CANADA PACKERS LIMITED

REPORT TO SHAREHOLDERS

The seventeenth year of Canada Packers Limited closed March 30th, 1944.

Both in respect of Dollar Sales and weight of product sold, the year established new records.

Sales were		$206,155,937.74
Previous high (Fiscal 1943)	$169,141,670.71	
Increase over previous high		22%
Weight of product sold, was		1,582,932,568 lbs.
Previous high (Fiscal 1943)	1,328,616,840 lbs.	
Increase over previous high		19%

Dollar sales were three times, and weight of product sold, twice, those of the last pre-war year.

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Profit after taxes and depreciation was	$2,187,586.76	
Equivalent to		1.06% of Sales
From this was set aside for Wartime Inventory Reserve	500,000.00	
Equivalent to		.24% of Sales
Leaving Net Profit	$1,687,586.76	
Equivalent to		.82% i.e. 4/5 of 1% of Sales

Except that of the low depression year,—Fiscal 1932,—this is the smallest net profit in the history of the Company, in terms of percentage of sales.

Nevertheless, because of the record sales, the **sum** of the net profit was the highest but one in the Company's history.

One other record was established.

Income and Excess Profits Tax was $3,023,214.06

This was $600,000 above the previous high of Fiscal 1942.

Income and Excess Profits Taxes for the five war years have been $9,531,025.76

In each of the war years, a sum has been set aside out of profits for Wartime Inventory Reserve. The item this year is $500,000.00.

Several inquiries have been received as to the nature of these items.

By the Department of National Revenue these items are treated as profits, and upon them full taxes have been paid.

And they **are** profits in every respect except one, viz. that all or part of them are certain to be lost at some period following the end of the war.

During the war, live stock prices have advanced to levels which cannot be permanently maintained.

For example, present prices of cattle and hogs (on the Toronto market), compared to those of the last pre-war year are:—

	1939	1944
Good Steers (1,050 lbs. down) live weight	$ 6.77	$11.70
B.1 Hogs—dressed weight	11.90	17.20

As prices advanced, greater than usual profits were made. But most of the excess has been paid to the Department of National Revenue as taxes. There is no complaint regarding this. In war time the Government **must** take the extra war profits.

However, when the decline comes in the post-war period, losses will be made, the counterpart of the extra war profits.

From this there will be no escape.

The Wartime Inventory Reserve is set up as a buffer against these anticipated losses.

The sums set aside for this reserve have been:

Fiscal 1940	$ 579,000.00
1941	380,000.00
1942	1,310,000.00
1943	650,000.00
1944	500,000.00
Total	$3,419,000.00

Whether this total is too much or too little, no one at present can tell. But the following facts have a bearing:—

(1) To convert this year's inventory (March 30, 1944) to the **price** basis of the last pre-war year (March 30th, 1939) would require a reserve of .. $6,600,000.00

(2) In the deflation year 1920-21 following the last war, the four Companies which now comprise Canada Packers, made a combined loss on operations of $5,500,000.00

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On January 2nd, 1944, the final payment was made upon the Collateral Trust Serial Debentures. The Common Shares are now the Company's only outstanding securities. This is an important event in the Company's history, and the occasion seems appropriate for carrying out a plan which the Directors have had in mind for several years, viz. to make possible a wider distribution of the Company's Shares.

To this end, Shareholders will be asked at the forthcoming Annual Meeting to approve a By-law to subdivide and reclassify the issued and outstanding 200,000 Shares of the Company. Each Shareholder will receive with the notice of the meeting, a copy of the By-law which contains full particulars of the proposal.

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The year under review is the fifth war year.

There seems good reason to hope that the end of the war in Europe may now be in sight. It is therefore an appropriate time to look back over the war period as it has affected the Live Stock Industry, (of which the Packing Industry is the marketing branch).

The outstanding wartime feature of the Live Stock Industry has been the phenomenal increase in production. The first word should be a sincere tribute to the Farmers of Canada.

