

Fiscal 2012 First Quarter Investor Call

November 10, 2011



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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 First Quarter Report for the Three Months Ended September 30, 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. Please see the Appendix for a definition of these measures and reconciliations to the most directly comparable financial measures prepared in accordance with GAAP.
- ❖ This presentation also contains discussions of gross sales measures 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 and Market Update

Ron Dunn

 Financial Results

Dean Durbin

 Questions & Answers

Business and Market Update

Ron Dunn



- ❁ Industry Overview/Market Conditions
- ❁ National Geographic School Publishing Acquisition
- ❁ LMS Partnership Strategy
- ❁ Digital Progress Report
- ❁ CIO Summit

Same challenging market conditions persist:

- ❖ Growth in textbook rentals
- ❖ Lower college enrollment rates
- ❖ Slowdown in the for-profit education sector
- ❖ Challenging climate for education funding on both the state and federal level



- ❖ Doubles Cengage Learning revenue in the English Language Teaching (ELT) sector
- ❖ Significant sales wins in Texas and Florida
- ❖ Allows Cengage Learning to leverage globally iconic National Geographic brand across all product lines and disciplines in education and library markets
- ❖ Q1 revenue beyond initial projections- \$28.5 million

- ❖ Partnerships announced with Blackboard, Moodle rooms, Desire2Learn and Sakai
- ❖ Full interoperability of our digital solutions within LMS
- ❖ Improved customer experience
- ❖ LMS-agnostic strategy very well received at Educause

Rapid Growth of Digital Solutions

For the twelve months ended September 30, 2011:

- ❁ Revenue from digital solutions reached nearly 35% of total revenue
- ❁ Revenue from Curriculum Solutions grew 32%
- ❁ Revenue from Custom digital solutions grew 24%
- ❁ Over 3.1 million students activated a Curriculum Solution (up 27%)
- ❁ Students conducted over 70 million online sessions (up 25%)



NEXT GENERATION EDUCATION SUMMIT

- ❁ Cengage Learning is sponsoring a **Next Generation Education Summit** -- an event for CIOs, IT Executives, and Provosts in North America
- ❁ Over 60 CIOs from top institutions across the country in attendance
- ❁ An example of Cengage Learning's strategy to work closely with education's new digital decision makers

Financial Update

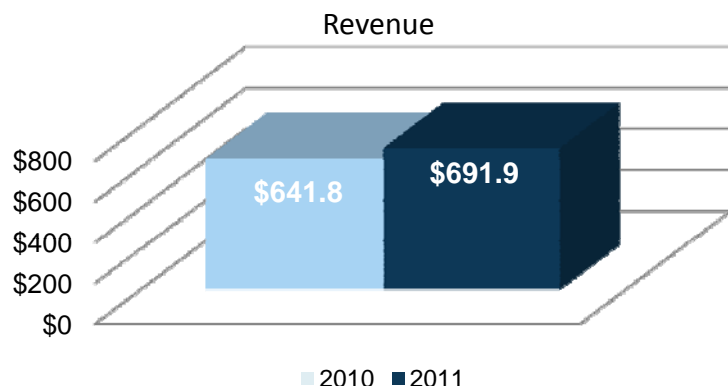
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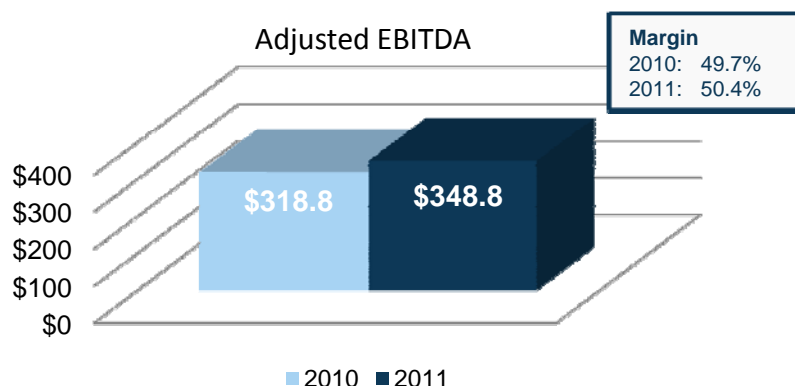
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Consolidated

Three Months Ended September 30,



Three Months Ended September 30,



First Quarter Overview

Revenue

Increase of \$50.1 due to:

- ❁ \$44.6 increase in our Domestic segment primarily due to higher academic sales and \$28.5 of revenue from the acquisition of National Geographic Society's School Publishing ("NGSP") Unit, and
- ❁ \$5.5 increase in our International segment.

