

2012 results presentation

Monday 25 February 2013

Financial review

Financial highlights

£m	2012	2011	Headline growth	CER growth
Sales	6,112	5,862	4%	5%
Operating profit	936	942	(1)%	1%
Adjusted EPS	84.2p	86.5p	(3)%	
Operating cash flow	788	983	(20)%	
Net debt	(918)	(499)	(84)%	
Dividend	45.0p	42.0p	7%	

Total business

Sales

£m	2012	2011	CER growth	Underlying growth
North American Education	2,658	2,584	2%	(4)%
International Education	1,568	1,424	13%	7%
Professional	390	382	2%	(9)%
Education	4,616	4,390	6%	(1)%
FT Group	443	427	4%	4%
Penguin	1,053	1,045	1%	(2)%
Total	6,112	5,862	5%	(1)%

Total business

Operating profit

£m	2012	2011	CER growth	Underlying growth
North American Education	536	493	8%	3%
International Education	216	196	16%	11%
Professional	37	66	(44)%	(54)%
Education	789	755	5%	1%
FT Group (ex FTSE)	49	56	(7)%	(7)%
Penguin	98	111	(11)%	(14)%
Total (ex FTSE)	936	922	3%	(2)%
FTSE	--	20	--	--
Total	936	942	1%	(2)%

Total business

Adjusted EPS

£m	2012	2011	Headline growth
Operating profit	936	942	(1)%
Interest	(52)	(52)	-
Taxation	(204)	(199)	(3)%
Tax rate	23.1%	22.4%	
Profit after tax	680	691	(2)%
Minorities	(3)	1	-
Adjusted earnings	677	692	(2)%
Shares in issue	804.3	800.2	
Adjusted EPS	84.2p	86.5p	(3)%

Total business

Statutory P&L

£m	2012	2011	Headline growth
Operating profit	515	1,118	(54)%
Interest	(52)	(52)	-
Finance costs – IAS39 / IAS21	(29)	(19)	(53)%
Profit before tax	434	1,047	(59)%
Taxation	(148)	(162)	(9)%
Profit after tax	286	885	(68)%
Discontinued operations	43	71	(39)%
Profit for the year	329	956	(66)%
Basic EPS (total)	40.5p	119.6p	(66)%

Operating cash flow

£m	2012	2011	var
Operating profit	936	942	(6)
Working capital	(100)	39	(139)
Net capital expenditure	(156)	(140)	(16)
Depreciation	134	118	16
Dividends from associates and JVs	27	30	(3)
Exchange	(21)	24	(45)
Other movements	(32)	(30)	(2)
Operating cash flow	788	983	(195)
Cash conversion %	84%	104%	

Total business

Free cash flow

£m	2012	2011	var
Operating cash flow	788	983	(195)
Tax paid	(65)	(151)	86
Cash tax %	7%	16%	
Net interest paid	(66)	(60)	(6)
Free cash flow	657	772	(115)
Free cash flow / share	81.7p	96.5p	

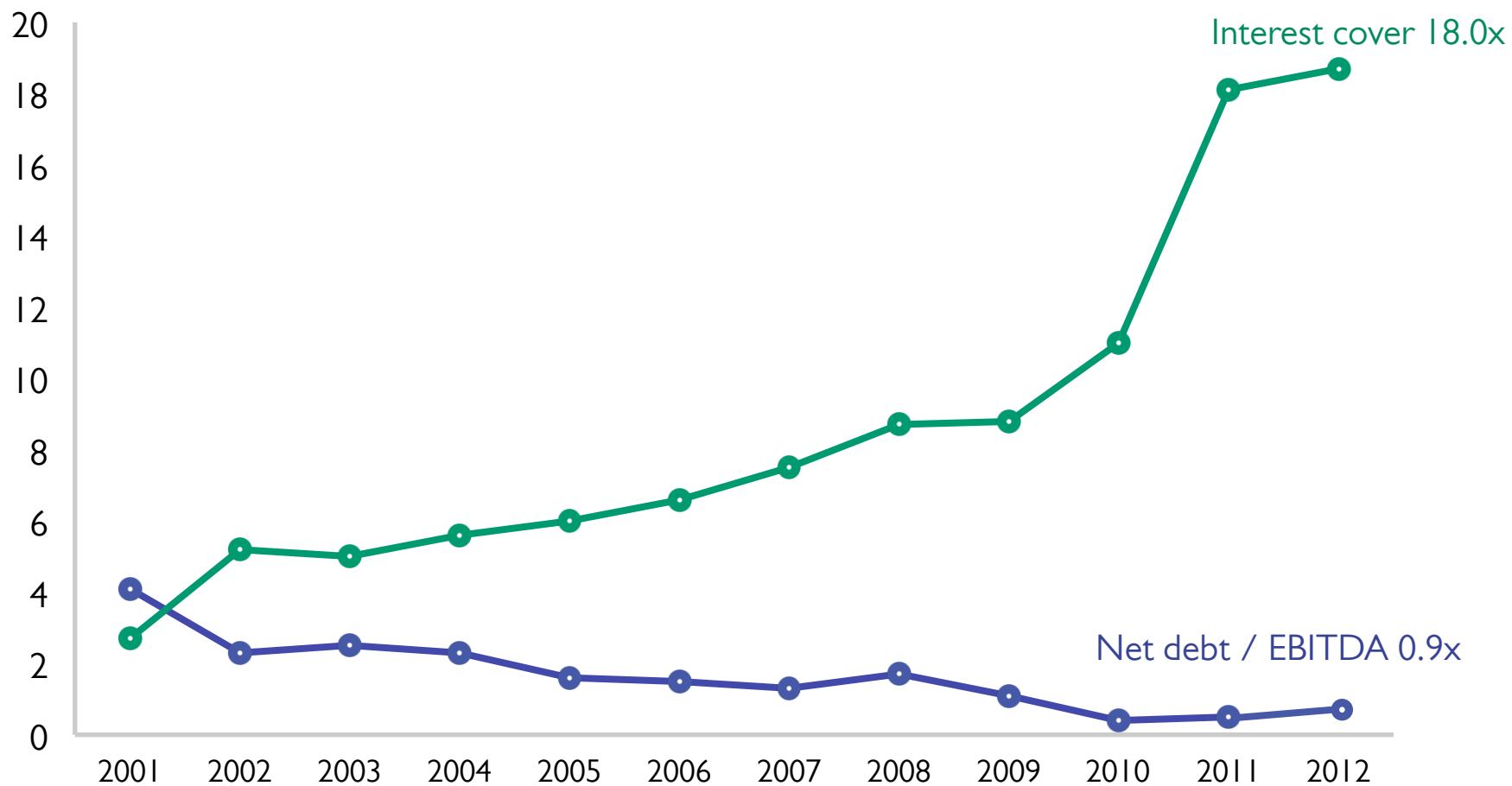
Total business

Balance sheet

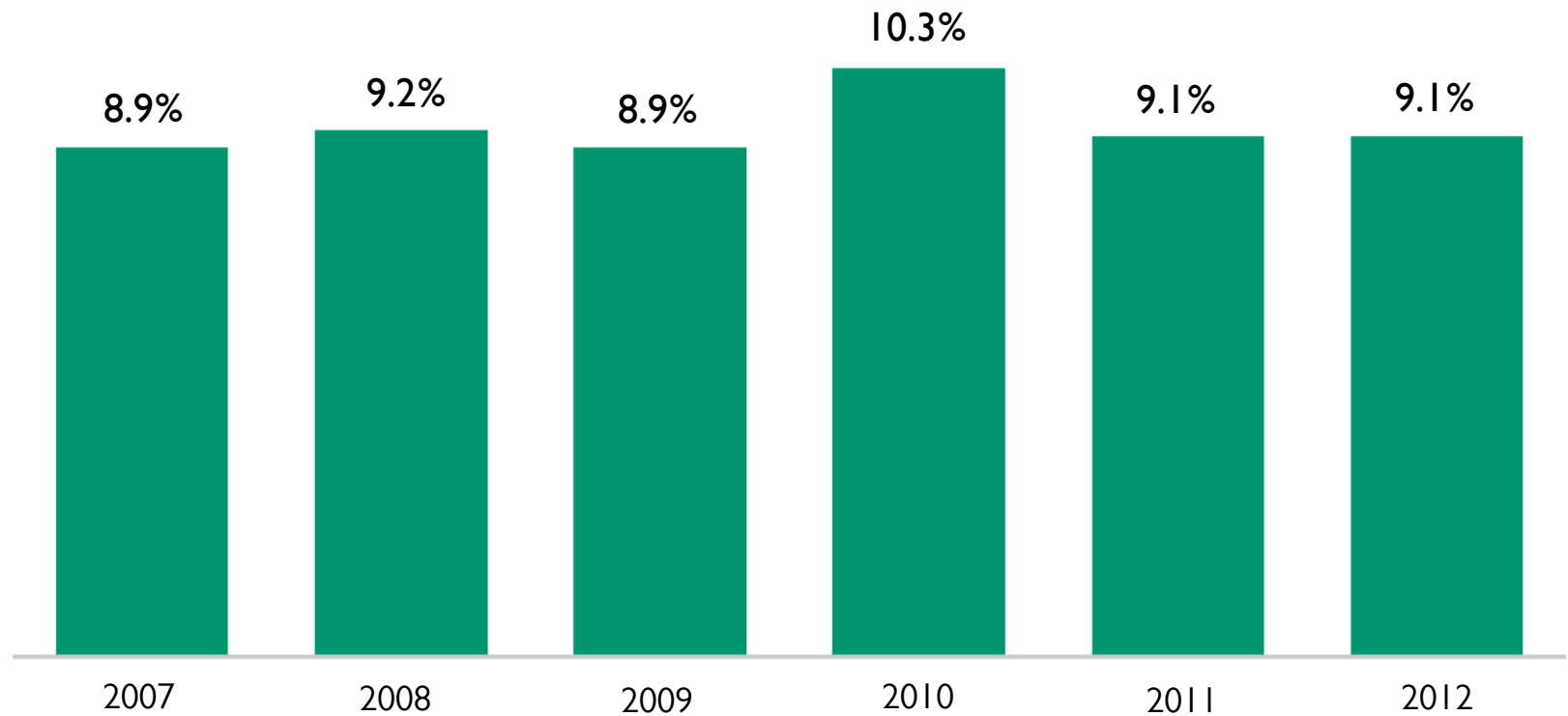
£m	2012	2011	var
Goodwill / intangible assets	6,622	6,342	280
Tangible fixed assets	367	383	(16)
Pre-publication	682	650	32
Deferred revenue	(733)	(678)	(55)
Traditional working capital	741	682	59
Other net liabilities	(322)	(280)	(42)
Net trading assets	7,357	7,099	258
Shareholders' funds	5,686	5,943	(257)
Deferred tax	354	334	20
Pensions	198	141	57
Other provisions	177	163	14
Minorities	24	19	5
Net debt	918	499	419
Capital employed	7,357	7,099	258
Year end \$/£	1.63	1.55	

