Royal Commission on Corporate Concentration

Study No. 8

The Molson Companies Limited

A Corporate Background Report

by

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Alfred Bunting & Co. Limited

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FOREWORD

In April 1975 the Royal Commission on Corporate Concentration was appointed to "inquire into, report upon, and make recommendations concerning:

(a) the nature and role of major concentrations of corporate power in Canada;

(b) the economic and social implications for the public interest of such concentrations; and

(c) whether safeguards exist or may be required to protect the public interest in the presence of such concentrations."

To gather informed opinion, the Commission invited briefs from interested persons and organizations and held hearings across Canada beginning in November 1975. In addition, the Commission organized a number of research projects relevant to its inquiry. One such project resulted in a series of studies, of which this is one, dealing with the growth of large and diversified corporations in Canada. The series was coordinated by Charles B. Loewen of Loewen, Ondaatje, McCutcheon & Co. Ltd., an investment firm in Toronto.

This study on THE MOLSON COMPANIES LIMITED was prepared by Michel G. Perreault, B.Comm., C.A., M.B.A., C.F.A., who is associated with Alfred Bunting & Co., Limited. In addition to his impressive academic background and professional qualifications, Mr. Perreault has been in the field of security analysis for the past six years, specializing in consumer-related industries, including brewing.

The Commission is publishing this and other background studies in the public interest. However, the analyses presented and conclusions reached in each study are those of the author, and do not necessarily reflect the views of the Commission or its staff.

Note: This report has been translated from the original French.

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INTRODUCTION

The Molson Companies Limited (Molson) is composed of a number of Canadian firms and foreign businesses operating in Canada, the United States, England and New Zealand. Most of the business is carried on in Canada, and foreign operations made up only about 2.7% of last year's total consolidated sales. In 1970, an estimated 12.1% of sales were made outside the country. Basically, beer is the only product that Molson exports from Canada. All other sales abroad are of goods that are also manufactured outside the country.

In order to emphasize the importance of Molson's role within the Canadian economy, we could point out that its total consolidated sales, amounting to $740.3 million in 1975, make up one-half of 1% of the national expenditure. We might also add that the July 1975 issue of *Canadian Business* ranked The Molson Companies Limited 26th among the 200 largest Canadian companies (other than retail stores and financial institutions) in terms of sales. According to the same article, only 29 corporations employ more people than Molson.

During 1975 The Molson Companies Limited paid the federal and provincial governments $126.7 million in excise taxes on beer sales for that year, and since 1967 some $187 million has been spent acquiring or modernizing fixed assets, including $45 million in connection with the assets of new businesses acquired. The number of employees rose from 2,553 in 1966 to 11,211 in 1975, an increase of 17.7% a year, and we estimate that the two main acquisitions (Beaver Lumber and Anthes Imperial) alone swelled the ranks of employees by some 5,700; this means that the total of new employees taken on from other sources was approximately 2,950.

The Molson Companies Limited is a corporation with operations in four main sectors of activity. We consider Molson--involved as it is in various diversified, contrasting and sometimes totally unrelated industries ranging from brewing to business forms and stationery, and from retail merchandising to the manufacture and distribution of gasoline pumps--to be an important Canadian economic entity whose definition corresponds with the terms used by the Royal Commission on Corporate Concentration to define "conglomerate".

The Molson Companies Limited is first and foremost an operating company, as we shall see later, but it is also a holding company in that it derives part of its income from the dividends of subsidiary and affiliated companies, and it is also a "conglomerate" since the activities of the corporate units that make up this entity called "The Molson Companies Limited" relate to a group of different industries.

As an indication of the identity crisis with which the company has had to cope in the past, The Molson Companies Limited was defined as "a consumer-goods business with the emphasis primarily on brewing, retail merchandising and distribution" by Mr. J.T. Black, then Executive Vice President of the company, speaking before the Vancouver Society of Financial Analysts on March 15, 1973. Today, this identification problem is still not entirely resolved, for the directors have made no move since that time to delimit and thereby clearly define the real activities of Molson. The Molson Companies Limited will undoubtedly be different a few years from now, just as it no longer resembles today what it was ten years ago.

1. CORPORATE STRUCTURE

As can be clearly seen from the table in Appendix 1 outlining its operational structure in simplified form, Molson's operations fall into four main sectors: the Brewing Group, the Retail Merchandising Group, the Commercial Products and Services Group and the Petroleum Marketing Equipment Division. Each of these sectors includes a number of corporations involved in the activity described by the name of the Group or Division. The chart on page 56 (Appendix 2) sets out the corporate legal structure of Molson.

Within the Brewing Group, there are a number of subsidiaries whose names indicate the way in which Molson's operations are divided up according to the various Canadian and foreign regions in which the company is active. Thus, we find Molson's Brewery Quebec Limited, whose activities are centered in Quebec, and Molson's Western Breweries Limited, under which there are four other distinct Divisions or Regions--British Columbia, Alberta, Saskatchewan and Manitoba. We should note that all assets connected with the brewing operations are the property of the parent company, that is, The Molson Companies Limited, and that the sales and profits of the Brewing Group are also accounted for in the books of the parent company. Therefore, in view of the operations of the Brewing Group of the corporation, which is commonly referred to as The Molson Companies Limited, it is correct to consider this company an <u>operating company</u>, since it is itself involved in producing and distributing beer. The reader will no doubt wonder about the reason for the existence of these various subsidiaries forming the Brewing Group and owned by The Molson Companies Limited, since their assets and profits belong to the parent company. The reason is that provincial laws require all brewing firms operating in a province to be incorporated within the jurisdiction of that province in order to obtain a licence. Since we know that, according to the Canadian Income Tax Act, all companies must file their own annual tax returns, the fact that the annual return filed for the company by The Molson Companies Limited covers all the profits from the Brewing Group is a clear indication that The Molson Companies Limited is an operating company.

In the Retail Merchandising Group, unlike the situation in the Brewing Group, the assets and profits of Beaver Lumber Company Limited, the largest subsidiary in the Group, are the exclusive property of Beaver itself. This deliberate distinction on the part of the Molson directors can be attributed to the fact that the parent company is anxious to identify and bring to light the vast amounts of capital spent to establish the company's new concept of "Le Castor Bricoleur" or the "Home Improvement Centre" firmly in Canada. In fact, in 1975 Molson subscribed \$55 million in share capital to shore up the working capital and provide for the future development of this subsidiary.

Secondly, it is important to remember that Beaver Lumber and all other retail merchandising firms have a special way of financing their expansion and growth. Indeed, it is a common practice in this industry to rent necessary store space rather than to buy it, since this method of financing imposes less of a burden on the company with respect to outside financing. The financial world is readier to agree to a long-term financing arrangement with a higher proportion of indebtedness or to capitalization of long-term leases (leverage) for a company involved in retail merchandising than it is for manufacturing firms. Thus, by keeping Beaver Lumber a distinct entity within the Group, with its own assets that may be used eventually as collateral for loans, such financing methods will not involve the assets of the other operational Groups of The Molson Companies Limited.

We should point out that all financing arranged since the acquisition of Beaver Lumber in 1971 has been obtained by The Molson Companies Limited and that Beaver Lumber will not be able to take out its own loans until it has reached a satisfactory level of profitability. For the foregoing reasons, and because The Molson Companies Limited holds the shares in Beaver Lumber, this type of relationship between the two entities leads us to believe that The Molson Companies Limited is a <u>holding company</u> as far as this area of operations is concerned.

In our opinion, there is a difference between a true holding company and The Molson Companies Limited, which we consider to be both an operating company with respect to its brewing operations and a holding company with respect to its investment in the shares in Beaver Lumber, its main subsidiary.

A true holding company, such as Argus Corporation or Power Corporation, is a business whose main assets consist strictly of shares in companies of all sorts, either related or unrelated; such a corporation's main investment consideration is solely the expected return on its investment. The income of a holding company like Argus Corporation will, therefore, come from dividends, which sometimes represent a large portion of the profits of its subsidiary. (For example, for the fiscal year ended March 31, 1975, Standard Broadcasting Corporation Limited, 48% of whose shares are held by Argus Corporation, earned $0.58 per share while it paid dividends of $0.50 per share--a very impressive distribution proportion of 88%). The money from these dividends will be used to carry out an adequate diversification program among the companies in its portfolio.

Thus, The Molson Companies Limited is much the same as a holding company as far as its Retail Merchandising Group is concerned, but to a lesser degree than Argus Corporation since its purpose is to take advantage of the greater flexibility in this sector with its special method of financing.

Another point to be raised relates to Molson's administrative philosophy with respect to its Groups. (We shall deal with this subject later under a special heading.) The concept put into practice consists of managing the Groups in the same way, regardless of whether they are operational within the parent company or whether they are operational indirectly through a parent-subsidiary relationship. Major procedures set down by the directors are the same from one Group to another: for example, the detailed interpretation of and the instructions to be followed with regard to the anti-inflation program introduced on October 14, 1975 by the Federal Government. The Divisions also follow a predetermined procedure in drawing up their budgets.

We have indicated that it is mainly for reasons of financing that The Molson Companies Limited has adopted the holding company formula with respect to its Retail Merchandising Group. Although the bank has granted a credit margin directly to Beaver Lumber for a number of years now, Molson intends that Beaver Lumber will finance its expansion and development autonomously only when its profit-earning capacity is satisfactory. Until then, the financial markets will not agree to an issue of Beaver Lumber shares without financial backing and guarantees from the parent company.

As far as foreign operations are concerned, Molson follows the common practice of setting up at least one company for each country in which it does business, rather than using the branch formula.

In short, the economic entity constituted by The Molson Companies Limited is made up of a Brewing Group whose assets belong to the parent company, a Retail Merchandising Group whose assets and operations are part of the subsidiary Beaver Lumber, and another Group and a Division operating the same way as the Retail Merchandising Group with their operations concentrated in two other wholly owned subsidiaries--Anthes Imperial and Vilas Furniture. Thus, Willson Office Specialty, as well as Vilas Industries and Anthes Imperial, are held directly by The Molson Companies Limited, while other companies in the Commercial Products and Services Group and in the Petroleum Marketing Equipment Division are held by Anthes Imperial. Some of the assets of these subsidiaries are part of the parent company, The Molson Companies Limited, and these subsidiaries are companies without assets.

2. HISTORY

Molson was not incorporated under Canadian law until December 4, 1930, under the name Molson's Brewery Limited, although the brewing business had existed since 1786 when it was founded by John Molson. Molson is thus one of the oldest commercial undertakings on the North American continent. Since 1930, its corporate name has undergone a series of changes in order to describe in a satisfactory way the increasingly diversified nature of the firm. From the original name of Molson's Brewery Limited, the name was changed to Molson Breweries Limited in 1962, and in 1965 the French name Les Brasseries Molson Limitée was authorized. In 1968 the company's name was changed again, this time to Molson Industries Limited--Les Industries Molson Limitée--in order to better describe the diversification that had just taken place in the company's operations, with the first acquisition outside the brewing sector. One last name change took place on July 16, 1973, to The Molson Companies Limited or the French equivalent Les Compagnies Molson Limitée following the 1972 acquisition of Beaver Lumber Company Limited, which went a great way toward strengthening Molson's operations in the retail merchandising field.

In studying Molson's history, we should distinguish two eras that characterize the development and rise of this firm. The first period, from the beginning of its operations to 1967, was marked by the company's efforts to establish itself firmly in the Canadian market as a producer and distributor of beer. Thus, the few acquisitions and attempts at acquisitions made before 1967 related only to brewing firms, both in Canada and abroad, and helped to make Molson a national business operating in all the provinces of Canada with a relatively small percentage of its sales directed outside the country.

Until 1955, Molson's brewing operations were limited to Montreal, but in that year a new brewery was established in Toronto. In 1958 Molson acquired control (it now holds all the shares) of Sicks' Breweries Limited, now Molson's Western Breweries Limited, which runs breweries in British Columbia, Alberta and Saskatchewan. In 1960, Sicks' Breweries Limited bought up all the shares in Fort Garry Brewery Limited at Winnipeg, Manitoba. Two years later Molson acquired all the shares in Newfoundland Brewery Limited.

Since 1955, Molson, whose single brewery in Montreal used to have an annual capacity of 1,500,000 barrels, has expanded its operations so that it now runs ten breweries in seven provinces, with a total capacity of 6,930,000 barrels per year. The company's share of the Canadian beer market has made steady gains, rising from 17% in 1955 to 29% in 1967, and now stands at approximately 34%.

In addition, directly and through a subsidiary, Molson holds 48% of the shares in the Rainier Companies Inc., which operates a brewery in Seattle, Washington, with a capacity of over 1 million American gallons a year.

The second stage began, as we have mentioned, in 1967 with the purchase of Vilas Industries. This period is characterized by the directors' efforts to use the financial resources from the brewing operations in other areas of activity in order to improve the profit-making capacity of the company's capital and to speed up its future growth rate.

For the purposes of the Royal Commission on Corporate Concentration, this stage takes on a more particular significance, for it was during this period that a number of the acquisitions were made that made The Molson Companies Limited a conglomerate. The main acquisitions since 1967--that is, during this second era in Molson's history--have been the following:*

1967: The acquisition of Vilas Furniture, a small home-furniture factory in Cowansville, Quebec, was the company's first move toward extending its activities outside the brewing industry.

1968: Anthes Imperial was acquired in order to obtain and take advantage of the management expertise of this company, which had succeeded in bringing together and integrating a number of businesses very efficiently. Anthes also had a great deal of experience in managing different types of businesses, which Molson wanted.

1970: Midwest Storage, a private business operating in Quebec, provides warehousing services for a number of companies and for government. Molson acquired all the shares in this company for $1,834,750.

1971: Aikenhead Hardware, a Toronto-area company, runs a number of stores selling supplies and hardware to industries and contractors. All the shares were acquired from the Aikenhead family for $3,070,420, and this purchase was Molson's first move into the retail merchandising field.

1971: Beaver Lumber operated a chain of approximately 270 building-supply stores in western Canada. Toward the end of 1971, Molson acquired this company for a total consideration valued at $57.8 million--that is, $20 plus four Molson's Class A shares for five Beaver common shares or Class A shares. This acquisition

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* - The table in Appendix 3 outlines the highlights of acquisitions and divestments since 1965.

gave definite form to the company's resolve to take an active and important part in the retail merchandising sector. As a result of the takeover, Molson's annualized sales rose by $105.3 million and its profits increased by $3.8 million; for the fiscal year ended March 31, 1973 (the first full year after the takeover), these figures amounted respectively to 20.2% and 18.2% of the consolidated sales and profits of the whole company.

1972: Another company, Willson Office Specialty Limited, was acquired sometime after Beaver Lumber was taken over by Molson. This company, purchased at a cost of $2,980,000, now forms part of the Commercial Products and Services Group. It distributes and retails office furniture, supplies and accessories, as well as providing office planning services. Willson products, which are manufactured in Ontario, are distributed through 38 stores, 15 distribution centres and 14 branches.

1974: On August 1, 1974, through Molson's Brewery (Ontario) Limited, Molson acquired the assets of Formosa Spring Brewery from Benson and Hedges, a subsidiary of the American company Philip Morris Inc. The plant was purchased for approximately $27,764,000, and Molson's objective at the time was to increase its brewing capacity. The Toronto brewery could not be enlarged easily, and the directors were convinced that it would have cost a great deal more to build a new brewery with the same capacity.

1975: On November 6, Beaver Lumber Company Limited, a subsidiary of The Molson Companies Limited, signed an agreement with C.B.S. Lumber and Building Supplies (Quebec) Inc. in connection with Beaver Lumber's acquisition of long-term leases for the buildings and land as well as the inventories and fixtures of two stores in Montreal and one in Quebec City. The cost of acquiring these assets is not known.

This acquisition enabled The Molson Companies Limited to establish itself firmly as a retailer in Quebec, one of its objectives since the takeover of Beaver Lumber. To be more precise, the store located in the Place des Quatre-Bourgeois Shopping Centre in Quebec City gives Beaver Lumber instant access to this large urban market, and Molson intends to make it into a "Le Castor Bricoleur" store within a short time.

3. THE CANADIAN BREWING INDUSTRY

Since The Molson Companies Limited obtains about 48.2% of its total sales and an even higher percentage of its earnings from its brewing operations, it is important to pay special attention to this industrial sector.

We should begin by pointing out that there are many factors that affect beer consumption; however, the most important are demographic trends such as increases in the adult population, summer weather, and the amount of money spent on leisure, as well as the level of and rate of increase in personal disposable income.

During 1974, beer sales in the country amounted to 16,754,858 barrels, an increase of 373,033 barrels or 2.3% over the preceding year. The average annual rate of increase over the previous ten years was approximately 4.5%.

Population growth favoured beer consumption in Canada. The average adult (20 years of age or over) consumed 20 gallons of beer a year in 1950 and approximately 29.9 gallons (roughly equivalent to 399 bottles) in 1973. Beer consumption per adult rose by an average of 2.3% each year and the adult proportion of the total population increased from 57.7% in 1963 to 61.9% in 1973. During this same period, personal disposable income--the money available to spend on consumer goods--grew at an average rate of 9.2%, slightly less than the 9.9% average increase in Canada's gross national product.

The Economic Council of Canada estimates that the adult population of the country will continue to grow faster than the population as a whole. In 1970, 69.7% of the population was 15 years of age or over. According to the calculations of the Economic Council, this percentage now stands at 73.7% and will reach 77.2% by 1980 and 79.3% by 1985. The Council also estimates that per capita consumer spending on alcoholic beverages and tobacco (in current dollars) will increase by about 11.6% a year between now and 1985, rising from $231 to $499 (compared with 9.8% for the 1970-75 period), and that per capita spending on leisure and entertainment will continue to grow by an average 13.4% until 1985--that is, at roughly the same rate as for the 1970-75 period. Considering the rise in the Consumer Price Index --approximately 9% for 1970-75 and an average of close to 6.5% until 1985--it is increasingly apparent that the next decade does offer a certain amount of potential. Personal disposable income, demographic trends and the breakdown of consumer spending seem to indicate that the brewing industry should enjoy a relatively favorable growth rate over the next few years--around 4% annually, which is slightly lower than the rate over the past ten years.

