CALL PARTICIPANTS

EXECUTIVES

Joseph Armes
Chairman, President, Chief Executive Officer

James Perry
Executive Vice President, Chief Financial Officer

Adrianne Griffin
Vice President of Investor Relations & Treasurer

ANALYSTS

Jon Tanwanteng
CJS Securities

Joe Mondillo
Sidoti & Company

PRESENTATION

Operator

Greetings and welcome to the CSW Industrials Inc. Fourth Quarter 2020 Earnings Call.

At this time all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Adrianne Griffin, Vice President of investor relations. Thank you, you may begin.

Adrianne Griffin
Vice President of Investor Relations & Treasurer

Thank you, Doug.

Good morning, everyone, and welcome to CSW Industrials Fiscal Fourth Quarter 2020 Earnings Call.

Joining me today are Joseph Armes, Chairman, Chief Executive Officer and President of CSW Industrials, and James Perry, Executive Vice President and Chief Financial Officer.

If you've not received the earnings release, it is available on our website at www.cswindustrials.com.

This call is being recorded. A replay of today's call will be available and details on how to access the replay are in the earnings release.

During this call, we will be making forward-looking statements. These statements are based on current expectations and assumptions that are subject to various risks and uncertainties. Actual results could materially differ because of factors discussed in today's earnings release, and in the comments made during this call, as well as the risk factors section of our Annual Report on Form 10-K and other filings with the SEC. We do not undertake any duty to update any forward-looking statements.

This call will also include an analysis of adjusted operating income, net income and earnings per share, which are non-GAAP financial measures of performance. These non-GAAP measures should be used as a supplement to and not a substitute for operating income, net income and earnings per share computed in accordance with GAAP. For a more complete discussion of adjusted operating income, net income and earnings per share, see our earnings release.

I will now turn the call over to Joe Armes.

Joseph Armes
Chairman, President, Chief Executive Officer

Thank you, Adrianne. Good morning, and thank you for joining our Fiscal Fourth Quarter Conference Call.

Before we discuss our results and outlook, we'd like to extend our sincere wishes for a full recovery to everyone who's been affected by COVID-19, and also express our gratitude to the many frontline responders diligently working to ensure the safety of our communities.

I would like to also welcome James Perry to our team as our Executive Vice President and Chief Financial Officer. As you read in our April press release, James has been serving in a consulting capacity for the last few weeks, ensuring a seamless transition. We were extremely pleased to have James as a part of our Executive Leadership team. He brings a wealth of experience and a demonstrated track record of success that I expect will continue here at CSWI.

Given the current environment I will expand on our response to the current pandemic, make a few comments on our fourth fiscal quarter and Fiscal Year 2020 results and financial performance and discuss our outlook for Fiscal 2021. I will then hand the call off to James for a closer look at the numbers.

In preparing our remarks for this quarter we were reminded of our earnings call in February where we proactively addressed the then current state of the virus, which has led to the pandemic induced economic environment we navigate today. In the short three months since our last call, our team has responded with unwavering professionalism to the rapidly evolving business environment.

In difficult times, we affirm our core values, and our capital allocation strategy. Our commitment to be good stewards of your capital is resolute. To accomplish this goal, we are focused on four objectives: treating our employees well, serving our customers well, effectively managing our supply chains, and positioning the Company for sustainable long-term success.

I'm very proud of our team’s demonstrated commitment to our core values of teamwork, citizenship and respect as we rally to support the health, wellbeing and safety of our colleagues and communities while maintaining business continuity, and supporting our customers through a relentless focus on accountability, excellence and integrity. All of this positions CSWI for long-term success, and is consistent with our core value of stewardship. Our employees deserve our utmost respect and sincere gratitude, as they have shown tremendous resiliency and courage throughout this period. And together, we will address the challenges of today and work toward a stronger tomorrow.

Expanding on how we treat our employees, we remain steadfastly committed to our employee centric culture where the safety and wellbeing of our 700 employees are top priority, and we have redoubled our efforts in this regard as the pandemic unfolded. A few examples of our enhanced actions include procuring and requiring the use of additional personal protective equipment, ensuring incremental cleaning and sanitizing of our worksites, modifying work schedules and processes, initiating employee health screenings, encouraging working from home where possible, restricting business travel, and making paid emergency sick leave available. We have a highly experienced Management team and Board of Directors comprised of accomplished leader’s adept in managing through economic cycles.

Since inception, our Management team has demonstrated a commitment to building and maintaining conservative financial position, including a strong resilient balance sheet, ongoing access to capital and ample liquidity.

