The McGraw-Hill Companies

McGraw-Hill Growth and Value Plan

Investor Presentation

Prepared Remarks
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Donald Rubin
Senior Vice President, Investor Relations
The McGraw-Hill Companies

Good morning. We welcome a worldwide audience to this morning's call with The McGraw-Hill Companies' senior management.

Earlier this morning, the Company issued a news release announcing a comprehensive Growth and Value Plan to increase shareholder value. Today's call will address that plan, which includes the planned separation of McGraw-Hill into two focused companies.

On this slide is the agenda for this morning's conference call. After today's presentation, we will open the call to take your questions.

During the conference call today we are providing adjusted operating income information. This information is provided to enable investors to make meaningful comparisons of the Company's operating performance between periods and to view the Company's business from the same perspective as management's. The investor presentation contains an exhibit that reconciles the differences between the non-GAAP measures and the comparable financial measures calculated in accordance with U.S. GAAP.

Before we begin, I need to provide certain cautionary remarks about forward-looking statements. Except for historical information, the matters discussed in the teleconference may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including projections, estimates, and descriptions of future events. Any such statements are based on current expectations and current economic conditions and are subject to risks and uncertainties that may cause actual results to differ materially from results anticipated in these forward-looking statements. In this regard, we direct listeners to the cautionary statements contained in our Form 10-Ks, 10-Qs, and other periodic reports filed with the U.S. Securities and Exchange Commission.

We're aware that we do have some media representatives with us on the call. However this call is for investors and we would ask that questions from the media be directed to Patti Rockenwagner in our New York office at (212) 512-3533 subsequent to this call.

Now, I would like to turn the call over to Harold McGraw III, chairman, president and CEO of The McGraw-Hill Companies.

Terry.

Harold McGraw III
Chairman, President and CEO
The McGraw-Hill Companies

Thank you, Don. Good morning everyone. Let me say at the outset I very much appreciate you all for joining us on such short notice.

With me today are:

- Jack Callahan, Executive Vice President and Chief Financial Officer,
- Lou Eccleston, President of McGraw-Hill Financial, and
- Glenn Goldberg, President of McGraw-Hill Information and Media.

As part of this call, I have asked each of them to review important aspects of our new Growth and Value Plan, and we will be laying this out as we go here.

In the future, you will also be hearing from Doug Peterson, the new president of Standard & Poor's Ratings, our credit ratings business. But this is Doug's first day with us and he is meeting with his new team downtown and so we will get him at a later date.

This is a very exciting and a very special day for McGraw-Hill and an equally important one for our investors. But I would also add that today's announcement is one more announcement in the many announcements that we have had over our 123-year history. It is all about markets. It's all about customers and about their needs and changing needs. And it's about our ability to respond to them, to the benefit of our shareholders, to our customers, and to our employees. That's what today's announcement is all about.

Today's announcement stems from the comprehensive, strategic portfolio review process that began in mid-year 2010. Along with the creation of McGraw-Hill Financial last November, we have taken decisive actions to move toward a focused, growth-oriented operating company model while returning cash to shareholders.

At the same time, we have continued to deliver strong financial performance, recently reporting an 11.5% year-over-year increase in diluted earnings per share and a 10.5% increase in net income for the second quarter of this year.

In going through the review process, we have listened very carefully to our shareholders and we appreciate their ideas and suggestions for creating value. Many of the suggestions mirror our own thinking as you will have seen in this morning's news release.

As this slide shows, the Growth and Value Plan has three key components:

- The first is to transform McGraw-Hill from a holding company into two focused, industry-leading, publicly traded operating companies: McGraw-Hill Markets, focused on the global capital, commodities and commercial markets, and McGraw-Hill Education focused on educational services and digital learning.

During the review by our Board and external advisors every option for the portfolio was reviewed. After thorough analysis, the Board unanimously determined that the best way to deliver enhanced shareholder return was to separate into two operating companies that would have the scale, the financial flexibility, and strong market positions.

- Second, we are stepping up our focus on reducing costs to ensure efficient structures for the two different companies.
- Third, we are accelerating the pace of share repurchases. In the third quarter under the existing buyback program, we have to-date repurchased 6.4 million shares at a cost of $240 million. Year-to-date, we have bought back 14.1 million shares for $540.6 million and we now have a target of $1 billion for stock repurchases this year. Going into 2012 we will still have well over 30 million shares remaining on our current authorization, providing us the flexibility to enhance this buyback program.

