

# Richardson Electronics, Ltd.

**NasdaqGS:RELL**

## FQ3 2020 Earnings Call Transcripts

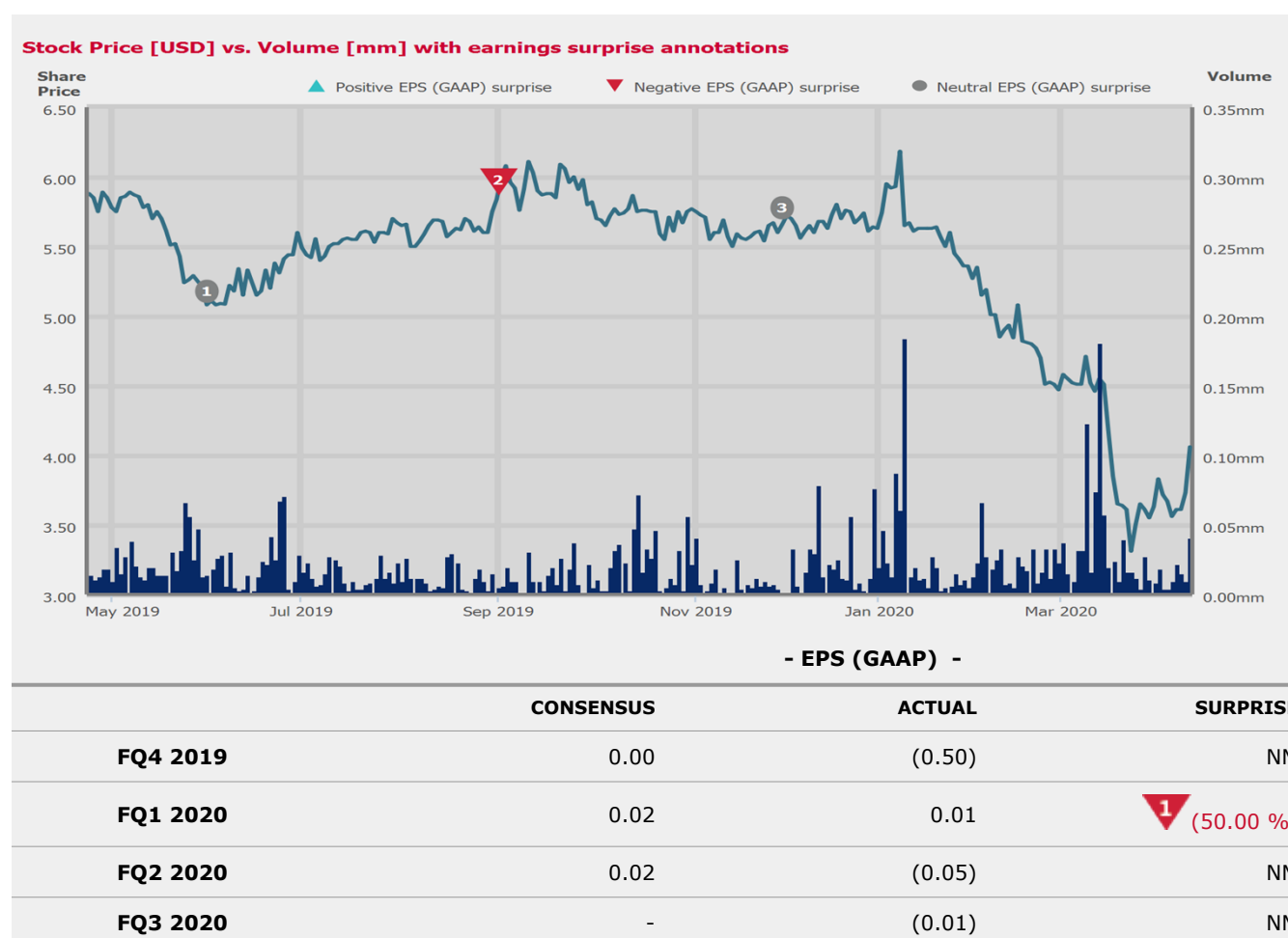
**Thursday, April 09, 2020 2:00 PM GMT**

S&P Global Market Intelligence Estimates

	-FQ3 2020-
	ACTUAL
EPS (GAAP)	(0.01)
Revenue (mm)	38.25

Currency: USD

Consensus as of Oct-11-2019 4:19 AM GMT



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# Call Participants

## EXECUTIVES

**Edward J. Richardson**

*CEO, COO, President & Chairman*

**Gregory J. Peloquin**

*Executive Vice President of Power  
& Microwave Technologies Group*

**Jens Ruppert**

*Executive VP & GM of Canvys*

**Robert J. Ben**

*Executive VP, CFO, Chief  
Accounting Officer & Corporate  
Secretary*

**Wendy S. Diddell**

*COO & Executive VP of Corporate  
Development*

## ANALYSTS

**Eric Landry**

*BML Capital Management, LLC*

**Harry Sauers;Sauers Value  
Partners;Analyst**

**Marc Silk**

*Silk Investment Advisers*

# Presentation

## Operator

Good day, everyone. And welcome to the FY '20 Third Quarter Earnings Call for Richard Electronics, hosted by Ed Richardson. My name is Leslie, and I'm the event manager. [Operator Instructions]

And now I would like to turn it over to your host, Ed Richardson. Please go ahead.

