



 SCHOLASTIC

First Quarter FY 2019 Earnings Call Presentation
Thursday, September 27, 2018

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Forward-Looking Statements

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, 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



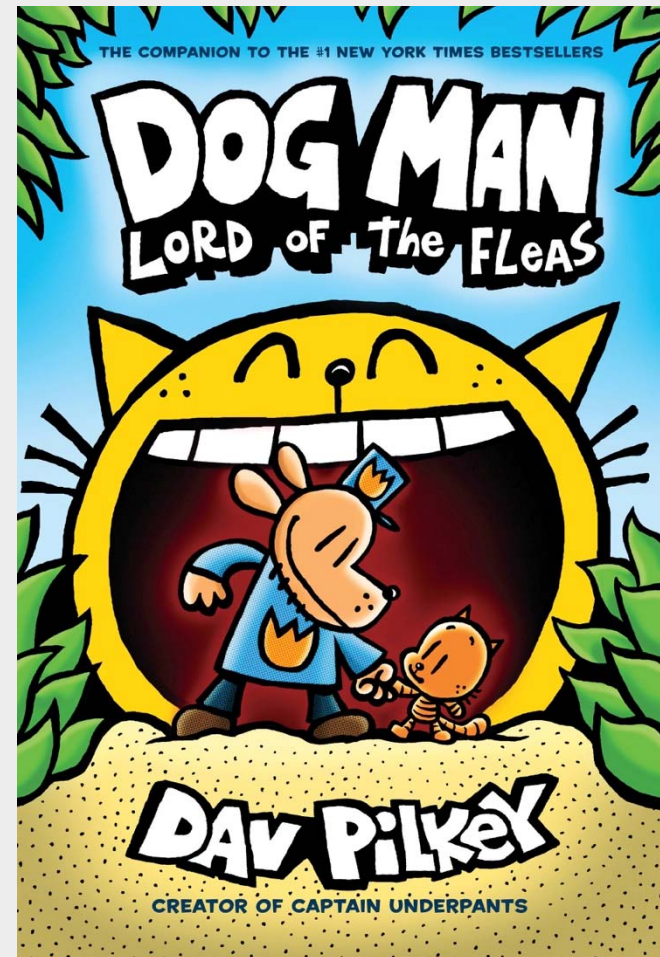
First Quarter 2019 Highlights

- Fiscal 2019 began with positive indicators; positioned well for operating goals and year-over-year improvement
- Ranked the #1 U.S.-owned book publisher as well as ninth largest in the world as reported by *Publishers Weekly*
- Global trade sales were up and education revenues improved
- First quarter traditionally soft quarter as most U.S. schools are not in session; delivered smaller operating loss with margin improvement
- Company-wide strategic technology advancement on track



Children's Book Publishing & Distribution

- Trade publishing was up despite the *Association of American Publishers* report of relatively flat revenue industry-wide for children's & YA categories
- Dav Pilkey's *Dog Man: Lord of the Fleas* and *Harry Potter* 20th Anniversary editions—key contributors in quarter
- *Graphix* imprint titles win popular and critical acclaim, showing the power of graphic novels to motivate readers
- Book Clubs saw higher levels of teacher-sponsors
- Book Fairs benefitted from incremental revenue from Scholastic Dollars redemption





Education

- Scholastic Education revenues up 12%
- *Scholastic Literacy* to launch this fiscal year— an alternative to the “one size fits all” solution
- Scholastic Magazines group leadership and product oversight realignment to further advance 2020 strategic objectives; unified organizational structure:
 - 30 classroom magazines
 - Teaching resources business
 - Digital subscription products
- In top three technology companies with which K–12 tech buyers would engage to help improve student achievement per *EdWeek Market Brief* survey

SCHOLASTIC
Literacy[™]

OOKA ISLAND[®]

