

# 2014 results presentation

Friday 27 February 2015

## Financial summary

| £m                         | 2014    | 2013    | Headline growth | CER growth | Underlying growth |
|----------------------------|---------|---------|-----------------|------------|-------------------|
| Sales                      | 4,874   | 5,069   | (4)%            | 2%         | 0%                |
| Adjusted operating profit* | 720     | 710     | 1%              | 8%         | 5%                |
| Adjusted EPS               | 66.7p   | 70.1p   | (5)%            |            |                   |
| Deferred revenue*          | 801     | 698     | 15%             | 10%        | 10%               |
| Operating cash flow        | 649     | 588     | 10%             |            |                   |
| Net debt                   | (1,639) | (1,379) | (19)%           |            |                   |
| Dividend                   | 51p     | 48p     | 6%              |            |                   |

\* Excludes Mergermarket

## The headlines

- Cyclical and policy forces as expected
- Major restructuring completed
- Overall, good competitive performance
- Growing strongly in digital & services; emerging markets set up to grow again in 2015
- Reinvestment in new products
- Efficacy making us a stronger, more sustainable company
- Returning to growth in 2015

# Financial review

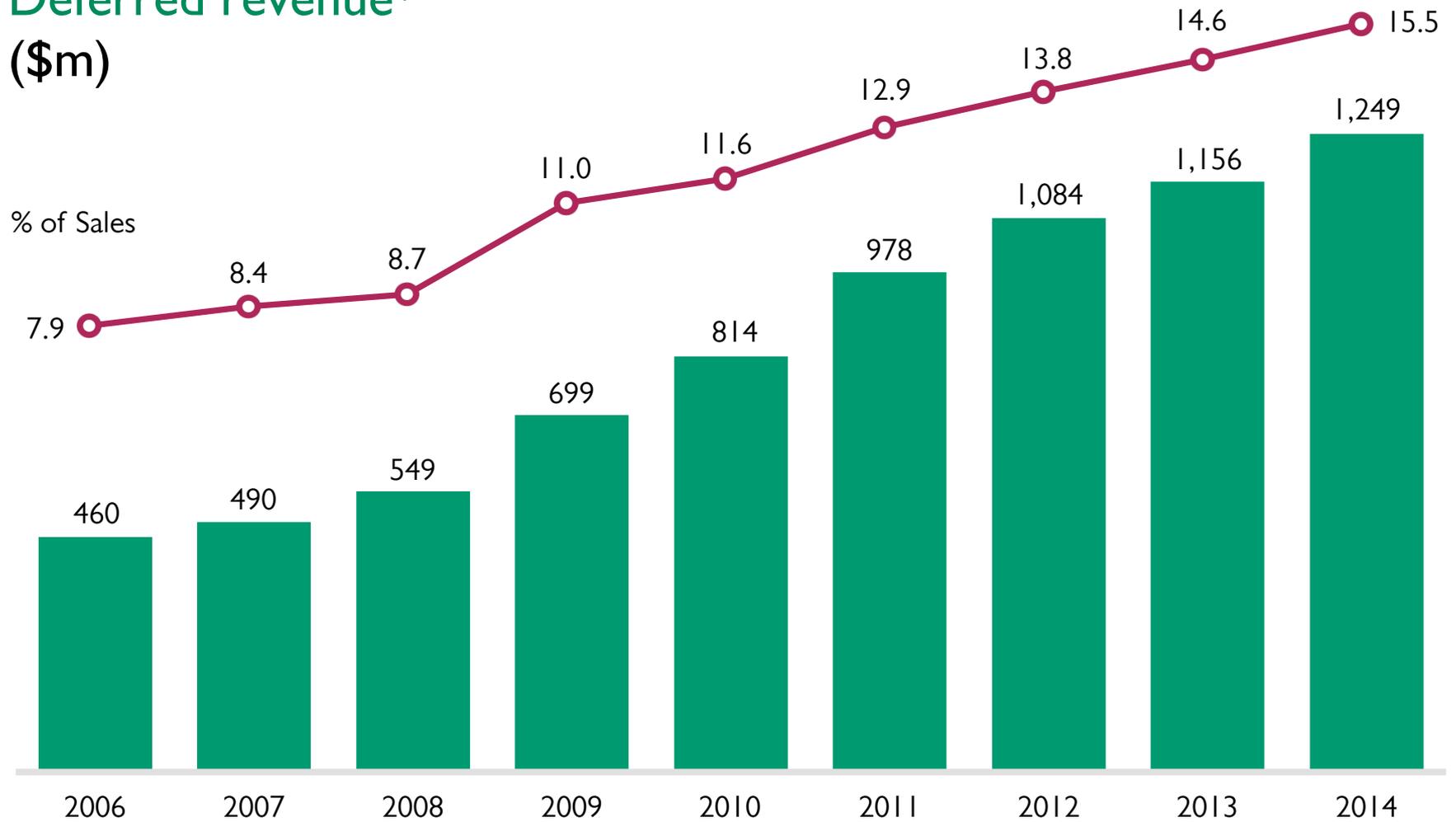
# Sales

| <i>£m</i>     | 2014  | 2013  | CER<br>growth | Underlying<br>growth |
|---------------|-------|-------|---------------|----------------------|
| North America | 2,974 | 3,073 | 2%            | 2%                   |
| Core          | 1,154 | 1,258 | (5)%          | (5)%                 |
| Growth        | 746   | 738   | 11%           | (1)%                 |
| Total sales   | 4,874 | 5,069 | 2%            | 0%                   |

# Sales movements (£m)



# Deferred revenue\* (\$m)



\*Continuing operations

# Operating profit

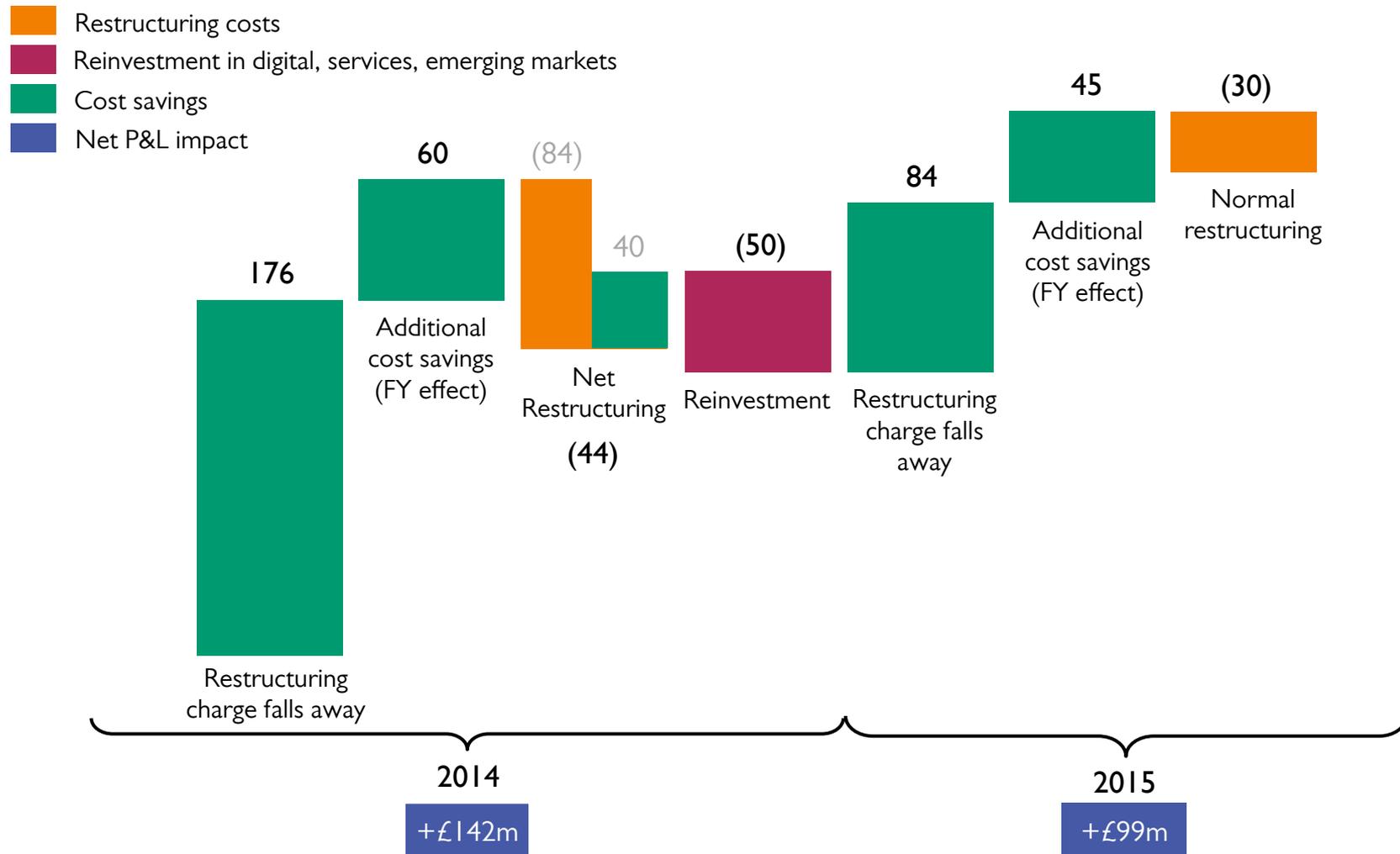
| £m                                  | 2014*      | 2013**     | CER growth | Underlying growth |
|-------------------------------------|------------|------------|------------|-------------------|
| North America                       | 464        | 474        | 5%         | 5%                |
| Core                                | 152        | 120        | 30%        | 31%               |
| Growth                              | 35         | 38         | 16%        | (68)%             |
| Penguin / PRH                       | 69         | 78         | (6)%       | 2%                |
| <b>Total excluding Mergermarket</b> | <b>720</b> | <b>710</b> | <b>8%</b>  | <b>5%</b>         |
| Mergermarket                        | 2          | 26         | n/a        | n/a               |
| <b>Total</b>                        | <b>722</b> | <b>736</b> | <b>5%</b>  | <b>5%</b>         |

\*Includes £44m net restructuring charges as follows: North America, £16m; Core, £12m; Growth, £4m; Penguin Random House, £12m

\*\* Includes £135m net restructuring charges as follows: North America, £53m; Core, £50m; Growth, £32m

# Exceptional restructuring programme complete

(£m)

