



SCHOLASTIC



FISCAL 2014 FIRST QUARTER EARNINGS PRESENTATION  
September 19, 2013



## Forward-Looking Statements

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This presentation contains certain forward-looking statements, which 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



## 1<sup>st</sup> Quarter 2014 Highlights

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- Successfully introduced **five** major new Education Technology programs – on time and on budget.
- Educational Technology and Services segment revenue and operating profit up **+19%** and **+46%**, respectively.
- Trade results were on track; Lower sales of **The Hunger Games** were **within expectations**.
- Seasonal first quarter loss **improved** to \$0.94/share vs. \$1.02/share, a year ago.
- Excluding one-time expenses related to cost reduction and restructuring programs, loss per share was **\$0.90**.



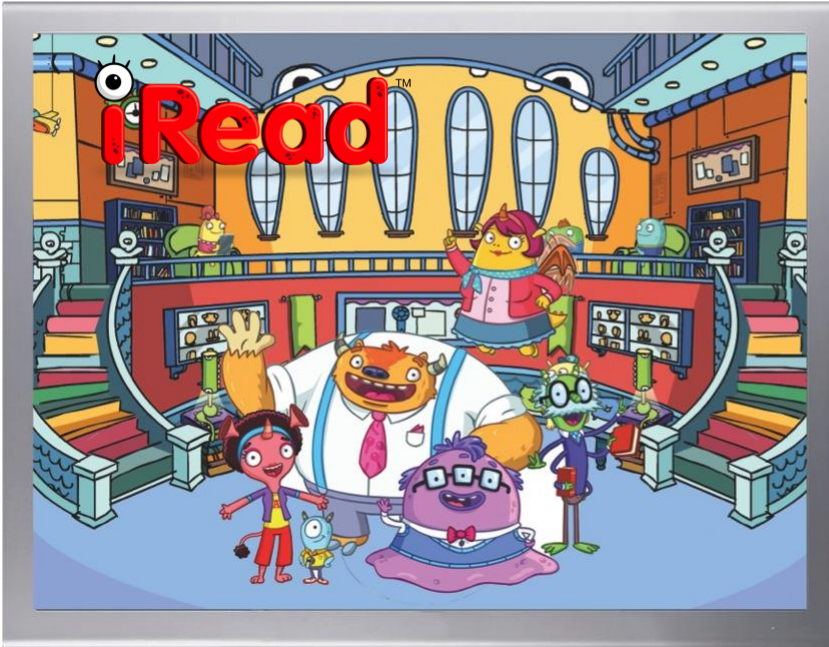
## Pivotal Time for K-12 Education Businesses

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- New Common Core State Standards **and** increasing use of tablets in the classroom are **driving change**.
- Schools are turning to Scholastic for **quality** materials and programs to help students reach higher **Common Core-linked goals**.
- Scholastic's comprehensive **solutions and proven results** allow us to capitalize on these opportunities.
- Our education groups are **continuing to collaborate** on marketing, development and field sales to meet schools' needs.



# Educational Technology – Transforming School Performance



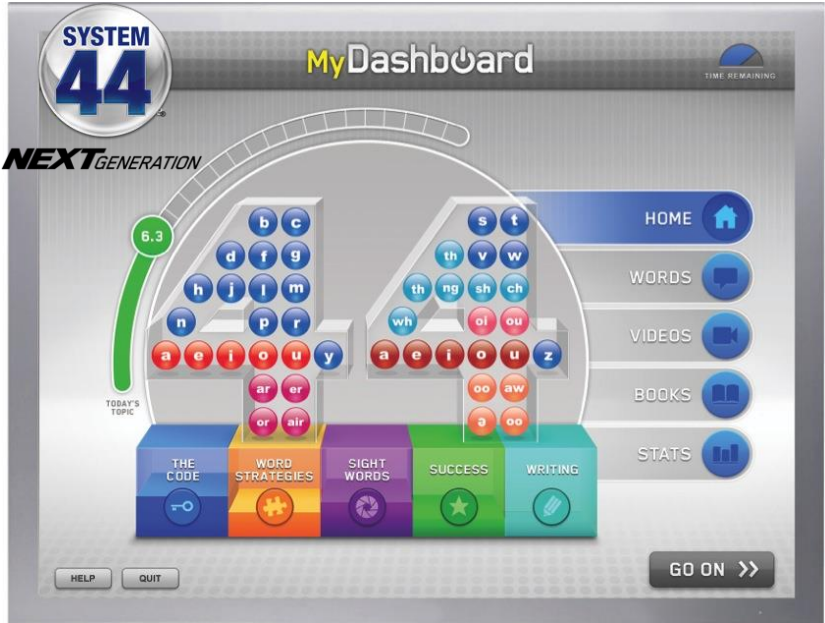
New Digital Foundational Reading Program for Grades K-2



Bringing Common Core to Life in the Classroom



# Educational Technology – Transforming School Performance



A Proven Foundational Reading Program for the Most Challenged Readers



for iPad®



Built for the Common Core. Now Available on iPad®.



