

# School Specialty, Inc.



**Dougherty & Company**

**February 27-28, 2012**

# Safe Harbor

This presentation may contain statements concerning future results of operations, expectations, plans or prospects. Such statements are forward-looking statements. Forward-looking statements also include those preceded by or followed by words like “anticipate,” “believes,” “could,” “expect,” “intend,” “may,” “should,” “plan,” “targets” or similar expression. These forward-looking statements are based on School Specialty estimates and assumptions as of the date of this presentation, and as such involve uncertainty and risks. These statements are not guarantees of future performance and actual results may differ materially from those contemplated by the forward-looking statements due to a number of factors including those described in item 1-A of School Specialty’s fiscal 2011 annual report on Form 10-K. Those factors are incorporated by reference. Except to the extent required under Federal Security laws School Specialty does not intend to update or revise the forward-looking statements.



# **Michael P. Lavelle**

**President and  
Chief Executive Officer**

# Unique Opportunity

- Leading education company specializing in K-12 curriculum and supplemental educational resources and equipment
- Broadest portfolio in the industry
- Products sold to an estimated 70% of U.S. schools and more than 50% of U.S. teachers
- Proprietary products represent 40% of total revenues
- Multi-channel, multi-market opportunities
- Driving strategic initiatives to enhance revenue growth, margin improvement and balance sheet to create long term value
- Scale, brands and low share create foundation for growth



# Premier Brands and Product Offerings



# Highly Diversified Business Mix

- Top 100 products accounted for less than 11% of revenues
- Products from our top 10 suppliers generated less than 23% of revenues
- Top 10 school districts accounted for less than 10% of revenues
- Customers within one state accounted for less than 11% of revenues

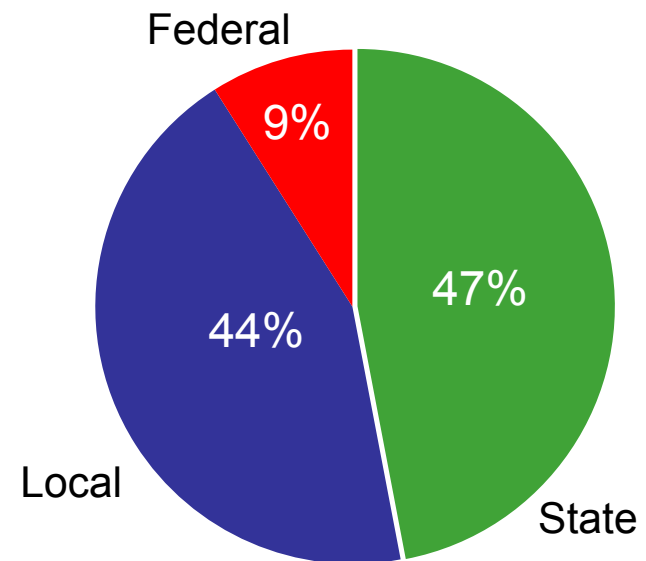


# Education Remains A National Priority

## *Challenging environment - long term optimism*

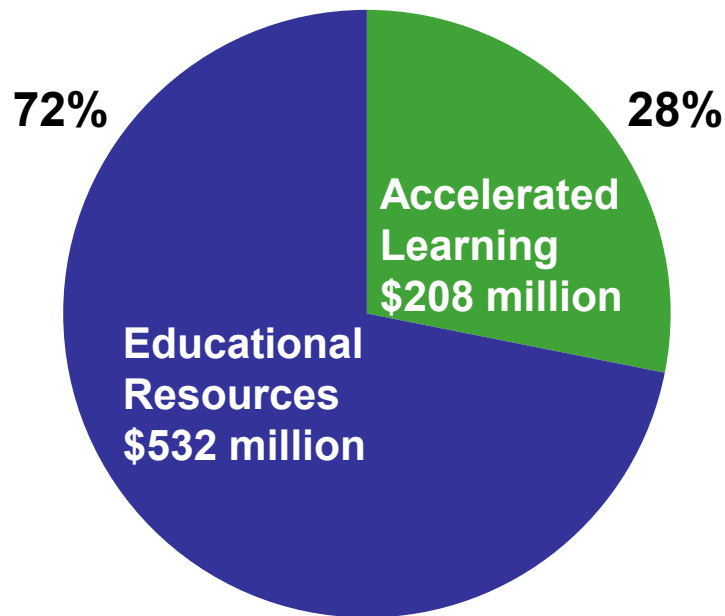
- 2011 funding in most states was below 2008
- School districts postponed purchases awaiting Next Generation guidelines for Math, Science and Reading
- State funding trends have been slowing improving over last seven quarters
- Local funding trends are mixed – dependent on stabilizing or improving home valuations and property tax revenues
- Student enrollment projects are positive

