

## — PARTICIPANTS

### Corporate Participants

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**Danielle Kloebler** – Treasurer & Senior Vice President-Investor Relations, McGraw Hill, Inc.  
**Simon Allen** – Chairman, McGraw Hill, Inc.  
**Philip Moyer** – President, Chief Executive Officer & Director, McGraw Hill, Inc.  
**Robert Sallmann** – Chief Financial Officer & Executive Vice President, McGraw Hill, Inc.

### Other Participants

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**Stephen Sheldon** – Analyst, William Blair & Co. LLC  
**Ryan MacDonald** – Analyst, Needham & Co. LLC  
**Alexey Philippov** – Analyst, JPMorgan Bank International LLC  
**Steven Koenig** – Analyst, Macquarie Capital (USA), Inc.  
**Marvin Fong** – Analyst, BTIG LLC  
**George K. Tong** – Analyst, Goldman Sachs & Co. LLC  
**Faiza Alwy** – Analyst, Deutsche Bank Securities, Inc.  
**Jeffrey P. Meuler** – Analyst, Robert W. Baird & Co., Inc.  
**Toni Kaplan** – Analyst, Morgan Stanley & Co. LLC  
**Shlomo H. Rosenbaum** – Analyst, Stifel, Nicolaus & Co., Inc.  
**Henry Hayden** – Analyst, Rothschild & Co Redburn  
**Joshua K. Chan** – Analyst, UBS Securities LLC

## — 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 & Presentations 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 Kloebler, Treasurer and Senior Vice President, Investor Relations. Please go ahead, Danielle.

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

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Good morning. Welcome to McGraw Hill's fiscal fourth quarter and full year ended March 31, 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.

During today's call, we will be making forward-looking statements that are based on our current expectations and the current economic environment. These statements, estimates and projections are subject to significant uncertainties beyond the control of management as detailed in the cautionary language in our fiscal fourth quarter and full year ended March 31, 2026 earnings release, the accompanying Investor Presentation, our Form 10-K and 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 reconciliation are available in our earnings

release, the appendix to the 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, June 11, 2026, and have not been subsequently updated.

With that, I'll turn the call over to our Chair of the Board, Simon Allen.

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**Simon Allen, Chairman, McGraw Hill, Inc.**

Good morning, everyone. Fiscal year 2026 demonstrated the strength of our business, our strategy, and the enduring importance of education. Our mission to support learners and educators build human intelligence and power the future of learning has never been more relevant. In a year marked by rapid AI advancement and global uncertainty, McGraw Hill reinforced our position as the partner educators and learners trust most.

That foundation fuels our trajectory. As a data-driven learning company, we made significant strides in AI-powered innovation, launching new tools, expanding existing solutions, and deepening key partnerships that position McGraw Hill to lead the next era of AI-enabled learning.

This execution reflects the strength of our strategy, and the caliber of our leadership team led by the right person. Having worked closely with Philip over the last 120 days, the board and I have full confidence in his vision, and his ability to McGraw Hill's next chapter of growth. We are fully aligned and energized by what lies ahead.

I'll now turn the call over to McGraw Hill's President and CEO, Philip Moyer.

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

Thank you, Simon, and good morning, everyone. It's a privilege to step into the CEO role and lead McGraw Hill in this exciting moment in education and technology. My first 120 days have been filled with over 250 customer, team, industry and investor meetings. And it's clear that education is at a seminal moment.

Student populations are growing, the learning landscape is increasingly complex, and outcomes are more important than ever. Students, teachers, and institutions are looking for an enterprise partner they trust to ensure the next generation of students are prepared.

What is also clear to me is that McGraw Hill is uniquely positioned to be this partner. Our trusted content, our learning data, and our pace of AI innovation, along with the scale of our relationships are unmatched. And I believe we are positioned to be the global leader in this next generation.

McGraw Hill has a great financial foundation, and my focus for shareholders is to maintain our profit profile, reduce our debt, and accelerate our growth in fiscal year 2027 and beyond. I see many opportunities to lead in innovation, streamline and scale our execution, and profitably expand our TAM.

In fiscal year 2026, we exceeded our IPO expectations for revenue and adjusted EBITDA, and achieved several important milestones. Re-occurring revenue grew by 6%, and now represents over 73% of our total revenue. In K-12, our capture rate exceeded expectations despite the expected cyclical decline in the market.

In Higher Education, our net dollar retention reached 114%, and our customer satisfaction reached its highest level ever. In fiscal year 2026, we also proved that we could profitably accelerate

execution. We introduced a record number of curriculum offerings and AI learning tools, while improving our adjusted EBITDA margin by nearly 80 basis points year-over-year.

We now have launched eight AI learning tools, which served more than 7.5 million users, and we have three additional launches planned this fiscal year. We launched our California math curriculum and a new literacy curriculum, the latter of which is our single largest investment in curriculum in our history. We also introduced a K-12 AI curriculum designed to teach AI concepts and integrate them into the classroom learning.

As we enter fiscal year 2027, we see clear opportunities for growth. The market dynamics support a multi-year acceleration of revenue growth, and underpins our confidence in our medium-term framework for mid-single-digit plus revenue growth. Now, one of the most exciting areas I see that supports our growth expectations is the use of AI. While frequently asked by investors if AI will disrupt our business, I've rarely been asked that question by our customers.

Students, teachers, parents, and institutions don't want to park a child in front of a generic LLM and hope for a good outcome. They know that AI is only as good as its data and its training. And in my past 120 days, I've deepened my excitement about the competitive moat we are building in AI, train specifically for education and the outcomes we produce.

Our proprietary content catalog includes tens of thousands of courses spanning more than 500 subjects, mapped to hundreds of thousands of regulated learning objectives and academic standards across roughly 12,000 school districts and approximately 3,300 Higher Ed institutions. We build our tools to meet digital accessibility requirements, ensuring broad access for learners, and we have our student outcomes measured by independent third-parties.

We have over 100 million active licenses by students and educators of this curriculum. From this usage, we captured over 25.6 billion learning interactions, and have decades of data over 190 terabytes on how students learn, where they struggle and how instruction must adapt in real-time. This extraordinary content and data moat is what we use to build and tune our education-specific AI learning tools. It is also what we use to deliver a precision education experience, the right content, and the right question at the right moment.

I'm excited about our use of AI because I'm seeing how we are expanding this precision experience and creating new opportunities for TAM expansion. One great example is the emerging Agentic AI landscape. AI is evolving from answering questions to taking actions. But customers need purpose-built agents that they trust. As a result, we are being asked to be a part of new Agentic AI strategies in both education and non-education customers.

And I'm excited to announce that we are piloting our new Agentic AI tool that will make our precision education experience accessible as a trusted AI agent. This represents a new business model and one of several opportunities to expand our TAM. At the same time, we continue to enhance our core learning solutions with artificial intelligence. We are expanding our Connect platform with Learning Coach and AI conversational tutoring tool developed with Kyron Learning.

We've added new accessibility features to AI Reader, including translations across 38 languages, and we've created new AI literacy modules. As I mentioned earlier, the education market is not just asking for better tools. It is demanding measurable outcomes. In fiscal year 2026, McGraw Hill extended our trust with educators with meaningful improvements in student comprehension and grades, which is now validated by more than 100 independent researchers.

ALEKS, for example, continue to set the benchmark for adaptive learning, with math students achieving topic mastery more than 90% of the time. In Pennsylvania, elementary schools that were using ALEKS Adventure had first grade students improving nearly 25 points on math assessments, and second graders improving more than 55 points over the course of the school year.

AI Reader generated 57 million learning interactions across 2.4 million students, driving higher engagement with teacher assigned reading topics. And with our Sharpen tool, students engaged up to 4 times more with study activities than compared to generic AI tools. At Rowan College in New Jersey for example, students who use Sharpen achieved final exam scores 47% higher than peers who didn't use the tool.

Looking ahead, our strategy focuses on four priorities, strengthening the core, expanding our cross-sell opportunities, growing our addressable market, and driving operational efficiencies. In K-12, we're continuing to evolve our California math program to meet the emerging requirements of the market. This California math adoption cycle has been slower than expected, but 80% of the market remains undecided.

