



2018 Interim Results

Friday 27 July 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/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.

H1 financial highlights

Revenue

£1,865m

↑ +2% underlying

Adj. operating profit

£107m

↑ +46% underlying

Operating cash flow

£(202)m

H1 2017: £(72)m

Adjusted EPS

8.2p

H1 2017: 5.6p

Interim dividend

5.5p

H1 2017: 5p

Net debt

£775m

H1 2017: £1,633m



H1 Financial Review

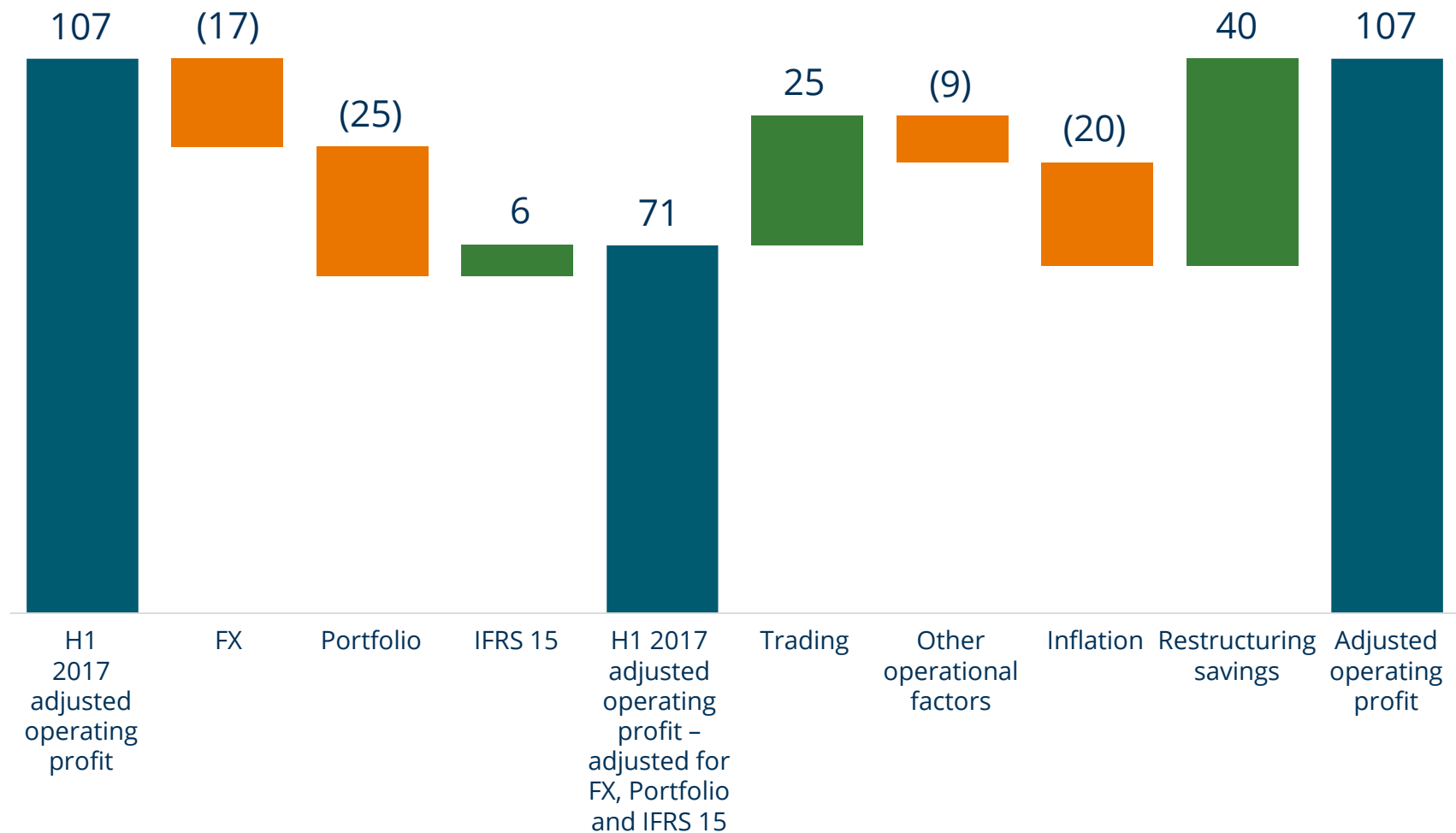
Sales

£m	H1 2018	H1 2017	CER growth	Underlying growth
North America	1,223	1,285	3%	3%
Core	383	384	2%	2%
Growth	259	378	(26%)	(4)%
Total sales	1,865	2,047	(3)%	2%

