

*The **McGraw-Hill** Companies*

## **4Q 2008 Earnings Call**

January 27, 2009

### **Presenters:**

**Harold McGraw III**

Chairman, President and CEO

**Robert J. Bahash**

Executive Vice President and CFO

**Donald S. Rubin**

Senior Vice President, Investor Relations

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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 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; Educational Publishing's level of success in 2009 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 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 residential and commercial mortgage backed securities and CDOs backed by residential mortgages and related asset classes; 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.

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**Harold McGraw III**  
**Chairman, President and CEO**  
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## **MHP 2008 results**

### **EPS**

- **2008: \$2.51**
  - Includes pre-tax restructuring charge of \$73.4 million (\$45.9 million after tax), or \$0.14 per diluted share

### **Revenue**

- **2008: Declined 6.2% to \$6.4 billion**

## **MHP 4Q 2008 results**

### **EPS**

- **4Q 2008: \$0.37**
  - Includes pre-tax restructuring charge of \$26.3 million (\$16.4 million after tax), or \$0.05 per diluted share

### **Revenue**

- **4Q 2008: Declined 9.8% to \$1.4 billion**

## **Controlling expenses**

### **2008 actions**

- Incentive compensation reduced \$273.7 million
- Workforce reduction of 1,045 positions

**Cost containment was a priority in 2008 and will be again in 2009**

**Prepared to take more actions as necessary**

## **Managing for today while preparing for tomorrow**

**Waiting to see how federal stimulus recovery package will:**

- Stimulate the economy
- Relieve state and local budget pressures
- Help education funding
- Improve outlook in capital markets

**Demand for local government-supported projects could lead to more debt financing**

- Inverse relationship between state and local operating balances and debt issuance

## **Meeting challenges and creating new opportunities**

**Today's changing financial landscape presents new challenges and opportunities**

- **Responding by investing in fast-growing businesses at Standard & Poor's**

**Continuing to leverage content, technology and distribution to deliver new digital products and services**

**Expanding our reach globally to maintain leadership position**

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## **Positioned for long-term growth**

**Preserving and protecting our strong balance sheet is a top priority**

**Our cash flow is more than sufficient to:**

- **Meet operational requirements**
- **Pay down debt**
- **Return cash to shareholders**
  - **Dividends paid every year since 1937 and increased annually since 1974**
  - **Next decision on cash dividend will be made tomorrow**

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## **Financial Services**

**McGraw-Hill Education**

**Information & Media**

**Diverse portfolio helped cushion impact  
of credit crunch, challenging comparisons**

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

**2008 revenue (22.5%) to \$1.8 billion**

**4Q revenue (24.5%) to \$396.3 million**

### **S&P Investment Services**

**2008 revenue + 15.0% to \$899.5 million**

**4Q revenue + 7.0% to \$226.7 million**

- In 2008, S&P Investment Services produced 34% of Financial Services revenue compared to about 26% in 2007

## Financial Services: 2008 results

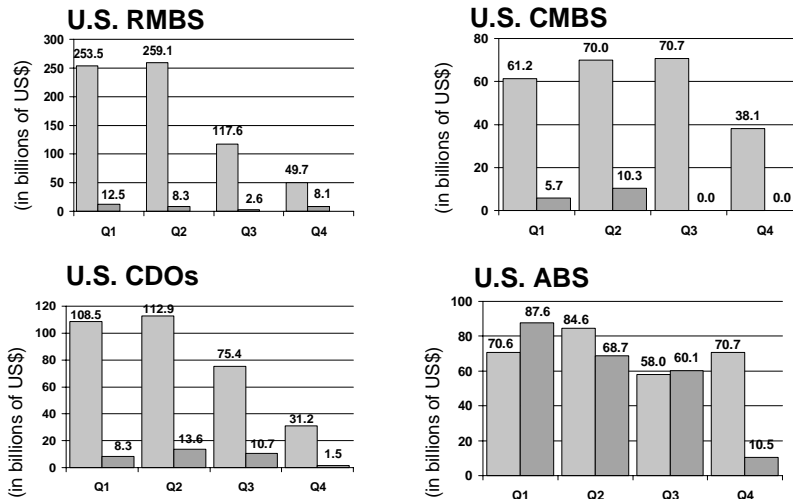
Revenue		Operating Profit
2008	(12.9%) to \$2.7 billion	Decreased 22.4% to \$1.1 billion <ul style="list-style-type: none"><li>• Includes pre-tax restructuring charge of \$25.9 million for a workforce reduction of 340 workers</li><li>• Reflects \$166 million decrease in incentive compensation</li></ul>
4Q 2008	(15.4%) to \$623.1 million	Decreased 18.6% to \$214.6 million <ul style="list-style-type: none"><li>• Includes pre-tax restructuring charge of \$6.6 million for a workforce reduction of 50 workers</li><li>• Reflects \$36.6 million decrease in incentive compensation</li></ul>