# Educational Technology – Transforming School Performance

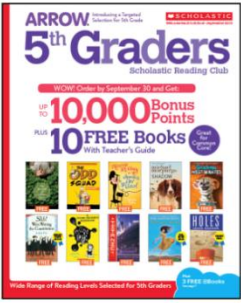
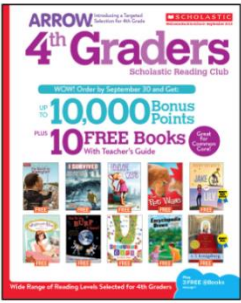
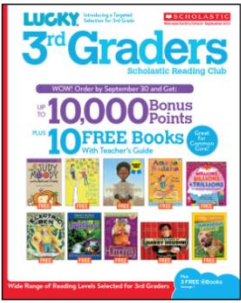
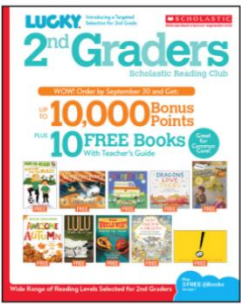
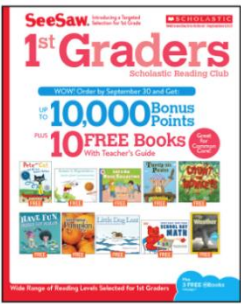
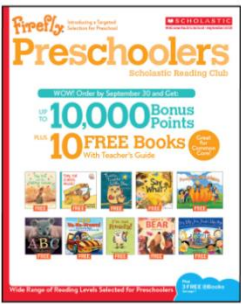


## Revolutionary Math Intervention for the Common Core

- Has many of the elements that made Read 180® so successful
  - Adaptive Technology
  - Personalized Data
  - Powerful Teaching Support
- Helps students get into the “growth mindset”
- Enables teachers to be more effective in the classroom
- Leverages our Math Solutions consulting services



# New Grade Level Specific Reading Club Flyers

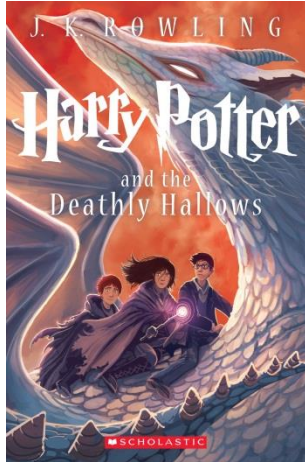
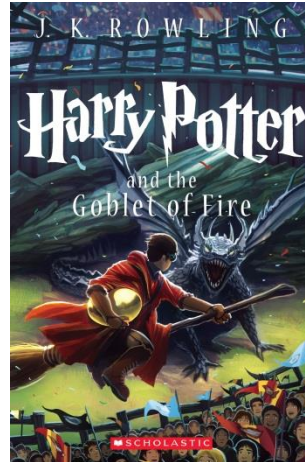
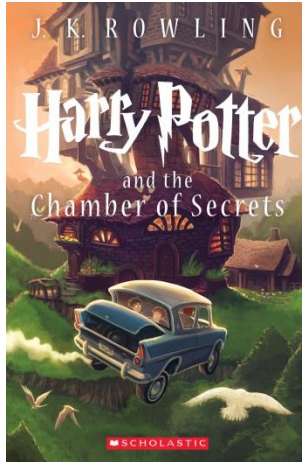
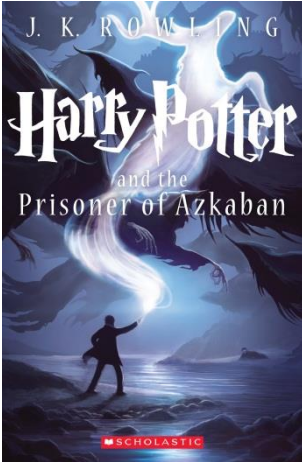
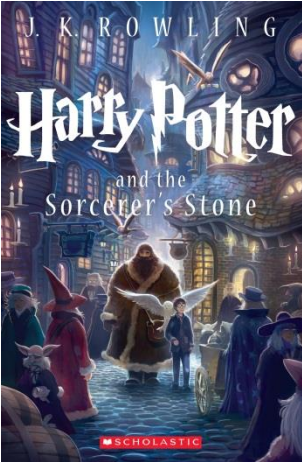


