



John Sabatt Limited



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ANNUAL REPORT
for the year ending 30th September, 1946
L O N D O N C A N A D A



COVER PICTURE

A regular, monthly meeting of the Union-Management Committee. Seated left to right are: Mr. E. Moore, transportation department, union executive; Mr. R. L. Morris, superintendent of transportation; Mr. W. Marsh, bottling department, union executive; Mr. T. Morgan, brewmaster; Mr. W. Jacobs, transportation department, union secretary; Mr. H. A. Mackenzie, vice-president and general manager; Mr. F. Butler, brewing department, union president; Mr. H. F. Labatt, vice-president; Mr. H. Scott, bottling department, union vice-president; Mr. J. S. Labatt, president; Mr. W. Jensen, brewing department, union executive; Mr. L. C. Bonnycastle, assistant general manager and secretary; Mr. V. Dalby, brewing department, union executive; Mr. H. R. Hartley, bottling and maintenance superintendent; and Mr. H. B. Spaulding, personnel manager.

On the right hand wall is a portrait of Mr. John K. Labatt, the founder of John Labatt Limited. At the front of the room is a portrait of Mr. John Labatt, his son and the second president of the Company.

John Labatt Limited

E S T A B L I S H E D 1 8 3 2

A N N U A L R E P O R T

**for the year ending
30th September, 1946**



This trademark has come to stand for integrity. Integrity in the ancient and honourable craft of brewing. Integrity in the attitude of the Company toward the public and toward its employees.

**Annual General Meeting of Shareholders
17th January, 1947**

IN CONTINUOUS OPERATION FOR ONE HUNDRED AND FOURTEEN YEARS

A Statement of Policy

(Excerpt from the President's Report, 1945.)

The objectives of your Company's policies are twofold. One objective is to continue the successful operations of the Company, which has been in business for over 100 years. The other is to recognize the obligations which the Company has to the various groups of people who are responsible for its profitable operations.

Among them are the shareholders, who risk capital in order to provide the plant and equipment necessary to produce the commodity which the Company sells. Your Directors will at all times have your interests in mind when determining dividend policy in relation to the need for additional capital expenditures to provide for the expansion of sales.

Then there are the employees, whose warm loyalty and understanding have meant so much to the Company. To them the Company tries to give a sense of security in their future, a pride and happiness in their associations here.

The public, through their elected representatives, have granted the Company a franchise to operate. There is, therefore, an obligation on the Company to operate in such a manner and to use such methods as will prove to Canadians that the Company is concerned with the general welfare.

To the Company's customers, there is guaranteed an honest product, made from the finest materials available, by men highly skilled and with a deep sense of pride in their craftsmanship; a product backed by fair and consistent business policies carried out to the mutual benefit of the customer and the Company.

John Labatt Limited

DIRECTORS

JOHN S. LABATT - - - - - London, Ontario
HUGH F. LABATT - - - - - London, Ontario
MAJOR-GENERAL THE HON. S. C. MEWBURN, P.C., K.C., C.M.G. -
- - - - - Hamilton, Ontario
R. H. CRONYN - - - - - London, Ontario
W. H. R. JARVIS - - - - - New York City, New York, U.S.A.

OFFICERS

MAJOR-GENERAL THE HON. S. C. MEWBURN, P.C., K.C., C.M.G.
- - - - - Chairman of the Board
JOHN S. LABATT - - - - - President
HUGH F. LABATT - - - - - Vice-President
HUGH A. MACKENZIE - - - Vice-President and General Manager
L. C. BONNYCASTLE - - - Assistant General Manager and Secretary
W. L. DAVIS - - - - - Treasurer

TRANSFER AGENTS

The Canada Trust Company, Toronto, and The Royal Trust Company, Montreal
and Halifax.

REGISTRARS

The Royal Trust Company, Toronto and Halifax, and The Bankers' Trust
Company, Montréal.

SOLICITORS

Ivey & Livermore, London.

AUDITORS

Clarkson, Gordon & Company, Toronto.

THE *President's* REPORT

TO THE SHAREHOLDERS OF JOHN LABATT LIMITED:

This report presents the results of the operations of your Company for the year ended 30th September, 1946, and a review of important factors which have affected your Company during the year and will affect its prosperity and growth in the years ahead.

