# McGraw-Hill Education, Inc.

## Annual Report

## As of March 31, 2021 and 2020

## INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS OF MCGRAW-HILL EDUCATION, INC. AND SUBSIDIARIES

**Special Note Regarding Forward-Looking Statements**

This report 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 report 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 report. 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 report, 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 report 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.

**Use of Non-GAAP Financial Information**

We have provided Billings, EBITDA and Adjusted EBITDA in this annual report because we believe they provide investors with additional information to measure our performance and evaluate our ability to service our indebtedness.

Management reviews these measures on a regular basis and uses them to evaluate and manage the performance of our business, make resource allocation decisions and compensate key management personnel as these measures provide comparability from period-to-period as sales of digital solutions represent an increasing percentage of our total sales during this time of transition. We believe that, for the reasons outlined herein, these non-GAAP financial measures provide useful information to investors and provide increased transparency and a better understanding of our business performance trends as a supplement to reported revenue, net (loss) income and operating cash flows. However, these measures should be evaluated only in conjunction with the comparable GAAP financial measures and should not be viewed as alternative or superior measures of GAAP results.

Billings is a non-GAAP sales performance measure that we believe provides useful information in evaluating our period-to-period performance because it reflects the total amount of revenue that would have been recognized in a period if we recognized all print and digital revenue at the time of sale. We use Billings as a sales performance measure given that we typically collect full payment for our digital and print solutions at the time of sale or shortly thereafter, but recognize revenue from digital solutions and multi-year deliverables ratably over the term of our customer contracts. As sales of our digital learning solutions have increased, so has the amount of revenue that is deferred in accordance with U.S. GAAP. Billings is a key metric we use to manage our business as it reflects the sales activity in a given period, provides comparability from period-to-period during this time of digital transition and is the basis for all sales incentive compensation. In the K-12 market where customers typically pay for five to eight year contracts upfront and the ongoing costs to service any contractual obligation are limited, the impact of the change in deferred revenue is most significant. Billings is U.S. GAAP revenue plus the net change in deferred revenue.

We believe that the presentation of Adjusted EBITDA which is defined in accordance with our debt agreements 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.

Billings, EBITDA and Adjusted EBITDA are not presentations made in accordance with U.S. GAAP, and our use of these terms varies from others in our industry. Billings, EBITDA and Adjusted EBITDA should not be considered as alternatives to revenue, net income, 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. Further, EBITDA:

- excludes certain tax payments that may represent a reduction in cash available to us;
- does not reflect any cash capital expenditure requirements for assets being depreciated and amortized that may have to be replaced in the future;
- does not reflect changes in, or cash requirements for, our working capital needs; and
- does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our indebtedness.

In addition, Adjusted EBITDA, as defined in accordance with our debt agreements:

- includes estimated cost savings and operating synergies, including some adjustments not permitted under Article 11 of Regulation S-X;
- does not include one-time expenditures, including costs required to realize the synergies referred to above;
- reflects the net effect of converting deferred revenues, deferred royalties, and deferred commissions to a cash basis assuming the collection of all receivable balances and payment of all amounts owed;
- does not include management fees paid to entities and investment funds affiliated with Apollo Global Management, LLC, which will discontinue upon completion of this offering; and
- does not reflect the impact of earnings or charges resulting from matters that we and the lenders under our senior secured credit facilities may consider not to be indicative of our ongoing operations.

Our definition of Adjusted EBITDA allows for the add back of certain non-cash and other charges or costs that are deducted in calculating net income. However, these are expenses that may recur, vary greatly and can be difficult to predict. They can represent the effect of long-term strategies as opposed to short-term results. In addition, certain of these expenses can represent the reduction of cash that could be used for other corporate purposes. Because of these limitations, we rely primarily on our U.S. GAAP results and use Billings, EBITDA and Adjusted EBITDA only supplementally.

**Trademarks**

This annual report contains references to our trademarks and service marks. Solely for convenience, trademarks and trade names referred to in this annual report may appear without the ® or ™ symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the rights of the applicable licensor to these trademarks and trade names. We do not intend our use or display of other companies' trade names, trademarks or service marks to imply a relationship with, or endorsement or sponsorship of us by, any other companies.

# PART I

## Item 1. BUSINESS

### The Science of Learning

We help unlock the potential of each learner by accelerating learning through intuitive, engaging, efficient and effective experiences. We define the Science of Learning as the understanding of how individuals learn and apply that understanding, grounded in research, to our content, technology and user experience to produce learning solutions that directly and positively impact individual student outcomes. As a learning science company, our goal is to empower educators and learners with information and intuitive learning environments in which to engage more personally with each other and with critical concepts in order to promote more effective and efficient learning.

### Change in Fiscal Year End

Pursuant to authority conferred by the Board of Directors "the Board" under the Company's Bylaws, on November 22, 2019, the Board approved a change in the Company's fiscal year end from December 31 to March 31.

The consolidated statement of operations for the fiscal years ended March 31, 2021 and 2020, and the consolidated balance sheet data as of March 31, 2021 and 2020 have been derived from the audited consolidated financial statements of the Company included elsewhere in this annual report. Note that, although the consolidated financial statements are not presented for the twelve months ended March 31, 2019, we have included summary information for this period for comparability purposes. All data for the twelve months ended March 31, 2019 are derived from our unaudited consolidated financial statements.

### Company Overview

We are a leading provider of outcome-focused learning solutions, delivering both curated content and digital learning tools and platforms to the students in the classrooms of approximately 250,000 higher education instructors, approximately 13,000 pre-kindergarten through 12th grade ("K-12") school districts and a wide variety of academic institutions, professionals and companies in more than 100 countries. We have evolved our business from a print-centric producer of textbooks and instructional materials to a leader in the development of digital content and technology-enabled adaptive learning solutions that are delivered anywhere, anytime. We believe we have established a reputation as an industry leader in the delivery of innovative educational content and methodologies. For example, in the higher education market, we were the first in our industry to introduce digital custom publishing, which permits instructors to tailor content to their specific needs. We also created *LearnSmart*, one of the first digital adaptive learning solutions in the higher education market, which leverages our proprietary content and technology to provide a truly personalized learning experience for students. Since 2009, all of our major K-12 programs have also been created in an entirely digital format.

We believe our brand, content, relationships, and distribution network provide us with a distinct competitive advantage. Over our 125 year history, the "McGraw-Hill" name has grown into a globally recognized brand associated with trust, quality and innovation. We partner with more than 14,000 authors and educators in various fields of study who contribute to our large and growing collection of proprietary content. Our collection includes well-known titles and programs across each of our principal markets. According to the Association of American Publishers ("AAP"), our programs and learning solutions in the U.S. K-12 market achieved a 22% market share overall. Additionally, *Harrison's Principles of Internal Medicine* is one of the most widely-sold global medical reference solutions to the professional market, with our complimentary digital offering *AccessMedicine* available in almost every medical school in the United States. We sell our products and solutions across multiple platforms and distribution channels, including our large network of nearly 1,100 sales professionals.

As learners and educators have become increasingly outcome-focused in their search for more effective learning solutions, we have embraced adaptive learning tools as a central feature of our digital learning solutions. Adaptive learning is based on educational theory and cognitive science that emphasizes personalized delivery of concepts, continuous assessment of gained and retained knowledge and skills, and design of targeted and personalized study paths that help students improve in their areas of weakness while retaining competencies. We have developed a unique set of digital solutions by combining innovative adaptive learning methods with our proprietary content and digital delivery platforms. These solutions provide immediate feedback, and we believe they are more effective than traditional print textbooks in driving positive student outcomes. Students' year-over-year performance can be impacted by many factors outside the instructional materials used in class. We believe that even taking into account these factors, our learning solutions can contribute to significant improvements in students' classroom performance as well as improved student retention. For the instructor, time spent on active learning experiences increases significantly as a result of a reduction in time spent on administrative tasks and the availability of critical data to help better focus in class instruction.

In the United States higher education market, where the pace of digital adoption is the most rapid of all of our end markets, the success of our sales of adaptive offerings has led to more than a 550 basis point increase in higher education market share from 2014 to 2021 according to Management Practice, Inc. ("MPI"), an independent education research firm.

Our four operating segments are:

*Higher Education* (42% of total revenue in 2021): We are a top-three provider in the United States higher education market with a 25% market share for the year ended March 31, 2021 according to MPI. We provide students, instructors and institutions with adaptive digital learning tools, digital platforms, custom publishing solutions and traditional printed textbook products. The primary users of our solutions are students enrolled in two- and four-year non-profit colleges and universities, and to a lesser extent, for-profit institutions. We sell our Higher Education solutions to well-known online retailers, distribution partners and college bookstores, who subsequently sell to students. We continue to grow our Inclusive Access offering which is a partnership between an institution, distributor and McGraw-Hill to deliver digital course materials to students on or before the first day of class at below market rates. We also increasingly sell via our proprietary e-commerce platform, primarily directly to students, which currently represents the largest distribution channel in this segment, with revenue having grown from $172 million for the year ended December 31, 2016 to $249 million for the year ended March 31, 2021. For the year ended March 31, 2021, 81% of Higher Education revenue was derived from digital learning solutions.

*K-12* (38% of total revenue in 2021): We are a top-three provider in the United States K-12 curriculum and learning solutions market with a 22% market share, according to the AAP. We sell our learning solutions directly to K-12 school districts across the United States. While we offer all of our major curriculum and learning solutions in digital format, given the varying degrees of availability and maturity of our customers' technological infrastructure, a majority of our sales are derived from selling blended print and digital solutions. The product sales mix in any period can impact the percentage of total digital sales, with our math and social studies programs being more heavily weighted in digital as compared to our reading and literacy programs, for example. We believe that the quality of our blended offerings has been driving significant growth in both print and digital revenue. For the year ended March 31, 2021, 43% of K-12 revenue was derived from digital learning solutions.

*International* (11% of total revenue in 2021): We leverage our global scale, including approximately a 375 person sales force, brand recognition and extensive product portfolio to serve students in the higher education, K-12 and professional markets in more than 100 countries outside of the United States. Our products and solutions for the International segment are produced in more than 80 languages and primarily originate from our offerings produced for the United States market and are later adapted to different international markets. Sales of digital products are growing significantly in this market, and we continue to increase our inventory of digital solutions. For the year ended March 31, 2021, 40% of International revenue was derived from digital learning solutions.

*Global Professional* (9% of total revenue in 2021): We are a leading provider of medical, technical, engineering and business content for the professional, education and test preparation communities. Our digital subscription products had a 95% annual retention rate in 2021 and are sold to more than 2,300 customers, including corporations, academic institutions, libraries and hospitals. For the year ended March 31, 2021, 56% of Global Professional revenue was derived from digital learning solutions, including digital subscription sales.

**Our Industry**

We compete in the market for educational services in the United States and abroad. It is one of the largest sectors in the United States economy and, according to GSV Advisors, spending on education in 2015 was $1.6 trillion and was forecasted to increase to $2.0 trillion in 2020. Digital Learning had grown to $160 billion, "up from nothing" 25 years prior. "With the Coronavirus," according to an overview from GSV, "1.6 billion learners were thrown into the deep end of the online learning pool and told to sink or swim. The catalyst of having 20% of the world's population becoming online learners overnight has ushered in a new era, *The Dawn of the Age of Digital Learning* [by Michael Moe and Vignesh Rajendran]. Before Coronavirus (B.C.) was more linear and physical, After Disease (A.D.) is digital and exponential. We now expect the Digital Learning Market to reach $1 trillion by 2027, nearly twice as fast as we had expected before the Coronavirus pandemic". Coronavirus has provided an enormous catalyst to accelerate the opportunity of the future to today. One example of this is in higher education, where in B.C. only 30% of students were taking a course online. In A.D., essentially 100% of students are now taking their courses online. Our expectation is that this shift is here to stay.

The ongoing trend in education to digital offerings was accelerated by COVID and will be impacted by related funding. Total COVID-19 pandemic relief stimulus funding to date amounts to approximately $80 billion for higher education institutions and approximately $200 billion for K-12 schools to address health, safety, student aid, and learning loss. Most recently, the American Rescue Plan Act (ARPA) signed into law in March 2021 allocated $168 billion to K-12 schools and higher education.

**Higher Education**

We are a leading provider in the market for new instructional solutions in the United States higher education segment, which was estimated to be approximately $7 billion in fiscal 2021 (Source: NCES, AAP, NAICS, Student Watch, SIMBA). This market includes digital learning solutions as well as traditional and custom print textbooks, but excludes used and rental print textbooks. Used and rental materials are commonly purchased by students as a substitute for new materials. Based on estimates for used and rental substitutes, the overall market for textbooks is significantly larger than the market for new instructional materials. We believe the increased use of digital products will drive significant growth in our addressable market given digital products are not provided in a used or rental form.

The higher education market has undergone significant evolution over the last 10 years, as educational content providers lost and then regained share from the secondary market of used and rental books. The recovery by content providers has been driven by a shift to digital and a business model change towards delivery via the Inclusive Access model. Digital course materials offer comprehensive curriculum, adaptive functionality and non-transferrable licenses which support recapture of the print secondary market. The COVID-19 pandemic accelerated the adoption of digital course materials. Approximately 90% of students who increased their use of digital content during the COVID-19 pandemic say they will continue to increase their usage in the future. The Inclusive Access model ensures timely access to digital course materials at an affordable price. It has emerged as an effective new purchase model and has allowed content providers to further increase affordability and regain share from the secondary market. Inclusive Access has the potential for significant growth.

Public and political scrutiny of the disparity between funding and student outcomes has increased demand for greater transparency and accountability for spending on education. With educational institutions under pressure to increase their student retention and graduation rates, new and more effective methods of teaching and learning are in demand.

Despite the significant government expenditures in education, low college graduation rates and insufficient job placement in the United States have resulted in additional social and economic costs including rising aggregate and per capita student loan debt and increasing incidents of default. In addition, American students are not learning the skills and knowledge they need to succeed in an increasingly competitive global marketplace.

According to National Center for Education Statistics ("NCES"), in 2018 approximately 62% of full-time students who graduated from four-year institutions graduated within six years. For two-year institutions, approximately 33% of full-time students who graduated completed their studies within three years.

In a recent study by the Foundation for Excellence in Education, two-thirds of college professors report that what is taught in high school does not prepare students for college and, according to ACT, nearly 1.8 million 2019 graduates around the United States (52 percent of the graduating class) took the ACT test during high school. According to ACT, only 37 percent of ACT-tested graduates in the class of 2019 met at least three of the four ACT College Readiness Benchmarks (English, reading, math and science). This is down slightly from 38 percent last year and 39 percent in 2017.

Public policy initiatives aimed at improving student outcomes and accountability within higher education in the United States extend to college and career readiness standards in the K-12 market. An important aspect of postsecondary student success is adequate preparation via primary and secondary education. In the United States, improved college readiness has been a focal point for lawmakers, which has led to an increased focus on the linkage between K-12 funding and higher student achievement of educational standards.

**K-12**

Our addressable K-12 market in the United States, which includes new instructional materials, courseware and formative assessment was approximately $6.7 billion for the 2020-2021 school year, including adoption and open territory states, according to Simba Information. According to NCES, K-12 enrollment in the United States as of Fall 2020 was over 56 million, and enrollment is projected to slightly grow in next five years. We define our K-12 market as divided among basal (core or alternative required grade-level taught subjects that are delivered in a specific order with increasing difficulty), supplemental (academic instruction provided outside the required programs) and intervention products (targeted instruction to students lacking proficiency in a subject matter, or those who have special learning or behavioral needs). Sixteen states, known as adoption states, approve and procure new basal programs, usually every five to eight years on a state-wide basis for each major area of study, before individual schools or school districts are permitted to schedule the purchase of materials. In all remaining states, known as open territories, each individual school or school district can procure materials at any time, though they usually do so on a five to eight year cycle.

Growth in the K-12 market is driven by demand for new materials to address college and career readiness standards, increasing state and local budgets for educational materials, and rising student enrollment. Property tax revenue, the primary source for state and local funds for purchases of instructional materials, has been increasing in the United States along with a rise in property values.

The most significant trends affecting the K-12 market include an ongoing shift to digital content and curriculum, the blurring lines between core and supplemental curriculum, an increased equity gap, and the potential benefits of increased education spending from federal stimulus. Schools now have the technology infrastructure, including internet bandwidth and device availability, to support a hybrid/digital-first curriculum. The COVID-19 pandemic has accelerated the adoption of digital solutions and increased usage. The transition to digital in the supplemental curriculum market has been rapid but has taken more time within the core basal market with opportunities arising for core basal providers to increase their supplemental and intervention offerings. The COVID-19 pandemic also accelerated the equity gap, increasing demand for intervention solutions to aid students falling behind grade level. Administrators estimate that nearly half of students are behind grade level and approximately 45% of supplemental spend is directed to students behind grade level and that both numbers will persist into the future.

**Global Professional**

As the United States economy continues to expand, we expect the market for professional education resources to grow, particularly among industry sectors that are experiencing more rapid growth in jobs. The Professional and Business Services and Healthcare and Social Assistance industry sectors are expected to add over 4.5 million jobs between 2019 and 2029, more than all other United States industries combined, according to the

Bureau of Labor Statistics (“BLS”). We derive a substantial portion of our Professional revenue from these two markets.

**International**

The global e-Learning market, including higher education, K-12 and professional training, is expected to continue to grow. This large international education market is increasingly focused on digital content due to the growing penetration of the smartphone. Individuals in developing countries are nearly twice as likely to use connected devices (i.e. mobile phones or tablets) for educational purposes on a regular basis as those in developed markets, according to Juniper Networks. Today, through our significant investment in digital solutions and Digital Platform Group ("DPG"), we plan to increasingly capitalize on these strong market trends.

The trend towards increased globalization has generated demand for higher levels of educational attainment in international markets as well. McGraw-Hill International sells English language product in more than 100 countries, in which English is either the official or the primary language, or as in many developing countries, educational agendas emphasize the use of English as a universal language for commerce and other sectors of the economy. We believe this trend will increase the readily addressable market for our educational solutions, which are often initially created for English-speaking students before being adapted for international markets.

We expect the investment in education to continue to grow as student enrollment rises around the world. According to UNESCO, global higher education enrollment was approximately 227 million students in 2019.

**Our Competitive Strengths**

We believe the following to be our most important competitive strengths:

***Widely recognized brand with global reach and expansive scale.***

We believe our brand recognition is driven by our long-standing history of over 125 years in the industry and our ownership of globally well-known titles such as *Harrison's Principles of Internal Medicine* and Samuelson's *Economics*, which have been cornerstones of education around the world for decades. We distribute our products in more than 100 countries across Asia-Pacific, Europe, India, Latin America and the Middle East, and approximately 25% of our approximately 3,700 employees are based in nearly 40 offices in 26 countries outside of the United States. We believe that our brand, global reach and scale provide us with a defensible market position and present significant barriers to entry. We expect to leverage our market position and internal infrastructure and operational resources to further grow revenues and gain market share by increasing distribution of learning solutions through our network.

In the United States, our products are sold in approximately 4,000 higher education institutions and approximately 13,000 K-12 school districts across all 50 states. Our nearly 1,200 person sales force, which includes approximately 410 sales people in the United States higher education and approximately 400 sales people in the United States K-12 markets, maintains close relationships with the individual instructors that represent the primary decision makers in the higher education market and the states, school districts, and individual schools that primarily make purchase decisions in the K-12 market. In addition, our growing suite of digital products allows us to develop direct relationships with an even larger group of customers, including over 5 million global higher education students and instructors who were users of our Connect platform in 2021.

***Proprietary and unique content, developed over many years, leveraged in digital adaptive learning.***

Our portfolio of proprietary content developed over 125 years and built around market leading titles has been the foundation of our transformation into a large and growing digital learning solutions provider. This market leadership has uniquely positioned us to extend our portfolio of traditional print products by offering digital alternatives and new digital solutions that incorporate our existing content and curriculum.

In addition to leveraging digital formats to extend the reach of existing print content, we create all new content in a digital format and optimize it for use in an adaptive environment. This has reduced our development costs and enhanced our ability to use new content for the future development of additional products. We believe that our repositories of over nine petabytes of digital content, which is over nine million gigabytes, provide us with an opportunity to more quickly and effectively bring future products to market. Our centralized DPG team ensures that all of our digital solutions are immediately available to customers running a wide range of different technology architectures.

***Diversified portfolio of education businesses and unified approach to digital.***

We have a unique presence across the learning continuum, including higher education, K-12 and professional, with additional operations in international markets. The higher education segment of our business, which represented approximately 42% of our revenue in 2021, has historically proven to be countercyclical, balancing out cycles experienced by the K-12 business. During and immediately following recent economic downturns, postsecondary enrollment rates have tended to rise while postsecondary attrition rates have tended to decline. We believe this is driven by the lower opportunity cost for enrolling or staying in college during times of relative economic weakness and higher unemployment. In the current economic environment, characterized by a slow recovery, the K-12 market is benefiting from increased state and local government spending while higher education enrollment has begun to slow.

In addition to making our product development more innovative and faster to market, our DPG organization has allowed us to spread significant R&D spend across our entire revenue base and leverage investments in products developed for one segment across our entire product suite. This centralized approach provides superior capital efficiency to a siloed development model. DPG, along with the acquisitions of *ALEKS*, *LearnSmart* and *Engrade*, enables us to own and control all of the key technologies necessary to implement our digital strategy.

***First mover in digital adaptive learning solutions and strong capabilities in digital technology.***

We believe the significant investment we have made in our digital capabilities has made us a longstanding leader in digital adaptive learning. Today, our annualized spend in our DPG, including operating and capital expenditures, has grown from less than $90 million in 2012 to approximately $146 million and $167 million in 2021 and 2020, respectively. While we are committed to continuing our significant digital investment, growth rates of spending have declined as we have achieved scale. In addition to our organic investments, we have committed in excess of $200 million for the acquisitions of *ALEKS*, *LearnSmart, Engrade, Kidaptive, Triad* which have significantly strengthened our platform and adaptive digital offerings. Our *Connect Master* and *LearnSmart* solutions have been one of the most widely used adaptive platforms in higher education since its launch, and *ALEKS*, our digital adaptive learning solution originally developed for K-12 math, originated in 1992 with a National Science Foundation grant. Our long history of offering adaptive learning solutions has allowed us to develop a growing and robust database of student interactions relating to achievement of learning objectives, which we use to continuously improve the effectiveness of our platforms. For example, *LearnSmart* has generated more than 16 billion interactions with students since inception in 2009, recently growing at an average of more than 250 million interactions per month. Since 2010, *ALEKS* has seen nearly 12.5 billion interactions through December 31, 2020. In addition to using this information to enhance the effectiveness of our adaptive tools, we share data on interactions with instructors to help them more effectively integrate our solutions into their lessons, focusing on content that students are having difficulty learning, reinforcing our relationships and making our solutions more difficult to displace.

Our interactions data are also leveraged on an ongoing basis to create new adaptive technology solutions. For Higher Education, our *SmartBook* adaptive offering, introduced in 2013, is among the first adaptive reading experiences for higher education that utilizes data analytics combined with a deep repository of proprietary content to improve learning outcomes.

***Highly attractive business model***

We enjoy a business model that is highly cash generative. Since 2014 through the end of 2021, we have generated cash flows from operating activities of approximately $1.6 billion. Our strong cash flow has enabled significant investment in our digital capabilities, several key strategic acquisitions, return of capital to our shareholders and continued deleveraging. Since the Founding Acquisition in 2013, our strong cash flow has funded various acquisitions, including *ALEKS*, *LearnSmart*, *Engrade, Redbird*, *Kidaptive and Triad* (closed on April 30th, 2021) that included cash components totaling approximately $160 million. We also completed a minority interest buy-out of Ryerson Canada (our Canadian business) for $27 million. In addition, we have made significant investments in the staffing of DPG, which supports ongoing innovation, development and maintenance of our technology platforms, reducing our pre-publication and capital expenditure requirements and our dependence on third parties.

**Our Growth Strategies**

The key elements of our growth strategies are described below.

***Further our leadership in digital solutions and digital technology.***

We intend to capitalize on the increasing market demand for digital learning solutions by expanding our portfolio of technology-enabled adaptive tools, learning solutions and institutional sales. By leveraging a common software architecture and platform, we will be able to quickly design, develop and test innovative products. Our next generation products, several of which have been recently deployed or are currently in development, will also benefit from the experience we have gained from our existing product suite. These products will have enhanced flexibility, provide greater ability for our users to create custom solutions, and better analyze learning data. We believe these next generation products will further our leadership in our key markets and allow us to grow our revenues at a faster rate than the overall market.

In order to better leverage technology across all of our businesses, drive product innovations and create a more efficient product development process, we are consolidating technologies to eliminate duplicative capabilities. We expect this effort will reduce maintenance costs and unlock creative synergies across our engineering teams. We will also streamline our tools and platforms for efficient and effective delivery with open application program interfaces. This rationalization and simplification of our delivery platforms will reduce costs, freeing up capital for investment in new products.

***Introduce new enterprise solutions aimed at education effectiveness and student retention.***

We believe our learning science focus, highly talented DPG team and the large amount of data we collect via our adaptive learning solutions uniquely position us to offer enterprise services that help our institutional customers improve educational outcomes and accountability. We intend to sell a number of new products and services that offer enterprise-wide course development and design services, analytical tools focused on optimizing student performance and retention, and college and career readiness programs and services.

In 2019, we introduced SmartBook 2.0, an adaptive learning solution that provides personalized learning for each and every student and is available as part of the Connect platform, which builds on our market-leading technology with enhanced capabilities that deliver a more personalized, productive, and accessible learning experience for students and instructors. SmartBook 2.0 spans over 90+ disciplines, with 10 billion+ questions answered and over 200 million+ interactions per month.

***Leverage our learning solutions in International and Professional markets.***

We intend to leverage our large global sales presence, our DPG team, deep local knowledge and numerous strategic partnerships to adapt our leading portfolio of English language content and digital solutions to meet local market needs, such as culture, language and curricula. We believe that this will allow us to rapidly scale our presence in international markets, with particular focus on emerging markets in Latin America, the Middle East, Africa and Asia Pacific.

We also believe we can achieve significant growth by utilizing our adaptive learning competencies to enter and disrupt attractive education segments. These include the high stakes test preparation markets in selected geographies, vocational and skills-based training markets, and the corporate training market where personalized adaptive learning has significant value to the enterprise.

***Continue to evolve our digital first business model to generate significant free cash flow.***

We will continue to drive towards a digital first business model which will allow us to continue to generate significant free cash flow over time as we derive an increasing proportion of our sales from digital learning solutions. We expect our digital first model to continue to result in higher margins and lower capital intensity as we drive efficiencies in our business from reduced operating expenditures, reduced print inventory and more efficient pre-publication investment relative to revenue. We expect to use our free cash flow to fund our growth, deliver our balance sheet and, potentially, return capital to shareholders over time.

***Selectively pursue acquisitions.***

We will consider acquisitions that expand our product offerings, accelerate our digital product development and add important content. We believe our brand and scale allow us to derive significant benefit from emerging education technology companies, which would be challenged to attain a significant market position as standalone companies.

## Our Products

### *Higher Education Products*

Higher Education provides adaptive digital learning tools, digital platforms, custom publishing solutions and traditional printed textbook products with capabilities in adaptive learning, homework tools, lecture capture and LMS integration for post-secondary markets. We have invested significantly in a suite of digital and custom learning solutions, and our instructional materials include digital and printed texts, lab manuals, interactive study guides, testing materials, software and other multimedia products covering the full spectrum of subjects. Although we cover all major academic disciplines, our content portfolio is organized into three key disciplines: (i) Business, Economics and Computing; (ii) Science, Engineering and Math; and (iii) Humanities, Social Science and Languages. Substantially all of Higher Education's revenue is generated from approximately 3,000 individual titles, including print and digital formats, with no single title accounting for more than 2% of revenue. We have longstanding and exclusive relationships with many authors and nearly all of our products are covered by copyright in major markets, providing us the exclusive right to produce and distribute such content in those markets during the applicable copyright term. Higher Education's products consist of the following:

*I. Digital Learning Solutions*

Higher Education's digital learning solutions include, among other features, adaptive digital learning tools, online assessment software, course management software, cloud-based classroom activity capture and replay, online access to eBooks and social network and community tools. These solutions form a seamless, fully-digital ecosystem that enhances the value and results of higher education over the entire learning lifecycle. For the years ended March 31, 2021 and 2020, Higher Education digital revenue represented 81% ($526 million) and 74% ($463 million), of total Higher Education revenue, respectively.

For the years ended March 31, 2021 and 2020, Higher Education digital Billings (including the change in deferred revenue) represents 82% ($571 million) and 75% ($496 million), of total Higher Education Billings, respectively.

Our core digital learning platforms include:

- ***McGraw-Hill Connect:*** a homework and learning management solution that applies learning science and award-winning adaptive tools to improve student results and course delivery efficiency. With *McGraw-Hill Connect*, instructors can integrate digital content into their course and create a customized learning environment, accessible by students via desk top and mobile devices. Students can learn interactively through homework and practice questions, embedded video, simulations, virtual laboratories, audio programs and online games. *McGraw-Hill Connect* contains a suite of tools, including integrated eBooks, course and assignment set-up tools, automated assessment, adaptive learning systems, grading and reporting tools. *McGraw-Hill Connect* is offered for most core freshman and sophomore level courses in the United States with 5.4 million paid domestic activations across campuses nationwide during the year ended March 31, 2021, an increase of 23% over the prior year.

- ***LearnSmart:*** an adaptive learning program that personalizes learning and designs targeted study paths for students through specific courses. *LearnSmart* is an interactive product that determines which concepts the student does not know or understand and teaches those concepts using a personalized plan designed for each student's success. All *LearnSmart* questions are tied to clear learning objectives. When students answer questions, they also rank how confident they are in their answers. Based on each student's response and level of certainty, *LearnSmart* continuously adapts the content and probes presented to each student, so the material is always relevant and geared towards mastering the learning objectives. Once a concept is mastered, *LearnSmart* then identifies the concepts students are most likely to forget throughout the term and encourages periodic review to ensure that concepts are truly retained. *LearnSmart* has generated more than 16.0 billion interactions with students since inception in 2009. According to studies, *LearnSmart* has consistently improved student outcomes.

- ***SmartBook:*** an adaptive reading product introduced in Higher Education in 2013 designed to help students understand and retain course material by guiding each student through a highly personal study experience. Each *SmartBook* helps make studying more efficient and effective by offering features not present in traditional print products, including adaptive content, search/index functionality, note taking capabilities, embedded video and interactive elements. The *SmartBook* product also makes use of our *LearnSmart* adaptive technology. When a student reads the chapters in *SmartBook,* they are prompted by *LearnSmart* questions to identify recommended areas of focus for the student. Our *SmartBook* are primarily sold in the higher education market across a variety of courses and are designed to be compatible with a broad range of devices, including the Kindle and Nook eReaders, the iPad and other tablets and standard desktop and laptop computers. We believe that *SmartBook* will continue to increase in popularity as the prevalence of these digital reading devices also increases. Our *SmartBook* contain rights management features that are designed to prevent copying or resale.

  In 2019, we introduced SmartBook 2.0, an adaptive learning solution that provides personalized learning for each and every student and is available as part of the Connect platform, which builds on our market-leading technology with enhanced capabilities that deliver a more personalized, productive, and accessible learning experience for students and instructors. SmartBook 2.0 spans over 90+ disciplines, with 10 billion+ questions answered and over 200 million+ interactions per month.

- ***Connect Master:*** an adaptive learning solution that allows students to demonstrate what they know and apply their learning to real-world challenges. The Individualized Study Tool creates a personalized learning experience for students and provides the opportunity to practice and enhance understanding of core concepts. The Practical Assessments allow students to progress from understanding basic concepts to using their knowledge to analyze realistic scenarios and solve problems. *Connect Master*'s ability to customize content at the learning-objective level provides instructors the opportunity to specifically tailor student course materials to how the course is implemented.

- ***ALEKS:*** an adaptive learning product for the higher education market initially developed in 1992 with a National Foundation grant. *ALEKS* uses research-based artificial intelligence to rapidly and precisely determine each student's knowledge state, pinpointing exactly what a student knows. *ALEKS* then instructs the student on the topics he or she is most ready to learn, constantly updating each student's knowledge state and adapting to the student's individualized learning needs. Rooted in 20+ years of research and analytics, *ALEKS* ensures improved student outcomes by fostering better preparation, increased motivation and knowledge retention. *ALEKS* has an average learning rate of 94% across all disciplines - math, science, business. With *ALEKS*, instructors control the student experience and pacing of content. Instructors can choose more structure by holding the entire class accountable with due dates or less structure by allowing students to work at their own pace. *ALEKS* had 2.2 million unique users in Higher Education during the year ended March 31, 2021.

- ***ALEKS Placement, Preparation and Learning***: an adaptive learning that assesses and accurately measures the student's math foundation to create a personalized learning module to review and refresh lost knowledge. This allows the student to be placed and be successful in the right course, expediting the student's path to completing their degree.

- ***SIMnet***: an easy-to-use online training and assessment solution for Microsoft Office. It provides students with life-long access and unlimited practice on Microsoft Word, Excel, Access and PowerPoint in addition to file management, and operating systems content. With effective training modules as part of *SIMnet*, students can apply learning to course assignments and career opportunities.

- ***McGraw-Hill Create:*** a self-service website that enables instructors to discover, review, select and arrange content into personalized print or electronic course materials. Instructors can curate customized course materials from a content portfolio consisting of over 8,400 textbooks, 19,400 articles, 56,200 cases, 8,900 readings, 2,000 digital offers, 100 videos, and 500 images/cartoons. Instructors can further supplement the materials with their own custom content. *McGraw-Hill Create* allows the creation of customized products across most disciplines and study areas, including accounting, business law, economics, finance, management, marketing, philosophy, political science, sociology, world languages, anatomy and physiology, chemistry, engineering, biology, psychology, English and mathematics.

- ***Open Learning Solutions***: our next generation open learning environment that provides access to customizable courses and assessments for higher education users. The platform provides a robust digital experience for teachers and students accessing McGraw-Hill programs in order to enhance learning.

*II. Custom Publishing*

Higher Education's custom publishing solutions provide educators the ability to weave together various elements including digital text, digital solutions, print, videos, charts and their own materials into a seamless, tailored learning solution, replacing traditional print textbooks and printed class materials. Custom materials, by their nature, have a higher sell-through rate and are more likely to have their content frequently updated by the instructor, resulting in frequent new publications, forced obsolescence of old editions and more limited re-distribution potential into used or rental markets. Custom products create strong loyalty from educators, as they typically invest significant time and effort into creating unique learning solutions tailored to their teaching styles. Our custom publishing solutions are often bundled arrangements that require us to attribute value to the digital component separately. For the years ended March 31, 2021 and 2020, Higher Education custom publishing revenue, excluding the digital component, represented 4% ($30 million) and 7% ($41 million) of total Higher Education revenue, respectively.

*III. Traditional Print*

Higher Education continues to provide students with traditional print textbooks, including a library of titles covering the full spectrum of subjects, written by some of the top authors and experts in their respective fields. For the years ended March 31, 2021 and 2020, Higher Education traditional print represented 15% ($94 million) and 20% ($126 million) of total Higher Education revenue, respectively. The continuous decline in traditional print is expected as customers shift to digital offerings.

***K-12 Products***

Our K-12 product portfolio includes thousands of instructional resources across hundreds of programs, covering nearly all courses offered in K-12. We also provide the ability to tie instruction and assessment together into a robust platform for school district support and data-driven instruction. This includes strong curriculum resources plus adaptive and formative assessment engines. While the McGraw-Hill name has been a respected source for printed textbooks and teacher materials for generations, we are also recognized for our pure digital programs and our hybrid solutions that blend digital and print in customized packages. Our K-12 business is one of the few providers that offer the diversity of product to actively serve core K-12 markets and niche and specialized markets. In our core markets our offerings include *Reading Wonders* and *My Math* and in our niche and specialized markets we offer well known programs such as SRA *Open Court Reading* and *Number Worlds*. We focus on supporting each state's chosen standards through comprehensive and robust offerings. All our key programs meet the Common Core and college and career readiness standards, as well as the standards chosen by each state to support its learning goals.

*I. Core Programs*

Core basal programs consist of digital and print products that serve mainstream educators with research-based, comprehensive learning solutions. Core basal programs are designed to provide the entire curriculum for a course, including student instruction, practice, assessment and remediation as well as teacher materials. These programs may have as few as five or six components (such as in some high school courses) or thousands of components (such as in K-5 reading and math programs). Core basal programs comprise approximately 80% of K-12's sales and cover all major instructional subjects including Reading, Math, Social Studies, Science, and Literature, while the balance includes specialized programs that include a wide range of products targeted at certain niche markets.

- **Alternative Basal Products:** comprehensive classroom programs for particular segments of the market that require distinct learning methodologies, such as reading teachers who want more directed, skills-oriented programs and math teachers who want more reform-based, hands-on mathematics programs. These unique programs demand specialized authors, editing and design skills, marketing strategy and a true consultative selling model. K-12 is among the largest education providers in its ability to deliver all of these critical elements.

- **Intervention Products:** programs with targeted instruction to students lacking proficiency in a subject matter, or those who have special learning or behavioral needs. Nearly all students require extra instructional support at one time or another and K-12 builds this support into all of its Core Basal Programs while also providing separate targeted programs for intervention and remediation. Programs include products that focus on reading and mathematics support, and remediation solutions in science, social studies, career and college readiness, workplace skills and other areas of need.

- **Supplemental Products**: additional learning resources when core program solutions do not meet all of the needs of certain educators, such as extra online practice in multiplication, kits that enhance phonics skills, practice books for basic workplace skills or biography readers for middle school students. K-12 competes in this segment due to its specialized product development capabilities and experienced sales staff who know how to market to these educators.

For the years ended March 31, 2021 and 2020, K-12 traditional print represented 56% ($328 million) and 59% ($353 million) of total K-12 revenue, respectively.

*II. Digital Learning Solutions*

Digital resources are an essential part of the instructional mix across both core basal and specialized programs. The recent and dramatic increase in hardware, online connectivity and educational focus on technology has brought many classrooms to a digital tipping point. With the significant investment in its digital portfolio over recent years, K-12 has an opportunity to capitalize on this ongoing digital transformation and has developed a number of fully online learning programs. For the years ended March 31, 2021 and 2020, K-12 digital revenue represented 43% ($249 million ) and 39% ($234 million) of total K-12 revenue, respectively.

For the years ended March 31, 2021 and 2020, K-12 digital Billings (including the change in deferred revenue) represented 42% ($238 million) and 40% ($257 million) of total K-12 Billings, respectively.

Our core digital products include:

- ***Access Manager:*** An IMS Global Standards certified integration platform for K-12 Ed Tech interoperability. *Access Manager* removes the cost and complexity of schools adopting educational technology. *Access Manager* is based on open standards and positions MHE to help districts drive down the costs of using technology, enhancing the opportunity for greater use of technology in teaching and learning.

- ***ConnectEd:*** an open learning environment providing access and customization of our content for K-12 users. The platform offers a digital learning solution for teachers and students to access teaching and learning resources.

- ***Open Learning Solutions:*** our next generation open learning environment that provides access to customizable courses and assessments for K-12 users. The platform provides a robust digital experience for teachers and students accessing McGraw-Hill programs in order to enhance learning.

- ***ALEKS:*** an adaptive learning math product for the K-12 market. *ALEKS* uses research-based, artificial intelligence to rapidly and precisely determine each student's knowledge state, pinpointing exactly what a student knows. *ALEKS* then instructs students on the topics they are most ready to learn, constantly updating each student's knowledge state and adapting to the student's individualized learning needs. While *ALEKS* specializes in remedial and developmental math, we have also integrated *ALEKS* into all of our secondary math offerings. During the year ended March 31, 2021, *ALEKS* had approximately 2.2 million unique users in K-12.

- ***LearnSmart:*** is an adaptive learning program being deployed with the majority of K-12's grade 6-12 resources. *LearnSmart* builds a learning experience to meet each student's individual needs. *Smartbook*, built on the *LearnSmart* engine, highlights core content as students read and identifies concepts students need to spend additional time reviewing and improving the efficiency and productivity of independent study.

