

Envirostar Inc.
| NYSE/MKT: EVI |
INVESTMENT RESEARCH REPORT

"Taking Out the Dirty Laundry"

RECOMMENDATION: *Strong Sell*



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Spruce Point Capital Is An Industry Recognized Research Activist Investment Firm Founded In 2009

- Founded by Ben Axler, a former investment banker with 17 years experience on Wall Street
- Ranked the #1 Short-Seller by [Sumzero](#) after a comprehensive study of 12,000 analyst recommendations dating to 2008 (March 2015)
- Ranked the #13 Most Influential FinTweeter on Twitter according to [Sentieo](#) (Dec 2016)

Spruce Point's Activist Successes Identifying Problematic Roll-Up Acquisition Strategies

	Echo Global Logistics (Nasdaq: ECHO)	CECO Environmental (Nasdaq: CECE)	LKQ Corp (Nasdaq: LKQ)	AMTEK (NYSE: AME)
Report	9/8/16	2/13/17	1/15/14 (Prescience Point)*	11/14/14
Market Cap	\$820 million	\$430 million	\$10.1 billion	\$12.3 billion
Company Promotion	An effective roll-up acquirer in the third party logistics sector capable of extracting significant operating leverage and \$200-\$300m of revenue synergies from the Command Transportation deal	An effective roll-up acquirer serving the environmental, energy, fluid handling and filtration industrial segments. Its largest PMFG acquisition would be a success and allow for rapid delivering of its balance sheet, and renewed organic growth opportunities	Best of breed recycled auto part distributor capable of effecting a roll-up strategy and producing consistent double digit revenue and EPS growth	Best of breed roll-up in the test and measurement equipment space with world class EBITDA margins and an ability to never miss Wall St estimates through any economic cycle
Our Criticism	Echo's management team has a history of value destruction, its roll-up strategy was ineffective, its organic growth was approaching zero, and its GAAP/Non-GAAP accounting was signaling financial strain. We argued it paid a peak multiple for Command and would miss its synergy targets. We estimated 50%-60% downside risk	A poorly constructed roll-up, we argued CECO was forestalling a goodwill impairment, its cash flow would fall significantly in 2017, and it could come under covenant pressure. CECO was misportraying its true leverage, while its end markets were contracting. We estimated downside risk of 30%-60%	An ineffective roll-up by a management team with a history of financial failure (Waste Management / Discovery Zone). LKQ is caught in a gross margin squeeze being masked by relentless acquisitions, and aggressive inventory accounting open to significant mgmt judgement. Its move to Europe is an implicit acknowledgement of waning domestic growth	We argued AMETEK was not creating any value by delivering zero organic growth and that its financial statements showed signs of strain with aggressive accounting. We believed its premium valuation multiple could not be sustained as the quality of its acquisitions deteriorated
Successful Outcome	In Q2'17 ECHO cut its FY17 revenue outlook and suspended longer-term guidance given changes in its end market and failure to hit synergy targets with Command. ECHO Sell-side brokers downgraded their recommendations from Buy to Hold. ECHO's shares fell to a 52 week low of \$13, or nearly 50%	CECO took a goodwill charge in Q4'16 as predicted, and changed its presentation of its financial leverage in its investors presentation - implicitly acknowledging our criticism. Q2'17 results were significantly below expectations, it admitted continuing challenges in its end markets, and its YTD operating cash flow has evaporated. CECO's shares were downgraded, and shares fell >40%	Gross margins have declined from over 47% to 39%. The Company's successive acquisition in Europe and domestically have failed to boost its share price. LKQ's multiples have contracted significantly. Its CFO was replaced (Feb 2015) and its CEO recently stepped down (March 2017)	By early 2016, AMETEK began guiding down sales and earnings expectations for multiple quarters. Its CEO and CFO abruptly retired. Its share price fell nearly 20% from our initial report date

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* Reported produced by Prescience Point of which Spruce Point's founder was a contributing author



Executive Summary

Spruce Point “Strong Sell” Opinion On Envirostar (EVI), Sees 40% – 80% Downside

Envirostar (NYSE/MKT: EVI), formerly known as DRYCLEAN USA, is a distributor of commercial and industrial laundry and dry cleaning equipment. With its shares up >600% since 2016, it has become one of the most overvalued microcaps in the stock market as index funds blindly pile in. Investors are ascribing nonsensical multiples to its recent acquisitions, and failing to see a likely covenant breach.

Envirostar Just Another Poor Roll-Up, Close To Covenant Breach

Spruce Point has been a dogged proponent against investing in roll-up strategies, which are often just financially engineered plays designed to game index funds into overpaying for stocks, with little focus or incentive for management to create organic growth or value creation through operational improvement. We made early and successful calls identifying problematic roll-ups across many industrial sectors, AMETEK (test equipment), Greif (packaging), CECO Env’t (pollution control) and Echo Global (logistics). We view Envirostar as one of the worst + most speculative roll-up stories we’ve seen; already three quarters post closing its biggest deal of Western and EVI’s margins, profits, and cash flow are contracting. EVI must maintain quarterly profitability or risk a covenant breach. Q4 earnings of just \$0.5m put it in jeopardy of a breach

Terrible Industry Headwinds and New Tech Disruption

Envirostar’s customers include independent and franchise dry cleaning stores and chains, and coin laundromat stores and distributors. Recent industry data shows a 20% decline in laundry facilities since 2005. Industry margins have compressed as a result of urbanization and new housing offering in place wash/dryers, while rents, utilities and other fixed cost increases have squeezed operators. Meanwhile, technology and phone apps are making it easier to outsource laundry needs. This trend is causing technology intermediaries to partner with centralized laundry operators or a select few partners. We expect this consolidation trend to place further pressure on the industry. Not surprisingly, we believe this is why Envirostar is finding deals because experienced equipment operators see more problems ahead and want to sell

Questionable Management, Governance and Auditor

Envirostar is run by a relatively new CEO who has no experience in the laundry industry, yet bought into EVI in 2015. While he does own a lot of stock and appears aligned with investors, he has weak Board oversight with Directors that receive little cash pay and own no stock. For example, the CEO recently formed a new business entity called Hammer Times LLC after Q2’17 – is he getting into the rap music industry? COO Steiner also dumped shares quickly after the Western deal and formed an outside business entity. Management is not transparent, doesn’t hold conference calls, and gives limited MD&A discussion in its SEC filings. Envirostar’s auditor traces its roots to Berkovits & Co, a Florida based firm tied to at least three companies charged with fraud including: 1) \$100m INYX fraud pursued by the Dept. of Justice, 2) VOIP, charged by the SEC for fraudulent overstatement of profits, and 3) PrimEdge whose CEO was accused of bilking investors out of \$20m

Significant Overvaluation With No Room For Error

Envirostar is the most expensive and financially weakest roll-up stories we’ve ever evaluated. Be careful: Envirostar has paid an average of 0.5x sales for recent deals, yet public investors are overpaying now by 5x. At the current enterprise value of \$320m, the market is ascribing a value of 2.2x, 32x, 61x to our estimates for CY2018 sale/EBITDA/EPS results. Blue chip industrial distribution peers with significantly higher margins trade at 1x, 11x and 21x, respectively. At the current valuation, investors are discounting near perfection execution of another \$175m+ of deals, which will be a struggle to achieve given organizational strains, small deal sizes needed to push the needle, and competition from other strategic buyers. We see 40% - 80% downside risk once investors realize they own a bag of dirty laundry

Envirostar is currently trading at nearly 55x EBITDA and 101x P/E on its recent June fiscal year earnings. Assuming its recent acquisition of Tri-State closes (there is a risk it doesn't), the shares are still richly valued at 32x and 61x 2018 EBITDA and EPS. We will demonstrate that Envirostar's recent acquisitions are covering up significant underlying margin erosion and fundamental pressures, while it teeters on a covenant breach.

