

A group of diverse students are gathered in a library, looking at a tablet together. The background shows bookshelves and other students in a study environment.

McGraw-Hill Education Preliminary 2017 Investor Update

February 13, 2018

**Mc
Graw
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 Preliminary 2017 Investor Update

MHE gained market share amid ongoing industry transition



Preliminary FY 2017 Performance Trends¹

- Digital Billings and paid activations grew at strong rates as the digital transition continues
 - Gained market share for the 5th consecutive year in Higher Ed and 3rd consecutive year in K-12¹
 - Higher Ed performance stabilized due to new front-list, improving market conditions and digital growth
 - K-12 business maintained leadership position in key Adoption States and gained share in Open Territory
- Continued to drive strong Adjusted EBITDA margins and cash flow in both the digital and print businesses
- Preparing for future opportunities
 - Higher Ed focusing on student affordability offers including digital, rental, loose-leaf and Inclusive Access
 - K-12 investing to participate in large upcoming State Adoptions
- Voluntarily prepaid over \$200M in holding company debt during 2017 with cash and term loan
 - Incremental term loan financing oversubscribed in December
 - < 15% of funded debt maturities due prior to 2022

Fiscal Year Ended December 31, 2017 vs. 2016²

McGraw-Hill Education, Inc.

Total MHE Performance

| | |
|----------------------|--------------------------------|
| MHE Billings | -3 to -2% (vs. -7% in 2016) |
| MHE Digital Billings | +11% to +13% (vs. +4% in 2016) |
| % Digital Billings | 45% to 47% (vs. 40% in 2016) |

Direct-to-Student E-Commerce Net Sales \$199M (+15% Y/Y)

MHE EBITDA

| | |
|----------------------------|------------------------------|
| Before Pre-Publication | \$495-\$501M (-3 to -2% Y/Y) |
| Pre-Publication Investment | \$98-\$100M (+9 to +12% Y/Y) |
| MHE Adjusted EBITDA | \$396-\$401M (-6 to -5% Y/Y) |

Key Indicators

| | |
|-------------------------------------|-----------------|
| Connect/LearnSmart Paid Activations | 3.6M (+8% Y/Y) |
| ALEKS Unique Users | 4.0M (+21% Y/Y) |

MHE Inc. Liquidity at 12/31/17

| | |
|----------------------|---------|
| Cash | >\$400M |
| Credit Line Capacity | \$350M |
| Total Liquidity | >\$750M |

McGraw-Hill Education will issue its comprehensive Q4-17 update with financial statements in late March 2018

¹Higher Ed market share based on unrestated annual MPI data. K-12 market share based on unrestated annual AAP data except for 2017 which is sourced from the December monthly AAP report; 2017 annual report not yet available.

²All 2017 MHE figures are preliminary and are subject to audit adjustments.

Higher Education

Business stabilized and gained market share; Significant opportunities ahead



Preliminary FY 2017 Performance Trends¹

- Higher Ed business stabilized in 2017
- Net sales grew in 2017 vs. a 9.5% decline in 2016; actual returns remained favorable Y/Y
 - Reinvigorated 2018 copyrights drove front-list net sales growth after three consecutive years of decline
 - Digital e-commerce expanded to 28% of total net sales
- Billings declined low-single-digits (vs. -11% in 2016)
 - Actual returns declined at a similar rate to 2016, but off a smaller base; year-end reserve conservatively established pending March/April visibility into return patterns for larger 2017 front-list (2018©)
 - December net sales continued to shift into Q1 as digital e-commerce increases and ordering by the channel is later and more conservative
- 2018 front-list opportunity anticipated to be roughly comparable to 2017 levels
 - Benefit largely expected in H2 as stronger front-list in 2017 and 2018 offset impact of weaker back-list
- Growth in Inclusive Access, an exciting digital growth opportunity, could affect sales timing across quarters
- Rental program announced in February (next page)

Fiscal Year Ended December 31, 2017 vs. 2016¹

Higher Education

McGraw-Hill Higher Ed Performance:

| | |
|---|------------------------------|
| Net Sales (net of <u>actual</u> returns)² | 0 to +1% (vs. -9.5% in 2016) |
| Front-List Sales | +4 to +5% (vs. -23% in 2016) |
| Back-List Sales | -2 to -1% (vs. +4% in 2016) |

Actual Product Returns Change -\$29M (-12% Y/Y)

Billings (net of accrued returns)³ -3 to -2% (vs. -11% in 2016)

% Digital Billings 61% to 63% (vs. 56% in 2016)

