

*The McGraw-Hill Companies*

## **1Q 2008 Earnings Call**

**April 29, 2008**

**Presenters:**

**Harold McGraw III**

Chairman, President and CEO

**Robert J. Bahash**

Executive Vice President and CFO

**Deven Sharma**

President, McGraw-Hill Financial Services

**Donald S. Rubin**

Senior Vice President, Investor Relations

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**Donald S. Rubin**

**Senior Vice President,**

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

This presentation includes certain forward-looking statements about the Company's businesses, 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; Educational Publishing's level of success in 2008 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 collateralized debt obligations (“CDO”), residential mortgage and asset-backed securities and related asset classes; 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 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.

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**Harold McGraw III**  
**Chairman, President and CEO**  
**The McGraw-Hill Companies**

## **MHP 1Q 2008 results**

### **EPS**

- **1Q 2008: \$0.25**
  - **Compares to \$0.40 in 1Q 2007 (included \$0.03 gain on divestiture of a mutual fund business in March)**

### **Revenue**

- **1Q 2008: Declined 6.1% to \$1.2 billion**

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## **Outlook for U.S. economy**

### **Continued financial sector problems**

- **Expect Federal Reserve to cut interest rates by 25 to 50 basis points**
- **Fed funds rate currently 2.25%**

**David Wyss, S&P's chief economist, thinks first half of 2008 will be toughest period for economy**

- **Expects tax rebate to produce 2.5% GDP growth in 3Q 2008**
- **Business tax credits will provide boost in 4Q**

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## **McGraw-Hill Education**

**Financial Services**

**Information & Media**

### **1Q results at McGraw-Hill Education**

#### **1Q 2008 segment results**

**Revenue** - 0.5% decline to  
\$330.2 million

**Operating loss** Reduced by 0.5% to  
\$90.3 million

**Operating margin unchanged from year ago**

## **1Q results at McGraw-Hill Education**

### **School Education Group**

**Revenue - 4.8% to \$138.8 million**

### **Higher Education, Professional and International Group**

**Revenue + 2.9% to \$191.4 million**

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## **How to assess 1Q results for McGraw-Hill Education**

**El-hi: 1Q revenue depends more on fill-in  
copies and supplemental materials**

**Higher education: 1Q revenue driven by  
ordering for start of new term, an echo of  
previous term**

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## **Positive indicators for 2008 at School Education Group**

**Expect new state adoption market to grow  
10% to 15%**

- **North Carolina only adoption state to place  
substantial basal materials order in 1Q**

**Strength in state new adoption market starting  
to materialize**

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## **Outlook for education: Market growth in 2008**

**State new adoption market estimated at \$900  
to \$950 million vs. \$820 million in 2007**

**Open territory: Expecting 1% to 2% year-over-  
year revenue growth**

**El-hi: 4% to 5% anticipated growth for whole  
market**

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## **Good start for School Education Group in key adoption states**

### **Major opportunities in 2008:**

- Elementary reading and math
- Three adoption states: Florida, Texas, California

### **Florida: K-5 reading adoption**

- Positive reports on *Treasures*, *Imagine It* and *Reading Mastery*

### **Texas: K-5 math adoption**

- New state-specific program off to solid start

### **California: Opportunities in first-year math and second-year science**

- Competitive at both elementary and secondary levels
- *Everyday Mathematics* looks strong

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## **Positive early feedback**

### **Good opportunities in:**

- K-5 reading in Oklahoma and Louisiana
- 6-12 literature in Alabama, Louisiana, Oklahoma
- 6-12 science in Georgia and Kentucky
- 6-12 social studies in Arkansas and Tennessee

**Prospects good in fine arts, health, business and vocational lines**

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## **Encouraging signs in open territory**

**Open territory decisions typically made through end of second quarter**

**Expect to benefit from:**

- *Math Connects*, a new K-5 national program
- *TimeLinks*, a new K-5 social studies program

**Anticipate gains in market share for *Treasures*, our elementary reading program**

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## **New intervention opportunities in supplemental market**

**Diminishing demand for traditional, stand-alone products**

- No longer purchased separately since similar materials provided in ancillary packages accompanying today's basal programs