Operating profit

£m	H1 2018	H1 2017	CER growth	Underlying growth
North America	64	43	77%	89%
Core	10	10	0%	11%
Growth	11	8	88%	38%
Penguin Random House	22	46	(50%)	(4%)
Total	107	107	16%	46%

Profit movements £m



2018 guidance

Full Year 2018 Guidance	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
- The sale of WSE in March 2018 reduces the expected FY18 adjusted operating profit from our portfolio at the start of the year by around £6m. This impact has been absorbed within the guidance range for Adjusted Operating Profit, which remains £520m-£560m.

Operating and free cash flow

£m	H1 2018	H1 2017	var
Operating profit	107	107	-
Working capital (excl. restructuring)	(286)	(174)	(112)
- of which pre-publication expenditure	(13)	(8)	(5)
- of which other working capital	(273)	(166)	(107)
Net capital expenditure	(113)	(111)	(2)
Depreciation	73	79	(6)
Share of operating results of associates	(22)	(58)	36
Dividends from associates and JVs	15	60	(45)
Exchange	8	(6)	14
Other movements	16	31	(15)
Operating cash flow	(202)	(72)	(130)
Tax paid	(8)	(33)	25
Finance charges	(18)	(39)	21
Restructuring expenditure	(27)	(24)	(3)
Special pension contribution net of tax	-	(174)	174
Free cash flow	(255)	(342)	87