## Financial Services: 2008 results

### Operating Margin

- 2008: 39.8%
  - Restructuring charges reduced operating margin by 98 basis points
- 4Q 2008: 34.4%
  - Restructuring charges reduced operating margin by 105 basis points

## Turbulence in credit markets carried into 4Q 2008

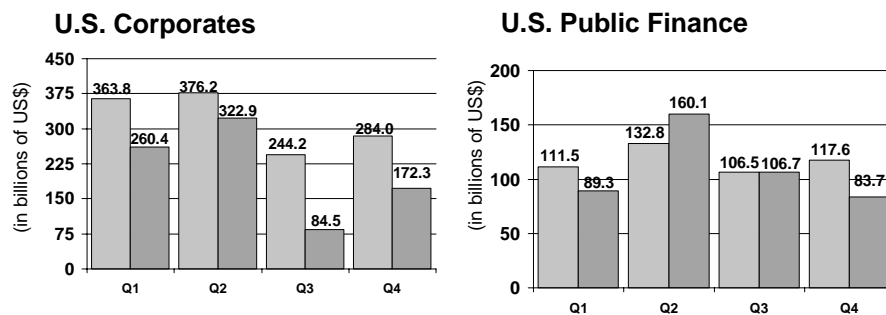


Source: Thomson Financial, Harrison Scott Publications, Standard & Poor's

14 ■ 2007 ■ 2008

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## Turbulence in credit markets carried into 4Q 2008



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

■ 2007 ■ 2008

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## Revenue vs. new issuance in 4Q 2008

Revenue	% Change 4Q '08 vs. 4Q '07	New Issue Volume	% Change 4Q '08 vs. 4Q '07
Financial Services	(15.4%)	Global Issuance	(46.7%)
Credit Market Services	(24.5%)	Global Issuance	(46.7%)
International	(18.3%)	Non-U.S. Issuance	(39.9%)
Domestic	(29.8%)	U.S.-only Issuance	(53.3%)

## Building a diverse, resilient revenue stream for Financial Services

### Non-transaction revenue: A key to resiliency in ratings business

- 2008: Up 5.2%; represented 73.1% of ratings revenue
- 4Q 2008: Down 4.8%; represented 78.9% of ratings revenue

### Nearly 90% of non-transaction revenue is recurring

- Includes surveillance fees, annual contracts, and subscriptions
- Recurring portion grew throughout 2008

### Non-transaction also includes bank loan ratings

- Sharp decline in bank loan ratings key factor in 4Q decline

## **Outlook for non-transaction revenue**

**We expect non-transaction growth in 2009 based on:**

- Modest price increases
- Large annually renewable contracts
- Major enhancements made to subscription-based services
  - RatingsDirect and RatingsXpress

## **Outlook for new issue volume**

**2009 new issuance: Flat at best**

- Expect slow start this year
- Looking for better run rate later in 2009 compared to 4Q 2008

**Some positive signs for S&P's market**

- Federal initiatives to improve liquidity have had some success
- Pent-up demand in investment-grade market
- Declining LIBOR indicates lower perceived risk

