



Harold McGraw III

Chairman, President and CEO
The McGraw-Hill Companies

Presented at the
Jefferies 6th Annual Global Internet, Media
and Telecom Conference
May 10, 2010

"Safe Harbor" Statement Under The Private Securities Litigation Reform Act of 1995

This presentation includes certain forward-looking statements about our businesses and our prospects, new products, sales, expenses, tax rates, cash flows, prepublication investments and operating and capital requirements. Such forward-looking statements include, but are not limited to: the strength and sustainability of the U.S. and global economy; the duration and depth of the current recession; Educational Publishing's level of success in 2010 adoptions and in open territories and enrollment and demographic trends; the level of educational funding; the strength of School Education including the testing market, Higher Education, Professional and International publishing markets and the impact of technology on them; the level of interest rates and the strength of the economy, profit levels and the capital markets in the U.S. and abroad; the level of success of new product development and global expansion and strength of domestic and international markets; the demand and market for debt ratings, including corporate issuance, CDO's, residential and commercial mortgage and asset-backed securities and related asset classes; the continued difficulties in the credit markets and their impact on Standard & Poor's and the economy in general; the regulatory environment affecting Standard & Poor's; the level of merger and acquisition activity in the U.S. and abroad; the strength of the domestic and international advertising markets; the strength and the performance of the domestic and international automotive markets; the volatility of the energy marketplace; the contract value of public works, manufacturing and single-family unit construction; the level of political advertising; and the level of future cash flow, debt levels, manufacturing expenses, distribution expenses, prepublication, amortization and depreciation expense, income tax rates, capital, technology, restructuring charges and other expenditures and prepublication cost investment.

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

Positive indicators for growth in 2010

- **Improving economy**
- **Recovering markets**
- **We expect growth in 2010**
 - Good start to year
 - Financial position is strong
 - Increased the dividend
 - Expect to resume share buybacks later this year

Positive indicators for growth in 2010

- **Advances in technology: Creating new growth opportunities**
 - For our digital products
 - In global markets
- **Making progress on the legal front**
- **Regulatory situation remains fluid**

Signs of recovery and expansion in 2010

- **Recession appears to be over**
 - Real GDP increased 3.2% in 1Q 2010
 - Risen for three consecutive quarters
 - Improving housing market
 - Narrowing credit spreads—indication of less risk aversion

Setting the stage for growth

- **Despite operating challenges, in 2009 we:**
 - Strengthened the balance sheet
 - Enhanced liquidity
 - Contained and reduced costs
- **Result: Started 2010 in a very strong financial position**

7

2010 outlook for MHP

- **EPS**
 - 4Q 2009: +43.2%
 - 1Q 2010: \$0.33, a 65% increase
- **2010 guidance**
 - Expect diluted earnings per share in the \$2.55 to \$2.65 range
 - Compares to \$2.33 in 2009

8

Returning cash to shareholders

- **Dividend paid every year since 1937**
 - 9.9% compound annual growth rate since 1974
 - Expect to repurchase shares this year
 - 17.1 million shares remaining in the program
 - \$9.4 billion returned to shareholders in dividends and share repurchases since 1996

9

Investing in digital for growth, more operating leverage

- **The amount of digital data in the world is expected to be 5x larger in 2012 than in 2008**
- **Producing quality from quantity is key**
- **MHP's benchmarks and standards are satisfying the need for knowledge in the expanding digital and global economy**

10

The outlook for foreign source revenue growth

- **Since 2000, MHP revenue from foreign sources has grown faster than it has in the U.S.**
- **Foreign source revenue accounted for 29% of total in 2009**
 - Expected to account for more than 30% of total by end of 2010
 - Anticipate contribution from all three segments
- **10-year compound annual growth rate for foreign source revenue through 2009: 8.9%**
 - Versus 2.7% CAGR for domestic revenue

