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McGraw Hill, Inc. (MH)

Q2 2027 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the McGraw Hill Inc earnings Conference Call. All participants are in a listen-only mode. As a reminder, today's call is being recorded and a written transcript and webcast replay will be made available in the events and presentation section of the company's Investor Relations website. Following the prepared remarks, we will open the call for questions.

I would now like to turn the call over to your host, Danielle Kloeblen, Treasurer and Senior Vice President, Investor Relations. Please go ahead, Danielle.

Danielle Kloeblen

Treasurer & Senior Vice President-Investor Relations, McGraw Hill, Inc.

Good morning. Welcome to McGraw Hill's earnings call for the fiscal second quarter 2027. Joining me today are Philip Moyer, President and Chief Executive Officer; and Bob Sallmann, Executive Vice President and Chief Financial Officer.

During today's call, we will make forward-looking statements that are based on current expectations and the current economic environment. These statements, estimates and projections are subject to significant uncertainties beyond management control as detailed in the cautionary language in our earnings release for the fiscal second quarter ended September 30, 2026, the accompanying investor presentation, our Form 10-Q for the same fiscal quarter and our other SEC filings.

We will also reference certain non-GAAP measures today, which we believe provide useful supplemental insight into our financial and operational performance. Though they are not a substitute for GAAP measures. Definitions and GAAP reconciliations are available in our earnings release, the appendix to our investor presentation and on our Investor Relations website. For those listening to a recording of this call, please note that the remarks are as of today, November 5, 2026, and have not been subsequently updated.

With that, I'll turn the call over to the President and Chief Executive Officer, Philip Moyer.

Philip D. Moyer

President, Chief Executive Officer & Director, McGraw Hill, Inc.

Good morning, everyone, and welcome to our fiscal Q2 earnings call. This back to school season, over 100 million active curriculum licenses placed McGraw Hill at the center of a global education market. Operationally, it was one of our smoothest back-to-school seasons, powered by improvements in our technology and use of AI that helped us serve customers with greater efficiency and higher satisfaction. We supported over 16 million digital units and shipped over 40 million books globally while handling more customer increase faster and with greater efficiency. That execution is translating into encouraging momentum across our businesses.

In higher education, we improved our competitive position, delivering continued share gains per MPI. And while headlines focused on consolidation of higher education institutions or uneven enrollment, we see access points multiplying. In fact, retain class sizes at our top 25 campuses increased by 4% year-over-year due to enrollment and in higher inclusive access sell through. We also continue to expand our innovation in content with our evergreen delivery model, which now covers more than 800 titles. In K-12, we're seeing higher than expected win

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rates for our new ELA program, above our 25% to 30% target range, including open territory with recent science of reading approvals in Pennsylvania and Colorado. In addition, we're receiving positive feedback on our updated California math teacher materials, setting us up for improved capture rates in that market moving forward. These leading indicators strengthen our confidence in a set up for fiscal year 2028. 44 states have passed science of reading legislation Emerge Summit and SOAR are bilingual K-12 literacy program that is integrated with McGraw Hill Plus and Stanford's ROAR dyslexia screener was purpose built for this super cycle. We also expanded our addressable market with two acquisitions, TeachFX and AI-native and structural coaching platform, opening the $6 billion professional learning market for educators and Teachally, which embeds directly into teacher workflows and accelerates our internal content development efforts and localization capabilities, unlocking under-penetrated markets, including internationally markets such as Latin America, which are benefiting from a growing middle class.

And in global professional, we continued to grow our digital portfolio, particularly in medical, where innovative agentic AI pilots with leading institutions are creating new opportunities that I will discuss shortly. Taken together, these points reinforce our confidence in the growth opportunities ahead. We're building a strong foundation for accelerated growth. Through the first half of the fiscal year 2027, total revenue reached $1.2 billion, with reoccurring and digital revenue, representing 71% and 60% of the mix, respectively. Adjusted EBITDA, a $458 million at 39% margin, remains a testament to our scale, efficiency and capacity for future growth. Early in my tenure, I said that the last mile for new technology is hard, and that's especially true in education. This quarter, we saw educators, parents and governments pushing back and even restricting general purpose AI LLM tools in the classroom. Many technologists underestimate what it takes to build education technology that meets rigorous state and evidence based standards.

For McGraw Hill, these standards have been guiding how we build for decades, and they are why pedagogically grounded solutions approved through rigorous curriculum selection processes like our solutions tend to be exempted from these restrictions. And in fact, a recent study conducted by Morning Consult ranked us as the most trusted provider for AI-enabled teaching and learning among K-12 educators and administrators. Additionally, a study this quarter from Canvas, one of the largest LMS providers in the market, showed that McGraw Hill's Connect was the most used learning tool in the world on its systems, with over 11 million users. Simultaneously, we're seeing renewed demand for print in classrooms.

In education, print and digital are essential, and so many competitors can only deliver one. McGraw Hill's ability to serve both print and digital at scale is truly a competitive advantage. I'm now eight months into my tenure as CEO and a key priority of mine has been to align our organizations and our leadership around our strategic priorities to drive greater growth. An important first step has been ensuring we have the right leaders in place. I'm excited to announce that we have two new business unit presidents. Both are 25 year education veterans from within McGraw Hill, Robin Lucas for Higher Education, who led our most successful go to market team, and Jana Thompson for K-12, who led some of the most successful product launches in the K-12 market. With their leadership, our strategy will be to focus on executing better in our core will accelerate international, as well as AI and other adjacencies while strengthening our enterprise capabilities. We must operate increasingly as an integrated company and we will continue to break down the internal silos to enable us to scale our products globally. And this brings me to why we're so well positioned to shape the future of education.

