



3Q 2014 Earnings Call  
October 29, 2014

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Executive Vice President and CFO

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McGraw Hill Financial | 3Q 2014 Earnings Conference Call/Webcast



## Comparison of Adjusted Information to U.S. GAAP Information

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This presentation includes adjusted financial measures that are derived from the Company's continuing operations. This non-GAAP information is provided in order to allow 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 Company management.

The Company's earnings release dated October 29, 2014 contains exhibits that reconcile the differences between the non-GAAP measures and comparable financial measures calculated in accordance with U.S. GAAP.

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1



## “Safe Harbor” Statement Under the Private Securities Litigation Reform Act of 1995

This presentation contains “forward-looking statements,” as defined in the Private Securities Litigation Reform Act of 1995. These statements, which express management’s current views concerning future events or results, use words like “anticipate,” “assume,” “believe,” “continue,” “estimate,” “expect,” “future,” “intend,” “plan,” “project” and similar terms, and future or conditional tense verbs like “could,” “may,” “might,” “should,” “will” and “would.” For example, we may use forward-looking statements when addressing topics such as: the outcome of contingencies; future actions by regulators; changes in our business strategies and methods of generating revenue; the development and performance of our services and products; the expected impact of acquisitions and dispositions; our effective tax rates; and our cost structure, dividend policy, cash flow and liquidity.

Forward-looking statements are subject to inherent risks and uncertainties. Factors that could cause actual results to differ materially from those expressed or implied in our forward-looking statements include, among other things:

- the regulatory environment affecting Standard & Poor’s Ratings Services, Platts, S&P Dow Jones Indices, S&P Capital IQ and our other businesses, including new and amended applicable regulations and our compliance therewith;
- the outcome of litigation, government and regulatory proceedings, investigations and inquiries;
- worldwide economic, financial, political and regulatory conditions;
- 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 credit and capital markets in the U.S. and abroad;
- the demand and market for debt ratings in and across the sectors and geographies where we operate;
- the effect of competitive products and pricing;
- the level of success of new product development and global expansion;
- the level of merger and acquisition activity in the U.S. and abroad;
- the volatility of the energy marketplace;
- the health of the commodities markets;
- the strength and performance of the domestic and international automotive markets;
- the level of our future cash flows;
- our ability to make acquisitions and dispositions and to integrate, and realize expected synergies, savings or benefits from, the businesses we acquire;
- our ability to maintain adequate physical, technical and administrative safeguards to protect the security of confidential information and data, and the potential of a system or network disruption that results in regulatory penalties, remedial costs and/or improper disclosure of confidential information or data;
- the level of our capital investments;
- the level of restructuring charges we incur;
- our ability to successfully recover should we experience a disaster or other business continuity problem, such as a hurricane, flood, earthquake, terrorist attack, pandemic, security breach, cyber attack, power loss, telecommunications failure or other natural or man-made disaster;
- changes in applicable tax or accounting requirements;
- the impact on our net income caused by fluctuations in foreign currency exchange issues; and
- our exposure to potential criminal sanctions or civil remedies if we fail to comply with foreign and U.S. laws and regulations that are applicable in the domestic and international jurisdictions in which we operate, including sanctions laws relating to countries such as Iran, Russia, Cuba, Sudan and Syria, anti-corruption laws such as the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act of 2010, local laws prohibiting corrupt payments to government officials, as well as import and export restrictions.

The factors above are not exhaustive. McGraw Hill Financial, Inc. and its subsidiaries operate in a dynamic business environment in which new risks may emerge frequently. Accordingly, we caution readers not to place undue reliance on the above forward-looking statements, which speak only as of the dates on which they are made. The Company undertakes no obligation to update or revise any forward-looking statement to reflect events or circumstances arising after the date on which it is made. Further information about our businesses, including information about factors that could materially affect our results of operations and financial condition, is contained in the Company’s filings with the Securities and Exchange Commission, including the “Risk Factors” section in our most recently filed Annual Report on Form 10-K.