11

Latest from the litigation front

- **Courts are issuing favorable decisions**
 - 12 cases dismissed; 11 since beginning of 2010
 - Three motions to dismiss have been denied pending discovery
 - We believe these cases are without merit
 - Eight different judges have ruled on the 12 dismissals
- **Dismissals fall into three major categories:**
 1. Underwriter lawsuits
 2. "Stock drop" suits
 3. Suits involving state law claims, including alleged fraud

12

Latest from the litigation front

- **Clear takeaways from recent court decisions:**
 - Rating agencies are not underwriters or sellers of securities under securities laws
 - Ratings are opinions, not statements of fact
 - After-the-fact criticisms of rating agencies do not support the inference that rating agencies didn't believe the appropriateness of their ratings at time of issuance

13

Latest from the litigation front

- **Clear takeaways from recent court decisions** (continued):
 - Rating agencies' alleged conflicts of interest were widely known by investors
 - Investors were adequately apprised of risks and limitations of using credit ratings
 - Not recommendations to buy, sell or hold securities
- **Legal risk remains low**

14

The regulatory outlook

- **Issues with proposed U.S. Senate bill**
 - Promises level playing field for all participants, but at the same time proposes to lower pleading standards only for credit rating agencies
 - To impose lower pleading standards on rating agencies is unprecedented and discriminatory

15

The regulatory outlook

- **We fully support increased accountability, transparency and oversight of credit rating agencies**
 - But, some amendments would increase federal bureaucracy and undermine efforts to establish consistent international ratings
 - Some proposals ignore new SEC rules encouraging more competition and requiring NRSROs to manage conflicts of interest
 - Including requirements for issuers to provide underlying information on structured finance securities to all NRSROs—not just the NRSROs they hire—giving all NRSROs the opportunity to issue unsolicited opinions

16

The regulatory outlook

- **Exploring new ways to further improve S&P's processes consistent with regulations here and abroad**
 - Looking at new ways to evaluate data and the quality of information sources
 - Examining whether or not to rate some issues, issuers, or transactions that don't have a track record
- **May result in rating fewer emerging companies, potentially limiting access to funding in public markets for growth and innovation**

17

How S&P has already strengthened the ratings process

- **More transparent, comparable and stable ratings from S&P**
 - To increase transparency, S&P is providing investors with more information about underlying assumptions
 - To make ratings more comparable across sectors and time, S&P has revised ratings criteria and strengthened analytics
 - To make ratings more stable, S&P is employing measures that better account for severe economic stress
- **Finding new ways to increase the value of its credit ratings is one of the great lessons that S&P has learned well**

18

Financial Services

Improving conditions in financial markets

- Following a strong 4Q 2009, Financial Services produced solid results in 1Q 2010
- Revenue growth at S&P Credit Market Services:
 - 4Q 2009: +19.4%
 - 1Q 2010: +15.4%

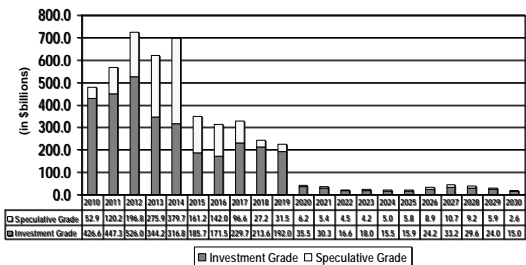
20

Improving conditions in financial markets

- S&P Credit Market Services expects more growth from:
 - High-yield issuance
 - Bank loan ratings
 - Increased investment-grade transactions
 - Municipal market
 - Modest improvement in structured finance

21

The outlook for maturing U.S. corporate debt



22

Data as of Jan. 1, 2010. Includes all debt. Revolving credit facilities are counted at full amount, whether or not they are fully drawn. Includes all debt issued by U.S. companies and their foreign subsidiaries, both in U.S. dollars and foreign currencies.

