



True-Value Drugstores Limited

Steven A. Cox prepared this case under the direction of Professor Tim Rowley as a basis for class discussion in the Director's Education Program. This case study was developed for the exclusive purpose of providing material for training seminar discussions. It is not intended to illustrate either effective or ineffective handling of a managerial situation. Any reproduction, in any form, of the material is prohibited except with the written consent of Joseph L. Rotman School of Management, University of Toronto. (Revised 2004-01-06)

On Sunday March 7, 1999, the Board of Directors for True-Value Drugstores Limited convened a special late-night meeting of the Board. Although a regular Board meeting was imminent within the upcoming week to discuss the draft financial statement for the year ending January 31, 1999, Nick Rennie, a Director who was a member of the Audit and Compensation Committees, had called the urgent weekend meeting. Considering the tumultuous nature of recent Board meetings, it was likely that a confrontation would take place between the Board and the Chairman-CEO for the corporation at this special meeting.

Senior officers of True-Value had also been requested to attend the meeting; they had already participated in discussions on the distressed state of the company and the restructuring business plan put forward by senior management for recovery. The business plan called for stringent overhead reductions, the closing down of non-productive stores and the sale of non-core business units. Since the mid 1990s, True-Value had been struggling in an increasingly competitive marketplace, and the major changes needed to survive had been identified at various times, but had not been undertaken. The Chairman and Chief Executive Officer (CEO), Jimmy Simpson, who was also the majority shareholder of the publicly traded corporation, was steadfast in his conviction to focus on growing the business and was sceptical of the elements in the plan that involved store closures, the sale of major assets and/or the diminishment of his shareholding.

Management had been excused and were now located in a nearby meeting room while the Board continued their discussions. Rather than conducting a vote on restructuring, Jimmy Simpson wanted to wait until management had prepared an "organic growth" strategy for the consideration of the Board. Another director, Dr. Joan Sutton, a long-time Director and also a close personal friend of Jimmy Simpson, had just leaned over and commented to you in a whisper:

"I think Jimmy is experiencing a classic state of denial and emotional withdrawal. Suddenly, he sees his business is being threatened, and he is being hit very hard emotionally. He's just shutting down."

When other business came up on the agenda, Nick Rennie addressed the Board by putting forward a motion to remove Jimmy Simpson as CEO and replace him with Barbara Hoffmann, 52-years-old,

and currently President and Chief Operating Officer for the True-Value Drugstores chain. Hoffmann, who had been with the company for the last 10 years, had identified the company's problem with unproductive outlets, and had presented the Board with a restructuring business plan to deal with it earlier in the evening.

You have been an independent director on the True-Value Board for one year, but have already seen many changes. The rest of the Board have seen the dramatic turnaround of a once profitable corporation into a company beset with losses and surrounded by creditors. Four years ago, the True-Value Board had been included on a list of the "Best of Breed Boards" by a major Canadian newspaper, which had highlighted the wide range of talented directors that had sat on the prestigious Board for a number of years.

Prior to the special Board meeting, Nick Rennie briefed you on what, up to now, he has called "Option B", but you had hoped it would never come to a vote on replacing the man who invited you to join the Board just one year ago. Jimmy Simpson is also a personal friend of yours – you went to business school with him almost forty years ago – and today your two families belong to the same social club. But True-Value is a publicly traded corporation, and its prospects are dimming as a result of lack of action on the tough choices it must make to survive.

As an independent director, you are facing a number of issues:

1. How to act given the various relationships between the CEO and the other directors, some of whom go back a long time with him;
2. How to act in the face of a controlling CEO/Chair with a strong personality and an ego to match;
3. Deciding whether growing or shrinking the business is the right course of action; and
4. Ultimately whether to push the CEO out.

Once you have made your decisions upon the direction you would advocate for the company, you will need to determine a plan on how to manage the various Board relationships in order to accomplish your recommendation.

Generations of Simpsons in the Drug Retailing Business

True-Value was a company owned and run by the Simpson family, who owned a controlling interest in the publicly traded company. At the peak of its share price, the Simpson family's 600,000 shares were worth \$25 a share, for an overall valuation of \$15 million.

True-Value competed in the drug retailing segment, which accounted for roughly \$12.9 billion in retail sales in 1998, according to Statistics Canada. The industry had shown a 3% year-over-year growth, and the traditional players (Shopper's Drug Mart, IDA, PharmaPlus, True-Value) had lost overall market share to new competitors such as grocery chains (Loblaw's, Dominion), department stores (Wal-Mart) and a wide variety of Internet / mail-order distributors who sold both within

Canada and also cross-border to the US market. The success factors had changed and evolved in drug retailing over time (location was no longer a driver for all consumers) and many drug retailers had diversified their stores into mini-department stores.

