

This article is authored by MOI Global instructor Patrick Retzer, Founder, President, and Chief Investment Officer of Retzer Capital Management. The article previews Patrick's in-depth idea presentation on School Specialty (OTC: SCOO) at Wide-Moat Investing Summit 2018.

The company that arguably has the widest and most effective moat is the company that has no true, head to head competitor. In addition, that company would ideally have high levels of recurring revenue, a large and growing addressable market with plenty of runway, an excellent, proven management team, be trading at an attractive valuation and have several catalysts in the very near future. That is the essence of School Specialty, Inc., a company that sets itself apart from potential competitors in 3 major ways.

First, SCOO serves, in some manner, over 95% of the school districts and 71% of the schools in the U.S. This is no small task, as it requires the ability to support public school procurement processes (access to legal purchasing vehicles, POs, multi-step approval routing, future dated orders, dedicated "punch-out" procurement sites, ERP integration) and the ability to support complex order processing and fulfillment requirements (orders can be broken down by building, classroom and/or teacher as necessary, while still accommodating centralized invoicing).

Second, SCOO carries over 100,000 SKUs, including supplies, furniture, Science curriculum, instruction and intervention products, student planners and AV Tech. The supplies category alone addresses the needs of the office, art, Phys Ed, basic classroom, science, special needs, early childhood and safety & security. No other company that serves SCOO's \$12 billion addressable market has their depth and breadth of product.

Third, SCOO has strengths in the two most critical issues facing public education today. The horrific school shootings illustrate the need for massive investment in safety equipment and training; \$3.0 billion of new funding has been announced thus far in 2018. SCOO's Safety & Security and Guardian offerings address these needs at a very high and comprehensive level. In this era of unsatisfactory results from all too many public school districts, SCOO's well received 21st Century Safe School value proposition looks to improve student outcomes by addressing the social, emotional, mental and physical well-being and safety of students on a cohesive and holistic basis. This initiative elevates SCOO from working with teachers and procurement managers on a transactional basis to being more of a partner and engaging with principals, superintendents and school boards on a more comprehensive, inclusive, solutions-based basis.

In my opinion, SCOO's moat is indeed wide and formidable, but even more impressive is the compelling valuation at which the stock currently trades as well as the significant catalysts that could move the stock higher in the immediate future. Without giving away the whole story, let me just say that SCOO currently trades at 17.3% free cash flow to market cap, 2.4 times 2018 estimated EBITDA to market cap and 5.2 times estimated EBITDA to enterprise value. Regarding near term catalysts, management is in the process of obtaining an uplisting to the NASDAQ which should multiply the investable audience for the stock. At the

same time, the stock “overhang” that was present around the \$17 share price seems to have been absorbed by the market. After several years of rebuilding the company to be competitive and efficient, operating results look poised to “break out” and accelerate higher. And finally, with the company on the verge of delivering impressive performance, management has begun an effort to actively tell the story. I believe we are likely to see them at investor conferences and perhaps gain research coverage in the very near future.

I last presented SCOO at the Manual of Ideas Best Ideas for 2018 conference about 5 months ago when the stock was at \$17.00. At the risk of having you think I can only come up with one idea in a single year, I would argue that at \$19.70 SCOO presents an even better opportunity as they have since issued impressive guidance for 2018 and I believe have several imminent catalysts.