SCHOLASTIC

# Third Quarter FY 2019 Earnings Call Presentation

March 21, 2019

# 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

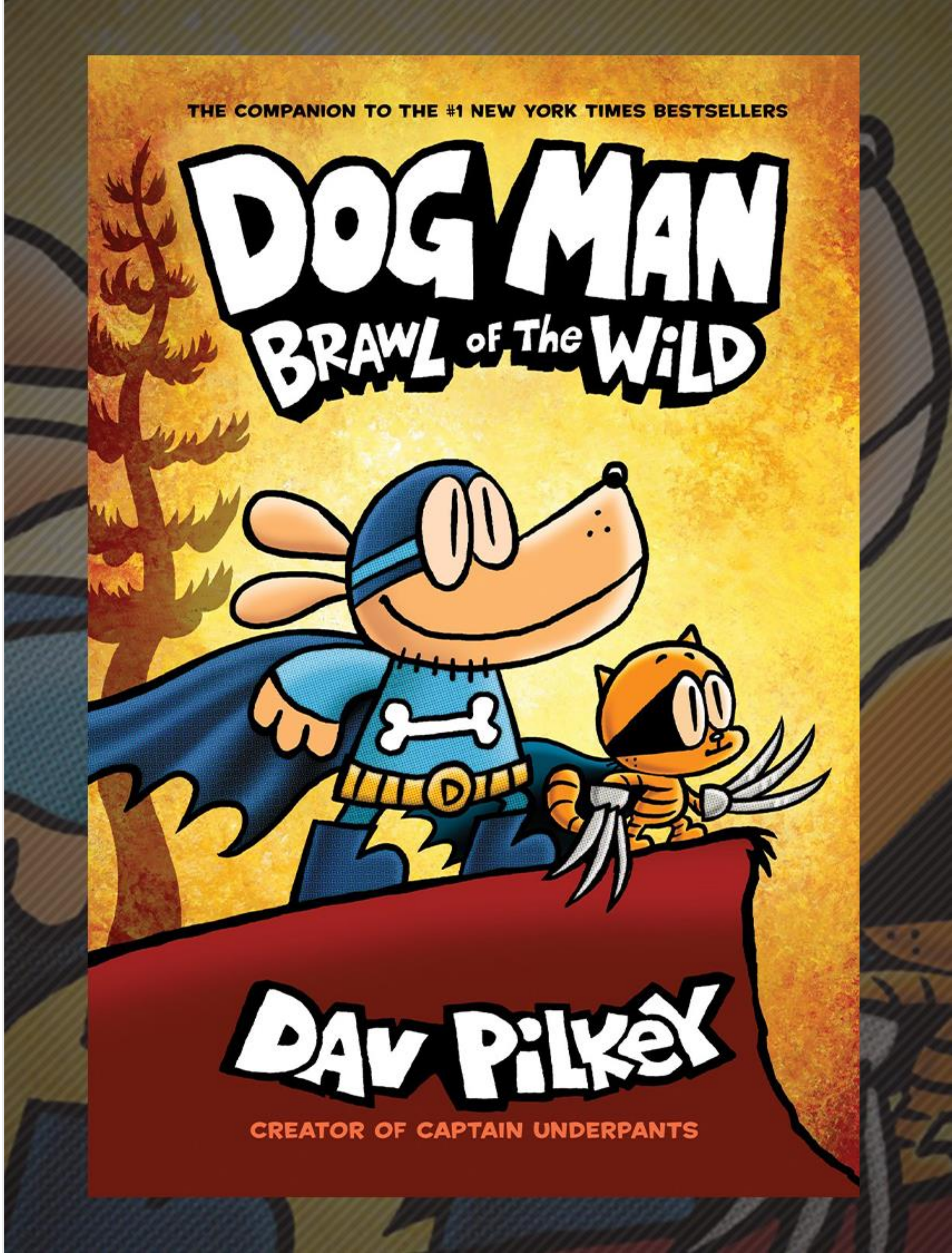
Today's comments include references to certain non-GAAP financial measures as defined in Regulation G. The reconciliation of these non-GAAP financial measures with the relevant GAAP financial information and other information required by Regulation G is provided in the Company's earnings release, which is posted on the Company's investor relations website at investor.scholastic.com.