Balance sheet

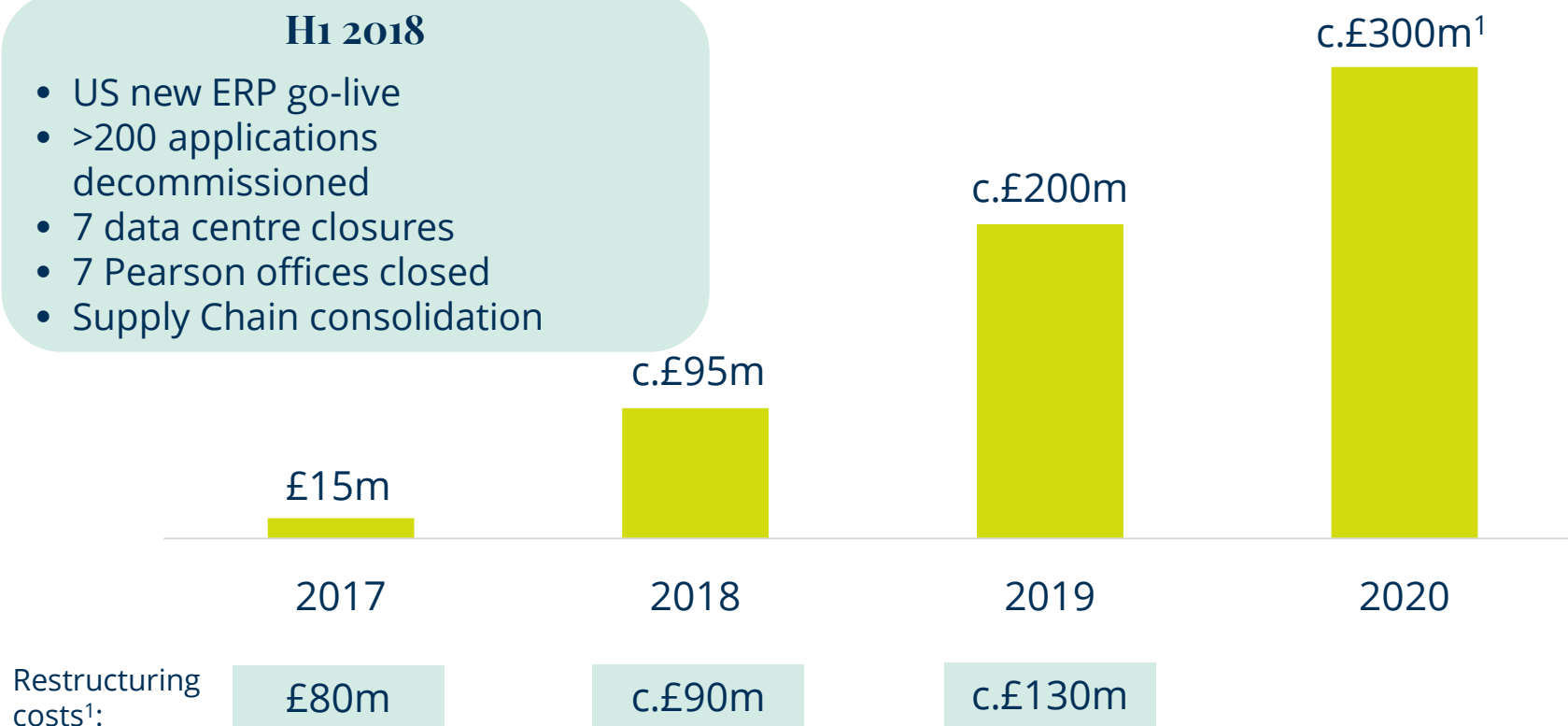
£m	2018 Incl Held For Sale	2018 Held for Sale	2018 Reported	2017 Incl Held For Sale	2017 Held for Sale	2017 Reported
Goodwill / intangible assets	3,139	(72)	3,067	3,266	-	3,266
Tangible fixed assets	268	-	268	315	(9)	306
Associates & JVs	385	-	385	1,214	(563)	651
Capitalised Product Development (Pre-Pub)	1,010	(239)	771	985	-	985
Deferred revenue	(775)	471	(304)	(802)	-	(802)
Traditional working capital	555	(163)	392	689	25	714
Deferred tax	-	(86)	(86)	(39)	1	(38)
Pensions	570	-	570	181	-	181
Other provisions	(74)	-	(74)	(94)	-	(94)
Other net liabilities	(206)	-	(206)	(120)	-	(120)
Net debt	(775)	-	(775)	(1,633)	(25)	(1,658)
Held For Sale	-	89	89	0	571	571
Net Assets	4,097	-	4,097	3,962	-	3,962
Shareholders' funds	4,088	-	4,088	3,957	-	3,957
Minorities	9	-	9	5	-	5
Total Equity	4,097	-	4,097	3,962	-	3,962

Phasing of savings -updated

Annual cumulative savings

H1 2018

- US new ERP go-live
- >200 applications decommissioned
- 7 data centre closures
- 7 Pearson offices closed
- Supply Chain consolidation



¹ Phased plan first presented on August 4th 2017 based on December 2016 exchange rates. A significant part of these costs and savings are denominated in US Dollar and other non-Sterling currencies and are therefore subject to exchange rate movements over the implementation timeframe.



Strategy

Strategic priorities

45%
2017 revenues*

1. Grow market share through digital transformation



- US Higher Ed Courseware
- US Student Assessment
- Core Assessment and Qualification

33%
2017 revenues*

2. Invest in growing market opportunities



- Virtual Schools
- Online Program Management
- 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

