

# McGraw-Hill

Preliminary Fiscal Q4 and FY 2020  
Investor Update

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May 8, 2020



# Important Notice

## Forward-Looking Statements

This presentation includes statements that are, or may be deemed to be, “forward-looking statements.” These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believes,” “estimates,” “anticipates,” “expects,” “intends,” “plans,” “may,” “will” or “should” or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this presentation and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which we operate.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and the developments in the industry in which we operate, may differ materially from those made in or suggested by the forward-looking statements contained in this presentation. In addition, even if our results of operations, financial condition and liquidity, and the developments in the industry in which we operate are consistent with the forward-looking statements contained in this presentation, those results of operations, financial condition and liquidity or developments may not be indicative of results or developments in subsequent periods.

Any forward-looking statements we make in this presentation speak only as of the date of such statement, and we undertake no obligation to update such statements. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.

## Non-GAAP Financial Measures

Certain financial information included herein, including Billings, EBITDA and Adjusted EBITDA, are not presentations made in accordance with U.S. GAAP, and use of such terms varies from others in our industry. Billings, EBITDA and Adjusted EBITDA should not be considered as alternatives to revenue, net income from continuing operations, operating cash flows or any other performance measures derived in accordance with U.S. GAAP as measures of operating performance, debt covenant compliance or cash flows as measures of liquidity. Billings, EBITDA and Adjusted EBITDA have important limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of our results as reported under U.S. GAAP. This presentation includes a reconciliation of certain non-GAAP financial measures to the most directly comparable financial measures calculated in accordance with U.S. GAAP.

Adjusted EBITDA, which is defined in accordance with our debt agreements, is provided herein on a segment basis and on a consolidated basis. Adjusted EBITDA by segment, as determined in accordance with Accounting Standards Codification Topic 280, Segment Reporting, is a measure used by Management to assess the performance of our segments. Adjusted EBITDA on a consolidated basis is presented as a debt covenant compliance measure. Management believes that the presentation of Adjusted EBITDA is appropriate to provide additional information to investors about certain material non-cash items and about unusual items that we do not expect to continue at the same level in the future as well as other items to assess our debt covenant compliance, ability to service our indebtedness and make capital allocation decisions in accordance with our debt agreements.

# Latest Company Updates

## Proposed Merger

- On May 4, 2020 McGraw-Hill and Cengage mutually agreed to terminate their proposed merger of equals, which had been announced in May 2019
- The divestitures required to move forward with the proposed merger of equals would have made the merger uneconomical

## McGraw-Hill Management

- Simon Allen was appointed Chief Executive Officer on May 4, 2020 and joined the company's Board of Directors. Mr. Allen had served as Interim CEO since October 2019
- In late March, Sean Ryan was appointed President of the K-12 business. Mr. Ryan was previously with McGraw-Hill from 2012 until 2017 and led K-12 Sales for McGraw-Hill before leaving to be the President & General Manager of Fuel Education and most recently the CEO of Wall Family Enterprises

## Financial Reporting

- Fiscal year-end is now March 31<sup>st</sup> to better align with seasonal industry cycles
- Professional reporting segment will now be global, inclusive of both domestic and international performance, beginning with reporting for the period ended June 30, 2020
- Comprehensive fiscal Q4 and full year 2020 presentation with financial statements is expected to be issued in mid-June

# McGraw-Hill's Response to COVID-19

## Unwavering Commitment to Learning Continues

### Focus on Supporting Institutions, Instructors and Learners will Drive Future Revenues

#### Higher Education

- ✓ Free access, training and support for McGraw-Hill *Connect* and *ALEKS* digital learning platforms
  - ❑ Benefited more than **7,000** instructors at **1,500** U.S. colleges and universities, serving more than **100,000** students
- ✓ Offered webinars, 1:1 training and online resources to help transition instructors and learners to online learning

#### K-12

- ✓ Free online resources to support remote learning for schools, educators, parents and students
  - ❑ Assigned **130,000** new student seats across our platforms, including *ALEKS* and *ConnectED*
  - ❑ Launched professional development videos to support online transition (more than **10,500** views in April)

#### Professional

- ✓ Free support and extended trials for *Access* medical, engineering and science solutions to assist with distance learning initiatives
- ✓ Offered free trial access to *5 Steps to a 5* Advanced Placement test prep through June 30<sup>th</sup>
  - ❑ More than **30,000** accounts have been set up since April 1<sup>st</sup>
- ✓ Launched "COVID-19 Central" available on *AccessMedicine* for latest developments and analysis on the COVID-19 pandemic
- ✓ Dr. Anthony Fauci, renowned editor of McGraw-Hill's *Harrison's* series, is leading the way on COVID-19 policy responses and communications on behalf of the U.S. Government

