Veltha

Saturday, July 25th 2026

Upgrade | Richardson Electronics (NASDAQ: RELL)

Round Trip: Fair Value Up, Price Unchanged

Fair Value: $21 | Buy

Implied Upside: 16.9%

Aryan | Analyst

aryan@veltharesearch.com

We are upgrading Richardson Electronics to Buy and raising our fair value to $21.00 from $17.00. Fourth quarter and fiscal 2026 results were reported on July 22. All three business units grew, backlog reached a three year high, and the shares traded to $23.12 before closing the following session at $17.96, unchanged from where they started the week.

Our initiation rated the shares Hold on the view that the manufacturing mix shift was plausible but undemonstrated. Consolidated gross margin of 31.0% and an operating loss in fiscal 2025 supported no other conclusion. The company has now disclosed that manufactured product represents 55% to 60% of revenue, and the fourth quarter produced the first clean evidence of operating leverage in several years.

Fourth quarter net sales were $66.2M, up 27.6%. PMT grew 28.1% to $47.5M on semiconductor wafer fabrication and RF and microwave products, GES grew 20.4% to $6.5M on wind, and Canvys grew 29.5% to $12.3M. Operating expenses rose 13.3% against that 27.6% sales growth, falling to 26.6% of sales from 30.0%. Incremental operating margin on the $14.3M of additional revenue was approximately 19%, against a reported non-GAAP operating margin of 5.2% for the quarter. Backlog closed at $164.4M, up 8.7% sequentially from $151.2M, implying orders of roughly $79M against $66.2M shipped and a book to bill near 1.20x in a record quarter. Fiscal 2026 was the second consecutive year of annual sales growth and the eighth consecutive quarter of year over year growth.

We model fiscal 2027 revenue of $255.6M, up 11.8%, with PMT at 12%, GES at 18% and Canvys at 6%. Management has guided to double digit growth. Backlog coverage of 0.72x trailing sales supports the near term, and the sequential increase in backlog through a record quarter argues that fourth quarter shipments were not borrowed from the first.