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

### **S&P Investment Services**

- **Tough comparisons to 4Q 2007 and consolidations in the financial market**
  - Lower rate of growth in 4Q 2008 than in previous three quarters
  - Assets in ETFs declined from an all-time high of \$235 billion in 2007 to \$203.6 billion in 2008

**Expect growth in non-ratings businesses in 2009**

## **Index services benefited from market volatility**

**4Q 2008: 47% increase in average daily volume for major exchange-traded derivatives based on S&P indices**

- Daily volume averaged 4.1 million contracts in 4Q 2008 compared to 2.8 million in 4Q 2007
- S&P is paid every time a contract is traded

### **Positive developments with ETFs**

- New inflows created substantial increase in number of shares invested in ETFs in 2008
- Greater use for hedging

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

### **New opportunities:**

- 14 new ETFs launched in 4Q 2008
- 59 new ETFs launched in 2008
- 203 ETFs based on S&P indices now available worldwide

### **Benefits for 2009:**

- New products
- Growth in shares outstanding in ETFs
- Increasing diversity of S&P's offerings

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

**Capital IQ is adding customers here and abroad**

- Now serves more than 2,600 clients, a 19% increase for the year

**Capital IQ continues to expand product offering and functionality**

- New portfolio attribution tool

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## **The regulatory scene: Clarifying the CUSIP issue**

**Proceeding opened by the European Commission against Standard & Poor's**

- Proceedings are not related to ratings
- It is not a lawsuit
- Involves complaint against CUSIP Service Bureau (Committee on Uniform Security Identification Procedures)

## **The regulatory scene: Clarifying the CUSIP issue**

**CUSIP started in 1968 when the American Bankers Association appointed S&P to develop system to identify each stock and bond with a 9-digit CUSIP code**

- CUSIP Service Bureau also issues 12-digit ISIN numbers for all cross border securities transactions
  - ISIN is derived from the CUSIP number
  - CUSIP and ISIN numbers are available free of charge
- CUSIP Service Bureau has been licensing commercial databases for over 30 years

## **The regulatory scene: Clarifying the CUSIP issue**

**In 2008, the European Commission received complaints that CUSIP was charging fees for access to database**

**The complaint is without merit**

- **ISIN numbers are available at no charge for settlement of cross border securities transactions**
- **Europeans are using identifiers for other purposes and want free access to intellectual property**
- **Misrepresents CUSIP's legitimate licensing activities**
- **Ignores fact that our licensing practices are wholly transparent and in line with industry practices**

## **The legal scene: New derivative lawsuit**

**Teamsters Allied Benefits Funds alleges our Board and corporate executives knew there were problems with ratings and made misstatements in public filings**

- **We believe this suit is without merit**

## **Regulatory issues and actions**

**Ongoing outreach to key policymakers, regulators and politicians here and abroad**

- **Meeting with European member states and Parliament**

**Awaiting final NRSRO rules from U.S. Securities and Exchange Commission**

- **We believe smart regulation will help strengthen financial markets**
- **S&P working to be part of the solution**

## **Regulatory issues and actions**

**Appointed Ray Groves as S&P's first ombudsman**

- **Appointment effective February 16th**
- **Reports directly to Chairman**
- **Accountable to Audit Committee of Board**
- **Will address both internal and external conflicts of interest and report to the public annually**

## **Regulatory issues and actions**

**Managing potential for conflicts in ratings process a key regulatory issue**

- No system completely free of conflict
- Conflict can be managed through greater transparency

## **Regulatory issues and actions**

**Transparency key issue for financial markets**

- Reason for 27 improvement in procedures and processes by S&P
- Creation of Office of Ombudsman

**For transparency, S&P makes ratings available at no charge and in real-time to everyone**

- Business models makes transparency possible



## 2009 outlook for Financial Services

### Summary

- Growth in non-transaction revenue will help cushion uncertainty in new issue market
- Growth in S&P Investment Services
- Slow start to 2009
- The segment in 2009:
  - 1.5% to 2% revenue growth
  - Margin decline of 250 to 300 basis points, excluding 2008 restructuring charges

