

# Envela Corporation (NYSE AMERICAN: ELA)

**BUY - GARP**

## Security Description

Envela Corporation is a holding company for two related recommerce businesses.



**Dallas Gold and Silver Exchange, LLC (DGSE):** a recommerce business engaged in buying and selling of metals including jewelry, diamonds, fine watches, rare coins, precious metals and bullion, collectibles, scrap metal, and other valuables. It also engages in the restoration of these items.

**Echo Consolidated Holdings Group, LLC (ECHG):** an e-recycling business engaged in the processing, recycling, and resale or disposal of electronic waste, hardware components, and IT hardware/assets. ECHG provides transportation, tracking, and end-of-life recycling to extend useful life of electronic devices through recommerce when possible.

## Investment Thesis

1. Aftermarket products and second-hand goods are recession-proof; certain goods within these defined baskets witness increased demand during recessions. We define these products as the closest comparables to Envela's Dallas Gold & Silver Exchange division.
2. Growing demand and acceptance of secondhand goods as whole goods.
3. Precious metals prices eclipsed all time highs in 2020 and will end the year up more than 22% from one year ago.
4. E-waste and IT asset disposition are externalities of the IoT, cloud software, and datacenter ecosystem. E-waste management and IT asset disposition are young, growing markets with environmental, administrative, institutional, federal, and municipal catalysts.

## Catalysts

- **DGSE:** breakout Q3 2020 revenue will sustain in Q4
- **ECHG:** E-Waste Management and IT Asset Disposition markets anticipate multi-decade growth.
- **ECHG:** segment growth will drive consolidated margin expansion.

## Q3 2020

In November 2020, Envela Corporation reported consolidated revenue of \$39 million, up 69% YoY. Net profit for the quarter eclipsed net profit for all fiscal 2019, up 188% YoY.

- DGSE segment revenues were \$28 million, up 69% YoY.
- ECHG segment revenues were \$11 million, up 72% YoY.

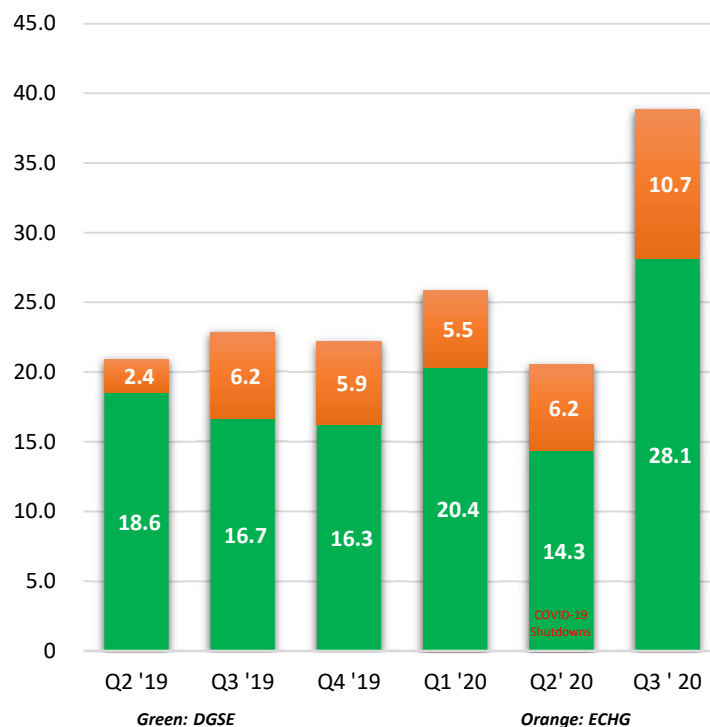
Following the announcement, shares hit an intraday high of \$5.30, up 22% from previous close, but ended the day only 7% up, down to \$4.67 a share. We feel the business is substantially undervalued today.

## Buy Rating

We price Envela Corporation at \$11.77 a share, delineating 135% upside. The ECHG segment is a growth asset; but based on Q3 cash flow, Envela is undervalued even in our zero-growth model. We delineate in our discussion why we believe Q3 is not an anomaly and further deduce a two-stage model is viable.

|                                     |          |
|-------------------------------------|----------|
| Target Price                        | \$11.77  |
| Upside                              | 135%     |
| Market Capitalization (millions)    | \$134.89 |
| Current Share Price (Dec. 25, 2020) | \$5.01   |
| 52-Week High                        | \$6.20   |
| YTD Return                          | 263%     |
| Zero-Growth Valuation               | \$5.54   |
| Zero-Growth Upside                  | 11%      |
| YoY Net Income Growth               | 188%     |
| Gross Margin                        | 18%      |
| YoY Revenue Growth                  | 70%      |

**Envela Corporation Quarterly Revenues**  
(millions)



**Envela Corporation** is a holding company for two related recommerce businesses.

**Recommerce** is the resale of used goods as whole goods and the recycling of used goods' components for reuse. In luxury recommerce, specifically dealing with precious metals and jewelry, resale value is well conserved. In electronic hardware recommerce, product life is extended while e-waste is recycled, reused, or properly disposed.

**(1) Dallas Gold and Silver Exchange, LLC (DGSE):** a recommerce business engaged in buying and selling of metals including jewelry, diamonds, fine watches, rare coins, precious metals and bullion, collectibles, scrap metal, and other valuables. It also engages in the restoration of these items.

DGSE accounts for 72.50% of consolidated sales, operates 6 retail locations, and does business through the following brands:

- **Dallas Gold and Silver Exchange** (5 locations in Texas).
- **Charleston Gold and Silver Exchange** (1 location in South Carolina).
- **Bullion Express** (online and within retail locations).

DGSE provides value and liquidity for sellers of jewelry and luxury items. It provides authentication and aftermarket luxury goods for buyers. Customers include individuals, dealers, and institutions.

**(2) Echo Consolidated Holdings Group, LLC (ECHG):** an e-recycling business engaged in the processing, recycling, and resale or disposal of electronic waste, hardware components, and IT hardware/assets. ECHG provides transportation, tracking, and end-of-life recycling to extend useful life of electronic devices through recommerce when possible.

ECHG accounts for 27.50% of consolidated sales while providing solutions for businesses, organizations, institutions, and individuals. It operates several facilities that co-mingle through the following brands:

- **Echo Environmental** – solar panel, electronic, and scrap recycling, reverse logistics, data sanitation, secure management of data-bearing assets, end-of-life supply chain, and waste disposal. Echo Environmental also purchases scrap metal on a per-pound basis.
- **CEXchange** – resale, trade-in, and disposal of laptops, desktops, consoles, tablets, and phones. CEXchange is a partner of Microsoft, Apple, Costco, Walmart, U.S. Cellular, and Samsung; each partner's trade-in/recommerce landing page feeds into the CEXchange website.
- **ITAD USA** – IT Asset Disposition (ITAD) services for businesses and organizations in the Dallas-Fort Worth region. ITAD includes destruction (hard drives, IT hardware), parts harvesting (retaining hardware components that have secondary value), e-waste recycling and disposal, recommerce (with revenue sharing ROI for customers), and redeployment (extending end-of-life). ITAD USA also provides data sanitization, tracking, security, and hardware and transportation of hardware logistics.
- **Teladvance** – helps customers recover value from existing hardware and provides cloud migration solutions including software and cybersecurity. Teladvance also wholesales recommerce IT hardware and phones.

Per company and industry definition: **Re-use conserves energy and raw materials required to make new products and turns obsolete IT assets into revenue.** Individuals and businesses who consult ITAD services realize a return on otherwise obsolete environmental waste.



\*See appendix, pages 13 through 17 for a comprehensive explanation of Envela's DGSE and ECHG

## Leadership and Geopolitics

John Loftus was appointed as CEO in December of 2016. Soon after his appointment, S&P Global Market Intelligence released a list of 10 retailers most likely to default and face bankruptcy within 12 months. DGSE Companies, Inc. (now Envela Corporation) was number two on the list. Since, Envela has delivered top and bottom-line growth in each quarter (excluding in Q2 2020, in which the company was forced to close facilities and retail locations due to the COVID-19 pandemic).

Mr. Loftus is Envela's largest shareholder and owns over 70% of the business. He purchased most of his shares at the open market. He also finances over 70% of the company's debt.

Envela Corporation does business primarily in the Dallas Fort-Worth area in Texas. The geopolitics of DFW and Texas commerce are valuable for the company, especially for the ECHG segment. Texas is home to numerous Fortune 500 companies, second only to New York; and, based on recent trends, it may overtake the top spot. These are the corporations who will drive e-waste and the adoption of e-waste disposal/recycling (by choice, environmental initiative/procedure, or federal and municipal mandate). There is currently no federal law mandating e-waste recycling – a potential catalyst itself – but there is regulation under Texas law (and at least 25 States in total).

Envela Corporation completed a transaction in Q2 2020 for a 72,000 square foot facility (70% sublet) located in the Las Colinas area of Irving, Texas for its central offices. Irving is the most Fortune-500-company-dense city in the United States.

## Thesis - DGSE

**(1) Aftermarket products and second-hand goods are recession-proof; certain goods within these defined baskets witness increased demand during recessions. We define these products as the closest comparables to Envela's Dallas Gold & Silver Exchange division.**

**We define aftermarket products as:** spare parts, accessories, components, follow-on replacements, and upgrades. We highlight the aftermarket for car parts – new car parts for used cars – as a strong comparable market to luxury recommerce.

- The aftermarket phenomenon in the automobile market is easy to understand and model without a large margin of error. Purchasing power and consumer demand in the automobile market shifts towards conserving existing vehicles – extending product life when possible – in uncertain economic conditions. We examine U.S. Auto Parts (PRTS), a provider of aftermarket car parts.
- In the last twelve months, PRTS returned nearly 500% for shareholders after three reported 'COVID-19 quarters' of 17%, 61%, and 69% consecutive YoY growth. **These three quarters follow nine consecutive quarters of negative YoY growth.** 70% of sales in these three quarters were for replacement parts, up from 60% a year ago.

| Comparability Matrix | Viability                                | Secondary Market  |
|----------------------|--|---|
| U.S. Auto Parts      | New products                             | For the purpose of <i>used cars with remaining economic life</i> delineating increasing consumer demand in 2020 |
| Envela's DGSE        | Used luxury products and precious metals | <i>Used products with remaining economic life</i> delineating increasing consumer demand in 2020                |

**We define second-hand goods as:** used goods.

- The market for used goods is recession-proof, and the overall recommerce market of used goods – jewelry, cloths, accessories – is expected to grow 20-times faster than general retail. In 2020, some physical stores (such as thrift shops) had to close doors to curb the spread of COVID-19, but overall sales still delineate this phenomenon.
- We examine another class of comparables to DGSE: luxury clothing resale and consignment service providers ThredUp, Poshmark, and The RealReal. The RealReal, which had to temporarily shut some operations down due to COVID-19 protocol, reported a **12% increase in average selling price last July, in a quarter in which overall revenue dropped 21%**, as "homebound customers spent more on higher value purchases such as handbags, jewelry, and watches rather than apparel."

| Comparability Matrix  | Viability  | Secondary Market  | Premium Service                       |
|-----------------------|--|---|---------------------------------------|
| Consignment Providers | Used luxury clothing and accessories (luxury recommerce)     | Used products with substantial economic life (especially if it is a luxury product) delineating increased consumer demand | Consignment (authenticity validation) |
| Envela's DGSE         | Used luxury products and precious metals (luxury recommerce) | Used products with substantial economic life delineating increased consumer demand  | Authenticity validation               |

**We conclude the following for Dallas Gold and Silver Exchange:**

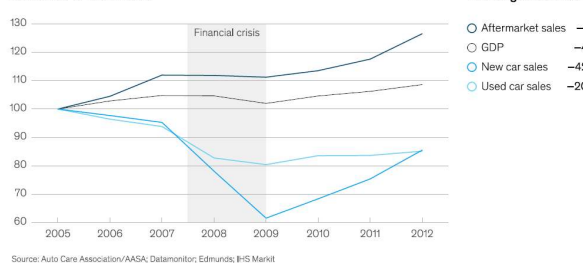
- DGSE's products are comparable to the aftermarket.
- DGSE's products are comparable to second-hand goods.
- DGSE's breakout Q3 revenue will sustain in Q4.**

To appreciate the aftermarket's resilience, consider the financial crisis from 2007 to 2009. The United States saw GDP drop about 4 percent and the economic repercussions hit automotive purchases hard. Sales plunged 42 percent for new cars and 20 percent for used cars, but the aftermarket experienced only a 1 percent decline.

- McKinsey & Company

The US aftermarket was very resilient during the financial crisis.