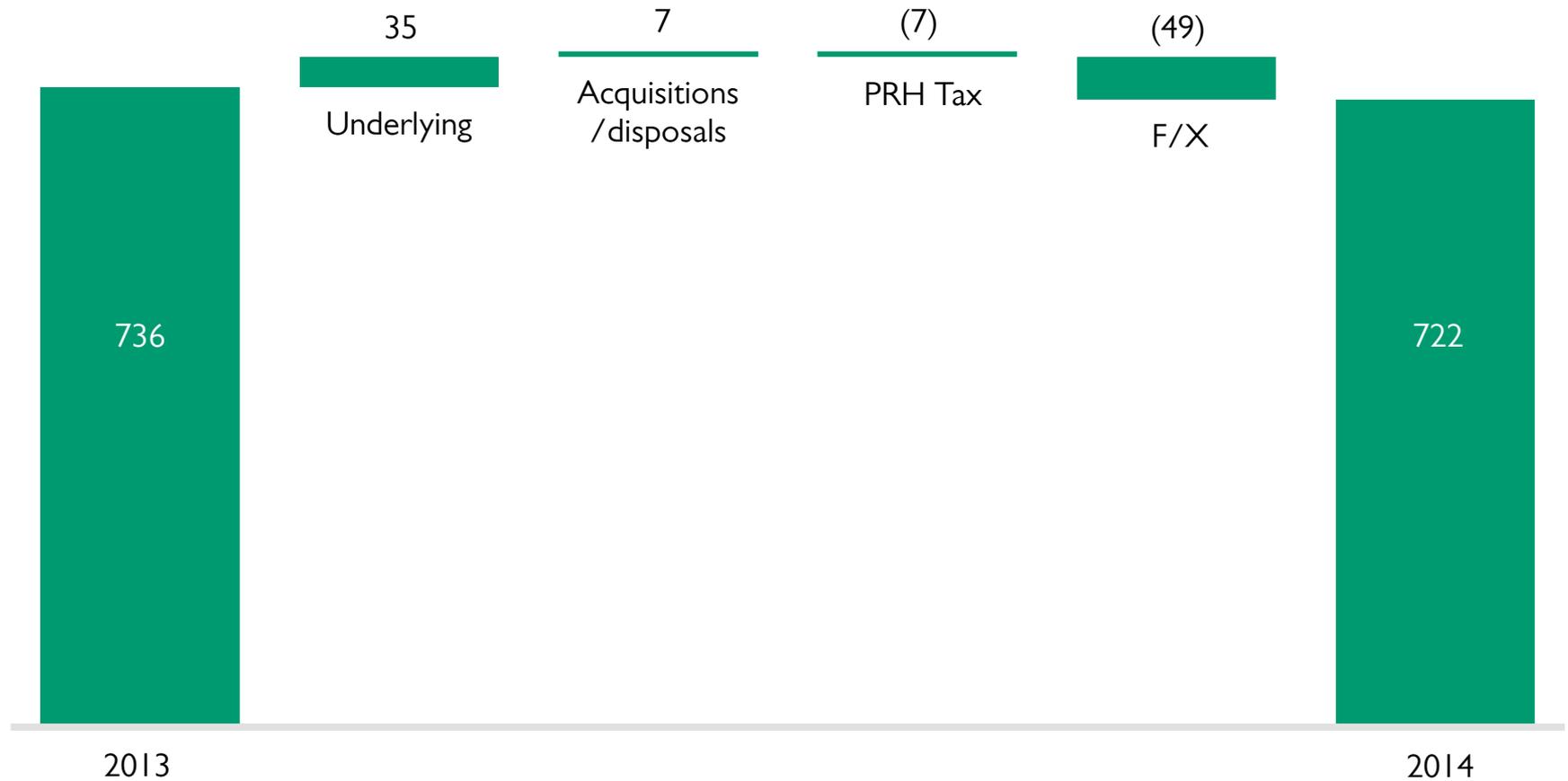


\*Excludes impact of any underlying change in performance

# Restructuring: physical infrastructure (Warehouse capacity, millions of sq ft)



# Profit movements, £m



Total business

## Adjusted EPS

| £m  | 2014  | 2013  | Headline growth |
|---|-------|-------|-----------------|
| Operating profit (including Mergermarket) | 722   | 736   | (2)%            |
| Interest                                  | (64)  | (72)  | 11%             |
| Taxation                                  | (118) | (97)  | (22)%           |
| Tax rate                                  | 17.9% | 14.6% |                 |
| Profit after tax                          | 540   | 567   | (5)%            |
| Minorities                                | 1     | (1)   |                 |
| Adjusted earnings                         | 541   | 566   | (4)%            |
| Shares in issue                           | 810.9 | 807.8 |                 |
| Adjusted EPS                              | 66.7p | 70.1p | (5)%            |

Total business

## Statutory P&L

| £m                            | 2014  | 2013  | Headline growth |
|-------------------------------|-------|-------|-----------------|
| Operating profit              | 398   | 458   | (13)%           |
| Interest                      | (64)  | (72)  | 11%             |
| Finance costs – IAS39 / IAS21 | (29)  | (4)   |                 |
| Profit before tax             | 305   | 382   | (20)%           |
| Taxation                      | (63)  | (87)  | 28%             |
| Profit after tax              | 242   | 295   | (18)%           |
| Discontinued operations*      | 228   | 244   | (7)%            |
| Profit for the year           | 470   | 539   | (13)%           |
| Basic EPS (total)             | 58.1p | 66.6p | (13)%           |

\*2013 includes profit on sale of Penguin

\*2014 includes profit on sale of Mergermarket

# Operating cash flow

| £m                                       | 2014       | 2013       | var       |
|--|------------|------------|-----------|
| Operating profit                         | 722        | 736        | (14)      |
| Working capital                          | (43)       | (37)       | (6)       |
| - of which pre-publication expenditure   | (52)       | (77)       | 25        |
| - of which other working capital         | 9          | 40         | (31)      |
| Net capital expenditure                  | (172)      | (169)      | (3)       |
| Depreciation                             | 137        | 141        | (4)       |
| Share of operating results of associates | (105)      | (84)       | (21)      |
| Dividends from associates and JVs        | 120        | 64         | 56        |
| Exchange                                 | 27         | (40)       | 67        |
| Other movements                          | (37)       | (23)       | (14)      |
| <b>Operating cash flow</b>               | <b>649</b> | <b>588</b> | <b>61</b> |
| <b>Cash conversion %</b>                 | <b>90%</b> | <b>80%</b> |           |

Total business

## Free cash flow

| £m                       | 2014  | 2013  | var   |
|--------------------------|-------|-------|-------|
| Operating cash flow      | 649   | 588   | 61    |
| Operating tax paid       | (163) | (191) | 28    |
| Net interest paid        | (73)  | (73)  | -     |
| Operating free cash flow | 413   | 324   | 89    |
| Non operating tax paid   | -     | (55)  | 55    |
| Free cash flow           | 413   | 269   | 144   |
| Free cash flow / share   | 50.9p | 33.3p | 17.6p |

Total business

# Balance sheet

| £m                           | 2014         | 2013         | var        |
|------------------------------|--------------|--------------|------------|
| Goodwill / intangible assets | 6,310        | 5,959        | 351        |
| Tangible fixed assets        | 334          | 344          | (10)       |
| Associates & JVs             | 1,118        | 1,092        | 26         |
| Pre-publication              | 820          | 717          | 103        |
| Deferred revenue             | (801)        | (751)        | (50)       |
| Traditional working capital  | 484          | 397          | 87         |
| Other net liabilities        | (114)        | (61)         | (53)       |
| <b>Net trading assets</b>    | <b>8,151</b> | <b>7,697</b> | <b>454</b> |
| Shareholders' funds          | 5,979        | 5,700        | 279        |
| Deferred tax                 | 419          | 363          | 56         |
| Pensions                     | (27)         | 56           | (83)       |
| Other provisions             | 135          | 193          | (58)       |
| Minorities                   | 6            | 6            | -          |
| Net debt                     | 1,639        | 1,379        | 260        |
| <b>Capital employed</b>      | <b>8,151</b> | <b>7,697</b> | <b>454</b> |
| <b>Year end \$/£</b>         | <b>1.56</b>  | <b>1.66</b>  |            |

Total business

## Credit rating

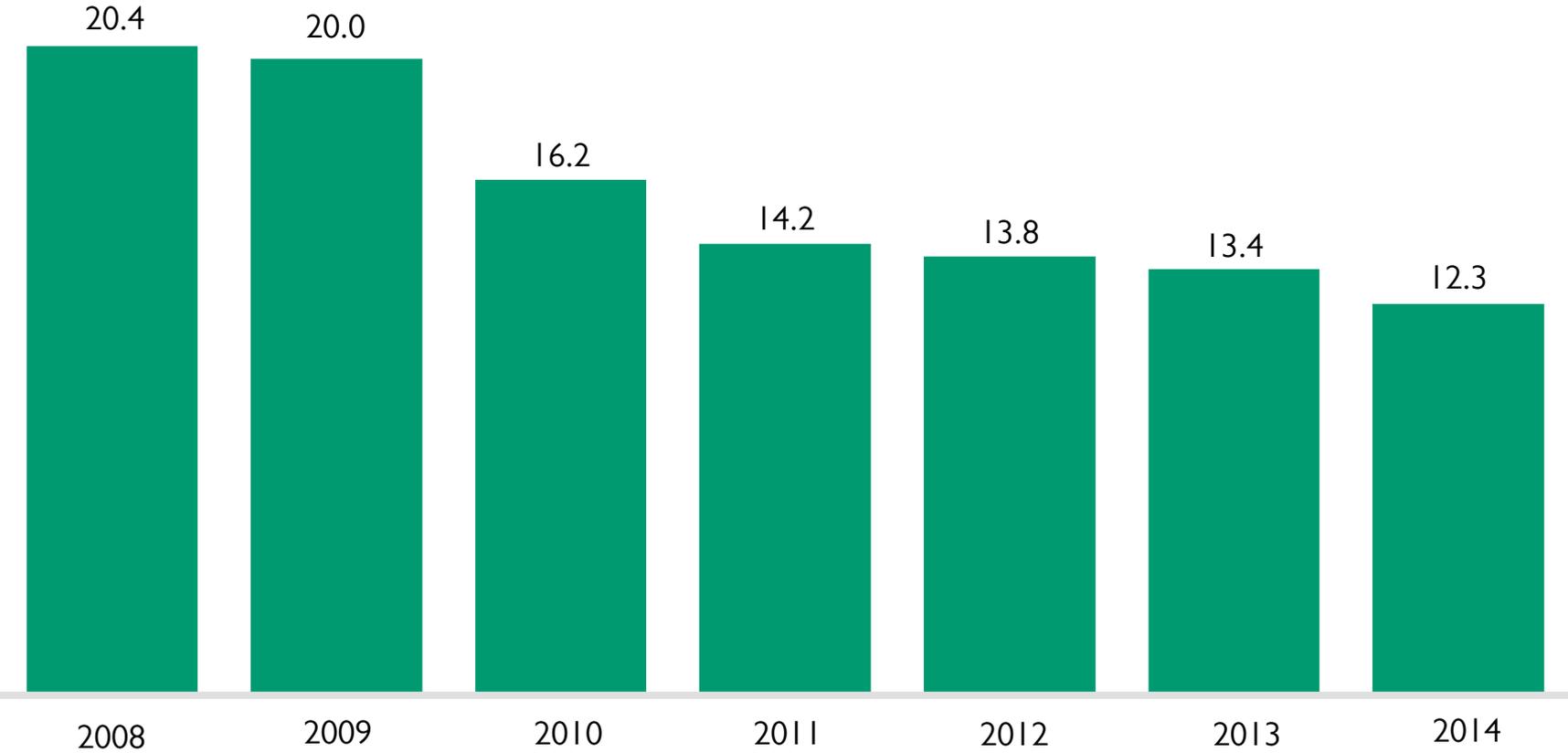
- Net debt/ EBITDA: 1.9x
- Interest cover: 11.3x
- Committed to BBB+/Baa1 over long term

## Return on invested capital

| £m                                 | 2014  | 2013   |
|------------------------------------|-------|--------|
| Operating profit                   | 722   | 736    |
| Less actual cash tax (operating)   | (163) | (191)  |
| Cash tax rate                      | 23%   | 26%    |
| Return                             | 559   | 545    |
| Average: goodwill - gross          | 6,487 | 6,828  |
| other intangibles - gross          | 2,070 | 2,075  |
| Pre-publication investments        | 757   | 736    |
| Tangible fixed and working capital | 586   | 491    |
| Average total invested capital     | 9,900 | 10,130 |
| ROIC                               | 5.6%  | 5.4%   |

Total business

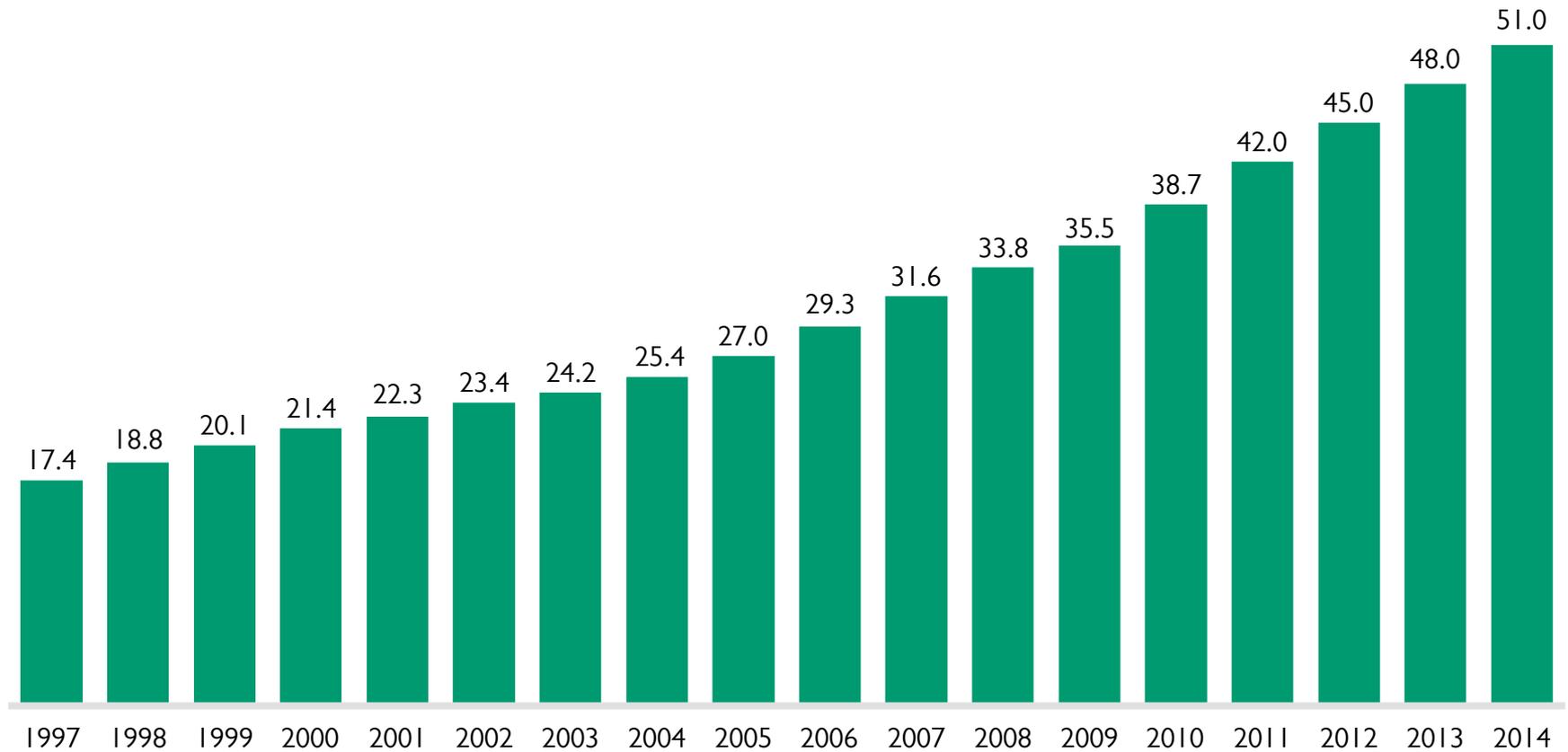
# Working capital / sales (%)