We are planning a tax-free spinoff of education to shareholders by the end of 2012 at which time shareholders will hold stock in two publicly traded companies.

We are confident that execution of these initiatives will drive superior shareholder return.

The goal of this plan is to create two focused global leaders:

- **McGraw-Hill Markets** is a leading provider of content and analytics to the capital and commodities markets, delivering integrated solutions across all asset classes through iconic brands with overlapping customer bases and interconnected markets.
- **McGraw-Hill Education** is the second-largest global education company, capitalizing on digital, global, and education services growth opportunities.

The Growth and Value Plan creates two focused and nimble operating companies. Importantly:

- They will have right-sized and aligned cost structures suited to their respective capital requirements;
- The companies will have the financial flexibility to define a capital allocation framework that is uniquely suited to the growth profile of each company; and
- For our shareholders, these companies will present two “pure-play” investment opportunities.

McGraw-Hill Markets provides content and analytics to markets worldwide. Close to 90% of revenue is derived from capital and commodities markets, with the remainder from leadership positions in attractive commercial markets.

This business enables markets to both function and grow by informing decision-making on trillions of dollars of assets across world markets. McGraw-Hill Markets’ distinct content and benchmarks across fixed income, equity and commodity asset classes create unique insights and solutions for customers and, when combined with its global scale, allow the company to more aggressively invest in new international market entry, content creation, monetization, and technology innovation in delivering solutions to customers.

McGraw-Hill Markets is approximately a $4 billion business, with double-digit revenue growth potential, excellent margins, and terrific returns on capital.

Let me shift to our other independent company, McGraw-Hill Education. McGraw-Hill Education is a leading player in the worldwide education marketplace. Although we will cover Education in greater detail shortly, I want to make the point that this company — which is the second-largest global education player — is well positioned right out of the starting gate. It has iconic brands with high-quality content that are well regarded and trusted in the global marketplace.

Our strategy will be to capture growth from multiple sources, including the continued uptake in digital content, innovation in educational services, and the demand for education that provides 21st century skills. The company is well positioned in the high-growth developing countries, namely Brazil, India and China (BRIC) as well as other emerging markets where economic progress is unleashing pent-up demand for education at every level and education spending is increasing at double-digit rates.

The company has and will have solid cash flow, with margin expansion opportunities.

At this point, let me ask Jack Callahan, our Chief Financial Officer, to describe and focus on some of the next steps.

Jack Callahan
Executive Vice President and Chief Financial Officer
The McGraw-Hill Companies

Thanks, Terry. We will drive hard to launch two new companies by the end of 2012. Important work started some time ago, but much more needs to be done.

We are in the midst of an extensive cost reduction program. The initial scope is corporate expense, shared administrative and technology costs across the organization. The cost base in this initial scope is over $1 billion in current costs. In addition, this program will disaggregate shared services and establish two appropriately sized corporate centers. Overall, our goal is to significantly reduce cost base across both companies. We will provide updates on our progress as the program moves forward.

The detailed transaction plan will also include establishing the capital structure and dividend policy and identifying leadership teams. We will need to make several regulatory filings and secure a tax ruling and, of course, the Board will need to approve the final structure.

While there is a lot of work to do, we have a focused execution plan and teams in place working diligently to execute it. Overall, it is an exciting opportunity to create two new leading, global companies.

Now let me turn it back over to Terry.

Harold McGraw III
Chairman, President and CEO
The McGraw-Hill Companies

Thanks, Jack. It is very exciting and there is a lot of work to be done here as we shift to the broader execution plan. Let me now move from the announcement overview into a more detailed discussion of the two companies. Let me begin with McGraw-Hill Markets.

On this slide, you will see the key investment highlights of a pure-play company focused on growth. No other player has:

- The brands,
- The scale,
- The global presence,
- The leading market position,
- The breadth of offerings, or
- The channel strength.

This slide demonstrates McGraw-Hill Markets' leadership position in the content and analytics space. The breadth of content and capabilities, combined with their high value in each asset class, is the linchpin of our ability to meet customer needs and to leverage a wide range of distribution channels.

This slide illustrates that our capital and commodities businesses are on the cutting edge of four global mega trends:

- The global growth of capital markets,
- The globalization of commodities,
- The globalization of industries, and
- Technological innovation.

All of these mega trends create growth opportunities for S&P, our ratings business; for Platts; for S&P Indices; and for S&P Capital IQ.

McGraw-Hill Markets works as one company because it provides essential, high-value content to an interconnected global customer base, with enhanced capabilities via multiple channels.

