S&P Global
Market Intelligence

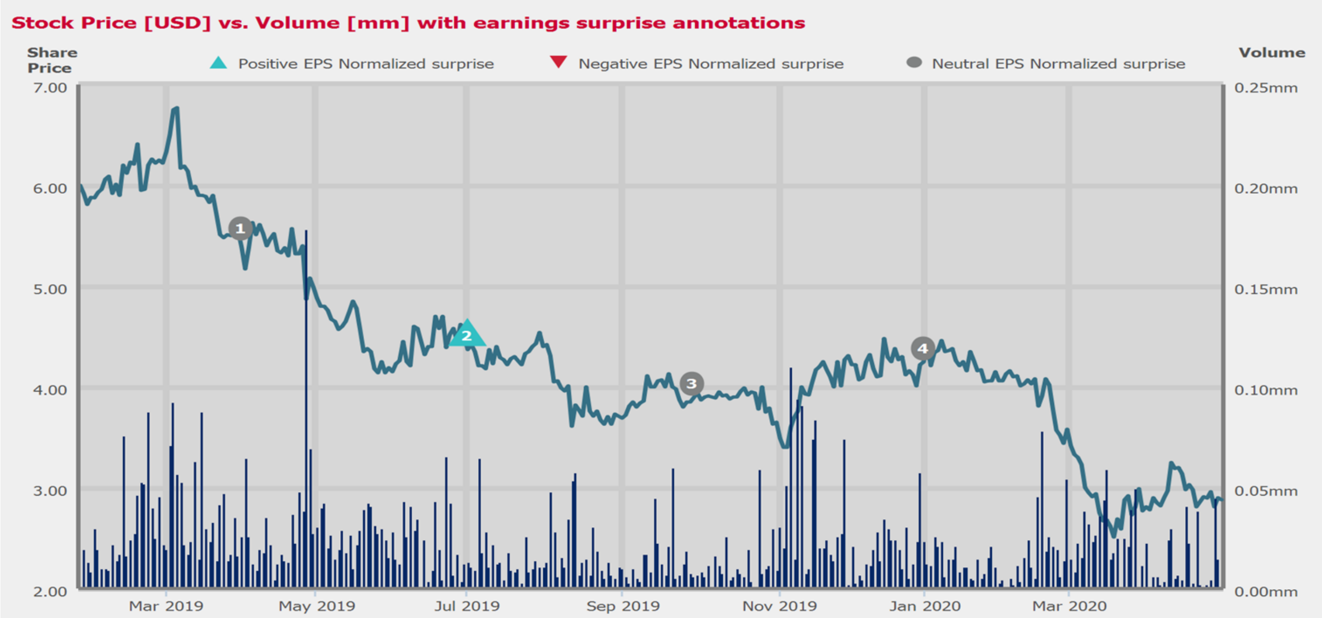
Data I/O Corporation NasdaqCM:DAIO
FQ1 2020 Earnings Call Transcripts

Thursday, April 30, 2020 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2019-	-FQ1 2020-	-FY 2019-	-FY 2020-
	CONSENSUS	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.09)	(0.13)	(0.07)	(0.18)
Revenue (mm)	4.10	4.40	19.80	21.20

Currency: USD
Consensus as of Mar-04-2020 12:39 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2019	0.03	0.03	1 0.00 %
FQ2 2019	0.02	0.05	2 150.00 %
FQ3 2019	0.01	(0.07)	NM
FQ4 2019	(0.09)	(0.03)	NM

Table of Contents

Call Participants

EXECUTIVES

Anthony Ambrose
President, CEO & Director

Joel S. Hatlen
Chief Operating & Financial Officer,
VP of Operations & Finance,
Treasurer and Secretary

ANALYSTS

Avram Fisher

George Melas-Kyriazi
MKH Management Company, LLC

Jaeson Allen Min Schmidt
Lake Street Capital Markets, LLC,
Research Division

Mark B. Spiegel
Stanphyl Capital Management

Unknown Analyst

SHAREHOLDERS

Unknown Shareholder

ATTENDEES

Jordan M. Darrow
Darrow Associates Inc.