# Richard Robinson

Chairman, President
and Chief Executive Officer

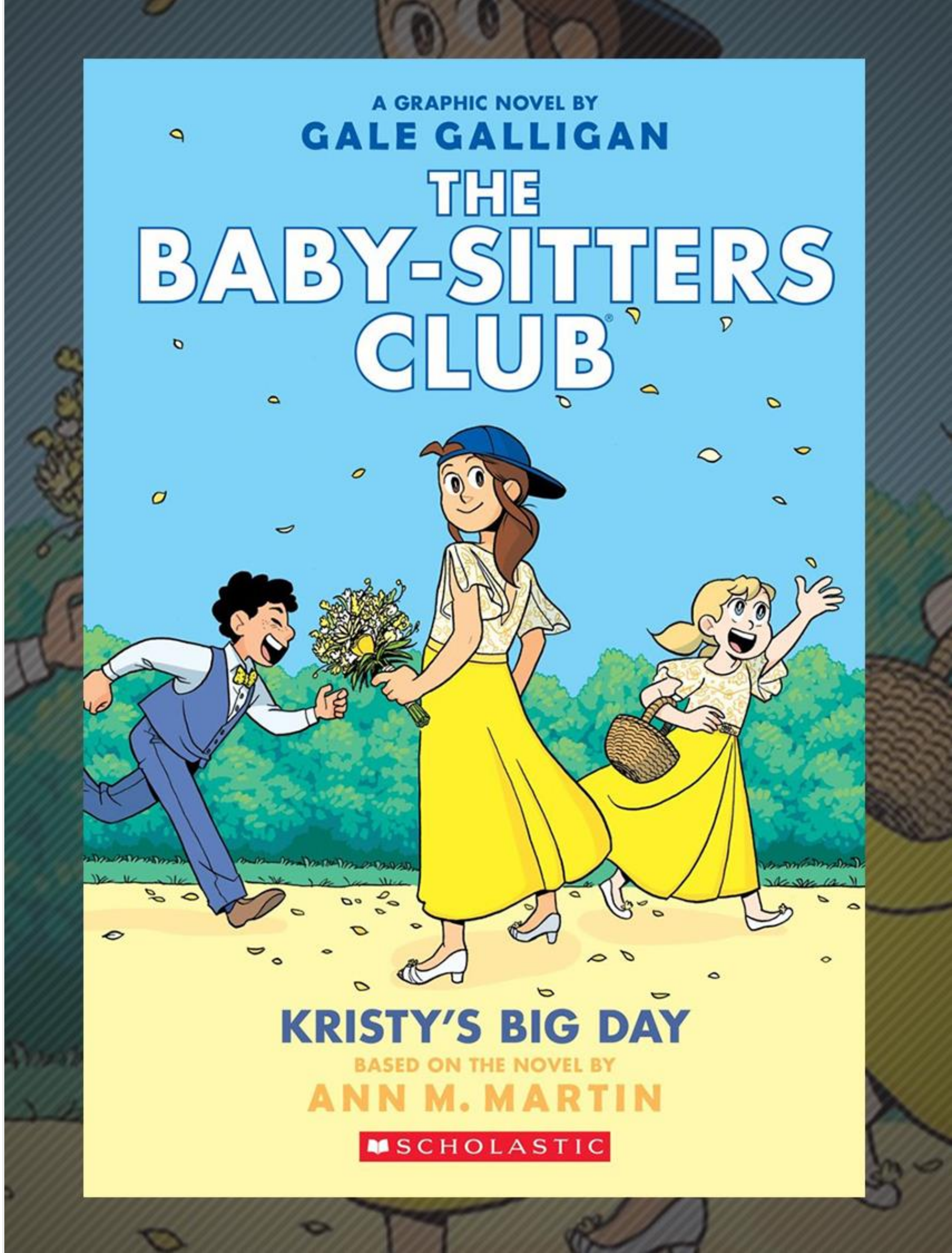
# Third Quarter 2019 Highlights

- Third quarter sales increased by $15.4 million, up 4% higher year-over-year
- Year-to-date, revenues are up $51 million, up 5%, primarily driven by outstanding trade publishing results worldwide
- Led by strong front- and backlist trade titles globally
- Book fairs and education in the U.S. on plan