We continue to demonstrate this through our $18 million of cash on hand as of March 31, 2020, and full $250 million availability on our revolving credit facility. Our entire team is focused on the factors we can control, and we remain well positioned to capitalize on both organic and external growth opportunities as they emerge.

Turning to how we serve our customers. We provide high quality products and services to professional tradesmen that are used to repair, protect and maintain homes and commercial buildings, and materials critical to the continuity of essential businesses and critical infrastructure. Our operations have been deemed essential across the U.S. and other global locations. Providing our customers with high quality, high value products and services is the foundation of our success. Our customers have learned to think and rely on us during good times and bad, and as a result we have earned their loyalty.

With respect to how we manage our supply chains. In order to be good partners with our customers, we must also have reliable suppliers with minimal sourcing risk. Over the last several years we've worked diligently to continuously improve the quality and reliability within our supply chain. While we have not experienced issues to date, we are evaluating opportunities to further diversify the locations where our products are made, which will help ensure consistent supply chains going forward.

Turning to how we position our businesses for sustainable long-term success. Our sustainable business model drove strong results throughout Fiscal 2020 with outstanding top and bottom-line growth resulting from increased volumes across both segments and contributions from our recent acquisitions.

The growth and cash flow generated by continuing operations enabled us to return $34.6 million to shareholders through share repurchases and dividends during the year, to reduce our debt during the year, and end the year with cash on the balance sheet and the full revolver capacity available.

In addition, we paid our regular quarterly dividend earlier this month, and we expect our strong financial position to support dividend continuity. Our capital allocation strategy continues to guide our investing decisions with a priority to direct capital to the highest risk adjusted return opportunities within the categories of organic growth, strategic acquisitions, and the return of cash to shareholders through our share repurchase and dividend programs.

Due to our strong financial position, we will continue to invest in financially and strategically attractive growth, including expanded product offerings, both on acquisitions and increased marketing, expanding sales footprint, all of which drive our strategy of targeting long term profitable growth.

I'm pleased to report our results for the fourth fiscal quarter, beginning with consolidated revenue of $98.5 million representing 7.7% total growth compared to the prior year, of which 3.7% was organic growth.

For the fiscal full year, our consolidated revenue was $385.9 million, or 10.2% total growth, of which 5.9% was organic. Organic revenue growth was driven by our team's focus on new product introductions and market share gains, customer specific programs targeting share of wallet growth, and investments in our sales and marketing organization, including personnel, product training, and performance-based compensation.

During Fiscal Year 2020, we realized growth in both our industrial products and specialty chemical segments, and across all end markets we serve. We also completed the successful integration of our two most recent acquisitions.

Fourth quarter adjusted earnings per diluted share were $0.83 which is a 10.7% increase over the prior year period of $0.75. For the fiscal full year, our adjusted earnings per diluted share were $3.20, which was an outstanding increase of 15.5% over the prior year of $2.77. This continued growth in earnings per share was a result of leverage from increase sales, ongoing benefits from commercial team initiatives and the outstanding performance of our recent acquisitions.

We have remained true to our capital allocation strategy, with our recent acquisitions accounting for 430 basis points of incremental fiscal full year revenue growth. Additionally, in the fiscal full year, we returned approximately 50% of net cash provided by operating activities to our shareholders.

Taking a look at our quarterly segment performance sales in our industrial products segment grew by 11.9% for the quarter, and 14.1% for the fiscal full year of which 5.3 and 6.7% were organic, respectively.

Fiscal full year organic sales growth was predominantly associated with volume growth in the HVAC and plumbing end markets partially offset by modest declines in the general industrial and rail end markets. While performance and volume were strong in Fiscal Year 2020, we would remind investors that our industrial products business fluctuates from quarter-to-quarter with distributor order flow, and weather, and is highly correlated to the installation volume of new or replacement air conditioning units.

The industrial products segment delivered 7.7% increase in quarterly reported operating income to $13.6 million, and there were no adjustments in either period. For the fiscal full year, the industrial products segment adjusted operating income increased 14.7% to $55.7 million and remained highly profitable 23.7% operating income margin, which was just about flat with 2019 Fiscal Year. There were no adjustments to segment operating income in Fiscal Year 2020.

Turning now to our specialty chemical segment. Sales grew by 1.6% for the quarter, and 4.7% for the fiscal full year, all of which was organic. Fiscal full year sales were driven by higher sales of consumable products into all end markets. While performance across all end markets continue to improve in Fiscal Year 2020, we saw a slight decline in sales volume at the end of fiscal fourth quarter due to pandemic disruptions and the volatility in the energy markets.

