Second Quarter FY 2021 Earnings Call Presentation

Thursday, December 17, 2020

Forward-Looking Statements

This presentation contains certain forward-looking statements. Such forward-looking statements are subject to various risks and uncertainties, including those arising from the continuing impact of COVID-19 related measures taken by governmental authorities, school administrators, or suppliers or other business providers which may curtail or otherwise adversely affect certain of the Company's business operations, and the conditions of the children's book and educational materials markets and acceptance of the Company's products in those markets, as well as 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

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.

Richard Robinson

Chairman, President

and Chief Executive Officer

Second Quarter FY 2021

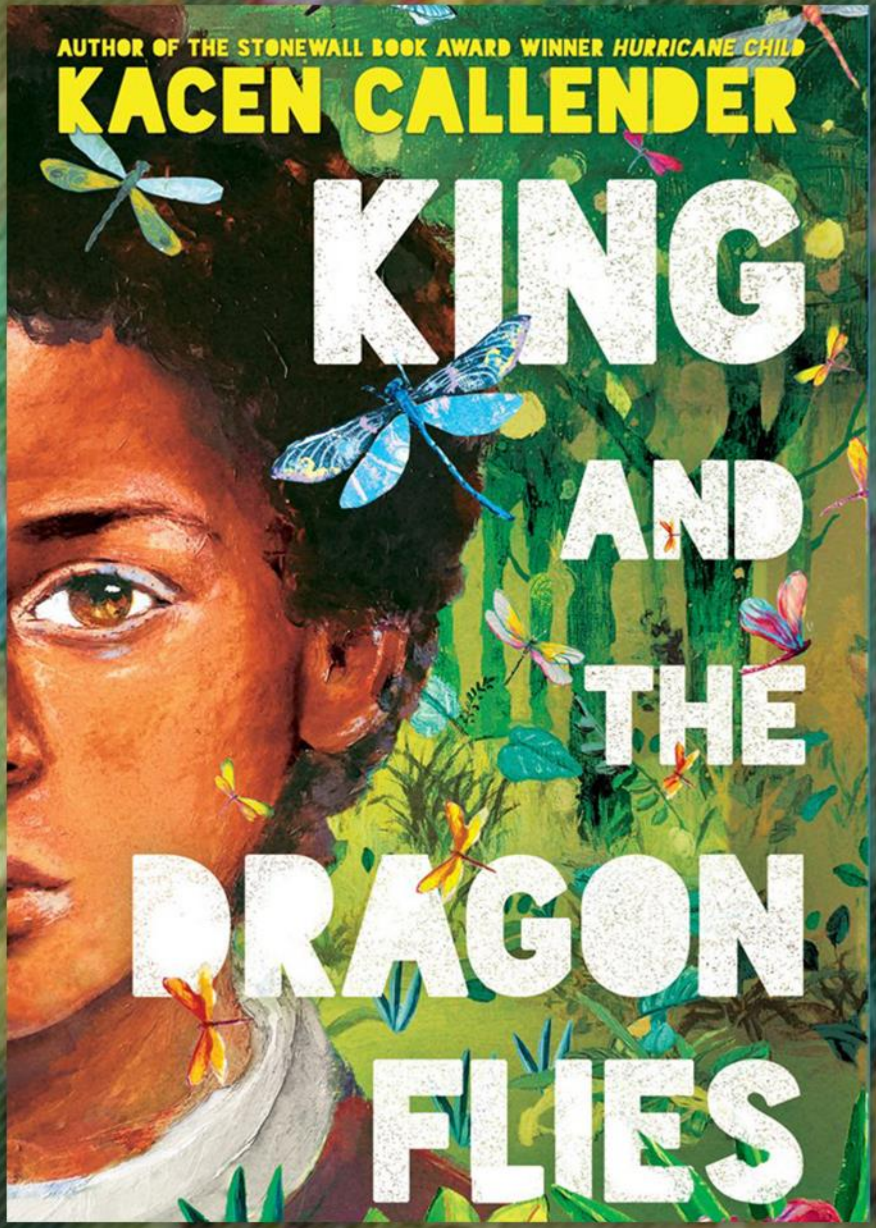
- In the second quarter, schools opened late and only one third of U.S. schools were operating with in-person learning. This substantially affected our ability to run in-person book fairs, and we took action to preserve profitability and liquidity while also supporting our customers.
    - As most schools were not yet ready to commit to hold in-person fairs in the second quarter, we did not see fair sales increase at the end of the quarter.
    - Trade and Education businesses are thriving, driven by bestselling books, reading packs, workbooks, and digital subscriptions.
    - After a slow start due to delayed school openings, Clubs business is on track, and we are seeing momentum in our International business.
    - We are reducing operating costs and streamlining our operational structure, including significantly reducing SG&A expenses.