FINANCIAL POSITION OF THE COMPANY

The financial position of your Company and the earnings for the fiscal year ended 30th September, 1946, are shown in the statements published in this report.

Net earnings for the year, including refundable tax, amounted to \$1.72 per share. Earned surplus increased from \$4,855,190.00 to \$5,919,423.00. Working capital stands at \$3,156,173.00. Total assets before depreciation rose from \$9,801,206.00 to \$11,314,227.00. Depreciation reserves increased from \$2,898,935.00 to \$3,011,894.00. The depreciated value of fixed assets as at 30th September, 1946, was appraised by the Canadian Appraisal Company at \$5,127,066.07, compared to net book value of \$2,478,881.00.

Taxes paid amounted to 50 cents out of each sales dollar.

THE COMPANY'S OPERATIONS

Early in 1946 it became apparent that your directors would not be able to carry out certain intentions expressed in last year's Report. The housing situation made it impossible to build additional facilities on residential property adjacent to the brewery. Your directors, therefore, sought additional productive capacity elsewhere and authorized the purchase of the assets of the Copland Brewing Company Limited, Toronto. They also decided to install an additional bottling unit within the existing plant in London.

Production of the Toronto Plant has since been doubled and plans have been made for further substantial increases in output. Difficulties of obtaining equipment delayed the installation of the bottling unit in London but it should be operating early in 1947.



While original plans for expansion in London have, of necessity, been postponed until conditions permit, your directors are still convinced that they should be proceeded with as soon as possible. This expansion, together with that contemplated for the Toronto plant, requires large cash reserves. For this reason your directors propose to build up still further the already strong liquid position of the Company. Dividends have, therefore, been continued at the regular rate of \$1.00 per share per year.



CONDITIONS IN THE INDUSTRY

Certain factors improving the stability of the industry were apparent during the year. The gradual closing of the gap between supply and demand was evident in the improvement in conditions at retail outlets. There have been fewer queues and less overcrowding. The Liquor Authority Control Board of Ontario has extended its effective control over those places where unsatisfactory conditions existed. The varied trade associations, in which the brewers are interested, have strengthened their relations within the industry and have developed closer and more effective co-operation with other interested associations and authorities.

It is still difficult to determine the full extent of the Canadian market for the industry's products. Some Provincial Governments have continued the rationing of beer and ale and it is not until there is again free sale that total demand will be known. At the same time, under the improved conditions of retail sale and distribution, the position of the industry should be strengthened and your directors feel that the future can be faced with confidence.

GENERAL

Supplementing this report your directors will continue to send you information about interesting developments in the Company's operations. The number of shareholders at 15th October, 1946, was 2,343 and many have expressed their interest in these interim reports.

The Board of Directors acknowledges with sincere appreciation the confidence shown in them by the shareholders of the Company during the past year. The thanks of the directors and also of the shareholders whom they represent, are offered to the officers and employees of the Company for their loyal and co-operative efforts, which have made the accomplishments of the year, as outlined in this report, possible.

Submitted on behalf of the Directors,

John T. Labatt
President.

London, Ontario,
7th December, 1946.

John Sabatt

CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT:

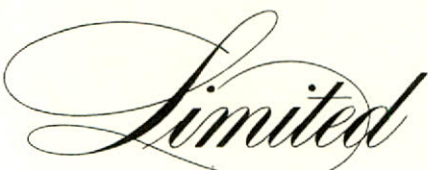
Cash on hand and in banks.....	\$ 634,105	
Dominion of Canada bonds at cost and accrued interest (market value \$2,325,594).....	2,267,719	
Accounts receivable less reserve for doubtful accounts.....	744,794	
Inventories as determined and certified by the manage- ment, valued at the lower of cost or market—		
Beer and ale.....	\$1,172,654	
Materials and supplies.....	422,457	
	<u>\$1,595,111</u>	
Less wartime inventory reserve.....	542,646	
	<u>1,052,465</u>	\$4,699,083

FIXED:

