



FIRST QUARTER FISCAL YEAR 2017 EARNINGS PRESENTATION
SEPTEMBER 22, 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, and 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



First Quarter 2017 Highlights

- First Quarter revenue increases reported in all three segments:
 - Children's Book Publishing and Distribution up **+104%**
 - Education up **+10%**
 - International up **+23%**
- Trade Group revenue up **+147%** on Harry Potter frontlist and backlist titles, as well as other popular new releases
- First Quarter operating loss from continuing operations improved **21%**. Scholastic typically records a loss in the first quarter when most schools are closed
- Strategic investment in facilities and technology remain on plan

SPECIAL REHEARSAL EDITION SCRIPT

HARRY POTTER

AND THE
CURSED CHILD

— PARTS ONE AND TWO —



BASED ON AN ORIGINAL NEW STORY BY

J.K. ROWLING

JOHN TIFFANY & JACK THORNE

A NEW PLAY BY **JACK THORNE**

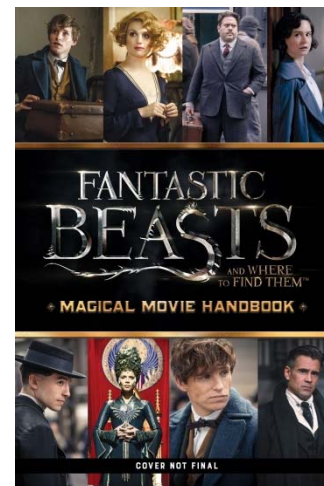
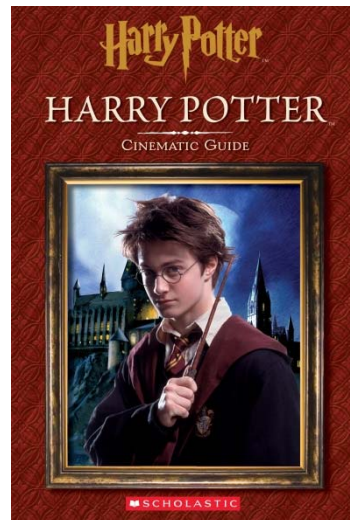
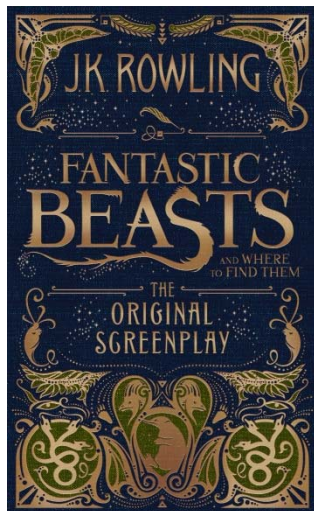
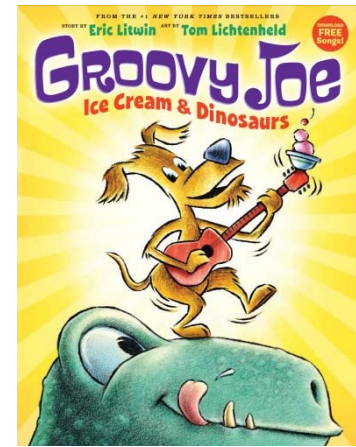
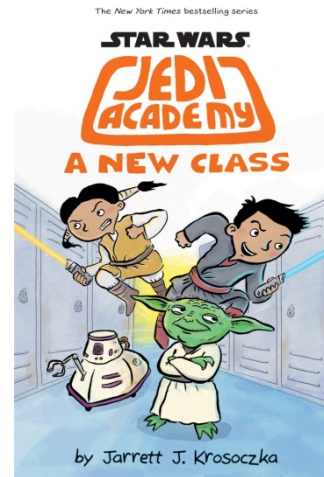


Children's Book Publishing and Distribution

- **Trade** results driven by new Harry Potter frontlist and strong sales of the original 7 books in all versions, as well as other popular new releases
- *Fantastic Beasts and Where to Find Them*, an original screenplay by J. K. Rowling to be released in November
- Movie tie-ins including handbooks, coloring and creativity books and cinematic guides, along with poster and sticker books to be published next month
- **Book Clubs** and **Book Fairs** grew revenue by a combined +2% over last year, in a seasonally small quarter
- We remain focused on executing our plan to maintain revenue levels in our school-based distribution channels while concentrating on more profitability from these channels



Children's Book Publishing and Distribution





Education

- Education continued its strong performance with segment revenue up **+10%** versus prior year
- Growth driven by customized curriculum solutions, including guided reading programs, as an alternative for basal readers and textbooks
- Classroom Magazines results boosted by age appropriate election skills workbooks





