# Q2-2017 Supplemental Financial Schedules

## Supplemental Financial Schedules to Q2-2017 Investor Presentation

The following schedules are updated as of October 6, 2017 to reflect the impact of  the restated financial statements.  All other aspects of the presentation, including all commentary, are unchanged from how they were presented on August 10, 2017 (date of initial issuance) and have not been updated.

The Company intends to issue a Preliminary Back to School Season Industry Update on October 19, 2017 and a full Q3 investor presentation with Q3 financial statements in mid-November.

# Important Notice

**Forward-Looking Statements**

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

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

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

**Non-GAAP Financial Measures**

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

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

# Q2 Digital vs. Print Billings Detail – Updated October 6, 2017

($ in Millions)

**As Restated**

| | Q2 Digital Billings | | | | Q2 Print Billings | | | | Q2 Total Billings | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | ***% Δ vs 2016*** | **2015** | **2016** | **2017** | ***% Δ vs 2016*** | **2015** | **2016** | **2017** | ***% Δ vs 2016*** |
| Higher Ed | $60 | $69 | $67 | *(3.0%)* | $65 | $40 | $30 | *(25.7%)* | $125 | $109 | $97 | *(11.4%)* |
| K-12 | 80 | 79 | 118 | *49.4%* | 179 | 196 | 165 | *(15.5%)* | 259 | 275 | 284 | *3.2%* |
| International | 6 | 7 | 8 | *14.9%* | 68 | 58 | 56 | *(4.3%)* | 74 | 65 | 64 | *(2.2%)* |
| Professional | 16 | 17 | 18 | *5.5%* | 14 | 15 | 12 | *(16.0%)* | 30 | 31 | 30 | *(4.5%)* |
| Other | 1 | 0 | 1 | *N/M* | 0 | 0 | 0 | *(99.9%)* | 2 | 0 | 1 | *156.4%* |
| **Total MHE** | **$162** | **$172** | **$212** | ***23.0%*** | **$327** | **$309** | **$263** | ***(14.8%)*** | **$489** | **$481** | **$474** | ***(1.3%)*** |
| ***% of Total*** | | | | | | | | | | | | |
| Higher Ed | *48%* | *63%* | *69%* | | *52%* | *37%* | *31%* | | *100%* | *100%* | *100%* | |
| K-12 | *31%* | *29%* | *42%* | | *69%* | *71%* | *58%* | | *100%* | *100%* | *100%* | |
| International | *8%* | *11%* | *13%* | | *92%* | *89%* | *87%* | | *100%* | *100%* | *100%* | |
| Professional | *53%* | *53%* | *59%* | | *47%* | *47%* | *41%* | | *100%* | *100%* | *100%* | |
| **Total MHE** | ***33%*** | ***36%*** | ***45%*** | | ***67%*** | ***64%*** | ***55%*** | | ***100%*** | ***100%*** | ***100%*** | |

**As Previously Reported**

| | Q2 Digital Billings | | | | Q2 Print Billings | | | | Q2 Total Billings | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | ***% Δ vs 2016*** | **2015** | **2016** | **2017** | ***% Δ vs 2016*** | **2015** | **2016** | **2017** | ***% Δ vs 2016*** |
| Higher Ed | $60 | $69 | $67 | *(3.0%)* | $65 | $40 | $30 | *(25.7%)* | $125 | $109 | $97 | *(11.4%)* |
| K-12 | 98 | 87 | 128 | *46.1%* | 161 | 187 | 156 | *(16.9%)* | 259 | 275 | 284 | *3.2%* |
| International | 6 | 7 | 8 | *14.9%* | 68 | 58 | 56 | *(4.3%)* | 74 | 65 | 64 | *(2.2%)* |
| Professional | 16 | 17 | 18 | *5.5%* | 14 | 15 | 12 | *(16.0%)* | 30 | 31 | 30 | *(4.5%)* |
| Other | 1 | 0 | 1 | *N/M* | 0 | 0 | 0 | *(99.9%)* | 2 | 0 | 1 | *156.4%* |
| **Total MHE** | **$181** | **$180** | **$221** | ***22.6%*** | **$308** | **$300** | **$253** | ***(15.7%)*** | **$489** | **$481** | **$474** | ***(1.3%)*** |
| ***% of Total*** | | | | | | | | | | | | |
| Higher Ed | *48%* | *63%* | *69%* | | *52%* | *37%* | *31%* | | *100%* | *100%* | *100%* | |
| K-12 | *38%* | *32%* | *45%* | | *62%* | *68%* | *55%* | | *100%* | *100%* | *100%* | |
| International | *8%* | *11%* | *13%* | | *92%* | *89%* | *87%* | | *100%* | *100%* | *100%* | |
| Professional | *53%* | *53%* | *59%* | | *47%* | *47%* | *41%* | | *100%* | *100%* | *100%* | |
| **Total MHE** | ***37%*** | ***38%*** | ***47%*** | | ***63%*** | ***62%*** | ***53%*** | | ***100%*** | ***100%*** | ***100%*** | |