Presentation

Operator

Good afternoon, and welcome to the Data I/O Corporation First Quarter 2020 Financial Results Conference Call. [Operator Instructions]

Please note, this event being recorded.

I would now like to turn the conference over to Jordan Darrow. Please go ahead.

Jordan M. Darrow
Darrow Associates Inc.

Thank you, Grant, and welcome, everyone, to the Data I/O Corporation First Quarter 2020 Financial Results Conference Call.

With me today are Anthony Ambrose, President and CEO of Data I/O Corporation; and Joel Hatlen, Chief Operating Officer and Chief Financial Officer of Data I/O.

Before we begin, I'd like to remind you that statements made in this conference call concerning COVID-19, future revenues, results from operations, financial position, markets, economic conditions, estimated impact of tax reform, product releases, new industry partnerships and any other statements that may be construed as a prediction of future performance or events are forward-looking statements, which involve known and unknown risks, uncertainties and other factors, which may cause actual results to differ materially from those expressed or implied by such statements.

These factors include uncertainties as to the impact from the COVID-19 pandemic, along with expected reopening and recovery efforts within the supply chain and among our customer base.

Levels of orders, ability to report revenues based upon the timing of product deliveries and installations, market acceptance of new products, changes in economic conditions and market demand, pricing and other activities by competitors, and other risks, including those described from time-to-time in the company's filings on Form 10-K and 10-Q with the Securities and Exchange Commission, press releases and other communications.

The accuracy and completeness of forward-looking statements should not be unduly relied upon. Data I/O is under no duty to update any of these forward-looking statements.

Beyond today's conference call, our next interaction with shareholders will be at our Annual Meeting to be held on May 18 at 10:00 a.m. Pacific time at our corporate headquarters in Redmond, Washington. In this event, since our proxy agent was unable to handle mailing of documents to certain shareholders due to COVID-19 challenges, we have made our information available via Internet delivery as needed. We have provided ample time for all shareholders to cast their votes, and we hope you do. Shareholders may not come to our offices, but instead may avoid social gathering risk by listening to our annual meeting via conference call. Participation details are available on our website in the Investor Relations section.

Now I would like to turn over the call to Anthony Ambrose, President and CEO of Data I/O.

Anthony Ambrose
President, CEO & Director

Thank you very much, Jordan. I'd like to comment on 2020 Q1, and our recent developments, and I'll turn it over to Joel Hatlen for more detail on specific numbers.

I'll start by first addressing the COVID-19 situation. For Data I/O, the coronavirus pandemic has impacted our customers, suppliers and our facilities. We've developed plans for each of these, while focusing on our 3 priorities: number one is keeping our people and their families safe; number two is keeping our facilities safe and secure; and three is serving our customers.

As an essential supplier to the medical and aerospace industries, Data I/O remained open for business. We've been vigilant in keeping our employees and our facilities safe. We required most of our workforce to operate remotely, while maintaining a core, on-site group to staff our manufacturing, service and support operations. Our global teams follow recommended best practices in accordance with, and often in advance of, local government mandates. Local health authorities are reporting steady progress in each of our operating locations. And I'd like to take this time to recognize the efforts of our entire global workforce who've risen to the occasion and kept our workplaces, their communities and families safe while continuing to support our customers. We believe our business and operational strategies have proven helpful as we manage the effects of COVID-19. We remain globally diversified, which provides competitive advantages, as well as an inherent hedge to location risk.

This diversification spans manufacturing for a multi-source supply chain, engineering as well as in our customer base, vertical markets and customer support. From a financial perspective, we entered the crisis in a position of strength. Data I/O is the largest company in our industry and we have the strongest balance sheet. We are debt-free.

At the end of the first quarter, we had $13.8 million in cash or about $1.68 per share of cash. We believe we're better prepared than anyone else in our industry to ride out whatever may come forward and are taking proactive steps to keep it that way. Beginning Q1 and early in the second quarter, we implemented cash conservation and expense management initiatives, including reductions and deferrals in executive and Board level compensation. We also reduced work weeks for certain locations and functions. We'll continue to evaluate on a case-by-case basis, all government programs worldwide that help us preserve our workforce and cash flow at the same time.