Land—cost.....	\$ 240,210	
Buildings—cost.....	\$2,526,688	
Less reserve for depreciation.....	771,343	
	<u>1,755,345</u>	
Machinery and equipment—cost.....	\$2,129,096	
Less reserve for depreciation.....	1,683,237	
	<u>445,859</u>	
Trucks and automobiles—cost.....	\$ 594,781	
Less reserve for depreciation.....	557,314	
	<u>37,467</u>	\$2,478,881

OTHER:

Prepaid expenses, deferred charges and sundry assets.....	\$ 219,994	
Bottles—at 50% of redemption price.....	84,043	
Kegs at cost less amounts written off.....	44,332	
Refundable portion of excess profits tax.....	776,000	
	<u>\$1,124,369</u>	
		<u>\$8,302,333</u>



(Incorporated under the Dominion Companies Act)
and its subsidiaries

30th September, 1946

LIABILITIES

CURRENT:

Accounts payable and accrued charges.....	\$ 609,487	
Dividend payable 15th October, 1946.....	225,000	
Provision for taxes payable and contingencies less payments on account and in advance.....	708,423	\$1,542,910
Reserve for redemption of containers in hands of public.....		500,000
Capital and surplus:		
Capital—		
Authorized—1,000,000 common shares without par value		
Issued— 900,000 common shares.....	\$ 340,000	
Earned surplus.....	5,919,423	\$6,259,423

On behalf of the Board
Director, JOHN S. LABATT
Director, HUGH F. LABATT

\$8,302,333

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the above consolidated balance sheet of John Labatt Limited and its subsidiaries as at 30th September, 1946, and the related consolidated statements of profit and loss and earned surplus for the year ended on that date. In connection therewith we made periodic tests of the accounting records of the company and obtained all the information and explanations we required from its officers and employees. We also made a general review of the accounting methods and of the operating and income accounts for the year, but did not make a detailed audit of the transactions. We report that in our opinion the above consolidated balance sheet and related consolidated statements of profit and loss and earned surplus have been drawn up so as to exhibit, on a consolidated basis, a true and correct view of the state of the companies' affairs at 30th September, 1946, and of the results of their operations for the year according to the best of our information and the explanations given us and as shown by the books.

CLARKSON, GORDON & COMPANY
Chartered Accountants.

Toronto, Canada,
20th November, 1946.

John Labatt Limited

and its subsidiaries

CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 30TH SEPTEMBER, 1946

Operating profit before deducting the undermentioned expenses.....		\$3,207,344
Directors' fees.....	\$ 3,000	
Executives' remuneration.....	108,000	
Legal fees.....	10,962	
Provision for depreciation.....	129,781	
	<u>\$ 251,743</u>	
		\$2,955,601
Add miscellaneous income less expenses		61,639
		<u>\$3,017,240</u>
Net operating profit before provision for wartime inventory reserve and Dominion income and excess profits taxes		
Provision for wartime inventory reserve.....	\$ 151,377	
Provision for Dominion income and excess profits taxes (less refundable portion \$30,000).....	1,313,000	
	<u>1,464,377</u>	
Net profit for year.....		<u>\$1,552,863</u>

Note: The Income Tax authorities have ruled that in computing its taxable income the company must include its inventories of beer and ale at cost and not at the basic prices used in prior years. The operating profit for the year ended 30th September, 1946, has been computed on the basis required for income tax purposes. The difference, as at 1st October, 1945, between the value of the inventories at basic prices and at cost less wartime inventory reserve, has been credited to earned surplus account. The net profit for the year ended 30th September, 1946, if computed on the basis followed in prior years, would have amounted to \$1,630,780.

STATEMENT OF EARNED SURPLUS 30TH SEPTEMBER, 1946

Balance 1st October, 1945.....		\$4,855,190
Adjusting inventories at 1st October, 1945, to cost less wartime inventory reserve \$	267,502	
Reserve for taxes payable and contingencies no longer required.....	242,000	
	<u>509,502</u>	
		\$5,364,692
Net profit for year ended 30th September, 1946.....		1,552,863
		<u>\$6,917,555</u>
Dividends.....	\$ 900,000	
Premium paid on acquisition of The Copland Brewing Co. Limited.....	75,498	
Contributions to employees' pension plan for past services.....	22,634	
	<u>998,132</u>	
Balance 30th September, 1946 (including refundable portion of Dominion excess profits tax amounting to \$776,000)		<u>\$5,919,423</u>

THE *General Manager's* REPORT

TO THE PRESIDENT AND DIRECTORS OF JOHN LABATT LIMITED:

The audited balance sheet and relative profit and loss and surplus accounts reflect not only the extension of the Company's operations but also changes in accounting procedure.

