

THIRD QUARTER FISCAL YEAR 2016 EARNINGS PRESENTATION

March 24, 2016



## 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, 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

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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](http://investor.scholastic.com).



## Dick Robinson

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Chief Executive Officer, President  
and Chairman

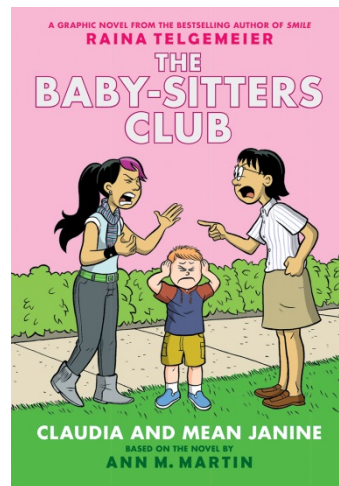
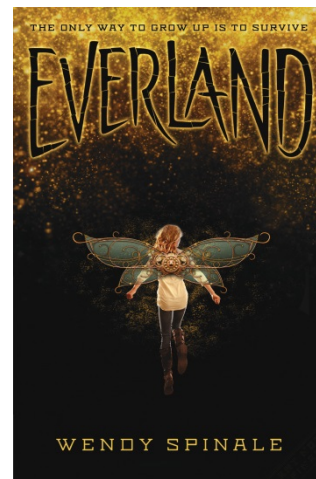
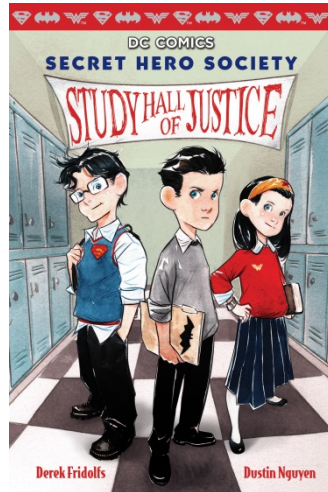
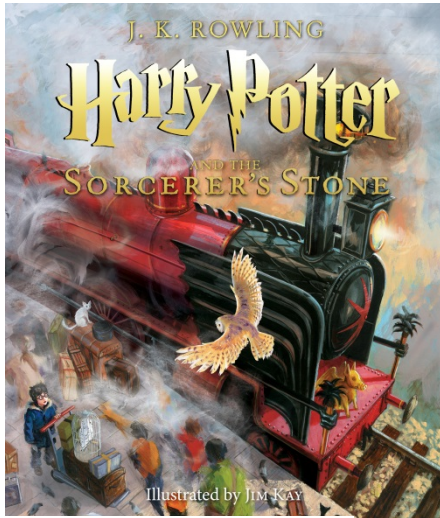


## Third Quarter 2016 Results

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- Revenue increased +\$28.5 million, or +8%, to \$375.0 million, excluding impact of foreign exchange of \$9.0 million in the quarter
  - **Trade** publishing up on strength of core frontlist titles and Harry Potter franchise
  - Higher order volumes in **Book Clubs**
  - **Classroom Books** and **Classroom Magazines** performance demonstrates strength of Education business
  - Local currency growth in major international markets – **Canada, Australia** and the **UK**
- Strong Children’s Books position and robust market driving growth; market trends aligned with Scholastic’s strengths
- Growing opportunities in Education to deepen engagement with schools for literacy and services
- Operating loss of \$8.1 million, excluding one-time items – a 51% improvement over prior year period
- Lower revenue quarter where we typically record a loss

# SCHOLASTIC





## Children's Book Publishing and Distribution

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- Segment revenue up **+\$14.0** million, or **7%** from prior year period
- Strong focus on the importance of children's literature in improving reading skills – in instruction and through independent reading
- Strong demand for key frontlist titles:
  - *Harry Potter and the Sorcerer's Stone: The Illustrated Edition* and *Harry Potter Coloring Books*
  - *DC Comics - Secret Hero Society: Study Hall of Justice*
  - *Wings of Fire, Book 8: Escaping Peril*
  - *The Baby-Sitters Club® Graphix: Claudia and Mean Janine*
  - *Amulet #7: Firelight*
- Book Clubs revenue up on higher order volume; Student engagement
- Higher revenue per fair in Book Fairs although total revenue down slightly on shifting of fairs to the fourth quarter
- Increased investment in exceptional titles, celebrated authors, and licenses



