



McGraw-Hill Education Preliminary 2016 Investor Update

February 8, 2017

**Mc
Graw
Hill
Education**

This presentation has been prepared for existing debt holders 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 the same industry. Non-GAAP financial measures should not be considered as alternatives to income from continuing operations, income from operations or any other performance measures derived in accordance with U.S. GAAP as measures of operating performance or cash flows as measures of liquidity. Non-GAAP financial measures have important limitations as analytical tools, and you should not consider them in isolation or as substitutes for 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 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.

2016 McGraw-Hill Education Preliminary Investor Update

Market Share Gains in Cyclically Smaller Year for both Higher Ed and K-12



FY 2016 Performance Trends¹

- MHE, Higher Ed and K-12 Billings performance (FY 2016 vs. 2015) all expected to be consistent with YTD 9/30
- FY 2016: MHE Adjusted EBITDA expected to be in line with LTM 9/30
- Q4-2016: Higher Ed product returns continued to decline significantly and back-list performance improved
- Higher Ed and K-12 gained market share in cyclically smaller industry year for each segment¹
- Double-digit growth across all key digital user stats
- Higher Ed e-commerce net sales grew over 20%
- Significant cash and undrawn line of credit at year-end with no material debt maturities until August 2019

2017 Outlook

- Improving: Higher Ed channel destocking anticipated to abate; supported by larger front-list of new and revised titles and anticipated continued digital growth with e-commerce off to a strong start
- Positive: Large new adoptions in California and Florida expected to increase market opportunity in K-12

Fiscal Year Ended December 31, 2016 vs. 2015¹

<u>McGraw-Hill Education</u>	
Total MHE Billings	-6.5 to -7.5%
<u>Higher Ed</u>	
MHE Billings (accrued returns)	-10.5 to -11.5%
MHE Net Sales (actual returns)	-9.5%
MHE Actual Returns Change (2016 vs. 2015)	-\$40M \$237M vs. \$277M
Industry Net Sales (actual returns)	-13.8%
MHE Market Share (actual returns)	21.3%
<i>Market Share Change</i>	+54bp
<u>K-12</u>	
MHE Billings (accrued returns)	-4.5 to -5.5%
Industry Net Sales (actual returns)	-9.2%
MHE Market Share (actual returns)	24.6%
<i>Market Share Change</i>	+97bp
<u>Liquidity as of 12/31/16</u>	
Cash	> \$400M
Credit Line Capacity	<u>\$350M</u>
Total Liquidity	> \$750M

Company will provide comprehensive update with audited financial statements in mid-March 2017

¹All 2016 MHE figures are preliminary and are subject to audit adjustments.

Sales net of actual returns provided for comparability across competitors to industry data; primary difference to Billings is accrued vs. actual returns and change in deferred revenue.

No material difference in actual vs. accrued returns in K-12.

Industry and Market Share Data: Management Practice, Inc. and Association of American Publishers (AAP) as of 12/31/16 monthly reporting; change in market share reflects unrestated 2015 data.

Ed Tech: Success at Scale

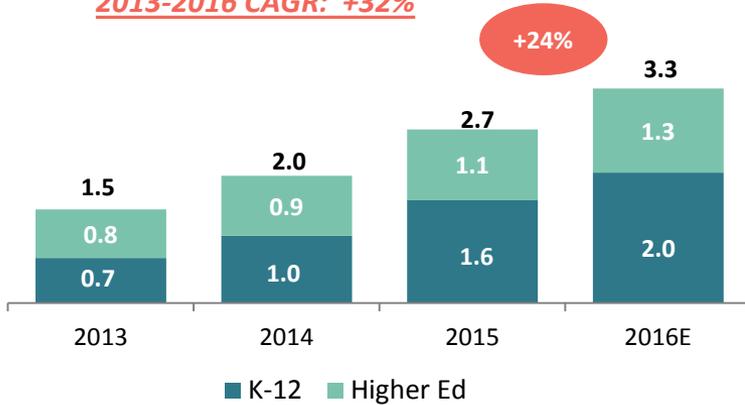
Digital Momentum Continued in 2016



(Millions)