## EU Regulation Affecting Investors in Credit Rating Agencies

European Union Regulation 1060/2009 (as amended) applies to credit rating agencies (CRAs) registered in the European Union and therefore to the activities of Standard & Poor’s Credit Market Services Europe Limited, Standard & Poor’s Credit Market Services France SAS and Standard & Poor’s Credit Market Services Italy Srl, (collectively, “Standard & Poor’s”), indirect wholly-owned subsidiaries of McGraw Hill Financial, Inc., each of which is registered and regulated as a CRA with the European Securities and Markets Authority (“ESMA”).

Any person obtaining direct or indirect ownership or control of 5% or more or 10% or more of the shares in McGraw Hill Financial, Inc. may (i) impact how Standard & Poor’s can conduct its CRA activities in the European Union and/or (ii) themselves become directly impacted by EU Regulation 1060/2009 (as amended).

Persons who have or expect to obtain such shareholdings in McGraw Hill Financial, Inc. should promptly contact Chip Merritt at the McGraw Hill Financial, Inc. Investor Relations department ([chip.merritt@mhfi.com](mailto:chip.merritt@mhfi.com)) for more information and should also obtain independent legal advice in such respect.

DOUG PETERSON  
PRESIDENT AND CHIEF EXECUTIVE OFFICER



### Creating Growth and Driving Performance: Q3 Highlights

- Delivered a terrific quarter with 10% revenue and 32% adjusted EPS growth
- Completed portfolio rationalization with the announced sale of McGraw Hill Construction (results reclassified as a discontinued operation)
- Taking restructuring actions across the Company to fund growth, streamline processes, and maintain progress on productivity
- Active discussions underway with the SEC, New York, and Massachusetts to resolve certain regulatory matters including the previously disclosed “Wells Notice” received July 2014 (\$60 million charge associated with these matters taken in Q3)



## Company Delivers Outstanding Adjusted EPS Growth

(\$ in millions)	3Q 2014	3Q 2013	Change
Revenue	\$1,263	\$1,152	+10%
Adj. Operating Profit	\$475	\$385	+24%
Adj. Operating Margin	37.6%	33.4%	+420 bps
Diluted Adjusted EPS	\$1.02	\$0.77	+32%

### 3Q 2014 highlights:

- Double-digit revenue growth with all lines of business contributing
- Continued margin expansion
- S&P Capital IQ and Commodities & Commercial delivered record adjusted operating profit
- Third quarter diluted adjusted EPS increased 32%



## 2014 Shaping up to be Another Year of Solid Growth

(\$ in millions)	YTD 2014	YTD 2013	Change
Revenue	\$3,761	\$3,496	+8%*
Adj. Operating Profit	\$1,371	\$1,207	+14%
Adj. Operating Margin	36.5%	34.5%	+200 bps
Diluted Adjusted EPS	\$2.93	\$2.45	+20%

\* Organic growth was 9% excluding lost revenue from 2013 portfolio rationalization

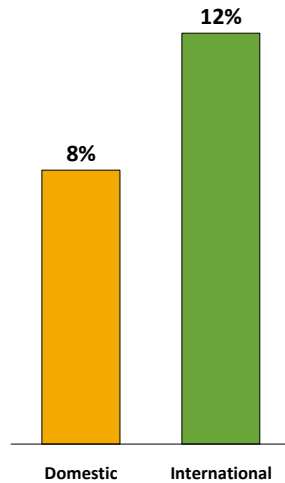
### YTD 2014 highlights:

- Growth in revenue, adjusted operating margins, and diluted adjusted EPS are all consistent with our 2014 guidance
- Converted high single-digit revenue growth into double-digit diluted adjusted EPS growth
- YTD, the Company reported free cash flow of \$737 million

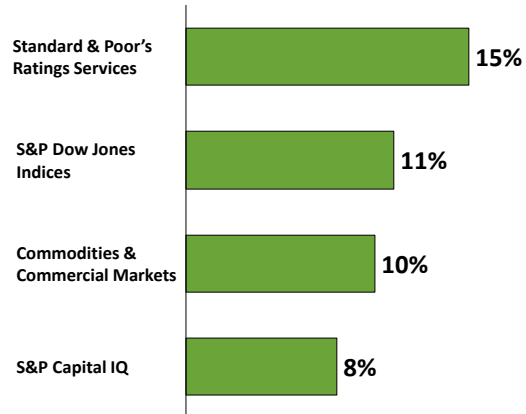


## International Revenue Growth Continues to Outpace Domestic Revenue Growth

**3Q 2014 MHFI Revenue Growth**



**3Q 2014 International Revenue Growth**



## Standard & Poor's Ratings Services: Strong 3Q Results

(\$ in millions)	3Q 2014	3Q 2013	Change
Revenue	\$604	\$540	+12%
Adj. Segment Op. Profit	\$266	\$214	+24%
Adj. Segment Op. Margin	44.0%	39.7%	+430 bps

