



NASDAQ: RELL
PRICE: \$9.94
September 22, 2010

Recent Arrow Electronics acquisition of Nu Horizons suggests RELL may be undervalued

On September 20th Arrow Electronics announced its intention to acquire electronics distributor Nu Horizons for \$130 million, or \$7/share. A primary attraction for the deal is NU Horizons' growing Asia market exposure which comprises 36% of sales. The deal remains subject to approval by Nu Horizon shareholders and is expected to close in the fourth quarter. The current net debt position for NU Horizons is \$40 million, thus equating to an Enterprise Value of \$170 million. Given trailing sales of \$733 million and EBITDA of \$12 million, this translates to EV/Sales and EV/EBITDA multiples of .2x and 14x respectively on a TTM basis. Please note that NU Horizons recently announced the termination of its distribution agreement with Xilinx, which represents approximately 30% of revenue. All inventories related to the customer have either been sold or returned for cash as of the company's last reporting quarter of 5/31. Excluding these sales, TTM sales are approximately \$513 million, thus representing an EV/Sales multiple of .3x. While specific EBITDA data on the Xilinx business is unavailable, Xilinx products carry a lower gross margin of approximately 12% vs. the company's consolidated gross margin of 14%. In the latest quarter, NU Horizons grew sales 53% YOY independent of Xilinx products to \$150 million.

On a pro forma basis, Arrow expects the acquisition to contribute \$.05-\$.10 in EPS over the next 12 months, implying contributed net income of \$6-\$12 million based on Arrow's current share count. Adding back taxes yields pro forma EBITDA of \$9-\$18 million over the next 12 months. NU Horizons generated approximately \$5.5 million of EBITDA in the latest quarter inclusive of Xilinx sales. Extracting out Xilinx sales suggests potential EBITDA of \$3.5 million exclusive of Xilinx products, or a forward EBITDA run rate of \$14 million. Applying the buy-out EV of \$170 million translates to an EV/EBITDA multiple of greater than 10x forward EBITDA.

Like Nu Horizons, Richardson also has maintained a growing Asia presence with Asia sales comprising nearly 40% of sales. Also note that RELL maintains a comparatively higher gross margin of 24%. Our current 12 month EBITDA forecast for RELL is \$29.6 million. With a current EV of \$166 million, RELL is trading at 5.6x forward EBITDA.

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