Total business

# Growing dividend

## Pence per share



## 2015 vs. 2014 base

### Portfolio changes

- Penguin shared services costs remaining (approximately £30m)
- Mergermarket: (£2m)

### Currency

- US\$ gain partly offset by Euro, Australian dollar, key emerging markets currencies

### Restructuring charges/benefits; reinvestment

- Absence of 2014 restructuring: £84m; £45m incremental savings in 2015
- Normal levels of net restructuring of approximately £30m

Tax on total PBT : approximately 17%

# 2015 outlook (organic)

## Guidance

- Adjusted earnings per share range of 75p to 80p

## North American Education

- K12
  - greater stability in learning services
  - another good year for Connections
  - increased pre-pub amortisation
  - greater stability in assessments but some policy related risk remains in State assessments
- College
  - growth in digital & services
  - more stable college enrolments; slower new edition year

## Growth

- growth in China, Brazil, India
- greater stability in South Africa

## Core

- greater stability in UK
- growth in inside services offset by declines in Learning services in Australia
- stability in Italy following a year of significant curriculum change in 2014

# 2014 results presentation

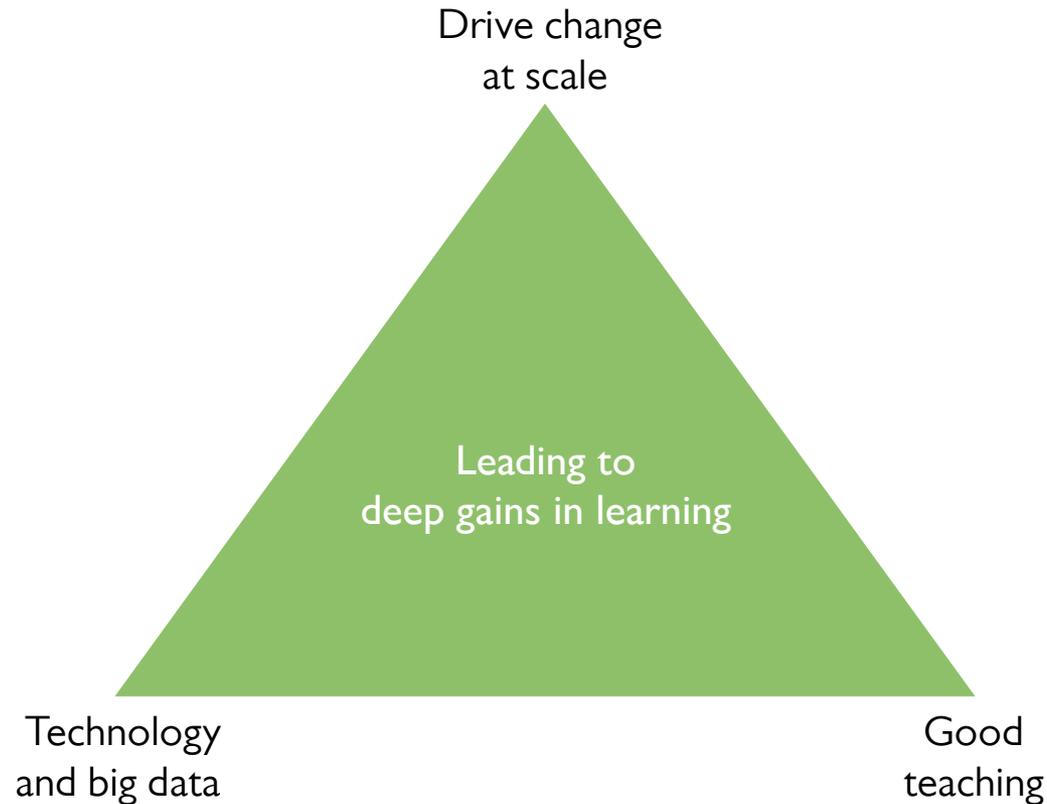
Friday 27 February 2015

# Agenda

- Efficacy
  - => Access, impact, outcomes
  - => A higher returning company
- New digital products
- A more focused company
- A higher performing culture
- A strong brand

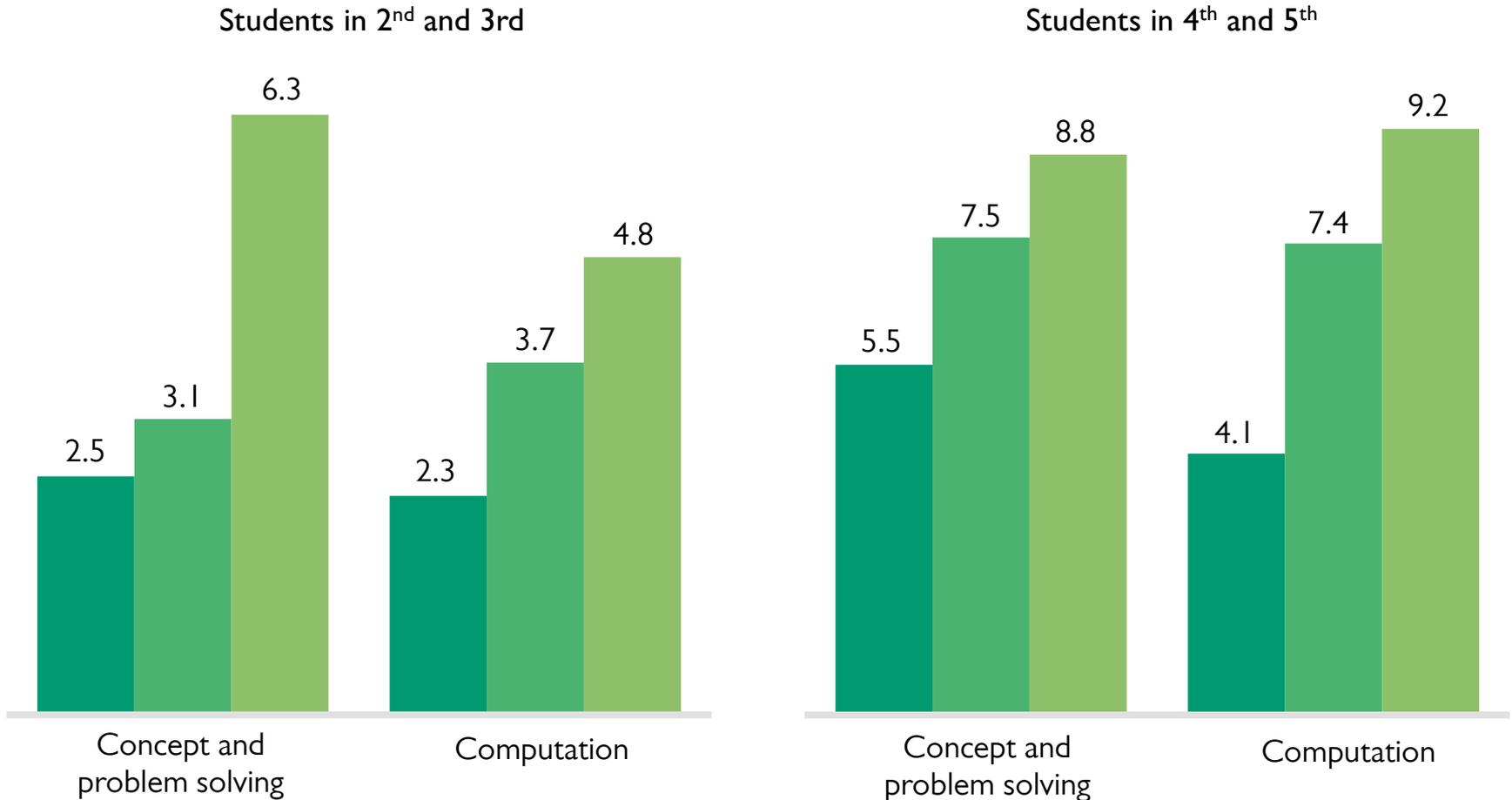
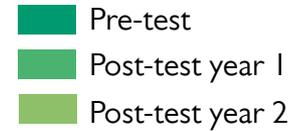
# Our strategy: combining digital, good teaching and scale

## The opportunity to improve learning outcomes



# A proven strategy: enVisionMATH

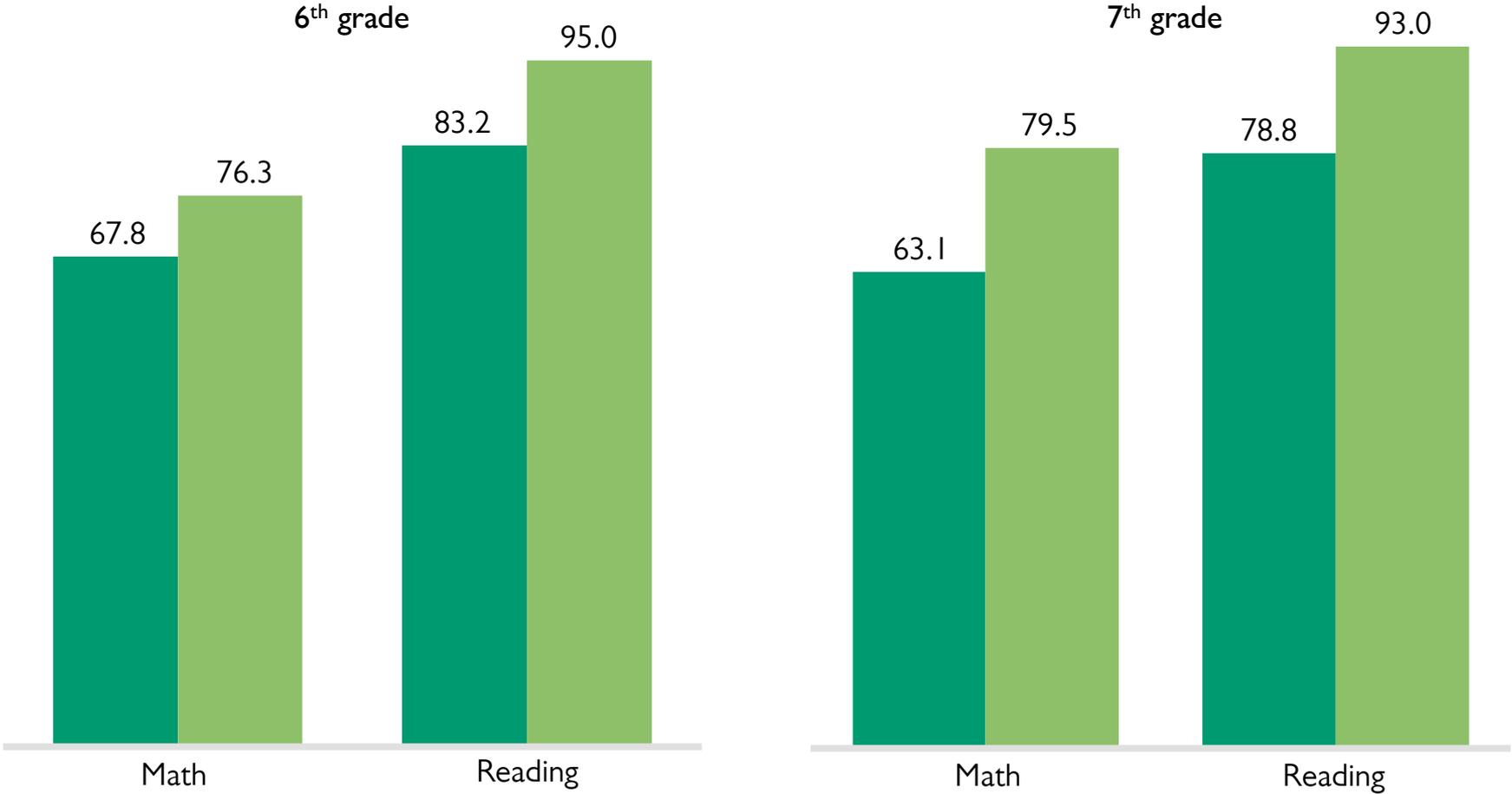
## Grade equivalent performance over 2 Years



Source: PRES Associates, Inc.

