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RELL - Q2 2020 Richardson Electronics Ltd Earnings Call

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PRESENTATION

Operator

Good morning, and welcome to the FY '20 Second Quarter Earnings Call for Richardson Electronics. I'll now turn the call over to your host, Mr. Ed Richardson, CEO.

Edward J. Richardson - *Richardson Electronics, Ltd. - Chairman, CEO & President*

Good morning and welcome to Richardson Electronics' conference call for the second 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.

As a reminder, this 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. Therefore, our actual results could be materially different. Please refer to our press release and SEC filings for an explanation of our risk factors.

Sales in the second quarter were lower than we anticipated due primarily to unfavorable economic conditions. This had an impact on our power grid tube business and on refurbished CT system sales.

While the semiconductor market started to show signs of life in the quarter, we've had to work with our vendors to pull in critical components required to build parts and assemblies. On a comparative basis, sales to customers in the semiconductor wafer fab market were still good in the second quarter of last year. We expect to see an increase in this business later in the fiscal year. I'm also pleased that our investments in CT Tube manufacturing, PMG and Canvys continued to drive revenue growth. All 3 areas exceeded prior year sales.

In addition to driving sales, our teams are staying focused on gross margin improvement and expense control. We continually look for ways to improve efficiency, such as reallocating headcount and sharing resources across SBUs. In the second quarter, gross margin improved and expenses decreased compared to last year. As a result, operating income was comparable to Q2 in FY '19.

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

Robert J. Ben - *Richardson Electronics, Ltd. - Executive VP, CFO, CAO & Corporate Secretary*

Thank you, Ed, and good morning. I will review our financial results for our second quarter and first 6 months of fiscal year 2020, followed by a review of our cash position.

Net sales for Canvys increased for the second quarter of fiscal year 2020 by \$1.4 million or 20.9%. Total company net sales for the second quarter of fiscal year 2020 were \$39.6 million, compared to prior year's second quarter of \$41.3 million, which was a decrease of \$1.7 million or 4.1%. Although PMT net sales benefited from much higher sales of power conversion and RF and microwave components, overall sales for PMT decreased \$2.7 million or 8.4%.

Richardson Healthcare net sales decreased \$0.3 million or 12.6% as a result of lower sales of equipment in Latin America, partially offset by higher sales of our ALTA750 CT Tube, which grew by 11.9% in the quarter.

Gross margin for the quarter improved to 32.0% of net sales, compared to 31.4% of net sales in last year's second quarter. This was primarily due to the favorable product mix in Richardson Healthcare and improved manufacturing performance in both PMT and Richardson Healthcare. Canvys gross margin was slightly higher than last year's second quarter.

Operating expenses decreased to \$13.2 million for the second quarter of fiscal 2020, compared to \$13.4 million in the second quarter of fiscal 2019. The decrease in operating expenses resulted from lower severance and legal expenses, partially offset by higher research and development expenses for Richardson Healthcare.

As a result of the improved gross margin and lower operating expenses, the company reported the same operating loss as in the second quarter of last year, which was \$0.5 million. Other expense for the second quarter of fiscal 2020, including interest income and foreign exchange, was \$0.1 million, compared to other income of \$0.3 million in the second quarter of fiscal 2019.

The income tax provision of \$0.1 million for the quarter reflected a provision for foreign income taxes, which was lower than in the prior year's second quarter, and no 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 currently \$15.3 million.

Overall, we had a net loss of \$0.6 million for the second quarter of fiscal 2020 as compared to a net loss of \$0.3 million in the second quarter of fiscal 2019.

Turning to a review of the results for the first 6 months of fiscal year 2020. Net sales for the first 6 months of fiscal year 2020 were \$80.3 million, a decrease of 6.1% from the first 6 months of fiscal year 2019 net sales of \$85.5 million. Net sales decreased by \$6.9 million for PMT but increased by \$1.5 million or 10.7% for Canvys and \$0.3 million or 6% for Richardson Healthcare.

