RONA

ANNUAL MEETING OF SHAREHOLDERS – MAY 14, 2013

ADDRESS BY DOMINIQUE BOIES
EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

Good morning everyone,
Thank you Mr. Chevrier,

Before starting the financial review, I would like to thank all the RONA employees who have so ably supported management again this year with the implementation of the *New Realities, New Solutions* plan and our financial priorities. I would also like to thank my colleagues who helped me define and implement our strategic priorities at the fiscal year-end. Lastly, I also wish to thank the Board for their invaluable support during this turbulent transition period.

I will now review the highlights of fiscal 2012.

It was another demanding year in terms of the market environment. Competition intensified with the addition of square footage by national competitors and certain regional players, as well as with increased promotional activities. What is more, there was a slowdown in home improvement and building activity.

Residential housing starts were up 1.5% at the national level, but down 3% in our primary market in Quebec. As for housing resales, they were down 1.3% in Canada and up 0.3% in Quebec. The average home selling price remained stable at close to $364,000. This relative market stability is probably a direct result of the new mortgage rules introduced to prevent overheating in the real estate sector.

We were faced with two realities in this environment in fiscal 2012. On the one hand, in the first half of the year, RONA reported a good performance, with 2.8% growth in sales.

This was due to a marked increase in distribution sales to our affiliate dealer-owners, and higher sales of seasonal products stimulated by the early spring we had in 2012.

During this period, EBITDA adjusted for unusual items grew by 7.9%. This increase stemmed from higher sales volume, but also from the impact of efficiency improvements introduced starting in the second quarter of fiscal 2011.

However, the situation deteriorated in the second half of the year.

Economic uncertainty returned to haunt consumers, and competition continued to intensify. During this period, sales of hardware products in big-box stores were under heavier pressure than ever.
The sharp rise in our sales of lumber and building materials and in our sales to the professionals and contractors offset the lower sales in hardware products, resulting in a 0.6% sales increase during this period.

Since our profit margins in hardware are largely superior to those for lumber and building materials, the 28% decrease in EBITDA before unusual and non-recurring items for the second half of the year was partially due to the change in the mix of our products sold.

For fiscal 2012 as a whole, sales were up 1.7 % to $4.9 billion. In the context, we believe we maintained our global market share in hardware and definitely increased it in lumber and building materials.

EBITDA before unusual and non-recurring items was down 14.8% to $229 million.

The unusual and non-recurring items recorded during fiscal 2012 amounted to $67.1 million. The main items are related to the restructuring of our big-box stores outside Quebec, to severance payments and to costs incurred following an unsolicited and non-binding expression of interest from a competitor. See the RONA annual report for details on these items.

Net income attributable to participating shares before unusual and non-recurring items fell from $87 million in 2011, or $0.66 per share, to $70 million, or $0.57 per share in 2012.

The table shown onscreen clearly shows our good performance is the first half of the fiscal year and the problems encountered in the second half based on our three financial priorities.

Throughout the year we continued our disciplined management of the Corporation's capital. However, the pressure on results could not be completely offset by the measures we took, and the return on capital declined from 4.8% in 2011 to 4.2% in 2012.

We understand that this rate of return is unacceptable and we are continuing our efforts to increase the return on the capital entrusted to us by our shareholders. Implementation in 2012 of a plan to optimize the performance of our stores was a vital step toward reversing this trend.

That is the essence of the *New Realities, New Solutions* plan: closing 10 under-performing big-box stores and shifting their sales volume to smaller-sized stores that could offer a better return per square foot. The plan also called for the reduction in the sales footage of 13 other under-performing big-box stores outside Quebec, as well as the full integration of our TOTEM banner in Alberta.

Five big-box stores were closed in 2012. Sales volume was redeployed to nearby stores, to two proximity stores and to five satellite stores opened in the recent months. Work also started on integrating the TOTEM banner.

The plan generated annual recurring benefits of $10.5 million with respect to EBITDA, higher than the anticipated $10 million. It involved one-time costs of $44 million, in line with expectations for the stores affected. Lastly, investments of $10 million in property, plant and equipment to open new sales outlets were funded as expected by the disposal of $16.5 million in assets. So the first phase of the plan has been a complete success.

Following the release of our third quarter results and given the strategic priorities we announced in December 2012, we decided to voluntarily suspend deployment of the *New Realities, New Solutions* plan in order to assess other possible options to obtain the full value of these assets.

As mentioned by Mr. Chevrier, last December, with the support of the Board of Directors, we implemented three strategic priorities. In his remarks, Mr. Sawyer will outline the progress made to date on these priorities and will share his vision for pursuing and accelerating RONA'S repositioning.

I'd like to now say a few words about the first quarter results, which were released at the beginning of this meeting.

Difficult market conditions continue to prevail:

- Housing starts were down 6.5% in Canada and 5.3% in Quebec, and housing resales were down 13.1 % in Canada and 15.4% in Quebec, while the average selling price was up a slight 1%. We have also had a late spring, compared to an early spring last year, which meant that sales of seasonal products were down 28% in the first quarter.
- The final material item is that inflation in the cost of wood and materials related to the stronger U.S. economy could not be fully passed on in the price of products sold because of strong competition in some regions.

This resulted in a 0.5% decrease in sales, and a net adjusted loss of $22.7 million, or $0.19 per share, compared to a loss of $13.5 million, or$0.11 in the first quarter of 2012. The first quarter, in addition to being the smallest of the year, is always more difficult in our industry because fewer people are working on home improvement projects. Instead, it is the period when we are preparing for our major spring season.

The decrease in our results stems from the difficult context, inflation in the cost of lumber and certain building materials, the change in our mix of products sold, and the disruptions stemming from the current transformation projects, namely the repositioning of the Réno-Dépôt banner and the integration of the TOTEM banner.

We expect that fiscal 2013 will be another demanding year, because of the repositioning that will temporarily disrupt our operations. We are expecting our results, in an environment of negative comparable sales, will be under downward pressure throughout the year.

The outlook for 2014 is better, since the Canadian Mortgage and Housing Corporation is forecasting increases. We also expect to benefit from the cost reductions now being rolled out, from improved productivity, and from the redefinition of the customer experience.

To conclude: Results definitely did not meet our expectations in 2012 and we must expect disruptions in 2013 given the context and the changes we are making, but it is important to note that we are still in a strong financial position.

Profits are down but we are still a profitable company that recorded a net income excluding adjustments of $70 million in 2012.

We generated operating cash flow of $125 million and free cash flow of more than $44 million in 2012

Our balance sheet is solid with, at March 31, 2013, a total net debt of $448 million, only 24% of shareholders' equity, which totals $1.8 billion. We are using only 35% of our $950 million credit facility and our principle debt ratios are still low. The total debt-to-capital ratio is 20% and the debt to adjusted-EBITDA ratio is 2.2.

Note that the recent downgrades by rating agencies DBRS and Standard & Poor's were based mainly on the continued pressure on our EBITDA and not on concerns about our balance sheet. In fact the agencies noted our disciplined capital management.

During this profound transformation of our company we will continue to maintain our strict management of RONA's capital and efficiency.

This wraps up the financial part, and I will now hand the meeting over to our President and Chief Executive Officer, Robert Sawyer.