

ANNUAL REPORT

FOR THE FISCAL YEAR ENDED

NOVEMBER 2, 1968

J. M. SCHNEIDER, LIMITED

J. M. SCHNEIDER, LIMITED

BOARD OF DIRECTORS

J. B. Banks		H. J. Schneider
E. H. Bull	<hr/>	H. G. Schneider
D. C. Jamieson		N. C. Schneider
K. G. Murray		J. D. Small
J. D. Rossiter		R. W. Steinberg
R. C. Scheifley		R. E. Wand
F. P. Schneider		

OFFICERS

N. C. Schneider	- - - - -	Chairman of the Board
F. P. Schneider	- - - - -	President
H. J. Schneider	- - - - -	Vice President
K. G. Murray	- - - - -	General Manager
R. C. Scheifley	- - - - -	Secretary
D. C. Jamieson	- - - - -	Treasurer

PRESIDENT'S REPORT

To our Shareholders:

Sales:

Volume and dollar sales were at a record high level for our fiscal year ended November 2, 1968. Pounds sold increased by 5.2% over the previous year with dollar sales up by 5.5%.

Profits:

While net profit before tax for the year increased 5.8%, the net profit after tax was up by only 3.7% as a result of an increase in corporation tax rates.

Labour Costs:

Sharply increased labour costs made even this modest increase in net profit difficult to achieve. Our total labour bill was at the rate of 10.3¢ per pound sold in 1968. This was an increase of 1/3¢ per pound over 1967, a significant change compared with our net income after tax in 1968 of less than 1¢ per pound. In the ten years since 1958, our pounds sold have risen by 75.3%. In this same period, our payments for labour have gone up by 134.6%. In 1968, we had to get over 2½¢ more per pound sold to cover our labour cost as compared to ten years earlier. Obviously we have been unable to absorb our increased labour rates by increased productivity.

Building Plans:

This sharp increase in labour cost means that we must use every means at our disposal to reduce labour content of our finished products. To effect this, your Company has embarked on a five-year program to streamline our product flow and use every practical method of increasing productivity. Property adjacent to the plant has been put under option. A new, modern production facility for Cooked Meats and Sausage will be erected which will be integrated with existing plant to bring about a smooth flow of raw material and finished product.

Proposed Ayr Plant:

The food industry is in a state of rapid change. The plant we have scheduled to start at Ayr in 1969 will give us the opportunity to adapt more readily to changing markets and patterns of distribution. These, I am sure, will be quite different from many we are now used to serving and using.

Profit Incentive Bonus Plan:

I wish to comment on our Profit Incentive Bonus Plan whereby Company employees receive cash bonuses based on Company profitability. The Board of Directors feels that a well constituted and communicated plan will increase employee interest and productivity with resulting benefit to both employee and shareholder. The plan basically assures the shareholders of a fair return on their investment before any profits are available for the Incentive Plan. After this return on your invested dollars, further profits are divided among employees and shareholders. The plan provides an incentive for employees and management to use your investment as effectively as possible with all parties sharing in the added benefits.

Financial Needs:

While the Company is in a strong financial position, present plans will require substantial expenditures over the next five years. To conserve our resources we are employing the technique of leasing equipment and facilities where this is feasible. We have always felt that our deliveries should be under our control as far as possible to assure satisfied customers. In 1969, your Company will be adding substantially to its delivery fleet by means of leased vehicles. In the area of computers, there are large savings if the equipment can be purchased rather than rented. Here again, leasing through a third company gave us these savings but without the large capital outlay of purchasing.

Change in Presidency:

In May of this year, the Presidency of your Company was given to me by the Board of Directors. Since then, I have come to realize more than ever our dependence on others for carrying out any project large or small. Our staff is very capable and co-operative. It is only with their help that I could hope to move your Company ahead. I can only be very optimistic at this time about the future.

Retirement of J. D. Small:

I wish to pay tribute to Mr. J. D. Small, my predecessor, who served us all well during his forty-one years of service. Since his retirement earlier this year, he has continued to serve us as a member of the Board of Directors.

