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CUI - Q1 2016 CUI Global Inc Earnings Call

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CORPORATE PARTICIPANTS

Casey Stegman *CUI Global - Investor Relations*

Bill Clough *CUI Global - CEO*

Dan Ford *CUI Global - CFO*

CONFERENCE CALL PARTICIPANTS

Eric Stine *Craig-Hallum - Analyst*

Rob Brown *Lake Street Capital - Analyst*

Sameer Joshi *Rodman & Renshaw - Analyst*

Andrew D'Silva *Merriman Capital - Analyst*

Marco Rodriguez *Stonegate Capital - Analyst*

Alex Blanton *Clear Harbor Asset - Analyst*

Scott Billedeau *Walrus Partners - Analyst*

PRESENTATION

Operator

Good day ladies and gentlemen, and welcome to the CUI Global Incorporated First Quarter 2016 Earnings 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 be given at that time.

(Operator Instructions)

As a reminder this conference call may be recorded.

I'd now like to turn the conference over to, Mr. Casey Stegman, Investor Relations. You may begin.

Casey Stegman - CUI Global - Investor Relations

Thank you and good morning. Welcome to CUI Global 2016 first quarter 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 first quarter 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 questions.

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 Web site at www.cuiglobal.com. A replay of this call will be available until May 25th, details could be found in the press release.

Today during the course of this 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 from the Investor Relations section of the Web site. 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 - CUI Global - CEO

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 and then, I'll hand the call over to Dan to review the financials.

When Dan has concluded with 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 both the Energy and Electro-Mechanical segments 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 made in the first quarter of 2016. After more than four years of testing and evaluation in February we were awarded the metering upgrade project by Snam Rete Gas, Europe's largest natural gas pipeline company. That project comprised of between 3,300 and 7,000 GasPT analyzers to be install across the Italian pipeline systems, helps us lay the ground work for the remaining three quarters of 2016 and beyond.

For the first quarter our revenues increased 24 percent to \$20.7 million as compared to \$16.9 million in the first quarter of 2015. The Electro-Mechanical segment revenues increased approximately \$2.6 million compared to the 2015 first quarter, while our energy segment revenues increased \$1.4 million in the first quarter versus the prior year as the Company began reaping the benefits of the Snam Rete Gas contract which I'll discuss in more detail later. In addition to the 24 percent increase in revenues in the first quarter and margins increased, our SG&A was reduced as a percentage of those revenues, and our adjusted EBITDA increased by 50 percent.

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

Dan Ford - CUI Global - CFO

Thank you, Bill and good morning. I'd like to now give a financial overview for the first quarter of 2016. As Bill mentioned, the Company's revenues were \$20.7 million for the quarter up 24 percent from revenues of \$16.6 million in the first quarter of 2015. The increase in revenues for the quarter is attributable to approximately \$2.6 million of growth within the Power and Electro-Mechanical segment and \$1.4 million growth in our Gas segment.

The revenues for the three months ended March 31, 2016 are attributable to continued sales and marketing efforts, sales through the distribution channel customers, the addition in March 2015 of CUI-Canada related product line for which got an additional two months in 2016. The revenue generated since the January 2015 opening of Orbital Gas Systems, North America, and overall improved sales of energy related metering, monitoring and control systems including the GasPT.

The increase in revenues during the year is related to increases in revenues primarily associated with the Power and Electro-Mechanical segment addition to CUI Canada products, offset somewhat by overall softness for CUI in the distribution side of the Power and Electro-Mechanical industry.

And for the energy segment, the revenue increase was both the addition of revenues generated through Orbital Gas Systems North America activities and revenues from our Gas related metering, monitoring and control systems with especially the GasPT, offset by decreases related the weakening exchange rate for the British pound sterling against U.S. dollars which impacts our overall UK revenues.

While management recognizes the consensus analyst forecast, the revenue for the first quarter were \$22.7 million and the current quarter fell short of that forecast. Management continues to give the consensus revenue range for the full year of \$105 million to \$110 million seen appropriate based on the current outlook from each of our segments.

However, that outlook in the current production schedule indicates increasing revenues in Q3 and Q4. The Company does not provide detailed guidance non-forward-looking guidance, however we believe this consensus range is achievable for the full year.



The cost of revenue for the three months ended March 31, 2016 was \$12.6 million compared to \$10.4 million in the same period last year. The increase is due to increased sales in both Power and Electro-Mechanical division and Energy division.

As a percentage of revenue the cost of revenue decreased by a rate of 61 percent from 63 percent in a five year comparative period. At March 31 2016 and the Power and Electro-Mechanical segment held an unaudited backlog of orders of \$19.5 million and the Energy segment held an unaudited backlog of orders of \$16.8 million including recent orders announced by the Energy segment which includes the large GasPT order from Snam Rete Gas.

