

Cengage & McGraw-Hill Merger Announcement

**Providing Students with More Affordable Access to
Superior Course Materials and Platforms**

May 1, 2019



CENGAGE

Better Learning Together.

Cautionary Note Regarding Forward-Looking Statements

This presentation contains “forward-looking statements” within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as: “anticipate,” “intend,” “plan,” “goal,” “seek,” “believe,” “project,” “estimate,” “expect,” “strategy,” “will” and similar references to future periods. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on the parties’ current beliefs, expectations and assumptions regarding the future of the parties’ business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of the parties’ control. These risks include the risk that the transaction may not be completed in a timely manner or at all, which may adversely affect Cengage’s and/or McGraw-Hill’s businesses; the failure to satisfy the conditions to the consummation of the transaction; the occurrence of any event, change or other circumstance that could give rise to the termination of the merger agreement; the effect of the announcement or pendency of the transaction on Cengage’s and/or McGraw-Hill’s business relationships, operating results and business generally; the risk that the proposed transaction may disrupt current plans and operations and the potential difficulties in employee retention as a result of the transaction; the risk that management’s attention may be diverted from Cengage’s and/or McGraw-Hill’s ongoing business operations, as applicable; and the outcome of any legal proceedings that may be instituted against the parties related to the merger agreement or the transaction. You should consider these factors, as well as other factors that are outlined in the “Risk Factors” section of Cengage’s FY18 Annual Report for the period ended March 31, 2018 and the “Special Note Regarding Forward-Looking Statements” section of the same report, as well as the other factor that are outlined in the “Risk Factors” section of McGraw-Hill’s FY18 Annual Report for the period ended December 31, 2018 and the “Special Note Regarding Forward-Looking Statements” in the same report, both located on the respective company’s website. Cengage’s FY19 Annual Report will be posted to the Company website later in May 2019. Any forward-looking statement made by the parties in this presentation is based only on information currently available to the parties and speaks only as of the date on which it is made. The parties undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise.

Non-GAAP Financial Measures

Certain financial information included herein, including Cash Revenue, EBITDA, Cash EBITDA, Pro Forma EBITDA and EBITDA margin 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.



Agenda

Introduction

- David Kraut, Treasurer, Senior Vice President of Investor Relations, McGraw-Hill

Strategic & Financial Rationale

- Michael Hansen, CEO, Cengage
- Nana Banerjee, President & CEO, McGraw-Hill

Q&A



Today's Announcement

- Cengage Learning Holdings II, Inc. (“Cengage”) and McGraw-Hill Education, Inc. (“McGraw”) have entered into a definitive merger agreement
- Creates a leading provider of curated educational content and digital learning solutions across the full learning spectrum
- Provides students, instructors and institutions with more affordable access to superior course materials and platforms
- Highly synergistic with a unique value proposition in a transforming and compelling industry
- Structured as a merger of equals, with existing Cengage shareholders and existing McGraw-Hill shareholders each retaining 50% of the pro forma corporate entity
- Combined company anticipated to be named McGraw Hill, with details to be finalized prior to closing
- The company will be led by Michael Hansen, currently CEO of Cengage. Nana Banerjee will continue to lead McGraw-Hill through the transition. The combined company's leadership team is expected to be comprised of members from both McGraw-Hill and Cengage and will be announced prior to close
- Subject to customary closing conditions including receipt of regulatory approvals; expected to close in early 2020



Benefits to the Cengage & McGraw-Hill Merger



Expands access to best-in-class content

- Features **44,000+ titles** from leading academics and experts, representing proven approaches to teach a wide variety of subjects

Enhances learning experiences through proven digital platforms

- Creates better user **experiences** for all students globally
- **Seamless integration** with other platforms, tools and applications
- Reduced leverage profile allows for **increased investment and innovation**

Strengthens commitment to more affordable options

- Commitment to **high quality affordable solutions**
- **Inclusive** Access and **Unlimited** programs
- Potential **opportunity to combine content and broaden program offerings**

Delivers superior experience and value

- “Best-in-class” content, **proven digital platforms and affordability**
- **Superior experiences and greater value** for students and educators
- Learning platforms enable students to achieve their **full potential**
- **Advanced analytics** to better equip educators to act earlier

Combined Company offers a range of “best-in-class” content – delivered through digital platforms at an affordable price, providing students high quality learning materials to succeed



