



SECOND QUARTER FISCAL YEAR 2017 EARNINGS PRESENTATION
DECEMBER 15, 2016



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.



Dick Robinson

Chief Executive Officer, President
and Chairman



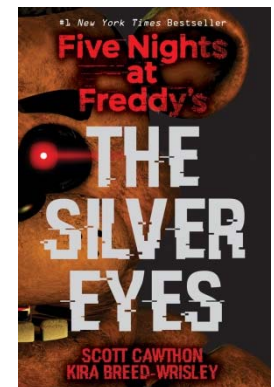
Second Quarter 2017 Results

- Revenue increased **+\$21.3 million**, or +4%
 - Children's Book Publishing and Distribution up **+\$18.8 million**, or +5%
 - Trade revenues up **+\$36.8 million** on Harry Potter-related frontlist and backlist titles, and other popular new releases
 - Lower Clubs and Fairs revenues on planned strategy to focus on more profitable execution
 - Education revenues fell **-\$1.3 million**, with strong results in classroom books and literacy initiatives, including professional services, offset by lower consumer magazines custom publishing
 - International revenue up **+\$6.6 million**, or +6%, excluding foreign exchange
- Operating income from continuing operations improved **+7%**, ex. one-time items
- Earnings per share of \$1.99, versus \$1.89 last year, ex. one-time items
- Strategic investment in facilities and technology remain on plan



Children's Book Publishing and Distribution

- **Trade** sales of Harry Potter-related publishing – frontlist and backlist – continued at a strong pace
- Solid early response to the original screenplay book for *Fantastic Beasts and Where to Find Them™* that was released late in the quarter
- *Dog Man* by Dav Pilkey, *Ghosts* by Raina Telgemeier, and *Five Nights at Freddy's: The Silver Eyes* all contributing to increased trade results
- **Book Fairs** remains on track to deliver annual revenue roughly in line with last year, while focusing on more profitable execution; revenue per fair +7%
- Lowering catalog kit and mailing costs in **Book Clubs** – will now focus on higher performing catalogs and classic offerings





Education

- **Classroom Books, Literacy Initiatives**, as well as professional services, all delivered revenue growth in the quarter
- **Classroom Magazines** sales continued to be solid but lagged prior year as a result of the timing of deliveries and related revenue recognition
- Decline in quarter driven mainly by **Consumer Magazines** and scheduling of custom publishing programs
- Significant pipeline to deliver strong results in the second half of the fiscal year as we build on our role as a trusted partner in effective literacy instruction



3rd Edition



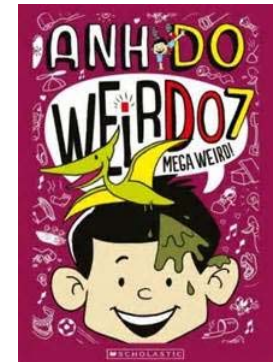
NEW!

**GUIDED
READING**
Short Reads
Fiction



International

- Revenue up +6%, excluding impact of foreign exchange, on strength of new Harry Potter publishing in **Canada** and **Export**
- Strong results in trade, clubs and fairs in all international major markets
- Local trade publishing standouts included Liz Pinchon's *Tom Gates: Dog Zombies Rule* and *Tom Gates: Top of the Class* and new releases in Julia Donaldson's *Stick Man* franchise in the **UK** and new titles in Aaron Blabey's *Pig the Pug* series and Anh Do's *Weirdo* books in **Australia**
- Lower software distribution revenues in Australia as we are exiting this low margin business





Dick Robinson

Chief Executive Officer, President
and Chairman



Maureen O'Connell

Executive Vice President,
Chief Administrative Officer and CFO



Income Statement

In \$ Millions (except per share)	Second Quarter 2017			Second Quarter 2016			Fiscal Year to Date 2017			Fiscal Year to Date 2016		
	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	\$623.1		\$623.1	\$601.8		\$601.8	\$905.8		\$905.8	\$793.0	
Cost of goods sold	271.3	-	271.3	257.1	-	257.1	441.0	-	441.0	371.6	-	371.6
Selling, general and administrative expenses ¹	226.0	(3.9)	222.1	224.7	(2.4)	222.3	389.7	(3.9)	385.8	368.9	(4.8)	364.1
Bad debt expense	4.8	-	4.8	4.3	-	4.3	7.7	-	7.7	5.8	-	5.8
Depreciation and amortization	9.6	-	9.6	10.6	-	10.6	19.1	-	19.1	21.1	-	21.1
Total operating costs and expenses	511.7	(3.9)	507.8	496.7	(2.4)	494.3	857.5	(3.9)	853.6	767.4	(4.8)	762.6
Operating income (loss)	\$111.4	\$3.9	\$115.3	\$105.1	\$2.4	\$107.5	\$48.3	\$3.9	\$52.2	\$25.6	\$4.8	\$30.4
Interest expense, net	0.4		0.4	0.5		0.5	0.7		0.7	0.6		0.6
(Gain) loss on investments ²	-	-	-	(2.2)	-	(2.2)	-	-	-	(2.2)	-	(2.2)
Provision (benefit) for income taxes	43.1	1.5	44.6	41.6	0.9	42.5	19.2	1.5	20.7	10.9	1.9	12.8
Earnings (loss) from continuing operations	\$67.9	\$2.4	\$70.3	\$65.2	\$1.5	\$66.7	\$28.4	\$2.4	\$30.8	\$16.3	\$2.9	\$19.2
Earnings (loss) from discontinued operations, net of tax	0.0		0.0	(0.3)		(0.3)	(0.1)		(0.1)	(0.8)		(0.8)
Net Income (loss)	\$67.9	\$2.4	\$70.3	\$64.9	\$1.5	\$66.4	\$28.3	\$2.4	\$30.7	\$15.5	\$2.9	\$18.4
Earnings (loss) per diluted share from continuing operations	1.92	0.07	1.99	1.85	0.04	1.89	0.81	0.07	0.88	0.47	0.08	0.55
Earnings (loss) per diluted share from discontinued operations, net of tax	0.00		0.00	(0.01)		(0.01)	(0.01)		(0.01)	(0.03)		(0.03)
Earnings (loss) per diluted share	1.92	0.07	1.99	1.84	0.04	1.88	0.80	0.07	0.87	0.44	0.08	0.52

