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## **3Q 2009 Earnings Call**

October 26, 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 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 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 3Q 2009 results and increased guidance

### EPS

- 3Q 2009: \$1.07

### Revenue

- 3Q 2009: Declined 8.4% to \$1.9 billion compared to 3Q 2008

Now expect to achieve the top end of our \$2.20 to \$2.25 EPS guidance

- Excludes 2Q restructuring charge of \$0.03, a \$0.03 loss on divestiture of Vista Research in May, and projected \$0.02 gain on sale of *BusinessWeek*, which will close in 4Q

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## Focusing our resources on greatest opportunities

Although *BusinessWeek* has made significant contributions to McGraw-Hill, we must now focus resources on areas with greatest opportunities:

- Building size and scale globally in essential markets
- Expanding our digital capabilities

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## **Encouraged by recent signs of an improving economy**

**Our economists forecast GDP growth of 1.8% in  
2010 after 2.7% decline in 2009**

- **Stimulus funds being spent more slowly than  
expected in education**

**Positive indications that Federal Reserve and  
Treasury programs are contributing to  
improvement in credit markets**

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**Financial Services**

**McGraw-Hill Education**

**Information & Media**

## 3Q 2009 results at Financial Services

Revenue	(2.2%) to \$637.0 million <ul style="list-style-type: none"><li>• S&amp;P Credit Market Services: +0.7% to \$426.1 million</li><li>• S&amp;P Investment Services: (7.6%) to \$210.9 million</li></ul>
Operating Profit	(10.1%) to \$256.2 million
Operating Margin	40.2%

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## Key takeaways from Financial Services' 3Q 2009 results

**S&P Credit Market Services had first year-over-year quarterly revenue increase in two years**

**Benefits from growth overseas:**

- 3Q's total new issuance grew faster in Europe
  - + 39.2% in Europe
  - + 31.4% in U.S.
- International revenue increased 3.3%, or \$6.7 million, in 3Q despite \$7.7 million impact of foreign exchange
- Foreign source revenue accounted for 49.1% of S&P Credit Market Services' 3Q revenue

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## Key factors in new issue bond market

**Growth in U.S. and European corporate industrial debt issuance**

- U.S.: +98.9% in 3Q
- Europe: +120.1% in 3Q

**U.S. high-yield issuance: +491.3% in 3Q off a low base**

**European speculative-grade issuance: +226.2%**

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## Interest rate spreads: A key gating factor for issuance

**Since January, spreads have narrowed:**

Basis Points	10/22/09	One Month ago	1/1/09	5 year Mvg Avg
IG Composite spread	226	231	531	197
SG Composite spread	693	740	1,628	567

- Spreads may remain elevated as investors and credit markets tread cautiously

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## **Signs of progress in credit markets**

**Companies able to raise cash to fund operations or refinance maturing debt**

- 3Q global volume for high-yield bonds highest in more than a decade
- Speculative-grade companies able to raise dollars as risk premiums fell dramatically from record levels in late 2008

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## **Signs of progress in credit markets**

**Increased investor appetite for investment-grade industrial bonds**

- Result of aversion to equity and structured finance risk
- Industrial companies' efforts to avoid refinance risk
- Lack of new money from bank market

**Investors more comfortable buying lower rated investment-grade bonds**

- 54% of corporate issuance has been low BBB, up from 28% earlier in the year

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## Signs of progress in credit markets

Banks becoming more comfortable obtaining funds from each other

- The spread between the three-month LIBOR and Fed's overnight rate—a gauge of how banks assess riskiness of lending to one another—fell to 0.34%

## U.S. government supports nearly the entire funding mix

Commercial Paper	Fed's Commercial Paper Funding Facility (CPFF) FDIC's Temporary Liquidity Guarantee Program (TLGP)
Term Unsecured Debt	FDIC's Temporary Liquidity Guarantee Program (TLGP)
Deposits	FDIC's Temporary Deposit Insurance Increase FDIC's Transaction Account Guarantee
Secured Borrowing	At banks: – Fed's Discount Window – Fed's Term Auction Facility (TAF)  At broker-dealers: – Fed's Primary Dealer Credit Facility (PDCF) – Fed's Term Securities Lending Facility (TSLF)
Equity Capital	Treasury's TARP Preferred Stock and Warrants