**Sales growth in new print and digital intervention products**

- Constructed around state standards and validated through research

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## **Establishing a leadership position in formative testing**

**Strengthening new revenue stream as formative assessment gains importance**

**Measuring the success of *Acuity*, our new formative program since 2007 introduction:**

- **Selected for New York City Periodic Assessment Program**
- **Largest formative contract ever awarded at \$80 million over 5 years**
- **Expanding customer base in New York and other states**
- **Adopted state-wide in Indiana and West Virginia**

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## **Support for education funding remains strong**

**Activity brisk despite weakening economy on state and local budgets**

- **Budgets under construction in 46 states' new fiscal year beginning July 1**

**S&P 2008 report, "A weak economy will tax U.S. states' 2009 budgets," indicates broad-based budget reductions in spending—except for education**

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## Support for education funding remains strong

### State support for education consistent this decade

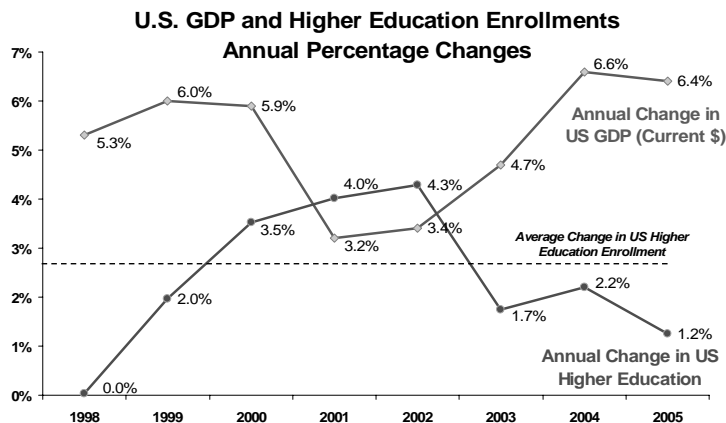
- Funding has increased in 50 states every year since 2001
- We continue to monitor situation carefully, but concern over state funding seems exaggerated

History of Elementary and Secondary Education Funding for U.S. States: Fiscal 2001-2007

Year	Elementary and Secondary Education Funding (% increase)
2001	7.90%
2002	3.10%
2003	6.40%
2004	2.70%
2005	6.40%
2006	5.90%
2007	6.70%

Source: NASBO State Expenditures Report (2001-2006)

## Weakening economy could benefit college and university market



Source: U.S. Department of Education, National Center for Education Statistics; U.S. Department of Labor

## **Outlook for growing enrollments in Higher Education**

**Annual enrollments grew over last 10 years despite weakening economy**

**Students staying in school longer**

- **Some returning to enhance employability**

**Enrollment expected to climb over next decade**

- **Fastest growth among women and minorities, according to U.S. Department of Education's Center for Educational Statistics**

**College and university market to grow 3% to 4% in 2008**

- **We expect to outperform**

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## **Outlook for McGraw-Hill Education**

**Gaining confidence in forecasts for growth in el-hi and higher education**

**Segment revenue growth of 6% to 8% in 2008**

**Expect operating margin decline of 50 to 100 basis points due to stepped-up investments in technology to accelerate digital transformation**

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## **McGraw-Hill Education**

## **Financial Services**

## **Information & Media**

### **Financial Services**

#### **1Q 2008 segment results**

**Revenue**                      -11.6% decline to  
\$644.3 million

**Operating profit**       -25.3% to \$260.0 million

**Operating margin** 40.4%, down from 47.7%  
in 1Q 2007  
Improved compared to  
4Q 2007 (35.8% plus 2.5%  
4Q restructuring charge)

## **Cost containment a top priority**

**Starting to benefit from the restructuring in 4Q 2007**

- **Will see full impact starting in 2Q 2008**

**Strictly limited hiring**

**Cut back on discretionary expenses**

**Reduced 2008 incentive compensation**

**Costs declined year-over-year**

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## **Cost containment a top priority**

**Considering additional staff reductions**

- **Need to do more to lower costs and improve efficiency**
- **Will say more in next several weeks about further reductions at:**
  - **Financial Services**
  - **McGraw-Hill Education**

