

School Specialty Value YYX - Toronto (OTC: SCOO)

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24APR18

NoCalledStrikes.com

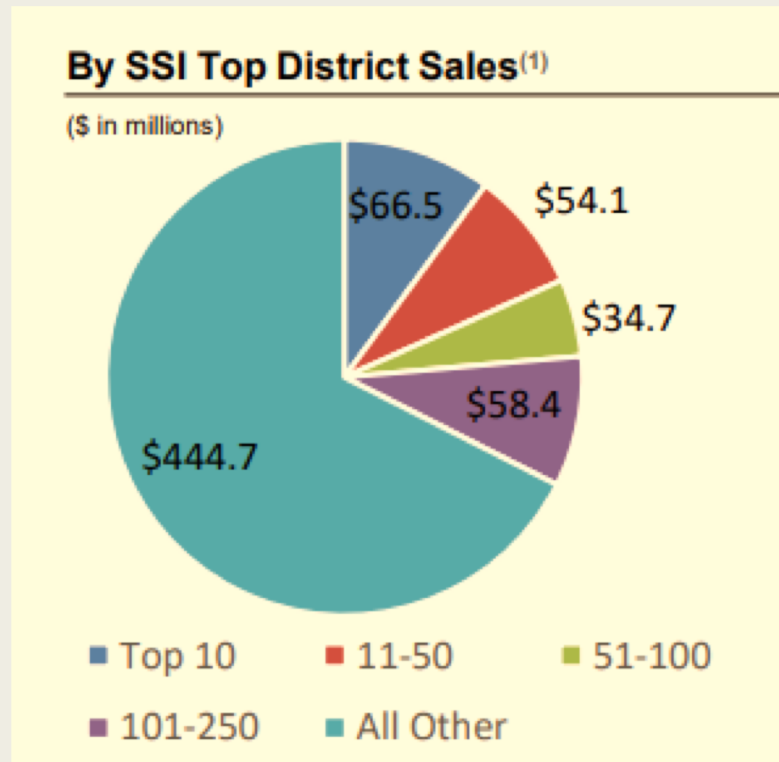
Peter Lynch “Crayon” Test

SCHOOL SPECIALTY IS A MICROCAP, POST-BANKRUPTCY TURNAROUND STOCK, SUCCESSFULLY RE-GROWING ITS BUSINESS, INCREASING ITS MARGINS, AND PAYING DOWN DEBT. IT'S ALSO REALLY CHEAP AND COMES WITH A SMALL CATALYST.

ITS BUSINESS IS SELLING SCHOOL DISTRICTS WHAT THEY NEED, IN THE QUANTITY THEY NEED, WHEN THEY NEED IT, IN THE WAY THEY LIKE TO BUY IT.

What does School Specialty do?

School Specialty is a leading distributor of supplies, furniture, technology products, supplemental learning products and curriculum solutions to the education marketplace.



- 13,000 active school districts
- Top 10 less than 10%.
- 100,000 products, 25 proprietary brands
- Average ticket \$353

Who needs School Specialty?

“Doesn’t Amazon and Office Depot sell this stuff?”

Yes, Amazon is great for employees with purchasing cards, but school district procurement its not about buying school supplies one notebook at a time. Its about doing business with school districts, the way schools do business.

- Working with government processes for negotiated discounts, multi-step approvals, purchase orders, bids, ERP integration.
- Long-standing, primary positions on important national, regional, and state specific purchasing agreements.
- Need for customization and sales support.
- Meeting highly seasonal demands, bulk volumes.
- Furniture, educational materials, not just classroom supplies.
- Amazon Business initiatives, as opposed to Amazon retail are a more legitimate concern.

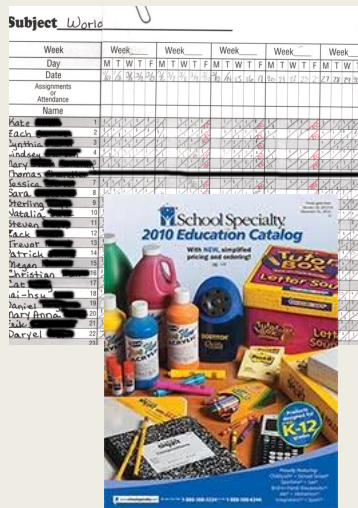
Why did School Specialty go Bankrupt?

