

HMH Earnings Call

Third Quarter 2018

November 8, 2018



Houghton Mifflin Harcourt
The Learning Company

Forward-Looking Statements and Non-GAAP Measures

This presentation and oral statements made in connection with this presentation contain certain statements that are not historical facts, including information regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, including billings and net sales; financial performance and condition; liquidity; products and services, including for new adoptions; outlook for full year 2018; prospects; growth; markets and market share; strategies, including with respect to investing in our core solutions and extensions businesses and operational excellence; efficiency and cost savings initiatives; the industry in which we operate; and potential business decisions. Those statements constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause our actual results to differ materially from the results express in or implied by our forward-looking statements, including, but not limited to, those identified under the caption "Forward-Looking Statements" in our news release issued on November 8, 2018 and in the "Special Note Regarding Forward-Looking Statements" and "Risk Factors" in our most recent Annual Report on Form 10-K and Quarterly Reports on Form 10-Q. We undertake no obligation, and do not expect, to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

In addition, this presentation and oral statements made in connection with this presentation reference non-GAAP financial measures from continuing operations, such as adjusted EBITDA and free cash flow, and operating measures, such as billings. The use of these non-GAAP measures are limited as they include and/or do not include certain items not included and/or included in the most directly comparable GAAP measure. A reconciliation of non-GAAP financial measures to the most directly comparable GAAP financial measures and a calculation of operating measures are provided in the appendix to this presentation and in our news release issued on November 8, 2018, which are posted on hnhco.com under the Investor Relations section.

Q3 and YTD Highlights

New programs are on track for approval in upcoming 2019 adoptions

Total Company billings¹ growth of 1.5% in Q3 and flat year to date

Extensions billings¹ growth of 8% in Q3 and 10% year to date is very strong performance

¹ An operating measure which we derive from net sales taking into account the change in deferred revenue. See appendix for a calculation of this measure.



Business Update

Reaffirming 2018 Guidance¹

Improving Free Cash Flow fundamentals

- New, next generation Core Solutions programs
- Continuing investments in faster growing, higher margin Extensions

2019 Adoption milestones successfully achieved

- California Instructional Quality Commission has recommended *HMH Science Dimensions*, our next generation science program, for adoption
- Texas state review panel has recommended our ELA program for adoption
- Florida school districts currently reviewing *HMH Into Math*, our next generation math program



¹ Guidance adjusted on October 5, 2018 to reflect the divestiture of Riverside Standardized Testing business. No changes to the outlook for Continuing Operations were made.

Q3 and YTD 2018 Financial Highlights

Education results continue to demonstrate merits of HMH 2020 strategy

- Total Education billings¹ declined 2% in Q3, and declined 1% on a YTD basis, driven by a decline in Core Solutions offset by growth in Extensions
 - The portion of our addressable market tracked by AAP declined 1.4% YTD
- Core Solutions billings¹ declined \$25 million in Q3 and \$55 million YTD on YOY basis
 - Softer demand for older programs, which we're winding down ahead of 2019 rollout of new programs
 - Q3 bright spot as HMH gained share with new Science program
- Extension billings¹ up 8% in Q3 and up 10% YTD on YOY basis
 - Strong growth driven by Heinemann and Professional Services, offset by Supplemental and Intervention Solutions

¹An operating measure which we derive from net sales taking into account the change in deferred revenue. See appendix for a calculation of this measure.



Q3 and YTD 2018 Financial Highlights

Trade results

- Strong Q3 and YTD performance; Billings¹ up 33% in Q3 and up 9% YTD
- Q3 strength driven by new licensing deal in line with strategy to leverage rich backlist portfolio
- Trade strategy underpinning continued strong performance, with dual focus on:
 - Strong robust front-list sales of leading HMH brands across young reader and lifestyle segments such as *Instant Pot* series
 - Multi-media strategy to drive value from extensive backlist portfolio with planned tie-in releases to:
 - Disney's *Mary Poppins Returns* in Q4 2018
 - Netflix's *Carmen Sandiego* series in Q1 2019
 - Amazon Studios *Beautiful Boy*, currently the #2 title on NYT paperback best seller list



