Forward-looking statements

Except for the historical information contained herein, the matters discussed in this presentation include forward-looking statements. In particular, all statements that express forecasts, expectations and projections with respect to future matters, including trends in results of operations, margins, growth rates, overall market trends, the impact of interest or exchange rates, the availability of financing, anticipated cost savings and synergies and the execution of Pearson's strategy, are forward-looking statements. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will occur in future. They are based on numerous assumptions regarding Pearson's present and future business strategies and the environment in which it will operate in the future.

There are a number of factors which could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including a number of factors outside Pearson's control. These include international, national and local conditions, as well as competition. They also include other risks detailed from time to time in Pearson's publicly-filed documents and you are advised to read, in particular, the risk factors set out in Pearson's latest annual report and accounts, which can be found on its website (www.pearson.com/investors).

Any forward-looking statements speak only as of the date they are made, and Pearson gives no undertaking to update forward-looking statements to reflect any changes in its expectations with regard thereto or any changes to events, conditions or circumstances on which any such statement is based. Readers are cautioned not to place undue reliance on such forward-looking statements.
Higher Education Investor Day

Friday 17 June 2016
# Agenda

<table>
<thead>
<tr>
<th>Time</th>
<th>Topic</th>
<th>Speakers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1215 – 1300</td>
<td><strong>Registration and light lunch for guests</strong></td>
<td></td>
</tr>
<tr>
<td>1300 – 1310</td>
<td><strong>Welcome - Outline of the day</strong></td>
<td>John Fallon</td>
</tr>
<tr>
<td>1310 – 1320</td>
<td>Higher Education market backdrop</td>
<td></td>
</tr>
<tr>
<td>1320 – 1400</td>
<td>Courseware</td>
<td></td>
</tr>
<tr>
<td>1400 – 1440</td>
<td>Coffee Break and product demos</td>
<td>The Team</td>
</tr>
<tr>
<td>1440 – 1455</td>
<td>Technology and Scale Opportunities in Higher Ed</td>
<td></td>
</tr>
<tr>
<td>1455 – 1515</td>
<td>Online Program Management</td>
<td></td>
</tr>
<tr>
<td>1515 – 1530</td>
<td>Higher Education and our 2018 Goals</td>
<td></td>
</tr>
<tr>
<td>1530 – 1545</td>
<td>Fireside Chat</td>
<td></td>
</tr>
<tr>
<td>1545 – 1550</td>
<td>Summary and Conclusions of the Day</td>
<td></td>
</tr>
<tr>
<td>1550 – 1630</td>
<td>Q&amp;A – Panel discussion</td>
<td></td>
</tr>
<tr>
<td>1630 – 1700</td>
<td>Drinks &amp; breakout session booths</td>
<td></td>
</tr>
</tbody>
</table>

**Speakers**
- John Fallon
- Tim Bozik
- Robin Baliszewski
- Angie McAllister
- Don Kilburn
- Albert Hitchcock
- Dave Daniels
- Todd Hitchcock
- Todd Hitchcock
- Coram Williams
- Rod Bristow & Ed Byrne
- John Fallon
- The Team
- All
Higher Education courseware and OPM (2015)

Higher Education Services – Online Programme Management 5.0%
Higher Education Courseware 27.2%
Higher Education 2.8%
School 3.7%
Professional Certification & English 4.4%
Professional Certification & English 9.1%
School Courseware 4.2%
Student Assessment 7.5%

North America
Core
Growth
Structural trends – our growth opportunity

• The economic value of an education is greater than ever
• The cost of an education is increasing; public funding is under pressure
• The process of getting an education remains inefficient; translating education into employment is uneven and highly variable
• Technology creates opportunities to make learning more affordable, accessible, flexible, personal and effective
• Education market is continuously evolving

Our strategy enables us to manage the transition, mitigate the threat, and maximise the opportunity
The world’s learning company – our strategy

• World class capabilities in educational courseware and assessment
• Strong portfolio of products and services, powered by technology
• Combining these core capabilities with related services, enabling our partners to scale online, reaching more people and ensuring better learning outcomes
• A larger market opportunity for Pearson, with a sharper focus on the fastest-growing education markets and stronger financial returns

Real value lies in improving productivity, student completion and employability
Simplification of technology and infrastructure

The User Experience

Pearson products and services

Pearson Content

Technology & Product Platforms

Learning Application & Service Platforms

Enterprise and Enabling Platforms

Cloud & Infrastructure Platforms

Security

High level of change & innovation

Increased investment

Shift investment from ‘plumbing’

Lower level of change

Stable, reliable and repeatable
Grow in digital supplemental: defining a new category