## Funding Sources

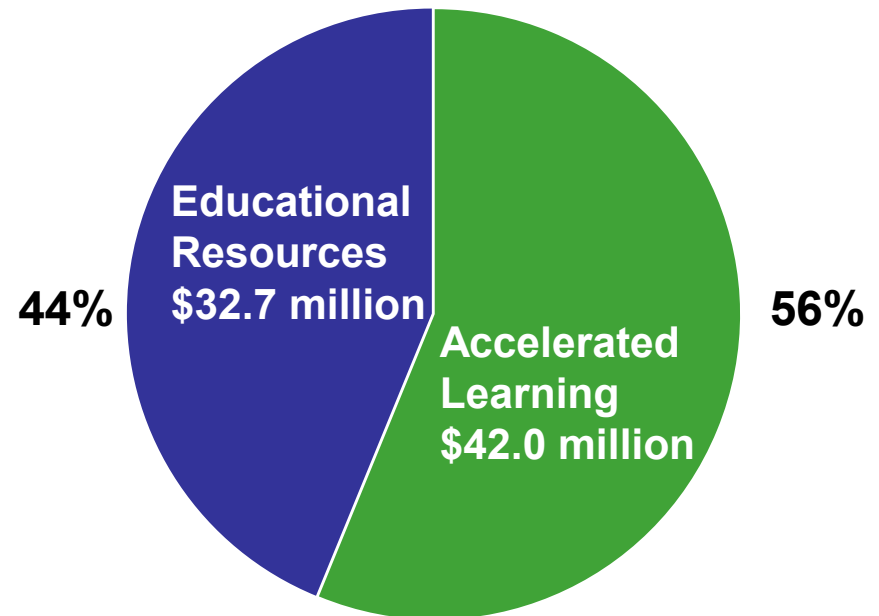


# Our Business Segments

## Revenues



## EBITDA



Based on Trailing Twelve Months Through Q3 Fiscal 2012



# Our Business

## Accelerated Learning

**Revenues of \$208 million**  
**Gross Margin of 53%**

- Science
- Math
- Reading & Math Intervention
- Planning & Student Development
- Physical Education & Health

## Educational Resources

**Revenues of \$532 million**  
**Gross Margin of 33%**

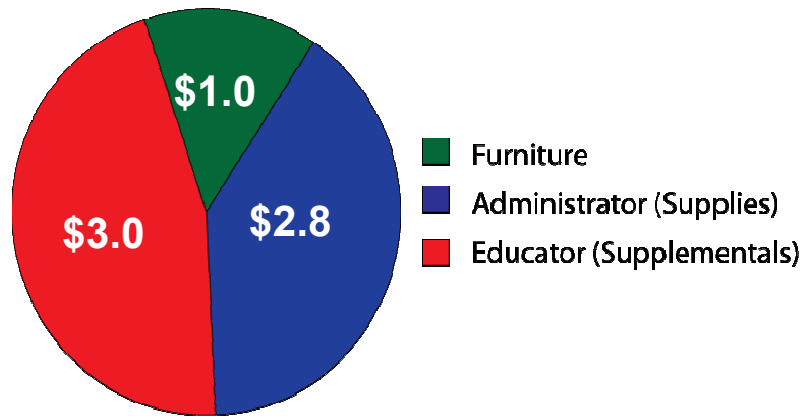
- Art
- Early Childhood
- Special Needs
- Physical Education
- Career & Technical Education
- Supplies
- Furniture & Equipment

