

Business Description

Richardson Electronics, Ltd. is a global provider of engineered solutions, serving the the Power Conversion, Electron Device, and Display Systems markets. The Company delivers engineered solutions for its customers' through product manufacturing, systems integration, prototype design and manufacture, testing and logistics.

Stock Data

Price	\$11.78
52Wk High	\$13.69
52Wk Low	\$11.15
3mo. Daily Volume	29,534
Market Capitalization	\$184
Shares Outstanding	15.8 Mil.
Dividend Yield	2.00%
Tangible Book Value Per Share	\$12.23
Net Debt-to-Equity	0%
EV-to-Sales TTM	0.3x
EV-to-EBITDA TTM	5x

Financial Data

		OLD	NEW
EPS	FY-12	FY-13E	FY-13E
Q1-Aug	\$.06	\$.08E	\$.05A
Q2-Nov	\$.09	\$.09E	\$.05E
Q3-Feb	\$.09	\$.11E	\$.06E
Q4-May	\$.23	\$.12E	\$.08E
FY-May	\$.47	\$.40E	\$.24E
P/E	25.1		49.1
Revenue	\$158	\$170	\$152
% Chg	-1%	8%	-4%
Cash	\$159	\$139	\$139
Assets	\$231	\$211	\$211
Debt	\$0	\$0	\$0
Equity	\$200	\$185	\$185

Note: Figures in \$millions except per share data

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NASDAQ: RELL
PRICE: \$11.78
DATE: October 12, 2012

Q1 EPS of \$.05 missed our estimate of \$.08 due primarily to lower than expected sales.

Q1 sales declined 14.1% YOY to \$35.6 million vs. our estimate of \$38 million. Q1 in the prior fiscal year contained an extra week of operations. Exclusive of this extra week sales declined 7.5% YOY.

Q1 EDG and Canvys sales declined YOY 16.6% and 7% respectively.

Gross margin declined 70 basis points YOY to 29.9% due to sales and geography mix combined with Euro depreciation.

The company repurchased .6 million shares in the quarter with \$35 million of repurchases remaining authorized.

The balance sheet remains strong with nearly \$140 million (\$8.86/share) in cash and cash equivalents with \$0 debt. The company continues to evaluate several acquisition opportunities.

The stock presently trades below its book value of \$12.34/share.

We are lowering our revenue and EPS forecasts for FY13 based on recent performance and company guidance for Q2.



Analysis of Q1 Results

Q1 EPS of \$.05 missed our estimate of \$.08 primarily due to lower than expected sales. Sales declined 14.1% YOY to \$35.6 million vs. our estimate of \$38 million due to general worldwide economic weakness. Please note that the prior year quarter included 14 weeks vs. 13 weeks. Exclusive of the extra week in the prior year the sales decline was 7.5% YOY. EDG sales declined 16.6% YOY while Canvys sales decreased 7%. The semiconductor fabrication and marine verticals were more acutely hit within EDG while community hospital downsizing and uncertainty regarding future healthcare regulations restrained Canvys. Europe and Asia were the softest geographies. Sales declines were buttressed by continued sales growth of CO2 laser consumables within the auto industry. Gross margin declined YOY from 30.6% to 29.9% primarily due to sales and geography mix coupled with a weaker Euro. Operating costs increased YOY as a percentage of sales due to the softer sales and their fixed nature. The company reported a use of operating cash of \$3.3 million for the quarter as working capital adjustments lagged behind the sales decline. The company repurchased .6 million shares in the quarter and \$35 million of repurchases remain authorized. This equates to potential future repurchases of 3 million shares or nearly 20% of the outstanding stock. The company continues to evaluate 4 or 5 potential acquisitions including a potential target company with sales greater than \$50 million. The company remains committed to the strategy of leveraging its global sales infrastructure via acquisition by utilizing its existing cash balances. The balance sheet remains strong with nearly \$140 million (\$8.86/share) in cash and cash equivalents and \$0 debt.

