

# 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)).

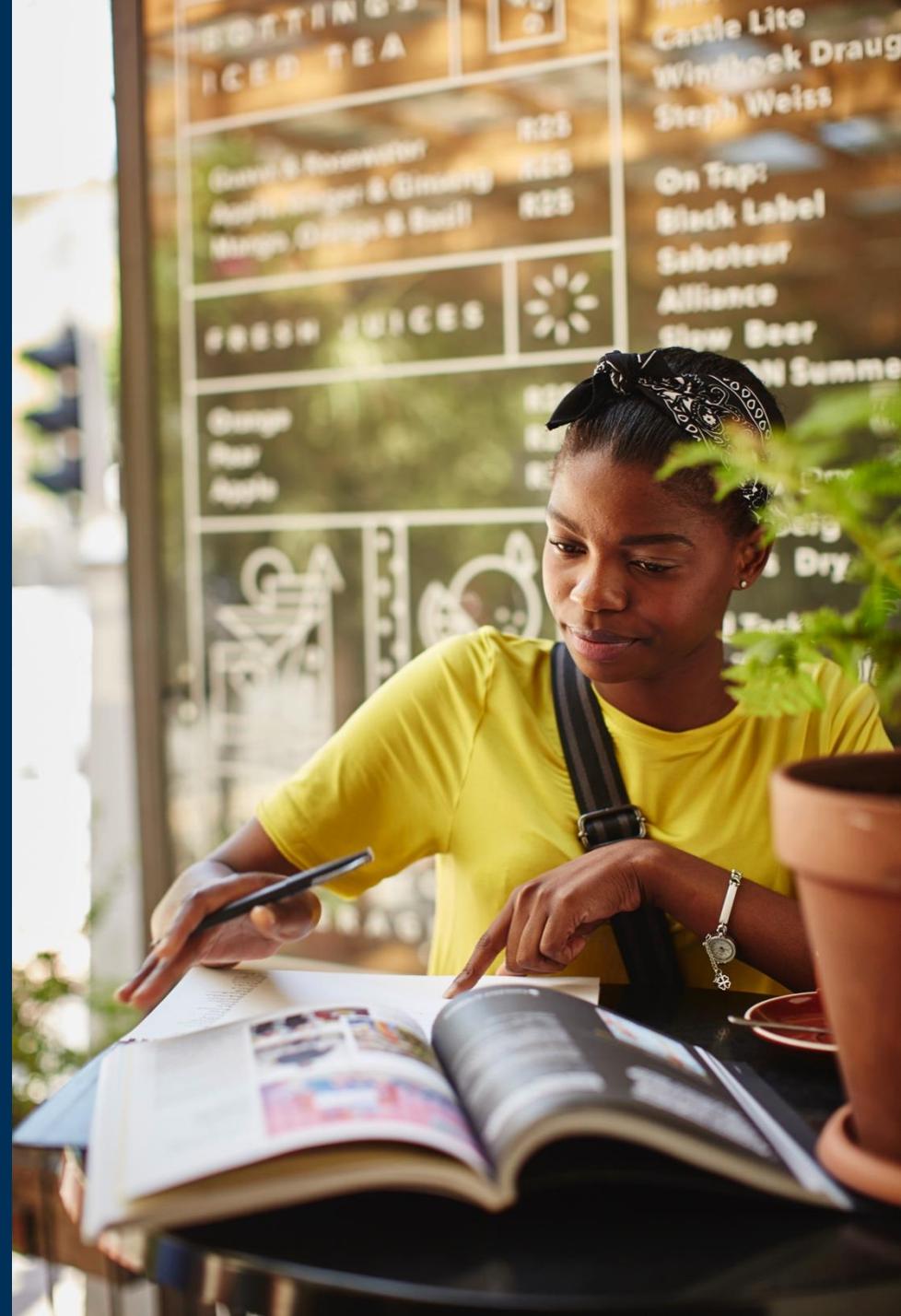
Any forward-looking statements speak only as of the date they are made, and Pearson gives no undertaking to update forward-looking statements to reflect any changes in its expectations with regard thereto or any changes to events, conditions or circumstances on which any such statement is based. Readers are cautioned not to place undue reliance on such forward-looking statements.



