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SOMERVILLE INDUSTRIES LIMITED

1973 annual report





Directors

J. G. Church
 G. E. Creber
 I. A. MacDonald
 A. B. Van der Ende
 W. Garfield Weston
 T. E. White

Officers

J. G. Church	Chairman and President
I. A. MacDonald	Executive Vice-President
A. B. Van der Ende	Secretary-Treasurer
J. C. Bacon	Group Vice-President, Special Products Divisions

Management Committees

Head Office:

J. G. Church	Chairman
I. A. MacDonald	Executive Vice-President
A. B. Van der Ende	Secretary-Treasurer
T. E. White	Manager, Industrial and Public Relations
J. C. Bacon	Group Vice-President, Special Products Divisions

Packaging:

I. A. MacDonald	Chairman
L. A. Biddie	General Manager, Ontario Packaging Divisions
G. J. Deignan	General Manager, Consolith Division

Special Products:

J. G. Church	Chairman
J. C. Bacon	Group Vice-President
D. W. Clay	General Manager, Automotive Products Division
B. A. Cooper	General Manager, Plastics Division
B. L. Morin	General Manager, Games Division
J. O. Watt	General Manager, Merchandising Services Division

Transfer Agent

The Canada Trust Company
 Toronto, London, Montreal, Winnipeg and Vancouver



SOMERVILLE INDUSTRIES LIMITED and its wholly owned subsidiaries

TO THE SHAREHOLDERS:

Consolidated net sales for the year 1973 were \$51,257,000—an increase of \$3,790,000 over the previous twelve months.

Unfortunately, net income did not rise with the improved sales. Earnings of \$1,735,000 showed a decline from 1972 levels, as a result of rapidly escalating costs which were not completely recovered during 1973.

The cost of all types of raw materials—notably paperboard and plastic resins—increased with unpredictable frequency and at an unprecedented rate in the past year, and is continuing to do so.

In addition, scarcities resulting from prolonged labour disturbances in the pulp and paper industry interrupted production. The location of substitute materials and the juggling of production schedules, undertaken to maintain service to our clients, was expensive. Finally, a strike in the Somerville automotive products operation in Scarborough, Ontario, and a subsequent narrowing of U.S. market demand further reduced profitability.

Fixed asset purchases totalled \$1,240,000 in 1973. The program to improve and expand productive capacity in all Divisions will continue through 1974 and 1975.

Two major appointments were made at the corporate executive level in the mid-year and in early 1974. I. A. MacDonald, formerly Vice-President in charge of the Packaging Divisions, was named Executive Vice-President on May 1, 1973. J. C. Bacon was appointed Group Vice-President in charge of the Automotive, Plastics, and Merchandising Services Divisions on February 1, 1974. Mr. Bacon was previously General Manager of the Automotive Products Division. Both of these experienced and capable executives will add depth and strength to the corporate management group.

While most of the raw material cost and supply problems, which affected financial performance in 1973, are expected to continue for some time to come, prospects for the current year are excellent. Substantial increases in both sales and income are forecast, and these expanded objectives will be attained as the full benefit of various profit improvement programs, instituted earlier in 1973, are realized. As always, the continuing support of all employees will be a vital determining factor.

Chairman and President

CONSOLIDATED STATEMENT OF INCOME

for the year ended December 31, 1973

(in thousands of dollars)

	<u>1973</u>	<u>1972</u>
NET SALES	\$51,257	\$47,467
Costs, excluding expenses shown below.....	46,806	42,373
Operating Income, before undernoted items.....	4,451	<u>5,094</u>
Deduct:		
Depreciation.....	1,092	1,116
Interest on long term debt.....	556	63
Amortization of debt financing costs.....	14	—
Other interest.....	96	363
	<u>1,758</u>	<u>1,542</u>
OPERATING INCOME	2,693	3,552
Equity in net income of Mastico Industries Limited.....	170	101
Income before income taxes.....	2,863	3,653
Taxes on income (Note 1).....	1,128	1,723
NET INCOME FOR THE YEAR	\$ 1,735	<u>\$ 1,930</u>
Earnings per common share after preferred dividends.....	<u>\$ 4.60</u>	<u>\$ 5.14</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the year ended December 31, 1973

(in thousands of dollars)

	<u>1973</u>	<u>1972</u>
RETAINED EARNINGS AT BEGINNING OF YEAR.....	\$10,612	\$ 9,462
Add:		
Net income for the year.....	1,735	1,930
Net adjustment resulting from accounting changes.....	—	457
	<u>12,347</u>	<u>11,849</u>
Deduct:		
Dividends—preferred shares.....	94	97
—common shares.....	1,160	1,140
	<u>1,254</u>	<u>1,237</u>
RETAINED EARNINGS AT END OF YEAR	\$11,093	<u>\$10,612</u>



SOMERVILLE INDUSTRIES LIMITED and its wholly owned subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 1973

(in thousands of dollars)

