The McGraw·Hill Companies

The McGraw-Hill Companies
3rd Quarter 2012 Earnings Conference Call

Prepared Remarks
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Chip Merritt
Vice President, Investor Relations
The McGraw-Hill Companies

Good morning and thank you for joining us this morning at The McGraw-Hill Companies' third quarter 2012 earnings call.

This morning we issued a news release with our results. We hope you have all had a chance to read 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 financial information. This information is provided to enable investors to make meaningful comparisons of the Corporation's operating performance between periods and to view the Corporation'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 for the prior-year quarter also reflect the reclassification of the Broadcasting Group as a discontinued operation.

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, Chip. Good morning everyone and welcome to today's conference call.

Joining me on today's conference call is Jack Callahan, our chief financial officer. This morning, Jack and I will review our corporate results, we'll provide an update on our Growth and Value Plan progress, we'll provide a detailed look at the segment results that make up what will be McGraw-Hill Financial and McGraw-Hill Education, and then provide an outlook for the balance of the year.

Like many other New York companies, we delayed our earnings report from Wednesday to today to accommodate employees and shareholders impacted by Hurricane Sandy. Thankfully, all our employees are safe and our Business Continuity plans are operating effectively. Our employees have really stepped up to work through the many challenges and I am grateful to them and to the State and City workers who have done so much to help us over the past week. I hope those of you on the phone affected by the storm are safe and starting the process to return to some state of normality as well.

We are pleased by the success of our Growth and Value Plan and the strong results of the McGraw-Hill Financial businesses. While the Education company is facing some very tough current challenges in the U.S. education sector, we feel very excited by the promise of digital learning and by our new digital products and services which are improving learning outcomes for students everywhere. This digital transformation is gaining momentum and we'll talk about this in just a little bit.

During the third quarter, the Company delivered a 2% increase in revenue. McGraw-Hill Financial, which realized a boost from robust global issuance, delivered a 15% increase in revenue. Separately, McGraw-Hill Education delivered an 11% decrease in revenue as it managed the impact of the weakest level of state funding for K–12 textbooks in the past decade.

Adjusted operating profit increased 3% and, due to our aggressive share repurchase program, we delivered 10% growth in adjusted diluted earnings per share. Jack will provide additional financial detail in just a moment.

A little over one year ago we made a set of commitments in the Growth and Value Plan. I am proud of the substantial progress that our employees have made on each of these commitments. Let me take a moment and just walk through these different commitments and give you an update as to where we are:

- The first and most visible commitment is the separation of the Company into two industry-leading companies, McGraw-Hill Financial and McGraw-Hill Education, and we are on track to do so.
- Amendment Number 2 to the Form 10 SEC registration statement for the potential spin-off of McGraw-Hill Education was filed with the Securities and Exchange Commission earlier this month and we don't anticipate any substantial issues with that.
- In parallel with our efforts to spin-off McGraw-Hill Education, we have undertaken a thorough evaluation process of various options to sell the business. This process is near its conclusion and we expect to reach a decision in the coming weeks. Critical to this decision is ensuring that we choose the option that maximizes shareholder value.
- Timing of the ultimate separation will be dictated by which option is chosen.

We have also committed to more than $100 million in run-rate cost reductions by the end of the year. We are on track and Jack will provide some color on this in just a moment.

We committed to aggressively repurchasing shares. After completing the $1.5 billion share repurchase program earlier this year, we re-entered the market in the third quarter and purchased an additional $295 million of McGraw-Hill stock.

Lastly we committed to investing for growth. Earlier this year we formed the S&P Dow Jones Indices joint venture. Importantly, this is the first quarter that we have managed and reported the combined results. With some of the most widely followed and trusted brands in the index space, we believe this joint venture will prove to be of great value, not only to our customers but also our shareholders.

In addition, earlier this year the Company acquired R^2 Financial Technologies, QuantHouse, Credit Market Analysis Limited, and Coalition Development Ltd. Most recently, we announced the acquisition of Kingsman SA which I'll discuss in more detail in a moment.

Whether through the separation process, cost reductions, share repurchases, or investing in growth, McGraw-Hill is meeting its Growth and Value Plan commitments and is on target and on track to do so.

With that, let me now turn to the business results.