US historical sales of new cars, used cars, and aftermarket parts, normalized to 100 in 2005



McKinsey & Company

Exhibit A

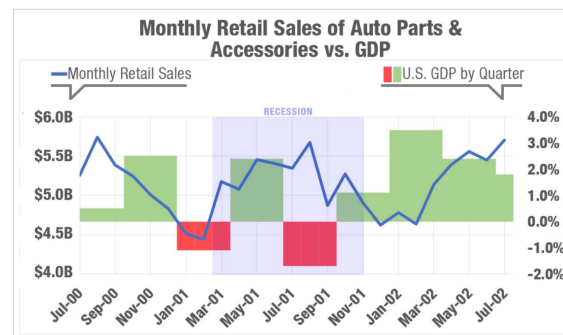


Exhibit B

**Thesis - DGSE****(2) The Acceptance of secondhand goods as whole goods.**

- Recommerce markets are expected to grow 20-times faster than general retail, according to Coresight Research.
- ThredUp and Poshmark are soon-to-go-public companies involved in the internet recommerce business for clothing and accessories. They connect buyers and sellers of used clothing/accessories who are increasingly environmentally conscious and accepting of aftermarket goods (not exclusive to luxury goods). ThredUp consults a 'consignment' model and can charge a premium fee for its services.
- The RealReal (REAL) is a similar business to ThredUp and Poshmark (one which also consults consignment) which went public in 2019. It debuted at a \$1.65 billion market capitalization with a sales run rate of \$225 million; pricing the business at 7.3x the run rate of sales. Today, as physical centers struggled during the pandemic, REAL trades 5.8x the run rate of sales (approximately \$312 million in run rate sales).
- ThredUp, Poshmark, and TheRealReal began working with large retailers like Macy's, J.C. Penny, and Nordstrom who now recognize the growing demand for recommerce retail (see appendix, page 24, delineating ThredUp's retail partnerships and growing gross monthly volume).
- Poshmark's S-1 delineates a sales increase of 28% in the first 3 quarters of 2020 (to \$193 million); moreover, the company's operating expenses declined 14% during the same period (primarily from less marketing spend). Based on the rumored offering price, the offering may value the company at \$1.25 billion, approximately 4.5-5x sales (annualized). Note: Poshmark does not consult a consignment model.
- ThredUp has not disclosed its offering price; however, we believe it will command a valuation above Poshmark's 4.5-5x sales multiple (ThredUp consults consignment while Poshmark does not).
- ThredUp presents itself as a case study of this secondhand goods/resale market; the company issued a comprehensive report delineating its findings alongside Coresight Research.
  - ThredUp reaffirms other third-party research stating resale is expected to grow faster than retail. It also states resale grew 25-times faster than general retail in 2019 (49% growth versus 2% growth).
  - ThredUp claims four out of five surveyed consumers already have purchased or are interested in purchasing recommerce items.
  - 30% of 'gen z' and 40% of 'millennial' survey respondents in 2019 say they have purchased used clothing. This is up from a 2016 survey in which these groups reported 26% and 21%, respectively. On the other side of consignment, ThredUp found 2 in 3 people who never sold clothing are now open to doing so (with the intent of earning extra income).
  - ThredUp's report expects the secondhand market to grow to 17% of the overall apparel market by 2029.
  - General retail has also adopted resale business.
  - ThredUp affirms 'sustainability brands' (Patagonia) and luxury brands (Louis Vuitton) are the fastest growing secondhand segments.

**We conclude the following for Dallas Gold and Silver Exchange:**

- As we explained, we believe Envela's DGSE business is comparable to luxury consignment/resale. DGSE provides **luxury recommerce** and **expert authentication (comparable to consignment)**.
- We believe DGSE will benefit from the same tailwinds as luxury clothing resale; therefore, **DGSE's breakout Q3 revenue will sustain in Q4.**
- We examine consignment premiums and conclude Envela is undervalued. The company trades below 1x the run rate of sales while delivering breakout growth.

**(3) Precious metals prices eclipsed all time highs in 2020 and will end the year up over 22% from a year ago.**

- The price of gold has risen over 25% in the last twelve months and nearly 50% in the last 24.
- The price of silver has risen over 40% in the last twelve months and nearly 70% in the last 24.
- DGSE benefits directly from higher prices of metals; however, bullion/rare coin is a low margin business.
- Although any future fall in the prices of precious metals will proliferate volatility; a material fall in prices will be headwind for DGSE's business. We believe part of this is offset by increasing demand for aftermarket and second-hand goods.
- We stop short of concluding a further rise in spot prices and do not quantify precious metals' prices as our catalyst. We do highlight commodity price is, however, a material catalyst as well as a material risk.
- As of December 25, 2020, spot prices are one – and the leading – indicator that **DGSE's breakout Q3 revenue will sustain in Q4.**

| Commodity Prices | 12/31/2019  | 3/31/2020   | 6/30/2020   | 9/30/2020   | 12/25/2020  |
|------------------|-------------|-------------|-------------|-------------|-------------|
| Gold             | \$ 1,523.10 | \$ 1,596.60 | \$ 1,800.50 | \$ 1,895.50 | \$ 1,883.20 |
| Silver           | \$ 17.92    | \$ 14.16    | \$ 18.64    | \$ 23.49    | \$ 25.91    |
| Platinum         | \$ 977.80   | \$ 729.90   | \$ 851.20   | \$ 909.20   | \$ 1,028.90 |
| Copper           | \$ 2.80     | \$ 2.23     | \$ 2.73     | \$ 3.03     | \$ 3.56     |
| Ruthenium        | \$ 250.00   | \$ 250.00   | \$ 270.00   | \$ 270.00   | \$ 270.00   |
| Iridium          | \$ 1,480.00 | \$ 1,520.00 | \$ 1,640.00 | \$ 1,645.00 | \$ 2,550.00 |

Exhibit C



**CATALYST – DGSE: Breakout Q3 2020 Revenue Will Sustain in Q4**

Seasonality, spot prices of metals, comparable recommerce and aftermarket sales, and disposable income short-term stimulus and long-term uncertainty all together form the perfect storm for DGSE. We believe, moreover, that the ecosystem of these factors has improved in Q4. We conclude **DGSE's breakout Q3 revenue will sustain in Q4 from the following:**

- **Spot prices of precious metals** delineate stability during Q4 2020 after breaking out in 2020 and spiking in Q3.
- **Seasonality** of luxury goods, diamonds, and watches witness a December spike each year (see exhibit 'F' and 'G,' each spike is a December). DGSE expects a slight seasonal increase in revenue, modest with respect to the industry
- **US Auto Parts (PRTS)** witnessed 17%, 61%, and 69% YoY growth, respectively, in the three pandemic quarters reported in 2020; the 17% growth quarter came in between normalcy and pandemic, delineating **DGSE's breakout Q3 revenue will sustain in Q4.**

- **These three quarters follow nine straight quarters of negative YoY growth for PRTS.**

- Note: 94% of PRTS sales are generated online.

- **The RealReal witnessed strong demand in luxury and higher value products** like jewelry and watches during pandemic quarters (in which the company shut down and re-opened all consignment retail centers). The consignment provider reported a 21% decline in revenues in Q2 2020, but found customers spent more on expensive goods. The following is an excerpt from the Wall Street Journal explaining Q2 earnings:

- *"While the pandemic limited supply, it also had a favorable impact on the mix of goods sold: homebound customers spent more on higher value purchases such as handbags, jewelry and watches, rather than apparel. The average selling price increased by 12% in July compared with the same month a year before."*

- **United States Disposable Income** witnessed a historic spike in April 2020 (instigated by COVID-19 and unemployment relief packages). It faced pressure in the remainder of 2020 – while still at historic highs – until a new stimulus package was announced in the final week of Q4.

- We do not make broad market or macroeconomic conclusions. However, we hold good faith in the presumption that monthly disposable income will stagnate in December 2020, as it did in October and November, and lead to a second straight quarter of QoQ decline. We anticipate a sharp spike in disposable income in Q1 2021.
- We conclude a **rise in disposable income** in this environment – one with minimal travel, rapid resale adoption, and long-term-disposable-income-uncertainty – is beneficial for the aftermarket. Furthermore, the disposable income spike in Q1 2020 confirms **breakout in Q3 for DGSE's products will sustain beyond Q4 and into 2021.**
- Over time, **relative decline in disposable income** is beneficial for the (luxury) aftermarket; consumers will continue to extend product life and adopt recommerce. Rapid decline may adversely affect all commerce but is offset by stimulus.

| Commodity Prices | 12/31/2019  | 3/31/2020   | 6/30/2020   | 9/30/2020   | 12/25/2020  |
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Exhibit C

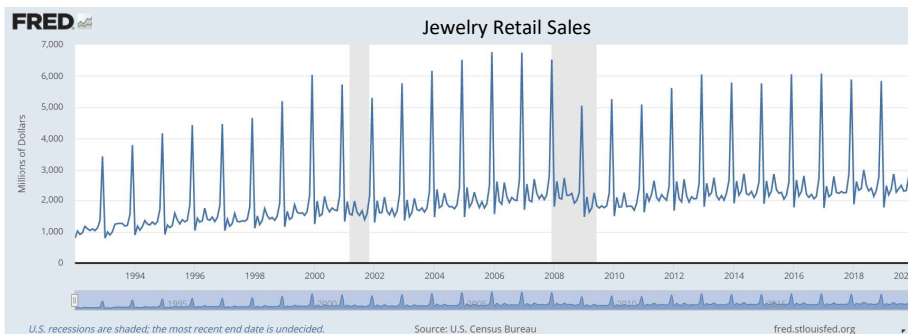


Exhibit D

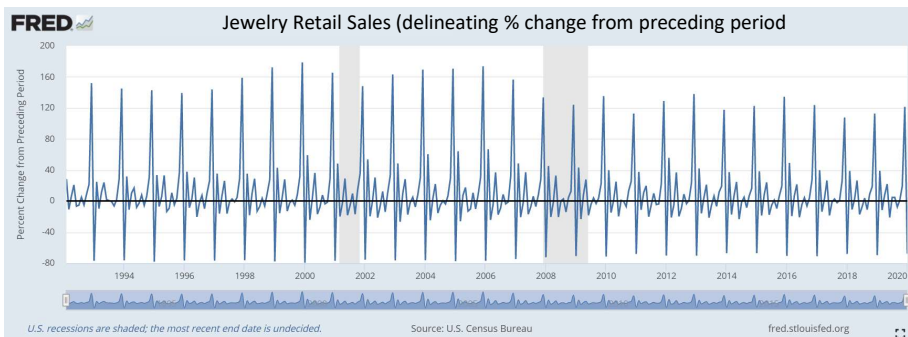


Exhibit E

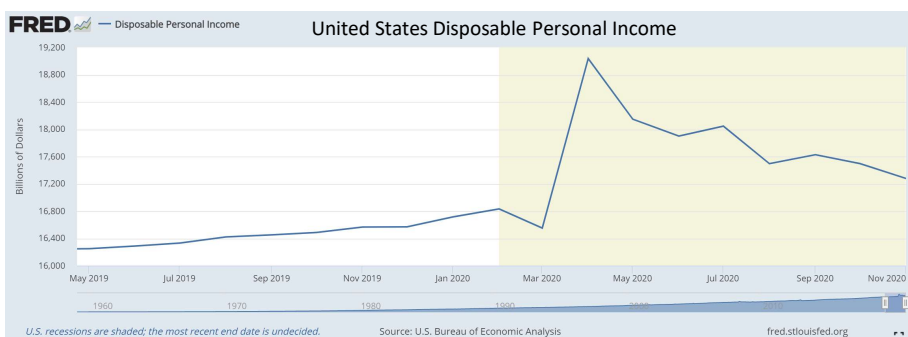
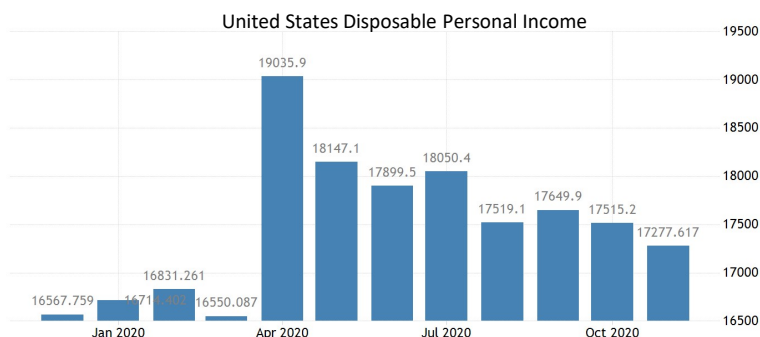


Exhibit F



SOURCE: TRADINGECONOMICS.COM | U.S. BUREAU OF ECONOMIC ANALYSIS

Exhibit G

## Thesis – ECHG

**(4) E-waste and IT asset disposition are externalities of the IoT, cloud software, and datacenter ecosystem. E-waste management and IT asset disposition are young, growing markets with environmental, administrative, institutional, federal, and municipal catalysts**

**E-Waste Management** is the recycling and proper destruction of waste components for the purpose of managing environmental damage. E-waste is defined as anything with a plug, electric cord, or battery (according to the World Economic Forum).

- Domestic and global electronic waste delineate unprecedented growth.
- Domestic and global electronic waste will become a critical issue.
- Programs are incentivized through social and environmental concern, potential federal and municipal mandates and incentives, and corporate policy.

**Types of E-Waste**

**IT Asset Disposition (ITAD)** is the repurposing of otherwise scrap waste and the extension in the life of functional waste components. Both e-waste recycling and ITAD is the disposition of IT assets, but ITAD is concerned with recovering maximum value from equipment.

