MANAGERS' REPORT

TO THE STOCKHOLDERS OF

THE LOWE BROTHERS COMPANY

In accordance with our practice we herewith submit the Managers' Report to President Lowe and the other stockholders covering a summary of the more important events of the past fiscal year.

The year just closed has been our largest and best in the point of volume of sales, volume of production, and net profit realized. The 1925 total sales of $5,439,543 exceed the 1924 total sales by $638,103 or 13.3%; and they are $445,727 ahead of the total sales for 1920 which until 1925 was our largest year. Our 1925 net profit exceeds the 1924 net profit by $139,322 or 18%.

Our steady growth in output is shown by a statement of the total tonnage shipped during the last six years which is as follows:

1920 - 13,771 tons
1921 - 10,616 "
1922 - 14,797 "
1923 - 15,192 "
1924 - 15,538 "
1925 - 18,110 "

This same story is also told by figures showing the yearly output of the paint factory figured at cost prices, not selling prices:

1920 - $2,982,015
1921 - 2,096,142
1922 - 2,464,977
1923 - 2,497,675
1924 - 2,684,692
1925 - 3,153,315

Our plan of budgeting the various departments of the business has now been extended to the point where each salesman in conference with his District Manager is asked to budget his sales and traveling expenses for the coming year. The result of the salesman's work is checked each month against the budget figures arrived at in this way, and the Branch Manager's attention called to any discrepancy that the figures may show; he in turn discusses this with the salesman concerned. Budgeting has proved helpful in keeping down expenses in

On December 27, 1924 we reported to you our 1925 budget for the business as a whole, and below we give the figures of our budget as setforth at that time compared with the actual figures for 1925:

Sales Budget	$5,000,000
Actual Sales	5,439,543
Gross Profit Budget	1,950,000
Actual Gross Profit	2,242,045
Expense budget	1,400,000
Actual expenses	1,473,556
Net profit budget	550,000
Actual net profit	890,410
Tax budget	92,000
Probable actual tax	106,500

Or putting this in another way, the gross profit budget was 39% of sales, the actual 41.2% of sales; the expense budget was 28% of sales, the actual 24.9% of sales; the net profit budget was 11% of sales, the actual 16.4% of sales. The net profit figure quoted above is the actual net profit after payment of all expenses including salesmen's commissions, distributors' extra discounts, executives' bonuses and all other expenses with however the one exception of Federal taxes which are based upon net profits.

On September 30, 1924 the first day of our fiscal year just closed, the net worth of this business was $3,756,613, and the net profit of $890,410 for the year's operation is 23.7% of the net worth. If we subtract from the net profit $106,500, which is the Auditor's estimate of our Federal taxes for 1925, then the net profit after all expenses ofevery kind including taxes, will be $783,910 or 20.8% of the investment at the beginning of the 1925 fiscal year.

It is our understanding that the past year has been only an average year so far as general business conditions are concerned. The above figures show it has been a very good year for us, and we have reason to think this is true pretty largely throughout the paint and varnish industry. We believe one of the several factors that has brought about this result is the consumption of more paint because of the work of such cooperative advertising campaigns as the Save the Surface Campaign and the Clean Up and Paint Up Campaign, both of which are fostered by our industry and to the support of both of which we contribute. So far as this Company is concerned, we feel we have carried on during the past year and for several years an aggressive marketing policy. We also have been exceedingly careful to maintain and improve the quality of all of our products. These facts together with our policy of carefully watching and checking our expenses will, in our opinion, explain much of the prosperity this business has enjoyed during the past several years.

Our price policy during 1925 has in our opinion been sound. Although a number of our competitors advanced their prices early in the calendar year, we made no change in our prices until March 30, after our spring stock order season had been completed and all of our customers had been given an opportunity to purchase at the prices prevailing when we opened our spring stock order season in the fall of 1924. Owing to keen competition and a slight flurry downward in prices of some of our more important raw materials, a number of our competitors located in the Minneapolis district and also on the Pacific Coast made on July 1, 1925 a reduction in the price of their paint of approximately twenty-five cents per gallon. We did not think such a reduction was warranted and have accordingly maintained our prices up until the present time. Since July first the cost of linseed oil has strengthened, also the cost of lead and zinc and a number of our other more important raw materials. It is our judgment therefore that the present prices will probably prevail through the painting season of 1926; however circumstances now unforeseen may later force us to modify this opinion.

Although as shown by the figures given above, the past year has been our largest in volume of output, we have nevertheless continued the rearrangement of our machinery and the replacing of worn out equipment with new, so as to make our plant as nearly as possible a modern paint factory. These replacements and changes have been carried on without interfering materially with either the quality or the quantity of our output.