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## **The benefits of a diversified and resilient portfolio**

**Growth of Investment Services is a key in efforts to diversify**

**Investment Services grew by 18% to \$217 million in 1Q 2008**

- **Represented 34% of segment's revenue**
- **Expect double-digit revenue growth for balance of year**

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## **Diversifying at S&P Credit Market Services**

**Ongoing efforts to diversify by:**

- **Asset class**
- **Geography**
- **Product Mix**
- **Growth of annual fee and subscription revenue**

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## **Growth in unearned revenue at Financial Services**

**Unearned revenue increased 13.6% to \$812 million**

- Represents 74% of corporation's total unearned revenue for 1Q 2008

**Expect deferred revenue to continue growing**

**Produced increases at S&P Credit Market Services in:**

- Subscription services
- Annual fees
- Surveillance revenue

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## **Non-transaction and international revenue**

**Revenue from non-transaction sources was \$309.1 million in 1Q 2008**

**International revenue grew 5.8% in 1Q 2008 to \$204.5 million, or 48% of top line**

- Driven by favorable foreign exchange

**Continue to expand in international markets**

- CRISIL in India is important contributor
- New rating agency in Israel—S&P Maalot
- New operations in Dubai and Johannesburg

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## **Diversification strategy cushioned segment in first quarter**

**Diversification buffered S&P Credit Market  
Services in 1Q 2008 from decline in structured  
finance market**

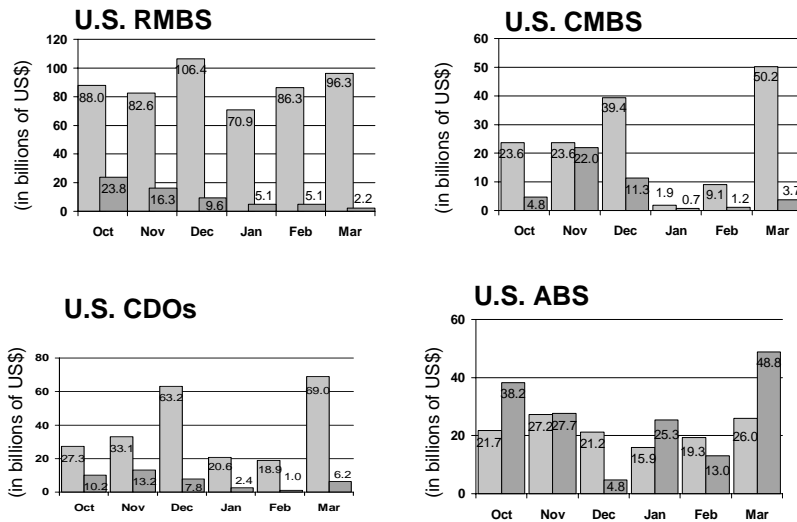
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## **Revenue vs. new issuance in 1Q 2008**

<b>Revenue</b>	<b>% Change 1Q '08 vs. 1Q '07</b>	<b>New Issue Volume</b>	<b>% Change 1Q '08 vs. 1Q '07</b>
<b>Financial Services</b>	<b>-11.6%</b>	<b>Global Issuance</b>	<b>-49.3%</b>
<b>Credit Market Services</b>	<b>-21.6%</b>	<b>Global Issuance</b>	<b>-49.3%</b>
<b>International</b>	<b>+5.8%</b>	<b>Non-U.S. Issuance</b>	<b>-42.9%</b>
<b>Domestic</b>	<b>-36.6%</b>	<b>U.S.-only Issuance</b>	<b>-55.5%</b>

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## Turbulence in credit markets has carried into first quarter of 2008