At this time, however, we do not plan to accept funding from SBA PPP program in the United States. Meanwhile, we remain committed to our long-term business objectives. Unlike other industries, we believe the long-term electronics industry will recover and require a secure, high-quality device programming as it recovers. Data I/O has consistently been at the forefront of the industry. First quarter was no different, as we continue to invest in our leading data programming and security provisioning platforms. Our innovations and ultrafast performance and reliability were recognized in the quarter. In addition, we're honored to have received the coveted Service Excellence Award for device program support for the second consecutive year. Our engineering innovations and comprehensive customer support seem to be resonating with customers around the world.

During the first quarter, our global sales channels and world-class products enable us to win systems orders at new automotive customer locations in Asia, North America and Europe as well as being selected by a global ventilator electronics manufacturer to ramp their production of very important ventilators to fight COVID-19. We're very proud to be supporting the medical manufacturers and their EMS partners and announced the target program to provide our fastest support to customers building COVID-19-related products. Economic times and markets may change, but the reasons we are selected by customers remain the same: Outstand products, great customer support, financial stability and global capability. Overall worldwide, the automotive electronics market from which we've generated about half of our revenue for the past several years, has been materially impacted by plant closures.

We've seen China factories reopening, although the U.S., Mexico and Europe remain shutdown. Guidance from leading customers indicate Europe and America locations will be reopening soon and ramping output later in the second quarter with the expectation of normal production by the fourth quarter of this year. Within automotive electronics, we continue to believe that the sector tracks a substantial multiyear increase in content per vehicle, and complexity and design and programming requirements, including the transition from eMMC to UFS flash storage.

You'll recall that UFS is the next-generation flash memory using the latest automotive designs to support their projected growth and programmable content and performance. While we're still in a very fluid situation, with short-term sales funnel, puts and takes, our conviction remains that the industry will need to reinvest. When that happens, whether or not we're the last one standing, Data I/O will be in a position to gain market share with the most robust programming innovations. For our other key target markets and Internet of Things, the rapid adoption of work-at-home policies amid COVID-19 underscores the importance of security at all ends of the connected electronics ecosystem. You seen reports of hacking incidents are way up, not just with home workers, but with the associated IoT devices as well.

Our SentriX platform, a highly robust and flexible cost-effective security provisioning and data programming deployment system for authentication devices, secure elements and secure microcontrollers, has experienced steady interest despite the recent stress on the overall economy. The low capital investment -- SentriX model is becoming even more attractive to companies to require solutions on tight budgets. Our marketing mix is shifting as well in response to COVID-19. While some of our key conferences have been canceled, we'll continue to look for ways to expand our market and other venues and through other channels besides trade shows with enhancements in our digital marketing platform. Our strategy for SentriX is to continue to expand its presence and simplify and scale the overall platform in 2020. Our strong cash position maintained by rapid actions, combined with our long-term view of the markets, gives us the financial flexibility and a launching path for growth as conditions improve. In these uncertain times, it's our intent to remain agile, improve our processes, follow our product road maps, protect our superior financial condition and grow relative to the competition.

With that, I'll turn it over to Joel Hatlen, our Chief Operating Officer and Chief Financial Officer, provide more details on the quarter. Joel?

Joel S. Hatlen
Chief Operating & Financial Officer, VP of Operations & Finance, Treasurer and Secretary

Thank you, Anthony. Good day to everyone. Net sales in the first quarter of 2020 were $4.8 million as compared with $6.1 million in the prior year's period, and $5.9 million in the fourth quarter of 2019. First quarter 2020 bookings were $4.3 million as compared with $6.2 million in the first quarter of 2019, and $6.9 million in the fourth quarter of 2019.

