



Pearson

2015 Results Presentation

Friday 26 February 2016



Image by Christof van der Walt

Forward-looking statements

Except for the historical information contained herein, the matters discussed in this statement 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.

Financial summary

£m	2015	2014	Headline growth	CER growth	Underlying growth
Sales	4,468	4,540	(2)%	(5)%	(2)%
Adjusted operating profit	723	722	-	(3)%	(2)%
Adjusted EPS	70.3p	66.7p	5%		
Deferred revenue*	766	741	3%	0%	8%
Operating cash flow	435	649	(33)%		
Net debt	(654)	(1,639)	60%		
Dividend	52p	51p	2%		

* Continuing

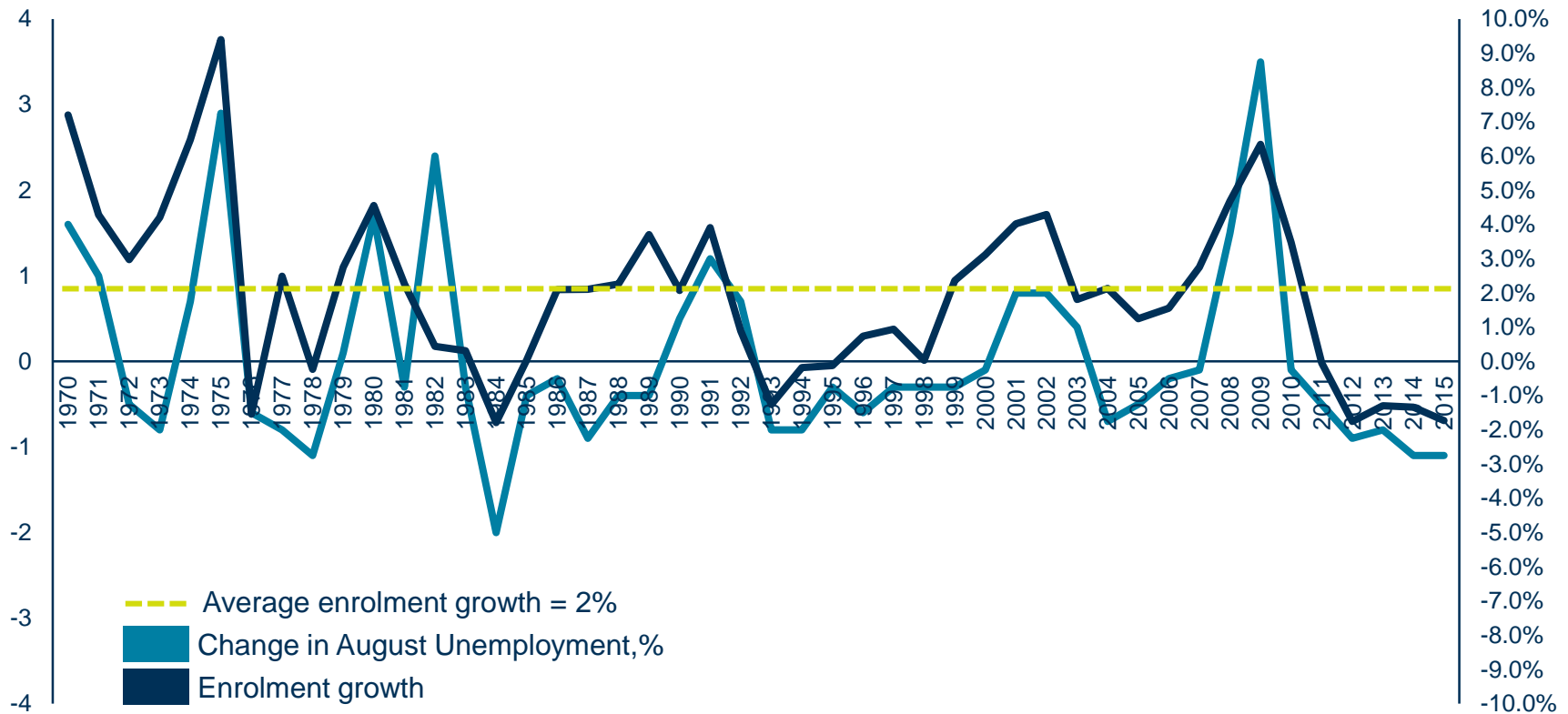
The headlines

- Overall, strong competitive performance
- Cyclical and policy related challenges more persistent and pronounced than expected, but will ease
- Capitalising on the big structural changes in education
- Pearson enjoys strong market positions, real competitive advantage, and a significant growth opportunity
- We are acting decisively to simplify the company and capitalise on this opportunity
- This enables more students to progress and Pearson to grow

The image features a dark blue background with a repeating pattern of light blue, stylized, concentric curved lines. In the center, there is a large white circle. Inside this circle, the words "Financial Review" are written in a dark blue, serif font.

Financial Review

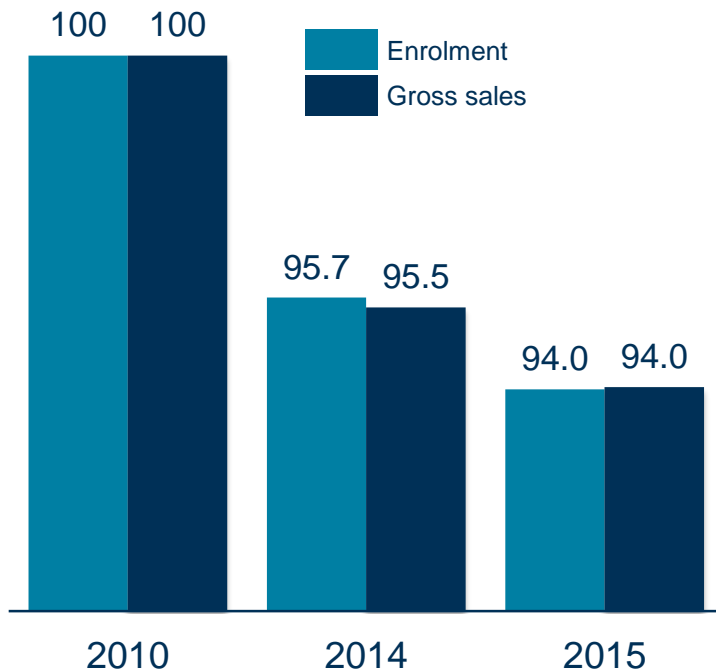
Market backdrop



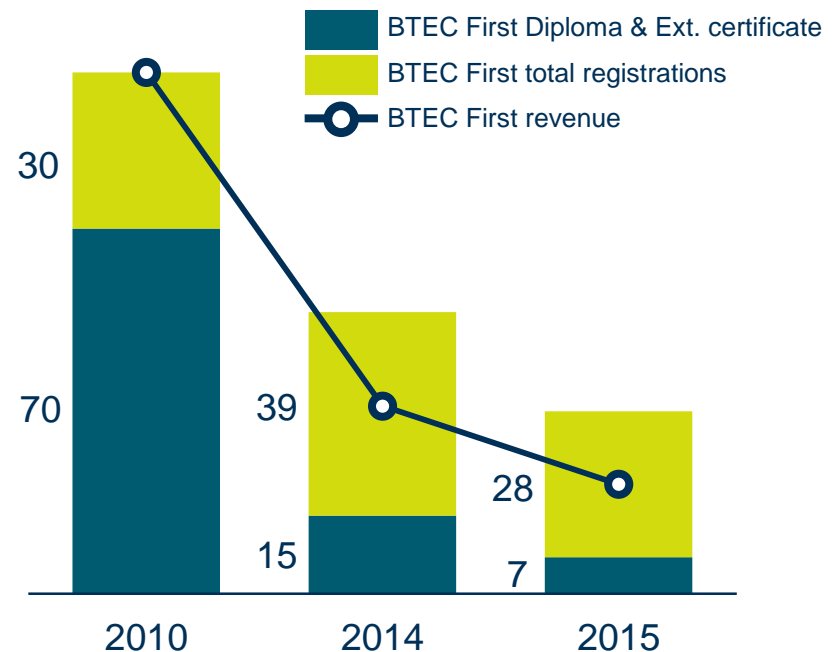
Source: NCES, NSCH, Bureau of Labor Statistics

Cyclical and policy related forces

US Higher Ed enrolment and revenue
2010 = 100



BTEC Firsts calendar year registrations
and revenue 2010 = 100



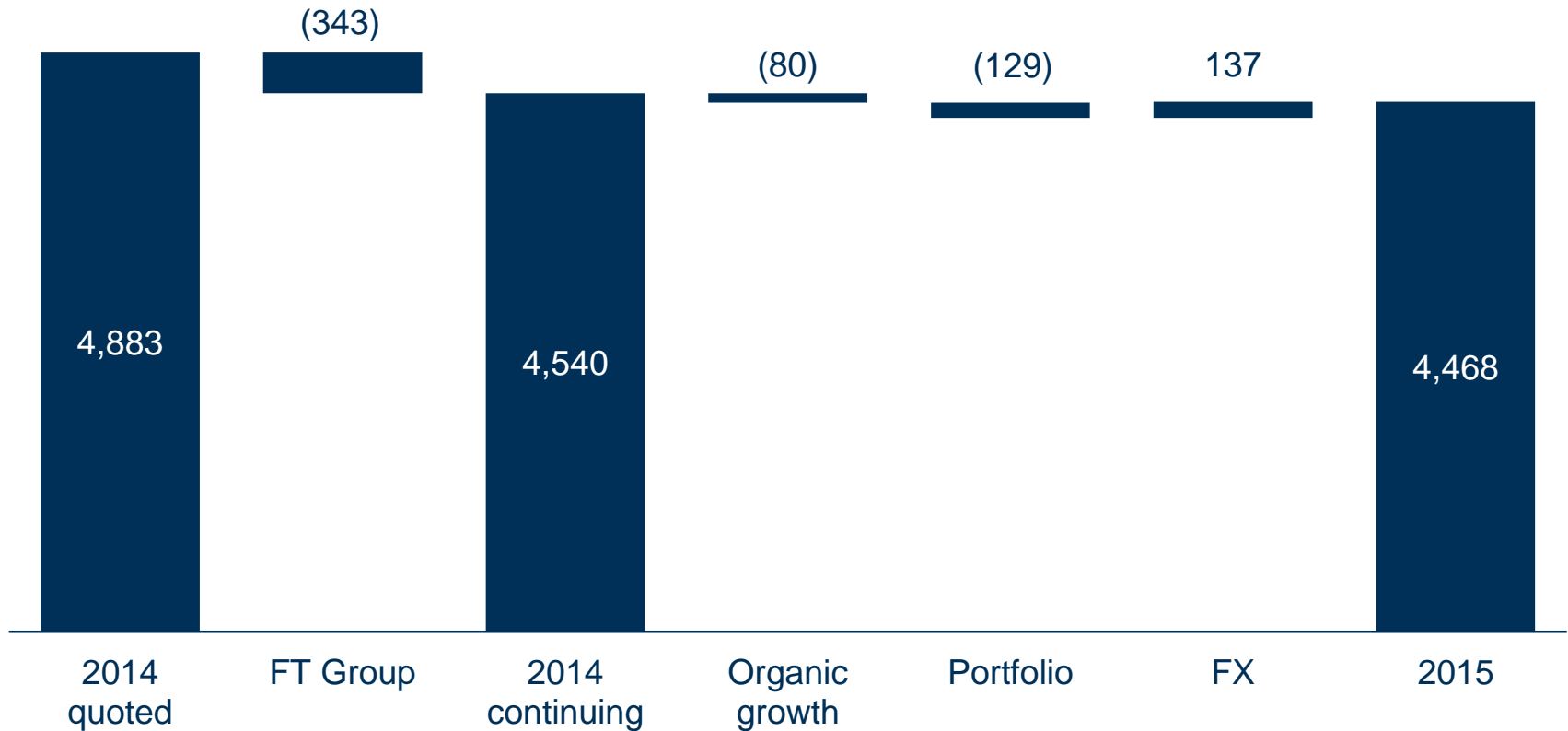
Sales

£m	2015	2014	CER growth	Underlying growth
North America	2,940*	2,906	(5)%	(1)%
Core	836	910	(5)%	(5)%
Growth	692	724	--	(1)%
<i>Continuing sales</i>	<i>4,468</i>	<i>4,540</i>	<i>(5)%</i>	<i>(2)%</i>
FT Group	312	343		
Total sales	4,780	4,883	(5)%	(2)%

* Includes £38m from PowerSchool

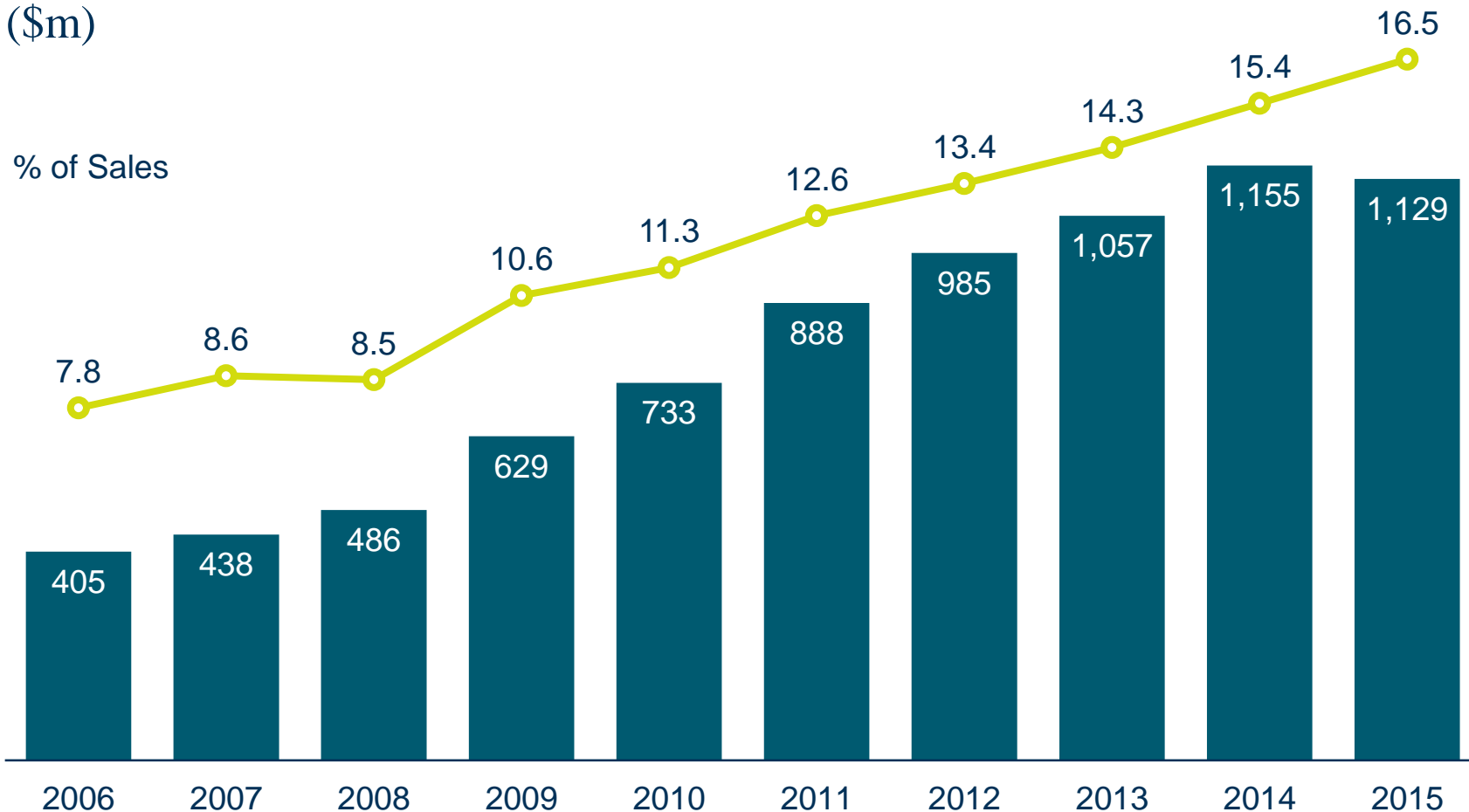
Sales movements

(£m)