Old business model dependent on paper gradebooks & lesson plans, thick catalogs, and an analog world.

Financial Crisis impacts school budgets especially new school construction.

Debt load too high for recessionary environment

Downward spiral and eventual reorganization



What happened on exit?

- New Management
 - *New CEO (James Yario), new plan*
 - *Stopped downward cycle, regained focus, re-aligned sales team*
- Replace lost revenues with new products and new customers
 - *Expand offerings, go after smaller districts & higher education*
 - *Emphasize furniture & equipment, proprietary brands*
- Reduce operating costs
 - *Lean Six Sigma, supply chain improvements*
 - *Technology upgrade in ERP and logistics*
 - *Sold off publishing and printing business*
- Leverage existing platform
 - *Organic growth*
 - *Small acquisitions such Triumph acquisition (2017)*
- Reduce debt load and working capital improvements
 - *Debt refinanced 2019 and 2022*

How cheap?

Market Cap = 119 M (7 million shares @ 17)

Debt (Seasonally adjusted) = 166M,

EV = 285M

2017 Earnings = 7M, \$1/share, P/E = 17

2017 EBITDA = 53M, EV/EBITDA = 5.4

2018 Earnings Guidance = 13M, \$1.86/share, P/E = 9.1

2018 EBITDA Guidance = 57.5M, EV/EBITDA = 5

All else equal, a EV/EBITDA of 6 in 2018, would increase market cap by 50%.

Why is it cheap?

- Microcap, illiquid, limited float, boring
- Perception that since Amazon or Office Depot sell school supplies, no need for School Specialty to exist.
- Old product lines are low growth. Some, like planners, are no growth.
- Debt/equity = 1.35
- Bankruptcy stigma, numbers were bad going in, and took two years to improve coming out.
- Its not a recession proof business
 - *School budgets are growing nationwide in aggregate, but more incremental dollars going to people than things.*
 - *New schools and equipment are deferrable expenditures.*
 - *Budgets in some localities are still being reduced.*
- Public education is ripe for disruption and suppliers geared to existing education model would be at risk if a new educational model took root. Same for government procurement processes.

Comparables

School Specialty, Inc. Guideline Public Company Method - EBITDA Multiples

(\$ in Millions) School Specialty, EV/EBITDA 5.4 (2017), 5 (2018)

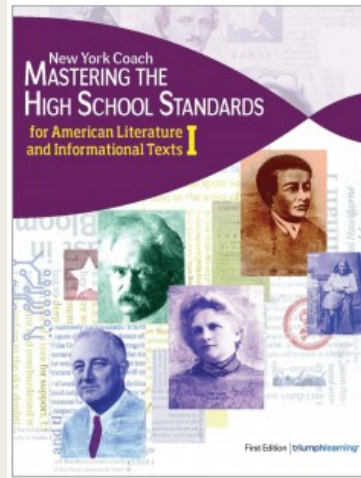
Company	Ticker	Enterprise Value	Enterprise Value to					Enterprise Value to				
			5-Year Average EBITDA	3-Year Average EBITDA	LFY EBITDA	LTM EBITDA	FY+1 EBITDA	5-Year Average EBITDA	3-Year Average EBITDA	LFY EBITDA	LTM EBITDA	FY+1 EBITDA
Barnes & Noble, Inc.	NYSE: BKS	\$718	\$135	\$168	\$163	\$132	\$171	5.3x	4.3x	4.4x	5.4x	4.2x
Blue Bird Corporation	NasdaqGM: BLBD	\$643	\$55	\$61	\$66	\$60	\$79	11.6x	10.6x	9.8x	10.7x	8.1x
Cambium Learning Group, Inc.	NasdaqCM: ABCD	\$323	\$20	\$22	\$26	\$30	NM	16.2x	14.4x	12.7x	10.6x	NM
Houghton Mifflin Harcourt Company	NasdaqGS: HMHC	\$1,681	\$88	\$56	\$81	\$81	\$228	19.2x	29.8x	20.8x	20.8x	7.4x
K12 Inc.	NYSE: LRN	\$496	\$61	\$45	\$36	\$37	\$120	8.1x	11.1x	13.8x	13.5x	4.1x
Office Depot, Inc.	NasdaqGS: ODP	\$3,031	\$496	\$604	\$598	\$598	\$630	6.1x	5.0x	5.1x	5.1x	4.8x
Pearson plc	LSE: PSN	\$10,352	\$1,182	\$1,036	\$828	\$1,222	\$940	8.8x	10.0x	12.5x	8.5x	11.0x
Scholastic Corporation	NasdaqGS: SCHL	\$1,023	\$100	\$116	\$137	\$102	\$101	10.2x	8.8x	7.5x	10.0x	10.1x
Virco Mfg. Corporation	NasdaqGM: VIRC	\$91	\$7	\$10	\$11	\$10	\$14	12.8x	9.5x	8.3x	9.2x	6.6x
John Wiley & Sons, Inc.	NYSE: JW.A	\$4,232	\$310	\$304	\$292	\$315	\$392	13.6x	13.9x	14.5x	13.4x	10.8x

