Annual Report

1945



THE SHERWIN-WILLIAMS CO.

N11583

0007-SWP-000005576



THE SHERWIN-WILLIAMS CO.

A. W. STEUDEL
PRESIDENT

To the Stockholders:

Herewith are presented the Consolidated Balance Sheet of the Company at the close of business August 31, 1945 and the Consolidated Profit and Loss Statement for the year.

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 $11,365,213.14.

The amount set up for Federal Income and Excess-Profits Taxes was $5,900,000 and $400,000 was added to the reserve for special plant obsolescence.

The Final Consolidated Net Profit after all deductions was $5,065,213.14.

This Final Consolidated Net Profit after deducting Preferred Dividends is equivalent to $7.17 per share on the outstanding common stock.

In February of this year, an offer was made to the Company's Preferred Stockholders which gave them the right to exchange their holdings of the 5% Preferred Stock, share for share, for a new series of Preferred Stock identical in all its terms and conditions with the 5% Preferred series, except that the annual dividend rate was reduced to 4%. The holders of over 96% of the outstanding 5% Preferred Stock accepted this offer and, as you will see on the Balance Sheet, the Company now has outstanding $9,733,700 par value of Preferred Stock which is designated as "4% Series". This refinancing was accomplished without the help of underwriters so that the only expense incurred in the transaction was the small amount paid for legal and transfer agents' services.

The sales volume for the year was 4.9% greater than the preceding year. War business, that is, sales of goods to the government or suppliers to the government for use on war products as reflected in sales subject to renegotiation, has been approximately 20% of the total volume of business during the war years.

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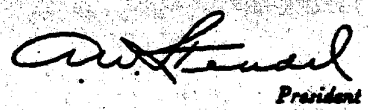
As to renegotiation, the Company has been given clearance as having no excessive profits for the war period up to August 31, 1944.

The restrictions and limitations imposed on account of the scarcities of materials were more severe than during any of the previous war years. Most of the year linseed oil was placed on a 40% quota, which means that the Company was allowed to use only 40% of the oil it had consumed during the years 1940 and 1941, the average of these two years being the basis for such quota. Pigments such as lead, zinc and titanium were also exceedingly scarce. In spite of these difficulties, a record sales volume was achieved by various means without sacrificing the quality of the Company's products.

Within the year the Company disposed of its experimental Titanium plant at Gloucester, New Jersey and also an old idle factory at Detroit. The difference between the depreciated cost and the amount realized through these sales has been charged to the special reserve for obsolescence which was provided for this purpose. As previously stated, $400,000 has been added to this reserve out of the year's earnings as plans have been made to replace several old units with new construction.

As was explained in last year's annual report, the Company is not confronted with any reconversion problem as far as its plant and equipment are concerned. There is, however, still an acute shortage of certain important raw materials and the problem today is to obtain sufficient materials to supply the overwhelming demand for the Company's products.

On November 1, 1944, we suffered a great loss in the death of Mr. George A. Martin, Chairman of our Board of Directors. Inasmuch as our last annual report had already come off the press, no reference could be included, although a special memorial tribute was published later. I would like, therefore, to make reference here to the loss we have sustained and to pay my respects to Mr. Martin's memory on this first anniversary of his passing.



President

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CONSOLIDATED PROFIT AND LOSS AND SURPLUS

THE SHERWIN-WILLIAMS COMPANY AND SUBSIDIARIES

Year ended August 31, 1945

PROFIT AND LOSS

Profit from operations for the year ended August 31, 1945, before other income, provision for depreciation and other deductions, and federal taxes on income			$13,257,088.49
Other income			182,941.83
			$13,440,030.32
Deductions:			
Provision for depreciation, including $400,000.00 for special purposes		$1,844,587.80	
Loss on disposal of fixed assets and expenses applicable to nonoperating properties		172,647.07	
Interest expense		67,463.67	
Provision for foreign taxes, pension payments, and miscellaneous items		421,649.41	
Provision for federal taxes on income—estimated:			
Normal income and declared value excess profits taxes	$2,686,400.00		
Excess profits taxes (less adjustments of provisions for prior years of $31,520.67)	3,185,079.33	5,868,479.33	8,374,817.18
NET PROFIT			$ 5,065,213.14

EARNED SURPLUS

Balance at September 1, 1944			$32,330,887.61
Add net profit for the year			5,065,213.14
			$37,396,100.75
Deduct:			
Cash dividends declared and paid or provided for during the year:			
Preferred:			
Series AAA—5% ($3.75 per share)	$ 384,333.75		
4% series—($1.00 per share)	97,337.00		
	$ 481,670.75		
Common—$3.75 per share	2,396,976.25	$2,877,647.00	
Premium on preferred stock called for redemption		25,760.00	2,903,407.00
BALANCE AT AUGUST 31, 1945			$34,492,693.75

Note A—Other income includes the amount of $88,944.99 for dividends received from the wholly-owned Canadian subsidiary. Final statement as to operating results of that subsidiary for the year ended August 31, 1945, was not available at date of issuance of this report. The Company's approximate share of net profits of unaudited subsidiaries, not taken up, amounted to approximately $17,300.00.

