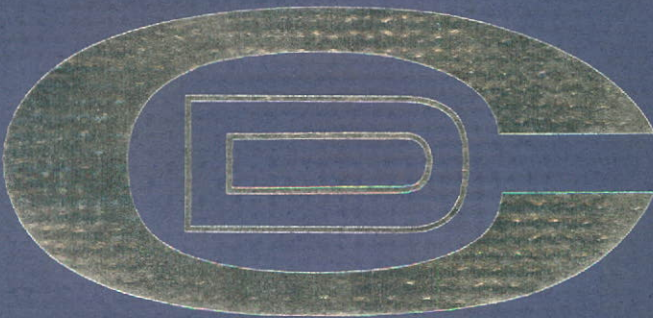


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COCHRANE-DUNLOP
LIMITED
ANNUAL REPORT
1978

HOWARD ROSS LIBRARY
OF MANAGEMENT
MAY 11 1979
MCGILL UNIVERSITY

COCHRANE-DUNLOP LIMITED

HIGHLIGHTS

	1978	1977
Sales - - - - -	\$73,625,586	\$71,763,621
Income before extraordinary item - - - - -	\$ 639,319	\$ 952,398
Extraordinary item, profit on sale of properties - - - - -	\$ 537,242	—
Net income for the year - - - - -	\$ 1,176,561	\$ 952,398
Net income per share - - - - -	\$1.27	\$1.03
Total assets - - - - -	\$30,426,163	\$28,434,095
Working capital - - - - -	\$ 9,033,165	\$ 9,651,321
Shareholders' equity		
—total - - - - -	\$13,328,841	\$14,010,406
—per share - - - - -	\$14.39	\$15.12

REPORT OF THE DIRECTORS TO THE SHAREHOLDERS

During 1978 the Canadian economy presented a series of contrasts. While the devaluation of the Canadian dollar had some effect in stimulating exports by making Canadian manufacturing more competitive, it meant, at the same time, an increase in the price of imported materials which contributed to the continuation of inflation. This, combined with a continuing deficit in Canada's cash flow, has contributed to an upward pressure on interest rates, which, again has dampened consumer confidence and restricted capital investment. In addition, attempts by most levels of Government to achieve a balanced budget position had the effect of reducing the volume of deficit financing stimulation and undoubtedly had some impact on the level of economic activity.

Those of our customers who could utilize the effects of devaluation to enter the export market have provided us with solid growth opportunities, however, other markets—the consumer market, residential construction and manufacturing for the domestic market—did not respond.

The 1978 results of the Corporation reflect the trends in the economy closely. While the programs established in 1978 have proceeded well, their effect has been offset by the impact of a below average growth pattern for Canada in 1978.

The consolidated financial statements of Cochrane-Dunlop Limited and its wholly-owned subsidiary companies for the year ended December 31, 1978, together with the report of the auditors, are submitted on behalf of your Board of Directors.

Sales

Sales for the fiscal year 1978 at \$73.6 million were 2.6% over sales in 1977. Overall sales volume gathered momentum during the first three quarters of the year and it was anticipated that the fourth quarter of the year would continue this trend and would be a factor in offsetting the effect of the slow first quarter in 1978. In the fall of 1978, however, we faced the impact of the strike of personnel of a major base metal mining customer in Sudbury, Ontario, and as Sudbury is one of our larger branches, the impact on sales had a considerable influence on overall sales results in the fourth quarter.

Highlighting individual operations areas it is a pleasure to report that the growth in sales through our newest branch in Calgary exceeded expectations, reflecting the rapidly-expanding economy in Alberta; rewarding progress is being made in industrial supply activity in the competitive Toronto area market; and our dealer supply volume developed well in a restrained consumer market.

The "Dominion Dollar" coupon program introduced in 1978 to the Dominion Hardware franchise appears to be gathering momentum and is being reflected in improved customer allegiance.

Other areas present mixed results, being dependent on local conditions, while the significant drop in activity in the Sudbury area, which was referred to previously, represents a situation which it is hoped will be temporary in nature; although it should be noted that the strike underlying this situation continued beyond the first quarter of 1979.

Earnings

Net income for the year, including an extraordinary item of profit on sale of properties, was \$1,176,561 or \$1.27 per share, an increase of 23.5% over the net income of \$952,398 or \$1.03 per share in 1977.

Included in 1978 income is an extraordinary item of \$537,242 or 58¢ per share arising from profit on sale of properties. This represents largely the proceeds of sale of surplus land in central Sudbury at the site of the Corporation's original warehouse outlet. This warehouse was demolished in 1975 and the site had been operated as a parking lot since that date.