Gross margin increased to 31.9% from 31.5%, primarily reflecting favorable product mix and improved manufacturing performance for healthcare. Operating expenses were \$26.0 million for the first 6 months of the fiscal year, which represented a decrease of \$0.5 million from the first 6 months of the last fiscal year. The decrease was due to lower severance, legal and IT expenses.

Operating loss for the first 6 months of fiscal year 2020 was \$0.4 million as compared to operating income of \$0.4 million for the first 6 months of fiscal year 2019. Other income for the first 6 months of fiscal 2020, including interest income and foreign exchange, was \$0.2 million, the same as for the first 6 months of fiscal 2019.

The income tax provision of \$0.3 million primarily reflected the provision for foreign income taxes, which was lower than in the prior year's first 6 months, and no U.S. tax benefit due to valuation allowance recorded against the net operating loss. Overall, we had net loss of \$0.5 million for the first 6 months of fiscal year 2020, compared to net income of \$0.1 million in the first 6 months of fiscal year 2019. We continue to closely manage our cash position.



Cash and investments at the end of the second quarter of fiscal 2020 were \$46.1 million, compared to \$46.5 million at the end of the first quarter of fiscal 2020 and \$53.2 million at the end of the second quarter of fiscal 2019.

During the quarter, we repatriated a total of \$4.4 million from Germany and the Netherlands. U.S. cash was \$24.3 million at the end of the second quarter of fiscal 2020.

Capital expenditures were \$0.5 million in the second quarter of fiscal 2020, compared to \$1.1 million in the second quarter of fiscal year 2019. Approximately \$0.2 million related to investments in our healthcare growth strategy, \$0.2 million to our IT system and another \$0.1 million was for facilities and other projects.

On a year-to-date basis, capital expenditures totaled \$0.8 million as compared to \$2.2 million in the first 6 months of fiscal 2019. Free cash flow for the second quarter of fiscal 2020 was \$0.144 million, which was an improvement from the second quarter of fiscal 2019. Lastly, we paid \$0.8 million in dividends in the second 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 - *Richardson Electronics, Ltd. - EVP of Power & Microwave Technologies Group*

Thank you, Bob, and good morning, everyone. PMT sales in the second quarter of fiscal year 2020 were \$29.6 million versus \$32.3 million in Q2 of FY '19. Our gross margin improved in the quarter to 31.6% versus 31.3% in the prior year.

Q2 results, when compared to prior year, were once again impacted by the year-over-year sales decline with our major semiconductor wafer fabrication customers and the slowdown in the power grid tube business. However, this decline was partially offset by continued strong growth with our new technology partners supporting the RF and power markets.

Another positive trend was our book-to-bill. The book-to-bill was 1.12 driven by strong bookings from our wafer fab customers, key tube product lines and our PMG business unit. Our bookings growth for 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 is due to our new technology partners, products, our demand creation model, our numerous design wins and our unique global business model.

We have improved our go-to-market strategy by investing in key development resources to greatly improve our customer contact in a more efficient manner. As the market conditions dictate, we continue to take control of our SG&A and invest in key growth areas, as I just mentioned. 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 headcount. 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 Carbide 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.

Key market expectations showing growth in calendar year 2020 include 5G wireless infrastructure, SATCOM and power management. Specific to 5G infrastructure markets, we have continued to gain traction throughout the world. With our experienced field sales engineers, we have seen hundreds of ongoing opportunities and are consistently growing our list of design wins in the base station, mobile test equipment, SATCOM, wind energy and motor control applications. Our global sales team is of great value to our customers and suppliers in the power and wireless infrastructure rollouts.

I want to reiterate the importance of our bookings. We are very excited about the booking trends in both business units. In our Power & Microwave Group, or PMG, for Power & Microwave, our growth in calendar year 2020 will be in the SATCOM and numerous 5G applications, such as infrastructure,



test equipment and telematics. 5G will be supported by these key suppliers, including Anokiwave, MACOM, Qorvo and numerous current and new RF patent technology lines.

