

# Fiscal 2012 Second Quarter Investor Call

February 3, 2012



## Safe Harbor/Forward-Looking Statements

- ❖ The following discussion may contain forward-looking statements, including statements about the outlook and prospects for Cengage Learning.
- ❖ Forward-looking statements are those which are not historical facts. These and other statements that relate to future results and events are based on Cengage Learning's current expectations and assumptions and are subject to risks and uncertainties which may cause our actual results in future periods to differ materially from those currently expected because of risk factors discussed in this presentation, our Second Quarter Report for the Three and Six Months Ended December 31, 2011, and the "Risk Factors" section of the Annual Report for the Fiscal Year Ended June 30, 2011. Please consult these documents for a more complete understanding of these risks and uncertainties. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

### **Non-GAAP and Other Financial Measures**

- ❖ This presentation contains disclosures of Adjusted EBITDA, Unlevered Free Cash Flow and Bank EBITDA which are non-GAAP financial measures.
- ❖ This presentation also contains discussions of gross sales by markets, which represents amounts invoiced to our customers. Consequently, gross sales exclude any adjustments for sales returns provision or revenue deferral. We believe this measure provides investors with a more comprehensive understanding of our underlying revenue results and trends by presenting amounts invoiced on a consistent basis. In addition, we discuss 'digital product sales' which represents (i) revenue recognized on the sale of digital products that are not packaged with printed materials and (ii) gross sales, less actual returns, of bundled print and digital products where, we believe, that the value proposition to our customer is driven by the digital offering.

 Welcome / Introductions

Dave Faiman

 Business Update

Ron Dunn

 Financial Results

Dean Durbin

 Questions & Answers

# Business Update

Ron Dunn



CENGAGE  
Learning™

- ❖ Financial Highlights
- ❖ Apple Announcement
- ❖ CSU eTextbook Agreement
- ❖ Virtual National Sales Meeting
- ❖ National Geographic Learning
- ❖ NCCO
- ❖ Digital Progress Report

## Apple Announcement



- ❖ Apple's initial focus is on creating digital textbooks on the iPad for the K-12 market
- ❖ Cengage Learning already partners with Apple and this announcement provides expanded opportunities for delivery of our content
- ❖ Apple's announcement validates Cengage Learning's business strategy to lead the migration from print to digital in education
- ❖ MindTap goes beyond Apple's iPad textbook solution with features such as:
  - ❖ Device neutrality
  - ❖ LMS integration
  - ❖ Integration of third party apps
  - ❖ Flexibility to configure content
  - ❖ Integrated assessment tools
  - ❖ Services (support and training)
  - ❖ Strong authors and deep pedagogical expertise

## CSU eTextbook Agreement



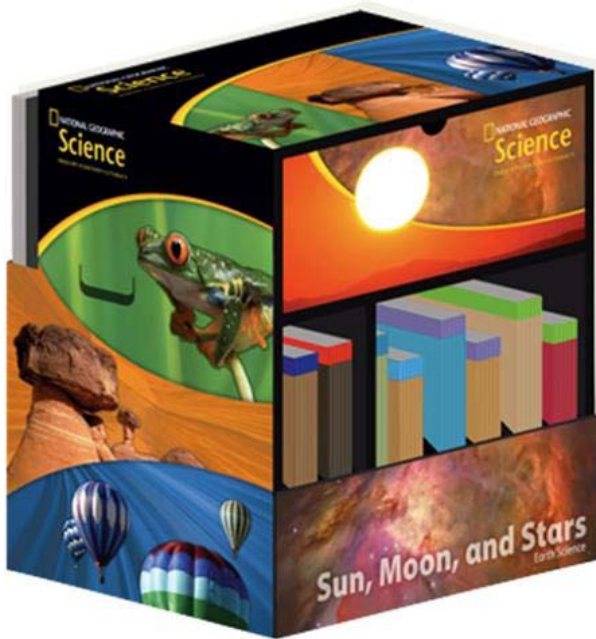
- ❖ Significant digital partnership with the California State University (CSU) System, which represents over 430,000 students on 23 campuses
- ❖ Illustrates a trend toward more institutional sales in our industry- a trend we identified early and prioritized with our sales staff
- ❖ This partnership benefits all parties involved - Cengage Learning, the CSU System and CSU students