***International Products***

International sells higher education, K-12, professional and other products and services to educational, professional and English language teaching markets in more than 80 languages across Asia-Pacific, Europe, India, Latin America, the Middle East, and North America. While the business mix and strategic focus of International varies from region to region according to local market dynamics, International's business strategy leverages the content, tools, services and expertise from our domestic businesses. As a result of the widespread use of English as a universal language, a majority of International's revenue during the year ended March 31, 2021 was generated by selling our unmodified English language products internationally. Approximately 62% of International's revenue was generated from such unmodified products together with minor regionally-driven cosmetic changes or translations of English language products. Approximately 37% of International's revenue for the year ended March 31, 2021 was derived from content created in local markets or products originating from unrelated publishers for distribution in our international markets. Although, approximately 60% of International's 2021 revenue was generated by traditional print products, digital offerings are driving significant international growth. In more developed markets, with a greater prevalence of digital devices, many of our U.S.-developed digital solutions, such as McGraw-Hill Connect, ALEKS and LearnSmart are gaining market share. For the years ended March 31, 2021 and 2020, International traditional print revenue represented 60% ($102 million) and 73% ($148 million) of total International revenue, respectively.

For the years ended March 31, 2021 and 2020, International digital revenue represented 40% ($67 million) and 27% ($55 million) of total International revenue, respectively.

For the years ended March 31, 2021 and 2020, International digital Billings (including the change in deferred revenue) represented 44% ($80 million) and 26% ($53 million), respectively.

***Global Professional Products***

Global Professional is a leading provider of medical, technical, engineering, and business content and training solutions for the professional, education and test preparation communities. Global Professional's products include digital product portfolios and textbooks easily accessible through whichever medium our student and professional customers prefer. Global Professional's digital product portfolio spans two main categories: (i) digital subscription services and (ii) eContent (including eBooks and related applications).

*I. Digital Subscription Services*

Digital subscription services are platforms that provide searchable and customizable digital content integrated with highly functional workflow tools. Global Professional offers more than 25 digital subscription services which are organized across three broad subject categories: (i) Medical, (ii) Engineering and Science, and (iii) Test Preparation. These products are sold on an annual subscription basis to more than 2,300 corporate, academic, library and hospital customers as of March 31, 2021. Our digital subscription services customer base has a retention rate across major platforms of 92% in 2021.

The flagship *Access* line of products provide an integrated digital workspace that combines Global Professional's content, contextualized rich media and high-functionality workflow tools which allow instructors to select specific reference content, assign to students and monitor progress. For example, *AccessMedicine* is an innovative online resource that provides students, residents, clinicians, researchers, and other healthcare professionals with access to content from nearly 145 medical titles, updated content, thousands of images and illustrations, interactive self-assessment, case files, time-saving diagnostic and point-of-care tools and a comprehensive search platform as well as the ability to view from and download content to a mobile device. Frequently updated and continuously expanded by world-renowned physicians, *AccessMedicine* provides fast, direct access to the information necessary to complete evaluations, diagnoses, and case management decisions, and pursue research, medical education, self-assessment and board review.

The value proposition of Global Professional's digital subscription platforms is compelling for our subscribers, and the economics are attractive and highly scalable for us. Digital subscription platforms provide a stable, recurring revenue stream with high annual re-order rates. New competitors in the digital subscription market must overcome large volumes of proprietary content developed over many years. Digital products are highly profitable due to the low variable cost nature of these products, with gross margins of nearly 90%. For the years ended March 31, 2021 and 2020, digital subscription revenue represented 56% ($80 million) and 47% ($73 million) of total Global Professional revenue, respectively.

For the years ended March 31, 2021 and 2020, Global Professional digital Billings (including the change in deferred revenue) represented 57% ($83 million) and 48% ($76 million) of total Global Professional Billings, respectively.

*II. eContent (eBooks) and traditional print*

eBooks represent the majority of Global Professional's eContent offerings. Global Professional's more than 7,500 eBooks are sold on major eBook retail websites and through Global Professional's own websites. Our eBooks are designed to be compatible with a broad range of devices, including the Kindle and Nook eReaders, the iPad, nearly 300 medical, test preparation and business mobile applications for the iPhone, other tablets and standard desktop and laptop computers. Global Professional provides timely and authoritative knowledge to customers around the world through the release of over 300 titles per year. Our roster of distinguished authors and prestigious brands represent some of the best-selling professional publications, such as *Harrison's Principles of Internal Medicine*, *Perry's Chemical Engineers' Handbook* and *Graham & Dodd's Security Analysis*, and are well-regarded globally in both academic and professional career markets. Our products are sold and distributed worldwide in both digital and print format through multiple channels, including research libraries and library consortia, third-party agents, direct sales to professional society members, bookstores, online booksellers, direct sales to individuals and other customers. Our top customers include retail trade, academic and government institutions and corporations. For the years ended March 31, 2021 and 2020, Global Professional print revenue represented 44% ($63 million) and 53% ($83 million) of total Global Professional revenue, respectively.

**Raw Materials, Printing and Binding**

Paper is one of the principal raw materials used in our business. We have not experienced and do not anticipate experiencing difficulty in obtaining adequate supplies of paper for operations. We have contracts to purchase paper and printing services that have target volume commitments. However, there are no contractual terms that require us to purchase a specified amount of goods or services and if significant volume shortfalls were to occur during a contract period, then revised terms may be renegotiated with the supplier.

**Environmental**

We generally contract with independent printers and binders for their services. However, it is possible that we could face liability, regardless of fault, if contamination were to be discovered on properties currently or formerly owned, operated or leased by us or our predecessors, or to which we or our predecessors have sent waste. We are not currently aware of any material environmental liabilities or other material environmental issues at our properties or arising from our current operations. However, we cannot assure you that such liabilities or issues will not materially adversely affect our business, financial position or results of operations in the future.

**Seasonality and Comparability**

Our revenues, operating profit and operating cash flows are affected by the inherent seasonality of the academic calendar. In 2021 we realized approximately 22%, 34%, 23% and 21% of our revenues during the first, second, third and fourth quarters, respectively. This seasonality affects operating cash flow from quarter to quarter and there are certain months when we operate at a net cash deficit. Changes in our customers' ordering patterns may affect the comparison of our current results in prior years where our customers may shift the timing of material orders for any number of reasons, including, but not limited to, changes in academic semester start dates or changes to their inventory management practices.

**Competition**

We are one of the largest education companies in the world by revenue. Our product portfolio and customer base span the entire educational spectrum, and as a result we compete with a variety of companies in different product offerings. Our larger competitors are currently Pearson, Houghton Mifflin Harcourt, Wiley and Cengage. The focus on technology and digital products in education may result in the emergence of additional competitors over time. We believe that we are well positioned to compete in our markets. We primarily compete on the quality of our content and effectiveness of our digital solutions, product implementation support, brand and reputation, author reputation, customers' history using our products and, to a lesser extent, price.

**Personnel**

As of March 31, 2021, we had approximately 3,700 employees worldwide directly supporting our operations with approximately 2,800 employed in the United States. None of our employees in the United States are employed pursuant to the terms of a collective bargaining agreement.

**Intellectual Property**

Our products contain intellectual property delivered through a variety of media, including digital and print. We rely on a combination of copyrights, trademarks, patents, non-disclosure agreements and other agreements to protect our intellectual property and proprietary rights. We also obtain significant content, materials and technology through license arrangements with third party licensors.

We have registered certain patents, trademarks and copyrights in connection with our publishing businesses. We also register domain names, when appropriate, for use in connection with our websites and internet addresses. We believe we either own or have obtained the rights to use all intellectual property rights necessary to provide our products and services. We believe we have taken, and continue to take, in the ordinary course of business, appropriate legal steps to protect our intellectual property in all relevant jurisdictions.

We rely on authors for the majority of the content for our products. In most cases, copyright ownership has either vested in us, as a "work made for hire", been assigned to us by the original author(s), or the author has retained the copyright and granted us an exclusive license to utilize the work.

Piracy of intellectual property can negatively affect the value of and demand for our products and services. We attempt to mitigate the risk of piracy through (1) the implementation of restrictive use mechanisms and other limitations inherent to our products and (2) the use of online monitoring combined with legal and regulatory actions and initiatives.

Some of our products contain inherent usage controls and other built-in safeguards that reduce the risk and ease of piracy, including: (a) requirements that users login to their accounts with user names and passwords; (b) the fact that sharing account access for many of our products would result in an abnormal user experience and inaccurate grading; (c) use by our eBook providers of time-based lockouts that allow our eBooks to be automatically disabled based on subscription length; and (d) the inherent limitations in the usefulness and ease of copying the text of many of our products, due to the adaptive and interactive nature of our key content together with certain limitations on copying and pasting.

We also use a variety of legal actions, regulatory initiatives and online monitoring efforts to further mitigate piracy concerns, including:

- Online monitoring of piracy-related activities;
- Initiation of litigation against certain infringers, both individually and jointly with other domestic and foreign publishers;
- Requesting that third parties take down infringing content;
- Lobbying efforts;
- Monitoring of our digital applications for abnormal load/usage; and
- Anti-piracy educational programs.

Since 2007, we have engaged an outside firm that uses web-based technology to search for active titles that are illegally posted or distributed on the internet. We also perform other regular searches for illegal use or distribution of our content, investigate notices of illegal postings of our intellectual property and send take down notices to internet service providers and web sites where infringing material is identified. Over the past years, we have joined with other educational publishers to engage outside counsel to investigate and file numerous copyright and trademark suits in federal court against various online sellers and distributors of infringing copies of our copyrighted materials. We have partnered with various trade associations, such as the AAP and the Software Information Industry Association ('SIIA'), to pursue joint actions against sources of both print and electronic piracy, lobby legislative and other government officials in the U.S. and abroad to establish laws and regulations that might assist content owners in combating piracy. We place a “Report Piracy” button on various internal and external sites to enable employees, authors and third parties to report instances of illegal content distribution, which are investigated and actioned as appropriate.

**The Founding Acquisition**

On March 22, 2013, MHE Acquisition, LLC ("AcquisitionCo") completed the Founding Acquisition, pursuant to which a wholly-owned subsidiary of the Company acquired all of the outstanding equity interests of certain subsidiaries of McGraw-Hill Companies, Inc. (“MHC”) pursuant to a Purchase and Sale Agreement, dated November 26, 2012 and as amended March 4, 2013 (the “Acquired Business”). The Acquired Business included all of MHC’s educational materials and learning solutions business, which is comprised of (i) the Higher Education, Global Professional, and International Group (the “HPI business”), which includes post-secondary education and professional products both in the United States and internationally and (ii) the School Education Group business (the “SEG business”), which includes school and formative assessment products targeting students in the pre-kindergarten through secondary school market. We refer to the purchase of the Acquired Business and the related financing transactions as the “Founding Acquisition.” Following the Founding Acquisition, MHC is now known as S&P Global, Inc.

As of completion of the Founding Acquisition, Apollo Global Management LLC (the “Sponsors”), certain co-investors and certain members of management directly or indirectly owned all of the equity interests of AcquisitionCo. In connection with the Founding Acquisition, a restructuring was completed, the result of which was that the HPI business and the SEG business became held by separate wholly owned subsidiaries of MHE US Holdings LLC. The HPI business became held by McGraw-Hill Global Education Intermediate Holdings, LLC ( “MHGE Holdings”) and its wholly owned subsidiaries, including McGraw-Hill Global Education Holdings, LLC (“MHGE”) and McGraw-Hill Global Education, LLC (“MHG”), while the SEG business became held by McGraw-Hill School Education Intermediate Holdings, LLC (“MHSE Holdings”) and its wholly owned subsidiaries, including McGraw-Hill School Education Holdings, LLC (“MHSE”) and McGraw-Hill School Education, LLC (“MHS”).

Effective January 1st, 2020, MHGE, MHG, MHSE Holdings, MHSE, MHS, and several other subsidiaries, were merged into MHS which was simultaneously renamed McGraw Hill LLC ("MH").

**Our Key Metrics**

We measure our business using several key financial metrics, including Billings and Adjusted EBITDA by segment.

Billings is a non-GAAP sales performance measure that we believe provides useful information in evaluating our period-to-period performance because it reflects the total amount of revenue that would have been recognized in a period if we recognized all print and digital revenue at the time of sale. We use Billings as a sales performance measure given that we typically collect full payment for our digital and print solutions at the time of sale or shortly thereafter, but recognize revenue from digital solutions and multi-year deliverables ratably over the term of our customer contracts. As sales of our digital learning solutions have increased, so has the amount of revenue that is deferred in accordance with U.S. GAAP. Billings is a key metric we use to manage our business as it reflects the sales activity in a given period, provides comparability from period-to-period during this time of digital transition and is the basis for all sales incentive compensation. In the K-12 market where customers typically pay for five to eight-year contracts upfront and the ongoing costs to service any contractual obligation are limited, the impact of the change in deferred revenue is most significant. Billings is GAAP revenue plus the net change in deferred revenue.

For further information on non-GAAP financial measures and a description of how we calculate Billings and operating factors that impact Billings, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Non-GAAP Measures” and “Use of Non-GAAP Financial Information.”

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. We exclude from Adjusted EBITDA by segment: interest expense (income), net, income tax (benefit) provision, depreciation, amortization and pre-publication amortization and certain transactions or adjustments that our management does not consider for the purposes of making decisions to allocate resources among segments or assessing segment performance. In addition, Adjusted EBITDA by segment is calculated in a manner consistent with the definition and meaning of our Adjusted EBITDA non-GAAP debt covenant compliance measure.

Our key metrics are presented under the headings "Selected Financial Data."

## Item 1A. RISK FACTORS

*You should carefully consider the risk factors set forth below, as well as the other information contained in this annual report. Any of the following risks could materially and adversely affect our business, financial condition or results of operations. In addition, the risks described below are not the only risks that we face. Additional risks and uncertainties not currently known to us or those that we currently view to be immaterial could also materially and adversely affect our business, financial condition or results of operations.*

***We face competition from both large, established, industry participants and new market entrants, the risks of which are enhanced due to rapid changes in our industry and market.***

Our competitors in the market for education products include a few large, established, industry participants. Some established competitors have greater resources and less debt than us and, therefore, may be able to adapt more quickly to new or emerging technologies and changes in customer requirements or devote greater resources to the development, promotion and sale of their products than we can. In addition, the market shift toward digital education solutions has induced both established technology companies and new start-up companies to enter certain segments of our market. These new competitors have the possible advantage of not needing to transition from a print business to a digital business. The risks of competition are intensified due to the rapid changes in the products our competitors are offering, the products our customers are seeking and our sales and distribution channels, which create increased opportunities for significant shifts in market share. Competition may require us to reduce the price of some of our products or make additional capital investments and may result in reductions in our market share and sales.

***Our investments in new products and distribution channels may not be profitable.***

In order to maintain a competitive position, we must continue to invest in new products and new ways to deliver them. This is particularly true in the current environment where investment in new technology is ongoing and there are rapid changes in the products our competitors are offering, the products our customers are seeking, and our sales and distribution channels. In some cases, our investments will take the form of internal development; in others, they may take the form of an acquisition. Our investments in new products or distribution channels, whether by internal development or acquisition, may be less profitable than what we have experienced historically, may consume substantial financial resources and/or may divert management's attention from existing operations, all of which could materially and adversely affect our business, results of operations and financial condition.

***Our failure to win new state adoptions could adversely affect our revenue.***

A significant portion of our revenue is derived from sales of K-12 instructional materials pursuant to pre-determined adoption schedules. Due to the revolving and staggered nature of state adoption schedules, sales of K-12 instructional materials have traditionally been cyclical, with some years offering more sales opportunities than others. For example, over the next few years, new adoptions are scheduled in one or more of the primary subjects of reading, language arts and literature, math, social studies and science in, among others, the states of California, Texas and Florida, which are the three largest adoption states. In each adoption decision for each state, we face significant competition and are subject to regulatory approvals. Our failure to participate or do well in new state adoptions could materially and adversely affect our revenue for the year of adoption and subsequent years.

***Reductions in anticipated levels of federal, state and local education funding available for the purchase of instructional materials could adversely affect demand for our K-12 products.***

Most public school districts, which are the primary customers for K-12 products and services, depend largely on state and local funding programs to purchase materials. In addition, many school districts also receive substantial funding through Federal education programs. State, local or federal funding available to school districts may be reduced as a result of reduced tax revenues, efforts to reduce government spending or increased allocation of tax revenues to other uses. In addition, changes in the laws or regulations that give school districts flexibility in their use of funds previously dedicated exclusively to the purchase of instructional materials may reduce the share of district funds allocated to the purchase of instructional materials. Reductions in the amount of funding provided to school districts or reductions in the portion of those funds allocated to instructional materials could reduce demand for our K-12 products.

***Changes in the timing and order patterns of customer purchases may adversely affect predictability of results and comparability with prior results.***

Traditionally, when the majority of products sold to customers in the higher education market consisted of print textbooks sold through the campus bookstore, the timing of purchases was predictable because of the long lead time to order and receive printed books before the start of the semester and because the sale was made to a distribution partner that needed the inventory ahead of the school year. As the higher education market has shifted to digital products, there has been a tendency for purchases to occur closer to the beginning of the semester since less lead time is required for the purchase of a digital product and because the sale is frequently made directly to the student. The shift to digital and increasing competition for the campus bookstore has diminished the visibility that the traditional distribution channel has into student demand. As a result, distribution channels are ordering from us closer to the start of the school year and with increased variability in ordering and return patterns. There is no assurance that the trend to more digital purchases will continue, but given the current mix of digital versus print purchasing and increased competition among distribution channels, it has become more difficult to predict the timing and order patterns of customer purchases of our higher education products.

There is also timing uncertainty in the K-12 business. Within a year, timing of orders can vary significantly, as the primary season for ordering occurs in the period between May and August, which spans our second and third quarters. As a result, states and school districts that have significant purchases scheduled for a given year could materially swing results between quarters based on when in the season the order is placed. Additionally, the timing of a decision for a state-wide adoption or by an individual school district, in an adoption or open territory state, to purchase in a given year can be significantly impacted or delayed by various circumstances including but not limited to funding issues, development of standards and specifications, competing priorities or school readiness to implement the new curriculum or technology. In addition, whereas in the past most school districts purchased educational materials in state adoptions up-front, many are now choosing to spend on educational materials over a multi-year period, and in some cases school districts are choosing to use available funds to purchase hardware, software and other instructional aids that are not produced by us.

Taken together, it has become increasingly difficult for us to forecast the timing of customer purchases, causing us to have to wait until later in the buying season in order to assess our financial performance. The change in ordering patterns may impact the comparison of results between a quarter and the same quarter of the previous year, between a quarter and the consecutive quarter or between a fiscal year and the prior fiscal year.

***Evolving policy changes and funding shifts may impact timing and cost of development and implementation.***

A number of political, regulatory and social influences could require unanticipated modifications to our programs or impact the sales of our programs. In particular, State and district interpretation of Every Student Succeeds Act (ESSA) guidelines and related evidence-based funding requirements, political pressures and community activism, influences from various demographic groups, accessibility requirements and the growing number of English Language Learners and low income students in certain districts, could each impact state and local adoptions of instructional materials.These factors have the potential to delay or impair sales of our products, result in our products becoming obsolete and/or cause us to incur additional product development costs.

***A change from up-front payment by school districts for multi-year licenses could adversely affect our cash flow and results of operation.***

In keeping with the past practice of payment for printed materials, school districts typically pay up-front when buying multi-year licenses. If school districts changed to spreading their payments to us over the term of the licenses, our cash flow and results of operation could be adversely affected.

***Increased availability of free or relatively inexpensive products may reduce demand for or negatively impact the pricing of our products.***

Free or relatively inexpensive educational products are becoming increasingly available, particularly in digital formats and through the internet. For example, some governmental and regulatory agencies have increased the amount of information they make publicly available at nominal cost or for free. In addition, in recent years there have been initiatives by not-for-profit organizations such as the Gates Foundation and the Hewlett Foundation to develop educational content that can be “open sourced” and made available to educational institutions for free or nominal cost. There is also a possibility that federal or state governments will enact legislation or regulations that mandate or favor the use by educational institutions of open sourced content and provide funding for same. The increased availability of free or relatively inexpensive educational products may reduce demand for our products or require us to reduce pricing, thereby impacting our sales revenue.

***Increased customer expectations for lower prices or free bundled products could reduce sales revenues.***

As the market has shifted to digital products, customer expectations for lower priced products has increased due to customer awareness of reductions in marginal production costs and the availability of free or low-cost digital content and products. As a result, there has been pressure to sell digital versions of products at prices below their print versions and an increase in the amount of products and materials given away as part of bundled packs. Increased customer demand for lower prices or free bundled products could reduce our sales revenue.

***Malfunction or intentional hacking of our technological systems could adversely affect our operations or business and cause financial loss and reputational damage.***

We depend on complex technological systems to provide our products to our customers and to operate our business. Malfunction or intentional hacking of these systems could adversely affect the performance or availability of our products, result in loss of customer data, adversely affect our ability to conduct business, or result in theft of our funds or proprietary information. The occurrence of such problems could result in liability, harm to our reputation, loss of revenue, or financial loss.

***Failure to comply with privacy laws or adequately protect personal data could cause financial loss and reputational damage.***

Across our businesses we hold large volumes of personal data, including that of employees, customers and students. We are subject to a wide array of different privacy laws, regulations and standards in the United States and in foreign jurisdictions where we conduct business with regards to access to, collection of, and use of personal data, including but not limited to (i) the Children’s Online Privacy Protection Act and state student data privacy laws in connection with personally identifiable information of students, (ii) the Health Insurance Portability and Accountability Act in connection with our self-insured health plan, (iii) the Payment Card Industry Data Security Standards in connection with collection of credit card information from customers, and (iv) various EU data protection laws resulting from the EU Privacy Directive. Our failure to comply with applicable privacy laws, regulations and standards or prevent the improper use or disclosure of the personal data we hold could lead to penalties, significant remediation costs, reputational damage, potential cancellation of existing contracts, and an impaired ability to compete for future business.

***Defects in our digital products could cause financial loss and reputational damage.***

In the fast-changing digital marketplace, demand for innovative technology has generally resulted in short lead times for producing products that meet customer specifications. Growing demand for innovation and additional functionality in digital products increases the frequency of the product development and product enhancement cycle, which in turn increases the risk that our products may contain flaws or corrupted data. These defects may only become apparent after product launch, particularly for new products and new features to existing products that are developed and brought to market under tight time constraints. Problems with the performance of our digital products could result in liability, loss of revenue or harm to our reputation.

***An increase in unauthorized copying and distribution of our products could adversely affect our sales, and an increase in efforts to combat such activities could increase our expenses.***

Most of the value of our products consists of the intellectual property contained in them. As a result, the sale price of our products is high relative to the cost of copying them. This disparity makes our products tempting targets for unauthorized copying and distribution by both end users and illegal commercial enterprises. The risk of unauthorized copying and distribution of our products is greatest in the higher education and professional markets, where the purchasers of our products are usually students and other individual customers, who generally obtain our products through channels that are more susceptible to being used for the distribution of unauthorized copies. In recent years, technological and market changes have facilitated the unauthorized copying and distribution of our products to students and other individual customers. Of particular note is the development of on-line distribution services that allow illegal commercial enterprises to utilize reputable and efficient marketplaces and fulfillment services for the distribution and sale of counterfeit copies of products. Our management believes that increases in unauthorized copying and distribution of our products may have contributed to a decline in sales of our higher education print products in recent years. While we and others in our industry have been and continue to be engaged in a variety of efforts to reduce the extent of counterfeit textbooks and other illegal copies of our products in the marketplace, further expansion of the unauthorized copying and distribution of our products could adversely affect our sales, and ongoing efforts to combat such activities could impact our expenses.

***Factors that reduce enrollment at colleges and universities could adversely affect demand for our higher education products.***

Enrollment in U.S. colleges and universities can be adversely affected by many factors, including changes in government and private student loan and grant programs, uncertainty about current and future economic conditions, general decreases in family income and net worth and a perception of uncertain job prospects for recent graduates. In addition, enrollment levels at colleges and universities outside the United States are influenced by the global and local economic climate, local political conditions and other factors that make predicting foreign enrollment levels difficult. While enrollment at degree granting institutions in the United States has overall been steadily growing over the last several decades, enrollment levels have generally declined in recent years. Any reductions in enrollment at colleges and universities both within and outside the United States could adversely affect demand for our higher education products.

***We are dependent on third-party distributors, representatives and retailers for a substantial portion of our sales.***

In addition to our own sales force and websites, we offer our products through a variety of third-party distributors, representatives and retailers. We do not ultimately control the performance of our third-party distributors, representatives and retailers to perform as required or to our expectations. Also, certain of our distributors, representatives or retailers may market other products that compete with our products. The loss of one or more of our distributors, representatives or retailers or their failure to effectively promote our products or otherwise perform in their functions in the expected manner could adversely affect our ability to bring our products to market and impact our revenues.

***Consolidation and concentration in our distribution and retail channels could adversely affect our profitability and financial results.***

Some of our distribution and retail channels have experienced significant consolidation and concentration. This concentration could potentially place us at a disadvantage with respect to negotiations regarding pricing and other terms, which could adversely affect our profitability and financial results.

***An adverse change in orders, returns or payments by a material reseller could adversely affect our financial results.***

A significant portion of our sales are to a small number of resellers. As of both March 31, 2021 and 2020, two customers comprised approximately 22% and 23% of the gross accounts receivable balance, respectively. The Company had no single customer that accounted for 10% or more of our gross revenue for the year ended March 31, 2021 and 2020. An adverse change in orders, returns or payments by a material reseller could adversely affect our financial results.

***We may not be able to retain or attract the key authors and talented personnel that we need to remain competitive and grow.***

Our success depends, in part, on our ability to continue to attract and retain key authors and talented management, creative, editorial, technology, sales and other personnel. We operate in a number of highly visible industry segments where there is intense competition for successful authors and other experienced, highly effective individuals. Our successful operations in these segments may increase the market visibility of our authors and personnel and result in their recruitment by other businesses. There can be no assurance that we can continue to attract and retain key authors and talented personnel and, if we fail to do so, it could adversely affect our business.

***We may not be able to reduce our costs related to print products as fast as revenues from those products decline.***

As the portion of our business that consists of print products declines, our need for certain facilities and arrangements, such as printing and warehousing, also declines. Some of the costs related to these facilities and arrangements are relatively fixed over the short term and, as a result, may not decline as quickly as the related revenues. If our print-related costs do not decline proportionately with our print-related revenues, our results of operations and financial condition would be adversely affected.

***The shift to sales of multi-year licenses may affect the comparability of our GAAP revenue to prior periods and cause increases or decreases in our sales to be reflected in our results of operation on a delayed basis.***

As our business transitions from printed products to digital products, an increasing percentage of our revenues are derived from the sale of multi-year licenses. Our customers typically pay for both printed products and multi-year licenses up-front; however, we recognize revenue from multi-year licenses over their respective terms, as required by GAAP, even if we are paid in full at the beginning of the license. As a result, an increase in the portion of our sales coming from multi-year licenses may cause our GAAP revenue, when compared to prior periods, to not provide a truly comparable perspective of our performance. Another effect of recognizing revenue from multi-year licenses over their respective terms is that any increases or decreases in sales during a particular period do not translate into proportional increases or decreases in revenue during that period. Consequently, deteriorating sales activity may be less immediately observable in our results of operations.

***Unexpectedly large returns could adversely affect our financial results.***

We generally permit our distributors to return products they purchase from us. When we record revenue, we record an allowance for sales returns, which is based on the historical rate of return and current market conditions. Should the estimate of the allowance for sales returns vary by one percentage point from the estimate we use in recording our allowance, the impact on operating income would be approximately $0.3 million.

***The high degree of seasonality of our business can create cash flow difficulties.***

Our business is seasonal. Purchases of Higher Education products have traditionally been made in the third and fourth quarters for the semesters starting classes in September and January. As the Higher Education business continues to shift towards digital sales as well as print rental, fourth quarter sales for the January semester have partially migrated to the first quarter. Purchases of K-12 products are typically made in the second and third quarters of the calendar year for the beginning of the school year. This sales seasonality affects operating cash flow from quarter to quarter. There are months when we operate at a net cash deficit from our activities. In 2021, we realized approximately 22%, 34%, 23% and 21% of our revenues during the first, second, third and fourth quarters, respectively, making second-quarter results particularly material to our full-year performance. We cannot make assurances that our second quarter net sales will continue to be sufficient to meet our obligations or that they will be higher than net sales for our other quarters. In the event that we do not derive sufficient net sales, we may not be able to meet our debt service requirements and other obligations.

***Our substantial indebtedness restricts our ability to react to changes in the economy or our industry and exposes us to interest rate risk and risk of default.***

We are a leveraged company that has substantial indebtedness. As of March 31, 2021, we had $2,159.4 million face value of outstanding indebtedness (in addition to $285.0 million of commitments under the Senior Facilities, none of which was drawn and excluding letters of credit of $4.3 million), and for the year ended March 31, 2021, we had total debt service of $226.7 million (including approximately $62.1 million of debt service relating to fixed rate obligations, without giving effect to the $500.0 million notional interest rate swap. Our substantial indebtedness could have important consequences. For example, it could:

- limit our ability to borrow money for our working capital, capital expenditures, debt service requirements, strategic initiatives or other purposes;
- make it more difficult for us to satisfy our obligations with respect to our indebtedness;
- require us to dedicate a substantial portion of our cash flow from operations to the repayment of our indebtedness, thereby reducing funds available to us for other purposes;
- limit our flexibility in planning for, or reacting to, changes in our operations or business;
- make us more vulnerable to downturns in our business or the economy;
- restrict us from making strategic acquisitions, engaging in development activities, introducing new technologies or exploiting business opportunities;
- cause us to make non-strategic divestitures; or
- expose us to the risk of increased interest rates, as certain of our borrowings, including borrowings under the Senior Facilities are at variable rates of interest.

In addition, the agreements governing our indebtedness contain restrictive covenants that will limit our ability to engage in activities that may be in our long-term best interest. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of substantially all of our indebtedness.

***Despite our substantial indebtedness, we may still be able to incur significantly more debt, which could intensify the risks described above.***

We and our subsidiaries may be able to incur additional indebtedness in the future. For example, as of March 31, 2021, we had $285.0 million available for additional borrowing under the Revolving Facility portion of the Senior Facilities (excluding letters of credit of $4.3 million), all of which would be secured. In addition, although the terms of the agreements governing our indebtedness contain restrictions on our and our subsidiaries' ability to incur additional indebtedness, these restrictions are subject to a number of important qualifications and exceptions, and the indebtedness incurred in compliance with these restrictions could be substantial. Further, these restrictions will not prevent us from incurring obligations that do not constitute indebtedness. The more leveraged we become, the more we, and in turn our security holders, will be exposed to certain risks described above under "Our substantial indebtedness restricts our ability to react to changes in the economy or our industry and exposes us to interest rate risk and risk of default."

***We may record future goodwill or indefinite-lived intangibles impairment charges related to our reporting units, which could materially adversely impact our results of operations.***

We test our goodwill and indefinite-lived intangibles asset balances for impairment during the fourth quarter of each year or more frequently if indicators are present or changes in circumstances suggest that impairment may exist. We assess goodwill for impairment at the reporting unit level and, in evaluating the potential for impairment of goodwill, we make assumptions regarding estimated net sales projections, growth rates, cash flows and discount rates. Although we use consistent methodologies in developing the assumptions and estimates underlying the fair value calculations used in our impairment tests, these estimates are uncertain by nature and can vary from actual results. Declines in the future performance and cash flows of the reporting unit or small changes in other key assumptions may result in future goodwill impairment charges, which could materially adversely impact our results of operations.

***Legal actions against us, including two putative class action lawsuits and intellectual property infringement claims, could be costly to defend and could result in significant damages.***

In the ordinary course of business, we are occasionally involved in legal actions and claims against us arising from our business operations and therefore expect that we will likely be subject to additional actions and claims against us in the future. At present, we are a defendant in a putative class action lawsuit, along with four co-defendants, alleging that we conspired with the co-defendants and violated US antitrust laws through our inclusive access programs. These program enable colleges and universities to automatically charge students for access to course materials we supply. We are also a defendant in a putative class action lawsuit alleging that our methodology for calculating the royalties payable to certain of our Higher Education authors breaches the terms of our author agreements. In addition, there are currently two suits pending or threatened which claim that we exceeded the print run limitation or other restrictions in licenses granted to us to reproduce photographs in our instructional materials. A large number of similar claims against us have already been settled. A number of our competitors are or have been defendants in similar lawsuits. We have liability insurance in such amounts and with such coverage and deductibles as management believes is reasonable. However, there can be no assurance that our liability insurance will cover our damages and, if our liability insurance does cover our damages, that the limits of coverage will be sufficient to fully cover all potential liabilities and costs of litigation. While management currently does not expect any of the claims currently pending or threatened against us to have a material adverse effect on our results of operations, financial position or cash flows, due to the inherent uncertainty of the litigation process, the resolution of any particular legal proceeding or change in applicable legal standards could have a meaningful adverse effect on our financial position and results of operations.

***We face risks of doing business abroad.***

As we continue to invest in and expand portions of our overseas business, we face exposure to the risks of doing business abroad, including, but not limited to:

- lack of local knowledge or acceptance of our products and services;
- entrenched competitors;
- the need to adapt our products to meet local requirements;

- longer customer payment cycles in certain countries;
- limitations on the ability to repatriate funds to the United States;
- difficulties in protecting intellectual property, enforcing agreements and collecting receivables under certain foreign legal systems;
- compliance under the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and other anti-corruption laws;
- the need to comply with local laws and regulations generally; and
- in some countries, a higher risk of political instability, economic volatility, terrorism, corruption, social and ethnic unrest.

***Fluctuations between foreign currencies and the U.S. dollar could adversely affect our financial results.***

We derived approximately 11% of our total revenue in the year ended March 31, 2021 from our international sales operations. The financial position and results of operations of our international operations are primarily measured using the foreign currency in the jurisdiction of operation of such business as the functional currency. As a result, we are exposed to currency fluctuations both in receiving cash from our international operations and in translating our financial results into U.S. dollars. For example, foreign exchange rates had a favorable impact on our revenue of $0.3 million for the year ended March 31, 2021. We have operations in various foreign countries where the functional currency is primarily the local currency. For international operations that are determined to be extensions of the parent company, the U.S. dollar is the functional currency. Our principal currency exposures relate to the Australian Dollar, British Pound, Canadian Dollar, Euro, Mexican Peso and Singapore Dollar. Assets and liabilities of our international operations are translated at the exchange rate in effect at each balance sheet date. Our income statement accounts are translated at the average rate of exchange during the period. A strengthening of the U.S. dollar against the relevant foreign currency reduces the amount of income we recognize from our international operations. In addition, certain of our international operations generate revenues in the applicable local currency or in currencies other than the U.S. dollar, but purchase inventory and incur costs primarily in U.S. dollars. While, from time to time, we may enter into hedging arrangements with respect to foreign currency exposures, variations in exchange rates may adversely impact our results of operations and profitability. The risks we face in foreign currency transactions and translation may continue to increase as we further develop and expand our international operations.

***We are dependent on third-parties for the performance of many critical operational functions.***

We rely on third-parties for many critical operational functions, including general financial shared services, accounts payable, accounts receivable, royalty processing, printing, warehousing, distribution, technology support, online product hosting and certain customer support functions. Since those functions are provided by third parties, our ability to supervise and support the performance of those functions is limited. The loss of one or more of these third-party partners, a material disruption in their business or their failure to otherwise perform their functions in the expected manner could cause disruptions in our business that would adversely affect our results of operations and financial condition.

***A significant increase in operating costs and expenses could have a material adverse effect on our profitability.***

Our major operating expenses include employee compensation, paper, technology and third-party provider fees and royalties. Any material increase in these or other operating costs and expenses that we are not able to pass on in the cost of our products and services could adversely affect our results of operations and financial condition.

## Item 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

## Item 2. PROPERTIES

Our corporate headquarters are located in leased premises at 1325 Ave of Americas, New York, NY 10019. We lease offices, warehouses and other facilities at 39 locations, of which 12 are in the United States. In addition, we occupy real property that we own at 4 locations in the United States. Our properties consist primarily of office space used by our operating segments, and we also utilize warehouse space and book distribution centers. We believe that all of our facilities are well maintained and are suitable and adequate for our current needs.

The properties listed in the table below are our principal owned and leased properties:

| Location | Lease Expiration | Approximate Area | Principle Use of Space |
|---|---|---|---|
| **Owned Premises:** | | | |
| Blacklick, Ohio | Owned | 548,144 | Warehouse & Office |
| Monterey, California | Owned | 209,204 | Office |
| Columbus, Ohio | Owned | 170,615 | Office |
| Dubuque, Iowa | Owned | 139,062 | Office |
| **Leased Premises:** | | | |
| Groveport, Ohio | 2027 | 667,672 | Warehouse & Office |
| Avenue of the Americas, New York | 2035 | 136,176 | Office |
| Noida, Uttar Pradesh, India | 2029 | 90,500 | Warehouse & Office |
| Chicago, Illinois | 2029 | 59,693 | Office |
| Irvine, California | 2024 | 53,220 | Office |
| Seattle, Washington | 2021 | 24,646 | Office |
| East Windsor, New Jersey | 2024 | 23,183 | Office |

In addition, we own and lease other offices that are not material to our operations.

## Item 3. LEGAL PROCEEDINGS

In 2016, MHE filed a complaint against Illinois National Insurance Company ("INIC") in the Supreme Court of the State of New York seeking a declaration that it is entitled to full insurance benefits under several multi-media policies with INIC which has denied liability and asserted a counterclaim on November 28, 2016 in the Action seeking (i) a declaratory judgment that MHE is not entitled to the coverage sought; (ii) recoupment of indemnity payments already made by INIC on the claims; and (3) recoupment of defense costs reimbursed by INIC. On December 17, 2019, the First Department ruled that MHE is entitled to coverage for damages related to the Copyright Actions under the policies and referred the case back to the trial court for a determination of damages. On June 22, 2020, the parties reached an agreement related to the Copyright Actions lawsuit filed in 2016 in the Company's favor. The results of this agreement are reflected in the financial statements.

McGraw-Hill was one of several named defendants in multiple separate lawsuits that were brought in 2020 in various federal courts, purporting to be class actions on behalf of students and in one case, off campus bookstores. The lawsuits each alleged, among other things, that McGraw-Hill's (and other competitors) inclusive access programs violate various Federal antitrust laws by reducing competition from the secondary market and from off campus bookstores. Certain distribution channel partners were also named defendants. On August 11, 2020, the Judicial Panel on Multidistrict Litigation granted the defendants' motion to consolidate all the lawsuits into a single action and selected the District Court in the Southern District of New York for its adjudication. Plaintiffs have filed amended complaints in the consolidated action. The defendants have filed a motion to dismiss the amended complaints, with plaintiffs and the defendants having now completed all briefing relating to the motion. The parties are awaiting the judge’s ruling.

On January 22, 2021 and February 8, 2021, respectively, two purported class actions were filed against the Company in the Southern District of New York. The actions stem from the recent refinements the Company made to how it calculates royalties that are payable to certain authors in connection with content delivery via the Company's online platform.The allegations in the two complaints were similar. Each alleged, among other things, that the adjusted royalty approach breaches the relevant author agreements. The two sets of plaintiffs subsequently agreed to consolidate their Complaints and on March 19, 2021, they filed an amended Complaint. The Company believes that the allegations in the complaints are without merit and has informed the judge that the Company intends to file a motion to dismiss the amended Complaint in mid-May.

In the normal course of business both in the United States and abroad, the Company is a defendant in various lawsuits and legal proceedings which may result in adverse judgments, damages, fines or penalties and is subject to inquiries and investigations by various governmental and regulatory agencies concerning compliance with applicable laws and regulations. In view of the inherent difficulty of predicting the outcome of legal matters, we cannot state with confidence what the timing, eventual outcome, or eventual judgment, damages, fines, penalties or other impact of these pending matters will be. We believe, based on our current knowledge, that the outcome of the legal actions, proceedings and investigations currently pending should not have a material adverse effect on the Company’s financial condition.

## Item 4. MINE SAFETY DISCLOSURES

Not applicable.

## PART II

## Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Not applicable.

## Item 6. SELECTED FINANCIAL DATA

The consolidated statement of operations for the years ended March 31, 2021 and 2020, and the consolidated balance sheet data as of March 31, 2021 and 2020 have been derived from the audited consolidated financial statements of the Company and is included elsewhere in this annual report. Note that, although the consolidated financial statements are not presented for the twelve months ended March 31, 2019, we have included summary information for this period for comparability purposes. All data for the twelve months ended March 31, 2019 are derived from our unaudited consolidated financial statements, which are not presented herein.

The consolidated statement of operations for the years ended December 31, 2019 and 2018 have been derived from the audited consolidated financial statements of the Company, which were previously issued and are not included elsewhere in this annual report.

As our historical financial information may not be indicative of our future performance, the data presented below should be read in conjunction with our audited consolidated financial statements and related notes, thereto, and with Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this annual report.