## Edward J. Richardson

*CEO, COO, President & Chairman*

Good morning, and welcome to Richardson Electronics Conference Call for the Third Quarter of Fiscal Year 2020. Joining me today are Robert Ben, Chief Financial Officer; Wendy Diddell, Chief Operating Officer and General Manager for Richardson Healthcare; Greg Peloquin, General Manager of our Power & Microwave Technologies group; and Jens Ruppert, General Manager of Canvys. We're all calling in from remote locations, and as a reminder, this is -- call is being recorded and will be available for audio playback.

I would also like to remind you that we'll be making forward-looking statements, and they're based on current expectations and involve risks and uncertainties, more so than ever today. Therefore, our actual results could be materially different. Please refer to our press release and SEC filings for an explanation of our risk factors.

I'm pleased to report that we made a small profit in our third quarter. Given the healthcare concerns that dominate our attention, this is a testament to the Richardson team, particularly throughout Asia where the coronavirus impact reached a critical level during the quarter. Today, more than 20% of our business comes from this region. As we continue to monitor the coronavirus developments closely, the health and well-being of our employees, customers, suppliers, relatives and friends throughout the world are of the greatest importance to us. Being prepared and maintaining a safe work environment is critical to sustaining our business operations.

Richardson Electronics is considered an essential business. We continue to manufacture and distribute products on a global basis. In addition to adhering to social distancing guidelines and other health measures, we're taking the necessary precautions at the local level to protect our employees. We've implemented work-from-home capabilities. We've put policies in place to mature employees who are ill do not come to work and have no concerns about the security of their jobs. For those with other health concerns, we're employing flexible policies to address individual needs. Travel has been severely restricted. We suspended all customer and supplier visits to our facilities. Through all of these actions, we're able to offer uninterrupted deliveries of products and support to our customers and suppliers.

I'll now turn the call over to Bob Ben, who'll provide a detailed recap of our third quarter financials. Then Greg, Wendy and Jens will discuss the individual business unit performance, including more details regarding the impact of the coronavirus.

## Robert J. Ben

*Executive VP, CFO, Chief Accounting Officer & Corporate Secretary*

Thank you, Ed, and good morning. I will review our financial results for our third quarter and first 9 months of fiscal year 2020, followed by a review of our cash position. First, I am pleased to say that the company reported an operating income of \$11,000 for the third quarter of fiscal 2020 as compared to an operating loss of \$0.8 million in the third quarter of last year.

While total company net sales for the third quarter of fiscal year 2020 decreased 2% to \$38.2 million compared to the prior year's third quarter of \$39.0 million, net sales for Canvys increased for the third quarter of fiscal year 2020 by \$0.3 million or 3.5%. Sales of semiconductor wafer fab equipment specialty products also increased from last year's third quarter.

PMT net sales benefited from higher sales of power conversion in RF and microwave components, although overall sales for PMT decreased \$0.7 million or 2.5%. This was primarily due to economic softness in the power grid tube market and lower sales in China due to the coronavirus.

Richardson Healthcare net sales decreased \$0.2 million or 11.9% as a result of lower sales of equipment in Latin America and noncore diagnostic imaging parts partially offset by higher sales of our ALTA750 CT Tube, which grew by 135% over the prior year's third quarter.

Gross margin for the quarter improved to 33.1% of net sales compared to 31.5% of net sales in last year's third quarter. This was primarily due to a favorable product mix and improved manufacturing performance in both PMT and Richardson Healthcare. Canvys gross margin of 32.8% was the same as last year's third quarter.

Operating expenses decreased to \$12.7 million for the third quarter of fiscal 2020 compared to \$13.1 million in the third quarter of fiscal 2019. The decrease in operating expenses resulted from lower severance, legal and professional services expenses partially offset by higher research and development expenses for Richardson Healthcare as we invest in additional CT X-ray tube types.

As I mentioned, the company reported an operating income of \$11,000 for the third quarter of fiscal 2020 as compared to an operating loss of \$0.8 million in the third quarter of last year. This is a result of the improved gross margin and lower operating expenses.

Other income for the third quarter of fiscal 2020, including interest income and foreign exchange, was \$0.1 million compared to other income of less than \$0.1 million in the third quarter of fiscal 2019. The income tax provision of \$0.2 million for the quarter reflected a provision for foreign income taxes, which was lower than in the prior year's third quarter and the U.S. tax benefit due to the valuation allowance recorded against the net operating loss. Although there is no tax benefit shown on our financial statements, from U.S. net operating losses, we can use our net operating losses to offset any cash tax liability reported in our U.S. federal income tax return. The amount of federal NOLs is \$15.4 million. Overall, we had a net loss of \$0.1 million for the third quarter of fiscal 2020 as compared to a net loss of \$1.1 million in the third quarter of fiscal 2019.

Turning to a review of the results for the first 9 months of fiscal year 2020. Net sales for the first 9 months of fiscal year 2020 were \$118.5 million, a decrease of 4.8% from the first 9 months of fiscal year 2019 net sales of \$124.5 million. Net sales decreased by \$7.7 million for PMT but increased by \$1.7 million or 8.3% for Canvys.

Sales for Richardson Healthcare of \$7 million were the same as last year. Gross margin increased to 32.3% from 31.5%, primarily reflecting favorable product mix in Richardson Healthcare and improved manufacturing performance for both PMT and Healthcare.

Operating expenses were \$38.7 million for the first 9 months of the fiscal year, which represented a decrease of \$0.9 million from the first 9 months of the last fiscal year. The decrease was due to lower severance, legal and professional services expenses partially offset by higher research and development expenses for Richardson Healthcare.

Operating loss for the first 9 months of fiscal year 2020 was \$0.4 million, the same as for the first 9 months of fiscal year 2019. Other income for the first 9 months of fiscal 2020, including interest income and foreign exchange, was \$0.2 million, the same as for the first 9 months of fiscal 2019. The income tax provision of \$0.4 million for the first 9 months of fiscal 2020 primarily reflected a provision for foreign income taxes and no U.S. tax benefit due to the valuation allowance recorded against the net operating loss.

