

A photograph of two women sitting on stone steps against a marble wall. The woman on the right, wearing a black blazer and a grey top, is holding a red smartphone. The woman on the left, wearing a white and black argyle sweater, is looking at the phone. Both are smiling.

2017 Results

Friday 23 February 2018



Pearson

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/corporate/investors.html).

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.

2017 financial highlights

Revenue	Adj. operating profit	Operating cash flow
£4,513m (2)% underlying	£576m 2016: £635m	£669m 2016: £663m
Adj. earnings per share	Full year dividend	Net debt
54.1p 2016: 58.8p	17p 2016: 52p	£(432m) 2016: £(1,092)m

Highlights

- **2017 operating profit at the top end of guidance**
- **Strong balance sheet**
 - Sustained organic investment
 - Returning excess capital through £300m share buyback
- **Simplifying the portfolio**
 - US K12 courseware held for sale
- **Guiding to underlying profit growth in 2018**
- **Good strategic progress; 2018 a pivotal year**



Financial Review and Outlook

Financial summary

£m	2017	2016	Headline growth	CER growth	Underlying growth
Sales	4,513	4,552	(1)%	(4)%	(2)%
Adjusted operating profit	576	635	(9)%	(13)%	(9)%
Adjusted EPS	54.1p	58.8p	(8)%		
Deferred revenue*	839	883	(5)%	2%	5%
Operating cash flow	669	663	1%		
Net debt	(432)	(1,092)	60%		
Dividend	17p	52p	(67)%		

* Including businesses held for sale

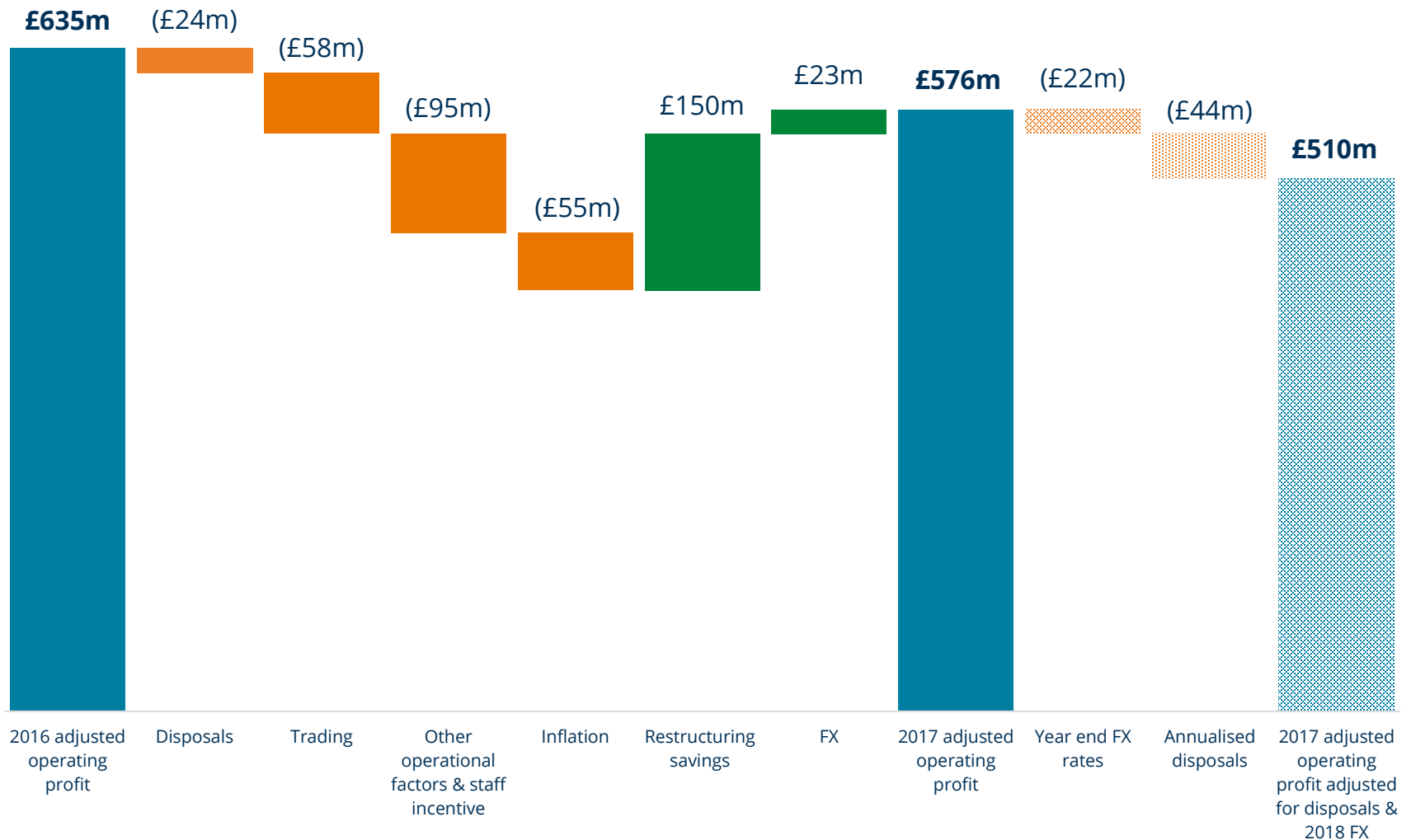
Sales

£m	2017	2016	<i>CER growth</i>	<i>Underlying growth</i>
North America	2,929	2,981	(4)%	(4)%
Core	815	803	(1)%	0%
Growth	769	768	(4)%	0%
Total sales	4,513	4,552	(4)%	(2)%

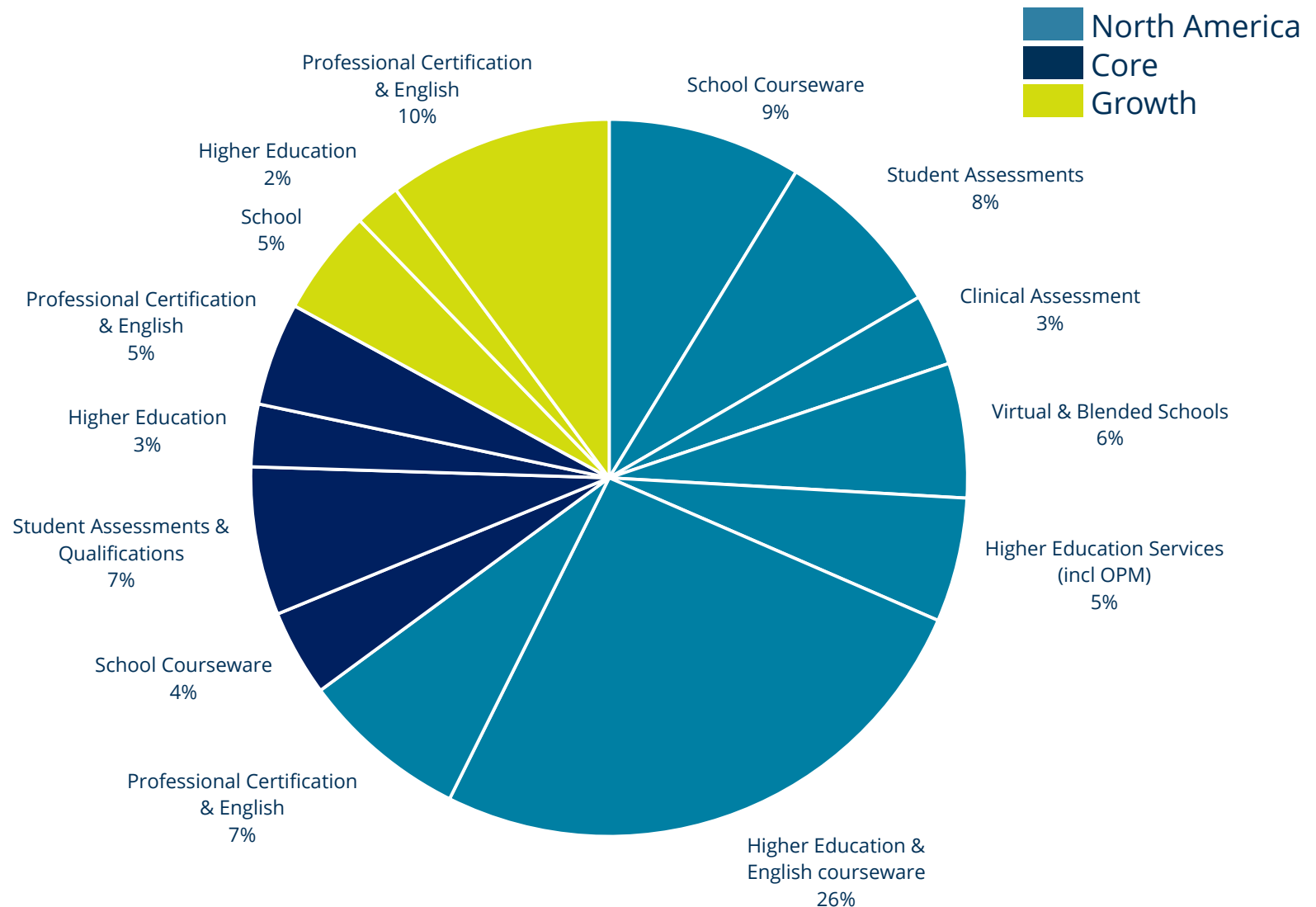
Operating profit

£m	2017	2016	<i>CER growth</i>	<i>Underlying growth</i>
North America	394	420	(10)%	(10)%
Core	50	57	(14)%	(14)%
Growth	38	29	17%	3%
Penguin / PRH	94	129	(29)%	(8)%
Total	576	635	(13)%	(9)%