McGraw-Hill Financial

McGraw-Hill Financial, on a pro forma basis, delivered a 15% increase in revenue and a 21% increase in adjusted operating profit during the quarter. Of the 15% revenue growth, 11% was organic and 4% was from the transactions I just mentioned.

While all three segments delivered revenue growth, it was Standard & Poor's Ratings Services and Commodities & Commercial Markets that provided the most impressive adjusted operating profit growth of 28% and 29%, respectively, as well as improved adjusted operating margins.

McGraw-Hill Financial derived 40% of its revenue from outside the United States during the third quarter. Domestic revenue growth of 17% outpaced international growth of 12% which was impacted by adverse foreign exchange rates. Standard & Poor's Ratings continues to be the segment with the largest international presence with 45% of revenue coming from outside the United States.

Standard & Poor's Ratings also delivered the largest revenue increase within McGraw-Hill Financial and delivered is strongest quarterly revenue since the third quarter of 2007. Revenue for the segment grew 22%, with a 33% increase in domestic revenue and a 12% increase in international revenue. The increase in international revenue occurred despite a 7% negative impact from foreign exchange rates. Adjusted segment operating profit increased 28% and the corresponding operating margin increased almost 200 basis points.

Actions during the quarter by both the European Central Bank (ECB) and the Federal Reserve resulted in increased global bond issuance. The ECB's pledge to intervene in the sovereign bond markets and the Federal Reserve's Quantitative Easing 3 (Q3) program caused global spreads to contract and fueled a surge in September bond issuance. These actions helped drive U.S. speculative-grade corporate bond issuance to a record of $85.4 billion in the third quarter.

Transaction revenue increased 64% to $215 million. Recall that while issuance in the first half of 2011 was quite robust, it tapered off considerably in the second half of 2011 creating less difficult year-over-year comparisons in the second half of 2012. Nevertheless, the key drivers to the increase in transaction revenue were:

- Worldwide corporate issuance, which increased 81% with a 72% increase in U.S. corporate issuance and a 126% increase in European corporate issuance
- Public finance issuance, which increased 9% and contributed to the growth as well

Additionally:

- Worldwide structured issuance was flat, with a 65% increase in U.S structured finance issuance offset by a 33% decline in European structured finance issuance
- This European weakness was driven by a 37% decline in European covered bond issuance as issuers funded through the European Central Bank Long-Term Refinancing Operation

Non-transaction revenue, which represented 57% of Standard & Poor's third quarter revenue, increased 3%.

In periods of robust debt issuance, investors are frequently concerned about issuance being pulled forward. This is always a difficult point to determine until after the fact. However, a study by Standard & Poor's Global Fixed Income Research to analyze corporate refunding needs over the next few years may be instructive. The study concluded that approximately $8 trillion in rated corporate debt will mature from 2012 to the end of 2016. The non-financial sector accounts for about $3.3 trillion of the $8 trillion in maturing debt. Financial companies, including banks and insurance companies, account for the remaining $4.8 trillion. This research clearly suggests that corporate debt needs will remain robust over the next several years.

Our success on the litigation front has been encouraging. The trends that we have discussed in past quarterly conference calls continue. To date, 30 cases have been dismissed. Nine dismissals by lower courts have been reaffirmed by higher courts, and ten cases have been voluntarily withdrawn. Again, we have said that the legal risk is low and it is bearing that out.

While aiding and abetting and negligent misrepresentation claims have been dropped in the Abu Dhabi case, the trial over fraud claims is set to begin in May. And again, we continue to believe that the legal risk of pending litigation remains low.

Let me now turn to S&P Capital IQ / S&P Dow Jones Indices, the second-largest segment within McGraw-Hill Financial, which delivered solid top-line results with revenue growth of 13%. 72% of revenue came from subscriptions, the same as a year ago. International revenue increased 10% to $117 million, representing 30% of total segment revenue. Adjusted operating profit increased 5% and there was a modest decline in the adjusted operating margin as the segment integrates and develops newly acquired technology and products into new S&P Capital IQ offerings.