Business Unit	Net Sales (in thousands)			Gross Profit (in thousands)			
	Q1FY13	Q1FY12	% Change	Q1FY13	% of Sales	Q1FY12	% of Sales
Electron Device Group	\$25,627	\$30,729	-16.6%	\$8,000	31.2%	\$9,671	31.5%
Canvys	\$10,023	\$10,782	-7.0%	\$2,646	26.4%	\$3,031	28.1%
Total	\$35,650	\$41,511	-14.1%	\$10,646	29.9%	\$12,702	30.6%

Net Sales	Q1FY13	Q1FY12	% Increase
North America	\$15,738	\$16,553	-4.9%
Europe	\$10,744	\$13,558	-20.8%
Asia/Pacific	\$6,347	\$7,894	-19.6%
Latin America	\$2,447	\$2,830	-13.5%
Other	\$374	\$676	-44.7%
	\$35,650	\$41,511	-14.1%

Outlook

The company cites a pick-up in demand thus far in October. The company is guiding for Q2 revenue of \$36-\$38 million. Gross margin is expected to hover around its present level for FY13. The company's customers are reporting that they expect demand to improve beginning in 2013. The company is forecasting a GAAP tax rate of 25% for FY13 with cap ex forecasted at \$1 million. We have reduced our FY13 revenue forecast based on revenue guidance for Q2 and general worldwide macro uncertainty. We expect a stronger q3 and q4 based on historical patterns. We are also assuming a similar continued pacing of stock buybacks. We additionally expect operating cash flow to improve as working capital becomes more aligned with recent sales trends.