As mentioned under "Item 1: Business" above, the Board approved a change in the Company's fiscal year end from December 31 to March 31.

| **(Dollars in thousands)** | **Year Ended March 31, 2021** | **Year Ended March 31, 2020** | **Year Ended March 31, 2019 (Unaudited)** | **Three Months Ended March 31, 2019 (Unaudited)** | **Year Ended December 31, 2019** | **Year Ended December 31, 2018** |
|---|---|---|---|---|---|---|
| **Statement of Operations** | | | | | | |
| **Revenue** | $ 1,544,705 | $ 1,584,756 | $ 1,597,542 | $ 278,953 | $ 1,571,388 | $ 1,596,945 |
| Cost of sales | 336,327 | 366,545 | 396,979 | 63,921 | 371,387 | 394,531 |
| Gross profit | 1,208,378 | 1,218,211 | 1,200,563 | 215,032 | 1,200,001 | 1,202,414 |
| **Operating expenses** | | | | | | |
| Operating and administration expenses | 838,837 | 1,029,398 | 1,027,064 | 252,190 | 1,030,470 | 1,038,073 |
| Depreciation | 61,203 | 63,456 | 48,237 | 12,504 | 56,302 | 46,929 |
| Amortization of intangibles | 58,830 | 70,154 | 84,272 | 18,629 | 71,849 | 86,722 |
| Total operating expenses | 958,870 | 1,163,008 | 1,159,573 | 283,323 | 1,158,621 | 1,171,724 |
| Operating income | 249,508 | 55,203 | 40,990 | (68,291) | 41,380 | 30,690 |
| Interest expense (income), net | 193,321 | 188,097 | 183,909 | 45,283 | 180,430 | 180,576 |
| Other (income) expense | (2,770) | (9,118) | — | — | (7,962) | — |
| Income (loss) from operations before taxes on income | 58,957 | (123,776) | (142,919) | (113,574) | (131,088) | (149,886) |
| Income tax provision (benefit) | 14,207 | 11,529 | 11,371 | 1,355 | 12,122 | 10,535 |
| **Net income (loss)** | 44,750 | (135,305) | (154,290) | (114,929) | (143,210) | (160,421) |

| (Dollars in thousands) | Year Ended March 31, 2021 | Year Ended March 31, 2020 | Year Ended March 31, 2019 (Unaudited) | Three Months Ended March 31, 2019 (Unaudited) | Year Ended December 31, 2019 | Year Ended December 31, 2018 |
|---|---|---|---|---|---|---|
| **Other Financial data** | | | | | | |
| Billings (1) | $ 1,590,854 | $ 1,662,145 | $ 1,682,465 | $ 242,313 | $ 1,663,057 | $ 1,661,437 |
| Adjusted EBITDA by Segment (2) | | | | | | |
| Higher Education | 265,827 | 208,030 | 215,993 | 31,525 | 183,252 | 200,667 |
| K-12 | 107,607 | 121,736 | 28,712 | (79,943) | 110,525 | 24,085 |
| International | 12,981 | (2,856) | 10,791 | (10,183) | 15,161 | 8,038 |
| Global Professional | 40,229 | 43,101 | 36,670 | (1,374) | 35,453 | 35,754 |
| Other | 13,620 | 2,890 | 5,600 | 3,600 | 10,647 | (7,620) |
| Capital expenditures | (31,929) | (73,846) | (63,215) | (11,657) | (75,239) | (63,239) |
| Total Net Debt (3) | 1,742,322 | 1,981,625 | 2,076,924 | 2,076,924 | 1,810,357 | 1,904,766 |
| Working Capital (4) | (126,290) | (164,739) | (112,131) | (112.131) | (66,125) | 25,882 |
| **Statement of Cash Flow data** | | | | | | |
| Cash flows provided by (used for): | | | | | | |
| Operating activities | $ 395,378 | $ 263,598 | $ 183,299 | $ (131,994) | $ 262,101 | $ 156,353 |
| Investing activities | (113,188) | (145,448) | (158,926) | (32,398) | (151,767) | (160,694) |
| Financing activities | (111,638) | (113,881) | (32,902) | 7,807 | (54,254) | (52,432) |

| | As of | | | | |
|---|---|---|---|---|---|
| (Dollars in thousands) | March 31, 2021 | March 31, 2020 | March 31, 2019 (Unaudited) | December 31, 2019 | December 31, 2018 |
| **Balance Sheet data** | | | | | |
| Cash, cash equivalents and restricted cash (5) | $ 354,323 | $ 186,934 | $ 179,141 | $ 401,856 | $ 345,920 |
| Total assets | 2,326,153 | 2,232,990 | 2,365,566 | 2,553,615 | 2,514,436 |
| Total debt (3) | 2,096,645 | 2,158,623 | 2,236,625 | 2,202,303 | 2,219,711 |
| Stockholders' equity (deficit) | (1,505,476) | (1,568,356) | (1,423,733) | (1,452,235) | (1,306,257) |

(1) Billings, a measure used by management to assess sales performance, is defined as the total amount of revenue that would have been recognized in a period if all revenue were recognized immediately at the time of sale. Management believes that Billings is helpful in highlighting the actual sales activity in a given period and provides comparability from period to period during our ongoing transition from the sale of printed materials to digital solutions which are required to be deferred and recognized as revenue over time in accordance with U.S. GAAP.

(2) Adjusted EBITDA by segment is a measure used by management to assess the performance of our segments and is calculated in a manner consistent with the definition and meaning of our Adjusted EBITDA non-GAAP debt covenant compliance measure. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Debt Covenant Compliance".

(3) Total debt is presented as long-term debt plus current portion of long-term debt. Total net debt is total debt less cash and cash equivalents.

(4) Working capital is calculated as current assets less current liabilities.

(5) For year ended December 31, 2018, Cash, cash equivalents and restricted cash includes restricted cash included in other non-current assets within the consolidated balance sheets.

Billings is calculated as follows:

| (Dollars in thousands) | Year Ended March 31, 2021 | Year Ended March 31, 2020 | Year Ended March 31, 2019 (Unaudited) | Year Ended December 31, 2019 | Year Ended December 31, 2018 |
|---|---|---|---|---|---|
| Revenue | $ 1,544,705 | $ 1,584,756 | $ 1,597,542 | $ 1,571,388 | $ 1,596,945 |
| Change in deferred revenue (a) | 46,149 | 77,389 | 84,923 | 91,669 | 64,492 |
| Billings | $ 1,590,854 | $ 1,662,145 | $ 1,682,465 | $ 1,663,057 | $ 1,661,437 |

(a) We receive cash up-front for most product sales but recognize revenue (primarily related to digital sales) over time recording a liability for deferred revenue at the time of sale. This adjustment represents the net effect of converting deferred revenues to a cash basis assuming the collection of all receivable balances.

Billings is not a presentation made in accordance with U.S. GAAP and does not purport to be an alternative to revenue as a measure of operating performance or to cash flows from operations as a measure of liquidity. Such measure has limitations as our analytical tool, and you should not consider such a measure in isolation or as a substitute for our results as reported under U.S. GAAP. Management compensates for the limitations of using non-GAAP financial measures by using them to supplement U.S. GAAP results to provide a more complete understanding of the factors and trends affecting the business than U.S. GAAP results alone. Because not all companies use identical calculations, this measure may not be comparable to other similarly titled measures of other companies. See “Use of Non-GAAP Financial Information.”

## Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion provides a narrative of our results of operations and financial condition for the audited years ended March 31, 2021, and 2020. You should read the following discussion of our results of operations and financial condition in conjunction with the accompanying audited financial statements and notes thereto, appearing elsewhere in this document.*

***Company Overview***

We are a leading provider of outcome-focused learning solutions, delivering both curated content and digital learning tools and platforms to the students in the classrooms of approximately 250,000 higher education instructors, approximately 13,000 pre-kindergarten through 12th grade ("K-12") school districts and a wide variety of academic institutions, professionals and companies in more than 100 countries. We have evolved our business from a print centric producer of textbooks and instructional materials to a leader in the development of digital content and technology-enabled adaptive learning solutions that are delivered anywhere, anytime. We believe we have established a reputation as an industry leader in the delivery of innovative educational content and methodologies.

As learners and educators have become increasingly outcome-focused in their search for more effective learning solutions, we have embraced adaptive learning tools as a central feature of our digital learning solutions. Adaptive learning is based on educational theory and cognitive science that emphasizes personalized delivery of concepts, continuous assessment of gained and retained knowledge and skills, and design of targeted and personalized study paths that help students improve in their areas of weakness while retaining competencies. We have developed a unique set of digital solutions by combining innovative adaptive learning methods with our proprietary content and digital delivery platforms. These solutions provide immediate feedback, and we believe they are more effective than traditional print textbooks in driving positive student outcomes. Students' year-over-year performance can be impacted by many factors outside the instructional materials used in class. We believe that even taking into account these factors, our learning solutions can contribute to significant improvements in students' classroom performance as well as improved student retention. For the instructor, time spent on active learning experiences increases significantly as a result of a reduction in time spent on administrative tasks and the availability of critical data to help better focus in class instruction.

**Business Segments**

We have four operating business segments: Higher Education, K-12, International and Global Professional. Higher Education is our largest segment, representing 42% and 40%, of total revenue for the years ended March 31, 2021, and 2020, respectively. Our K-12 segment generated 38% and 37%, of total revenue for the years ended March 31, 2021 and 2020, respectively. Our International segment generated 11% and 13% of total revenue for the years ended March 31, 2021 and 2020 , respectively. Our Global Professional segment represents 9% and 10% of total revenue for the years ended March 31, 2021 and 2020, respectively. The remaining total revenue relates to adjustments made for in-transit product sales.

***Higher Education***

In the higher education market in the United States, we provide students, instructors and institutions with adaptive digital learning tools, digital platforms, custom publishing solutions and traditional printed textbook products. According to NCES, about 19.7 million students were projected to attend colleges and universities in fall 2020 in the United States. Although we cover all major academic disciplines, our content portfolio is organized into three key disciplines: (i) Business, Economics & Computing; (ii) Science, Engineering & Math; and (iii) Humanities, Social Science & Languages. Our top selling products include *Economics: Principles, Problems, and Policies* (McConnell/Brue/Flynn), *ALEKS, Managerial Accounting* (Garrison) and *The Art of Public Speaking* (Lucas). The primary users of our solutions are students enrolled in two- and four-year non-profit colleges and universities, and to a much lesser extent, for-profit institutions.

We sell our Higher Education solutions to well-known online retailers, distribution partners and college bookstores, who subsequently sell to students. Our own direct-to-student sales channel is increasing via our proprietary e-commerce platform, which currently represents the largest distribution channel in this segment. Although we sell our products to the students as end users, it is the instructor that makes the ultimate decision regarding new materials for the course. We have longstanding and exclusive relationships with many authors and nearly all of our products are covered by copyright in major markets, providing us the exclusive right to produce and distribute such content in those markets during the applicable copyright terms.

***K-12***

In the K-12 market in the United States, we primarily sell curriculum and learning solutions, which include core basal programs, intervention and supplemental products, formative assessment tools, teaching resources and professional development programs. According to NCES, K-12 enrollments in the United States as of Fall 2020 were projected to be 56.4 million. We sell our learning solutions directly to school districts across the United States. The process through which products are selected and procured for classroom use varies throughout the United States. Sixteen states, known as adoption states, approve and procure new basal programs, usually every five to eight years on a state-wide basis for each major area of study, before individual schools or school districts are permitted to schedule the purchase of materials. In all remaining states, known as open territories, each individual school or school district can procure materials at any time, though they usually do so on a five to eight year cycle. The student population in adoption states represents approximately 41% of the U.S. elementary and secondary school-age population. Many adoption states provide “categorical funding” for instructional materials, which means that state funds cannot be used for any other purpose. While we offer all of our curriculum and learning solutions in digital format, given the varying degrees of availability and maturity of our customers’ technological infrastructure, a majority of our sales are derived from blended print and digital solutions. Our top selling programs are *Reading Wonders, Study Sync, Everyday Math, and ALEKS K-12.*

***International***

Our International segment, defined as sales outside the United States, serves students in the higher education, K-12 and professional markets in more than 100 countries. Our products and solutions for the International segment are produced in more than 80 languages and primarily originate from our offerings for the United States market, which are later adapted to meet the needs of individual geographies. Sales of our digital offerings are growing significantly in the international market, and we are continuously increasing our inventory of digital programs. Increased global usage of the English language also drives increased demand for minimally adapted digital learning solutions and printed educational instructional materials.

***Global Professional***

We provide medical, technical, engineering and business content for the professional, education and test preparation communities. Our digital subscription products are sold to more than 2,300 customers including corporations, academic institutions, libraries and hospitals. Our digital subscription products had a 90%+ annual retention rate in 2021.

Effective April 1st 2020, the Global Professional segment includes products sold across the globe. Prior to April 1, 2020, Professional products sold in International markets were reported under the International segment. This change did not impact our consolidated results of operations. This realignment is consistent with how the Company's CEO, who is the Company's Chief Operating Decision Maker will: (i) regularly assess operating performance, (ii) make resource allocation decisions and (iii) designate responsibilities of his direct reports.

***Other***

Other represents certain transactions or adjustments that are unusual or non-operational. In addition, adjustments made for in-transit product sales, timing related corporate cost allocations and other costs not attributed to a single operating segment are recorded within Other.

**Factors Affecting Our Performance**

***Impact of Our Digital Transformation***

The acceptance and adoption of digital learning solutions is driving a substantial transformation in the education market. We believe we are well positioned to take advantage of this transformation given our ability to offer embedded assessments, adaptive learning, real-time interaction and feedback and student specific personalization based on our core curated educational content in a platform- and device-agnostic manner.

The demand for our digital solutions has increased substantially over the last five years though the rate of transformation differs by business segment. In the higher education market, our customers' technology infrastructures are sufficiently advanced to support full adoption of digital learning solutions. During the year ended March 31, 2021, approximately 81% of our Higher Education Billings was derived from digital learning solutions. In the K-12 market, the COVID-19 pandemic has accelerated the digital shift which was previously impacted by varying degrees of broadband internet connectivity, adequacy of technical support staff, and teacher training across our customer base. Product mix in K-12 will also impact digital revenue. For example, reading and literacy are less digital than math and social studies. Recent public policy and funding initiatives have increased emphasis on removing these limitations. Global Professional markets have the greatest digital readiness, and a majority of our Global Professional revenues are derived from digital product sales. Internationally, the receptivity to digital solutions is also strong, particularly in developing economies. According to Juniper Networks, people in developing countries are nearly twice as likely to use connected devices for educational purposes on a regular basis as those in developed markets.

Our revenue models across each of our business segments are transforming along with our customers' increasing adoption of digital learning solutions. In general, our digital solutions are sold on a subscription basis with high renewal rates, which provides a more stable and predictable long term revenue model. We believe that the digital transformation will provide new opportunities for revenue growth. For example, our digital learning solutions provide an opportunity for us to increase the size of our addressable market as our digital products are not available in a format that can be utilized for sale in the used and rental market. In addition, the reserve that we maintain for product returns has declined over time due to the shift from traditional print products to digital learning solutions, which experience a much lower return rate.

We closely monitor our digital sales given the significant investment being made across our business and the increasing adoption of digital in the marketplace. Our digital offerings are sold on a standalone basis and as part of bundled or blended offerings. In instances where we sell digital with a print component, it is our policy to bifurcate the sale between the digital and print components and attribute value to each of the components in accordance with U.S. GAAP. When we discuss or present digital revenues, such information is based upon the attribution of value in accordance with U.S. GAAP and does not include print revenues.

The transition from traditional print to digital solutions also improves our cost structure as we tag and leverage content across the entire business instead of duplicating development efforts in each segment. We also expect to reduce raw material, warehouse and delivery costs as a result of the shift to digital solutions, as well as reducing sampling costs that are incurred to provide traditional print products to purchasing decision makers at no cost to them.

The development cycle for traditional print products involves periodic revisions, which give rise to significant pre-publication costs that are capitalized and recognized through amortization expense over time. Our total spend on pre-publication costs is influenced mostly by the timing of new adoption opportunities in our K-12 business and the timing of investment in front-list titles in our Higher Education business, during any given period. With our digital solutions, we employ a continuous revision cycle that permits smaller and more frequent investment over the lifecycle of a product to maintain the product's relevancy by quickly incorporating feedback and enhancement opportunities. The cost of the smaller and more frequent investment is expensed and not capitalized, a shift from the historical accounting for pre-publication costs.

Our digital learning solutions are supported by our in-house Digital Platform Group ("DPG"), which was formed in 2013 to drive innovation and to develop, maintain and leverage our digital learning solutions and technology tools and platforms across our entire business. To maintain and grow our leading digital position, we have increased our annual digital learning solutions spending, including operating and capital expenditures, from less than $90 million in 2012 to approximately $146 million and $167 million in 2021 and 2020, respectively. While we are committed to continue significant digital investment, growth rates of spending has declined as we have achieved scale.

***Revenue***

*Higher Education*

We derive revenue primarily from the sale of digital learning solutions and content, traditional and custom print content and instructional materials. Our digital and print revenues are a function of sales volume and, to a lesser extent, changes in unit pricing. Our revenues are comprised of product and services sales less an allowance for product returns and revenue that is required to be deferred in accordance with U.S. GAAP.

Our business is driven by our ability to maintain and win instructor adoptions and purchasing decisions made by students. Trends in student enrollment impacts the number of students requiring our digital and print solutions in a given year. Because instructors are the ultimate decision makers for content and instructional materials to be used in their courses, we compete for instructor adoptions of our products. After an instructor has adopted our products for use in his or her course, students have the option to purchase new content and instructional materials, purchase used versions of printed materials, rent printed materials from a number of outlets, or forego the acquisition of course content and materials altogether. Our sales depend heavily on the volume of new content and instructional materials sold and we did not benefit from sales in the used and rental markets prior to the launch of our rental program in the fall of 2018. As digital solutions are adopted by more instructors, and increasingly become part of the instructors' graded curriculum, more students are purchasing our digital solutions. This trend has increased sales of our digital solutions and is resulting in more predictable and recurring revenues as sales volumes begin to more closely align with trends in student enrollment.

For our print products, we recognize revenue at the time of shipment to our distribution partners, who typically order products several weeks before the beginning of an academic semester to ensure sufficient physical product inventory. Revenue relating to our rental program is deferred and subsequently recognized over the rental period which begins when the print product is transferred to the customer and is typically for one semester. Digital products are generally sold as subscriptions, which are paid for at the time of sale or shortly thereafter, and we recognize revenues derived from these products over the life of the subscription. In most cases, students purchase digital products at the beginning of the academic semester, or shortly thereafter, which has tended to shift the timing of revenues to later in the academic year as we sell more digital products and fewer print products. In addition, the difference in our revenue recognition policies between print and digital products has caused comparisons of current and historical revenues to less accurately reflect the actual sales performance of our business during this time of transition. As a result, we use the non-GAAP measure Billings to provide a consistent comparison of sales performance from period to period. See “-Non-GAAP Measures” for a description of Billings.

Revenues are also impacted by our reserve for product returns. Our distribution partners are permitted to return products at any time, though they primarily do so following the heavy student purchasing period at the beginning of each academic semester. To more accurately reflect the economic impact of returns on our operating performance, we reserve a percentage of our gross sales in anticipation of these returns when calculating our net revenues. This reserve has declined in recent years as we shift from sales of traditional print products to digital learning solutions, which experience a much lower return rate.

*K-12*

We derive revenue primarily from the sale of digital learning solutions, traditional print offerings and other instructional materials. Our revenues are driven primarily by sales volume and, to a lesser extent, changes in unit pricing. Our revenues are comprised of product and services sales less an allowance for product returns and revenue that is required to be deferred in accordance with U.S. GAAP. The required revenue deferral for digital solutions in K-12 is significantly greater than in Higher Education due to the longer, multi-year contractual terms of our customer arrangements in K-12 (typically five to eight years).

Sales volumes are driven primarily by the availability of funding for instructional materials. Most public school districts are largely dependent on state and local funding for the purchase of instructional materials, which correlate with state and local receipts from income, sales and property taxes. Nationally, total state funding for public schools has been trending upward as state income and sales tax revenues recover from the lows of the 2008-2009 economic recession. The improving economy has driven a recovery in housing, which has led to higher property tax revenues for local governments and increased budgets for public schools.

The purchasing cycles of adoption states also have a significant impact on our sales volumes. We monitor the purchasing cycles for specific disciplines in adoption states in order to manage our product development and to plan sales campaigns. Our sales may be materially impacted by the purchasing schedules of major adoption states such as Florida, California and Texas. For example, Florida purchased new reading/language arts and mathematics programs in 2013-2014, followed by social studies in 2017 and science materials in 2018. Mathematics was previously scheduled for 2019 and has been moved to a purchase year of 2022 and reading/language arts was previously scheduled for 2020 and has been moved to calendar 2021. Texas school districts purchased new mathematics and science materials in 2014, social studies and high school math in 2015 and a new reading/language arts program for grades K-8 in 2019 and grades 9-12 in 2020. California adopted new math materials, with purchases over the 2013-2015 period, and reading/language arts with purchases beginning in 2016 and continuing through 2018. California purchased social studies over the 2018-2020 period and science over 2019-2020. Florida, Texas and other adoption states provide dedicated state funding for instructional materials and classroom technology, with funding typically appropriated by the legislature in the first half of the year in which materials are to be purchased.

Sales volume in the United States K-12 market is also affected by changes in state curriculum standards and by student enrollment. Changes in state curriculum standards require that instructional materials be revised or replaced to align to the new standards, which historically has driven demand for basal programs. School enrollment is highly predictable, as they correlate with the overall growth in birth rates in the United States, and are expected to continue trending upward over the long term.

Our product pricing is generally determined at the time our products are adopted by a state or district. Price has historically been of lesser importance than curriculum quality and service levels in state and district purchasing decisions. The vast majority of our program offerings is hybrid, incorporating both print and digital elements.

Revenue from traditional print products is typically recognized at the time of shipment, which closely aligns with when a school district takes possession of the required number of products at the outset of a multi-year adoption. Traditional print products are typically re-used by students over the term of the adoption, and school districts will occasionally purchase replacement products due to wear or increasing enrollment over the life of the adoption. Sales of these replacement products are known as residual sales, from which we derive a significant portion of our revenue. Our online and digital solutions are sold as a subscription, which states and districts pay for at the beginning of a multi-year adoption. We typically defer revenue related to online and digital solutions for the entirety of the contract upfront and recognize it ratably over the term of the contract. Because they are consumable products, revenue for workbooks is deferred when we enter into a multi-year contract and is recognized when delivery takes place, often at the beginning of each academic year over the contract term. As our customers purchase more of our digital and hybrid learning solutions, the percentage of our revenue that is deferred continues to increase. The total amount of the sale and the cash received upfront for a fully-digital or hybrid program is comparable to a fully print program; however, the time period over which the revenue is recognized increases with the shift to digital. The difference in our revenue recognition policies between print and digital solutions has caused comparisons of current and historical revenues to less accurately reflect the actual sales performance of our business during this time of transition. As a result, we use the non-GAAP measure Billings to provide a consistent comparison of sales performance from period to period. See "-Non-GAAP Measures" for a description of how we define Billings.

Unlike our Higher Education segment, product returns in our K-12 segment have an immaterial impact on net revenues because we sell directly to school districts, which are better able to predict end demand and are limited to primary market purchases.

*International*

We derive revenue primarily from the sale of digital learning solutions and content, traditional print content and instructional materials to the higher education, K-12 and professional markets in more than 100 countries worldwide. Our revenues are a function of the market conditions in the countries in which we operate and our ability to expand our sales to customers in these countries and to new countries. A majority of our international revenue is generated by selling our unmodified English language products, which were originally created for the United States market, internationally. Our revenues are comprised of product and services sales less an allowance for product returns and revenue that is required to be deferred in accordance with U.S. GAAP.

Our International business covers five major regions. Each of these regions and the underlying country performance can be impacted by the economy, government policy and competitive situations. These regions and the general revenue drivers for each are as follows:

> *EMEA*: the majority of our business is driven by Higher Education, followed by K-12 (including English Language Learning) and Global Professional. The majority of our Higher Education revenues come from the sale of original United States product translations and adaptations of those products. Our K-12 business in Spain is primarily driven by the development and sale of local original publications and is subject to the cyclical nature of government driven curriculum renewals. Our K-12 business in the Middle East is primarily driven by print and digital orders for United States product as well as translations and adaptations.
>
> *Asia Pacific*: our business is driven primarily by Higher Education and Global Professional. China provides the largest share of revenue driven by English Language Learning and translation of United

States books from Higher Education and Global Professional into local language. In addition, in southeast Asia, we operate in 15 countries, some of which are subject to volatile political and economic conditions. Our Australian business is primarily driven by the sale of original United States Higher Education product as well as adaptations.

<u>*India*</u>: Higher Education is a major driver of our business, followed by Global Professional and K-12. Our product portfolio in India primarily consists of local publishing programs, followed by adaptations of United States product.

<u>*Latin America*</u>: this region is primarily driven by K-12 (including English Language Learning), followed by Higher Education and Global Professional. From a regional perspective, our largest market is Mexico, followed by Colombia, Chile and Venezuela. Latin America's business is exposed to volatile political and economic conditions. The majority of our Higher Education revenues are derived from the sale of original United States products that have been translated and / or adapted. Our K-12 business is primarily driven by the development and sale of local/original publications and is subject to the cyclical nature of government driven curriculum renewals.

<u>*Canada*</u>: Higher Education is a major driver of our business, followed by Global Professional. Higher Education sales consist primarily of original United States Higher Education product as well as translations and adaptations. We sold our K-12 business in Canada in 2017.

Product pricing varies by region and country with pricing comparable to equivalent products sold in the United States in some instances. Within developing economies, price points tend to be lower than in the United States, dictated by the economic conditions prevalent in that country.

Foreign exchange rates also impact our international revenues as the functional currency is often the foreign currency of the countries in which we operate. As a result, we are exposed to currency fluctuations in translating our financial results into U.S. dollars. In 2021, approximately 62% of our international sales were denominated in currencies other than the U.S. dollar. Recent strengthening of the dollar has resulted in unfavorable foreign exchange impacts. We monitor the impact of foreign currency movements and the correlation between local currencies and the U.S. dollar. We also periodically review our hedging strategy and may enter into other arrangements as appropriate.

Revenue recognition for international products is similar to products sold in the United States. Revenue for traditional print products is typically recognized upon shipment, while digital revenues are recognized over the contractual term of the product. The difference in our revenue recognition policies between print and digital solutions has caused comparisons of current and historical revenues to less accurately reflect the actual sales performance of our business during this time of transition. As a result, we use the non-GAAP measure Billings to provide a consistent comparison of sales performance from period to period. See "-Non-GAAP Measures" for a description of how we define Billings.

*Global Professional*

We derive revenue primarily from the sale of digital subscription services and content, both digital and print. Our digital and print revenues are a function of sales volume and, to a lesser extent, changes in unit pricing. Our revenues are comprised of product and services sales less an allowance for product returns and revenue that is required to be deferred in accordance with U.S. GAAP.

Sales volume is driven by demand for subscription based, professional content and by growth in knowledge-based industries, especially in the medical, technical and engineering fields. As the United States economy continues to recover, we expect the market for professional education resources to grow, particularly among professions that are experiencing more rapid job growth. The Professional and Business Services and Healthcare and Social Assistance industry sectors are expected to add over 4.5 million jobs between 2019 and 2029, more than all other United States industries combined, according to the Bureau of Labor Statistics ("BLS"). We derive a substantial portion of our Global Professional revenue from these two industries.

Sales of our digital subscription services provide a stable and highly recurring revenue stream, with a retention rate across major platforms of 92% in 2021. Our digital subscription services are sold as annual and multi-year contracts.

Revenue for traditional print products is typically recognized upon shipment, while digital revenues are recognized over the contractual term. The continued shift from print to digital will increase the percentage of our sales that are deferred and recognized over the contractual term. The difference in our revenue recognition policies between print and digital solutions has caused comparisons of current and historical revenues to less accurately reflect the actual sales performance of our business during this time of transition. As a result, we use the non-GAAP measure Billings to provide a consistent comparison of sales performance from period to period. See "-Non-GAAP Measures" for a description of Billings.

***Cost of Sales***

Cost of sales include variable costs such as paper, printing and binding, certain transportation and freight costs related to our print products, as well as content related royalty expenses and gratis costs (products provided at no charge as part of the sales transaction) for both print and digital products. Gratis costs are predominately incurred in our K-12 business and tend to be higher for adoption state sales as compared to open territory sales. As such, these costs will vary based upon the level of adoption state sales during a given period.

Due to the inherent subjectivity in the classification of costs between cost of sales and operating and administrative expense across the Company's industry, the Company does not focus on gross profit or gross margin as a key metric for the Company's business. Additionally, the classification of costs between cost of sales and operating and administrative expense does not impact the Company's key metrics, including Billings and Adjusted EBITDA by segment.

***Operating and Administration Expenses***

Our operating and administration expenses include the expenses of our employees and outside vendors engaged in our marketing, selling, editorial and administrative activities as well as pre-publication cost amortization. A significant component of our total operating and administration expense relates to our ongoing investment in DPG. These costs are both fixed and variable in nature and while we are committed to continue significant digital investment, growth rates of spending has declined and our annual expenditures have stabilized as our major initiatives and the build-out of certain foundational capabilities near completion.

Costs associated with design and content creation for both digital and print products are capitalized as a component of pre-publication expenditures. Capitalized pre-publication expenditures are subsequently amortized as a component of operating and administration expenses.

Outside of costs directly associated with DPG, we incur additional digital related costs, including content tagging and digital solutions hosting, which have increased as the digital transformation continues. The Company relies primarily on internal resources to develop the Company's digital platform, host the Company's digital solutions and tag the Company's digital content, and these costs have no clear attribution to specific products or services and do not directly correlate to sales of products or delivery of services. As a result, the Company has classified these costs within operating and administrative expenses.

We incur expense for products provided to decision makers in the educational materials purchasing process as part of our sampling program, primarily in our K-12 business. Annual samples expense can vary significantly depending upon the adoption calendar and the mix of programs being considered for adoption. As our revenues continue to shift from traditional print offerings to digital solutions, we expect the expense incurred for sampling to decline.

In the United States, our products are sold in approximately 4,000 higher education institutions and approximately 13,000 K-12 school districts across all 50 states. Our nearly 1,200 person sales force, which includes approximately 410 sales people in the United States higher education and approximately 400 sales people in the United States K-12 markets, maintains close relationships with the individual instructors that represent the primary decision makers in the higher education market and the states, school districts, and individual schools that primarily make purchase decisions in the K-12 market. We incur significant selling and market expense to maintain and support our extensive sales force. As revenues grow in the future, we expect to see modest increases in selling and marketing expense that will vary with the K-12 adoption cycle.

***Interest Expense***

Our interest expense primarily includes interest related to our indebtedness, including the amortization of deferred financing fees and debt discounts, and outstanding capital lease and other financing obligations.

Interest expense varies based on the amount of indebtedness outstanding and the rates at which we were able to secure the indebtedness. The interest rate on certain tranches of indebtedness is based on London InterBank Offered Rate (LIBOR) or the prime lending rate (Prime), plus an applicable margin. As a result, changes in the LIBOR or Prime rate can impact interest expense. Interest expense for the years ended March 31, 2021 and 2020 was $193.3 million and $188.1 million, respectively.

***Intangible Amortization***

Our intangible asset amortization expense primarily includes the amortization of acquired intangible assets consisting of customer relationships, content rights, trade names, non-compete rights and technology. The largest component of our intangibles asset balance is related to content acquired as part of the Founding Acquisition and is being amortized over a period of 8 to 14 years. The remaining balances will be amortized over varying periods of time from 4 to 14 years from the date of acquisition. Intangible asset amortization expense for the years ended March 31, 2021 and 2020 was $58.8 million and $70.2 million, respectively.

***Pre-publication Expenditures and Amortization***

Pre-publication expenditures are capitalized costs incurred and principally consist of design and content creation. Costs incurred prior to the publication date of a title or release date of a product represent activities associated with product development. These may be performed internally or outsourced to subject matter specialists and include, but are not limited to, editorial review and fact verification, graphic art design and layout and the process of conversion from print to digital media or within various formats of digital media. These costs are capitalized when the costs can be directly attributable to a project or title and the title is expected to generate probable future economic benefits. Capitalized costs are amortized upon publication of the title over its estimated useful life of up to six years, with a higher proportion of the amortization typically taken in the earlier years.

Over the last several years, we have optimized our pre-publication expenditures to emphasize investment in content that can be leveraged across our full range of products, which maximizes our long-term returns on this investment. This has been accomplished, in part, by the creation of DPG, which supports ongoing innovation, development and maintenance of our technology platforms. Our total pre-publication cash costs are influenced mostly by the timing of new adoption opportunities in our K-12 business and the timing of investment in front-list titles in our Higher Education business, during any given period.

Pre-publication expenditure demands differ by business segment for a variety of reasons, including the speed with which the digital transformation has occurred. In Higher Education, pre-publication expenditures are highest for the first edition of a new title, and lower for subsequent revisions. Our pre-publication investment to create content used in our adaptive tools, product is increasing. This foundational investment is expected to reduce the variability of pre-publication expenditures in the future as we are able to leverage the content across the business.

*Higher Education*

Pre-publication expenditures in the Higher Education segment relate to the development of product across all disciplines, since the content is created by authors on a royalty basis. We develop "first editions," which are new titles or programs that can be revised over time based on market acceptance. As we continue our digital transformation, our pre-publication expenditure is increasingly related to content used in our adaptive tools. Development of the technology underlying our digital products is either supported by DPG with costs recorded in operating expenses, or capitalized if a new capability is developed (i.e., new product). Pre-publication expenditures are typically incurred in the year before the copyright is acquired on a printed textbook. The cash spend for the years ended March 31, 2021 and 2020 was $28.1 million and $29.7 million, respectively.

*K-12*

Pre-publication expenditures in the K-12 segment relate to content development and are the highest in the company, representing approximately 44% of total spend in 2021. Unlike the Higher Education segment, most content is developed by our K-12 product development teams. Pre-publication expenditures are incurred for external content development (work for hire), permissions, artwork and the physical design and layout of the printed books. Created content is used in our digital offerings as well. New basal programs such as reading, math, social studies or science are published around the adoption cycles for large adoption states such as California, Texas and Florida. Pre-publication expenditures are typically spent up to three years prior to an adoption sales year. The cash spend for the years ended March 31, 2021 and 2020 was $32.5 million and $28.3 million, respectively.

*International*

Pre-publication expenditures in the international segment relate to locally developed products or adaptations and translations of existing Higher Education, K-12 and Global Professional products in both digital and print format. Similar to our Higher Education and Global Professional segments, pre-publication is typically spent in the year before the copyright is established. The cash spend for the years ended March 31, 2021 and 2020 was $6.8 million and $7.8 million, respectively.

*Global Professional*

Pre-publication expenditures in the Global Professional segment relate to new titles and revisions, similar to the Higher Education segment, and include activities related to the creation of the actual product, since the content is created by authors on a royalty basis. Pre-publication expenditures are typically incurred in the year before the copyright is established. For our *Access* platforms, any additional content needed to supplement the print product will be funded through pre-publication expenditures. The cash spend for the years ended March 31, 2021 and 2020 was $8.6 million and $8.8 million, respectively.

***Capital Expenditures***

Capital expenditures relate to expenditures for fixed assets, leasehold improvements and software development. The expense related to these purchases is recorded as depreciation in our statement of operations over the useful life of the asset. Our capital expenditures vary based upon the level of digital investment being made as well as the timing of the real estate investments. For the years ended March 31, 2021 and 2020 our capital expenditures were $31.9 million and $73.8 million, respectively, with the costs incurred in the year ended March 31, 2020 impacted by the build out of our new New York office space.

## Consolidated Operating Results

The following tables set forth certain historical consolidated financial information for the year ended March 31, 2021, and 2020. The following tables and discussion should be read in conjunction with the information contained in our historical consolidated financial statements and the notes thereto included elsewhere in this Annual Report.

***Consolidated Operating Results for the Years Ended March 31, 2021 and 2020***

| **(Dollars in thousands)** | **Year Ended March 31, 2021** | **Year Ended March 31, 2020** | **$ Change** | **% Change** |
|---|---|---|---|---|
| **Revenue** | $ 1,544,705 | $ 1,584,756 | $ (40,051) | (2.5)% |
| Cost of sales | 336,327 | 366,545 | (30,218) | (8.2)% |
| Gross profit | 1,208,378 | 1,218,211 | (9,833) | (0.8)% |
| **Operating expenses** | | | | |
| Operating and administration expenses | 838,837 | 1,029,398 | (190,561) | (18.5)% |
| Depreciation | 61,203 | 63,456 | (2,253) | (3.6)% |
| Amortization of intangibles | 58,830 | 70,154 | (11,324) | (16.1)% |
| Total operating expenses | 958,870 | 1,163,008 | (204,138) | (17.6)% |
| Operating income | 249,508 | 55,203 | 194,305 | n/m |
| Interest expense (income), net | 193,321 | 188,097 | 5,224 | 2.8 % |
| Other (income) expense | (2,770) | (9,118) | 6,348 | n/m |
| Income (loss) from operations before taxes on income | 58,957 | (123,776) | 182,733 | n/m |
| Income tax (benefit) provision | 14,207 | 11,529 | 2,678 | 23.2 % |
| **Net income (loss)** | **$ 44,750** | **$ (135,305)** | **$ 180,055** | **n/m** |

***Revenue***

| (Dollars in thousands) | Year Ended March 31, 2021 | Year Ended March 31, 2020 | $ Change | % Change |
|---|---|---|---|---|
| **Reported Revenue by segment:** | | | | |
| Higher Education | $ 649,087 | $ 629,363 | $ 19,724 | 3.1 % |
| K-12 | 583,669 | 594,029 | (10,360) | (1.7)% |
| International | 168,951 | 202,820 | (33,869) | (16.7)% |
| Global Professional | 142,341 | 156,702 | (14,361) | (9.2)% |
| Other | 657 | 1,842 | (1,185) | (64.3)% |
| **Total Reported Revenue** | **$ 1,544,705** | **$ 1,584,756** | **$ (40,051)** | **(2.5)%** |

Revenue for the years ended March 31, 2021 and 2020 was $1,544.7 million and $1,584.8 million, respectively, a decrease of $40.1 million or 2.5%. The decrease was driven by the segment factors described below.

*Higher Education*

Higher Education revenue for the years ended March 31, 2021 and 2020 was $649.1 million and $629.4 million, respectively, an increase of $19.7 million or 3.1%. The increase was primarily due to:

- increased revenue primarily attributable to digital growth via Inclusive Access and direct-to-student e-commerce channel sales, which grew by 58% and 24%, respectively; and
- a lower product returns reserve driven by lower print sales attributable to the ongoing shift to digital learning solutions and our rental program introduced in 2018; partially offset by
- a decline in print revenue, driven by the ongoing migration from print to digital learning solutions and limited sales of our 2019 and subsequent copyright titles which were primarily available only through our rental program.

*K-12*

K-12 revenue for the years ended March 31, 2021 and 2020 was $583.7 million and $594.0 million respectively, a decrease of $10.4 million or 1.7%. The decrease was primarily due to:

- a cyclically smaller adoption market year-over-year, the decision by states to forgo certain non-core adoptions, and delayed purchasing in the multi-year California Science adoption; partially offset by
- higher market share capture in both adoption and open territory markets across our Reading, Math, Science and Humanities portfolio; and
- timing of digital revenue recognition related to prior period sales.

*International*

International revenue for the years ended March 31, 2021 and 2020 was $169.0 million and $202.8 million, respectively, a decrease of $33.9 million or 16.7%. The decrease was primarily due to:

- lower print revenue related to COVID-19 driven distribution channel partner disruptions; and

- lower print revenue driven by stronger controls on sales to third parties to prevent product from being resold in the U.S. secondary market; partially offset by

- an increase in digital product sales of $23.6 million, in constant currency, resulting from more than 60% growth in Connect activations and ALEKS unique users; and

- a $0.3 million favorable foreign exchange rate impact (estimated by re-calculating current period results of foreign operations using the average exchange rate from the prior period).

*Global Professional*

Global Professional revenue for the years ended March 31, 2021 and 2020 was $142.3 million and $156.7 million, respectively, a decrease of $14.4 million or 9.2%. The decrease was primarily due to;

- lower print revenue related to COVID-19 driven distribution channel partner disruptions globally; partially offset by

- the continued increase in digital subscription revenue related to our *Access* platform offerings both domestically and internationally with strong growth internationally in the first year of the new Global Professional operating structure.

***Cost of Sales***

Cost of sales for the years ended March 31, 2021 and 2020 was $336.3 million and $366.5 million, respectively, a decrease of $30.2 million or 8.2%. The decrease was primarily due to lower manufacturing costs and freight attributable to lower print sales resulting from ongoing shift to digital learning solutions and lower royalty expense driven by the decline in sales.

