

# 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 costs 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](http://www.pearson.com/investors)).

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Pearson

# 2016 Half Year Results Presentation

Friday 29 July 2016



# H1 headlines

- Growth & simplification process in-line with our plans
- Markets, competitive performance and trading in-line with our plans
- Trading in Q3 and Q4 will, as usual, determine the outcome for the year
- Reiterating guidance

# First half summary

£m	H1 2016	H1 2015	Headline growth	CER growth
Continuing sales	<b>1,866</b>	1,997	(7)%	(11)%
Adjusted operating profit from continuing operations	<b>15</b>	54	(72)%	(81)%
Adjusted EPS	<b>(1.3)p</b>	4.4p	<i>n/a</i>	
Operating cash flow	<b>(210)</b>	(333)	37%	
Net debt	<b>(1,426)</b>	(2,289)	38%	
Dividend	<b>18p</b>	18p	--	

# What we learned in H1 2016

- Competing well in courseware and assessment
- Benefits of digital investment and innovation coming through
- Growing strongly in new partnership and service models
- Simplification and growth plan on track



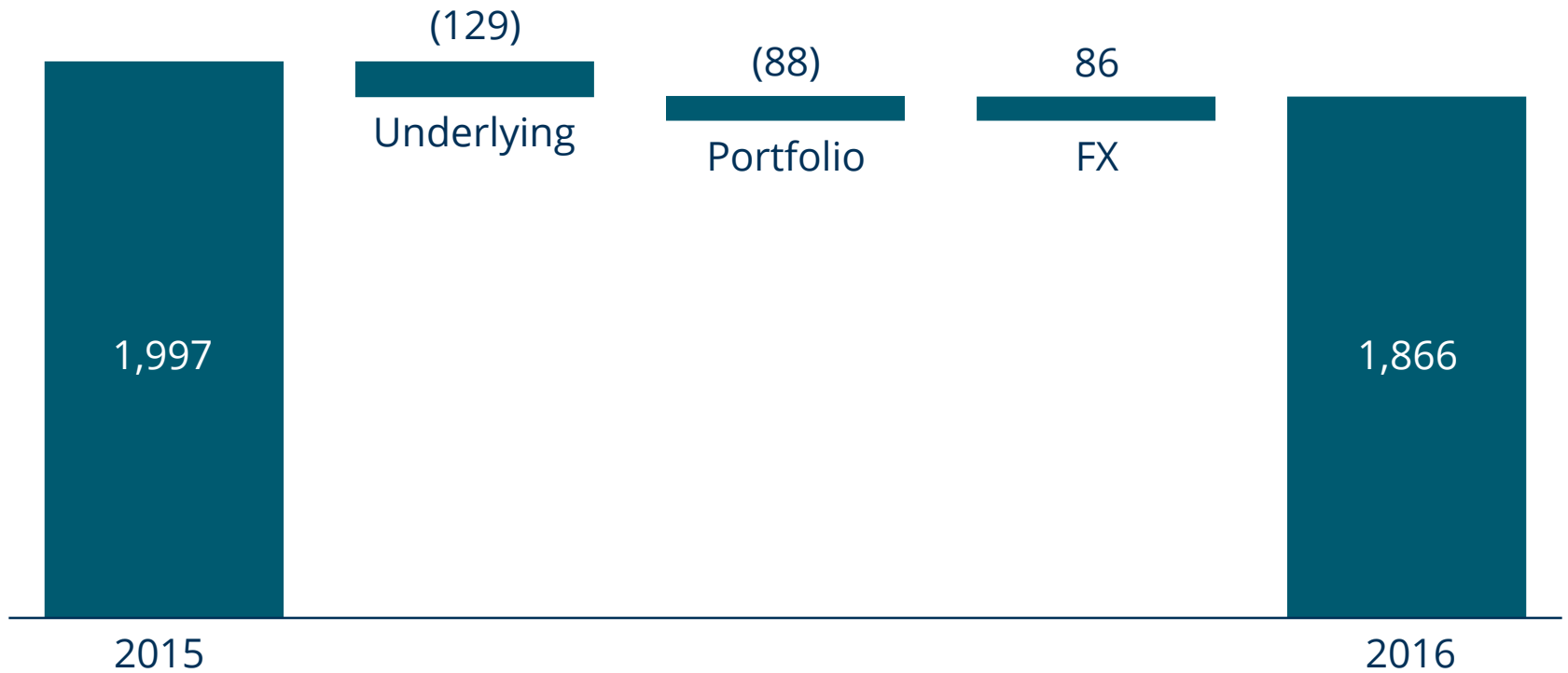
# **Financial review**

# Outlook for 2016: key assumptions

- Stabilisation in US higher education Fall enrolments
- Moderation in rate of decline in BTEC enrolments
- 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

# Sales movements

(£m)