Also in K-12, we're entering one of the most important nationwide curriculum refresh cycles in this millennium, as an unprecedented amount of schools evaluate new English language arts programs. Since 2021, we've invested over \$100 million in our new Science of Reading ELA program, Emerge, Summit, and Soar.

This is our largest curriculum investment to date, and we're seeing early district wins, and a strong rubric of scores ahead of emerging opportunities. In Higher Education, we continue to gain share as institutions adopt inclusive access, expand their use of our Evergreen model, and seek more integrated learning experiences.

Fiscal fourth quarter marked our 40th consecutive quarter of market share gains in Higher Ed, with our share approaching 31% according to MPI. Our Net Promoter Score reached a record in the spring, and we saw strong retention and volume growth. We've also seen solid adoption of our new offerings in credentialing and AI professional development. Within our Global Professional business, medical education represents more than 75% of revenue.

The World Health Organization projects a shortage of 11 million healthcare workers by 2030. And this year, we expanded our offerings in the clinical training and AI-powered diagnostic simulations. We remain well-positioned to serve this market with our innovation and trusted high stakes learning solutions. Internationally, we see education market conditions improving.

Higher Education enrollment in Canada is stabilizing, and new opportunities in favorable demographic markets such as Latin America and the Middle East support a more attractive setup. ALEKS remains a key driver internationally, with Calculus now available in additional markets.

Looking to fiscal year 2027, we see a clear path to revenue growth, expanding margins and strong free cash flow. We've made significant progress in reducing our gross debt, and we will remain disciplined in capital allocation, which Bob will speak to shortly. We're looking forward to sharing a broader update on our long-term strategy and capital allocation framework at our Investor Day later this calendar year.

But after this first 120 days as CEO, I am more excited than ever. At McGraw Hill, we build human intelligence. Our mission has never been more important. Our assets have never been stronger, and our opportunity has never been greater.

With that, I'll turn it over to Bob to review our financial results, and provide guidance for fiscal year 2027.

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

Thank you, Philip. Fiscal year 2026 was defined by market share gains, margin expansion, and accelerating digital momentum. We exited the year with a stronger balance sheet, greater financial flexibility, and stronger pricing power, driven by deeper adoption of our AI-enabled solutions, all reinforcing our confidence in long-term value creation.

For the fiscal year, revenue was \$2.1 billion, above the high end of our guided range, and \$2 million above prior year. Re-occurring revenue reached \$1.5 billion, growing nearly 6% year-over-year, exceeding the high end of our guided range, reinforcing the durability of our model. The remaining performance obligation was \$1.7 billion, and will increase in the fiscal second quarter of 2027, reflecting the typical K-12 seasonality.

Fiscal year adjusted EBITDA was \$744 million, up 2% year-over-year, exceeding the high end of our guided range, with margin expanding nearly 80 basis points to 35.4%. During the fiscal year, we reduced gross debt by \$646 million inclusive of the IPO proceeds. We remain focused on achieving our net leverage target of 2 times to 2.5 times.

Turning to the fourth quarter. Revenue was \$464 million, down 2% year-over-year, reflecting a smaller K-12 market opportunity, partially offset by continued outperformance in Higher Education. Re-occurring revenue totaled \$373 million, while digital revenue reached \$393 million, representing 81% and 85% of total revenue, respectively.

Fourth quarter gross margin increased nearly 50 basis points, driven by operational efficiency and favorable digital mix. Adjusted EBITDA was \$131 million, with margins expanding nearly 40 basis points year-over-year, reflecting operational leverage and early AI efficiency savings, while we continue to invest in growth.

Turning to segment performance. In Higher Education, fiscal year revenue grew 12% year-over-year to \$879 million, with re-occurring revenue up 10% to \$734 million. Growth was largely driven by market share gains, which exceeded expectations alongside enrollment, pricing, and lower sales returns and the associated release, contributing roughly 3 points of growth.

Market share is now approaching 31%, according to MPI. Momentum continued in the fourth quarter, with Higher Education revenue increasing nearly 2% year-over-year to \$258 million despite more schools starting spring semesters later in the quarter compared to last year. Our spring selling season was a success with year-over-year activation growth and share gains supported by strong commercial execution and our Evergreen delivery model.

Evergreen, a continuously updated content delivery system that improves retention and frees our sales teams to pursue competitive takeaways. This remains a competitive differentiator in the market, and now represents 68% of Higher Education revenue. Demand by discipline was particularly strong in business and science, which represents subject areas where we over-index.

Underpinning that demand is the inclusive access delivery model. Inclusive access represents 56% of revenue in fiscal year 2026, and continues to expand as existing campuses adopt additional courses. As a reminder, we typically add about 100 new campuses each year, with those significantly scaling over the following two to three years. At the same time, our customer success organization continues to strengthen faculty partnerships, supporting retention, and driving net dollar retention of 114% in the fiscal year.

Turning to K-12. Fiscal year revenue was \$884 million, down 9% year-over-year, reflecting the anticipated smaller market opportunity and difficult prior year comparison. Re-occurring revenue grew 3% year-over-year to \$620 million in the fiscal year. Despite market decline, performance came in slightly ahead of expectations due to stronger capture rates in key adoption markets.

In the fourth quarter, K-12 revenue was \$126 million, down 10% year-over-year with sequential improvements, while re-occurring revenue declined 3% as prior year adoptions provided some durability. As we progress through the key selling season for the 2026 and 2027 school year, we are gaining real-time market intelligence.

In California, some districts are taking longer to finalize curriculum refresh plans amid higher volume of rubric choices, pilots, and tools available. We have always expected the California math refresh cycle to take place over a handful of years, but the phasing has been recalibrated as we learn more from prospective customers. This delay has allowed us to better customize our materials to the market's rapidly evolving and fragmented needs, and improve our capture rates in subsequent adoption years.

Importantly, the market opportunity and opportunity to win remains intact. In Texas, our math program has been well received, while state-sponsored curriculum has seen early successes due to upfront incentives provided by the state. Contracts have been shorter, reflecting a market in experimentation mode. Historically, districts and educators favor high-quality integrated solutions, and that pattern continues, giving us confidence in our ability to serve Texas in a very meaningful way going forward.

We have seen this dynamic play out clearly in Higher Education, where our win ratio against OER and AI-generated curriculum vendors has been 6 to 1. OER was often adopted through top-down institutional mandates. A poor outcomes drove educators back to us, reinforcing that education is more than information.

Pedagogical designs built with cognitive scaffolding, domain knowledge, and alignment to thousands of learning objectives and localized standards demand deep expertise. And this is where McGraw Hill excels. And toward ELA, the market opportunity remains attractive, and our capture rate is trending in line with expectations.

Looking ahead, we have visibility into several years of potential market expansion in K-12, driven largely by a nationwide ELA refresh cycle aligned with the Science of Reading. McGraw Hill has been preparing for this opportunity with our ELA programs Emerge, Summit, and Soar, which integrates McGraw Hill Plus, AI-enabled capabilities, and supplemental and intervention solutions.

Early momentum in ELA is encouraging. Colorado's Department of Education scored Emerge as the highest rated curriculum in the latest instructional material review for K-3. We're also seeing early wins in urban open territory markets such as Seattle, where McGraw-Hill has historically had lower penetration. The first major state adoption opportunity for ELA will occur in California starting in fiscal year 2028, with the state expected to publish its list of approved vendors later this year.

As a reminder, ELA is our largest subject area, representing approximately 40% of our historical K-12 revenue. So, early signals from our new ELA program position us well. The Global Professional business remains steady in fiscal year 2026, with 4% year-over-year digital revenue growth supported by medical content, and early traction from our AI-enabled solutions, which was partially offset by continued transition away from non-core print products.

And in International, while revenue declined 7% year-over-year due to macro pressure in select markets, we are better positioned across multiple key markets heading into fiscal year 2027, supported by new commercial opportunities. Fourth quarter performance was also impacted by Middle East project delays that have shifted into the second half of fiscal year 2027.

While we recognized a \$39 million impairment charge in the fourth quarter driven by geopolitical and macroeconomic factors, we remain confident in the underlying fundamentals and long-term

strategic importance of the global markets we serve, with the outlook improving in fiscal year 2027 as headwinds ease and positioning strengthens.

