



McGraw Hill, Inc. NYSE:MH

Earnings Call

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Call Participants

EXECUTIVES

Danielle Kloeblen

Senior Vice President of Finance & Investor Relations

Philip D. Moyer

President, CEO & Director

Robert Sallmann

Executive VP & CFO

Simon J. Allen

Chairman

ANALYSTS

David Karnovsky

JPMorgan Chase & Co, Research Division

Marvin Milton Fong

BTIG, LLC, Research Division

Faiza Alwy

Deutsche Bank AG, Research Division

Ryan Michael MacDonald

Needham & Company, LLC,

Research Division

Stephen Hardy Sheldon

William Blair & Company L.L.C., Research Division

Henry Hayden

Rothschild & Co Redburn, Research Division

Steven Richard Koenig

Macquarie Research

Jeffrey Marc Silber

BMO Capital Markets Equity Research

Toni Michele Kaplan

Morgan Stanley, Research Division

Jeffrey P. Meuler

Robert W. Baird & Co. Incorporated, Research Division

Joshua K. Chan

UBS Investment Bank, Research Division

George Tong

Goldman Sachs Group, Inc., Research Division

Presentation

Operator

Hello, and welcome to the McGraw Hill Fiscal Third Quarter 2026 Earnings Conference Call for the quarter ended December 31. [Operator Instructions]. As a reminder, today's call is being recorded, and a written transcript will be made available in the Events and Presentations section of the company's Investor Relations website. A webcast replay of today's call will also be made available on 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

Senior Vice President of Finance & Investor Relations

Good evening, and welcome to McGraw-Hill's Fiscal Third Quarter 2026 Earnings Call. Joining me today are Simon Allen, Chair of the Board of Directors; Philip Moyer, President and Chief Executive Officer; and Bob Sallmann, Executive Vice President and Chief Financial Officer. As announced on January 6, 2026, Simon retired as President and CEO on February 9 and remains Chair of the Board.

During today's call, we'll be making forward-looking statements about the company. These statements are based on our current expectations and the current economic environment. Forward-looking statements, estimates and projections are inherently subject to significant economic, competitive, regulatory and other uncertainties and contingencies, many of which are beyond the control of management. These forward-looking statements are also subject to the cautionary statement that is included in our fiscal third quarter 2026 earnings release, the accompanying investor presentation and our Form 10-Q for the fiscal third quarter 2026 and other filings with the SEC.

Important assumptions and factors that could cause actual results to differ materially from those in the forward-looking statements are specified in our earnings release issued today as well as in our SEC filings. We will also refer to certain non-GAAP measures today. We believe that these measures provide useful supplemental data that, while not a substitute for GAAP measures, allow for greater transparency in the review of our financial and operational performance. In the earnings press release, the appendix of the accompanying investor presentation and as a supplemental file on our Investor Relations website, you can find a definition of these non-GAAP measures and reconciliations to their most directly comparable GAAP measures. For those who listen to the recording of this call, we remind you that the remarks made herein are as of today, February 11, 2026, and have not been subsequently updated. With that, I'll turn the call over to the Chair of the Board of Directors, Simon Allen.

Simon J. Allen

Chairman

Thank you, Danielle, and good morning, everyone. It's an exciting time for McGraw-Hill as we continue to build momentum, deliver strong quarterly results and position ourselves for a return to growth in fiscal year 2027. Revenue for the third quarter increased 4.2% year-over-year, driven by our higher education business, which continues to outperform the market. Recurring revenue grew 14.8% over prior year, representing 82% of total revenue, while digital revenue expanded 11%, representing 84% of total revenue.

Adjusted EBITDA increased 7.7% versus prior year, yielding a margin of 31.3%. These fiscal Q3 results reflect strong execution and ongoing momentum, giving us the confidence to raise fiscal year 2026 guidance, which Bob will discuss shortly. Education is fundamental to society and our mission serves as our foundation, fueling our resilient high-margin, cash-generative business model. Our trusted content and innovative technology doesn't just deliver information, it empowers educators to engage learners with personalized experiences that enrich understanding and growth. Our multilayered moat built on intellectual property, first-party data fueled by billions of learning interactions each year and domain

expertise across the learning life cycle creates what we believe is a distinct competitive advantage at scale.

Unlike generic AI, McGraw Hill applies AI thoughtfully to improve learning outcomes, leveraging our multilayered moat to deliver evidence-based impact while saving educators valuable time. This approach is resonating. A recent study conducted by Morning Consult ranked us as the top education company for effectively utilizing AI recognized by both students and instructors. Before moving forward, I want to acknowledge my decision to retire as CEO and President.

Leading this team of over 4,000 mission-driven employees to transform a legacy publisher into a market-leading digital education solutions provider powered by the trust, innovation and strong financial profile, which you'll hear more about today, has been the greatest honor of my career. I will continue as Chair of the Board and will remain deeply engaged to ensure a smooth transition to Philip Moyer, who will lead the next chapter of McGraw Hill's proud history. When the Board and I began our search for my successor, we were looking for a seasoned CEO and technology leader who could not only appreciate our strong foundation, financial profile and trusted brand, but also harness these strengths to fully capitalize on the enormous opportunities ahead for McGraw Hill.

We led a comprehensive search, and I can say with absolute confidence that we found the right leader in Philip. Philip brings a wealth of experience from senior technology-focused roles at Google, Amazon, Microsoft and most recently, the CEO of Vimeo. One of the many attributes that set him apart was his early career passion for using technology to envision the future of education. From his creation of a digital software solution to modernize the management of individualized education plans to the growth he led in the education sector while at Vimeo, we believe that Philip brings the perfect blend of operational excellence, strategic vision and customer-centric technology expertise to honor the commitments we have made to grow profitably, to expand margins and to achieve our 2 to 2.5x net leverage target. Philip, I'm extremely excited about our partnership. Welcome to McGraw Hill.

Philip D. Moyer
President, CEO & Director

Thank you, Simon. I have to thank you and acknowledge the incredible foundation that you and the team have built. It's a privilege to take the baton at a time when McGraw Hill is expanding market share, executing on its financial commitments and positioning itself for long-term growth. What attracted me to this role wasn't just McGraw Hill's strong financial profile. It's the mission of the company, and it's the trusted position in the industry.

Throughout my career, I've seen how technology can transform industries, but education is where technology can transform lives. We're at an important juncture in the education industry. Technology can be both a distraction or an accelerant to learning. It is essential to support teachers and school administrators in engaging this generation of students with new and more effective technologies. The experience I have in building enterprise-grade AI platforms and global video distribution technologies provides a unique vantage point into the opportunity ahead. While AI adoption grows, it's not a one-size-fits-all model that will be solved by large AI model companies. Instead, personalized learning and personalized AI is essential for the student and the educator. McGraw Hill is well positioned to lead in this next generation of learning. We're harnessing one of the most trusted curriculum libraries in the world. We're building new learning technologies, leveraging billions of proprietary data points about what does and does not make learning effective.