Based on Trailing Twelve Months Through Q3 Fiscal 2012

# The Market is Large and Fragmented

## Educational Resources

### Institutional Market



**Estimated Market Size:  
\$7 billion for  
Supplemental Products**

### Characteristics:

- Lower capital intensity than ALG
- The industry's largest provider
- 20% of our products are proprietary
- Market share: approximately 8%
- Competitors include: big box office product companies, education dealers and small specialty niche providers

# The Foundation of Our Business

## Educational Resources

- Unique classroom offerings of purchased and proprietary products
- Categories have more relevance and are deeper than competitors
- Supported by customized value-added service solutions and preferred alternative procurement options
- Leverage value across categories through multi-channel approach
- 15 dedicated websites support new branding approach
- Products lend themselves to multi-market approach



# Educational Resources Growth Drivers

## *Pursuing market share through aggressive multi-channel approach*

- Focused catalog strategy – pricing, circulation and new products
- Improved web integration– data, search and performance
- Proactive marketing and sales programs
- Leveraging valuable brands
- Outreach to parents and teachers via web-centric approach
- Explore entry into new markets and added channels

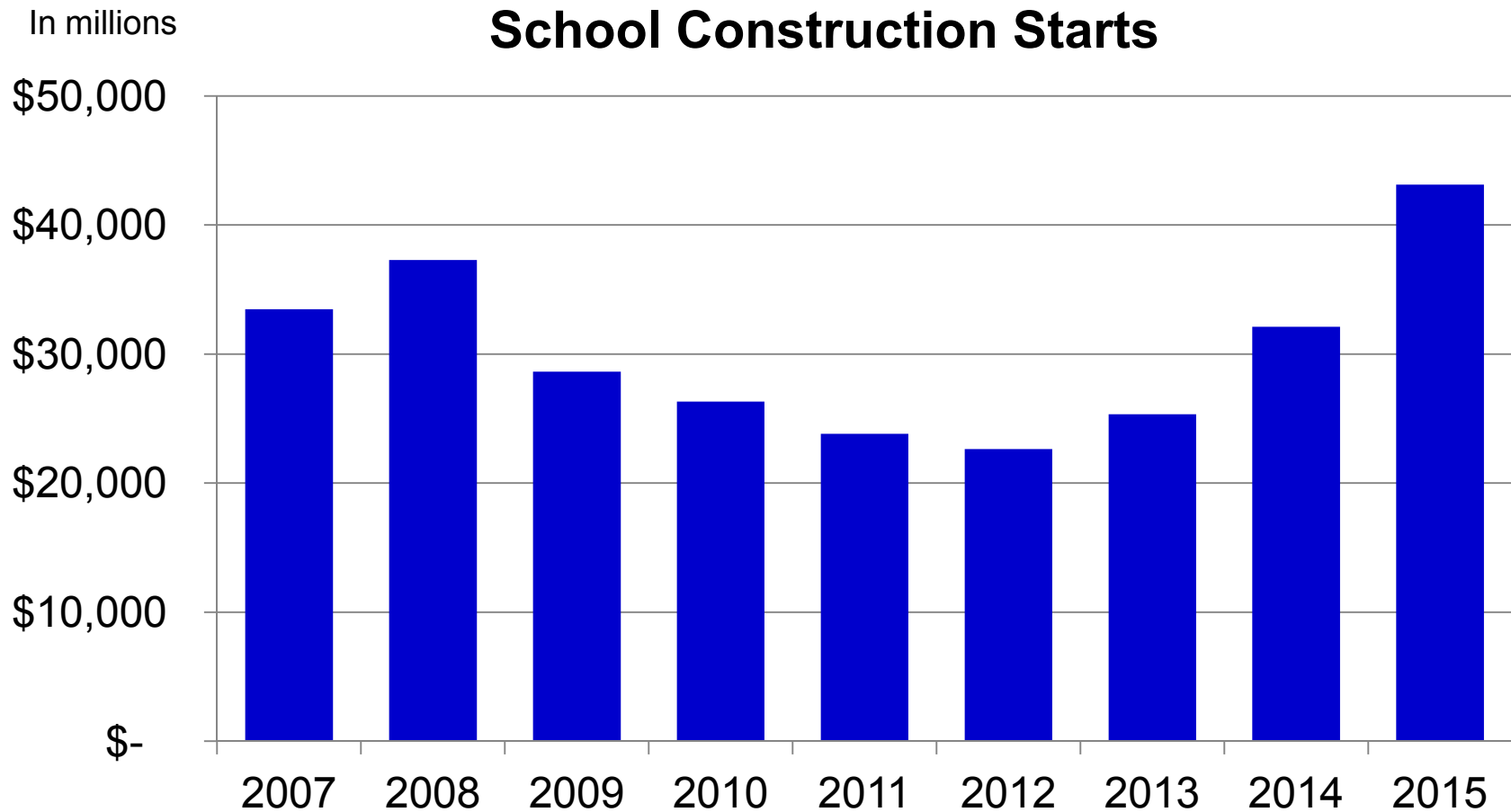
***Largest offering in industry, across most education categories.***



