

A photograph of four diverse students (three women and one man) sitting at a long table in a modern, brightly lit classroom or office environment. They are all smiling and looking towards the camera. In front of them are several open laptops and textbooks. The student on the far left is a woman with dark hair and glasses, resting her chin on her hand. Next to her is a man with dark hair, also resting his chin on his hand. To his right is a woman with blonde hair, pointing at a laptop screen with a blue pen. On the far right is another woman with dark hair, smiling with her hand near her face. The background shows a modern interior with large windows and recessed ceiling lights.

McGraw-Hill Education

Q1-2018 Investor Update

May 15, 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.



Business Review

McGraw-Hill Education Q1-2018 Investor Update



Seasonally small quarter within a cyclically smaller K-12 adoption year; focused on 2018 selling season, rental program execution and positioning for 2019-2020 opportunities

- Dr. Nana Banerjee appointed as President and CEO in April
- 2018 focus on execution of established strategic MHE priorities for growth in 2019 and beyond
 - Higher Ed: focus continues on affordability solutions and larger front-lists including Inclusive Access to grow digital and our new rental program to stabilize print revenues
 - K-12: investment continues in advance of 2019-2020 New Adoptions, especially Texas English Language Arts (ELA), with initiatives in place to grow Open Territory share
 - International and Professional: new leaders appointed for each business
- Business remains highly seasonal with sales shifting between quarters; smaller size and timing of the K-12 California adoption in 2018 vs. 2017 impacting comparability
- Refinanced remaining MHGE Parent (Holdco) debt in April
 - Reduced gross leverage and extended all material funded maturities to 2022 or later

McGraw-Hill Education, Inc.		
<u>Total MHE Performance</u>	<u>FY Q1-18</u>	<u>Y/Y%</u>
MHE Billings	\$221M	-3.5%
MHE Digital Billings	128M	+10.9%
% Digital Billings	58%	50% in Q1-17
EBITDA Before Pre-Pub. Investment	-\$71M	-4.2%
Pre-Publication Investment	23M	-10.1%
Adjusted EBITDA	-93M	-0.3%
<u>Key Indicators</u>		
Connect/LearnSmart Paid Activations	1.5M	+7.6%
Cumulative Interactions	~10.0B	
ALEKS Unique Users	1.6M	+8.7%
Cumulative Interactions	~7.3B	
<u>MHE Inc. Liquidity at 3/31/18</u>		
Cash	\$203M	
Credit Line Capacity	<u>350M</u>	
Total Liquidity	\$553M	

Note: The company adopted ASC 606 Revenue Recognition on 1/1/18. There was no impact to Billings and Adjusted EBITDA in the Q1-2018 period. The disclosure of the impact on the consolidated financial statements and a description of the standard as it relates to McGraw-Hill can be found in the 10-Q.

Higher Education

Driving digital growth through Inclusive Access while stabilizing print through affordability solutions and larger front-lists



- Q1 Net Sales increased double-digits
 - Billings growth was positive and MHE continued to grow market share on an LTM basis through 3/31
 - Digital Billings grew at a double-digit rate, returns were lower and print net sales were seasonally small
- Strong front-list performance was driven by digital sales of 2018 copyrights while print ordering from the channel remained conservative as in recent years
- Digital Billings grew 15% Y/Y led by Inclusive Access and direct-to-student e-commerce
- Returns accrual rate was reduced by 130 bps vs. Q1-17; actual returns continuing to decline in support of lower rate
 - Will evaluate any further reserve rate adjustments as we progress through the Fall returns season
- Rental implementation continues with signed partners for Summer launch; consignment inventory orders underway
 - Discussions continue with additional rental partners and further announcements expected
 - Rental expected to impact timing across quarters

Higher Education		
<u>MHE Higher Ed Performance</u>	<u>FY Q1-18</u>	<u>Y/Y%</u>
Billings (net of <u>accrued</u> returns)¹	\$136M	+3.7%
Net Sales (net of <u>actual</u> returns)²	\$105M	+18.5%
Front-List Sales (net of <u>actual</u> returns)	24M	+58.5%
Back-List Sales (net of <u>actual</u> returns)	82M	+10.4%
Digital Billings	\$104M	+15.1%
% Digital Billings	76%	69% in Q1-17
Direct-to-Student e-commerce Sales	\$81M	+5.6%
Inclusive Access Net Sales	13M	+223%
Actual Product Returns Change	-11M	-14.4%
EBITDA Before Pre-Pub. Investment	\$25M	+27.5%
Adjusted EBITDA	16M	+37.9%
<u>MHE vs. Industry Performance per MPI^{2,3}</u>		
MHE Market Share Change LTM 3/31/18		+~20 bps
Industry Net Sales (net of <u>actual</u> returns) YTD 3/31/18		+11.8%
<u>Key Indicators</u>		
Connect/LearnSmart Paid Activations	1.5M	+7.6%
Assignments Submitted	31M	+6.5%
ALEKS Unique Users	0.5M	+15.9%

¹Billings is gross sales net of accrued returns and is the measure of company performance.

²Net sales is gross sales net of actual returns not adjusted for the impact of accruals and reversals and is the industry market share measure.

³Per Management Practice, Inc.