Pearson

# Penguin Random House Announcement

11<sup>th</sup> July 2017



# Headlines

- Selling a 22% stake in PRH to Bertelsmann and recapitalising the business generating proceeds of approximately \$1bn
- Planned £300m share buyback to return excess capital
- Dividend policy: a sustainable and progressive dividend comfortably covered by the earnings excluding any contribution from PRH.

Penguin  
Random  
House



Penguin  
Random House  
UK

Penguin  
Random House  
Grupo Editorial

# Penguin Random House Venture Timeline

October 2012	Pearson and Bertelsmann announce agreement to create PRH. Pearson to have 47% ownership.
July 2013	PRH Venture created
2013 - 2016	PRH enjoys significant creative and commercial success
2013 - 2016	Pearson receives approximately £300m in post-tax cumulative dividends
2016	Peak synergies reached at c\$150m annualised cost savings
2017	Pearson to sell 22% stake to Bertelsmann and recapitalise PRH extracting \$1bn of capital and retaining a 25% stake in the business in a tax-efficient transaction

# Announced transaction

- Agreed to sell a 22% stake in Penguin Random House to Bertelsmann and recapitalise the business generating proceeds of approximately \$1bn
- The transaction values the joint venture at an enterprise value of \$3.55bn, an EV multiple of 1.05x historic sales and c.7x historic EBITDA
- Pearson's ownership of PRH will fall to 25%
- The transaction is expected to close, subject to regulatory approval in September 2017
- PRH will also undertake a recapitalisation to 2.0x net debt / EBITDA and subsequently make dividend payments to both shareholders

# Use of Proceeds

- Committed to maintaining a healthy balance sheet, investing in our digital transformation and cost efficiency programme and returning excess cash to shareholders
- Intend to return £300m to shareholders via a share buyback following the closing of the transaction. Purchased shares will be cancelled

# Financial Impact

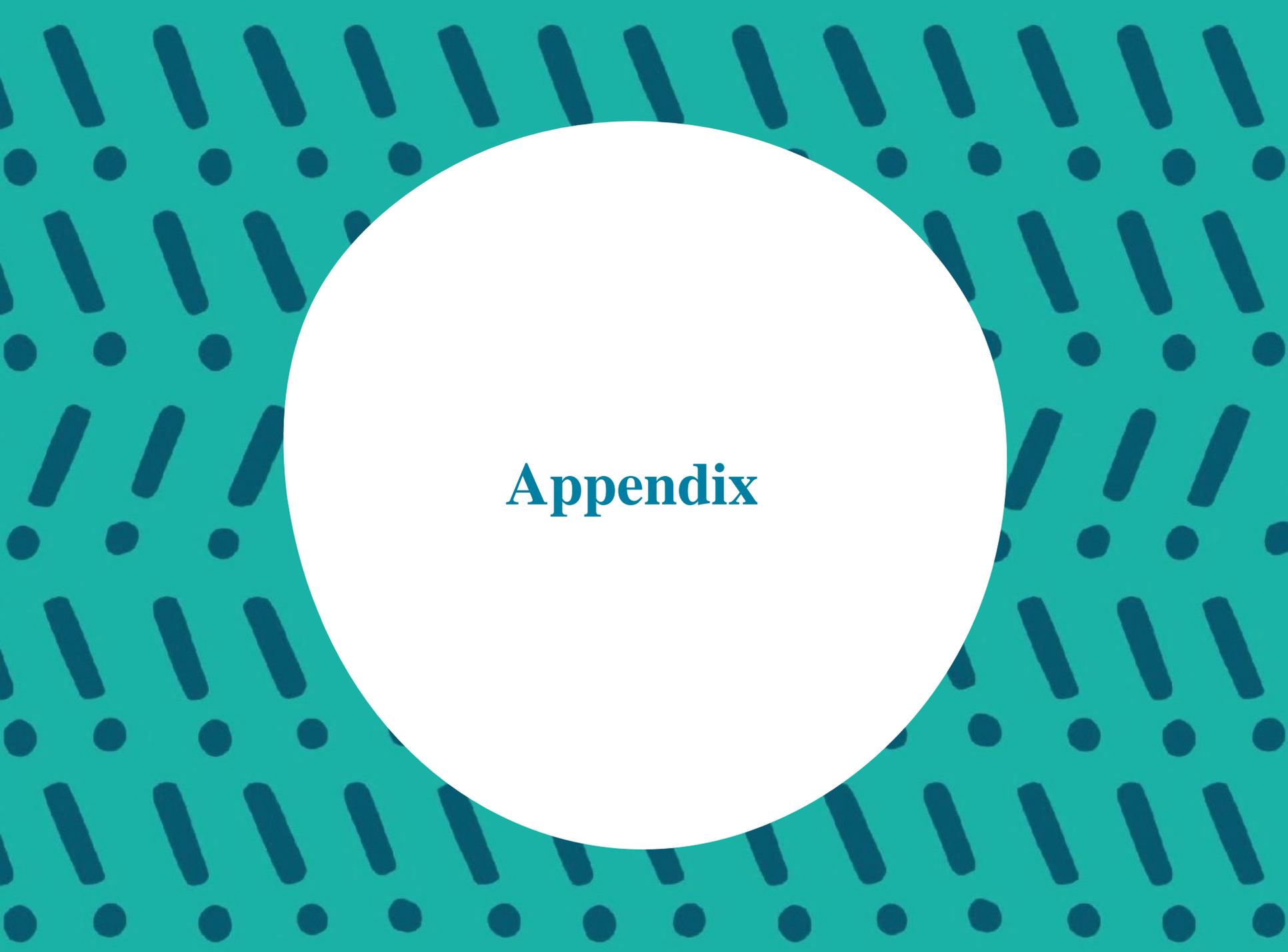
- Our 47% stake was expected to contribute around £120m of after tax adjusted profit to our full year adjusted operating profit of £570-630m
- Underlying guidance for 2017 reiterated
- We expect the transaction to dilute 2017 eps by approximately 3p, before the impact of our share buyback programme
- Pro forma full year impact of the transaction to 2017 earnings is approximately 4p after the impact of the buyback
- Year End 2017 Net Debt likely to be below £800m, before any impact from FX