As mentioned earlier, a steady and significant increase in interest rates was experienced by the business community in 1978, six increases in the prime bank rate at which the Corporation borrows funds, taking place during the year. A distributing business with significant investments in current assets and, consequently, major borrowings on a current basis, is highly susceptible to fluctuations in interest rates. In addition the extraordinary special dividend paid early in 1978 and financed from current bank credit lines, has resulted in a significant increase in the cost of interest on bank indebtedness over the previous year.

Because the allowed deduction from taxable income of 3% of opening inventory values injects into the income statements a factor which is based, not on operating results but on balance sheet values, the income tax provision for 1978 reflects a rate of 22.4% of income before income taxes compared to an effective 37.0% in 1977. This tax relief serves to offset, in part, taxation of inflation-based profits in inventory which otherwise would impose a cash flow hardship on the business.

Corporate Organization

In December 1978, D. Higgins, Executive Vice-President and General Manager in the Corporate Offices, after extensive experience in many operating positions in the organization, terminated his association with the Corporation.

The Corporate office has been reorganized along functional lines with the identification of five major staff areas—planning and procurement, marketing, personnel and industrial relations, facilities and finance. These functions, each headed by a senior executive, together with the President will constitute a Corporate Policy Group. All of these positions have been filled with experienced personnel and it is expected that this structure will provide us with the ability to plan and achieve growth targets in the future.

Dividends

Dividends continued to be paid during 1978 on a "tax deferred" basis as had been the case for several years. All dividends paid to December 31, 1978 were paid out of either the Corporation's Capital Surplus on hand or Tax Paid undistributed surplus. The ability to distribute dividends in this form was eliminated from Canadian Income Tax legislation at the end of 1978. Future dividend payments will, as a consequence, be received on a taxable basis in the hands of shareholders.

Regular quarterly dividends of 5¢ per share were paid in 1978 and, in addition, in January 1978, an extraordinary special dividend of \$1.80 per share was declared and paid. The purpose of this dividend was to utilize all of the Corporation's Capital Surplus On Hand under the taxation procedures described above, prior to their expiry. Dividends payments fell under the control of the Anti-Inflation Board, and to facilitate distribution under "tax deferral" legislation, special approvals were obtained to bring this payment within the rules and procedures of the Board.

Fixed Assets

The major portion of expenditures on fixed assets during the year represents the cost of a desirable warehouse site in the city of Edmonton, Alberta. While we have not yet made any commitment to construct a warehouse on this site, our experience to date with our new Calgary branch reinforces our belief that the buoyant Alberta area is a valid location for future growth.

Other capital expenditure in the year represents normal equipment replacement and upgrading.

Future Prospects

While Canadian economic growth estimates for 1979 are low, in part as a result of a slow growth outlook in the United States, and while the inflationary impact of devaluation of the dollar in 1978 has yet to be reflected to its full extent in the Canadian economy, we feel that satisfactory progress can be achieved in 1979.

Our newly established branches appear to be in a position to consolidate their share of the marketplace and the Corporate reorganization referred to previously, provides the opportunity to capitalize on the momentum and strength of the organization to reestablish our regular progress pattern.

On behalf of the Board
April 17, 1979

F. Cochrane
President

COCHRANE-DUNLOP LIMITED

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 1978

	<u>1978</u>	<u>1977</u>
Sales - - - - -	\$73,625,586	\$71,763,621
Costs and expenses, exclusive of the following items - - - - -	71,108,039	68,803,346
Depreciation - - - - -	346,432	399,283
Remuneration of directors and senior officers - - - - -	279,000	275,500
Interest on bank indebtedness - - - - -	1,067,796	773,094
	<u>72,801,267</u>	<u>70,251,223</u>
Income before income taxes and extraordinary item - - - - -	824,319	1,512,398
Income taxes - - - - -	185,000	560,000
Income before extraordinary item - - - - -	639,319	952,398
Extraordinary item, profit on sale of properties - - - - -	537,242	—
Net income for the year - - - - -	<u>\$ 1,176,561</u>	<u>\$ 952,398</u>
Income per share:		
—before extraordinary item - - - - -	\$.69	\$1.03
—profit on sale of properties - - - - -	.58	—
	<u>\$1.27</u>	<u>\$1.03</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1978

	<u>1978</u>	<u>1977</u>
Balance, beginning of year - - - - -	\$13,476,706	\$12,830,045
Net income for the year - - - - -	1,176,561	952,398
	<u>14,653,267</u>	<u>13,782,443</u>
Deduct:		
Dividends - - - - -	1,852,952	305,737
Tax paid on undistributed income - - - - -	5,174	—
	<u>1,858,126</u>	<u>305,737</u>
Balance, end of year - - - - -	<u>\$12,795,141</u>	<u>\$13,476,706</u>