\$ in mm, except per share figures

	<u>FY 2017</u>	<u>Adj</u>	<u>PF Tri-State (1)</u>	<u>Street Valuation</u>	<u>FY 2017</u>	<u>CY 2017E</u>	<u>CY 2018E</u>
Envirostar's Stock Price	\$28.00		\$28.00	EV / Sales	3.2x	2.8x	2.2x
Shares Outstanding	10.5	0.3	10.8	EV / EBITDA	46.8x	54.6x	32.0x
Market Capitalization	\$293.1		\$302.6	Price / EPS	89.2x	101.3x	60.8x
\$15m Revolving Credit	\$0.0		\$0.0	Price / Book	9.1x	--	--
Term Loan	\$4.4	\$8.3	\$12.7	Net Debt / EBITDA	0.6x	2.1x	1.2x
Total Debt Outstanding	\$4.4		\$12.7				
Less: Cash and Mkt. Securities	\$0.7		\$0.7				
Enterprise Value	\$296.8		\$314.5				

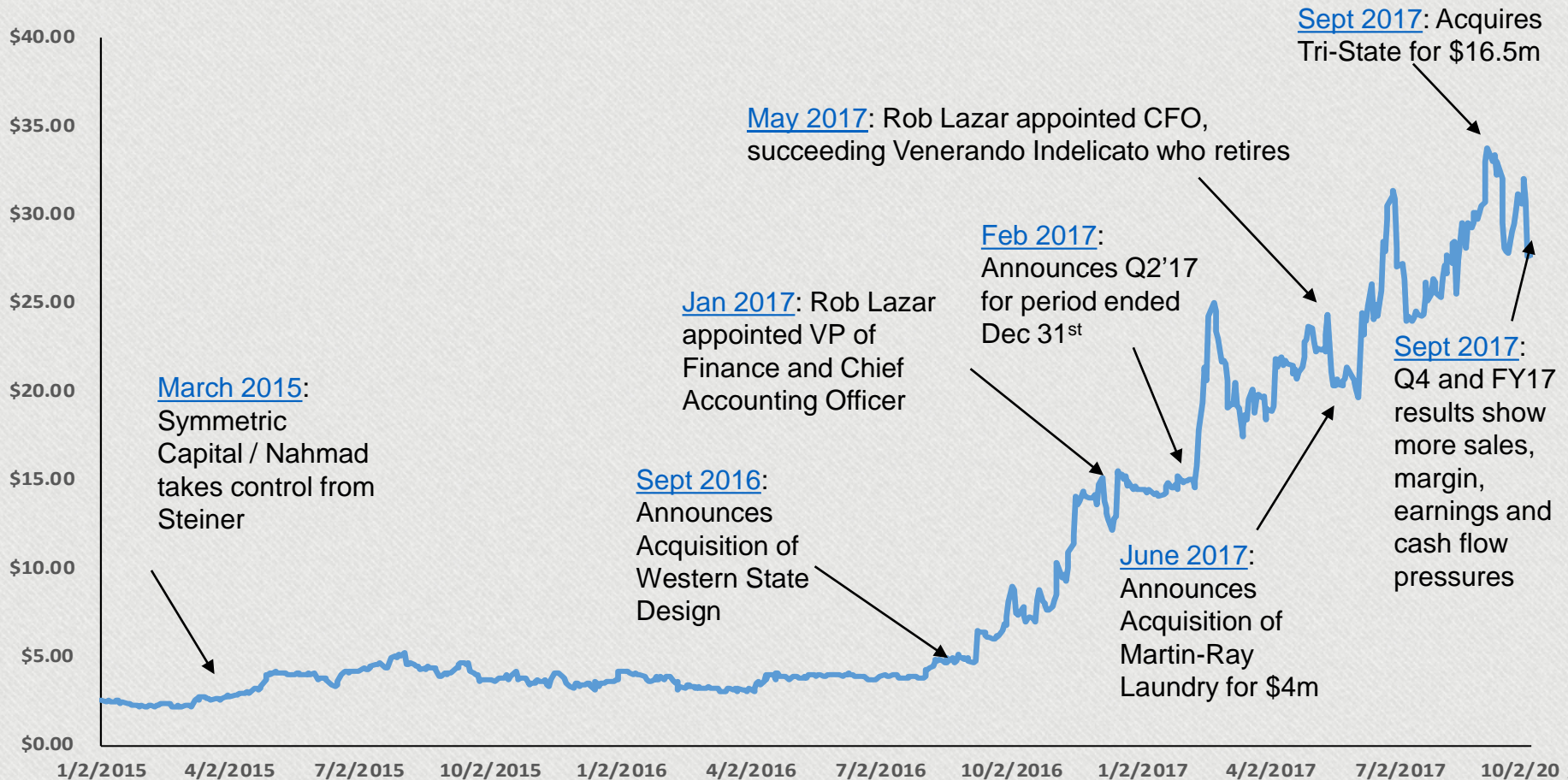
Source: Envirostar Financials and Spruce Point Estimates.

Note: Envirostar Fiscal Year Ends June 30th, Calendar Year Estimates For Dec 31st

1) Pro-forma for Tri-State acquisition announced Sept 11, 2017, which is estimated to close by the end of October. We assume the acquisition contributes 7% EBITDA and 4% profit margins, although Envirostar has offered no financial details

Envirostar's Rapid Stock Appreciation Merits Scrutiny

Envirostar's shares are up >600% since announcing three small acquisitions in 2016 and 2017. Its first acquisition of Western State Design, while transformational in size, is already showing signs of disappointment. Meanwhile, the Martin-Ray deal for \$4m at one point resulted in a nonsensical +\$130m in market value creation. Investor enthusiasm is running too far ahead of tangible earnings. We believe blind index buying of shares has also distorted the intrinsic value of Envirostar's shares.