We also have a large and growing backlog in the power management group with applications including motor controls, UPS systems and wind energy products, ranging from active components from United Silicon Carbide, Fuji Semiconductor to ultra capacitors. And finally, passive components from el SENTRON and AMOTECH make up the balance.

It is also great to see strong bookings in the quarter from our key semi wafer fab customers, along with incremental bookings growth in our 2 business. I can't stress enough the value of Richardson Electronics' unparalleled capability and global go-to-market strategy that is unique to the Power & Microwave industries.

Our world-leading position in the manufacturing and distribution of electron devices supports legacy equipment as well as new equipment where solid state cannot replace tubes. The combination of these 2 niche strategies separates us from the competition and has been proven successful.

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

Wendy S. Diddell - *Richardson Electronics, Ltd. - COO & Executive VP of Corporate Development*

Thank you, Greg, and good morning, everyone. Overall healthcare sales were below prior year due to a significant decline in equipment sales.

Our refurbished CT systems are sold primarily to customers throughout Latin and South America. Given the economic and political turmoil in countries like Bolivia and Argentina, we've suspended open credit terms to many of our customers in these regions.

Parts revenue was also down slightly in the quarter. The number of transactions were up, but the average selling price was lower. On a year-to-date basis, part sales are still well above prior year.

Revenues generated from tube sales were up over second quarter last year. Sales of our ALTA750 tubes increased, while we saw a decline in certified preowned tube sales. Our longest live tubes are now nearing 600-day mark. With a good inventory of the ALTA750 and as customers continue to gain confidence in the tube, we are harvesting fewer CT systems. This leaves us with fewer pre-owned tubes to sell.

Our field sales organization is creating awareness for the ALTA750, stressing the alternative hospital path to the OEM. This process takes time as many systems are under multi-year contracts and customers are reluctant to change unless we have a full-service option. We have a strong network of third-party service partners, and we are working with others to fill any gaps. Our training programs are critical in this regard.

Having our flexible P3 programs that mitigate risk like an insurance policy is also an advantage. Hospitals and third-party service organizations normally won't stock tubes or parts, but instead, they order them when a system fails. So for us, staying in front of customers is critical.

While tube sales are still lower than we originally anticipated, they are steadily increasing. Now that we have the CE mark, we are seeing more interest for the ALTA tube in the European countries as well as countries surrounding the European Union.

Our efforts to obtain regulatory approval is ongoing in other countries where demand for an alternative to the OEM is strong. We are currently working on China, Korea and Russia.

Canon continues to fight for its market share, creating price pressure. This is more prevalent in the European countries.

Gross margin in Q2 improved to 34.3% versus 29.4% in last year's second quarter. Year-to-date gross margin is now 34.1% versus 24.3% last year. Our manufacturing yield is improving, and we are putting more tubes and heat exchangers to stock. We still have room for improvement as we strengthen our processes and we increase production. The improvement in gross margin is also related to product mix.

System sales in Latin America tend to have a lower margin. We did sell several systems in the quarter that offset some margin improvement that generated cash and cleared out some old inventory.

Our tube development activities continue to run according to plan. We anticipate having the ALTA750 G version in customer beta sites this summer. Provided everything continues in this manner, full production will begin by the end of calendar year 2020. In the interim, it's all about sales and staying in front of the customer base.

I'll now turn the call over to Jens Ruppert to discuss second quarter results for Canvys.

Jens Ruppert - *Richardson Electronics, Ltd. - Executive VP & GM of Canvys*

Thanks, Wendy, and good morning, everyone. Canvys, which includes the engineering and manufacturing sale of custom displays to regional equipment manufacturers in industrial and medical markets, delivered strong performance with sales of \$7.9 million during the second quarter of fiscal 2020, an increase of 20.9% over the same period last year. The revenue increase for the quarter was related to increased customer demand in both North American and European markets.

Gross margin increased slightly as a percentage of sales in the second quarter of fiscal 2020 to 32.9% from 32.8% the same period last year. The increased gross margin was related to a favorable product mix.