Total business

Balance sheet strength

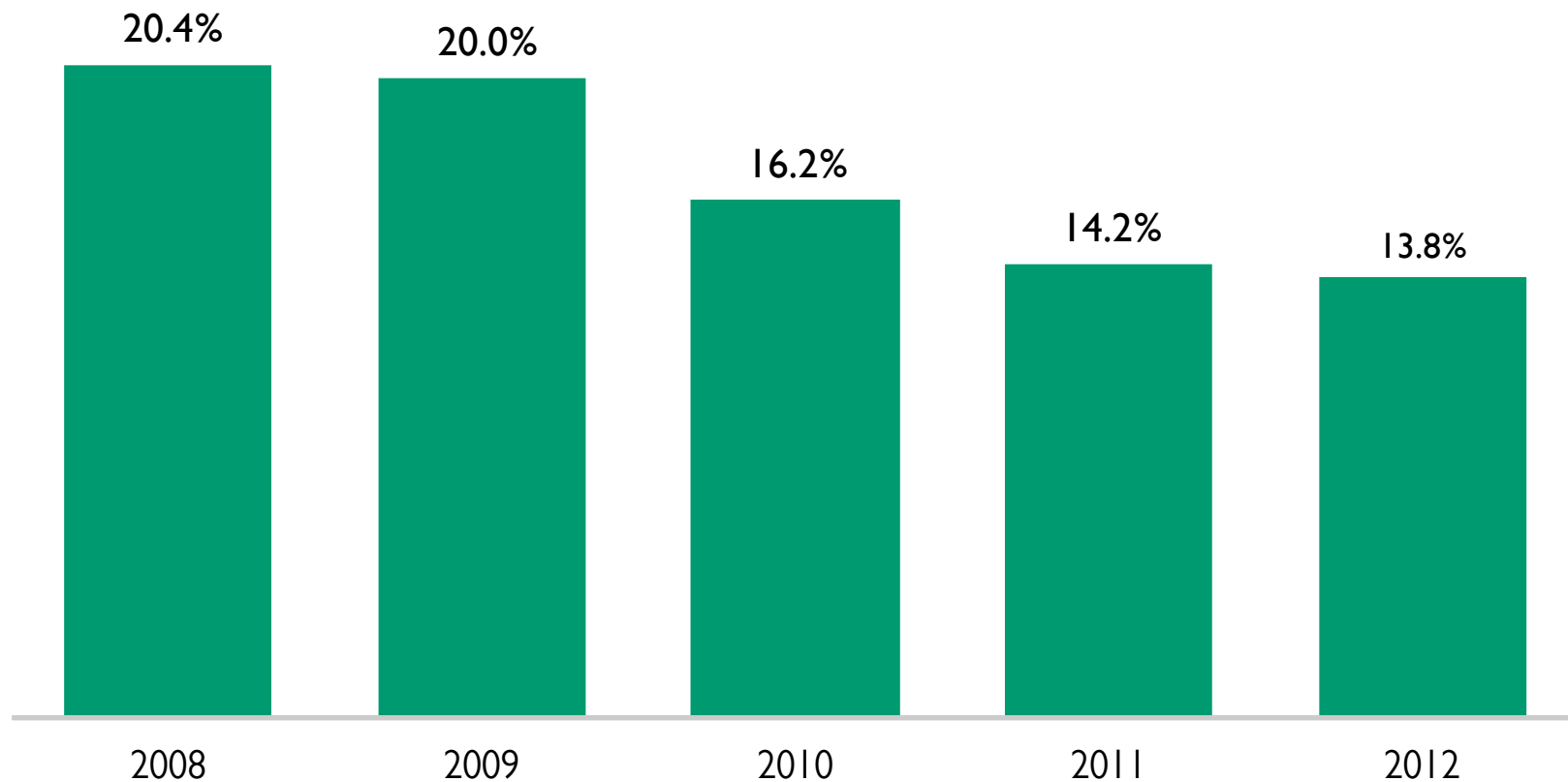


Return on invested capital



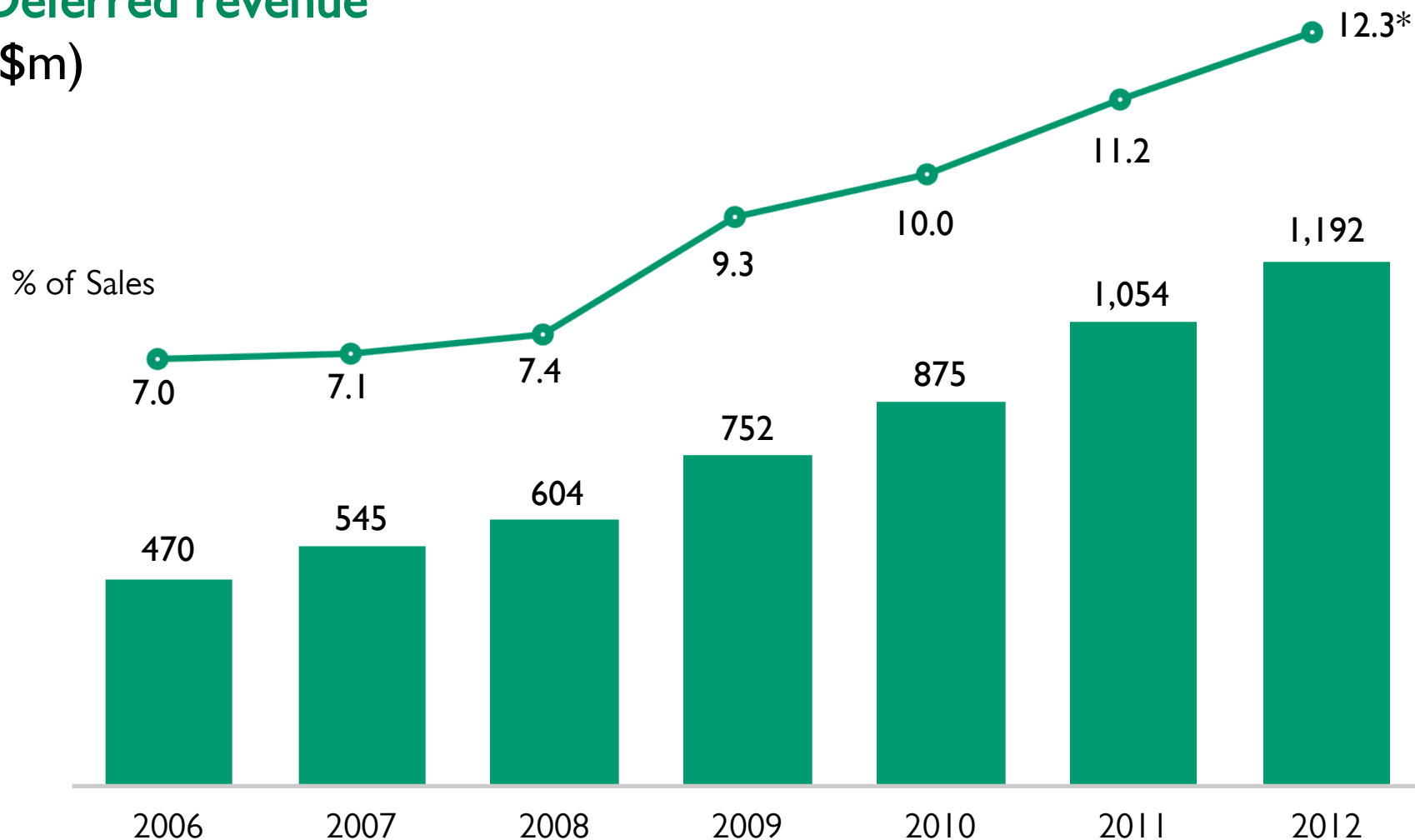
Average capital / actual cash tax – total business

Working capital / sales



Total business

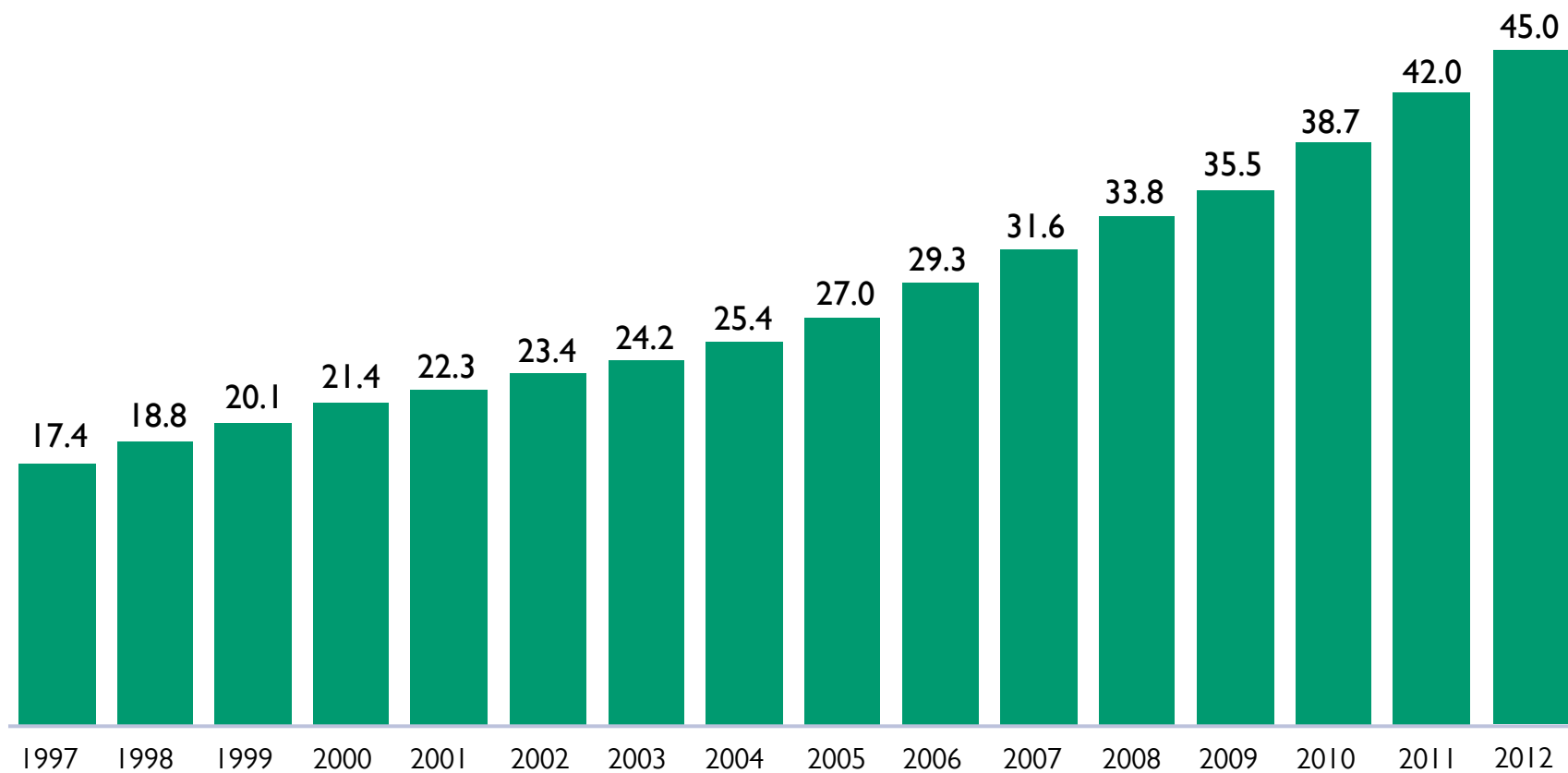
Deferred revenue (\$m)



*14.4% with Penguin classified as associate

Growing dividend

Pence per share



2013 outlook

(before restructuring and associated benefits)

- Developed world and print publishing generally tough
- Developing economies; digital and services generally strong
- Modest growth in North America; good growth in International (outside UK)
- Good growth in Professional testing; Pearson in Practice closure
- FT Group content/ subscription revenues growing; advertising weak
- Penguin trading environment similar to 2012
- Penguin Random House merger expected to complete in H2