Adjusted EBITDA

Increase of \$30.0 due to:

- ❁ Contribution from higher revenues, as well as the benefit from the acquisition of NGSP, partially offset by
- ❁ Higher employee-related costs, primarily due to the acquisition of NGSP.

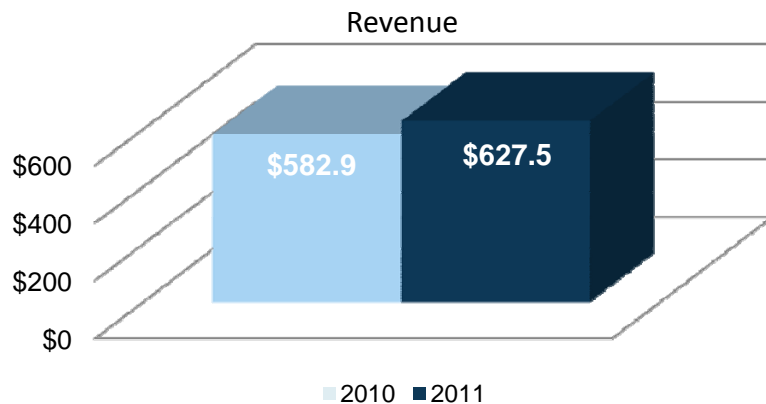
Unlevered Free Cash Flow

- ❁ Decreased by \$14.8, or 5.2%, from \$283.2 to \$268.4, primarily due to an increase in working capital, partially offset by increased income from continuing operations.

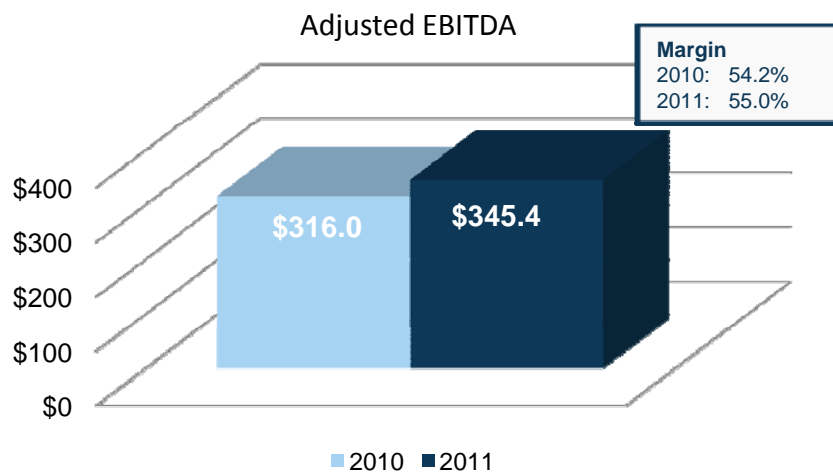
The aggregate of our two segments' Adjusted EBITDA does not equal our total Adjusted EBITDA because our segment profit measure of Adjusted EBITDA excludes equity-based compensation, fees paid to our sponsors under advisory agreements and other corporate-related expenses.

Domestic

Three Months Ended September 30,



Three Months Ended September 30,



First Quarter Overview

Revenue

Increase of \$44.6 due to:

- ✦ \$69.8 increase in academic gross sales due to changes in customer ordering patterns and growth of digital product sales,
- ✦ \$28.5 benefit from the acquisition of NGSP, partially offset by
- ✦ \$25.4 increase in the sales returns provision primarily due to volume and mix of products sold,
- ✦ \$18.9 net growth in deferred revenue balance relating to increased sales of digital products, and
- ✦ \$5.3 lower school sales due to cyclical nature of state adoptions.

