

Growth Arrived, Cash Flow Still an Open Item

Richardson reported fourth quarter net sales of \$66.2M, up 27.6%, with growth across all three units. PMT grew 28.1% to \$47.5M on semiconductor wafer fabrication and RF products, GES grew 20.4% to \$6.5M on wind products, and Canvys grew 29.5% to \$12.3M on North American demand. Fiscal 2026 revenue was \$228.6M, up 9.4%. **Backlog ended at \$164.4M**, up 8.7% sequentially and the **highest in three years**. We are maintaining our Hold rating and \$17.00 fair value pending the call and a model update.

The operating leverage we looked for in our initiation appeared this quarter. Operating expenses rose 12.9% against 27.6% sales growth, falling to 26.6% of sales from 30.0%. Incremental operating margin on the \$14.3M of additional revenue was roughly 19%, well above the 5.2% non-GAAP operating margin the business posted in the quarter. Fixed costs at LaFox are largely in place, and volume above a certain level converts at a much higher rate than the reported average suggests. One quarter does not confirm it, but this is the first piece of clean evidence in several years.

However, there are two items that temper the headline. GAAP net income of \$3.7M, up 244%, includes an \$847K gain on the disposal of healthcare assets and a \$426K valuation allowance benefit against a \$436K audit settlement. Non-GAAP EPS of \$0.21 is the comparable figure. The effective tax rate was 10.8% in the quarter and 14.6% for the year, so normalizing toward a low twenties rate reduces full year non-GAAP EPS from \$0.40 to roughly \$0.35.

Cash conversion deteriorated materially. Full year operating cash flow was \$762K against \$6.4M of net income. **Receivables consumed \$8.9M** and payables another \$1.9M. Inventory ended at \$103.0M, unchanged year over year and equal to 45% of annual sales. Capital expenditures of \$4.4M and dividends of \$3.4M left free cash flow negative, and cash declined \$4.1M despite \$1.3M of disposal proceeds. This was the working capital dynamic we described at initiation. Growth at Richardson absorbs cash before it produces it, and a \$9M receivable build against \$19.7M of incremental annual sales implies roughly 45% marginal absorption. **We will be asking management about receivable days and whether the increase reflects shipment timing or a change in customer payment behavior.**

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PMT gross margin improved to 31.2% for the year from 30.5%, consistent with the shift toward engineered solutions we argued would drive rerating. But PMT margin declined to 31.1% from 31.4% in the fourth quarter, the strongest volume period of the year, and GES margin fell to 30.2% from 31.6% while growing 20%. If mix were structurally improving we would expect the highest volume quarter to show it. We want the manufactured versus distributed split within PMT before concluding the mix shift is durable.

The largest open question is the shape of fiscal 2027. At the LD Micro Invitational on May 18, management referenced full year revenue of approximately \$215M while discussing the scale of a new project-based opportunity. The gap raises a question about the timing of shipments late in the year. Faster conversion of bookings to shipments would be a positive read on wafer fabrication lead times. Shipments originally scheduled for the first quarter of fiscal 2027 moving forward would make the coming quarter lighter than the fourth quarter run rate implies. Backlog rising while the company shipped a record quarter argues against pure pull forward, since bookings exceeded billings by roughly \$5M, though extended lead times can inflate backlog independent of demand. We will ask for backlog composition and the portion scheduled for delivery within four quarters.

Our thesis is unchanged. Richardson remains a manufacturer inside a distributor, and the market will pay for that only once margins demonstrate it. **This quarter moved the evidence forward on operating leverage and backlog while moving it backward on cash conversion.** We will revisit near term growth assumptions following the call.

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