Proposed Merger Drives Revenue Growth, Synergies and Enhances Financial Profile

1

Enhances Scale Leading to Increased Revenue Growth

- **Increases global scale** providing an opportunity to **accelerate revenue growth** from an **expanding portfolio** of high-quality, curated learning materials
- Higher Ed:
 - **Increases sales coverage** deepening relationships at the institution level to drive incremental **Inclusive Access revenues and digital activations**
 - **Accelerates** offering of **affordable, high-quality solutions to students** and faculty through **Unlimited subscription offering**
- K-12:
 - **Complementary offerings:** Combination of McGraw-Hill's proven offerings across all subjects and grades and Cengage's HS/AP products creates a K-12 segment with a greater breadth of offerings, increased sales coverage and greater stability
- International:
 - Increases scale in **key growth countries** (Australia, China, India, Middle East) to **drive higher revenue growth**

2

Synergies / Significant Cost Takeout

- **\$300M** of **annual cost synergies** estimated over next 3 years (10% of addressable costs)

3

Enhances Financial Profile to Delever and Enter Adjacent Markets

- **Cost takeout drops to the bottom line** and improves EBITDA while also delevering the balance sheet
- **Enhances financial profile creating an opportunity** to capture larger share of relevant adjacencies within the global education market
- Opportunity to accelerate industry movement away from traditional textbook model to **recurring digital model**



Higher Education

Proven Digital Platforms and More Affordable Options

Digital

Inclusive Access

- Leading **affordability** push with 600+ institutions under partnership
- 50-80% **lower cost** to student than print textbook
- **Inclusive Access business \$100m+** across Combined Company and rapidly growing

Increased institutional coverage and relevancy will accelerate growth

Unlimited

- **First of its kind subscription model** for higher education content
- Key student focused **partnerships** with over \$200 in value, included as part of affordable subscription price
- **1m+ subscribers and \$60m+** saved for students within 7 months of launch

Network effect will be positively impacted by adding content and augmenting services

Print

Rental

- Affordability focused **rental program** with key channel partners
- **Protects intellectual property** associated with curated content and limits supply of used print

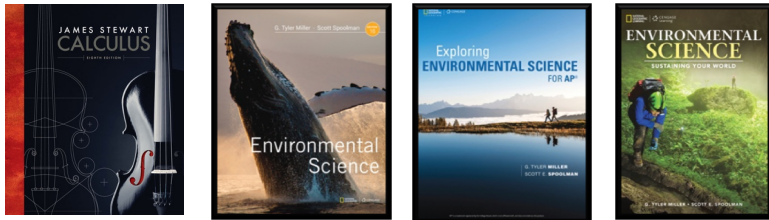
Combination to enhance revenue capture and result in more efficient editorial spend

Combined Company accelerates student affordability initiatives by providing students access to an expanded portfolio of high-quality, curated learning materials and technology platforms at a lower cost



K-12

Combination Complements K-12 Focus Areas



- Highly engaging AP & Elective High School products
- Beloved National Geographic Learning brand with riveting content and imagery for early grades



- World renowned, respected brand with proven offerings across all subjects and grades
- Deep expertise, experience and relationships
- Industry leading blended learning provider

Significant scale across all subjects and grades directly to 13,000+ U.S. school districts
Positioned to compete and increase market participation opportunities in all major new adoptions
Combination provides deep coverage in core instruction along with supplemental and intervention

Complementary product suites provides a more stable combined K-12 revenue base



Segment-Specific Synergies Complement Overall Deal Rationale



Higher Education

“Best-of-both” merger

- Reduction of cost structures
- Step-up in resourcing of digital innovation
- Combination of Cengage white glove service and McGraw-Hill premier science-based learning brand



International

Significant opportunity to rationalize extensive and expensive global cost structure

- Improved efficiency of the Higher Ed. content leverage model
- Scale-up of the high growth ELT segment
- Scaled positions in each overlapping country



K-12

Merger combining McGraw-Hill’s leading portfolio, tech and sales reach with Cengage’s niche strengths in humanities and Advanced Placement

