Annual Report

1946

THE SHERWIN-WILLIAMS CO.

0007-SWP-034766

N21742

THE SHERWIN-WILLIAMS CO.

A. W. STEUDEL

PRESIDENT

To the Stockholders:

The Annual Report of The Sherwin-Williams Company for the fiscal year ended August 31, 1946 is submitted herewith.

After deducting all charges, including depreciation, but before providing for Federal Income and Excess-Profits Taxes, the earnings for the year were \$14,819,600.39.

The amount provided for Federal Income and Excess-Profits Taxes was \$7,900,000.00.

The Final Consolidated Net Profit after all deductions and available for dividends was \$6,919,600.39.

This Final Consolidated Net Profit, after deducting Preferred Dividends, is equivalent to \$10.25 per share on the outstanding common stock.

The Company's sales showed a gain of 11.9% over the previous year. A large part of these sales came from new non-paint products which were a natural outgrowth of basic materials manufactured during the war. Among the most important of them were 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. The Management herewith expresses its thanks and appreciation to the organization for having produced such a volume of sales, not only overcoming the loss of war business, which amounted to about 18% of the previous year's business, but also achieving, in addition, a substantial sales gain in peacetime products.

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In view of the prevailing high prices of certain materials, it was considered advisable to provide an additional reserve of $2,000,000.00 for possible inventory shrinkage.

The Company has been cleared as far as renegotiation is concerned, on all of its war business.

Over $3,000,000.00 has been spent during the year on the Company's properties by improving and expanding their facilities.

The paint industry is still suffering acutely from shortages of raw materials. There is a world famine in drying oils, and pigments also are extremely scarce. Consequently, the Company can satisfy only to a very limited extent the demand for its products.

President

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CONSOLIDATED PROFIT AND LOSS AND SURPLUS

THE SHERWIN-WILLIAMS COMPANY AND SUBSIDIARIES

Year ended August 31, 1946

PROFIT AND LOSS

Profit from operations for the year ended August 31, 1946, before other income, provision for depreciation and other deductions, and federal taxes on income			$18,728,903.43
Other income			297,287.71
			$19,026,191.14
Deductions:			
Provision for possible inventory shrinkage		$2,000,000.00	
Provision for depreciation		1,481,348.10	
Pension payments, provision for foreign taxes, and miscellaneous items		868,273.04	
Loss on disposal of fixed assets and expenses applicable to idle properties		92,489.94	
Interest expense		74,389.67	
Provision for federal taxes on income—estimated:			
Normal income tax and surtax	$5,250,000.00		
Excess profits tax	2,710,000.00	7,960,000.00	12,116,180.75
NET PROFIT			$ 6,919,698.39

EARNED SURPLUS

Balance at September 1, 1945			$34,492,695.75
Add net profit for the year			6,919,698.39
			$41,412,394.14
Deduct:			
Cash dividends declared and paid or provided for during the year:			
Preferred—$4.00 per share	$ 324,300.00		
Common—$4.00 per share	2,878,171.50	$3,202,471.50	
Premium on preferred stock called for redemption		34,728.00	3,284,419.50
BALANCE AT AUGUST 31, 1946			$38,127,974.64

Note A—Other income includes the amount of $79,731.14 for dividends received from the unconsolidated Canadian subsidiary. Final statement as to operating results of that subsidiary for the year ended August 31, 1946, was not available at date of issuance of this report. The Company's proportionate share of net profit of another subsidiary, not taken up, amounted to 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. The net profit of such subsidiaries was approximately 2% of the consolidated net profit.

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CONSOLIDATED BALANCE SHEET

THE SHERWIN-WILLIAMS COMPANY AND SUBSIDIARIES

August 31, 1946

Assets

CURRENT ASSETS:		
Cash		$22,298,070.35
U.S. Government Securities (principally Certificates of Indebtedness)—at cost and accrued interest		744,156.63
Trade receivables (includes accounts aggregating $42,102.40 receivable from subsidiaries not consolidated), less reserves		9,363,363.96
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 $2,500,000.00 for possible inventory shrinkage		28,040,857.30
TOTAL CURRENT ASSETS		$60,444,447.23
INVESTMENTS and OTHER ASSETS		
Securities of subsidiaries not consolidated—Note A	$4,112,090.30	
Miscellaneous receivables, insurance deposits, advances, and sundry securities, less reserves	271,689.70	4,383,780.00
PROPERTY, PLANT, AND EQUIPMENT		
Land, buildings, machinery and equipment—at cost to consolidated companies, less reserves for depreciation		17,467,528.11
PATENTS AND TRADE-MARKS		
Nominal amount		1.00
DEFERRED CHARGES		
Advertising stock, stationery, etc.	$ 658,425.15	
Prepaid insurance, deferred taxes, etc.	404,630.23	1,063,055.38
		$83,358,811.72

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 (excluding 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 $964,300.00 at August 31, 1945 (final statement as to operating results for the year ended August 31, 1946, 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 $189,700.00

Liabilities, Capital Stock, and Surplus

CURRENT LIABILITIES		
Trade accounts payable, pay rolls, drum deposits, and miscellaneous items		$12,276,927.99
Dividend on preferred stock—payable September 3, 1946		92,307.00
Deposits—employees and officers		926,818.49
Accrued taxes (other than federal income taxes) and miscellaneous items		498,676.37
Federal taxes on income—estimated	$ 8,378,961.38	
Less United States Treasury Notes—Tax Series (purchased and held for tax payments)	5,406,128.00	2,972,833.38
Notes payable to bank (in connection with advances to and loans by foreign subsidiary)		708,793.06
TOTAL CURRENT LIABILITIES		$17,498,336.28
RESERVES		
For contingencies, maintenance of plants, employers' liability insurance, etc.		2,530,626.80
CAPITAL STOCK AND SURPLUS		
Capital stock:		
Preferred—authorized 200,000 shares (par value $100.00 each—redeemable at $105.00 per share): Outstanding—cumulative preferred stock, 4% series—92,307 shares	$ 9,230,700.00	
Common—authorized 800,000 shares (par value $25.00 each): Outstanding—678,927 shares	16,973,175.00	
	$26,203,875.00	
Earned surplus	38,127,974.64	63,329,849.64
		$83,358,811.72

Note B—Net current assets (amount not significant) of consolidated foreign subsidiaries have been translated into U. S. dollars at the applicable exchange rates in effect at August 31, 1946. Such subsidiaries are located in Argentina, Brazil, Cuba, and Mexico.

Note C—The Company was contingently liable at August 31, 1946, as guarantor on loans (from bank) of a consolidated foreign subsidiary for borrowings subsequent to June 30, 1946 (its closing date for purposes of consolidation). Such loans amounted to $169,909.10.

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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, 1946, 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 by employees of the companies in ascertaining inventory quantities at representative 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, 1946, 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 24, 1946

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. - Gibbsboro, N. J.
Dallas - Los Angeles - Coffeyville, Kan.

Directors

A. D. BALDWIN	C. P. JARDEN	A. W. STEUDEL
C. S. EATON	D. A. BOHR	H. D. WHITTLESEY
M. I. FORTIER	C. M. LEMPERLY	THOS. E. WILSON
GEORGE GUND	G. E. ROBERTSON	L. V. WOLCOTT
	L. H. SCHROEDER	

Officers

A. W. STEUDEL, *President*
H. D. WHITTLESEY, *Senior Vice President*
M. I. FORTIER, *Vice President*
S. E. COOLIDGE, *Vice President*
C. M. LEMPERLY, *Vice President*
L. H. SCHROEDER, *Vice President and Treasurer*
H. 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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