Envirostar: Worst of Breed Roll-Up Story







Envirostar recently undertook a roll-up strategy. Its margin profile is significantly worse than recent industrial roll-up stories Spruce Point has exposed, and yet it carries an astronomical valuation. We don't expect its margins to materially improve given EVI's intention to keep each business functioning independently

Company	Report	Industry	Margin Profile		Valuation Metrics At Spruce Point Report			
			Gross Margin	EBITDA Margin	EV / Sales	EV / EBITDA	Price / EPS	Price / Book
CECO Env't (CECE)	Feb 2017	<i>Pollution control equipment</i>	32.3%	14.2%	1.2x	8.0x	13.0x	1.8x
Echo Global (ECHO)	Sept 2016	<i>Transportation and logistics</i>	18.6%	23.0%	0.6x	13.5x	23.0x	3.1x
Radiant (RLGT)	June 2017	<i>Transportation and logistics</i>	25.1%	14.7%	0.5x	11.5x	21.4x	2.6x
Greif, Inc. (GEF)	Jan 2015	<i>Paper and Packaging</i>	19.1%	9.3%	0.8x	7.2x	16.8x	2.6x
LKQ Corp (LKQ)	Jan 2014	<i>Aftermarket Auto Parts</i>	38.6%	11.7%	2.0x	15.0x	24.0x	4.5x
Ametek (AME)	Nov 2014	<i>Test and Measurement Equipment</i>	35.5%	26.0%	3.5x	13.7x	21.7x	4.0x
Average of Roll-up Peers:			30.0%	16.5%	1.4x	11.5x	20.0x	3.1x
Envirostar vs. Peers			21.6%	6.8%	2.8x	54.6x	101x	9.1x

Bull Case Narrative

-  Tremendous runway for growth given fragmented laundry equipment distribution industry
-  CEO came from Watsco a successful roll-up of HVAC distributors, and highly incentivized through significant stock ownership
-  Strong institutional ownership
-  Highly transparent and investor friendly management team
-  Ability for significant revenue and cost synergies can provide margin leverage
-  Shares are cheap and offer tremendous value for investors

Bear Case Reality

-  First few deals are small, financially weak private companies. Will have to compete for deals with larger competitors (eg: [WASH](#)). Industry headwinds, including technology, are causing a shrinking customer base
-  CEO is young and inexperienced, played a role at Watsco through family connection, has never run a public company, and has no experience in the laundry business. Directors overseeing him own no stock and can rubber-stamp bad deals with no consequence
-  Aside from a few microcap value funds (who must now be questioning what value remains after rapid valuation expansion), significant blind index fund buying is aiding overvaluation
-  Management doesn't offer quarterly conference calls, limited MD&A disclosure to discuss performance drivers, won't disclose acquired revenue contribution to obscure true organic growth
-  Each business is regional and remaining independent under its own brand. Potentially some pooled purchase savings, but none demonstrated yet as margins are decreasing. EVI spends nothing on capex / IT development
-  Valuation is nonsensical at 2.8x, 55x and 101x (sales, EBITDA, EPS) our CY 2017 estimates. Current valuation discounts perfect execution of an additional \$175+ of acquired revenue. **Already close to a covenant breach**



The Dirty Laundry on Envirostar

Envirostar: A \$300 Million Company...Right?

Welcome to Envirostar's world headquarters in Miami, FL. Its original and main operating business is under the trade name Steiner-Atlantic which sells boiler, laundry and dry cleaning products.

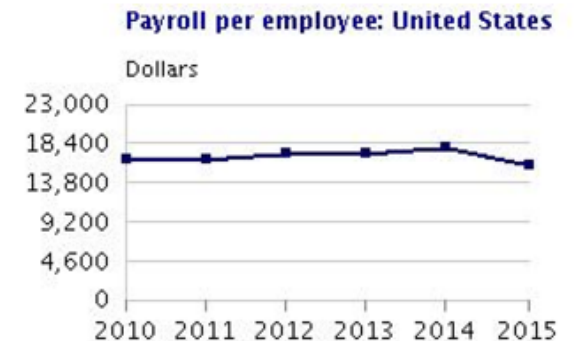
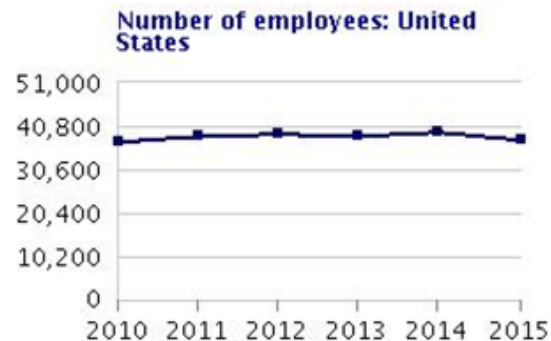
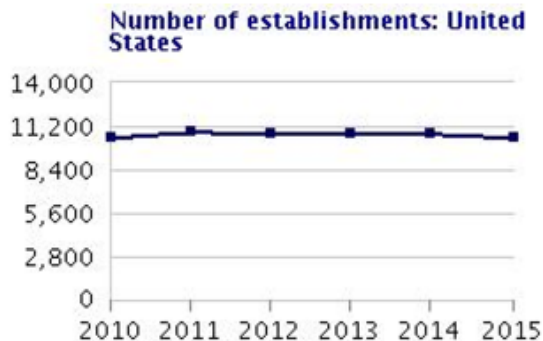


Envirostar's clients include independent and franchise dry cleaning stores, and coin operated laundromats. Government data and anecdotal evidence from a recent article in the Atlantic entitled "*The Decline of the American Laundromat*" discusses industry pressures and why laundromats are in structural decline.

US Economic Data Shows The Number of Laundry Facilities Has Declined By 20% Since 2005

- Urbanization and Development: wealth effect, urbanization and real estate development causing more apartments to come installed with washing / drying machines
- Shrinking margins: laundromat profits have been compressing from higher rents, utilities, water and sewage costs that cannot be easily offset
- Cheaper alternatives: laundromats have never been a cost effective option. As costs have fallen to own a washer / dryer, the rent vs. buy decision has tilted in favor of the customer

US Census Data Illustrates Terrible Underlying Growth For Coin-Operated Laundries and Drycleaners



Source: US Census.gov and The Atlantic, "*The Decline of the American Laundromat*" – July 31, 2017

Industry Headwind: Technology Apps

Technology is starting to disrupt the US laundry service industry. On-demand laundry apps are dis-intermediating traditional laundromats and forcing more centralization of cleaning processes. Over time, we believe these factors will lead to fewer laundromats and less demand for cleaning equipment > a major negative for Envirostar.

Cleaning App Company	Geographic Footprint
FlyCleaners / Hamperville / Boomerang	New York City
Rinse	San Francisco, LA, Washington DC, Chicago
Mint Locker	Law Vegas
Cleanly	San Francisco
Dryv	Chicago

Old Model



Emerging Model



Envirostar's Recent Deals Are Terrible, But Have Created Nonsensical Value

Envirostar's recent low quality tiny deals have unjustifiably created extraordinary market value creation. Three deals have been announced within a year – a rapid pace that suggests quantity over quality and are certain to put organizational strain on Envirostar. Given our concerns about industry issues, it should be no surprise that independent operators are looking to sell their businesses now.