# Children’s Book Publishing & Distribution

- 8% gain overall and a 25% gain in trade
- Branded series continue to top children’s bestsellers: Dog Man, Wings of Fire, Owl Diaries, and The Baby-Sitters Club® – now a smash success in graphic novel format
- Evergreen Clifford® programming library licensed to Amazon Prime Video
- Book Fairs saw 6% gain in revenue; technology updates advancing
- Book Clubs customer-facing ordering platforms reprogrammed for efficient collection of state and local sales tax; expect some incremental sales tax-related expense this fiscal



# Education

- *Scholastic Literacy* customer presentations have begun; very positive response and already a finalist in several district reading adoptions

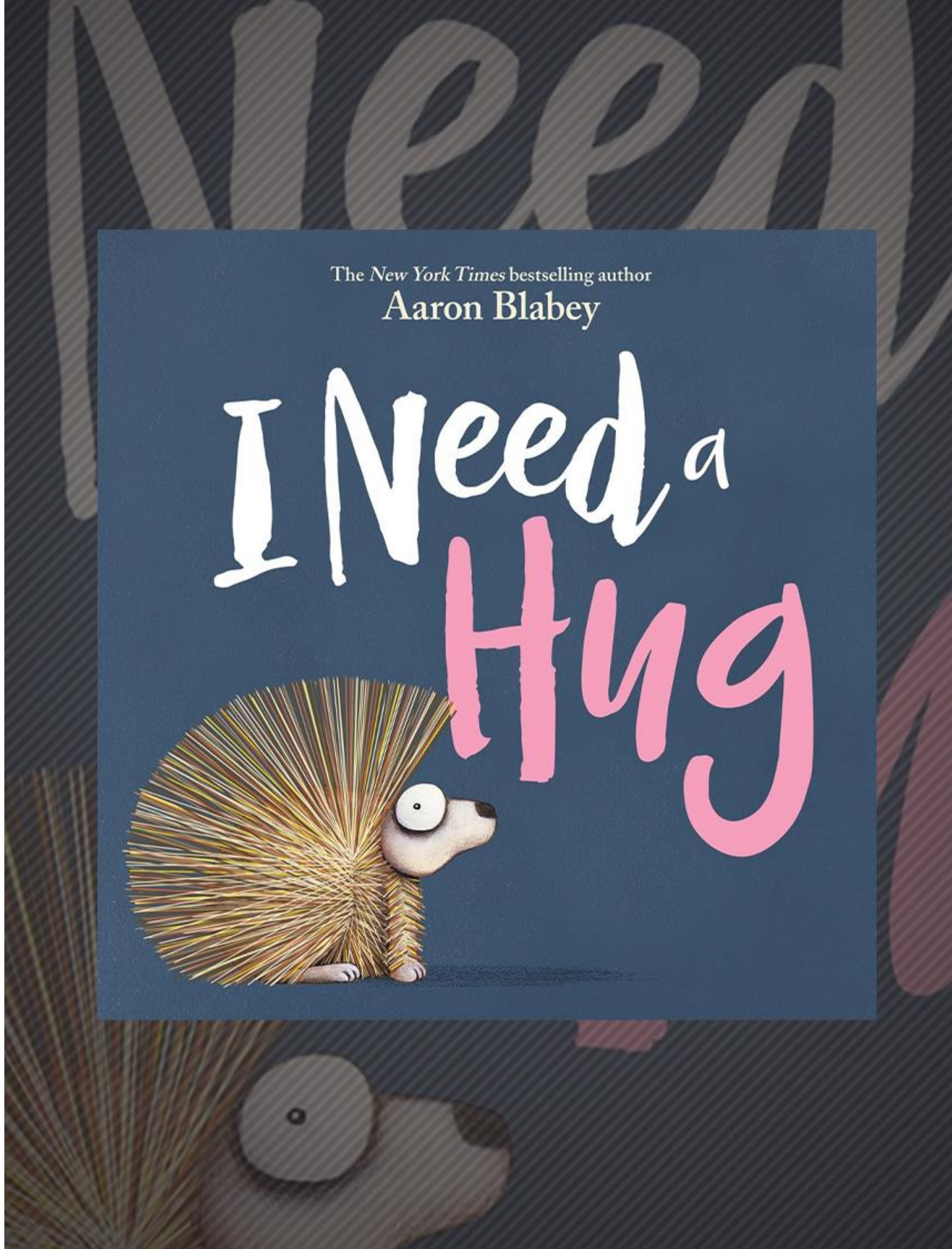
- Comprehensive curriculum product builds on guided reading techniques and collections of motivational authentic text, combined with digital programs