Segment operating income was $5.5 million compared to $6.7 million in the prior year period. After adjusting for a $1 million trademark impairment, adjusted segment operating income was $6.5 million in the current fiscal quarter. There were no adjustments in the prior year period.

For the fiscal full year the specialty chemical segment adjusted operating income increased 11.3% to $24.9 million, and drove a 100-basis point improvement in operating income margin to 16.5% in Fiscal Year 2020.

As we begin our Fiscal Year 2021, we expect most of the end markets we serve to experience temporary but significant demand degradation resulting from the pandemic disruptions. While we generally do not provide guidance for midterm expectations, in this environment we do want to provide additional clarity around our current expectations.

We think about the year in two halves, and our current expectation is for revenue and earnings in the first half of our fiscal year to be meaningfully lower than the prior year period with some recovery expected in the second half. I want to remind our investors that we had our fiscal year that began April 1, so when we discuss halves of the year we were referring to our fiscal year which was which does not match the calendar year.

During our fourth fiscal quarter, we observed district distributors building their inventory levels, and as such we expect some underperformance in first quarter of Fiscal 2021 as a natural result of distributor destocking, driven by economic effects of the pandemic. Furthermore, we are not immune to macro-economic changes, and thus we currently expect that our second fiscal quarter will decline sharply from last year. And then we expect our results will rebound beginning in the fiscal third quarter. As a reminder, our fiscal third quarter has typically been our lowest level of profitability of the year due to seasonality. The negative impact on our full year profitability through potential margin erosion is expected to exceed the decline in revenue.

While we have implemented several temporary cost reduction measures across the Company, we have made a conscious decision to continue to invest in our employees, and we have not reduced our full-time employee workforce due to the pandemic. This commitment to our full-time workforce provides us with the best opportunity to meet our customers’ needs as the economy reopens and demand increases.

Anecdotally, large distributors in certain end markets that we serve have publicly discussed declines of 15 to 20% and our decline has exceeded those levels in the first six weeks of our first fiscal quarter, due primarily to the destocking effect that I mentioned previously. As our products are more geared toward residential applications, our rebound in areas such as HVAC and plumbing could be helped by the large number of individuals working from home, entering the annual peak sales season and normalization of distributor inventory levels.

As always, we're monitoring demand through both macroeconomic data, and more importantly, direct conversations with our customers. And we will remind investors that circumstances are very fluid. While, no one can accurately predict how any company's results will be impacted by the evolving market dynamics, this constant contact with our customers provides us with improving visibility on the range of expected performance in each of the end markets that we serve.

Our products are utilized in HVAC repair and the installation of new and replacement units. And as such, we expect near term sales into this end market to decline, partially offset but potential to increase sales of our environmentally friendly decontamination products such as coil cleaners, along with new product introductions, and the integration of acquisitions.

Similar to our HVAC market outlook, near-term sales into the plumbing end market are expected to decline with long-term demand for our products driving end market growth as the install base continues to grow with general construction.

Within our architecturally specified building product end markets, we continue to see bidding activity and backlog stability, but the rate of bids turning into orders has slowed down in the last few weeks. We regularly review the projects within the backlog and assess risk of project timing appropriately. By targeting growth and education, healthcare and commercial office construction, and pursuing cross selling opportunities and new product introductions, we continue to believe in the long term outlook for this portion of our business.

We acknowledge the potential for project delays as certain jurisdictions have constraints and delays, but one bright spot for us in this end market is that we are seeing some competitors who are unable to deliver product or install that product due to them being shut down or having issues with their supply chain. So we have won several orders due to our consistent ability to manufacture and deliver products during the past two months.

In the rail, energy, mining and general industrial end market we continue to expect long-term end market outperformance while acknowledging near-term headwinds as industrial companies reduce planned capital expenditures, global rig count softens, and rail car traffic has declined in some areas. Specific potential opportunities to offset near-term softness include expansion of sales into international energy markets, transit rail that continues its regular routes moving essential workers to and from their jobs each day, and improving consumer demand for finished goods which will necessitate industrial demand for our consumable products.

