

# ADW Capital Management, LLC

## EnviroStar: History Doesn't Repeat Itself, But it Often Rhymes

EnviroStar (NYSE:EVI)

October 2018

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# EnviroStar – Investment Overview

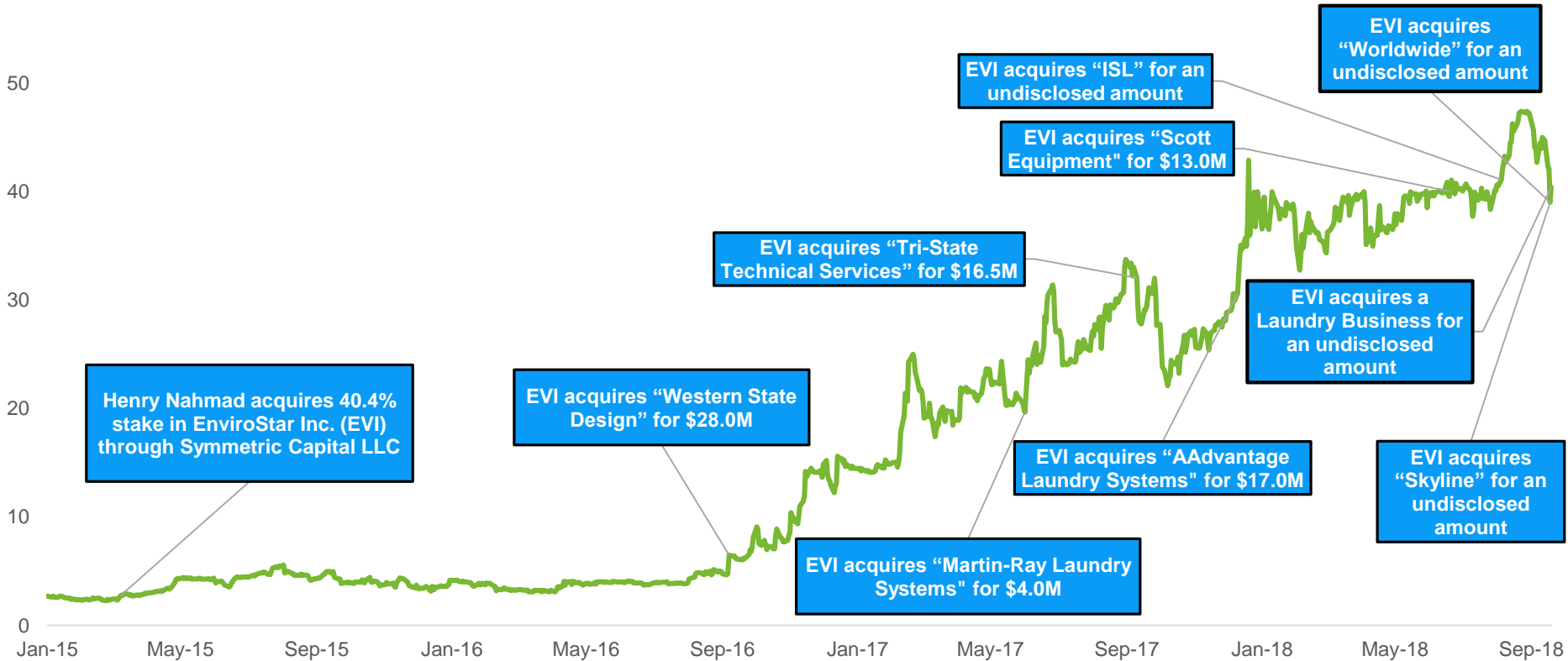
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(NYSE:EVI)

- Distributes & services industrial and commercial laundry, dry-cleaning, steam & hot boiler equipment
- Owner operator: Chairman & CEO, Henry Nahmad controls ~70% of the Company
- High quality moat business focused on deploying capital towards a “buy-and-build strategy” in a fragmented industry with very attractive returns on invested capital and **natural cost & revenue synergies**
- At the current share price, we believe **the market is significantly underpricing EnviroStar’s growth opportunity and normalized earnings power – creating enormous asymmetry**
- **We believe Henry Nahmad is in the early innings of creating monumental shareholder value over a multi-decade period**