In Appendix 4, we give some relevant data on the Canadian brewing industry. The reader will notice that the average growth rate in the volume of beer sold in the country can be attributed for the most part to the increase in the adult population, and that this industry has grown at a lower rate than that of real overall economic activity. In the light of these observations and with the knowledge that the possibilities for further growth through the acquisition of brewing firms have been severely limited, if not nonexistent, we can see why the brewing companies had to find new outlets for growth outside this sector.

4. OPERATIONS OF

THE MOLSON COMPANIES LIMITED

The Molson Companies Limited is an important, well-known Canadian enterprise that is involved in seven different industries, divided into four main groups. The corporation's total sales, amounting to $740.3 million, represent one-half of 1% of Canada's gross national product, and sales in the actual consumer-goods sector represent seven-tenths of 1% of the total expenditure on goods and services in Canada in 1974. Consolidated sales for each of these industrial Groups and Divisions during the fiscal year ended March 31, 1975, are shown in Table 1.

Table 1

SALES BY GROUP AND DIVISION
(As at March 31, 1975)

Industry		Sales ($ Millions)		Per cent of total
Brewing		357.1		48
Retail Merchandising		211.8		29
Commercial Products and Services				
Warehousing and distribution	20.2		3	
Office and education products	71.1		10	
Home furniture	19.1		2	
Construction products and services	38.5	148.9	5	20
Petroleum Marketing Equipment		22.5		3
		740.3		100

The sectors directly involved with consumer products make up approximately 79% of total sales, and this is the type of activity in which Molson is especially interested. We suspect that any future acquisitions the company may make will be in the consumer-products field, while those companies whose business is cyclical will be divested eventually at an opportune time. The directors feel that certain products for use in construction, such as water heaters, as well as the warehousing and distribution services (although not strictly connected with consumer products), have more growth potential than other businesses--for example, those connected with industrial construction, such as shoring and scaffolding.

BREWING GROUP

This Group, with sales amounting to $357.1 million during the fiscal year ended March 31, 1975, contributed 48% of the total sales of The Molson Companies Limited, and we believe that its contribution to net consolidated profits was 70%. During 1975, sales of the Brewing Group grew by 20.5% and the number of barrels of beer sold rose to 5,800,000 (a jump of 9.4% over the previous year), while the industry increased its deliveries by 2.7%. Compared with the total 16,754,858 barrels delivered by the Canadian industry as a whole in 1974, this figure for annual deliveries is quite impressive and, when the 127,120 barrels delivered to the United States is deducted, indicates that Molson now has 33.9% of the Canadian market. With respect to international operations, the company's last annual report makes reference to the fact that it is now the third largest supplier of beer imports to the United States. Distribution of these products is carried out by Martlet Importing Company Inc., a wholly owned subsidiary formed in 1971. Rainier Companies Incorporated (in which Molson holds 47.5% of the shares) brought in lower earnings. During 1974, Carling O'Keefe and Labatt's, Molson's two main competitors, are estimated to have held 25% and 36% of the Canadian market respectively.

It is Molson's policy not to divulge the net profits earned by each Group; this makes it difficult to establish net profits and profit margins for a table like the one on the following page.

We can see from Table 2 that, up to 1968, Molson's sales related only to beer, since it was then a company of only one Division. It is also evident that production capacity increased substantially during the second half of the period covered. The acquisition of Anthes Imperial during the 1969 fiscal year, and Beaver Lumber in 1972, led to a decrease in the proportion of total sales obtained from the Brewing Group. Over the last decade, Molson's beer sales have increased by 10.1% a year on average, while net profits have risen by 6.1%. Beer deliveries have increased by an average of 6.5% and the net profit margin in relation to sales, which was 6.7% in 1964, now stands at approximately 3.9%. This decrease can be explained by Molson's inability to obtain the necessary price adjustments to offset increased costs.

The two national brands of beer sold by the company--Molson Canadian Lager Beer and Molson Export Ale--enjoy a comfortable position in the country and a number of regional brands, such as

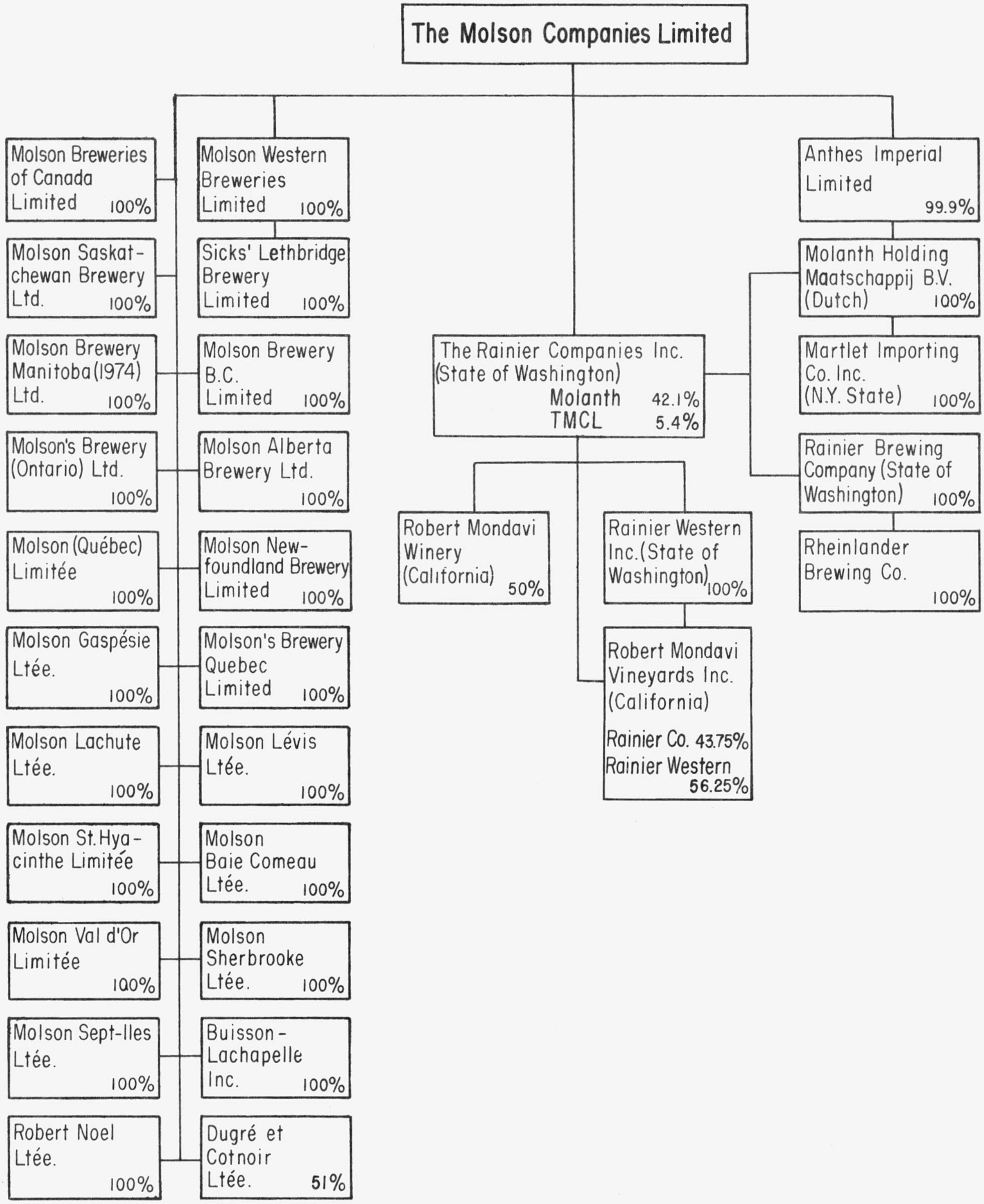
Table 2

BREWING GROUP FINANCIAL DATA, 1964-75

March 31	Sales ($000)	Per Cent Increase	Per Cent of Total Sales	Barrels Sold (000)	Barrels Capacity (000)	Per Cent Increase in Volume	Estimated Net Earnings ($000)	Earnings as Per Cent of Sales	Per Cent Change
1964	125,247	-	100	2,900	4,200	-	8,397	6.7	-
1965	132,033	5.4	100	3,000	4,300	3.4	9,043	6.8	7.7
1966	137,912	4.5	100	3,070	4,300	2.3	9,212	6.7	1.9
1967	153,409	11.2	100	3,400	4,300	10.7	10,767	7.0	16.9
1968	164,187	7.0	100	3,550	4,300	4.3	11,924	7.3	10.7
1969	177,360	8.0	60.0	3,600	4,500	1.4			
1970	193,905	9.3	62.0	3,800	5,100	5.6			
1971	201,298	3.9	64.0	4,000	5,100	5.3			
1972	232,163	15.3	61.7	4,500	5,100	12.5			
1973	260,505	12.2	50.0	4,840	5,400	7.6			
1974	296,236	13.7	48.1	5,300	5,900	9.5			
1975	357,100	20.5	48.2	5,800	6,930	9.4	14,000	3.9	
Average Growth Rate		10.1				6.5			6.1

Chart A

The Brewing Group



Laurentide Ale in Quebec and Golden Ale in Ontario, continue to make market gains. Brador, a beer with higher alcohol content introduced in Quebec in 1972, continues to gain consumer acceptance. The main brands of beer sold by the company and their respective markets are set out in Appendix 5.

As mentioned previously, Molson's has spent considerable sums of money over the last few years to increase its production capacity. Over the past year, capital expenditures on new facilities reached a record level of $17.5 million. As we shall see later, the company has acquired the Formosa Spring Brewery in Barrie, Ontario, with a capacity of 700,000 barrels a year from Benson and Hedges (Canada) Limited. This acquisition will give the company the necessary flexibility and space to expand in the Ontario market. The Formosa Spring Brewery has been linked up with the Toronto brewery operation, which has a capacity of 2,200,000 barrels. The table in Appendix 6 indicates the location and capacity of the ten breweries operated by Molson's.

The Molson Companies Limited is operating at approximately 84% of its total capacity. Breweries are operated in seven of the ten provinces of Canada and the total number of people employed by this Group stands at an impressive 3,087, a rise of 11.4% over last year.

The companies that make up the Brewing Group and their corporate ties are shown in Chart A, which is derived from the comprehensive chart on Molson's structure in Appendix 2.

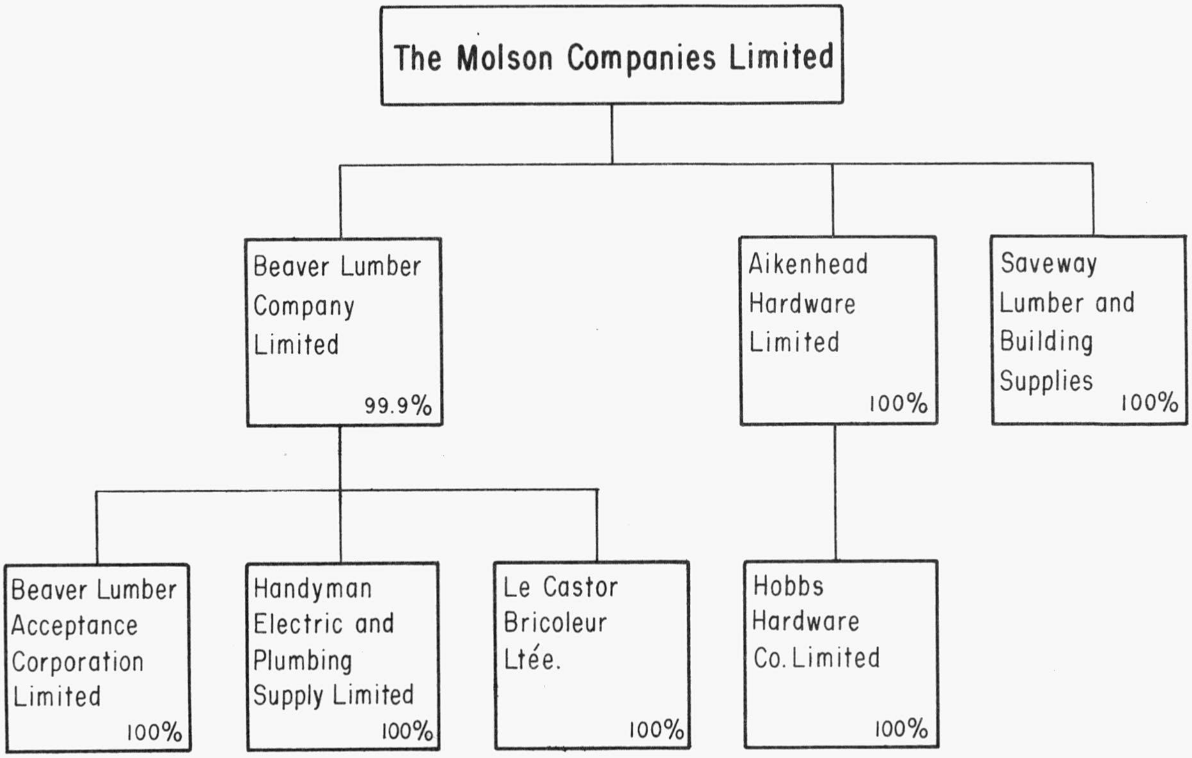
RETAIL MERCHANDISING GROUP

Sales for this Group in 1975 reached $211.8 million, an increase of 21.3% over the previous year. If we refer to the table in Appendix 14 setting out financial data relating to Beaver Lumber Company Limited we can see that Beaver Lumber contributes $181.4 million, or 85.6% of the total sales of the Group. The remaining $30.4 million comes from the other subsidiaries in the Group that are not included in the consolidated financial statements of Beaver Lumber--that is, Saveway Lumber, Aikenhead Hardware and Hobbs Hardware.

Retail merchandising became especially important at the end of 1971 when The Molson Companies Limited acquired Beaver Lumber Company Limited. Since this takeover will be dealt with in detail further on, we shall not go into it at this point. We might mention, however, that the significant increase in sales over the last few years is mainly the result of the opening of a number of large new stores and the modernization and enlargement of a certain number of others. In spite of this increase, the Group suffered a fairly hefty operating loss in 1975, which can be attributed for the most part to the marked drop in the price of lumber over the year, the difficulties involved

Chart B

The Retail Merchandising Group



in starting up a computerized central distribution system and pre-opening costs that were higher than anticipated, not to mention the impact of inflation on costs such as salaries and interest charges.

Last year, $9.2 million was spent setting up new stores in major market centres and improving existing facilities. At the end of the fiscal year, there were a total of 252 retail stores in operation, including 51 home improvement centres across Canada.

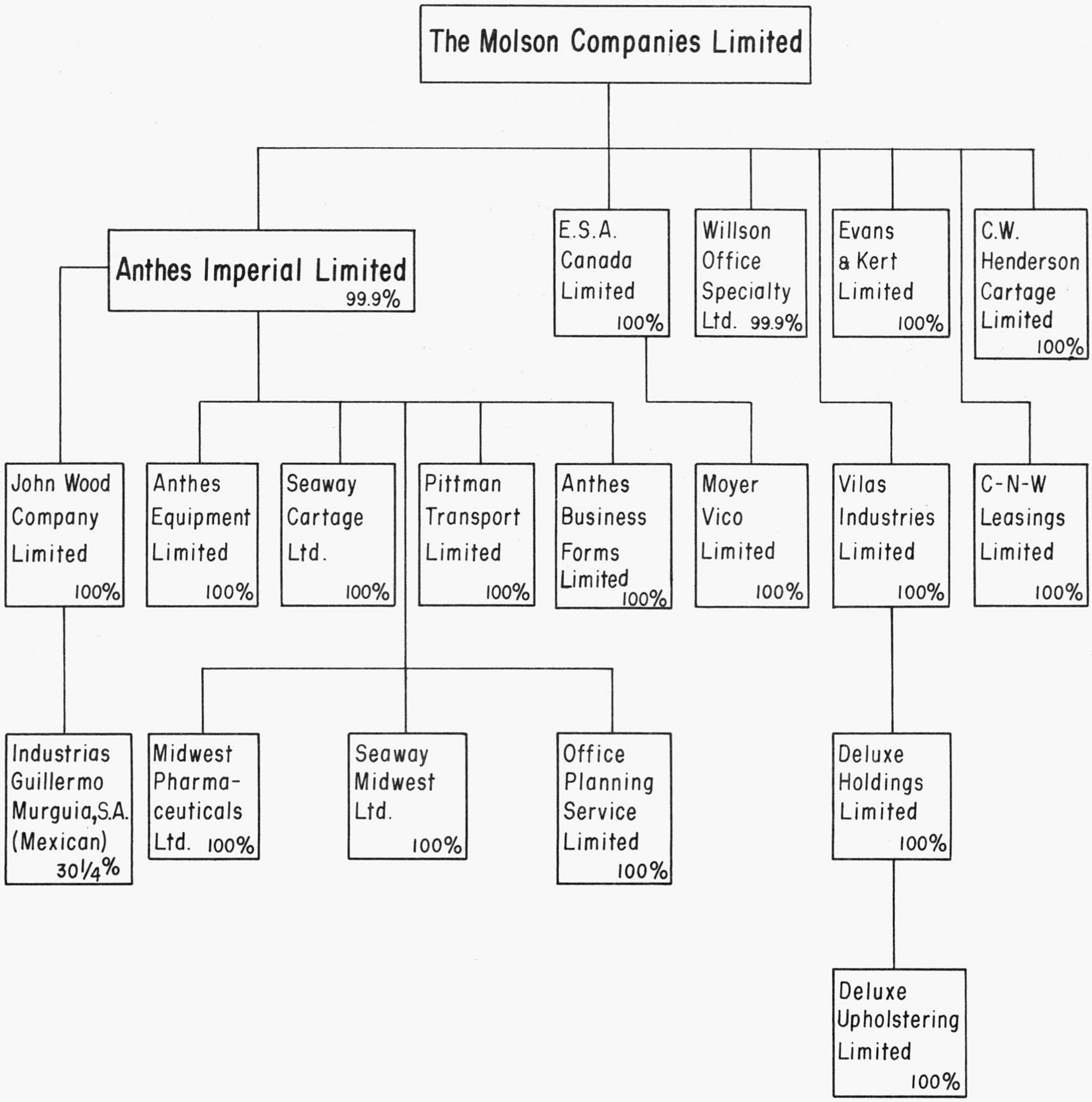
The other companies in this Group form a relatively insignificant part of the total operations, and there is no point in considering them at length.

