

FIRST QUARTER FY 2018 EARNINGS CALL PRESENTATION



THURSDAY SEPTEMBER 21, 2017



## 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, 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

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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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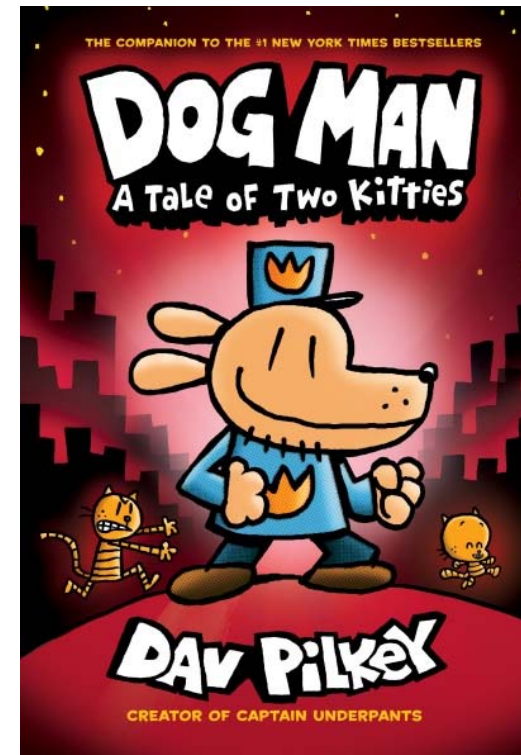
Chief Executive Officer, President  
and Chairman



## First Quarter 2018 Highlights

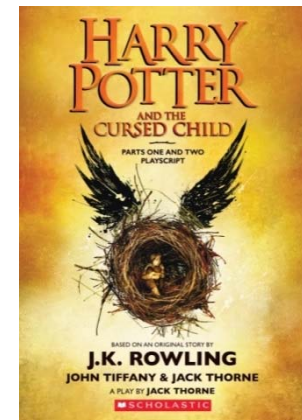
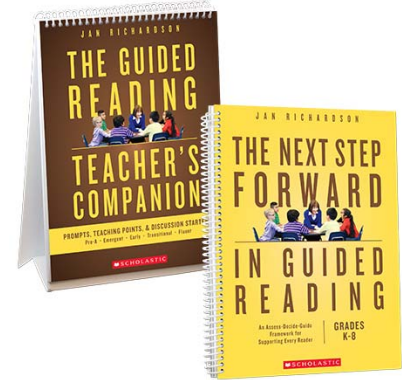
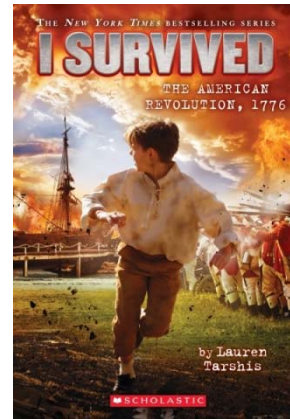
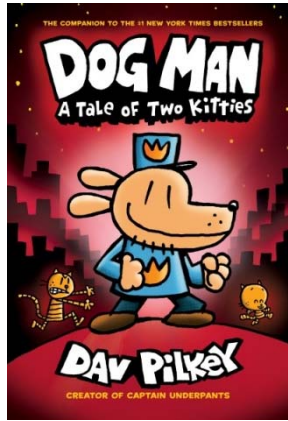
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- Trade has an exciting first quarter with #1 best-sellers in the U.S., Canada, Australia, UK and India
- *Harry Potter and the Cursed Child, Parts One and Two* – last year’s best selling book across all genres – driving tough year-over-year comparison
- Continued momentum for Dav Pilkey’s *Dog Man* series across all channels
- First quarter traditionally soft quarter as most schools in North America are not in session
- Successful launch of *Scholastic 2020* plan to drive profitability and sales growth





# SCHOLASTIC





## Scholastic 2020

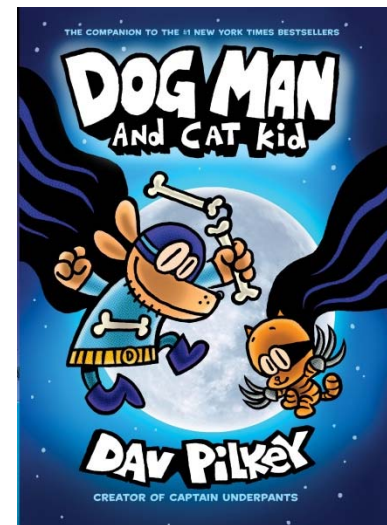
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- Supporting our mission to change children’s lives through reading and learning, while focusing on improving profitability by:
  - Linking our technology investments to improved marketing
  - Deploying better business processes across all operations to reduce costs
- **Scholastic 2020** is designed to substantially improve revenue growth and operating income over a 3-year period encompassing the Company’s 100<sup>th</sup> Anniversary in 2020
- **Scholastic 2020** is a performance management structure that will leverage our on-going investments in technology resulting in better customer data and improved analytics
- **Scholastic 2020** will also support our continued transition to a more flexible technology staffing model



