Call Participants

EXECUTIVES

Joseph Armes
Chairman, President & CEO

James Perry
Executive VP & CFO

Adrianne Griffin
VP of Investor Relations & Treasurer

ANALYSTS

Jonathan Tanwanteng
CJS Securities, Inc.

Joseph Mondillo
Sidoti & Company, LLC

Presentation

Operator

Greetings, and welcome to the CSW Industrials First Quarter 2021 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Adrianne Griffin, Vice President of Investor Relations.

Adrianne Griffin
VP of Investor Relations & Treasurer

Thank you, Christine. Good morning, everyone, and welcome to the CSW Industrials Fiscal First quarter 2021 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.

We issued our earnings release and presentation prior to the markets opening today and both are available on the investor portion of our website at www.cswindustrials.com.

During this call, we will reference specific slides in the presentation. The call is being webcast and information on how to access the replay is included 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 today in our 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.

I will now turn the call over to Joe Armes.

Joseph Armes
Chairman, President & CEO

Thank you, Adrianne. Good morning, and thank you for joining our fiscal first quarter conference call. On today's call, I will provide an update on the 4 guiding objectives that we presented last quarter, discuss our fiscal first quarter results and comment on our outlook for the remainder of fiscal 2021. I will then hand the call off to James for a closer look at the numbers.

On our last call, we outlined 4 guiding objectives: treating our employees well; serving our customers well; and managing our supply chains effectively; thus positioning our company for sustainable, long-term success. We recognize the challenges that the pandemic has posed to many of our stakeholders, including our employees, customers and suppliers, and our focus has been on the safety, continuity of service and collaboration throughout a changing business environment. Our success in fiscal first quarter of 2021 was directly attributable to the diligence and professionalism of each of our over 700 employees of CSWI. We have remained engaged, courageous and confident, while continuing our operations with minimal disruptions. Our employee stock ownership plan, which is designed to ensure alignment, incentivizes our team members to think like owners. We thank all CSWI team members for their effort to date, as together, we work each day to ensure that CSWI emerges even stronger and better positioned for future growth.

As we outlined on Slide 4, our diversified end-market strategy, history of robust profitability, strong cash generation and resilient balance sheet positioned us to capitalize on both organic and inorganic growth opportunities while driving long-term shareholder value. We remain resolute in our commitment to be good stewards of your capital.

On Slide 7, you will see our 2021 guiding objectives. Expanding on treating our employees well, we are providing continuing employment for full-time employees as we position our businesses for the ongoing recovery in demand that we began seeing in some of our end markets toward the end of the fiscal first quarter. We remain committed to the enhanced health and safety efforts we outlined on our last call, fostering the sound COVID-19 operational health and safety competencies and incorporating them into our standard work environment. We believe our recent actions have positioned us to better mitigate the possible impacts of future unexpected events and to support our enduring risk -- enterprise risk management strategy and processes. Like many companies that have continued to operate safely over the last several months, we have had a few employees test positive for COVID-19, but all proper precautions were taken to maintain the health of those team members around them. We estimate $300,000 to $400,000 of costs were incurred in the fiscal first quarter related to the employment, health and safety efforts noted above.

Turning now to our second guiding objective, serving our customers well. In recent months, we increased our commitment to be a vendor of choice, including emphasizing communication and customer service excellence. Our teams utilized the changing work environment to offer virtual product training, helping drive demand for our high-quality, high-value products, while concurrently, offering customers the opportunity to earn continuing education credits and to serve their customers more effectively. In addition, we have recently increased personnel in our shipping departments to capitalize on the recovery of demand in some of our end markets, predominantly HVAC/R and plumbing. We remained disciplined in managing our supply chain effectively and throughout the quarter, we utilized the strength of our balance sheet, selectively building inventory to ensure our ability to meet our customers' needs and to take advantage of discounted market pricing on some key raw materials. In our architecturally specified building products end market, these supply chain measures helped us to win projects from competitors, thereby gaining market share and bolstering brand reputation. We anticipate additional prospective opportunities to deploy capital that support our organic growth objectives, thus driving long-term growth in excess of the end markets we serve. We remain diligent in our efforts to improve the quality and reliability of our supply chains, thereby ensuring business continuity and reducing sourcing risk.

Turning to how we position our business for sustainable long-term success. Since inception, our management team has committed to building and maintaining a conservative financial position, including a strong and resilient balance sheet, ongoing access to capital and ample liquidity.