We ended the year with \$254 million in cash, and \$704 million in total liquidity with our revolving credit facilities remaining undrawn. During the year, we repaid \$646 million of gross debt, reducing net leverage by approximately 80 basis points, and lowering annualized cash interest expense by nearly \$45 million.

Despite entering our seasonal cash trough through June, we reduced debt by an additional \$50 million in the quarter, including buying \$40 million of our highest coupon notes in the open market at a discount, and we will continue optimizing our capital structure and future. Cash from operations was \$331 million for the year, while CapEx and product development was just over \$200 million. We generated \$335 million of unlevered free cash flow in the fiscal year.

Turning to fiscal year 2027 guidance, we expect revenue to be in the range of \$2.115 billion to \$2.175 billion, remaining consistent with the dollar expectations we established at the time of our IPO. We expect approximately 55% of the full year revenue in the first half of the fiscal year weighted towards the second quarter.

Reoccurring revenue is expected to be in the range of \$1.587 billion to \$1.627 billion, ahead of our IPO expectations, demonstrating a growing high-quality and predictable revenue stream. Adjusted EBITDA is expected to be in the range of \$750 million to \$790 million, ahead of expectations set at the time of the IPO. The implied adjusted EBITDA margin of 35.9% at the midpoint represents a year over year increase of 50 basis points.

Unlevered free cash flow is expected to reach approximately \$400 million, up roughly 20% year-over-year, with further growth anticipated in fiscal year 2028. CapEx and product development are expected to remain approximately 10% of revenue.

Our capital allocation approach remains balanced and disciplined as we continue to prioritize reinvestment in the business, debt reduction, and selective tuck-in acquisitions. Consistent with this approach, our board has authorized a \$50 million share repurchase plan, reflecting confidence in our sustained growth, strong profitability, and meaningful cash generation.

To summarize, fiscal year 2026 performance exceeded expectations and our fiscal year 2027 revenue outlook in dollar terms remains consistent with the trajectory we outlined at the time of our IPO. At the same time, our guidance for re-occurring revenue and adjusted EBITDA is above our IPO expectations, and we expect continued growth from these levels beyond fiscal year 2027.

The structural drivers of our business remain strong. In Higher Education, we expect continued share gains supported by durable pricing, while taking a measured approach on enrollment assumptions ahead of the start of the academic year.

In K-12, we expect improving trends as the market expands, supported by ELA momentum and the upcoming adoption cycle. In Global Professional, we will continue to prioritize growth in medical solutions, and in the International business, we are positioned more advantageously into fiscal year 2027.

Finally, a few modeling items for fiscal year 2027. Depreciation and amortization is expected to decline modestly versus fiscal year 2026, including \$208 million of intangible asset amortization related to the Platinum acquisition in 2021. Stock-based compensation is expected to be approximately \$15 million.

Cash and GAAP taxes are expected to be in the range of \$20 million to \$40 million, and GAAP interest expense is expected to be below \$180 million. These assumptions support GAAP net income in fiscal year 2027, increasing significantly compared to fiscal year 2026.

With that, I'll turn the call back to the operator for questions.

## QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. Your first question comes from the line of Stephen Sheldon with William Blair. Your line is unmuted. Please go ahead.

**<Q – Stephen Sheldon – William Blair & Co. LLC>**: Hey, good morning. Thanks. First one here just on the revenue guide for fiscal 2027. Can you help frame, I guess, it's probably for Bob, but frame at a high level what you're assuming in terms of segment level revenue growth, and especially as we think about K-12 and Higher Ed.

**<A – Bob Sallmann – McGraw Hill, Inc.>**: Sure thing. Yeah. So, as I think about 2027, how are we sort of positioning the business and certainly we're going to have continued share gains in Higher Ed, and you saw exceptional performance there, we see that continuing. You heard that, I said, we took a view of 1% enrollment gains in Higher Education for next year. We'll have to wait until we see students come on campus.

And then, when we think about our K-12 business, we've established what we see as a slightly smaller than our original estimates in the overall market by about \$100 million. As well as, we're just coming in at the lower end of our historical capture rates of about 25% to 30%. We could walk through that in greater detail, but we're seeing a couple of different dynamics playing out there as well. Really strong performance in open territory. We're continuing to take share. Supplemental intervention continues to be beneficial.

We're seeing some benefits in terms of retention rates. We're seeing our ability to see the funnel grow. And then, we highlighted in the prepared remarks around Texas and California, both of those markets are pretty dynamic. And while we're early in that cycle, we're performing slightly below our historical average there. So, when you take that all together, you'll see that we're at the lower end of that 25% to 30% range. And then, you'll see return to growth.

In the International segment, we talked about some of the opportunities in select markets. We feel really good about where that business is heading. And then, the underlying core Medical segment and Global Professional is at mid-single-digit grower, which gets offset by the tail of that print. And we believe we're at about the final year of the wind down of that non-strategic core print business. So, when I roll all that up together, Stephen, that's where you get that midpoint of our guide around 2%. We feel good about it, and we think it's been a prudent guide.

**<Q – Stephen Sheldon – William Blair & Co. LLC>**: Very helpful. Maybe just drilling down on the Higher Ed segment. Obviously, you had phenomenal growth there as we look back over the last couple of years. Maybe as we think about bridging expectations around fiscal 2026 growth to fiscal 2027, I mean, you talked about enrollment. I guess maybe how is that growth algorithm changing as we think about the next year relative to what you've been delivering over the past couple?

**<A – Bob Sallmann – McGraw Hill, Inc.>**: Yeah. Yeah, you're right. It's been an exceptional year and continued exceptional performance by the team. So, really pleased there. That 12%, let me break it down for you. The biggest driver of that is that ongoing sustained share gains. That will continue. We also benefited from enrollment, 3% to 4% of the growth was enrollment-related.

You may have seen National Student Clearinghouse called 1.3% growth, we had 3% to 4%. The reason for that is the strength of our business and science courses as well as over-indexing to the two year colleges. So, when we look at our results, we had greater enrollment rates than the National Student Clearinghouse stated rates.

The other thing is that, historically called out about a 1% net price, which is inflationary price offset by the movement into inclusive Access models. This year, we actually realized closer to 2%, and

that's largely given all the additional features, all the value. As a reminder, we go through a value selling process, and as we add value to our customers, we're able to realize greater price.

And lastly, and this would be the component that's not re-occurring. This would be the 3% benefit we had from a sales returns. As we continue to move more digitally, we saw less returns come in, and then the corresponding reserve, we also lowered. So, that had about a 3 percentage point increase year-over-year, and we don't expect that to continue. So, that's where we landed at that mid-single digit growth as we think about the outlook.

**<Q – Stephen Sheldon – William Blair & Co. LLC>**: Very helpful. Thanks, Bob.

**<A – Bob Sallmann – McGraw Hill, Inc.>**: You bet.

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

**<Q – Ryan MacDonald – Needham & Co. LLC>**: Hi. Thanks for taking my questions. Maybe shifting the conversation to the K-12 segment. Obviously, it sounds like a nice strong year there in the segment and sort of some good momentum, sort of closing the year. Can you just talk about what exceeded your expectations the most within K-12 or pockets of strength?

And then, how is this informing your view a little bit more? How much of a shift change are we seeing within a few of those key states, Florida, Texas, California, as we think about how you're looking at the landscape in fiscal 2027 versus maybe future years? Thanks.

**<A – Bob Sallmann – McGraw Hill, Inc.>**: Sure, Ryan. Yeah, 2026, we did exceed our expected capture rates. And as I highlighted, we are at the high end of that 25% to 30% range. Where is that coming from, right? We have continued strength in our science program.

As we talked about last year, exceptional performance in Florida and Texas in science program. Now, we saw that in other adoption states like Tennessee and Alabama, as well as into the open territories. So, science continues to perform above our historical rates. We also saw success in Florida ELA and some other open territory areas. So, really pleased with that performance.

Moving into sort of the 2027, how do we think about it? As I mentioned, open territory continues to perform well, and I do believe we've bottomed out with respect to our supplemental intervention, meaning the extra dollars are behind us, and we're actually seeing some opportunity for meaningful growth. The pipeline's increasing in a meaningful way in supplemental intervention, and our retention rates are also growing. So, I think we're very well positioned there.