And importantly, we have one of the most respected global distribution and customer service teams in the world that connects directly with educators and students to make sure that they are successful in using our tools. My focus will be on accelerating growth, scaling our business and maintaining our brand trust and academic integrity, while we build some of the most engaging and exciting learning tools in the world. I admire the financial rigor that Bob and Simon have instilled, and I look forward to progressing further on our goals as we reinvest in growth opportunities and expand margins, reducing our debt and leveraging McGraw Hill's strong brand and seasoned talent. I'm eager to partner with Simon, Bob and the rest of the leadership team and our Board to drive shareholder value. I look forward to meeting many of you in

the coming months ahead and to speaking with you again in June when we report fiscal year end of 2026 results.

Simon J. Allen

Chairman

Thank you, Philip. Let's dive into some more details underpinning our exceptional third quarter performance. In higher education, we continue to significantly outperform the market with 24% year-over-year revenue growth, supported by our record high 30% market share according to MDI, our go-to-market execution, first-mover advantage in product innovation and portfolio expansion.

Building on this momentum, our Evergreen platform now boasts a growing library of over 700 titles. Evergreen streamlines workflow management for educators and enhances sales rep productivity, allowing an increased focus on takeaways. Additionally, our new ALEKS for Calculus solution supports a more comprehensive STEM offering that unlocks approximately \$100 million in market opportunity globally. AI-powered solutions are driving deeper engagement, improving efficiency and fostering academic success, all while boosting platform utilization and reinforcing our position as a leader in education innovation.

For example, AI Reader reached over 1 million higher education students in Q3, generating 16 million learning interactions, up from 11 million in Q2 for a total of 27 million since inception. We recently expanded AI Reader into our First Aid Forward and access medicine offerings within our Global Professional segment, enhancing the learning experience with alternative explanations, summaries and personalized quizzes.

Building on this AI innovation, clinical reasoning is also gaining recognition from medical professionals for its ability to foster critical thinking and real-world application. We are experiencing promising momentum in institutional pilots and are advancing its impact by introducing new modules and virtual cases in the months ahead. As we scale, we are pursuing a greater institutional focus and deeper integration among our offerings. Sharpen Advantage, a new AI-powered enterprise solution exemplifies this through an attractive TAM extension that leverages our existing content and capability to offer unique content.

Redefining our traditional professor-focused higher education approach, Sharpen Advantage deepens penetration by selling institution-wide with solutions for administrators, professors and students alike, which all work together to improve student outcomes. Integrating Sharpen with ALEKS this fall should drive incremental upsell. In K-12, we've gained market share in a smaller year, building on strong prior year performance. We are ranked first or second in 10 of the top 11 adoption opportunities with success in science as well as ELA. As we've said before, we've not experienced any material impact from proposed federal education policy changes.

Fiscal year 2027 marks a larger market opportunity driven by purchasing cycles in California Math, Florida ELA and Texas Math. Active pilots in the California math market are progressing, and we have secured some early wins. In Florida ELA, we secured a leadership position this year, which we believe should position us well moving forward. And we are optimistic for Texas Math, where our offering will integrate with McGraw Hill Plus, a platform that has seen district access up 86% year-over-year and a 40% increase in average time spent on the platform since the start of the school year.

We believe that our investments in innovation and portfolio breadth provide more integrated end-to-end solutions moving forward. Supplemental and intervention solutions like ALEKS Adventure with 4x more monthly student users than last year, McGraw Hill Plus and AI capabilities like Teacher Assistant and Writing Assistant enhance our capabilities to fuel growth beyond the core. To this end, we have secured an early win with our new K5 literacy curriculum Emerge! and launched Summit and Soar for grades 6 to 12.

These programs deliver cohesive, personalized literacy solutions integrated with tools like Teacher Assistant and Writing Assistant, which integrate Essaypop, which we acquired in March of 2025. We're strengthening our competitive edge by delivering more integrated end-to-end solutions, positioning ourselves to drive growth beyond our core offerings. Now I'll turn the call over to Bob to discuss the financials.

Robert Sallmann

Executive VP & CFO

Thank you, Simon. I'll review the fiscal third quarter results shortly. But first, I want to express my deepest gratitude for your mentorship and friendship during my tenure at McGraw Hill. You have been a transformative leader who has driven an exceptional financial turnaround that positions McGraw Hill as the global leader in education solutions.

Under your guidance, the company has developed a unique culture that combines passion, excellence and innovation, empowering teams to achieve exceptional results and laying the foundation for continued success in the years to come. You left an indelible mark on this organization, and we are all better for it. I've already spent significant time with Philip, and I'm energized by our partnership as we focus on scaling the business, expanding margins, reinvesting in growth and achieving our net leverage target. Now on to the results, which demonstrate our strong earnings quality, our resilient business model and unwavering dedication to meet our commitments even in a seasonally small quarter for the business.

In the quarter, total revenue reached \$434 million, growth of 4.2% year-over-year, while fiscal year-to-date revenue increased 0.7% versus prior year. Recurring revenue grew 14.8% year-over-year to \$357 million, representing 82% of total revenue, showcasing a robust digital mix. Digital revenue grew 11% versus last year to \$364 million. Growth in higher-margin digital subscriptions continues to strengthen our financial profile, adding a layer of predictability that is reflected in our remaining performance obligation, which stood at \$1.7 billion at the end of the quarter and will move higher as we begin to capture the first wave of larger K-12 opportunities.

Gross profit margin expanded nearly 100 basis points year-over-year to 85.3% due to efficient operations and favorable digital mix with no impact from tariffs on our business. Adjusted EBITDA rose to \$136 million in the quarter, achieving a 31.3% margin, up nearly 100 basis points year-over-year, reflecting strong operating leverage amid ongoing reinvestment. Internally, we continue to infuse technology to streamline processes and enhance operations. In Q3, we launched an offer management system to strengthen our go-to-market by simplifying the sales process, compressing time to close deals and improving pricing visibility.

We also expanded AI use cases across product development and operations to enhance efficiencies and unlock incremental margin opportunities over time. Now moving on to the segments. Higher Education revenue grew an impressive 24% year-over-year to \$225 million in the quarter, with reoccurring revenue growing 33.5% and digital revenue expanding 24.8%. This strong performance was fueled by market share gains, increased demand for our innovative portfolio offerings, enrollment growth and strategic value-based pricing. Inclusive Access now represents 60% of higher education revenue with nearly 2/3 of fall 2025 growth driven by new course adoptions from existing customers, highlighting strong cross-selling efforts.

Onboarding approximately 100 new campuses annually further supports multiyear growth visibility as accounts typically scale within 2 to 3 years. And we expect the activations for accounts landed in fiscal year 2026 to increase by 15 to 20x in the next few years. 70% of higher education revenue now comes through Evergreen, exceeding our initial expectations. Professors are increasingly adopting the latest releases without sales rep intervention, allowing our sales team to focus on new opportunities, which positions us well for retention and market share takeaways heading into fiscal year 2027.