\$ in millions

Deal / Date	Description	Deal Structure	Sales	EBITDA / Margin	EV / Sales	EV / EBITDA	Market Value Creation Post Announcement (1)
Tri-State Technical Services Sept 11, 2017	Georgia based distributor and service provider of commercial, industrial and vended laundry products	\$16.5m (50% cash / 50% stock)	LTM 6/30/17 \$27.0	N/A	0.61x	N/A	--
Martin-Ray / June 2, 2017	Denver, CO based distributor of commercial, industrial, and vended laundry products and provider of laundry installation and routine maintenance services	\$4m (50% cash / 50% stock)	LTM 3/31/17 \$11.5	N/A	0.35x	N/A	+\$130
Western State Digital / Oct 11, 2016	California based distributor of commercial, industrial, and coin-operated laundry products and a provider of installation and routine maintenance services	\$29.4m \$13.4m Cash / \$16m Stock	LTM 6/30/16 \$56.0	\$4.9 / 7.1%	0.52x	6.0x	+\$125

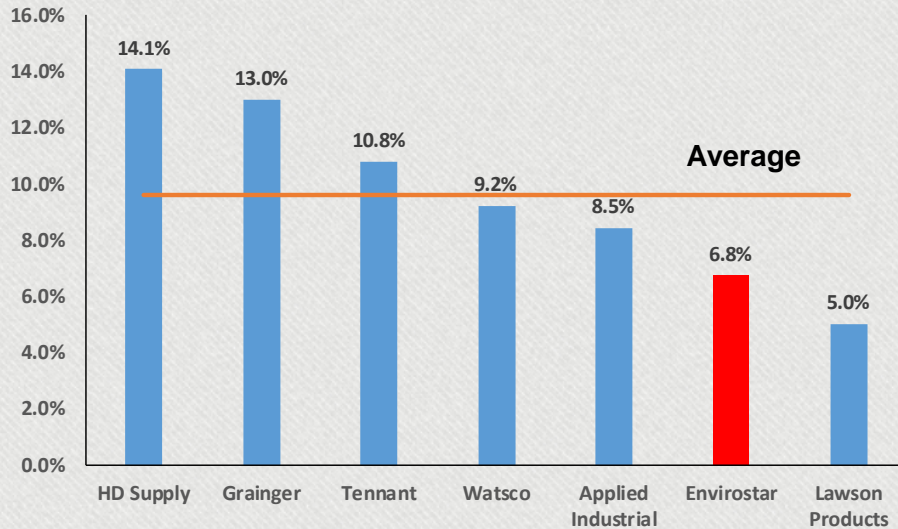
1) From time the deal was announced until the following deal was disclosed

Worst-In-Class Margins For Industrial Equipment Distributors

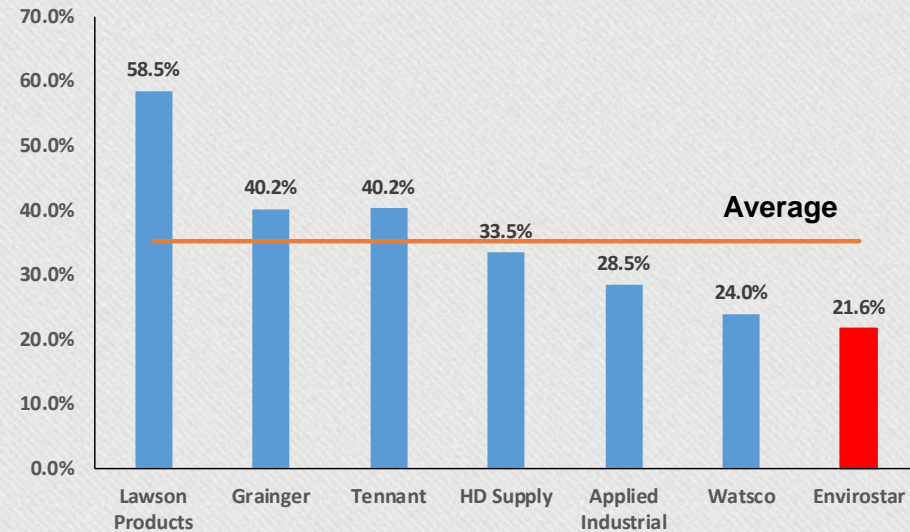
Envirostar trails its industrial distribution peers in its margins, and we don't believe its roll-up strategy will help its results improve absent it paying substantially more for higher quality businesses. The Company also invests nothing on capex or things such as technology that could help it materially reduce its costs.

Envirostar's Capex Is Laughably Small: "Investing activities used cash of approximately \$1,600 and \$58,000 for the fiscal years ended June 30, 2016 and 2015, respectively, in each case, for capital expenditures" Source: [10-K](#), p. 17

LTM EBITDA Margins



LTM Gross Margins



Source: Company Financials

Recent Financial Results Highlight Risk of Covenant Breach

Revenues and earnings are up vs. 2016 due solely to the inclusion of Western (closed 10/10/17) and Martin-Ray (closed 6/19/17), but looking closer at the results illustrates underlying weakness. Envirostar's declining profitability put it close to posting a quarterly loss, which would cause a covenant violation (1)












EVI doesn't disclose contribution of sales from acquisitions in its [10-K](#) MD&A and gives a generic statement:

"The increases in revenues and net income during fiscal 2017 are primarily attributable to the results of operations of Western State Design following the Western State Design Acquisition"

However, it is clear that there's been fundamental deterioration in the business:

- Western was generating \$17.2m of sales per quarter as of June 30, 2016 (2). If you remove \$34.4m of sales from the Q3/Q4 2017 sales (total \$16.7m) and compare against EVI's Q3/Q4 2016 sales (total \$21.2m), revenues are down 21%!
- Adjusted EBITDA margins have been declining for well over a year
- Cash flow from operations turned negative in Q4 after having been positive

Envirostar's Financial Covenants Prohibit It From Posting a Quarterly Loss. Recent Q4'17 Results Put It Close...

\$ in millions	March 31 Q3'16	June 30 Q4'16	FY 16 Ended June 30	Dec 31 Q2'17 *	Mar 31 Q3'17	June 30 Q4'16**
Total Sales <i>QoQ growth</i>	\$12.8 48%	\$8.4 -34%	\$36.0 NM	\$33.4 NM	\$24.7 -26%	\$26.5 7%
Gross Profit <i>% margin</i>	\$2.8 22.3%	\$2.1 24.4%	\$8.2 22.8%	\$7.1 21.2%	\$19.1 22.6%	\$20.8 21.4%
Adj. EBITDA <i>% margin</i>	\$1.3 9.8% 	\$0.7 8.5% 	\$2.9 7.9%	\$2.4 7.2% 	\$1.8 7.1% 	\$1.2 4.4% 
Cash from Ops. <i>% of sales</i>	(\$1.6) 12.9%	\$1.0 11.7%	\$1.4 4.0%	\$4.0 11.9% 	\$2.1 2.0% 	(\$1.0) -3.9% 
Diluted EPS	\$0.11	\$0.04	\$0.25	\$0.13 	\$0.08 	\$0.05 

1) EVI's [Credit Agreement Letter](#) and [Credit Agreement](#)

2) Based on LTM sales of \$69.1m per [8-K](#)

* Western Closed Oct 10th

** Martin-Ray Closed June 19th

In most businesses, the customers are charged for shipping costs and companies price the cost at break-even, or in some cases make money by marking-up shipping costs. Generally, we find that the ultra-competitive retail space often absorbs shipping costs to stay competitive. Western's business is so bad that it loses money on shipping products to its customers.