*Figures are represented on a cash basis inclusive of actual returns but excluding purchase accounting adjustments. Accrued returns are reflected in print revenue.*

# YTD Digital vs. Print Billings Detail – Updated October 6, 2017

**As Restated**

| ($ in Millions) | Jun YTD Digital Billings 2015 | 2016 | 2017 | *% Δ vs 2016* | Jun YTD Print Billings 2015 | 2016 | 2017 | *% Δ vs 2016* | Jun YTD Total Billings 2015 | 2016 | 2017 | *% Δ vs 2016* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Higher Ed | $128 | $150 | $157 | *4.8%* | $116 | $86 | $70 | *(18.6%)* | $244 | $236 | $227 | *(3.8%)* |
| K-12 | 87 | 92 | 128 | *38.8%* | 209 | 229 | 192 | *(16.1%)* | 296 | 321 | 320 | *(0.3%)* |
| International | 10 | 14 | 15 | *2.2%* | 106 | 93 | 90 | *(3.2%)* | 117 | 108 | 105 | *(2.5%)* |
| Professional | 25 | 26 | 27 | *1.0%* | 27 | 27 | 24 | *(11.1%)* | 52 | 53 | 51 | *(5.1%)* |
| Other | 2 | 0 | 1 | *N/M* | 0 | 1 | 0 | *(99.8%)* | 2 | 1 | 1 | *14.1%* |
| **Total MHE** | **$252** | **$283** | **$327** | ***15.6%*** | **$458** | **$436** | **$377** | ***(13.6%)*** | **$710** | **$719** | **$704** | ***(2.1%)*** |
| **% of Total** | | | | | | | | | | | | |
| Higher Ed | 52% | 63% | 69% | | 48% | 37% | 31% | | 100% | 100% | 100% | |
| K-12 | 29% | 29% | 40% | | 71% | 71% | 60% | | 100% | 100% | 100% | |
| International | 9% | 13% | 14% | | 91% | 87% | 86% | | 100% | 100% | 100% | |
| Professional | 49% | 49% | 53% | | 51% | 51% | 47% | | 100% | 100% | 100% | |
| **Total MHE** | **36%** | **39%** | **47%** | | **64%** | **61%** | **53%** | | **100%** | **100%** | **100%** | |