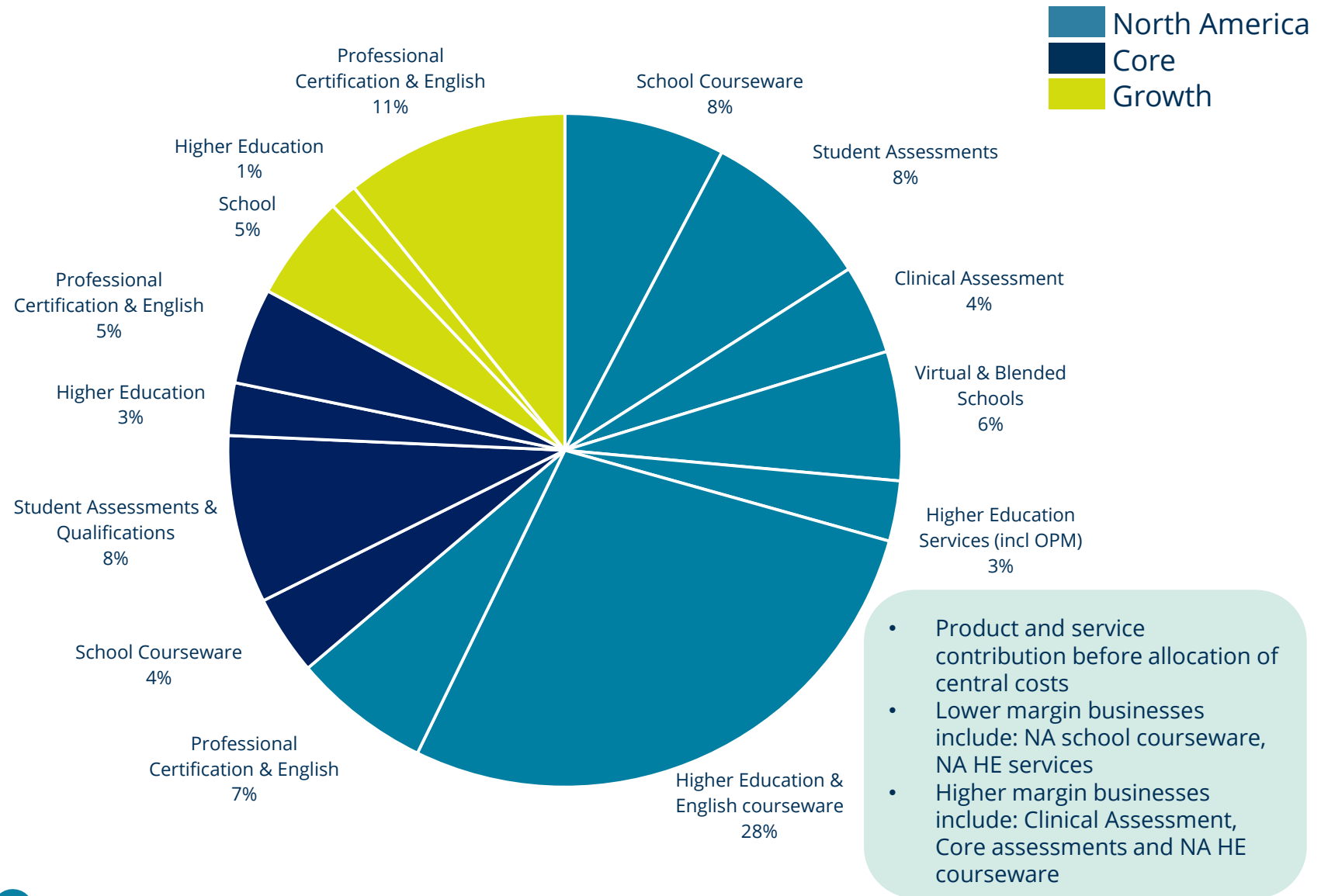
2017 profit movements



2017 revenue split



2017 contribution split



Adjusted EPS

£m	2017	2016	Var.
Operating profit	576	635	(59)
Interest	(79)	(59)	(20)
Taxation	(55)	(95)	40
Tax rate	11.1%	16.5%	
Profit after tax	442	481	(39)
Non controlling interest	(2)	(2)	-
Adjusted earnings	440	479	(39)
Weighted average shares (m)	813.4	814.8	
Adjusted EPS	54.1p	58.8p	(4.7p)

Statutory P&L

£m	2017	2016
Adjusted operating profit	576	635
Amortisation of intangibles	(166)	(221)
Other net gains and losses	128	(25)
Restructuring cost	(79)	(338)
Impairment	-	(2,548)
Impact of US tax reform	(8)	-
Operating profit/(loss)	451	(2,497)
Interest	(79)	(59)
Other net finance income/(costs)	49	(1)
Profit/(loss) before tax	421	(2,557)
Taxation	(13)	222
Profit/(loss) after tax	408	(2,335)
Basic EPS	49.9p	(286.8)p

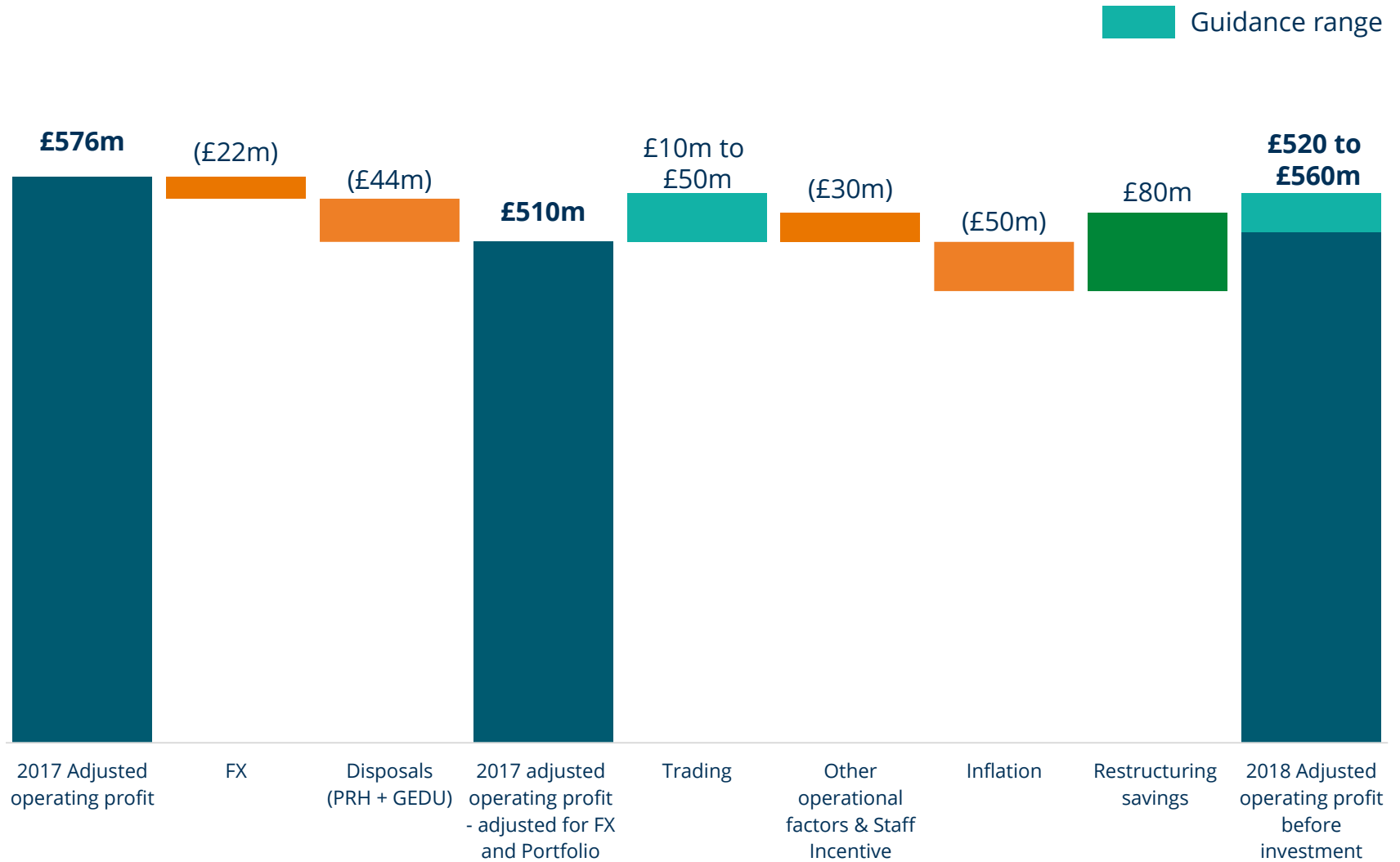
2018 guidance

Full Year 2018 Guidance	New Guidance	
	Lower	Upper
Adjusted operating profit	£520m	£560m
Finance charge	c.£45m	
Tax rate	c.20%	
Adjusted EPS [†]	49p	53p

