

140514467248

Q4 2015 CUI Global Inc Earnings Release

March 15, 2016

C: Casey Stegman; CUI Global; IR

C: Bill Clough; CUI Global; CEO

C: Dan Ford; CUI Global; CFO

P: Eric Stine; Craig-Hallum; Analyst

P: Rob Brown; Lake Street Capital; Analyst

P: Amit Dayal; Rodman & Renshaw; Analyst

P: Andrew D'Silva; Merriman Capital; Analyst

P: Marco Rodriguez; Stonegate Capital Management Market; Analyst

P: Alex Blanton; Clear Harbor Asset Management; Analyst

P: Roger Liddell; Clear Harbor Asset; Analyst

P: Neal Fegan;; Private Investor

+++ presentation

Operator^ Good day, ladies and gentlemen, and welcome to the CUI Global Fourth Quarter and Full Year Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time.

(Operator Instructions)

I'd now like to introduce your host for today's conference call, Mr. Casey Stegman, Investor Relations. You may begin.

Casey Stegman^ Thank you, Kevin and good morning, everyone. Welcome to the CUI Global 2015 Fourth Quarter and Full Year Earnings Conference Call. We appreciate you joining us today. With me on the call is Mr. Bill Clough, Chief Executive Officer, and Dan Ford, Chief Financial Officer. The purpose of today's call is to review the Company's financial results for the fourth quarter and full year, as well as provide you with some additional color on the business going forward. Following management's remarks, the call will be opened up for question-and-answer.

Many of you may have seen the Company's release that was issued yesterday. If you haven't, it can be accessed at the Company's Website at www.cuiglobal.com. A replay of this call will be available until March 25; details can be found in the press release. Today during the course of the presentation, we will be directing your attention to a series of slides. Those slides can be accessed during the call from the link in the press release that went out yesterday or from the Investor Relations section of the Website.

As a reminder, this call will contain certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 as amended, and Section 21E of

the Securities and Exchange Act of 1934 as amended.

Such statements are subject to risks and uncertainties that could cause actual results to vary materially from those projected in the forward-looking statements. The Company may experience significant fluctuations in future operating results due to a number of economic, competitive and other factors, including among other things, our reliance on third-party manufacturers and suppliers, the government agency budgetary and political constraints, new or increased competition, changes in market demand, and the performance or liability of our products.

These factors and others could cause operating results to vary significantly from those in prior periods and those projected in forward-looking statements. Additional information with respect to these and other factors, which could materially affect the Company and its operations, are included in certain forms the Company has filed with the Securities and Exchange Commission.

With that, I'd like to introduce Mr. Bill Clough, CEO of CUI. Bill?

Bill Clough^ Thank you, Casey. And thank you all for taking the time to join us on this morning's call. I'm going to start with a brief overview of the quarter as well as the full year. And then, I'll hand the call over to Dan to review the financials. When Dan has concluded his remarks, I will provide some additional commentary on some of the key initiatives we're currently working on at CUI, including some of the major recent announcements from the energy segment of our business. We will then open up the call for Q&A.

Let me begin by saying that more than ever, I'm excited and encouraged by the progress we've made in 2015 as we laid the groundwork for an even better 2016. Fourth quarter revenues were up 18% compared to the prior quarter ended. The Electro-Mechanical segment revenues increased approximately \$3.1 million compared to the prior year quarter ended. Our energy segment revenues were flat in the fourth quarter versus the prior year as the Company was laser focused on closing a major contract with Snam Rete Gas, which I will discuss in more detail later.

For the full year 2015, revenues were \$86.7 million, which represents a 14% increase as compared to 2014. As for the fourth quarter, our revenue increased 18% to \$21.9 million as compared to \$18.6 million in the fourth quarter of 2014. The power and electro-mechanical segment revenues were \$58.5 million in 2015, which accounts for roughly 20% increase versus the prior year. The energy segment recognized \$28.2 million in revenue as compared with \$27.4 million in the prior year, an increase of 3%.

Let me turn the microphone over to Dan Ford, our CFO, so that he can run through the numbers in a little more detail. Dan?

Dan Ford^ Thank you, Bill. I'd like to now give you a financial overview for the fourth quarter as well as the full year of 2015. As Bill mentioned, the Company's revenues were

\$21.9 million for the quarter up 18% from revenues of \$18.6 million in the fourth quarter of 2014.

The increase in the fourth quarter is attributable to approximately \$3.1 million of growth in the power and electro-mechanical segment and \$0.25 million growth in our gas segment. Full year revenues of \$86.7 million represents a 14% increase over the prior year, the power and electro-mechanical segment increased \$9.8 million in 2015 and the energy gas segment increased \$0.8 million during that time period.

The increase in revenues during the full year is related to increases in revenues primarily associated with power and electro-mechanical segment, addition of CUI Canada product in 2015 offset somewhat by an overall softness for CUI in the distribution side of power and electro-mechanical industry, which as a whole, was down for the year. And for the energy segment, the addition of revenues generated through Orbital Gas Systems North America activities offset by decreases related in large part to the exchange rate for the British sterling, impacting overall UK revenues.

In addition, many of our customers we acquired with the operations of CUI Canada, we are working through inventory to hit stockpile prior to our acquisition out of concerns regarding the former Tectrol's liability. We expect to see those customers return to regular ordering pattern in 2016.

The cost of revenue for the three months and year ended December 31, 2015 was \$13.5 million and \$54.4 million, respectively. This compares to \$12.7 million and \$47.5 million for the same period last year. The increase is due to increased sales in the power and electro-mechanical division offset by the energy division with improved product mix in 2015 compared to 2014, as well as cost reductions associated with bio-methane projects at an increased cost during 2014.

