SCHOLASTIC

First Quarter FY 2020 Earnings Call Presentation

Thursday, September 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

First Quarter FY 2020

- The Company's 99th back-to-school season, the results were led by trade globally.
- First quarter revenue was $232.6 million, an increase of 7% compared to $218.4 million in the first quarter of 2019.
- Adjusted EBITDA in the first quarter was a loss of $61.0 million, compared to a loss of $64.5 million in the first quarter of 2019.
- Affirming fiscal year 2020 revenues are expected to range within $1.67 to $1.70 billion, up from $1.65 billion in fiscal year 2019.
- Operating income improvements are moving forward as detailed in July, which have started to take effect.

Children's Book Publishing & Distribution

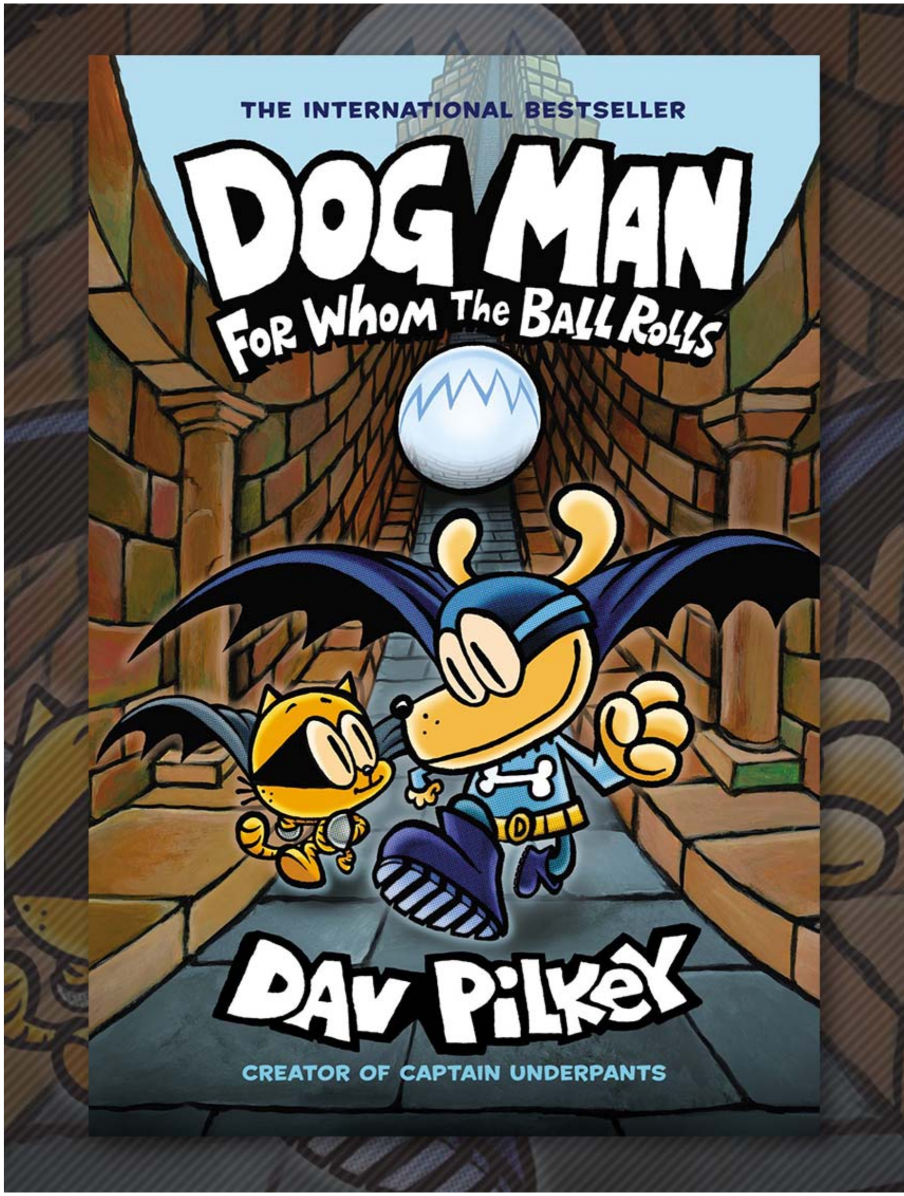
- Clubs and fairs remain important access points for kids to find books they want to read and significant support for educators to build classroom libraries.

- This year approximately 120,000 book fairs will be delivered in 60,000 plus schools supported by 3,000+ employees from field representatives to operations, and served by 58 distribution centers.
  - Ongoing margin improvement efforts include fair segmentation and targeting, improved POS and automation of operational processes.
  - Looking forward, expecting continued adoption of eWallet.