Overall, we had a net loss of \$0.6 million for the first 9 months of fiscal year 2020 compared to a net loss of \$1.0 million in the first 9 months of fiscal year 2019.

We continue to closely manage our cash position. Cash and investments at the end of the third quarter of fiscal 2020 were \$43.9 million compared to \$46.1 million at the end of the second quarter of fiscal 2020 and \$49.4 million at the end of the third quarter of fiscal 2019. Capital expenditures were \$0.4

million in the third quarter of fiscal 2020 compared to \$1.0 million in the third quarter of fiscal year 2019, approximately \$0.2 million related to our IT system, \$0.1 million was for facilities projects and another \$0.1 million was for our manufacturing business. On a year-to-date basis, capital expenditures totaled \$1.2 million as compared to \$3.2 million in the first 9 months of fiscal 2019.

Cash flow used in operations plus capital expenditures for the third quarter of fiscal 2020 was \$1.4 million compared to \$3.5 million in the third quarter of fiscal 2019. On a year-to-date basis, this amount was \$3.6 million versus \$8.4 million for the first 9 months of fiscal 2019.

We paid \$0.8 million of dividends in the third quarter of fiscal 2020. In addition, based on our current financial position, our Board of Directors declared a \$0.06 per common share quarterly dividend, which will be paid in the fourth quarter of fiscal 2020.

To end on a positive note, during the quarter, we repatriated a total of \$3.1 million from foreign locations. Total cash repatriated for the first 9 months of fiscal 2020 was \$7.5 million. U.S. cash was \$27.4 million at the end of the third quarter of fiscal 2020.

Now I will turn the call over to Greg, who will discuss the results for our Power & Microwave Technologies group.

**Gregory J. Peloquin**

*Executive Vice President of Power & Microwave Technologies Group*

Thank you, Bob, and good morning, everyone. PMT sales in third quarter of fiscal year 2020 were \$28.9 million versus \$29.7 million in Q3 FY '19. Our gross margin improved in the quarter to 32.8% versus 31.6% in the prior year, and we reduced our SG&A in the quarter. Q3 sales when compared to prior year were mainly impacted by the year-over-year sales decline in our legacy Tube business, an issue related to COVID-19 in China. However, this decline was partially offset by continued strong growth and our new technology partners supporting the RF and power markets and increased sales with our semiconductor wafer fab customers.

Another positive trend was our book-to-bill. BTB was 1.13x and was driven by strong bookings from our wafer fab customers, C tube product lines and our PMG business unit. Our bookings growth in our EDG business unit was based on continued engineering and logistic support of the wafer fab market and global infrastructure to support our OEM and MRO customers. The growth in PMG bookings was due to our new technology partners' products, our demand creation model, our numerous design wins in high-growth markets and a unique global business model. We continue to improve our global go-to-market strategy by investing in key business development resources to greatly improve and increase our customer contact in a more efficient manner.

As the market conditions dictate, we continue to manage our SG&A and invest in key growth areas. We also continue to implement strategies to improve our efficiencies and increase our customer contact. These actions allow us to generate more opportunities in growing markets using our existing global infrastructure and head count. This will have a positive impact on our performance for the balance of the year and into the future.

Our revenue growth with our new technologies is being supported by key partners, such as Qorvo, MACOM, Anokiwave, United Silicon, ISM and Fuji Semiconductor. Our core legacy business continues to be greatly supported by the key tube manufacturers in the industry, such as CPI, Thales, NJRC and Photonis.

Of course, COVID-19 is having a net effect on Q4. As of this date, there have not been any large pushouts or cancellations. We are in consistent communication with our suppliers and customers. We are very excited about the booking trends in both business units, however, we know that there will be an adjustment period at some point in which the customers will adjust their backlog as they get more data on the global status of COVID-19.

It is interesting, though, as I have talked to all of you about 5G opportunities for the past few years and spent my career rolling out 3G, 4G and now 5G infrastructure to increase the ability to be mobile and

communicate and manage data throughout the world. With there being a shortage of so many items with this pandemic, what we are not short on is bandwidth in wireless communications.

Wireless infrastructure was not put in over the years for this event. However, I started to think what we'd be dealing with if everyone in the world immediately worked from their home and manage their business and communicate without the implementation of 3G, 4G and now 5G infrastructure. We were able to take our entire organization on a global basis and get them started to work from the safety of their homes within hours after we implemented the stay-home policy. When we get through this, I believe there will be a major expedite of getting 5G capabilities throughout the world, and Richardson is very well positioned to support it. I can't stress enough the value of Richardson Electronics unparalleled capability and global go-to-market strategy that is unique to the power and RF and microwave industries. Our world-leading position in the manufacturing and distribution of electronic devices supports the legacy equipment as well as new equipment where solid-state cannot replace tubes. The combination of these 2 niche strategies separates us from our competition and has proven successful. Once this virus is controlled, we feel we are definitely in the right markets and have the right strategy to support the opportunities as they arise.

With that, I'll turn it over to Wendy Diddell in Richardson Healthcare.

**Wendy S. Diddell**

*COO & Executive VP of Corporate Development*

Thanks, Greg, and good morning, everyone. Revenues generated from CT in the third quarter of FY '20 increased 135% over last year's third quarter. While we don't report the actual number of tubes sold or installed, we are happy to note that the number of ALTA tubes sold during the quarter increased over prior year and over our most recent second quarter. Our average selling price for the ALTA750 declined slightly during the quarter as we pushed customers to try our tube over new and used OEM tube. While we were happy with the increase, we all agree more would be better. Our longest-life tube is now nearing 700 days.