Large language models are everywhere and increasingly undifferentiated. As new agentic AI technology standards start to emerge, the market is realizing that the value will be in coupling LLMs with high quality content, deep educational context and teaching workflows, and McGraw Hill is leading the way. This quarter, we accelerated our agentic AI tooling for education. Through model context protocol or MCP, we allow learners and educate to interface with our content safely, responsibly and with outcomes at the center. We maintain the

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productive struggle of education and IP protection for our content while leveraging the best of AI. This content is a service grounded in trust is proving to be exciting for our customers and technology partners. As a press release with Microsoft last week conveyed, McGraw Hill's among the first major education companies with a copilot plug in, making our content available via MCP to existing customers across K-12, higher education and professional learning. And today we, announced that we are also among the first major K-12 core curriculum providers to make our proprietary content available to customers through Anthropic's Claude for Teachers. Anthropic brings the model and McGraw Hill brings trusted standards aligned curriculum built over decades, deep pedagogical expertise and relationships that put us inside of the classroom at scale. And our recently acquired TeachFX platform is already integrated into Claude for Teachers.

It's also worth noting a recent collaboration with the University of California, San Francisco School of Medicine. McGraw Hill content, including the renowned Harrison's Principles of Internal Medicine, will power their clinical AI tool curated to support medical students and residents during hospital rotations at the moments they need it most. These connections raise the bar on our value proposition in the medical business, and I'm looking forward to showcasing more at our Investor Day on November 18, where our UCSF partners will join the conversation.

We also continue to expand our portfolio of AI tools with nine AI learning tools embedded into our solutions in the market. Our AI user base continues to grow with unique users up double digits through the first half of the year and robust proprietary learning interactions, with over 80 million interactions across AI Reader alone since its inception. These results demonstrate growing adoption and engagement across our AI portfolio. As all of these initiatives scales, we are confident they will be drivers of revenue and profitability beginning in fiscal year 2028.

Before I turn it over to Bob, I'll say that the next frontier of learning is here, and we are just started. We believe McGraw Hill is the company uniquely positioned to lead with the speed, the scale, the financial profile and the institutional trust that is critical to succeed in his education industry.

And with that, I want to thank you, and I'm going to turn it over to Bob.

Robert Sallmann

Chief Financial Officer & Executive Vice President, McGraw Hill, Inc.

Thank you, Philip, and good evening, everyone. Our second quarter financial results demonstrated disciplined execution against our long-term strategy as we continue to track towards a meaningful revenue and cash flow generation inflection in fiscal year 2028. We remain committed to gross debt reduction and proactive balance sheet management as evidenced by our continuing deleveraging in the quarter, and subsequent to quarter end, the extension of our maturity profile.

In the quarter, total revenue reached $632 million, a decline of 5.5% year-over-year, favorable to expectations despite lower capture rates in select mass markets, while capture rates otherwise remained at the high end of our 25% to 30% target range. First half revenue was $1.2 billion, a decline of 1.9% compared to the prior year. As a reminder, revenue and EBITDA can shift between Q1 and Q2 due to academic seasonality and K-12 shipment timing, which is why we focus on first half performance, which is tracking to expectations. Reoccurring revenue was $414 million in the quarter, down 2% versus last year, with first half reoccurring revenue of $840 million, up 3.7% year-over-year. Digital revenue increased 2.6% year-over-year in the quarter and grew 5.6% year-over-year in the first half. Growth in our reoccurring and digital revenue steams reflect how learning solutions are delivered and consumed, which demonstrates the long-term term trajectory of our business.

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The remaining performance obligation was $1.8 billion, reinforcing the visibility and predictability of our revenue base and our confidence in our outlook. Gross margin remained robust at 79.2% in the quarter, flat versus prior year, with 130 basis point improvement over prior year during the first half of our fiscal year. Adjusted EBITDA for the quarter was $251 million, representing a 39.6% adjusted EBITDA margin and in line with our expectations given the top line. We view our industry-leading margin profile as durable and confident in our ability to continue margin expansion in the fiscal year and beyond.

Moving to segments. In Higher Education, second quarter revenue was $213 million, up slightly year-over-year, despite a difficult comparison with outsized transactional revenue in the prior year. Reoccurring revenue grew 5.5% year-over-year. First half revenue increased 4.5% to $413 million outpacing the industry, driven by 9.8% reoccurring revenue growth due to underlying McGraw Hill specific indicators, which remain strong. Share gains continue to build, consistent with prior years. Higher Ed's trailing 12-months market share increased year-over-year, offsetting fall enrollment that was flat to down 1%.

Our Inclusive Access revenue mix expanded 400 basis points to 58% of revenue in the first half of the fiscal year. Evergreen continues to strengthen our renewal base, with nearly half of our sales reps reporting easier renewals and 20% higher competitive win rates. Our value based pricing also remains a tailwind, an outcome of our investments in innovation, product and customer service.

In K-12, second quarter revenue was $325 million, a decline of 9.6% year-over-year, with first half revenue of nearly $600 million, down 4.9% year-over-year, approximately $400 million of which was reoccurring and relatively flat versus prior year. As noted earlier, the timing of district orders is a key reason that we focus on first half performance. Our capture rate remains at the high end of our 25% to 30% range, excluding California and Texas math, reflecting strength in science and ELA.

In California Math, our Teacher's Guide is resonating well with our pilots up 4x year-over-year. We have made investments in professional learning, implementation, support and academic coaching to better serve the common needs of prospective customers. In Texas, we are seeing notable strength in our math program that serves grades 9-12. The prevalence of short term duration contracts with state sponsored curriculum also supports our view of incremental opportunities in the coming years.

