SCHOLASTIC

Second Quarter FY 2020 Earnings Call Presentation

Thursday, December 19, 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

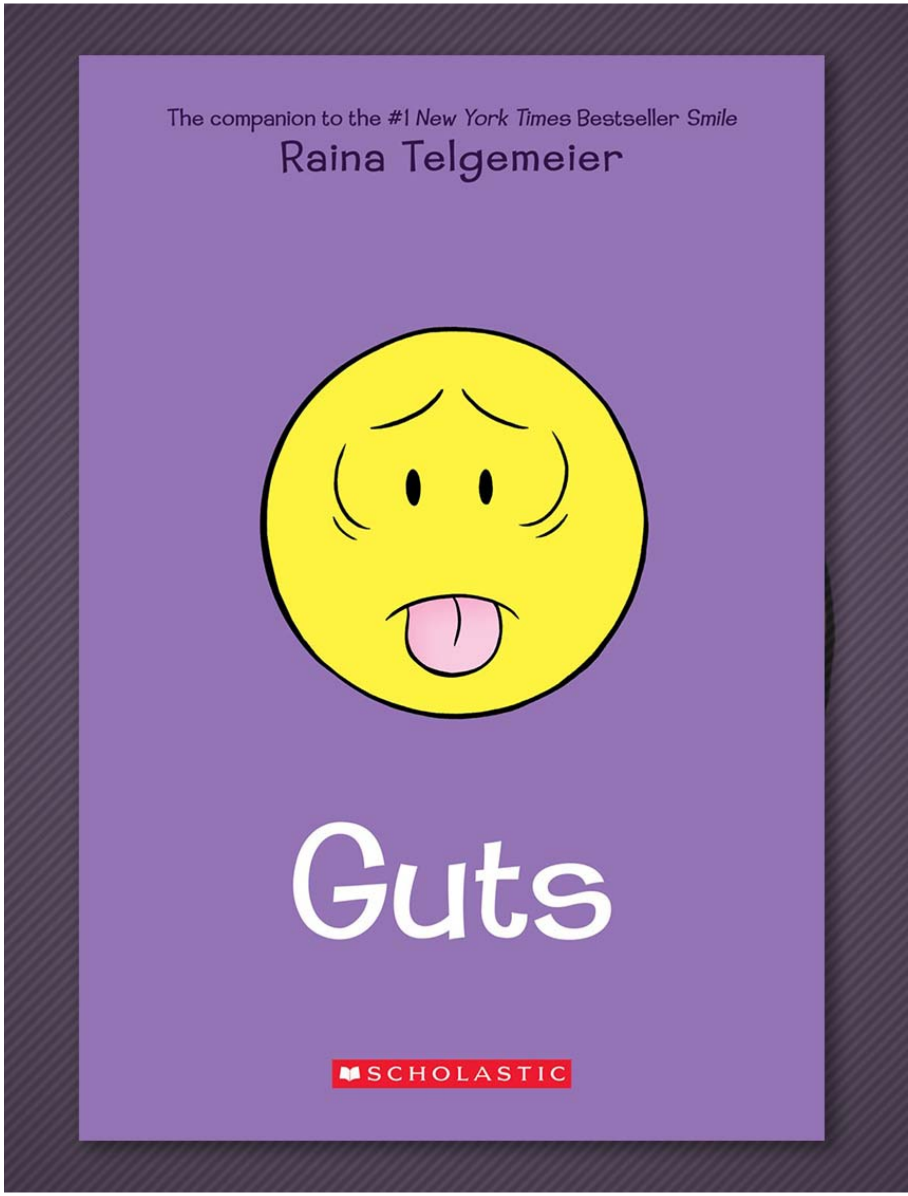
Chairman, President
and Chief Executive Officer

Second Quarter FY 2020

- Book fairs and trade had strong quarters; high-quality children's content is in demand.
- Investments in technologies and efficiencies showing benefits.
- Second quarter revenue was $597.2 million, a decrease of 1% compared to $604.7 million in the second quarter of 2019.
- Operating income in the second quarter was $105.1 million, a 7% increase compared to $98.2 million one year ago.
- Affirming expected fiscal year 2020 revenues in the range of $1.67 to $1.70 billion, up from $1.65 billion in fiscal year 2019.