- In clubs, the past quarter was focused on back-to-school enhancements and engagement of teacher sponsors.
  - Improved sales tax collection expected.

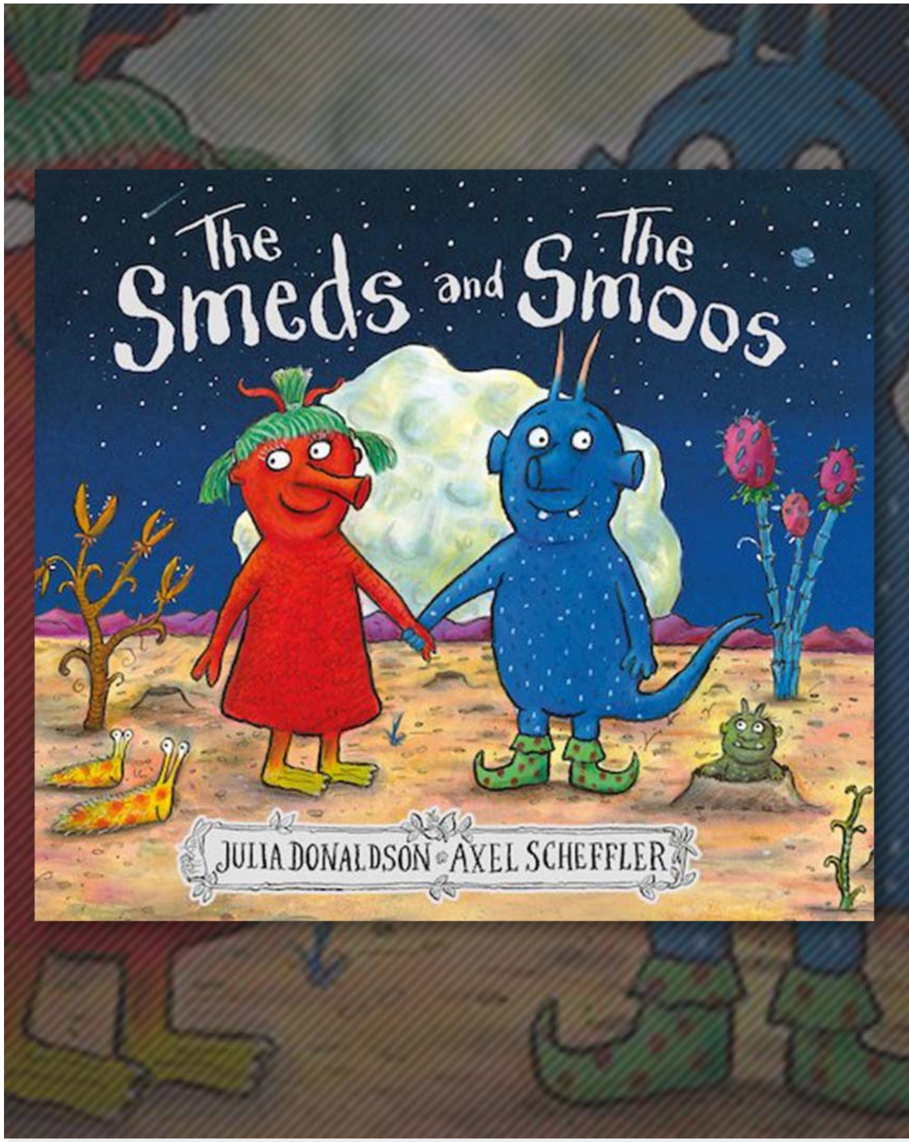
Children's Book Publishing & Distribution

- Strength and momentum continues in trade publishing.
- Last week, Scholastic had seven out of the top 10 *New York Times* Children's Series Bestsellers.
- Dav Pilkey's *Dog Man: For Whom the Ball Rolls* is the number one book in the U.S. among all books and had best first-week sales of any Dog Man book to date.
- Highly-anticipated titles debuting next quarter include Raina Telgemeier's *Guts*, *Harry Potter and the Goblet of Fire: The Illustrated Edition*, *Harry Potter and the Cursed Child: The Journey: Behind the Scenes of the Award-Winning Stage Production*, and the global release of *The Dinky Donkey*.



International

- Strong trade publishing globally.
- Building upon global resources of print and digital content, and strong brand recognition.
- Receiving positive responses to our English language learning programs, targeted to meet the needs of a growing middle class of consumers, and our existing digital education products.



Education

- Emphasizing a “comprehensive approach to literacy,” working with school districts and community-based organizations to build programs for 365-day learning.

- *Scholastic Literacy* sales have begun but are not a driver in this year’s first quarter as the product is just coming “off press” and being delivered to early adopting schools in Alabama, Indiana and Ohio.