**amazon.com**



# School Construction Starts Trending Up



Source: McGraw-Hill Construction Starts K-12, December 2011

# Furniture Market

## *Market share gains being realized, outlook strengthening*

- Demand for Projects by Design® services growing
- New executive leadership appointed to drive market share gains and segment growth
- Regional coverage expanded
- Classroom Select™ proprietary brand launched

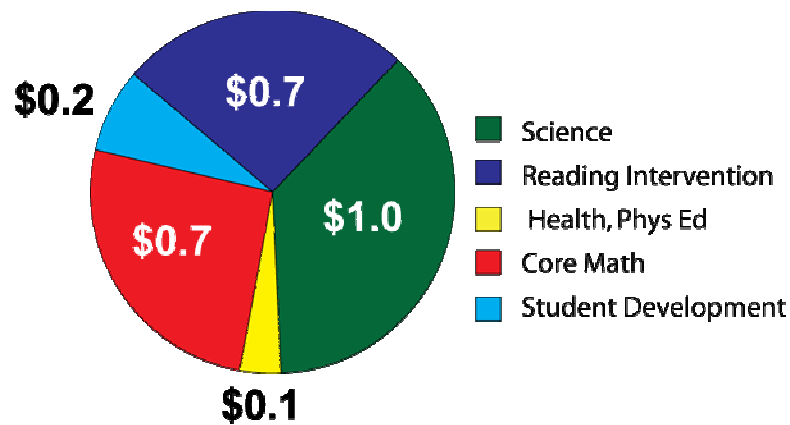


***Creating efficient and technology-enabled learning environments.***

# Curriculum Market is Large and Fragmented

## Accelerated Learning

Institutional Market



**Estimated Market Size -  
\$2.7 Billion  
(Offered Products)**

### Characteristics:

- Higher operating margins with higher capital requirements – longer investment cycle
- 100% proprietary products
- Market share: approximately 8%
- Competitors include textbook publishers and small niche providers

# High Margin, Proprietary Products

## Accelerated Learning

- Develop unique knowledge transfer curriculum
- Produce higher learning outcomes than competitive products – deep research base and efficacy
- Premise of self-paced, technology-supported, individual instruction
- Displace traditional textbook offers through alternative learning approaches
- Solutions that target a specific educational need that isn't met through a traditional comprehensive solution





# Accelerated Learning Growth Drivers

## *Solutions to Accelerate Learning Across all Offerings*

- Science programs adopted in Indiana, Louisiana, New Mexico, Idaho and Florida; new FOSS 2012; integrates with national STEM initiative
- *Academy of Reading*® endorsed by CASE
- Digital agendas/planners offer content and pricing flexibility
- PE/Health curriculum addresses youth wellness priority; pursuing and winning grant opportunities
- Niche targeting with opportunity to expand market approach



## *Supporting educational trends*

# Initiatives to Drive Growth

## Initiatives to Date

- ✓ Major review of all businesses, brands and products
- ✓ Meeting with employees throughout the organization

