Annual Report
1938

THE SHERWIN-WILLIAMS CO.

THE SHERWIN-WILLIAMS CO.

GEORGE A. MARTIN

PRESIDENT

To the Stockholders:

Herewith are presented the Consolidated Balance Sheet and the Consolidated Income and Surplus Statements of The Sherwin-Williams Company and its Subsidiaries for the fiscal year ended August 31, 1938. These have all been audited by Ernst & Ernst, Certified Public Accountants, whose certificate is part of this Annual Report.

The Balance Sheet shows the Company in a good financial condition with $30,230,801 in current assets against $4,076,527 liabilities. Cash alone amounting to $6,640,192 exceeds all the Company's liabilities by $2,563,665.

The net earnings, after depreciation and all other deductible items, but before federal income taxes, amount to $2,602,185.43. After setting aside $373,824.70 for the federal income taxes, the final net profit available for dividends is $2,228,360.73.

Deducting $679,507.50 for Preferred Dividends paid during the fiscal year, there remains $1,548,853.23 earned on the Common Stock which is equivalent to $2.42 per share.

The volume of sales suffered a shrinkage of 13.8% in comparison with the previous year.

Even though great care was exercised in the purchase of raw materials for our requirements and inventories were reduced to the extreme limit, we found market quotations as of August 31, 1938 below the average cost of raw materials which went into our finished products during the course of the year, causing us to make an adjustment of $346,523.22 in the value of our manufactured goods to bring it down from a cost to a replacement basis. Likewise we wrote off $163,803.88 on raw materials on hand August 31, 1938. The total inventory adjustment accordingly amounted to $510,327.10. Our inventory as of August 31, 1938 was $15,472,117.77 as compared with $19,752,759.85 as of August 31, 1937.

While it may be somewhat indiscreet to express an opinion on our new fiscal year, we believe, from the results shown on the business received since August 31, 1938 up to this writing and specific conditions which govern our industry, that we may expect a reasonably satisfactory business for the coming year.

More so in the year just closed than in any other in the past the Management wants to express to each and every one in the service its thanks for their faithful performance during the difficult and adverse conditions which existed.

Geo. A. Martin

President

October 25, 1938

CONSOLIDATED PROFIT AND LOSS AND SURPLUS

THE SHERWIN-WILLIAMS COMPANY AND SUBSIDIARIES

Year ended August 31, 1938

PROFIT AND LOSS

Profit from operations for the year ended August 31, 1938, before other income, depreciation, other deductions and federal taxes on income.			$ 4,122,236.05
Other income - - - - - - - - - - - -			156,231.30
			$ 4,278,467.35
Deductions:			
Provision for depreciation - - - - -		$1,000,389.68	
Write-off of intangible assets acquired during the year ($100,016.01), loss on disposal of fixed assets and expenses applicable to non-operating properties. - - - - - - - - - -		202,315.28	
Interest expense - - - - - - - - - -		92,680.22	
Provision for doubtful accounts, pension payments and sundry items		380,896.74	
Provision for estimated federal taxes on income (includes provision for surtax in the amount of $1,155.00)	$ 421,730.00		
Less adjustment of federal income tax provisions for prior years - -	47,905.30	373,824.70	2,050,106.62
NET PROFIT - - - - - - - - -			$ 2,228,360.73

EARNED SURPLUS

Balance September 1, 1937 - - - - -			$20,194,648.05
Add net profit for the year - - - - -			2,228,360.73
			$22,423,008.78
Deduct:			
Cash dividends declared and paid or provided for during the year:			
Preferred—$5.00 per share - -	$ 679,507.50		
Common—$3.00 per share - -	1,911,781.00	$2,591,288.50	
Premium on preferred stock called for redemption - - - - - - - -		24,750.00	2,616,038.50
BALANCE AUGUST 31, 1938 -			$19,806,970.28

(Note A) Proportionate share of the operating results of unconsolidated Canadian subsidiary has not been reflected in the foregoing statement; final statement as to such operating results for the year ended August 31, 1938, was not available at date of issuance of this report. Proportionate share (not significant) of net profit, for the year ended August 31, 1938, of other unconsolidated subsidiary has been taken up, as investment therein is carried at less than cost, due to absorbing proportionate share of previous net losses of such subsidiary.