**As Previously Reported**

| | Jun YTD Digital Billings 2015 | 2016 | 2017 | *% Δ vs 2016* | Jun YTD Print Billings 2015 | 2016 | 2017 | *% Δ vs 2016* | Jun YTD Total Billings 2015 | 2016 | 2017 | *% Δ vs 2016* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Higher Ed | $128 | $150 | $157 | *4.8%* | $116 | $86 | $70 | *(18.6%)* | $244 | $236 | $227 | *(3.8%)* |
| K-12 | 106 | 102 | 138 | *35.4%* | 190 | 219 | 182 | *(16.9%)* | 296 | 321 | 320 | *(0.3%)* |
| International | 10 | 14 | 15 | *2.2%* | 106 | 93 | 90 | *(3.2%)* | 117 | 108 | 105 | *(2.5%)* |
| Professional | 25 | 26 | 27 | *1.0%* | 27 | 27 | 24 | *(11.1%)* | 52 | 53 | 51 | *(5.1%)* |
| Other | 2 | 0 | 1 | *N/M* | 0 | 1 | 0 | *(99.8%)* | 2 | 1 | 1 | *14.1%* |
| **Total MHE** | **$272** | **$293** | **$337** | ***15.2%*** | **$439** | **$427** | **$367** | ***(14.0%)*** | **$710** | **$719** | **$704** | ***(2.1%)*** |
| **% of Total** | | | | | | | | | | | | |
| Higher Ed | 52% | 63% | 69% | | 48% | 37% | 31% | | 100% | 100% | 100% | |
| K-12 | 36% | 32% | 43% | | 64% | 68% | 57% | | 100% | 100% | 100% | |
| International | 9% | 13% | 14% | | 91% | 87% | 86% | | 100% | 100% | 100% | |
| Professional | 49% | 49% | 53% | | 51% | 51% | 47% | | 100% | 100% | 100% | |
| **Total MHE** | **38%** | **41%** | **48%** | | **62%** | **59%** | **52%** | | **100%** | **100%** | **100%** | |

*Figures are represented on a cash basis inclusive of actual returns but excluding purchase accounting adjustments. Accrued returns are reflected in print revenue.*

# Accounting Restatement – Updated October 6, 2017

- As previously disclosed, the Company restated 2016 annual and quarterly financial statements and Q1-2017 financial statements primarily related to the timing of deferred revenue recognition within the Company's U.S. K-12 business and the correction of the Company's deferred tax asset valuation allowance.
  - The Company previously did not defer certain print subscription products resulting in revenue being recognized upfront instead of being deferred and amortized over the subscription period.
  - The Company's historical calculation of the deferred tax asset valuation allowance netted certain deferred tax liabilities related to indefinite lived intangible assets resulting in an understatement of our valuation allowance and the domestic provision for income taxes.
- A summary of the corrections and impact is as follows:

| ($ in Millions) | YTD December | | | | YTD March |
|---|---|---|---|---|---|
| | **2013A** | **2014A** | **2015A** | **2016A** | **2017A** |
| **Non-GAAP Impact** | | | | | |
| Billings | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Adjusted EBITDA | 0.00 | 0.00 | 0.00 | 2.30 | (2.30) |
| **GAAP Impact** | | | | | |
| GAAP Revenue | (5.55) | (18.76) | (1.40) | (17.30) | (3.32) |
| Operating Income | (4.87) | (18.17) | (1.26) | (14.39) | (5.58) |
| Net Income | (3.01) | (31.94) | (7.87) | (20.99) | (7.26) |

*Amounts above may not sum due to rounding.*

# Free Cash Flow – Updated October 6, 2017

($ in Millions)

| Cash Flow Comparison | Six Months Ended June 30, 2016 | 2017 | Y/Y $ |
|---|---|---|---|
| **Adjusted EBITDA** | **16** | **12** | **(4)** |
| Δ in Accounts Receivable, net | (64) | (78) | (14) |
| Δ in Inventories, net | (53) | (34) | 19 |
| Δ in Prepaid & Other Current Assets | (11) | 8 | 19 |
| Δ in Accounts Payable and Accrued Expenses | (96) | (62) | 34 |
| Δ in Other Current Liabilities | (9) | (3) | 6 |
| **Δ in Reported Working Capital Accounts** | **(233)** | **(168)** | **65** |
| Working Capital Adjustments[1] | (10) | (17) | (7) |
| **Δ in Adjusted Working Capital Accounts** | **(243)** | **(186)** | **58** |
| **Adjusted EBITDA less Adjusted Δ in Working Capital Accounts** | **(227)** | **(173)** | **54** |
| Pre-publication Investment | 31 | 49 | 18 |
| Restructuring and Cost Savings Implementation Charges | (7) | (6) | 1 |
| Sponsor Fees | (2) | (2) | 0 |
| Cash Interest | (85) | (79) | 6 |
| Net (loss) from Discontinued Operations | (1) | (0) | 1 |
| Δ in Operating Assets and Liabilities[2] | (1) | (14) | (13) |
| Operational Working Capital Adjustments | 10 | 17 | 7 |
| Other | (7) | (8) | (1) |
| **Cash (used for) provided by operating activities** | **(290)** | **(216)** | **74** |