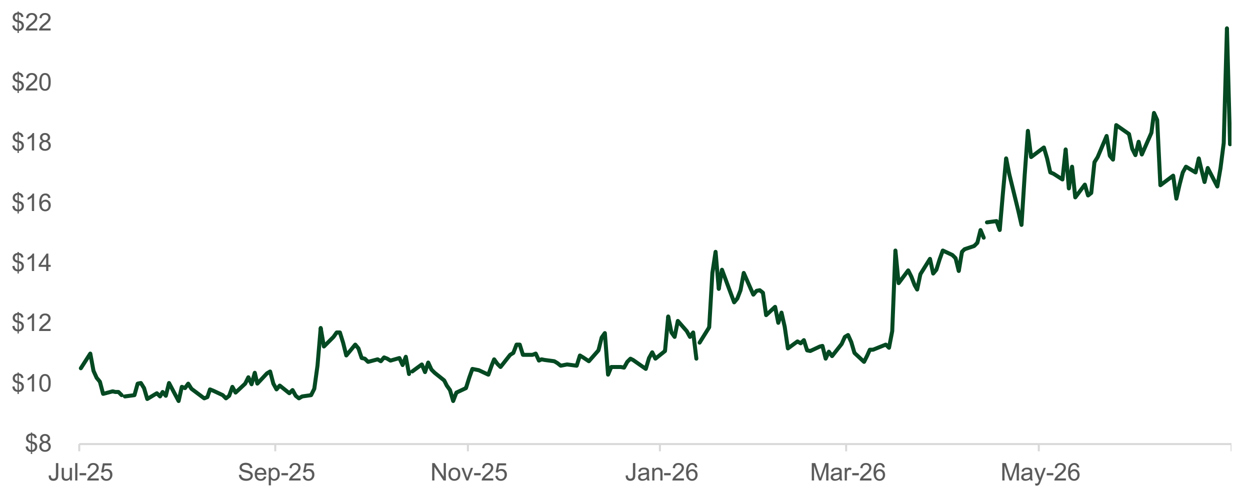
Veltha

Gross margin is forecast to expand 50 basis points a year. The figure is anchored on what the company delivered in fiscal 2026 rather than on the terminal margin we would like to reach. PMT gross margin improved 70 basis points for the full year, from 30.5% to 31.2%, driven by engineered solutions for semiconductor wafer fabrication equipment. Consolidated margin improved 20 basis points, the difference being GES and Canvys mix. We take 50 basis points as the forward rate because it sits below what the largest and most mix advantaged segment achieved, and above what the consolidated business achieved, in a year when the shift was already underway. It requires no acceleration from current run rate. Compounded to fiscal 2031, consolidated margin reaches 33.7%, roughly 180 basis points above the fiscal 2023 cycle peak of 31.9%. We are willing to underwrite a margin above the prior peak because the composition of revenue has changed. We would not underwrite it on volume alone.

Fiscal 2031 EBITDA of $42.9M capitalized at 10.0x and discounted at a 10.3% cost of capital produces an enterprise value of $283.4M and equity value of $20.99 per share. Valuation detail, including our treatment of the size premium and a perpetuity growth cross-check, follows on page three.

Free cash flow is the constraint on our fair value. We model unlevered free cash flow of negative $4.5M in fiscal 2027 on 11.8% revenue growth, with cash declining from $31.8M to $26.3M and reaching its low of $26.9M in fiscal 2028 before building. Against $31.8M of cash, $1.4M of debt and an undrawn revolver, we regard it as growth financing rather than deterioration. It is nonetheless why our fair value sits 17% above the current price rather than 30%.

Stock Chart (1 Year)



Veltha

Valuation

Our $21.00 fair value is derived from a five-year forecast to fiscal 2031 with an exit multiple terminal value, discounted at a 10.3% cost of capital. Fiscal 2031 EBITDA of $42.9M capitalized at 10.0x produces an enterprise value of $283.4M. Adjusted for $31.8M of cash and $1.4M in debt, equity value is $20.99 per share.

Terminal value is 93% of enterprise value, a function of the forecast ending before the business reaches steady state. At 10.0x we apply the multiple at which pure electronics distribution[1] trades today. Arrow is at 10.1x trailing, CTS at 13.9x, and Richardson itself at 24.4x on fiscal 2026 EBITDA. Our terminal value therefore assumes both a substantial compression from where the shares trade now and no premium to pure distribution five years out, despite a manufactured mix we expect to be higher than today's. Bel Fuse screens at 30.1x, which reflects depressed trailing EBITDA rather than a re-rating, and we exclude it.

We reduced the size premium to 100 basis points from 200. A beta of 1.25 already carries the cyclicality of the end markets, and the balance sheet holds $30.4M of net cash. At the prior 11.3% cost of capital our fair value would be $20.16.

A perpetuity growth terminal value gives $16.20 and we report it as a cross-check only. Gordon Growth assumes a mature terminal year. Fiscal 2031 revenue still grows 6.0% and working capital still funds it. The methods do not reconcile, and we disclose that rather than resolve it by assumption. Readers who prefer the perpetuity approach should treat the shares as fully valued here.

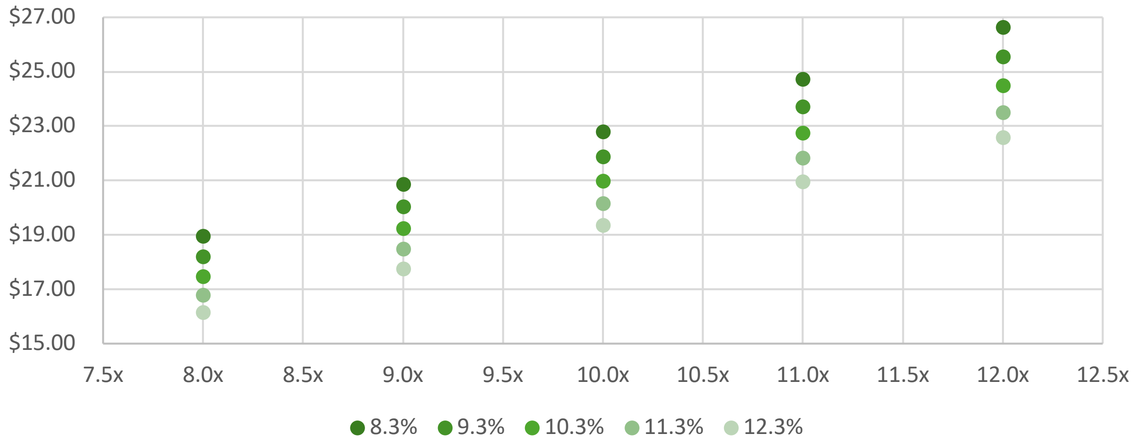
At $17.96 the market is underwriting our growth but not our margin. The current price corresponds to fiscal 2031 EBITDA of roughly $36.9M against our $42.9M at the same 10.0x multiple. Backing that through the model, it implies consolidated gross margin expanding 15 basis points a year rather than the 50 we forecast, reaching 31.9% by fiscal 2031 against 31.2% in fiscal 2026. That is the same gross margin Richardson reached at the fiscal 2023 cycle peak, which implies the market is pricing the mix shift as worth nothing. The disagreement is not about whether Richardson grows. It is about whether the manufactured mix converts into margin.

