Engine CAPITAL

WHY WE OPPOSE THE $21 PER SHARE VERITAS OFFER

March 2022

HMH

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About Engine Capital

- Founded in 2013, Engine Capital is a $500 million investment partnership that invests in mid-capitalization companies in the U.S. and Canada, with a focus on fundamental, bottom-up analysis to find undervalued securities
- Houghton Mifflin Harcourt (Nasdaq: HMHC) became a core position for Engine in September 2020 after having followed the Company for years. Engine has conducted dozens of calls with management and industry participants as part of our due diligence process. Engine owns approximately 2.7% of the company's outstanding shares, representing a stake of around $72 million
- Since its founding, Engine has had numerous portfolio companies receive acquisition offers but has NEVER opposed a transaction. Opposing the Veritas transaction is not something we are doing lightly. We feel compelled to do so, in this particular case, because of the egregiousness of this transaction
- Engine has a history of working constructively with public companies, having settled with or negotiated board representation at 20 public companies leading to the addition of 29 highly qualified board members

Negotiated Board Representation

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Executive summary

Engine does not intend to tender its shares into the Veritas Capital ("Veritas") tender offer as it believes the $21 per share offer undervalues the company and is the result of a flawed process. The standalone recapitalization plan we suggest is far superior for shareholders

- **Houghton Mifflin has fundamentally changed its business over the last couple of years, restructuring its cost structure and transitioning to a more digital organization with a higher percentage of recurring revenue. As this digital transition progresses, we believe HMHC will deserve a higher multiple over time**

- **The Veritas offer undervalues HMHC. It implies Veritas is buying HMHC for 7.6x 2024 unlevered free cash flow (UFCF) and 6.2x 2024 UFCF if the cumulative cash flow is included. This offer is the result of a flawed process conducted by Evercore. We believe Evercore is conflicted, and its fairness opinion contains numerous mistakes. This offer also represents a very small premium vs. where the stock would be after the announcement of strong Q4 results. <u>Applying a 30% change of control premium to that stock price points to a fair transaction value of $25.35 per share.</u> <u>Recent comparable deals point to a $25 per share transaction value for HMHC</u>**

- **Under most circumstances, Veritas will earn outsized returns from this transaction. Under management's forecast, Veritas is set to earn a 5-year IRR between 31% and 37% at the $21 per share deal price. These outsized IRR are further evidence of the inappropriateness of the $21 Veritas offer and simply represent a transfer of value from HMHC shareholders to Veritas. <u>Under management's forecast, Veritas can pay $26 per share and still earn a 5-year IRR between 18% and 23%</u>**

- **A superior plan exists for shareholders. Houghton Mifflin should execute a Dutch tender offer between $21 and $22 per share for 19% of its shares outstanding. <u>Assuming management's projections, Engine believes this plan could result in a share price around $42 at the end of 2024, implying a 26% 3-year IRR for remaining shareholders</u>**

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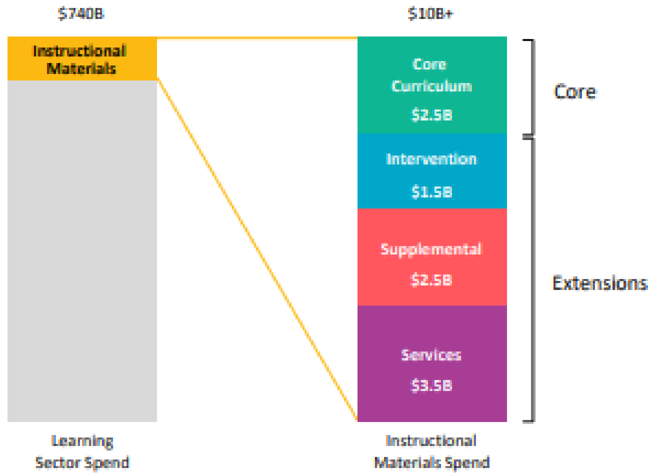
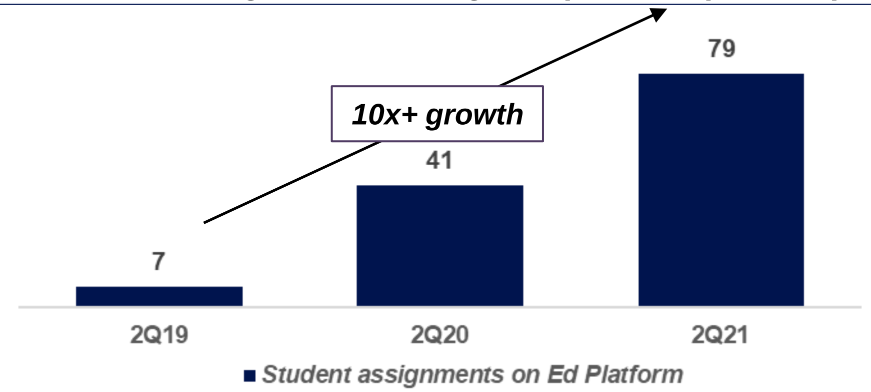
Houghton Mifflin is transitioning to an EdTech company with an increasing mix of digital and recurring revenue. The cost structure has also been transformed creating substantial operating leverage