Total healthcare sales in the third quarter were below prior year due primarily to the continuing significant decline in equipment sales. This is the result of ongoing economic issues throughout Latin and South America. Nearly all of our customers in these regions remain under financial pressure. This market will come back, and we'll be ready to support it when it does. In the interim, we speak regularly to all of our customers throughout the region and help them with critical parts supply and technical support.

Gross margin in the third quarter was 38.3% of sales, a fantastic improvement over 26.2% in Q3 last year. The improvement is due to product mix as well as improvements in manufacturing.

Producing CT tubes is a very difficult business. Companies who have been doing this for decades are constantly challenged by the operational demands placed on the product. Manufacturing tubes requires extreme and continual high levels of equipment and personnel performance. There is very little margin for error. With our team of experienced engineers and production technicians, the majority of whom came from leading CT tube manufacturers, we are confident we will continue to find solutions to improve our internal yields and increase the performance of our tubes. This, along with putting additional tube types into production, will help drive margins up in the future.

Throughout the quarter, we applied a full-court press to generate sales of the ALTA750. We reached out to every former, current and potential tube customers, including service providers and end users. We confirmed CT systems under contract and reminded everyone of the benefits of using our tube. Now we wait for a tube to fill on a scanner that's not covered under a service contract. We are prepared and will continue to stay in front of our customers.

Now fast forward several weeks, and we are faced with an unprecedented challenge. COVID-19 has brought much of our proactive selling efforts to a halt. Face-to-face meetings have been put on hold, and most hospital personnel are not taking sales calls. However, this is a short-term issue. We've all read and are questioning if tube sales will increase with the use of CT scans to help diagnose the virus. In fact, right now, the opposite may be true. Many of our third-party service providers are telling us that they have seen a drop in service call volume in recent weeks. That's because hospitals have canceled all noncritical surgeries and they're closing nonessential medical facilities so that all resources are ready and available

for coronavirus patients. This, too, is expected to be short-term with a spike in demand when COVID-19 is under control. Again, we are ready with parts and tubes.

Throughout this period, we are still offering 24/7 technical support and manning our product helpline. We are spending regular e-mail reminders to everyone in our database so they know where to turn when a part or tube is needed. We are checking in with our service partners and offering assistance. So far, our carriers are operating business as usual, and we have a team of people making sure our parts are ready to ship, no matter what time of the day or night they are needed. Our best wishes go out to those fighting on the front lines of the pandemic. We thank them for their service and for putting themselves at risk to take care of others.

As an essential business, our engineering and production teams continue with development and manufacturing. They're either working remote or in the plant under social distancing guidelines. We are working closely with our suppliers. Those that initially close due to shelter-in-place directives have reopened to support essential businesses, such as ours. We have had some prototype delays due to coronavirus-related personnel issues outside of Richardson Healthcare. We anticipate this will push testing of the G tube to early fall, with our launch planned for late January 2021. So just a short delay. Our efforts to develop a process for repairing a third tube are also underway, and we are exploring ways to expedite release. In both cases, it is more important to get the tubes right than to launch too early.

Finally, we continue to work with regulatory bodies in other countries, including China, Korea and Russia as well as smaller countries, such as the Ukraine. We are also working to ensure that we have both U.S. and EU approvals for the G tube at the time of launch. We appreciate your ongoing support as well as your patience.

At this point, I will turn the call over to Jens Ruppert to discuss third quarter results for Canvys.

**Jens Ruppert**

*Executive VP & GM of Canvys*

Thanks, Wendy, and good morning, everyone. Canvys, which includes the engineering, manufacture and sale of custom displays to original equipment manufacturers in industrial and medical markets, delivered strong performance with sales of \$7.2 million during the third quarter of fiscal 2020, an increase of 3.5% over the same period last year. The revenue increase for the quarter was related to increased customer demand in North America.

Gross margin as a percentage of net sales was 32.8% during the third quarter of fiscal 2020, the same as during the third quarter of fiscal 2019. Q3 fiscal 2020 was another strong quarter for Canvys with a book-to-bill of 1.57x. We were able to increase our backlog again to an all-time high in recent history. Our backlog consists of purchase orders that typically ship over 1 or more years. Customers issue call off orders that vary quarter-to-quarter based on customer demand, component availability and other factors. The healthy backlog position, along with the number of projects that are currently in the engineering stage, position us well for continued growth.

During the quarter, we received several new orders from both existing and first-time medical OEM customers. Applications where our displays are used are numerous. Some of these include cryolipolysis systems that break down fat cells by cooling off body fat; refractive surgery a laser system for therapeutic and refractive applications of cutting-edge corneal surgery; patient monitoring where our monitors are installed at patient beds or remote locations, such as central nurse stations; medical device control, capturing high-resolution images and live video from up to 2 surgical imaging devices; radiotherapy where highly customized displays are used to monitor the patients during the radiation treatment; diagnostic monochrome displays that are DICOM compliant; high-definition displays used for endoscopy applications; human-machine interface for electrosurgical devices, electrosurgery is application of high-frequency alternating polarity electrical current through biological tissue as a means to cut and coagulate tissue precisely and with limited blood loss; and dental treatment centers where patients can review radiographic images or live video from an intraoral camera or other video feeds, such as educational or videos or promotion.



In the nonmedical space, we received orders for various displays and all-in-one products. Applications include this place with an embedded RFID reader and USB hub used as human-machine interfaces for surface inspection machines, human-machine interfaces for ticketing machines in public transportation sectors, and tailor prompter, talent monitors and clocks used in the broadcast market for popular news stations around the world.