Q2 fiscal 2020 was another strong quarter for Canvys with book-to-bill of 1.97. We were able to increase our backlog 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 a 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 real-time cell analyzers to determine the metabolic phenotype; cryolipolysis systems that break down fat cells by cooling off body fat; corneal cross-linking, a minimally invasive procedure that combines the use of UVA light and a special eye drop to add stiffness to corneas, which have been weakened by disease; refractive surgery, a central second laser system for the therapeutic and refractive application of cutting-edge corneal surgery; patient monitoring, where our monitors are installed at the patient's bed or a remote location, such as the central nurse station; DICOM-compliant monochrome displays for c-arms surgical navigation, a system that enables surgeons to precisely track the location of surgical instruments throughout a procedure; laser systems for treatment of peripheral and coronary arterial disease with photo ablation; and a very new project, that ties the international production stage and the robotic-assisted surgery space. Navigation data will be used to control a medical device.

In the nonmedical space, we received orders for various displays and all-in-1 products. Applications include passenger information systems used on trains and buses, where special certifications are required; product dispensers used in retail stores; displays used in control rooms in the public transportation market; and touchscreens used as human machine interface for large-sized billboard printers.

We continue to look for new customers through trade shows, online marketing, referrals and cold calling. Considering all the new programs we are working on with existing as well as new customers, I'm very optimistic that we will continue growing our business. We have proven ourselves to be a highly reliable, versatile technology company with the ability to meet a diverse number of displays requirements as well as being in compliance with upcoming MDR.

I will regularly review and adjust our business strategy with the goal of further improving the operating performance of the division. Maximizing cash flow is an ongoing priority, and we continue to focus on inventory turns and collections. We will work closely with our partners that help us reduce inventory, while being able to meet the demand of our customers.

I will now turn the call back over to Ed.

Edward J. Richardson - *Richardson Electronics, Ltd. - Chairman, CEO & President*

Thanks, Jens. Congratulations on having a record quarter.

We see good momentum across all 3 of our business units going into the second half of FY '20. PMT should benefit from the continued growth within PMT and also with the semiconductor market improvement. We anticipate healthcare sales will improve as our tube life increases and customers gain awareness and comfort with the ALTA750 throughout the U.S. and Europe.

Canvys is already performing well, and the team continues to win new projects. We'll closely monitor our sales performance and make changes as necessary. We will also stay focused on cash management. At this point, we'll be happy to answer a few questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Eric Landry, BML Capital.

Eric Landry - *BML Capital Management, LLC - Senior Analyst*

So Greg, in EDG, was there any pushouts or anything like that?

Gregory J. Peloquin - *Richardson Electronics, Ltd. - EVP of Power & Microwave Technologies Group*

No. Our bookings were very, very strong in both the slowdown in terms of sales. Like I said in the past, with the PG growth -- PMG growth, we were able to offset the decline in the silicon wafer fab business. However, we aren't expecting the slowdown in the tube business. But that slowdown was across the board.

We didn't lose any market share. We didn't lose any big customers and there weren't any big push-outs from our customers that caused that. It's just a slowdown in that type of MRO business across the board.

Eric Landry - *BML Capital Management, LLC - Senior Analyst*

So does that mean, in the quarters going forward here, we're going to have to deal with a declining EDG business?

Gregory J. Peloquin - *Richardson Electronics, Ltd. - EVP of Power & Microwave Technologies Group*

No. If you look at the book-to-bill with EDG, was strong in the quarter. And compared to Q2 of last year, their bookings are up 17%. So going forward, Q3 and Q4 should show growth year-over-year for both EDG and, of course, PMG showing excellent growth.

Eric Landry - *BML Capital Management, LLC - Senior Analyst*

Okay. So how long do you think it will be before we -- before the growth in the PMG can overtake any volatility in the EDG business?



Gregory J. Peloquin - *Richardson Electronics, Ltd. - EVP of Power & Microwave Technologies Group*

I think that will happen this year, if not this fiscal year, definitely 2020 calendar year. It's already offset any sort of declines within these large markets for EDG, like the semiconductor wafer fab market. The slowdowns in the tube business are usually single digits. And if I look at the backlog, for example, the backlog is up close to 30% in PMG. So you're going to -- quarter-over-quarter. So 2020 calendar year, we should show growth quarter-over-quarter and year-over-year.