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**Financial Services**

**McGraw-Hill Education**

**Information & Media**

## 2008 results at McGraw-Hill Education

### School Education Group

2008 Revenue (5.4%) to \$1.4 billion  
4Q 2008 Revenue (18.6%) to \$162.2 million

### Higher Education, Professional and International Group

2008 Revenue + 0.9% to \$1.3 billion  
4Q 2008 Revenue (2.0%) to \$344.4 million

HPI Group accounted for 48% of 2008 segment revenue

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## McGraw-Hill Education: 2008 results

Revenue		Operating Profit
2008	(2.5%) to \$2.6 billion	(20.9%) to \$316.5 million
		<ul style="list-style-type: none"> <li>• Pre-tax restructuring charge of \$25.3 million, primarily for a workforce reduction of approximately 455 positions</li> <li>• \$29.3 million decrease in incentive compensation expense</li> </ul>
4Q		
2008	(8.0%) to \$506.5 million	Loss of \$14.3 million
		<ul style="list-style-type: none"> <li>• Pre-tax restructuring charge of \$11.4 million, primarily for a workforce reduction of approximately 215 positions</li> <li>• \$7.8 million decline in incentive compensation</li> </ul>

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## **McGraw-Hill Education: 2008 results**

### **Operating margin**

- **2008: 12.0%**
  - Restructuring charge reduced the operating margin by 96 basis points

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## **Higher education: Positioned for growth in 2009**

**Surge in December sales ended 2008 on upswing**

- Didn't match U.S. college market's 3% gain in 2008
- We published fewer major titles in 2008 than 2007

**Expect to keep pace with the industry in 2009**

- More robust list of titles in 2009
- Growing lineup of new digital offerings offer:
  - Individualized online tutoring
  - Course-critical lecture capture service
  - Assessment placement tools that determine appropriate course for entering students

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## **Higher education: Positioned for growth in 2009**

### **Launched McGraw-Hill Connect, a new generation of digital products**

- Initially available for 12 disciplines
- Help faculty and students “Connect. Learn. Succeed.”

### **741 titles currently on CourseSmart**

- The industry’s eBook website

## **Higher education: Positioned for growth in 2009**

### **Anticipate college and university market to grow 3% to 4% in 2009**

### **Higher education a counter-cyclical market**

- Post-secondary enrollments usually increase during economic downturns

## Outlook for professional market

**Weakness at retail hurt sales of professional books in 2008**

- Consumers cut back spending

**Launching key scientific, technical and medical titles in 2009**

- Less vulnerable to economic downturns than general retail market

## Creating new digital products and services for professional markets

**Launching three major new digital products in 1Q:**

- *JAMA Evidence*: Provides subscribers with tools for applying medical literature to clinical diagnoses
- *AccessAnesthesiology*: Online resource that puts the subscriber into the anesthesiologist's workflow
- *AccessEngineering*: Fully-searchable content that users can customize for their own projects

**Steady increase in new subscriptions around the world**

- Renewals are strong

**Expect more growth overseas in higher education and professional markets**

## **The changing outlook for the el-hi market**

**Elementary-high school market to decline about 10% to 15% in 2009 after 4% decrease in 2008**

**2009 state new adoption calendar not robust**

- **2008: Market topped \$980 million, exceeding our earlier projection of \$925 to \$950 million**
- **2009: Currently estimate market to be \$675 to \$725 million, down from original estimate of \$850 to \$900 million**

## **Achieving results in state new adoption sales**

**State and local funding concerns could impact 2009 purchases in key adoption states**

- **Florida**
  - **Eliminated K-12 music**
  - **Only 6-12 literature to be funded (many districts may postpone until 2010 or 2011)**
- **California**
  - ***California Treasures* adopted for K-5 reading**
  - **Well positioned for second year of math adoption**
- **Budget situation is fluid in both states**

## Budget pressures evident in testing

Custom contract revenue declined for 2008 and 4Q

- Lower volume of work on several contracts
- Discontinuation of two contracts that produced income in 2008
- Difficult to replace revenue as state budgets tightened in second half of 2008