Our exposure to resilient enrollment pockets also remains favorable. 1/3 of our higher education business is tied to 2-year colleges and our portfolio over-indexes to disciplines like business management, which continues to demonstrate relative strength. K-12 revenue was \$128 million, a decline of 14.6%, in line with our expectations, given the impact of the smaller market this year and the lapping of exceptional capture rates in the prior year. In Q3, reoccurring revenue only declined 1.6%, benefiting from strong prior year sales. As Simon mentioned, this year, we continue to gain market share, and we took a lead in Florida ELA. We also continue to show momentum in science adoptions in Alabama and Tennessee. We are actively preparing for the fiscal year 2027 selling cycle. California math pilots continue as we enter the key selling season. In addition, we have seen initial success in ELA with an early K5 emerge win in open territory ahead of the California ELA adoption in fiscal year 2028.

We bring forward a competitive value proposition, leveraging integrated solutions like McGraw Hill Plus and a broader portfolio to drive growth beyond the core. Global Professional revenue increased by 2% and its recurring revenue grew by 3.5% in the quarter. Growth in digital, medical and engineering solutions has successfully offset the impact of our noncore print exit. Additionally, early momentum from our AI-powered clinical reasoning solution further strengthens our confidence in future opportunities.

International revenue decline narrowed sequentially to 1.8% year-over-year in the quarter. While higher education headwinds persist, we are gaining market share and remain optimistic about growth opportunities driven by new innovative solutions like ALEKS Calculus. We ended the quarter with \$514 million in cash and \$964 million in liquidity with our revolving credit facility remaining undrawn.

Net leverage was 2.9x as of December 31. We generated \$309 million in cash flow from operating activities in the quarter, an increase of 12% year-over-year. Our attractive cash flow profile enabled us to prepay an additional \$50 million in term loan principal in December for a total of \$200 million in the quarter. Year-to-date, we prepaid \$596 million in term loan debt, generating over \$41 million in annualized cash interest savings. Our disciplined capital allocation strategy continues to prioritize reinvestment and debt reduction while maintaining flexibility to optimize our capital structure.

We remain committed to a net leverage target of 2 to 2.5x and pursuing strategic tuck-in M&A. Looking ahead, based on our strong performance, RPO visibility, sustained share gains and favorable enrollment trends, we are raising our full year fiscal 2026 financial guidance. We now anticipate total revenue for fiscal year 2026 in a range of \$2.067 billion to \$2.087 billion, reoccurring revenue ranging from \$1.516 billion to \$1.526 billion and adjusted EBITDA between \$729 million to \$739 million.

We continue to expect unlevered free cash flow to slightly exceed the low end of the 50% to 100% adjusted EBITDA conversion range, while CapEx and product development as a percentage of revenue remains unchanged at 8% to 9% of total revenue. Finally, a couple of modeling items for Q4. Stock-based compensation is expected to be in the range of \$1 million to \$2 million and tax expense is expected to break even in the quarter. We will share our fiscal year 2027 financial guidance during the fiscal year-end earnings call in June. We remain confident in fiscal year 2026 and the foundation for fiscal year 2027 with a return to revenue growth and continued margin expansion. Now we will open the call up for your questions.

Question and Answer

Operator

[Operator Instructions]. Your first question comes from the line of George Tong with Goldman Sachs.

George Tong

Goldman Sachs Group, Inc., Research Division

Can you help unpack the growth drivers that you're seeing in higher ed and how you're thinking about fiscal 4Q, perhaps talk a bit about Evergreen as a differentiator?

Simon J. Allen

Chairman

George, it's Simon. Thank you. It's a great question. I feel like I'm a broken record when I talk about our higher education business because every quarter, I explained to you all that we are so proud of the growth we've had, our continuing ability to take market share, significant market share really. And you look at the growth rates, and we're just extremely pleased with where we've landed this quarter. And there's a lot of reasons why we've had this growth.

But primarily, I think you mentioned Evergreen. That's a wonderful innovation that we have that is unique to McGraw Hill in providing continual updates to faculty, making sure that they no longer need to think about new additions and ensuring that they have most up-to-date information, meaning our reps need to spend really far less time working with the faculty and making much more -- paying much more attention to growing market share by working new adoptions. That's been very successful for us. And our faculty tell us our customers how much they really enjoy Evergreen because it just gives them the immediacy and the knowledge that they've got the most current and engaging information for their students, and that's really very important.

I think our go-to-market teams have done incredibly well. Our customer success groups, our representatives that we have, our learning specialists, you name it. ALEKS specialists, we've done so well across all of our go-to-market. It really is very, very pleasing for us. And I think the last thing I'd say, and there is a lot, George, I could say about IRA and the growth that we've had. But when I think about the Morning Consult survey that we referenced in our script a little earlier, we're very proud that they cited us McGraw Hill as the company that uses AI most effectively and that, of course, is told to us by our educator customers and our student customers.

And that gives us great pride. And I think you put all those together, the value proposition that we've explained so carefully, the ability to innovate with so many different tools now with AI Reader really coming on stream, making a big difference to higher education students in pretty much every discipline. Evergreen, now 70% of our revenue, even more than we expected. It's just a very pleasing picture, George.

George Tong

Goldman Sachs Group, Inc., Research Division

And Simon, maybe let me quantify some of that...

Simon J. Allen

Chairman

George, I'll quantify some of that for you and lean into a little bit of Q4, how we're thinking about it. On the 24% growth, 17% year-to-date, 3% to 4% of that is coming from enrollment. You may have seen enrollments quoted at a lower number from the National Student Clearinghouse. Obviously, as we over-index into 2-year colleges as well as business management, that allowed us to have a little bit stronger growth there. In addition, and I mentioned in the past, we continue to realize price. And so we go out with inflationary price.

It sticks, but you have to offset that with some of the mix as it's associated to inclusive access. So on a net basis, we're getting over 1% of price in higher education. We also benefited in the quarter related to a sales return release. And that's really a result of a couple of factors, but first being lower level of returns coming in, in the quarter. And this is a mechanical exercise we do every quarter. You could read about it more in our disclosures. But the other part I do want to highlight is we continue to move to more concentration of inclusive access, that higher quality revenue tends to show a lower level of return. So again, it positions us well as we think about the future. And then when we think about the fourth quarter, we think about sort of how to think about the full year, I would just get you to think about double-digit growth in billings and on a revenue basis.

So when you do that math, you're still seeing that 4% to 5% growth from share gains. And you can tie that back to some of the NPI data that Simon had referenced before. So those are the areas. And you're probably coming on to the fourth quarter question around, hey, [Audio Gap] that change or why are we seeing the growth rates slightly decline? As we highlighted before, we've come to a difficult comp in the fourth quarter. And again, as we think about the full year, we're going to still experience that double-digit growth, but we are facing a more difficult comp in the fourth quarter.

Operator

Your next question comes from the line of Ryan MacDonald with Needham & Company.

Ryan Michael MacDonald

Needham & Company, LLC, Research Division

On a great quarter, and welcome to Philip. Maybe just to start, first question for me is around the K-12 business. Obviously, continuing to benefit from the strong market share gains, obviously, from last quarter. But as we look ahead to fiscal '27, can you just unpack a little bit more about what gives you that confidence in sort of the return to growth and magnitude of growth for that business? And as you look across the 3 sort of large state opportunities with California, Florida and Texas, I'm curious to get your thoughts on sort of the trajectory for the Texas opportunity. We've been hearing more and more about how as they've changed their adoption cycle and some of the mechanics there, there's just a lot more material -- instructional materials that they have to review ahead of the sort of purchasing cycle. Any concerns that, that could delay decisions at all ahead of fiscal '27?