We're watching closely Texas math as well as California math. We did see the California math market shift a little bit, while the overall size of the market remains intact. And I always knew it was a multi-year adoption cycle. The overall timing has just shifted a little bit because of a few large districts moving into fiscal year 2028. And then, we just watch as we move through the selling season, we're watching closely our win rates, and right now, we're falling a little behind our expectations, but we're still in that selling season.

**<A – Philip Moyer – McGraw Hill, Inc.>**: I would just add one thing, and it's related to both math and to ELA literacy. Literacy for us is approximately 40% of our revenues, math approximately 20%. And the two markets are very different right now. The way you teach math is very undecided. The pedagogy is not agreed upon by districts, by teachers, and certainly not by states. It's a very fragmented market, and that's what we're seeing in California.

There's a lot of confusion. We've talked about the sheer number of companies that are bidding in California, and it's because it's so fragmented, and there's such a lot of discourse still in how you

teach math. Literacy, I don't think we've ever seen a market like this. There's now 42 states in the United States, as well as a bill in the Senate that is mandating the way to teach literacy, which is the Science of Reading. That is an extraordinary legislative backdrop. We also think it can lead to a potential super cycle in the area of literacy.

We've made the largest single investment in our history in literacy curriculum, Emerge, Summit, and Soar, and we've been bringing that curriculum out. We're kind of in year zero of it. And the exciting thing about it is that we scored the highest score on the Colorado rubric. We won large districts like Seattle. We just won in Kansas as an example.

We're winning in districts that we were not even expected to be in the literacy market and the big districts. And so, one of the areas that we're excited about that momentum is building is in, as I mentioned, 40% of our business, which is the literacy market. And so, it's a big area for us that we are excited about in 2027, and some really early optimistic wins.

**<Q – Ryan MacDonald – Needham & Co. LLC>**: I appreciate all that color there, both Bob and Philip. But maybe as a following up on the literacy opportunity, because it does feel like a huge opportunity over the next three to five years here. Given there's that sort of state-level mandate and almost nearly blanketed across the country, how are the states viewing sort of the opportunity versus sort of companies and vendors like McGraw Hill versus maybe rolling out additional state-owned OER kind of curriculum like you saw within Texas math. Like, is that a potential risk as we think about how this market evolves over the next few years? Thanks.

**<A – Philip Moyer – McGraw Hill, Inc.>**: Yeah. I really haven't seen a contagion or similar movements in other states as it relates to literacy as Texas in Bluebonnet math. I'll start with that first of all. The other thing, a few things that you should know.

With our literacy, probably one of the few programs in the entire United States that is using the Science of Reading and it is multilingual for most of the grades. And so, you have to have a commitment not just around the program, but also around multi languages. And then, the investments that we make in accessibility for these programs is pretty extraordinary.

The third thing is that, the balance of screen time versus paper, it's a really delicate balance. Early on, you actually – most districts are asking for less than 20% – 20 minutes per week of screen time, which is something that we do.

And then, as you get a little bit more self-regulation, you can introduce more screens. But literally, the balance between a curriculum that is holistic, literally starting in kindergarten all the way up to a 12th grade, doing it in a multilingual capacity, making sure it's accessible and then making sure that you've got the right balance of screen times. It's a really, really hard thing to do.

And as mentioned, it's one of the largest investments. We've made over \$100 million investment in this literacy program. And as mentioned, we're scoring that highest in the rubrics. And that Colorado rubric, by the way, is something that other states actually depend on in addition to third-party assessments. And so, you have to have your program assessed by third-parties, you have to have it evaluated by states. So, you have to make sure that you've built it the right way.

So, we're just not seeing states move into that in the same way that we saw Texas experimenting with Bluebonnet. And the other thing I would just mention is related to the Bluebonnet. One of the challenges I think that other states are looking at is that we just recently announced there was over 4,000 errors in that curriculum, and you just can't take that kind of risk with the literacy program.

Operator: Our next question comes from the line of Alexey Philippov with JPMorgan. Your line is open. Please go ahead.

**<Q – Alexey Philippov – JPMorgan Bank International LLC (Moscow)>**: Hi. Thank you. Yeah, a question to Philip. Maybe a bit more to elaborate on the Science of Reading program, and the opportunities to capture that. Is there a way to quantify that? Is it like a TAM expansion for you and which years do you expect this to fall?

**<A – Philip Moyer – McGraw Hill, Inc.>**: I think, it's – we look at the TAM expansion as an international opportunity. The need for Science of Reading is not just here in United States. It is global. As I would say, the previous ways of teaching literacy around the world was highly variable. As I mentioned, it's 40% of our revenue. Our program in the past Wonders actually generated over \$1.5 billion for us over the course of 10 years.

And so, we look at it as both potential global TAM expansion, and then also, I'll call it, TAM acceleration here in the United States. I mentioned before, I don't think we've ever seen a legislative environment like this before, where 42 states are now mandating this is the way to teach. There's been a lot.

One of the biggest challenges right now across the educational institutions across the United States is the challenge in literacy scores, and it's disappointing to see that 83% of the states have moved backwards. We're at roughly about a 33% reading on grade-level right now. It is in a lot of ways, a national crisis and an international crisis.

And so, the fact that it is now been settled, that Science of Reading is the way to teach. It's really what's called a phonics-based approach as opposed to a whole language approach, really important. And so, we're seeing, as I mentioned, a lot of districts that, quite frankly, were not in our pipeline at the start of last year, coming to our pipeline. We've landed relationships that we weren't expecting to land.

I was just recently up at a elementary school up in Chicago that reached out to me personally to start using our literacy program. So, really extraordinary momentum that we're seeing in that space. So, we see, I'll say TAM acceleration. We're just in the early stages of quantifying it. So, we'll come back to you with more details as we're able to start assessing that.

**<Q – Alexey Philippov – JPMorgan Bank International LLC >**: Yeah. Thank you very much. And a quick technical on this International impairment, can you elaborate on that? You sound like you expect International to kind of accelerate from here. How to square that up with the impairment that you recognized? Thank you.

**<A – Philip Moyer – McGraw Hill, Inc.>**: We look at International, it's really important to kind of get a sense, I think that I spoke about this in the last call that we look at the education market as about a \$7.3 trillion market on a global basis. The middle class is growing in areas like Latin America, the Middle East. We've got some great traction in those marketplaces.

As the middle class grows, middle class tends to spend approximately 2.5% on education. And so, those markets, I was just recently in Latin America, and I was just simply, I'll just say, so impressed with the work that was going in K-12 and high schools, completely dedicated to science, to universities. I spent some time with the university that had over 300,000 people enrolled in it.

And so, we're really excited about those opportunities internationally, and we are seeing growth in those markets. And so, internally inside of the company, we're better aligning to be able to be more reactive to local requirements, language requirements, cultural requirements, pedagogy.

And we do view it as a great opportunity for growth for this company. And that's across literally our K-12 segment, our University segment and then also our Medical segments. And so, you'll see us focusing on how we are a part of that really exciting growth worldwide.

<Q – Alexey Philippov – JPMorgan Bank International LLC >: Thank you.

Operator: Our next question comes from the line of Steve Koenig with the Macquarie Group. Your line is open. Please go ahead.

<Q – Steve Koenig – Macquarie Capital (USA), Inc.>: Hi, there. Thank you. It's Steve Koenig from Macquarie. Congratulations on the solid quarter and solid year. Question here for Philip. We noted your AI Blueprint posted with earnings materials. Super helpful in understanding your AI strategy. Maybe can help us understand how that strategy compares with your competitors?

And maybe the second part of my question, if I may, is about Open Educational Resources, which you mentioned in your remarks and you did reference Bluebonnet math in your Q&A. Just curious, how do you think about where AI and Open Educational Resources are headed? Thanks very much.

<A – Philip Moyer – McGraw Hill, Inc.>: Thank you very much for the question and thanks for reading AI Blueprint. We're really excited about it. I think I mentioned that we talked about the fact that we have over 7.5 million users of our AI solutions. And these are tools that just came out over the past 18 to 24 months. And so, we're pretty excited about the early traction that we're seeing, and there's a lot more ahead.

I think a lot of individuals that come into the education industry have a lot of misconceptions and they vastly underestimate what's necessary in this marketplace. And so, you'll see a lot of startups that come in, you'll see some organizations that have some curriculum or some tools.

