

McGraw-Hill Companies (MHP)

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McGraw-Hill Companies

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.

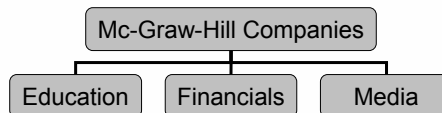
1. Grow globally in financial services
2. Expand our global publishing operations
3. Increase our penetration of the U.S. education market
4. Capitalize on opportunities in electronic commerce
5. Grow our business-to-business information services and products



McGraw-Hill Companies

Company Overview: MHP

McGraw-Hill Companies → Three Divisions



McGraw-Hill Companies

Company Overview: Financials



McGraw-Hill Financial Services → Standard and Poor's



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



Operating Revenue, Operating Profit and Operating Margin

(dollars in millions)	2001	2000	1999
Revenue	\$ 1,477	\$ 1,280	\$ 1,227
Profit	\$ 435	\$ 391	\$ 364
Profit Margin	29.5%	30.5%	29.7%

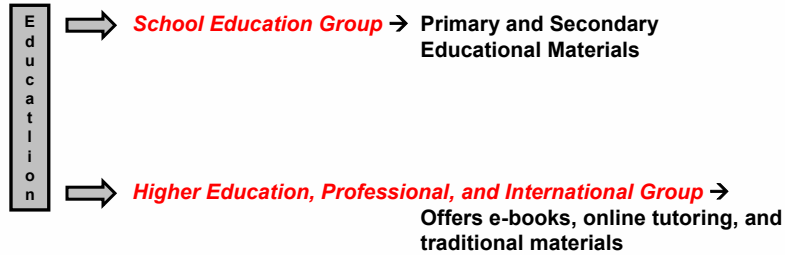


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Company Overview: Education



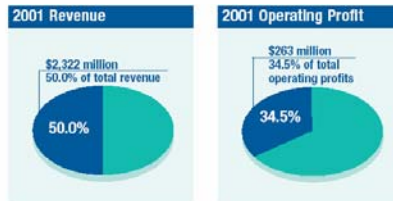
McGraw-Hill Education → McGraw-Hill Education



McGraw-Hill Companies

McGraw-Hill Education

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



Operating Revenue, Operating Profit and Operating Margin

(dollars in millions)	2001	2000	1999
Revenue	\$2,322	\$1,993	\$1,735
Profit	\$ 263	\$ 308	\$ 274
Profit Margin	11.3%	15.5%	15.8%



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Company Overview: Media



McGraw-Hill Media → McGraw-Hill Information and Media Services



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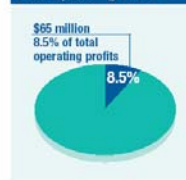
McGraw-Hill Information and Media Services

- **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

2001 Revenue^(A)



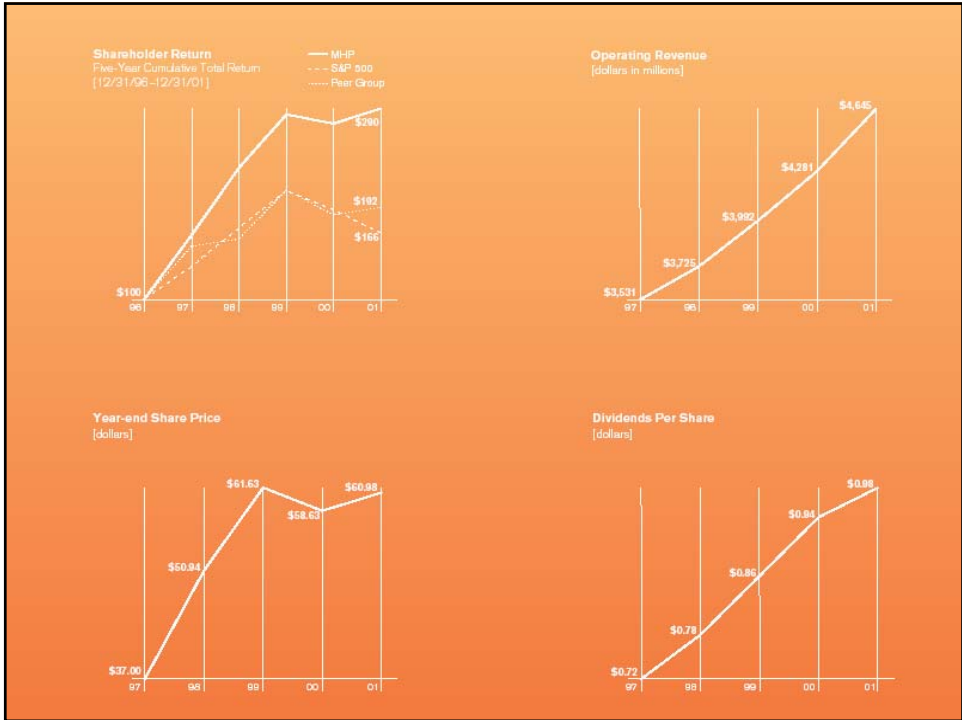
2001 Operating Profit^(A,B)



Operating Revenue, Operating Profit and Operating Margin^(A,B)

(dollars in millions)	2001	2000	1999
Revenue	\$ 846	\$1,008	\$1,030
Profit	\$ 65	\$ 213	\$ 186
Profit Margin	7.7%	21.1%	18.1%





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



The Five C's

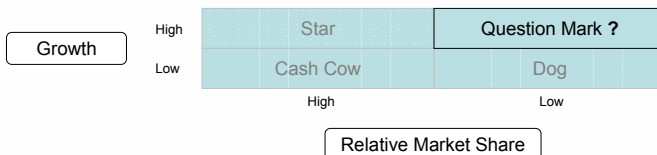
- **Character**
 - Long- established and trusted voice in education and financial ratings
 - Transparency and dividend policy keeps stock price at stable levels
- **Capacity**
 - Robust distribution network
 - Capitalized pre-publication costs
- **Capital**
 - Financial health will allow MHP to safely 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



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:



Valuation

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

Equity Value Calculation

PV of High Growth Phase and Transition Phase	4004092
Terminal Value of Stable Growth Phase	20861576
PV of Terminal Value	10735704
Intrinsic Value of FCFE	14,739,797
Cash	53535
Debt	1,056,524
Value of Equity	13,736,808
Shares Outstanding	193,218
Value per Share	\$ 71.095



Q&A