(See accompanying notes)

COCHRANE-DUNLOP LIMITED

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1978

ASSETS	1978	1977
Current assets:		
Cash - - - - -	\$ 9,221	\$ 10,307
Accounts receivable - - - - -	10,396,548	8,955,472
Merchandise inventory - - - - -	15,516,735	14,855,888
Prepaid expenses - - - - -	207,983	253,343
	26,130,487	24,075,010
Fixed assets, at cost:		
Buildings and equipment - - - - -	5,414,106	5,501,653
Furniture and fixtures - - - - -	2,137,950	2,152,684
Automotive equipment - - - - -	341,526	349,214
	7,893,582	8,003,551
Less accumulated depreciation - - - - -	4,906,865	4,715,061
	2,986,717	3,288,490
Land - - - - -	1,308,959	1,070,595
	4,295,676	4,359,085
	\$30,426,163	\$28,434,095
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank indebtedness - - - - -	\$11,326,830	\$ 8,852,441
Accounts payable and accrued charges - - - - -	5,352,338	4,924,234
Income and other taxes payable - - - - -	371,830	480,248
Dividends payable - - - - -	46,324	166,766
	17,097,322	14,423,689
Shareholders' equity:		
Share capital (note 2) - - - - -	533,700	533,700
Retained earnings - - - - -	12,795,141	13,476,706
	13,328,841	14,010,406
On behalf of the Board:	\$30,426,163	\$28,434,095
F. COCHRANE, <i>Director</i>		
F. S. MARTIN, <i>Director</i>		

(See accompanying notes)

COCHRANE-DUNLOP LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1978

	1978	1977
Funds were obtained from:		
Operations—		
Net income before extraordinary item- - - - -	\$ 639,319	\$ 952,398
Depreciation, an item not requiring a current outlay of funds - - -	346,432	399,283
	985,751	1,351,681
Proceeds of sale of properties - - - - -	634,415	—
	1,620,166	1,351,681
Funds were applied to:		
Expenditures on fixed assets - - - - -	380,196	448,527
Dividends - - - - -	1,852,952	305,737
Tax paid on undistributed income- - - - -	5,174	—
	2,238,322	754,264
Increase (decrease) in working capital - - - - -	(618,156)	597,417
Working capital, beginning of year - - - - -	9,651,321	9,053,904
Working capital, end of year - - - - -	\$ 9,033,165	\$ 9,651,321

(See accompanying notes)

AUDITORS' REPORT

To the Shareholders of
Cochrane-Dunlop Limited:

We have examined the consolidated balance sheet of Cochrane-Dunlop Limited as at December 31, 1978 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of Cochrane-Dunlop Limited as at December 31, 1978 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 on a basis consistent with that of the preceding year.

Toronto, Canada,
March 31, 1979.

CLARKSON, GORDON & CO.
Chartered Accountants

COCHRANE-DUNLOP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1978

1. Summary of significant accounting policies

(a) Basis of consolidation—

The consolidated financial statements include the accounts of the Corporation and its subsidiaries, all of which are wholly-owned, and include the earnings of the subsidiaries since acquisition.

(b) Inventories—

Inventories are carried at the lower of cost, determined on a first-in first-out basis, and net realizable value.

(c) Depreciation—

The Corporation and its subsidiaries provide for depreciation on fixed assets on the reducing balance method. The rates of depreciation are:

	Rate
Buildings and equipment - - - - -	5% and 10%
Furniture and fixtures - - - - -	20%
Automotive equipment - - - - -	30%

2. Share Capital

The authorized capital of the Corporation consists of 1,500,000 common shares without par value of which 926,476 are issued as fully paid and non-assessable.

3. Lease commitments

The Corporation is committed to annual rental payments of approximately \$341,000 on leases expiring in the years 1979 to 1989.

4. Anti-inflation legislation

The Corporation and its subsidiaries in Canada were subject to, and believe they have complied with, controls on prices, profits, employee compensation and shareholder dividends under the Federal Government's Anti-Inflation Program.

5. Reclassification of 1977 figures

Amounts reported for 1977 have been reclassified to conform to the accounting presentation adopted in 1978.