| | 2016 | 2017 | Y/Y $ |
|---|---|---|---|
| Adjusted EBITDA less Δ in Working Capital Accounts per above | (227) | (173) | 54 |
| - Capital Expenditures & Payment of Capital Lease Obligations | (19) | (25) | (6) |
| **Operating Free Cash Flow[2]** | **(246)** | **(198)** | **48** |
| *MEMO: Conversion* | *n/m* | *n/m* | *n/m* |

| | 2016 | 2017 | Y/Y $ |
|---|---|---|---|
| **Cash Balance at Beginning of Period** | **553** | **419** | **(134)** |
| Cash (used for) provided by operating activities | (290) | (216) | 74 |
| Dividends | (320) | (3) | 317 |
| Net Debt (Payments) / Receipts | 210 | 52 | (158) |
| Repurchase of MHGE PIK Toggle Notes | - | (48) | (48) |
| Pre-publication Investment | (31) | (49) | (18) |
| Capital Expenditures | (18) | (22) | (3) |
| Investments, Acquisitions & Divestitures, net | - | 7 | 7 |
| Payment of Capital Lease Obligations | (1) | (3) | (2) |
| Repurchase of Equity | (9) | (6) | 3 |
| Other | 1 | 2 | 1 |
| **Cash Balance at End of Period** | **96** | **133** | **37** |

Source: Consolidated Statement of Cash Flows or Adjusted EBITDA reconciliation

[1] includes the impact of certain non operational, Cash EBITDA or capital structure working capital items (i.e., purchase accounting, accrued interest, deferred royalties, income taxes, available for sale assets, etc.)

[2] includes adjustment for long term deferred royalties included in calculation of Adjusted EBITDA

**Key Variance Drivers**

**AR:** timing of collections

**Inventory:** higher Dec-16 balances in anticipation of future K-12 opportunities

**Prepaid & Other:** available-for-sale asset classification in '16 (~$5M) and non-operational receivables (~$15M)

**AP / Accrued:** increased AP levels at YE 15 due to timing (~$40M), lower accruals at YE 16 (compensation ~$15M) offset by the impact of increased royalty accruals related to CA ELA adoption (~$15M)

**Other Current:** driven by the recordation of capital lease obligations in 2017

**Pre-pub:** driven by HE front-list and timing of K-12 new adoptions

**Cash Interest:** driven by refinancing and timing of payments

**Operating Assets and Liabilities:** driven by the increased deferral of long term royalties

**Δ in NWC including Operational WC Adjustments**

| | 2016 | 2017 | Y/Y $ |
|---|---|---|---|
| Δ in Accounts Receivable, net | (63) | (91) | (29) |
| Δ in Inventories, net | (53) | (35) | 18 |
| Δ in Prepaid & Other Current Assets | (8) | 6 | 15 |
| Δ in AP and Accrued Expenses | (116) | (66) | 50 |
| Δ in Other Current Liabilities | (3) | 1 | 4 |
| **Δ in Adj. Working Capital Accts** | **(243)** | **(186)** | **58** |

**Pre-Publication Investment Detail**

| | 2016 | 2017 | Y/Y $ |
|---|---|---|---|
| Higher Education | 9 | 15 | 6 |
| K-12 | 15 | 24 | 9 |
| International | 4 | 7 | 3 |
| Professional | 4 | 3 | (0) |
| **Total** | **31** | **49** | **18** |