***Operating and Administration Expenses***

Operating and administration expenses for the years ended March 31, 2021 and 2020 were $838.8 million and $1,029.4 million, respectively, a decrease of $190.6 million or 18.5%. Included within operating and administration expense is the amortization of pre-publication expenditures which decreased by $19.6 million or 20% driven by the timing of pre-publication expenditures. The remaining variance was primarily due to:

- lower compensation expense due to strategic headcount reductions;

- lower travel & entertainment and utilities expense due to travel restrictions and office closures related to COVID-19;

- lower promotional samples expense;

- lower legal cost due to the termination of a previously disclosed proposed merger on May 3rd, 2020; and

- favorable settlement of the Copyright Actions lawsuit filed in 2016; partially offset by

- an increase in annual incentive compensation and sales commission costs.

***Depreciation & Amortization of Intangibles***

Depreciation and amortization expenses for the years ended March 31, 2021 and 2020 were $120.0 million and $133.6 million, respectively, a decrease of $13.6 million or 10.2%. The decrease was primarily driven by the use of accelerated amortization methods for certain acquired intangible assets partially offset by an increase in depreciation expense associated with deferred technology projects that went live during the year.

***Interest expense, net***

Interest expense, net, for the years ended March 31, 2021 and 2020 was $193.3 million and $188.1 million, respectively, an increase of $5.2 million or 2.8%. The increase was primarily due to:

- the accounting impact of the third party costs incurred in relation to the refinancing of our debt during fourth quarter of the fiscal 2021; partially offset by
- a lower applicable LIBOR related to the Existing Term Loan Facility in comparison to the prior year due to lower market interest rates.

Refer to Note 7, "Debt," of our consolidated financial statements included elsewhere in this Annual Report for further discussion of our debt.

***Other (income) expense***

During the year ended March 31, 2021 and 2020, the Company recorded a gain of $2.8 million and $9.1 million, respectively, related to the sale of CTB business to Data Recognition Corporation in 2015. Refer to Note 3, "Other Income" of our consolidated financial statements included elsewhere in this Annual Report for further discussion of CTB business sale.

***Income tax provision (benefit)***

Taxes on income for the years ended March 31, 2021 and 2020 were a provision of $14.2 million and $11.5 million, respectively. For the years ended March 31, 2021 and 2020, the effective tax rate was 24.1% and (9.3)%, respectively. A valuation allowance was recorded for federal and state and certain foreign deferred tax assets due to negative evidence associated with our estimation of the realization of cumulative book losses. For the years ended March 31, 2021 and 2020, no deferred income tax benefit was recognized for the domestic loss and certain foreign losses on operations as a result of the valuation allowance recorded against these tax benefits.

**Adjusted EBITDA by Segment for the Years Ended March 31, 2021 and 2020**

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. We exclude from Adjusted EBITDA by segment: interest expense (income), net, income tax (benefit) provision, depreciation, amortization and pre-publication amortization and certain transactions or adjustments that our management does not consider for the purposes of making decisions to allocate resources among segments or assessing segment performance. In addition, Adjusted EBITDA by segment is calculated in a manner consistent with the definition and meaning of our Adjusted EBITDA non-GAAP debt covenant compliance measure, see “Non-GAAP Measures” - “Debt Covenant Compliance”.

| (Dollars in thousands) | Year Ended March 31, 2021 | Year Ended March 31, 2020 | $ Change | % Change |
|---|---|---|---|---|
| **Adjusted EBITDA by segment:** | | | | |
| Higher Education | $ 265,827 | $ 208,030 | $ 57,797 | 27.8 % |
| K-12 | 107,607 | 121,736 | (14,129) | (11.6)% |
| International | 12,981 | (2,856) | 15,837 | n/m |
| Global Professional | 40,229 | 43,101 | (2,872) | (6.7)% |
| Other | 13,620 | 2,890 | 10,730 | n/m |

*Higher Education*

Adjusted EBITDA for the years ended March 31, 2021 and 2020 was $265.8 million and $208.0 million, respectively, an increase of $57.8 million or 27.8%. The increase was primarily due to:

- the gross profit impact of the $33.1 million favorable Billings variance discussed under “Non-GAAP Measures-Billings for the Year Ended March 31, 2021 and 2020 - Higher Education”;
- a decrease in manufacturing and freight costs during the year as a result of ongoing shift to digital learning solution sales;
- lower travel & entertainment and utilities expense due to travel restrictions and office closures related to COVID-19;
- lower discretionary spending and compensation driven by strategic headcount reductions; and
- lower pre-publication investment cash costs due to the timing of product investment; partially offset by
- an increase in annual incentive compensation and sales commission costs.

*K-12*

Adjusted EBITDA for the years ended March 31, 2021 and 2020 was $107.6 million and $121.7 million, respectively, a decrease of $14.1 million or 11.6%. The decrease was primarily due to:

- the impact of the $71.7 million unfavorable Billings variance discussed under “Non-GAAP Measures-Billings for the Year Ended March 31, 2021 and 2020 - K-12”; and
- an increase in annual incentive compensation costs; partially offset by
- a decrease in pre-publication investment cash costs due to timing;
- lower travel & entertainment and utilities expense due to travel restrictions and office closures related to COVID-19;
- lower promotional samples expense; and
- lower discretionary spending and compensation driven by strategic headcount reductions.

*International*

Adjusted EBITDA for the years ended March 31, 2021 and 2020 was $13.0 million and $(2.9) million, respectively, an increase of $15.8 million. The increase was primarily due to:

- lower travel & entertainment and utilities expense due to travel restrictions and office closures related to COVID-19;
- lower discretionary spending and compensation driven by strategic headcount reductions;
- improvement in margins resulting from ongoing shift to digital solution sales; and
- a $5.5 million favorable foreign exchange rate impact (estimated by re-calculating current period results of foreign operations using the average exchange rate from the prior period); partially offset by
- the gross profit impact of the $18.9 million unfavorable Billings variance discussed under "Non-GAAP Measures- Billings for the Year Ended March 31, 2021 and 2020 - International".

*Global Professional*

Adjusted EBITDA for the years ended March 31, 2021 and 2020 was $40.2 million and $43.1 million, respectively, a decrease of $2.9 million or 6.7%. The decrease was due primarily to:

- the gross profit impact of the $12.8 million unfavorable Billings variance discussed under “Non-GAAP Measures-Billings for the Year Ended March 31, 2021 and 2020 - Global Professional”; partially offset by
- lower travel & entertainment and utilities expense due to travel restrictions and office closures related to COVID-19; and
- lower discretionary spending.

*Other*

Adjusted EBITDA for the years ended March 31, 2021 and 2020 was $13.6 million and $2.9 million, respectively, an increase of $10.7 million. The increase was driven by favorable foreign exchange movements, favorable timing related allocation adjustments and the favorable settlement of the Copyright Actions lawsuit filed in 2016.

## Non-GAAP Measures

### *Billings, EBITDA and Adjusted EBITDA*

The SEC has adopted rules to regulate the use in filings with the SEC and in public disclosures of “non-GAAP financial measures,” such as Billings, EBITDA and Adjusted EBITDA. These measures are derived on the basis of methodologies other than in accordance with U.S. GAAP.

Billings is a non-GAAP performance measure that provides useful information in evaluating our period-to-period performance because it reflects the total amount of revenue that would have been recognized in a period if we recognized all print and digital revenue at the time of sale. We use Billings as a performance measure given that we typically collect full payment for our digital and print solutions at the time of sale or shortly thereafter, but recognize revenue from digital solutions and multi-year deliverables ratably over the term of our customer contracts. As sales of our digital learning solutions have increased, so has the amount of revenue that is deferred in accordance with U.S. GAAP. Billings is a key metric we use to manage our business as it reflects the sales activity in a given period, provides comparability from period-to-period during this time of digital transition and is the basis for all sales incentive compensation. In the K-12 market where customers typically pay for five to eight year contracts upfront and the ongoing costs to service any contractual obligation are limited, the impact of the change in deferred revenue is most significant. Billings is U.S. GAAP revenue plus the net change in deferred revenue.

EBITDA, a measure used by management to assess operating performance, is defined as net (loss) income plus net interest, income taxes, depreciation and amortization (including amortization of pre-publication investment cash costs). Adjusted EBITDA is a non-GAAP debt covenant compliance measure that is defined in accordance with our debt agreements. Adjusted EBITDA is a material term in our debt agreements and provides an understanding of our debt covenant compliance, ability to service our indebtedness and make capital allocation decisions in accordance with our debt agreements.

Each of the above described measures is not a recognized term under U.S. GAAP and does not purport to be an alternative to revenue, income, or any other measure derived in accordance with U.S. GAAP as a measure of operating performance, debt covenant compliance or to cash flows from operations as a measure of liquidity. Additionally, each such measure is not intended to be a measure of free cash flows available for management's discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements. Such measures have limitations as analytical tools, and you should not consider any of such measures in isolation or as substitutes for our results as reported under U.S. GAAP. Management compensates for the limitations of using non-GAAP financial measures by using them to supplement U.S. GAAP results to provide a more complete understanding of the factors and trends affecting the business than U.S. GAAP results alone. Because not all companies use identical calculations, our measures may not be comparable to other similarly titled measures of other companies.

Management believes Adjusted EBITDA is helpful in highlighting trends because Adjusted EBITDA excludes the results of certain transactions or adjustments that are non-recurring or non-operational and can differ significantly from company to company depending on long-term strategic decisions regarding capital structure, the tax rules in the jurisdictions in which companies operate, and capital investments. In addition, Billings and Adjusted EBITDA provide more comparability between the historical operating results and operating results that reflect purchase accounting and the new capital structure post the Founding Acquisition as well as the digital transformation that we are undertaking which requires different accounting treatment for digital and print solutions in accordance with U.S. GAAP.

Management believes that the presentation of Adjusted EBITDA, which is defined in accordance with our debt agreements, 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.

***Billings for the Years Ended March 31, 2021 and 2020:***

| (Dollars in thousands) | Year Ended March 31, 2021 | Year Ended March 31, 2020 | $ Change | % Change |
|---|---|---|---|---|
| **Reported Revenue by segment:** | | | | |
| Higher Education | $ 649,087 | $ 629,363 | $ 19,724 | 3.1 % |
| K-12 | 583,669 | 594,029 | (10,360) | (1.7) % |
| International | 168,951 | 202,820 | (33,869) | (16.7) % |
| Global Professional | 142,341 | 156,702 | (14,361) | (9.2) % |
| Other | 657 | 1,842 | (1,185) | (64.3) % |
| **Total Reported Revenue** | **$ 1,544,705** | **$ 1,584,756** | **$ (40,051)** | **(2.5)%** |
| Change in deferred revenue | 46,149 | 77,389 | (31,240) | (40.4) % |
| **Billings** | **$ 1,590,854** | **$ 1,662,145** | **$ (71,291)** | **(4.3)%** |
| | | | | |
| **Billings by Segment:** | | | | |
| Higher Education | $ 694,947 | $ 661,824 | $ 33,123 | 5.0 % |
| K-12 | 567,492 | 639,207 | (71,715) | (11.2) % |
| International | 181,569 | 200,478 | (18,909) | (9.4) % |
| Global Professional | 146,112 | 158,944 | (12,832) | (8.1) % |
| Other | 734 | 1,692 | (958) | (56.6) % |
| **Total Billings** | **$ 1,590,854** | **$ 1,662,145** | **$ (71,291)** | **(4.3)%** |

Billings for the years ended March 31, 2021 and 2020 were $1,590.9 million and $1,662.1 million, respectively, a decrease of $71.3 million or 4.3%.

These variances were driven by the segment factors described below.

*Higher Education*

Billings for the years ended March 31, 2021 and 2020 were $694.9 million and $661.8 million, respectively, an increase of $33.1 million or 5.0%. The increase was due to:

- increased revenue primarily attributable to digital growth via Inclusive Access and direct-to-student e-commerce channel sales, which grew by 58% and 24%, respectively; and
- a lower product returns reserve driven by lower print sales attributable to the ongoing shift to digital learning solutions and our rental program introduced in 2018; partially offset by
- a decline in print revenue, driven by the ongoing migration from print to digital learning solutions and limited sales of our 2019 and subsequent copyright titles which were primarily available only through our rental program.

*K-12*

Billings for the years ended March 31, 2021 and 2020 were $567.5 million and $639.2 million, respectively, a decrease of $71.7 million or 11.2%. The decrease was primarily due to;

- a cyclically smaller adoption market year-over-year, the decision to forgo certain non-core adoptions, and delayed purchasing in the multi-year CA Science adoption; partially offset by
- higher market share capture in both adoption and open territory markets across our Reading, Math, Science and Humanities portfolio.

*International*

Billings for the years ended March 31, 2021 and 2020 were $181.6 million and $200.5 million, respectively, a decrease of $18.9 million or 9.4%. The decrease was due to:

- lower print revenue related to COVID-19 driven distribution channel partner disruptions; and
- lower print revenue driven by stronger controls on sales to third parties to prevent product from being resold in the U.S. secondary market; partially offset by
- a $6.3 million favorable foreign exchange rate impact (estimated by re-calculating current period results of foreign operations using the average exchange rate from the prior period); and
- an increase in digital product sales.

*Global Professional*

Billings for the years ended March 31, 2021 and 2020 were $146.1 million and $158.9 million, respectively, a decrease of $12.8 million or 8.1%. The decrease was primarily due to;

- lower print revenue related to COVID-19 driven distribution channel partner disruptions globally; partially offset by
- the continued increase in digital subscription revenue related to our *Access* platform offering both domestically and internationally with strong growth internationally in the first year of the new Global Professional operating structure.

***Debt Covenant Compliance***

Adjusted EBITDA is an important measure because, under our debt agreements, our ability to incur additional indebtedness or issue certain preferred shares, make certain types of acquisitions or investments, operate our business and make dividends, conduct asset sales or dispose of all or substantially all of our assets, all of which will impact our financial performance, is impacted by our Adjusted EBITDA, as our lenders measure our performance with a net first lien leverage ratio by comparing our senior secured bank indebtedness to our Adjusted EBITDA and a fixed charge coverage ratio, and several of our debt, investment and restricted payment baskets are measured using Adjusted EBITDA.

The 2016 Credit Agreement, 2021 Credit Agreement, 2016 Senior Secured Notes and 2021 Senior Secured Notes contain, among other provisions, certain customary covenants regarding indebtedness, payments and distributions, mergers and acquisitions, asset sales and affiliate transactions. Capacity for investments, debt, distributions and certain prepayments is measured in many instances by a multiple of Adjusted EBITDA. Our revolving credit facility requires that MHGE Holdings, after an initial grace period and subject to a testing threshold, comply on a quarterly basis with a maximum net first lien senior secured leverage ratio (the ratio of consolidated net debt secured by first-priority liens on the collateral to Adjusted EBITDA, as defined in the 2021 Credit Agreement) of (a) with respect to the second, third and fourth fiscal quarters of any fiscal year, 4.80 to 1.00 and (b) with respect to the first quarter of any fiscal year, 5.25 to 1.00. The testing threshold is satisfied at any time at which the sum of outstanding revolving credit facility loans, swingline loans and certain letters of credit under the 2021 Revolving Credit Commitments exceeds thirty percent (30%) of the 2021 Revolving Credit Commitments at such time. Payment of borrowings under the debt agreements may be accelerated if there is an event of default. Events of default include the failure to pay principal and interest when due, a material breach of a representation or warranty, certain non-payments or defaults under other indebtedness, covenant defaults, events of bankruptcy and a change of control. Failure to comply with these covenants, which are based, in part, upon Adjusted EBITDA could limit our long-term growth prospects by hindering our ability to incur future debt or make acquisitions.

"Adjusted EBITDA" as defined in our 2021 Credit Agreement, is net income, adjusted for the items summarized in the table below. Adjusted EBITDA is intended to show our unleveraged, pre-tax operating results and therefore reflects our financial performance based on operational factors, excluding non-operational or non-recurring losses or gains. Adjusted EBITDA is not a presentation made in accordance with U.S. GAAP, and our use of the term Adjusted EBITDA varies from others in our industry. This measure should not be considered as an alternative to net (loss) income or any other performance measures derived in accordance with U.S. GAAP. Adjusted EBITDA has important limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under U.S. GAAP. For example, Adjusted EBITDA does not reflect: (a) our cash capital expenditure requirements for the assets being depreciated and amortized that may have to be replaced in the future; (b) changes in, or cash requirements for, our working capital needs; (c) the significant interest expenses, or the cash requirements necessary to service interest or principal payments, on our debt; (d) tax payments that may represent a reduction in cash available to us; (e) management fees paid to entities and investment funds affiliated with Apollo Global Management, LLC; (f) one-time expenditures to realize the synergies referred to above; or (g) the impact of earnings or charges resulting from matters that we and the lenders under our debt agreements may not consider indicative of our ongoing operations. In particular, our definition of Adjusted EBITDA allows us to add back certain non-cash and other charges or costs that are deducted in calculating net income. However, these are expenses that may recur, vary greatly and are difficult to predict. They can represent the effect of long-term strategies as opposed to short-term results. In addition, certain of these expenses can represent the reduction of cash that could be used for other corporate purposes.

Further, although not included in the calculation of Adjusted EBITDA below, the measure may at times allow us to add estimated cost savings and operating synergies related to operational changes ranging from acquisitions or dispositions to restructurings, and/or exclude one-time transition expenditures that we anticipate we will need to incur to realize cost savings before such savings have occurred.

The calculation of Adjusted EBITDA in accordance with our debt agreements is presented in the table below. The results of such calculation could differ in the future based on the different types of adjustments that may be included in such respective calculations at the time.

| **(Dollars in thousands)** | **Year Ended March 31, 2021** | **Year Ended March 31, 2020** | **Three Months Ended March 31, 2019 (Unaudited)** | **Year Ended December 31, 2019** |
|---|---|---|---|---|
| Net income (loss) | $ 44,750 | $ (135,305) | $ (114,929) | $ (143,210) |
| Interest expense (income), net | 193,321 | 188,097 | 45,283 | 180,430 |
| Income tax provision (benefit) | 14,207 | 11,529 | 1,355 | 12,122 |
| Depreciation, amortization and pre-publication investment amortization | 197,858 | 230,855 | 46,188 | 220,785 |
| **EBITDA** | **$ 450,136** | **$ 295,176** | **$ (22,103)** | **$ 270,127** |
| Change in deferred revenue (a) | 46,149 | 77,389 | (36,640) | 91,669 |
| Change in deferred royalties (b) | (22,454) | (17,374) | 1,480 | (18,727) |
| Change in deferred commissions (c) | 837 | 54 | 1,490 | (466) |
| Restructuring and cost savings implementation charges (d) | 24,309 | 21,606 | 166 | 21,772 |
| Sponsor fees (e) | 3,500 | 3,500 | 875 | 3,500 |
| Transaction costs (f) | 5,243 | 25,075 | 7,360 | 21,044 |
| Merger integration costs (g) | — | 7,030 | — | 7,030 |
| Other (h) | 8,600 | 34,628 | 11,738 | 38,199 |
| Pre-publication investment (i) | (76,056) | (74,183) | (20,741) | (79,110) |
| **Adjusted EBITDA** | **$ 440,264** | **$ 372,901** | **$ (56,375)** | **$ 355,038** |

(a) We receive cash up-front for most sales but recognize revenue (primarily related to digital sales) over time recording a liability for deferred revenue at the time of sale. This adjustment represents the net effect of converting deferred revenues to a cash basis assuming the collection of all receivable balances.

(b) Royalty obligations are generally payable in the period incurred with limited recourse. This adjustment represents the net effect of converting deferred royalties to a cash basis assuming the payment of all amounts owed in the period incurred.

(c) Commissions are generally payable in the period incurred. This adjustment represents the net effect of converting deferred commissions to a cash basis assuming the payment of all amounts owed in the period incurred.

(d) Represents severance and other expenses incurred in connection with headcount reductions and other expense reduction efforts initiated as part of our formal restructuring initiatives to create a flatter and more agile organization.

(e) Represents $3.5 million of annual management fees and payable to Apollo.

(f) The amount represents the transaction costs associated with the Merger Agreement entered between the Company and Cengage on May 1, 2019 and terminated on May 3rd, 2020.

(g) The amount represents the integration costs associated with the Merger Agreement entered into between the Company and Cengage on May 1, 2019 and was terminated on May 3rd, 2020.

(h) For the Year Ended March 31, 2021, the amount represents (i) non-cash incentive compensation expense of $7.3 million, (ii) change in deferred real estate and lease incentives of $(0.9) million primarily related to the Company move to the new headquarters at 1325 Ave of Americas, and (iii) other adjustments required or permitted in calculating covenant compliance under our debt agreements.

For the year ended March 31, 2020, the amount represents (i) non-cash incentive compensation expense of $13.0 million, (ii) International trademark impairment of $3.0 million, (iii) change in deferred real estate and lease incentives of $8.0 million primarily related to the Company move to the new headquarters at 1325 Ave of Americas, and (iv) other adjustments required or permitted in calculating covenant compliance under our debt agreements.

For the three months ended March 31,2019, the amount represents (i) non-cash incentive compensation expense and (ii) other adjustments required or permitted in calculating covenant compliance under our debt agreements.

For the Year Ended December 31, 2019, the amount represents (i) non-cash incentive compensation expense of $13.5 million and (ii) other adjustments required or permitted in calculating covenant compliance under our debt agreements.

(i) Represents the cash cost for pre-publication investment during the period.

In addition, the 2016 Credit agreement and 2021 Credit Agreement, the indentures governing the 2016 Term Loans, 2021 Term Loan Facility and MHGE Parent Term Loan, contain a financial covenant that requires the disclosure of a description of the quantitative differences from the parent, McGraw Hill Education Inc., ("MHE") to MHGE and its subsidiaries (for the 2016 Senior Facilities and 2016 Senior Notes) and from MHE to MHGE Parent, LLC ("MHGE Parent") and its subsidiaries (for the MHGE Parent Term Loan).

As of March 31, 2021, the material quantitative differences from MHE to MHGE and its subsidiaries relate to $0.5 million of cash and cash equivalents which was held by MHE. There were no other material assets or liabilities.

## Seasonality and Comparability

Our revenues, operating profit and operating cash flows are affected by the inherent seasonality of the academic calendar. In 2021 we realized approximately 22%, 34%, 23% and 21% of our revenues during the first, second, third and fourth quarters, respectively. This seasonality affects operating cash flow from quarter to quarter and there are certain months when we operate at a net cash deficit. Changes in our customers' ordering patterns may affect the comparison of our results in a quarter with the same quarter of the previous year or in a fiscal year with the prior fiscal year, where our customers may shift the timing of material orders for any number of reasons, including, but not limited to, changes in academic semester start dates or changes to their inventory management practices.

## Quarterly Results of Operations

| | March 31, 2020 | | | | March 31, 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| **(Dollars in thousands)** | **First Quarter 2020** | **Second Quarter 2020** | **Third Quarter 2020** | **Fourth Quarter 2020** | **First Quarter 2021** | **Second Quarter 2021** | **Third Quarter 2021** | **Fourth Quarter 2021** |
| **Reported revenue by segment:** | | | | | | | | |
| Higher Education | $ 119,089 | $ 189,027 | $ 162,809 | $ 158,438 | $ 129,010 | $ 183,858 | $ 168,208 | $ 168,011 |
| K-12 | 178,255 | 252,396 | 91,524 | 71,854 | 145,276 | 247,447 | 109,888 | 81,058 |
| International | 52,068 | 59,122 | 65,625 | 26,006 | 33,404 | $ 52,880 | $ 47,401 | $ 35,266 |
| Global Professional | 37,615 | 39,766 | 44,007 | 35,311 | 31,753 | 37,565 | 35,396 | 37,627 |
| Other | (2,053) | 2,306 | 879 | 710 | (2,352) | $ 1,498 | $ 1,609 | $ (98) |
| **Total Reported Revenue** | **$ 384,974** | **$ 542,617** | **$ 364,844** | **$ 292,319** | **$ 337,091** | **$ 523,248** | **$ 362,502** | **$ 321,864** |
| Change in deferred revenue | 8,568 | 216,807 | (97,067) | (50,920) | (29,960) | $ 220,645 | $ (114,294) | $ (30,242) |
| **Billings** | **$ 393,542** | **$ 759,424** | **$ 267,777** | **$ 241,399** | **$ 307,131** | **$ 743,893** | **$ 248,208** | **$ 291,622** |
| | | | | | | | | |
| **Billings by segment:** | | | | | | | | |
| Higher Education | $ 83,689 | $ 294,803 | $ 110,828 | $ 172,504 | $ 77,036 | $ 319,964 | $ 104,353 | $ 193,594 |
| K-12 | 222,457 | 350,412 | 43,312 | 23,026 | 166,166 | $ 317,504 | $ 57,453 | $ 26,369 |
| International | 47,776 | 73,749 | 59,738 | 19,215 | 29,812 | $ 71,200 | $ 41,308 | $ 39,249 |
| Global Professional | 39,187 | 40,133 | 52,974 | 26,648 | 34,092 | $ 34,961 | $ 44,651 | $ 32,408 |
| Other | 433 | 327 | 925 | 6 | 25 | $ 264 | $ 443 | $ 2 |
| **Total Billings** | **$ 393,542** | **$ 759,424** | **$ 267,777** | **$ 241,399** | **$ 307,131** | **$ 743,893** | **$ 248,208** | **$ 291,622** |

| (Dollars in thousands) | March 31, 2020 First Quarter 2020 | March 31, 2020 Second Quarter 2020 | March 31, 2020 Third Quarter 2020 | March 31, 2020 Fourth Quarter 2020 | March 31, 2021 First Quarter 2021 | March 31, 2021 Second Quarter 2021 | March 31, 2021 Third Quarter 2021 | March 31, 2021 Fourth Quarter 2021 |
|---|---|---|---|---|---|---|---|---|
| **Adjusted EBITDA by segment:** | | | | | | | | |
| Higher Education | $ (16,885) | $ 164,551 | $ 4,061 | $ 56,303 | $ (10,975) | $ 192,748 | $ 14,036 | $ 70,018 |
| K-12 | 71,964 | 177,179 | (58,675) | (68,732) | 45,822 | $ 160,476 | $ (28,433) | $ (70,258) |
| International | (4,767) | 14,693 | 8,708 | (21,490) | (6,362) | $ 22,536 | $ 1,110 | $ (4,303) |
| Global Professional | 11,125 | 12,205 | 20,207 | (436) | 8,929 | $ 9,543 | $ 17,452 | $ 4,305 |
| Other | 1,837 | 3,046 | 2,164 | (4,151) | 15,697 | $ 919 | $ (3,600) | $ 604 |

## Indebtedness and Liquidity

| (Dollars in thousands) | As of March 31, 2021 | As of March 31, 2020 | As of December 31, 2019 |
|---|---|---|---|
| Cash, cash equivalents and restricted cash | $ 354,323 | $ 186,934 | $ 401,856 |
| Current portion of long-term debt | 13,964 | 17,269 | 61,669 |
| Long-term debt | 2,082,681 | 2,141,354 | 2,140,634 |

Historically, we have generated operating cash flows sufficient to fund our seasonal working capital, capital requirements, expenditure and financing requirements. We use our cash generated from operating activities for a variety of needs, including among others: working capital requirements, pre-publication investment cash costs, capital expenditures and strategic acquisitions.

Our operating cash flows are affected by the inherent seasonality of the academic calendar. This seasonality also impacts cash flow patterns as investments are typically made in the first half of the year to support the significant selling period that occurs in the second half of the year. As a result, our cash flow is typically lower in the first half of the fiscal year and higher in the second half of the fiscal year.

Going forward, we may need cash to fund operating activities, working capital, pre-publication investment cash costs, capital expenditures and strategic investments. Our ability to fund our capital needs will depend on our ongoing ability to generate cash from operations and our access to the bank and capital markets. We believe that our future cash flow from operations, together with our access to funds on hand and capital markets, will provide adequate resources to fund our operating and financing needs for at least the next twelve months. We also expect our working capital requirements to be positively impacted by our migration from print products to digital learning solutions.

If our cash flows from operations are less than we require, we may need to incur debt or issue equity. From time to time we may need to access the long-term and short-term capital markets to obtain financing. Although we believe we can currently finance our operations on acceptable terms and conditions, our access to, and the availability of, financing on acceptable terms and conditions in the future will be affected by many factors, including: (i) our credit ratings, (ii) the liquidity of the overall capital markets and (iii) the current state of the economy. There can be no assurance that we will continue to have access to the capital markets on terms acceptable to us.

### *Cash, cash equivalents and restricted cash*

Cash and cash equivalents include bank deposits and highly liquid investments with original maturities of three months or less that consist primarily of interest bearing demand deposits with daily liquidity, money market and time deposits. The balance also includes cash that is held by the Company outside the United States to fund international operations or to be reinvested outside of the United States. The investments and bank deposits are stated at cost, which approximates market value. These investments are not subject to significant market risk.

Restricted cash, including restricted cash included in other non-current assets, represents interest payable through April 15, 2020 relating to the MHGE Parent Term Loan (refer to Note 7, “Debt”) and collateral for insurance coverage including workers’ compensation, general liability and automobile claims. As of March 31, 2021 and 2020, the restricted cash was Nil and $9.9 million, respectively. Refer to Note 1, "Basis of Presentation and Accounting Policies" in the accompanying notes to the consolidated financial statements.

As of March 31, 2021 and 2020, we had cash and cash equivalents of $354.3 million and $177.0 million, respectively. The cash held by foreign subsidiaries as of March 31, 2021 and 2020, was $89.4 million and $61.3 million. These cash balances held outside the United States will be used to fund international operations and to make investments outside of the United States. In the event funds from international operations were needed to fund operations in the United States, we would provide for taxes in the United States, if any, on repatriated funds.

***Refinancing Transactions***

On January 6, 2021, the Company amended its existing first lien credit agreement (the “2016 Credit Agreement”) to (i) modify certain provisions of the 2016 Credit Agreement and related loan documents, (ii) to extend the maturity of the term loans under the 2016 Credit Agreement (the “2016 Term Loan Facility”) and to exchange such 2016 Term Loan Facility for new term loans (the “2021 Term Loan Facility”) under a new first lien credit agreement dated as of January 6, 2021 (the “New Credit Agreement”) and (iii) extend the maturity date of existing revolving facility commitments (the “2016 Revolving Facility Commitments”) and to exchange the Existing Revolving Facility Commitments for new revolving facility commitments (the “2021 Revolving Facility Commitments”) under the 2021 Credit Agreement (the “Extension Transactions”).

The Company received consents to the Extension Transactions from holders of approximately $1,560.0 million (or approximately 98%) of the 2016 Term Loan Facility and holders of approximately $325.0 million (or approximately 93%) of the 2016 Revolving Facility Commitments. On the Closing Date, the Company voluntarily repaid approximately $196.0 million of the 2021 Term Loan Facility held by the extending term lenders and voluntarily terminated approximately $65.0 million of the 2021 Revolving Facility Commitments of the extending revolving lenders. After giving effect to the repayments and commitment terminations, there were approximately $1,370.0 million of 2021 Term Loan Facility and approximately $260.0 million of 2021 Revolving Facility Commitments outstanding under the 2021 Credit Agreement. In addition, there were $26.9 million of 2016 Term Loan Facility and approximately $25.0 million of 2016 Revolving Facility Commitments outstanding under the 2016 Credit Agreement.

In conjunction with the transaction noted above, on January 6, 2021, the Company completed the issuance of $686.7 million of new 8% junior-priority senior secured notes due November 2024 (the “2021 Senior Secured Notes”), consisting of (i) $329.5 million aggregate principal amount of the 2021 Senior Secured Notes issued for cash; (ii) $346.1 million aggregate principal amount of the Senior Secured Notes issued in exchange for the Company’s 7.875% Senior Notes due 2024 issued in 2016 (the “2016 Senior Notes”); and (iii) $11.1 million aggregate principal amount of the 2021 Senior Secured Notes issued in exchange for the term loan under MHGE Parent, LLC’s term loan agreement (the “MHGE Parent Term Loan”).

We refer to the issuance of the 2021 Term Loan Facility and the 2021 Senior Secured Notes, together with the other transactions described in the paragraphs above, collectively as the "Refinancing".

The Refinancing was accounted for in accordance with ASC 470 -50, Debt - “Modifications and Extinguishments”. As a result, we incurred a loss on extinguishment of debt of $3.8 million, associated with the MHGE Parent Term Loan, consisting of a prepayment fees of $1.3 million and the write-off of unamortized deferred financing fees of $1.0 million and original debt discount of $1.5 million related to the portion of the debt accounted for as an extinguishment. The loss on extinguishment of debt is recorded within Interest expense (income), net in the consolidated statement of operations. With respect to the portion of the debt accounted for as a modification, the

Company continued to capitalize $19.1 million of the unamortized deferred financing fees and $28.5 million of the original debt discount. Furthermore, we incurred $34.8 million of creditor and third-party fees on the 2016 Senior Notes, 2021 Senior Secured Notes, 2016 Term Loan Facility and 2021 Term Loan Facility, of which, $3.7 million were capitalized as deferred financing fees, $14.5 million were capitalized as debt discount and $16.4 million were expensed and included within Interest expense (income), net in our consolidated statements of operations for the year ended March 31, 2021.

***2016 Senior Notes***

On May 4, 2016, the Company issued $400.0 million aggregate principal amount of the 7.875% Senior Notes due May 2024, ("2016 Senior Notes") in a private placement. Interest on the 2016 Senior Notes is payable semi-annually in arrears on May 15 and November 15 of each year.

On January 6, 2021, after giving effect to the Refinancing noted above, the Company exchanged $346.1 million of the 2016 Senior Notes for 2021 Senior Secure Notes and the aggregate principal amount of $53.9 million 2016 Senior Notes remained outstanding. The Company also repurchased $17.2 million and $3.0 million of 2016 Senior Notes on March 4, 2021 and March 18, 2021, respectively.

As of March 31, 2021, the unamortized debt discount and deferred financing costs with respect to the 2016 Senior Notes was $2.2 million and $1.0 million, respectively, which are amortized over the term of the 2016 Senior Notes using the effective interest method.

The Company may redeem the 2016 Senior Notes at its option, in whole or in part at certain redemption prices.

The 2016 Senior Notes are fully and unconditionally guaranteed by the Company’s direct or indirect wholly owned material domestic subsidiaries.

The 2016 Senior Notes contain certain customary negative covenants and events of default. The negative covenants limit the Company and its restricted subsidiaries’ ability to, among other things: incur additional indebtedness or issue certain preferred shares, create liens on certain assets, pay dividends or prepay junior debt, make certain loans, acquisitions or investments, materially change its business, engage in transactions with affiliates, conduct asset sales, restrict dividends from subsidiaries, restrict liens, or merge, consolidate, sell or otherwise dispose of all or substantially all of the Company assets.

The fair value of the outstanding 2016 Senior Notes was approximately $33.3 million and $280.0 million as of March 31, 2021 and March 31, 2020, respectively. The Company estimates the fair value of its 2016 Senior Notes based on trades in the market. Since the 2016 Senior Notes do not trade on a daily basis in an active market, the fair value estimates are based on market observable inputs based on borrowing rates currently available for debt with similar terms and average maturities (Level 2). As of March 31, 2021, the remaining contractual life of the 2016 Senior Notes is approximately 3.1 years.

***2021 Senior Secured Notes***

In conjunction with the Refinancing noted above, on January 6, 2021, the Company issued $686.7 million aggregate principal amount 8.00% junior-priority Senior Secured Notes due November 2024 (the “2021 Senior Secured Notes”). Interest on 2021 Senior Secured Notes is payable semi-annually in arrears on July 15 and January 15 of each year.

As of March 31, 2021, the unamortized debt discount and deferred financing costs with respect to the 2021 Senior Secured Notes $32.7 million and $10.7 million, respectively, which are amortized over the term of the 2021 Senior Secured Notes using the effective interest method.

The Company may redeem the 2021 Senior Secured Notes at their option at certain redemption prices.

All obligations under 2021 Senior Secured Notes are unconditionally guaranteed by the Company's direct or indirect wholly owned material domestic subsidiaries. The obligations under the 2021 Senior Secured notes are secured by security interests in substantially all the assets of the Company and its direct or indirect wholly owned domestic subsidiaries that are junior in priority to the security interests in such assets in favor of the 2021 Credit Agreement.

The 2021 Senior Secured Notes contain certain customary negative covenants and events of default. The negative covenants limit the Company's and its restricted subsidiaries' ability to, among other things: incur additional indebtedness or issue certain preferred shares, create liens on certain assets, pay dividends or prepay junior debt, make certain loans, acquisitions or investments, materially change its business, engage in transactions with affiliates, conduct asset sales, restrict dividends from subsidiaries, restrict liens, or merge, consolidate, sell or otherwise dispose of all or substantially all of the Company's assets.

The fair value of the 2021 Senior Secured Notes was approximately $693.6 million as of March 31, 2021. The Company estimates the fair value of its 2021 Senior Secured Notes based on trades in the market. Since the 2021 Senior Secured Notes do not trade on a daily basis in an active market, the fair value estimates are based on market observable inputs based on borrowing rates currently available for debt with similar terms and average maturities (Level 2). As of March 31, 2021, the remaining contractual life of the 2021 Senior Secured Notes is approximately 3.72 years.

***2016 Credit Agreement***

On May 4, 2016, the Company entered into the 2016 Credit Agreement. The 2016 Credit Agreement provided for senior secured financing of up to $1,925.0 million, consisting of:

- a term loan facility in an aggregate principal amount of $1,575.0 million with a maturity of 6 years (the "2016 Term Loan Facility"; and

- a revolving credit facility in an aggregate principal amount of up to $350.0 million with a maturity of 5 years (the "2016 Revolving Credit Facility" and together with the 2016 Term Loan Facility, the "2016 Credit Agreement Facilities"), including both a letter of credit sub-facility and a swingline loan sub-facility.

On December 15, 2017, the Company completed an incremental aggregate principal amount of $150.0 million under the 2016 Term Loan Facility. The incremental Term Loan Facility was issued at a 0.25% discount and will mature concurrently with the 2016 Term Loan Facility.

On January 6, 2021 (the "Refinancing Date"), the Company completed the amendment to the 2016 Credit Agreement to (i) modify certain provisions of the 2016 Credit Agreement and related loan documents, (ii) following such modification, to extend the maturity of the 2016 Term Loan Facility and to exchange 2016 Term Loan Facility for the 2021 Term Loan Facility under the 2021 Credit Agreement and (iii) extend the maturity date of the 2016 Revolving Facility Commitments and to exchange the 2016 Revolving Facility Commitments for the 2021 Revolving Facility Commitments under the 2021 Credit Agreement (the "Extension Transactions").

In connection with the Extension Transactions, the 2016 Credit Agreement and certain related loan documents were amended to, among other things, (i) remove all negative covenants and affirmative covenants, (ii) remove all events of default other than payment and bankruptcy related events of default, (iii) remove the asset sale and excess cash flow mandatory prepayment provisions and (iv) release the liens granted to the collateral agent over the assets of the Company and its subsidiaries comprising the "Global Professional" segment of the Company, which liens remain as collateral to secure the obligations under the 2021 Credit Agreement and the New Senior Secured Notes.

Borrowings under the 2016 Credit Agreement Facilities bear interest at a rate equal to a LIBOR or Prime rate plus an applicable margin, 1.00% floor in the case of the 2016 Term Loan Facility. As of March 31, 2021, the interest rate for the 2016 Credit Agreement Facilities was 5.0%. In addition, the 2016 Term Loan Facility was issued at a discount of 0.5%.

As of March 31, 2021, the amount available under the 2016 Revolving Facility Commitments was approximately $25.0 million. We are required to pay a commitment fee of 0.50% per annum to the lenders under the 2016 Revolving Facility Commitments in respect of the unutilized commitments thereunder. The 2016 Revolving Facility Commitments will mature on May 4, 2021.

The fair value of the loans under the 2016 Term Loan Facility was approximately $27.0 million and $1,333.1 million as of March 31, 2021 and March 31, 2020, respectively. The Company estimates the fair value of the loans under the 2016 Term Loan Facility based on trades in the market. Since the loans under the 2016 Term Loan Facility do not trade on a daily basis in an active market, the fair value estimates are based on market observable inputs based on borrowing rates currently available for debt with similar terms and average maturities (Level 2). As of March 31, 2021, the remaining contractual life of the 2016 Term Loan Facility is approximately 1.1 years.