## Assessment to Date

- ✓ Great employees
- ✓ No negative surprises
- ✓ Identifying further opportunities on revenue and operational fronts

## Next Steps

- Create a unified business strategy
- Transition to multi-channel, multi-market focus
- Simplify business structure and focus on brand exploitation and operational excellence



# David Vander Ploeg

Chief Financial Officer

# Operating and Financial Performance

## Guiding Principles

- Strong cash flow yield
- Operational excellence
  - Lean methodologies
  - Supply chain efficiencies
  - Leverage Oracle
- Opportunistic and focused
- Moderate, consistent organic growth

## Initiatives and Goals

- Strategic review of businesses
- Focus on initiatives to enhance earnings, cash flow and balance sheet
- Drive toward double digit EBITDA margin

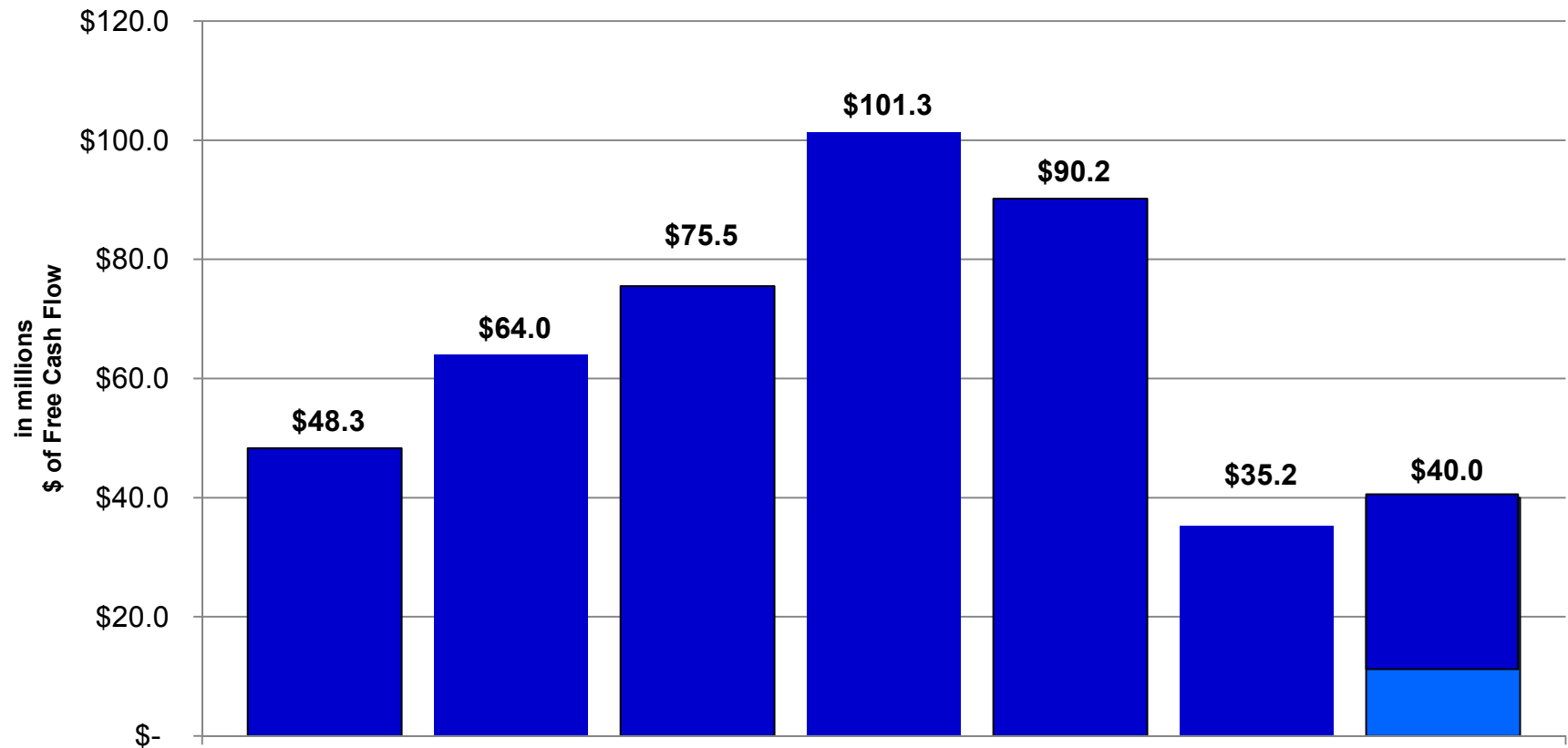
# Key Financial Metrics

In millions, except per share amounts

	9 mo. F12	9 mo. F11	Change	TTM F12	TTM F11	Change
<b>Revenue</b>	\$612.7	\$634.7	-3.5%	\$740.1	\$751.8	-1.6%
<b>Gross Margin</b>	38.7%	40.7%	-200bps	38.6%	41.2%	-260bps
<b>SG&amp;A Expense</b>	\$202.9	\$216.3	-6.2%	\$274.1	\$281.1	-6.2%
<b>SG&amp;A Leverage</b>	33.1%	34.1%	+100bps	37.0%	37.4%	+40bps
<b>EBITDA<sup>(1)</sup></b>	\$61.4	\$66.8	-8.1%	\$47.8	\$60.7	-21.3%
<b>EBITDA Margin</b>	10.0%	10.5%	-50bps	6.5%	8.1%	-160bps
<b>Diluted EPS<sup>(1)</sup></b>	\$0.20	\$0.60	- \$0.40	(\$0.80)	(\$0.13)	- \$0.67

<sup>(1)</sup> Excludes impairment charges

# Strong Free Cash Yield



Cash Flow Per Share	\$2.03	\$2.84	\$3.65	\$5.36	\$4.78	\$1.87	\$2.11 <sup>(1)</sup>
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<sup>(1)</sup> F12 guidance adjusted for one-time tax payments of approximately \$30M.

# Capital Structure

(\$'s in millions)	<i><b>Total Facility</b></i>	<i><b>Outstanding</b></i>		