Underpinned by talent, culture & innovation

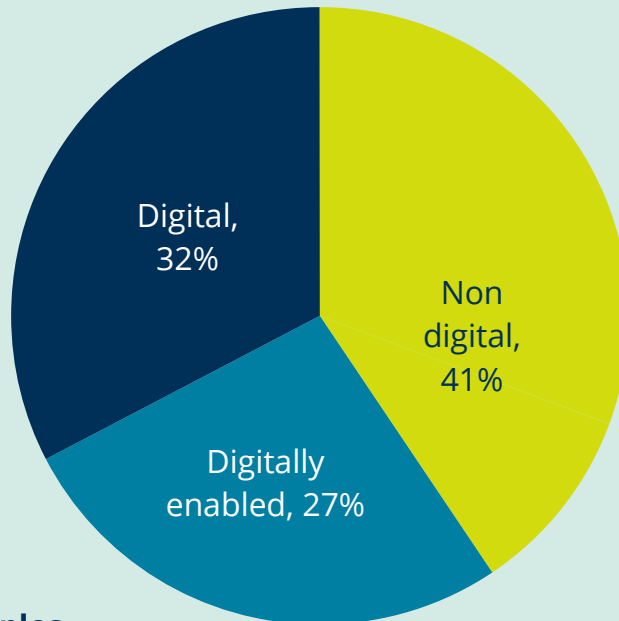
*Excludes GEDU, WSE and US K12 courseware



Appendices

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...

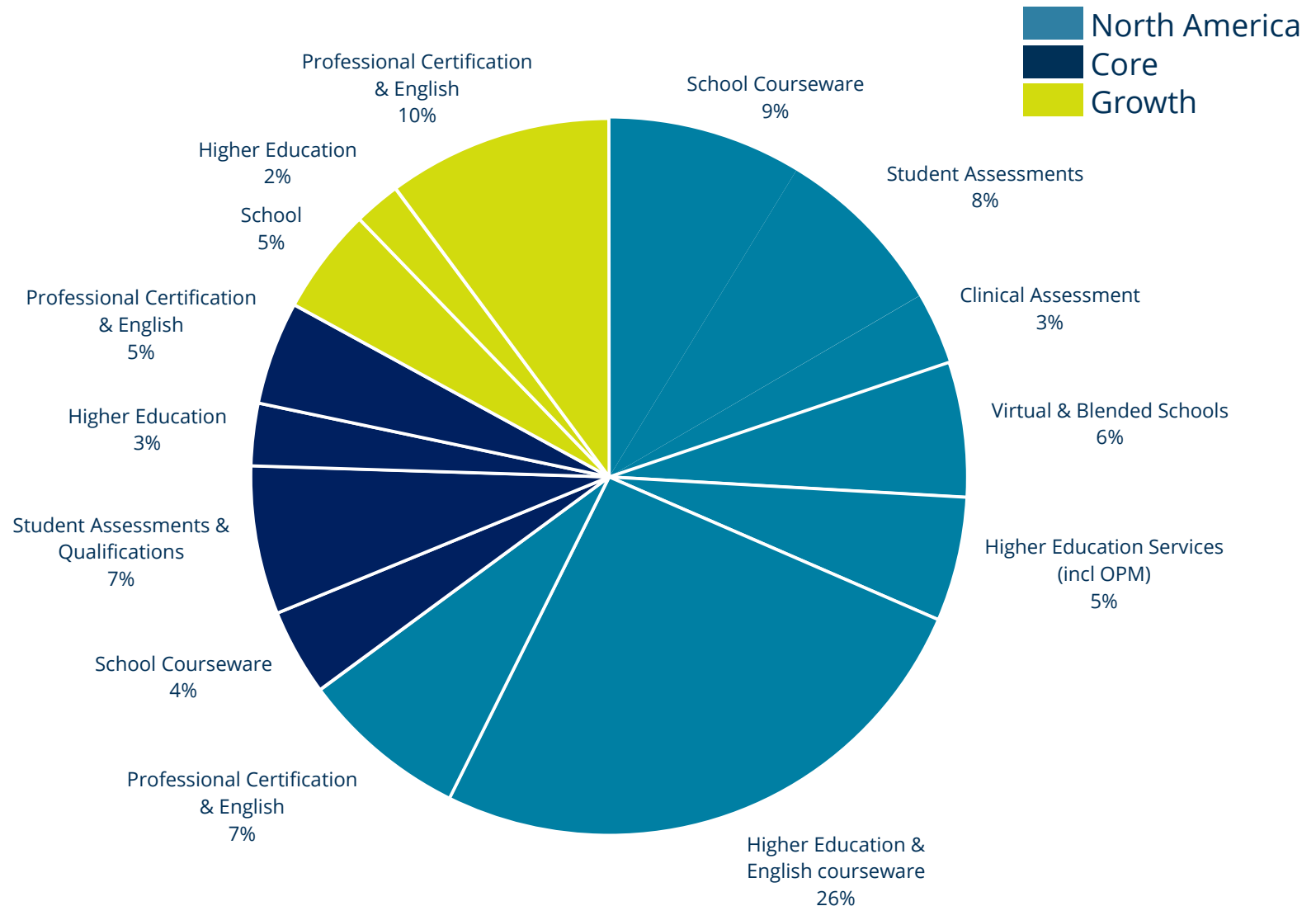
- More digital and personalised
- More affordable for students with better learning outcomes
- More subscription-based