# A proven strategy: College Park Academy (Connections)

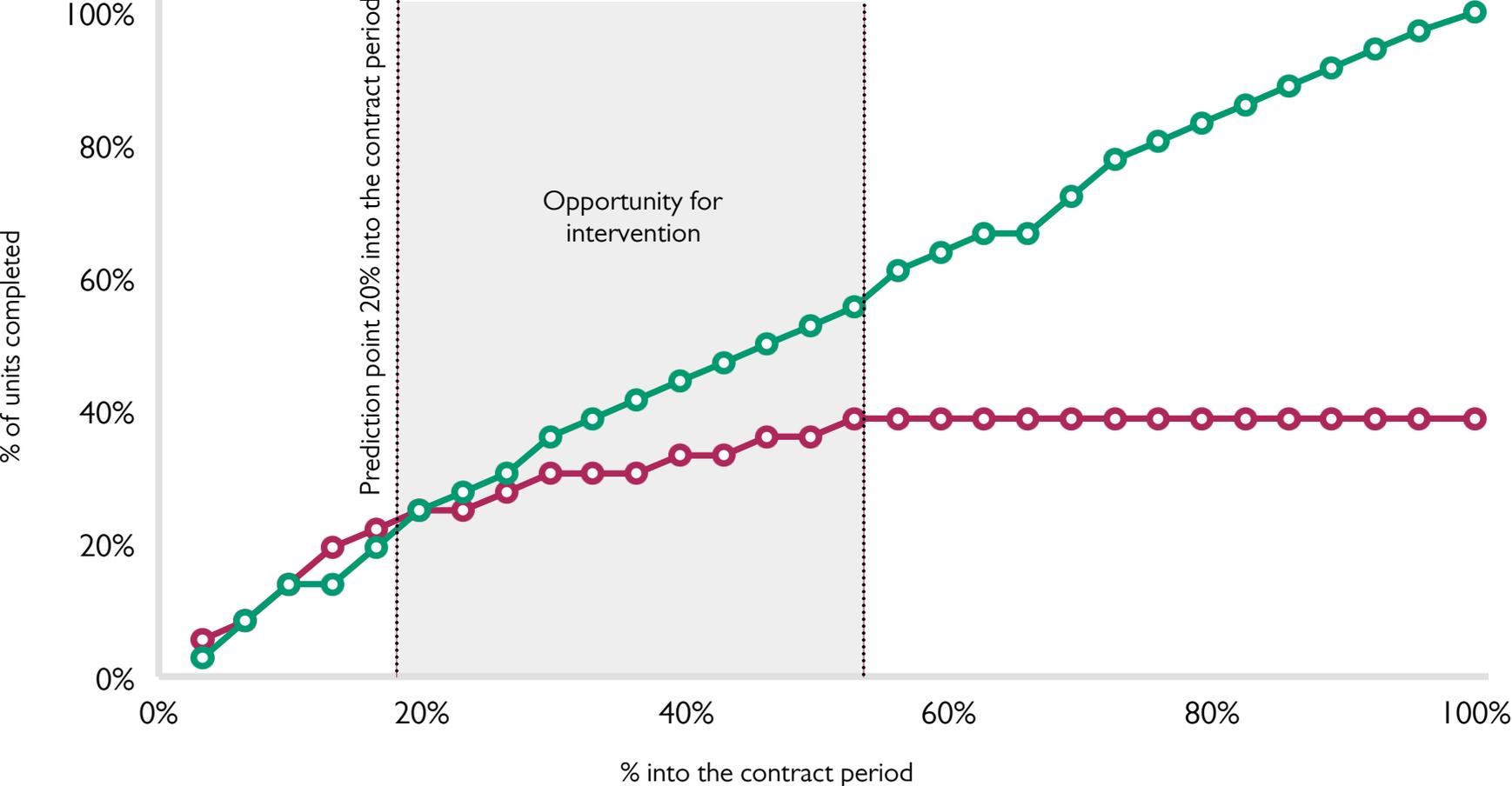
■ All Maryland Schools  
■ College Park Academy