# A Timeline Of Mr. Nahmad's Deal Making So Far



Source: Capital IQ

**An investment in EnviroStar on the day Henry Nahmad took control of the company and began executing on his "buy and build" strategy has yielded an 11x return**

# Buy-And-Build Strategy: A Family Affair

- CEO, Henry Nahmad is utilizing the “buy-and-build” playbook from his experience as Head of M&A at HVAC/R distributor Watsco (NYSE:WSO) – run by his uncle Albert Nahmad
  - **Since initiating his buy-and-build strategy in 1990, Albert Nahmad generated a ~100x return for shareholders**
  - Watsco used a mix of cash and stock to grow accretively – using their stock as a currency and purchasing assets at 4-6x EBITDA
  - Over time, Watsco leveraged their “buy-and-build” expertise to expand into complimentary businesses, gain market share and grab new geographies
  - Albert Nahmad’s strategy ultimately **grew free cash flow by ~50x while only growing debt and shares outstanding by ~6x**
- **Since taking control of EnviroStar, Henry Nahmad has been a disciplined acquirer – paying on average only ~5x EBITDA and replicating his uncle’s PROVEN strategy**
  - Financed acquisitions with a mix of cash and stock - issuing shares to buy high-quality assets with opportunities for growth at 4-6x – with sellers typically staying on board to run their own division
  - By sharing corporate level resources with its local leadership, the Company will continue building significant value for acquired businesses

**Henry Nahmad has already spent over 3.5 years building an acquisition pipeline that can fuel the Company’s growth for many years to come**

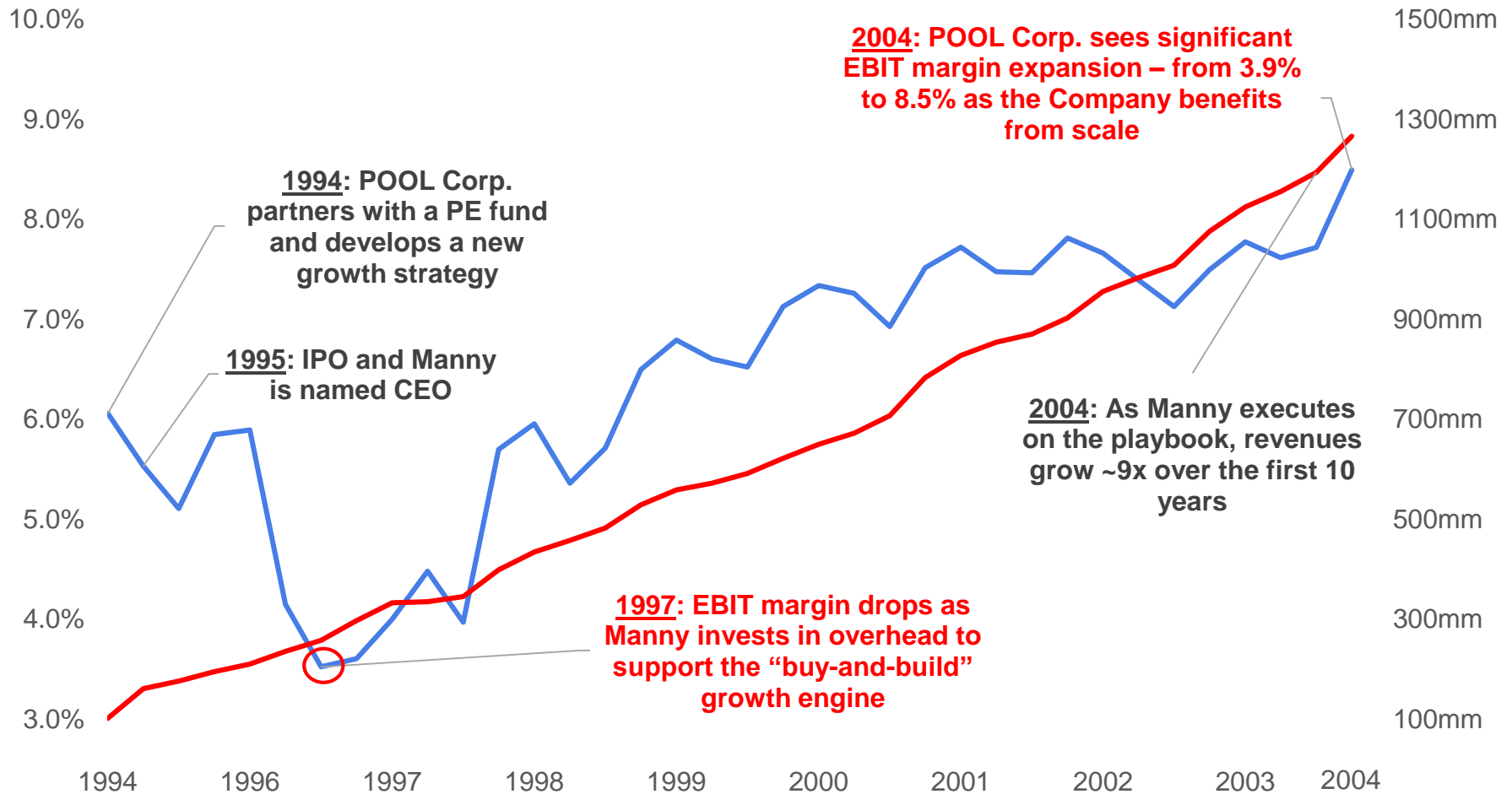
# Analogies to POOL Corp. (NYSE:POOL)