- Expanded sales team’s selling strategy by launching a suite of analytics tools to provide predictive and diagnostic capabilities around the sales pipeline

- Teacher Store Online saw significant increase in YOY revenue

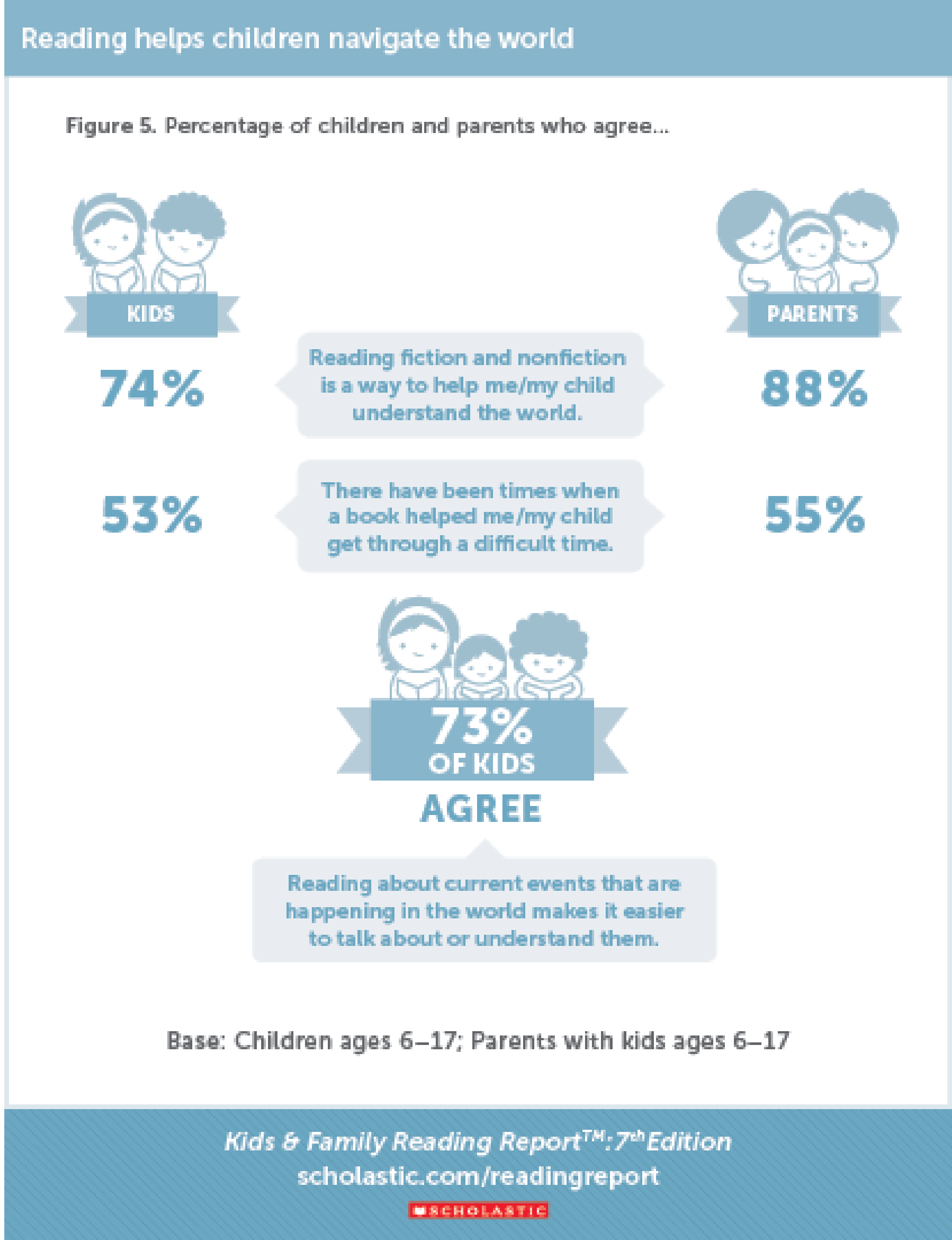
# International

- Revenues continue to track ahead of prior year before impact of currency
- Strong trade publishing globally
- Strong performance in multiple distribution channels in China
- Distribution channels and growing list of digital offerings will drive international growth



# Third Quarter 2019 Highlights, cont'd

- *Kids & Family Reading Report: 7th Edition* launched this week; voices strong support from families for reading and calls on us all to support both reading aloud and independent reading
- Refreshed summer reading program to launch in Q4 to engage all of our audiences in efforts to offset the "summer slide"; enthusiastic support from booksellers



## Kenneth Cleary

Chief Financial Officer

# ASC 606 Modified Adoption

- The new guidelines 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 of $9.4 million in revenues and $7.5 million of operating income

- Net impact year-to-date was an incremental $11.1 million in revenues and $7.1 million in operating income

# Income Statement

| In $ Millions (except per share) | Third Quarter 2019 | | | Third Quarter 2018 | | | Fiscal Year to Date 2019 | | | Fiscal Year to Date 2018 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | $360.1 | $0.0 | $360.1 | $344.7 | $0.0 | $344.7 | $1,183.2 | $0.0 | $1,183.2 | $1,132.2 | $0.0 | $1,132.2 |