- ITAD enables entities to receive a return on e-waste or ‘asset investment.’
- Programs are incentivized through ROI.

**We highlight the following research:**

- Not including photovoltaic panels (solar panels), global electrical and electronic equipment consumption increases by 2.5 million tons each year.
- The Global E-Waste Monitor reported an estimated 59 million tons of e-waste in 2020, a figure that exceeded the 2018 United Nations University forecast for 2021 (only 52 million tons). It is now expected to rise to 81 million tons by 2030 and will exceed 120 million tons by 2050.
- Global e-waste in 2019 eclipsed the GDP of over 120 countries. If measured in GDP, global e-waste would be number 79 on a list of 192 countries, equivalent to \$62.5 billion in value.
- Only 17.4% of e-waste generated in 2019 was recycled; this does not keep pace with annual growth. The remaining 82.6% of global e-waste is undocumented.
- By 2040, 14% of total carbon emissions will be attributable to electronics.
- E-waste recycling is not just an environmental consideration; e-waste disposals yield component parts with useful remaining economic life and monetary value.
- Of the 53.6 billion metric tons of global e-waste generated in 2019, it is estimated there is \$57 billion in raw material value. From the documented 17.4% that was recycled, \$10 billion in raw materials was recovered.
- Electrical and electronic equipment recycling can yield gold, silver, copper, platinum, palladium, ruthenium, indium, germanium, bismuth, iridium, osmium, cobalt, and more precious metals and raw materials.
- Raw material consumption is expected to double by 2060; raw materials are an output of e-recycling and ITAD.
- E-waste recycling also yields precious metals which hold substantial resale and reuse value. One estimate states 7% of the world’s gold is in e-waste.
- The global ITAD market is expected to grow from \$12 billion in 2020 to \$21 billion in 2027, according to Global Industry Analysts.
- Large retailers of electronics have adopted IT Asset Disposition services for customers. Both the company and customer realize a return on investment from these activities.
- The regulatory environment is gaining momentum; from 2014 to 2019, countries that have adopted legislation and policy increased from 61 to 78.
- Europe led all geographies in legislation as well as documented collection, documenting 42.5% of waste. The Americas documented the collection of only 9.4%.
- Recycling infrastructure only exists in developed countries and, still, much is discarded or incinerated.
- The United States itself does not have federal e-waste regulation in place. We anticipate this may change soon, due to forecasted e-waste growth and changes in the federal administration. 25 States have passed some form of legislation thus far.
- The World Economic Forum calls the state of e-waste and impending avalanche of electronic waste a historical inflexion point.

### **CATALYST – ECHG: E-Waste Management and IT Asset Disposition Markets Anticipate Multi-Decade Growth.**

We expect the ECHG segment of Envela’s business to drive growth.

As delineated in our discussion, e-waste and ITAD present the following for ECHG:

- Market growth and e-waste growth – only 17.4% of e-waste is documented and recycled in the Americas. ROI and profit sharing
- An (anticipated) environmentally proactive United States Federal Government, world governance initiatives, and future legislation.
- Favorable corporate relationship potential in Irving, TX.
- Enormous TAM.

We reiterate the following from our discussion from page 6:

- The global ITAD market is expected to grow from \$12 billion in 2020 to \$21 billion in 2027, according to Global Industry Analysts.
- Of the 53.6 billion metric tons of global e-waste generated in 2019, it is estimated there is \$57 billion in raw material value. From the documented 17.4% that was recycled, only \$10 billion in raw materials was recovered.
- The Global E-Waste Monitor reported an estimated 59 million tons of e-waste in 2020, a figure that exceeded the 2018 United Nations University forecast for 2021 (only 52 million tons). It is now expected to rise to 81 million tons by 2030 and will exceed 120 million tons by 2050.
- Large retailers of electronics have adopted IT Asset Disposition services for customers. Both the company and customer realize a return on investment from these activities. Envela Corporation’s ITAD partners include Target, Apple, Costco, and WalMart (see appendix, page 24, for more information).

### **CATALYST – ECHG: Growth in the ECHG segment will drive margin expansion for the consolidated entity.**

The ECHG division has two subsegments:

- **ECHG Resale**, which grew 52% YoY and has gross margin of 30%.
- **ECHG Recycled**, which grew 166% and has gross margin of 47%.

| <b>ECHG Segment</b>  | <b>% of Total Sales</b> | <b>YoY Sales Growth</b> | <b>Gross Margin</b> |
|----------------------|-------------------------|-------------------------|---------------------|
| <b>ECHG Resale</b>   | <b>20.13%</b>           | <b>52.20%</b>           | <b>30.40%</b>       |
| <b>ECHG Recycled</b> | <b>7.37%</b>            | <b>166.13%</b>          | <b>47.30%</b>       |

The ECHG division grew 72% overall and has gross margin of 35%, substantially higher than Envela’s consolidated 18% gross margin. In our valuation, we model an average 112 bp increase in Envela consolidated gross margin each year.

|                     | <b>% of Sales</b> | <b>Gross Margin</b> | <b>Operating Margin</b> | <b>YoY Growth</b> |
|---------------------|-------------------|---------------------|-------------------------|-------------------|
| <b>DGSE</b>         | <b>72.50%</b>     | <b>12.20%</b>       | <b>5.87%</b>            | <b>68.96%</b>     |
| <b>ECHG</b>         | <b>27.50%</b>     | <b>34.95%</b>       | <b>13.71%</b>           | <b>71.93%</b>     |
| <b>Consolidated</b> | <b>100.00%</b>    | <b>18.46%</b>       | <b>8.02%</b>            | <b>69.77%</b>     |

*Exhibit I, J*

**Other Catalysts:**

**DGSE:** Price accretion in gold, silver, and precious metals.

•As mentioned, this will bolster sales, but erode profitability.

**DGSE:** One new store opening in Q4, potential future openings, and online sales.

**ECHG:** IoT devices outnumber humans by a wide margin and will continue growing in number due to innovation and affordability. Recommerce will also drive affordability for aftermarket electronics. A 2020 Fortune Business Insights report anticipates the global IoT market to grow by more than 5x from 2018 to 2026, eclipsing \$1.1 trillion.

**ECHG:** Future influx of photovoltaic (PV) solar panel waste.

•Grand View Research anticipates the global solar panel recycling market to grow at a 12.8% CAGR from 2020 to 2027 (current value at \$128 million).

•The European Union is the first to adopt PV waste regulation, mandating producers finance collection and recycling costs at the end of life.

•There is no federal regulation for PV specific waste in the United States. California passed legislation at the state level this year; California and North Carolina are the only significant consuming states with legislation.

•According to PV Magazine, First Solar is the only U.S. manufacturer with in-house recycling services.

•The earliest PV panels were deployed in the early 2000s and their useful economic life is around 25-30 year.

•According to IRENA, \$450 million in components and raw materials may be recovered in the recycling and e-waste management of PV panels.

**ECHG:** Data center infrastructure.

- Data center infrastructure is difficult to model. 2020 is expected to finish with a decline in infrastructure spend, but the industry is expected to rebound swiftly. Nevertheless, consolidation and outsourcing of datacenter activities to third parties indicate large colocation providers – those such as Equinix, Digital Realty, Cologix – who provide datacenter solutions will represent increasing share of the market.
- The United States has 1797 colocation data centers; The United Kingdom is second in the world with 273.
- Big data volume is expected to grow.
- Cloud computing will bring forth cloud hardware recycling.

**ECHG:** federal regulations, mandates, and ethics.

- The General Services Administration (GSA), an independent government agency, has proposed the reporting of Federal Electronic Assets (FEA).
- GSA is proposing to amend the Federal Management Regulation (FMR) by changing its personal property policy to account for the disposal and reporting of FEA. The proposed changes are to provide policy for the safe handling and disposal of FEA and make minor clarifying edits to existing policies.
- The EPA and GSA are in place for the U.S. Federal Government to mobilize.
- Less developed countries are often recipients of hazardous e-waste. Laborers (including children) without access to proper equipment mine for, extract, sell materials. Waste may be burned and dumped, leading to severe negative externalities.

Overview of global PV panel waste projections, 2016-2050

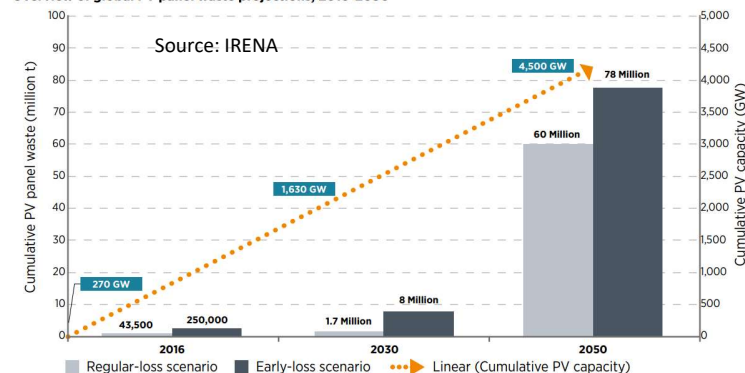
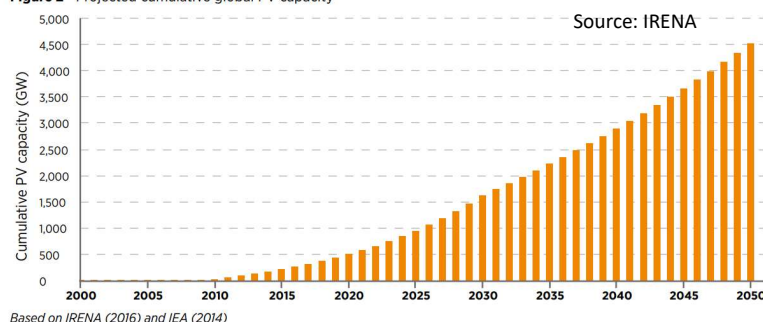


Figure 2 Projected cumulative global PV capacity



PV Panel Components

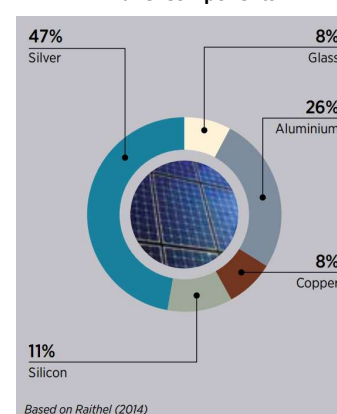


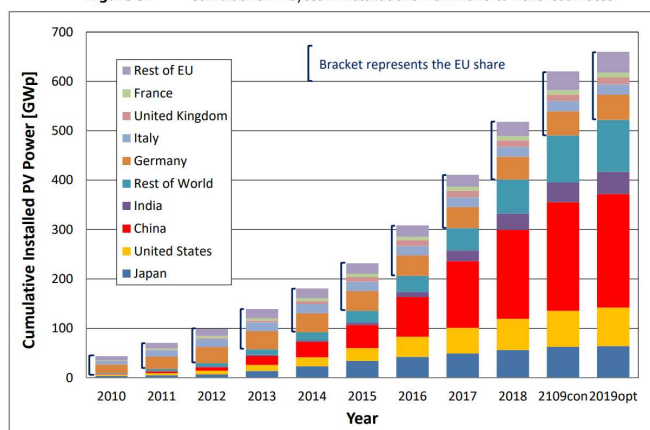
Table 13 World production of mineral commodities used in PV panels, 2015

|                       | World production 2015 (thousand t) |
|-----------------------|------------------------------------|
| Aluminium             | 58,300                             |
| Cadmium               | 24,200                             |
| Copper                | 18,700                             |
| Gallium               | 435                                |
| Indium                | 755                                |
| Lead                  | 4,710                              |
| Lithium               | 32,500                             |
| Molybdenum            | 267,000                            |
| Nickel                | 2,530,000                          |
| Selenium              | > 2,340                            |
| Silicon <sup>20</sup> | 8,100                              |
| Silver                | 27,300                             |
| Tellurium             | > 120                              |
| Tin                   | 294,000                            |
| Sum                   | 3,268,460                          |

Based on US Geological Survey, 2016

Source: IRENA

Figure 3: Cumulative PV system installations from 2010 to 2019 estimates



Source: European Commission JRC Science Report

Exhibits K, L, M, N



## 2-Stage Discounted Cash Flow Valuation

We believe Envela Corporation presents a decade-long runway for growth, primarily from the ECHG segment. We model ECHG revenues to grow at a CAGR of 62.91% over 4 years (based on LTM revenue), or a 30.02% average CAGR based on the current run rate of sales.

The DGSE segment is difficult to forecast due to the direct impact precious metals' spot prices have on business. Moreover, we make no assertions regarding disposable income and economic recovery. Therefore, we model DGSE conservatively, allowing revenues to grow at an average CAGR of only 0.53% over 4 years (based on the current run rate). We model stronger DGSE revenue in year 1 and 2 after analyzing the prices of metals.