$10B TAM with significant penetration opportunity

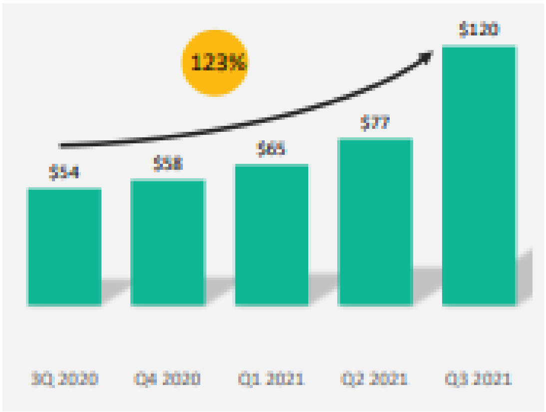


TTM student assignments through Ed platform (millions)

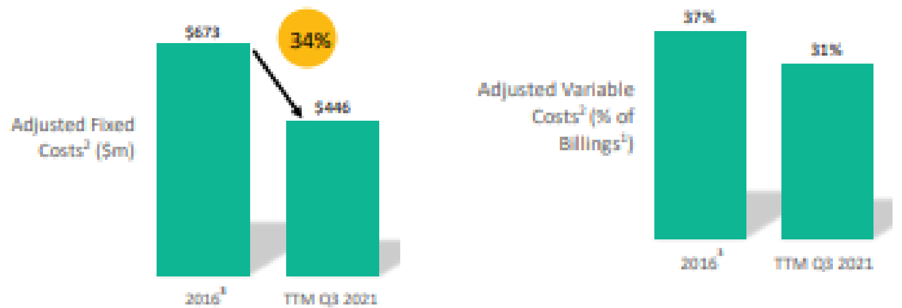


More assignments through Ed platform allows for better data collection, analytics, enhanced teacher assessment, and stickier customers

Accelerating growth in annualized recurring revenue



Improved cost structure with more operating leverage



Restructuring in 2019 & 2020 Significantly Reduced Adjusted Fixed Costs

Higher Percentage of Digital Billings Reduced Adjusted Variable Costs – Digital Billings Characterized by Very High Gross Margins

Digital transformation should lead to a higher multiple over time

Source: Publicly available information, company presentation

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Situation overview

- On February 22, 2022, Houghton Mifflin announced the sale of the company to Veritas for $21 per share. Veritas is a large private equity firm that invests in companies that provide critical products and services, primarily technology or technology-enabled solutions, to government and commercial customers
- Veritas owns an asset that is complementary to HMHC – Cambium Learning Group ("Cambium"). Cambium serves more than 20 million students and 30% of U.S. teachers across 94% of U.S. districts. It has close to $1 billion in bookings. Like HMHC, it views itself as a leader in the EdTech space. Officially, we are being told the current plan is for both companies to remain independent
- ***On March 9, 2022, Engine publicly disclosed its intention to not tender its shares for three fundamental reasons, detailed in our public letter to the Board:***

    1) The sale process and its timing were flawed

    2) The $21 per share offer significantly undervalues the company

    3) There is a superior alternative to selling the company for $21 per share

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Transaction overview

On February 22, 2022, Houghton Mifflin announced that it would be acquired by Veritas for $21 per share

Houghton Mifflin capitalization at deal price[1]

Price per Share	$21.00
DSO	*131*
Market Capitalization	**$2,751**
Plus: Debt	325
Less: Cash	(463)
Enterprise Value	**$2,613**

Leverage assumptions

- To finance the transaction, Veritas will borrow at least $1,870M, which implies leverage of 6.9x 2021 Adjusted EBITDA
- In our LBO model throughout this presentation, we have assumed that Veritas will also draw $100 million from the credit facility at closing, implying leverage of 7.3x 2021 Adjusted EBITDA
- This high level of leverage highlights the lenders' confidence in the business and its free cash flow generation

Sources[2]

		Leverage Mult. @ 2021 EBITDA
Revolving Credit Facility	$100	*0.4x*
First Lien Term Loan	1,480	*5.5x*
Second Lien Term Loan	390	*1.4x*
Cash on Balance Sheet	224	
Sponsor Equity	955	
Total Sources	**$3,149**	***7.3x***

Uses[2]