***2021 Credit Agreement***

The Company received consents to the Extension Transactions from holders of approximately $1,560.0 million (or approximately 98%) of the 2016 Term Loan Facility and holders of approximately $325.0 million (or approximately 93%) of the 2016 Revolving Facility Commitments. On Refinancing Date, the Company entered into the 2021 Credit Agreement which governs the 2021 Term Loan Facility and the 2021 Revolving Credit Commitments (collectivey, the "2021 Credit Agreement Facilities") and voluntarily repaid approximately $196.0 million of the 2021 Term Loan Facility held by the extending term lenders and voluntarily terminated approximately $65.0 million of the 2021 Revolving Facility Commitments of the extending revolving lenders. After giving effect to the repayments and commitment terminations, there were approximately $1,370.0 million of 2021 Term Loan Facility and approximately $260.0 million of 2021 Revolving Facility Commitments outstanding under the 2021 Credit Agreement.

All obligations under the 2021 Credit Agreement are fully and unconditionally guaranteed by MHGE Intermediate Holdings and by each of the Company’s direct and indirect wholly owned material domestic subsidiaries. The obligations are secured by first-priority security interests in, subject to permitted liens and certain exceptions, the equity interests of the Company held by MHGE Intermediate Holdings, 100% of the equity interests of domestic and foreign subsidiaries that are directly owned by the Company or any subsidiary guarantor, and substantially all the assets of the Company and the subsidiary guarantors.

Borrowings under the 2021 Credit Agreement Facilities bear interest at a rate equal to LIBOR or Prime rate plus an applicable margin, subject to a 1.00% floor in the case of the 2021 Credit Agreement Facilities. As of March 31, 2021, the interest rate for the Term Loan Facility was 5.75%. In addition, the Term Loan Facility was issued at a discount of 0.25%. As of March 31, 2021, the unamortized debt discount and deferred financing costs was $8.0 million and $6.9 million, respectively, which are amortized over the term of the facility using the effective interest method. The 2021 Term Loan Facility will mature on November 1, 2024.

The 2021 Credit Agreements contains customary financial covenants and events of default under which the obligations thereunder could be accelerated.

As of March 31, 2021, the amount available under the 2021 Revolving Facility was approximately $260.0 million (excluding outstanding letters of credit of $4.3 million). In addition, we are required to pay a commitment fee of 0.50% per annum to the lenders under the 2021 Revolving Facility Commitments in respect of the unutilized commitments thereunder. The 2021 Revolving Facility will mature on November 1, 2023.

The 2021 Credit Agreement requires scheduled quarterly principal payments on the term loans under the 2021 Term Loan Facility in amounts equal to 0.25% of the original principal amount of the term loans commencing with the end of the first full fiscal quarter ending after the closing date, with the balance payable at maturity. The 2021 Credit Agreement also includes customary mandatory prepayment requirements with respect to the term loans under the 2021 Term Loan Facility based on certain events such as asset sales, debt issuances and defined levels of excess cash flow. As of March 31, 2021, the Company determined that no mandatory prepayment of the term loans under the 2021 Term Loan Facility is required.

All obligations under the 2021 Credit Agreement Facilities are unconditionally guaranteed by each of MHGE Holdings' existing and future direct and indirect material, wholly owned domestic subsidiaries. The obligations are secured by substantially all of MHGE Holdings' assets and those of each subsidiary guarantor, the capital stock of the subsidiary guarantors and 65% of the voting capital stock of the first-tier foreign subsidiaries that are not subsidiary guarantors, in each case subject to exceptions. Such security interests consist of a first priority lien with respect to the collateral.

The 2021 Credit Agreement includes a springing covenant that requires that the Company, subject to a testing threshold, comply on a quarterly basis with a maximum net first lien senior secured leverage ratio (the ratio of consolidated net debt secured by first-priority liens on the collateral to Adjusted EBITDA) of (a) with respect to the second, third and fourth fiscal quarters of any fiscal year 4.80 to 1.00 and (b) with respect to the first quarter of any fiscal year, 5.25 to 1.00. The testing threshold is satisfied at any time at which the sum of outstanding revolving credit facility loans, swingline loans and certain letters of credit under the 2021 Revolving Credit Commitments exceeds thirty percent (30%) of the 2021 Revolving Credit Facility. This is tested each quarter end.

Adjusted EBITDA reflects EBITDA as defined in the 2021 Credit Agreement. Solely for the purpose of calculating the springing financial covenant, pre-publication investments should be excluded from the calculation of Adjusted EBITDA.

The 2021 Credit Agreement contains certain customary affirmative covenants and events of default. The negative covenants in the 2021 Credit Agreement include, among other things, limitations on MHGE Holdings' and its subsidiaries' ability to incur additional debt or issue certain preferred shares; create liens on certain assets; make certain loans or investments (including acquisitions); pay dividends on or make distributions in respect of capital stock or make other restricted payments; consolidate, merge, sell or otherwise dispose of all or substantially all of their assets; sell assets; enter into certain transactions with affiliates; enter into sale-leaseback transactions; change their lines of business; restrict dividends from their subsidiaries or restrict liens; change their fiscal year; and modify the terms of certain debt or organizational agreements.

The fair value of the loans under the 2021 Term Loan Facilities was approximately $1,368.9 million as of March 31, 2021. The Company estimates the fair value of its loans under the 2021 Term Loan Facilities based on trades in the market. Since the Term Loan Facility do not trade on a daily basis in an active market, the fair value estimates are based on market observable inputs based on borrowing rates currently available for debt with similar terms and average maturities (Level 2). As of March 31, 2021, the remaining contractual life of the 2021 Term Loan Facility is approximately 3.64 years.

***MHGE Parent Term Loan (Settled in full in connection with Refinancing Transaction on January 6, 2021)***

On April 20, 2018, the Company, entered into a term loan agreement ("MHGE Parent Term Loan") with Ares Agent Services, L.P., as administrative agent, and clients of Ares Capital Management, LLC and certain funds and accounts advised by Guggenheim Partners Investment Management, LLC, as lenders, providing for a $180.0 million term loan facility (the "MHGE Parent Term Loan") with a maturity of April 20, 2022. The MHGE Parent Term Loan was issued at a discount of 2.5%.

The MHGE Parent Term Loan bore interest at 11.00% per annum for interest paid in cash and 11.75% per annum for interest paid in kind. Interest was payable semiannually on April 15 and October 15 of each year, commencing on October 15, 2018. Upon closing, the Company was required to deposit $39.3 million of the MHGE Parent Term Loan proceeds into an escrow account, representing the first four interest payments which must be paid in cash. The deposit in the escrow account was released for the period commencing on June 15, 2019, and ending on and including July 15, 2019. The MHGE Parent Term Loan was unsecured and was not guaranteed by any of the MHGE Parent subsidiaries.

In conjunction with the Refinancing noted above, on January 6, 2021, the Company paid down the MHGE Parent Term Loan, inclusive of $1.3 million prepayment fees, using $50 million cash on hand and cash proceeds from the issuance of the 2021 Senior Secured Notes. All commitments thereunder terminated in connection with the Refinancing.

***Receivables Facility***

On October 29, 2018, MHE Receivables LLC (the "Borrower"), a newly formed special purpose subsidiary of McGraw Hill LLC, entered into a Receivables Financing Agreement ("RFA") with PNC Bank, National Association, as administrative agent (the "Administrative Agent"), providing for a receivables financing facility (the "Receivables Facility") up to a committed principal amount of $50.0 million with an additional committed principal amount of up to $100.0 million for each seasonal period, subject to an annual audit. The Receivables Facility had a original maturity of October 29, 2021. On August 28, 2020, the agreement was amended to extend the maturity date of the Receivables Facility to August 28, 2023. The Company incurred $1.0 million amended fees to extend the maturity.

The borrowing capacity under the Receivables Facility is subject to a borrowing limit that is based on the Borrower's Eligible Receivables, as defined in the RFA. Under a Purchase and Sale Agreement entered into in connection with the Receivables Facility, all existing receivables of McGraw Hill LLC have been assigned to the Borrower and all future receivables of McGraw Hill LLC will be automatically assigned to the Borrower when they are created.

As of March 31, 2021, $45.0 million was outstanding under the Receivables Facility which is included in long-term debt, within the consolidated balance sheet. Borrowings under the Receivables Facility bear interest at LIBOR plus 3.75%, subject to adjustments, and are payable monthly. In addition, we also incur an undrawn fee of 0.50% on unutilized commitments. As of March 31, 2021, the unamortized deferred financing costs was $1.2 million which are amortized over the term of the Receivables Facility using the effective interest method.

***Scheduled Principal Payments***

The scheduled principal payments required under the terms of the 2016 Senior Notes, 2021 Senior Secured Notes, 2016 Term Loan Facility, 2021 Term Loan Facility and Receivables Facility were as follows:

| **(Dollars in thousands)** | **As of March 31, 2021** |
|---|---|
| 2022 | $ 13,964 |
| 2023 | 40,261 |
| 2024 | 58,672 |
| 2025 | 2,046,515 |
| | 2,159,412 |
| Less: Current portion | (13,964) |
| | **$ 2,145,448** |

***Cash Flows***

Cash flows from operating, investing and financing activities are presented in the following table:

| **(Dollars in thousands)** | **Year Ended March 31, 2021** | **Year Ended March 31, 2020** | **Change** |
|---|---|---|---|
| Cash flows from (used for) operating activities | $ 395,378 | $ 263,598 | $ 131,780 |
| Cash flows (used for) from investing activities | (113,188) | (145,448) | 32,260 |
| Cash flows (used for) from financing activities | (111,638) | (113,881) | 2,243 |

Net cash flows from operating activities consist of profit after income tax, adjusted for changes in net working capital and non-cash items such as depreciation, amortization and write-offs, and provisions.

*Operating Activities*

- Cash flows (used for) provided by operating activities for the year ended March 31, 2021 and 2020 were $395.4 million and $263.6 million, respectively, an increase of $131.8 million. The increase in cash provided by operating activities was primarily driven by increase in net income of $180.1 million partially offset by unfavorable net change in non-cash items and net change in operating assets and liabilities of $34.0 million and $12.4 million, respectively. The net change in operating assets and liabilities were primarily due to reduced deferred revenue (as a result of lower sales) and lower accounts payables and accrued expenses attributable to ongoing cost rationalization efforts.

*Investing Activities*

- Cash flows (used for) provided by investing activities for the year ended March 31, 2021 and 2020 were $113.2 million and $145.4 million, respectively, a decrease of $32.3 million. Cash flows used for investing activities decreased as a result of completion of leasehold improvements related to our move to our new headquarters located at 1325 Ave of Americas in New York in FY 2020.

*Financing Activities*

- Cash flows (used for) provided by financing activities for the year ended March 31, 2021 and 2020 were $111.6 million and $113.9 million, respectively, a decrease of $2.2 million. Cash flows used for financing activities were primarily impacted by the debt refinancing transaction in the fourth quarter of fiscal 2021.

***Capital Expenditures and Pre-publication Expenditures***

Part of our plan for growth and stability includes disciplined capital expenditures and pre-publication expenditures.

An important component of our cash flow generation is our pre-publication efficiency. We have been focused on optimizing our pre-publication expenditures to generate content that can be leveraged across our full range of products, maximizing long-term return on investment. Pre-publication expenditures, principally external preparation costs, are amortized from the year of publication over their estimated useful lives, one to six years, using either an accelerated or straight-line method. The majority of the programs are amortized using an accelerated methodology. We periodically evaluate the amortization methods, rates, remaining lives and recoverability of such costs. In evaluating recoverability, we consider our current assessment of the market place, industry trends, and the projected success of programs. Our pre-publication expenditures were $76.1 million and $74.2 million for the years ended March 31, 2021, and 2020, respectively.

Capital expenditures include purchases of property, plant and equipment and capitalized technology costs that meet certain internal and external criteria. Capital expenditures were $31.9 million and $73.8 million for the years ended March 31, 2021 and 2020, respectively. Capital expenditures includes approximately Nil and $27 million for the years ended March 31, 2021 and 2020, respectively, for the leasehold improvements incurred related to our move to 1325 Ave of Americas head office and new office in Chicago.

Our planned capital expenditures and pre-publication expenditures will require, individually and in the aggregate, significant capital commitments and, if completed, may result in significant additional revenues. Cash needed to finance investments and projects currently in progress, as well as additional investments being pursued, is expected to be made available from operating cash flows and our credit facilities. See "Indebtedness and Liquidity" for further information.

***Off-Balance Sheet Arrangements***

As of March 31, 2021, we did not have any relationships with unconsolidated entities, such as entities often referred to as specific purpose or variable interest entities where we are the primary beneficiary, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such we are not exposed to any financial liquidity, market or credit risk that could arise if we had engaged in such relationships.

***Contractual Obligations***

We typically have various contractual obligations, which are recorded as liabilities in our consolidated balance sheets, while other items, such as certain purchase commitments and other executory contracts, are not recognized, but are disclosed herein. For example, we are contractually committed to acquire paper and other printing services and make certain minimum lease payments for the use of property under operating and capital lease agreements.

The following table summarizes our significant debt related contractual obligations over the next several years as of March 31, 2021:

| | Payments due by Period | | | | |
|---|---|---|---|---|---|
| **(Dollars in thousands)** | **Total** | **2022** | **2023-2024** | **2025-2026** | **2027 and beyond** |
| Long-term debt, including current portion (1) | $ 2,159,412 | $ 13,964 | $ 98,933 | $2,046,515 | $ — |
| Interest on long-term debt (2) | 528,115 | 153,642 | 279,834 | 94,639 | — |
| Operating lease obligations (3) | 244,861 | 25,000 | 44,511 | 37,421 | 137,929 |
| Finance lease obligations (4) | 38,289 | 13,071 | 22,045 | 3,173 | — |
| Paper and printing services (5) | 100,200 | 86,500 | 13,700 | — | — |
| Purchase obligations and other (6) | 51,252 | 28,226 | 23,026 | — | — |

(1) Amounts shown include principal on the 2016 Senior Notes, 2021 Senior Secured Notes, 2016 and 2021 Term Loan Facilities, Revolving Facility, MHGE Parent Term Loan and Receivables Facility.
(2) Amounts shown include interest on the 2016 Senior Notes, 2021 Senior Secured Notes, 2016 and 2021 Term Loan Facilities, Revolving Facility, and Receivables Facility.
(3) Amounts shown include taxes and escalation payments related to our operating lease obligations, net of sublease income.
(4) Amounts shown include future minimum lease payments on our finance leases.
(5) We have contracts to purchase paper and printing services that have target volume commitments. However, there are no contractual terms that require us to purchase a specified amount of goods or services and if significant volume shortfalls were to occur during a contract period, then revised terms may be renegotiated with the supplier. These obligations are not recorded in our consolidated financial statements until contract payment terms take effect.
(6) “Other” consists primarily of commitments for global technology support and maintenance and enhancement activity related to the Oracle ERP system.

**Critical Accounting Policies and Estimates**

Critical accounting policies are those that require the Company to make significant judgments, estimates or assumptions that affect amounts reported in the financial statements and accompanying notes. On an on-going basis, we evaluate our estimates and assumptions, including, but not limited to, revenue recognition, allowance for doubtful accounts and sales returns, inventories, pre-publication costs, accounting for the impairment of long-lived assets (including other intangible assets), goodwill and indefinite-lived intangible assets, stock-based compensation, income taxes and contingencies. The Company bases its judgments, estimates and assumptions on current facts, historical experience and various other factors that the Company believes to be reasonable and prudent under the circumstances. Actual results may differ materially from these estimates. For a complete description of our significant accounting policies, see Note 1, "Basis of Presentation and Accounting Policies" of the notes to consolidated financial statements included elsewhere in this Annual Report.

***Allowance for Estimated Credit Losses***

The allowance for credit losses on accounts receivables are based on historical analysis, a review of outstanding balances and current conditions. In determining credit losses, we consider, among other factors, the financial condition and risk profile of our customers, areas of specific or concentrated risk as well as applicable industry trends or market indicators. Credit losses are charged against the allowance for credit losses when the receivable is determined to be uncollectible. The change in the allowance for credit losses is reflected as part of operating and administrative expenses in our consolidated statement of operations.

Our historical loss rates have not shown any significant differences between customer profiles or geographies, and, upon adoption of ASU 2016-13, Financial Instruments - Credit Losses (“ASU 2016-13”), we grouped all accounts receivables into a single portfolio.

***Sales Returns***

The allowance for sales returns is a significant estimate, which is based on historical rates of return and current market conditions. The provision for sales returns is reflected as a reduction to “Revenues” in our consolidated statements of operations for sales recognized as revenue and as a reduction to "Deferred revenue" in our consolidated balance sheet for sales which have not been recognized yet. Sales returns are charged against the reserve as products are returned to inventory.

***Inventories***

Inventories, consisting principally of books, are stated at the lower of cost or net realizable value and are valued using the first in first out (FIFO) method. The majority of our inventories relate to finished goods. A significant estimate, the reserve for inventory obsolescence, is reflected in operating and administration expenses. In determining this reserve, we consider management’s current assessment of the marketplace, industry trends and projected product demand as compared to the number of units currently on hand.

***Consigned Inventory***

Consigned inventory consists mainly of books available through our formal rental program stated at the lower of cost or net realizable value. At the time a rental transaction is completed, the book is moved from inventories, net to property, plant and equipment, net. The cost of the book is amortized down to its estimated residual value over the rental period with the related amortization expense included within cost of sales in the consolidated statements of operations. Returns are moved back into inventories, net at the current residual value.

***Pre-publication Costs***

Pre-publication costs include both the cost of developing educational content and the development of assessment solution products. Costs incurred prior to the publication date of a title or release date of a product represent activities associated with product development. These may be performed internally or outsourced to subject matter specialists and include, but are not limited to, editorial review and fact verification, graphic art design and layout and the process of conversion from print to digital media or within various formats of digital media. These costs are capitalized when the costs can be directly attributable to a project or title and the title is expected to generate probable future economic benefits. Capitalized costs are amortized upon publication of the title over its estimated useful life of up to six years, with a higher proportion of the amortization typically taken in the earlier years. Amortization expenses for prepublication costs are charged as a component of operating and administration expenses within the accompanying consolidated statement of operations. In evaluating recoverability, we consider management’s current assessment of the marketplace, industry trends and the projected success of programs.

***Deferred Technology Costs***

We capitalize certain software development and website implementation costs. Capitalized costs only include incremental, direct costs of materials and services incurred to develop the software after the preliminary project stage is completed, funding has been committed and it is probable that the project will be completed and used to perform the function intended. Incremental costs are expenditures that are out-of-pocket to us and are not part of an allocation or existing expense base. Software development and website implementation costs are expensed as incurred during the preliminary project stage. Capitalized costs are amortized from the period the software is ready for its intended use over its estimated useful life, three to seven years, using the straight-line method. Periodically, we evaluate the amortization methods, remaining lives and recoverability of such costs. Capitalized software development and website implementation costs are included in other non-current assets in the consolidated balance sheets and are presented net of accumulated amortization.

***Accounting for the Impairment of Long-Lived Assets (Including Other Intangible Assets)***

We evaluate long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Upon such an occurrence, recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to current forecasts of undiscounted future net cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized equal to the amount by which the carrying amount of the asset exceeds the fair value of the asset. Long-lived assets held for sale are written down to fair value, less cost to sell. Fair value is determined based on market evidence, discounted cash flows, appraised values or management's estimates, depending upon the nature of the assets.

***Goodwill and Indefinite-Lived Intangible Assets***

Goodwill represents the excess of purchase price and related costs over the fair value of identifiable assets acquired and liabilities assumed in a business combination. Indefinite-lived intangible assets consist of the Company's acquired brands. Goodwill and indefinite-lived intangible assets are not amortized, but instead are tested for impairment annually during the third quarter each year, or more frequently if events or changes in circumstances indicate that the asset might be impaired. We have four reporting units, Higher Education, K-12, International and Global Professional with goodwill and indefinite-lived intangible assets that are evaluated for impairment.

We initially perform a qualitative analysis evaluating whether there are events or circumstances that provide evidence that it is more likely than not that the fair value of any of our reporting units or indefinite-lived intangible assets are less than their carrying amount. If, based on our evaluation we do not believe that it is more likely than not that the fair value of any of our reporting units or indefinite-lived intangible assets are less than their carrying amount, no quantitative impairment test is performed. Conversely, if the results of our qualitative assessment determine that it is more likely than not that the fair value of any of our reporting units or indefinite-lived intangible assets are less than their respective carrying amounts we perform a two-step quantitative impairment test.

During the first step, the estimated fair value of the reporting units are compared to their carrying value including goodwill and the estimated fair value of the intangible assets is compared to their carrying value. Fair values of the reporting units are estimated using the income approach, which incorporates the use of a discounted free cash flow analysis, and are corroborated using the market approach, which incorporates the use of revenue and earnings multiples based on market data. The discounted free cash flow analyses are based on the current operating budgets and estimated long-term growth projections for each reporting unit. Future cash flows are discounted based on a market comparable weighted average cost of capital rate for each reporting unit, adjusted for market and other risks where appropriate. Fair values of indefinite-lived intangible assets are estimated using avoided royalty discounted free cash flow analyses. Significant judgments inherent in these analyses include the selection of appropriate royalty and discount rates and estimating the amount and timing of expected future cash flows. The discount rates used in the discounted free cash flow analyses reflect the risks inherent in the expected future cash flows generated by the respective intangible assets. The royalty rates used in the discounted free cash flow analyses are based upon an estimate of the royalty rates that a market participant would pay to license the Company's trade names and trademarks.

If the fair value of the reporting units or indefinite-lived intangible assets are less than their carrying value, a second step is performed which compares the implied fair value of the reporting unit's goodwill or indefinite-lived intangible assets to the carrying value. The fair value of the goodwill or indefinite-lived intangible assets is determined based on the difference between the fair value of the reporting unit and the net fair value of the identifiable assets and liabilities of the reporting unit or carrying value of the indefinite-lived intangible asset. If the implied fair value of the goodwill or indefinite-lived intangible assets is less than the carrying value, the difference is recognized as an impairment charge. Significant judgments inherent in this analysis include estimating the amount and timing of future cash flows and the selection of appropriate discount rates, royalty rate and long-term growth rate assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit and indefinite-lived intangible asset and for some of the reporting units and indefinite-lived intangible assets could result in an impairment charge, which could be material to our financial position and results of operations.

The following table summarizes the changes in the carrying value of goodwill by reporting segment:

| (Dollars in thousands) | Higher Education | K-12 | International | Global Professional | Total |
|---|---|---|---|---|---|
| **As of March 31, 2019** | **$ 423,057** | **$ 28,436** | **$ 4,089** | **$ 37,078** | **$ 492,660** |
| Adjustment to goodwill | (1,449) | — | — | — | (1,449) |
| **As of March 31, 2020** | **$ 421,608** | **$ 28,436** | **$ 4,089** | **$ 37,078** | **$ 491,211** |
| Additions | — | 5,203 | — | — | 5,203 |
| **Adjustment to goodwill** | 4,317 | — | — | — | 4,317 |
| **As of March 31, 2021** | **$ 425,925** | **$ 33,639** | **$ 4,089** | **$ 37,078** | **$ 500,731** |

On March 16, 2021, the Company acquired Kidaptive, Inc., an adaptive learning platform company with industry-leading expertise in learning science, early learning, and data analytics worldwide. Kidaptive, Inc. was acquired for a purchase price of $5.2 million, which was paid in cash at closing. The $5.2 million paid at closing was financed by cash on hand. Kidaptive, Inc. acquisition was accounted for as a business combination. The fair value allocation for the acquisition is preliminary and will be finalized when a valuation is completed.

For Higher Education segment, goodwill includes a $4.3 million and $(1.4) million impact from foreign exchange as of March 31, 2021 and 2020, respectively.

Based on the results of the impairment analysis performed by the Company, there were no impairment charges recognized relating to the goodwill recorded within the Higher Education, K-12, International or Global Professional reporting units for the year ended March 31, 2021 and 2020.

***Stock-Based Compensation***

The Company issues stock options and other stock-based compensation to eligible employees, directors and consultants and accounts for these transactions under the provisions of Accounting Standards Codification ("ASC") 718, *Compensation-Stock Compensation*. For equity awards, total compensation cost is based on the grant date fair value. For liability awards, total compensation cost is based on the fair value of the award on the date the award is granted and is remeasured at each reporting date until settlement. For performance-based options issued, the value of the instrument is measured at the grant date as the fair value of the common stock and expensed over the vesting term when the performance targets are considered probable of being achieved. The Company recognizes stock-based compensation expense for all awards, on a straight-line basis, over the service period required to earn the award, which is typically the vesting period.

***Revenue Recognition***

Revenue is recognized when control of goods or services are transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. We determine revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when, or as, we satisfy a performance obligation.

*Arrangements with multiple deliverables*

Revenue relating to products that provide for more than one deliverable is recognized based upon the relative fair value to the customer of each deliverable as each deliverable is provided. Revenue relating to agreements that provide for more than one service is recognized based upon the relative fair value to the customer of each service component as each component is earned. If the fair value to the customer for each service is not determinable based on stand-alone selling price, we make our best estimate of the services' stand-alone selling price and recognize revenue as earned as the services are delivered. Because we determine the basis for allocating consideration to each deliverable primarily on prices experienced from completed sales, the portion of consideration allocated to each deliverable in a multiple deliverable arrangement may increase or decrease depending on the most recent selling price of a comparable product or service sold on a stand-alone basis. For example, as the demand for, and prevalence of, digital products increases, as new sales occur we may be required to increase the amount of consideration allocable to digital products included in multiple deliverable arrangements because the fair value of such products or services may increase relative to other products or services bundled in the arrangement. Conversely, in the event that demand for our print products decreases, thereby causing us to experience reduced prices on our print products, we may be required to allocate less consideration to our print products in our arrangements that include multiple deliverables.

*Subscription-based products*

Subscription income is recognized over the related subscription period that the subscription is available and is used by the customer. Subscription revenue received or receivable in advance of the delivery of services or publications is included in deferred revenue. Incremental costs that are directly related to the subscription revenue are deferred and amortized over the subscription period. Included among the underlying assumptions related to our estimates that impact the recognition of subscription income is the extent of our responsibility to provide access to our subscription-based products, and the extent of complementary support services customers demand to access our products.

*Service arrangements*

Revenue relating to arrangements that provide for more than one service is recognized based upon the relative fair value to the customer of each service component as each component is earned. Such arrangements may include digital products bundled with traditional print products, obligations to provide products and services in the future at no additional cost, and periodic training pertinent to products and services previously provided. If the fair value to the customer for each service is not objectively determinable, we make our best estimate of the services' stand-alone selling price and recognize revenue as earned as the services are delivered.

*Rental program*

Revenue relating to our rental program is deferred and subsequently recognized over the rental period. The rental period begins when the print product is transferred to the customer and are typically for one semester. All rental periods are less than one year in duration.

***Income Taxes***

We determine the provision for income taxes using the asset and liability approach. Under this approach, deferred income taxes represent the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities.

Valuation allowances are established when management determines that it is more likely than not that some portion or all of the deferred tax asset will not be realized. Management evaluates the weight of both positive and negative evidence in determining whether a deferred tax asset will be realized. Management will look to a history of losses, future reversal of existing taxable temporary differences, taxable income in carryback years, feasibility of tax planning strategies, and estimated future taxable income. The valuation allowance can also be affected by changes in tax laws and changes to statutory tax rates.

We prepare and file tax returns based on management's interpretation of tax laws and regulations. As with all businesses, our tax returns are subject to examination by various taxing authorities. Such examinations may result in future tax assessments based on differences in interpretation of the tax law and regulations. We adjust our estimated uncertain tax positions reserves based on audits by and settlements with various taxing authorities as well as changes in tax laws, regulations, and interpretations. The Company recognizes accrued interest and penalties related to uncertain tax positions in income tax (benefit) provision within the consolidated statement of operations.

***Recently Adopted Accounting Standards***

In August 2018, the FASB issued ASU 2018-15, *Intangibles - Goodwill and other - Internal-Use Software (Topic 350-40)*: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract. This standard requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in Topic 350-40 to determine which implementation costs to capitalize as assets. This standard is effective for annual reporting periods beginning after December 15, 2020, and interim periods within annual periods beginning after December 15, 2021, with early adoption permitted. The early adoption of this ASU on the Company's financial statements was not material.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740)*, the Amendments in this update reduce the complexity in accounting for income taxes by removing certain exceptions to accounting for income taxes and deferred taxes and simplifying the accounting treatment of franchise taxes, a step up in the tax basis of goodwill as part of business combinations, the allocation of current and deferred tax to a legal entity not subject to tax in its own financial statements, reflecting changes in tax laws or rates in the annual effective rate in interim periods that include the enactment date and minor codification improvements. This ASU is effective for fiscal years and interim periods beginning after December 15, 2020, with early adoption permitted. The early adoption of this ASU on the Company's financial statements was not material.

In August 2018, the FASB issued ASU No. 2018-13, "*Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*," which modifies the disclosure requirements on fair value measurements. This standard is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. The adoption of this ASU on the Company's financial statements was not material.

In August 2017, the FASB issued ASU 2017-12, "*Derivative and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*", which aligns hedge accounting with risk management activities and changes both how companies assess hedge effectiveness and presentation and disclosure requirements. This standard is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. The adoption of this ASU on the Company's financial statements was not material.

On March 27, 2020, the U.S. enacted the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"). The CARES Act is an approximately $2 trillion emergency economic stimulus package in response to the Coronavirus outbreak, which among other things, contains several payroll and income tax provisions which will favorably impact the Company including deferral of payment of employer Social Security taxes, relaxed interest expense tax deduction limitations, and accelerated tax depreciation on certain capital improvements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326)* - Measurement of Credit Losses on Financial Instruments. The FASB's new guidance changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income, including trade receivables, based on historical experience, current conditions and reasonable and supportable forecasts. This amendment is effective for interim and annual reporting periods beginning after December 15, 2019. The Company adopted this standard on April 1, 2020. The adoption of this ASU on the Company's financial statements was not material.

Recently issued FASB accounting standard codification updates, except for the above standards, did not have a material impact to the Company's consolidated financial statements for the year ended March 31, 2021.

## ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

***Foreign Exchange Risk***

Our exposure to market risk includes changes in foreign exchange rates. We have operations in various foreign countries where the functional currency is primarily the local currency. For international operations that are determined to be extensions of the parent company, the United States dollar is the functional currency. Our principal currency exposures relate to the Australian Dollar, British Pound, Canadian Dollar, Euro, Mexican Peso and Singapore Dollar. From time to time, we may enter into hedging arrangements with respect to foreign currency exposures.

***Interest Rate Risk***

*Term Loan Facility*

Borrowings under our Existing and Extended Term Loan Facility will accrue interest at variable rates with a LIBOR floor of 1%, and a 100 basis point increase in the LIBOR on our debt balances outstanding as of March 31, 2021 would increase our annual interest expense by $1.8 million.

From time to time we may enter into hedging arrangements with respect to floating interest rate borrowings. While we may enter into agreements limiting our exposure to higher interest rates, any such agreements may not offer complete protection from this risk.

We do not purchase or hold any derivative financial instruments for trading purposes.

## ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### Report of Independent Auditors

The Board of Directors and Shareholders of McGraw-Hill Education, Inc. and its subsidiaries.

We have audited the accompanying consolidated financial statements of McGraw-Hill Education, Inc. and subsidiaries (the "Company"), which comprise the consolidated balance sheets as of March 31, 2021 and 2020, and the related statements of operations, comprehensive income (loss), changes in equity (deficit), and cash flows for the years ended March 31, 2021 and 2020, and the related notes and financial statement schedules listed in pages 113 to 115 (collectively referred to as the "consolidated financial statements").

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of McGraw Hill Education, Inc. and subsidiaries at March 31, 2021 and 2020, and the consolidated results of their operations and their cash flows for the years ended March 31, 2021 and 2020, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

New York, New York
June 4, 2021

**McGraw-Hill Education, Inc. and subsidiaries**
**Consolidated Statements of Operations**
**(Dollars in thousands)**

| | Year Ended March 31, 2021 | Year Ended March 31, 2020 |
|---|---|---|
| **Revenue** | $ 1,544,705 | $ 1,584,756 |
| Cost of sales | 336,327 | 366,545 |
| Gross profit | 1,208,378 | 1,218,211 |
| **Operating expenses** | | |
| Operating and administration expenses | 838,837 | 1,029,398 |
| Depreciation | 61,203 | 63,456 |
| Amortization of intangibles | 58,830 | 70,154 |
| Total operating expenses | 958,870 | 1,163,008 |
| Operating income | 249,508 | 55,203 |
| Interest expense (income), net | 193,321 | 188,097 |
| Other (income) expense | (2,770) | (9,118) |
| Income (loss) from operations before taxes on income | 58,957 | (123,776) |
| Income tax provision (benefit) | 14,207 | 11,529 |
| **Net income (loss)** | **$ 44,750** | **$ (135,305)** |

*See accompanying notes to the consolidated financial statements.*

**McGraw-Hill Education, Inc. and subsidiaries**
**Consolidated Statements of Comprehensive Income (Loss)**
**(Dollars in thousands)**

| | Year Ended March 31, 2021 | Year Ended March 31, 2020 |
|---|---|---|
| Net income (loss) | $ 44,750 | $ (135,305) |
| Other comprehensive income (loss): | | |
| Foreign currency translation adjustment, net of tax | 12,965 | (10,006) |
| Unrealized gain (loss) on interest rate swap agreements, net of tax | 2,764 | (7,013) |
| Total other comprehensive income (loss) | $ 15,729 | $ (17,019) |
| **Comprehensive income (loss)** | **$ 60,479** | **$ (152,324)** |

*See accompanying notes to the consolidated financial statements.*

**McGraw-Hill Education, Inc. and subsidiaries**
**Consolidated Balance Sheets**
**(Dollars in thousands)**

| | March 31, 2021 | March 31, 2020 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 354,323 | $ 176,998 |
| Restricted cash | — | 9,936 |
| Accounts receivable, net of allowance for doubtful accounts of $16,257 and $17,606 as of March 31, 2021 and 2020, respectively | 231,087 | 242,347 |
| Inventories, net | 153,591 | 177,043 |
| Prepaid and other current assets | 104,937 | 92,940 |
| Total current assets | 843,938 | 699,264 |
| Pre-publication costs, net | 157,310 | 156,336 |
| Property, plant and equipment, net | 125,736 | 134,064 |
| Goodwill | 500,731 | 491,211 |
| Other intangible assets, net | 441,656 | 495,780 |
| Investments | 6,393 | 5,403 |
| Operating lease right-of-use assets | 69,773 | 69,315 |
| Deferred income taxes | 5,285 | 7,561 |
| Other non-current assets | 175,331 | 174,056 |
| **Total assets** | **$ 2,326,153** | **$ 2,232,990** |
| **Liabilities and equity (deficit)** | | |
| Current liabilities | | |
| Accounts payable | $ 127,611 | $ 113,975 |
| Accrued royalties | 54,260 | 45,865 |
| Accrued compensation | 65,683 | 20,470 |
| Deferred revenue | 568,396 | 497,297 |
| Current portion of long-term debt | 13,964 | 17,269 |
| Operating lease liabilities | 9,151 | 13,424 |
| Other current liabilities, including sales returns of $44,955 and $58,084 as of March 31, 2021 and 2020, respectively | 131,163 | 155,703 |
| Total current liabilities | 970,228 | 864,003 |
| Long-term debt | 2,082,681 | 2,141,354 |
| Deferred income taxes | 13,977 | 13,186 |
| Long-term deferred revenue | 618,693 | 643,643 |
| Operating lease liabilities | 93,343 | 89,830 |
| Other non-current liabilities | 52,707 | 49,330 |
| Total liabilities | 3,831,629 | 3,801,346 |
| Commitments and contingencies (Note 16) | | |
| **Stockholders' equity (deficit)** | | |
| Common stock, par value $0.01 per share; 100,000,000 shares authorized, 11,179,477 and 11,149,466 shares issued as of March 31, 2021 and March 31, 2020, respectively; and 10,881,563 and 10,861,636 shares outstanding as of March 31, 2021 and March 31, 2020, respectively | 106 | 106 |
| Additional paid in capital | 56,705 | 53,324 |
| Treasury stock, 297,914 and 287,830 shares as of March 31, 2021 and March 31, 2020, respectively | (24,509) | (23,529) |
| Accumulated deficit | (1,489,310) | (1,534,060) |
| Accumulated other comprehensive loss | (48,468) | (64,197) |
| Total stockholders' equity (deficit) | (1,505,476) | (1,568,356) |
| **Total liabilities and equity (deficit)** | **$ 2,326,153** | **$ 2,232,990** |

*See accompanying notes to the consolidated financial statements.*

**McGraw-Hill Education, Inc. and subsidiaries**
**Consolidated Statements of Cash Flows**
**(Dollars in thousands)**

| | Year Ended March 31, 2021 | Year Ended March 31, 2020 |
|---|---|---|
| **Operating activities** | | |
| Net income (loss) | $ 44,750 | $ (135,305) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities | | |
| Depreciation (including amortization of technology projects) | 61,203 | 63,456 |
| Amortization of intangibles | 58,830 | 70,154 |
| Amortization of pre-publication costs | 77,604 | 97,245 |
| Gain on disposition | — | (2,129) |
| Provision for losses on accounts receivable | 3,033 | 8,741 |
| Inventory obsolescence | 27,893 | 30,893 |
| Deferred income taxes | 3,540 | (554) |
| Stock-based compensation | 7,263 | 13,046 |
| Amortization of debt discount | 12,242 | 10,427 |
| Interest paid-in-kind | 10,575 | — |
| Amortization of deferred financing costs | 17,292 | 11,933 |
| Amortization of deferred royalties | 24,953 | 19,815 |
| Amortization of deferred commission costs | 8,694 | 8,322 |
| Impairment of intangible assets | — | 3,000 |
| Restructuring charges | 12,133 | 24,871 |
| Other | (990) | 895 |
| Changes in operating assets and liabilities, net of the effect of acquisitions | | |
| Accounts receivable | 16,250 | (3,508) |
| Inventories | (4,168) | (5,628) |
| Prepaid and other current assets | (45,792) | (37,793) |
| Accounts payable and accrued expenses | 63,605 | (957) |
| Deferred revenue | 43,191 | 79,531 |
| Other current liabilities | (29,732) | (5,390) |
| Net change in operating assets and liabilities | (16,991) | 12,533 |
| | 395,378 | 263,598 |
| **Investing activities** | | |
| Investment in pre-publication costs | (76,056) | (74,184) |
| Capital expenditures | (31,929) | (73,846) |
| Proceeds from dispositions | — | 2,582 |
| Acquisition | (5,203) | — |
| Cash (used for) provided by investing activities | (113,188) | (145,448) |
| **Financing activities** | | |
| Borrowing on Receivables Facility | 50,000 | 44,600 |
| Borrowings on 2021 Senior Secured Notes | 686,695 | — |
| Repayment on Receivables Facility | (50,000) | (65,900) |
| Payment of 2016 Term Loan Facility | (209,636) | (75,583) |
| Payment of 2016 Senior Notes | (366,339) | — |
| Payment of MHGE Parent Term Notes | (190,575) | — |
| Payment of deferred financing costs | (19,937) | — |
| Payment of capital lease obligations | (11,954) | (13,727) |
| Exercise (repurchase) of common stock | 108 | (2,331) |

**(Dollars in thousands)**

| | | |
|---|---|---|
| Dividend equivalents on vested stock options | — | (940) |
| Cash (used for) provided by financing activities | (111,638) | (113,881) |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | (3,163) | (7,758) |
| Net change in cash, cash equivalents and restricted cash | 167,389 | (3,489) |
| Cash, cash equivalents, and restricted cash at the beginning of the period | 186,934 | 190,423 |
| Cash, cash equivalents, and restricted cash ending balance | $ 354,323 | $ 186,934 |
| **Supplemental disclosures** | | |
| Cash paid for interest expense | $ 146,575 | $ 159,492 |
| Cash paid for income taxes | 10,284 | 6,246 |

*See accompanying notes to the consolidated financial statements.*

**McGraw-Hill Education, Inc. and subsidiaries**
**Consolidated Statement of Changes in Equity (Deficit)**
**(Dollars in thousands, except share data)**

| | Common Stock | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Shares** | **Amount** | **Additional Paid in Capital** | **Treasury Stock** | **Accumulated Deficit** | **Accumulated Other Comprehensive (Loss) Income** | **Total Stockholders' Equity (Deficit)** |
| **Balance at March 31, 2019** | **10,748,833** | **$ 105** | **$ 43,293** | **$ (21,198)** | **$ (1,398,755)** | **$ (47,178)** | **$ (1,423,733)** |
| Net income (loss) | — | — | — | — | (135,305) | — | (135,305) |
| Other comprehensive loss, net of taxes | — | — | — | — | — | (17,019) | (17,019) |
| Conversion of vested restricted stock units | 74,898 | — | — | — | — | — | — |
| Stock Based Compensation | — | — | 13,079 | — | — | — | 13,079 |
| Repurchase of Treasury Stock | — | — | — | (2,331) | — | — | (2,331) |
| Exercise of Options | 37,905 | 1 | 3,404 | — | — | — | 3,405 |
| Modification of Stock Options | — | — | 1,732 | — | — | — | 1,732 |
| Repurchase of vested stock options and restricted stock units | — | — | (8,184) | — | — | — | (8,184) |
| **Balance at March 31, 2020** | **10,861,636** | **$ 106** | **$ 53,324** | **$ (23,529)** | **$ (1,534,060)** | **$ (64,197)** | **$ (1,568,356)** |
| Net income (loss) | — | — | — | — | 44,750 | — | 44,750 |
| Other comprehensive loss, net of taxes | — | — | — | — | — | 15,729 | 15,729 |
| Conversion of vested restricted stock units | 18,181 | — | — | — | — | — | — |
| Stock Based Compensation | — | — | 3,273 | — | — | — | 3,273 |
| Exercise of Options | 1,746 | — | 108 | — | — | — | 108 |
| Repurchase of Treasury Stock | — | — | — | (980) | — | — | (980) |
| **Balance at March 31, 2021** | **10,881,563** | **$ 106** | **$ 56,705** | **$ (24,509)** | **$ (1,489,310)** | **$ (48,468)** | **$ (1,505,476)** |

*See accompanying notes to the consolidated financial statements.*

## 1. Basis of Presentation and Accounting Policies

McGraw-Hill Education Inc. ("MHE", the "Company", "Parent", "we", "us", or "our"), is a global provider of outcome-focused learning solutions, delivering both curated content and digital learning tools and platforms to the students in the classrooms of approximately 250,000 higher education instructors, 13,000 K-12 school districts and a wide variety of academic institutions, professionals and companies in more than 100 countries. We have evolved our business from a print-centric producer of textbooks and instructional materials to a developer of digital content and technology-enabled adaptive learning solutions that are delivered anywhere, anytime. Our business is comprised of the following four operating segments:

- ***Higher Education:*** In the higher education market in the United States, we provide students, instructors and institutions with adaptive digital learning tools, digital platforms, custom publishing solutions and traditional printed textbook products. The primary users of our solutions are students enrolled in two-and four-year non-profit colleges and universities, and to a lesser extent, for profit institutions. We sell our Higher Education solutions to well-known online retailers, distribution partners and college bookstores, who subsequently sell to students. We also increasingly sell via our proprietary e-commerce platform, primarily directly to students, and through our formal rental program which was introduced in the fall of 2018 with rental agreements with all major distribution partners.