Restructuring activity

Global education

- Print publishing infrastructure
- Lower priority markets

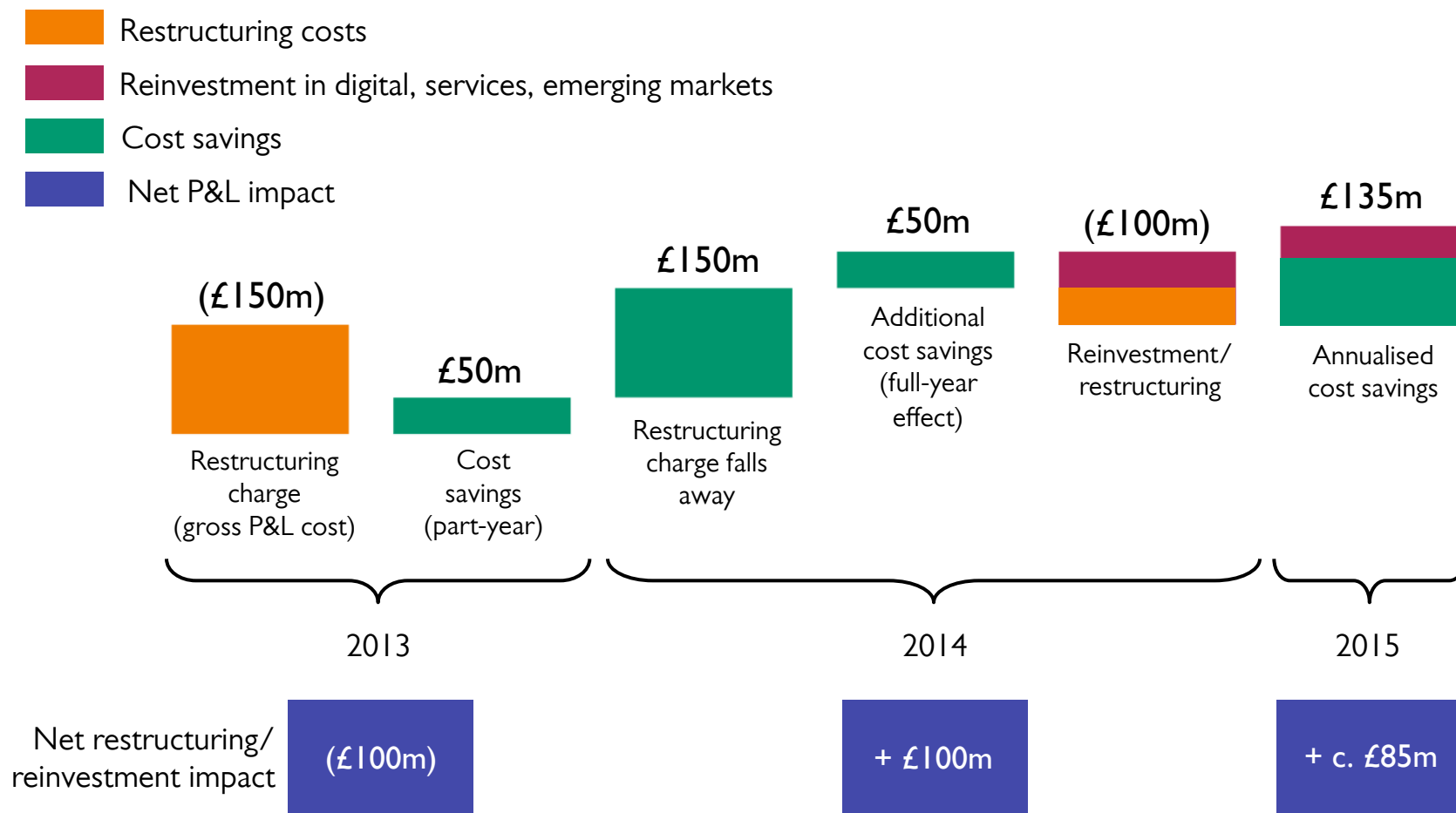
Shared services infrastructure

- Warehousing
- Distribution
- Technology

Penguin Random House integration

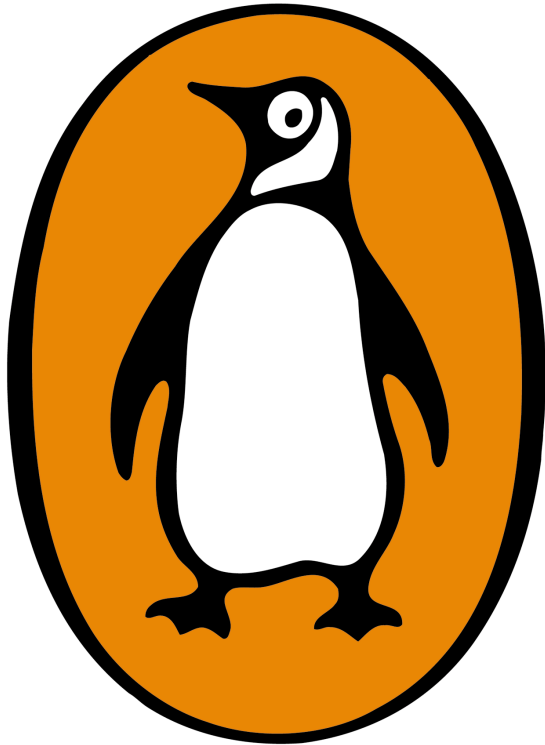
- Costs incurred in 2014

P&L impact of restructuring programme*



*Excludes impact of any underlying change in performance

The future



RANDOM HOUSE
BERTELSMANN

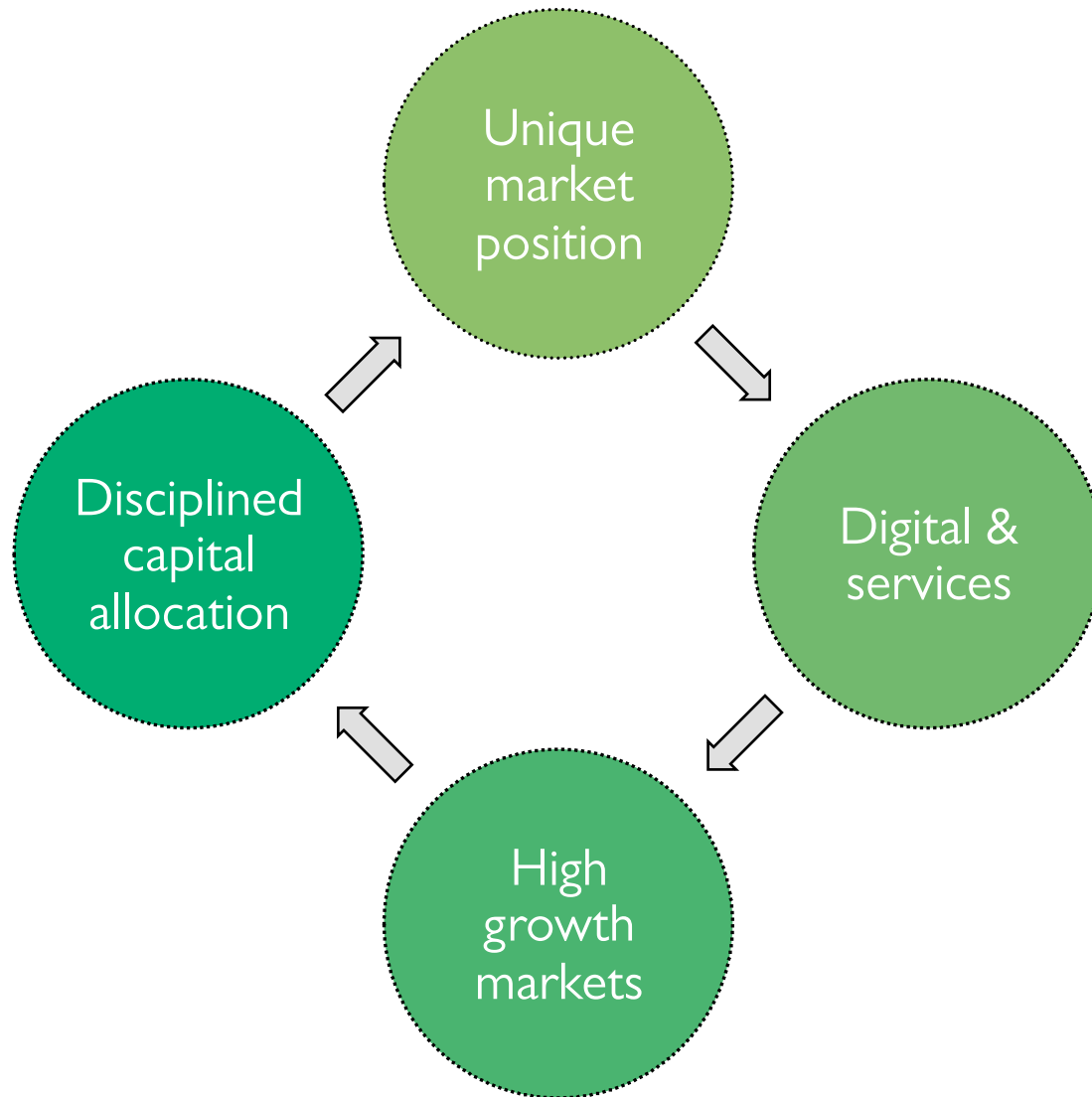
Lessons from 2012

Significant share gains, even in tough markets

Strong organic growth in key categories, geographies

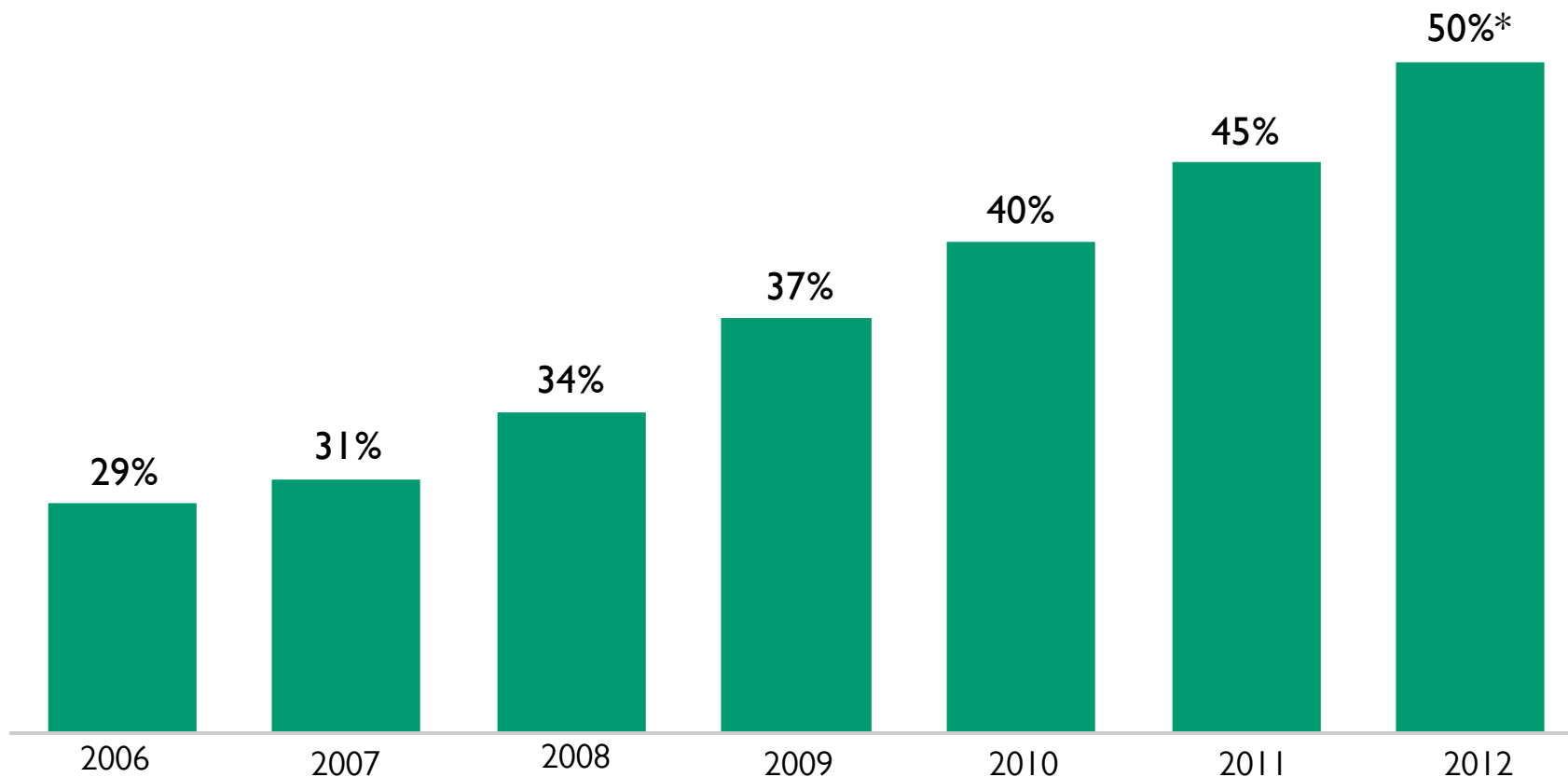
Continuing structural change

Building blocks



Shift to digital & services

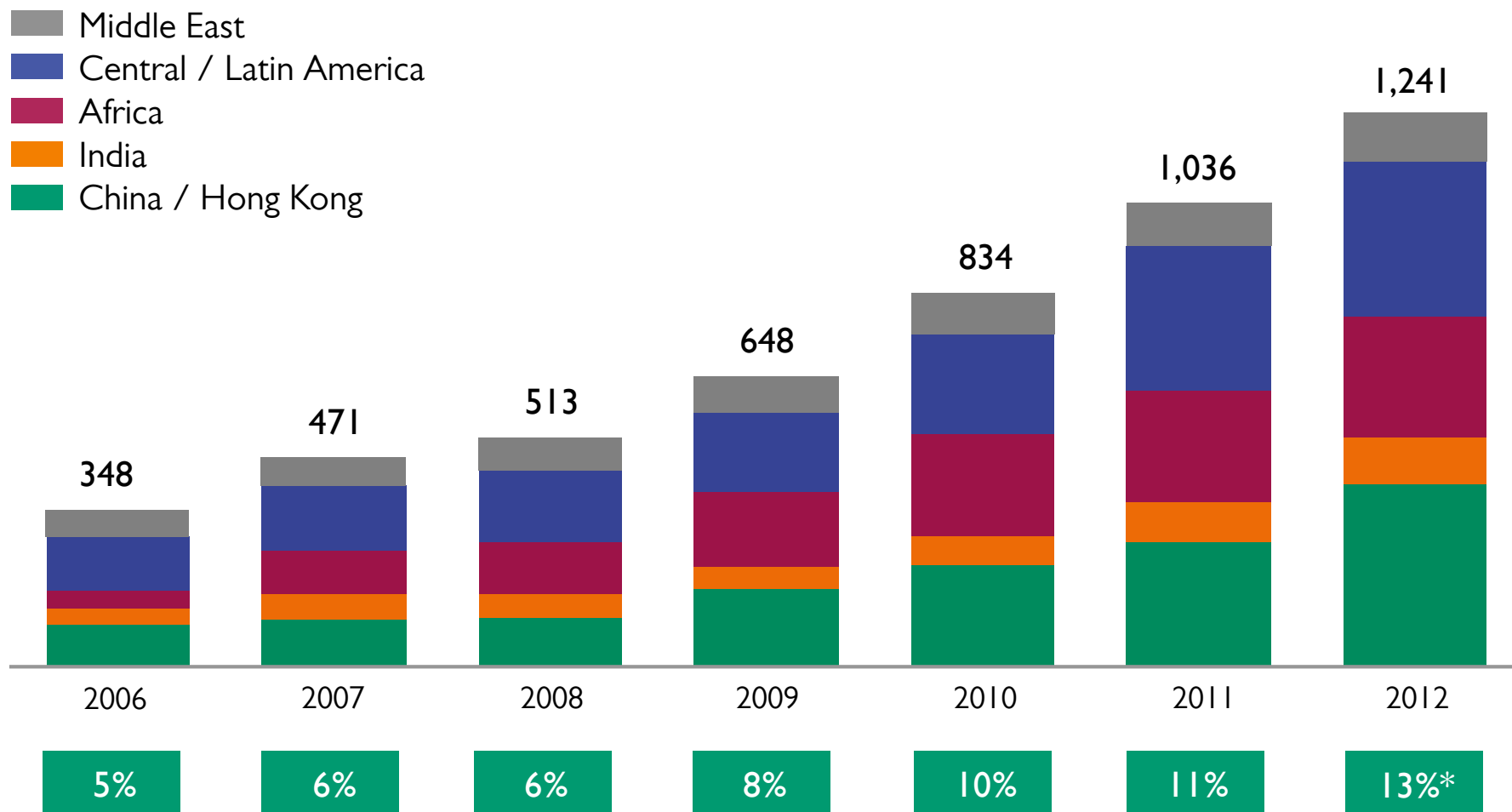
Pearson's digital & services revenues, £m / % of sales



