

Pearson AFT Response March 15, 2016

Pearson is proud of the work we do with teachers on behalf of 75 million learners worldwide. Teachers are the backbone of the education community and are on the frontlines in the classroom. We are honored to support their work by providing the highest quality resources that help fulfill their mission.

Recent Pearson sponsored research studies are just two examples of that support. In the U.S., we partnered with the National Network of State Teachers of the Year (NNSTOY) to produce a report entitled, "[Teacher Career Advancement Initiatives: Lessons Learned from Eight Case Studies](#)," that identifies ways to recruit and retain excellent teachers. Researchers spent almost two years learning from educators in eight cities.

In the UK, Pearson recently partnered with think tank LKMco to publish the '[Why Teach](#)' research, in response to the growing concern around teacher shortages in the UK. The research explores what attracts people to the profession and, crucially, why they remain there. The findings were based on a YouGov survey of over 1000 current teachers, focus groups and interviews with individual teachers and school leaders, and an international literature review of existing research on the topic.

Given that nearly half of our employees are educators and, as passionate advocates for teachers, we are surprised and disappointed at the AFT's continued criticism of Pearson. The AFT's latest public statement about Pearson makes three major claims:

Claim 1. *An assertion that our recently announced plan to simplify Pearson, cut costs and position our businesses for growth is "lacking in real strategy" and has "gaping holes."*

It's hard to respond in any detail because the union doesn't actually identify those "holes". They also don't suggest any significant strategy change-other than saying we should "stop our support" for assessments in the U.S. and investment in low-cost private schools in developing markets. Together, these two areas account for less than 10% of our global revenues.

Our strategy is clear. We are refocusing our business on fewer, bigger, global opportunities: creating a single global product organization for our courseware business; integrating our assessment operations in North America; focusing on digital services in a scalable and profitable way; and making productivity improvements across our technology, HR and finance functions. This will give us the improved operational and financial flexibility to create long term, sustainable shareholder returns.

A recent note from analysts at Morgan Stanley emphasizes that we are already well progressed in the £350m restructuring plan, describing our cost saving plan as a 'big support' that is 'already well advanced.' The analyst note concludes 'our view remains that the plan is plausible.' (Morgan Stanley, March 15, 2016).

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In addition, Citi recently described the criticism as “misguided” writing, “First, on the substance of the Unison/US union calls, it strikes us that they are at best somewhat misguided and at worst misleading. Misguided in the sense that exposure to testing is not the primary driver of the challenges experienced by Pearson last year; potentially misleading in its representation of the impact of legislative changes.” (Citi, March 8, 2016)

Read more on our strategy [here](#).

Claim 2. Opposition to the use of mandated assessments in the U.S. The AFT’s latest response states that “one of the core reasons behind the shareholder resolution” is that Pearson’s “management continues to support using test results for purposes they were not designed for.”

Pearson does not advise states or take a public stance on how they should use test results. The union’s vague claim seems to refer to the fact that our tests are used for things like teacher evaluation and other decisions regarding students and schools.

Pearson administers tests based on the requirements of our customers- mostly state departments of education-who often use those results to evaluate teachers, intervene in failing schools and allocate resources according to student need. The basis of those evaluations and interventions is not something we control.

We are improving educational outcomes and working hard to improve the way testing is conducted. While good test data is vital, we recognize that there are opportunities in the US for fewer and better tests. We are working with teacher groups and others to help make this vision a reality and would welcome AFT into this conversation.

Claim 3. “Pearson’s efforts in the “global south” to make education a commodity that can be bought and sold is a serious threat to democracy and that “by investing in low-fee private schools in Africa and Asia ... Pearson is helping deny millions of citizens the free quality education to which they have a right.”

The reality is that, corruption and lax oversight in developing nations has rendered many government schools ineffective. Low cost private schools have become an important alternative for parents and have significantly opened the door to quality education. In many parts of Africa and the Indian Subcontinent 40% of children in rural areas attend low cost private schools. In large cities such as Delhi, Karachi, Accra or Lagos that number is closer to 70%.

In many developing countries, parents must make hard choices about their child’s education—choices that parents in developed nations with good public schools simply don’t have to make. Parents in developing nations are rightfully demanding, and choosing, this better alternative.