True-Value had evolved from a family-run drugstore founded in Kingston, Ontario in 1921 by Bill Simpson, father of Jimmy. By the fifties, it had become a regional chain of pharmacies in Canada's capital region, around Ottawa.

In the sixties, it began to expand across Canada by acquiring independent pharmacies and other small chains. True-Value was an innovator within the industry, by successfully diversifying its merchandising away from pharmaceuticals and health-related products into a wide range of product lines such as cosmetics, personal care products, published materials and convenience food items. It had also led the industry as one of the first pharmacy chains in North America to discontinue the sale of tobacco products.

Over the seventies and eighties, True-Value went through a period of rapid expansion in retail markets in Canada and the US. Most of the company's expansion had been by acquiring existing pharmacy chains or by extending into new concepts, with very little greenfield development of new pharmacy outlets. All of the acquisitions had been purchased with significant goodwill premiums, and while expansion had facilitated fast growth, True-Value had suffered bumps along the road when it proved difficult to merge different cultures within the same organization. One of the directors, Jeff Hefley, spoke about some of the lingering problems associated with past acquisitions:

“Our last US acquisition that we made in 1995 was a small profitable chain in the Wisconsin market, which we then merged into our money-losing New York operations. In retrospect, I think we probably paid too much to buy it. I remember pointing that out to Jimmy, and he agreed with me. But then we tried to save ourselves some money by folding it into New York and eliminating some overheads from Wisconsin. We never were able to achieve economies of scale because of the distance between New York and Wisconsin.”

In 1997, Jimmy Simpson proclaimed the era of expansion by acquisition to be over, and since then he had advocated what he called an “organic growth” strategy, which would focus on growing the business in existing outlets (the “neighbourhood fit” merchandising plan was key to this) and opening new outlets to infill market gaps instead of buying competitors. Simpson recognized that growth would not be as quick as by acquisition, but would also not raise any problems associated with merging the different cultures in acquired companies. While Simpson believed in organic growth, he was unwilling to consider scaling back the existing store network and disposing of unproductive outlets.

Management Team and Board Oversight

The management team consisted of 10 people, and most of the senior management reported directly to Jimmy Simpson, the majority shareholder. Simpson had tried to separate himself from the day-to-day running of the business to allow more time to focus on strategy. However, this proved difficult as he had developed close relationships with many of the pharmacist-dealers within the True Value Drugstores chain, and he liked to maintain a visible presence in Toronto-area stores and attend all pharmacist-management meetings.

Barbara Hoffmann, President and COO of the True Value Drugstores chain, which was the largest chain in the group, headed the Canadian stores division. Hoffmann had a long history in retail, having previously worked to a senior position in an optical retailing firm before joining True-Value in 1990 as a Regional Manager. Hoffmann had excelled at managing the highest profit region within the company. In 1992 she had been promoted to Vice President Marketing for the True Value Drugstore chain, and had then ascended to President and COO in 1995 when the President clashed with Jimmy Simpson and was forced to tender his resignation.

The American stores division was a New York-based chain of PharmaSaver drugstores run by Max Baumgartner. Max had owned the business before selling his controlling interest to True-Value, and he had chosen to stay on as President of the chain. He was considered a savvy operator, and he reported through J.D. Reese, Vice President Corporate Development and President of the American stores division. Reese had been responsible for most of True-Value's acquisitions in Canada and the US, and was increasingly vulnerable as True-Value turned away from its acquisition strategy due to several high profile bad acquisitions where the company either paid too much or could never achieve profitability.

There were six other senior executives, all of whom reported to Jimmy Simpson directly. These executives, together with senior management (regional managers) and pharmacists, were all eligible to participate in a company share purchase plan, whereby the company gave loans to purchase shareholdings, that in turn provided dividends to fund the interest payments. Simpson believed ownership produced a committed executive and pharmacist-operator team, but he was firmly against creating management incentives with options. As seen in the following table, all the executive team participated in the plan, along with about 50% of senior management and about 30% of the pharmacists.

Share Purchase Loans Outstanding as at Jan.31/99		
Executive-Management-Pharmacists	Shares ¹ Owned	Loans Outstanding
Barbara Hoffman	30,000	\$450,000
J.D. Reese	16,000	\$285,000
Remaining Executives	27,100	\$515,000
Senior Management	15,930	281,000
Pharmacists	14,425	610,000
		\$2,141,000

Hoffman, who had the largest single shareholding amongst the executive, management and pharmacists, had become very worried about the significant decline in her investment over the last few years:

“I’m living through the agonies of ownership right now...I don’t want to lose my home, and yet I may if the value of the shares continues to drop. I know I speak for the rest of the executive when I tell you we’re all sweating bullets every time we check our stock price on-line.”