As shown on Slide 8, we continue to demonstrate balance sheet strength with nearly $20 million of cash balances as of June 30, 2020, which is an increase from last quarter. During this quarter, cash flow from operations grew 45.4% over the prior year period to $14.1 million, representing a 15.5% cash flow yield on revenues in the quarter. We also repurchased 7.3 million shares and paid our $2 million quarterly dividend for a total quarterly return of cash to shareholders of $9.3 million. As of June 30, 2020, we maintained a full $250 million available on our revolving credit facility, supplementing the strength of our liquidity position and our ability to execute on growth opportunities. Our capital allocation strategy continues to guide our investing decisions with a priority to direct capital to the highest risk-adjusted return opportunities as we invest for our future, particularly in the end markets we serve today. We are very active in pursuit of external growth as we see opportunities emerging in several of our end markets. When outlining expectations for the fiscal first quarter on our last earnings call in mid-May, we discussed potential underperformance driven by natural distributor destocking as attributable to pandemic-driven demand degradation. We also reported that in the first 6 weeks of the fiscal first quarter, our revenue decline was in excess of 20% in some of our end markets.

With this backdrop, I am pleased to report that fiscal first quarter revenue was $91 million, reflecting an 11% decrease compared to the same prior year period. These results exceeded our own as well as the consensus expectations for the quarter. The outperformance began in the second half of the first quarter as demand improved for products designed for residential applications in areas such as HVAC/R and plumbing as well as in our architecturally specified building products. During the quarter, May results exceeded those in April and June exceeded May, providing us with strong momentum heading into our second quarter. In fact, in the month of June, sales into the HVAC/R and architecturally specified building products end markets were actually higher as compared to the prior year period. As we discussed in May, we implemented a broad range of temporary cost reduction measures at the very early stage of the COVID-19 outbreak in the United States to preserve profitability. While the cost reduction measures did not fully offset the impact from the revenue decline, we reported a solid $16.3 million of operating income and 17.9% operating income margin, only a 200 basis points decline in margin from the prior year period. I will also highlight that we have continued to invest in our people, and we have not had any pandemic-related reductions to our full-time employment, allowing us to serve our customers' dynamic needs as they adjusted to varying demand for their products. As I mentioned earlier, these actions have resulted and are winning new business in several of our end markets, especially architecturally specified building products. We believe these actions further demonstrate our stated commitment to a long-term perspective on driving shareholder value.

Turning now to Slide 9. The resiliency and diversification in our end markets is highlighted on this page. In addition to my previous comments on the strength we've seen in the HVAC/R and plumbing end markets, there are several factors positively affecting demand for our products, including the large number of individuals continuing to work from home and the 12% increase in June cooling degree days as compared to the same month last year. The architecturally specified building products end market was effectively flat year-over-year with strength in sales driven by our quality backlog, primarily the completion of projects that commenced prior to the pandemic. Our 3 largest end markets, HVAC/R, plumbing and architecturally specified building products comprised nearly 77% of our revenue this quarter. While the pandemic has caused acute short-term uncertainty in our general industrial, rail and mining end markets, we expect these businesses to return to growth as our customers return to normalized operations and resume the types of maintenance activity and capital investing decisions that drive demand for our products. We remain confident in the long-term secular fundamentals supporting these end markets. For example, Class I rail is critical to transporting goods across the United States, while transit rail is a growing market worldwide and suitable for many of our niche products. Additionally, the general industrial, mining and energy end markets provide geographic diversification with access to faster-growing international markets.

Now I'd like to discuss our current thoughts on the remainder of this fiscal year, and first, remind our investors that our fiscal year began on April 1. Earlier in my prepared remarks, I noted the momentum in our largest end markets that we have realized since the second half of the fiscal first quarter. Based upon the steadily improving demand, we now expect revenues and earnings in the first half of the fiscal year to be slightly lower than the prior year period. In the second half, which is typically negatively affected by seasonality, we expect some recovery in select end markets, resulting in moderately lower revenue and earnings than the same period last year. As the current situation remains fluid, the duration and trajectory of end market recovery are hard to determine. We see ongoing strength in our HVAC/R and plumbing end markets, opportunities for incremental growth in the general industrial and heavy end markets, with potential decline late in the fiscal year in our architecturally specified building products end market.