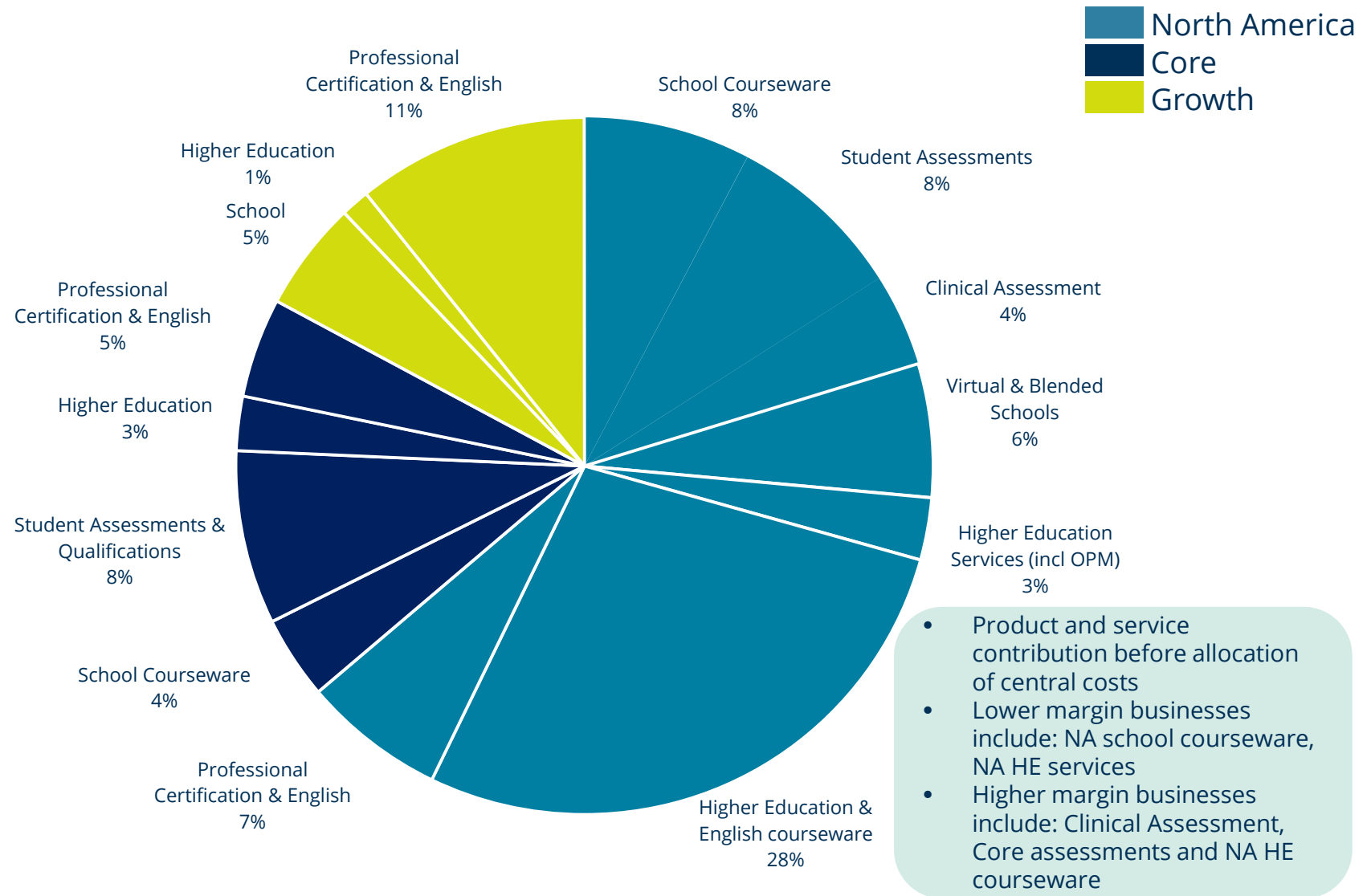
Building a more...