Earnings before interest, taxes, depreciation, and amortization loss for the first quarter of 2016 were \$1.7 million, or \$0.08 per share loss, versus EBITDA loss of \$3 million or \$0.15 per share for the first quarter of 2015. The adjusted EBITDA loss for the first quarter of 2016 was \$1.3 million or \$0.06 per share versus an adjusted EBITDA loss of \$2.5 million or \$0.12 per share for the first quarter of 2015. Gross profit was \$8 million or 39 percent for the first quarter ended March 31, 2016 versus \$6.2 million or 37 percent in the same period 2015.

During the three months ended March 31, 2015 Power and Electro-Mechanical segment generated gross profit margins of 36 percent while the Energy segment generated gross profit margins of 44 percent.

The Power and Electro-Mechanical business were lower based on product mix and volume discounts as well as efficiencies regarding volumes produced for our CUI Canada manufacturing facility.

As that facility becomes more efficient with increased production sales of its front-end cost by technology this margin will improve. Energy segment profit margin was higher in Q1 as a result of several items, primarily improved margins on some contracts major contracts and the influence of the 100 GasPT unit sales.

While we expect this margin to consistently reach these levels of more of our Energy segment technologies drove revenues, we expect in the shorter turn that the margin range in the 35 percent and 38 percent blended is to be expected at the integration percentage of competition projects generally achieved lower profit margins.

For the three months ended March 31, 2016 total selling, general and administrative expenses were \$0.6 million greater than in our first quarter of 2015. The increase is largely due to increased audit and accounting fees including the other segment incurred during the first few months of 2016 that accounts for approximately \$0.4 million of the increase.

In addition the operations related to CUI Canada which was acquired in March 2015 accounts for approximately \$0.2 million of the increase. Due to operating for the full three months ended 2016 compared to one month in the first quarter of 2015.

Also in the increase was \$0.7 million decrease in SG&A associated with the activities of Orbital Gas Systems North America which opened in January 2015 and had increased startup related cost during the period. Remaining increase within SG&A during the three months ended March 31, 2016 are associated with the ongoing activity to reach new customers, promote new product lines, including the GasPT, Iris and VE-Probe and new product introductions to the Power and Electro-Mechanical division.

SG&A expenses decreased to 45 percent of the percentage of revenues, compared to 52 percent in the prior year comparable period. This decrease as a percentage was due to the large increase in revenues compared to the relatively smaller increase in SG&A.

The Company believes that 2016 will continue to see efficiency gains related to SG&A as revenues increase through ongoing sales efforts through its operation, continued growth offsetting SG&A investment in Orbital Gas Systems North America and continued improvement in CUI Canada related sales channel. Which as we discussed that the acquisition would be a two to three year turnaround of profitability for which is a significant growth potential, we are now at the one year mark according to, CUI Canada.

The Company reported a net loss of \$2.7 million or \$0.13 per share EPS for the first quarter ended March 31, 2016 compared with a net loss of \$4.1 million or \$0.20 per share in the prior year period. Net loss for the three months ended March 31, 2016 was primarily a result of the previously discussed increase in SG&A expense related to the opening of Orbital Gas Systems North America in 2015 and in addition CUI Canada in March 2016. Both entities can bring increases in long term gross profit as well as the ongoing amortization in tangible assets related to the Orbital Gas Systems Limited and CUI Canada acquisition.

Adjusted net income or loss which represents net income or loss plus the amortization expense of the intangible assets acquired, due to the 2013 Orbital acquisition and the 2015 CUI Canada acquisition plus the expenses associated with stock options and notes issued for compensation, royalties and services for the quarter was a loss of \$2 million or \$0.10 per share for the first quarter of 2016 as compared to the loss of \$3 million or \$0.14 per share in the first quarter of 2015.



Turning to my previous comments regarding revenues, the management recognizes a consensus analysts forecast for U.S. GAAP earnings per share for the first quarter were a loss of \$0.05 per share. And the current quarter fell short of that forecast. Management believes however that EPS will improve as the year progresses in conjunction with the continued increase in performance in the Energy segment. Strengthening in the Power and Electro-Mechanical segment and several cost saving measures that were implemented in Q1 which will begin to take effect with Q2 onwards.

Operating requirements generated a negative cash flow from operations of approximately \$0.4 million during the first quarter of 2016 and negative cash flow from operations of approximately \$1.5 million during the first quarter of 2015. The change in cash used in operations is primarily a result of the loss for the three months ended before non-cash expenses partially offset by positive cash flows due to the section trade accounts receivable of \$3.2 million, significant factors impacting used in operations increased revenue of profitability of the Energy segment coupled with annual deliveries and the rate of sales terms.