Western State Design, Inc.
Notes to Financial Statements
For the 6-Month Periods Ended June 30, 2016 and 2015 (Unaudited) and
the Years Ended December 31, 2015, 2014 and 2013

NOTE 9 - SHIPPING REVENUES AND COSTS

Shipping revenues were \$657,212 and \$505,548 for the 6-month periods ended June 30, 2016 and 2015 (Unaudited), respectively, and \$1,154,551, \$1,372,401 and \$1,061,637 for the years ended December 31, 2015, 2014, and 2013, respectively. Shipping costs were \$905,124 and \$629,571 for the 6-month periods ended June 30, 2016 and 2015 (Unaudited), and \$1,436,239, \$1,747,951 and \$1,438,136 for the years ended December 31, 2015, 2014 and 2013, respectively.

Source: Western Financial Statements Filed as an [8-K](#), October 28, 2016

Note: According to Envirostar's own terms on its [website](#) for its largest business Steiner-Atlantic, "Purchaser shall pay all freight, cartage and handling charges from the factory where the machinery and equipment have been manufactured."

Quick Insider Selling By Former CEO After The Western Deal A Negative Signal

Michael Steiner EVI's long-time former CEO and now COO was quick to sell off 16% of his total shareholding not long after the Western deal was closed and the stock was in the \$14/share price range. With his current package, he receives no further equity or options as part of his compensation. He recently formed a new outside business venture called Gibraltar Capital Group (undisclosed in the 10-K).
How focused is he on operating Envirostar?

Steiner Stock Sales	Date of Sales	Total Shares	Avg. Sale Price	Net Proceeds
Mike Steiner / EVP COO	12/6/16 – 12/8/16	94,625	\$14.23	\$1.35
Mike Steiner / EVP COO	12/4/16 – 12/15/16	5,375	\$13.94	\$0.07
Total Sales:		100,000	\$14.21	\$1.4

Steiner Compensation	Fiscal Yr.	Total Shares	Stocks and Option Compensation	All Other Compensation
Mike Steiner / EVP COO	2016	\$250,000	\$0	\$6,615
	2015	\$476,980	\$0	\$1,924
Source: Proxy Statement		Total :	\$0	\$8,539

Steiner's New Outside Business Venture Recently Formed

Date Formed	Active Entity	Business Entity	Business Purpose
6/27/17	Yes	Gibraltar Capital Group LLC	Unknown

Many of the Directors are recent appointees, young, and with little experience tied to the laundry industry. Director compensation is tiny and they collectively own no stock, so have nothing at risk if the venture fails. Investors should worry that management has little oversight, especially when it comes to outside business dealings

DIRECTOR COMPENSATION

The independent members of the Board of Directors recommend director compensation to the full Board of Directors, and the Board of Directors approves director compensation, based on factors considered to be appropriate, market conditions and trends, and the recommendations of management. Each non-employee director of the Company currently receives a fee of \$5,000 per year. Each member of the Audit Committee receives an additional fee of \$5,000 per year for his service on the Audit Committee. Directors are also reimbursed for out-of-pocket expenses incurred in connection with performing their duties. Directors of the Company who are also employees of the Company do not receive compensation for their service as directors, but are reimbursed for any out-of-pocket expenses incurred in connection with performing their duties as directors.

Director Compensation Table

The following table sets forth certain information regarding the compensation paid to each individual who served as a non-employee director of the Company during the fiscal year ended June 30, 2016 in consideration for his service on the Board (and, if applicable, the Audit Committee) during the year.

Name	Fees Earned or Paid in Cash	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation	Total
David Blyer	\$ 10,000	—	—	—	—	—	\$ 10,000
Lloyd Frank ⁽¹⁾	\$ 2,500	—	—	—	—	—	\$ 2,500
Alan M. Grunspan	\$ 10,000	—	—	—	—	—	\$ 10,000
Hal M. Lucas ⁽²⁾	\$ 2,500	—	—	—	—	—	\$ 2,500
Todd Oretsky	\$ 5,000	—	—	—	—	—	\$ 5,000

(1) Mr. Frank retired from Board service, effective November 13, 2015.

(2) Mr. Lucas was elected to the Board on November 13, 2015.

Source: [Proxy Statement](#)

CEO Outside Business Interests?

The CEO is now flush and controls ~\$200m of inflated stock value.
What better to do than start a new business and call it Hammer Time!

Detail by Officer/Registered Agent Name

Florida Limited Liability Company
HAMMER TIMES LLC

Filing Information

Document Number L17000042859

FEI/EIN Number NONE

Date Filed 02/23/2017

Effective Date 02/20/2017

State FL

Status ACTIVE

Principal Address

1210 95 STREET
BAY HARBOR ISLANDS, FL 33154

Mailing Address

1210 95 STREET
BAY HARBOR ISLANDS, FL 33154

Registered Agent Name & Address

NAHMAD, HENRY M
1210 95 STREET
BAY HARBOR ISLANDS, FL 33154



Either the CEO is getting into the construction business needing hammers, or the rap music business after [MC Hammer](#)



Right after [Q2 results](#) on Feb 13, 2017



A home address, not a corporate address of Envirostar

Envirostar A Former Berkovits & Co Client, Linked To Three Frauds

Envirostar was formerly named DRYCLEAN USA. Its auditor was Berkovits & Co, LLP a firm that was tied to numerous financial frauds including: 1) [VOIP Inc](#) charged by the SEC for falsifying earnings, 2) [Inyx](#) charged by the US Dept. of Justice in a \$100m fraud, and 3) PrimeEdge, whose CEO was charged with fraud ([1](#), [2](#))

Changed name to
Envirostar in 2009

Board of Directors and Shareholders of
DRYCLEAN USA, Inc. and Subsidiaries:
Miami, Florida

We have audited the accompanying consolidated balance sheets of DRYCLEAN USA, Inc. and Subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, cash flows, and equity for the years then ended, and our opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board ("PCAOB"). Our audits included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as evaluating the overall financial statement presentation and the effectiveness of internal control over financial reporting. Our audits included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as evaluating the overall financial statement presentation and the effectiveness of internal control over financial reporting.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of DRYCLEAN USA, Inc. and Subsidiaries as of June 30, 2008 and 2007 and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Berkovits & Company, LLP

Fort Lauderdale, Florida
August 25, 2008

SEC on VOIP

On the basis of this Order and Respondent's Offer, the Commission finds² that:

A. SUMMARY

VoIP Inc. ("VoIP" or "the Company") is a telecommunications company based in Altamonte Springs, Florida. Among other things, VoIP fraudulently overstated its revenues and understated its net losses for the year ended December 31, 2004, through a series of phony sales and sham transactions, in violation of generally accepted accounting principles ("GAAP"). As engagement partner for Berkovits & Co, LLP (a Berkovits, Lago & Co. ("BLC")), Lago supervised BLC's annual audit of VoIP's 2004 financial statements. In March 2005, BLC issued an audit report, signed by Lago, containing an unqualified audit opinion on VoIP's 2004 financial statements. In supervising the audit, Lago did not adequately perform his work in accordance with the auditing standards of the Public Company Accounting Oversight Board ("PCAOB"). With regard to certain audit items in the 2004 audit, he did not adequately plan and supervise the audits, did not obtain sufficient competent evidential matter, did not maintain an attitude of professional skepticism, and did not ensure adequate work paper documentation. Lago thereby engaged in improper professional conduct in connection with BLC's audit of VoIP's 2004 financial statements within the meaning of Rule 102(e)(ii).