## Virtual National Sales Meeting



- ❖ Cengage Learning recently held its annual Virtual National Sales Meeting (VNSM)
- ❖ 451 sales training sessions were conducted over a two week period including:
  - ❖ Discipline and product sessions
  - ❖ General skills sessions
  - ❖ Emphasis on training for selling digital solutions
- ❖ VNSM replaced a much more costly in-person sales meeting and has been very effective and well-received by the sales team
- ❖ VNSM is another illustration of how digital technology is transforming our business

## National Geographic Learning



- ❖ Integration continues to go smoothly
- ❖ National Geographic Learning (NGL) continued to build on the momentum of significant sales wins in Texas and Florida last quarter by adding big sales wins in:
  - ❖ New York
  - ❖ Illinois
  - ❖ Indiana
  - ❖ Missouri
- ❖ Several new NGL products illustrate Cengage Learning's plans to bring National Geographic resources into the classroom
- ❖ Announced agreement with National Geographic Society to provide an online archive of more than 100 years of National Geographic Magazine for libraries

## NCCO

The logo for Nineteenth Century Collections Online, featuring a cluster of small squares in various colors (purple, blue, orange, grey) to the left of the text "Nineteenth Century Collections Online".

**Nineteenth Century**  
Collections Online

- ❖ This spring Gale will launch the first modules of the Nineteenth Century Collections Online (NCCO)
- ❖ NCCO contains primary source content from:
  - ❖ The British Library
  - ❖ The National Archives (United States)
  - ❖ The National Archives at Kew, United Kingdom
  - ❖ The University of Oxford
  - ❖ Castle Corvey In North Rhine-Westphalia, Germany
- ❖ NCCO builds on the very successful model of Eighteenth Century Collections Online (ECCO)

## Digital Progress Report

For the twelve months ended December 31, 2011:

- ❁ Revenue from digital solutions represented 35.2% of total revenue
- ❁ Revenue from Curriculum Solutions grew 34.6%
- ❁ Revenue from Custom digital solutions grew 25.4%
- ❁ Nearly 3.2 million students activated a Curriculum Solution (up 25.4%)
- ❁ Students conducted over 78.7 million sessions (up 33.1%)

## Digital Progress Report



- ❖ Early Adopter Program continues
- ❖ MindTap solutions are now being used in 50 classrooms for the following disciplines:
  - ❖ Economics
  - ❖ History
  - ❖ Medical Terminology
- ❖ Response and feedback from early adopters has been very positive
- ❖ Four new MindTap products supporting the SAM solution were just rolled out
- ❖ Hundreds of new MindTap solutions are expected to be launched in 2012 across a range of disciplines