In addition for the net loss in the quarter the overall use of cash was due to changes in cost in excess billings of \$1.2 million which were associated with the timing of customer orders and ongoing projects primarily in R&D segment in UK. If you think cash was effective by \$0.8 million positive cash flow from the change in billings and excess of cost which were attributable to UK as well. In addition the overall use in operating cash included the use of \$27 million on accounts payable and \$28 million in net payments for accretive expenses.

During the first three months of 2016 and 2015 the Company has stock in options of the formal payments of certain vendor's consultants and employees. For the three months ended in March 31, 2016 and 2015 the Company recorded a total of \$0.3 million and \$0.4 million respectively share based compensation related equity given or to be given to employees and consultants versus private and to royalties earned.

As the company focuses on technology development product line additions, the continued integration of CUI Canada operations and development of the market for Orbital Gas Systems North America during 2016 it will continue to fund research and development and with related sales and marketing efforts for its various product offerings cash on hands. As of March 31, 2016 CUI Global held cash and cash equivalents of \$6.4 million representing a decrease of \$0.9 million from December 31. In addition the Company maintains a \$4 million line of credit which has a zero balance at March 31, 2016. The company had common shares of outstanding of 20,839,507 shares at the end of the quarter.

Now I will turn the call back to Bill. Thank you.

Bill Clough - CUI Global - CEO

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 over the past few years, as well as give you some additional color on some of the key highlights from our first quarter.

We've had some significant news during the first quarter, and let me begin with the news from CUI Global's wholly-owned UK energy subsidiary Orbital Gas Systems. The most significant news was the closing of an order for the Orbital's proprietary GasPT analyzers with Europe's largest natural gas transmission company Snam Rete Gas. We received the first PO for 400 units in February delivered approximately 100 of those units during the first quarter.

So the scope of the project includes a deployment of a minimum of 3,300 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 3,300 units. This deal is a result of years of testing, certification and independent test protocol and is truly a transformational 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 percent to 40 percent and materially increase our revenues. 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 the system.

We recently announced the \$1 million contract between Orbital Gas Systems and UK's largest natural gas transmission company National Grid for a delivery of its proprietary IRIS remote telemetry unit RTU system. The order calls for the design construction delivery and commissioning for these further 10 IRIS RTU systems and associated electrical kiosks.

It also represents the first order for the cost effective IRIS LITE RTU which is ideally suited to small or above man installations at power stations. We are still confident that the National Grid intends to upgrade its entire RTU system with our IRIS technology, which could produce orders from between 200 and 250 additional units in the next 12 months to 18 months.



In addition, Orbital recently announced the sale of its first GasPT unit in the Portugal and the award of a \$2 million contract from a major UK natural gas network operator for a delivery of our large scale metering skids. That order represents the first phase of a broad upgrade to critical and natural gas intake facilities which could produce another \$5 million in with for Orbital in the next 18 months.

These sizable projects including our expanding presence in the bio-methane and alternative solution to markets all helps solidify Orbital Gas Systems as a partner with UK's and Europe's largest natural gas operators in 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 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 way only opened in Huston in January of 2015, we received our first order in North America for Orbital's mercury trace element detectors. A \$1 million deal from a large Northeastern U.S. LNG terminal operator converting one of its import terminals to an export terminal. These are the very same detectors that have been so successful for us in Australia at the Gorgon LNG project, where we have deployed several million dollars of product to a Fortune 100 Energy company.

Recently Orbital NA 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 depth, VE sample probes and sample systems and another purchase order for an additional six VE sample probes. That order totaling almost 1.8 million 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 announcements evidence our ability to provide unique leading edge solutions to the natural gas industry. Our patience and work over the years is paying off as companies are purchasing our gas products both internationally and in North America.

The momentum continues to build in our Gas and Energy segment and we look for this trend to positively contribute to the top and bottom line moving forward into 2016 and beyond. Specifically sales of our new products in the Energy division continued to grow significantly in 2016. Let's discuss those sales now.

The award of the Snam Rete re-metering contract this February has already allowed us to greatly eclipse the number of units we delivered in all of the 2015, that projects which translates into a minimum of 3,200 and depending on the results maybe as many as 7,000 units has allowed us to deliver 116 units in the first quarter including 16 units sold to other customers that compares to a total of only 36 units delivered in all of 2015 and leaves us with a backlog of more than 300 units based on the initial Snam Rete purchase order and other orders received by Orbital UK and Orbital NA.

Additionally we're in direct communications with the French, Gasunie and the German E.ON gas and the Spanish Repsol pipeline companies and as previously announced we are already delivering the GasPT analyzers, to Gasunie in the Netherlands.

In short the industry is beginning to learn and appreciate that our devices both the GasPT analyzers and VE sampling systems are the only technologies capable of providing accurate almost real time metering along with the vortex elimination and rapid sampling time which are the unique features of the VE technology. That's allowing us to provide a safer faster more efficient high quality solution to the natural gas operator.