And the thing that differentiates McGraw Hill is four things. First of all, the deep pedagogical curriculum. From the outside, most people don't realize that you're taking sequences of information, something like in literacy, you have to weave together a thousand separate learning requirements. In mathematics from K-12, over 4,000 learning requirements. You've to sequence this sequence this content.

So, it's not just about just putting out a textbook or a piece of curriculum, you literally have to sequence it right down to the week. What is a third grader doing in their seventh week? And when they have an assembly, how do you, kind of, squeeze in addition, subtraction, and multiplication tables? So, that sequence of content is hard.

We have literally hundreds of thousands of titles that we've been doing over the course of our history, tens of thousands that are sequenced across 500 different subjects, where we sequence how a learner learns. That's literally in many cases from K– through 12 years of their life. So, that content is a huge moat versus other organizations.

Second thing is that we have these tools that do personalized delivery. Sharpen is a great example, it's a study guide that we use. Rowan College, a professor there analyzed it and said that the 60% of the students that were using it in his class got 47% higher grade in their final exam, and 21% higher total grade.

We had children in the ALEKS Adventure, where we saw 25 percentage point increases in their grades, and second graders 55 percentage points. And so, personalized delivery, whether or not you want to listen to a podcast, you want to see it visually or you want to gamify it. So, that personalized delivery is the second thing.

The third, and this is critical in an era of outcomes, is our data. We have over 190 terabytes of data. We get about 25.6 billion learning interactions per year. Now, when you're training AI, you need to know when the AI is on task or off task. And we sense this at a very fine grain level. We can say for

a subject like algebra, out of the 2 to the 500 power of where you're at in your learning journey, precisely where you're at. So, that data is critical.

The last is being able to integrate this into workflows. And we have one of the largest and most, I would say, impressive since I got here, I'm seeing it, customer success organizations and go-to-market teams, where they're actually working to integrate this into the classroom.

Every school that I visited, every teacher that I visited in K-12, they've asked, it's not just enough to produce this, show us how to use this in the class with different types of learners. So, the four things that we have are content that is ordered pedagogically. The second thing is personalized delivery. Third is data, and the fourth is this ability to be able to close the last mile.

Now, one of the things that's most interesting, and I mentioned this in my comments, out of the dozens and dozens and dozens of schools and teachers and administrators that I met, investors have asked me will AI disrupt our business? But our customers are not. They're thrilled that we're adopting AI and that we're making it simple to them. They see the value of what we produce. And this is really borne out in the OER market.

I think I've heard from a lot of people question, well, can I just take your OER like a Bluebonnet and couple it together with AI and boom, there's my curriculum. The reality is that we're winning almost 6 times, as many times as we're not with OER. So, for every unit of OER that we lose to, we win six in terms of our outcomes.

And we're seeing a lot of organizations in a world of AI tools, in a world of OER, we're actually seeing a lot of win backs, where organizations and individuals are coming back to us because they're realizing the complexity of this. You have to tie together assessment. You have to tie together pedagogy, and you have to make it work inside of the workflow and how the student learns. So, a really exciting time for us.

**<Q – Steve Koenig – Macquarie Capital (USA), Inc.>**: Fantastic. Thank you for that color, Philip. Appreciate it.

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

**<Q – Marvin Fong – BTIG LLC>**: Great. Thanks for taking my questions and congratulations on the results. Maybe start with a bigger picture on guidance, and just sort of how you formulated that, what's your philosophy behind the guidance you provided on both revenue and EBITDA for not only 2027, but just structurally, how do you think about constructing your guidance?

**<A – Bob Sallmann – McGraw Hill, Inc.>**: Sure, sure. Thanks, Marvin. Consistent with how we've done this in the past, and even if we rewind back to the forecast models we've provided during our – the IPO and the roadshow, we've built this process and we're consistently following that. And what we do is we understand what information we have at this point in time.

And again, we're early in the selling season with K-12. We've provided some insights around enrollment for Higher Ed. But based on the information we have at this point in time, we provide that as our – as the midpoint of our guide, both on revenue and EBITDA. And then, what we do is, we provide a range and consistent with what we've done in the past, that range provides for different outcomes, right? Should enrollments increase, should capture rates change. All of those things are reflected in that range.

And then, ultimately, what we'll do is, we'll revisit this as we move through that. And ultimately, once we start seeing students on campus, which, as you know, is after our second quarter, that'll

allow us to have greater insight as to the remainder of the year. So, we're following a consistent approach that we've done in the past.

**<Q – Marvin Fong – BTIG LLC>**: Perfect. And my follow-up, maybe just something that you mentioned, Philip, in your prepared remarks, just about growing your addressable markets. I think you've mentioned non-educational as well as educational markets. Maybe with respect to like AI and agentic tool, could you just kind of expand on that, that does seem like an interesting point as you try to grow the top line? What are these kind of new markets you're thinking about?

**<A – Philip Moyer – McGraw Hill, Inc.>**: One of the most impactful visits that I had was at a Medical School, and I was in a meeting with a professor, and he just come out of the American Medical Association. He talked about this concept of precision education.

If a particular doctor had not studied or not worked with a particular patient population, how do you really make sure that that doctor, when they're walking into a situation, is able to have education just in time, right at the right moment? And this is an actual – this is a trend across lots of organizations -- just in time education.

And so, and one of the most interesting things with the American Association of Medicine it that it has just given out 12 grants for precision education for addressing this exact concept of really making sure that doctors in the medical profession are able to get the right education at the right moment, especially in a changing world of education.

I read a study recently that in both computer science and medicine that the number of medical papers is doubling every single year. So, it's an extraordinary amount of knowledge that's coming out. I've talked in the past about the multi-trillion dollar industries that are emerging and the sheer amount of knowledge that humans have to now learn, not just in K-12, but throughout their entire lifetime.

What we announced today is that we're starting to pilot this concept of agentic curriculum. And that is the ability to be able to consult a curriculum using agentic technologies, MCP as an example. One of the organizations, actually, two of the organizations are not traditional education companies that are actually piloting, that are working with us and starting to pilot our content.

These are organizations that are in the healthcare industry that actually don't educate, but they just have professionals that are working in medicine and working in pharmaceuticals that are actually want to be able to consult our content.

And so, I look at the lifelong journey of a learner. Increasingly, McGraw Hill wants to connect that journey from the earlier stages to any stage in your life, whether or not it's continuing education or whether or not it's professional education. And agentic technologies are going to allow us to do that.

One of the things that I've talked about in the past is where I expect AI to go and for companies like us, there's going to be a knowledge economy, where you'll be able to plug in knowledge, you'll be able to plug in knowledge agents. Right now, we are experimenting with a knowledge agent. We view that in the same way that there's these token-based models in artificial intelligence, prompt-based business models, we view this as an opportunity to expand the accessibility and the, I'll say, the business model for McGraw Hill over time with this new knowledge economy that's emerging.

**<Q – Marvin Fong – BTIG LLC>**: Yeah, that's terrific. Thanks so much, guys.

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

**<Q – George Tong – Goldman Sachs & Co. LLC>**: Hi. Thanks. Good morning. I wanted to dive deeper into the agentic curriculum opportunity. Can you share more color on the timeline to launch, as well as the pricing model and wallet opportunity?

**<A – Philip Moyer – McGraw Hill, Inc.>**: Sure. George, thanks very much. Thanks very much as well for your – the AI framework that you've put out. I really enjoyed reading it, and really agree with the core concepts around the opportunity ahead. So, agentic, for us, we just – over the course of the past few months since arriving, I've spent a lot of time with the team, and the team has really moved quickly. I talked in my last call about the excitement that I have around innovation.

Since I arrived, we've been able to actually build and startup to internally pilot the agentic technologies, and we're just starting to move into agentic pilots with external customers. This has been something that's been asked for by lots of universities, lots of non-education organizations. It's been asked, it's being requested, a safe way, I'll call it an auditable way of being able to deliver our content.

I think that there's been a choice up to now where either you take all of your content and throw it inside of a large AI model and you lose control of it or you don't do anything in AI. And then, this agentic technologies allows us to safely be able to answer any question and be able to monitor, be able to secure it in the same way that you would with an API. I view it almost like you, call it, a cloud for knowledge or an app store for knowledge.