## **Asset-backed securities market benefited from TALF**

**Program stimulated issuance in wide array of ABS asset classes**

- Including credit cards, auto loans, auto leases and student loans

**Traditional real money investors have returned to market**

- Use of TALF leverage has declined sharply

## **New actions to help credit markets**

**U.S. Treasury preparing to implement the Public-Private Investment Partnership**

- Designed to increase demand for existing legacy residential mortgage-backed securities and commercial mortgage-backed securities

**European Central Bank started purchasing euro-denominated covered bonds in 3Q to stimulate residential mortgage-backed securities there**

## **Positive signs for S&P Credit Market Services**

**Comparisons will be easiest of the year**

- 4Q '08 revenue fell 24.5%, steepest decline of 2008

**Outlook for corporate market is positive**

- Tight spreads
- Healthy refinancing calendar
- Low rates
- Investor demand for yield

## **Positive signs for S&P Credit Market Services**

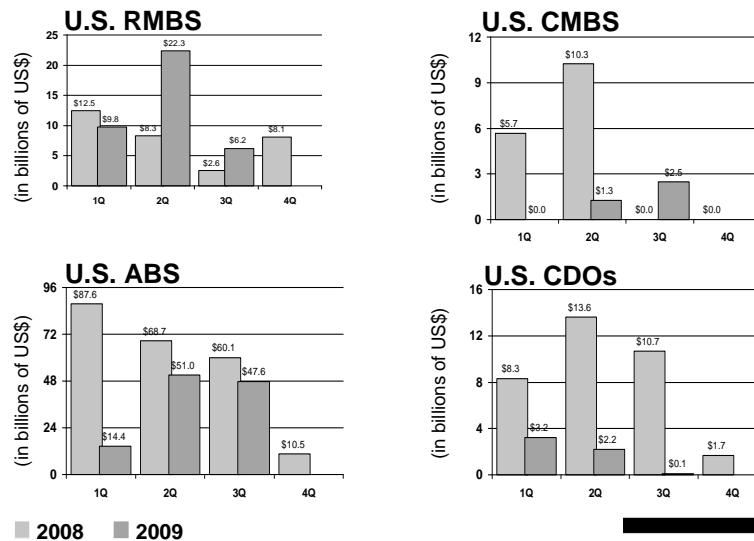
**Outlook for municipal market is positive**

- 4Q: State and local governments should be active as economic slow down increases need for deficit borrowing
- Federal stimulus plans should be a positive

**Asset-backed securities market has benefited from TALF**

- Spreads remain tight
- Deal flow looks positive

## Easier comparisons in second half vs. 2008



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

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## Positive signs for S&P Credit Market Services

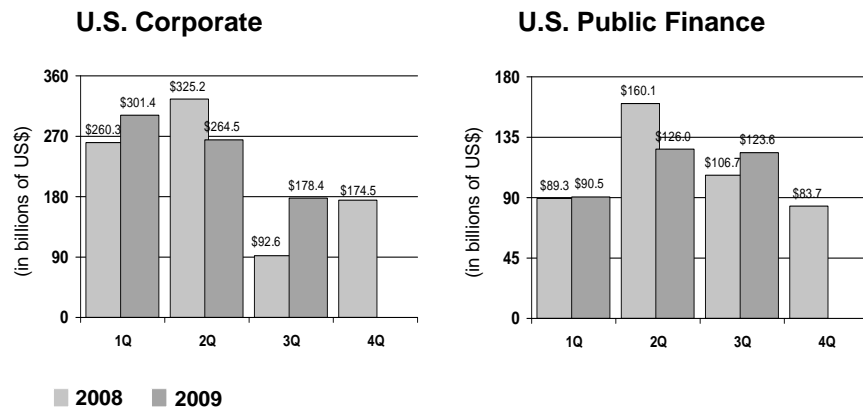
Activity will remain light in U.S. mortgage-backed securities market, particularly commercial mortgage-backed securities

- Main source of ratings activity are re-REMICs— the resecuritization of existing securities enhanced with additional credit support

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## Easier comparisons in second half vs. 2008



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

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## Positive signs for S&P Credit Market Services

### Outlook for transaction revenue

- **4Q:** Expect double-digit increase from momentum in corporate issuance
  - Structured finance market continues to be challenged
- **2009:** Now expect a low single-digit decline versus previous guidance of mid single-digit decline

### Outlook for non-transaction revenue

- **3Q:** Slipped by 1.6%, or \$4.9 million, primarily due to reduction in breakage fees and impact of foreign exchange
- **2009:** Expect a slight decline

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## **3Q results at S&P Investment Services**