CURRENT ASSETS	1973	1972
Cash	\$ 7	\$ 7
Accounts receivable (note 2)	7,040	5,265
Inventories (note 1)	11,629	10,030
Prepaid expenses	386	302
	<u>19,062</u>	<u>15,604</u>
CURRENT LIABILITIES		
Bank Advances	1,639	1,842
Accounts payable and accrued liabilities (note 2)	3,472	2,188
Taxes payable	186	568
Dividends payable	23	24
Advance from affiliated company	—	5,000
Long term debt payable within one year	—	234
	<u>5,320</u>	<u>9,856</u>
WORKING CAPITAL	<u>13,742</u>	<u>5,748</u>
SINKING FUND RE PREFERRED SHARES— government and industrial bonds at market values (cost \$121,141)	100	102
UNAMORTIZED DEBT FINANCING COSTS (note 1)	259	—
INVESTMENTS—Shares in 50% owned company— Mastico Industries Limited—at equity value	410	390
FIXED ASSETS (note 1)	23,655	22,611
Less: Accumulated depreciation	13,347	12,451
	<u>10,308</u>	<u>10,160</u>
TOTAL ASSETS, LESS CURRENT LIABILITIES	<u>24,819</u>	<u>16,400</u>
LONG TERM DEBT (note 3)	8,576	683
DEFERRED INCOME TAXES (note 1)	2,243	2,102
	<u>10,819</u>	<u>2,785</u>
NET ASSETS (being Shareholders' equity)	<u>\$14,000</u>	<u>\$13,615</u>
SHAREHOLDERS' EQUITY		
Capital stock (note 4)	\$ 1,985	\$ 2,081
Retained earnings (note 5)	11,093	10,612
Excess of appraised value of fixed assets over cost	922	922
TOTAL SHAREHOLDERS' EQUITY	<u>\$14,000</u>	<u>\$13,615</u>

On behalf of the Board:

J. G. Church, Director

I. A. MacDonald, Director

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

for the year ended December 31, 1973

(in thousands of dollars)

SOURCE OF FUNDS:	<u>1973</u>	<u>1972</u>
From operations—		
Net income for the year	\$ 1,735	\$ 1,930
Charges to income not resulting in an outlay of funds—		
Depreciation	1,092	1,116
Deferred income taxes	141	(161)
Amortization of debt financing costs	14	—
	<u>2,982</u>	<u>2,885</u>
Proceeds from Series A debenture issue	8,000	—
	<u>10,982</u>	<u>2,885</u>
APPLICATION OF FUNDS:		
Purchase of fixed assets (net of disposals)	1,240	542
Purchase of preferred shares for cancellation	96	34
Dividends to shareholders	1,254	1,237
Reduction in long term debt	107	264
Debt financing costs related to debenture issue	273	—
Sundry items (net)	18	3
	<u>2,988</u>	<u>2,080</u>
Increase in working capital	7,994	805
Working capital at beginning of year	5,748	4,943
WORKING CAPITAL AT END OF YEAR	<u>\$13,742</u>	<u>\$ 5,748</u>

AUDITORS' REPORT

To the Shareholders of Somerville Industries Limited:

We have examined the consolidated statement of financial position of Somerville Industries Limited and its wholly owned subsidiaries as at December 31, 1973 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the Companies as at December 31, 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.

London, Canada
January 15, 1974

CLARKSON, GORDON & CO.
Chartered Accountants



SOMERVILLE INDUSTRIES LIMITED and its wholly owned subsidiaries

NOTES TO CONSOLIDATED STATEMENTS

1. Accounting policies:

Principles of consolidation

The consolidated financial statements include the accounts of Canadian Folding Cartons Limited and Somerville Automotive Trim Limited. The business formerly conducted by these wholly-owned inactive subsidiaries is now being carried on by the Canadian Folding Cartons Division and the Somerville Automotive Trim Division of the Company.

Inventories

Inventories are valued at the lower of cost and net realizable value.

	<u>1973</u>	<u>1972</u>
Raw materials, goods in process and supplies.	\$ 7,483,886	\$ 5,172,743
Finished goods.	4,144,797	4,856,934
	<u>\$11,628,683</u>	<u>\$10,029,677</u>

Unamortized debt financing costs

Debt financing costs related to the 8½% Series A sinking fund debentures are being amortized over the twenty year term of the issue on a straight line basis.

Fixed assets and depreciation

Buildings and equipment are stated at cost except for buildings owned in 1951 and equipment owned in 1955 which are stated at depreciated replacement values in accordance with appraisals made in those years. Other fixed assets and additions subsequent to the appraisals have been shown at cost.

	<u>1973</u>	<u>1972</u>
Land and buildings.	\$ 6,093,971	\$ 6,080,303
Machinery and equipment.	17,561,346	16,530,855
	<u>\$23,655,317</u>	<u>\$22,611,158</u>

Depreciation is provided on a straight line basis over the estimated useful lives of the fixed assets.

