



McGraw-Hill Education

Preliminary Q3-2017 Investor Update

October 17, 2017

**Mc
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Hill
Education**

This presentation has been prepared for investors in the currently outstanding debt of McGraw-Hill Global Education Holdings, LLC and MHGE Parent, LLC.

Final



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.

McGraw-Hill Education Leadership Change

Buzz Waterhouse to succeed David Levin as Interim President and CEO



- On Tuesday, October 17th, the Company announced that Lloyd “Buzz” Waterhouse was appointed Interim President and Chief Executive Officer, succeeding David Levin who is leaving the company
- Mr. Waterhouse was the President and CEO of McGraw-Hill Education from June 2012 – April 2014 and led the company through its successful spin-off from the former parent and its first year of independence in which many significant operational and financial milestones were achieved.
 - He has been continuously involved with the business since June 2012 and is a current member of the Board of Directors
- Quote from Larry Berg, senior partner at Apollo Global Management and chairman of the Board of McGraw-Hill Education

“I am deeply grateful to David for his leadership. During his tenure, the company made great strides in its transformation from a print publisher to an organization that offers a wide array of digital learning solutions. David helped us define our vision and strategy and now, building on this strong base, we will increase our focus on operational performance. I am very pleased to have Buzz Waterhouse step in as interim president and CEO. With his extensive background in education, past experience leading McGraw-Hill Education and service on its board, Buzz has a strong understanding of our strategy and operations and will be able to very effectively lead the organization while we search for a permanent successor. Over the past few years we have made tremendous strides as evidenced by the results we posted today but I believe the best is yet to come.”
- The Company has commenced a search for a permanent successor
- Please refer to Appendix for the full press release

McGraw-Hill Education YTD Sept. 2017 Preliminary Update

Back to school season largely complete for U.S. Higher Ed and K-12



Preliminary YTD September 2017 Performance Trends¹

- McGraw-Hill continues to take share in Higher Ed; K-12 expanded market share in Open Territory and performed well despite prior year tough comparison in Adoptions
- Higher Ed business stabilizing as anticipated and performing well vs. prior year
 - Stronger performance in front-list titles², primarily 2018 ©; continued digital growth led by strong e-commerce sales; and more normalized net sales patterns among largest channel partners
- Maintained a leadership position in CA and FL K-12 Adoptions despite competing against a 400+ bp Adoption market share gain in 2016; gained share in smaller K-12 Open Territory market
- Pre-publication investment increasing in advance of sizeable Higher Ed front-list opportunities and large upcoming School Adoptions
- Cash continuing to build seasonally with revolving line of credit fully repaid in September; no debt repurchased in Q3
- Q2-17 financial statements issued on Sept. 28th; Company fully in compliance

McGraw-Hill Education, Inc.

Total MHE Performance: YTD 9/30/17E

MHE Billings	-1 to -2% (vs. -7% in 2016)
MHE Digital Billings	+~10%
Direct-to-Student E-Commerce Net Sales	>\$190M (+~15%)
<i>(as of 10/12/17 YTD)</i>	
MHE EBITDA	
Before Pre-Publication	\$475M-\$485M (-1 to +1%)
Pre-Publication Expense	\$70M-\$75M (+27 to +36%)
MHE Adjusted EBITDA	\$400M-\$410M (-6 to -4%)

Key Indicators

Connect/LearnSmart Paid Activations	3.4M (+8%)
<i>(as of 10/12/17 YTD)</i>	
ALEKS Unique Users	3.5M (+22%)
<i>(as of 9/30/17 YTD)</i>	

MHE Inc. Liquidity at 9/30/17E³

Cash	>\$300M
Credit Line Capacity	<u>\$350M</u>
Total Liquidity	>\$650M

McGraw-Hill Education will issue its comprehensive Q3-17 update with financial statements in mid-November 2017

¹All 2017 MHE figures are preliminary and are subject to audit adjustments.

²2017 front-list represents 2018 and 2017 copyrights sold in 2017.