# Dividend Policy

- In January 2017 we announced intention to rebase dividend policy to reflect the challenging market environment, our desire to invest in our business and sustain a healthy balance sheet
- We will declare our interim dividend at our half-year results on the 4th August 2017
- That Policy will reflect a sustainable and progressive dividend comfortably covered by the earnings of our business excluding the contribution from PRH
- Standing 2017 EPS guidance of 48.5-55.5p included an expected c15p contribution from PRH

# Summary

- A good transaction for Pearson's shareholders
- Increasing our financial flexibility with limited dilution
- Allowing the return of £300m of surplus capital to shareholders



# Appendix

# Ongoing Interest in PRH

## Pearson's ongoing 25% interest in PRH

Under the terms of the agreement

- PRH will continue to distribute dividends to both shareholders in line with the existing policy
- A recapitalisation of PRH will subsequently take place every two years from the date of closing. If net debt to EBITDA drops below 2.0x this will result in incremental dividends to both shareholders
- Pearson will be subject to an eighteen-month lock-up period from closing
- Post lock-up Bertelsmann will have a simplified Right Of First Offer over Pearson's remaining stake in PRH
- Pearson retains appointment rights over the PRH CFO and Audit chair and other minority protections. The right to appoint the Chairman passes to Bertelsmann

# Pro Forma 2017 impact

Pro forma impact on our guidance for 2017 assuming the transaction and full buyback had occurred on January 1st 2017.

Reduce Adjusted Operating Profit by £65m and forecast Adjusted EPS by approximately 4p as shown in the table below.

	January 2017 Guidance	2017 Guidance revised for transaction	Pro Forma 2017 Guidance
Adjusted Operating Profit	£570-630m	£546-606m	£505-565m
Adjusted EPS	48.5p-55.5p	45.5-52.5p	44.5p-51.5p*
Tax Rate	c20%	c21%	c22%
Net Interest charge	c£74m	c£74m	c£64m**

\* based on an pro forma repurchase of 43m shares on Jan 1<sup>st</sup> for a 2017 average share count of 772m

\*\*excludes one-off transaction costs of a pro forma debt repurchase transaction

ALWAYS LEARNING