WESTPEAK RESEARCH ASSOCIATION

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# Scholastic, Inc. (NASDAQ: SCHL)

**Consumer Discretionary – Book Publication**

## Bittersweet Literature

March 15, 2019

*Scholastic, Inc. is a global children's book publishing and distribution company, with an emphasis on educational literature and classroom resources. Scholastic sells one in every two children's book purchased in the U.S.*

### Thesis

Despite Scholastic's focus on consolidated trade going forward, we do not believe that there will be substantial development in their core publishing business given the lack growth in the children's book industry. Even though the demand for Scholastic book fairs and book clubs will presumably not be as it once was, Scholastic has been attempting to improve profitability by upgrading their technological infrastructure; a cost reduction plan that has yet to come into fruition. With Scholastic's current low growth potential, we remain wary in the company's ability to add value to the individual investor going forward.

### Drivers

Scholastic's book fair and book club channels are the company's main drivers, along with their consolidated trade to a lesser extent. However, with management's sentiment in securing long term sales growth within consolidated trade, we believe that Scholastic will focus more on publishing new content. This will allow Scholastic to potentially have a larger market share within the children's book industry.

### Valuation

To arrive at a target share price of $45.22, we used a 5-year discounted cash flow (DCF) model as well as a comparables companies' analysis (CCA); using only EV/EBITDA as P/E was not a suitable multiple for this comparables set. The DCF and comparable companies' analysis was weighted 50% and 50%, respectively and represents a 13.90% upside to Scholastic. Given our DCF and comparables analysis, we initiate a **hold** rating as we believe that Scholastic is currently fairly valued by the market.

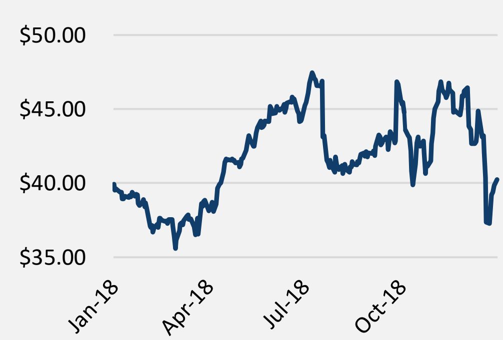
| Equity Research | U.S. |
|---|---|
| **Price Target** | **USD $ 45.22** |
| **Rating** | Hold |
| **Share Price (Mar 15 Close)** | USD $ 40.22 |
| **Total Return** | 13.90% |

| Key Statistics | |
|---|---|
| **52 Week H/L** | $47.76/$35.59 |
| **Market Capitalization** | $1.43B |
| **Average Daily Trading Volume** | 125K |
| **Net Debt** | $(300.2)M |
| **Enterprise Value** | $1.07B |
| **Net Debt/EBITDA** | N/A |
| **Diluted Shares Outstanding** | 35.86M |
| **Free Float** | 72.63% |
| **Dividend Yield** | 1.50% |

**WestPeak's Forecast**

| | 2019E | 2020E | 2021E |
|---|---|---|---|
| **Revenue** | $1.68B | $1.76B | $1.75B |
| **EBITDA** | $134M | $174M | $158M |
| **Net Income** | $53M | $85M | $74M |
| **EPS** | $1.47 | $2.37 | $2.06 |
| **P/E** | 29.70x | 17.50x | 20.10x |
| **EV/EBITDA** | 8.60x | 5.90x | 6.00x |

**1-Year Price Performance**



# Business Overview/Fundamentals

## Company Overview

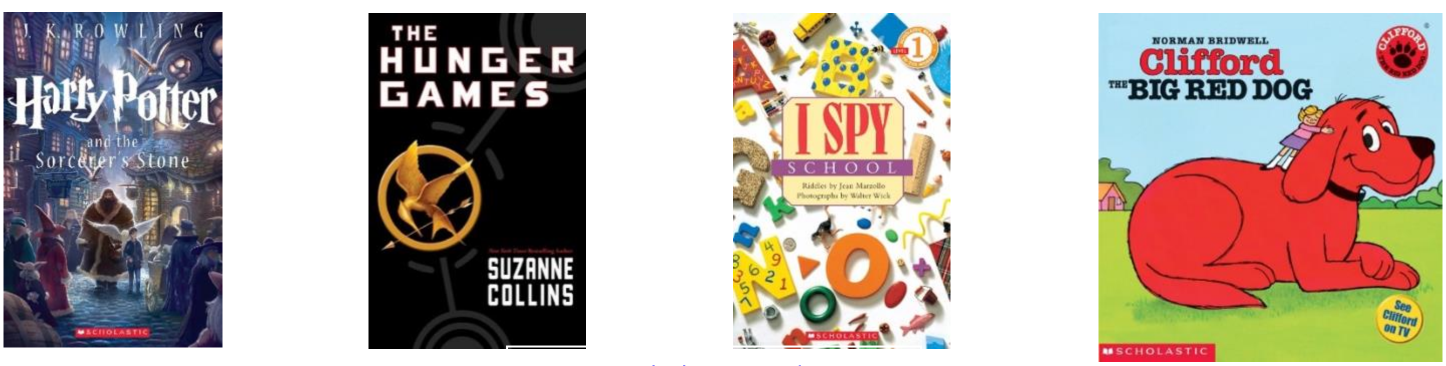
Scholastic, Inc. (Scholastic) is a book publisher that specializes in children's books and educational resources. Scholastic offers a wide range of children's books under 18 different trade imprints and licensed brands. As such, the company publishes over 600 original titles every year to fuel their book fairs and book clubs. After a disappointing FY2018 with publishing sales, management sentiment has been to focus their efforts and resources into releasing more attractive content on a yearly basis. With record high sales in FY2017 driven by *The Harry Potter Series*, Scholastic has made it their mission to continue producing such content and releasing it through their book clubs and book fairs.

## Business Segments

**Children's Book Publishing and Distribution**

Scholastic's Children's Book Publishing and Distributing segment accounts for over 65% of their revenue streams. Scholastic operates in both the production and distribution aspect of the supply chain. Utilizing their network of production and distribution facilities, Scholastic distributes directly to their book fairs, book clubs and third-party retailers. More importantly, their proprietary channels of book fairs and book clubs are their main competitive advantages. No other publisher is currently offering such events to schools at the same scale and consistency. Scholastic services close to 120,000 schools around the US every year and is their main revenue driver.