Not so obvious, but certainly important to the business model, are the multiple channels we employ to deliver content to customers through a range of exclusive, proprietary, and open channels and data feeds. This is a true differentiator that both defines part of our value proposition and provides a platform for growth.

The next slide is a snapshot of the scope of our offerings and how our ubiquitous benchmarks provide the transparency needed to drive and create markets.

The pervasive use of our market leading credit ratings and equity indices are well known, but I want to focus again on Platts and why it fits so well in the McGraw-Hill Markets business. Platts:

- Is very attractive financially,
- Offers solutions that address linkages of commodities and broader capital markets,
- Offers a template in oil for direction of several other commodities, and
- Is a very global business that helps leverage other McGraw-Hill Markets capabilities in new international markets.

On this slide, we are showing you how the McGraw-Hill Markets' key brands offer customers complete business and financial information solutions. We've shown here four actual customers with names withheld — a global bank, a top institutional investor, a major oil company, and a large industrial corporation. Simply put, we have a unique ability to design offerings and analytic solutions to help meet their multi asset class challenges.

As you can imagine, they have different needs and use our data and information in different ways or for different purposes, but the salient point is that these disparate organizations all procure numerous products and services from what will become McGraw-Hill Markets. Obtaining data from a single source will increasingly be a great advantage for them…and a great opportunity for us to better serve customers.

Here we show you in more detail our varied distribution channels which enable us to reach so many customers in so many ways with essential, high-value content. Simply put, our strategy is to own and commercialize high-quality brands and content and then distribute it to clients in any fashion they wish.

Ratings continues to be a very strong performer delivering double-digit revenue and profitability growth. It is positioned for continued outperformance.

The expansion of global growth markets with increased demand for financial services and products as well as the need for greater transparency will drive the need for credit. There are huge refinancing requirements. It is estimated that there is about $8 trillion of debt maturing through 2015 in the global corporate loan and bond markets.

At this point, let me ask Lou Eccleston, President of McGraw-Hill Financial, to talk a little bit about the strength of our S&P franchise and what it provides in terms of a great platform for expansion for McGraw-Hill Markets.

Lou Eccleston
President, McGraw-Hill Financial
The McGraw-Hill Companies

Thank you, Terry.

Our far-reaching international presence provides an ideal growth-oriented platform for McGraw-Hill Markets, where our scale and our market position allows us to capitalize on growth trends across asset classes and around the world, as well as in fast-developing emerging markets.

With offices worldwide and a 20% increase in international revenues from the first half of 2010 through the first half of 2011, we already have a strong and growing foundation.

As growth accelerates in the BRIC economies, for example, McGraw-Hill Markets is already on the ground and positioned to help drive that growth and to benefit from it as well. Standard & Poor's Ratings plays a key role in local markets globally by enabling corporate funding, helping to create new jobs, and developing robust liquid capital markets.

The importance of Platts' information to the robust commodity markets in China and in Brazil gives us additional traction in those markets and considerable room for expansion.

As you look at this slide you can see we have already successfully deployed the new operating model structure. McGraw-Hill Financial was a step along the path towards creating McGraw-Hill Markets.

In November 2010, we created this segment in order to unlock value in our assets by scaling our technology infrastructure and data management resources, leveraging our core data and analytic capabilities across market segments, and building an integrated global client organization.

In the process, we not only came up with a superior operating model, we came up with a better way to serve our customers' needs. We focused management and the organization, we rebranded to achieve a strong thought leadership position, and we launched a go-to-market strategy centered on the commercialization of ratings' intellectual property that is integrated into client workflow solutions.

The results achieved in just a short period of time demonstrate that we do, in fact, have a more productive operating model that can accelerate growth, enable innovation, and help us to better understand our customers' needs and help them succeed.

We have seen year-over-year revenue growth in this area of nearly 15%, margin expansion of 250 basis points, and an operating income growth of more than 25%. We now plan to deploy a similar strategy in Markets and are confident in our ability to deliver consistent growth.

Thanks. Now, back to Terry.

Harold McGraw III
Chairman, President and CEO
The McGraw-Hill Companies

Terrific detail, Lou. Thank you.

Now, I would like to have you hear from Glenn Goldberg. He is the President of our current Information and Media segment and I would like him to focus in on scalable opportunities at McGraw-Hill Markets and of course, talk a little bit more about the gem that is Platts. Glenn….

Glenn Goldberg
President, McGraw-Hill Information and Media
The McGraw-Hill Companies

Thanks, Terry.