As discussed on our last call, our bidding activity has remained strong, while there has been a decline in the rate of projects being added to the backlog as builders' commitment to large projects has slowed. If the pace of bookings remains at current levels, a decline in our architecturally specified building products revenue could materialize late in this fiscal year or early in the next. As of the end of the fiscal first quarter, our book-to-bill ratio for the trailing 8 quarters remained above 1. And only on project was removed since our last call, indicating the quality of our backlog. We continue targeting education, health care and government projects is a matter of bolstering our prospects and increasing the diversity of our portfolio, which is otherwise weighted toward multifamily housing. As a result of expected year-over-year revenue declines in this fiscal year, we continue to be slight -- we continue to expect slightly lower margins due primarily to our previously discussed efforts to retain employments for our team members. However, we remain diligent in our pursuit of operational excellence and a competitive cost structure, and we will initiate additional cost mitigation efforts if the pace of demand recovery slows.

In summary, our strong balance sheet continues to enable us to have the financial flexibility to succeed in the current economic environment by investing organically and inorganically in our business, driving long-term growth and returning cash to our shareholders in line with our capital allocation strategy.

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

James E. Perry

Executive VP & CFO

Thank you, Joe, and good morning, everyone. As Joe mentioned earlier, our consolidated revenue during the first quarter of 2021 was $91 million, an 11% decrease from the prior year period. Lower revenue was driven by decreased sales in both our Industrial Products and Specialty Chemicals segments and across all end markets served. Despite an 11% decline in revenues, our profitability metrics remained strong, with gross profit margin of 47%, slightly above the prior year period, and consolidated operating income margin of 17.9%, a 200 basis point decline from fiscal first quarter 2020 and flat to adjusted fiscal first quarter 2019. There were no adjustments in either current or prior year period. The effective tax rate on continuing operations for the fiscal first quarter was 23.5%. We expect our full year tax rate to return to our normal range of 24% to 26% in fiscal 2021.

Net income from continuing operations in the fiscal first quarter of 2021 was $12 million or $0.81 per diluted share compared to $15.2 million or $1.01 per diluted share in the prior year period.

Turning to Slide 10. The Industrial Products segment delivered fiscal first quarter revenue of $61.2 million, only 3.3% lower than the prior year period. Operating income of $16.3 million and operating income margin of 26.6% were in line with the prior year period of $17 million and 26.9%, respectively.

Continuing to Slide 11. The Specialty Chemicals segment delivered fiscal first quarter revenue of $29.7 million compared to $39 million in the prior year period. Segment operating income was $3.9 million, a $2.7 million decrease compared to the prior year period as cost reduction efforts offset a large portion of the decline in sales revenue. Operating income margin in the fiscal first quarter was 13.3%, a 370 basis point decline from fiscal first quarter 2020 and flat to adjusted fiscal first quarter 2019. The decline in operating income margin reflects the decremental margins resulting from lower volumes. As we've shared previously, this segment is highly correlated to volumes and hence, as volumes recover with improved demand, operating margin would be expected to return to our long-term expectation of mid-teens.

Balance sheet and cash management have increasingly been in focus for investors, and as Joe mentioned in his remarks, our cash flow from operations increased 45.4% over the prior year period. Our cash balance as of June 30, 2020, was approximately $20 million, approximately $2 million higher than on March 31, 2020. This increase in cash balance occurred while returning $9.3 million to shareholders through our quarterly dividend and share repurchases.

With our solid cash generation and excellent liquidity position, including the full $250 million available on our revolving credit facility, we are well positioned to fund accretive growth. In my first few months at CSWI, I've had numerous opportunities to review our portfolio of growth opportunities. And I'm encouraged by the quality of the opportunity set and the implied growth available to us. I'm also very confident in the team's ability to support this growth while focusing on the existing business, both of which are critical for success.

I want to address the increase in inventory balances. As Joe mentioned in his prepared remarks, we utilized the strength of our balance sheet to position ourselves advantageously to gain market share as certain competitors were unable to meet their contractual obligations to provide goods and services. We also capitalized on discounted pricing for specific raw materials and high-volume items, as we anticipate demand in our largest end markets. In the short term, we expect to maintain strategically elevated levels of inventory as we prudently manage our supply chains.

In conclusion, CSWI remains very well positioned to not only perform well through the economic conditions, but to emerge as a stronger company poised for growth, thanks to the dedicated efforts of our team members and support of our Board of Directors and investors.