*56% with Penguin classified as associate

Strength in high-growth markets

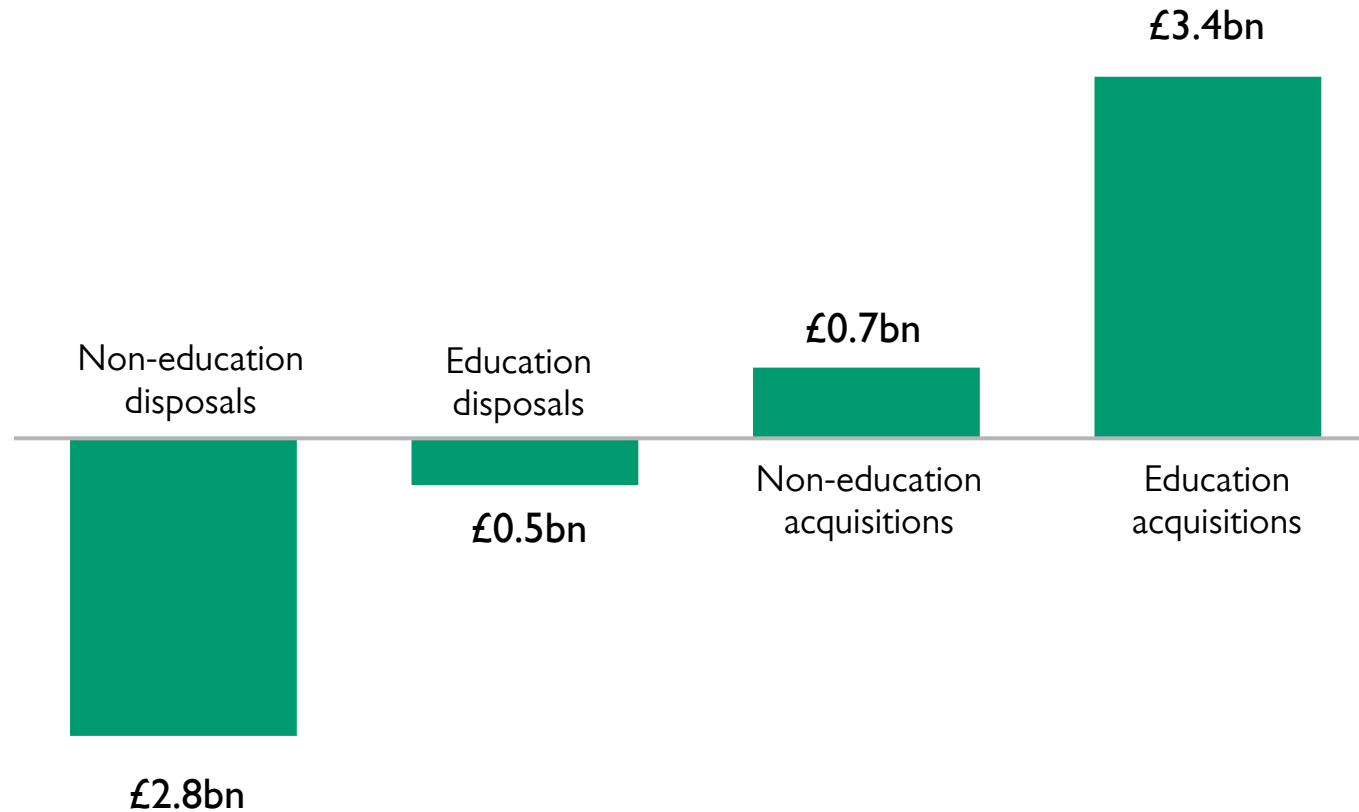
Pearson emerging markets revenues, \$m



*15% with Penguin classified as associate

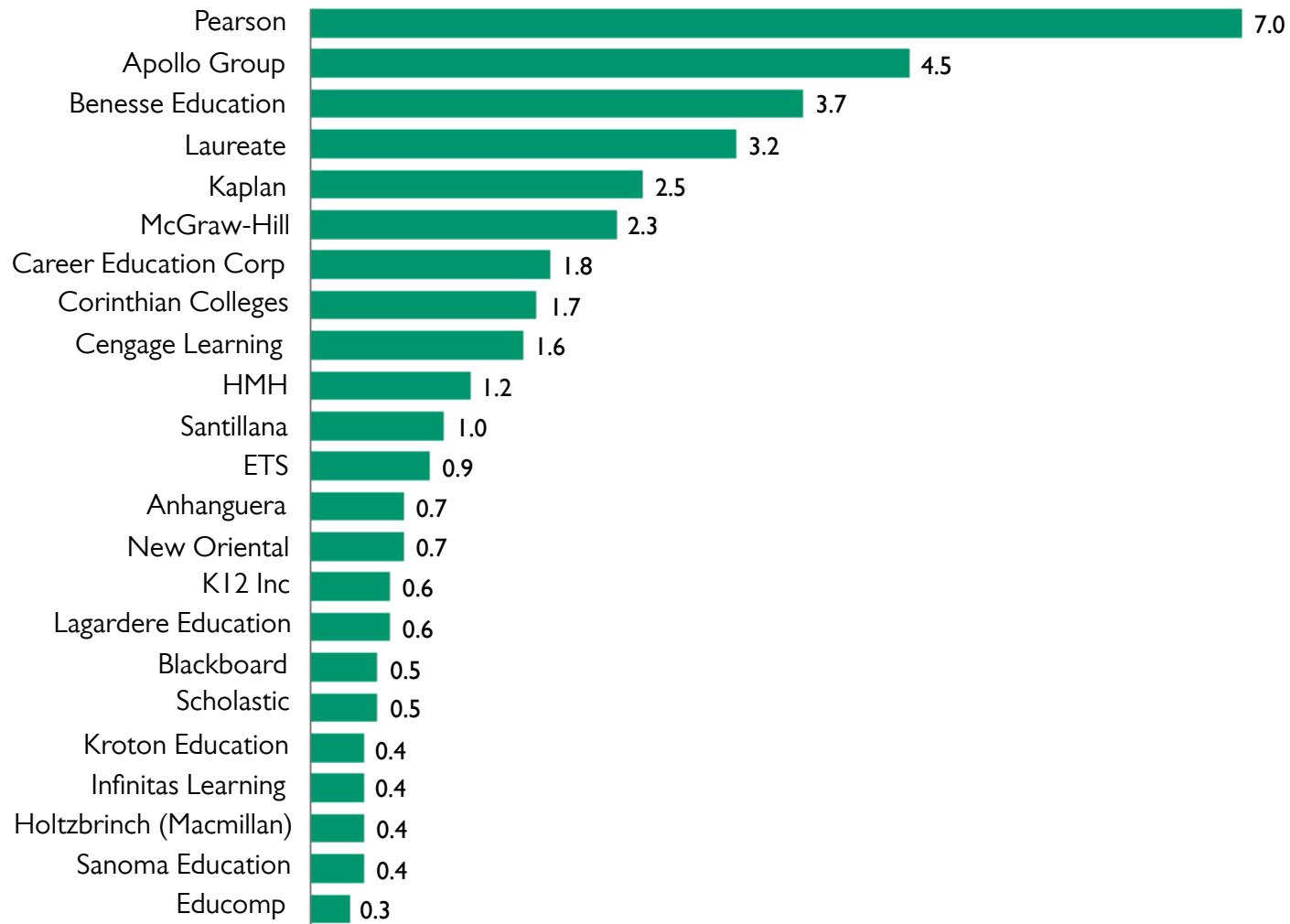
Disciplined capital allocation

Acquisitions & disposals, 2002-2012

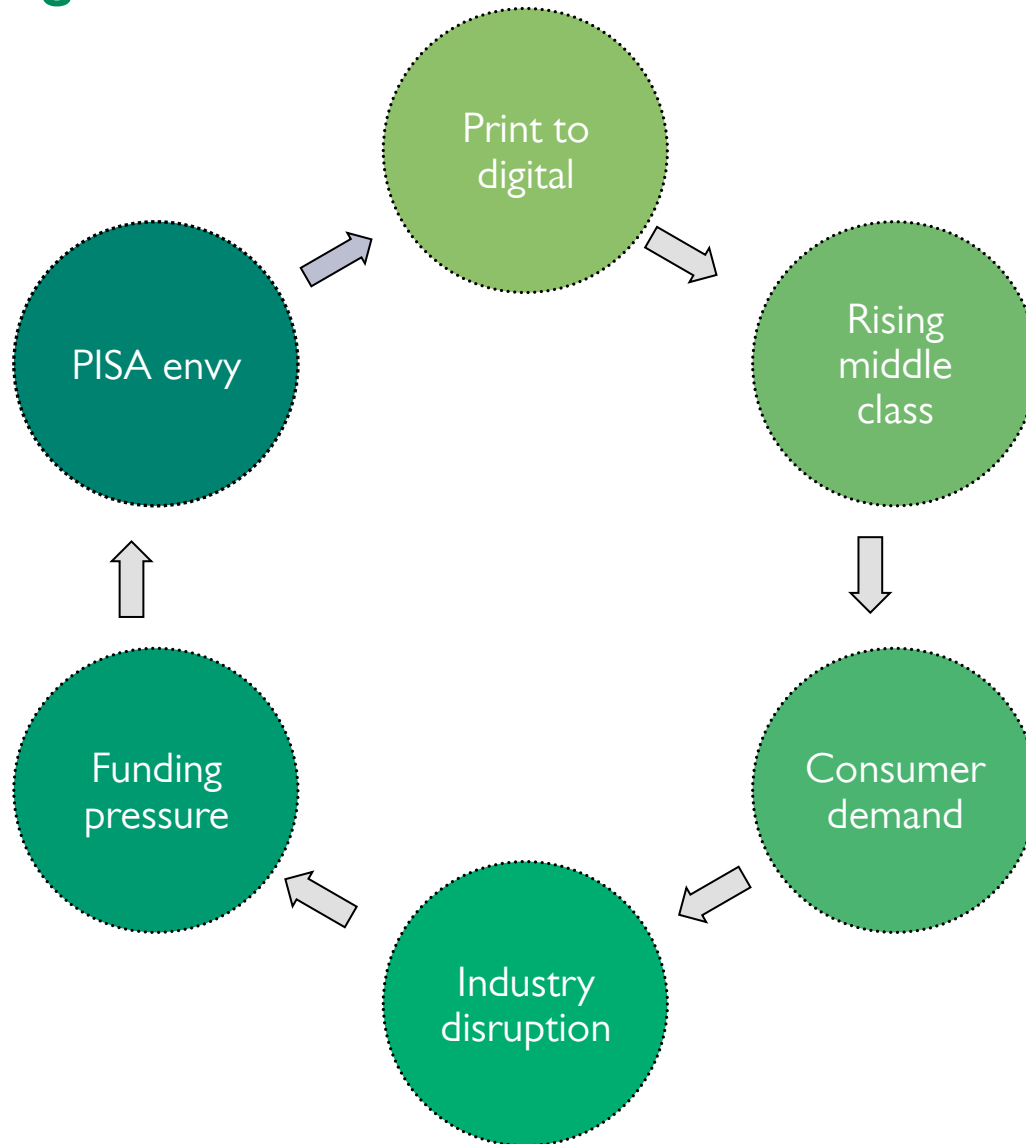


Unique market position

2011 Education revenues, \$bn

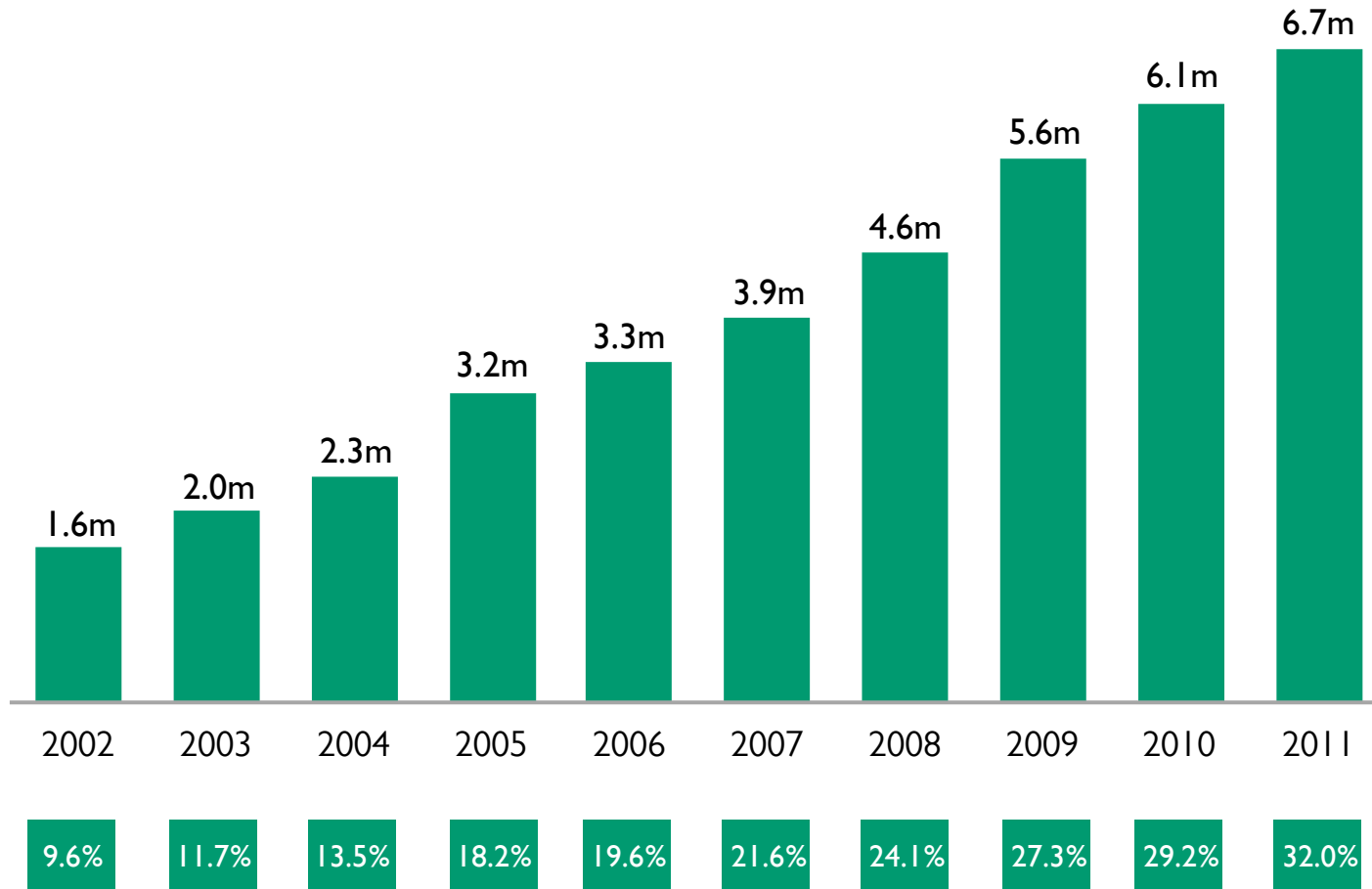


Structural change



Print to digital

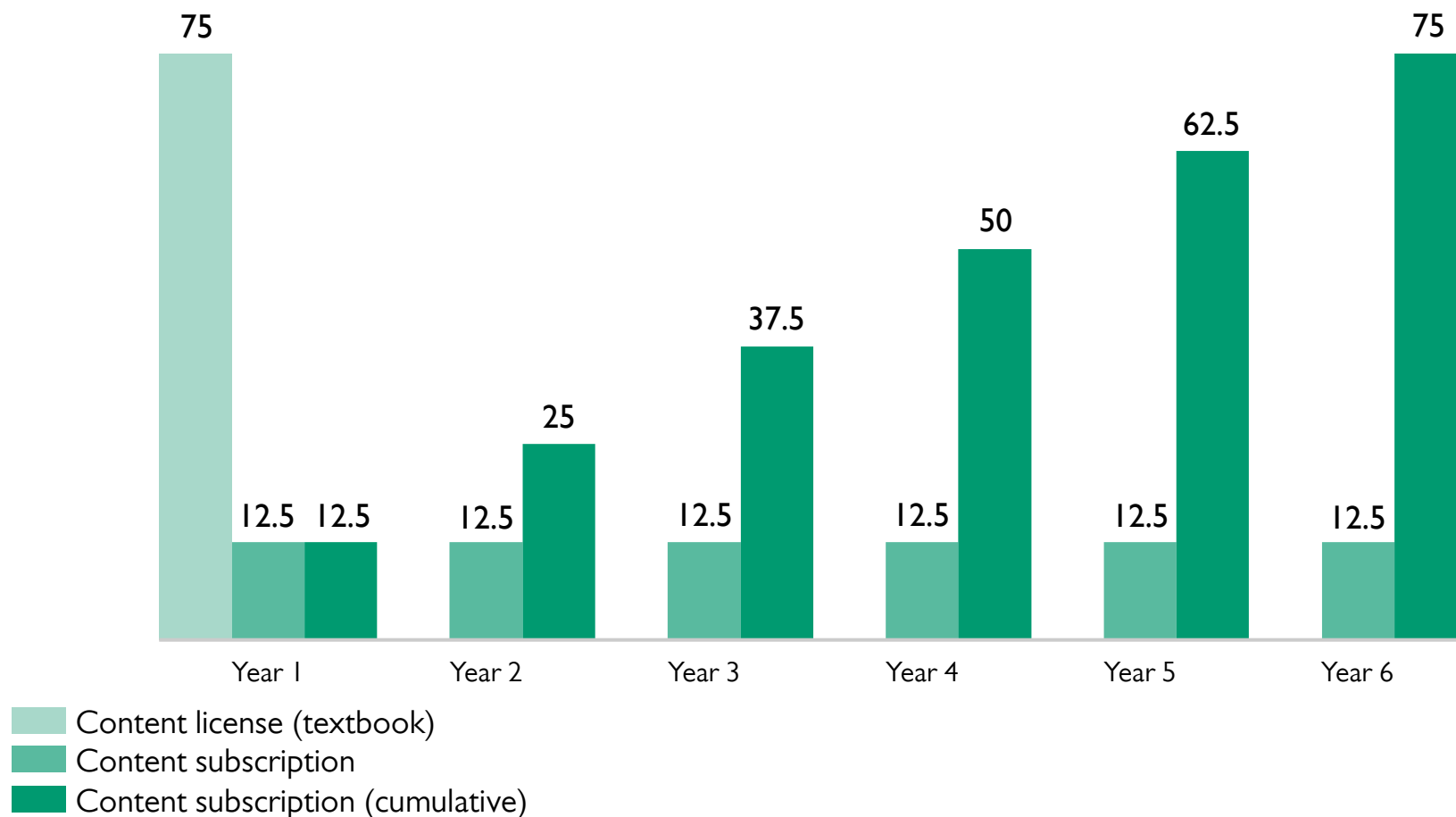
Number of US college students taking at least one online course (m)/% of total enrolments



Source: Babson annual online learning survey

Print to digital

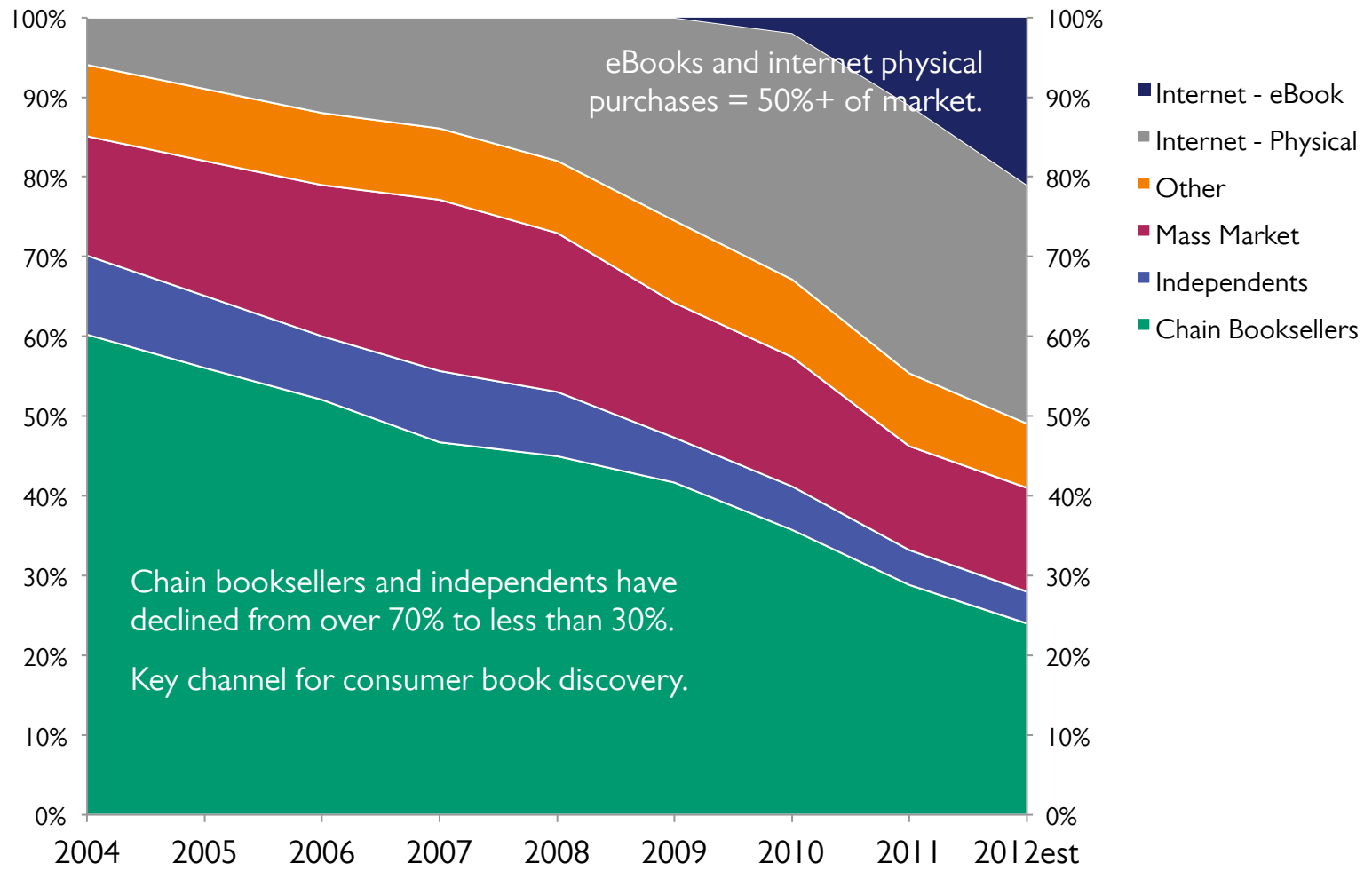
License to subscription sale



Note: Illustrative example based on Pearson data showing impact of move from one off sale every six years to annual subscription