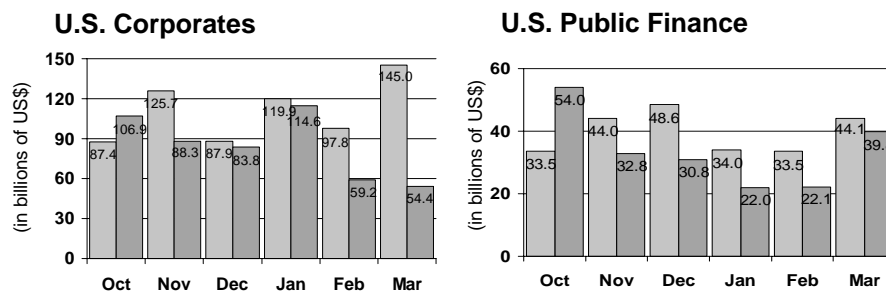


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Source: Thomson Financial, Harrison Scott Publications, Standard & Poor's

■ Prior ■ Most Recent

## Turbulence in credit markets has carried into first quarter of 2008



Source: Thomson Financial, Harrison Scott Publications, Standard & Poor's

■ Prior ■ Most Recent

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## **European credit markets**

### **Similar pattern in 1Q 2008 European structured finance**

- **Downturn hit:**
  - Residential mortgage-backed securities
  - Commercial mortgage-backed securities
  - Collateralized debt obligations

### **Only dollar volume of asset-backed securities showed increase in U.S and Europe**

- Without one private placement of \$29 billion in U.S., volume would have been down

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## **Outlook for Financial Services**

### **Outlook depends, in part, on depth and duration of downturn in structured finance market**

- Pick-up in structured finance depends on when investors believe most risks are transparent and out in the open

### **Important factors:**

- Slowdown in U.S. economy and tightening of residential mortgage-lending standards will impact level of residential lending
- Cash bond spreads have to tighten in commercial mortgage-backed market
- Forecasting CDO issuance remains difficult

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## **Outlook for Financial Services**

### **Asset-backed securities market**

- Non-mortgage ABS pipeline remains healthy
- Credit card issuance off to a good start in 1Q
- Student loan sector under pressure

### **U.S. and European corporate market**

- Investment-grade issuance continues to attract investors
- Increased sales of long-term investment-grade bonds
  - Shrinking commercial paper market and Fed rate cuts helped growth

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## **Outlook for Financial Services**

### **High-yield market**

- Recovery tied to renewal of investor confidence

### **Public finance**

- New money issuance comprised bulk of activity
- Slower economic growth may spur demand for debt financing
- May see shift to bonds instead of pay-as-you-go as in past slowdowns

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## **Data and information benefiting Investment Services**

### **Capital IQ continues to add customers**

- Now serving more than 2,300 clients
- 24% increase vs. 1Q 2007

### **Continues to upgrade product line**

- Latest release includes 3,500 non-traditional media sources, improved download capabilities, and improved charting functionality

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## **Continuing to expand index products and services**

### **\$209.7 billion in assets under management in ETFs based on S&P indices at end of 1Q 2008**

- 23.1% increase compared to 1Q 2007

### **Data and custom index businesses grew in 1Q**

- 13 new ETFs in 1Q based on S&P indices
- Now 157 ETFs based on S&P indices

### **More indices in the pipeline**

- One of fastest growing and most profitable businesses in segment

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## **Regulatory and legal outlook**

**Working to be part of the solution**

**Announced 27 Leadership Actions in February**

- **Focused on four key areas:**
  - Analytics
  - Governance
  - Information
  - Education

**Updated market on these actions on April 10, 2008**

**Response has been positive from regulators, legislators and other policy makers**

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## **SEC's ongoing examination of rating agencies**

**SEC report expected this summer**

- **May propose some new oversight rules**

**We're committed to bringing stability and transparency to capital markets**

**We do not believe any pending legal, governmental, or self-regulatory proceedings will have adverse effect on our financial conditions or operations**

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## **Outlook for Financial Services**

### **Summary**

- **Expect double-digit growth for S&P Investment Services**
- **Credit ratings markets face continued uncertainty**
- **If steep drop experienced in 1Q in structured finance continues for rest of year, segment revenue would decline 7% to 9%**
  - **Would also expect a 500 to 600 basis point drop in operating margin**

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**McGraw-Hill Education**

**Financial Services**

**Information & Media**

## **Information & Media**

### **1Q 2008 segment results**

<b>Revenue</b>	<b>+ 3.2% to \$243.4 million</b>
<b>Operating profit</b>	<b>+18.6% to \$11.7 million</b>
<b>Operating margin</b>	<b>4.8%, up from 4.2% in 1Q 2007</b>

