



Will Lowe's Companies, Inc. Succeed in Buying Out Rona Inc.?

Description

On Wednesday shares of **Rona Inc.** (TSX:RON) surged by nearly 100% when **Lowe's Companies, Inc.** ([NYSE:LOW](#)) agreed to buy the company for \$3.2 billion, or \$24 per share.

This is not the first time that Lowe's has tried to buy Rona. Back in 2012 Lowe's offered \$14.50 per share for the Québec-based home improvement chain but was rejected by the provincial government.

So why exactly is Lowe's so interested in Rona, and what are the chances of success this time?

The rationale

There are a few different reasons why Lowe's would want to buy out Rona. A main reason is that without acquisitions, it's very difficult for Lowe's to expand its footprint. The best real estate locations are already taken by companies that have been in Canada much longer, leaving Lowe's on the outside looking in.

Secondly, the Canadian home-improvement-retailing industry is probably overcrowded. In addition to Lowe's and Rona, Canadians can also shop at places such as **Canadian Tire**, **The Home Depot**, and **Wal-Mart**. Some consolidation is badly needed.

Finally, Lowe's should be able to wring some cost synergies out of a merger. For example, a combined company would have more clout with suppliers, thus securing larger discounts.

A different approach

As of this writing, Rona shares trade just shy of \$24, a sign that investors are confident the deal will go through. Once again, there are a few reasons for this.

First of all, Lowe's has pledged to keep most of Rona's current employees and key leaders. The combined operation will be run out of Boucherville, Québec, which is currently home to Rona's headquarters. But most importantly, the offer is friendly this time, perhaps because it comes with a 100% premium to the share price.

It looks like game over

The deal is supported not only by Rona's CEO and board, but also its largest shareholder, the Caisse de dépôt et placement du Québec. Even the new economy minister, Dominique Anglade, is tentatively supporting the deal.

The only one who seems opposed so far is Parti Québécois leader Pierre Karl Péladeau, who has tweeted repeatedly that the deal should be stopped. But Mr. Péladeau's tweets seem to be falling on deaf ears at the moment. This transaction is simply too beneficial for everyone involved, and it looks like a done deal.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:LOW (Lowe's Companies, Inc.)

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