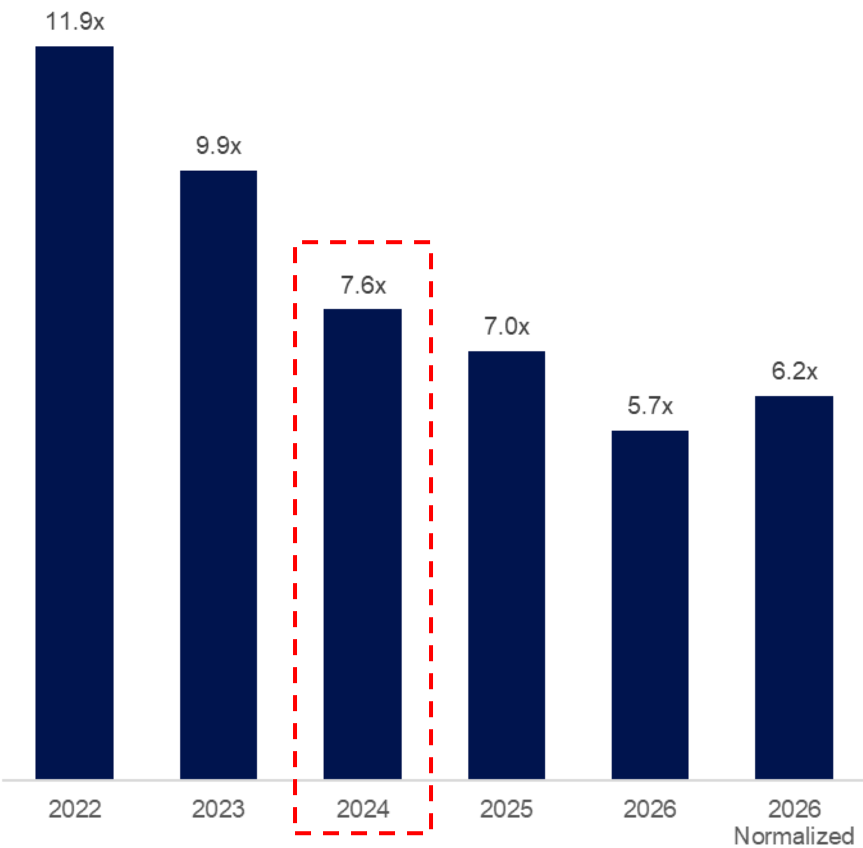
Purchase of Equity	$2,751
Paydown of Existing Debt	335
Change of Control fees	-
Transaction Fees	32
Financing Fees	31
Total Uses	**$3,149**

Source: Public company filings and disclosures
Notes: (1) Cash and debt figures as of 12/31/21
(2) Sources and uses assume deal closes on 3/31/22 using net debt per Schedule 14D-9

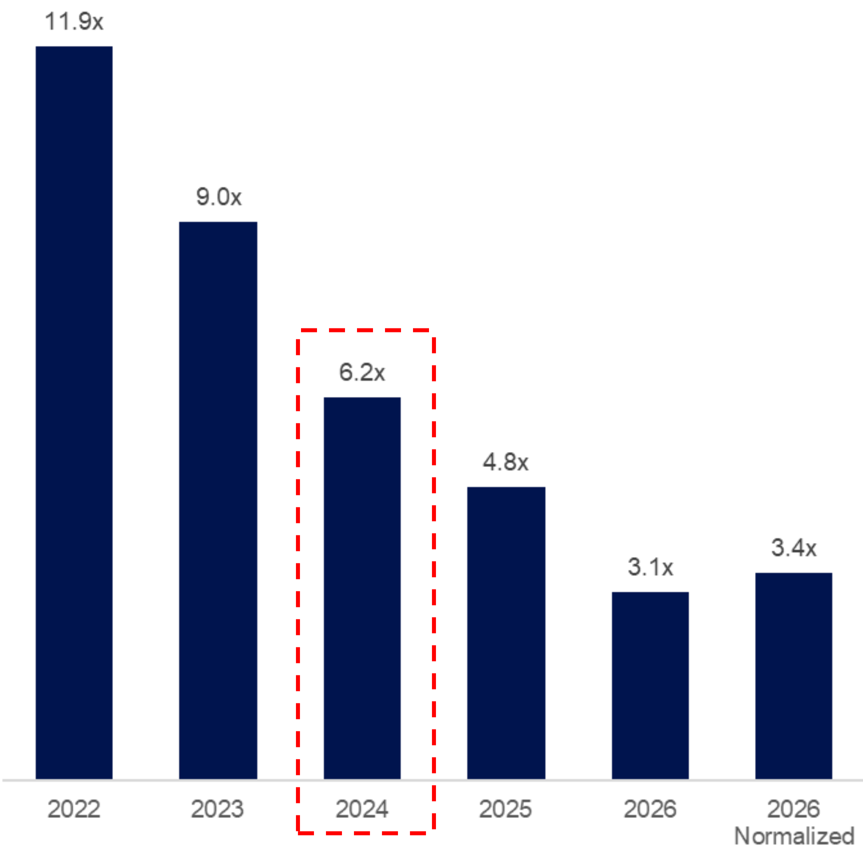
The $21 per share offer undervalues Houghton Mifflin

At $21 per share, Veritas is buying the Company for 7.6x 2024 unlevered free cash flow, a multiple that is too low for a business with the positive characteristics of HMHC. If we include the free cash flow generated over time, Veritas is only paying 6.2x 2024 unlevered free cash flow

Forward EV / Unlevered Free Cash Flow



Forward EV / Unlevered Free Cash Flow (including cumulative cash flow generation)