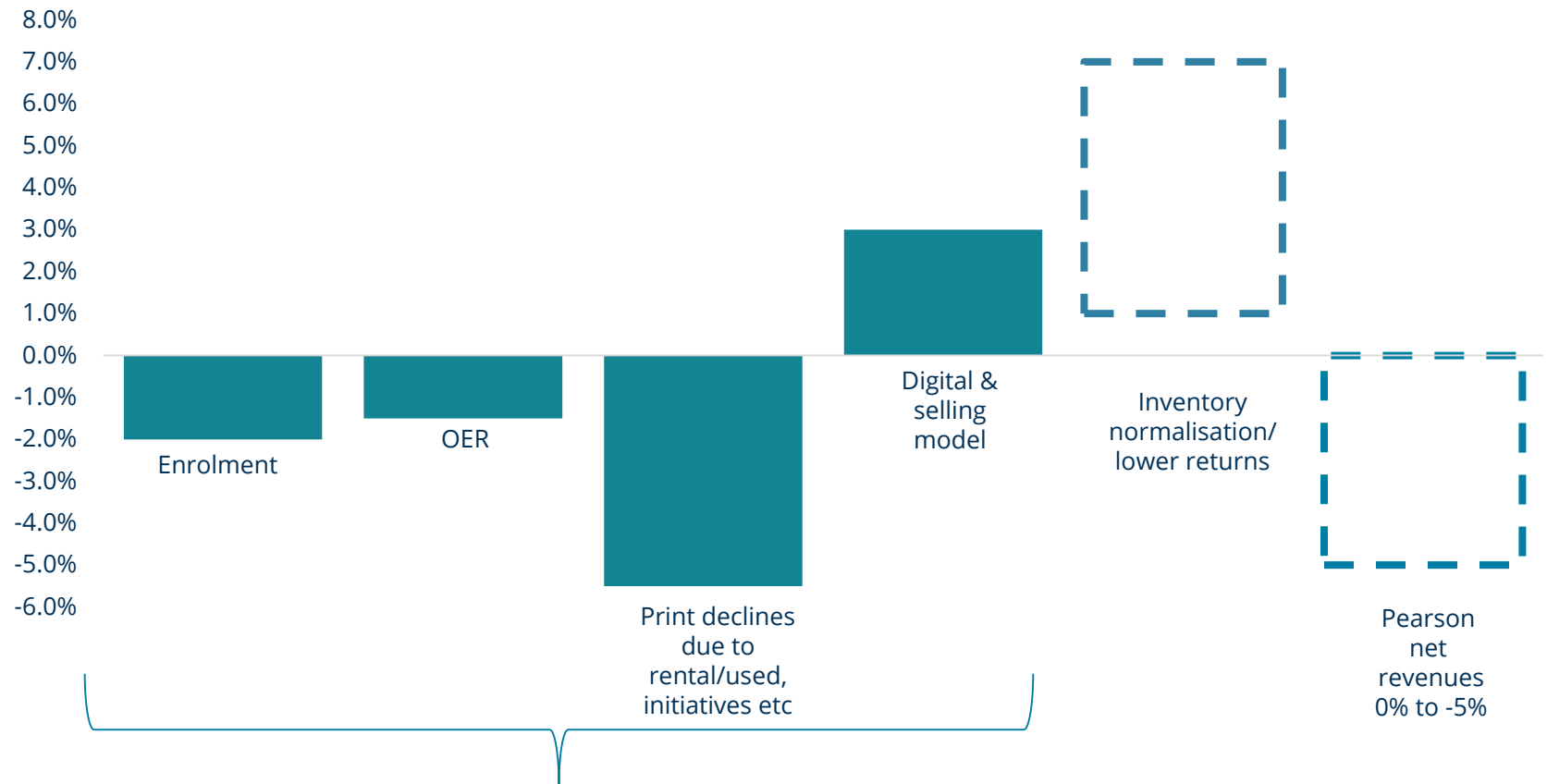
FX Sensitivity	A 5c movement in the US Dollar has a c.2.0p- 2.5p impact on EPS
Dividends	Progressive and sustainable
Cash flow	Overall cash flow lower than 2017 but Cash Conversion > 90%
Balance sheet	Net debt in line with 2017
Capex	Capital expenditure slightly lower than 2017

- Adjusted operating profit excludes the expected restructuring cost of £90m associated with the £300m 2017-2019 cost efficiency programme
- [†]based on 31 December 2017 exchange rates and portfolio

2018 bridge



2018 US Higher Education courseware assumptions



2018 guidance assumptions

North America

- Revenues in **higher education courseware** flat to down mid-single digit
- Revenue growth in **Connections virtual schools, Online Program Management (OPM), and professional certification**, supported by strong pipelines exiting 2017
- Stable revenues in **student assessment**
- **Learning Studio**: single digit £m decline, as the product is withdrawn in 2019

Core

- Modest growth driven by BTEC and General Qualifications in **student assessment and qualifications** and continued growth in **Pearson Test of English (PTE)** and in **OPM**

Growth

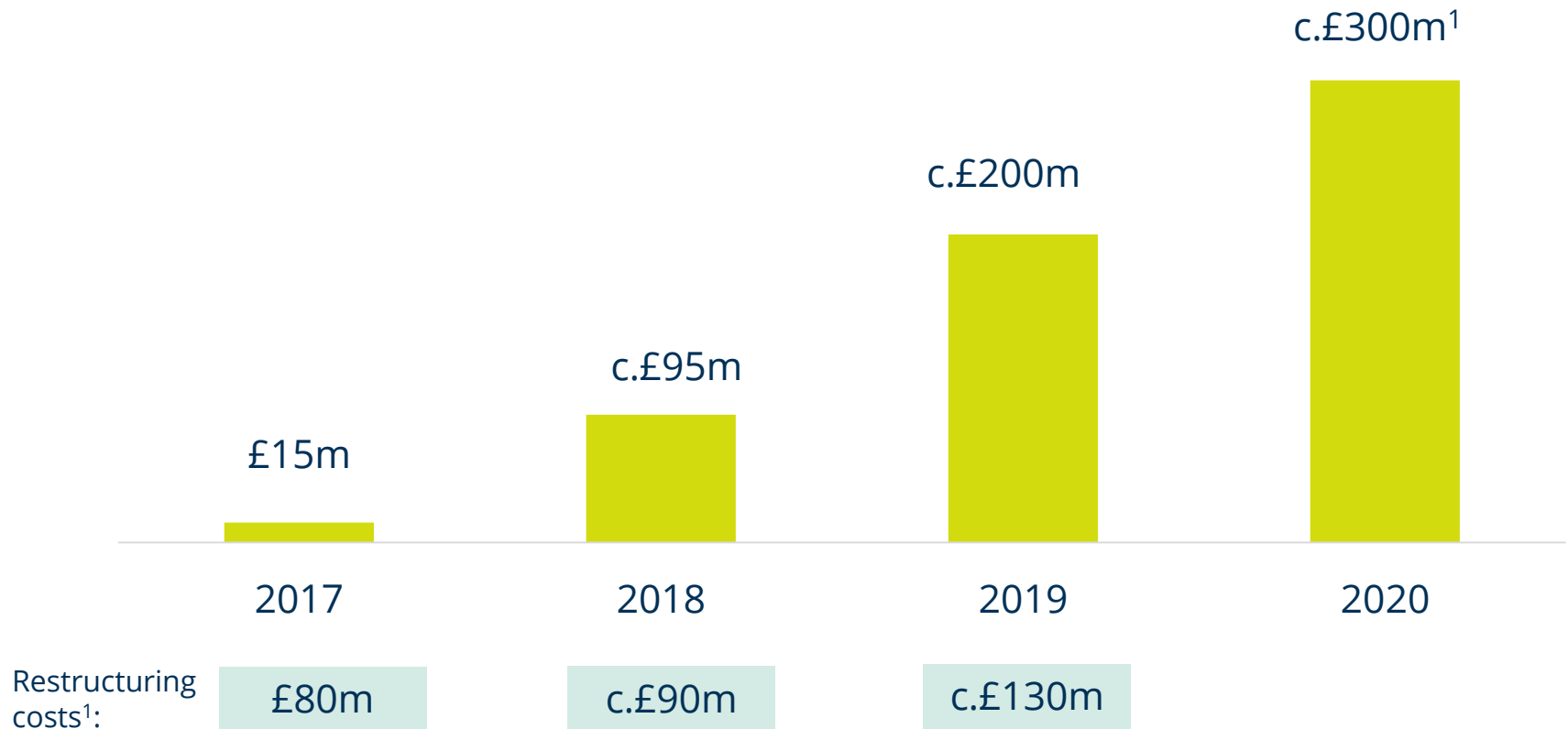
- A modest increase in revenues on new **English** products and growth in **PTE**; more stable conditions in Brazil

