PERNAS RESEARCH

Richardson Electronics (RELL-US): $12.59 | Rating: **BUY**

Market Cap: $179mm | Upside: 50%

Enterprise Value: $155mm | 12-month perf (%): -18%

EV/EBITDA: 5.9x | 30-Day Average Daily Volume: 193k

P/E: 7.7x | Date: 9/1/2023

Company Background

Richardson Electronics ('RELL') is a distributor that provides engineering solutions through systems integration, prototype design, and manufacturing. RELL historically has been in the vacuum tube (think a light bulb with additional circuitry) industry, in which it has about 50% market share. RELL sells tubes to about 20,000 customers with about 80% of these revenues coming from maintenance and repairs, making it a highly predictable revenue stream. Recently, RELL has seen rapid success with its new Green Energy Solutions segment. The combination of developing engineering solutions, having an extensive distribution network, and assuredness of supply makes RELL a strong strategic partner to customers looking for custom plug-in solutions. The long-term trends of green energy should continue to benefit RELL as the number of relevant niches expand due to government funding and mandates. We believe this new segment has structurally enhanced RELL's earnings generation potential.

Opportunities

RELL's Green Energy Solutions ('GES') segment has gone from $10mm about three years ago to almost $50mm today. This is composed of unique power management solutions for ultracapacitors (a battery that can charge and discharge rapidly), electric train batteries, and devices that create synthetic diamonds. RELL is a strong partner for customers looking for novel plug-in solutions and boasts marquee customers such as Siemens and Caterpillar. RELL operates in this sweet spot as these markets are too small to attract the attention of larger distributors and require significant engineering customization. These new addressable markets are potentially in the billions of dollars with the number of other green applications increasing due to government funding and mandates.

Risks

- CEO Richardson has super voting rights through Class B shares. The biggest risk is improper capital allocation, with their healthcare segment being an example of this. His track record demonstrates an able and honest CEO which eliminates significant tail risks.

Valuation

There are headwinds over the next two quarters due to semiconductor exposure, however we believe RELL's GES segment will be able make up this short fall in the latter half of the year. RELL stands poised to benefit from multiple niche expansions due to the deluge of money spurring green energy growth. From ultracapacitors to electric trains and EV charging stations, the list is numerous. We conservatively estimate that RELL can reach $280mm in revenue within three years with eleven percent operating margins (RELL currently generates $260mm and has 10% operating margins). With no debt, $20mm in cash, and a portion of inventory that will be released as cash in the near term, we believe RELL has at least 50% upside from today's levels.