The Myth of Big Profits:

We are in an intensely competitive industry, contrary to the myth which unfortunately dies hard, that there are excessive profits in the meat industry. There are several farmer-owned meat packing firms that have recently suffered financial losses with some kept alive only by government support or by other artificial means. These people were attracted to the mythical pot of gold in the meat processing industry. There are no big profits and anyone who builds a meat plant today must have highly skilled management, assured volume and an extensive merchandising system, or else face big losses. Even large, experienced firms can lose money. One of the oldest and largest U.S. packers suffered a loss of \$42,000,000 in 1968.

Shareholders' Meeting:

We invite all of you to attend our Shareholders' Meeting to hear more about your Company and our plans for its future.

Fred P. Schneider

AUDITORS' REPORT

To the Shareholders of
J. M. Schneider, Limited

We have examined the balance sheet of J. M. Schneider, Limited as at November 2, 1968 and the 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 financial statements present fairly the financial position of the Company as at November 2, 1968 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving effect in that year to the adjustments resulting from the change in the basis of computing depreciation charges as explained in note 2 to the financial statements, with which change we concur.

Kitchener, Ontario
November 27, 1968

Thorne, Gunn, Helliwell & Christenson

Chartered Accountants

J. M. SCHNEIDER, LIMITED

(Incorporated under the laws of Ontario)

BALANCE SHEET — NOVEMBER 2, 1968

(with comparative figures at November 4, 1967)

ASSETS	1968	1967
CURRENT ASSETS		
Cash	\$ 402,564	\$ 292,149
Marketable securities at cost, plus accrued interest (quoted market value 1968, \$1,173,682; 1967, \$658,469)	1,193,731	691,497
Accounts receivable	2,071,426	1,872,595
Inventories (note 1)	3,673,153	3,400,661
Prepaid expenses	144,598	57,313
Special refundable tax	68,191	
	<u>7,553,663</u>	<u>6,314,215</u>
OTHER ASSETS		
Life insurance, cash surrender value	16,077	16,843
Special refundable tax		92,609
	<u>16,077</u>	<u>109,452</u>
FIXED ASSETS (note 2)		
Land and improved areas, buildings, machinery and equipment, at cost	13,872,759	12,743,089
Less accumulated depreciation	<u>6,535,393</u>	<u>5,785,292</u>
	<u>7,337,366</u>	<u>6,957,797</u>
	<u><u>\$14,907,106</u></u>	<u><u>\$13,381,464</u></u>

Approved by the Board:

F. P. SCHNEIDER Director

D. C. JAMIESON Director

BALANCE SHEET — NOVEMBER 2, 1968 — (Continued)

LIABILITIES	1968	1967
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 2,191,078	\$ 1,903,654
Income taxes payable	<u>579,398</u>	<u>144,255</u>
	<u>2,770,476</u>	<u>2,047,909</u>
DEFERRED INCOME TAXES (note 3)	<u>867,993</u>	<u>904,993</u>
 SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 4)		
Authorized		
890,968 Class A 6% non-voting non-cumulative preference shares, redeemable at par value of \$1.00 per share		
60,000 Class B 45¢ non-voting non-cumulative participating preference shares, par value \$15 per share		
520,825 Common shares without par value		
Issued		
15,519 Class B preference shares (15,048 shares in 1967)	232,785	225,720
364,280 Common shares	<u>957,330</u>	<u>957,330</u>
	1,190,115	1,183,050
CONTRIBUTED SURPLUS (note 4)	217,643	209,165
RETAINED EARNINGS	<u>9,860,879</u>	<u>9,036,347</u>
	<u>11,268,637</u>	<u>10,428,562</u>
	<u>\$14,907,106</u>	<u>\$13,381,464</u>
 PENSION COMMITMENT (note 5)		
LONG TERM LEASE (note 6)		

J. M. SCHNEIDER, LIMITED**STATEMENT OF INCOME****Year ended November 2, 1968**

(with comparative figures for 1967)