*Acuity* is adding new districts and retaining customers

- Strong renewals for this formative testing program
- Benefiting from district-level interest

Education testing is still a state requirement

- We anticipate grants for summative testing under NCLB will be funded at 2008 levels (approximately \$410 million)

## Pressure on state education budgets

41 states and the District of Columbia have reported deficits for their current fiscal years

- 5 of the top 16 states, in terms of instructional materials purchasing, have cut \$370 million from their educational budgets
- Cuts by more states expected

Difficult to quantify reductions due to variations in funding practices

- Prudent to assume budget cuts will affect purchasing in the first half of 2009

Concern about new 2009-10 fiscal budgets

- More clarity when spring tax revenue comes in and budgets are completed

## **What new federal education budget may offer**

### **New federal budget expected in February**

- May contain Title 1 grant increases for districts with disadvantaged students
  - Funds can be used for instructional materials

**School infrastructure funding could free up state and local allocations for instruction-related purchasing**

## **Stimulus bills from House and Senate may help education**

**U.S. House of Representatives scheduled to vote this week on stimulus bill that adds up to \$140 billion for education. It includes:**

- \$41 billion to local public school districts
- \$39 billion to public school districts and colleges and universities to prevent cutbacks in key state services

### **U.S. Senate's stimulus bill in the works**

- Will include tax credits for tuition fees and purchase of course materials

**Congress on track to pass stimulus package before adjourning on February 13**



## **2009 outlook for McGraw-Hill Education**

### **The market in 2009:**

- Federal funds may alleviate pressure on state and local funding for education
- 10% to 15% decline in the el-hi market in 2009
- 3% to 4% growth in U.S. higher education market

### **The segment in 2009:**

- Low single-digit revenue decline in 2009
- 300-400 basis point decline in operating margin, excluding 2008 restructuring charges

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**Financial Services**

**McGraw-Hill Education**

**Information & Media**

## **Improvement at Business-to-Business Group in 2008**

<b>2008 revenue</b>	<b>+4.1% to \$954.8 million</b>
<b>4Q revenue</b>	<b>+0.2% to \$254.1 million</b>

### **Key factors in 2008**

- Growth in business-to-business markets
- Record year in political advertising for Broadcasting
- Weakness in print advertising

## **Improved performance in the Broadcasting Group in 2008**

<b>2008 revenue</b>	<b>+ 4.0% to \$107.1 million</b>
<b>4Q 2008 revenue</b>	<b>+11.3% to \$31.8 million</b>

## Information & Media: 2008 results

### Revenue

2008 + 4.1% to \$1.1 billion

### Operating Profit

+ 45.0% to \$92.1 million

- Pre-tax restructuring charge of \$19.2 million, primarily for a workforce reduction of approximately 210 workers
- \$22.6 million decrease in incentive compensation

4Q + 1.3% to \$285.8 million  
2008

+ 61.7% to \$32.7 million

- Pre-tax restructuring charge of \$5.3 million, primarily for a workforce reduction of 70 workers
- \$6.4 million decrease in incentive compensation expense

## Information & Media: 2008 results

### Operating margin

• 2008: 8.7%

– Restructuring reduced margin by 181 basis points

• 4Q 2008: 11.4%

– Restructuring reduced margin by 186 basis points

## **Platts—a key driver in 2008**

**2008: Benefited from volatility in energy markets**

- Increased the demand for information
- News, pricing, and growing conference business produced solid results in 2008

**2009: We look forward to solid results**

## **Meeting challenges at Business-to-Business Group**

**J.D Power benefited from strong results in Asia-Pacific market**

- Primarily automotive in China
- Experienced some softness in fourth quarter

**McGraw-Hill Construction**

- Gains in project news network offset by softness at Sweets and drop in media advertising

**BusinessWeek**

- Advertising pages down 16.1% in 2008 and down 19.6% in fourth quarter

## **Broadcasting: Benefiting from political advertising**

### **Record revenue in political advertising**

- Hit \$27 million in 2008
- More than half generated in 4Q 2008

**Advertising market will be challenged in 2009 with a recessionary environment and no significant elections**

## **Issues for segment in 2009**

### **Weakness in advertising**

- Problems in automotive market will be an issue for advertising business in segment and specifically for J.D. Power and Associates