As a percentage of revenue, the cost of revenue remains generally consistent at 62.7% compared to 62.5% for 2014. At December 31, 2015, the power and electro-mechanical segment held an unaudited backlog of orders of \$19.7 million and the energy gas segment held an unaudited backlog of orders of \$12.5 million, which does not include the recent orders announced for the energy segment, including the large GasPT order from Snam Rete Gas.

Gross profit was \$8.4 million or 38% for the quarter ended December 31, 2015, compared with \$5.8 million or 31% in the same period of 2014 and \$32.3 million or 37% for the year versus the previous year's total of \$28.6 million or 38% gross profit margin. During the three months and year ended December 31, 2015, the power and electro-mechanical segment generated gross margin of 35% and 37%, respectively, while the energy segment generated gross profit margins of 44% and 37%, respectively.

For the three months ended December 31, 2015, selling, general and administrative expenses increased to 39% as a percentage of revenue compared to 35% in the prior year

comparable period. This is a \$2.1 million increase over the prior year fourth quarter.

For the year ended December 31, 2015, SG&A expenses increased to 38% from 34% during the prior year comparable period. The SG&A expense increase was \$7.1 million, and it's compared to fiscal 2014. The increases are primarily associated with the addition of the SG&A activities of Orbital Gas Systems North America, which opened in Houston, Texas in January 2015 and accounted for approximately \$0.9 million in the fourth quarter and \$4 million with additional SG&A for the year.

In addition, the operations related to CUI Canada, which was acquired in March 2015, acquired for approximately \$0.3 million in the fourth quarter and \$1.1 million in the increased SG&A for the year. The remaining increases in SG&A are associated with the ongoing activities to reach new customers, promote our product lines and new product introductions. The Company believes that 2016 will see efficiency gains related to SG&A as revenues increased through ongoing field efforts throughout its operations, continuing growth offsetting the SG&A investment, and Orbital Gas Systems North America and continued improvement in the CUI Canada related sales channel, which as we discussed at acquisitions, will be a two to three year turnaround profitability, but which has significant growth potential.

The Company reported a net loss of \$1.3 million or \$0.06 per share EPS for the quarter ended December 31, 2015 compared with a net loss of \$1.9 million or \$0.09 per share in the prior year period.

For the year ended December 31, 2015, the Company reported a net loss of \$6 million or \$0.29 per share compared with a loss of \$2.8 million or \$0.14 per share in the prior year. The net loss for the three months and year ended December 31, 2015 was primarily the result of the previously discussed increases in SG&A related to the opening and purchase through operations in Orbital Gas Systems North America facility in January and the addition of CUI Canada in March.

As well as the ongoing amortization of intangible assets related to the Orbital Gas Systems Limited and CUI Canada acquisitions. The Company believes that both of the new subsidiaries that begun operations in 2015 will bring significant long-term growth in profits.

Adjusted net income or loss, which represents net income or loss plus the amortization expense of the intangible assets acquired via the 2013 Orbital acquisitions and in 2015 CIU Canada acquisition plus the expense associated with stock, options and notes issued for compensation royalties and services.

For the quarter was a loss of approximately \$468,000 or \$0.02 per share in 2015 as compared to the loss of approximately \$978,000 or \$0.05 per share in 2014's fourth quarter. Adjusted net income for the full fiscal year ended December 31, 2015, was \$2.9 million loss or \$0.14 per share loss versus adjusted net income of \$2 million or \$0.10 per

share in 2014.

Operating requirements generated negative cash flow from operations of approximately \$6.3 million during the year ended December 31, 2015, and negative cash flow from operations of approximately \$3.1 million during the prior comparable period.

During the year ended 2015, negative cash flow from operations was significantly affected by operating requirements of Orbital Gas Systems North America and CUI Canada compared to negative cash flow from operations in 2014. The change in cash used in operations is primarily the result of the net loss in 2015 before non-cash expenses as well as changes in assets and liabilities again more related to Orbital Gas Systems North America and CUI Canada.

Significant of those factors that impact the cash use and the operations included the increased receivables of approximately \$3.3 million with \$1.4 million due to credit sales generated upon the opening of Orbital North America and the acquisition of CUI Canada. Coupled with increased sales volume and the timing of deliveries and related sales terms across the Company, cash used for inventory purchases increased approximately \$3.4 million associated with the timing of customer orders in ongoing projects.

Additionally, the cash flow from operations was impacted by approximately \$1.1 million increase in prepaid expenses and other current assets associated largely with prepaid insurance premiums, product purchases, royalties and consulting service fees. Also changes in cost in excessive billing and billings of extra cost were --- they combined approximately \$2.9 million use of cash in the period related to the billings on project in the energy division.

The overall use in operated cash was partially offset by an increase in accounts payable of approximately \$2.1 million due to the timing of good receipts and the related terms along with the increase due to the addition of Orbital Gas Systems and CUI Canada. Accrued expenses increased \$1.9 million related to largely to an increase in the group compensation.

Unaudited revenue increased \$2.2 million primarily in relation to increases in deferred revenue from distributor activity within the power and electro-mechanical division. Further uses of cash by the Company relates to the investment of \$5.1 million in property and equipment which included the construction of a new 40,000 square foot state-of-the-art manufacturing administrative research and development facility in the UK for Orbital Gas Systems Limited and \$4.3 million on the CUI Canada acquisition net of contingent consideration.

As of December 31, 2015, CUI global held cash and cash equivalents of \$7.3 million, representing an increase from the third quarter of 2015. The Company had common shares of outstanding of 20,806,219 at the end of the year.

