

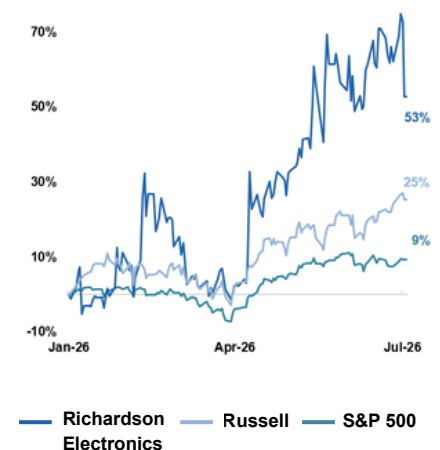
We are initiating coverage of **Richardson Electronics** with a Hold rating and a fair value of \$17 per share. Our thesis is five words: a manufacturer inside a distributor. Data vendors classify Richardson as a legacy electronics distributor, yet the company designs and manufactures more than 55% of what it sells, from electron devices consumed by semiconductor fabs to patented wind turbine modules and, since May 2026, U.S. assembled battery storage systems built with Gotion. Two forces drive earnings from here: a structural mix shift toward higher margin manufactured product, and a cyclical recovery in semiconductor consumables. Both are real; our question is on price. The shares have almost doubled in the last twelve months and now discount most of the base case we can responsibly underwrite. We would turn constructive on evidence: inventory converting to cash, storage orders landing, or a pullback that restores a margin of safety.

- **Mix shift toward manufactured product is the structural driver.** Engineered products manufactured in LaFox carry gross margins well above the distribution book. Consolidated gross margin reached 31.9% in Q3 FY26, up 90 basis points year over year, and we model 33.5% by FY2028 as manufactured revenue grows faster than distributed revenue and fixed costs are absorbed.
- **The semiconductor consumables recovery is underway.** Richardson supplies electron devices and related consumables into the installed base of wafer fabrication equipment. Demand follows fab utilization rather than capital spending. PMT segment sales grew 9.7% year over year in Q3 FY26, backlog stands at \$151.2 million, and the company has printed seven consecutive quarters of sales growth.
- **Energy storage is an option, not a forecast.** The May 2026 agreement with Gotion covers commercial and utility scale storage systems assembled in Manteno, Illinois. The structure is designed for domestic content compliance. **We carry no storage revenue in our estimates given execution and regulatory uncertainty, and we treat the program as unpriced optionality in both directions.**
- **Valuation supports a Hold.** At \$16.92, the shares trade at approximately 21x our FY2028 EPS estimate of \$0.81 and approximately 11x FY2028 EBITDA on an enterprise basis. Our valuation of these cash flows produces \$16.76, rounded to \$17.00, essentially in line with the \$16.92 price. We view risk and reward as balanced to modestly favorable for patient holders, **with storage optionality carried outside our estimates.**

Fact Sheet

Ticker	NASDAQ: RELL
Current Share Price	\$16.92
52 week range	\$9.37 - \$19.86
Market capitalization	\$252.29mm
Net cash	\$29.49mm
Enterprise value	\$222.80mm
Fully Diluted Shares Out.	14.91mm
Short Interest	2.8 Days / 5.1% of Float
Fiscal year end	May 31st
Dividend (yield)	1.42%
Average daily volume (30d)	247,003
Next catalyst	FY26 Earnings: July 23

Price Performance (YTD)