Source: 2014 Maryland Report Card

# A proven strategy: Wall Street English

- Student A: predicted as not-at-risk
- Student B: predicted as at-risk

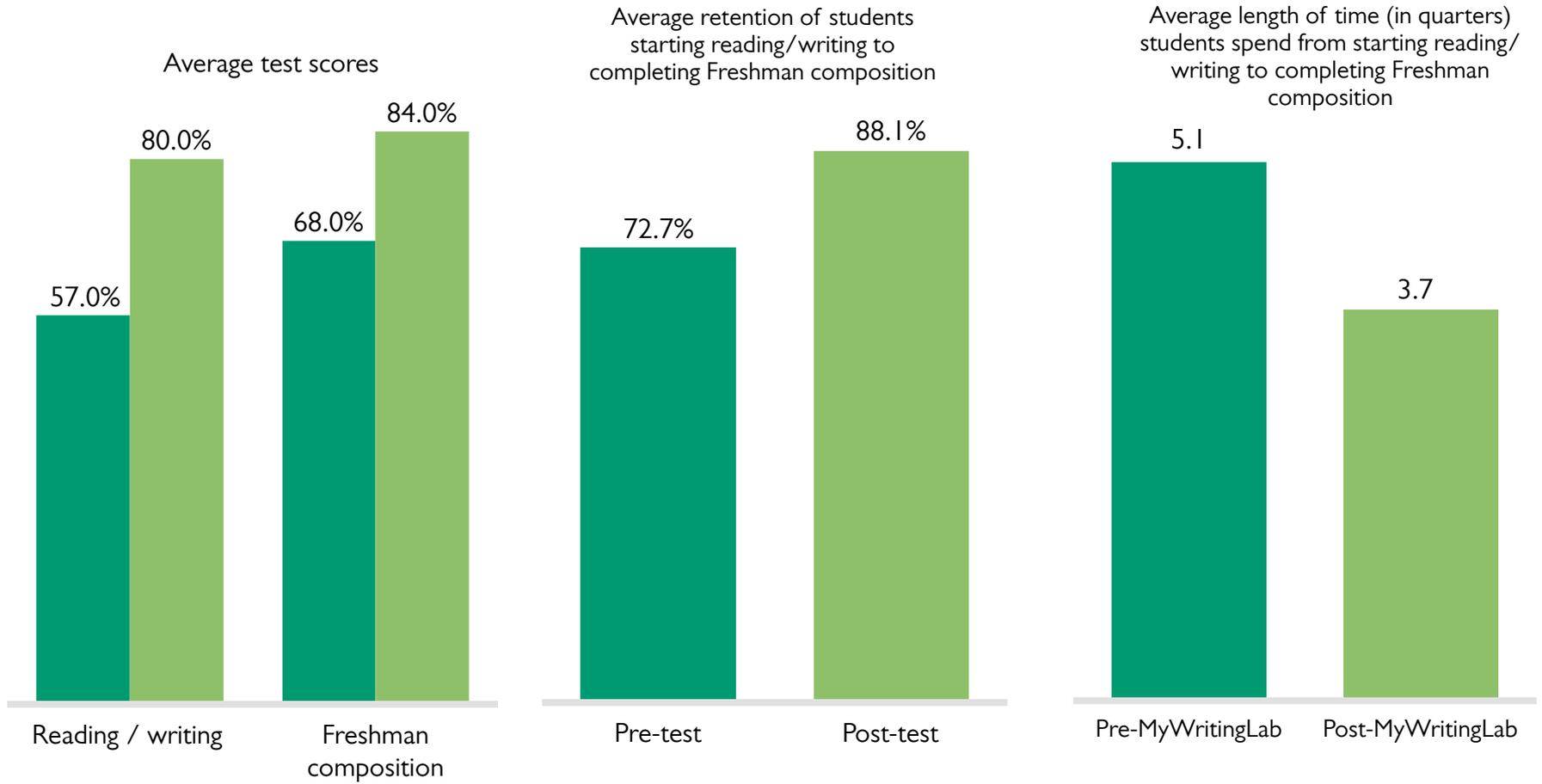


Source: Pearson

# A proven strategy: MyLabs

## Learning gains at CA State University, Bakersfield with Pearson support

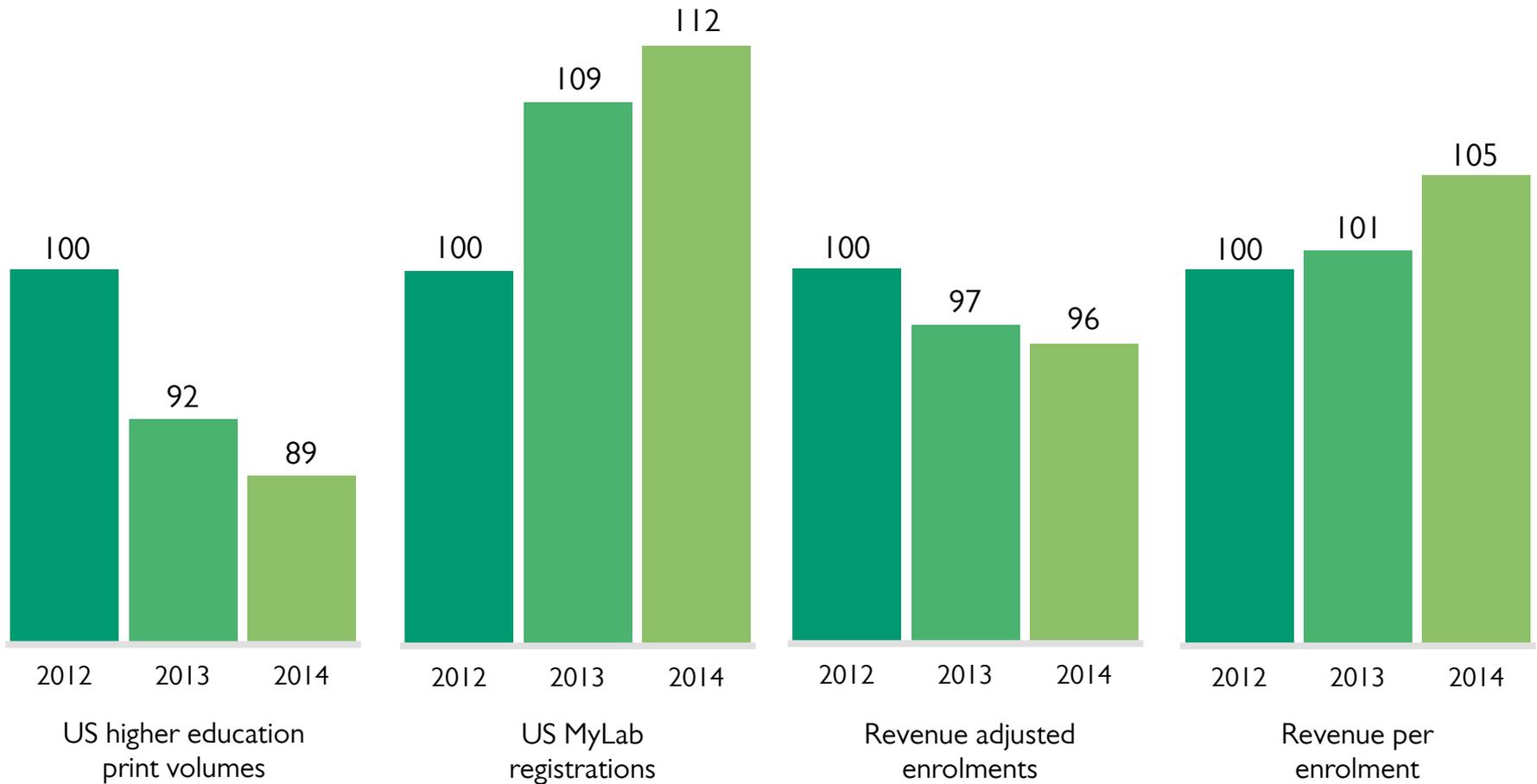
■ Pre-test  
■ Post-test



Source: Pearson

## From textbooks to courseware

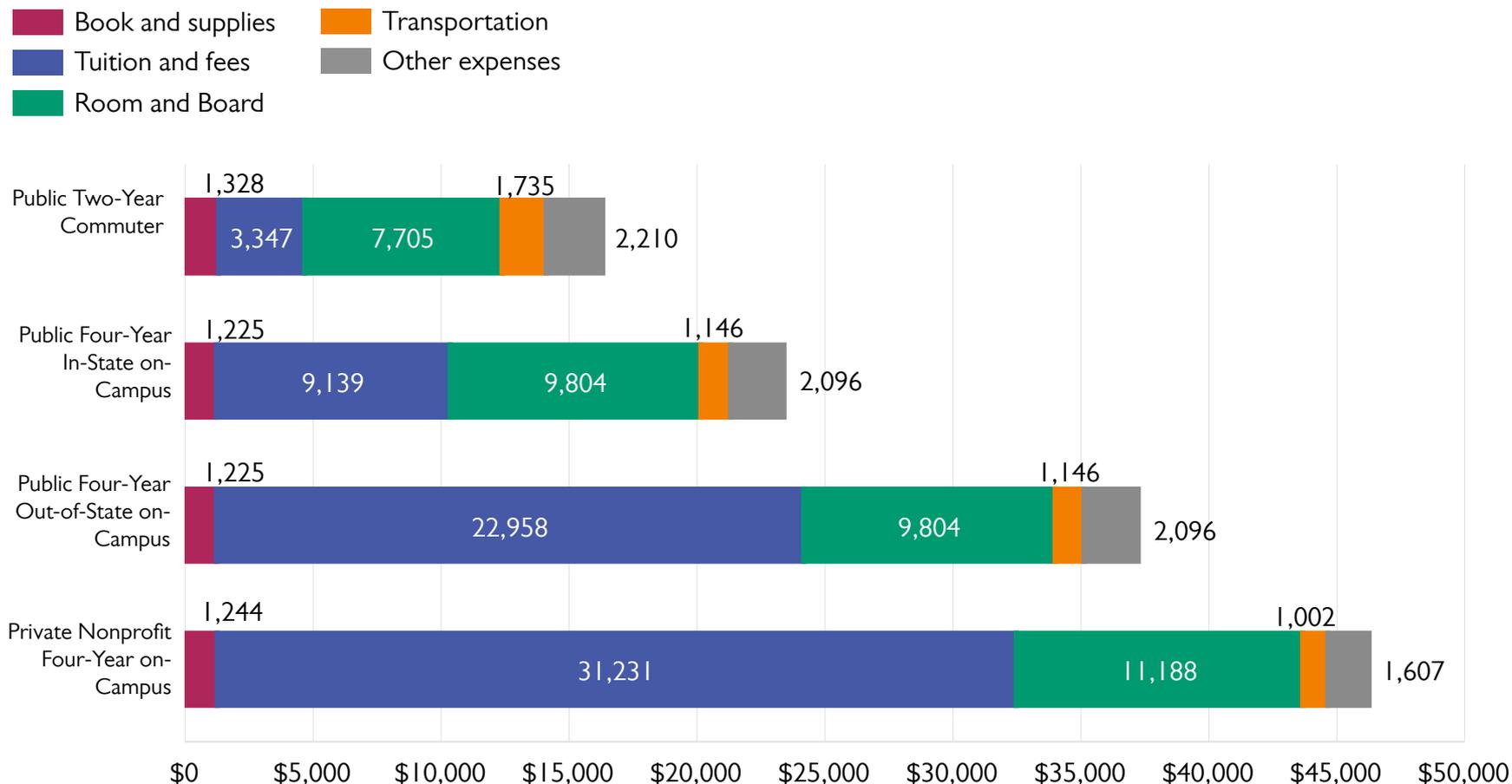
# US Higher Education shifting from print to digital



2012=100

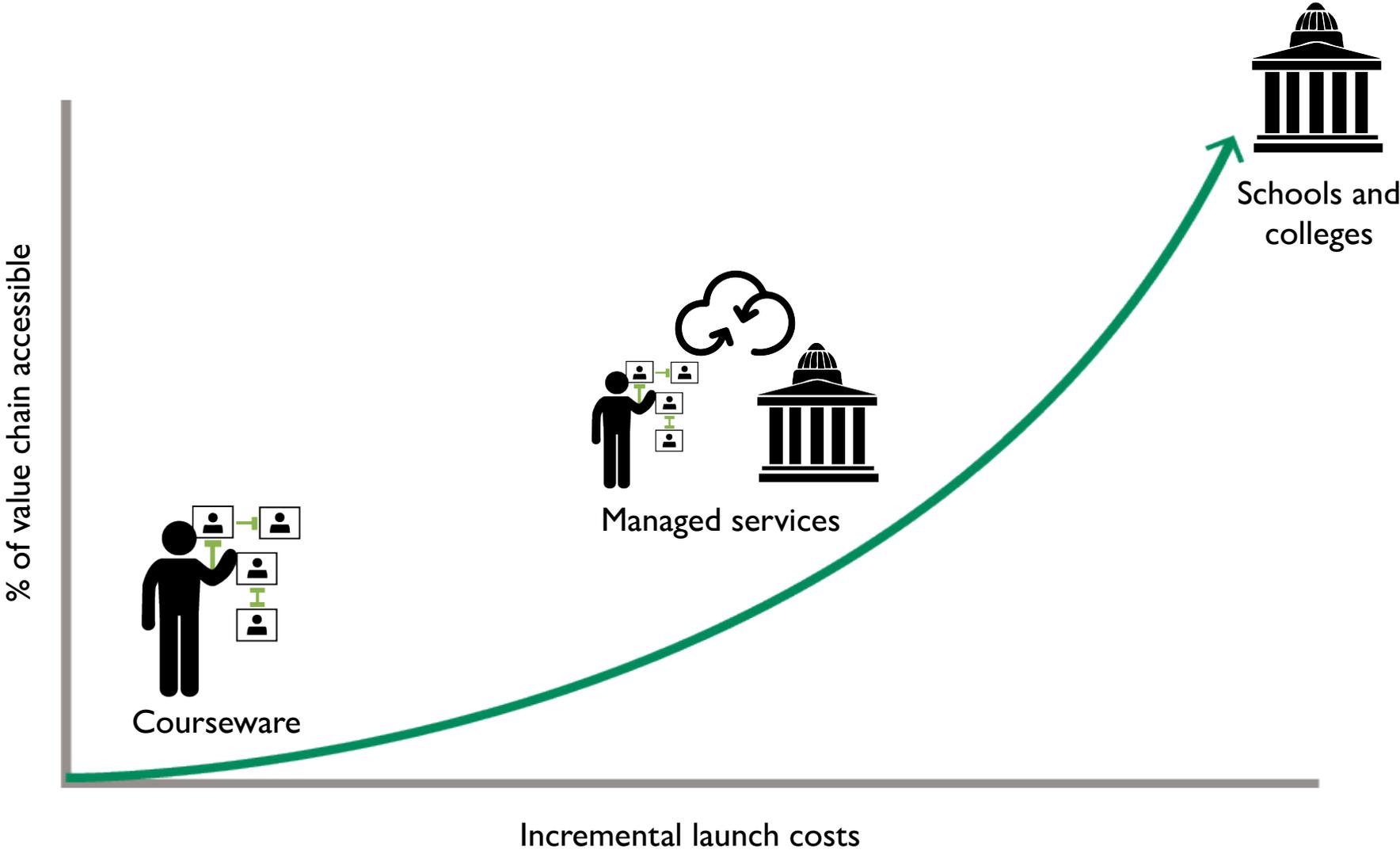
## Expanded market opportunity

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



Source: The College Board, Annual Survey of Colleges

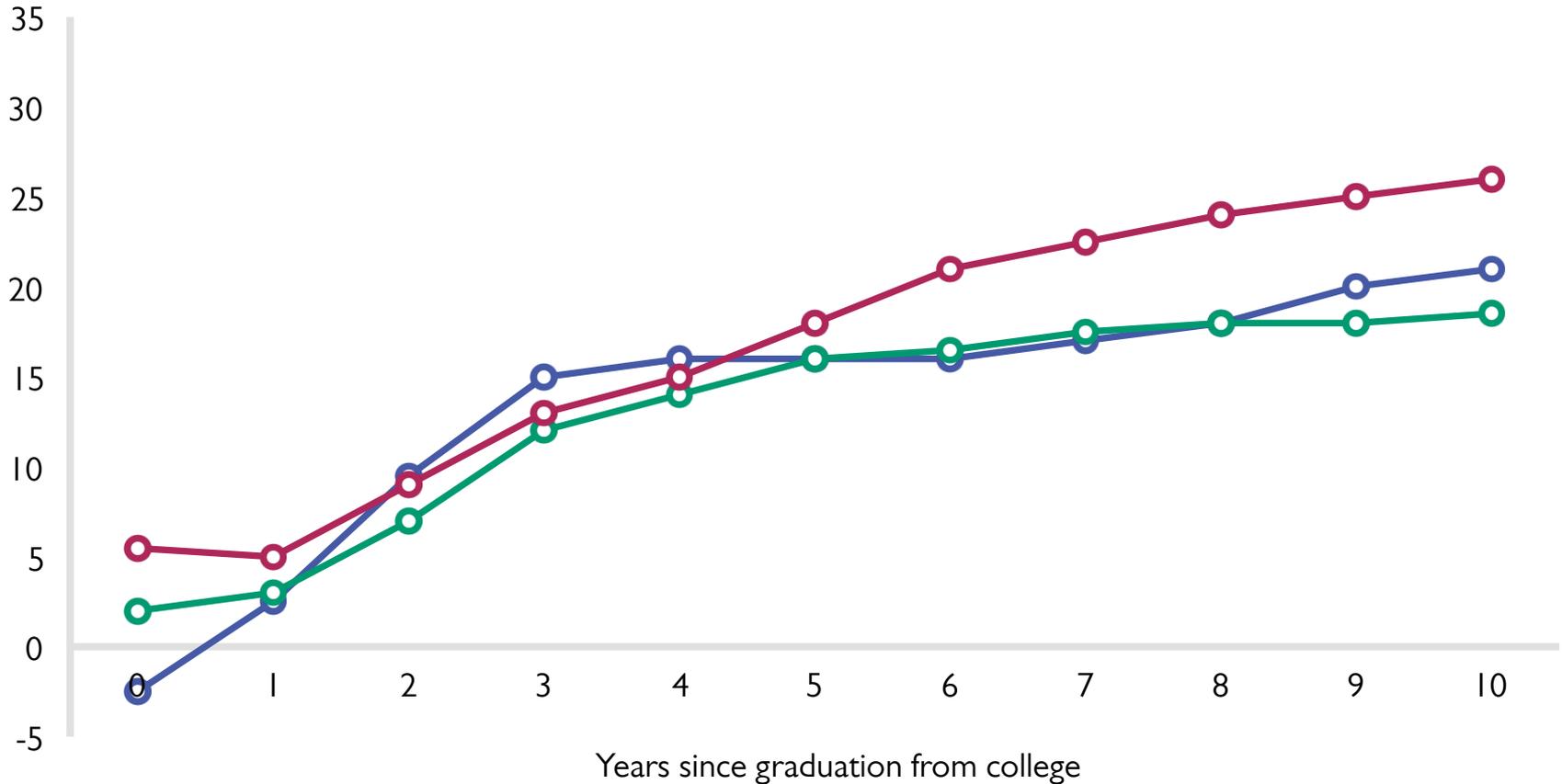
# Public Four-Year In-State on-Campus



# Doing more, and better, with less

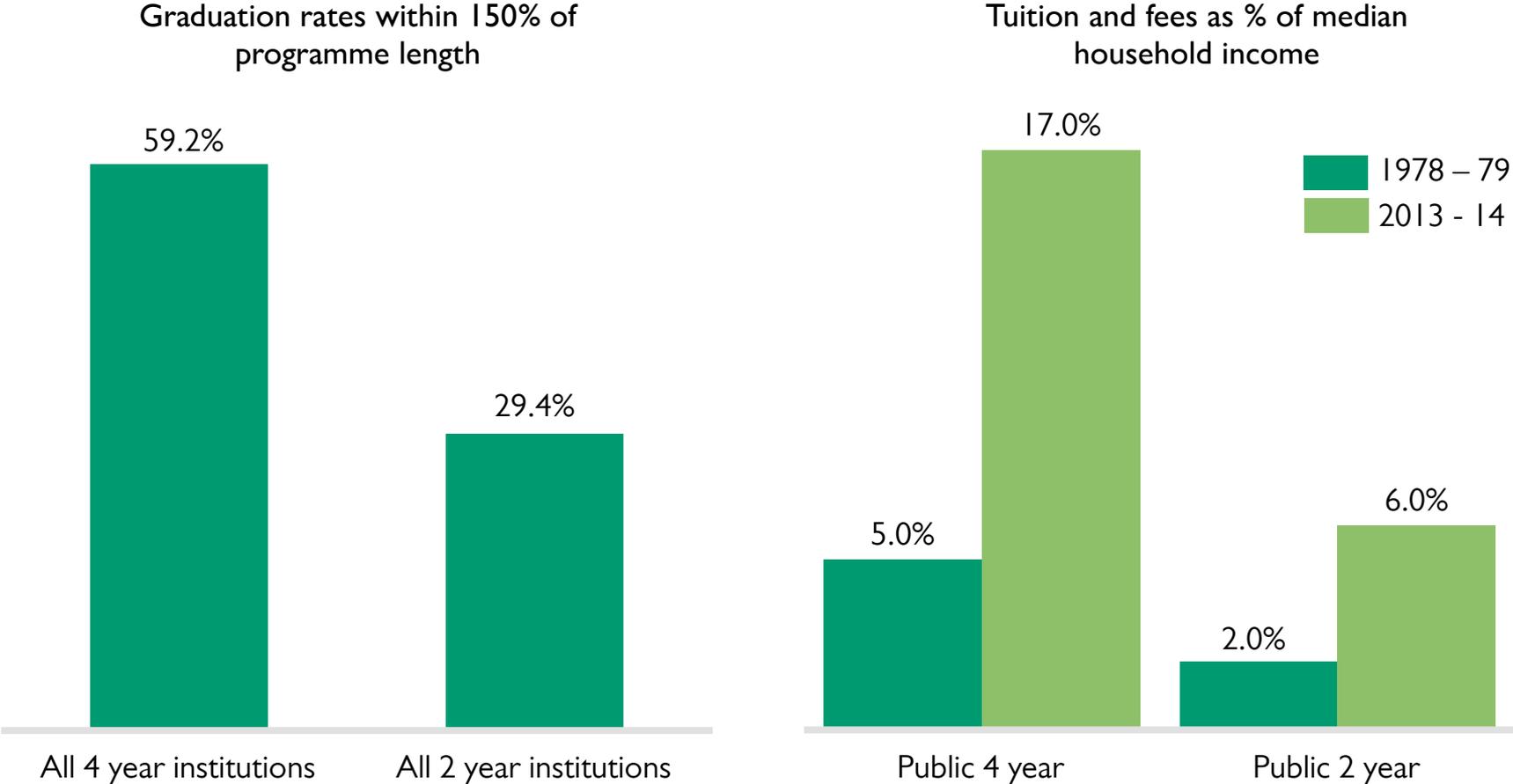
## College earnings premium by graduation decade