- Well-aligned with Common Core
- Clubs & Fairs together help children link independent reading and achievement
- Positions Clubs well to activate and increase Revenue Per Order
- More non-fiction content

# New Exciting Trade Releases



By New York Times bestselling author Jeffrey Brown







## Maureen O'Connell

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Executive Vice President,  
Chief Administrative Officer and Chief Financial Officer



# Income Statement

<b>In \$ Millions (except per share data)</b>	<b>First Quarter</b>	
	<b>2014</b>	<b>2013</b>
Revenues	\$276.3	\$293.4
Cost of goods sold	137.9	150.8
Selling, general and administrative expenses <sup>1</sup>	167.0	173.0
Bad debt expense	1.4	0.5
Depreciation and amortization	15.9	16.1
Total operating costs and expenses	322.2	340.4
Operating income (loss) from continuing operations	(\$45.9)	(\$47.0)
Interest expense, net	1.9	3.7
Provision (benefit) for income taxes	(17.7)	(19.0)
Earnings (loss) from continuing operations	(\$30.1)	(\$31.7)
Earnings (loss) from discontinued operations, net of tax	0.2	(0.4)
Net Income (loss)	(\$29.9)	(\$32.1)
Earnings (loss) per diluted share from continuing operations	(0.94)	(1.01)
Earnings (loss) per share from discontinued operations, net of tax	0.00	(0.01)
Earnings (loss) per diluted share	(0.94)	(1.02)

<sup>1</sup> The Company recorded a pretax severance charge of \$2.0 related to the Company's cost savings initiatives for the three months ended August 31, 2013



# Adjusted Earnings Per Share

In \$ Millions <i>(except per share data)</i>	First Quarter 2014			First Quarter 2013
	As Reported	One-Time Items	Excluding One-Time Items	As Reported
Revenues	\$276.3		\$276.3	\$293.4
Cost of goods sold	137.9		137.9	150.8
Selling, general and administrative expenses <sup>1</sup>	167.0	(2.0)	165.0	173.0
Bad debt expense	1.4		1.4	0.5
Depreciation and amortization	15.9		15.9	16.1
Total operating costs and expenses	322.2	(2.0)	320.2	340.4
Operating income (loss) from continuing operations	(\$45.9)	\$2.0	(\$43.9)	(\$47.0)
Interest expense, net	1.9		1.9	3.7
Provision (benefit) for income taxes	(17.7)	0.7	(17.0)	(19.0)
Earnings (loss) from continuing operations	(\$30.1)	\$1.3	(\$28.8)	(\$31.7)
Earnings (loss) from discontinued operations, net of tax	0.2		0.2	(0.4)
Net Income (loss)	(\$29.9)	\$1.3	(\$28.6)	(\$32.1)
Earnings (loss) per diluted share from continuing operations	(0.94)	0.04	(0.90)	(1.01)
Earnings (loss) per share from discontinued operations, net of tax	0.00		0.00	(0.01)
Earnings (loss) per diluted share	(0.94)	0.04	(0.90)	(1.02)

<sup>1</sup> The Company recorded a pretax severance charge of \$2.0 related to the Company's cost savings initiatives for the three months ended August 31, 2013





## Segment Results

In \$ Millions	First Quarter	
	2014	2013
Children's Book Publishing and Distribution		
Revenue	\$54.6	\$70.9
Operating income (loss)	(61.5)	(54.9)
Educational Technology and Services		
Revenue	\$94.8	\$80.0
Operating income (loss)	36.2	24.8
Classroom and Supplemental Materials Publishing		
Revenue	\$37.8	\$37.9
Operating income (loss)	(1.6)	(2.6)
International		
Revenue	\$78.7	\$90.2
Operating income (loss) <sup>1</sup>	(0.7)	2.8
Media, Licensing and Advertising		
Revenue	\$10.4	\$14.4
Operating income (loss)	(1.9)	0.2
Corporate overhead <sup>2</sup>	\$16.4	\$17.3
Operating income (loss) from continuing operations	(\$45.9)	(\$47.0)

1. For the three months ended August 31, 2013, the Company recorded a pretax severance charge in its International segment of \$0.6 related to the Company's cost savings initiatives

2. For the three months ended August 31, 2013, the Company recorded a pretax severance charge of \$1.4 in Corporate Overhead related to the Company's cost savings initiatives