	1968	1967
Sales	\$61,066,753	\$57,902,265
Cost of goods sold	<u>52,042,516</u>	<u>49,813,363</u>
Gross profit	<u>9,024,237</u>	<u>8,088,902</u>
Administrative, distribution and selling expenses	6,801,787	5,968,215
Interest on debenture bonds	<u> </u>	<u>14,737</u>
	<u>6,801,787</u>	<u>5,982,952</u>
Operating income after depreciation of \$858,953 (\$775,837 in 1967)	2,222,450	2,105,950
Interest income	<u>41,612</u>	<u>34,448</u>
Income before income taxes	2,264,062	2,140,398
Income taxes (note 3)	<u>1,195,000</u>	<u>1,109,228</u>
NET INCOME FOR THE YEAR	<u>\$ 1,069,062</u>	<u>\$ 1,031,170</u>

STATEMENT OF RETAINED EARNINGS**Year ended November 2, 1968**

(with comparative figures for 1967)

	1968	1967
BALANCE AT BEGINNING OF YEAR AS PREVIOUSLY REPORTED		\$ 8,182,948
Adjustment resulting from change in basis of computing depreciation less transfer of \$243,887 to deferred income taxes (note 2)		<u>509,978</u>
BALANCE AT BEGINNING OF YEAR AFTER ABOVE ADJUSTMENT	\$ 9,036,347	8,692,926
Net income for the year	<u>1,069,062</u>	<u>1,031,170</u>
	<u>10,105,409</u>	<u>9,724,096</u>
Deduct		
Dividends on Class B preference shares		
In cash	5,432	953
In Class A preference shares	3,880	5,911
Dividends on common shares		
In cash	127,498	81,964
In Class A preference shares	<u>91,070</u>	<u>508,171</u>
	227,880	596,999
Tax paid on undistributed income	<u>16,650</u>	<u>90,750</u>
	<u>244,530</u>	<u>687,749</u>
BALANCE AT END OF YEAR	<u>\$ 9,860,879</u>	<u>\$ 9,036,347</u>

J. M. SCHNEIDER, LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year ended November 2, 1968

(with comparative figures for 1967)

	1968	1967
SOURCE OF FUNDS		
Operations		
Net income for the year	\$1,069,062	\$1,031,170
Add items not involving current funds		
Depreciation	858,953	775,837
Deferred income taxes	<u>(37,000)</u>	<u>164,777</u>
	1,891,015	1,971,784
Issue of Class B preference shares	15,543	345,952
Special refundable tax		
Received during year	24,418	
Transferred to current assets	68,191	
Sale of fixed assets	<u>116,871</u>	<u>35,267*</u>
	<u>2,116,038</u>	<u>2,353,003</u>
 APPLICATION OF FUNDS		
Additions to fixed assets	1,354,627	1,397,934*
Redemption of Class A preference shares issued as tax-paid stock dividends	94,950	514,082
Cash dividends paid		
Class B preference shares	5,432	953
Common shares	127,498	81,964
Redemption of debenture bonds		340,000
Tax paid on undistributed income	16,650	90,750
Special refundable tax		<u>35,200</u>
	<u>1,599,157</u>	<u>2,460,883</u>
 INCREASE (DECREASE) IN WORKING CAPITAL	516,881	(107,880)
 WORKING CAPITAL AT BEGINNING OF YEAR	<u>4,266,306</u>	<u>4,374,186</u>
 WORKING CAPITAL AT END OF YEAR	<u>\$4,783,187</u>	<u>\$4,266,306</u>

* Reclassified on basis of presentation used in 1968.

J. M SCHNEIDER, LIMITED

NOTES TO FINANCIAL STATEMENTS

Year ended November 2, 1968

1. INVENTORIES

	1968	1967
Products	\$3,398,688	\$3,046,865
Supplies	<u>274,465</u>	<u>353,796</u>
	<u>\$3,673,153</u>	<u>\$3,400,661</u>

Products are valued at lower of cost and net realizable value.

Supplies are valued at lower of cost and replacement cost.