Eric Landry - *BML Capital Management, LLC - Senior Analyst*

Okay. Wendy, what has been the field performance of the ALTA tube so far?

Wendy S. Diddell - *Richardson Electronics, Ltd. - COO & Executive VP of Corporate Development*

It's been fairly good. We're actually pleased with the results.

Eric Landry - *BML Capital Management, LLC - Senior Analyst*

So there's been sort of no issues with it performing not up to standards? It's performing fine, in other words.

Wendy S. Diddell - *Richardson Electronics, Ltd. - COO & Executive VP of Corporate Development*

It's performing up to standards. We have had a few, a handful of returns. We understand what the issues are when we get them back. We've put improvements in our manufacturing and development process in place. But in general, I think that the field expectations and our customers' expectations are being met.

The tubes are, as we pointed out, are nearing 600 days, the longest life tubes. And I can't point to any single customer who's saying, we're not going to buy your tubes because we don't trust the quality.

Eric Landry - *BML Capital Management, LLC - Senior Analyst*

So then, I mean -- okay. We blamed the slow start, the whole slow start on the fact that there is [G tube] available. Is that the sole reason that this thing is off to such a slow start?

Wendy S. Diddell - *Richardson Electronics, Ltd. - COO & Executive VP of Corporate Development*

No. It's a part of it. It is definitely a part of the reason. Then a lot of the systems, and I think we've said repeatedly that at least 80% of the systems in the U.S. and possibly even higher as we get into Europe are under OEM contracts, and those OEM contracts are usually multiyear. So part of the slowdown is waiting for those systems to come off of contract. Part of it, as we've pointed out, is definitely waiting on our ability to prove that we've got long life, which I think every day that goes by, we're getting there. So it's a combination of those factors, Eric.

Eric Landry - *BML Capital Management, LLC - Senior Analyst*

All right. So you said at -- in the last call that the -- you got the CE mark at the end of the last quarter and that the initial response was "very positive." Are you having the same convergent issues in Europe that you've had here for the past 4 quarters?

Wendy S. Diddell - *Richardson Electronics, Ltd. - COO & Executive VP of Corporate Development*

It's slow as people, again, wait for equipment to come off the contract. So that's still an issue. I would still say that the reception has been good. I don't see any change in that expectation. So I can't really add anything more to that, Eric. I think that Europe is just getting started. And we have a couple of large customers that have committed to using our tubes, and it's just now a matter of time for equipment to fail and for them to need our tubes.

Eric Landry - *BML Capital Management, LLC - Senior Analyst*

Okay. All right. And then I've got sort of a bigger picture question here for you. Obviously, the quarter was disappointing. And I know that you said many times that you believe healthcare is the future of the company.

But to us, on the outside, it's hard to have confidence that the future is going to -- that the future is much more positive than the past after quarter-after-quarter, like we're having. So I'd like to know if there's been any type of meaningful discussion within the company or on the board on any type of a strategic action that you could take to show your shareholder partners that there is eventually going to be some hope of creating value here.

Edward J. Richardson - *Richardson Electronics, Ltd. - Chairman, CEO & President*

I think that the board members, most of them, have been CEOs of tube companies in their own right. And as you know, for example, Bob Kluge is on our board, who was CEO of Varex or, at that time, it was Varian's imaging business for -- since '93, somewhere in that time frame when he came there from GE. And I really feel that they think we're right on the edge of starting to show some good results and actually anticipate that our investment is probably going to be larger than we thought it would be to begin with. But overall, the results are good.

We're seeing competition, as Wendy mentioned, from Canon, which is, I think, to be expected. They certainly don't want to give up a huge aftermarket at very high margins if they don't have to. But overall, I think we're right on line for where we anticipated to be.

