

Providing Trusted Financial Information and Intelligence

An Interview with Harold McGraw III,
Chairman, President, and Chief Executive Officer, McGraw Hill Financial

EDITORS' NOTE Effective November 1, 2013, Terry McGraw is the Chairman of the Board of Directors of McGraw Hill Financial. He was elected President and COO in 1993, CEO in 1998 and Chairman of the Board in 1999. McGraw joined the company in 1980 and has held a number of senior managerial and executive positions. He serves on the board of directors of United Technologies and Phillips 66. He chairs the International Chamber of Commerce and was appointed by President Obama to the Advisory Committee for Trade Policy and Negotiations. He earned a B.A. from Tufts University and an M.B.A. from the University of Pennsylvania's Wharton School of Business.



Harold McGraw III

COMPANY BRIEF McGraw Hill Financial (www.mhfi.com) is a New York-based leading financial intelligence company providing the global capital and commodity markets with independent benchmarks, credit ratings, portfolio and enterprise risk solutions, and analytics. The company's iconic brands include Standard & Poor's Ratings Services, S&P Capital IQ, S&P Dow Jones Indices, Platts, CRISIL, J.D. Power, and McGraw Hill Construction. The company has approximately 17,000 employees in 27 countries.

As this company celebrates its 125 year anniversary, what is it about its heritage that made it so enduring?

My great grandfather, James McGraw, founded the company with the core belief that the newly emerging American engineering and electrical industries needed insights and information that they could trust. From the beginning, he demanded that the editors of each of his publications be independent, "to have no other guides for its opinions and policies but truth and the sound interests of the field it serves." Today, we continue to live by that same commitment to truth, providing trusted information and intelligence in the financial and commodity markets. With iconic brands like Standard & Poor's Ratings Services, Platts, S&P Dow Jones Indices, and S&P Capital IQ, our credit ratings, research, risk solutions, and analytics are used as transparent benchmarks across fixed income, equity, and commodity markets around the world. Fundamentally, we are in the

business of helping investors, market participants, and industry professionals perform their jobs more effectively and efficiently. Ultimately, our success depends on the value we provide to the market, just as it has always been since 1888.

What was your vision in creating McGraw Hill Financial in May of this year?

Our work to create McGraw Hill Financial goes back to 2010 when the board and management began a strategic portfolio review. As we went

through a very comprehensive process, we determined that the education company was quite distinct from the rest of the company, with different capital requirements and different customer sets.

As a result, two years ago we announced we would create two powerful new companies: one is McGraw-Hill Education, which is in a position now to accelerate its digital transformation as a non-public company; and the other is McGraw Hill Financial, which is a high-growth, high-margin business.

We're very excited about McGraw Hill Financial. We sit right in the middle of very large and growing global financial markets. Every day, our clients look to us for the essential intelligence that contributes to their successes and to sustainable economic growth and job creation.

As we set out to create McGraw Hill Financial, we were fully focused on creating shareholder value. Last year, we returned \$1.3 billion to shareholders in the form of dividends and share repurchases. This year, we generated \$1.9 billion in after-tax proceeds from the sale of McGraw-Hill Education, which we're using to buy back stock and invest for growth. We also have maintained our enviable 40-year record of increasing our regular cash dividend.

What is your outlook for growth for each of the business segments of McGraw Hill Financial?

The long-term trends of globalization and the increasing growth and complexity of capital markets are driving the need for our products and services. Our customers need reliable and transparent information, analytics, and benchmarks to make informed decisions in a complex world.

In terms of just a few of our biggest brands, we have Standard & Poor's Ratings Services, which provides credit ratings and research and is benefiting from its global scale and an environment with low interest rates. To meet growing demand for new solutions for investors, we've continued to expand S&P Capital IQ, which provides multi-asset class data, research, and high-end analytics to financial professionals. Last year, we formed a joint venture, S&P Dow Jones Indices, which combines two very powerful brands and offers independent benchmarks that gauge the markets. There is also Platts, a 24/7 digital business that produces important price assessments across global commodity markets. Additionally, we have J.D. Power, a terrific, trusted name in customer satisfaction and benchmarks, and McGraw Hill Construction.

Combined, we are looking to grow adjusted earnings per share to \$3.15 - \$3.25 this year, which equates to 16 percent growth if we achieve the midpoint of our guidance. We're also calling for revenue to grow at a high single-digit pace. We are very excited about our growth prospects.

How do your business segments stand out among competitive businesses?

There are five attributes that set us apart: first, we have global reach - we're in every major market and we have terrific local knowledge; second, we have premier brands; third, we are constantly adapting and innovating, and identifying strategic opportunities to help our customers succeed; fourth, we have excellent operational skills that give us the opportunity to maximize our capabilities in terms of technology platforms in order to rapidly create new products; and fifth, we never waver in our commitment to our values of fairness, integrity, and transparency.

How do you ensure that McGraw Hill remains true to its heritage of innovation and entrepreneurship after all of these years?