## Free Cash Flow and Balance Sheet

In \$ Millions	Aug 31, 2013	Aug 31, 2012
Free cash flow (use) (3 month period ending) <sup>1</sup>	(\$93.8)	\$4.0
Accounts receivable, net	\$211.6	\$211.5
Inventories, net	\$374.6	\$396.4
Accounts payable	\$207.3	\$211.3
Accrued royalties	\$45.5	\$109.1
Total debt	\$29.2	\$153.4
Cash and cash equivalents	15.8	193.1
Net debt <sup>2</sup>	\$13.4	(\$39.7)

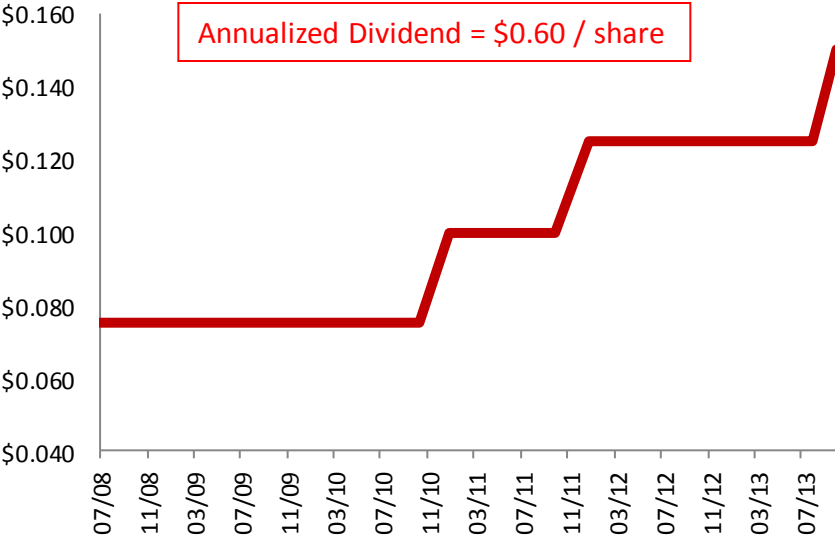
<sup>1</sup> Free cash flow (use) is defined by the Company as net cash provided by or used in operating activities (which includes royalty advances), reduced by spending on property, plant and equipment and pre-publication and production costs

<sup>2</sup> 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

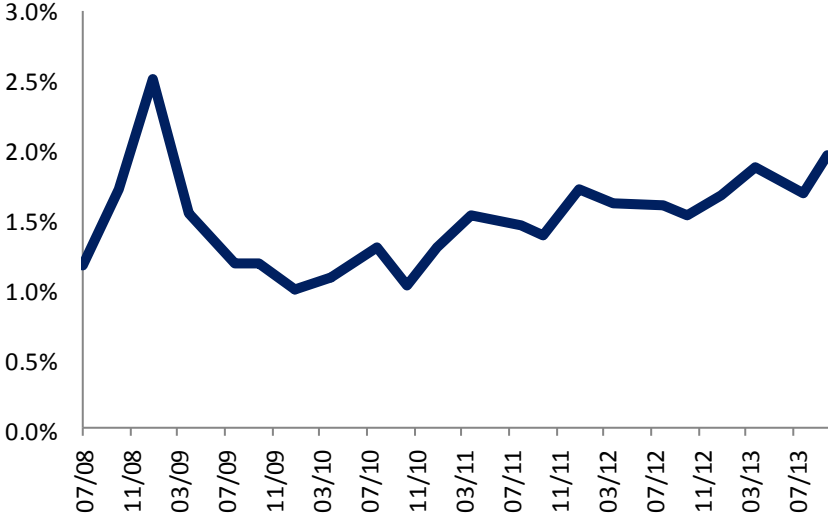


# Board Approves 20% Increase in Dividend Rate

Quarterly Dividends Per Share



Dividend Yield



Date	New Rate	% Increase
01/2011	\$0.100 / share	+33.3%
01/2012	\$0.125 / share	+25.0%
<b>10/2013</b>	<b>\$0.150 / share</b>	<b>+20.0%</b>

On a pro forma basis, the new dividend yield is **2.0%**



## FY 2014 Outlook:

### Affirmed Guidance & Expectations for Profitable Revenue Growth

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Revenue	≈ <b>\$1.8</b> billion
Earnings from Continuing Operations <sup>1</sup>	<b>\$1.40 - \$1.80</b> per diluted share
Free Cash Flow	<b>\$60 - \$80</b> million
Capital Expenditures	<b>\$55 - \$65</b> million
Prepublication/Production Spending	<b>\$65 - \$75</b> million

<sup>1</sup> 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

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### Participants

- Richard Robinson
- Maureen O'Connell
- Margery Mayer, Educational Technology & Services
- Judy Newman, School Book Clubs and E-Commerce
- Ellie Berger, Trade