**Exhibit 1: Select List of Best Sellers**

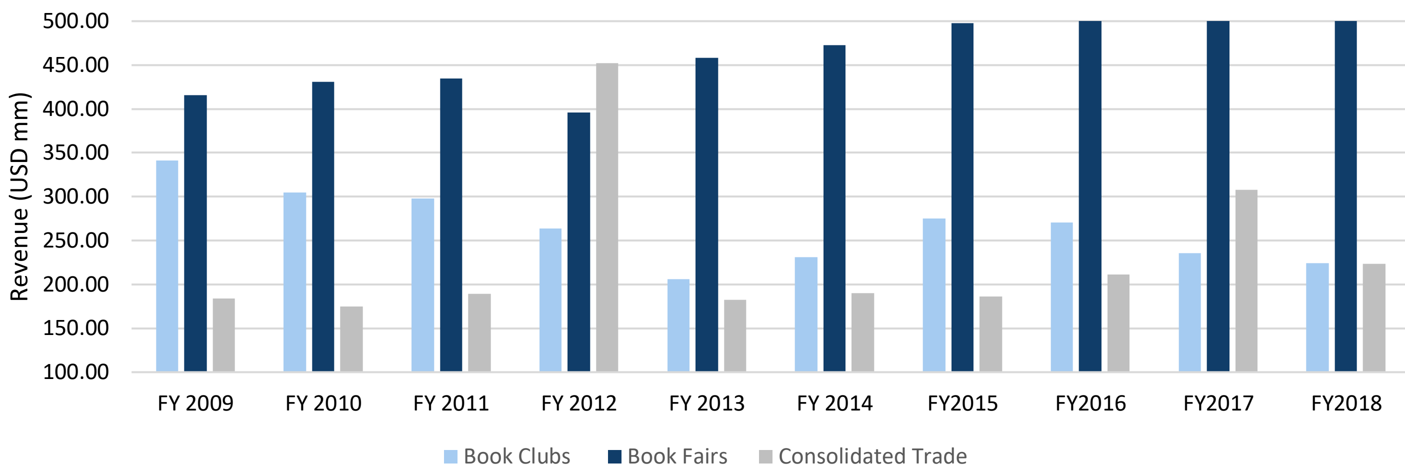



*Source: Scholastic Media Room*

**Book Clubs and Book Fairs**

Scholastic's most profitable sales come from their book clubs and book fair orders. Scholastic offers a school-based book club that entice different levels of readers to sift through an exclusive themed catalog and then order the books through

**Exhibit 2: Segmented Revenue for Children's Book Publishing and Distribution**




*Source: Scholastic Investor Relations*

the school. Despite consistent participation by schools in both avenues, the demand for book clubs and book fairs have substantially flattened in the past decade.

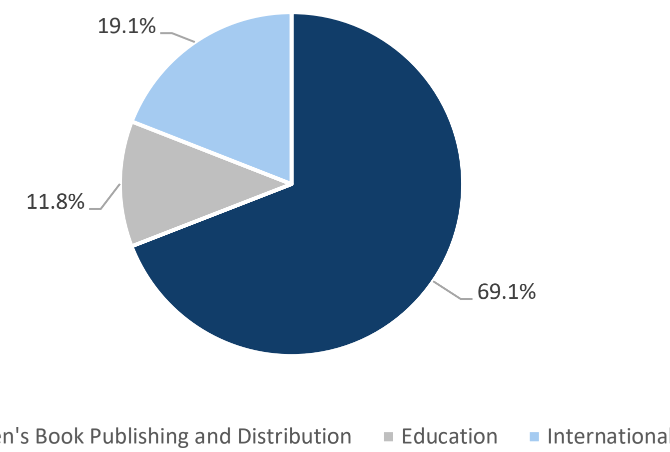
**Education**

The education segment is supported by the purchase of classroom libraries by schools. The education segment is broken down into classroom libraries and magazine publications. The largest portion of educational sales come from entire schools purchasing an aggregate number of books bundled by Scholastic for each classroom. The second portion of sales come from schools subscribing to their monthly magazines. Scholastic also has a small technology division that offers learning programs. It should be noted that Scholastic's Q2 from September to November education sales are usually distinctly higher because of a shifting back-to-school season.

**International**

The revenue breakdown of the international segment is based on their international operations and foreign businesses. Scholastic operates in Canada, the United Kingdom, Oceania and most of Asia. Scholastic also sells their products to over 135 countries, accounting for over 52 languages.

**Exhibit 3: Business Segment Breakdown**




*Source: 2018 Annual Report*

# Business Strategy

## Content Acquisition

Scholastic is the global leader in the children's book industry because they are apt in acquiring new content, retaining current authors and illustrators, and securing licensing agreements for an undisclosed amount of time. Scholastic's core business is differentiating their product offerings and title selections from their competitors. To maintain competitive, Scholastic acquires proprietary content that appeals to their consumer base of students, parents and educators.

**Intellectual Property**

Scholastic uses aggressive tactics to retain their intellectual property rights for producing and distributing certain titles. All of Scholastic's products are trademark registered both in the United States and internationally. They file and renew for copyright protection for all their products often to ensure their domain names are protected.

## Scholastic 2020 - Upgrading the Technology Infrastructure

Scholastic 2020 is the company's plan to make strategic investments in technological platforms that can reduce operational costs and grow revenue. The company's end goal is to lower SG&A and COGS by reorganizing their internal supply chain management and direct to consumer marketing efficiency within their trade and educational channels. In FY2017, they allocated $30 million in revamping their legacy systems and replacing them with new systems that organize distribution channels between their sales representatives and consumer data.

After seeing a rise in the number of online orders, Scholastic implemented an ERP system to streamline their warehouse by tracking outbound stock processing and inventory management. Despite spending more on strategic technological



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platforms, the company's SG&A expense has remained relatively flat as the company has gradually modified different aspects of their system. Scholastic has stressed that their focus is on completely integrating the ERP system into their business processes by FY2020 in order to see improvements in distribution speed, labor optimization and inventory management.

The company hopes to leverage their investments among all their business segments both within the United States and internationally within the next 3 years. However, their operating strategy is highly reliant on their platforms being successful when they are fully integrated. There may be some cause for concern if the company does not see lowered operating costs in the next 3 years.

### Business Strategy Conclusion

Despite Scholastic's low growth potential, the company has been using short term growth strategies to maintain competitive. Scholastic's current plan to improve performance and lower operating costs through technological means has become slowly effective.

## Industry Analysis

The core of Scholastic's businesses is in trade publication for children's books, a sub sector of the book industry and education. Scholastic's business is also heavily seasonal because of content publication dates by author, illustrators and the school calendar year.

