

Rona Inc

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Update: Rona broadens cost-cutting measures

Rona (TSE:RON) is using its renovation expertise on its own operations as it maps out a plan to shutter stores, trim payroll and fine-tune its balance sheet.

The to-do list of improvements includes the closure of 11 non-profitable stores, a tighter budget for administrative, marketing, merchandising and distribution expenses and layoffs of 125 employees in four administrative centres.

The layoffs are in addition to the headcount cut of 200 workers announced in February.

Of the stores facing closure, eight are in Ontario and three are in British Columbia. The majority were big box locations.

"They had been losing money for awhile, so we don't think there was an opportunity to correct the negativity," said chief financial officer Dominique Boies on a conference call this morning.

Rona is also reorganizing its commercial structure into four distinct groups categorized as discount stores, big-box stores, proximity stores and its contractor business. There will be 18 discount stores of about 80,000 square feet outside the province of Quebec.

Rona is hoping to save \$110 million annually through its restructuring measures: \$70 million through today's initiatives on top of the \$40 million announced when the company reported year-end results in February. Nearly a third of the total savings will be reinvested into the business.

"I am convinced we have everything in place to achieve this target," president and CEO Robert Sawyer said on the call.

Although the specific breakdown of the cost-savings wasn't disclosed, the biggest portion of the charge come from lease agreements. Only two of the stores facing closure are owned. They will be on the market along with other non-core retail assets.

The staff reduction makes up less than half of the \$70 million cost savings.

The series of moves is part of Rona's ongoing battle to keep up with competitors such as Lowe's (NYSE: LOW), which is gradually ramping up its presence in Canada by means of small-format stores.

Since the U.S.-based rival pulled its friendly \$1.8 billion bid in September, investors have shaved off nearly a quarter of Rona's value.

Last week, the Boucherville, Quebec-based chain announced it would sell its commercial and professional market division for \$215 million. The proceeds will go towards Rona's debt, the long-term portion of which was \$462 million as of the end of March.

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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The steps revealed today will lead to a one-time charge of \$95 million, bringing total adjustments appearing in the second quarter results to \$220 million after a \$125 million charge from the division sale is factored in.

The second quarter results will be released August 14.

Rona's adjusted quarterly loss widened in the first quarter to \$0.19 per share, from \$0.11 per share during the same prior-year period. That missed analyst expectations by eight cents, the fourth quarter in a row that it has underperformed.

Rona rose 13 cents to \$9.84 in trading so far Thursday morning.

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