The McGraw-Hill Companies

The McGraw-Hill Companies
4th Quarter 2011 Earnings Conference Call

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

Good morning. We thank everyone in our global audience for joining us this morning at The McGraw-Hill Companies fourth quarter and full-year 2011 earnings call. I'm Donald Rubin, senior vice president of Investor Relations at The McGraw-Hill Companies.

This morning we issued a news release with our fourth quarter results. We trust you have all had a chance to review the release. If you need a copy of the release and financial schedules, they can be downloaded at www.mcgraw-hill.com.

In today's earnings release and during the conference call, we are providing adjusted revenue and free cash flow 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 earnings release contains exhibits that reconcile the differences between the non-GAAP measures and comparable financial measures calculated in accordance with U.S. GAAP. The results we are reporting also reflect the reclassification of the Broadcasting Group as a discontinued operation following the signing of a definitive agreement in October 2011 to sell this business to E.W. Scripps.

In today's news release and on the conference call, we are introducing new names for some operations to reflect changes being created by our Growth and Value Plan. In each case, more information about the new entity is being provided to investors.

Under the separation plan, the newly named McGraw-Hill Financial company includes five lines of business. They are: S&P Ratings, S&P Capital IQ, S&P Indices, Commodities, and Commercial operations. The segment previously named McGraw-Hill Financial now becomes S&P Capital/S&P Indices. We are providing revenue for both S&P Capital and S&P Indices. And over time, additional financial information will be provided. Information & Media becomes Commodities and Commercial. We are providing revenue for Commodities and Commercial operations, and over time more information will be provided about them as well.

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'd 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

Good morning everyone and welcome to conference call on fourth quarter and full year results. With me, besides Don, is Jack Callahan, our chief financial officer.

This morning I will briefly review our results for the fourth quarter and the full year, and Jack will provide some additional detail. We are going to discuss 2011, a milestone year for The McGraw-Hill Companies. I will provide an overview of the accomplishments of our businesses both across the newly formed McGraw-Hill Financial and McGraw-Hill Education. Then we'll take a look into 2012, which promises to be one of the most momentous periods in our 124-year history of the Company. As always, after our prepared remarks, we will be pleased to answer any questions that you may have about The McGraw-Hill Companies.

2011: Solid Performance

In the fourth quarter, adjusted diluted earnings per share from continuing operations increased 17% year-over-year to $0.63. That excludes $66 million in restructuring charges for severance related to a workforce reduction of approximately 800 positions and $10 million for one-time separation expenses necessary to implement the Growth and Value Plan. Revenue was up 2% and adjusted operating profit grew 8% as results across the portfolio were mixed.

Looking at the year in its entirety, 2011 was the second best year in our history for revenue, operating profit, and earnings per share. Only 2007 topped our performance in 2011. Revenue increased by 3% to $6.2 billion. On an adjusted basis, 2011 net income from continuing operations grew by 6% to $883 million. Adjusted earnings per diluted share from continuing operations increased 9% to $2.91.

2011: Milestone Year for the Corporation

Let me spend a few minutes reflecting on this past year. 2011 was beyond a doubt a landmark year for The McGraw-Hill Companies. We produced a strong performance in the face of volatile market conditions. And we made important decisions that will better position the company for the future and, we believe, increase returns to our shareholders.

There were nine major milestones during the year and they included:

1. The announcement last September of a Growth and Value Plan whose centerpiece is the creation of two strong public companies — McGraw-Hill Financial and McGraw-Hill Education.
2. Significant and rapid progress in realizing the promise of the Growth and Value Plan, including fourth quarter restructuring and the realignment of our benefit plans.
3. The targeting of at least $100 million in cost reductions.
4. The divestiture of the Broadcasting Group at a very attractive price.
5. The expansion of the core Commodities franchise with the strategic acquisition of two new companies in natural gas and steel.
6. The partnership with the Chicago Mercantile Exchange to drive future growth of S&P Indices.
7. The successful combination in 2011 of S&P Capital IQ and S&P Indices in a new segment that leverages resources, creates scale, produces solid growth, and will be a source of new growth opportunities in financial markets.
8. The rapid growth of digital products and services that are transforming the education market and creating enormous new opportunities for McGraw-Hill Education.
9. $1.5 billion of share repurchases in 2011.