Children’s Book Publishing & Distribution

- Trade publishing had exceptional YOY growth in revenues of 8%, even with tough comparisons to prior year results.
- Raina Telgemeier’s *Guts* is deeply resonating with kids and has appeared on 11 “Best of 2019” lists to date.
- Other bestsellers include Tui Sutherland’s *Wings of Fire*, The Baby-Sitters Club™ graphic novels, *The Dinky Donkey*, Alan Gratz’s *Allies*, Maggie Stiefvater’s *Call Down the Hawk,* and *Harry Potter and the Goblet of Fire: The Illustrated Edition*.
- This month, Dav Pilkey’s *Dog Man: Fetch 22* released as the number one book in the U.S. among all books.



Children’s Book Publishing & Distribution

- Cost saving strategies benefiting both fairs and clubs, critically important access points for kids to find the books they want.

- Greater revenue and profitability per fair recorded as a result of stronger ability to bring the right fair to customers at the right time:
  - focus on quality of fair
  - utilization of technology enhancements and increased access to data
  - e-Wallet enhanced customer experience
  - streamlined processes

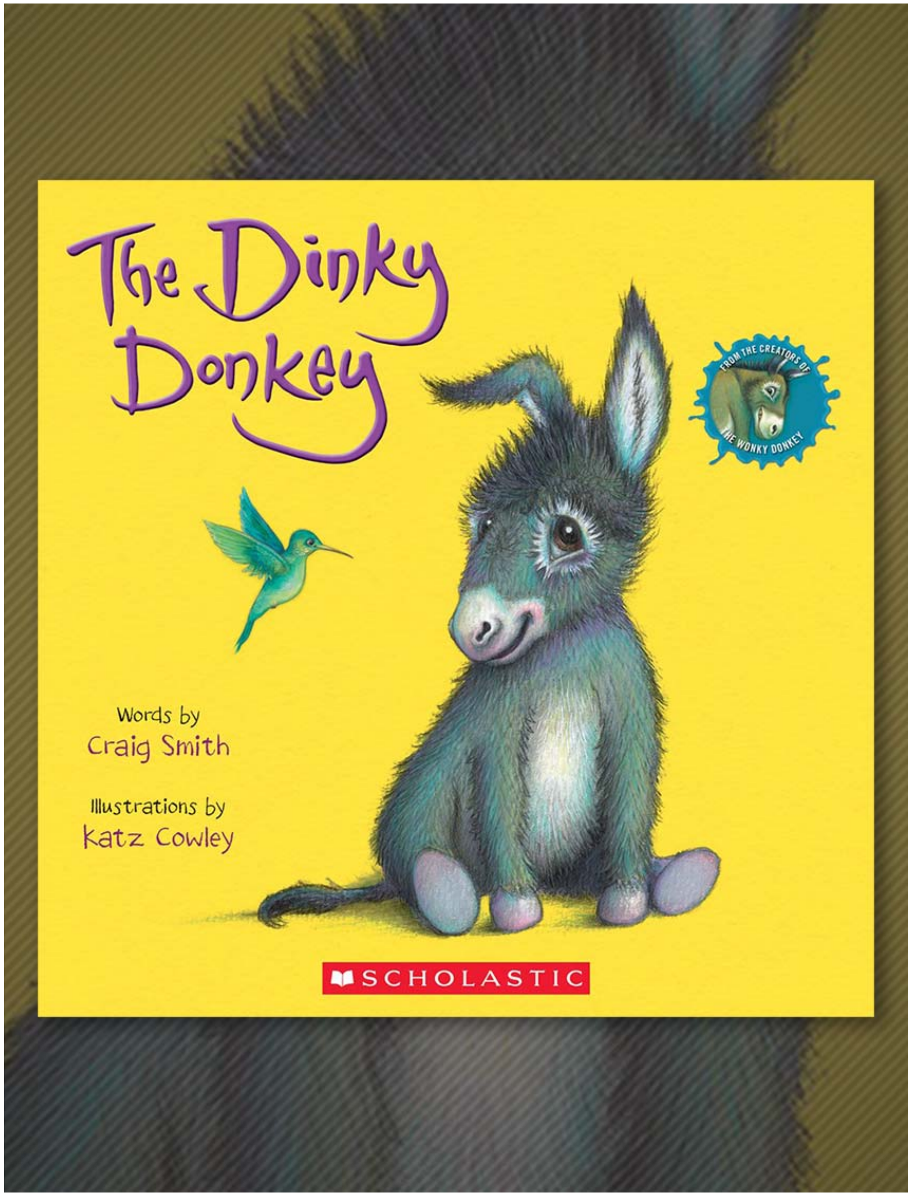
- Cost reductions in clubs helped mitigate the impact of lower revenues in the quarter.