The organization chart for the corporate entities that make up the Retail Merchandising Group (Chart B opposite) should help to clarify the legal structure of this sector of activities, although this structure is relatively uncomplicated.

We should mention at this point, although we shall come back to this later, that the Retail Merchandising Group has undergone rapid expansion since the purchase of Beaver Lumber Company Limited in 1972. Using this acquisition as a cornerstone for future development, The Molson Companies Limited decided to introduce Canadians to the concept of home improvement centres like those found in the United States. The Molson Companies Limited believed and still believes firmly in the eventual success of this venture, and, since the Beaver Lumber purchase, vast sums of money have been spent to carry out this project, upsetting the short-term profitability of the Group as a whole for the benefit of potential long-term profitability. This development can be considered to be an expansion project initiated by The Molson Companies Limited.

Chart C

The Commercial Products and Services Group



COMMERCIAL PRODUCTS AND SERVICES GROUP

Chart C sets out the divisions and companies that make up this Group, whose sales revenue in 1975 was $148.9 million, up 17.3% over the previous year.

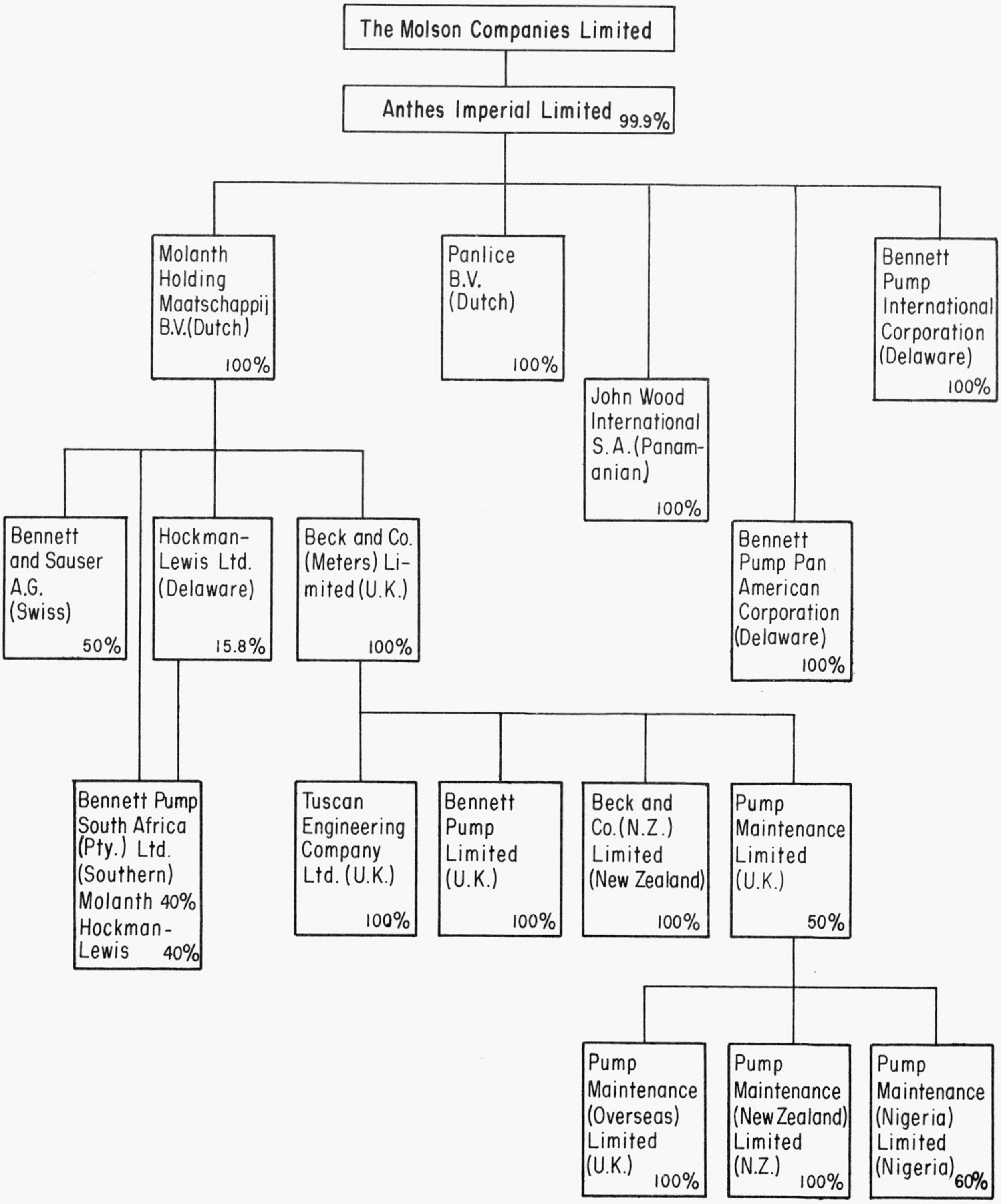
The Group comprises no fewer than 21 companies, all of which are Canadian or incorporated under Canadian provincial law, with the exception of one affiliated company--a Mexican business owned 30¼% by The Molson Companies Limited through two other wholly owned subsidiaries, Anthes Imperial and John Wood Company Limited.

As the chart shows, this Group consists of two blocks of companies: Anthes Imperial, which was acquired in 1968 together with most of its subsidiaries; and the block consisting of Vilas Industries, Willson, Moyer Vico and the rest, including some firms that have been acquired more recently in order to consolidate the operations of The Molson Companies Limited in a given Division. (We shall deal with acquisitions and divestments in more detail when we examine the takeover of Anthes Imperial.) In its annual report, The Molson Companies Limited analyses the Group by subdividing it into four divisions or areas of activity: office and education products, home furniture, construction products and services, and warehousing and distribution.

Capital expenditures amounting to $7.7 million were made for the Group during 1975, and 7,289 regular employees work for the companies that make it up. The Group came into being in 1967 when The Molson Companies Limited acquired Vilas Furniture, hoping to gain a foothold in the Canadian furniture industry and then develop these operations through further acquisitions. This project failed, and we think that sooner or later Vilas and Deluxe will be divested, since Molson is not considering expansion in this sector.

Chart D

The Petroleum Marketing Equipment Division



PETROLEUM MARKETING
EQUIPMENT DIVISION

Through subsidiaries and affiliated companies, this Division manufactures and distributes standard and self-serve gasoline pumps, service station equipment and special-purpose electric motors. It comprises 18 companies (though some of the corporate entities are inoperative), and has a more complicated structure or legal organization than the others, as is shown in Chart D.

The Division, which came into existence when Molson's acquired Anthes Imperial Limited in 1968, contributes only $22.5 million, or 3%, of the total consolidated sales of The Molson Companies Limited. In 1975, it laid out half a million dollars in capital expenditures and employed 613 people, fewer than the previous year.

In our opinion, this area of activity does not form part of Molson's plans for future development through acquisition. On the contrary, we suspect that the companies in this Division will be sold at an opportune time.

5. SHAREHOLDERS, MINORITY INTEREST

DIRECTORS AND OFFICERS

SHAREHOLDERS

As at June 2, 1975, there were 13,529 registered holders of the 13,691,730 common shares of all classes (A, B, C and D) issued by the company. This represents an average of about 1,000 shares per shareholder. Of the total number of shareholders, 98% are Canadians and hold 99.3% of all the shares issued: shareholders in Quebec and Ontario hold 83% of the shares.

The chart in Appendix 7 gives some information on the company shareholders. Further on, in the study of Molson's capitalization, we will explain the differences between the four classes of shares currently issued by the company.

MINORITY INTEREST

We believe it is Molson's intention to own all the shares of the companies it acquires. This considerably reduces the number and proportion of minority interests within the consolidated group and within the companies that form the conglomerate and the four sectors of activity.

The consolidated balance sheet as at March 31, 1975, shows an amount of $4,550,000 under "minority interest." This amount is composed of the preferred shares issued by Anthes ($3,878,000) and by Beaver Lumber ($231,440), the balance representing the 49% interest in Dugré et Cotnoir Limitée belonging to a private individual. Most of the companies in the Brewing Group are fully owned by The Molson Companies Limited. Dugré et Cotnoir Limitée, however, a beer distributing firm in Quebec, is only 51% owned by The Molson Companies Limited, as shown on the corporate structure chart in Appendix 2. The remaining shares of this company belong to a private individual who wishes to maintain his participation in this distribution agency.

Another company in the Brewing Group--the Rainier Companies Incorporated--is not entirely in the hands of The Molson Companies Limited. In fact, Molson has only the minority interest in the company and its subsidiaries, holding 47.5% of the shares (5.4% directly and 42.1% through its 100% investment in Anthes Imperial and Molanth Holding Maatschappij B.V.). Since the Rainier Companies Incorporated owns 50% of Robert Mondavi Winery in California, The Molson Companies Limited thus owns the latter in a proportion of 23.8% (47.5% x 50%). Rainier's wholly owned subsidiaries belong to Molson to the extent of 47.5% (47.5% x 100%). The remaining 52.5% of the Rainier shares are held by a number of shareholders in the United States. In 1975, Rainier paid $70,000 in dividends to Molson, which accounts for this investment by the consolidation method.

In the Retail Merchandising Group, the six subsidiaries are all fully owned. Two, Aikenhead and Saveway Lumber, are held directly by The Molson Companies Limited, while three others are owned through Beaver Lumber Company Limited. Hobbs Hardware is held by Aikenhead Hardware. If Aikenhead and Saveway, whose sales represent only 14.4% of the total sales of the Group, and only 4.1% of the consolidated sales, had been acquired by Molson after the purchase of Beaver Lumber, these three companies might have been subsidiaries of Beaver Lumber rather than direct subsidiaries of The Molson Companies Limited.

In the Commercial Products and Services Group, the Mexican charter company, Industrias Guillermo Murguia, is only 30.25% owned by The Molson Companies Limited (through Anthes and its subsidiary, the John Wood Company). In 1975, this affiliate paid $77,000 in dividends to the John Wood Company, accounted for as income. The consolidation method is not used, since effective control of this affiliate does not rest with Molson.

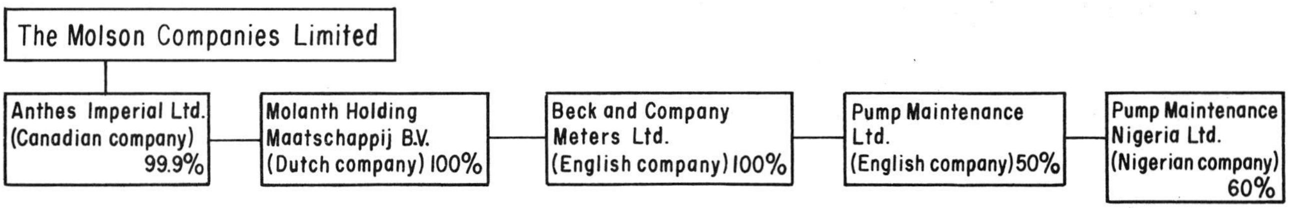
Finally, the more complex corporate structure of the Petroleum Marketing Equipment operations shows seven companies that are not fully held by The Molson Companies Limited. They need not all be listed; we would point out only as an example the more complex relationships of the corporate entities, as is clear from Chart E on this page, which was drawn up from Appendix 2 and from Chart D on page 20, which accompanies the description of this Division.

Two companies are incorporated according to the laws of the Canadian government, one according to Dutch, two to British and one to Nigerian law.

Among the 18 subsidiaries and affiliated companies forming the Division, only one, Bennett Pump Pan American Corporation of Delaware in the United States, paid a dividend in 1975, in the amount of $75,000. Since the company is a member of the consolidated group, the dividend is eliminated by the consolidation accounting procedure.

Chart E

Illustration of Corporate Relationships



DIRECTORS AND OFFICERS

Following are separate lists of Molson's directors and officers as at October 31, 1975.

DIRECTORS OF THE MOLSON COMPANIES LIMITED

Hon. J.B. Aird, Toronto	Partner, Aird, Zimmerman & Berlis, Barristers and Solicitors
**W.R. Allen, Toronto	President, The Dominion Realty Company Limited
*J.T. Black, Toronto	President
F.M. Covert, Halifax	Partner, Stewart MacKeen & Covert, Barristers and Solicitors
*W.P. Frankenhoff, New York	Chairman, William E. Hill & Company, Inc.
D.S. Harvie, Calgary	Senior Vice President, Petrofina Canada Limited
T.E. Ladner, Vancouver	Partner, Ladner Downs, Barristers and Solicitors
Roger Létourneau, Quebec	Partner, Létourneau, Stein Marseille, Delisle and LaRue, Barristers and Solicitors
**A.G. McCaughey, Toronto	Senior Vice President, Finance
E.H. Molson, Montreal	Executive Vice President, Molson's Breweries of Canada Limited
*Hon. H. de M. Molson, Montreal	Honorary Chairman of the Board
*Gérard Plourde, Montreal	Chairman of the Board, UAP Inc.
**J.D. Riley, Winnipeg	President, Dominion Bronze Limited
*P.B. Stewart, Toronto	Executive Vice President, Operations
N.E. Whitmore, Regina	President, Wascana Investments Limited
*D.G. Willmot, Toronto	Chairman of the Board

HONORARY DIRECTORS

T.H.P. Molson, Montreal
H.C.F. Mockridge, Toronto
F.H. Sobey, Stellarton, N.S.

* - Member of the Executive Committee
** - Member of the Audit Committee

In a more detailed list in Appendix 8, the reader can see what other occupations the Molson directors are engaged in. The members of the Royal Commission on Corporate Concentration will be able to use this information to discover what interrelationships may exist between the directors of Molson and those of other major Canadian firms. For example two directors of The Molson Companies Limited, D.S. Harvie and F.M. Covert, are also members of the Board of Directors of Petrofina Canada Limited, and 6 out of the 16 are directors of Canadian chartered banks.

OFFICERS OF THE MOLSON COMPANIES LIMITED

Hon. H. de M. Molson	Honorary Chairman of the Board
D.G. Willmot	Chairman of the Board
J.T. Black	President
J.P.G. Kemp	Senior Vice President, Commercial Products and Services Group
David Lakie	Senior Vice President, Retail Merchandising Group
P.B. Stewart	Senior Vice President, Brewing Group
Morgan McCammon	Senior Vice President, Corporate Services
A.G. McCaughey	Senior Vice President, Finance
L.R. Sinclair	Senior Vice President and Controller
K.A.F. Gates	Vice President, General Counsel
W.J. Gluck	Vice President, Corporate Development
D.A. Heeney	Vice President, Corporate Communications
J.B. Jolley	Vice President and Secretary
Zotique Lespérance	Vice President
H.E.C. Stoneham	Vice President, Human Resources
I.M. Young	Treasurer

With regard to the directors and officers of Molson's chief subsidiaries, we will examine what changes have occurred in the structure that existed at the time Molson acquired these companies. This examination will appear in a special section, when we study the acquisitions as such.

6. FINANCING STRUCTURE AND DESCRIPTION OF COMMON SHARES

On March 31, 1975, the long-term capitalization of The Molson Companies Limited, as shown on its consolidated balance sheet, was as follows:

Table 3

CONSOLIDATED BALANCE SHEET

THE MOLSON COMPANIES LIMITED

(As at March 31, 1975)

	($000)	($000)	% of Total
Long-term debt		100,346	36.2
Minority interest		4,550	1.6
Deferred taxes		16,486	6.0
Shareholders' equity:			
Capital stock	48,342		
Retained earnings	107,967	156,309	56.2
		277,691	100.0

The capital stock account at the same date was as follows:

Class A:	8,306,000	shares issued	$38,355,000
Class B:	4,073,000	" "	7,161,000
Class C:	1,011,000	" "	1,449,000
Class D:	300,000	" "	1,377,000
	13,690,000	shares issued	$48,342,000

Class A and D shares and Class B and C shares are respectively interconvertible on a one-for-one basis.

The Class A and D shares are non-voting except that, voting separately and as a class, the holders thereof are entitled to elect three members of the Board of Directors annually. The Class B and C shares are fully voting.

Class A and D shares are entitled to a non-cumulative preferential dividend of 20¢ per annum. After the Class B and C shares receive dividends of 20¢ per annum, all shares rank equally as to dividends.

Dividends on Class C and D shares may be paid in cash out of tax-paid, undistributed surplus on hand, or out of 1971 capital surplus on hand as defined in the Income Tax Act.

7. ADMINISTRATIVE PHILOSOPHY

Below is the substance of The Molson Companies Limited's statement of principles, as drawn up and published by the management of the company a few years ago for the purpose of making known the way in which the firm endeavors to manage and develop its human resources, its reputation and its financial and material resources.

HUMAN RESOURCES

The Molson Companies Limited seeks to create a stimulating work environment that encourages advancement and enables each employee to give his best work and to pursue his own objectives as well as those of the firm. The means used by the company to this end are many, but among others must be stressed the efforts devoted to offering opportunities for advancement in all parts of the firm, including its subsidiaries in each sector of activity, and offering employees the opportunity to increase their professional knowledge and competence, so that they can derive greater satisfaction from their work. Furthermore, Molson's management style is characterized by a commitment to decentralized decision-making, as much as is possible in practice, while promoting frank and spontaneous exchange between all levels of management.

REPUTATION OF THE COMPANY

The long-term success of The Molson Companies Limited is dependent on the way in which the public regards and approves its role and its development. In the conduct of its affairs, each unit must therefore be sensitive to the social, political and economic realities of its surroundings.

The firm maintains that to this end it makes a serious inquiry, before making any decision, to find out how the interested public may interpret it. The public is made up of the employees, shareholders and customers, the business world and the public authorities. The company also takes a constructive public attitude toward socio-economic questions the firm considers of such a type as to have significant consequences for itself or for the common good.

FINANCIAL AND MATERIAL RESOURCES

The Molson statment of principles of 1971 sets forth the following objectives and methods, and we believe they still apply, although some may be questioned in the light of the results that have since come about, particularly with regard to the objectives of profitability.