#### International

- ✓ Free access and worldwide support across digital courseware solutions for administrators, instructors and learners
  - ❑ Over **5,000** instances of customer support and request for access to courseware, driving *Connect* activations up **~13%** and *ALEKS* unique users up **~35%**, Y/Y respectively
- ✓ Free digital access to K-12 public schools, serving **~360,000** students and teachers in partnership with the UAE Ministry of Education

### Continue to Protect our Employees During a Time of Uncertainty

- ✓ Remote work arrangements instituted across all locations
- ✓ Enhanced employee communication with regular updates on office status, benefits and IT resources
- ✓ Implemented enhanced employee benefits for those impacted directly by COVID-19

# COVID-19 Business Implications

While Near-term Uncertainties Remain, Long-term Opportunities Evolve

## Higher Education

- Free access to *Connect* and *ALEKS* increases digital usage and accelerates ongoing transition from print to digital
- Redeploying resources to support & facilitate digital opportunities
- Strategic initiatives underway to provide online solutions for universities, instructors and learners
- Transitioning new and existing business to Inclusive Access with the number of campuses participating now exceeding 1,100
- Full year performance will be impacted by ongoing digital transition and enrollment risk, with near-term periods impacted by timing of purchasing, returns and shipments
- Closely watching enrollment expectations, institutional decisions regarding instruction modality and pricing pressure

## K-12

- Free access to *ConnectEd* and *ALEKS* increases digital usage and accelerates ongoing transition from print to digital
- District buying decisions being made via traditional and online proposal processes
- Anticipate revenues shifting between quarters (mainly fiscal Q1 to Q2) driven by school closures and ability to receive product
- Risk for 2020 adoptions and purchases to be postponed exists, although no major definitive announcements to date
- Closely watching open territory and multi-year adoption purchases where risk is more pronounced
- Early indicators in TX 9-12 ELA are positive with pipeline building

## International

- Direct impact on fiscal year Q4 and early fiscal Q1 performance amidst institution closures and shelter-in-place mandates
- Impact varies by region and influenced by digital mix, with free access to *Connect* and *ALEKS* accelerating digital transition
- Continue to monitor impact of shelter-in-place mandates being lifted and staggered return-to-work scenarios

## Professional

- Digital subscription business not impacted to date
- Print sales impacted by closure of brick-and-mortar stores and timing of shipments
- Focus in new fiscal year has been on the stand-up and operation of global Professional business; fiscal Q1 reporting will reflect new segment presentation

## Cost Structure

- Implemented hiring freeze and eliminated 2020 merit increase
- Senior leadership salary reductions of up to 30%
- Expect material travel & entertainment expense savings in year
- Continue to assess cost structure and need for additional savings

## Investments

- Continue to strategically invest in growth opportunities across the business funded by cost reductions and business tradeoffs
- Long-term capital investments are limited in light of COVID-19
- Tightly managing working capital as quarterly Billings shift

# Solid FY 2020 Performance with Material, Ongoing Cost Structure Changes

## Digital Billings Growth Continues with Enhanced Future Opportunity

### FY 2020 Adjusted EBITDA Expected to be ~\$370M

#### Total Billings

**\$1.7B**

-1.5% to Flat Y/Y<sup>2</sup>

#### Total Digital Billings

**\$0.9B**

+7 to +8% Y/Y  
(>50% of Billings)

#### Total Adj. EBITDA

**~\$370M**

+ ~25% Y/Y

#### Free Cash Flow<sup>1</sup>

**~\$350M**

+ ~40% Y/Y



**Higher Ed:** Affordability Initiatives, led by Inclusive Access, drove digital growth and market share improvement of 225 bps (largest increase since becoming a standalone company); ongoing transition to digital (75% today) drives favorable returns experience and creates a more efficient transaction model with opportunity for further operational and cost efficiency



**K-12:** Solid Billings growth benefited by a cyclically improved on-list adoption market and strong performance in digital-first adoptions; early indicators in calendar 2020 TX ELA 9-12 adoption are positive with cost structure changes in-year to position against market cyclicity



**International:** Q4 Billings impacted by COVID-19 coupled with unfavorable FX movement; digital revenue growth continues with focus on institutional sales and local product development



