Annual Report
1954

THE SHERWIN-WILLIAMS CO.

THE SHERWIN-WILLIAMS CO.

A. W. STEUDEL

PRESIDENT

To the Stockholders:

We present herewith the Consolidated Balance Sheet and Consolidated Income and Surplus Accounts of The Sherwin-Williams Company for the fiscal year ended August 31, 1954.

The earnings before Federal Income Tax and provision for the Pension Plan are $23,814,859.

The amount estimated for Federal Income and Excess-Profits Tax is $10,671,835.

For the Pension Plan $2,500,000 has been set aside this year.

The final consolidated net earnings, after all deductions, are $10,643,021, the highest in the Company's history.

These net earnings, after allowing for Preferred Dividends, are equivalent to $7.83 per share on the outstanding 1,277,854 shares of Common Stock.

This year also established an all-time record for sales. The increase over last year was 2.47 percent. It is, of course, common knowledge that there has been a sharp decline during the year in the production of such items as farm equipment, furniture, television sets, refrigerators and household appliances. Consequently, the demand for industrial finishes suffered a marked drop. Also in the railroad and marine field there was a drastic curtailment of buying. Nevertheless, the gain realized in the larger field of the Company's operations, namely, finishes for the home, more than offset this decline. A large part of this gain was contributed by Super Kem-Tone and Kem-Glo, the sales of which surpassed all previous records. These two products, one a wall finish and the other an all-purpose enamel, have attained an output in their respective fields, far in excess of any other interior finishes ever offered the American market.

The Pigment, Color & Chemical Division, which sells primarily to manufacturers such basic materials as pigments, colors, dyestuffs, chemicals and cans, enjoyed a successful year with a marked gain in sales.

Referring to the Company's foreign operations, there have been drastic declines during the year in the value of the currencies of two countries, Brazil and Mexico. In the case of Brazil, the official rate is still 18.3 cruzeiros to the dollar, but the free exchange rate at August 31st was about 59 to the dollar. Using this free rate of 59 cruzeiros to the dollar in figuring the net current assets of the Brazilian Company, there still remains an excess of $1,728,000 above the amount at which the investment is carried on the Company's books. During the past two fiscal years, we were successful in transferring into dollars as dividends $788,952, which have been included in the Company's earnings for those years.

In Mexico the peso was officially devalued last April from 11.6 cents to 8 cents. Effect has been given to this devaluation by writing down the Company's net current assets to the current peso rate in the consolidated figures. A large new plant, with all modern equipment, has just been completed at Mexico City, the entire cost of which has been financed out of the earnings of the Mexican Company.

The total amount spent by the Company for plant during the year was $3,580,864. A large part of this was expended in the Chemical Division of the business, including the building of another Phthalic Anhydride unit at Chicago and further expansion of chemical and color facilities there.

The Company has continued its research and new products development with unabated vigor. Along with improvement in its regular lines of finishes, it has brought out new products, among them "Applikay" which was put on the market last Spring. It was felt that the American public would welcome a pattern that could be applied to the walls of its homes by means of paint instead of being restricted, as in the past, to plain walls only. This has been accomplished by perfecting a roller with which a special form of paint called "Applikay" can easily be rolled over Super Kem-Tone, producing a beautiful decorative effect, completely washable, in an infinite variety of colors. This type of design roller is manufactured at the Company's new plant at Deshler, Ohio.

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

President.

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CONSOLIDATED BALANCE SHEET
THE SHERWIN-WILLIAMS COMPANY AND CONSOLIDATED SUBSIDIARIES

AUGUST 31, 1954

Assets

CURRENT ASSETS		
Cash		$ 33,826,821
Trade receivables, less allowances for doubtful accounts		21,261,560
Inventories—raw materials and supplies, in process and finished merchandise, at lower of cost or market		41,913,601
TOTAL CURRENT ASSETS		$ 97,001,982
INVESTMENTS AND OTHER ASSETS		
Securities of subsidiaries not consolidated—Note A	$ 4,951,621	
Miscellaneous receivables, advances, insurance deposits, and miscellaneous securities, less allowances	646,701	5,598,322
PROPERTY, PLANT, AND EQUIPMENT		
Land, buildings, machinery, and equipment—at cost to consolidated companies, less allowances for depreciation		32,489,518
PATENTS AND TRADE-MARKS		
Nominal amount		1
DEFERRED CHARGES		
Advertising stock and miscellaneous supplies	$ 932,031	
Prepaid insurance and other deferred items	1,216,891	2,148,922
		$137,238,745

