



**FOURTH QUARTER AND FISCAL YEAR 2016 EARNINGS PRESENTATION**

**JULY 21, 2016**



## Forward-Looking Statements

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This presentation contains certain forward-looking statements. Such forward-looking statements are subject to various risks and uncertainties, including the conditions of the children's book and educational materials markets and acceptance of the Company's products in those markets, and other risks and factors identified from time to time in the Company's filings with the Securities and Exchange Commission. Actual results could differ materially from those currently anticipated.



## Regulation G

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Today's comments include references to certain non-GAAP financial measures as defined in Regulation G. The reconciliation of these non-GAAP financial measures with the relevant GAAP financial information and other information required by Regulation G is provided in the Company's earnings release, which is posted on the Company's investor relations website at [investor.scholastic.com](http://investor.scholastic.com).



## Dick Robinson

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Chief Executive Officer, President  
and Chairman



# Fiscal Year 2016 Highlights – Continuing Operations

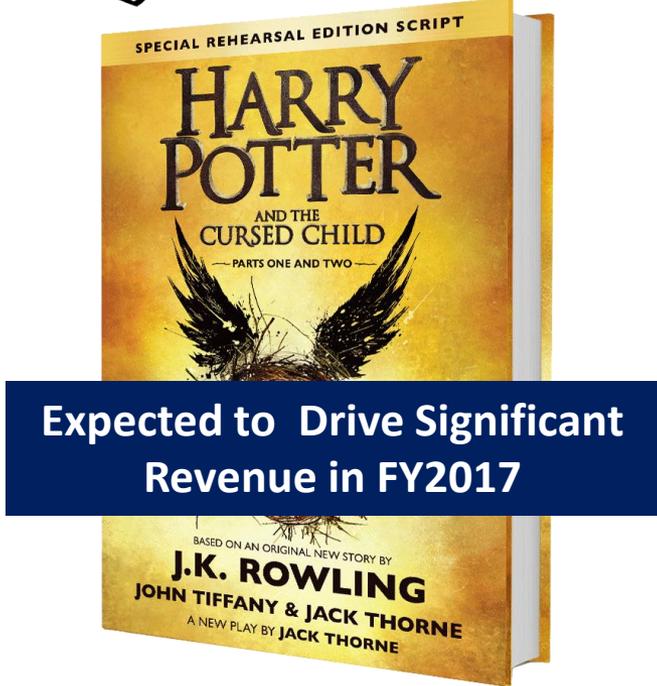
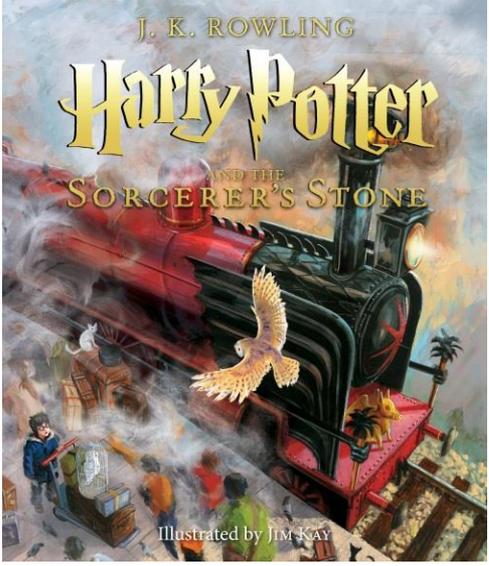
- Strong performance driven by simplified structure and focused strategy:
  - Revenue +2% to \$1.67 billion; +5% excluding foreign exchange
  - Double-digit growth in operating income
  - Earnings from continued operations of \$1.26 per share, or \$1.70 excluding one-time items – exceeded guidance of approximately \$1.35 per share
- Nimble team united in mission to provide high-quality books and education materials in support of children’s reading and learning; our opportunities continue to grow
- Full year operating results exceeded guidance:

Metric	Actual	Guidance
Revenue	\$1.67 billion	Approx. \$1.65 billion
EPS, ex. one-times	\$1.70	Approx. \$1.35
Free Cash Flow (adj.)	\$46.3 million	\$25 -\$35 million