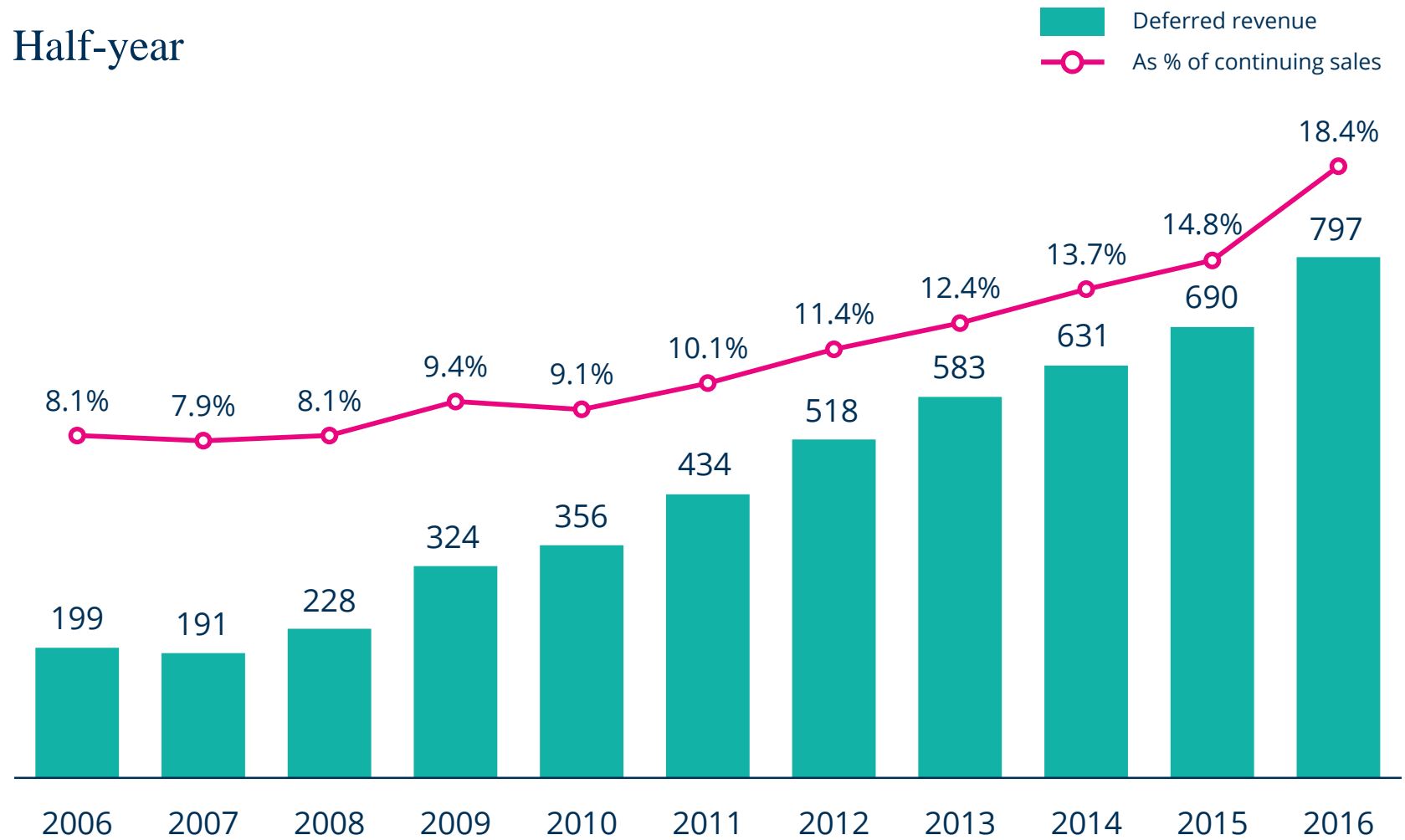


Continuing operations



# Deferred revenue, £m

Half-year



Continuing operations

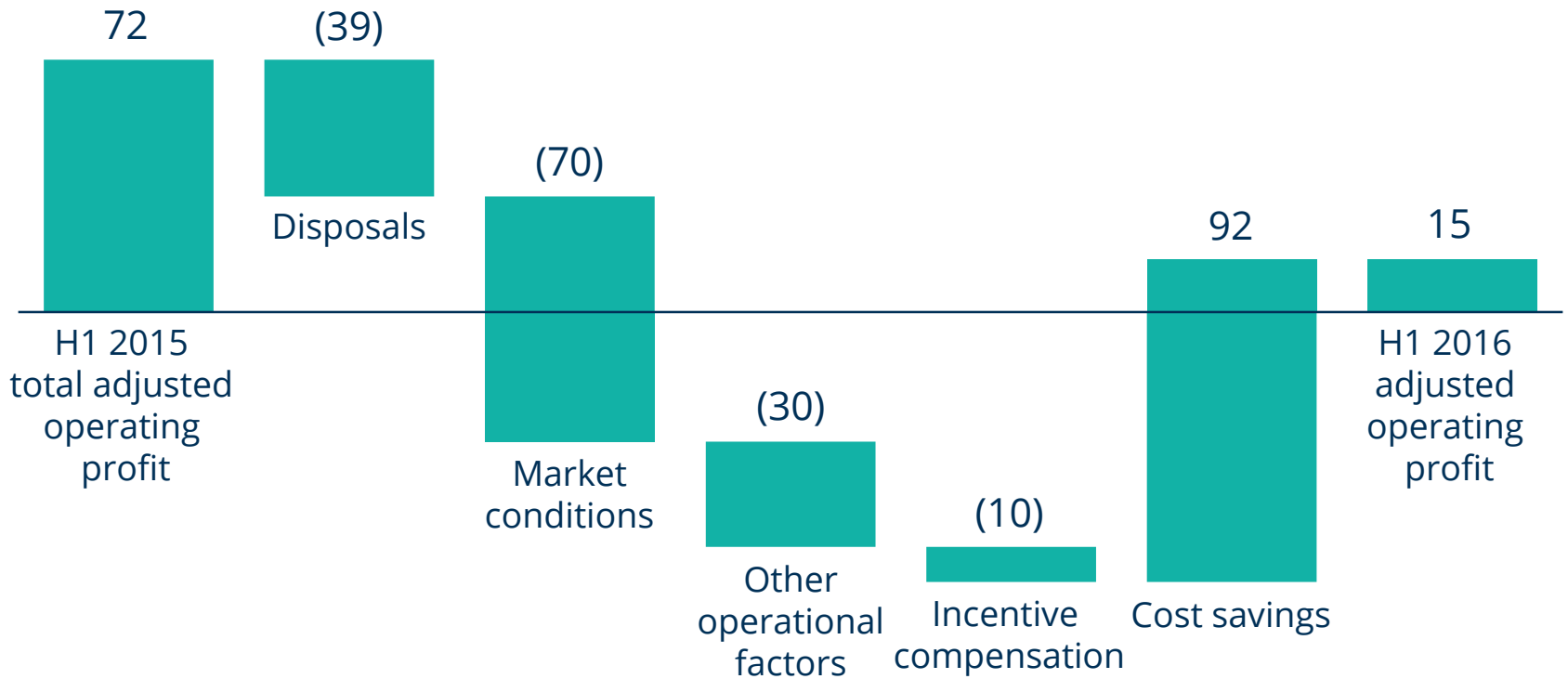
# Sales

£m	<b>2016</b>	2015	<i>CER growth</i>	<i>Underlying growth</i>
North America	<b>1,164</b>	1,263	(15)%	(9)%
Core	<b>370</b>	391	(8)%	(6)%
Growth	<b>332</b>	343	0%	0%
Total sales	<b>1,866</b>	1,997	(11)%	(7)%