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## **Growth at Business-to-Business Group**

**Revenue grew 3.5% in 1Q to \$219.7 million**

### **Key contributors**

- **Value-added information for global markets**

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## **Growth in volatile global energy markets**

**Increasing demand for Platts' news and pricing services**

- **Platts growing faster overseas than in North America**
- **Attracting new customers in emerging markets like former Soviet Republic and the Middle East**

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## **Growth in international markets for J.D. Power and Associates**

**China now second largest car market behind the U.S.**

- **J.D. Power began research in China more than eight years ago**
- **2006: Acquired Automotive Resources Asia**
- **2007: Won contract with Chinese auto dealers**
- **2008: Launched Power Circle Ratings on Sina.com, the most recognized Internet brand in China**

**Recently acquired Umbria, an online market intelligence pioneer, to add new dimension to voice-of-the-customer research**

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## **Advertising mixed in 1Q**

### ***BusinessWeek***

- Ad pages for global edition down 19.4% in 1Q 2008, according to Publishers Information Bureau

### **Broadcasting revenue of \$23.7 million flat vs. 1Q 2007**

- Increases in political advertising offset by declines in national time sales

### **Outlook for political advertising is promising**

- Upcoming primaries and state and local elections in Indiana, California, Colorado

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## **Outlook for Information & Media**

### **Summary**

- More global growth for information products
- Promising outlook for political advertising later in year
- Segment revenue growth of 6% to 8%
- Improvement in operating margins

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## **Summing up for The McGraw-Hill Companies**

## **Outlook for The McGraw-Hill Companies**

### **Summary**

- Year-over-year comparisons easier in second half in Financial Services
- Possibility of finishing 2008 on upswing
- If current trends in financial markets continue, expect EPS in \$2.65 to \$2.75 range in 2008

**Robert J. Bahash**  
**Executive Vice President and**  
**Chief Financial Officer**  
**The McGraw-Hill Companies**

**Updating guidance for 2008**

**McGraw-Hill Education unchanged**

- Expect revenue growth of 6% to 8% and a 50 to 100 basis point decline in operating margin
- Transfer of our Advanced Placement “AP” courses from Higher Education to School Education Group
  - Not material to Group’s 1Q results but will be later in the year, as well as to their full-year results

**Information & Media unchanged**

- Expect 6% to 8% revenue growth and improved margins

## **Updating guidance for 2008**

### **Financial Services' Investment Services**

- Maintaining forecast of double-digit growth

### **Financial Services segment**

- If little or no improvement in financial markets this year, we would expect revenue to decline 7% to 9% and operating margin to be reduced 500 to 600 basis points

**If that's the case, EPS in 2008 could range between \$2.65 and \$2.75**

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## **Revised outlook for free cash flow**

**New estimate: Approximately \$600 million before acquisitions or share repurchases**

- Started year with \$850-\$900 million range

### **Forecast driven by:**

- Reduced profits at Financial Services and impact on working capital

**Reduction will be partially mitigated by careful review of new investments**

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## **\$34 million for acquisitions in 2008**

### **1Q 2008**

- **S&P Maalot, an Israeli securities rating company**
- **Licensing rights to S&P Case-Shiller Home Price Indices**

### **2Q 2008**

- **Umbria, a marketing intelligence company social media and consumer-generated media research**

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## **Revised stock buyback target**

### **Capacity:**

- **Began year with 28 million shares remaining in 2007 buyback program**
- **Initial 2008 target: 20 million shares**

**1Q 2008: 3.4 million shares repurchased for \$134 million; average price of \$39.42**

### **New target: 15 million shares**

- **Reflects reduction in free cash flow**
- **Focus on maintaining debt levels comparable with year-end 2007**

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## **Net debt**

**1Q 2008: \$1.2 billion in net debt**

- **\$400 million increase versus year-end 2007**
- **Commercial paper borrowing in 1Q to fund primarily seasonal cash requirements along with share repurchases**