Looking at S&P Capital IQ alone, revenue increased 9% with organic revenue growth of 5%. Two key products, S&P Capital IQ, within Desktop Solutions; and Global Data Solutions, within Enterprise Solutions, both delivered solid growth. S&P Capital IQ delivered double-digit client and subscriber growth, which reached 4,400 and 55,000, respectively. These results were offset somewhat by revenue weakness from Equity Research.

One of the top priorities of S&P Capital IQ is the execution of product innovation and driving integration of the newly acquired assets. On the innovation front, we believe that we are amassing considerable technical capabilities and are working to translate these into competitive advantage. We are pleased to have been recognized, for the first time, on *Institutional Investor's* annual "2012 Tech 50" list coming in at the 29th spot.

In addition to integrating the technology, our strategy is to deploy an integrated sales effort that can assemble any combination of S&P Capital IQ products in a customized offering. In fact, in August we won our first combination sale with an offering that included S&P Capital IQ, Standard & Poor's Ratings data via Xpressfeed, and CMA Credit Default Swaps.

The big news is that the S&P Dow Jones Indices joint venture is up and running. What a fantastic opportunity we have with this amazing collection of world renowned brands. This business is all about building trusted and transparent brands, and we have some of the best.

Having a partner like the CME is also incredibly important. The relationships it maintains with exchanges around the world provide several of our businesses with important access. This access has already enabled us a new opportunity with BM&F BOVESPA in Brazil. The S&P 500 is being made available to BM&F BOVESPA via a sublicense from CME Group and S&P Dow Jones Indices. The launch of a U.S. dollar-denominated S&P 500® Index future, settled in the Brazilian real, is the first derivative of a U.S stock index to trade on the Brazilian Exchange. The very first.

S&P Indices reported revenue of $109 million in the third quarter. Excluding the addition of Dow Jones Indexes, revenue was $82 million and decreased 7%.

Revenue from ETFs and mutual funds was very strong with double-digit increases year-over-year. Assets under management in exchange-traded funds linked to S&P indices grew 40% year-over-year to $390 billion; and that includes the Dow Jones Indexes. Their assets under management reached $454 billion.

Revenue from derivatives declined due to incredibly difficult comparisons to the third quarter of 2011. This was driven by trading volume of exchange-traded derivatives that decreased 41% versus 3Q11. This chart should put the difficult comparison into perspective. In the third quarter of 2011, derivative volumes reached a five-year high as investors hedged their positions due to Euro crisis concerns.

Please note that with the formation of the S&P Dow Jones Indices joint venture there is no longer as direct a correlation between E-mini futures trading volumes and S&P Indices revenue as in the past. We now receive a percentage of profits from the CME equity complex rather than being paid on a per-contract basis.

Now let me turn to the Commodities & Commercial Markets segment which delivered a year-over-year adjusted operating profit gain that again led all segments. Revenue growth was 5%, with international revenue up 15%. The leverage of the business is very evident. This leverage, coupled with a $5 million decrease in expenses, resulted in an adjusted operating margin that increased more than 500 basis points to 28%.

Within Commodities, petroleum product subscriptions continued to be the primary growth driver. However, derivative trading and Bentek Energy® also delivered double-digit revenue growth.

Kingsman leverages Platts' presence in biofuels to make our first foray into agricultural commodities. The acquisition, which closed yesterday, expands Platts' biofuels position by providing additional coverage, price assessments, and subscriber base for the biodiesel and ethanol markets. In addition, agriculture is a natural extension from the biofuels markets. It is a large, sophisticated, global commodity market like the others that Platts serves. Kingsman is a great first step into this marketplace. Kingsman is a not only a leader in biofuels, it is a leader in the sugar market, a key feedstock into the biofuels complex.

Within Commercial, revenue decreased 2%. J.D. Power's revenue growth was offset by modest declines in the remainder of the portfolio. But simply stated, J.D. Power is poised for its best year ever. This is driven in part by the continued expansion of China's domestic automotive industry, as well as J.D. Power's Power Information Network®, proprietary research, and automotive consulting. And as J.D. Power continues to pursue business beyond the automotive industry, there is an interesting piece of new business with the National Football League that has contracted with J.D. Power to conduct their Voice of the Fan tracking.

With that, let me move over to McGraw-Hill Education.