On a geographic basis, international sales represented approximately 94.3% of total net sales for the first quarter of 2020 compared with 94.1% in the 2019 period. Total capital equipment sales were 54% of revenues, and adapters and service revenues were 28% and 18%, respectively, of revenues in the first quarter of 2020 compared with 61%, 24% and 15%, respectively, of revenues for the first quarter of 2019. Gross margin as a percentage of sales in the first quarter of 2020 was 58.2% as compared to 60.8% in the first quarter of 2019. For the first quarter of 2020, gross margin was primarily impacted by fixed costs being spread over lower revenues, and a 2.7% reduction that relates to tariffs on U.S. and China trade.

The revenue mix shift to increased percentages of adapters and recurring revenue sales as a percentage of total revenues benefited gross margins as these generally have higher margins as compared to equipment sales. Operating expenses were down, both compared to the prior year and the prior quarter periods. The year-over-year change is primarily related to variable expenses, including substantially lower incentive compensation accruals and sales commissions as well as stock-based compensation.

Cost control measures also significantly contributed to the reduction. With most other expense categories lower than in prior periods. Although R&D spending of $1.6 million was down compared with the prior year period, it came in consistent with the fourth quarter spending as we continue to invest in leading the industry and providing improved solutions for our customers.

In accordance with GAAP, net loss in the first quarter 2020 was a loss of $554,000 or $0.07 per share compared with net income of $26,000 or 0 per diluted share in the first quarter of 2019.

Backlog at March 31, 2020, was $2.3 million as compared with $2.9 million at the end of the year, and up from $2 million at March 31 of 2019.

Data I/O had $1.5 million in deferred revenue at the end of the first quarter, consistent with the end of the fourth quarter of 2019.

Data I/O's financial condition remains strong with cash of $13.8 million at March 31, 2020, approximately $100,000 less than at the beginning of the year. Our days sales outstanding, or DSO, a receivables collection measure at March 31 were below our 68 target range with the receivables reduced by $1 million from good collection efforts from the end of the fourth quarter.

Payables were reduced to $3.6 million at the end of the quarter compared to $4.1 million at the end of the prior year. Net working capital at the end of the first quarter was $18.4 million, down slightly from $18.5 million at 12/31 of 2019. This benefited from the Cares Act acceleration of our alternative minimum tax refund from tax reform back in 2017.
Finally, we had shares outstanding of 8,221,000 at March 31, 2020, as compared with $8,288,000 at March 31, 2019, with the difference primarily related to the share buyback that we completed during the third quarter of 2019. That concludes my remarks. I'll turn the call back to the operator to begin the question-and-answer segment. Operator, will you please start the Q&A process?

Question and Answer

Operator

[Operator Instructions] Our first question will come from Jaeson Schmidt with Lake Street.

Jaeson Allen Min Schmidt
Lake Street Capital Markets, LLC, Research Division

Just curious if you could comment what you're seeing from an order pattern standpoint in the month of April compared to the end of March?

Anthony Ambrose
President, CEO & Director

So Jaeson, that's a good question. I won't get too quantitative. I'll just say this. We're not seeing the end of the world out there, okay? People are still buying things. CapEx was down in Q1. When we put our internal numbers and forecast together for Q2, we assume CapEx would be impacted as well. But it's not the end of the world. We've definitely seen an impact, but it's not like we've fallen off a cliff or anything.

Jaeson Allen Min Schmidt
Lake Street Capital Markets, LLC, Research Division

Okay. That's helpful. And then as a follow-up, I know in the script, you mentioned an order for an electronics manufacturer in the ventilator market. Just curious if this is more of a one-off win? Or if you've seen sort of sustained inbound interest from the health care medical market as a whole?

Anthony Ambrose
President, CEO & Director

Well, we we haven't talked too much about in the past. We actually have a pretty good medical business. We haven't broken it out. It's been considered part of our industrial business up till now, which is run between, I don't know, Joel, 20% and 25% of our overall business for several years in that range.

Joel S. Hatlen
Chief Operating & Financial Officer, VP of Operations & Finance, Treasurer and Secretary

Yes. It fluctuates, 15% to 25%.