Deferred revenue*

(\$m)

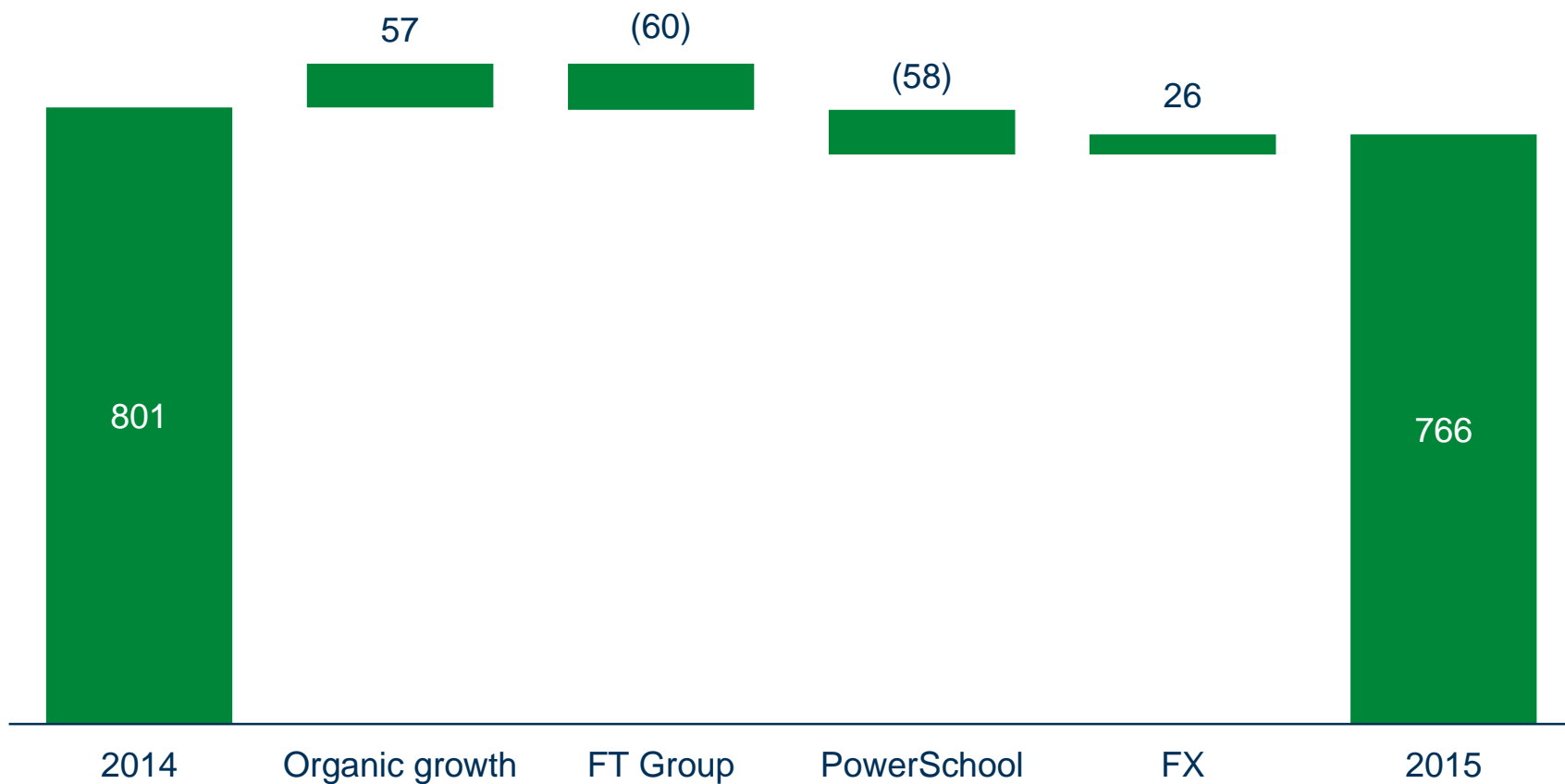


2015 headline decline reflects the disposal of PowerSchool

*Continuing operations

Deferred revenue movements

(£m)

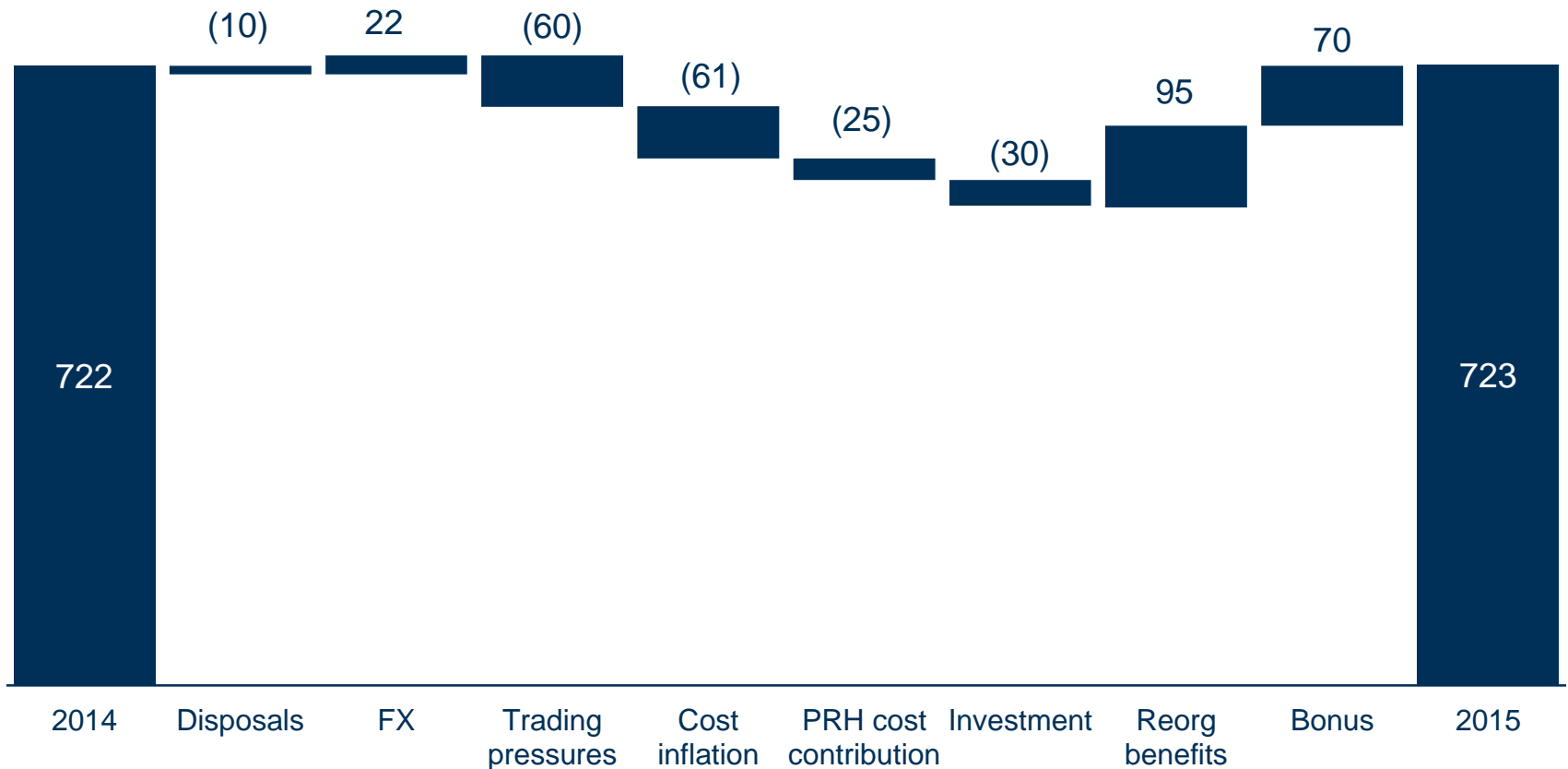


Operating profit

£m	2015	2014	CER growth	Underlying growth
North America	480*	444	(1)%	1%
Core	114	122	(2)%	(2)%
Growth	(12)	32	n/a	n/a
Penguin / PRH	90	69	30%	30%
<i>Continuing operations</i>	<i>672</i>	<i>667</i>	<i>(3)%</i>	<i>(2)%</i>
FT Group	51	55	n/a	n/a
Total	723	722	(3)%	(2)%

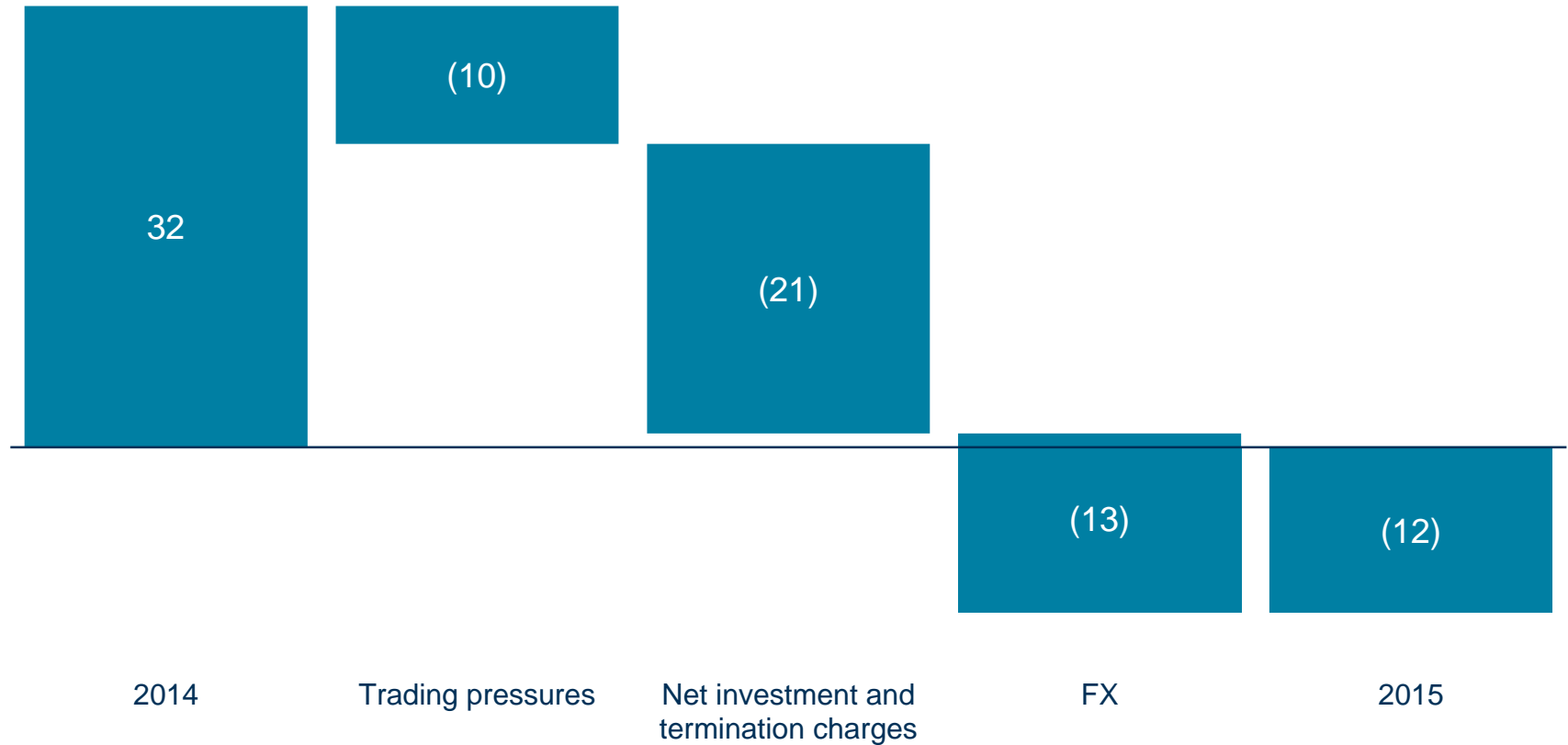
* Includes £9m from PowerSchool

Profit movement



Growth division profit movements

(£m)



Adjusted EPS

£m	2015	2014	Headline growth
Operating profit	723	722	--
Interest	(46)	(64)	28%
Taxation	(105)	(118)	11%
Tax rate	15.5%	17.9%	
Profit after tax	572	540	6%
Minorities	--	1	
Adjusted earnings	572	541	6%
Shares in issue	813.3	810.9	
Adjusted EPS	70.3p	66.7p	5%

Total business

Statutory P&L

£m	2015	2014	Headline growth
Operating profit	(404)	348	n/a
Interest	(46)	(64)	28%
Finance costs – IAS39 / IAS21	17	(29)	n/a
Profit before tax	(433)	255	n/a
Taxation	81	(56)	n/a
Profit after tax	(352)	199	n/a
Discontinued operations*	1,175	271	n/a
Profit for the year	823	470	75%
Basic EPS (total)	101.2p	58.1p	74%

