



Fourth Quarter FY 2020 Earnings Call Presentation

Thursday, July 23, 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 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

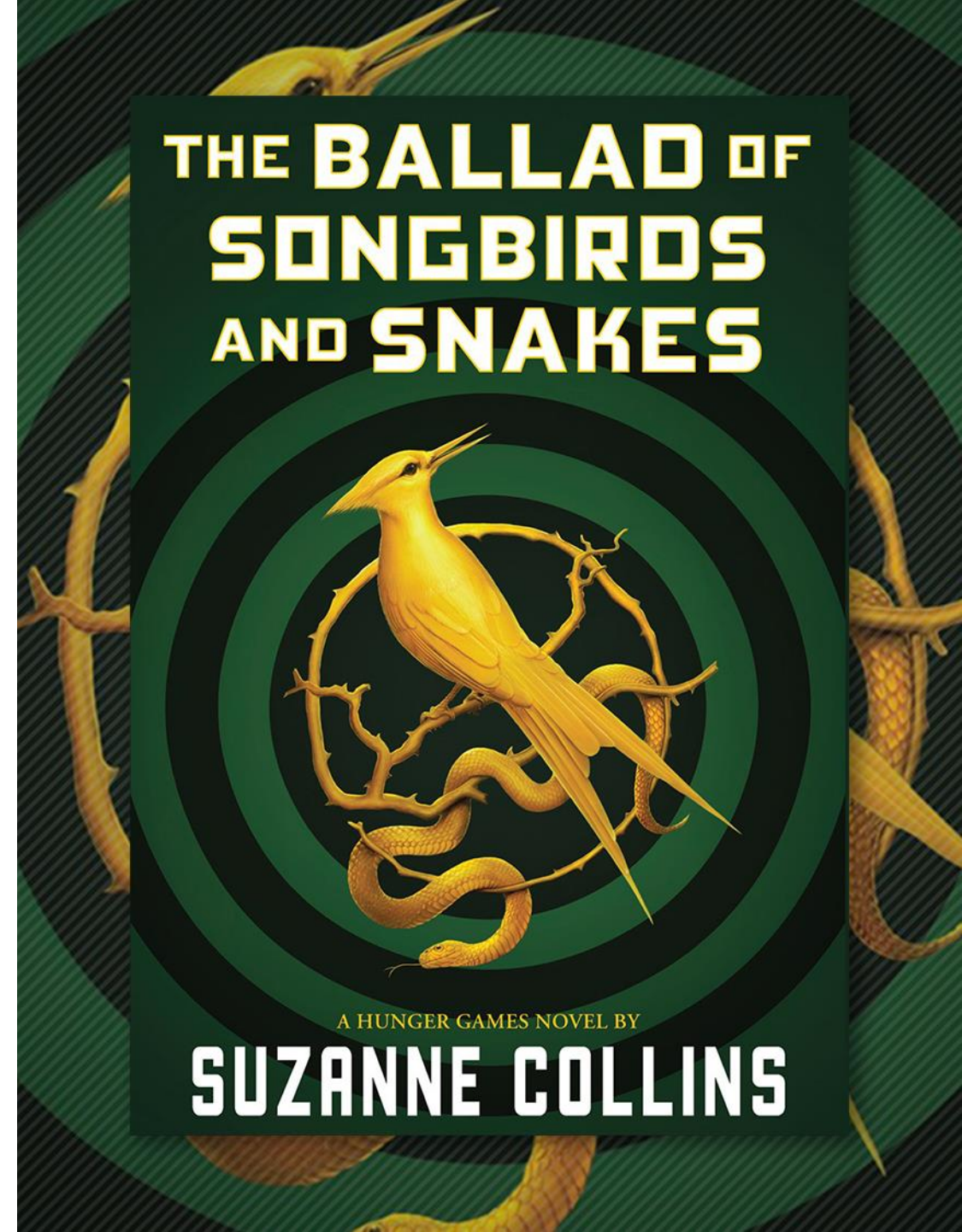
Chairman, President
and Chief Executive Officer