2. FIXED ASSETS

	1 9 6 8			1967
	Cost	Accumulated depreciation	Net	Net
Land and improved areas	\$ 261,493	\$ 12,914	\$ 248,579	\$ 219,428
Buildings	5,639,622	2,191,488	3,448,134	3,142,016
Machinery and equipment	<u>7,971,644</u>	<u>4,330,991</u>	<u>3,640,653</u>	<u>3,596,353</u>
	<u>\$13,872,759</u>	<u>\$6,535,393</u>	<u>\$7,337,366</u>	<u>\$6,957,797</u>

Depreciation policy

In 1968 the company changed its method of calculating depreciation from a declining balance to a straight line basis. The effect of this change on the net income for the year is an increase of \$14,923 (\$49,430 in 1967). The 1967 comparative figures have been restated to reflect this change in depreciation and the resulting change in deferred income taxes. Retained earnings have been restated to reflect these changes for years prior to 1967.

	<u>Straight line rates applied to cost</u>
Improved areas	10%
Buildings	4% and 10%
Machinery and equipment	10% and 20%

Additional outlays of approximately \$550,000 are required for the completion of capital projects.

3. INCOME TAXES

It is the company's intention to claim for income tax purposes capital cost allowances less than depreciation recorded in the accounts, with the result that income taxes payable for the year have been increased by \$37,000 (\$164,777 reduction in 1967). This increase has been deducted from "deferred income taxes" in the accompanying balance sheet.

J. M. SCHNEIDER, LIMITED

NOTES TO FINANCIAL STATEMENTS (Continued)

Year ended November 2, 1968

4. CAPITAL STOCK

During the year 94,950 (514,082 in 1967) Class A preference shares were issued as a stock dividend out of tax-paid undistributed income and were redeemed at par value. Class B preference shares were increased by the issue of 471 (10,811 in 1967) shares for a cash consideration of \$15,543 (\$345,952 in 1967) of which \$8,478 (\$183,787 in 1967) has been added to contributed surplus.

5. PENSION COMMITMENT

During the year the company increased its commitment for past service under the amended terms of the employees' pension plan and paid \$50,000 in reduction thereof. There is no provision in the accounts for the payment of the balance of the commitment, estimated at \$442,000, which is to be paid within the next 20 years.

The company intends to pay this amount within the time permitted or earlier as the cash position of the company permits. The related costs will be charged against income in the year of payment.

6. LONG TERM LEASE

The company is obligated under a lease agreement to make the following payments until September 30, 1973:

1969	\$24,300
1970	23,500
1971	22,700
1972	21,800
1973	19,300

7. OTHER STATUTORY INFORMATION

Remuneration of directors and senior officers (as defined by The Corporations Act) for the year amounted to \$313,313 (\$357,343 in (1967)).

J. M. SCHNEIDER, LIMITED

HIGHLIGHTS OF FIVE YEARS' OPERATIONS

		1968
OPERATING RESULTS		
Sales		\$61,067,000
Earnings before taxes		2,264,000
Taxes on earnings		1,195,000
Net earnings		1,069,000
Net earnings as a percentage of sales		1.75%
FINANCIAL POSITION		
Working capital		\$4,783,000
Fixed assets less accumulated depreciation		7,337,000
Total assets		14,907,000
Shareholders' equity		11,268,000
Net earnings as a percentage of shareholders' equity		9.49%
GENERAL STATISTICS		
Common shares outstanding (note 2)		364,280
Class "B" preference shares outstanding		15,519
Net earnings per share on common and class "B" shares outstanding (note 3)		\$ 2.81
Dividends paid		227,880
Dividends paid per share (note 3)		.60