21st Century Equity Research

Income Statement (in millions)	2008	2009	2010	2011	Q1-12	Q2-12	Q3-12	Q4-12	2012	Q1-13	Q2-13E	Q3-13E	Q4-13E	2013E
Sales	\$568.4	\$496.3	\$491.8	\$258.5	\$41.5	\$39.1	\$38.4	\$38.9	\$157.9	\$35.6	\$36.0	\$39.0	\$41.5	\$152.1
COGS	\$432.8	\$386.7	\$373.8	\$191.1	\$28.8	\$27.4	\$27.1	\$27.8	\$111.1	\$25.0	\$25.2	\$27.3	\$29.0	\$106.5
Gross Profit	\$135.6	\$109.6	\$118.0	\$67.4	\$12.7	\$11.7	\$11.3	\$11.1	\$46.8	\$10.6	\$10.8	\$11.7	\$12.5	\$45.6
Operating Expenses	\$125.4	\$117.9	\$95.7	\$56.0	\$10.7	\$10.0	\$9.5	\$10.4	\$40.6	\$10.1	\$10.2	\$10.7	\$11.0	\$42.0
Operating Income	\$10.2	(\$8.2)	\$22.3	\$11.4	\$2.0	\$1.7	\$1.8	\$0.7	\$6.2	\$0.5	\$0.6	\$1.0	\$1.5	\$3.6
Add back D&A	\$5.3	\$4.1	\$3.9	\$1.9	\$0.3	\$0.3	\$0.3	\$0.2	\$1.1	\$0.3	\$0.3	\$0.3	\$0.3	\$1.2
Add back stock compensation	\$0.7	\$0.7	\$0.7	\$0.6	\$0.2	\$0.1	\$0.1	\$0.1	\$0.5	\$0.1	\$0.1	\$0.1	\$0.1	\$0.4
EBITDA	\$16.2	(\$3.4)	\$26.9	\$13.9	\$2.5	\$2.1	\$2.2	\$1.0	\$7.8	\$0.9	\$1.0	\$1.4	\$1.9	\$5.2
Interest Expense, Net	\$6.9	\$4.6	\$3.9	(\$0.1)	(\$0.4)	(\$0.2)	(\$0.4)	(\$0.4)	(\$1.4)	(\$0.4)	(\$0.4)	(\$0.2)	(\$0.2)	(\$1.2)
Other Expense, Net	\$12.0	(\$2.4)	\$1.4	\$0.7	\$0.7	(\$0.5)	\$0.0	(\$0.3)	(\$0.1)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Pretax Income	(\$8.7)	(\$10.4)	\$17.1	\$10.8	\$1.7	\$2.4	\$2.2	\$1.4	\$7.7	\$0.9	\$1.0	\$1.2	\$1.7	\$4.8
Income Tax	(\$0.2)	\$1.8	(\$0.2)	\$0.9	\$0.6	\$0.8	\$0.6	(\$2.4)	(\$0.4)	\$0.2	\$0.2	\$0.3	\$0.4	\$1.2
Net Income	(\$8.5)	(\$12.2)	\$17.3	\$9.9	\$1.1	\$1.6	\$1.6	\$3.8	\$8.0	\$0.7	\$0.7	\$0.9	\$1.3	\$3.6
Shares Outstanding-Diluted	17.8	17.8	18.9	18.2	17.5	17.2	17.0	16.7	17.1	15.8	15.5	15.3	15.0	15.4
EPS - Diluted (Continuing Ops)	(\$0.48)	(\$0.69)	\$0.91	\$0.54	\$0.06	\$0.09	\$0.09	\$0.23	\$0.47	\$0.05	\$0.05	\$0.06	\$0.08	\$0.23
Dividend per Share	\$0.12	\$0.08	\$0.08	\$0.11	\$0.05	\$0.05	\$0.05	\$0.05	\$0.20	\$0.06				
% of Sales														
Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
COGS	76.1%	77.9%	76.0%	73.9%	69.4%	70.1%	70.6%	71.5%	70.4%	70.2%	70.1%	70.0%	69.9%	70.0%
Gross Profit	23.9%	22.1%	24.0%	26.1%	30.6%	29.9%	29.4%	28.5%	29.6%	29.8%	29.9%	30.0%	30.1%	30.0%
Operating Expenses	22.1%	23.7%	19.5%	21.7%	25.8%	25.6%	24.7%	26.7%	25.7%	28.4%	28.3%	27.4%	26.5%	27.6%
Operating Income	1.8%	-1.7%	4.5%	4.4%	4.8%	4.3%	4.7%	1.8%	3.9%	1.4%	1.6%	2.6%	3.6%	2.3%
Interest Expense, Net	1.2%	0.9%	0.8%	0.0%	-1.0%	-0.5%	-1.0%	-1.0%	-0.9%	-1.1%	-1.1%	-0.5%	-0.5%	-0.8%
Other Expense, Net	2.1%	-0.5%	0.3%	0.3%	1.7%	-1.3%	0.0%	-0.8%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Pretax Income	-1.5%	-2.1%	3.5%	4.2%	4.1%	6.1%	5.7%	3.6%	4.9%	2.5%	2.7%	3.1%	4.1%	3.1%
Income Tax Rate	2.5%	-17.0%	-1.2%	8.3%	35.3%	33.3%	27.3%	-171.4%	-5.2%	22.2%	25.0%	25.0%	25.0%	24.5%
Net Income	-1.5%	-2.5%	3.5%	3.8%	2.7%	4.1%	4.2%	9.8%	5.1%	2.1%	2.0%	2.3%	3.1%	2.4%
Revenue by Segment														
RF, Wireless & Power Division	\$376.2	\$355.1	\$356.5	\$99.6										
Electron Device Group	\$103.3	\$82.2	\$86.5	\$113.8	\$30.7	\$28.0	\$26.9	\$27.0	\$112.6	\$25.6	\$26.0	\$28.0	\$30.0	\$109.6
Canvys	\$84.7	\$58.9	\$48.8	\$45.1	\$10.8	\$11.1	\$11.5	\$11.9	\$45.3	\$10.0	\$10.0	\$11.0	\$11.5	\$42.5
Corporate	\$4.3	\$0.2	\$0.0	\$0.0					\$0.0					
Total	\$568.4	\$496.3	\$491.8	\$258.5	\$41.5	\$39.1	\$38.4	\$38.9	\$157.9	\$35.6	\$36.0	\$39.0	\$41.5	\$152.1
Revenue % by Segment														
RF, Wireless & Power Division	66.2%	71.5%	72.5%	38.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Electron Device Group	18.2%	16.6%	17.6%	44.0%	74.0%	71.6%	70.1%	69.4%	71.3%	71.9%	72.2%	71.8%	72.3%	72.1%
Security Systems Division	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Canvys	14.9%	11.9%	9.9%	17.4%	26.0%	28.4%	29.9%	30.6%	28.7%	28.1%	27.8%	28.2%	27.7%	27.9%
Corporate	0.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Revenue Growth (Year / Year)														
RF, Wireless & Power Division	1.7%	-5.6%	0.4%											
Electron Device Group	2.0%	-20.4%	5.3%	31.6%	11.6%	-2.4%	-3.9%	-8.8%	-1.1%	-16.6%	-7.1%	4.1%	11.1%	-2.7%
Canvys	3.1%	-30.4%	-17.2%	-7.6%	8.0%	-9.8%	-1.7%	7.2%	0.4%	-7.4%	-9.9%	-4.3%	-3.4%	-6.2%
Corporate	5.6%	-95.1%	-100.0%											
Total	2.0%	-12.7%	-0.9%	-47.4%	-69.7%	-4.6%	-3.3%	-4.4%	-38.9%	-14.2%	-7.9%	1.6%	6.7%	-3.7%

Fiscal Year End - May
(\$ in millions, except per share data)

Peer Group Comparison

(in thousands)								
Ticker	Name	Price	EV / Sales	EV / EBITDA	P/BV	P/E-12	P/E-13	
ARW	Arrow Electronics	\$32.62	0.25	5.4	1.0	6.9	7.4	6.7
AVT	Avnet	\$27.28	0.20	4.7	1.0	7.2	6.9	NA
WCC	Wesco International Inc.	\$57.00	0.47	7.8	1.7	12.9	12.2	10.6
	Median		0.25	5.4	1.0	7.2	7.4	8.7
RELL	Richardson Electronics	\$11.78	0.29	5.3	0.9	25.6	51.2	NA

Note: All figures based on trailing 12-months, except P/E-12 and PE-13 based on consensus estimates.

