



 SCHOLASTIC

Stifel Nicolaus Investor Meeting

Wednesday, February 5, 2020

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## 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, 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.



# Investment Thesis

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- Scholastic is the top children’s book publisher and distributor in the world.
- Children’s books seen as most stable and growing part of the market.
- Proprietary distribution channels to schools with clubs and fairs.
- New *Scholastic Literacy* comprehensive curriculum and component digital subscription products now in the market.
- English language learning materials market growing in China and Korea.
- Increased activity in the film and TV market as over-the-top subscription services compete for new children’s content.

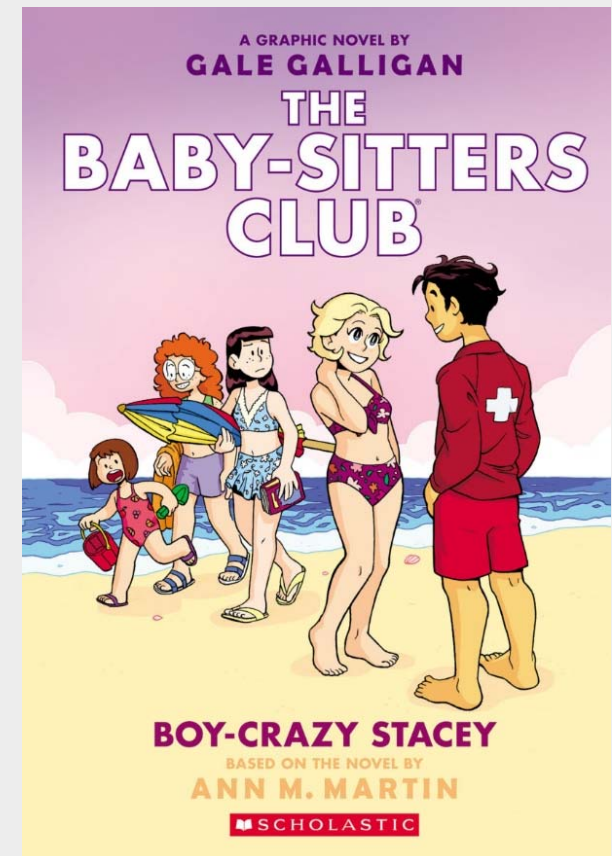


# Investment Thesis

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- Strong balance sheet with  $\approx$  \$250 million in cash and trivial amounts of debt outside the U.S.
- Valuable company-owned real estate unencumbered by liens or other collateral arrangements.
- *Scholastic 2020* process improvement and cost savings initiatives gaining traction.
- New enterprise-wide technology platforms and data-analytics capabilities informing new marketing strategies.
- Building remodel produced additional high value retail to drive incremental rental income in future periods.
- Higher levels of capital investment in technology, facilities and new products tapering off.



# Technology Transformation

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- We are approaching five years since the start of our technology transformation program.
- Initial focus on front-end and data systems, and then expanded to include digital education, Salesforce.com (CRM) and an ERP transformation program (International and North America).
- Integrated digital services operations, created a data and analytics organization, and moved applications support to a managed service model.
- Migrated applications to the cloud (reducing our front-end server footprint by 90%), retired 84+ legacy applications and significantly lowered our maintenance and hosting costs.
- Increased technology output with lower cash spend and the continuance of later stage technology transformation programs across functions and business units – Salesforce.com to integrated analytics, POS and eWallet, eCommerce enablement, teacher channel content marketing and consolidation, sales tax compliance, infrastructure upgrades, international ERP deployment, new digital education products and Scholastic Digital Manager integrations.
- Focus on providing better information, insights and tools to drive improvements in marketing, sales, procurement, inventory management, fulfillment and financial processes.
- Aligned with *Scholastic 2020* initiatives to organize and concentrate resources against high priority areas and provide a forum to engage business teams more efficiently and effectively.