We are moving quickly to unlock the value inherent in our Growth and Value Plan. Jack Callahan, our CFO, will provide more detail on the restructuring to date, but we have already taken significant actions to create two efficiently sized corporate structures and separate shared services.

We have established and staffed a Program Management Office with 17 work streams. It is a massive global effort. Teams are focusing on growth opportunities, transaction management, and cost reductions across the enterprise, including business support services and information technology. They are identifying growth synergies and scalable capabilities. We are using the most seasoned and experienced staffers to help us start realizing the benefits of all this work later this year. It is another reason why we are more confident than ever that at least $100 million in cost savings will be realized.

As part of the Growth and Value Plan, we sought opportunities to monetize assets that do not fit with our strategic thrust. That is why we sold our Broadcasting Group to E.W. Scripps at the end of 2011. We generated excellent value for this asset: $212 million in cash and a pre-tax gain of $123 million.

We also want to make strategic investments in areas that we believe will drive future growth. A common theme is our creation of valuable benchmarks for participants in capital, commercial, and commodity markets that become deeply embedded in the workflow of our customers. There are few better examples than Platts and its role in global oil markets. And with new growth opportunities in the trading of gas, steel and iron ore, we expanded the Platts platform by acquiring BENTEK Energy and Steel Business Briefing in 2011.

And in November, we announced another important strategic milestone for our Growth and Value Plan — the joint venture partnership with the Chicago Mercantile Exchange that brings together S&P Indices with Dow Jones indexes once the deal is closed. The new venture provides S&P Indices with a more diversified and enhanced revenue stream. Instead of paying S&P Indices a fixed fee per trade, the CME will pay a share of the profits it makes on the trading and clearing of equity-based futures, swaps, and options on futures.

The proposed joint venture is currently undergoing review by the Department of Justice. Subject to regulatory approval and customary closing conditions, we expect the joint venture to close by the end of the second quarter.

In the midst of all this activity, we continue to return wealth to our shareholders through the payment of dividends and an active share repurchase program. We completed $1 billion in share repurchases over the course of 2011 and late in the year initiated a new accelerated $500 million repurchase transaction. That adds up to $1.5 billion for the year, including $845 million in the fourth quarter.

As you can see, we covered a lot of ground in a short period so we can create later this year two independent public companies that as stand-alones will increase their respective growth prospects and deliver shareholder value.

In recent months, the Board of The McGraw-Hill Companies has been engaged in a number of important initiatives as part of its Growth and Value Plan and has been taking into consideration constructive input from major shareholders, including JANA Partners and Ontario Teachers' Pension Plan, among others. The Company is committed to continue working to deliver value to all shareholders by continually evaluating opportunities to improve its corporate structure and portfolio of businesses, aggressively pursuing additional cost reduction initiatives, accelerating growth, and returning substantial value to shareholders through share repurchases and dividends.

McGraw-Hill Financial: Growth in Volatile Markets

Now, I want to discuss the performance of McGraw-Hill Financial in a little bit more depth. A highlight of 2011 is the demonstrated ability of the operating company we will call McGraw-Hill Financial to navigate successfully through the volatility that characterized capital markets for most of the year and still deliver a solid performance. Revenue for the recently named McGraw-Hill Financial increased 9% and adjusted operating profits improved by 7% in 2011.

A growth driver is the operation we now call S&P Capital IQ/S&P Indices. We have succeeded in creating a scalable organization with a unique, integrated offering for global financial markets. In 2011, it proved to be a resilient revenue and earnings generator and we expect another good year in 2012. Incremental value is being created by leveraging scale, improving the vertical operations, and creating horizontal solutions.

S&P Capital IQ/S&P Indices, which was formerly known as the McGraw-Hill Financial segment, grew its top line at a double-digit rate in 2011. Revenue was up 14% for the year and grew by 11% excluding the acquisition of TheMarkets.com. The operating margin expanded to 30%, up from 26.5% in 2010. Subscriptions account for 73% of the total revenue and grew by 13% in 2011 — a good sign for performance in 2012.