		<i><b>Q3 F12</b></i>	<i><b>Q4 F11</b></i>	<i><b>Q1 F11</b></i>
<b>Bank Revolver</b>	\$ 200.0	\$ 56.0	\$ 91.3	\$ 47.5
<b>Bank Delayed-Draw Term Loan</b>	42.5	42.5	-	-
<b>Subord. Convertible ('06)</b>	-	-	100.0	200.0
<b>Subord. Convertible ('11)</b>	157.5	157.5	100.0	-
<b>Capitalized Leases</b>	N/A	12.9	13.6	13.8
<b>Other (bond accretion)</b>	25.0	5.7	1.0	-
<b>Total</b>	\$ 425.0	\$ 274.6	\$ 305.9	\$ 261.3

Total funded debt at the end of Q3 F12 (including l/c's) was \$277.3 million

# Managing Costs While Investing in the Future

## Cost Management

- Fixed infrastructure costs reduced more than \$40 million over past three years
- Additional functional consolidations and supply chain efficiencies
- Continuous improvement mindset in place

## Investments

- Heavy emphasis on web integration
- Digitizing all product suites





# FY 2012 Guidance

	<b>FY 2011 Actual</b>	<b>FY 2012 <sup>1</sup></b>
Revenue	\$762 million	\$730 million to \$740 million
EBITDA	\$53 million	\$48 million to \$52 million
Loss per share	(\$0.31)	(\$0.65) to (\$0.50)
Free cash flow <sup>2</sup>	\$35.2 million	\$0 to \$10 million

<sup>1</sup> Results exclude impairment charge of \$110.8 million and \$4.4 million gain

<sup>2</sup> Including deferred tax payments of approximately \$30 million

# School Specialty is Uniquely Positioned

- Broadest portfolio in the education industry
- Successfully reach 70% of all schools and more than 50% of teachers
- Well known, respected brands
- Strong cash producing model
- New product innovation and assessment tools accelerate student learning
- Building a unique instructional presence focused on accelerating learning
- Committed to being a leader in education





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