This slide shows how the Markets company will address customer needs through scalable capabilities and a growing array of products. Today, all markets are data driven and require technology driven solutions for customers.

All components of McGraw-Hill Markets produce benchmark data that are supported by research and analytical tools. Much of the data and analysis can be used by all market participants and some requires customization, which provides additional commercial opportunities.

But the key point is that skills and systems required to meet the needs of capital market and commodity market participants are converging and increasingly common. We are investing to leverage our technology platforms to develop products and share data across the franchise to better serve market and customer needs.

Importantly, the new structure will promote faster decision making and create a more effective investment and product development environment. And, of course, our global footprint in key financial and commercial centers will be very valuable.

A powerful and common theme running across all components of McGraw-Hill Markets is the creation, maintenance, and value of benchmarks, which in many cases have been decades in the making. These benchmarks are used by a range of participants in the capital, commodity, and commercial markets and are deeply embedded in industry practice and the workflow of our customers.

Platts provides key benchmarks in global markets. Platts' role in promoting transparency and price discovery in the oil markets is well known. Originally, our oil pricing was tied to physical assets trading hands. As the chart shows, we've seen substantial growth in financial products tied to the price of oil, which represents strong growth opportunities for Platts.

Oil, of course, is the largest traded energy commodity, but we see growing trading of gas, steel and iron ore, which was why we recently acquired BENTEK and Steel Business Briefing.

Now, back to Terry.

Harold McGraw III
Chairman, President and CEO
The McGraw-Hill Companies

Very exciting. Thanks, Glenn. Obviously huge opportunities. So let's hear now from Jack Callahan, our Chief Financial Officer, about the financial profile of McGraw-Hill Markets. Jack…

Jack Callahan
Executive Vice President and Chief Financial Officer
The McGraw-Hill Companies

Let's take a first look at the financials for McGraw-Hill Markets based on full-year 2010 results and our results for the first half of 2011.

Please note these are pro forma segment results only, which exclude corporate expense, and the revenue results exclude the impacts of divested businesses. We will have a much more complete view of Markets once the cost reduction and separation plans are complete.

You can see that McGraw-Hill Markets generates strong revenue growth with excellent margins. So far in 2011, the business has delivered 14% growth on both the top and bottom lines. Under the new, more focused operating company structure — including a right-sized cost base — we anticipate that growth and profitability will continue enhancing returns to shareholders. Overall, the McGraw-Hill Markets' economic model is enormously attractive.

The businesses that comprise McGraw-Hill Markets share a common, robust financial profile characterized by double-digit revenue growth potential, strong underlying market fundamentals, and attractive revenue characteristics marked by a significant amount of recurring and global revenue. The businesses also have strong margins and operating leverage. They share data collection and global distribution infrastructures and have scalable cost structures.

We anticipate that the Markets company with its high margins and low capital intensity will generate a terrific return on invested capital. Furthermore, Markets will have the financial flexibility from strong free cash flows and a strong balance sheet to pursue corporate development opportunities balanced by an on-going return of capital to shareholders via dividends and share repurchases.

Importantly, for our investors, McGraw-Hill Markets will be a large cap investment opportunity with excellent growth and value creation potential. Our significant scale will ensure continued access to capital markets which broadens our strategic options over time.

We believe the collective power of McGraw-Hill Markets' brands and the benefits of scale will continue to fuel growth and drive margins. With our size and global presence, we are uniquely positioned to capitalize on the globalizing and consolidating of the capital and commodities information industry.

We have a head start on those who are trying to replicate our proprietary content-driven, multi-channel strategy. When we look across the competitive landscape, we have content and analytics that many envy. Focusing the Markets business on this high growth and return space should step up our valuation. As we have benchmarked Markets to peer companies like those on this slide, we see potential for significant value creation.

With a strong balance sheet, substantial financial flexibility, capital markets scale, and an attractive growth and return profile, we are confident that McGraw-Hill Markets will sustain value creation for shareholders well into the future.

With that, let me turn it back over to Terry.

Harold McGraw III
Chairman, President and CEO
The McGraw-Hill Companies

Thank you, Jack. At this point, let's turn now to McGraw-Hill Education. As is the case with McGraw-Hill Markets, the separation of Education will create a leading, pure-play company, this one focused on educational services and learning technology, and on growth and value.

McGraw-Hill Education is the world's second largest education company. In addition to the strength of its world-class brands and high-quality content, the education business will feature a seasoned global sales team, financial flexibility, and strong cash flow generation.