Finally not to minimize the contribution of the Electro-Mechanical segment in the first quarter, CUI announced a limited exclusivity agreement for hardware development with Virtual Power Systems VPS, a cutting edge software defined power-company.

The agreement makes CUI the exclusive agent for VPS who will design, manufacture and sell the ICE Block hardware component of the ICE that's intelligent control of energy system. That realizes the full value of the VPS solution. The ICE Block hardware is managed and controlled through the ICE platform a tightly integrated suite of software developed by VPS. The ICE Block will enable datacenter operators to double power and serve sever utilization, reduce cost and greatly improve availability.

We demonstrated the technology at the 2016 Applied Power Electronics Conference or APEC in March. It was very well received by the industry and is scheduled for trials by some of the largest datacenter operators in the world later this year. As we look ahead to the remaining three quarters of 2016 I want to reiterate our optimism and commitment to providing superior technology, products and service to our customers.

While the first quarter results for 2016 were not as strong as we would have liked this weakness was due in large part to an expected drag produced by our acquisition of CUI Canada and a general industry wide weakness in the Electro-Mechanical and component markets.

Our Energy division continues to grow and the natural gas industry is increasingly beginning to recognize and adopt our leading edge technologies and devices. The employees of CUI Global have shown tremendous tenacity in pursuing new business to grow the Company and expand our market penetration. 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 electronics markets, all in conjunction with our efforts to strategically grow our revenues, our profits 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 up for questions.

QUESTION AND ANSWER

Operator

Thank you.

(Operator Instructions)

Our first question comes from the line of Eric Stine of Craig-Hallum. Your line is now open.

Eric Stine - Craig-Hallum - Analyst

I was hoping we could just start with Snam Rete and maybe just some updated thoughts on a potential timing and size of the follow-on order here for 2016 and then maybe can you just talk about expectation of how you think the initial 3,300 units rolls out over the next two years you still think it's pretty constant when you get into 2017 and 2018?

Bill Clough - CUI Global - CEO

Yes, there our plan is just that two things that are checked one, you are talking to them at the very highest level which we've done in the last couple of weeks and it does appear that they are not going to have a second tender, but in fact the tender has done the contract has been awarded and we've been very-very successful in the first few installations and they are quite pleased so we are more confident than ever that we are going to get all 3,300 or 7,000 depending on what we put out there.

As far as the roll out is concerned we are currently delivering about 50 a month we expect to do that through August-September timeframe where we go looking for a second purchase order that's like a purchase order we believe will be from 400 to 600 units they expect to install 600 to 800 units this year so that would increase our deliveries from 50 a month currently to run 100 a month beginning in September we believe.

And they are also very firm on their scheduling of '17 and '18 they expect us to install as many as 1,200 in '17 another 1,200 in '18 then whatever is left at thereafter so again they are basically firm on their installation schedule and it is probably is going stick into it.

Eric Stine - Craig-Hallum - Analyst

Got it, and so just to confirm that you said so no second tender I mean at onetime and there was a thought that you might as you look much later maybe '17 maybe 2018 you might have someone that would pick up some volumes for that is understanding is that off the table?

Bill Clough - CUI Global - CEO

I think again I can't definitively say it is off the table because that is only the case in no second...

(Multiple Speakers)

Eric Stine - Craig-Hallum - Analyst

Perfect. And maybe you mentioned the other EU customers in France, Germany and Spain, I mean as much as you can share thoughts on potential timing of those and I mean any clarity on analyzer versus full system for those customers?



Bill Clough - CUI Global - CEO

Well, I can say that it's 3³⁰ in the afternoon in Paris, where I happen to be right now, so that should give you some indication of who's moving fastest. We have been quite impressed by the interest from both Spain and France.

We believe that France probably is the fastest, the market we think. I can't tell you that we think we're going to have some nice announcements in the next little while about the partnerships that we're putting together here in France to do deliveries and to do integration.

And again I think it'll be a month, long month, long process unlike the Italian year line, year's long process, so I think that's where it'll be but you're still going to have all of these entities are obviously very proud, very confident and they're going to want to do their own testing we just won't need to do all the certification the third party testing, University testing, we don't have to do all of that. But we still think there'll be some period of time where they'd want to do inbound testing and we're trying to get that started.

Eric Stine - Craig-Hallum - Analyst

And then I mean, in terms of analyzer versus full system that's kind of a moving target right now?

Bill Clough - CUI Global - CEO

I would say that the indications we're getting from both the French and the Spanish is that they are unlike the Italians, almost all high pressure delivery systems which means that would be the full GasPTi, the full version that would need the PRO unlike the Italians who have a majority of a low pressure off-takes.

Eric Stine - Craig-Hallum - Analyst

OK, got it, maybe last one from me just Dan mentioned the cost saving measures in the first quarter maybe just clarity on that impact that's going to have on gross margin and OpEx going forward?

