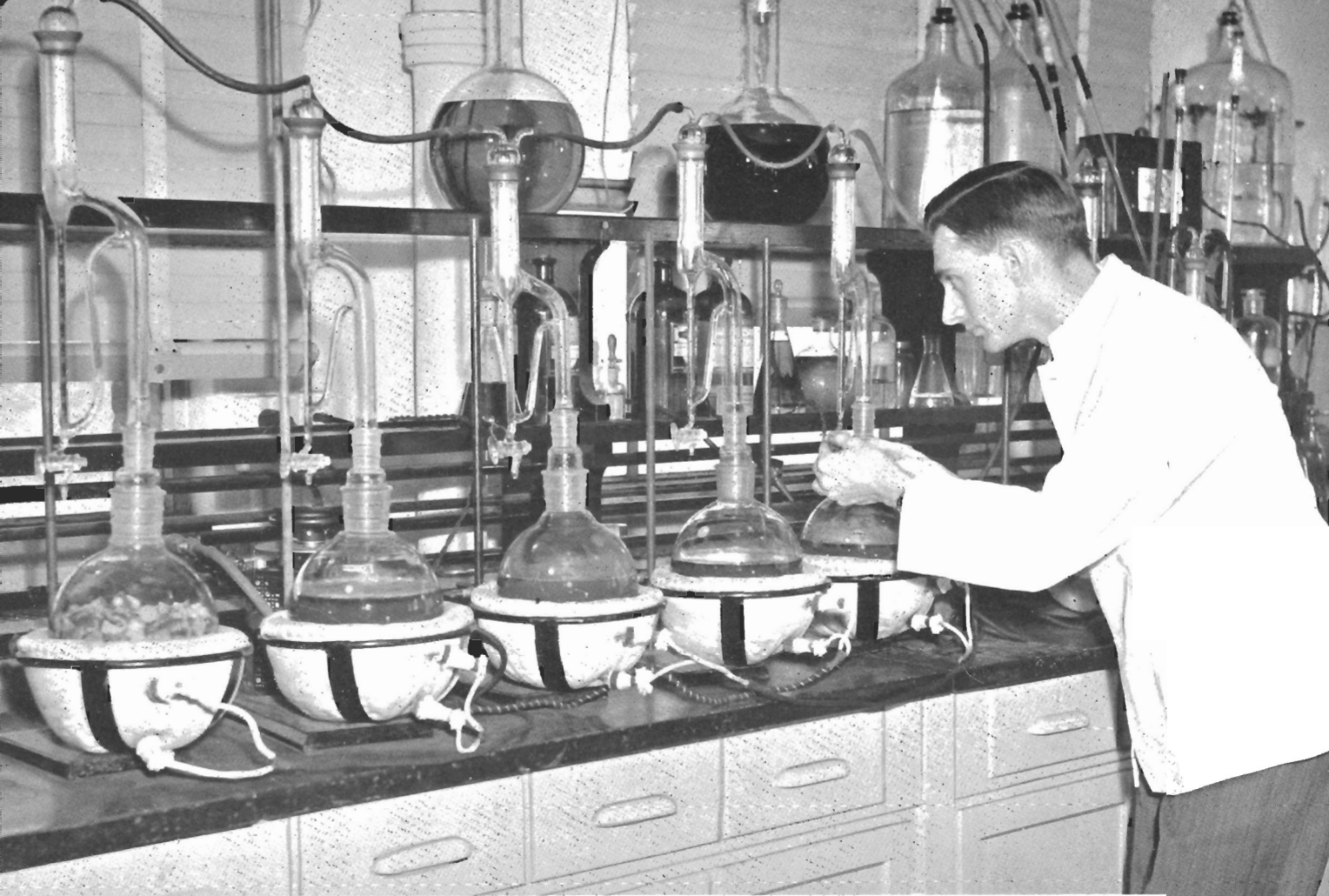
Distribution of the Sales Dollar in this Fiscal Year



The Company's total tax bill for the year was \$180,101,745 of which \$159,525,291 was excise and import tax used for general government purposes.