Income taxes

Deferred income taxes arise as a result of claiming capital cost allowances for tax purposes in excess of depreciation included in the Company's costs.

2. Accounts receivable and accounts payable:

Included in accounts receivable is an amount of \$447,354 owing from, and in accounts payable an amount of \$121,892 owing to affiliated companies. In 1972, the amounts were \$387,597 and \$36,486 respectively.

3. Long term debt:

	<u>1973</u>	<u>1972</u>
Debentures outstanding		
8½% sinking fund debentures Series A due April 1, 1993.	\$ 7,900,000	—
First mortgage bonds outstanding		
5¼% sinking fund bonds Series A due October 15, 1973.	—	\$ 234,260
6% sinking fund bonds Series B due June 15, 1977.	676,000	683,000
	<u>8,576,000</u>	<u>917,260</u>
Less payable within one year.	—	234,260
Total long term debt.	<u>\$ 8,576,000</u>	<u>\$ 683,000</u>

The first mortgage bonds are secured by a first fixed and specific mortgage and a first floating charge on the assets of the Company.

During the year the Company issued \$8,000,000 8½% Sinking Fund Debentures Series A, for an aggregate consideration of \$7,808,000 which, after deducting all costs of issue, was reduced to \$7,727,000. Under the terms of the Trust Indenture these debentures are secured by a floating charge on the assets of the Company subject to the prior charges securing the first mortgage bonds. The Company repurchased for cancellation \$100,000 of these debentures during 1973.

Aggregate sinking fund requirements during the next five fiscal years are as follows: 1974—Nil; 1975—\$100,000; 1976—\$176,000; 1977—\$700,000; 1978—\$100,000.

4. Capital stock:

	Number of shares		Amount	
	1973	1972	1973	1972
Preferred cumulative, redeemable shares, par value \$50 each, issuable in series				
Authorized.....	100,000	100,000		
Less purchased for cancellation.....	7,431	5,494		
	<u>92,569</u>	<u>94,506</u>		
Issued and outstanding—				
\$2.80 sinking fund cumulative preferred shares, 1953 series, redeemable at \$51 per share.....	32,569	34,506	\$1,628,450	\$1,725,300
Common shares without par value				
Authorized.....	500,000	500,000		
Issued and outstanding.....	356,300	356,300	356,300	356,300
			<u>\$1,984,750</u>	<u>\$2,081,600</u>

5. Retained earnings:

Retained earnings include an amount of \$96,850 set aside as capital surplus in connection with the redemption of preferred shares as required by Section 62 of the Canada Corporations Act.

6. Long term leases:

Long term leases entered into by the Company extend into the year 1988. Under the terms of such leases, the aggregate rental amounts to \$1,868,595. The maximum annual rental payable thereunder for the years 1974 to 1978 is \$154,666.

7. Statutory information:

(a) Remuneration of directors and officers

	1973	1972
Number of directors.....	6	6
Aggregate remuneration as directors.....	Nil	Nil
Number of officers.....	3	3
Aggregate remuneration as officers.....	\$152,455	\$142,364
Number of officers who are directors.....	3	3

(b) Classes of business

In the opinion of the directors, the classes of business contributing in excess of 10% of sales were as follows:

	Amount		Percentage	
	1973	1972	1973	1972
Packaging.....	\$36,456,387	\$33,124,435	71.1%	69.8%
Automotive products.....	6,802,231	7,706,022	13.3	16.2
Other.....	7,998,575	6,636,519	15.6	14.0
	<u>\$51,257,193</u>	<u>\$47,466,976</u>	<u>100.0%</u>	<u>100.0%</u>

SOMERVILLE DIRECTORY

- **Head Office and London Division**
P.O. Box 5760, Terminal 'A', London, Ontario
- **Winnipeg Plant**
1885 Sargent Avenue, Winnipeg 21, Manitoba
- **Consolith Division**
865 Hodge Street, Montreal 379, Quebec
- **Canadian Folding Cartons Division**
188 Cartwright Avenue, Toronto 19, Ontario
- **Automotive Products Division—Scarborough**
20 Bertrand Avenue, Scarborough, Ontario
- **Automotive Products Division—Windsor**
2744 Edna Street, Windsor, Ontario
- **Somerville Automotive Trim Division**
2744 Edna Street, Windsor, Ontario
- **Merchandising Services Division**
11 Lesmill Road, Don Mills, Ontario
- **Games Division**
P.O. Box 5760, Terminal 'A', London, Ontario
- **Somerville Plastics Division**
376 Orenda Road, Bramalea, Ontario

Sales Offices situated at all manufacturing divisions and at the following locations:

- Guelph: 21 Oak Street (P.O. Box 331)
- Moncton: P.O. Box 1106
- Peterborough: 166 Brock Street (P.O. Box 325)
- Truro: 545 Prince Street (P.O. Box 458)

Agents from coast to coast

