



# Scholastic Corporation (SCHL)

Updated October 22<sup>nd</sup>, 2021 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$35	<b>5 Year CAGR Estimate:</b>	-3.7%	<b>Market Cap:</b>	\$1.2B
<b>Fair Value Price:</b>	\$20	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	10/28/21 <sup>1</sup>
<b>% Fair Value:</b>	172%	<b>5 Year Valuation Multiple Estimate:</b>	-10.2%	<b>Dividend Payment Date:</b>	12/15/21
<b>Dividend Yield:</b>	1.7%	<b>5 Year Price Target</b>	\$26	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	F	<b>Last Dividend Increase:</b>	N/A

## Overview & Current Events

Scholastic Corporation is a publishing corporation that markets children's books, magazines and teaching materials. The company operates through three divisions: Children's Book Publishing and Distribution, Educational, and International. Scholastic was founded in 1920 and is headquartered in New York, NY.

Scholastic reported its fiscal 2022 first quarter earnings results on September 23. Scholastic recorded revenues of \$260 million during the quarter, which represents an increase of 21% versus the prior year's quarter. Scholastic's Education segment continued to perform well, which includes growth from digital subscriptions. Scholastic's revenue growth was, overall, positively impacted by the fact that the comparison to the previous year's quarter was a relatively easy. The fiscal first quarter of the previous year had seen a huge negative impact on Scholastic's children's book segment, a recovery in that space allowed for a sizeable reported revenue increase.

Scholastic generated an adjusted loss-per-share of \$0.79 during the first quarter. 2021, was not a strong year for Scholastic, and the start to the current fiscal year hasn't been much better, either. Still, Scholastic was able to narrow down its net losses to some extent in comparison to the previous year's period. In order to account for an eventual earnings recovery, we calculate fair value using an earnings power estimate of \$1.20 for the current fiscal year.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$3.93	\$1.27	\$1.84	\$1.29	\$1.70	\$1.83	\$1.43	\$1.08	-\$0.08	-\$0.32	<b>\$1.20</b>	<b>\$1.53</b>
<b>DPS</b>	\$0.45	\$0.50	\$0.58	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	<b>\$0.60</b>	<b>\$0.60</b>
<b>Shares<sup>2</sup></b>	30	30	32	31	34	35	35	35	35	35	<b>35</b>	<b>33</b>

Scholastic remained profitable during the last financial crisis, but its earnings-per-share dropped significantly during 2009. Since then profits have been very volatile, with huge increases and severe declines in several years. There has not been any clear upwards trend in Scholastic's earnings-per-share.

Scholastic's business is seeing major changes, as sales of traditional books are declining. Scholastic has been keen on changing its business model towards a more technology-driven approach by moving into the business of publishing e-books. In the Children's Book Publishing and Distribution segment (which is responsible for ~60% of all revenues) Scholastic has also started to sell other items such as interactive products and media. Revenues for the Children's Book Publishing and Distribution segment can be relatively volatile on a year-over-year basis, as sales depend to a significant degree on new releases for its main franchises. Quarters or years with new Harry Potter releases, for example, are much stronger than those without such releases. Due to its strong brands, especially Harry Potter, we believe that there is little risk of revenues declining in the long run. Sales for the Education segment are less cyclical, and sales should continue to grow slightly in this segment going forward. We believe that Scholastic will grow its revenues slightly in the long run, while cost savings will result in earnings growth that should be higher than the revenue growth pace.

<sup>1</sup> Estimated date

<sup>2</sup> In Millions

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## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	7.3	23.4	17.1	28.0	23.4	23.2	31.5	30.6	---	---	29.2	17.0
Avg. Yld.	1.6%	1.7%	1.8%	1.7%	1.5%	1.4%	1.3%	1.7%	2.0%	1.7%	1.7%	2.3%

Scholastic has been trading at a relatively high valuation throughout the last couple of years. Even though its valuation has declined from the peak level that was hit during 2018, shares still are rather expensive, especially when we factor in the unconvincing track record over the last couple of years. The current valuation is significantly higher than the 17 times earnings multiple that we see as a fair valuation for Scholastic's shares.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	11.5%	39.4%	31.5%	46.5%	35.3%	32.8%	42.0%	55.6%	---	---	50.0%	39.2%