Financial

The consolidated financial statements of the Company and its wholly owned subsidiaries in the United States, Canada, Great Britain and Argentina 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, 1944, have been employed. In the case of the subsidiary companies in the United States and Great Britain, current assets, current liabilities and prepaid expenses have been stated in Canadian currency at the official rates in effect August 31, 1945, as established by the Foreign Exchange Control Board of Canada; properties and reserves for depreciation and investments at approximately the rates of exchange prevailing



Soon after repeal in U.S.A., the research laboratory at Peoria developed apparatus to measure the flavor value of juniper berries and other botanicals used in making gin. The company's gin formulas are written not in pecks and pounds, but in flavor units, thus accommodating Nature's variations and producing uniform taste. A fortunate supply of ingredients permits Hiram Walker to advertise gin of pre-war quality, made from pre-war imported botanicals.

when the assets were acquired. With the exception of the provisions for depreciation which were converted at the rates applicable to the relative assets, the statements of profit and loss of the British and United States subsidiaries have been stated in Canadian currency, for inclusion in the consolidated statement of profit and loss, at the official rates of the Foreign Exchange Control Board of Canada, which rates did not change during the fiscal year. The same principles of conversion have been followed with respect to the subsidiary in Argentina but the rates of exchange used have been based on the "free" rate of the Argentine peso.

The net result of all exchange adjustments in consolidation as at August 31, 1945, was a credit of \$1,545,694, which is shown on the consolidated balance sheet as Foreign Exchange Adjustment in Consolidation.

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 |
| 1940-1 | 102,156,227 | 6,921,970 | 560,818 | 2,896,016 | 16,761,277 |
| 1941-2 | 150,492,421 | 7,123,579 | 560,818 | 2,893,549 | 19,994,448 |
| 1942-3 | 142,017,948 | 9,245,143 | 560,818 | 2,886,148 | 25,792,625 |
| 1943-4 | 167,051,135 | 7,637,364 | 560,818 | 2,886,148 | 29,813,088 |
| 1944-5 | 254,618,161 | 9,411,300 | 560,818 | 2,886,148 | 35,777,422 |

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

The assets in Great Britain are subject to foreign exchange and other restrictions. Net assets as included in the consolidated balance sheet presented herewith amounted to \$6,969,472. Included in these net assets were current assets of \$6,784,969. Net profits attributable to operations in Great Britain included in the accompanying consolidated statement of profit and loss amounted to \$459,938. 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 its war contracts applicable to the fiscal year ended August 31, 1943, which resulted in an additional payment to the RFC Price Adjustment Board, after adjustment of tax liability, of \$123,500. Provision has been made in the accompanying financial statements in respect of renegotiation of government contracts for the two years ending August 31, 1945 in an amount which the management considers adequate.

Hiram Walker & Sons Inc. and its subsidiary companies in the United States have filed with the United States Commissioner of Internal Revenue, 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, 1942, 1943 and 1944. Similar applications for relief for the taxable year ended August 31, 1945 will be filed in due course. The relief claimed, which is fairly substantial in amount, has not been reflected in the accompanying financial statements since the ultimate outcome of the claims is not now determinable.



Principal brands marketed in the United States



Principal brands marketed in Canada

Production and Inventories

All alcohol contracts with both the United States and Canadian governments were cancelled at the end of August 1945 and our plants were again available for beverage production. However, we are still operating under certain restrictions and consequently our distillation since September 1 has been limited. We have had some production each month since that date however, and look forward to gradually increased output as time goes on.

In regard to the vital matter of inventories, we are today in a satisfactory position. The soundness of our rationing policy, inaugurated in the Autumn of 1942 and continued throughout the war period, has now become evident. In spite of the fact that over a period of 37 months from October 8, 1942 until October 31, 1945, the total beverage production time allotted to us in the United States was four months, and the situation in Canada was only slightly better, we are able to supply our customers with hundreds of thousands of cases of our various products each month, which we hope to continue to do in ever increasing quantities.