EBITDA loss for the year was \$2.7 million or \$0.13 per share versus EBITDA of \$1.4 million or \$0.07 per share for the full year 2014. Adjusted EBITDA loss for the full year 2015 was \$1.3 million or \$0.06 per share versus adjusted EBITDA of \$3.2 million or \$0.16 per share for the full year 2014.

Now I will turn the call back to Bill.

Bill Clough^ Thank you, Dan. Before we begin taking questions let me take a moment to update you on a few of the larger products we have been working on our past two years as well as give you some additional color on some of the key highlights from our fourth quarter. We've had some significant news in the past few weeks of the month; let me start with the news from CUI Global's wholly-owned energy subsidiary Orbital Gas Systems.

The news was the closing of an order for the Orbital's proprietary GasPT analyzers to Europe's largest natural gas transmission companies Snam Rete Gas, the telescope of the project includes a deployment of a minimum of 3300 GasPT analyzers across the Italian pipeline system, because there is no competitive technology to our GasPT analyzers we expect to win most if not all of the 3300 units. This deal is a result of years of testing, certification and the independent test protocol and is truly a transformation project for the Company.

Well we don't provide guidance on margins, we can say that this deal will positively impact our normal margins of 37% to 40% and materially increase revenue. Moreover, if the initial data and results are as expected, we fully anticipate that Snam Rete will increase the deployment to a total of 7,000 units across its entire system.

Just yesterday on Monday, we announced the \$1 million contract between Orbital Gas System and UK's largest natural gas transmission company National Grid for a delivery of its proprietary IRIS remote telemetry unit or RTU system. The order calls for the design construction delivery and commissioning of a further 10 IRIS RTU system and associated electrical kiosks. It also represents the first order for the cost effective IRIS light RTU which is ideally suited to small or above ground installations in power stations. We are still quite confident that National Grid intend to upgrade it entire RTU system with our IRIS technology which could produce orders from between 200 and 250 additional units in the next 12 months.

In addition, Orbital recently announced award of \$2 million contract from a major UK. natural gas network operator for a delivery of our large scale metering kit. That order represents the first base of a broad upgrade to critical natural gas intake facility which could produce another \$5 million in worth for Orbital in the next 18 months. These sizable projects will help to solidify Orbital Gas System as a partner with the UK's and Europe's largest natural gas operators and their efforts to provide additional and better energy sources to their customers. This is certainly an inflection point for our energy division and continues to demonstrate the value of our natural gas product's portfolio. A portfolio of products, which allows us to change and improve the way natural gas is

monitored and increase our market penetration.

Turning now to Orbital Gas System's NA; CUI's North American energy subsidiary which by the only opened in Huston in January, 2015. We received our first order in North America or Orbital's mercury trace element detectors \$1 million deal from a large Northeast US LNG terminal operator converting one of its import terminals to an export terminal. These are the same detectors that have been so successful for us in Australia at the Gorgon LNG project where we have deployed several million dollars worth of the product to a fortune 100 energy company.

Last week Orbital announced its receipt of an \$8,000 purchase order from a large scale ethylene plant operator in South Texas to design, build and deliver nine patented, ultra fast and accurate in-bed, VE sample probes and sample systems and another purchase order for an addition six VE sample probes to be delivered later this year. That order is a trial project which may result in a similar deployment of our technology across 54 other facilities operated by the same customer worldwide. All of these sizable orders and associated announcement evidenced in our ability to provide unique leading edge solutions for the natural gas industry.

Our patience and work over the years is paying off as companies are purchasing our gas product both internationally and in North America. The momentum continues to build in our energy segment and we look for this traction to positively contribute to both top and bottom line moving forward into 2016 and beyond.

Superficially sales of our new products in the energy division continue to grow significantly in 2015. Let's discuss those sales now, GasPT and VE Technology sales continue to increase in 2015, we delivered 36 GasPT units last year 40% increase over 2014, more significantly we have received orders for an additional 430 units to be delivered in 2016, a 1500% increase over the POs for 27 units at the end of 2014. We have been awarded this Snam Rete remetering project which translates into a minimum of 3300 units and depending on the results may be as many as many as 7,000 units.

We're in direct communications with the French (inaudible), the German's E.ON gas and the Spanish Repsol pipeline companies and as previously announced we are already delivering the GasPT analyzers, the Gasunie in the Netherlands. Important fact sales of our new products from UK from our UK. subsidiary were up 138% year-over-year in 2015 and we actually delivered more new natural gas products in the fourth quarter of 2015 than we delivered all 2014.

Moving on to the VE Technology sales, the news is just as positive. We delivered 180 sampling systems in 2015 up more than 145% from the 73% we delivered in 2014, while we delivered 437 thermal well applications in 2015 up more than 125% over the 194 delivered in 2014. This brings our total VE sales to 617 units in 2015 up year-over-year and more than 130%.

More over as discussed above we have made the VE sales both separately and in conjunction with our unique ability to detect trace elements in natural gas. Trace elements like Mercury in Australia and North America LNG Terminal and moisture H₂O in drier bed, chemical plant and other facility. These sales include deliveries to fortune 100 company in Europe, Australia and North America including almost \$1 million initial order we mentioned earlier in the North America ethylene plant operator in South Texas who is considering our technology for retrofits on an additional 54 plants worldwide.

In short the industry is beginning to learn and appreciate that our sampling systems have the only technology capable of providing the vortex elimination and rapid sampling time which are unique features of VE Technology thus allowing us to provide a safer, faster more efficient high quality sampling solution to the natural gas operator.