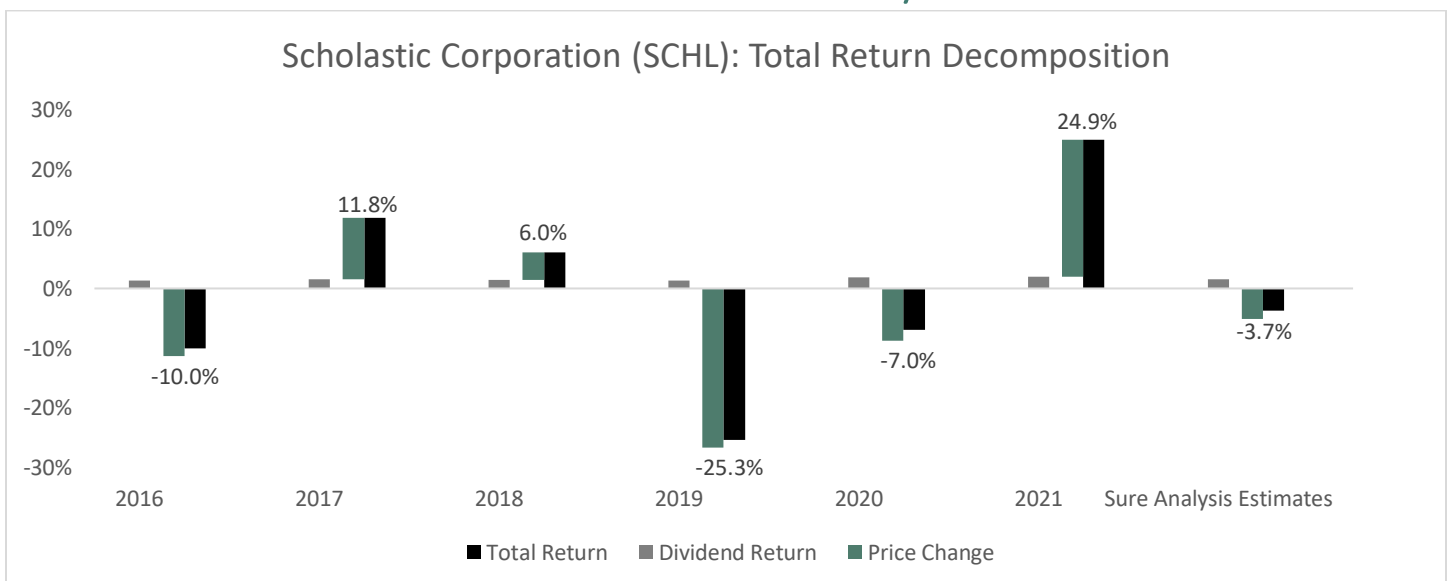
Scholastic has never cut its dividend, but the dividend growth track record is still not overly convincing. The company kept the dividend stagnant between 2009 and 2010, and there hasn't been a dividend increase since 2015. Combined with the fact that the current dividend yield is rather low, this makes Scholastic unattractive for income-oriented investors, even though the dividend payout ratio is not overly high.

Scholastic is not the biggest book publishing company by far, and it has had more problems in remaining profitable compared to some of its larger peers. One advantage for Scholastic is its *Harry Potter* brand, which has been one of the biggest children book successes in history, and which continues to see new releases/spin-offs.

## Final Thoughts & Recommendation

Scholastic is a rather small book publishing company, but it owns some strong franchises, such as *Harry Potter*. Its results during the last couple of years were not strong at all, and the company is feeling a significant impact from the current crisis. Thanks to a solid longer-term business outlook and its cost-cutting initiatives, Scholastic should be able to grow its earnings-per-share to some degree once the pandemic has ended and the company has recovered. Due to its quite high valuation, which will likely pressure total returns by a lot, we rate Scholastic's shares a sell for now.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	1,878	2,139	1,550	1,562	1,636	1,673	1,742	1,628	1,654	1,487
Gross Profit	1,009	1,155	834	837	877	911	927	884	874	736
Gross Margin	53.7%	54.0%	53.8%	53.6%	53.6%	54.4%	53.2%	54.3%	52.8%	49.5%
SG&A Exp.	835	879	735	727	771	774	778	766	781	705
D&A Exp.	60	69	68	62	48	39	39	44	59	64
Operating Profit	114	207	34	49	58	98	111	77	37	(31)
Operating Margin	6.1%	9.7%	2.2%	3.1%	3.6%	5.9%	6.4%	4.7%	2.2%	-2.1%
Net Profit	39	102	31	44	295	41	52	(5)	16	(44)
Net Margin	2.1%	4.8%	2.0%	2.8%	18.0%	2.4%	3.0%	-0.3%	0.9%	-2.9%
Free Cash Flow	154	207	135	(124)	137	(115)	76	20	21	(64)
Income Tax	39	62	2	(16)	14	25	35	4	10	(46)

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1,487	1,670	1,441	1,529	1,822	1,713	1,760	1,825	1,879	2,034
Cash & Equivalents	105	195	87	21	507	400	444	392	334	394
Accounts Receivable	220	314	215	212	194	196	199	205	250	240
Inventories	309	295	278	256	258	271	283	295	324	271
Goodwill & Int. Ass.	174	174	173	130	123	123	130	131	140	138
Total Liabilities	747	840	577	613	617	456	453	505	606	853
Accounts Payable	120	120	156	138	147	138	141	199	195	154
Long-Term Debt	203	159	2	136	6	6	6	8	7	219
Shareholder's Equity	740	830	864	915	1,205	1,258	1,308	1,321	1,272	1,179
D/E Ratio	0.27	0.19	0.00	0.15	0.01	0.01	0.00	0.01	0.01	0.19

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.6%	6.5%	2.0%	3.0%	17.6%	2.3%	3.0%	-0.3%	0.8%	-2.2%
Return on Equity	5.0%	13.0%	3.7%	5.0%	27.8%	3.3%	4.1%	-0.4%	1.2%	-3.6%
ROIC	3.9%	10.6%	3.4%	4.6%	26.0%	3.3%	4.1%	-0.4%	1.2%	-3.3%
Shares Out.	30	30	32	31	34	35	35	35	35	35
Revenue/Share	55.88	67.48	47.83	48.05	48.98	47.93	49.20	46.53	46.20	42.98
FCF/Share	4.59	6.51	4.17	(3.80)	4.09	(3.28)	2.14	0.57	0.60	(1.85)

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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