Like any profit-making corporation, the company manages its financial and material resources in such a way as to protect, and produce a return on, the shareholders' investment, as well as to ensure the continuing profitability of the firm. The means used in the management of its assets to reach this objective are as follows:

1. To operate firms that have a potential of making an appreciable contribution to the company's earnings per share.

2. To set realistic yet ambitious financial objectives.

3. To realize steady growth in the earnings per share.

4. To invest in firms that will, within a reasonable time, make a real contribution to the stability and quality of earnings.

5. To aim for a limited number of firms, each of which is one of the two or three most significant of its kind in a given market, or which has that potential.

6. To ensure that each firm is sensitive to customer standards in providing its goods and services.

7. To promote internal activity that will stimulate the expansion of each firm: creation of new products and services, opening of new outlets, and additions through domestic as well as international acquisition--in short, activities that normally strengthen the financial situation, productivity and trade position of existing firms.

8. When the transaction proves favorable, to acquire other firms that may have a significant effect on the orientation of the company, that are open to expansion and that are likely to increase earnings appreciably.

9. To ensure that the company gains presence in the financial world through its integrity and its managerial competence.

The criterion of success in relation to good management of financial and material resources will find expression in an increase of earnings per share and in a price/earnings ratio that is higher than the average for a selection of Canadian companies, in the company's ability to keep a high credit rating, and finally, in its proven ability to maintain its subsidiaries in an excellent position in relation to competition.

8. SOCIAL ROLE OF THE MOLSON COMPANIES LIMITED

POLLUTION CONTROL

The Molson Companies Limited wishes to take part in the group effort put forth since about 1965 to combat pollution, and sums have been assigned for this purpose in the formulation of annual budgets for capital expenditures. The company's administrative manual points out that all the groups and divisions ought to pay special attention to pollution control which, as is well known, generally gives a very low rate of return, if any, on the capital invested.

For purposes of pollution control, the energy source of eight of the ten breweries has been changed in the past few years from oil to natural gas, in order to reduce the sulphur dioxide level in the air, and scrubbers have been installed, in co-operation with the municipal authorities, to treat the gases that emanate from beer plants. The company is also carrying out experiments to find a way of facilitating the process by which industrial wastes are drained off by reducing the solids that are found in the drains, and other efforts have been made to improve the appearance of company properties.

EMPLOYEE RELATIONS

Of the total of 11,211 employees at the end of March 1975, 10,747 were working in Canada. The number of Molson employees who work outside Canada decreased from 1,056 in 1970 to 464 in 1975; the closing of its petroleum marketing products factory in Milan, Italy during the last year contributed to this decrease, and the resale, over the last few years, of certain divisions operating in the United States has also had an effect.

Since 1966, the proportion of employees whose labor relations with The Molson Companies Limited are defined by collective agreement has decreased from 59% in 1970 to 41% in 1975, but this decrease is largely attributable to the fact that the 3,099 employees of the Retail Merchandising Group are not covered, in accordance with current practice in Canada. After this adjustment factor is taken into account, we note that approximately 57% of The Molson Companies Limited work force is unionized.

In general, it appears that The Molson Companies Limited has favorable labor relations with the various unions representing its employees. In April, 1975 an 11-week strike by brewery employees ended in Vancouver, and the settlement has proved very costly for the company, when it is compared with the federal government's anti-inflation guidelines announced in October of that year. Specifically, the hourly wage rose from $5.90 to $7.03 as of April, 1975, representing a 19.2% increase. In addition, the hourly wage was increased by $0.05 in October, 1975 and the contract contains a provision that the rate will increase to $7.71 on April 21, 1976. This represents a 30.7% increase over the rate in effect in the previous agreement. Furthermore, the labor agreement contains a general price increase adjustment clause.

At time of writing, a strike that is in its sixth month is continuing in Cowansville, a small town in Quebec where Molson manufactures its Vilas furniture. The dispute concerns the system of payment, which is based on employee productivity, the basis generally used in the furniture industry. The union is demanding that this method be changed, and that payment according to productivity be converted into an hourly wage. Molson refuses, since it has reason to believe that the rate of production would not be maintained at an acceptable level of quality and quantity.

If the basic hourly rate offered by The Molson Companies Limited were accepted, the Vilas employees would receive the highest rate paid in Cowansville, higher than at Moore Corporation, and the payment for productivity would be added to that base. The offer also greatly exceeds the limits suggested by the government's anti-inflation program, but if the union accepts the company's offer, the company is prepared to back the union in its exemption request before the Anti-Inflation Board. The two parties maintain that they can obtain such an exemption.

DONATIONS AND COMMUNITY AFFAIRS

The principle followed by The Molson Companies Limited in matters of charitable donations, as set forth by the company in its administrative manual, is to give generously to deserving charitable organizations in such fields as education, youth and recreation, health and innovative programs. In 1975, The Molson Companies Limited, through its Donations Fund set up for this purpose, supported 511 projects, the most important by far being the United Way Campaign, which received $242,575, or about 40% of the total donations made through the Donations Fund. Thus in 1975, The Molson Companies Limited gave about $600,000 in donations, or one-tenth of 1% of its total sales.

In affairs of community and public interest, The Molson Companies Limited is subscribing $25,000 over five years to the Canadian Foundation for Economic Education, an organization founded for the purpose of promoting knowledge of economics in Canada by improving the quantity and quality of economics courses at the primary and secondary school level. Other donations were made in the fields of the theatre, pollution control, and schools for the handicapped.

9. FINANCIAL ANALYSIS OF

THE MOLSON COMPANIES LIMITED

Appendix 9 sets forth the operating and financial record of The Molson Companies Limited for the ten-year period from 1966 to 1975 inclusive, as published by the company in its most recent annual report. We have added some other data that we considered relevant, such as the profit margins and the variations in the prices of shares each year.

Sales saw an average annual increase of 15.1% over this period. It should be noted that the results shown take into account the accounting of the Anthes results on the basis of pooling of interest; the other acquisitions have been consolidated according to purchase accounting principles. For example, the acquisition of Beaver Lumber is taken into consideration from the date of purchase, January 1, 1972, and the figures for past years were not adjusted to take this acquisition into account. With regard to Anthes, all data except dividends per share for 1968 and prior years have been restated to reflect this business acquisition. The inclusion of Beaver Lumber explains why sales increased considerably (38.9%) in 1973.

Profits have not increased at the same rate as sales, but, since 1966, earnings per share have increased by 3.4% on average. This rate of growth is very small, when we consider that the Beaver results contributed $3,795,685 in fiscal 1973 to the profits of the group. However, this was the company that brought about the appreciable decrease in group profits in 1975, following the sharp decline in the price of lumber on which Beaver Lumber is so dependent.

Obviously, the inclusion of Beaver has altered some of the ratios of The Molson Companies Limited. The net profit margin, for example, which had begun a downturn in 1969, continued to fall after the acquisition of Beaver, because Beaver's profit margin is smaller than that of the other groups included in the consolidated financial statements. The rate of return on equity dropped from about 17% or 17.5% at the beginning of the period to 16% in 1973, 14.6% in 1974 and 12.6% in 1975. In our opinion, a rate of 16% return on equity is the normal level of profitability that The Molson Companies Limited can realize on average. Beaver's rate of return on equity, which was around 8.9% in 1971, in comparison with the 13.8% rate realized by The Molson Companies Limited in the same year, shows clearly that it was normal for the average rate to diminish after the acquisition.

Dividends per share increased by 5.1% annually, on average, which is a little more than the rate of growth in earnings per share. This explains the increase in the percentage of distribution of profits over the period under study. The ratio reached three distinct levels: 42% to 43% from 1966 to 1968, 60% from 1969 to 1971 and the new level of 50% since 1972. We think that The Molson Companies Limited has adopted a policy of paying about 50% of its net profits in the form of dividends in future.

The book value of shares has increased by an average of 8.1% annually, from $6.59 in 1966 to $11.41 in 1975. This increase, higher than the increase in profits, is explained by the decline in the proportion of earnings paid out in dividends over this period.

10. ACQUISITIONS

As mentioned earlier, the cornerstone of The Molson Companies Limited activities is its Brewing Group, which goes back to the company's origin. Studies carried out from 1960 to 1965 on the future of the brewing industry showed that the expected growth of this consumption sector promised only half the rate of growth expected from overall economic activity. The Canadian beer market had by 1965 become mature, and was being shared for the most part by three firms. Today, only six companies operating in Canada compete within a market the size of California. The substantial cash flow produced by the industry and by The Molson Companies Limited could not be reinvested in such a way as to give as satisfactory a marginal rate of return on investments as that realized at the time on current investments. The following quote from Molson's Annual Report for 1966 confirms this situation: "The funds from operations during the year came to $12,956,101, and the consolidated working capital increased from $6,603,906 to $21,252,097 as at March 31, 1966." The American and foreign markets seemed difficult for Canadian breweries to break into, since 50% of beer sales in the United States were made by three national giants in the industry--Anheuser-Busch, Schlitz and Pabst. This market was already mature, and other Canadian brewers, including Molson, had failed in their efforts to break into the American market.

In 1964, Molson tried in vain to acquire Hamm Brewing Company, a regional beer company in the United States. The Molson Companies Limited was trying to find out whether it should remain a large beer firm in the relatively slim Canadian market, or extend its operations into a wider market, the United States.

The Hamm Brewing Company was operating breweries in the Midwest and on the West Coast of the United States. Molson made an offer, but later withdrew it with Hamm's agreement when the Antitrust Division of the American Department of Justice objected to this acquisition because Molson had an interest in the Rainier Brewery of Seattle, which had been obtained through the purchase of Sicks' Breweries Limited (now Molson's Western Breweries Limited) in 1958. The directors of The Molson Companies Limited came to the conclusion that any further effort on its part toward acquiring a viable American beer company would come to naught because of strong opposition from the United States government.

The Molson Companies Limited exports a very small percentage of its annual beer production. In the fiscal year ending March 31, 1975, 127,120 of its total production of 5,800,000 barrels of beer were exported, chiefly to the United States. Thus export represented 2.2% of its beer sales. In any case, the American market could absorb only a limited volume of Canadian beer, judging from the failures of certain Canadian competitors and several American regional companies.

At that point, Molson had developed a remarkable managerial expertise which could be used in spheres of activity related to brewing. For these reasons, the Molson Companies Limited decided to launch a program of acquiring other companies, and in 1967 it made its first acquisition in a sector other than its own activity when it purchased Vilas Furniture.

ACQUISITION POLICY AND LONG-TERM ORIENTATION

The current policy of The Molson Companies Limited, as described by the company in March 1973, is based on four criteria that are essential to the company's growth and development in directions that correspond to the managerial expertise already within the company and that complement the present activities of The Molson Companies Limited from the financial, production and marketing perspectives. Although only one company has been purchased since then, the characteristics sought in any candidate relate closely to the policy set forth by the Molson Companies Limited in the statement of principles governing management of financial and material resources. These criteria are:

- the potential of the firm being considered for acquisition to add, within a reasonable time, to the quality and stability of the entire company's profits;
- the ability of the firm to maintain its position or become a significant presence in its industry;
- the geographical diversification potential the candidate offers to the rest of the company or the overall group;
- the possibility that acquisition of the firm might enable Molson to add to the volume of its current activities.

The Molson Companies Limited considers that at present it is involved in a reasonable and sufficient number of industries, and that the objective of its future acquisition program is to achieve a certain rate of growth by consolidating and expanding the activities in which it is already involved. Possible acquisitions could include, for example, firms that would enable Molson to penetrate a region or a market in which its presence is now restricted. We think that the purchase of a chain of building supply stores or centres in Quebec or Ontario would fit in with this line of action, since it would enable the company to strengthen its position in a sector in which it is at present involved. The Molson Companies Limited, through A.G. McCaughey, responsible for the long-term orientation of the company, stressed that it is always possible the company may deviate from this policy by acquiring one or more companies whose activities are different from present activities if the potential is interesting.

CASE STUDY OF FOUR ACQUISITIONS

Among the firms purchased by The Molson Companies Limited since the beginning of 1967, there are four that, in our opinion, stand out because of their particular characteristics and that therefore hold special interest for the Royal Commission on Corporate Concentration. By carefully examining these acquisitions, we will attempt to bring out the elements we consider important, such as the results of operations after acquisition, and the extent to which competition may have been decreased or increased following the acquisition, as far as it is possible for us to evaluate this.

Vilas Industries Limited

As mentioned above, from the beginning of its activities until 1967, The Molson Companies Limited had been involved only in developing and increasing its share of the Canadian beer market. However, since this market no longer offered the same growth rate as in previous years, the company set out to identify and then purchase firms whose potential growth rate was higher, and growth cycle longer--that is, one or more industries whose penetration of the market was relatively slight.

The company felt that the Canadian furniture-manufacturing industry would enjoy greater vigor and profitability from increased concentration, additional investments and a leadership that had not yet been demonstrated by any member of the industry, which comprised about 1,600 manufacturers. Molson chose Vilas as a potential acquisition and submitted its attractive program of future growth to the Vilas directors. An agreement was concluded by the two parties whereby Molson acquired outright 66-2/3% of the shares issued by Vilas, for a total consideration of $4,500,000, taking into account newly issued preferred shares. Molson also obtained an option to acquire the rest of the shares later at a price based on the future profitability of Vilas Industries Limited. As a result of the agreement with Molson, Vilas had access to more substantial sources of funds and superior managerial skills, especially in marketing. The image of quality that Vilas products project was developed and promoted through an intensive and costly advertising program. As planned beforehand by Molson, the Vilas officers were encouraged to study the possibilities for increased rationalization of the furniture industry and to acquire other companies engaged in this activity. Thus Deluxe Upholstery of Waterloo, Ontario, known chiefly as the holder of the Canadian franchise for the La-Z-Boy reclining chair, was acquired by Vilas in 1968. Subsequent to this acquisition, the Vilas factory in Cowansville, Quebec, was expanded, an upholstering factory was opened in Montreal and a second wood furniture plant was built in Thurso, Quebec.

One of the Vilas lines that seemed to interest Molson particularly was the Moyer School Supply division, a firm that manufactured and distributed school furniture, and had a complete catalogue of items for resale by educational institutions.

Before it was purchased by Molson the Vilas furniture division was registering a deficit, but the school furniture division regularly made a profit. The two divisions were separated, and this necessitated administrative changes. To make it possible to bring about these changes, Molson exercised its option to acquire the remainder of the Vilas shares, and the total price paid was $7,182,000. The deficits incurred by the furniture division were gradually reduced, and overall operations reached a certain level of profitability, although the return on equity, estimated at 10.1% in 1975, is not considered satisfactory even now, taking into account the size of the investments made and the administrative effort put forth by Molson since the original acquisition. Vilas and La-Z-Boy are both prestigious names in the Canadian furniture industry, and the prices of these products are the highest in their respective markets.

The company maintains that its first acquisition outside the brewing industry was an excellent choice, in view of the image of quality the Vilas name projects. The company continued to examine seriously several other furniture manufacturers in order to pursue its program of acquisitions within this industry, but the directors came to the conclusion that severe administrative difficulties would arise from the fragmented state of the furniture industry. Furthermore, since the length of time was too long before an adequate rate of return on necessarily large investments would be reached, Molson abandoned its plans to develop in this sphere of activity.

Now that we have briefly described the context surrounding the acquisition of Vilas and Deluxe Upholstering, we will study a few points we consider more important: profitability, effect on competition, social consequences, and administrative changes.

Profitability. The table in Appendix 10 gives an outline of the profitability of Vilas, Moyer Vico and Deluxe Upholstering from 1965 to 1975 inclusive. It is important to stress beforehand that these figures must be looked at with great care, because two changes took place during this period that complicated comparison of the data of one year with those of another. First of all, Vilas Industries Limited acquired Deluxe Upholstering Limited and then sold Moyer Vico to The Molson Companies Limited during the fiscal year ending March 31, 1971, and this gave rise to a substantial change in all of the Vilas accounts. The Molson company was not willing to provide us with the figures relating to Deluxe and Moyer Vico, and so it was impossible for us to determine accurately the comparability of data for any of the years in the period under study. Nevertheless, a few observations on profitability can be made from the data presented, and taking into consideration the date the changes were made:

1. Growth in home furniture sales was substantial, approaching 40% annually.

2. Although not particularly profitable at the time of purchase by The Molson Companies Limited, the home furniture enterprise has reached a respectable level of profitability in the last two years, with a 5.23% profit margin in 1974 and an 11.6% rate of return on equity in 1974. After adjustment to eliminate the special item described in the following point, the rate of return on equity is 18.6%.

3. The book value of the common shares increased rapidly (30.2% per year) from $16.83 in 1965 to $67.66 in 1975, but after elimination of a special item ($3,400,000 extraordinary gain on the sale of an option to The Molson Companies Limited), the true book value in 1975 was $36.75, and the average rate of growth is therefore 11.8% annually. The sale of Moyer Vico had no impact on the book value, since it was sold at its own book value.

4. No dividends were paid in the period reviewed.

5. No additional shares were issued.

6. We do not know whether or not The Molson Companies Limited injected any amounts other than those relating to the sale of Moyer Vico and the option of The Molson Companies Limited to finance the net increase in assets.

<u>Potential reduction of competition</u>. From the point of view of competition, the acquisition of Vilas and subsequently of Deluxe by Molson did not, in our opinion, result in an increase or decrease in competition between the members of the industry. As mentioned earlier, owing to the very great fragmentation of this industry, the beneficial mechanism of competition was probably operating adequately, thus ensuring that the consumer benefited more fully from a satisfactory balance between price and quality. We do not believe that the change of ownership in any way reduced the very strong competition in the furniture industry. Since competition can be defined as a rivalry between firms to attract the largest clientele possible through the best conditions of price and quality that they can offer, we conclude that this rivalry was not reduced, and that the consumers and the other furniture manufacturers did not suffer in any way when Molson arrived on the scene in this industry. We see the acquisition of Vilas as a simple change of ownership, with the shares coming from private interests and entering corporate hands. The impact on competition could have been different if The Molson Companies Limited had carried on its

furniture plant acquisition program, because the gradual elimination of competitors would have led to greater control of the industry by the same administrative elements. Such was not the case, however.

Social consequences. We are not in a position to evaluate the social consequences of the change of ownership of Vilas. We shall merely mention the expansion Molson brought to this company and the additional jobs created by the new factories set up in small towns such as Cowansville and Thurso in Quebec, and Waterloo and Elmira in Ontario. On the other hand, a six-month strike is continuing in Cowansville, as we mentioned in our study of the company's social role.