We continue to look for new customers through trade shows, online marketing, referrals and cold calling. The LCD and flat-panel industry has been hit hard by the coronavirus outbreak as China-based manufacturers have major production lines in Wuhan, the epicenter of the epidemic. The epidemic has disrupted production across almost all information and communication technology sectors leading many firms without components and material supplies. The chip resistor inventory, for example, has reached a 10-year low level. Our lead times have been impacted as well, and we don't see them coming back to normal soon.

The impact of the coronavirus outbreak is expected to affect it all up to 20% in the global flat panel output. It is difficult to quantify the impact specifically to our business at this time. We do expect some customer pushouts. While several of our customers are considered essential businesses, like we are, they're operating on a reduced output basis for now. Many others are closed. Considering all the new programs we are working on with existing as well as new customers. I'm optimistic that we will continue growing our business once we are past the effect of the coronavirus.

We have proven ourselves to be a highly reliable, versatile technology company with the ability to meet a diverse number of display requirements as well as being in compliance with the upcoming of MDR. We offer our key customers safety stock options, enabling them to react quickly on unexpected increased demands and helping bridge interruptions in the supply chain, such as we are seeing with the coronavirus.

I will regularly review and adjust our business strategy with the goal of further improving the operating performance of the division, taking into consideration any changes that result from an extended epidemic. For now, we remain ready to serve our customers and play an important role in supply chain management for critical industries, such as healthcare, manufacturing and transportation.

I will now turn the call back over to Ed.

**Edward J. Richardson**

*CEO, COO, President & Chairman*

Thanks, Jens, for an excellent quarter. I want to thank all the Richardson employees globally for continuing to focus on the business while paying attention to the safety precaution established by the CDC and the World Health Organization. As an essential business, we're asking a lot from our employees, who continue to work through this extraordinary time to support our customers. While we'll likely experience a decline in demand in the near term, our flexibility and willingness to work closely with our customers and suppliers will put us in a very strong position to deliver when the coronavirus is defeated.

Now more than ever, we'll continue to stay focused on cash management. We have significant cash on hand to weather the coronavirus, but that doesn't mean we won't feel the impact. We will review all capital expenditure requests and will adjust resources based upon significant changes in demand. There's a tremendous amount of pressure for us to buy our stock back. While we agree it's severely undervalued, our priority is maintaining cash to support our growth initiatives for long-term shareholder benefit.

We're convinced our healthcare strategy is solid. Canvys will continue to win new display programs, and our investment in RF and wireless technologies for critical infrastructure expansion will pay off. Supporting these initiatives will be a good use of our cash. Our position and the position of our Board has not changed in this regard.

At this point, we'll be happy to answer a few questions. Please note, we're all in different locations, so bear with us.

# Question and Answer

## Operator

[Operator Instructions] And we do have a question. It comes from the line of Marc Silk.

## Marc Silk

*Silk Investment Advisers*

Mr. Richardson, you've mentioned cash management, the capital expenditures, cash, a few times. I've seen your cash go from \$60 million a few years ago down to \$43.9 million. I brought this up before, and I think now with what's going on in the world, I think it makes sense that -- I think your salary is excessive. I think the right thing to do, even if you cut your salary in half, it's still a very healthy salary. And I think you got to do the right thing and show an example that you're sacrificing just like everybody else in the company.

So I'd like to hear that comment because the last time we talked about this, you said you haven't paid yourself in a long time, but sounds to me like the last few years between that and dividends, you've been doing very well. It's very hard for me to add to my position when you're using this as a piggy bank. So I would like you to comment on that because I think other shareholders feel the same way. So thank you for taking my call, and good luck.

## Edward J. Richardson

*CEO, COO, President & Chairman*

Thanks, Marc. Well, we certainly appreciate your opinion. Now what we have done during this period of time, and we're doing it again is the incentives for the executive team have been cut dramatically, and that's continued. So even though as a total gross number, it looks to be quite large to you, I understand it's far less than what we've been paid in the past. So we'll take your comment under consideration.

## Marc Silk

*Silk Investment Advisers*

And on the buyback, you're going to hold off for now, correct? Because I think having cash is very important.

## Edward J. Richardson

*CEO, COO, President & Chairman*

That is correct. We are not going to buy any more stock back at this juncture.

## Operator

Your next question comes from the line of Harry Sauers.

## Harry Sauers;Sauers Value Partners;Analyst

Well, first off, congratulations on a quarterly profit. I was a bit concerned for some time there, and that brings me a little bit of hope as a shareholder here as well as your continued commitment to the quarterly dividend. As you discussed with Marc, I mean, your stock is trading at these ridiculously depressed levels, but I understand that, of course, having cash is important. How do you expect that cash is going to be used in light of this situation, say, if it were to continue on for another year?

## Edward J. Richardson

*CEO, COO, President & Chairman*

Well, I don't think any of us really have an idea of what's going to happen with the coronavirus issue. And at this juncture, we want to take sort of a wait and see and be prepared. I think as we do better with the tube, the CT Tube manufacturing, our under absorption continues to go down and the cost, frankly, of the tube goes down, so the margins will go up. And I believe in the near term, if we get back to normal,

that we'll go cash flow neutral, and that would be a wonderful situation to have. But at the moment, we're going to take a wait-and-see attitude.

**Harry Sauers;Sauers Value Partners;Analyst**

Definitely, as a shareholder, I agree with you. That would be a wonderful situation to see. I pulled up some statistics this morning that suggested that the average CEO of an electronics manufacturing company earns a bit over \$200,000 in salary. This is from the Bureau of Labor statistics. What makes you, Mr. Richardson, worth nearly 4x that, plus performance bonuses?