| Cost of goods sold | 176.9 | - | 176.9 | 166.4 | - | 166.4 | 564.6 | - | 564.6 | 535.6 | - | 535.6 |
| Selling, general and administrative expenses [1] | 189.3 | (2.7) | 186.6 | 185.0 | (0.4) | 184.6 | 578.6 | (7.9) | 570.7 | 566.0 | (5.7) | 560.3 |
| Bad debt expense | 1.6 | - | 1.6 | 1.7 | - | 1.7 | 5.7 | - | 5.7 | 7.9 | - | 7.9 |
| Depreciation and amortization | 13.7 | - | 13.7 | 11.0 | - | 11.0 | 41.3 | - | 41.3 | 30.0 | - | 30.0 |
| Asset impairments [2] | - | - | - | 4.3 | (4.3) | - | - | - | - | 11.0 | (11.0) | - |
| Total operating costs and expenses | 381.5 | (2.7) | 378.8 | 368.4 | (4.7) | 363.7 | 1,190.2 | (7.9) | 1,182.3 | 1,150.5 | (16.7) | 1,133.8 |
| Operating income (loss) | (21.4) | 2.7 | (18.7) | (23.7) | 4.7 | (19.0) | (7.0) | 7.9 | 0.9 | (18.3) | 16.7 | (1.6) |
| Interest income (expense), net | 1.0 | - | 1.0 | 0.2 | - | 0.2 | 2.3 | - | 2.3 | 0.5 | - | 0.5 |
| Other components of net periodic benefit (cost) [3] | (0.4) | - | (0.4) | (39.8) | 39.6 | (0.2) | (1.1) | - | (1.1) | (55.4) | 55.0 | (0.4) |
| Provision (benefit) for income taxes [4] | (8.2) | 1.2 | (7.0) | (14.1) | 5.5 | (8.6) | (3.5) | 2.4 | (1.1) | (17.4) | 16.5 | (0.9) |
| Net Income (loss) | ($12.6) | $1.5 | ($11.1) | ($49.2) | $38.8 | ($10.4) | ($2.3) | $5.5 | $3.2 | ($55.8) | $55.2 | ($0.6) |
| Earnings (loss) per diluted share | ($0.36) | $0.04 | ($0.32) | ($1.41) | $1.11 | ($0.30) | ($0.07) | $0.16 | $0.09 | ($1.59) | $1.57 | ($0.02) |