In conclusion, as we look ahead to 2016 I want to reiterate our optimism and commitment to providing superior technology, product and service to our customers. While the fourth quarter and full year results for 2015 were not as strong as we would have liked. This weakness would in large part to an expected drag produced by our acquisition of CUI Canada and general industry wide weakness in the electro-mechanical and component market and our unwavering focus in fourth quarter on successfully landing Snam Rete deal by our UK. Energy Group.

These are all factors that are now behind us and most importantly we did land the Snam Rete order. The employees of CUI Global have shown tremendous tenacity in pursuing new business to grow the Company and enhance shareholder value. We will continue to introduce new products, attack new markets, seize opportunities and pursue and partner with some of the largest most recognized industry leaders in both the natural gas and electronic market all in conjunction with our efforts to strategically grow our revenue our profit and enhance our shareholder value.

In conclusion, I'd like to thank everyone for your continued interest and support of CUI.

Now let's open the floor for question.

+++ q-and-a

Operator^ (Operator Instructions) Eric Stine with Craig-Hallum.

Eric Stine^ May be we could just start on the core business, I know you talked about power and electro mechanical and what you saw in the fourth quarter some of it related to Tectrol, this may be your thoughts in that business in 2016, and then, also I know you've seen strong order trends on the gas side but just may be order trends you're seeing on the power side?

Bill Clough^ Sure. Again, I think the electro-mechanical business is relatively predictable, it tends to be soft fourth quarter, it has last three or four years. And it also tends to grow about 8% to 12% and in this case through about 14%. So again, it is predictable, but it is somewhat choppy. We don't provide as you know materials to

consumers, direct consumers so we don't have a big fourth quarter based on Christmas or anything like that. We generally provide to the people who are making those consumer products and so our quarter is generally better and bigger in second and third quarter.

And again, I think what we're seeing on the upside is that now the customers we acquired with the Tectrol with CUI Canada acquisition are starting to order which they had tailed off somewhat at the end of last year because frankly they had ordered more inventory based on their belief that Tectrol was going out of business and so because of that we had a downturn in orders simply because they didn't need to replenish what they had bought earlier, that's turning around and we're trying to see those orders come in.

And the other thing we're just trying to see is frankly design wins because if you, as you know the electronics industry is 12 to 18 months, sometimes two year design cycle and/or many years Tectrol had no sales group so they weren't going out and seeking those design wins. We now are seeing those design wins coming in and so we think Tectrol, again, will be a much more positive addition to the Company this year.

We've said though from the beginning that there was a turnaround and we think that turnaround is going to take two to three years. So again -- we think we're on track for that.

I like to say -- like we said in the earlier comments the entire electro mechanical industry was down slightly, it was soft last year at the end of the year. We see that turning around and coming back. But again, I think I'm not going to over emphasize the electronics. It's going to be what it always is a 12% to 14% growth rate and that we're seeing that come back in first quarter.

Eric Stine^ Maybe just turning to the ethylene opportunity you referenced as a customer just got 50 plus safer considering may be this initial order that you had, is that the type of size that we should think of per-ethylene plant or is that more of a -- again its too much trial or we would have more content at one plant and potentially stands at 50 plus?

Bill Clough^ The plants are in different size. So I don't think I could say with great accuracy what is planned. This, the size of this order at the end it would be around \$1.5 million to \$2 million and I think that this would be -- that range would be accurate for most of the facilities as I understand. But again, there are -- they are all different size plants so there could be arranged, even bigger than the plant to plant, but I think just this order at the end of the day once we deliver the second purchase order will be between \$1.5 million to \$2 million and I think that's a fair figure to or a fair range -- I'm sorry, to calculate.

Eric Stine^ And does this customer have any milestones or things that they need to see that are going to be key factors in rolling it out to the rest of their facilities or anything sure that will be helpful.

Bill Clough^ Yes. I think what happens with these trace element detectors and these are moisture detectors, are so far at least whenever anybody seen what we can do they've blown away literally because we're seeing moisture so quick and so accurately they've never, ever seen it before. So it's not even a milestone issue. And moisture is very, very difficult to detect. And what happens in these drier bed is [tend] so difficult to detect they tend to over dry, what they do to drying process is our million dollar plus operation where they literally blow a very hot gas through the drier bed. They have to shut down the facility to do that and so its not only intrusive, but it's very expensive and because they don't know for sure when the drier bed becomes over saturated they're doing that much more often than they have to.

Our technology is done in other application specifically down in Australia and with Lindy if you remember we delivered a bunch of those Lindy Industries last year. What they've been able to do is accurately monitor the moisture, so that instead of doing this process every six or eight weeks, they're doing it every five or six months, which is a significant saving. So we think that we're very confident and when they see what we do and how our accurate the moisture is reported they will be impressed and might be its much like what we believe will happen in Italy. The return on investment will be almost immediate and that makes the deployment almost a no-brainer.

Eric Stine^ Maybe last one from me, this time around you delivered the first 50 now that you're into that thought still the same in terms of follow-on order later this year, I think you're getting -- targeting in the 200 to 400 unit area?

Bill Clough^ Actually, we delivered 105 now and all 105 are working exactly the way we wanted them. We have the factory acceptance test scheduled with them for the end of this month the last week in March then they roll the actual field rollout occurs and yes we're still anticipating a second purchase order and I can tell you that without going into great detail about any pricing issues their price break occurs at 400 units so they won't order a purchase order less than 400, I can say that.

Operator^ Rob Brown with Lake Street Capital.

Rob Brown^ Just wanted to clarify what you said about the ethylene plants, I think you said \$1.5 million to \$2 million in total I guess what's the value of the six additional VE probes that you included I guess you didn't specify that I just want to make sure I understood that?

