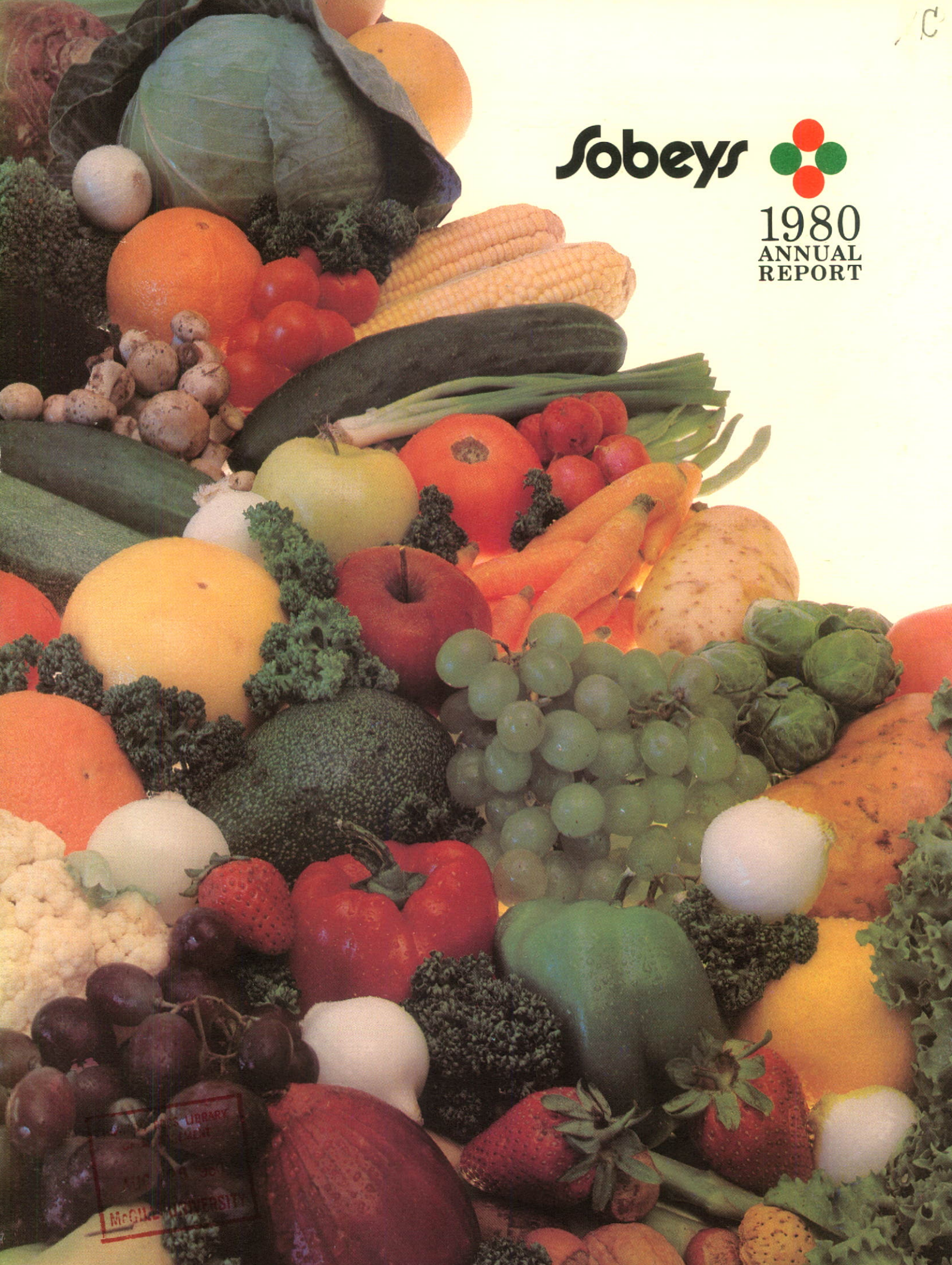




1980  
ANNUAL  
REPORT



McGILL UNIVERSITY  
LIBRARY  
JAN 14 1981





*An instore bakery - ready for opening*

## **DIRECTORS**

**Merritt G. Crawford**  
New Glasgow, Nova Scotia

**James W. Gogan**  
New Glasgow, Nova Scotia

**William G. Lumsden**  
Burlington, Ontario

**Arthur R. Lundrigan**  
Corner Brook, Newfoundland

**J. Skiffington Murchie**  
New Glasgow, Nova Scotia

**Henry B. Rhude**  
Halifax, Nova Scotia

**J. William Ritchie**  
Halifax, Nova Scotia

**David F. Sobey**  
New Glasgow, Nova Scotia

**Donald R. Sobey**  
Stellarton, Nova Scotia

**Frank H. Sobey**  
Abercrombie, Nova Scotia

**William M. Sobey**  
King's Head, Nova Scotia

## **SOBEYS STORES LIMITED**

Head Office  
115 King Street  
Stellarton, Nova Scotia  
B0K 1S0  
Telex 019-36536  
Telephone 902-752-8371

## **OFFICERS**

**Frank H. Sobey**  
Honorary Chairman

**William M. Sobey**  
Chairman and Chief Executive Officer

**David F. Sobey**  
President

**J. Skiffington Murchie**  
Executive Vice-President

**D. B. Eddy**  
Vice-President Personnel