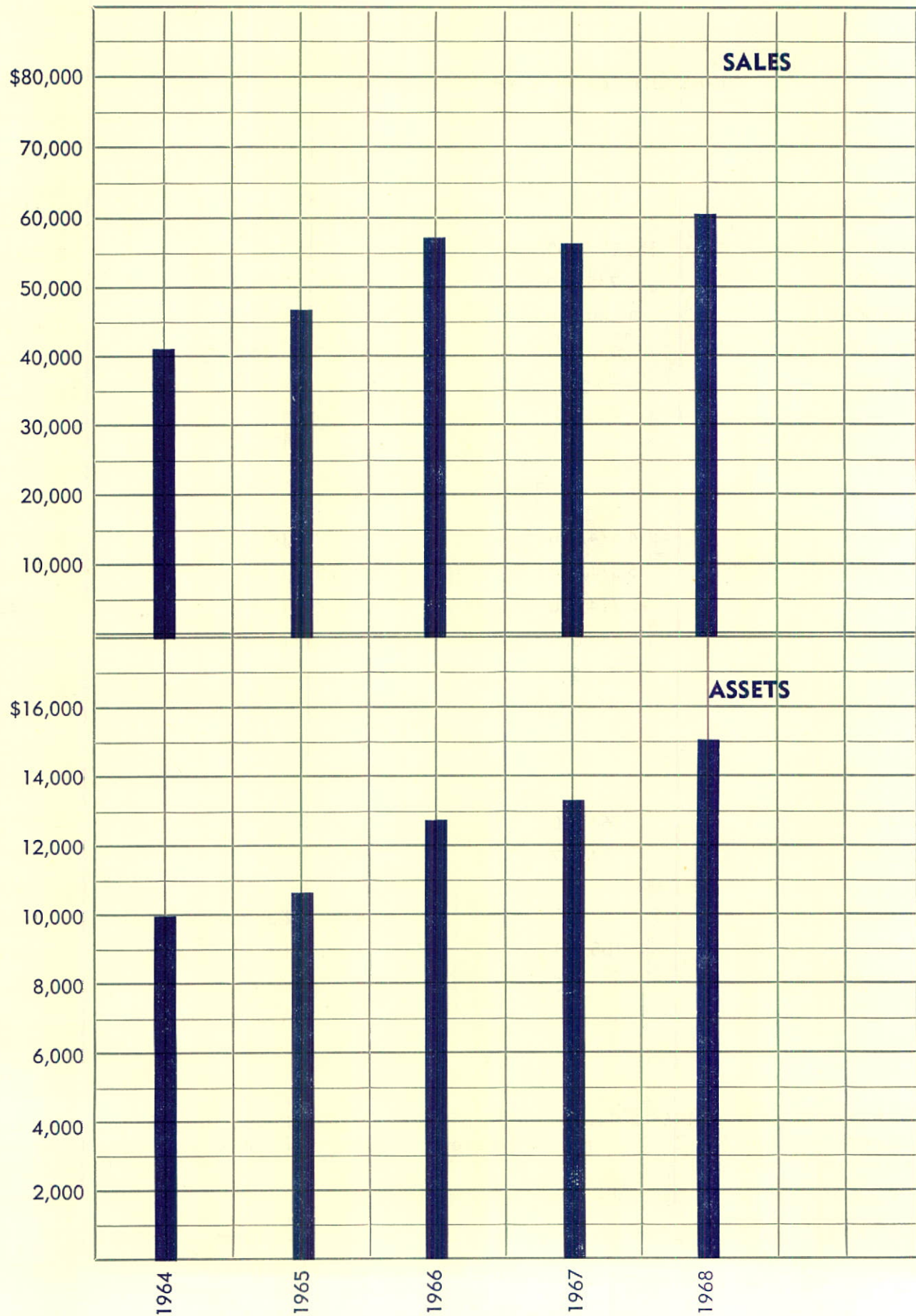
HIGHLIGHTS OF FIVE YEARS' OPERATIONS (Continued)

1967	1966	1965	1964
\$57,902,000	\$58,897,000	\$48,126,000	\$42,526,000
2,140,000	2,745,000	1,807,000	1,967,000
1,109,000	1,399,000	956,000	1,002,000
1,031,000	1,346,000	851,000	965,000
1.78%	2.29%	1.77%	2.27%
\$ 4,266,000	\$ 4,374,000	\$ 3,945,000	\$ 3,219,000
6,957,000	6,371,000	5,524,000	5,319,000
13,381,000	12,734,000	10,795,000	10,094,000
10,428,000	9,739,000	8,523,000	7,773,000
9.89%	13.82%	9.99%	12.41%
364,280	364,280	364,280	72,856
15,048	4,237	2,832	
\$ 2.72	\$ 3.65	\$ 2.32	\$ 2.65
596,999	165,671	155,087	145,599
1.62	.45	.42½	.40