Note B—Expenditures for certain plant facilities for which certificates of necessity have been requested and on account of which amortization deductions are claimed in the tax return for the year ended August 31, 1945, the companies do not consider they had any excessive profits within the meaning of the Renegotiation Act.

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CONSOLIDATED BALANCE SHEET
THE SHERWIN-WILLIAMS COMPANY AND SUBSIDIARIES
August 31, 1945

Assets

CURRENT ASSETS		
Cash		$21,644,162.17
U. S. Government securities (principally certificates of indebtedness)—at cost and accrued interest		1,334,288.44
Trade notes and accounts receivable, less reserves (includes accounts aggregating $18,784.92 receivable from subsidiaries not consolidated)		7,640,326.98
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 $500,000.00 for possible inventory shrinkage		24,687,944.61
Estimated postwar refund of excess profits tax		728,820.67
TOTAL CURRENT ASSETS		$56,035,541.77
INVESTMENTS AND OTHER ASSETS		
Securities of subsidiaries not consolidated Note A	$4,112,090.30	
Other securities—at or below cost	17,457.00	
Miscellaneous receivables, insurance deposits and advances, less reserves	244,914.24	4,374,461.54
PROPERTY, PLANT, AND EQUIPMENT		
Land, buildings, machinery and equipment—at cost to consolidated companies, less reserve for depreciation		15,523,842.98
PATENTS AND TRADE-MARKS		
Nominal amount		1.00
DEFERRED CHARGES		
Advertising stock, stationery, etc.	$ 486,715.04	
Prepaid insurance, deferred taxes, etc.	507,410.94	994,125.98
		$76,927,973.27

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 $676,800.00 as of August 31, 1944, (final statement as to operating results for the year ended August 31, 1945, 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 $116,900.00.

Liabilities, Capital Stock, and Surplus

CURRENT LIABILITIES		
Trade accounts payable, pay rolls, drum deposits, and miscellaneous items		$10,680,207.88
Preferred dividend payable September 1, 1945		97,357.00
Deposits—employees, employees benefit association and officers		873,940.91
Accrued taxes (other than federal income taxes) and miscellaneous items		451,811.16
Federal taxes on income—estimated	$7,040,343.49	
Less United States Treasury Notes—Tax Series (purchased and held for tax payments)	4,637,665.00	2,402,678.49
Notes payable to bank (in connection with advances to and loans by foreign subsidiary)		696,748.69
TOTAL CURRENT LIABILITIES		$16,202,724.13
RESERVES		
For postwar adjustments, contingencies, maintenance of plants, employers' liability insurance, etc.		1,525,680.39
CAPITAL STOCK AND SURPLUS		
Capital stock:		
Preferred—authorized 396,600 shares (par value $100.00 each—redeemable at $105.00 per share):		
Outstanding—cumulative preferred stock, 4% series—97,357 shares	$ 9,735,700.00	
Common—authorized 800,000 shares (par value $25.00 each):		
Outstanding—638,927 shares	16,973,175.00	
	$26,706,875.00	
Earned surplus	34,492,693.75	60,199,568.75
		$76,927,973.27

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, 1945. Such subsidiaries are located in Argentina, Brazil, Cuba and Mexico.

Note C—The Company was contingently liable at August 31, 1945, 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.

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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, 1945, 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, including tests of trade receivables by communication with debtors and observation of procedures followed in ascertaining inventory quantities at the principal locations.

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, 1945, 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 23, 1945

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, Coal Tar Products, Disinfectants, Cleaners, Polishes.

Main Plants

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

Directors

A. D. BALDWIN	H. J. HAIN	A. W. STEUDEL
C. S. EATON	C. P. JARDEN	H. D. WHITTLESEY
M. J. FORTIER	D. A. KOHR	THOS. E. WILSON
GEORGE GUND	Z. E. MARTIN	L. W. WOLCOTT
	L. H. SCHROEDER	

Officers

A. W. STEUDEL, *President*
H. D. WHITTLESEY, *Senior Vice President*
M. J. FORTIER, *Vice President*
H. J. HAIN, *Vice President*
C. M. LEMPERLY, *Vice President*
L. H. SCHROEDER, *Vice President and Treasurer*
R. E. VAN STONE, *Vice President*
T. G. MURPHEY, *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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