



Pearson

2018 Results

Friday 22 February 2019

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.

2018 financial highlights

Revenue

£4,129m

(1)% underlying

Adj. operating profit

£546m

+8% underlying

Operating cash flow

£513m

2017: £669m

Adj. earnings per share

70.3p

2017: 54.1p

Full year dividend

18.5p

2017: 17p

Net debt

£(143m)

2017: £(432m)

A year of progress

- Delivering against our strategic priorities
- Continued momentum in our performance
 - Profits up and net debt down
- Continued investment in digital transformation and structural growth opportunities
 - 62% of the business now digital or digitally enabled
- Simplification programme ahead of plan
 - ERP implementation in US
- 2019 – building a leaner, more efficient, more profitable and sustainable company



Financial Review & Outlook

Financial summary

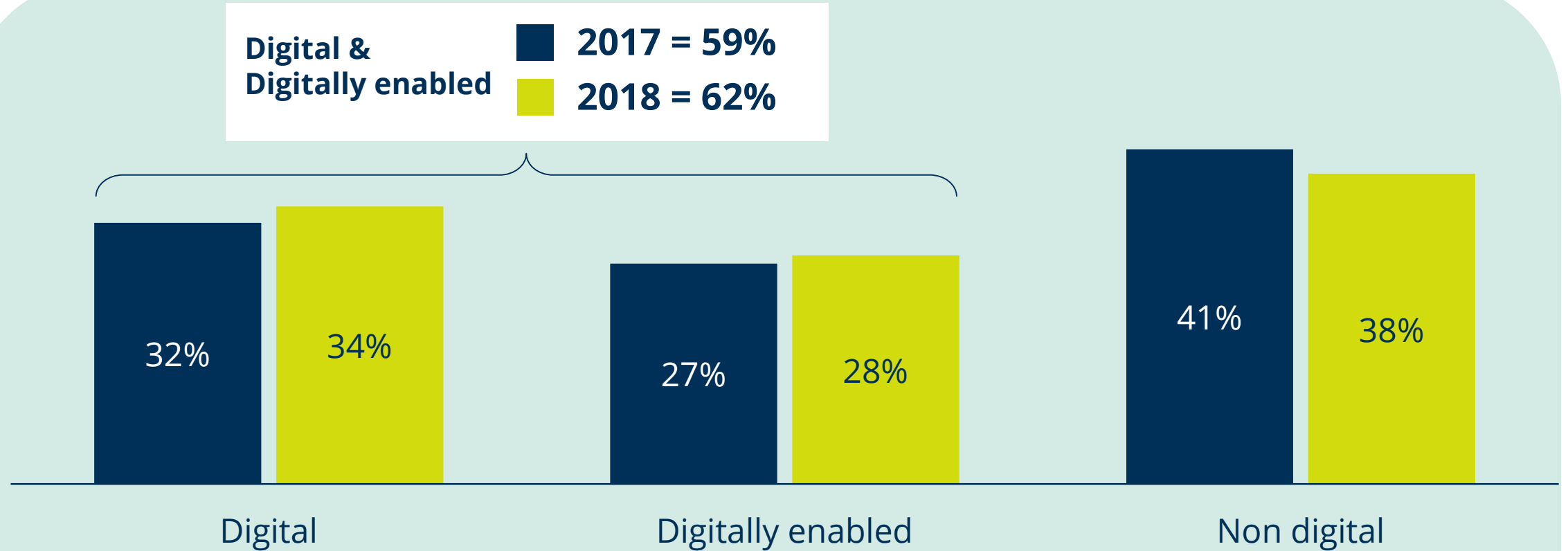
£m	2018	2017	Headline growth	CER growth	Underlying growth
Sales	4,129	4,513	(9)%	(6)%	(1)%
Adjusted operating profit	546	576	(5)%	(2)%	8%
Adjusted EPS	70.3p	54.1p	30%		
Deferred revenue	912	839	9%	4%	7%
Operating cash flow	513	669	(23)%		
Net debt	(143)	(432)	67%		
Dividend	18.5p	17p	9%		

Includes US K12 Courseware – held for sale

Sales

£m	2018	2017	<i>CER growth</i>	<i>Underlying growth</i>
North America	2,784	2,929	(2)%	(1)%
Core	806	815	0%	0%
Growth	539	769	(25)%	1%
Total sales	4,129	4,513	(6)%	(1)%

Pearson digital revenues* 2018 vs 2017



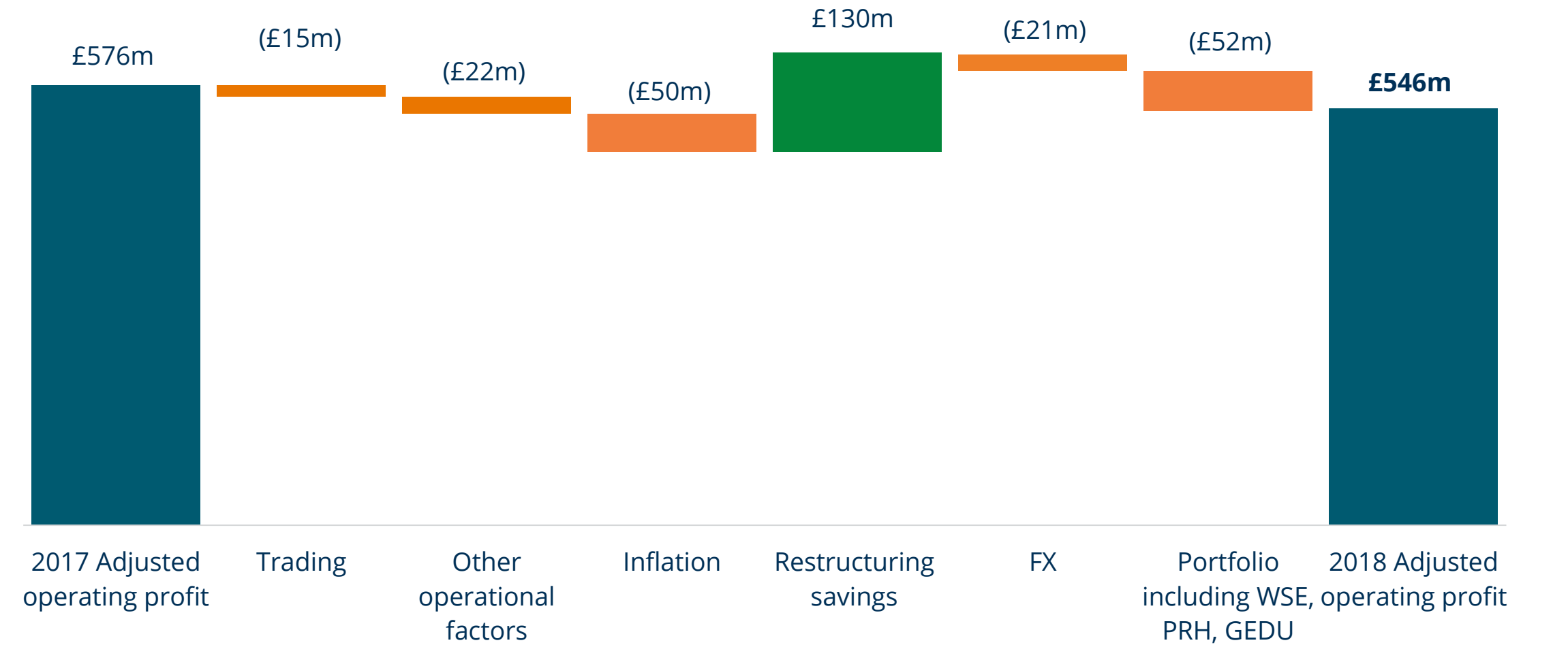
Examples

- **Digital:** MyLab (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

Operating profit

£m	2018	2017	<i>CER growth</i>	<i>Underlying growth</i>
North America	362	394	(4)%	1%
Core	57	50	8%	10%
Growth	59	38	74%	97%
Penguin Random House	68	94	(29)%	10%
Total operating profit	546	576	(2)%	8%

2018 profit movements



Adjusted EPS

£m	2018	2017	Var.
Adjusted operating profit	546	576	(30)
Interest	(24)	(79)	55
Taxation	27	(55)	82
Tax rate	(5.2%)	11.1%	
Profit after tax	549	442	107
Non controlling interest	(2)	(2)	-
Adjusted earnings	547	440	107
Weighted average number of shares (m)	778.1	813.4	
Adjusted EPS*	70.3p	54.1p	16.2p

* Adjusted earnings per share of 70.3p includes a one-off tax benefit of around 20p.

