Annual Report

1944

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 31, 1944.

After allowing for all charges including depreciation, but before providing for Federal Income and Excess Profits Taxes and Special Reserves, the earnings for the year were $11,409,943.68. The amount provided for Federal Income and Excess Profits Taxes was $6,144,000 and the amount set aside for Special Reserves was $1,190,000. The final Consolidated Net Profit after these deductions amounted to $4,075,943.68 available for dividends.

This final Consolidated Net Profit, after deducting Preferred Dividends, is equivalent to $5.55 per share on the Common Stock.

Referring to the Special Reserves above mentioned, it was considered advisable to set up $600,000 for special plant obsolescence and $590,000 for postwar adjustments and contingencies.

Renegotiation proceedings with the Government for the fiscal years ended August 31, 1942 and August 31, 1943 were concluded during the year and it was held that the Company had realized no excessive profits on its war business for these two years.

The sales volume for the year was 10½% greater than the preceding year. Practically all divisions of the business contributed to this increase, but a large part of the gain is due to sales to the Government and Industrial accounts which are engaged in war production.

The war has continued to impose severe restrictions in the operation of the business. There has been a continuous scarcity of raw materials, especially in oils and more recently in pigments. The high quality of the Company's products has been well maintained in spite of these shortages. Production and sales efforts were directed into lines requiring a minimum of critical materials, such as the Company's resin emulsion Kem-Tone Wall Finish which enjoyed a record volume of sales.

The lack of metal for containers was overcome by the manufacture of fibre cans, the Company's own development in packages referred to in our last year's report. This new unit produced during the year approximately forty-nine million containers, not only taking care of the Company's own requirements but also making available for sale large quantities to outside customers.

The Company is fortunately not faced with any reconversion problem. The manufacturing facilities that supply war items are the same as those used for peacetime products.

The Chemical division has enjoyed a record year in sales as well as profits.

The Company continues to manufacture most of the acetanilid used in this country from which sulfa drugs are made. It is also now engaged in the production of D.D.T. (chemically known as dichlorodiphenyl-trichloroethane) about which much has appeared in the public print. All of the output of D.D.T. is now allotted to the armed forces for use as a pest control. It has great possibilities as an insecticide for household and agricultural purposes in combating moths, ants, flies, mosquitoes and the like.

During the year the Company acquired by purchase a paint company in Brazil, with a plant located at Sao Paulo.

Under a management contract with the Government the Company is now in its third year of operating a large Ordnance Plant at Carbondale, Illinois.

The Company now has 2,691 of its former employees in the armed forces of whom 16 have given their lives for our country.

Geo. A. Martin

Chairman of the Board

A. W. Steudel

President

CONSOLIDATED PROFIT AND LOSS AND SURPLUS

THE SHERWIN-WILLIAMS COMPANY AND SUBSIDIARIES

Year ended August 31, 1944

PROFIT AND LOSS

Profit from operations for the year ended August 31, 1944, before other income, provision for depreciation, other deductions, and federal taxes on income			$13,361,820.46
Other income			215,182.70
			$13,577,003.16
Deductions:			
Provision for depreciation, including $600,000.00 for special purposes		$2,053,609.55	
Provision for postwar adjustments and contingencies		590,000.00	
Loss on disposal of fixed assets and expenses applicable to nonoperating properties		155,247.69	
Interest expense		64,013.41	
Provision for foreign taxes, pension payments, and miscellaneous items		494,188.83	
Provision for federal taxes on income—estimated:			
Normal income and declared value excess profits taxes	$2,634,000.00		
Excess profits taxes (less postwar refund of $390,000.00)	3,510,000.00	6,144,000.00	9,501,059.48
NET PROFIT			$ 4,075,943.68

EARNED SURPLUS

Balance at September 1, 1943			$30,942,402.84
Add net profit for the year			4,075,943.68
			$35,018,346.52
Deduct:			
Cash dividends declared and paid or provided for during the year:			
Preferred—$5.00 per share	$ 531,007.50		
Common—$3.00 per share	1,916,781.00	$2,447,788.50	
Adjustment in connection with elimination of earned surplus (since date of acquisition) of former consolidated subsidiary as the capital stock of such subsidiary was exchanged for capital stock of an unconsolidated subsidiary as of the close of business August 31, 1944		214,920.41	
Premium on preferred stock called for redemption		24,750.00	2,687,458.91
BALANCE AT AUGUST 31, 1944			$32,330,887.61

