The McGraw-Hill Companies Restructures Some Operations for Growth; Forecasts Double Digit Profit Gain in 2002

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NEW YORK, Dec 12, 2001 (BUSINESS WIRE) -- The McGraw-Hill Companies (NYSE:MHP) today announced it will restructure certain business operations to enhance its growth prospects in 2002 and beyond. The restructuring will enable the Corporation to target its resources more strategically and improve operating efficiencies.

The total restructuring charge is $159 million pre-tax, consisting of $129 million in asset write downs and $30 million in employee severance costs. The charge comprises $62 million for its education unit, $43 million for its financial services unit, $35 million for its information and media services unit and $19 million for corporate activities. The total restructuring charge after tax is $112 million, or $0.58 per diluted share.

"The prudent restructuring actions we are announcing today, combined with favorable long-term trends in our three major markets, education, financial services and information and media services, position the Corporation for solid performance in 2002 and beyond," said Harold McGraw III, Chairman and CEO of The McGraw-Hill Companies. "We are sharpening our focus on our core properties and major capabilities as we enter 2002."

Mr. McGraw said the Corporation is forecasting double-digit earnings growth in 2002 based on its leading positions in the major markets it serves. The McGraw-Hill Companies achieved double-digit profit growth for eight consecutive years from 1993-2000.

In the face of a recession in the U.S. and before the restructuring charge and one-time items (see note), the Corporation still expects revenue and profit growth in 2001. "We reaffirm our recent guidance that revenue will grow 8-10 percent and diluted earnings per share will increase 6-8 percent in 2001," he said.

The restructuring includes the reduction of approximately 925 employees, or 5 percent of the workforce. "The decision to eliminate staff is difficult, but the long term interests of the Corporation are best served by effectively addressing the needs of our businesses. Severance payments and a range of assistance will be provided to all affected employees," said Mr. McGraw.

In Education, growth trends in the traditional pre-kindergarten-through-college market are strong and are expected to remain strong well into the future. Restructuring actions are limited to select parts of this business segment. McGraw-Hill Education will discontinue local publishing activities in certain international markets and will consolidate international operations to better leverage editorial and production activities globally. Additionally, McGraw-Hill Education intends to close its business training courseware operations. The majority of the charge relating to these changes is the write down of goodwill and other long-lived assets.

The Education segment will reduce its staffing by approximately 575 employees, mostly from within its

International unit and business training courseware operations. Some additional reductions will occur in new media and other areas where opportunities exist to consolidate operations and better leverage resources.

In the Financial Services segment, the bulk of the restructuring charge comes from write downs of assets related to Standard & Poor's decision to dispose of certain non-strategic properties in the investment services area. There will also be approximately 50 employee reductions across the segment.

In the Information and Media Services segment, most of the restructuring charge results from the construction unit's permanent write downs of certain e-commerce investments and approximately 300 staff reductions across the segment, including previously announced positions at BusinessWeek, the Broadcasting Group and the McGraw-Hill Construction Information Group.

Finally, the Corporation will write down $19 million of its venture fund investments in certain emerging technology companies that it will no longer support.

"Our targeted restructuring program positions the company to build on its leadership position in the markets it serves and to sharpen its focus on directing resources toward higher growth, higher margin opportunities," Mr. McGraw concluded.

Founded in 1888, The McGraw-Hill Companies is a global information services provider meeting worldwide needs in the financial services, education and business information markets through leading brands such as Standard & Poor's, BusinessWeek and McGraw-Hill Education. Sales in 2000 were $4.3 billion.

The forward looking statements in this news release involve risks and uncertainties and are subject to change based on various important factors, including worldwide economic and political conditions, the health of the capital and equity markets, including future interest rate levels, the pace of recovery in advertising, the level of expenditures in the education markets, the successful marketing of new products, and the effect of competitive products and pricing.

Note: The one time items excluded from the percentages used to calculate the 2001 increase in revenue and diluted earnings per share are as follows:

1. In 2001, the gain on the sale of real estate, the gain on the sale of DRI, the shutdown of Blue List, the contribution of Rational Investor, the write down of selected assets as reported in the Corporation's second quarter earnings, the dilution from recent acquisitions and the financial impact of the terrorist attacks.
2. In 2000, the gain on the sale of Tower Group International and the cumulative change in accounting principle from SAB 101.

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