Statutory P&L

£m	2018	2017
Adjusted operating profit	546	576
Amortisation of intangibles	(113)	(166)
Other net gains and losses	230	128
Restructuring cost	(102)	(79)
UK Pension GMP equalisation	(8)	-
Impact of US tax reform	-	(8)
Operating profit	553	451
Interest	(24)	(79)
Other net finance (costs)/income	(31)	49
Profit before tax	498	421
Taxation	92	(13)
Profit after tax	590	408
Basic EPS	75.6p	49.9p

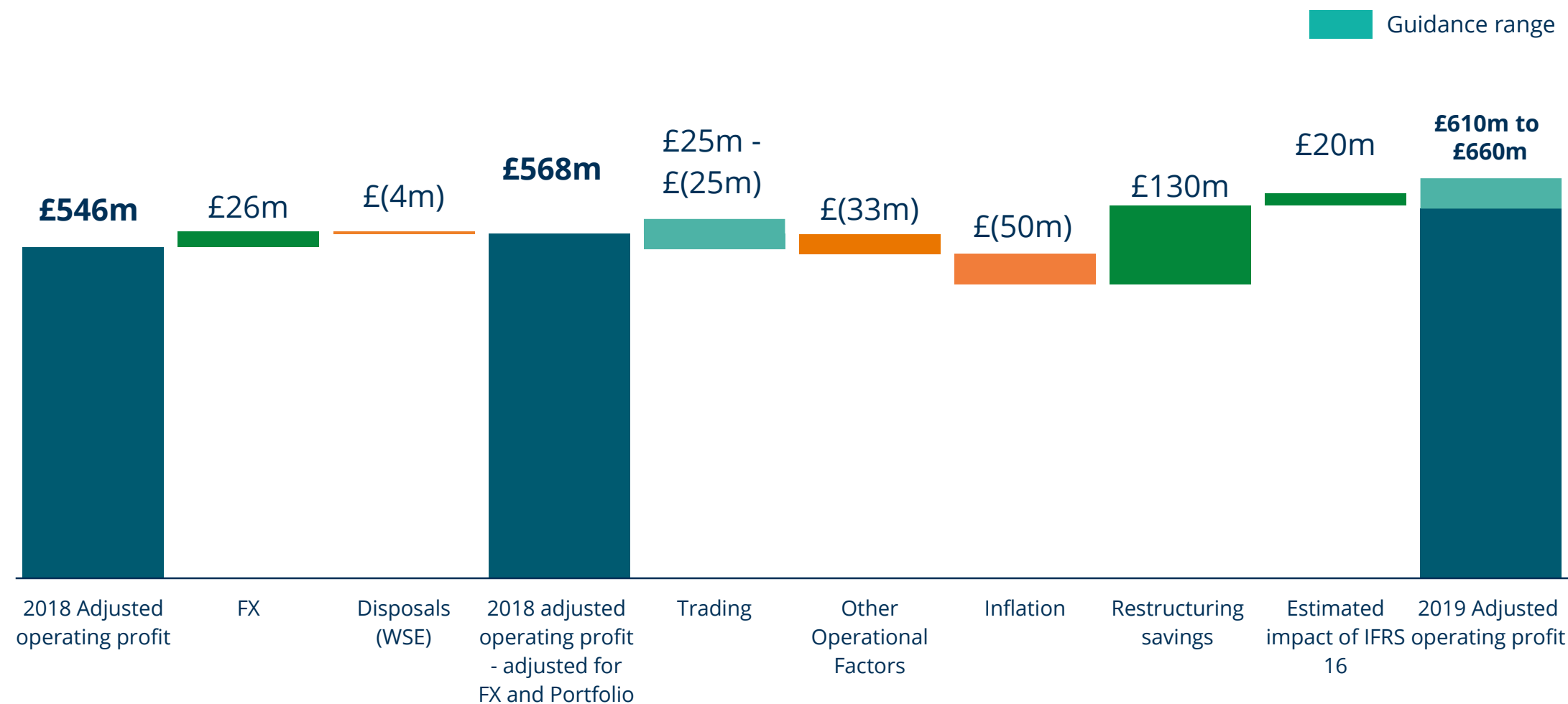
2019 guidance

Full Year 2019 Guidance [†]	Guidance Pre IFRS 16		Guidance including IFRS 16	
	Lower	Upper	Lower	Upper
Adjusted operating profit	£590m	£640m	£610m	£660m
Finance charge	c.£30m		c.£60m	
Tax rate	c.21%		c.21%	
Adjusted EPS	56.5p	62.0p	55.5p	61.0p

FX Sensitivity	A 5c movement in the US Dollar has a c.2.0p- 2.5p impact on EPS
Dividends	Sustainable and progressive
Cash flow	Cash conversion c.90%
Capex	Capital expenditure in line with 2018

Adjusted operating profit excludes the expected restructuring cost of £150m in 2019 associated with the 2017-2019 cost efficiency programme
[†]based on 31 December 2018 exchange rates and portfolio

2019 guidance bridge



2019 guidance assumptions

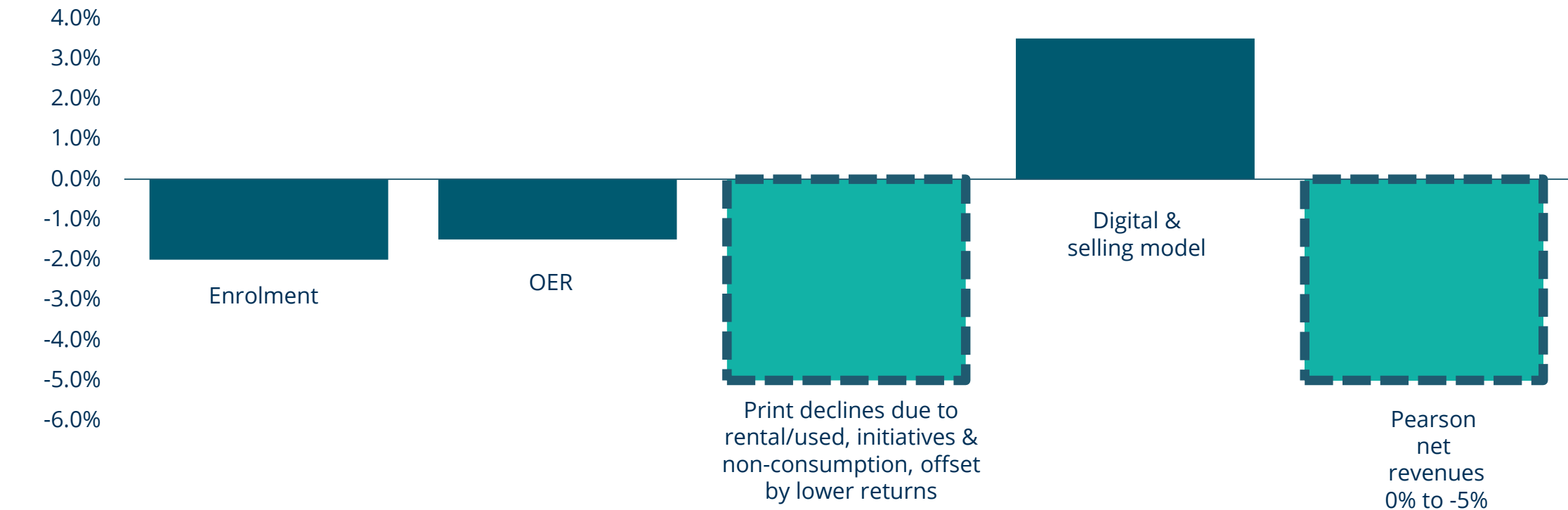
Strategic growth opportunities - assumptions

- Good growth in **Connections Academy virtual schools** enrolment and revenue
- Good growth in **Online Program Management** enrolment and revenue, driven by incremental investment and strong pipeline
- Mid- single digit % revenue growth in **Professional Certification**
- Continued growth in **Pearson Test of English-Academic** and **English Courseware**.