And so, it's exciting technology. It's a technology that only came out over the past roughly about 12 or 18 months. And these standards are just starting to emerge in the AI world, MCP, and agentic technologies. And so, really excited about the fact that team is able to build this quickly, and we're moving the pilot.

Now, if you look at what's happening in the world of AI pricing, I think you're seeing that pricing is all over the map. I saw some stories over the past 24 hours that OpenAI may drop its token prices. We're seeing SaaS companies have a whole variety of pricing models. In some cases, it's simply an upcharge, in other cases, you're actually getting charged by the token.

What we're headed in the pilot to do is to really understand how our customers use this. And in education, as you can imagine, they want predictability. They don't want some AI agents, it's going to charge them potentially by the question they have no control over. And certainly, that becomes an extraordinarily expensive proposition for the University, for the K-12 school, for the Medical School and for the student.

And I would tell you that I'd mentioned before that there is tool fatigue, where you have as many as 25 different logins for students, 40 logins for professors. They want simplicity. And so, we're going to experiment with the business models over the course of between now and the end of the year to determine precisely what's the best model for education. And as a result, we think that we're going to be able to go after kind of new wallet share and as well simplify this.

So, I'm seeing, the world – when I was in cloud, I watched a lot of organizations start adopting the cloud and then costs went out of control, and they had to quickly get control of it. We're seeing the same thing in the world of AI, where costs are quickly getting out of control and now financial, FinOps, as we call it is coming to AI. And so, we're going to really make this simple.

We're going to make it streamlined for the user and we're going to have a business model that is probably better than that a student or university could get on their own. So, we'll bring you more information on that as the business model emerges over the course of the next six months.

**<Q – George Tong – Goldman Sachs & Co. LLC>:** Got it. That's helpful. And then, in K-12, can you discuss where in the historical 25% to 30% capture rate range you expect to land in fiscal 2027?

**<A – Bob Sallmann – McGraw Hill, Inc.>:** Yeah, George. We anticipate we're going to be at the low end of that range.

**<Q – George Tong – Goldman Sachs & Co. LLC>:** Any color on how that evolves over the course of the year and opportunities for improvement by state?

**<A – Bob Sallmann – McGraw Hill, Inc.>:** Yeah, I think the areas that we are most focused on for upside will continue to come in the open territory and supplemental intervention. And so, we'll continue to watch that. And then, like I mentioned, Texas and California, as we continue to see more calls, we'll monitor that closely. But the areas that provide me the most excitement is around supplemental intervention, where we have 5% share. That represents about 15% of our overall K-12 revenues, as well as open territory.

**<Q – George Tong – Goldman Sachs & Co. LLC>:** Got it. Very helpful. Thank you.

Operator: [Operator Instructions] Your next question comes from the line of Faiza Alwy with Deutsche Bank. Your line is open. Please go ahead.

**<Q – Faiza Alwy – Deutsche Bank Securities, Inc.>:** Yes, hi. Thank you. I just wanted to put a finer point on your messaging around K-12, because from what I see, it seems like there's been a pretty significant backlash from parent groups around digital tools and technology in the classroom. And a lot of parents are wanting to go back to paper and pen. Is that hurting you? And is that kind of – is that why you're kind of at the lower end of that capture rate or do you see that as an opportunity? Just would love to get your perspective on that.

**<A – Philip Moyer – McGraw Hill, Inc.>:** Thank you very much for the question. It's a question we get asked a lot is screen time. And this actually is a significant strength for McGraw Hill, because we have such a strong history of being able to deliver education in whatever way a school or student requires. And today, we're one of the few organizations that is in the world that can deliver everything from AI to paper and vice versa.

And what we're seeing first and foremost, is, yes, screens, especially for earlier learners, there's a negative correlation between screen time and comprehension. There has been a lot of studies around this topic. And what we're seeing is this idea of really self-regulation, the ability to self-regulate when you're on a screen is simply lower in a lot of cases, and you don't have as much, I'll say, dwell time on the subjects.

In paper, we see as much as three to four times more dwell time and rereading of content, that's engagement. Engagement for a learner drives comprehension. And so, that balance, I think is something that's really people are waking up to. And over the course of the past few years, the social media has really been driving up a lot more screen time, this has become an increasing focus.

And we're seeing a lot of schools that are banning screens right now in the classroom, or I should say mobile phones as an example. I think we're up to over 30 states in that space. And so, distraction is real comprehension – lack of comprehension is real when there's more screens. Now, with that being said, there is a place and a time for screens.

When I take something like our Emerge product, as I mentioned, we are down at roughly about 7% or 20 minutes per week of screen time for Emerge. It was one of the most important questions that

was asked in Seattle by the board when they were deciding to adopt our product. What screens are really good at is actually assessment.

And so, you take a product like our ALEKS product for algebra. Within 25 questions, we can tell you precisely the 500 skills that a student needs to have, how many they have, with just 25 questions. And so, as an organization, we've invested – we have third-parties that assess how we do, how we develop our curriculum and also how we deliver.

We have school boards that evaluate our outcomes, and then we also do a tremendous amount of testing. We have over 7,000 teachers in the network and over 2,000 students that we use when we are – we use for testing that we tap into that network before we release a product.

And so, McGraw Hill is one of these rare companies that can start all the way at kindergarten with paper and workbooks and reading passages on paper, move into bite-sized assessments, and then all the way up into learning tools, study tools like Sharpen and up in Higher Education and even things like clinical reasoning, where we're simulating parents in medical, up in the medical field. So, we have maybe one of the most, the widest and most diverse ways of – about delivering reading, I'm sorry, learning. And it really is a strength that's unmatched, I would say.

**<A – Bob Sallmann – McGraw Hill, Inc.>**: And Faiza, just to reiterate, should that movement strengthen, we see that as a benefit to us, and that which should increase our capture rate over time.

**<Q – Faiza Alwy – Deutsche Bank Securities, Inc.>**: Understood. And then, if I can just follow up on capital allocation and your expectation for cash flow generation in 2027. I know you announced a new buyback, so just any more color there would be helpful.

**<A – Bob Sallmann – McGraw Hill, Inc.>**: Sure. So, I'd say we're being consistent with a disciplined approach as we think about our capital allocation. And I've always said the first place we deploy capital is on our organic internal opportunities, those have the greatest ROI.

And then, we take that excess surplus cash flow and determine where do we place it. We put it into deleveraging, which we've demonstrated over the last year with \$646 million of pay down and our commitment to the 2 times to 2.5 times. We remain committed to that, and we're going to continue to do that as we demonstrated to pay down.

And then, we balance that with M&A and the funnel looks really good. As I look at a couple of opportunities as Philip and I just yesterday, we think there's some meaningful acceleration of our funnel, of our product development funnel. We think there's near adjacent products that we can acquire into. So, I'm optimistic, we'll get a couple of deals done this year.

And then, ultimately, we look at the opportunity for share buyback, and we see it as a way to create value for our shareholders. We have conviction in terms of our long-term outlook, the cash generation of the business, as well as our board. So, we'll balance that, and you see that with the opportunistic open market purchase of \$50 million that the board approved. So, I would say it remains consistent with that disciplined and balanced approach.

And then, from a free cash perspective, I think you should be looking at the K-12 market that really dictates that cash conversion, 50% to 100% where we sit in that adoption cycle. And given where we see the overall size of K-12 in 2027, we're at the lower end of that range.

**<Q – Faiza Alwy – Deutsche Bank Securities, Inc.>**: All right. Thank you very much.

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

**<Q – Jeff Meuler – Robert W. Baird & Co., Inc.>**: Yeah, thank you. Good morning. As I look at slide 27, the K-12 core purchasing schedules by year, can you give us any sense of how ELA as a percentage of mix evolves by year? And then, just within math, any initiatives or adjustments that you can talk to, to improve the capture rate? Thank you.

**<A – Bob Sallmann – McGraw Hill, Inc.>**: Sure. ELA becomes more meaningful as we move on. And I think that also not just as we see California ELA, but if you look in that lighter gray bar section, as we see that super cycle being rolled out, ELA becomes a bigger component. And the highlight for us, that's been 40% of our revenue.

So, we see that becoming more and more important over time. As I highlighted, as we've said before, 80% of the California math opportunity remains. And so, the overall opportunity stays about the same size, about a \$1 billion market with 20% of that being called in the first year.