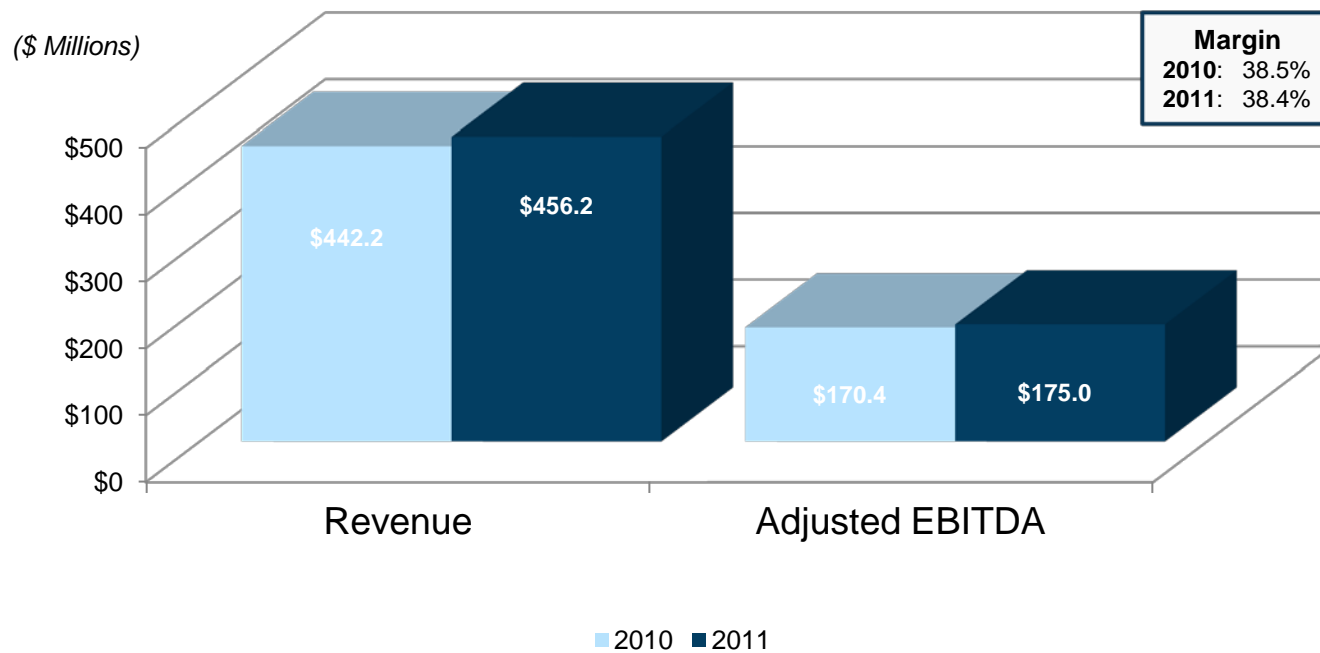
# Financial Update

Dean Durbin



## Consolidated

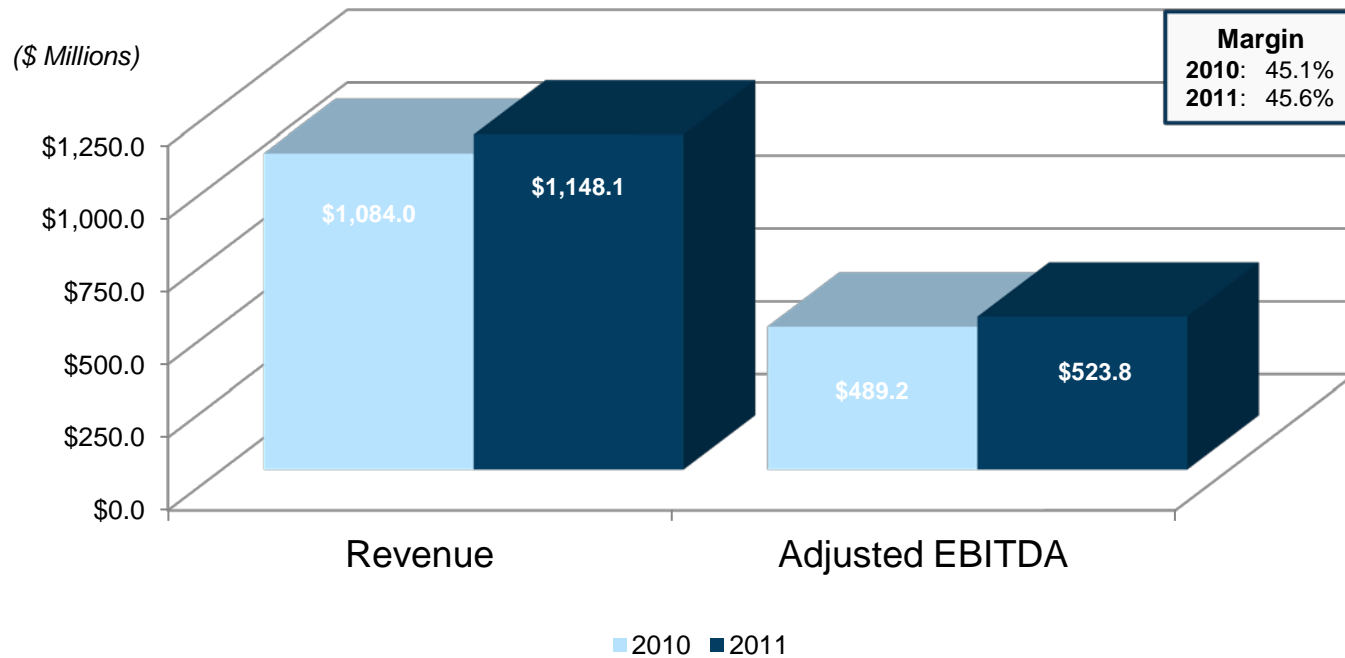
### Three Months Ended December 31



The aggregate of our two segments' Adjusted EBITDA does not equal our total Adjusted EBITDA because our segment profit measure of Adjusted EBITDA excludes equity-based compensation, fees paid to our Sponsors under advisory agreements and other corporate-related expenses.