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

2017 revenue split

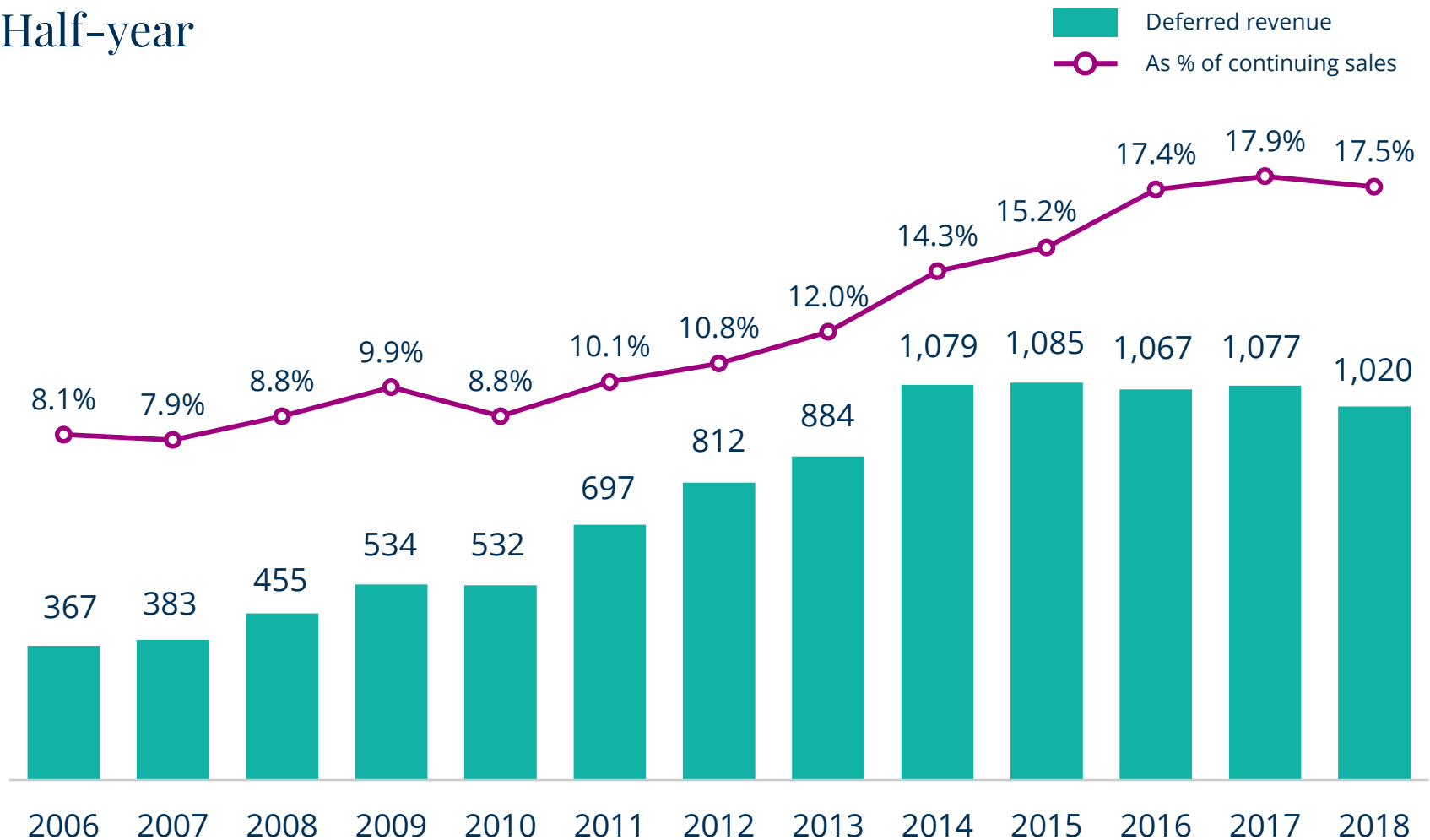


2017 contribution split



Deferred revenue \$m

Half-year



Continuing operations including held for sale

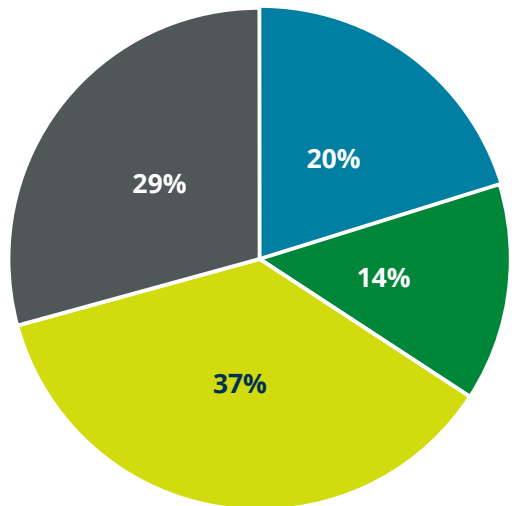
Adjusted EPS

£m	H1 2018	H1 2017	Headline Change
Operating profit	107	107	-
Interest	(26)	(47)	21
Taxation	(16)	(13)	(3)
Tax rate	20%	21%	
Profit after tax	65	47	18
Minorities	(1)	(1)	-
Adjusted earnings	64	46	18
Shares in issue (millions)	779	815	(36)
Adjusted EPS	8.2p	5.6p	2.6p