**<Q – Jeff Meuler – Robert W. Baird & Co., Inc.>**: But what are you doing to improve your capture rate? I get that there's still a lot of opportunity, but it sounds like your capture rate for California math is also lower than you expected. So, I guess what are the messaging or curriculum or tech adjustments or just how are you going to improve it?

**<A – Philip Moyer – McGraw Hill, Inc.>**: In California, there's a number of – as I mentioned at the start, there's a number of techniques for teaching math. I'll give you an example. Open inquiry is one technique where you can talk about walking into a pizza shop and needing to be able to serve enough people with the pieces of pizza. And then, there's a kind of a linear or spiral approach where you start off talking about fractions, and then you really explain fractions, and then you work your way into inquiry.

The market is very fragmented. In California, it's very fragmented around the world right now about how we teach math. In the very first year, what we've seen is that there were approximately 26 different organizations that were bidding on California math, and it really represented a wide variety of ways that you can teach math.

And so districts, we watched a lot of districts push off decisions, because there was so much confusion and there was not necessarily consensus at the school board level or among the teachers about which tool was going to represent the way that they wanted to represent their pedagogy.

And so, while seeing that, we also were able to get a lot of feedback around some of the materials that we had just rolled out, we had accelerated our California Math program. I think I also mentioned that over the past, I'd call it, 12 to 18 months, we've produced more curriculum than we ever have in our history with some of the biggest programs rolling out. Things like California math, as well as our ELA program all simultaneously, also having to support multilingual.

And so, with that being the case, when we rolled out the product, we've been getting feedback among the districts that have been selected us, and also the districts that haven't selected us. And we're quickly responding to all of that feedback. We're really making sure we're accentuating, with the District open inquiry, we're accentuating it even more. If a district is not on open inquiry, we can accentuate it slightly less the way that we deliver the materials.

And so, we're in – and this is one of the strengths that I think that really you should dwell on with McGraw Hill. We're one of the few companies in the world that can actually deliver pedagogy down to the zip code or down to the professor level. And our ability to be able to respond at scale, multilingual offerings with pedagogy, with materials, whether or not it's paper, whether or not it's screen time, we're one of the few companies that can respond at this scale.

And so, we're in the process of demonstrating our strength as an organization and our strength of understanding the local requirements, and then also our ability to be able to produce them, and we're in that process. As 80% is still to be decided, our teams are out working with the districts that haven't decided. We're making sure that our materials are reflective of the exact pedagogy that the local districts need. And so, we're excited for the next selling year.

**<A – Bob Sallmann – McGraw Hill, Inc.>**: And Jeff, I'll highlight. We've demonstrated the ability to course correct in the past. We saw that in Florida Social Studies a few years back, where we had our first year slightly below expectations, and we had a nice recovery in year two. So, we're following that playbook, same playbook, and we've done this before.

**<Q – Jeff Meuler – Robert W. Baird & Co., Inc.>**: Got it. Thank you.

Operator: Your next question comes from the line of Toni Kaplan with Morgan Stanley. Your line is open. Please go ahead.

**<Q – Toni Kaplan – Morgan Stanley & Co. LLC>**: Thanks so much. I feel like there's a few different factors here that are leading to the lower win rates and capture rates. The California delay, the Texas Bluebonnet, and then, I guess and maybe there are others. But I guess, when you think about it, which is the most meaningful, which is the one easiest to sort of see a reversal of how long does it take for a state to maybe make a decision, and then sort of turn around and say like, well, maybe we should be trying something else instead? Or does it just have to play out? Thanks.

**<A – Bob Sallmann – McGraw Hill, Inc.>**: Well, interestingly, what we are seeing is the reaction from teachers in Texas and the response to our product has been very positive. We're also seeing shorter duration contracts, which means that they're still in that experimentation mode. So, we think that market can turn around the next couple of years.

Fortunately, California still has 80% of the market to be called, so we still have opportunity to course correct. So, we think those are two areas. But I do want to highlight the strength that we are seeing in open territory, we're gaining share and we're winning there, as well as our supplemental intervention. So, I really want us to have a balanced view there, and then the short-term opportunity to course correct in both Texas and California Math.

**<A – Philip Moyer – McGraw Hill, Inc.>**: I would add in one of the interesting things. I would just add one minor thing. I think that some of the districts are starting to work with tools and very quickly realizing they've got diverse learning individuals inside of their district, and the lack of accessibility in some cases, whether or not it's with OER materials or whether or not it's in particular tools.

Our investment in accessibility is becoming an increasing strength in how we deliver. And so, we're seeing organizations that are turning around and saying, we didn't realize this tool or this curriculum, didn't have the accessibility that we required. And so, to Bob's point, we see one to two year contracts that to us feels like experimentation, and we're going to continue to deliver right materials for the right types of learners.

**<Q – Toni Kaplan – Morgan Stanley & Co. LLC>**: Great. And then, looking at slide 27, we've got our rulers out trying to do the estimates of the market for the coming years, just given no number there.

**<A – Bob Sallmann – McGraw Hill, Inc.>**: Yeah.

**<Q – Toni Kaplan – Morgan Stanley & Co. LLC>**: So, my main question is, as it looks like in 2028, all other states outside of the big three pretty flattish with 2026 and 2027 and maybe even 2029, a little flattish as well, a little bit of improvement. But like, I guess, I think we were expecting

before maybe a little bit of an improvement in those other states in 2028, 2029. And just wondering if there is a reset of expectation for those states as well. Thanks.

**<A – Bob Sallmann – McGraw Hill, Inc.>**: No. There is no meaningful reset, any meaningful change. The most notable change we highlighted was that the \$100 million primarily in California math moved from 2027 into the 2028, but no major change.

**<A – Philip Moyer – McGraw Hill, Inc.>**: Yeah. The only area that we're watching closely as we head into this buying season is the ELA market as I mentioned. Literacy is a greater focus than ever in the United States. And so, we're watching that, and we'll convey what we see.

**<A – Bob Sallmann – McGraw Hill, Inc.>**: And Toni, just to reiterate, we're in a growing market. We have clear visibility, that's a predictable market. We see that growth in the near and medium-term, and that really excites us.

**<Q – Toni Kaplan – Morgan Stanley & Co. LLC>**: Thank you.

Operator: Your next question comes from the line of Shlomo Rosenbaum with Stifel. Your line is open. Please go ahead.

**<Q – Shlomo Rosenbaum – Stifel, Nicolaus & Co., Inc.>**: Hi. Good morning. Thank you for taking my questions. Hey, Bob, I just want to start with a housekeeping one. I wasn't clear as to how to think about the levered free cash flow expectation for this year. I think you said something like unlevered \$400 million. Should I take \$400 million minus \$180 million to get to \$220 million, which sounds a little bit light given...

**<A – Bob Sallmann – McGraw Hill, Inc.>**: Yes.

**<Q – Shlomo Rosenbaum – Stifel, Nicolaus & Co., Inc.>**: ...the lack of one-time items with it? I thought there were a lot more like one-time items due to the IPO that we should in theory see better free cash flow than that in fiscal year 2027. Am I thinking about that properly?

**<A – Bob Sallmann – McGraw Hill, Inc.>**: Shlomo, you are. That's consistent with how you should be thinking about it.

**<Q – Shlomo Rosenbaum – Stifel, Nicolaus & Co., Inc.>**: Okay. So, \$220 million is the levered free cash flow that we should be thinking about?

**<A – Bob Sallmann – McGraw Hill, Inc.>**: Yes. Correct.

**<Q – Shlomo Rosenbaum – Stifel, Nicolaus & Co., Inc.>**: Okay. And just a little bit broader, I just want to ask in the context of AI and the protections that you have around your data, there's that article where the educational curriculum providers are suing Meta for training the LLMs on your data, copyright infringement.

Is that like a longer term issue for you guys, in your opinion, in terms of the data actually being out there and it's actually accessible? So, it's not like behind certain paywalls that other information services providers have to – have a little bit more protection on that side. How should we just think about that kind of lawsuit in the context of your ability to control your data?

**<A – Philip Moyer – McGraw Hill, Inc.>**: Great question. I want to really be clear about this. Our position, first and foremost, is that great AI and copyrights are not counter to each other. You can enforce and support copyrights and respect copyrights, and have great AI for the world. And the agentic technology that I talked about are really, really great examples technically of being able to do this.