Higher Education Business Driver Overview



New selling strategies and ongoing changes in customer purchasing patterns expected to impact timing across quarters

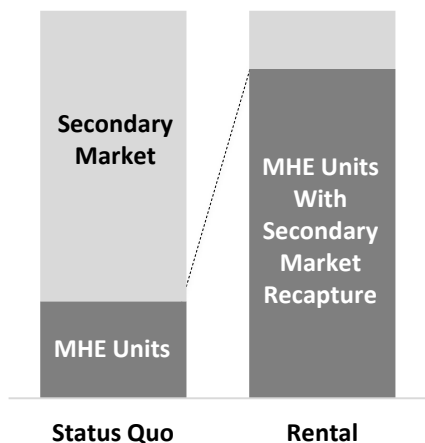
	Timing	Driver	Results/Status
2017	Oct. – Nov.	Actual product returns	Actual returns declined at a similar rate to 2016 but off a smaller base <ul style="list-style-type: none"> - Year-end reserve established pending greater visibility into return patterns for larger 2017 front-list (2018©)
	Dec.	Digital Sales	December net sales continued to shift into Q1 as digital e-commerce and Inclusive Access increase and occur during the semester vs. before the semester starts <ul style="list-style-type: none"> - Print ordering by the channel is later and more conservative
	Jan. – Feb.	Digital sales / Inclusive Access	Paid activations driven by e-commerce, Inclusive Access and channel ordering of digital Access Cards <ul style="list-style-type: none"> - Inclusive Access (predominantly digital) later in Q1 with some e-commerce overlap
2018	Feb. – Apr.	Actual product returns; Inclusive Access	Key return period for larger front-list (2018©) sold in 2017 <ul style="list-style-type: none"> - Returns accrual rate was reduced by 130 bps vs. Q1-17; actual returns continuing to decline in support of the lower rate - Will evaluate further reserve rate adjustments as we progress through the Fall - Inclusive Access billed in arrears so December to January shift is more of a December to Q1 shift
	Apr. – June	Low digital; Start of print ordering by channel with Rental later in the year	Digital sales and front-list rental later in the year <ul style="list-style-type: none"> - Digital orders continue to shift as direct-to-student and Inclusive Access sales increase - Front-list rental of 2019© shifts Billings later in the year
	End of June – Sept.	New front-list (2019©) for rent	Shift to Rental for newly issued 2019© moves Billings from late Q2/Q3 to early Q4 <ul style="list-style-type: none"> - Rental and Inclusive Access Billings booked in arrears - Back-list print sales continue - E-commerce also drives sales from early Summer to late Summer/early Fall
	Oct. – Dec.	Rental and Inclusive Access; Actual Product Returns	Shift into Q4 for Rental and Inclusive Access Billings; October and November is prime returns season <ul style="list-style-type: none"> - December becoming less material for Billings due to e-commerce, Rental and Inclusive Access

Higher Education Rental Opportunity

Addresses student affordability while driving higher sell-through into the classroom

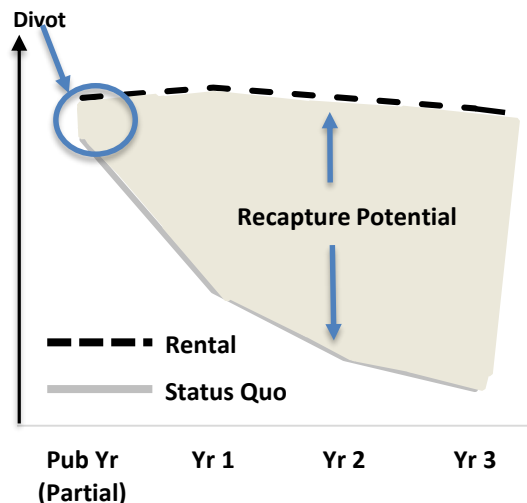


Market Opportunity with Rental



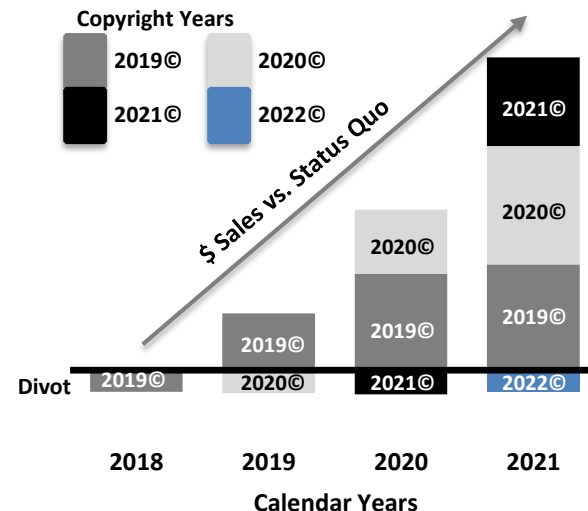
- MHE's rental program provides an opportunity to participate in the remaining 80% of the ~19M course enrollments using MHE titles
- While digital is an important priority, students still prefer a print textbook alongside our digital learning platform
- Print rental represents an opportunity to make books more affordable for students while creating value for our channel partners, MHE and our authors
- Channel participants are important partners in the MHE rental program

% of Students in a Class Purchasing MHE Materials (new or through MHE rental program)



- As the secondary market becomes more efficient, new books are quickly sold into the secondary market
- Rental has extended the life of a used book to as many as 4-6 turns requiring less new books to be purchased from MHE
- Rental implementation continues with signed partners for Summer launch; discussions continue with additional rental partners

Print Billings by Copyright Year



- Rental roll-out is phased with each year's new copyrights beginning in Summer of 2018 with 2019© (3-5 years to complete transition)
- As each copyright year ages, the recapture potential grows; in the first semester of publication for a new copyright there is a small Billings and EBITDA divot
- Relative to the Status Quo, Rental is expected to be accretive in 2019
- As we add more copyright years to the rental program, Rental becomes more accretive relative to the Status Quo

K-12

Seasonally small quarter with timing impacts in a cyclically smaller year; focused on large opportunities in 2019-2020



- Q1 is a seasonally small quarter typically representing ~5% of FY Billings
- Continue to expect a cyclically smaller adoption market in 2018 vs. 2017
 - 2019-2020 is expected to be the largest new adoption market in several years (refer to appendix)
 - No material updates to the new adoption calendar through 2020
- First year of CA Social Studies only partially offsets the reduction of the three-year CA English Language Arts (ELA) adoption which is in the final and smallest year
 - Q1 Billings declined Y/Y on a small base primarily due to lower CA revenues
 - Limited visibility into FY 2018 performance at this time
- 2018 seasonality will reflect a revenue shift from Q1/Q2 primarily to Q3 as a result of the CA decline
 - Most Billings occur in late May to early September for both Adoption and Open Territory States, except CA, where the majority of Billings are typically recognized in Q1 and Q2