- MyLabs/Mastering registrations, 2001 onwards (millions)
- REVEL 2014 onwards (projected)
Presenters

John Fallon
CEO

Coram Williams
CFO

Tim Bozik
President, Global Product

Robin Baliszewski
MD, Higher Education Sales

Dr Angie McAllister
SVP, Personalized Learning & Analytics

Don Kilburn
President, North America
Presenters

Albert Hitchcock
Chief Technology & Operations Officer

Dave Daniels
MD, Higher Education Services
North America

Professor Ed Byrne
Kings College London

Todd Hitchcock
SVP, Online Learning Services

Rod Bristow
President, Core
In attendance

John Tweeddale, SVP, Customer Experience & Engagement

Paul Corey MD, Higher Education Courseware

Sidney Taurel Chairman

Dr Kate Edwards SVP, Efficacy & Research
Higher Education Market Backdrop

Tim Bozik
President, Global Product
The economic value of education has never been higher

Present discounted value of college relative to high school degree net of tuition, 1965 – 2008

College / high school median annual earnings gap 1979 – 2012

Source: adapted from “Skills, education, and the rise of earnings inequality among the “other 99 percent” David H. Autor
Factors affecting enrolments

- Demographics
- Participation rate
- Affordability
- Course availability
- Socio-economic factors
- Completion / retention
- Employment cycle
Short term enrolments linked to the employment cycle

Average enrolment growth = 2%
Change in August Unemployment, %
Enrolment growth

Source: NCES, NSCH, Bureau of Labor Statistics
Excluding the employment cycle, enrolments grow

All students

Source: US Department of Education (IPEDS); National Student Clearinghouse; US Bureau of Labour Statistics
Supply side structural issue – scalability and cost

Cost per student vs public funding per student

<table>
<thead>
<tr>
<th>2005</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>121</td>
</tr>
<tr>
<td>100</td>
<td>84</td>
</tr>
</tbody>
</table>

Revenue from state appropriations per FTE student*

Instruction expenses per Full Time Equivalent (FTE) student*

<table>
<thead>
<tr>
<th>100</th>
<th>121</th>
</tr>
</thead>
</table>

Tuition and fees as % of median household income

<table>
<thead>
<tr>
<th>17.0%</th>
<th>5.0%</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.0%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

* Public 2-year and Public 4-year colleges only

Source: Digest of Education Statistics, National Center for Education Statistics; US College Board, US Census Bureau
Education process remains inefficient; employment link uneven and variable

Graduation rates within 150% of programme length

<table>
<thead>
<tr>
<th>Institution Type</th>
<th>Graduation Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>All 4 year institutions</td>
<td>59.2%</td>
</tr>
<tr>
<td>All 2 year institutions</td>
<td>29.4%</td>
</tr>
</tbody>
</table>

Sources: National Center for Education Statistics, McKinsey & Company

Agreement that graduate/new hires are adequately prepared (%)

<table>
<thead>
<tr>
<th>Group</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employers</td>
<td>42</td>
</tr>
<tr>
<td>Education providers</td>
<td>72</td>
</tr>
<tr>
<td>Youth</td>
<td>45</td>
</tr>
</tbody>
</table>

Sources: National Center for Education Statistics, McKinsey & Company
Classroom instruction & delivery models are changing to improve education effectiveness

Flipped Classrooms  |  Blended Teaching  |  Digital/Online Teaching
Institutions are finding partners to improve scalability

Spectrum of university functions managed by vendors

University functions

<table>
<thead>
<tr>
<th>IT Support</th>
<th>Institutional &amp; Operational Support</th>
<th>Enrolment Management</th>
<th>Academics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information systems management</td>
<td>Finance &amp; accounting</td>
<td>Marketing &amp; recruitment</td>
<td>Online platform</td>
</tr>
<tr>
<td>Document &amp; data storage</td>
<td>Human resources</td>
<td>Student coaching</td>
<td>Course development</td>
</tr>
<tr>
<td></td>
<td>Food service</td>
<td></td>
<td>Instruction</td>
</tr>
</tbody>
</table>

Financial aid & student loans

Academics

Academic core

Back end

Front end

Market penetration of partnering:

Source: Parthenon-EY analysis
Global higher education enrolments

Source: Pearson estimates

2015 – 209m

Asia

US

Rest of Americas

Europe

ME & Africa

+51m students

CAGR = 2.2%

2025 – 260m

US

Rest of Americas

Europe

ME & Africa

Asia

US

Rest of Americas

Europe

ME & Africa

Asia

Source: Pearson estimates
Courseware
Tim Bozik
President, Global Product
How we go to market

We sell to institutional **instructors** at the **course level** via an **adoption model**, fulfilled primarily through **student pay** retail channels

