
The McGraw-Hill Companies

# Harold McGraw III

**Chairman, President and CEO**
**The McGraw-Hill Companies**

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## “Safe Harbor” Statement Under The Private Securities Litigation Reform Act of 1995

**This presentation includes certain forward-looking statements about the Company’s businesses and our prospects, new products, sales, expenses, tax rates, cash flows, prepublication investments and operating and capital requirements. Such forward-looking statements include, but are not limited to: the strength and sustainability of the U.S. and global economy; Educational Publishing’s level of success in 2009 adoptions and in open territories and enrollment and demographic trends; the level of educational funding; the strength of School Education including the testing market, Higher Education, Professional and International publishing markets and the impact of technology on them; the level of interest rates and the strength of the economy, profit levels and the capital markets in the U.S. and abroad; the level of success of new product development and global expansion and strength of domestic and international markets; the demand and market for debt ratings, including collateralized debt obligations (“CDO”), residential and commercial mortgage and asset-backed securities and related asset classes; the continued difficulties in the credit markets and their impact on Standard & Poor’s and the economy in general; the regulatory environment affecting Standard & Poor’s; the level of merger and acquisition activity in the U.S. and abroad; the strength of the domestic and international advertising markets; the strength and the performance of the domestic and international automotive markets; the volatility of the energy marketplace; the contract value of public works, manufacturing and single-family unit construction; the level of political advertising; and the level of future cash flow, debt levels, manufacturing expenses, distribution expenses, prepublication, amortization and depreciation expense, income tax rates, capital, technology, restructuring charges and other expenditures and prepublication cost investment.**

**Actual results may differ materially from those in any forward-looking statements because any such statements involve risks and uncertainties and are subject to change based upon various important factors, including, but not limited to, worldwide economic, financial, political and regulatory conditions; currency and foreign exchange volatility; the health of debt and equity markets, including interest rates, credit quality and spreads, the level of liquidity, future debt issuances including residential and commercial mortgage backed securities and CDOs backed by residential mortgages and related asset classes; the implementation of an expanded regulatory scheme affecting Standard & Poor’s ratings and services; the level of funding in the education market (both domestically and internationally); the pace of recovery in advertising; continued investment by the construction, automotive, computer and aviation industries; the successful marketing of new products, and the effect of competitive products and pricing.**



## World searching for solutions to current economic difficulties

- **Housing prices continue to slide**
  - Probably won’t hit bottom until early 2010
- **Unemployment continuing to rise**
- **Spreads remain wide with light lending activity**
- **Steeper decline expected for U.S. GDP**
  - 4Q 2008: Possibly a 5.9% drop
  - 1Q 2009: 5.8% projected decline

## Will economy bottom out in next six months?

- **Economists expect economy to find bottom in next six months with help of stimulus package, The American Recovery and Reinvestment Act**
- **Existing and prospective programs designed to:**
  - Stimulate spending
  - Revive credit and housing markets
  - Provide relief to the states
  - Boost construction activity
  - Help restore educational funding



## U.S. government supports nearly the entire funding mix

| | |
|---|---|
| **Commercial paper** | **Fed's Commercial Paper Funding Facility (CPFF)**<br>**FDIC's Temporary Liquidity Guarantee Program (TLGP)** |
| **Term unsecured debt** | **FDIC's Temporary Liquidity Guarantee Program (TLGP)** |
| **Deposits** | **FDIC's Temporary Deposit Insurance Increase**<br>**FDIC's Transaction Account Guarantee** |
| **Secured borrowing** | **At banks:**<br>-**Fed's Discount Window**<br>-**Fed's Term Auction Facility (TAF)**<br>**At broker-dealers:**<br>-**Fed's Primary Dealer Credit Facility (PDCF)**<br>-**Fed's Term Securities Lending Facility (TSLF)** |
| **Equity capital** | **Treasury's TARP Preferred Stock and Warrants** |

## Growing global support for credit markets

- **Bank of England and European Central Bank also have important initiatives**
- **All this activity may underpin Federal Reserve's forecasts for economic growth in 2010**
  - Fed currently projecting a rise in real GDP of 2.5% to 3.3% over 4Q 2009, which is forecasted to decline 0.5% to 1.3%
- **In light of economic uncertainty, MHP focused on:**
  - Managing costs
  - Maintaining liquidity