School Specialty, Inc. Guideline Public Company Method - Sales Multiples

(\$ in Millions) School Specialty, EV/Sales .4 (2017)

Company	Ticker	Enterprise Value	Enterprise Value to			FY+1 Sales	Enterprise Value to			LTM EBITDA Margin	LTM EBIT Margin
			LFY Sales	LTM Sales	Sales		LFY Sales	LTM Sales	FY+1 Sales		
Barnes & Noble, Inc.	NYSE: BKS	\$718	\$3,895	\$3,767	\$3,731	0.2x	0.2x	0.2x	0.2x	3.5%	1.2%
Blue Bird Corporation	NasdaqGM: BLBD	\$643	\$991	\$1,016	\$1,016	0.6x	0.6x	0.6x	0.6x	5.9%	5.1%
Cambium Learning Group, Inc.	NasdaqCM: ABCD	\$323	\$152	\$157	NM	2.1x	2.1x	NM	NM	19.3%	15.9%
Houghton Mifflin Harcourt Company	NasdaqGS: HMHC	\$1,681	\$1,408	\$1,408	\$1,429	1.2x	1.2x	1.2x	1.2x	5.7%	(5.1)%
K12 Inc.	NYSE: LRN	\$496	\$889	\$884	\$899	0.6x	0.6x	0.6x	0.6x	4.2%	2.1%
Office Depot, Inc.	NasdaqGS: ODP	\$3,031	\$10,240	\$10,240	\$10,632	0.3x	0.3x	0.3x	0.3x	5.8%	4.3%
Pearson plc	LSE: PSN	\$10,352	\$5,620	\$6,147	\$6,071	1.8x	1.7x	1.7x	1.7x	19.9%	14.6%
Scholastic Corporation	NasdaqGS: SCHL	\$1,023	\$1,742	\$1,623	\$1,655	0.6x	0.6x	0.6x	0.6x	6.3%	4.6%
Virco Mfg. Corporation	NasdaqGM: VIRC	\$91	\$173	\$188	\$191	0.5x	0.5x	0.5x	0.5x	5.2%	2.4%
John Wiley & Sons, Inc.	NYSE: JW.A	\$4,232	\$1,719	\$1,752	\$1,759	2.5x	2.4x	2.4x	2.4x	18.0%	14.1%

Triumph Learning Acquisition



August 2017 purchase of print and digital solutions for instruction, intervention, and test success.

- 25M in annual revenue, gross margin in the upper 50's, accretive in 2018.
- Curriculum gross margin was 55.1% as compared to 47.3% in the fourth quarter of fiscal 2016.
- Purchase price approx. 80% of revenue + earnout.

Future

- Catalyst
 - *Up-listing sought by management*
 - *Company is actively seeking 300 shareholders*
- Acquisitions
 - *Leverage existing sales force & sales contracts*
 - *Cross-sell*
- Be the acquisition
 - *Mill Road Capital owns 21%,*
 - *Remove duplicate board/CEO/public company expenses.*

Management

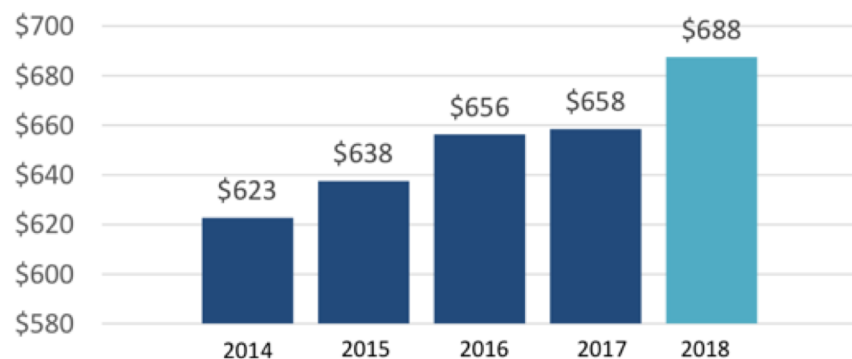
Compensation

Incentive comp based on EBITDA and FCF targets.