Continuing operations

# Profit movements

(£m)



Total business

# Operating profit

£m	H1 2016	H1 2015	CER growth	Underlying growth
North America	2	19	n/a	n/a
Core	(7)	33	n/a	n/a
Growth	(12)	(22)	59%	59%
PRH	32	24	25%	25%
Total continuing	15	54	(81)%	(80)%
FT Group	--	18		
Total	15	72		

Continuing operations

# Adjusted EPS

£m	H1 2016	H1 2015	Headline growth
Operating profit (including FT group)	<b>15</b>	72	(79%)
Interest	<b>(27)</b>	(29)	7%
Taxation	<b>2</b>	(7)	n/a
Tax rate	<b>19%</b>	17%	
Profit after tax	<b>(10)</b>	36	n/a
Minorities	<b>(1)</b>	-	n/a
Adjusted earnings	<b>(11)</b>	36	n/a
Shares in issue	<b>815.0</b>	813.2	
Adjusted EPS	<b>(1.3)p</b>	4.4p	n/a

Total business

# Operating and free cash flow

£m	H1 2016	H1 2015	var
Operating profit	15	72	(57)
Working capital (excl. restructuring)	(169)	(368)	199
- of which pre-publication expenditure	(36)	(43)	7
- of which other working capital	(133)	(325)	192
Net capital expenditure	(113)	(97)	(16)
Depreciation	67	74	(7)
Share of operating results of associates	(40)	(32)	(8)
Dividends from associates and JVs	24	39	(15)
Exchange	2	(6)	8
Other movements	4	(15)	19
Operating cash flow	(210)	(333)	123
Tax paid	(53)	(74)	21
Finance charges	(18)	(17)	(1)
Restructuring expenditure	(55)	--	(55)
Special pension contribution net of tax	(72)	--	(72)
Free cash flow	(408)	(424)	16