**3Q revenue declined 7.6%, reflecting:**

- **Divestitures of Vista Research, CRISIL's Gas Strategies Group**
- **Expiration of independent research settlement at end of July**
- **Some softness in index products and services**

**Excluding divestitures, 3Q revenue declined 4.4%**

## **Data and information benefiting S&P Investment Services**

**Continued growth of Capital IQ products and services**

**Capital IQ now serves over 2,800 clients**

- **An increase of 7.5% since end of 2008**

## Softness in index products and services

Softness due to reduction in trading volume of over-the-counter and exchange-traded derivatives based on S&P indices

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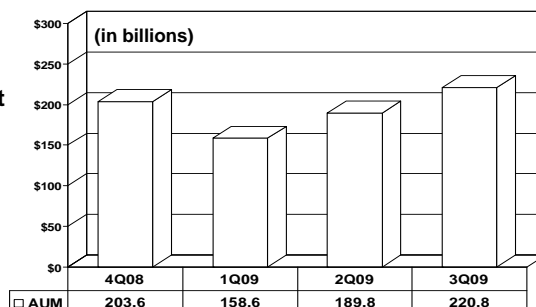
## Softness in index products and services

Assets under management in exchange-traded funds have increased sequentially since 1Q 2009

- Now more than \$17 billion higher than at year-end 2008

S&P Index-Based  
Total ETF Assets  
Under Management  
(quarter-end)

Source:  
Standard & Poor's and Bloomberg



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## **Finding new ways to grow index business**

**Launched five new exchange-traded funds  
based on S&P indices in 3Q 2009**

**Now 214 exchange-traded funds based on S&P  
indices**

- Up from 189 at end of 3Q 2008
- More in the pipeline

## **The regulatory outlook for S&P: Creating a global framework**

**U.S.: Working with SEC on new rules and proposals  
issued in October**

**Europe: Formal approval of legislation is expected  
shortly: expect effective date to be in compliance by  
mid-2010**

**Japan, Australia: Expect additional regulation of rating  
agencies**

**We don't believe these changes will have a material  
adverse effect on S&P's financial condition or operations**

## **The regulatory outlook: Creating a global framework**

**We expect U.S. Congress to pass legislation on rating agencies as part of omnibus financial reform bill**

- **Expect to pass in Fall 2009 or early in 2010**
- **Drafting process is underway and situation is still fluid**

## **The regulatory outlook: Creating a global framework**

**We continue to review our concerns with decision makers**

- **Need beginning-to-end solutions: Regulations to cover all aspects of capital markets to ensure effective and efficient functioning**
- **Analytical independence**
- **Foster competition in ratings industry: Establish fair and level playing field**
- **International consistency: Ratings are issued and used globally and contribute to global flow of capital**

**We think our concerns are being heard**

## **Latest developments on litigation front**

**Lawsuits grouped into three general categories:**

- 1. Lawsuits alleging S&P is an underwriter or seller of securities**
- 2. Lawsuits alleging corporate statements on earnings and ratings were misleading (stock drop suits)**
- 3. Lawsuits based on state law claims**

**We continue to believe our legal risk is low**

## **S&P celebrates its 150<sup>th</sup> anniversary next year**

**S&P has achieved worldwide recognition for the value and quality of its credit ratings**

- Created common basis for analyzing credit risk**
- Developed common vocabulary for describing credit risk**
- Provided simple, one-dimensional scale for measuring credit risk**

## **Standard & Poor's has strengthened ratings over last 18 months**

**Taken important steps to:**

- **Improve ratings stability**
- **Add value to ratings through more analysis and features**
- **Increase comparability of ratings**
- **Increase transparency of its processes**
- **Add more checks and balances to the process**
- **Continue to educate the market about ratings and the ratings scale**

## **How S&P is adding value to ratings**

**Strong analytics underlying S&P ratings definitions and ratings criteria**

- **Key to enhancing comparability of ratings across sectors**
- **Ratings provide a common vocabulary to describe credit risk**
- **Our goal: Make S&P benchmarks more consistent and comparable**
- **A rating symbol should aim to represent approximately the same general degree of credit worthiness**

## **How S&P is adding value to ratings**

### **New stability measures added to ratings criteria**

- Accounts for gradual decay in credit quality versus sudden deterioration
- Also considers other factors, such as payment priority of an obligation following default and potential payment after default

## **How S&P is adding value to ratings**

### **To increase transparency, S&P provides more information about:**

- The assumptions in models
- Use of “what if” scenarios
- Stress tests
  - S&P has published specific economic scenarios for each rating category to illustrate level of stress an instrument might withstand without defaulting