## Maintaining a strong financial position

- **Reduced prepublication investments in 2009: At $225 million, $29 million less than 2008**
- **2009 free cash flow: Projecting $430 million to $450 million**
  - Comparable to 2008 level, despite projection for lower operating results

## Maintaining a strong financial position

- **MHP’s free cash flow includes payment of dividends**
- **To calculate free cash flow, MHP starts with Cash Provided by Operations and subtracts:**
  - – Prepublication investments
  - – Purchase of property and equipment
  - – Additions to technology projects
  - – Dividends
- **MHP has cash to fund operations, make investments, pay down debt and return cash to shareholders**



## Returning cash to shareholders: A consistent dividend record

- **MHP raised the 2009 dividend**
  - – One of only 26 companies in the S&P 500 to increase dividend for at least 36 consecutive years
  - – Annualized rate for 2009 is $0.90, up 2.3% over the last year

# McGraw-Hill Education



# Improved outlook for education funding

- **Strong political and public support for improvement in el-hi education**
- **$106 billion for education in new federal stimulus package**
- **McGraw-Hill Education's analysis:**
  - Both direct and indirect benefits

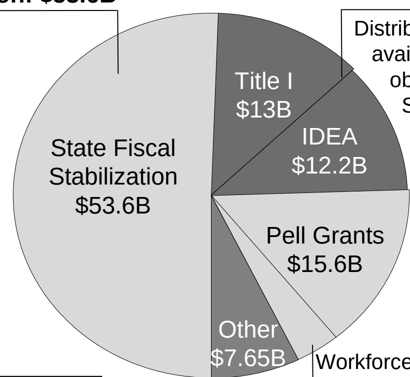
# How the $106 billion will be distributed

**State Fiscal Stabilization: $53.6B**

Funds may be used to restore K-12 and higher education budget cuts, school modernization and any activity authorized by Elementary and Secondary Education Act (ESEA), Individuals with Disabilities Education Act (IDEA), or Federal Perkins Loan Program

**Title I and IDEA: $25.2B**

Distribution becomes available in 2009 for obligation until Sept 30, 2011




Workforce Investment Act: $3.95B

- **Product opportunities exist**
- **Indirect MHE benefit**
- **No anticipated MHE application**



# Potential benefits for McGraw-Hill Education

| *Likely Funding Outcomes* | | *MHE Advantages/Benefits* |
|---|---|---|
| **ELEMENTARY, SECONDARY** | | |
| **State Fiscal Stabilization** | ↔ | **State restoration of education cuts may help maintain instructional material funds and eliminate adoption delays** |
| **Title I** | ↔ | **Breadth and depth of reading, math, and intervention products, coupled with urban market strength** |
| **Individuals with Disabilities Education Act (IDEA)** | ↔ | **Strong special education products, especially early literacy** |
| **Workforce Investment Act (WIA) and Federal Perkins Loan Program** | ↔ | **Career and vocational materials, contemporary Graduate Equivalency Degree (GED) materials, and Tests of Adult Basic Education (TABE)** |
| **Enhancing Education through Technology** | ↔ | **Formative assessment and intervention strength: Acuity, Jamestown Reading Navigator** |

# Potential benefits for McGraw-Hill Education

| *Likely Funding Outcomes* | | *MHE Advantages/Benefits* |
|---|---|---|
| **COLLEGE & UNIVERSITY** | | |
| **State Fiscal Stabilization** | ⟷ | **Help offset state education budget cuts** |
| **Pell Grant increases**<br>**$2,500 tuition tax credit**<br>**(includes course materials)** | ⟷ | **Leading publisher of higher education materials** |



# U.S. Secretary of Education promises swift distribution of funds

- **Department of Education will post specific guidelines and timetable for each funding stream on www.ed.gov**
- **Goal: Get half the money to states within 40 days and the remaining half within six months**
  - Recipients have approximately two years to spend the funds

## Potential impact of new funding on the elementary-high school market

- **Protect the 2010 and 2011 state adoption schedule**
- **Restore funds to first-year purchases in adoption states**
- **Fund vocational and technical career programs**
- **Mitigate funding pressures in the open territory market**



## Outlook for 2009 state new adoption market

- **2009 state new adoption market still estimated at $675 million to $725 million**
  - More dollars available in 2010 and 2011
- **Only two significant changes to 2009 schedule**
  - Florida: Eliminated K-12 music
  - South Carolina: Reduced math from K-12 to K-5 but planning to buy 6-12 math in 2010

