



**2009 ANNUAL MEETING OF SHAREHOLDERS  
April 22, 2009**

**SPEAKING NOTES FOR ROBERT DUTTON  
PRESIDENT AND CEO**

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Ladies and gentlemen,

RONA will be 70 this year. You'd never know it judging by our extraordinary vigour and energy, not to mention our appetite for growth. Nor would you ever guess by looking at our efforts to renew and innovate in every aspect of our activities, from responsible procurement policies to store design – innovations driven by our very close attention to customer needs, just like a brand-new small business.

RONA will be 70 this year, but our vitality seems at odds with our long experience. RONA first saw the light of day at the dawn of the Second World War, and since then we have lived through other wars, recessions, stagflation, 12-percent inflation, 14-percent unemployment, and a prime lending rate of 22 percent. That's right – the rate banks were charging to their very best clients was 22 percent. In Canada, mind you, not Latin America. And I'm not talking about prehistoric times. I was already working at RONA, and I bet there are more than a few dealer-owners here today who remember those roller coaster years as well.

In these troubled times, it's not a bad thing to think back to those events, to draw some lessons and perhaps some peace of mind in the middle of all the turbulence.

**1. 2008-2009: one thing is certain...uncertainty abounds**

No matter how determined we are in looking ahead, it's sometimes not a bad idea to take a glance into the rear-view mirror of history.

A Harvard economics professor once remarked to an American journalist that "the instability of the economy is equalled only by the instability of economists." It was Professor John Williams who spoke those words...in 1956, as a recession was beginning to unfold in the United States.

His statement is as valid as ever today. As it was and will be during every economic slowdown. To paraphrase another economist, it's never easy to make predictions, especially about the future. Seriously, though, it is especially hard to predict when a trend will reverse itself. All recessions eventually end, but the timing of the end is just as hard to anticipate as the beginning. The No. 1 effect of a recession is increased uncertainty.

And uncertainty does more damage than the actual state of the economy.

And it feeds the deterioration of the economy.

Banks, institutions, and individual investors decide to keep their cash and invest later. Businesses delay investment projects. And families hold off on discretionary consumption. And that is exactly what Professor Williams was saying: "The instability of the economy is equalled only by the instability of economists."

## **2. Seeing beyond the recession**

But there is something reassuring about Professor Williams' statement, and that's that he said it more than fifty years ago. This isn't our first recession, and it won't be our last.

We always climb back out of it. The economy always climbs back out of it. And RONA has always climbed back stronger than before.

When I became chief of operations at RONA in 1990, we were just entering a very tough recession. Economic growth was weak for the whole of 1990 and then went into the red for five straight quarters: from October 1990 to December 1991. The GDP shrank by at least 3 percent in the first quarter of 1991. Unemployment in Quebec was hovering between 12 and 13 percent and inflation was around 5 percent. Interest rates were between 10 and 13 percent. Those numbers put today's situation in perspective.

In 1991, RONA posted net earnings of \$4 million.

Of course, the economy pulled itself out of that recession, so much so, in fact, that we went into the longest uninterrupted period of growth in the history of Canada. So much so that some of you here today have never experienced a recession since you entered the job market. And so it's partly because of this that today's recession is seen as such a crisis: we've gotten out of the habit...

But RONA didn't just pull itself out of the 1991 recession. We literally leapt out and hit the ground running. Based on hard work done in the early 1990s, your company has reinvented itself several times, first by adopting big-box stores and then with e-commerce before taking the steps that have made us the Canadian industry leader today: going public, making strategic acquisitions, and many more.

Of course, 2008 was tough. And 2009 will be tough, too.

But our history is full of lessons we can learn from. The first is that recessions always come to an end. And they're followed by recoveries that are often spectacular. Our history also teaches us that in a recession, we have to differentiate between what we can control and what we can't. We can't control 2009. But we can control *RONA* in 2009. Like we controlled *RONA* in 2008.

### **3. PEP "delivers the goods"**

This year did not take us by surprise. No more than 2008 did. Way back in August 2007, well before this recession began, we presented our 2008-2011 strategic plan and the PEP program to the board of directors. Both were carefully designed to prepare for an economic slowdown. Both are perfectly suited to today's circumstances. And both, as our annual report shows, allow us to take the right measures to get through this recession and prepare for the recovery.

I'll start with a few words about PEP, which, as you may remember, stands for Productivity, Efficiency and Profitability. There is a full report on the very positive results of this program in the 2008 Management Report, but I would like to draw your attention to a few highlights.

First, improvement of the gross margin, which is an essential component of the PEP program. In the difficult economic situation in 2008, we increased our adjusted gross margin by more than 1 full percentage point, at base-weighted distributions. For strictly retail operations, the increase was nearly 1.2%. That's very significant. This improvement stems from a series of measures: better management of product categories, increased sales of private brand products, reduction of store losses and continued improvement of purchasing conditions with our suppliers.

Optimization of the supply chain is another essential aspect of the PEP program. On a comparable basis, our inventory shrank by \$118 million – or nearly 14% – in just one year. Our logistics costs were reduced by \$6 million over the year.