## **How S&P is adding value to ratings**

### **S&P has expanded compliance efforts**

- Chief compliance officer and team of independent compliance professionals oversee compliance with regulatory requirements, S&P policies, and policies related to managing potential conflicts of interest

## **How S&P is adding value to ratings**

### **S&P established a Risk Assessment Oversight Committee**

- Assesses risk that could impact ratings process
- Operates independently of the ratings business

### **Separated quality and criteria functions from the ratings groups**

- Independent criteria group performs a number of key functions

## **How S&P is adding value to ratings**

**Educating market participants about ratings, what ratings represent and how to use them**

- Publications include S&P's "Guide to Credit Rating Essentials"

## **2009 outlook for Financial Services**

### **Summary**

- Slight decline in revenue
- Operating margin decline of 175 to 200 basis points versus earlier guidance of 225 to 275 basis points, excluding 2008 and 2009 restructuring charges and the loss on Vista Research
- Implied operating margin of approximately 39.5%

**Financial Services**

**McGraw-Hill Education**

**Information & Media**

## **McGraw-Hill Education: Tale of two markets**

**2009:**

- **U.S. college and university market:**  
Counter-cyclical growth fueled by a surge in enrollments
- **Elementary-high school market:**  
Declining sales; budget pressures and only a modest benefit from federal stimulus funding

## 3Q 2009 segment results at McGraw-Hill Education

Revenue	(11.6%) to \$1.0 billion
	<ul style="list-style-type: none"><li>• School Education Group: (19.6%) to \$501.3 million</li><li>• Higher Education, Professional and International Group: (1.8%) to \$498.7 million</li></ul>
Operating Profit	(15.9%) to \$298.1 million
Operating Margin	29.8%

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## Outlook for 2009 McGraw-Hill School Education Group

### Key factors in elementary-high school market

- Reduced potential
- Postponed spending

### Still expect to win more than 30% of the total available dollars in the 2009 state new adoption market

- Capture rate will probably match 2008 performance

### State new adoption market:

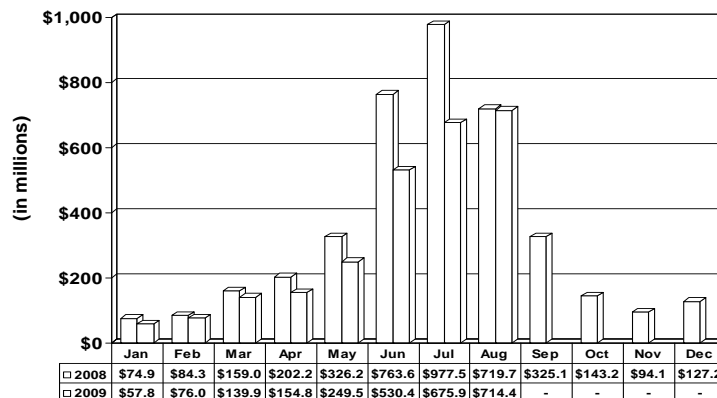
- 2008: Estimated at \$980 million
- 2009: Expect \$500 million to \$510 million, down from original forecast of \$550 million to \$600 million

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## Challenging comparisons all year vs. 2008

### Total Basal and Supplemental K-12 Net Sales



Source: Association of American Publishers

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## Outlook for 2009 el-hi market

Industry sales declined 0.7% in August versus same month last year

- Market down 21.4% year-to-date after eight months, according to Association of American Publishers

We now expect el-hi market to decline by 20% to 25% this year, down from 15% to 20% decline originally projected

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## **District-level postponements in reaction to state and local budget pressures**

### **Postponements in adoption states:**

- California
- Florida
- Kentucky
- Oregon
- Georgia

**Harder to track in the open territory, but postponements had a negative impact**

- Open territory sales declined 12.7% through August year-to-date, according to AAP

## **Deterioration in California primary reason for reduction in 2009 estimate**

**California originally offered this year's biggest industry sales potential**

- Postponements severely reduced purchasing
  - Number of deferrals increased sharply in July following passage of austerity budget
- State legislature also suspended requirement that districts buy new K-8 core curriculum programs within two years
  - Resulted in 10% implementation rate for K-8 reading compared to 40% projected in January and the more typical 60% to 70% realized in better economic times