McGraw-Hill Education

McGraw-Hill Education reported an 11% decline in revenue to $836 million. Revenue decreased at the Higher Education, Professional and International Group (HPI), as well as at the School Education Group (SEG). While both groups are operating in difficult economic environments, the reported revenues are also impacted by increased deferred revenue resulting from growth in subscription products.

As the education business develops and sells more digital solutions, the traditional revenue model is changing and it's changing rapidly. Rather than booking revenue at the time of a sale, revenue is spread out and recognized over the life of the subscription. Largely because of the dramatic increases in McGraw-Hill Education's subscription business, its third quarter deferred revenue balance increased 74% over the prior year. Excluding the impact of this increase in deferred revenue, the third quarter revenue decline was only 7%.

To combat the difficult business environment, McGraw-Hill Education reduced expenses 9% versus the third quarter of 2011 and continues to look for additional cost reduction opportunities.

The Higher Education, Professional and International Group reported a 6% decrease in revenue. Excluding the impact of increased deferred revenue, the decline was 5%. With difficult economic conditions around the globe, the vast majority of the revenue decline in this group was in international, with higher education revenue decreasing modestly. However, the continued migration to digital solutions helps to mitigate these declines by offering growing revenue streams in all of its major markets.

Student usage of our homework study solutions in the higher education market has grown by 67%, boosted by usage of LearnSmart which grew 115% and now has more than 890,000 registered students.

We recently launched a direct-to-consumer website which makes LearnSmart available for purchase by students even if their professors don't utilize it as part of their course. This is a divergence from the business-to-business model that has typically been deployed.

The School Education Group reported a 16% decline in revenue from the prior year. Excluding the impact of increased deferred revenue, the decrease was 10%. K–12 revenue was down due to weak state funding, with 2012 expected to be the lowest funding year in the last decade. According to the Association of American Publishers' statistics, August year-to-date industry K–12 net sales were down 14%.

McGraw-Hill Education captured a substantial share of 2012's two largest state adoption opportunities, and that's of course Florida's K–12 social studies and California's reading program, but could not overcome the overall decline in the rest of U.S. state spending.

As we look beyond the immediate challenges of state funding for K–12 education, it is important to remember that a strong and innovative education sector is critical for a healthy economy, whether it is in the United States or around the world, and so these current issues should be kept in context. That is why McGraw-Hill Education, driven by new management, is focused on responding to the critical need for education by driving operational excellence, re-imagining learning, and capturing the new growth opportunities.

Indeed, we have made impressive progress over the last few years in developing digital learning products and we believe there is a long runway of opportunities both in the developed and emerging countries. Our products are primed for the digital revolution in education—virtually all of our content is available in digital form to enable personalized, adaptive learning solutions and improved outcomes. The education market will continue to grow meaningfully as digital devices of all kinds are becoming more prevalent around the world. Our higher education business, our CTB testing business, and our professional and international businesses are all well positioned to take advantage of this growth trend.

In the K–12 market, we are encouraged that the new Common Core State Standards assessments begin in 2014. This should drive demand for both teaching materials and assessments as 46 states have formally adopted the standards of Common Core. There is also a greater demand by parents and educators for improved performance, which should bode well for our adaptive, digital learning programs that have demonstrated proven advancements in learning outcomes.

One major element that is out of our control but clearly impacts the U.S. K–12 market is home prices. We are encouraged by signs that U.S. housing prices may have finally bottomed which should eventually lead to a recovery in state revenue from property taxes. Through August 2012, the S&P/Case-Shiller Home Price Indices, the leading measure of U.S. home prices, showed that average home prices increased for both the *10-City Composite* and *20-City Composite* for the fourth consecutive month.

As we approach the separation of the Education company I want to sincerely thank all of the Education employees for all of their extremely hard work and dedication. Helping to raise educational levels around the world is not only a noble calling, it is essential. And their hard work and dedication are to be commended. In the past year, they have made very tough decisions on costs while building world-class products and services for future growth and success. With the digital footprint that they have created, and the superb new management in place under President Buzz Waterhouse, I feel truly excited about how the Education company is positioned as it becomes a stand-alone company.

