MANAGERS' REPORT
TO THE STOCKHOLDERS OF
THE LOWE BROTHERS COMPANY

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The Management herewith submits to President Lowe and the other stockholders its annual report covering some of the more important events during the fiscal year of 1927.

Our sales for the fiscal year were $5,256,477 and our net profits were $887,425. This gives a return of 17% on sales, and a return of 21.7% on the net worth of the business at the beginning of the fiscal year which was $4,089,422. The operating ratio for the year was 68. During the year we paid a quarterly dividend of ten percent ~~declared by the Board early in the year~~. In addition to this, in the month of March we, in order to reduce our undivided surplus, paid a special dividend of twenty-five percent.

Because we have during the past year received quite a number of inquiries as to the possibility of selling or refinancing this business, we brought the matter to the attention of the Directors in March, and at that time the Board took action definitely that it was not interested in the consideration of any proposition concerning the refinancing or the sale of the business. This action of the Board has enabled the Management to answer definitely the various inquiries on this subject we have received since that time.

The figures quoted above show that this has been a highly profitable year for our particular business. So far as we can learn from various sources, we are of the opinion that our entire industry has enjoyed a profitable year. We believe the main reason for this has been that lower prices in raw materials have more than offset the somewhat lower prices in the products of our industry, and consequently the gross profit has been a little higher than it was last year.

Early in the spring our Advertising Agency, The Geyer Company, made a proposition to us to enter into a very active advertising and promotion campaign with the object of increasing this business fifty to seventy-five percent during our 1928 fiscal year. To carry out the proposition as outlined by Mr. Geyer would have involved an expenditure on our part of something over eight hundred thousand dollars. We gave the matter careful consideration, consulting fully with our Sales Managers and also our Advertising Managers as to the wisdom of such a policy. Because they did not believe the gains that could reasonably be expected from such a campaign would warrant the heavy expenditure, we decided not to adopt the proposition of the Advertising Agency. This matter was then discussed at the next Board meeting. The Management asked the Board for instructions as to the rate the owners of the business would like to see it develop. No definite action was taken by the Board in answer to our inquiry, but we were instructed to submit for the Board's consideration an estimate of the expense we considered necessary to insure an expansion of seven and one-half percent. At the next meeting of the Board we gave our opinion that such a program would involve an expenditure of something over two hundred thousand dollars more than we were spending in 1927. The Board did not approve the proposition but did authorize us to open in 1928 two Company stores, and also to increase our sales force by the number of salesmen that the Management and Sales Department agreed to be advisable. We have accordingly added eight additional salesmen and are also arranging to open a store in Green Bay, Wis.; which store will serve also as a warehouse from which we can supply our customers in the surrounding territory.

The Lowe Brothers Company Limited of Canada also closed a very satisfactory year on August 31, 1927. The sales were $502,713; net profit $ 48,662; operating ratio 73. During the year business has been carried on through the Montreal store at a volume of approximately eighteen thousand dollars, and on this business the loss has been only about five thousand dollars. The store in Toronto, operating under the name of E. Harris Company, has been entirely remodeled and makes a splendid appearance. The business of this store for the calendar year 1926 was quite satisfactory, but we shall not know as definitely concerning its progress until after the close of the current calendar year, which is the second year the store has been operating under our ownership. Mr. Penberthy has expanded the business of our Canadian company into the northwest with such satisfactory results that his sales in that section of the Dominion have been about eighty thousand dollars.

The activity of our local store is shown by the following figures:

1925 -	Sales	$301,371.96
	Net Operating Profit.	16,095.21
1926 -	Sales	$296,508.16
	Net Operating Profit.	11,315.27

We have considered during this year the possibility of having this organization open one or more additional retail stores in nearby territories.

Last year we started out with our spring stock order proposition on October 16, 1926. Contrary to our experience in the last two or three years, our sales for the fall months fell behind the sales of the corresponding months in the previous year. This condition continued up until February when the monthly sales began to exceed those of the previous year and continued to do so, with one or two exceptions, for the balance of the year.

Our policy established three or four years ago of having a "Flying Squadron", whose business it is to do nothing but secure new accounts, has been continued and during the past year we have had a squadron operating under Mr. McQueen in the northwest, and another one operating in Kentucky and adjacent territory under Mr. George Davidson. The net results of these two squadrons have been the addition to our customers of fifty-six accounts, who made purchases during the fiscal year amounting to $81,732.20.