Retail consolidation

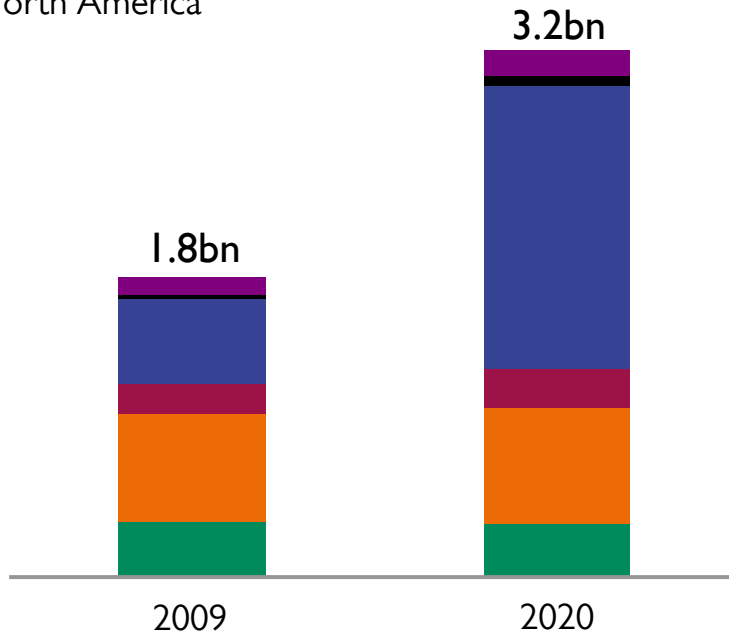
US consumer book volumes by channel, %



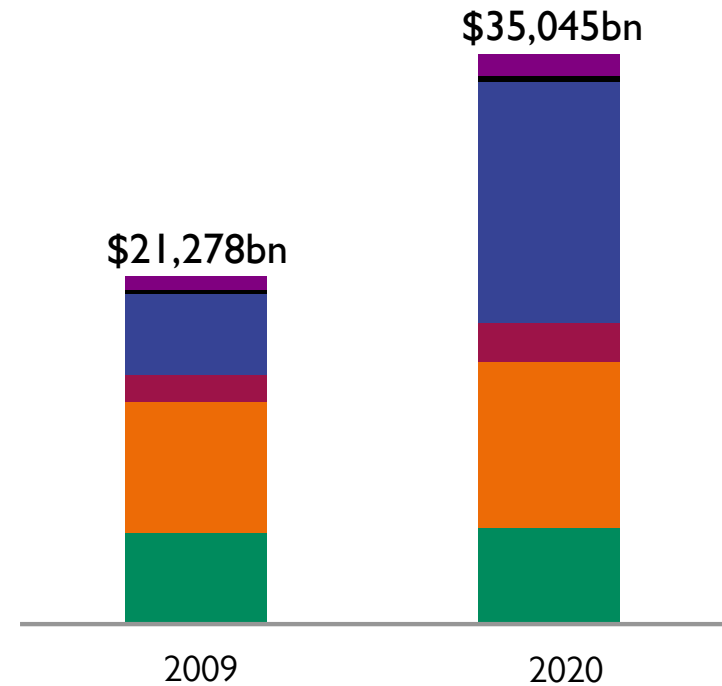
Source: Pearson estimates

The rise of the middle class

- Middle East & North Africa
- Sub-Saharan Africa
- Asia Pacific
- Central & South America
- Europe
- North America



Numbers of middle class people

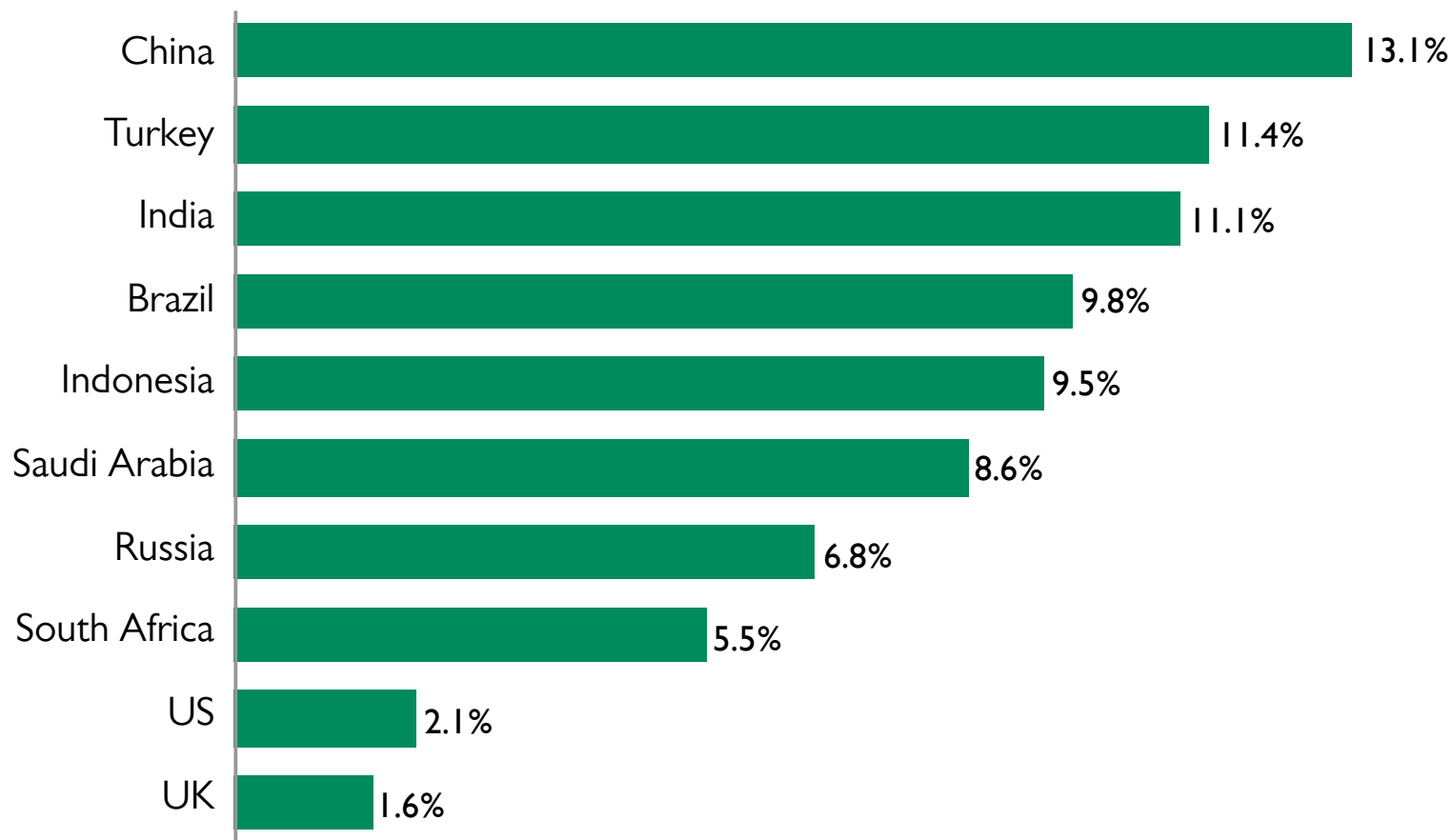


Middle class consumption (2005\$)

Source: The Brookings Institution

Consumer demand for education

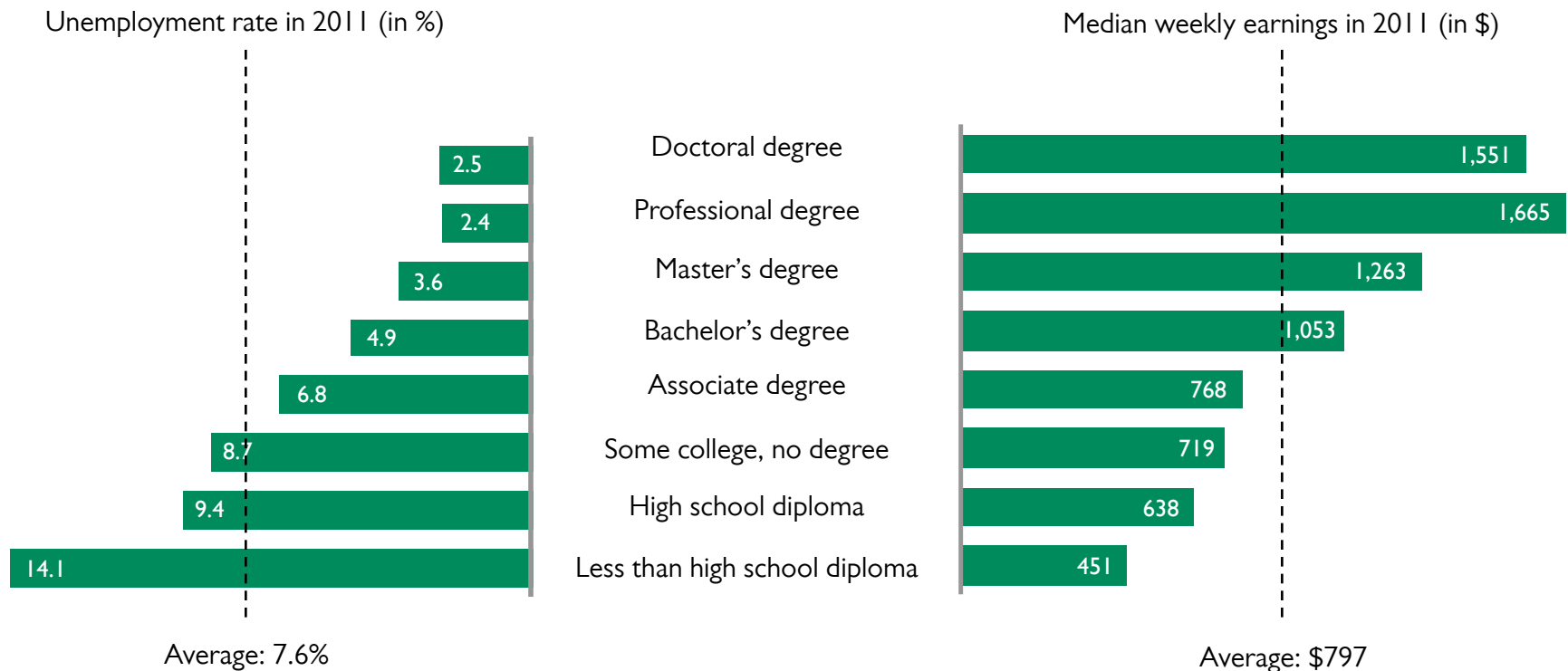
% of household income spent on education



Source: Bureau of Labour Statistics, Office of National Statistics, Credit Suisse