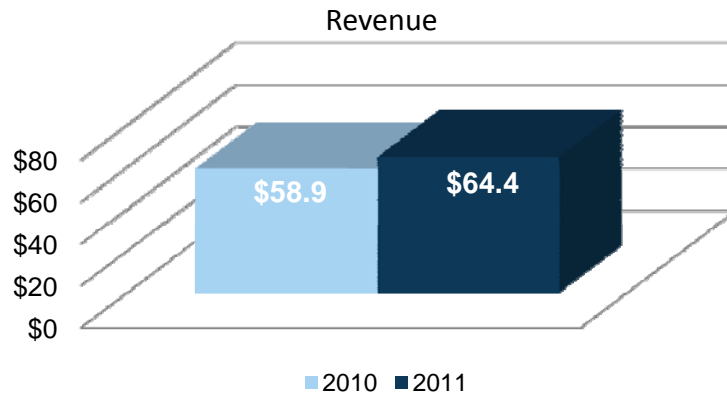
Adjusted EBITDA

Increase of \$29.4 due to:

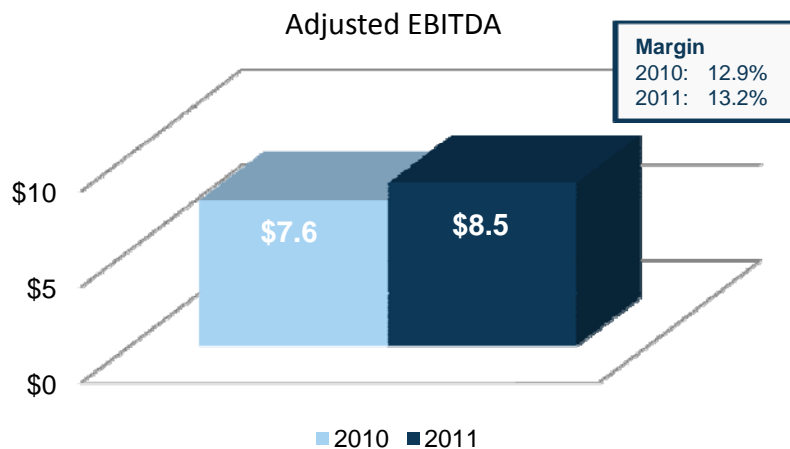
- ✦ Contribution from higher revenues including the benefit from the acquisition of NGSP, partially offset by
- ✦ Higher employee-related costs, primarily due to the acquisition of NGSP.

International

Three Months Ended September 30,



Three Months Ended September 30,



First Quarter Overview

Revenue

Increase of \$5.5 due to:

- ❁ \$4.0 favorable impact from foreign currency translation primarily within Australia, Latin America and UK
- ❁ Higher sales in Latin America, primarily due to the growth in academic and English language teaching products, partially offset by a decrease in Australia due to the timing of school sales.

Adjusted EBITDA

Increase of \$0.9 due to:

- ❁ Contribution from higher revenues, partially offset by
- ❁ Higher operating expenses as a result of foreign exchange translation.

Last Twelve Months Results

Twelve Months Ended

| | <u>Sept. 30, 2011</u> | <u>June 30, 2011</u> | <u>Sept. 30, 2010</u> |
|-------------------------------|-----------------------|----------------------|-----------------------|
| Revenue | \$ 1,926.0 | \$ 1,875.9 | \$ 1,965.6 |
| <i>Ex. NGSP⁽¹⁾</i> | \$ 1,897.5 | \$ 1,875.9 | \$ 1,965.6 |
| Adjusted EBITDA | \$ 810.4 | \$ 780.4 | \$ 802.9 |
| <i>Margin</i> | 42.1% | 41.6% | 40.8% |

¹ NGSP refers to our acquisition of National Geographic Society's School Publishing Unit.

Liquidity

| <i>(\$ Millions)</i> | <u>September 30, 2011</u> | <u>September 30, 2010</u> |
|---|---------------------------|---------------------------|
| Cash and cash equivalents | <u>\$ 40.9</u> | <u>\$ 66.3</u> |
| Revolving Credit Facility | \$ 300.0 | \$ 300.0 |
| Outstanding Letters of Credit | (2.6) | (6.3) |
| Outstanding Borrowings | <u>(130.0)</u> | <u>-</u> |
| Available under the Revolving Credit Facility | <u>\$ 167.4</u> | <u>\$ 293.7</u> |

Capital Expenditures

| <i>(\$ Millions)</i> | Three Months Ended September 30, | | Change |
|--|-------------------------------------|----------------|-------------|
| | 2011 | 2010 | |
| Pre-publication costs | \$ 37.4 | \$ 34.2 | 9.4% |
| Property, equipment and capitalized software for internal use | 12.3 | 14.4 | -14.6% |
| Capital Expenditures | \$ 49.7 | \$ 48.6 | 2.3% |