<table>
<thead>
<tr>
<th>Portfolio</th>
<th>Sales force</th>
<th>Faculty &amp; Institutions</th>
<th>Learner</th>
<th>Channel</th>
</tr>
</thead>
<tbody>
<tr>
<td>• ~2k active titles</td>
<td>• 700 sales reps</td>
<td>• 1.4m instructors</td>
<td>• 19m learners</td>
<td></td>
</tr>
<tr>
<td>• ~500 new releases per year</td>
<td></td>
<td>• ~5k institutions:</td>
<td>• 68m course enrolments</td>
<td>Chegg</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3.3k not for profit</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Product Model

- Disciplines

### Faculty determines materials

- Faculty selects the materials

---

23
Course enrolments are the key economic driver

~19m student enrolments*

Source: National Student Clearinghouse, 2015

~68m course enrolments

Source: Pearson
Courseware trends

Industry net revenues, 2012-2015 ($bn)

- **2012**: $4.1bn
- **2013**: $4.2bn
- **2014**: $4.2bn
- **2015**: $4.0bn

Pearson courseware market share, 2015

Source: MPI, BMO
Pearson sales by institutional channel

Total enrolments vs. Pearson revenues by segment, 2015

<table>
<thead>
<tr>
<th>Enrollments</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>For-Profit 6%</td>
<td>For-Profit 7%</td>
</tr>
<tr>
<td>Two Year Community College 31%</td>
<td>Two Year Community College 43%</td>
</tr>
<tr>
<td>Four Year Public &amp; Private Nonprofit 63%</td>
<td>Four Year Public &amp; Private Nonprofit 50%</td>
</tr>
</tbody>
</table>

Source: National Student Clearing House
Pearson market share gains

Growth in gross courseware revenues, 2004 = 100

Source: MPI
Pearson sales by discipline

Strength in STEM

Pearson US courseware revenues, 2015

Course enrolments, million

- STEM 56.2
- Top Humanities & Social Sciences 8.2
- Qualitative Business & Economics 7.0
- Quantitative Business & Economics 4.3
- IT Skills 1.4
- Top Engineering & Computer Science 1.3
- Developmental Math 1.6
- College Math 4.2
- Sciences 8.6
- Other Subjects 31.4

Pearson sales by discipline

- Top Humanities & Social Sciences 8.2
- STEM 56.2
- Business & Economics 12.0
- Other Subjects 31.4

Source: Pearson
Growth in digital

Digital adoption in new area

MyLabs/Mastering registrations, 2001 onwards (millions)
Transition from analogue to digital

Pearson 2012-2015

What is Higher Education courseware?

**Portfolio** of course resources managed by **product model** and **discipline**

**Disciplines**

**STEM & Business**
- Sciences | Engineering & Computer Science | Maths | Business & Economics

**Arts**
- Humanities & Social Sciences | English | World Languages

**Foundations**
- Developmental Math & English | Student Success

**Career**
- Healthcare | Teacher Education | IT Skills | Career Skills
Our Authors

https://youtu.be/iNYABYHh3Sw
Structural challenges drive change in classroom instructional & delivery models
### Structural changes: a framework

#### Opportunities
- Improve outcomes
- Expand addressable market
- Discipline share growth
- Institutional selling

#### Risks
- New entrants (eg OER, MOOC’s, edtech etc)

#### Transition
- Print decline
- Rental models
- Physical retail
- Lower ASPs in Digital
- Investment in technology platforms, product and services

maximise  mitigate  manage
Our courseware strategy

<table>
<thead>
<tr>
<th>Courseware Solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustain Digital Supplemental in Growing Disciplines</td>
</tr>
<tr>
<td>Grow Integrated Digital</td>
</tr>
<tr>
<td>Optimize Text</td>
</tr>
</tbody>
</table>

- **STEM**
- **Business & Economics**
- **Key Humanities & Social Sciences**
- **Other subjects**

Institutional Courseware Solutions

*Science, Technology, Engineering and Mathematics including Developmental Math and IT Skills*
Maximise opportunity: Personalised Learning

Educators

- "I can make better decisions to help learners succeed."
- "I can intervene early to help learners get back on track."
- "Adaptive learning helps me build a personalised learning experience for each learner."