**Another factor in revenue picture:  
Shift to online services at J.D. Power**

- Impacts timing of revenue recognition

## **Outlook for Information & Media**

### **For 2009:**

- **Low single-digit revenue decline**
- **200 to 300 basis point reduction in operating margin, excluding 2008 restructuring charges**

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

### **Summary**

- **2009 will be a challenging year**
  - **Tight credit markets**
  - **State and local budget pressures will affect spending on education**
  - **Softness in advertising**
- **2009 revenue to decline 1% to 2%**
- **Earnings per share in the \$2.20 to \$2.30 range**

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

**Key points for 2008**

**Achieved \$2.65 EPS, high end of our  
guidance despite challenging environment**

**\$455 million in free cash flow**

**Repurchased 10.9 million shares in 2008 for  
\$447 million**

## 4Q 2008 operating performance

### Standard & Poor's

- **Credit Market Services revenue declined 24.5%**
  - Minimal debt issuance in October and November
- **Investment Services revenue grew 7%**
  - Slower than first three quarters from weakness in banking and investment services sectors
- **4Q margin of 35.5%, excluding restructuring charges**
  - Prudent expense management
  - Margins influenced by softer revenue

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## 4Q 2008 operating performance

### McGraw-Hill Education

- **Higher Education, Professional and International Group revenue declined 2%**
  - Solid performance in U.S. college and university market
  - Offset by challenging retail environment for professional, weaker overseas sales
- **School Education Group revenue declined 18.6%**
  - Softness in supplemental market and residual sales
- **4.8% decline in segment's expenses, excluding restructuring charges in 2008 and 2007**

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## **4Q 2008 operating performance**

### **Information & Media**

- **Revenue grew 1.3%**
  - Broadcasting's strong political sales in Denver market
  - Continued growth from Platts' news and pricing services
  - Offset by softness in Broadcasting's local and national advertising revenue and declines in BusinessWeek's advertising revenue
- **Expenses managed effectively**
  - Margins expanded to 13.3%, excluding restructuring charges

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## **Update on 2008 employee headcount**

**Ended 2008 with 21,649, a net increase of 478 employees**

- **Restructuring actions offset by hiring internationally, primarily to support fast-growing businesses at Financial Services**

**Employment has grown only overseas; has declined in U.S.**

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## 2009 guidance for Financial Services

**Revenue: Expect 1.5% to 2% revenue growth**

- **Investment Services: High single-digit growth**
- **Credit Market Services: Slight decline**
  - 66% of total Financial Services' revenue

**Guidance based on current foreign exchange rate projections**

- **Strengthening dollar will negatively impact growth in 2009**
- **On constant currency basis, segment revenue projected to grow approximately 5% to 6%**
  - Investment Services revenue largely billed in U.S. dollars; foreign exchange largely impacts Credit Market Services' revenue

## 2009 guidance for S&P's Credit Market Services' revenue

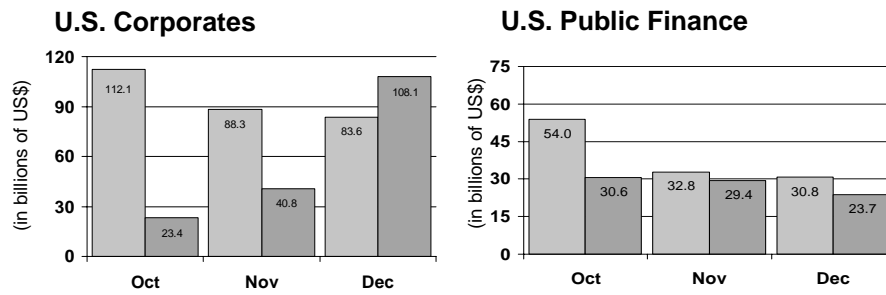
**Will benefit from:**

- **Non-transaction revenue: 1% to 2% growth**
- **Modest price increases**
- **Significant declines in 2008, such as bank loan ratings, will not hamper CMS in 2009**