- **Classification has obscured a changing business, though less than it used to.** A manufacturer inside a distributor. The company's own disclosure supports the phrase: more than 55% of what Richardson sells is designed and manufactured in house at its LaFox, Illinois campus, spanning electron devices for semiconductor equipment, ultracapacitor pitch modules for wind turbines, starting systems for rail, and custom medical displays. Manufactured product carries structurally higher gross margins, recurring replacement demand, and patent protection. Distribution carries none of those attributes. As mix shifts, consolidated gross margin rises durably: from the mid 20% range of the pure distribution era to 31.9% last quarter, and a modeled 33.5% by FY2028. For a decade this transition went largely unrecognized. A share price that has almost doubled in a year suggests recognition has begun, and that fact shapes our rating more than any disagreement with the direction of the business.
- **The cyclical driver is consumables, not capital equipment.** Richardson does not sell tools into fabs. It sells the consumables inside them: electron devices, principally thyratrons, design locked into installed etch and deposition equipment, that wear out with use. Demand therefore follows fab utilization and installed base age, not capital budgets. The FY2024 to FY2025 downturn cut volume through LaFox and left overhead under absorbed, punishing margins well beyond the revenue decline; that process is now running in reverse. PMT grew 9.7% in Q3 FY26 and gross margin expanded 90 basis points. Backlog reached \$151.2 million, up 11.4% sequentially and the highest since FY2023, split \$75.4 million in PMT, roughly \$40 million in GES, and \$38.2 million in Canvys, though the GES portion is annual contract structure and softer than firm dated backlog. The key moat here is qualification: a fab operator does not requalify a critical consumable to save modestly on price, and Western electron device capacity has contracted for thirty years. TransDigm paid approximately 4.6x revenue for CPI's electron device business in June 2024.
- **Working capital is the constraint the income statement does not show.** Working capital is the constraint the income statement hides. Richardson carries about \$108 million of inventory, roughly 270 days on hand, and net working capital has absorbed about 45 cents of each incremental revenue dollar; in FY2023, revenue grew 17% while free cash flow was negative \$15.6 million. The character of that inventory changed on the third quarter call. Management disclosed that a roughly \$45 million strategic buy, built ahead of a critical supplier's exit from power grid tube production, is complete and will burn down through 2030 with improved cash generation, and that inventory outside the buy is already declining. We treat the \$45 million as a pre funded lifetime buy rather than structural intensity, and we model net working capital falling from 45% of sales toward 35% by FY2030. A multiyear cash headwind becomes a cash source. The open items are execution against that guidance and replacement supply beyond 2030, which management describes as in progress.

- **The storage partnership changes the risk profile in both directions.** The Gotion partnership adds upside and headline risk. Announced in May 2026, it pairs Gotion cells assembled in Manteno, Illinois with Richardson engineering and go to market, across a 760 kWh commercial platform and a 5 MWh utility platform structured for domestic content compliance. The commercial logic is credible: demand for compliant, U.S. built storage exceeds supply, and Richardson brings the channel credibility its partner lacks. The political logic is unresolved, because Gotion's ownership remains a live controversy and the compliance rules keep moving. We carry zero storage revenue and treat the program as price optionality.
- **Why Hold rather than Buy.** So why Hold. Our estimates take diluted EPS from roughly \$0.17 in FY2026 to \$0.81 in FY2028, and we maintain conviction in that trajectory. The difficulty is arithmetic: our valuation of these cash flows produces \$16.76, rounded to \$17.00, essentially in line with the \$16.92 price. The market is already paying for results two fiscal years away. Upside from here requires FY2029 and beyond extending past our horizon, a re rating as manufactured gross profit becomes the clear majority, or storage (BESS) orders converting the option. Each is plausible. We initiate at Hold and state below what would move us.
- **What would make us more constructive.** We would revisit the rating on any of the following: two consecutive quarters of inventory reduction concurrent with revenue growth; formal qualification of the Ultra3000 program with GE and associated volume commitments; disclosed storage system orders with named counterparties; or a share price at or below approximately \$14, at which point our base case would again offer a reasonable margin of safety. Conversely, we would consider a negative rating change on two consecutive quarters of backlog decline, gross margin failing to hold above 31% through FY2027, or formal regulatory action affecting the Gotion partnership structure.