In summary:

- McGraw-Hill Financial continues to deliver solid top- and bottom-line growth
- The separation of McGraw-Hill Education is approaching and the business is becoming an attractive stand-alone company with highly talented employees, innovative and essential education products and services, and an appropriate cost structure

In summation, McGraw-Hill is delivering on its Growth and Value Plan commitments with the pending separation, exciting growth plans, multiple tuck-in acquisitions, sizeable cost reductions, and an aggressive share repurchase program.

That completes my comments. I will now ask Jack Callahan, our chief financial officer, to update you on some of the key financial performances. Then I look forward to going in any direction that you would like to go. Jack?

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

Thank you Terry.

This morning I want to discuss several topics:

- Our consolidated results, including cash flow
- The financial impact of corporate development activities on the S&P Capital IQ / Indices business
- The progress of the Growth and Value Plan, including the primary drivers of cost reduction, and lastly
- Our increased guidance and outlook for the balance of the year

Let me begin by discussing our results which were quite different across the Financial and Education businesses.

In the quarter, McGraw-Hill Financial delivered excellent growth with a 15% increase in revenue and a 21% increase in pro forma operating profit. This resulted in a 170 basis-point improvement in the pro forma operating margin to 36%. Overall, an excellent quarter across the McGraw-Hill Financial businesses.

On the other hand, McGraw-Hill Education revenue decreased 11% and adjusted segment operating profit decreased 15%. As Terry just discussed, the market has proven even more challenging than our original expectations. Obviously, now that the all-important third quarter is behind us, McGraw-Hill Education will not deliver on our initial financial guidance for this year. We now expect McGraw-Hill Education revenues to decline 7% to 8%, and operating income to be $20 million to $25 million below a year ago.

Taken together, total consolidated McGraw-Hill, both revenue and expenses, increased approximately 2%. This resulted in adjusted operating profit growth of 3%.

Overall, we delivered double-digit earnings-per-share growth; however, there were substantive changes in below-the-line comparisons due to the formation of the new S&P Dow Jones Indices joint venture, impacting both the tax rate and the net income attributable to noncontrolling interests.

The reduction in the effective tax rate from the prior-year was due primarily to the partnership structure of the joint venture with CME combined with a modest improvement in our overall rate. Net income attributable to noncontrolling interest increased largely due to the new joint venture which I will elaborate on in a moment.

The impact of the accelerated share repurchase program was evident again this quarter. Year-over-year, we reduced shares outstanding by 19 million shares. This leveraged a 4% increase in adjusted net income to a 10% increase in adjusted diluted earnings, or $1.33 per share. It should be noted that sequentially our fully diluted shares outstanding remained unchanged at 285 million shares as stock option exercise activity largely offset share repurchases of approximately $300 million during the quarter.

Our share repurchase program is an important and on-going part of the Growth and Value Plan. Since the beginning of 2011 through the third quarter of 2012, the Company has repurchased nearly 42 million shares at a weighted average price of $43.22. This reduced shares outstanding by approximately 14%. We anticipate spending approximately $200 million on share repurchases in the fourth quarter.

Now, I would like to provide additional detail regarding the significant business development impact to S&P Capital IQ and S&P Dow Jones Indices to help you better understand the results.

First, within S&P Capital IQ we made several acquisitions during the year that added new capabilities. The additions of R^2, QuantHouse, and CMA were all accretive to revenue growth. However, these acquisitions, and the work that we are undertaking to integrate these acquisitions, are somewhat dilutive to profits. We have absorbed these costs and the related non-cash amortization without any negative impact to guidance.

Secondly, the creation of the S&P Dow Jones Indices joint venture has important accounting implications for the Company. Since we own a majority of the joint venture — 73% — we record 100% of the revenue and expenses in the Company's income statement. During the third quarter, this included $82 million in revenue from S&P Indices and $27 million from the Dow Jones Indexes.

Of course, the 27% of the net income representing our partners' share is excluded from results. The increase in net income attributable to noncontrolling interests effectively removes our partners' share of the profits from our income statement. During the third quarter, our partners' share of the profits totaled $18 million. This $18 million is excluded from the Company's taxes, and I will address the impact on our reported effective tax rate in more detail in just a moment.

Taken together, these acquisitions and the formation of the joint venture had a significant impact on the segment's revenue growth. Organic growth was 3%, in part due to difficult year-on-year comparisons in the Index business. The joint venture and the three acquisitions increased revenue growth to 13% with approximately 75% of the incremental revenue from the joint venture and 25% from the three acquisitions.