E-Commerce Net Sales

2017 Direct-to-Student \$199M (+15% Y/Y)

YTD Jan 31st Direct-to-Student \$51M (+7% Y/Y)

vs. Industry Performance per MPI: YTD 12/31/17 (Y/Y)⁴

Industry Net Sales (net of actual returns) -1%

MHE Market Share Change +~50 bps

Key Indicators

Connect/LearnSmart Paid Activations 3.6M (+8% Y/Y)

ALEKS Unique Users 1.7M (+31% Y/Y)

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

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

³Billings is gross sales net of accrued returns and is the measure of company performance. Billings no longer includes the change in deferred royalties which had a ~3% impact in Q4 and is immaterial on a FY basis.

⁴Per Management Practice, Inc.; 2016 annual data is on an unrestated basis.

Higher Education Print Rental Update

Opportunity to earn our fair share of revenue generated by our intellectual property



- 2018 Rental Program launched with Barnes & Noble Education / MBS and Chegg
 - Seeking to sign more agreements in coming months
- Program includes hard-bound versions of MHE's 2019 copyrights (this summer's front-list), which will only be available for rental
 - Each future year's copyrights will be added to rental program (3-5 years to complete transition)
- Books provided on consignment to distributors for a share of rental income, subject to a minimum wholesale price per transaction
 - Retail price determined by the distributor
 - For distributors who do not participate in the rental program, MHE's 2019 copyrights will be available digitally, in loose-leaf format, or as part of custom products
- Expect to be accretive to Billings and Adjusted EBITDA in 2019
 - ~1-2% negative impact to 2018 MHE Billings; ~5% impact to 2018 MHE Adjusted EBITDA as program builds
 - Potential timing impact to Billings, inventory and receivables across quarters as sale occurs closer to the start of a semester and MHE is compensated in arrears

Our rental program, in conjunction with other affordability initiatives, is a win-win-win-win for students, instructors, distributors and McGraw-Hill Education

Students

- **Affordability**
- **Preserves student choice**
- **High-quality copies of most current materials**

Instructors

- **Most current materials available**
- **Preserves instructor choice and academic freedom**

Distributors

- **Eliminates cost and complexity of sourcing used books**
- **Attractive rental economics**
- **Retain control of pricing and student experience**
- **Ability to offer discounted *Connect* and rental bundles**
- **Reduces prevalence of counterfeits**

McGraw-Hill Education

- **Participate in greater share of demand for our titles**
- **Sustained performance from term to term**
- **Provides greater flexibility in revision cycle timing**
- **Authors will share in the benefits of the program**



Preliminary FY 2017 Performance Trends¹

- MHE continued to gain K-12 market share and grow our digital footprint
 - Achieved #1 market position in California and Florida and gained market share in Open Territory
- Billings declined 3% to 4% Y/Y, in-line with YTD 9/30 results; Q4 remains seasonally small for K-12
- Adoption Performance:
 - CA Reading performed well despite very tough comparison to outsized share gains in 2016
 - FL Social Studies performance exceeded expectations both in market size and market share
 - Approved by CA Adoption Board for Social Studies sales beginning in 2018
- Gained share in Open Territory due to change in go-to-market strategy
 - Market smaller due to deferred purchase decisions in 2017; purchasing anticipated to resume in 2018
- 2018 will likely be a cyclically smaller year for the adoption market but MHE is well positioned to compete in all major new adoptions in 2018, 2019 and 2020 (see Appendix)
 - 2019: TX Reading (K-8), CA Science & SS and FL Math
 - 2020: TX Reading (9-12), FL Reading, CA Science & SS

Fiscal Year Ended December 31, 2017 vs. 2016¹

K-12

McGraw-Hill K-12 Performance:

| | |
|--|------------------------------|
| Billings (net of accrued returns) | -4 to -3% (vs. -5% in 2016) |
| % Digital Billings | 38% to 40% (vs. 32% in 2016) |

Key K-12 State Performance (new and residual):²

| | |
|--------------------|---------|
| CA Billings | >\$200M |
| FL Billings | >\$60M |

vs. Industry Performance per AAP: YTD 12/31/17 (Y/Y)³

| | |
|--|----------|
| MHE Net Sales | -2.5% |
| Industry Net Sales | -3.6% |
| MHE Market Share Change | +~30 bps |
| MHE Adoption Net Sales | -2.6% |
| Industry Adoption Net Sales | -0.2% |
| MHE Market Share Change | -~75 bps |
| MHE Open Territory Sales | -2.4% |
| Industry Open Territory Net Sales | -6.5% |
| MHE Market Share Change | +~90 bps |

Key Indicators:

| | |
|-------------------------------|-----------------|
| ConnectED Unique Users | 8.6M (+22% Y/Y) |
| ALEKS Unique Users | 2.3M (+14% Y/Y) |

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

²K-12 state performance includes all subjects but is primarily ELA in CA and Soc. Stud. in FL.