**Professional:** Favorable performance driven by highly digital subscription-based model and strong Q4 print orders; digital growth of 5% Y/Y with Access product retention rates of ~95%



**Liquidity:** Strong year-end cash balance with undrawn line of credit of \$350M and \$150M incremental seasonal securitization line

Performance in FY 2021 will be negatively impacted by COVID-19 and a materially smaller new adoption market opportunity despite ongoing mitigation efforts to minimize the impact

(1) Calculation the same as Appendix presented in last Investor Update dated March 10, 2020

(2) Growth rate is calculated to adjust for the impact of Non-cash Accounting Change, Constant Currency and COVID-19

(3) Information presented herein is unaudited and subject to adjustment

## FY 2020 Highlights

# McGraw-Hill Preliminary Fiscal Q4 and FY 2020 Results

## Fiscal Quarter Performance

- Strong digital Billings across the business in the quarter with Higher Education digital Billings in the 'high teens', Inclusive Access growth of more than 60% and net sales up more than 20%
- Billings in the quarter negatively impacted by COVID-19
- Strong Adj. EBITDA growth in the quarter attributable to mix driven margin expansion, plate savings and operating expense savings offset by materially higher provisions recorded in light of COVID-19

## Fiscal Year Performance

- Strong Billings performance driven by digital growth of ~\$60M offset by impact of COVID-19
- Digital Billings represented 53% of total Billings in FY20 (vs. 49% in FY19) with growth experienced across all business segments
- Billings<sup>3</sup> impacted by COVID-19 in fiscal year Q4
  - International Billings<sup>2</sup> negatively impacted early and throughout the quarter with Billings down more than \$10M or 25% in the quarter
  - Higher Education and K-12 Billings negatively impacted by COVID-19 in March as distribution channel partners and schools temporarily closed or reduced operations which impacted the ability to receive shipments
- Despite the impact of COVID-19, Billings performance in fiscal Q4 was flat year-over-year as Higher Education sales continued to shift from calendar Q4 to calendar Q1 to align with the start of the semester via Inclusive Access, rental and direct-to-student sales

## Fiscal Quarter Ended March 31, 2020 vs. 2019<sup>1</sup>

|                                   | Higher Ed               | Total Company           |
|-----------------------------------|-------------------------|-------------------------|
| <b>Total Billings<sup>2</sup></b> | <b>+13% to +14%</b>     | <b>-1% to Flat</b>      |
| <b>Total Digital Billings</b>     | <b>+18% to +20%</b>     | <b>+10% to +11%</b>     |
| <b>Total Adj. EBITDA</b>          | <b>+\$24M to +\$26M</b> | <b>+\$15M to +\$20M</b> |

## Fiscal Year Ended March 31, 2020 vs. 2019<sup>1</sup>

| McGraw-Hill  |                         |
|--|-------------------------|
| <b>Total Billings<sup>2</sup></b>                  | <b>-1.5% to Flat</b>    |
| <b>Total Digital Billings</b>                      | <b>+7% to +8%</b>       |
| MH Higher Education                                |                         |
| <b>Billings</b>                                    | <b>-4.5% to -5.5%</b>   |
| <b>Net Sales</b>                                   | <b>-3%</b>              |
| <b>Actual Returns Change</b>                       | <b>-\$13.5 (-9.3%)</b>  |
| <b>Digital Billings</b>                            | <b>+ ~5%</b>            |
| <b>Inclusive Access Net Sales</b>                  | <b>+\$106M (+51%)</b>   |
| Higher Education Industry Performance <sup>4</sup> |                         |
| <b>Industry Net Sales</b>                          | <b>-13%</b>             |
| <b>McGraw-Hill Market Share</b>                    | <b>24.4%</b>            |
| <b>Market Share Change</b>                         | <b>+225bps</b>          |
| MH K-12  |                         |
| <b>Billings</b>                                    | <b>+5.5% to +6.5%</b>   |
| <b>Digital Billings</b>                            | <b>+14.0% to +15.0%</b> |

(1) All figures are preliminary and are subject to audit adjustments

(2) Growth rate is calculated to adjust for the impact of Non-cash Accounting Change & Constant Currency