## Consolidated

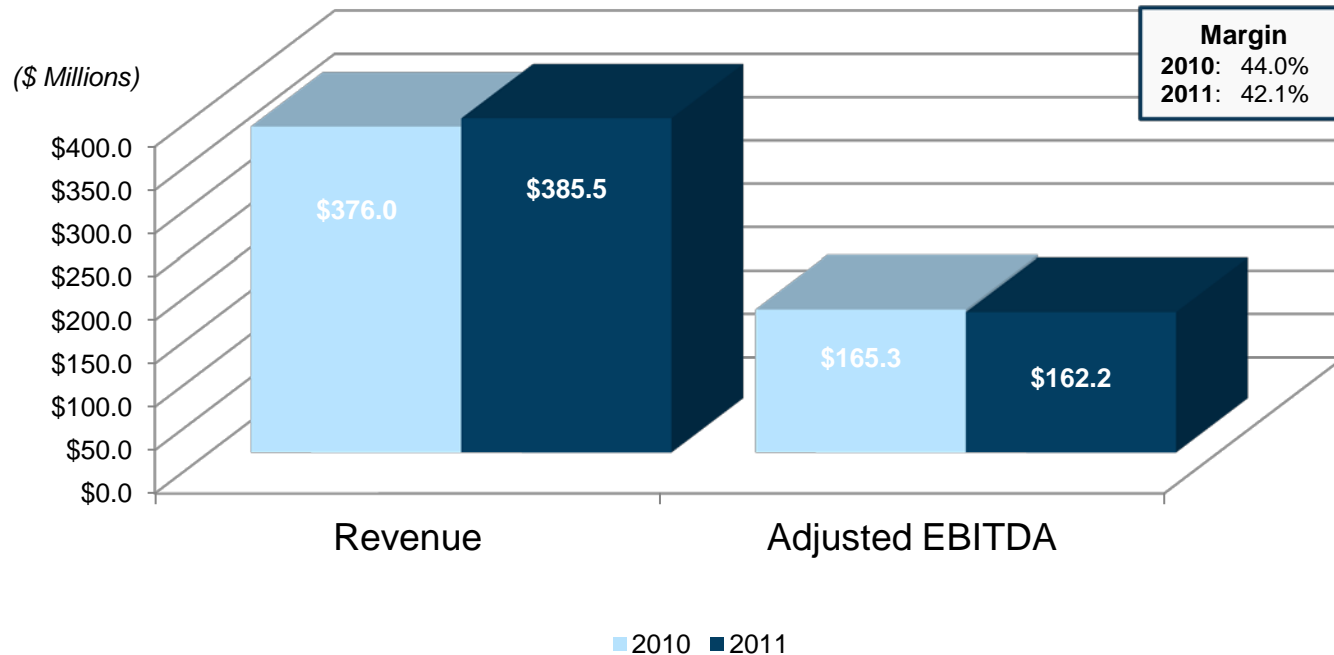
### Six Months Ended December 31



The aggregate of our two segments' Adjusted EBITDA does not equal our total Adjusted EBITDA because our segment profit measure of Adjusted EBITDA excludes equity-based compensation, fees paid to our Sponsors under advisory agreements and other corporate-related expenses.