Second Quarter FY 2021

- Second quarter revenue was $406.2 million, a decrease of 32% compared to last year.
- Operating income was $48.8 million, compared to $105.1 million last year.
- The Company had free cash flow of $30.9 million, compared to $87.7 million last year.
- We are not providing financial outlook for fiscal 2021.

Children’s Book Publishing & Distribution

- Trade publishing saw 21% revenue growth over last year.
- Strong trade performance was driven by: Dav Pilkey’s *Dog Man: Grime and Punishment,* J.K. Rowling’s *The Ickabog*®*,* Tami Charles’s *All Because You Matter,* and series including The Baby-Sitter’s Club® graphic novels, Harry Potter backlist, and titles by Aaron Blabey (The Bad Guys™ and Pig the Pug).
- Kacen Callender’s *King and the Dragonflies* received the National Book Award for young people's literature.
- DreamWorks Animation announced a feature film based on Dog Man®, further expanding Dav Pilkey’s fan base.

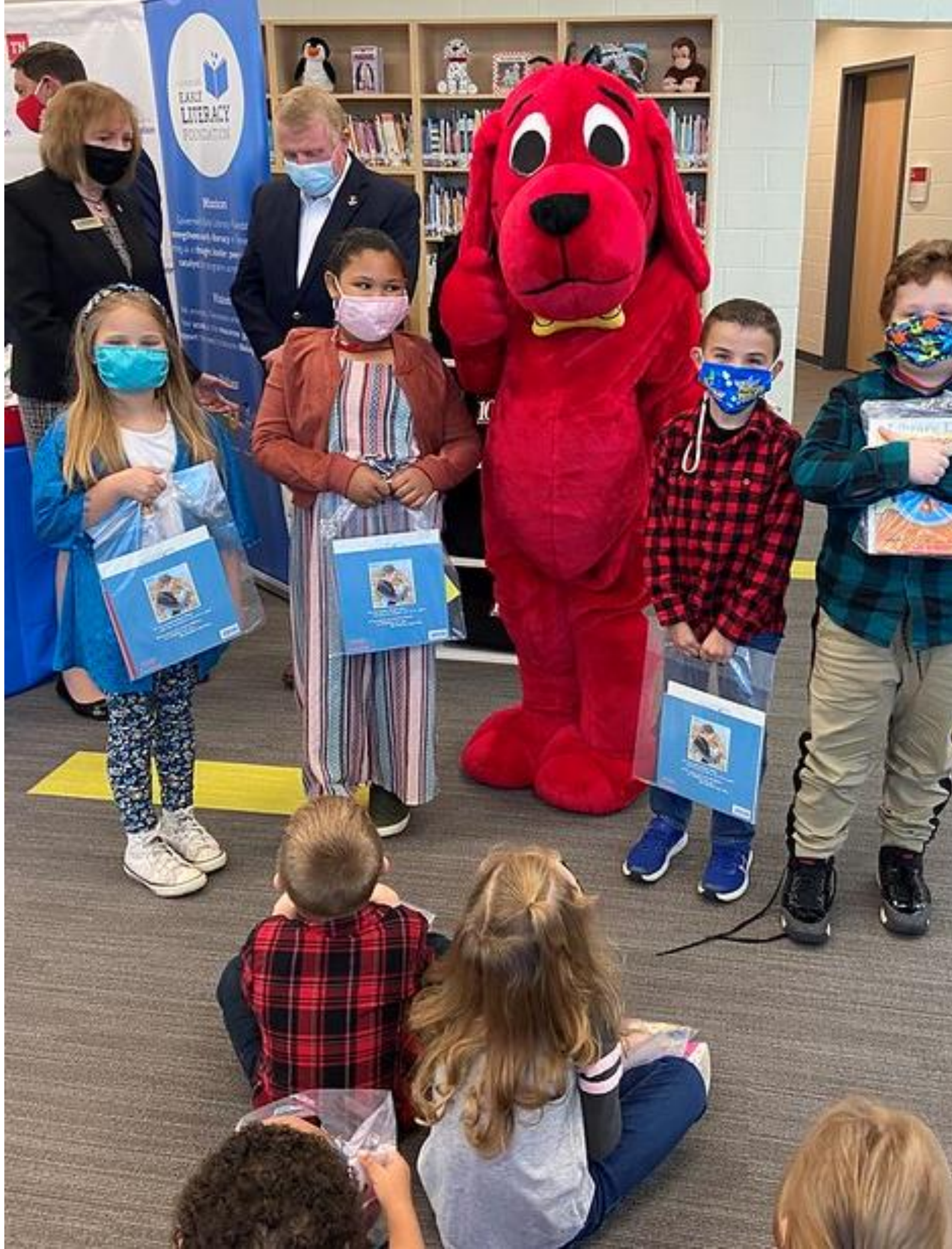


Children's Book Publishing & Distribution

- Clubs orders ramped up in Q2, driven by great response to our ship-to-home fulfillment option.
- Fairs continues to feel the impact of COVID-19 most acutely. However, we are cautiously optimistic about the spring based on our anticipation of an increase in fairs held in the March–May period.
- Fairs provide a sense of normalcy, connection, and joy that can help with learning and prevent reading loss, and schools have an economic incentive to host fairs.
- Revenue per fair was good for the limited number of in-person fairs that were held this fall, and we had an encouraging response to our new 360 degree walk-through virtual format.