- Ability to efficiently share content across flagship programs



Professional & Gale

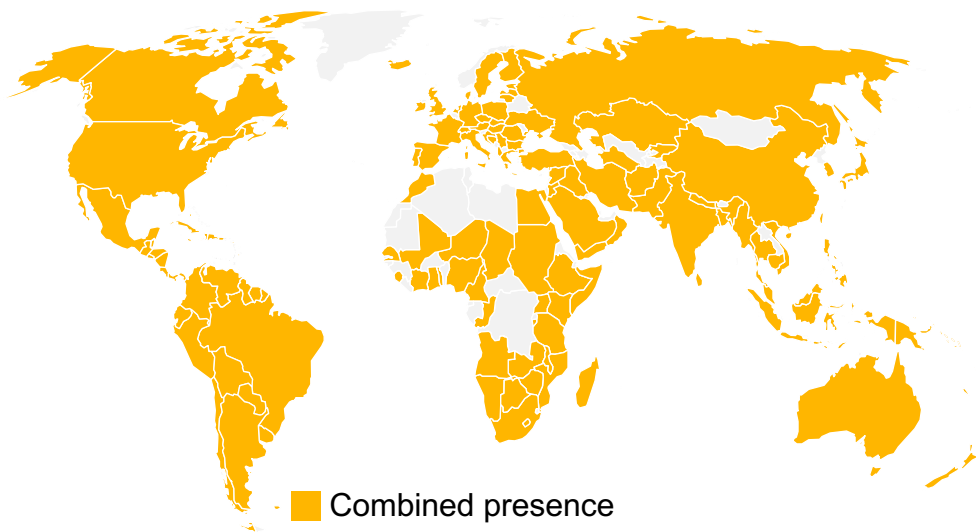
Limited synergy opportunity but scale can be leveraged for growth



International

Combined Company is Well Positioned to Capture Global Growth

- Increased scale in key countries (Australia, China, India, M. East) drives higher revenue capture
- Combination provides enhanced product offerings and curated content globally across the learning continuum
- Opportunity to leverage product development resources and distribution channels to drive expansion opportunities
- Cengage and McGraw-Hill have each developed trusted and recognizable global brands



PF LTM 3/31/19 International Cash Revenue

\$269m
Higher Education

\$143m
K-12

\$103m
*English Language
Training*

\$86m
Professional / Gale

Strong Partnerships



Presence in
100+ Countries

Offices in
25+ Countries

2,000+
Global Sales Force

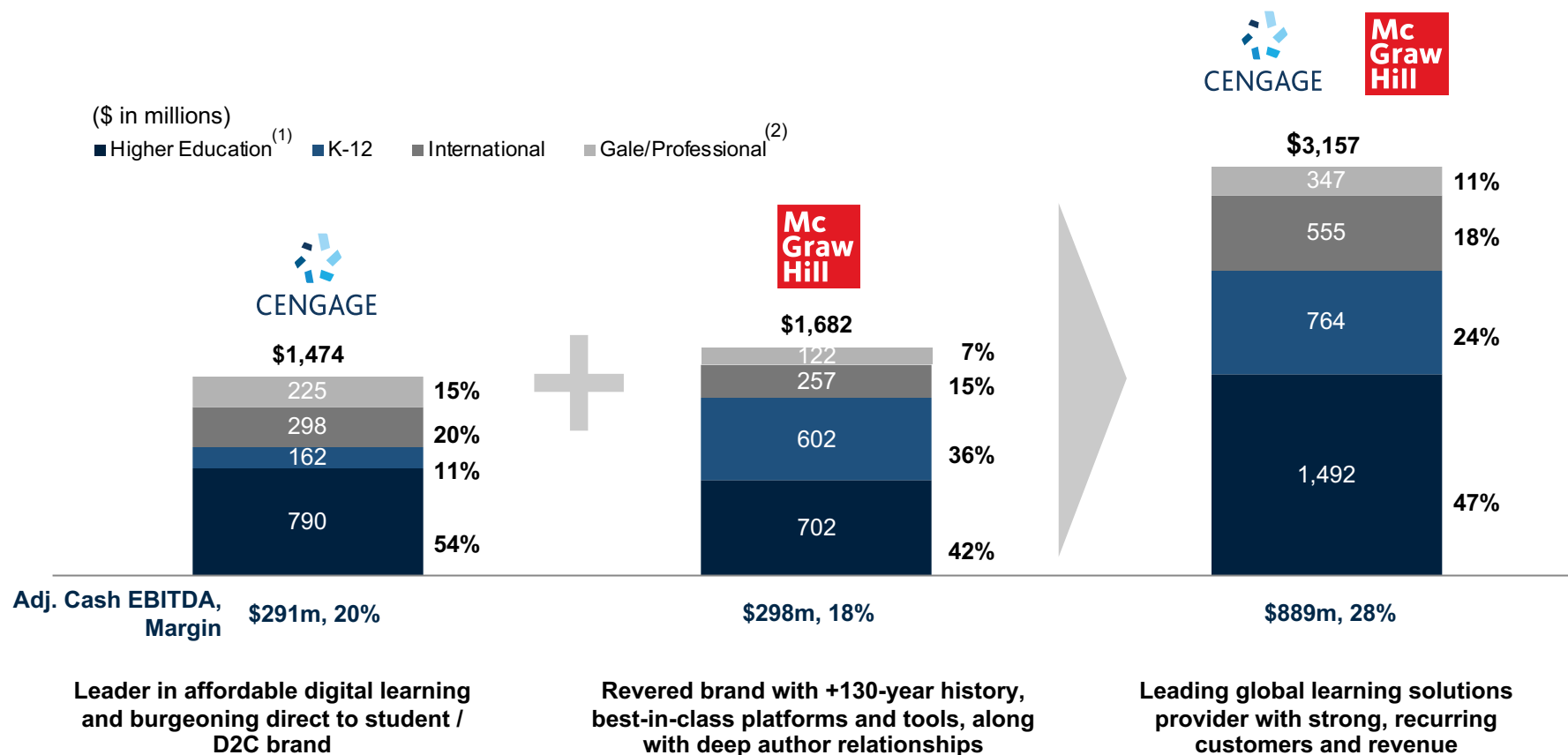
800+ Sales Force
Outside the U.S.