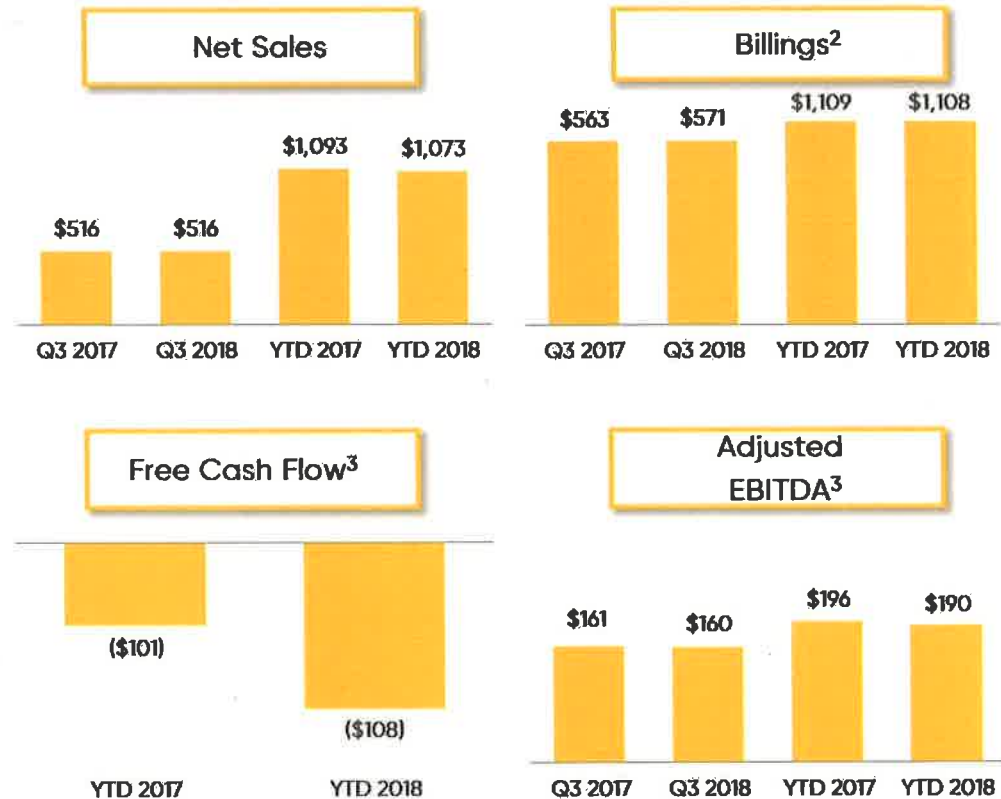
Carmen Sandiego

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Third Quarter 2018 Results

Third Quarter and YTD 2018 Highlights¹

- Net Sales flat in Q3; down 2% YTD
- Billings increased 1% in Q3; essentially flat YTD
- Net Income (Loss) down 5% in Q3; improved by 39% YTD
- Free Cash Flow down 7% YTD
- Adjusted EBITDA down 1% in Q3; declined by 3% YTD



¹ All amounts have been adjusted to eliminate the impact of the Riverside Standardized Testing business which has been removed from continuing operations and classified as discontinued operations

¹ Three and nine months ended September 30, 2018.

² An operating measure which we derive from net sales taking into account the change in deferred revenue. See calculation of this metric in the appendix to this presentation.

³ Please see appendix for a reconciliation of non-GAAP measures.

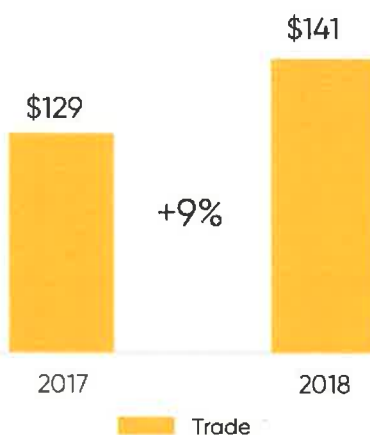
Year-to-Date Billings¹ by Segment

(\$ in millions)

Education Segment



Trade Segment



- 1% decline in Education Segment
YOY is solid relative performance
- Core Solutions:
 - Lower sales in adoption and territory states
 - Partially offset by RFP win in Puerto Rico
- Extensions:
 - Growth due to Heinemann and Services
- Trade billings grew 9%