We arrive at a WACC of 8.45% with the following inputs:

- 0.95% for the risk-free asset, reflecting the 10-year U.S. T-Bill rate.
- We use geometric mean of the S&P 500 index and adjust upward by 50 bp to model recent performance, arriving at 7.00%.
- We use a weighted average cost of debt to arrive at 5.07%; we feel it is conservative given John Loftus, CEO of Envela Corporation, is the sole debtor outside of commercial banks. He accounts for over 70% of all debt and the company asserts it seeks to modify terms (current interest rate on Loftus' notes is 6.00%). Furthermore, commercial banks finance a cash-flow-positive sublet facility (under 4.00% interest).
- We use an adjusted beta of 1.30 for ELA. Historic prices do not offer a reasonable proxy for the company, we feel 1.30 is reasonable for a commodity-pegged, growth business.
- We anticipate gross margin will increase an average of 112 bp each year, driven by ECHG growth.
- **We arrive at a valuation of \$11.77 per share, delineating 135% upside.**

|                  |         |
|------------------|---------|
| Weight in Debt   | 8.51%   |
| Cost of Debt     | 5.07%   |
| Weight in Equity | 91.49%  |
| Cost of Equity   | 8.81%   |
| WACC             | 8.45%   |
| Intrinsic Value  | \$11.77 |
| Current Price    | \$5.01  |
| Upside           | 134.97% |

| LTM   | Run Rate  | Envela Annual Forecast (millions)               | Y1        | Y2        | Y3        | Y4        | Terminal  |
|-------|-----------|---|-----------|-----------|-----------|-----------|-----------|
| 79.12 | \$ 112.55 | DGSE Consolidated                               | \$ 114.30 | \$ 115.02 | \$ 109.42 | \$ 114.35 | \$ 117.78 |
|       |           | DGSE Resale                                     | \$ 110.46 | \$ 111.89 | \$ 106.87 | \$ 112.28 | \$ 115.64 |
|       |           | DGSE Recycled                                   | \$ 3.84   | \$ 3.13   | \$ 2.55   | \$ 2.08   | \$ 2.14   |
| 28.27 | 42.69     | ECHG Consolidated                               | \$ 57.84  | \$ 72.58  | \$ 93.55  | \$ 102.07 | \$ 105.13 |
|       |           | ECHG Resale                                     | \$ 41.81  | \$ 51.76  | \$ 66.58  | \$ 72.64  | \$ 74.82  |
|       |           | ECHG Recycled                                   | \$ 16.03  | \$ 20.82  | \$ 26.97  | \$ 29.43  | \$ 30.31  |
|       |           | DGSE Consolidated Growth Forecast               | 44.46%    | 0.63%     | -4.87%    | 4.51%     | 3.00%     |
|       |           | DGSE Consolidated Growth CAGR                   | 44.46%    | 20.57%    | 11.41%    | 9.65%     | 8.28%     |
|       |           | ECHG Consolidated Growth Forecast               | 104.58%   | 25.48%    | 28.90%    | 9.10%     | 3.00%     |
|       |           | ECHG Consolidated Growth CAGR                   | 104.58%   | 60.22%    | 49.01%    | 37.84%    | 30.04%    |
|       |           | DGSE Consolidated Growth CAGR Based on Run Rate | 1.56%     | 1.09%     | -0.94%    | 0.40%     | 0.91%     |
|       |           | Average 4 Year CAGR (based on LTM Revenue)      |           |           | 0.53%     |           |           |
|       |           | ECHG Consolidated Growth CAGR Based on Run Rate | 35.47%    | 30.38%    | 29.89%    | 24.35%    | 19.75%    |
|       |           | Average 4 Year CAGR (based on LTM Revenue)      |           |           | 30.02%    |           |           |

| LTM       | Run Rate  | Envela Annual Forecast       | Y1        | Y2        | Y3        | Y4        | Terminal  |
|-----------|-----------|------------------------------|-----------|-----------|-----------|-----------|-----------|
| \$ 107.39 | \$ 155.24 | Total Revenue                | \$ 172.14 | \$ 187.59 | \$ 202.97 | \$ 216.42 | \$ 222.91 |
|           |           | Forecasted Growth            | 60.29%    | 8.98%     | 8.20%     | 6.63%     | 3.00%     |
|           |           | Four Year CAGR (Y1 - Y4)     | 34%       |           |           |           |           |
| 84.97     | 126.59    | Total Cost of Revenues       | 137.95    | 148.15    | 156.85    | 166.80    | 174.70    |
| 22.42     | 28.65     | Gross Profit                 | 34.19     | 39.44     | 46.12     | 49.62     | 48.21     |
| 20.88%    | 18.46%    | Gross Margin                 | 19.86%    | 21.03%    | 22.72%    | 22.93%    | 21.63%    |
| 16.69     | 17.27     | Total Operating Expenses     | 18.74     | 20.78     | 22.88     | 24.83     | 23.35     |
| 15.49     | 15.48     | SG&A                         | 16.92     | 18.81     | 20.75     | 22.56     | 23.24     |
| 1.07      | 1.69      | Net Rental Expenses          | 1.72      | 1.88      | 2.03      | 2.16      | 0.11      |
| 0.12      | 0.11      | Other Expenses               | 0.11      | 0.11      | 0.11      | 0.11      | 0.11      |
| 6.93      | 13.17     | Earnings Before Income & Tax | 15.45     | 18.66     | 23.24     | 24.79     | 24.86     |
| 6.45%     | 8.49%     | EBIT Margin                  | 8.97%     | 9.95%     | 11.45%    | 11.45%    | 11.15%    |
| 0.06      | 0.00      | Tax Expense                  | 1.99      | 3.73      | 4.65      | 4.96      | 4.97      |
| 6.86      | 10.58     | NOPAT                        | 13.44     | 14.92     | 18.59     | 19.83     | 19.89     |
| 0.60      | 0.80      | Interest Expense             | 0.82      | 1.00      | 1.21      | 1.33      | 1.37      |
| 5.53      | 11.94     | Net Income                   | 12.62     | 13.92     | 17.38     | 18.49     | 18.52     |
| \$ 0.21   | \$ 0.44   | EPS                          | 0.50      | 0.55      | 0.69      | 0.74      | 0.74      |
| 6.86      | 13.17     | Free Cash Flow               | 14.17     | 15.68     | 19.37     | 20.64     | 20.72     |

Exhibits O, P, Q

**Comparable Valuation - Envela Corporation trades only 0.87x the run rate of sales and 10.16x EBIT.****DGSE**

- We first examine aftermarket businesses, pawn shops, and jewelers to delineate DGSE is undervalued. Our table also delineates premium is paid for consignment services (EBAY vs REAL). We find average multiples (excluding ELA and post breakout CLCT) are 2.34x the run rate of sales and 25.67x EBIT.

| DGSE Comparables                          | ELA    | CTHR   | CLCT Q4 2020 | CLCT Q1 2021 | PRTS    | REAL     | EBAY      | SIG      | EZPW   | FCFS     | Average* | ELA Implied Price |
|---|--------|--------|--------------|--------------|---------|----------|-----------|----------|--------|----------|----------|-------------------|
| Market Capitalization (millions) 12/25/20 | \$ 135 | \$ 38  | \$ 486       | \$ 683       | \$ 623  | \$ 1,796 | \$ 34,550 | \$ 1,369 | \$ 263 | \$ 2,903 |          |                   |
| YoY Sales Growth                          | 70%    | 4%     | 4%           | 52%          | 69%     | -4%      | 25%       | 9%       | -22%   | -20%     |          |                   |
| Gross Profit Margin                       | 18%    | 47%    | 60%          | 63%          | 37%     | 64%      | 75%       | 33%      | 54%    | 56%      |          |                   |
| Operating Profit Margin                   | 8%     | 11%    | 20%          | 25%          | 1%      | -53%     | 26%       | 4%       | 0%     | 10%      |          |                   |
| Sales Multiple                            | 0.87x  | 1.21x  | 5.92x        | 5.55x        | 1.33x   | 5.75x    | 3.31x     | 0.26x    | 0.39x  | 2.02x    | 2.34x    | \$13.49           |
| EBIT Multiple                             | 10.16x | 9.47x  | 30.05x       | 21.87x       | 89.54x  | -        | 12.72x    | 7.57x    | -      | 20.21x   | 25.67x   | \$12.66           |
| PE Multiple                               | 11.31x | 10.99x | \$46.16      | 28.66x       | 112.09x | -        | 13.01x    | 36.81x   | -      | 48.19x   | 39.79x   | \$17.62           |
| ROIC based on Net Income Run Rate         | 37%    | 8%     | 31%          | 38%          | 6%      | -26%     | 17%       | 1%       | -22%   | 3%       |          |                   |

Exhibit R

- We want to account for DGSE's closer comparability to CTHR (a luxury jeweler) and PRTS (aftermarket car parts) and still consider consignment provider REAL (to account for luxury authentication services at DGSE). Therefore, we adjust the average sales comparable downward and apply a **1.5x run rate of sales** multiple to the DGSE segment.

**ECHG**

- We then examine waste management providers. It is difficult to find perfect comparables to ECHG. However, we analyze the following companies, some of whom have e-waste offerings (we may find, in the future, that a large portion of e-waste and ITAD management will be delegated by national retailers instead). We find average multiples (excluding ELA/ECHG), are 2.84x the run rate of sales and 19.36x EBIT.

| ECHG Waste Management Comparables | ELA     | ELA - ECHG | CWST    | CLH      | CVA      | RSG       | WM        | WCN      | Average* | ELA Implied Price |
|-----------------------------------|---------|------------|---------|----------|----------|-----------|-----------|----------|----------|-------------------|
| Revenue Run Rate (millions)       | \$ 155  | \$ 43      | \$ 811  | \$ 3,117 | \$ 1,964 | \$ 10,280 | \$ 15,440 | \$ 5,558 |          |                   |
| Market Capitalization (billions)  | \$ 0.13 | -          | \$ 3.12 | \$ 4.16  | \$ 4.16  | \$ 30.51  | \$ 49.52  | \$ 26.77 |          |                   |
| YoY Growth                        | 69.77%  | 79.77%     | 2.08%   | -12.60%  | -12.60%  | -3.02%    | -2.77%    | -1.62%   |          |                   |
| Gross Margin                      | 18.46%  | 34.90%     | 35.65%  | 34.35%   | 28.92%   | 40.08%    | 39.64%    | 40.35%   |          |                   |
| Operating Margin                  | 8.01%   | 13.71%     | 11.57%  | 10.76%   | 0.01%    | 19.04%    | 17.98%    | 16.87%   |          |                   |
| Sales Multiple                    | 0.87x   | -          | 3.85x   | 1.33x    | 0.87x    | 2.97x     | 3.21x     | 4.82x    | 2.84x    | \$ 11.33          |
| EBIT Multiple                     | 10.16x  | -          | 33.26x  | 12.40x   | 8.50x    | 15.59x    | 17.84x    | 28.54x   | 19.36x   | 9.55              |

Exhibit S

- We deduce a **3x run rate of sales multiple for the ECHG segment**. We believe this is conservative based on the following:

- Comparable valuations
- 'Green' company multiples have seen a parabolic rise in valuations since the 2020 presidential election.
- E-Waste management and ITAD markets are scheduled to see robust growth for, presumably, the entire century.
- Growth:
  - The ECHG Resale subsegment grew 53.30% YoY.
  - The ECHG Recycled subsegment grew 166.13% YoY.
- Gross Margin:
  - The ECHG Resale subsegment gross margin is 30.20%.
  - The ECHG Recycled subsegment gross margin is 47.30%.

**We arrive at a valuation of \$11.03 per share, or 120% upside, for Envela Corporation based on comparables.**

|              | Run Rate of Sales | % of Sales |
|--------------|-------------------|------------|
| DGSE         | \$ 112.55         | 72.50%     |
| ECHG         | \$ 42.69          | 27.50%     |
| Consolidated | \$ 155.24         | 100.00%    |

| Sum-of-the Parts Comparable Valuation |           |
|---------------------------------------|-----------|
| Current Market Cap                    | \$ 134.89 |
| Current Sales Multiple                | 0.87x     |
| Current Share Price                   | \$ 5.01   |
| DGSE Multiple                         | 1.50x     |
| ECHG Multiple                         | 3.00x     |
| Implied Sales Multiple                | 1.91x     |
| Implied Market Cap                    | \$ 296.91 |
| Implied Share Price                   | \$ 11.03  |
| Upside                                | 120.11%   |

Exhibit T, U

At a minimum, we believe Envela Corporation should trade for 1x consolidated sales. In this scenario, shares still delineate 15% upside based on the run rate of revenue. See appendix (page 17) for more iterations of multiples valuations; outputs range from 15% to 183% upside.

| Sum-of-the Parts Comparable Valuation |           |
|---------------------------------------|-----------|
| Current Market Cap                    | \$ 134.89 |
| Current Sales Multiple                | 0.87x     |
| Current Share Price                   | \$ 5.01   |
| DGSE Multiple                         | 1.00x     |
| ECHG Multiple                         | 1.00x     |
| Implied Sales Multiple                | 1.00x     |
| Implied Market Cap                    | \$ 155.24 |
| Implied Share Price                   | \$ 5.77   |
| Upside                                | 15.09%    |

Exhibit V

## Private Equity Valuation Approach

We examine what a PE firm would pay Envela Corporation; usually, PE firms will pay a multiple of EBITDA.

