



# Scholastic Corporation (SCHL)

Updated October 26<sup>th</sup>, 2022 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$39	<b>5 Year CAGR Estimate:</b>	0.4%	<b>Market Cap:</b>	\$1.3B
<b>Fair Value Price:</b>	\$29	<b>5 Year Growth Estimate:</b>	4.0%	<b>Ex-Dividend Date:</b>	10/28/22
<b>% Fair Value:</b>	135%	<b>5 Year Valuation Multiple Estimate:</b>	-5.8%	<b>Dividend Payment Date:</b>	12/15/22
<b>Dividend Yield:</b>	2.1%	<b>5 Year Price Target</b>	\$35	<b>Years Of Dividend Growth:</b>	1
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	F	<b>Rating:</b>	Sell

## 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 2023 first quarter earnings results in late September. Scholastic recorded revenues of \$260 million during the quarter, which represents an increase of 1% 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, negatively impacted by the fact that the comparison to the previous year's quarter was tougher than during some of the recent quarters, during which Scholastic recorded stronger year-over-year revenue growth rates.

Scholastic generated a loss-per-share of \$1.33 during the first quarter. Due to the seasonality of the business, the loss during Scholastic's Q1 was not an irregularity – the same has happened repeatedly in the past. Fiscal 2022 was a much better year compared to fiscal 2020 and fiscal 2021, and the company believes that the current year, fiscal 2023, will show further improvements. Scholastic is forecasting revenue growth of around 9% for the current year, which is why profits should continue to climb as well. Scholastic is forecasted to generate earnings-per-share of \$1.70 this year, which represents a mid-teens growth rate relative to the profit the company generated last year. Earnings growth was forecasted to be better a couple of months ago, thus the growth outlook has dimmed in the recent past.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$1.27	\$1.84	\$1.29	\$1.70	\$1.83	\$1.43	\$1.08	-\$0.08	-\$0.32	\$1.46	<b>\$1.70</b>	<b>\$2.07</b>
<b>DPS</b>	\$0.50	\$0.58	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	<b>\$0.80</b>	<b>\$1.02</b>
<b>Shares<sup>1</sup></b>	30	32	31	34	35	35	35	35	35	35	<b>36</b>	<b>36</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 slowly 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> In Millions

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## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
<b>Avg. P/E</b>	23.4	17.1	28.0	23.4	23.2	31.5	30.6	---	---	24.7	<b>22.9</b>	<b>17.0</b>
<b>Avg. Yld.</b>	1.7%	1.8%	1.7%	1.5%	1.4%	1.3%	1.7%	2.0%	1.7%	1.7%	<b>2.1%</b>	<b>2.9%</b>

Scholastic has been trading at a relatively high valuation throughout the last couple of years. Even though its share price has declined since our last update, shares still are rather expensive, especially when we factor in the unconvincing track record over the last couple of years. The current valuation is substantially 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>Payout</b>	39.4%	31.5%	46.5%	35.3%	32.8%	42.0%	55.6%	---	---	41.1%	<b>47.1%</b>	<b>49.4%</b>

