



Renaissance announces its Interim Result to 31 March 2011

Renaissance Corporation Limited (RNS) has announced an EBITDA loss in the six months to 31 March 2011 of \$55k compared to \$1.5m loss in the prior corresponding period. Performance has been adversely impacted due to the Christchurch earthquake and the introduction of a second Apple distributor. The Company predicts profitable trading in the second six months of the year as cost reductions made in the prior period come into effect.

	6 months to 31 March 2011 \$000	6 months to 31 March 2010 \$000	Percent Change (%)
Operating revenue	102,099	108,050	5.5% decrease
EBITDA	(55)	(1,514)	96.4% increase
Depreciation & Amortization	(889)	(975)	
EBIT	(944)	(2,489)	62.1% increase
Net finance cost	(248)	(200)	
Profit before tax	(1,192)	(2,688)	55.7% increase
Impact on profit of Christchurch not adjusted above	575		

In the six months to March 2011 the company executed on a number of strategic initiatives:

- The retail business of MagnumMac and Student IT was rebranded as YOOBEE and returned to profitability. Notwithstanding the loss of revenue from Christchurch due to the earthquake, retail sales lifted 12% over the previous period. Our gross profit increased 45% as product mix shifted to higher margin products and services.
- The Natcoll education business also contributed positively to the results despite the Christchurch campus being closed for the last 6 weeks of the period due to the earthquake.
- The gross margin across the whole business lifted from 14.9% to 16.2%.
- The Yoobee brand was launched to encompass all our direct to consumer businesses. The Renaissance brand will continue to exist to serve the traditional distribution sales channel.
- We are in the early stages of commercialising some of our own intellectual property by launching our three new applications: Engage, Learn and Exchange. It is too early to predict the success of these, but all development cost has been expensed as incurred.
- Natcoll short courses were launched into Australia. We opened our Digital Media training lab in Sydney on April 7. Six short courses are being offered initially. We aim to receive accreditation for the Natcoll vocational courses in late 2011 and to start offering full courses in early 2012, branded as YOOBEE.

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Through these initiatives we are shifting the company away from its traditional reliance on third party distribution businesses, which continue to struggle.



Around the world large IT distributors are adopting global strategies to move to multiple distribution points in each country they conduct business. In this period Apple introduced a second distributor, reduced credit and implemented changes to the margin structure.

Having been the sole distributor of Apple products it was inevitable that we would lose some customers with the introduction of a second distributor. Sales in some channels were down significantly and we expect this to continue into the second half. As this is the lowest margin part of our business the effect on profitability will be manageable.

During the half year we invested significantly in our service capabilities, which resulted in both improved service levels and an increase in service revenues of 16%. The return on this investment was not commensurate with forecast levels and, as a result, the company moved to align its services cost base with revenue performance.

Management has responded to the current economic and competitive landscape by reducing operating costs during the trading period and expect to reap the benefits of these in the next reporting period. It is not possible to respond immediately to the sort of changes we have experienced and inevitably there has been a delay in right-sizing. That has been a significant contributor to losses in the period.

The tragedy in Christchurch has had, and continues to have, a significant impact on trading. In Christchurch we have two retail operations and one Natcoll campus.

- Natcoll has a campus of 183 students. We have not been able to teach since 22 February. The building is in the “red zone” but has been given a “G2 sticker”. However no access is possible while buildings around it are at risk. In the period before 31 March we estimate lost margin was about \$235,000.
- Yoobee had one retail store that has been condemned and one retail store which has yet to reopen. We have shifted our support operation into premises out of town and expect to recommence retail sales in July. We estimate this lost margin, and a resultant loss of supplier rebates, was about \$340,000.

We do have insurance cover for loss of business, but we have made no attempt to incorporate any likely recoveries into these half-year results.

With these trading results Renaissance has breached one of its banking covenants. We have alerted the Bank and are awaiting their response.

The balance sheet shows an increase in net debt. This is largely due to the reduced credit terms from Apple as a result of no longer being their sole distributor.

Management has reworked forecasts to the end of the financial year and these show a full year trading loss before any insurance recoveries of \$2.3m. However, there are still some major unknowns in this. We are forecasting that our Christchurch operations will resume normalised trading from July onwards and that the impact of the changed Apple distribution model has stabilised. What we do know is that we have locked in significant overhead reductions and should start seeing some payback from the strategic initiatives outlined in this report.

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