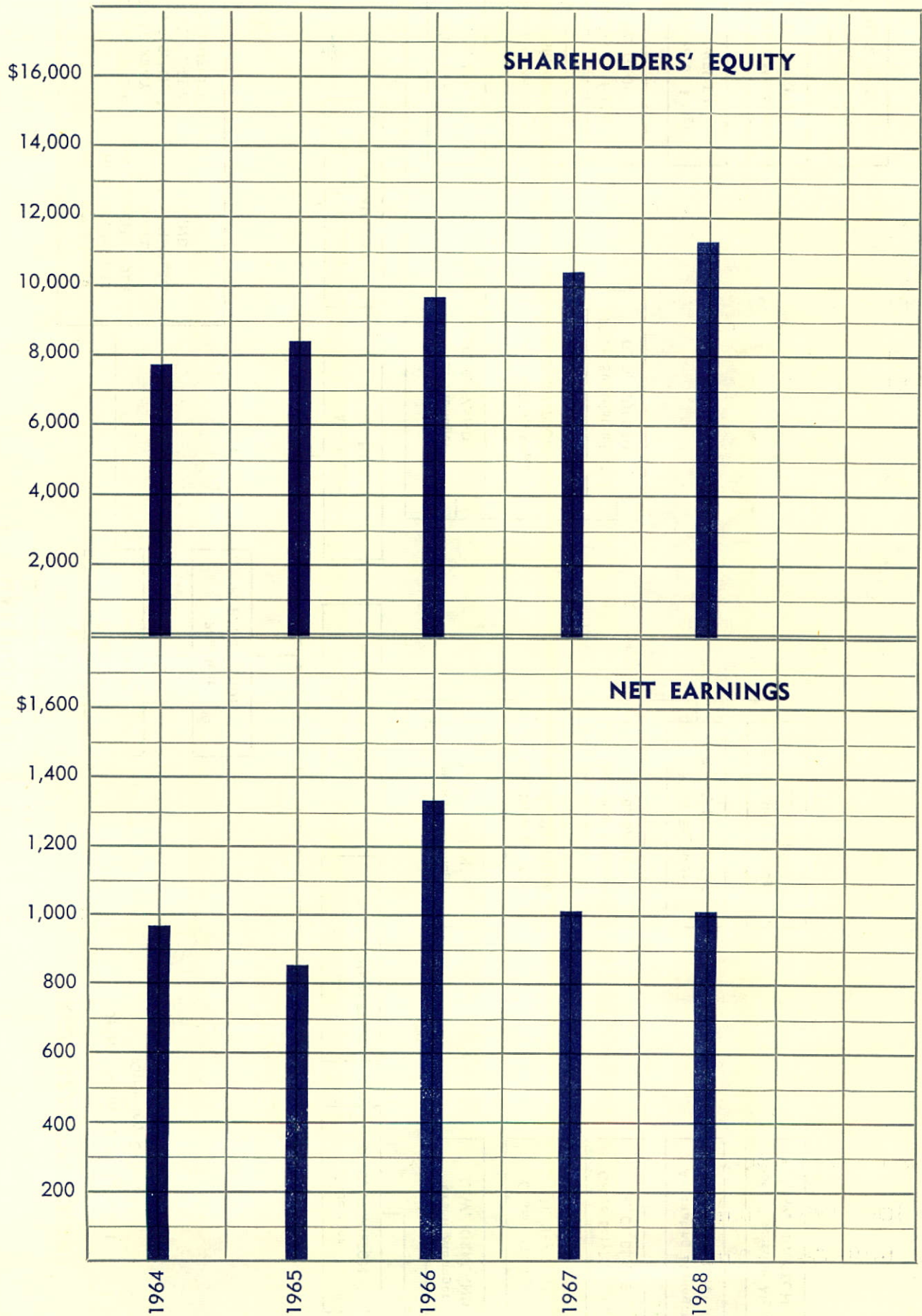
Notes

1. The figures for 1964 to 1966 inclusive have been revised to give effect to the change in depreciation policy as outlined in Note 2 to the financial statements in order that they may be presented in comparable form with 1967 and 1968.
2. In 1965, common shares were split on a basis of 5 shares for 1.
3. The 1964 per share earnings and dividends have been adjusted to give effect to the stock split in 1965.