Last year we mentioned the subject of pyroxlyn lacquers and stated that we were carrying on experiments with them. During the past twelve months the lacquer industry has developed very materially. Every one knows the use of lacquers on automobiles has increased greatly, and the use of lacquers for other industrial purposes has kept pace with this increase. In fact we are reliably informed that The Sherwin-Williams Company did a business of two and one-half million dollars in industrial lacquers in 1925. Also several concerns have during the past year put on the market for the store trade a brushing lacquer in colors. The Glidden Company of Cleveland has pushed this product most aggressively. We have reason to think a great many of our competitors are working with lacquers as we have been, and we have decided to add a line of brushing lacquers which will be offered to the trade in a very short time. We have set aside a portion of the varnish factory for the manufacture of these materials; but it is our belief that if the growth of this part of our business is as rapid as circumstances now indicate it will be necessary within the next twelve months for us to enlarge materially our lacquer manufacturing facilities.

For a number of years automobiles as well as other commodities have been extensively sold on what is known as the deferred payment plan. Early in the present calendar year a movement was set on foot to develop deferred payment selling in the paint and varnish industry. Whether wisely or otherwise the Save the Surface Campaign fostered this movement to the extent of arranging with certain finance companies to prepare deferred payment selling plans that would be available to the industry as a whole. This action on the part of the Save the Surface Campaign aroused bitter opposition in a number of quarters both within and without our industry. The strife that arose on this question was put to an end by the Save the Surface Campaign withdrawing from any further active promotion of the deferred payment proposition. It is merely holding supervision over such new deferred payment plans as may be brought out by the finance companies that are serving our industry. We did not offer our trade a deferred payment plan during our 1925 fiscal year.

During the past year we have continued the services of Dr. Evans of the Ohio State University as consulting chemist to direct and supervise our laboratory research work. We have likewise continued the services of Prof. Morris of Ohio State University as statistician. Using the figures we supply him, he forecasts our sales and the market tendencies of our more important raw materials. As our work requires only a part of these gentlemen's time and in no way interferes with their duties at the University, we are able to secure their services at a relatively low cost, which arrangement seems quite satisfactory to them.

The Lowe Brothers Paint Store Company is continuing under the same Management as heretofore. The sales and net profits for the year ending December 31, 1924 were slightly less than the previous year. This shrinkage occurred in the glass department. Very unsatisfactory local competitive conditions make it extremely difficult to realize a satisfactory profit on plate glass. We were not greatly concerned therefore to see the decrease in sales in the glass department last year, and we are now considering the advisability of discontinuing the sale of glass with the exception of small standard sizes of window glass.

Many of our competitors are installing in the larger cities their own retail stores as an outlet for their products, and it may become necessary for this Company to establish its own retail stores in certain cities. We are now investigating the advisability of opening such a retail store in Columbus, Ohio, but before any action is taken the question will be referred to the Board of Directors of The Lowe Brothers Co.

Under the Management of Mr. Penberthy our Canadian plant closed on August 31 a very successful year. Both sales and profits showed a healthy increase over the previous year. Further expansion of our business in Canada will necessitate entering the Province of Quebec, which would mean the establishment of a warehouse in Montreal and the printing of our labels and advertising matter in French. Mr. Penberthy advises that in his opinion it will require about three years before such a branch of our Canadian factory would operate at a profit. Nevertheless the Board of Directors of The Lowe Brothers Company Limited has authorized Mr. Penberthy to make this venture in the Province of Quebec during the present fiscal year if he thinks it advisable to do so.

During 1925 we continued the plan of operating a special force of salesmen whose entire duty was to establish new agents. Under the leadership of Mr. F. E. McQueen, five of such salesmen operated in our Jersey City and Philadelphia districts and succeeded in building up our business in those sales territories where new business was most needed. Because we felt conditions in the West warranted an attempt to secure new business, this "Flying Squadron" as it is called, was moved to our Kansas City District in September. The results obtained todate have far exceeded our expectations. A similar organization of three men is now operating in the state of Florida where we feel conditions are favorable for the expansion of our business in the next year or two. Our previous two years' experience with this plan indicates it is no more expensive than selling new agencies by means of our regular salesmen, and it moreover has the distinct advantage of building up quickly those territories where otherwise to obtain similar results it would require five or six years' work on the part of our regular salesmen.

Today we have three thousand eight hundred and eighty-six agencies, four hundred and six more than we had in 1921. As we have deducted all agencies which we have lost during this time, these figures are net. In the same period the average yearly purchases of these agents have increased from one thousand one hundred and fourteen dollars to one thousand two hundred and forty-nine dollars per agent.