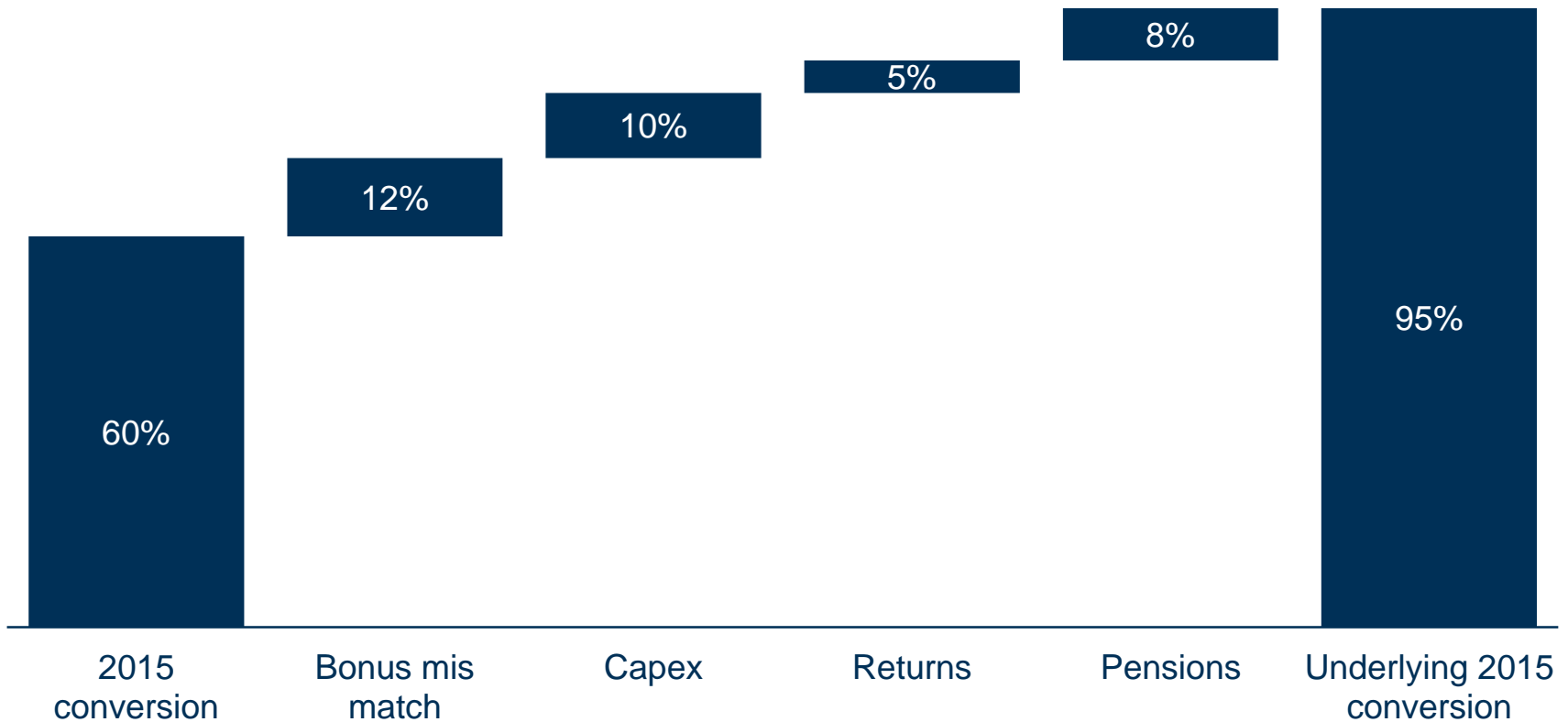
Operating cash flow

£m	2015	2014	var
Operating profit	723	722	1
Working capital	(226)	(44)	(182)
- of which pre-publication expenditure	(57)	(52)	(5)
- of which other working capital	(169)	8	(177)
Net capital expenditure	(241)	(172)	(69)
Depreciation	149	137	12
Share of operating results of associates	(110)	(105)	(5)
Dividends from associates and JVs	162	121	41
Exchange	22	27	(5)
Other movements	(44)	(37)	(7)
Operating cash flow	435	649	(214)
Cash conversion %	60%	90%	

Total business

Underlying cash conversion

(£m)



Free cash flow

£m	2015	2014	var
Operating cash flow	435	649	(214)
Net interest paid	(51)	(73)	22
Operating tax paid	(129)	(163)	34
Operating free cash flow	255	413	(158)
Non operating tax paid	(103)	-	(103)
Free cash flow	152	413	(261)
Operating free cash flow / share	31.4p	50.9p	(19.5)p

Total business

Balance sheet

£m	2015	2014	Var
Goodwill / intangible assets	5,164	6,310	(1,146)
Tangible fixed assets	320	334	(14)
Associates & JVs	1,103	1,118	(15)
Pre-publication	841	820	21
Deferred revenue	(766)	(801)	35
Traditional working capital	644	484	160
Other net liabilities	(36)	(114)	78
Net trading assets	7,270	8,151	(881)
Shareholders' funds	6,414	5,979	435
Deferred tax	284	419	(135)
Pensions	(198)	(27)	(171)
Other provisions	112	135	(23)
Minorities	4	6	(2)
Net debt	654	1,639	(985)
Capital employed	7,270	8,151	(881)
Year end \$/£	1.47	1.56	

Total business



2015 Results Presentation

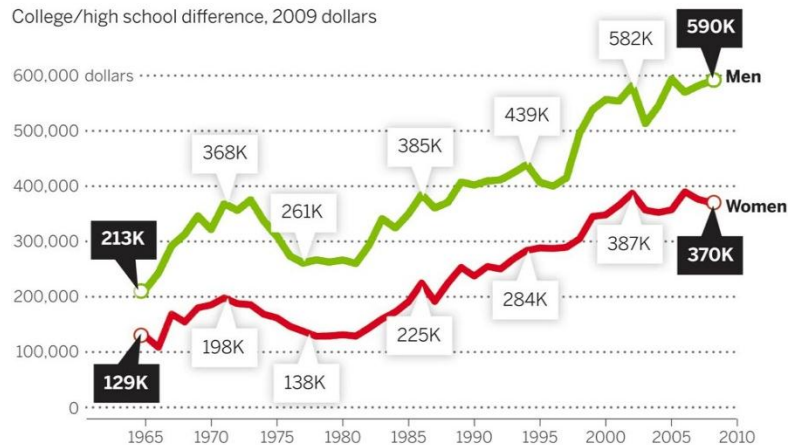
Structural trends – our growth opportunity

- 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

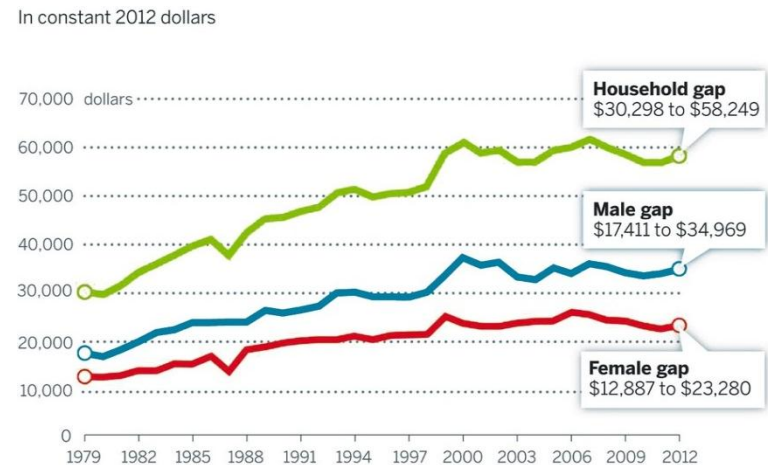
Our strategy enables us to manage the transition, mitigate the threat, and maximize the opportunity

The economic value of an education has never been higher

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



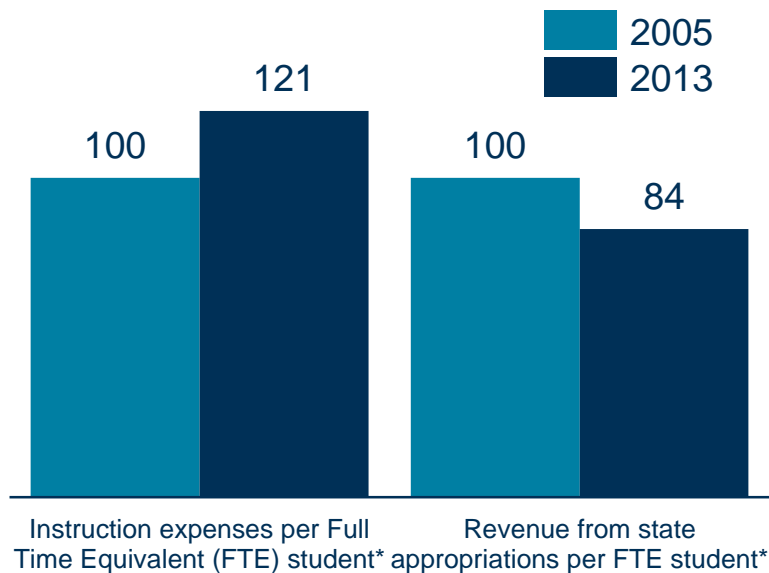
College / high school median annual earnings gap 1979 – 2012



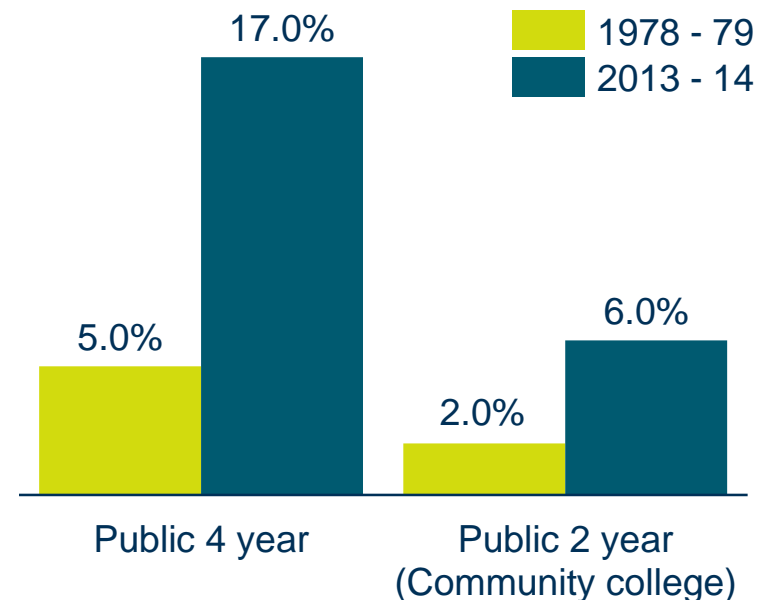
Source: adapted from Skills, education, and the rise of earnings inequality among the “other 99 percent” David H. Autor

Cost of an education is increasing; public funding under pressure

Cost per student vs public
funding per student



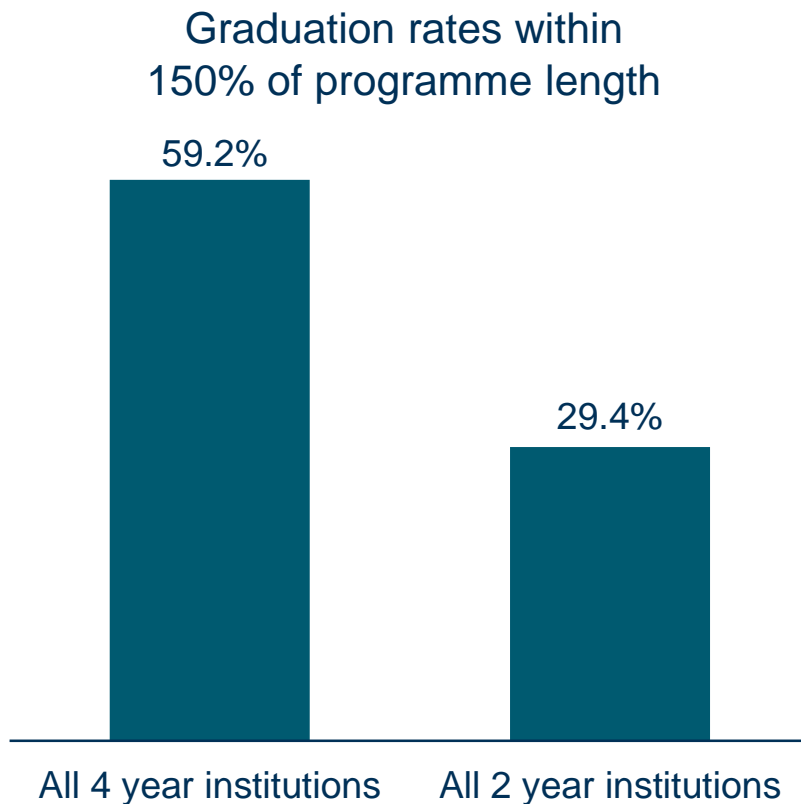
Tuition and fees as % of
median household income



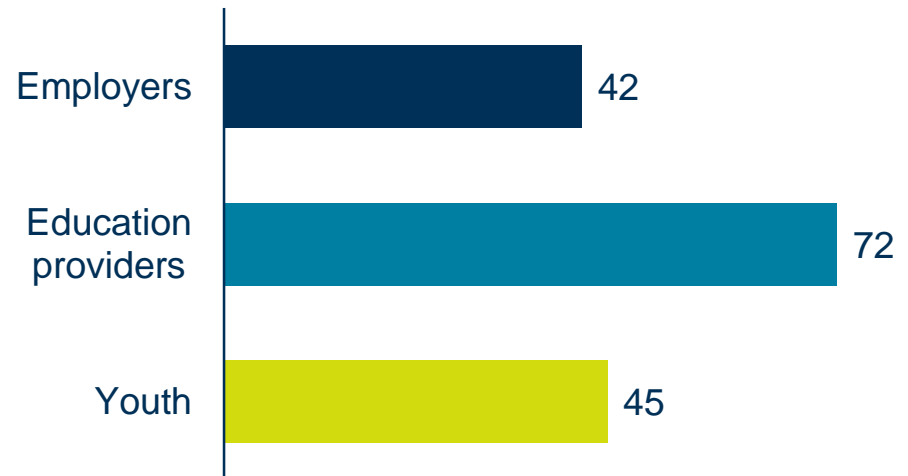
* Public 2-year and Public 4-year colleges only