Fourth Quarter and Fiscal Year 2020 Results

- In challenging period, Scholastic demonstrated our value to our school, teacher, parent, and child customers, while also taking substantial action to mitigate the impact of the pandemic on our operating income and cash flow.
 - Implementing cost savings program targeted at \$100 million in fiscal 2021 by reducing labor costs and making process improvements, enabling Scholastic to preserve profitability and to ramp as demand increases.
 - *Scholastic Learn at Home* deepened digital connection with parents and children.
 - Trade publishing performed well throughout fiscal 2020 and in the fourth quarter.
 - Prepared to support schools and families as they grapple with safe school reopenings, continuing remote learning, or implementing various combinations of these models.
 - Company remains well-capitalized, with a strong balance sheet and net cash position.
- \$151.7 million reduction in revenue in our school distribution channels in the fourth quarter.
 - Over 120,000 schools closed across the U.S. between March and May.
 - Corresponding decline in school-based book fairs events and book club sales.

Children's Book Publishing

- Trade publishing sales increased 45% in Q4 versus prior year, even as industry book store sales declined as a result of brick-and-mortar store closures in the fourth quarter.
- Strong sales of favorite series including:
 - The Hunger Games® by Suzanne Collins
 - Dog Man® by Dav Pilkey
 - The Bad Guys™ by Aaron Blabey
 - Wings of Fire™ by Tui T. Sutherland

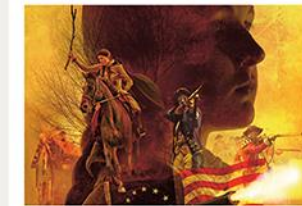


Scholastic Learn At Home

- Digital hub accumulated nearly 80 million page views by June 2020.
- As of July 1st, transitioned *Scholastic Learn at Home* to a paid subscription model so families can continue to use year-round.
- Families share positive feedback, reporting that the programs are fun and easy to use.



Day-by-day projects to keep kids reading, thinking, and growing.



Day 3

Travel back in time to meet the "Girl Hero of the American Revolution."

Plus:

- Decode what your dog is thinking.
- Ride the K-pop wave.
- Search for extraterrestrial life in a sci-fi story.



Hey, Human!

What are dogs trying to tell us?

[Read the Article](#)



The K-pop Wave

Korean popular music tops the charts.

[Read the Article](#)



Fiction: What We Saw

Life on Planet Doom

[Read the Story](#)



Day 5

Check out the amazing journeys these students take every day in "How Do You Get to School?"

Plus:

- Find out about a garbage-gobbling machine.
- Read a story about a girl who discovers herself through singing.
- See how animals see the world through their eyes.



Trash Collector

A cool new way to clean up trash

[Read the Article](#)



Fiction: Amira's Song

Music connects Amira to her family.

[Read the Story](#)



Extraordinary Eyes

These animals have super eyesight.

[Read the Article](#)

Supporting Remote and In-Classroom Learning

- Book Fairs offering flexible, simplified solutions for schools and enhanced virtual fairs; under a new president, redesigned structure to be more nimble and efficient.
- Book Clubs pivoted to redirect book shipments from schools to teachers' homes.
- Education division adapted take-home book model to support districts and states, making high-quality books and workbooks, and family resources available to children learning remotely.



Cost Saving Measures

- Significant action taken to curtail operational and capital expenditures to mitigate the impact of the school closures, while working proactively with families and schools to support them through this period of disruption.
- Actions include:
 - Froze non-essential spending
 - Reduced inventory purchases
 - Temporarily closed warehouses and distribution centers in highly impacted regions
 - Implemented staffing measures such as reduced work weeks, furloughs, and job eliminations, without adversely affecting productivity

Fiscal Year 2020 Results

- Approximately \$19.9 million (net) in non-cash charges as a result of COVID-19, including higher inventory obsolescence reserves, higher customer bad debt, higher return reserves, and higher vacation accruals.
- One-time severance charge of \$13.1 million, in connection with ongoing restructuring, as well as staffing decisions made in response to the impact of COVID-19.
- Excluding one-time items, operating loss of \$32.3 million in fiscal year 2020, versus operating income of \$41.0 million in fiscal year 2019.
- Closed the fiscal year with over \$175 million in net cash on the balance sheet and a strong equity base of almost \$1.2 billion.

