SOUTHERN COTTON MILLS AND THEIR SECURITIES

Cotton Industry the Largest in the World—Importance of It in the United States and in the South—Attractive to Investors—Dividends of Southern Mills—Advantages Enjoyed by Mills in the South—Capitalization of Southern Mills Does Not Contain 5% of Water—Heavy Cottons Now Made Largely in the South—Cotton Mills Usually Located Where Chartered—Little or No Bonded Indebtedness and Usually Only Common Stock—Careful Management—Natural Advantages of South So Great That Even Novices Make Profits—Lack of Market for Securities a Drawback.

BY

WILLIAM WHITMAN.

EDITOR OF THE AMERICAN COTTON MANUFACTURER AND CHAIRMAN OF THE EXPORT COMMITTEE OF THE AMERICAN COTTON MANUFACTURERS ASSOCIATION.

COUNTING growing, transporting, manufacturing and merchandizing, the cotton industry is the largest in the world. According to the latest known statistics, the commercial cotton crop of the last season was made up of 13,557,000 bales grown in the United States, 3,917,000 bales from India, 829,000 bales of Egyptian growth and 2,866,000 bales the product of Brazil and Asiatic Russia. Add to this a yield of 2,513,000 bales originating in some nineteen scattered countries, individually of little importance, and we arrive at a total of some 23,700,000 bales. At forty dollars a bale, this crop of one season would bring the farmer $948,000,000 for lint cotton. And the seed sold to crushers will carry the grand total well over the billion dollar mark.

To turn this enormous production into yarns and cloth, the manufacturing countries operate 120,000,000 spindles and 2,200,000 looms, which involve an investment of not less than $1,820,000,000. Augmenting this sum by the moneys sunk in dependent industries, such as dyers, finishers, builders of machinery, etc., will show that the total investment in real estate and machinery overtops three billion dollars.

This by way of introduction to the present positon of the great Southern branch of the American cotton manufacturing trade.

The United States ranks next to Great Britain and second in the world in the number of spindles in her factories, having approximately 24,000,000 of the total. Fifteen million of these are in Northern and Eastern mills, 9,000,000 being in factories south of the Mason and Dixon line.

A brief glance at the bearing of the cotton trade on our exterior commerce uncovers the little known fact that last calendar year American exports of every kind of merchanidse were in round figures valued at a billion and a half dollars, and that cotton and its products formed one-third of this enormous total. One other aspect of this leading industry merits attention before coming to the special subject more directly under examination. During the twelve months ending 1905, the international trade balance in our favor was $420,285,195, when, but for "King Cotton," we should have ended the year a debtor to other countries to the tune of fifty-eight million dollars.

Southern cotton mills represent a direct investment of between $200,000,000 and $225,000,000. This sum has been used in erecting factories which are practically standardized both as to their physical features and products. Any manufacturer with a reasonable experience can at once form an approximately accurate idea of the value of a cotton mill if furnished with the number of spindles and looms it contains, their age and the kinds of yarns or cloth manufactured. The industry is an attractive one, from an investor's viewpoint, for the further reason that nearly 95% of the output of the Southern mills consists of goods which are as staple a merchandise as is bar silver. They do not deteriorate in quality nor in style for years.

The great number of Southern cotton mills have been organized and built during the last decade and a half, and they have been, on the whole, profitable, paying dividends ranging from six to twelve per cent., instances of new mills being built out of profits in excess of these dividends being by no means rare.

The setting down of the underlying elements which make for the stability and security of the shares of Southern cotton mills will clear the ground for later statements dealing with their disabilities.

Some of these are conditions inseparable from geological situation, while others consist of circumstances usually attending their inception and organization or follow directly from these conditions.

The advantages of location of mills in the South are: proximity to the cotton producer; lower rates for building materials; cheaper cost of living, due to the mills being surrounded by a practically unlimited area of fertile soil valued at comparatively low prices; cheap fuel; abundant, if but as yet a comparatively little exploited, supply of water power which is, to a rapidly increasing extent, delivering the best of all prime movers—electricity—to mills at very low rates per unit; and finally, comparative freedom from much of the harassing and restrictive legislation with which the older and more concentrated textile manufacturing areas are burdened. Freedom from State taxation for a term of years is granted to new enterprises by some Southern commonwealths.

The attractive features of Southern factory investments attributable to the generally prevailing plan of organization are few but important.