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

Joseph Armes
Chairman, President & CEO

Thank you, James. Our guiding objectives for fiscal year 2021 are consistent with and supportive of our core values, our strong, sustainable business models built on operating businesses with long track records of success, skilled employees that think like owners, experienced leadership teams and a resilient financial position. Our commitment to be good stewards of your capital is resolute. Let me take this opportunity to thank all my colleagues here at CSWI, who collectively owned approximately 5% of the company through our employee stock ownership plan and also thank all of our shareholders for their continued interest in and support of our company. And with that, operator, we're now ready to take questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Joe Mondillo with Sidoti.

Joseph Mondillo
Sidoti & Company, LLC

So first off, at the Specialty segment, I was wondering if maybe you could help us understand what you saw through the April to July time period. Sort of did things get significantly better, like a lot of companies have talked about over that 4-month period? Any details there would be good.

Joseph Armes
Chairman, President & CEO

Well, again, I think -- if we think about it as end markets, Joe, the end markets that showed significant kind of recovery were HVAC/R and plumbing. Architectural specified building products is really steady throughout. The other end markets were down in April and have recovered some, certainly not falling anymore. And so I would say that, that means our Specialty Chemicals segment would be affected by the general industrial, the heavy industrial, certainly the oil and gas and energy. But remember, there are some plumbing chemicals, in particular, that run through Specialty Chemicals that would help provide a balance there.

Joseph Mondillo
Sidoti & Company, LLC

I see. But with some of those more cyclical, general industrial energy-related end markets, did you see a significant improvement from, say, the April month to June, July?

Joseph Armes
Chairman, President & CEO

No, we really didn't. We saw a flattening. And so again, those end markets are no longer in decline, but no snapback there yet.

James Perry
Executive VP & CFO

And Joe, this is James. That is an area where we built some inventory. That's one of the couple of areas through the quarter as we anticipate some of that demand coming back. And as Joe said, we didn't see much come through the quarter revenue-wise. But a little bit of that inventory build was in that chemical space to be sure that we took advantage of raw material pricing and built the inventory. So when it does come back, we're ready with the employee base we have.

Joseph Armes
Chairman, President & CEO

But we do think we see evidence of kind of the end or the tail of the destocking that was going on there.

Joseph Mondillo
Sidoti & Company, LLC

Okay. I guess just lastly, just a follow-up on this topic. What do you sort of make out of that? Do you sense any changing of share at all? The reason I ask is because it seems like most companies, even sort of the most cyclical industrial type companies, have seen pretty good improvement from April, May to June, July. Do you sense any changing of share within the market itself? Or how do you look at your performance relative to the overall market?

Joseph Armes
Chairman, President & CEO

Yes. I don't see any change in share at this point, Joe. What we see is really a fair amount of that business goes through distribution. So you've got destocking at the distributor level. They're squeezing their inventory down. And like I said, we're beginning to see the effects of that now when folks are beginning to place orders. I believe the destocking has run its course. And I think things are going to get better from here. But no, we don't perceive that as being a share loss at this point.

Joseph Mondillo
Sidoti & Company, LLC

All right. And then I wanted to also ask about the HVAC business, more in the Industrial segment. How much was, I guess, HVAC down in the quarter? And to follow up on that, it seems like it was better than I would have thought. Could you just talk about that business? Because I sort of -- I suspected that especially in the early part of the quarter people were not able to service people, maybe not able to enter homes. And then in addition to that, which I thought maybe would have affected demand, distribution destocking a little bit relative to just the overall economic cycle. So could you just help us understand how that business performed? And I guess, maybe relative to your expectations?

James Perry
Executive VP & CFO

Yes, Joe, this is James. I think you've hit a lot of the key points there pretty well in summarizing it, actually. So very specifically, the HVAC/R piece within Industrial Products was down about $1.3 million. That was offset by about the same increase on the architecturally specified. So with the other businesses being down just a little that's why you saw just a 3% decrease. As you recall, on the May 20 earnings call, we talked about us seeing distributors down 20%-plus. And at that point, that's about what we were seeing things a little bit worse than that. So the fact that, that business was only down 3% for the whole segment and HVAC only down a little over $1 million that tells you we really saw a recovery late in May and then especially through June. We continue to see that in July. We've obviously now wrapped up July. We continue to see that momentum. And I think you hit on some of it. Clearly, as people got through the quarter, a lot of that's a residential business. Number one, more people staying home or people got confidence they were going to be at home for a while. And certainly, as you said, got more comfortable people coming into their homes for repairs. That certainly helps pick up business. We have seen a bit of a destocking, and we started to see restocking as the folks on the trucks needed to hit their distributors, and that's who we sell to. They had to be sure they have the product they needed. So we saw a lot of orders for that restocking, which when we talked in May, we weren't sure when that was coming. And then lastly, and Joe mentioned briefly in his remarks, the cooling degree days were up quite a bit year-over-year and even above normal. So on top of people being home more and it simply being hotter, not just in certain geographical areas, but pretty much nationwide, that led to a very good end of May, very strong June and again in July.