**Edward J. Richardson**

*CEO, COO, President & Chairman*

Well, again, the amount of salary that I've taken and -- has been pretty much common now since the company has gone public years ago. As I mentioned, currently, we're taking cash incentive reductions, so I appreciate your opinion on it. It's been a fact of life with the company, and I don't see it changing in the future, even.

**Harry Sauers;Sauers Value Partners;Analyst**

Well, I didn't offer an opinion there. I asked what makes you worth it.

**Edward J. Richardson**

*CEO, COO, President & Chairman*

I guess, 50 years' experience in the business, which doesn't exist anywhere else in the tube business.

**Harry Sauers;Sauers Value Partners;Analyst**

Interesting. So regarding your Canvys business segment, what does the operating profit or loss look like?

**Edward J. Richardson**

*CEO, COO, President & Chairman*

Jens, do you want to address that?

**Jens Ruppert**

*Executive VP & GM of Canvys*

Yes. Hello, this is Jens here. I mean I think we shared the numbers in the -- during the call, right? So we are making an operating contribution, and we are growing the business year-over-year since several years now. So I think it's a very positive business development right now.

**Harry Sauers;Sauers Value Partners;Analyst**

I'm having a bit of trouble here seeing the synergy of Canvys with your other business lines of PMT and healthcare, I guess, aside from the integration of healthcare displays. And to be quite frank with you, the canvys.com website, it looks like it was made in 2003 and not updated since. Don't you think that a larger business with better business synergies and more ability to inject cash into growing Canvys might be a better fit?

**Jens Ruppert**

*Executive VP & GM of Canvys*

So I'll leave this up to Ed to answer, but thanks for making me aware of the website. We are actually working on our website right now and refreshing it and making it nicer and appearing more like the healthcare and the rest of the company. So I think many years back before I was hired actually -- sorry?

**Harry Sauers;Sauers Value Partners;Analyst**

I said that's a relief. Thank you, I'm glad to hear that.

**Jens Ruppert**

*Executive VP & GM of Canvys*

Yes. And many years back, there was a strategic position at Richardson before I was hired to buy several display companies and then merger them together, and I think that's paying off. So we are pretty happy with production locations in Europe, in Germany, and also on the East Coast in America, and a global supply chain that works for us. And we have other areas where we work closely together with the Richardson Healthcare team. For example, we have global certifications, we have the ISO 13485 globally, we have a quality system that is globally in place for medical devices. So we all benefit from that. I think it's a pretty good fit now.

Anything to you'd want to add?

**Edward J. Richardson**

*CEO, COO, President & Chairman*

Yes. I mean we looked at that for years when the business was not profitable, and frankly, we set it up as a very independent company. So if and when it made sense for us to divest of the business, then we could do that. And fortunately, we were able to attract Jens to come to work for us a number of years ago. And with his knowledge of the medical industry and the display industry and also his hands on ability to manage people and reduce costs, he's done a fantastic job. And you listened to what the backlog is now and what the future looks like in that business, and I wish all of our businesses were doing as well as the display business that Canvys is doing. We certainly intend to have it as a critical part of our future.

**Harry Sauers;Sauers Value Partners;Analyst**

Well, I'm glad he's doing a good job in that regard there. I certainly don't disagree with that, right? But especially if we need cash and the needs of Canvys customers and employees might be better served by somewhere with more capital to inject into it, I guess you and I are just going to have to agree to disagree on that point.

**Edward J. Richardson**

*CEO, COO, President & Chairman*

For the time being, yes, for sure.

**Harry Sauers;Sauers Value Partners;Analyst**

If you're calling certain parts of Richardson Healthcare "noncore", why have you not hired an investment banker to divest those parts and refocus on your core operations?

**Edward J. Richardson**

*CEO, COO, President & Chairman*

We really aren't calling any portion of Richardson Healthcare noncore. I -- if you came with -- away with that impression, certainly it wasn't intended.

**Harry Sauers;Sauers Value Partners;Analyst**

Sure. That was a direct quote from this call. If it's not noncore, I can understand that, but there were parts of it that were referred to as noncore here.

**Edward J. Richardson**

*CEO, COO, President & Chairman*

Okay. I was...

**Wendy S. Diddell**

*COO & Executive VP of Corporate Development*

Ed, Maybe I can answer that?

**Edward J. Richardson**

CEO, COO, President & Chairman

All right. Fine.

**Wendy S. Diddell**

COO & Executive VP of Corporate Development

Yes. That was -- I think I made the comment that the sales decline was partially due to noncore parts. And what I was referring to there, the majority of our business, as everyone knows, is focused on Canon. And in the past, we had a few other vendors and product lines in the MRI space, in the coil space, where we had some part sales, but those programs weren't particularly efficient in terms of our investments in inventory dollars. So those are the ones when we look at quarter-over-quarter comparison, we had some sales in those last year, not a lot, as I mentioned, that didn't repeat this year because we've discontinued those efforts. But our core business, being the Canon parts, the tubes, et cetera, that -- those are performing very well. So I apologize for the confusion.

**Harry Sauers;Sauers Value Partners;Analyst**

All right. That's very helpful for me then. Do you anticipate any inventory write-downs due to demand falling?

**Edward J. Richardson**

CEO, COO, President & Chairman

The -- I would reserve that only, again, for this coronavirus issue, we have no idea what's going to happen in the next few months. But other than that, we don't see any major write-downs. We have normal reserves that are established, and they're more than enough to cover any inventory write-downs at this point.