Envela Corporation should command at a 15x multiple on EBIT. The company currently trades 10x the EBIT run rate. We, instead, deduce a 15x multiple.

Private equity firms bid for the following characteristics:

- **Geographic consolidation** (5 retail locations in Texas, 1 in South Carolina).
- **Branding:** DGSE has been in business for over 40 years.
- **Centralized operations:** Envela is now headquartered in its own sublet building located in Irving, TX.
- **Management team:** John Loftus took over when the business was expected to default; he has returned 330% for shareholders since his appointment in December 2016. In fiscal 2016, DGSE revenues were \$61 million. The current run rate for DGSE alone is \$108 million.
- **Revenue Growth**
- **EBIT Growth:** EBIT grew 155% YoY; net income grew 188% YoY.
- **Potential Growth:**
  - Envela Corporation has a small e-commerce footprint.
  - As we delineated, ECHG has a large, growing TAM.
  - As ECHG grows, consolidated gross margin and, more importantly, EBIT margin will expand.
- **Capital Structure:** The company has only an 8.51% weight in debt and John Loftus, CEO, is over 70% of the debt. Another portion of the debt is a 70% sublet, cash flow positive, facility owned by Envela.

| Private Equity Valuation                   |                    |               |                |
|--|--------------------|---------------|----------------|
| Valuation Method                           | Implied Market Cap | Implied Price | Implied Upside |
| 10x Run Rate of Q3 2020 EBIT               | \$ 131.75          | \$ 4.89       | -2.33%         |
| 12x Run Rate of Q3 2020 EBIT               | \$ 158.10          | \$ 5.87       | 17.20%         |
| 15x Run Rate of Q3 2020 EBIT               | \$ 197.62          | \$ 7.34       | 46.50%         |
| 10x Forecasted EBIT Over 4 Years (average) | \$ 205.26          | \$ 7.62       | 52.17%         |
| 12x Forecasted EBIT Over 4 Years (average) | \$ 246.32          | \$ 9.15       | 82.60%         |
| 15x Forecasted EBIT Over 4 Years (average) | \$ 307.90          | \$ 11.44      | 128.25%        |

Exhibit W

Based on an exit transaction approach, we price Envela Corporation at \$11.44 per share, delineating 128% upside.

We examine the lowest possible private equity exit attributable and arrive at a value of \$4.89 per share. This is only 2.40% lower than current market price; our opinion is this is the floor valuation for Envela Corporation. Below \$4.89 per share or 10x EBIT (run rate) is not a viable exit transaction for the business.

## Constant Growth and No Growth Valuation

We believe the market price of shares do not reflect Q3 top and bottom line. If cash flow was never to grow again, we still find shares are undervalued.

|                       | Value/Share | Upside |
|-----------------------|-------------|--------|
| Market Price          | \$ 5.01     | -      |
| No Growth             | \$ 5.54     | 11%    |
| Constant Growth at 1% | \$ 6.32     | 26%    |
| Constant Growth at 2% | \$ 7.34     | 46%    |
| Constant Growth at 3% | \$ 8.73     | 74%    |
| 2 Stage Growth        | \$ 11.77    | 135%   |

Exhibit X



**Financial Performance Recap**

- Envela Corporation reported Q3 2020 revenue of \$38.81 million, up 69.77% YoY.
- DGSE segment revenue was \$28.14 million, up 68.96% YoY. Net margin for the segment was 5.68%.
- ECHG segment revenue was \$10.67 million, up 71.93% YoY. Net margin for the segment was 13.00%.
- DGSE currently accounts for 72.50% of total revenue.
- ECHG currently accounts for 27.50% of total revenue.
- The COVID-19 pandemic greatly benefitted the DGSE segment in Q3; however, we may also attribute the increase in sales with prices of precious metals.
- Envela generates a ROIC of 37.43% (annualized); we calculate a WACC of 8.45%. The company generates more return on capital than it costs to run the business.**

| Envela Corporation | YoY Sales Growth | Gross Margin | Net Margin |
|--------------------|------------------|--------------|------------|
| DGSE Segment       | 68.96%           | 12.20%       | 5.68%      |
| ECHG Segment       | 71.93%           | 34.90%       | 13.00%     |
| Consolidated       | 69.77%           | 18.46%       | 7.69%      |

| DGSE Segment  | % of Total Sales | YoY Sales Growth | Gross Margin |
|---------------|------------------|------------------|--------------|
| DGSE Resale   | 69.83%           | 92.14%           | 11.60%       |
| DGSE Recycled | 2.67%            | -59.35%          | 28.30%       |

| ECHG Segment  | % of Total Sales | YoY Sales Growth | Gross Margin |
|---------------|------------------|------------------|--------------|
| ECHG Resale   | 20.13%           | 52.20%           | 30.40%       |
| ECHG Recycled | 7.37%            | 166.13%          | 47.30%       |

| ROIC | Q3 2020 Annualized | 37.43% |
|------|--------------------|--------|
|      | 6-Month Annualized | 24.20% |
|      | LTM Annualized     | 20.42% |
|      | WACC               | 8.45%  |

*Exhibits X, Y***Risks**

- EPA and other compliance penalties and/or increased regulation.
- Spot price fluctuation affecting DGSE revenue and inventory value.
- Deceleration of growth, stagnation, and negative growth into economic recovery
- A deep recession where all goods are affected.
- DGSE is a mature business. Although there is a new store opening in Q4 2020, there is no way to accurately model revenues beyond two quarters with little margin of error. The business is highly susceptible to precious metals' price fluctuations. The ECHG segment itself is young and growing fast; there is no reliable method to model revenue and future cash flow beyond a year without significant margin of error.
- Envela Corporation consolidated gross margin is 18.46%, down from 22.69% a year ago. This is due to DGSE growth attributable to gold and precious metal recommerce, which is a lower margin subsegment of the business. Gross margin can fluctuate based on segment contribution and spot prices of precious metals.
- DGSE revenue is difficult to model without a large margin of error; revenue is directly impacted by precious metal prices.
- ECHG revenue is difficult to model without margin of error; revenue is privy to customer relationships.
- ECHG revenues may delineate irregular growth as Envela needs to retain relationships and contracts. New or renewed contracts may only be recognizable in certain periods.
- Stagnation in ECHG will bring margins under pressure; DGSE is a much lower margin business. Furthermore, ECHG stagnation coupled with a rapid decline in spot prices of precious metals will be detrimental for the Envela's valuation.
- Company voting power is in the hands of few individuals.
- The SEC mandated corporate governance reform for DGSE in the pre-Loftis years (2007). Ongoing compliance issues are another risk factor.
- The United States economy, at least at the consumer level, is materially propped up by stimulus. Without stimulus – and future packages are unclear and not promised – demand for even resilient goods (like those provided at DGSE) will face pressure.
- Competition is an important risk factor for the DGSE segment; competitors' pricing and speed to spot price reaction can persuade consumers away from Envela.
- Misjudgments of demand and inventory can adversely affect pricing.
- Human capital retention
- Litigation



## Disclosure

*The analysis provided is based on financial information and speculation of future performance in statements associated with this company. All outside sources are perceived to be credible, and the analyst does not take fault for any changes in numerical or informational accuracy that may result. This report is for informational purposes only and is the opinion of the writer. This report has no regard for the specific investment needs or objectives of readers. Investors are encouraged to conduct their own research and come to their own conclusions before making the decision to invest in a company. Sources used in the making of this report are considered accurate.*

Arham Khan is a shareholder of Envela Corporation

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## Appendix

### Business Description (Source: 10-K and 10-Q filings, Envela Corporation)

Envela engages in diverse business activities within the recommerce sector. These include recommercializing luxury hard assets, consumer electronics and IT equipment, as well as providing end-of-life recycling solutions. Envela assesses its inventory of recommerce purchases for their potential to be refurbished and resold as whole goods or component parts, or to be recycled for precious-metal value. Envela also offers comprehensive recycling solutions for a variety of other companies seeking responsibly to dispose of end-of-life products. Envela primarily operates via two recommerce business segments. Through **DGSE, LLC** the Company recommercializes luxury hard assets via Dallas Gold and Silver Exchange, Charleston Gold & Diamond Exchange, and Bullion Express (collectively and together with DGSE, LLC, “DGSE”). Through **ECHG, LLC**, the Company operates Echo Environmental Holdings (“Echo”), ITAD USA Holdings (ITAD” and together with Echo, the “Echo Entities”), and Teladvance (“Teladvance” and together with ECHG, LLC and the Echo Entities, “ECHG”), which primarily recommercializes consumer electronics and IT equipment, and provide end-of-life recycling services for various companies across many industries. Envela conducts its recommerce operations at retail and wholesale levels, through distributors, resellers, dedicated stores and online. The Company also owns and operates other businesses and brands engaged in a variety of activities, as identified herein. Envela is headquartered in Dallas, Texas.

**DGSE** buys to resell or recycle luxury hard assets, including jewelry, diamonds, fine watches, rare coins and currency, precious-metal bullion, collectables and other valuables. DGSE reconditions items for resale as a whole good or component parts, or recycles them by refining their precious metals for sale. These metals include gold, silver, platinum and palladium. DGSE currently operates four stores at the wholesale and retail levels, transacting throughout the United States via its facilities in Texas and South Carolina. DGSE’s lease in Southlake, Texas expired during the quarter ended September 30, 2020 and DGSE vacated that retail location. DGSE purchased two new retail locations in the Dallas area Metroplex in Lewisville and Grapevine, respectively. The buildouts are expected to be completed and the two new retail locations are expected to open before the Christmas season.

For over 40 years, DGSE has been a destination location for those seeking value and liquidity in reselling or trading jewelry, and in recycling the precious metals of items it elects not to sell as a whole good or as component parts. DGSE’s in-house staff of experts, including horologists, gemologists and authenticators, inspect items for authenticity and value, and share their market knowledge with its customers.

**ECHG** buys consumer electronics and IT equipment for resale or recycling from businesses and other organizations, such as school districts. Items designated for resale as a whole or as component parts get extended operational life by first erasing any existing data and then refurbishing them before resale. ECHG recycles goods by removing usable components for resale as components, or by extracting the valuable metals (or other materials) for sale to downstream recycling companies who further process the metal for subsequent resale. Our customers include companies and organizations that are based domestically and internationally.

ECHG also provides transportation and product tracking, when needed, as part of its comprehensive end-of-life recycling and responsible-disposal services. Our goal is to extend the useful life of electronics through recommerce whenever possible. Resale and reuse conserves energy and raw materials required to make new products and turns obsolete IT assets into revenue.

### DGSE SEGMENT

- DGSE operates five retail locations [now 6]: 4 Dallas Gold and Silver Exchange stores throughout the Dallas/Fort Worth Metroplex and a Charleston Gold & Diamond Exchange in Charleston, SC. The Company’s Dallas flagship and its Charleston, S.C. location offer on-site jewelry-restoration service.
- DGSE buys and sells jewelry, diamonds, fine watches, rare coins and currency, precious metal bullion products, scrap gold, silver, platinum and palladium as well as collectibles and other valuables. Our customers include individual consumers, dealers and institutions throughout the United States. The operations are organized around retail and wholesale customers. The flagship store also includes an on-site, state-of-the-art Swiss watch repair service with dedicated technicians who test and service fine mechanical timepieces to ensure they’re operating at optimum levels.
- For over 40 years, DGSE has been a destination location for those seeking value and liquidity in buying, selling or trading jewelry, watches, diamonds or coins. DGSE’s in-house staff of experts, including horologists, gemologists and authenticators, inspect items for authenticity and value, and share their market knowledge with our customers.

### DGSE Retail Business

- DGSE’s products and services are marketed through five retail locations in Texas and South Carolina. Our retail footprint has remained steady in recent years. The retail locations operate under several banners, including Dallas Gold & Silver Exchange and Charleston Gold & Diamond Exchange.
- We have entered into a contract to purchase a retail stand-alone building in Lewisville, Texas, as a potential new retail location.

### DGSE Wholesale Business

- DGSE transacts a significant amount of business with wholesalers in our industry. It occurs at industry-specific trade shows held periodically throughout the year, during in-person and telephonic sales calls, and on industry-trade websites.

