



Scholastic Corporation (SCHL)

Updated August 30th, 2023 by Jonathan Weber

Key Metrics

Current Price:	\$43	5 Year CAGR Estimate:	5.3%	Market Cap:	\$1.4B
Fair Value Price:	\$44	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	08/30/23
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	0.6%	Dividend Payment Date:	09/15/23
Dividend Yield:	1.9%	5 Year Price Target	\$51	Years Of Dividend Growth:	1
Dividend Risk Score:	D	Retirement Suitability Score:	F	Rating:	Hold

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's most recent quarter was its fiscal fourth quarter. Scholastic recorded revenues of \$530 million during the period, which represents an increase of 3% versus the prior year's quarter. Scholastic's Education segment continued to perform well, which includes growth from digital subscriptions. Scholastic's revenue was, overall, positively impacted by the fact that the comparison to the previous year's quarter was easier than during some of the recent quarters, during which Scholastic recorded weaker year-over-year revenue growth rates.

Scholastic generated earnings-per-share of \$2.26 during the fourth quarter. Due to the seasonality of the business, the comparatively strong profit during Scholastic's Q4 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 continued on that path in 2023, growing its earnings again. Scholastic is forecasted to generate earnings-per-share of \$2.60 this year, which represents a very strong 60%+ growth rate relative to the profit the company generated last year. Earnings-per-share will grow thanks to several contributing factors, including margin improvement initiatives, some revenue growth tailwinds, while Scholastic's current \$100 million buyback authorization should also have a positive impact.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.84	\$1.29	\$1.70	\$1.83	\$1.43	\$1.08	-\$0.08	-\$0.32	\$1.46	\$1.55	\$2.60	\$3.01
DPS	\$0.58	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.80	\$0.80	\$0.97
Shares¹	32	31	34	35	35	35	35	35	35	32	30	25

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.

¹ In Millions

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	17.1	28.0	23.4	23.2	31.5	30.6	---	---	24.7	25.2	16.5	17.0
Avg. Yld.	1.8%	1.7%	1.5%	1.4%	1.3%	1.7%	2.0%	1.7%	1.7%	2.1%	1.9%	1.9%

Scholastic has been trading at a relatively high valuation throughout the last couple of years. Due to the strong earnings-per-share growth that is expected during the current year, Scholastic's valuation isn't as high as it was, on average, over the last decade. The current valuation is marginally lower than the 17 times earnings multiple that we see as a fair valuation for Scholastic's shares.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	31.5%	46.5%	35.3%	32.8%	42.0%	55.6%	---	---	41.1%	51.6%	30.8%	32.3%