**As of March 31:**

- **Gross debt of \$1.2 billion of unsecured senior notes and \$396.2 million in commercial paper outstanding**
- **Offset by \$396.7 million in cash, primarily foreign holdings**

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## **Outlook for net interest expense**

**2008: Now expect \$75-85 million for year**

- **Lower than previous estimate due to new share repurchase target**

**1Q 2008: \$17.8 million net interest expense**

- **Compared to \$1.2 million in 1Q 2007**

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## **Reduced fully-diluted weighted average shares outstanding (WASO)**

**1Q 2008: 323.4 million shares**

- **38.1 million share decrease compared to 1Q 2007**
- **7.4 million share decrease compared to 4Q 2007**

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## **Outlook for lower corporate expenses**

**1Q 2008: Decreased \$1.2 million to \$33.9 million, compared to a year ago**

- **Primarily driven by lower incentive compensation accruals**

**2008: Now expect mid single-digit decrease**

- **Compares to previous guidance of low single-digit increase**
- **Change primarily driven by reduced incentive compensation and stringent expense controls**

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## **Measuring impact of incentive compensation in 2008**

**1Q benefited from decreased incentive compensation, including stock-based compensation**

- \$40 million decrease year-over-year at S&P

**Decline in incentive compensation expense not as pronounced for rest of year**

- Accruals less significant in second half of 2007 due to slow down of business

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## **Monitoring costs at Financial Services**

**We are investing in businesses that are growing while maintaining stringent expenses controls at Credit Market Services**

**On an adjusted basis,  
expenses decreased 1Q '08 vs. 1Q '07:**

- Reported expense: 0.9%, or \$3.4 million increase
- Adjusted expense: 4.0%, or \$16 million decrease
  - Adjusted for:
    - Net gain in 2007 (1Q 2007 gain from divestiture of mutual fund business, partially offset by operating expenses prior to divestiture)
    - Acquisition operating costs for 2008

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## **Monitoring costs at Financial Services**

**1Q '08 vs. 4Q '07: Expense decreased  
\$70 million, or 15.4%**

- Excludes restructuring charge taken in 4Q '07

**We are benefiting from expense management,  
hiring delays and curtailments, and 4Q  
restructuring actions**

- Lower incentive compensation a key factor, but  
not as significant as Q1 '08 to Q1 '07  
comparison since we reduced incentive  
compensation in 4Q '07

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## **Outlook for unearned revenue**

**1Q 2008: \$1.1 billion**

- Reflects 11.5% year over year increase
- Excluding foreign currency gains, increase is  
9.7%

**2008: Expect growth to moderate given  
forecast for slower revenue growth**

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## **Outlook for tax rate**

**2008: Expect effective tax rate of 37.5%**

- **Approximately same as 2007 on full-year basis**

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## **Reduced projection for prepublication investments**

**1Q 2008: \$66.6 million, compared to  
\$57.4 million in same period last year**

**2007: Now expect \$290 million**

- **Down from previous \$300-\$310 million estimate**
- **Reflects prudent investments and continued off-shoring efficiencies**

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## **Lower capital expenditures for property and equipment**

**1Q 2008: \$23.6 million, compared to  
\$22.7 million in same period last year**

**2008: Now expect \$160 million**

- **Normal replacement expenditures**
- **Additional purchases of software and  
technology equipment for new data center in  
first half of 2008**
- **Continued investments in technology**

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## **Outlook for non-cash items**

**Amortization of pre-publication costs**

- **1Q 2008: \$28.2 million, compared to  
\$28.1 million in same period last year**
- **2008: Still expect prepublication amortization  
to increase \$45 million to \$285 million**

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## **Outlook for non-cash items**

### **Depreciation**

- **1Q 2008: \$27.5 million, compared to \$28.9 million in same period last year**
- **2008: Still expect approximately \$125 million**
  - Completion of data center
  - Purchases of new technology equipment for data center
  - Other increases in capital expenditures

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## **Outlook for non-cash items**

### **Amortization of intangibles**

- **1Q 2008: \$14.2 million, compared to \$11.6 million in same period last year**
- **2008: Expect approximately \$52 million**

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