Administrative changes. In Appendix 11, we have listed the directors of Vilas at the time of acquisition, and in 1975. As was the case with Beaver Lumber, none of the directors who were in office at the time of the acquisition are members of the present board of directors, which is composed of only three persons. One of these, J.P.G. Kemp, is Senior Vice President of the Commercial Products and Services Group of The Molson Companies Limited. G.L. Townsend is President of Vilas, while C.R. Cook is Vice President, Finance, and Controller of Molson Breweries of Canada Limited.

Anthes Imperial Limited

Following its decision not to broaden its operations in the furniture-manufacturing industry, since the length of time required for this sector to reach a satisfactory rate of return on investment was too long, The Molson Companies Limited looked around for another potential acquisition--a large company with greater scope for development. Anthes Imperial was identified as a business that had experience in acquiring other businesses and in managing firms with a variety of activities. Anthes was considered to be a diversified, well-managed business. Its operations were conducted on an international scale and the company's management group gave great importance to the decentralization of decision-making authority--a policy that was said to be of prime importance and vital to the success of a business as diversified as Anthes. The figures for return on investment were one of the criteria regularly used to evaluate the results of the various operations, as well as to decide on the future viability of investment programs under consideration. Anthes' stated acquisition policy was not directed solely toward businesses that would complement its present activities but also toward other sectors in Canada and the United States.

Over the ten years preceding Molson's acquisition, sales had increased considerably, climbing from $14 million in 1958 to $97.2 million in 1968. As well, by 1967, the company, which in 1958 was totally dependent on the Canadian construction industry, was making 55% of its sales outside the construction sector and doing 37% of its total business abroad, mainly in the United States. Amounting to $97.2 million for the fiscal year preceding the acquisition, sales in the various industrial sectors in which Anthes had operations were as follows:

Construction	44.1%
Petroleum marketing equipment	20.4
Office supplies and accessories	11.9
Vending machines	7.1
Defence	6.6
Industry	6.3
Consumer goods	3.6

As has already been mentioned, this representation in various sectors of the economy and Anthes' foothold in the American market greatly interested The Molson Companies Limited. In addition, since the construction market had been especially weak in 1967, in comparison with 1966, the prices of Anthes' products had fallen off due to a drop in demand and the company's management had set up a determined program to improve earnings throughout the business. Such action was, beyond the shadow of a doubt, an indication of a sound management group with an awareness of the cyclical nature of its operations.

Following discussions between Molson and Anthes, an agreement was reached on the price to be paid and Molson went ahead with the acquisition. The terms were the following: $3.00 plus 1.7 Molson Class A common shares for each Anthes Class A share, and $3.00 plus 1.7 Molson Class C convertible common shares (subject to proportional distribution) for each Anthes Class B common share exchanged before the end of the original offer. If the period of the original offer had to be extended, the terms were: $3.00 plus 1.7 Molson Class A common shares for each Anthes Class B common share exchanged after the original term of the offer.

As a result, The Molson Companies Limited obtained 92.5% of the shares in Anthes in return for the issue of 2,138,882 Molson Class A shares and 1,258,942 Class C shares, valued at $57,763,008, plus $6,002,847 in cash--that is, for a total consideration of $63,765,855. The total assets acquired in this way, according to the books of Anthes Imperial, were in the neighbourhood of $22.8 million. At the time of the offer, the market value of Anthes' stock rose to approximately $64,300,000.

Negotiations between the parties took place directly, without intermediaries, except for Dominion Securities Corporation Limited, which was retained as a financial adviser to both parties. Dominion Securities agreed to set up a group of brokers to solicit acceptance of Molson's offer from Anthes' shareholders, and Molson agreed to pay

Dominion Securities administration fees of $30,000 and to pay the group of brokers fees of $0.21 for each Anthes share exchanged, subject to a minimum fee of $10 and a maximum of $1,000 with respect to each Anthes shareholder.

This acquisition gave rise to a subsequent reorganization of Molson's board of directors in order to include the directors of Anthes Imperial, which led to the resignation of some directors from the board of directors of the newly formed entity.

Anthes' operations were cyclical in nature: that is, the volume of sales, and therefore earnings, varied according to the rise and fall in economic activity. Originally, Molson believed that this type of operation would be a sound, logical complement to its existing, non-cyclical, operations but it was later felt that some of Anthes' divisions and subsidiaries were not compatible with Molson's basic operations, that they were too regional in nature and offered little potential for development on a national let alone North American scale. Since Molson's policy was to develop its various sectors into nationwide operations (as was the case with the breweries), some of the operations were retained and totally integrated with Molson's own activities while others that did not correspond at all with Molson's plans were sold. For example, those activities whose results depend in part on residential construction, such as the manufacture of the domestic water heaters sold by John Wood Company, were more easily combined with Molson's basic operations, while other companies whose sales were linked with commercial and industrial construction were less compatible with the other operations and were divested by Molson. Thus, in November 1971 the assets used in the manufacture of steel joists were sold to Great West Steel Industries Limited for about $3,100,000, resulting in a net profit after taxes of $141,161; in March of the same year, a foundry had also been sold for $400,000 to Aimco Industries Limited. Along the same lines, in 1970 Liquid Carbonic Canadian Corporation Limited purchased all the shares in National Oxygen Limited from Anthes for $1,300,000. In January 1971, an agreement was reached between John Wood Company (a subsidiary of Anthes Imperial) and Wood Industrial Products Company, as well as Alco Standard Corporation, which resulted in John Wood's disposing of its Industrial Products division for $2,408,421. We feel that even today, The Molson Companies Limited does not want all of the companies and divisions included in Anthes and we suspect that some businesses, such as the manufacture of cast-iron pipes, forming part of the Anthes Eastern and Anthes Western divisions, will be divested in the fairly near future when the opportunity presents itself.

A number of other divestments involved companies operating in the United States, which had attracted special attention at the time of the initial takeover. Such was the case with the soda-fountain dispensing equipment division of the subsidiary Multiplex Company, which was sold during the fiscal year ending March 31, 1970, at a net loss after taxes of close to $1 million. The next year, following Molson's policy of revising its long-term development plans when necessary, Anthes also sold its Minnesota Superior division for $1.25 million.

In contrast, the warehousing and transportation operations, in which Molson saw more growth potential, were developed further. For example, Seaway Warehousing, which operated only in Montreal and Toronto at the time of the purchase, was expanded through acquisitions in Newfoundland, New Brunswick and the western provinces. These acquisitions can be considered more or less as capital expenditures, since they were made in order to extend these operations over a larger part of the country. The same thing was done in the office supplies and equipment sector with the purchase of Willson Business Services Limited, which complemented the activities of Office Specialty Inc., one of the Anthes companies, while at the same time enabling the sector to cover more Canadian territory. This was also the case with the Anthes Equipment division, which was enlarged through the acquisition of the assets of Dalmine Scaffolding Limited in Montreal and Toronto and through the purchase of the safety equipment stocks of Dorman Construction Accessories Limited of Toronto.

We should point out that the purchase of Willson Business Services by The Molson Companies Limited brought about the repatriation of a Canadian firm that was owned by Boise Cascade, an American company. The operations of Anthes Imperial Forms were expanded through the construction of new manufacturing plants and the purchase of Office Specialty Incorporated. The Bennett Pump division, in Muskegon, Michigan, was also enlarged through the purchase of all the shares in a British gasoline-pump manufacturing firm, Beck and Company (Meters) Limited, for $5,039,648.* This company had business dealings with the Common Market. Bennett's Italian operations had to be abandoned during 1974 owing to the unfavorable economic situation in that country. Bennett-Italiana S.p.A. had become the sole property of Anthes in 1967, and the Molson Companies Limited developed this line of operations in Italy to become a wholly integrated manufacturing business. The discontinuation of this Italian division resulted in an extraordinary loss of $1,002,000.

Profitability. The table in Appendix 12 presents some important data with respect to the profitability of Anthes Imperial for the three years preceding the take-over and the six fiscal years ending March 31 following its acquisition by The Molson Companies Limited.

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* - This price included $3,737,120 for the actual value of the company's assets and $1,302,528 for its goodwill.

With regard to sales, the nine-year period under consideration was marked by great volatility. Sales rose an average 3% a year, from $91.3 million in 1966 to $115.8 million in 1975. In 1972, sales fell off by 11.9% while in 1975 they soared by 23.7%. We must reiterate that, following the takeover, some or all of the assets of a number of companies were sold and certain other firms or parts of businesses were acquired in order to consolidate the company's operations in a particular field that fit in more suitably with the aims of The Molson Companies Limited. These purchases and sales have been described above.

With respect to the actual profitability of Anthes, as measured by earnings per share and the net profit margin in relation to sales, both of these items took a downturn, with earnings per share dropping from $2.05 in 1967 to $1.14 in 1974, followed, however, by a considerable increase in 1975, so that earnings per share reached $2.93--a rise of 157%. The profit margin also dwindled gradually, but a very impressive 1975 performance was such that this margin reached the highest level in the past ten years--5.67%. This was also reflected in the rate of return on equity, which reached a new level of 22.7% in 1975.

The dividend paid per common share was increased by Anthes' directors during the years preceding the acquisition, but has remained unchanged at the annual sum of $0.68 per share since 1968, there being no justification for any subsequent increase in the dividend, given the decline in earnings recorded by Anthes. As a result, the distribution percentage rose as high as 71.6% in 1970, when earnings per share fell to $0.95.

As for Anthes' financing policy, the $15.8 million net increase in total assets over the ten-year period was financed by the cash flow from the company's regular operations, and, before the takeover by Molson, shares were sometimes issued for relatively small amounts. Moreover, actual working capital, which stood at $21 million in 1966, shrank by $9.9 million over this period to $11.1 million in March 1975. Molson withdrew approximately $1,470,000 a year in dividends on its Class A and B common shares ($0.68 per share), or roughly the same dividend Anthes was paying before the takeover.

Potential reduction of competition. As far as this aspect is concerned, we must take into account the fact that at the time of its acquisition by The Molson Companies Limited, Anthes had become a highly diversified company in its own right. In our opinion, it was precisely this acquisition that made Molson a conglomerate. When the takeover took place, Anthes was operating in seven industrial sectors with diametrically opposed activities and generating only $104.6 million in overall sales, and the change of ownership apparently did not lead to a decrease or to an increase in competition, as far as we can see.

While the Anthes management group had carried out this horizontal and geographical diversification over a number of years, a slowdown occurred following the takeover by Molson. Indeed, we have already mentioned the divestments carried out by the new management group (Appendix 3). We cannot quote the exact figure, but we must point out that most, if not all, of these resales were made to corporate interests and not to private interests and that a number of these businesses operated and continue to operate at a profit.

With this relatively low sales revenue and taking into account the number of countries in which Anthes was developing its operations, we are inclined to believe that the acquisition by Molson had no major effect on the competitive climate surrounding these various companies.

Social consequences. Since Anthes has undergone a good number of acquisitions and divestitures of businesses, Anthes' employees may lack security, knowing full well that the possible sale of the company for which they are working will lead sometimes to transfers and sometimes to dimissals. The Molson Companies Limited makes a point of informing its employees of any coming changes, in terms of businesses acquired. As well, as far as possible, officers are asked to stay on in the same positions following the purchase, or to take identical positions and sometimes higher ones within another area of The Molson Companies Limited organization. As for the businesses that have been sold, The Molson Companies Limited maintains that in the negotiations with the purchaser, there were specific clauses protecting the employees' salaries and fringe benefits.

Administrative changes. Appendix 13 was drawn up from the 1968 and 1975 annual reports of Anthes Imperial to show the changes in the board of directors and the body of officers over the seven years since acquisition.

Only one of the twelve directors in office in 1968, D.G. Willmot, is currently sitting on the board of directors. As President of Anthes at the time of acquisition, he has been replaced in this position by J.T. Black.

It is important, however, to point out that the board of directors of The Molson Companies Limited, made up of fourteen directors in 1968, was expanded to eighteen in order to include six of the twelve directors of Anthes. Of this number, two are still sitting as directors of The Molson Companies Limited (F.H. Sobey, an Honorary Director, and D.G. Willmot, Chairman and member of the board of directors). Regarding the Anthes officers in 1968, of the eight in office at that time, J.B. Jolley, Q.C., is the only one remaining as Secretary of the Anthes company, and apart from Mr. Willmot, who is currently Chairman of the Board of

The Molson Companies Limited, we do not know where the others are at present, since we could not find them on the list of senior officers of the companies that make up The Molson Companies Limited.

Beaver Lumber Company Limited

Following a thorough study of almost two years' duration carried out by its Corporate Development Department, The Molson Companies Limited decided to enter the Canadian home improvement market, since this sector of retail trade had been successful in the United States. The Beaver Lumber Company of Winnipeg was identified as the most logical starting point for conquering the market, since this company operated 270 stores and lumberyards in Ontario and western Canada, and had an experienced staff and managerial team. Molson believed Beaver could be developed to take in stores of the type corresponding to the home improvement centre concept, which calls for supplying a greater diversity of goods. The directors of Beaver Lumber were not very enthusiastic about joining Molson and working on this new concept.

Meanwhile, The Molson Companies Limited decided to undertake the purchase of Aikenhead Hardware, a chain of 23 hardware stores in Toronto, followed by the acquisition of the shares of two other small firms engaged in this type of activity--Warden Lumber Distributors Limited and Gallander Lumber Company Limited. These last two were acquired for a total of $2,300,000. This action did not, however, prompt Beaver to accept the offer of The Molson Companies Limited. Molson thus decided to make an offer directly to the shareholders, who decided for themselves about the validity of the idea, as well as the acceptability of the price offered for the Beaver Lumber shares. Although recalcitrant at first, the directors recommended that the shareholders accept Molson's offer, and 99% of all the shares issued were turned over by the shareholders. The terms of the offer were as follows: $20.00 plus four Molson Class A shares for five Beaver Lumber common or Class A shares.

Given that the Molson Class A share and the Beaver common share were trading at prices averaging around $17-1/8 and $14-1/8 respectively in the days before Molson's offer, the Beaver Lumber shareholder could thus obtain the equivalent of $88.50 ($20 in cash and $68.50 in Molson shares) for a value of $70.625 in Beaver shares (five shares at $14-1/8), which represented a premium of 25%. Furthermore, the $17.70 consideration offered for a Beaver share exceeded the book value of the share, estimated at $9.75 at December 31, 1970, by $7.95, for a premium of 81%. In the light of these figures, the price paid to the Beaver shareholders seems reasonable to us, and the high percentage of shareholders who accepted the offer serves as confirmation. The Molson Companies Limited concluded an agreement with Dominion Securities Corporation Limited under which the latter, after forming a group of brokers would assist Molson to obtain Beaver Lumber shareholder acceptance of the offer. Molson paid Dominion Securities Corporation Limited a fee of $25,000, plus $0.15 per Beaver share thus exchanged, subject to a minimum of $10 and a maximum of $1,000 per Beaver shareholder.

The Beaver Lumber officers and directors joined the new group, with the exception of K.C. Kennedy, President of Beaver Lumber, who chose to return as an officer of the company. He did, however, continue to sit on the board of directors of Beaver Lumber until the summer of 1975. In general, it seems that the majority of those who joined Molson at the time of purchase are satisfied with the treatment they have received, and with the progress of Beaver Lumber within such a short time as an important Canadian merchandiser.

The other acquisitions in the Retail Merchandising Group, such as Aikenhead, were not consolidated with Beaver Lumber, and this makes a profitability study after the acquisition by Molson that much easier. We will try to bring out this aspect in the following section.

The efforts of the Molson Companies Limited to develop the home improvement centre concept have been directed toward setting up stores in the major urban markets in Canada, and 53 Home Centres have already been opened. The Molson Companies Limited is exploiting a new concept in merchandising which will, according to the company, become a dominant venture within this specialized sector in Canada, just as it is a success in the United States.

Profitability. The chart in Appendix 14 shows the profitability performance of Beaver Lumber over a few years before acquisition by the Molson Companies Limited and for the three full years following acquisition. We thought it advisable to present a comparison using a limited number of statistics, ratios and rates of variation, so as not to burden our study with financial statements that would not add much to a clear understanding of the company and its development following Molson's acquisition of control in November 1971.

Upon reviewing these data, the most striking facts are, first of all, that the company achieved a very impressive rate of growth in sales over the three years following the year of acquisition. Yet after reaching a high level of profitability during the year ending March 31, 1973, the company saw a sharp decline in profits, and a substantial deficit was registered in 1975. This situation, which is contrary to the normal one wherein increased profitability follows great increases in sales, is explained by high pre-opening and opening expenditures incurred by the firm in establishing the new concept of home improvements centres in Canada, as we explained above. Another factor in this lamentable profitability performance was the fall in the price of lumber during the fiscal year ending March 31, 1975, which was behind a very large part of the deficit incurred.

Secondly, the assets of the firm increased significantly, as mentioned above, from $45.3 million in 1971 to $116.2 million in 1975. This shows the extent of the investments made by the company in setting up the 51 Home Centres in operation at March 31, 1975. The sums spent on fixed assets were obtained through plowing back the accumulated working capital, which was $24.2 million at December 31, 1970, and through an issue of 4,000,000 common shares, by which it drew $55 million from the parent company. This contribution is shown in the capital stock account, which increased by an identical amount during the fiscal year ending March 31, 1975.

Administrative changes and employee relations. In Appendix 15, we have submitted the list of the officers and directors of Beaver Lumber Company Limited at two different dates--the end of 1971 (the time of acquisition), and the end of March, 1975--in order to point out the changes made by The Molson Companies Limited to the administration of the Beaver Lumber Company Limited. We note that the number of directors decreased from nine to three, which is the minimum required by the Companies Act. These three directors are all active officers in the parent company, which means that all of the directors chose to resign in the three years following acquisition. Of the five officers active at the time of purchase, three are still among the twelve on the list of officers. K.C. Kennedy, President at the time of purchase, was replaced by David Lakie, but sat as a director until 1974, when he chose to retire. C.A. McLeod, the Assistant Secretary-Treasurer, left to accept an offer from another employer.