**Frank J. Hickey**  
Vice-President Merchandising

**Darrell M. Rushton**  
Vice-President Wholesale Operations

**Nigel F. Byars**  
Vice-President Finance, Treasurer

**J. Robert MacMillan**  
Secretary

## **AUDITORS**

H. R. Doane and Company

## **TRANSFER AGENT AND REGISTRAR**

Montreal Trust Company  
Montreal — Toronto  
Saint John — Halifax

## **BANKERS**

The Bank of Nova Scotia



Sobeys - your place for food

## THE COMPANY

Since 1907 Sobeys Stores has grown from a small Nova Scotia store to a major retail and wholesale grocery company, engaged in the distribution of national brand and private label food products, meat, produce, fast food and non-food items.

The Company's market extends throughout the four Atlantic Provinces, into the Gaspé coast of Quebec and Southern Ontario.

## HIGHLIGHTS

	1980	1979
Sales ('000) .....	\$380,153	\$307,825
Net earnings ('000) .....	\$ 1,891	\$ 1,857
Earnings per \$100 of sales .....	49.7¢	60.3¢
Earnings per common share .....	\$ 2.34	\$ 2.30
Equity per common share .....	\$ 20.18	18.23
Working capital ('000) .....	\$ 6,304	\$ 9,012
Total assets ('000) .....	\$ 83,550	\$ 58,571