K-12		
<u>MHE K-12 Performance</u>	<u>FY Q1-18</u>	<u>Y/Y%</u>
Billings (net of <u>accrued</u> returns)	\$30M	-18.7%
Digital Billings	9M	-13.3%
% Digital Billings	30%	28% in Q1-17
MHE Total Adoption Net Sales	\$15M	-23.6%
MHE Open Territory / Other Net Sales	15M	-13.1%
EBITDA Before Pre-Pub. Investment	-\$74M	+1.6%
Adjusted EBITDA	-85M	+1.3%
<u>New Adoption Market Size¹</u>		
2018 New Adoption Market Opportunity	\$500-\$600M	2017 New Adoption Market Opportunity:
2019 New Adoption Market Opportunity	\$900-\$1,100M	~\$700M
2020 New Adoption Market Opportunity	\$900-\$1,000M	
<u>Market Share</u>	Not meaningful in Q1	
<u>Key Indicators</u>		
ConnectED Unique Users	4.4M	+18.5%
ALEKS Unique Users	1.1M	+5.6%

¹MHE estimate without adjustment for participation or share.

International and Professional

Renewed operational focus expected to drive market share gains over time



International

- New leadership realigning the go-to-market approach with more regional/local focus on sales, marketing and product development
- Digital Billings increased 21% Y/Y in a seasonally small quarter due to growth in *Connect* sales
- Q1 Billings declined vs. prior year in a seasonally small quarter
 - Strong digital growth was more than offset by lower print sales
 - Billings declined 4% Y/Y excluding the Canadian K-12 business (sold in 2017)

Professional

- Q1 Billings impacted by the decline in print and e-Book sales and the timing of *Access* renewals
- New edition of *Harrison's Principles of Internal Medicine*, the largest single title that supports both Professional and International sales, will be published this Summer

International

<u>MHE International Performance</u>	<u>FY Q1-18</u>	<u>Y/Y%</u>
Billings (as reported)	\$38M	-7.9%
Billings (on constant FX)	36M	-12.7%
Digital Billings	8M	+21.3%
Digital Billings %	21%	16% in Q1-17
EBITDA Before Pre-Pub. Investment	-\$11M	-5.8%
Adjusted EBITDA	-13M	+18.6%
<u>Key Indicators</u>		
Connect/LearnSmart Paid Activations	>159K	
ALEKS Unique Users	>61K	

Professional

<u>MHE Professional Performance</u>	<u>FY Q1-18</u>	<u>Y/Y%</u>
Billings	\$18M	-13.6%
Digital Billings	8M	-11.4%
Digital Billings %	44%	43% in Q1-17
EBITDA Before Pre-Pub. Investment	-\$1M	nm
Adjusted EBITDA	-2M	nm
<u>Key Indicators</u>		
Access Platform Renewal Rate ¹	93%	

¹As of December 2017 and updated on an annual basis.

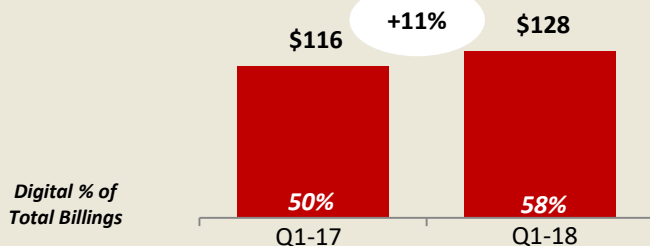
Digital Billings Mix

Digital transition continues in seasonally small quarter



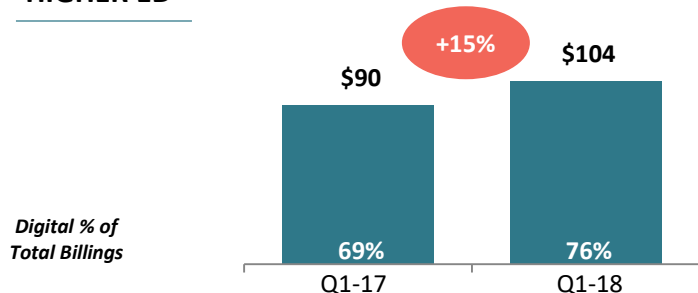
(\$ in Millions)

MCGRAW-HILL EDUCATION

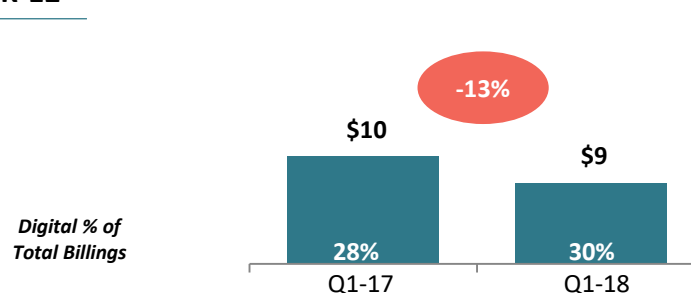


- Digital is more than 75% of Higher Ed Billings driven by growth across Inclusive Access and direct-to-student e-commerce
- Inclusive Access has the potential to become a significant channel in the future for Higher Ed digital sales
- K-12 sales are not significant with Q1 typically representing ~5% of the FY