Consumer demand for education

US unemployment and earnings by level of education

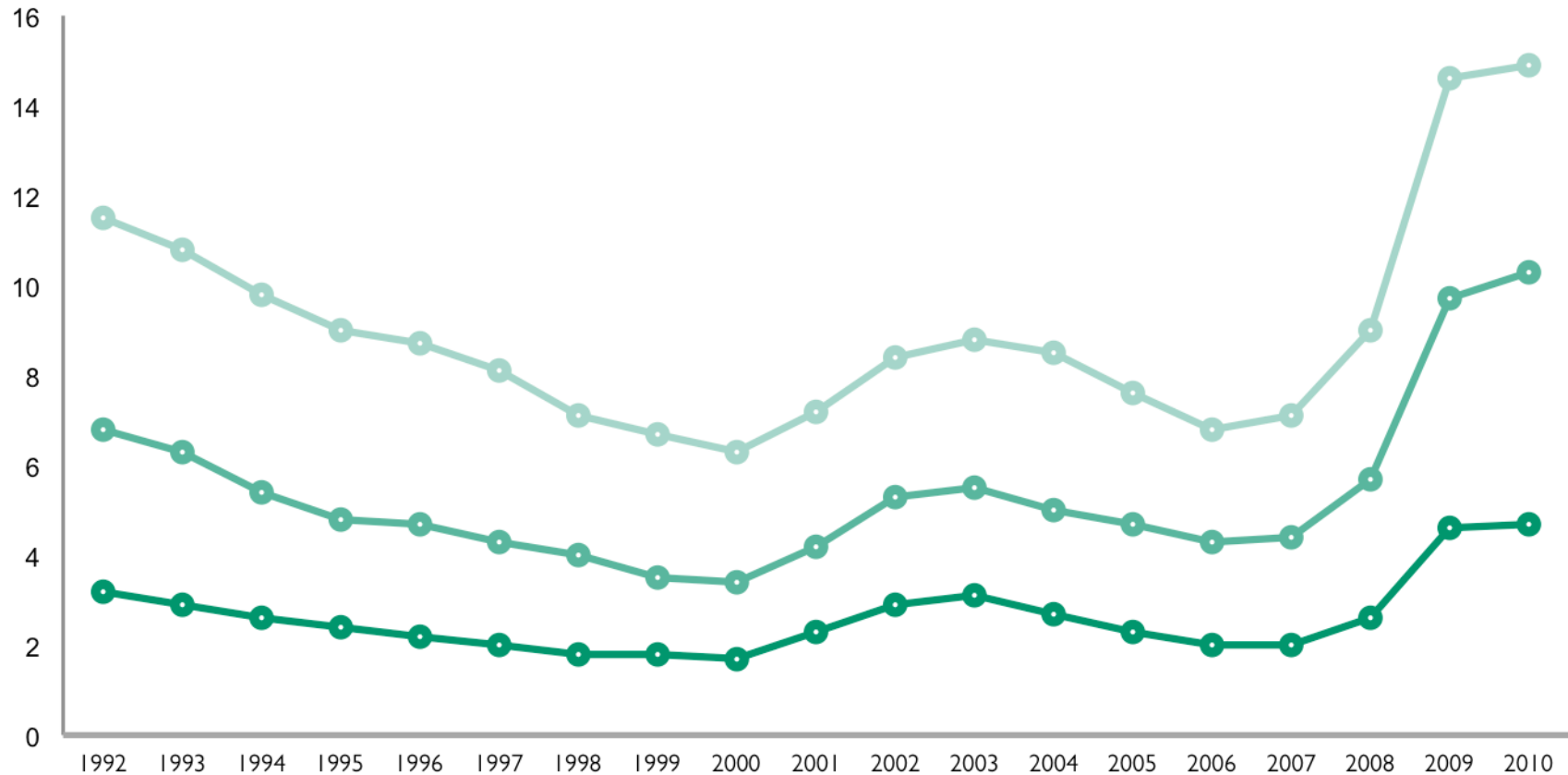


Source: Bureau of Labour Statistics, Current population survey

Consumer demand for education

US unemployment rates by level of education

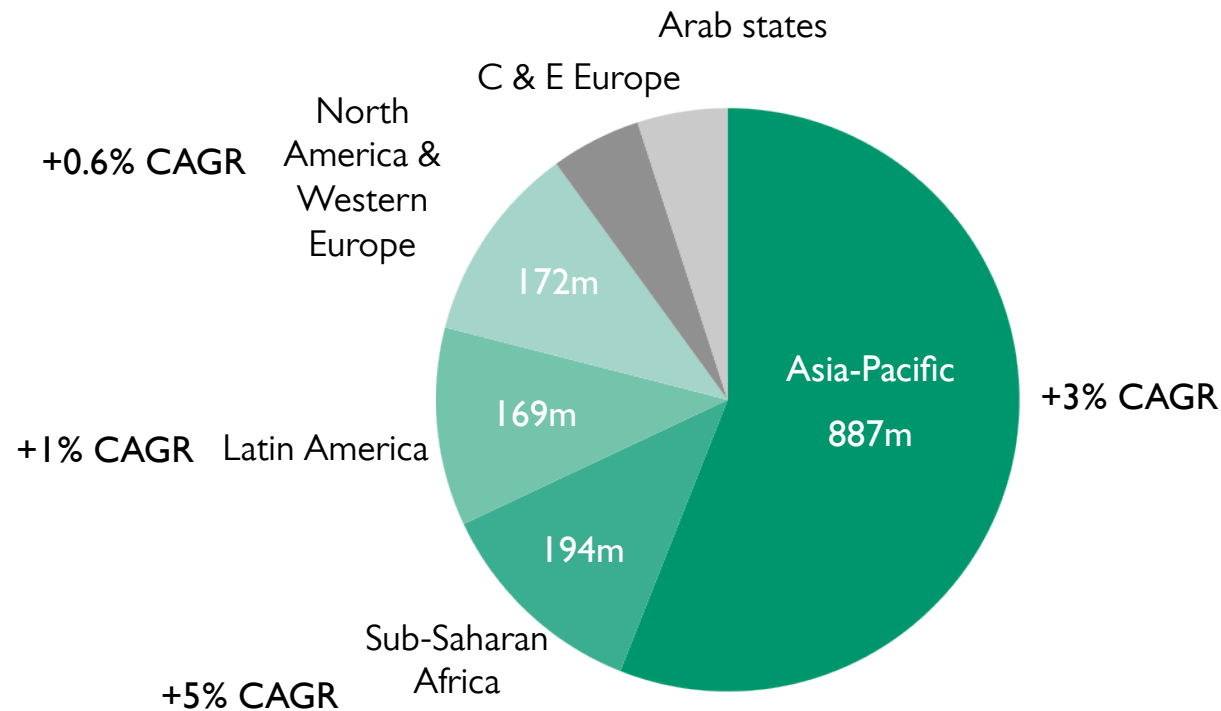
- Less than a high school diploma
- High school graduates, no college
- Bachelors degree or more



Source: Bureau of Labour Statistics, Current population survey

Rising demand for education

Global K-20 student population



Source: UNESCO. Growth rates are CAGR 1998-2010.

Industry landscape

Publishing companies



Services companies



PEARSON

Open source/ ecosystem partners



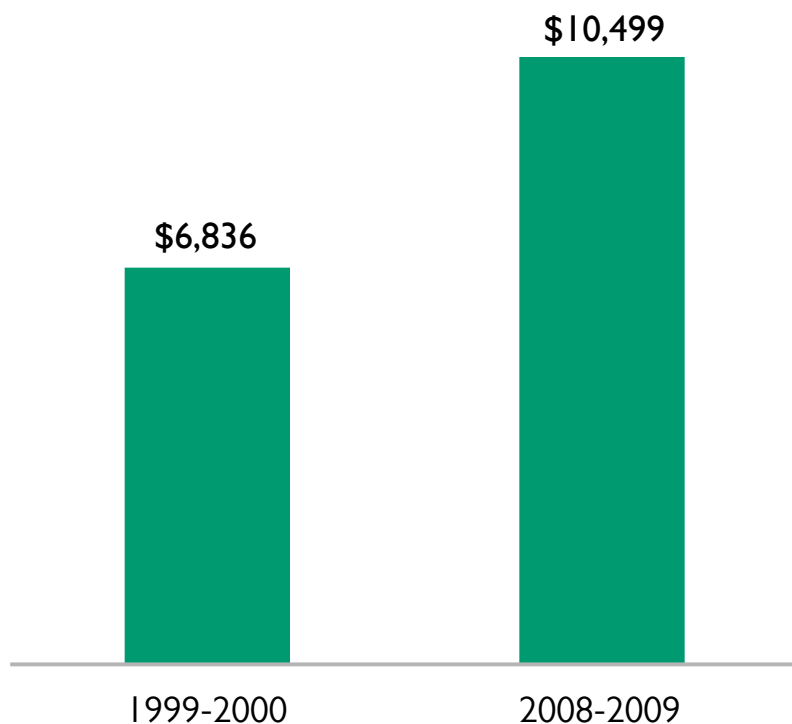
EdTech start-ups



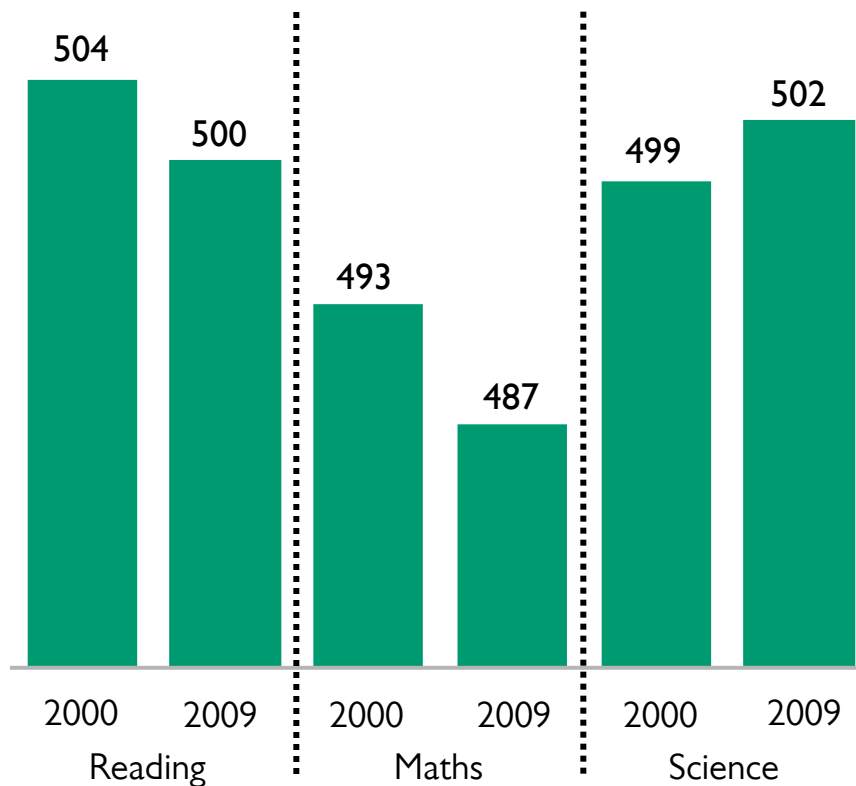
PEARSON

Customers under pressure

US K12 spend per student



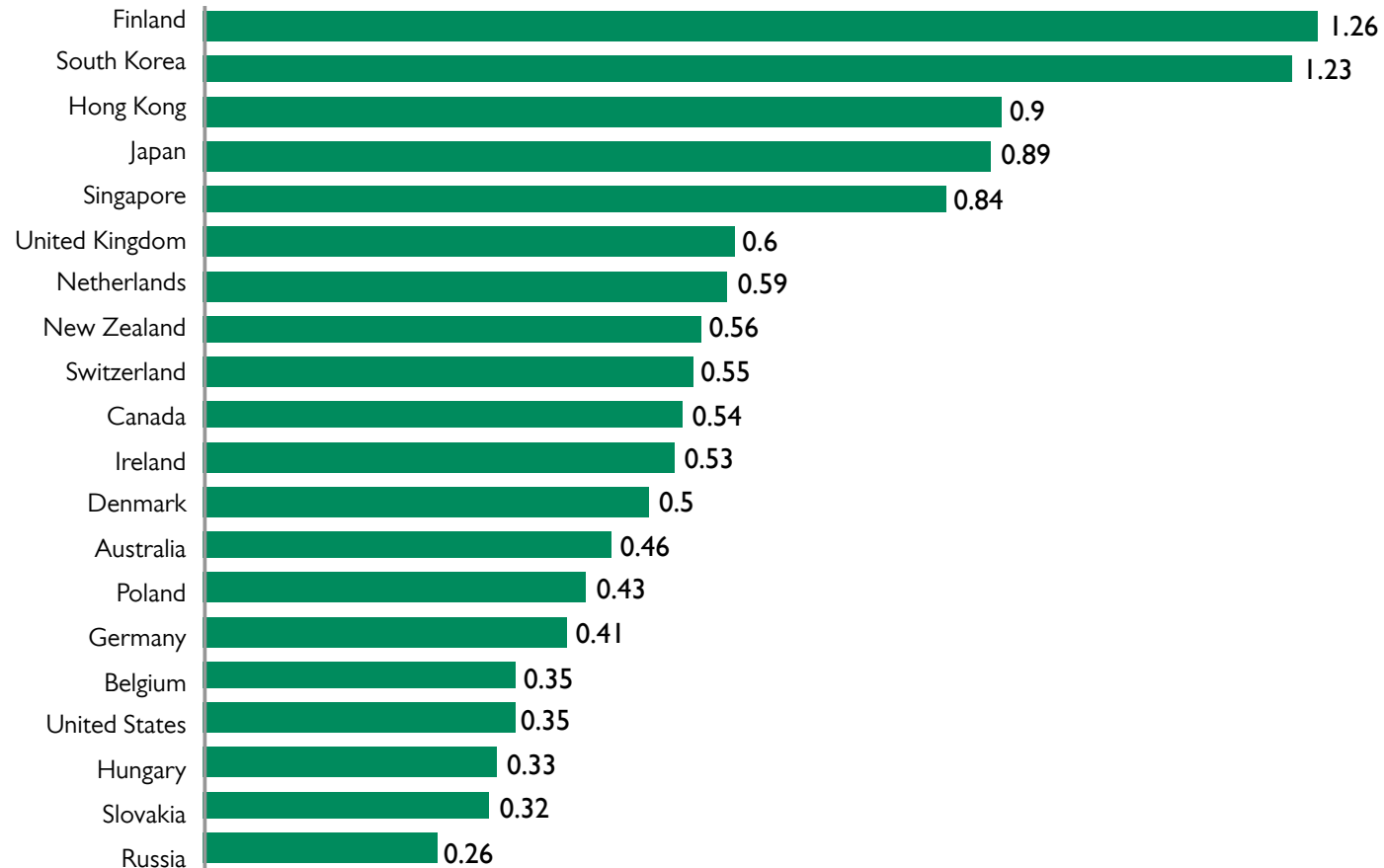
US PISA test scores



Source: National Center for Education Statistics, OECD PISA

PISA envy

Index of cognitive skills and educational attainment



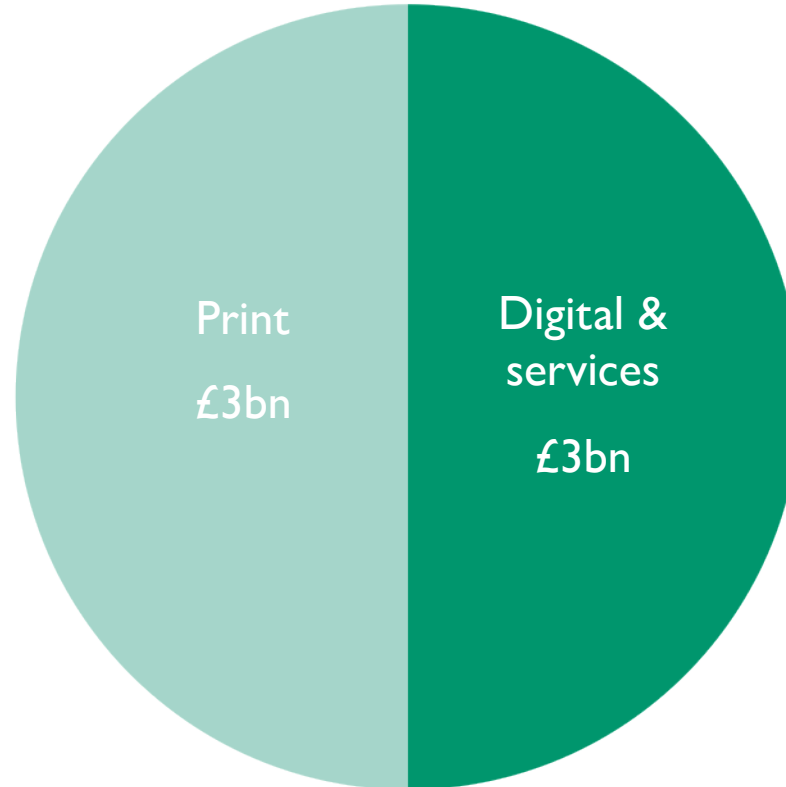
Source: Pearson/ The Economist Intelligence Unit: The Learning Curve

Global education is a once-in-a-generation opportunity.

To seize it, we must transform Pearson.
Again.

The need for transformation:

Print vs digital & services



The need for transformation:

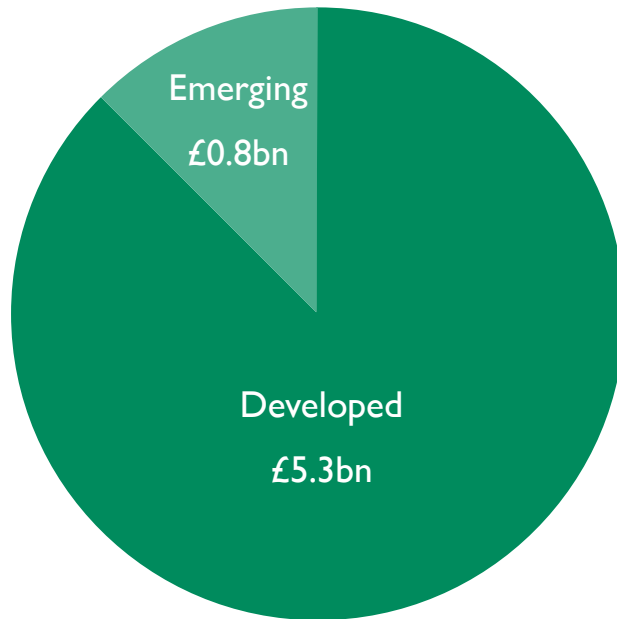
Digital learning services registrations

	2008	2009	2010	2011	2012	CAGR
MyLabs	3.6M	4.8M	6.3M	7.8M	8.5M	24%
SuccessNet	3.7M	4.4M	6.1M	6.2M	7.5M	19%
PowerSchool	6.1M	8.5M	9.4M	10.0M	12.3M	19%
LearningStudio	1.1M	1.4M	2.6M	2.8M	2.9M	27%
PearsonAccess	1.0M	1.7M	3.7M	5.7M	6.6M	60%
AIMSWeb	2.2M	3.1M	3.9M	4.1M	4.1M	17%
SuccessMaker	2.2M	2.5M	2.8M	3.1M	3.2M	10%
Schoolnet	N/A	N/A	N/A	3.2M	8.3M	-
Connections	N/A	N/A	N/A	33,200	41,100	-
	19.9M	26.4M	34.9M	42.9M	53.5M	28%

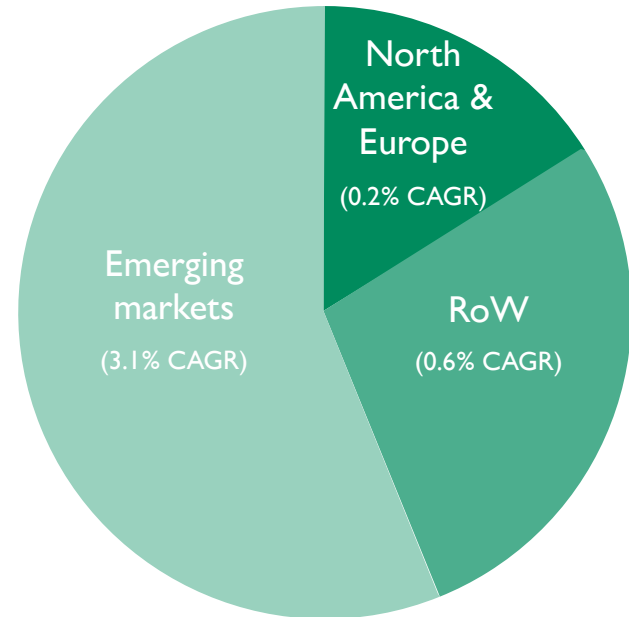
The need for transformation:

Where are our customers?