# New Publishing in our **Harry Potter** Franchise



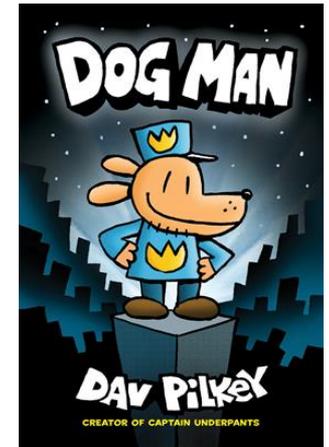
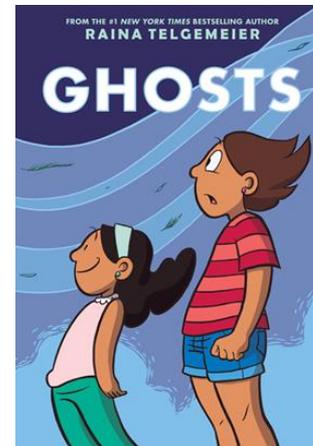
**Drove +14% Increase in Trade Revenues in FY2016**



**FANTASTIC BEASTS**  
AND WHERE TO FIND THEM

## Children's Book Publishing and Distribution

- **Trade:** Many additional exciting titles coming in fiscal 2017, new multiplatform series Horizon with first story by Scott Westerfield, Dav Pilkey's newest series Dog Man, and *Ghosts* by Raina Telgemeier, as well as new multi-year licensing agreement with American Girl®
- **Book Clubs and Book Fairs:** Expect to maintain current level of revenue while focusing on more profitable execution by matching marketing and operations resources to each school's size, interest, and ability to conduct book clubs and book fairs





## Education

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- Segment revenue up **+\$22.2** million, or 8% from prior year period
- Growth driven by comprehensive Pre-K to 8 Literacy Solutions strategy
- Gaining market share with customized curriculum, including Guided Reading and Leveled Bookrooms, as an alternative for basal readers and textbooks
- Professional Learning consulting services allow teachers to improve the ways they use new customized curriculum in the classroom
- Circulation in classroom magazines now exceeds 15 million; expanding offers with new *Storyworks*<sup>®</sup> *Jr.* magazine



## International

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- Segment revenue was down \$29.0 million, or -7%, including the adverse impact of foreign exchange of \$43.2 million for the year
- Local currency revenue growth in Australia, Asia and the UK
- Trade growth in most international countries, with across the board strength in clubs, fairs, trade and education in India
- Growing trade and education revenues through committed program to build international product strength and coordinated marketing strategies



## Looking Ahead

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- Continuing to explore opportunities to provide meaningful returns to shareholders, over time, balanced with our long-term operating needs and other strategic investments
- Implementing wage improvement programs directed toward the well-being of employees in our U.S. distribution centers, to attract, retain and motivate employees and to strengthen our operations
- Developing our technology and operations functions to help provide our business units with better information, better systems and better processes
- Long-term prospects for sustainable growth as we continue to deliver on our mission to support literacy and learning in school and at home



## Maureen O'Connell

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Executive Vice President,  
Chief Administrative Officer and CFO