1. In the three and nine months ended February 28, 2019, the Company recognized pretax severance of $2.2 and $3.1, respectively, and pretax branch consolidation costs of $0.5 and $0.5, respectively. In the nine months ended February 28, 2019, the Company recognized a $4.3 pretax charge related to a proposed settlement of a legacy sales tax assessment. In the three and nine months ended February 28, 2018, the Company recognized pretax severance and stock compensation charges of $0.4 and $5.7, respectively.
2. In the three and nine months ended February 28, 2018, the Company recognized pretax impairment charges of $4.3 and $11.0, respectively, related to legacy building improvements.
3. In the three and nine months ended February 28, 2018, the Company recognized pretax charges related to a partial settlement of the Company's domestic defined benefit pension plan of $39.6 and $55.0, respectively.
4. In the three and nine months ended February 28, 2019, the Company recognized a benefit for income taxes in respect to one-time pretax charges of $0.7 and $2.1, respectively, and $0.5 and $0.3, respectively, related to the remeasurement of the Company's U.S. deferred tax balance in connection with the passage of the Tax Cuts and Jobs Act of 2017. In the three and nine months ended February 28, 2018, the Company recognized a benefit for income taxes in respect to one-time pretax charges of $13.8 and $24.8, respectively, partly offset by $8.3 and $8.3, respectively, of income tax provision related to the remeasurement of the Company's U.S. deferred tax balance in connection with the passage of the Tax Cuts and Jobs Act of 2017.

# Adjusted EBITDA

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | **2/28/2019** | **2/28/2018** | **2/28/2019** | **2/28/2018** |
| Earnings (loss) before income taxes as reported | ($20.8) | ($63.3) | ($5.8) | ($73.2) |
| One-time items before income taxes | 2.7 | 44.3 | 7.9 | 71.7 |
| Earnings (loss) before income taxes excluding one-time items | (18.1) | (19.0) | 2.1 | (1.5) |
| Interest (income) expense | (1.0) | (0.2) | (2.3) | (0.5) |
| Depreciation and amortization[1] | 14.6 | 11.7 | 43.7 | 32.2 |
| Amortization of prepublication and productions costs | 5.9 | 5.5 | 16.6 | 16.4 |
| Adjusted EBITDA[2] | $1.4 | ($2.0) | $60.1 | $46.6 |

1. For the three and nine months ended February 28, 2019, amounts include depreciation of $0.8 and $2.2, respectively, recognized in cost of goods sold and amortization of deferred financing costs of $0.1 and $0.2, respectively. In the three and nine months ended February 28, 2018, amounts include depreciation of $0.6 and $1.9, respectively, recognized in cost of goods sold and amortization of deferred financing costs of $0.1 and $0.2, respectively.
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