The executive and management of the company were a talented group according to Nick Rennie, Chair of the Executive-Management committee:

“At the executive and senior management levels, and especially in the stores, we have a terrific team in place. They’re the guts of company. It’s tragic that their excellent results are being pulled down because of a few ill-advised acquisitions and new business ventures.”

An overview of True-Value’s management team can be found in Exhibit 1.

Board Oversight

Simpson’s goal was to keep the Board small and tight; all committees were active, and management participated on them, making frequent presentations to the committees. An overview of the Board can be found in Exhibit 2. Every member brought reputable credentials to the table, and in the mid-’90s the Board was named as one of the ten best Boards in Canada.

¹ The total number of shares issued and outstanding that were used in calculating earnings per share was 2,600,000. Share price ranges over the last three years were as follows: in 1997 between a high of \$8.50 and a low \$4.85; in 1998 between a high of \$4.15 and a low of \$2.90; in 1999, between a high of \$3.50 and a low of \$2.75 (most recent closing at \$3.00).

Simpson carefully recruited new Board directors, and only invited people to join whom he personally respected and trusted. The size of the Board had never exceeded nine directors, and there had been minimal turnover.

According to Samuel Spencer, who had served as a Director for as long as Jimmy Simpson had, the Board had always functioned effectively as a Board up until 1997. Jimmy Simpson's Board meetings were professionally run, and he kept them brisk and on schedule, while still allowing for thorough discussion of important issues.

However, in 1997 the whole tenor of Board meetings had changed, due to the onset of financial problems caused by ill-advised acquisitions that had dragged down the company profitability and forced tough divestiture decisions. Beginning that year, company management began to bring forward a series of plans to deal with the financial problems, one of which was called *Profit 2000*. The *Profit 2000* business plan called for a dramatic reduction in the number of stores by closing down those that were unprofitable. While Jimmy Simpson allowed this plan to be put forward on the agenda, he was always its most vocal critic as he tried to persuade management of the merits of his "organic growth" strategy. What had begun, in 1997, as polite and constructive discussion had, by 1999, become an ongoing series of heated and emotional arguments, with no resolution.

You, as the newest member of the Board, replaced a long-time director who had resigned because of numerous Board and operating business commitments, but who had also felt very uncomfortable with the changed tenor of the meetings and the increasing adversarial nature of "us versus them". According to Senator Middleton, the director you replaced had left after a particularly heated Board meeting that nearly came to a face-to-face physical confrontation. The Board member had tendered his resignation just after the meeting, saying to another director, "Forget this! I'm not going to be a part of this anymore."

Growth Motivates Expansion

During the seventies, Jimmy Simpson made a dramatic strategic change – he determined that non-drug merchandise lines represented a better growth opportunity than the increasingly commodity-like and price-regulated pharmaceutical retail business. True-Value began to expand, through acquisition or new business venture launches, and it acquired the following assets:

- In 1977, the Canadian rights to produce and market ICE Cosmetics in Canada, which eventually led to the creation of a separate retail chain;
- In 1987, True-Value made its first foray into American markets with the acquisition of PharmaSaver Ltd, which operated a small chain of drug stores in New York – this chain had been added to, with subsequent acquisitions of several smaller pharmacy chains in the north-eastern and Midwest US;
- In 1995, True-Value introduced a standalone cosmetics chain called "Your Beauty Store", which sold environmentally friendly beauty products that were not tested on animals.

Current Financial Situation

Over the last five years, True-Value had gone from being profitable (\$5,318k profit after taxes in fiscal 1995) to suffering three consecutive years of losses. As seen in Exhibit 3, the losses started in fiscal 1997 when True-Value began restructuring, which led to a \$13,230K loss after taxes, of which \$8,075K was extraordinary items. In fiscal 1998, the losses after taxes were reduced to \$6,685K; however, in fiscal 1999, losses after taxes jumped to \$27,281K. Due to the poor performance, in fiscal 1999 the dividends had been cut.

The mounting losses could be blamed on a variety of factors:

- Growth of mail-order and Internet drug retailing;
- Aggressive expansion into drug retailing by major food retailing chains and the increasing presence of Wal-Mart;
- Untimely acquisitions and business initiatives made by True-Value.

Discussions with lenders had not been going well, and further loans were not an option. There was a growing negative perception within the investment community (a leading securities dealer had recently given a “sell” recommendation), and vulture buyers had started circling to acquire the company at ‘stink-bid’ prices. Some suppliers were showing signs of being skittish about the size of shipments and payment terms – one supplier of published materials had recently changed the terms of trade from “2% net 10, 90 days” to COD.

From a Board point-of-view, there were emerging concerns around potential directors’ liability with respect to preferred claims (such as employee vacation and pension liabilities).