## Outlook for 2009 state new adoption market

- **California and Florida remain key adoption states**
  - Florida: New adoption opportunity is in 6-12 literature
  - California: Buying K-5 reading and second year of math adoption
- **California's new budget includes $355 million for instructional materials in fiscal year 2009 and $340 million in 2010**
  - Situation could improve; funding from stimulus plan is not reflected in California's new budget



## In the field, annual product selection process is moving ahead normally

- **Regional meetings organized by state education departments are proceeding normally**
  - Allow listed publishers to present their programs to local educators
- **Meetings fairly well attended and generating follow-up presentations from our sales reps**

## Need more clarity on impact of stimulus before changing 2009 forecasts

- **Still early days in 2009 el-hi school market**
- **Education markets will benefit from stimulus but we will stay with original forecasts in 2009 for now**
  - Elementary-secondary: 10% to 15% decline
  - U.S. college and university market: 3% to 4% growth



## Investing in digital content and data management for growth

- **Growing appetite to acquire 21st century skills**
  - Confluence of content, technology and distribution is improving our ability to meet demand
  - By providing information anytime and anywhere, we can enrich and improve learning while increasing access and mobility
- **New digital offerings help us benefit from this trend**
  - Individualized online tutoring
  - Lecture capture service
  - Assessment placement tools enabling schools to determine most appropriate courses for entering students

# New ways to "connect" college students and instructors

- **New platform bridges printed page with online interactive environment**
- **Integrates an eBook, study tools and assessments all in one place**
- **Offered in 18 disciplines for 2009**


| | |
|---|---|
| Accounting | Psychology |
| Economics | Chemistry |
| Finance | Mechanical Engineering |
| Management | Physics |
| Marketing | Non Majors Biology |
| Business Statistics | Anatomy and Physiology |
| Allied Health | Connect Lucas |
| General Education | Connect Writing |
| Personal Health | Connect Composition |

Higher Education



# New ways to "connect" college students and instructors

- ***"The Art of Public Speaking"* by Stephen Lucas, the leading textbook in its field**
- **Interactive features enhance the print version**


Print: **Lucas, *The Art of Public Speaking***


Online: **McGraw-Hill Connect | Lucas**

# Current material integrated into print and online

- **Print and online materials are updated frequently to incorporate current speeches to better engage students**
  - Chapter 5, “Analyzing the Audience” is correlated to a speech by Barack Obama

View an excerpt from Barack Obama's "A More Perfect Union" in the online Media Library for this chapter (Video Clip 5.1).

RESEARCH LIBRARY KEYTERMS DISCOVER VIDEO

People usually prefer to open controversial topics with a fairly noncommittal position. You might say, "What's going on at the administration building?" Then when you have heard and processed your companion's response, you can present your position accordingly. (You don't have to *agree* with a viewpoint different from your own, but neither do you have to hit your listeners over the head with your own opinion.)

Effective speakers seek to create a bond with their listeners by emphasizing common values, goals, and experiences. Communication scholars call this process *identification*. Barack Obama created identification with his audience by showing how his personal experience reflected both America's troubled racial history and the promise of a brighter tomorrow. "We may not look the same and we may not have come from the same place," he stated, "but we all want to move in the same direction—towards a better future for our children and our grandchildren."

When you make a speech, either in class or in some other forum, keep in mind the need to be audience-centered. Think in advance about your listeners' background and interests, about their level of knowledge regarding the speech topic, and about their attitudes regarding your stance on the topic. As you develop the speech, work on explaining your ideas so they will be clear, interesting, and persuasive to the audience.

At this point, you may be nodding your head and saying, "Of course, everyone knows that. It's only common sense." But knowing a precept and putting it into practice are two different matters. The aim of this chapter is to introduce the basic principles of audience analysis and adaption. Chapters 14-16 will deal with those features of audience analysis unique to informative and persuasive speaking.