Sometime in the early spring we were approached by Marquis Regan of New York City, who operates a consulting marketing business. After negotiations with him extending over a number of weeks, we finally agreed to a trial of his services at a cost of approximately five thousand dollars. This trial was made with negative results. He failed to teach us anything that we did not already know, and we learned from him nothing of value in regard to the proper method of securing new business. We felt repaid to a certain extent to satisfy ourselves that he was unable to demonstrate to us that there was some obvious method of getting new business which we had not yet tried.

The number of our agencies at the close of the fiscal year was three thousand nine hundred and thirty-seven which in comparison with the previous year shows a gain of sixty-eight.

893 We held District Managers' meetings in Dayton in October 1926 and March 1927. We also held an Assistant Branch Managers' meeting in Chicago in August. At the District Managers' meeting held in Dayton in March we had present in addition to the District Managers one salesman from each branch. This was an innovation, and the results obtained from this plan inclined us to believe it would be advisable to follow it again.

In February Messrs. Parrott and McCutchen attended the Jobbers' Convention in Chicago. They also later visited Mr. Rainey in Pittsburgh, and on both occasions Mr. Rainey explained to them the unhappy financial situation of his business. In an effort to discover just what is the difficulty, we have persuaded Mr. Rainey to have his business investigated by a firm of industrial engineers that has done some work of this character for us in the past. This investigation did not start until after the close of our 1927 year.

In the month of March Mr. Zehring, our Assistant General Sales Manager, made a trip to the Coast in order to call on our Seattle connection and also to look over the situation in San Francisco for the purpose of determining the likelihood of our being able to secure there a connection similar to the one that has represented us so successfully in Seattle. No definite results have yet arisen from his trip but he found certain prospects that we may be able to develop later.

Within recent years there seems to be a development in our industry toward a more general use of semi-paste paint than heretofore. We think The New Jersey Zinc Company is responsible for this to a certain extent because of their widely advertised 40-40-20. They put out this material to compete with white lead; but it cannot compete with white lead without at the same time competing with liquid paint. Our sales of liquid paint for the past three years were as follows:

1925 -		792,320 gallons
1926 -	(11 months)	588,772 gallons
1927 -		639;151 gallons

A year or two ago we also put on the market a semi-paste paint to meet competition. We have made it only in white, and our sales have grown rapidly. We are undecided as to whether or not it has interfered materially with the sale of our High Standard Liquid Paint. We fear however that such is the case to a certain extent.

At the present time we are considering, and have been for some months in the past, the advisability of putting out a new line of liquid house paint that would be poorer in quality than our first grade. We know there is a demand for this material in large cities; in fact we are pretty sure that most of our competitors, who sell liquid paint in large cities, get their business on a second grade product. Our fear in putting out such a material is that it might replace our first grade house paint to a much larger extent than would be advisable.

We have continued the manufacture of brushing lacquer and we consider our sales of this material quite satisfactory. We are being offered constantly better raw materials, and for this reason we have gradually improved our product. We also have put on the market a lacquer for finishing automobiles in garages and custom shops. We call this Nepto-Lac, and sell it through our regular trade salesmen with the help of service men, or demonstrators, of whom we now have seven.
Our lacquer business in the Industrial Department is also growing steadily. The same cannot be said in regard to our efforts to sell lacquer to the automobile manufacturers. Since last January we have been endeavoring to get started with some automobile manufacturers in Detroit, but so far have been unsuccessful. We have been selling a small amount of clear lacquer

to the Marmon Company in Indianapolis, and at this time are making a demonstration of our pigmented lacquer on several of their cars. During the past year we have greatly enlarged the meager facilities with which we started the manufacture of lacquer. We have put this additional equipment on the first floor of our No. 6 Building (commonly known as the Parrott Building) on Crane Street. So far as insurance regulations go and also so far as any city ordinance may specify, we understand we could make lacquer in our Wayne Avenue factory. We do not, however, think it is wise to do this on account of the unusually high fire hazard. If our lacquer business continues to grow, we will be forced to have larger quarters for its manufacture. With this fact in mind we have been endeavoring, since the first of July 1927, to purchase the Brewery Stable property on Crane Street north of our varnish factory. Negotiations for this are still under way and will probably be concluded as soon as the legal matters in reference to the title are satisfactorily cleared up. In July the writer in company with Mr. Fasig visited the lacquer plant of the Pittsburgh Plate Glass Company in Milwaukee, and again in August in company with our engineer, Mr. Howell, he visited the lacquer plant of The Peaslee-Gaulbert Company in Louisville. We have made careful records of the information thus obtained, and feel sure it will be helpful to us in designing our own plant.