³As per monthly AAP data; cohort of publishers for monthly data differs for annual data. Monthly data reflects net sales on an actual returns basis submitted by 6-7 publishers. Annual data reflects net sales on an actual returns basis submitted by 5 publishers.

International and Professional

International success in Middle East and Asia; Professional subscriptions drive growth



Preliminary FY 2017 Performance Trends¹

International

- International Billings declined 2% to 3% Y/Y on a constant currency basis excluding the Canadian K-12 business which was sold mid-year
- New opportunities in China and Middle East largely offset print declines in Latin America and other markets
- Management is undertaking a review of the International business to identify opportunities to improve operating performance

Professional

- Professional performed well in 2017 and returned to top-line growth largely due to strong Q4 digital sales and stable print performance
- Digital growth was driven by the successful execution of new wins on the Access subscription platform
- Periodic revision of largest title, “Harrison’s Principles of Internal Medicine” scheduled for 2018

Fiscal Year Ended December 31, 2017 vs. 2016¹

International

McGraw-Hill International Performance:

Billings (as reported) -3 to -2% (vs. -4% in 2016)
Billings (on constant FX) -5% to -4% Y/Y

Digital Billings % 17% to 18% (vs. 17% in 2016)

Key Indicators

Connect/LearnSmart Paid Activations >390K
ALEKS Unique Users >140K

Professional

McGraw-Hill Professional Performance:

Billings +2 to +3% (vs. -1% in 2016)

Digital Billings % 52% to 53% (vs. 52% in 2016)

Key Indicators

Access Platform Renewal Rate >90%

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

Digital Ed Tech Highlights

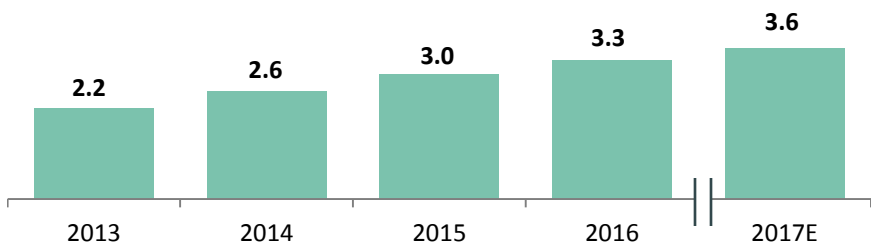
16+ billion cumulative adaptive interactions on *LearnSmart* and *ALEKS* since 2009



(Millions)

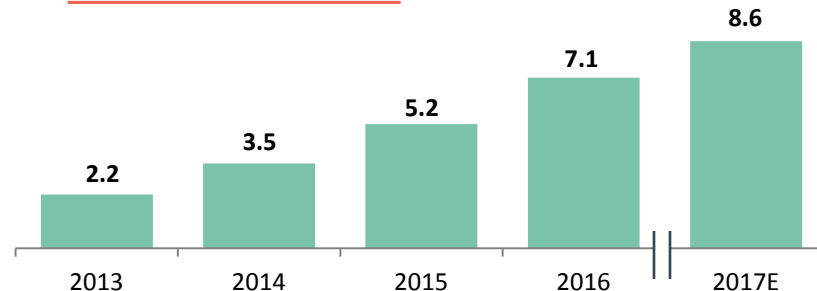
CONNECT/LEARNSMART PAID ACTIVATIONS^{1,2} (US HIGHER ED)

2013-2017E CAGR: +13%



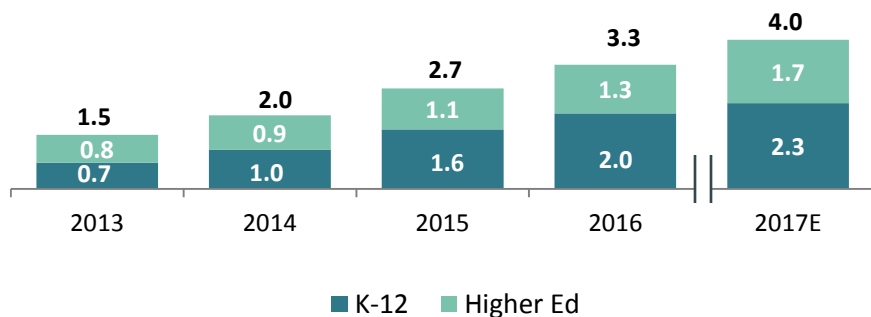
ConnectED UNIQUE USERS¹ (K-12)