# Income Statement – Adjusted Earnings Per Share

In \$ Millions (except per share)	Fourth Quarter 2016			Fourth Quarter 2015			Fiscal Year to Date 2016			Fiscal Year to Date 2015		
	As	One-Time	Excluding	As	One-Time	Excluding	As	One-Time	Excluding	As	One-Time	Excluding
	Reported	Items	One-Time Items	Reported	Items	One-Time Items	Reported	Items	One-Time Items	Reported	Items	One-Time Items
Revenues	\$513.8		\$513.8	\$487.7		\$487.7	\$1,672.8		\$1,672.8	\$1,635.8		\$1,635.8
Cost of goods sold <sup>1</sup>	212.7	-	212.7	212.9	(0.2)	212.7	762.3	-	762.3	758.5	(1.9)	756.6
Selling, general and administrative expenses <sup>2</sup>	223.2	(5.2)	218.0	215.6	(9.8)	205.8	777.3	(11.4)	765.9	770.1	(29.0)	741.1
Bad debt expense	3.4	-	3.4	1.7	-	1.7	12.3	-	12.3	10.6	-	10.6
Depreciation and amortization	8.6	-	8.6	11.1	-	11.1	38.9	-	38.9	47.9	-	47.9
Asset impairments <sup>3</sup>	7.5	(7.5)	-	12.9	(12.9)	-	14.4	(14.4)	-	15.8	(15.8)	-
Total operating costs and expenses	455.4	(12.7)	442.7	454.2	(22.9)	431.3	1,605.2	(25.8)	1,579.4	1,602.9	(46.7)	1,556.2
Operating income (loss) from continuing operations	\$58.4	\$12.7	\$71.1	\$33.5	\$22.9	\$56.4	\$67.6	\$25.8	\$93.4	\$32.9	\$46.7	\$79.6
Other expense (income)	-	-	-	0.1	-	0.1	-	-	-	0.1	-	0.1
Interest expense, net	0.3	-	0.3	0.9	-	0.9	1.1	-	1.1	3.5	-	3.5
(Gain) loss on investments <sup>4</sup>	-	-	-	-	-	-	(2.2)	-	(2.2)	(0.6)	0.6	-
Provision (benefit) for income taxes	23.2	5.1	28.3	15.0	8.9	23.9	24.7	10.3	35.0	14.4	18.3	32.7
Earnings (loss) from continuing operations	\$34.9	\$7.6	\$42.5	\$17.5	\$14.0	\$31.5	\$44.0	\$15.5	\$59.5	\$15.5	\$27.8	\$43.3
Earnings (loss) from discontinued operations, net of tax	(0.9)	-	(0.9)	264.8	-	264.8	(3.5)	-	(3.5)	279.1	-	279.1
Net Income (loss)	\$34.0	\$7.6	\$41.6	\$282.3	\$14.0	\$296.3	\$40.5	\$15.5	\$56.0	\$294.6	\$27.8	\$322.4
Earnings (loss) per diluted share from continuing operations	1.00	0.22	1.22	0.52	0.41	0.93	1.26	0.44	1.70	0.46	0.83	1.29
Earnings (loss) per diluted share from discontinued operations, net of tax	(0.03)	-	(0.03)	7.78	-	7.78	(0.10)	-	(0.10)	8.34	-	8.34
Earnings (loss) per diluted share	0.97	0.22	1.19	8.30	0.41	8.71	1.16	0.44	1.60	8.80	0.83	9.63

- In the three and twelve months ended May 31, 2015, the Company recognized a pretax charge related to unabsorbed burden associated with the former EdTech business of \$0.2 and \$0.4, respectively. In the twelve months ended May 31, 2015, the Company recognized a pretax charge of \$1.5 related to a warehouse optimization project in Canada.
- In the three and twelve months ended May 31, 2016, the Company recognized pretax severance expense as part of cost reduction programs of \$5.2 and \$9.5, respectively. In the twelve months ended May 31, 2016, the Company recognized a pretax charge related to a branch consolidation project in the Company's book fairs operations of \$1.5 and pretax transaction costs of \$0.4. In the three and twelve months ended May 31, 2015, the Company recognized a pretax charge related to unabsorbed burden associated with the former EdTech business of \$4.4 and \$15.4, respectively; pretax severance expense as part of cost reduction programs of \$5.3 and \$8.9, respectively; and a pretax charge related to the relocation of the Company's Klutz division of \$0.1 and \$0.4, respectively. In the twelve months ended May 31, 2015, the Company recognized a pretax pension settlement charge of \$4.3.
- In the three and twelve months ended May 31, 2016, the Company recognized a pretax impairment charge related to legacy building improvements associated with its New York City headquarters renovation of \$7.5. In the twelve months ended May 31, 2016, the Company recognized pretax impairment charges related to certain legacy prepublication assets of \$6.9. In the three and twelve months ended May 31, 2015, the Company recognized a pretax impairment charge of \$8.3 in connection with the restructuring of the Company's media and entertainment businesses and a \$4.6 pretax impairment charge related to the discontinuation of certain outdated technology platforms. In the twelve months ended May 31, 2015, the Company recognized a pretax impairment charge related to the closure of its retail store of \$2.9.
- In the twelve months ended May 31, 2016, the Company recognized a pretax gain on sale of investment of \$2.2 related to an investment in China. In the twelve months ended May 31, 2015, the Company recognized a pretax gain on sale of investment of \$0.6 related to a UK-based cost-method investment.