Learners

- "I can focus on the areas where I need to make progress."
- "I get help when I need it most."
- "My path to mastery is tailored just for me."
Maximise opportunity: doing more, and better, with less

Learning gains at Coastal Bend College with Pearson support

- Fall 2014 (without REVEL): 72%
- Summer 2015 (with REVEL): 89%
- Fall 2015 (with REVEL): 97%

Learning gains at Palm Beach State College with Pearson support

- Spring 2015 (without REVEL): 66%
- Fall 2015 (with REVEL): 85%
- Fall 2015 (with REVEL): 95%

Source: Pearson
Personalized Learning

https://youtu.be/EBMHKEnj3tl
Maximise opportunity: Sustain digital supplemental in growing disciplines

| Course                                | Course enrolments millions | Pearson market share vs. average | Enrolment growth trajectory | Digital penetration |
|---------------------------------------|----------------------------|----------------------------------|----------------------------|
| Sciences                              | 8.6                        | Above                            | Good                       | High               |
| College Math                          | 4.2                        | Above                            | Good                       | High               |
| Developmental Math                    | 1.6                        | Above                            | Down                       | High               |
| Top Engineering & Computer Science    | 1.3                        | In-line                          | Good                       | Low                |
| IT                                    | 1.4                        | In-line                          | Good                       | High               |
| Qualitative Business & Economics      | 7.0                        | Below                            | Good                       | Low                |
| Quantative Business & Economics       | 4.3                        | Below                            | Good                       | Moderate           |
| Top Humanities & Social Sciences      | 8.2                        | Below                            | Flat                       | Low                |
| Other Subjects                        | 31.4                       | Below                            | Down                       | Low                |
| TOTAL                                 | 68.1                       |                                   |                            |                    |
Maximise opportunity: expand addressable market and share

<table>
<thead>
<tr>
<th>Course enrolments millions</th>
<th>Pearson market share vs. average</th>
<th>Enrolment growth trajectory</th>
<th>Digital penetration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sciences</td>
<td>8.6</td>
<td>Above</td>
<td>Good</td>
</tr>
<tr>
<td>College Math</td>
<td>4.2</td>
<td>Above</td>
<td>Good</td>
</tr>
<tr>
<td>Developmental Math</td>
<td>1.6</td>
<td>Above</td>
<td>Down</td>
</tr>
<tr>
<td>Top Engineering &amp; Computer Science</td>
<td>1.3</td>
<td>In-line</td>
<td>Good</td>
</tr>
<tr>
<td>IT</td>
<td>1.4</td>
<td>In-line</td>
<td>Good</td>
</tr>
<tr>
<td>Qualitative Business &amp; Economics</td>
<td>7.0</td>
<td>Below</td>
<td>Good</td>
</tr>
<tr>
<td>Quantitative Business &amp; Economics</td>
<td>4.3</td>
<td>Below</td>
<td>Good</td>
</tr>
<tr>
<td>Top Humanities &amp; Social Sciences</td>
<td>8.2</td>
<td>Below</td>
<td>Flat</td>
</tr>
<tr>
<td>Other Subjects</td>
<td>31.4</td>
<td>Below</td>
<td>Down</td>
</tr>
<tr>
<td>TOTAL</td>
<td>68.1</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
https://youtu.be/gFcDZIKSNQ8
Maximise opportunity: improved digital economics

C2001 supplemental digital in STEM courses built around homework platforms
Some students adopt a pure digital model but most still use print too
Lower price point for digital hurts in new edition years…
...but over the new edition cycle the higher sell through in digital and demand for bundles with print means higher revenue

HSS 2014 onward Integrated Digital

C2014 integrated digital in Humanities and Social Science subjects
Most students adopt a pure digital model to access engaging, digital-first content
Some supplemental print revenue from add on loose leaf sales
Maximise opportunity: integrated digital is the next engine of growth

- MyLabs/Mastering registrations, 2001 onwards (millions)
- REVEL registrations 2014 onwards (projected)

(m)

Year 1  Year 2  Year 3  Year 4  Year 5  Year 6  Year 7  Year 8  Year 9  Year 10  Year 11  Year 12  Year 13  Year 14
Mitigating risks: new entrants

Open Education Resources (OER)

Faculty adoption of courseware, 2015

<table>
<thead>
<tr>
<th>Subject</th>
<th>2015 Commercial</th>
<th>2015 OER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Math &amp; Statistics</td>
<td>96.1%</td>
<td>3.9%</td>
</tr>
<tr>
<td>Science</td>
<td>99.0%</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

OER courseware trends

<table>
<thead>
<tr>
<th>Subject</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Math &amp; Statistics</td>
<td>3.62%</td>
<td>3.90%</td>
</tr>
<tr>
<td>Science</td>
<td>1.03%</td>
<td>1.02%</td>
</tr>
</tbody>
</table>

Source: NAVSTEM. Sample size of 3.1m course enrolments tracking adoptions at 370 of the largest 4-year universities in STEM disciplines, around 65% of the total 4-year market.
## Mitigating risks: new entrants

