

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.



NASDAQ: RELL
 PRICE: \$11.91
 DATE: July 26, 2013

Stock Data

Price	\$11.91
52Wk High	\$12.63
52Wk Low	\$10.61
3mo. Daily Volume	31,600
Market Capitalization	\$178
Shares Outstanding	15.1 Mil.
Dividend Yield	2.00%
Tangible Book Value Per Share	\$11.87
Net Debt-to-Equity	0%
EV-to-Sales TTM	0.3x
EV-to-EBITDA TTM	10x

Financial Data

	OLD	NEW	OLD	NEW
EPS	FY-13E	FY-13E	FY-14E	FY-14E
Q1-Aug	\$.05A	\$.05A		\$.01E
Q2-Nov	\$.04A	\$.04A		\$.04E
Q3-Feb	\$.04A	\$.04A		\$.06E
Q4-May	\$.05E	(\$0.09A)		\$.09E
FY-May	\$.18E	(\$0.03)	\$.24E	\$.21E
P/E				56.7

Revenue	\$142	\$141	\$144	\$151
% Chg	-10%	-11%	2%	7%

Cash	\$142	\$141	\$148	\$148
Assets	\$225	\$217	\$230	\$230
Debt	\$0	\$0	\$0	\$0
Equity	\$191	\$185	\$195	\$188

Note: Figures in \$millions except per share data

Q4 EPS of (\$.09) missed our estimate of \$.05 due mostly to higher than expected operating expenses highlighted by \$.9 million (\$.06) of employee-related termination expenses and \$1 million (\$.07) of unabsorbed labor and overhead costs. Prior year Q4 EPS was \$.09 (exclusive of \$.14 tax benefit).

Q4 Revenue declined 9.5% YOY to \$35.2 million vs. our estimate of \$36 million. The company had guided for \$36-\$38 million.

Q4 EDG sales declined 1.9% YOY due to isolated vertical softness. Canvys sales declined 26.5% YOY due to weakness in healthcare cap ex spending stemming from uncertainty regarding healthcare reform.

Q4 gross margin improved 60 bps YOY to 29.1% despite the sales decline. The company reports no pricing pressure.

The balance sheet remains strong with \$141 million (\$9.34/share) in cash and investments with \$0 debt.

The company continues to evaluate acquisition opportunities within the medical diagnostic imaging replacement parts industry.

The stock currently trades near its tangible book value of \$11.87/share with a 2% dividend yield and \$25 million of authorized stock repurchases.

The company is guiding for FY14 midpoint revenue growth of 12% with an operating margin of 3%.



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Analysis of Q4 Results

Q4 EPS of (\$.09) missed our estimate of \$.05 primarily due to greater than expected operating expenses (\$11.8 m vs. \$9.8) highlighted by \$.9 million (\$.06) of employee-related termination costs and \$1 million (\$.07) of unabsorbed labor and overhead costs. Q4 EPS in the prior year was \$.23 which included a tax benefit of \$.14. Q4 revenue declined 9.5% YOY to \$35.2 million vs. our estimate of \$36 million. Europe and Asia continue to be the weaker geographical areas. EDG sales declined 1.9% YOY to \$26.4 m vs. our estimate of \$27 m as replacement tubes in specific verticals were lower than expected as the global recovery progressed slower than expected. CO2 laser sales within EDG continue to grow robustly accompanied by even stronger consumables related sales. Canvys sales in Q4 declined 26.5% YOY to \$8.7 million vs. our estimate of \$9 million as capital spending delays within the healthcare sector continued due to uncertainty regarding the impact of healthcare reform. The division has undertaken cost cutting initiatives in the form of a 10% reduced headcount and more temporary staff utilization to mitigate soft market conditions. Q4 gross margin improved 60 bps YOY to 29.1% but missed our estimate of 29.8% primarily due to lower than expected sales volumes. The company reports no pricing pressure. The company generated \$3.8 million of operating cash flow within the quarter due to improved working capital management. The balance sheet remains strong with \$141 million in cash and short-term investments (\$9.34/share) and \$0 debt. The stock continues to trade near its tangible book value of \$11.87 suggesting a level of resistance. The company announced another quarterly dividend of \$.06/share which equates to a yield of 2%. Additionally, the company has \$25.5 million of stock repurchases authorized. Applying the current stock price suggests the possible repurchase of 2 million shares, or 14% of the outstanding share count.