By reason of the size and influence of this Company we feel it advisable and necessary to participate in the more important national trade associations of our industry. We are members of the Paint Manufacturers' Association, the National Varnish Manufacturers' Association, and the National Paint, Oil and Varnish Association. Mr. Kohr is a member of the Educational Bureau of the Paint Manufacturers' Association, which deals with technical problems pertaining to our industry. He is also a member of the Executive Committee of the Save the Surface Campaign. Representatives of The Lowe Brothers Company attend the meetings of these various organizations and participate in their activities.

We have invested two thousand dollars in a cooperative experimental wood oil farm in Florida devoted to the development in the United States of the production of this important varnish raw material which heretofore has been produced exclusively in China. This venture promises to be successful and already has had such an affect on the Chinese producers of wood oil as to justify the claim of the president of the American enterprise that during the past two years the Paint and Varnish Industry has saved in the lower price of its wood oil more than its entire investment in American wood oil culture.

During the past year we have held three District Managers' Conventions here in Dayton. In these Conventions we frankly discuss our sales and advertising policies, present and future, and seek the counsel and advice of our District Sales Managers.

Mr. Mercer has directed our Advertising Department's activities since Mr. Graham's resignation in the summer of 1924. In our judgment the advertising of this Company during the past year has been the best in its history and our Sales Department, whose approval of our advertising is not easily secured, concurs in this view. The annual cost of our advertising is a considerable sum and the wise expenditure of this money requires personal initiative, keen supervision and sound judgment as to the present and future requirements of our business. We feel Mr. Mercer has shown he possesses these qualifications.

In the fall of 1924 we solicited our customers' spring stock orders a month earlier than in previous years. In October, November and December of that year our sales were almost double the sales for the corresponding months of 1923. We were thus enabled to operate our factory at capacity during those three months when ordinarily our sales and production are relatively small. This increased volume of business secured during that first quarter of our 1925 fiscal year did not adversely affect our volume for the balance of the year. We are soliciting spring stock orders even earlier this year. It is too soon to report results.

Four years ago this Company withdrew from the Liability Insurance Department of the State of Ohio and established its own liability insurance fund for employees. In these four years our costs on the schedule established by the State of Ohio would have been about sixteen thousand dollars. Our actual cost for operating these four years under our own employees' liability insurance fund has been only about three thousand dollars, and the difference in this cost is set up as a reserve on our books and amounts to about thirteen thousand dollars. With equally satisfactory results during the next few years we shall be able to establish a reserve fund of such size that it will be sufficient to protect us even in the rather improbable event of a very serious accident involving the death of several employees.

During 1925 we have established warehouses at Indianapolis, New Orleans and Jacksonville. These were necessitated by the demand of our customers in adjacent territory for better service than we could offer them from our branches or warehouses already established. Our warehouses are operated at a minimum expense with no office or clerical work as this is handled for the warehouse by the nearest branch.

We have never established any definite pension plan for our employees but have a reserve fund of twenty thousand dollars set aside, and at the end of each fiscal year whatever amount has been paid from this fund to employees receiving pensions, is replaced in the fund so as to maintain the twenty thousand balance at the beginning of the next year. We now have on our pension list three employees who have been with this Company for many years and who are incapacitated for further work. Their total annual pensions amount to three thousand dollars. We believe it advisable to deal with this question of pensions by considering each individual case rather than to establish and announce a definite pension policy for the Company.

Last summer we constructed on a part of our Wyandotte Street property a two-story brick and concrete warehouse which we have leased for a five-year period. This building is so constructed that we can later add three more stories and it is probable that at an expiration of the lease we shall take over this building ourselves for either warehouse or can manufacturing operations.

In closing this report we wish respectfully to call the attention of the stockholders to the fact that, while the last five years have been rather prosperous ones for this business and, while we shall make every effort to continue this prosperity, it is our judgment that future general business conditions and future conditions in our own industry, both of which future conditions are entirely beyond our control, may well make it impossible for us to continue to operate this business on so favorable a basis. So far as we can now tell business conditions promise to be satisfactory for approximately two-thirds of the calendar year of 1926; but in our own industry the bitter competitive war that has been developing, and which has resulted in price cutting in very many localities and to which we have of necessity been a party, will materially interfere with our chances of making the same margin of profit that it has been possible for us to make in the past. While we do not anticipate in the near future a period of adversity for this business, in our opinion good judgment demands we face the fact that, should there be a rapid development in our industry of certain tendencies now only indicated, we may well find it impossible to continue our present rate of expansion or even to maintain our present volume of sales.

Nov. 23, 1925
Copy given to Mr. Hill Smith
" " Mr. Robert D. Patterson

Donald A. Kohr
Charles N. Parrott