## Children's Book Publishing and Distribution

- Resurgent core **Trade** publishing operations with growth potential
  - New *Harry Potter* publishing leading up to the 20<sup>th</sup> Anniversary of Harry Potter in the U.S. next year
  - Fourth title in Dav Pilkey's Dog Man series, *Dog Man and Cat Kid*, on bookstore shelves in January
- Implementing a well-honed **Book Fairs** strategy by appropriately sizing fairs and better matching resources to each school's demographics and needs
  - New CRM platform and new dashboards for sales teams
  - Upgraded point-of-sale systems to simplify transaction execution
  - New merchandising strategy and displays
- **Book Clubs** focused on sponsor retention, leaner cost structure, and return to multi-grade offers

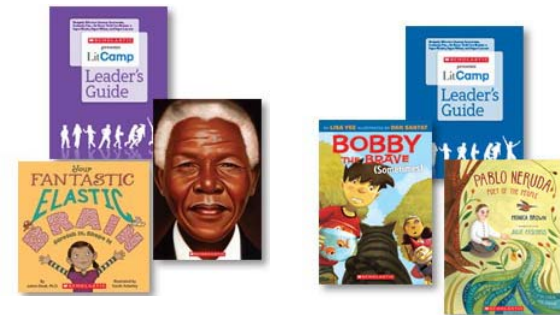






## Education

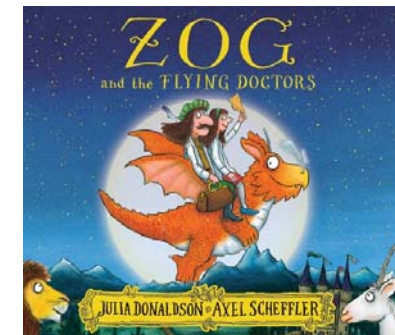
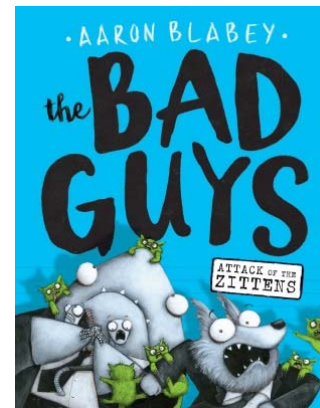
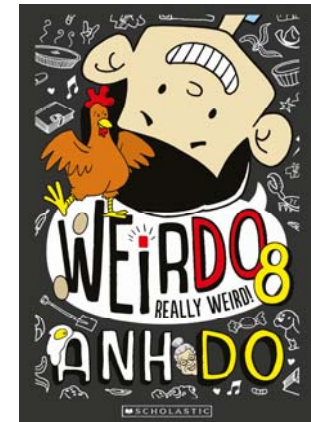
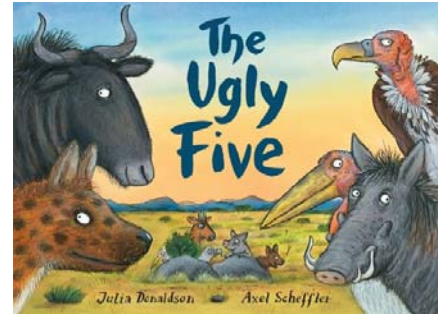
- Expanding our product portfolio with new offerings – in the pipeline or soon-to-be released
  - Scholastic EDGE™, an addition to our guided reading line
  - New grammar, writing and usage programs
  - New digital phonics program
- Concentrating on growing market share to include a complete Pre-K – 6 core literacy program of instruction
  - Address growing preference to build customized curriculums instead of traditional Basal readers and textbooks
- Continuing to build on highly successful print and digital classroom magazines
- Bolstering sales and marketing teams with greater depth in solution selling



LitCamp

## International

- Trade publishing in major markets performing well with titles atop best seller lists in Canada, UK, Australia/New Zealand, as well as India
- Scholastic Asia: potential to drive growth
  - Dedication to English-language learning
  - Rising middle class
  - Strong brand recognition throughout the region
- Implementing a shared services operation for Asia business units
  - Transitioning to a single financial management system
  - Centralized supply chain and other functions to leverage scale and reduce costs





## Maureen O'Connell

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Executive Vice President,  
Chief Administrative Officer and CFO



