Annual Report
1947

THE SHERWIN-WILLIAMS CO.

0007-SWP-034774

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THE SHERWIN-WILLIAMS CO.

A. W. STEUDEL

PRESIDENT

To the Stockholders:

The consolidated statement of The Sherwin-Williams Company, including its subsidiaries, is herewith submitted for the fiscal year ended August 31, 1947.

All previous records were exceeded this year with sales approximately 25% ahead of the previous year. Although price increases contributed to this gain to some extent, the physical volume of goods sold was substantially greater.

The earnings before Federal Income Taxes and Special Reserves were $22,428,844.80.

The amount provided for Federal Income Taxes was $8,020,788.85.

Special Reserves consisted of two items, an additional $1,500,000.00 for possible inventory shrinkage and $3,500,000.00 for the initial provision for an Employees' Pension Plan.

This leaves as final consolidated net earnings $9,408,055.95.

After deducting the Preferred Dividends, the net earnings are equivalent to $7.08 per share on the present outstanding 1,277,854 shares of Common Stock. The split-up of Common Stock which was approved by the stockholders last August increased the outstanding Common Stock from 638,927 shares to 1,277,854 shares.

Referring to the additional $1,500,000.00 reserve set up for inventory, this was considered advisable on account of the increase in the total dollar value of inventory since a year ago and the continuing abnormal high prices of certain materials.

As to the $3,500,000.00 provided for a Pension Reserve, the management and the Board of Directors believe that at this time an Employees' Retirement Plan should be adopted and such a plan is being submitted to the stockholders for approval at the annual meeting of stockholders to be held December 9, 1947. In anticipation of such approval, it was deemed advisable to set up

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the above-mentioned sum of $3,500,000.00 as a reserve out of the year's earnings.

Mention has already been made of increases in prices that were put into effect during the year. It should be stated that such increases in the prices of paints and related products were less than the proportionate increases in costs, including raw materials, labor, and manufacturing expense. In other words the gross margin of profit per dollar of sale showed a shrinkage compared with the previous year. The gain in profit was achieved largely by the increase in the total volume of sales.

Although the total year's production of paints was considerably greater than that of the preceding year, output was restricted by shortages in basic raw materials. Oils became more readily available during the latter half of the year but such important items as titanium, leaded zinc, synthetic resins, certain basic colors, etc. were and are still in short supply.

One of the Company's outstanding products, Kem-Tone, reached a new high in record production and sales, thus establishing it as the largest selling single paint item on the market today.

The increase in sales volume was also helped by the new non-paint products which were described in our last Annual Report, namely the D. D. T. compounds marketed as Pestroy 10% Powder and Pestroy 6% Liquid Coating and a weed killer sold under the trade name of Weed-No-More. Another new development is an all purpose garden dust for vegetables and flowers packed in a ready to apply container called "Bugblaster." It already enjoys a marked consumer acceptance and contributed a substantial amount to this division of the business. The Company's Research Laboratories are constantly developing new products which will be marketed from time to time through the Company's extensive distribution facilities.

Approximately $4,000,000.00 was expended during the year for plant improvements, in expanding facilities for production and storage and modernizing equipment.

The management expresses its appreciation to the organization for the loyal and intense efforts that have made this year's results possible.

A. W. Steudel

President

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CONSOLIDATED PROFIT AND LOSS AND SURPLUS

THE SHERWIN-WILLIAMS COMPANY AND CONSOLIDATED SUBSIDIARIES

Year ended August 31, 1947

PROFIT AND LOSS

Profit from operations for the year ended August 31, 1947, before other income, provision for depreciation and other deductions, and federal taxes on income			$24,253,182.12
Other income			373,196.96
			$[illegible]
Deductions:			
Provision for pensions		$ 5,000,000.00	
Provision for possible inventory shrinkage		1,000,000.00	
Provision for depreciation		1,207,240.62	
Pension payments, provision for foreign taxes, and miscellaneous items		611,264.22	
Net charge arising from sale or abandonment of depreciable assets		289,940.14	
Interest expense		90,989.18	
Federal taxes on income—estimated:			
Provision for the year	$8,646,000.00		
Less adjustments for prior years	624,211.15	8,020,788.85	16,198,398.11
NET PROFIT			$ 9,4[illegible]

EARNED SURPLUS

Balance at September 1, 1946			$38,127,974.64
Add net profit for the year			9,4[illegible]
			$47,[illegible]
Deduct:			
Cash dividends declared and paid or provided for during the year:			
Preferred—$4.00 per share	$ 364,[illegible]		
Common—$6.00 per share (paid on shares outstanding prior to change set forth below)	3,[illegible]	$ 4,196,168.00	
Charge resulting from changing each share of common stock (par value $25.00) outstanding into two shares of such common stock		14,973,175.00	
Premium on preferred stock called for redemption		24,7[illegible]	29,[illegible]
BALANCE AT AUGUST 31, 1947			$[illegible]

Note A—Other income includes the amount of $[illegible] for dividends received from the unconsolidated Canadian companies. [illegible] August 31, 1947 [illegible] approximately $[illegible].

Note B—Profit and loss accounts of foreign subsidiaries were translated into U. S. dollars mainly on the basis of the average rate of exchange in effect during the year.