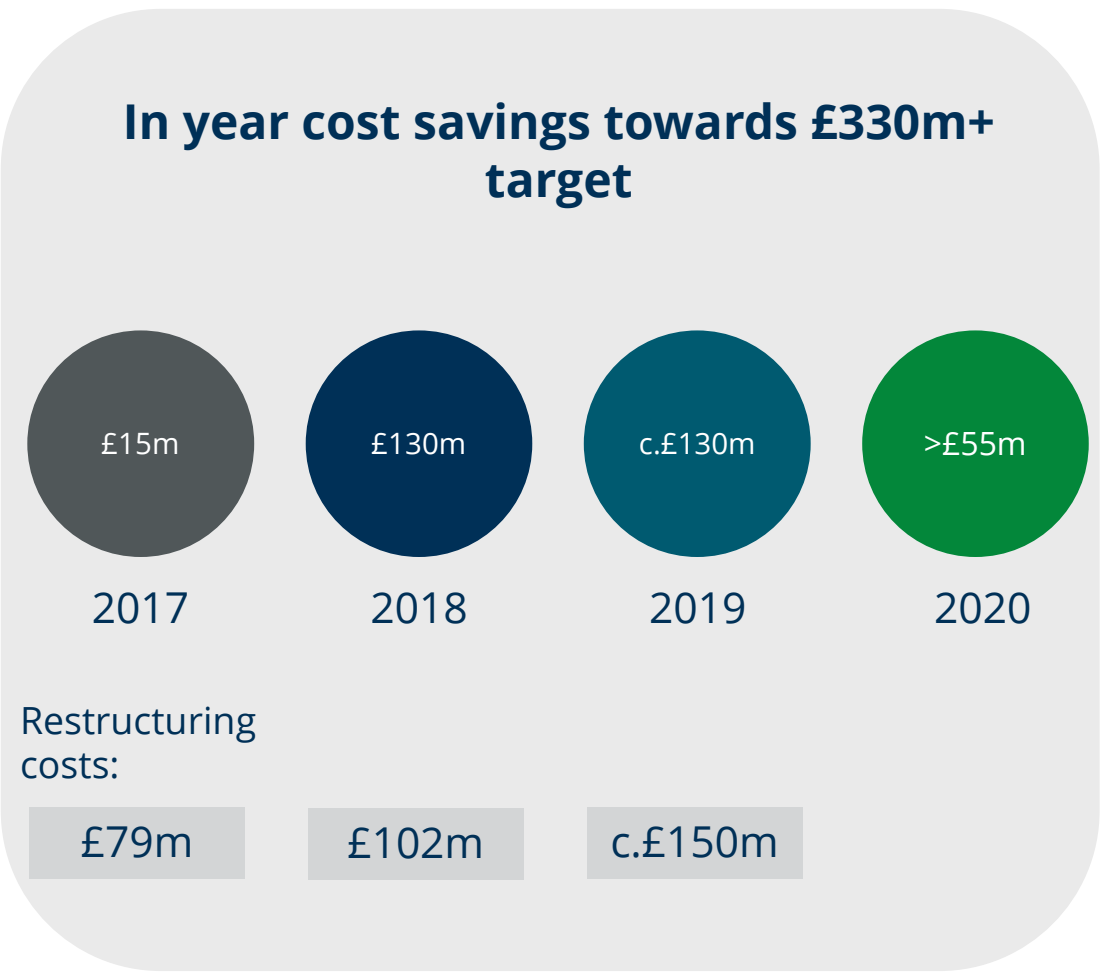
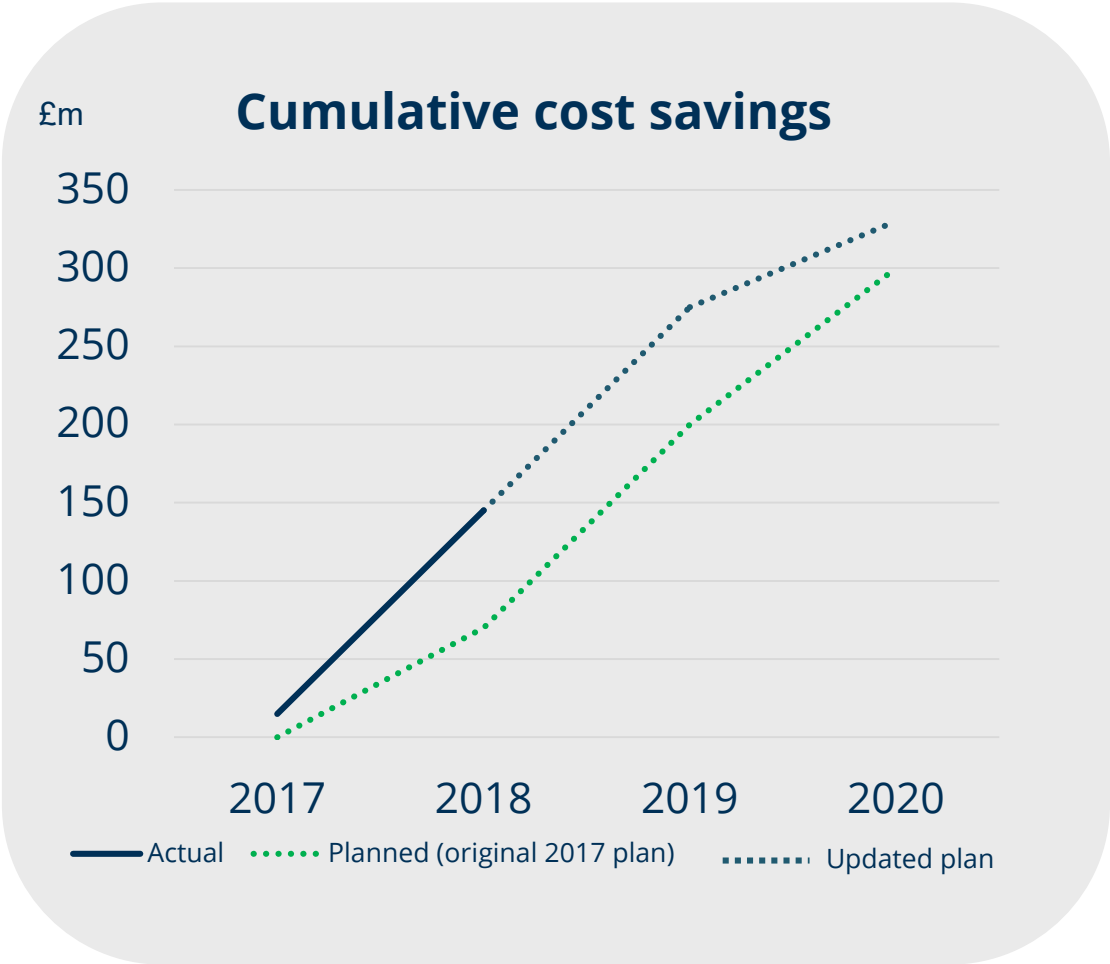
Other assumptions

- **North America:** revenues in **Higher Education Courseware** expected to decline 0-5% with growth in the rest of the segment in aggregate
- **Core:** stable revenue
- **Growth:** revenue growth
- **Penguin Random House:** normalised publishing performance.

