

Annual Report

1943



THE SHERWIN-WILLIAMS CO.



THE SHERWIN-WILLIAMS CO.

GEORGE A. MARTIN

CHAIRMAN OF THE BOARD

To the Stockholders:

We submit herewith the Annual Report of The Sherwin-Williams Company for the fiscal year ended August 31st, 1943.

The earnings for the year after allowing for all charges including depreciation, but before providing for Federal Income and Excess Profits Taxes and Special Reserves were \$9,603,843.52. The reserve for Federal Income and Excess Profits Taxes amounted to \$4,957,915.82 and Special Reserves \$850,000. The final Consolidated Net Profit available for dividends was \$3,795,927.70.

After deducting Preferred Dividends, the earnings are equivalent to \$5.07 per share on the Common Stock.

The Company's inventories are in excellent condition and consist of clean, salable merchandise. In view, however, of the prevailing high prices of certain materials, it was considered advisable to provide a reserve of \$500,000 for possible inventory shrinkage.

In accordance with established accounting practice, the post-war refund of excess profits tax is shown under "Other Assets" in the amount of \$327,202.68. To provide for post-war adjustments and contingencies a reserve of \$350,000 has been set up.

Profits include those from transactions subject to renegotiation under the provisions of the War Profits Control Act. Renegotiation proceedings have been commenced but the effect of such renegotiation, if any, has not yet been determined.

The Company's sales showed an increase of 11.6% over the previous year. However, due to higher raw material prices and operating costs on the one hand and established price ceilings on the other, our gross profit was below last year.

War business came first in all our operations and our products have given a good account of themselves on all fronts. Our paints and other protective coatings are widely used on airplanes, ships, tanks, trucks, shells and other war equipment as well as for camouflage purposes.

Our regular Trade Sales paint lines for civilian purposes were curtailed and streamlined to meet the needs of essential property protection. Many colors and sizes and some products were discontinued.

Since April 1, 1943 we have operated on a Linseed Oil Quota of 50% of the previous base period on house paints, enamels, varnishes,

etc. Other civilian restrictions have been rigidly followed. We were able, however, to minimize our sales losses in these lines, first, through the streamlining above referred to. Then, too, our Kem-Tone resin emulsion finish required a minimum of critical materials. Finally, the research work in our laboratories enabled us to reformulate many products and at the same time maintain high quality standards so that in many cases our products are even superior to any previous formulation.

The demand for our products continues far in excess of our ability or capacity to meet it, with a large backlog of orders particularly from our established dealer trade.

Our package and container problem has been greatly relieved by our own fibre package which has proven very satisfactory. We are in full production at Chicago, averaging more than 750,000 per week. This development has been achieved by our own people and has been an indispensable factor in maintaining our sales.

In the chemical division of our business, we produce most of the acetanilid used in this country which is the base for sulfa drugs. The acetanilid is sold to drug manufacturers but the Company also makes sulfanilimid intermediates.

The Company continues to operate for the War Department of the Government a large ordnance plant located at Carbondale, Illinois.

Our plants and properties are working at full capacity and overtime and have been kept at the highest possible efficiency under existing conditions.

We wish to express our appreciation to all our staff for their loyal and tireless work in laboratories, factories, warehouses, stores, offices and in the field.

Our institution is proud indeed of its 1,700 men and women in the Armed Forces, who are making such great sacrifices for our country.

Our Post-War plans await only the time when we can put them into effect, when this old world will be thirsty for a new coat of paint for beauty as well as for protection.