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



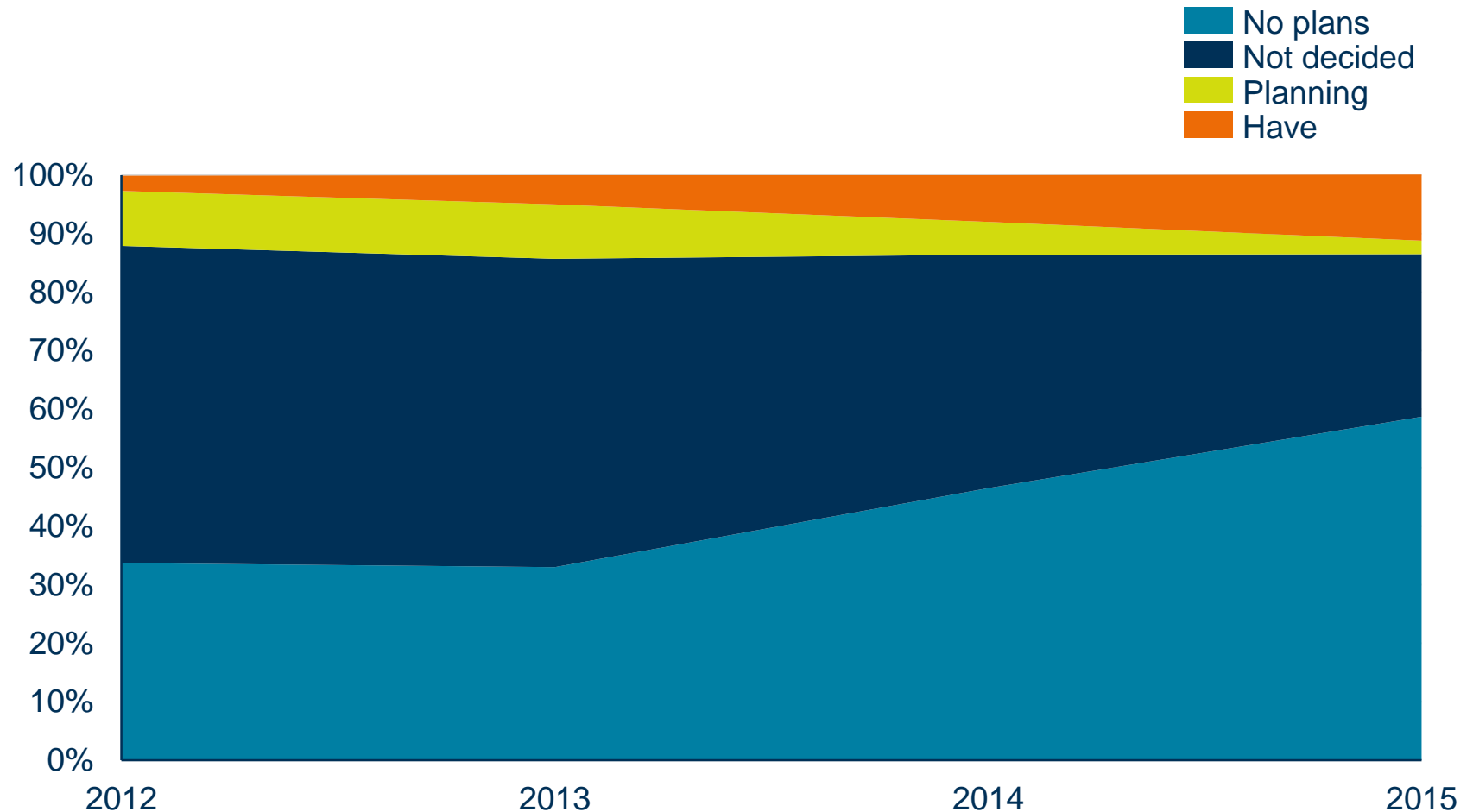
Agreement that graduate/new hires
are adequately prepared (%)



Sources: National Center for Education Statistics, McKinsey & Company

Education market continuously evolving

Role of MOOC at institution



Source: Babson Survey Research Group

Complex and dynamic environment

- “Free” and “open” always been part of the mix
- Privacy regulation makes ad based models less relevant
- Content small part of the value chain
- Fragmented system of decision making
- Learning is an active, dynamic and connected process
- Premium on ability to implement at scale

Real value lies in improving productivity, student completion and employability

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

Implementing our strategy

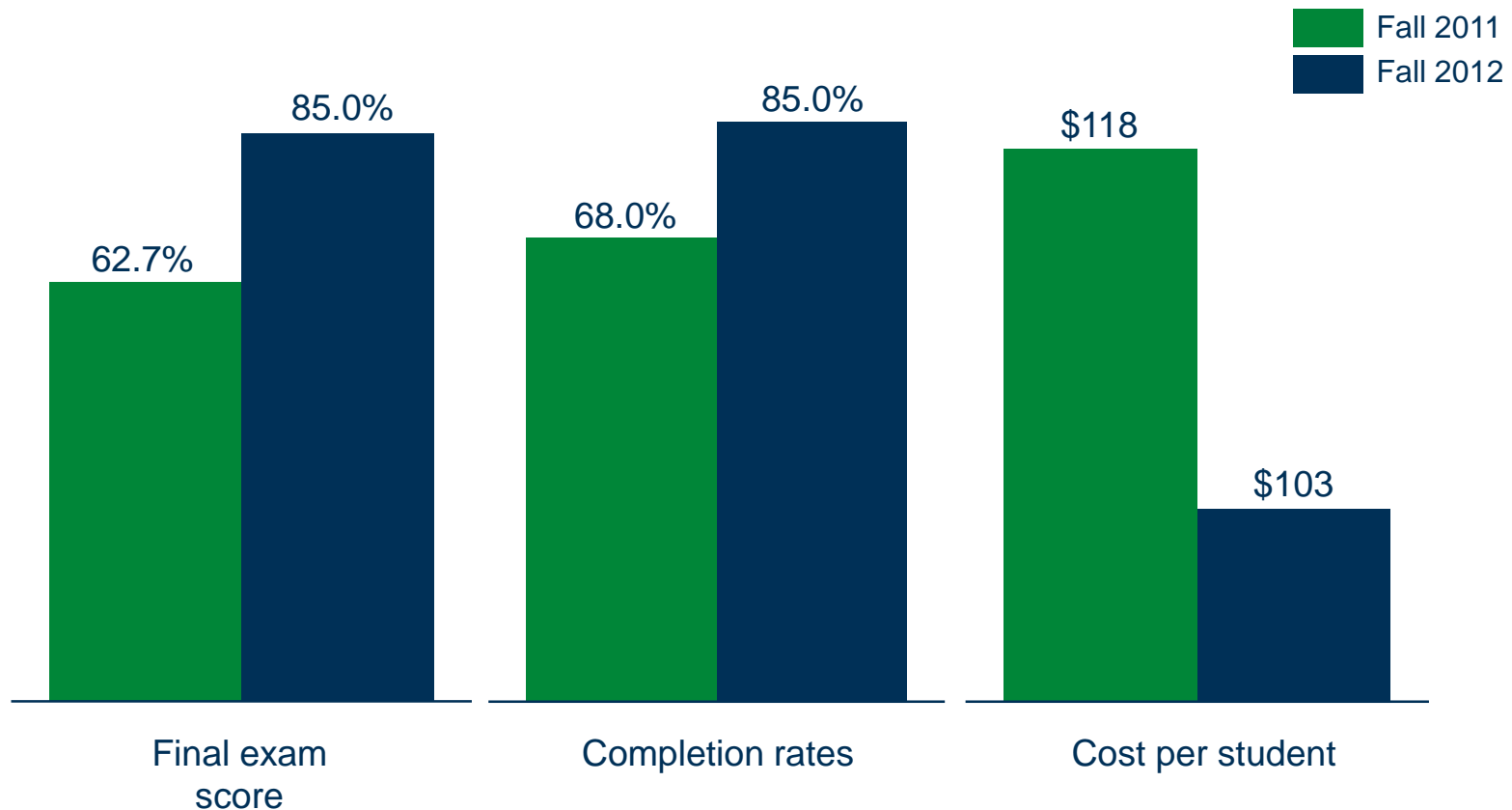
Simplification and Investment focus

- Global product organization to drive adaptive, personalized learning
- Integrate assessment to develop smarter, better tests
- Sharper focus on online, blended and virtual learning
- Simplification and cost reduction

Real value lies in improving productivity, student completion and employability

Doing more, and better, with less

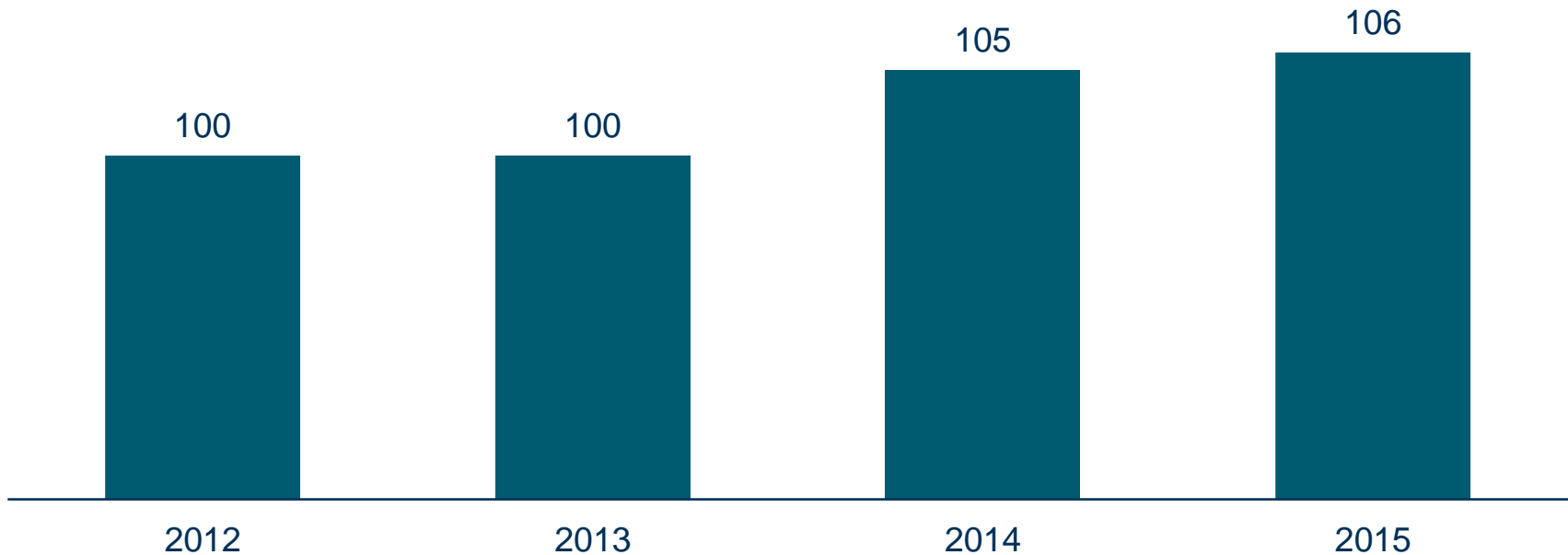
Learning gains at Central Missouri with Pearson support



Source: National Center for Academic Transformation: University of Central Missouri (Intermediate Algebra)

Average revenue per enrolment*

US Higher Education shifting from print to digital



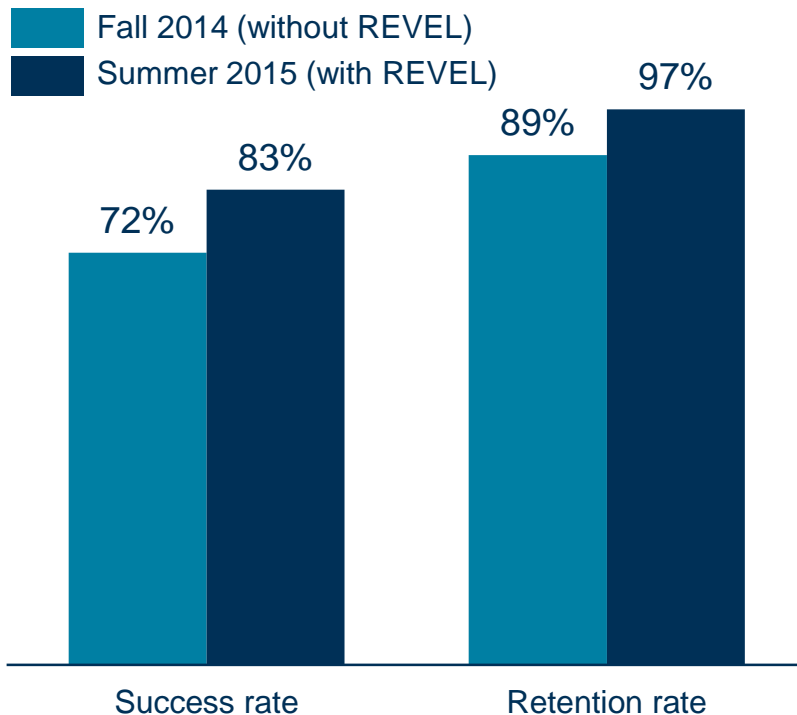
2012=100

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

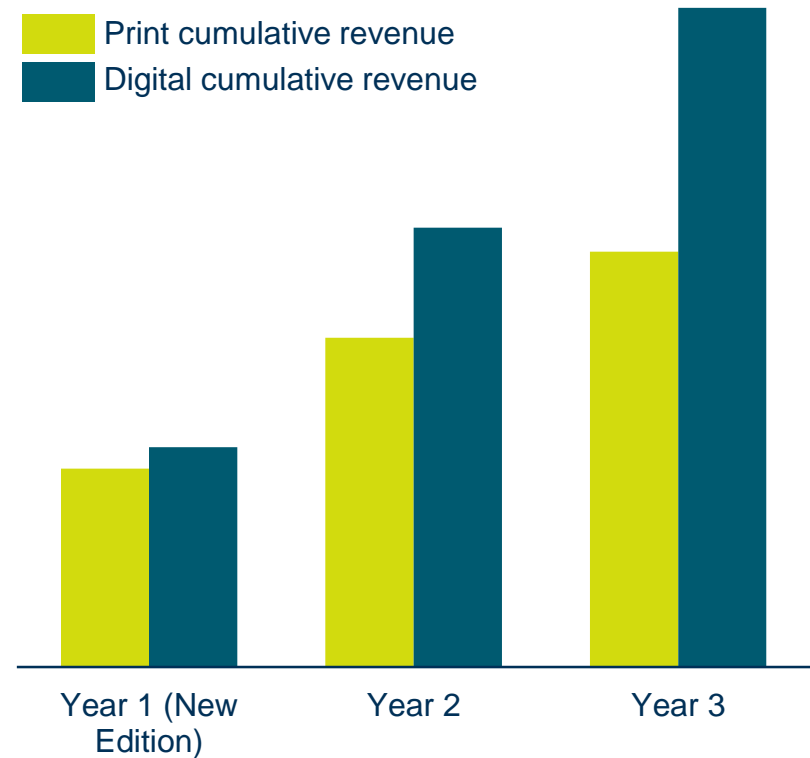
Managing the analogue to digital transition

