

Deutsche Bank Leveraged Finance Conference

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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 (i) risk factors discussed in this presentation, in the management's discussion and analysis section of the Company's Annual Report for The Fiscal Year Ended June 30, 2011 and (ii) other factors that we currently deem immaterial or are not known to us. Please consult these documents for a more complete understanding of these risks and uncertainties. Except as otherwise required by law, 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 Financial Measures**
- ❁ This presentation may contain disclosures of Adjusted EBITDA 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.

Topics for Today

-  Cengage Learning Overview
-  Industry/Market Overview
-  Digital Solutions
-  Preliminary Fiscal 2012 First Quarter
-  Q&A

Who We Are

- Leading provider of teaching, learning and research solutions in digital, print and hybrid forms

LIFELONG LEARNING

- 2- and 4-year Colleges and Universities
- Private/For Profit Colleges
- Professional Training & Continuing Education
- Elementary and High School

RESEARCH (Libraries)

- Academic
- School
- Public
- Government

- Annual revenue: ~\$2 billion
- 5,500 employees
- Global with operations in more than 20 countries

Strategy

1. Lead the migration to digital solutions
2. Demonstrate improved learning through superior outcomes
3. Leverage our core business to drive international growth



PUBLISHING

- Instructional Materials
 - *Pearson*
 - *Cengage Learning*
 - *McGraw-Hill*
 - *Wiley*

DISTRIBUTION

- Physical and digital distribution of content to students
 - *Follett*
 - *Barnes & Noble*
 - *CourseSmart*
 - *Chegg*

SERVICES

- Solutions to facilitate student and instructor workflow
 - *Compass/Embanet*
 - *Bisk*
 - *Plato*

TECHNOLOGY

- LMS and technology platforms to support content delivery
 - *Blackboard*
 - *SunGard/Datatel*