When Germany overran Western Europe in the early months of 1940, one phase of the disaster was that Great Britain was deprived of important sources of food. In this respect the most serious loss was that two-thirds of her external Bacon supplies were cut off.

Canada was the only source from which those Bacon supplies could be replaced.

An urgent appeal was made to the Farmers of Canada, and the measure of their response is indicated in the following table:—

TABLE 1

Prior to 1940, the heaviest shipments of Bacon to Great Britain in any one year had been .... 192,000,000 lbs.

Following the appeal of 1940, shipments have been as follows:

During 1940	344,000,000 lbs.
" 1941	460,000,000 "
" 1942	524,000,000 "
" 1944 (5 months estimated)	900,000,000 "
" 1943	560,000,000 "

This increase in exports of **Bacon** is all the more phenomenal, when it is remembered:—

(a) that record increases have occurred also in production of all other forms of live stock and live stock products,—Cattle, Sheep, Poultry, Cheese, Butter, Eggs;

(b) that these enormous increases have been achieved with a farm population reduced 26 per cent. (Labour Gazette, May 1944).

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Apart from the Farmer's patriotic response, three factors have been important in bringing about these phenomenal increases in live stock production. They were:—

(1) that for live stock and live stock products there has been an unlimited demand, whereas until recently cash outlets for grain have been restricted.

(2) that throughout the war period there has been a substantial **extra** profit in marketing grains through the medium of live stock,—as against selling them in the cash market.

(3) that throughout there has been the stimulation of advancing prices. The measure of this advance is seen in the following table, which sets up the average price per 100 lbs. (Toronto market) of cattle and hogs, for the period 1934 to 1944:—

TABLE II TORONTO MARKET

	CATTLE	HOGS				
			Premium for A's paid by			
	Good Steers 1,050 lbs. down Live weight	B.1 Dressed Toronto	Packers	Province of Ontario	Federal Dep't of Agric.	Total for A's
1934	$ 4.85	$10.95	$ .65			$11.60
1935	5.79	11.38	.65			12.03
1936	5.04	11.25	.65			11.90
1937	6.72	11.93	.65			12.58
1938	5.97	12.65	.65			13.30
1939	6.77	11.90	.65			12.55
1940	7.68	11.43	.65			12.08
1941	8.70	13.26	.65	$ .65		14.56
1942	10.29	15.69	.65	.65		16.99
1943	11.76	16.87	.65	.65		18.17
1944 (7 months)	11.70	17.20	.40	.65	$1.95	20.20

Increase in price 1939-1944—Cattle - 73%; Hogs—A's - 61%

The combined effect of the increase in production, plus advance in price, is reflected in the following table (Dominion Bureau of Statistics):—

TABLE III

Cash Income from Sales of Live Stock	
1939	$195,386,000
1940	245,243,000
1941	320,900,000
1942	383,400,000
1943	449,716,000
Increase 1939 to 1944	$254,000,000
Number of Canadian farms, approximately	700,000
Estimated number of farms selling live stock	500,000
Average increase per farm, 1939 to 1944	$508

The above table is the record of the sales of **Live Animals** only. In addition,—**Animal Products** comprise Poultry, Eggs, Butter, Cheese, Milk, Wool, Fur Farming. The complete picture is that of Animals plus Animal Products, as shewn in the following table (Dominion Bureau of Statistics):—

TABLE IV

Cash Income from Sales of Animals plus Animal Products	
1939	$364,224,000
1940	428,503,000
1941	558,808,000
1942	718,166,000
1943	834,184,000
Increase 1939 to 1944	$470,000,000
Estimated number of farms selling animals and animal products	600,000
Average increase per farm 1939 to 1944	$783

In the marketing of live stock, the Packing House is an essential link. For live stock as such cannot be consumed. The Producer sells his animals to the Packer, who processes them and markets the products. The Packer, in short, is the Farmer's marketing agent.