Risks to Rating and Fair Value

- **Semiconductor consumables demand stalls.** Our estimates assume fab utilization continues to normalize and the installed base consumes replacement devices at recovering rates. A pause in the memory upgrade cycle or a broader utilization decline would reduce PMT revenue and, through fixed cost absorption at LaFox, reduce gross margin disproportionately. The operating leverage that supports our FY2027 and FY2028 estimates is symmetric. We monitor sequential backlog, PMT segment growth, and commentary from the wafer fab equipment ecosystem.
- **Working capital absorbs the recovery.** Our estimates credit management's guidance that the completed strategic inventory buy burns down through 2030. If the burn down runs slower than guided, or if growth elsewhere in the business absorbs the release, free cash flow will trail net income materially and our fair value would prove generous. A related exposure sits at the end of the runway: replacement supply for the exiting tube manufacturer is described as in progress, and a failure to secure it before the strategic inventory is consumed would create a supply gap in a franchise product line.
- **Regulatory and political risk in the Gotion relationship.** Changes to foreign entity of concern rules, state level restrictions, or procurement policies that look through assembly location to cell intellectual property ownership could impair the storage program before it generates revenue. Because we carry no storage revenue, the estimate risk is limited, but headline risk to the multiple could be material.
- **Customer concentration.** A single wafer fabrication equipment relationship represents a material share of electron device revenue. Qualification protects the position but makes any loss effectively permanent.
- **Program timing in Green Energy Solutions.** GES revenue is drawn from annual contracts on customer schedules and can swing sharply quarter to quarter, as the decline from \$47.6 million in FY2023 to \$23.2 million in FY2024 demonstrated. The GE service qualification is near completion and is now understood to expand the served market by 15-20%, a smaller opening than previously assumed. Slippage in new product launches or in storage commercialization would push segment growth to the right.
- **Liquidity.** The float is small and average daily volume is thin. Position building and exit both move the price, and the shares can gap on modest volume in either direction. Upside risks to our rating include earlier than expected storage orders, faster GE qualification, semiconductor demand above our assumptions, and multiple expansion as manufactured gross profit becomes the majority of the total.

Company Overview

Richardson Electronics, founded in 1947 and headquartered in LaFox, Illinois, is a manufacturer and distributor of engineered power, microwave, and display technologies. The company reports three segments: Power and Microwave Technologies, which combines electron device manufacturing with franchise distribution of RF and power components; Green Energy Solutions, which manufactures patented ultracapacitor based modules for wind, rail, and power generation applications; and Canvys, which provides custom display solutions to medical and industrial OEMs. The company employs more than 430 people, over half in sales, engineering, and product management, operates from more than 60 locations in 24 countries serving over 20,000 OEM and end user customers, carries no funded debt, and has paid a continuous quarterly dividend since 1990. Edward Richardson, chief executive since 1974, controls the company through Class B shares carrying ten votes each.

Power and Microwave Technologies

PMT combines two businesses with different economics. The Electron Device Group manufactures and rebuilds power grid tubes, hydrogen thyratrons, magnetrons, and related high power devices at LaFox. These devices are consumables with finite operating lives, design locked into semiconductor fabrication equipment, industrial lasers, radar, and scientific installations. Most Western capacity in this category has exited over several decades, leaving Richardson among the few qualified sources for a number of device types. Gross margins in this activity are structurally in the 40% range and demand recurs with installed base utilization. The second business is franchise distribution and design in support for RF, microwave, and power components from suppliers including Qorvo and Wolfspeed, augmented in 2026 by technology partnerships with Nxbeam in high power MMICs and NoMIS Power in silicon carbide. Distribution margins are materially lower, but the activity funds the global sales infrastructure and has historically functioned as a sourcing mechanism for technologies the company later verticalizes into manufactured product.