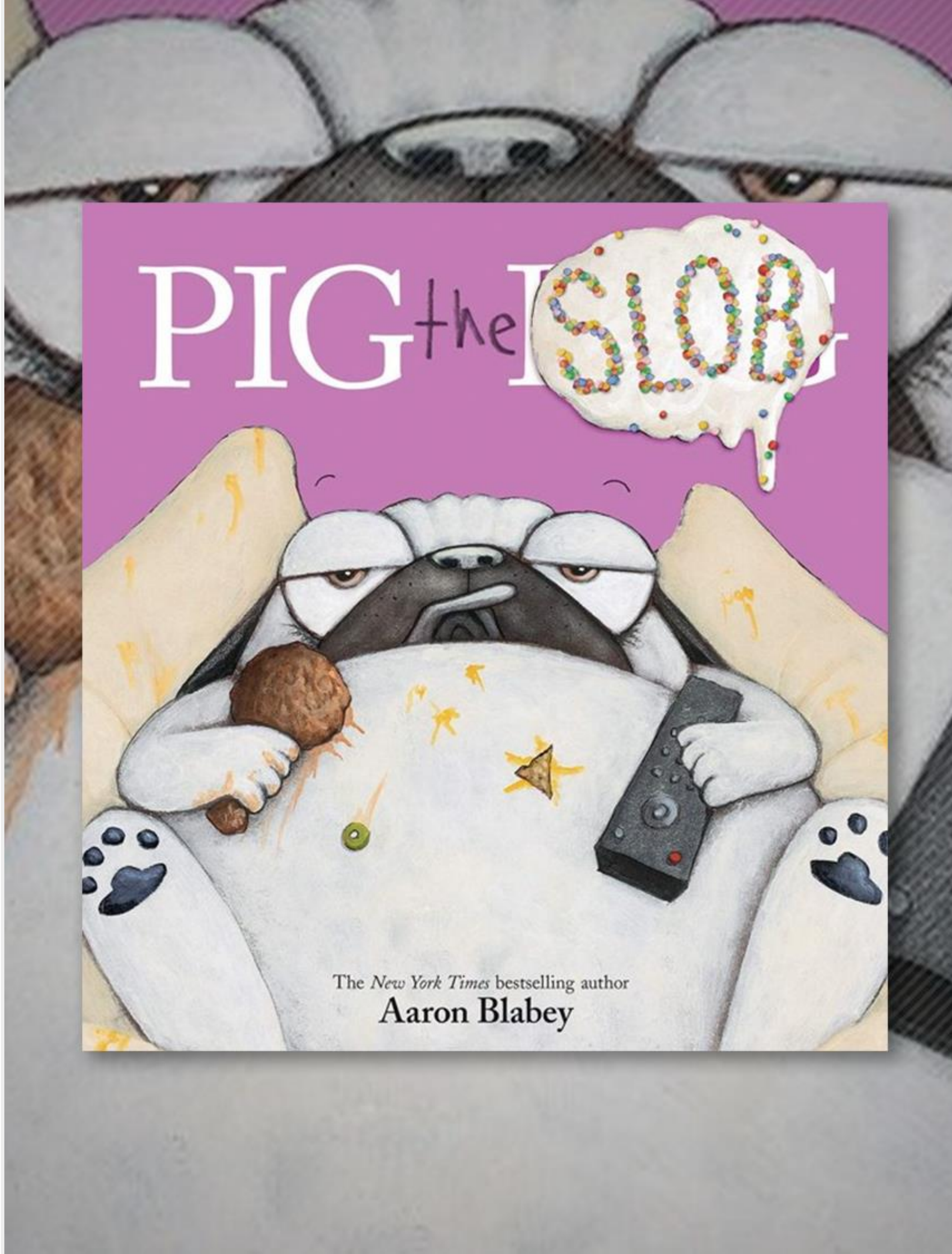
Education

- Education revenue was down by 3% versus last year, while operating income improved by $5.7 million over last year.
- Digital subscriptions business recorded a 30% increase in revenues and a 43% increase in subscription billings.
- Revenues from workbooks and early readers increased in multiple sales channels, with a strong Education segment pipeline for the second half of the fiscal year.
- Pursuing opportunities to help prevent the “COVID slide”:
  - LAUSD is providing more than 1 million books to 250,000 students through Grab and Go reading packs, and helping mitigate the effects of school closures by providing access to *Scholastic Literacy Pro*®.
  - In Tennessee, we launched a public-private initiative to deliver 580,000 books to students and teachers.



International

- In the International business, operating income was up, despite the revenue decreases from lower book fair sales in Canada and the U.K.
- We had improved results in Australia and New Zealand, where the impact of COVID-19 has decreased.
- Trade publishing was strong in all of Scholastic's major international markets.
- Scholastic benefited from wage subsidies in Canada, the U.K., and Australia.



Fiscal Year 2021

- Scholastic is continuing to lower costs and increase efficiency, taking major steps to reduce operating costs, right-size our employee base, and match our inventory purchases with customer demand.
- We met our $100 million cost savings target, which will continue to benefit us throughout the fiscal period, and identified areas for additional savings in the second half of the fiscal year.
- Cost management will continue to be a major focus as we lower our cost base and improve our long-term operating leverage.
- Rose Else-Mitchell is rejoining Scholastic to lead our new Education Solutions group.
- Beth Polcari will succeed Nelson Hitchcock as President, International upon his retirement at the end of the year.