2011 \$(000)



Source: Mary C. Daly and Leila Bengali, Federal Reserve Bank of San Francisco

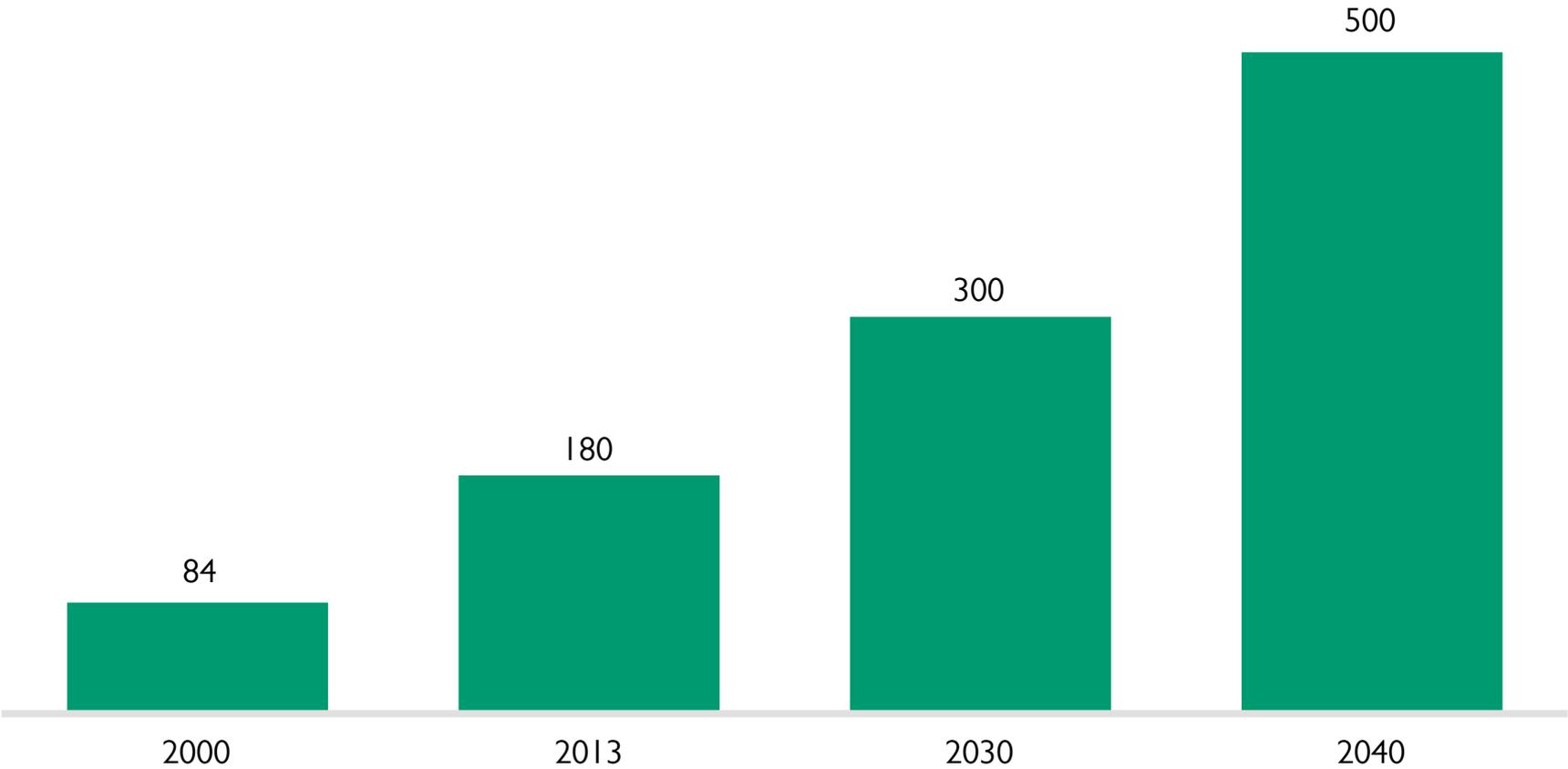
# Doing more, and better, with less



Source: Digest of Education Statistics, National Center for Education Statistics; US College Board, US Census Bureau

# Higher Education, a large and growing global market

Global tertiary enrolments, (m)



Source: Pearson

# Our priority products

## Schools & Colleges

Our own institutions providing direct, fully integrated learning (physical and virtual)



## Managed Services

Our integrated education services and systems outcomes



## Assessment and Qualifications

Our services that enable institutions to measure, validate and certify learner progress



## Courseware

Our individual learning products, across media



## School

Blended and virtual Schools (eg Connections Education)

Systemas (eg Pueri Domus)

Large-scale Assessment Services (eg, TestNav)  
World Class Qualifications (eg, Edexcel, BTEC)  
Digital Clinical Portfolio (Q-Interactive)

Next Generation courseware (eg, enVisionMATH, Pearson System of Courses, Realize)

## Higher Education

Blended and virtual Higher Education Learning (eg CTI)

Online Programme Management (eg ASU)

Next Generation courseware (eg REVEL)

## Professional

Blended and virtual English Language Learning (eg Wall Street English)

Pearson VUE

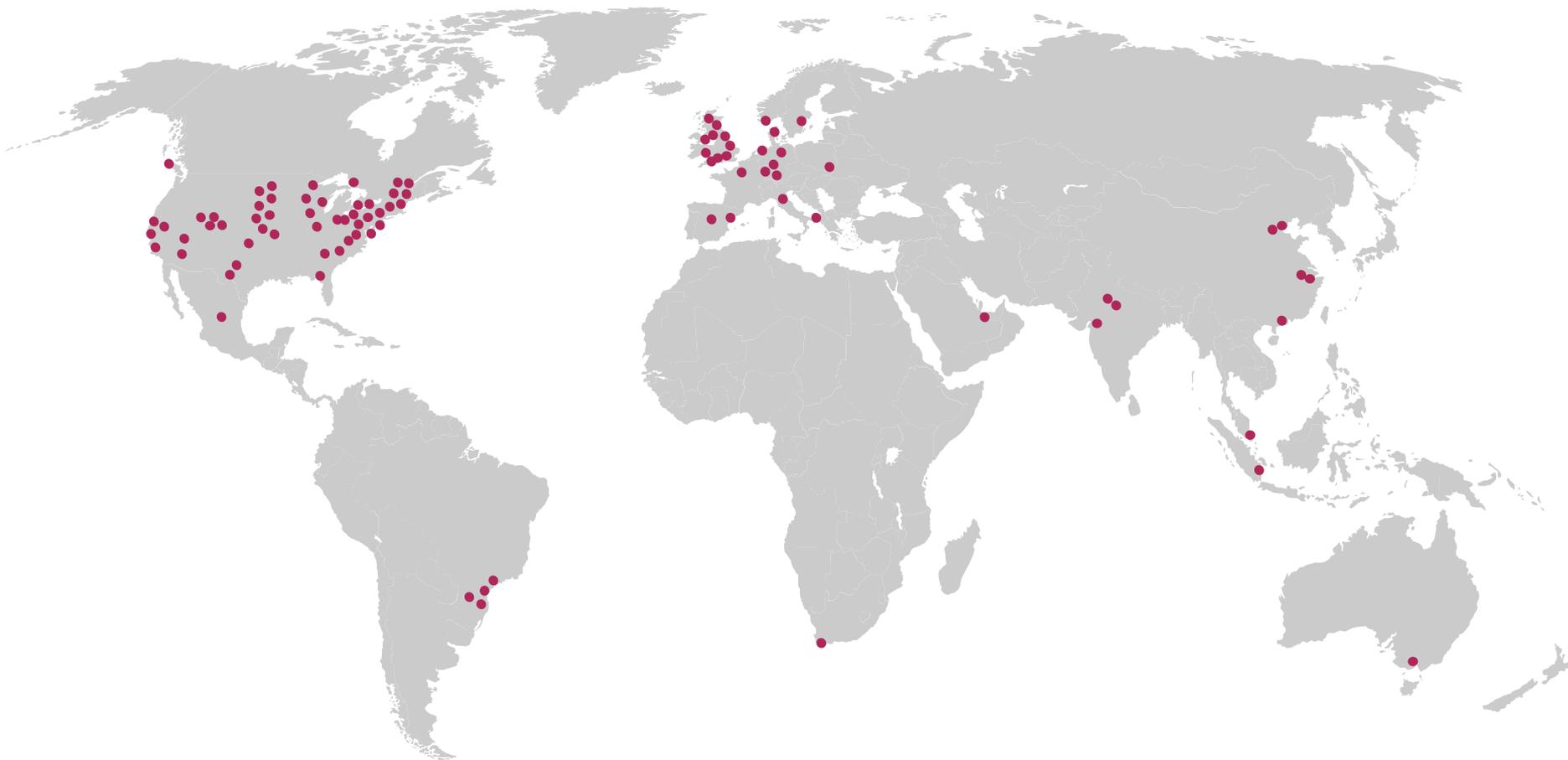
Global Scale of English and Progress

Next Generation courseware (eg MyEnglish Lab)

# Simplifying our platforms

## Our hosting locations landscape

- Data centres





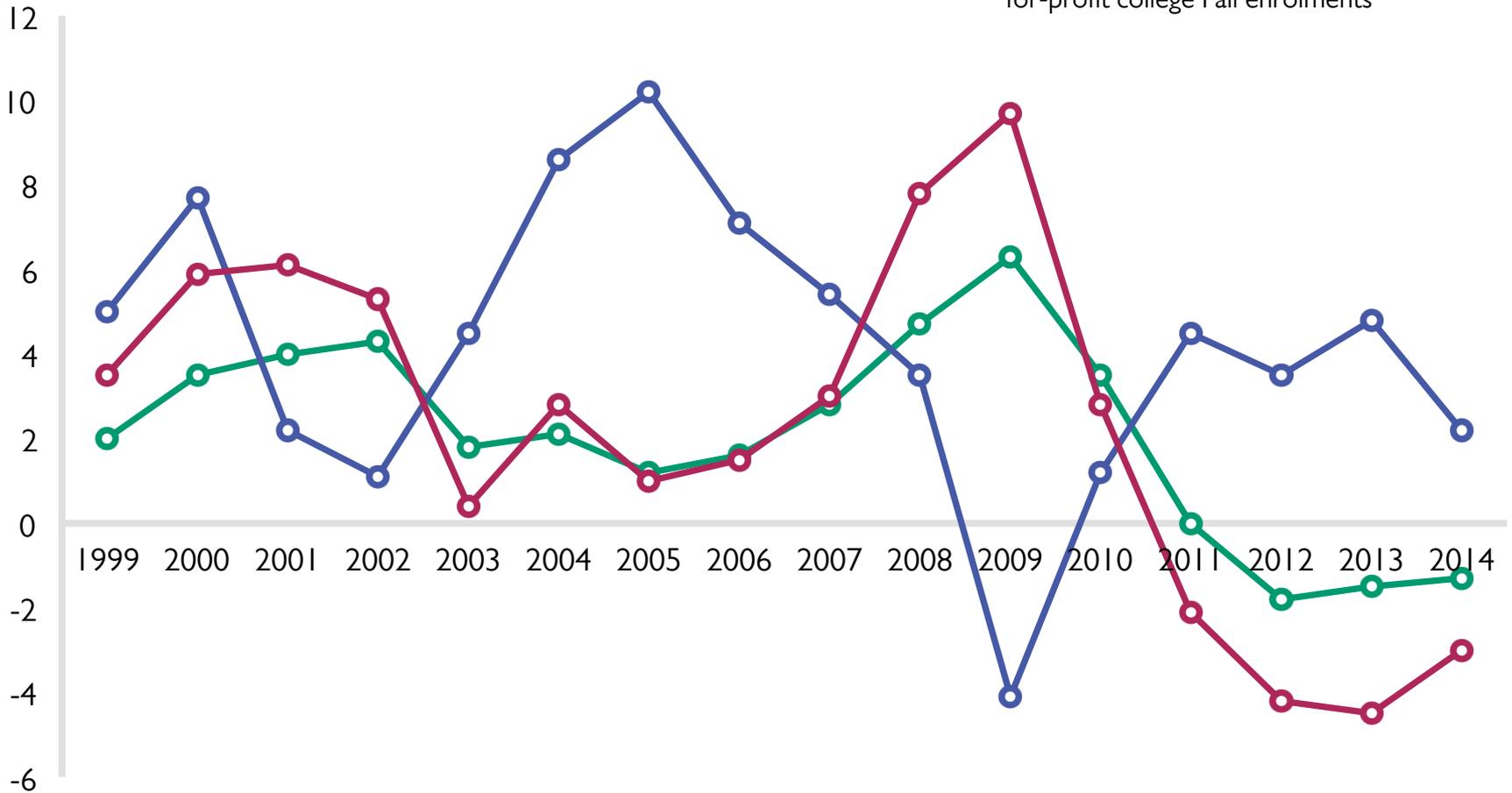
# We are building a more powerful company

