



NASDAQ: RELL
PRICE: \$12.22
DATE: December 5, 2011

Valuation Update



Richardson’s stock appears to be undervalued as it has recently been trading below its book value per share of \$12.62. The company’s peer group trades at 1.2x book value as shown below. Additionally, as of 10/5/11, the company still had \$31 million of stock repurchases authorized. At current prices, 2.5 million of additional shares could potentially be repurchased. This represents nearly 14% of the 17.5 million shares outstanding as of 10/5/11. We have not included the \$33.8 million of long-term investments in our EV(Enterprise Value) calculation. Inclusion of this amount would lower the company’s trailing EV/EBITDA and EV/Sales metrics to 3.8x and .14x respectively.

Recent acquisitions within the distribution industry are noteworthy. Arrow Electronics closed the purchase of the Japanese company Chip One Stop Inc. in September of 2011 for approximately \$98 million. The online electronic parts distributor held net cash of approximately \$22 million representing an EV of \$76 million. Sales for calendar year 2010 were \$47 million, a 50% increase from 2010. Corresponding EV/EBITDA and EV/Sales metrics based on 2010 are approximately 11.4x and 1.6x respectively. The purchase price was 3.2x book value. The company was operating at a gross margin and operating margin of 39% and 12.6% respectively and had been reporting significant YOY EPS improvement.

Additionally, Avnet, Inc. made three acquisitions in the September 2011 quarter for a total EV of \$103 million. The combined annualized sales of the three companies is \$320 million, equating to a combined EV/Sales multiple of .32x. EBITDA figures were unavailable.

In general, acquisition activity has been brisk, most likely due to concerns that the federal capital gains tax of 15% may not be extended by Congress after its expiration in December of 2012.

**Peer Group Comparison
(in thousands)**

Ticker	Name	Price	EV / Sales	EV / EBITDA	P/BV	TTM P/E	P/E- CY11E	P/E-CY12E
ARW	Arrow Electronics	\$37.64	0.28	5.7	1.2	7.6	7.4	7.8
AVT	Avnet	\$30.01	0.21	5.3	1.1	6.9	7.0	7.2
WCC	Wesco International Inc.	\$51.87	0.50	8.3	1.7	14.6	13.7	11.9
	Median		0.28	5.7	1.2	7.6	7.4	7.8
RELL	Richardson Electronics	\$12.22	0.35	9.4	0.9	87.3	61.1	NA

Note: All figures based on trailing 12-months, except P/E-11 and PE-12 based on consensus estimates

Prices as of 12/2/11

RELL data excludes discontinued ops

RELL has \$10.63/share in cash and cash equivalents

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