## Postponements and the outlook for the el-hi market

### California: Opportunity for new spending

- Last reading adoption in 2002 for only two programs, including *Open Court*
- State approved broader K-5 list for 2009 adoption
  - New edition of *Open Court*, now called *Imagine It!*
  - State-specific K-5 edition of *Treasures*
- With school year under way, a number of districts are considering using state textbook fund for its intended purpose
- Districts eligible for Title I stimulus funds can use them for new reading purchases
- Fear of mid-year cuts in educational funding could drive purchasing in first half of 2010

## Postponements and the outlook for the el-hi market

### Florida: Mixed outlook for spending

- Little opportunity for late ordering in 6-12 literature market
- Better outlook for second year K-12 music
  - Non-core subject can be implemented during school year and can be phased in a few grades at a time

### Kentucky: 2010 promising for K-12 math

- Had first-year postponements
- Still did brisk business in 2009 and should do well next year

## Postponements and the outlook for the el-hi market

### Oregon: Good outlook

- Many first-year postponements
- Captured solid share in 2009; anticipate doing well in 2010 and 2011

### Pent up demand very real in some markets

- Extent to which it can drive revenue may depend on improving economic conditions
- Decision to retain older programs could result in increased replacement sales

## The outlook now for 2010 state new adoptions

We still expect the state new adoption market to top \$950 million, but probably won't reach \$1 billion

- Texas is back on the adoption calendar in 2010
- Florida is preparing to buy K-12 math

We expect to have a solid lineup of products and services

- Texas: All grades of our 6-12 literature program were recommended for state's list
  - Reviews of our *Imagine It!* and *Treasures* K-5 reading programs continue to go well
- Florida: Our math programs are being well received in districts reviewing programs for 2010

## **\$100 billion for education from federal stimulus an important factor in 2010**

**Funds from the American Recovery and Reinvestment Act of 2009 (ARRA) have been moving slowly into the pipeline**

**Following money down to district level is not easy**

- **Most of stimulus dollars in 3Q appear to be from IDEA special education distributions**
- **Title I funds reaching market more slowly**
  - **Could stimulate some 4Q purchasing with more activity in spring 2010**

## **\$100 billion for education from federal stimulus an important factor in 2010**

**\$39.5 billion State Fiscal Stabilization Fund is intended to help states fill deficits created in education budgets**

- **Some states have received grants**
- **All distributions expected to be made by end of 2009**

**Greatest impact on el-hi market will probably occur in 2010**

## **\$100 billion for education from federal stimulus an important factor in 2010**

**Other U.S. Department of Education programs could offer new opportunities for providers of el-hi instructional materials and assessments**

- “Race to the Top” fund: \$4.3 billion in competitive grants to encourage state-level initiatives
- “Investing in Innovation” fund: \$650 million in competitive grants to local districts and non-profit educational groups

## **Congress is working on FY2010 budget for U.S. Dept. of Education**

**As proposed by the Administration in May, budget would provide an increase of \$1.3 billion, or 2.8%, over current fiscal year**

- Does not include ARRA stimulus appropriations

**New budget includes new programs that represent renewed federal support for reading**

- Curtailed in recent years because of perceived problems with Reading First program

## **Federal stimulus dollars contributed to growth in college enrollments**

**Federal dollars had an indirect effect with stimulus coming from:**

- **Higher Pell Grants scholarships**
- **Higher tax credit: Up to \$2,500 a year for tuition and other college-related costs, including course materials**

**Post 9/11 GI Bill helps veterans enrolled in college:**

- **Helps with tuition, housing and course materials**
- **More than 24,000 veterans approved for stipends at end of September 2009**

## **Surge in enrollments at colleges and universities**

**Higher education market tends to be counter-cyclical**

- **More people return to school to gain new skills or remain due to limited employment opportunities**

**Enrollment surged this fall with confluence of federal stimulus funds and counter-cyclical trend**

- **Could be a 10% increase in overall post-secondary enrollments this fall; official statistics not yet available**