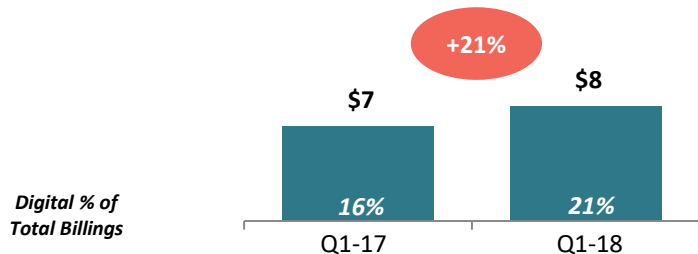
HIGHER ED



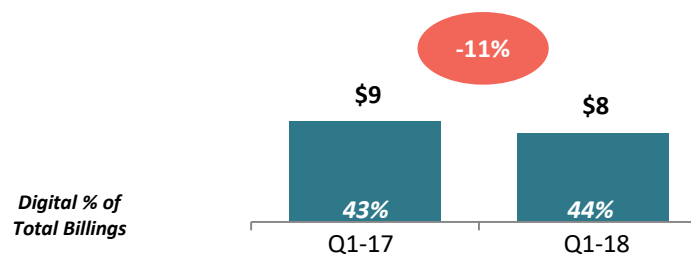
K-12



INTERNATIONAL



PROFESSIONAL



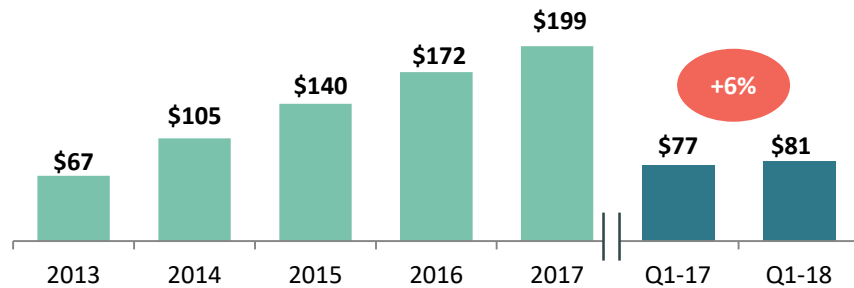
Digital Ed Tech Highlights

Digital remains the core strategy for MHE with significant runway ahead

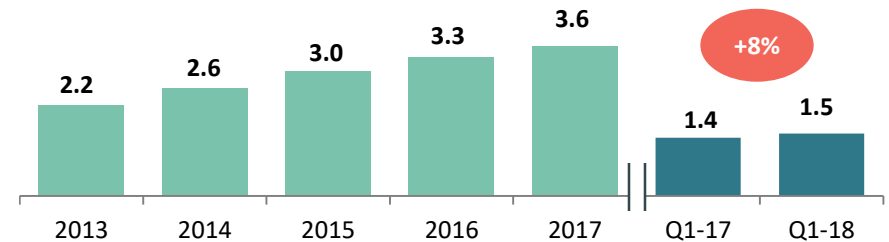


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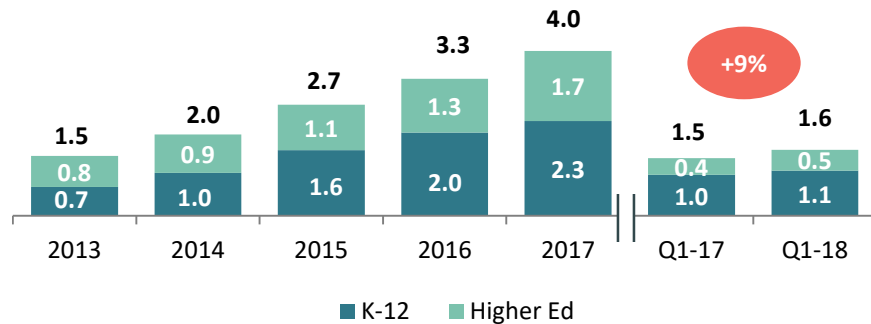
E-COMMERCE NET SALES



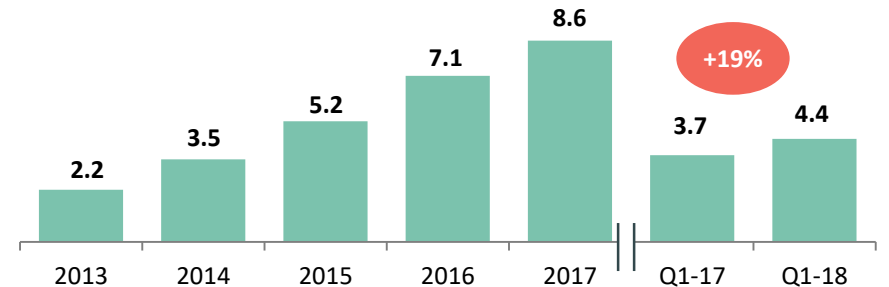
CONNECT/LEARNSMART PAID ACTIVATIONS¹ (US HIGHER ED)



ALEKS UNIQUE USERS² (GLOBAL HIGHER ED, K-12)



ConnectED UNIQUE USERS (K-12)



¹Connect/LearnSmart paid activations exclude >159K of International paid activations.

²ALEKS Unique Users include >61K international unique users.

Capital Structure and Liquidity

Refinanced remaining near-term maturity; no material funded maturities until 2022



- Commenced 2018 with a strong liquidity position and executed upon Management's commitment to de-lever and extend maturities
- Refinanced remaining Holdco 8.5% 2019 PIK/Toggle debt on April 20, 2018
 - Used \$103M of cash to reduce gross leverage
 - No material funded debt due prior to 2022
 - \$39M held in escrow at Holdco beginning in Q2 for future interest payments
 - Available term loan restricted payment capacity used for refinancing
- Company continues to tightly manage cash through early seasonal cycle
 - Will borrow in Q2 under seasonal revolver as a result of refinancing
 - Anticipate any revolver borrowings to be repaid during Q3
- \$500M of floating rate debt hedged in 2017 at 6.1%
 - 49% of total debt fixed in a rising rate environment

(\$ in Millions)

MCGRAW-HILL EDUCATION LIQUIDITY: 3/31/18

Cash and Cash Equivalents

McGraw-Hill Global Education Holdings	\$188
MHGE Parent LLC (Holdco) / MHE Inc.	<u>15</u>
Total McGraw-Hill Education, Inc.	\$203