Effect on competition. To be able to analyze the positive or negative effect on competition of the purchase of Beaver Lumber by The Molson Companies Limited, it is necessary to know the nature of this firm's operations in 1971. That year, Beaver was operating 260 building material stores, of which 86 were in Ontario, 41 in Manitoba, 59 in Saskatchewan, 63 in Alberta, and 11 in British Columbia. In our opinion, the building material industry is extremely fragmented throughout the country: hardware stores, department stores and lumber retail outlets are three types of organizations that sell the wide range of durable goods that Beaver Lumber was selling in 1971 and is still selling. We do not think that Molson's acquisition of this company has reduced competition to the extent of having a damaging effect on this specialized sector of the economy.

Social consequences. Since the purchase, many small stores (we estimate 70) have closed, but 53 spacious Home Centres have opened, more than making up for the layoffs that may have resulted from closing the less profitable stores, as shown by the number of employees--3,099--working in the Retail Merchandising Group. Yet this figure of 3,099 at March 31, 1975 is 4% smaller than the 3,251 employee figure of the previous year.

The last annual report of The Molson Companies Limited mentions that eight marginal Beaver units in small centres and four Aikenhead Hardware stores were closed during the fiscal year ended March 31, 1975, but that altogether retail store space was increased by 25%. It is unfortunate that the employment provided by these marginal stores in small centres was eliminated, but on the other hand, new modern stores are replacing obsolete facilities when economies of scale permit, as was the case in 1974 in Lindsay, Ontario, and Red Deer and Leduc, Alberta.

Formosa Spring Brewery Ltd.

Before it undertook to purchase the assets of Formosa Spring Brewery Ltd., located in Barrie, Ontario, Molson was operating a brewery in Toronto that had an annual production capacity of two million barrels. The company was anticipating that it would have to double its production capacity to meet the need of the growing Ontario market, after which any additional expansion of the factory would be difficult, if not impossible, for lack of available land around the brewery. Molson was planning to build a second brewery in the more distant future, but the site had not yet been chosen when the possibility of acquiring Formosa Spring Brewery arose.

In the current inflationary situation, the directors knew that the cost of building a new plant, or expanding the Toronto plant to increase its production capacity, would be higher than the price being asked for the assets of Formosa Spring Brewery. The price paid was $27,764,000, that is, $24,264,000 for the tangible assets at fair value and $3,500,000 for the intangible assets. The amount of $4,723,000 was paid in cash from the working capital, and a note for $23,041,000 at 9% interest and payable over the next 15 years was issued. This action represented the acquisition of future production capacity at a historically low price, and a number of new beer brands were obtained, including Oktoberfest, Diamond Lager, Club Ale and Keg Ale. These brands did not interest The Molson Companies Limited, however. Its objective had been to find a way, quickly and concretely, to meet the need for increased production capacity.

Molson stated that it was unable to hire the whole sales group of Formosa Spring Brewery because Ontario law prohibits any beer company from having more than a certain number of salesmen in the province. All the other staff was kept in Molson's service, which meant that these persons were able to move about within a profitable firm. Another important fact to be mentioned is that this acquisition meant the repatriation of assets that had been the property of an American company, Benson and Hedges (Canada) Limited, a subsidiary of Philip Morris.

Profitability analysis. Such an analysis cannot be carried out, since it was the assets and not the company of Formosa Spring Brewery as such that were acquired. We know that Formosa Spring Brewery was operating at a deficit, and at less than 50% of its total capacity, before the assets were sold to Molson. Even if the pre-acquisition data were available, they would probably not be usable for purposes of comparisons with the post-acquisition results, because alterations were made. The Molson Companies Limited uses this brewery to produce its own products, and some Formosa Spring Brewery products have been eliminated, while others have been retained, although not advertised or promoted in any way by Molson. Even so, the only thing we can state positively is that The Molson Companies Limited is making better use of the assets acquired than Benson and Hedges did, because the officers of The Molson Companies Limited have assured us that the brewery in Barrie, Ontario, is being used more than it was at the time of acquisition, without any reduction in the use of the main brewery in Toronto.

Effect on competition. The brewing industry in Canada is nothing short of an oligopoly, with only six companies in competition. The acquisition of Formosa Spring Brewery by Molson resulted in the elimination of one of the eight competitors in the industry, while the purchase of Labatt of Columbia Brewing Company Ltd. in British Columbia eliminated another. There are now only three small beer producers in the country, and their share of the market is negligible, scarcely 3%. We expect that these will eventually disappear, in view of their small size, which does not afford them the economy of scale sometimes required to reach an adequate level of profitability.

Some of the Formosa Spring brands were very popular, and Molson is surprised at how strongly they are holding their own in spite of the total lack of advertising. The Molson Companies Limited is not promoting the Formosa Spring Brewery products because it does not care about keeping up these brands. The productive physical assets were what interested Molson in the purchase. The fact remains that the industry is highly concentrated and that the number of competitors has been further reduced.

In our opinion, the acquisition of Formosa Spring Brewery increased Molson's share of the market by about 1.5 to 2%. Such an increase, when three competitors already shared almost 93% of the market, may have done more to reduce potential competition than Molson's acquisition of one or two of some 1,600 furniture manufacturers in the country.

Administrative changes and social consequences. Given the nature of the transaction, that is, the acquisition of assets rather than shares, the senior officers were not invited to join Molson, but we assume that the majority of the production employees remained, since production at the plant increased after the purchase by Molson.

11. ANALYSIS OF INVESTMENTS

Minority interests and investments are sometimes a prelude to more elaborate acquisitions. We have dealt with the minority interests found within each of the four operational divisions of The Molson Companies Limited in a previous section. Besides the companies that are not wholly owned by Molson or its subsidiaries, there are a certain number of investments, with a value of $9,710,000 on the balance sheet at March 31, 1975. These investments break down as follows:

Mortgages and loans, at cost	$2,787,000
Investments, valued on an equity basis	3,480,000
Other investments, at cost	3,443,000
	$9,710,000

These investments include marketable shares carried at $4,397,000 at March 31, 1975. At the end of the fiscal year 1974, investments in marketable shares came to $7,155,000, and we believe that the decline relates to the resale of the investment in Maple Leaf Mills Limited. The investment had been made for the purpose of acquiring full ownership of this company, but the plan had failed. The company began to invest in Maple Leaf Mills in December 1969, and when it sold its investment in June 1974, it owned a total of 118,765 shares in this company. It is estimated that The Molson Companies Limited, which was competing with Neonex International Ltd. for the acquisition of Maple Leaf Mills, got back its investment. From August 1959 the company was also interested in purchasing Canada Malting Co., Limited shares, and in June 1974 it held 96,442 shares in this company, representing 10% of the shares issued. The objective of this investment was to ensure that Canada Malting would supply Molson with malt and barley in sufficient quantities. (Labatt also holds 10% of the shares in Canada Malting.) As a general rule, the officers of The Molson Companies Limited prefer not to divulge the details of the investment accounts found on the balance sheet.

12. SUMMARY

More than 190 years old, The Molson Companies Limited, whose main activity is the production and distribution of beer, began a program in 1967 to diversify its operations through acquisitions, chiefly in order to reduce the importance of beer in the company's overall profitability. Beer still forms the cornerstone and chief *raison d'être* of The Molson Companies Limited, contributing 48% of its sales in 1975, but retail merchandising will gain in importance year by year as an area of growth. Petroleum marketing as well as commercial products and services are the other two spheres of activity The Molson Companies Limited is engaged in.

In our opinion only four of the numerous acquisitions made by The Molson Companies Limited hold special interest for the Royal Commission on Corporate Concentration. Vilas Industries Limited was Molson's first acquisition for horizontal diversification purposes; Anthes Imperial and Beaver Lumber, being public companies, were very significant acquisitions; and Formosa Brewery, whose assets were purchased by Molson, disappeared as one of the few competitors in the brewing industry, while at the same time these assets, previously held by an American company, were repatriated.

The administrative philosophy of The Molson Companies Limited is oriented toward decentralization of decision-making powers, and we believe that labor relations between the company and its union and non-union employees are favorable, except for the prolonged conflict affecting its furniture factory in Cowansville, Quebec.

Seeing the change in capital structure from 1968, when there was no long-term debt, to 1975, when a long-term debt comprised 36.2% of the structure, and studying the unenviable record of growth in earnings, the shareholders wonder about the future profitability of this company with its many subsidiaries that are engaged in a variety of activities and thus make it a conglomerate.

It is probably accurate to say that The Molson Companies Limited is aware of its social role, as well as of its economic role as a corporate element of the Canadian economy. Its actions to combat pollution, its donations and its participation in community initiatives, demonstrate this awareness.

The Molson Companies Limited is now in the second stage of its existence. The chief challenge it faces is to bring about a return to a normal level of profitability, this time on the basis of its current orientation since 1967 as a company with a variety of divisions.

APPENDIXES

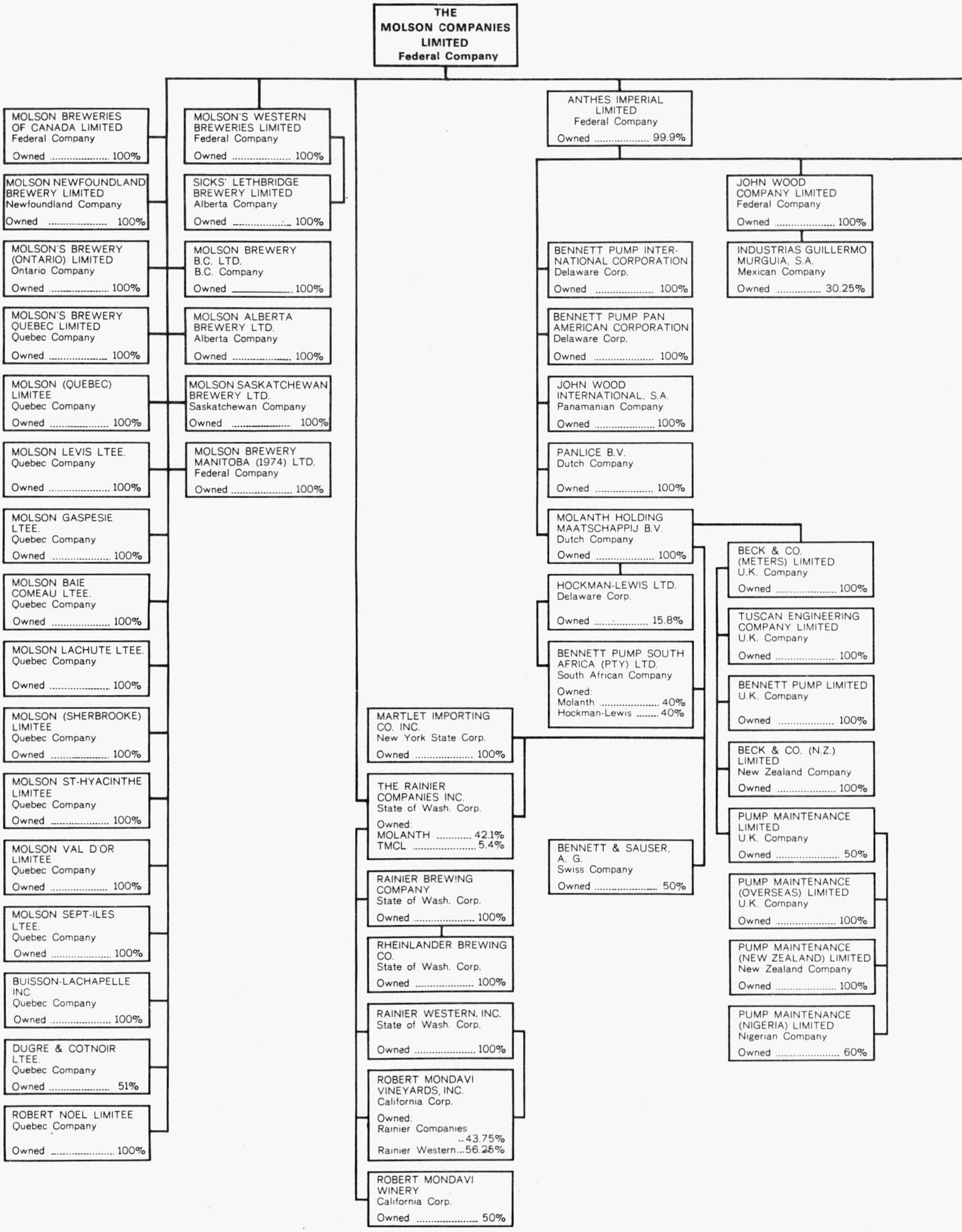
LIST OF COMPANIES BY GROUP OR DIVISION

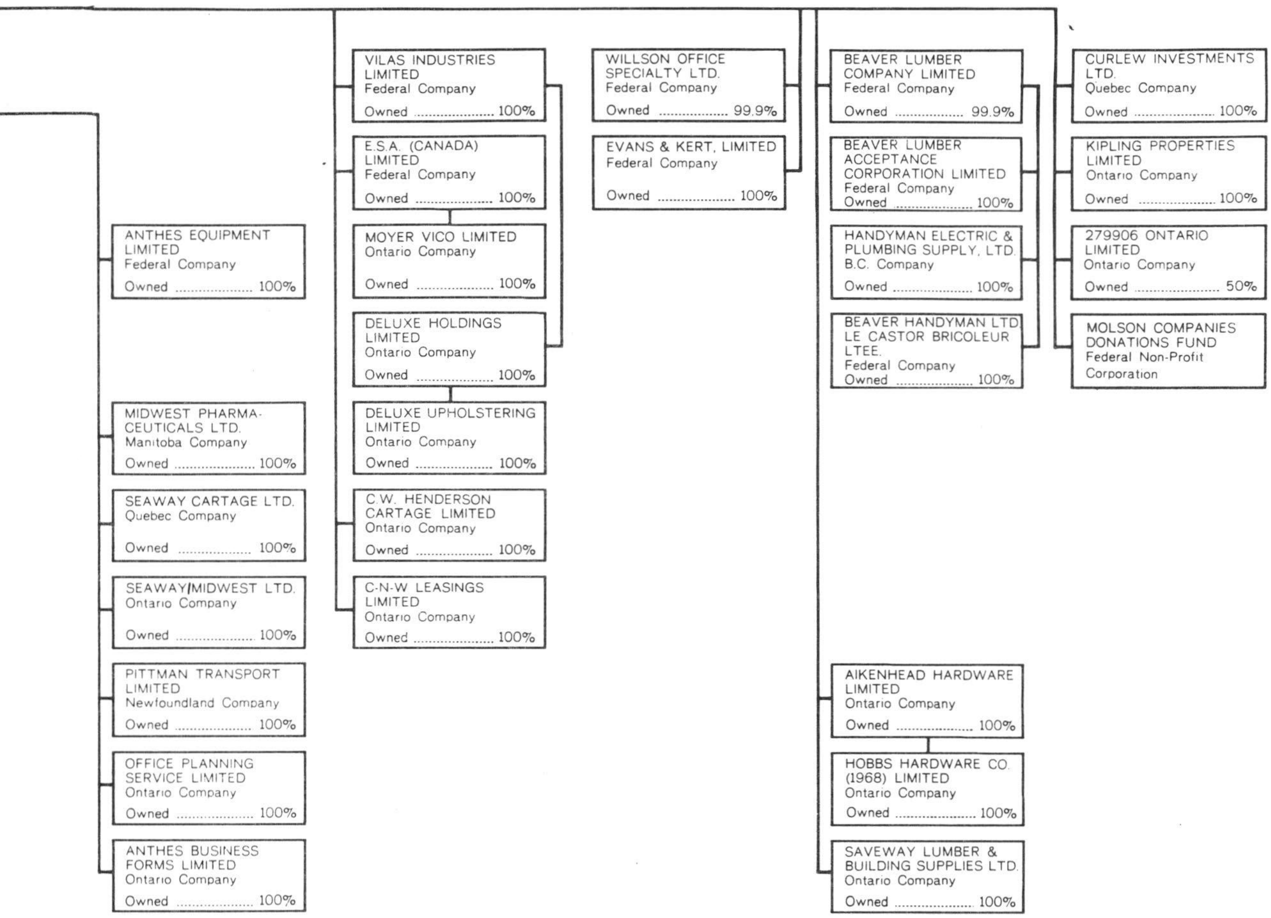
All companies are 100% owned, unless otherwise indicated

BREWING		RETAIL MERCHANDISING	COMMERCIAL PRODUCTS AND SERVICES		PETROLEUM MARKETING EQUIPMENT
Molson Breweries of Canada Limited	Martlet Importing Co. Inc. New York State Corp.	Beaver Lumber Company Limited	Anthes Imperial Limited	Deluxe Upholstering Limited	Beck & Co. (Meters) Limited U.K. Company
Molson Newfoundland Brewery Limited	The Rainier Companies Inc. State of Wash. Corp. Owned - 47.5%	Saveway Lumber & Building Supplies Ltd.	Anthes Business Forms Limited	Anthes Equipment Limited	Tuscan Engineering Company Limited U.K. Company
La Brasserie Molson du Québec Limitée	Rainier Brewing Company* State of Wash. Corp.	Aikenhead Hardware Limited	Willson Office Specialty Ltd.	John Wood Company Limited	Pump Maintenance Limited U.K. Company Owned - 50%
Molson's Brewery (Ontario) Limited	Robert Mondavi Vineyards Inc.* California Corp.	Hobbs Hardware Co. (1968) Limited	Office Planning Services Limited	Seaway Midwest Ltd.	Industrias Guillermo Murguia S.A. - Mexican Company Owned - 30.25%
Molson's Western Breweries Limited	Robert Mondavi Winery** California Corp.	Beaver Lumber Acceptance Corporation Limited	Evans & Kert Limited	Seaway Cartage Ltd.	Bennett & Sauser A.G. - Swiss Company Owned - 50%
Molson Brewery Manitoba (1974) Ltd.		Le Castor Bricoleur Ltée.	Moyer Vico Limited	C.W. Henderson Cartage Limited	Bennett Pump South Africa (Pty.) Ltd. South African Company Owned - 46.3%
Molson Saskatchewan Brewery Ltd.			Vilas Industries Limited	Pittman Transport Limited	Hockman-Lewis Ltd. Delaware Corp. Owned - 15.8%
Molson Alberta Brewery Ltd.					
Molson Brewery B.C. Ltd.					