Bill Clough^ Yes. I haven't said so because we don't know. Basically we have to know what the environment is and its contingent on a lot of things. Most significantly it's contingent on the alloy that has to be used for the bill. These things are literally placed in these incredibly toxic environment and in some cases we will use a type of alloy that makes some serious -- but the once we sold to Lindy were over \$137,000 a piece. So it really depends on what the environment and that's I didn't quantify because we just don't know.

But, I think it's safe to say that there will be 700,000 plus for those.

Rob Brown^ And then the kind of the opportunity you said that you see in this ethylene market or this equipment market for the VE probes, 54 units is what this particular customer, what sort of the market opportunity there may be in the US or globally however you wanted to find it that you're pursuing?

Bill Clough^ Yes. I can't define at this point. It's a new application for us. It's something that came up kind of on the spur of the moment, frankly it was a referral from what we've been doing down at the Gorgon project in Australia, that's something we're looking at right now. So I'd just be taking whack at it, I can just tell you this customer has -- is operating 54 facilities, they are a very large operator. And so again -- but I couldn't give you the entire market at this point.

Rob Brown^ And then may be switching over to the GasPT sensors, in the rest of the European market sort of what are the next steps on getting to these other countries and when -- what sort of their process in rolling out and where you at for these other market opportunities in Europe?

Bill Clough^ Yes. We're in initial stages with the French, which is the next big system that we're going after that's [ONG]. We have met with them. Our technical people have met with them may be actually as I understand it identified five locations where they want to deploy field trial units. We have a business meeting scheduled with them; actually I'm going to attend that myself in April. And we think that there will be a much quicker sale frankly than the Italians, they've already told us that they have the Italian information.

As we mentioned on other calls in Europe, it's a EU wide regulatory scheme. So we don't have to go through the same hoops that we jumped through in Italy again. I think they will obviously want field trials, they want to see that they work on -- our devices work on their system. But I couldn't give you exact timing other than to say that I think it will be much faster than we did in Italy.

We're also been contacted by the German E.ON Gas we have not yet followed up with them other than some brief technical talks with them. We delivered a unit to Portugal which they're looking at deploying it at a very small system but they've already got their unit. And have deployed two test units to Repsol at Spain. So again, what we're trying to do is move right up the Western European area and I think at the end of the day we're going to see some pretty good traction development.

Again, part of what will motivate that is, as we start to get data back from the Italian rollout, we can show the revenues that will be generated by the accurate measurement of the gas and that's part of what we're going to use for our sales cycle. But I suspect that we'll start to see units rolling out to these other European countries sometimes first or second quarter of next year. I don't believe it will happen this year.

Operator^ Amit Dayal with Rodman & Renshaw.

Amit Dayal^ So in regards to the gross margins for the energy division, we came in at 44% for this quarter slightly higher than what we've seen in the past several quarters. Could you give us some color on what drove this and should we be modeling at these levels going forward?

DanFord^ I think level the model at -- next few quarters is going to be in the high 30s to right around 40% margin for the energy division. In the fourth quarter there were a couple of areas where we were able to get frankly increases some of our large contracts on some projects that I don't expect to continue each quarter. So I would put my modeling in the high 30s to around 40 for now. But then, as the GasPT volumes continue to increase, so I would expect that to continue to creep up as well so.

Amit Dayal^ And you mentioned maybe, I didn't catch this correctly and you can correct me, but are you targeting 250 units for the IRIS product in sales for this year?

Bill Clough^ No. I don't know when that purchase order will come out. I think what's happened is this, because of RIO and some of the initiatives with National Grid, I think -- we have talked about this in the past on other calls, they have decided or not decided they are now directed to have tier-1, what they refer to as tier-1 contractors do all the installation and big project work for them, which would be the IRIS roll out and the total number of units to be rolled out as we understand is 390, we are now with these additional 10, I think we will have installed almost 130 into their system.

So again, leaving somewhere around 250, 260 units to install, what we've talked to National Grid about them what -- what we're trying to push them is that they can go ahead and issue these purchase orders for the civil work to these tier-1 contractors. But, we believe and we believe we can convince them that it's more beneficial for them to contract directly with us for the IRIS unit. We are going to supply them anyway and in that way they get a volume discount. If they go through the tier-1s, the tier-1s will get the volume discount and they are going to hope that they pass it along, while, we made a pretty good argument.

Our sales group is working very diligently with them to the effect that they are better option is to come direct to us. And while that hasn't happened yet, we are pretty confident that's what's going to happen at the end of the day. They are going to issue in essence two tenders if you will, one for the technology, which would be ours. And one for the installations, the civil engineering laying concrete all that stuff, would be the tier-1.

And so, but again, we don't know when that will drop. We think the purchase order could well drop and will probably drop this year. But the delivery will be over the course of -- couple of three years. This is a huge project that will take a minimum of two maybe even three years to complete.

Amit Dayal^ The backlog Bill, is this backlog as of the end of say 2015 to be recognized over the next 12 months, is it sooner or the timeline on that if could provide some color on it please?

Dan Ford^ So -- I will take that actually. For the (Technical Difficulty) backlog generally turns in three to six months. For the energy segment that backlog, it will turn during this year as well, for the most part -- most of the contract now that we are seeing in the gas energy segment are three, six, nine month project. The longer term projects have gone away with the RIO initiative in the UK. that we are wrapping up from the longer term contract, and we are seeing contracts generally all under one year period, so, yes. Everything that you see in the backlog as of 2015, we would expect we will turnover during 2016.

Operator^ Andrew D'Silva with Merriman Capital.

Andrew D'Silva^ Couple of quick questions, first of, just on a quarter-over-quarter comparison for CUI Canada, could you maybe just look -- give that revenue break out again to that for the third quarter and the fourth quarter, if you have it?