Available under Credit Facilities **350**

Total Liquidity **\$553**

MCGRAW-HILL EDUCATION DEBT PROFILE: 3/31/18

Senior Secured Term Loan due 2022	\$1,697
Revolving Credit Facility due 2021 (\$350M)	<u>0</u>
Total First Lien Indebtedness	\$1,697
Less: Cash and Cash Equivalents (OpCo)	<u>(188)</u>
Net First Lien Indebtedness	\$1,509
Last Twelve Months Adjusted EBITDA ¹	\$400

Net First Lien Indebtedness / Adjusted EBITDA¹ **3.8x**

Senior Unsecured Notes Due 2024	<u>400</u>
Net Total Indebtedness - McGraw-Hill Global Education	\$1,909

MHGE Parent Notes Due 2019*	244
Less: Cash and Cash Equivalents (HoldCo)	<u>(15)</u>
Net Total Indebtedness - MHE Inc.	\$2,138

*Refinanced on April 20, 2018 with new debt maturing in 2022.

Summary

Seasonally small quarter; focused on 2018 selling season, rental program execution and 2019-2020 opportunities



- Teams are focused on executing selling strategies during the Spring sales season to maximize back-to-school sales
- 2018 is a year to execute on the strategic objectives that will drive growth in 2019 and beyond
 - Higher Ed – continue to execute on affordability solutions including Rental to stabilize print and Inclusive Access to drive digital growth
 - K-12 – preparing for large cyclical opportunities in California, Florida and Texas in 2019 and 2020 and anticipated growth in Open Territory purchasing
 - International – implementing new regional/local go-to-market strategy/organization and increased focus on front-list to drive improvements in print and digital sales
 - Professional – driving further growth in Access sales
- New MHE CEO and new business unit leadership in place
- Refinanced all remaining material funded debt scheduled to mature prior 2022

A young woman with brown hair tied back, wearing black-rimmed glasses and a red and black plaid shirt, is smiling and looking towards the camera. She is holding a silver tablet with both hands, pointing at the screen with her right index finger. The background is a bright, out-of-focus office or classroom setting with other people working or studying.

Appendix: Supplemental Disclosure and Financial Tables

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 and deferred royalties.
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.
Deferred Commissions	Commissions are generally payable in the period incurred. This represents sales commissions that are incremental direct costs to obtaining a contract which are deferred and amortized over the period of contract performance. It is the net effect of converting deferred commissions 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 students in a class purchasing MHE materials – new or through the MHE rental program.
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.



Billings is a non-GAAP sales performance measure that provides useful information in evaluating our period-to-period performance because it reflects the total amount of revenue that would have been recognized in a period if we recognized all print and digital revenue at the time of sale. We use Billings as a sales performance measure given that we typically collect full payment for our digital and print solutions at the time of sale or shortly thereafter, but recognize revenue from digital solutions and multi-year deliverables ratably over the term of our customer contracts. As sales of our digital learning solutions have increased, so has the amount of revenue that is deferred in accordance with U.S. GAAP. Billings is a key metric we use to manage our business as it reflects the sales activity in a given period, provides comparability from period-to-period during this time of digital transition and is the basis for all sales incentive compensation. In the K-12 market where customers typically pay for five to eight year contracts upfront and the ongoing costs to service any contractual obligation are limited, the impact of the change in deferred revenue is most significant. Billings is U.S. GAAP revenue plus the net change in deferred revenue.

EBITDA, a measure used by management to assess operating performance, is defined as net income from continuing operations plus net interest, income taxes, depreciation and amortization (including amortization of pre-publication investment). Adjusted EBITDA is a non-GAAP debt covenant compliance measure that is defined in accordance with our debt agreements. Adjusted EBITDA is a material term in our debt agreements and provides an understanding of our debt covenant compliance, ability to service our indebtedness and make capital allocation decisions in accordance with our debt agreements.

Each of the above described measures is not a recognized term under U.S. GAAP and does not purport to be an alternative to revenue, income from continuing operations, or any other measure derived in accordance with U.S. GAAP as a measure of operating performance, debt covenant compliance or to cash flows from operations as a measure of liquidity. Additionally, each such measure is not intended to be a measure of free cash flows available for management's discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements. Such measures have limitations as analytical tools, and you should not consider any of such measures in isolation or as substitutes for our results as reported under U.S. GAAP. Management compensates for the limitations of using non-GAAP financial measures by using them to supplement U.S. GAAP results to provide a more complete understanding of the factors and trends affecting the business than U.S. GAAP results alone. Because not all companies use identical calculations, our measures may not be comparable to other similarly titled measures of other companies.

Management believes Adjusted EBITDA is helpful in highlighting trends because Adjusted EBITDA excludes the results of decisions that are outside the control of operating management and can differ significantly from company to company depending on long-term strategic decisions regarding capital structure, the tax rules in the jurisdictions in which companies operate, and capital investments. In addition, Billings and Adjusted EBITDA provides more comparability between the historical operating results and operating results that reflect purchase accounting and the new capital structure post the Founding Acquisition as well as the digital transformation that we are undertaking which requires different accounting treatment for digital and print solutions in accordance with U.S. GAAP.

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.