**Harry Sauers;Sauers Value Partners;Analyst**

And do those same statements apply to your accounts receivable?

**Edward J. Richardson**

CEO, COO, President & Chairman

Yes. We've done -- our finance team has done an excellent job in keeping the accounts receivable current and getting the collections in on time here. They really do a fantastic job.

**Harry Sauers;Sauers Value Partners;Analyst**

Yes. I definitely see you have very few doubtful accounts as of now, but I do understand that it's been a concern in a lot of businesses about the accounts receivable not being able to be collected on. So...

**Edward J. Richardson**

CEO, COO, President & Chairman

Well, it could happen. Again, with this coronavirus thing, people are going to say, "Gee, we've been closed for 2 or 3 months. You can't expect us to pay on time." But so far, we haven't seen that. But who knows what's going to happen in that area. We -- historically, that has not been a problem with the business.

**Harry Sauers;Sauers Value Partners;Analyst**

And what do you attribute the CT Tube sales growth to? Because historically, the growth has been a little bit up and down. But I believe we're up 130% against this quarter over last year. Is that due to the impact of the coronavirus at all?

**Edward J. Richardson**

CEO, COO, President & Chairman

No. Wendy, do you want to answer that question?

**Wendy S. Diddell**

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*COO & Executive VP of Corporate Development*

Yes. So no, it is not due to the coronavirus at this point in time. Again, it's more a factor we've been saying since we launched the ALTA750 that the growth would be linear. And so quarter-over-quarter, the trend is just that, it's going up. The slope is not as steep as everybody would like it to be. But each quarter, we've shown -- with one or two exceptions, we've shown growth in the number of tubes. In the last quarter, 120 days or so, we've gone out very aggressively, making sure that we're positioned to win every opportunity that we come across. And so that's why, I think, we're seeing some of the growth now.

**Harry Sauers;Sauers Value Partners;Analyst**

Do you anticipate any demand slowing in those due to the coronavirus?

**Wendy S. Diddell***COO & Executive VP of Corporate Development*

Yes. Right now, we do. We're seeing a decline, again, in the number of calls, and our -- we've been talking to the third-party service companies that we partner with, and they're seeing a dramatic drop-off in their call volume. And the reason for that is because all nonessential, noncritical surgeries and procedures have all been postponed. And any equipment maintenance, any new installs, those kinds of things have also been put on hold because the hospitals don't want any disruption. They don't let visitors in their facility. So we think that's going to end up being pent-up demand when the coronavirus is under control, that we'll see the reverse of that. And you'll be able...

**Harry Sauers;Sauers Value Partners;Analyst**

So in the short run, how material would that decline be?

**Wendy S. Diddell***COO & Executive VP of Corporate Development*

I don't know. I don't know. I can't really define that at this point.

**Operator**

We have no further questions. [Operator Instructions] We do have a further question. It comes from Eric Landry.

**Eric Landry***BML Capital Management, LLC*

So Ed and Wendy, I'd like to have a short discussion here about the healthcare segment. And Ed, you mentioned earlier in the call that you believe the healthcare strategy is solid, and you've made that comment more or less now for the past 2 years. And you've been open for business for over 1.5 years now, and the business as it stands now is, I think we'd all agree, significantly less successful or solid than we had all hoped 1.5 years ago. So I'm wondering when you and Wendy and the Board would consider pivoting to more of a strategy that involves some OE manufacturing so that you can fill what to me looks like a gorgeous facility with nice modern equipment and lots of know-how inside a factory that appears to be pretty good at building tubes, yet nobody wants tubes that nobody wants to buy at this point. So if either of you could comment on whether or not there's been any thought to pivoting the strategy to something that might involve some more volume but perhaps maybe lower margins, so you could absorb some of those costs a little bit better than what I'm assuming are -- is being absorbed right now.

**Edward J. Richardson***CEO, COO, President & Chairman*

Well, I'll try to answer some of it. And then, Wendy, you're welcome to add your thoughts. First of all, we're well aware, for instance, on the Canon ALTA750 tube, that the tube is sold. It's made by Varex, as you know, imaging in it. It's sold to Canon for -- in the realm of \$30,000 a tube or less. And quite frankly, our manufacturing cost today on the tube approaches that. So there would be -- for us to enter the OEM business and try to compete with Varex to sell the tubes to Canon would be practically no profit. And so

we -- our total strategy with a company going back as long as I've been with the company is to compete with the OEMs for the aftermarket business. That's why we got into the CT manufacturing business to compete with Varex and Canon for the replacement business at a much higher-margin than is possible in the OEM business. And basically, it's a matter of cost and the market conditions that we haven't gone into OEM for that reason.

Wendy, do you want to add your comments on that?

**Wendy S. Diddell**

*COO & Executive VP of Corporate Development*

Sure. So I think we've mentioned in the past that we haven't completely ruled it out. Ed is right, it would be very difficult for us to sell to the OEMs because the pricing is so low. So it's not just a matter of saying that we would take lower margin, it's whether we could make any margin at all. Having said that, we have been talking to -- in the past 12 months, we've been talking to different companies. And so if the opportunity presents itself and it's a good one where we can help develop a new OEM solution where we can make some money doing it, I think we would consider it, Eric, and I don't think we're ruling it out.

In the interim, while we do that, and the sales team is focused on not just the OEM in the healthcare space, but similar tubes that are also used in industrial applications or security applications. So while I can't say anything is imminent, it's not that those conversations are not being held. We absolutely are looking at some of those opportunities.