* - Owned 100% by The Rainier Companies Inc.

** - Owned 75% by The Rainier Companies Inc.


THE MOLSON COMPANIES LIMITED Federal Company
MOLSON BREWERIES OF CANADA LIMITED Federal Company Owned 100%
MOLSON NEWFOUNDLAND BREWERY LIMITED Newfoundland Company Owned 100%
MOLSON'S BREWERY (ONTARIO) LIMITED Ontario Company Owned 100%
MOLSON'S BREWERY QUEBEC LIMITED Quebec Company Owned 100%
MOLSON (QUEBEC) LIMITEE Quebec Company Owned 100%
MOLSON LEVIS LTEE. Quebec Company Owned 100%
MOLSON GASPESIE LTEE. Quebec Company Owned 100%
MOLSON BAIE COMEAU LTEE. Quebec Company Owned 100%
MOLSON LACHUTE LTEE. Quebec Company Owned 100%
MOLSON (SHERBROOKE) LIMITEE Quebec Company Owned 100%
MOLSON ST-HYACINTHE LIMITEE Quebec Company Owned 100%
MOLSON VAL D'OR LIMITEE Quebec Company Owned 100%
MOLSON SEPT-ILES LTEE. Quebec Company Owned 100%
BUISSON-LACHAPELLE INC. Quebec Company Owned 100%
DUGRE & COTNOIR LTEE. Quebec Company Owned 51%
ROBERT NOEL LIMITEE Quebec Company Owned 100%
MOLSON'S WESTERN BREWERIES LIMITED Federal Company Owned 100%
SICKS' LETHBRIDGE BREWERY LIMITED Alberta Company Owned 100%
MOLSON BREWERY B.C. LTD. B.C. Company Owned 100%
MOLSON ALBERTA BREWERY LTD. Alberta Company Owned 100%
MOLSON SASKATCHEWAN BREWERY LTD. Saskatchewan Company Owned 100%
MOLSON BREWERY MANITOBA (1974) LTD. Federal Company Owned 100%
ANTHES IMPERIAL LIMITED Federal Company Owned 99.9%
JOHN WOOD COMPANY LIMITED Federal Company Owned 100%
INDUSTRIAS GUILLERMO MURGUIA, S.A. Mexican Company Owned 30.25%
BENNETT PUMP INTER-NATIONAL CORPORATION Delaware Corp. Owned 100%
BENNETT PUMP PAN AMERICAN CORPORATION Delaware Corp. Owned 100%
JOHN WOOD INTERNATIONAL, S.A. Panamanian Company Owned 100%
PANLICE B.V. Dutch Company Owned 100%
MOLANTH HOLDING MAATSCHAPPIJ B.V. Dutch Company Owned 100%
HOCKMAN-LEWIS LTD. Delaware Corp. Owned 15.8%
BENNETT PUMP SOUTH AFRICA (PTY) LTD. South African Company Owned: Molanth 40% Hockman-Lewis 40%
BENNETT & SAUSER, A. G. Swiss Company Owned 50%
BECK & CO. (METERS) LIMITED U.K. Company Owned 100%
TUSCAN ENGINEERING COMPANY LIMITED U.K. Company Owned 100%
BENNETT PUMP LIMITED U.K. Company Owned 100%
BECK & CO. (N.Z.) LIMITED New Zealand Company Owned 100%
PUMP MAINTENANCE LIMITED U.K. Company Owned 50%
PUMP MAINTENANCE (OVERSEAS) LIMITED U.K. Company Owned 100%
PUMP MAINTENANCE (NEW ZEALAND) LIMITED New Zealand Company Owned 100%
PUMP MAINTENANCE (NIGERIA) LIMITED Nigerian Company Owned 60%
MARTLET IMPORTING CO. INC. New York State Corp. Owned 100%
THE RAINIER COMPANIES INC. State of Wash. Corp. Owned: MOLANTH 42.1% TMCL 5.4%
RAINIER BREWING COMPANY State of Wash. Corp. Owned 100%
RHEINLANDER BREWING CO. State of Wash. Corp. Owned 100%
RAINIER WESTERN, INC. State of Wash. Corp. Owned 100%
ROBERT MONDAVI VINEYARDS, INC. California Corp. Owned: Rainier Companies 43.75% Rainier Western 56.25%
ROBERT MONDAVI WINERY California Corp. Owned 50%



THE MOLSON COMPANIES LIMITED

CORPORATE STRUCTURE AS AT OCTOBER 1st. 1975

APPENDIX 3

ACQUISITIONS AND DIVESTMENTS

Acquisitions Between 1965 and Nov. 14, 1975

Name of Company Acquired	Date	Type of Acquisition	Name of Purchaser	Accounting Method	Name of Seller
Vilas Industries Limited (including Moyer Vico Ltd.)	a. Feb. 28/67 66-2/3%	Shares		Purchase	Blairco (1962) Ltd. (employees' union)
	b. Aug. 31/69 33-1/3%	Shares			
Deluxe Holdings Limited (Deluxe Upholstering Ltd.)	May 31/68	Shares	Vilas	Purchase	Private individuals
Anthes Imperial Limited	June 28/67 June 27/68	Shares	Molson	Pooling of interests	Public company
Buisson-LaChapelle Inc.	Apr. 1/70	Shares	Molson	Purchase	Private individuals
Midwest Storage & Distributing Company Ltd.	Jan. 1/71	Shares	Molson	Purchase	Private individuals
Aikenhead Hardware Limited	June 30/71	Shares	Molson	Purchase	Aikenhead family
Home Lumber Limited (retail sector)	Sep. 1/71	Shares	Molson	Purchase	Private individuals
Dorman Construction Accessories Limited	Sep. 17/71	Assets	Anthes Steel	Purchase	Dorman Construction Accessories Limited
Wallace Warehousing & Cartage Limited	Sep. 20/71	Assets	Seaway Storage	Purchase	J.H. Wallace
Beck & Co. (Meters) Limited	Sep. 30/71	Shares	Molanth	Purchase	Pegler-Hattersley Ltd.
Gallander Lumber Co. Limited	Oct. 1/71	Shares	Molson	Purchase	Gallander family
Warden Lumber Distributors Limited	Oct. 1/71	Shares	Molson	Purchase	Gallander family
Dalmine Scaffolding Limited	Oct. /71	Assets	Anthes Steel	Purchase	Dalmine Scaffolding Ltd.
Beaver Lumber Company Limited	Dec. 31/71	Shares	Molson	Purchase	Public company
Willson Business Services Ltd.	Jan. 1/72	Shares	Molson	Purchase	Boise Cascade Company
Canadian Library Supply Company Limited	Jan. 3/72	Assets	Moyer Vico	Purchase	Canadian Library Supply Limited

ACQUISITIONS AND DIVESTMENTS

Acquisitions Between 1965 and Nov. 14, 1975
(Continued)

Name of Company Acquired	Date	Type of Acquisition	Name Purchaser	Accounting Method	Name of Seller
C.W. Henderson Cartage Limited	June 1/72	Shares	Molson	Purchase	Henderson family
C-N-W Leasings Ltd.	June 1/72	Shares	Molson	Purchase	Henderson family
Evans & Kert Ltd.	May 31/73	Shares	Molson	Purchase	Private individuals
Handyman Electrical & Plumbing Supplies Limited	June 11/73	Shares	Beaver Lumber	Purchase	Pay 'N' Pak Stores Inc.
City Lumber Ltd.	Oct. 15/73	Assets	Beaver Lumber	Purchase	City Lumber Yards Ltd.
Pine Lumber	Oct. 15/73	Assets	Beaver Lumber	Purchase	Pine Lumber (1972) Ltd.
Office Outfitters of Ontario	Mar. 1/74	Assets	Willson Office Specialty	Purchase	Ontario Office Outfitters Ltd.
Ajax Builders Supplies	Mar. 25/74	Assets	Seaway	Purchase	Ajax Building Supplies Ltd./Ajax Fuel & Feed Ltd.
Haig Printing and Office Supplies Ltd.	May 2/74	Assets	Anthes Imperial	Purchase	Bank of Montreal (Rapid Data)
Formosa Spring Brewery Ltd.	July 31/74	Assets	Molson	Purchase	Benson & Hedges (Canada) Ltd.
Pittman Transport Limited	Mar. 31/75	Shares	Anthes Imperial	Purchase	Private individuals
C.B.S. Lumber and Building Supplies (Quebec) Inc.	Nov. 6/75	Assets	Beaver Lumber	Purchase	C.B.S.Lumber and Building Supplies (Quebec) Inc.

ACQUISITIONS AND DIVESTMENTS

Divestments Between 1965 and Nov. 14, 1975
(Continued)

Name of Company Sold	Date	Type of Sales	Name of Seller	Accounting Method	Name of Purchaser
National Oxygen Limited	Apr. 1/70	Shares	Anthes Imperial	Sale	Canadian Liquid Carbonic
Multiplex Company	May 6/70	Assets	Mulco Inc.	Sale	Kisco Company Inc.
Industrial Products	Dec. 31/70	Assets	John Wood Co.	Sale	Alco Standard
Superior Division	Mar. 31/71	Assets	John Wood Co.	Sale	W.E. Davis Co.
St. Catharines Foundry	Mar. 31/71	Assets	Anthes Imperial	Sale	Aimco Inc. & Powell Foods
Anthes Steel Products Limited	Nov. 1/71	Assets	Anthes Steel	Sale	Great West Steel Ltd.
Kamloops Hop Farm Ltd.	Aug. 31/72	Fixed Assets	Molson & Kamloops Hop Farm Ltd.	Sale	R. Morelli and N.L. Campbell
Anthes Eastern - Warm Air Division	Sep. 15/72	Assets	Anthes Imperial	Sale	Inter-City Manufacturing Ltd.
Anthes Western - Tank Plant	Mar. 30/73	Assets	John Wood Co.	Sale	Westeel-Rosco Ltd.
Anthes Western Foundries					
- Calgary	Sep. 28/73	Assets	Anthes Imperial	Sale	Canron
- Edmonton and St. Jean	Nov. 30/73	Assets	Anthes Imperial	Sale	Dobney & Ste. Croix
- Winnipeg	Dec. 31/73	Assets	Anthes Imperial	Sale	Ancast (co. formed by employees)

THE CANADIAN BREWING INDUSTRY

RELEVANT STATISTICS AND GROWTH RATE

1960, 1963-73

Year	GNP* ($ Million)	Increase (%)	D.P.I.* ($ Million)	Increase (%)	Total Canadian Sales: Barrels (000)	Total Canadian Sales: Increase (%)	Population - Canada: Total (000)	Population - Canada: 20 years + (000)	Population - Canada: % of Total	Per Capita Consumption (Barrels): Total Population	Per Capita Consumption (Barrels): 20 years +
1960	38,359	4.1	26,567	4.4	9,439	0.7	17,870	10,465	58.6	0.5282	0.9020
1963	45,978	7.1	31,168	6.2	10,369	2.9	18,931	10,915	57.7	0.5477	0.9500
1964	50,280	9.4	33,049	6.0	10,896	5.1	19,291	11,105	57.6	0.5587	0.9812
1965	55,364	10.1	36,263	9.7	11,162	2.4	19,644	11,322	57.6	0.5621	0.9859
1966	61,828	11.1	39,901	10.0	11,757	5.3	20,015	11,585	57.9	0.5874	1.0148
1967	66,404	7.4	43,123	8.1	12,156	3.4	20,378	11,885	58.3	0.5906	1.0228
1968	72,586	9.3	46,820	8.6	12,223	0.6	20,701	12,180	58.8	0.5852	1.0035
1969	79,815	10.0	50,911	8.7	12,993	6.3	21,001	12,477	59.4	0.6134	1.0413
1970	85,610	7.3	54,071	6.2	13,580	4.5	21,297	12,779	60.0	0.6327	1.0627
1971	93,402	9.1	59,288	9.6	14,582	7.4	21,568	13,073	60.6	0.6760	1.1154
1972	103,407	10.7	66,284	11.8	15,360	5.3	21,821	13,375	61.3	0.6987	1.1484
1973	118,678	14.8	75,667	14.2	16,382	6.7	22,095	13,678	61.9	0.7377	1.1977
Compound Growth Rate		9.9%		9.2%		4.6%	1.56%	2.26%		3.0%	2.35%

* - Current dollars
* - Disposable Personal Income; current dollars

Sources: Brewers Association of Canada: Sales Bulletin
Statistics Canada: Catalogue No. 91-202 Annual

APPENDIX 5

THE MOLSON COMPANIES LIMITED

MAIN BRANDS OF BEER

AND RESPECTIVE MARKETS

Brand	Market
Molson Canadian Lager	Canada
Molson Export Ale	Canada
Lethbridge Lager Beer	Alberta
Lethbridge Pilsner	Alberta
Lethbridge Malt Liquor	Alberta
Lethbridge Royal Stout	Alberta
Edmonton Export Lager Beer	Alberta
Molson Golden Lager	Alberta
Royal Stout	Alberta
Imperial	Alberta
Old Style Beer	British Columbia
Molson Stock Ale	Manitoba
Frontier Beer	Manitoba
Frontier Stout	Manitoba
Diamond Lager Beer	Ontario
Club Ale	Ontario
Festival Lager Beer	Ontario
Molson Cream Porter	Ontario
Oktoberfest	Ontario
Keg Ale	Ontario
Molson Golden Ale	Ontario and Quebec
Laurentide	Quebec
Brador Malt Liquor	Quebec
Molson Cream Porter	Quebec
Molson Golden Lager	Saskatchewan
Pilsner Beer	Saskatchewan
Bohemian Lager Beer	Saskatchewan
India Beer	Newfoundland

APPENDIX 6

THE MOLSON COMPANIES LIMITED

BREWERIES

Location		Annual Capacity (000 barrels)
St. John's	Newfoundland	150
Montreal	Quebec	2,200
Toronto	Ontario	2,200
Barrie	Ontario	700
Winnipeg	Manitoba	220
Regina	Saskatchewan	160
Prince Albert	Saskatchewan	200
Lethbridge	Alberta	450
Edmonton	Alberta	150
Vancouver	British Columbia	500
		6,930

APPENDIX 7

THE MOLSON COMPANIES LIMITED

SHAREHOLDERS

	Shareholders		Shares	
	Number	% of Total	Number	% of Total
100,000 shares and over	19	0.1	5,359,885	39.1
10,000 - 100,000	159	1.2	3,889,346	28.4
1,000 - 10,000	1,030	7.6	2,423,744	17.7
1,000 and under	12,321	91.1	2,018,755	14.8
	13,529	100.0	13,691,730	100.0
Canadian				
Institutions	3,187	23.6	7,589,786	55.4
Others	10,068	74.4	6,009,900	43.9
	13,255	98.0	13,599,686	99.3
Foreign				
Institutions	50	0.4	43,567	0.3
Others	224	1.6	48,477	0.4
	274	2.0	92,044	0.7
	13,529	100.0	13,691,730	100.0
Foreign	274	2	92,044	1
Yukon and Northwest Territories	3	-	90	-
Newfoundland	46	-	8,330	-
Nova Scotia	264	2	206,680	2
New Brunswick	113	1	37,670	-
Prince Edward Island	14	-	7,288	-
Quebec	3,546	26	6,400,258	47
Ontario	5,627	42	4,927,785	36
Manitoba	514	4	843,121	6
Saskatchewan	447	3	238,858	2
Alberta	1,095	8	328,928	2
British Columbia	1,586	12	600,678	4
	13,529	100.0	13,691,730	100.0

THE MOLSON COMPANIES LIMITED

DIRECTORS AND THEIR AFFILIATIONS, MARCH 1975

AIRD, Hon. John Black, Q.C., Senator

Partner, Aird, Zimmerman & Berlis; chm. Algoma Central Railway; vice chm. Reed Shaw Osler Ltd.; dir. of: American Metal Climax, Inc., The Bank of Nova Scotia, Canada Tungsten Mining Corp. Ltd., Consolidated-Bathurst Ltd., Dominion Glass Co. Ltd., The National Life Assurance Co. of Canada, Pacific Atlantic Canadian Investment Co. Ltd., Rolland Paper Co. Ltd.; chm., (Canadian section) Canada-United States Permanent Joint Board on Defense; trustee, The Hospital for Sick Children

ALLEN, William R., Q.C.

Pres. The Dominion Realty Co. Ltd.; dir. of: Air Canada, Canada Security Assurance Co., Norwich Union Fire Insurance Society Ltd., Norwich Union Life Insurance Society; gov. of: York University, St. Michael's Hospital.

BLACK, James Thompson, C.A.

Dir. of: Junior Achievement of Canada.

COVERT, Frank Manning, O.B.E., D.F.C., Q.C.

Partner Stewart MacKeen & Covert; chm. and pres. Ben's Holdings Ltd.; pres. of: The Great Eastern Corp. Ltd., Maritime Paper Products Ltd., Ben's Ltd.; asst. sec. and dir. Maritime Steel and Foundries Ltd.; dir. of: IAC Limited, Petrofina Canada Ltd., Phoenix Assurance Co. of Canada, The Royal Bank of Canada, National Sea Products Ltd., Minas Basin Pulp & Power Co. Ltd., Canadian Keyes Fibre Co. Ltd., Sydney Engineering & Dry Dock Co. Ltd., Home Care Properties Ltd., Eastern Telephone & Telegraph Co., Acadian Lines Ltd., Lindwood Holdings Ltd., Maritime Accessories Ltd., Bowaters Mersey Paper Co. Ltd., Standard Brands Ltd., Trizec Corp. Ltd., Canning Investment Corp. Ltd., Sun Life Assurance Co. of Canada; mbr. bd. of gov., Dalhousie University.

FRANKENHOFF, William Pollner

Dir., Dexter Corp., William E. Hill & Co. Inc., Weil-McLain Co. Inc., Roanwell Corp., Kenite Corp.

HARVIE, Donald Southam

Sr. vice pres. and dir. Petrofina Canada Ltd.; dir. of: Bank of Montreal, Standard Life Assurance Co.; chm. and chief exec. officer of: Devonian Group of Charitable Foundations, Glenbow Investments Ltd.; gov. Heritage Canada.

APPENDIX 8

THE MOLSON COMPANIES LIMITED

DIRECTORS AND THEIR AFFILIATIONS
(Continued)

LADNER, Thomas E., Q.C.