- Efficacy
- New digital products
- A more focused company
- A higher performing culture
- A strong brand
  - => Access, impact, outcomes
  - => A higher returning company

# Appendices

# Cyclical forces (% change YOY)

- Total US college Fall enrolments
- Total US State tax receipts\*
- 2-year public (community) college and 4-year for-profit college Fall enrolments

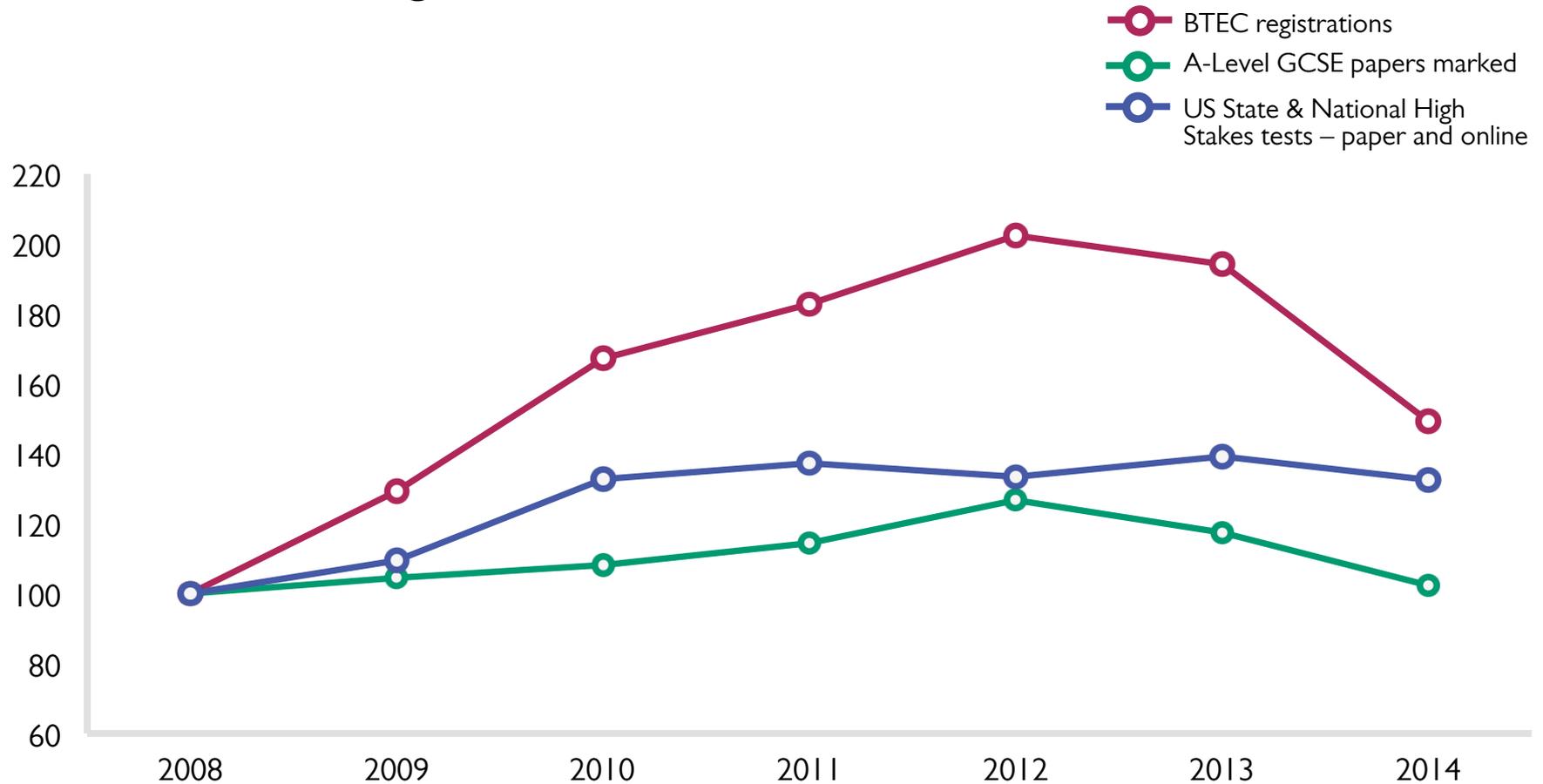


\* 2014 tax receipts LTM to 30<sup>th</sup> September 2014

Sources: US Census Bureau, National Center of Education Statistics, National Student Clearinghouse