# Current material integrated into print and online

- **Students watch video and listen to audio of speeches from the online Media Library**

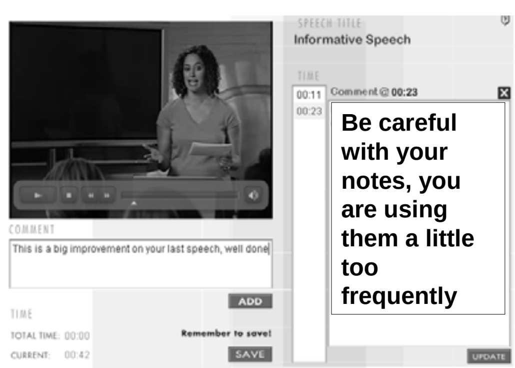
## Current material integrated into print and online

- **Connect Lucas is updated to include latest speeches**
- **Adds timeliness to class discussion**




## Speech Capture benefits students and instructors

- **Students upload video recordings of their speeches**
- **Instructors watch online and insert comments at precise points**
- **Students can view instructors' critiques all in one place**




**Instructor Comment @ 00:23**

## The power of convergence

- **Leveraging content and distribution**
  - Enriches the learning experience
  - Enables instructors to create, administer and grade assignments completely online



## Summing up for McGraw-Hill Education

- **Federal funds may alleviate pressure on state and local education funding**
- **10% to 15% decline in 2009 for el-hi market**
- **3% to 4% growth in 2009 for U.S. college market**
- **For the segment in 2009:**
  - Low single-digit decline in revenue
  - 300 to 400 basis point decline in margin, excluding 2008 restructuring charges, implies an operating margin of 9% to 10%

# Financial Services



# Maintaining guidance for Financial Services

- **Segment: Expect revenue to grow 1.5% to 2% in 2009**
  - High single-digit growth at S&P Investment Services
  - Slight decline in revenue at S&P Credit Market Services

# 2009 outlook for S&P Credit Market Services

- **Non-transaction revenue: Expect to grow 1% to 2%**
  - Resilient revenue stream; accounted for 73% of ratings' total 2008 revenue
  - Nearly 90% is recurring revenue (surveillance fees, annual contracts and subscriptions)
    - Grew in 2008
    - 2009: Growth will be helped by modest price increases
- **Transaction revenue: Expected to decline 10% to 12%**
  - 2008: Declined 55%
  - 2009: Expect better comparisons in second half of year
  - 18% of segment's 2008 revenue from S&P Credit Market Services' transactions



# 2009 outlook for S&P Investment Services

- **2009 revenue increase depends on continued growth in:**
  - Index services
  - Sales of new products and services
  - Modest price increases

## 2009 outlook for Financial Services

- **Segment operating margin expected to decline 250 to 300 basis points, excluding impact of 2008 restructuring charges**
  - Implies expense increase of approximately 6%, resulting in operating margin between 37.7% and 38.2%
- **Strengthening dollar will negatively impact growth in 2009**
  - Foreign exchange rates mainly affect Credit Market Services' revenue
- **Guidance based on current foreign exchange rate projections**

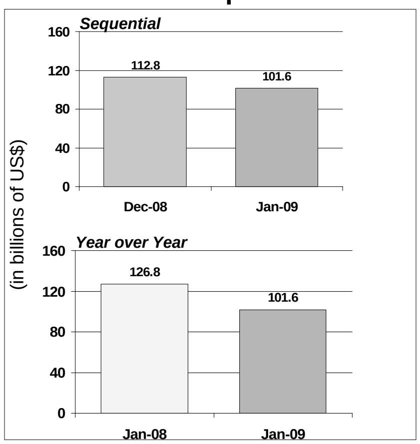


## 2009 outlook for Financial Services

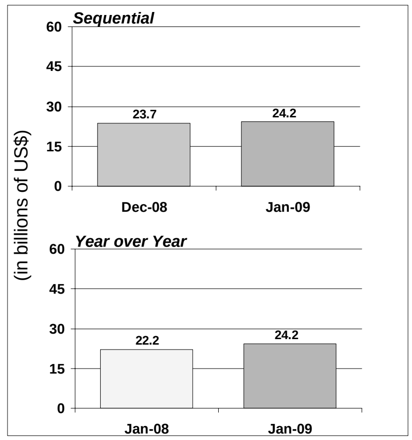
- **On constant currency basis:**
  - Segment revenue projected to increase approximately 5% to 6%
  - Expenses will increase approximately 10% reflecting:
    - Full-year impact of 2008 hiring, mostly overseas
    - Continued investments in fast-growing businesses, but at reduced rate
    - Increased stock-based compensation
    - Benefits of 2008 restructuring actions will partially offset the increased expenses