2019 US Higher Education Courseware assumptions



Reduce operating costs by more than £330m



Cash flow

£m	2018	2017
Adjusted operating profit	546	576
Change in working capital (ex Pre-Pub)	10	182
Product Development (Pre-Pub) capitalisation	(388)	(362)
Product Development (Pre-Pub) amortisation	327	324
Net CapEx	(194)	(237)
Depreciation	153	162
Share based payments	37	33
Share of operating results of associates	(70)	(114)
Dividends from associates	67	146
Other movements	(16)	(4)
Exchange	41	(37)
Operating cash flow	513	669
Cash conversion %	94%	116%
Restructuring costs paid including net property disposal	25	(71)
Net cash interest paid	(22)	(69)
Cash tax paid	(43)	(75)
Pension funding	-	(227)
Free cash flow	473	227

- Strong operating cash flow of £513m with cash conversion of 94%, supporting continuing investment in our digital transformation and structural growth opportunities
- Well funded UK Group pension plan
 - accounting surplus of £571m

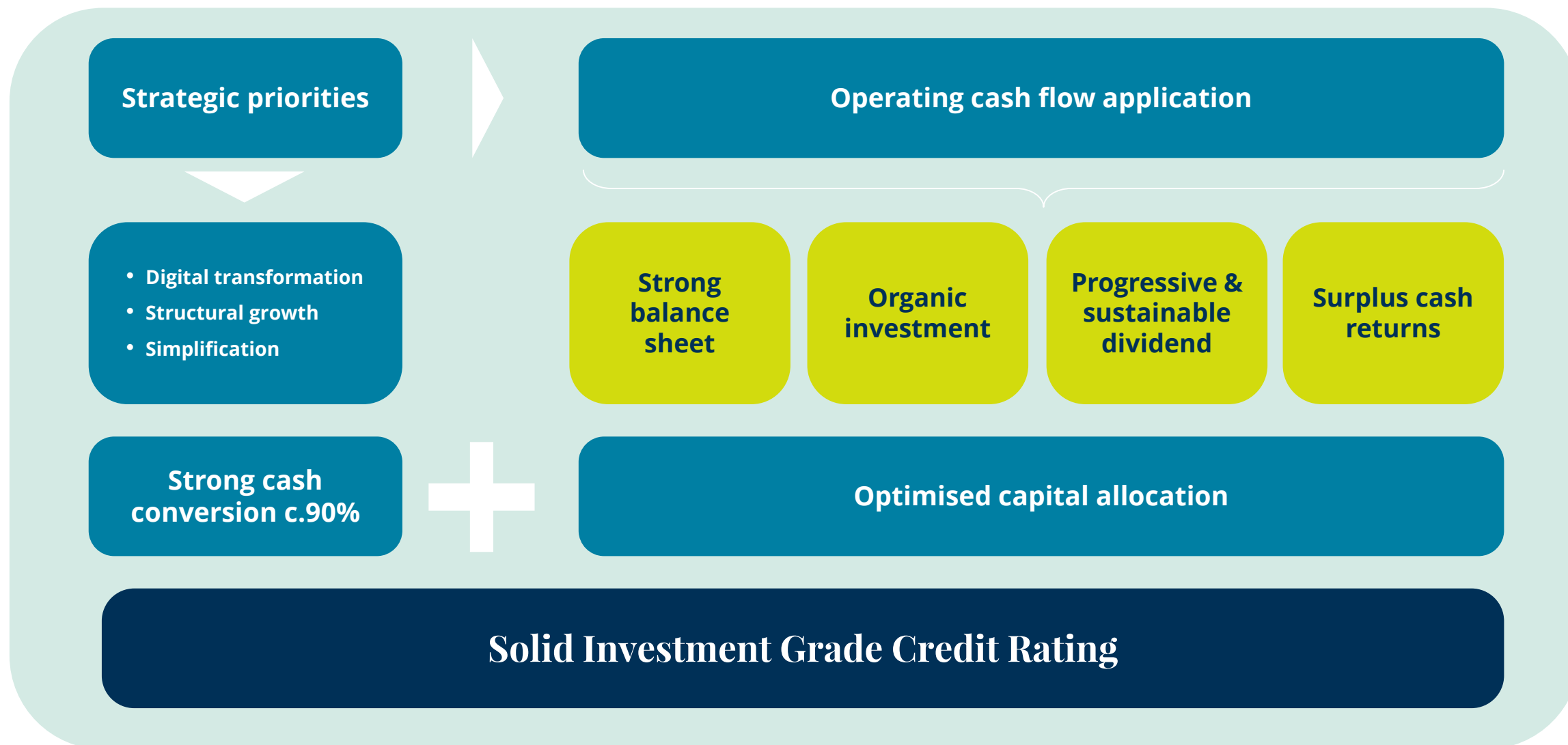
Debt level: IFRS 16 basis

£bn	2018
Net debt	0.1
Adjustment for IFRS 16 net lease liability	0.7
Total net debt adjusted for IFRS 16	0.8
IFRS 16 Net debt ratio to EBITDA 2018	1.1x

No impact on:

1. Our economics
2. How we run the business
3. Cash and cash equivalents

Capital Allocation – our medium term financial framework



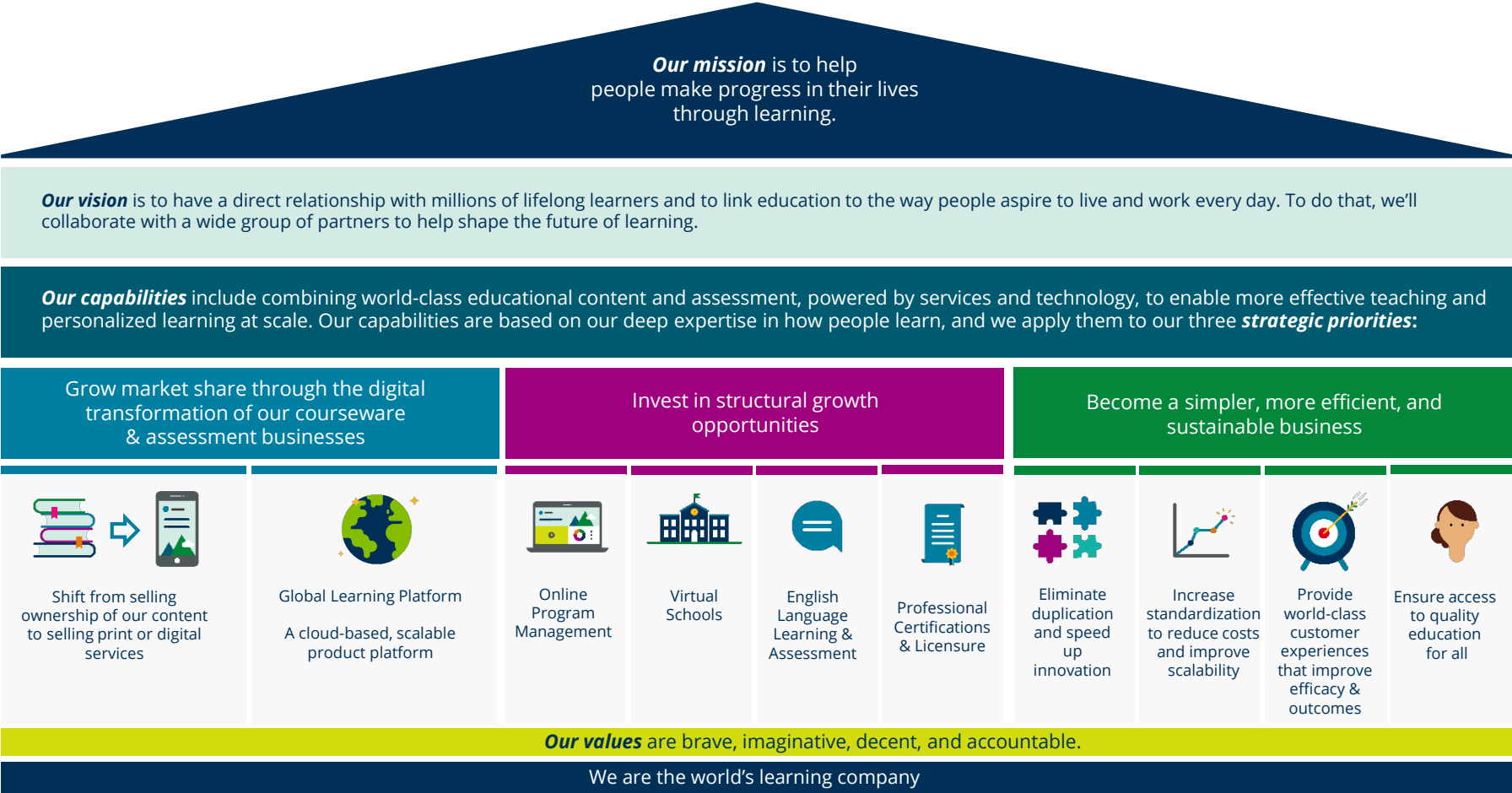


Strategy

Our strategy



Pearson



Strategic priorities

65%*

2018 revenue*

1. Grow market share through digital transformation



Including:

- US Higher Education Courseware
- US Student Assessment
- Core Assessment and Qualification
- Core & Growth Courseware
- Clinical Assessment

35%*

2018 revenue*

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

*Includes all sales other than WSE and K12 Courseware

US & Core Student Assessment & Qualifications

#1. Grow market share
through digital transformation

In the US we partner with educators & districts to develop effective, scalable assessments. In the UK we are a leading awarding organisation offering academic and vocational qualifications.

US Student Assessment

Market

- >30 % share of a c.\$1.2bn+ market evolving slowly to flexible, digital solutions
- Disciplined approach in a transitioning & competitive market

Progress and Priorities

- Leveraging our digital leadership with increased partnering
- Further growth in digital tests
- 33% of open questions marked by AI
- Enabling a future of fewer, better tests more embedded in the workflow of teaching

Competitive Advantage

- Leverage strong IP and track record of delivery at scale
- Led shift towards digital testing with best in class platform, TestNav

Core Student 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

Progress and Priorities

- Curriculum changes and apprenticeship disruption in recent years
- Benefit from new product investment in the near term
- Identify new opportunities for growth in our Growth markets

Competitive Advantage

- Leverage strong IP and track record of delivery at scale
- Pioneering digital assessment platforms
- Investment in IP and new products

US Higher Education Courseware

#1. Grow market share through digital transformation

Market Dynamic

New courseware \$3.2bn, total courseware value c.\$7bn.
Demand generated by c.60-65m course enrolments



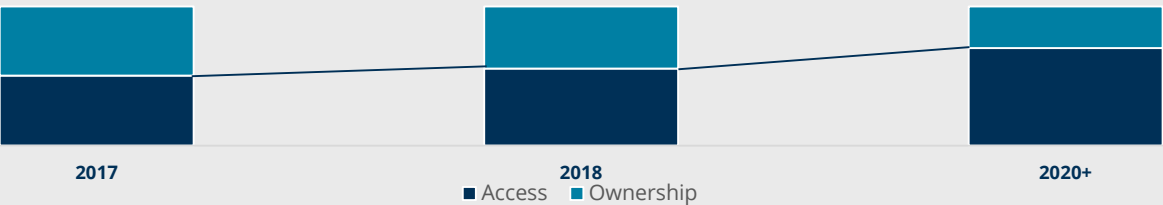
40%+ share of new market
35% share of usage
20% share of value

55% digital; 45% print
Direct to consumer 23% of revenue
Inclusive access 8% of revenue

Moving to an Access Model – Good Progress in 2018

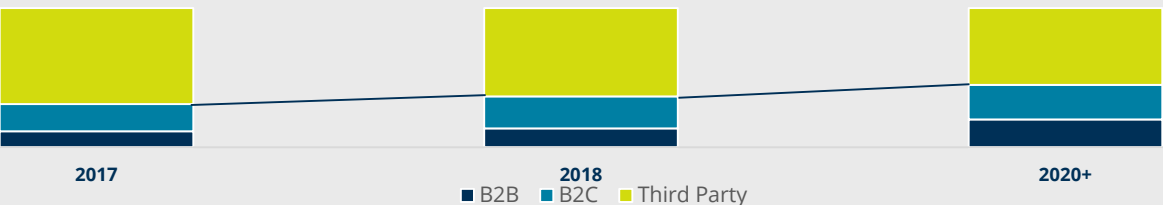
More Subscription

Affordable and Access Initiatives, including our partner print rental programme (PPR), eBooks and Inclusive Access



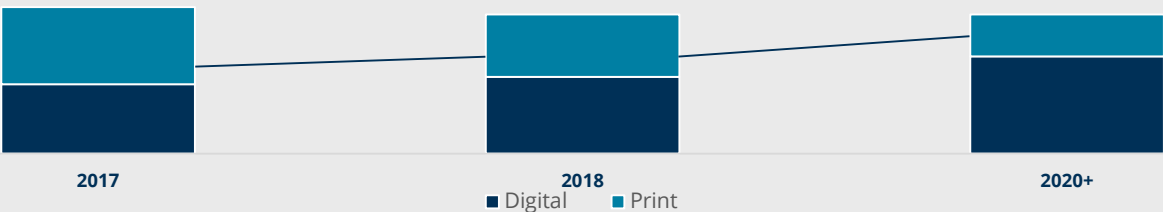
More Direct

Inclusive Access had more than 1.4m course enrolments and c.8% of Higher Ed courseware revenues in 2018



More Digital

Strong product pipeline and planned launch of the Global Learning Platform (GLP) underpinning subscriber growth going forward

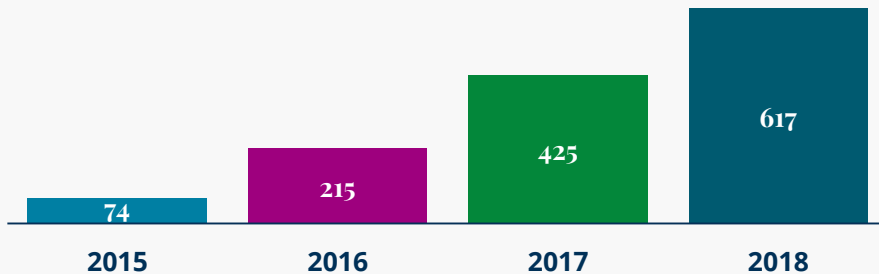


Inclusive Access – accelerating the move to access

#1. Grow market share through digital transformation

Pearson Inclusive Access Partner Institutions¹

More than 600 non-profit institutions are using Pearson Inclusive Access plans, up from less than 100 in 2015



¹In addition to these non-profit & public institutions Pearson also provides Inclusive Access solutions to 80 For Profit colleges

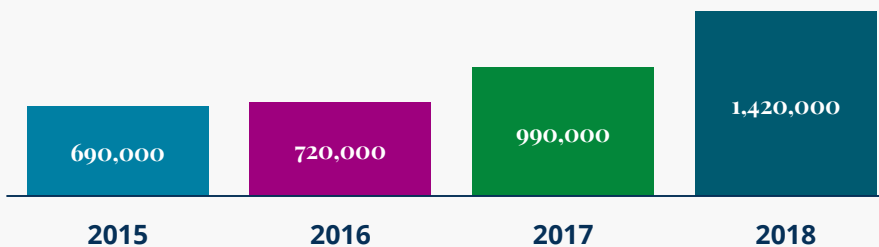
Inclusive Access Partners by School Type