### Recent highlights:

- Revenue from bond ratings, bank loan ratings, and new entity ratings all increased
- Legal expenses accounted for almost all of the increase in adjusted expenses
- Much of the restructuring charge was related to a voluntary separation program
- Acquired BRC Investor Services, S.A. in Colombia

## Standard & Poor's Ratings Services:



### Strong Transaction Results

(\$ in millions)	3Q 2014	3Q 2013	Change
Non-transaction revenue	\$335	\$313	+7%
Transaction revenue	\$269	\$227	+18%

#### 3Q 2014 highlights:

##### Non-transaction revenue:

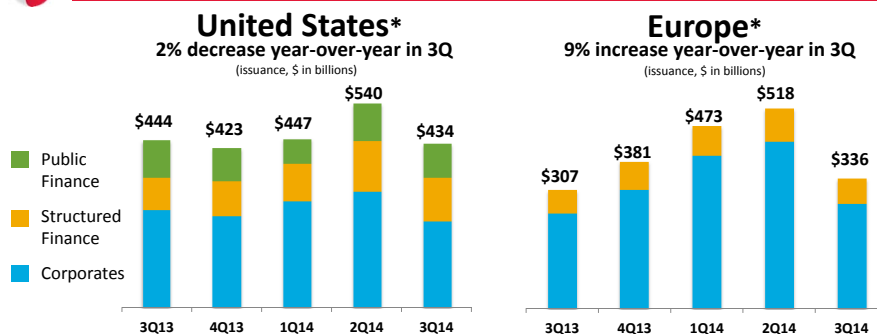
- Growth in annual fees (predominantly frequent-issuer relationship fees and surveillance) and CRISIL
- More than 300 net new customers added since 3Q 2013

##### Transaction revenue:

- Strong growth in bond ratings revenue at Financial Services as banks continue to rebuild capital structures to meet regulatory requirements
- Bank loan ratings revenue increased 19%



## Issuance Trends: Modest Increase in Seasonally Weak 3Q



#### United States Issuance:

- 3Q 2013 issuance includes Verizon's \$49 billion issuance
- High-yield decreased 17%
- Public finance declined 10%
- Structured finance increased 37% driven by ABS, CMBS, and CLOs

#### Europe Issuance:

- Corporate increased 10%
- High-yield decreased 21% following a record second quarter
- Structured finance increased 8% driven by ABS

\* Excludes sovereign issuance



## SEC Issues Final Nationally Recognized Statistical Rating Organizations (NRSRO) Rules

- In August, in accordance with the Dodd Frank Act, the SEC adopted new NRSRO rules and amendments
- Most provisions of the new regulations become effective June 2015
- The Company continues to work through all of the details of the SEC's 729-page adopting release
- As with all regulations, the Company is taking steps to achieve compliance within required timeframes



## S&P Capital IQ: Record Adjusted Operating Profit

(\$ in millions)	3Q 2014	3Q 2013	Change
Revenue	\$311	\$293	+6%*
Adj. Segment Op. Profit	\$68	\$55	+24%
Adj. Segment Op. Margin	21.8%	18.7%	+310 bps

\* Organic growth was approximately 7% excluding lost revenue from portfolio rationalization of several small products

### 3Q 2014 highlights:

- Two key products, S&P Capital IQ Desktop and RatingsXpress®, both delivered double-digit revenue growth
- Continued revenue growth despite continued declines in financial services employment
- Record adjusted operating profit
- Highest adjusted operating margin since 2Q 2012



## S&P Capital IQ: Key Products Continue to Drive Growth

### S&P Capital IQ Desktop & Enterprise Solutions

- S&P Capital IQ Desktop
- Portfolio Risk
- Compustat
- Consolidated Feeds

#### **Revenue increased 8%**

- Driven by 13% increase in S&P Capital IQ Desktop, partially offset by the shutdown of smaller products last year