Dan Ford - CUI Global - CFO

Sure so what -- with the CUI Canada acquisition as you know we got quite a R&D group up there. What we've done now is we consolidated our R&D group together in one location so (inaudible - technical issue) Tualatin, Oregon has been reduced or utilized in engaging R&D (inaudible - technical issue) almost entirely to them from our side and there's specific couple of other efficiencies identified at our UK operations as well.

Going forward we think we're going to save several hundred thousand dollars a year probably up to 0.75 million in a full year period. So we're pretty pleased with (inaudible - technical issue) where we can identify efficiencies particularly with that CUI Canada acquisition to see how we can become more efficient financially (inaudible - technical issue) sell through as well (inaudible - technical issue).

Operator

Thank you. Our next question comes from the line of Rob Brown, Lake Street Capital. Your line is now open.

Rob Brown - Lake Street Capital - Analyst

Good morning. (inaudible - technical issue) installations have you, similarly to installations have you started to get there, or have they started to get results from that so they can prove to what your expectations or do you have any feedback on the results yet?

Bill Clough - CUI Global - CEO



I have not, other than the fact that we had a factory surface test that we passed fully and have the first twenty that have gone out have been working as expected or better than expected. But I have not gotten any hard data back yet. The minute I do and obviously that will be a thing that I'll be passing on to other potential customers but we have not yet received data.

Rob Brown - Lake Street Capital - Analyst

OK, good thank you and then in the Orbital North America. You've had some good initial sales, what's your pipeline look like there, do you feel like you can get more of those side sales yet this year?

Bill Clough - CUI Global - CEO

Yes what we were looking for last year was somewhere around \$4 million of sales and I think we just missed that we got around 3.7, 3.8, we expect something around \$6 million of sales in that division this year and they're on track to do that so again we are seeing some nice traction develop.

And we're starting to push now frankly in the biomethane area as I think the EPA starts to address the alternative fuel issue we might find there some significant expansion in that market we have, actually quoted some very large biomethane jobs throughout North America and we hope to see some fruit borne by those quotes as the year progresses.

Rob Brown - Lake Street Capital - Analyst

OK, thank you.

Dan Ford - CUI Global - CFO

Rob, [thank you] for the [trace element sampling system]...

(Off mic)

Rob Brown - Lake Street Capital - Analyst

OK, good, and then in terms of the SG&A expense run-rate, did you have some one-time accounting type things in the quarter or should that be kind of the new baseline level that we think to that?

Dan Ford - CUI Global - CFO

Our SG&A was a little bit higher there were a couple of things in there that I think we said obviously when we consolidate the R&D group there's some severance we take during that, so the Q1 impact and then the other piece is we had increased, some increased audit and accounting that they said should go back down from (inaudible - technical issue) so Q1 was a little bit higher above [those reasons].

Operator

Thank you. Our next question comes from the line of Sameer Joshi of Rodman & Renshaw. Your line is now open.

Sameer Joshi - Rodman & Renshaw - Analyst

Most of my questions have been answered but could you just give us a little bit more insight into the Portuguese order what is the total size that you can expect over the next few years from Portugal?



Bill Clough - CUI Global - CEO

Yes it would be hard for me to say it was not to the Portuguese natural gas, that work, it was to a glass manufacturing plant in Portugal. This is a large market for us in industrial use, it's process controls for flame hike control, but I really couldn't tell you at this point what that order pertains other than the fact that it has opened up another geographic area for us but it's a little early for me to have any clarity about what that'll represent.

Sameer Joshi - Rodman & Renshaw - Analyst

OK. In terms of revenue recognition specifically for the energy unit, how does that happen Dan if you could guide by that is it when you ship the system or is it when that is installed?

Dan Ford - CUI Global - CFO

It depends on the type of contract and the sale that we are doing, if it is a biomethane skid or a [remoter] unit, something along those lines that is a percentage of completion projects generally in a integrating project are all under process of completion methodology. If it's a complete unit which is more like a GasPT sales those are recognized on too.

Sameer Joshi - Rodman & Renshaw - Analyst

So the 116 units that were shipped in Q1 those were recognized completely in this quarter?

Dan Ford - CUI Global - CFO

That's correct.

Sameer Joshi - Rodman & Renshaw - Analyst

In terms of backlog, should we view this backlog as a 12 month backlog or should we view this as a longer term backlog.

Dan Ford - CUI Global - CFO

For the Electro or for the Energy segment?

Sameer Joshi - Rodman & Renshaw - Analyst

Actually both the 19.5 and that other guidance you gave us?

Dan Ford - CUI Global - CFO

So the Power and Electro-Mechanical segment backlog generally turns over in three to six months. The energy segment backlog is a mix of quarter end earnings from jobs that we think we could do several months (inaudible - technical issue) delivered by October 1st, so that would be generally (inaudible - technical issue) our target as the year for less, our segment (inaudible - technical issue).