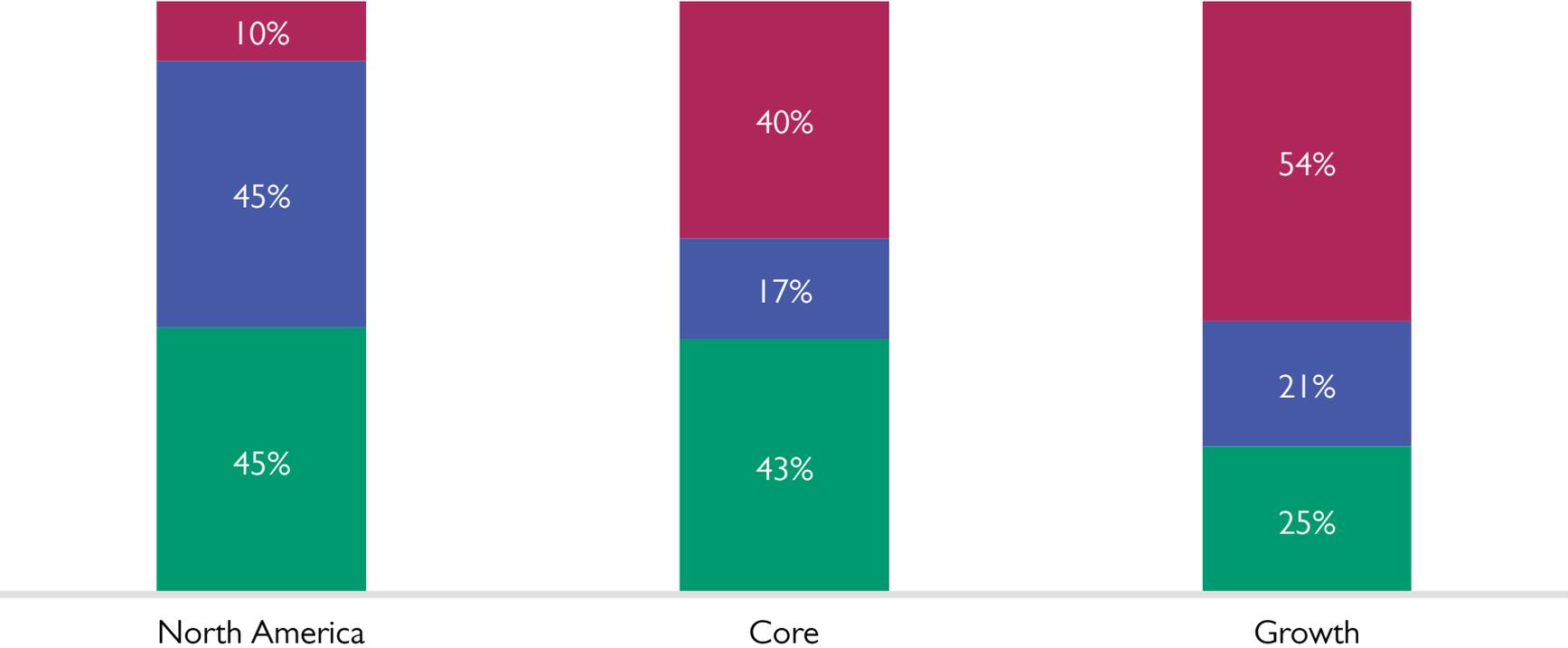
# Policy change

## UK and US testing volumes

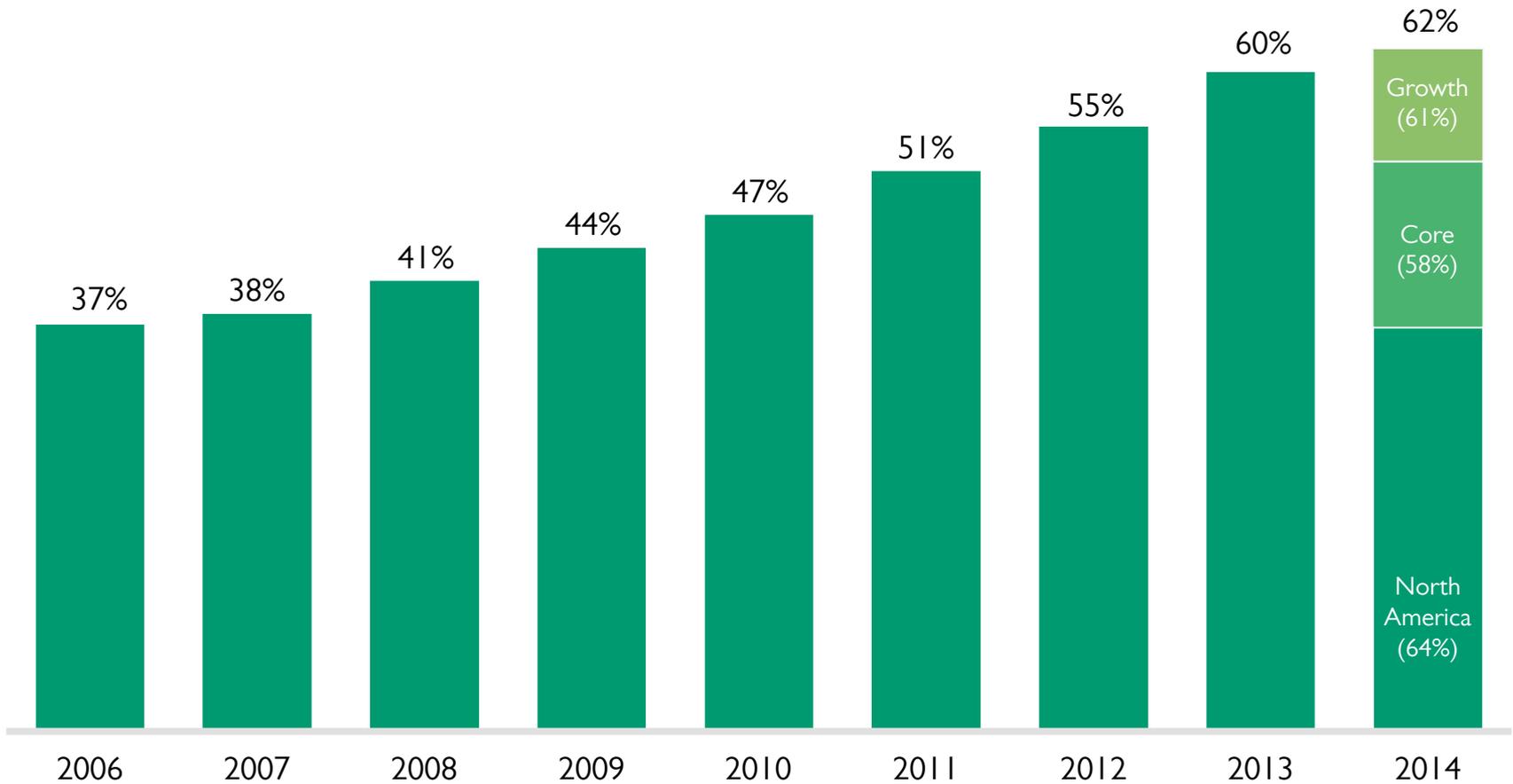


# Geography revenue split by Line of Business

- Professional
- Higher Education
- School



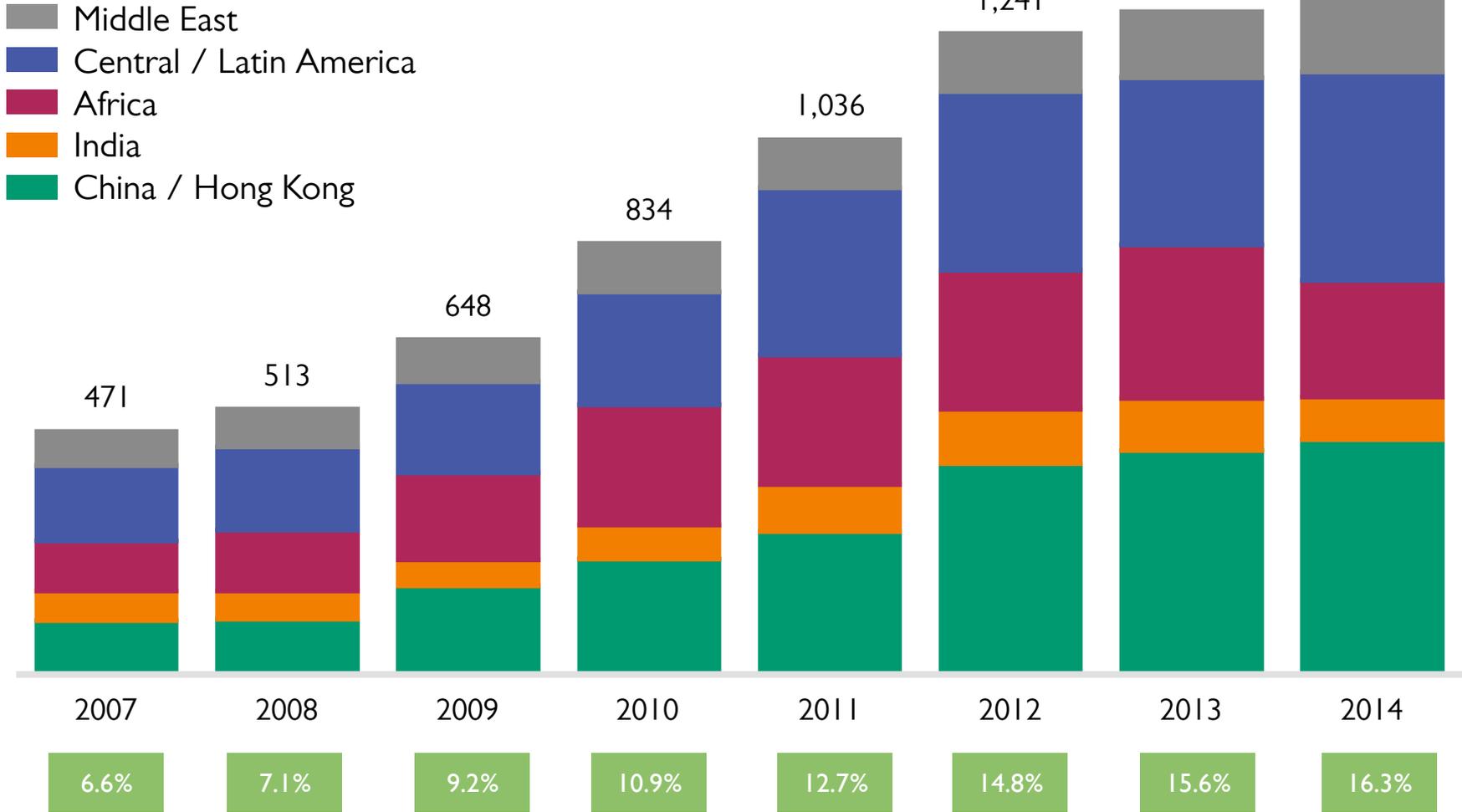
# Pearson's digital & services revenues % of sales



Excludes Penguin and Mergermarket

# Pearson's emerging markets revenues

\$m



% of Pearson revenues

# Focus Products - Key Performance Indicators

## Assessment, registration and student volume growth

| SCHOOL   | 2013       | 2014       |
|--|------------|------------|
| Accuplacer   | 7,100,000  | 7,600,000  |
| BTEC (registrations)                                     | 1,790,000  | 1,420,000  |
| Connections Education (Full Time Equivalent students)    | 53,800     | 62,000     |
| Edexcel GCSE/A level (papers marked)                     | 5,811,000  | 5,189,000  |
| Pearson sistemas (students)                              | 497,000    | 481,000    |
| Q-Interactive (tests administered)                       | 1,000      | 26,000     |
| Realize (registrations)                                  | 0          | 1,300,000  |
| State and National Paper (papers marked)                 | 38,000,000 | 31,600,000 |
| State and National TestNav (tests administered)          | 8,000,000  | 11,200,000 |
| State and National TestNav Practice (tests administered) | 4,300,000  | 10,600,000 |
| UK National Curriculum Test (papers marked)              | 3,138,000  | 3,903,000  |
| <b>HIGHER EDUCATION</b>                                  |            |            |
| CTI/MGI (students)                                       | 11,700     | 13,400     |
| MyLab/Mastering (registrations)                          | 11,700,000 | 12,500,000 |
| Pearson Online Services (registrations)                  | 173,000    | 212,000    |
| UTEL Mexico (students)                                   | 4,700      | 9,400      |
| <b>PROFESSIONAL</b>                                      |            |            |
| Global Education (registrations)                         | 109,600    | 117,300    |
| Global English (registrations)                           | 428,000    | 423,000    |
| MyEnglishLab (user registrations)                        | 400,000    | 461,000    |
| Versant + PTE (tests administered)                       | 711,000    | 827,000    |
| Vue (tests administered)                                 | 11,600,000 | 12,800,000 |
| Wall Street English (students)                           | 191,800    | 190,100    |

## Sales – Line of Business (LoB)

| <i>£m</i>        | 2014         | 2013         | <i>CER<br/>growth</i> | <i>Underlying<br/>growth</i> |
|------------------|--------------|--------------|-----------------------|------------------------------|
| School           | 2,027        | 2,303        | (7)%                  | (7)%                         |
| Higher Education | 1,695        | 1,664        | 8%                    | 8%                           |
| Professional     | 1,152        | 1,102        | 10%                   | 2%                           |
| <b>Total</b>     | <b>4,874</b> | <b>5,069</b> | <b>2%</b>             | <b>0%</b>                    |

## Operating profit – LoB

| £m                                  | 2014**     | 2013*      | CER growth | Underlying growth |
|-------------------------------------|------------|------------|------------|-------------------|
| School                              | 236        | 268        | (6)%       | (5)%              |
| Higher Education                    | 309        | 295        | 12%        | 12%               |
| Professional                        | 106        | 69         | 65%        | 17%               |
| Penguin / PRH                       | 69         | 78         | (6)%       | 2%                |
| <b>Total excluding Mergermarket</b> | <b>720</b> | <b>710</b> | <b>8%</b>  | <b>5%</b>         |
| Mergermarket                        | 2          | 26         | n/a        | n/a               |
| <b>Total</b>                        | <b>722</b> | <b>736</b> | <b>5%</b>  | <b>5%</b>         |

\*2013 includes £135m net restructuring charges as follows: School, £70m; Higher Education, £24m; Professional, £41m

\*\*2014 includes £44m net restructuring charges as follows: School, £20m; Higher Education, £9m; Professional, £3m and PRH £12m

# Reconciliation: statutory to adjusted earnings

## 2014

| £m                      | Statutory | Discontinued operations | Acquisition costs | Other net gains and losses | Intangible charges | Other net finance costs | Tax amortisation benefit | Adjusted earnings |
|-------------------------|-----------|-------------------------|-------------------|----------------------------|--------------------|-------------------------|--------------------------|-------------------|
| Operating profit        | 398       | 2                       | 6                 | (2)                        | 318                | -                       | -                        | 722               |
| Net finance costs       | (93)      | -                       | -                 | -                          | -                  | 29                      | -                        | (64)              |
| Profit before tax       | 305       | 2                       | 6                 | (2)                        | 318                | 29                      | -                        | 658               |
| Income tax              | (63)      | (1)                     | (1)               | 1                          | (73)               | (5)                     | 24                       | (118)             |
| Profit after tax        | 242       | 1                       | 5                 | (1)                        | 245                | 24                      | 24                       | 540               |
| Discontinued operations | 228       | (1)                     | -                 | (227)                      | -                  | -                       | -                        | -                 |
| Profit for the period   | 470       | -                       | 5                 | (228)                      | 245                | 24                      | 24                       | 540               |
| Minority interest       | 1         | -                       | -                 | -                          | -                  | -                       | -                        | 1                 |
| Earnings                | 471       | -                       | 5                 | (228)                      | 245                | 24                      | 24                       | 541               |

# Reconciliation: statutory to adjusted earnings

## 2013

| £m                      | Statutory | Discontinued operations | Acquisition costs | Other net gains and losses | Intangible charges | Other net finance costs | Tax amortisation benefit | Adjusted earnings |
|-------------------------|-----------|-------------------------|-------------------|----------------------------|--------------------|-------------------------|--------------------------|-------------------|
| Operating profit        | 458       | 54                      | 12                | 16                         | 196                | -                       | -                        | 736               |
| Net finance costs       | (76)      | -                       | -                 | -                          | -                  | 4                       | -                        | (72)              |
| Profit before tax       | 382       | 54                      | 12                | 16                         | 196                | 4                       | -                        | 664               |
| Income tax              | (87)      | (18)                    | (2)               | 32                         | (51)               | (1)                     | 30                       | (97)              |
| Profit after tax        | 295       | 36                      | 10                | 48                         | 145                | 3                       | 30                       | 567               |
| Discontinued operations | 244       | (36)                    | -                 | (209)                      | 2                  | (1)                     | -                        | -                 |
| Profit for the period   | 539       | -                       | 10                | (161)                      | 147                | 2                       | 30                       | 567               |
| Minority interest       | (1)       | -                       | -                 | -                          | -                  | -                       | -                        | (1)               |
| Earnings                | 538       | -                       | 10                | (161)                      | 147                | 2                       | 30                       | 566               |

## Reconciliation: pre-publication costs

| £m                                     | 2014  | 2013  |
|--|-------|-------|
| Opening balance                        | 717   | 682   |
| Exchange                               | 20    | -     |
| New spend capitalised                  | 358   | 381   |
| Acquisitions/disposals/transfers (net) | 17    | (26)  |
| Amortisation                           | (292) | (320) |
| Closing balance                        | 820   | 717   |

Total business

## Reconciliation: year end net debt

| £m                                      | 2014           | 2013           |
|---|----------------|----------------|
| Non current assets                      |                |                |
| Derivative financial instruments        | 90             | 111            |
| Current assets                          |                |                |
| Derivative financial instruments        | 24             | 13             |
| Marketable securities                   | 16             | 6              |
| Cash and cash equivalents               | 530            | 729            |
| Non current liabilities                 |                |                |
| Borrowings                              | (1,883)        | (1,693)        |
| Derivative financial instruments        | (73)           | (48)           |
| Current liabilities                     |                |                |
| Borrowings                              | (342)          | (533)          |
| Derivative financial instruments        | (1)            | -              |
| <b>Net debt – continuing operations</b> | <b>(1,639)</b> | <b>(1,415)</b> |
| Net cash classified as held for sale    | -              | 36             |
| <b>Total net debt</b>                   | <b>(1,639)</b> | <b>(1,379)</b> |

# Retirement benefit obligations

| £m  | 2014      | 2013        |
|---|-----------|-------------|
| <b>Income statement</b>                   |           |             |
| Operating charge                          |           |             |
| Defined benefit schemes                   | 21        | 29          |
| Defined contribution schemes              | 69        | 72          |
| Post retirement medical benefit schemes   | (11)      | -           |
|   | 79        | 101         |
| Interest                                  | (1)       | 3           |
| <b>Total</b>                              | <b>78</b> | <b>104</b>  |
| <b>Balance sheet</b>                      |           |             |
| UK pension scheme asset                   | 190       | 86          |
| Other pension scheme liabilities          | (55)      | (35)        |
| Post retirement medical benefit liability | (81)      | (77)        |
| Other pension accruals                    | (27)      | (30)        |
| <b>Total</b>                              | <b>27</b> | <b>(56)</b> |
| Total business                            |           |             |