<table>
<thead>
<tr>
<th>Feature</th>
<th>OER</th>
<th>Mylab/Mastering</th>
</tr>
</thead>
<tbody>
<tr>
<td>Essential content for course</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Proven pedagogy, leading IP</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Digital homeworking platforms</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Engaging Digital content</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>24/7 support</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Adaptive learning</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Classroom analytics/Instructor dashboards</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Support for peer-to-peer learning via Learning catalytics</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Instructor support and professional development</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>ADA Accountability</td>
<td>●</td>
<td>●</td>
</tr>
</tbody>
</table>
Managing transition: rental

- Affect changing over time
- Initially positive as distributors bought stock to launch rental programmes
- Then negative as rental a cheaper substitute than used while distributors fought for share
- Rental market consolidation and shift to digital will soften impact over time
Managing transition: optimise text
Managing the transition: optimise text

Warehouse capacity, millions of sq ft

- 2009: 7.5
- 2010: 7.3
- 2011: 7.0
- 2012: 6.4
- 2013: 4.3
- 2014: 2.9
- 2015: 2.8
- 2016E: 1.0
Managing the transition: channel

We sell to institutional **instructors** at the **course level** via an **adoption model**, fulfilled primarily through **student pay** retail channels.

<table>
<thead>
<tr>
<th>Portfolio</th>
<th>Sales force</th>
<th>Faculty &amp; Institutions</th>
<th>Learner</th>
<th>Channel</th>
</tr>
</thead>
</table>
| • ~2k active titles  
  • ~500 new releases per year | • 700 sales reps  
  | • 1.4m instructors  
  • ~5k institutions: 3.3k not for profit | • 19m learners  
  • 68m course enrolments | Amazon  
  Chegg  
  Barnes & Noble |

**Product Model**

**Disciplines**

Faculty determines materials
Maximise opportunity: institutional partnerships

From current market …

Faculty determines materials
Institution

…to future state

Student

Pearson has direct relationship with institution

Faculty determines materials
Maximise opportunity: scale competitive advantage

<table>
<thead>
<tr>
<th>Faculty Adoption share</th>
<th>Institutional relationships</th>
<th>Quality &amp; Breadth of IP</th>
<th>Service &amp; Analytics Capability</th>
<th>LMS Integration</th>
<th>Implementation and PD Capability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Cengage</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>McGraw-Hill</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Wiley</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
</tbody>
</table>
Institutional partnerships case studies

<table>
<thead>
<tr>
<th>Course design collaboration</th>
<th>Strategic Partnership</th>
<th>Digital Direct Access</th>
<th>Employability partnership</th>
</tr>
</thead>
<tbody>
<tr>
<td>with Charles A. Dana Center at The University of Texas at Austin to provide web-based course resources to Community Colleges across Texas as part of the New Mathways Project - shortening the time taken to earn college credit in mathematics</td>
<td>with Southern New Hampshire University College of Online and Continuing Education, supporting curriculum development, online tutoring, enterprise wide content and data integration, eBooks with a print-on-demand option and data and analytics services</td>
<td>for Jones County Junior College, an enterprise adoption of cross-discipline digital content, where content is purchased via an upfront course fee and integrated with university IT systems. E.g.</td>
<td>with Broward College to launch new competency-based workforce certification pathways focused on IT and Healthcare.</td>
</tr>
</tbody>
</table>

Broader institutional courseware partnerships
Our courseware strategy

Courseware Solutions

Sustain Digital Supplemental | Grow Integrated Digital | Optimize Text

STEM | Business & Economics | Key Humanities & Social Sciences | Other subjects

Institutional Courseware Solutions

*Science, Technology, Engineering and Mathematics including Developmental Math and IT Skills
Pearson share gain and digital growth have offset cyclical pressures

Average revenue per enrolment*

2012=100

2012  2013  2014  2015

100  100  105  106

* Gross higher education revenues divided by enrolment weighted by 2012 revenue mix. Continuing – adjusted for 2015 list sales
US Higher Education courseware market

Forecast components of market growth across a typical economic cycle
Coffee Break & Product Demos
History
Product Success but no common technologies

MyLabs/Mastering Registrations

Today’s ‘vertical’ Pearson architecture

Consumers access our products, sales, services and digital learning experiences through 1,000s of apps and sites

The products consumers access are mostly separate and unconnected and do not share common platforms or systems.
The Global Platform

We are transforming the foundations that our products and services are built on – our technology infrastructure and applications – to create a single global platform that will significantly improve quality, speed, flexibility and cost-effectiveness.