K-12, as I'm sure in a multi-year ELA super cycle driven by structural demand. Our ELA programs momentum is ramping, reinforcing optimism in core and addressable market expansion in areas such as supplemental, intervention, assessment and professional development. Our supplemental and intervention business remains steady with increasing retention rates and pipeline expansion that sets us up for growth in the second half of the year and beyond.

In Global Professional, our medical business grew 7% year-over-year, which now represents the majority of our segment revenue. Revenue mix continues to improve as the impact of non-strategic print lessons. And in international, second quarter revenue of $51 million increased 1.6% year-over-year as our established global supply chain was able to serve our customers in the Middle East region, despite the ongoing conflict.

Turning to cash flow on the balance sheet. First half cash flow from operations was $190 million, an increase of $22 million year-over-year, driven by favorable working capital, while CapEx and product development remained in line with expectations. We ended the quarter with $233 million of cash and $644 million of total liquidity as we continue to build cash through December. We also executed another $50 million of voluntary term loan paydown, bringing total debt reduction since the IPO to approximately $700 million. Net leverage now stands at 3.2 times. We remain committed to two to 2.5 times net leverage target with the multiyear K-12 ELA adoption opportunity

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serving as a meaningful accelerant as large multiyear contracts drive upfront cash. Our progress was recognized by S&P's credit rating upgrade this quarter, following the recent Moody's upgrade, both meaningful validations of our financial trajectory. Our capital allocation framework remains consistent. Organic growth reinvestments, debt paydown, tuck-in M&A, such as TeachFX and Teachally and opportunistic share repurchases.

Moving to our guidance. Our first half execution gives us confidence to reaffirm our fiscal year 2027 guidance. We expect revenue to be in the range of $2.115 billion to $2.175 billion and reoccurring revenue of $1.587 billion to $1.627 billion. Adjusted EBITDA is expected to be in the range of $750 million to $790 million, with the implied margin of 35.9%, representing a year-over-year increase of 50 basis points. We also continue to expect to deliver approximately $400 million of unlevered free cash flow with cash and GAAP taxes near the lower end of the $20 million to $40 million range. All of our modeling assumptions remain unchanged from those previously provided.

Second half revenue growth is supported by strong RPO visibility, continued share gains pricing and the timing of school starts, all of which more than offset the modestly softer enrollment environment. Leading indicators, most notably in K-12, continue to reinforce our expectations of meaningful acceleration in fiscal year 2028, supported by the upcoming ELA supercycle. We look forward to sharing more on our growth strategy and multiyear outlook at our Investor Day on November 18th.

With that, I will turn the call back over to the operator to open the line for your questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. Please limit yourself to one question and one follow-up. [Operator Instructions] Your first question comes from the line of Steve Koenig with Macquarie. Steve, your line is open. Please go ahead.

Steven Koenig
Analyst, Macquarie Capital (USA), Inc.

Q

That's terrific. Thanks very much. It's Steve Koenig with Macquarie. So Philip, MH is clearly a first mover in harnessing AI for education. And I congratulate you on your speed in doing that. What I'd like to explore subsequent to last week you announced that your content will be made available through Microsoft Copilot by MCP. This morning, you put out a press release about integrating your K-12 content into Claude. I'd like to understand what factors underpinned your decision to open your content to MCP and integrate with third party agents? And then how do these initiatives assure that the education struggle for learners stays intact? And also, how will you protect your IP?

Philip D. Moyer
President, Chief Executive Officer & Director, McGraw Hill, Inc.

A

Steve, thanks very much for the question. You know, it's been just approximately three to four months since we started talking about this, and we couldn't be more proud to be moving this fast and have all these press releases over the past few months or the past few weeks. It really does show the pace at which we're moving, the innovation that we're doing, and the clear vision the whole organization has around the future of education and AI. It also demonstrates the lot of the press releases with UCSF, with Microsoft Copilot, with Anthropic, and you'll see more that one size does not fit all. You've seen that this over the past quarter that classrooms in a lot of cases they want it either out of the classroom or to be completely ambient in the experience. In other cases, they want

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the chatbot to be front and center. In some cases, organizations want us – want to be able to use their own chatbot. And the question you ask around how do you protect your IP and then also monetize in that kind of a world is exactly why we're building with this MCP technology. We like to think of it the future of – of a lot of this is almost like an app store. And anyone that uses our MCP interface first and foremost must have a license to our content, and that's essential. And we have pretty significant technology and security that wraps around our content with MCP, first and foremost, to be able to protect it. And then the beauty of MCP also is that the experience can be exactly the way the learner, the educator, the school wants it to be. So whatever kind of a chatbot or AI tooling that they want to be able to use, we can plug in a way. And we can actually see what's happening. We can see the type of questions, we can see where the student is, or the educator is struggling where they want more information, where they're engaging with our content, where they might not be. And so we get a much richer and deeper experience in being able to understand, and it improves our own authorship. And so that ability to have this both governing, as well as openness and then also more, more data and more insight coming off of the content is all the reasons why we're moving so fast around this technology. We really do believe in an old world, you just take the PDF, you take our content, and it's all or nothing. You kind of either give it to the AI model or you don't. In this case, with MCP, you're literally able to write down to the question, be able to see, and potentially even monetize. The business model associated with it's going to be varied. We can – in some cases, it'll be a slight uplift on our – on our price, and we're already having conversations around monetization with a number of organizations. In other cases, it could be a block of questions that you pay for, or in other cases, with some large organizations, they like to pay by the token. And so in all of those cases, this MCP technology allows us to both protect, integrate and also monetize in the business model that's appropriate for each educator and student.

Steven Koenig
Analyst, Macquarie Capital (USA), Inc.