Fiscal Year 2021

- Looking ahead, the Company expects:
 - Slower start to the year for school distribution channels.
 - Most schools will be in session, but following varied instruction models district-to-district.
 - Majority of schools not holding in-person fairs converting to virtual fairs or rescheduling; with a more flexible model, we can meet the needs of each district, and scale operations based on demand.
- We are coordinating with schools to provide book fairs that fit all reopening modes and are confident in our trade pipeline, even as capacity and event restrictions at schools and brick and mortar booksellers are expected to continue.
- Will not be providing a fiscal year 2021 outlook.

Ensuring “COVID-Ready” Book Fair Operations

- *Safe & Easy* book fairs:
 - Ready with flexible fairs that are in strict compliance with all local health and safety requirements and meet the needs of individual schools.
 - Ready to provide enhanced virtual fairs and community engagement solutions to connect children to books they love and help schools raise resources.
 - Encouraging teachers and parents to continue to order books online through our clubs ordering platform.

Supporting Continuous Learning for Schools & Families

- Addressing “COVID slide” by providing flexible at-home learning resources to supplement in-school curriculum, and creating affordable book access:
 - Book clubs provide a good solution for getting books into the hands of children in school and at home.
 - Scholastic magazines provide digital editions which can be used at home or in classrooms.
 - Continuing to fine-tune digital educational products and *Scholastic Learn at Home*.
 - Education also provides digital subscription programs including *Scholastic Literacy Pro*[™] for independent reading, *Scholastic F.I.R.S.T.*[™] for foundational phonics, and *Scholastic W.O.R.D.* for vocabulary.

Strong Trade Publishing Pipeline

- Exciting Trade publishing pipeline thanks to highly-anticipated releases and momentum from newest The Hunger Games® title, *The Ballad of Songbirds and Snakes*.
- Anticipated releases include:
 - Dav Pilkey's *Grime and Punishment* (Dog Man #9) and new Cat Kid Comic Club™ series
 - J. K. Rowling's *The Ickabog*®
 - Craig Smith's *Grinny Granny Donkey*
 - Ann M. Martin's *Logan Likes Mary Anne* (The Baby-Sitters Club® #8) and *Karen's Roller Skates* (Baby-Sitters Little Sister #2)
 - Aaron Blabey's *Dawn of the Underlord* (The Bad Guys #11)
 - New titles from Tui T. Sutherland, Alan Gratz, Kelly Yang, and Varian Johnson
- Leah Johnson's *You Should See Me in a Crown* YA debut already exceeding expectations.

Kenneth Cleary

Chief Financial Officer

Income Statement

In \$ Millions (except per share)	Fourth Quarter 2020			Fourth Quarter 2019			Fiscal Year to Date 2020			Fiscal Year to Date 2019		
	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	\$284.0	\$0.0	\$284.0	\$470.7	\$0.0	\$470.7	\$1,487.1	\$0.0	\$1,487.1	\$1,653.9	\$0.0
Cost of goods sold	166.6	-	166.6	215.3	-	215.3	751.0	-	751.0	779.9	-	779.9
Selling, general and administrative expenses ¹	139.4	(6.2)	133.2	206.4	(7.2)	199.2	706.9	(15.6)	691.3	785.0	(15.1)	769.9
Bad debt expense	8.3	-	8.3	1.3	-	1.3	15.6	-	15.6	7.0	-	7.0
Depreciation and amortization	15.3	-	15.3	14.8	-	14.8	61.5	-	61.5	56.1	-	56.1
Asset impairments and write downs ²	0.6	(0.6)	0.0	0.9	(0.9)	-	40.6	(40.6)	-	0.9	(0.9)	-
Total operating costs and expenses	330.2	(6.8)	323.4	438.7	(8.1)	430.6	1,575.6	(56.2)	1,519.4	1,628.9	(16.0)	1,612.9
Operating income (loss)	(46.2)	6.8	(39.4)	32.0	8.1	40.1	(88.5)	56.2	(32.3)	25.0	16.0	41.0
Interest income (expense), net	(0.9)	-	(0.9)	1.1	-	1.1	0.1	-	0.1	3.4	-	3.4
Other components of net periodic benefit (cost)	(0.3)	-	(0.3)	(0.3)	-	(0.3)	(1.3)	-	(1.3)	(1.4)	-	(1.4)
Gain (loss) on investments ³	-	-	-	(1.0)	1.0	-	-	-	-	(1.0)	1.0	-
Provision (benefit) for income taxes ⁴	(34.4)	1.8	(32.6)	13.9	(2.9)	11.0	(46.0)	15.3	(30.7)	10.4	(0.5)	9.9
Net Income (loss)	(13.0)	5.0	(8.0)	17.9	12.0	29.9	(43.7)	40.9	(2.8)	15.6	17.5	33.1
Less: Net income (loss) attributable to noncontrolling interests	0.0	-	0.0	0.0	-	0.0	0.1	-	0.1	0.0	-	0.0
Net Income (loss) attributable to Scholastic Corporation	(\$13.0)	\$5.0	(\$8.0)	\$17.9	\$12.0	\$29.9	(\$43.8)	\$40.9	(\$2.9)	\$15.6	\$17.5	\$33.1
Earnings (loss) per diluted share	(\$0.38)	\$0.15	(\$0.23)	\$0.50	\$0.34	\$0.84	(\$1.27)	\$1.18	(\$0.08)	\$0.43	\$0.49	\$0.92