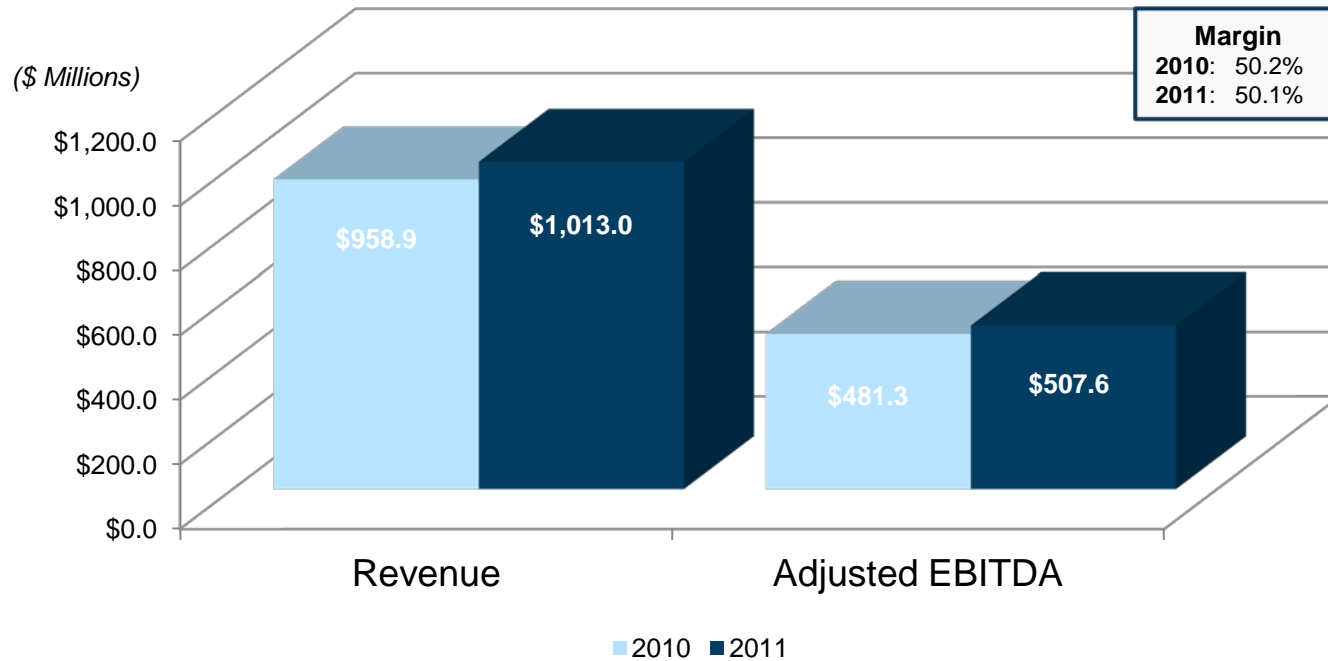
## Domestic

### Three Months Ended December 31



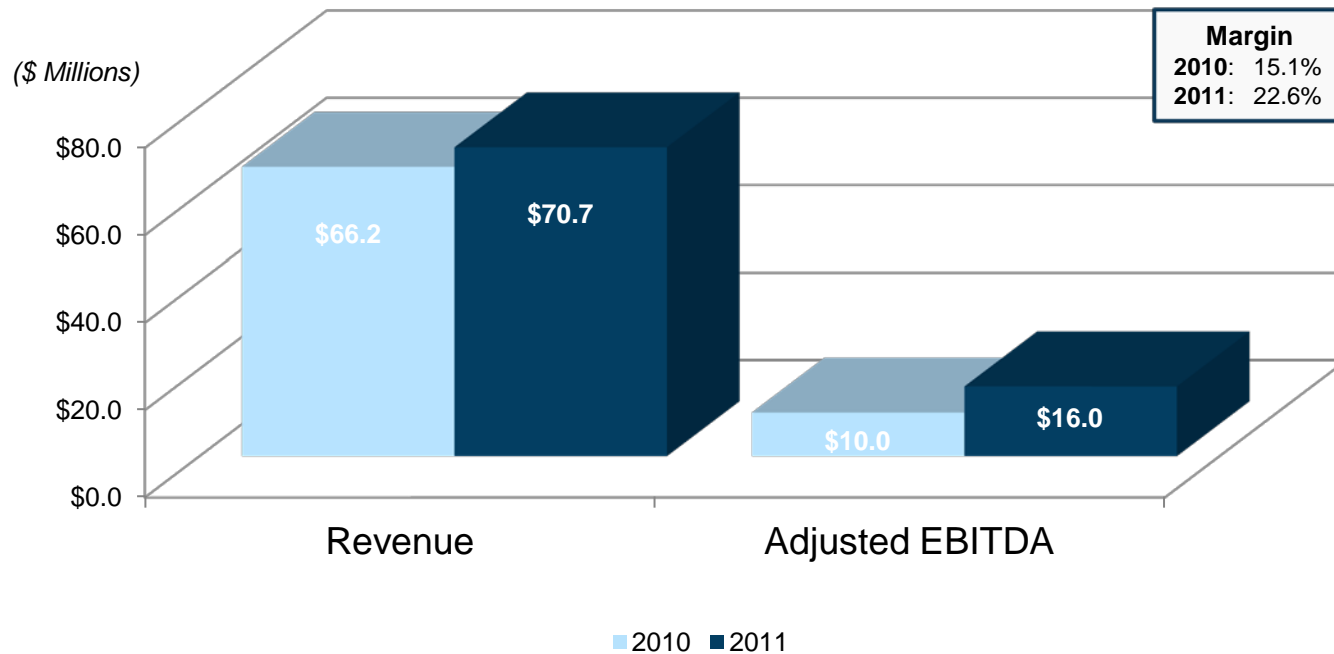
## Domestic

### Six Months Ended December 31



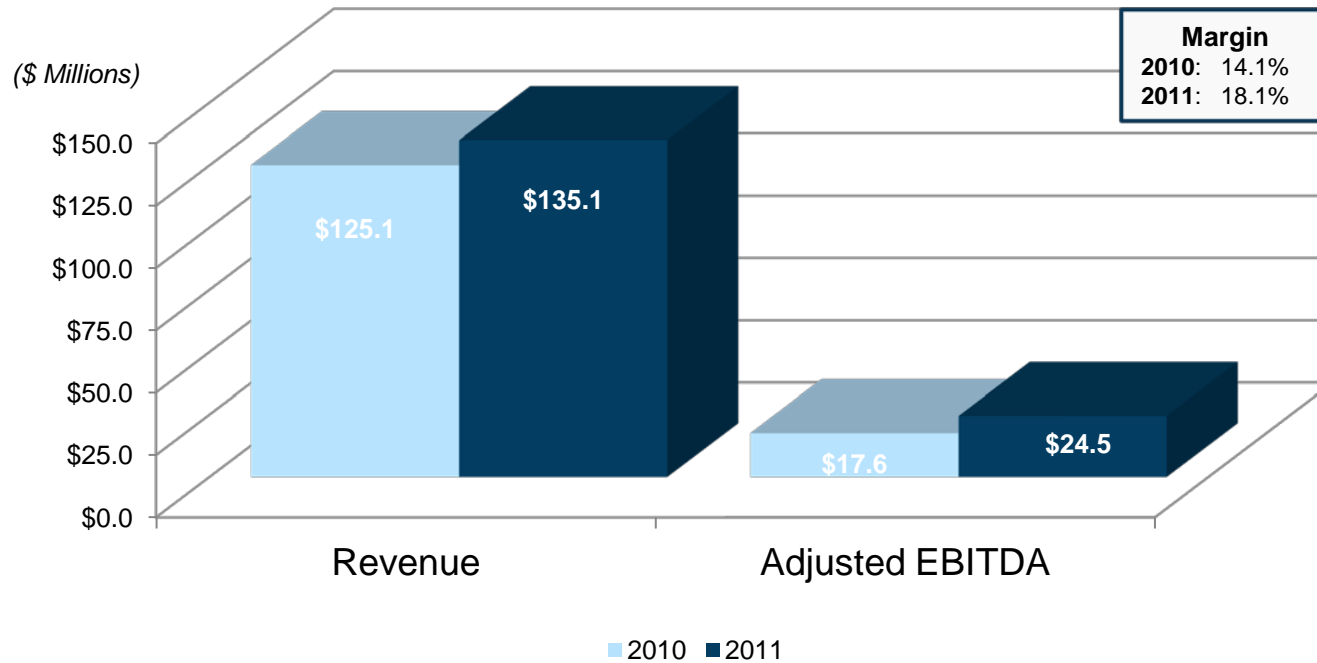
## International

### Three Months Ended December 31



## International

### Six Months Ended December 31



## Liquidity

<i>(\$ Millions)</i>	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash and Cash Equivalents</b>	\$ 137.0	\$ 185.7
<b>Revolving Credit Facility</b>	\$ 300.0	\$ 300.0
<b>Outstanding Letters of Credit</b>	(2.6)	(6.3)
<b>Available under the Revolving Credit Facility</b>	\$ 297.4	\$ 293.7

	<b>Six Months Ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Unlevered Free Cash Flow</b>	\$ 549.8	\$ 470.8

## Capital Expenditures

(\$ Millions)	Six Months Ended December 31,		Change
	2011	2010	
<b>Pre-Publication Costs</b>	\$ 79.4	\$ 76.5	3.8%