³Credit line capacity excludes <\$0.5M of letters of credit.

McGraw-Hill Higher Ed YTD Sept. 2017 Preliminary Update

MHE on track to achieve top-line stability in Higher Ed



Preliminary YTD September 2017 Performance Trends¹

- Higher Ed performed well in the back to school season achieving results significantly better than prior year
- Digital transition continues with a 6 percentage point improvement in Digital Billings mix to 63%
 - YTD e-commerce net sales surpassed full-year 2016, exceeded net sales of three largest distributor customers combined and accounted for 1/3 of total YTD net sales
- Larger front-list led by 2018 ©, drove positive sales growth and mitigated normal decline in back-list print
 - YTD front-list print net sales growth improved from -36% in 2016 vs. +2 to 3% in 2017
- Returns continue to track favorably YTD and expect trend to continue during seasonally large returns period in October-November
- Continuing to invest in robust front-list for calendar year 2018 (2019 ©) and expect to expand rental program in 2018 based on 2017 pilot learnings

Higher Education

McGraw-Hill Higher Ed Performance: YTD 9/30/17E

Billings (net of accrued returns)^{2*}	+1.5 to 2.5% (vs. -11%)
Net Sales (net of actual returns)^{2*}	+3 to 4% (vs. -11%)
Front-List Sales	+5 to 6% (vs. -24%)
Back-List Sales	+1 to 2% (vs. +2%)

Actual Product Returns Change - \$29M (-18%)

% Digital Billings 63% (vs. 57%)

Direct-to-Student E-Commerce Net Sales >\$190M (+~15%)
(as of 10/12/17 YTD)

vs. Industry Performance: (net actual returns basis)³

Industry Net Sales YTD 9/30/17 +1.3%

MHE Market Share Change LTM 9/30/17 +~100 bps

Key Indicators

Connect/LearnSmart Paid Activations 3.4M (+8%)
(as of 10/12/17 YTD)

ALEKS Unique Users 1.5M (+30%)
(as of 9/30/17 YTD)

¹All 2017 MHE figures are preliminary and are subject to adjustments.

²Billings is gross sales net of accrued returns and is the measure of company performance.
Net sales is gross sales net of actual returns and is the industry market share measure.

³Per Management Practice, Inc.

*Note that approximately 1% of Billings growth relates to the adjustment for change in deferred royalty.

McGraw-Hill Higher Ed Performance Overview

Key MHE drivers for successful 2017 – So far, so good....Q4 remains important



Timing	Driver	Results/Status
Jan. – Feb.	Digital sales / paid activations	Strong results driven by e-commerce and paid activations
Feb. – Apr.	Actual product returns	Strong results <ul style="list-style-type: none"> - Actual returns down \$29M or 18% YTD Sept. 30th
Apr. – June	Low digital; Start of print ordering by channel	Digital sales later in season <ul style="list-style-type: none"> - Digital ordering continues to shift to the start of school as direct-to-student sales increase
End of June – early Sept.	Sell-through of larger front-list Abatement of print channel destocking	Strong results <ul style="list-style-type: none"> - Anticipated shift from late June to closer to school year did occur - Net sales +3-4% YTD Sept. 30th 2017 vs. -11% YTD Sept. 30th 2016
Aug. – Sept.	Direct-to-student e-commerce sales Paid digital activations	Strong results <ul style="list-style-type: none"> - Direct-to-student e-commerce +~15% YTD Oct. 12th - <i>Connect/LearnSmart</i> paid activations +8% YTD Oct. 12th
Oct. – Nov.	Actual product returns	Strong results YTD Sept. 30 th ; Q4 is critical period
Dec.	Continue to shift to Jan. direct-to-student digital sales with the ongoing digital transition	Too early in the season

