SCHOLASTIC

First Quarter FY 2021 Earnings Call Presentation

Thursday, September 24, 2020

Forward-Looking Statements

This presentation contains certain forward-looking statements. Such forward-looking statements are subject to various risks and uncertainties, including those arising from the continuing impact of COVID-19 related measures taken by governmental authorities or suppliers or other business providers which may curtail or otherwise adversely affect certain of the Company's business operations, and 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

First Quarter FY 2021

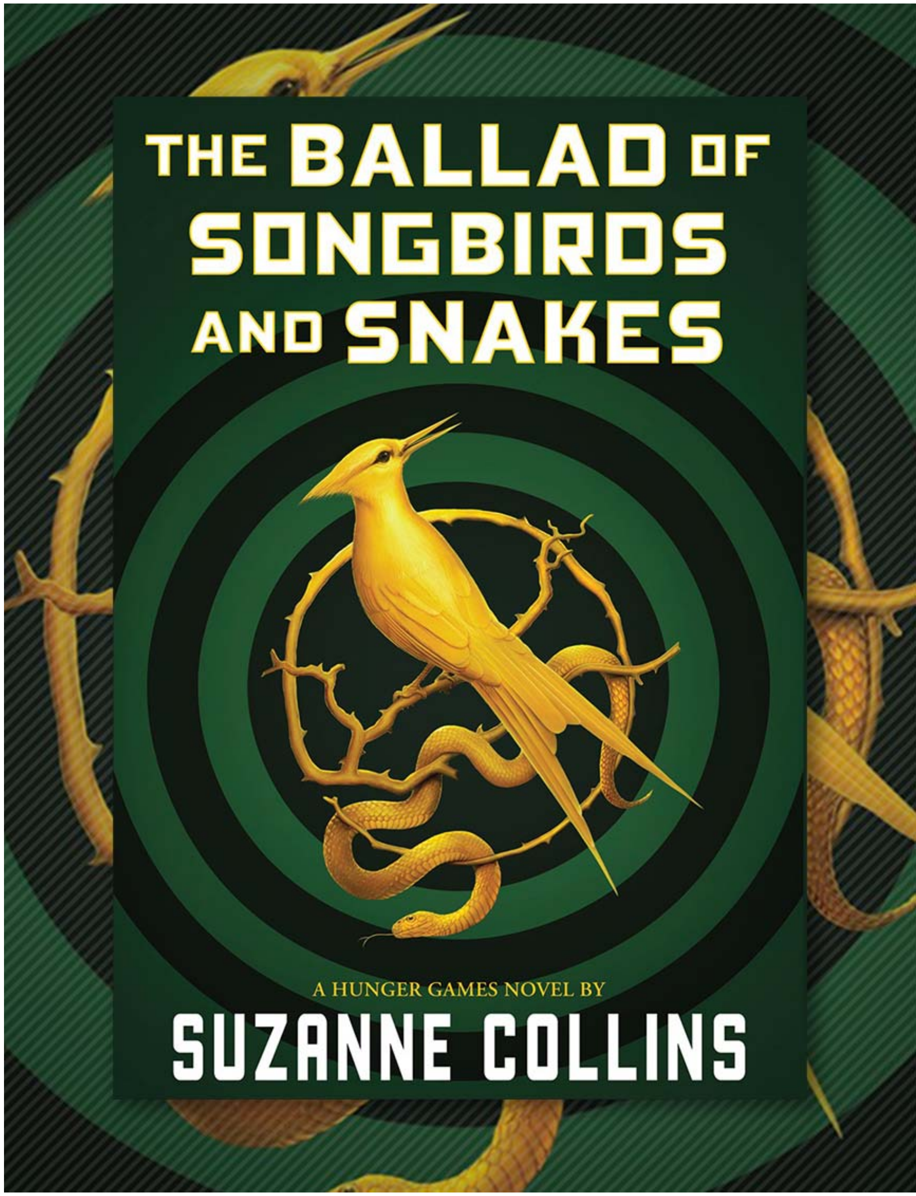
- Scholastic is intently focused on managing the effects of COVID-19 on its business, while supporting school and family customers as they acclimate to new learning environments.
- Substantially completed our previously announced $100 million cost savings program.
    - Reduced seasonal operating loss by $38.1 million, excluding one-time items, and meaningfully lowered free cash use in the first quarter.
    - Savings realized in the first quarter were largely related to labor, resulting in a one-time pre-tax severance charge of $12.0 million.
- Trade and Education well-positioned for continued success.
- Transition to a more flexible model enables the Company to match our offering with best revenue potential.