Joseph Mondillo
Sidoti & Company, LLC

Okay, yes. I was going to follow up actually there and just everything that we've heard is, whether it's retrofit or construction. And I know like 80% of the business there is sort of retrofit. It seems like any company or any business associated with that is performing extremely well. So it sounds like June and July have bounced back pretty strong sort of to -- in line with other companies that are associated with housing, retrofit?

James Perry
Executive VP & CFO

Yes. I think -- this is James. I think we are certainly seeing that. And I'll also tell you what a good job our teams out in the field were doing. With the employee base that we kept on that's really proved to be a strong strategy for us to be sure we could meet that demand when it came back so quickly, we had the people in place. In fact, we've had to hire up a little bit on the shipping side in the HVAC business specifically in our facilities to be sure we can get the product out the door that our distributors needed, so we didn't lose those sales. So I think we're clearly seeing what you're seeing. As you pointed out, ours isn't as much directly to the OEMS, which are a lot of the competitors you see out there for that type of industry data. But we're absolutely seeing that strong pickup. And again, our team is doing a great job of meeting that demand, understanding what customers need. And that, again, we tried to foretell some of the inventory buildup that we might continue to do strategically to be sure the supply chains are as strong as they are right now. We've got the product we need, so we can continue to meet the demand.

Joseph Mondillo
Sidoti & Company, LLC

Okay. And last question for me. I'll let someone else have a chance is regarding costs and sort of cost management through this time period, specifically at the Specialty Chemicals segment. Have you reduced any costs either permanently or temporary? Or how are you managing your costs, especially at that Specialty Chemicals segment that we're seeing a pretty severe downturn. And it seems like -- it sounds like we haven't seen any sort of rebound quite yet.

James Perry
Executive VP & CFO

Sure, Joe. This is James again. As we said, it's a volume-driven business. As I reminded you a minute ago, we did maintain the full-time employment in light of the pandemic. We've not had pandemic-related reductions. We have let attrition kind of take care of some employment numbers, having a little bit of overemployment potentially. So as you just have normal people leave a company, performance issues, we haven't necessarily backfilled some of those people. The Specialty Chemicals business is more of a full-time employment business. The Industrial Products has a little more of the temporary-type labor, so that's able to be a little more variable. So you've had a little bit of headwind on that employment side and Specialty Chemicals which drives that margin. We have, however, though, across the company, but especially chemicals, certainly seen real strong cost management. Obviously, things like travel have come down. Use of consultants have come down. Anything discretionary, the teams across the company, I think, have done a really good job continuing to challenge themselves to find cost reduction. So as Specialty Chemicals, you've seen it, you obviously had some margin and profit degradation with the low volumes. As I mentioned, we did build up some inventory. So we had the employment base. And so we built up inventory that helps your absorption to some degree. We slowed that down a bit in June. So we built up the inventory, but the revenues didn't quite follow, and we look for them potentially in Q2 to really start reducing that inventory in July and into August and September. So specifically to answer your question, I would say the team is doing a great job of finding ways to reduce cost. But again, it was a company-wide decision we've made to maintain that employment base and serving our -- treating our employees very well, we feel strongly about that. And it's a bit of a headwind, but we're certainly seeing in a couple of the other spaces within the Industrial Products, that's turned out to be a very good decision that we were able to make company-wide.

Operator

[Operator Instructions] Our next question is a follow-up from Joe Mondillo with Sidoti.

Joseph Mondillo
Sidoti & Company, LLC

All right. Well, I have a couple of other questions that I wanted to ask. So thanks. As far as the architectural specified buildings products business, can you help us understand what you saw -- what you're seeing in terms of bookings, what the trends are? Are new bookings down year-over-year? How much? Just help us understand what you're seeing in that business?