Source: Company's Schedule 14D-9, filed on March 7, 2022

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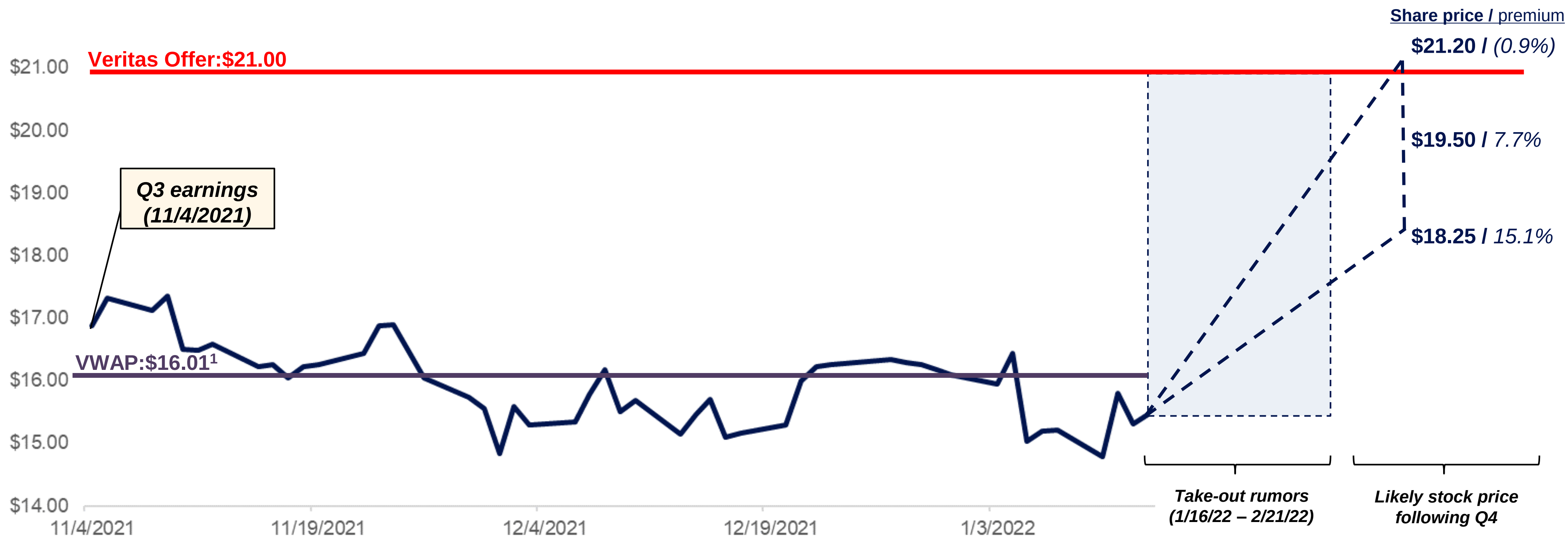
The $21 per share doesn't provide a sufficient premium when compared to where the stock would be following strong Q4 results

Engine believes that following strong Q4 results, HMHC stock would have traded at or above $19.50 per share, implying the Veritas offer represents an insufficient premium of 7.7% instead of the 36% premium the Company is advertising based on an artificial low point tied to a media leak. Applying a 30% change of control premium to that $19.50 number points to a fair transaction value of $25.35 per share

- From Q3 2021 earnings until the media leak, HMHC traded at a VWAP of $16.01, implying HMHC was trading at a multiple of 10.25x the midpoint of the 2021 UFCF guidance of $195 million
- On February 24, 2022, HMHC delivered strong Q4 results with 2021 billings and UFCF ($1,110 billion and $203 million) well above the midpoint of its 2021 guidance ($1,085 million and $195 million). HMHC would also have provided strong guidance for 2022 given management's forecast per the Schedule 14D-9 and announced a refinancing. We expect the stock would have reacted very positively
- If we apply that 10.25x multiple on 2022 UFCF of $220 million and use the Q4 balance sheet information, HMHC would be at $18.25 implying a premium of 15%. Since HMHC would have refinanced its debt and probably would have initiated a share buyback, we believe the multiple would have expanded. At 11x 2022 UFCF, the stock would be at $19.50 per share. At 12x 2022 UFCF, the stock would be at $21.2 per share.

HMHC Stock Chart (11/4/2021 – 1/13/2022)



Notes: (1) $16.01 VWAP calculated from 11/4/2021 to 1/13/2022

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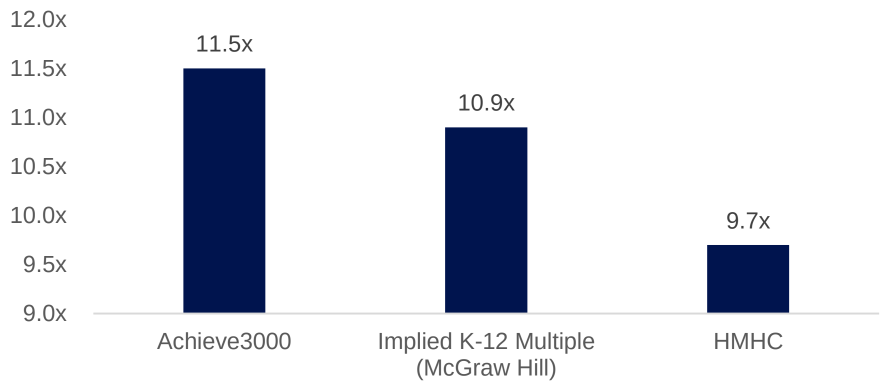
The McGraw Hill transaction points to a $25 per share transaction price for HMHC

Houghton Mifflin compares its deal to the McGraw Hill transaction. This comparison is not justified given the difference in quality between the two businesses. A deeper analysis of the McGraw Hill transaction as well as another recent transaction point to a $25 price per share for HMHC. Additionally, the McGraw Hill deal was announced in June 2021, when there were more uncertainties about the industry's prospects, reflected in lower valuations. For context, HMHC was trading at around $10.50 per share at the time

Transaction multiples[1,2]



HMHC implied share price at different EBITDA multiples[3]

Houghton Mifflin is a higher quality business than McGraw Hill's K-12 business and deserves a higher multiple