Liabilities, Capital Stock, and Surplus

CURRENT LIABILITIES		
Trade accounts payable, payrolls, and miscellaneous items		$ 13,455,931
Dividend on preferred stock—payable September 1, 1954		155,100
Deposits—employees and officers		1,504,896
Accrued taxes (other than federal income taxes) and miscellaneous items		1,005,849
Federal taxes on income—estimated	$11,375,000	
Less U. S. Treasury Tax Anticipation Certificates	4,000,000	7,375,000
TOTAL CURRENT LIABILITIES		$ 23,496,776
RESERVES		
For contingencies and other	$ 3,377,785	
For pensions	2,500,000	5,877,785
CAPITAL STOCK AND SURPLUS		
Capital stock:		
Preferred—authorized 395,500 shares (par value $100.00 each—redeemable at $105.00 per share): Outstanding—cumulative preferred stock, 4% series—155,100 shares	$15,510,000	
Common—authorized 1,600,000 shares (par value $25.00 each): Outstanding 1,277,854 shares	31,946,350	
	$47,456,350	
Earned surplus	60,407,834	107,864,184
		$137,238,745

Note A—Securities of subsidiaries not consolidated are stated at cost and include investments of approximately $4,119,000 in a partly-owned Canadian subsidiary, and approximately $822,000 in subsidiaries in Brazil and Argentina. The approximate amounts of accumulated net income, not taken up, applicable to investments in subsidiaries not consolidated were as follows: Canada—$4,304,000; Brazil—$1,728,000; Argentina—$443,000. Transfer of funds from the South American subsidiaries is restricted and although they are wholly-owned the accounts of such subsidiaries are not consolidated for that reason.

Note B—Net current assets (approximately 3% of consolidated net current assets) of consolidated foreign subsidiaries, located in Mexico and Cuba, have been translated into U. S. dollars at the applicable exchange rates in effect at August 31, 1954.

CONSOLIDATED INCOME AND SURPLUS

THE SHERWIN-WILLIAMS COMPANY AND CONSOLIDATED SUBSIDIARIES

Year Ended August 31, 1954

INCOME

Profit from operations for the year ended August 31, 1954, before other income, provision for depreciation and other deductions, and federal taxes on income			$25,835,862
Other income:			
Dividends received on capital stock of unconsolidated subsidiaries—Note A		$ 726,369	
Unused portion of reserves returned to income		375,985	
Miscellaneous		135,565	1,237,919
			$27,073,781
Other deductions:			
Provision for pensions		$ 2,500,000	
Provision for depreciation		2,326,005	
Provision for foreign taxes and miscellaneous items		640,878	
Net charge resulting from sale or abandonment of depreciable assets		160,487	
Interest expense		131,554	
Federal taxes on income:			
Provision for the year—estimated:			
Normal tax and surtax	$11,125,000		
Excess profits tax	250,000		
	$11,375,000		
Adjustments for prior years	703,164*	10,671,836	16,430,760
NET INCOME			$10,643,021

EARNED SURPLUS

Balance at September 1, 1953			$55,536,244
Add net income for the year			10,643,021
			$66,179,265
Deduct:			
Cash dividends declared and paid or provided for during the year:			
Preferred—$4.00 per share	$ 635,250		
Common—$4.00 per share	5,111,431	$ 5,746,681	
Premium on preferred stock redeemed		24,750	5,771,431
BALANCE AT AUGUST 31, 1954			$60,407,834

Note A—Equity in income for the year ended August 31, 1954, reported by unconsolidated subsidiaries was approximately $980,000 more than dividends received.

Note B—The income accounts of the consolidated foreign subsidiaries (Mexico and Cuba) have been translated into U. S. dollars mainly on the basis of rates of exchange in effect at the close of the year.

*Indicates red figure.

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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 consolidated subsidiaries as of August 31, 1954, and the related statements of consolidated income and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and summaries of income and surplus present fairly the consolidated financial position of The Sherwin-Williams Company and consolidated subsidiaries at August 31, 1954, and the consolidated results of their operations for the year then ended, 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 12, 1954

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, Cans, Insecticides.

Main Plants

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

Directors

A. D. BALDWIN
A. H. BURT
S. B. COOLIDGE
C. S. EATON
GEORGE GUND
C. P. JARDEN
D. A. KOHR
C. M. LEMPERLY
G. H. ROBERTSON
L. H. SCHROEDER
A. W. STEUDEL
C. M. WHITE
H. D. WHITTLESEY
THOS. E. WILSON
L. W. WOLCOTT

Officers

A. W. STEUDEL, *President*
A. H. BURT, *Vice President*
S. B. COOLIDGE, *Vice President*
L. H. SCHROEDER, *Vice President and Treasurer*
B. M. VAN CLEVE, *Vice President*
N. E. VAN STONE, *Vice President*
H. D. WHITTLESEY, *Vice President*
F. J. SQUIRES, *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.