How non-transaction revenue is growing at S&P Credit Market Services

- Non-transaction revenue represents 67% of S&P Credit Market Services' revenue
- S&P continues to build its deferred revenue stream
 - Recurring annual fees through frequent issuer programs, surveillance fees, and subscription services
- 8.1% non-transaction revenue growth in 1Q primarily from increased subscriptions, annual fees, and price increases
- Non-transaction: Revenue stream expected to be durable for some time

23

How non-transaction revenue is growing at S&P Credit Market Services

- Confidence is underscored by increase in the Corporation's unearned revenue
 - 1Q 2010: \$1.1 billion, up 2.8% versus 1Q 2009
 - Up 4.3% in constant currency—excluding the impact of divestitures, including *BusinessWeek*
- Financial Services accounts for 75% of the Corporation's total unearned revenue

24

Performance at S&P Investment Services

- **1.5% decrease in 1Q revenue**
 - Decline primarily attributable to:
 - Divestiture of Vista Research in May 2009
 - Expiration of contracts under Research Settlement in July 2009

25

Data and information benefiting S&P Investment Services

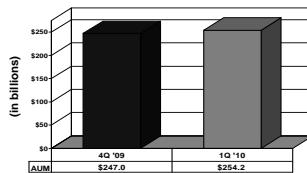
- **Capital IQ and S&P Indices were primary drivers in 1Q results**
- **Capital IQ now serves more than 3,000 clients**

26

S&P Indices: Attracting more assets

- **1Q 2010: New high of \$254.2 billion for assets under management in exchange-traded funds based on S&P indices**
 - 238 ETFs based on S&P Indices

S&P Index-Based Total ETF Assets Under Management



27

Source: Standard & Poor's and Bloomberg

Finding new ways to grow S&P Indices

- **Goal: An index for every type of investment**
 - Adding new indices in:
 - Commodities
 - Fixed income
 - Equities
 - Strategy
 - Custom
- **Recently licensed the National Stock Exchange of India to create and list Indian Rupee-denominated futures contracts on the S&P 500**
- **Launched S&P/BG Cantor U.S. Treasury Bill and Bond Indices**

28

Expanding the Global Credit Portal

- **We are also building out the Global Credit Portal**
 - The place to go for Web-based workflow solutions that enable clients to perform credit risk-driven analysis



29

Launching the Credit Health Panel

- **Credit Health Panel, a new service with information on 26,000 publicly-traded non-financial companies—23,000 of which are not rated by S&P Credit Market Services**
 - Delivers quantitatively derived credit health assessments for an unrated universe:
 - Cash generation capabilities
 - Operational risks
 - Debt servicing capacity
 - Enables subscribers to compare a company's fundamental performance against its peers to assess creditworthiness and the probability of default

30

S&P to introduce new Risk-to-Price Score

- The Risk-to-Price score is coming this summer
- Helps investors understand if they are being fairly compensated for market and credit risk in corporate bonds
- Ranks securities on a relative basis according to each issue's intrinsic balance between risk and return
- Risk-to-Price will provide daily scores on more than 6,000 U.S. and European bonds

31

2010 outlook for Financial Services

- **Summary**

- Markets are recovering
- Progress on the litigation front
- High single-digit revenue growth with improvement at S&P Credit Market Services and S&P Investment Services
- Operating profit is growing
- Operating margin will decline 100 basis points
 - Reflects infrastructure investments and compliance with new regulatory requirements

32

McGraw-Hill Education

2010 outlook for McGraw-Hill Education

- **Expect growth in key education markets in 2010**

- 6% to 7% in the elementary-high school market
- 5% to 7% in the U.S. college market

34

Growing digital initiatives in higher education and professional markets

- Digital revenue is growing at a double-digit rate in our higher education and digital markets
- Accounts for 15% of our revenue in these markets

35

New digital initiatives in professional markets

- ***AccessPhysiotherapy* is sixth specialty site in the *AccessMedicine* suite**
 - Broadens market beyond medical education and clinical practice to the allied health field
- **Digital offering broadens geographic coverage**
 - New partnership agreement with the Chinese Education and Research Network
 - Makes *Access* suite available for the first time to Chinese students, educators and researchers