### Book Publication

Revenue created in the book publication industry is divided into two main components, the educational book market and trade publications, with the main drivers being a rise e-commerce sales and greater per capita disposable income. There have been a larger number of e-commerce sales as a percentage of revenue for many publishers. Companies are slowly creating more of a digital presence as profit margins within tradition distribution channels are squeezed out. E-commerce sales, according to IBISWorld, are predicted to grow at an annualized rate of 8.3%. Online platforms have made ordering paperback copies more convenient as well as ordering and renewing magazine subscriptions- contrary to the traditional way of going to a brick and mortar bookstore. As for greater per capita disposable income, books are a discretionary expenditure per household, therefore; with higher levels of disposable income, families are more likely to purchase more books for their children.

However, the industry is slowly declining due to shifting distribution channels and lack of consumer interest, seeing a modest annualized increase in revenue by 0.1%. This problem is magnified with smaller publication houses that cannot adapt to the changing industry. The book industry has seen considerable changes to their distribution channels as brick and mortar bookstores begin to underperform. This has been rather problematic for children's books as children do not order online but rather convince their parents to purchase in store.


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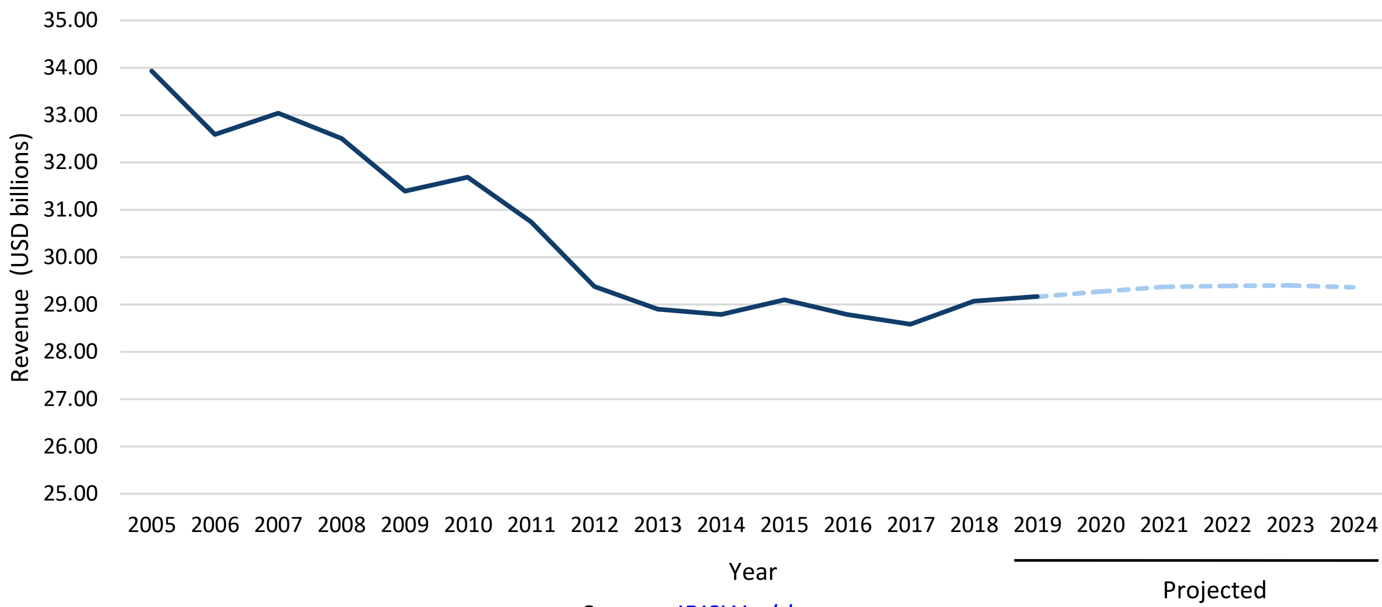
**Exhibit 4: Revenue Growth in the Book Publication Industry**




*Source: IBISWorld*

In the book industry's global market, the demand for educational and children's books alike have been growing steadily with China leading in industry performance. Emerging markets within industrialized countries continue to drive revenue as there is more per capita spending on educational books and digital publications.

## Competitive Landscape

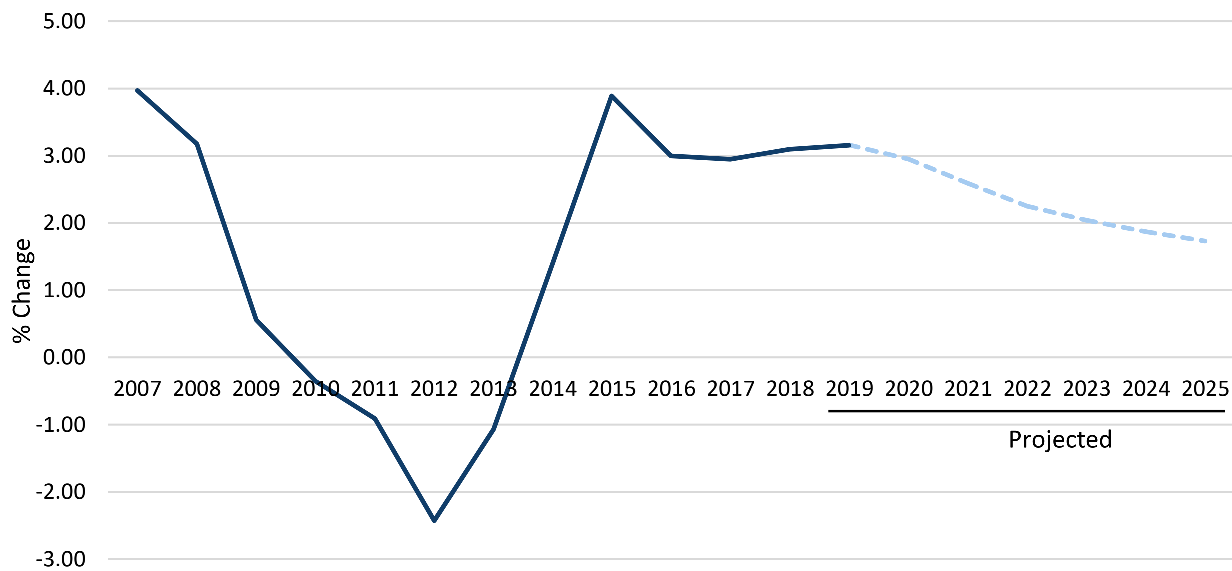
Despite the book publication industry's low growth potential, the landscape remains competitive and difficult to enter. In an effort to remain in the industry, companies must be able to create strong brand recognition and recruit authors and illustrators for publishing. With limited shelf space and a shrinking selection offered in brick and mortar stores, larger publishers with a brand name usually consume the shelf space. The cost of signing authors and illustrators is also high as royalty payments have to be made before the books are published. Lastly, larger publishers have the ability to cut production costs as they scale upwards, offering large quantities at lower prices compared to a smaller publisher.