Scottish Subsidiaries

Throughout the war period the production of whiskey in Scotland was limited by the Ministry of Food to the extent that the entire production for the five year period ending August 31, 1944 was less than one year's normal output. Since then the Ministry of Food has issued licences to all Scotch whiskey distillers granting them grain sufficient to produce 86% of a normal year's distillation.

Employees in Military Service

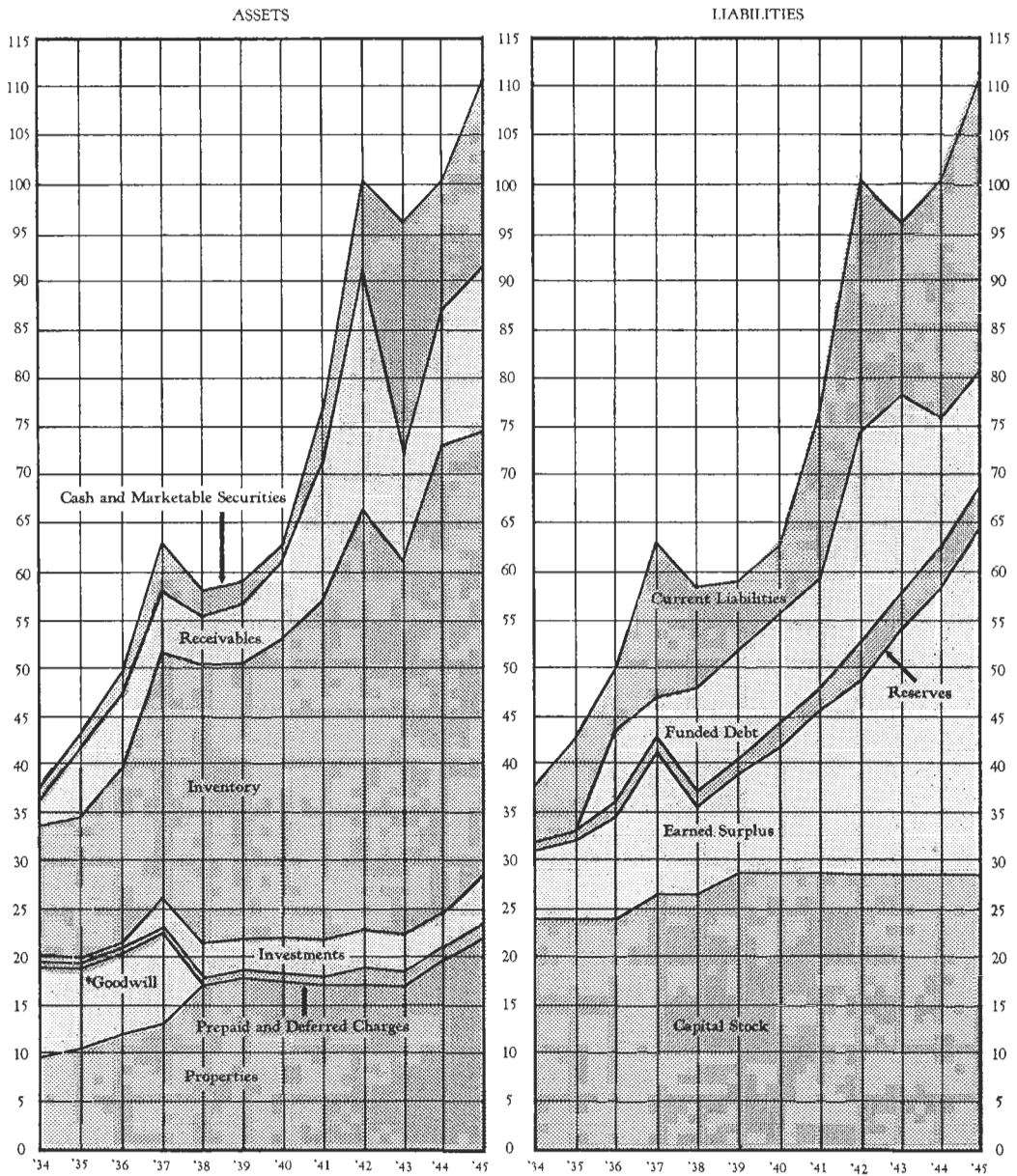
It is both a pleasure and a privilege at this time to be welcoming back many of our employees who left us during the past six years to fight in the cause of freedom. A total of 1,316 served. It is a matter of deep regret that of this number 34 paid the supreme sacrifice and we tender to their relatives the sympathy of their colleagues. All who have been spared to return and wish to do so are being re-employed. The most recent figures show that the Company has re-employed 229 veterans, and in addition has employed 339 other veterans who had no service with the Company before the war.