## Education

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- Segment revenue up **+\$9.3** million, or **17%** from prior year period
- Continued success in broadening partnerships with schools and district administrators throughout the country
- Focus on informational texts driving growth in classroom books and print and digital/print classroom magazines
- Circulation in classroom magazines now exceeds 15 million; expanding reach to lower reading levels with *Storyworks® Jr.*
- Scholastic's *Integrated Learning Supports* framework gaining traction as an element of a comprehensive, research-based approach to professional development to help educators overcome barriers to learning and foster students' success





## International

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- Segment revenue up +\$5.2 million, or 6% from prior year period, on a constant currency basis
- Segment revenue was down -\$3.8 million, or -4%, including the adverse impact of foreign exchange of \$9.0 million in the quarter
- Local currency revenue growth in each of our major markets – Canada, Australia and the UK – driven primarily by strong trade publishing and book fairs
- Growth in Asia export business offset by the overall challenging consumer spending environment throughout the Pacific Rim
- Strategic investments to reduce overhead costs, including the transition to a shared services financial model for certain back office functions and new efficient ERP platform for finance and warehouse operations underway



## Real Estate Update

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- Capital investment plan for new Broadway-facing retail space on track
  - Beginning construction to create new premium retail space
  - Constructing a new employee entrance on Mercer Street
  - Broker hired to secure prime retail tenant
  - Investments will total  $\approx$  \$10 million and will produce  $\approx$  \$10 million in annual incremental retail rent
- Beginning two-year investment project to upgrade and modernize SoHo headquarters office space
  - First major renovation to office space since 1993 – 25 years
  - More modern, efficient flexible office floor plan will add 25% more occupancy
  - Reduce reliance on satellite office space and lower operating lease expense in the future
  - Temporary relocation of some employees during the construction period will add some costs
- Significant longer-term return on investment from increased rental income, the avoidance of external lease expense, and higher real estate values



## Maureen O'Connell

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Executive Vice President,  
Chief Administrative Officer and CFO



## Income Statement – Adjusted Earnings Per Share

In \$ Millions (except per share)	Third Quarter 2016			Third Quarter 2015			Fiscal Year to Date 2016			Fiscal Year to Date 2015		
	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
Revenues	\$366.0		\$366.0	\$346.5		\$346.5	\$1,159.0		\$1,159.0	\$1,148.1		\$1,148.1
Cost of goods sold <sup>1</sup>	178.0	-	178.0	174.1	(1.6)	172.5	549.6	-	549.6	545.6	(1.7)	543.9
Selling, general and administrative expenses <sup>2</sup>	185.2	(1.4)	183.8	183.2	(6.6)	176.6	554.1	(6.2)	547.9	554.5	(19.2)	535.3
Bad debt expense	3.1	-	3.1	2.8	-	2.8	8.9		8.9	8.9		8.9
Depreciation and amortization	9.2	-	9.2	11.1	-	11.1	30.3		30.3	36.8		36.8
Asset impairments <sup>3</sup>	6.9	(6.9)	-	-	-	-	6.9	(6.9)	-	2.9	(2.9)	-
Total operating costs and expenses	382.4	(8.3)	374.1	371.2	(8.2)	363.0	1,149.8	(13.1)	1,136.7	1,148.7	(23.8)	1,124.9
Operating income (loss) from continuing operations	(\$16.4)	\$8.3	(\$8.1)	(\$24.7)	\$8.2	(\$16.5)	\$9.2	\$13.1	\$22.3	(\$0.6)	\$23.8	\$23.2
Interest expense, net	0.2		0.2	0.7		0.7	0.8		0.8	2.6		2.6
(Gain) loss on investments <sup>4</sup>	-	-	-	-	-	-	(2.2)	-	(2.2)	(0.6)	0.6	-
Provision (benefit) for income taxes	(9.4)	3.3	(6.1)	(9.7)	3.3	(6.4)	1.5	5.2	6.7	(0.6)	9.4	8.8
Earnings (loss) from continuing operations	(\$7.2)	\$5.0	(\$2.2)	(\$15.7)	\$4.9	(\$10.8)	\$9.1	\$7.9	\$17.0	(\$2.0)	\$13.8	\$11.8
Earnings (loss) from discontinued operations, net of tax	(1.8)		(1.8)	(6.4)		(6.4)	(2.6)		(2.6)	14.3		14.3
Net Income (loss)	(\$9.0)	\$5.0	(\$4.0)	(\$22.1)	\$4.9	(\$17.2)	\$6.5	\$7.9	\$14.4	\$12.3	\$13.8	\$26.1
Earnings (loss) per diluted share from continuing operations	(0.21)	0.15	(0.06)	(0.48)	0.15	(0.33)	0.26	0.22	0.48	(0.06)	0.42	0.36
Earnings (loss) per diluted share from discontinued operations, net of tax	(0.05)		(0.05)	(0.20)		(0.20)	(0.07)		(0.07)	0.43		0.43
Earnings (loss) per diluted share	(0.26)	0.15	(0.11)	(0.68)	0.15	(0.53)	0.19	0.22	0.41	0.37	0.42	0.79