H. A. Martini

Chairman of the Board

A. W. Steudel

President

CONSOLIDATED

THE SHERWIN

Profit from operation
August 31, 1943,
provision for dep-
ductions, and fed-
Other income-----

Deductions:
Provision for dep-
Loss on disposal
expenses applic-
properties-----
Provision for
shrinkage ---
Provision for p-
and contingen-
Interest expense
Provision for do-
sion payment
items-----
Provision for fed-
—estimated:
Normal income
excess profit
Excess profits
refund of \$

Less adjustm-
provision
NET PROFIT

Balance at Septem-
Add net profit for

Deduct:
Cash dividends
provided for
Preferred—
Common—
Premium on J
for redemptio-
BALANCE

(Note A)—C
ceived from the u-
results of that su-
date of issuance o-
other unconsolid-

(Note B)—F
the provisions of
found as a result
been commenced
made as to the e-
statements of the
credit of the amc

CONSOLIDATED PROFIT AND LOSS AND SURPLUS

THE SHERWIN-WILLIAMS COMPANY AND SUBSIDIARIES

Year ended August 31, 1943

PROFIT AND LOSS

Profit from operations for the year ended August 31, 1943, before other income, provision for depreciation, other deductions, and federal taxes on income			\$12,034,840.37
Other income			221,264.62
			<u>\$12,256,104.99</u>
Deductions:			
Provision for depreciation	\$1,426,108.49		
Loss on disposal of fixed assets and expenses applicable to nonoperating properties	695,813.80		
Provision for possible inventory shrinkage	500,000.00		
Provision for postwar adjustments and contingencies	350,000.00		
Interest expense	68,339.87		
Provision for doubtful accounts, pension payments, and miscellaneous items	461,999.31		
Provision for federal taxes on income—estimated:			
Normal income and declared value excess profits taxes	\$2,602,000.00		
Excess profits taxes (less postwar refund of \$309,800.00)	2,788,200.00		
	<u>\$5,390,200.00</u>		
Less adjustments of prior years' provisions	432,284.18	4,957,915.82	8,460,177.29
NET PROFIT			<u>\$ 3,795,927.70</u>

EARNED SURPLUS

Balance at September 1, 1942			\$29,643,763.64
Add net profit for the year			3,795,927.70
			<u>\$33,439,691.34</u>
Deduct:			
Cash dividends declared and paid or provided for during the year:			
Preferred—\$5.00 per share	\$ 555,757.50		
Common—\$3.00 per share	1,916,781.00	\$2,472,538.50	
Premium on preferred stock called for redemption	24,750.00	2,497,288.50	
BALANCE AT AUGUST 31, 1943			<u>\$30,942,402.84</u>

(Note A)—Other income includes the amount of \$55,416.71 for dividends received from the unconsolidated Canadian subsidiary. Final statement as to operating results of that subsidiary for the year ended August 31, 1943, was not available at date of issuance of this report. The Company's proportionate share of net profits of the other unconsolidated subsidiary, not taken up, amounted to approximately \$64,190.00

(Note B)—Profits of the companies include those from transactions subject to the provisions of the War Profits Control Act providing for recapture of any profits found as a result of renegotiation to be excessive. Renegotiation proceedings have been commenced but have not progressed to a point where determination can be made as to the effect, if any, that such renegotiation may have upon the financial statements of the companies. Any refund of profits that might result, would be after credit of the amount of applicable income and excess profits taxes paid thereupon.

were
first,
Kem-
erials.
ormu-
uality
rior to

of our
articu-

red by
Ve are
00 per
le and

of the
s. The
y also

ent of
ndale,

over-
under

r their
houses,

men in
for our

t them
coat of

Board

President

CONSOLIDATED BALANCE SHEET THE SHERWIN-WILLIAMS COMPANY

August 31, 1943

Assets

CURRENT ASSETS

Cash	\$15,231,038.42
U. S. Government securities—at cost and accrued interest (quoted market \$351,101.56)	350,814.06
Trade notes and accounts receivable, less reserve (includes accounts ag- gregating \$27,882.20 receivable from subsidiaries not consolidated)	9,863,272.55
Inventories—raw materials and sup- plies, in process and finished mer- chandise stated on basis of lower of cost or market (estimated inter-plant and inter-company profits have been eliminated), less reserve of \$500,000.00 for possible inventory shrinkage	23,389,544.05
TOTAL CURRENT ASSETS	\$48,834,669.08