## Surging enrollments strengthened higher education market

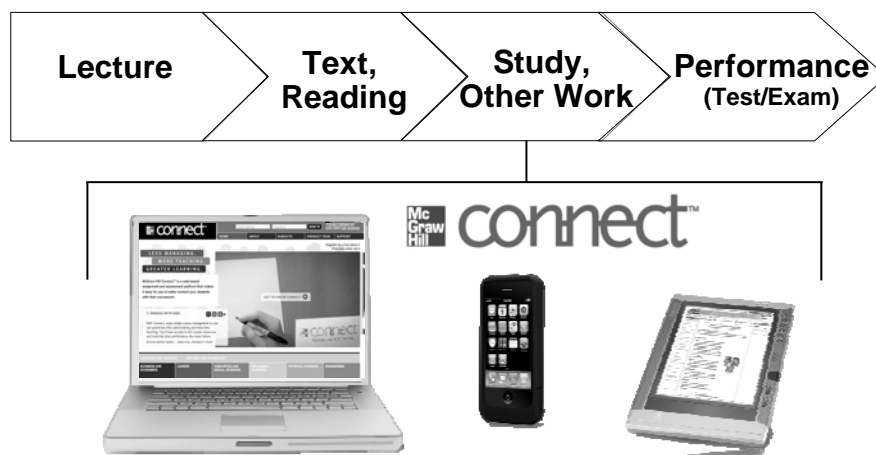
Market up 11.0% through August, according to AAP reports

- McGraw-Hill Higher Education experienced growth in 3Q in all four major imprints

Use of technology is expanding opportunities

- Our digital products growing at a double-digit rate

## Our new way to tap the college students' workflow



## **Mixed 3Q results in international markets**

**Strong demand for higher education products**

**Offset by:**

- **Softness in school and professional sales**
- **Unfavorable foreign exchange rates**

## **Mixed 3Q results in U.S. professional markets**

**A bright spot: Digital subscription products**

- **Science**
- **Medicine**
- **Technology**

**Challenging retail environment as booksellers  
reduce inventory and limit new orders**

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

**Now expect segment's revenue to decrease  
10% to 11% due to decline in el-hi school market**

- **Previous forecast of an 8.5% to 9.5% decline**

**With tight cost controls, now expect margin to  
decline 300 to 350 basis points, excluding 2008  
and 2009 restructuring charges**

- **Previous estimate called for a 300 to 400 basis  
point decline**

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**Financial Services**

**McGraw-Hill Education**

**Information & Media**

## 3Q 2009 results at Information & Media

Revenue	(10.1%) to \$238.9 million <ul style="list-style-type: none"><li>• Broadcasting Group: (23.6%) to \$19.1 million</li><li>• Business-to-Business Group: (8.7%) to \$219.8 million</li></ul>
Operating Profit	+29.3% to \$29.5 million <ul style="list-style-type: none"><li>• Includes a pre-tax restructuring charge in 3Q 2008 that reduced operating profit by \$13.9 million</li></ul>
Operating Margin	12.4%

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## Factors influencing 3Q results at Business-to-Business Group

Decreases in advertising

Declines in automotive industry

Softness in construction market

***BusinessWeek*** global ad pages down 29.3% in  
third quarter, according to Publishers Information  
Bureau

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## Factors influencing 3Q results at Business-to-Business Group

Platts continues to be a stand out performer

- Volatility in crude prices and other commodities continue to create demand for our data and information services
  - Oil prices are approximately half compared to last year

Strength in data and information products for business-to-business markets will be a key to our future development

## Outlook for 2009: Information & Media

Summary:

- Revenue: Now expect 9% to 10% decline
  - Versus previous guidance of 8% to 9% decline
- Operating margin: Now expect 200 to 250 basis point decline, excluding 2008 and 2009 restructuring charges and gain on the sale of *BusinessWeek*
  - Versus previous guidance of 300 to 400 basis point decline

## Outlook for 2009: The McGraw-Hill Companies

### Summary:

- Revenue to decline approximately 7% because of continued weakness in school education and advertising
  - Versus previous guidance of 5.5% to 6.5% decline
- With stringent cost controls, we now expect to achieve top end of \$2.20 to \$2.25 diluted EPS guidance for 2009
  - Previously had guided to low end of range
  - New guidance excludes second quarter restructuring charge of \$0.03, a \$0.03 loss on divestiture of Vista Research, and projected \$0.02 gain on sale of *BusinessWeek* in 4Q

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**Robert J. Bahash**  
Executive Vice President and  
Chief Financial Officer  
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## Key factors influencing 3Q results and full-year guidance

### The decrease in consolidated costs and expenses

- Down 5.4% in 3Q, or 3.8% excluding last year's restructuring charge
- Decrease achieved despite \$68.3 million increase in 3Q incentive compensation

### Influence of foreign exchange on our results

### Pending *BusinessWeek* divestiture

### Improved outlook for free cash flow in 2009

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## Costs at McGraw-Hill Education

### 3Q 2009: Declined 9.0%, excluding 2008 restructuring charge

- Declined 8.2% at constant currencies

### Higher incentive compensation was more than offset by:

- Stringent expense controls
- Savings from previous restructuring actions
- Lower sales and marketing costs
- Lower cost of goods sold due to reduction in revenue