2013-2017E CAGR: +40%



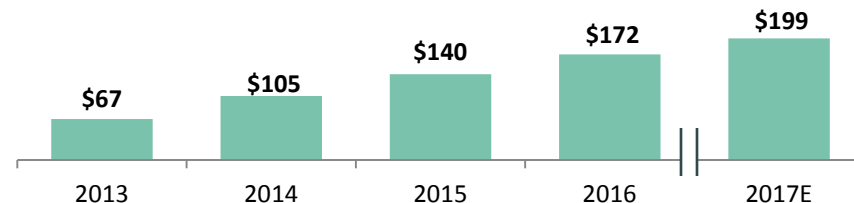
ALEKS UNIQUE USERS^{1,3} (GLOBAL HIGHER ED, K-12)

2013-2017E CAGR: +29%



E-COMMERCE NET SALES¹ (HIGHER ED)

2013-2017E CAGR: +31%



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

²Connect/LearnSmart paid activations exclude >390K of international paid activations.

³ALEKS Unique Users include >140K international unique users.

Capital Structure and Liquidity

Significant cash generation; \$350M revolver undrawn



- Strong cash flow generation resulted in over \$750M of liquidity at year-end, including over \$400M of cash
- Voluntarily prepaid \$206M of MHGE Parent (Holdco) debt through cash flow and \$150M incremental term loan
 - \$244M Holdco stub remained outstanding at 12/31
 - Company considering various alternatives for stub although not due until August 2019
 - No other material funded debt maturities until 2022
- Hedged \$500M of floating rate debt at 6.1%
 - 49% of total debt fixed
- Term loan restricted payment capacity (as of Q3) utilized to facilitate Holdco prepayment
 - Term loan RP capacity anticipated to grow by \$80-90M in Q4-2017 (to be reported with audited financials in late March)
 - Will fluctuate quarterly based on seasonality
 - Opco Notes RP basket remained sizably larger based on original deal structure

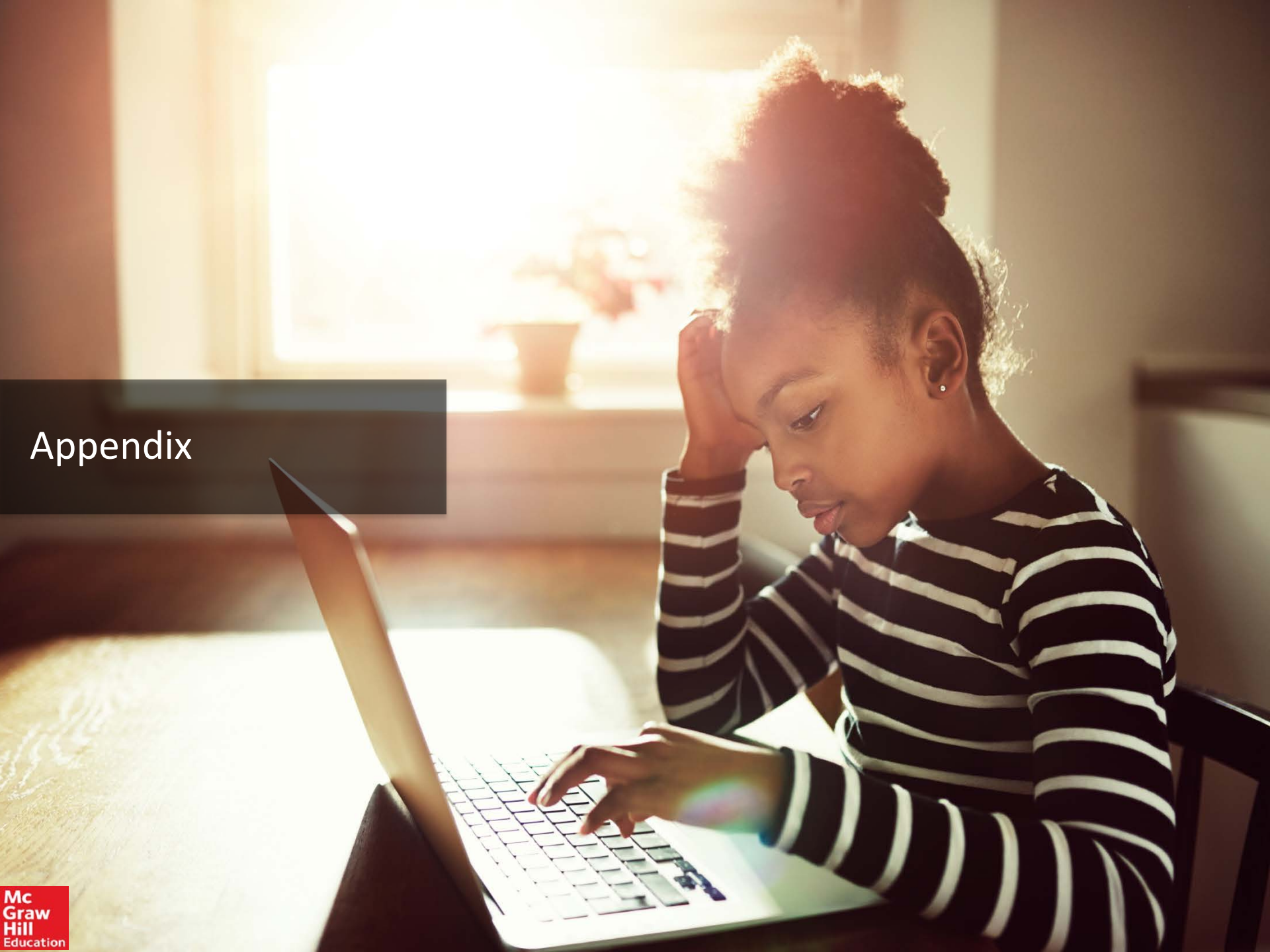
(\$ in Millions)