B. RESPONDENT

Lago, 47, is a resident ofventura, Florida. Until September 2007, Lago was a partner of a Fort Lauderdale, Florida firm, BLC, and, from 2004 to September 2007, served as the engagement partner for the firm's annual audits of VoIP. In September 2007, Lago left BLC to become a partner for another accounting firm. Lago is a certified public accountant and has been licensed to practice in the state of Florida since 1983.

C. OTHER RELEVANT ENTITY

VoIP is a Texas corporation with principle executive offices in Altamonte Springs, Florida. VoIP provided voice-over-Internet telecommunication services to retail and wholesale customers. VoIP's common stock has been registered pursuant to Section 12(g) of the Securities Exchange Act of 1934 ("Exchange Act") since January 19, 2000. From April 2004 through July 2007, VoIP's stock traded on the Over-The-Counter Bulletin Board. It is currently quoted on the Pink Sheets disseminated by Pink OTC Markets, Inc. VoIP closed its offices in Altamonte Springs and ceased the majority of its operations in February 2008.

² The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Berkovits – Inyx's Auditor

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

THE PENNSYLVANIA AVENUE FUNDS,
individually and on behalf of all others similarly
situated,

Plaintiff,

08 Civ. 6857 (PKC)

-against-

MEMORANDUM
AND ORDER

INXY INC., JACK KACHKAR, STEVEN
HANDLEY, RIMA GOLDSCHMIDT, JAY M.
GREEN and BERKOVITS & COMPANY LLP,
Defendants.

P. KEVIN CASTEL, District Judge:

David Lenington, lead plaintiff, brings this action under sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act"), 15 U.S.C. §§ 78j(b) and 78t(a), and SEC Rule 10b-5, 17 C.F.R. § 240.10b-5, on behalf of himself and all others who purchased the securities of Inyx, Inc. ("Inyx"), between April 1, 2005 and July 2, 2007 (the "Class Period"). Inyx filed a motion to dismiss, as did three of its current or former officers, Jack Kachkar, Rima Goldschmidt and Jay M. Green (the "Individual Moving Defendants"). Inyx's auditor, Berkovits & Company LLP, formerly known as Berkovits, Lago & Company LLP ("Berkovits") filed a separate motion to dismiss. Defendant Steven Handley has not answered or otherwise appeared. For the reasons stated below, Berkovits's motion to dismiss is granted and Inyx and the Individual Moving Defendants' motion to dismiss is granted in part and denied in part.

Who's Looking After EVI's Books?

Berkovits eventually merged Mallah Furman ([source](#)); Mallah's last PCAOB inspection report noted: "*Certain of the deficiencies identified were of such significance that it appeared to the inspection team that the Firm, at the time it issued its audit report, had not obtained sufficient appropriate audit evidence to support its opinion that the financial statements were presented fairly, in all material respects.*" Mallah Furman just merged with a larger regional firm named EisnerAmper, which has an even worse record and was cited for problems in five issuer clients recently ([source](#)). Today, Berkovits is still with EisnerAmper ([source](#))

Mallah Furman



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October 1, 2015
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financial reporting framework. In other words, in these audits, the auditor issued an opinion without satisfying its fundamental obligation to obtain reasonable assurance about whether the financial statements were free of material misstatement.

The fact that one or more deficiencies in an audit reaches this level of significance does not necessarily indicate that the financial statements are misstated. It is often not possible for the inspection team, based only on the information available from the auditor, to reach a conclusion on those points.

Whether or not associated with a disclosed financial reporting misstatement, an auditor's failure to obtain the reasonable assurance that the auditor is required to obtain is a serious matter. It is a failure to accomplish the essential purpose of the audit, and it means that, based on the audit work performed, the audit opinion should not have been issued.⁴

The audit deficiencies that reached this level of significance are described below--

Issuer A

- (1) the failure to perform sufficient procedures to test the capitalized cost included in inventory (AS No. 13, paragraph 8, and AS No. 15, paragraph 27); and
- (2) the failure to perform sufficient procedures to test the valuation of derivatives (AU 326, paragraphs .26 and .28).

⁴ Inclusion in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the Firm's attention. Depending upon the circumstances, compliance with PCAOB standards may require the Firm to perform additional audit procedures, or to inform a client of the need for changes to its financial statements or reporting on internal control, or to take steps to prevent reliance on its previously expressed audit opinions. The Board expects that firms will comply with these standards, and the inspections staff may include in its procedures monitoring or assessing a firm's compliance.



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October 1, 2015
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Issuer B

- (1) the failure to perform sufficient procedures to test the occurrence and valuation of revenue, including the use of sampling with an inadequate sample size developed without consideration of appropriate factors (AU 350, paragraphs .23 and .23A);
- (2) the failure to perform sufficient procedures to test the capitalized cost included in inventory (AS No. 13, paragraphs 8 and 11, and AS No. 15, paragraph 27); and
- (3) the failure to perform sufficient procedures to test the existence of accounts receivable (AS No. 13, paragraph 8).

B. Auditing Standards

Each deficiency described above could relate to several applicable provisions of the standards that govern the conduct of audits, including both the paragraphs of the standards that are cited at the end of each description of the deficiency included in Part I.A of this report and one or more of the specific paragraphs discussed below.

Many audit deficiencies involve a lack of due professional care. AU 230, *Due Professional Care in the Performance of Work* ("AU 230"), paragraphs .02, .05, and .06, requires the independent auditor to plan and perform his or her work with due professional care and sets forth aspects of that requirement. AU 230, paragraphs .07 through .09, and Auditing Standard ("AS") No. 13, *The Auditor's Responses to the Risks of Material Misstatement* ("AS No. 13"), paragraph 7, specify that due professional care requires the exercise of professional skepticism. These standards state that professional skepticism is an attitude that includes a questioning mind and a critical assessment of the appropriateness and sufficiency of audit evidence.

AS No. 13, paragraphs 3, 5, and 8, requires the auditor to design and implement audit responses that address the risks of material misstatement, and AS No. 15, *Audit Evidence* ("AS No. 15"), paragraph 4, requires the auditor to plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for the audit opinion. Sufficiency is the measure of the quantity of audit evidence, and the quantity needed is affected by the risk of material misstatement (in the audit of financial statements) and the quality of the audit evidence obtained. The

EisnerAmper



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Inspection of EisnerAmper LLP
May 25, 2017
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B.1. List of Specific Auditing Standards Referenced in Part I.A.