¹Details may not sum to total due to rounding

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Q3 and YTD 2018 Summary

Re-affirming guidance

YTD results demonstrate merits of our strategy – refocusing on core, growth in extensions

- Education billings down 1% YTD, addressable AAP market down 1.4%
- Strong billings growth of 10% in Extensions YTD driven by Heinemann & Services, Trade billings growth of 9%
- New HMH Science program performing well, gaining share

Adoption milestones – on track

- Optimistic for approval of new programs in the three largest adoption states in 2019 (CA, TX, FL)
- California Instructional Quality Commission unanimously recommending HMH Science for adoption
- Texas state review panel recommending HMH ELA for adoption

On strength of new state adoptions, addressable AAP market opportunity will approximate \$3.2 billion in 2019; total market opportunity will approximate \$11 billion

Questions & Answers

Appendix

Financial Highlights¹

(\$ in Millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2018	Variance %	2017	2018	Variance %
Net Sales	\$516	\$516	0%	\$1,093	\$1,073	(2%)
Billings ²	563	571	1%	1,109	1,108	(0%)
Net income (loss) from continuing operations	89	84	(5%)	(84)	(51)	39%
Adjusted EBITDA ³	161	160	(1%)	196	190	(3%)
Cash and Short Term Investments ⁴				235	134	(43%)
Free Cash Flow ²				(101)	(108)	(7%)
Pre-publication Costs	(30)	(33)	(11%)	(82)	(92)	(12%)
Capital Expenditures ⁵				(\$121)	(\$134)	(10%)

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³Please see the appendix for a reconciliation of non-GAAP measures.

⁴As of December 31, 2017, cash and short term investments included cash and cash equivalents of \$149.0M and short term investments of \$86.4M. As of September 30, 2018, it includes cash and cash equivalents of \$104.3M and short term investments of \$29.8M.

⁵Capital expenditures include pre-publication costs and property, plant, and equipment expenditures.

Non-GAAP Reconciliation – Free Cash Flow¹

(\$ in Millions)	Nine Months Ended September 30,	
	2017	2018
Net Cash provided by Operating Activities	\$20	\$26
Additions to Pre-publication Costs	(82)	(92)
Additions to Property, Plant, and Equipment	(39)	(41)
Free Cash Flow	\$(101)	\$(108)

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Non-GAAP Reconciliation – Adjusted EBITDA¹

(\$ in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2018	2017	2018
Net Income (loss)	\$89	\$84	\$(84)	\$(51)
Interest expense	11	12	32	34
Interest income	(0)	(0)	(1)	(1)
Depreciation expense	17	18	54	56
Amortization expense	50	43	144	127
Non-cash charges - stock-compensation	3	3	8	9
Non-cash charges - gain (loss) on derivative instruments	(0)	0	(1)	1
Fees, expenses or charges for equity offerings, debt or acquisitions/dispositions	-	0	0	2
2017 Restructuring Plan	2	3	36	3
Severance, separation costs and facility closures	0	0	1	6
Legal reimbursement	-	-	(5)	-
Loss on sale of assets	-	-	-	0
Provision (benefit) for income taxes	(10)	(3)	10	2
Adjusted EBITDA	\$161	\$160	\$196	\$190

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Billings¹

(\$ in millions)	Three Months Ending September 30,		Nine Months Ending September 30,	
	2017	2018	2017	2018
Core Solutions				
Net Sales	\$277	\$243	519	456
Change in Deferred Revenue	22	31	11	19
Billings	\$299	\$274	\$530	\$475
Extensions				
Net Sales	\$188	\$207	\$444	\$478
Change in Deferred Revenue	26	24	5	14
Billings	\$214	\$230	\$449	\$492
Total Education	\$512	\$504	\$979	\$967
Trade				
Net Sales	\$51	\$67	\$130	\$139
Change in Deferred Revenue	(1)	1	(1)	1
Billings	\$50	\$67	\$129	\$141
Consolidated				
Net Sales	\$516	\$516	\$1,093	\$1,073
Change in Deferred Revenue	47	55	15	34
Total HMH	\$563	\$571	\$1,109	\$1,108

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