You cannot lose sight of our fundamental mission to help others succeed. S&P Dow Jones Indices is a terrific example of innovation that meets investor needs. They have created literally hundreds of new indices over the past few years to meet the needs of clients, measure evolving markets, and enable investors to access emerging markets and asset classes that would otherwise not be available to them.

McGraw Hill Financial has a diverse range of clients. How critical is it to mirror this diversity within your employee population and how do you focus your efforts to build a diverse and inclusive workforce?

Diversity is very important to us. We value new ideas and new ways of thinking. The more diverse we are, the better we can serve our clients. Diversity is something we strive for and something we're proud of. We have seven employee resource groups that encourage employees to come together, collaborate, and work on common interests or goals. These groups welcome everyone – there are no restrictions.

about the financial markets. We take that expertise and apply it through volunteer programs to enhance the impact of our direct grant-making. For example, we're the exclusive sponsor of a national competition that challenges middle and high school students to analyze an investment scenario and recommend portfolio allocations. We have used our expertise to develop an app to help members of the military and their families better understand and manage their finances; and we're training journalists in effective market and personal finance reporting to deliver financial knowledge to diverse populations.

issues that he feels need to be addressed. I believe this attitude comes from his background as a successful entrepreneur.

Would you highlight the need for a strong public/private partnership to help New York maintain its position as a leading global city?

Public/private partnerships are absolutely essential to getting things done anywhere in the world. We all have to work together: the business community, policymakers, and nonprofit organizations. We're all in this together and cooperation is critical. The voice of the business community too often is not loud enough in public policymaking. We have to be engaged and participate fully alongside others to make the world a better place for all, not just the few.

What makes for a successful CEO today and how do you define the role?

We talk a lot with our employees about what I think are the three special qualities of leadership: growth, purpose, and passion. Growth is a mindset; it's an attitude and a way of thinking about the things you can do to create new products and services for customers. Purpose means having a positive impact on society and on your business, and having great integrity. Passion gives you the energy to really care about your business and the success of your clients and colleagues. I think anyone who is going to be successful needs to have growth, purpose, and passion. The other attribute any leader has to have is the capability to attract and retain top talent. You have got to make sure that you have the right people in the right place for your business or organization to succeed.

McGraw Hill has achieved great success over its 125-year history. What are you most proud of when you look at all that the company has accomplished?

I am most proud of the fact that it has never been about us but about being true to the cus-

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Many leading companies highlight the importance of social responsibility and corporate citizenship. How important is this focus to the culture of McGraw Hill Financial and how do you engage your employees in this effort?

McGraw Hill Financial is about our high public purpose and our higher purpose is to promote sustainable growth in the financial markets. Given the booms and busts in the financial markets over the past 30 years, this is a very worthwhile purpose. It's why people who work here are so motivated. This sense of purpose is at the heart of everything we do and is embedded in our business strategy. In addition, most young people entering the workforce expect companies to be active within their communities and provide opportunities for them to volunteer. We recently had a celebration in New York to launch McGraw Hill Financial where 2,600 of our employees packed over 2,000 bags of food – enough for 18,000 meals – that all went to families affected by Superstorm Sandy.

Is it necessary for the programs you support with your CSR efforts to align with the firm's business strategy or is the philanthropic work separate?

Our corporate responsibility strategy is fully aligned with our company strategy and purpose. Through our grant-making and community partnerships, we help to provide the essential financial knowledge that can build better lives, stronger communities, stable economies, and financial markets.

We have terrific, incredibly talented people who have a tremendous amount of knowledge

Many business leaders speak of the importance of Mayor Bloomberg's experience and business acumen in addressing the key issues and challenges facing New York. How valuable has it been to have a mayor who comes from the private sector and understands the needs of the business community?

Mayor Bloomberg's skills in starting and running a successful business have been a tremendous asset to the way he has successfully driven New York's growth and economic development. He has pushed hard for programs he believes in and set a very ambitious agenda in education reform and transportation issues, and in terms of making the city a better place to live and work. He has displayed tremendous leadership over the years. Like any good leader, he has never backed down from challenging

tomers and investors we serve. We provide three things that are essential for global financial markets to function properly: transparency, the free flow of trusted information, and some quality means of measuring risk. These are critical to effectively distributing capital where it is needed so that economies can grow in a sustainable way and create jobs. Along the way, we have always remained true to our values through good and tough times, and never lost sight of the role we play in promoting economic growth and prosperity. ●

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Under Terry McGraw's leadership as CEO, the company has:

- Returned more than \$13 billion to shareholders through dividends and share repurchases.
 - Delivered a total return of approximately 300 percent versus 97 percent for the S&P 500 as of mid-2013. The company's total return to shareholders has outperformed the S&P 500 over the past 10, 5, 3 and 1 year periods, in the same period.
 - Paid a dividend every year, continuing a practice that started in 1937 and that has seen the dividend increase in value every year since 1973.
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