PRODUCTS AND SERVICES

DGSE Buy Sell Trade

- DGSE provides a marketplace that delivers unparalleled value and liquidity for those seeking to buy, sell or trade jewelry, watches, diamonds or coins. DGSE buys and sells merchandise in every major jewelry and fine-watch category, including bridal jewelry, fashion jewelry, custom-made jewelry, diamonds and other gemstones, findings (jewelry components) and watches.
- Much of our jewelry and fine-watch inventory is purchased directly from individual and wholesale customers at our retail locations. We process these purchased items at a central location where expert jewelers, gemologists, precious metal dealers and watchmakers sort them into three main resale categories: retail appropriate, wholesale appropriate and refiner appropriate. Jewelry and fine watches are cleaned, serviced and repaired by our experienced jewelers and watchmakers so they're in like-new condition and suitable for resale. Most of these items are then individually tagged and sent to one of our retail locations for sale. Items not appropriate for our retail locations are grouped into wholesale lots and liquidated through either wholesale contacts, or via in-person or dealer-to-dealer sales. Items that are not appropriate for retail or wholesale are sold to a third-party refiner.
- The higher-quality diamonds and gemstones that we purchase are independently assessed and certified by the Gemological Institute of America ("GIA") and other third-party certifying authorities. This process helps us resell the stones individually or as components of our custom bridal and fashion jewelry. Mid-quality diamonds and gemstones are often utilized in custom fashion jewelry or packaged with lower-quality stones and sold to wholesalers across the country.
- We maintain relationships with numerous commercial consignment vendors across the country who supply us with new and estate jewelry. This supplements our over-the-counter jewelry purchases and enhances our overall jewelry offering. Sales of this consignment jewelry are settled with our consignment vendors on a weekly or monthly basis.

DGSE Bullion

- Our bullion-trading operation buys and sells all forms of gold, silver, platinum and palladium products, including United States and other government coins, private-mint medallions, art bars and trade unit bars. All of our store locations conduct retail bullion transactions. Wholesale bullion transactions are conducted through our main bullion-trading operation in Dallas, Texas, which maintains numerous vendor relationships with major industry wholesalers, mints and institutions.
- We purchase bullion products from a variety of vendors and sell them based on current precious-metal market pricing. Bullion inventory is subject to market-value changes created by underlying commodity markets. While we believe that we effectively manage commodity risk associated with our bullion business, there are national and international factors beyond our control that may affect margins, customer demand and transactional volume. These factors include, but are not limited to, U.S. Federal Reserve policies, inflation rates, global economic uncertainty, and government and private-mint supply.

DGSE Other Products & Services

- We maintain a jewelry-repair center at our flagship location on Preston Road in Dallas, Texas. And we accept repair, polishing and service orders through all of our retail locations.
- We also buy and sell most numismatic items, including rare coins, currency, medals, tokens and other collectibles. Most of our rare coins, currency and collectibles come from individual customers who sell them to us. We then resell them through our retail activities or wholesale contacts.

Envela and its subsidiaries hold well-established trademarks and trade names, including the following:

- DGSE
- Dallas Gold & Silver Exchange
  - Charleston Gold & Diamond Exchange
  - Bullion Express

- ECHG
- ITAD USA
  - Echo Environmental
  - Teladvance
  - CEXchagne

CEXchagen Partners



About CEXchange

CEXchange is a leading electronics trade-in and recycling service for retailers. It provides custom solutions to meet the needs of diverse clients, including Fortune 500 companies, both online and offline. CEXchange is committed to providing services that help consumers get maximum value for their used electronics and protect the environment through responsible recycling. Its services include reverse logistics and refurbishing; and resale and liquidation services for returned, excess, and other liquidated merchandise. Since servicing its first Fortune 500 company in 2007, CEXchange has sold hundreds of millions of dollars of inventory.

- Source: Associated Press

**PRODUCTS AND SERVICES****ECHG SEGMENT**

- ECHG and its subsidiaries engage in full-service electronic recycling and IT-asset disposition. ECHG helps customers maintain absolute data integrity and exceed their compliance and revenue goals. Used electronics vary widely, from last year's mobile telephone, tablet and wearable technology to server and networking systems and data-center components. Many of these products can be repaired and reused. The others are recycled for their scrap materials.
- Approximately 15 pounds of used electronics are generated per capita worldwide, but it is estimated that less than 20% is recycled. The volume of used electronics is expected to increase over 33% by the end of the decade. Reuse is widely recognized as the most environmentally beneficial form of materials management. Repairing and reusing electronics extends their useful life and keeps them out of waste streams.
- ECHG provides transportation, product tracking and comprehensive end-of-life recycling. Our goal is to extend the useful life of electronic devices through recommerce whenever possible. Reuse conserves energy and raw materials required to make new products and turns obsolete IT assets into revenue.

**ECHG Business**

- ECHG provides custom electronics solutions to meet the needs of diverse clients, including Fortune 500 companies, municipalities, school districts, individual consumers and other organizations. ECHG helps consumers realize maximum value for their used electronics and protects our environment through responsible recycling.

**ECHG Electronic Recycling**

- ECHG, through its subsidiary Echo Environmental Holdings, offers comprehensive end-of-life electronics recycling. They work with customers to design a flexible, convenient, hassle-free program that accommodates specific customer needs. Comprehensive turnkey solutions include transportation, product tracking and end-of-life recycling.

**ECHG IT Asset Disposition**

- ECHG, through its subsidiary ITAD USA Holdings, offers wide-ranging IT-asset disposition services for companies that want to replace and remarket their IT equipment. ITAD USA helps companies carefully navigate the maze of local compliance and regulations associated with technology disposition. From secure logistics and transportation to comprehensive reporting tools and data sanitization services, ITAD USA's solutions cover all enterprise technology types.
- Depending on assets' condition, they can be refurbished and redeployed within customers' organizations, remarketed and sold, or donated to charity. When assets are being sold, and ITAD USA's in-house, global-commodity experts help determine market value, and its remarketing network helps ensure clients get maximum value.

**ECHG Hardware & Cloud Solutions**

- Through its Teladvance subsidiary, ECHG is a value-added reseller, providing services to companies upgrading their software, hardware or networking capabilities; or moving to cloud services. ECHG delivers a diverse portfolio of latest-technology products and services for clients' specific business and technology needs.
- Moreover, helping new cloud customers recover value from their existing datacenter components, ECHG offers true cradle-to-grave technology solutions.

More from Resource-recycling.com :

*Echo Environmental operates 166,000-square-foot, R2-certified facility in Carrollton, Texas (near Dallas), providing e-scrap recycling, solar panel recycling and other destruction and de-manufacturing services.*

*ITAD USA serves businesses in the Dallas-Fort Worth region. It has a 35,000-square-foot facility in Carrollton, two miles from Echo Environmental. It sells remarkable equipment through wholesale and e-commerce channels and sends all scrap devices to Echo for recycling.*

*Teladvance is an ITAD company based in Addison, Texas (also near Dallas). McGuire said ECHG has shifted Teladvance's ITAD customers to ITAD USA and is rebranding Teladvance to focus on providing pre-owned IT hardware and offering related IT services, including software services.*

***TIMELINE OF EVENTS (source: Wikipedia)***

1965 – Incorporation of American Pacific Mint

1978 – Rainbow Rare Coins founded

1980 – Rainbow Rare Coins changes name to Dallas Gold & Silver Exchange

1987 – Publicly traded American Pacific Mint acquires the assets of Dallas Gold & Silver Exchange

1991 – Dallas Gold & Silver Exchange acquires its first Texas pawn license to provide jewelry loans to its customers

1995 – Dallas Gold & Silver Exchange launches online auction platform

1998 – Dallas Gold & Silver Exchange acquires National Jewelry Exchange a small pawnshop in Carrollton, Texas

2000 – Dallas Gold & Silver Exchange opens Charleston, South Carolina location under the name Charleston Gold & Diamond Exchange

2000 – Dallas Gold & Silver Exchange acquires Fairchild International, one of the largest wholesale fine watch companies in the United States

2003 – U.S. Bullion Exchange is launched to handle trading and execution of all precious metals transactions system-wide for all DGSE Companies. USBE provides an Internet-based trading platform for all DGSE customers.

2005 – Parent company's name changed to DGSE Companies, Inc

2007 – Dallas Gold & Silver Exchange acquires the assets of Eulless Gold & Silver and opens Dallas Gold & Silver Exchange Fort Worth/Eulless location

2007 – DGSE Companies, Inc. lists on the American Stock Exchange

2007 – The second Dallas area National Pawn store is opened.

2007 – American Gold & Silver Exchange is launched with national advertising roll-out allowing individuals from anywhere to send jewelry and precious metals to DGSE for purchase.

2007 – Superior Estate Buyers is launched and conducts its first remote buying events

2007 – DGSE Companies, Inc. acquires Superior Galleries, one of the United States' oldest and largest numismatic auction houses

2007 – Superior Galleries conducts its first jewelry and fine timepiece auction in Beverly Hills, California

2007 – Superior Precious Metals is launched to service precious metals and rare coin retail customers

2008 – Superior Gold & Diamond Exchange is opened in Woodland Hills, California

2009 – DGSE Companies, Inc. launches a charitable fundraising company under the name A Chance To Give

2011 – DGSE Bullion Express concept is introduced, the new store opened in Preston Center in Dallas, Texas

2011 – Second DGSE Bullion Express is opened in North Dallas.

2011 – DGSE Companies, Inc. opens a fifth Dallas-area location in Arlington

2012 – DGSE Companies, Inc. opens a "Bullion Express" store in Highland Park (near Chicago), Illinois

2012 – DGSE Companies, Inc. opens a "Bullion Express" store in Atlanta, Georgia's Buckhead district

2012 – Securities and Exchange Commission (SEC) announces investigation into DGSE accounting irregularities

2012 – DGSE Companies, Inc. opens 6th DFW area location in Southlake, Texas

2012 – DGSE Companies, Inc. opens 7th DFW area location in Allen, Texas

2012 – DGSE Companies, Inc. opens 8th DFW area location in Fort Worth, Texas Using some artwork and jewelry cases from the now-defunct Superior Galleries.

2013 – DGSE Companies, Inc. opens 2nd Atlanta area location in Cumming, Georgia; branded as Southern Bullion Coin & Jewelry

2016 – John Loftus is appointed CEO, President and Chairman of the Board of DGSE Companies, Inc.

2019 – DGSE Companies, Inc. changes its name to Envela Corporation. Changes NYSE stock ticker from DGSE to ELA.

2020 – ECHG, LLC, a subsidiary of Envela Corporation agrees to lend \$1.5MM to CExchange, LLC, and warrant and call-option agreements to acquire all of CExchange's equity interests.

2020 – DGSE, LLC, an Envela subsidiary, opens new Dallas Gold & Silver Exchange location in Lewisville, Texas.



**Multiples Valuations**

| Sum-of-the Parts Comparable Valuation |           |
|---------------------------------------|-----------|
| Current Market Cap                    | \$ 134.89 |
| Current Sales Multiple                | 0.87x     |
| Current Share Price                   | \$ 5.01   |
| DGSE Multiple                         | 1.00x     |
| ECHG Multiple                         | 1.00x     |
| Implied Sales Multiple                | 1.00x     |
| Implied Market Cap                    | \$ 155.24 |
| Implied Share Price                   | \$ 5.77   |
| Upside                                | 15.09%    |

| Sum-of-the Parts Comparable Valuation |           |
|---------------------------------------|-----------|
| Current Market Cap                    | \$ 134.89 |
| Current Sales Multiple                | 0.87x     |
| Current Share Price                   | \$ 5.01   |
| DGSE Multiple                         | 1.00x     |
| ECHG Multiple                         | 2.00x     |
| Implied Sales Multiple                | 1.28x     |
| Implied Market Cap                    | \$ 197.94 |
| Implied Share Price                   | \$ 7.35   |
| Upside                                | 46.74%    |

| Sum-of-the Parts Comparable Valuation |           |
|---------------------------------------|-----------|
| Current Market Cap                    | \$ 134.89 |
| Current Sales Multiple                | 0.87x     |
| Current Share Price                   | \$ 5.01   |
| DGSE Multiple                         | 1.00x     |
| ECHG Multiple                         | 3.00x     |
| Implied Sales Multiple                | 1.55x     |
| Implied Market Cap                    | \$ 240.63 |
| Implied Share Price                   | \$ 8.94   |
| Upside                                | 78.39%    |

| Sum-of-the Parts Comparable Valuation |           |
|---------------------------------------|-----------|
| Current Market Cap                    | \$ 134.89 |
| Current Sales Multiple                | 0.87x     |
| Current Share Price                   | \$ 5.01   |
| DGSE Multiple                         | 1.00x     |
| ECHG Multiple                         | 5.00x     |
| Implied Sales Multiple                | 2.10x     |
| Implied Market Cap                    | \$ 326.02 |
| Implied Share Price                   | \$ 12.11  |
| Upside                                | 141.69%   |

| Sum-of-the Parts Comparable Valuation |           |
|---------------------------------------|-----------|
| Current Market Cap                    | \$ 134.89 |
| Current Sales Multiple                | 0.87x     |
| Current Share Price                   | \$ 5.01   |
| DGSE Multiple                         | 1.50x     |
| ECHG Multiple                         | 1.50x     |
| Implied Sales Multiple                | 1.50x     |
| Implied Market Cap                    | \$ 232.87 |
| Implied Share Price                   | \$ 8.65   |
| Upside                                | 72.63%    |

| Sum-of-the Parts Comparable Valuation |           |
|---------------------------------------|-----------|
| Current Market Cap                    | \$ 134.89 |
| Current Sales Multiple                | 0.87x     |
| Current Share Price                   | \$ 5.01   |
| DGSE Multiple                         | 1.50x     |
| ECHG Multiple                         | 2.00x     |
| Implied Sales Multiple                | 1.64x     |
| Implied Market Cap                    | \$ 254.21 |
| Implied Share Price                   | \$ 9.44   |
| Upside                                | 88.46%    |

| Sum-of-the Parts Comparable Valuation |           |
|---------------------------------------|-----------|
| Current Market Cap                    | \$ 134.89 |
| Current Sales Multiple                | 0.87x     |
| Current Share Price                   | \$ 5.01   |
| DGSE Multiple                         | 1.50x     |
| ECHG Multiple                         | 3.00x     |
| Implied Sales Multiple                | 1.91x     |
| Implied Market Cap                    | \$ 296.91 |
| Implied Share Price                   | \$ 11.03  |
| Upside                                | 120.11%   |

| Sum-of-the Parts Comparable Valuation |           |
|---------------------------------------|-----------|
| Current Market Cap                    | \$ 134.89 |
| Current Sales Multiple                | 0.87x     |
| Current Share Price                   | \$ 5.01   |
| DGSE Multiple                         | 1.50x     |
| ECHG Multiple                         | 3.00x     |
| Implied Sales Multiple                | 1.91x     |
| Implied Market Cap                    | \$ 296.91 |
| Implied Share Price                   | \$ 11.03  |
| Upside                                | 120.11%   |