Simon J. Allen

Chairman

Thank you, Ryan. That's a lot of questions in that one. And let me take them piece by piece, if I may. And you're quite right, we're very pleased with our K-12 performance as well. You know that FY '26 was -- is a smaller market size. And yet we've continued to grow market share. And that's what's important to us. We've got to keep outperforming our competitors at every level. And we're very pleased that we've ranked #1 or #2 in the top -- really in 10 of the top 11 adoption opportunities this year. And that's driven a lot by our ongoing success in science and ELA. And as Bob indicated in our earlier comments in states like Alabama and Tennessee, we're very, very pleased with our performance there.

I would -- and also looking ahead, I mean, to your question, Florida ELA, we've got a good start there in year 0. We're feeling very good about what that could mean for us going forward. We will make sure that we recognize the market growth opportunity and what that means for us in FY '27. I think we've mentioned before, Ryan, that we're looking at about a \$300 million increase in the TAM for next year. So we're obviously optimistic about what that means for us. It's very early in the adoption process. As you know, the selling season really begins January and doesn't conclude until Memorial Day or even slightly after. So we're in the stages right now in the battle, which we love.

And we'll know a lot more about how things are when we get to the end of May, early June, and we can update you at that stage then. But we're very pleased with the pilots we're offering. We've had some good wins with Emerge!, our K6 literacy program. As you know, we've launched also our 6 to 9, 9 to 12 Summit and Soar products, which are very exciting. We had a wonderful sales meeting in New Orleans. I won't

give you all the details, but I will say that we had a great launch with that product and about 600 or so [700] reps very excited about what they're seeing, which is marvelous.

So we feel very good about that. Very briefly on Texas, your point is a good one. I mean they're changing the style in a way, but we've got great relationships there, really great market and a fine knowledge of how that state operates. We welcome new competitors. It may change. You mentioned the delay. We're not sure about that. The way decisions are made are extremely effective. They're very strong as they always have been. And really, we really feel that the end-to-end offerings that we have through all of our content technology, you name it, that's something that other companies cannot provide. And they usually lack in the technology development that really integrates with a lot of the content. That's the key strength of McGraw Hill, as you know, which is why we feel good about how that's going to develop for us.

Ryan Michael MacDonald

Needham & Company, LLC, Research Division

Really appreciate all the color there, Simon. And maybe as a follow-up, I would love to pose one to Philip. Obviously, early on in your tenure, but just curious, as you evaluate the opportunity coming in, would love to get your view, particularly as a technologist to sort of McGraw's AI strategy and how you think you can continue to evolve that in your role moving forward?

Simon J. Allen

Chairman

Ryan, thank you very much for the question. I would -- I have to start by saying AI is only good as the data and the quality of the training. And coming in, it's one of the things that attracted me most to McGraw Hill. As you think about building a next-generation company, just any company, you're going to need data. You're going to need experience with workflows, you're going to need integrations, you're going to need go-to-market, you're going to need a whole variety of things. And ultimately, you're going to build a system that has experience in answering questions or taking action. We're coming into this next generation with simply unmatched assets in the education industry. We've got one of the largest vetted localized content platform or homes in the world with literally tens of thousands of specific AI or images and assessments specific to specific learning pathways.

We also have mapped out these learning pathways that develop tens of thousands of discrete skills along the way at every single age. We have billions of data points and algorithms that understands when somebody is on the pathway and someone's off the pathway, and we can serve the teacher and also the student in really unique ways with that knowledge. And then we have go-to-market and service teams that have deep enterprise relationships, and they understand the regulatory environment down to a ZIP code level. And over the past 5 years, I have to say, coming in, what was so evident to me is in the past 5 years, there's been a really significant investment in technology and AI and you're seeing that.

I don't think what's been talked about and what you're not seeing underneath the iceberg is all the tools that have been released over the past 12 to 24 months, ALEKS Calculus and AI reader, Teacher and Writing Assistant. Sharpen, as an example, we just released within 9 months, and we already have 1 million active users on that platform. And so I'm excited about the pace at which we're innovating. I'm excited about the assets, and I'm really, really excited about all the opportunities ahead. So I feel very, very good as someone that's lived in tech my whole life about what we're going to do.

Operator

Your next question comes from the line of Stephen Sheldon with William Blair.

Stephen Hardy Sheldon

William Blair & Company L.L.C., Research Division

Maybe I wanted to start with Philip as well. I guess you started the new role this week. I guess as you think about the coming months, what are some of your early priorities? Where do you envision spending your time across the organization as you think about the coming months?

Simon J. Allen

Chairman

Sure. First, obviously, I'm learning the organization, I'm learning the products, but most importantly for me is getting out with the customers. Already, the customers that I've been spending a little bit of time with, I hear very firsthand from customers already. Many are really concerned about AI. Many are confused around technology. Many are unsure whether or not their students are engaged and whether or not they're comprehending when they're using AI. And so most importantly for me is getting out with our higher ed customers, with our K-12 customers, with our global professional customers, with our international customers.

And I think that a lot of them want to know that there's going to be a trusted partner as they go into this next generation. So for me, it's going to be listening, and it's also going to be assuring them that we're going to be a partner every step of the way. The second thing I would tell you that's very important to me as well is just what I -- a little bit of what I was just talking about. We've got a great pace of innovation, and I really want to spend time to make sure that we've got a really solid vision for the customer, for the student, for the teacher, for the administrator of where we're going in McGraw Hill with our technology and are we executing as quickly as we can. I'm really looking forward as well to spending time with our go-to-market teams. They're world-class. They're world renowned. They have incredible relationships. And so I also want to hear to them how we can empower them more to serve that customer base.

Stephen Hardy Sheldon

William Blair & Company L.L.C., Research Division

That's great. I appreciate that. And then maybe one for Bob as a follow-up. It sounds like the team is confident about a return to growth in K-12 for next year, and you gave some helpful commentary on the factors driving growth in the higher ed segment. But just curious, as you look at higher ed and thinking about fiscal 2027, how much visibility do you have at this point on the potential growth heading into next year? It seems like some of the factors that are supporting growth like broader adoption of inclusive access.

Some of those things should have some legs. So just at a high level, I know you're not giving guidance or anything at this point. But just yes, how are you thinking about growth heading into next year? And how much visibility do you have into it at this point?

Simon J. Allen

Chairman

Yes, sure. And as you're aware, we'll provide guidance in our June call. And at that point, I'll be leaning into some of those early indicators, which we watch would be [FAFSA] applications, high school graduation rates, information like that. But some of the things that give us confidence, we look at the RPO, we see activations in January and the spring. Some of that will carry into next year. So all of those things -- and I'd say the thing that we are most confident about is our ability to continue to take share. We've demonstrated that. We're seeing takeaways as we walk into next year already. So all of those things bode really well for us as we think about next year.

Operator

Your next question comes from the line of Steven Koenig with Macquarie Group.