# Turbulence in credit markets carried into 1Q 2009

## U.S. Corporates




## U.S. Public Finance



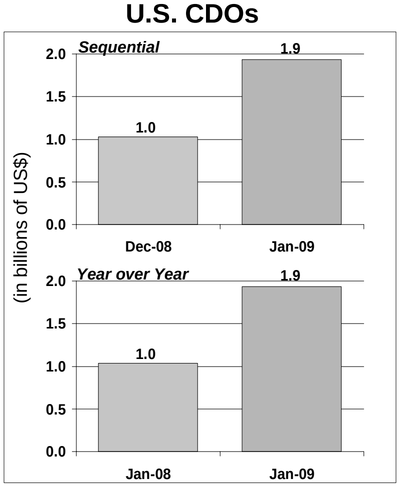



*Source: Thomson Financial, Harrison Scott Publications, Standard & Poor's*

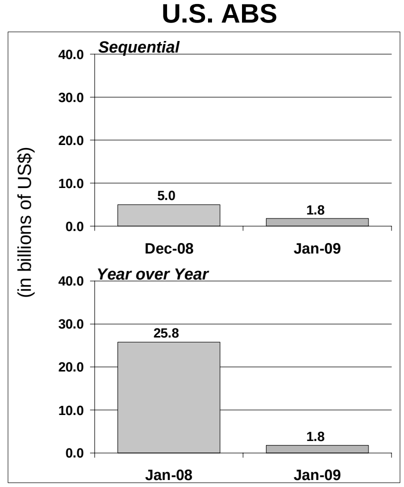
**Jan 08** **Dec 08** **Jan 09**

# Turbulence in credit markets carried into 1Q 2009

## U.S. CDOs




## U.S. ABS




*Source: Thomson Financial, Harrison Scott Publications, Standard & Poor's*



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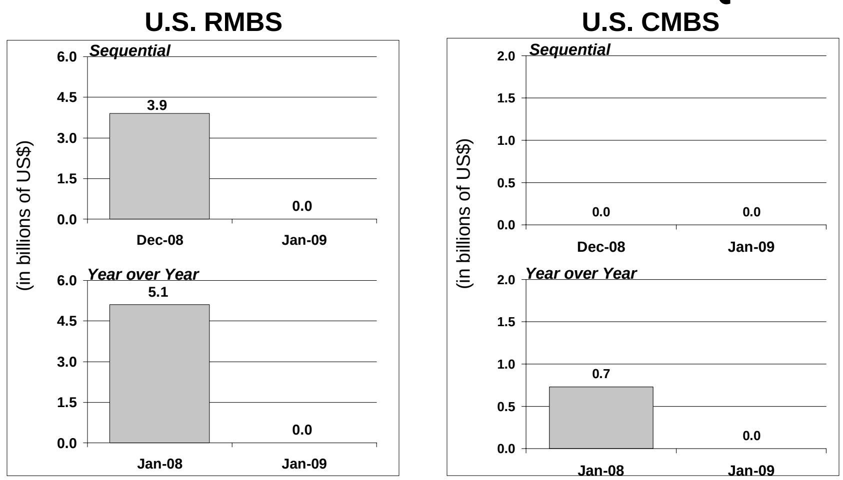



*Source: Thomson Financial, Harrison Scott Publications, Standard & Poor's*

Jan08 Dec08 Jan09



# Strategic goal: An S&P index for all investments

## Equity – U.S.

- Leading market measures of the U.S. equity market

- S&P 500
- S&P 400
- S&P 600
- S&P Total Market
- S&P 500/Citigroup Growth and Value

## Equity – Rest of World

- Families of indices for global and local markets

- S&P Global BMI S&P Global 1200
- S&P/IFCI (Emerging Markets)
- S&P Frontier BMI
- S&P Global BMI Shariah
- S&P/ASX (Australia)
- S&P/TSX (Canada)
- S&P/TOPIX (Japan)
- S&P/CNX Nifty (India)
- S&P BRIC 40
- S&P GCC Indices

## Alternative

- Benchmarking tools for assets beyond stocks and bonds

Real Estate
- S&P/Case Shiller Home Price Residential Real Estate Indices
- S&P Global Property

Commodities
- S&P GSCI
- S&P DTI
- S&P CTI

Other
- S&P Composite Spreads
- S&P Listed Private Equity Index

## Strategy

- Portfolio strategies based on equities, FI, commodities, or innovative asset class allocations