- In the three and nine months ended February 28, 2015, the Company recognized a pretax charge of \$1.5 related to a warehouse optimization project in Canada and a pretax charge related to unabsorbed burden associated with the former EdTech business of \$0.1 and \$0.2, respectively.
- In the three and nine months ended February 29, 2016, the Company recognized pretax severance expense as part of cost reduction programs of \$1.4 and \$4.3, respectively. In the nine months ended February 29, 2016, the Company recognized a pretax charge related to a branch consolidation project in the Company's book fairs operations of \$1.5 and pretax transaction costs of \$0.4. In the three and nine months ended February 28, 2015, the Company recognized a pretax charge related to unabsorbed burden associated with the former EdTech business of \$3.7 and \$11.0, respectively; pretax severance expense as part of cost reduction programs of \$2.2 and \$3.6, respectively; a pretax pension settlement charge of \$0.6 and \$4.3, respectively; and a pretax charge related to the relocation of the Company's Klutz division of \$0.1 and \$0.3, respectively.
- In the three and nine months ended February 29, 2016, the Company recognized pretax impairment charges related to certain legacy prepublication assets of \$6.9. In the nine months ended February 28, 2015, the Company recognized a pretax impairment charge related to the closure of its retail store of \$2.9.
- In the nine months ended February 29, 2016, the Company recognized a pretax gain on sale of investment of \$2.2 related to an investment in China. In the nine months ended February 28, 2015, the Company recognized a pretax gain on sale of investment of \$0.6 related to a UK-based cost-method investment.



## Segment Results – Adjusted for One-Time Items

In \$ Millions (except per share)	Third Quarter 2016			Third Quarter 2015			Fiscal Year to Date 2016			Fiscal Year to Date 2015		
	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
	<b>Children's Book Publishing and Distribution</b>											
Revenue												
Book Clubs	\$72.9		\$72.9	\$70.2		\$70.2	\$202.0		\$202.0	\$208.2		\$208.2
Book Fairs	90.3		90.3	91.2		91.2	334.3		334.3	320.4		320.4
Consolidated Trade	57.0		57.0	44.8		44.8	166.0		166.0	145.2		145.2
Total revenue	220.2		220.2	206.2		206.2	702.3		702.3	673.8		673.8
Operating income (loss) <sup>1</sup>	2.8	3.7	6.5	(2.9)	0.1	(2.8)	54.2	5.2	59.4	45.2	0.3	45.5
	1.3%		3.0%	-		-	7.7%		8.5%	6.7%		6.8%
<b>Education</b>												
Revenue	63.5		63.5	54.2		54.2	185.6		185.6	170.9		170.9
Operating income (loss) <sup>2</sup>	3.0	3.2	6.2	3.3		3.3	12.1	3.2	15.3	12.3		12.3
	4.7%		9.8%	6.1%		6.1%	6.5%		8.2%	7.2%		7.2%
<b>International</b>												
Revenue	82.3		82.3	86.1		86.1	271.1		271.1	303.4		303.4
Operating income (loss) <sup>3</sup>	(1.7)	0.2	(1.5)	0.8	1.5	2.3	7.1	0.2	7.3	17.6	1.5	19.1
	-		-	0.9%		2.7%	2.6%		2.7%	5.8%		6.3%
Corporate overhead <sup>4</sup>	\$20.5	(\$1.2)	\$19.3	\$25.9	(\$6.6)	\$19.3	\$64.2	(\$4.5)	\$59.7	\$75.7	(\$22.0)	\$53.7
Operating income (loss) from continuing operations	(\$16.4)	\$8.3	(\$8.1)	(\$24.7)	\$8.2	(\$16.5)	\$9.2	\$13.1	\$22.3	(\$0.6)	\$23.8	\$23.2