Business comparison	Comments	Houghton Mifflin	McGraw Hill
Exposure to higher education	In 2021, approximately 50% of McGraw Hill's EBITDA came from higher education and international. All of HMHC's EBITDA is attributable to the higher value K-12 end market	✓	✗
Transition to digital	A much higher portion of HMHC's billings come from digital products relative to McGraw	✓	✗
Tax attributes	HMHC has significantly more NOLs than McGraw Hill	✓	✗
Business mix	Only a small percentage of McGraw Hill's K-12 billings were extension products as opposed to >50% for HMHC	✓	✗

Prior transactions point to a fair value for HMHC between 11.5x to 12.0x EBITDA multiple, implying a fair transaction price for HMHC between $24.50 and $25.50 per share

Notes: (1) Achieve3000 was acquired by McGraw Hill in November 2021 at 11.5x EBITDA (2) McGraw Hill was acquired for 9.2x EBITDA. Around 50% of McGraw Hill's EBITDA is higher ed and international that deserves a lower multiple. We assume higher ed and international division is worth 7.5x EBITDA, implying McGraw Hill's K-12 division is worth 10.9x EBITDA multiple (3) Assumes balance sheet as of 12/31/2021

The offer is a result of a flawed sales process

The initial forecast lacked credibility and scared potential buyers away

HMHC Initial Forecast (November 2021)

	2021E	2022E	2023E	2024E
Billings	$1,084	$1,160	$1,217	$1,311
% Growth		*7.0%*	*5.0%*	*7.7%*
Revenue	$1,002	$1,099	$1,156	$1,188
% Growth		*9.6%*	*5.2%*	*2.8%*
Adjusted EBITDA	**$196**	**$270**	**$308**	**$319**
% Margin	*19.6%*	*24.5%*	*26.7%*	*26.9%*

HMHC Revised Forecast (January 2022)

	2021A	2022E	2023E	2024E	2025E	2026E	2026E Norm.
Billings	$1,109	$1,188	$1,257	$1,377	$1,428	$1,560	$1,496
% Growth		*7.1%*	*5.8%*	*9.6%*	*3.7%*	*9.2%*	
Revenue	$1,050	$1,121	$1,214	$1,261	$1,347	$1,471	$1,411
% Growth		*6.8%*	*8.2%*	*3.9%*	*6.8%*	*9.2%*	
Adjusted EBITDA	**$270**	**$286**	**$350**	**$361**	**$410**	**$465**	**$431**
% Margin	*25.7%*	*25.5%*	*28.8%*	*28.6%*	*30.5%*	*31.7%*	*30.5%*

Engine's Perspective

- The initial forecast was prepared in November 2021 in the middle of 4Q21. 9-month YTD Adjusted EBITDA was already known at that point at $246 million. **Therefore, the initial forecast implies 4Q21 Adjusted EBITDA of $(50) million.** For context, Q4 2020, Q4 2019, and Q4 2018 Adj. EBITDA were $16 million, $(4) million, and $2 million, respectively. **The $(50) million of Q4 Adj. EBITDA is inconsistent with history and the improved operations of the business**
- Initial forecast implied a very aggressive 38% EBITDA growth from 2021 to 2022, which raises several questions
- We suspect that most private equity buyers decided to pass on this opportunity for the following reasons: 1) being shown a forecast that lacked credibility (large jump from 2021E to 2022E EBITDA and large decline in year-over-year Q4 EBITDA) and 2) a low 2021 Adj. EBITDA that didn't warrant a large premium.
- Barely two months later, in January 2022, the company announced that instead of Q4 2021 Adj. EBITDA of $(50) million, the company generated Q4 2021 Adj. EBITDA of $24 million, a delta of $74 million, completely changing the optics and the attractiveness of the transaction
- **We also struggle to understand why in barely two months, the long-term forecast has changed so dramatically with 2024 Adj. EBITDA going up $42 million from $319 million to $361 million, an increase of 13%**

Source: Company's Schedule 14D-9, filed on March 7, 2022.

Evercore is conflicted and its fairness opinion is riddled with mistakes

- Evercore, Houghton Mifflin's investment bank, is particularly conflicted in this transaction given its relationship with Veritas as stated in the Company's Schedule 14D-9

"In addition, during the two-year period prior to the date of its opinion, Evercore and its affiliates have advised / provided financial advisory or other services to Veritas for which Evercore received fees, in the aggregate, of approximately $75 million"

- The fairness opinion contains numerous mistakes, including:

1. Evercore uses the company's net debt as of 3/31/2022 to derive different equity values in its public company trading analysis. HMHC typically uses significant cash during Q1, uses a little bit of cash in Q2, and generates most of its cash in Q3 and Q4. By using the balance sheet data as of 3/31/2022 when the Company's cash position is close to its low point and not giving any credit for the seasonally strong cash flow generation during the second half of the year, Evercore understates the equity value of HMHC. For context, in Q3 2021, the company generated free cash flow of $265 million, the equivalent of $2 per share!
2. In that same public company trading analysis, Evercore failed to include the tax attributes valuation of around $2 per share when deriving the equity value of the company. These tax attributes are included in the DCF but are excluded from the public company trading analysis
3. Between the tax attributes (around $2 per share) and capitalizing the business at a low point in its cash generation seasonality (>$1 per share), the equity value calculated by Evercore in its public company trading analysis understates fair value by at least $3 per share
4. In its public company trading analysis, Evercore did not consider the much higher multiples of education technology peers when considering the Adj. EBITDA metric
5. In its discounted cash flow analysis, Evercore used discount rates ranging from 11.50% to 13.50%, which is materially higher than what public market investors use in this low interest rate environment

Evercore stands to earn a $32 million fee if this transaction is approved by shareholders

Source: Company's Schedule 14D-9, filed on March 7, 2022.