(Note A)—Other income includes the amount of $55,417.36 for dividends received from the unconsolidated Canadian subsidiary. Final statement as to operating results of that subsidiary for the year ended August 31, 1944, was not available at date of issuance of this report. The Company's proportionate share of net profits of another subsidiary, not taken up, amounted to approximately $2,600.00. Final statement as to operating results of unconsolidated foreign (Brazil) subsidiary, since date of acquisition in April of 1944, was not available at date of issuance of this report.

(Note B)—Profits of the companies include those from transactions subject to the provisions of the Renegotiation Act providing for recapture of any profits found as a result of renegotiation to be excessive. Renegotiation proceedings for the years ended August 31, 1942, and 1943, have been completed and no excessive profits were determined. In regard to the year ended August 31, 1944, the companies do not consider they had any excessive profits within the meaning of the Act.

CONSOLIDATED BALAN
THE SHERWIN-WILLIAMS COMPAN
August 31, 1944

Assets

CURRENT ASSETS		
Cash		$16,462,364.12
U. S. Government securities (principally certificates of indebtedness)—at cost and accrued interest		2,790,529.63
Trade notes and accounts receivable, less reserves (includes accounts aggregating $25,168.71 receivable from subsidiaries not consolidated)		9,274,223.47
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		23,173,328.46
TOTAL CURRENT ASSETS		$51,700,445.68
INVESTMENTS AND OTHER ASSETS		
Securities of subsidiaries not consolidated—(Note A)	$4,816,083.34	
Other securities—at or below cost	19,292.74	
Estimated postwar refund of excess profits tax	699,800.00	
Miscellaneous receivables, insurance deposits and advances, less reserves	391,616.48	5,926,792.56
PROPERTY, PLANT, AND EQUIPMENT		
Land, buildings, machinery and equipment—at cost to consolidated companies, less reserves for depreciation		16,870,408.42
PATENTS AND TRADE-MARKS		
Nominal amount		1.00
DEFERRED CHARGES		
Advertising stock, stationery, etc.	$ 392,251.26	
Prepaid insurance, deferred taxes, etc.	495,719.01	887,970.27
		$75,385,617.93

(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 $472,200.00 as of August 31, 1943, (final statement as to operating results for the year ended August 31, 1944, was not available at date of issuance of this report);—(2) investment in a foreign (Brazil) subsidiary amounting to $703,993.04 stated at cost; at the date of issuance of this report figures were not available as to operating results since date of acquisition;—(3) 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 $99,700.00.

ATED BALANCE SHEET

AMS COMPANY AND SUBSIDIARIES

August 31, 1944

Liabilities, Capital Stock, and Surplus

CURRENT LIABILITIES		
Trade accounts payable, pay rolls, drum deposits and miscellaneous items		$ 8,979,117.94
Preferred dividend payable September 1, 1944		128,111.25
Deposits—employees, employees benefit association and officers		854,945.97
Accrued taxes (other than federal income taxes) and miscellaneous items		395,732.77
Federal taxes on income—estimated	$ 7,681,765.53	
Less United States Treasury Notes—Tax Series (purchased and held for tax payments)	3,597,262.00	4,084,503.53
Notes payable to bank (in connection with advances to and loans by foreign subsidiary)		631,934.86
TOTAL CURRENT LIABILITIES		$15,074,346.32
RESERVES		
For postwar adjustments, contingencies, maintenance of plants, employers' liability insurance, etc.		1,758,309.00
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—102,489 shares	$10,248,900.00	
Common—authorized 800,000 shares (par value $25.00 each):		
Outstanding—638,927 shares	15,973,175.00	
	$26,222,075.00	
Earned surplus	32,330,887.61	58,552,962.61
		$75,385,617.93

(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, 1944. Such subsidiaries are located in Argentina, Cuba, and Mexico.

(Note C)—The Company was contingently liable at August 31, 1944, (1) 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; (2) as guarantor of the obligations of a foreign subsidiary (not consolidated) to the extent of approximately $104,000.00 on certain bank loans which it may incur. At August 31, 1944, such subsidiary was not indebted on such loans.