As I mentioned earlier, the joint venture has had an impact on the Company's effective tax rate that merits further explanation. For tax purposes, the joint venture is treated as a partnership. The first column of this chart presents pre-tax income, the provision for taxes, and the after-tax income which implies a reported effective tax rate of 33.7% for the third quarter. The middle column shows the partners' share of the joint venture income. Note the Company does not make a provision for taxes for the partners' income. The last column shows the tax provision for taxes in the third quarter at a 34.6% rate, about a point higher than the reported effective tax rate. On a year-to-date basis, we recorded a 35.6% provision for taxes, and the reported effective tax rate is 35%. Full-year 2012 results should be generally in line with the year-to-date performance.

Turning to the balance sheet and cash flow: We continue to have a very strong balance sheet with approximately $1.2 billion in cash and short-term investments at quarter end. Year-over-year, our free cash flow is down approximately $200 million due largely to the one-time cash outlays related to the Growth and Value Plan expenses and the timing of quarterly cash tax payments. On a full-year basis, we expect to deliver approximately $750 million in free cash flow excluding cash outlays associated with the Growth and Value Plan.

One additional point on our balance sheet: This month, about one third of our debt is coming due. As a result, over the near term, it is likely that we will access the commercial paper market as the repayment of $400 million of debt and the funding of our fourth quarter share repurchase program require domestic cash availability. We will reevaluate further actions related to the balance sheet once the choices of sale versus spin option of McGraw-Hill Education are clear.

Now, let me provide some additional details related to the solid progress we are making in the execution of the Growth and Value Plan. First, all separation activities are either well underway or complete. Second, we continued to make progress on our target of at least $100 million in run-rate cost savings by the end of 2012.

Let me provide some color on the four major initiatives that drive the cost reduction programs:

- The first was the McGraw-Hill Education cost structure reductions that began in the fourth quarter of 2011 and continued into this quarter. Over 10% of the Education workforce has been reduced to re-size the cost structure to market demand and to support the necessary technology investments to advance McGraw-Hill Education's digital offerings.
- The second was the realignment of our core benefit programs, including the pension and healthcare plans. The benefit plans across McGraw-Hill Financial and McGraw-Hill Education need to increasingly tailored to their respective competitive environment.
- The third was the partnering relationships that we entered into to transition various accounting, information technology, and human resource activities to world-class partners including GenPact, Atos, and Workday that specialize in these operations. The transition of these activities is well underway, and the associated one-time transition costs stepped up in the third quarter.
- Lastly, we are targeting selected restructuring activities across McGraw-Hill Financial operations to streamline operations consistent with being a more focused, operating company.

All in all, significant progress has been made already, and we fully expect to reduce at least $100 million in costs, on a run-rate basis, by the end of this year.

During the third quarter, we incurred $99 million of one-time Growth and Value Plan expenses, largely related to professional fees and restructuring. These one-time expenses will continue into the fourth quarter.

In closing, 2012 is turning out to be a remarkable year for McGraw-Hill:

- We are exceeding EPS expectations despite a challenging year for McGraw-Hill Education and have increased our EPS guidance to a range of $3.35 to $3.40
- McGraw Hill Financial is delivering a great performance, and as we have expanded the McGraw-Hill Financial portfolio with "tuck-in" acquisitions, and selective partnerships like CME
- We are positioned to make a decision on sale versus spin for McGraw-Hill Education in the coming weeks, and we are focused on making the right choice for both the business and our shareholders
- Through countless efforts around the world, work is on track to separate into two leading companies
- And we have been able to accomplish all of this while delivering cost reductions of at least $100 million

Now we are focused on a solid finish to 2012, and on finalizing the separation and stand up of these two terrific industry leading businesses.

Thank you for joining us today and your interest in McGraw-Hill.

To access the accompanying slides online, go to:
http://investor.mcgraw-hill.com/phoenix.zhtml?c=96562&p=irol-EventDetails&EventId=4848743

"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 and our other businesses;
- 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 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 separation 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 transaction, and the ability of each business to operate as an independent entity upon completion of the transaction. We caution readers not to place undue reliance on forward-looking statements.