## Public Education System in the US (K-12)

We have broken down the education industry into its 2 main forces: government funding and allocation and the number of students enrolled per state within the U.S.

On a macro level, subpar economic trends after 2008 have caused K-12 education spending to moderately decline. In a study done by the Centre on Budget and Policy Priorities, after the housing crisis in 2008, the property value in most states plummeted, severely affecting tax revenue. Given that states mainly use property tax to fund education, public schools scaled back their educational services and educational material purchased. However, we expect federal government funding to rise slightly and remain consistent from 2019 as the federal budget for education has been stead over the past 5 years, according to IBISWorld. The number of students enrolled year to year has remained consistent with some states (Texas, Arizona, Utah) seeing an increase in enrollment. More students enrolled in the K-12 public school system means more funding needed per student.

**Exhibit 5: Percentage Change in Government Funding for Primary and Secondary Schools**




*Source: IBISWorld*

# Catalysts

## Scholastic Celebrates their 100th Year Anniversary

In 2020, Scholastic celebrates their 100th year anniversary. Given the nature of their business, Scholastic has the ability to release nostalgic content, generate media attention and use their publicity to hopefully bolster earnings for FY 2021. Much like Scholastic's 90th anniversary where they released *"A History of Scholastic"* and *"90 books that changed Scholastic*", we believe that their 100th year anniversary will be quite similar. Scholastic has the opportunity to show the history of the company and re-release classic titles in their original print. In preparation for their anniversary, Scholastic went through a 3-month selection process with competing publicity firms. Scholastic landed on M Booth & Associates, Inc., a public relations company that has worked with Google on G Suite, Carnival Cruise Line and Johnson & Johnson.

## Expansion into Educational Technology

Scholastic's expansion into the educational technology sector could be a potential upside- with varying degrees of value. After their successful release of *Scholastic Literacy*, the company was able to realign their education segment and synergize their different program offerings. Therefore, if the company decides to keep growing their small educational technology division, Scholastic has the potential to increasing their top line growth. However, we believe that the execution of this implementation plan will be unlikely given management's track record of producing successful educational technology products and their sentiments towards shifting out of the children' book business.

# Management Team

## Mr. Richard Robinson – Chairman of the Board, President and Chief Executive Officer

Richard Robinson has been the CEO of Scholastic ever since he took over the business from his late father Maurice Robinson in 1975. Robinson took on the role of President in 1974 and became Chairman of the board in 1982. Robinson is a veteran in the industry inking multiple strategic licensing agreements and made Scholastic the number one publisher and distributor of children's books in the United States. Robinson currently holds an 11.8% stake in Scholastic, making him the largest individual shareholder. His annual compensation amounted to $4.0 million with a structure of $500,000 in annual salary, $2.0 million in stock options (undisclosed strike price) and $472,000 in other beneficiary compensation. Therefore, we believe that Robinson has strong incentive to align with the company's performance.

# Shareholder Base and Liquidity

## Shareholder Base

As of December 2018, Scholastic has 33,434,000 shares outstanding, with 88.4% of shares held by institutional investors and 13% held by Scholastic executives with Richard Robinson, CEO of Scholastic, holding 11.8% of all shares outstanding.

**Exhibit 6: Top 10 Shareholders**

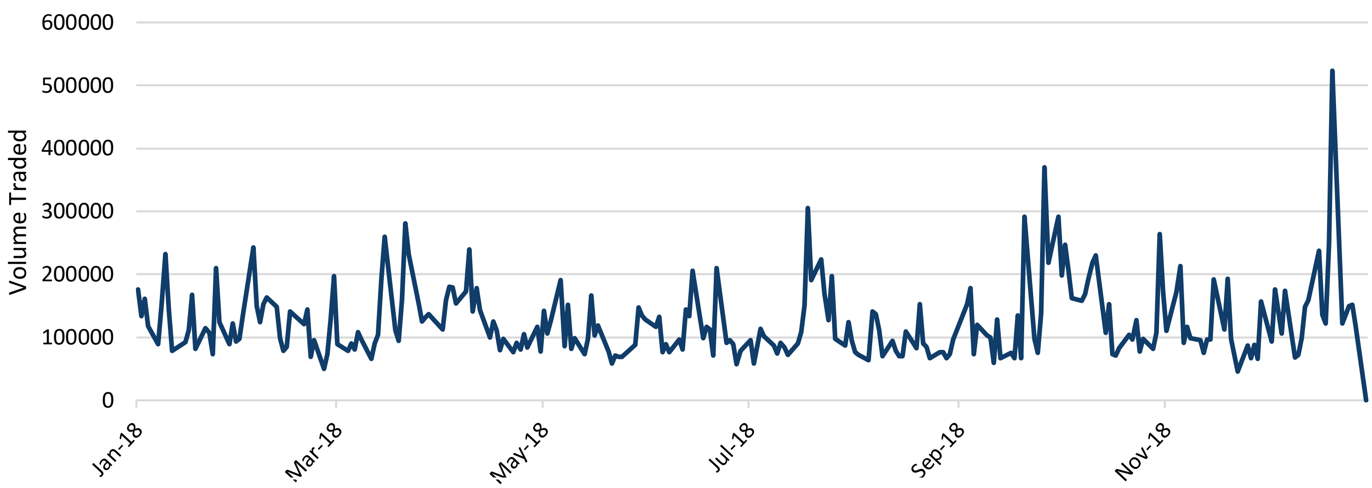
| Shareholders | Shares Owned | % of Shares Outstanding | Insider |
|---|---|---|---|
| (Name) | (mm shares) | (%) | (Yes/ No) |
| Robinson, Richard | 3,964,398 | 11.81% | Yes |
| Black Rock, Inc. | 3,964,151 | 11.81% | No |
| Dimension Fund Advisors LP | 2,802,005 | 8.35% | No |
| Vanguard Group, Inc. | 2,495,369 | 7.43% | No |
| Price (T. Rowe) Associates, Inc. | 2,112,728 | 6.29% | No |
| Royce & Associates LP | 2,099,000 | 6.25% | No |
| Maurice R. Robinson Trust | 1,683,418 | 5.01% | No |
| Alliance Bernstein, L.P. | 1,638,418 | 4.88% | No |
| Northern Trust Corp. | 1,185,517 | 3.53% | No |
| Top 10 Shareholders | 21,945,004 | 65.36% | |

*Source: Yahoo Finance and Scholastic Investor Relations*

## Liquidity

The average trading volume of the last 12 months has been 143,067 shares per day with a 12-month average share price of $39.70. This amounts to an average of $5.80 million traded per day, year to date. Given Scholastic's market capitalization of $1.60B and companies with similar market capitalizations, we believe that Scholastic's current trading volume does not pose a liquidity risk to the individual investor.