The auditors' note appended to the profit and loss account explains the change in accounting procedure whereby inventories are valued this year at actual cost instead of at the basic price figure (manufactured cost excluding Federal Excise Tax) used in previous years.

The wartime inventory reserve of \$542,646.00 is considered adequate protection against possible fluctuations in inventory values.

At 30th September, 1945, a provision for contingencies of \$450,000.00 was included with the liabilities to provide for additional Income Taxes which might be payable for the years 1940 to 1945 inclusive. As a result of the settlement with the Tax Department, the actual liability for these years was less than had been provided for and \$242,000.00 of this provision has been reversed and credited back to surplus. An amount of \$100,000.00 has been left in the reserve to take care of any additional taxes which may be payable when final assessments are received from the department.

The increase in fixed assets includes the purchase price (\$549,187.00) of land, buildings and equipment from Copland Brewing Company Limited. The premium paid on acquisition of these assets, representing the additional value of a "going concern", has been charged to surplus in the amount of \$75,498.00.

While the net profit after Income Taxes is approximately the same as last year, the profit before taxes and provision for wartime inventory reserve, was lower than in the previous year.

The major increases in costs were in malt, cartons and wages. Of these, malt was by far the most important.

Faced with a critical malt supply situation early in the year, substantial quantities were imported in order to maintain production. The cost was considerably greater and the yield lower than that of Canadian malt, which itself produced a lower yield this year than last.

Because quality of product is a fixed objective regardless of cost, the lower yield obtainable necessitated the use of greater quantities of malt for the same production of the same quality. The additional cost was \$384,803.00.

The situation was exceptional and to a degree temporary. Yield and quantity of available malt have both improved since the end of the fiscal year.



PRODUCTION



Although production, which reached a physical limit last year, was still below demand, it was clearly necessary to continue and develop selling, public relations and service activities in anticipation of increased production and free market conditions. The cost of these departments were kept within the budget set for the fiscal year.

Modernization of the Toronto Plant was proceeded with immediately upon acquisition. This necessarily involved substantial expenditures for renovations and repairs affecting adversely the profits of this unit. The management, however, are well satisfied with the progress made and that the decision of the directors to purchase this plant is being amply justified.

PERSONNEL

During the last fiscal year the operations of the various departments, which were affected by wartime conditions, were resumed on a normal basis. The transportation department's complete fleet of trucks was put into service. The sales department and the hotel equipment service division were brought up to full strength in personnel. The accounting and other service departments were strengthened to meet the requirements of peacetime operations.

The number of employees rose from 671 to 794 largely due to a reduction in hours from 45 to 40 per week. Weekly wage rates were not lowered. An increase in wages was agreed upon as of 1st August, 1946.

GENERAL

In its relations with shareholders, customers, employees, trade associations, governments and the general public, your Company has followed its usual policies. Some of the resultant practices have been outlined in the quarterly reports to shareholders.

A pictorial summary of employer-employee relations is given on the following pages. In presenting these pages we wish to emphasize that at John Labatt Limited, employer-employee relations are a combined operation—a growing trend in industry. They are based upon mutual confidence, respect and a loyalty not only to a group but to the Company as a whole.

Despite serious inconveniences arising out of shortages of materials and supplies, production was maintained at a high rate. Grateful thanks are extended to our suppliers for their kindly and considerate co-operation consistently afforded us during the past difficult years.

In conclusion, your management pays tribute to department heads and other employees for their intelligent and loyal co-operation during the year.

Respectfully submitted,

Wagh Mackenzie

General Manager.

*London, Ontario,
6th December, 1946.*

A COMBINED OPERATION!

At Labatt's all problems that affect working conditions, social security or welfare are regarded as a joint responsibility of management and labour.