- ***K-12:*** In the K-12 market in the United States, we sell our learning solutions directly to K-12 school districts across the United States. While we offer all of our major curriculum and learning solutions in digital format, given the varying degrees of availability and maturity of our customers' technological infrastructure, a majority of our sales are derived from selling blended print and digital solutions.

- ***International:*** We leverage our global scale, brand recognition and extensive product portfolio to serve students in the higher education, K-12 and professional markets in more than 100 countries outside of the United States. Our products and solutions for the International segment are produced in more than 80 languages and primarily originate from our offerings produced for the United States market and that are later adapted to different international markets.

- ***Global Professional:*** We are a leading global provider of medical, technical and business content for the professional, education and test preparation communities serving more than 2,300 institutional clients.

### *Principles of Consolidation*

The accompanying consolidated financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles ("U.S. GAAP") and all significant intercompany transactions and balances have been eliminated. In the opinion of management, the accompanying consolidated financial statements include all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation.

These consolidated financial statements and notes reflect the Company's evaluation of events occurring subsequent to the balance sheet date through June 4, 2021, the date the financial statements were available for issuance.

### *Seasonality and Comparability*

Our revenues, operating profit and operating cash flows are affected by the inherent seasonality of the academic calendar, which varies by country. Changes in our customers' ordering patterns may impact the comparison of our results in a quarter with the same quarter of the previous year, or in a fiscal year with the prior fiscal year, where our customers may shift the timing of material orders for any number of reasons, including, but not limited to, changes in academic semester start dates or changes to their inventory management practices.

(Dollars in thousands, unless otherwise indicated)

***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

On an ongoing basis, we evaluate our estimates and assumptions, including those related to revenue recognition, allowance for credit losses and sales returns, valuation of inventories, pre-publication costs, accounting for the impairment of long-lived assets (including other intangible assets), valuation of right of use assets, goodwill and indefinite-lived intangible assets, restructuring, stock-based compensation, income taxes and contingencies.

***Cash, Cash Equivalents and Restricted Cash***

Cash and cash equivalents include bank deposits and highly liquid investments with original maturities of three months or less that consist primarily of interest bearing demand deposits with daily liquidity, money market and time deposits. The balance also includes cash that is held by the Company outside the United States to fund international operations or to be reinvested outside of the United States. The investments and bank deposits are stated at cost, which approximates market value. These investments are not subject to significant market risk.

Restricted cash represents interest payable through April 15, 2020 relating to the MHGE Parent Term Loan (refer to Note 7, "Debt").

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported in the consolidated balance sheets to the total of the same amounts reported in the consolidated statements of cash flows:

| | As of | |
|---|---|---|
| | **March 31, 2021** | **March 31, 2020** |
| Cash and cash equivalents | $ 354,323 | $ 176,998 |
| Restricted cash | — | 9,936 |
| **Total Cash, Cash Equivalents and Restricted Cash** | **$ 354,323** | **$ 186,934** |

***Accounts Receivable***

Credit is extended to customers based upon an evaluation of the customer's financial condition. Accounts receivable are recorded at net realizable value.

***Allowance for Estimated Credit Losses***

The allowance for credit losses on accounts receivables are based on historical analysis, a review of outstanding balances and current conditions. In determining credit losses, we consider, among other factors, the financial condition and risk profile of our customers, areas of specific or concentrated risk as well as applicable industry trends or market indicators. Credit losses are charged against the allowance for credit losses when the receivable is determined to be uncollectible. The change in the allowance for credit losses is reflected as part of operating and administrative expenses in our consolidated statement of operations.

Our historical loss rates have not shown any significant differences between customer profiles or geographies, and, upon adoption of ASU 2016-13, Financial Instruments - Credit Losses ("ASU 2016-13"), we grouped all accounts receivables into a single portfolio.

***Sales Returns***

The allowance for sales returns is a significant estimate, which is based on historical rates of return and current market conditions. The provision for sales returns is reflected as a reduction to "Revenues" in our consolidated statements of operations for sales recognized as revenue and as a reduction to "Deferred revenue" in our consolidated balance sheet for sales which have not been recognized yet. Sales returns are charged against the reserve as products are returned to inventory.

***Concentration of Credit Risk***

As of March 31, 2021 and 2020, two customers comprised 22% of the gross accounts receivable balance, which is reflective of concentration and seasonality in our industry. In addition, the Company mitigates concentration of credit risk with respect to accounts receivable by performing ongoing credit evaluations of its customers and by periodically entering into arrangements with third parties who have agreed to provide credit insurance or purchase our accounts receivables of certain customers in the event of the customer's financial inability to pay, subject to certain limitations.

The Company had no single customer that accounted for 10% of gross revenue for the year ended March 31, 2021 and 2020. The loss of, or any reduction in sales from, a significant customer or deterioration in their ability to pay could harm our business and financial results.

***Inventories, net***

Inventories, consisting principally of books, are stated at the lower of cost or net realizable value and are valued using the first in first out (FIFO) method. The majority of our inventories relate to finished goods. A significant estimate, the reserve for inventory obsolescence, is reflected in inventories, net within the accompanying consolidated balance sheets. In determining this reserve, we consider management's current assessment of the marketplace, industry trends and projected product demand as compared to the number of units currently on hand.

***Consigned Inventory***

Consigned inventory consists mainly of books available through our formal rental program stated at the lower of cost or net realizable value. At the time a rental transaction is completed, the book is moved from inventories, net to property, plant and equipment, net. The cost of the book is amortized down to its estimated residual value over the rental period with the related amortization expense included within cost of sales within the accompanying consolidated statement of operations. Returns are moved back into inventories, net at the current residual value.

***Pre-publication Costs, net***

Pre-publication costs include both the cost of developing educational content and the development of assessment solution products. Costs incurred prior to the publication date of a title or release date of a product represent activities associated with product development. These may be performed internally or outsourced to subject matter specialists and include, but are not limited to, editorial review and fact verification, graphic art design and layout and the process of conversion from print to digital media or within various formats of digital media. These costs are capitalized when the costs can be directly attributable to a project or title and the title is expected to generate probable future economic benefits. Capitalized costs are amortized upon publication of the title over its estimated useful life of up to six years, with a higher proportion of the amortization typically taken in the earlier years. Amortization expenses for prepublication costs are charged as a component of operating and administration expenses within the accompanying consolidated statement of operations. In evaluating recoverability, we consider management's current assessment of the marketplace, industry trends and the projected success of programs.

***Property, Plant and Equipment, net***

Property, plant and equipment are stated at cost less accumulated depreciation as of March 31, 2021 and 2020. Depreciation and amortization are recorded on a straight-line basis, over the assets' estimated useful lives. Buildings have an estimated useful life, for purposes of depreciation, from ten to forty years. Furniture, fixtures and equipment are depreciated over periods not exceeding twelve years. Leasehold improvements are amortized over the life of the lease or the life of the assets, whichever is shorter. The Company evaluates the depreciation periods of property, plant and equipment to determine whether events or circumstances warrant revised estimates of useful lives.

***Royalty Advances***

Royalty advances are initially capitalized and subsequently expensed as related revenues are earned or when the Company determines future recovery is not probable. The Company has a long history of providing authors with royalty advances, and it tracks each advance earned with respect to the sale of the related publication. Historically, the longer the unearned portion of the advance remains outstanding, the less likely it is that the Company will recover the advance through the sale of the publication, as the related royalties earned are applied first against the remaining unearned portion of the advance. The Company applies this historical experience to its existing outstanding royalty advances to estimate the likelihood of recovery. Additionally, the Company's editorial staff reviews its portfolio of royalty advances at a minimum quarterly to determine if individual royalty advances are not recoverable for discrete reasons, such as the death of an author prior to completion of a title or titles, a Company decision to not publish a title, poor market demand or other relevant factors that could impact recoverability. Based on this information, the portion of any advance that we believe is not recoverable is expensed. The net amount of royalty advances were $4,759 and $4,908 as of March 31, 2021 and 2020, respectively and is included within other non-current assets in the consolidated balance sheets.

***Deferred Technology Costs***

We capitalize certain software development and website implementation costs. Capitalized costs only include incremental, direct costs of materials and services incurred to develop the software after the preliminary project stage is completed, funding has been committed and it is probable that the project will be completed and used to perform the function intended. Incremental costs are expenditures that are out-of-pocket to us and are not part of an allocation or existing expense base. Software development and website implementation costs are expensed as incurred during the preliminary project stage. Capitalized costs are amortized from the period the software is ready for its intended use over its estimated useful life, generally three years, using the straight-line method and are included within depreciation in the consolidated statements of operations. Periodically, we evaluate the amortization methods, remaining lives and recoverability of such costs. Capitalized software development and website implementation costs are included in other non-current assets in the consolidated balance sheets and are presented net of accumulated amortization. Gross deferred technology costs were $236,541 and $207,739 as of March 31, 2021 and 2020, respectively. Accumulated amortization of deferred technology costs were $163,695 and $127,739 as of March 31, 2021 and 2020, respectively. Amortization of deferred technology costs was $35,350 and $37,806 for the year ended March 31, 2021 and 2020, respectively.

***Accounting for the Impairment of Long-Lived Assets (Including Other Intangible Assets)***

We evaluate long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Upon such an occurrence, recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to current forecasts of undiscounted future net cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized equal to the amount by which the carrying amount of the asset exceeds the fair value of the asset. Long-lived assets held for sale are written down to fair value, less cost to sell. Fair value is determined based on market evidence, discounted cash flows, appraised values or management's estimates, depending upon the nature of the assets.

***Goodwill and Indefinite-Lived Intangible Assets***

Goodwill represents the excess of purchase price and related costs over the fair value of identifiable assets acquired and liabilities assumed in a business combination. Indefinite-lived intangible assets consist of the Company's acquired brands. Goodwill and indefinite-lived intangible assets are not amortized, but instead are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Company has historically performed its annual testing for goodwill and indefinite-lived intangible asset impairment as of December 31 or more frequently if events or changes in circumstances indicate that the asset might be impaired. In the fourth quarter of 2021, the Company voluntarily changed the date of its annual assessment of goodwill and indefinite-lived intangible assets to March 31 for all reporting units. The change in testing date for goodwill and indefinite-lived intangible assets is a change in accounting principle, which management believes is preferable due to (1) the change in our fiscal year end from December 31 to March 31 and (2) our normal business process for updating the Company's annual and strategic plans, which we finalize each year during our fourth fiscal quarter. The voluntary change in the assessment date does not delay, accelerate or avoid a potential impairment charge. The Company has determined that it is impracticable to objectively determine projected cash flows and related valuation estimates that would have been used as of each March 31 of prior reporting periods without the use of hindsight. As such, the Company prospectively applied the change in annual goodwill impairment testing date from March 31, 2021. We have four reporting units, Higher Education, K-12, International, and Global Professional with goodwill and indefinite-lived intangible assets that are evaluated for impairment.

We initially perform a qualitative analysis evaluating whether there are events or circumstances that provide evidence that it is more likely than not that the fair value of any of our reporting units or indefinite-lived intangible assets are less than their carrying amount. If, based on our evaluation we do not believe that it is more likely than not that the fair value of any of our reporting units or indefinite-lived intangible assets are less than their carrying amount, no quantitative impairment test is performed. Conversely, if the results of our qualitative assessment determine that it is more likely than not that the fair value of any of our reporting units or indefinite-lived intangible assets are less than their respective carrying amounts we perform a two-step quantitative impairment test.

During the first step, the estimated fair value of the reporting units are compared to their carrying value including goodwill and the estimated fair value of the intangible assets is compared to their carrying value. Fair values of the reporting units are estimated using the income approach, which incorporates the use of a discounted free cash flow analysis, and are corroborated using the market approach, which incorporates the use of revenue and earnings multiples based on market data. The discounted free cash flow analyses are based on the current operating budgets and estimated long-term growth projections for each reporting unit. Future cash flows are discounted based on a market comparable weighted average cost of capital rate for each reporting unit, adjusted for market and other risks where appropriate. Fair values of indefinite-lived intangible assets are estimated using avoided royalty discounted free cash flow analyses. Significant judgments inherent in these analyses include the selection of appropriate royalty and discount rates and estimating the amount and timing of expected future cash flows. The discount rates used in the discounted free cash flow analyses reflect the risks inherent in the expected future cash flows generated by the respective intangible assets. The royalty rates used in the discounted free cash flow analyses are based upon an estimate of the royalty rates that a market participant would pay to license the Company's trade names and trademarks.

If the fair value of the reporting units or indefinite-lived intangible assets are less than their carrying value, a second step is performed which compares the implied fair value of the reporting unit's goodwill or indefinite-lived intangible assets to the carrying value. The fair value of the goodwill or indefinite-lived intangible assets is determined based on the difference between the fair value of the reporting unit and the net fair value of the identifiable assets and liabilities of the reporting unit or carrying value of the indefinite-lived intangible asset. If the implied fair value of the goodwill or indefinite-lived intangible assets is less than the carrying value, the difference is recognized as an impairment charge. Significant judgments inherent in this analysis include estimating the amount and timing of future cash flows and the selection of appropriate discount rates, royalty rate and long-term growth rate assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit and indefinite-lived intangible asset and for some of the reporting units and indefinite-lived intangible assets could result in an impairment charge, which could be material to our financial position and results of operations.

***Fair Value Measurements***

In accordance with authoritative guidance for fair value measurements, certain assets and liabilities are required to be recorded at fair value on a recurring basis. Fair value is defined as the amount that would be received to sell an asset or transfer a liability in an orderly transaction between market participants. A fair value hierarchy has been established which requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liabilities.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

***Financial Instruments***

We enter into interest rate hedge agreements to manage risks associated with interest rate exposures and are not used for trading or speculative purposes. Interest rate swap agreements are derivative financial instruments and generally involve the conversion of variable-rate debt to fixed-rate debt over the life of the interest rate swap agreement without exchange of the underlying notional amount.

Interest rate swap agreements which are designated and qualify as a hedge of the exposure to variability in expected future cash flows are considered cash flow hedges. The Company prepares written hedge documentation for all interest rate swap agreements which are designated as cash flow hedges. The written hedge documentation includes identification of, among other items, the risk management objective, hedging instrument, hedged item and methodologies for assessing and measuring hedge effectiveness and ineffectiveness, along with support for management’s assertion that the hedge will be highly effective.

For designated hedging relationships, the Company performs retrospective and prospective effectiveness testing to determine whether the hedging relationship has been highly effective in offsetting changes in cash flows of hedged items and whether the relationship is expected to continue to be highly effective in the future. Assessments of hedge effectiveness and measurements of hedge ineffectiveness are performed at least quarterly. The effective portion of the changes in the fair value of an interest rate swap that is highly effective and that has been designated and qualifies as a cash flow hedge are initially recorded in accumulated other comprehensive income (loss) and reclassified to earnings in the same period that the hedged item impacts earnings or when the hedging relationship is terminated. The ineffective portion of the gain or loss, if any, is recognized in earnings.

The Company recognizes all interest rate swap agreements as assets or liabilities in the balance sheet at fair value and is included with other non-current assets or other non-current liabilities, respectively. Cash flows from interest rate swap agreements used to manage interest rate risk are classified as operating activities. In addition, we enter into interest rate swap agreements with a variety of financial institutions that we believe are creditworthy in order to reduce our concentration of credit risk.

***Foreign Currency Translation***

We have operations in many foreign countries. For most international operations, the local currency is the functional currency. For international operations that are determined to be extensions of the U.S. operations or where a majority of revenue and/or expenses is USD denominated, the United States dollar is the functional currency. For local currency operations, assets and liabilities are translated into United States dollars using end-of-period exchange rates, and revenue and expenses are translated into United States dollars using weighted-average exchange rates. Foreign currency translation adjustments are accumulated in a separate component of equity.

***Stock-Based Compensation***

The Company issues stock options and other stock-based compensation to eligible employees, directors and consultants and accounts for these transactions under the provisions of Accounting Standards Codification ("ASC") 718, *Compensation - Stock Compensation*. For equity awards, total compensation cost is based on the grant date fair value. For liability awards, total compensation cost is based on the fair value of the award on the date the award is granted and is remeasured at each reporting date until settlement. For performance-based options issued, the value of the instrument is measured at the grant date as the fair value of the common stock and expensed over the vesting term when the performance targets are considered probable of being achieved. The Company recognizes stock-based compensation expense for all awards, on a straight-line basis, over the service period required to earn the award, which is typically the vesting period.

***Revenue Recognition***

Revenue is recognized when control of goods or services are transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. We determine revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when, or as, we satisfy a performance obligation.

*Arrangements with multiple deliverables*

Revenue relating to products that provide for more than one deliverable is recognized based upon the relative fair value to the customer of each deliverable as each deliverable is provided. Revenue relating to agreements that provide for more than one service is recognized based upon the relative fair value to the customer of each service component as each component is earned. If the fair value to the customer for each service is not determinable based on stand-alone selling price, we make our best estimate of the services' stand-alone selling price and recognize revenue as earned as the services are delivered. Because we determine the basis for allocating consideration to each deliverable primarily on prices experienced from completed sales, the portion of consideration allocated to each deliverable in a multiple deliverable arrangement may increase or decrease depending on the most recent selling price of a comparable product or service sold on a stand-alone basis. For example, as the demand for, and prevalence of, digital products increases, as new sales occur we may be required to increase the amount of consideration allocable to digital products included in multiple deliverable arrangements because the fair value of such products or services may increase relative to other products or services bundled in the arrangement. Conversely, in the event that demand for our print products decreases, thereby causing us to experience reduced prices on our print products, we may be required to allocate less consideration to our print products in our arrangements that include multiple deliverables.

*Subscription-based products*

Subscription revenue is recognized over the related subscription period that the subscription is available and is used by the customer. Subscription revenue received or receivable in advance of the delivery of services or publications is included in deferred revenue. Incremental costs that are directly related to the subscription revenue are deferred and amortized over the subscription period. Included among the underlying assumptions related to our estimates that impact the recognition of subscription income is the extent of our responsibility to provide access to our subscription-based products, and the extent of complementary support services customers demand to access our products.

*Service arrangements*

Revenue relating to arrangements that provide for more than one service is recognized based upon the relative fair value to the customer of each service component as each component is earned. Such arrangements may include digital products bundled with traditional print products, obligations to provide products and services in the future at no additional cost, and periodic training pertinent to products and services previously provided. If the fair value to the customer for each service is not objectively determinable, we make our best estimate of the services' stand-alone selling price and recognize revenue as earned as the services are delivered.

*Rental program*

Revenue relating to our rental program is deferred and subsequently recognized over the rental period. The rental period begins when the print product is transferred to the customer and are typically for a semester. All rental periods are less than one year in duration.

***Leases***

For operating lease arrangements with terms greater than 12 months, we record a lease liability and right-of-use asset on our consolidated balance sheets at the lease commencement date. We measure lease liabilities based on the present value of the total lease payments not yet paid. As most of our leases do not provide an implicit rate, we use our estimated incremental borrowing rate at the lease commencement date to determine the present value of the total lease payments. We measure right-of-use assets based on the corresponding lease liability adjusted for (i) payments made to the lessor at or before the commencement date, (ii) initial direct costs we incur and (iii) tenant incentives under the lease. Certain lease arrangements contain escalation clauses covering increased costs for various defined real estate taxes and operating services which are factored into our determination of lease payments, however, we do not assume renewals or early terminations unless we are reasonably certain to exercise these options at commencement, and we do not allocate consideration between lease and non-lease components. For short-term leases, we record expense in our consolidated statement of operations on a straight-line basis over the lease term.

***Shipping and Handling Costs***

All amounts billed to customers in a sales transaction for shipping and handling are classified as revenue. Shipping and handling costs are also a component of cost of sales. We recognized revenues in the amount of $15,936 and $17,131 in shipping and handling costs for the year ended March 31, 2021 and 2020.

***Income Taxes***

The Company's operations are subject to United States federal, state and local income taxes, and foreign income taxes.

We determine the provision for income taxes using the asset and liability approach. Under this approach, deferred income taxes represent the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities.

Valuation allowances are established when management determines that it is more-likely-than not that some portion or all of the deferred tax asset will not be realized. Management evaluates the weight of both positive and negative evidence in determining whether a deferred tax asset will be realized. Management will look to a history of losses, future reversal of existing taxable temporary differences, taxable income in carryback years, feasibility of tax planning strategies, and estimated future taxable income. The valuation allowance can also be affected by changes in tax laws and changes to statutory tax rates.

We prepare and file tax returns based on management's interpretation of tax laws and regulations. As with all businesses, our tax returns are subject to examination by various taxing authorities. Such examinations may result in future tax assessments based on differences in interpretation of the tax law and regulations. We adjust our estimated uncertain tax positions reserves based on audits by and settlements with various taxing authorities as well as changes in tax laws, regulations, and interpretations. The Company recognizes accrued interest and penalties related to uncertain tax positions in income tax provision (benefit) within the consolidated statement of operations.

***Contingencies***

We accrue for loss contingencies when both (a) information available prior to issuance of the financial statements indicates that it is probable that a loss had been incurred at the date of the financial statements and (b) the amount of loss can reasonably be estimated. When we accrue for loss contingencies and the reasonable estimate of the loss is within a range, we record its best estimate within the range. We disclose an estimated possible loss or a range of loss when it is at least reasonably possible that a loss may have been incurred. Neither an accrual nor disclosure is required for losses that are deemed remote.

***Recently Adopted Accounting Standards***

In August 2018, the FASB issued ASU 2018-15, *Intangibles - Goodwill and other - Internal-Use Software (Topic 350-40)*: Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract. This standard requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in Topic 350-40 to determine which implementation costs to capitalize as assets. This standard is effective for annual reporting periods beginning after December 15, 2020, and interim periods within annual periods beginning after December 15, 2021, with early adoption permitted. The early adoption of this ASU on the Company's financial statements was not material.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740)*, the Amendments in this update reduce the complexity in accounting for income taxes by removing certain exceptions to accounting for income taxes and deferred taxes and simplifying the accounting treatment of franchise taxes, a step up in the tax basis of goodwill as part of business combinations, the allocation of current and deferred tax to a legal entity not subject to tax in its own financial statements, reflecting changes in tax laws or rates in the annual effective rate in interim periods that include the enactment date and minor codification improvements. This ASU is effective for fiscal years and interim periods beginning after December 15, 2020, with early adoption permitted. The early adoption of this ASU on the Company's financial statements was not material.

In August 2018, the FASB issued ASU No. 2018-13, "*Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*," which modifies the disclosure requirements on fair value measurements. This standard is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. The adoption of this ASU on the Company's financial statements was not material.

In August 2017, the FASB issued ASU 2017-12, "*Derivative and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*", which aligns hedge accounting with risk management activities and changes both how companies assess hedge effectiveness and presentation and disclosure requirements. This standard is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. The adoption of this ASU on the Company's financial statements was not material.

On March 27, 2020, the U.S. enacted the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"). The CARES Act is an approximately $2 trillion emergency economic stimulus package in response to the Coronavirus outbreak, which among other things, contains several payroll and income tax provisions which will favorably impact the Company including deferral of payment of of employer Social Security taxes, relaxed interest expense tax deduction limitations, and accelerated tax depreciation on certain capital improvements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326)* - Measurement of Credit Losses on Financial Instruments. The FASB’s new guidance changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income, including trade receivables, based on historical experience, current conditions and reasonable and supportable forecasts. This amendment is effective for interim and annual reporting periods beginning after December 15, 2019. The Company adopted this standard on April 1, 2020. The adoption of this ASU on the Company's financial statements was not material.

(Dollars in thousands, unless otherwise indicated)

Recently issued FASB accounting standard codification updates, except for the above standards, did not have a material impact to the Company's consolidated financial statements for the year ended March 31, 2021.

## 2. Revenue from Contracts with Customers

***Disaggregation of Revenue***

The following table summarizes our revenue from contracts with our customers disaggregated by segment and product type for the year ended March 31, 2021 and 2020:

| | Year Ended March 31, 2021 | | | Year Ended March 31, 2020 | | |
|---|---|---|---|---|---|---|
| | **Digital** | **Print (1)** | **Total** | **Digital** | **Print (1)** | **Total** |
| **Reported Revenue by segment:** | | | | | | |
| Higher Education | $ 525,933 | $ 123,154 | $ 649,087 | $ 462,749 | $ 166,614 | $ 629,363 |
| K-12 | 249,352 | 334,317 | 583,669 | 234,087 | 359,942 | 594,029 |
| International | 66,986 | 101,965 | 168,951 | 55,131 | 147,689 | 202,820 |
| Global Professional | 79,542 | 62,799 | 142,341 | 73,433 | 83,269 | 156,702 |
| Other | 1,067 | (410) | 657 | 2,128 | (286) | 1,842 |
| **Total Reported Revenue** | **$ 922,880** | **$ 621,825** | **$ 1,544,705** | **$ 827,528** | **$ 757,228** | **$ 1,584,756** |

(1) Print revenue contains traditional print, consumable print workbooks and custom revenue.

*Higher Education*

Digital products are generally sold as subscriptions, which are paid for at the time of sale or shortly thereafter, and our performance obligation is satisfied over the life of the subscription. For our print products, our performance obligation is typically satisfied at the time of shipment directly to the student or to our distribution partners, who typically order products several weeks before the beginning of an academic semester to ensure sufficient physical product inventory.

*K-12*

Our performance obligation from traditional print products is typically satisfied at the time of shipment, which closely aligns with when a school district takes possession of the required number of products at the outset of a multi-year adoption. Traditional print products are typically re-used by students over the term of the adoption, and school districts will occasionally purchase replacement products due to wear or increasing enrollment over the life of the adoption. Sales of these replacement products are known as residual sales, from which we derive a significant portion of our revenue. Our digital solutions are sold as a subscription, which states and districts generally pay for at the beginning of a multi-year adoption. We defer revenue related to digital solutions for the entirety of the contract upfront and satisfy our performance obligation ratably over the term of the contract. Revenues for print workbooks are deferred when we enter into a multi-year contract and our performance obligation is satisfied when delivery takes place, often at the beginning of each academic year over the contract term.

**(Dollars in thousands, unless otherwise indicated)**

*International*

Revenue recognition for international products is similar to products sold in the United States, primarily in the Higher Education market. Our performance obligations for traditional print products are typically satisfied upon shipment, while digital performance obligations are satisfied over the contractual term of the product.

*Global Professional*

Our performance obligations for traditional print products are typically satisfied upon shipment, while our performance obligations for digital products are satisfied over the contractual term.

***Significant Judgments***

Our contracts with customers often include promises to transfer multiple products and services to a customer. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. We use an observable price to determine the stand-alone selling price for separate performance obligations if available or when not available, an estimate that maximizes the use of observable inputs and faithfully depicts the selling price of the promised goods or services if the entity sold those goods or services separately to a similar customer in similar circumstances.

***Deferred Commission Costs***

Our incremental direct costs of obtaining a contract, which consist of sales commissions, are deferred and amortized over the expected period of benefit or the related contractual renewal period, depending on whether the contract is an initial or renewal contract, respectively. We classify deferred commission costs as current or non-current based on the timing of when we expect to recognize the expense. The current and non-current portions of deferred commission costs are included in prepaid and other current assets, and other non-current assets, respectively, in our consolidated balance sheets. Deferred commission costs were as follows:

| | As of | |
|---|---|---|
| | **March 31, 2021** | **March 31, 2020** |
| Current | $ 8,307 | $ 7,909 |
| Non-current | 17,393 | 18,629 |
| **Total Deferred Commission Costs** | **$ 25,700** | **$ 26,538** |

Amortization expense related to deferred commission costs were $8,694 and $8,322 for the year ended March 31, 2021 and 2020, respectively. In addition, there were no impairment losses of deferred commission costs for the year ended March 31, 2021 and 2020.

***Contract Assets and Contract Liabilities***

Our contract assets consist of unbilled receivables that are recorded for contracts with performance obligations that have been satisfied but have not yet been billed. Contract assets are included in accounts receivable, net, on our consolidated balance sheets.

(Dollars in thousands, unless otherwise indicated)

Our contract liabilities consist of revenues from our digital subscription products and multi-year consumable products that are deferred at the time of sale and are recognized in earnings on a pro-rata basis over the term of the subscription or contract period. We classify contract liabilities as current or non-current deferred revenue on our consolidated balance sheets based on the timing of when we expect to recognize revenue.

Contract assets and contract liabilities consisted of the following:

| | As of | |
|---|---|---|
| | **March 31, 2021** | **March 31, 2020** |
| Contract assets | $ 4,082 | $ 27,803 |
| Contract liabilities (deferred revenue): | | |
| Current | 568,396 | 497,297 |
| Non-current | 618,693 | 643,643 |
| **Total Contract liabilities** | **$ 1,187,089** | **$ 1,140,940** |

Revenue recognized from amounts included within deferred revenue at April 1, 2019 and 2020 was approximately $509,073 and $444,855 for the year ended March 31, 2021 and 2020, respectively.

In addition, estimated revenue expected to be recognized in the future related to the deferred revenue as of March 31, 2021 is approximately 81% over the next one to three years.

We expense commission costs when incurred related to customer contracts that have a duration of less than one year. We recognize these costs within operating and administration expenses in our consolidated statements of operations.

## 3. Other Income

On June 30, 2015, the Company entered into a definitive agreement and consummated the sale of substantially all of the assets and certain liabilities of the Company's wholly owned CTB business to Data Recognition Corporation ("DRC"). As part of the agreement, the Company was entitled to receive an earn-out in the event that the performance of the CTB business exceeded certain thresholds over a five year period. The Company recognized $2,770 and $9,118 for the year ended March 31, 2021 and 2020, respectively and is recorded as Other (income) expense in the consolidated statements of operations.

## 4. Inventories, net

Inventories consist of the following:

| | As of | |
|---|---|---|
| | **March 31, 2021** | **March 31, 2020** |
| Finished goods | $ 199,666 | $ 242,741 |
| Reserves | (46,075) | (65,698) |
| **Inventories, net** | **$ 153,591** | **$ 177,043** |

(Dollars in thousands, unless otherwise indicated)

## 5. Property, Plant and Equipment

| | | As of | |
|---|---|---|---|
| | Useful Life | March 31, 2021 | March 31, 2020 |
| Furniture and equipment | 2 - 12 years | $ 143,942 | $ 129,349 |
| Buildings and leasehold improvements | 2 - 40 years | 95,344 | 105,577 |
| Consigned inventory | 2 years | 3,737 | 2,988 |
| Land and land improvements | | 7,852 | 7,852 |
| Less: accumulated depreciation and amortization | | (125,139) | (111,702) |
| **Total Property, plant and equipment, net** | | **$ 125,736** | **$ 134,064** |

Depreciation expense related to property, plant and equipment was $25,853 and $26,900 for the year ended March 31, 2021 and 2020, respectively. Depreciation expense related to consigned inventory was $1,114 and $1,250 for the year ended March 31, 2021 and 2020, respectively and is included in cost of sales in the consolidated statements of operations.

There were no impairments of property, plant and equipment for the year ended March 31, 2021 and 2020.

## 6. Goodwill and Other Intangible Assets

### *Goodwill*

Goodwill represents the excess of purchase price and related costs over the value assigned to the net tangible and identifiable assets and liabilities assumed of businesses acquired. The Company performs an annual impairment test of goodwill and intangible assets with indefinite lives during the fourth quarter and also between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit or an indefinite-lived intangible asset below its carrying value.

The following table summarizes the changes in the carrying value of goodwill by reporting segment:

| | Higher Education | K-12 | International | Global Professional | Total |
|---|---|---|---|---|---|
| **As of March 31, 2019** | **$ 423,057** | **$ 28,436** | **$ 4,089** | **$ 37,078** | **$ 492,660** |
| Adjustment to goodwill | (1,449) | — | — | — | (1,449) |
| **As of March 31, 2020** | **$ 421,608** | **$ 28,436** | **$ 4,089** | **$ 37,078** | **$ 491,211** |
| Additions | — | 5,203 | — | — | 5,203 |
| **Adjustment to goodwill** | 4,317 | — | — | — | 4,317 |
| **As of March 31, 2021** | **$ 425,925** | **$ 33,639** | **$ 4,089** | **$ 37,078** | **$ 500,731** |

On March 16, 2021, the Company acquired Kidaptive, Inc., an adaptive learning platform company with industry-leading expertise in learning science, early learning, and data analytics worldwide. Kidaptive, Inc. was acquired for a purchase price of $5,203, which was paid in cash at closing. The $5,203 paid at closing was financed by cash on hand. Kidaptive, Inc. acquisition was accounted for as a business combination. The fair value allocation for the acquisition is preliminary and will be finalized when a valuation is completed.

For Higher Education segment, goodwill includes a $4,317 and $(1,449) impact from foreign exchange as of March 31, 2021 and 2020, respectively.

(Dollars in thousands, unless otherwise indicated)

Based on the results of the impairment analysis performed by the Company, there were no impairment charges recognized relating to the goodwill recorded within the Higher Education, K-12, International or Global Professional reporting units for the year ended March 31, 2021 and 2020.

***Other Intangible Assets***

The following information details the carrying amounts and accumulated amortization of the Company's intangible assets:

| | | March 31, 2021 | | | | |
|---|---|---|---|---|---|---|
| | **Useful Lives** | **Gross amount** | **Accumulated amortization** | **Foreign exchange** | **Impairment** | **Net amount** |
| Content | 8 - 14 years | $ 571,457 | $ (470,595) | $ — | $ — | $ 100,862 |
| Brands | Indefinite | 281,000 | — | — | — | 281,000 |
| Customers | 11 -14 years | 147,700 | (88,956) | — | — | 58,744 |
| Technology | 5 years | 91,550 | (87,928) | (3,622) | — | — |
| Other intangibles | 4 to 10 years | 9,050 | (7,434) | (566) | — | 1,050 |
| **Total** | | **$ 1,100,757** | **$ (654,913)** | **$ (4,188)** | **$ —** | **$ 441,656** |

| | | March 31, 2020 | | | | |
|---|---|---|---|---|---|---|
| | **Useful Lives** | **Gross amount** | **Accumulated amortization** | **Foreign exchange** | **Impairment** | **Net amount** |
| Content | 8 - 14 years | $ 571,457 | $ (433,260) | $ — | $ — | $ 138,197 |
| Brands | Indefinite | 284,000 | — | — | (3,000) | 281,000 |
| Customers | 11 -14 years | 147,700 | (78,417) | — | — | 69,283 |
| Technology | 5 years | 91,550 | (81,075) | (5,015) | — | 5,460 |
| Other intangibles | 4 to 10 years | 9,050 | (6,902) | (308) | — | 1,840 |
| **Total** | | **$ 1,103,757** | **$ (599,654)** | **$ (5,323)** | **$ (3,000)** | **$ 495,780** |

The fair values of the definite-lived acquired intangible assets are amortized over their useful lives, which is consistent with the estimated useful life of considerations used in determining their fair values. Customer and Technology intangibles are amortized on a straight-line basis while Content intangibles are amortized using the sum of years digits method. The weighted average amortization period is 11.8 years. Amortization expense was $54,612 and $65,708 for the year ended March 31, 2021 and 2020, respectively.

**(Dollars in thousands, unless otherwise indicated)**

During the fourth quarter of fiscal year ended March 31, 2020, the novel coronavirus disease 2019 (“COVID-19”) spread across the globe and resulted in government mandated shut-downs, home sheltering and social distancing efforts to mitigate the spread of the virus. The COVID-19 mitigation actions also caused a sharp decrease in our International segment sales. As a result, we determined that it was more likely than not that the fair value of our Brands were less than their carrying value, which triggered the Company to perform an updated impairment assessment as of March 31, 2020. We performed an impairment test in accordance with ASC Topic 350, *Intangibles-Goodwill and Other,* on our indefinite-lived assets. As a result of our analysis, we determined that the carrying value of our International Brands exceeded their fair value, which was determined using a level 3 fair value measurement. We estimated the fair value by preparing a relief-from-royalty discounted cash flow analysis using forward looking revenue projections, which required us to estimate unobservable factors such as a royalty rate, discount rate, identify relevant projected revenue and terminal value of the International reporting unit. The discount rate is based on the weighted-average cost of capital method at the date of the evaluation. We recognized an impairment charge of $3,000 based on a projected reduction of revenues due to the anticipated decline in International demand. The trademark impairment charge was included in Operating and administration expenses within our accompanying Consolidated Statement of Operations. There was no impairment charge recorded during the year ended March 31, 2021.

The Company's expected aggregate annual amortization expense for existing intangible assets subject to amortization assuming no further acquisitions or dispositions, is as follows:

| | Expected Amortization Expense |
|---|---|
| 2022 | $ 41,906 |
| 2023 | 35,312 |
| 2024 | 29,737 |
| 2025 | 23,841 |
| 2026 | 17,665 |
| 2027 and beyond | 12,010 |

There were no impairments of definite-lived intangible assets for the year ended March 31, 2021 and 2020.

**(Dollars in thousands, unless otherwise indicated)**

## 7. Debt

Long-term debt consisted of the following:

| | | As of | |
|---|---|---|---|
| | **Maturity** | **March 31, 2021** | **March 31, 2020** |
| 2016 Senior Notes | May 2024 | $ 33,661 | $ 400,000 |
| 2021 Senior Secured Notes | Nov 2024 | 686,695 | — |
| 2016 Term Loan Facility | May 2022 | 26,881 | 1,603,692 |
| 2021 Term Loan Facility | Nov 2024 | 1,367,175 | — |
| MHGE Parent Term Loan | | — | 180,000 |
| Receivables Facility | August 2023 | 45,000 | 45,000 |
| Total debt outstanding | | 2,159,412 | 2,228,692 |
| Less: unamortized debt discount | | (42,835) | (42,070) |
| Less: unamortized deferred financing costs | | (19,932) | (27,999) |
| Less: current portion of long-term debt | | (13,964) | (17,269) |
| **Long-Term Debt** | | **$ 2,082,681** | **$ 2,141,354** |

***Refinancing Transactions***

On January 6, 2021, the Company amended its existing first lien credit agreement (the "2016 Credit Agreement") to (i) modify certain provisions of the 2016 Credit Agreement and related loan documents, (ii) to extend the maturity of the term loans under the 2016 Credit Agreement (the "2016 Term Loan Facility") and to exchange such 2016 Term Loan Facility for new term loans (the "2021 Term Loan Facility") under a new first lien credit agreement dated as of January 6, 2021 (the "New Credit Agreement") and (iii) extend the maturity date of existing revolving facility commitments (the "2016 Revolving Facility Commitments") and to exchange the Existing Revolving Facility Commitments for new revolving facility commitments (the "2021 Revolving Facility Commitments") under the 2021 Credit Agreement (the "Extension Transactions").