**Exhibit 7: Average Daily Trading Volume LTM**




*Source: Yahoo Finance*

# Valuation

For our valuation of Scholastic, we used a discounted cash flow analysis (DCF) as well as a comparable company analysis (CCA), using EV/ EBITDA as P/E was not a suitable multiple for this comparable set. Our discounted cash flow and comparable company analysis was weighted 50% and 50%, respectively.

## Discounted Cash Flow (DCF) Analysis Assumptions

**Segmented Revenue Forecasts**

Revenue growth was forecasted based on the company's historical numbers, the industry outlook and management's sentiments. In the Children's Book Publishing and Distribution segment, we are forecasting stagnating growth in the short term. We forecasted a growth rate of 6.0% for FY 2020 as the company celebrates their 100$^{th}$ year anniversary. For FY 2021 and FY 2022 we forecasted a -2.0% and 3.0% growth rate, respectively as the company will see a weaker year after their anniversary celebration. In the Education segment, we forecasted a relatively steady growth rate at 3.0% as management's focus is on securing more trade publishing and not short-term expansion in the educational technology sector. However, we are seeing Scholastic beginning to improve their product offerings in order to remain competitive with other educational-service based companies. Internationally, their business has remained relatively steady with a growth rate of 2.0%.

**Costs Margins**

As paper price rises, Scholastic will see higher costs from their trade publication business. Similarly, we expect higher costs from their freight intensive distribution channels. However, with their *Scholastic 2020* plan in place to lower production costs, we leveled off their cost of goods sold as a percentage of revenue at 46.0% as their cost reduction plan may be unsuccessful.

**Selling, General and Administrative Expense (SG&A)**

SG&A as a percentage of revenue has remained consistent throughout Scholastic long history. This is mainly attributed to their proprietary distribution channels and strong relationship with third party distribution companies. For FY 2020 we predict a higher SG&A expense in relation to its 100th year anniversary at 46.0%. However, we leveled off SG&A at 45.0% based off historical numbers and consistent cost structures.

**Capital Expenditures (CAPEX)**

We project higher capital expenditures as Scholastic just completed a new corporate office in New York. We expected higher capital investments in building maintenance costs as well as more investments in technological infrastructures.

**Working Capital**

We projected a working capital that could facilitate Scholastic's outlook on expanding consolidated trade while maintaining their other business segments. Generally, Scholastic produces their consolidated trade in Q1 when schools are not in session meaning that their inventory and accounts payable are distinctly higher in Q1. Therefore, we forecasted a stable working capital using historical change in percentages.

**Weighted Average Cost of Capital (WACC)**

Using the capital asset pricing model, we calculated the WACC to be 9.9%. Using the 5-year Treasury bill as the risk-free rate at 2.9%, the normalized S&P 500 expected return at 10.4% and a levered beta of 0.94 from Bloomberg LP, we found the cost of equity to be 9.9%. We used a pre-tax cost of debt at 2.8% given that Scholastic only has one line of revolving loan and an effective tax rate of 30.0% to arrive at a cost of debt of 2.0%.

## Comparable Company Analysis (CCA)

Using a comparable company analysis, we arrived at a share price of $41.00. We only EV/EBITDA as P/E was not a suitable metric for this comparable company set. Our projected EV/EBITDA multiple was 8.3x while our set's median was 8.2x, meaning that Scholastic is trading at relatively fair value. Scholastic's comparable companies were found through similar business segments including newspaper print, distribution channels (book stores, book fairs and book clubs) and educational resources. We have also factored in Scholastic's education segment by including companies that offer educational products and services.

**John Wiley & Sons, Inc. (NYSE: JW. A)**

John Wiley & Sons (Wiley) is an American book publication company that focuses on academic and educational resources for the high school and university level.

**Barnes & Nobles, Inc. (NYSE: BKS)**

Barnes and Nobles is a brick and mortar bookstore that has recently been moving into the digital publication industry with their e-book, NOOK. Barnes and Nobles also has book fairs and book clubs much like Scholastic.

**Gannett, Co., Inc. (NYSE: GCI)**

Gannett, Co is an American based media holdings company with a focus on newsprint, digital and multimedia products. Notable newspapers include USA Today, the Detroit Free Press, and other local newspapers in different states. Despite not having similar end consumers, Scholastic and Gannett, Co both are slowly making digital investments in the publishing industry. With a rise in digital publications, Scholastic and Gannett are both working towards expanding their digital media products. We believe that Gannett, Co is a relevant comparable because of their similar expansion opportunities.

**K12, Inc. (NYSE: LRN)**

K12 is a technology based educational company that uses proprietary software to accommodate the needs of the classroom. Scholastic is currently working towards creating an online learning platform like K12's that caters to the entire school. The Scholastic *Literacy Pro* platform is a direct competitor of K12's *Virtual School* program.

**Houghton Mifflin and Harcourt (NASDAQ: HMC)**

Houghton Mifflin and Harcourt is a company that focuses on publishing and developing educational resources for children and young adults, textbooks, tertiary books and technological platforms for schools. Much like Scholastic, HMC has proprietary distribution channels as well as third party channels. We believe that HMC is trading at a higher multiple because they have established a strong presence in the educational technology. They have created a platform that is unique while maintaining a competitive trade publication business.

## Dividend Policy

Scholastic dividend yield has historically been around 1.5%. As Scholastic has been issuing the same dividend payout of $0.15 since FY2013, we believe that the company will continue to issue dividends going forward.

# Recommendation

As of this point, we believe that Scholastic is fairly valued in the market. Scholastic's book clubs and book fairs have seen a plateau in sales over the past decade, noting that their sales will presumably not grow at the same rate as it once did. Furthermore, rising procurement costs in the children's book industry has made Scholastic focus their attention on streamlining their operations. Despite their ongoing project to upgrade their technological infrastructure, this initiative has yet to see success in lowering SG&A or COGS since its announcement in FY2017. Therefore, we initiate a **hold** rating on Scholastic with a 12-month price target of **$45.22** representing a **13.90%** implied upside.

# Risks

## Adapting to Technological Advancements

With Scholastic's main business segments slowing stagnating, Scholastic must be able to advance their technology to remain competitive. The company has made large capital investments into technological platforms including Oracle's ERP system and cloud-based sharing platform. If these systems prove to be unsuccessful or inefficient, Scholastic may not be profitable as they have integrated over 95% of their technological systems onto one platform.

## Appeal of Content

Scholastic's core business relies on publishing content that attracts elementary and high school students. The company's main differentiation is their curated selection of proprietary and licensed titles. If Scholastic is unable to differentiate their product offerings for their two primary distribution channels: book fairs and book clubs, major customers schools may begin to opt out of participating in Scholastic book fairs and book clubs.