Both two-year and four-year colleges and universities are using Inclusive Access to save students money and make getting course materials more convenient



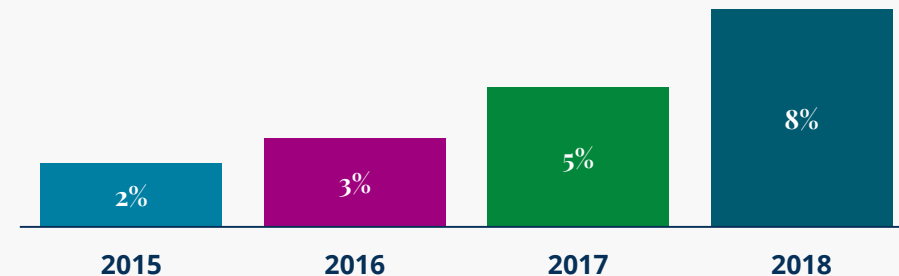
Course Enrolments

Inclusive Access also means convenience. Digital materials are delivered to students on or by the first day of class



Revenues

Inclusive Access is shifting our business model towards access and subscription rather than ownership



Digital first

Accelerating the move to access, more affordable and better learning

Transitioning our product portfolio **from primarily print-led product experiences to digital first products**

- Deliver a portfolio of dynamic evidence based, outcome-led, product experiences
- Leading with digital and print available through rental program or as an “add on”
- Drawing on the latest technology, including AI and machine learning
- More frequent release of content, features and updates
- Enabling customer choice with simple, affordable, convenient access
- Data and insights for instructors to enable better outcomes

#1. Grow market share
through digital transformation



Continuing to lead and shape the market by accelerating to digital first

Online Program Management (OPM)

In our OPM business we partner with universities to offer fully online degrees

OPM

Market

- Global OPM market growing at over 10% per annum
- The US graduate market has 3.3m enrolments growing at c.9%
- 12% of enrolments in the undergraduate markets are online with potential to get to 17% in the near term

Progress and Priorities

- Global course registration growth of 14%
- Growth in 2019 from programs launched in previous years
- Pipeline of new partnerships

Competitive Advantage

- Unique position to offer services globally across postgraduate, undergraduate and short courses
- Strong brand and track record
- Domain knowledge; end-to-end solution, and can leverage further strengths in content + assessment

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

Pearson's Global OPM Business



40+

Academic Partners



55+

Programs launched in 2018



400,000+

Global course registrations



348

Global Programs

Online Program Management

North American Program Economics

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

Strong recurring revenue

- Good visibility
- 70% of 2019 pipeline secured
- Good renewal rate

Attractive return on investment

- Ability to efficiently drive student acquisition cost
- Margin of legacy programs provide investment base for new program launches

Strong pipeline

- Launching 65+ programs in 2019
- Pipeline growing with existing and new partners

- Average contract length 7 – 10 years
- Upfront investment in student acquisition
- Average IRR for contract is > 35% and payback less than 5 years



Connections Academy –Virtual Schools

In our virtual schools business we partner with charter boards to run fully online schools

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

Connections Academy

Market

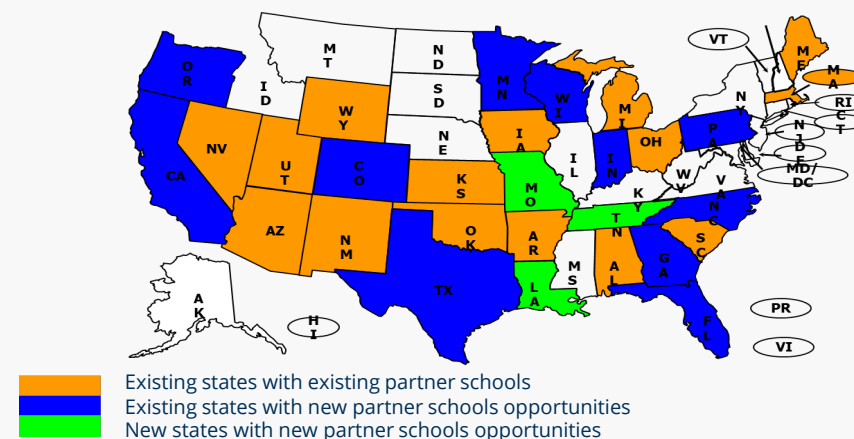
- Virtual school market >\$1.5bn
- 0.5-1% of US K-12 students currently enrolled in fully virtual schools and programs
- Over 5% annual market growth potential

Progress and Priorities

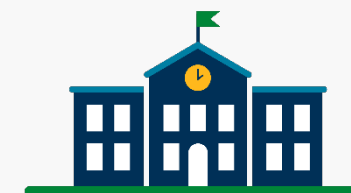
- Full Time Equivalent students in continuing partner schools, up 11% on last year. 3 new full time online partner schools opened for 2018-2019
- Strong pipeline of 2-5 new schools new schools in 2019
- Scale up in existing states; target states with high growth potential

Competitive Advantage

- Uniquely placed to provide full suite of services
- 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



Strong outcomes



- Our 2018 efficacy report shows that Connections Academy students achieve good outcomes for a student population with higher than average mobility
- High parental satisfaction - 93% of families would recommend our virtual schools to others

Professional Certification

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

Pearson VUE develops, manages, delivers and helps customers grow computer-based testing programmes

Professional Certification

Market

- A global market c.\$1.2bn
- #1 in market
- Key competitor: Prometric, in-house testing

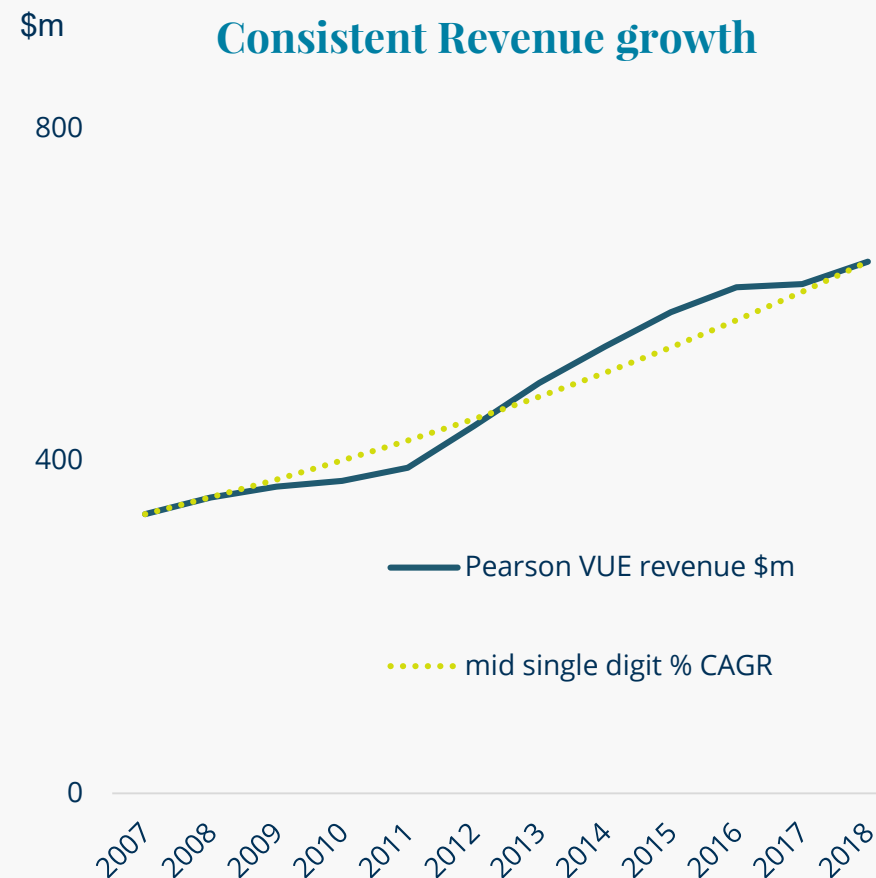
Progress and Priorities

- Delivering testing programmes to 450+ credential owners
- Near-term growth from US Medical College Tests; long-term a proven winner in a growing market

Competitive Advantage

- Digital delivery, leading digital platform
- Flexibility and scalability of testing network: 20,000 centres worldwide
- Proven track record of secure test administration, reliable and accurate scoring.