The Company received consents to the Extension Transactions from holders of approximately $1,560,000 (or approximately 98%) of the 2016 Term Loan Facility and holders of approximately $325,000 (or approximately 93%) of the 2016 Revolving Facility Commitments. On the Closing Date, the Company voluntarily repaid approximately $196,000 of the 2021 Term Loan Facility held by the extending term lenders and voluntarily terminated approximately $65,000 of the 2021 Revolving Facility Commitments of the extending revolving lenders. After giving effect to the repayments and commitment terminations, there were approximately $1,370,000 of 2021 Term Loan Facility and approximately $260,000 of 2021 Revolving Facility Commitments outstanding under the 2021 Credit Agreement. In addition, there were $26,881 of 2016 Term Loan Facility and approximately $25,000 of 2016 Revolving Facility Commitments outstanding under the 2016 Credit Agreement.

In conjunction with the transaction noted above, on January 6, 2021, the Company completed the issuance of $686,695 of new 8% junior-priority senior secured notes due November 2024 (the "2021 Senior Secured Notes"), consisting of (i) $329,503 aggregate principal amount of the 2021 Senior Secured Notes issued for cash; (ii) $346,111 aggregate principal amount of the Senior Secured Notes issued in exchange for the Company's 7.875% Senior Notes due 2024 issued in 2016 (the "2016 Senior Notes"); and (iii) $11,081 aggregate principal amount of the 2021 Senior Secured Notes issued in exchange for the term loan under MHGE Parent, LLC's term loan agreement (the "MHGE Parent Term Loan").

We refer to the issuance of the 2021 Term Loan Facility and the 2021 Senior Secured Notes, together with the other transactions described in the paragraphs above, collectively as the "Refinancing".

The Refinancing was accounted for in accordance with ASC 470 -50, Debt - "Modifications and Extinguishments". As a result, we incurred a loss on extinguishment of debt of $3,752, associated with the MHGE

Parent Term Loan, consisting of a prepayment fees of $1,292 and the write-off of unamortized deferred financing fees of $985 and original debt discount of $1,475 related to the portion of the debt accounted for as an extinguishment. The loss on extinguishment of debt is recorded within Interest expense (income), net in the consolidated statement of operations. With respect to the portion of the debt accounted for as a modification, the Company continued to capitalize $19,074 of the unamortized deferred financing fees and $28,467 of the original debt discount. Furthermore, we incurred $34,798 of creditor and third-party fees on the 2016 Senior Notes, 2021 Senior Secured Notes, 2016 Term Loan Facility and 2021 Term Loan Facility, of which, $3,698 were capitalized as deferred financing fees, $14,481 were capitalized as debt discount and $16,409 were expensed and included within Interest expense (income), net in our consolidated statements of operations for the year ended March 31, 2021.

***2016 Senior Notes***

On May 4, 2016, the Company issued $400,000 aggregate principal amount of the 7.875% Senior Notes due May 2024, ("2016 Senior Notes") in a private placement. Interest on the 2016 Senior Notes is payable semi-annually in arrears on May 15 and November 15 of each year.

On January 6, 2021, after giving effect to the Refinancing noted above, the Company exchanged $346,111 of the 2016 Senior Notes for 2021 Senior Secure Notes and the aggregate principal amount of $53,889 2016 Senior Notes remained outstanding. The Company also repurchased $17,228 and $3,000 of 2016 Senior Notes on March 4, 2021 and March 18, 2021, respectively.

As of March 31, 2021, the unamortized debt discount and deferred financing costs with respect to the 2016 Senior Notes was $2,153 and $981, respectively, which are amortized over the term of the 2016 Senior Notes using the effective interest method.

The Company may redeem the 2016 Senior Notes at its option, in whole or in part at certain redemption prices.

The 2016 Senior Notes are fully and unconditionally guaranteed by the Company’s direct or indirect wholly owned material domestic subsidiaries.

The 2016 Senior Notes contain certain customary negative covenants and events of default. The negative covenants limit the Company and its restricted subsidiaries’ ability to, among other things: incur additional indebtedness or issue certain preferred shares, create liens on certain assets, pay dividends or prepay junior debt, make certain loans, acquisitions or investments, materially change its business, engage in transactions with affiliates, conduct asset sales, restrict dividends from subsidiaries, restrict liens, or merge, consolidate, sell or otherwise dispose of all or substantially all of the Company assets.

The fair value of the outstanding 2016 Senior Notes was approximately $33,324 and $280,000 as of March 31, 2021 and March 31, 2020, respectively. The Company estimates the fair value of its 2016 Senior Notes based on trades in the market. Since the 2016 Senior Notes do not trade on a daily basis in an active market, the fair value estimates are based on market observable inputs based on borrowing rates currently available for debt with similar terms and average maturities (Level 2). As of March 31, 2021, the remaining contractual life of the 2016 Senior Notes is approximately 3.1 years.

***2021 Senior Secured Notes***

In conjunction with the Refinancing noted above, on January 6, 2021, the Company issued $686,695 aggregate principal amount 8.00% junior-priority Senior Secured Notes due November 2024 (the "2021 Senior Secured Notes"). Interest on 2021 Senior Secured Notes is payable semi-annually in arrears on July 15 and January 15 of each year.

As of March 31, 2021, the unamortized debt discount and deferred financing costs with respect to the 2021 Senior Secured Notes $32,687 and $10,687, respectively, which are amortized over the term of the 2021 Senior Secured Notes using the effective interest method.

The Company may redeem the 2021 Senior Secured Notes at their option at certain redemption prices.

All obligations under 2021 Senior Secured Notes are unconditionally guaranteed by the Company's direct or indirect wholly owned material domestic subsidiaries. The obligations under the 2021 Senior Secured notes are secured by security interests in substantially all the assets of the Company and its direct or indirect wholly owned domestic subsidiaries that are junior in priority to the security interests in such assets in favor of the 2021 Credit Agreement.

The 2021 Senior Secured Notes contain certain customary negative covenants and events of default. The negative covenants limit the Company's and its restricted subsidiaries' ability to, among other things: incur additional indebtedness or issue certain preferred shares, create liens on certain assets, pay dividends or prepay junior debt, make certain loans, acquisitions or investments, materially change its business, engage in transactions with affiliates, conduct asset sales, restrict dividends from subsidiaries, restrict liens, or merge, consolidate, sell or otherwise dispose of all or substantially all of the Company's assets.

The fair value of the 2021 Senior Secured Notes was approximately $693,562 as of March 31, 2021. The Company estimates the fair value of its 2021 Senior Secured Notes based on trades in the market. Since the 2021 Senior Secured Notes do not trade on a daily basis in an active market, the fair value estimates are based on market observable inputs based on borrowing rates currently available for debt with similar terms and average maturities (Level 2). As of March 31, 2021, the remaining contractual life of the 2021 Senior Secured Notes is approximately 3.72 years.

***2016 Credit Agreement***

On May 4, 2016, the Company entered into the 2016 Credit Agreement. The 2016 Credit Agreement provided for senior secured financing of up to $1,925,000, consisting of:

- a term loan facility in an aggregate principal amount of $1,575,000 with a maturity of 6 years (the "2016 Term Loan Facility"; and
- a revolving credit facility in an aggregate principal amount of up to $350,000 with a maturity of 5 years (the "2016 Revolving Credit Facility" and together with the 2016 Term Loan Facility, the "2016 Credit Agreement Facilities"), including both a letter of credit sub-facility and a swingline loan sub-facility.

On December 15, 2017, the Company completed an incremental aggregate principal amount of $150,000 under the 2016 Term Loan Facility. The incremental Term Loan Facility was issued at a 0.25% discount and will mature concurrently with the 2016 Term Loan Facility.

On January 6, 2021 (the "Refinancing Date"), the Company completed the amendment to the 2016 Credit Agreement to (i) modify certain provisions of the 2016 Credit Agreement and related loan documents, (ii) following such modification, to extend the maturity of the 2016 Term Loan Facility and to exchange 2016 Term Loan Facility for the 2021 Term Loan Facility under the 2021 Credit Agreement and (iii) extend the maturity date of the 2016 Revolving Facility Commitments and to exchange the 2016 Revolving Facility Commitments for the 2021

Revolving Facility Commitments under the 2021 Credit Agreement (the "Extension Transactions").

In connection with the Extension Transactions, the 2016 Credit Agreement and certain related loan documents were amended to, among other things, (i) remove all negative covenants and affirmative covenants, (ii) remove all events of default other than payment and bankruptcy related events of default, (iii) remove the asset sale and excess cash flow mandatory prepayment provisions and (iv) release the liens granted to the collateral agent over the assets of the Company and its subsidiaries comprising the "Global Professional" segment of the Company, which liens remain as collateral to secure the obligations under the 2021 Credit Agreement and the New Senior Secured Notes.

Borrowings under the 2016 Credit Agreement Facilities bear interest at a rate equal to a LIBOR or Prime rate plus an applicable margin, 1.00% floor in the case of the 2016 Term Loan Facility. As of March 31, 2021, the interest rate for the 2016 Credit Agreement Faciltiies was 5.0%. In addition, the 2016 Term Loan Facility was issued at a discount of 0.5%.

As of March 31, 2021, the amount available under the 2016 Revolving Facility Commitments was approximately $25,000. We are required to pay a commitment fee of 0.50% per annum to the lenders under the 2016 Revolving Facility Commitments in respect of the unutilized commitments thereunder. The 2016 Revolving Facility Commitments will mature on May 4, 2021.

The fair value of the loans under the 2016 Term Loan Facility was approximately $27,015 and $1,333,069 as of March 31, 2021 and March 31, 2020, respectively. The Company estimates the fair value of the loans under the 2016 Term Loan Facility based on trades in the market. Since the loans under the 2016 Term Loan Facility do not trade on a daily basis in an active market, the fair value estimates are based on market observable inputs based on borrowing rates currently available for debt with similar terms and average maturities (Level 2). As of March 31, 2021, the remaining contractual life of the 2016 Term Loan Facility is approximately 1.1 years.

***2021 Credit Agreement***

The Company received consents to the Extension Transactions from holders of approximately $1,560,000 (or approximately 98%) of the 2016 Term Loan Facility and holders of approximately $325,000 (or approximately 93%) of the 2016 Revolving Facility Commitments. On Refinancing Date, the Company entered into the 2021 Credit Agreement which governs the 2021 Term Loan Facility and the 2021 Revolving Credit Commitments (collectivey, the "2021 Credit Agreement Facilities") and voluntarily repaid approximately $196,000 of the 2021 Term Loan Facility held by the extending term lenders and voluntarily terminated approximately $65,000 of the 2021 Revolving Facility Commitments of the extending revolving lenders. After giving effect to the repayments and commitment terminations, there were approximately $1,370,000 of 2021 Term Loan Facility and approximately $260,000 of 2021 Revolving Facility Commitments outstanding under the 2021 Credit Agreement.

All obligations under the 2021 Credit Agreement are fully and unconditionally guaranteed by MHGE Intermediate Holdings and by each of the Company's direct and indirect wholly owned material domestic subsidiaries. The obligations are secured by first-priority security interests in, subject to permitted liens and certain exceptions, the equity interests of the Company held by MHGE Intermediate Holdings, 100% of the equity interests of domestic and foreign subsidiaries that are directly owned by the Company or any subsidiary guarantor, and substantially all the assets of the Company and the subsidiary guarantors.

Borrowings under the 2021 Credit Agreement Facilities bear interest at a rate equal to LIBOR or Prime rate plus an applicable margin, subject to a 1.00% floor in the case of the 2021 Credit Agreement Facilities. As of March 31, 2021, the interest rate for the Term Loan Facility was 5.75%. In addition, the Term Loan Facility was issued at a discount of 0.25%. As of March 31, 2021, the unamortized debt discount and deferred financing costs was $7,994 and $6,925, respectively, which are amortized over the term of the facility using the effective interest method. The 2021 Term Loan Facility will mature on November 1, 2024.

The 2021 Credit Agreements contains customary financial covenants and events of default under which the obligations thereunder could be accelerated.

As of March 31, 2021, the amount available under the 2021 Revolving Facility was approximately $260,000 (excluding outstanding letters of credit of $4,280). In addition, we are required to pay a commitment fee of 0.50% per annum to the lenders under the 2021 Revolving Facility Commitments in respect of the unutilized commitments thereunder. The 2021 Revolving Facility will mature on November 1, 2023.

The 2021 Credit Agreement requires scheduled quarterly principal payments on the term loans under the 2021 Term Loan Facility in amounts equal to 0.25% of the original principal amount of the term loans commencing with the end of the first full fiscal quarter ending after the closing date, with the balance payable at maturity. The 2021 Credit Agreement also includes customary mandatory prepayment requirements with respect to the term loans under the 2021 Term Loan Facility based on certain events such as asset sales, debt issuances and defined levels of excess cash flow. As of March 31, 2021, the Company determined that no mandatory prepayment of the term loans under the 2021 Term Loan Facility is required.

All obligations under the 2021 Credit Agreement Facilities are unconditionally guaranteed by each of MHGE Holdings' existing and future direct and indirect material, wholly owned domestic subsidiaries. The obligations are secured by substantially all of MHGE Holdings' assets and those of each subsidiary guarantor, the capital stock of the subsidiary guarantors and 65% of the voting capital stock of the first-tier foreign subsidiaries that are not subsidiary guarantors, in each case subject to exceptions. Such security interests consist of a first priority lien with respect to the collateral.

The 2021 Credit Agreement includes a springing covenant that requires that the Company, subject to a testing threshold, comply on a quarterly basis with a maximum net first lien senior secured leverage ratio (the ratio of consolidated net debt secured by first-priority liens on the collateral to Adjusted EBITDA) of (a) with respect to the second, third and fourth fiscal quarters of any fiscal year 4.80 to 1.00 and (b) with respect to the first quarter of any fiscal year, 5.25 to 1.00. The testing threshold is satisfied at any time at which the sum of outstanding revolving credit facility loans, swingline loans and certain letters of credit under the 2021 Revolving Credit Commitments exceeds thirty percent (30%) of the 2021 Revolving Credit Facility. This is tested each quarter end.

Adjusted EBITDA reflects EBITDA as defined in the 2021 Credit Agreement. Solely for the purpose of calculating the springing financial covenant, pre-publication investments should be excluded from the calculation of Adjusted EBITDA.

The 2021 Credit Agreement contains certain customary affirmative covenants and events of default. The negative covenants in the 2021 Credit Agreement include, among other things, limitations on MHGE Holdings' and its subsidiaries' ability to incur additional debt or issue certain preferred shares; create liens on certain assets; make certain loans or investments (including acquisitions); pay dividends on or make distributions in respect of capital stock or make other restricted payments; consolidate, merge, sell or otherwise dispose of all or substantially all of their assets; sell assets; enter into certain transactions with affiliates; enter into sale-leaseback transactions; change their lines of business; restrict dividends from their subsidiaries or restrict liens; change their fiscal year; and modify the terms of certain debt or organizational agreements.

The fair value of the loans under the 2021 Term Loan Facilities was approximately $1,368,884 as of March 31, 2021. The Company estimates the fair value of its loans under the 2021 Term Loan Facilities based on trades in the market. Since the Term Loan Facility do not trade on a daily basis in an active market, the fair value estimates are based on market observable inputs based on borrowing rates currently available for debt with similar terms and average maturities (Level 2). As of March 31, 2021, the remaining contractual life of the 2021 Term Loan Facility is approximately 3.64 years.

***MHGE Parent Term Loan (Settled in full in connection with Refinancing Transaction on January 6, 2021)***

On April 20, 2018, the Company, entered into a term loan agreement ("MHGE Parent Term Loan") with Ares Agent Services, L.P., as administrative agent, and clients of Ares Capital Management, LLC and certain funds and accounts advised by Guggenheim Partners Investment Management, LLC, as lenders, providing for a $180,000 term loan facility (the "MHGE Parent Term Loan") with a maturity of April 20, 2022. The MHGE Parent Term Loan was issued at a discount of 2.5%.

The MHGE Parent Term Loan bore interest at 11.00% per annum for interest paid in cash and 11.75% per annum for interest paid in kind. Interest was payable semiannually on April 15 and October 15 of each year, commencing on October 15, 2018. Upon closing, the Company was required to deposit $39,325 of the MHGE Parent Term Loan proceeds into an escrow account, representing the first four interest payments which must be paid in cash. The deposit in the escrow account was released for the period commencing on June 15, 2019, and ending on and including July 15, 2019. The MHGE Parent Term Loan was unsecured and was not guaranteed by any of the MHGE Parent subsidiaries.

In conjunction with the Refinancing noted above, on January 6, 2021, the Company paid down the MHGE Parent Term Loan, inclusive of $1,292 prepayment fees, using $50,000 cash on hand and cash proceeds from the issuance of the 2021 Senior Secured Notes. All commitments thereunder terminated in connection with the Refinancing.

***Receivables Facility***

On October 29, 2018, MHE Receivables LLC (the "Borrower"), a newly formed special purpose subsidiary of McGraw Hill LLC, entered into a Receivables Financing Agreement ("RFA") with PNC Bank, National Association, as administrative agent (the "Administrative Agent"), providing for a receivables financing facility (the "Receivables Facility") up to a committed principal amount of $50,000 with an additional committed principal amount of up to $100,000 for each seasonal period, subject to an annual audit. The Receivables Facility had a original maturity of October 29, 2021. On August 28, 2020, the agreement was amended to extend the maturity date of the Receivables Facility to August 28, 2023. The Company incurred $1,004 amended fees to extend the maturity.

The borrowing capacity under the Receivables Facility is subject to a borrowing limit that is based on the Borrower's Eligible Receivables, as defined in the RFA. Under a Purchase and Sale Agreement entered into in connection with the Receivables Facility, all existing receivables of McGraw Hill LLC have been assigned to the Borrower and all future receivables of McGraw Hill LLC will be automatically assigned to the Borrower when they are created.

As of March 31, 2021, $45,000 was outstanding under the Receivables Facility which is included in long-term debt, within the consolidated balance sheet. Borrowings under the Receivables Facility bear interest at LIBOR plus 3.75%, subject to adjustments, and are payable monthly. In addition, we also incur an undrawn fee of 0.50% on unutilized commitments. As of March 31, 2021, the unamortized deferred financing costs was $1,160 which are amortized over the term of the Receivables Facility using the effective interest method.

(Dollars in thousands, unless otherwise indicated)

***Scheduled Principal Payments***

The scheduled principal payments required under the terms of the 2016 Senior Notes, 2021 Senior Secured Notes, 2016 Term Loan Facility, 2021 Term Loan Facility and Receivables Facility were as follows:

| | As of March 31, 2021 |
|---|---|
| 2022 | $ 13,964 |
| 2023 | 40,261 |
| 2024 | 58,672 |
| 2025 | 2,046,515 |
| | 2,159,412 |
| Less: Current portion | (13,964) |
| | **$ 2,145,448** |

## 8. Interest Rate Hedge

In the normal course of business, the Company may enter into interest rate hedge agreements to manage exposure to interest rate risk. Interest rate swap agreements are derivative financial instruments and generally involve the conversion of variable-rate debt to fixed-rate debt over the life of the interest rate swap agreement without exchange of the underlying notional amount.

Interest rate swap agreements which are designated and qualify as a hedge of the exposure to variability in expected future cash flows are considered cash flow hedges. The Company prepares written hedge documentation for all interest rate swap agreements which are designated as cash flow hedges. The written hedge documentation includes identification of, among other items, the risk management objective, hedging instrument, hedged item and methodologies for assessing and measuring hedge effectiveness and ineffectiveness, along with support for management's assertion that the hedge will be highly effective.

For designated hedging relationships, the Company performs retrospective and prospective effectiveness testing to determine whether the hedging relationship has been highly effective in offsetting changes in cash flows of hedged items and whether the relationship is expected to continue to be highly effective in the future. Assessments of hedge effectiveness and measurements of hedge ineffectiveness are performed at least quarterly. The effective portion of the changes in the fair value of an interest rate swap that is highly effective and that has been designated and qualifies as a cash flow hedge are initially recorded in accumulated other comprehensive income and reclassified to earnings in the same period that the hedged item impacts earnings or when the hedging relationship is terminated. The ineffective portion of the gain or loss, if any, is recognized in earnings.

The Company recognizes all interest rate swap agreements as assets or liabilities in the balance sheet at fair value and is included with other non-current assets or other non-current liabilities, respectively. Cash flows from interest rate swap agreements used to manage interest rate risk are classified as operating activities. We do not use derivative instruments for trading or speculative purposes. In addition, we enter into interest rate swap agreements with a variety of financial institutions that we believe are creditworthy in order to reduce our concentration of credit risk.

On March 15, 2017, the Company entered into interest rate swap agreements with various financial institutions having an aggregate notional value of $500,000 to convert a portion of its variable-rate debt to a fixed rate debt. The Company will receive payments from the counterparties at one-month LIBOR and make payments to the counterparties at a fixed rate of 2.07%. The cash flow payments on the interest rate swap agreements began in April 2017 and will terminate in April 2022. The notional amount and interest payment date of the interest rate and interest rate swaps match the principal, interest payment and maturity date of the related debt.

The interest rate swap agreements have been designated as a cash flow hedge and qualifies for hedge accounting under the accounting guidance related to derivatives and hedging. As of December 31, 2019, all of the interest rate swaps were valued in net unrealized loss positions and recognized as a liability balance. For the year ended December 31, 2019, the amount recorded in accumulated other comprehensive loss related to the derivative instruments was $15,677 million unrealized loss.

On March 31, 2020, the Company discontinued hedge accounting as the hedge accounting requirements were no longer met. The Company elected to move to three month LIBOR from one month LIBOR for the hedge item resulting in the hedging relationship with hedge instrument to cease to exist as the hedge instrument was based on one month LIBOR. Amounts in accumulated other comprehensive loss associated with the interest rate swaps as of the date of dedesignation, will be reclassified to interest expense as the hedged interest payments impact earnings.

Accordingly, we recorded an unrealized gain (loss) of $2,792 and $(10,149), which is included in interest expense (income), net within in our consolidated statements of operations, to account for the changes in fair value of these derivatives as of March 31, 2021 and 2020, respectively, since the date of dedesignation. The corresponding hedge liability of $10,121 and $15,677 is included within other non-current liabilities in our consolidated balance sheets as of March 31, 2021 and 2020, respectively.

The Company records the fair value of its interest rate swap agreements on a recurring basis using Level 2 inputs of quoted prices for similar assets or liabilities in active markets.

## 9. Segment Reporting

The Company manages and reports its businesses in the following segments:

- **Higher Education:** We provide students, instructors and institutions with adaptive digital learning tools, digital platforms, custom publishing solutions, traditional printed textbook and rental textbook products.

- **K - 12:** Provides curriculum and learning solutions to the K-12 market. We sell our learning solutions directly to K-12 school districts across the United States. While we offer all of our major curriculum and learning solutions in digital format, given the varying degrees of availability and maturity of our customers' technological infrastructure, a majority of our sales are derived from selling blended print and digital solutions.

- **International:**We leverage our global scale, brand recognition and extensive product portfolio to serve students in the higher education, K-12 and professional markets in more than 100 countries outside of the United States. Our products and solutions for the International segment are produced in more than 80 languages and primarily originate from our offerings produced for the United States market and that are later adapted to different international markets.

- **Global Professional:** We are a leading provider of medical, technical, engineering and business content for the professional, education and test preparation communities.

- **Other:** Includes certain transactions or adjustments that our Chief Operating Decision Maker ("CODM") considers to be unusual and/or non-operational.

The Company's business segments are consistent with how management views the markets served by the Company. The CODM reviews their separate financial information to assess performance and to allocate resources. We measure and evaluate our reportable segments based on segment Billings and Adjusted EBITDA and believe they provide additional information to management and investors to measure our performance and evaluate our ability to service our indebtedness. We include the change in deferred revenue to GAAP revenue to arrive at Billings. Billings is a key metric that we use to manage our business as it reflects the sales activity in a given period and provides comparability during this time of digital transition, particularly in the K-12 market, in which our customers typically pay for five to eight-year contracts upfront. Furthermore, Billings incorporates the change in deferred revenue that is reflected in the calculation of Adjusted EBITDA. Therefore when the Company uses a margin calculation based on Adjusted EBITDA, the margin has to be based on Billings. We exclude from segment Adjusted EBITDA: interest expense (income), net, income tax provision (benefit), depreciation, amortization and pre-publication amortization and certain transactions or adjustments that our CODM does not consider for the purposes of making decisions to allocate resources among segments or assessing segment performance. Although we exclude these amounts from segment Adjusted EBITDA, they are included in reported consolidated net (loss) income and are included in the reconciliation below.

(Dollars in thousands, unless otherwise indicated)

Billings and Adjusted EBITDA are not presentations made in accordance with U.S. GAAP and the use of the terms, Billings and Adjusted EBITDA, varies from others in our industry. Billings and Adjusted EBITDA should be considered in addition to, not as a substitute for, revenue and net (loss) income, or other measures of financial performance derived in accordance with U.S. GAAP as measures of operating performance or cash flows as measures of liquidity.

Segment asset disclosure is not used by the CODM as a measure of segment performance since the segment evaluation is driven by Billings and Adjusted EBITDA. As such, segment assets are not disclosed in the notes to the accompanying consolidated financial statements.

The following tables set forth information about the Company's operations by its segments:

| | Year Ended March 31, 2021 | Year Ended March 31, 2020 |
|---|---|---|
| **Billings:** | | |
| Higher Education | $ 694,947 | $ 661,824 |
| K - 12 | 567,492 | 639,207 |
| International | 181,569 | 200,478 |
| Global Professional | 146,112 | 158,944 |
| Other | 734 | 1,692 |
| Total Billings (1) | 1,590,854 | 1,662,145 |
| Change in deferred revenue | (46,149) | (77,389) |
| **Total Consolidated Revenue** | **$ 1,544,705** | **$ 1,584,756** |

(1) The elimination of inter-segment revenues was not significant to the revenues of any one segment.

| | Year Ended March 31, 2021 | Year Ended March 31, 2020 |
|---|---|---|
| **Adjusted EBITDA:** | | |
| Higher Education | $ 265,827 | $ 208,030 |
| K - 12 | 107,607 | 121,736 |
| International | 12,981 | 5,724 |
| Global Professional | 40,229 | 34,521 |
| Other | 13,620 | 2,890 |
| **Total Adjusted EBITDA** | **$ 440,264** | **$ 372,901** |

(Dollars in thousands, unless otherwise indicated)

Reconciliation of Adjusted EBITDA to the consolidated statements of operations is as follows:

| | Year Ended March 31, 2021 | Year Ended March 31, 2020 |
|---|---|---|
| Total Adjusted EBITDA | $ 440,264 | $ 372,901 |
| Interest (expense) income, net | (193,321) | (188,097) |
| Income tax (provision) benefit | (14,207) | (11,529) |
| Depreciation, amortization and pre-publication amortization | (197,858) | (230,855) |
| Change in deferred revenue | (46,149) | (77,389) |
| Change in deferred royalties | 22,454 | 17,374 |
| Change in deferred commissions | (837) | (54) |
| Restructuring and cost savings implementation charges | (24,309) | (21,606) |
| Sponsor fees | (3,500) | (3,500) |
| Transaction Costs | (5,243) | (25,075) |
| Merger Integration Costs | — | (7,030) |
| Other | (8,600) | (34,628) |
| Pre-publication investment | 76,056 | 74,183 |
| **Net income (loss)** | **$ 44,750** | **$ (135,305)** |

The following is a schedule of revenue and long-lived assets by geographic region:

| | Revenue (1) | |
|---|---|---|
| | Year Ended March 31, 2021 | Year Ended March 31, 2020 |
| United States | $ 1,351,327 | $ 1,346,561 |
| International | 193,378 | 238,195 |
| **Total** | **$ 1,544,705** | **$ 1,584,756** |

(1) Revenues are attributed to a geographic region based on the location of customer.

| | Long-lived Assets (2) | |
|---|---|---|
| | As of | |
| | March 31, 2021 | March 31, 2020 |
| United States | $ 483,193 | $ 470,627 |
| International | 41,282 | 44,515 |
| **Total** | **$ 524,475** | **$ 515,142** |

(2) Reflects total assets less current assets, goodwill, intangible assets, investments, deferred financing costs and non-current deferred tax assets.

(Dollars in thousands, unless otherwise indicated)

## 10. Taxes on Income (Loss)

Income (Loss) before taxes on income that resulted from domestic and foreign operations is as follows:

| | Year Ended March 31, 2021 | Year Ended March 31, 2020 |
|---|---|---|
| Domestic operations | $ 44,644 | $ (134,706) |
| Foreign operations | 14,313 | 10,930 |
| **Total income (loss) before taxes** | **$ 58,957** | **$ (123,776)** |

The provision (benefit) for taxes on income consists of the following:

| | Year Ended March 31, 2021 | Year Ended March 31, 2020 |
|---|---|---|
| Federal: | | |
| Current | $ — | $ — |
| Deferred | 494 | 507 |
| Total federal | 494 | 507 |
| | | |
| Foreign: | | |
| Current | 9,124 | 10,828 |
| Deferred | 2,220 | (3,362) |
| Total foreign | 11,344 | 7,466 |
| | | |
| State and local: | | |
| Current | 1,209 | 3,026 |
| Deferred | 1,160 | 531 |
| Total state and local | 2,369 | 3,557 |
| **Total provision (benefit) for taxes** | **$ 14,207** | **$ 11,530** |

(Dollars in thousands, unless otherwise indicated)

A reconciliation of the U.S. federal statutory tax rate to our effective income tax rate for financial reporting purposes is as follows:

| | Year Ended March 31, 2021 | Year Ended March 31, 2020 |
|---|---|---|
| U.S. federal statutory income tax rate | 21.0 % | 21.0 % |
| Effect of state and local income taxes | 3.2 | (2.2) |
| Foreign rate differential | 1.5 | (0.4) |
| Foreign withholding and branch taxes | 2.6 | (1.0) |
| Research and development credit | (8.6) | 4.3 |
| Inventory contribution | 5.0 | (0.1) |
| Unrecognized tax benefit | 3.3 | (1.1) |
| Valuation allowance on deferred tax assets | (2.5) | (23.4) |
| Nontaxable royalty and interest income | (1.1) | 1.4 |
| Stock Option expirations | 2.2 | (1.5) |
| Transaction Costs | (5.3) | (2.5) |
| Cancellation of Indebtedness Income | 1.5 | — |
| Other - net | 1.3 | (3.8) |
| **Effective income tax rate** | **24.1 %** | **(9.3)%** |

(Dollars in thousands, unless otherwise indicated)

The principal temporary differences between accounting for income and expenses for financial reporting and income tax purposes as of March 31, 2021 and 2020 are as follows:

| | March 31, 2021 | March 31, 2020 |
|---|---|---|
| Deferred tax assets: | | |
| Inventory and pre-publication costs | $ 37,347 | $ 42,056 |
| Intangible and fixed assets | 48,134 | 47,898 |
| Capitalized research and development | 65,758 | 52,660 |
| Employee compensation | 11,960 | 9,752 |
| Deferred revenue | 182,529 | 227,291 |
| Operating lease liability | 24,995 | 24,408 |
| Loss carryforwards | 112,845 | 77,818 |
| Interest Rate Swap | 2,614 | 4,036 |
| Other | 1,892 | 1,591 |
| **Total deferred tax assets** | **488,074** | **487,510** |
| | | |
| Deferred tax liabilities: | | |
| Accrued expenses | (31,088) | (26,984) |
| Deferred financing costs | (5,092) | (11,737) |
| Operating lease right of use asset | (16,709) | (15,851) |
| Indefinite lived intangibles and goodwill | (42,361) | (37,707) |
| **Total deferred tax liabilities** | **(95,250)** | **(92,279)** |
| Net deferred income tax asset (liability) before valuation allowance | 392,824 | 395,231 |
| Valuation allowance | (401,516) | (400,856) |
| **Net deferred income tax asset (liability)** | **$ (8,692)** | **$ (5,625)** |
| | | |
| Reported as: | | |
| Non-current deferred tax assets | 5,285 | 7,561 |
| Non-current deferred tax liabilities | (13,977) | (13,186) |
| **Net deferred income tax asset (liability)** | **$ (8,692)** | **$ (5,625)** |

We record valuation allowances against deferred income tax assets when we determine that it is more likely than not based upon all the current evidence that such deferred income tax assets will not be realized. Management assesses the available positive and negative evidence to estimate if sufficient future income will be available to use the existing deferred tax assets. A significant piece of objective evidence evaluated was the cumulative book loss incurred which limits the ability to consider other subjective evidence such as future taxable income. On the basis of this evaluation, as of March 31, 2021, a valuation allowance of $383,464 has been recorded for federal and state and $18,052 for select international deferred tax assets, including carryover of net operating losses, charitable contributions, capital loss, and research and development credits. The Company will continue to assess the available positive and negative evidence to estimate if sufficient future book income will be available to use the existing tax assets. As a result, the amount of the deferred tax asset considered realizable could be adjusted if estimates of future taxable income during the carryforward period improve or objective negative evidence in the form of the level of cumulative book losses is reduced, and additional weight may be given to subjective evidence.

(Dollars in thousands, unless otherwise indicated)

On March 27, 2020, the U.S. enacted the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"). The CARES Act is an approximately $2 trillion emergency economic stimulus package in response to the Coronavirus outbreak, which among other things, contains several payroll and income tax provisions which will favorably impact the Company including deferral of payment of employer Social Security taxes, relaxed interest expense deduction limitations, and accelerated tax depreciation on certain capital improvements.

As of March 31, 2021, the Company has a U.S. federal net operating loss carryforward of $80,122, which is subject to expiration in 2037, and $168,296 which will not expire. The Company has state net operating loss carryforwards of $238,287 of which most will be subject to expiration between 2031 and 2037. The Company also has charitable contribution carryforwards of $4,247 which are subject to expiration in 2022 and 2026 and carryforwards of research and development credits of $27,899 which are subject to expiration in 2032 - 2040. The Company's international net operating loss carryforwards as of March 31, 2021 are $49,727, predominately in UK, Spain, Mexico, India and Australia and are subject to expiration in 2027 - indefinite.

The undistributed earnings of the Company's foreign subsidiaries have been retained and permanently reinvested by the subsidiaries as of March 31, 2021. Accordingly, no provision has been made for foreign withholding taxes, which may become payable if the undistributed earnings of foreign subsidiaries were paid as dividends.

For the year ended March 31, 2021 and 2020 we made net state, local, and foreign income tax payments of $10,284 and $6,246, respectively.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

| | Year Ended March 31, 2021 | Year Ended March 31, 2020 |
|---|---|---|
| Balance at the beginning of the year | $ 14,456 | $ 12,283 |
| Additions based on tax positions related to the current year | — | — |
| Additions for tax positions of prior years | 1,214 | 2,185 |
| Reduction for tax positions of prior year | — | (12) |
| **Balance at the end of year** | **$ 15,670** | **$ 14,456** |

As of March 31, 2021, there is $10,862 of unrecognized tax benefits that if recognized would affect the annual effective tax rate after considering the valuation allowance.

McGraw-Hill Education, Inc. is under examination by the Internal Revenue Service ("IRS") as part of the Compliance Assurance Process ("CAP") for the calendar year 2019, short year January 1 through March 31, 2020 and fiscal year ending March 31, 2021. CAP employs real-time issue resolution, through cooperative interaction between taxpayers and the IRS, to address tax positions and increase certainty prior to filing the Federal income tax return. For state and local, and foreign jurisdictions, generally tax years 2013 to March 31, 2020 are open and subject to examination.

We believe that our accrual for tax liabilities is adequate for all open audit years based on an assessment of past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. Until formal resolutions are reached with tax authorities, the determination of a possible audit settlement range with respect to the impact on unrecognized tax benefits is not practicable. On the basis of present information, it is our opinion that any assessments resulting from the current audits will not have a material adverse effect on our financial statements. Total uncertain tax liabilities as of March 31, 2021 were $18,720 of which $13,703 is included in other non-current liabilities and $4,808 is included in deferred income taxes non-current within the consolidated balance sheet. Total uncertain tax liabilities as of March 31, 2020 are $16,322 of which $11,514 is included in other non-current liabilities and $4,808 is included in deferred income taxes non-current within the balance sheet. Although the timing of income tax audit resolution and negotiations with taxing authorities is highly uncertain, we do not anticipate a significant change to the total amount of unrecognized income tax benefits as a result of audit developments within the next twelve months.

(Dollars in thousands, unless otherwise indicated)

## 11. Employee Benefits

A majority of the Company's employees are participants in voluntary 401(k) plans sponsored by the Company under which the Company matches employee contributions up to certain levels of compensation. The Company's contributions were $7,721 and $20,571 for the year ended March 31, 2021 and 2020, respectively and is included within operating and administration expenses in the consolidated statement of operations.

## 12. Stock-Based Compensation

The Company issues share based compensation under the Management Equity Plan (the "Plan") which was established during the quarter ended June 30, 2013. The Plan permits the grant of stock options, restricted stock, restricted stock units and other equity based awards to the Company's employees and directors. As of March 31, 2021, the Board of Directors of the Company authorized up to 1,717,871 shares under the plan. The number of shares available for grant under the Plan are 195,564.

The Company measures compensation cost for share based awards according to the equity method. In accordance with the expense recognition provisions of those standards, the Company amortizes unearned compensation associated with share based awards on a straight-line basis over the vesting period of the option or award.

The following table sets forth the total recognized compensation expense related to stock option grants and restricted stock and restricted stock units issuances for the periods presented:

| | Year Ended March 31, 2021 | Year Ended March 31, 2020 |
|---|---|---|
| Stock option expense | $ 4,166 | $ 3,098 |
| Market stock option expense | — | 2,089 |
| Restricted stock and unit awards expense | 3,097 | 7,859 |
| **Total stock-based compensation expense** | **$ 7,263** | **$ 13,046** |

An income tax benefit for stock options and restricted stock units was recognized and subsequently offset with a full valuation allowance for the year ended March 31, 2021 and 2020.

### *Stock Options*

Stock options issued prior to 2018 generally vest up to five years with 50% vesting on cumulative financial performance measures under the Plan and the remaining 50% vest annually in equal installments, in each case subject to continued service. Stock options issued during fiscal year 2021 are subject to 50% vesting annually in equal installments over a four year period and 50% vesting upon satisfaction of certain performance and market conditions, and in each case subject to continued service. Stock options terminate on the earliest of the tenth year from the date of the grant or other committee action, as defined under the Plan.

(Dollars in thousands, unless otherwise indicated)

The following table presents a summary of stock option activity as of March 31, 2021 and 2020:

| | Number of Shares | Weighted-Average Exercise Price per Share | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding as of March 31, 2019 | 767,156 | $ 130.32 | 11.8 | $ 12,612 |
| Granted | — | — | | |
| Exercised | (112,390) | 29.10 | | |
| Forfeited and expired | (257,307) | 113.96 | | |
| Outstanding as of March 31, 2020 | 397,459 | $ 81.80 | 4.7 | $ 10,468 |
| Granted | 183,365 | 45.00 | | |
| Exercised | (1,746) | 27.66 | | |
| Forfeited and expired | (55,287) | 122.09 | | |
| Outstanding as of March 31, 2021 | 523,791 | $ 68.08 | 5.57 | $ 2,492 |
| Vested and expected to vest as of March 31, 2021 | 523,791 | 68.08 | | |
| Exercisable as of March 31, 2021 | 300,426 | 75.26 | | |

The total intrinsic value of stock options exercised during the year ended March 31, 2021 and 2020 was $30 and $5,169, respectively.

The Company uses the Black-Scholes closed-form option pricing model to estimate the fair value of stock options granted which incorporates the assumptions as presented in the following table, shown at their weighted average values:

| | Year Ended March 31, 2021 | Year Ended March 31, 2020 |
|---|---|---|
| Expected dividend yield | — % | — % |
| Expected stock price volatility (a) | 70 % | — % |
| Risk-free interest rate (b) | 0.24 % | — % |
| Expected option term (years) (c) | 7 | — |

a. Expected volatility. The Company bases its expected volatility on a group of companies believed to be a representative peer group, selected based on industry and market capitalization.

b. Risk free rate. The risk-free rate for periods within the expected term of the award is based on the U.S. Government Bond yield with a term equal to the awards' expected term on the date of grant.

c. Expected term. Expected term represents the period of time that awards granted are expected to be outstanding. The Company elected to use the "simplified" calculation method, as applicable companies that lack extensive historical data. The mid-point between the vesting date and the contractual expiration date is used as the expected term under this method.