### S&P Credit Solutions

- RatingsDirect®
- RatingsXpress®

#### **Revenue increased 6%**

- Driven by 11% increase in RatingsXpress®

### S&P Capital IQ Markets Intelligence

- Global Markets Intelligence (GMI)
- Leveraged Commentary & Data (LCD)
- Equity Research Services (ERS)

#### **Revenue decreased 3%**

- LCD and GMI delivered double-digit growth, offset primarily by shutdown of Funds Management Research Europe



## S&P Dow Jones Indices: Growth Across all Business Channels

(\$ in millions)	3Q 2014	3Q 2013	Change
Revenue	\$143	\$124	+15%
Adj. Segment Op. Profit	\$91	\$77	+18%
Adj. Segment Op. Margin	63.5%	61.9%	+160 bps
MHFI Share of Adj. Op. Profit*	\$68	\$55	+21%

\* The Company owns 73% of the S&P Dow Jones Indices joint venture

### 3Q 2014 highlights:

- All business channels delivered revenue growth: ETF AUM, mutual fund AUM, derivatives, and data subscriptions
- Adjusted expenses increased 10%, driven largely by headcount additions





## S&P Dow Jones Indices: Key Products Drive Growth

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### Exchange-Traded Funds

- AUM increased 25% to a record \$733 billion from the end of 3Q 2013
- Approximately 10% of the AUM increase was the result of unit creation, or inflows
- During the quarter, 15 new ETFs based upon our indices were launched

### Exchange-Traded Derivatives


- Derivative trading volumes picked up in the quarter with daily volumes based on SPDJI indices increasing 7%
- SPX and VIX trading volumes increased 10% and 12%, respectively



## S&P Dow Jones Indices: Expanding the Business

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- Announced agreement with Bolsa Mexicana de Valores (BMV) for index licensing, distribution, and management of BMV Indices:
  - Includes their flagship index, IPC (Índice de Precios y Cotizaciones), the broadest indicator of the BMV's overall performance
  - BMV Indices will be made available globally
- Announced agreement with Bolsa de Valores de Lima (BVL) for index licensing, distribution, and management of BVL Indices:
  - All BVL indices will be co-branded "S&P", including a new version of the flagship IGBVL Index and a new blue chip index to be launched soon
- Launched the Dow Jones RAFI Commodity Index

 Commodities & Commercial Markets:  
Divestitures Result in Margin Expansion

(\$ in millions)	3Q 2014	3Q 2013	Change
Revenue	\$227	\$213	+7%
Adj. Segment Op. Profit	\$83	\$77	+9%
Adj. Segment Op. Margin	36.7%	36.2%	+50 bps

**3Q 2014 highlights:**

- McGraw Hill Construction has been reclassified as a discontinued operation
- Divestitures of Aviation Week and McGraw Hill Construction coupled with the elimination of the Commodities & Commercial management layer has driven adjusted margin improvement

 Platts: Continued Solid Growth

**Platts 3Q 2014 highlights:**

- Platts delivered high single-digit revenue growth driven by:
  - Strength in price assessments, market data subscriptions, and a modest benefit from the Eclipse acquisition
  - Partially offset by a decrease in Global Trading Services' licensing revenue due to weak trading volumes for natural gas and petroleum
- Metals & Agriculture, building on recent investments, continued to deliver the greatest rate of revenue growth at 27%
- IOSCO states that "...four PRA's (Price Reporting Agencies) have made good progress with regard to the PRA principles."