REVEL: next generation courseware

Learning gains at Coastal Bend College with Pearson support



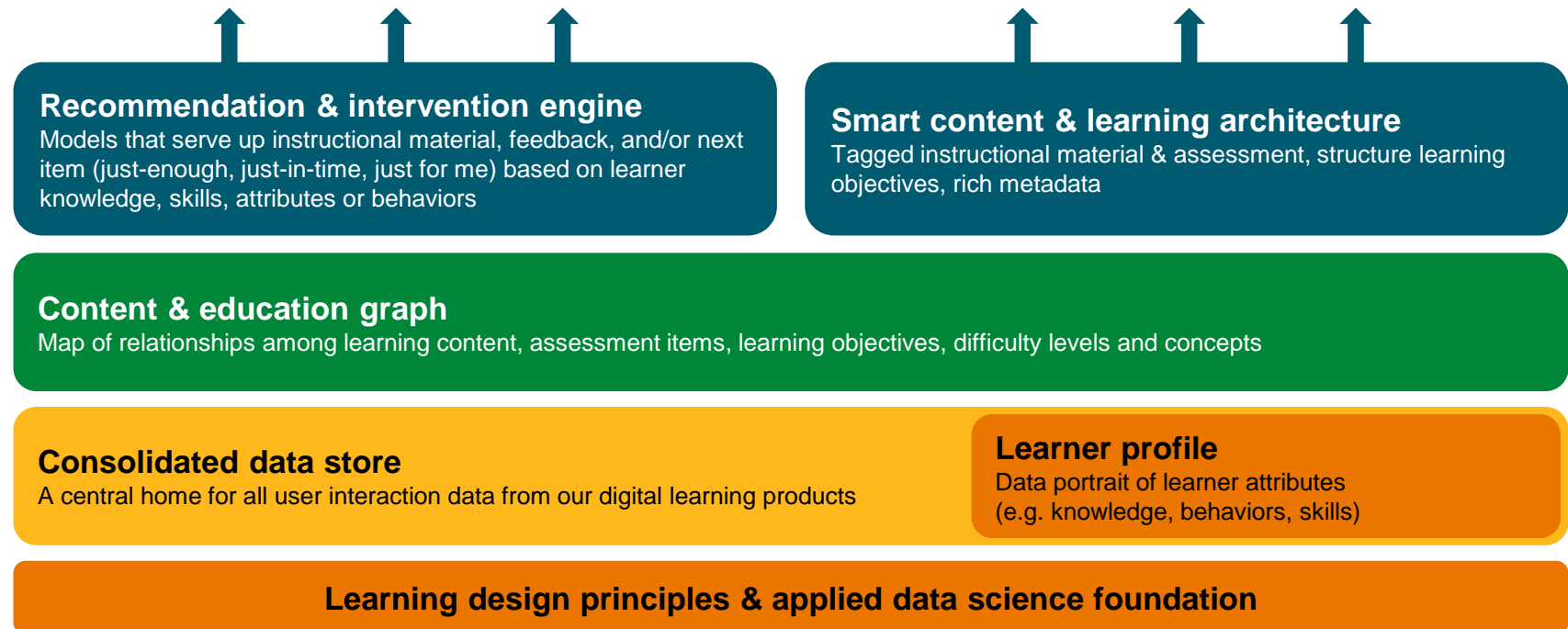
REVEL: shift from license selling to subscription selling (\$)



Doing more, and better, with less

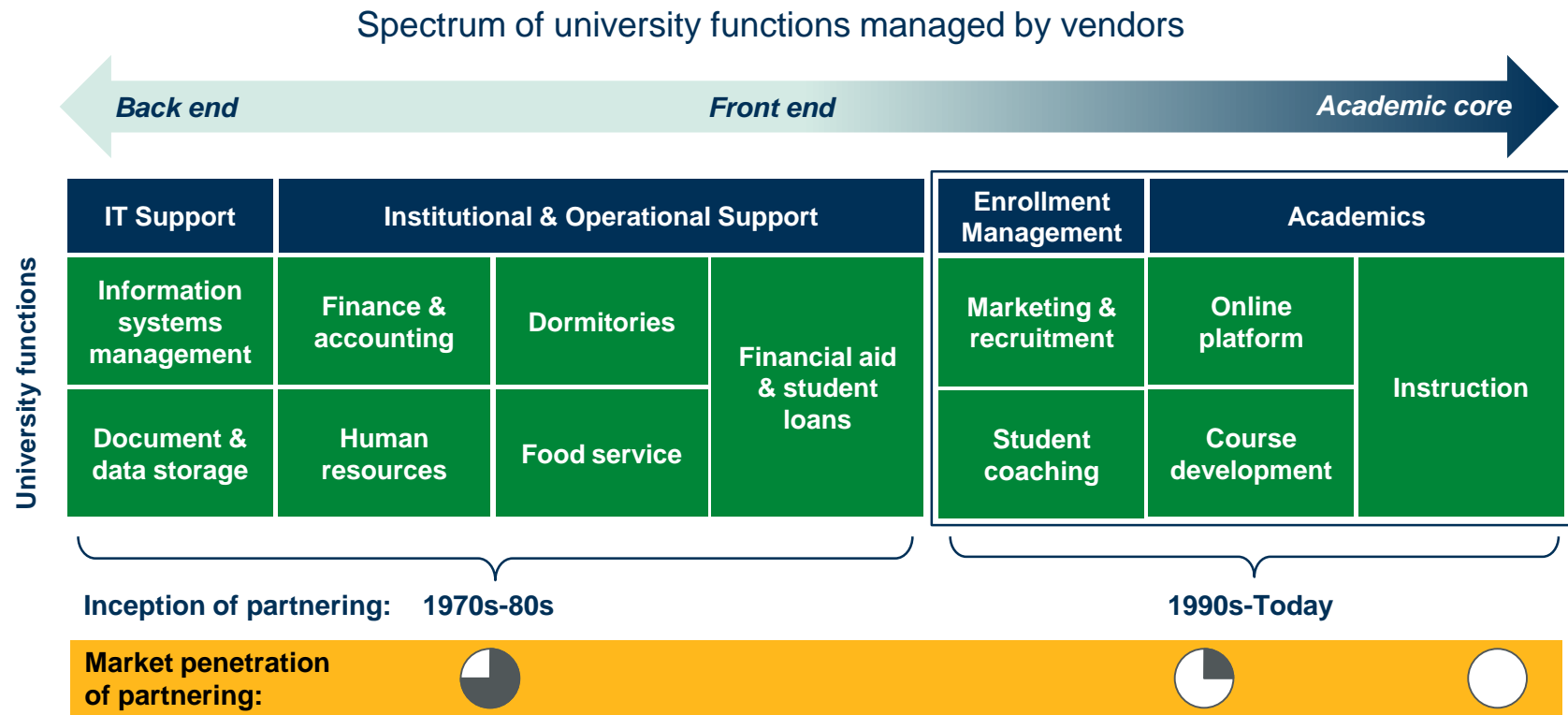
Adaptive capabilities are underpinned by content, data and learning science

Learning products that generate outsized learner outcomes



Maximising the opportunity: partnering for scale

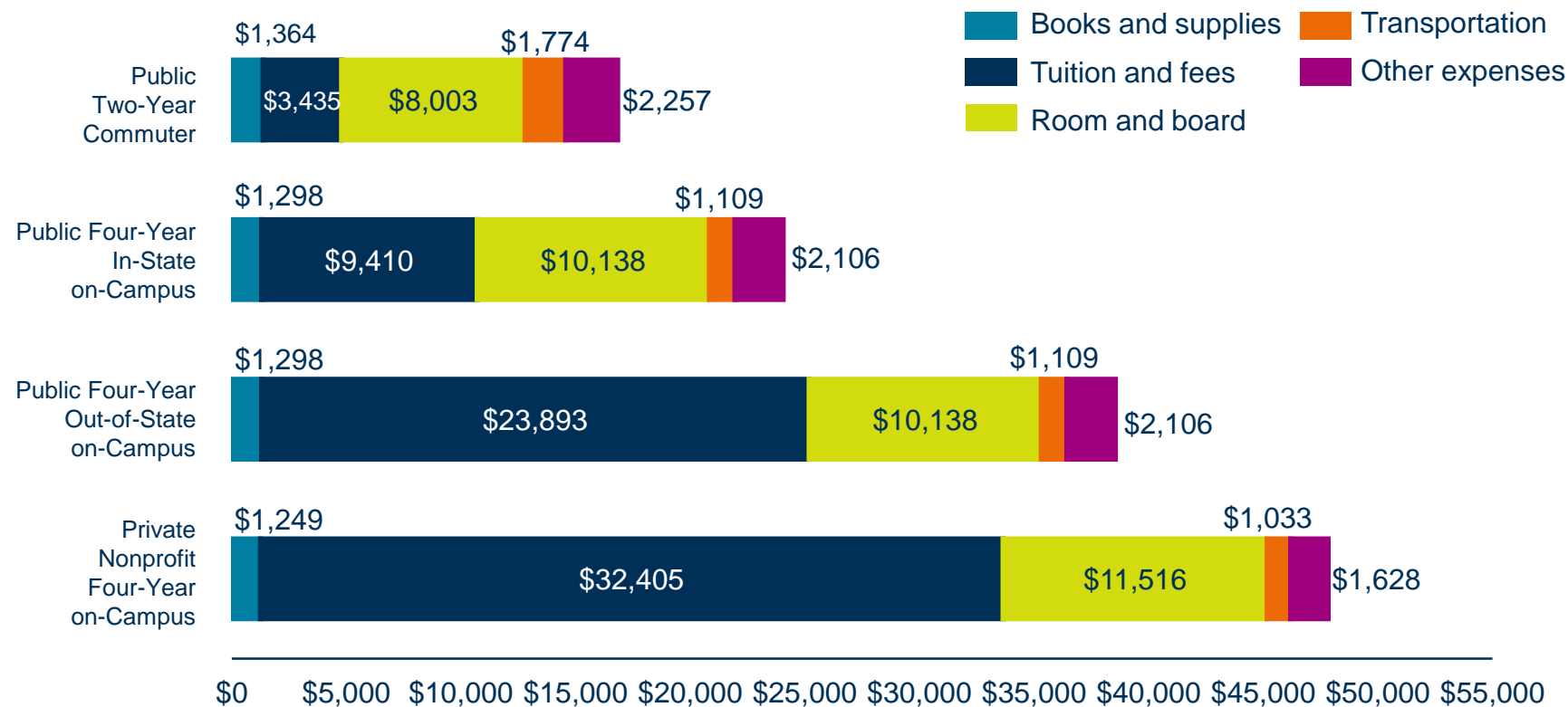
As nonprofits have embraced this adult segment and increased their use of technology, the education-as-a-service market has developed