000's Omitted



000's Omitted



SHAREHOLDERS

Board of Directors

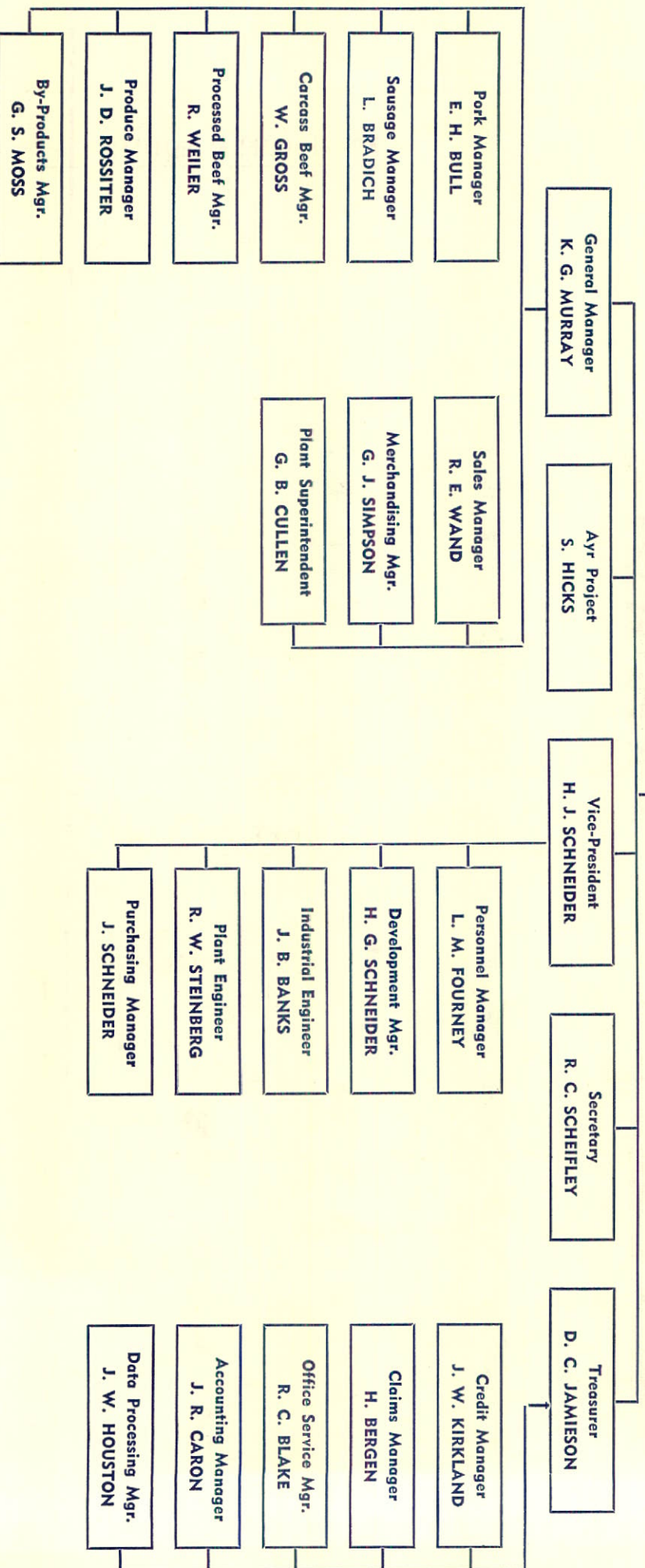
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R. W. STEINBERG
R. E. WAND

President
F. P. SCHNEIDER

ORGANIZATION CHART

J. M. Schneider, Limited
Kitchener, Ontario



Notes

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