One of the crown jewels is S&P Indices, which produced revenue of $323 million in 2011, an 18% year-over-year increase. S&P Indices generates revenue from a variety of sources:

- There are fees based on assets under management in exchange-traded funds linked to S&P Indices. At year-end 2011, there were $314 billion in assets under management in exchange-traded funds based on S&P Indices. That's a year-over-year increase of 4.5%.

- There are royalties based on the trading volume of derivative contracts listed on the Chicago Mercantile Exchange, the Chicago Board Options Exchange, the Australian Securities Exchange, and the Montreal Exchange. In the fourth quarter, the average daily volume of more than 3.7 million contracts for the major exchange-traded derivatives represented a 26% year-over-year increase. We are paid every time a contract is traded.
- There are also fees for over-the-counter derivatives and retail structured products.
- Finally, there are data subscriptions for our information and research.

Revenue for S&P Capital IQ, which includes Integrated Desktop Solutions, Enterprise Solutions, and Research and Analytics, increased by 13% in 2011 compared to 2010. Capital IQ, the Global Credit Portal and Global Data Solutions all grew in 2011. Capital IQ gained share and increased its number of clients to more than 3,800, a 14% year-over-year increase.

Let me move over to Standard & Poor's Ratings. At Standard & Poor's Ratings, despite lackluster new-issue dollar volume in the closing months of 2011 in the face of the European debt crisis and concerns over an economic downturn, we still produced a 4% increase in revenue for the year. Indeed, the first half of 2011 was quite strong with revenue growth of 14%; but, revenue did tail off in the second half, declining by 5%. Excluding fourth quarter restructuring charges, operating profit in 2011 declined by 4% to $728 million with an operating margin of 41%.

Once again, non-transaction revenue proved its durability, growing by 8% in 2011 to $1.1 billion and accounting for 63% of Standard & Poor's Ratings' total revenue. Non-transaction revenue includes annual contracts, surveillance fees, and a royalty from S&P Capital IQ/S&P Indices to distribute the content. But the growth of non-transaction revenue was partially offset by a 2% decline in transaction revenue in 2011. We expect non-transaction revenue to grow again in 2012. Transaction revenue faces some challenging comparisons after a very, very strong first half in 2011.

We note that regulatory costs for our QCCR program came in essentially on target in 2011 and are expected to increase just slightly this year for 2012.

Looking forward:

- We remain encouraged by the longer term outlook for the bond market. There is a huge pipeline of maturing global corporate debt that will need to be refinanced over the next several years.
- In Europe, increasing bank capital requirements will continue to shift corporate financing from bank loans to public debt markets.
- The recovery of structured finance markets remains problematic.
- More activity in residential mortgage-backed securities and commercial-backed mortgage securities depends on the recovery of residential and commercial real estate markets.
- But we do expect a pick up in auto and credit card issuance to lead to improvement in the asset-backed securities market both in the U.S. and Europe.
- We do anticipate continued volatility in 2012. But we remain optimistic about the growth potential longer term.

We continue to make progress in regulatory and legal matters. In Europe, there is mounting criticism of some of the features of CRA 3, the European Commission's latest proposal for regulating rating agencies. Significantly, the push back is coming from market participants and the European Securities and Markets Authority, or ESMA. A lot of criticism is focused on the issue of proposed mandatory rotation of coverage among rating agencies for certain periods. It is still early days in this latest round with the European Commission, but it is already clear that its new proposals are coming under significant criticism from a wide range of parties, who are concerned about the potential for market disruption and unintended consequences.

Since our last report, the number of lawsuits that have been dismissed outright has grown to 24, and 10 have been voluntarily withdrawn. 7 dismissals by lower courts have been affirmed by higher courts.

We will be appealing the latest Court decision in the CalPERs case. We strongly disagree with the Court's ruling earlier this month that CalPERs had made a sufficient showing to allow the case to proceed. There will be no pre-trial discovery while the appeal is pending. The process could take another 12 to 18 months.

On January 23, we filed a motion for summary judgment in the Abu Dhabi case. Any decision on our motion is probably many months away.

As we said consistently from the very beginning and it is proving out, we continue to believe that the legal risk is low.