To an owner of stock in an industrial corporation it is nowadays uncommonly satisfying to know beyond peradventure that every dollar represented on the face of the certificate has ben spent in land, bricks, mortar, machinery and equipment, and that this evidence of ownership is absolutely unwatered. One is very safe in making the assertion that not five per cent. of Southern cotton mills have a dollar of watered stock in their total capitalization.

On the other hand, it is not unusual to find that land has been donated by the community to a new company, or at any rate sold at a very low price and paid for in shares of the company at par.

The geography of the manufacturing

of lint cotton into finished commodities is rapidly tending southward. Heavy, crude and easily run fabrics are now made almost altogether in Southern mills. The older manufacturers situated remote from the cotton fields have been forced to invade the trade for years controlled by the foreign manufacturers, directing their energies to finer goods; but the South is learning to produce like fabrics more rapidly than New England acquired the skill and knowledge necessary to make them. It is clear, then, that within a short time—as industrial progress is measured—the Southern factory will be engaged in a conflict with that of the North, in which the cruel theory of Darwin will be applied. The fittest will survive, and the outcome is plain to the student of conditions and advantages.

While Southern transportation rates are at present reasonably low per mile, they are comparatively high from mill to market. But as population and traffic increase, they will be reduced and another element of commercial superiority will gradually accrue to the Southerner.

It may be taken as an indication of conservatism when manufacturing corporations are chartered by the States in which they are located. Foreign incorporation not seldom is taken to imply increased powers not essential nor even desirable for companies such as are created to erect and operate cotton mills. It is a matter of record that cotton corporations are mostly authorized by the States which surround their creations with the greatest safeguards. Massachusetss, the Carolinas and Georgia furnish good examples. It is a rule rather than the exception for the class of companies under consideration to be free from bonded indebtedness. And, indeed, by far the greater number of them issue but one class of stock—common. There has, however, developed, of late, a trend towards issuing preferred stocks carrying 6 or 7 per cent. interest, redeemable after five, seven or ten years at a premium varying from 5 to 10 per cent.

Local pride and oversight tends to strengthen the care with which such properties are almost invariably managed, the head of the business usually being the original promoter of the enterprise and carrying fairly large stock holdings. All these elements combine to ensure careful management.

On the other hand, deficiencies in the investment worth of Southern cotton mill securities are altogether such as arise from the conditons which almost invariably surround the infancy of an industry as widely scattered as the one under review. There is one white light so dazzling, especially to the layman, that it blinds him to the other essentials of successful cotton manufacturing. That is this. That a situation so plainly superior in inherent natural advantages must yield a profit, and that this profit is easily get-atable by the uninitiated in cotton manufacturing experience, even when pitted against brains trained by long apprenticeship to the business, in localities less favored by nature. Yet it is surprising that, in spite of a lack of knowledge usually requiring years for its mastery, these men, altogether tyros in the trade, are enabled to direct such enterprises successfully and reap a good profit from them. There is another obvious side to this phase of the question. It is that if the mills were entirely in the hands of those thoroughly trained, both technically and practically, in the science of turning raw cotton into cloth, earnings now in the main very satisfactory would be substantially increased.

It is also quite true that, although the average Southern mill contains far less spindles than the rest of the world considers essential to economical production, they are, in the main, very profitable ventures. This, however, is but another repetition of history, for both new and old England started in the beginning with small factories. At the same time, it affords another proof that the South must own natural advantages of no mean order to overcome this handicap.

Outside a few of the larger properties, Southern cotton mill stocks have no common market available, where they can be readily converted into cash. Hence the shareholder must perforce peddle his holdings when he wishes to dispose of them, or sell them to his associates. This is at times a serious drawback. One illustration will suffice. The actual, conservative book-value of the shares of one mill which has paid ten per cent. annually for years is $250 per share (par value, $100), yet the selling price, in the open market, has never gone above $140. As the industry grows, this will be overcome and the securities will then not only bring their real worth, but will be really "quick assets" to the holder. After all, the disadvantages enumerated are merely temporary shortcomings and not inherent defects.

It may be added that the commercial paper—notes—of almost every mill backed, as they generally are, by two or three directors and carrying with them, as collateral, finished merchandise, always in demand and worth from ten to twenty-five per cent. over the amount of the advance, offers an attractive short-time loan to idle capital. In a few years the trade will have so adjusted itself that its stocks and notes will be eagerly sought after in financial centres.