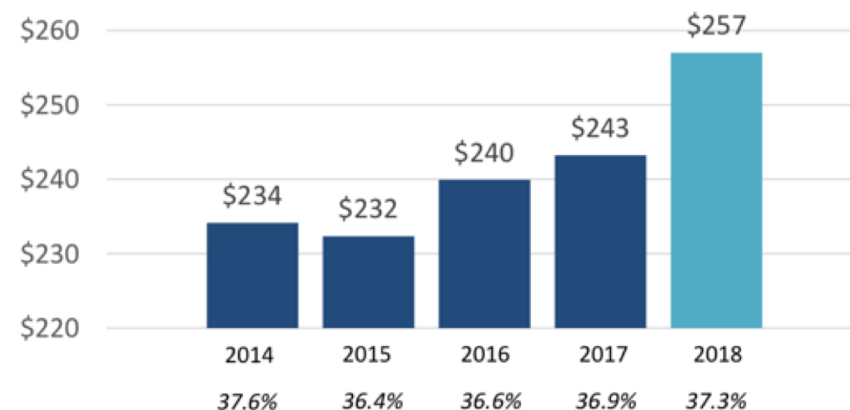
Options for 9.7% of the company authorized, 5.2% issued at average strike of \$18.57

Appendix

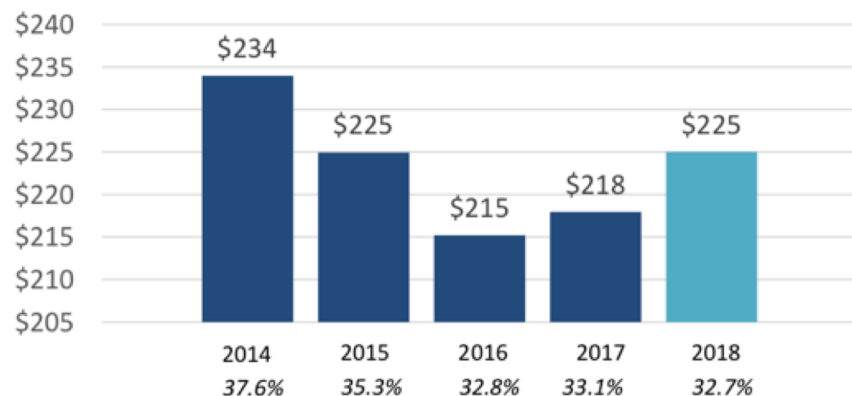
Revenue



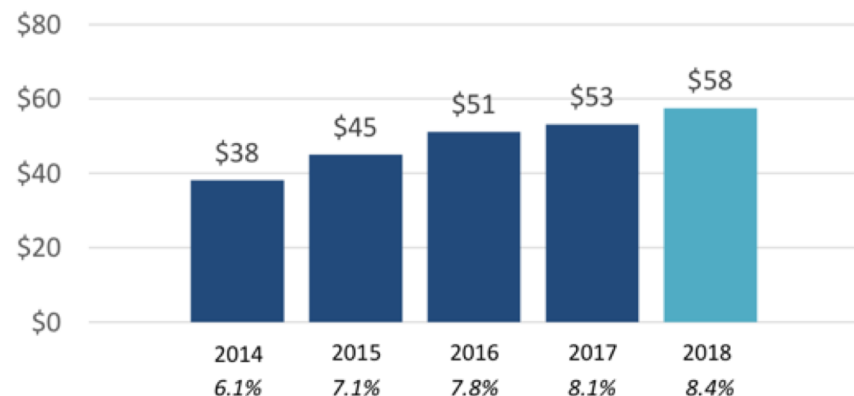
Gross Profit



Total SG&A



Adjusted EBITDA



FY18 Estimates approximate the midpoint of the ranges provides on slide 19.