Solving them is a combined operation undertaken by the Union-Management Committee and its sub-committees on safety, recreation, cafeteria, etcetera.

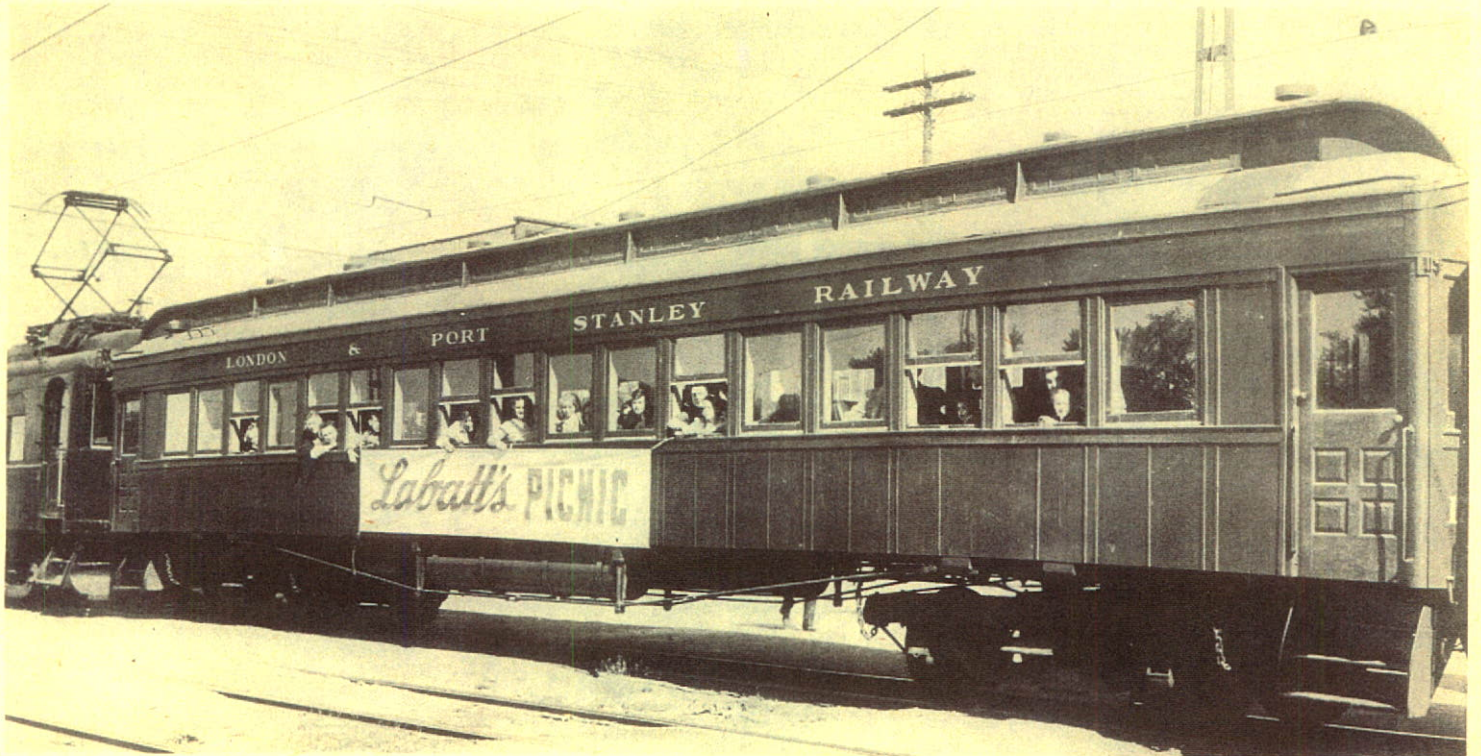
Problems as varied as how to achieve a forty hour week in a department where ten hour shifts are a practical necessity, or the location of the annual picnic, equally come within its scope. Through the free discussion of all problems confidence between the unions and management is established.

Labatt employees in London, form Local No. 1 of the National Beverage Workers' Union. In Toronto they form part of Local No. 304, International Union of United Brewery, Flour, Cereal and Soft Drink Workers of America. Management has found it satisfactory to work with either union.