8,000+
Global Employees

2,000+ Employees
Outside the U.S.



Combination Creates an Enhanced Portfolio, Increasing Scale to Promote Faster Growth



Combined, the two companies provide unparalleled access and affordability to students, instructors and institutions across the learning spectrum



Better Learning Together.

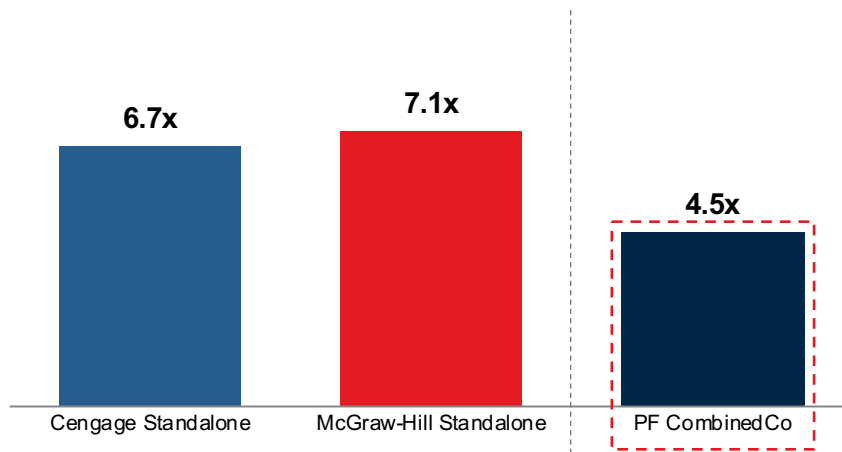
Figures in the bar chart represent FY 3/31/19 revenue.
 (1) McGraw-Hill Higher Education segment includes \$3m of Other revenue.
 (2) Cengage includes Gale of \$225m and McGraw-Hill includes Professional of \$122m.