This deal is likely to generate outsized returns for Veritas with 5-year IRRs between 31% and 37% under management's revised forecast

Using management's revised forecast included in the Schedule 14D-9, we can calculate the company's unlevered free cash flow ("UFCF"). We assume $850 million of fixed costs and 65% flow-through above those fixed costs as management outlined on its Q3 2021 investor call. The UFCF projections are the basis for our LBO analyses. We have assumed conservative UFCF exit multiples

Houghton Mifflin UFCF projections using management's revised forecast

	2022E	2023E	2024E	2025E	2026E	2026E Normalized
Billings	$1,188	$1,257	$1,377	$1,428	$1,560	$1,496
Fixed Costs	850	850	850	850	850	850
Variable Costs	118	142	184	202	249	226
Unlevered Free Cash Flow (UFCF)	**$220**	**$265**	**$343**	**$376**	**$462**	**$420**

Veritas's 5-Year IRR based on management's revised forecast

		Offer price per share									
		$21.00	**$22.00**	**$23.00**	**$24.00**	**$25.00**	**$26.00**	**$27.00**	**$28.00**	**$29.00**	**$30.00**
UFCF Exit Multiple	***10.0x***	*31.0%*	*27.7%*	*24.8%*	*22.3%*	*20.0%*	*18.0%*	*16.2%*	*14.5%*	*13.0%*	*11.6%*
	11.0x	*33.9%*	*30.5%*	*27.5%*	*25.0%*	*22.7%*	*20.6%*	*18.7%*	*17.0%*	*15.4%*	*14.0%*
	12.0x	*36.5%*	*33.0%*	*30.0%*	*27.4%*	*25.1%*	*23.0%*	*21.1%*	*19.3%*	*17.7%*	*16.2%*

Denotes IRR >17.5%

Using management's forecasts, Veritas could pay $26-$29 per share and still earn a 5-year IRR north of 17.5%

Source: Billings per company's Schedule 14D-9, filed on March 7, 2022, UFCF per 3Q21 management presentation

Veritas' IRR under Engine's more conservative forecast

Engine has developed a forecast with more conservative assumptions than the management's forecast in order to stress test Veritas' IRR

Houghton Mifflin UFCF projections using Engine more conservative forecast[1]

	2022E	2023E	2024E	2025E	2026E	2026E Normalized
Billings	$1,180	$1,242	$1,350	$1,396	$1,515	$1,457
Fixed Costs	850	850	850	850	850	850
Variable Costs	132	157	200	218	266	243
Unlevered Free Cash Flow (UFCF)	**$198**	**$235**	**$300**	**$328**	**$399**	**$364**

Veritas's 5-Year IRR based on Engine's more conservative forecast

		Offer price per share									
		$21.00	**$22.00**	**$23.00**	**$24.00**	**$25.00**	**$26.00**	**$27.00**	**$28.00**	**$29.00**	**$30.00**
UFCF Exit Multiple	***10.0x***	*24.9%*	*21.7%*	*19.0%*	*16.6%*	*14.4%*	*12.5%*	*10.8%*	*9.2%*	*7.7%*	*6.3%*
	11.0x	*27.9%*	*24.6%*	*21.8%*	*19.4%*	*17.2%*	*15.2%*	*13.4%*	*11.8%*	*10.3%*	*8.9%*
	12.0x	*30.6%*	*27.3%*	*24.4%*	*21.9%*	*19.7%*	*17.7%*	*15.8%*	*14.2%*	*12.6%*	*11.2%*

Denotes IRR >17.5%

Even under Engine's conservative scenario, Veritas can pay $25-$26 per share and still earn a 5-year IRR north of 17.5%

Notes: (1) Assumes 10% reduction to annual billings growth compared to management forecast and 40% incremental variable costs vs. 35% in management forecast

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Engine believes there are around $140 million of synergies between HMHC and Cambium if both companies are combined

With the help of former HMHC employees, Engine has developed an estimate of the potential synergies between HMHC and Cambium

Synergy Category	Rationale	Potential Synergies
Revenue synergies	Both organizations will benefit from increased market coverage and increased sales efficiencies from selling a broader suite of solutions. For example, the combined entities will benefit from selling Lexia product alongside Houghton's higher market-share reading products or from cross-selling Cambium's strong assessment product into Houghton's customers	$100M billings (5% of ~$2,000M combined billings) or $65M operating income after taking into consideration variable costs
Sales organization rationalization	Between the management of the sales organization and the salesforce (field salesforce, curriculum specialists, and inside sales), we estimate Houghton spends around $120M annually. Given Cambium's slightly smaller scale and higher mix of digital, we estimate the spend on its sales organization at around $80M annually. We expect the combined entity to initially rationalize management and only later rationalize the salespeople (once the products have been integrated on one platform, learning and data analytics have come together, and the salesforce has been trained to sell the larger suite of products)	$10M from management and $20M from the sales force
Overhead	Both companies currently have a number of executive officers, IT, HR, finance, treasury functions, etc. that will be consolidated once the companies merge	$20M
Product development	Both companies have developed strong capabilities around product architecture, platforms, and build capabilities. A combined entity on one platform will lead to material product development efficiencies	$10M
Marketing	We estimate the organizations spend around $70M cumulatively on marketing. A combined entity should be able to consolidate spend and remove around 20% of the costs	$15
Total		**$140M**