Strategy
- Volatility Arbitrage
- Currencies
- Dividends
- STARS
- Powerpicks
- Global Challengers

Thematic
- Clean and Alternative Energy
- Infrastructure
- Water

Option-Based
- VIX
- Buy Write Index
- Put Write Index

## Fixed Income

- Bond benchmarks for local market investors

- CDS (Credit Default Swap)
- Municipals
- International Treasury
- Commercial Paper
- Leveraged Loan

# More new indices, ETFs launched in January

- **Introduced four new non-correlated indices in January:**
  - S&P Risk Control Indices/Euro
  - S&P 500 VIX Futures Index
  - S&P Financial Trends Indicator
  - S&P CDS index series
- **Three new exchanged-traded funds based on S&P indices listed in January:**
  - iShares S&P/Citigroup International Treasury Bond
  - iShares S&P/Citigroup 1-3 year International Treasury Bond
  - Horizons AlphaPro Managed S&P RTSX 60 (Canada)



# Growth at S&P's financial data and analytics business

- **January release of Capital IQ includes:**
  - Embargoed brokerage research
  - UK share registry data
  - FDIC bank/branch mapping tool
  - Fixed income summary page


**www.CapitalIQ.com**

## A dialogue with regulators, policymakers, market participants

- **S&P's president Deven Sharma outlined 10 goals at CESR (Committee of European Regulators) conference on February 23**
  1. Ratings should be independently derived, credible and unbiased
  2. Regulators should conduct robust periodic inspections of how ratings firms comply with policies for managing potential conflicts of interest
  3. Ratings methodologies, processes and policies should be highly transparent
  4. Meaning and use of ratings should be clear, including level of risk inherent in a rating



## A dialogue with regulators, policymakers, market participants

5. Ratings on new and complex securities should be differentiated either through separate rating scales, or as S&P is doing, by providing information about risk characteristics of these securities
6. Issuers of structured securities should be required to disclose public information about collateral pools that is currently provided to ratings firm confidentially
7. Ratings policies should be applied clearly and consistently to minimize surprises when and if a rating is changed
8. There should be transparency of communication between issuers and rating firms

## A dialogue with regulators, policymakers, market participants

9. Ratings performance statistics should be publicly disclosed, including comparability of ratings across asset classes and geographies
10. There should be competitive market for ratings with more varying views on credit quality from qualified providers



## The goal: Sound, internationally consistent regulation

- **Our outreach program will continue around the world**
- **We expect some resolution of regulatory issues in Europe this spring**
- **Full text of Sharma's remarks at www.standardandpoors.com**

## Assessing legal risk at Financial Services

**Three broad categories of law suits**

1. Underwriter claims based on Securities Act of 1933
   - Purchasers of subprime RMBS assert S&P is liable as an “underwriter” or “seller”
   - S&P is not an underwriter or seller of securities



## Assessing legal risk at Financial Services

**Three broad categories of law suits**

2. McGraw-Hill shareholder claims
   - Includes a class action under Section 10(b) of Securities Exchange Act
   - Motion for dismissal has been filed
3. State law claims
   - Cases assert state-law claims, including fraud claims
   - McGraw-Hill has moved to dismiss allegations, asserting First Amendment protection for its rating opinions

## Summing up for Financial Services

- Growth in non-transaction revenue at S&P Credit Market Services
- Growth in S&P Investment Services
- Slow start to 2009
- Low single-digit revenue growth, probably 1.5% to 2%
- Margin decline of 250 to 300 basis points, excluding 2008 restructuring charges