### Full-Year '09 Guidance: Now expect high single-digit decline versus previous guidance of mid single-digit decline in expenses, excluding 2008 and 2009 restructuring charges

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## Costs at Financial Services

**3Q 2009: Increased 5.1%, excluding 2008 restructuring charge**

- Increased 7.0% at constant currencies
- Excluding impact of increased incentive compensation, expenses would have declined slightly due to tight cost controls and restructuring savings, as well as benefits from divestitures of Vista Research and CRISIL's Gas Strategies Group

**Full-Year '09 Guidance: Now expect margin to decline 175 to 200 basis points**

- Implies roughly flat expenses year-over-year versus previous guidance of slight increase, excluding restructuring charges in 2008 and 2009 and loss on divestiture of Vista Research in 2Q 2009

## Costs at Financial Services

### **Financial Services expenses**

- Year-to-date, margin down 240 basis points
- 4Q margin should improve given expected double-digit increase in transaction revenue
  - Compares to 4Q 2008 which had lowest margin of the year because revenue was depressed by low debt issuance
  - Improvement will be mitigated by increased incentive compensation

## Costs at Information & Media

### Information & Media expenses

- **3Q 2009: Decreased 8.6%, excluding 2008 restructuring charges**
  - Restructuring savings and lower cost of goods sold were key drivers, partially offset by increased incentive compensation
- **Full Year '09 Guidance: New margin guidance implies a high single-digit decline in expenses versus previous guidance of a mid single-digit decline, excluding restructuring charges in 2008 and 2009 and gain on the divestiture of *BusinessWeek* in 4Q 2009**

## Factors influencing Information & Media's results

**2009 results adversely impacted by non-cash accounting, a result of converting J.D. Power's studies onto Compass, a new online reporting and analytical tool**

- Revenue previously recognized at the time of the syndicated studies' release will now be recognized ratably over the 12 month life of the subscription

**FY 2009: Continue to expect a \$12 million decrease in revenue and a \$7 million decrease in profit due to impact of Compass**

- **3Q 2009: \$5.4 million decrease in revenue and a \$2.6 million decrease in profit**
- **4Q 2009: Impact is expected to be minimal**

## 2009 outlook for corporate expenses

**3Q 2009: \$27.9 million, an \$18.2 million increase compared to same period last year**

- Largely due to higher stock-based and short-term incentive compensation

**2009: Now expect an increase of \$20 million to \$25 million, excluding 2008 restructuring charge**

- Down from previous estimate of a \$25 million to \$30 million increase
- Implies 4Q corporate expense of \$36 million to \$41 million
- Growth is largely due to increased incentive compensation

## Measuring the impact of incentive compensation

**Significant reduction in long- and short-term incentive compensation accruals in 3Q '08 made 3Q '09 comparisons challenging**

- 3Q 2009 incentive compensation increased \$68.3 million, including a \$34.7 million increase to stock-based compensation. Impact by segment:
  - McGraw-Hill Education: \$13.0 million
  - Financial Services: \$32.1 million
  - Information & Media: \$5.7 million
  - Corporate: \$17.5 million

## **Measuring the impact of incentive compensation**

**Now expect full-year incentive compensation to increase closer to \$75 million compared to 2008**

- **Previously forecasted \$90 million increase**
- **Decrease primarily due to reductions in stock-based compensation accruals and reductions in short-term accruals at McGraw-Hill Education**

## **Measuring the impact of incentive compensation**

**Year-to-date: Increased approximately \$40 million**

- **Comprised of \$68 million increase, partially offset by \$29 million decrease in first half of 2009**

**4Q 2009: We expect approximately \$35 million increase**

- **Expected increase primarily due to difficult comparison against 4Q '08 which benefited from reduced incentive compensation accruals**

## Foreign exchange rates: A factor all year

### Reduced revenue significantly in 1H '09

- Dramatic strengthening of U.S. dollar in 2H 2008 reduced year-over-year revenue growth by \$74.6 million and expenses by \$82 million in first half of 2009

### 3Q 2009 had less of an impact:

- Currency reduced revenue by \$21.6 million and expenses by \$15.3 million
- Operating profit reduced by \$6.3 million

### 4Q 2009: Based on current foreign exchange rates, we expect:

- Revenue comparisons will benefit
- Expense comparisons will be negatively impacted

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## Measuring the 2009 impact of the *BusinessWeek* sale