Prices as of 10/11/12

Balance Sheet	2009	2010	2011	Q1-12	Q2-12	Q3-12	Q4-12	2012	Q1-13
Assets									
Cash	\$43.9	\$29.0	\$171.0	\$37.2	\$25.2	\$24.4	\$43.9	\$43.9	\$41.2
Accounts Receivable	\$92.4	\$98.7	\$22.4	\$22.8	\$22.3	\$22.9	\$19.7	\$19.7	\$20.5
Inventories	\$81.2	\$78.7	\$30.9	\$33.8	\$35.3	\$38.3	\$34.7	\$34.7	\$35.4
Other Current Assets	\$7.8	\$7.0	\$64.0	\$129.1	\$145.1	\$138.1	\$115.0	\$115.0	\$109.1
Discontinued ops-assets				\$2.1	\$1.7	\$0.6	\$0.0	\$0.0	
Current Assets	\$225.3	\$213.4	\$288.3	\$225.0	\$229.6	\$224.3	\$213.3	\$213.3	\$206.2
Net Property, Plant, and Equipment	\$19.4	\$16.7	\$5.0	\$5.1	\$4.7	\$4.5	\$5.4	\$5.4	\$4.2
Goodwill & Other Assets	\$4.1	\$4.7	\$4.0	\$33.9	\$18.9	\$18.4	\$12.7	\$12.7	\$14.0
Total Assets	\$248.8	\$234.8	\$297.3	\$264.0	\$253.2	\$247.2	\$231.4	\$231.4	\$224.4
Liabilities and Stockholders' Equity									
Current Debt	\$0.0	\$19.5	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Accounts Payable	\$53.0	\$61.6	\$17.8	\$15.3	\$14.6	\$14.4	\$12.6	\$12.6	\$11.2
Accrued Expenses	\$18.4	\$18.8	\$43.7	\$16.8	\$11.5	\$9.6	\$8.5	\$8.5	\$8.5
Discontinued ops-liabilities			\$13.8	\$7.1	\$4.9	\$0.1	\$0.2	\$0.2	\$0.2
Current Liabilities	\$71.4	\$99.9	\$75.3	\$39.2	\$31.0	\$24.1	\$21.3	\$21.1	\$19.9
Long-term Debt	\$52.4	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Deferred Taxes & Other Long-term Liabilities	\$6.3	\$5.0	\$13.0	\$2.4	\$8.3	\$9.8	\$8.5	\$8.5	\$8.2
Discontinued ops-non-current liabilities			\$1.6	\$1.6	\$1.6	\$1.2	\$1.4	\$1.4	\$1.4
Total Liabilities	\$130.1	\$104.9	\$89.9	\$43.2	\$40.9	\$35.1	\$31.2	\$29.6	\$29.5
Shareholder Equity	\$118.7	\$129.9	\$224.2	\$220.8	\$212.3	\$212.1	\$200.2	\$200.2	\$194.9
Total Liabilities and Equity	\$248.8	\$234.8	\$314.1	\$264.0	\$253.2	\$247.2	\$231.4	\$229.8	\$224.4
Book Value Per Share	\$6.67	\$6.87	\$12.32	\$12.62	\$12.34	\$12.48	\$11.99	\$11.71	\$12.34
Asset Utilization and Efficiency									
Accounts Receivable Turnover	4.9	5.1	4.3	2.7	7.0	6.4	7.4	7.5	6.6
Days' Sales in Receivables Outstanding	67.9	73.3	31.6	50.1	52.0	54.4	46.2	45.5	52.5
Inventory Turnover	4.4	3.8	2.9	1.9	3.5	3.3	3.4	3.4	2.9
Days' Sales in Inventory Outstanding	76.6	76.8	59.0	107.1	117.6	129.0	113.9	114.0	129.2
Accounts Payable Turnover	7.3	5.8	5.0	3.0	6.6	6.7	7.3	7.3	7.5
Days' Purchases in Payables Outstanding	50.0	60.1	34.0	48.5	48.6	48.5	41.4	41.4	40.9
Cash Conversion Cycle (Days)	94.6	89.9	56.6	108.7	121.0	134.9	118.8	118.1	140.9
Capital Structure									
Total Debt-to-Total Capital Ratio	30.6%	13.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Debt-to-Equity Ratio	44.1%	15.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Fiscal Year End - May									
(\$ in millions, except per share data)									