Higher Ed Front-List / Back-List Net Sales¹



(\$ in Millions)

	Twelve Months Ended December 31						Three Months Ended	
	2012	2013	2014	2015	2016	2017	March 2017	March 2018
Digital Net Sales								
Front-list	\$100	\$126	\$132	\$156	\$149	\$166	\$15	\$25
Back-list	137	153	194	220	263	281	75	79
Total Digital Net Sales	\$237	\$278	\$326	\$376	\$411	\$447	\$90	\$104
<u>Y/Y %</u>								
Front-list	(6.0%)	25.1%	5.2%	18.2%	(4.7%)	11.9%	(10.2%)	65.7%
Back-list	53.7%	11.8%	27.1%	13.4%	19.2%	7.0%	22.8%	5.0%
Total Digital Net Sales	21.1%	17.4%	17.2%	15.3%	9.3%	8.8%	15.8%	15.1%
Print Net Sales								
Front-list	\$317	\$323	\$291	\$233	\$149	\$145	\$0	(\$1)
Back-list	205	215	233	178	152	125	(1)	3
Total Print Net Sales	\$523	\$538	\$524	\$411	\$302	\$270	(\$1)	\$2
<u>Y/Y %</u>								
Front-list	(23.9%)	1.9%	(9.9%)	(20.0%)	(35.9%)	(2.7%)	nm	nm
Back-list	0.6%	4.7%	8.5%	(23.6%)	(14.6%)	(17.8%)	nm	nm
Total Print Net Sales	(15.9%)	3.0%	(2.6%)	(21.6%)	(26.7%)	(10.6%)	nm	nm
Total Net Sales								
Front-list	\$418	\$449	\$423	\$389	\$298	\$311	\$15	\$24
Back-list	342	368	427	398	415	406	74	82
Total Net Sales²	\$760	\$817	\$851	\$787	\$713	\$717	\$89	\$105
<u>Y/Y %</u>								
Front-list	(20.3%)	7.5%	(5.7%)	(8.1%)	(23.4%)	4.5%	(4.1%)	58.5%
Back-list	16.7%	7.5%	16.2%	(6.8%)	4.1%	(2.2%)	35.3%	10.4%
Total Net Sales	(7.0%)	7.5%	4.2%	(7.4%)	(9.5%)	0.6%	26.6%	18.5%
Other (Accounting Accruals/Reversals)	2	(1)	4	5	(2)	1	0	(4)
Total Net Sales³	\$762	\$816	\$855	\$793	\$711	\$718	\$89	\$102
Y/Y %	(7.5%)	7.1%	4.8%	(7.3%)	(10.3%)	1.0%	26.6%	14.0%

¹ 2017 front-list represents 2018 and 2017 copyrights sold in 2017; they do not begin to impact current year until very late Q2.

² Gross sales less actual returns; net sales are not adjusted for the impact of accruals / net change in deferred revenue.

³ Reflects the impact of accounting related to accruals / deferrals.

Higher Ed Industry and MHE Higher Ed Sales Trend



(\$ in Millions)

	Twelve Months Ended December 31							Three Months Ended	
	2011	2012	2013	2014	2015	2016	2017	March 2017	March 2018
Higher Ed Industry per Management Practice, Inc.¹									
Higher Ed Market									
Gross Sales	\$5,726	\$5,420	\$5,453	\$5,465	\$5,302	\$4,695	\$4,390	\$788	\$770
Returns	1,323	1,311	1,262	1,214	1,377	1,250	982	336	265
Net Sales	\$4,403	\$4,110	\$4,191	\$4,251	\$3,925	\$3,446	\$3,408	\$452	\$505
Y/Y %									
Gross Sales	n/a	(5.3%)	0.6%	0.2%	(3.0%)	(11.4%)	(6.5%)	(0.1%)	(2.2%)
Returns	n/a	(0.9%)	(3.7%)	(3.8%)	13.5%	(9.2%)	(21.4%)	(19.2%)	(21.1%)
Net Sales	n/a	(6.7%)	2.0%	1.4%	(7.7%)	(12.2%)	(1.1%)	21.2%	11.8%
McGraw-Hill Education Return Detail									
Actual Returns	\$263	\$276	\$257	\$252	\$277	\$237	\$208	\$79	\$68
Reserve for Returns Adjustment	(3)	(13)	9	16	(31)	(23)	2	(41)	(34)
Reported Returns	\$260	\$263	\$266	\$268	\$246	\$215	\$210	\$38	\$34
Return Accrual %	24.4%	25.8%	25.1%	24.4%	23.4%	22.7%	22.8%	20.7%	19.4%

¹ MPI data reflects gross and net sales on an actual returns basis and includes other adjustments, eg. Advanced Placement products, which are reported in the K-12 business. Annual MPI data is on an unrevised basis; prior period YTD data has been revised as per the 3/31/18 MPI report. Amounts may not sum due to rounding.

K-12 New Adoption Market Update

Significant market opportunity in 2019 - 2020; cyclically smaller market in 2018



	2016	2017	2018E	2019E	2020E
Big-3 State New Adoption Estimated Total Market					
California	Reading ~\$300M	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	~\$300M	>\$500M	~\$245-310M	~\$635-790M	
All Other State New Adoption Estimated Total Market	~\$200M	~\$100-150M	~\$250-300M	~\$275-325M	
Total New Adoption Estimate	~\$500M	~\$700M (vs. anticipated range of ~\$600-650M)	~\$500-600M	~\$900-1,100M	~\$900-1,000M

- Open Territory (new and residual) total market estimated to fluctuate -3% to +3% per annum over the next several years with large new adoptions historically stimulating open territory growth.
- Adoption market data above is new adoption only and does not include off-list / residual sales that fluctuate but can be as large as new adoption sales in a given year.
- 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.

Source: MHE estimate of total market without adjustment for participation or market share. *Disciplines reflect 2nd and 3rd year of major purchasing.