Sameer Joshi - Rodman & Renshaw - Analyst

OK. And last one from me should we expect gross margins in the 35 percent to 38 percent or 37 percent to 40 percent range because I think I heard -- I may have misheard but I heard those two ranges during the call?



Dan Ford - CUI Global - CFO

Sure, sure, so the way you heard it I was addressing a little bit for each of the segments. The blended range, we would expect that the energy segment should be in the 35 percent to 40 percent generally because it's tied this quarter just based on product mix and obviously the benefit of the Snam Rete would still continue to benefit it and as we saw technology product there but we expect the energy segment (inaudible - technical issue) from 35 percent to 38 percent.

And with that we would expect the margin range to stay in 37 percent to 40 percent range for the blended companies. The power segment was a little bit light in the quarter at 36 percent so we would expect that (inaudible - technical issue).

Sameer Joshi - Rodman & Renshaw - Analyst

OK, to the 44 percent range for the power?

Dan Ford - CUI Global - CFO

No the Power segment our guess has always been 40 percent it generally comes to 40 percent (inaudible - technical issue).

Operator

Thank you. Our next question comes from the line of Andrew D'Silva of Merriman Capital. Your line is now open.

Andrew D'Silva - Merriman Capital - Analyst

First off as far as CUI Canada goes, should we expect the division growth year-over-year for the last nine months of the year, so second quarter 2016 through fourth quarter 2016 versus second quarter '15 through fourth quarter '15 and are you seeing an opportunity to fill up the sales funnel from the initial influx at this point or is that still a year two-three objective?

Dan Ford - CUI Global - CFO

So I think we addressed earlier there is some softness in the Power and Electro-Mechanical space it is really the entire electronic market and across the border our competition gained in some cases 15 percent went down quarter-over-quarter (inaudible - technical issue).

And then also when you look at all the evidence (inaudible - technical issue) said the electronic market is (inaudible - technical issue) that it would be soft right now. For us we're holding steady right now and that's going to be a fairly consistent for this year flat to slightly up on our year-over-year comparison.

We expect Canada is still a two to three year turnaround and again we are one year mark out on those so Canada is performing well we're getting a lot of big design wins now with customers both pre-existing Canada customers that we acquired (inaudible - technical issue) and the ones that we brought to the table. And we're making progress with some of the new technologies through that particularly the VPS ICE Block that Bill discussed.

Bill Clough - CUI Global - CEO

We see it as a two or three year turnaround and yet (inaudible - technical issue) this year is going to be flat.

Andrew D'Silva - Merriman Capital - Analyst

And then with your distributors for GasPT have any of them reported anything to you at this time related to progress they've made particularly related to increased interest since you had the Snam Rete announcement.



Or maybe related to expedited sales schedules than maybe previously expected and then also refresh my memory on how you recognize revenue through the distributors, do you recognize revenue once products are sent to them or do they actually sell the device through to their customer?

Bill Clough - CUI Global - CEO

Except for stock fees it's a sell through so we don't recognize when it goes to them unless they have an end user stock fees is a sell to because their sales are processed by an appeal from an end user to Snam Rete.

We have not yet been a great uptake in the distributors interest at this point, but I think it's early the contract was just announced on February, but we are seeing an increased interest in people wanting to be distributors so frankly that is one of the reasons I'm in France is because we have a number of very large entities very respected entities in this country that want to become distributors because they feel it's happening.

And then of course we still have some fairly significant interest being shown to some of our North American customers through IRIS equipment in the North East so they have been quite big good about putting the product out the market and they've had some fairly stability of success but again I think as we start to sell into additional pipeline systems the interest will begin to increase and as we mentioned earlier once I get some results financial data from Snam and I can put that data out and show the benefits of what's happening I think that will also spur interest on the part of other pipeline operators so again that, we think that's coming in the not too distant future.

Andrew D'Silva - Merriman Capital - Analyst

And then I don't know if you touched on this or not or if there has been any change but I figure I will just try to see if there is an update with GE there was IRIS or GasPT. Anything new going on there that you can talk about?

Bill Clough - CUI Global - CEO

Not really again if, as we mentioned couple of quarters ago they have bought a couple of retail units we still are in test mode with them it's a long involved process certainly I can guarantee it that the moment I know the whole market will know but I really have nothing to report at this point.

Andrew D'Silva - Merriman Capital - Analyst

You can't blame me for trying on that and then just retouching on SG&A you mentioned that you should be maybe a down tick going forward should we expect to maybe to go back to the Q4 level or is there like somewhere in between Q4 and Q1 that we should expect the run rate to be at and that's my last question?

Bill Clough - CUI Global - CEO

We are asking that?

Andrew D'Silva - Merriman Capital - Analyst

Yes.