Anthony Ambrose
President, CEO & Director

Yes. And then probably more in the programming centers as well. But we called out the specific win because, number one, we put together a program for medical customers to make sure that they could quickly repurpose equipment to support new medical needs. That's actually one of the big advantages of the Data I/O technology is, with our pre programming, you can convert from a part that might be supporting a ventilation system in a car, and in 30 minutes, you can be reprogramming now to support a ventilator for a hospital. We can convert the line that quickly. And so a customer came to us, they had a problem. They'd actually prototyped on a alternative programming solution and found that the performance was terrible. They came to us with LumenX, and we were able to get them about an 8x performance game. And they move very rapidly to place an order with us and get that to support their ramp. And the end customer, we don't have the permission to use their name. But if you Google big government orders of ventilators, you can figure out 1 of the 2 companies.

Operator

Our next question will come from Pete James with LJ Capital.

Unknown Analyst

Can you discuss the margin profile by revenue type for capital equipment sales, adapters, maintenance and software upgrades and per click fees for SentriX programming, please?

Anthony Ambrose
President, CEO & Director

Yes. I won't go into too much detail. But in general, the software obviously carries higher margins. Services tend to carry pretty good margins as well. The capital equipment, it really depends on not only the type of system ordered, but the channel. And I'll give you an example. So if we sell-through a direct sales channel, we'll tend to have a higher gross margin and also a higher sales expense because we'll pay commissions. If we sell-through a distributor, we'll have a lower gross margin on that equipment because we provide the equipment at a discount to the distributor. At the same time, our sales commissions will be much lower because the commission has been taken in the form of a product discount. So it's fairly variable. But within those broad parameters, that's the pattern of our business.

Unknown Analyst

Okay. I had one other question as well. You've mentioned the transition from eMMC to UFS, can you talk more about what this means in the automotive electronics sector with near and longer-term perspectives? And where your technology stand relative to what else is available in the market from your competitors?

Anthony Ambrose
President, CEO & Director

Sure. So as you know, the semiconductor industry from time-to-time adopts certain standards for widely used components such as flash memory. eMMC was that broadly deployed standard in the PC industry, the mobile phone industry, automotive electronics for the better part of a decade. Starting in mobile phones, probably 3 or 4 years ago, there was a transition to a new form of memory interface, called UFS. Without drilling down too far, it provides a much higher read capability, a much better nonsequential read capability, meaning if you switch around from application-to-application, you get the data faster. And it also is able to operate at lower power. That was very attractive for the mobile phone industry, and they adopted it first. And as the industry, in general, move towards UFS, the cost patterns and reliability characteristics were consistent with what was required for the automotive industry. And they've been moving a lot of the high-density flash memory applications such as infotainment, in Dash computing, displays, things like that, to UFS. That's actually very good for Data I/O because we're one of the handful of suppliers that can actually program us in the market. eMMC, pretty much anybody could do it. We did it better, of course, because it's much faster. But right now, we're 1 of 2 or 3 suppliers that have announced the capability to support UFS. And when we're able to sit down with customers, we can explain why our approach has some very important technical benefits that maybe some others don't. So the move to UFS, we view generally is very favorable to Data I/O because we have a unique technology position. And also, we're offering upgrades to existing deployed equipment in automotive that make the transition to UFS very cost-effective for the customer.

Operator

Our next question will come from George Melas with MKH Management.

George Melas-Kyriazi
MKH Management Company, LLC

Anthony, you mentioned in the press release and also in your remarks that you had won 3 -- you have 3 new automotive wins in Asia, America and Europe. That seems pretty impressive. Can you talk a little bit about that? I don't know how much detail you can provide, but how big those are? And I imagine these are competitive wins.

Anthony Ambrose
President, CEO & Director

Exactly, George. And I called it out specifically for that. What was otherwise a pretty dismal quarter for capital purchases. People just were not adding capacity. There's still nonetheless, new applications. We talked about infotainment. We've talked about advanced driver assist. One of them was also in the area of electrification, okay? Which is a nice win for us. We hope it's the start of something very nice long term. We'll see how it plays out. But we've instructed our sales team to continually to go after not only the customers they know, but to pursue the new applications. And the good news is in automotive, there are a lot of new applications, and we have a very good reputation in that industry.