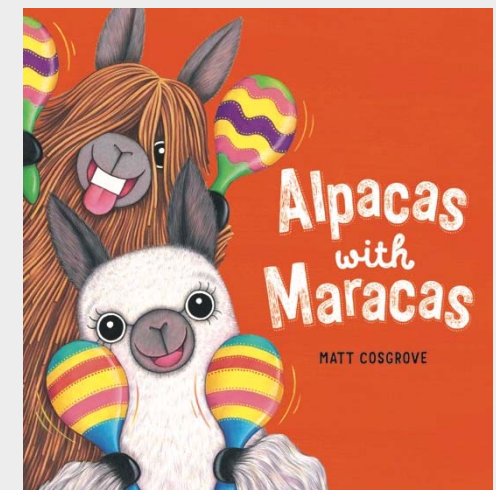
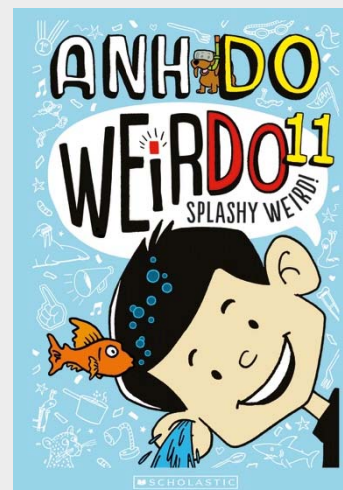
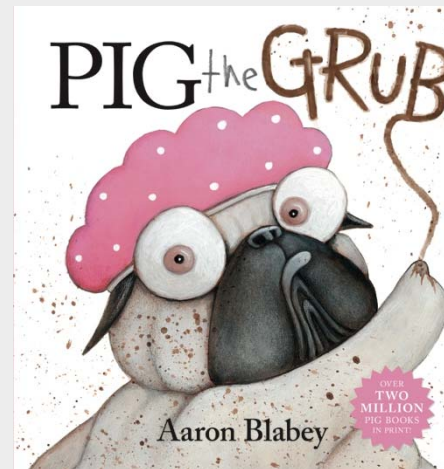
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WORD.
Words Open Reading Doors[™]



International

- Improved results in the U.K. across all channels
- In Asia, direct sales improved in a number of countries
- Strong franchises, high-quality content and affordability leveraged well in emerging markets in need of English language learning product





Scholastic 2020 Technology Update

- Improvements in sales productivity and effectiveness
- Salesforce.com and customer master data management system now integrated
- Successful testing of enhanced marketing to reach school-level decision makers



Kenneth Cleary

Chief Financial Officer



ASC 606 Modified Adoption

- Modified adoption of new *ASC 606* standard in quarter; no requirement to restate prior period results
- The new guidelines now require us to defer certain revenues associated mainly with our book fairs incentive program; it also requires us to recognize, as a current period expense, certain previously capitalized direct expenses
- Net impact in quarter was an incremental **\$12.5** million in revenues and **\$5.2** million of operating income
- First quarter benefit should fade over the course of the year



Income Statement

In \$ Millions (except per share)	First Quarter 2019			First Quarter 2018		
	As Reported	One-Time Items	Excluding One-Time Items	As Reported	One-Time Items	Excluding One-Time Items
Revenues	\$218.4	\$0.0	\$218.4	\$189.2	\$0.0	\$189.2
Cost of goods sold	125.3	-	125.3	115.6	-	115.6
Selling, general and administrative expenses ¹	162.3	(0.5)	161.8	156.9	(1.6)	155.3
Bad debt expense	1.4	-	1.4	1.9	-	1.9
Depreciation and amortization	13.2	-	13.2	9.9	-	9.9
Asset impairments ²	-	-	-	6.7	(6.7)	-
Total operating costs and expenses	302.2	(0.5)	301.7	291.0	(8.3)	282.7
Operating income (loss)	(83.8)	0.5	(83.3)	(101.8)	8.3	(93.5)
Interest income (expense), net	0.8	-	0.8	0.3	-	0.3
Other components of net periodic benefit (cost)	(0.4)	-	(0.4)	(0.1)	-	(0.1)
Provision (benefit) for income taxes ³	(22.1)	0.1	(22.0)	(37.9)	3.3	(34.6)
Net Income (loss)	(\$61.3)	\$0.4	(\$60.9)	(\$63.7)	\$5.0	(\$58.7)
Earnings (loss) per diluted share	(\$1.75)	\$0.01	(\$1.74)	(\$1.81)	\$0.14	(\$1.67)

1. In the three months ended August 31, 2018 and August 31, 2017, the Company recognized pretax severance of \$0.5 and \$1.6, respectively.
2. In the three months ended August 31, 2017, the Company recognized a pretax impairment charge of \$6.7 related to legacy building improvements.
3. In the three months ended August 31, 2018 and August 31, 2017, the Company recognized a benefit for income taxes in respect to one-time pretax charges of \$0.1 and \$3.3, respectively.