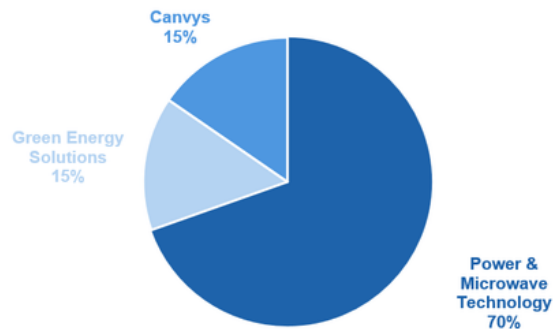
Green Energy Solutions

GES manufactures proprietary, patented products at LaFox. The ULTRA3000 and ULTRAPEM pitch energy modules replace lead acid battery packs in wind turbine pitch systems with longer lived ultracapacitor modules; the company sizes the global served market at approximately \$454 million and has sold roughly \$43 million of modules to date across more than 84,000 units, with multi brand platforms now shipping into Suzlon, Nordex, Senvion, and other OEM fleets internationally. The segment also produces ultracapacitor starting modules for rail, including the StartSaver system launched with Wabtec, and diesel generator applications. In May 2026 the company added battery energy storage systems through the Gotion partnership described above and shipped its first system, approximately \$0.6 million, in the fourth quarter, with quoted opportunities ranging from \$2 million to \$20 million per project. Segment history illustrates the volatility inherent in program revenue: sales of \$47.6 million in FY2023 fell to \$23.2 million in FY2024 as the initial wind module surge digested, before recovering to \$28.7 million in FY2025 and approximately \$31.6 million in FY2026 on our estimates. Backlog of approximately \$40 million provides coverage but, given its annual contract structure, not quarterly precision. The pending GE service qualification, which management expects to conclude around the first quarter of fiscal 2027, would expand the served market by 15-20% rather than the larger opening we had previously assumed, and we treat it as an incremental catalyst. The segment carries the highest incremental gross margins in the company and the majority of its patent estate.

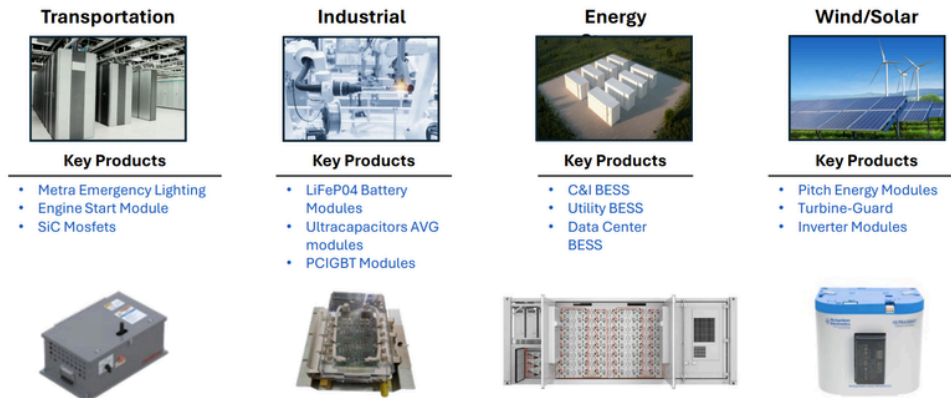
Canvys

Canvys designs and integrates custom display solutions, including touch screens, protective panels, and enclosures, for medical and industrial OEM customers in North America and Europe. Revenue is design win driven with multi year program lives. The segment grew 28.1% year over year in Q2 FY26 and continues to broaden its product line, including a 32 inch 4K surgical display introduced in May 2026. Segment revenue has held a narrow band of \$33 million to \$39 million across FY2023 through FY2025, and backlog of \$38.2 million at the end of Q3 FY26 covers more than a year of shipments; Canvys provides revenue stability against the cyclical of PMT and the program timing of GES.

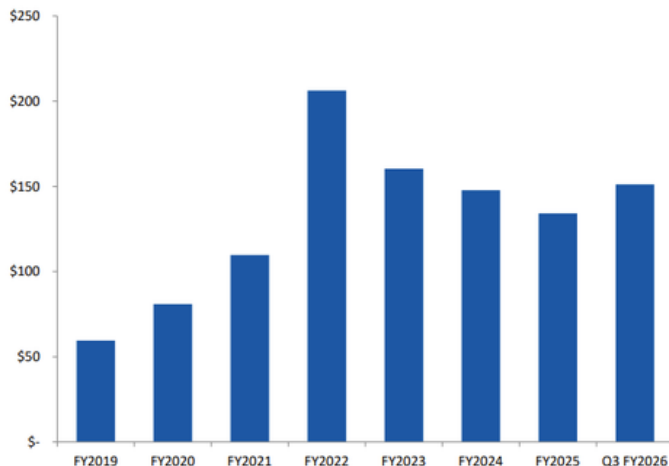
Combined Business Segment Overview (YTD 3Q'26)