Furthermore, in Scholastic's Children's Book Publication and Distribution segment, there are five main customers that generate over 48% of Scholastic's trade revenue. Despite the top customers being undisclosed, 11% of Scholastic's revenue streams are controlled by these five customers. With one mass retailer accounting for 19% of their trade revenue and 4% of total revenue, a loss in sales or changes in purchasing patterns or quantities with any of their top five customers could severely impact their earnings.

## Inability to Secure Authors, Illustrators and Licensing Agreements

In order to create appealing content, Scholastic must find and retain talented authors, illustrators and media personnel. One of Scholastic's largest revenue segments come from their bestselling titles and licensed products. Without Scholastic's standard of bestselling and award-winning titles, they will have a tough time maintaining their reputation. Scholastic also has to find new talent to differentiate their offerings among their different imprints. Scholastic consistently reviews their portfolio of content creators as much of their business is centralized around exclusive contractual rights to publishing and distributing titles. On top of that, Scholastic must be able to pay royalty advancements to their bestselling and award-winning authors and illustrators in order to maintain a competitive publisher.

## Rising Operational Costs

Scholastic must be able to manage their expenses properly as paper and transportation (freight, postage and fuel) costs rise. As paper production facilities close and more companies shift to digital publications, Scholastic faces rising paper cost. For Scholastic's core business, paper mills are an essential element for printing books, magazines, and literacy resources. Procurement in the trade publishing industry is determined by multi-year agreements with paper mills for specific quantities and pricing terms. Depending on the type of paper used in Scholastic's publication process, the company's earnings could be adversely affected if they cannot factor rising prices into their production costs.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## Foreign Exchange Rates

With multiple operations and subsidiaries overseas, Scholastic may be negatively affected by foreign exchange rates. If Scholastic cannot comply with foreign customs and policies, the company may suffer losses in that country.

## Appendix 1: Model Summary

| | May-14 | May-15 | May-16 | May-17 | May-18 | May-19 | May-20 | May-21 | May-22 | May-23 | May-24 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| *(Figures in mm USD)* | **FY2014** | **FY2015** | **FY2016** | **FY2017** | **FY2018** | **FY2019** | **FY2020** | **FY2021** | **FY2022** | **FY2023** | **FY2024** |
| **Income Statement** | | | | | | | | | | | |
| **Revenue** | 1,561.5 | 1,635.8 | 1,672.8 | 1,741.6 | 1,628.4 | 1,676.6 | 1,755.6 | 1,751.4 | 1,800.1 | 1,860.9 | 1,935.0 |
| **EBITDA** | 109.2 | 106.2 | 132.8 | 149.3 | 120.6 | 134.3 | 174.4 | 157.6 | 162.0 | 167.5 | 174.2 |
| **Net Income** | 44.4 | 294.6 | 40.5 | 52.3 | (5.0) | 52.6 | 85.0 | 73.9 | 77.1 | 81.0 | 85.6 |
| **Earnings Per Share** | $ 1.36 | $ 8.82 | $ 1.16 | $ 1.48 | $ (0.14) | $ 1.47 | $ 2.37 | $ 2.06 | $ 2.15 | $ 2.26 | $ 2.39 |
| **Cash Flow Statement** | | | | | | | | | | | |
| **Capital Expenditures** | (26.5) | (30.3) | (35.6) | (65.7) | (121.5) | (51.3) | - | (37.7) | (37.9) | (38.2) | (38.5) |
| **Acquisitions** | (253.6) | (7.6) | (0.4) | (10.1) | (4.4) | (0.6) | - | - | - | - | - |
| **Divestitures** | | | | | | | | | | | |
| **Dividend Payment** | (17.8) | (19.7) | (20.5) | (20.5) | (20.8) | (21.1) | (10.6) | - | - | - | - |
| **Dividend Per Share** | $ 0.60 | $ 0.60 | $ 0.60 | $ 0.60 | $ 0.60 | $ 0.60 | $ 0.60 | $ 0.60 | $ 0.60 | $ 0.60 | $ 0.60 |
| **Dividend Payout to Earnings** | 40.1% | 6.7% | 50.6% | 39.2% | -416.0% | 40.1% | 12.5% | - | - | - | - |
| **Dividend Payout to Core FCF** | 7.9% | 10.6% | 9.5% | 8.5% | 7.0% | 11.8% | 8.8% | - | - | - | - |
| **Dividend Yield** | 1.9% | 1.7% | 1.5% | 1.4% | 1.5% | 1.4% | 1.5% | 1.5% | 1.5% | 1.5% | 1.5% |
| **Balance Sheet** | | | | | | | | | | | |
| Current Assets | 663.4 | 1,110.5 | 950.1 | 970.5 | 958.3 | 1,099.7 | 1,177.8 | 1,211.8 | 1,273.2 | 1,339.8 | 1,410.9 |
| Non-Current Assets | 865.1 | 711.8 | 763.0 | 789.9 | 867.1 | 908.8 | 918.3 | 921.9 | 925.9 | 930.3 | 935.0 |
| **Assets** | 1,528.5 | 1,822.3 | 1,713.1 | 1,760.4 | 1,825.4 | 2,008.5 | 2,096.1 | 2,133.7 | 2,199.1 | 2,270.2 | 2,345.9 |
| Current Liabilities | 429.7 | 547.6 | 378.3 | 387.1 | 445.8 | 634.2 | 658.0 | 642.9 | 652.4 | 663.6 | 674.8 |
| Non-Current Liabilities | 183.4 | 69.8 | 77.2 | 65.4 | 58.8 | 57.9 | 57.9 | 57.9 | 57.9 | 57.9 | 57.9 |
| **Liabilities** | 613.1 | 617.4 | 455.5 | 452.5 | 504.6 | 692.1 | 715.9 | 700.8 | 710.3 | 721.5 | 732.7 |
| **Shareholders' Equity** | 915.4 | 1,204.9 | 1,257.6 | 1,307.9 | 1,320.8 | 1,316.4 | 1,380.2 | 1,432.9 | 1,488.8 | 1,548.7 | 1,613.2 |
| **Cash** | 20.9 | 506.8 | 399.7 | 444.1 | 391.9 | 405.3 | 461.8 | 535.7 | 612.9 | 638.6 | 643.1 |
| **Debt** | 63.4 | 69.8 | 77.2 | 65.4 | 58.8 | | | | | | |
| **Net Debt** | 42.5 | (437.0) | (322.5) | (378.7) | (333.1) | (405.3) | (461.8) | (535.7) | (612.9) | (638.6) | (643.1) |
| **Minority Interests** | - | - | - | - | - | - | - | - | - | - | - |
| **Debt/EBITDA** | 0.4 x | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| **Operating Metrics** | | | | | | | | | | | |
| **Return on Equity (ROE)** | 4.9% | 24.5% | 3.2% | 4.0% | -0.4% | 4.0% | 6.2% | 5.2% | 5.2% | 5.2% | 5.3% |
| **Return on Assets (ROA)** | 2.9% | 16.2% | 2.4% | 3.0% | -0.3% | 2.6% | 4.1% | 3.5% | 3.5% | 3.6% | 3.7% |
| **Return on Invested Capital (ROIC)** | -26.2% | 3.9% | -5.2% | -4.2% | -6.0% | -6.4% | -4.9% | 10.1% | -1.1% | 6.0% | 9.5% |
| **EBITDA Margin** | 7.0% | 6.5% | 7.9% | 8.6% | 7.4% | 8.0% | 9.9% | 9.0% | 9.0% | 9.0% | 9.0% |
| **Valuation Metrics** | | | | | | | | | | | |
| Stock Price (High) | $ 34.25 | $ 39.04 | $ 43.48 | $ 46.17 | $ 44.04 | $ 45.94 | $ 40.74 | $ 40.74 | $ 40.74 | $ 40.74 | $ 40.74 |
| Stock Price (Low) | $ 28.47 | $ 32.56 | $ 35.61 | $ 39.14 | $ 35.37 | $ 40.74 | $ 40.74 | $ 40.74 | $ 40.74 | $ 40.74 | $ 40.74 |
| Stock Price (Average) | $ 31.36 | $ 35.80 | $ 39.54 | $ 42.66 | $ 39.70 | $ 43.34 | $ 40.74 | $ 40.74 | $ 40.74 | $ 40.74 | $ 40.74 |
| Diluted Shares Outstanding (Average) | 32.5 | 33.4 | 34.9 | 35.4 | 35.0 | 35.8 | 35.9 | 35.9 | 35.9 | 35.9 | 35.9 |
| Market Capitalization (Average) | 1,020.1 | 1,195.4 | 1,380.1 | 1,511.3 | 1,390.3 | 1,553.1 | 1,461.1 | 1,461.1 | 1,461.1 | 1,461.1 | 1,461.1 |
| Enterprise Value (Average) | 1,062.6 | 758.4 | 1,057.6 | 1,132.6 | 1,057.2 | 1,147.8 | 999.3 | 925.3 | 848.1 | 822.4 | 818.0 |
| **P/E** | 23.0 x | 4.1 x | 34.1 x | 28.9 x | n/a | 29.5 x | 17.2 x | 19.8 x | 19.0 x | 18.0 x | 17.1 x |
| **EV/EBITDA** | 9.7 x | 7.1 x | 8.0 x | 7.6 x | 8.8 x | 8.5 x | 5.7 x | 5.9 x | 5.2 x | 4.9 x | 4.7 x |
| **FCF Yield to Market Capitalization** | 12.9% | 4.3% | 24.7% | 8.0% | 8.4% | 5.1% | 5.9% | 4.0% | 4.1% | 8.1% | 10.2% |
| **FCF Yield to Enterprise Value** | 12.4% | 6.8% | 32.3% | 10.7% | 11.0% | 6.9% | 8.6% | 6.3% | 7.1% | 14.5% | 18.2% |
| **Free Cash Flow** | | | | | | | | | | | |
| EBIT | 48.9 | 58.3 | 93.9 | 110.6 | 76.7 | 86.9 | 139.4 | 123.5 | 128.1 | 133.7 | 140.3 |
| Tax Expense | 15.6 | (14.4) | (24.7) | (35.4) | (3.5) | (26.1) | (41.8) | (37.1) | (38.4) | (40.1) | (42.1) |
| D&A | 60.3 | 47.9 | 38.9 | 38.7 | 43.9 | 47.4 | 34.9 | 34.1 | 33.9 | 33.8 | 33.8 |
| Capital Expenditures | (35.9) | (29.0) | (25.2) | (26.9) | (36.1) | (39.6) | (44.5) | (37.7) | (37.9) | (38.2) | (38.5) |
| Changes in NWC | 42.6 | (11.4) | 258.6 | 34.0 | 35.8 | 10.6 | (2.2) | (24.8) | (25.3) | 29.7 | 55.4 |
| **Unlevered Free Cash Flow** | 131.5 | 51.4 | 341.5 | 121.0 | 116.8 | 79.2 | 85.9 | 58.1 | 60.4 | 118.9 | 149.0 |