1. In the three and twelve months ended May 31, 2020, the Company recognized pretax severance of \$6.2 and \$13.1, respectively. In the twelve months ended May 31, 2020, the Company recognized a pretax charge of \$1.0 related to a settlement of an intellectual property producing agreement and a pretax settlement expense of \$1.5 related to an alleged patent infringement claim. In the three and twelve months ended May 31, 2019, the Company recognized pretax severance of \$3.4 and \$6.5, respectively, pretax charges related to a legacy sales tax assessment of \$3.8 and \$8.1, respectively, and pretax branch consolidation costs of \$0.0 and \$0.5, respectively.
2. In the three and twelve months ended May 31, 2020, the Company recognized a pretax impairment charge of \$0.6 related to an outdated technology platform in Canada. In the twelve months ended May 31, 2020, the Company recognized a pretax asset write down of \$40.0 primarily resulting from lower anticipated requirements in the Company's club and fair channels. In the three and twelve months ended May 31, 2019, the Company recognized a pretax impairment charge of \$0.9 related to legacy building improvements.
3. In the three and twelve months ended May 31, 2019, the Company recognized a pretax loss on investments of \$1.0 related to the recognition of a foreign currency translation adjustment as a result of the acquisition of Make Believe Ideas Limited.
4. In the three and twelve months ended May 31, 2020, the Company recognized a benefit for income taxes in respect to one-time pretax charges of \$1.8 and \$15.3, respectively. In the three and twelve months ended May 31, 2019, the Company recognized a benefit for income taxes in respect to one-time pretax charges of \$2.1 and \$4.2, respectively, and income tax provision of \$5.0 and \$4.7, respectively, primarily related to the Company's state deferred tax balances.

Adjusted EBITDA

	Three Months Ended		Twelve Months Ended	
	<u>5/31/2020</u>	<u>5/31/2019</u>	<u>5/31/2020</u>	<u>5/31/2019</u>
Earnings (loss) before income taxes as reported	(\$47.4)	\$31.8	(\$89.7)	\$26.0
One-time items before income taxes	6.8	9.1	56.2	17.0
Earnings (loss) before income taxes excluding one-time items	(40.6)	40.9	(33.5)	43.0
Interest (income) expense	0.9	(1.1)	(0.1)	(3.4)
Depreciation and amortization ¹	15.9	15.6	64.0	59.3
Amortization of prepublication costs	6.5	5.8	26.2	22.4
Adjusted EBITDA ²	(\$17.3)	\$61.2	\$56.6	\$121.3

1. For the three and twelve months ended May 31, 2020, amounts include depreciation of \$0.5 and \$2.2, respectively, recognized in cost of goods sold, amortization of deferred financing costs of \$0.1 and \$0.3, respectively, and amortization of capitalized cloud software of \$0.0 recognized in selling, general and administrative expenses. In the three and twelve months ended May 31, 2019, amounts include depreciation of \$0.7 and \$2.9, respectively, recognized in cost of goods sold, and amortization of deferred financing costs of \$0.1 and \$0.3, 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