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CONSOLIDATED BALANCE SHEET

THE SHERWIN-WILLIAMS COMPANY AND CONSOLIDATED SUBSIDIARIES

August 31, 1947

Assets

CURRENT ASSETS		
Cash		$21,414,238.61
Trade receivables (includes accounts aggregating $234,760.39 receivable from subsidiaries not consolidated), less reserves		14,190,627.46
Inventories—raw materials and supplies, in-process and finished merchandise stated on basis of lower of cost or market (estimated inter-plant and inter-company profits have been eliminated), less reserve of $4,000,000.00 for possible inventory shrinkage		36,586,096.96
TOTAL CURRENT ASSETS		$72,190,963.03
INVESTMENTS and OTHER ASSETS		
Securities of subsidiaries not consolidated—Note A	$ 4,112,090.30	
Miscellaneous receivables, insurance deposits, advances, and miscellaneous securities, less reserves	378,937.79	4,491,028.09
PROPERTY, PLANT, AND EQUIPMENT		
Land, buildings, machinery and equipment—at cost to consolidated companies, less reserves for depreciation		21,704,343.83
PATENTS AND TRADE-MARKS		
Nominal amount		1.00
DEFERRED CHARGES		
Advertising stock, stationery, etc.	$ 713,373.01	
Prepaid insurance, deferred taxes, etc.	538,849.49	1,252,222.50
		$99,638,558.45

Note A—Investments in securities of subsidiaries not consolidated include (1) investment of $4,102,090.30 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 $1,287,000.00 at August 31, 1946 (final statement as to operating results for the year ended August 31, 1947, was not available at date of issuance of this report) —(2) investment of $10,000.00 in another subsidiary, stated at cost; the Company's proportionate share of net profits of such subsidiary not taken up, amounted to approximately $318,000.00.

Liabilities, Capital Stock, and Surplus

CURRENT LIABILITIES		
Trade accounts payable, payrolls, drum deposits, and miscellaneous items (includes accounts aggregating $431,028.19 payable to subsidiary not consolidated)		$13,928,009.36
Dividend on preferred stock—payable September 2, 1947		87,437.00
Deposits—employees and officers		1,025,470.70
Accrued taxes (other than federal income taxes) and miscellaneous items		668,300.75
Federal taxes on income—estimated		10,005,005.38
Notes payable to banks (in connection with advances to and loans by foreign subsidiaries)		1,062,365.06
TOTAL CURRENT LIABILITIES		$26,770,518.76
RESERVES		
For pensions	$ 3,500,000.00	
For contingencies, maintenance of plants, employers' liability insurance, etc.	1,338,034.11	4,838,034.11
CAPITAL STOCK AND SURPLUS		
Capital stock:		
Preferred—authorized 250,000 shares (par value $100.00 each—redeemable at $105.00 per share):		
Outstanding—cumulative preferred stock, 4% series—87,437 shares	$ 8,743,700.00	
Common—authorized 1,000,000 shares (par value $25.00 each):		
Outstanding—1,277,864 shares	31,946,600.00	
	$40,690,300.00	
Earned surplus	27,339,946.09	68,030,246.09
		$99,638,558.45

Note B—Net current assets (approximately 6% of consolidated net current assets) of consolidated foreign subsidiaries have been translated into U. S. dollars at the applicable exchange rates in effect at August 31, 1947. Such subsidiaries are located in Argentina, Brazil, Cuba, and Mexico.

Note C—The Company was contingently liable at August 31, 1947, as guarantor on loans (from banks) of a consolidated foreign subsidiary for borrowings subsequent to June 30, 1947 (the closing date for purposes of consolidation). Such additional loans amounted to $88,097.73.

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AUDITORS' CERTIFICATE

Board of Directors,
The Sherwin-Williams Company,
Cleveland, Ohio.

We have examined the consolidated balance sheet of The Sherwin-Williams Company and its consolidated subsidiaries as of August 31, 1947, and the consolidated statements of profit and loss and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying balance sheet and related summaries of profit and loss and surplus present fairly the consolidated position of The Sherwin-Williams Company and its consolidated subsidiaries at August 31, 1947, and the consolidated results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST
Certified Public Accountants

Cleveland, Ohio
October 16, 1947

THE SHERWIN-WILLIAMS CO.

101 Prospect Ave., N. W. Founded in 1866 Cleveland, Ohio

Manufacturers of

Paints, Varnishes, Colors, Stains, Enamels, Lacquers, Lead Products, Dyes, Chemicals, Lithopone, Litharge, Linseed Oil, Dry Colors, Insecticides, Herbicides, Waxes, Cleaners, Polishes.

Main Plants

Cleveland - Chicago - Dayton - Detroit - Newark - Pittsburgh
Oakland, Cal. - Bound Brook, N. J. - Gibbsboro, N. J.
Dallas - Los Angeles - Coffeyville, Kan.

Directors

A. D. BALDWIN	C. F. JARDINE	A. W. STEUDEL
C. S. EATON	D. A. ROHR	E. D. WHITTLESEY
M. J. FORTIER	C. M. LEMPERLY	THOS. E. WILSON
GEORGE GUND	G. E. ROBERTSON	L. W. WOLCOTT
	L. E. SCHROEDER	

Officers

A. W. STEUDEL, *President*
E. D. WHITTLESEY, *Senior Vice President*
M. J. FORTIER, *Vice President*
S. B. COOLIDGE, *Vice President*
C. M. LEMPERLY, *Vice President*
L. E. SCHROEDER, *Vice President and Treasurer*
N. E. VAN STONE, *Vice President*
T. G. MURPHY, *Secretary*

Transfer Agents

CLEVELAND TRUST COMPANY Cleveland, Ohio	BANKERS TRUST COMPANY New York, N. Y.

Registrars

CENTRAL NATIONAL BANK Cleveland, Ohio	GUARANTY TRUST COMPANY New York, N. Y.

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