The table below lists the specific auditing standards that are referenced in Part I.A of this report, cross-referenced to the issuer audits for which each standard is cited.

PCAOB Auditing Standards	Issuers
AS 2201, <i>An Audit of Internal Control Over Financial Reporting That is Integrated with An Audit of Financial Statements</i>	A, B, and D
AS 2301, <i>The Auditor's Responses to the Risks of Material Misstatement</i>	A, B, and E
AS 2315, <i>Audit Sampling</i>	A and B
AS 2501, <i>Auditing Accounting Estimates</i>	A
AS 2605, <i>The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements</i>	C

C. Information Concerning PCAOB Inspections that is Generally Applicable to Triennially Inspected Firms

A Board inspection includes a review of certain portions of selected audit work performed by the inspected firm and a review of certain aspects of the firm's quality control system. The inspections are designed to identify deficiencies in audit work and defects or potential defects in the firm's system of quality control related to the firm's audits. The focus on deficiencies, defects, and potential defects necessarily carries through to reports on inspections and, accordingly, Board inspection reports are not intended to serve as balanced report cards or overall rating tools. Further, the inclusion in an inspection report of certain deficiencies, defects, and potential defects should not be construed as an indication that the Board has made any determination about other aspects of the inspected firm's systems, policies, procedures, practices, or conduct not included within the report.




Valuation and Price Target

Mostly Index Funds Driving EVI's Share Price, Not Fundamental Institutions

There is no sell-side equity research covering EVI that is guiding investor decision-making. Aside from a few “value” investors that were early to the story, most of the recent and largest activity is nothing more than index buying small allocations.

Welcome to the new order of investing on Wall Street – intelligent, non-conviction, blind buying

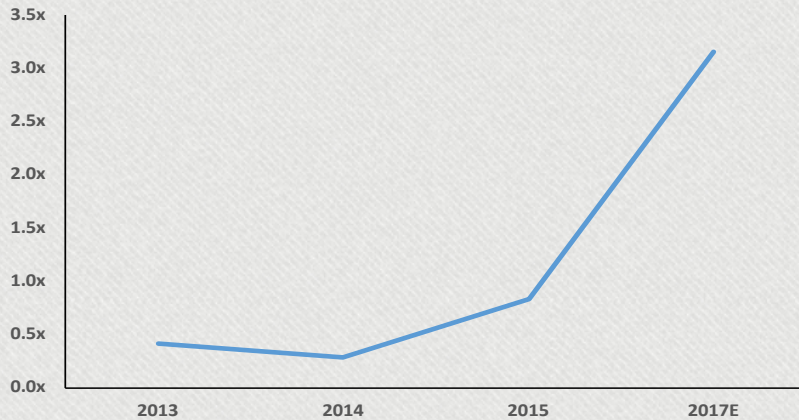
No Conviction Buyers

Asset Manager	% of EVI Shares Held	% of Total Fund Assets	New Position 	Orientation
Northern Trust Russell 2000 Index	0.09%	0.00%	June 30, 2017	Index
Schwab Small Cap Index	0.08%	0.01%	June 30, 2017	Index
CREF Stock R1	0.07%	0.00%	June 30, 2017	Index
Vanguard 2000 Growth Index	0.05%	0.01%	June 30, 2017	Index
Vanguard Total Stock Mkt Index	0.05%	0.00%	June 30, 2017	Index
BlackRock Russell 2000 Index	0.05%	0.00%	June 30, 2017	Index
Fidelity Spartan Index	0.04%	0.00%	June 30, 2017	Index
BlackRock Russel 2500 Index	0.04%	0.00%	June 30, 2017	Index
TIA-CREFF Small Cap Blend Index	0.04%	0.00%	June 30, 2017	Index
LVIP Ssga Small Cap Index	0.03%	0.01%	June 30, 2017	Index

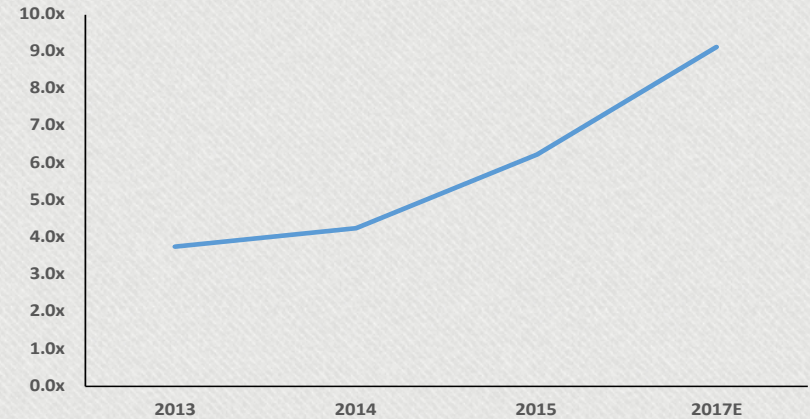
Peak Valuation Distorted By Recent Index Buying

The current valuation discounts perfect execution and another \$175m+ of acquisitions, yet ignores the growing risk of a covenant breach from a quarterly loss.

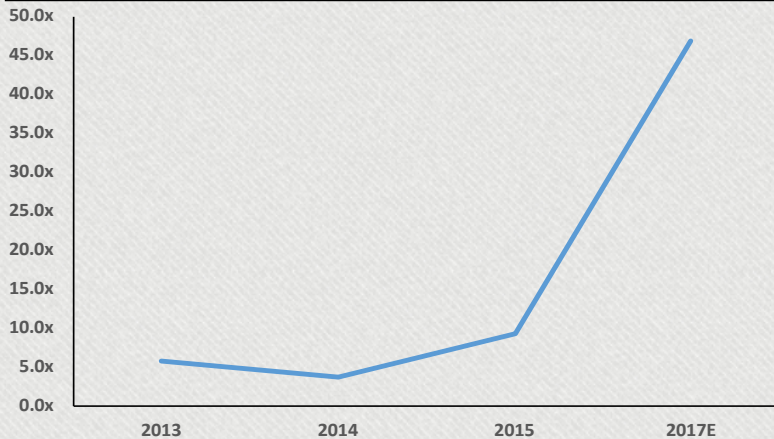
EV / LTM Sales



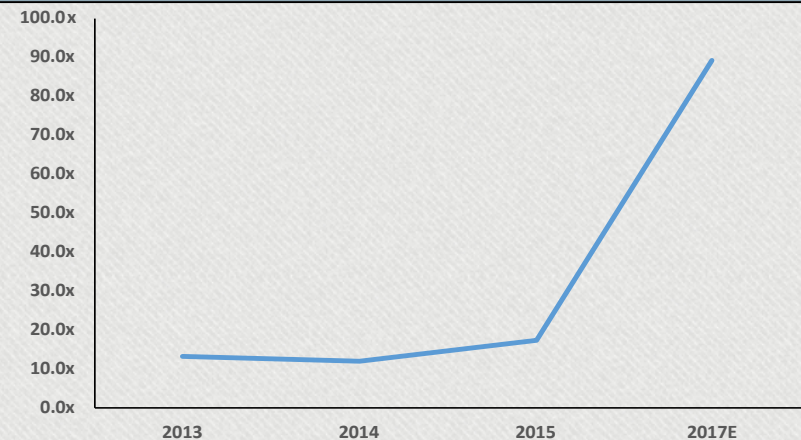
Price / Book Value



EV / LTM EBITDA



Price / LTM EPS



In Jan 2014, CSC ServiceWorks completed the acquisition of Mac-Gray for \$21.25/share or \$584m (1). Mac-Gray was the second largest laundry facilities management contractor in the US. We believe Mac-Gray is a significantly higher quality business in the laundry industry with >20% EBITDA margins and more stable revenue. The forward valuation multiples of Sales, EBITDA, and EPS implied by the transaction (1.5x, 6.7x, 16.5x) illustrate why we believe Envirostar is significantly overvalued