Penguin Random House

- Stable publishing performance

Phasing of savings -updated

Annual cumulative savings



¹ Phased plan first presented on August 4th 2017 based on at December 2016 exchange rates

Note: A significant part of these costs and savings are the US Dollar and other non-Sterling currencies and so subject to exchange rate movements over the implementation timeframe

Cash flow

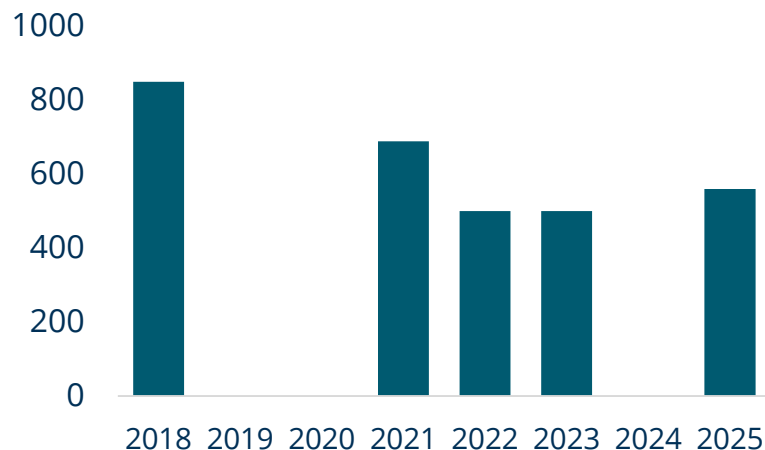
£m	2017	2016
Adjusted operating profit	576	635
Change in working capital (ex Pre-Pub)	182	126
Product Development (Pre-Pub) capitalisation	(362)	(395)
Product Development (Pre-Pub) amortisation	324	325
Net CapEx	(237)	(247)
Depreciation	162	150
Share based payments	33	22
Share of operating results of associates	(114)	(142)
Dividends from associates	146	131
Other movements	(4)	(11)
Exchange	(37)	69
Operating cash flow	669	663
Cash conversion %	116%	104%
Restructuring costs paid	(71)	(167)
Net cash interest paid	(69)	(51)
Cash tax paid	(75)	(45)
Pension funding	(227)	(90)
Free cash flow	227	310

- Strong operating cash flow of £669m with cash conversion of 116%, supporting continuing investment in our digital transformation and structural growth opportunities
- Well funded UK Group pension plan
 - accounting surplus £545m

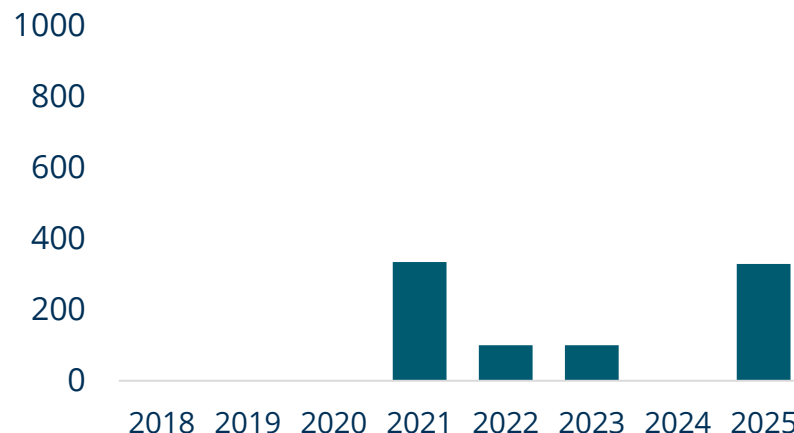
Further strengthening the balance sheet

- Strong balance sheet with net debt reduced to £432m helped by disposals, strong cash conversion and FX with £151m of share buyback to complete;
- Good headroom on leverage metrics and funding facilities
 - Reported net debt to EBITDA 0.6x
 - Including leases of c.£1bn, adjusted net debt to adjusted EBITDA c.2.1x at 31 December 2017
 - Committed bank facility of \$1.75bn (undrawn at year-end) to 2021
- Balance sheet debt primarily held in USD to protect leverage ratios and FX hedge - weakening of USD resulted in net debt reduction of over £100m

Bond maturities as at 1 January 2017 (\$m)



Bond maturities as at 1 February 2018 (\$m)



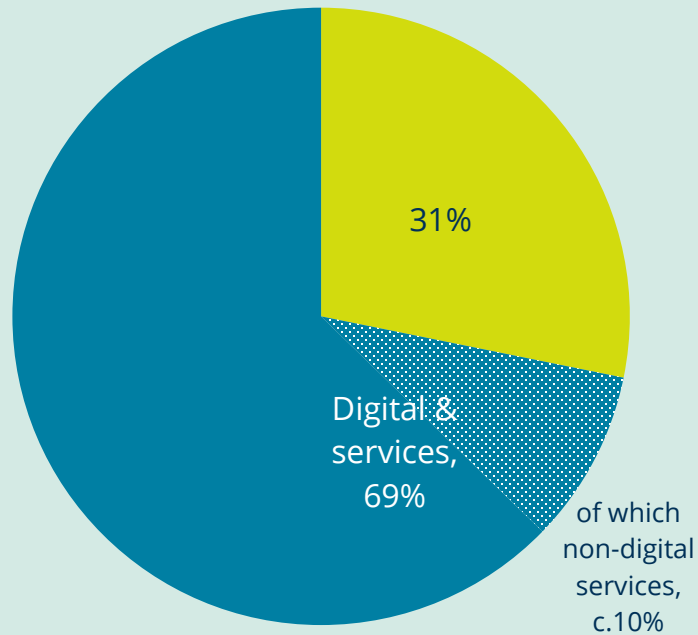
No maturities until 2021 and reduced financing requirements in each year to reduce refinancing risk while we transform



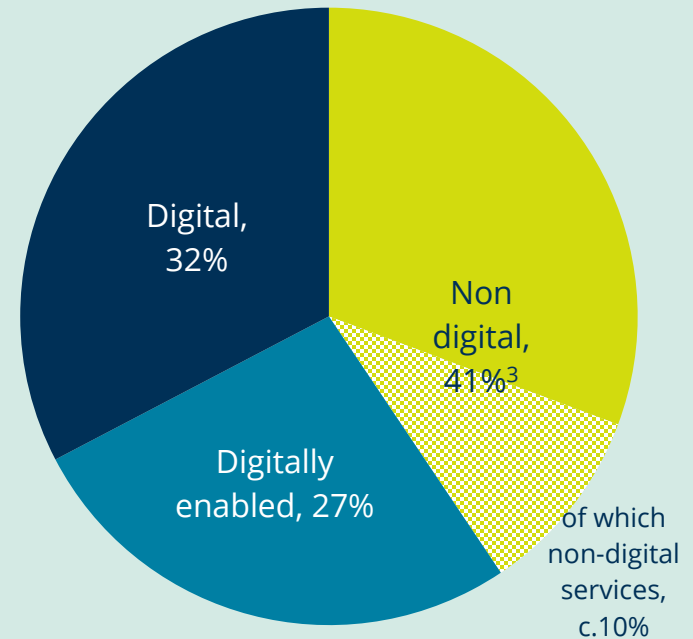
Strategy

Pearson's digital revenues 2017

Percent of sales (old basis)¹



Percent of sales²



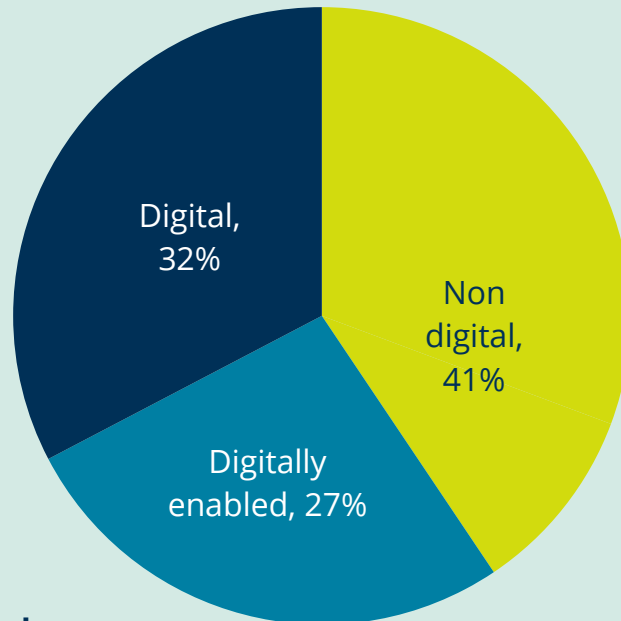
¹ Includes GEDU, WSE and US K12 courseware

