

Mossberg's Investor Digest

Best Idea Profile:

Richardson Electronics Ltd. (NASDAQ:RELL)

DESCRIPTION:

Richardson Electronics serves customers in alternative energy, aviation, broadcast, communications, industrial, marine, medical, military, scientific and semiconductor markets. Electronic Design Group offers engineered solutions and distribution of electronic components used to control, switch or amplify electrical power signals. Canvys addresses customers' visual technology needs by providing custom display solutions including touch screens and protective panels. The newly created strategic business unit, Richardson Healthcare, provides high quality replacement parts for the diagnostic imaging equipments market. Richardson Electronics, founded in 1947, has a presence in more than 40 countries. It is based in LaFox, Illinois, and led by a founding family member.

KEY INVESTMENT CONSIDERATIONS:

Healthcare Market Potential – Healthcare providers that own MRI, CT or other medical equipment are under extreme pressure to reduce their costs by 20% to 40% as reimbursements for diagnoses continue declining. The Affordable Healthcare Act has a lot more people coming in the system but causing hospitals to slow down capital expenditures. Richardson Electronics is positioning itself to meet the growing demand for alternative sources to the replacement parts business through having inventory available globally. It can offer replacement parts and services at lower prices than the original equipment manufacturers. It already sells some imaging products through third parties to hospitals worldwide and through its own brand directly to hospitals in the U.S. Therefore, a broader reach in terms of geography and number of products is a logical fit. To accommodate this emphasis, in mid-August, the company hired a new executive vice president to lead the initiative.

Looking for Acquisitions – In May, management had to walk away from a long-awaited healthcare acquisition because it could not come to terms with the seller. They remain focused on acquisition targets that will be complementary to its business. As it streamlines the EDG Group, management intends to focus on and reallocate resources to its higher growth businesses. Management says it is "looking at companies in the diagnostic imaging space who supply equipment and parts and those companies are primarily U.S based. Our objective is to take their strategy in the supply of their parts and run it through our global infrastructure. We still have subsidiaries in 25 countries of the world. So we want to

take advantage of that infrastructure to sell diagnostic imaging parts all over the world."

Disappointing 2014 – Fiscal 2014 fell significantly short of management's, and investors', expectations. Much of the shortfall was from slow economic growth. However, conditions are stabilizing in Asia Pacific and Europe and management pointed out that its relationships with customers are still solid, which should be reflected in improved sales as the economic uncertainty lifts.

Stock Buyback – Richardson Electronics has spent \$56 million on its stock buyback program, reducing the shares outstanding to 14 million. There is more than \$18 million remaining in the authorization and management has stated it will continue to opportunistically purchase shares.

VALUATION:

Management was forthright with its expectations following the last quarter's earnings. They expect sales in fiscal 2015 in the range of \$140 to \$150 million, and higher sales growth and earnings over the next three years. With a cash value of the stock of approximately \$9, management should continue to provide support through buybacks. Additionally the stock pays a dividend and has substantial cash for dividends and acquisitions.

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Investment Data (as of 8/31/14)

Recent Price	\$10.19
52-Week Range	\$9.90 - \$12.27
Fiscal Year End	May 31
Dividend	\$0.24
Yield	2.4%
Shares Outstanding	14.0 M
Average Trading Volume (3 mos)	69k
Market Capitalization	\$142.6 M
Cash	\$134.5 M
Long-term Debt	N/A
Enterprise Value (EV)	\$8.1 M
Book Value	\$12.47
TTM Revenue	\$138.0 M
P/ Revenue	1x
TTM EPS	\$0.12
P/ EPS	85x
TTM EBITDA	\$(288.0) K
EV/ EBITDA	-28x

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