# Scholastic 2020 Operation Updates

- Overarching goal of driving sustainable operational efficiencies within Scholastic's supply chain while improving service to the customer.
- Our shared services organization (NSO), book fairs operations, logistics and manufacturing have created a defined process to work together, engage the business units and leverage other disciplines across the Company.
- Early emphasis was placed on clear-cut savings initiatives that our operations group could unilaterally execute. Now shifted attention to a mix of operations-led savings and more complex-to-implement efforts leveraging capabilities across integrated teams including operations, technology, data and analytics, finance, human resources and the businesses.
- Recent successes ranged from inbound logistics efficiencies enabled through Oracle Transportation Management (OTM), warehouse efficiencies in the NSO and Fairs, labor efficiencies through Contact Center upgrades, indirect procurement savings, and kit rationalization in clubs.
- Drivers of recent savings include rate negotiations with key vendors, vendor rebates, paper grade standardization, early pay discount pilot program, ocean freight rate savings, cross dock utilization improvements, mail innovations, warehouse labor productivity, contact center improvements, office supplies savings and more.
- Tens of millions of dollars in savings to-date, helping to mitigate wage inflation in distribution and transportation, higher costs incurred with paper and printing vendors due to capacity constraints, and import tariffs.



# Real Estate Review



- Multi-year remodel and upgrade of NYC 555/557 Broadway headquarters is complete, effectively adding 17,500 sq. ft. of high value retail on the first floor and 23,000 sq. ft. of multi-purpose / mixed use space on the second floor.
- Also added additional capacity (density) in the remaining office floors with available seating going from slightly less than 1,000 to 1,200 seats.
- This additional capacity has allowed us to reduce our presence at 524 Broadway (leased space) to just one floor and at 568 Broadway (leased space) to one suite of approximately 2,000 sq. ft.
- Focus on incremental investment designed to attract new retail tenants and generate optimum retail income at 555/557 Broadway, installation of elevators to accommodate 2<sup>nd</sup> floor tenant (lease negotiations underway), and other projects to minimize vacancy window and enhance operating cash flows.
- Scheduled August '20 completion of new distribution facility in Warwickshire UK for warehouse consolidation and sale of two legacy freeholds in Southam and Witney.
- In late stage negotiations with potential buyer of underutilized Danbury CT facility.



# Scholastic Trade Publishing Success

- Very successful campaigns for key series and bestselling authors and continue to focus on top franchises including *Dog Man*, *Captain Underpants*, *Wings of Fire*, and *I Survived*, along with significant authors such as Raina Telgemeier, Alan Gratz and Pam Muñoz Ryan.
- Increased focus on licensing, which now comprises ≈16% of core trade revenue, taking advantage of the benefits of brand merchandising.
- Launched Scholastic *Home Base*, a new web-based portal to create stronger discovery and engagement with key Scholastic brands, along with an upgraded Kids Site to drive deeper audience retention and an enhanced user experience.
- Expanding our leadership position in the field of children’s graphic novels – an area that is up +33% in the industry.
- Leveraging acquisition of *Make Believe Ideas Limited* (UK) for extending our beautifully designed, innovative and educational early learners book and workbook offerings.
- Maintaining sales momentum created by the 20<sup>th</sup> anniversary year of *Harry Potter*, introducing the franchise to new readers with a growing backlist of illustrated titles as well as the classics.