# Income Statement

In \$ Millions (except per share)	First Quarter 2018			First Quarter 2017		
	As Reported	One-Time Items	Excluding One-Time Items	As Reported	One-Time Items	Excluding One-Time Items
Revenues	\$189.2		\$189.2	\$282.7		\$282.7
Cost of goods sold	115.6	-	115.6	169.7	-	169.7
Selling, general and administrative expenses <sup>1</sup>	156.9	(1.6)	155.3	163.1	-	163.1
Bad debt expense	1.9	-	1.9	2.9	-	2.9
Depreciation and amortization	9.9	-	9.9	9.5	-	9.5
Asset impairments <sup>2</sup>	6.7	(6.7)	-	-	-	-
Total operating costs and expenses	291.0	(8.3)	282.7	345.2	-	345.2
Operating income (loss)	(\$101.8)	\$8.3	(\$93.5)	(\$62.5)	\$0.0	(\$62.5)
Other components of net periodic (benefit) cost	0.1	-	0.1	0.6	-	0.6
Interest (income) expense, net	(0.3)	-	(0.3)	0.3	-	0.3
Provision (benefit) for income taxes	(37.9)	3.3	(34.6)	(23.9)	-	(23.9)
Earnings (loss) from continuing operations	(\$63.7)	\$5.0	(\$58.7)	(\$39.5)	\$0.0	(\$39.5)
Earnings (loss) from discontinued operations, net of tax	(0.0)		(0.0)	(0.1)		(0.1)
Net Income (loss)	(\$63.7)	\$5.0	(\$58.7)	(\$39.6)	\$0.0	(\$39.6)
Earnings (loss) per diluted share from continuing operations	(1.81)	0.14	(1.67)	(1.15)	-	(1.15)
Earnings (loss) per diluted share from discontinued operations, net of tax	(0.00)		(0.00)	(0.00)		(0.00)
Earnings (loss) per diluted share	(1.81)	0.14	(1.67)	(1.15)	-	(1.15)

1. In the three months ended August 31, 2017, the Company recognized pretax severance expense as part of cost reduction programs of \$1.6.
2. In the three months ended August 31, 2017, the Company recognized a pretax impairment charge of \$6.7 related to legacy building improvements.



## Segment Results

In \$ Millions (except per share)	First Quarter 2018			First Quarter 2017		
	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	\$8.0		\$8.0	\$8.5		\$8.5
Book Fairs	12.1		12.1	12.4		12.4
Consolidated Trade	46.7		46.7	116.9		116.9
Total revenue	66.8		66.8	137.8		137.8
Operating income (loss)	(58.9)	-	(58.9)	(36.2)	-	(36.2)
Operating margin	-		-	-		-
<b>Education</b>						
Revenue	45.0		45.0	55.2		55.2
Operating income (loss)	(12.5)		(12.5)	(4.4)		(4.4)
Operating margin	-		-	-		-
<b>International</b>						
Revenue	77.4		77.4	89.7		89.7
Operating income (loss)	(2.8)	-	(2.8)	4.2	-	4.2
Operating margin	-		-	4.7%		4.7%
Corporate overhead <sup>1</sup>	\$27.6	(\$8.3)	\$19.3	\$26.1	\$0.0	\$26.1
Operating income (loss)	(\$101.8)	\$8.3	(\$93.5)	(\$62.5)	\$0.0	(\$62.5)

1. In the three months ended August 31, 2017, the Company recognized a pretax impairment charge of \$6.7 related to legacy building improvements and pretax severance expense of \$1.6 as part of cost reduction programs.





## Free Cash Flow & Net Debt

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In \$ Millions	<u>Aug 31, 2017</u>	<u>Aug 31, 2016</u>
Free cash flow (use) (3 month period ending) <sup>1</sup>	(\$131.0)	(\$122.4)
Accounts receivable, net	\$145.4	\$222.6
Inventories, net	\$386.5	\$375.7
Accounts payable	\$187.2	\$203.6
Accrued royalties	\$51.9	\$66.3
Total debt	\$12.0	\$12.1
Cash and cash equivalents	\$311.9	\$287.6
Net debt <sup>2</sup>	(\$299.9)	(\$275.5)

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 , prepublication, 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.



## Fiscal 2018 Outlook

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Metric	Guidance
Revenue	<b>\$1.65 - \$1.7</b> billion
Earnings from Continuing Operations <sup>1</sup>	<b>\$1.20 - \$1.30</b> per diluted share
Free Cash Use	<b>\$10 - \$20</b> million
Capital Expenditures	<b>\$90 - \$100</b> million
Prepublication/Production Spending	<b>\$30 - \$40</b> million

1. 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
- Judy Newman, School Book Clubs and E-Commerce



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