These pages illustrate the various activities which are the basis of employer-employee relations at John Labatt Limited.



A HEART WARMING MOMENT! Mr. John Labatt presents a gold watch to Mr. Jack Burke in celebration of his 25th year of loyal service with the Company.



ALL ABOARD! A trainload of happy picnickers on their way to the employees' annual picnic at Port Stanley. This outing is financed by the Company and organized by a sub-committee of the Union-Management group.



WELCOME VISITORS! The recreation room at Labatt's has seen many a friendly get-together, but few more significant perhaps than this one. Here Local 1 of the N.B.W.U. entertains Local 304, I.O.U.B.F.C. and S.D.W. of America from the Toronto plant.



SUPERVISED PARKING facilities are provided by the Company for all employees driving automobiles.



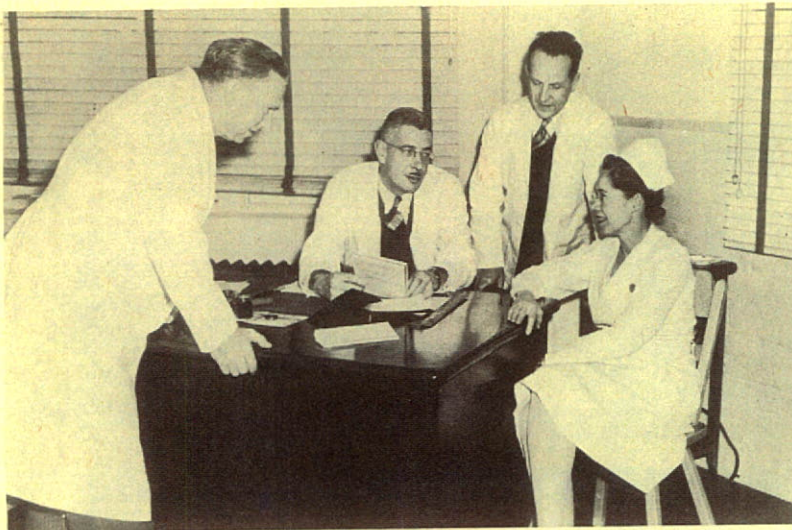
A MATTER OF INCHES! All recreational activity is organized and directed by the recreation sub-committee of the Union-Management group. Lawn bowling is a popular summer sport among Labatt employees.



THE LADIES RELAX! The girls' "Good Cheer Club" is an organization for office employees for recreation and other activities. This garden party in 1946 was obviously a success.



PARADE! Labatt's Clown Band is sponsored and organized by Local No. 1 of the National Beverage Workers' Union. Each year it participates in the Labour Day parade in London. In July, 1946, the band represented the Company in the Hamilton Centennial celebrations.



DR. G. A. WAINRIGHT, Labatt's medical officer, in consultation with his staff. He is a representative of management on the important safety sub-committee.

IN SICKNESS AND IN HEALTH . . .

Much can be and is achieved at Labatt's by joint effort, and health is one example. When he joins the Company and annually, thereafter, each employee receives a complete medical check-up. If his job is one in which his physical condition might affect the safety of others—a driver for instance—an annual examination is mandatory. To implement this programme and to help employees keep in good health, Labatt's employ a medical officer assisted by a registered nurse and trained first aid orderlies.



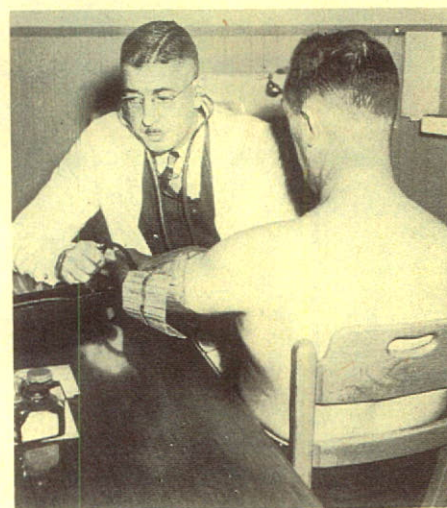
GOOD HEALTH is not possible without good nutrition. Open 24 hours a day, Labatt's employees' cafeteria serves well-cooked, hot meals at noon, between five and seven in the evening and at midnight. Soup, coffee, sandwiches and soft drinks are always available. Food is served at cost—full course meals 25 cents. The cafeteria is run by a sub-committee of the Union-Management group.