## Appendix 2: DCF Analysis

| | May-14 | May-15 | May-16 | May-17 | May-18 | Aug-18 | Nov-18 | Feb-19 | May-19 | May-19 | May-20 | May-21 | May-22 | May-23 | May-24 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *(Figures in mm USD)* | **FY2014** | **FY2015** | **FY2016** | **FY2017** | **FY2018** | **Q1-2019** | **Q2-2019** | **Q3-2019** | **Q4-2019** | **FY2019** | **FY2020** | **FY2021** | **FY2022** | **FY2023** | **FY2024** |
| **WACC Calculations** | | | | | | | | | | | | | | | |
| **Free Cash Flow** | | | | | | | | | | | | | | | |
| EBIT | 48.9 | 58.3 | 93.9 | 110.6 | 76.7 | (83.8) | 98.2 | (11.4) | 83.9 | 86.9 | 139.4 | 123.5 | 128.1 | 133.7 | 140.3 |
| Less: Tax expense | 15.6 | (14.4) | (24.7) | (35.4) | (3.5) | 22.1 | (26.8) | 3.4 | (25.2) | (26.1) | (41.8) | (37.1) | (38.4) | (40.1) | (42.1) |
| Add: Depreciation and amortization | 60.3 | 47.9 | 38.9 | 38.7 | 43.9 | 13.2 | 14.4 | 7.9 | 11.9 | 47.4 | 34.9 | 34.1 | 33.9 | 33.8 | 33.8 |
| Less: Capital expenditures | (35.9) | (29.0) | (25.2) | (26.9) | (36.1) | (8.8) | (11.8) | (6.0) | (13.0) | (39.6) | (44.5) | (37.7) | (37.9) | (38.2) | (38.5) |
| Less: Change in net working capital | 42.6 | (11.4) | 258.6 | 34.0 | 35.8 | 52.0 | (26.8) | (53.6) | 39.0 | 10.6 | (2.2) | (24.8) | (25.3) | 29.7 | 55.4 |
| **Unlevered Free Cash Flow** | **131.5** | **51.4** | **341.5** | **121.0** | **116.8** | **(5.3)** | **47.2** | **(59.7)** | **96.6** | **79.2** | **85.9** | **58.1** | **60.4** | **118.9** | **149.0** |
| Discount factor | | | | | | - | - | 0.25 | 0.50 | 0.50 | 1.50 | 2.50 | 3.50 | 4.50 | 5.50 |
| **Present Value of Unlevered Free Cash Flow** | | | | | | **-** | **-** | **(58.3)** | **92.2** | **33.8** | **76.4** | **45.9** | **43.4** | **77.9** | **88.8** |
| **Discounted Cash Flow Valuations** | | | | | | | | | | | | | | | |

