

Rona Inc

11:28 20 Jun 2013

RONA to sell commercial and professional market division for \$215 mln

Rona (TSE:RON)(TSE:RON.PR.A) said Thursday that it has agreed to sell its commercial and professional market division to a subsidiary of EMCO Corp for around \$215 million, sending shares of the hardware and home renovation retailer lower.

The home renovation retail chain has been struggling amid increasing competition and the high cost of goods weighing on its bottom line, and said the deal is in line with its priorities that have been focused on unlocking the potential of its retail and distribution business.

The commercial and professional market unit, which specializes in plumbing, heating, ventilation and air conditioning systems, was created when Rona acquired Noble in 2007, and currently has 1,400 employees in Ontario, Quebec and British Columbia. The division, which operates under the Noble, Don Park, MPH Supplies, Boutique Eaudace and Boutique Plomberie Décoration 25 banners, will be sold to EMCO subsidiary Talisker Plumbing Corp, according to a statement Thursday.

Shares of Rona were halted immediately prior to the announcement today, and resumed trading shortly after news of the deal. Its stock is now trading at \$10.15 as of 11:00am ET, down almost 0.9 per cent. So far this year, Rona has lost more than 5 per cent.

"Since 2007, we've been working with a group of skilled and dedicated employees who have helped build this business. After all these years, we know we can count on them for their continued support in this transition," said Rona's executive vice president and CFO, Dominique Boies.

Last month, the Boucherville, Quebec-based company said its adjusted quarterly loss widened in the first quarter to \$0.19 per share, from \$0.11 per share during the same prior-year period. Rona missed analyst expectations by eight cents, the fourth quarter in a row that it has underperformed. The news rattled investors, who sent the stock plunging as much as five per cent on the news.

Revenue fell half a per cent to \$929.4 million as a rise in sales in the distribution segment offset gains in the retail and commercial segment. Same-store sales rose 9.5 per cent in the distribution segment and fell three per cent in the retail and commercial segment.

At the time of the release of the company's first quarter results, Boies said that further changes would be required to allow Rona to return to sustained growth in net income, with 2013 marking a year of transition for the retail chain.

Part of that transition is the repositioning of the Réno-Dépôt banner and the decision to keep its big-box store network outside Quebec. As part of a cost-cutting plan that trimmed \$17 million in mostly workforce-related expenses, Rona says it will target a total cost reduction of \$45 million by the end of next year.

U.S.-based competitor Lowe's (NYSE: LOW) is gradually creeping into Canada, with eyes on setting up more small-

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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format stores. Rona shares have slumped around 20 per cent since Lowe's pulled its \$1.8 billion bid for the company.

The transaction announced Thursday still needs regulatory approvals to close. Rona, which operates a network of more than 800 retail stores and 14 distribution centres, said it expects to record a pre-tax loss of \$125 million resulting from the deal in the second quarter, mostly related to a write-down of the division's goodwill. The unit will be recorded as a discontinued operation.

London, Ontario-based EMCO is a wholesale distributor for the construction industry.

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