## Platts' New Product Introductions in 3Q 2014



- *Platts Daily Grains* is a market report that provides the latest price assessments, analysis and news for the Black Sea corn and wheat market

- *Turkish Power Weekly* is a new assessments and publication covering Turkish power market



- Platts launched a weekly spot price assessment for Europe-delivered industrial-grade wood pellets



## J.D. Power: Delivers Double-Digit Growth

### J.D. Power 3Q 2014 highlights:

- J.D. Power delivered double-digit revenue growth driven by gains in the auto business
- Auto business growth was fueled primarily by the U.S. PIN (Power Information Network) business as well as consulting
- Both Global Services Industries and advertising licensing revenue from customers usage of J.D. Power brand increased modestly in the quarter



## Excellent 3Q 2014 Results

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### Creating Growth

- 10% total revenue growth
- 12% international revenue growth
- Numerous new product launches and licensing agreements

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### Driving Performance

- Completed portfolio rationalization, pending sale of McGraw Hill Construction
- Additional restructuring underway
- 32% adjusted diluted EPS growth
- YTD free cash flow of \$737 million

JACK CALLAHAN  
EXECUTIVE VICE PRESIDENT  
AND CHIEF FINANCIAL OFFICER





## Financial Highlights – 5 Key Areas

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- Sale of McGraw Hill Construction
- Impact of adjustments to earnings (*non performance items*)
  - \$60 million charge related to certain regulatory matters
  - \$46 million related to restructuring actions
  - \$4 million related to corporate development activities
- Consolidated income statement results
- Balance sheet and free cash flow results
- Updated 2014 guidance



## McGraw Hill Construction

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- Sale to Symphony Technology Group expected to close in 4Q 2014
- Reclassified as discontinued operation:
  - All of the financial periods presented today exclude McGraw Hill Construction results from continuing operations
  - This change eliminates approximately \$0.10 of adjusted EPS from continuing operations



## 3Q 2014 Adjustments to Earnings

(\$ in millions)	3Q 2014
Charge related to certain regulatory matters	(\$60)
Restructuring charges	(\$46)
Professional fees largely related to corporate development activity at S&P Dow Jones Indices	(\$4)
Total excluded from adjusted results	(\$110)

### Accrual for certain regulatory matters

- Accrual established for potential resolution largely related to CMBS matters from 2011

### Restructuring charges:

- Realign cost structure to fund growth and streamline processes
- Charges are largely severance related
- Limited impact on balance of year results



## McGraw Hill Financial: A Terrific Quarter

(\$ in millions, except earnings per share)	3Q 2014	3Q 2013	% Change
Revenue	\$1,263	\$1,152	+10%
Segment Operating Profit	\$507	\$423	+20%
Less: Unallocated Expense	(32)	(38)	(16%)
Operating Profit	\$475	\$385	+24%
Operating Profit Margin	37.6%	33.4%	+420 bps
Tax Rate	33.5%	34.9%	(140 bps)
Net Income*	\$281	\$215	+31%
Diluted EPS	\$1.02	\$0.77	+32%
Average Diluted Shares Outstanding	275.4	278.8	(1%)

\* Attributable to the Company

Note: All numbers presented, except revenue and shares outstanding, are presented on an adjusted basis



## Free Cash Flow from Continuing Operations: On Track to Reach Approximately \$1 Billion for Full Year

(\$ in millions)	<b>3Q 2014</b>	
Cash and equivalents	\$1,918	
Total debt	\$799	
(\$ in millions)	<b>YTD 2014</b>	<b>YTD 2013</b>
Cash provided by operating activities	\$820	\$476
Capital expenditures	(52)	(55)
Dividends and other payments to noncontrolling interests	(31)	(56)
<b>Free Cash Flow</b>	<b>\$737</b>	<b>\$365</b>

- YTD return of capital in dividends and share repurchases is \$607 million
- No shares repurchased during Q3 '14; YTD share repurchases total 4.4 million



## 2014 Guidance Update

<b>Income Statement</b> (\$ in millions)	<b>2014 Previous Guidance</b>	<b>2014 Updated Guidance</b>
Revenue	Mid single-digit	Mid to high single-digit
Adjusted Unallocated Expense	~ +\$10m	~ +\$10m
Adjusted Operating Profit Margin	> 100 bps	~ 200 bps
Adjusted Tax Rate	~ 33.5%	~ 33.5%
Adjusted Diluted EPS	\$3.80–\$3.90 <small>(with McGraw Hill Construction)</small>	\$3.78–\$3.83 <small>(without McGraw Hill Construction)</small>
<b>Investment/Free Cash Flow</b>		
Capital Expenditures	~ \$125	~ \$100
Free Cash Flow	~ \$1 billion	~ \$1 billion
Regular Dividend Per Share (annual basis)	\$1.20	\$1.20



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