Regarding our cost control measures, we continue to focus on pursuing operational excellence, which includes making our cost structure more flexible, and competitive. We reduce certain profit-sharing incentives and benefits as well as discretionary expenses, such as consulting, travel and entertainment. Additionally, we have a flexible labor structure in certain facilities that utilizes temporary labor to manage stronger demand periods, and we have been able to adjust this labor as demand improves or declines. We do not expect these cost reductions to fully offset the impact from the expected revenue decline in the near term. But there are additional cost measures available to us if the decline in revenue has a longer duration than currently anticipated.

We're focused on long term sustainable value creation: we've made financial and strategic decisions in the years leading up to this event that allow us to continue investing in our business for growth and to gain market share. To accomplish our long-term objectives, were willing to temporarily accept slightly lower profits in the near term, so long as by doing so we are able to generate greater profits in the intermediate and long term.

In summary, throughout Fiscal Year 2020 our team delivered strong top line revenue and adjusted operating income growth year-over-year, driven by organic initiatives and successful acquisitions. During the year, we demonstrated our ongoing commitment to disciplined capital allocation with $34.6 million returned to shareholders via dividends and share repurchases. Combined with our strong resilient balance sheet, liquidity position and cash generation, we continue to be positioned for long-term growth and profitability that endures through economic cycles.

And with that, I'll turn the call over to James for a closer look at the numbers.

James Perry
Executive Vice President, Chief Financial Officer

Thank you, Joe, and good morning, everyone.

I'm honored to be on the CSWI team now as the new CFO. In the weeks since I joined in a consulting role I have appreciated the high quality of the people across the Company, the commitment of everyone to our core values, and the opportunities that our businesses have for long term growth and value creation. I look forward to working with the investment community as we share our vision and plans.

As Joe mentioned earlier, our consolidated revenue during the fiscal fourth quarter of 2020 was $98.5 million, a 7.7% increase over the prior year period. Higher revenue was driven by increased sales in both our industrial products and specialty chemical segments. There's a 3.7% organic growth into acquisition related revenue.

By end market, increased organic sales were driven by the HVAC and general industrial end markets, partially offset by the energy, rail and architectural specified building products end markets.

Our industrial products segment posted revenue of $60.1 million, which was up 11.9% over the prior year period. Organic revenue accounted for 5.3% of the increase and was driven by increased sales volumes in HVAC and plumbing end markets, partially offset by declines in the general industrial and architectural specified building products end markets.

Our GAAP segment operating income increased 7.7% to $13.6 million. There were no adjustments to GAAP results in the current or prior year periods within this segment.

Our operating margin as a percent of revenue was 22.7% in the quarter, a 90-basis point decline over the prior year due to negative mix. As mentioned in the past few quarters, our trailing eight quarter book-to-bill ratio is greater than one. And the architecturally specified building product backlog currently contains a portfolio of quality projects that match well with our strengths.

Moving to specialty chemicals. Segment revenue was $38.4 million, a 1.6% increase over the prior year periods, all of which was organic. Sales growth was primarily driven by increased volumes in the general industrial and architecturally specified building products end markets, partially offset by declines in the energy and rail end markets. We continue to be pleased with achieving mid-teens operating income margins, a level that matches expectations indicated a number of quarters ago.

During Fiscal Full Year 2020, our total sales growth, including contributions from an acquisition into the HVAC end market, grew 13.7%, or $14.4 million.

In the plumbing end market sales increased 8.6%, or $3.2 million in the year as we've continued to experience solid demand for our products and benefit from cross selling across traditional HVAC customers.

Our sales of building safety products into niche architecturally specified building product end markets grew 15%, or $14.7 million during the fiscal year, including contributions from a recent acquisition.

Fiscal Year 2020 was a solid year for our mining, rail, general industrial and energy end markets, which grew 9.5%, 6%, 2% and 1.6%, respectively, despite rapid declines in demand late in our fiscal fourth quarter.

Moving now to our consolidated results in the fourth fiscal quarter. Consolidated gross profit increased 4.4% to $44.7 million, driven primarily by increased sales and recent acquisitions.

Gross margin as a percentage of sales declined 140 basis points to 45.4% as compared to the prior year period, primarily due to an increase in cost of goods sold.

Consolidated operating expenses in the current quarter of $29.6 million were higher than the prior year period, at $2.8 million or 70 basis points as a percent of sales due to the trademark impairment, additional personnel related expenses, and selling general and administrative costs, related to acquired businesses.

Consolidated GAAP operating income for the fiscal fourth quarter was $15.1 million, a $1 million decrease over the prior period, as the $1.9 million increase in gross profit from higher sales volumes was offset by the $2.8 million increase in operating expenses just described.