CONSOLIDATED BALAN

THE SHERWIN-WILLIAMS COMPANY

August 31, 1938

Assets

CURRENT ASSETS		
Cash - - - - - - - - - - - - - - -	$ 6,640,192.36	
Trade notes, acceptances and accounts receivable, less reserves (includes accounts amounting to $9,116.88, receivable from unconsolidated subsidiaries) - - - - - - - - - - -	8,118,491.25	
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) - - - - - -	15,472,117.77	$30,230,801.38
OTHER ASSETS		
Notes receivable for properties sold during 1934—secured by mortgage	$ 101,494.14	
Sundry notes and accounts receivable, claims and advances, less reserves -	385,254.13	486,748.27
INVESTMENTS		
Securities of unconsolidated subsidiaries—Note A - - - - - - - - - -	$ 3,698,609.87	
Other securities—at or below cost - -	47,598.83	3,746,208.70
PROPERTY, PLANT AND EQUIPMENT		
Land, buildings, machinery and equipment—at cost to consolidated companies, less reserves for depreciation		18,473,949.07
PATENTS AND TRADE MARKS		
Nominal amount - - - - - - - - -		1.00
DEFERRED CHARGES		
Advertising stock, stationery, etc. - -	$ 628,013.25	
Unexpired insurance premiums, deferred taxes, etc. - - - - - - - -	267,470.00	895,483.25
		$53,833,191.67

(Note A) Investments in securities of unconsolidated subsidiaries include (1) investment of $3,695,825.00 in Canadian affiliate 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 and (2) investment in another affiliate amounting to $2,784.87 which is stated at equity in net assets. Net decrease in equity in Canadian affiliate since date of acquisition, not taken up by parent Company, amounted to

CUR
Tr
Pr
A
D
M
RES
F
CA
C
F

approxima
results for
this report
subsidiary
(Note
of $19,810

DATED BALANCE SHEET
LIAMS COMPANY AND SUBSIDIARIES
August 31, 1938

50,801.38

36,748.27

46,208.70

73,949.07

1.00

95,483.25

33,191.67

es include (1) in-
was less than the
net assets of such
ffiliate amounting
quity in Canadian
ny, amounted to

Liabilities, Capital Stock and Surplus

CURRENT LIABILITIES		
Trade accounts payable, pay rolls and sundry items (includes account amounting to $1,053.68 payable to unconsolidated subsidiary) - - - -	$ 2,512,970.66	
Preferred dividend payable September 1, 1938 - - - - - - - - - - - - -	165,236.25	
Accrued taxes (estimated) and sundry items - - - - - - - - - - - - -	729,399.38	
Deposits—officers and employees - -	528,921.68	
Mortgage payable (existing when subsidiary was fully acquired in 1934)	140,000.00	$ 4,076,527.97
RESERVES		
For contingencies, maintenance of plants and employers' liability insurance - - - - - - - - - - - -		757,618.42
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—132,189 shares - - - - - -	$13,218,900.00	
Common — authorized 800,000 shares (par value $25.00 each):		
Outstanding—638,927 shares -	15,973,175.00	
	$29,192,075.00	
EARNED SURPLUS - - - - - - -	19,806,970.28	48,999,045.28
		$53,833,191.67

approximately $555,000.00 as of August 31, 1937 (final statement as to operating results for the year ended August 31, 1938, was not available at date of issuance of this report). Proportionate share (not significant) of net losses of other unconsolidated subsidiary has been taken up.

(Note B) The companies were contingently liable at August 31, 1938, in the amount of $19,810.24 as guarantors of a portion of certain notes discounted by dealers.