And then, with the fourth quarter run rate, whatever that issue, we kind of expect that to be what we should model going into the next -- or 2016 or should have an up tick from there?

Dan Ford^ So, I don't have the Q3 readily in front of me, but I tell you that for the full year we did around \$12 million through CUI Canada product line sales.

Andrew D'Silva^ And then, what was the fourth quarter?

Dan Ford^ Yes. I don't have that split right in front of me where I'm at right now. I'm not linked into that information currently. I can get that.

Andrew D'Silva^ We will do that offline. That's fine. And then, as far as GE goes, you're originally working with them with GasPT and IRIS, has there been any sort of an update with that that you can talk about or it's been what you stated last call?

Bill Clough^ Andrew, the moment I can talk about something with GE believe me, when I tell you, I will talk about it. We're still going forward. There has been no change in a negative way. But, again, as I've said in the past they are slow moving. They are very conservative. That's why they are so successful, I guess. And again, so we are still working with them. We are still in their premier solution partnership program. And again, the moment I can say something I will.

Andrew D'Silva^ And then, now you have that critical reference customers Dan, has there been any kind of up tick with your distributor partners, now you have about 38 of them. Have they seen any interest from their sales teams now that they have that data, or

is that just slower sales cycle than previously your internally derived initiatives?

Bill Clough^ We would be getting some literally direct calls much more from the Europe -- from Western Europe and those who have come directly to the Company. We have seen some up tick particularly in the VE sales area to a couple of our European suppliers. Then again, we are seeing some up tick in interest in calls with -- in relation to North America through a couple of different of our distributors, [IMs] in particular in the Northeast and Benchmark in Canada. But, it's all too soon that to put sales, to attach sales to that, you need a sales cycle. But, we are seeing an up tick in interest, yes.

Andrew D'Silva^ And how about with the Texas location, how is that going, is that kind of trending to your expectations at this point or maybe a little color on how things are going there and what you maybe expect to see in 2016?

Bill Clough^ Yes. We were looking now for them to do about \$4 million in revenue last year, they did a little under that, I think \$3.7 million, \$3.8 million in revenues. So we are pretty happy with that. We think there is going to be pretty dramatic growth over there. We are trying to really focus on North America especially now again with some of the VE sales and again starting to push GasPT. And so we see that as being a very big addition we think this year and that's nice growth. I mean I'm not going to put figures on it and obviously, because we don't do forecasting. But I think, they will certainly eclipse the \$4 million range that we expected last year -- this year.

Andrew D'Silva^ Great. And just last question, back to Snam Rete -- as far as, you mentioned 7000 potential points for GasPT, is that a new number and exactly what milestone should we be looking forward, see if they expand from 3300 or 7000?

Bill Clough^ Yes. It's not a new number. It's been out there for a while. They actually have a total of 7000 off-takes. Actually have 7500 off-takes but the bottom line is 500 of them or just not anything that are of interest, it's not just enough money. It's not enough size to it. But, they have 7000 off-takes that would actually benefit and really the milestone is, that we will know at least for a few months, is the return on investment. If they are seeing a significant increase in revenues because of the accuracy of our device and because they are measuring directly at the off-take point then their plan is to go forward and put these on all customer off-takes of a certain size, which should be 7000. I think at the end of the day, again, it's much like I talked about with the -- drive that application. They are looking for return on investments. They are not doing this for my good. They are not doing it for CUI Global's good; they are doing it because they think they can make more money. And if that happens, they have a good return on investment. Then they will roll out the remaining, what 3700 units. They want them out there because they pay for themselves.

So that's the milestone. And again, we will start seeing that as the roll out occurs over the next six or seven months.

Operator^ Marco Rodriguez of Stonegate Capital Management Market.

Marco Rodriguez^ Couple of quick follow-ups here on the gross margin side, I just wanted to kind of follow-up on the power side. Had a fairly large or deep sequential decline on the gross margin side down into the mid-30s? How should we be thinking about modeling that going forward? And then, also if you can provide some color as to -- the decline there in gross margin?

BillClough^ Sure. I believe overall the margin is going to stick around the high 30s on a go forward basis. We are seeing some lower margin deals particularly as we are seeking higher volume customers. That's more of an opportunistic decision. But with the distribution area being soft especially towards the end of the year definitely we actually do well -- very well in the margin generally speaking. And so, I would continue to model in the high 30s, 37%, 38%, 40% margin area. That's still the goal for the Company to stick around that area. So, I wouldn't take the fourth quarter as the next modeling going forward.

Marco Rodriguez^ So, the expectation is, for example, perhaps next quarter you go back to your normalized margins, or you think you still see a little bit of these lower margin projects coming through?

Dan Ford^ There is always the lower margin project coming through, which is a matter of when they did. So, what I'm saying is, I would stick to my blended, I would use the 37% to 38% margin for the power group.

Marco Rodriguez^ Got you. Okay. And then, switching gears to the gas side or the energy side. Just shy of -- a little bit over \$28 million in total revenues for the year. Can you give us a sense as far as what is representing there on the GasPT and the VE probe units? What sort of percent of sales or any sort of color you can provide there?

Bill Clough^ We don't break out like that. I would say certainly less than -- well, maybe 10% to 15% something like that. Mostly the revenues last year were mostly project driven. We had really good results with bio-methane. We had some big projects. We're finishing up for National Grid. We had the number of wireless units that we delivered last year. So again, I think somewhere in the 15% range something like that we don't break it out like that. We don't break it out that way.