Consistent with the Growth and Value Plan strategy, and the divestiture of Broadcasting, we report results for Commodities and Commercial brands, which were formerly named in the Information and Media segment. Revenue for all these brands grew by 10% in 2011 and excluding restructuring charges, operating profit was up 13% with an operating margin of 21%. These operations are increasingly digital and based on subscriptions. Total subscription revenue grew by 13% in 2011 and now accounts for 63% of revenue.

In Commodities, Platts completed another strong year by growing 22% to $419 million. Excluding the acquisition of BENTEK Energy and Steel Business Briefing, revenue was up 15% for 2011. Volatility in energy prices drives demand for Platts' proprietary content, including news, price assessments, and analytics for trading decisions.

Platts, obviously, is one of our gems. We have steadily built this business over the years, creating high value and double-digit growth. In fact, Platts has produced a compound annual growth rate since 1994 of 12%—that's 17 years with a compound annual growth rate of 12%. We like the outlook for this business.

Revenue for Commercial, which includes J.D. Power, McGraw-Hill Construction, and Aviation Week, grew by 2% in 2011 to $477 million. Continued strength in emerging markets, including China, recovery in Western Europe and growth in the U.S. is increasing demand for automotive studies. New digital products like SpecShare®, BuildShare™ and BidPro™ will be key factors in the recovery of McGraw-Hill Construction. More are on the way.

We expect another year of growth in Commodities and Commercial markets in 2012.

These highlights will begin to give you some indication what we are planning for McGraw-Hill Financial.

As this slide illustrates, we plan to report results for five lines of business. In today's earnings release, we provided tables recapping quarterly revenue for 2011 and 2010 for each of these five lines of business. As we move closer to separation, close our deal with Chicago Mercantile Exchange, and realign our cost structure, we will provide greater transparency on the bottom line contribution from these five lines of business.

McGraw-Hill Education: Repositioning for the Digital World

Let's turn now to McGraw-Hill Education.

In 2011, we have a tale of two markets and repositioning of education for the digital world:

- Growth in higher education, professional and international, spurred by digital products and services
- A decline in elementary-high school education

A strong finish in U.S. higher education helped produce 4% revenue growth to $516 million for McGraw-Hill Education in the fourth quarter. Revenue for the year declined by 6% to $2.3 billion. Tight expense controls, lower prepublication amortization, lower reserve requirements, and reduced selling and marketing expenses were all factors in McGraw-Hill Education's 2011 performance.

The growth of digital products and services is fundamentally changing higher education and professional markets. In U.S. higher education, our sales of digital products and services grew by more than 40% and enabled us to gain share in 2011. Digital sales now account for about 20% of our higher education revenue. Homework management products for students are key to this rapid growth.

In professional markets, we are also experiencing strong double-digit growth for e-books and for subscriptions to online professional products. In 2011, nearly 30% of our revenue in professional markets came from e-books, online subscriptions, and apps for mobile devices.

The digital integration of curricula, technology, and distribution is creating significant new global growth opportunities for McGraw-Hill Education by providing new revenue streams, including more subscription-based business, while lowering our costs.

The digital evolution is moving more slowly in the elementary-high school market, but it is picking up speed. Last June, we became the first educational publisher to launch completely digital, cloud-based curricula with our CINCH Learning programs for science and math. These programs are device agnostic, accessible on any computer, tablet, or mobile service.

And as announced earlier this month, we are working with Apple to create enhanced, interactive programs specifically for the iPad. Five high school math and science titles are already available, and we expect to double this number during the year. Our goal is to improve learning outcomes by making learning more accessible, personalized, and engaging.

These dynamics should help McGraw-Hill Education improve its results in 2012.

The decline in school education reflects historically low funding for U.S. elementary and high school markets. Sales in the el-hi market in 2011 decreased by 9.4% to about $3.3 billion, according to the Association of American Publishers. Our performance was heavily influenced by a decision not to participate in several state adoptions due to uncertainty over funding and to challenging comparisons in Texas and Florida where large orders in 2010 did not repeat due to changes in subject categories being purchased.

We will ramp up our participation in the new state adoption market in 2012 to 96%. That's an increase from 75% in 2011, but we expect another challenging year for el-hi publishing as the size of the state new adoption market will decline by an estimated 40%.

2012: A Momentous Year for Change

So, let's sum up.