² Excludes GEDU, WSE and US K12 courseware

³ for 2017 we are presenting the split between non-digital product and non-digital services to aid comparability with prior measures

Pearson's digital revenues 2017

Percent of sales*



Examples

- **Digital:** MyLab (total includes the digital portion of textbook bundles pro rata by component list prices)
- **Digitally enabled:** Pearson VUE (computer-based testing in physical locations)
- **Non digital:** textbooks (includes print portion of bundles as above). Non-digital services

*Excludes GEDU, WSE and US K12 courseware

Pearson's products and services are becoming...

- More digital and personalised
- More affordable for students with better learning outcomes
- More subscription-based



Building a more...

- Predictable, growing, and profitable business, based around access, not ownership

Our strategy

Our Business



Our Strategic Priorities

- #1 **Grow** market share through digital transformation
- #2 **Invest** in structural growth markets
- #3 **Become** simpler and more efficient

Strategic priorities

1. **Grow** market share through digital transformation

45%
2017 revenues*

US Higher Ed Courseware

Core Assessment &
Qualification

US Student Assessment

2. **Invest** in growing market opportunities

33%
2017 revenues*

Virtual Schools

Online Program Mgmt

Professional Certification

English

3. **Become** simpler and more efficient

- Increase speed of **product development** and **innovation**
- Improve **stability** and provide **better customer experiences**
- Eliminate **duplication**, **reduce cost** and increase **scalability**

*Excludes GEDU, WSE and US K12 courseware

Moving to an access model

#1. Grow market share
through digital transformation

Customers value choice, affordability, and better outcomes

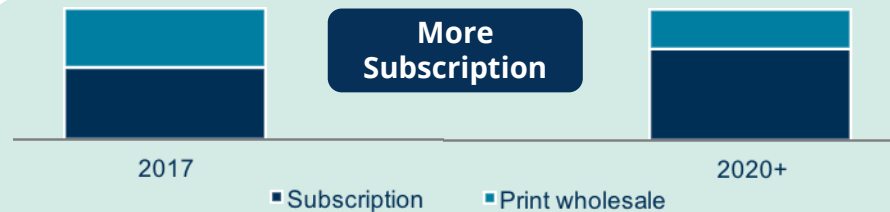
Students value outcomes, customer experience, and affordability



Faculty value outcomes, real-time insights, support, and prepared students

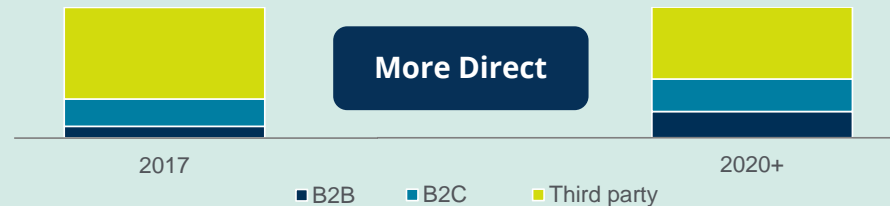


Institutions value student completion, data insights, and IT integration



More Subscription

Print rental, optimised eBook prices
From ownership to affordable access



More Direct

Inclusive Access
The right, affordable materials on day one



More Digital

Adaptive, personalised digital courseware
Based on the global learning platform

Offering affordable choices

#1. Grow market share
through digital transformation

Inclusive Access (Direct Digital Access)

1m+ course enrolments and c.5% of Higher Ed courseware revenues in 2017



Pearson

- Greater share of value - increased revenue
- Increases usage
- Improved adoption share

CONTRACT / IT INTEGRATION



ACCESS



Faculty

- Students have the right content
- Teaching and learning starts on day one
- Fewer students fall behind

PAYMENT

Institution

- Meets goals on affordability and access
- Better outcomes and increased retention



Student

- Material for their course on day one
- Improved learning outcomes
- Convenience and value

Rental

eBook rentals

- More affordable for customers
- Pearson gains share from secondary/non-consumption
- Started with 2,000 titles in 2017; will expand to all titles in 2018

Print rentals

- Competitive pricing and print choices for customers
- Reduce inventory in secondary market for Pearson
- c. 130 titles in 2018

Supporting learning outcomes

Growth strategies in US Higher Ed courseware

#1. Grow market share
through digital transformation

Offering learners **better, more affordable choices**



Improving **student outcomes**



New product development

- Authentic learning & assessment for complex real-world tasks
- Personalised feedback using AI and machine learning

Global learning platform

- Highly scalable, more reliable, and allows us to innovate faster
- Supports customer integration and third-party interoperability
- Foundation for lifelong learning ecosystem

New services

- Expanded Customer Services teams
- B2B analytic services
- B2C lifelong learning services

Expanded **addressable market**



Share gains, i.e. more faculty and students using Pearson courseware



US & Core School Assessment & Qualifications

#1. Grow market share
through digital transformation

US School Assessment

Market

- A stable \$1.2bn+ market
- #1 with >35 % share

Opportunity

- Leveraging our digital leadership with Increased partnering

Competitive Advantage

- Pioneering digital platforms
- Track record of delivery at scale
- Ability to leverage strong IP and reduce regulatory risk with more partnering

Core Assessment & Qualifications

Market

- c.£0.7bn UK market, growing on demographics and rising demand for qualifications
- #1 overall; #2 within GCSE and A-Level ; #1 in vocational qualifications

Opportunity

- After curriculum changes, greater stability in 2018 with benefit from new product investment coming through

Competitive Advantage

- Pioneering digital platforms
- Track record of delivery at scale
- Strong brands and IP and new products

Online Program Management & Virtual Schools

#2. Invest in **structural growth** markets

Online Program Management

Market

- OPM global market \$1.2bn, c10% annual growth
- #1 player globally

Opportunity

- Strong pipeline investment for longer-term growth
- Expansion of enterprise/undergrad models, global growth and employer education

Competitive Advantage

- Strong brand and track record
- Domain knowledge; end-to-end solution, and can leverage further strengths in content + assessment
- Proven enterprise / undergrad model

Virtual Schools

Market

- Full solution market >\$1.5bn market across 34 authorised states, with 0.7% national penetration.
- #2 in US, but faster-growing than #1 K12 Inc.

Opportunity

- Strong pipeline of potential new schools (c. 2-5 per year)
- Grow addressable market with new partner schools, and scaling in existing states

Competitive Advantage

- Strong brand, good learning outcomes, high parental satisfaction
- Domain knowledge; end-to-end solution, and can further leverage strengths in content and assessment
- Proven partner school model

Professional Certification & English

#2. Invest in **structural growth** markets

Professional Certification

Market

- A global market c\$1.2bn growing on increasing demand for professional credentials and regulatory change
- #1 in market

Opportunity

- Near-term growth from US MCAT
- Long-term growth through leveraging operational excellence and expertise

Competitive Advantage

- Digital delivery, 20,000 testing centres.
- Brand built on security and reliability
- Leading digital platforms

English

Market

- 1.7bn English speakers, \$5bn+ market in courseware, assessment, and adult school franchises
- #2 in courseware with 12% market share, #3 in English Academic/Visa Assessment with 6% market share

Opportunity

- New product pipeline leverages strength in content and assessment
- PTE – leading digital offer with faster, more accurate results

Competitive Advantage

- Better customer experiences & outcomes
- Embedded, in-course assessment and analytics
- Aligns to Global Scale of English (consistency and scale)