Key Growth Levers



Total Company Backlog (\$ in mm)



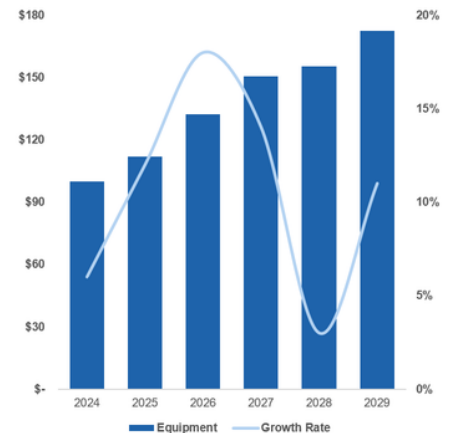
Industry Overview

Semiconductor consumables follow utilization, with a shrinking supplier base. Spending on wafer fabrication equipment is cyclical and widely followed; consumption of critical consumables within the installed base is steadier and less analyzed. Electron devices of the type Richardson manufactures are specified into equipment designs and replaced on cycles tied to operating hours. The supplier base has consolidated for decades as volumes migrated to solid state alternatives in mainstream applications, leaving the remaining sockets, where physics or qualification history preserve tube demand, in the hands of a small number of manufacturers. The economics of this structure were illustrated in June 2024 when TransDigm acquired the electron device business of Communications and Power Industries, a company with approximately \$300 million of revenue and roughly 70% aftermarket content, for approximately \$1.385 billion in cash. We do not apply that multiple to Richardson, whose electron device business is smaller and less defense weighted, but the transaction establishes that disciplined strategic capital assigns premium value to qualified, aftermarket heavy electron device franchises.

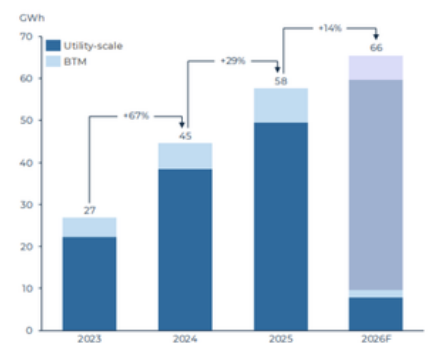
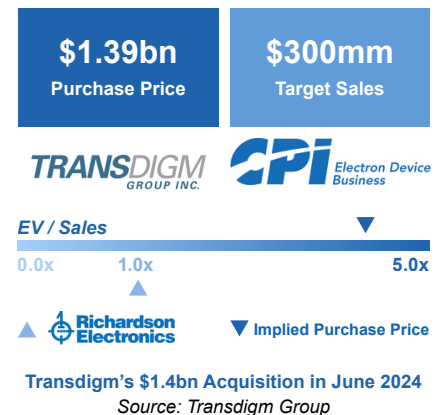
Domestic content rules are reshaping energy storage procurement. United States storage demand continues to compound while the domestic cell supply chain remains thin. Federal incentive eligibility increasingly turns on foreign entity of concern provisions, and utility procurement standards are moving in the same direction. This creates a defined commercial opening for storage systems assembled domestically with compliant structures, which is the opening the Richardson and Gotion program is designed to address. It also creates regulatory dependence: the rules that create the opportunity are politically contested and subject to revision. Participants in this market carry policy exposure as a structural feature rather than an incidental risk

Wind repowering favors component substitution. The North American wind fleet installed during the 2000s build out is aging, and operators increasingly extend asset life through targeted component replacement rather than full repowering. Pitch system energy storage is a recognized failure point, which is the demand base for the ULTRA3000 program. OEM qualification is the principal barrier to entry and the principal bottleneck to growth.