James Perry
Executive VP & CFO

Sure, Joe. It's James. Yes. We talked about the back half of the year seeing some softness in our fiscal year. The team has done a really good job of being able to finish up projects that were already on the books in the backlog. And as we mentioned, that speaks of the quality of the backlog. Those projects got done. Some even moved up in the calendar as project managers and contractors want to be sure they got projects done before they potentially had any shutdowns. Construction has remained an essential business virtually everywhere, so they've been able to get those done. We continue to see a good number of bids for projects that are out there. Some have turned into bookings. A lot of those are even into next fiscal year, just given the time it takes the lead time for our products to go into a brand-new project that's not yet coming out of the ground. So we are seeing some bookings, but not a lot of that creeps into this fiscal year yet. What the team has done a good job of is finding the shorter-term projects, some of those renovations, those work ups. Obviously, you see some buildings that aren't as crowded right now population-wise. And so a lot of buildings are coming into the space and doing some of those renovations right now, but they've had to make those decisions quickly. So that helped us get through the quarter pretty smoothly, but the bookings, I would say, are certainly down, a lot of bidding activity, a lot of dialogue, but bookings are down right now for what would fall into this fiscal year, and that speaks to some of the back half, especially Q4, calendar first year softness.

Joseph Mondillo
Sidoti & Company, LLC

And when you look over -- I know 3, 4 months is not -- doesn't paint a huge picture. But how did -- in terms of that booking flow, did anything -- did it just sort of fall off in April and just sort of stay sort of flat line throughout the next handful of months? Or was there anything -- any sort of trends in there that give you a positive or negative indication of how things are going to play out?

James Perry
Executive VP & CFO

I wouldn't say things changed a whole lot during the quarter. We talked in May that we've seen a lot of biddings and not much bookings. We continue to say it. And again, that's not to say we haven't picked up some bookings, some for short-term projects, some for projects that are out their ways. We are very aware of a lot of projects that are underway that folks want to get nailed down. But with the uncertainty out there, I think, in some geographic areas, specifically, that just haven't turned into that. So I wouldn't say the trend has changed much. It's not an overly pessimistic view. It just hasn't turned into optimism quite yet.

Joseph Armes
Chairman, President & CEO

And Joe, this is Joe. I would say that's specifically is an area where we've been able to pick up market share where our competitors have stumbled. And so again, our financial strength, our strong execution by our team has put us in a position to win business there literally from -- directly from competitors who are having problem having problems completing projects, getting folks on the job, that type of thing. And so we're seeing some uptick there, which makes us a little more optimistic about the future as well. We do feel like we're gaining some share there, being able to prove ourselves as fantastic provider of these important products and services.

Joseph Mondillo
Sidoti & Company, LLC

And also to follow up there. I guess a couple of things. So like you said, construction is a -- has been ongoing throughout this downturn. So I think what's a lot of people are a little concerned of, and I'm sure you're looking at is that backlogs are being drained down and as the bookings just aren't replenishing that backlog. So number one, I know you had a pretty good backlog heading into the calendar year at least. So where are you with the backlog? Because the stronger that is that you can -- with -- maybe weather some of the slowness in the bookings. And then number two, could you help us understand the breakout of kind of buildings that you're selling into? I think people are certainly concerned of retail, office and hotels. So just give us an idea of sort of the breakout of that general business?

James Perry
Executive VP & CFO

Yes, this is James. We've don’t have a lot of retail. It's the standard type of things that we're looking at. The more hospitals, universities, those type of things, not as focused on the office building type of things. We do some refacing of multifamily high-rises, those type of things as well. So again, we're seeing some of that renovation work. It's just that we're picking up some work from some of the competitors that aren't able to maintain their labor force, aren't able to have the financial wherewithal that we do, given the strong balance sheet. So not much has really changed in that respect. In terms of the backlog, you kind of look at it -- we kind of look at trailing 2-year book-to-bill. It still remains above 1. But obviously, this last quarter, you saw some pull down of that backlog. It's still healthy. It's still out there. It's still good. It's still high-quality, still has good profitability in it. But we've not seen a lot of addition to that per se that's kept up with the backlog itself in that respect. So -- but again, we kind of look at that trailing 2-year because it's -- to look at a quarter-to-quarter type backlog in that business for these big projects is difficult. We've continued to take some orders, it just hadn't quite kept up. But again, optimism is always out there. But we're being careful about the projects we bid on and really being aggressive on talking to folks and at least getting in the bid process.