Now, yes, our content has been and always will be behind paywalls. And the cases where it's not, it's content that's been pirated, that is sitting out on pirate sites, and we are very active in litigation against pirate websites. We really protect our content. And when the content gets out there, we expect that other organizations are not going to use pirate to content, basically illegal content.

And so, part of that lawsuit that we were really clear about is that we intend to continue to protect our content. There are many, many, many ways for organizations, large AI companies to license content. There's been great examples of Getty Images in New York Times. When I was at Vimeo, we were approached in the early days about potentially using all of our content, the video content, 8 billion minutes of video we had, and we turned down the organizations originally.

And then, by the end of my tenure at Vimeo, people were coming back and asking just for videos of beach balls to make sure their video model bounce the beach balls right or the hands clap properly. So, there's a well-established market for licensing content to train AI models. It's both technically very easy and financially well-established business models for this.

One of the things that we were stating in that Meta lawsuit is that we really want AI companies to use these legal and technically simple ways of licensing content. The work we're doing with the agentic, we're really excited about. And quite frankly, even existing content might be out on pirate sites, humans knowledge and the way to teach changes every single day.

And so, we intend to be this great place that takes human knowledge, turns it into a pedagogy, and delivers it the way you need to. And with agentic technologies, we can meter that, we can secure it, we can build an interface, we can audit to make sure that we're charging the right way. We can actually explain to every student or every professor how much content is being used at any point in time.

And so, the technology models are evolving quickly. We're going to be at the forefront of that in the knowledge economy, and we're going to be really, really, I'll say, aggressive about making we're protecting ensuring that AI does – the AI companies are working with us, and all publishers in the right way.

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

**<Q – Henry Hayden – Rothschild & Co Redburn>**: Yeah. Hi, everyone. Thanks for having me on. I firstly wanted to continue the conversation around kind of agentic curriculum, MCP integration, and licensing agreements. This feels like a shift in kind of your philosophy around ownership of user interface content distribution. So, just curious as to any incremental color you could give around that.

And then, on the agentic side, as we think about kind of the ramp up of additional partnerships, how should we think about what cost that would present to end customers and what the margin profile for McGraw Hill looks like?

**<A – Philip Moyer – McGraw Hill, Inc.>**: Yeah, we're really – thanks very much for the question. So, on the agentic side, we live in a trusted position with professors, with students, with teachers, and with administrations. We take something like Sharpen. Our Sharpen tool, not just takes content and delivers podcasts or quizzes, but we also are turning around and able to tell the professor what content's being engaged with. Professors are going to be able to deliver, I'll call it, playlists of content.

And so, it's not just a one sided where we're serving to an AI agent. In some cases, we are the AI agent the student trusts or that the professor trusts. And so, we intend to really, really support that

trust and be an agent of the student and the teacher from a third-party perspective users. Now, in some cases, those students or those professors want us to join courses of agents or course of knowledge, and so, this ability with to be MCP to provide our content by MCP is really exciting.

One of the organizations wants to use us with NotebookLM, with Google NotebookLM, but they want a trusted source. Because today, if you just use AI, it can hallucinate all kinds of content or quite frankly, it can hallucinate, it can come off, it can bring answers out that the professor hasn't even introduced into the class. There's a right time to introduce the chemistry behind photosynthesis and it's not the start of a class or give you the full answer before a student really, truly understands biology and the chemistry behind it.

And so, our ability to be able to do that in a pedagogical way is also part of MCP. And so, this is an evolution. It's not a big shift from anything that we've already been doing. And what's exciting about it is, again, MCP gives us an ability to be able to monitor it, to be able to interface. We're excited about the ability to be able to be a continuing source of education.

I like many people actually carried my textbooks with me throughout really early years as a computer scientist. I was referring back to them for a long time. I think you'll hear that from legal scholars, as well as accounting scholars, medical scholars, there's a lot of reference that you do, especially early in your career, and quite frankly, in some cases even beyond your early years.

Now, when I think about kind of where this goes longer term, I do think that this is an exciting opportunity for us, as I mentioned, to expand TAM in the marketplace. And I do think that pricing is going to evolve pretty dramatically, the area that I'm really, really excited about. I think that there's a misnomer and I've described this to a lot of people. We are in the era of big models. These are – I call this peak inefficiency in AI.

I don't think in the history of computing, I've ever seen that we need to literally use the United States GDP to train an algorithm. It's not a good business model right now, I would tell you. And what we're able to do, I'm a big believer that we're going to move into an era of smaller models, more purpose-built models that are much more efficient, can be much more reactive, can actually hit the performance requirements that are necessary and also lower cost.

As an example, we'll take our agentic technologies where we're creating vectorization of our actual content, coupled together with a small lightweight model, and we'll get a fraction of the cost of having to run things through a large model. And that's where we expect to move to.

I really encourage you to look at technologies like knowledge graphs, where organizations are getting much better performance, especially, there's one example in the financial services industry where it's literally 1% of the cost of a large model, and it's achieving way higher than expertise level than the big models.

And so, this idea of cost, what we do inside of McGraw Hill is that we use the right model along with our vectorized content, and that we deliver the right question, the right content at the right time at a much lower cost than throwing all the content in with, I call it, every one of Taylor Swift songs and all the F1 drivers. And the predictions for the next Spurs series have to wade through just to be able to describe what photosynthesis is.

So, cost is high with big models. Purpose-built lightweight models combined together with vectorized content I think is going to be a way more efficient delivery mechanism. And then, we do the cost management on behalf of the student as well as the university. And our buying capacity for AI is much higher than most universities, and certainly students. And so, we also think we have an opportunity to be able to really be a, I'll say, a more effective, more cost-effective and more pedagogically effective solution.

**<Q – Henry Hayden – Rothschild & Co Redburn>**: That's very helpful. Thank you. And then, my follow-up question is just a quick one on K-12. Have you seen any kind of, you mentioned that your discussions around supplemental intervention, you think it's bottomed out. How is the tenor of those sales discussions going? Like as you move through the renewal cycle, are you seeing any pressure on funding kind of impacting you on a go-forward basis?

**<A – Bob Sallmann – McGraw Hill, Inc.>**: We have not seen any pressure from funding. As we've highlighted, we know that learning loss is real. What we have experienced is the ConnectED classroom that is resonating. There's too many tools, there's tool fatigue. And so, as we're out in the market being able to sell core and supplemental intervention solutions together is really resonating.

**<Q – Henry Hayden – Rothschild & Co Redburn>**: Very helpful. Thank you.

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

**<Q – Josh Chan – UBS Securities LLC>**: Hi. Good morning. I'm just going to stick to one just for the sake of time. So, I guess, I know Texas is a completely different story, so I'll maybe set that aside. But if you look at the California math dynamic, how do you think about that issue being strictly limited to California and strictly limited to the math, I guess?

**<A – Philip Moyer – McGraw Hill, Inc.>**: I think, I would say the fragmentation is not limited to California or just to math. When you get into teaching social studies in the United States and on a global basis, extraordinarily fragmented. Science as well. So, there is fragmentation in the education industry. And I'll say again, one of the most exciting things since I've arrived here is understanding that we're one of the few companies in the world that can respond to this fragmentation at scale.

And to respond to it, you have to understand it, first of all. You've got to understand down at the ZIP code level, the teacher level, even the professor level inside of the Higher Ed. In the medical industry, some countries, we teach body parts, in other cases, we teach symptoms.

In some cases, we're teaching full systems. So, fragmentation in education is, I'll say, it's been around as long as I would say education has been around. What I would say is that as we look across the spectrum, our ability to be able to respond to that is unmatched.

And so, I look at this opportunity in California as another opportunity, the same way that we've responded and demonstrated our ability to respond to the different ways of teaching science, you're seeing us in real-time be able to respond to California with the strength of McGraw Hill's relationships, our tools, our variety of distribution means, and then also just our ability to be able to do different pedagogies for different students. So, it's our strength.

**<Q – Josh Chan – UBS Securities LLC>**: Okay. Great. Thank you for that color.

Operator: We have reached the end of the Q&A session. This concludes today's call. Thank you for attending. You may now disconnect.

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