2017 US Higher Ed courseware by product model, channel and market

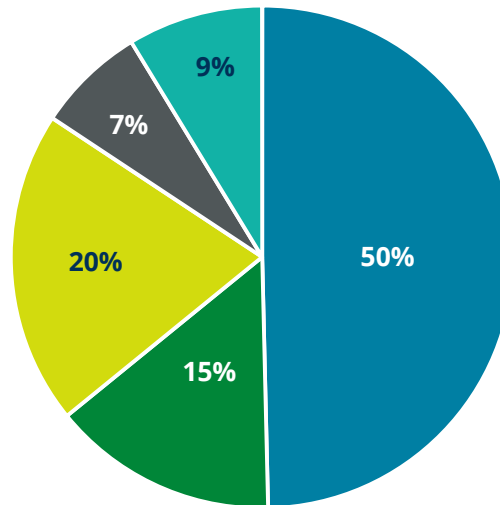
#1. Grow market share through digital transformation

Product Model



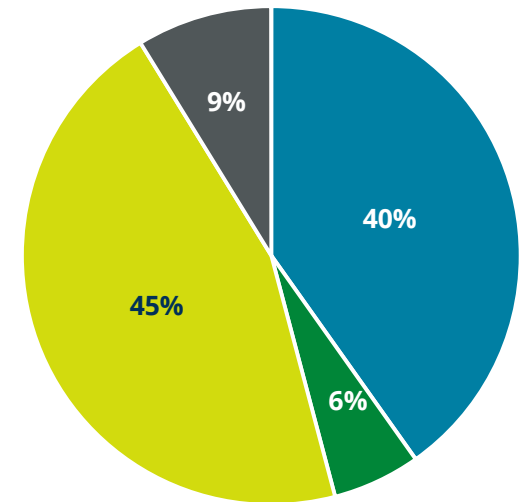
- Digital direct to consumer
- Digital via retailer or institution
- Print/Digital bundles
- Print

Channel



- College bookstores
- Other retailers/e-tailers
- Direct to consumer
- Institutional
- Wholesale & other

Institution



- Private not for profit & public 4 Year
- For profit 4 Year
- 2 Year college
- K12, government & other

ALWAYS LEARNING