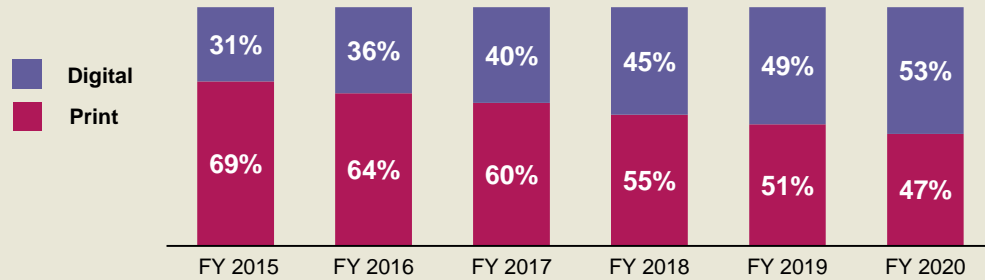
(3) Billings excludes variable annual incentives and plate expenditures consistent with last quarter

(4) Per Management Practice, Inc. (MPI)

# Digital Growth Continues Across all Segments

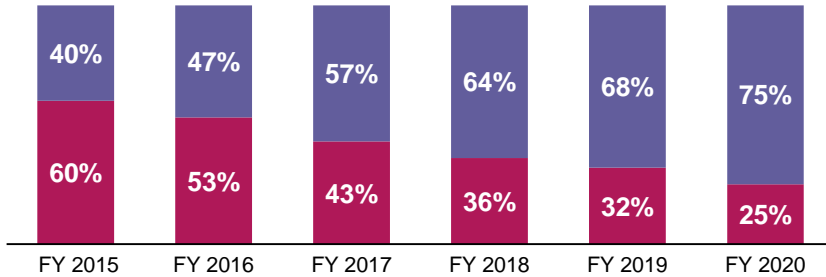
Digital Billings have grown by more than 40% since FY 2015

## McGraw-Hill

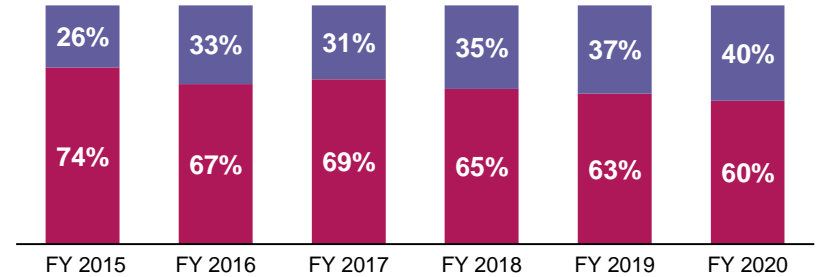


- Digital Billings in FY20 were nearly \$900M as compared to \$600M in FY15
- Digital trajectory will continue and is likely to accelerate in current COVID-19 environment
- Business is prepared to address incremental digital demand and continues to work closely with instructors and learners to facilitate digital transition