Source: Parthenon-EY analysis

Expanded market opportunity

Average estimated full-time undergraduate budgets 2015-16

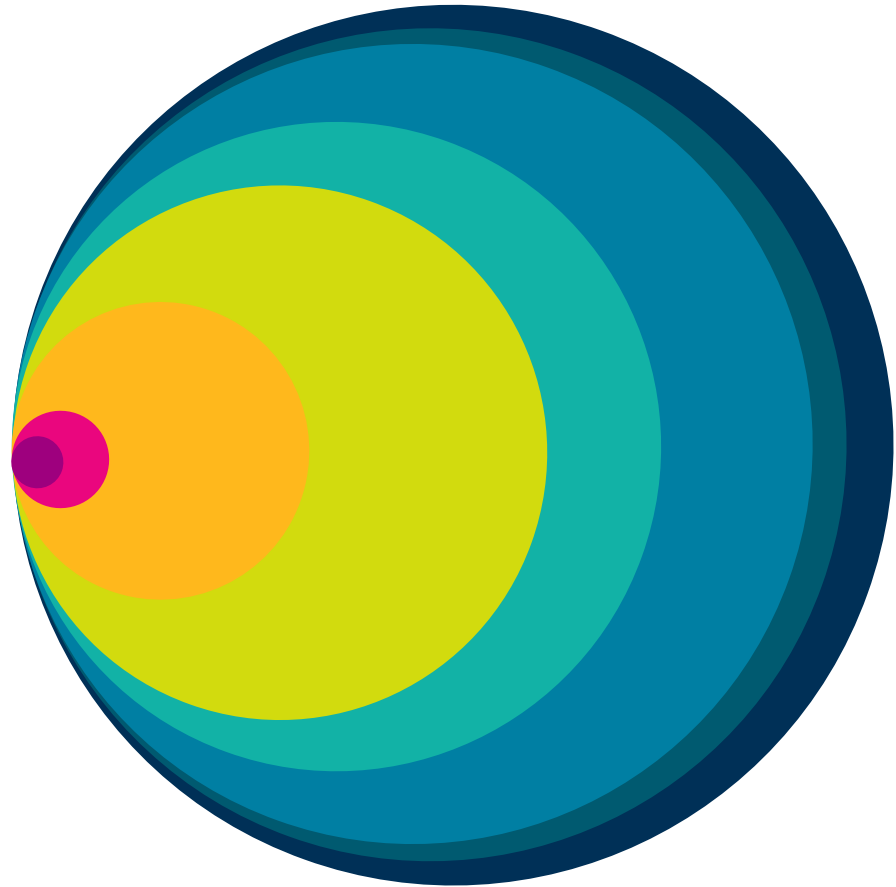


Source: The College Board, Annual Survey of Colleges

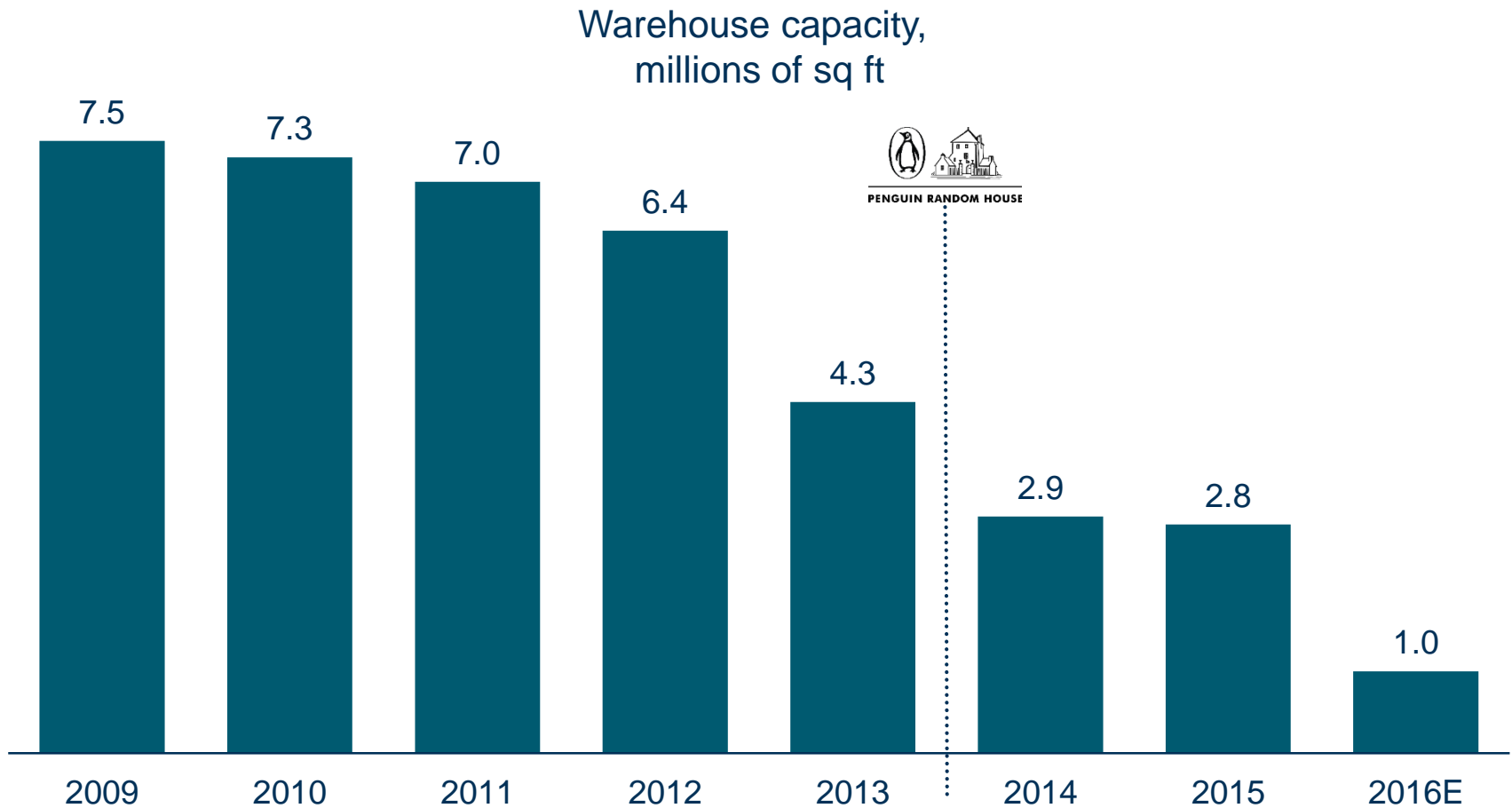
Revenue opportunity per student

- OPM Postgraduate
- EM Private University
- Virtual School
- Adult PLS
- OPM Undergraduate
- US Higher Ed Courseware
- US K12 Courseware
- US K12 High Stakes CBT

OPM = Online Programme Management
CBT = Computer Based Testing
PLS = Private Language Schools



Managing the analogue to digital transition

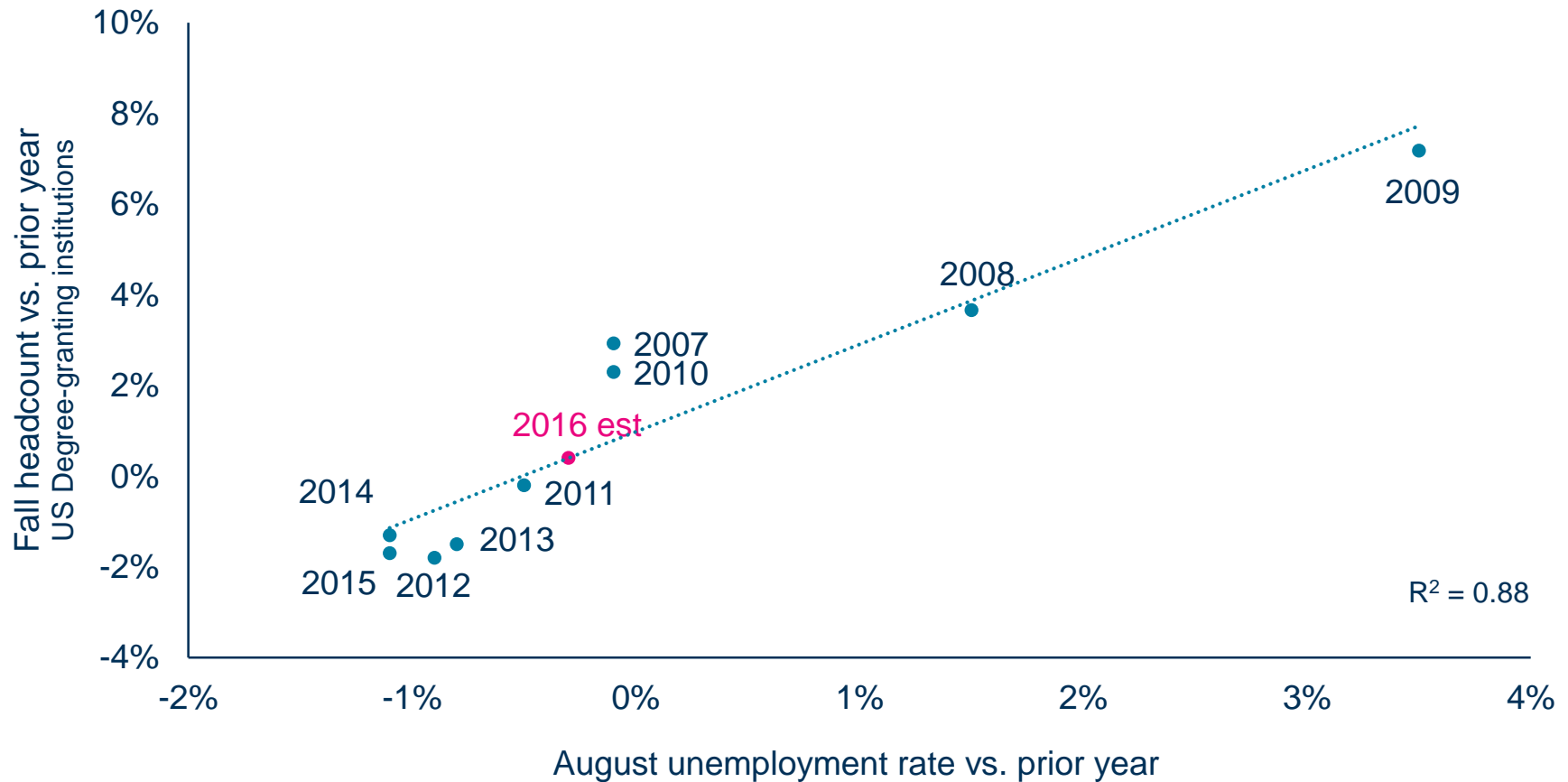


Progress on growth and simplification plan

- Single product organisation created
- Integration of North America assessment underway
- Reducing exposure to direct delivery
- Driving enabling function efficiency: technology, finance, HR
- £320m of cost in 2016, £250m of benefits

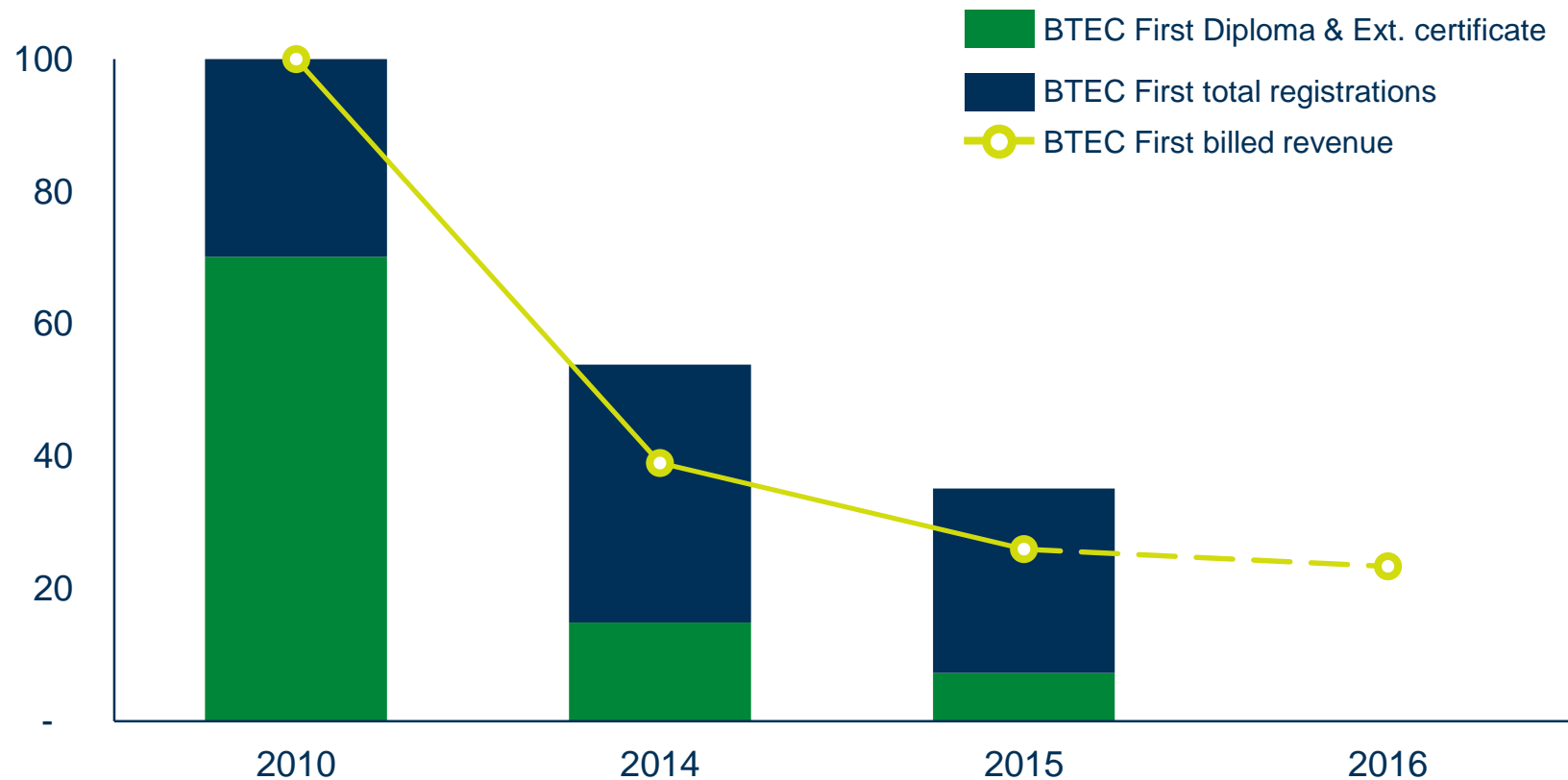
Outlook for 2016: US Higher Ed enrolments

All students



Source: US Department of Education (IPEDS); National Student Clearinghouse; US Bureau of Labour Statistics

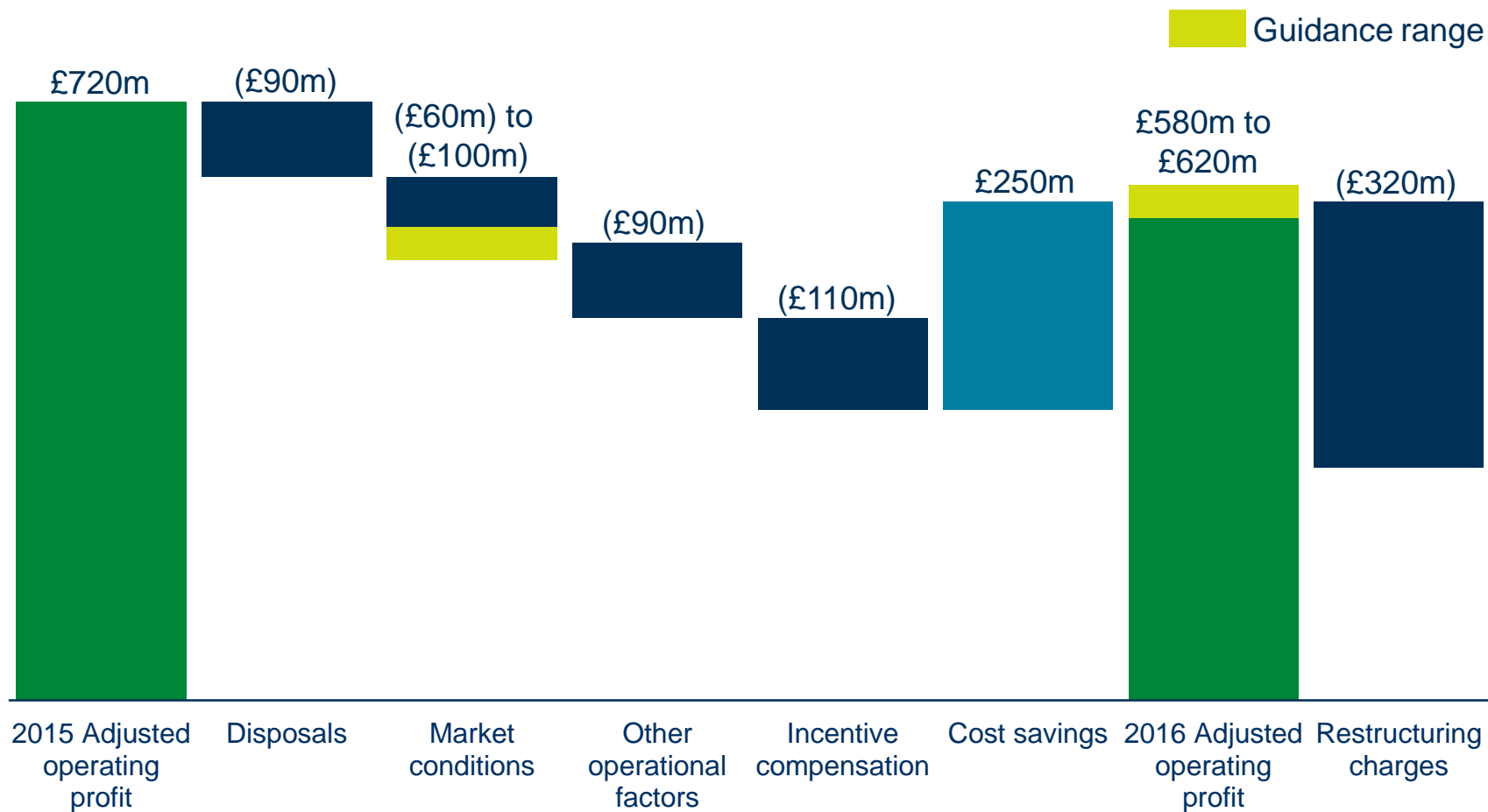
Outlook for 2016: UK qualifications



Outlook for 2016: other key assumptions

- Reduced US testing revenues following contract losses announced in 2015
- Smaller adoption opportunity in US K-12
- Continued pressure in South Africa on government spending on textbooks and low enrolments in CTI
- Macroeconomic pressure in China and Brazil – modest growth driven by product launches
- Good growth in online program management in Higher Education and Virtual Schools
- Cost pressures driven by incentive compensation, technology dual running costs, inflation and increased pre-pub amortisation
- Significant restructuring benefits – minimal disruption to sales seasons