Kenneth Cleary

Chief Financial Officer

Income Statement

In $ Millions (except per share)	Second Quarter 2021			Second Quarter 2020			Fiscal Year to Date 2021			Fiscal Year to Date 2020		
	As Reported	One-Time Items	Excluding One-Time Items	As Reported	One-Time Items	Excluding One-Time Items	As Reported	One-Time Items	Excluding One-Time Items	As Reported	One-Time Items	Excluding One-Time Items
Revenues	$406.2	$0.0	$406.2	$597.2	$0.0	$597.2	$621.4	$0.0	$621.4	$829.8	$0.0	$829.8
Cost of goods sold	199.3	-	199.3	264.3	-	264.3	322.5	-	322.5	401.4	-	401.4
Selling, general and administrative expenses [1]	140.2	(5.5)	134.7	209.7	(1.9)	207.8	272.3	(17.5)	254.8	375.6	(6.2)	369.4
Bad debt expense	2.1	-	2.1	2.7	-	2.7	3.5	-	3.5	4.3	-	4.3
Depreciation and amortization	15.8	-	15.8	15.4	-	15.4	31.3	-	31.3	30.8	-	30.8
Total operating costs and expenses	357.4	(5.5)	351.9	492.1	(1.9)	490.2	629.6	(17.5)	612.1	812.1	(6.2)	805.9
Operating income (loss)	48.8	5.5	54.3	105.1	1.9	107.0	(8.2)	17.5	9.3	17.7	6.2	23.9
Interest income (expense), net	(1.2)	-	(1.2)	0.0	-	0.0	(2.4)	-	(2.4)	0.7	-	0.7
Other components of net periodic benefit (cost)	(0.0)	-	(0.0)	(0.2)	-	(0.2)	(0.2)	-	(0.2)	(0.6)	-	(0.6)
Gain (loss) on sale of assets and other [2]	(0.0)	-	(0.0)	-	-	-	6.6	-	6.6	-	-	-
Earnings (loss) before income taxes	47.6	5.5	53.1	104.9	1.9	106.8	(4.2)	17.5	13.3	17.8	6.2	24.0
Provision (benefit) for income taxes [3]	12.4	1.2	13.6	33.8	0.5	34.3	0.4	4.3	4.7	5.2	1.7	6.9
Net Income (loss)	35.2	4.3	39.5	71.1	1.4	72.5	(4.6)	13.2	8.6	12.6	4.5	17.1
Less: Net income (loss) attributable to noncontrolling interest	0.1	-	0.1	0.1	-	0.1	0.1	-	0.1	0.1	-	0.1
Net Income (loss) attributable to Scholastic Corporation	$35.1	$4.3	$39.4	$71.0	$1.4	$72.4	($4.7)	$13.2	$8.5	$12.5	$4.5	$17.0
Earnings (loss) per diluted share	$1.02	$0.13	$1.15	$2.02	$0.04	$2.06	($0.14)	$0.39	$0.25	$0.35	$0.13	$0.48

1. In the three and six months ended November 30, 2020, the Company recognized pretax severance of $5.2 and $17.2, respectively, and pretax branch consolidation costs of $0.3. In the three and six months ended November 30, 2019, the Company recognized pretax severance of $0.9 and $3.7, respectively, and pretax settlement charges of $1.0 and $2.5, respectively.
2. In the six months ended November 30, 2020, the Company recognized pretax gain on the sale of its Danbury facility of $6.6.
3. In the three and six months ended November 30, 2020, the Company recognized a benefit for income taxes in respect to one-time pretax charges of $1.2 and $4.3, respectively. In the three and six months ended November 30, 2019, the Company recognized a benefit for income taxes in respect to one-time pretax charges of $0.5 and $1.7, respectively.

Adjusted EBITDA

	Three Months Ended		Six Months Ended	
	11/30/2020	11/30/2019	11/30/2020	11/30/2019
Earnings (loss) before income taxes as reported	$47.6	$104.9	($4.2)	$17.8
One-time items before income taxes	5.5	1.9	17.5	6.2
Earnings (loss) before income taxes excluding one-time items	53.1	106.8	13.3	24.0
Interest (income) expense	1.2	(0.0)	2.4	(0.7)
Depreciation and amortization[1]	17.0	15.9	33.4	32.0
Amortization of prepublication costs	6.4	6.6	12.7	13.0
Adjusted EBITDA[2]	$77.7	$129.3	$61.8	$68.3

1. For the three and six months ended November 30, 2020, amounts include depreciation of $0.8 and $1.6, respectively, recognized in cost of goods sold, amortization of deferred financing costs of $0.1 and $0.2, respectively, and amortization of capitalized cloud software of $0.3 and $0.3, respectively, recognized in selling, general and administrative expenses. For the three and six months ended November 30, 2019, amounts include depreciation of $0.5 and $1.1, respectively, recognized in cost of goods sold, amortization of deferred financing costs of $0.0 and $0.1, respectively, and amortization of capitalized cloud software of $0.0 and $0.0, respectively, recognized in selling, general and administrative expenses.
2. Adjusted EBITDA is defined by the Company as earnings (loss), excluding one-time items, before interest, taxes, depreciation and amortization. The Company believes that Adjusted EBITDA is a meaningful measure of operating profitability and useful for measuring returns on capital investments over time as it is not distorted by unusual gains, losses, or other items.