Education

- Strong second quarter sales of classroom collections and professional services.
- Continued strength in customization and accelerated growth in professional learning services strengthens our position as a leading provider of a comprehensive approach to literacy instruction.
- Experiencing a very positive response to *Scholastic Literacy* from pilots and early adopters.

International

- First six months of fiscal 2020 saw continued growth in Asia's trade and education channels.
- Strong brand, proven effective products, and engaging book and audio content resonating with growing middle class of families in Asia interested in English language learning.
- Core digital learning products *Scholastic Literacy Pro* and *Scholastic Literacy Pro Library* registered a +40% increase in active users across key markets in Asia this year.
- Strong trade publishing globally, a strategy to find the best authors and content in children's books.



Kenneth Cleary

Chief Financial Officer

Income Statement

In $ Millions (except per share)	Second Quarter 2020			Second Quarter 2019			Fiscal Year to Date 2020			Fiscal Year to Date 2019		
	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	$597.2	$0.0	$597.2	$604.7	$0.0	$604.7	$829.8	$0.0	$829.8	$823.1	$0.0	$823.1
Cost of goods sold	264.3	-	264.3	262.4	-	262.4	401.4	-	401.4	387.7	-	387.7
Selling, general and administrative expenses [1]	209.7	(1.9)	207.8	227.0	(4.7)	222.3	375.6	(6.2)	369.4	389.3	(5.2)	384.1
Bad debt expense	2.7	-	2.7	2.7	-	2.7	4.3	-	4.3	4.1	-	4.1
Depreciation and amortization	15.4	-	15.4	14.4	-	14.4	30.8	-	30.8	27.6	-	27.6
Total operating costs and expenses	492.1	(1.9)	490.2	506.5	(4.7)	501.8	812.1	(6.2)	805.9	808.7	(5.2)	803.5
Operating income (loss)	105.1	1.9	107.0	98.2	4.7	102.9	17.7	6.2	23.9	14.4	5.2	19.6
Interest income (expense), net	0.0	-	0.0	0.5	-	0.5	0.7	-	0.7	1.3	-	1.3
Other components of net periodic benefit (cost)	(0.2)	-	(0.2)	(0.3)	-	(0.3)	(0.6)	-	(0.6)	(0.7)	-	(0.7)
Provision (benefit) for income taxes [2]	33.8	0.5	34.3	26.8	1.1	27.9	5.2	1.7	6.9	4.7	1.2	5.9
Net Income (loss)	71.1	1.4	72.5	71.6	3.6	75.2	12.6	4.5	17.1	10.3	4.0	14.3
Less: Net income attributable to noncontrolling interests	0.1	-	0.1	-	-	-	0.1	-	0.1	-	-	-
Net income (loss) attributable to Scholastic Corporation	$71.0	$1.4	$72.4	$71.6	$3.6	$75.2	$12.5	$4.5	$17.0	$10.3	$4.0	$14.3
Earnings (loss) per diluted share	$2.02	$0.04	$2.06	$1.99	$0.10	$2.09	$0.35	$0.13	$0.48	$0.29	$0.11	$0.40

1. In the three and six months ended November 30, 2019, the Company recognized a pretax charge of $1.0 related to a settlement of an intellectual property producing agreement and pretax severance of $0.9 and $3.7, respectively. In the six months ended November 30, 2019, the Company recognized a pretax settlement expense of $1.5. In the three and six months ended November 30, 2018, the Company recognized a $4.3 pretax charge related to a legacy sales tax assessment and pretax severance of $0.4 and $0.9, respectively.
2. In the three and six months ended November 30, 2019, the Company recognized a benefit for income taxes in respect to one-time pretax charges of $0.5 and $1.7, respectively. In the three and six months ended November 30, 2018, the Company recognized a benefit for income taxes in respect to one-time pretax charges of $1.1 and $1.2, respectively.