Fiscal fourth quarter adjusted operating profit, primarily adjusted for the exclusion of the trademark impairment, was $16.3 million, a slight increase over the prior year period.

The effective tax rate on continuing operations for the fiscal fourth quarter was 16.7% and the rate was 22.2% for the fiscal year, due to the release of a reserved for uncertain tax positions, offset by adjustments for prior tax returns and state tax expense, net of federal benefit. We expect our tax rate to return to a normal range of 25% to 27% in Fiscal 2021, assuming there are not any one-time items.

GAAP net income from continuing operations in the fiscal fourth quarter of 2020 was $13.4 million or $0.88 per diluted share, compared to $13.6 million or $0.90 per diluted share in the prior year period.

After adjusting both quarters to exclude one-time items and to apply a normalized tax rate, adjusted net income from continuing operations improved 9.2% to $12.5 million or $0.83 per diluted share, compared to adjusted net income from continuing operations of $11.5 million or $0.75 per diluted share in the prior year period.

For the full fiscal year, GAAP net income from continuing operations was $44.8 million, or $2.95 cents per diluted share, compared to $46.1 million, or $2.96 per diluted share in the prior year period.

After adjusting the current year period to a normalized tax rate and to exclude one-time items - the most significant being the $5 million after tax non-cash charge, or $0.32 cents per diluted share, in the fiscal second quarter to terminate our U.S qualified pension plan - adjusted net income from continuing operations improved 13.3% to $48.7 million, or $3.20 cents per diluted share. In the prior year, adjusted net income from continuing operations, which was adjusted to exclude one-time items and to apply normalized tax rate was $43 million, or $2.77 cents per diluted share, resulting in an increase of 15.5% on adjusted earnings per share.

Moving to our cash generation and balance sheet. Our net cash provided by operating activities from continuing operations increased to $71.4 million in Fiscal Year 2020 compared to $68.2 million in the prior year period. I'll remind everyone that in the prior year, operating cash flow reflected a $10.4 million deferred tax benefit related to the disposition of our coatings business that did not repeat. Excluding that one-time benefit in the prior year, our operating cash flow was up 23.5% due to our continued strong operating performance.

We ended the quarter with cash on hand of approximately $18 million and had the full $250 million of borrowing capacity available on a revolving credit facility, which provides us ample flexibility to fund our growth and capital allocation strategy, including acquisitions.

With that, I will now turn the call back to Joe.

Joseph Armes
Chairman, President, Chief Executive Officer

Thank you, James.

As I stated in my opening remarks CSWI has a strong and sustainable business model built upon operating businesses that have decades of history, skilled employees who provide a competitive advantage, an experienced Leadership team, a strong balance sheet and a set of core values guiding our actions.

We have deep, long-standing relationships with our best in class distribution partners, we have a network of proven suppliers, and a strong balance sheet with ample liquidity, low leverage, and no near-term maturities. In difficult times, we return to our core values and we also confirm our capital allocation strategy. Our commitment to be good stewards of your capital is resolute. To accomplish this goal, we are focused on these four objectives: to treat our employees well, to serve our customers well, to manage our supply chains effectively, and to position our Company for sustainable long-term growth and profitability.

Let me take this opportunity to thank all my colleagues here at CSWI who collectively own approximately 5% of CSWI through our employee stock ownership plan, and also thank all of our other shareholders for their continued interest in and support of our Company.

With that Operator, we're now ready to take questions.

QUESTION & ANSWER

Operator

Thank you.

We will now be conducting a question-and-answer session. If you'd like to ask a question, you may press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star key.

Our first question comes from the line of Jon Tanwanteng with CJS Security. Please proceed with your question.

Jon Tanwanteng
CJS Securities

Hi, good morning, guys. Thank you for taking my question.

Joseph Armes
Chairman, President, Chief Executive Officer

Good morning, John.

Jon Tanwanteng
CJS Securities

For the first one, I was just wondering, where are you guys seeing the most pressure - or conversely maybe resilience or strength - in any of your end markets heading into the first fiscal quarter?

Joseph Armes
Chairman, President, Chief Executive Officer

Yes, I mean, it's been down overall, John, so I don't say any particular weakness. I will say that early on in the first six weeks of the quarter here, I think industrial architecture specified building products has shown resilience; there are projects already underway that folks were actually rushing to finish and that's been the area we've had the best reports from the field.

I would say our installation teams in Florida are working overtime right now. We kind of went into a bit of a plan where no overtime, no new hires, that type of thing when the pandemic hit, and I've had to approve overtime for those guys down there because we've got installation projects going on and their business is really doing well right now.