Conclusion

During the war years our beverage operations inevitably faced major difficulties. Stoppage of production coincided with record consumer demand. Labor, materials, and equipment scarcities at times were acute. Foreign markets were either cut

TREND OF ASSETS AND LIABILITIES 1934-45

(In Millions of Dollars)



*Goodwill of \$9,491,525 written off against surplus—Aug. 31, 1938.

off entirely by enemy occupation, or badly dislocated by import restrictions and exchange controls. No import permits for shipments of Canadian whiskey into Great Britain have been issued since January 1941. Shipping space often was unavailable.

Faced with these and other problems, your directors did not yield to any policy of short-term expediency but rather kept uppermost in their minds the long-range interests of the Company. Our high standards of quality have not been sacrificed to volume sale. Also, in not waiting for the end of the war to extend our interests to South America we have secured a foothold in what we are convinced will be a good post-war market for consumer goods.

Back in 1942, the Canadian Federal Government required us to lower the strength of whiskies sold in Canada. Fortunately the order did not affect whiskies exported to the United States and elsewhere. This order has now been rescinded by the Federal Government and we hope and expect the provincial liquor commissions, although they have not as yet done so, will soon arrange to resume the sale of pre-war strength whiskies, thus restoring to Canadian consumers a status of equality with consumers in other countries. As far as we have been able to ascertain, Canada is the only English-speaking country in the world which limits the strength at which beverages may be sold.

The post-war period has come upon us almost more suddenly than did the war itself. It will present its own difficulties and challenges as well as opportunities for constructive planning. Peoples of the world today have a new appreciation of their interdependence, and of the necessity of working in some semblance of unity if civilization is to survive. The advent of atomic energy emphasizes the disaster that overhangs the world if international understanding fails and the seeds of war are allowed to sprout again. Our Company's operations are truly international. We manufacture in four countries on three continents and ship our goods in peacetime to over 100 foreign markets. The growing spirit of internationalism that is abroad today is an important augury for the future of our world-wide operations. Great as have been the achievements of this Company in the past, your directors believe confidently that the post-war era holds still further possibilities of expansion.

Your directors wish to express their appreciation of the loyal services of the employees and officers of the Company throughout the difficult war year.

By order of the Board,

H. C. HATCH,

President and Chairman of the Board.

Walkerville, Ontario,
November 7, 1945.

Hiram Walker - Gooderham & Worts Limited

and Wholly-owned Subsidiary Companies

Consolidated Statement of Profit and Loss For the years ended August 31, 1945 and August 31, 1944