| Cost of Equity | |
|---|---|
| Risk-free rate | 2.9% |
| Expected market return | 10.4% |
| **Market Risk Premium** | **7.5%** |
| Beta | 0.94 |
| **Cost of Equity** | **9.9%** |

| Cost of Debt | |
|---|---|
| Pre-tax cost of debt | 2.8% |
| Effective tax rate | 30.0% |
| **Cost of Debt** | **2.0%** |

| WACC | |
|---|---|
| Market value of equity | 1,461.1 |
| Market value of debt | 13.5 |
| **Total Capitalization** | **1,474.6** |
| Cost of equity | 9.9% |
| Cost of debt | 2.0% |
| **WACC** | **9.9%** |

| Perpetuity Growth Method | |
|---|---|
| **Perpetuity Growth Rate** | **2.0%** |
| PV sum of unlevered FCF | 366.2 |
| Terminal value | 1,137.9 |
| **Enterprise Value** | **1,504.1** |
| Add: Cash | 358.1 |
| Less: Debt | 13.5 |
| Less: Other EV adjustments | |
| **Equity Value** | **1,848.7** |
| Shares outstanding | 35.9 |
| **Implied Share Price** | **$ 51.55** |
| | |
| Current Price | $ 40.74 |
| **Implied Price** | **$ 51.55** |
| **Total Return** | **26.5%** |

| Exit Multiple Method | |
|---|---|
| **Terminal EV/EBITDA Multiple** | **9.5 x** |
| PV sum of unlevered FCF | 366.2 |
| Terminal value | 986.4 |
| **Enterprise Value** | **1,352.6** |
| Add: Cash | 358.1 |
| Less: Debt | 13.5 |
| Less: Other EV adjustments | - |
| **Equity Value** | **1,697.2** |
| Shares outstanding | 35.9 |
| **Implied Share Price** | **$ 47.32** |
| | |
| Current Price | $ 40.74 |
| **Implied Price** | **$ 47.32** |
| **Total Return** | **16.2%** |

| | | WACC | | | | |
|---|---|---|---|---|---|---|
| | | **10.90%** | **10.40%** | **9.90%** | **9.40%** | **8.90%** |
| **Perpetuity Growth Rate** | **1.00%** | $ 43.42 | $ 45.48 | $ 47.77 | $ 50.34 | $ 53.25 |
| | **1.50%** | $ 44.69 | $ 46.93 | $ 49.44 | $ 52.27 | $ 55.49 |
| | **2.00%** | $ 46.11 | $ 48.55 | $ 51.31 | $ 54.45 | $ 58.06 |
| | **2.50%** | $ 47.69 | $ 50.38 | $ 53.44 | $ 56.95 | $ 61.02 |
| | **3.00%** | $ 49.48 | $ 52.46 | $ 55.88 | $ 59.84 | $ 64.49 |

| | | WACC | | | | |
|---|---|---|---|---|---|---|
| | | **10.90%** | **10.40%** | **9.90%** | **9.40%** | **8.90%** |
| **Terminal EV/EBITDA Multiple** | **7.5 x** | $ 40.12 | $ 40.79 | $ 41.48 | $ 42.19 | $ 42.92 |
| | **8.5 x** | $ 42.87 | $ 43.61 | $ 44.37 | $ 45.15 | $ 45.95 |
| | **9.5 x** | $ 45.62 | $ 46.43 | $ 47.26 | $ 48.11 | $ 48.99 |
| | **10.5 x** | $ 48.37 | $ 49.24 | $ 50.15 | $ 51.07 | $ 52.03 |
| | **11.5 x** | $ 51.12 | $ 52.06 | $ 53.04 | $ 54.04 | $ 55.07 |

## Appendix 3: Comparable Companies Analysis

*(Figures in mm USD)*

| Company | Ticker | Equity Value | Enterprise Value | EV/EBITDA Multiple: 2017A CY EV/EBITDA | 2018E CY EV/EBITDA | 2019A CY EV/EBITDA | P/E Multiple: 2017A P/E | 2018E P/E | 2019E P/E |
|---|---|---|---|---|---|---|---|---|---|
| John Wiley & Sons, Inc. | NYSE: JW.A | 2,691.4 | 3,109.8 | 9.7 x | 9.5 x | 8.5 x | 17.1 x | 14.9 x | 15.0 x |
| Barnes & Noble | NYSE: BKS | 518.8 | 785.9 | 6.0 x | 5.4 x | 5.0 x | 56.7 x | 28.3 x | 18.8 x |
| Gannett Co., Inc. | NYSE: GCI | 1,043.9 | 1,152.7 | 3.6 x | 3.6 x | 3.8 x | 9.3 x | 11.0 x | 11.3 x |
| Houghton Mifflin Harcourt | NASDAQ: HMHC | 1,095.1 | 1,725.8 | 21.7 x | 9.8 x | 6.9 x | - | - | - |
| K12, Inc | NYSE: LRN | 1,256.8 | 1,088.3 | 25.7 x | 12.6 x | 9.0 x | 81.2 x | 43.4 x | 39.0 x |
| **Scholastic Corp.** | **(NASDAQ: SCHL)** | **1,486.5** | **1,141.9** | **9.7 x** | **8.3 x** | **6.9 x** | **67.2 x** | **-** | **19.5 x** |
| **Median** | | | | | **9.5 x** | **6.9 x** | | **14.9 x** | **15.0 x** |
| **Mean** | | | | | **8.2 x** | **6.6 x** | | **19.5 x** | **16.8 x** |
| **High** | | | | | **12.6 x** | **8.5 x** | | **28.3 x** | **39.0 x** |
| **Low** | | | | | **3.6 x** | **3.8 x** | | **-** | **-** |

| | EV/EBITDA Implied Price | | P/E Implied Price | |
|---|---|---|---|---|
| Median | $ 37.17 | $ 41.64 | $ - | $ 31.86 |
| **Mean** | **$ 41.00** | **$ 40.46** | **$ -** | **$ 35.70** |
| High | $ 57.88 | $ 49.00 | $ - | $ 82.76 |
| Low | $ 23.30 | $ 27.18 | $ - | $ - |



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