### Agreement to sell *BusinessWeek* to Bloomberg was signed on October 13

- MHP will receive \$5 million in cash
- Bloomberg will assume certain liabilities, including unfulfilled subscription liabilities

### Transaction is expected to close in 4Q 2009

- \$9.3 million pre-tax (\$5.9 million post-tax) gain, or approximately \$0.02 per diluted share
- Expect minimal financial impact in 2009 due to timing of transaction

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## Measuring the 2010 impact of the *BusinessWeek* sale

**2010: Reduces year-over-year revenue growth by about \$100 million**

- Expect savings of \$20 million to \$25 million pre-tax, or \$0.04 to \$0.05 per diluted share, net a portion of allocated expenses such as shared services and rent
- Savings will vary depending on length of transition services and ability to consolidate space

**Following divestiture, advertising will represent about 2% of pro forma total revenue**

- Currently about 4%

## 2009 guidance for free cash flow

**3Q 2009: Free cash flow is ahead of last year by \$323 million, despite planned pension contribution of \$20.5 million and lower operating results**

- Increase driven mainly by significant reduction in incentive compensation payments, prudent investments, and focus on working capital improvements and cost containment

**4Q 2009: Will be negatively impacted by lower anticipated receipts**

**2009: Now expect free cash flow to be in excess of \$500 million, up from previous guidance of \$430 million to \$450 million range**

## **A decline in net debt at end of 3Q**

**Net debt: \$240.5 million at end of 3Q**

- Down \$490.7 million versus 2Q and down \$555.5 million versus year-end 2008
- Reflects strong free cash flow generation in 3Q 2009

**Gross debt: \$1.2 billion at the end of 3Q**

- Comprised of long-term unsecured senior notes
- Offset by \$957.3 million in cash
- No commercial paper outstanding at end of 3Q

## **Outlook for net interest expense**

**3Q 2009: \$17.8 million net interest expense**

- A \$4.2 million decline from 3Q 2008, largely driven by reduction in interest accruals related to uncertain income tax positions

**2009: Still expect interest expense to be roughly comparable to 2008**

## **Changes in the effective tax rate for 2009**

**3Q 2009: 36.4% versus 37.1% in 3Q 2008**

**2009: Expect 36.4% for the full-year**

## **Diluted weighted average shares outstanding (WASO)**

**3Q 2009: 313.6 million shares**

- 3.6 million share decrease compared to 3Q 2008
  - Primarily due to 2008 share repurchases and to lesser extent, decline in our stock price
- Roughly flat compared to 2Q 2009

**Fully-diluted shares at end of 3Q 2009:  
Approximately 314 million shares**

## **Outlook for 2009 prepublication investments**

**3Q 2009: \$44.7 million, down \$20.6 million  
compared to 3Q 2008**

**2009: Still expect approximately \$200 million**

## **Outlook for 2009 property and equipment expenditures**

**3Q 2009: \$15.7 million, compared to \$17.7  
million in same period last year**

**4Q 2009: Expect an uptick primarily related to  
technology spending and international  
expansion**

**2009: Still expect \$75 million to \$80 million for  
the full year**

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

### **Amortization of prepublication costs**

- **3Q 2009: \$127.2 million, compared to \$124.6 million in same period last year**
- **2009: Still expect \$275 million to \$280 million**
  - **Compares to \$270 million in 2008**

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

### **Depreciation**

- **3Q 2009: \$26.0 million, \$3.9 million lower than same period last year**
- **2009: Now expect approximately \$120 million, compared to previous forecast of approximately \$130 million**

## Outlook for non-cash items

### Amortization of intangibles

- 3Q 2009: \$11.1 million, compared to \$13.6 million for same period last year
- 2009: Still expect approximately \$50 million

## Outlook for unearned revenue in 2009

### End of 3Q 2009: \$1.1 billion

- Roughly flat year-over-year and with 2Q 2009
- In constant currency, grew 1.9% versus prior year
- Financial Services represents approximately 73% of MHP's unearned revenue
  - Financial Services is roughly flat versus prior year

### 2009: Still expect to grow slightly, excluding impact of *BusinessWeek* divestiture

- Including divestiture, we expect a slight decline for the full year

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## **3Q 2009 Earnings Call**

**October 26, 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: A replay of this webcast will be available approximately two hours after the end of the call from [www.mcgraw-hill.com/investor\\_relations](http://www.mcgraw-hill.com/investor_relations)

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## **3Q 2009 Earnings Call**

**October 26, 2009**

### **Replay Options**

Internet replay available for one year

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