Creating a leaner Pearson

#3. Become simpler and more efficient

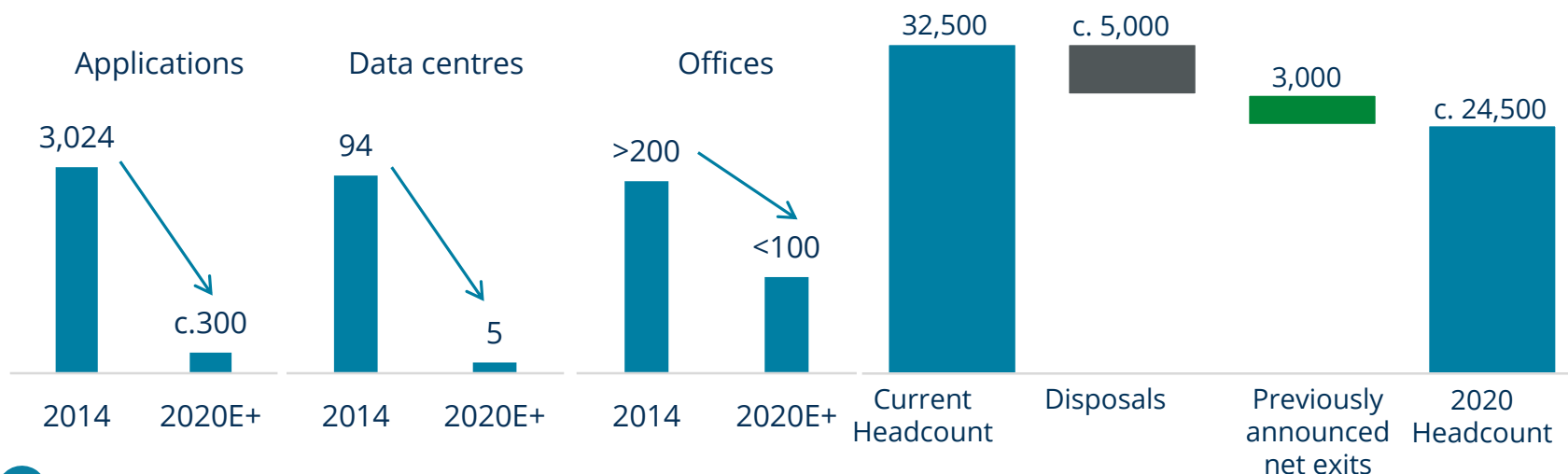
✓ '17: Exited WSE, GEDU, Utel, smaller businesses