Pearson revenues, 2012

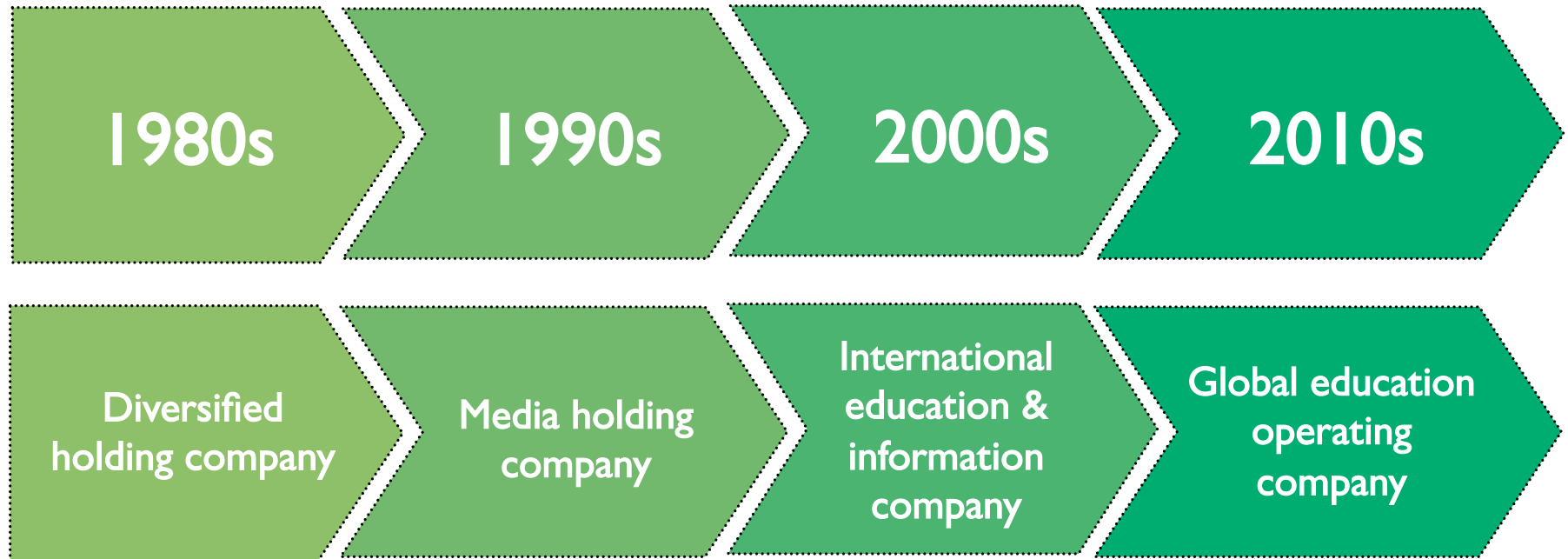


K-20 % of students
(% CAGR 1998-2010)



Source: Pearson, UNESCO

The next transformation



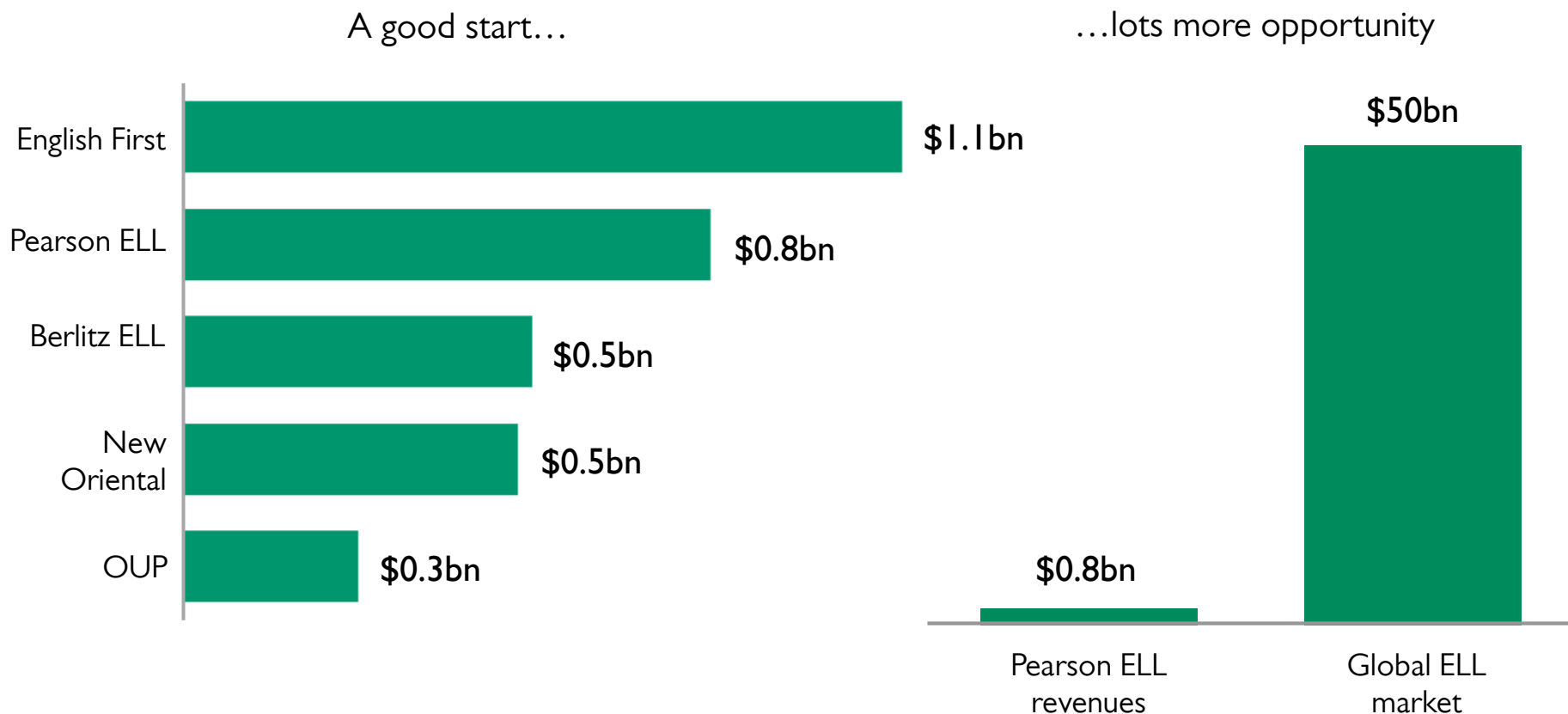
Where we will invest

Global businesses

1. School
2. Higher Education
3. English
4. Business

Case Study: English

Leading global English Language Learning companies revenues



Source: Company accounts, Pearson estimates

Where we will invest

Global businesses

1. School
2. Higher Education
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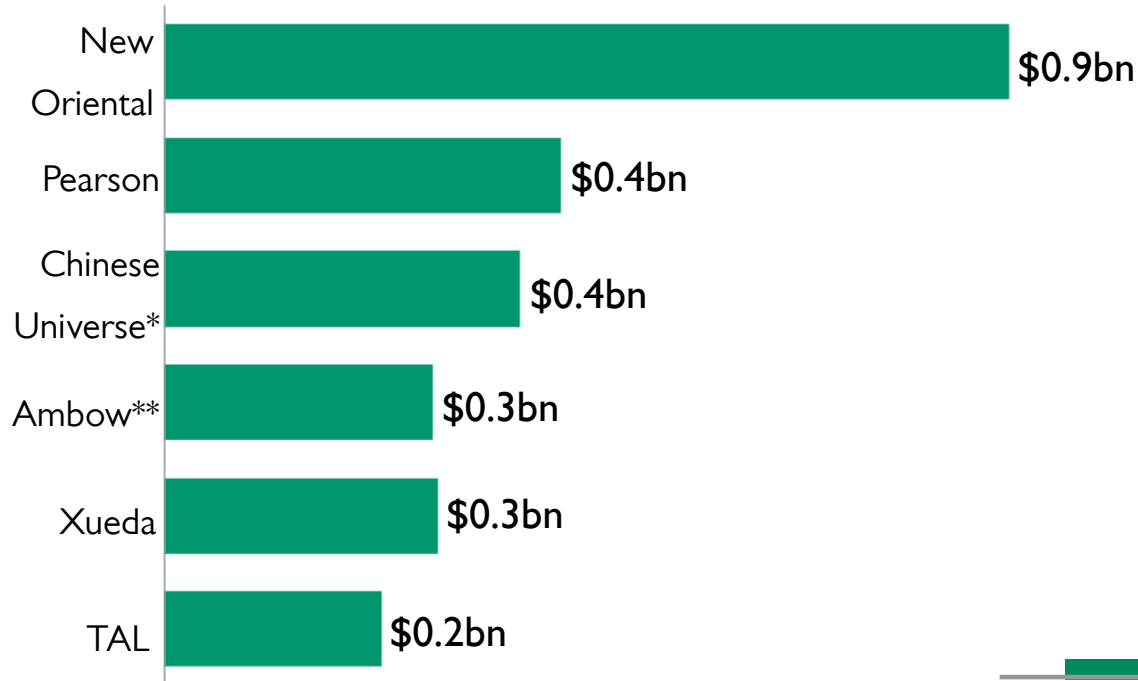
Key markets

1. Grow
2. Watch
3. Maintain
4. Drive

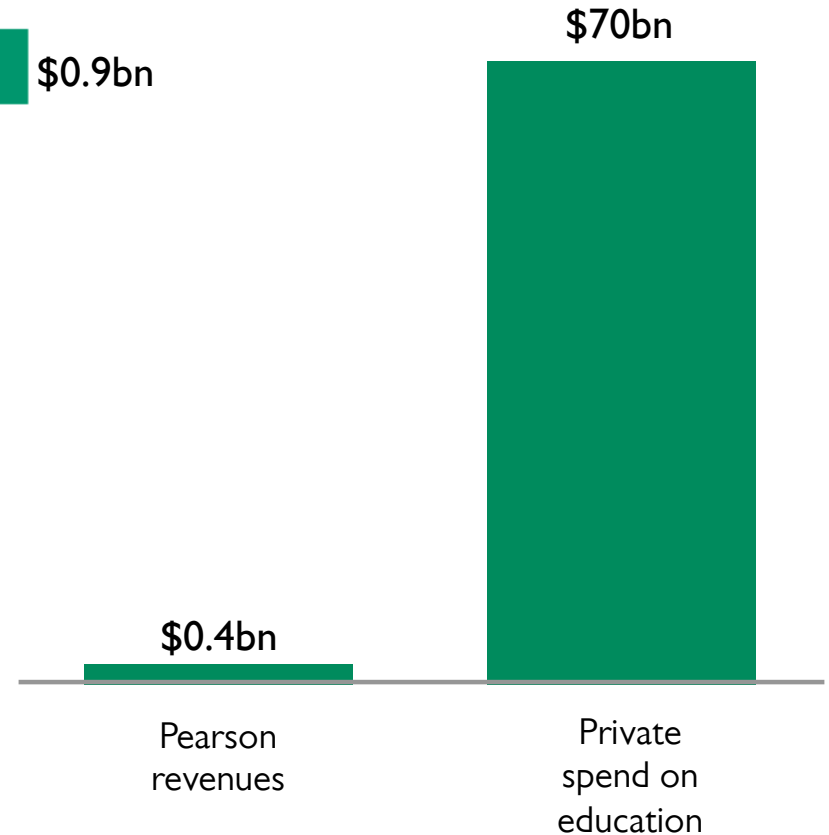
Case study: China

Leading public education companies, revenues

A good start...



...lots more opportunity



Sources: Company reports, Deloitte, Goldman Sachs

*Education textbook publishing only

**LTM to 31st March 2011

Where we will invest

Global businesses

1. School
2. Higher Education
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4. Business

Key markets

1. Grow
2. Watch
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Business models

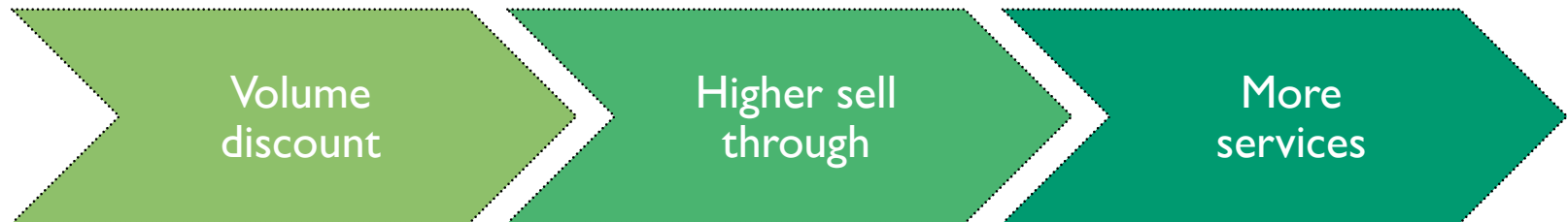
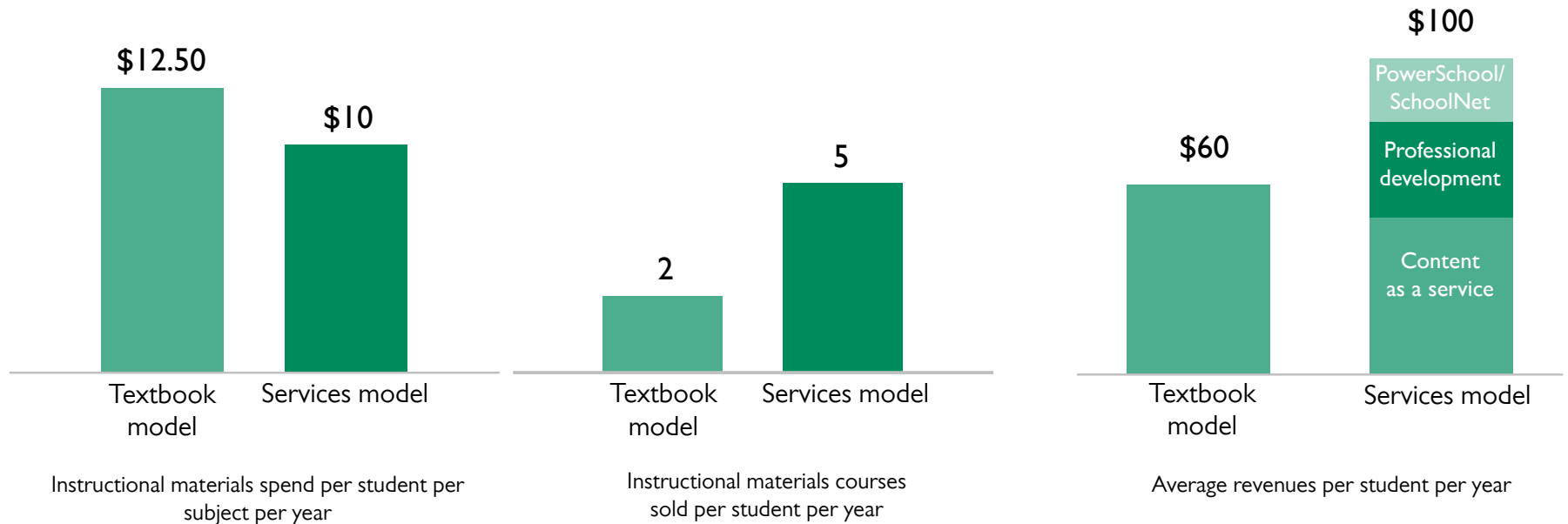
1. Direct to consumer
2. “Pearson Inside”
3. Assessment
4. Learning systems

