



 **SCHOLASTIC**

**First Quarter FY 2023 Earnings Call Presentation**

Thursday, September 22, 2022

# Forward-Looking Statements

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This presentation contains certain statements made today which will be forward-looking. These forward-looking statements, by their nature, are subject to various risks and uncertainties, and actual results may 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).

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# **Peter Warwick**

President and Chief Executive Officer

# First Quarter FY 2023

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- Results are in line with our plan for top- and bottom-line growth in fiscal 2023.
- Lower year-over-year operating income and earnings reflecting increased investment in growth initiatives in our education business and a return to more typical seasonal revenue patterns post-pandemic.
- Affirming guidance to deliver an 8%-10% increase in revenue in fiscal year 2023 and an Adjusted EBITDA of \$195M to \$205M, up from \$188.9M in fiscal 2022.

# Children's Book Publishing & Distribution

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- Back-to-school is significant to both our first and second fiscal quarters.
- Purchasing has reverted to a more normal pattern in contrast to a year ago, and we anticipate proportionately higher revenues from back-to-school in Q2 compared to last year.
- We are prepared for this shift and are excited to support young readers, their teachers and their families.



# Children's Book Publishing & Distribution

- To date in calendar year 2022, Scholastic titles earned nearly 100 starred reviews.
- Strong presence on *The New York Times* Bestseller lists: Titles captured a record 11 out of 15 spots on the Graphic Novels list.
- Fall releases include a picture book from civil rights icon Ruby Bridges, *The Three Billy Goats Gruff* from award-winning duo Mac Barnett and Jon Klassen, the latest *Bad Guys*® #16 by Aaron Blabey and the illustrated edition of *Harry Potter and the Order of the Phoenix*.
- Looking to the next calendar year, we have Dav Pilkey's next *Dog Man*® book, Colin Kaepernick's YA graphic novel memoir, a new *Wings of Fire*™ graphic novel by Tui Sutherland and Brian Selznick's *Big Tree*.
- Scholastic Entertainment announced a deal to co-develop and co-produce the middle-grade memoir, *Signs of Survival: A Memoir of the Holocaust*, in partnership with Amblin Television and Oscar-winning actress Marlee Matlin's Solo One Productions.



BOOKS | BEST SELLERS  
Graphic Books and Manga

FICTION ▾ NONFICTION ▾ MORE ▾

June 2022

When you purchase an independently ranked book through our site, we earn an affiliate commission.

- ON PURPOSE**  
by Dav Pilkey | Scholastic  
The third book in the Cat Kid Comic Club series. Fame, fortune and creativity pull the members of the comic club in different directions.
- HEARTSTOPPER, VOL. 1**  
by Alice Oseman | Scholastic  
Charlie and Nick deal with the ups and downs of high school at the same time they grow closer together.
- HEARTSTOPPER, VOL. 2**  
by Alice Oseman | Scholastic  
The second book in the Heartstopper series. Nick discovers things about the people around him, and about himself.
- SPY X FAMILY, VOL. 1**  
by Tatsuya Endo | VIZ Media  
A master spy must pass himself off as a family man to infiltrate a private school, but his new wife is an assassin and adopted child is a telepath.
- HEARTSTOPPER, VOL. 4**  
by Alice Oseman | Scholastic  
The fourth book in the Heartstopper series. As the school year starts, Charlie and Nick face challenges of revealing who they are and what they feel.
- HEARTSTOPPER, VOL. 3**  
by Alice Oseman | Scholastic  
The third book in the Heartstopper series. Charlie and Nick learn about the coming-out process as they officially become boyfriends.
- PERSPECTIVES**  
by Dav Pilkey | Scholastic  
The second book in the Cat Kid Comic Club series. Can this cast of characters understand and appreciate one another's point of view?

- THE BAD GUYS**  
by Aaron Blabey | Scholastic  
Tough animals in suits take on some real villains; the basis of the movie.
- MOTHERING HEIGHTS**  
by Dav Pilkey | Scholastic  
The fourth book in the Dog Man series. Can the power of love overcome the darkness and despair created by new villains?
- CAT KID COMIC CLUB**  
by Dav Pilkey | Scholastic  
Stories within a story come to life as L11 Petey, Flippy and Molly show baby frogs how to create comics.
- REMARKABLY RUBY**  
by Terri Libenson | Balzer + Bray  
The sixth book in the Emmie & Friends series. Ruby writes poetry while Mia runs for class president. Will they become friends again?
- DEATH NOTE SHORT STORIES**  
by Tsugumi Ohba. Illustrated by Takeshi Obata | VIZ Media  
A collection of stories including "C-Kira," "a-Kira" and more.
- THE BRIGHTEST NIGHT**  
by Tui T. Sutherland. Illustrated by Mike Holmes | Scholastic  
The fifth book in the Wings of Fire series. Sunny must decide if her destiny is already set.
- CRIME AND PUNISHMENT**  
by Dav Pilkey | Scholastic  
The ninth book in the Dog Man series. After turning in his badge, the canine cop is determined not to just roll over.
- SOLO LEVELING, VOL. 4**  
by Chugong. Illustrated by Dubu/Redice Studio | Yen Press  
Jinwoo and the White Tiger trainee become stranded in a frozen forest.