Steven Richard Koenig

Macquarie Research

It's Steven Koenig with Macquarie. Nice to be on the call. Congratulations is due to Simon, I want to echo previous comments by others on your contribution financially, operationally and certainly culturally to McGraw Hill. So you leave a really good position here for Philip to build on and welcome to Philip.

Simon J. Allen

Chairman

Steve, thank you. I am very touched, by the way. Let me just say thank you.

Steven Richard Koenig*Macquarie Research*

Yes. You're quite welcome. Good. Yes, it's pretty clear what your contributions have been and it puts you in great speed. On the -- I wanted to ask -- yes, I wanted to ask maybe kind of a 2-part question. It's related. So one part of the question maybe for you, Simon, is you mentioned that Sharpen Advantage expands your TAM by providing the institution-wide solutions not only for professors, but for administrators and students. Can you expand on that?

And then I'm going to put the related question out there as well. And Philip, feel free to give us your thoughts on this as well. I think something that a lot of investors miss certainly about my software coverage is like the competitive moat isn't just from the IP. It's from kind of the customer lock-in that happens when you integrate the solutions, you deploy them, you integrate them with the data, processes, workflows, et cetera.

And you're clearly doing that at McGraw Hill, and I'm not talking about just the technology solutions, but also your go-to-market and what you're doing to make yourself irreplaceable in the institutions. I'd love to hear your thoughts on how your technology, your go-to-market, your content all influence that. And then I'll leave it there.

Simon J. Allen*Chairman*

Thank you very much, Steve. And again, thank you very much for your very kind comments. And I'll kick off a little on Sharpen and thank you for asking. It's -- we're very proud of Sharpen. The kind of product that we have there, as you may remember, is very much focused on how students learn today. That lovely quote that -- it's like my textbook and TikTok had a baby. And that's how so many of students learn in their first and second year, particularly at university and at colleges.

What we've done with Sharpen and we've got a proven model with students. We know that it works well. We know that they really appreciate the type of video-based learning and quiz-focused activity, really a lot of gamification tools in there. And then what we discovered is that the market increasingly asked us to look at this in a more broader sense on what can we provide for the institution. So over time, what we've done is make sure that we can focus on a broader coverage, allowing the educator to include their own content, for example, making the institution at that level, use sharpened materials across the entire network, every single class, every single sector and department where we operate, which is pretty much everywhere.

So the breadth of coverage at the institutional level really opens up a significant market for us, new market, if you like, beyond just that student and of course, the faculty relationships that are so near and dear to our company. And I think with Sharpen, we're just really excited about how quickly, as Philip said earlier, we've really developed some serious revenue and customer base and now we're looking forward very much to seeing that expand exponentially at the institutional level.

And I'll pass it over to Philip now for the additional questions that you had on AI.

Philip D. Moyer*President, CEO & Director*

Sure. I get asked a lot about LLMs in the context of education. And I'd like to say that every generation of technology, whether or not it was a PC, PC, the Internet, the cloud, every one of those needs deep domain expertise to bridge the last mile for the big tech platforms. I lived in that for a long time. And I know that, that we -- it was a very vibrant ecosystem of software companies, services companies. It's become a massive industry to bridge that last mile. This error is no different in artificial intelligence. And I think that our moat is going to be really clear.

A couple of things, as I mentioned, we have -- we understand local education requirements down to the ZIP code, and today, more than ever, educational requirements are becoming down to the ZIP code level. We have these specific age-appropriate learning pathways. I'd like to say that LLM may know what

you're asking, but we know why you're asking it. We are able to build security and trust and psychological safety into what we're building. We have the ability of building personalization for every student, for every teacher. We can enter new curriculum markets in a way that we've never been able to before, with fine grain supplemental work.

And we're able to do really engaging learning experiences that just a standard LLM is not going to do. And then also just the ability to understand whether or not someone's comprehending what the answers are that they're giving to the teacher and then also the teacher to understand their students. We think there's all these fantastic opportunities to build great moats with artificial intelligence and LLM technology.

Operator

Your next question comes from the line of Marvin Fong with BTIG.

Marvin Milton Fong

BTIG, LLC, Research Division

Congratulations on the great results as well as Philip for the new role and Simon I didn't have that long a time to work with you but certainly hope to continue the relationship there and best of luck.

Just a couple of questions. Again, on AI, very topical, maybe a different angle for either Simon or Philip to answer. But from the outside as investors, how would you suggest we measure the impact of AI on your business? And I know you also roll out some internal metrics on time to development and costs that AI has benefited you from maybe on both sides of that coin. How can we measure AI and how it's impacting your business?

Simon J. Allen

Chairman

Thank you very much, Marvin. It's -- I'll kick off and then pass it over to our new CEO, Philip, and I think what I would say, first of all, is that with everything that we do with AI, we've done a ton. We've released some tremendous products. All that we focus on is ensuring that we use a human in the loop approach to make sure that everything that is delivered, we know has efficacious value to the teacher and the focus of a lot of our AI tools, if I think of writing assistant, teaching assistant.

The focus there is providing the educator more time to spend face-to-face with the student. That's got to be really emphasized all the time. And you will have read a great deal recently about the need for that human interaction for the teacher and student to really bond and spend significant time together. So a lot of the AI tools that we've innovated in the last few months allow that. And they allow it because we're increasing the efficiency levels. You think about AI Reader in higher education. We're allowing the students to really understand more complicated materials in ways -- repetitive ways, in fact, it really help them grasp difficult concepts and enable them to then have more meaningful conversations with their professor.

I think at the K-12 level, again, writing instruction tools, how the students begin to think about creating sentences, paragraph structure, you name it, again, allowing for that formative discussion with the teacher at every stage. And then as I look at our medical business, Clinical Reasoning, another great new innovation that we've provided for medical students that are looking at how they can diagnose what they can think about utilizing as they look at the patient interactive evaluation tool that we provided, so they can start to immediately relate to a patient's situation that they may need help within.

And I think all of our tools that we've created, I know all of the tools that we've created are very valuable. We test them incessantly before we release anything to make sure that we're adding value to what we provide. So it's a very thoughtful process, Marvin, and will -- shall continue to be but it's wonderful to have the opportunity to do this with the technology now that -- and the advancements in AI, we've been operating with machine learning, as you know, for over 20 years with ALEKS. But now we really can stretch ahead with AI.

But I'll pass it over to Philip. He may have other comments as well.

Philip D. Moyer

President, CEO & Director

Coming at this as a technologist, I always look at user engagement. So I want to know how many users are using it, how many are using it daily and how long are they spending on the tool. So internally, we'll be tracking that. We're also going to be tracking outcomes. And we're seeing some pretty extraordinary outcomes already on our tools in terms of like grade level improvements and kind of engaged and improvements overall in comprehension. So that's the second one. So really the learning outcome.

But then a few other areas that you should really -- that you're going to be able to watch us focus on I've heard a statistic, I think it was just today that the average district has as many as 1,000 learning tools that are inside of their organization. And that's going to become even more complex. Imagine 1,000 AI tools sitting inside of a local district or a local university. And so enterprise adoption is going to be a really good focus.