Joseph Mondillo
Sidoti & Company, LLC

Okay. And just -- I would have thought Smoke Guard would have a decent amount of office exposure, but you're saying overall, not a whole lot of office just overall?

James Perry
Executive VP & CFO

Well, Smoke Guard does, but you've got Smoke Guard, Balco and Greco. So you think about Greco as being a lot of high-rise residential and then its institutional business of hospitals, universities, that type of thing. Balco is going to be larger, more institutional, airports, warehouse, that type of product type and then Smoke Guard will have a combination of anything with an elevator, which does include a fair amount of office. But again, it's only a part of that business. And that's like safety, there's a recurring revenue piece at Smoke Guard. That's a little less discretionary spending, if you will.

Joseph Mondillo
Sidoti & Company, LLC

Okay. Last question for me. Just on M&A. What is the environment like for you in this downturn, especially at this point in time where at least the overall economy has maybe somewhat stabilized a little bit following a sharp fall off in April? What are your -- what are you seeing and your thoughts on M&A in the next 6 to 12 months?

James Perry
Executive VP & CFO

Yes. No, it's a great question. I think we are much more in a better position today than we were the last time we had a quarterly call like this. To make decisions around that, we've got better visibility. We think we've got an idea of how our businesses are responding. And so I think the M&A pipeline is strong. We have a strong desire to grow inorganically. We have not seen dramatic decreases in valuations. I just think debt is so cheap and available that, that has been less of an issue, and we're not really looking for distressed companies. We'd like to buy healthy companies at a fair price. But we think the opportunities are there, and we think the environment is better today than it was the last time we spoke in May because of a little better visibility and our willingness to commit capital is higher today than it was 6 or 8 weeks ago. And so we're optimistic on that front and feel like the opportunities in front of us are pretty attractive.

Operator

Our next question comes from the line of Jon Tanwanteng with CJS Securities.

Jonathan Tanwanteng
CJS Securities, Inc.

Great quarter. Just wanted a little more color on some specific segments and I guess the outlook going forward. First off, I think you mentioned that July was going strong for you, especially in the HVAC segment. Not surprising given that there's been heatwaves across the country, people are staying more indoor, as I would expect, due to the pandemic. Can you just talk about run rates in July on a year-over-year basis, number one. And number two, inventory distribution. We've seen reports of stock outs at a lot of air conditioning service providers. And I'm wondering how that fits with what you're seeing as your distributors? And if there could be a restocking tailwind longer into the future?

Joseph Armes
Chairman, President & CEO

Yes, this is Joe. I'll take the second part of the question and let James not address the first part. We've had some very small spotty outages, both from distributor side and with us. But demand is very, very strong. And as we said, we had to add additional personnel in shipping in order to meet customer demand. And so that is a great indication of the kind of strength that we're seeing in June and July in that business, and we're very, very pleased with that. And our teams are doing a great job in executing and making sure that our customers are -- have what they need. I don't think we're going to be able to talk about year-over-year. But James, what kind of color do you want to give?

James Perry
Executive VP & CFO

Yes, Jon, this is James. Yes, hard to give a lot of color other than July was very good for us in the HVAC and plumbing spaces, specifically. The other businesses continue to see roughly the same type of things we ended the quarter, but we've just started to see what July looked like on a month end basis. And we talked about April was kind of our low point, our trough, and May got better. June got better and July continued to look like June in that space. So I won't provide that specific color here in the middle of the quarter. We'll be able to kind of do a quarter look back at the end. But continue to see very strong demand for those products. And again, I can't emphasize enough how strong the team has performed in getting that -- the supply chain and the products in the door, getting it processed and really working to, as I mentioned, even increase our shipping employment base to be sure that we get it out the door to, as you said, keep those distributors stocked up as they want to be, but they continue to have demand. So that's a very favorable sign for us as we head into August.

Jonathan Tanwanteng
CJS Securities, Inc.

Got it. That's helpful. And then just from an overall consolidated perspective, Joe, you mentioned that you expect the first half to be down slightly versus last year. Given the strength that you're seeing in HVAC and maybe, call it, a steady run rate in the rest of the business, is it within your range of possible outcomes that the second quarter is up year-over-year, just doing the math?