McGraw-Hill K-12 YTD Sept. 2017 Preliminary Update

K-12 faces tough year-over-year comparison in 2017



Preliminary YTD September 2017 Performance Trends¹

- Expect to retain a leadership position in year two of the California ELA Adoption despite tough comparison to outsized 2016 performance and to lead Florida Social Studies Adoption
 - 2017 CA K-12 English Language Arts Billings in line with August estimate
 - 2017 FL K-12 Social Studies Billings ahead of prior estimate
- Gained market share in Open Territory YTD August 31st, while market contracted 6% YTD, contrary to broad market expectations for growth
 - Some schools ordered later than normal this year and some school districts have deferred purchase decisions to 2018; Q4 is seasonally small with limited opportunity
- Preparations for new adoptions during the 2018 and 2019 period remain on track, specifically California Social Studies (2018), Florida Science (2018), Texas Reading (2019) and California Science (2019)

K-12 ²	
<u>McGraw-Hill K-12 Performance: YTD 9/30/17E</u>	
Billings	-3 to -4% (vs. -4%)
<u>Key State Performance (new and residual): YTD 9/30/17E</u>	
CA English Language Arts Billings	>\$200M
FL Social Studies Billings	>\$60M
<u>vs. Industry Performance as per AAP: YTD 8/31/17</u>	
MHE Net Sales	-3.9%
Industry Net Sales	-3.2%
MHE Market Share Change	~20 bps
MHE Adoption Net Sales	-3.5%
Industry Adoption Net Sales	-0.3%
MHE Market Share Change	~110 bps
MHE Open Territory Sales	-4.5%
Industry Open Territory Net Sales	-5.7%
MHE Market Share Change	+~30 bps
<u>Key Indicators: YTD 9/30/17</u>	
ConnectED Unique Users	7.2M (+22%)
ALEKS Unique Users	2.0M (+17%)

¹All 2017 MHE figures are preliminary and are subject to audit adjustments. Includes new adoption and residual sales.

²Primary difference between Billings and net sales (industry market share measure) is the accrual of returns; comparison vs. prior year is based on restated financials

Appendix



McGraw-Hill Education Appoints Lloyd “Buzz” Waterhouse Interim President & CEO

NEW YORK, Oct. 17, 2017 /PRNewswire/ -- [McGraw-Hill Education](#), one of the world’s largest learning sciences companies, today announced the appointment of Lloyd “Buzz” Waterhouse as the company’s interim president and chief executive officer. He succeeds David Levin who is leaving the company.

“I am deeply grateful to David for his leadership,” said Larry Berg, senior partner at Apollo Global Management and chairman of the Board of McGraw-Hill Education. “During his tenure, the company made great strides in its transformation from a print publisher to an organization that offers a wide array of digital learning solutions. David helped us define our vision and strategy and now, building on this strong base, we will increase our focus on operational performance.”

Mr. Berg continued, “I am very pleased to have Buzz Waterhouse step in as interim president and CEO. With his extensive background in education, past experience leading McGraw-Hill Education and service on its board, Buzz has a strong understanding of our strategy and operations and will be able to very effectively lead the organization while we search for a permanent successor. Over the past few years we have made tremendous strides as evidenced by the results we posted today but I believe the best is yet to come.”

The company posted its preliminary third-quarter and nine-months results today on its web site, [investors.mheducation.com](#).

Mr. Waterhouse previously served as the president and CEO of McGraw-Hill Education from June of 2012 until April of 2014. He was responsible for the successful separation of McGraw-Hill Education from McGraw-Hill Financial, now S&P Global, setting up the new company and overseeing its subsequent sale to Apollo Global Management. He also led the company through its first year of independence in which many significant operational and financial milestones were achieved.

Mr. Waterhouse was also the CEO of Harcourt Education, a provider of instructional materials, e-learning and testing services for the global education market. Previously, Mr. Waterhouse was CEO and chairman of The Reynolds & Reynolds Company, the leading provider of automotive retailing solutions. Before Reynolds, Mr. Waterhouse held numerous roles at IBM. He led their strategy and business development functions during Lou Gerstner’s tenure and subsequent turn-around, launched IBM Global Services, and was president of Asia Pacific Services Corporation.