- In 1995, pool equipment distributor, POOL Corp. became a publicly traded company under the control of “Watsco Cub”, Manuel Perez de la Mesa (“Manny”), former VP of Distribution Operations at Watsco
  - POOL served as a platform to initiate the established “buy-and-build” playbook
  - Under Manny’s leadership POOL has become the world’s largest distributor of pool supplies – effectively replicating Watsco’s strategy of growing through disciplined and accretive acquisitions
  - **Since his appointment as CEO, Manny has made over 30 acquisitions to expand POOL’s product offering, gain market share, and grab new geographies**



**Under Manny Perez de la Mesa’s leadership, POOL’s successful “port-over” of Watsco’s “buy-and-build” playbook has yielded ~183x return for shareholders**

# POOL Corp. – The First 10 Years: 1994 - 2004

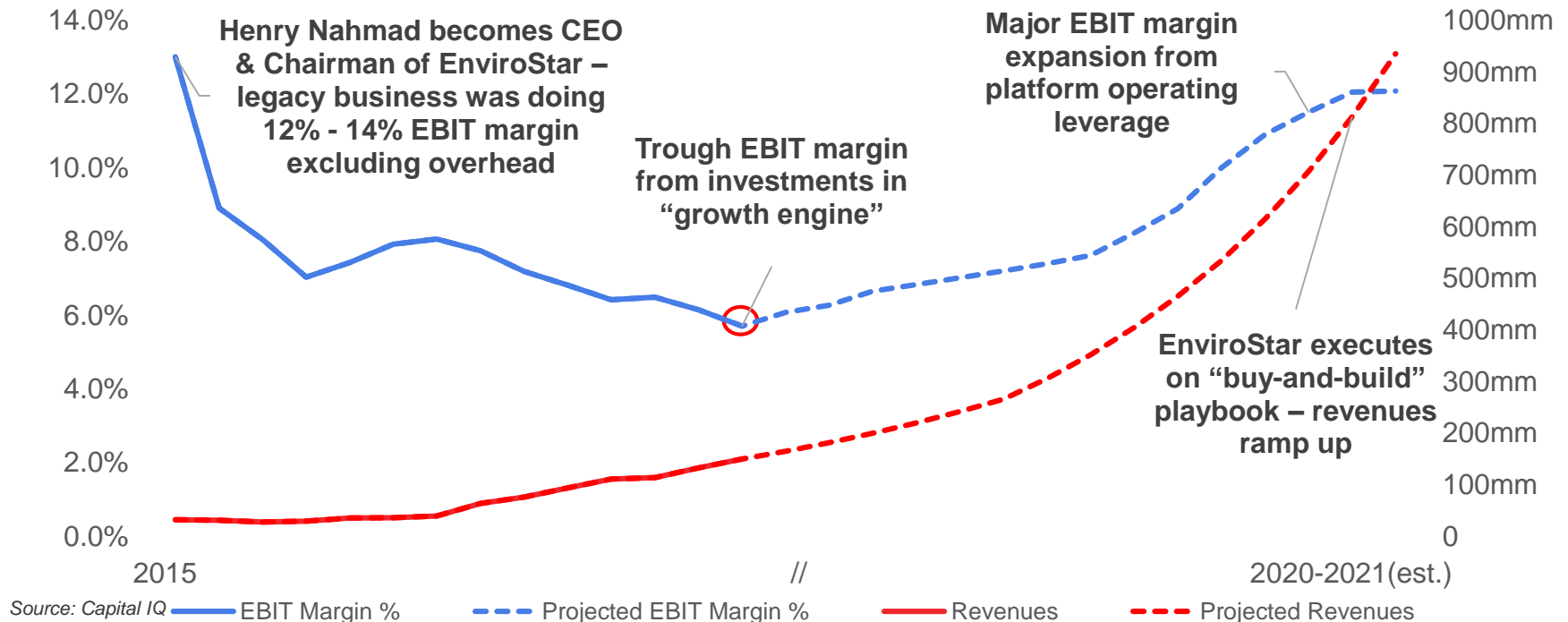


Source: Capital IQ

- Pool Corporation (NasdaqGS:POOL) - EBIT Margin %
- Pool Corporation (NasdaqGS:POOL) - Revenues

# A Look At EnviroStar's Numbers

- Before Henry Nahmad took control of EnviroStar, the legacy business was doing in excess of 12% EBIT margins if we back out corporate overhead and public company costs:** removing the \$1mm – \$1.5mm in overhead gives us between \$3.7mm – \$4.2mm in consolidated station level EBIT, on \$30.8mm in revenues, **consolidated station level EBIT margin was between 12% - 14% in 2015**