In \$ Millions	<u>May 31, 2020</u>	<u>May 31, 2019</u>
Free cash flow (use) (3 month period ending) ¹	(\$63.2)	\$30.4
Free cash flow (use) (12 month period ending) ¹	(\$89.1)	(\$12.4)
Accounts receivable, net	\$239.8	\$250.1
Inventories, net	\$270.6	\$323.7
Accounts payable	\$153.6	\$195.3
Accrued royalties	\$37.8	\$41.9
Total debt	\$218.5	\$7.3
Cash and cash equivalents	\$393.8	\$334.1
Net debt ²	(\$175.3)	(\$326.8)

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, 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 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 (except per share)	Fourth Quarter 2020			Fourth Quarter 2019			Fiscal Year to Date 2020			Fiscal Year to Date 2019		
	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	\$19.5	\$0.0	\$19.5	\$47.0	\$0.0	\$47.0	\$156.8	\$0.0	\$156.8	\$212.4	\$0.0	\$212.4
Book Fairs	32.1	-	32.1	156.3	-	156.3	383.8	-	383.8	499.6	-	499.6
Consolidated Trade	80.4	-	80.4	55.4	-	55.4	334.8	-	334.8	278.3	-	278.3
Total revenue	132.0	-	132.0	258.7	-	258.7	875.4	-	875.4	990.3	-	990.3
Operating income (loss)	(46.5)	-	(46.5)	18.2	-	18.2	23.6	-	23.6	82.9	-	82.9
Operating margin	-	-	-	7.0%	-	7.0%	2.7%	-	2.7%	8.4%	-	8.4%
Education												
Revenue	94.7	-	94.7	117.7	-	117.7	287.3	-	287.3	297.4	-	297.4
Operating income (loss)	27.3	-	27.3	36.9	-	36.9	29.9	-	29.9	30.6	-	30.6
Operating margin	28.8%	-	28.8%	31.4%	-	31.4%	10.4%	-	10.4%	10.3%	-	10.3%
International												
Revenue	57.3	-	57.3	94.3	-	94.3	324.4	-	324.4	366.2	-	366.2
Operating income (loss) ¹	(10.8)	1.7	(9.1)	5.8	1.0	6.8	(6.5)	1.7	(4.8)	13.8	1.5	15.3
Operating margin	-	-	-	6.2%	-	7.2%	-	-	-	3.8%	-	4.2%
Corporate overhead ²	16.2	(5.1)	11.1	28.9	(7.1)	21.8	135.5	(54.5)	81.0	102.3	(14.5)	87.8
Operating income (loss)	(\$46.2)	\$6.8	(\$39.4)	\$32.0	\$8.1	\$40.1	(\$88.5)	\$56.2	(\$32.3)	\$25.0	\$16.0	\$41.0

1. In the three and twelve months ended May 31, 2020, the Company recognized pretax severance of \$1.1 and a pretax impairment charge of \$0.6 related to an outdated technology platform in Canada. In the three and twelve months ended May 31, 2019, the Company recognized pretax severance of \$1.0 and \$1.0, respectively and pretax branch consolidation costs of \$0.0 and \$0.5, respectively.

2. In the three and twelve months ended May 31, 2020, the Company recognized pretax severance of \$5.1 and \$12.0, respectively. In the twelve months ended May 31, 2020, the Company recognized a pretax asset write down of \$40.0 primarily resulting from lower anticipated requirements in the Company's club and fair channels, a pretax charge of \$1.0 related to a settlement of an intellectual property producing agreement and a pretax settlement expense of \$1.5 related to an alleged patent infringement claim. In the three and twelve months ended May 31, 2019, the Company recognized pretax impairment charges of \$0.9 related to legacy building improvements, pretax severance of \$2.4 and \$5.5, respectively, and pretax charges related to a legacy sales tax assessment of \$2.9 and \$9.1, respectively.

Question & Answer

Participants

- Richard Robinson
- Kenneth Cleary

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 solid red rectangular background.

SCHOLASTIC