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ROIC and Free Cash Flow	2008	2009	2010	2011	2012	Q1-13
NOPAT						
EBIT	\$10.2	(\$8.2)	\$22.3	\$11.4	\$6.2	\$0.5
Cash Taxes on EBIT	(\$0.4)	\$2.5	(\$0.2)	\$0.9	(\$0.5)	\$0.3
NOPAT	\$10.6	(\$10.8)	\$22.5	\$10.5	\$6.7	\$0.2

Cash Taxes on EBIT

Income Tax Provision	(\$0.2)	\$1.8	(\$0.2)	\$0.9	(\$0.4)	\$0.2
Tax Deduction on Interest Expense	\$0.2	(\$0.8)	(\$0.0)	(\$0.0)	\$0.1	(\$0.1)
Cash Taxes on EBIT	(\$0.4)	\$2.5	(\$0.2)	\$0.9	(\$0.5)	\$0.3

Invested Capital

Total Debt	\$55.7	\$52.4	\$19.5	\$0.0	\$0.0	\$0.0
Stockholders' Equity	\$141.4	\$118.7	\$129.9	\$224.2	\$200.2	\$194.9
Total Cash & Short-term Investments	\$40.0	\$43.9	\$29.0	\$171.0	\$158.9	\$150.3
Invested Capital	\$157.1	\$127.2	\$120.4	\$53.2	\$41.3	\$44.6

Return on Invested Capital

Return on Invested Capital (Average)	6.3%	-7.6%	18.1%	12.1%	14.1%	0.4%
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Note: Quarterly Figures Have Been Annualized

Free Cash Flow

Net Income (Loss)	(\$8.5)	(\$12.2)	\$17.3	\$9.9	\$8.0	\$0.7
Adjustments:						
Depreciation	\$5.5	\$5.3	\$4.3	\$1.8	\$1.2	\$0.3
Amortization of Intangibles and Financing Costs	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Deferred Income Taxes	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Loss from Disposition of a Business	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Provision for Inventory Obsolescence	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Other Charges	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Divestitures				\$180.0	\$0.0	\$0.0
Goodwill and Other Intangible Assets Impairment, Net of Tax	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Other Non-cash Items in Net Income	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total Adjustments	\$5.5	\$5.3	\$4.3	\$181.8	\$1.2	\$0.3
Changes in Working Capital, Net of Currency Translation Effects and Business Acquisitions:						
Decrease (Increase) in Accounts Receivable	(\$3.8)	\$17.1	(\$6.3)	\$76.3	\$2.7	(\$0.8)
Decrease (Increase) in Inventories	\$16.3	\$12.7	\$2.5	\$47.8	\$3.8	(\$0.7)
Decrease (Increase) in Other Current Assets	\$1.1	(\$1.4)	\$0.8	(\$57.0)	\$51.0	\$0.0
(Decrease) Increase in Accounts Payable	\$3.3	(\$5.9)	\$8.6	(\$43.8)	(\$5.2)	(\$1.4)
Decrease (Increase) Assets Held for sale						
(Decrease) Increase in Other Current Liabilities	(\$12.2)	(\$3.4)	\$0.4	\$24.9	\$0.0	\$0.0
Total Changes in Operating Assets and Liabilities	\$4.7	\$19.1	\$6.0	\$48.2	\$52.3	(\$2.9)
Net Cash Flow from Operations	\$1.7	\$12.2	\$27.6	\$239.9	\$61.5	(\$1.9)
Capital Expenditures	(\$4.5)	(\$1.6)	(\$1.4)	(\$0.5)	(\$0.2)	(\$0.1)
Time Deposit Purchases					(\$82.8)	
Free Cash Flow	(\$2.8)	\$10.6	\$26.2	\$239.4	(\$21.5)	(\$2.0)
Free Cash Flow per Share	(\$0.16)	\$0.59	\$1.38	\$13.15	(\$1.26)	(\$0.12)

Fiscal Year End - May

(\$ in millions, except per share data)