Bill Clough - CUI Global - CEO

Q4 run rate should be fine.

Andrew D'Silva - Merriman Capital - Analyst



I am sorry repeat that one more time?

Bill Clough - CUI Global - CEO

The Q4 run rate could just be fine.

Operator

Thank you. Our next question comes from the line of Marco Rodriguez of Stonegate Capital. Your line is now open.

Marco Rodriguez - Stonegate Capital - Analyst

Most of my questions have already been asked and answered just kind of a higher level in terms of the overall cash generation for the Company. Can you just kind of give us a sense as far as how you are seeing cash flow from operations progress through the year and then if you can also address working capital accounts as well?

Dan Ford - CUI Global - CFO

Yes, sure, so we said \$6.4 million of cash on hand at the end of the quarter. During the fourth quarter last year we increased our cash several, about a million dollars I mean and this quarter it is back down about \$900,000 we expect the rest this year to be the rest of '16 to be generating cash or flat dependent on cash and balance sheet (inaudible - technical issue) how much of they are? And how much we are funding versus payable (inaudible - technical issue).

But in generally (inaudible - technical issue) as well as tax position for the forcible future we also have the 4 million line of credit (inaudible - technical issue) Wells Fargo and that (inaudible - technical issue) so from a run rate and balance sheet kind of moves up and down with sales from a revenue standpoint that we are funding the people but in general over (inaudible - technical issue) there is not any we are not building any (inaudible - technical issue) so there is not (inaudible - technical issue) anything like that (inaudible - technical issue).

Marco Rodriguez - Stonegate Capital - Analyst

And last quick question in regard to your comments on EPS and how that kind of progressed through the year I believe you said it should be some improvements there are you going to be seeing a positive EPS in the out quarters and if you can kind of address that on the full fiscal?

Dan Ford - CUI Global - CFO

For the, so quarter-to-quarter we are definitely not going to provide a deeper level of guidance on that but we do see the EPS improving during the year so that would be a positive shift (inaudible - technical issue).

Operator

Thank you.

(Operator Instructions)

Our next question comes from the line of Alex Blanton of Clear Harbor Asset. Your line is now open.

Alex Blanton - Clear Harbor Asset - Analyst

And had to go out for a couple of minutes and so I might have missed it and the answer I missed but did you discuss the size of the moisture sampling market?



Bill Clough - CUI Global - CEO

Yes I can and we did not discuss it, it is quite large and it expands a number of different industries, it's quite large in the LNG export terminals so today where and as you are in essence liquefying natural gas you have to be very concerned about there is obviously as you liquefy that gas any just tiny bit of moisture becomes ice and ice can be catastrophic in a LNG terminal.

So we have that broad application which would be obviously North America where we are in the process of transferring what were to be a number of export terminals, I am sorry what were to be a number of import terminals into export terminals. And obviously that's the big push that we have down in the Gorgon project the LNG terminal down in Australia they're quite concerned about moisture down there along with mercury but moisture is another area.

And then in these ethylene processing plants, the same thing applies. There is a huge concern of a moisture and trace elements, particularly in moisture I am not sure technically why that is but it is quite a big concern and so we that as a big opportunity as well.

We have not quantified the TAM so I can't tell you the total market but I can say that as an example the one customer that we are dealing with in South Texas is going to spend almost \$2 million out-setting their Texas terminal with our moisture sensors they have 54 plants worldwide. They expect if it works the way -- it has been working -- they expect to roll that our cross all 50 plants and the math is pretty simple there that's one customer and of more than \$100 million worth of demand. So we think that there can be a very-very big market for us.

Alex Blanton - Clear Harbor Asset - Analyst

All right, just roughly how many plants in total in the industry that could use those, not just those 54 but what's the total?

Dan Ford - CUI Global - CFO

I have no idea and couldn't begin to tell you. I just don't know because you're talking not just about ethylene we are talking (inaudible - technical issue) plants, we're talking as I mentioned about export terminals for LNG site. I just don't know. There are thousands but I can't say how many.

Alex Blanton - Clear Harbor Asset - Analyst

Thousands, and what's the tipping point here, I mean, you got your first order in this (inaudible - technical issue) what does take to expand the market to thousands, I mean, and get the orders. What is the tipping point?

Bill Clough - CUI Global - CEO

You want to me to look at my personal goal Alex it is.

Alex Blanton - Clear Harbor Asset - Analyst

Yes, I do. I absolutely do Bill.

Bill Clough - CUI Global - CEO

Right, I could say that we're pushing as hard as we can for that tipping point. I can tell you that the people that know this industry far better than I do tell me that as I have mentioned in the past that the industry tends to flow in one direction once it gets moving in that direction. But I don't know if there is a take one, no I think it's a little more (inaudible - technical issue) to take two big pipelines companies just is that Angie, or E.ON gas or Repsol, as they become the next and at what does that become then the stuff that everybody uses.