# Adjusted EBITDA Reconciliation – Updated October 6, 2017

| ($ in Millions) | Three Months Ended | | Six Months Ended | | Year Ended | LTM |
|---|---|---|---|---|---|---|
| | June 30, 2016 | June 30, 2017 | June 30, 2016 | June 30, 2017 | December 31, 2016 | June 30, 2017 |
| Net Income | $ (77) | $ (37) | $ (227) | $ (161) | $ (135) | $ (68) |
| Interest (income) expense, net | 64 | 44 | 111 | 87 | 200 | 176 |
| Provision for (benefit from) taxes on income | 3 | 6 | 4 | 6 | 15 | 17 |
| Depreciation, amortization and plate investment amortization | 50 | 57 | 98 | 107 | 202 | 211 |
| **EBITDA** | **$ 40** | **$ 70** | **$ (14)** | **$ 40** | **$ 282** | **$ 335** |
| Change in deferred revenue (a) | 44 | 69 | 21 | 18 | 173 | 170 |
| Change in deferred royalties (b) | (5) | (12) | (5) | (6) | (18) | (19) |
| Restructuring and cost savings implementation charges (c) | 3 | 4 | 7 | 6 | 17 | 16 |
| Sponsor fees (d) | 1 | 1 | 2 | 2 | 4 | 4 |
| Loss on extinguishment of debt (e) | 27 | - | 27 | - | 27 | - |
| Other (f) | 6 | (3) | 10 | 2 | 29 | 21 |
| Pre-publication investment cash costs (g) | (18) | (24) | (31) | (49) | (90) | (108) |
| **Adjusted EBITDA** | **$ 97** | **$ 105** | **$ 16** | **$ 12** | **$ 423** | **$ 419** |

*Amounts above may not sum due to rounding.*

# Adjusted EBITDA Footnotes – Updated October 6, 2017

(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) Represents severance and other expenses associated with headcount reductions and other cost savings initiated as part of our formal restructuring initiatives to create a flatter and more agile organization.

(d) Beginning in 2014, $3.5 million of annual management fees was recorded and payable to Apollo.

(e) This amount represents the write-off of unamortized deferred financing fees, original debt discount and other fees and expenses associated with the Company's refinancing of its existing indebtedness on May 4, 2016.

(f) For the six months ended June 30, 2017 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 six months ended June 30, 2016, the amount represents (i) non-cash incentive compensation expense and (ii) other adjustments required or permitted in calculating covenant compliance under our debt agreements.

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

# Revenue Bridge & Segment Detail - Updated October 6, 2017

| ($ in Millions) | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2016 | June 30, 2017 | June 30, 2016 | June 30, 2017 |
| Reported Revenue | $ 437 | $ 405 | $ 698 | $ 686 |
| Change in Deferred Revenues | 44 | 69 | 21 | 18 |
| **Billings** | **$ 481** | **$ 474** | **$ 719** | **$ 704** |
| | | | | |
| **Billings by segment** | | | | |
| Higher Education | $ 109 | $ 97 | $ 236 | $ 227 |
| K - 12 | 275 | 284 | 321 | 320 |
| International | 65 | 64 | 108 | 105 |
| Professional | 31 | 30 | 53 | 51 |
| Other | 0 | 1 | 1 | 1 |
| **Total Billings** | **$ 481** | **$ 474** | **$ 719** | **$ 704** |
| | | | | |
| **Adjusted EBITDA** | | | | |
| Higher Education | (5) | (7) | 2 | 5 |
| K - 12 | 100 | 99 | 26 | 13 |
| International | (2) | 0 | (10) | (15) |
| Professional | 9 | 9 | 7 | 9 |
| Other | (4) | 3 | (8) | 0 |
| **Total Adjusted EBITDA** | **$ 97** | **$ 105** | **$ 16** | **$ 12** |

*Amounts above may not sum due to rounding.*

# Adjusted Operating Expenses Bridge – Updated October 6, 2017

| ($ in Millions) | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **Jun 30, 2016** | **Jun 30, 2017** | **Jun 30, 2016** | **Jun 30, 2017** |
| **Operating Expense Bridge** | | | | |
| Total Reported Operating Expenses | $ 299 | $ 300 | $ 601 | $ 594 |
| Less: Depreciation & Amortization of intangibles | (31) | (33) | (66) | (67) |
| Less: Amortization of prepublication costs | (19) | (24) | (32) | (40) |
| Less: Restructuring and cost savings implementation charges | (3) | (4) | (7) | (6) |
| Less: Other adjustments | (7) | (11) | (11) | (17) |
| **Adjusted Operating Expenses** | **$ 238** | **$ 228** | **$ 485** | **$ 465** |

*Amounts above may not sum due to rounding.*