Eric Landry - *BML Capital Management, LLC - Senior Analyst*

So when you say that they think that they're -- you're right on the edge, I mean, is there anything that you could tell us that gives us confidence on the outside because we obviously don't see what they're seeing, but it's hard to have confidence that you're on the edge when we keep seeing this sort of flailing quarter after quarter.

Edward J. Richardson - *Richardson Electronics, Ltd. - Chairman, CEO & President*

I think they're seeing the yield on the tubes, and the yield continues to improve. And as that happens, we have a cost that's set based upon the current yield. As the yield in manufacturing improves, that cost will go down and we'll be even more competitive. So I'm pretty sure that's what they're looking at. And they understand it because they've all been CEOs of tube manufacturing companies in their own right.

Operator

(Operator Instructions) Your next question comes from the line of Marc Silk, Silk Investment Advisers.

Marc Silk - *Silk Investment Advisers - President*

So, Wendy, on the CT replacement tubes, I guess, one of the issues back in the day was the first one you implemented was you need time to see if they work. So the first tube that you implemented, has that been 2 years now?

Wendy S. Diddell - *Richardson Electronics, Ltd. - COO & Executive VP of Corporate Development*

It's almost 600 days.

Marc Silk - *Silk Investment Advisers - President*

Okay, 600 days.

Wendy S. Diddell - *Richardson Electronics, Ltd. - COO & Executive VP of Corporate Development*

587, I should say.

Marc Silk - *Silk Investment Advisers - President*

So how can you -- so now that's not really an excuse anymore. So I'm just kind of getting my -- because it sounds like this is really a great growth area. So I just want to get my arms around like your selling strategy, the boots on the ground, their phone sales. Do you think, if you were the CEO, would you be adding more boots on the ground to get in front of these customers because, if it could be an explosive area, I would think that, that's probably where the company should maybe put some more resources. I would just hope that you could give me some color, that would be great.

Wendy S. Diddell - *Richardson Electronics, Ltd. - COO & Executive VP of Corporate Development*

Sure, Marc. That's a good question and a fair point. We have a very strong outside sales effort as well as an inside sales team. We've actually taken the inside sales team and we've beefed that up and added people whose sole purpose in life is to make outbound calls to the hospitals, to the third-party service engineers to really identify where all the Toshiba equipment is. And it's really now about staying in front of those customers and reminding them on a very regular basis that we've got the tubes in stock. So when they have a failure, whether it's a tube failure or a part failure, they know immediately or they think immediately Richardson Healthcare.

But we've got a good solid team, we've got significant numbers. Do I personally think if we keep throwing more people at it, it's going to change the dynamics? Not a lot because of the other issues we've discussed. We have to wait for the systems to come off of OEM contract. We have to wait until we've -- until, again, we've got a broader line with the G tube that will help convince more of those customers to take their systems off of contract. And it's really just having that state -- the stick-with-it power. We've got to just keep calling and getting in front of those customers.

From a high-level perspective, Ed, myself, Jerald Olsen, we have Derek in the Carolinas. We have teams in the Carolinas. We've got a full team of people that can go out and sit in front of C-level people, high-level people within hospital organizations, certainly with the third-party service organizations that can tell the story and give them all the good reasons why it makes sense to change from the OEM.

Marc Silk - *Silk Investment Advisers - President*

I know your headwinds are probably -- not many people know your name. But what would be some of the tailwinds for you guys? And maybe those are the headwinds that maybe we aren't thinking of in this area.

Wendy S. Diddell - *Richardson Electronics, Ltd. - COO & Executive VP of Corporate Development*

Okay. Just in healthcare?

Marc Silk - *Silk Investment Advisers - President*

Just on the CT, but if you want to add more to that, that's fine.

Wendy S. Diddell - *Richardson Electronics, Ltd. - COO & Executive VP of Corporate Development*

Well, I'll start with healthcare. If the other guys want to add some, they can. But I think we've kind of covered what the headwinds and -- let's start with headwinds. We know what those are. We've talked about, again, the timeliness of getting systems out of OEM contracts. We talked about longevity of tubes. And so again, we've got some history behind us now and I think we'll start to see more and more of those systems being converted to go off of the OEM contracts.