Based on discussions with prior employees, we have heard that the rumor mill at HMHC has started, and employees assume the companies will be merged and there will be significant cuts

Source: Publicly available company data and Engine estimates

Veritas' IRR assuming HMHC and Cambium combine

Given the magnitude of the synergies, we believe HMHC and Cambium will eventually combine, leading to a windfall for Veritas. In this LBO analysis, we have conservatively estimated that Veritas realizes 75% of the $140 million synergies or around $105 million by 2025

Veritas's 5-Year IRR based on management's revised forecast and including synergies

UFCF Exit Multiple	Offer price per share									
	$21.00	**$22.50**	**$24.00**	**$25.50**	**$27.00**	**$28.50**	**$30.00**	**$31.50**	**$33.00**	**$34.50**
10.0x	*39.4%*	*34.3%*	*30.1%*	*26.6%*	*23.6%*	*21.0%*	*18.7%*	*16.6%*	*14.7%*	*13.0%*
11.0x	*42.2%*	*37.0%*	*32.7%*	*29.2%*	*26.1%*	*23.4%*	*21.1%*	*19.0%*	*17.0%*	*15.3%*
12.0x	*44.8%*	*39.5%*	*35.1%*	*31.5%*	*28.4%*	*25.7%*	*23.3%*	*21.1%*	*19.2%*	*17.4%*

Denotes IRR >17.5%

Veritas's 5-Year IRR based on Engine's more conservative forecast and including synergies

UFCF Exit Multiple	Offer price per share									
	$21.00	**$22.00**	**$23.00**	**$24.00**	**$25.00**	**$26.00**	**$27.00**	**$28.00**	**$29.00**	**$30.00**
10.0x	*34.7%*	*31.3%*	*28.3%*	*25.8%*	*23.4%*	*21.4%*	*19.5%*	*17.8%*	*16.2%*	*14.7%*
11.0x	*37.6%*	*34.1%*	*31.1%*	*28.4%*	*26.1%*	*23.9%*	*22.0%*	*20.3%*	*18.6%*	*17.1%*
12.0x	*40.2%*	*36.7%*	*33.6%*	*30.9%*	*28.5%*	*26.3%*	*24.4%*	*22.6%*	*20.9%*	*19.4%*

Denotes IRR >17.5%

Based on this analysis, Veritas could pay north of $30 per share for HMHC and still earn a 5-year IRR north of 17.5%

Assumptions: (1) run-rate synergies of $105 million are achieved by 2025 with 25% realized each year until 2025 (2) Restructuring costs equal to $105 million incurred 25% each year until 2025

Engine believes there is a superior plan for HMHC shareholders that would result in $42 per share at the end of 2024

Starting from $21 per share, this recapitalization plan implies a 3-year IRR of 26%

- HMHC refinances its existing debt, conservatively re-levers its balance sheet to 2x EBITDA and executes a Dutch tender offer between $21 and $22 per share
- This allows HMHC to repurchase around 19% of its shares outstanding at $21.50 per share, allowing short-term investors to exit
- This plan leads to significantly more value for long-term shareholders

Recapitalization assumptions[1]

2021 Adjusted EBITDA	$270
Pro forma leverage multiple	2.0x
PF Leverage Capacity	**$540**
Less: Existing Net Debt	(3)
Less: Refinancing breakage costs	(8)
Funds available for repurchase	**$529**
Repurchase price per share	$21.50
Shares repurchased	*25*
Pro forma shares outstanding	***106***
% of shares outstanding retired	*19%*

Implied value creation under Engine standalone plan

2024E UFCF (per management's forecast)	$343
LTM Multiple	*12.0x*
Enterprise value	**$4,111**
Pro forma net debt after recap. (3/31/22)	540
Cash generated (2022E-2024E)	882
Market capitalization	**$4,452**
Shares outstanding	*106*
Price per share	***$41.85***
Upside from $21 per share	***99.3%***

Notes: (1) Assumes interest rate of 6% on incremental debt raised for recapitalization

HMHC has put forward dubious reasons for endorsing the Veritas transaction

HMHC's Perspective

SUPERIOR PREMIUM & VALUE FOR SHAREHOLDERS	• **36% Premium:** the offer price represents a premium of approximately 36% to the unaffected closing price on January 13, 2022, the last trading day before the date on which a media report about the sale process was published
	  • Well above the mean premium paid for comparable businesses[1]
	  • Overall market (S&P 500), education publishers and edtech peer group share prices have declined since the unaffected date[2]
	  • 17% premium to the 52-week high as of the unaffected date; 471% premium to the 52-week low[3]
	• Significant premium to closest comparable transaction: Platinum Equity's acquisition of McGraw Hill Education in 2021[4]
	• This analysis is supported by the fairness opinion of financial advisor, Evercore

