McGraw-Hill Companies (MHP)

Presented by
Matthew Y. Cheng
Mark T. Branden

AGENDA

Company Overview
Segments
Company Analysis
Valuation
McGraw-Hill Companies

Company Overview: Mission

Our mission worldwide is to enhance the professional and personal development of our customers and help them to reach their potential.

1. Grow globally in financial services
2. Expand our global publishing operations
3. Increase our penetration of the U.S. education market
4. Capitalize on opportunities in electronic commerce
5. Grow our business-to-business information services and products

McGraw-Hill Companies

Company Overview: MHP

McGraw-Hill Companies → Three Divisions

- Education
- Financials
- Media
**McGraw-Hill Companies**

**Company Overview: Financials**

McGraw-Hill Financial Services → Standard and Poor’s

- **Credit Market Services →** Provides Credit Ratings
- **Investment Services →** Investment Information and Market Data
- **Corporate Value Consulting →** Valuation and Value Analysis

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**McGraw-Hill Companies**

**Standard and Poor’s**

- **Revenue and Operating Growth**
  - Acquired PWC Corporate Value and Consulting (2001)
  - Acquired EA-Ratings (Independent Russian Credit Rating Agency in 2001)
  - Largest profit margins of the three business lines
  - Represents 30% of Revenue
  - Represents 57% of Profit

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**Operating Revenue, Operating Profit and Operating Margin**

<table>
<thead>
<tr>
<th>Description</th>
<th>2001</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$1,477M</td>
<td>$1,260M</td>
<td>$1,227M</td>
</tr>
<tr>
<td>Profit</td>
<td>$ 435M</td>
<td>$ 281M</td>
<td>$ 264M</td>
</tr>
<tr>
<td>Profit Margin</td>
<td>31.8%</td>
<td>30.5%</td>
<td>29.7%</td>
</tr>
</tbody>
</table>

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McGraw-Hill Companies

Company Overview: Education
McGraw-Hill Education ➔ McGraw-Hill Education

 Educação

 School Education Group ➔ Primary and Secondary
Educational Materials

 Educación

 Higher Education, Professional, and International Group ➔
Offers e-books, online tutoring, and
traditional materials

McGraw-Hill Companies

McGraw-Hill Education

- Revenue and Operating Growth
  - Leading U.S. testing and
    supplementary materials provider
  - Higher Education segment
genrating double-digit growth
  - Represents 50% of Revenue
  - Represents 35% of Profit

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue (mil.)</th>
<th>Operating Profit (mil.)</th>
<th>Operating Margin (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>5.327</td>
<td>6.355</td>
<td>11.3%</td>
</tr>
<tr>
<td>2000</td>
<td>5.193</td>
<td>5.508</td>
<td>10.5%</td>
</tr>
<tr>
<td>1999</td>
<td>5.173</td>
<td>5.274</td>
<td>10.3%</td>
</tr>
</tbody>
</table>
McGraw-Hill Companies

Company Overview: Media

McGraw-Hill Media ➔ McGraw-Hill Information and Media Services

- Aviation Week ➔ Information for aviation and aerospace
- Broadcast ➔ Television (CA, CO, IN)
- Business Week ➔ Global Business Magazine
- Healthcare Information ➔ Marketing services and Intelligence
- M-H Construction ➔ Industry’s leading brands
- Platts ➔ Energy Information and Marketing Services

McGraw-Hill Companies

McGraw-Hill Information and Media Services

- Revenue and Operating Growth
  - Hit by slowdown in ad spending
  - Expanding online services and implementing new cost control measures
  - Represents 18% of Revenue
  - Represents 8.5% of Profit

<table>
<thead>
<tr>
<th></th>
<th>2001 Revenue</th>
<th>2000 Revenue</th>
<th>1999 Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$465 million</td>
<td>$521 million</td>
<td>$572 million</td>
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</table>

<table>
<thead>
<tr>
<th></th>
<th>2001 Operating Profit</th>
<th>2000 Operating Profit</th>
<th>1999 Operating Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$105 million</td>
<td>$171 million</td>
<td>$196 million</td>
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</table>

Operating Revenue, Operating Profit and Operating Margin

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>5.046</td>
<td>5.018</td>
<td>5.020</td>
</tr>
<tr>
<td>Profit</td>
<td>5.05</td>
<td>5.213</td>
<td>5.186</td>
</tr>
<tr>
<td>Profit Margin</td>
<td>7.7%</td>
<td>21.1%</td>
<td>18.1%</td>
</tr>
</tbody>
</table>
**Strategy Framework**

- **Growth Product Life Cycle**
  - Emphasis on marketing, growth management, and product quality.

- **Differentiation**
  - Brand differentiation and vertical services provide non-price advantages

- **Core Competency**
  - Well defined, but will be tested by media group restructuring

- **Pricing Analysis:**
  - Few economies of scale between Publishing and Financial services
  - Scalable pricing model contribute to Publishing and CMS margins
  - Established Standard & Poor’s and McGraw-Hill brands convey premiums

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*Images of graphs and charts showing financial data.*
The Five C’s

- **Character**
  - Long-established and trusted voice in education and financial ratings
  - Transparency and dividend policy keeps stock price at stable levels

- **Capacity**
  - Robust distribution network
  - Capitalized pre-publication costs

- **Capital**
  - Financial health will allow MHP to safely increase its leverage in the future

- **Conditions**
  - Surge in demand for MHP products will last only as long as financial market and global education conditions persist

- **Competitive Advantage**
  - Unique brand and opportunity to capture market share in a growing market

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Value Analysis

- Financial and Product flexibility (CVC, K-12 products)
- Acquisitions key to capturing market share in growing industry(s)
- Distribution network may turn into a liability
- First Mover/Brand advantages may not be sustainable

**BCG Matrix:**

<table>
<thead>
<tr>
<th></th>
<th>High</th>
<th>Low</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Growth</td>
<td>Star</td>
<td>Question Mark</td>
<td>?</td>
</tr>
<tr>
<td></td>
<td>Cash Cow</td>
<td>Dog</td>
<td></td>
</tr>
<tr>
<td>Relative Market Share</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Valuation

- Assumptions
  - Acquisitions included in Reinvestment
  - Beta not levered for international risk, for simplicity
  - FCFF assumes refinancing of debt at constant debt/equity ratio

Equity Value Calculation

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>PV of High Growth Phase and Transition Phase</td>
<td>4004002</td>
</tr>
<tr>
<td>Terminal Value of Stable Growth Phase</td>
<td>20861576</td>
</tr>
<tr>
<td>PV of Terminal Value</td>
<td>10735704</td>
</tr>
<tr>
<td>Intrinsic Value of FCFF</td>
<td>14,730,797</td>
</tr>
<tr>
<td>Cash</td>
<td>53535</td>
</tr>
<tr>
<td>Debt</td>
<td>1,056,524</td>
</tr>
<tr>
<td>Value of Equity</td>
<td>13,736,808</td>
</tr>
<tr>
<td>Shares Outstanding</td>
<td>103,218</td>
</tr>
<tr>
<td>Value per Share</td>
<td>$71.095</td>
</tr>
</tbody>
</table>

Q&A