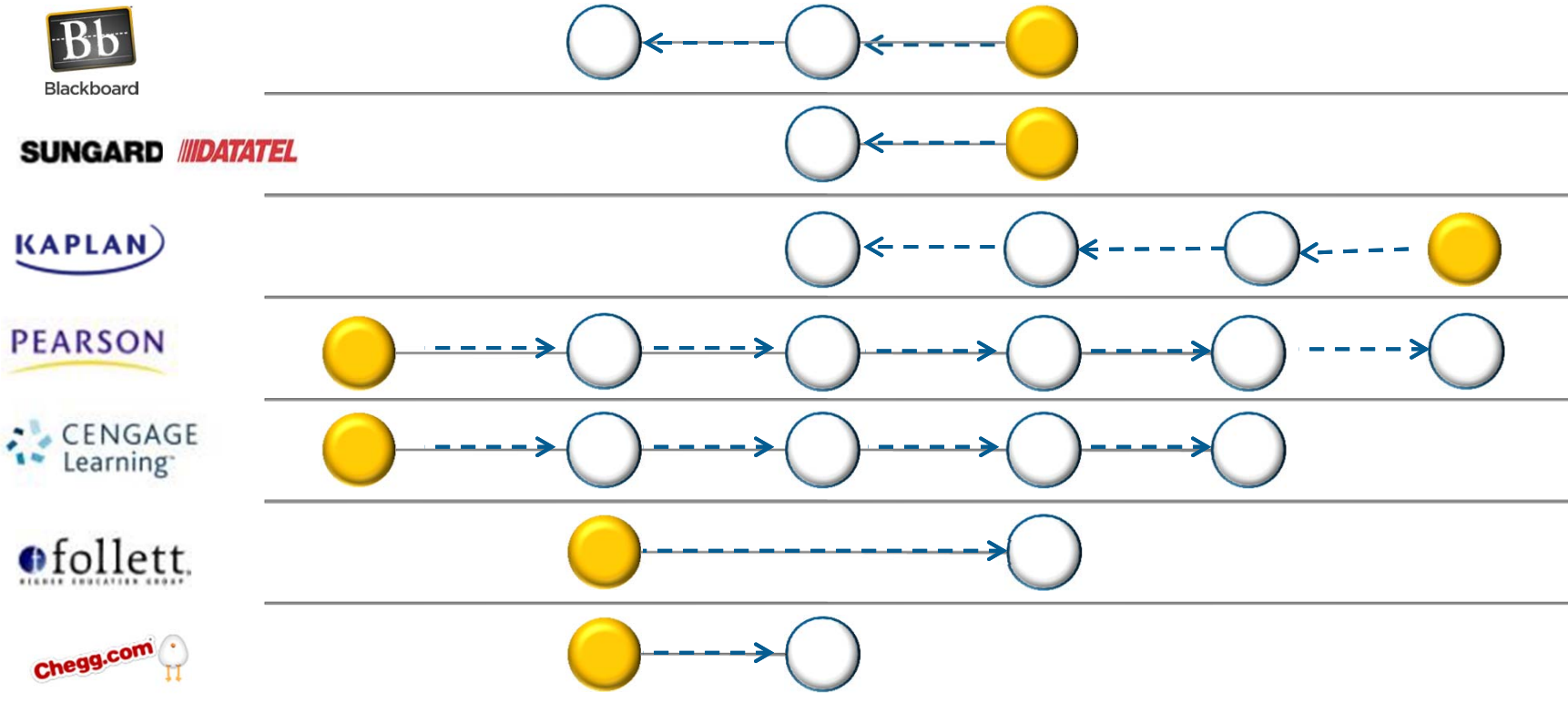
ASSESSMENT

- Services to track student progress and help with school/career placement
 - *ETS*
 - *Princeton Review*

FOR –PROFIT EDUCATION

- Full-service distance and local for-profit colleges and universities
 - *Apollo Group (University of Phoenix)*
 - *Career Education*
 - *Corinthian Colleges*
 - *Kaplan*

Traditional Market Segmentation Is Blurring – Recent Examples



An Accelerated Shift to Digital is Underway



At Cengage Learning, for the twelve months ended August 31, 2011:

- ❖ Revenue from Curriculum Solutions grew 29.3%
- ❖ Revenue from Custom digital solutions grew 23.4%
- ❖ Over 3 million students activated a Curriculum Solution (up 27.8%)
- ❖ Students conducted over 67 million online sessions (up 25.4%)
- ❖ Revenue from digital solutions reached nearly 35% of total revenue



Source: Eduventures Survey

Instructors Also See the Value of Digital

75%

of surveyed instructors think that student engagement has improved as the use of digital tools has increased

AND

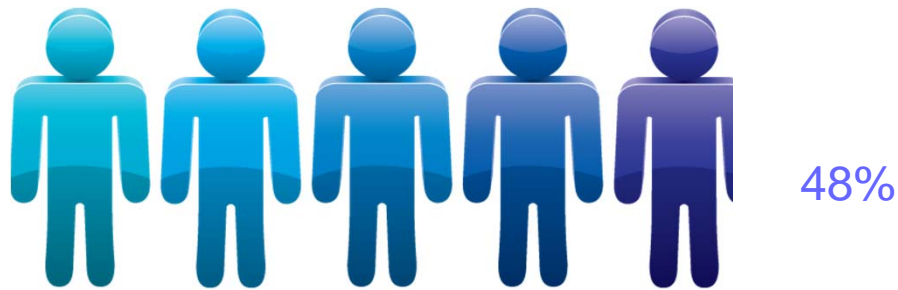
87%

of those instructors believe that learning outcomes have improved as well

Source: Eduventures Survey

Instructors Increasingly Prefer Digital

2009



2010



Source: Eduventures Survey

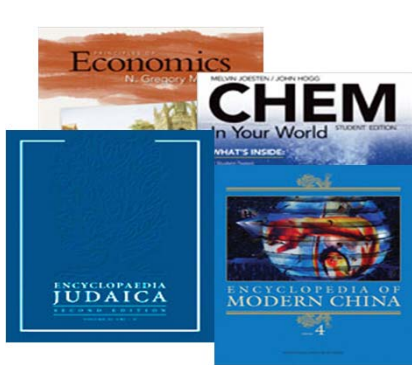
Our Digital Transformation

Print Textbooks and Reference

eBooks

Solutions

MindTap



We started with leading textbook franchises, encyclopedias, and primary source documents

Over time, we migrated to eBooks and digital products, making our assets 100% digital and portable

We have integrated applications, customized and focused on improving outcomes, bundled with services

And now, a new platform well beyond an eBook, a homework solution or digital supplement or a LMS

What is MindTap?