[1] Per FactSet

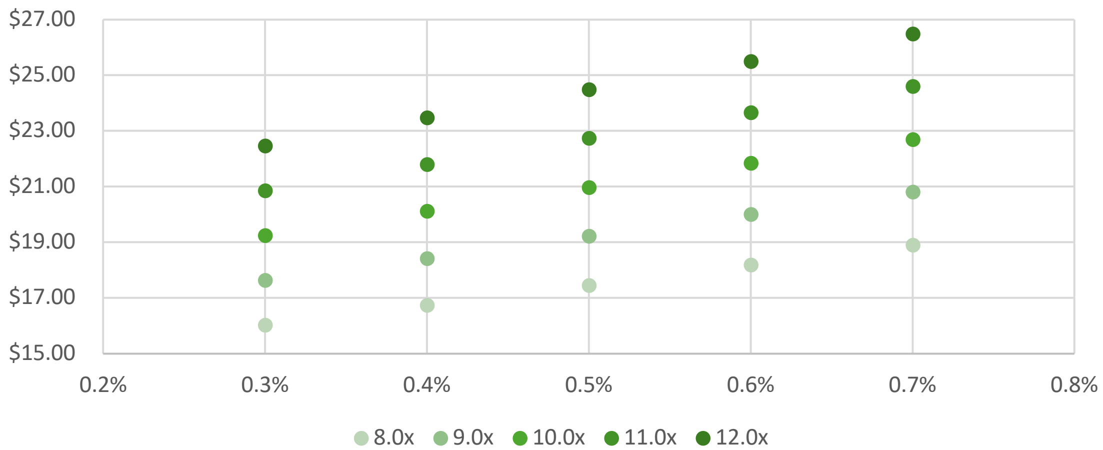
What would change our view. Consolidated gross margin expanding at or below 20 basis points for a second consecutive year, which would say the mix is not converting. A second year of operating cash flow below net income, which would make the fiscal 2027 burn structural rather than growth financing. Backlog quality, if the increase to $164.4M reflects extended lead times rather than order strength. And PMT concentration, since the segment is 70% of revenue and its growth came from semiconductor wafer fabrication equipment, a capex cycle Richardson does not control. Any of these factors move our estimates. Two together take us back to Hold.