We're going to try and simplify for the institution the use of AI, whether or not it's from a cost perspective, whether or not it's from a content perspective, whether it's not from a safety or security perspective. So enterprise adoption is going to be important.

And the last thing, the way that we use AI is accelerating our own development and entry into new markets. And so I also expect that our ability to be able to do more supplemental work to be able to do hyper localization, so these markets, entering new markets.

When you look at the overall education industry on a worldwide basis is about \$7.3 trillion, and it's growing to about \$10 trillion by 2030. And so how big can we think and how many markets can we be in and how many educators and students can we serve. I think it's really going to be driven by our harnessing of AI.

Marvin Milton Fong

BTIG, LLC, Research Division

Got it. That's terrific. And second question, maybe Bob can weigh in here as well. But in terms of like -- and I know you mentioned we'll be discussing your outlook for next fiscal year in the upcoming quarter. But just in terms of spending priorities now and where you're focusing your incremental dollars, anything you can kind of help us out there as you balance both product development and obviously maintaining all the great field sales. Just kind of elaborate a little bit more on where your spending priorities [indiscernible]?

Simon J. Allen

Chairman

Yes. And thanks. We definitely have our road map laid out. And as we execute against that road map, we know where we're deploying the product development and technology spend. So we're just adhering to that. There's been no meaningful change. And over time, we expect that to remain to be the 8% to 9%. We don't really see a change in that. Now it may mix shift in where we spend those dollars over time. But as we've gone through our strategic plans and understood sort of where we're spending dollars on that road map, we expect it to remain between 8% and 9%, all of that why we continue to expand margins. So that's the other key point that we want to reiterate is that as we make those investments back into the business, we'll continue to be able to leverage, scale and expand our margins.

Operator

Your next question comes from the line of Jeff Silber with BMO Capital Markets.

Jeffrey Marc Silber

BMO Capital Markets Equity Research

I know it's late. I'll just ask one. I know you don't give specific guidance for the quarter, but obviously, results were better than expected. Were there any timing issues either in terms of revenue recognition or maybe deferring some expenses into the fourth quarter that we should be aware about?

Simon J. Allen*Chairman*

No, I'd just come back to -- as we think about the comp that we have in higher ed, I just want to reiterate that, that we do have a difficult comp as we think about the fourth quarter. But we're all doing this while taking share, and we've seen share gains in all of our businesses. And so as I think about the fourth quarter, really leaning into the RPO, also looking at the early activations that we saw in higher ed positions us to increase our guide, and that's sort of the drivers for us.

Jeffrey Marc Silber*BMO Capital Markets Equity Research*

So there was nothing specific in the third quarter to call out onetime?

Simon J. Allen*Chairman*

Well, let me come back to that reserve. I mentioned it in higher ed. I didn't mention it was about 400 basis points of benefit to us in the quarter. I just want to come back, that is not onetime, if that's what you're alluding to. I mean, we have a mechanical process that we do every quarter, and we disclosed that in the Q., but it was slightly larger than we've experienced in the past. That's why I wanted to call that out. The reason for it being higher is just because of the smaller reserves that we -- returns we experienced in the quarter. And that's why it was notable for us this quarter, and I wanted to call it out.

Operator

Your next question comes from the line of Henry Hayden with Rothschild & Co Redburn.

Henry Hayden*Rothschild & Co Redburn, Research Division*

I'd like to add to say, congratulations, Simon, on your retirement. I guess to start off, it's great to see leverage continuing to come down towards the target range. Could you please give us an update on capital allocation and how you're thinking about leverage progression from here? And since you commented on it, how are you thinking about M&A in that context? And what sort of assets would be of most interest.

Simon J. Allen*Chairman*

Sure. Thanks, Henry, and thanks for staying up late.

First -- our first priority is always the organic opportunities, right? So as we look at where we deploy capital, we see organic opportunities to generate the greatest ROI. We'll continue to do those. Those have always been fully funded both in our budget, which -- our guidance for next year as well as our strategic plans. So we'll continue to put our dollars there first.

Secondly, it comes back to our commitment to deleveraging. And so you saw that we were at 2.9x leverage at the end of the quarter. And we have a seasonal cash flow, which will result, and that's slightly picking up as we think about both the fourth quarter into Q1. And then ultimately, as we enter the fall, you'll see that, that cash continues to build. However, we're really excited about where we sit in cash, our cash position as well. So we anticipate paying down another \$50 million in the fourth quarter. So in addition to the \$200 million we paid down in the third quarter, we will be paying down another \$50 million here in the fourth quarter, given just the strength of our cash position.

And then lastly, around M&A. We're looking at some bolt-on tuck-ins. We have a very active funnel. And I would tell you that they sit in all of our BUs. We're looking at things internationally in the global professional space, higher ed and K-12, both as technology advancements as well as other small tuck-ins. There's nothing transformative in the funnel today, but we'll continue to look at things. And opportunistically, we'll execute when it makes sense, utilizing cash on the balance sheet. But again, we have -- we're excited about where we sit, the investments that we're making, continue to pay down and

delever. And just as a reminder, I think it for modeling purposes, as a reminder, Q4 and Q1 represent our cash trough, and then it will continue to cycle back up as we build the RPO in Q2.

Henry Hayden

Rothschild & Co Redburn, Research Division

That's very helpful. And then just as a quick follow-up. What sort of appetite are you seeing in the market for Teacher Assistant from the customer side? And how should we think about the relative growth uplift from that product as it gets a broader rollout kind of in the next year?

Simon J. Allen

Chairman

That's a good one. And it's an encouraging answer. I think, Henry. We Teacher Assistant is designed for exactly what is described. And it really has been well received to just enable the K-12 teaching community that they're feeling pretty beaten up in many situations. It's been a pretty tumultuous time for a lot of the teachers that particularly since COVID, they're looking for tools that whatever we can provide them that allow them the chance to do classroom preparation activities in a far more straightforward way and a more enthusiastic way for their students. And just a chance to really build course material that they can teach with and utilize external materials as well that we can link towards just helping them find the right use of their time. And it's really important that -- for us, it's a very competitive tool for us. No one else has anything like this. We're very proud of how it integrates with our materials, our content. And we're very, very pleased with how it's been launched. As you say, it's only recently launched, but the early signals are extremely encouraging for us.

Operator

Your next question comes from the line of Jeff Meuler with Baird.

Jeffrey P. Meuler

Robert W. Baird & Co. Incorporated, Research Division

Congratulations, Simon. Welcome, Philip. This question is for Philip. So I hear you on being well positioned with a lot of assets to leverage for the AI opportunity and hear you loud and clear on the related boats. Just on the comments about continued margin expansion for the enterprise, I just want to gauge what gives you confidence that you're spending at the appropriate level to fully harness the AI opportunities?

Philip D. Moyer

President, CEO & Director

Well, I've been here for 3 days. This is my third day. So I got the confidence of 3 days. So I officially started on Monday. But what I would say to you is that already my exposure around the efficiency and also the effectiveness of the development teams. I mentioned before, we've been able to release a record number of AI tools over about the past 12 to 24 months. And these are good tools. They're tackling really difficult problems. And so I'm excited, first and foremost, around the talent that's inside of the organization.