It is a Personal Learning Experience

Not just an eBook, Homework, Assessment, Resource Supplement or Learning Management System

- ❖ Fully integrated digital platform, content and services
- ❖ Cloud – based
- ❖ Apps delivery
- ❖ Device independent



MindTap Targets Growing Digital Segments



US Higher Education

	eBooks	Value-added Digital Solutions	Print Only
Current Size	\$0.2B (3%)	\$0.9B (11%)	\$7.3B (85%)
Estimated Size in 5 Years	\$1.0B (10%)	\$2.9B (30%)	\$5.9B (60%)
Implied CAGR	37%	31%	-5%

Source: Simba Information

- ❁ Acquisition of National Geographic School Publishing (NGSP)
 - Strengthens our position in global ELT market
 - Allows us to leverage “National Geographic” brand and content across all products and markets

- ❁ Partnerships with Learning Management Systems (LMS) Providers
 - Partnerships announced with Blackboard, Moodle rooms and Desire2Learn
 - Full interoperability of our digital solutions within LMS
 - Improved customer experience

Revenue

<i>(\$ Millions)</i>	<u>2012</u>	<u>2011</u>	<u>Growth</u>
Consolidated	\$ 692	\$ 642	7.8%
<i>Ex. NGSP</i>	664	642	3.4%
Domestic	\$ 627	\$ 583	7.6%
<i>Ex. NGSP</i>	599	583	2.7%
International	\$ 64	\$ 59	9.3%
<i>Balance Sheet Data:</i>			
Deferred Revenue	\$ 162	\$ 135	20.0%

Adjusted EBITDA

<i>(\$ Millions)</i>	<u>2012</u>	<u>2011</u>	<u>Growth</u>
Consolidated	\$ 349	\$ 319	9.4%
<i>Margin</i>	<i>50.4%</i>	<i>49.7%</i>	
Domestic	\$ 346	\$ 316	9.6%
<i>Margin</i>	<i>55.2%</i>	<i>54.2%</i>	
International	\$ 8	\$ 8	1.3%
<i>Margin</i>	<i>12.0%</i>	<i>12.9%</i>	

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.

Liquidity

<i>(\$ Millions)</i>	<u>September 30, 2011</u>
Cash and cash equivalents	<u>\$ 41</u>
Revolving Credit Facility	\$ 300
Outstanding Letters of Credit	(3)
Outstanding Borrowings	<u>(130)</u>
Available Revolving Credit Facility	<u>\$ 167</u>

Capital Expenditures

<i>(\$ Millions)</i>	<u>2012</u>	<u>2011</u>	<u>Change</u>
Pre-publication costs	\$ 37	\$ 34	8.8%
Property, equipment and capitalized software for internal use	<u>12</u>	<u>14</u>	-14.3%
Capital Expenditures	<u><u>\$ 49</u></u>	<u><u>\$ 48</u></u>	2.1%

Net Indebtedness

<i>(\$ Millions)</i>	<u>September 30, 2011</u>
Term Loan	\$ 3,302
Incremental Term Loan	598
Revolving Credit Facility	130
10.50% Senior Notes due 2015	1,209
13.25% Senior Subordinated Discount Notes Due 2015	234
13.75% Senior PIK Notes due 2015	<u>127</u>
Indebtedness	\$ 5,600
Cash and cash equivalents	<u>(41)</u>
Net Indebtedness	<u><u>\$ 5,559</u></u>
Last Twelve Months Bank EBITDA ¹	<u><u>\$ 849</u></u>

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

Leverage Ratios

Credit Agreement:

Credit Agreement Threshold	7.75
Senior Secured Leverage Ratio ¹	4.70
Total Leverage Ratio ²	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 / \$849)

LTM Results

	<u>Sept 30, 2011</u>	<u>June 30, 2011</u>	<u>Sept 30, 2010</u>
Revenue	\$1,926	\$1,876	\$1,966
<i>Ex. NGSP</i>	1,898	1,876	1,966
Adjusted EBITDA	\$ 811	\$ 780	\$ 803
<i>Margin</i>	42.1%	41.6%	40.8%

Debt Buybacks

- ❁ Purchased \$174.1 million of Senior Subordinated Discount Notes and \$14.1 million of Senior PIK Notes.
- ❁ The total cash payments associated with these debt purchases was \$144.9 million.
- ❁ Cash gain of \$43.3 million.
- ❁ Annual cash interest savings of \$22.6 million.
- ❁ July 2012 “AHYDO” principal payments are now \$72.1 (Senior Subordinated Discount Notes - \$29.6 million; Senior PIK Notes - \$42.5 million)



CENGAGE
Learning™