First Quarter FY 2021

- First quarter revenue of $215.2 million was 7% lower than Q1 of last year, mainly due to COVID-related disruptions in schools.
- Excluding one-time items, operating loss in the first quarter was $45.0 million, a 46% improvement from the prior year period's operating loss of $83.1 million, also excluding one-time items.

Children's Book Publishing & Distribution

- Strong sales of favorite Trade titles and series:
  - *The Ballad of Songbirds and Snakes* by Suzanne Collins
  - The Baby-Sitters Club® by Raina Telgemeier
  - Captain Underpants by Dav Pilkey
  - The Bad Guys™ by Aaron Blabey
  - Nat Enough by Maria Scrivan
  - *You Should See Me in a Crown* by Leah Johnson
- Dav Pilkey's *Dog Man: Grime and Punishment* launched on September 1st—already the #1 bestseller.
- High demand for our characters and IP, with recent Entertainment deals for Caster™, Goosebumps®, Animorphs®, and The Magic School Bus®.



Children’s Book Publishing & Distribution

- Anticipated lower book fair counts this fall, although we expect the pace of club and fair activity to increase toward the end of the 2nd quarter and in the second half of the year.
- Schools remain motivated to host fairs, which are crucial fund raisers and give kids a sense of normalcy.
- Converting physical fairs to our new virtual model.
- Scholastic is working with schools to schedule safe and easy physical fairs that solve for space, time, and people limitations.

Children’s Book Publishing & Distribution

- Book Clubs seeing lower volumes of orders from teachers as a result of delayed openings and changes to classroom environments.
- Scholastic is decreasing costs by reducing SKUs and encouraging migration to clubs’ digital platform.
- Re-imagined flyers are being distributed, designed to help teachers spark discussion, teach understanding, and engage young readers.

Image courtesy of Kelsey Zeilinger

Education

- Digital subscription billings showed 15% growth in the first quarter, with a high, steady volume of smaller transactions for digital components.
  - LAUSD purchased digital literacy programs *Scholastic F.I.R.S.T.®* and *Literacy Pro™*.
- *Grab and Go* reading packs and *LitCamp® at Home* to help mitigate the “summer slide.”
- Scholastic Classroom Magazines launched popular digital-only subscription model.
- Launched 100th Anniversary *Scholastic Bookshelf*, with free excerpts from over 60 stories to support teachers and parents.

Photo © PeopleImages/Getty Images

International

- International businesses seeing similar trends as in the United States.
- Lower book fair volumes, primarily caused by school closings in Canada, Australia, and the U.K., and lower direct sales in Asia were partially offset by stronger Trade publishing globally and strong Australia book club performance.

Fiscal Year 2021

- Will not be providing a fiscal year 2021 outlook.
- Expect clubs and fairs sales to increase toward the end of the 2nd fiscal quarter, and to continue to strengthen in the second half of the year.
- On an annual basis, expect total club and fair revenue to be down somewhat from prior year levels due to loss of important September and October selling months this year.
- Taking action within the Company designed to lower costs and gain efficiencies, and are supporting revenue streams by cementing Scholastic's position as a trusted partner to educators and parents.

Kenneth Cleary

Chief Financial Officer

Income Statement

In $ Millions (except per share)	First Quarter 2021			First Quarter 2020		
	As Reported	One-Time Items	Excluding One-Time Items	As Reported	One-Time Items	Excluding One-Time Items
Revenues	$215.2	$0.0	$215.2	$232.6	$0.0	$232.6
Cost of goods sold	123.2	-	123.2	137.1	-	137.1
Selling, general and administrative expenses [1]	132.1	(12.0)	120.1	165.9	(4.3)	161.6
Bad debt expense	1.4	-	1.4	1.6	-	1.6
Depreciation and amortization	15.5	-	15.5	15.4	-	15.4
Total operating costs and expenses	272.2	(12.0)	260.2	320.0	(4.3)	315.7
Operating income (loss)	(57.0)	12.0	(45.0)	(87.4)	4.3	(83.1)
Interest income (expense), net	(1.2)	-	(1.2)	0.7	-	0.7
Other components of net periodic benefit (cost)	(0.2)	-	(0.2)	(0.4)	-	(0.4)
Gain (loss) on sale of assets and other [2]	6.6	-	6.6	-	-	-
Earnings (loss) before income taxes	(51.8)	12.0	(39.8)	(87.1)	4.3	(82.8)
Provision (benefit) for income taxes [3]	(12.0)	3.1	(8.9)	(28.6)	1.2	(27.4)
Net Income (loss)	(39.8)	8.9	(30.9)	(58.5)	3.1	(55.4)
Less: Net income (loss) attributable to noncontrolling interests	0.0	-	0.0	0.0	-	0.0
Net Income (loss) attributable to Scholastic Corporation	($39.8)	$8.9	($30.9)	($58.5)	$3.1	($55.4)
Earnings (loss) per diluted share	($1.16)	$0.26	($0.90)	($1.68)	$0.09	($1.59)