- In the three and six months ended November 30, 2016, the Company recognized pretax severance expense as part of cost reduction programs of \$3.9. In the three and six months ended November 30, 2015, the Company recognized a pretax charge related to a warehouse optimization project in the Company's book fairs operations of \$0.5 and \$1.5, respectively; pretax severance expense as part of cost reduction programs of \$1.5 and \$2.9, respectively; and pretax transaction costs of \$0.4 and \$0.4, respectively.
- In the three and six months ended November 30, 2015, the Company recognized a pretax gain on sale of investment of \$2.2 related to an investment in China.



Segment Results

In \$ Millions (except per share)	Second Quarter 2017			Second Quarter 2016			Fiscal Year to Date 2017			Fiscal Year to Date 2016		
	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	\$107.5		\$107.5	\$120.7		\$120.7	\$116.0		\$116.0	\$128.4		\$128.4
Book Fairs	226.5		226.5	231.3		231.3	238.9		238.9	244.0		244.0
Consolidated Trade	98.5		98.5	61.7		61.7	215.4		215.4	109.0		109.0
Total revenue	432.5		432.5	413.7		413.7	570.3		570.3	481.4		481.4
Operating income (loss) ¹	121.1	-	121.1	110.4	0.5	110.9	84.9	-	84.9	54.4	1.5	55.9
Operating margin	28.0%		28.0%	26.7%		26.8%	14.9%		14.9%	11.3%		11.6%
Education												
Revenue	71.1		71.1	72.4		72.4	126.3		126.3	122.8		122.8
Operating income (loss)	8.7		8.7	10.4		10.4	4.3		4.3	6.1		6.1
Operating margin	12.2%		12.2%	14.4%		14.4%	3.4%		3.4%	5.0%		5.0%
International												
Revenue	119.5		119.5	115.7		115.7	209.2		209.2	188.8		188.8
Operating income (loss) ²	16.5	0.2	16.7	11.5	-	11.5	20.4	0.2	20.6	8.8	-	8.8
Operating margin	13.8%		14.0%	9.9%		9.9%	9.8%		9.8%	4.7%		4.7%
Corporate overhead ³	\$34.9	(\$3.7)	\$31.2	\$27.2	(\$1.9)	\$25.3	\$61.3	(\$3.7)	\$57.6	\$43.7	(\$3.3)	\$40.4
Operating income (loss)	\$111.4	\$3.9	\$115.3	\$105.1	\$2.4	\$107.5	\$48.3	\$3.9	\$52.2	\$25.6	\$4.8	\$30.4

1. In the three and six months ended November 30, 2015, the Company recognized a pretax charge related to a warehouse optimization project in the Company's book fairs operations of \$0.5 and \$1.5, respectively.
2. In the three and six months ended November 30, 2016, the Company recognized pretax severance expense as part of cost reduction programs of \$0.2.
3. In the three and six months ended November 30, 2016, the Company recognized pretax severance expense as part of cost reduction programs of \$3.7. In the three and six months ended November 30, 2015, the Company recognized pretax severance expense as part of cost reduction programs of \$1.5 and \$2.9, respectively; and pretax transaction costs of \$0.4 and \$0.4, respectively.



Expectations for Second Half of Fiscal 2017

- Continued strength in trade publishing, with a number of new releases, but more tempered pace of growth after Harry Potter releases in first half of the year
- Flat revenue in school channels – clubs and fairs – with focus on more profitable execution
- Stronger results in education, as that business tends to be more heavily weighted towards the fourth quarter
- Year-over-year increases in capital spend as a result of the headquarters construction plan and technology investments, as part of our 3-year enterprise-wide platform upgrade
- Approximately \$20 million in annual cost savings to offset income related to the former transitional services agreement with HMHC, with savings to be reflected within the operating segments



Free Cash Flow & Net Debt

In \$ Millions	<u>Nov 30, 2016</u>	<u>Nov 30, 2015</u>
Free cash flow (use) (3 month period ending) ¹	\$164.1	\$101.8
Free cash flow (use) (6 month period ending) ¹	\$41.7	(\$201.4)
Accounts receivable, net	\$281.6	\$252.2
Inventories, net	\$348.3	\$332.0
Accounts payable	\$216.4	\$207.8
Accrued royalties	\$71.4	\$36.9
Total debt	\$7.3	\$12.0
Cash and cash equivalents	\$442.9	\$360.9
Net debt²	(\$435.6)	(\$348.9)

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 pre-publication and production costs
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



FY 2017 Outlook Affirmed

Metric	Guidance
Revenue	\$1.7 - \$1.8 billion
Earnings from Continuing Operations ¹	\$1.60 - \$1.70 per diluted share
Free Cash Flow	\$40 - \$50 million
Capital Expenditures	\$70 - \$80 million
Prepublication/Production Spending	\$30 - \$40 million

1. Outlook for EPS and operating income **excludes** severance and other one-time items associated with restructuring actions, as well as non-cash, non-operating items.



Questions & Answers

Participants

- Richard Robinson
- Maureen O'Connell
- Judy Newman, School Book Clubs and E-Commerce
- Ellie Berger, Trade Group