Tough Markets Lead to Contraction

When the financial problems first surfaced in 1997, the Board was concerned and meetings were called to focus on the issues. As a result Jimmy Simpson developed and put forward his “organic growth” plan to grow the company out of financial distress.

Faced with tougher markets and diminishing returns, Hoffmann and senior company management had developed a radical restructuring process in 1996 that was outlined in a *Profit 2000* document. The plan called for a rationalization of the chain to remove non-productive stores and reduce the overall store count to 120 stores, as well as deep cuts in corporate overheads, which included extravagant spending by the Chairman and CEO’s office. Simpson did not agree with the direction of the report, and suppressed its distribution to the Board.

However, Simpson did agree with some of the ideas in the *Profit 2000* strategy, and he supported a few of its recommendations to sell off acquisitions or prune unprofitable stores, but he always returned to his original “organic growth” plan and tried to get management on-board with it. Faced with ongoing financial distress, the Board continued to ask tough questions of management, and eventually Simpson permitted the presentation of Hoffmann’s plan to the Board. The *Profit 2000*

document was presented to the Board in 1997. According to Brad Nelson, who gave you a thumbnail overview of the report when you joined the Board:

“The *Profit 2000* strategic plan was a culmination of speaking to industry people and major players. Management learned there was major industry change underway, and we had to change or die. We had a choice between being the largest player or a niche player. In the ‘90s, even the large players have been crippled.

“I still remember when the *Profit 2000* document was presented to the Board. Barbara Hoffmann was visibly uncomfortable during the presentation, and seemed to be held back by Jimmy. When Barbara began to speak about weak performance at the individual store level, just as it was getting interesting, Jimmy jumped in and said we had to end the restructuring discussion in order to keep to our agenda.

“*Profit 2000* went totally counter to Jimmy Simpson's vision of size and dominance. Jimmy wanted to be able to go to US conferences as owner of the fifth largest drugstore chain, as opposed to being owner of one that could say ‘we’re the best run’.

After the Board heard the *Profit 2000* presentation, the meeting degenerated into an argument, and the first divisions of opinion began to surface. Ultimately, the plan was filed with an action for follow-up in six months, but it was never blessed.

However, before that six-month juncture arrived, and in the face of mounting losses, in mid-1997 True-Value began contracting its size and reducing overheads:

- In May 1997, True-Value restructured all the Canadian drugstores into one integrated chain – previously, the chain had maintained regional and provincial management of merchandising/buying;
- In 1997 and 1998, True-Value sold off 22 drugstores in the US – most of these stores were part of chains acquired that had never achieved profitability;
- In 1999, True-Value sold its “Your Beauty Store” outlets, and closed or disposed of seven unprofitable Canadian drugstores;
- In addition, True-Value reduced the size of its regional and corporate overheads by \$3.4M in 1999.

Investment Bankers Consulted

However, these contraction measures were insufficient. In December 1998, True-Value engaged Confederation Securities to evaluate strategic and financial options for the company and to help it restructure its operations further. Confederation contacted over 150 parties, but no serious buyer surfaced. Confederation cited a number of factors underlying True-Value’s poor performance:

- Negative cash flow caused by interest on the debentures 2;
- Non-performing stores.

Confederation recommended a re-capitalization of the business, sale of the specialty retailing group (“Your Beauty Store” and the ICE Cosmetics distribution business), True-Value’s BC and US stores, and the closing of unprofitable stores together with pursuit of significant concessions from landlords.

In January 1999, management adopted a tough business plan for fiscal 2000, which included a further reduction of corporate overheads by 7.4% and intensification of the rent reduction program.

In February 1999, a letter of intent was signed with Coastal Retail Holdings Inc. to acquire the drugstores in BC, but negotiations on the proposed sale were terminated one month later as the parties were unable to agree on fundamental terms.

Negotiations were also conducted for the sale of the US-based drug retailing business, but had been delayed pending outcomes of Canadian restructuring efforts.

True-Value Store Network

As of February 1999, True-Value operated in six provinces and the US, holding an 18% share of the drugstore market with strong brand awareness for its store banners. The size of the store network was as follows:

# of outlets	Drugstore	Specialty	Total
Canada	182	39	221
US	12	0	12
Total	194	39	233

There were 536 employees working for the company outside the store system, plus 729 working within the 27 corporate-operated stores, and an estimated 5,573 working within the remaining independent pharmacist or franchisee-run stores. The majority of retail outlet employees were part-timers paid on an hourly basis, and the company paid health, life insurance, long-term disability and dental benefits to all full-time employees. Labour relations ³ had been good, and the company had a lower turnover rate than the industry average.

² In 1996, True-Value issued \$54 million unsecured 8% Convertible Subordinated Debentures, with a maturity date of July 2013, and used the proceeds to retire existing debentures and repay short-term bank debt., which in turn made available bank term loans for acquisitions.