- Today, EnviroStar is still heavily investing in overhead to support the “buy-and-build” growth engine, and similarly to POOL, EBIT margins will significantly ramp up with revenue growth as corporate overhead stabilizes





## A Look At EnviroStar's Numbers (cont.)

- We estimate that Pro-Forma for the most recent acquisitions and continued high-single-digit organic growth, **EnviroStar will generate nearly \$255mm in revenues in 2019**
- Based on historical numbers, we believe that **EBIT margins at the location level are ~12% today (ex. corporate overhead which will NOT scale)** and just like POOL, consolidated EBIT margins will ramp up as the Company gains scale and leverages its platform / corporate infrastructure
  - **Market Cap: ~ \$420mm**
  - **Net debt: \$8mm**
  - **EV: ~ \$428mm**
  - **2019 Normalized EBIT: \$30.6mm (ex. additional acquisitions)**
  - **Normalized EV/EBIT: ~13.5x (ex. additional acquisitions)**
- **We believe that by following its established playbook, EnviroStar can compound EBIT at 50 - 100% per year for the foreseeable future while maintaining modest leverage** – deserving of a significant valuation premium over publicly traded distributors
  - **SiteOne: 24x 2019 EBIT** – Growing 10-13% per annum
  - **POOL: 23.5x 2018 EBIT** – Growing 8-10% per annum
  - **Fastenal: 17x 2018 EBIT** – Growing 3-6% per annum
  - **Watsco: 16.5x 2018 EBIT** – Growing 3-6% per annum

**In its early years, Fastenal earned a 30-40x EV/EBIT valuation multiple for its growth opportunity – at 30x our 2019 estimated numbers, EnviroStar would trade at \$80+ per share!**