Net Indebtedness

| <i>(\$ Millions)</i> | <u>September 30, 2011</u> | <u>September 30, 2010</u> |
|--|---------------------------|---------------------------|
| Term Loan | \$ 3,302.4 | \$ 3,336.8 |
| Incremental Term Loan | 598.0 | 601.8 |
| Revolving Credit Facility | 130.0 | - |
| 10.50% Senior Notes due 2015 | 1,208.9 | 1,206.9 |
| 13.25% Senior Subordinated Discount Notes due 2015 | 233.6 | 407.7 |
| 13.75% Senior PIK Notes due 2015 | <u>127.0</u> | <u>127.1</u> |
| Indebtedness | \$ 5,599.9 | \$ 5,680.3 |
| Cash and cash equivalents | (40.9) | (66.3) |
| Net Indebtedness | <u>\$ 5,559.0</u> | <u>\$ 5,614.0</u> |
| Last Twelve Months Bank EBITDA ¹ | <u>\$ 848.6</u> | <u>\$ 838.3</u> |

¹ We calculate Bank EBITDA pursuant to the terms of our Credit Agreement.

Leverage Ratios

| | |
|--|-------------|
| Credit Agreement Threshold | 7.75 |
| Senior Secured Leverage Ratio¹ | 4.66 |
| Total Leverage Ratio² | 6.55 |

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

² Total Leverage Ratio is determined as the ratio of Net Indebtedness to Last Twelve Months Bank EBITDA (i.e., \$5,559.0 / \$848.6).

Questions & Answers



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Appendix



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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 First Quarter Report for the Three Months Ended September 30, 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 the 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

| | Three Months Ended | |
|---|---------------------------|-----------------|
| | September 30, | |
| | 2011 | 2010 |
| Adjusted EBITDA | \$ 348.8 | \$ 318.8 |
| Less: | | |
| Amortization of pre-publication costs | (55.1) | (42.8) |
| Restructuring charges | - | (2.5) |
| Depreciation | (13.4) | (10.7) |
| Amortization of identifiable intangible assets | (40.9) | (41.9) |
| Gain on early extinguishment of debt | 42.2 | 1.9 |
| Mark-to-market of derivative instruments | - | 11.9 |
| Interest expense, net | (98.3) | (123.9) |
| Provision for income taxes | (12.7) | (5.3) |
| Equity losses of affiliates, net of taxes | (1.4) | (0.7) |
| Loss from discontinued operations, net of taxes | - | (0.2) |
| Net income | <u>\$ 169.2</u> | <u>\$ 104.6</u> |

Unlevered Free Cash Flow Reconciliation

| | Three Months Ended September 30, | |
|---|---|-----------------|
| | 2011 | 2010 |
| Net cash provided by operating activities of continuing operations | \$ 142.9 | \$ 179.9 |
| Add back: | | |
| Net cash interest paid | 140.2 | 147.5 |
| Repayments of long-term debt, in lieu of interest | 35.0 | 4.4 |
| Additions to pre-publication costs | (37.4) | (34.2) |
| Additions to property, equipment and capitalized software for internal use | (12.3) | (14.4) |
| Unlevered Free Cash Flow | \$ 268.4 | \$ 283.2 |

Bank EBITDA Reconciliation

| | Twelve Months Ended September 30, 2011 |
|---|---|
| | <hr/> |
| Net income | \$ 27.9 |
| Adjustments: | |
| Provision for income taxes | 45.1 |
| Interest expense | 455.7 |
| Interest income | (0.8) |
| Mark-to-market of derivative instruments | (51.6) |
| Gain on early extinguishment of debt | (42.2) |
| Amortization of identifiable intangible assets | 166.5 |
| Depreciation | 50.0 |
| Amortization of pre-publication costs | 154.5 |
| Non-cash equity-based compensation | 8.2 |
| Sponsor management fee | 10.7 |
| Pro forma run rate cost savings | 6.8 |
| Pro forma EBITDA from acquisitions | 2.5 |
| Restructuring, integration and business optimization expenses | 8.5 |
| Other | 6.8 |
| Bank EBITDA | <hr/> \$ 848.6 <hr/> |

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 and presented in our First Quarter Report for the Three Months Ended September 30, 2011.