INVESTMENTS AND OTHER ASSETS

Securities of subsidiaries not consolidat- ed (Note A)	\$ 3,705,825.00	
Other securities—at or below cost	18,775.51	
Postwar refund of excess profits tax (including refundable amount from Dominion of Canada)—estimated	327,202.68	
Insurance deposits, miscellaneous notes and accounts receivable, claims and advances, less reserves	294,317.59	4,346,120.78

PROPERTY, PLANT, AND EQUIPMENT

Land, buildings, machinery and equip- ment—at cost to consolidated com- panies, less reserves for depreciation	18,275,853.26
--	---------------

PATENTS AND TRADE-MARKS

Nominal amount	1.00
----------------------	------

DEFERRED CHARGES

Advertising stock, stationery, etc.	\$ 489,098.95	
Prepaid insurance, deferred taxes, etc.	313,434.94	802,533.89
		<u>\$72,259,178.01</u>

(Note A)—Investments in securities of subsidiaries not consolidated include—
(1) investment of \$3,695,825.00 in Canadian subsidiary, stated at cost which was less than the proportionate share of the book value (including intangibles) of the net assets of such affiliate as reported to the Company; net increase in equity in this subsidiary since date of acquisition, not taken up by the parent Company, amounted to approximately \$314,000.00 as of August 31, 1942, (final statement as to operating results for the year ended August 31, 1943, was not available at date of issuance of this report);—(2) investment in another subsidiary amounting to \$10,000.00 stated at cost; the Company's proportionate share of net profits of such subsidiary not taken up, amounted to approximately \$97,100.00.

ED BALANCE SHEET S COMPANY AND SUBSIDIARIES

August 31, 1943

Liabilities, Capital Stock, and Surplus

CURRENT LIABILITIES

Trade accounts payable, pay rolls, drum deposits and miscellaneous items (includes accounts payable to subsidiary not consolidated in the amount of \$5,126.22)		\$ 8,378,393.41
Preferred dividend payable September 1, 1943		134,298.75
Deposits—employees, employees' benefit association and officers		830,076.78
Accrued taxes (other than federal income taxes) and miscellaneous items		447,801.38
Federal taxes on income—estimated ...	\$ 6,373,685.86	
Less United States Treasury Notes—Tax Series (purchased and held for tax payments)	<u>3,357,920.00</u>	<u>3,015,765.86</u>
Notes payable to bank (in connection with advances to and loans by foreign subsidiary)		<u>629,465.24</u>

TOTAL CURRENT LIABILITIES .. \$13,435,801.42

RESERVES

For postwar adjustments, contingencies, maintenance of plants, employers' liability insurance, etc.		1,163,898.75
--	--	--------------

CAPITAL STOCK AND SURPLUS

Capital stock:

Preferred—authorized 395,500 shares (par value \$100.00 each—redeemable at \$105.00 per share):	
Outstanding—Series "AAA" 5% cumulative preferred—107,439 shares	\$10,743,900.00
Common—authorized 800,000 shares (par value \$25.00 each):	
Outstanding—638,927 shares	<u>15,973,175.00</u>
	<u>\$26,717,075.00</u>

Earned surplus	<u>30,942,402.84</u>	<u>57,659,477.84</u>
		<u>\$72,259,178.01</u>

(Note B)—Net current assets (not significant) of consolidated foreign subsidiaries have been translated into U. S. dollars at the applicable exchange rates in effect at August 31, 1943. Such subsidiaries are located in Argentina, Canada, Cuba, and Mexico.

(Note C)—The Company was contingently liable at August 31, 1943, as surety on a performance bond relative to performance by The Sherwin-Williams Defense Corporation (subsidiary not consolidated) as a party to a construction and operation contract with The United States of America.

(Note D)—Reference is made to Note B to the summaries of profit and loss and surplus relative to profits of the companies subject to the provisions of the War Profits Control Act.