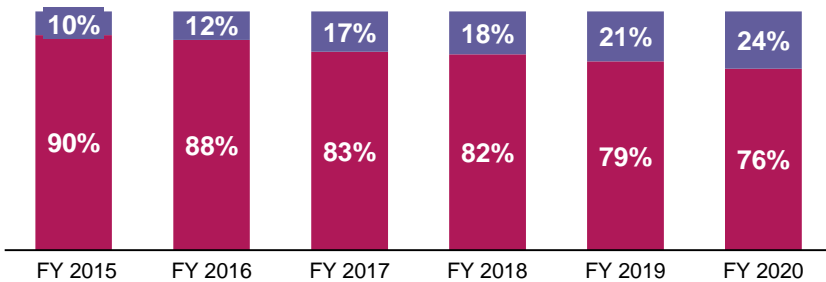
## Higher Education



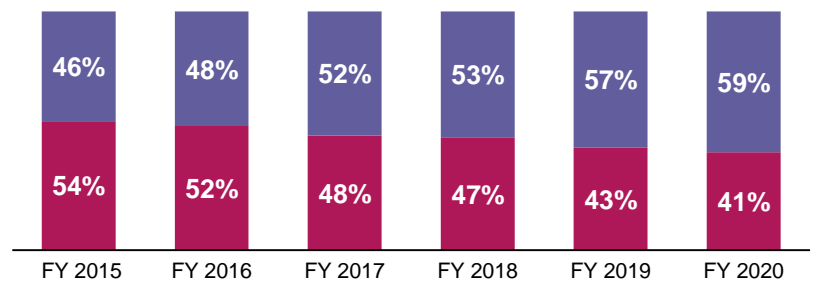
## K-12



## International



## Professional

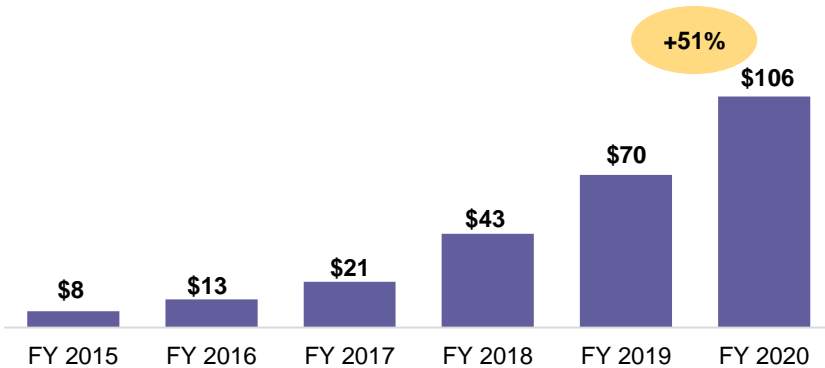




# Digital Ed Tech Highlights

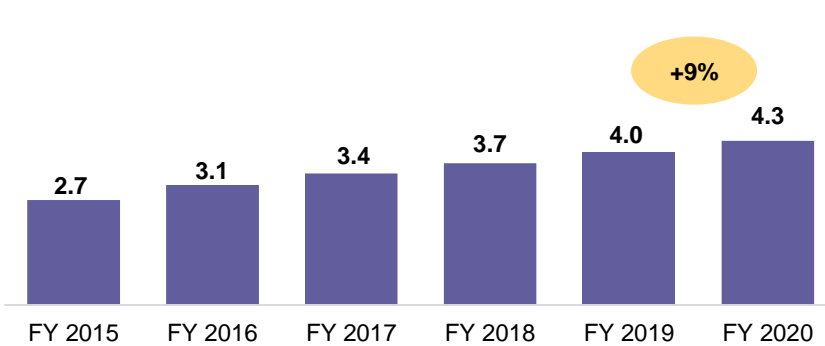
All numbers are in millions

## Inclusive Access Net Sales (U.S. Higher Ed)



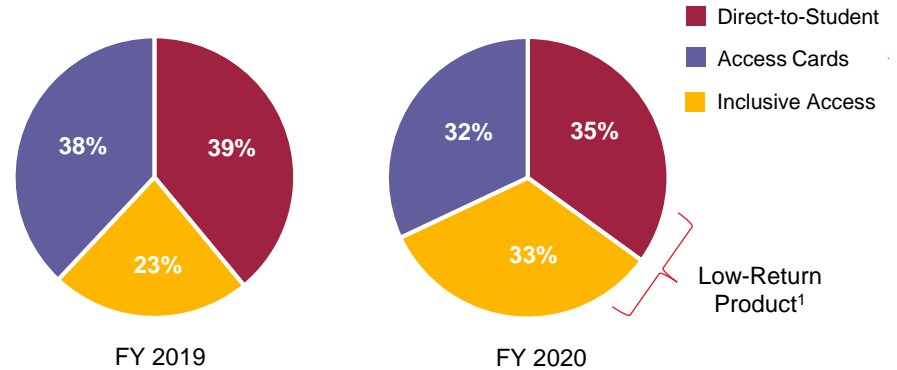
Inclusive Access growth expedited by courseware adoption driven by successful “land and expand” strategy

## Connect Paid Activations (U.S. Higher Ed)<sup>2</sup>



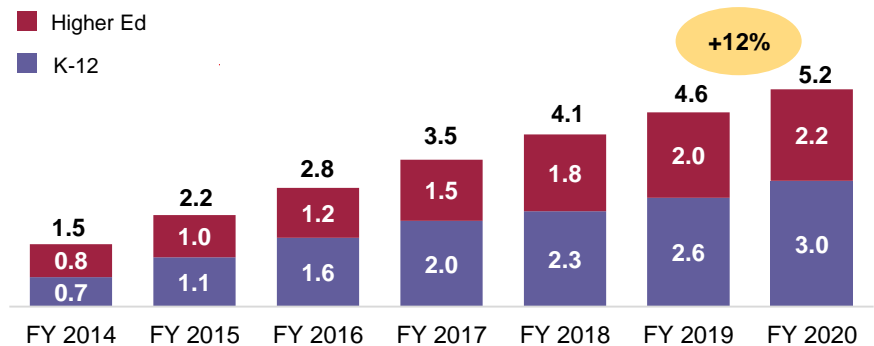
Student user base continues to grow with successful digital transition and increased adoption