Outlook for 2016



Capital allocation

Organic investment <ul style="list-style-type: none">• Sustain c. £700m organic investment p.a.• Investments aligned to strategy	M&A <ul style="list-style-type: none">• Limited activity short term• Focus on established presence in: virtual/blended/franchised school, higher education OPM & English
<ul style="list-style-type: none">• Benchmark against other returns of capital• Focus on ROIC before and after disposal profits	
Dividend <ul style="list-style-type: none">• Sustain at 2015 levels• Dividend cover (organic growth, currency, portfolio changes etc.) and balance sheet strength are key• Not limiting organic investment	Credit rating <ul style="list-style-type: none">• Maintain policy to strive to maintain a rating of Baa1/BBB+ over the long term• Source of Internal financial discipline

How we'll measure our progress

Financial

- Delivering our guidance for 2016
- Maintaining progress towards 2018 goals
- Overall improvement in operating profit, EPS & ROIC

Operational

- Progress on restructuring: headcount, costs, benefits
- Delivery of key change programmes

Competitive performance

- Market share performance in key businesses: NA College/K12, UK qualifications, US assessments

Purpose and impact

- Delivery of efficacy goals
- Improved brand awareness and favourability

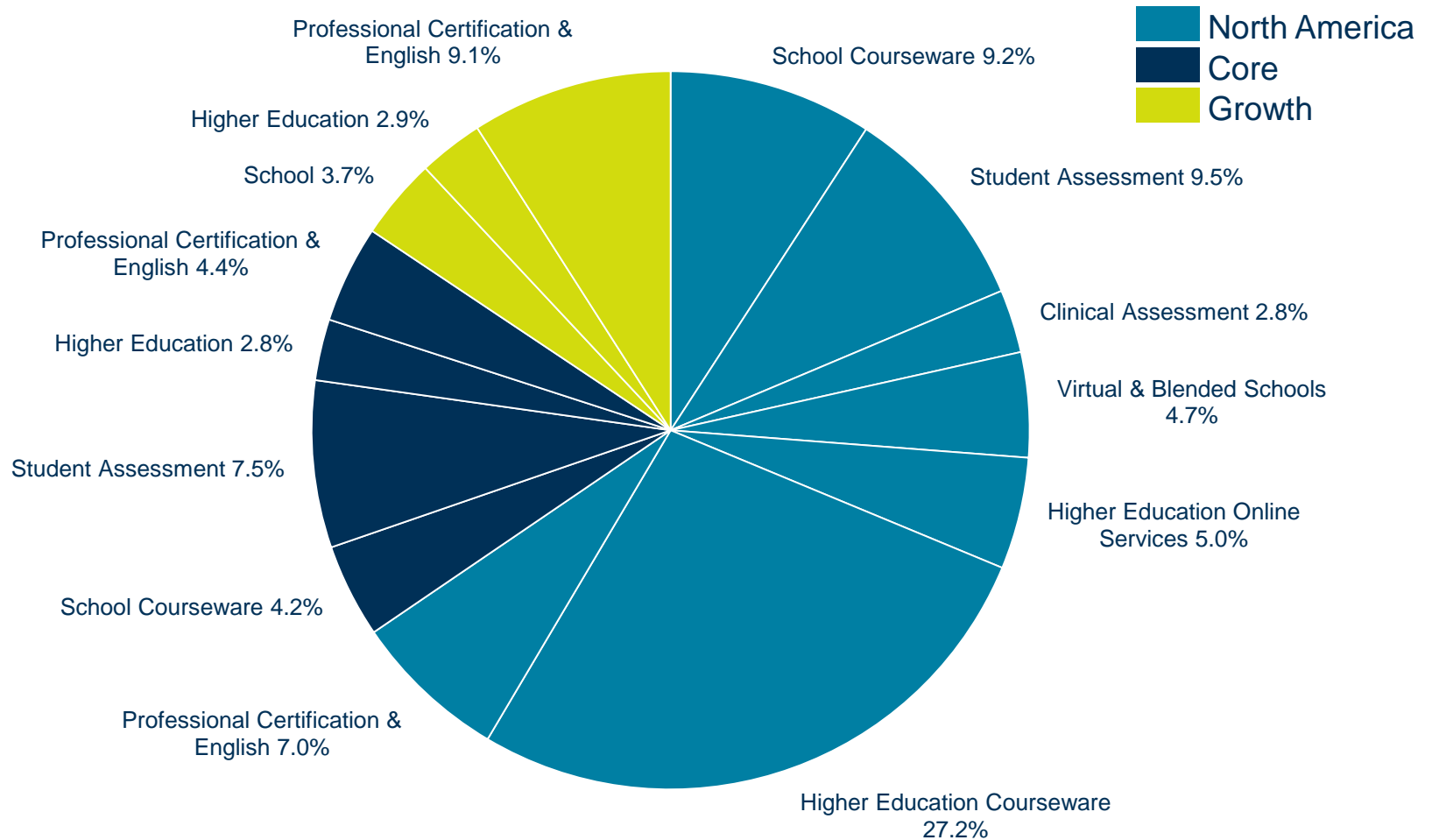
The road to 2018

- Pearson enjoys strong market positions, real competitive advantage, and a significant growth opportunity
- We are acting decisively to simplify the company and capitalise on this opportunity
- This enables more students to progress and Pearson to grow
- Adjusted operating profit to be at or above £800m in 2018



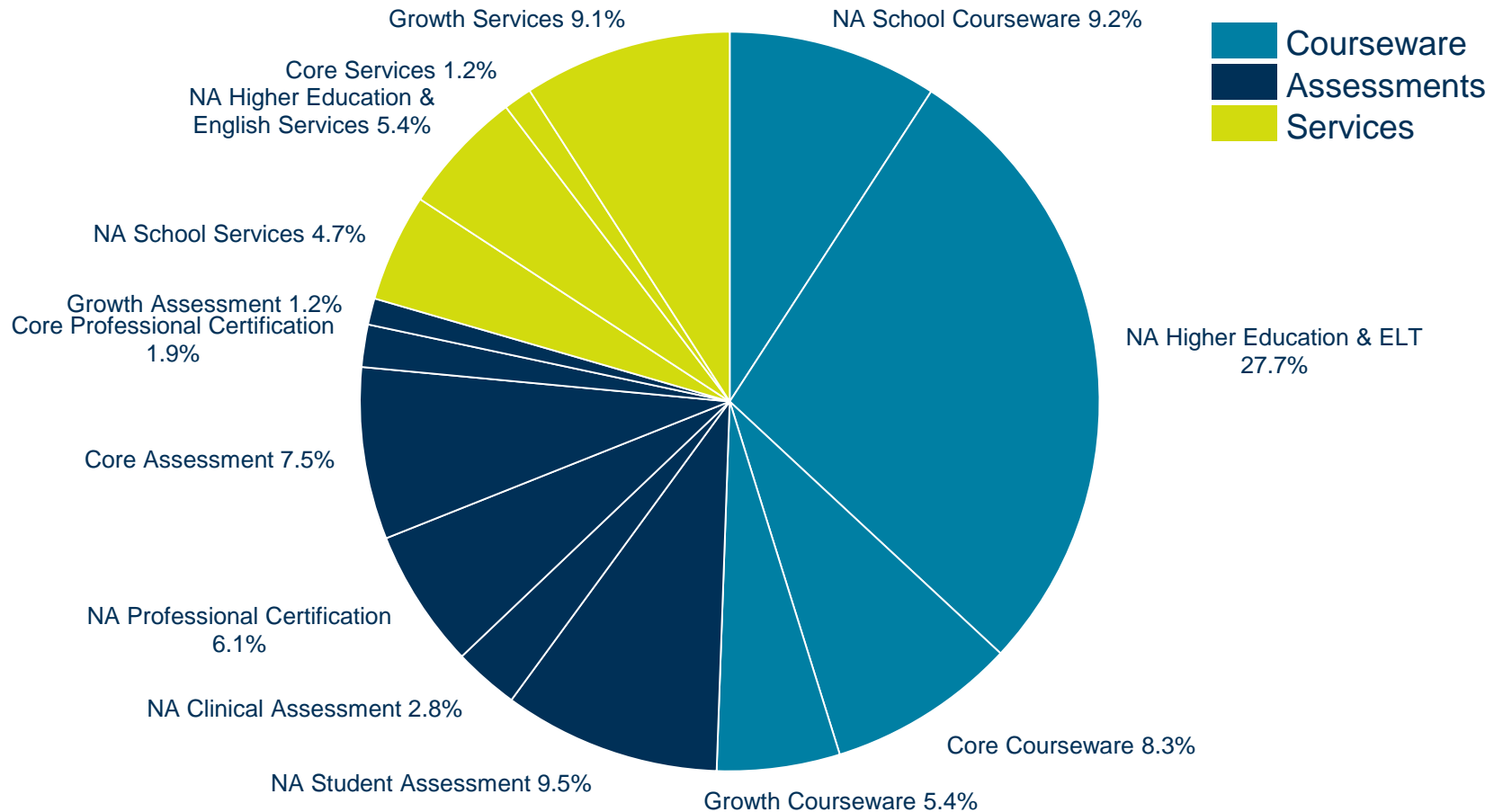
Appendices

2015 revenue split by geography*



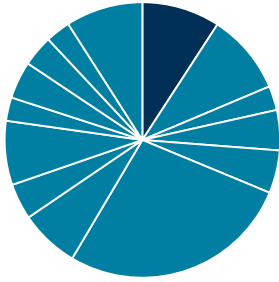
* Excluding FT Group and PowerSchool

2015 revenue split by product line*

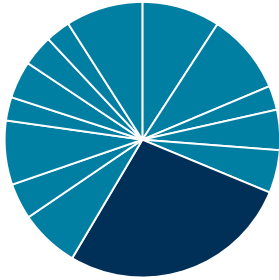


* Excluding FT Group and PowerSchool

North America
school courseware



North America
higher education
courseware



Market
opportunity



Market position

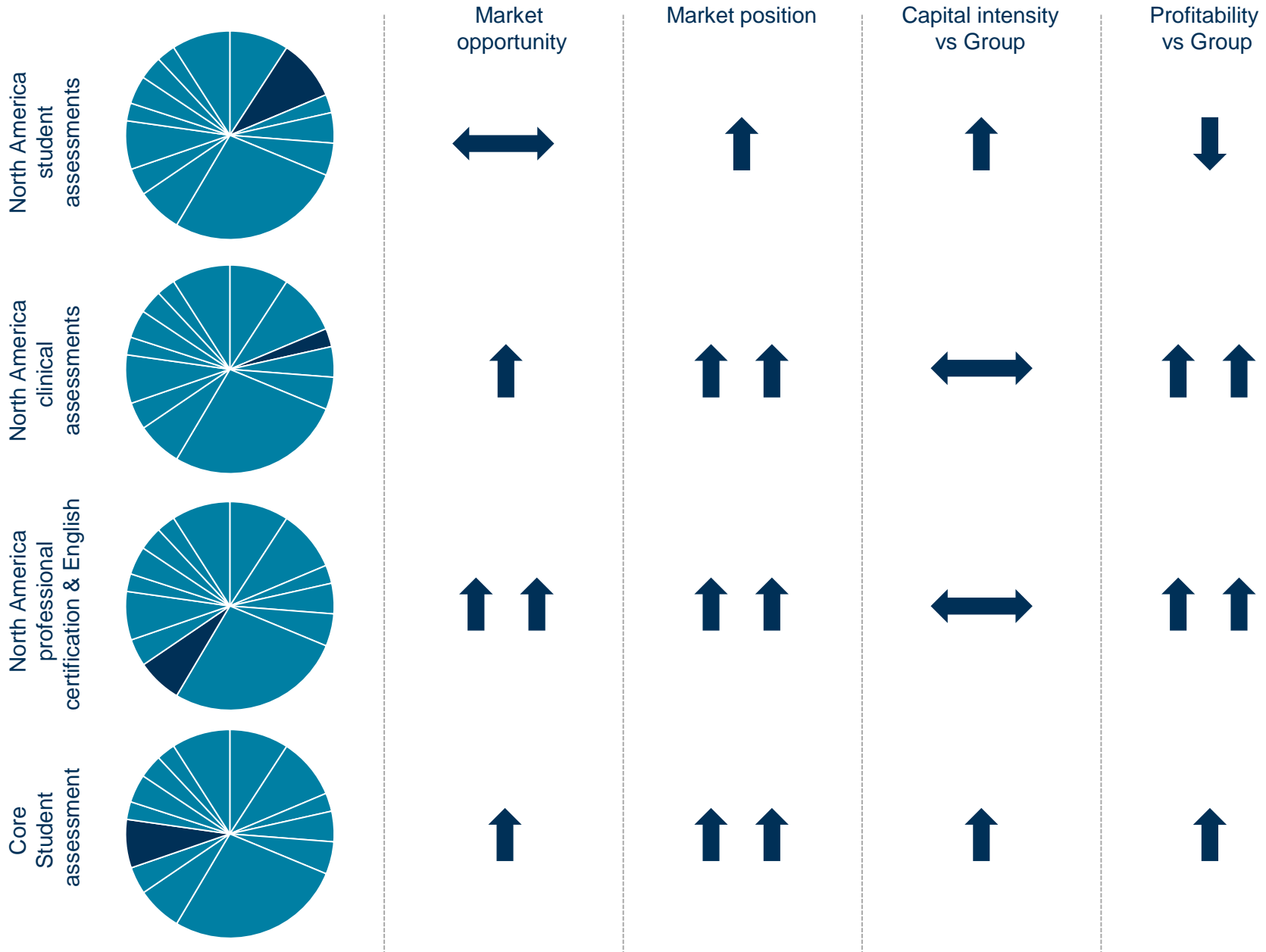


Capital intensity
vs Group

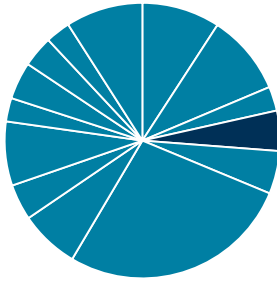


Profitability
vs Group





North America
virtual & blended
schools



Market
opportunity



Market position



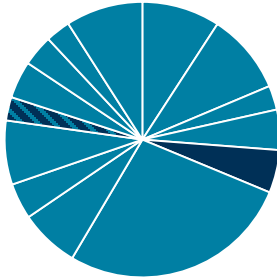
Capital intensity
vs Group
(franchise/direct
delivery)