10-YEAR STATISTICAL SUMMARY

(figures in thousands except ratios, shares, and amounts per share)

FOR THE YEAR	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969
Sales - - - - -	\$73,626	\$71,764	\$67,089	\$62,883	\$58,025	\$45,115	\$39,294	\$41,815	\$41,516	\$35,751
Depreciation - - - - -	346	399	333	290	249	179	188	202	202	215
Interest on bank indebtedness - -	1,068	773	547	466	383	132	65	88	119	141
Income taxes - - - - -	185	560	880	1,270	1,330	820	640	630	550	385
Net income - - - - -	639(b)	952	928	1,234	1,195	793	675	613(b)	489	360(b)
% to sales - - - - -	0.9%(b)	1.3%	1.4%	2.0%	2.1%	1.8%	1.7%	1.5%(b)	1.2%	1.0%(b)
per common share (note a)	0.69(b)	1.03	1.00	1.35	1.38	.91	.77	.69(b)	.55	.40(b)
Dividends—total - - - -	1,853	306	306	336	200	128	128	128	128	128
Per share (note a)										
—Class A - - - - -	—	—	—	.05	.20	.20	.20	.20	.20	.20
—Common - - - - -	2.00	.33	.33	.36	.22	.13	.13	.13	.13	.13
Expenditures on fixed assets	380	449	1,671	422	469	564	88	202	89	151
Increase (decrease) in working capital - - - -	(618)	597	(769)	708	742	260	626	503	473	365
AT YEAR END										
Working capital - - - -	9,033	9,651	9,054	9,823	9,115	8,373	8,114	7,488	6,985	6,512
Shareholders' equity - - -	13,329	14,010	13,364	12,795	11,956	10,993	10,348	9,822	9,319	8,958
Shares outstanding (note c)										
—Class A - - - - -	—	—	—	—	17,092	17,092	17,092	17,092	17,092	17,092
—Common - - - - -	926,476	926,476	926,476	926,476	143,018	143,018	143,018	143,018	143,018	143,018

Notes:

a Based on average number of shares outstanding and adjusted for capital stock reorganization and split in 1975.

b Before adding Extraordinary Items of: 1978—\$537,242 or \$0.58 per common share.

1971—\$25,000 or \$0.03 per common share.

1969—\$68,904 or \$0.08 per common share.

c Capital stock was reorganized effective on June 11, 1975.

CORPORATE DIRECTORY

COCHRANE-DUNLOP LIMITED

HEAD OFFICE:

SUITE 450, NORTH TOWER
ROYAL BANK PLAZA
TORONTO, ONTARIO M5J 2J1

Directors

E. A. Bird, Toronto, Ontario
A. Gordon Cardy, Toronto, Ontario
G. R. Chater, Toronto, Ontario
F. Cochrane, Toronto, Ontario
T. S. Jones, Dryden, Ontario
F. S. Martin, Ottawa, Ontario
F. F. Todd, Oakville, Ontario

Wholly-Owned Subsidiary Companies

C-D Hardware Sales Limited
Quincailleries Cochrane-Dunlop Quebec Inc.
Cochrane-Dunlop Hardware Manitoba Limited
Cochrane-Dunlop Hardware Saskatchewan Limited
Dominion Hardware Stores Limited
Cochrane-Dunlop Alberta Limited
Cochrane-Dunlop, Inc. (Buffalo, N.Y., U.S.A.)

Wholesale Branches

ONTARIO

Dryden— *264 Government Street, Dryden.*
Elliot Lake— *2 Roddis Road, Elliot Lake.*
Little Current— *Vankoughnet Street, Little Current.*
North Bay— *881 Jet Avenue, North Bay.*
Sault Ste. Marie— *550 Second Line East, Sault Ste. Marie.*
Sudbury— *122 Douglas Street W., Sudbury.*
Thunder Bay— *425 Eleventh Avenue, Thunder Bay.*
Toronto
(Dealer Supply)— *1385 Bloor Street West, Toronto.*
Toronto
(Industrial Supply)— *50 Woodbine Downs Boulevard, Rexdale.*
Wawa— *Government Road, Wawa.*

QUEBEC

Val d'Or— *1337 Harricana Street, Val d'Or.*

MANITOBA

Thompson— *Station Road, Thompson.*

SASKATCHEWAN

Esterhazy— *4 East Drive, Esterhazy.*
Saskatoon— *2525 Wentz Avenue, Saskatoon.*

ALBERTA

Calgary— *4215-58 Avenue S.E., Calgary.*

Retail Branches

ONTARIO

Copper Cliff Lively Oakville
Hamilton North Bay Sudbury

Officers

F. Cochrane, *President*
R. L.T. Baillie, *Vice-President Finance*

Corporate Management

T. J. Dawson, *Director Marketing*
H. W. Ford, *Director Planning and Procurement*
T. D. Holmes, *Director Personnel and Industrial Relations*

Counsel

Shibley, Righton & McCutcheon

Auditors

Clarkson, Gordon & Co.

Transfer Agent and Registrar

The Canada Trust Company—Toronto