³ There are two union agreements covering 40 employees; all remaining employees have compensation set by management.

The company operated a registered pension plan available to all employees, which was fully funded and had a surplus of \$4.8M as of January 31, 1999. The pension plan covered 250 active employees, 180 deferred and 740 pensioners.

Your Decision

As a member of the True-Value Board, you are well aware of Jimmy Simpson's power as the controlling shareholder, yet you are worried about the quality of the information you've been receiving. You're wondering what else Hoffmann had to say in the presentation before Simpson cut her off. Ultimately, you have to decide what to do about the falling performance and which plan to endorse - "organic growth" or *Profit 2000*. In addition, Richard Norris, who usually sits beside you in Board meetings, mentioned earlier tonight that he thought, "It might finally be time for Jimmy to step aside."

Nick Rennie has called for a vote on his motion, and you have to decide on whether to support his resolution. Rennie has asked those in support of the motion to signify so by raising their hand.

Before you vote, you pause to consider the events that led the company to this point and what you should do.

EXHIBIT 1
Organization Chart

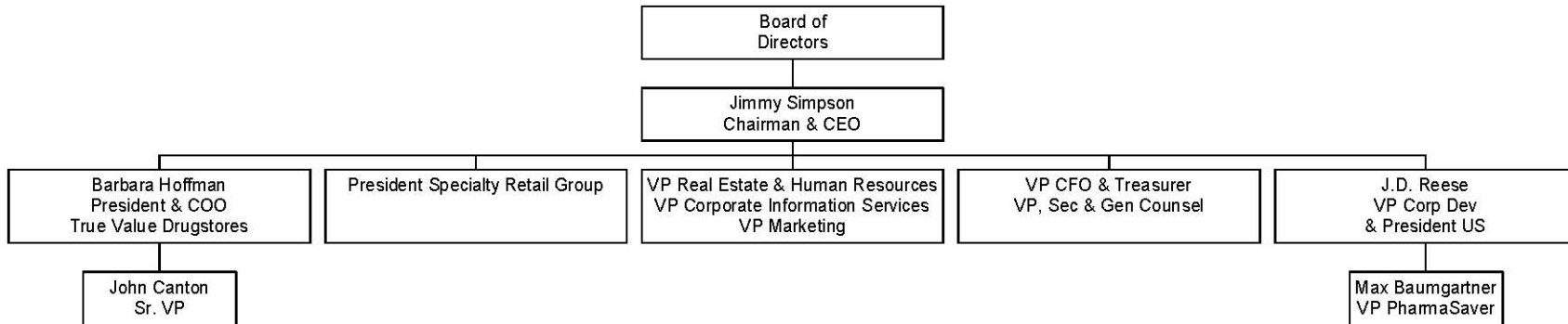


EXHIBIT 2
Board of Directors

Director	Principal Occupation	Director Since	Board Committees	# Of Shares ⁴	Thumbnail Descriptions
Jeff T. Hefley	Managing Partner • Waterhouse Young Consulting Ltd.	1977	Compensation Audit Human Resources Pension	100,000	<ul style="list-style-type: none"> • Long-time Board member, and personal friend of Jimmy Simpson. • Always votes with Simpson, and feels snubbed that his consulting firm was excluded from participation in re-structuring efforts.
Senator Ronald Middleton	Deputy Chairman • Canadian Dominion AutoRetailers Ltd. Director • Western Biotech Ltd.	1990	Compensation Human Resources Pension	100	<ul style="list-style-type: none"> • Supplier guru. Has strong links to several biotech firms, and relationships cultivated with major drug suppliers (both brand-name and generic). • A caring person, and tends to act as consensus-builder in Board and Committee meetings. • In all restructuring discussions to date, has supported Jimmy Simpson's strategy.
Brad B. Nelson	President & CEO, • CanFed Insurance.	1993	Compensation Audit (Chair) Risk Mgmt	1,000	<ul style="list-style-type: none"> • Numbers-oriented director. • Very concerned about the deterioration in financial condition.
Richard Norris	Chairman of Board, • United Way. Director • Starling-Glassco Pharma Corp • Merchant's Union Bank • Agra Innova Inc • Bobcat Manufacturing Ltd.	1994	Audit	1,000	<ul style="list-style-type: none"> • Retired, and now serves as a professional director, with service on four corporate boards and an additional three non-profits. • Always insists on sticking to agenda and timeline, and is very outspoken about how time-consuming True-Value Board role has become.