## Connect Paid Activations Product Mix (U.S. Higher Ed)



Institutional sales increase sell-through and drive digital growth  
More than 2/3 of activations are from low-return products

## ALEKS Unique Users (Global Higher Ed and K-12)



Proven efficacy of ALEKS continues to drive unique user growth in both K-12 and Higher Ed

(1) Return rate less than 2%

(2) FY 2020 Connect paid activations excludes ~48K free activations from COVID-19

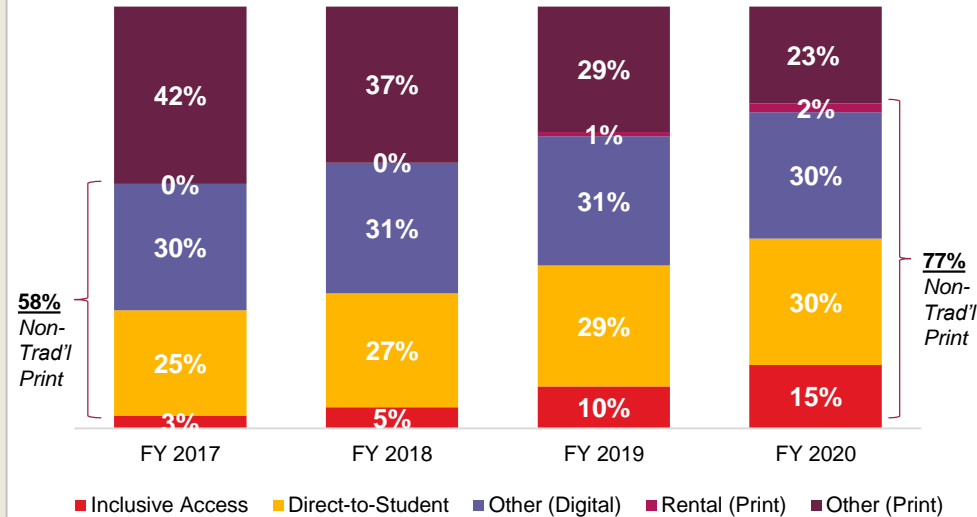
Inclusive Access net sales include a small percentage of print from bundle sales. Amounts may not sum due to rounding.

# McGraw-Hill Higher Education Business Evolution

## Increase in Digital & Low Return Product Sales Drives a More Efficient Model

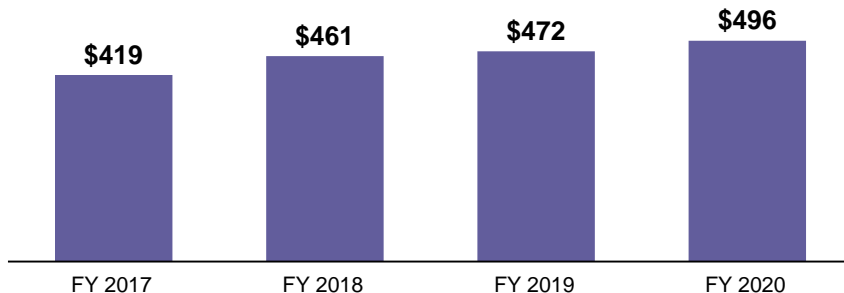
- The ongoing business evolution away from traditional print creates efficiency opportunities
  - Lower inventory levels along with reduced physical product returns and costs associated with excess ordering
  - Lower earnings volatility risk associated with estimation of future period print returns
  - More predictable cash flows and improved days sales outstanding associated with point-of-demand purchases (Inclusive Access, Direct-to-Student Ecommerce, Rental)
- The impact of COVID-19 will be most impactful to the traditional print model and is expected to accelerate the ongoing transition to digital and sales via more efficient channels
- Digital and Rental represent nearly 80% of net sales today as compared to 58% in FY 2017
- Material and growing installed base of 4.3 million *Connect* users and 2.2 million *ALEKS* users will support the ongoing evolution