1. In the three months ended August 31, 2020, the Company recognized pretax severance of $12.0. In the three months ended August 31, 2019, the Company recognized pretax severance of $2.8 and a pretax settlement expense of $1.5.
2. In the three months ended August 31, 2020, the Company recognized pretax gain on the sale of its Danbury facility of $6.6.
3. In the three months ended August 31, 2020 and August 31, 2019, the Company recognized a benefit for income taxes in respect to one-time pretax charges of $3.1 and $1.2, respectively.

Adjusted EBITDA

	Three Months Ended	
	8/31/2020	8/31/2019
Earnings (loss) before income taxes as reported	($51.8)	($87.1)
One-time items before income taxes	12.0	4.3
Earnings (loss) before income taxes excluding one-time items	(39.8)	(82.8)
Interest (income) expense	1.2	(0.7)
Depreciation and amortization[1]	16.4	16.1
Amortization of prepublication costs	6.3	6.4
Adjusted EBITDA[2]	($15.9)	($61.0)

1. For the three months ended August 31, 2020 and August 31, 2019, amounts include depreciation of $0.8 and $0.6, respectively, recognized in cost of goods sold, amortization of deferred financing costs of $0.1 and $0.1, respectively, and amortization of capitalized cloud software of $0.0 and $0.0, 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.

Selected Balance Sheet, Free Cash Flow & Net Debt

In $ Millions	Aug 31, 2020	Aug 31, 2019
Free cash flow (use) (3 month period ending)[1]	($34.9)	($118.5)
Accounts receivable, net	$219.6	$226.1
Inventories, net	$323.2	$403.6
Accounts payable	$168.3	$226.4
Accrued royalties	$56.2	$63.3
Total debt	$219.9	$13.0
Cash and cash equivalents	$355.5	$199.4
Net debt[2]	($135.6)	($186.4)

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 and from sale of assets, reduced by spending on property, plant and equipment and prepublication 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.

Segment Results

In $ Millions	First Quarter 2021			First Quarter 2020		
	As Reported	One-Time Items	Excluding One-Time Items	As Reported	One-Time Items	Excluding One-Time Items
Children's Book Publishing and Distribution						
Revenues						
Book Clubs	$5.8	$0.0	$5.8	$8.0	$0.0	$8.0
Book Fairs	13.2	-	13.2	27.5	-	27.5
Consolidated Trade	71.9	-	71.9	74.1	-	74.1
Total Revenues	90.9	-	90.9	109.6	-	109.6
Operating income (loss)	(29.2)	-	(29.2)	(41.7)	-	(41.7)
Operating margin	-		-	-		-
Education						
Revenues	53.6	-	53.6	48.4	-	48.4
Operating income (loss)	(2.2)	-	(2.2)	(13.4)	-	(13.4)
Operating margin	-		-	-		-
International						
Revenues	70.7	-	70.7	74.6	-	74.6
Operating income (loss) [1]	5.2	1.0	6.2	(3.7)	-	(3.7)
Operating margin	7.4%		8.8%	-		-
Corporate overhead [2]	30.8	(11.0)	19.8	28.6	(4.3)	24.3
Operating income (loss)	($57.0)	$12.0	($45.0)	($87.4)	$4.3	($83.1)

1. In the three months ended August 31, 2020, the Company recognized pretax severance of $1.0.
2. In the three months ended August 31, 2020, the Company recognized pretax severance of $11.0. In the three months ended August 31, 2019, the Company recognized pretax severance of $2.8 and a pretax settlement expense of $1.5.

Question & Answer

Participants

- Richard Robinson
- Kenneth Cleary

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