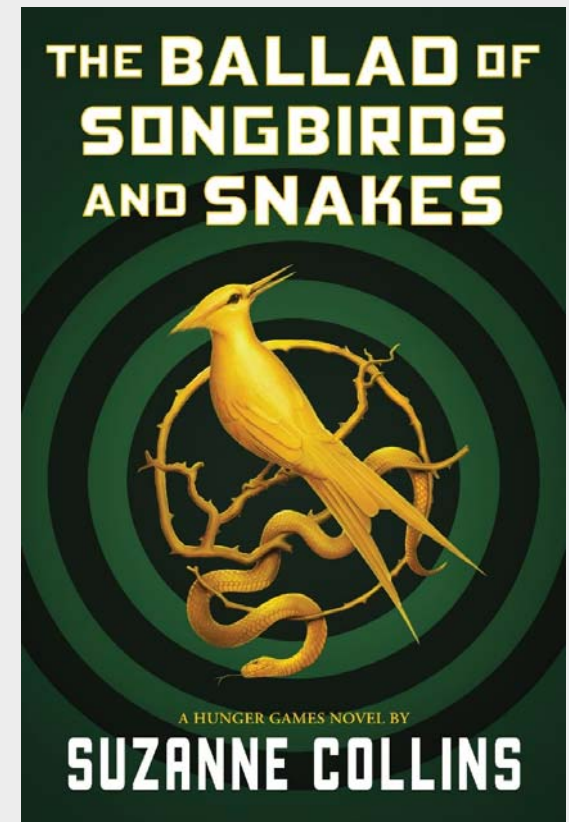


# Hunger Games

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- *The Ballad of Songbirds and Snakes* will be published simultaneously in print, digital and audio formats by Scholastic in the US, Canada, the UK and Ireland, Australia, and New Zealand.
- Will be published May 19, 2020, with an announced World English first printing of 2.5 million copies.
- *The Ballad of Songbirds and Snakes* will revisit the world of Panem sixty-four years before the events of *The Hunger Games*, starting on the morning of the reaping of the Tenth Hunger Games.
- *The Hunger Games* was released in September 2008. *Catching Fire*, the second book of The Hunger Games series, was published September 1, 2009. *Mockingjay* was released August 24, 2010 – all #1 *USA Today*, *New York Times*, and *Wall Street Journal* bestsellers.
- There are more than 70 million copies of the original three books in The Hunger Games trilogy in print and digital formats in the U.S., and more than 100 million copies in print worldwide.





# Scholastic Entertainment Strategy

- Expanding our relationships with key studios in both live action and animation in an attempt to leverage our rich content, characters and other intellectual properties, especially through production studios in countries (e.g. Canada, Ireland) offering production tax credits.
- Key children's titles suitable for development/production include *The Giggle Pigs*, *Ghost Squad*, *Owl Diaries*, *Puppy Place*, *Fly Guy*, *Notebook of Doom*, *Revenge of the Flower Girls* and others.
- Have retained a global distribution agent to seek new outlets for our evergreen classic programming library, including *Clifford*, *The Magic School Bus*, *Goosebumps*, *Word Girl*, *Astro Blast*, *Maya & Miguel*, and *The Baby-Sitters Club*; and broadened our development slate for future programming (targeting new streaming channels hungry for content).
- In addition to the new *Magic School Bus* programming with Netflix, new *Clifford*, *The Big Red Dog* television series premiered in December 2019 on Amazon Prime and PBS Kids (awarded the Parents' Choice Gold Award). Scholastic to control/manage licensing and merchandising.
- New live action/hybrid full-length *Clifford* feature film in post-production with November 2020 release date.

# Scholastic Book Fairs

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- Sasha Quinton has been named Executive Vice President, Scholastic Corporation, and President, Scholastic Book Fairs effective January 1, 2020.
- The undisputed leader in its category, Scholastic Book Fairs distributes many millions of books to children and their families each year, while providing schools with more than \$150 million dollars in cash and free books.
- With a workforce of more than 3,000 employees in 58 regional distribution centers, Scholastic Book Fairs delivers approximately 120,000 fairs in 60,000 schools annually.
- Strong first half FY2020 performance with higher transactions, greater revenue and profitability per fair.
- Investments in transformational technology and data analytics helping to manage the scheduling of fairs in our peak and drive down costs associated with delivery of fairs improving the margin.
- Focus on breadth and depth of product offering and utilization of technology enhancements to bring the right fair to customers at the right time.
- High “win-back” rate for fairs that moved to competition in the prior period.

# Scholastic Literacy Launch



- Our **Scholastic Literacy** instructional methodology is built upon 10 core beliefs for student success – the Importance of Choice and Access to Authentic Texts; Reading and Writing Connections; Foundational Skills, Social-Emotional Learning, Critical Thinking, Standards-Aligned Instruction, Innovative Digital Learning, Data to Inform and Differentiate Instruction, Professional Learning, and Family and Community Engagement.
- Our instructional model leads to responsive teaching – to children with teacher-led whole-class instruction, with children through teacher-facilitated small-group differentiated instruction, and by children through student independent practice and mastery.
- Independent reading and personalized learning supported by “seven strengths” classroom libraries and three new digital products: **Literacy Pro** (blended, accountable independent reading, benchmarking and comprehension checks); **W.O.R.D.** (thematically-aligned digital vocabulary instruction focusing on homonyms, polysemy, synonyms and antonyms, expressions and phrases, heavy-lifting words and mega clusters, pictureable words, tenses, compound words, comparisons, analogies, idioms, and derivatives); and **F.I.R.S.T.** (foundational skills for students PreK-2 with a focus on phonemic awareness and phonics providing children with a personal path for creating automatic, fluent reading with strong comprehension).