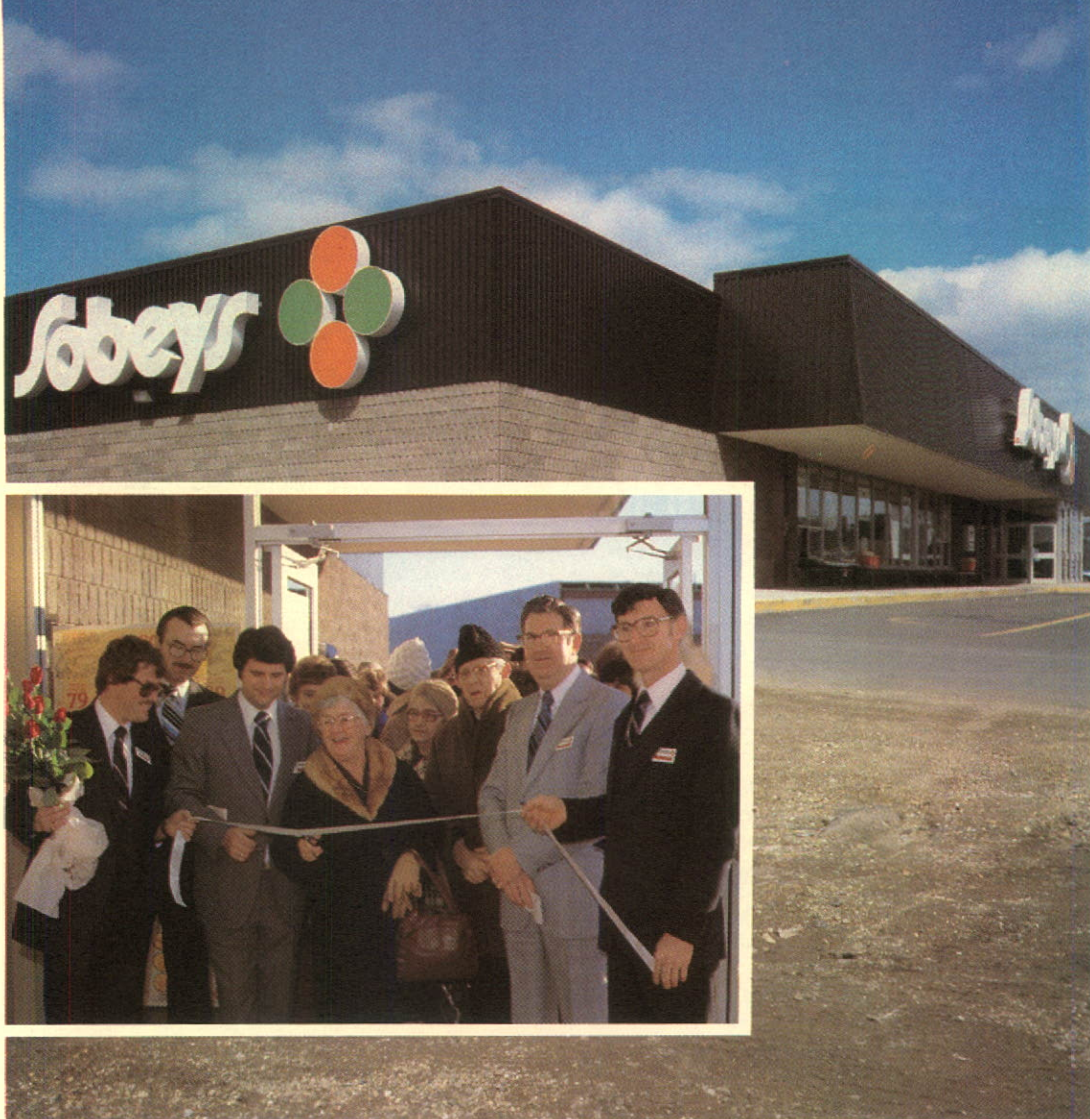
*Take-A-Break fast food unit,  
Historic Properties, Halifax*



*Product personally prepared at Pizza Hut*







*Official opening - Store #515, Dieppe, New Brunswick*

## OPERATING RESULTS

Strong growth in sales continued during the 1980 fiscal year resulting in consolidated sales of \$380 million, an increase of 23.5% over the prior year. Consolidated net earnings for the year were \$1,891,000 or \$2.34 per common share, and included \$684,000 of net gains on sales of marketable securities. These earnings represent a net profit of 49.7¢ on each \$100 of sales.

Cash flow from operations was \$5.2 million or \$6.65 per common share. This amount together with proceeds from the issue of \$5 million of sinking fund debentures was reinvested in the Company through additions to property and equipment amounting to \$9

million. Payment of dividends on preferred and common shares totalled \$384,000 and repayment of long term debt was \$1,034,000. Working capital at May 3, 1980 was \$6.3 million or \$8.14 per common share.

Net earnings were adversely affected by the start up costs associated with the T.R.A. Newfoundland wholesale operations and the increased new store openings in the retail division. In addition the significant increases in interest rates during the year together with higher levels of borrowing resulted in an increase of \$2,143,000 in interest charges incurred by the Company.





*Stellarton Distribution Centre - under expansion*

## THE YEAR IN REVIEW

The 1980 fiscal year continued the rapid pace of expansion maintained in 1978 and 1979. New Sobeys stores were opened during the year in Fairvale and Dieppe, New Brunswick; Chandler, Quebec; and Shelburne and North Sydney, Nova Scotia. In addition, a major enlargement was undertaken in Marystown, Newfoundland as well as renovations in several other locations.