Business Unit	Net Sales (in thousands)			Gross Profit (in thousands)			
	Q4FY13	Q4FY12	% Change	Q4FY13	% of Sales	Q4FY12	% of Sales
Electron Device Group	\$26,447	\$26,968	-1.9%	\$8,094	30.6%	\$8,324	30.9%
Canvys	\$8,736	\$11,889	-26.5%	\$2,153	24.6%	\$2,768	23.3%
Total	\$35,183	\$38,857	-9.5%	\$10,247	29.1%	\$11,092	28.5%

Outlook

The company is guiding for Q1-14 revenue of \$35-\$37 million with a full FY14 estimate revenue of \$155-\$160 million. Midpoint revenue of this guidance translates to 12% YOY topline growth. The company further projects operating margin of 3% for FY14 with a goal of achieving an operating margin of 5% in Q4 of FY14. The normalized tax rate for FY14 is expected to be 38%. We believe the performance of Canvys remains the major risk factor going forward due to its European exposure and susceptibility to tentative healthcare cap ex spending. The segment has successfully preserved gross margins, however, despite topline volatility. We believe the stock is appealing to value-oriented investors seeking yield and downside protection buttressed by a strong balance sheet and an aggressive stock buyback program. Execution of accretive acquisitions which effectively harness the leverage of the company's global operations network provides potential upside. We are currently forecasting FY14 revenue of \$151 million and EPS of \$.21.

Peer Group Comparison		Price	EV / Sales	EV / EBITDA	P/BV	P/E	P/E-CY13E	P/E-CY14E
ARW	Arrow Electronics	\$45.71	0.31	7.5	1.2	10.7	10.7	9.3
AVT	Avnet	\$38.00	0.25	6.9	1.3	11.8	10.0	NA
WCC	Wesco International Inc.	\$73.22	0.70	11.2	1.9	16.2	13.2	11.3
	Median		0.31	7.5	1.3	11.8	10.7	10.3
RELL	Richardson Electronics	\$11.91	0.27	9.7*	1.0	397.0	NA	NA

Note: All figures based on trailing 12-months, except P/E-13 and P/E-14 based on consensus estimates
Prices as of 7/25/13

*EBITDA excludes \$1.2 m of employee-related termination costs and \$1 million of unabsorbed labor and overhead costs