The third component of the PEP program is the accelerated recruitment of affiliate dealer-owners. Affiliates are a critical factor in our development. In 2008, our affiliates posted same-store growth of 3.8%. In 2008, we recruited 31 new affiliates, adding \$132 million to our annual retail sales.

The fourth component of the PEP program is improving sales and boosting customer loyalty. We certainly haven't held back in this area. Let me just give you a few examples of what we've accomplished:

- Our private brand sales increased 10% in 2008 and now account for 17% of our sales.
- Our sales related to installation services are up by over 20%.
- Our Air Miles customers have increased their purchases by 10%.

PEP is going strong in 2009: every initiative that I just outlined is ongoing – such as inventory management, increase in gross margin, optimization of the supply chain, growth in private brand sales, and of course accelerated recruitment of new affiliates.

To this we're adding new initiatives, like the new RONAdvantage program, which adds to the government renovation tax credit programs set up by the federal and Quebec governments.

Our diversification is a clear advantage in these uncertain times. We're in the retail market, in distribution and in the specialized markets. To capitalize on this advantage, we're planning to further diversify the activities of our commercial and professional market division – to increase sales to these customer groups across the RONA network.

I'll say it again: 2009 will be demanding – even more so than 2008. And for that reason we will have to be twice as careful and twice as strict: we've reduced our capital spending program to 25% of last year's budget.

#### **4. Phase 2: back to accelerated growth**

But being strict doesn't mean shrinking our growth. Or even sacrificing growth. Because growth is key to our strategy. So we will be strict in our management, but only to prepare to relaunch our growth and profit even more.

We're already preparing for the post-recession.

Because the post-recession is on the way. And when it gets here, the structural factors that have been the platform of our success will still be just as much to our advantage. It may be that consumers are delaying discretionary spending, but certain basic facts remain:

- Buildings are getting older year after year. Don't forget that more than half of residential spending in our sector is related to maintenance and repair.
- Baby Boomers are getting older year after year. Their housing needs are changing. Sooner or later, these changes will lead to renovation expenditures – either because they adapt their current homes to their new lifestyles or because they sell their homes and the buyers need to renovate.

And so, as we pursue the PEP program, we are also launching new growth initiatives and ramping up those already under way. For example:

- Accelerated recruitment, as I was saying before. Our affiliates are a strategic growth vector and one I personally place a great deal of importance on. Last November, along with some other changes in our managerial structure, this function came under my direct responsibility.
- Development of the Commercial and Professional Division. We now have a solid base to support the expansion and diversification of this activity – through both organic growth and acquisitions.
- Development of new store concepts and refinement of existing concepts. Our stores are our product, and we're putting a lot of research and development efforts into them.
- Through our green shift – I'll get back to this in a few moments – we are becoming a leader in eco-responsible products. Not only do these products define a promising new segment, but they're helping to strengthen our distinctive corporate identity.
- Finally, I am sure you've all seen our new advertising slogan – “Doing it right” – or “Pour bien faire” in French – and our new advertising campaign.

## **5. On the sustainable development front**

I just mentioned our eco-responsible products. These are part of a much broader, more fundamental strategy. Although we have embraced a lot of sustainable development decisions and initiatives over the years, in 2008 we unrolled a complete and consistent eco strategy.

In particular, we launched the RONA ECO line, which guarantees our customers that the products they're buying reduce their environmental footprint in comparison to traditional products across the entire product life cycle. This is a first in Canada. We are the very first in our industry to associate our name with products of this type. By the end of this year, nearly 50 products will bear this brand name. Our goal is to reach 250 products by 2011.

In addition, we offer more than 700 eco-responsible products of various brands, all of them assessed using the life cycle approach. The goal is to reach 2,000 products by 2011.

Next July 1, all RONA stores will stop selling synthetic pesticides for cosmetic use.

In 2009, after extensive consultation with the lumber industry, environmental groups and scientists, we adopted a new lumber procurement policy. Hailed by many environmentalists, our policy has also been recognized by Greenpeace as "the strongest in North America." And we're proud of it.

## **6. Conclusion**

In conclusion, we can't control the economy. We just have to adapt to it. RONA was ready for this recession nearly two years ago. And those preparations are helping us get through this difficult period – carefully, but with confidence. This confidence and peace of mind is thanks to the competence, dedication and ingenuity of 29,000 hardworking RONA employees. They have all done their best to meet the challenges of the recession head on. They have prepared the way for the PEP program and successfully met the challenges of implementing it company-wide. They have my full gratitude for this.

I would also like to point out the important contributions our board of directors has made and continues to make. Their demands are a great motivating force and the relevance of their advice never fails. They play an essential role in our lasting success.

Finally, I would also like to point out the presence of many young people here who embody succession. I will now ask you to please stand so we can see who you are. You know when we talk about RONA's 70 years, we naturally refer to the past but it's even more important to look to the future. These young people here today, some are even sons and daughters of RONA dealer-owners, demonstrate just how seriously we take succession at this company.

Thanks to everyone's efforts at every level of the organization, RONA is ready whenever the recovery begins. And begin it will.

Thank you.