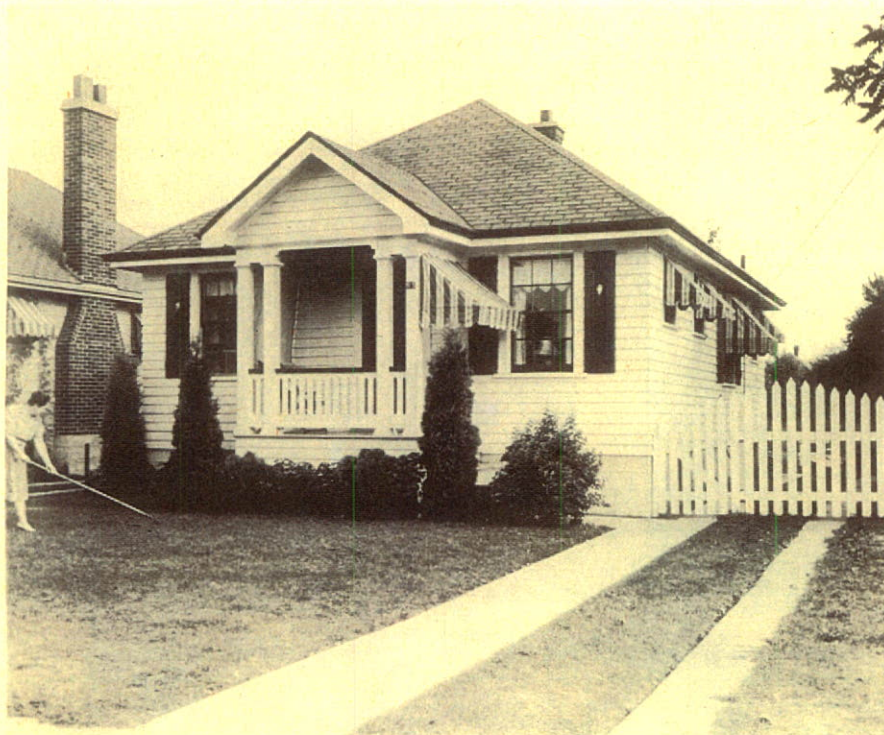
THE SAFETY SUB-COMMITTEE receives advice from a representative of the Industrial Accident Prevention Associations. One of the most important sub-committees of the Union-Management group, it includes representatives from all departments.



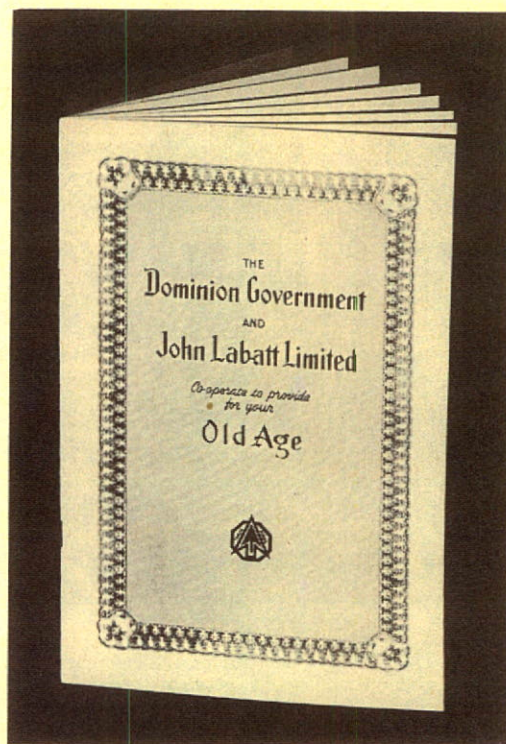
A PUBLIC SERVICE in which employees and management share is the St. John Ambulance Brigade. There are two divisions of this organization at Labatt's—Division No. 131, which is composed largely of the drivers of the famous Streamline trucks, and Division No. 71, which other employees join in order that they may be trained to perform a service to their fellow-employees and to the general public.