# Segment Results – Adjusted for One-Time Items

In \$ Millions (except per share)	Fourth Quarter 2016			Fourth Quarter 2015			Fiscal Year to Date 2016			Fiscal Year to Date 2015		
	As	One-Time	Excluding	As	One-Time	Excluding	As	One-Time	Excluding	As	One-Time	Excluding
	Reported	Items	One-Time Items	Reported	Items	One-Time Items	Reported	Items	One-Time Items	Reported	Items	One-Time Items
Children's Book Publishing and Distribution												
Revenue												
Book Clubs	\$68.4		\$68.4	\$67.1		\$67.1	\$270.4		\$270.4	\$275.3		\$275.3
Book Fairs	186.1		186.1	177.0		177.0	520.4		520.4	497.4		497.4
Consolidated Trade	45.7		45.7	40.8		40.8	211.7		211.7	186.0		186.0
Total revenue	300.2		300.2	284.9		284.9	1,002.5		1,002.5	958.7		958.7
Operating income (loss) <sup>1</sup>	56.4	-	56.4	40.4	10.3	50.7	110.6	5.2	115.8	85.6	10.6	96.2
	18.8%		18.8%	14.2%		17.8%	11.0%		11.6%	8.9%		10.0%
Education												
Revenue	112.5		112.5	105.0		105.0	298.1		298.1	275.9		275.9
Operating income (loss) <sup>2</sup>	40.7	-	40.7	36.1		36.1	52.8	3.2	56.0	48.4		48.4
	36.2%		36.2%	34.4%		34.4%	17.7%		18.8%	17.5%		17.5%
International												
Revenue	101.1		101.1	97.8		97.8	372.2		372.2	401.2		401.2
Operating income (loss) <sup>3</sup>	4.3	0.7	5.0	3.0	4.2	7.2	11.4	0.9	12.3	20.6	5.7	26.3
	4.3%		4.9%	3.1%		7.4%	3.1%		3.3%	5.1%		6.6%
Corporate overhead <sup>4</sup>	\$43.0	(\$12.0)	\$31.0	\$46.0	(\$8.4)	\$37.6	\$107.2	(\$16.5)	\$90.7	\$121.7	(\$30.4)	\$91.3
Operating income (loss) from continuing operations	\$58.4	\$12.7	\$71.1	\$33.5	\$22.9	\$56.4	\$67.6	\$25.8	\$93.4	\$32.9	\$46.7	\$79.6

- In the twelve months ended May 31, 2016, the Company recognized a pretax impairment charge associated with certain legacy prepublication assets of \$3.7 and a pretax charge related to a branch consolidation project in the Company's book fairs operations of \$1.5. In the three and twelve months ended May 31, 2015, the Company recognized a pretax impairment charge of \$8.3 in connection with the restructuring of the Company's media and entertainment businesses, a \$1.9 pretax impairment charge related to the discontinuation of certain outdated technology platforms, and a pretax charge related to the relocation of the Company's Klutz division of \$0.1 and \$0.4, respectively.
- In the twelve months ended May 31, 2016, the Company recognized pretax impairment charges related to certain legacy prepublication assets of \$3.2.
- In the three and twelve months ended May 31, 2016, the Company recognized pretax severance expense as part of cost reduction programs of \$0.7 and \$0.9, respectively. In the three and twelve months ended May 31, 2015, the Company recognized pretax severance expense of \$1.5 as part of cost reduction and restructuring programs and a \$2.7 pretax impairment charge related to the discontinuation of certain outdated technology platforms. In the twelve months ended May 31, 2015, the Company recognized a pretax charge of \$1.5 related to a warehouse optimization project in Canada.
- In the three and twelve months ended May 31, 2016, the Company recognized a pretax impairment charge related to legacy building improvements associated with its New York City headquarters renovation of \$7.5 and pretax severance expense as part of cost reduction programs of \$4.5 and \$8.6, respectively. In the twelve months ended May 31, 2016, the Company recognized pretax transaction costs of \$0.4. In the three and twelve months ended May 31, 2015, the Company recognized a pretax charge related to unabsorbed burden associated with the former EdTech business of \$4.6 and \$15.8, respectively, and pretax severance expense as part of cost reduction programs of \$3.8 and \$7.4, respectively. In the twelve months ended May 31, 2015, the Company recognized a pretax pension settlement charge of \$4.3 and a pretax impairment charge related to the closure of its retail store of \$2.9.