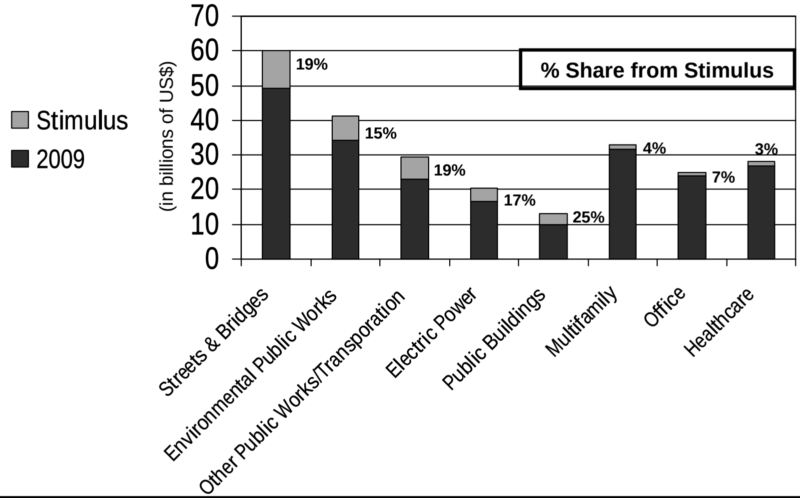
## Information & Media

## Information & Media: Benefits from new federal stimulus package

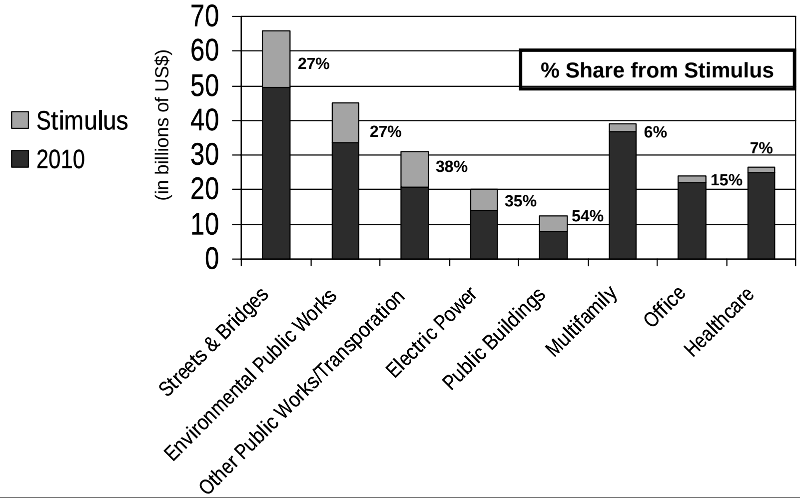
- **Worth $130 billion to McGraw-Hill Construction's customers**
- **Will stimulate more construction activity for the next three years**
  - 2009: Adds 7.6% to market, bringing total construction to $494 billion
  - 2010: Adds 10.6% to market, bringing total construction to $542 billion



## 2009 construction activity helped by stimulus effect



## 2010 construction activity helped by stimulus effect






## McGraw-Hill Construction will capitalize on stimulus package

- **Funding reinforces core strength as an industry leader**
  - Dodge: Tracking construction project leads
  - Sweets: Finding building products
- **Stimulus package also makes green projects more important**

# McGraw-Hill Construction will capitalize on stimulus package

- **McGraw-Hill Construction has been pioneering "green"**
  - MHC tracks green projects and green market opportunities
  - Award winning editorial content of green project and product information (e.g., GreenSource)
- **Stimulus green drivers:**
  - **Renovation and green the primary focus: $27+ billion**
  - **Investment in renewable energy and conservation: $23+ billion**
  - **Residential energy efficiency**



# Outlook for Information & Media segment

- **Too soon to change forecast for this segment**
- **We expect revenue to decline in the low single digits despite continued growth at Platts**
- **Advertising environment is challenging and auto market is in turmoil**
- **Broadcasting group faces tough comparisons to 2008 given strong political advertising**
- **We expect operating margin to decline 200 to 300 basis points, excluding 2008 restructuring charges**
  - Implies 7.5% to 8.5% margin with expenses flat, largely due to benefits of 2008 restructuring actions

## Summing up for Information & Media

- **Low single-digit decline in revenue**
- **200 to 300 basis point decline in operating margin, excluding restructuring charges in 2008**
- **Growth in information products will be offset by declines in advertising**
- **Need to see when stimulus package will benefit McGraw-Hill Construction**



## Summing up for The McGraw-Hill Companies

- **Expect 2009 to get off to slow start**
- **Forecast for 2009 unchanged**
  - Consolidated 2009 revenue to decline 1% to 2% compared to 2008
  - EPS in range of $2.20 to $2.30, but before any benefits of new federal stimulus and financial markets rescue package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platts
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AVIATION WEEK
Mc Graw Hill
Education
J.D. POWER AND ASSOCIATES
BusinessWeek
The Voice of The Customer
STANDARD & POOR'S
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February 26, 2009