# Scholastic Literacy

Where it Comes Together in the Classroom





# Classroom Magazines Validation

- Scholastic Classroom Magazines are currently used in over 80,000 school buildings, representing nearly 67% of schools in the United States.
- The magazines are powerful resources for teachers. Each issue features engaging articles and stories, online tools, and instructional materials carefully crafted to fit classroom curricula.
- More than 30 print magazines consisting of pre-K through Grade 12 offerings that are both grade- and subject-specific, covering a wide range of core subjects – English Language Arts, social studies, math, science, and support topics such as art, health, and social-emotional and life-skills.
- With a compelling combination of print and digital (blended-learning) instructional materials, the magazines promote reading comprehension and help students make real-world connections with clear learning objectives, teacher’s guides, critical-thinking prompts, skill sheets, and standards alignments that support and enhance student skill development.
- Research and validation have proven the magazines’ efficacy as valuable tools for engaging students in literacy and enhancing opportunities for them to read with deep comprehension across disciplines and topics, with rich, timely content.



## Bolt-On Niche Acquisitions and Investments

- In December 2019, we purchased the operating assets and intangibles, including customer lists, of **Mrs. Nelson's Book Fairs, Inc. (CA)**, a distinctive brand of premium book fairs in the the Southern California region.
- In April 2019, we made an investment (4.62%) in **Picturestart LLC**, a financing and production company working with leading creatives of the entertainment industry and with top distributors and content partners to make film, television, and digital programming designed for the youth market.
- In March 2019, we completed the purchase of the majority interest in **Make Believe Ideas Limited (MBI)**. Publishing over 100 titles a year, MBI is known for creating high-quality, affordable books for young children and babies. This acquisition builds on the relationship established in 2015 when Scholastic announced its initial minority equity stake in MBI.
- In July 2018, we bought the international school book club business of **Baker Books (UK)**. The consolidated business offers the best children's books to international schools, all read and carefully curated by our editors, at great prices.
- In May and June 2018, Scholastic acquired the book fairs business of **Back to Books, Inc. d/b/a Allbook Fairs (NJ)** and **Southwest Book Company (TX)** – two specialty regional operators of school-based book fairs.
- In February 2018, Scholastic Limited acquired **Laburnum House Educational Limited, MBE Books Limited, and Bargain Books Limited** – wholesale book distributors to schools and teachers in the United Kingdom.
- In April 2017, the Company acquired Canada-based **Ooka Island**, an adaptive, game-based learn to read digital program that develops strong early reading skills through educational activities and ebooks.

# Fiscal 2020 Outlook



- We remain on track to deliver revenues and Adjusted EBITDA, as defined, within our guidance ranges and have more closely tied senior management incentive compensation to the achievement of these Adjusted EBITDA targets.

Revenues	\$1.67 – \$1.70 billion
Adjusted EBITDA <sup>1</sup>	\$140 – \$160 million
Capital Expenditures	\$75 – \$85 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.



# 100<sup>th</sup> Anniversary



- Over the course of the last 100 years, we have always believed it's possible to find that one special thing that can awaken a child to new possibilities. We were doing the same thing in 1920 as we're doing in 2020 – trying to understand what is happening right now in a child's life that matters most.
- Throughout **Scholastic's 100<sup>th</sup> Anniversary** year, we will be celebrating this milestone with special events centered around our acclaimed authors and illustrators at various events and trade shows and through social media campaigns.
- We will also be capturing engaging moments with our teachers and customers, as well as employees, throughout the centennial year.
- Stay tuned for exciting news on **Scholastic's 100<sup>th</sup> Anniversary** and related events commencing in March 2020.



## About Scholastic



- Scholastic Corporation (NASDAQ: [SCHL](https://www.nasdaq.com/quote/SCHL)) is the world's largest publisher and distributor of children's books, a leading provider of literacy curriculum, professional services and classroom magazines, and a producer of educational and entertaining children's media. The Company creates and distributes quality books and e-books, print and technology-based learning programs for pre-K to grade 12 and other products and services that support children's learning and literacy both in school and at home. With 15 international operations and exports to 165 countries, Scholastic makes quality, affordable books available to all children around the world through school-based book clubs and book fairs, classroom libraries, school and public libraries, retail and online. True to its mission of 99 years to encourage the personal and intellectual growth of all children beginning with literacy, the Company has earned a reputation as a trusted partner to educators and families. Learn more at [www.scholastic.com](https://www.scholastic.com).



# Question & Answer

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- Ken Cleary, Chief Financial Officer
- Ellie Berger, Executive Vice President and President, Trade Publishing
- Sasha Quinton, Executive Vice President and President, Scholastic Book Fairs
- Gil Dickoff, Senior Vice President and Treasurer

The Scholastic logo is centered on a light gray rectangular background. It consists of a white icon of an open book on the left, followed by the word "SCHOLASTIC" in a white, serif, all-caps font on a red rectangular background.

SCHOLASTIC