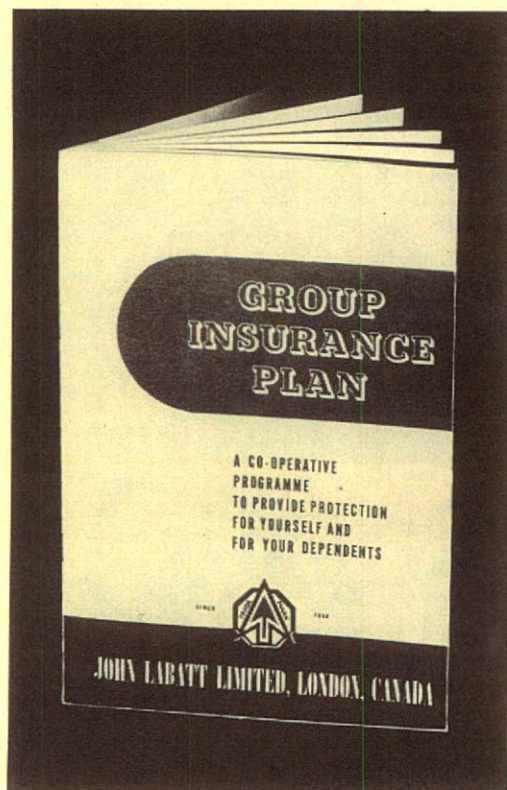
ANNUAL CHECK-UP. The main purpose of the medical department is to show employees how they can keep in good health and avoid causes of sickness.



A HOME OF ONE'S OWN! In most people's minds health, welfare and housing are closely associated. And housing these days IS a problem. As a contribution to the housing problem in general and to their own people's in particular, Labatt's have arranged to lend employees money, interest free, to assist them in making the necessary down payment on a home.



FUTURE SECURITY. Labatt's pension plan has been in operation since 1938. This plan, like all other activities affecting welfare, comes within the scope of Union-Management discussion. Current contributions are made on the basis of 5% of wages and salaries by the employees and a like amount by the Company.



FAMILY SECURITY. Employees are covered for life, accidental death, sickness and accident insurance, and for hospitalization with surgical benefits. Hospital benefits for employees' wives and children are provided. The Company shares equally with the employees in the cost of this insurance.



VACATION TIME! In addition to specified statutory holidays, all employees who have been continuously employed for one year are entitled to two weeks holidays with pay.



TRAINING. The Company's training programme was resumed after the war and extends to all supervisory groups. It is a general policy of the Company



to promote within the ranks and the training programme helps in the carrying out of this policy.



"FIVE YEARS A-GROWING" headlined the editorial in the October issue of the Spearhead. "Published monthly by and for the employees of John Labatt Limited," this cheerful little magazine both expresses and helps preserve the spirit which is Labatt's.



MONEY TO LOAN! Even with group insurance, housing loans and other benefits there may be emergencies when an employee needs money. In such cases he may borrow at fair rates from his own credit union. The Labatt Credit Union is carried on by and for the employees.



DOWN BEAT! No Labatt party would be complete without the Spearheads. Given financial assistance by the Company, this orchestra, like so much else at Labatt's, is a combined operation.



Labatt's Products

INDIA PALE ALE: A fine, mellow brew of distinctive flavour, this ale is the most popular of our four products. Brewed with painstaking care according to the traditional high standard of Labatt's, from an original English formula, it is one of the best known Canadian ales.

EXTRA STOCK ALE: For those who prefer a richer, fuller-bodied ale, there is Labatt's

Extra Stock Ale—a premium ale with a superb tang, especially suitable for occasions of celebration.

CRYSTAL LAGER: Although known primarily as an ale brewery, Labatt's also produces an exceptionally fine lager beer that has come to be highly regarded by lager drinkers. Not a sweet beer, it has a light, zestful flavour that makes it ideal refreshment, especially in the hot summer days.

XXX STOUT: The colour and fine flavour of XXX Stout come from roasting the finest quality of barley malt. It is a rich, tasty brew of highest purity and quality.