I think part of that will happen when we give data from Snam. And I'd tell you why, I think that if we show what we think we will show which is that this big large project they're doing will pay for itself in a very short period of time then I think you'll see many-many more entities becoming quite interest because then it typically sounds a matter of to installing it for what amounts for free and everything that you get from it becomes in essence bottom line profit.

So I think that's going to be a big tipping point for us and that's something we should get in the next few months. But for me to tell you what's the tipping point, I don't know. I mean what I could tell is we're pushing as hard as we can in very market that we can to bring this technology out and get it in the pipeline system and so we think that every time it goes in it's not much further to universal adoption because it is truly the best fastest cheapest lowest statement solution out there.

Dan Ford - CUI Global - CFO

The answer is similar when it comes to trace element like moisture of mercury otherwise. The Gorgon facility those customers they're implementing it broadly at the Gorgon plant as that plant comes online and they get the data to prove out for themselves and to the higher upside of the organization as the trace element detection systems are having all the benefits that they have shown to have over a longer term period over a year or so period we believe that will increase the well the interest in the product line of those organizations internationally so.

Alex Blanton - Clear Harbor Asset - Analyst

Is your Houston office is working on this primarily?

Bill Clough - CUI Global - CEO

No, it's not, it's companywide it is in Europe and they work on through the UK and in North America is through use, but it's both -- they're both looking very hard...

(Multiple Speakers)

Alex Blanton - Clear Harbor Asset - Analyst

And finally could you remind us of the payback period here and the amount of savings annually and so on?

Bill Clough - CUI Global - CEO

Yes I think the only payback that we talked about is the Snam Rete project they believe that if they're able to identify the gas that they have not identified previously as I think they will, this project is going to be around U170 million will be fully capable in less than two years so if that happens...

(Multiple Speakers)

Alex Blanton - Clear Harbor Asset - Analyst

...the moisture sampling market does and what I am talking about is -- I think the payback thing is a matter of the months and weeks wasn't it?

Bill Clough - CUI Global - CEO

Yes, it's a very fast and the reason it's different in each industry sample. My understanding is in the case of ethylene plant for them to shut down one of those plants in order to dry it would they have to do it, but they don't what the actual moisture content is, it's a hugely extensive operation. You do not have to do with our plant.

Operator

Thank you. And our next question will come from the line of Scott Billeadeau of Walrus Partners. Your line is now open.



Scott Billedeau - Walrus Partners - Analyst

Most of them have been answered. I just have one maybe you could describe for us a little bit what the opportunity is with the VPS ICE Block that you talked about, if you could give us a little sense of how much is yours how much is the partner and what an installation looks like to generate revenues from that product?

Bill Clough - CUI Global - CEO

It's early to say, well here's what it does though, what the VPS software does it is a combination of power supply and battery and it gives the operator of these large river farms the ability to control and in essence designate power, so what will happen is instead of what happens today when a Google farm or a Yahoo farm or a Facebook farm gets overloaded because some major event occurs, the SuperBowl, some death of some celebrity whatever.

What happens today is when those systems go hard or are driven hard and are demanded to immediately accessible about 10 percent of the entire farm goes down because of a lack of power. You just can't control power, what the VPS system does, the software system is it allows for battery storage and for a faster up and a faster down, a faster use of power so if that demand occurs rapidly rather than going to the network for the grid you get the power's already there it's already stored it's in a battery.

What we are providing is the hardware piece of that which basically comes from our 3,000 watt power supplying unit that we acquired when we acquired Taxol that's what everybody's so excited about. So we'll be providing the hardware for their software, we're also providing the batteries from a vendor and doing some other things but again all the hardware is what we'll provide.

We have -- as we mentioned we demonstrated it at APEC, we expect to get the first beta units out later this year. The market is specially quite huge, I mean it's one where you could have an applications to some of the largest data center operators in the world, but it's a little early to really talk about you know what the full impact's going to be because again we're just now getting out the data (inaudible - technical issue).

Operator

Thank you, and at this time I am showing no further questions.

I'd like to hand the call back over to Bill for any closing remarks.

Bill Clough - CUI Global - CEO

The only thing in closing I would say is that and I think we mentioned this already, we are quite-quite confident in our opportunities moving forward. We think that the Energy division especially had some incredible opportunities and think that throughout the course of this year we're going to see some significant growth and significant increase in revenue, so again this is a good time for the Company.

I think it's a good time for the investors we certainly appreciate all of your continued interest and support. And as I mention at the end of every call I think, you know that Dan and I are always available to you, so if you have a question don't hesitate to get hold of us, again thank you and thanks to all of you.

Operator

Ladies and gentlemen, thank you for participating in today's conference, that does conclude today's program, you'll may disconnect, have a great day everyone.



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