But overall there's weakness across the board. I wouldn't say there's any individual areas that's any weaker than any others.

Jon Tanwanteng
CJS Securities

Okay, got it. Do you have any exposure to hotels or restaurants or any large retail installation?

Joseph Armes
Chairman, President, Chief Executive Officer

Yes, we've looked at that and it's very minimal. There are a couple of projects on the books for hotels, but no retail that we're aware of and that has not been historically a big part of our business at all.

Jon Tanwanteng
CJS Securities

Got it. Okay. And Joe, you mentioned, broadly, the first half for you would be the weakest. Any sense of what is the first fiscal quarter or the second is going to be the trough for you guys, as you see right now.

Joseph Armes
Chairman, President, Chief Executive Officer

I really don't, Jon. We've been working hard on that trying to discern, but at this point we're just we're not in a position to make any estimates on that. So we're really looking at the year in two halves. The slope of the recovery in the second half is also kind of up for estimate here, but at the same time, I think we just need to think about it in two halves, first half down, second half beginning of recovery.

James Perry
Executive Vice President, Chief Financial Officer

Jon, this is James, I want to highlight what Joe mentioned in his remarks. In our commitment to keeping our full time employment, where we have it right now and not making changes due to the pandemic, allows us to take advantage of those rebounds, whether they're regional or in the end markets, as you mentioned. So we're well positioned if we wake up and the trough is behind us, then we're ready to take those orders and produce, and a lot of our competitors have not been in a position due to balance sheet issues or otherwise to do that. So we're well positioned for the recovery when this economy reopens.

Jon Tanwanteng
CJS Securities

Got it. That's helpful. I was going to ask, could you maybe give us a little bit more color on both the cost cutting attempts that you have done on the SG&A and the COGS side, you know, what kind of quarterly savings are you expecting? And given the magnitude of the divine declines that you're seeing through those efforts, do they enable you to keep your incremental and decremental margins where they have been?

James Perry
Executive Vice President, Chief Financial Officer

Yes, this is James. We're not going to be able to provide specifics on that: it is meaningful, the actions we took, and they started the fiscal year with that in April. Some of those are the profit-sharing type things on the employee benefit side. So while we've been able to maintain employment and benefits, some of those profit sharing things that we offer the employees look like a good opportunity to maintain employment, but curtail those for now, those are decisions that are temporary in nature that we could look at later in the year. And obviously, next fiscal year, as we expect the economy has reopened. So they are meaningful to the bottom line and that's across the board for the Company, not one in particular class or another.

We've done a lot of things as we, as Joe mentioned, obviously things like travel, some of that taking care of itself, but we've really been careful with discretionary expenses, consulting, those types of things. That's on the SG&A line. The other thing that Joe mentioned was a good portion of our workforce is on the temporary side. And while those are jobs as well, we always scale that up and down with seasonality, and so those are people that aren't on a benefit plan, those type things so we're able to really maintain that full-time workforce and know that that temporary labor force is there for us as things pick up, and then can scale down as we normally do. So that's kind of a flexibility we've always had, Joe mentioned overtime, that's another place we’re being very careful.

A lot of these things, we are going to be able to restore as things pick back up and as we think that makes sense. But for now, we've pulled some of the levers: there's more levers we can pull. But we're watching very closely again, as we see demand changing week to week, and as we get into the months of the quarter, and the quarters of the year, they're able to scale up and down with demand.

Jon Tanwanteng
CJS Securities

Okay, got it. And, James, just to put you on the spot, maybe a little bit. Joe, can you talk about the timing of the CFO transition in the middle of a pretty dramatic situation. Just talk about the reasoning and the planning that went into that.

Joseph Armes
Chairman, President, Chief Executive Officer

Yes. These things don’t come about quickly oftentimes, and so this was a more thoughtful transition that began planning several months ago. And yes, by the time you get time to actually announce the transition, we’re in the middle of an interesting economic time. But I feel like it’s just a great opportunity for us to continue to evolve as a company. James brings a wealth of experience, nine years of public company CFO experience from a larger company, industrial company with multi-core business, a lot of complexity; and so very pleased to have him here. I think that he will be a fantastic thought partner for me and for the Board as we think about how we grow as a result of this economic downturn, how do we take advantage of our balance sheet, how do we deploy our capital to come out on the other side much better and stronger and grow through this.