# Children's Book Publishing & Distribution

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- Fall book fairs and the first monthly club order form once again capture and amplify back-to-school energy.
- In-person book fair confirmation rates are strong, putting us on our projected target of 85% of pre-pandemic bookings in fiscal 2022, an increase from 72% last fiscal year.
- Early fairs data reveals strong attendance rates and revenues per fair; Q1 *Scholastic Dollars*™ redemptions were strong and we are readily meeting demand.
- Clubs has resolved prior year systems issues and is seeing a positive response from participating teachers.





# Education Solutions

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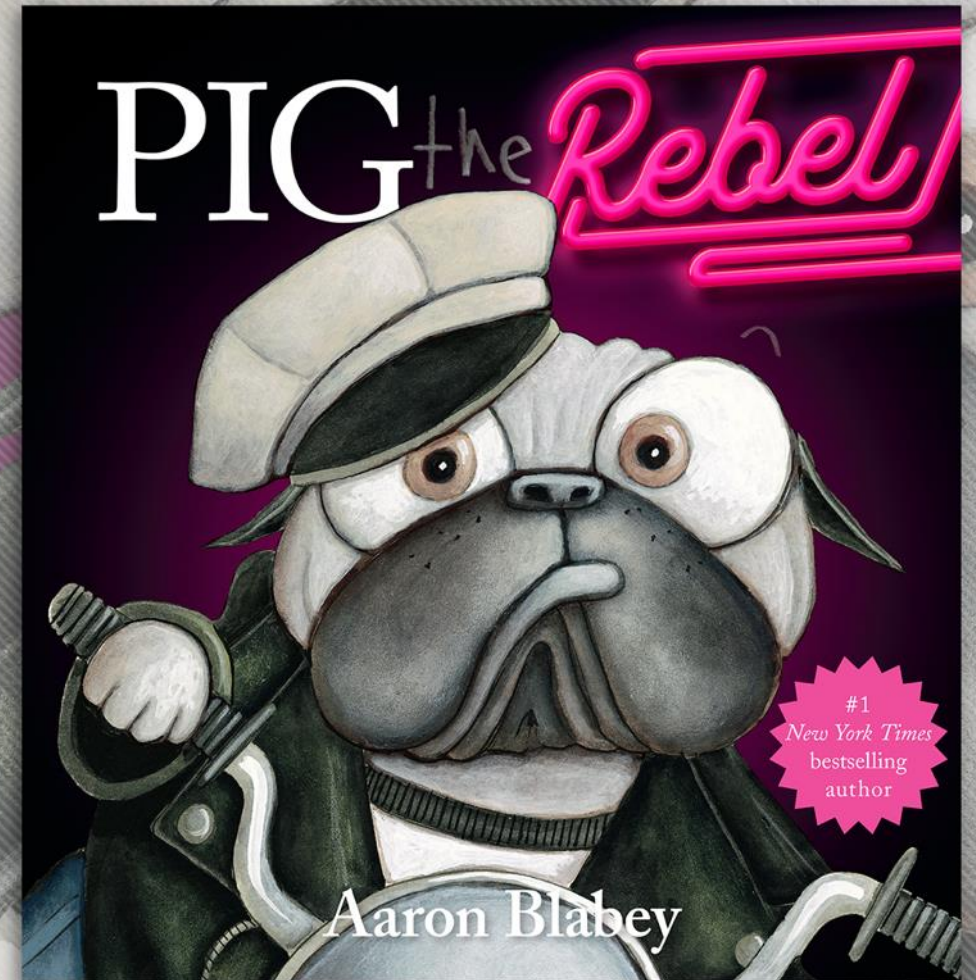
- Education Solutions continues to make great progress addressing classroom and school districts' most pressing needs, while strategically increasing investments to scale go-to-market capabilities and expand our differentiated offering of digital solutions.
- The business continued its underlying long-term growth trajectory in Q1.
- Early in Q1, we were focused on supporting summer reading through take-home book packs, and we have seamlessly shifted to supporting in-school needs for this year.
- The acquisition of Learning Ovation – the creator of A2i, a Science of Reading-based literacy assessment and instructional system, significantly advances the development of our literacy platform.



# International

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- Continued focus on growth areas, rationalizing our lines of business that no longer align with our strategy, such as in Asia, where we completed the disposition of the direct sales business.
- Despite the lingering impact of COVID, we see positive indicators, particularly in Australia and New Zealand, that our global fairs, clubs and trade businesses are rebounding with strength.