**Offset by:**

- **Transaction revenue: Expect 10% to 12% decline**

## A December pick up in 4Q U.S. corporate new issuance



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

■ 2007 ■ 2008

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## 2009 guidance for S&P's Investment Services' revenue

**Expect high single-digit revenue increase in 2009**

- ETF asset inflows continue to grow strongly; leaves us well positioned when market rebounds

**Will benefit from:**

- Continued growth for indices
- Sales of new products and services
- Modest price increases

**Offset by:**

- Customer base that is facing challenges

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## **Financial Services: 2009 expenses and operating margin**

**Projecting a 250-300 basis point margin decline**

- Implies expenses will increase approximately 6%
- Operating margin between 37.7% and 38.2%

**On constant currency basis, we expect expenses to increase approximately 10% reflecting:**

- Full year impact of 2008 hires, mostly overseas
- Continued investments in fast-growing businesses but at a reduced pace
- Increased stock-based compensation

**Will be partially offset by benefits of restructuring actions**

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## **Financial Services: 2009 expenses and operating margin**

**We expect margins to improve from 35.5% margin in 4Q 2008, excluding restructuring charges**

- 4Q margins were depressed since it was the lowest revenue-producing quarter of the year
  - Primarily driven by low debt issuance levels in October and November
- Pronounced impact given high fixed costs of business

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## **2009 guidance for McGraw-Hill Education**

**HPI Group's overall growth will be negatively impacted by:**

- Challenging professional market
- Stronger dollar on overseas sales

**HPI will benefit from growth in U.S. college market; will grow in line with the market at 3% to 4%**

**School Education Group will be impacted by weakening state new adoption market in 2009**

- California is one to watch given states' fiscal difficulties

## **2009 guidance for McGraw-Hill Education**

### **McGraw-Hill Education**

- **Margin expected to decline 300-400 basis points**
  - Implies 9.0% to 10.0% margin
  - Expenses roughly flat despite increased plant amortization and increased investment at Higher Education
- **2009 will benefit from:**
  - Restructuring actions taken in 2008
  - Completion of data center in 2008
  - Lower marketing costs due to reduced opportunities in adoption market

## **2009 guidance for Information & Media**

**Expect revenue decline in low single digits**

- **Growth from Platts not enough to offset:**
  - Loss of political advertising in a non-political year
  - Extremely challenging advertising environment
  - Turmoil in automotive market
- **Results will be adversely impacted by non-cash accounting change at J.D. Power**
  - Will result in \$15 million decline in revenue and \$10 million decline in profit

## **2009 guidance for Information & Media**

**Segment's margin expected to decline  
200-300 basis points**

- **Implies 7.5% to 8.5% margin**
- **Expense growth flat, largely due to restructuring actions**

## **Impact of incentive compensation**

**For MHP: \$273.7 million year-over-year decline in incentive compensation in 2008**

**2009: Appropriate incentives of approximately \$110 million are being reinstated across all segments and corporate**

## **2009 outlook for corporate expenses**

**Expect increase of \$25 to \$30 million**

- **Largely reflects increased incentive compensation, particularly stock-based compensation**

## **Completion of data center will help with expenses in 2009**

### **Migration costs**

- **2008:** Completed in 2008 at cost of \$31 million
- **4Q 2008:** \$10 million
- **2009:** No significant costs

## **2009 outlook for lower effective tax rate**

**2008: 37.5%**

**2009: Approximately 37.0%; lower rate  
influenced by:**

- **Higher growth in international operations  
has a favorable impact on rate**
- **Recently formed Standard & Poor's  
Financial Services LLC, a Delaware limited  
liability company**
  - **In addition to operational benefits, we expect  
new structure to be more tax efficient**



## Measuring 2008 free cash flow

(\$ in millions)

Cash provided by operating activities (GAAP)	\$1,168.8
Investments in prepublication costs	(254.1)
Purchase of property and equipment	(106.0)
Additions to technology projects	(25.4)
Dividends paid to shareholders	(280.5)
Other adjustments, primarily foreign exchange	(47.6)
<b>Free cash flow</b>	<b>\$ 455.2</b>