Sources: Capital IQ and internal estimates

# The Organic Opportunity – The “BUILD” Component

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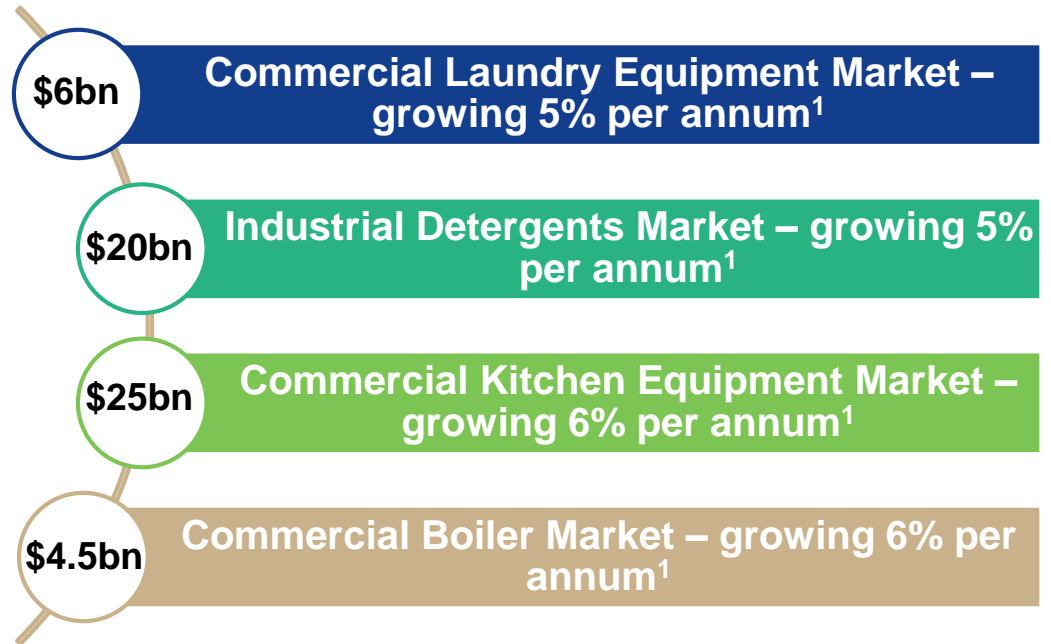
- We believe EnviroStar has a massive runway for continued organic growth going forward
- Over the last few years, while the focus has been on acquisitions, the Company has been able to “water its flowers” along the way – growing organically ~6.2% and ~6.8% for the periods 2016-2017 and 2017-2018
- **We expect the Company to pursue the following “BUILD” opportunities going forward:**
  - Insourcing service – creating an in-house servicing team at the location level will bolster gross margins and drive station level EBIT margins while dampening cyclicalities (customers have to service their existing infrastructure if they cut back on new product purchases)
  - Layering on new products – similarly to POOL and Watsco, EnviroStar will expand into complimentary businesses and create natural revenue synergies by being a “one stop shop” – the customer’s purchase manager responsible for laundry equipment is likely to be responsible for all other equipment purchasing as well (kitchen, detergents, boilers etc.)
  - Expanding gross margins with existing relationships – EnviroStar has the opportunity for gross margin expansion by sharing in the value creation with manufacturers as they grow and the Company can ultimately lower their warranty, recall and defect costs by insourcing
  - Combining locations in markets and onboard manufacturer relationships – while EnviroStar leverages fixed cost at the station level, the Company can also leverage manufacturer relationships in other markets to sell products and create revenue synergies in new markets

Source: SEC filings

# EnviroStar's TAM: Washing Out The Short Stains

- Similarly to other distribution companies like Watsco, POOL and SiteOne – we believe that as EnviroStar continues to gobble up market share in its core laundry equipment distribution business – the Company will expand into complimentary businesses to offer a full-suite of products and become a one-stop shop for customers
- In order to assess EnviroStar's runway for growth, we identified the total addressable market in the following four categories:

**U.S Total Addressable Market = ~\$55 Billion TODAY**



**Without modeling TAM growth going forward – if EnviroStar captures 10% market share by executing on their playbook – investors could see a more than 30x increase in the stock price!**

(1) Source: ADW Capital estimates / internal research

# Auctions? None, the process is clean!

- Unlike Watsco, **EnviroStar does not compete for deals** / does not typically participate in auctions
  - In the course of our due diligence process, we discovered that **“mom and pop shops” do not want to sell to private equity** because they are afraid “their people will get fired” or from the excessive leverage put on their business – creating a natural tailwind for EnviroStar’s “buy-and-build” strategy
  - We’ve often heard that the business owner doing \$3-4 million in operating profit isn’t thinking, “I’m going to build a \$100-million platform out of this” and is likely more willing to partner with a strategic to be part of “a bigger story”
  
- We believe that **EnviroStar has the opportunity to acquire businesses at lower multiples than both Watsco and POOL Corp. have historically** and generate greater returns on invested capital – evidenced by their deal making so far:

Date Announced	Name	Price Paid	Reported Revenues	Pro-Forma EBIT (Est.)	Multiple Paid (Est.)
09/08/2016	Western State Design (WSD)	<b>\$28m</b> (\$18m Cash / \$10m Stock)	\$60m	\$6M	~4.5x
06/02/2017	Martin Ray Laundry Systems	<b>\$4m</b> (\$2m Cash / \$2m Stock)	\$11.5m	\$1.2m	~3.5x
09/11/2017	Tri-State Technical Services	<b>\$16.5m</b> (\$8.25m Cash / \$8.25 Stock)	\$27m	\$2.7m	~6x
12/11/2017	AAdvantage Laundry Systems	<b>\$17m</b> (\$8.5m Cash / \$8.5m Stock)	\$27m	\$2.7m	~6x
06/21/2018	Scott Equipment	<b>\$16m</b> (\$8m Cash / \$8m Stock)	~\$25m	\$2.5m	~6.5x
08/06/2018	Industrial Laundry Services	<b>Undisclosed</b> (Cash and Stock)	Undisclosed	Undisclosed	Undisclosed
09/19/2018	"Laundry Distribution and Service"	<b>Undisclosed</b> (Cash and Stock)	Undisclosed	Undisclosed	Undisclosed
10/02/2018	Worldwide Laundry	<b>Undisclosed</b> (Cash and Stock)	Undisclosed	Undisclosed	Undisclosed
10/03/2018	Skyline Equipment	<b>Undisclosed</b> (Cash and Stock)	Undisclosed	Undisclosed	Undisclosed

Source: SEC filings and internal estimates

## Reminiscent of XPO Logistics (NYSE:XPO)

- Similar to what Manny did in his early days at POOL Corp., as soon as Bradley Jacobs took control of XPO Logistics in September 2011 – he began investing heavily in overhead to build up the infrastructure for supporting the “growth engine” – causing EBITDA margins to decline dramatically
- We believe that over-time, as revenues ramp up in a similar fashion to XPO, EnviroStar will see EBIT margins expand significantly as the Company leverages its platform and new corporate infrastructure

<b>XPO Logistics</b>	12 months Dec-31-2010A	12 months Dec-31-2011A	12 months Dec-31-2012A	12 months Dec-31-2013A	12 months Dec-31-2014A	12 months Dec-31-2015A	12 months Dec-31-2016A	12 months Dec-31-2017A	LTM 12 months Jun-30-2018A
	USD	USD	USD	USD	USD	USD	USD	USD	USD
<b>Total Revenue</b>	<b>158.0</b>	<b>177.1</b>	<b>278.6</b>	<b>702.3</b>	<b>2,356.6</b>	<b>7,623.2</b>	<b>14,619.4</b>	<b>15,380.8</b>	<b>16,636.0</b>
<i>Growth Over Prior Year</i>	57.8%	12.1%	57.3%	152.1%	235.6%	223.5%	91.8%	5.2%	13.2%
<b>Gross Profit</b>	<b>27.4</b>	<b>29.8</b>	<b>40.8</b>	<b>117.2</b>	<b>381.6</b>	<b>1,084.8</b>	<b>2,139.3</b>	<b>2,279.7</b>	<b>2,460.5</b>
<i>Margin %</i>	17.3%	16.8%	14.6%	16.7%	16.2%	14.2%	14.6%	14.8%	14.8%
<b>EBITDA</b>	<b>9.7</b>	<b>3.0</b>	<b>(25.3)</b>	<b>(31.5)</b>	<b>57.4</b>	<b>336.3</b>	<b>1,131.5</b>	<b>1,281.6</b>	<b>1,397.2</b>
<i>Margin %</i>	6.2%	1.7%	(9.1%)	(4.5%)	2.4%	4.4%	7.7%	8.3%	8.4%

Source: Capital IQ

**An investment in XPO at the time Bradley Jacobs became CEO in 2011 has yielded a ~10x return**

# Incentives

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- **Henry Nahmad has purchased (not been granted) over 4 million shares through his two funds – Symmetric Capital 1 and Symmetric Capital II – these are from friends and family and locked up – not an anonymous pool of capital, especially when your mother-in-law is an LP! The annual meeting has parents, cousins, and family friends**
- The remainder of the management team owns roughly 25% of the Company as business owners have stayed on-board after being acquired by EnviroStar
- **Henry takes a modest salary, earning the rest of his compensation from very long-dated options – unless the company is sold, the options only fully vest after a 27-year period!**
- We expect the Company to begin a modest IR effort in the coming quarters as the business has become large enough to invite Institutional Investor dollars and create a long-term owner oriented shareholder base

**We own a meaningful stake in EnviroStar as reported and we are committed to remaining a long-term owner of the business**

# Contact

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