### Higher Ed Product Mix (% Net Sales)



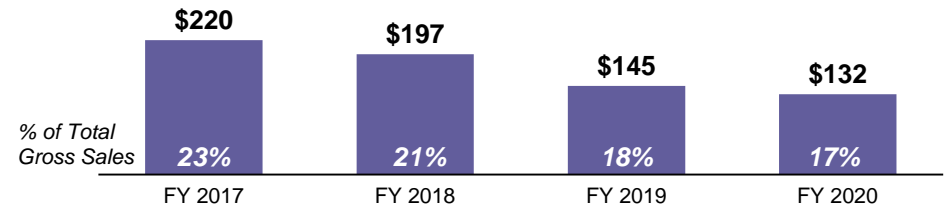
### Higher Ed Digital Billings

(\$ in Millions)



### Higher Ed Actual Returns

(\$ in Millions)



# McGraw-Hill Operating Expense and Capital Deployment

## Cost Rationalization and Cost Management Helps Support Ongoing Investment

### Operating Expense

- Expenses continue to be tightly managed to facilitate ongoing business investment and benefit profitability. Savings have been realized through workforce rationalization, contract renegotiations, reduced discretionary spend and other non-labor savings
- Actions taken in January 2020 are expected to yield ~\$25M in run-rate savings
- Cost savings in Q4 were offset by approximately \$9M of additional, proactive inventory and accounts receivable reserve expense driven by unknown impact of COVID-19
- Excluded from operating expense presented are variable annual incentive expense and pre-publication investment
- Additional savings are expected to be realized through temporary salary reductions, hiring restrictions and other FY21 cost actions being considered

### Product Investment

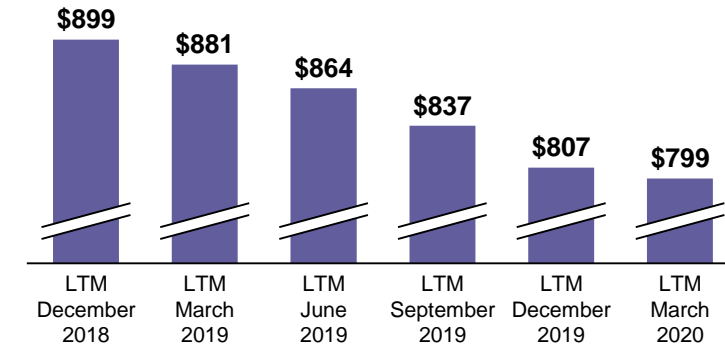
- Through our digital platforms group and pre-publication investment, we have historically invested approximately \$250M per year to create, maintain and enhance our products

### CARES Act Considerations

- Company will take advantage of deferring payment of employer's share of federal Social Security tax on employees' wages through December 2020
- Company will take advantage of increased Interest Expense Deduction and expanded Capex Tax Expensing provisions in Act
- Other opportunities will be explored although not expected to provide material benefit at this point

### Operating Expense Trending<sup>1</sup>

(\$ in Millions)



### Product Investment and Enhancement Continues



(1) Excludes variable annual incentives and pre-publication

# Capital Structure and Liquidity

| (\$ in Millions)                      | FY 2019      | FY 2020*     |
|---------------------------------------|--------------|--------------|
| <b>Ending Cash Balance</b>            | <b>\$159</b> | <b>\$176</b> |
| Principal payments in year            | 17           | 76           |
| Transaction related payments in year  | -            | 26           |
| AR securitization drawdown @ year end | 66           | 45           |

- Cash balance of \$176M at 3/31/20 as compared to \$159M at 3/31/19 even after taking into account increased principal payments, increased transaction related payments and lower AR securitization drawdown
- \$165M total principal prepayments since 2017 after \$44M principal payment in March 2020
- Strong fiscal year-end cash balance positively impacted by Higher Ed sales shift from fiscal year Q3 to Q4, improved collections and ongoing cost saving initiatives
- \$350M committed line of credit undrawn for full fiscal year
- Receivable securitization program remains highly effective in offsetting seasonal cash cycle with seasonal availability up to \$150M
- Total committed liquidity of \$500M (revolver and seasonal securitization)
- As of April 30, 2020<sup>1,2</sup>, cash balance was \$175M as compared to \$88M at April 30, 2019 with additional liquidity building under the receivable facility and revolver undrawn