The second thing is that we're not just talking about building AI. We're also using AI ourself, and we're also using cutting-edge tools. We're using processes. We are educating ourselves and we have a culture of learning internally around the use of these tools. And I could not be more happy to be following Simon and Bob and the work that's been done over these past 5 years to really get, I'll say, the cost structure in line with where it should be.

This is -- when you really look at our gross margins, and you also look at our overall margins, we are set up to be a next-generation company, probably better than most of our peers in the industry based on the cost that we've taken out and also the innovation and the increases in the development teams and also the improvements in development processes that we've already built. It's really evident to me that we've got a technology and digital-first culture here.

Jeffrey P. Meuler

Robert W. Baird & Co. Incorporated, Research Division

Appreciate the perspective 3 days in. And then just there was a comment about no material impact from proposed federal education policy changes. There's also been some government shutdowns and there's been some headlines around like federal student aid disbursement around those things. Just, I guess, what are you still watching for potential impact? Or I guess, similar question, level of confidence that the risks related to that and risk related to the changes around Department of Education are not going to impact you?

Simon J. Allen

Chairman

Yes, it's a good one. I mean without being naive, it really is true that we've seen no damage to our business. We obviously look with great interest of what's happening and you mentioned the Department of Education, that is a good example. But honestly, it's made no difference to our business whatsoever because how we operate is very much directly with the school districts or with the states in the case of K-12, directly with instructors and institutions in higher education, and this is true around the world.

And clearly, there is no desire for any government or any federal or governmental institution to want to remove the focus on education. They would never get reelected again. So we don't see the effect on our business whatsoever. We describe ourselves, as you remember, it's a very defensible company because of the resiliency that we have. So the defense that we have is simply that our products are needed by school, by students, by universities and colleges globally, medical schools and while that happens, there is no government intervention that will damage our business because the core of what we offer is so important to every aspect of society.

Robert Sallmann

Executive VP & CFO

And as a reminder, Jeff, a very small amount of district budgets come from the federal government as well.

Operator

Your next question comes from the line of Josh Chan with UBS.

Joshua K. Chan

UBS Investment Bank, Research Division

Congrats, Simon and welcome, Philip. I'll just ask one to Simon. I guess, historically, in your experience as you gain share in higher ed, does it become easier or harder to keep gaining share? I guess I'm just asking kind of a momentum question. And then what does it take to kind of keep up the momentum?

Simon J. Allen

Chairman

That's a good question. What I would say is -- and I've done this -- it's 40 years in August, actually, Josh, 40 years on August 16, if you want to be precise. And I can tell you that since I've been in higher education and the momentum that you get is a joyful situation because you -- it really does success -- breed success. And the reason is that you have, for example, the growth we've seen in inclusive access. And you heard Bob earlier talk about continued growth well beyond 20% yet again this quarter. You look at what that does, as you realize that the land-and-expand strategy with inclusive access gives you a far greater number in the second and third year of the institution's use of Inclusive Access.

That momentum just continues and continues in a wonderful way. When you provide products like Evergreen or solutions like Evergreen that allow our professors to immediately continue with our product. It frees up time for our reps to go after new business. That, again, creates momentum, and we're seeing that already when we look at the pipeline very early in the selling season, but we see that already as we think about the year ahead.

And then with higher education, when you start to get a greater presence on the college campus in any discipline in any department. It just grows and you find that you almost flower as you go through the selling season and you get to a level of maturity that's quite joyful to see. And really success breeds success. It's why we've had continued market share growth every quarter I've spoken to you and why that will continue. And we're very proud of our higher ed business, and we're taking substantial market share as you've seen.

Joshua K. Chan

UBS Investment Bank, Research Division

Congrats on your accomplishments, Simon.

Simon J. Allen

Chairman

Thank you very much, Josh. That's very kind.

Operator

Your next question comes from the line of Toni Kaplan with Morgan Stanley.

Toni Michele Kaplan

Morgan Stanley, Research Division

Congrats on the quarter and also on Simon, on your retirement. It's been great working with you. You mentioned the strong stats on McGraw Hill Plus with the 86% increase in district access and 40% increase in average time spent. Just to get maybe a little bit of additional context. Hoping to understand what the penetration rate is across the business from the school districts for that and how the forward pipeline looks for the platform? And is it -- I know in the past, like when you're signing new K-12 districts and trying to retain old ones, I think largely, the retention hasn't necessarily been a big thing, but could this change that dynamic where you do start to see more retention of old districts because they like that personalization?

Simon J. Allen

Chairman

That's a very thoughtful question, Toni. And let me start with the latter statement, I think, is what you've hit on is so crucial for us. When you think about why we created McGraw Hill Plus initially in mathematics, as you know, and now extending into ELA and other disciplines quickly and going from just a handful of states now to more than -- getting on for dozen, I think going forward.

The reason that we're so excited about this product and you touched on it, is that once you get integrated with McGraw Hill Plus and you utilize the data and you can see just how your students in the classroom are performing, and you can look at that knowledge graph and recognize every component of the education system that the students have succeeded with and where there may be gaps that data becomes very -- in a positive way, very addictive. And the only way that you continue to -- you can continue to understand how your class is performing is by continuing to use our products and particularly with McGraw Hill Plus, the integration with that data-driven tool alongside our core product alongside our supplemental, if you think of math, you've got Reveal Math or everyday math, and then you've got ALEKS as a supplementary product.

And then you've got all of the data provided with those tools on McGraw Hill Plus then you start to utilize that year-on-year. It's very difficult to leave because you rely on the data, you rely on what it tells you about your students performing. And as you move a student from second grade to third grade to fourth grade, you can track their progress in a wonderful way, this longitudinal student record is very attractive to the schools themselves.

So you hit the nail on the head. It is that ability for us to truly integrate the products that will increase retention because the products and the solutions we provided will really be very difficult to live without once you've integrated them in.

Toni Michele Kaplan*Morgan Stanley, Research Division*

Great. And then just as my follow-up, I think in past quarters, we've sort of talked a lot about the ability to use AI across the business through Scribe. I sort of noticed that scribe hasn't really been mentioned. I know you've talked about margin expansion, so not trying to sort of imply that you're not seeing margin expansion. But I guess, trying to understand if Scribe is going to be a big driver? Is it still -- like any update on it? Should we not be thinking about Scribe as sort of one of the biggest levers for margin expansion? Or maybe we're just talking about it in a different way. So just want to understand that.

Robert Sallmann*Executive VP & CFO*

Yes. And Toni, yes, so we didn't specifically call it out. We continue to lean in to Scribe. We continue to find new use cases every day. And so we were gathered today and meeting Scribe as a big portion of our discussion. So we see it as a meaningful opportunity for us to continue to reduce cost and accelerate time to market. It will be something you'll continue to hear us talk about as we move forward. But we're still in the early days of the use cases and actually seeing the cost savings. But we still are very excited about that opportunity, and we'll continue to talk about it going forward because it is a meaningful opportunity for the business.

Operator

Your next question comes from the line of David Karnovsky with JPM.