Partner Ladner Downs; dir. of: Anglo Canadian Shipping Ltd., Canada Permanent Mortgage Corp., Canada Permanent Trust Co., Rayonier Canada Ltd., Confederation Life Insurance Co., Jones Tent & Awning Ltd., Steetley Industries Ltd., Hastings West Investment Ltd., Finning Tractor & Equipment Ltd., Dillingham Corp. Canada Ltd., Tomenson, Saunders, Whitehead Ltd., Warley Canada Ltd., Western Canada Steel Ltd., Westview Investment Corp. Ltd., Wire Rope Industries Ltd.

LETOURNEAU, Roger, Q.C., LL.D.

Sr. partner, Letourneau, Stein, Marseille, Delisle & LaRue; vice pres. and dir. Bank of Montreal; dir. of: Petrofina Canada Ltd., Domtar Ltd., The Price Co. Ltd., Consumers Glass Co. Ltd., Mattagami Lake Mines Ltd., Tele-Capital Ltd., J.E. Livernois Ltée, Three Rivers Elevators Ltd., Treco Inc., mbr. Quebec advisory bd., The Royal Trust Co.

McCAUGHEY, A.G.

Senior vice president, finance.

MOLSON, E.H.

Dir. of: Brewers' Warehousing Co. Ltd.

MOLSON, Hon. Harland de Montarville,
O.B.E., C.A., F.C.I.S., D.C.Sc. (hon.),
LL.D. (hon.), D.C.L. (hon.)

Vice pres. and dir. Bank of Montreal; dir. of: Sun Life Assurance Co. of Canada, Canadian Industries Ltd.

PLOURDE, Gerrard, B.A., M.Comm.

Chm. and chief exec. officer, UAP Inc.; vice pres. and dir. of: Alliance Cie Mutuelle d'Assurance Vie, The Toronto-Dominion Bank; dir. of: Anglo-French Drug Co. Ltd., Bell Canada, Editions due Renouveau Pedagogique Inc., Gulf Oil Canada Ltd., Northern Electric Co. Ltd., Rolland Paper Co. Ltd., Steinberg's Ltd.; pres. Hôpital Notre Dame.

RILEY, John Derek, C.A.

Pres. Dominion Bronze Ltd.; dir. of: The Canadian Indemnity Co., Federal Industries Ltd., Indal Canada Ltd., United Canadian Shares Ltd., White Pass and Yukon Corp. Ltd.

DIRECTORS AND THEIR AFFILIATIONS
(Continued)

STEWART, Peter B.

Dir. Wm. B. Stewart & Sons Ltd.

WHITMORE, Norman E.

Pres. Wascana Investments Ltd.; dir. of: Canadian Pacific Ltd., Regina Land Development Co. Ltd., Canada Permanent Mortgage Corp.

WILLMOT, Donald G.

Pres. Rendellhall Investments Ltd.; dir. of: The Bank of Nova Scotia, The Crown Life Insurance Co., The International Nickel Co. of Canada, Ltd., Hayes Dana Ltd., The Ontario Jockey Club, Texaco Canada Ltd.; mbr. exec. council, The Canadian Manufacturers' Assoc.; gov. Ridley College.

THE MOLSON COMPANIES LIMITED

FINANCIAL DATA, 1966-75
(Years ended March 31)

		1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
Sales ($000)		216,812	244,709	275,354	295,575	312,750	314,692	376,040	522,238	616,162	740,337
Increases in sales (%)		-	12.9	12.5	7.3	5.8	0.6	19.5	38.9	18.0	20.2
Earnings before taxes ($000)		29,018	32,177	35,689	30 672	28,329	28,994	33,501	42,912	37,744	33,803
Net earnings ($000)		12,133	14,455	15,986	13,899	13,316	13,662	16,686	22,018	21,848	19,620
Per cent of sales		5.60	5.91	5.81	4.70	4.26	4.34	4.44	4.22	3.55	2.65
Earnings per share ($)		1.11	1.28	1.41	1.23	1.17	1.20	1.40	1.62	1.60	1.43
Per cent change		-	+ 15.3	+ 10.2	- 12.8	- 4.9	+ 2.6	+ 16.7	+ 15.7	- 1.3	- 10.6
Dividends on common stock ($000)		5,219	6,121	6,958	7,873	8,195	8,183	8,937	10,878	10,915	10,946
Dividend per Molson share ($)		0.55	0.64	0.72	0.72	0.72	0.72	0.72	0.80	0.80	0.80
Distribution of dividends (%)		43.0	42.3	43.5	56.6	61.5	60.0	51.4	49.4	50.0	55.9
Total assets ($000)		119,616	132,954	151,024	150,691	164,196	169,471	248,803	285,138	345,316	407,052
Shareholders' equity ($000)		72,111	82,183	90,980	96,025	95,524	98,642	125,811	138,905	150,037	156,309
Ratio of sales to shareholders' equity		3.01	2.98	3.03	3.08	3.27	3.19	2.99	3.76	4.11	4.74
Return on equity (%)		16.9	17.6	17.6	14.5	13.9	13.8	13.3	15.9	14.6	12.6
Shares outstanding (000)		10,935	11,263	11,329	11,346	11,362	11,374	13,530	13,637	13,667	13,690
Book value of common stock ($)		6.59	7.30	8.02	8.46	8.41	8.67	9.29	10.18	10.98	11,41
Number of employees		-	-	-	7,500	7,360	6,674	9,210	10,455	10,928	11,211
Number of shareholders		-	-	-	13,252	13,166	13,700	15,016	13,988	14,134	13,656
Change in share prices ($)											
Class A	Low	15-5/8	15-1/4	16-3/4	15-1/2	17-1/2	12	15-1/8	19	21	11-3/4
	High	22-3/4	19	24-3/4	28-1/2	28-3/4	20-3/4	19-7/8	13-1/4	31-1/4	24
Class B	Low	15 3/8	15-3/4	17-1/2	16-1/2	17-3/8	11-7/8	15	19-1/8	21	12
	High	23-1/8	19-3/8	25	29	29-1/2	20	19-3/4	31	30-1/2	23
Average price/earnings ratio - Class A		17.1	13.4	14.7	17.9	19.9	13.6	12.5	15.5	16.3	12.5
Average price/earnings ratio - Class B		17.3	13.7	15.0	18.5	20.0	13.3	12.4	15.5	16.1	12.4
Dividend yield in relation to average price (%)		2.9	3.7	3.5	3.3	3.1	4.4	4.1	3.2	3.1	4.5

APPENDIX 10

VILAS INDUSTRIES LIMITED

FINANCIAL DATA, 1965-75[1]

	1965[2]	1966[2]	1967[2]	1968	1969	1970	1971[3]	1972	1973[4]	1974	1975
Sales ($000)	8,903	10,049	11,747	14,749	15,093	18,812	5,214	8,158	11,026	14,822	19,537
Increase in sales (%)	-	12.9	25.6	25.6	2.3	11.4		56.5	35.2	34.4	33.8
Earnings before taxes ($000)	729	492	689	924	374	99	(294)	246	695	1,262	1,374
Net earnings ($000)	356	296	364	444	184	(49)	(140)	96	355	776	751
% of sales	4.0	2.94	3.10	3.01	1.22	N/A	N/A	1.18	3.22	5.23	3.79
Earnings per share ($)	3.24	2.69	3.31	4.04	1.67	(2.93)	(1.27)	0.87	3.23	7.05	6.83
Per cent change	-	-17.0	+23.0	+22.9	-58.7	N/A	N/A	N/A	+271	+118	-3.1
Dividends on common stock	nil	nil	nil	nil	nil	nil	nil	nil	nil	nil	nil
Dividends per share	nil	nil	nil	nil	nil	nil	nil	nil	nil	nil	nil
Distribution of dividends	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total assets ($000)	8,310	9,693	10,056	11,989	12,641	13,531	9,473	8,220	10,635	16,206	19,704
Shareholders' equity ($000)	1,406	1,852	2,321	2,827	2,504	2,476	2,337	2,161	5,916	6,691	7,443
Ratio of sales to shareholders equity	6.33	5.43	5.06	5.22	6.03	6.79	2.23	3.78	1.86	2.22	2.66
Return on equity (%)	25.3	16.0	15.7	15.7	7.4	N/A	N/A	4.5	6.0	11.6	10.1
Shares outstanding	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000
Book value of common stock ($)	12.79	16.83	21.10	25.70	22.76	22.51	21.24	19.64	53.78	60.83	67.66
Number of employees			425			583					

1 - Years ended February 28 from 1965 to 1969, March 31 from 1970 onward.

2 - Excluding interdivisional sales.

3 - During this year, Vilas sold the net assets and other effects of its Moyer Vico Limited division to The Molson Companies Limited at a price corresponding to its net book value of $5,435,582; payment consisted of $3,500,000 in cash and a note for $1,935,582 payable at an interest rate 1% higher than the preferential bank rate.

4 - During 1973, an option was purchased by The Molson Companies Limited that resulted in extraordinary earnings of $3,400,000, causing the shareholders' equity to increase by this amount.

APPENDIX 11

VILAS INDUSTRIES LIMITED

BOARD OF DIRECTORS, 1967 AND 1975

July 21, 1967	W.G. Bacon
	R.E. Clinche
	Daniel Doheny
	E.F. Flegg
	J.E. Lawrence
	L.S. Lee
	J.I. Mark
	D.J. Morrison
	D.C. Roffey
	J.W. Sharp
	R. St-Pierre
	J.K. Stephenson
November 7, 1975	C.R. Cook
	J.P.G. Kemp
	G.L. Townsend

APPENDIX 12

ANTHES IMPERIAL LIMITED

FINANCIAL DATA, 1966-75

	Dec. 31, 1966	Dec. 31, 1967	Dec. 31, 1968	March 31, 1969	March 31, 1970	March 31, 1971	March 31, 1972	March 31, 1973	March 31, 1974	March 31, 1975
Sales ($000)	91,300	97,200	104,600	102,918	101,871	95,006	82,685	89,242	93,635	115,783
Increase in sales (%)		+ 6.5	+ 7.6	N/A	-1.0	-6.7	-11.9	+6.6	+ 4.9	+ 23.7
Earnings before taxes ($000)	9,221	9,291	6,832	6,024	4,458	5,572	5,652	5,394	5,071	10,970
Net earnings ($000)	4,521	4,691	3,532	3,134	2,408	2,789	2,902	2,794	2,704	6,562
% of sales	4.95	4.83	3.38	3.05	2.36	2.94	3.47	3.13	2.89	5.67
Earnings per share ($)	2.05	2.00	1.47	1.32	0.95	1.13	1.20	1.18	1.14	2.93
Per cent change	+15.8	-2.4	-26.5	N/A	-28.0	+18.9	+6.2	-1.7	-3.3	+157.0
Dividends on A & B common stock ($000)	1,169	1,375	1,469	1,467	1,467	1,467	1,468	1,472	1,472	1,472
Distribution of dividends (%)	27.8	32.0	46.3	51.5	71.6	60.2	56.7	57.6	59.6	23.2
Total assets ($000)	55,267	58,492	60,714	62,776	63,325	61,182	67,457	66,924	64,265	71,123
Common shareholders' equity ($000)	21,792	24,679	24,344	23,772	23,223	23,187	23,059	24,141	24,922	28,862
Ratio of sales to shareholders' equity	4.19	3.98	4.29	4.33	4.39	4.10	3.63	4.70	3.75	4.01
Return on equity (%)	20.7	19.0	14.5	13.2	10.4	12.0	12.6	11.8	10.8	22.7
Shares outstanding (000)	2,132	2,159	2,160	2,160	2,160	2,160	2,160	2,160	2,160	2,160
Book value of common stock ($)	10.22	11.43	11.27	11.01	10.75	10.73	10.68	11.18	11.57	13.36

APPENDIX 13

ANTHES IMPERIAL LIMITED

DIRECTORS AND OFFICERS, 1968 AND 1975

Directors, 1968

H.N. Bawden*	Director, Dominion Securities Corp. Ltd., Toronto, Ont.
T.S. Drake*	Vice President, Corporate Planning, Toronto, Ont.
C.B. Hill*	Chairman of the Board, E.T.F. Tools Ltd., St. Catharines, Ont.
C.E. Isard	Chairman of the Board, Isard, Robertson and Co. Ltd., London, Ont.
D. Lakie	Vice President, Toronto, Ont.
E.H. Orser*	Vice President and Treasurer, Toronto, Ont.
F.H. Sobey	Chairman of the Board, Sobeys Stores Limited, Stellarton, N.S.
J.H. Thomson, Q.C.	Partner, Miller, Thomson, Hicks, Sedgewick, Lewis & Healy, Toronto, Ont.
Hon. G.S. Thorvaldson, Q.C.*	Partner, Thorvaldson & Company, Winnipeg, Man.
J.C. Wallace	Senior Vice President, John Wood Company, East Orange, N.J.
G.B. Waterman	Vice President, Toronto, Ont.
D.G. Willmot*	President, Toronto, Ont.

* - Member of the Executive Committee

Directors, 1975

J.T. Black	Toronto
J.B. Jolley, Q.C.	Toronto
J.P.G. Kemp	Toronto
D.G. Willmot	Toronto

ANTHES IMPERIAL LIMITED

DIRECTORS AND OFFICERS, 1968 AND 1975
(Continued)

Officers, 1968

D.G. Willmot	President
T.S. Drake	Vice President, Corporate Planning
D. Lakie	Vice President
E.H. Orser	Vice President and Treasurer
R.J. Stuart	Vice President, Industrial Relations
G.B. Waterman	Vice President
J.B. Jolley	Secretary and Counsel
M.C. Payne	Assistant Secretary-Treasurer

Officers, 1975

J.T. Black	President
J.G. Kemp	Vice President
A.G. McCaughey	Vice President
J.B. Jolley, Q.C.	Secretary
I.M. Young	Treasurer

APPENDIX 14

BEAVER LUMBER COMPANY LIMITED

FINANCIAL DATA, 1969-75

	Dec. 31, 1969	Dec. 31, 1970	Dec. 31, 1971	3 mos. ended Mar. 31, 1972	Mar. 31, 1973	Mar. 31, 1974	Mar. 31, 1975
Sales ($000)	85,727	78,500	88,338	15,460	105,260	146,258	181,352
Per cent change	-	-8.4	+12.5	N/A	+ 19.2	+38.9	+24.0
Earnings before taxes ($000)	6,696	5,099	6,336	671	7,018	4,141	(5,319)
Net earnings ($000)	3,225	2,432	2,999	361	3,796	2,487	(2,555)
% of sales	3.76	3.11	3.39	2.33	3.61	1.70	-1.41
Earnings per share ($)	0.99	0.74	0.92	0.10	1.15	0.74	(0.78)
Per cent change	-	-25.2	+24.3	N/A	+ 25.0	-35.7	N/A
Dividends on common stock ($000)	1,569	1,569	1,574	401	1,603	1,603	1,603
Dividend per share ($)	0.50	0.50	0.50	0.12½	0.50	0.50	0.22
Distribution of dividends (%)	50	67.5	54.3	125	43.4	67.5	
Total assets ($000)	40,511	41,011	45,334	44,852	67,494	104,580	116,249
Shareholders' equity ($000)	30,574	31,366	33,496	33,737	35,784	36,226	86,845
Ratio of sales to shareholders' equity	2.80	2.50	2.63		2.94	4.04	2.09
Return on equity (%)	10.5	7.8	8.9		10.6	6.9	-2.94
Common shares outstanding (000)	3,138	2,138	3,189	3,206	3,206	3,206	7,206

NOTES:

1. The accounts of all the subsidiaries--that is, Beaver Lumber Acceptance, Handyman Electric and Plumbing Supply Limited and Le Castor Bricoleur Ltée.--have been included. The accounts of Beaver Lumber Acceptance are carried on the "equity" method; that is, Beaver Lumber's equity in Beaver Lumber Acceptance appears on the consolidated balance sheet for Beaver Lumber Company Limited, and the net earnings of this subsidiary appear as a separate entry in the body of the consolidated statement of earnings for Beaver Lumber Company Limited. This method of carrying the accounts of Beaver Lumber Acceptance Corporation was used until March 31, 1973, when the method of total consolidation--that is, including all the accounts of this subsidiary with those of Beaver Lumber Company Limited--was adopted. This change in the method of consolidation does not create any major discrepancy in the figures or indices given in the preceding table, and does not affect the comparison of data of one year with another.

2. During 1972, the date for the end of the financial period of The Molson Companies Limited was changed from December 31 to March 31 to correspond with the fiscal year. For this reason, the figures for 1972 cover only a 3-month period, from January 1, 1972 to March 31, 1972.

3. The percentages of change for the year ended March 31, 1973 are calculated by comparison with the year ended December 31, 1971.

BEAVER LUMBER COMPANY LIMITED

DIRECTORS AND OFFICERS, 1971 AND 1975

Directors, 1971

H.B. Gourley	Winnipeg
R.H.G. Harman	Victoria
K.C. Kennedy	Winnipeg
Gordon Lawson	Winnipeg
K.A. Mitchell	Winnipeg
T.O. Peterson	Winnipeg
T. Bruce Ross	Winnipeg
C.G. Smith	Winnipeg
C.M. Willoughby	Regina

Directors, 1975

J.T. Black	Toronto
David Lakie	Toronto
A.G. McCaughey	Toronto

Officers, 1971

K.C. Kennedy	President
K.A. Mitchell	Vice President and General Manager Ontario Division
A.G. Gemmell	Vice President and General Manager, Western Division
W.T. Cummings	Secretary-Treasurer
C.A. McLeod	Assistant Secretary Treasurer

Officers, 1975

J.T. Black	Chairman of the Board
David Lakie	President
A.L. Keyworth	Executive Vice President, Operations
K.A. Mitchell	Senior Vice President, Store Operations
J.P. Fowler	Vice President, Distribution Services
A.G. Gemmell	Vice President and General Manager, Western Division
R.F. Knowles	Vice President, Personnel
B.E. Smith	Vice President, Administration
D.K. Wilson	Vice President, Marketing
W.T. Cummings	Secretary-Treasurer
J.B. Jolley	Assistant Secretary-Treasurer
R.G. Lothian	Assistant Secretary-Treasurer