Q

That makes a lot of sense. And I'm wondering, as you go through the – your kind of initial pilots and start rolling this out, what's your thinking on how the monetization could evolve? You know, would you – would you likely stick to this hybrid model? You know, what – would it vary by market or by segment? And – and then how – like how soon does this translate into significant revenue potential for McGraw Hill? And I'll leave it there. Thank you very much.

Philip D. Moyer
President, Chief Executive Officer & Director, McGraw Hill, Inc.

A

Thank you. So we have two strategies to accelerate growth. One is to be able to provide support for more students, so more of our curriculum in more places, if you will. And the second is to be able to provide more tooling on top of that curriculum. So I'll take an example of the K-12 marketplace. The acquisition we just did around Teachally allows us to be fully customized in the classroom precisely the way the educator wants to, in the language, in the culture, in the localization they want that – that educator needs. And so in that case, the student is very far away from the AI, but we can plug our content in our curriculum in – into that Teachally tool. So Teachally becomes a way for us to monetize in the back end support that teacher.

In the case of higher ed, a lot of professors as well as students want to be able to have a chatbot that interfaces directly into the content. So in that case, we can either do an upcharge. In the third case, as I think I've mentioned, as we contemplate relationships like we did with UCSF, we're actually in the hospital or in with the – with students, with residents as an example or even, for example, in a pharmaceutical space where you have tremendous amount of research that's being done that leverages our content, that's a case where we can provide big blocks of tokens and big blocks of questions to universities. And so each one of those business model. In some cases, it's one of our own tools that's – that's supporting the classroom. In other case, it's an interface

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where it's interactive. And then in the third case, it's – it's literally wholesale access to some of our content. And we're seeing all three business models evolve pretty quickly. And actually organizations, customers actually ask for all three of those business models right now. So we're – as we mentioned, our goal is to have as much of many organizations in this pilot as possible. This is one of the reasons why we're so excited to make these public announcements, is that this is the opening of our beta for these – these products. And our goal is by the time we hit fiscal year 2028 to be to have fully formed business models with each of these – with each of these different scenarios.

Operator: Your next question comes from the line of George Tong with Goldman Sachs. George, your line is open. Please go ahead.

George K. Tong
Analyst, Goldman Sachs & Co. LLC

Q

Hi, thanks. Good morning. I'd like to double click on your MCP strategy. You've moved very quickly with MCP. Can you talk a little bit more about how impactful you expect this to be for fiscal 2028 revenues and costs? And the key indicators that you're focused on that will drive future monetization?

Philip D. Moyer
President, Chief Executive Officer & Director, McGraw Hill, Inc.

A

For us, it starts all with how many students and educators are engaging with our content. That tells us a lot. And so we want to we – we're going right down to a very granular level of not just the licenses, the 100 million licenses we're selling, but specifically for engagement. Internally, that's how we focus around MCP and around our tool. We're really getting right down to the – what is the value of the paragraph inside of our content. So engagement with our content and the number of those curriculum licenses is a great indicator for us.

And then on top of that, the places that we integrate – the ability to be able to integrate and be able to be paid for this – for those integrations, because there's just simply more interactivity with the content than it has been in prior models, that tells us as well there's a value proposition associated with it. So think of it as more curriculum licenses, more engagement, and then our ability to be able to be paid in more value. And so the pipeline around building. A lot of – at Investor Day, we're going to actually show some of these things like the – things like some of the work that we're doing with UCSF and things that we're doing in the – in the medical field, we're going to be showing Teachally and demonstrating kind of how this engagement works and then also some of our vision for how we can expand TAM with this – with the opportunity.

George K. Tong
Analyst, Goldman Sachs & Co. LLC

Q

That's helpful. And then as you think about impact across your business, how would you compare and contrast the potential benefits to higher ed versus K-12?

Philip D. Moyer
President, Chief Executive Officer & Director, McGraw Hill, Inc.

A

Sure. I think in K-12, every classroom that I go into, they want to make the curriculum theirs. They want to make it personalized to the students that they serve. And oftentimes, when you have just a straight text, static text, you can't make it as personalized to the student experience that you have on a localized basis. And so the work that the acquisition we did around Teachally and certainly TeachFX, these are two great examples where you deeply,

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deeply personalize the students, your culture, the localization, and that's important because we're a global company. And increasingly, we have to be able to serve a global audience and multilingual audience and a multi-cultural audience. And so our ability in K-12 space, there's a tremendous focus on making it personal for the teacher and for that classroom. So it'll become more personalized.

In the higher education space, it's incredible where in many ways, there's so much information coming at these university students and also at the professors and they have to teach more in such a limited amount of time. And so this – they're moving from kind of just in case to just in time. And so this allows us to be able to serve up in bite sized chunks precisely the section that the professor is working on at that week. They can push out things like playlists of content each week and they can see what the interactivity is of the content. And so in that space, you're really doing much more bite sized chunks. And in the higher – in the medical field, this is where we're really excited. We think the point of care space, the specialization space, that ability to be able to show up in a whole variety of other places that we've never been able to contemplate with some of the more static content formats that we've had, this ability to be able to give literally an answer right at the moment of care, we think it's an extraordinary opportunity. Given the trust that most doctors and MDs and DOs and dentists and physicians and so forth have in our content, we're really excited to stay a part of their journey to their whole life.

Operator: Your next question comes from the line of Henry Hayden with Rothschild & Co Redburn. Henry, your line is open. Please go ahead.

Henry Hayden
Analyst, Rothschild & Co Redburn

Q

Yeah. Morning, everyone. Thanks for having us on today. I wanted to just follow up on your higher education segment. Specifically, we've seen continued strength and market share gains when compared with some of your peers. So we were wondering first how you think about the sustainability of that trajectory. And secondly, as you've gone through incremental renewal cycles, how the drivers of those gains are shifting? Are you seeing institutional level digital solutions increasingly as a driver and a differentiator? Thank you.