Now in the interim, as we've talked about, what we will do, which kind of has the same impact, is, again, look at what are the additional tubes that serve the end user, like Ed said, where we can provide tubes in the aftermarket and we're working on, as you know, the G. And we're -- also started a new project for a different brand and a different -- 2 different tube types. And as soon as we know more and we're comfortable with the schedule, we'll start to talk a little bit more about that. But right now, I wouldn't want to put it out there until we can confirm some dates.

And then finally, we're looking at other items and accessories that go hand-in-hand with those. As you know, we make the heat exchanger in the same facility. We do brush blocks. We're now looking at high-voltage multipliers. So there's other things that they're not huge quantity. It's not the OEM business, and we fully concede that, but there are other parts and products that we're looking at that can utilize the same resources and, as you said, the gorgeous facility, the new equipment that we have.

**Eric Landry**

*BML Capital Management, LLC*

Okay. Wendy, that's somewhat comforting. But Ed, I still don't think I got an answer for why you think or still think that the healthcare strategy is solid, so let me just go back. The big reason that we bought the stock is, of course, because of the tube business, and it appeared to us that there was demand for the tube. Yet when we got to the point where it was time to sell the tube, nobody wanted to buy the tube, and there were all kinds of reasons for that. I guess, the OEM is a more stringent competitor than what everybody thought and this that and the other. I'm a little bit concerned that there's a lot of hopes being pinned on the G tube being manufactured, and I'm fearful that the situation with the G tube may be similar to the situation with the D tube. So we'll have two tubes to sell, but that will just mean that few people want to buy both tubes instead of just the one tube. So I'd like to know, Ed, what it is that makes you feel more comforted that with this G tube, you will all of a sudden have a viable business here, whereas at this point, it doesn't appear to be all that viable?

**Edward J. Richardson**

*CEO, COO, President & Chairman*

Well, I think, first of all, none of us think that 1 tube or 2 tube, makes a business in the CT tube area. And as Wendy mentioned, we're going forward to look at other manufacturers' tubes as well. And over the next few years, you'll see us release a number of tubes for other manufacturers so that we're not just a 1 tube shop, if you will. But at the same time, as you well know, the former CEO, their access on our Board. And I get a kick out of listening to him talk about Varex that it took them 20 years actually to develop

the ALTA tube before they could actually get it to market on a reliable basis. And he feels -- and we've spent a lot of money, obviously, but he feels we're just right around the corner from having a successful business in the aftermarket space with the -- some of the new tubes we're bringing on. And -- but it's not a 2-year business. And I apologize if we led you to believe it was a 2-year business going here, it's not. It's a 5-year business plus before we can be in a breakeven kind of position. And it's certainly not what the investment world looks for in a 2- or 3-year term.

**Eric Landry**

*BML Capital Management, LLC*

Okay. It's interesting that you mentioned a Board member, which I'm assuming is Mr. Kluge, and you said that his opinion is that brighter days are right around the corner. It would be helpful if investors could hear that from him because his actions sure don't indicate that he sees any type of a brighter future right around the corner. And I'm referring specifically to stock purchases, or in this instance, significant lack thereof, because he has been very inactive, meaning 0 purchases of stock that I can see. And it appears that he's a person of somewhat considerable means and could afford to buy the stock. So if investors could hear from his mouth that he believes that this is a very viable business in the not-so-distant future, I think that, that might override some concerns that maybe people have that this is a guy who has been on the Board for 2 years and hasn't bought one share of stock. So I guess what I would say to wrap it up is that actions speak louder than words, even given that, it would be helpful to hear it from his mouth and then maybe even to have some insider buying on his behalf would also be somewhat helpful.

**Edward J. Richardson**

*CEO, COO, President & Chairman*

No. I understand. And you've expressed that opinion before. He will be in for the annual shareholder meeting, and we talked about this and he said he'd be happy to answer questions at that time. So I can't answer the question for him.

**Eric Landry**

*BML Capital Management, LLC*

Okay. That'd be great. I tried to talk to him at the last meeting, and he left early, so I didn't get a chance.

Last thing, I just want to make clear that both Jens and Greg, I guess, and Wendy, everybody is expecting material pushouts this quarter because of the virus, correct?

**Edward J. Richardson**

*CEO, COO, President & Chairman*

I think we don't know what to expect. I think that's the answer.

**Eric Landry**

*BML Capital Management, LLC*

Okay. And the semiconductor business, is that -- does that appear to be affected as heavily as the other stuff?

**Edward J. Richardson**

*CEO, COO, President & Chairman*

No. They're also considered an essential business. And as a matter of fact, we're on a conference call with them tomorrow where they're going to give us an update. They're really concerned that they have to make deliveries on products and want to make sure that we're up to speed and can handle their requirements. So they're putting all their major vendors on conference calls to tell them what we need to do to fill their requirements, and we listen there. In these times, they're our biggest customer, that's for sure. That industry is our biggest customer.

**Operator**



Okay. I'm sorry to interrupt. We are running out of time, so now I would like to turn the call back to Ed for closing statements.

**Edward J. Richardson**

*CEO, COO, President & Chairman*

All right. Yes, thanks, Leslie. Well, thanks to all of you for joining us and for your ongoing interest in Richardson Electronics. We wish everyone good health during these unprecedented times, and we send best wishes to all of those impacted by the coronavirus. We look forward to discussing our fiscal 2020 fourth quarter and full year results with you in July.

Thanks very much. Any of you are welcome to call in later. We're happy to discuss more details with you at that time. Thanks.

**Operator**

Thank you, Ed, and thank you to all your speakers, and thank you, everyone. That concludes your conference call for today. You may now disconnect. Thank you for joining, and enjoy the rest of your day.

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