As one of the few prominent players serving the K–12 and higher and professional education markets globally, it will be well positioned to capitalize on the significant growth opportunities in educational services and global growth markets as well as to lead the transformation to digital education.

The next slide shows you McGraw-Hill Education as it is today. Our world-class brands are established market leaders providing K–12 and higher and professional education products and services globally. We offer solutions in more than 65 languages in 110 countries. While much of our revenue is still domestic, we have a strong foothold in important growth markets and have global product teams that develop and leverage our content tools and solutions. Additionally, 95% of our K–12 and college texts, along with 6,000 professional titles, are available via electronic delivery. We are also a leader in adaptive education technology.

As an independent company, McGraw-Hill Education will have greater flexibility to develop and deploy new digital products and strategies which are an increasingly critical part of delivering value.

Internationally, McGraw-Hill Education will be better positioned to capitalize on education spending in emerging markets, which are projected to continue to grow at double-digit rates. Skills development opportunities in China and India are one area of potential growth as are so-called school-in-a-box offerings that provide a broad range of services including content, curriculum development and professional training. Those can facilitate the rapid development of school systems.

The most important fact here is that education, educational services, and digital learning are the most critical elements of building and developing tomorrow's workforce, which will produce the growth, the innovation, the creativity and, yes, the hope for any country's future. The new Education company will leverage its head start in digitization and globalization to capitalize on key growth trends in these areas. It will also extend its existing capabilities to drive expansion in educational services. These efforts can be supported with targeted acquisitions or partnerships, many of which are in place today.

Additionally, resource allocation will be optimized to create long-term value. This means deploying capital as appropriate to support our growth strategy, developing an integrated and focused organizational structure, and rationalizing the cost structure to enhance efficiency.

As we sharpen our focus on growth and value, I want to summarize our three-part plan to generate superior shareholder value:

- First, our Growth and Value Plan will create two clearly defined, high-performing operating companies that are structured to meet customer needs and positioned for sustainable growth and shareholder value creation in rapidly evolving global markets. We believe that this two-company approach will result in greater shareholder value, with less risk and complexity than other alternatives.
- Second, we are determined, as Jack was saying, to significantly reduce costs to ensure efficient operating structures for the two new companies focused on the development of those two companies.
- Third, we are also stepping up the pace of our share repurchases with a target of $1 billion by year end.

In summary, today's announcement is a significant milestone in the history of our 123-year-old company, which has always been dedicated to the growth of societies and advancement of knowledge. We will continue that proud tradition with the creation of these two new companies — McGraw-Hill Markets, with an increasing number of opportunities to enable global market growth; and McGraw-Hill Education, advancing learning and skill development in communities worldwide.

How we are organized today is a function of where we have been. Importantly, how we will be organized tomorrow will be a function of where we are going. And I can't emphasize that enough. Today's organization structure is a function of how we were doing what we were doing. How we go forward at this point, we will organize to be able to meet those kinds of needs.

Each company presents a transparent and compelling investment proposition for distinct investors who will benefit from the value-enhancing characteristics of two pure-play companies, both with the scale, capital and cost structures to fully leverage their world-class franchises, iconic brands, and leading market positions. We are all very excited for the opportunities that this next stage will bring for these two companies. And also for our shareholders and certainly for our employees.

With that, I thank you. I would just say that in terms of the next steps here in the immediate days and months ahead, we will be spending dedicated time talking to investors, employees, and customers. Much work needs to be done and I look forward to keeping you apprised of our progress as we go.

To access the accompanying slides online, go to:
http://investor.mcgraw-hill.com/phoenix.zhtml?c=96562&p=irol-EventDetails&EventId=4197197

"Forward-Looking Statements"
The forward-looking statements in this Growth and Value Plan (identified by the future tense and words like "expects," "targeted" and "projected") involve risks and uncertainties, are subject to change, and actual results may differ materially from the Company's expectations, based on various important factors, including worldwide economic, financial, liquidity, political and regulatory conditions; the health of debt (including U.S. residential mortgage-backed securities and collateralized debt obligations), equity and commodities markets, including possible future interest rate changes; the health of the economy and in advertising; the level of expenditures and state new adoptions and open territory sales in the education market; the successful marketing of competitive products; and the effect of competitive products and pricing. Additional factors that could cause results to differ materially from those described in the forward-looking statements can be found in McGraw Hill's 2010 Annual Report on Form 10-K which, along with the Company's other filings with the SEC, are available on the SEC's website (www.sec.gov).