MCGRAW-HILL EDUCATION LIQUIDITY: 12/31/17

| | |
|--|-------------------|
| Cash and Cash Equivalents | > \$400 |
| Available under Credit Facilities | <u>350</u> |
| Total Liquidity | > \$750 |

MCGRAW-HILL EDUCATION DEBT PROFILE: 12/31/17

| | |
|--|---------------------|
| Senior Secured Term Loan due 2022 | \$1,701 |
| Revolving Credit Facility due 2021 (\$350M) | <u>0</u> |
| Total First Lien Indebtedness | \$1,701 |
| Less: Cash and Cash Equivalents | > <u>(400)</u> |
| Net First Lien Indebtedness | < \$1,301 |
| Senior Unsecured Notes Due 2024 | <u>400</u> |
| Net Total Indebtedness - McGraw-Hill Global Education | < \$1,701 |
| Remaining MHGE Parent Notes Due 2019 | <u>244</u> |
| Net Total Indebtedness – MHE Inc. | <\$1,945 |



Appendix

K-12 New Adoption Market Update – Updated Nov. 2017

Significant market growth anticipated in 2019 & 2020; Cyclically smaller market in 2018



| | 2017E | 2018E | 2019E | 2020E |
|--|---------------------------|--|---|--|
| Big-3 State New Adoption Estimated Total Market | | | | |
| California | Reading* ~\$400M | Reading* ~\$60-80M Social Studies ~\$60-80M | Social Studies* ~\$85-115M Science ~\$100-125M | Social Studies* (Yr.3 Remainder) Science* (Yr. 2) |
| Florida | Social Studies >\$100M | Science ~\$125-150M | Math ~\$150-200M | Reading |
| Texas | | | Reading ~\$300-350M | Reading (9-12) |
| Big-3 State New Adoption Estimated Total Market | >\$500M | ~\$245-310M | ~\$635-790M | |
| All Other State New Adoption Estimated Total Market | ~\$100-150M | ~\$250-300M | ~\$275-325M | |
| Total New Adoption Estimate | ~\$600-650M | ~\$500-\$600M | ~\$900-\$1,100M | |

- Open Territory (New and Residual) total market estimated to fluctuate -3% to +3% per annum through 2018-2020E
- Adoption market data above is new adoption only and does not include residual sales
- Market size ranges driven by several factors including 1) applicable enrollment, 2) potential use of core instructional funds for off-list purchases (e.g. supplemental), and 3) other factors that may influence or defer purchase decisions

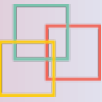
Financial Terms and Acronyms



| 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 | | ✓ | | |
| Inclusive Access | A predominantly digital delivery solution in Higher Ed that provides students with required digital materials on the first day of class, offering further value and affordability to students | ✓ | | | |
| 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 | ✓ | | ✓ | ✓ |