Philip D. Moyer
President, Chief Executive Officer & Director, McGraw Hill, Inc.

A

Well, thank you, Henry. Really incredible team. We could not be more proud of this team. Now we're up to – this is going on, I believe, 41 straight quarters of market share growth. The leadership of that organization has been incredible, the execution that – that team has, I wish that some of you could see what I see on the inside with that higher education team. It's just a world class go to market team, the product organization. We're one of the most innovative organizations in the higher ed space. And you can see what quality execution looks like of this team.

I would tell you that there's a few things that you should keep an eye on. First of all, retention in this marketplace is very difficult, and we are world class net retention. And we keep talking about this, and that is about the individuals that are on the ground with the professors, with the institutions, ensuring that they have what they need. The evergreen model that we have is, again, a unique differentiator in the business. Our ability to be able to update constantly changing information for the professors in a way that integrates right into their workflow is greatly appreciated by this.

And I would say the last is just our ability to be able to price at the right – at the right level. Inclusive Access has been important for students because it makes it easier to ensure that everyone has the content for the class. And it also makes it easier for the institution to purchase.

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Robert Sallmann
Chief Financial Officer & Executive Vice President, McGraw Hill, Inc.

A

Yeah. And Henry, let me – let me take it from a financial profile. So when we look at the second quarter results, you see the GAAP revenue being flat, and that's really a result of that transactional revenue in the prior year. Comping very difficult. So what – what I would tell you is the underlying performance of the business, when we look at activations, we look at that reoccurring revenue, that's up mid-single digit grower. We look at the first half performance also supporting that mid-single digit growth. And the way that I'll sort of think about the drivers of that growth and we highlighted because we're seeing flat to down 1% on enrollments. And then I look at where we're seeing the benefits and pricing continues to stick at a greater level than we anticipated. We're going out adding greater value to our professors, to the students through our platform, and we're being rewarded with that higher pricing. And that's generating about 2% benefit for us.

And then lastly, that ongoing share gains, all the things that Phil talked about, the differentiation, that's a 3% to 4% benefit. So as we roll up, and I think about how we're going to finish the year, the underlying business again that's supporting that mid-single-digit growth.

Henry Hayden
Analyst, Rothschild & Co Redburn

Q

Very clear. Thank you.

Operator: Your next question comes in the line of Ryan MacDonald with Needham & Company. Ryan, your line is open. Please go ahead.

Ryan MacDonald
Analyst, Needham & Co. LLC

Q

Thanks for taking my questions. Phil, maybe to talk about the K-12 business. Obviously, a lot of really encouraging and interesting commentary around ahead of the ELA super-cycle with some – some early wins ahead of your – your historical market share capture rates in that 25% to 30% range. Can you just sort of remind us of how impactful some of these open territory early wins are or the sort of larger state adoption cycles as we get into the next couple of years here? And sort of what you're hearing in the early days on California Math and sort of their feedback on your ELA product? Thanks.

Philip D. Moyer
President, Chief Executive Officer & Director, McGraw Hill, Inc.

A

Absolutely. Thank you, Ryan, for the question. The – first, I'll say that there's been some really exciting developments over this quarter. Certainly, I'm proud of my home state, Pennsylvania, making the decision to allow us to be on their list for ELA, and certainly Colorado as well. Some of the – some of the examples state or districts that we won, for example, up in Washington, Snoqualmie, Lake Washington, as well as Seattle, these are three very, very different districts, very different dynamics, students, and I'll just kind of call it a so called teaching dynamics. And this diversity of school districts that we're seeing that are starting to adopt our ELA program is giving us a really good signal. Certainly, the fact that Colorado, where we scored 211 out of 212 on the – on there rubric, Pennsylvania as well has a very complex rubric, certainly California as well. We were excited to be able to get through their process and we're looking forward to be included on their list, hopefully when they publish in January time period. And so we're seeing for a year zero of our product is we're heading into the selling season very, very strong feedback on our ELA product.

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I think I've mentioned in the past that the market as we go into this coming year could be as much as – or coming into the cycle, I should say, is could be as much as an additional 10% over what it's been in the past. And we're seeing stronger than the normal capture rates. The exciting thing, as well as in the open territory in some cases, we're seeing some districts that are adopting us before we even on some of the state list, which tells us, which gives us a really signal.

And the – one of the most important things around the program is that we're one of the only dual literacy programs that is literally end-to-end inside of the marketplace, and that's becoming increasingly important. Plus, it also gives us an opportunity in Latin America that we haven't had in the past. And so we're looking at this as an opportunity both here in United States, as well as down in Latin America. I think I've mentioned in the past and we'll talk about this a lot at the Investor Day, is that this is a worldwide phenomenon, this notion of a science of reading, this change. It's not just the United States. And so our ability to be able to be in this – in this market with this comprehensive program, as well as the ROAR screener that we just announced for dyslexia, we are one of the most complete, if not the most complete programs hitting the marketplace this year. So we're excited about that growth, the potential for growth, I should say.

Ryan MacDonald
Analyst, Needham & Co. LLC

Q

That's really great. It's really great to hear, Philip. And maybe as a follow up, obviously, the dust is still settling on the midterms only a couple of days ago. I thought it was very interesting that in the state of Texas, obviously, you saw a couple of flips there with Talarico winning and then Hinojosa at the governor level. Just curious, given the historical criticism that those two individuals have had for both the Texas Education Agency as a whole, as well as the Bluebonnet curriculum, maybe what incremental opportunities you see in Texas to maybe sort of operate in a better environment relative to this past year, relative to Bluebonnet and what do you think changes might be occurring there? Thanks.