At the close of the fiscal year, new stores were under construction in five locations and major enlargements were in progress in Sydney and New Glasgow, Nova Scotia. In addition, the Company's main distribution centre in Stellarton, Nova Scotia is currently being enlarged by the addition of over 58,000 square feet.

The Lofood concept concentrates on limited variety grocery and produce merchandising with limited service features, the concept sometimes being referred to as "Box Stores." This division continued the expansion of operations with the opening of one unit in Fredericton and two units in Moncton, New Brunswick; and units in Sydney, Nova Scotia; Grand Falls and St. John's, Newfoundland.

At the fiscal year end, the Company operated 71 Sobeys and 7 Lofood units.

Expansion continued in the wholesale division with the

addition of four distribution centres in Newfoundland, and a 40% increase in the TRA Foods distribution centre in Middleton, Nova Scotia.

The wholesale division earnings showed a sharp decline as a result of the start-up costs associated with the T.R.A. Newfoundland division and a significant increase in the provision for doubtful receivables in all wholesale subsidiaries. Noticeable improvement is anticipated in both of these areas during the 1981 fiscal year.

Shortly before the fiscal year end the Company acquired the assets of the Nova Scotia and New Brunswick Fruit and Vegetable Division of Canada Packers Inc. This acquisition resulted in the creation of a new subsidiary, Clover Produce Limited operating as a wholesale fruit and vegetable distributor from warehouse locations in Halifax and Sydney, Nova Scotia and Moncton, New Brunswick.

The fast food division continued its expansion program with new Take-A-Break units opened in Halifax and North Sydney, Nova Scotia and limited service Pizza Hut Express units opened in Halifax, Greenwood and North Sydney, Nova Scotia. The fast food division now operates 16 locations.

*Lofood - the lowest overall food prices*







*Installation proceeds on the new 4331 Computer System in Stellarton*

*Part of over 200,000 cases of grocery inventory at the Stellarton Distribution Centre*



During the year additional shares in Provigo Inc. were acquired increasing this holding to approximately 24% of that company. Provigo Inc., a Quebec based company is engaged primarily in the wholesale and retail distribution of food, pharmaceuticals and general merchandise throughout Canada and parts of the United States. In its 1980 fiscal year, the net income of Provigo was \$18 million on sales of \$2.3 billion. This investment is accounted for on the "cost" basis whereby only cash dividends received are included in income.

The rapid growth in operations has in turn generated the need for expansion of administrative facilities. The principal data processing installation is centered at the Company's Head Office in Stellarton. This facility has recently been expanded with the installation of an IBM 4331 as the host processor, with the added capability of supporting the Company's point of sale installations and other applications previously processed by service bureaus. In addition a Series 1 mini computer was installed to expand our electronic order entry system now enabling receipt of store orders on a 24 hour per day basis.

During the year an additional System 34 computer was installed in the T.R.A. Newfoundland operation, being the third System 34 unit installed by the wholesale division. Significant effort was focused on systems development for the wholesale division during the 1980 year. This is coordinated through the corporate data processing facility to ensure compatibility of all systems design. Currently installation of electronic order entry equipment is in process in two of the wholesale subsidiaries to increase the efficiency of order processing.

Expansion in other areas continued with the establishment of a centralized laundry facility to service the needs of approximately 50 of the Company's retail stores as well as external businesses.

During the year, Eastern Sign-Print Limited, the commercial silk screen sign and printing division of the Company constructed a new 9,800 square foot facility in Stellarton, Nova Scotia and added additional equipment to expand operations. This annual report has been printed by this subsidiary.