36

Growing digital opportunities in higher education

- Increasing addressable market with assessment tools and services for college students
- Now more than 1.2 million registered users of *McGraw-Hill Connect™* and other homework management products

37

Growing digital opportunities in higher education

- *McGraw-Hill Connect™* [video]



38

More digital content for the el-hi market

- Our el-hi products and services are integrating digital components into virtually every program we produce
 - We offer multimedia packages
 - Mix of components varies by grade and subject
- Interactive online student editions are a part of the future that is already here

39

Still expect 6% to 7% growth in 2010 el-hi market

- Estimate 2010 state new adoption market to grow between \$875 million and \$925 million
 - Forecast represents about an 80% year-over-year increase for the market
- Increase will offset the expected low single-digit decline in open territory sales and a somewhat steeper drop in residual sales

40

Outlook for 2010 el-hi market

- McGraw-Hill School Education Group is aiming for a 30% or more share of 2010 state new adoption market
- El-hi market sales are up 11.9% at end of 1Q 2010
 - 1Q results typically represent less than 10% of a year's results
 - 2008: 1Q accounted for 7.9% of the year's total
 - 2009: 1Q accounted for 8.1% of the year's total
- We don't expect the pattern to change in 2010

41

2010 outlook for McGraw-Hill Education

- Growth in key education markets in 2010
 - 6% to 7% in the elementary-high school market
 - 5% to 7% in the U.S. college market
- Segment revenue: 6% to 7% growth
- Operating margin: Unchanged from 2009

42

Information & Media

1Q 2010 results at Information & Media

- **Operating margin: 13.5% vs. 1.2% in 1Q 2009**
 - Highest operating margin since 14.9% for full year 2004
 - Late 2009 divestiture of *BusinessWeek* is having a positive impact on results

44

Tracking the digital transformation of Information & Media

- A plus for the segment in 2010
- Digital products and services represented more than 60% of B2B Group's 1Q revenue
 - Contributed to margin improvement

45

Continued growth at Business-to-Business Group

- **Building on leading industry positions in global energy, construction, marketing, and aviation**
 - Products and services represent the standard or provide important benchmarks

46

Information & Media revenue: *BusinessWeek* divestiture

Three Months	3/31/2010	3/31/2009	% Change
Revenue			
Information & Media	\$206,160	\$225,425	(8.5)%
Excluding <i>BusinessWeek</i>	—	(27,791)	
	<u>\$206,160</u>	<u>\$197,634</u>	4.3%

47

Information & Media Revenue: *BusinessWeek* Divestiture

	6/30/2009	9/30/2009	12/31/2009	Full Year 2009
Revenue				
Information & Media	\$236,203	\$238,904	\$253,340	\$953,872
Excluding <i>BusinessWeek</i>	(27,497)	(22,231)	(21,636)	(99,155)
	<u>\$208,706</u>	<u>\$216,673</u>	<u>\$231,704</u>	<u>\$854,717</u>

48

Measuring the impact of the *BusinessWeek* sale

- **Q1 2010: *BusinessWeek* divestiture reduced expenses by \$40 million**
 - Positive profit impact of approximately \$12 million
 - Realize savings of \$38 million for the full year
- **Broadcasting Group: Expect political advertising to pick up in 2010**

49

Outlook for 2010: Information & Media

- **Summary for 2010:**
 - 2009 sale of *BusinessWeek* will have a positive impact on revenue and operating margin in 2010
 - Revenue: Expect mid single-digit decline
 - Excluding \$99 million from *BusinessWeek* divestiture, revenue will increase in the mid single-digit range
 - Operating margin: Expect to rebound into the mid-teens

50

2010 guidance for The McGraw-Hill Companies

- Our guidance for the year calls for diluted earnings per share of \$2.55 to \$2.65

51