**Financial Statements****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****ENVELA CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

| (Unaudited)                                | Three Months Ended September 30, |               | Nine Months Ended September 30, |               |
|--|----------------------------------|---------------|---------------------------------|---------------|
|  | 2020                             | 2019          | 2020                            | 2019          |
| Revenue:                                   |                                  |               |                                 |               |
| Sales                                      | \$ 38,810,884                    | \$ 22,861,201 | \$ 85,185,634                   | \$ 59,818,168 |
| Cost of goods sold                         | 31,647,487                       | 17,674,747    | 68,249,699                      | 49,047,917    |
| Gross margin                               | 7,163,397                        | 5,186,454     | 16,935,935                      | 10,770,251    |
| Expenses:                                  |                                  |               |                                 |               |
| Selling, General & Administrative Expenses | 3,869,673                        | 3,893,618     | 11,311,543                      | 8,311,199     |
| Depreciation and Amortization              | 179,782                          | 67,886        | 539,217                         | 227,558       |
| Total cost of revenue                      | 4,049,455                        | 3,961,504     | 11,850,760                      | 8,538,757     |
| Operating income                           | 3,113,942                        | 1,224,950     | 5,085,175                       | 2,231,494     |
| Other income, net                          | (26,954)                         | (955)         | (120,510)                       | (54,285)      |
| Interest expense                           | 155,799                          | 148,720       | 445,411                         | 240,778       |
| Income before income taxes                 | 2,985,097                        | 1,077,185     | 4,760,274                       | 2,045,001     |
| Income tax expense                         | 273                              | 41,710        | 35,127                          | 65,364        |
| Net income                                 | \$ 2,984,824                     | \$ 1,035,475  | \$ 4,725,147                    | \$ 1,979,637  |
| Basic earnings per share:                  |                                  |               |                                 |               |
| Net income                                 | \$ 0.11                          | \$ 0.04       | \$ 0.18                         | \$ 0.08       |
| Diluted earnings per share:                |                                  |               |                                 |               |
| Net income                                 | \$ 0.11                          | \$ 0.04       | \$ 0.18                         | \$ 0.08       |
| Weighted average shares outstanding:       |                                  |               |                                 |               |
| Basic                                      | 26,924,381                       | 26,924,381    | 26,924,381                      | 26,924,381    |
| Diluted                                    | 26,939,631                       | 26,924,381    | 26,939,631                      | 26,924,381    |

The accompanying notes are an integral part of these condensed consolidated financial statements.

**Financial Statements**

**ENVELA CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

|   | September 30,<br>2020<br>(unaudited) | December 31,<br>2019 |
|---|--------------------------------------|----------------------|
| <b>Assets</b>   |                                      |                      |
| Current assets:   |                                      |                      |
| Cash and cash equivalents   | \$ 7,269,258                         | \$ 4,510,660         |
| Trade receivables, net of allowances  | 4,659,074                            | 2,997,743            |
| Inventories   | 10,617,516                           | 9,509,454            |
| Current right-of-use assets from operating leases   | 1,173,733                            | 1,160,658            |
| Prepaid expenses  | 328,354                              | 172,834              |
| Total current assets  | 24,047,935                           | 18,351,349           |
| Note receivable   | 1,500,000                            | -                    |
| Property and equipment, net   | 2,998,838                            | 1,351,039            |
| Goodwill  | 1,367,109                            | 1,367,109            |
| Intangible assets, net  | 3,089,648                            | 3,394,073            |
| Operating lease right-of-use assets   | 3,815,058                            | 2,335,040            |
| Other long-term assets  | 299,614                              | 204,784              |
| Total assets  | \$ 37,118,202                        | \$ 27,003,394        |
| <b>Liabilities and stockholders' equity</b>   |                                      |                      |
| Current liabilities:  |                                      |                      |
| Accounts payable-trade  | \$ 2,553,145                         | \$ 1,467,845         |
| Notes payable, related party  | 302,485                              | 1,084,072            |
| Notes payable   | 1,719,036                            | -                    |
| Current operating lease liabilities   | 1,132,411                            | 1,175,109            |
| Accrued expenses  | 837,554                              | 916,509              |
| Customer deposits and other liabilities   | 189,315                              | 165,404              |
| Total current liabilities   | 6,733,946                            | 4,808,939            |
| Notes payable, related party, less current portion  | 9,128,146                            | 8,554,980            |
| Notes payable, less current portion   | 1,395,875                            | -                    |
| Long-term operating lease liabilities, less current portion   | 3,940,914                            | 2,445,301            |
| Total liabilities   | 21,198,881                           | 15,809,220           |
| Commitments and contingencies   |                                      |                      |
| Stockholders' equity:   |                                      |                      |
| Preferred stock, \$0.01 par value; 5,000,000 shares authorized;<br>no shares issued and outstanding       | -                                    | -                    |
| Common stock, \$0.01 par value; 60,000,000 shares authorized;<br>26,924,381 shares issued and outstanding | 269,244                              | 269,244              |
| Additional paid-in capital  | 40,172,677                           | 40,172,677           |
| Accumulated deficit   | (24,522,600)                         | (29,247,747)         |
| Total stockholders' equity  | 15,919,321                           | 11,194,174           |
| Total liabilities and stockholders' equity  | \$ 37,118,202                        | \$ 27,003,394        |

**Financial Statements**

**ENVELA CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**For the Nine Months Ended September 30,**

|   | 2020         | 2019         |
|---|--------------|--------------|
|   | (Unaudited)  | (Unaudited)  |
| <b>Operations</b>   |              |              |
| Net income  | \$ 4,725,147 | \$ 1,979,637 |
| Adjustments to reconcile net income to net cash provided by (used in) operations: |              |              |
| Depreciation, amortization, and other   | 539,217      | 227,558      |
| Changes in operating assets and liabilities:                                      |              |              |
| Trade receivables   | (1,661,332)  | (920,929)    |
| Inventories   | (1,108,062)  | (256,103)    |
| Prepaid expenses  | (155,518)    | (212,866)    |
| Other assets  | (94,830)     | (47,884)     |
| Accounts payable and accrued expenses   | 1,006,345    | (627,911)    |
| Accounts payable, related party   | -            | (3,074,021)  |
| Operating leases  | (40,179)     | 120,673      |
| Customer deposits and other liabilities   | 23,911       | 79,358       |
| Net cash provided by (used in) operations   | 3,234,699    | (2,732,488)  |
| <b>Investing</b>  |              |              |
| Investment in note receivable   | (1,500,000)  | -            |
| Intangible assets   | -            | (45,000)     |
| Acquisition of the Echo Entities, net of cash acquired                            | -            | (5,876,517)  |
| Payments for acquisition of property and equipment                                | (430,591)    | -            |
| Purchase of property and equipment, financed through proceeds from notes          | (1,452,000)  | (102,989)    |
| Net cash used in investing  | (3,382,591)  | (6,024,506)  |
| <b>Financing</b>  |              |              |
| Financing for the acquisition of the Echo Entities                                | -            | 6,925,979    |
| Financing to pay off accounts payable, related party                              | -            | 3,074,021    |
| Line of credit  | -            | 151,000      |
| Proceeds from Paycheck Protection Program Note                                    | 1,668,200    | -            |
| Proceeds from notes to purchase property  | 1,452,000    | -            |
| Payments on notes payable   | (5,289)      | -            |
| Payments on notes payable, related party  | (208,421)    | (292,568)    |
| Net cash provided by financing  | 2,906,490    | 9,858,432    |
| Net change in cash and cash equivalents   | 2,758,598    | 1,101,438    |
| Cash and cash equivalents, beginning of period                                    | 4,510,660    | 1,453,941    |
| Cash and cash equivalents, end of period  | \$ 7,269,258 | \$ 2,555,379 |
| <b>Supplemental Disclosures</b>   |              |              |
| Cash paid during the period for:  |              |              |
| Interest  | \$ 443,415   | \$ 240,778   |
| Income taxes  | \$ 30,025    | \$ 43,578    |

**Financial Statements**

**ENVELA CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**For the Nine Months Ended September 30,**

|   | 2020         | 2019         |
|---|--------------|--------------|
|   | (Unaudited)  | (Unaudited)  |
| <b>Operations</b>   |              |              |
| Net income  | \$ 4,725,147 | \$ 1,979,637 |
| Adjustments to reconcile net income to net cash provided by (used in) operations: |              |              |
| Depreciation, amortization, and other   | 539,217      | 227,558      |
| Changes in operating assets and liabilities:                                      |              |              |
| Trade receivables   | (1,661,332)  | (920,929)    |
| Inventories   | (1,108,062)  | (256,103)    |
| Prepaid expenses  | (155,518)    | (212,866)    |
| Other assets  | (94,830)     | (47,884)     |
| Accounts payable and accrued expenses   | 1,006,345    | (627,911)    |
| Accounts payable, related party   | -            | (3,074,021)  |
| Operating leases  | (40,179)     | 120,673      |
| Customer deposits and other liabilities   | 23,911       | 79,358       |
| Net cash provided by (used in) operations   | 3,234,699    | (2,732,488)  |
| <b>Investing</b>  |              |              |
| Investment in note receivable   | (1,500,000)  | -            |
| Intangible assets   | -            | (45,000)     |
| Acquisition of the Echo Entities, net of cash acquired                            | -            | (5,876,517)  |
| Payments for acquisition of property and equipment                                | (430,591)    | -            |
| Purchase of property and equipment, financed through proceeds from notes          | (1,452,000)  | (102,989)    |
| Net cash used in investing  | (3,382,591)  | (6,024,506)  |
| <b>Financing</b>  |              |              |
| Financing for the acquisition of the Echo Entities                                | -            | 6,925,979    |
| Financing to pay off accounts payable, related party                              | -            | 3,074,021    |
| Line of credit  | -            | 151,000      |
| Proceeds from Paycheck Protection Program Note                                    | 1,668,200    | -            |
| Proceeds from notes to purchase property  | 1,452,000    | -            |
| Payments on notes payable   | (5,289)      | -            |
| Payments on notes payable, related party  | (208,421)    | (292,568)    |
| Net cash provided by financing  | 2,906,490    | 9,858,432    |
| Net change in cash and cash equivalents   | 2,758,598    | 1,101,438    |
| Cash and cash equivalents, beginning of period                                    | 4,510,660    | 1,453,941    |
| Cash and cash equivalents, end of period  | \$ 7,269,258 | \$ 2,555,379 |
| <b>Supplemental Disclosures</b>   |              |              |
| Cash paid during the period for:  |              |              |
| Interest  | \$ 443,415   | \$ 240,778   |
| Income taxes  | \$ 30,025    | \$ 43,578    |



**Financial Statements**

|  | For The Three Months Ended<br>September 30, 2020 |               |               |
|--|--|---------------|---------------|
|  | DGSE   | ECHG          | Consolidated  |
| Revenue:                                     |  |               |               |
| Sales  | \$ 28,137,174                                    | \$ 10,673,710 | \$ 38,810,884 |
| Cost of goods sold                           | 24,704,214                                       | 6,943,273     | 31,647,487    |
| Gross profit                                 | 3,432,960  | 3,730,437     | 7,163,397     |
| Expenses:                                    |  |               |               |
| Selling, general and administrative expenses | 1,703,394  | 2,166,279     | 3,869,673     |
| Depreciation and amortization                | 79,190   | 100,592       | 179,782       |
|  | 1,782,584  | 2,266,871     | 4,049,455     |
| Operating income (loss)                      | 1,650,376  | 1,463,566     | 3,113,942     |
| Other (income) expense:                      |  |               |               |
| Other income, net                            | (1,208)  | (25,746)      | (26,954)      |
| Interest expense                             | 53,931   | 101,868       | 155,799       |
| Income (loss) before income taxes            | 1,597,653  | 1,387,444     | 2,985,097     |
| Income tax expense                           | 167  | 106           | 273           |
| Net income (loss)                            | \$ 1,597,486                                     | \$ 1,387,338  | \$ 2,984,824  |