(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)

| | Year ended August 31 | |
|--|----------------------|----------------------|
| | 1945 | 1944 |
| Net sales | \$254,618,161 | \$167,051,135 |
| Cost of goods sold | 204,841,425 | 131,497,571 |
| Gross profit on sales before deducting provision for depreciation, etc. | \$ 49,776,736 | \$ 35,553,564 |
| Add: Other income— | | |
| Dividends and interest on investments | 272,012 | 369,447 |
| Purchase discounts, storage and rental income, etc. | 345,343 | 287,948 |
| | <u>\$ 617,355</u> | <u>\$ 657,395</u> |
| | \$ 50,394,091 | \$ 36,210,959 |
| Deduct: | | |
| Selling and general expenses | 19,592,942 | 13,763,238 |
| Salaries of executive officers of parent company | 232,385 | 230,170 |
| Fees of directors of parent company for services as such | 20,000 | 20,000 |
| Legal fees | 109,546 | 138,791 |
| Loss on disposal of capital assets | 46,713 | — |
| Debenture and debenture stock interest | 346,592 | 601,847 |
| Amortization of debenture and debenture stock discount and expense | 36,096 | 193,208 |
| Interest on bank loans | 36,621 | 721 |
| Provision for depreciation of buildings, plant and equipment | 1,246,587 | 1,155,614 |
| Other charges | 8,746 | 111,574 |
| | <u>\$ 21,676,228</u> | <u>\$ 16,215,163</u> |
| Net profit for the year before providing for income and excess profits taxes ... | \$ 28,717,863 | \$ 19,995,796 |
| Deduct: | | |
| Provision for income and excess profits taxes after deducting refundable portion of excess profits taxes | 19,306,563 | 12,358,432 |
| Net profit for the year carried to Earned Surplus | <u>\$ 9,411,300</u> | <u>\$ 7,637,364</u> |

NOTE: The companies' share of the earnings of a subsidiary company not wholly-owned and not consolidated, less dividends received was as follows for the fiscal year ended August 31, 1945—\$157,983; 1944—\$83,084.

Consolidated Statement of Earned Surplus

| | Year ended August 31 | |
|--|----------------------|----------------------|
| | 1945 | 1944 |
| Earned Surplus as at September 1 | \$ 29,813,088 | \$ 25,792,625 |
| Add: | | |
| Net profit for the year | 9,411,300 | 7,637,364 |
| | <u>\$ 39,224,388</u> | <u>\$ 33,429,989</u> |
| Deduct: | | |
| Goodwill and organization expenses of subsidiary company | — | 169,935 |
| Dividends on preference shares—\$1 per share | 560,818 | 560,818 |
| Dividends on common shares—\$4 per share | 2,886,148 | 2,886,148 |
| | <u>\$ 3,446,966</u> | <u>\$ 3,616,901</u> |
| Earned Surplus as at August 31 | <u>\$ 35,777,422</u> | <u>\$ 29,813,088</u> |

Hiram Walker - Gooderham & Worts Limited and Wholly-owned Subsidiary Companies

Consolidated Balance Sheet, August 31, 1945 and August 31, 1944

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

Assets

| | August 31 | |
|---|---------------|---------------|
| | 1945 | 1944 |
| CURRENT ASSETS: | | |
| Cash on hand and in banks..... | \$ 13,452,445 | \$ 7,474,016 |
| Government securities—at cost..... | 5,343,000 | 5,535,800 |
| (Quoted market value at August 31, 1945—\$5,344,460). | | |
| Refundable portion of United States excess profits taxes..... | 451,296 | — |
| Accounts receivable, (less reserve—1945, \$1,344,388; 1944, \$1,071,213)..... | 15,594,499 | 12,240,847 |
| Inventories at not exceeding manufacturing or purchased cost as determined on the companies' usual basis and certified to by responsible officials of the companies..... | 46,353,936 | 48,751,778 |
| Total Current Assets..... | \$ 81,195,176 | \$ 74,002,441 |
| INVESTMENTS AND OTHER ASSETS: | | |
| Capital stock of a subsidiary company not wholly-owned and not consolidated, at not exceeding cost..... | 3,512,949 | 3,512,949 |
| Common stocks and other investments without quoted market value, at cost..... | 785,908 | 290,244 |
| Cash surrender value of life insurance policies..... | 425,778 | 402,856 |
| Refundable portion of excess profits taxes..... | 865,287 | 1,013,244 |
| | \$ 5,589,922 | \$ 5,219,293 |
| 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 at August 31, 1945 of \$810,721 after deducting capital surplus of \$245,812..... | 36,124,609 | 32,536,644 |
| Deduct: Reserves for depreciation on buildings, plant and equipment..... | 14,079,286 | 12,856,899 |
| | \$ 22,045,323 | \$ 19,679,745 |
| PREPAID AND DEFERRED CHARGES: | | |
| Unamortized debenture discount and expense..... | 147,807 | 183,903 |
| Prepaid insurance, licenses, taxes and other miscellaneous charges..... | 1,494,660 | 1,044,703 |
| | \$ 1,642,467 | \$ 1,228,606 |
| GOODWILL, PROCESSES AND TRADE MARKS..... | 1 | 1 |
| | \$110,472,889 | \$100,130,086 |