# CONSOLIDATED BALANCE SHEET

May 3, 1980

Assets	1980 (In Thousands)	1979
Current		
Cash	\$ 3,470	\$ 3,241
Marketable securities, at cost (quoted market value \$29,273,000; 1979 \$19,518,000)	19,639	12,807
Receivables, less allowance for doubtful accounts	5,285	4,435
Income taxes recoverable	294	
Inventories (Note 1)	26,642	18,735
Prepaid expenses	1,512	1,355
	<u>56,842</u>	<u>40,573</u>
Investments and advances (Note 1)	2,517	812
Property and equipment, at cost		
Land	889	609
Buildings and facilities	7,330	4,595
Equipment	20,105	15,952
Leasehold improvements	3,195	2,980
	<u>31,519</u>	<u>24,136</u>
Less: Accumulated depreciation	10,438	9,886
	<u>21,081</u>	<u>14,250</u>
Assets under capital leases, at cost (less accumulated amortization of \$1,089,261; 1979 \$678,385)	3,110	2,936
	<u>\$83,550</u>	<u>\$58,571</u>

On behalf of the Board

*W.M. Sobey*

W.M. Sobey Director

*David F. Sobey*

David F. Sobey Director

## Auditors' Report

To the Shareholders of Sobeys Stores Limited

We have examined the consolidated balance sheet of Sobeys Stores Limited as at May 3, 1980, and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended, and have obtained all the information and explanations we have required. Our examination of the financial statements of Sobeys Stores Limited and those subsidiaries of which we are the auditors was made in accordance with generally accepted auditing standards,

Part of our growing family of 131 Sobeys private label and 55 no name products





## Liabilities

1980  
(In Thousands)

1979

### Current

Bank loans (Note 3)	\$ 6,155	\$ 3,654
Bankers' acceptances	12,500	2,500
Accounts payable and accrued charges	30,182	23,894
Income taxes payable	44	504
Long term debt due within one year	651	217
Capital lease obligations	421	291
Current portion of deferred income taxes	585	501
	<u>50,538</u>	<u>31,561</u>
Capital lease obligations (Note 4)	2,884	2,797
Long term debt (Note 5)	11,518	7,352
Minority interest	517	491
Deferred income taxes	<u>1,289</u>	<u>1,050</u>

### Shareholders' Equity

Capital stock (Note 6)	3,593	3,616
Capital redemption reserve fund	79	56
Retained earnings	13,132	11,648
	<u>16,804</u>	<u>15,320</u>
	<u>\$83,550</u>	<u>\$58,571</u>

and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements of a subsidiary company.

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 company, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the financial position of

the company as at May 3, 1980, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in accounting for capital leases as outlined in Note 2 to the financial statements, on a basis consistent with that of the preceding year.

*H. L. Hare and Company*

Chartered Accountants

New Glasgow, Nova Scotia  
June 13 1980





## CONSOLIDATED STATEMENT OF EARNINGS

Year Ended May 3, 1980

	1980	1979
	(In Thousands)	
Sales	\$380,153	\$307,825
Cost of sales, selling and administrative expenses	372,963	301,312
	7,190	6,513
Depreciation	2,654	2,137
Interest on long term debt	1,409	1,022
Interest on current debt	2,596	840
Investment income	( 766)	( 506)
Gains on sales of securities	( 684)	
	5,209	3,493
	1,981	3,020
Income taxes (Note 7)	105	1,113
	1,876	1,907
Minority interest	( 15)	50
Net earnings for the year	\$ 1,891	\$ 1,857
Earnings per common share	\$ 2.34	\$ 2.30
Cash flow per common share	\$ 6.65	\$ 6.02

Produce merchandising - fresh daily





## CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year Ended May 3, 1980

	1980	1979
	(In Thousands)	
Balance, beginning of year		
As previously reported	\$11,745	\$10,150
Change in accounting for leases (Note 2)	74	54
Income taxes	23	
As restated	11,648	10,096
Net earnings for the year	1,891	1,857
Other adjustments		77
	<u>13,539</u>	<u>12,030</u>
Dividends paid		
Preference shares	74	76
Class "A" common shares	208	208
Class "B" common shares	102	51
Redemption of preference shares	23	47
	<u>407</u>	<u>382</u>
Balance, end of year	<u>\$13,132</u>	<u>\$11,648</u>