**NOTE 6 — PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

|                                | September 30,<br>2020 | December 31,<br>2019 |
|--------------------------------|-----------------------|----------------------|
| DGSE                           |                       |                      |
| Land                           | \$ 720,786            | \$ 55,000            |
| Buildings                      | 1,181,896             | -                    |
| Leasehold improvements         | 1,561,649             | 1,561,649            |
| Machinery and equipment        | 1,045,200             | 1,039,013            |
| Furniture and fixtures         | 453,699               | 453,699              |
| Vehicles                       | 22,859                | -                    |
|                                | 4,986,089             | 3,109,361            |
| Less: accumulated depreciation | (2,087,694)           | (1,904,948)          |
| Sub-Total                      | 2,898,395             | 1,204,413            |
| ECHG                           |                       |                      |
| Leasehold improvements         | 81,149                | 81,149               |
| Machinery and equipment        | 33,360                | 27,497               |
| Furniture and fixtures         | 93,827                | 93,827               |
|                                | 208,336               | 202,473              |
| Less: accumulated depreciation | (107,893)             | (55,847)             |
| Sub-Total                      | 100,443               | 146,626              |
|                                | \$ 2,998,838          | \$ 1,351,039         |

**Financial Statements**

**CONSOLIDATED**

|          | Three Months Ended September 30, |                     |              |                      |                     |              |
|----------|----------------------------------|---------------------|--------------|----------------------|---------------------|--------------|
|          | 2020                             |                     |              | 2019                 |                     |              |
|          | Revenues                         | Gross Profit        | Margin       | Revenues             | Gross Profit        | Margin       |
| DGSE     |                                  |                     |              |                      |                     |              |
| Resale   | \$ 27,101,477                    | \$ 3,139,884        | 11.6%        | \$ 14,105,015        | \$ 1,659,597        | 11.8%        |
| Recycled | 1,035,697                        | 293,076             | 28.3%        | 2,547,912            | 359,255             | 14.1%        |
| Subtotal | 28,137,174                       | 3,432,960           | 12.2%        | 16,652,927           | 2,018,852           | 12.1%        |
| ECHG     |                                  |                     |              |                      |                     |              |
| Resale   | 7,812,553                        | 2,376,406           | 30.4%        | 5,133,181            | 2,408,416           | 46.9%        |
| Recycled | 2,861,157                        | 1,354,031           | 47.3%        | 1,075,093            | 759,186             | 70.6%        |
| Subtotal | 10,673,710                       | 3,730,437           | 34.9%        | 6,208,274            | 3,167,602           | 51.0%        |
|          | <u>\$ 38,810,884</u>             | <u>\$ 7,163,397</u> | <u>18.5%</u> | <u>\$ 22,861,201</u> | <u>\$ 5,186,454</u> | <u>22.7%</u> |

The following disaggregation of total revenue is listed by sales category and segment for the nine months ended September 30, 2020 and 2019:

**CONSOLIDATED**

|          | Nine Months Ended September 30, |                      |              |                      |                      |              |
|----------|---------------------------------|----------------------|--------------|----------------------|----------------------|--------------|
|          | 2020                            |                      |              | 2019                 |                      |              |
|          | Revenues                        | Gross Profit         | Margin       | Revenues             | Gross Profit         | Margin       |
| DGSE     |                                 |                      |              |                      |                      |              |
| Resale   | \$ 59,065,343                   | \$ 6,632,131         | 11.2%        | \$ 45,737,002        | \$ 5,705,946         | 12.5%        |
| Recycled | 3,784,444                       | 779,776              | 20.6%        | 5,514,091            | 801,216              | 14.5%        |
| Subtotal | 62,849,787                      | 7,411,907            | 11.8%        | 51,251,093           | 6,507,162            | 12.7%        |
| ECHG     |                                 |                      |              |                      |                      |              |
| Resale   | 15,595,813                      | 5,818,672            | 37.3%        | 5,116,345            | 2,335,781            | 45.7%        |
| Recycled | 6,740,034                       | 3,705,356            | 55.0%        | 3,450,730            | 1,927,308            | 55.9%        |
| Subtotal | 22,335,847                      | 9,524,028            | 42.6%        | 8,567,075            | 4,263,089            | 49.8%        |
|          | <u>\$ 85,185,634</u>            | <u>\$ 16,935,935</u> | <u>19.9%</u> | <u>\$ 59,818,168</u> | <u>\$ 10,770,251</u> | <u>18.0%</u> |

|                      | For the Years Ended |                     |              |                     |                     |              |
|----------------------|---------------------|---------------------|--------------|---------------------|---------------------|--------------|
|                      | December 31, 2019   |                     |              | December 31, 2018   |                     |              |
|                      | Revenues            | Gross Profit        | Margin       | Revenues            | Gross Profit        | Margin       |
| <u>DGSE</u>          |                     |                     |              |                     |                     |              |
| Jewelry              | \$17,206,586        | \$ 4,291,487        | 24.9%        | \$17,987,872        | \$ 5,158,215        | 28.7%        |
| Bullion/Rare Coin    | 39,689,218          | 2,645,534           | 6.7%         | 29,079,487          | 2,951,368           | 10.1%        |
| Scrap                | 7,431,749           | 1,157,459           | 15.6%        | 5,140,420           | 907,190             | 17.6%        |
| Other                | 3,192,601           | 823,344             | 25.8%        | 1,848,564           | 662,950             | 35.9%        |
| Subtotal             | 67,520,154          | 8,917,824           | 13.2%        | 54,056,343          | 9,679,723           | 17.9%        |
| <u>Echo Entities</u> |                     |                     |              |                     |                     |              |
| Recycle              | 4,441,347           | 2,533,416           | 57.0%        | -                   | -                   | -            |
| Reuse                | 4,280,934           | 2,158,698           | 50.4%        | -                   | -                   | -            |
| Refining             | 3,417,872           | 546,860             | 16.0%        | -                   | -                   | -            |
| Services             | 2,364,190           | 2,099,044           | 88.8%        | -                   | -                   | -            |
| Subtotal             | 14,504,343          | 7,338,018           | 50.6%        | -                   | -                   | -            |
|                      | <u>\$82,024,497</u> | <u>\$16,255,842</u> | <u>19.8%</u> | <u>\$54,056,343</u> | <u>\$ 9,679,723</u> | <u>17.9%</u> |

12/23/2020

CarParts.com, Inc. (PRTS) Earnings Report | Seeking Alpha

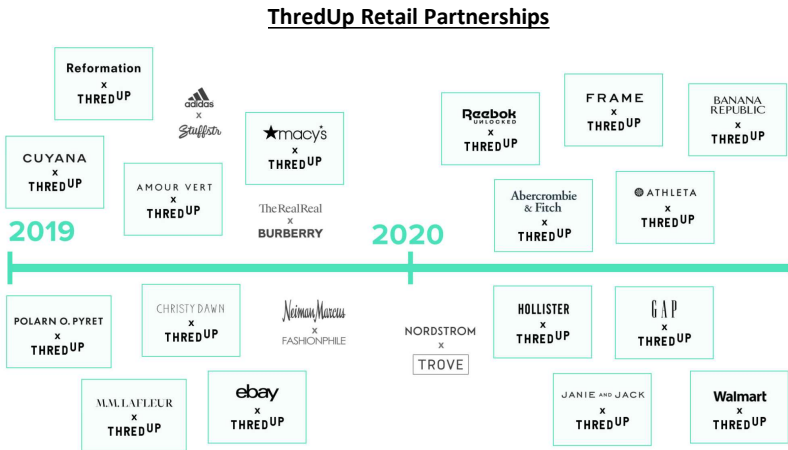
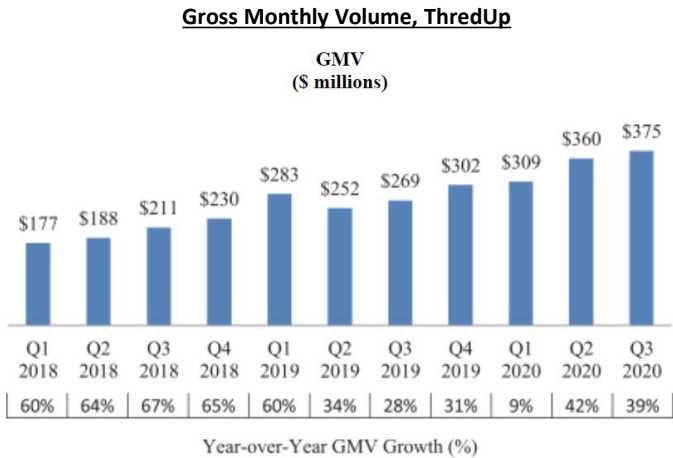
Earnings History

|                    |   |  |
|--------------------|---|--|
| Q3 2020 (Sep 2020) | EPS of \$0.03 <b>beat by \$0.03</b>     | Revenue of \$117.41M (69.48% YoY) <b>beat by \$25.63M</b>  |
| Q2 2020 (Jun 2020) | EPS of \$0.03 <b>beat by \$0.04</b>     | Revenue of \$118.93M (61.40% YoY) <b>beat by \$36.84M</b>  |
| Q1 2020 (Mar 2020) | EPS of -\$0.03 <b>missed by -\$0.03</b> | Revenue of \$87.82M (17.50% YoY) <b>beat by \$5.85M</b>    |
| Q4 2019 (Dec 2019) | EPS of -\$0.70 <b>missed by -\$0.64</b> | Revenue of \$62.96M (-2.61% YoY) <b>missed by -\$1.57M</b> |
| Q3 2019 (Sep 2019) | EPS of -\$0.04 <b>missed by -\$0.00</b> | Revenue of \$69.27M (-0.27% YoY) <b>beat by \$1.02M</b>    |
| Q2 2019 (Jun 2019) | EPS of -\$0.04 <b>beat by \$0.01</b>    | Revenue of \$73.69M (-4.27% YoY) <b>missed by -\$0.33M</b> |
| Q1 2019 (Mar 2019) | EPS of -\$0.10 <b>missed by -\$0.09</b> | Revenue of \$74.74M (-4.65% YoY) <b>beat by \$0.54M</b>    |
| Q4 2018 (Dec 2018) | EPS of -\$0.13 <b>missed by -\$0.12</b> | Revenue of \$64.65M (-5.65% YoY) <b>beat by \$2.98M</b>    |
| Q3 2018 (Sep 2018) | EPS of \$0.01 <b>beat by \$0.02</b>     | Revenue of \$69.46M (-5.89% YoY) <b>missed by -\$2.13M</b> |
| Q2 2018 (Jun 2018) | EPS of -\$0.02                          | Revenue of \$76.97M (-4.03% YoY)                           |
| Q1 2018 (Mar 2018) | EPS of \$0.02 in-line                   | Revenue of \$78.39M (-3.03% YoY) <b>missed by -\$2.90M</b> |
| Q4 2017 (Dec 2017) | EPS of \$0.00 <b>beat by \$0.01</b>     | Revenue of \$68.52M (-3.76% YoY) <b>missed by -\$3.07M</b> |
| Q3 2017 (Sep 2017) | EPS of \$0.02 <b>beat by \$0.01</b>     | Revenue of \$73.81M (0.40% YoY) <b>missed by -\$1.77M</b>  |
| Q2 2017 (Jun 2017) | EPS of \$0.03 <b>beat by \$0.01</b>     | Revenue of \$80.21M (2.76% YoY) <b>beat by \$0.98M</b>     |
| Q1 2017 (Mar 2017) | EPS of \$0.01 <b>missed by -\$0.02</b>  | Revenue of \$80.83M (0.16% YoY) <b>missed by -\$1.51M</b>  |
| Q4 2016 (Dec 2016) | EPS of -\$0.04 <b>missed by -\$0.05</b> | Revenue of \$71.19M (5.33% YoY) <b>beat by \$0.22M</b>     |
| Q3 2016 (Sep 2016) | EPS of \$0.00 in-line                   | Revenue of \$73.52M (4.06% YoY) <b>beat by \$41,000.00</b> |
| Q2 2016 (Jun 2016) | EPS of \$0.02 <b>beat by \$0.01</b>     | Revenue of \$78.06M (2.08% YoY) <b>missed by -\$0.70M</b>  |
| Q1 2016 (Mar 2016) | EPS of \$0.03 <b>beat by \$0.01</b>     | Revenue of \$80.70M (5.64% YoY) <b>beat by \$2.00M</b>     |
| Q4 2015 (Dec 2015) | EPS of -\$0.01 <b>beat by \$0.00</b>    | Revenue of \$67.59M (-4.22% YoY) <b>missed by -\$3.18M</b> |

Source: SeekingAlpha

List of Partners (Envela – ECHG)

- U.S. Cellular
- Target
- Walmart
- Costco
- Microsoft
- Turtle Beach
- Beats by Dr. Dre (Apple)
- Wirefly
- Sam’s Club
- Samsung
- Crutchfield
- Prosource
- TigerDirect
- Nationwide Marketing Group
- For Your Entertainment



Source: Thredup 2020 Fashion Resale Market and Trend Report