So I think that's good. That becomes -- at some point, it becomes the, I guess, kind of the tailwind you're talking about and pushing us forward. So I don't want to continue to be the -- basically be repetitive. But what we've talked about so far are our headwinds, and again, we've overcome and started really getting the name out there.

I don't think Richardson Healthcare, by the way, is now kind of an unknown. I mean we've been out there now for several -- almost 5 years, if you include IMES, and I think people know who we are.

And one of the tremendous advantages we have is when we get those customers here, by the way, Marc, and they can see our facility and they understand the investment that we put behind this healthcare organization and behind the tube manufacturing facility, they become even more confident and more impressed.

So again, for me, it's truly, truly about staying in front of those customers, getting them here, letting them see and touch and feel and talk to other people who are using the tube to understand that we're for real and that it's a quality product and it's a viable solution to the OEM.

Marc Silk - *Silk Investment Advisers - President*

Okay. That's good color. So, Ed, last conference call, as you had another losing quarter, I kind of brought up to the fact that I think your salary is extremely high for a company that's losing money. And you said, well, I didn't make money back in the day, so now it's like catch up. But you're also getting dividends. So you talked about this Board of CEOs, and I would think that if I was on the Board, the first thing I would say is, listen, why don't you bring your salary down until you can show consistent earnings instead of losses, and then we can adjust your salary. Because I don't think these people are going to tell you the emperor has no clothes. And I don't know if -- because of the dual stock, you're going to vote these guys down and you could throw them off the Board. So I think the right thing to do is reduce your salary, which helps the bottom line, and then when you get to be profitable and consistently profitable, the stock moves up, you should deserve that salary.

So that's kind of my comment. If you want to comment on that, that's fine. But we're all in this together, right? So if the stock goes up, we'll all make money, but I just think maybe the buck stops at the top to maybe set an example.

Edward J. Richardson - *Richardson Electronics, Ltd. - Chairman, CEO & President*

Well, I certainly appreciate your opinion. It's been stated before and the Board takes all that into consideration and we move forward accordingly.

Operator

Your next question comes from the line of Brad Leonard, BML Capital Management.

Braden Michael Leonard - *BML Capital Management, LLC - Managing Member and Founder*

You guys, I guess, overall, you've done, if we just look back at this, a pretty good job of controlling costs and you're operating at plus or minus breakeven in most quarters, which is fine. But I mean, if we step back at this, I think if we're going to be honest with what the company is doing, you just have to realize that you're just not making any progress.

And the Healthcare is -- I mean, in my opinion, it's been a bust. I mean you guys are doing -- you've done \$4.9 million in Healthcare sales this year. I don't know how many CT Tubes you're selling, but it can't be very many. So while it may hold promise, you might think it is, you're just not making any progress. It's been much more difficult than you thought. And it just doesn't seem like there's any incentive to really take any strategic actions to create shareholder value.

And this goes to -- I mean, I just don't -- Ed, do you ever think about selling this company? Selling off divisions and saying, hey, this is not working, what we're doing. We've been doing it for a long time and we're just not making a lot of progress. Maybe we should be selling this business to a larger company who can take out costs, eliminate duplicative public company costs, management salaries, et cetera. I mean does that even cross your mind or the Board's mind?

Edward J. Richardson - *Richardson Electronics, Ltd. - Chairman, CEO & President*

No, it really has not. We're absolutely committed to the Healthcare business, and we think we've made good progress in that area. I understand you do not, but everyone is welcome to their opinion. The Board thinks we're making excellent progress.

And as we're able to bring the yield improvement up, the costs will come down, makes us even more competitive in the marketplace. We're absolutely committed to Healthcare going forward.

Braden Michael Leonard - *BML Capital Management, LLC - Managing Member and Founder*

Well, if you look at the Healthcare sales and if the Board thinks you're making progress, your sales were \$2.2 million versus \$2.5 million quarter-over-quarter. That's not progress. So you can say this, the Board, we've got ex-CEOs, all this. I mean the Board really has no say in this. You've got voting control. The Board is just there as placeholders in a public company.