Custom displays reward regulatory depth over scale. Medical display integration is a niche in which certification requirements, long program lives, and OEM switching costs favor established specialists over commodity display manufacturers. Competition is fragmented and program based, which supports mid cycle stability for qualified suppliers such as Canvys and Daktronics adjacent specialists.



300mm Fab Equipment Spending (in \$bn)
Source: SEMI



U.S. BESS Annual Installed Capacity Outlook
Source: ReGlobal

Financial Outlook

We forecast revenue of approximately \$215 million in FY2026, \$236 million in FY2027, and \$255 million in FY2028, representing compound growth of approximately 9%. Within the total, we model PMT growing 8% to 9% in FY2026 and FY2027 on the consumables recovery before fading toward mid single digits, GES growing at high teens rates consistent with year to date bookings and management's double digit growth guidance, and Canvys growing low to mid single digits in line with its multi year history. We include no storage revenue beyond the first system shipped in the fourth quarter. Fiscal 2026 comprises three reported quarters and one estimated quarter. Management commentary frames the fourth quarter between approximately \$52.6 million, implied by a May conference reference to full year revenue near \$215 million, and approximately \$54.8 million, implied by guidance to a trajectory similar to the second quarter.

We model consolidated gross margin of 31.3% in FY2026 rising to 33.5% in FY2028 and 35.0% by FY2030, as engineering additions and the manufacturing mix shift compound. The progression reflects mix, as manufactured product grows faster than distribution, and absorption, as LaFox volume recovers against a largely fixed overhead base. Operating expenses grew during FY2026 as the company invested in its Sweetwater, Texas design center and storage commercialization; we model 4.0% annual growth thereafter, reflecting partial normalization of investment phase spending while remaining well below gross profit growth. The result is operating income rising from approximately \$3 million in FY2026 to approximately \$16 million in FY2028 and diluted EPS rising from \$0.17 to \$0.81 over the same period. EBITDA rises from approximately \$7 million to approximately \$21 million. Separately, the healthcare activity retained within PMT completed its contractual ALTA tube buildout during FY2026 and moved the Siemens repair program through life testing; management expects this activity to reach operating income neutrality in FY2027, a modest tailwind our estimates do not separately credit.

Financial Forecast

	Historical			Forecast				
	2023	2024	2025	2026E	2027E	2028E	2029E	2030E
\$ in mm								
Total revenue	262.7	196.5	208.9	215.2	236.4	255.2	270.5	285.2
y/y growth (%)		(25.2%)	6.3%	3.0%	9.8%	8.0%	6.0%	5.4%
Gross profit	83.7	55.7	64.8	67.4	76.8	85.5	92.7	99.8
Consolidated Gross margin (%)	31.9%	28.3%	31.0%	31.3%	32.5%	33.5%	34.3%	35.0%
SG&A	58.7	55.2	62.2	64.3	66.9	69.5	72.3	75.2
EBIT	25.0	0.4	2.6	3.1	9.9	15.9	20.3	24.6
margin (%)	9.5%	0.2%	1.3%	1.4%	4.2%	6.2%	7.5%	8.6%
EBITDA	28.6	4.7	6.6	7.1	14.4	20.8	25.5	30.0
margin (%)	10.9%	2.4%	3.2%	3.3%	6.1%	8.1%	9.4%	10.5%
Net income	19.0	0.1	(1.1)	2.6	7.8	12.2	15.5	18.7
Diluted shares	14.4	14.3	14.1	14.9	15.0	15.0	15.1	15.2
EPS (diluted)	\$1.32	\$0.00	(\$0.08)	\$0.17	\$0.52	\$0.81	\$1.03	\$1.23

Valuation Methodologies

We establish our fair value of \$17.00 as the equal weighted average of two approaches, run on the same model at a 10.0% cost of equity (4.3% risk free rate, 1.05 beta, 4.45% equity risk premium, 1.0% size premium). A discounted cash flow with a Gordon terminal value at 3.0% growth produces approximately \$18.24 per share. An 11.0x multiple on FY2028 EBITDA of roughly \$20.8 million, discounted under a mid year convention and adjusted for \$29.5 million of net cash, produces approximately \$15.28. The average is \$16.76, rounded up to \$17.00. Each step is stated in the fair value build exhibit. We use FY2028 because it is the first year in which margins are representative; earlier periods remain depressed by the semiconductor trough and transitory absorption effects. Roughly 70% of cash sits at foreign subsidiaries, making the net cash addition the least conservative element of the build.