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## 2009 guidance for free cash flow

**2009: Expect free cash flow in range of \$430 to \$450 million**

### **Comparable to 2008**

- **Result of easier working capital comparisons**
- **Reduced investments**
- **Offset by lower operating results**

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**The McGraw-Hill Companies**

## **Pension funding requirements in 2009**

Potential for any pension plan contributions have not been factored into free cash flow guidance

U.S. plan is underfunded due to significant market declines in 2008

- Continue to follow guidance from government agencies regarding contribution formula changes
  - May have no funding requirements in 2009
  - If one is required, could be in range of \$30 to \$50 million and would be payable in second half of year

## **MHP's debt position**

2008 gross debt: \$1.27 billion

- \$1.2 billion in unsecured senior notes
- \$70 million in commercial paper outstanding
- Offset by \$472 million in cash
  - Repatriated cash, but balance still largely in foreign cash with some held in U.S. for operational purposes

2008 net debt: Ended December at \$796.0 million, down from \$801.4 million last year

We plan to access commercial paper market in early 2009 due to seasonal nature of education businesses

## **Update on share repurchases**

**2008: 10.9 million shares repurchased for \$447.2 million; average price of \$41.03**

- **Capacity: 17.1 million shares remaining in 2007 buyback program**

**4Q 2008: No share repurchases given our desire to maintain debt levels comparable to year end 2007**

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

**4Q 2008: 312.8 million shares**

- **17.9 million share decrease compared to 4Q 2007**
- **4.4 million share decrease compared to 3Q 2008**

**2008: Ended at 318.7 million shares**

- **26.1 million decrease compared to 2007**

**Fully-diluted shares at end of 2008 approximately 315 million shares**

## **Outlook for net interest expense**

**4Q 2008: \$15.4 million net interest expense**

- Compared to \$11.9 million in 4Q 2007

**2008: \$75.6 million for year**

- Compared to \$40.6 million in 2007

**2009: Expect it to be roughly comparable with 2008**

## **Reducing prepublication investments in 2009**

**2008: \$254 million**

**2009: Expect \$225 million**

- Lower due to:
  - Reduced revenue opportunities in 2009
  - Prudent investments
  - Continued offshoring benefits

## **Reducing capital expenditures for property and equipment in 2009**

**2008: \$106 million**

**2009: Expect approximately \$90 million**

- \$16 million decline due to reduced technology spending

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

**Amortization of pre-publication costs**

- 2008: \$270 million

- 2009: Expect \$285 million, reflecting higher level of investment made in 2007 and 2008

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

### **Depreciation**

- **2008: \$120 million**
- **2009: Expect approximately \$130 million**

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

### **Amortization of intangibles**

- **4Q 2008: \$17.5 million**
  - Accelerated amortization of certain acquired intangibles
- **2008: \$58.5 million**
- **2009: Expect approximately \$55 million**

## Outlook for increase in unearned revenue in 2009

**2008: \$1.1 billion**

- Increased 1.3% year-over-year
- Grew at 3.8% at constant foreign currency exchange rates

**Financial Services: Grew 2.7% in 2008**

- Grew at 6.1% at constant foreign currency exchange rates
- Segment represents approximately three quarters of McGraw-Hill's unearned revenue

**2009: Expect low single-digit growth for Corporation**

*The McGraw-Hill Companies*

## 4Q 2008 Earnings Call

January 27, 2009

Presenters:

**Harold McGraw III**  
Chairman, President and CEO

**Robert J. Bahash**  
Executive Vice President and CFO

**Donald S. Rubin**  
Senior Vice President, Investor Relations

NOTE: The presenters' slides and a replay of this webcast will be available from [www.mcgraw-hill.com/investor\\_relations](http://www.mcgraw-hill.com/investor_relations) approximately two hours after the end of the call.

## **4Q 2008 Earnings Call**

**January 27, 2009**

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Internet replay available for one year

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