The weighted-average grant date fair value of the time-based stock options issued in 2021 were $29.

**(Dollars in thousands, unless otherwise indicated)**

As of March 31, 2021, there was $3,537 of unrecognized compensation expense related to the Company's stock options. Unrecognized compensation expense related to stock options issued to employees is expected to be recognized over a weighted-average period of 3.15 years.

***Market Stock Options***

During 2018, the Company issued market stock options ("MSOs") to certain employees of the Company. The MSOs vest over two to four years pursuant to certain market conditions set forth by the Company and subject to continued service. Employees can earn between 0% and 150% of the number of MSOs issued based on the attainment of these market-based conditions. These MSOs were cancelled on July 1st, 2020. As of March 31, 2020, compensation expense related to MSO issued to employees prior to March 31, 2020 was fully expensed.

During fiscal 2021, the Company issued MSOs that vest upon satisfaction of certain performance and market conditions. There have been no expenses recorded for these options in 2021 as the market condition has not been met.

The following table presents a summary of MSO activity as of March 31, 2021 and 2020:

| | Number of Shares | Weighted-Average Exercise Price per Share | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding as of March 31, 2019 | 237,500 | $ 120.00 | 9.2 | $ — |
| Granted | — | | | |
| Exercised | — | | | |
| Forfeited and expired | (77,500) | 100.65 | — | $ — |
| Outstanding as of March 31, 2020 | 160,000 | $ 120.00 | 7.8 | $ — |
| Granted | 183,380 | 45.00 | | |
| Exercised | — | | | |
| Forfeited and expired | (160,000) | 120.00 | — | — |
| Outstanding as of March 31, 2021 | 183,380 | $ 45.00 | 9.5 | $ — |
| Vested and expected to vest as of March 31, 2021 | — | | | |
| Exercisable as of March 31, 2021 | — | | | |

The weighted-average grant date fair value of the market based stock options issued in 2021 were $23.

(Dollars in thousands, unless otherwise indicated)

***Restricted Stock and Restricted Stock Units***

Restricted stock and restricted stock units (collectively, "RSUs") issued prior to 2017 vest either subject to the achievement of certain performance measures and continued service over a three year period, or vest in equal installments over a three period subject only to continued service. RSUs issued during the year ended December 31, 2017 and 2018 vest in equal installments over a two to four year period subject only to continued service.

RSUs issued during the fiscal year March 31, 2021, 50% vest annually in four equal installments and 50% vest on satisfaction of certain performance and market-based conditions, and in each case subject to continued service.

The following table table presents a summary of RSU unit activity as of March 31, 2021 and 2020:

| | Number of Restricted Stock Units | Weighted-Average Grant Date Fair Value |
|---|---|---|
| Non-vested as of March 31, 2019 | 144,534 | $ 132.47 |
| Granted | 59,672 | 75.00 |
| Vested | (122,482) | 117.27 |
| Forfeited | (21,730) | 110.76 |
| Non-vested as of March 31, 2020 | 59,994 | $ 92.37 |
| Granted | 80,272 | 45.00 |
| Vested | (28,774) | 99.89 |
| Forfeited | (6,491) | 86.15 |
| Non-vested as of March 31, 2021 | 105,001 | $ 80.49 |

The total fair value of shares vested related to restricted stock units during the fiscal year 2021 was $1,295 As of March 31, 2021, there was $4,720 of unrecognized compensation expense related to the Company's grant of RSUs to employees. Unrecognized compensation expense related to RSUs issued to employees is expected to be recognized over a weighted-average period of 2.31 years.

The following table table presents a summary of RSU unit activity (with performance and market conditions) as of March 31, 2021 and 2020:

| | Number of Restricted Stock Units | Weighted-Average Grant Date Fair Value |
|---|---|---|
| Non-vested as of March 31, 2020 | — | $ — |
| Granted | 61,135 | 27.00 |
| Vested | — | — |
| Forfeited | — | — |
| Non-vested as of March 31, 2021 | 61,135 | $ 27.00 |

There have been no expenses recorded for these RSUs in 2021 as the market condition has not been met.

## 13. Restructuring

In order to contain costs and mitigate the impact of current and expected future economic and market conditions, as well as a continued focus on process improvements, we have initiated various restructuring plans over the last several years. The charges for each restructuring plan are classified as operating and administration expenses within the consolidated statements of operations.

(Dollars in thousands, unless otherwise indicated)

In certain circumstances, reserves are no longer needed because of efficiencies in carrying out the plans, or because employees previously identified for separation resigned from the Company and did not receive severance or were reassigned due to circumstances not foreseen when the original plans were initiated. In these cases, we reverse reserves through the consolidated statements of operations when it is determined they are no longer needed.

The following table summarizes restructuring information by reporting segment:

| | Higher Education | K-12 | International | Global Professional | Other | Total |
|---|---|---|---|---|---|---|
| **As of March 31, 2019** | **$ 4,789** | **$ 1,006** | **$ 1,244** | **$ —** | **$ —** | **$ 7,039** |
| Charges: | | | | | | |
| Employee severance and other personal benefits | 3,353 | 20,470 | 1,048 | — | — | 24,871 |
| Payments: | | | | | | |
| Employee severance and other personal benefits | (5,834) | (13,704) | (1,707) | — | — | (21,245) |
| **As of March 31, 2020** | **$ 2,308** | **$ 7,772** | **$ 585** | **$ —** | **$ —** | **$ 10,665** |
| Charges: | | | | | | |
| Employee severance and other personal benefits | 9,264 | — | 2,869 | — | — | 12,133 |
| Payments: | | | | | | |
| Employee severance and other personal benefits | (8,073) | (7,772) | (2,905) | — | — | (18,750) |
| **As of March 31, 2021** | **$ 3,499** | **$ —** | **$ 549** | **$ —** | **$ —** | **$ 4,048** |

The Company expects to utilize the remaining reserves of $4,002 and $46 in 2022 and 2023, respectively.

(Dollars in thousands, unless otherwise indicated)

## 14. Leases

We lease property under operating leases with expiration dates through 2035 as well as computer systems and office equipment under finance leases with lease terms ranging from 12 to 50 months.

***Lease position as of March 31, 2021 and 2020***

The table below presents the lease-related assets and liabilities recorded on the consolidated balance sheet:

| | Classification on the Balance Sheet | As of March 31, 2021 | As of March 31, 2020 |
|---|---|---|---|
| **Assets** | | | |
| Operating leases | Operating lease right-of-use assets | $ 69,773 | $ 69,315 |
| Finance leases | Property and equipment, net | 30,012 | 26,172 |
| **Total lease assets** | | **$ 99,785** | **$ 95,487** |
| | | | |
| **Liabilities** | | | |
| Current: | | | |
| Operating leases | Operating lease liabilities | 9,151 | 13,424 |
| Finance Leases | Other current liabilities | 10,246 | 12,192 |
| Non-current: | | | |
| Operating leases | Operating lease liabilities | 93,343 | 89,830 |
| Finance leases | Other non-current liabilities | 22,577 | 15,802 |
| **Total lease liabilities** | | **$ 135,317** | **$ 131,248** |
| | | | |
| Weighted-average remaining lease term: | | | |
| Operating leases | | 11.20 | 11.66 |
| Finance Leases | | 3.06 | 2.87 |
| | | | |
| Weighted-average discount rate: | | | |
| Operating leases | | 10.85 % | 11.01 % |
| Finance Leases | | 10.44 % | 7.50 % |

(Dollars in thousands, unless otherwise indicated)

***Lease costs***

The table below presents certain information related to the lease costs for operating and finance leases during the year ended March 31, 2021 and 2020:

| | Year Ended March 31, 2021 | Year Ended March 31, 2020 |
|---|---|---|
| Operating lease cost | $ 22,552 | $ 29,883 |
| Short-term lease cost | 1,175 | 1,263 |
| Finance lease cost: | | |
| Amortization of assets | 12,217 | 10,871 |
| Interest on lease liabilities | 2,906 | 1,539 |
| Sub-lease income | (3,294) | (3,839) |
| **Total net lease cost** | **$ 35,556** | **$ 39,717** |

***Other Information***

Supplemental cash flow information related to leases was as follows:

| | Year Ended March 31, 2021 | Year Ended March 31, 2020 |
|---|---|---|
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows from operating leases | $ 23,489 | $ 22,103 |
| Operating cash flows from finance leases | 2,906 | 1,539 |
| Financing cash flows from finance leases | 11,954 | 13,727 |
| Non-cash financing activities: Capital lease obligation | 19,036 | 17,563 |

***Undiscounted cash flows***

The table below reconciles the undiscounted cash flows for each of the first five years and total of the remaining years to the operating and finance lease liabilities recorded on the balance sheet:

| | Year Ended March 31, 2021 | |
|---|---|---|
| | Operating Leases | Finance Leases |
| 2022 | $ 19,763 | $ 13,071 |
| 2023 | 17,775 | 12,600 |
| 2024 | 17,452 | 9,445 |
| 2025 | 13,971 | 3,153 |
| 2026 | 13,883 | 20 |
| 2027 and beyond | 100,683 | — |
| Total lease payments | 183,527 | 38,289 |
| Less: amounts related to interest | (81,033) | (5,466) |
| Total lease liabilities | 102,494 | 32,823 |
| Less: Current liabilities | (9,151) | (10,246) |
| **Non-current lease liabilities** | **$ 93,343** | **$ 22,577** |

## 15. Transactions with Apollo Global Management LLC ( the "Sponsors")

***Transactions Fee Agreement***

The Company entered into a transaction fee agreement on March 22, 2013 ( the "Transactions Fee Agreement") with Apollo Global Securities, LLC (the “Service Provider”) relating to the provision of certain structuring, financial, investment banking and other similar advisory services by the Service Provider to the Company, its direct and indirect divisions and subsidiaries, parent entities or controlled affiliates (collectively, the “Company Group”) in connection with future transactions. Subject to the terms and conditions of the Transactions Fee Agreement, a transaction fee equal to 1% of the aggregate enterprise value is payable in connection with any merger, acquisition, disposition, recapitalization, divestiture, sale of assets, joint venture, issuance of securities (whether equity, equity-linked, debt or otherwise), financing or any similar transaction effected by a member of the Company Group. For each of the years ended March 31, 2021 and 2020, no transaction fees were recorded.

***Management Fee Agreement***

The Company entered into a management fee agreement (the “Management Fee Agreement”) with Apollo Management VII, L.P. (the “Advisor”) on March 22, 2013, relating to the provision of certain management consulting and advisory services to the members of the Company Group. In exchange for the provision of such services, the Advisor will receive a non-refundable annual management fee of $3,500 in the aggregate. Subject to the terms and conditions of the Management Fee Agreement, upon a change of control or an initial public offering (“IPO”) of a member of the Company Group, the Advisor may elect to receive a lump sum payment in lieu of future management fees payable to them under the Management Fee Agreement. For the year ended March 31, 2021 and 2020, the Company recorded an expense of $3,500 for management fees.

## 16. Commitments and Contingencies

***Legal Matters***

In 2016, MHE filed a complaint against Illinois National Insurance Company ("INIC") in the Supreme Court of the State of New York seeking a declaration that it is entitled to full insurance benefits under several multi-media policies with INIC which has denied liability and asserted a counterclaim on November 28, 2016 in the Action seeking (i) a declaratory judgment that MHE is not entitled to the coverage sought; (ii) recoupment of indemnity payments already made by INIC on the claims; and (3) recoupment of defense costs reimbursed by INIC. On December 17, 2019, the First Department ruled that MHE is entitled to coverage for damages related to the Copyright Actions under the policies and referred the case back to the trial court for a determination of damages. On June 22, 2020, the parties reached an agreement related to the Copyright Actions lawsuit filed in 2016 in the Company's favor. The results of this agreement are reflected in the financial statements.

McGraw-Hill was one of several named defendants in multiple separate lawsuits that were brought in 2020 in various federal courts, purporting to be class actions on behalf of students and in one case, off campus bookstores. The lawsuits each alleged, among other things, that McGraw-Hill's (and other competitors) inclusive access programs violate various Federal antitrust laws by reducing competition from the secondary market and from off campus bookstores. Certain distribution channel partners were also named defendants. On August 11, 2020, the Judicial Panel on Multidistrict Litigation granted the defendants' motion to consolidate all the lawsuits into a single action and selected the District Court in the Southern District of New York for its adjudication. Plaintiffs have filed amended complaints in the consolidated action.The defendants have filed a motion to dismiss the amended complaints, with plaintiffs and the defendants having now completed all briefing relating to the motion. The parties are awaiting the judge’s ruling.

On January 22, 2021 and February 8, 2021, respectively, two purported class actions were filed against the Company in the Southern District of New York. The actions stem from the recent refinements the Company made to how it calculates royalties that are payable to certain authors in connection with content delivery via the Company's online platform.The allegations in the two complaints were similar. Each alleged, among other things, that the adjusted royalty approach breaches the relevant author agreements. The two sets of plaintiffs subsequently agreed to consolidate their Complaints and on March 19, 2021, they filed an amended Complaint. The Company believes that the allegations in the complaints are without merit and has informed the judge that the Company intends to file a motion to dismiss the amended Complaint in mid-May.

In the normal course of business both in the United States and abroad, the Company is a defendant in various lawsuits and legal proceedings which may result in adverse judgments, damages, fines or penalties and is subject to inquiries and investigations by various governmental and regulatory agencies concerning compliance with applicable laws and regulations. In view of the inherent difficulty of predicting the outcome of legal matters, we cannot state with confidence what the timing, eventual outcome, or eventual judgment, damages, fines, penalties or other impact of these pending matters will be. We believe, based on our current knowledge, that the outcome of the legal actions, proceedings and investigations currently pending should not have a material adverse effect on the Company's financial condition.

## 17. Related Party Transactions

In the normal course of business, the Company has transactions with its wholly owned consolidated subsidiaries and affiliated entities.

***RackSpace***

The Company has an agreement with RackSpace, Inc., a portfolio company of the Sponsors, primarily related to managed cloud and hosting services. For the year ended March 31, 2021 and 2020, the Company paid this vendor $16,047 and $15,680, respectively.

***University of Phoenix***

University of Phoenix is owned by Apollo Education Group, which was acquired by the Sponsors and certain co-investors in February 2017. For the year ended March 31, 2021 and 2020, the Company's sales to University of Phoenix totaled $3,800 and $5,258, respectively.

## 18. Subsequent Events

***Receivables Facility***

As of June 4, 2021, $80,700 is outstanding under the Receivables Facility and is subject to interest rate of LIBOR plus 2.0%.

***2016 Term Loan Facility***

As of June 4, 2021, there is no outstanding balance under 2016 Term Loan Facility. The Company paid the outstanding balance of $26,881 on April 22, 2021.

***Acquisition***

On April 30, 2021, the Company acquired Triad Interactive, Inc. and Deca Software, LLC (collectively, "Acquired Companies"). The Company has a long-standing relationship with the Acquired Companies who develop the SIMnet product for undergraduate computer and information technology courses. SIMnet provides students with simulated and in-the-application exercises using Microsoft Word, Excel, PowerPoint, and Access as well as many other relevant subject areas. Historically, the Company funded a portion of SIMnet development and was an exclusive reseller of the product. Total cash consideration for Acquired Companies is $7,800 paid at closing and $2,047 to be paid on satisfaction of certain future seller obligations.

***Disposal***

On April 16, 2021, the Company sold certain Global Professional titles for a total cash consideration of $3,500 to a third party. The carrying value of these assets as of March 31, 2021 were nil.

**McGraw-Hill Education, Inc. and subsidiaries**
**Condensed Financial Information of Registrant**
**Parent Company Information**
**(Dollars in thousands)**

**Consolidated Statements of Operations**

| | Year Ended March 31, 2021 | Year Ended March 31, 2020 |
|---|---|---|
| **Revenue** | $ — | $ — |
| Cost of sales | — | — |
| Gross profit | — | — |
| **Operating expenses** | | |
| Operating and administration expenses | 93 | 6,024 |
| Depreciation | — | — |
| Amortization of intangibles | — | — |
| Equity in income/loss of subsidiaries | (44,843) | 129,281 |
| Total operating (income) expenses | (44,750) | 135,305 |
| Operating income (loss) | 44,750 | (135,305) |
| Interest expense (income), net | — | — |
| Loss on extinguishment of debt | — | — |
| Income (loss) from operations before taxes on income | 44,750 | (135,305) |
| Income tax (benefit) provision | — | — |
| **Net income (loss)** | **$ 44,750** | **$ (135,305)** |

**Consolidated Balance Sheets**

| | Year Ended March 31, 2021 | Year Ended March 31, 2020 |
|---|---|---|
| **Current assets** | | |
| Cash and equivalents | $ 542 | $ 512 |
| Prepaid and other current assets | — | — |
| Total current assets | 542 | 512 |
| Other non-current assets | — | — |
| **Total assets** | **$ 542** | **$ 512** |
| **Liabilities and equity** | | |
| Current liabilities | | |
| Accounts payable | $ — | $ 25 |
| Intercompany | 31,483 | 35,246 |
| Total current liabilities | 31,483 | 35,271 |
| Investment losses in subsidiaries | 1,474,535 | 1,469,400 |
| Total liabilities | 1,506,018 | 1,504,671 |
| **Stockholders' equity (deficit)** | | |
| Common stock | 106 | 106 |
| Additional paid in capital | 56,705 | 53,324 |
| Treasury stock | (24,509) | (23,529) |
| Accumulated deficit | (1,537,778) | (1,534,060) |
| Total stockholders' equity (deficit) | (1,505,476) | (1,504,159) |
| **Total liabilities and stockholders' equity (deficit)** | **$ 542** | **$ 512** |

**McGraw-Hill Education, Inc. and subsidiaries**
**Condensed Financial Information of Registrant**
**Parent Company Information**
**(Dollars in thousands)**

**Consolidated Statement of Cash Flows**

| | Year Ended March 31, 2021 | Year Ended March 31, 2020 |
|---|---|---|
| **Operating activities** | | |
| Cash provided by (used for) operating activities | $ (78) | $ 2,363 |
| **Investing activities** | | |
| Proceeds on distribution received from subsidiaries | — | — |
| Cash provided by (used for) investing activities | — | — |
| **Financing activities** | | |
| Issuance of common stock | | — |
| Exercise / Repurchase of common stock | 108 | (2,331) |
| Exercise of options | — | — |
| Dividends paid | — | — |
| Cash provided by (used for) financing activities | 108 | (2,331) |
| Net change in cash and cash equivalents | 30 | 32 |
| Cash and cash equivalents at the beginning of the period | 512 | 480 |
| Cash and cash equivalents, ending balance | $ 542 | $ 512 |

**1. Basis of Presentation**

McGraw-Hill Education, Inc. (formerly known as Georgia Holdings, Inc.) (the "Company") became the ultimate parent of MHE Acquisition, LLC pursuant to the Founding Acquisition on March 22, 2013. Pursuant to the terms of the credit agreements governing the 2016 Senior Notes, the 2016 Term Loan Facility and the MHGE Parent Term Loan as discussed in Note 7, "Debt", within the accompanying notes to consolidated financial statements included in this filing, the Company and certain of its subsidiaries have restrictions on their ability to, among other things, incur additional indebtedness, pay dividends or make certain intercompany loans and advances. As a result of these restrictions, these parent company financial statements have been prepared in accordance with Rule 12-04 of Regulation S-X, as restricted net assets of the Company's subsidiaries (as defined in Rule 4-08(e)(3) of Regulation S-X) exceed 25% of the Company's consolidated net assets as of March 31, 2021 and 2020.

The Company on a standalone basis has accounted for all investments in subsidiaries using the equity method. Under the equity method, the investment in subsidiaries is stated at cost plus contributions and equity in undistributed income (loss) of subsidiaries. The accounting policies used in the preparation of the parent financial statements are generally consistent with those used in the preparation of the consolidated financial statements of the Company. The accompanying condensed financial information should be read in conjunction with the consolidated financial statements and accompanying notes to the consolidated financial statements included in this filing.

**McGraw-Hill Education, Inc. and subsidiaries**
**Consolidated Financial Statements**
**Valuation and Qualifying Accounts**
**(Dollars in thousands)**

| | Balance at beginning of the year | Additions | Deductions | Balance at end of the year |
|---|---|---|---|---|
| **Year ended March 31, 2021** | | | | |
| Allowance for Doubtful Accounts | $ 17,606 | $ 4,755 | $ (6,104) | $ 16,257 |
| Allowance for returns | 58,084 | 43,955 | (57,084) | 44,955 |
| Inventory | 65,698 | 28,689 | (48,312) | 46,075 |
| Valuation Allowance | 400,856 | 8,109 | (7,449) | 401,516 |
| **Year ended March 31, 2020** | | | | |
| Allowance for Doubtful Accounts | $ 16,883 | $ 3,610 | $ (2,887) | $ 17,606 |
| Allowance for returns | 81,445 | 28,134 | (51,495) | 58,084 |
| Inventory | 63,216 | 9,719 | (7,237) | 65,698 |
| Valuation Allowance | 376,564 | 24,410 | (118) | 400,856 |

## Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## Item 9B. OTHER INFORMATION

During the quarter ended March 31, 2021 the Company completed the implementation of the following remedial measures to address the material weaknesses identified during the year ended December 31, 2016, related to the accounting for revenue in our K-12 segment. The Company determined that it previously did not defer certain contracts related to print subscription products. In addition, during 2016, the Company also entered into certain customer contracts containing multiple element arrangements including free with order digital subscription products which was not properly identified and accounted for as a separate deliverable. Both deficiencies resulted in an overstatement of revenues recognized during 2016.

Specifically, our remediation plan included the following:

1. The creation of a Revenue Accounting Center of Excellence group, which is responsible for all aspects of the revenue recognition policies, procedures and the proper application of accounting for the K-12 business unit sales arrangements;

2. We hired a new Controller who is responsible for ensuring proper application of ASC 606.

3. Implementation of a new revenue recognition software which systematically calculates and properly defers revenue in accordance with ASC 606.

4. The Company has evaluated its revenue recognition practices and has implemented improvements in those practices, including:

    (i) improved procedures to ensure that revenue recognition policies are understood and consistently applied across all contracts in the K-12 business segment; in addition developed monitoring controls over contracts with customers to ensure accurate accounting for multiple-element arrangements;

    (ii) developed a quarterly control related to the identification of non-recurring transactions. Quarterly review meetings are held with key stakeholders within the Company to identify and discuss potentially significant transactions ensuring that information related to significant transactions are communicated timely and accounting is appropriately captured within the financial statements;

    (iii) the development of automated IT application controls and monitoring controls over contracts with customers and revenue recognition; which included a redesign of existing controls and the addition of newly developed and documented control activities, in order to mitigate known risks and strengthen the overall control environment which were tested by the Company's internal auditors and management.

5. Improved training in U.S. GAAP to ensure that a formalized process for determining, documenting, communicating, implementing and monitoring controls over revenue recognition processes is maintained.

As a result of implementing our remediation plans, as of March 31, 2021 we believe we have remediated the material weakness.

Except for the foregoing, there was no change that occurred during the year ended March 31, 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART III

### Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table provides information regarding the executive officers and the members of the Board of MHE, as of the date of this annual report.

| Name | Age | Position |
|---|---|---|
| Simon Allen | 59 | President & CEO |
| Garet Guthrie | 41 | Executive Vice President and Chief Financial Officer |
| David Stafford | 58 | Senior Vice President, General Counsel and Secretary |
| Angelo T. DeGenaro | 62 | Chief Information and Operations Officer |
| Larry Berg | 54 | Chairman and Director |
| Lloyd G. Waterhouse | 69 | Director |
| Jonathan Mariner | 66 | Director |
| Aaron Miller | 48 | Director |
| Ronald Schlosser | 72 | Director |
| Itai Wallach | 33 | Director |
| Mark Wolsey-Paige | 59 | Director |
| Tarika Barrett | 48 | Director |

***Simon Allen*** was named CEO of McGraw-Hill in May 2020 and was serving as Interim CEO since October 2019.

Simon has deep experience in educational publishing having led large teams across six continents focused on K-12 and higher education, as well as science, technical and medical digital and print products for professional, governmental and institutional markets. Before joining McGraw-Hill, he was the CEO of Macmillan Education, leading the company's transition from print to blended learning products and solutions. Previously, he was Senior Vice President, International at The McGraw-Hill Companies and during that time was elected President of The Publishers Association in the U.K., serving for three years on its council. Before that, Simon was President, Higher Education at both Pearson Education EMEA and Prentice Hall Europe. Earlier in his career, he held sales leadership roles with the Times Mirror Group in the U.S., Europe and the Middle East.

Simon received his BA with honors from Middlesex University School of Business and completed Executive Education programs in Leadership and Strategic Management at the London Business School.

***Garet Guthrie*** was named Chief Financial Officer for McGraw-Hill in July 2019. As CFO, Garet is responsible for Accounting, Finance, Global Business Services, Investor Relations, Real Estate, Tax and Treasury.

Previously Garet served as McGraw-Hill's Senior Vice President of Financial Planning and Analysis, responsible for providing management, the company's Board of Directors and investors with insight and analysis on financial performance and overseeing corporate costs. In addition, he supported investor relations activities, including capital market transactions and oversaw financial aspects of mergers, acquisitions, investments and divestitures.

Before joining McGraw-Hill in 2013, Garet was part of PwC's Deals practice focused on global private equity and multinational corporate transactions for many of PwC's largest clients. His experience with PwC spanned multiple industries and technology sectors and provided a diverse combination of strategic, financial and capital market experiences. He earned his bachelor's degree in Accounting from Oklahoma State University and his Master of Business Administration from Texas A&M University, is a Chartered Financial Analyst charterholder and is a Certified Public Accountant.

***David Stafford*** was appointed general counsel and secretary of McGraw-Hill Education in May 2012. As general counsel, he is responsible for all legal matters affecting McGraw-Hill Education and manages McGraw-Hill Education's legal, compliance and risk and government affairs departments. Prior to May 2012, Mr. Stafford was vice president and associate general counsel at The McGraw-Hill Companies. As a senior member of the company's legal department, he practiced in a wide variety of legal areas, with a focus on the company's financial information businesses.

From 2006 to 2009, Mr. Stafford served as senior vice president, Corporate Affairs, and assistant to the chairman and chief executive officer, where he was responsible for the marketing, communications, government affairs, and community relations activities of the company and advising the chairman and chief executive officer on matters involving the Board of Directors and the management and operation of the company generally. Prior to 2006 he was associate general counsel at The McGraw-Hill Companies. Before joining The McGraw-Hill Companies in 1992, he was an associate at two different New York City law firms, where he specialized in corporate law. Mr Stafford is a graduate of Columbia University, where he received his bachelor's degree, and a graduate of Cornell Law School, where he received his J.D. degree. He also serves on the Board of Directors of the Association of American Publishers and as Vice Chairman of the Board of Trustees of YAI Network, a not-for-profit that provides a variety of services to people in the New York metropolitan area who have developmental disabilities.

***Angelo T. DeGenaro*** joined the company in 2015 and serves as Chief Information and Operations Officer for McGraw-Hill. He leads McGraw-Hill's Global Technology and Digital Platform Groups, including the development and support of customer-facing products, as well as the IT architecture, infrastructure, operations, and cybersecurity of front and back-office systems. He oversees Global Supply Chain Management, including manufacturing, inventory planning, fulfillment, and order management. Angelo also leads the Customer Experience Group, providing customer support for students using our digital products.

Angelo began working for The McGraw-Hill Companies in 2004, with his last position being Senior Vice President and Chief Technology Officer at McGraw-Hill Financial. In that role, he was responsible for enterprise architecture, global infrastructure delivery, business systems, and IT risk management. Before joining The McGraw-Hill Companies, Angelo held senior technology leadership positions at Cigna and Citi. He spent seven years at Cigna as the Senior Vice President of Infrastructure Implementation Services and also held several operational and engineering leadership roles during his earlier 18-year tenure at Citi.

Angelo is a member of The Research Board, a New York-based international think tank. He holds a bachelor's degree in Economics from New York University and a Master of Science in telecommunications and computing management from Polytechnic University.

***Larry Berg*** has been the Chairman of the Board of McGraw-Hill Education since March 2014 and has been a Director since March 2013. Mr. Berg is a Senior Partner at Apollo having joined in 1992, and oversees the Firm's efforts in industrials and education. Before that time, Mr. Berg was a member of the Mergers and Acquisitions group of Drexel Burnham Lambert Incorporated. Mr. Berg serves on the board of directors of Maxim Crane, University of Phoenix and Los Angeles Football Club and he previously served on the boards of Laureate International Universities, Sylvan Learning, Berlitz, Connections Academy and Crisis Text Line. Mr. Berg graduated magna cum laude with a BS in Economics from the University of Pennsylvania's Wharton School of Business and received an MBA from the Harvard Business School.

***Lloyd G. Waterhouse*** has been a Director of McGraw-Hill Education since March 2013. Mr. Waterhouse served as interim President and Chief Executive Officer of McGraw-Hill Education from October 2017 until April 2018. He was previously the President and Chief Executive Officer from March 2013 until April 8, 2014 and, before that, the President of the McGraw-Hill Education segment of MHC from June 2012 until March 2013. Mr. Waterhouse began his career with International Business Machines Corporation ("IBM") in 1973 in the firm's data processing division. He later became General Manager of Marketing and Services for IBM Asia Pacific. In 1992, he was appointed President of IBM's Asia Pacific Services Corporation and later became Director of Global Strategy at IBM. In 1996, Mr. Waterhouse was named General Manager Marketing and Business Development, IBM Global

Services, before being promoted to General Manager, E-Business Services, a division focused on consulting, education and training for customers. In 1999, Mr. Waterhouse became President and Chief Operating Officer, and later Chief Executive Officer of Reynolds & Reynolds Co., a company primarily focused on software for the automotive industry. In 2006, he was appointed Chief Executive Officer of Harcourt Education, a leader in the United States School Education sector. The parent company of Harcourt Education decided to sell the business in 2007 and it merged with Houghton Mifflin Harcourt at the end of that year. Mr. Waterhouse has since served on the board of directors of SolarWinds, Inc., ITT Educational Services, Ascend Learning LLC, Digimarc Corporation, i2 Technologies, Inc., Atlantic Mutual Insurance Companies, JDA, Instructure, Larry H. Miller Companies and Sparta in addition to being a Senior Advisor at New Mountain Capital LLC. Mr. Waterhouse is a graduate of Pennsylvania State University and holds an MBA from Youngstown State University.

***Jonathan Mariner*** has been a Director of McGraw-Hill Education since February 2016. Mr. Mariner is a private investor and entrepreneur, and is currently the Founder and President of TaxDay, LLC, a private software firm that helps users track their multi-state travel for tax purposes. Mr. Mariner recently retired from Major League Baseball, Office of the Commissioner, having served as Executive VP and CFO for 12 years, and as Chief Investment Officer. He previously served as Executive VP and CFO of the Florida Marlins Baseball Club. Mr. Mariner currently serves on the board of directors of Ultimate Software Inc., IEX Stock Exchange and Little League Baseball. Mr. Mariner holds a bachelor's degree in accounting from the University of Virginia, an MBA from Harvard Business School and is a former Certified Public Accountant.

***Aaron Miller*** joined as Director of McGraw-Hill Education in May 2020. Mr. Aaron is a Partner and Head of Apollo Portfolio Support, where he leads the focus on portfolio company operations. He brings over 20 years of experience across consumer, retail, manufacturing operations, and other business services. Prior to Apollo, Aaron was the Chief Operating Officer of a Berkshire Partners portfolio company, where he accelerated the transformation of a tactical paper coupon company to a data & analytics focused, omni-channel, strategic marketing partner. Aaron was responsible for Innovation and Customer Delivery, which included Product, Technology, Analytics, Operations and Solutions in Europe, Japan and the US. Aaron also served as an Operating Director at Berkshire Partners, where he collaborated with deal teams and portfolio company executives to set the strategic agenda and drive value creation plans, senior talent acquisition, and operational performance improvement, including salesforce effectiveness, organizational restructuring, and productivity improvement. Prior to Berkshire, Aaron spent 12 years at Bain & Company, most recently as a Partner, serving as a trusted advisor to CEOs and their management teams, private equity operating teams, and boards. Aaron held both advisory and interim executive roles to enable companies to drive growth, improve performance, transformation, distressed turnarounds, and conduct deal diligence across a broad range of sectors, business situations and geographies. Earlier in his career, Aaron also held key product and operations roles with General Mills and Cereal Partners Worldwide, a joint venture between General Mills and Nestle, in the US, Mexico and Brazil. Aaron received his MBA from Wharton and his BS from Northwestern. He is fluent in both Spanish and Portuguese.

***Ronald Schlosser*** has been a Director of McGraw-Hill Education since March 2013 and previously served as Executive Chairman of McGraw-Hill Education since March 2013 through May 1, 2014. Mr. Schlosser currently advises global leaders in private equity investing in information services, including healthcare, data services and education. He has served as Chairman and Chief Executive Officer of Haights Cross Communications, an educational and library information company, and has served as a Senior Advisor to Providence Equity Partners and Chairman of several education and information services portfolio companies, including Jones & Bartlett, Assessment Technologies Institute, Edline and Survey Sampling International. Mr. Schlosser served as Chief Executive Officer of Thomson Learning Group, after serving as Chief Executive Officer of Thomson Scientific and Healthcare, after joining Thomson Financial Publishing as its President & Chief Executive Officer in 1995. He serves on the board of directors of Copyright Clearance Center and the Warehouse Arts District in Florida. Mr. Schlosser is currently a private investor in several information businesses. Mr. Schlosser is a graduate of Rider University and holds an MBA from Fairleigh Dickinson University.

***Itai Wallach*** has been a Director of McGraw-Hill Education since March 2017. Mr. Wallach is a Principal at Apollo, having joined in 2012. Before joining Apollo, Mr. Wallach was a member of the Financial Sponsors Group at Barclays Capital. Mr. Wallach also serves on the Board of Directors of The Fresh Market and formerly on

Jacuzzi Brands. He graduated with distinction from the Richard Ivey School of Business at the University of Western Ontario where he was an Ivey Scholar.

***Mark Wolsey-Paige*** has been a Director of McGraw-Hill Education since May 2013. From 2010 to 2014 Mr. Wolsey-Paige served as an advisor to Apollo, largely on healthcare-related deals. Before becoming an advisor to Apollo, Mr. Wolsey-Paige served as Executive Vice President, Product Development & Supply at Siemens Healthcare Diagnostics from 2007 to 2009. In 2007, he was appointed Chief Strategy and Technology Officer for Dade Behring Inc. before its acquisition by Siemens. Previously, Mr. Wolsey-Paige worked at Baxter Diagnostics, which became a part of Dade Behring, and became Vice President, Strategy and Business Development in 2000; he remained in this role until the company was acquired, while also becoming head of Research and Development, Instrument Manufacturing and Supply Chain Management. Before joining Dade Behring, he was a consultant at Bain & Company in Boston. Before that, Mr. Wolsey-Paige served four years in the U.S. Army, achieving the rank of Captain and worked in the Strategic Plans and Policy Directorate on the Army staff in the Pentagon. Mr. Wolsey-Paige holds a bachelor's degree in Business Administration from Washington University and an MBA from Harvard University.

***Dr. Tarika Barrett*** currently serves as Chief Executive Officer at Girls Who Code, an international non-profit organization working to close the gender gap in technology by inspiring, educating and equipping young women with the computing skills to pursue 21st century opportunities.

As CEO of Girls Who Code, Dr. Barrett oversees an organization that has reached 300,000 girls around the world and has a cohort of college-aged alumni that is 80,000 young women strong. Prior to her appointment as CEO in April 2021, she served as Girls Who Code's Chief Operating Officer, overseeing the organization's free Summer Immersion Program and after-school Clubs Program, in addition to the International Expansion, Alumni Programming, and People & Culture teams. Previously, Dr. Barrett worked as the Chief Program Officer at iMentor, leading the organization's programmatic efforts to build mentoring relationships that support students from low-income communities in graduating high school and succeeding in college. Before iMentor, she worked in the Office of Postsecondary Readiness at the New York City Department of Education overseeing options for students significantly off-track academically, as well as developing new school models including the Academy for Software Engineering. Dr. Barrett's previous experience includes serving as Deputy Network Leader of the Brooklyn-Staten Island Network of New Visions for Public Schools, designing and implementing research and program evaluations for New York University's Center for Research on Teaching and Learning, teaching high school students, and working as a political organizer. Dr. Barrett serves on the board of Eskolta, a nonprofit dedicated to helping urban public schools re-engage at-risk teenagers. She holds a Bachelor of Arts in political science from Brooklyn College, a Master of Arts in deaf education from Columbia Teachers College and a Doctor of Philosophy in teaching and learning from New York University.

**Committees of the Board**

***Audit Committee***. The Audit Committee consists of three members: Messrs. Mariner, Wallach and Wolsey-Paige, all of whom qualify as audit committee financial experts, as such term is defined in Item 407(d)(5) of Regulation S-K. Mr. Mariner is the chair of the Audit Committee. In light of our status as a privately-held company and the absence of a public trading market for our common stock, there are no requirements that we have an independent audit committee.

The Audit Committee is directly responsible for the appointment, compensation, retention (including termination) and oversight of the independent auditors, the granting of appropriate pre-approvals of all auditing services and nonaudit services to be provided by the independent auditors, meeting and discussing with management, the internal audit group and independent auditors the annual audited and quarterly unaudited financial statements, any legal, regulatory any compliance matters (including tax) that could have a significant impact on financial statements, reviewing and discussing with management major financial risk exposures and steps taken to monitor, controlling and managing them and review the responsibilities and results of the internal audit group.

***Compensation Committee***. The Compensation Committee is responsible for formulating, evaluating and approving the compensation and employment arrangements of the officers of McGraw-Hill Education and the Company. The Compensation Committee consists of three members: Messrs. Berg, Schlosser and Wallach.

***Nominating and Corporate Governance Committee***. The Nominating and Corporate Governance Committee is responsible for assisting McGraw-Hill Education in identifying and recommending candidates to the Board, recommending composition of the Board and committees and reviewing and recommend revisions to the corporate governance guidelines. The Nominating and Corporate Governance Committee consists of two members: Messrs. Berg and Waterhouse.

**Code of Ethics**

We have adopted a code of ethics, referred to as our "Code of Business Ethics," that applies to all of our employees, including our Chief Executive Officer, Chief Financial Officer and senior financial and accounting officers. A copy of our Code of Business Ethics is available on our website at www.mheducation.com.

## Item 13. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

We or one of our subsidiaries may occasionally enter into transactions with certain “related parties.” Related parties include its executive officers, directors, nominees for directors, a beneficial owner of 5% or more of its common stock and immediate family members of these parties. We refer to transactions in which the related party has a direct or indirect material interest as “related party transactions.”

**Transactions Fee Agreement**

The Company entered into a transaction fee agreement on March 22, 2013 ( the "Transactions Fee Agreement") with Apollo Global Securities, LLC (the “Service Provider”) relating to the provision of certain structuring, financial, investment banking and other similar advisory services by the Service Provider to the Company, its direct and indirect divisions and subsidiaries, parent entities or controlled affiliates (collectively, the “Company Group”) in connection with future transactions. Subject to the terms and conditions of the Transactions Fee Agreement, a transaction fee equal to 1% of the aggregate enterprise value is payable in connection with any merger, acquisition, disposition, recapitalization, divestiture, sale of assets, joint venture, issuance of securities (whether equity, equity-linked, debt or otherwise), financing or any similar transaction effected by a member of the Company Group. For the years ended March 31, 2021 and 2020 no transaction fees were recorded.

**Management Fee Agreement**

The Company entered into a management fee agreement (the “Management Fee Agreement”) with Apollo Management VII, L.P. (the “Advisor”) on March 22, 2013, relating to the provision of certain management consulting and advisory services to the members of the Company Group. In exchange for the provision of such services, the Advisor will receive a non-refundable annual management fee of $3,500 in the aggregate. Subject to the terms and conditions of the Management Fee Agreement, upon a change of control or an initial public offering (“IPO”) of a member of the Company Group, the Advisor may elect to receive a lump sum payment in lieu of future management fees payable to them under the Management Fee Agreement.

***RackSpace***

The Company has an agreement with RackSpace, Inc., a portfolio company of the Sponsors, primarily related to managed cloud and hosting services. For the year ended March 31, 2021 and 2020, the Company paid this vendor $16,047 and $15,680, respectively.

***University of Phoenix***

University of Phoenix is owned by Apollo Education Group, which was acquired by the Sponsors and certain co-investors in February 2017. For the year ended March 31, 2021 and 2020, the Company’s sales to University of Phoenix totaled $3,800 and $5,258, respectively.