Marco Rodriguez^ And just also wanted to confirm kind of a housekeeping item here. The 36 units for GasPT and the 617 units for the VE probe. Those were delivered and recognized as revenue in fiscal 2015, is that correct?

Dan Ford^ That's correct.

Marco Rodriguez^ And last quick question; just talking here on the balance sheet side, wanted to try and get a better sense as far as working capital account, obviously a bit of drain for cash flow in fiscal 2015. How should we be thinking about those accounts

again going through fiscal 2016?

Dan Ford^ I'd hope that the receivables continue to increase, I think inventory should be fairly flat lined now. Receivables are still staying within terms with our customers in those part. The big increases in 2015 that will have to do with bases that we added an entirely new customer base with CUI Canada and Orbital North America. Those are big piece of the increases. Otherwise receivable should be fairly consistent, inventory should stay fairly consistent and prepaid, I would say as well. So, I wouldn't expect modeling wise for those have changed significantly from 2015 end of the year. That something we will continue to monitor. It feels -- surprise me and go through the roof, which would be a great problem, inventory -- our receivables will definitely go up. But, based on our current models I think receivables should stay fairly consistent with year end.

Marco Rodriguez^ And CapEx, how should we think about that going into fiscal 2016?

Dan Ford^ Sure. CapEx is not anywhere near what it was in 2015. We believe it will be somewhere in the \$1 million to \$1.5 million for the year, depend on timing of a co-project. But, we are not -- last year, we built the facility in the UK. That was a bigger feet. There is nothing like that this year on the horizon.

Operator^ Alex Blanton with Clear Harbor Asset Management.

Alex Blanton^ I wanted to ask about the current backlog, since you mentioned, what is the backlog say at the end of -- March at the end of the first quarter versus what you reported year end including all of the new ones; do you have that number. Do you have it broken down by the unit units?

Dan Ford^ That's not the number that we are going to put out today. It is a number that is -- it's a little bit fluid especially given the percentage of completion accounting for our contract. So that's a difficult number to pin down at a current point in time. I would say that we expect it to be improved over the year end particularly on the energy segment side. But, again, that's going to depend on movement within the contract build out during the quarter. We are seeing strengthening in general with regards to (inaudible). So, but for today we don't have -- I don't have a number as of 14 or 15 of March.

Alex Blanton^ And to what extent was the wind was (inaudible) Snam Rete Gas helpful in getting these additional orders, were they going to come anyway or did you get some credibility from that Snam Rete Gas order that helped you to sign up the current orders and perhaps some more than coming?

Bill Clough^ Well, let's divide those up. The VE technology had little or nothing to do with the Snam Rete Gas. The VE technology really is starting to develop credibility from a number of areas probably the most significant is that the sales for the Gorgon project down in Australia.

As far as the GasPT is concerned absolutely, Snam Rete is the reason that we are now moving up into the rest of Western Europe. It's much like we talked about in the past. We believe very strongly that this is a very conservative industry and it's difficult to get the first one to move. We had to pick a target that was respected, number one. That was large, number two. And that we do a project that show that we could roll out 100s, if not 1000s of units. Snam Rete fulfilled all of those objectives.

So absolutely, the creditability that we obtain and will continue to obtain from rolling these out because think about it. We just delivered the first 105. There have been none installed in the field yet. The factory acceptance says it's the end of March and they will start rolling out. We will build credibility as number one, they go out in the field and work. And number two, we start to get the results back. We get data back that shows the increased revenues that are associated with accurate measurements.

So, yes, this is a continuing process. But, yes, we are definitely building credibility with the time. And frankly, they know that. That was part of the negotiation process that we want them to act as a testimonial. We want them to share the data and share the test results. And they are fully willing to do that. So they are good partners and I think as we start to roll these out and get more data. The creditability will increase and increase. That's --people ask me what keeps you up at night? What keeps me up at night is making sure that every single one of these Snam Rete unit goes out perfect, that there are no hiccups. And that's what's happening so far and we're going to continue to do that so that as we roll those out, our credibility grows. But, yes, it's definitely a big factor.

Alex Blanton^ You mentioned that 7000 depends on the data that comes back from the first 3100 to see what the return is, but why do you have to have install the 3300 to get that data. Why wouldn't you get data from the first 400 that go out? And then, so what do you expect them to move from the 3100 level to the 7000, I mean it definitely take that long because the data on the --

Bill Clough^ Alex, I expect them to do that like any business person would do it. When they finish the 3300. They are not -- they may internally make a decision in September this year. But, they are not going to share that with me. They are going to come back to me as they go through this process and they are going to try and do all sorts of things obviously to help me lower my price, they may raise the number of units they order. They may offer to do that additional 3600 for another discount.

There is all sorts of -- they are a business. Alex, they are going to make that decision when they decide based on the data that they want. What I'm telling you is, that I want to make it, no greater for them. And I want to do that by giving them such great service and such accurate measurements that they can't say no because it pays for itself. But, I'm not in their internal discussions; I don't know when they will make that decision. But it would be quite surprising for me. And I'm sure you know enough of our business to know that. It would be quite surprising for me to see any business go: oh, this is really good, let's order another 3600 of them, without looking for some benefit from that. So again, they will make their decision when they are ready to make their decision. All I

can control is how the machine operates and how easy and perfect it is to roll out and that's where we are going to control. And we are confident that we will make it again, an easy, yes, for them. But, when they will do that, I don't know. And yes, you are absolutely right, they could decide in the first six months but whether they will communicate that to me is a whole different matter.

Operator^ Roger Liddell with Clear Harbor Asset.