Pearson products and services
Offered via a unified experience and domain, accessible on any device

Pearson Content

The User Experience

Learning Application & Service Platforms
Product components | Adaptive Learning & Analytics

Enterprise and Enabling Platforms
Identity & Access Management | Content Management | Data & Analytics | Customer Relationship Management | Marketing & eCommerce | HR & Finance
Enterprise Platforms (The Enabling Program)

Cloud & Infrastructure Platforms
Shared Hosting | Data Centers | Monitoring | Communications

High level of change & innovation
Increased investment
Security
Shift Investment to Differentiate
Lower level of change
Stable, reliable and repeatable

Pearson Content

The User Experience

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High level of change & innovation
Increased investment
Security
Shift Investment to Differentiate
Lower level of change
Stable, reliable and repeatable
How the Platform Drives Competitive Differentiation

<table>
<thead>
<tr>
<th>Brand &amp; Customer Experience</th>
<th>Product Innovation</th>
<th>Personalisation</th>
<th>Flexibility</th>
</tr>
</thead>
</table>
| Parity with world-class digital businesses | Greater innovation in:  
  - Content  
  - Personalised learning  
  - Learning design  
  - UX | Personalisation of our:  
  - Learning models  
  - Customer experience  
  - Customer support | Significantly reduced time to market  
  More flexible and adaptable  
  Allows our business to change and adapt to new market opportunities and customer requirements  
  Easily integrated into third-party ecosystems |
| Unified, branded Pearson UX | | | |
| Omni-channel experiences | | | |
| Greater impact on brand loyalty | | | |
# The Digital Shift

## Holistic business transformation

<table>
<thead>
<tr>
<th>Digital Presence</th>
<th>Content</th>
<th>Customer Service</th>
<th>CRM</th>
<th>Supply Chain</th>
<th>ERP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building a consistent brand and unified digital experience for learners and customers, centered around pearson.com</td>
<td>Building a single way to author, plan &amp; store content – Creating ‘smart’ digital content’ that underpins our shift to personalized learning</td>
<td>Creating a global, digital model for all customer service and support, with new self-help and community support services</td>
<td>Implementing a single way to manage our customer relationships and transform our sales, marketing and support functions</td>
<td>Transforming from our traditional print supply chain to a global digital model – Allowing us to manage physical and digital resources seamlessly</td>
<td>Unifying our HR, finance and supply chain systems to provide greater understanding of our people, our financials &amp; supplier relationships.</td>
</tr>
</tbody>
</table>
Online Program Management

Dave Daniels,
MD, Higher Education Services
North America
&
Todd Hitchcock
SVP, Online Learning Services
Supply side structural issue – scalability and outcomes

Cost per student vs public funding per student

Instruction expenses per Full Time Equivalent (FTE) student*

Revenue from state appropriations per FTE student*

- 2005
- 2013

100

121

100

84

Graduation rates within 150% of programme length

- All 4 year institutions
- All 2 year institutions

59.2%

29.4%

* Public 2-year and Public 4-year colleges only
Source: Digest of Education Statistics, National Center for Education Statistics; US College Board, US Census Bureau

Sources: National Center for Education Statistics, McKinsey & Company
Institutions are finding partners to improve scalability

Spectrum of university functions managed by vendors

<table>
<thead>
<tr>
<th>University functions</th>
<th>IT Support</th>
<th>Institutional &amp; Operational Support</th>
<th>Enrolment Management</th>
<th>Academics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Information systems management</td>
<td>Finance &amp; accounting</td>
<td>Dormitories</td>
<td>Financial aid &amp; student loans</td>
</tr>
<tr>
<td></td>
<td>Document &amp; data storage</td>
<td>Human resources</td>
<td>Food service</td>
<td></td>
</tr>
</tbody>
</table>

Market penetration of partnering:

Source: Parthenon-EY analysis
The online student

On-ground enrolment growth = -1%
Online enrolment growth = +6%

Source: NCES data 2013 (On-ground and Online enrolments)
# The online student

<table>
<thead>
<tr>
<th>Entry into new field</th>
<th>Advancement in current field</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Career Starters</strong></td>
<td><strong>Career Advancers</strong></td>
</tr>
<tr>
<td>Recent Graduated Seeing Professional Degrees Before Entering Workforce</td>
<td>Mid-Career Professionals Seeking Graduate Degrees for Promotions or Raises</td>
</tr>
<tr>
<td><strong>Career Changers</strong></td>
<td><strong>Career Crossers</strong></td>
</tr>
<tr>
<td>Mid-Career Adults Seeking Graduate Degrees to Move into New Fields</td>
<td>Mid-Career Professionals Seeking Cross-Training to Advance in Current Fields</td>
</tr>
</tbody>
</table>

Source: Education Advisory Board – Understanding the Changing Market for Professional Master’s Programs
## The online degree