Case study: personalized learning systems



Services, not things

The K12 services model



Source: Pearson estimates

Where we will invest

Global businesses

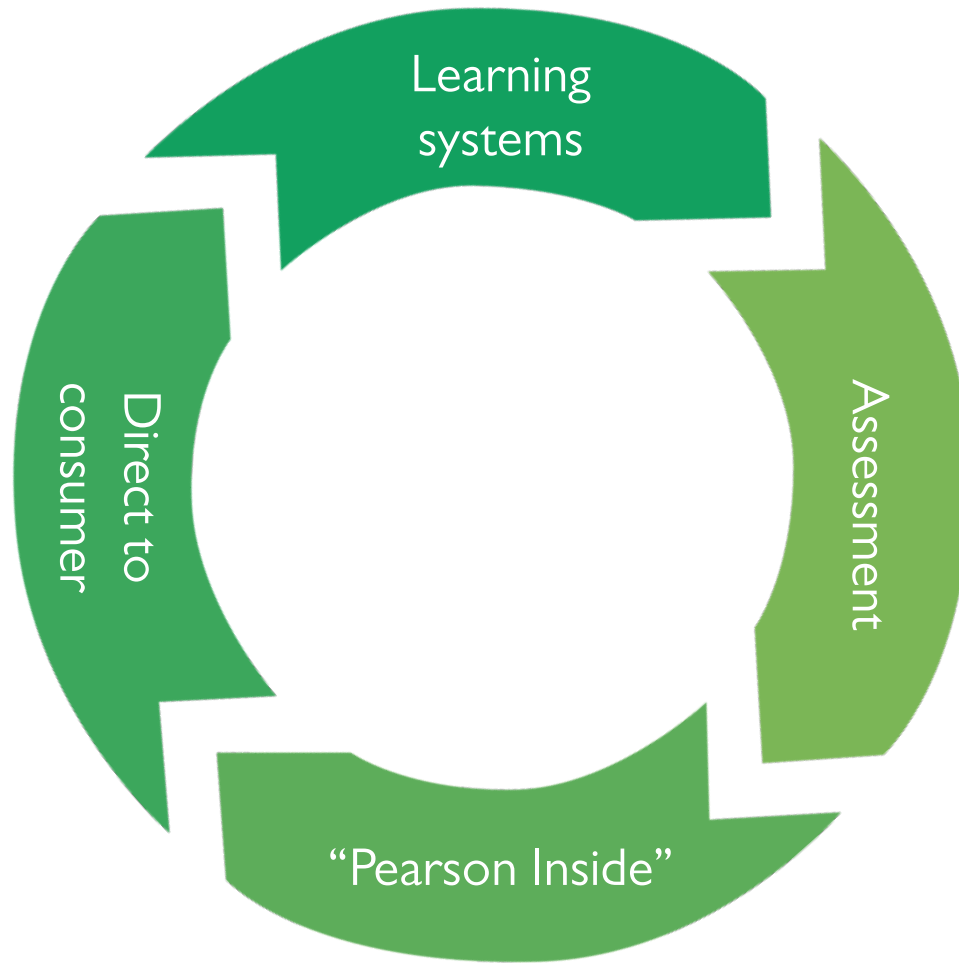
1. School
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3. English
4. Business

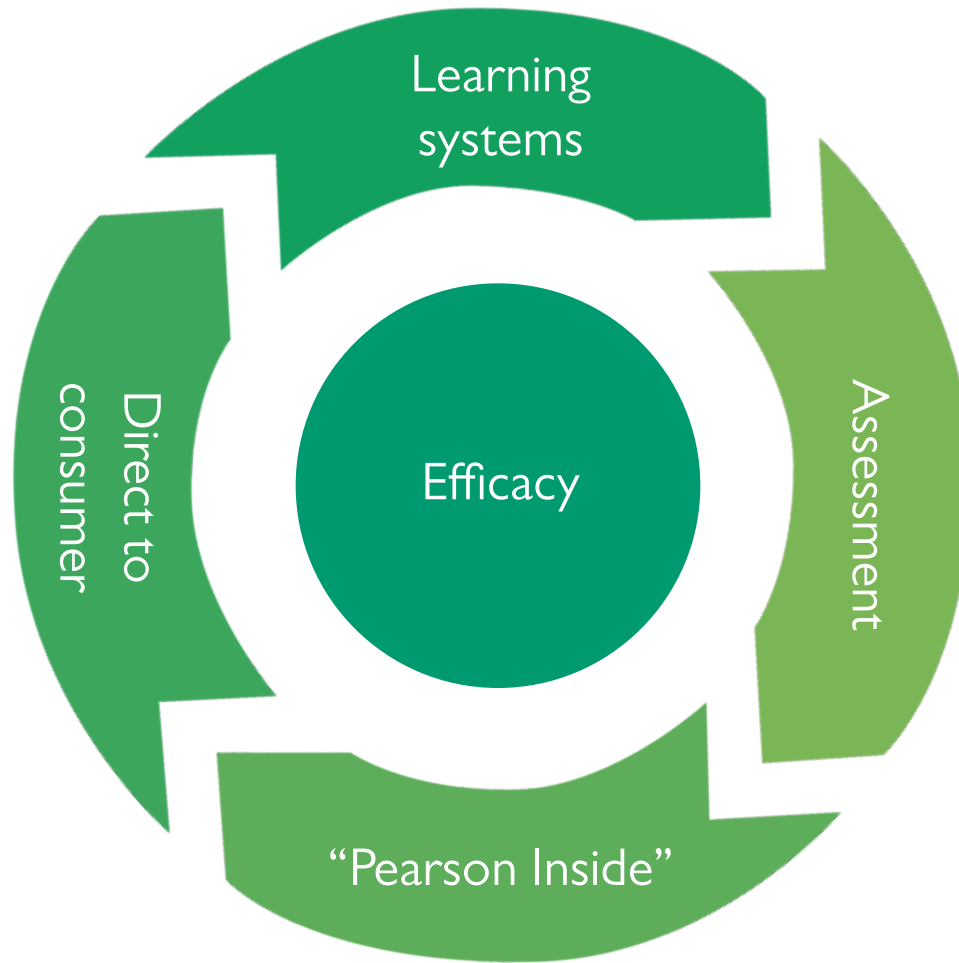
Key markets

1. Grow
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4. Drive

Business models

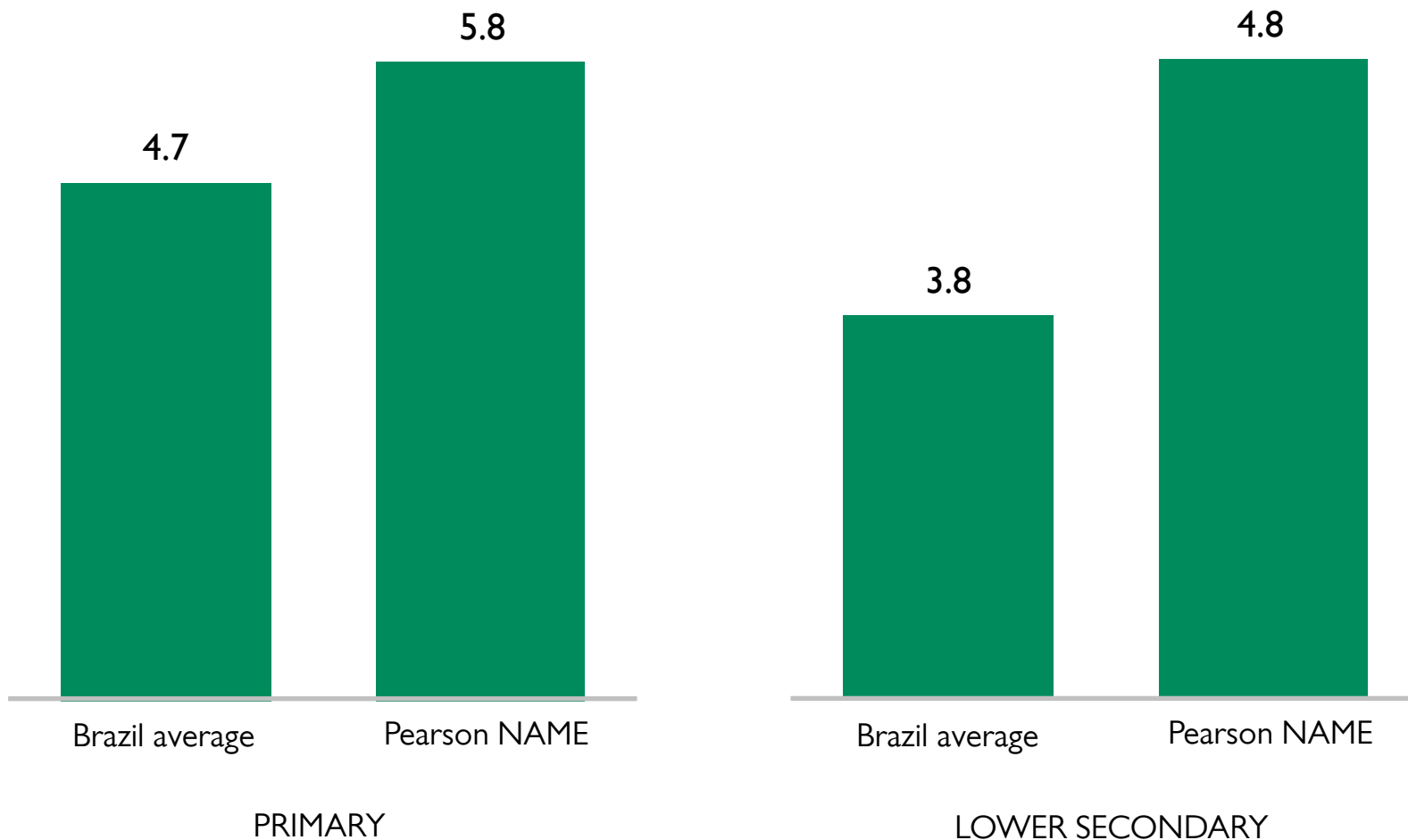
1. Direct to consumer
2. “Pearson Inside”
3. Assessment
4. Learning systems





Our strategy: efficacy and efficiency

IDEB scores for schools adopting Pearson NAME sistema



The global education company

Scale in high-growth economies = larger market opportunity

Strength in digital + services = larger part of value chain

Lower capital intensity = higher returns, investment capacity

Focus on efficacy = greater impact on results

Appendices

Impact of IAS 19 revised

£m	Post IAS 19 revised 2012	As currently presented 2012	var
Operating profit	932	936	(4)
Interest on net debt	(65)	(65)	-
Pensions charges	-	13	(13)
Taxation	(200)	(204)	4
Tax rate	23.1%	23.1%	
Profit after tax	667	680	(13)
Minorities	(3)	(3)	-
Adjusted earnings	664	677	(13)
Shares in issue	804.3	804.3	
Adjusted EPS	82.6p	84.2p	

Total business

Return on invested capital

	Gross invested capital		Net invested capital	
£m	2012	2011	2012	2011
Operating profit	936	942	936	942
Intangible charges	-	-	(183)	(139)
Less actual cash tax	(65)	(151)	(65)	(151)
Cash tax rate	7%	16%	7%	16%
Return	871	791	688	652
Average: goodwill	6,720	6,212	5,275	4,785
other intangibles	1,830	1,472	1,096	894
Pre-publication investments	662	635	662	635
Tangible fixed and working capital	366	412	366	412
Average total invested capital	9,578	8,731	7,399	6,726
ROIC	9.1%	9.1%	9.3%	9.7%

Total business

Reconciliation: statutory to adjusted earnings

2012

£m	Statutory	Discontinued operations	Acquisition costs	Other net gains and losses	Intangible charges	Other net finance costs	Tax amortisation benefit	Adjusted earnings
Operating profit	515	98	20	123	180	-	-	936
Net finance costs	(81)	-	-	-	-	29	-	(52)
Profit before tax	434	98	20	123	180	29	-	884
Income tax	(148)	(32)	(5)	-	(54)	(1)	36	(204)
Profit after tax	286	66	15	123	126	28	36	680
Discontinued operations	43	(66)	1	20	2	-	-	-
Profit for the period	329	-	16	143	128	28	36	680
Minority interest	(3)	-	-	-	-	-	-	(3)
Earnings	326	-	16	143	128	28	36	677

Reconciliation: statutory to adjusted earnings

2011

£m	Statutory	Discontinued operations	Acquisition costs	Other net gains and losses	Intangible charges	Other net finance costs	Tax amortisation benefit	Adjusted earnings
Operating profit	1,118	111	12	(435)	136	-	-	942
Net finance costs	(71)	-	-	-	-	19	-	(52)
Profit before tax	1,047	111	12	(435)	136	19	-	890
Income tax	(162)	(38)	(4)	19	(43)	(5)	34	(199)
Profit after tax	885	73	8	(416)	93	14	34	691
Discontinued operations	71	(73)	-	-	2	-	-	-
Profit for the period	956	-	8	(416)	95	14	34	691
Minority interest	1	-	-	-	-	-	-	1
Earnings	957	-	8	(416)	95	14	34	692

Reconciliation: pre-publication costs

£m	2012	2011
Opening balance	650	647
Exchange	(19)	(5)
New spend capitalised	364	331
Acquisitions (net)	3	8
Amortisation	(316)	(331)
Closing balance	682	650
Total education sales	4,616	4,390
Amortisation as a % of sales	6.8%	7.5%

Total business

Reconciliation: year end net debt

£m	2012	2011
Non current assets		
Derivative financial instruments	174	177
Current assets		
Derivative financial instruments	4	-
Marketable securities	6	9
Cash and cash equivalents	1,062	1,369
Non current liabilities		
Borrowings	(2,010)	(1,964)
Derivative financial instruments	-	(2)
Current liabilities		
Borrowings	(262)	(87)
Derivative financial instruments	-	(1)
Net debt – continuing operations	(1,026)	(499)
Net cash classified as held for sale	108	-
Total net debt	(918)	(499)

Retirement benefit obligations

£m	2012	2011
Income statement		
Operating charge		
Defined benefit schemes	26	24
Defined contribution schemes	78	69
Post retirement medical benefit schemes	4	3
	108	96
Interest	(13)	(3)
Total	95	93
Balance sheet		
UK pension scheme asset /(liability)	(19)	25
Other pension scheme liabilities	(55)	(48)
Post retirement medical benefit liability	(89)	(85)
Other pension accruals	(35)	(33)
Total	(198)	(141)
Total business		

2012 results presentation

Monday 25 February 2013