Roger Liddell^ I want to go back to yesterday's press release which Bill referred to in passing in his comments. I noted my eye went to the wording about the high risk light. I'm not entirely clear what the light is relative to the normal IRIS RTU. But for above ground installations and power stations. Now, several years ago, I remember the Company mentioning at least in passing that the IRIS technology had applicability for managing electric grids. But there has been a little or nothing said about that subsequently. Given the vulnerability of electric grids around the world to internal operating problems as well as external threats including cyber attack. This could be a major new platform for CUI. Could you give some texture and what the TAM might be for that application?

Bill Clough^ Let's not confuse this. It's not applicable at all for the electric grid. What IRIS is applicable to any pipeline system? It could -- and it doesn't matter what's in that pipeline. It could be natural gas. It could be oil. It could be water. We have actually been approached by the utility in the UK, they do a IRIS system for water pipeline. So we can -- to any pipeline system and what it operates remotely is the metering and the valve operation that's what it operates. So when we are talking about (inaudible) installations at power supply -- in power plants. We are talking about the delivery of gas -- natural gas to those areas. We are not talking about the electric grid.

And as far as security is concerned that's one of the beauties of IRIS. The IRIS system as you know is web-based and it's placed on their platform. So it's secure as their firewall that's one of the first issues that National Grid talk to us about. How can you ensure security and our answer was we don't ensure security. It's on your platform. It secures the rest of your system. We are not keeping it. It is not proprietary to us. It's your system. And it's on your blade server system. It's on your farm. It's on your iCloud. Whatever it is, it's your system and it's secure as the rest of your system because it sits behind your firewall. So again, security is something is that obviously is always a concern but in our case, we are providing them with something that is again behind their own firewall. But it is -- it's not -- it's strictly a pipeline operating system. It doesn't matter what's in the pipeline. But it is pipeline not electric.

Operator^ Our next question comes from [Neal Fegan], who is a Private Investor.

Neal Fegan^ Hey, couple of unrelated things. When you were talking about Western Europe, I jotted down that the opportunity more or less is Portugal, Germany, France, Spain and the Netherlands. Did I understand right that you delivered 10 units to Spain, one to Portugal and you've delivered us an unspecified number of units to the

Netherlands?

Bill Clough^ No. Actually, we delivered about 12 units to Gasunie in the Netherlands. We have one unit in Spain that is the test unit that Repsol have had for some time. And we have delivered -- just delivered one to Portugal. That you got Spain and Gasunie.

Neal Fegan^ And so just a little clarity, Bill. It sounded like the primary focus now at least I interpreted it to be France. But wouldn't the Netherlands where we delivered 12 or Spain, who has already testing one, would they not be -- maybe moving at a faster pace right now than what's going on in France?

Bill Clough^ Yes. It's not either or. Gasunie has already adopted the system. Just Gasunie -- as you might imagine, the Netherlands is a very, very small system. I think in total they are going to be somewhere around 50 or 60. It's not ever going to be a big customer. It's not a big system.

But we -- Gasunie is ordering, it's not an either or. Same thing with Spain and France. It's not -- we're not doing Spain to do France. We are focused on all of Western Europe. I'm just telling you that the way it's moving, the French seem to be the most interested now. But, again, we are not -- it's not an either or. We've got sales team. And I've got 15 sales guys over there. I got an entire engineering division. They are talking to everybody. So again, it's not -- we are pursuing everything.

Neal Fegan^ And then just a quickie on the ethylene manufacture, when do we expect for them to have the first few units actually installed and operational?

Bill Clough^ Yes. I think the delivery is occurring any day. So they will have a -- they will have on their hand very shortly. I don't know what their installation schedule is. And that's just -- I don't know -- so, I couldn't say.

Neal Fegan^ But, it certainly would be in the first half of 2016?

Bill Clough^ Yes, absolutely.

Neal Fegan^ And then, Bill, without being specific to anyone particular company because there is probably half a dozen in the space. Is there anything you can update us on of interest with respect to the gas turbine and the gas compressor manufacturers as a group? Is there anything of interest that's actually going on now versus say three to six months ago. And kind of as a conclusion to that even though you may know a couple of the bigger ones are slow moving. Do you have any kind of goals to achieve there between now and year end?

Bill Clough^ Well, my goal is to deliver units to whoever I can deliver units to. So absolutely, my goal is to deliver the turbine control units, which is something we are still working on. I can't say that we have a team going to Japan in the next couple of weeks to speak with Mitsubishi. We talk about the fact that they had a roll out of several units --

test units, they want to give us results. Then talk about additional POs. So again, we will see what happens as we make progress -- we will certainly make relevant announcements. But, I can't tell you whether out of this point because we haven't met with them yet.

Neal Fegan^ And we've got separate companies making the gas compressors that are also purchased some of these rights?

Bill Clough^ Correct. And again, that's a slower roll out simply because of some of the things that's happening in North America. But, yes, we expect that to continue this year and probably increase over the course of the year.

Operator^ I'm not showing any further questions at this time. I would like to turn the call back over to our host.

Bill Clough^ So again, just in conclusion, I would say as I've said in the past and I will say going forward. We are a forward-looking company. We work very, very hard to get the industry -- the gas industry just start to adopt their technology. We think that's finally started and we believe that the confidence and support and interest that all of you have shown over the years is going to pay off now. We think 2016 is going to be a great year for us and 2017 will be just better than that. That's what we're trying to do and I think in large part starting to accomplish.

With that being said, I want to thank all of you for your time and attention. And obviously, if you have questions or things come up through the course of the year, both Dan and I are very available, so don't hesitate to contact us. Again, have a great day. And thank you for your time. Thank you.

Operator^ Well, ladies and gentlemen, this does conclude today's presentation. You may now disconnect. And have a wonderful day.