Consistent Revenue growth



English: PTE-Academic

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

Pearson's digital English language test offered through our global network of test centres

PTE-Academic

Market

- c.1.7bn English speakers globally, expected to be c.2bn by 2020
- c.£1bn market, Pearson #3 in market
- Competitors: IELTS (Cambridge Assessment), TOEFL (ETS)

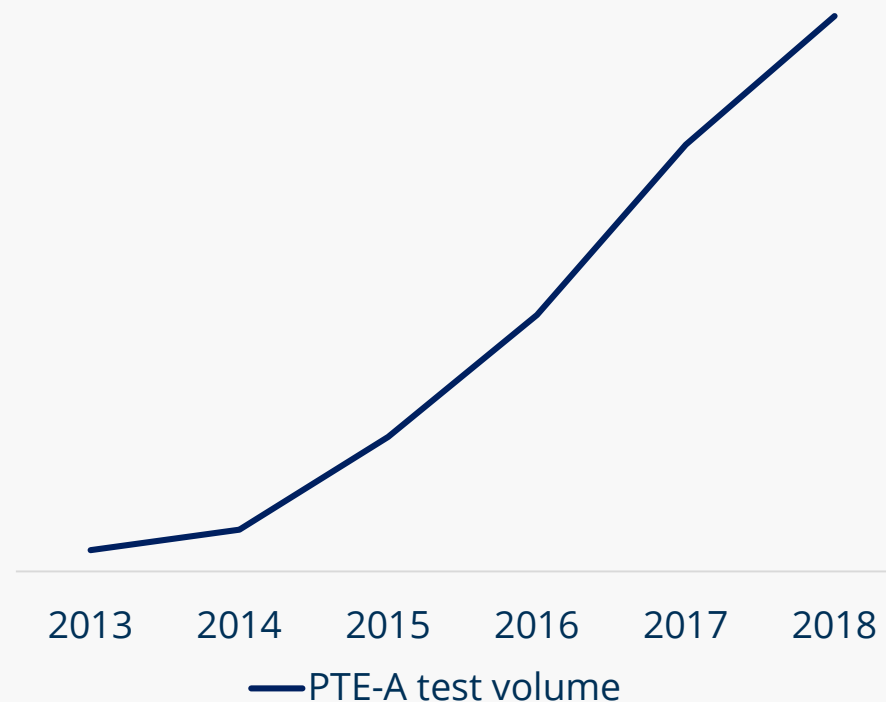
Progress and Priorities

- Test volume growth of 30% in 2018
- Secured two year extension of Australian immigration office contract
- Opportunity to obtain recognition for UK, Canada and China immigration / employment

Competitive Advantage

- Digital platform – taking a test on a computer, with consistent test-taking conditions and avoids human bias
- Global test centre utilising VUE network allowing more flexibility for time of test
- Faster, more accurate and consistent results – 95% of scores returned in 5 working days

Volume growth



Platform for growth

More flexible, more agile, delivering better value and outcomes for customers.

#3. Become simpler and more efficient

Modernisation

- Simplification programme
- ERP implementation
- Efficient processes
- Leaner organisations
- Data driven
- Faster decisions
- Shared services

Innovation & Scale

- Digitising courseware
- Launching direct to consumer app for maths with pioneering AI capabilities
- New AI augmented essay marking
- Online Proctoring

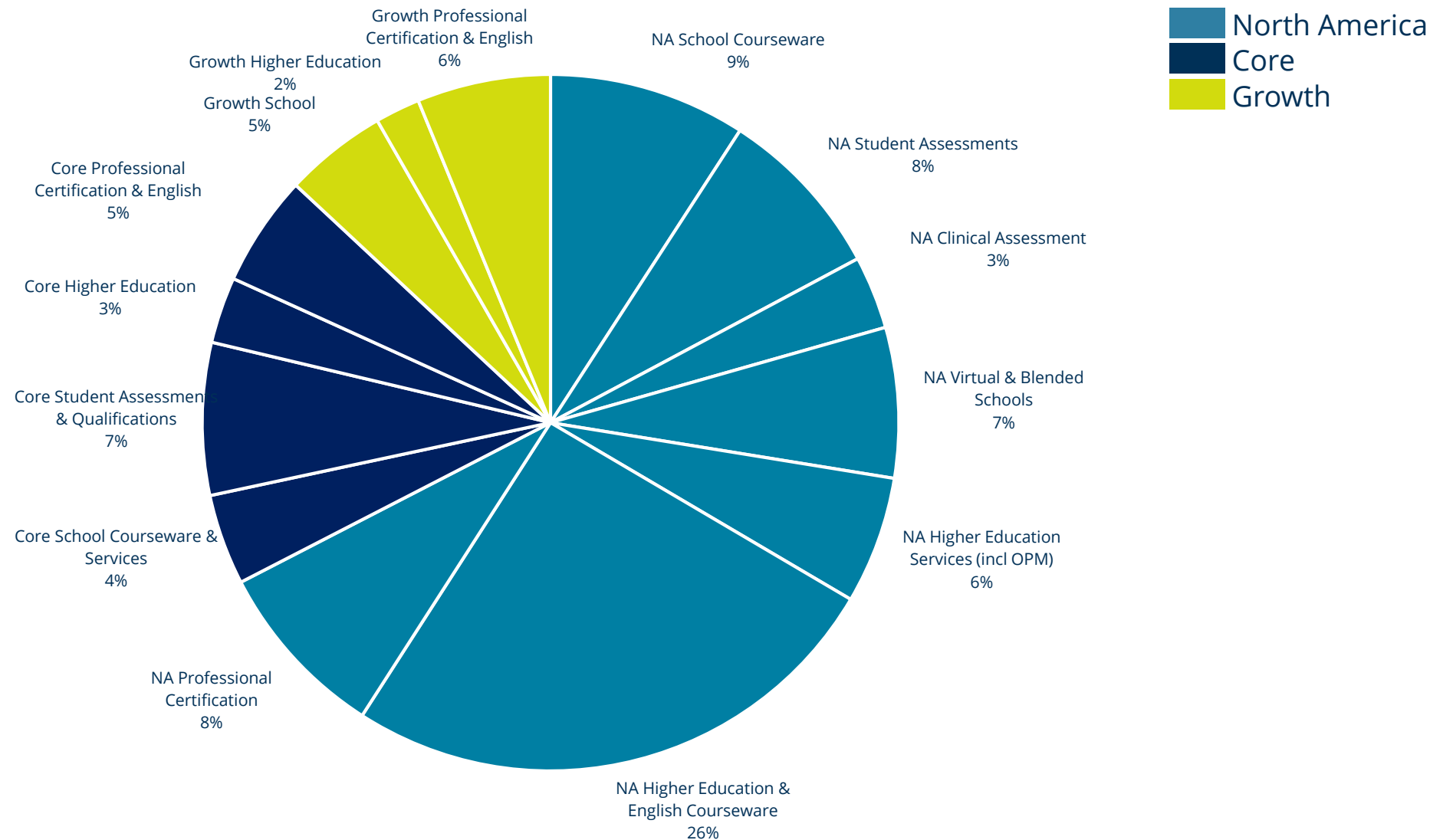
Growth

- Single user identity – for a lifetime of learning
- From unknown to known
- Always on – any time, any where, any device