It follows that the operations of the Packing Industry are of vital interest to the Producer. Unfortunately, no complete Profit and Loss record exists for the whole Industry.*

In cases where information is lacking for the Industry as a whole, the records of Canada Packers will be used. These have been published in full, each year since the formation of the Company in 1927.

Because of its importance that of Canada Packers, for the year under review, is here reproduced in simple form.

TABLE V

The statement shows the distribution of each $100.00 of Sales.

Out of each $100.00 of Sales, the following sums were paid:—		
To Producers, for live stock		$83.60
To Suppliers	$3.08	
To Employees	6.77	
To Service Organizations	3.45	14.90
To Bondholders	.01	
To Taxing Authorities	1.59	
The above items were paid out to persons **other than shareholders.** They total		$98.50
The remainder was retained by the Company for the benefit of Shareholders		1.50
Add income from investments		.01
Gross Profit out of each $100.00 of sales		$1.51
From this sum of $1.51 there was set aside:		
For Depreciation	.45	
For Wartime Inventory Reserve	.24	.69
Remainder, Net Profit		.82
Out of this remainder, dividends were paid to Shareholders		.39
The balance was retained as working capital for the extension and improvement of the business		.43

* The Dominion Bureau of Statistics publishes an annual review "Slaughtering and Meat Packing."

This review contains much useful information, but includes no statement of profit of the Industry as a whole.

Such a statement could easily be added, and the value of the report thereby greatly enhanced. Publication of total results need involve no disclosure of the results of individual firms.

This story of the year's operations is reduced to still simpler terms, if condensed and transposed as follows:—

TABLE VI

Packer's Selling Price		$100.00	A
minus Operating Expense	$14.90		B
minus sum retained by Packer	1.50		C
		16.40	
leaves a remainder which is paid to the Farmer for his live stock		$ 83.60	D

(For convenience in reference, these items are designated A, B, C, D.)

Sales from the processing of live stock comprise only about 60 per cent of the business of Canada Packers. Other Canadian farm products comprise a further 30 per cent.

In the calculation of Tables V and VI it is not feasible to segregate the percentage of the dollar paid for live stock only. The margin of error is small. The basis of the calculation is the same each year; so figures are comparable from year to year.

It is hoped that every Farmer who reads this report will carefully examine Table VI.

In it is condensed the 'economics' of the Live Stock Industry.

The Live Stock Industry is a joint operation between the Farmer who produces, and the Packer who processes and sells. Much discussion regarding the Industry seems to take it for granted that the interests of the Producer and the Packer are opposed. The fact is their interests are not opposed, but parallel.

As to the interest of the Producer, there can be do doubt. He wishes to get the highest possible return for his live stock,—in other words he wishes that Item D should be as high as possible.

The factors which bring this about are revealed in Table VI. They are:—

1. That Item A,—the total sum for which the products are sold,—should be as **high** as possible.

   In this at least, the interests are parallel. For the Packer constantly strives to get the highest possible price for his products.

2. That Item B,—the Packer's operating expense,—should be as **low** as possible. In other words, that his efficiency should be as **high** as possible.

   It is certain the Packer works constantly, **in his own interest,** to improve his efficiency.

   And in this he is working equally in the interest of the Producer.

3. That Item C,—the sum retained by the Packer,—should be one which the Producer cannot challenge.

   Here, on the surface, the interest of the Producer and the Packer may seem opposed.

   And it is true that if the Packer receives more than he should, to that extent the Producer receives less than he should.

How much does the Packer receive?

No record is available for the total Industry. However, the results of Canada Packers have been published annually since the formation of the Company in 1927.

In the 17 years—

the highest Net Profit was	2.8% of Sales
the lowest Net Profit was	.7% of Sales
average Net Profit for the 17 years was	1.4% of Sales

For the year under review, it has already been seen that Net Profit was .82%, i.e. 4/5 of 1%.

Probably in no other major industry is the **percentage** of profit so small. And to the Producer, it is only the **percentage** which matters. The Producer is concerned with one question only. That is: how much does **he** get back out of each sales dollar?

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