- In 2011, we produced enormous change in a short period of time and recorded the second best results in our history.
- This year promises to be even more momentous as we prepare for the introduction of two separate companies.
- We see another challenging and volatile year in our markets, but I am confident in the strength of our businesses and the leadership team that was tested in 2011.
- On a consolidated basis for The McGraw-Hill Companies, our baseline earnings per share outlook is $3.25 to $3.35. Actual results will be significantly influenced by the timing of separation and additional cost reduction actions that are still ahead of us—but $3.25 to $3.35 representing 12% to 15% over 2011.
- We will provide regular updates on our progress throughout the year.

Now, let's hear from Jack with some more details on our financial performance.

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

Thank you Terry.

2011 was certainly an active and productive year at The McGraw-Hill Companies. Let's start off with a review of fourth quarter segment operating performance. I want to provide additional detail to the summary Terry provided.

McGraw-Hill Education had an outstanding quarter, with revenue growing 4%, or $20 million, and expenses declining $37 million, yielding adjusted operating profit of $72 million, an increase year-on-year of $57 million. The step up in performance was led by the Higher Education, Professional and International Group with a revenue increase of 8% or $27 million in the quarter. This was partially offset by a modest decline at School Education Group.

Fourth quarter revenue growth was particularly strong in Higher Ed aided by custom publishing and strong digital sales, with Higher Ed digital sales growing more than 40%. Additionally, Higher Ed and Professional both benefited from a significant decline in returns.

Expenses benefited from tight overall expense control, lower prepublication amortization, lower reserve requirements, and lower selling and marketing expenses.

Turning now to McGraw-Hill Financial:
The volatility on the global credit markets certainly had an impact on quarterly results. Revenue was essentially flat, and adjusted operating profit declined 8%.

Let's take a look at the fourth quarter results across McGraw Hill Financial. Overall, a decline at Standard & Poor's Ratings offset continued growth at the other lines of businesses. The global credit markets were down significantly in the fourth quarter. For example, the high-yield market globally was down by almost two thirds. As a result, S&P Ratings' revenue declined 8%, driven by a 26% decline in transaction revenue. This resulted in a $49 million decline in adjusted operating profit.

S&P Capital IQ/S&P Indices had another strong quarter. Revenue grew 8% versus the toughest comps of the year and the lapping of The Markets.com acquisition that closed in the fourth quarter a year ago. Operating profit, driven in part by the continuing leverage of increasing integration across these businesses, grew 29%.

The Commodities and Commercial lines of business revenue also grew 8% driven by continued momentum in Platts aided by the acquisitions of BENTEK Energy and Steel Business Briefing Group. Commercial revenue declined modestly in the quarter largely due to the construction business, although the introduction of new digital products has begun to mitigate the contraction. Overall, Commodities and Commercial's adjusted operating profit grew 2% for the quarter. Margins were impacted a bit by the integration of the acquisitions and the timing of investments.

Let's now review the drivers of consolidated profit growth both for the fourth quarter and the full year.

Adjusted corporate expense was $54 million in the quarter, an increase of $7 million from prior year, largely driven by increased professional fees and incentive compensation. For the full year, adjusted corporate expense increased $9 million or 5% to $173 million. 2011 adjusted corporate expense excludes $17 million in restructuring charges for a workforce reduction of approximately 120 positions as we begin to realign corporate costs. 2011 adjusted corporate expense also excludes $10 million for one-time separation expenses.

The excellent results from McGraw Hill Education drove an increase in fourth quarter consolidated adjusted operating profit of 8%. For the full year, consolidated adjusted operating profit was $1.5 billion, up 5% from last year.

Net interest expense was $18 million in Q4, a modest decline versus prior year. For the full year, net interest expense was $75 million, a decline of $7 million from prior year.

Our effective tax rate from continuing operations was 36.3% for the fourth quarter and the full year, flat versus 2010.

Net income attributable to non-controlling interests was $7 million in the fourth quarter and $23 million for the year. CRISIL represents the overwhelming majority of this number. Adjusted net income from continuing operations grew 10% in the fourth quarter to $184 million. Full year adjusted net income was $883 million, an increase of 6%.