\$ in millions, except per share amounts

Mac-Gray Management Financials	2013E	2014E	2015E
<u>Without Acquisitions</u>			
Sales	\$333	\$348	\$364
% growth	1.8%	4.5%	4.6%
EBITDA	\$71	\$79	\$85
% margin	21%	23%	23%
GAAP EPS	\$0.80	\$1.20	\$1.41
<u>Valuation Multiples</u>			
EV/Sales	1.8x	1.7x	1.6x
EV/EBITDA	8.2x	7.4x	6.9x
P/E	26.6x	17.7x	15.1x
<u>With Acquisitions</u>			
Sales	\$344	\$381	\$413
% growth	5.2%	10.8%	8.4%
EBITDA	\$75	\$87	\$99
% margin	22%	23%	24%
GAAP EPS	\$0.90	\$1.29	\$1.62
<u>Valuation Multiples</u>			
EV/Sales	1.7x	1.5x	1.4x
EV/EBITDA	7.8x	6.7x	5.9x
P/E	23.6x	16.5x	13.1x

Envirostar's Extreme Relative Valuation

There are no pure public comparables to Envirostar in the laundry and dry cleaning sector. However, since most of its business is distribution of products to commercial and industrial customers, its equity value is best evaluated relative to other industrial distributors with comparable margin profiles. Higher quality peers with organic growth trade at 1.0x – 1.3x sales, 10x – 11x EBITDA, and 3x – 5x price / book value. Envirostar's growth is all acquired, and its valuation is nonsensical in light of the subpar businesses it is acquiring.

\$ in millions except per share amounts

Company (Ticker)	Stock Price 10/2/2017	% of 52-wk High	Enterprise Value	2017E - 2018E		Price / Consensus EPS		Enterprise Value				Net Debt/ 2018E		Dividend Yield
				Revenue Growth	EPS Growth	2017E	2018E	EBITDA		Sales		Price / Book	EBITDA	
W.W. Grainger (GWW)	\$182.22	69%	\$12,667	4.7%	5.5%	17.6x	16.7x	9.4x	9.1x	1.2x	1.2x	5.9x	1.5x	2.8%
HD Supply (HDS)	\$36.92	83%	\$8,537	5.3%	27.6%	16.7x	13.1x	12.0x	11.1x	1.7x	1.6x	6.1x	2.1x	0.0%
Watsco (WSO)	\$163.23	100%	\$6,068	4.6%	11.2%	28.2x	25.4x	15.0x	14.5x	1.4x	1.3x	5.4x	0.8x	3.1%
Applied Industrial (AIT)	\$66.80	97%	\$2,795	4.6%	-1.2%	20.6x	20.9x	12.5x	11.5x	1.1x	1.0x	3.7x	0.8x	1.7%
Tennant Co (TNC)	\$67.70	88%	\$1,564	8.0%	25.4%	29.7x	23.7x	14.8x	12.5x	1.6x	1.5x	4.3x	2.9x	1.2%
Lawson Products (LAWS)	\$25.40	90%	\$221	4.8%	38.9%	47.0x	33.9x	14.9x	12.7x	0.8x	0.7x	3.6x	-0.2x	0.0%
			Max	8.0%	38.9%	47.0x	33.9x	15.0x	14.5x	1.7x	1.6x	6.1x	2.9x	3.1%
			Average	5.3%	17.9%	26.6x	22.3x	13.1x	11.9x	1.3x	1.2x	4.9x	1.3x	1.5%
			Min	4.6%	-1.2%	16.7x	13.1x	9.4x	9.1x	0.8x	0.7x	3.6x	-0.2x	0.0%
Envirostar (EVI)	\$28.00	78%	\$315	26.7%	66.6%	101.3x	60.8x	54.6x	32.0x	2.8x	2.2x	10.2x	1.2x	0.4%

Source: Company financials, Wall St. and Spruce Point estimates

We arrive at our price targets by using various valuation methods. These target prices assume Tri-State closes.

\$ in millions, except per share amounts

Valuation	Low Price	High Price	Note
<u>Sales Multiple Method</u>			
Sales Multiple	0.8x	1.3x	EVI has paid 0.5x revenues for its three recent acquisitions. Even if we give them a full multiple inline with industrial distribution peers to reflect their (inorganic) revenue growth, we still arrive at minimum of 50% downside
PF 2018E Sales	\$144.0	\$150.0	
<u>Enterprise Value</u>	<u>\$115.2</u>	<u>\$195.0</u>	
Less: Debt	(\$12.7)	(\$12.7)	
Plus: Cash	\$0.7	\$0.7	
<u>Diluted Shares</u>	<u>10.8</u>	<u>10.8</u>	
Price Target	\$9.60/sh	\$17.00/sh	
% Downside	-65%	-40%	
<u>EBITDA Multiple Method</u>			
EBITDA Multiple	9.0x	11.0x	Our multiple range is supported by the fact that Mac-Gray was acquired for 8x and 10x. On average the peers are priced at 12x 2018E EBITDA, but EVI should trade at a discount given its inferior (and declining) EBITDA margins
PF 2018E EBITDA	\$9.0	\$11.0	
<u>Enterprise Value</u>	<u>\$81.0</u>	<u>\$132.0</u>	
Less: Debt	(\$12.7)	(\$12.7)	
Plus: Cash	\$0.7	\$0.7	
<u>Diluted Shares</u>	<u>10.8</u>	<u>10.8</u>	
Price Target	\$6.40	\$11.10	
% Downside	-77%	-60%	
<u>Sum of Parts Method</u>			
Enterprise Value		\$74.5	\$74.5m enterprise value consists of EVI's legacy business historically valued at \$25m, Western acquired for \$29m (2016), Martin-Ray (2017) for \$4m and Tri-State for \$16.5 (2017). Given each business operates independently and there are no demonstrated synergies, we believe this is a justified approach
Less: Debt		(\$12.7)	
Plus: Cash		\$0.7	
<u>Diluted Shares</u>		<u>10.8</u>	
Price Target		\$5.80	
% Downside		-79%	