⁴ All of the company executive and many of the senior management and pharmacist-dealers had shareholdings purchased as part of an executive-management-pharmacist stock purchase plan, whereby the company provided a loan at favourable interest rates, and the stock was sold to executives-management-pharmacists at a discounted price. The company was to make sufficient dividend payments for the executives-management-pharmacists to fund their interest payments. There were no options or proxies available.

True-Value Drugstores Limited (A)

Nick Rennie	Chairman of Board, • Cansource Minerals Limited.	1992	Compensation Human Resources	200	<ul style="list-style-type: none"> • CEO type, with over 30 years as manager and executive in the mining industry. • A big picture thinker, who doesn't like to get involved in details • Concerned about True-Value's lack of vision.
Jimmy Simpson	Chairman of Board & CEO, • True-Value Drugstores Ltd.	1973	Compensation Risk Mgmt	600,000	<ul style="list-style-type: none"> • Started True-Value. • Strongly advocating "organic growth" strategy.
Samuel Spencer	Past President & CEO, • Energy Corp Director, • Alberta Heritage • Ameribank (Canada) Ltd. • Fuel Exploration Technologies Inc.	1973	Compensation Audit Risk Mgmt	N.A.	<ul style="list-style-type: none"> • Maintains private office at True-Value, and longest-serving director besides Jimmy Simpson, to whom he is a confidante. • Vocal and consistent in his opposition to <i>Profit 2000</i>, and supports Jimmy Simpson's growth vision.
Dr. Joan Sutton	Chief of Cardiology • University Health Network Professor, • University of Toronto. Director • Cannox Research Laboratories Ltd.	1994	Audit Pension	2,700	<ul style="list-style-type: none"> • Academic in medicine. • Although on audit committee, not well versed in financial analysis.
YOUR ROLE	YOUR BACKGROUND	1998	Human Resources Risk Mgmt	N.A.	<ul style="list-style-type: none"> • You are an independent director, recently retired and have taken the Director's Education Program. Directorship is your new professional livelihood, and you want to excel as a director.

EXHIBIT 3-1
Financial Statements

DRAFT
Auditor's Report

To the Directors of
True-Value Limited

We have audited the consolidated balance sheets of True-Value Limited as at January 31, 1999 and January 31, 1998 and the consolidated statements of earnings, retained earnings (deficit) and cash flows for each of the years in the five-year period ended January 31, 1999. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at January 31, 1999 and January 31, 1998, and the results of its operations and the changes in its financial position for each of the years in the five-year period ended January 31, 1999 in accordance with generally accepted accounting principles.

Toronto Canada

By (signed) Waterhouse Young

EXHIBIT 3-2
Balance Sheet As At January 31, 1999 and January 31, 1998

	Actual Year End Jan.31/99 \$000s	Actual Year End Jan.31/98 \$000s
ASSETS		
Current:		
Cash		
Accounts receivable	20,311	22,547
Inventories	44,620	47,511
Prepaid expenses	2,327	2,318
	67,258	72,375
Fixed assets, net [note 1]	66,200	83,871
Other assets [note 2]	29,574	34,484
	163,031	190,731
 LIABILITIES & SHAREHOLDER'S EQUITY (DEFICIT)		
Current:		
Bank indebtedness [note 3]	38,395	43,046
Accounts payable & accrued liabilities	62,500	66,202
	100,895	109,248
Other liabilities [note 4]	12,280	4,428
	113,174	113,676
Convertible subordinated debentures [note 5]	53,923	53,923
	167,097	167,599
 Shareholders' equity (deficit)		
Capital stock	9,563	9,563
Retained earnings (deficit)	(12,781)	14,500
Foreign currency translation adjustment	(848)	(932)
	(4,065)	23,132
	163,031	190,731

See accompanying notes
On behalf of the Board

By (signed) Brad B. Nelson, Director

By (signed) Barbara Hoffmann, CEO

EXHIBIT 3-3
Income Statement for Two Years Ending January 31, 1999

	Actual Year End Jan.31/99 \$000s	Actual Year End Jan.31/98 \$000s
Sales	679,514	704,566
Less:		
Cost of Sales	490,139	500,401
General, administrative and operating expenses	177,102	190,788
Depreciation and amortization	13,625	13,632
	680,866	704,822
Operating income (loss)	(1,353)	(256)
Interest expense	7,780	8,995
Income (loss) before the following	(9,132)	(9,250)
Unusual items [note 9]	18,270	-
Income (loss) before income taxes	(27,402)	(9,250)
Provision for (recovery of) income taxes [note 7]	(122)	(2,565)
Net earnings (loss)	(27,281)	(6,685)
Dividends declared:		
Class A non-voting	-	357
Class B		

EXHIBIT 3-4
Statement of Changes in Financial Position
For Two Years Ending January 31, 1999