We've always said we don't wish for a recession. This is horrible. But given our situation, there will be opportunities for us. And so we want to be able to take advantage of those opportunities, and I think James is the right guy to help us do that.

Jon Tanwanteng
CJS Securities

Got it. And just to follow on that last line of thought, are you willing to use your balance sheet at this moment to take advantage of situations? And are those becoming more apparent, or is it just more prudent to sit on that until maybe some of the uncertainty goes away?

Joseph Armes
Chairman, President, Chief Executive Officer

Yes. I think we're still in a little bit of wait and see mode. We're in constant contact with acquisition targets. We're in constant communication with the brokers and bankers and those types of folks. I would say today, the outlook is we don't have enough visibility going forward on the broader economic kind of reopening, if you will, and what the slope of the rebound is going to look like in the second half to be able to be comfortable committing large amounts of capital at this point.

I would say we're still in a little bit of a wait and see mode. And I think sellers' expectations will have to be adjusted and you'll need to see a quarter or two of results to kind of understand what the demand degradation might be for some of these businesses. But I think we're sitting in a great spot and I feel really good about the potential to take advantage of opportunities that will come out of this downturn.

Jon Tanwanteng
CJS Securities

Got it. Thanks, guys. I appreciate it.

Joseph Armes
Chairman, President, Chief Executive Officer

You bet. Thank you, John.

Operator

Our next question comes from the line of Joe Mondillo with Sidoti & Company. Please proceed with your question.

Joe Mondillo
Sidoti & Company

Hi. Good morning, everyone.

Joseph Armes
Chairman, President, Chief Executive Officer

Good morning, Joe.

Joe Mondillo
Sidoti & Company

Joe, can you just clarify, when you were talking in your prepared commentary regarding the outlook, you mentioned a 15% to 20% decline. Could you clarify what that's referring to; if that's just a general across the company or of a particular business?

Joseph Armes
Chairman, President, Chief Executive Officer

That's actually generally across the categories that we serve, the industry end markets that we're picking up from other earnings reports and industry data, that type of thing. And so I'd say, broadly speaking, our customers are saying that they're down 15% to 20%. And at this point in time, six weeks into the quarter, we're down more than that we think primarily due to destocking of—their shelves were full. They're going to sell what's on the selves first and not reorder until they really have to. And so we're seeing that effect.

Joe Mondillo
Sidoti & Company

Okay. And could you help us maybe understand the trajectory of how the last two, two and a half months have gone? Essentially, I'm just curious, are we sort of mainly, on a directional basis mainly, in a stabilization standpoint?

And do you have any businesses that are still directionally actually getting worse on a week-to-week basis? And vice versa: any businesses that you're sort of actually seeing a little more positive week-to-week? I know Jon asked this sort of as well, and you answered building products. But are you seeing any sort of positive trends given with several states - many states actually - opening up over the last few weeks?

Joseph Armes
Chairman, President, Chief Executive Officer

Yes, I think we are. Again, back to the architecturally specified building products business, we did not see the immediate downturn that we saw in some of the other businesses. Again, projects were ongoing, halfway through an installation of smoke curtains in a building. They're going to—in places where it's at all possible, they were finishing up those projects and pushing us to get those completed. And so that continued on. Let's say in the month of April, the phones were not ringing very often in some of our other businesses. But yes, I do feel like there's been stabilization since that time. Things have calmed down. Spirits are a little bit higher.

I would say, overall, we don't see continued deceleration at this point. And so we're taking that as positive. And again, as we talked to our customers, that seems to be the general theme that we're hearing.

James Perry
Executive Vice President, Chief Financial Officer

Joe, this is James. It really is, as we said, a week-to-week thing. As temperatures are rising, that coincides with states reopening and people getting more comfortable with folks coming into their house for repairs and installations, on the HVAC side especially. As Joe mentioned, the destocking has been happening. Destocking turns into restocking. So as the phones start ringing as those inventories get low on the distributor side, we've made sure to keep our inventory levels as such we can meet that demand.

Our people are producing the product. We've ensured our supply chains are there; as we mentioned, looking to diversify those. But we've made sure that we've got the inventory and are carrying what our customers need when they're ready to restock as those installations pick up. And again, we're seeing the green shoots here and there, but it's anecdotal at this point.

Joe Mondillo
Sidoti & Company

Okay. What about oil and gas? You stated in prior answers to one of the questions that you haven't seen one of—any of the industries sort of weaker than the others. I would have thought actually that you would have seen oil and gas be weaker than others. Is that not the case?