NOTE: At August 31, 1945 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 \$788,597.

Liabilities, Capital Stock and Surplus

| | August 31 | |
|--|----------------|----------------|
| | 1945 | 1944 |
| CURRENT LIABILITIES: | | |
| Bank loans..... | \$ 1,464,697 | \$ 1,218,250 |
| Trade accounts payable..... | 3,738,949 | 3,926,347 |
| Other accounts and accruals..... | 1,234,448 | 940,322 |
| Dividends payable..... | 861,741 | 861,741 |
| Serial debentures maturing within one year..... | 1,100,000 | 1,100,000 |
| Reserves for federal, state and local taxes..... | 21,406,849 | 16,301,119 |
| Total Current Liabilities..... | \$ 29,806,684 | \$ 24,347,779 |
| FUNDED DEBT: | | |
| Serial debentures of Hiram Walker-Gooderham & Worts Limited and Hiram Walker & Sons, Inc. maturing \$1,000,000 in United States currency annually through November 1, 1956. At August 31, 1945 the amount outstanding, exclusive of the amount maturing within one year, was \$11,000,000 in United States currency..... | 12,100,000 | 13,200,000 |
| FOREIGN EXCHANGE ADJUSTMENT IN CONSOLIDATION..... | 1,545,694 | 1,526,130 |
| RESERVE FOR CONTINGENCIES..... | 2,785,114 | 2,785,114 |
| CAPITAL STOCK AND SURPLUS: | | |
| 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..... | 199,182 shares | |
| Outstanding..... | 560,818 shares | 560,818 shares |
| Common shares: | | |
| Authorized..... | 875,000 shares | |
| Issued and outstanding..... | 724,004 shares | 724,004 shares |
| Earned Surplus as per statement attached..... | 35,777,422 | 29,813,088 |
| | \$ 64,323,962 | \$ 58,359,628 |
| Deduct: 2,467 common shares held by a subsidiary company in the United States—at cost..... | 88,565 | 88,565 |
| Total Capital Stock and Surplus..... | \$ 64,235,397 | \$ 58,271,063 |
| CONTINGENT LIABILITY: | | |
| Hiram Walker-Gooderham & Worts Limited and one of its subsidiary companies have received municipal income tax demands, aggregating \$1,167,228 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. | | |
| | \$110,472,889 | \$100,130,086 |

Approved on behalf of the Board:
H. C. HATCH, *Director*
HOWARD R. WALTON, *Director*

(Signed) B. E. FORD, *Comptroller*
November 2, 1945

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, Great Britain and Argentina as at August 31, 1945, 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 require. The accounts of the subsidiaries in Great Britain and Argentina are included as of July 31, 1945. 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, 1945, and the results of the companies' operations for the year ended on that date.

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 2, 1945.



3,000,000th Barrel

On July 11 our Peoria distillery filled its 3,000,000th barrel of whiskey. This production mark would normally have been set in the autumn of 1942 if the Peoria distillery had not been converted to war production.