	Actual Year End Jan.31/99 \$000s	Actual Year End Jan.31/98 \$000s
OPERATING ACTIVITIES		
Earnings (loss) before extraordinary items	(27,281)	(6,685)
Unusual items	18,270	-
Depreciation and amortization	13,625	13,632
Deferred income taxes		(3,297)
Accrual for pension costs	90	117
Funds provided by (used in) operations	4,704	3,767
Net Change in non-cash working capital	(656)	(4,438)
Other	1,920	1,976
Cash provided by (used in) operating activities	5,968	1,305
INVESTMENT ACTIVITIES		
Fixed asset additions	(4,415)	(10,895)
Proceeds from disposal of other fixed assets	2,038	2,437
Proceeds from sale of Your Beauty Store	322	-
Disposals of (additions to) properties held for resale	796	1,211
Proceeds from sale of certain US assets [note 10]	-	8,842
Issue of notes receivable	-	(1,212)
Cash provided by (used in) investment activities	(1,260)	383
FINANCING ACTIVITIES		
Net change under Executive-Management-Pharmacist Share Purchase Plan	-	188
Net change to long-term debt	(57)	195
Cash provided by (and used) in financing activities	(57)	383
Dividends to shareholders	-	(357)
Net increase (decrease) in cash position	4,651	1,713
Reclassification of current portion of long-term bank debt	-	(18,000)
Cash position, beginning of period	(43,046)	(27,089)
Cash position, end of period	(38,395)	(43,376)
Represented by:		
Cash and short-term investments		
Bank indebtedness	(38,395)	(43,376)

EXHIBIT 3-5
Earnings Review for Five Years Ending January 31, 1999 &
Company-Prepared Projections for 2000-2002

	Projected FYE 2002	Projected FYE 2001	Projected FYE 2000	actual Year ending Jan.31/99 \$000s	actual Year ending Jan.31/98 \$000s	actual Year ending Jan.31/97 \$000s	actual Year ending Jan.31/96 \$000s	actual Year ending Jan.31/95 \$000s
Total Sales:								
Canada				537,437	558,479	576,208	487,793	455,910
US				142,077	146,087	190,832	162,334	149,000
Consolidated	728,730	724,230	719,730	679,514	704,566	767,039	650,127	604,911
Gross Profit Margin								
General, Administrative & Operating/ Sales								
Segment Operating Income (Loss)								
Canada					2,422	8,412	12,384	13,637
US					(2,678)	(4,415)	(3,269)	(2,444)
Consolidated	-	-	-	(1,353)	(256)	3,997	9,115	11,193
Interest Expense	7,920	7,920	7,920	7,780	8,995	9,855	5,256	3,860
Income (Loss) before the following	4,860	2,610	(1,440)	(9,132)	(9,250)	(5,858)	3,859	7,333
Unusual Items				(18,270)	-	-	-	-
Recovery of (provision for) income taxes				122	2,565	703	(1,984)	(3,505)
Extraordinary items				-	-	(8,075)		1,490
Net Earnings (Losses)	4,860	2,610	(1,440)	(27,281)	(6,685)	(13,230)	1,876	5,318

True-Value Drugstores Limited (A)

	projected	Projected	Projected	actual	actual	actual	actual	actual
	FYE	FYE	FYE	Year	Year	Year	Year	Year
	2002	2001	2000	ending	ending	ending	ending	ending
				Jan.31/99	Jan.31/98	Jan.31/97	Jan.31/96	Jan.31/95
				\$000s	\$000s	\$000s	\$000s	\$000s
Total Assets:								
Canada				128,709	154,590	168,445	158,812	123,319
US				34,322	36,140	48,646	52,979	48,956
Consolidated	143,190	151,920	161,100	163,031	190,731	217,091	211,792	172,275
Depreciation and Amortization								
Canada				11,335	11,579	10,916	8,276	6,657
US				2,291	2,054	4,393	3,695	3,411
Consolidated	12,600	12,600	12,780	13,625	13,632	15,309	11,971	10,068
Fixed Asset Additions								
Canada				3,340	6,962	20,946	18,018	11,741
US				1,076	3,933	6,857	2,384	3,762
Consolidated	5,040	5,040	4,770	4,415	10,895	27,803	20,402	15,503
# Of Store Locations								
Canada				199	210	218	213	191
US				11	12	26	36	34
Consolidated				210	222	244	249	225

EXHIBIT 3-6
Footnotes to Consolidated Financial Statements
 (Key excerpts)

1. FIXED ASSETS

	Actual Year End Jan.31/99 Cost \$000s	Net Book Value \$000s	Actual Year End Jan.31/98 Cost \$000s	Net Book Value \$000s
Land	954	954	954	954
Buildings	6,374	4,125	6,362	4,501
Equipment	98,975	46,055	106,566	59,933
Leasehold Improvements	25,990	15,066	28,304	18,483
	132,293	66,200	142,187	83,871