They are, and I agree with the past callers, we should adjust the salary. I mean if you're really in this, you really want to drive shareholder value, your salary should be much less and your incentive comp should be much higher. I would pay you a few times as much if it was 20% salary and 80% incentive comp based on profitability and progress. And we're just not making it.

And I think you're all working hard. I think you're competent people. I think you're probably honest people, but you're not making any progress. Shareholders are not being rewarded. I mean it's just -- it's a stagnant company that is just existing. And it trades below net current assets for a reason because you guys are just unwilling to take steps necessary to drive value. And I mean -- I mean, I don't -- it's not like that you're trying, it's just not working. I mean at some point, you just have to step back and say, hey, what we're doing is not really working. We're not making any money as a company. We're not driving an increased stock price. Which is baffling to me that you own 2 million shares and you don't want to take any actions to drive the stock price higher.

It's just status quo of existing, what we're doing. And so I don't know. I think it would really benefit shareholders if you, because the Board doesn't really have any say, if you would think about selling this business, selling off a division.

Edward J. Richardson - *Richardson Electronics, Ltd. - Chairman, CEO & President*

Well, I've heard your opinion before and it's been shared with the Board. And fortunately, we don't think like that, we're absolutely committed to the Healthcare business. And we think...

Braden Michael Leonard - *BML Capital Management, LLC - Managing Member and Founder*

Fortunately, you don't think like that. Fortunately. Ed, the stock price hasn't moved forever. I mean unfortunately, for shareholders, you don't think like that. I mean it's just like -- I don't even need to hear anymore. I think we've heard enough and shareholders have probably heard enough.

Operator

Your next question comes from the line of Kevin Rendino, 180 Degree Capital.

Kevin M. Rendino - *180 Degree Capital Corp. - Chairman, CEO & Portfolio Manager*

It's Kevin Rendino. I thank the rest of your team for their comments on the business. They sound like very smart people that know what they're doing, and I certainly appreciate the dialogue around that.

I have to just chime in here. Somebody said earlier, the quarter was disappointing. The quarter -- it's not the quarter that was disappointing. It's like -- literally, the entire tenure of your ownership of this business has been disappointing.

And another caller sort of asked or said, we're all in this together. We're not in this together. You own 2 million shares. You take about \$0.5 million a year just in dividends. You don't own stock, so you don't care about the stock. The Board doesn't own stock, so they don't care about the stock. You've literally committed or a fraud against your shareholders for a very long period of time. And I think you should just be honest about all of this and instead of continuing to perpetuate this fraud over your shareholders and pretending that you care what they care about, you should just take the company private. And do what you want as you have been doing for the last 20 years.

Don't hide behind the Board, the Board has no say. The Board has no gumption. They're not doing anything that they should be doing, which is looking at strategic alternatives.

And if you're going to be honest about all of this, you should just take the company private and do what you want to do and nobody could have any voice in saying or giving you any opinions of what you should be doing because, quite frankly, Ed, you don't care. And just admit that you don't care, just say it, so we can all move on.

Edward J. Richardson - *Richardson Electronics, Ltd. - Chairman, CEO & President*

Again, we certainly appreciate your opinion, and we choose to disagree with it and think that what we're doing in Healthcare is going to be our future and that's where we're making our investments.

Kevin M. Rendino - *180 Degree Capital Corp. - Chairman, CEO & Portfolio Manager*

That's great, Ed. You've been a failure, the business has been a failure for 20 years. You've created no value for 2 decades. You don't -- you should listen to other people other than yourself and the Board. You should welcome an investment banker to come in there and give you some advice because the advice that you're giving yourself isn't working.

Operator

We have no further questions.



Edward J. Richardson - *Richardson Electronics, Ltd. - Chairman, CEO & President*

Okay. Mark, thank you very much. We appreciate it. And if anyone has further questions, give us a call after the call. Thanks.

Operator

Thank you. That concludes your conference call for today. You may now disconnect. Thank you for joining and enjoy the rest of the day.

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