Adjusted EBITDA

	Three Months Ended		Six Months Ended	
	11/30/2019	**11/30/2018**	**11/30/2019**	**11/30/2018**
Earnings (loss) before income taxes as reported	$104.9	$98.4	$17.8	$15.0
One-time items before income taxes	1.9	4.7	6.2	5.2
Earnings (loss) before income taxes excluding one-time items	106.8	103.1	24.0	20.2
Interest (income) expense	(0.0)	(0.5)	(0.7)	(1.3)
Depreciation and amortization[1]	15.9	15.1	32.0	29.1
Amortization of prepublication and productions costs	6.6	5.5	13.0	10.7
Adjusted EBITDA[2]	$129.3	$123.2	$68.3	$58.7

1. For the three and six months ended November 30, 2019, amounts include depreciation of $0.5 and $1.1, respectively, recognized in cost of goods sold, amortization of deferred financing costs of $0.0 and $0.1, respectively, and amortization of capitalized cloud software of $0.0 recognized in selling, general and administrative expenses. In the three and six months ended November 30, 2018, amounts include depreciation of $0.7 and $1.4, respectively, recognized in cost of goods sold and amortization of deferred financing costs of $0.0 and $0.1, respectively, recognized in selling, general and administrative expenses.
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

In $ Millions (except per share)	Second Quarter 2020			Second Quarter 2019			Fiscal Year to Date 2020			Fiscal Year to Date 2019		
	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	$85.9	$0.0	$85.9	$101.3	$0.0	$101.3	$93.9	$0.0	$93.9	$110.4	$0.0	$110.4
Book Fairs	224.1	-	224.1	220.7	-	220.7	251.6	-	251.6	245.9	-	245.9
Consolidated Trade	103.6	-	103.6	95.9	-	95.9	177.7	-	177.7	157.3	-	157.3
Total revenue	413.6	-	413.6	417.9	-	417.9	523.2	-	523.2	513.6	-	513.6
Operating income (loss)	109.6	-	109.6	106.3	-	106.3	67.9	-	67.9	60.3	-	60.3
Operating margin	26.5%		26.5%	25.4%		25.4%	13.0%		13.0%	11.7%		11.7%
Education												
Revenue	69.9	-	69.9	71.5	-	71.5	118.3	-	118.3	119.4	-	119.4
Operating income (loss)	6.2	-	6.2	8.3	-	8.3	(7.2)	-	(7.2)	(6.6)	-	(6.6)
Operating margin	8.9%		8.9%	11.6%		11.6%	-		-	-		-
International												
Revenue	113.7	-	113.7	115.3	-	115.3	188.3	-	188.3	190.1	-	190.1
Operating income (loss)	11.7	-	11.7	13.0	-	13.0	8.0	-	8.0	11.0	-	11.0
Operating margin	10.3%		10.3%	11.3%		11.3%	4.2%		4.2%	5.8%		5.8%
Corporate overhead [1]	22.4	(1.9)	20.5	29.4	(4.7)	24.7	51.0	(6.2)	44.8	50.3	(5.2)	45.1
Operating income (loss)	$105.1	$1.9	$107.0	$98.2	$4.7	$102.9	$17.7	$6.2	$23.9	$14.4	$5.2	$19.6

1. In the three and six months ended November 30, 2019, the Company recognized a pretax charge of $1.0 related to a settlement of an intellectual property producing agreement and pretax severance of $0.9 and $3.7, respectively. In the six months ended November 30, 2019, the Company recognized a pretax settlement expense of $1.5. In the three and six months ended November 30, 2018, the Company recognized a $4.3 pretax charge related to a legacy sales tax assessment and pretax severance of $0.4 and $0.9, respectively.

Selected Balance Sheet, Free Cash Flow & Net Debt

In $ Millions	Nov 30, 2019	Nov 30, 2018
Free cash flow (use) (3 month period ending)[1]	$87.7	$93.5
Free cash flow (use) (3 and 6 month period ending)[1]	($30.8)	($32.4)
Accounts receivable, net	$325.1	$377.3
Inventories, net	$357.8	$365.6
Accounts payable	$188.9	$250.3
Accrued royalties	$54.7	$58.5
Total debt	$16.1	$13.5
Cash and cash equivalents	$277.8	$358.1
Net debt[2]	($261.7)	($344.6)

1. Free cash flow (use) is defined by the Company as net cash provided by or used in operating activities (which includes royalty advances) and cash acquired through acquisitions, reduced by spending on property, plant and equipment and prepublication and production costs. The Company believes that this non-GAAP financial 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 utilizes this non-GAAP financial measure, and believes it is useful to investors, as an indicator of the Company's effective leverage and financing needs.

Fiscal 2020 Outlook - Affirmed

- Affirming fiscal 2020 outlook for:

Revenues	\$1.67 – \$1.70 billion
Adjusted EBITDA [1]	\$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.

Question & Answer

Participants

- Richard Robinson
- Kenneth Cleary

SCHOLASTIC