## McGraw-Hill Debt Profile: 3/31/20\*

| (\$ in Millions)   |                    |
|--|--------------------|
| Senior Secured Term Loan due 2022  | <b>\$1,604</b>     |
| Revolving Credit Facility due 2021 (\$350M)  | -                  |
| <b>Total First Lien Indebtedness</b>   | <b>\$1,604</b>     |
| Less: Cash and Cash Equivalents*   | <u>176</u>         |
| <b>Net First Lien Indebtedness</b>   | <b>\$1,428</b>     |
| Last Twelve Months Adjusted EBITDA   | ~\$370             |
| <b>Net First Lien Indebtedness / Adjusted EBITDA<sup>1</sup></b><br>(covenant not required to be tested) | <b>3.8x</b>        |
| Senior Unsecured Notes Due 2024  | <u>400</u>         |
| <b>Net Total Indebtedness-MH Global Education</b>  | <b>\$1,828</b>     |
| <b>MHGE Parent Term Loan Due 2022</b>  | <b>\$180</b>       |
| <b>Parent Cash Escrow</b>  | <b><u>(10)</u></b> |
| <b>Net Total Indebtedness – MHE Inc.</b>   | <b>\$1,998</b>     |

\*3/31 cash excludes \$10M of cash from the MHGE Parent escrow account. All figures preliminary and are subject to audit adjustments.

Securitization outstandings at 3/31 (\$45M) are excluded from debt profile as they are excluded from the definition of debt under the first lien credit agreement.

Revolving credit facility outstandings exclude \$4.3M of letters of credit issued.

Net Total Indebtedness – MHE Inc. includes \$10M of MHGE Parent escrow cash.

(1) All figures are preliminary and are subject to audit adjustments

(2) Cash balances exclude restricted cash from MHGE Parent escrow account

# Fiscal Year Timing Considerations

Business Evolution and COVID-19 will Impact Quarterly Comparability

| Timing                      | Key Business Considerations                     | Expectations  |
|-----------------------------|---|---|
| April 2020                  | <i>Execution / Discretionary Savings</i>        | <ul style="list-style-type: none"> <li>• <b>Billings in seasonally small period expected to be up 15-20% Y/Y</b></li> <li>• <b>Adjusted EBITDA expected to be up more than \$12M Y/Y</b></li> </ul>   |
| Fiscal Year Q1<br>Apr - Jun | <i>Timing of Purchases</i>                      | <ul style="list-style-type: none"> <li>• Expect ongoing shift of Higher Education Billings from FY Q1 to FY Q2 as traditional distributor sales transition to Inclusive Access, Rental and ongoing Direct-to-Student</li> <li>• Shipments in period will be impacted by distribution channel partners and school districts levels of operation and ability to receive product</li> <li>• Lower Higher Education product returns Y/Y but some catch up from delayed March returns expected (already considered in reserve-for-returns estimate at 3/31/20)</li> <li>• Continue to closely monitor early signs of International recovery</li> <li>• Liquidity will remain strong given current cash balance and expectation for seasonal AR securitization availability growth</li> </ul> |
|                             | <i>Timing of Print Shipments</i>                |   |
|                             | <i>International Recovery</i>                   |   |
|                             | <i>Liquidity Position</i>                       |   |
| Fiscal Year Q2<br>Jul - Sep | <i>HE Semester Aligned Purchases</i>            | <ul style="list-style-type: none"> <li>• Higher Education Billings will continue to increasingly align with the start of the semester</li> <li>• Inclusive Access growth will continue; Higher Education enrollments will be impacted by COVID-19</li> <li>• Increased K-12 shipments expected after delay in prior quarter</li> <li>• International stabilization anticipated</li> </ul>   |
|                             | <i>Increased Inclusive Access Billings</i>      |   |
|                             | <i>Continuing Digital Billings Growth</i>       |   |
|                             | <i>International Performance</i>                |   |
| Fiscal Year Q3<br>Oct - Dec | <i>Product Returns Favorability</i>             | <ul style="list-style-type: none"> <li>• October and November are key returns months; materially lower returns expected</li> <li>• Higher Education Billings will continue to shift from FY Q3 to FY Q4</li> <li>• Combined Int'l &amp; Professional Billings have approximated 30-35% of FY historically</li> </ul>  |
|                             | <i>HE Billings shift will continue</i>          |   |
|                             | <i>Key Quarter for Int'l &amp; Professional</i> |   |
| Fiscal Year Q4<br>Jan - Mar | <i>Inclusive Access Growth</i>                  | <ul style="list-style-type: none"> <li>• Expect material Higher Ed Billings in quarter with continuing shift from Q3 to Q4</li> <li>• Inclusive Access growth will continue (60%+ growth in Q4 FY20)</li> <li>• Seasonal low quarter for K-12, International and Professional</li> </ul>  |
|                             | <i>Material Quarter for HE</i>                  |   |

Fiscal Year 2021