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Pearson has made minority investments in four school groups with the potential to deliver better outcomes at low cost for students in Ghana, South Africa, Kenya and the Philippines through the Pearson Affordable Learning Fund.

We all need to be focused on providing the best possible education for young people, no matter where they live. These investments will help to improve educational access and will improve Pearson's access to low-cost innovative educational products and services, creating long-term returns for our shareholders.

Other AFT claims

Claim: “*Leading analysts remain unimpressed with the scope and depth of Pearson’s plan.*”

The AFT has selectively taken quotes from seven investment bank and stockbroker published research notes to support this assertion. They fail to mention that three of the seven have a buy recommendation on Pearson shares and three recommend investors hold Pearson shares.

Some other quotes that the AFT did not include:

"Enough positives in the FY15 numbers not to dismantle the positive vibe from the 21 January trading update. The real pluses, a very credible new Chairman, a strong debut from the new CFO, contributing to a spring in the step of CEO, John Fallon and coming together to deliver a credible, concise analyst presentation that seemed indicative of a company regaining the front foot." **Jefferies February 26, 2016**

"Our confidence in Pearson's turnaround is higher after 2015 results. Pearson met its reduced pre-announced 2015 guidance and re-asserted its 2016 and 2018 targets, which should be no surprise. Management also provided good color on its markets, with more detail on what has gone wrong as well as some things it is doing right, and evidence of underlying improvement to come." **Macquarie February 26, 2016**

"The road to recovery is still long but with the right strategy now in place and with calendar and cyclical effects easing in 2017, we believe underlying revenue growth is likely to return next year. This in turn makes the valuation attractive and underpins our Outperform rating." **Exane February 26, 2016.**

"Pearson Remains a Simple But Compelling Story" **Citi February 29, 2016**

Claim: *Observing that our share price has risen significantly in response to our announced simplification and growth plan is “a disturbingly nonchalant response” and we are “tone deaf to the pain felt by shareholders”*

We understand the pain felt by shareholders as a result of the poor performance of Pearson's share price over the last 12 months. Many employees in Pearson are

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shareholders themselves. Our plan to further simplify Pearson, reduce costs and position the company to grow has been formulated to meet the challenging market conditions we've experienced in many parts of our business and to provide capital growth and income to shareholders in the long term. The positive share price reaction since we gave details of our plan suggests that investors believe that the strategy we have laid out is credible.

Claim: *Pearson's share price is down 25% over the last 3 months.*

This is simply incorrect. At the time of writing Pearson share price is up 21% over the last 3 months.

Claim: *The Every Student Succeeds Act is "an effort to reduce testing and the use of related preparation materials in the United States" and that in our commentary on ESSA's provision of funds to develop state run assessment systems and prohibition on Federal government against advocating specific core curriculum standards is "conspicuous by its absence."*

ESSA is a bi-partisan bill to ensure that "every student succeeds" not "an effort to reduce testing."

The US Department of Education identified six highlights of ESSA when it was signed into law in December two of those are that it:

- Requires—for the first time—that all students in America be taught to high academic standards that will prepare them to succeed in college and careers.
- Ensures that vital information is provided to educators, families, students, and communities through annual statewide assessments that measure students' progress toward those high standards.
- Acknowledges that schools and students must be evaluated based on multiple measures—something we've long supported.

This is all consistent with our views on assessment and the growing move toward fewer and better tests. Views we have clearly stated publicly: <http://www.newsweek.com/why-pearson-agrees-obama-school-testing-395867>

Claim: *We are being inconsistent by "bragging" about delivering 50 million assessments in the US in 2015 while "downplaying their proportion of our global business."*

We are simply being transparent about the number of assessments we delivered last year. There is no inconsistency between being proud of delivering these tests for our customers and the fact that testing is a relatively small part of our business.

Claim: *A "growing consensus of research in the United States and beyond shows that using test scores for high-stakes decisions regarding students, teachers and*

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schools is not supported by the evidence and can cause inaccurate and sometimes damaging outcomes.”

Civil Rights groups, National PTA and National Association of Secondary School Principals are all examples of key players in this debate who have been clearly on the record supporting the need for testing.

These groups—and most others in the education space—understand that assessments provide parents and educators with feedback about whether a student is on track for college and career success. They not only help educators address individual student needs, but this information is one tool helping policymakers and administrators gauge the effectiveness of schools and ensure equity in education for all students.