George Melas-Kyriazi
MKH Management Company, LLC

Okay. Can you explain a little bit what electrification means? What kind of application is that?

Anthony Ambrose
President, CEO & Director

So battery-powered cars.

George Melas-Kyriazi
MKH Management Company, LLC

Okay. And is that some of your first win in that space or not?

Anthony Ambrose
President, CEO & Director

No, it's not the first one, George. But you would recognize the customer's name.

George Melas-Kyriazi
MKH Management Company, LLC

Okay. Great. Great. That's great news. Well done. It's amazing to get new customers in this environment. Quick question about services and maintenance sales, that has held up quite well. Can you help us -- you sort of remind us kind of what that is? And how is that holding up as well?

Anthony Ambrose
President, CEO & Director

Well, that includes things that are not capital equipment purchases and not adapter sales. So for example, we offer software contracts. We have customers pay us NRE to do development of algorithms and other things like that. We have maintenance agreements and things like that. And of course, SentriX falls in there as well. Okay? And it tends to be a little more stable because we'll tend to get an order for an annual contract, and we'll make up -- if it there was $12,000 for a contract, we take a PO for $12,000 and then amortize it $1,000 a month. So it tends to be fairly stable.

George Melas-Kyriazi
MKH Management Company, LLC

Okay. Great. Great. And then just on SentriX. Can you sort of point if there is any sort of meaningful progress in the quarter or some relationships that are deepening? And how do you expect centric to play out in 2020?

Anthony Ambrose
President, CEO & Director

Well, the interesting thing about SentriX is, you'd be hard-pressed to -- if you looked at our inbound activity to understand there was any COVID-19 effect going on at all. We unfortunately lost a couple of our marketing venues that we were planning on in Q1 and also in Q2 and Q3. A trade show is not likely to be a good thing from a marketing perspective, maybe for the rest of the year, certainly through probably September. So we're looking at other ways to promote it. The -- we've had good progress working with semiconductor suppliers, good progress on the underlying technology, good progress on new device supports and good progress on end customers and channel partners coming in with new opportunities.

Operator

[Operator Instructions] Our next question will come from Mark Spiegel with Stanphyl Capital.

Mark B. Spiegel
Stanphyl Capital Management

Well, as you -- you may remember, we're value guys. And so we sold basically the stock on the way up, but we're in pretty good now. So here's my question, and it's a general question. How much of your business is dependent on the volume of the end product. And in other words, let's just say hypothetically that they were using your machine to program the new Mercedes S Class. And because automotive sales are going to be terrible this year, they sell, I don't know, 80,000 of them instead of 100,000, does that affect you guys? Or do you basically just sell them the tool and after that, it's -- it doesn't really matter how many of them they sell?

Anthony Ambrose
President, CEO & Director

Well, we're somewhat insulated on volume, but we're not immune to volume effects. So automotive sales being potentially down would definitely have an impact on the people that buy for capacity. Okay? And -- but as we mentioned earlier, we had 3 new wins, primarily where there was new technology involved. So for example, if you're making a major model changeover and you're adding a lot of new features, they have to put in place the capability to produce the car, whether they produce as many as the guys forecast 6 months ago or not. Now what we are seeing is customers that may be buying to a certain volume level or thought they were and they were cutting back their forecast. They're still going to buy, but maybe they don't buy as much. Maybe they try and squeeze out 2 machines instead of adding a third, that type of thing. So we're not immune. But in general, it's volume. But also remember, it's the amount of bits programmed so if the feature set doubles the amount of software code, then we've got to program twice as many bits, which means programming demand goes up. And then finally, the type of bits really matter. Security obviously carries quite a premium over standard programming. So yes, it will have an impact. No, it's not 100% deterministic and there are other factors involved.

Mark B. Spiegel
Stanphyl Capital Management

How many machines do you typically sell for a given model? I mean is it like 1 machine can handle 100,000 cars and -- or 50 or 30? I just -- I don't have a grasp of that, really.