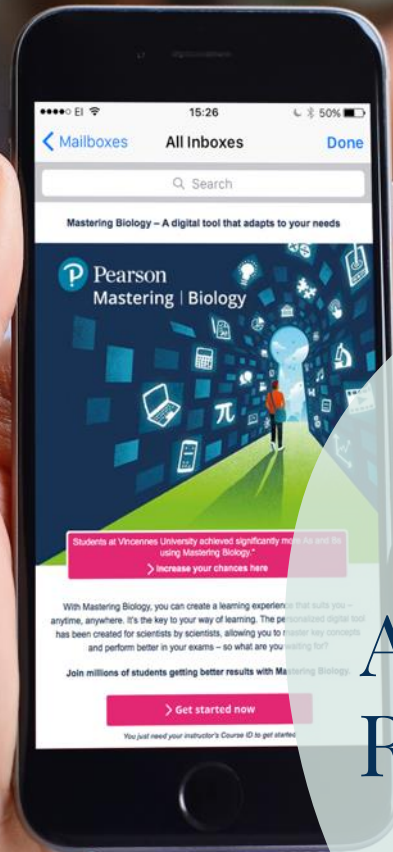
✓ '18: US K12 Courseware Held-For-Sale



Infrastructure

Headcount reduction

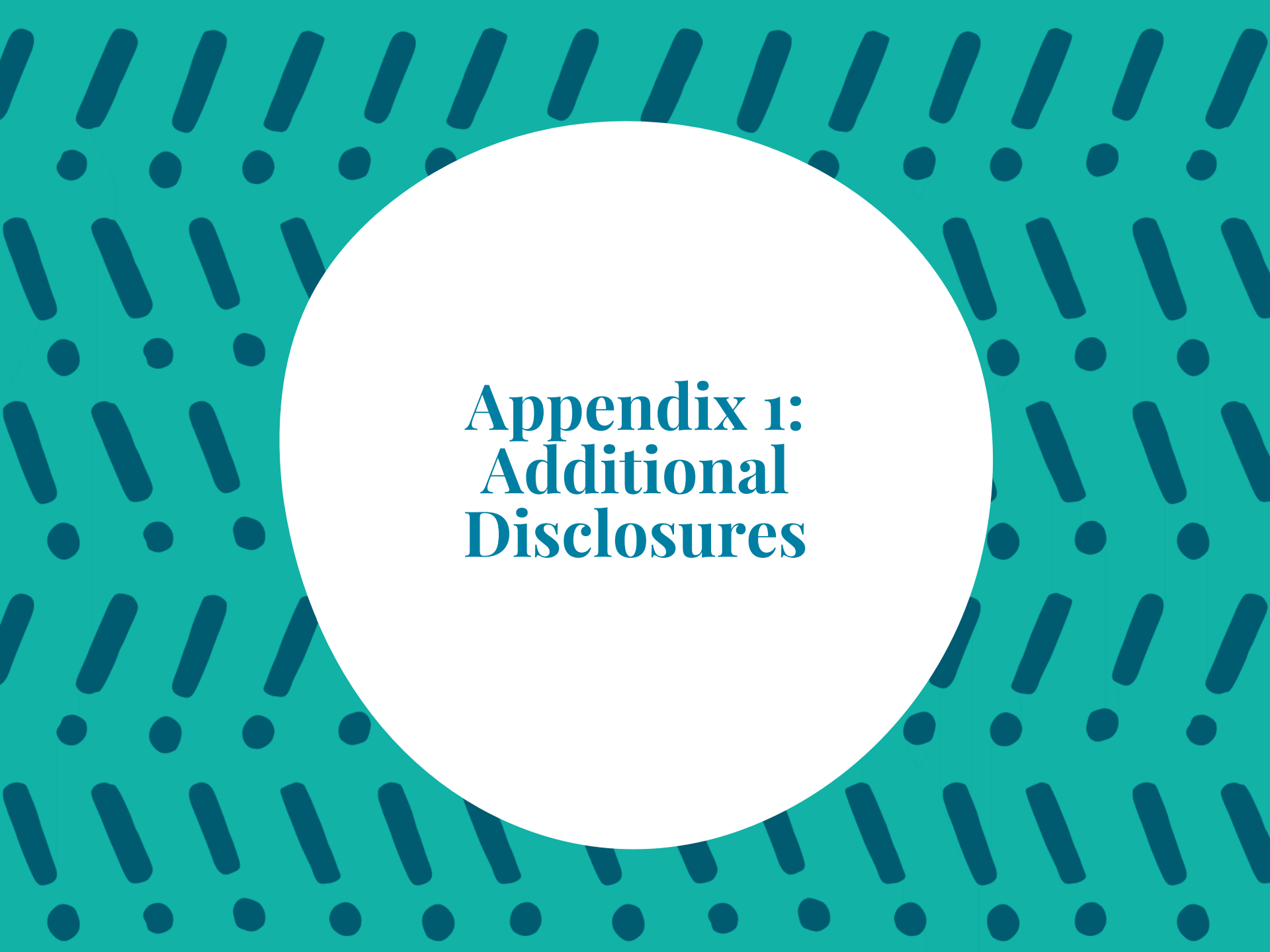




Better learning
Anywhere, anytime
Real-time feedback

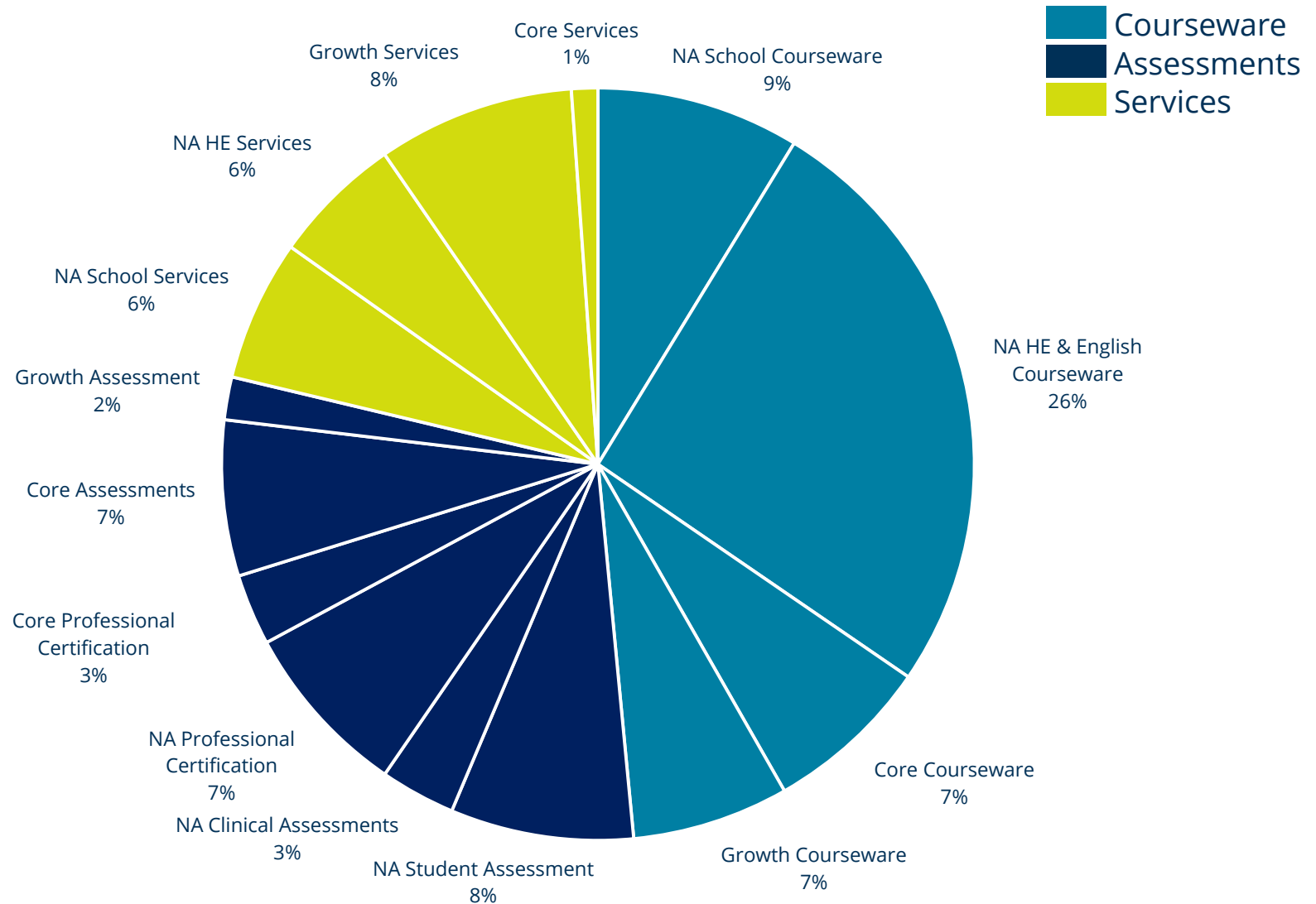


Q&A

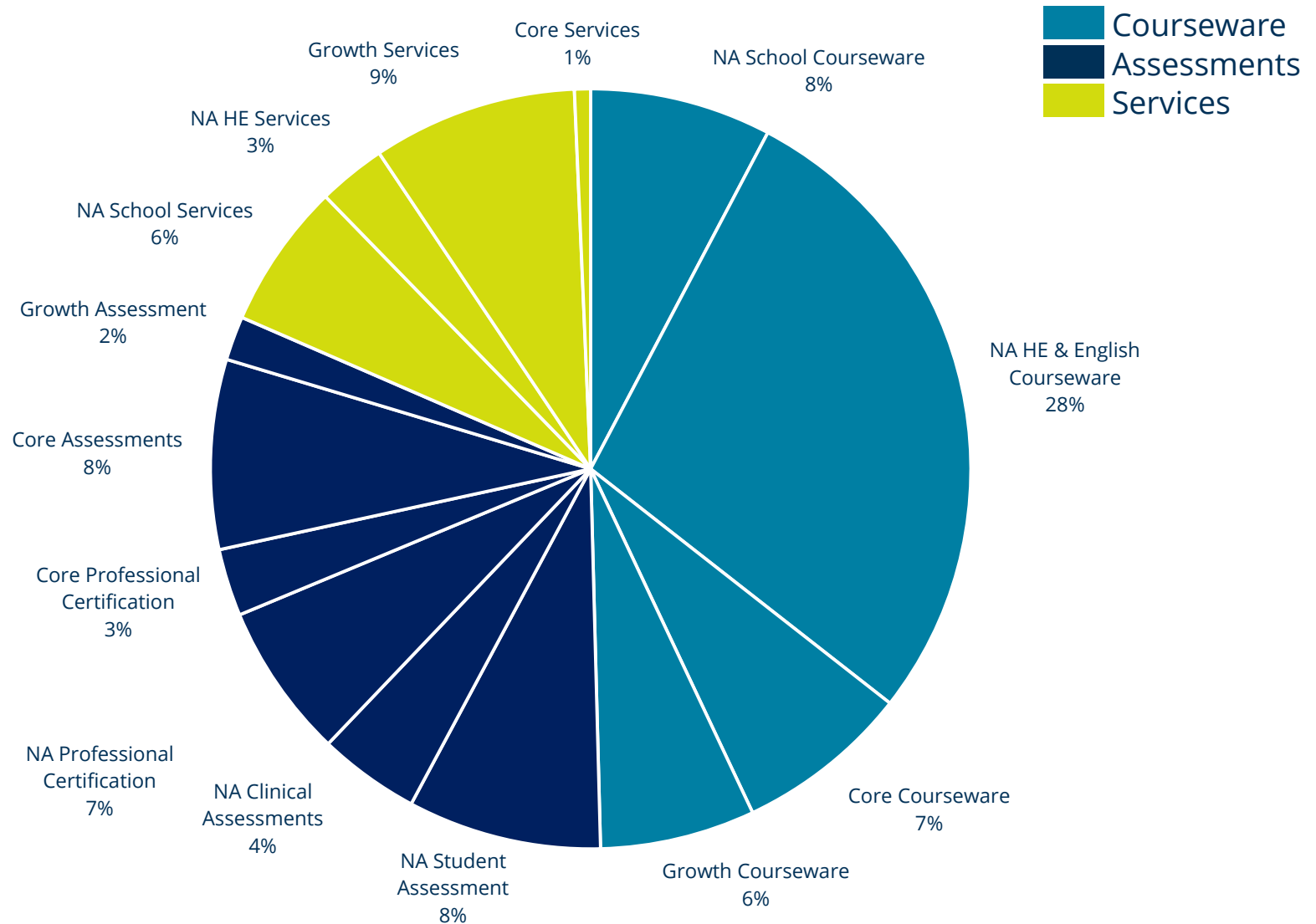


Appendix 1: Additional Disclosures

2017 revenue split by product line



2017 contribution split by product line



North America – Sales detail

£m	2017	2016	<i>Underlying growth</i>
School Courseware	394	418	(8)%
HE & English Courseware	1,166	1,168	(3)%
Courseware	1,560	1,586	(4)%
School Assessment	355	378	(8)%
Clinical	146	143	(1)%
Professional Certification	341	333	0%
Assessment	842	854	(4)%
School Services	274	259	3%
HE Services	253	269	(9)%
English Services	-	13	n/a
Services	527	541	(2)%
Total	2,929	2,981	(4)%

Core – Sales detail

£m	2017	2016	<i>Underlying growth</i>
School Courseware	171	173	(5)%
HE Courseware	93	92	(2)%
English Courseware	60	65	(11)%
Courseware	324	330	(5)%
School & HE Assessment	256	268	(5)%
Clinical	46	40	8%
Pearson Test of English	47	22	▲
Professional Certification	91	90	0%
Assessment	440	420	3%
School Services	5	6	(17)%
HE Services	34	29	14%
English Services	12	18	10%
Services	51	53	9%
Total	815	803	0%

Growth – Sales detail

£m	2017	2016	<i>Underlying growth</i>
School Courseware	139	127	5%
HE Courseware	63	60	(2)%
English Courseware	102	97	4%
Courseware	304	284	3%
School & HE Assessment	23	21	10%
Pearson Test of English	18	11	64%
Professional Certification	42	38	8%
Assessment	83	70	17%
School Services	54	54	(7)%
HE Services	32	46	(37)%
English Services	296	314	0%
Services	382	414	(6)%
Total	769	768	0%

Balance sheet

£m	2017 Excl HFS	2017 Held for Sale	2017 Reported	2016
Goodwill / intangible assets	3,145	(181)	2,964	3,442
Tangible fixed assets	297	(16)	281	343
Associates & JVs	398	-	398	1,247
Capitalised Product Development (Pre-Pub)	988	(247)	741	1,024
Deferred revenue	(839)	517	(322)	(883)
Traditional working capital	376	(52)	324	561
Other net liabilities	(270)	-	(270)	(192)
Held For Sale	-	172	172	
Net trading assets	4,095	193	4,288	5,542
Shareholders' funds	4,013	-	4,013	4,344
Deferred tax	3	66	69	15
Pensions	(441)	-	(441)	(19)
Other provisions	80	-	80	106
Minorities	8	-	8	4
Net debt	432	127	559	1,092
Capital employed	4,095	193	4,288	5,542
Year end \$/£	1.35	1.35	1.35	1.23