<table>
<thead>
<tr>
<th>Traditional Master's</th>
<th>Professional Master's</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full-Time, residential</td>
<td>Part-time, low residence</td>
</tr>
<tr>
<td>Thesis</td>
<td>Project or work experience</td>
</tr>
<tr>
<td>Path to PhD</td>
<td>Pathway to employment</td>
</tr>
<tr>
<td>Designed around faculty research interests</td>
<td>Designed around employer hiring interests</td>
</tr>
<tr>
<td>Taught exclusively by tenure-stream faculty</td>
<td>Taught by tenure-stream faculty and adjuncts</td>
</tr>
<tr>
<td>Younger students with less work experience</td>
<td>Often older students with work experience</td>
</tr>
</tbody>
</table>

Designed around faculty research interests
Taught exclusively by tenure-stream faculty
Younger students with less work experience

Taught by tenure-stream faculty and adjuncts
Often older students with work experience
Our strategy

Courseware Solutions

<table>
<thead>
<tr>
<th>Sustain Digital Supplemental</th>
<th>Grow Integrated Digital</th>
<th>Optimize Text</th>
</tr>
</thead>
<tbody>
<tr>
<td>STEM</td>
<td>Business &amp; Economics</td>
<td>Key Humanities &amp; Social Sciences</td>
</tr>
</tbody>
</table>

Institutional Courseware Solutions

Institutional Solutions

*Science, Technology, Engineering and Mathematics including Developmental Math and IT Skills*
# How we go to market

<table>
<thead>
<tr>
<th>Student Enrolment &amp; Re-enrolment</th>
<th>Marketing</th>
<th>Enrolment Management</th>
<th>Retention</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market &amp; Operational Consulting</strong></td>
<td><strong>Institutional Courseware Solutions</strong></td>
<td><strong>Institutional Solutions (Online Program Management)</strong></td>
<td><strong>Integrated Operations Management</strong></td>
</tr>
<tr>
<td>Regulatory Consulting</td>
<td>Course Design &amp; Faculty Engagement</td>
<td>Platform &amp; Analytics</td>
<td>Technical Support</td>
</tr>
</tbody>
</table>
Investment profile of Online Program Management

Cumulative New Partner Expense

Cumulative New Partner Revenue

($ in thousands)
How we go to market: market & operational consulting
Institutional services portfolio
Multiple delivery models

- **Enterprise**
  - University-Wide Service model

- **Suites & verticals**
  - Multi-Program / Multi Discipline

- **Programmatic**
  - Niche Programs

- **Community college**
  - On-ground & Online Services
# Institutional services: enterprise

<table>
<thead>
<tr>
<th>MARKET &amp; OPERATIONAL CONSULTING</th>
<th>Student Enrolment &amp; Re-enrolment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Marketing</td>
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<td>Enrolment</td>
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<td>Retention</td>
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<td>Integrated Operations Management</td>
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<td>Action Lab</td>
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<td></td>
<td>Scholarships</td>
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<td></td>
<td>International Engagements</td>
</tr>
</tbody>
</table>

## Brand / enterprise
Institutional services: Community college services

MARKET & OPERATIONAL CONSULTING

Student Enrolment & Re-enrolment

Marketing

Enrolment

Retention

Integrated Operations Management

Programmatic

Suites & Verticals

Grow to Enterprise

Onground / managed services
Institutional services: Suites & verticals

MARYVILLE UNIVERSITY

MARKET & OPERATIONAL CONSULTING

Student Enrolment & Re-enrolment

Marketing

Enrolment

Retention

Integrated Operations Management

Programmatic

Suites & Verticals

Grow to Enterprise

Vertical / grow to enterprise
President Mark Lombardi of Maryville University

https://youtu.be/15uInt9nKSQ
Pearson is the market leader: OPM market share

Source: Deutsche Bank Online Higher Education report, Capital IQ, Company websites, Eduventures
Unmatched scale and competitive advantage

<table>
<thead>
<tr>
<th></th>
<th>Consulting</th>
<th>Operations Management</th>
<th>Market Analysis</th>
<th>Academic Services</th>
<th>Corporate Partnerships</th>
<th>Marketing</th>
<th>Enrolment Management</th>
<th>Student Services</th>
<th>Technology Services</th>
<th>Curriculum Development</th>
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</thead>
<tbody>
<tr>
<td>Pearson</td>
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<td>Academic</td>
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<tr>
<td>Partnership</td>
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</tbody>
</table>
Rebuilding momentum

Pearson new OPM graduate programmes signed

- 2009: 7
- 2010: 13
- 2011: 11
- 2012: 14
- 2013: 14
- 2014: 8
- 2015: 8
- 2016E: 13
## Expanded market opportunity