21st Century Equity Research

Balance Sheet	2009	2010	2011	Q1-12	Q2-12	Q3-12	Q4-12	2012	Q1-13	Q2-13	Q3-13	Q4-13	2013
Assets													
Cash	\$43.9	\$29.0	\$171.0	\$37.2	\$25.2	\$24.4	\$43.9	\$43.9	\$41.2	\$53.5	\$77.0	\$102.0	\$102.0
Accounts Receivable	\$92.4	\$98.7	\$22.4	\$22.8	\$22.3	\$22.9	\$19.7	\$19.7	\$20.5	\$21.7	\$19.7	\$18.3	\$18.3
Inventories	\$81.2	\$78.7	\$30.9	\$33.8	\$35.3	\$38.3	\$34.7	\$34.7	\$35.4	\$35.3	\$34.8	\$34.0	\$34.0
Other Current Assets	\$7.8	\$7.0	\$64.0	\$129.1	\$145.1	\$138.1	\$115.0	\$115.0	\$109.1	\$96.3	\$74.2	\$48.3	\$48.3
Discontinued ops-assets			\$2.1	\$1.7	\$0.6	\$0.0	\$0.0	\$0.0				\$0.3	\$0.3
Current Assets	\$225.3	\$213.4	\$288.3	\$225.0	\$229.6	\$224.3	\$213.3	\$213.3	\$206.2	\$206.8	\$205.7	\$202.9	\$202.9
Net Property, Plant, and Equipment	\$19.4	\$16.7	\$5.0	\$5.1	\$4.7	\$4.5	\$5.4	\$5.4	\$4.2	\$4.4	\$4.7	\$5.1	\$5.1
Goodwill & Other Assets	\$4.1	\$4.7	\$4.0	\$33.9	\$18.9	\$18.4	\$12.7	\$12.7	\$14.0	\$11.4	\$10.9	\$9.3	\$9.3
Total Assets	\$248.8	\$234.8	\$297.3	\$264.0	\$253.2	\$247.2	\$231.4	\$231.4	\$224.4	\$222.6	\$221.3	\$217.3	\$217.3
Liabilities and Stockholders' Equity													
Current Debt	\$0.0	\$19.5	\$0.0	\$0.0	\$0.0	\$0.0	\$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	\$14.0	\$13.0	\$14.3	\$14.3
Accrued Expenses	\$18.4	\$18.8	\$43.7	\$16.8	\$11.5	\$9.6	\$8.5	\$8.5	\$8.5	\$8.3	\$7.8	\$9.6	\$9.6
Discontinued ops-liabilities			\$13.8	\$7.1	\$4.9	\$0.1	\$0.2	\$0.2	\$0.2	\$0.4	\$0.8	\$0.2	\$0.2
Current Liabilities	\$71.4	\$99.9	\$75.3	\$39.2	\$31.0	\$24.1	\$21.3	\$21.1	\$19.9	\$22.7	\$21.6	\$24.1	\$24.1
Long-term Debt	\$52.4	\$0.0	\$0.0	\$0.0	\$0.0	\$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	\$6.9	\$8.4	\$8.0	\$8.0
Discontinued ops-non-current liabilities			\$1.6	\$1.6	\$1.6	\$1.2	\$1.4	\$1.4	\$1.4	\$2.7	\$1.5	\$0.0	\$0.0
Total Liabilities	\$130.1	\$104.9	\$89.9	\$43.2	\$40.9	\$35.1	\$31.2	\$29.6	\$29.5	\$32.3	\$31.5	\$32.1	\$32.1
Shareholder Equity	\$118.7	\$129.9	\$224.2	\$220.8	\$212.3	\$212.1	\$200.2	\$200.2	\$194.9	\$190.3	\$189.8	\$185.2	\$185.2
Total Liabilities and Equity	\$248.8	\$234.8	\$314.1	\$264.0	\$253.2	\$247.2	\$231.4	\$229.8	\$224.4	\$222.6	\$221.3	\$217.3	\$217.3
Book Value Per Share	\$6.67	\$6.87	\$12.32	\$12.62	\$12.34	\$12.48	\$11.99	\$11.71	\$12.34	\$12.44	\$12.49	\$12.26	\$12.07
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	6.7	6.3	7.4	7.4
Days' Sales in Receivables Outstanding	67.9	73.3	31.6	50.1	52.0	54.4	46.2	45.5	52.5	54.1	53.5	47.5	47.4
Inventory Turnover	4.4	3.8	2.9	1.9	3.5	3.3	3.4	3.4	2.9	2.9	2.6	2.9	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	124.4	134.0	124.3	124.7
Accounts Payable Turnover	7.3	5.8	5.0	3.0	6.6	6.7	7.3	7.3	7.5	7.2	6.9	7.4	7.4
Days' Purchases in Payables Outstanding	50.0	60.1	34.0	48.5	48.6	48.5	41.4	41.4	40.9	49.3	50.1	52.3	52.4
Cash Conversion Cycle (Days)	94.6	89.9	56.6	108.7	121.0	134.9	118.8	118.1	140.9	129.1	137.4	119.6	119.6
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%	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%	0.0%	0.0%	0.0%	0.0%
Fiscal Year End - May													
(\$ in millions, except per share data)													

ROIC and Free Cash Flow	2008	2009	2010	2011	2012	Q1-13	Q2-13	Q3-13	Q4-13	2013
NOPAT										
EBIT	\$10.2	(\$8.2)	\$22.3	\$11.4	\$6.2	\$0.5	\$0.5	\$0.6	(\$1.6)	\$0.0
Cash Taxes on EBIT	(\$0.4)	\$2.5	(\$0.2)	\$0.9	(\$0.5)	\$0.3	\$0.0	(\$0.4)	\$0.1	\$0.3
NOPAT	\$10.6	(\$10.8)	\$22.5	\$10.5	\$6.7	\$0.2	\$0.5	\$1.0		(\$0.3)