Anthony Ambrose
President, CEO & Director

Yes. It really depends on the application. For example, if you're talking to infotainment, you might need a couple of machines to support infotainment. And remember, we're working with the electronics manufacturer is not the nameplate. So we might see a general class of applications that go into many models from one end customer or many models from different end customers. So it's hard to draw a one-to-one correlation that I think you're looking for. I just can't give that to you.

Mark B. Spiegel
Stanphyl Capital Management

Well, is your typical -- last question, is your typical order multiple machines to the same customer for the same application? So they might need five. And in this case, they only buy four. I mean is it something like that? It's not just 1 machine per application?

Anthony Ambrose
President, CEO & Director

I think the typical order is probably -- depending on how you define applications, probably 1 or 2 per applications. But over time, the factories end up with multiple versions of our equipment, because they're dealing with mutiple model years, multiple applications, et cetera. Of course, [Indiscernible] goes back and forth.

Mark B. Spiegel
Stanphyl Capital Management

Well, that they couldn't avoid that. So if there's a new model year, are they forced to buy a new machine, or -- I'm trying to -- I guess, it goes back to my original question. I'm wondering, and I know you said it's not one-for-one, but let's say the auto market is down now 25% this year, what would that typically -- well, I understand things get more complicated and you do more programming. I mean off the top of your head, what does that do to your automotive business? Is it down 5%, 10%? Is it flat because there's more programming going on? I mean I'm just trying to get a grasp of that.

Anthony Ambrose
President, CEO & Director

Yes. That kind of number wouldn't be good. I'll just put it that way. I would probably have a disproportionate impact in the capital equipment. We'd still sell adapters. We'd still sell services, things like that. But the -- it's not a one-for-one correlation. And I don't know that I can give you a whole lot more detail authoritatively right now.

Mark B. Spiegel
Stanphyl Capital Management

Okay. Last question, I know I said the other one was. You said things are not falling off a cliff, but they're being affected. The quarter you just reported is sort of off a cliff a small -- if anyway, relative to the year ago quarter. Do you see this, let's call it, low level of activity continuing? Or is it worse than this?

Anthony Ambrose
President, CEO & Director

Well, I think from an automotive perspective, I think the electronics industry bottomed out, probably, April was the bottom, just in terms of their overall impact. They're telling us they're going to be reopening. We've been getting supplier letters, giving us some guidance on what their ramps are so the auto factories appear to be reopening in Europe and the United States. I understand middle of next month. So that's a good sign. And generally, they closed probably the third week of March. So that would be a 2-month hiatus. So we're going to have to work through that. And they're not going to come back to 100% right away. So the range of forecast that we're looking at is extremely wide. And that's why we've taken steps to be ready, save our cash. But at the same time, if it turns around quickly, we want to be ready.

Mark B. Spiegel
Stanphyl Capital Management

Well, okay. So again, I'll try to pin you down a little and you can try to unpin yourself.

Operator

Our next question will come from Mike Donovan, Private Investor.

Unknown Shareholder

Anthony and Joel, I trust you and your families or safe. I'm a longtime shareholder. My question is around, I think, a SentriX, specifically. And it has felt like over time or at least at the outset, that the sort of the picture around SentriX was one of a machine centric some reconfiguring going on, some relationships developed with the semiconductor companies in terms of provisioning, and then a little -- a different business model, not a little bit of a different business model, a very different business model in terms of pricing per unit versus the CapEx. In some of the recent documents I've read, I read this term security deployment as a service. I also follow some of the headcount and the personnel, the advertisements you have for skill sets that you're looking to hire. And I guess by trying to jump to the end, my sense is you've learned a lot about the needs for security in the marketplace and your strategy and your execution approach is shifting. Would that be a correct assessment on my part? And if so, what can you share about what you're seeing in terms of what customers actually need beyond the equipment?