Philip D. Moyer
President, Chief Executive Officer & Director, McGraw Hill, Inc.

A

Well, thank you for that question also. We've been very grateful to serve Governor Abbott over 12 years. We've got some very strong relationships across the entire state of Texas and with districts. And so we couldn't be more grateful for the partnership that we've had. But as you've mentioned, Governor elect Hinojosa as well as the new members of the school board that have been elected over the course of the past 48 hours. Governor Hinojosa was a school board member down in Austin. I think she has very, very strong opinions on education. I think that there could be changes from what I'm kind of looking at from the outside. But I think one of the most important things of this is that, it really tells you the dynamics of this market. We've said many times, the last mile in education is hard, and you're seeing it. And when we talk about the trust that McGraw Hill has through administrations and straight down into the classroom, this is what we mean why it's so important is because the politics and requirements can change on a dime and you need to be trusted at every – at every stage. So we're excited to support Governor elect Hinojosa, as well as the new members of the Board of Education.

Robert Sallmann
Chief Financial Officer & Executive Vice President, McGraw Hill, Inc.

A

And I'd like to remind you that, we have noted shorter duration contracts, and we had noted that in our prior – prior earnings and as we're seeing that evolve, that positions us well should those contracts come back available

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to us in an earlier duration than we had seen previously. So we think we're well positioned to continue to serve Texas in a very meaningful way.

Ryan MacDonald
Analyst, Needham & Co. LLC

Q

Appreciate that additional point, Bob. Yeah, I'll hop back in.

Operator: Your next question comes from the line of Marvin Fong with BTIG. Marvin, your line is open. Please go ahead.

Marvin Fong
Analyst, U.S. Bancorp | BTIG

Q

Great. Good morning. Thanks for taking my question. Maybe to touch on M&A. I think a few quarters ago, you said you had an active pipeline and you certainly kind of delivered on that. Can you just kind of update us on where you stand there? Do you feel like you're kind of accomplished your goals for the near term? Or do you still see being active in that market?

Robert Sallmann
Chief Financial Officer & Executive Vice President, McGraw Hill, Inc.

A

Yeah, we continue to evaluate opportunities as they come in. And I like to think that as assets come to market, we generally get a look at everything in the education space and then ultimately, we drive a lot of proprietary transactions as well. So as we look at our funnel, it still remains very robust for what I'm calling more tuck-in acquisitions. And we're really pleased with what we just closed on, both TeachFX and Teachally are TAM expanding. And while in the – I would say in the current year, you won't see a meaningful financial impacts, meaning there might be slightly dilutive to EBITDA negligible in terms of revenue for the remainder of the year. What really excites us is the ability expand TAM, get access to new wallet as we move into – into 2028. And again, as we look at the acquisitions, a lot of these things are make versus buy decisions. And ultimately, when we see a great asset that comes available, like what we just closed down, those are the types of things that we continue to evaluate.

Marvin Fong
Analyst, U.S. Bancorp | BTIG

Q

Great. That's great. And a follow-up, you kind of mentioned that screen time and print are seeing renewed focus here, more print and a drive towards less screen time. Does that – how does that play into how we should think about the long-term dynamic for digital in the K-12 segment? Specifically, do you see that as sort of flattening out here or just growing at a slower rate in terms of penetration? Just would love to get your updated thoughts on that, as well as sort of the implications for gross margin.

Philip D. Moyer
President, Chief Executive Officer & Director, McGraw Hill, Inc.

A

Yeah. I don't see a lot of changes, I guess is what I would say on the – in the K-12 space, which is where we are – where we have a heavier concentration of print. If anything, it really demonstrates the competitive moat of ours, which is that we're one of the few companies in the world that at scale is able to deliver both print and digital. I've been in classrooms with teachers where they – sometimes they – I'll say they're coaching us and sometimes they're complimenting us around the – the similar experience they have from the digital product and between the

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print product. That's really hard to do. And we're recognized for that ability to be able to span whatever the modality is of learning on a worldwide basis.

One of the other things that I talked about is that back in – when we won the Seattle School District for our ELA program, one of the number one questions that was from the school board in the approval process was, can you guarantee that our students, our children in K-5 are not going to spend more than 20 minutes a week, 7% of instructional time on a screen, and we are able to because we do it in a really ambient, beautiful way in the background. That's when we do assessment, but we do front and center is print, which is proven to be better and better for students that have lower self regulation. They tend to want to have more print because they don't drift. It's also – I think that you're also seeing the backlash from the – what we call the tool overload problem, where the average district has about 2,400 learning tools, and they're looking for simplification. We released a report, a global education report this past quarter as well that talked about the fact that 81% of educators will trust AI that is embedded in the existing curriculum products that they have, the things that are approved to be in the classroom in a third party certification versus just standalone chatbots or standalone technology tools. And so we look at this as just a deepening of what we consider to be a great competitive moat and a deepening of the trust that we have because we deliver the modality that's appropriate for the student at the appropriate point in their life. So but I don't see – I really don't see things. I'll call it changing dramatically because we're already there. We serve both modalities.

Marvin Fong
Analyst, U.S. Bancorp | BTIG

Q

That's great. Thank you, both.

Operator: Your next question comes from the line of Jeff Silber with Bank of Montreal Capital Markets. Jeff, your line is open. Please go ahead.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

Thank you so much. Just wanted to return to one of the questions about the elections. We talked about Texas. I appreciate that. But obviously, there were a lot of changes, not only from a federal perspective, but more importantly in some of the state governors. Is there anything specifically to point out that might be either good or bad for the industry or your company?