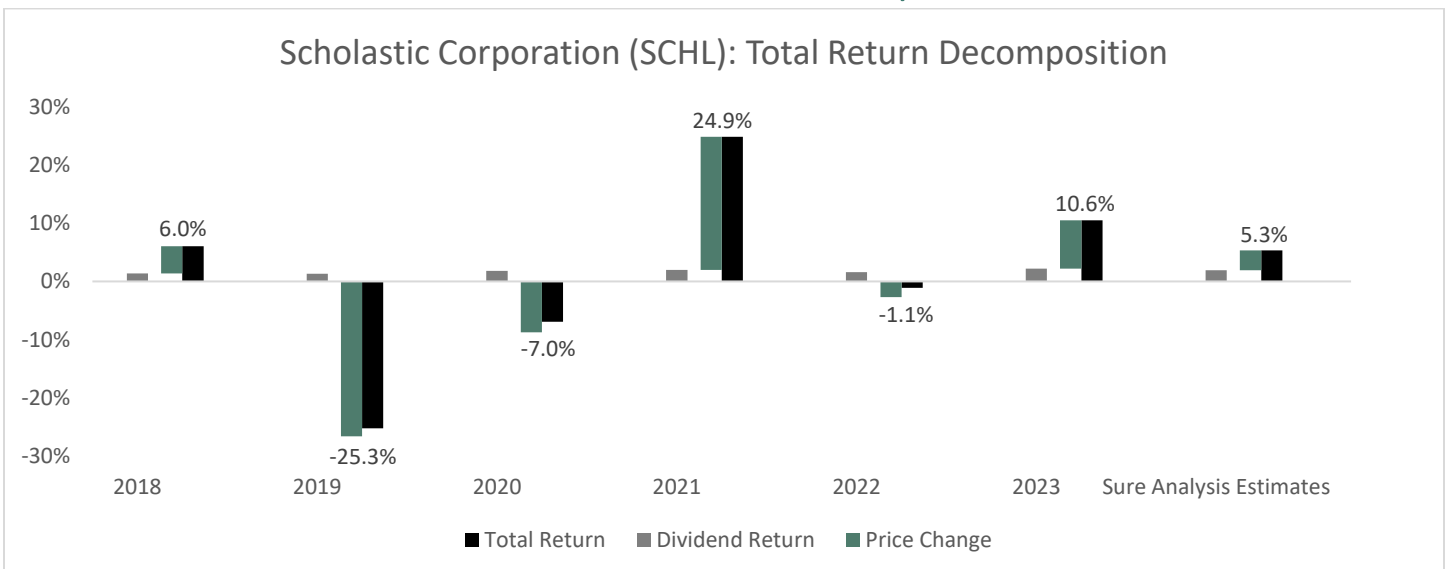
Scholastic has never cut its dividend, but the dividend growth track record is still not overly convincing. The company kept the dividend stagnant between 2009 and 2010, and there hadn't been a dividend increase since 2015 until this year. Combined with the fact that the current dividend yield is rather 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 much of the last decade 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's earnings per share have been recovering nicely over the last two years, however, and the current fiscal year should be successful, too. Due to solid but not overly attractive expected total returns, we rate Scholastic's shares a hold for now.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	1,562	1,636	1,673	1,742	1,628	1,654	1,487	1,300	1,643	1,704
Gross Profit	837	877	911	927	884	874	778	672	877	918
Gross Margin	53.6%	53.6%	54.4%	53.2%	54.3%	52.8%	52.3%	51.6%	53.4%	53.8%
SG&A Exp.	727	771	774	778	766	792	764	623	723	757
D&A Exp.	95	79	66	62	66	82	90	90	91	65
Operating Profit	49	58	98	111	77	26	(48)	(12)	98	106
Operating Margin	3.1%	3.6%	5.9%	6.4%	4.7%	1.6%	-3.2%	-0.9%	6.0%	6.2%
Net Profit	44	295	41	52	(5)	16	(44)	(11)	81	86
Net Margin	2.8%	18.0%	2.4%	3.0%	-0.3%	0.9%	-2.9%	-0.8%	4.9%	5.1%
Free Cash Flow	(124)	137	(115)	76	20	21	(64)	24	184	87
Income Tax	(16)	14	25	35	4	10	(46)	(7)	9	26

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,529	1,822	1,713	1,760	1,825	1,879	2,034	2,008	1,941	1,867
Cash & Equivalents	21	507	400	444	392	334	394	367	317	225
Accounts Receivable	212	194	196	199	205	250	240	256	299	278
Inventories	256	258	271	283	295	324	271	270	281	335
Goodwill & Int. Ass.	130	123	123	130	131	140	138	137	133	143
Total Liabilities	613	617	456	453	505	606	853	826	722	702
Accounts Payable	138	147	138	141	199	195	154	138	162	171
Long-Term Debt	136	6	6	6	8	7	219	190	7	6
Shareholder's Equity	915	1,205	1,258	1,308	1,321	1,272	1,179	1,181	1,217	1,163
LTD/E Ratio	0.15	0.01	0.01	0.00	0.01	0.01	0.19	0.16	0.01	0.01

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.0%	17.6%	2.3%	3.0%	-0.3%	0.8%	-2.2%	-0.5%	4.1%	4.5%
Return on Equity	5.0%	27.8%	3.3%	4.1%	-0.4%	1.2%	-3.6%	-0.9%	6.7%	7.3%
ROIC	4.6%	26.0%	3.3%	4.1%	-0.4%	1.2%	-3.3%	-0.8%	6.2%	7.2%
Shares Out.	32	31	34	35	35	35	35	35	35	32
Revenue/Share	48.05	48.98	47.93	49.20	46.53	46.20	42.98	37.91	46.15	49.11
FCF/Share	(3.80)	4.09	(3.28)	2.14	0.57	0.60	(1.85)	0.69	5.17	2.50

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

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