James Perry
Executive VP & CFO

Yes. This is James. Yes. I won't correct or confirm your math from that standpoint. We always certainly push ourselves to do better each month than we did before and look at quarter-over-quarter. When we talk about the slightly below, I think you're looking at it relatively correct when we see how weak April and then the first half of May was. And so we saw it really pick up the back half of the quarter, really the last 5 or 6 weeks. And we're continuing to see that again. We continue to highlight that HVAC and plumbing space where we're seeing the strength. You're still seeing things down a bit in some of those heavier industrial businesses, as Joe talked about earlier, and we mentioned in our remarks and in the 10-Q. So again, won't confirm exactly what it looks like quarter-over-quarter, but that word slightly is very carefully used in terms of what we're seeing year-over-year at this point as we try to look at a forecast in such uncertain times.

Joseph Armes
Chairman, President & CEO

And then, Jon, you know our business very well. But then I remind you and everyone that Q3 or fiscal Q3 is typically seasonally the lowest. And so that plays into the -- our thinking on the back half of the year as well. A lot of seasonality there.

Jonathan Tanwanteng
CJS Securities, Inc.

Got it. Okay. Just wanted to get a little bit more color on the M&A front. You sounded pretty positive on the opportunity set improving. Compared to the last time you reported, you have a lot of slides in your presentation dedicated to M&A, which you didn't go over. Maybe just 2 specific questions. Are you seeing more opportunities now in terms of number of available targets? And number two, is your ability to diligence them improve versus 2 or 3 months ago, just in terms of travel and either you traveling or targets traveling and being able to see what's under the hood. Just any more color on those 2 specific topics.

Joseph Armes
Chairman, President & CEO

Yes. No, it's a great question, Jon. I think the good news is that we use the time during this pause that we had kind of in March, April, May time frame, to continue our work and so continue to fill the pipeline, continue to communicate very, very intentionally with potential targets and also to continue our work in the diligence side of things. And so things that take longer because of lack of travel and other things, we were able to get a lot done during that period of time. So we're adapting to new processes with respect to diligence. And travel is certainly still very, very limited at this point for us. But we are very pleased with the opportunity set in front of us. I would say the opportunity set in front of us is as good or better than it's been, but our willingness to transact our ability to get comfortable with looking out into the next few years and making the kind of projections and estimates that we need to make in order to convince ourselves that it's appropriate to allocate capital has really been a question of timing and valuation. It feels like those things are coming together nicely now. And so we're positive about the opportunities in front of us.

Jonathan Tanwanteng
CJS Securities, Inc.

Got it. Okay. And just switching over to architectural. I know -- it seems implied that the book-to-bill was below 1 this quarter. I know that business is lumpy. Do you see any future quarter at this point in the game where either the order rates increase or maybe you have to restructure that business as well for a lower expected run rate as people maybe get more skittish around investing in real estate.

James Perry
Executive VP & CFO

Yes, this is James. That's a good question. I don't think we'd look out and see which quarter we're going to see order activity pick up. The good thing is, as I mentioned, we continue to have a lot of dialogue with those project managers and contractors. We know the projects are or on paper and being talked about. We mentioned briefly in Joe's remarks, we've done a lot of training in that business specifically with some of the contractors and experts out in the field. They need it for their continuing education and it gives us an opportunity to educate them on our products. So there's still a lot of people wanting to see what's out there, the newest innovations, the most reliable products. And so we're having a lot of contact with those folks. I don't think, to your point, we need to necessarily reset expectations or restructure the business. We've got great leadership in that business that joined us several months ago that's looking over those building safety systems businesses. And so we're very pleased with the opportunities in front of us and the operations that we have. We've just got to go out and see these projects turn into orders and see that book-to-bill rise above 1 again. Again, one quarter doesn't make a trend, but they're holding their own and doing well, but it's probably next fiscal year before we really see that pop. Joe talked about the back half being more seasonal for us, especially in the third quarter, and we continue to remind you that when we talk about revenue and earnings being moderately lower in the back half, some of that is looking out in the third and even fourth quarter in that business specifically and seeing some softness based on the current bookings.

Operator

We have reached the end of the question-and-answer session. Mr. Armes, I would now like to turn the floor back over to you for closing comments.

Joseph Armes
Chairman, President & CEO

Great. I just want to say thank you very much. Really appreciate everyone's interest. And participation in the call today, and look forward to talking to you again next quarter.

Operator

Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation, and have a wonderful day.