Philip D. Moyer
President, Chief Executive Officer & Director, McGraw Hill, Inc.

A

I will just say that from what I – and I'm still digesting the elections like everyone right now. But I would just say that, you know, education was on the ballot. I think one of the things that's really clear is that I think everyone has recognized that where we're at with things like literacy, where we're at with things like numeracy and the ability to be able to teach effectively, it is a front and center issue for parents, for voters, as well as for legislators. And so if anything, when I look across this, I want every single candidate to be a literacy candidate. I want every candidate to be a numeracy candidate. And I would just say that I would say we look across the market, it is probably come up as an issue more frequently than almost any time that we've seen in the past. And so it's front and center. Our job in this situation and kind of in when there's this much focus on it is to be trusted, to do it right, to serve with the right modality, to serve with trust, to build the tools in the right way, to make sure the right student has the right, I'll call it, teaching technique. And one of the things that's so clear about the science of readings, we're learning so much, so much more about how to actually teach, how important it is to be professional development for teachers,

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how important it is to have trusted curriculum. Pedagogy matters like how you teach and what you teach actually matters. And I think that you're seeing extreme focus on this, the fact that in Austin school board member was elevated to governor in this short period of time is exciting. We want more legislators to be with us in this process. And so I think it's – I think it's an important moment, the seminal moment for education.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

All right. That's great to hear. And I know you're probably going to be talking about this at your Investor Day, but can we get maybe a sneak preview in terms of how the next fiscal year is shaping up and how we should think about the growth profile for the company? Thanks.

Robert Sallmann
Chief Financial Officer & Executive Vice President, McGraw Hill, Inc.

A

Yeah. And certainly, we're going to be spending a bit of time during – on November 18th at the Investor Day, so thanks for promoting that. But again, you know, as we think about some of the factors driving it, as I highlighted this in higher education, continue to drive mid-single digit growth regardless of enrollment. We're taking share. We're continuing to win. That will continue. And as I think about our K-12 business, we've highlighted how well positioned we are ahead of the ELA super-cycle, that will continue. And then we're seeing some real benefits in areas like California Math. And I'll give you an example.

As we've sold through our selling cycle and moving into next year, we are starting to move through that funnel, getting down through the narrowing process and ultimately moving to pilots. And so we see ourselves at four times more pilots than we had in the prior year. So all of those factors are what sort of allows us to think about 2028 and position the business well going forward. But looking forward to sharing more details about the growth algorithm and where the business is headed on November 18.

Operator: Your next question comes from the line of David Karnovsky with JPMorgan. David, your line is open. Please go ahead.

David Karnovsky
Analyst, JPMorgan Securities LLC

Q

All right. Thank you. Maybe just one for Bob. Just want to see if you could update on your thinking for capital allocation. And then within that M&A specifically, you've talked in the past to an active pipeline. So what are the types of opportunities you're looking at currently and kind of what governs on what you can ultimately execute on? Thank you.

Robert Sallmann
Chief Financial Officer & Executive Vice President, McGraw Hill, Inc.

A

Sure. Sure. I will say we remain consistent in our capital allocation approach. The first place, and I say this every time, is we're going to continue to invest organically. That's always have the greatest ROI. As we start going through our budgeting process and looking at our next best investment process, we'll be funding all of those growth opportunities. And secondly, then we move into M&A. And as we look at M&A and balancing that with our stock repurchase, which again, we've demonstrated our commitment to as well, we'll be balancing those two. And looking at the funnel, there's a lot of things similar to what we just closed on, Teachally, TeachFX. But again, that balance is against debt, which we remain committed to the 2 to 2.5 times leverage target and we're well on our

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way. And then lastly, the last leg of that stool is opportunistic repurchases. I would say it follows all three of those items.

David Karnovsky
Analyst, JPMorgan Securities LLC

Q

Thanks.

Operator: Your next question comes from the line of Stephen Sheldon with William Blair. Stephen, your line is open. Please go ahead.

Stephen Sheldon
Analyst, William Blair & Co. LLC

Q

Hey, good morning. Just as we think about maintaining the guide for the full year, I'm just curious of any of your underlying expectations have changed, especially as you think about the revenue growth outlook across the segments like K-12 and higher Ed. Anything different now or anything trending different relative to what you expected when you initially gave the guidance?

Robert Sallmann
Chief Financial Officer & Executive Vice President, McGraw Hill, Inc.

A

Yeah. Yeah. Well, I would say that everything remains consistent. We're taking share, as I've highlighted in both K-12, we're expanding capture rates outside of math. You'll see that we're taking greater share in higher ed. The one item that was slightly different would have been comparing to my guide when we originally provided the original guidance was the 1% volume growth. Now we're seeing that flat to down 1%. However, we're still seeing that mid-single digit growth in higher ed. And so when I step back and that's why we reaffirmed our guide as those things sort of all balanced out and still tells us that we're delivering against our commitments.

Stephen Sheldon
Analyst, William Blair & Co. LLC

Q

Got it. Makes sense. And then just as we think about the ELA super-cycle, clearly a lot of focus there. Maybe can you just refresh us on how big you think that opportunity might be? And I guess, is that something you plan to dig into more – into more detail at the – at the Investor Day?

Robert Sallmann
Chief Financial Officer & Executive Vice President, McGraw Hill, Inc.

A

Yeah, we certainly will share more information. But I'll remind you that 40% of our revenue in K-12 is coming from ELA. And so as we've launched our biggest investment in that area and – during our Investor Day, you have an opportunity to hear directly from educators in district as to what differentiates us. So while we know what the market will be over the next several years, what we are seeing is capture rates continue to increase and our program resonating with educators and school districts. And so we look forward to sharing that level of detail on November 18.