## Executing Our Long-Term Initiatives

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- Completed comprehensive, company-wide review of overhead and operating costs across all our business units
  - Cost actions will offset the loss of fees associated with the transition services agreement with HMH
  - Expected savings for fiscal 2017 are included in outlook
- Strategic technology investments on track
  - Focused on e-commerce, customer relationship and content management
  - Expected to bring widespread benefits – allowing us to better target our markets, improve processes and lower costs



## Real Estate Strategy

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- Plan for new Broadway-facing retail space and office space on track
- Expect non-cash impairment charges of about \$20 million over a three-year period for legacy leasehold and other building improvements
- In discussions with several premium retailers to take full advantage of opportunities for new retail space
- Continue to expect to generate significant incremental income; however, we now believe this increased rental income will be realized over a longer timeframe
- Significant longer-term return on investment from increased rental income, the avoidance of external lease expense, and higher real estate values



# Free Cash Flow & Net Debt

In \$ Millions	<u>May 31, 2016</u>	<u>May 31, 2015</u>
Free cash flow (use) (3 month period ending) <sup>1</sup>	\$52.1	\$29.5
Free cash flow (use) (12 month period ending) excluding taxes paid on sale of EdTech <sup>1</sup>	\$46.3	\$73.7
Accounts receivable, net	\$196.3	\$193.8
Inventories, net	\$271.2	\$257.6
Accounts payable	\$138.2	\$146.8
Accrued royalties	\$31.6	\$26.8
<b>Total debt</b>	<b>\$6.3</b>	<b>\$6.0</b>
Cash and cash equivalents	\$399.7	\$506.8
<b>Net debt<sup>2</sup></b>	<b>(\$393.4)</b>	<b>(\$500.8)</b>

1. Free cash flow (use) is defined by the Company as net cash provided by or used in operating activities (which includes royalty advances), reduced by spending on property, plant and equipment and pre-publication and production costs

2. Net debt is defined by the Company as lines of credit and short-term debt plus long-term-debt, net of cash and cash equivalents



## FY 2017 Outlook

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Metric	Guidance
Revenue	<b>\$1.7 - \$1.8</b> billion
Earnings from Continuing Operations <sup>1</sup>	<b>\$1.60 - \$1.70</b> per diluted share
Free Cash Flow	<b>\$40 - \$50</b> million
Capital Expenditures	<b>\$70 - \$80</b> million
Prepublication/Production Spending	<b>\$30 - \$40</b> million

1. Outlook for EPS and operating income **excludes** severance and other one-time items associated with restructuring actions, as well as non-cash, non-operating items.



## Key Elements of Fiscal 2017 Outlook

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- We expect to deliver another strong year driven by continued gains in Children's Book Publishing and Education
  - In Trade, we anticipate substantial growth as a result of this summer's release of *Harry Potter and the Cursed Child*, the eighth epic story, and publishing program for the new *Fantastic Beasts and Where to Find Them* movie, as well as other highly anticipated new releases
  - In Clubs and Fairs, we expect to maintain the current level of revenue in our school-based clubs and fairs channels, while focusing on more profitable execution
  - In Education, we expect revenue growth to be led by classroom books and classroom magazines, with the latter benefiting from new product introductions, including *Storyworks® Jr.*, and sales of our 2016 Presidential election skills workbooks
  - In International, we are planning for growth in trade publishing and education, and expect significant local currency gains across all channels in Asia. We also expect that Canada should benefit from a stronger start to the school year in its book club and book fair business and sales of new Harry Potter publishing
  - As anticipated, we are projecting increased capital spending related to our headquarters construction plan, as well as higher strategic technology spend as part of our 3-year initiative to upgrade enterprise-wide platforms



## Questions & Answers

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### Participants

- Richard Robinson
- Maureen O'Connell
- Judy Newman, School Book Clubs and E-Commerce
- Ellie Berger, Trade Group