- Scholastic digital subscription programs are gaining momentum:
    - The largest sale of *Scholastic Literacy Pro*® to date closed this summer with Cypress-Fairbanks, TX, purchasing eight years upfront.
    - Increased ease of access available through single sign-on integration with Google Classroom as well as certified standards-based LTI integration with schools’ learning management systems.

Kenneth Cleary

Chief Financial Officer

Income Statement

In $ Millions (except per share)	First Quarter 2020			First Quarter 2019		
	As Reported	One-Time Items	Excluding One-Time Items	As Reported	One-Time Items	Excluding One-Time Items
Revenues	$232.6	$0.0	$232.6	$218.4	$0.0	$218.4
Cost of goods sold	137.1	-	137.1	125.3	-	125.3
Selling, general and administrative expenses [1]	165.9	(4.3)	161.6	162.3	(0.5)	161.8
Bad debt expense	1.6	-	1.6	1.4	-	1.4
Depreciation and amortization	15.4	-	15.4	13.2	-	13.2
Total operating costs and expenses	320.0	(4.3)	315.7	302.2	(0.5)	301.7
Operating income (loss)	(87.4)	4.3	(83.1)	(83.8)	0.5	(83.3)
Interest income (expense), net	0.7	-	0.7	0.8	-	0.8
Other components of net periodic benefit (cost)	(0.4)	-	(0.4)	(0.4)	-	(0.4)
Provision (benefit) for income taxes [2]	(28.6)	1.2	(27.4)	(22.1)	0.1	(22.0)
Net Income (loss)	($58.5)	$3.1	($55.4)	($61.3)	$0.4	($60.9)
Earnings (loss) per diluted share	($1.68)	$0.09	($1.59)	($1.75)	$0.01	($1.74)

1. In the three months ended August 31, 2019, the Company recognized pretax severance of $2.8 and a pretax settlement expense of $1.5. In the three months ended August 31, 2018, the Company recognized pretax severance of $0.5.
2. In the three months ended August 31, 2019 and August 31, 2018, the Company recognized a benefit for income taxes in respect to one-time pretax charges of $1.2 and $0.1, respectively.

Adjusted EBITDA

	Three Months Ended	
	8/31/2019	8/31/2018
Earnings (loss) before income taxes as reported	($87.1)	($83.4)
One-time items before income taxes	4.3	0.5
Earnings (loss) before income taxes excluding one-time items	(82.8)	(82.9)
Interest (income) expense	(0.7)	(0.8)
Depreciation and amortization[1]	16.1	14.0
Amortization of prepublication and productions costs	6.4	5.2
Adjusted EBITDA[2]	($61.0)	($64.5)

1. For the three months ended August 31, 2019, amounts include depreciation of $0.6 recognized in cost of goods sold and amortization of deferred financing costs of $0.1 and amortization of capitalized cloud software of $0.0 recognized in selling, general and administrative expenses. In the three months ended August 31, 2018, amounts include depreciation of $0.7 recognized in cost of goods sold and amortization of deferred financing costs of $0.1 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

	First Quarter 2020			First Quarter 2019		
	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	$8.0	$0.0	$8.0	$9.1	$0.0	$9.1
Book Fairs	27.5	-	27.5	25.2	-	25.2
Consolidated Trade	74.1	-	74.1	61.4	-	61.4
Total revenue	109.6	-	109.6	95.7	-	95.7
Operating income (loss)	(41.7)	-	(41.7)	(46.0)	-	(46.0)
Operating margin	-		-	-		-
Education						
Revenue	48.4	-	48.4	47.9	-	47.9
Operating income (loss)	(13.4)	-	(13.4)	(14.9)	-	(14.9)
Operating margin	-		-	-		-
International						
Revenue	74.6	-	74.6	74.8	-	74.8
Operating income (loss)	(3.7)	-	(3.7)	(2.0)	-	(2.0)
Operating margin	-		-	-		-
Corporate overhead [1]	28.6	(4.3)	24.3	20.9	(0.5)	20.4
Operating income (loss)	($87.4)	$4.3	($83.1)	($83.8)	$0.5	($83.3)

1. In the three months ended August 31, 2019, the Company recognized pretax severance of $2.8 and a pretax settlement expense of $1.5. In the three months ended August 31, 2018, the Company recognized pretax severance of $0.5.

Selected Balance Sheet, Free Cash Flow & Net Debt

In $ Millions	Aug 31, 2019	Aug 31, 2018
Free cash flow (use) (3 month period ending)[1]	($118.5)	($125.9)
Accounts receivable, net	$226.1	$223.7
Inventories, net	$403.6	$402.3
Accounts payable	$226.4	$242.3
Accrued royalties	$63.3	$56.4
Total debt	$13.0	$15.7
Cash and cash equivalents	$199.4	$269.8
Net debt[2]	($186.4)	($254.1)

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

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