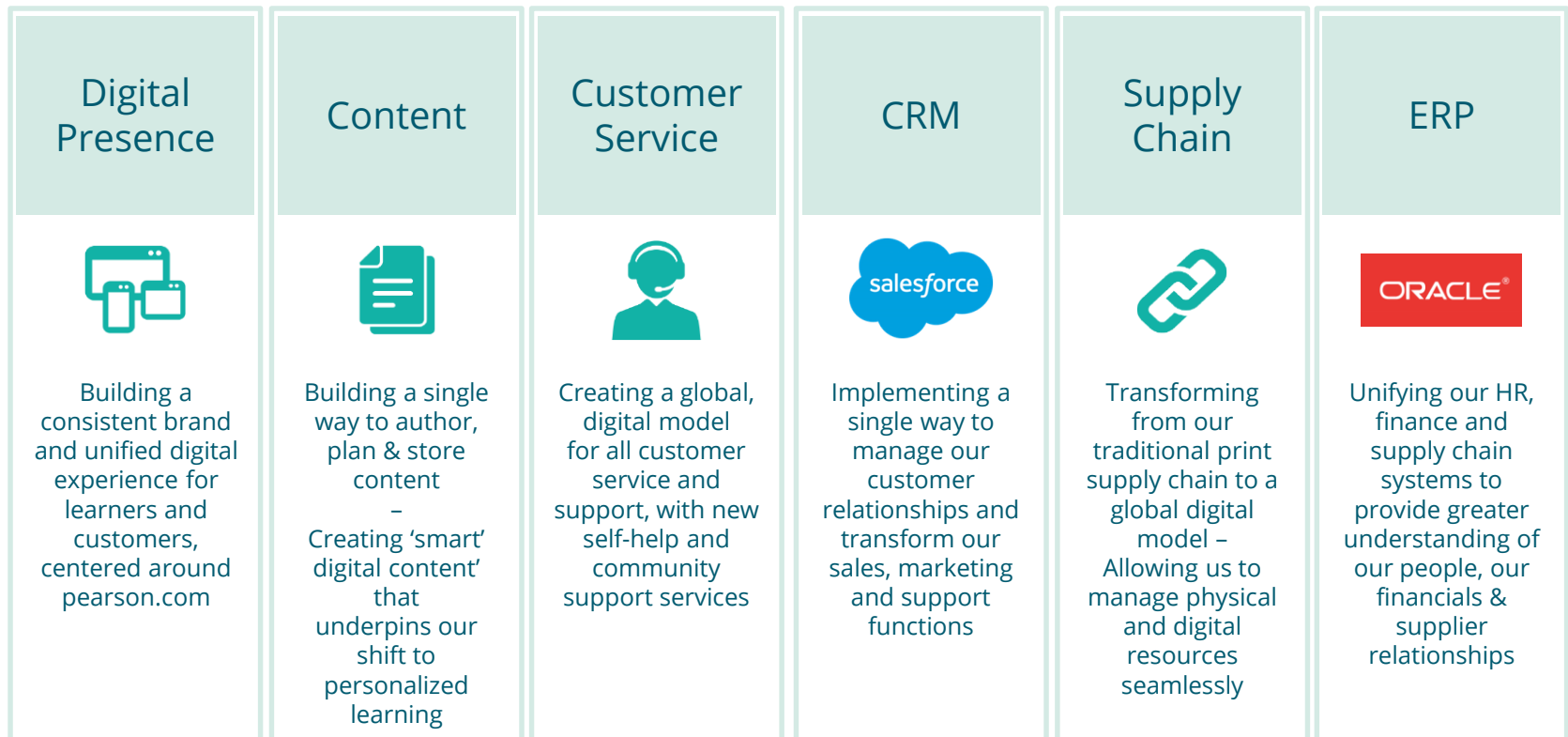
Total business

# Balance sheet

£m	H1 2016	H1 2015
Goodwill & intangible assets	<b>5,616</b>	6,059
Tangible fixed assets	<b>339</b>	319
Investment in Joint Ventures and Associates	<b>1,192</b>	1,068
Operating working capital	<b>890</b>	805
Other net liabilities	<b>(84)</b>	(87)
Net assets	<b>7,953</b>	8,164
Shareholders' funds	<b>6,457</b>	5,398
Pensions	<b>(302)</b>	(23)
Other provisions	<b>103</b>	125
Non-controlling interest	<b>3</b>	6
Deferred tax	<b>266</b>	369
Net debt	<b>1,426</b>	2,289
Capital employed	<b>7,953</b>	8,164

Total business

# Growth and simplification





# Retirement benefit obligations

£m	H1 2016	H1 2015
<b>Balance sheet</b>		
UK pension scheme asset	<b>446</b>	160
Other pension scheme liabilities	<b>(46)</b>	(42)
Post retirement medical benefit liability	<b>(80)</b>	(74)
Other pension accruals	<b>(18)</b>	(21)
<b>Total</b>	<b>302</b>	23

Total business

# Currency

- Depreciation of sterling against other currencies boosts our reported earnings
- Possible negative impact on our UK business from Brexit
- If current exchange rates continue to end of year would add about 4p to our 50p to 55p range

# 2016 guidance

## Guidance unchanged

- H1 2016 affected by phasing in assessment and higher education; impact of disposals; dual IT running costs and incentive compensation accruals
- Overall trading in line with the expectations set out in January/February
- H2 benefits from simplification programme savings
- Guidance unchanged: adjusted earnings per share of 50p to 55p