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended May 3, 1980

	1980	1979
	(In Thousands)	
Source of working capital		
Cash flow from operations consisting of		
Net earnings for the year	\$1,891	\$1,857
Depreciation	2,654	2,137
Deferred income taxes	239	409
Minority interest	26	37
Other	344	226
	<u>5,154</u>	<u>4,666</u>
Reduction in investments and advances		1,354
Issue of long term debt	5,200	408
Capital lease obligations	589	596
Other adjustments		61
	<u>10,943</u>	<u>7,085</u>
Use of working capital		
Property, equipment and other assets acquired	9,074	4,209
Assets under capital leases	585	596
Repayment of long term debt		
(including current maturities)	1,034	328
Repayment of capital lease obligations	502	318
Investments and advances	2,049	
Dividends paid	384	335
Redemption of preference shares	23	47
	<u>13,651</u>	<u>5,833</u>
Net working capital (used) provided during year	( 2,708)	1,252
Working capital, beginning of year	9,012	7,760
Working capital, end of year	<u>\$6,304</u>	<u>\$9,012</u>



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 3, 1980

### 1. Accounting policies

#### Principles of consolidation

The consolidated financial statements include the accounts of the company and all subsidiary companies.

The equity method of accounting is used for investments in joint venture companies and in a company in which less than 51% of the voting shares are held.

#### Depreciation and amortization

Depreciation is charged on a straight line basis over the estimated useful lives of the assets as follows:

Equipment and vehicles	3 to 10 years
Buildings	10 to 40 years

Leasehold improvements are amortized over the term of the related lease for improvements

prior to May 3, 1975, and for a term not greater than fifteen years for improvements subsequent to that date.

#### Inventories

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

#### Leases

Leases meeting certain criteria are accounted for as capital leases. The imputed interest is charged against income and the capitalized value is depreciated on a straight line basis over its useful life. Obligations under capital leases are reduced by rental payments net of imputed interest. All other leases are accounted for as operating leases with rental payments being expensed as incurred.

### 2. Change in accounting policy

In 1980 the company adopted the recommendations of the Canadian Institute of Chartered Accountants related to accounting for leases.

This change in accounting policy was applied on a retroactive basis to leases in effect at the year end date and accounts for the prior year have been restated. This change did not materially effect the net earnings for 1979 and 1980.

### 3. Bank loans

Bank loans are secured by assignments of certain receivables and marketable securities, and a specific mortgage and first floating charge debenture against assets of a subsidiary company.

### 4. Long term leases

The future minimum payments under lease agreements extending beyond one year from the balance sheet date approximates:

	Capital Leases	Operating Leases
1981	\$ 777,501	\$ 4,298,325
1982	762,589	4,059,544
1983	738,167	3,869,971
1984	689,465	3,731,708
1985	540,384	3,430,535
Subsequent years	1,175,182	31,763,323
Total minimum payments	4,683,288	\$ 51,153,406
Less: Imputed interest at an average rate of approximately 12%	1,378,444	
	3,304,844	
Amounts due within one year	421,194	
Capital lease obligations	\$ 2,883,650	



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 3, 1980

### 5. Long term debt

#### Sinking fund debentures

Series	Rate	Maturity	1980	1979
E	6%	March 1, 1981	\$ 430,000	\$ 460,000
F	6%	April 1, 1984	520,000	550,000
G	5¾%	April 15, 1985	275,000	290,000
H	6%	November 1, 1985	580,000	610,000
I	7¼%	June 15, 1987	640,000	670,000
J	8½%	March 1, 1989	670,000	700,000
K	10½%	September 30, 1997	2,820,000	2,910,000
L	11½%	October 15, 1999	5,000,000	
			<u>10,935,000</u>	<u>6,190,000</u>
Less: Debentures held for sinking fund purposes			458,596	207,545
			<u>10,476,404</u>	<u>5,982,455</u>
Mortgages				
10¾% maturing in 1989 and 2000			415,918	864,821
15¾% maturing in 1985			628,696	
Term bank loan maturing in 1982 with interest at a rate fluctuating with the prime rate			647,495	721,387
			<u>12,168,513</u>	<u>7,568,663</u>
Current maturities (less debentures held for sinking fund purposes)			650,344	217,034
			<u>\$11,518,169</u>	<u>\$7,351,629</u>