Veltha

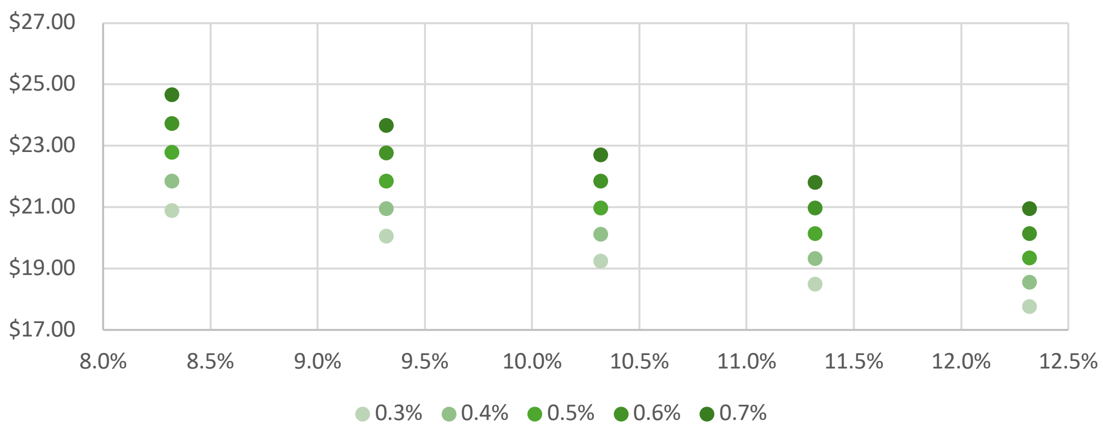
Exit Multiple & WACC



GPM Expansion and Exit Multiple



WACC & GPM Expansion



Veltha

Income Statement

	Historical			Forecast				
	2024	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**
Revenue	**196.46**	**208.91**	**228.56**	**255.60**	**281.01**	**303.50**	**325.80**	**345.31**
% growth	*-25.2%*	*6.3%*	*9.4%*	*11.8%*	*9.9%*	*8.0%*	*7.3%*	*6.0%*
Cost of Goods Sold	140.80	144.11	157.22	174.59	190.57	204.33	217.75	229.10
Gross Profit	**55.66**	**64.80**	**71.35**	**81.02**	**90.44**	**99.17**	**108.05**	**116.21**
	28.3%	*31.0%*	*31.2%*	*31.7%*	*32.2%*	*32.7%*	*33.2%*	*33.7%*
SG&A	55.24	62.17	65.72	68.35	71.08	73.92	76.88	79.95
Operating Income	0.42	2.63	5.63	12.67	19.36	25.25	31.17	36.26
Pre-tax Income	0.16	-1.53	7.48	13.63	20.34	26.47	32.83	38.56
Taxes	0.10	-0.39	1.10	3.27	4.88	6.35	7.88	9.25
Consolidated Net Income	**0.06**	**-1.14**	**6.38**	**10.36**	**15.46**	**20.12**	**24.95**	**29.31**
Shares Outstanding			15.0	15.0	15.1	15.2	15.3	15.3
EPS				**$ 0.69**	**$ 1.02**	**$ 1.33**	**$ 1.64**	**$ 1.91**

Balance Sheet

	2024	2025	2026	2027	2028	2029	2030	2031
Cash & Equivalents	24.26	35.90	31.78	26.33	26.92	33.73	45.57	63.24
Accounts Receivable	24.85	24.12	33.16	37.09	40.77	44.03	47.27	50.10
Inventories	110.15	102.80	103.02	115.21	126.66	136.80	146.85	155.64
Other Current Assets	2.40	3.07	4.77	4.77	4.77	4.77	4.77	4.77
Total Current	161.65	165.89	172.73	183.40	199.12	219.34	244.45	273.75
Net PP&E	23.44	20.63	20.39	20.59	20.81	21.05	21.30	21.57
Intangible Assets	1.64	0.35	0.29	0.29	0.29	0.29	0.29	0.29
Deferred Tax Asset	5.50	8.74	8.35	8.35	8.35	8.35	8.35	8.35
Other Assets	0.21	0.23	0.26	0.26	0.26	0.26	0.26	0.26
Total Assets	**192.45**	**195.84**	**202.02**	**212.88**	**228.82**	**249.28**	**274.65**	**304.22**
Liabilties								
Accounts Payable	15.46	21.34	19.59	21.76	23.75	25.46	27.14	28.55
Other Current	15.40	14.28	15.99	15.99	15.99	15.99	15.99	15.99
ST Debt	1.17	1.17	0.79	0.79	0.79	0.79	0.79	0.79
Total Current	32.03	36.79	36.37	38.53	40.53	42.24	43.91	45.33
LT Debt	1.59	1.11	0.60	0.60	0.60	0.60	0.60	0.60
Other Liabilities	0.78	1.20	1.17	1.17	1.17	1.17	1.17	1.17
Deferred Tax Liability	0.09	0.08	0.18	0.18	0.18	0.18	0.18	0.18
Total Liabilities	**34.49**	**39.18**	**38.32**	**40.48**	**42.47**	**44.19**	**45.86**	**47.27**
Equity	**157.95**	**156.66**	**163.70**	**172.40**	**186.35**	**205.09**	**228.79**	**256.95**
Total Liabilities & Equity	**192.45**	**195.84**	**202.02**	**212.88**	**228.82**	**249.28**	**274.65**	**304.22**