# **2016 half year results**

Friday 29<sup>th</sup> July 2016

# 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 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**



# Appendices

# Reconciliation: statutory to adjusted earnings

Half-year 2016

£m	Statutory	Re-analyse discontinued operations	Restructuring	Other net gains & losses	Acquisition costs	Intangible charges	Other net finance costs	Tax amortisation benefit	Adjusted earnings
<b>Operating profit</b>	<b>(286)</b>	<b>0</b>	<b>171</b>	<b>18</b>	<b>0</b>	<b>112</b>	<b>0</b>	<b>0</b>	<b>15</b>
Net finance costs	(20)	0	0	0	0	0	(7)	0	(27)
<b>Loss before tax</b>	<b>(306)</b>	<b>0</b>	<b>171</b>	<b>18</b>	<b>0</b>	<b>112</b>	<b>(7)</b>	<b>0</b>	<b>(12)</b>
Income tax	86	0	(54)	0	0	(32)	1	1	2
<b>Loss for the period – continuing</b>	<b>(220)</b>	<b>0</b>	<b>117</b>	<b>18</b>	<b>0</b>	<b>80</b>	<b>(6)</b>	<b>1</b>	<b>(10)</b>
Profit for the period – discontinued	0	0	0	0	0	0	0	0	0
<b>Loss for the year</b>	<b>(220)</b>	<b>0</b>	<b>117</b>	<b>18</b>	<b>0</b>	<b>80</b>	<b>(6)</b>	<b>1</b>	<b>(10)</b>
Non-controlling interest	(1)	0	0	0	0	0	0	0	(1)
<b>Loss</b>	<b>(221)</b>	<b>0</b>	<b>117</b>	<b>18</b>	<b>0</b>	<b>80</b>	<b>(6)</b>	<b>1</b>	<b>(11)</b>



# Reconciliation: statutory to adjusted earnings

Half-year 2015

£m	Statutory	Re-analyse discontinued operations	Other net gains & losses	Acquisition costs	Intangible charges	Other net finance costs	Tax amortisation benefit	Adjusted earnings
<b>Operating profit</b>	<b>(129)</b>	<b>18</b>	<b>70</b>	<b>0</b>	<b>113</b>	<b>0</b>	<b>0</b>	<b>72</b>
Net finance costs	(3)	0	0	0	0	(26)	0	(29)
<b>Profit before tax</b>	<b>(132)</b>	<b>18</b>	<b>70</b>	<b>0</b>	<b>113</b>	<b>(26)</b>	<b>0</b>	<b>43</b>
Income tax	40	(4)	(23)	0	(30)	5	5	(7)
<b>Profit for the period - continuing</b>	<b>(92)</b>	<b>14</b>	<b>47</b>	<b>0</b>	<b>83</b>	<b>(21)</b>	<b>5</b>	<b>36</b>
Profit for the period - discontinued	13	(14)	0	0	1	0	0	0
<b>Profit for the year</b>	<b>(79)</b>	<b>0</b>	<b>47</b>	<b>0</b>	<b>84</b>	<b>(21)</b>	<b>5</b>	<b>36</b>
Non-controlling interest	0	0	0	0	0	0	0	0
<b>Earnings</b>	<b>(79)</b>	<b>0</b>	<b>47</b>	<b>0</b>	<b>84</b>	<b>(21)</b>	<b>5</b>	<b>36</b>

# Reconciliation: pre-publication costs

£m	H1 2016	H1 2015
Opening balance	<b>841</b>	820
Exchange	<b>76</b>	(10)
New spend capitalised	<b>164</b>	159
Disposals	-	(53)
Amortisation	<b>(136)</b>	(113)
Closing balance	<b>945</b>	803

Total business

# Reconciliation: half-year net debt

£m	2016	2015
Non current assets		
Derivative financial instruments	200	68
Current assets		
Derivative financial instruments	-	52
Marketable securities	31	26
Cash & cash equivalents	980	361
Non current liabilities		
Borrowings	(2,324)	(1,923)
Derivative financial instruments	(190)	(122)
Current liabilities		
Borrowings	(115)	(733)
Derivative financial instruments	(8)	(18)
Total net debt	<b>(1,426)</b>	<b>(2,289)</b>

# **There's so much more to learn**

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**[pearson.com](https://www.pearson.com)**

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