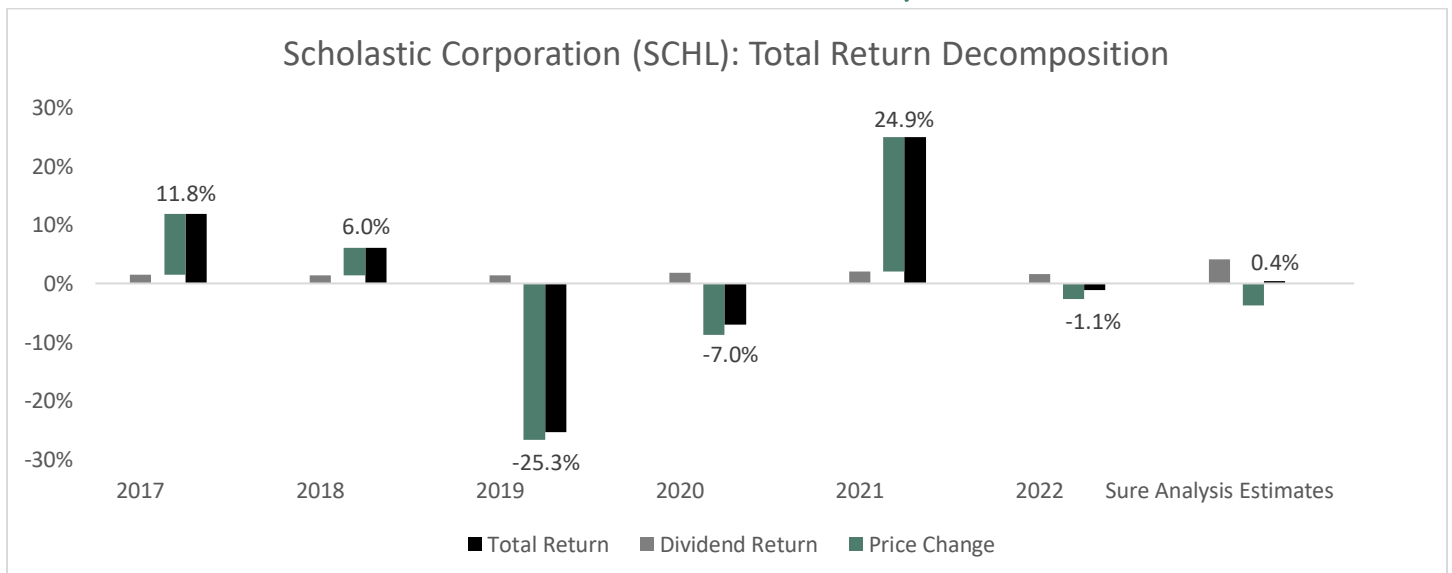
Scholastic has never cut its dividend, but the dividend growth track record is still not overly convincing. The company kept the dividend stagnant between 2009 and 2010, and there hadn't been a dividend increase since 2015 until this year. Combined with the fact that the current dividend yield is rather 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 smaller book publishing company, but it owns some strong franchises, such as *Harry Potter*. Its results during the last couple of years were not strong, and the company was heavily impacted by the pandemic. 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 going forward, although growth won't be overly pronounced. Due to its very 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	1,550	1,562	1,636	1,673	1,742	1,628	1,654	1,487	1,300	1,643
<b>Gross Profit</b>	834	837	877	911	927	884	874	778	672	877
<b>Gross Margin</b>	53.8%	53.6%	53.6%	54.4%	53.2%	54.3%	52.8%	52.3%	51.6%	53.4%
<b>SG&amp;A Exp.</b>	735	727	771	774	778	766	792	764	623	723
<b>D&amp;A Exp.</b>	94	95	79	66	62	66	82	90	90	91
<b>Operating Profit</b>	34	49	58	98	111	77	26	(48)	(12)	98
<b>Operating Margin</b>	2.2%	3.1%	3.6%	5.9%	6.4%	4.7%	1.6%	-3.2%	-0.9%	6.0%
<b>Net Profit</b>	31	44	295	41	52	(5)	16	(44)	(11)	81
<b>Net Margin</b>	2.0%	2.8%	18.0%	2.4%	3.0%	-0.3%	0.9%	-2.9%	-0.8%	4.9%
<b>Free Cash Flow</b>	135	(124)	137	(115)	76	20	21	(64)	24	184
<b>Income Tax</b>	2	(16)	14	25	35	4	10	(46)	(7)	9

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	1,441	1,529	1,822	1,713	1,760	1,825	1,879	2,034	2,008	1,941
<b>Cash &amp; Equivalents</b>	87	21	507	400	444	392	334	394	367	317
<b>Accounts Receivable</b>	215	212	194	196	199	205	250	240	256	299
<b>Inventories</b>	278	256	258	271	283	295	324	271	270	281
<b>Goodwill &amp; Int. Ass.</b>	173	130	123	123	130	131	140	138	137	133
<b>Total Liabilities</b>	577	613	617	456	453	505	606	853	826	722
<b>Accounts Payable</b>	156	138	147	138	141	199	195	154	138	162
<b>Long-Term Debt</b>	2	136	6	6	6	8	7	219	190	7
<b>Shareholder's Equity</b>	864	915	1,205	1,258	1,308	1,321	1,272	1,179	1,181	1,217
<b>LTD/E Ratio</b>	0.00	0.15	0.01	0.01	0.00	0.01	0.01	0.19	0.16	0.01

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	2.0%	3.0%	17.6%	2.3%	3.0%	-0.3%	0.8%	-2.2%	-0.5%	4.1%
<b>Return on Equity</b>	3.7%	5.0%	27.8%	3.3%	4.1%	-0.4%	1.2%	-3.6%	-0.9%	6.7%
<b>ROIC</b>	3.4%	4.6%	26.0%	3.3%	4.1%	-0.4%	1.2%	-3.3%	-0.8%	6.2%
<b>Shares Out.</b>	30	32	31	34	35	35	35	35	35	35
<b>Revenue/Share</b>	47.83	48.05	48.98	47.93	49.20	46.53	46.20	42.98	37.91	46.15
<b>FCF/Share</b>	4.17	(3.80)	4.09	(3.28)	2.14	0.57	0.60	(1.85)	0.69	5.17

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

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