Sinking fund debentures are secured by a floating charge on assets of Sobeys Stores Limited and mortgages are secured by certain lands and buildings of subsidiaries. Annual debt repayment in the next five years is:

1981 - \$908,665	1982 - \$981,898	1983 - \$412,337
1984 - \$818,080	1985 - \$593,396	

### 6. Capital stock

Authorized	1980	1979
237,231 cumulative redeemable non-voting preference shares of \$20 par value each, issuable in series		
750,000 Class "A" non-voting common shares without nominal or par value		
500,000 Class "B" voting common shares without nominal or par value		
Issued and outstanding		
58,263 6¼% preference shares, 1966 series	\$1,165,260	\$1,189,220
520,862 Class "A" common shares	1,739,862	1,739,862
254,000 Class "B" common shares	687,200	687,200
	<u>\$3,592,322</u>	<u>\$3,616,282</u>

The 1966 series preference shares may be called at par at any time and the company is required to provide a \$30,000 fund each year from which shares may be purchased for redemption.

### 7. Income taxes

The net earnings of the company includes income from investments which has reduced the effective rate of income taxes.





*Personal service - attending to customer needs*

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 3, 1980

### 8. Contingent liabilities

The company has undertaken by separate agreements to provide cash to meet any obligations which Canadian Shopping Centres Limited and Sobey Leased Properties Limited are unable or fail to meet until all of their debentures have been paid in full in accordance with their terms. Any deficiency payment made by the company will be by purchase of fully paid non-assessable 6% redeemable, non-voting preference shares of the applicable company. The aggregate outstanding principal amounts of these debentures is \$2,640,000.

The company is contingently liable as guarantor of loans amounting to \$1,900,000. As at May 3, 1980, outstanding loans supported by these guarantees amounted to \$2,250,000.

The company has agreed to acquire up to 45,000 of the outstanding cumulative, redeemable, non-voting, \$100 par value preferred shares of a related company in the event that the issuer fails to redeem 15,000 shares on January 26, 1983, and 30,000 shares on November 15, 1988, or under certain circumstances at an earlier date provided for in the subscription agreement.

## CONSOLIDATED FIVE YEAR SUMMARY

	1980	1979	1978	1977*	1976
<b>Operations ('000)</b>					
Sales	\$380,153	\$307,825	\$256,389	\$236,806	\$209,369
Depreciation	2,654	2,137	1,969	1,516	1,695
Earnings from operations	1,891	1,857	1,037	1,087	689
Cash flow from operations	5,154	4,666	3,108	2,850	2,452
Capital expenditures	9,074	4,209	1,929	2,087	1,397
<b>Per Common Share</b>					
Earnings from operations	2.34	2.30	1.24	1.30	.79
Cash flow from operations	6.65	6.02	3.91	3.68	3.16
Dividends paid Class A	.40	.40	.40	.40	.40
Class B	.40	.20			
Preferred	1.25	1.25	1.25	1.25	1.25
Net equity	20.18	18.23	16.17	15.20	11.20
<b>Financial Position ('000)</b>					
Working capital	6,304	9,012	7,760	5,914	839
Long term debt	11,518	7,352	7,272	4,651	4,461
Shareholders' equity	16,804	15,320	13,768	13,016	9,924
Total assets	83,550	58,571	50,407	39,562	37,108

\*53 weeks

Prior year amounts have been restated to reflect the change in accounting for leases adopted in 1980.



## FUTURE OUTLOOK

Entering the 1981 fiscal year the Company continues its aggressive expansion program with three new stores and two replacement stores scheduled to open during the first half of the year. Capital expenditure commitments for 1981 presently exceed \$5 million.

The newly incorporated Clover Produce Division is anticipated to make a positive contribution to consolidated earnings and the T.R.A. Newfoundland Wholesale Division is projecting a modest contribution to the 1981 operating result. Improvements in the credit and collection policies of the wholesale subsidiaries should result in better control and improved profit of this division.

The Company remains committed to a policy of expanding market position through its planned program of expansion, modernization and new construction.



*Canada Grade A beef - Sobeys meat "A cut above the Rest"*

*Meat and cheese trays from our Deli - careful attention to every detail*