| | Third Quarter 2019 | | | Third Quarter 2018 | | | Fiscal Year to Date 2019 | | | Fiscal Year to Date 2018 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | | | | | | | | | | | | |
| Revenue | | | | | | | | | | | | |
| Book Clubs | $55.0 | $0.0 | $55.0 | $57.7 | $0.0 | $57.7 | $165.4 | $0.0 | $165.4 | $165.6 | $0.0 | $165.6 |
| Book Fairs | 97.4 | - | 97.4 | 91.5 | - | 91.5 | 343.3 | - | 343.3 | 334.6 | - | 334.6 |
| Consolidated Trade | 65.6 | - | 65.6 | 52.4 | - | 52.4 | 222.9 | - | 222.9 | 184.0 | - | 184.0 |
| Total revenue | 218.0 | - | 218.0 | 201.6 | - | 201.6 | 731.6 | - | 731.6 | 684.2 | - | 684.2 |
| Operating income (loss) | 4.4 | - | 4.4 | (1.0) | - | (1.0) | 64.7 | - | 64.7 | 55.1 | - | 55.1 |
| Operating margin | 2.0% | | 2.0% | - | | - | 8.8% | | 8.8% | 8.1% | | 8.1% |
| Education | | | | | | | | | | | | |
| Revenue | 60.3 | - | 60.3 | 59.5 | - | 59.5 | 179.7 | - | 179.7 | 171.4 | - | 171.4 |
| Operating income (loss) | 0.3 | - | 0.3 | (0.1) | - | (0.1) | (6.3) | - | (6.3) | (8.7) | - | (8.7) |
| Operating margin | 0.5% | | 0.5% | - | | - | - | | - | - | | - |
| International | | | | | | | | | | | | |
| Revenue | 81.8 | - | 81.8 | 83.6 | - | 83.6 | 271.9 | - | 271.9 | 276.6 | - | 276.6 |
| Operating income (loss) [1] | (3.0) | 0.5 | (2.5) | 0.7 | - | 0.7 | 8.0 | 0.5 | 8.5 | 12.6 | - | 12.6 |
| Operating margin | - | | - | 0.8% | | 0.8% | 2.9% | | 3.1% | 4.6% | | 4.6% |
| Corporate overhead [2] | 23.1 | (2.2) | 20.9 | 23.3 | (4.7) | 18.6 | 73.4 | (7.4) | 66.0 | 77.3 | (16.7) | 60.6 |
| Operating income (loss) | ($21.4) | $2.7 | ($18.7) | ($23.7) | $4.7 | ($19.0) | ($7.0) | $7.9 | $0.9 | ($18.3) | $16.7 | ($1.6) |

1. In the three and nine months ended February 28, 2019, the Company recognized pretax branch consolidation costs of $0.5.
2. In the three and nine months ended February 28, 2019, the Company recognized pretax severance of $2.2 and $3.1, respectively. In the nine months ended February 28, 2019, the Company recognized a $4.3 pretax charge related to a proposed settlement of a legacy sales tax assessment. In the three and nine months ended February 28, 2018, the Company recognized pretax severance and stock compensation charges of $0.4 and $5.7, respectively. In the three and nine months ended February 28, 2018, the Company recognized pretax impairment charges of $4.3 and $11.0, respectively, related to legacy building improvements.

# Selected Balance Sheet, Free Cash Flow & Net Debt

| In $ Millions | Feb 28, 2019 | Feb 28, 2018 |
|---|---|---|
| Free cash flow (use) (3 month period ending)[1] | ($10.4) | ($9.6) |
| Free cash flow (use) (9 month period ending)[1] | ($42.8) | ($49.9) |
| Accounts receivable, net | $317.3 | $186.0 |
| Inventories, net | $356.8 | $356.9 |
| Accounts payable | $215.3 | $208.4 |
| Accrued royalties | $76.8 | $63.2 |
| Total debt | $11.0 | $7.7 |
| Cash and cash equivalents | $338.1 | $362.6 |
| Net debt[2] | ($327.1) | ($354.9) |

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

| | |
|---|---|
| Revenues | $1.65–$1.70 billion |
| Adjusted EBITDA [1] | $160–$170 million |
| EPS, excluding one-times | ≈ $1.60 per share |
| Capital expenditures | ≈ $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

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