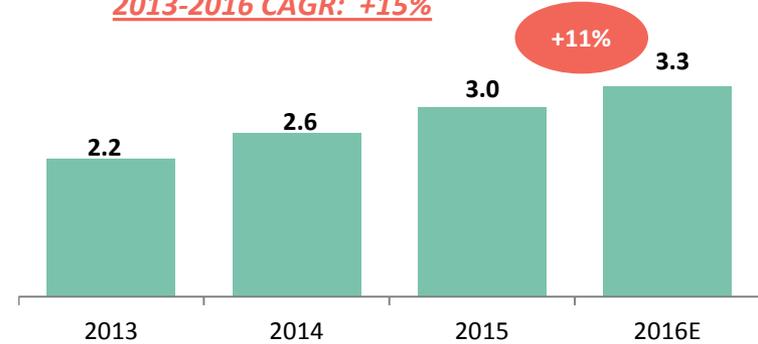
ALEKS UNIQUE USERS (HIGHER ED & K-12)¹

2013-2016 CAGR: +32%



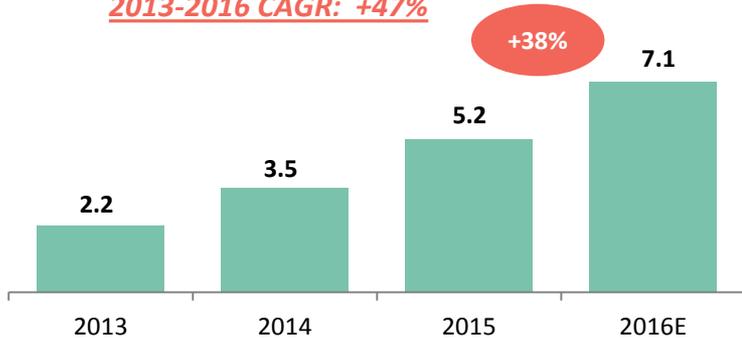
CONNECT/LEARNSMART PAID ACTIVATIONS (HIGHER ED)¹

2013-2016 CAGR: +15%



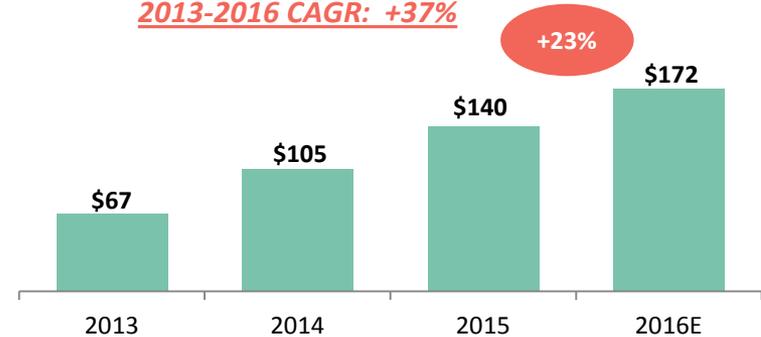
CONNECTED UNIQUE USERS (K-12)¹

2013-2016 CAGR: +47%



HIGHER ED E-COMMERCE NET SALES¹

2013-2016 CAGR: +37%



~12 Billion Cumulative Adaptive Interactions on LearnSmart and ALEKS since 2009

¹All 2016 MHE figures are preliminary and financial data is subject to audit adjustments.



Appendix



Financial Terms	Description
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.
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).
Front-list and Back-list	Front-list represents brand new titles and new revisions of existing titles previously published. For example, the 2016 front-list represents 2017 and 2016 copyrights sold in 2016. Back-list represents copyrights from 2015 and prior sold in 2016.
Net Sales	Gross sales less actual returns; net sales are not adjusted for the impact of accruals / net change in deferred revenue.
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.
Sell-Through	Represents the percentage of net sales a new revised title generates vs. prior editions of the same title.
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 education markets	✓	✓	✓	✓
Connect	Open learning environment for students and instructors in the higher education market	✓		✓	✓
Connect2	Collaborative teaching and learning environment for the International Higher Education market			✓	
ConnectEd	Content delivery platform for the K-12 market		✓		
LearnSmart	Adaptive learning program which personalizes learning and designs targeted study paths for students	✓	✓	✓	✓
SmartBook	Adaptive reading product designed to help students understand and retain course material by guiding each student through a highly personal study experience	✓	✓	✓	✓