International

- Off to a strong start, with **+23%** revenue growth driven primarily by Harry Potter in Canada and Export, trade sales in Australia and direct sales in Malaysia
- Leading children's publisher in many key international markets – the U.K., Australia, Canada, throughout Southeast Asia and India, where we are also the #4 publisher overall
- Continuing to build upon our role as a key global partner in fostering literacy and learning



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)	First Quarter 2017			First Quarter 2016		
	As Reported	One-Time Items	Excluding One-Time Items	As Reported	One-Time Items	Excluding One-Time Items
Revenues	\$282.7		\$282.7	\$191.2		\$191.2
Cost of goods sold	169.7	-	169.7	114.5	-	114.5
Selling, general and administrative expenses ¹	163.7	-	163.7	144.2	(2.4)	141.8
Bad debt expense	2.9	-	2.9	1.5	-	1.5
Depreciation and amortization	9.5	-	9.5	10.5	-	10.5
Total operating costs and expenses	345.8	-	345.8	270.7	(2.4)	268.3
Operating income (loss)	(\$63.1)	\$0.0	(\$63.1)	(\$79.5)	\$2.4	(\$77.1)
Interest expense, net	0.3		0.3	0.1		0.1
Provision (benefit) for income taxes	(23.9)	-	(23.9)	(30.7)	1.0	(29.7)
Earnings (loss) from continuing operations	(\$39.5)	\$0.0	(\$39.5)	(\$48.9)	\$1.4	(\$47.5)
Earnings (loss) from discontinued operations, net of tax	(0.1)		(0.1)	(0.5)		(0.5)
Net Income (loss)	(\$39.6)	\$0.0	(\$39.6)	(\$49.4)	\$1.4	(\$48.0)
Earnings (loss) per diluted share from continuing operations	(1.15)	-	(1.15)	(1.46)	0.04	(1.42)
Earnings (loss) per diluted share from discontinued operations, net of tax	(0.00)		(0.00)	(0.02)		(0.02)
Earnings (loss) per diluted share	(1.15)	-	(1.15)	(1.48)	0.04	(1.44)

1. In the three months ended August 31, 2015, the Company recognized a pretax charge related to a warehouse optimization project in the Company's book fairs operations of \$1.0 and pretax severance expense of \$1.4 as part of cost reduction programs.



Segment Results

In \$ Millions (except per share)	First Quarter 2017			First Quarter 2016		
	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	\$8.5		\$8.5	\$7.7		\$7.7
Book Fairs	12.4		12.4	12.7		12.7
Consolidated Trade	116.9		116.9	47.3		47.3
Total revenue	137.8		137.8	67.7		67.7
Operating income (loss) ¹	(36.2)	-	(36.2)	(56.0)	1.0	(55.0)
Operating margin	-		-	-		-
Education						
Revenue	55.2		55.2	50.4		50.4
Operating income (loss)	(4.4)		(4.4)	(4.3)		(4.3)
Operating margin	-		-	-		-
International						
Revenue	89.7		89.7	73.1		73.1
Operating income (loss)	3.9	-	3.9	(2.7)	-	(2.7)
Operating margin	4.3%		4.3%	-		-
Corporate overhead ²	\$26.4	\$0.0	\$26.4	\$16.5	(\$1.4)	\$15.1
Operating income (loss)	(\$63.1)	\$0.0	(\$63.1)	(\$79.5)	\$2.4	(\$77.1)

1. In the three months ended August 31, 2015, the Company recognized a pretax charge related to a warehouse optimization project in the Company's book fairs operations of \$1.0.
2. In the three months ended August 31, 2015, the Company recognized pretax severance expense of \$1.4 as part of cost reduction programs.



Executing Our Long-Term Initiatives

- Improvements to SoHo headquarters building underway
- Strategic technology investments on track
 - Focused on e-commerce, customer relationship and content management, and accounting/operating systems
 - Expected to bring widespread benefits – allowing us to better target our markets, improve processes and lower costs
- Completed comprehensive, company-wide review of overhead and operating costs across all our business units
 - Cost actions will offset the loss of fees associated with the termination of the transition services agreement with HMH
 - Expected savings for fiscal 2017 are included in outlook



Free Cash Flow & Net Debt

In \$ Millions	<u>Aug 31, 2016</u>	<u>Aug 31, 2015</u>
Free cash flow (use) (3 month period ending) ¹	(\$122.4)	(\$303.2)
Accounts receivable, net	\$222.6	\$148.0
Inventories, net	\$375.7	\$367.0
Accounts payable	\$203.6	\$224.3
Accrued royalties	\$66.3	\$39.8
Total debt	\$12.1	\$5.7
Cash and cash equivalents	\$287.6	\$250.3
Net debt²	(\$275.5)	(\$244.6)

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

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