Selected Balance Sheet, Free Cash Flow & Net Debt (Cash)

In $ Millions	Nov 30, 2020	Nov 30, 2019
Free cash flow (use) (3 month period ending)[1]	$30.9	$87.7
Free cash flow (use) (6 month period ending)[1]	($4.0)	($30.8)
Accounts receivable, net	$304.7	$325.1
Inventories, net	$306.5	$357.8
Accounts payable	$165.5	$188.9
Accrued royalties	$60.1	$54.7
Total debt	$194.8	$16.1
Cash and cash equivalents	$356.6	$277.8
Net debt (cash)[2]	($161.8)	($261.7)

1. Free cash flow (use) is defined by the Company as net cash provided by or used in operating activities (which includes royalty advances) and cash acquired through acquisitions and from sale of assets, reduced by spending on property, plant and equipment and prepublication costs. The Company believes that this non-GAAP financial measure is useful to investors as an indicator of cash flow available for debt repayment and other investing activities, such as acquisitions. The Company utilizes free cash flow as a further indicator of operating performance and for planning investing activities.
2. Net debt (cash) is defined by the Company as lines of credit and short-term debt plus long-term-debt, net of cash and cash equivalents. The Company utilizes this non-GAAP financial measure, and believes it is useful to investors, as an indicator of the Company's effective leverage and financing needs.

Segment Results

In $ Millions	Second Quarter 2021			Second Quarter 2020			Fiscal Year to Date 2021			Fiscal Year to Date 2020		
	As Reported	One-Time Items	Excluding One-Time Items	As Reported	One-Time Items	Excluding One-Time Items	As Reported	One-Time Items	Excluding One-Time Items	As Reported	One-Time Items	Excluding One-Time Items
Children's Book Publishing and Distribution												
Revenues												
Book Clubs	$66.9	$0.0	$66.9	$85.9	$0.0	$85.9	$72.7	$0.0	$72.7	$93.9	$0.0	$93.9
Book Fairs	47.7	-	47.7	224.1	-	224.1	60.9	-	60.9	251.6	-	251.6
Consolidated Trade	125.7	-	125.7	103.6	-	103.6	197.6	-	197.6	177.7	-	177.7
Total Revenues	240.3	-	240.3	413.6	-	413.6	331.2	-	331.2	523.2	-	523.2
Operating income (loss)	37.7	-	37.7	109.6	-	109.6	8.5	-	8.5	67.9	-	67.9
Operating margin	15.7%		15.7%	26.5%		26.5%	2.6%		2.6%	13.0%		13.0%
Education												
Revenues	67.5	-	67.5	69.9	-	69.9	121.1	-	121.1	118.3	-	118.3
Operating income (loss)	11.9	-	11.9	6.2	-	6.2	9.7	-	9.7	(7.2)	-	(7.2)
Operating margin	17.6%		17.6%	8.9%		8.9%	8.0%		8.0%	-		-
International												
Revenues	98.4	-	98.4	113.7	-	113.7	169.1	-	169.1	188.3	-	188.3
Operating income (loss) [1]	19.2	1.6	20.8	11.7	-	11.7	24.4	2.6	27.0	8.0	-	8.0
Operating margin	19.5%		21.1%	10.3%		10.3%	14.4%		16.0%	4.2%		4.2%
Corporate overhead [2]	20.0	(3.9)	16.1	22.4	(1.9)	20.5	50.8	(14.9)	35.9	51.0	(6.2)	44.8
Operating income (loss)	$48.8	$5.5	$54.3	$105.1	$1.9	$107.0	($8.2)	$17.5	$9.3	$17.7	$6.2	$23.9

1. In the three and six months ended November 30, 2020, the Company recognized pretax severance of $1.3 and $2.3, respectively, and branch consolidation costs of $0.3.
2. In the three and six months ended November 30, 2020, the Company recognized pretax severance of $3.9 and $14.9, respectively. In the three and six months ended November 30, 2019, the Company recognized pretax severance of $0.9 and $3.7, respectively, and pretax settlement charges of $1.0 and $2.5, respectively.

Question & Answer

Participants

- Richard Robinson
- Kenneth Cleary

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