Return on Invested Capital

£m	2017	2016
Adjusted Operating Profit	576	635
Less: operating tax paid	(75)	(63)
Return	501	572
Total Invested Capital	11,568	11,464
Gross ROIC	4.3%	5.0%
Net Invested Capital	8,126	7,906
Net ROIC	6.2%	7.2%

Simplified Credit Rating Agency (CRA) Net Debt/EBITDA

£m	2017	2016
Net debt	432	1,092
Share buyback remaining cash commitment	151	-
Leases (NPV)	933	1,022
CRA adjusted net debt	1,516	2,114
EBITDA	738	785
Restructuring	(79)	(338)
Operating lease add back	144	147
PRH disposal	(65)	-
CRA adjusted EBITDA	738	594
Simplified CRA Net Debt to EBITDA	2.1	3.6

Reconciliation: statutory to adjusted earnings 2017

£m	Statutory	Restructuring	Other net gains and losses	Intangible charges	Other net finance costs	Impact of US tax reform	Tax amortisation benefit	Adjusted earnings
Operating profit	451	79	(128)	166	-	8	-	576
Net finance costs	(30)	-	-	-	(49)	-	-	(79)
Profit before tax	421	79	(128)	166	(49)	8	-	497
Income tax	(13)	(26)	20	(85)	9	1	39	(55)
Profit for the year	408	53	(108)	81	(40)	9	39	442
Minority interest	(2)	-	-	-	-	-	-	(2)
Earnings	406	53	(108)	81	(40)	9	39	440

Reconciliation: statutory to adjusted earnings 2016

£m	Statutory	Restructuring	Other net gains and losses	Intangible charges	Other net finance costs	Tax amortisation benefit	Adjusted earnings
Operating profit	(2,497)	338	25	2,769	-	-	635
Net finance costs	(60)	-	-	-	1	-	(59)
Profit before tax	(2,557)	338	25	2,769	1	-	576
Income tax	222	(84)	(14)	(255)	-	36	(95)
Profit for the year	(2,335)	254	11	2,514	1	36	481
Minority interest	(2)	-	-	-	-	-	(2)
Earnings	(2,337)	254	11	2,514	1	36	479

Reconciliation: pre-publication costs

£m	2017	2016
Opening balance	1,024	841
Exchange	(60)	130
New spend capitalised	362	395
Acquisitions/disposals/transfers (net)	-	8
Amortisation	(324)	(325)
Restructuring charge	(14)	(25)
Closing balance*	988	1,024

* Including businesses held for sale

Reconciliation: year end net debt

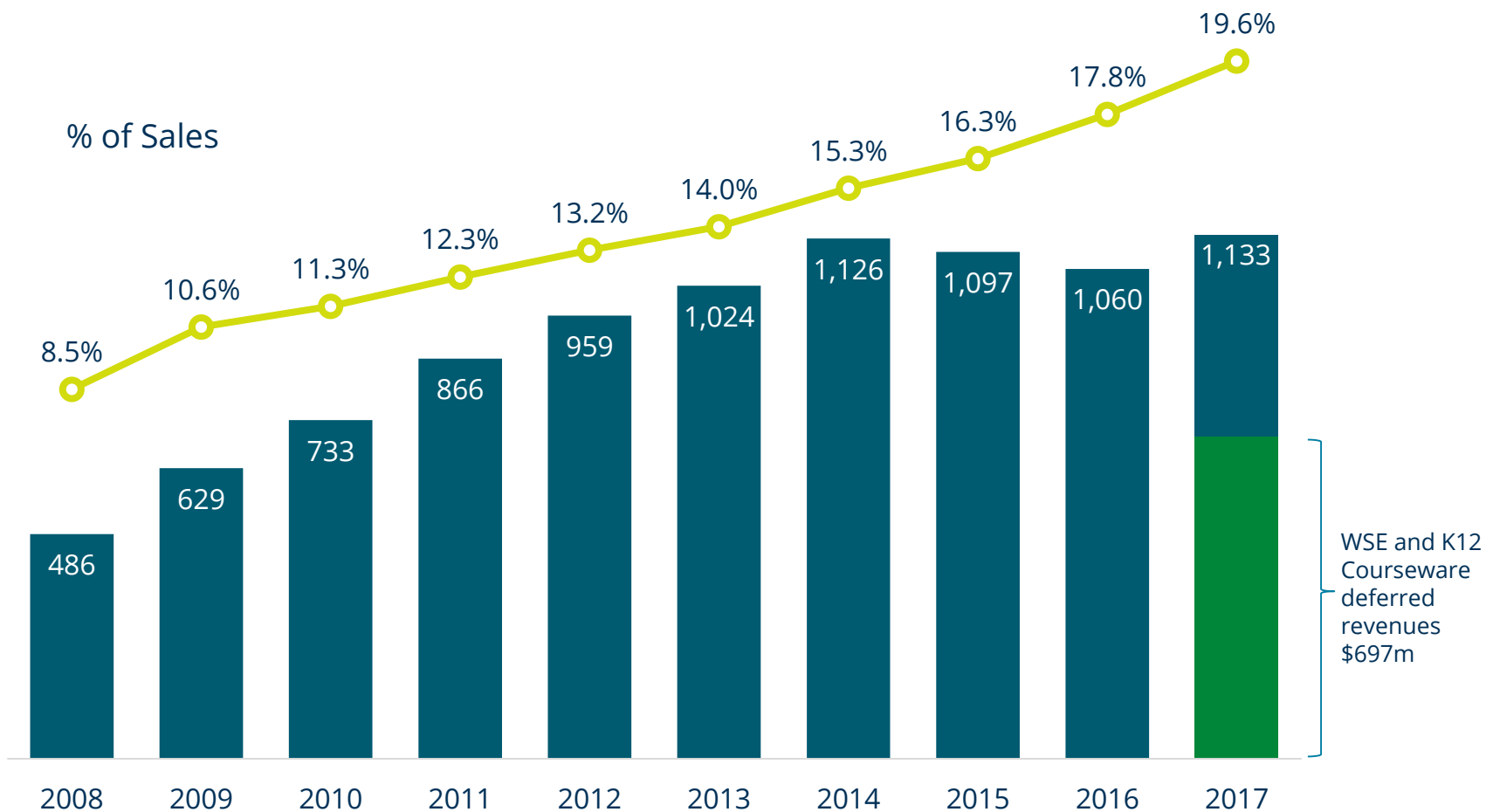
£m	2017	2016
Non current assets		
Derivative financial instruments	140	171
Current assets		
Marketable securities	8	10
Cash and cash equivalents	518	1,459
Non current liabilities		
Borrowings	(1,066)	(2,424)
Derivative financial instruments	(140)	(264)
Current liabilities		
Borrowings	(19)	(44)
Total	(559)	(1,092)
Cash & cash equivalents classified as held for sale	127	-
Net debt	(432)	(1,092)

Retirement benefit obligations

£m	2017	2016
Income statement		
Operating charge		
Defined benefit schemes	19	16
Defined contribution schemes	57	67
Post retirement medical benefit schemes	(1)	(2)
	75	81
Interest	(3)	(11)
Total	72	70
Balance sheet		
UK pension scheme asset	545	158
Other pension scheme liabilities	(26)	(47)
Post retirement medical benefit liability	(67)	(77)
Other pension accruals	(11)	(15)
Total	441	19

Deferred revenue*

(\$m)



*excludes GEDU, includes held for sale

Selected products

Assessment, registration and student volume growth

	2017	2016
School		
Accuplacer	10,415,000	8,545,000
BTEC (calendar year registrations)	1,009,000	1,012,000
Connections Education (Full Time Equivalent students)	77,600	73,000
Edexcel GCSE/A level (papers marked)	5,562,000	5,429,000
Pearson sistemas (students)	348,000	407,000
Q-Interactive (sub-tests administered)	3,200,000	2,400,000
State and National Paper (papers marked)	20,419,000	21,922,000
State and National TestNav (tests administered)	25,317,000	23,638,000
UK National Curriculum Test (papers marked)	3,515,000	3,437,000
Higher Education		
CTI/MGI (students)	7,300	8,500
MyLab/Mastering (user registrations)	13,100,000	13,300,000
Pearson Online Services (registrations)	341,000	316,000
English & Professional Certification		
MyEnglishLab and other ELT courseware (registrations)	1,102,000	861,000
VUE (tests administered)	15,090,000	14,910,000

ALWAYS LEARNING