<b>Property, Equipment and Capitalized Software for Internal Use</b>	<u>29.8</u>	<u>31.3</u>	(4.8%)
<b>Capital Expenditures</b>	<u>\$ 109.2</u>	<u>\$ 107.8</u>	1.3%

## Net Indebtedness

(\$ Millions)	December 31,	
	2011	2010
<b>Term Loan</b>	\$ 3,293.8	\$ 3,328.2
<b>Incremental Term Loan</b>	597.0	600.9
<b>10.50% Senior Notes due 2015</b>	1,209.5	1,207.3
<b>13.25% Senior Subordinated Discount Notes due 2015</b>	233.6	407.7
<b>13.75% Senior PIK Notes due 2015</b>	127.0	131.4
<b>Indebtedness</b>	5,460.9	5,675.5
<b>Cash and Cash Equivalents</b>	(137.0)	(185.7)
<b>Net Indebtedness</b>	<u>\$ 5,323.9</u>	<u>\$ 5,489.8</u>
<b>Last Twelve Months Bank EBITDA<sup>1</sup></b>	<u>\$ 858.6</u>	<u>\$ 862.6</u>

<sup>1</sup> We calculate Bank EBITDA pursuant to the terms of our Credit Agreement.

## Leverage Ratios

	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Credit Agreement Threshold</b>	7.75	7.75