Cash Taxes on EBIT

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

Invested Capital

Total Debt	\$55.7	\$52.4	\$19.5	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Stockholders' Equity	\$141.4	\$118.7	\$129.9	\$224.2	\$200.2	\$194.9	\$190.3	\$189.8	\$185.2	\$185.2
Total Cash & Short-term Investments	\$40.0	\$43.9	\$29.0	\$171.0	\$158.9	\$150.3	\$149.8	\$151.2	\$150.3	\$150.3
Invested Capital	\$157.1	\$127.2	\$120.4	\$53.2	\$41.3	\$44.6	\$40.5	\$38.6	\$34.9	\$34.9

Return on Invested Capital

Return on Invested Capital (Average)	6.3%	-7.6%	18.1%	12.1%	14.1%	0.4%	1.2%	2.2%	0.0%	-0.9%
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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	\$0.6	\$0.6	(\$1.4)	\$0.5
Adjustments:										
Depreciation	\$5.5	\$5.3	\$4.3	\$1.8	\$1.2	\$0.3	\$0.3	\$0.2	\$0.3	\$1.2
Amortization of Intangibles and Financing Costs	\$0.0	\$0.0	\$0.0	\$0.0	\$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	\$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	\$0.0	\$0.0	\$0.0	\$0.0
Provision for Inventory Obsolescence	\$0.0	\$0.0	\$0.0	\$0.0	\$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	\$0.0	\$0.0	\$0.0	\$0.0
Divestitures				\$180.0	\$0.0	\$0.0	\$0.0	\$0.0	\$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	\$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	\$0.0	\$0.0	\$0.0	\$0.0
Total Adjustments	\$5.5	\$5.3	\$4.3	\$181.8	\$1.2	\$0.3	\$0.3	\$0.2	\$0.3	\$1.2
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)	(\$1.2)	\$2.0	\$1.4	\$1.4
Decrease (Increase) in Inventories	\$16.3	\$12.7	\$2.5	\$47.8	\$3.8	(\$0.7)	\$0.1	\$0.5	\$0.8	(\$0.7)
Decrease (Increase) in Other Current Assets	\$1.1	(\$1.4)	\$0.8	(\$57.0)	\$51.0	\$0.0	\$0.0	\$1.0	\$2.0	\$0.0
(Decrease) Increase in Accounts Payable	\$3.3	(\$5.9)	\$8.6	(\$43.8)	(\$5.2)	(\$1.4)	\$2.8	(\$1.0)	\$1.3	\$1.7
Decrease (Increase) Assets Held for sale										
(Decrease) Increase in Other Current Liabilities	(\$12.2)	(\$3.4)	\$0.4	\$24.9	\$0.0	\$0.0	\$0.2	\$0.5	(\$1.8)	\$0.0
Total Changes in Operating Assets and Liabilities	\$4.7	\$19.1	\$6.0	\$48.2	\$52.3	(\$2.9)	\$1.9	\$3.0	\$3.7	\$2.4
Net Cash Flow from Operations	\$1.7	\$12.2	\$27.6	\$239.9	\$61.5	(\$1.9)	\$2.8	\$3.8	\$2.6	\$4.1
Capital Expenditures	(\$4.5)	(\$1.6)	(\$1.4)	(\$0.5)	(\$0.2)	(\$0.1)	(\$0.1)	(\$0.5)	(\$0.6)	(\$1.3)
Time Deposit Purchases					(\$82.8)					
Free Cash Flow	(\$2.8)	\$10.6	\$26.2	\$239.4	(\$21.5)	(\$2.0)	\$2.7	\$3.3	\$2.0	\$2.8
Free Cash Flow per Share	(\$0.16)	\$0.59	\$1.38	\$13.15	(\$1.26)	(\$0.12)	\$0.18	\$0.22	\$0.13	\$0.18

Fiscal Year End - May