Adjusted EBITDA

	Three Months Ended	
	8/31/2018	8/31/2017
Earnings (loss) before income taxes as reported	(\$83.4)	(\$101.6)
One-time items before income taxes	0.5	8.3
Earnings (loss) before income taxes excluding one-time items	(82.9)	(93.3)
Interest (income) expense	(0.8)	(0.3)
Depreciation and amortization ⁽¹⁾	14.0	10.0
Amortization of prepublication and production costs	5.2	5.5
Adjusted EBITDA ⁽²⁾	<u>(\$64.5)</u>	<u>(\$78.1)</u>

1. For the three months ended August 31, 2018, includes depreciation of \$0.7 recognized in cost of goods sold and amortization of deferred financing costs of \$0.1. In the three months ended August 31, 2017, includes amortization of deferred financing costs of \$0.1.
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.



Segment Results

	First Quarter 2019			First Quarter 2018		
	As Reported	One-Time Items	Excluding One-Time Items	As Reported	One-Time Items	Excluding One-Time Items
Children's Book Publishing and Distribution						
Revenue						
Book Clubs	\$9.1	\$0.0	\$9.1	\$8.0	\$0.0	\$8.0
Book Fairs	25.2	-	25.2	12.1	-	12.1
Consolidated Trade	59.0	-	59.0	46.7	-	46.7
Total revenue	93.3	-	93.3	66.8	-	66.8
Operating income (loss)	(45.9)	-	(45.9)	(58.9)	-	(58.9)
Operating margin	-	-	-	-	-	-
Education						
Revenue	50.3	-	50.3	45.0	-	45.0
Operating income (loss)	(15.0)	-	(15.0)	(12.5)	-	(12.5)
Operating margin	-	-	-	-	-	-
International						
Revenue	74.8	-	74.8	77.4	-	77.4
Operating income (loss)	(2.0)	-	(2.0)	(2.8)	-	(2.8)
Operating margin	-	-	-	-	-	-
Corporate overhead ¹	20.9	(0.5)	20.4	27.6	(8.3)	19.3
Operating income (loss)	(\$83.8)	\$0.5	(\$83.3)	(\$101.8)	\$8.3	(\$93.5)

1. In the three months ended August 31, 2018, the Company recognized pretax severance of \$0.5. In the three months ended August 31, 2017, the Company recognized pretax severance of \$1.6 and pretax impairment charges of \$6.7 related to legacy building improvements.



Selected Balance Sheet, Free Cash Flow & Net Debt

<u>In \$ Millions:</u>	3-Months Ending	
	<u>August 31, 2018</u>	<u>August 31, 2017</u>
Free cash flow (use) ¹	(\$125.9)	(\$131.0)
Accounts receivable, net	223.7	145.4
Inventories, net	402.3	386.5
Accounts payable	242.3	187.2
Accrued royalties	56.4	51.9
Total debt	15.7	12.0
Cash and cash equivalents	<u>269.8</u>	<u>311.9</u>
Net debt ²	(\$254.1)	(\$299.9)

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 prepublication and production costs. The Company believes that this non-GAAP liquidity 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 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 believes this non-GAAP financial measure is useful to investors as an indicator of the Company's effective leverage and financing needs.



Fiscal 2019 Outlook

Reaffirming fiscal 2019 outlook for:

Revenues	\$1.65–\$1.70 billion
Adjusted EBITDA ¹	\$160–\$170 million
EPS, excluding one-times	\$1.60–\$1.70 per share
Capital expenditures	\$70–\$80 million

1. 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.



Question & Answer

Participants

- Richard Robinson
- Kenneth Cleary