Our diluted weighted average shares outstanding for the quarter was 292.4 million, a 17.9 million decrease from the prior year and an 11.3 million decrease from the third quarter. The decline is due to share repurchases, which more than offset equity related awards. The $500 million accelerated share repurchase transaction we entered into on December 7th had a minimal impact on fourth quarter shares outstanding.

Adjusted earnings per share from continuing operations for the fourth quarter grew 17% to $0.63. For the full year, adjusted earnings per share was $2.91, up 9% versus 2011.

Let me spend a minute discussing several one-time items related to the Growth and Value Plan.

- We completed the sale of non-core Broadcasting Group to E.W. Scripps for $212 million in cash, providing a one-time pre-tax gain of $123 million. This is shown as part of discontinued operations.
- We also implemented Wave 1 of targeted cost reductions by eliminating approximately 800 positions, including activities at Education, corporate/shared services, and selected businesses within McGraw Hill Financial. We incurred $66 million in restructuring charges related to these actions.
- Lastly we incurred $10 million in one-time separation costs. These costs are professional fees directly tied to the work underway to separate the two businesses.
- Restructuring charges and one-time separation costs are both excluded from adjusted earnings.
- We anticipate additional restructuring and separation costs throughout 2012.

Now I will turn to cash flow. As a reminder, we define free cash flow as GAAP cash provided by operating activities less capital expenditures and dividends. Our computation of free cash flow also excludes $48 million in taxes paid on the gain from the disposition of Broadcasting Group. We generated cash flow of $1.1 billion before dividends. After dividends, free cash flow was $807 million versus $881 million in 2010. The modest decline was driven by challenging end of year working capital comparisons.

Turning now to capital allocation. We spent $1.7 billion on acquisitions and share repurchases in 2011: $200 million for acquisitions and $1.5 billion for share repurchases. The most notable acquisitions were BENTEK Energy and Steel Business Briefing Group. Both acquisitions added to Platts' growing platform, adding critical capability in the natural gas and iron ore markets.

Share repurchases were $845 million in the fourth quarter, including $500 million through an accelerated share repurchase program.

Excluding the accelerated share program, we spent $1 billion on share repurchases in 2011, acquiring 24.7 million shares at an average price of $40.48 per share. We have received a substantial majority of the shares underlying the accelerated share repurchase transaction. This transaction will be completed in early 2012. The Corporation finished the year with 276 million basic shares outstanding. Fully diluted shares outstanding at December 31, 2011 were approximately 283 million. Adjusted for the estimated full impact of the accelerated share repurchase transaction, approximately 23 million shares remain under our existing share repurchase authorization.

I will now provide an update on separation. Focus on separation before the end of 2012 requires coordination of multiple complex work streams. Our cost reduction program involves disaggregating shared services and establishing two appropriately sized corporate centers. Wave 1 of the cost reductions are well underway based on Q4 restructuring and the benefit plan realignment. Additional waves of cost reduction are anticipated during 2012, targeting at least $100 million in total cost reductions on a run rate basis by the end of the year. As I mentioned earlier, restructuring and one-time separation costs should be anticipated in 2012.

Let me provide some additional color on our guidance for 2012. Our 2012 baseline guidance is provided on a going-concern basis. It includes benefits of the Wave 1 cost reduction program. It excludes the impact of additional restructuring and one-time separation costs. Our EPS guidance is not dependent on additional share repurchase.

We will provide regular updates as the new leadership teams are formed and implementation plans are finalized.

More specifically, let me provide some details on our growth expectations for 2012:

- For McGraw-Hill Financial overall, we expect high single-digit revenue and adjusted operating profit growth.
- S&P Capital IQ/S&P Indices and Commodities and Commercial are expected to continue to grow strongly, consistent with our expectations for McGraw-Hill Financial overall. Our current guidance for S&P Ratings is mid single-digit growth.
- S&P Ratings will benefit from continued growth in non-transaction revenue. Transaction revenue will benefit from the pipeline of maturing global corporate debt that will need to be refinanced, though volatility in the capital markets makes quarterly timing difficult to project. As Terry indicated earlier, first half comparisons for the ratings business will be challenging.
- McGraw-Hill Education revenue and profit are expected to be relatively flat versus 2011 as a result of the challenging El-Hi market. Restructuring savings from 2011 actions will offset the market softness and enable reinvestment in digital capability, positioning the business well as the market recovers.
- Benefiting from strong growth at McGraw-Hill Financial and augmented by the impact of share repurchases, earnings per share is expected to be $3.25 to $3.35, representing 12% to 15% growth versus 2011’s adjusted earnings per share of $2.91.
- Obviously, actual results will be impacted by the timing of the separation.