Cash Flow Statement

	2024	2025	2026	2027	2028	2029	2030	2031
Net Income	0.06	-1.14	6.38	10.36	15.46	20.12	24.95	29.31
D&A	4.31	4.00	3.79	4.91	5.40	5.83	6.26	6.64
Tax Credit	-1.00	-3.26	1.06					
Other Funds	2.00	6.18	1.26					
SBC		*1.55*	*1.62*	1.81	1.99	2.15	2.31	2.45
Increases in WC	1.16	4.77	-11.73	-13.95	-13.14	-11.69	-11.61	-10.21
Operating Cash Flow	6.52	10.55	0.76	3.14	9.71	16.42	21.91	28.18
Capex	-4.04	-2.81	-4.38	-5.11	-5.62	-6.07	-6.52	-6.91
Other Sources	0.00	6.83	0.00					
Sale of Fixed Assets	0.00	0.01	1.30					
Investing Cash Flow	-4.04	4.02	-3.08	-5.11	-5.62	-6.07	-6.52	-6.91
Cash Dividends Paid	-3.38	-3.41	-3.44	-3.47	-3.50	-3.53	-3.57	-3.60
Change in Capital Stock	0.59	0.32	0.99					
Other Funds	-0.12	-0.16	-0.10					
Financing Cash Flow	-2.91	-3.25	-2.54	-3.47	-3.50	-3.53	-3.57	-3.60
Exchange Rate Effect	-0.30	0.31	0.74					
Net Change in Cash	**-0.72**	**11.64**	**-4.12**	**-5.45**	**0.59**	**6.82**	**11.83**	**17.68**

Pre-tax income includes interest income on cash balances

Veltha

Important Disclosures

Analyst Certification. The author certifies that the views expressed in this report accurately reflect the author's personal views about the subject company and its securities, and that no part of the author's compensation was, is, or will be directly or indirectly related to the specific views or conclusions expressed in this report.

Position Disclosure. As of the publication date, the author does not hold any position, long or short, in the securities of the subject company, and does not intend to initiate any position within 72 hours following publication. If a position is initiated thereafter, Veltha Research will disclose it in any subsequent report on the company.

No Compensation from Subject Company. Veltha Research has not received compensation of any kind from the subject company or any affiliate, and has no business relationship with any company mentioned in this report. This report was not commissioned by any party.

Not Investment Advice. Veltha Research is a publisher of general and impersonal investment research. It is not a registered investment adviser or broker-dealer. This report is provided for informational purposes only and does not constitute investment advice, an offer to sell, or a solicitation of an offer to buy any security. Nothing in this report is tailored to the investment needs of any specific person. Readers should conduct their own due diligence and consult a qualified financial adviser before making any investment decision.

Accuracy of Information. This report is based on publicly available information, including SEC filings, company press releases, earnings call transcripts, and other sources believed to be reliable. Veltha Research has not independently verified such information and makes no representation or warranty, express or implied, as to its accuracy or completeness. This report contains estimates, calculations, and derived figures prepared by Veltha Research from company disclosures, which are identified as estimates where used and are subject to error. All information is as of the date of publication, and Veltha Research undertakes no obligation to update this report.

Non-GAAP Financial Measures. This report may reference non-GAAP financial measures as reported by the subject company. These measures are not defined under generally accepted accounting principles, may not be comparable to similarly titled measures reported by other companies, and should be considered in addition to, not as a substitute for, the most directly comparable GAAP measures. Reconciliations are provided in the company's filings and earnings releases.

Forward-Looking Statements. This report contains forward-looking statements, estimates, and projections that involve substantial risks and uncertainties. Actual results may differ materially. Past performance is not indicative of future results.

Risk of Loss. Investing in securities involves risk of loss, including possible loss of principal. Securities of small- and micro-capitalization companies involve heightened risks, including limited liquidity, wide bid-ask spreads, and price volatility.