Anthony Ambrose
President, CEO & Director

Well, I think you raised some good points there. And remember, as we learn our positioning the market gets refined, we have a very strong Head of Marketing and Business development, Michael Tidwell, who brings more of a software frame of mind to the table. And so he's been able to adjust our product positioning accordingly. To get to the basics, what we talked about last quarter was the need to have, what we call simplify and scale. The premise that people need security, I think, is being more and more understood at a slow pace, okay, admittedly, but people are getting with the program on security. The big challenge is how do they want to do it? And what can they afford? And what's the type of customer profile that we can best support. And what we've discovered is customers want the whole security process end-to-end to be simplified. We don't control that entire process. We work with a number of partners and with the whole goal of being to simplify it. And I'd be happy to walk you through the 100 or so parameters you could decide to change on a fully configured secure element, and it would take us a month to figure out what you wanted to do on that. Or you could simply say, I want to onboard this device to the cloud when it turns on, or I want to authenticate it when it turns on and make sure that I can manage software updates in a secure manner. And so what we're trying to do is explain to customers as well, if that's what you want, then picked this pre-configured option over here or we've got a use case for you or a profile that might make more sense. And so we've begun the process of educating customers on -- and hopefully speaking their language is a little bit better than we have in the past. And that's really what I think you're seeing on SentriX.

Unknown Shareholder

And SentriX falls underneath this 18% of revenues when you look at a portfolio split between CapEx and adapters and software.

Joel S. Hatlen
Chief Operating & Financial Officer, VP of Operations & Finance, Treasurer and Secretary

That's correct.

Operator

Our next question will come from Avi Fisher with Long Cast Advisers.

Avram Fisher

I'm sorry to mention this, how many SentriX units are deployed?

Anthony Ambrose
President, CEO & Director

We still have 5 deployed, Avi.

Avram Fisher

Okay. 5. And are you offering any onetime discounts or financing options?

Anthony Ambrose
President, CEO & Director

No. It's an interesting point. We're really trying to be frugal with our cash right now. If I thought we're going to go jump in and out of a v-shaped or section or something, I might get more aggressive on something like that. We're going to choose to keep our powder dry at least for a little while.

Avram Fisher

Awesome. And one last question. This is our third straight quarter of growing consumables revenue. And I'm just trying to understand what takeaway to read from that. It seems like I know SentriX is in that line item, but I'm not sure that's material yet. I know it reflects capacity utilization by some of your customers. Is there anything you can offer to help understand this sort of positive trend?

Anthony Ambrose
President, CEO & Director

Yes. It's a positive trend. But I would caution you not to draw too much or infer too much. We're in crazy times right now. And as I've indicated before, the numbers in any 1 quarter can bounce around. It's clearly a trend we want. We want the recurring revenue to go up. That's part of the business strategy behind SentriX. And obviously, SentriX is contributing to that. But the -- what I'm saying is don't read too much too fast.

Avram Fisher

Is it growing because of SentriX? Or is it probably just because your customers are using programming a little bit more and using more of your product?

Anthony Ambrose
President, CEO & Director

I think it's growing because as a percentage, remember, the CapEx has gone down as well.

Joel S. Hatlen
Chief Operating & Financial Officer, VP of Operations & Finance, Treasurer and Secretary

The other thing that clouds that a little bit was we had a very rough Q3 in terms of our business levels. And you saw that, that's been recovering since then.

Avram Fisher

Correct. So that's a growing use of -- but that's a growth -- does that mean your customers have worked off the excess inventory they had?

Anthony Ambrose
President, CEO & Director

I think it -- what I'm saying, Avi, is don't draw too many conclusions over the last 3 quarters.

Avram Fisher

Fair enough. And yes, it's coming off of a very low base as well, which I'm aware of. But I appreciate the color.

Operator

At this time, I'm showing no more questions in the question queue. This will conclude our question-and-answer session. I would like to hand the conference back over to Anthony Ambrose for any closing remarks.

Anthony Ambrose
President, CEO & Director

Thank you very much, Grant. As there are no further questions, I'd like to close the call by thanking everyone for their participation today. I'd also like to remind everyone to vote electronically in the upcoming shareholder meeting May 18, Joel?

Joel S. Hatlen
Chief Operating & Financial Officer, VP of Operations & Finance, Treasurer and Secretary

May 18.

Anthony Ambrose
President, CEO & Director

May 18. And I hope everyone remains safe and productive. Thank you very much.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.