Let me just add a number of other items:

- Corporate expense: Benefiting from the restructuring actions taken in 2011, we expect a single-digit decline in corporate expense.
- Our effective tax rate and interest should be comparable to 2011.
- This guidance that we’re providing today is based on fully diluted weighted shares outstanding of approximately 284 million which includes the completion of the accelerated share repurchase transaction as well as the impact of equity related awards.
- 2012 cash flow is expected to be approximately $750 million after dividends, despite modest increases in reinvestment. Capital expenditures are projected to be $125 million to $150 million

versus $119 million in 2011 and prepublication investment is projected to be $160 million to $190 million versus $158 million in 2011.

As we prepare for the separation of the McGraw-Hill Financial and Education businesses in 2012, we are extremely well capitalized; with cash and short-term investments at year-end of approximately $973 million. Cash and short-term investments decreased $575 million from December 31, 2010 largely due to acquisitions and share repurchase. Gross debt was comprised of approximately $1.2 billion in unsecured senior notes. No commercial paper is outstanding.

So in closing, The McGraw-Hill Companies finished a strong 2011, despite challenges in some of our key markets. We anticipate continued growth in 2012. And overall, 2012 promises to be a momentous year as we prepare for the introduction of two stand alone companies, each with industry leading positions.

To access the accompanying slides online, go to:
http://investor.mcgraw-hill.com/phoenix.zhtml?p=irol-eventDetails&c=96562&eventID=4696349

"Safe Harbor" Statement Under the Private Securities Litigation Reform Act of 1995
This presentation contains forward-looking statements, including without limitation statements relating to our businesses and our prospects, new products, sales, expenses, tax rates, cash flows, prepublication investments and operating and capital requirements that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are intended to provide management's current expectations or plans for our future operating and financial performance and are based on assumptions management believes are reasonable at the time they are made.

Forward-looking statements can be identified by the use of words such as "believe," "expect," "plan," "estimate," "project," "target," "anticipate," "intend," "may," "will," "continue" and other words of similar meaning in connection with a discussion of future operating or financial performance. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict; therefore, actual outcomes and results could differ materially from what is expected or forecasted. These risks and uncertainties include, among others:

- worldwide economic, financial, political and regulatory conditions;
- currency and foreign exchange volatility;
- the effect of competitive products and pricing;
- the level of success of new product development and global expansion;
- the level of future cash flows;
- the levels of capital and prepublication investments;
- income tax rates;
- restructuring charges;
- the health of debt and equity markets, including credit quality and spreads, the level of liquidity and future debt issuances;
- the level of interest rates and the strength of the capital markets in the U.S. and abroad;
- the demand and market for debt ratings, including collateralized debt obligations, residential and commercial mortgage and
- asset-backed securities and related asset classes;
- the state of the credit markets and their impact on Standard & Poor's Ratings and the economy in general;
- the regulatory environment affecting Standard & Poor's Ratings;
- the level of merger and acquisition activity in the U.S. and abroad;

- the level of funding in the education market;
- School Education Group's level of success in adoptions and open territories;
- enrollment and demographic trends;
- the strength of School Education Group's testing market, Higher Education, Professional and International's publishing markets and the impact of technology on them;
- continued investment by the construction, automotive, computer and aviation industries;
- the strength of the domestic and international advertising markets;
- the strength and performance of the domestic and international automotive markets;
- the volatility of the energy marketplace;
- and the contract value of public works, manufacturing and single-family unit construction.

In addition, there are certain risks and uncertainties relating to our previously announced Growth and Value Plan which contemplates a tax-free spin-off of our education business, including, but not limited to, the impact and possible disruption to our operations, the timing and certainty of completing the transaction, unanticipated developments that may delay or negatively impact the spin-off, and the ability of each business to operate as an independent entity upon completion of the spin-off. We caution readers not to place undue reliance on forward-looking statements.