### Average estimated full-time undergraduate budgets 2014-15

<table>
<thead>
<tr>
<th>Institution Type</th>
<th>Books and supplies</th>
<th>Tuition and fees</th>
<th>Room and board</th>
<th>Transportation</th>
<th>Other expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Two-Year Commuter</td>
<td>$3,435</td>
<td>$8,003</td>
<td>$1,774</td>
<td>$2,257</td>
<td></td>
</tr>
<tr>
<td>Public Four-Year In-State on-Campus</td>
<td>$9,410</td>
<td>$10,138</td>
<td>$1,109</td>
<td>$2,106</td>
<td></td>
</tr>
<tr>
<td>Public Four-Year Out-of-State on-Campus</td>
<td>$23,893</td>
<td>$10,138</td>
<td>$1,109</td>
<td>$2,106</td>
<td></td>
</tr>
<tr>
<td>Private Nonprofit Four-Year on-Campus</td>
<td>$32,405</td>
<td>$11,516</td>
<td>$1,033</td>
<td>$1,628</td>
<td></td>
</tr>
</tbody>
</table>

Source: The College Board, Annual Survey of Colleges
OPM market forecast, $m

Source: Third party estimates
Higher Education and our 2018 Goals

Coram Williams
CFO
2018 goals: key assumptions

With the actions we announced in January, combined with a moderate return to growth in our major markets over the next few years, we expect adjusted operating profit to be at or above £800m in 2018. Underpinning this goal are the following assumptions:

1. The key cyclical and policy factors that have hurt us – US college enrolments and UK Qualifications – stabilise by the end of 2017 and grow modestly thereafter helped by new product launches;
2. We make modest market share gains in North American Higher Education subjects (STEM, college and career readiness) where we are launching our “next generation” courseware;
3. As current contracts unwind, we see scope for further contraction in US state testing revenues through 2017 but stabilisation in 2018. We expect continued growth in professional certification and clinical assessment;
4. Our businesses in China and Brazil will benefit from the launch of new products, including Wall Street English New Student Experience;
5. We will continue to grow in our adjacent services businesses, led by online programme management, virtual schools and blended learning in English, as we bring new platforms and products to market and capitalise on strong market growth;
6. The successful delivery of the full benefits of the restructuring plan, with minimal disruption to sales, market share and operations from this major programme of change.
Cyclical and policy related forces

US Higher Ed enrolment and revenue
2010 = 100

- 2010: Enrolment = 100, Gross sales = 100
- 2014: Enrolment = 95.7, Gross sales = 95.5
- 2015: Enrolment = 94.0, Gross sales = 94.0
Forecast components of market growth across a typical economic cycle

- Enrollment
- OER
- Rental/used
- Selling Model
- Digital
- Total Market

US Higher Education courseware market
OPM market forecast, $m

Source: Third party estimates
The Global Platform

The User Experience

Pearson products and services

Pearson Content

Technology & Product Platforms

Learning Application & Service Platforms

Enterprise and Enabling Platforms

Cloud & Infrastructure Platforms

High level of change & innovation

Increased investment

Shift investment from ‘plumbing’

Lower level of change

Stable, reliable and repeatable
Guidance

2016 Guidance
• Adjusted Operating profit of £580-£620m before restructuring costs
• Adjusted eps 50-55p before restructuring cost
• Tax rate of approximately 19% and an interest charge of approximately £60m
• Guidance based on FX rates at 31st Dec 2015

2018 Goals
• Adjusted Operating Profit at or above £800m
Fireside Chat

Professor Ed Byrne KCL
Rod Bristow
OPM International opportunities

King’s College London partnered with Pearson to launch online postgraduate degree programmes in Psychology and Law.

Our partnership with Griffith University started very strongly seeing consistent demand for the MBA programme and the launch of two further courses.

The growth of our partnership with Monash University was led by the Graduate Diploma in Psychology, which is now one of Monash’s largest postgraduate courses.
Summary

• **Digital** opens up big opportunities for Pearson to play a larger role in the delivery of higher education.

• **Integrated Digital** is the future of HE courseware – significantly expands our addressable market and maintaining market leading position.

• Integrated digital also helps us **mitigate and manage the transitional risks** from rental and OER.

• **Online Programme Management** is growing fast in the US – and can be taken global.

• Our **Technology Stack** is evolving to deliver consumer-grade, adaptive, personalised learning.

• **Courseware** and **OPM** are two of the critical building blocks underpinning our 2018 goals.
Q&A Panel
Drinks & Breakout Sessions
There’s so much more to learn

Find out more about us at
A Pearson website address runs here
ALWAYS LEARNING