Mr. Waterhouse serves on the boards of McGraw-Hill Education, JDA, Sparta, Instructure, and Penn State’s Smeal College of Business.

Financial Terms and Acronyms



Financial Terms	Description
Adjusted EBITDA	Non-GAAP financial measure that includes adjustments required or permitted in calculating covenant compliance under our debt agreements. Adjusted EBITDA is a non-GAAP financial measure defined as net income from continuing operations plus net interest, income taxes, depreciation and amortization (including amortization of pre-publication investment cash costs) and adjusted to exclude unusual items and other adjustments required or permitted in calculating covenant compliance under our debt agreements less cash spent for pre-publication investment in addition to the change in deferred revenue.
Billings (formerly referred to as Adjusted Revenue)	Non-GAAP financial measure that we define as U.S. GAAP revenue plus the net change in deferred revenue excluding the impact of purchase accounting. 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.
Change in Deferred Revenue	The Company receives cash up-front for most product sales but recognizes 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.
Change in Deferred Royalty	Royalty obligations are generally payable in the period incurred with limited recourse. This represents royalties primarily associated with digital sales which are deferred and amortized over the subscription period. It is the net effect of converting deferred royalties to a cash basis assuming the payment of all amounts owed in the period incurred.
Digital Billings (formerly referred to as Digital Adjusted Revenue)	Represents standalone digital sales and, where digital product is sold in a bundled arrangement, only the value attributed to the digital component(s) is included. The attribution of value in bundled arrangement is based on relative selling prices (inclusive of discounts).
EBITDA	Earnings before interest (net), income tax, depreciation and amortization.
Front-list and Back-list	Front-list represents brand new titles and new revisions of existing titles previously published. For example, the 2017 front-list represents 2018 and 2017 copyrights sold in 2017. Back-list represents copyrights from 2016 and prior sold in 2017.
Net Sales	Gross sales less actual returns; net sales are not adjusted for the impact of accruals / net change in deferred revenue.
Pre-publication Investment	Pre-publication costs reflect the costs incurred in the development of instructional solutions, principally design and content creation. These costs are capitalized when the title is expected to generate future economic benefits and are amortized upon publication of the title over its estimated useful life of up to six years.
Sell-through	Represents the percentage of net sales a new or revised title generates vs. prior editions of the same title.

KPI Terms	Description
Paid Activation	A user who accesses a purchased digital product for the first time. Access can be through a physical access card purchased from a bookstore or directly over MHE's e-commerce channel.
Unique User on a platform	An individual who authenticates a product at least once during a given period of time.

Digital Product Offering Descriptions



Product	Description	Higher Education	K-12	International	Professional
Access	Digital subscription platform that provides easily searchable and customizable digital content integrated with dynamic and functional workflow tools			✓	✓
ALEKS	Adaptive learning technology for the K-12 and Higher Ed markets	✓	✓	✓	✓
Connect	Open learning environment for students and instructors in the Higher Education market and K-12 students taking AP courses	✓	✓	✓	✓
Connect2	Collaborative teaching and learning environment for the International Higher Education market			✓	
ConnectED	Content delivery platform for the K-12 market		✓		
ELLevate English	Six level English Language Learning (ELL) course			✓	
Engrade	Developer of an open digital platform for K-12 education that unifies the data, curriculum and tools to drive student achievement and inform district educational strategy		✓		
LearnSmart	Adaptive learning program which personalizes learning and designs targeted study paths for students	✓	✓	✓	✓
Redbird	A leading digital personalized learning company that offers courses in K-12 math, language arts and writing, and virtual professional development programs for educators		✓		
SmartBook	Adaptive reading product designed to help students understand and retain course material by guiding each student through a highly personal study experience	✓	✓	✓	✓
StudyWise	Adaptive offering that supports students in adaptive practice on smartphones. <i>StudyWise</i> extends the reach of <i>Connect</i> and <i>Connect2</i> allowing students to efficiently learn in their natural environment	✓		✓	✓