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# **Kenneth Cleary**

Chief Financial Officer

# Q1 FY23 Earnings (before and after one-time items)

In \$ Millions (except per share)

	First Quarter 2023			First Quarter 2022		
	As Reported	One-Time Items	Excluding One-Time Items	As Reported	One-Time Items	Excluding One-Time Items
Diluted earnings (loss) per share <sup>(1)</sup>	\$ (1.33)	\$ —	\$ (1.33)	\$ (0.70)	\$ (0.09)	\$ (0.79)
Net income (loss) <sup>(2)</sup>	\$ (45.5)	\$ —	\$ (45.5)	\$ (24.2)	\$ (3.1)	\$ (27.3)
Earnings (loss) before income taxes	\$ (57.9)	\$ —	\$ (57.9)	\$ (33.3)	\$ (4.2)	\$ (37.5)
Children's Book Publishing and Distribution	\$ (30.1)	\$ —	\$ (30.1)	\$ (21.7)	\$ —	\$ (21.7)
Education Solutions	(4.3)	—	(4.3)	7.3	—	7.3
International <sup>(3)</sup>	(3.5)	—	(3.5)	(1.7)	0.4	(1.3)
Overhead <sup>(4)</sup>	(20.2)	—	(20.2)	(15.9)	(4.6)	(20.5)
Operating income (loss)	\$ (58.1)	\$ —	\$ (58.1)	\$ (32.0)	\$ (4.2)	\$ (36.2)

- Earnings (loss) per share are calculated on non-rounded net income (loss) and shares outstanding. Recalculating earnings per share based on rounded numbers may not yield the results as presented.
- In the three months ended August 31, 2021, the Company recognized a provision for income taxes in respect to one-time pretax charges of \$1.1.
- In the three months ended August 31, 2021, the Company recognized pretax severance of \$0.4.
- In the three months ended August 31, 2021, the Company recognized \$6.6 of insurance proceeds related to an intellectual property legal settlement accrued in fiscal 2021 and pretax severance of \$2.0.



# Q1 FY23 Adjusted EBITDA

In \$ Millions	Three Months Ended	
	08/31/2022	08/31/2021
Earnings (loss) before income taxes as reported	\$ (57.9)	\$ (33.3)
One-time items before income taxes	—	(4.2)
Earnings (loss) before income taxes excluding one-time items	(57.9)	(37.5)
Interest (income) expense	(0.2)	1.3
Depreciation and amortization <sup>(1)</sup>	16.2	16.4
Amortization of prepublication costs	6.3	6.8
Adjusted EBITDA <sup>(2)</sup>	\$ (35.6)	\$ (13.0)

- For the three months ended August 31, 2022 and August 31, 2021, amounts include depreciation of \$0.9 and \$0.9, respectively, recognized in cost of goods sold, amortization of deferred financing costs of \$0.1 and \$0.1, respectively, and amortization of capitalized cloud software of \$1.5 and \$0.5, respectively, recognized in selling, general and administrative expenses.
- 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.

# Q1 FY23 Balance Sheet Items and Cash Flow

In \$ Millions	Aug 31, 2022	Aug 31, 2021
Free cash flow (use) (3 month period ending) <sup>(1)</sup>	\$ (76.5)	\$ 49.1
Accounts receivable, net	\$ 242.9	\$ 244.3
Inventories, net	\$ 379.1	\$ 298.1
Accounts payable	\$ 208.9	\$ 185.6
Deferred revenue	\$ 182.6	\$ 125.5
Accrued royalties	\$ 85.0	\$ 65.8
Total debt	\$ 6.3	\$ 89.5
Cash and cash equivalents	\$ 239.7	\$ 308.6
Net cash (debt) <sup>(2)</sup>	\$ 233.4	\$ 219.1

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

# Q1 FY23 Revenues

In \$ Millions	Three months ended			
	08/31/2022	08/31/2021	Change	
Book Clubs	\$ 6.3	\$ 6.8	\$ (0.5)	(7)%
Book Fairs	28.3	16.0	12.3	77 %
Consolidated Trade	90.1	93.0	(2.9)	(3)%
Total Children's Book Publishing and Distribution	124.7	115.8	8.9	8 %
Education Solutions	73.2	80.1	(6.9)	(9)%
International	65.0	63.9	1.1	2 %
Total Revenues	\$ 262.9	\$ 259.8	\$ 3.1	1 %

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# **Peter Warwick**

President and Chief Executive Officer



# In Closing

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- This past quarter has built a solid foundation and the positive trends we saw in the previous fiscal year have continued to benefit our performance.
- Four critical factors:
  - Funding to close the reading achievement gap should continue, and we are uniquely positioned to help because of our IP and our distribution capabilities and relationships.
  - Our strong cash position and improved business results position us to invest in targeted growth.
  - Our strong financial position has enabled us to manage our supply chain to meet demand.
  - Book fairs is already ahead of its performance at this time last year, and is set to meet its targets this fiscal year.

# Questions

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For any questions, please contact Scholastic Investor Relations:

[Investor\\_Relations@Scholastic.com](mailto:Investor_Relations@Scholastic.com)



The logo for Scholastic, featuring a white icon of an open book on the left and the word "SCHOLASTIC" in white, uppercase, serif font on the right, all contained within a red rectangular background.

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