When we first started to make lacquer we were doubtful as to whether or not it might be injurious to the health of the men working in it. For that reason we have had the Assistant Superintendent of our lacquer plant examined periodically by Dr. Ewing. These examinations have been carried on since shortly after we started to manufacture lacquer, which was in November 1925. We recently received from Dr. Ewing a written statement to the effect that in his opinion lacquer has not been at all injurious to the health of the man he has been examining.

Market conditions throughout the year in our industry have been stationary or weak. This applies both to our finished products and our raw materials. Most of our raw materials during the past year have been purchased by us at prices lower than those we used for pricing our inventory of August 31, 1926. During the summer the Minnesota Linseed Oil Paint Company first, and later the Pittsburgh Plate Glass Company, declined their prices on house paint approximately twenty-five cents per gallon. With the exception of one or two smaller houses in Minneapolis, no other important manufacturer has made any change in his price. We have maintained our prices over the period that has elapsed since then, and at the present time we believe we shall probably make no change unless there is a general decline in our industry.

On February 2 we were visited by a number of the important officials of the Pennsylvania Railroad. We are indebted to Mr. Frank Hill Smith for this visit because it happened that one of these officials was a former associate of his when he was student apprentice on the Pennsylvania Railroad. These gentlemen made it very plain to us that they would like to have Lowe Brothers sell them at least a portion of their paint requirements. Since then we have tried faithfully to obtain some of the Pennsylvania Railroad business and have been successful in securing one small order for some of their specification paint; but we feel pretty sure we obtained it only because we quoted a selling price on this specification material that was just a little bit lower than our cost. We have not been very enthusiastic in our efforts to get more of this kind of business.

Throughout the year as heretofore we have retained Professor Morris of Ohio State University who has counseled with us in regard to business conditions, and who has also forecasted our sales by months five months in advance. We have been interested to observe that for the fiscal year closing August 31, 1927 his monthly forecasts made in this way, when totaled up came within four percent of the actual sales for the year. Also we have continued our arrangement with Professor Evans of Ohio State University, whom we have retained for a number of years as consulting chemist. We feel that the benefit of his advice, from the standpoint of an outside chemist, has been helpful to us and worth the comparatively small amount of money that it costs.

Our participation in the affairs of our Trade Association has continued throughout the year. The writer has held no office in the Association except that he is a member of the Educational Bureau, and Chairman of the Bureau's Technical Advisory Committee whose duty it is to consult with the Director of the Association's research laboratory that is maintained by the Association in Washington. The Association has continued its activity in the development ofa tung oil plantation in Florida, and in the support of this movement we have increased our holdings in the American Tung Oil Corporation to three thousand dollars. Our first investment was one thousand dollars.

In December of 1926 the officials of the Company became very much concerned as to the condition of our office building which we call No. 1 Building. This was brought about by complaints from the upper floors that at times during the day the building showed a very perceptible vibration or swaying. We have had the building examined by engineers from Mr. Frank Hill Smith's Company and from Schenck and Williams, and also by an engineer from Cincinnati. The report from all these sources is that the building is entirely safe. Although Mr. Frank Hill Smith recommended that it should be strengthened by building in one or two cross walls running east and west, we have hesitated to have this work done for the reason that the other engineers have not considered it necessary. We are constantly taking measurements between our building and the building on the west and also the building on the east. We also have dropped a permanent plumb line from one of the roof rafters to the basement of the building, and we take periodical readings of the distance on each floor between this plumb line and one of the pilasters of the east wall of the building. We believe that in this way we are in position to detect any movement of the building before it can become at all dangerous.

The question of pensions is a problem that is gradually becoming more important. We now have on our pension roll four individuals, three of whom draw a pension of one hundred dollars a month and one a pension of fifty dollars a month. Many of our employees are old men, and for this reason their years of usefulness are limited. The Management will welcome any suggestions as to how this problem can best be met.

In closing this report we wish again to bring to the attention of the stockholders our earnest conviction that we cannot reasonably expect to operate this business for an indefinite period on its present profitable basis. The very conditions that have made possible our prosperity have attracted capital to our industry so that it is now, in our opinion, somewhat overdeveloped. Competition becomes keener and keener, and concessions to paint dealers in the manner of prices and allowances are increasing. We are not pessimistic as to the future of The Lowe Brothers Company. We believe we will continue to get our share of the paint business of the country and to enjoy the profit resulting therefrom; but we think we should realize that conditions beyond the control of any of us may materially retard the expansion of our sales, and at the same time make it more difficult for us to earn an adequate gross profit.

October 13, 1927
Copy given to Mr. Hill Smith
Mr. Robert D. Patterson

Donald Watson
Charles H. Parrott