- In the three and nine months ended February 29, 2016, the Company recognized a pretax impairment charge associated with certain legacy prepublishing assets of \$3.7. In the nine months ended February 29, 2016, the Company recognized a pretax charge related to a branch consolidation project in the Company's book fairs operations of \$1.5. In the three and nine months ended February 28, 2015, the Company recognized a pretax charge of \$0.1 and \$0.3, respectively, related to the relocation of the Company's Klutz division.
- In the three and nine months ended February 29, 2016, the Company recognized pretax impairment charges related to certain legacy prepublishing assets of \$3.2.
- In the three and nine months ended February 29, 2016, the Company recognized pretax severance expense as part of cost reduction programs of \$0.2. In the three and nine months ended February 28, 2015, the Company recognized a pretax charge of \$1.5 related to a warehouse optimization project in Canada.
- In the three and nine months ended February 29, 2016, the Company recognized pretax severance expense as part of cost reduction programs of \$1.2 and \$4.1, respectively; and pretax transaction costs of \$0.0 and \$0.4, respectively. In the three and nine months ended February 28, 2015, the Company recognized a pretax charge related to unabsorbed burden associated with the former EdTech business of \$3.8 and \$11.2, respectively; pretax severance expense as part of cost reduction programs of \$2.2 and \$3.6, respectively; a pretax pension settlement charge of \$0.6 and \$4.3, respectively; and a pretax impairment charge related to the closure of its retail store of \$0.0 and \$2.9, respectively.



## Long-Term Cost Savings Initiatives

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- Conducting a comprehensive, company-wide review of overhead and operating costs across all our business units
  - Continue productivity improvements, streamline operations and better align resources with our core business
- Strategic technology investments on track
  - Focused on e-commerce, customer relationship and content management
  - Expected to bring widespread benefits – allowing us to better target our markets, improve processes and lower costs
- Finalizing plans and cost estimates for new office layout
  - Will provide additional details when we issue our outlook for fiscal 2017 in July – will reduce operating lease expense in the future



## Free Cash Flow & Net Debt

In \$ Millions	<u>Feb 29, 2016</u>	<u>Feb 28, 2015</u>
Free cash flow (use) (3 month period ending) <sup>1</sup>	\$9.6	(\$4.6)
Free cash flow (use) (9 month period ending) excluding taxes paid on sale of EdTech <sup>1</sup>	(\$5.8)	\$44.2
Accounts receivable, net	\$188.1	\$174.6
Inventories, net	\$333.1	\$327.9
Accounts payable	\$196.4	\$176.9
Accrued royalties	\$52.8	\$50.8
<hr/>		
Total debt	\$8.2	\$84.1
Cash and cash equivalents	351.9	14.6
Net debt <sup>2</sup>	(343.7)	69.5

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 2016 Outlook – Free Cash Flow Revised

Metric	Guidance
Revenue	Approximately <b>\$1.65</b> billion
Earnings from Continuing Operations <sup>1</sup>	Approximately <b>\$1.35</b> per diluted share
Free Cash Flow ( <i>revised</i> ) <sup>2</sup>	<b>\$25 - \$35</b> million
Capital Expenditures	<b>\$40 - \$50</b> million
Prepublication/Production Spending	<b>\$30 - \$40</b> million

1. Outlook for EPS and operating income **excludes** severance and other special one-time items associated with restructuring actions, as well as non-cash, non-operating items.
2. Outlook for Free Cash Flow **excludes** taxes paid on the gain on the sale of EdTech.





## Questions & Answers

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### Participants

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