Engine's Perspective

- HMHC's stock traded as high as $17.93 per share after the Company reported Q3 2021 results. The media report about the sale process was well-timed after the stock had come down to $15.46 per share providing for a convenient basis for a premium analysis
- As discussed on slide 9, we believe HMHC's stock would have been higher after the announcement of strong Q4 results leading to a share price at or above $19.50 per share, implying an insufficient premium of 7.7% instead of the 36% advertised by the Company
- See slide 10 for relevant discussion regarding the McGraw Hill transaction which points to a fair transaction price of $25 per share for HMHC
- Evercore is conflicted and its fairness opinion contains numerous mistakes

Source: HMHC perspective per Schedule 14D-9/A dated 3/17/22

HMHC has put forward dubious reasons for endorsing the Veritas transaction (continued)

HMHC's Perspective

RIGOROUS BOARD PROCESS	• **Rigorous eight-month process led by a Special Committee of four independent directors**
	• Outreach to 60 parties:
	  • Sales process included outreach to strategic and financial sponsors, large family offices, pension funds, sovereign wealth funds, and social impact funds
	  • Company hosted 11 first round management meetings (including with eight financial sponsors and three strategic parties)
	  • Process demonstrated willingness to engage with any parties that expressed interest, regardless of when they reached out, including after the media report
	• Low breakup fee of less than $0.50 per share would not dissuade topping bidders
	• Ultimate price represents a ~17% premium to the mid-point of acquirer's first round bid
	• Extensive review and consideration of risks and opportunities, including analysis by Evercore
	• Recommendation of the Special Committee and the Board was unanimous

Engine's Perspective

- 58 of the 60 parties never got to see the revised forecasts. Instead, these parties only got to see an initial forecast that lacked credibility
- Why didn't Evercore go back to those 11 referenced parties, submit the revised forecasts and give them another opportunity to bid?
- There are very few examples of private equity firms topping an announced deal of another private equity firm. Once a deal has been announced, a private equity firm won't waste its time and won't want to get into a bidding war with Veritas
- Evercore will definitely highlight the risks to ensure that the Company gets sold and it can get its $32 million fee
- Board recommendation may have been unanimous but HMHC's board members don't seem to have a good handle on valuation as evidenced by the fact that not a single director bought shares in the public market over the last 2 years despite the stock trading below $2.00 per share at some points

Source: HMHC perspective per Schedule 14D-9/A dated 3/17/22

HMHC has put forward dubious reasons for endorsing the Veritas transaction (continued)

HMHC's Perspective

WELL-TIMED PROCESS LAUNCH	• **Locking in share price gains at an appropriate time:** • Positive results from HMH's strategic initiatives had favorable impact on business momentum • Share price reflected the progress already made - up more than 300% since March 2021 • Resurgent interest among public and private investors in the sector created favorable backdrop to explore alternatives • **An attractive offer in the face of uncertain market conditions:** • Uncertain funding environment in future periods, especially after the expiration of Elementary and Secondary School Emergency Relief Fund in 2024 • Industry consolidation has occurred over the past several years creating more competition: • Multiple scaled, competitive platforms backed by deep-pocketed investors able to aggressively pursue growth • General uncertainty surrounding forecasted economic conditions, both in the near-term and the long-term, including the economic headwinds caused by the COVID-19 pandemic and its potential negative impact on budgets of the Company's customers

Engine's Perspective

- Process launched too early when: 1) billings were still below the low-end of the billings range provided at the 2019 analyst day and 2) HMHC was trading at a depressed multiple
- Based on management's revised forecast, there is clearly a good deal of momentum left in the business that shareholders won't benefit from
- The Board wants to highlight the general uncertainty or the risks around the funding environment to scare shareholders. But if that's the case, why is Veritas comfortable levering the business to around 7x EBITDA? Veritas owns Cambium and is therefore intimately familiar with the uncertain funding environment, the competition, the budgets of the company's customers and yet, they are comfortable levering the business to that level!
- We also note that HMHC's management is staying to run the business. If the risks were so high, wouldn't they try to exit?

Source: HMHC perspective per Schedule 14D-9/A dated 3/17/22

Conclusion

- **The Veritas offer undervalues HMHC. It implies Veritas is buying HMHC for 7.6x 2024 unlevered free cash flow (UFCF) and 6.2x 2024 UFCF if the cumulative cash flow is included. This offer also represents a very small premium vs. where the stock would be after the announcement of strong Q4 results. Applying a 30% change of control premium to that stock price points to a fair transaction value of $25.35 per share. Recent comparable deals point to a $25 per share transaction value for HMHC**

- **This offer is a result of a flawed process conducted by Evercore. We believe Evercore is conflicted, and its fairness opinion is filled with mistakes**

- **Under most circumstances, Veritas will earn outsized returns from this transaction. Under management's forecast, Veritas is set to earn a 5-year IRR between 31% and 37% at the $21 per share deal price. These outsized IRRs are further evidence of the inappropriateness of the $21 Veritas offer and simply represent a transfer of value from HMHC shareholders to Veritas**

- **Veritas can pay a significantly higher price and still generate a 5-year IRR above 17.5%. Under management's forecast, Veritas could pay $26 per share and still earn a 5-year IRR between 18% and 23%**

- **A superior plan exists for shareholders. Houghton Mifflin should execute a Dutch tender offer between $21 and $22 per share for 19% of its shares outstanding. Assuming management's projections, Engine believes this plan could result in a share price around $42 at the end of 2024, implying a 26% 3-year IRR for remaining shareholders**