Enhanced Financial Profile

Combination Creates Opportunities to Delever and Enter Relevant Adjacencies

Pro Forma De-leveraging Characteristics

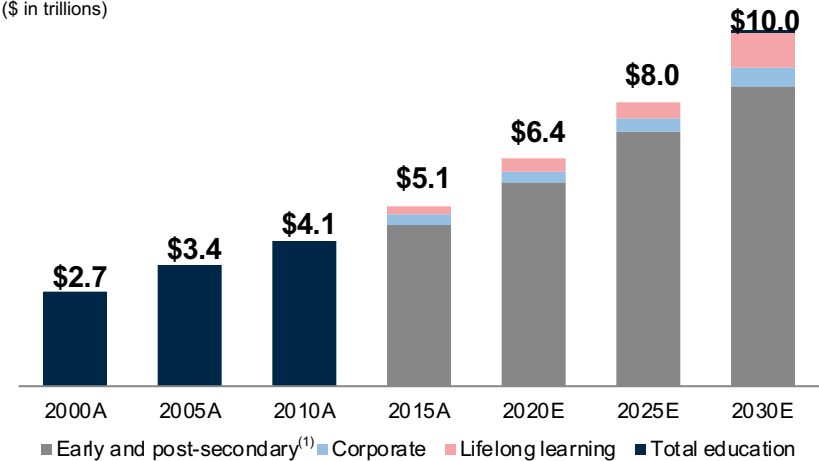
(Total net leverage)



- Substantial synergies and cost take-out opportunities create an enhanced financial profile
- Significant deleveraging characteristics provide flexibility for expansion into relevant adjacencies

Relevant Adjacencies from Growing Education Market

Global Education and Training Expenditure
(\$ in trillions)



- Global education market is set to reach \$10 trillion by 2030 from ~\$6.5 trillion today
- Growth driven by developing markets and need for re-skilling and up-skilling in developed economies
- Expansion of existing market strategy by enhancing catalog and expanding into new territories with existing assets



Summary

Creates a leading provider of curated educational content and digital learning solutions across the full learning spectrum

Provides students, educators and institutions with more affordable access to superior course materials and platforms

Highly synergistic with a unique value proposition in a transforming and compelling industry

- Increased scale in Higher Education, K-12, International and Professional / Gale markets, leading to opportunities for accelerated revenue growth
- Significant savings and additional synergies through headcount rationalization, facility consolidation and distribution efficiencies
- Enhanced financial profile and deleveraging provides substantial runway for executing on digital and growth strategy

Definitions: Non-GAAP Financial Measures

We believe that certain non-GAAP financial measures provide useful information for evaluating our business performance. These non-GAAP measures are on a constant currency basis whereby we convert current period and prior period amounts from local currency to U.S. dollars using standard internal currency exchange rates held constant for each year. As needed, we restate these non-GAAP measures for the prior period based on our internally-derived standard currency exchange rates used for the current period in order to remove the impact of foreign currency exchange fluctuation. We believe that these performance measures provide our management and investors with a meaningful basis for reviewing the results of our operations by eliminating the effects of financing decisions as well as excluding the impact of activities not related to our ongoing operations. However, these measures should be viewed in addition to, and not as a substitute for, the Company's reported results prepared in accordance with GAAP.

Financial Measure	Description
Adjusted Revenue	This measure is defined as revenues before the impact of changes in foreign currency exchange rates.
Adjusted EBITDA	This measure is defined as net income (loss) before: (benefit from) provision for income taxes; reorganization items, net; interest expense, net; loss on early extinguishment of debt, net; other (income) expense, net, in operating income (loss); amortization of identifiable intangible assets; depreciation; operational restructuring and other charges, net; amortization of prepublication costs; other income (expense), net, below operating income (loss); equity-based compensation expense and non-core other operating expenses. This measure also removes the impact of changes in foreign currency exchange rates on the items noted above.
Adjusted EBITDA less Prepub	This measure reflects Adjusted EBITDA less the impact of additions to prepublication costs (or "Prepub") on an accrual basis, which are costs incurred prior to the publication date of a title or release date of a product and represent activities associated with product development including, but not limited to, editorial review and fact verification, graphic art design and layout and the process of conversion from print to digital media or within various formats of digital media. In addition, Prepub includes the cost to procure perpetual rights for the use of content which have been developed by third parties and are to be included in our products. Costs are capitalized when the title is expected to generate probable future economic benefits and are amortized upon publication of the title over its estimated useful life.
Adjusted Cash Revenue, Adjusted Cash EBITDA, Adjusted Cash EBITDA less Prepub	These measures remove the net impact of the deferral of revenue and the non-cash recognition of deferred revenue on sales of strategic digital products from the respective non-GAAP measures, as defined above. Adjusted Cash EBITDA and Adjusted Cash EBITDA less Prepub also remove the impact of the associated deferred costs on these strategic digital products. Full payment for strategic digital products is normally collected close to the time of sale whereas revenue from such arrangements is deferred and subsequently recognized ratably over the term of the customer contract.