

Rona Inc

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RONA to buy back 20 franchise stores in Canada in a move to simplify operations

Shares of retailer and distributor Rona (TSE:RON) were trading about 0.25% higher today after announcing a plan to buy 20 stores in its network operating under the Rona, Rona L'entrepot and Rona Home & Garden brands. The company will leave 275 stores as independent.

Negotiations with franchisees started over six months ago, said Rona's vice-president of retail, Luc Rodier, who explained the motivation for the purchase noting that "we saw an opportunity to consolidate the market. We are trying to simplify our business model."

Each franchisee will be performing due diligence of their operations while purchase agreements will be negotiated. Rona's Board will have to approve any purchases. Negotiations will be conducted on the purchase agreements, the Rona Board must give its approval, and address other regulatory requirements.

The franchise buyout operations should be completed in September, said Rodier, Rona should have full ownership of 79 Rona branded big-box stores in Canada and there are no plans to shut down any locations: "These are all great sites, well operated stores," said Rodier.

The stores in question employ 2,600 people, generating sales of C\$500 million, which will add to Rona's revenues for the year.

National Bank Financial has reiterated a "sector perform" recommendation with a target of C\$17.50 for Rona. Analyst Vishal Shreedhar said that the 20 acquired stores could add anywhere from C\$ 0.02 to C\$0.10 per share to the company's earnings.

Shreedhar was optimistic that a more simplified structure could make the hardware store more attractive to other industry players which may be seeking consolidation.

Market Cap: \$0.00

Share Information

Code: RON
Listing: TSX
Sector: Retail
Website: www.rona.ca

Company Synopsis:

RONA is the largest Canadian distributor and retailer of hardware, renovation and gardening products. RONA operates a network of close to 700 corporate, franchise and affiliate stores of various sizes and formats.

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