The 11.0x is constructed, not selected. Weighting each layer by FY2028 gross profit contribution: manufactured product (65% of gross profit) at 13.0x, distribution (22%) at 8.5x, above broadline peers to reflect their leverage against Richardson's net cash, and Canvys (13%) at 9.0x. That blends to 11.5x. We deduct 0.3x for dual class governance, 0.2x for liquidity, and 0.3x for below normal cash conversion, and add back 0.3x for mix direction, arriving at 11.0x. TransDigm's acquisition of CPI's electron device business supports specialty manufacturer valuation for qualified aftermarket franchises; while we do not apply control transaction multiples to Richardson, we view the precedent as supportive of the 13.0x manufactured layer.

The DCF leg is higher because it capitalizes FY2030, after the inventory burn down and 35% margins; the multiple leg is lower because it strikes value on FY2028, before that progress. The implied terminal value equates to roughly 9.6x FY2030 EBITDA, below our explicit 11.0x exit multiple, indicating that the DCF premium reflects longer forecast duration rather than a more aggressive terminal assumption. We average the two because the DCF captures value created beyond FY2028 while the multiple approach anchors valuation to observable market pricing.

Valuation Cont.

One turn on the exit multiple moves that leg by roughly \$1.20 per share. Sensitivity brackets fair value between \$12.86 at a 9.0x exit and \$18.24 at the DCF base case, with \$16.49 at the 12.0x leverage adjusted ceiling.

Upside comes in two layers. The first is valuation: hold 11.0x and roll the base year to FY2030 EBITDA of roughly \$30 million, and the result approaches \$20 per share. The second is execution: the Richardson Energy Storage System program is carried at zero in our estimates, and a scenario of \$20 to \$30 million of FY2028 systems revenue at 30% gross margins would be worth roughly \$2 to \$3 per share. We will credit it when order flow, not strategy, provides the evidence.

Our valuation suggests modest upside over a longer horizon, but shares trade broadly in line with intrinsic value today. We initiate at Hold.

Share Price Sensitivities

WACC	2.0%	2.5%	3.0%	3.5%	4.0%
8%	\$21.58	\$23.22	\$25.20	\$27.62	\$30.66
9%	\$18.61	\$19.78	\$21.14	\$22.75	\$24.68
10%	\$16.39	\$17.26	\$18.24	\$19.38	\$20.71
11%	\$14.67	\$15.33	\$16.08	\$16.92	\$17.89
12%	\$13.30	\$13.82	\$14.40	\$15.05	\$15.77

Row: Perpetual Growth; Column: WACC

Exit Multiple	9.0x	10.0x	11.0x	12.0x	13.0x
8%	\$13.17	\$14.41	\$15.65	\$16.90	\$18.14
9%	\$13.01	\$14.24	\$15.47	\$16.69	\$17.92
10%	\$12.86	\$14.07	\$15.28	\$16.49	\$17.70
11%	\$12.72	\$13.91	\$15.10	\$16.30	\$17.49
12%	\$12.57	\$13.75	\$14.93	\$16.10	\$17.28

Row: Exit Multiple; Column: WACC

Valuation Inputs

Risk-free rate	4.3%
Equity risk premium	4.5%
Beta	1.05
Size premium	1.0%
Cost of equity	10.0%
WACC (no debt)	10.0%
Terminal growth (g)	3.0%
Current share price (\$)	\$ 16.92
Net cash (\$M)	\$ 29.49

Disclosures

Analyst certification. The analyst responsible for this report certifies that the views expressed herein accurately reflect the analyst's personal views about the subject securities and issuers, and that no part of the analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this report.

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