2. OTHER ASSETS

	Actual Year End Jan.31/99 \$000s	Actual Year End Jan.31/98 \$000s
Goodwill, net of accumulated amortization	9,271	13,448
Properties held for resale	9,755	10,461
Executive-Management-Pharmacist Share Purchase Plan loans	2,141	2,141
Notes receivable	5,174	5,589
Debenture issue expense, at amortized cost	1,407	1,506
Other	1,826	1,340
	29,574	34,484

3. BANK INDEBTEDNESS

Accounts receivable, inventories, and a floating charge debenture have all been pledged as collateral for the bank indebtedness. At January 31, 1999, the corporation had \$48,726,000 outstanding on its line of credit from its banks.

4. OTHER LIABILITIES

	Actual Year End Jan.31/99 \$000s	Actual Year End Jan.31/98 \$000s
Deferred revenue	4,782	2,914
Future lease costs	5,947	-
Deferred income taxes	405	405
Accrual for pension costs	720	630
Long-term debt	426	479
	12,280	4,428

Deferred revenue consists of the non-current portion of prepaid rentals arising from distributor arrangements and advances from suppliers relating to closed stores. The current portion of these liabilities is included in accounts payable and accrued liabilities.

5. CONVERTIBLE SUBORDINATED DEBENTURES

The 8% convertible debentures, due July 30, 2013, are subordinate, unsecured obligations. The debentures pay interest semi-annually on July 31 and January 31 and are convertible at the holder's option at any time prior to July 31, 2000 at a conversion price of \$20.75 per Class A non-voting share. The debentures are redeemable between February 1, 1996 and July 31, 2000 if the market value of the Class A non-voting shares exceeds 125% of the conversion price. After July 31, 2000, the debentures will be redeemable at any time at the option of the corporation. Accrued interest on the debentures is included in accounts payable and accrued liabilities. The last interest payment was made on January 31, 1999.

6. OPERATING LEASE COMMITMENTS

a. The Corporation and its subsidiaries have entered into agreements to lease equipment and properties for various periods up to 2018. Certain of the leases provide for additional rent based on sales. Minimum annual net rental commitments for non-cancellable leases in effect as at January 31, 1999 are as follows:

	\$000s
January 31, 2000	36,238
January 31, 2001	33,750
January 31, 2002	21,902
January 31, 2003	27,860
January 31, 2004	22,685

Net lease commitments to year 2018, aggregating \$228 million, have been reduced by payments totaling \$23.5 million for which the corporation is to be reimbursed by franchisees and other sub-tenants of the corporation.

b. The corporation is the guarantor of lease payments under operating equipment leases for certain drugstore dealers amounting to approximately \$450,000 per year over four years.

7. INCOME TAXES

The Corporation has accumulated losses for income tax purposes available in future years, the potential tax benefit of which has not been recorded in these consolidated financial statements. These losses, which expire over the period 2005 to 2013, amount to \$7 million at January 31, 1999. In addition, there are losses for accounting purposes for which no benefit has been recorded in these consolidated financial statements, in the amount of \$31.4 million at January 31, 1999.

8. PENSION PLANS

At January 31, 1999, actuarial estimates indicate that the present value of accrued pension benefits is \$20.1 million (\$23 million in 1998) and the value of pension fund assets is \$24.4 million (\$24 million in 1998).

9. UNUSUAL ITEMS

The \$18.3 million charge in 1999 includes a write-down of assets whose value is impaired and provision for certain future costs to the corporation's drugstore operations in BC and Ontario totalling \$16.6 million, a loss resulting from the sale of Your Beauty Store business of \$540,000, and other provisions related to the restructuring of operations of \$1,170,000.

10. ACQUISITIONS AND DIVESTITURES

- a. During 1995, the corporation acquired 21 drugstores (16 in BC, 5 in US). Total cash consideration paid amounted to \$26.5 million.
- b. On February 28, 1997, the corporation sold all its Atlantic province assets and operations for \$12.5 million and a \$2 million non-interest bearing note due in 2002 with a discounted value of \$1,212,000. The loss on sale was included in the extraordinary item related to the restructuring of US operations in 1997, and the operating loss of \$1,170,000 is included in the consolidated income statement for 1998.

11. EXTRAORDINARY ITEMS

In 1997, the extraordinary loss of \$8,075,000 consists of:

	\$000s
Losses related to restructuring of US operations	(9,472)
Provision for loss in value of promotional materials within the drugstore operations in Canada and write down of the carrying value of certain Assets related to the start up of Your Beauty Store, net of income tax recoveries of \$765,000	(900)
Gain on sale of certain excess properties not used in the business, net of income taxes of \$900,000	2,297
	(8,075)