K-12 Industry New Adoption Market Overview



New State Adoptions by Purchase Year ¹									
2012	2013	2014	2015	2016	2017	2018E	2019E	2020E	

Largest Adoption States

California (K-8)		Reading Math	Math	Math*	Reading	Reading*	Reading* Social Studies	Science Social Studies*	Science* Social Studies*
Florida	Social Studies	Reading (K-5) Math (K-5)	Reading (6-12) Math (6-12)			Social Studies	Science	Math	Reading (K-12)
Texas	Science		Math (K-8) Science	Math (9-12) Social Studies Science*				Reading (K-8)	Reading (9-12)

All Other Adoption States

Alabama	Math	Reading	Social Studies		Science				Math
Arkansas		Math							
Georgia		Math	Math* Reading	Reading*					
Idaho	Science		Reading		Math		Social Studies	Reading	Science
Indiana		Reading	Reading*						
Louisiana		Reading	Math						
Mississippi	Reading	Math (K-8) Social Studies	Math (9-12)			Reading	Science ²	Social Studies ²	Math
North Carolina				Math	Science	Social Studies		Math K-8 ³	
New Mexico	Science	Math			Reading	Social Studies		Science	Math
Oklahoma		Social Studies		Science	Reading		Math		Social Studies
Oregon	Social Studies		Reading	Reading*	Math	Science		Social Studies	
South Carolina	Reading	Math Social Studies (6-12)	Social Studies (K-5)		Science				
Tennessee	Reading (9-12)	Reading (K-6)	Social Studies	Math			Science	Social Studies	Reading
Virginia	Science					Social Studies	Math Social Studies*	Reading ⁴	Science ⁴
West Virginia		Social Studies Math		Reading	Science		Math	Social Studies	Reading

¹Excludes new state adoptions in non-core disciplines such as career and technical education, music, art, world languages, health, etc. Purchases from AR and IN classified as open territory effective 2015.

²Mississippi swapped Science (now 2018) with Social Studies (now 2019).

³North Carolina adopted new K-8 Math standards and is purchasing Math instead of ELA in 2019.

⁴Virginia updated their adoption schedule for Reading in 2019; Science is on track for 2020.

*Disciplines reflect 2nd and 3rd year of major purchasing.

K-12 Industry and MHE K-12 Sales Trend



(\$ in Millions)

	Twelve Months Ended December 31						Three Months Ended	
	2012	2013	2014	2015	2016	2017*	March 2017	March 2018
K-12 Industry per Association of American Publishers (AAP)								
AAP U.S. Net Sales ¹								
Total Adoption	\$1,311	\$1,391	\$1,860	\$1,621	\$1,250	Not Available	\$105	\$93
Open Territory	1,423	1,563	1,425	1,431	1,467		130	122
Total Net Sales	\$2,734	\$2,954	\$3,285	\$3,052	\$2,717		\$235	\$215
Y/Y %								
Total Adoption	n/a	6.2%	33.6%	(12.8%)	(22.9%)	Not Available	n/a	(11.0%)
Open Territory	n/a	9.8%	(8.8%)	0.4%	2.5%		n/a	(5.9%)
Total Net Sales	n/a	8.1%	11.2%	(7.1%)	(11.0%)		n/a	(8.2%)
McGraw-Hill Education K-12								
McGraw-Hill Education Billings ²								
Total Adoption	\$292	\$282	\$348	\$452	\$415	\$405	\$19	\$15
Open Territory / Other	405	396	386	345	343	328	17	15
Total K-12 Billings	\$698	\$677	\$734	\$798	\$758	\$733	\$37	\$30
Y/Y %								
Total Adoption	n/a	(3.5%)	23.6%	30.0%	(8.2%)	(2.5%)	(24.9%)	(23.6%)
Open Territory / Other	n/a	(2.4%)	(2.3%)	(10.7%)	(0.6%)	(4.9%)	(15.7%)	(13.1%)
Total K-12 Billings	n/a	(3.0%)	8.5%	8.6%	(4.9%)	(3.3%)	(20.8%)	(18.7%)
MHE Adoption Participation %	96%	79%	67%	76%	87%	96%	nm	nm

***2017 AAP market data to be updated upon release of the AAP annual report**

¹ AAP annual data reflects unrestited net sales on an actual returns basis submitted by 5 publishers; data reflects US sales & includes sales of AP products, software & platforms, etc. AAP includes front-list and back-list net sales.

Monthly AAP data reflects net sales on an actual returns basis submitted by 6-7 publishers; prior period YTD data has been restated as per the 3/31/18 monthly AAP report.

² MHE Billings reflect an accrued returns basis and will not reconcile to AAP submission due to classification of revenue; total adoption includes new adoption and residual.

MHE Billings have been restated for the shift of AR and IN in prior periods.

Amounts may not sum due to rounding.

Digital vs. Print Billings Detail



(\$ in Millions)

YTD March 2018 Billings Detail by Component

	March YTD Digital Billings				March YTD Print Billings				March YTD Total Billings			
	2016	2017	2018	% Δ vs 2017	2016	2017	2018	% Δ vs 2017	2016	2017	2018	% Δ vs 2017
Higher Ed	\$81	\$90	\$104	15.1%	\$47	\$41	\$32	(21.5%)	\$127	\$131	\$136	3.7%
K-12	13	10	9	(13.3%)	33	26	21	(20.7%)	46	37	30	(18.7%)
International	7	7	8	21.3%	35	35	30	(13.4%)	43	41	38	(7.9%)
Professional	10	9	8	(11.4%)	12	12	10	(15.3%)	22	21	18	(13.6%)
Other	0	0	0	nm	0	0	0	nm	0	0	0	nm
Total MHE	\$111	\$116	\$128	10.9%	\$127	\$114	\$93	(18.2%)	\$238	\$229	\$221	(3.5%)
% of Total												
Higher Ed	63%	69%	76%		37%	31%	24%		100%	100%	100%	
K-12	29%	28%	30%		71%	72%	70%		100%	100%	100%	
International	17%	16%	21%		83%	84%	79%		100%	100%	100%	
Professional	44%	43%	44%		56%	57%	56%		100%	100%	100%	
Total MHE	47%	50%	58%		53%	50%	42%		100%	100%	100%	

Billings is a 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. Effective Q4-16 and prospectively, MHE no longer includes the change in deferred royalties within the change of deferred revenue. On a FY basis, the net change is immaterial. Amounts may not sum due to rounding.