<b>Senior Secured Leverage Ratio<sup>1</sup></b>	4.46	4.48
<b>Total Leverage Ratio<sup>2</sup></b>	6.20	6.36

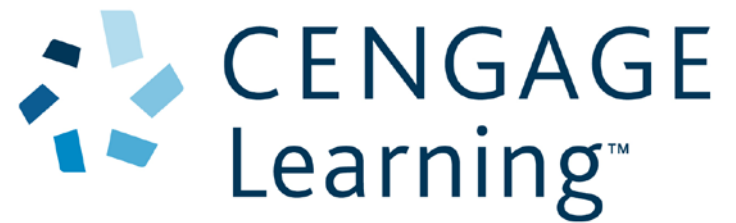
<sup>1</sup> We calculate Senior Secured Leverage Ratio pursuant to the terms of our Credit Agreement.

<sup>2</sup> Total Leverage Ratio is determined as the ratio of Net Indebtedness to Last Twelve Months Bank EBITDA (i.e., \$5,323.9/ \$858.6 and \$5,489.8/\$862.6 for December 31, 2011 and 2010 respectively).

# Questions & Answers



# Appendix



## Non-GAAP Financial Measures

We believe that certain non-GAAP financial measures provide additional means of analyzing the current period's results against the corresponding prior period's results. However, these non-GAAP measures should be viewed in addition to, and not as a substitute for, the Company's reported results prepared in accordance with GAAP.