Joseph Armes
Chairman, President, Chief Executive Officer

Well, I would say two things. One, it's relatively small for us overall. So it's not top of mind necessarily. But I would say, domestically it's been very, very weak, but we've seen strength in our overseas market. We sell that out of the U.K., into the North Sea and the Middle East and those—our kind of weekly sales reports there have been very positive. So it's a mixed bag even there. But yes, sales of copper coating in West Texas are down pretty dramatically, no question, with the rig count.

Joe Mondillo
Sidoti & Company

Okay. And at the HVAC segment, prior to the downturn, did you have a sense of where industry inventories were when you characterized them as sort of normal or higher than normal? Any sense of where those inventories were out of this downturn?

Joseph Armes
Chairman, President, Chief Executive Officer

I would just remind everybody that this hit at the peak stock season. We had had a lot of stocking orders for the new summer season. And so as we all recall, March is a huge month for us. And so our March kind of continued on as normal, ordinary course. But that is the season when all of our distributors, our customers are going to be stocked to the gills for the upcoming summer season. I can't tell you that they were more stocked or less stocked than we would have expected for this year with the growth we were expecting from last year and all of that, but I would just tell you seasonally that is a time of high inventory levels every year.

Joe Mondillo
Sidoti & Company

And in terms of work across the country over the last couple of months, I'm in New York and of course a lot of people are completely shutting off their houses, but I know elsewhere in the country it's a little different. Did you get the sense that maintenance—because everyone's staying at home, everyone's thinking because of that people I think are probably most likely thinking about retrofitting certain things around their house and whatnot. So I would think coming out of this, you'd see some pretty good demand. Do you agree with that? Number one. And has there been areas that really haven't completely shut down and there has been inventory destocking through this period as work's been done as people have been staying home and thinking about retrofitting their houses?

Joseph Armes
Chairman, President, Chief Executive Officer

Yes. Listen, we're very bullish on the long-term health of that end market. It's really our favorite end market. If we were going to invest capital in any end market today, that would be the end market that would be highest on our priority list. Having said that, there were - again, kind of anecdotally, but - reports of AC contractors that didn't want to go into people's houses or people didn't want those folks in their houses. I think that could offset some of that effect that you're talking about over the past month or two, Joe. But we do feel like going forward, more folks at home in the summer months coming up here, more folks needing their air conditioning to kind of operate at peak. With everybody in cramped quarters, I think that could be very good for our business. So yes, we feel like—and again, our products are used both in repair and replacement and we are geared more toward residential than commercial, so I think all of those are good factors.

Joe Mondillo
Sidoti & Company

Okay. And in terms of the building products business, could you provide us your thoughts, what you're seeing, what you're hearing in terms of maybe your order rates, projects that are being out there? I know you said the business right now is doing okay, but that's probably because of existing projects. The Architecture Billings Index just came out of the month of April and it was below 30. What are your thoughts on sort of longer-term project pipeline for the non-res cycle?

Joseph Armes
Chairman, President, Chief Executive Officer

Yes, we are watching it very closely as well. And as you said, we've had relative strength there. I would say that our bidding has been active, and we've been pleased with that. Our backlog, that we've gone through and assessed very, very soberly to determine what we think about our backlog, and that seems to be holding up well. And so really, it's the bidding that turns into bookings where we've seen the softness most recently, Joe. And so we have seen folks that are just not willing to commit to beginning a new project over the last few weeks. And so we are seeing that. How long that will last and what the reopening will do for that, we're not in a position to predict. But there's no question, we have seen some softness of bids turning into bookings.

Joe Mondillo
Sidoti & Company

Okay, great. And last question, just the discontinued ops income, what business is that related to? Did you sell off a business within the quarter or…?

Joseph Armes
Chairman, President, Chief Executive Officer

I think that would have been the old Strathmore business. It may have been the sale of the final piece of real estate from Strathmore that we sold in this period and the coatings business.

Joe Mondillo
Sidoti & Company

Okay. All right, great. Thanks.

Joseph Armes
Chairman, President, Chief Executive Officer

Thanks, Joe.

James Perry
Executive Vice President, Chief Financial Officer

Thanks, Joe.

Operator

There are no more questions in the queue. I'd like to hand a call back to Management for closing remarks.

Joseph Armes
Chairman, President, Chief Executive Officer

Great. Thank you very much, everyone. Really appreciate the time, and look forward to speaking to you again soon.

Thank you for your interest in CSWI. And just know that we take the stewardship of your capital very seriously.