David Karnovsky*JPMorgan Chase & Co, Research Division*

Maybe just following up on supplemental within K-12. Can you just update on the ongoing cross-selling opportunity there? And what the uptake has looked like recently for products like ALEKS?

Simon J. Allen*Chairman*

Yes. It's a good one. I mean, David, again, ALEKS is a very good example for the supplemental intervention sector. I mean, for us, ALEKS is -- we've owned it since 2013. It's been around since year 2000 and it is a tremendous tool that provides students in math and now chemistry the ability to either with their teacher or really self-directed, understand how they're progressing as they learn math, having directive question-and-answer processes to really enhance their learning and focus them in ways that's very personal because it can tell you exactly where you've made a mistake as you go through the workings of any answer.

And ALEKS, for us, not just in K-12, but also very much in higher education, that the placement tool that we use, the placement program it allows instructors to understand the level of performance they can expect out of their students. And it really is the -- it's the backbone, frankly, of our supplemental business for that.

But -- let's not forget what we've accomplished with Achieve3000 for literacy and the reason that we made that acquisition some 5 years ago now, was really to augment our position in the supplemental sphere and give us strength, not just in math, but then also in literacy and with Achieve3000 and Actively Learn, we've done exactly that, and we're very pleased with the growth that we've seen.

And the ability to serve all of our customers, it's not just about being the leading core provider as in K-12, as you know, McGraw Hill already is. But it's also about providing supplemental material to help students beyond the core. And that's something that we focused a lot of attention on. We see a lot of growth coming from that sector, David.

And I think it's exciting for us. Core is still the majority of our K-12 business. but we definitely see serious growth opportunities ahead in supplemental and intervention.

Robert Sallmann
Executive VP & CFO

And I'll add, that's where we saw us expanding our portfolio ahead of the larger market opportunities in Math. So we have a full portfolio to address that opportunity, which is exciting for us. I think we're very well positioned as we think about the coming years.

Operator

Your next question comes from the line of Faiza Alwy with Deutsche Bank.

Faiza Alwy
Deutsche Bank AG, Research Division

I was also going to ask actually about the supplemental. And I think you addressed it on the prior question, but just specifically, I was curious, you mentioned the stat around 1,000 different tools that sit inside the average district. And I was curious, like, what do you think the real limitation is to kind of moving that or integrating that within the McGraw Hill offering. And I guess I'm just surprised that we still have that many tools. So I'm just curious if there is a limiting factor that the opportunity seems quite compelling.

Simon J. Allen
Chairman

Yes. That's -- you're exactly right. We too, frankly, Faiza, we were also surprised. I mean, it's a bit of an outrageous statistic to be honest. And you imagine for schools, just how do they cope with that level of supplementary material or tools that they are expected to review?

I mean, it's impossible to think about. I think like we do with a lot of the AI material that we've provided and you know this, the focus is on providing teacher relief. It support for the teacher, giving them more time to be with their students directly and that's never more evident than right now when you look at the number of applications they have to work through. It's become unwieldy. I think you could say that the core market in K-12, Faiza, you know this, the moats that we have is very deep and very wide. And it's a very difficult segment for any company just to enter.

When you look at supplemental intervention, there are dozens and dozens and frankly, hundreds of different companies. And I think that's where you get the overload of applications that may be where the school districts are going to struggle. There's just too much to review.

Our job is to make sense of the chaos quite frankly, and I think we can do that very effectively because no one understands the teaching community better than McGraw Hill, no one understands the product needs that they have that are genuinely helpful in how they teach and, it's all about the efficacious delivery of materials in a simplified way to help the teacher get through the day and really flourish with their students. That's why we're very optimistic as we think about simplifying the choices and making them better and easier for the teachers going forward.

Faiza Alwy
Deutsche Bank AG, Research Division

Great. That makes sense. And just -- I wanted to also ask about higher ed, right? I'm trying to reconcile some of your comments. And I know, Bob, you talked about a decline in revenue because of the tough comp. So -- but if I look at the numbers and not to get into the modeling details, but if I look at what you did in 4Q last year and what you did this quarter, it's not that different. You're still growing 24-something percent. So -- and I know you sound really good about the higher ed opportunity. So really just trying to reconcile sort of your optimism around the ability to continue to gain share versus sort of you talking about tougher comps.

Robert Sallmann
Executive VP & CFO

Sure. And I think we are very confident about the takeaways that we've seen, our ability to continue to take share. So that we're unwavering around that. There is some nuances as you think about our billings versus our revenue. You have contract duration and some mix. All of those things sort of result in some of these different comps that you're seeing. That's why I think it's important when you reflect on the full year when we're sitting having this conversation in June, and you'll reflect on that and say, okay, it's double-digit growth both in the billing and in revenue, which will reflect more of a normalized basis, right? And I'll take some of that noise of the contract duration out of that equation. But again, we feel very confident in our ability to continue to take share and our ability to continue to grow regardless of enrollment.

Simon J. Allen

Chairman

I think -- Faiza, I think just to be clear, I think some of the confusion maybe we look at all of our business on an annual perspective, as you know. And I think when you try and analyze quarter-by-quarter, it can be unhelpful, frankly. And I think Bob is saying we're not going to end the year at 24% up. I don't think that would surprise anybody.

But we look at our annual performance. It's how we operate the quarter is important for you to understand, and that's why we try and explain away issues as Bob has in the reserve case in this situation right now. But in terms of our higher ed performance, we will continually outperform our competitors, and we will absolutely show growth far higher than any other competitor once again.

Operator

There are no further questions at this time. I'll now pass it back to Simon Allen, Chair of the Board of Directors for closing remarks.

Simon J. Allen

Chairman

Thank you very much, and thank you all for dialing in. I know it's very late for some of you. And I appreciate very much your so many kind comments. And retirement is going to be interesting for me. I've got 3 -- I just had my third grandchild a couple of months ago. I've got a fourth coming in May. I am swimming in grandchildren. So I need an escape path. And many of you that have young children know that, and certainly grandchildren.

And my escape path is going to be a joyful Chair of this wonderful company. I will look forward very much to working very closely to Philip ongoing. I've got so much invested in this company, and I'm looking forward very much to being -- having the honor, frankly, of being Chair of the Board. And I look forward to further interactions.

But if I may, I'm going to pass over to Philip Moyer, our CEO, to close this out.

Philip D. Moyer

President, CEO & Director

Thank you, Simon. And before you're completely comfortable with that chair seat. I have to just say a very, very big thank you to you. You have impacted hundreds of millions of students' and teachers' lives over your career, and we're incredibly grateful for that. You've impacted tens of thousands of McGraw Hill employees. Your friendship, your leadership is just simply stellar.

And finally, on behalf of shareholders and the Board, I want to thank you for being such an incredible steward of the Red Cube and of this company and setting us up for the next generation. It can be more honored to be following you and thank you for staying on as Chair.

Simon J. Allen

Chairman

Thank you very much.

Philip D. Moyer

President, CEO & Director

And thank you, everyone. Back to you, moderator. Thank you.

Operator

That concludes the conference call for today. We thank you for your participation and ask that you please disconnect your line. Have a great day, everyone.

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