**“Adjusted EBITDA”:** Defined as Net income (loss) before: income (loss) from discontinued operations, net of tax; equity losses of affiliates, net of taxes; benefit from (provision for) income taxes; interest expense, net; mark-to-market of derivative instruments; gain on early extinguishment of debt; other (income) expense, net; amortization and impairment of identifiable intangible assets; impairment of goodwill; depreciation; restructuring charges and the amortization of pre-publication costs. We believe that this performance measure provides a meaningful basis for reviewing the results of our operations by eliminating the effects of financing and investing decisions, as well as excluding the impact of activities not related to our ongoing operating business. Adjusted EBITDA is presented pursuant to the requirements of GAAP as a measure of profit or loss for each reportable segment in Note 15, “Segment Information” of our Second Quarter Report for the Three and Six Months Ended December 31, 2011.

**“Unlevered Free Cash Flow”:** Calculated as net cash provided by operating activities of continuing operations excluding net cash paid for interest and debt repayments in lieu of interest, reduced for cash expenditures relating to additions to pre-publication costs and additions to property, equipment and capitalized software for internal use, which we view as investments required to ensure the sustainability and continued growth of our business. We believe that this liquidity measure provides a clearer picture of the cash flow produced and reinvested by the ongoing business, before debt service.

**“Bank EBITDA”:** In order to evaluate the results of operating activities excluding the effect of significant non-recurring transactions and giving effect to the run rate impact of cost saving initiatives, acquisitions and disposals, we calculate Bank EBITDA pursuant to the terms of our Credit Agreement.

## Adjusted EBITDA Reconciliation

(\$ Millions)	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2011	2010	2011	2010
<b>Adjusted EBITDA</b>	\$ 175.0	\$ 170.4	\$ 523.8	\$ 489.2
<b>Less:</b>				
Amortization of pre-publication costs	(36.1)	(30.0)	(91.2)	(72.8)
Restructuring charges	-	(0.9)	-	(3.4)
Depreciation	(12.7)	(11.0)	(26.1)	(21.7)
Amortization of identifiable intangible assets	(41.2)	(42.0)	(82.1)	(83.9)
Gain on early extinguishment of debt	-	-	42.2	1.9
Mark-to-market of derivative instruments	12.7	17.6	12.7	29.5
Interest expense, net	(104.5)	(120.3)	(202.8)	(244.2)
Provision for income taxes	(3.3)	(2.9)	(16.0)	(8.2)
Equity losses of affiliates, net of taxes	(0.9)	(0.3)	(2.3)	(1.0)
Loss from discontinued operations, net of tax	-	(3.6)	-	(3.8)
<b>Net (loss) income</b>	<u>\$ (11.0)</u>	<u>\$ (23.0)</u>	<u>\$ 158.2</u>	<u>\$ 81.6</u>

## Unlevered Free Cash Flow Reconciliation

<i>(\$ Millions)</i>	<b>Six Months Ended</b>	
	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Net cash provided by operating activities of continuing operations</b>	\$ 438.3	\$ 374.2
<b>Add back:</b>		
<b>Net cash interest paid</b>	185.7	200.0
<b>Repayments of long-term debt, in lieu of interest</b>	35.0	4.4
<b>Additions to pre-publication costs</b>	(79.4)	(76.5)
<b>Additions to property, equipment and capitalized software for internal use</b>	(29.8)	(31.3)
<b>Unlevered Free Cash Flow</b>	\$ 549.8	\$ 470.8

## Bank EBITDA Reconciliation

<i>(\$ Millions)</i>	<b>Twelve Months Ended December 31, 2011</b>
<b>Net income</b>	\$ 39.9
<b>Adjustments:</b>	
<b>Provision for income taxes</b>	45.5
<b>Interest expense</b>	439.7
<b>Interest income</b>	(0.6)
<b>Mark-to-market of derivative instruments</b>	(46.7)
<b>Gain on early extinguishment of debt</b>	(42.2)
<b>Amortization of identifiable intangible assets</b>	165.7
<b>Depreciation</b>	51.7
<b>Amortization of pre-publication costs</b>	160.6
<b>Non-cash equity-based compensation</b>	6.7
<b>Sponsor management fee</b>	10.7
<b>Pro forma run rate cost savings</b>	5.6
<b>Pro forma EBITDA from acquisitions</b>	10.8
<b>Restructuring, integration and business optimization expenses</b>	7.4
<b>Other</b>	3.8
<b>Bank EBITDA</b>	<u>\$ 858.6</u>