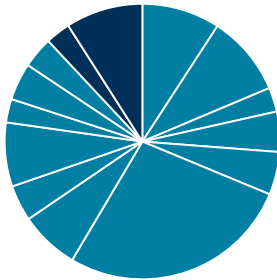
Profitability
vs Group
(franchise/direct
delivery)



North America
Higher education
online services

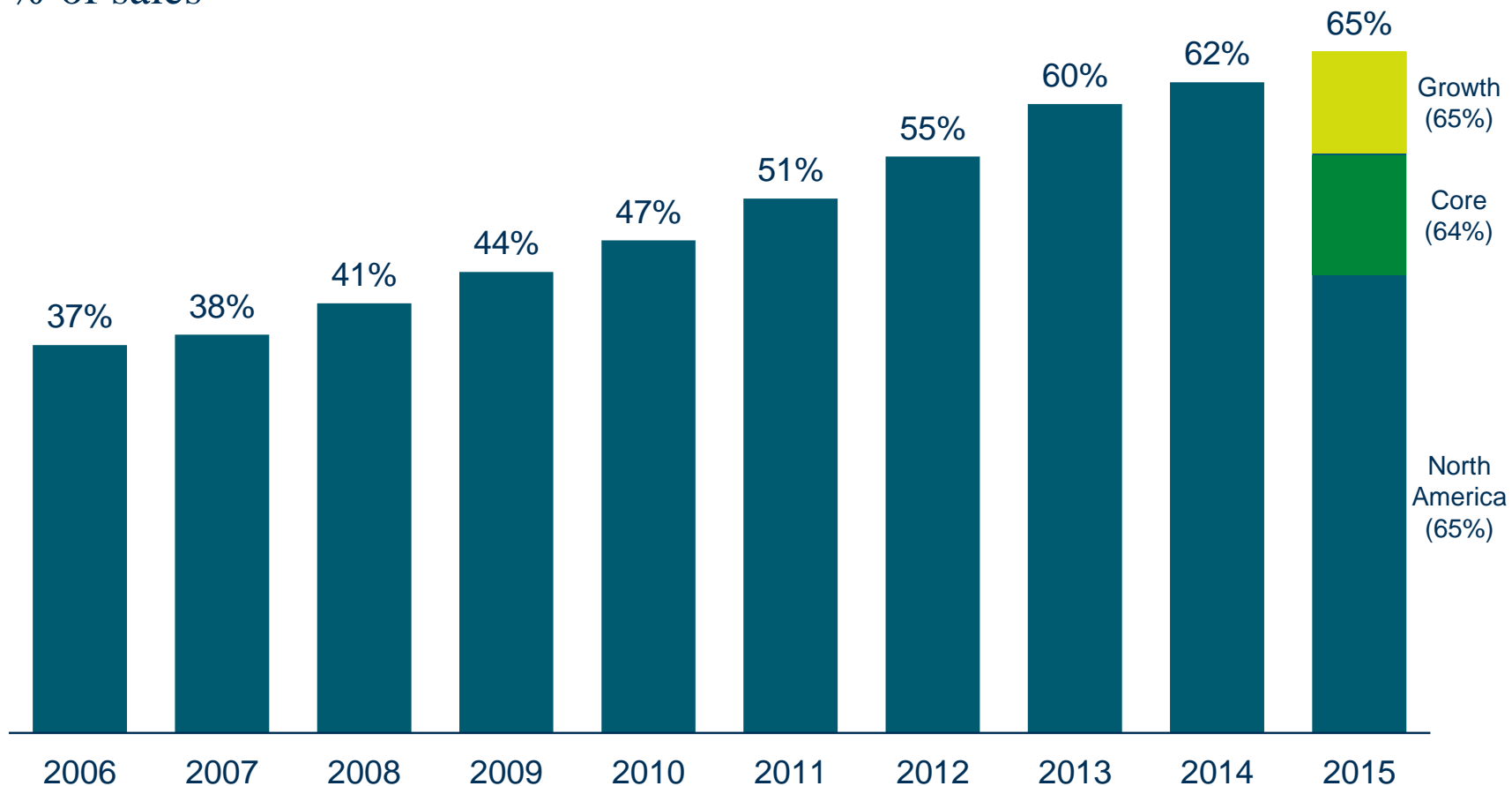


Growth
services



Pearson's digital & services revenues

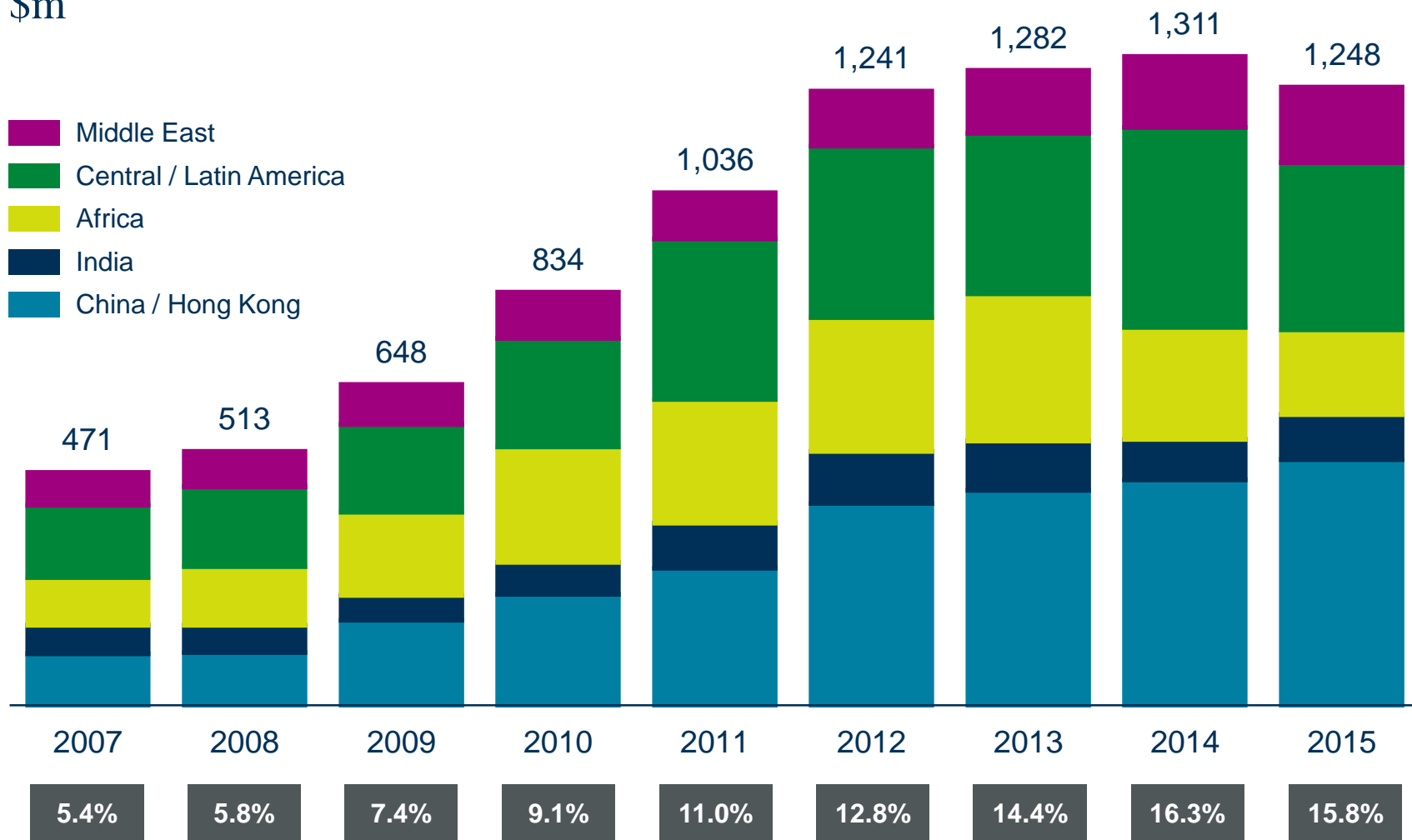
% of sales



Excludes Penguin and Mergermarket

Pearson's emerging markets revenues

\$m



% of Pearson revenues

Focus products - key performance indicators

Assessment, registration and student volume growth

	2014	2015
School		
Accuplacer	7,600,000	8,100,000
BTEC (calendar year registrations)	1,498,000	1,197,000
Connections Education (Full Time Equivalent students)	62,000	68,700
Edexcel GCSE/A level (papers marked)	5,189,000	5,467,000
Pearson sistemas (students)	481,000	449,000
Q-Interactive (sub-tests administered)	260,000	1,316,000
State and National Paper (papers marked)	31,600,000	32,700,000
State and National TestNav (tests administered)	11,200,000	26,400,000
State and National Practice TestNav (tests administered)	10,600,000	23,000,000
UK National Curriculum Test (papers marked)	3,903,000	3,989,000
Higher education		
CTI/MGI (students)	13,400	11,300
MyLab/Mastering (user registrations)	12,600,000	13,000,000
Pearson Online Services (registrations)	212,000	265,000
UTEL Mexico (students)	9,400	12,600
Professional		
Global Education (new student registrations)	91,000	85,000
Pearson English Business Solutions* (registrations)	423,000	540,000
MyEnglishLab and other ELT courseware (registrations)	651,000	739,000
Versant + PTE (tests administered)	827,000	1,058,000
Vue (tests administered)	12,800,000	14,200,000
Wall Street English (students)	190,100	187,300

* Was Global English

Debt level: credit rating agency view

£m	2015	2014
Net debt	654	1,639
Lease liabilities (NPV@ 3.33%)	1,166	1,146
Pension liabilities	40	55
Other	37	43
Total	1,897	2,883

Reconciliation: statutory to adjusted earnings 2015

£m	Statutory	Discontinued operations	Acquisition costs	Other net gains and losses	Intangible charges	Other net finance costs	Tax amortisation benefit	Adjusted earnings
Operating profit	(404)	51	-	(13)	1,089	-	-	723
Net finance costs	(29)	-	-	-	-	(17)	-	(46)
Profit before tax	(433)	51	-	(13)	1,089	(17)	-	677
Income tax	81	(9)	-	40	(257)	7	33	(105)
Profit after tax	(352)	42	-	27	832	(10)	33	572
Discontinued operations	1,175	(42)	-	(1,135)	2	-	-	-
Profit for the period	823	-	-	(1,108)	834	(10)	33	572
Minority interest	-	-	-	-	-	-	-	-
Earnings	823	-	-	(1,108)	834	(10)	33	572

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	348	55	6	(2)	315	-	-	722
Net finance costs	(93)	-	-	-	-	29	-	(64)
Profit before tax	255	55	6	(2)	315	29	-	658
Income tax	(56)	(9)	(1)	1	(72)	(5)	24	(118)
Profit after tax	199	46	5	(1)	243	24	24	540
Discontinued operations	271	(46)	-	(227)	2	-	-	-
Profit for the period	470	-	5	(228)	245	24	24	540
Minority interest	1	-	-	-	-	-	-	1
Earnings	471	-	5	(228)	245	24	24	541

Reconciliation: pre-publication costs

£m	2015	2014
Opening balance	820	717
Exchange	19	20
New spend capitalised	347	358
Acquisitions/disposals/transfers (net)	(64)	17
Amortisation	(281)	(292)
Closing balance	841	820

Total business

Reconciliation: year end net debt

£m	2015	2014
Non current assets		
Derivative financial instruments	78	90
Current assets		
Derivative financial instruments	32	24
Marketable securities	28	16
Cash and cash equivalents	1,703	530
Non current liabilities		
Borrowings	(2,048)	(1,883)
Derivative financial instruments	(136)	(73)
Current liabilities		
Borrowings	(282)	(342)
Derivative financial instruments	(29)	(1)
Net debt	(654)	(1,639)

Retirement benefit obligations

£m	2015	2014
Income statement		
Operating charge		
Defined benefit schemes	24	21
Defined contribution schemes	74	69
Post retirement medical benefit schemes	-	(11)
	98	79
Interest	(4)	(1)
Total	94	78
Balance sheet		
UK pension scheme asset	337	190
Other pension scheme liabilities	(40)	(55)
Post retirement medical benefit liability	(76)	(81)
Other pension accruals	(23)	(27)
Total	198	27

Total business

Sales – line of business

£m	2015	2014	Headline growth	CER growth	Underlying growth
School	1,880	2,027	(7)%	(10)%	(0)%
Higher Education	1,736	1,695	2%	(2)%	(6)%
Professional	852	818	4%	4%	3%
<i>Continuing operations</i>	<i>4,468</i>	<i>4,540</i>	<i>(2)%</i>	<i>(5)%</i>	<i>(2)%</i>
FT Group	312	343	n/a	n/a	n/a
Total sales	4,780	4,883	(2)%	(5)%	(2)%

Adjusted operating profit – line of business

£m	2015	2014	Headline growth	CER growth	Underlying growth
School	183	236	(22)%	(22)%	(6)%
Higher Education	354	309	15%	6%	(4)%
Professional	45	53	(15)%	(8)%	(9)%
Penguin Random House	90	69	30%	30%	30%
Adjusted operating profit from continuing operations	672	667	1%	(3)%	(2)%
FT Group	51	55	n/a	n/a	n/a
Total adjusted operating profit	723	722	0%	(3)%	(2)%

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