Free Cash Flow



(\$ in Millions)

Cash Flow Comparison	Three Months Ended		
	March 2017	March 2018	Y/Y \$
Adjusted EBITDA	(93)	(93)	(0)
Δ in Accounts Receivable, net	117	26	(91)
Δ in Inventories, net	(31)	(22)	9
Δ in Prepaid & Other Current Assets	4	(4)	(7)
Δ in Accounts Payable and Accrued Expenses	(105)	(120)	(14)
Δ in Other Current Liabilities	(2)	85	88
Δ in Reported Working Capital Accounts	(18)	(33)	(15)
Adjustments to Derive Operational Working Capital ¹	(8)	(8)	1
Δ in Adjusted Working Capital Accounts	(27)	(41)	(15)
Adjusted EBITDA less Δ in Adjusted Working Capital Accounts	(119)	(134)	(0)
Pre-publication Investment	25	23	(3)
Restructuring and Cost Savings Implementation Charges	(2)	(3)	(1)
Sponsor Fees	(1)	(1)	-
Cash Paid for Interest	(41)	(35)	6
Net (loss) from Discontinued Operations	(0)	-	0
Operational Working Capital Adjustments and Other ²	(1)	(8)	(7)
Cash (used for) provided by operating activities	(140)	(159)	(19)

Adjusted EBITDA less Δ in Working Capital Accounts per above	(119)	(134)	(15)
- Capital Expenditures & Payment of Capital Lease Obligations	(11)	(14)	(3)
Operating Free Cash Flow²	(131)	(148)	(18)

Δ in NWC including Adjustments to Derive Operational Working Capital			
	Three Months Ended		
	March 2017	March 2018	Y/Y \$
Δ in Accounts Receivable, net	115	107	(8)
Δ in Inventories, net	(32)	(24)	7
Δ in Prepaid & Other Current Assets	(0)	(7)	(7)
Δ in AP and Accrued Expenses	(112)	(117)	(5)
Δ in Other Current Liabilities	3	1	(2)
Total	(27)	(41)	(15)

	Three Months Ended		
	March 2017	March 2018	Y/Y \$
Cash Balance at Beginning of Period	419	408	(11)
Cash (used for) provided by operating activities	(140)	(159)	(19)
Dividends	(2)	(2)	0
Net Debt (Payments) / Receipts	(4)	(4)	(0)
Repurchase of MHGE PIK Toggle Notes	(46)	-	46
Pre-publication Investment	(25)	(23)	3
Capital Expenditures	(10)	(12)	(2)
Investments, Acquisitions & Divestitures, net	-	-	-
Payment of Capital Lease Obligations	(1)	(2)	(1)
Repurchase of Equity	(4)	(6)	(2)
Other	2	3	2
Cash Balance at End of Period	188	203	16

¹ Includes the impact of certain non operational, Adjusted EBITDA or capital structure working capital items (i.e., purchase accounting, accrued interest, deferred royalties, income taxes, available for sale assets, etc.).

² Includes adjustment for deferred royalties and sales commissions included in calculation of Adjusted EBITDA.

Adjusted EBITDA Reconciliation & Adjusted Operating Expense Bridge



(\$ in Millions)

Adjusted EBITDA Walk

	Three Months Ended		Year Ended	LTM
	March 2017	March 2018	December 2017	March 2018
Net Income	(\$124)	(\$121)	(\$66)	(\$63)
Interest (income) expense, net	43	42	179	178
Provision for (benefit from) taxes on income	1	1	(7)	(7)
Depreciation, amortization and pre-pub. amortization	49	45	232	228
EBITDA	(\$30)	(\$33)	\$338	\$335
Change in deferred revenue (a)	(51)	(57)	147	142
Change in deferred royalties (b)	6	6	(22)	(22)
Change in deferred commissions (c)	-	1	-	1
Restructuring and cost saving implementation changes (d)	2	3	14	15
Sponsor fees (e)	1	1	4	4
Other (f)	5	8	18	21
Pre-pub. investment (g)	(25)	(23)	(99)	(97)
Adjusted EBITDA	(\$93)	(\$93)	\$400	\$400

Adjusted Operating Expense Bridge

	Three Months Ended		Year Ended	LTM
	March 2017	March 2018	December 2017	March 2018
Total Reported Operating Expenses	\$294	\$295	\$1,199	\$1,201
Less: Depreciation & amortization of intangibles	(34)	(32)	(133)	(132)
Less: Amortization of pre-pub. investment	(16)	(13)	(99)	(96)
Less: Restructuring and cost savings implementation charges	(2)	(3)	(14)	(15)
Less: Other adjustments	(6)	(9)	(35)	(37)
Adjusted Operating Expenses	\$237	\$238	\$918	\$920



- (a) We receive cash up-front for most sales but recognize 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.
- (b) Royalty obligations are generally payable in the period incurred with limited recourse. This adjustment represents the net effect of converting deferred royalties to a cash basis assuming the payment of all amounts owed in the period incurred.
- (c) Commissions are generally payable in the period incurred. This adjustment represents the net effect of converting deferred commissions to a cash basis assuming the payment of all amounts owed in the period incurred.
- (d) Represents severance and other expenses associated with headcount reductions and other cost savings initiated as part of our formal restructuring initiatives to create a flatter and more agile organization.
- (e) Beginning in 2014, \$3.5 million of annual management fees was recorded and payable to Apollo.
- (f) For the three months ended March 31, 2018 the amount represents (i) non-cash incentive compensation expense and (ii) other adjustments required or permitted in calculating covenant compliance under our debt agreements.
For the three months ended March 31, 2017, the amount represents (i) non-cash incentive compensation expense and (ii) other adjustments required or permitted in calculating covenant compliance under our debt agreements.
For the year ended December 31, 2017 the amount represents (i) non-cash incentive compensation expense (ii) elimination of a \$5.8 million gain on disposal of the K-12 Canadian business (iii) elimination of a \$4.9 million gain related to the sale of an equity method investment and (iv) other adjustments required or permitted in calculating covenant compliance under our debt agreements.
- (g) Represents the cash cost for pre-publication investment during the period.