Operator: Your next question comes from the line of Josh Chan with UBS. Josh, your line is open. Please go ahead.

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Joshua K. Chan
Analyst, UBS Securities LLC

Q

Hi. Good morning, Phil and Bob. Yeah, I wanted to ask about the ELA because you guys have been very confident around it and it's obviously a potential opportunity. I guess like what – conceptually, what gives you so much confidence on sort of the curriculum that you're proposing as compared to maybe others that are out there? Thank you.

Philip D. Moyer
President, Chief Executive Officer & Director, McGraw Hill, Inc.

A

Sure. Thanks for the question, Josh. First of all, I would say just frontline experience, I think I've mentioned early on in my – in one of my early conference call or early calls that I had educators actually reaching out saying they've seen the materials they went to adopt it literally before the end of the school year in some cases, and that they want to be in our pilot groups. And so that very rarely happens where you are reached out through by as a CEO specifically to want to adopt your product. So the feedback on the ground that we're getting when people touch and feel the materials. In some of the districts I've already mentioned, teachers showed up at the school board meeting in support of the materials. And this is before we even had some of our third party reports. We've got a number of third party certification reports that actually study the efficacy that are coming out over the course of the next few weeks here and the next few months. And so getting that kind of feedback directly on the ground in these districts has been important.

The second is the pipeline that we've been seeing and also even the capture rates of what we're seeing as well before the product has third party certifications is we're seeing them run significantly higher than we have in the past. The third is, I'll just call it the – I'll say the excitement that – that I would say the organization that we have, as well as districts have about being end-to-end and being one of the few programs that are in the market end-to-end that's multilingual, which is becoming increasingly important. That also gives us an additional competitive position that we feel pretty confident about, and we're seeing it show up in the rubrics more and more. And then the actual – the actual certifications, I should say, the processes, the Colorado processes, the California processes, the Pennsylvania processes, the feedback we get in very rigorous reports. And we compare ourselves because these are open processes. We're able to see our scores versus some of the other – some of the other scores that are out there. And so that gives us additional confidence. The most important thing is our team on the ground is out. We've got one of the best go-to-market organizations that's in the business and the team is out, they're in the districts, we're building the pipeline, we see what the opportunities are that are building, which is why we feel confident enough to have these conversations on the investor call.

Robert Sallmann
Chief Financial Officer & Executive Vice President, McGraw Hill, Inc.

A

Phil, I would add to that. In conversations, I've been having as well, integrating a dyslexia screener has been very important and increasingly more important as we move into the selling cycle for all of our ELA programs. And in addition to that from a product standpoint, McGraw Hill Plus has been quite successful. So given that data, that insight and giving that longitudinal learning record back to the educator has been hugely beneficial. So I think we've innovated and that innovation is now showing up as we go out and we expect to take increasing levels of capture.

Joshua K. Chan
Analyst, UBS Securities LLC

Q

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Yeah. That's really great color. Thank you, and thank you for that. And then maybe just quickly following up on one of your comments, Bob, in the release about accelerating growth into 2028, is that mainly a function of higher ed continuing to grow at a similar rate and then K-12 being in a better spot than it was this year essentially?

Robert Sallmann
Chief Financial Officer & Executive Vice President, McGraw Hill, Inc.

A

That's exactly right.

Operator: Your next question comes from the line of Jeff Meuler with Baird. Jeff, your line is open. Please go ahead.

Callan Patel
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah, hi, this is Callan on for Jeff. K-12 implied bookings were down year-over-year, and this comes off of last quarter that were also down year-over-year. Just kind of curious on the call out or any drivers that are causing that? And then I have a follow-up after. Thanks.

Robert Sallmann
Chief Financial Officer & Executive Vice President, McGraw Hill, Inc.

A

Sure. Consistent with our comments we made last quarter, what we saw in our math program, and it's just capture rates and math that really drove that. But again, as we look into the adoption cycles moving forward and they lean into ELA and support us going forward. So that's the primary driver.

Callan Patel
Analyst, Robert W. Baird & Co., Inc.

Q

Got it. Very helpful. Thanks. And then follow-up. So excited to see the potential opportunities with leadership changes that were announced. Any callouts or anything that you guys are most excited for moving forward in strategies that they're going to bring to the table? Thanks.

Philip D. Moyer
President, Chief Executive Officer & Director, McGraw Hill, Inc.

A

Yeah. We're grateful for Mike Ryan's service over the past 20 years. He's been a great leader of the higher ed business, some extraordinary leadership, and Sean Ryan as well. And both Jana Thompson and Robin Lucas are 20 plus year tenured in the education industry. Jana has that Pearson. She's been with us and also has a both a deep tech background as well as she's overseen some of the most successful product launches in the K-12 market in the world. Robin Lucas, as you can see, ran one of the most successful go-to-market organizations in the entire higher ed industry. And so between the great the deep product experience, the deep go-to-market experience, you'll see us actually be more consistent and actually drive greater execution both across product as well as go-to-market on a worldwide basis across all of our businesses. And so we're excited about the leadership both of them have, both the tenure, as well as the leadership they have going forward. It also demonstrates the depth of our bench. We have an extraordinary team here. The fact that we've been able to elevate two leaders so quickly into these roles tells you that this has been both orderly as well as it's the quality of the people inside of this organization. As you can imagine, we've elevated a number of other people inside of the organization. And I would just tell you that I'm really looking forward to everyone being able to meet both Robin and Jana at our

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Investor Day. They're going to play a really key part and you're going to get a chance to see them in action and just experience some of their leadership. And so we couldn't be more proud of these two new leaders.

Operator: There are no further questions at this time. This concludes today's call. Thank you for attending. You may now disconnect.

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