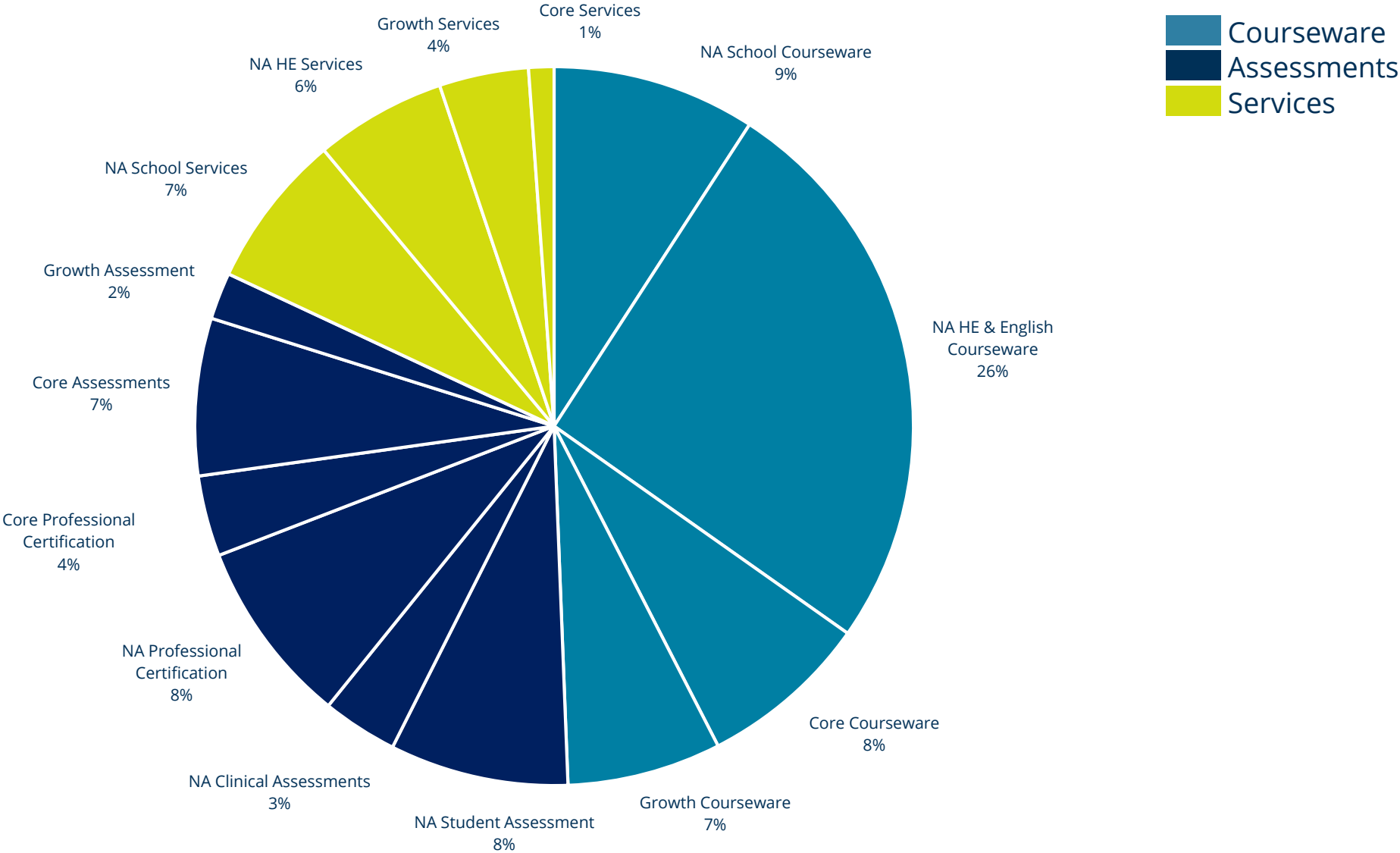


Appendix

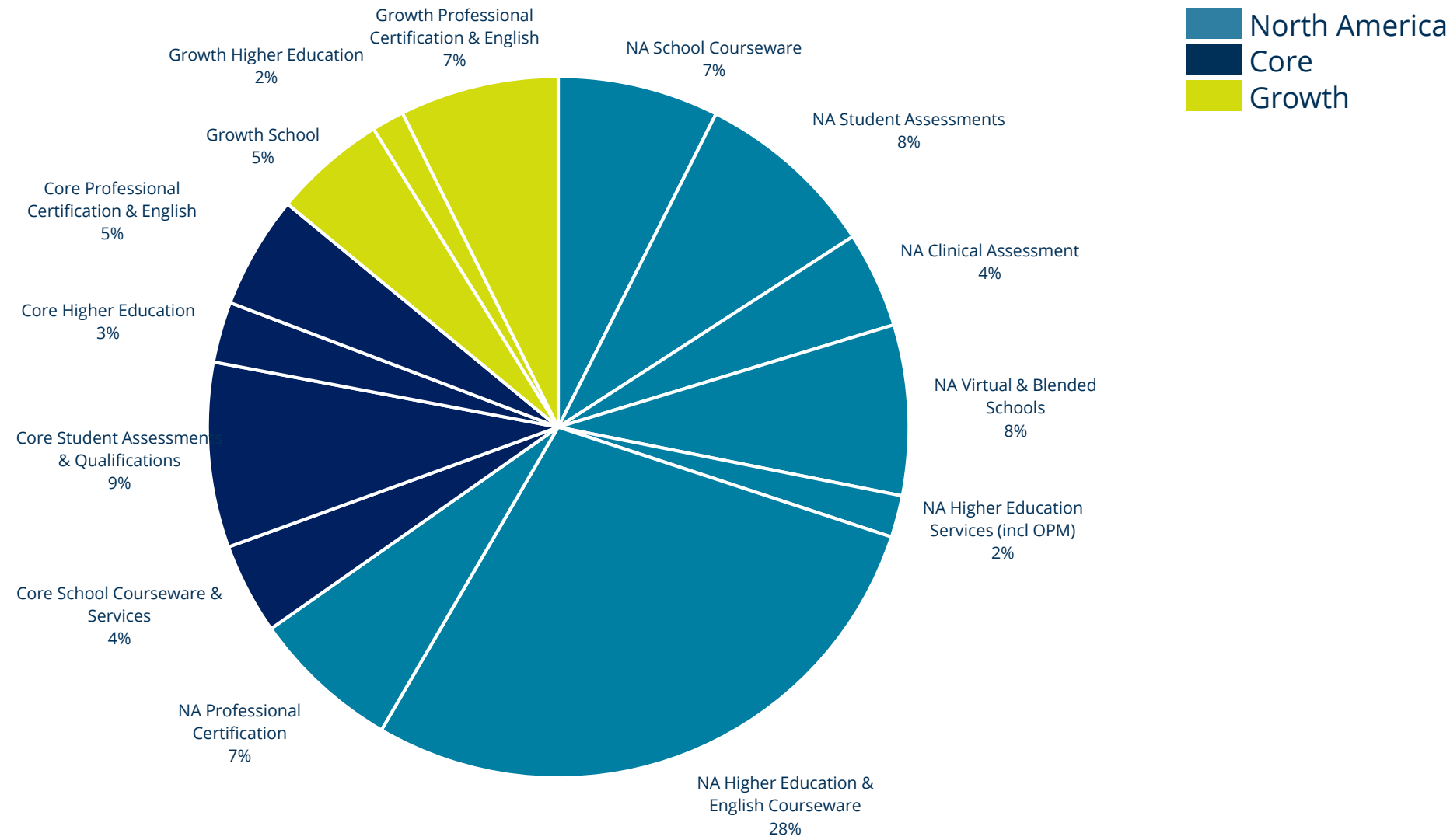
2018 revenue split



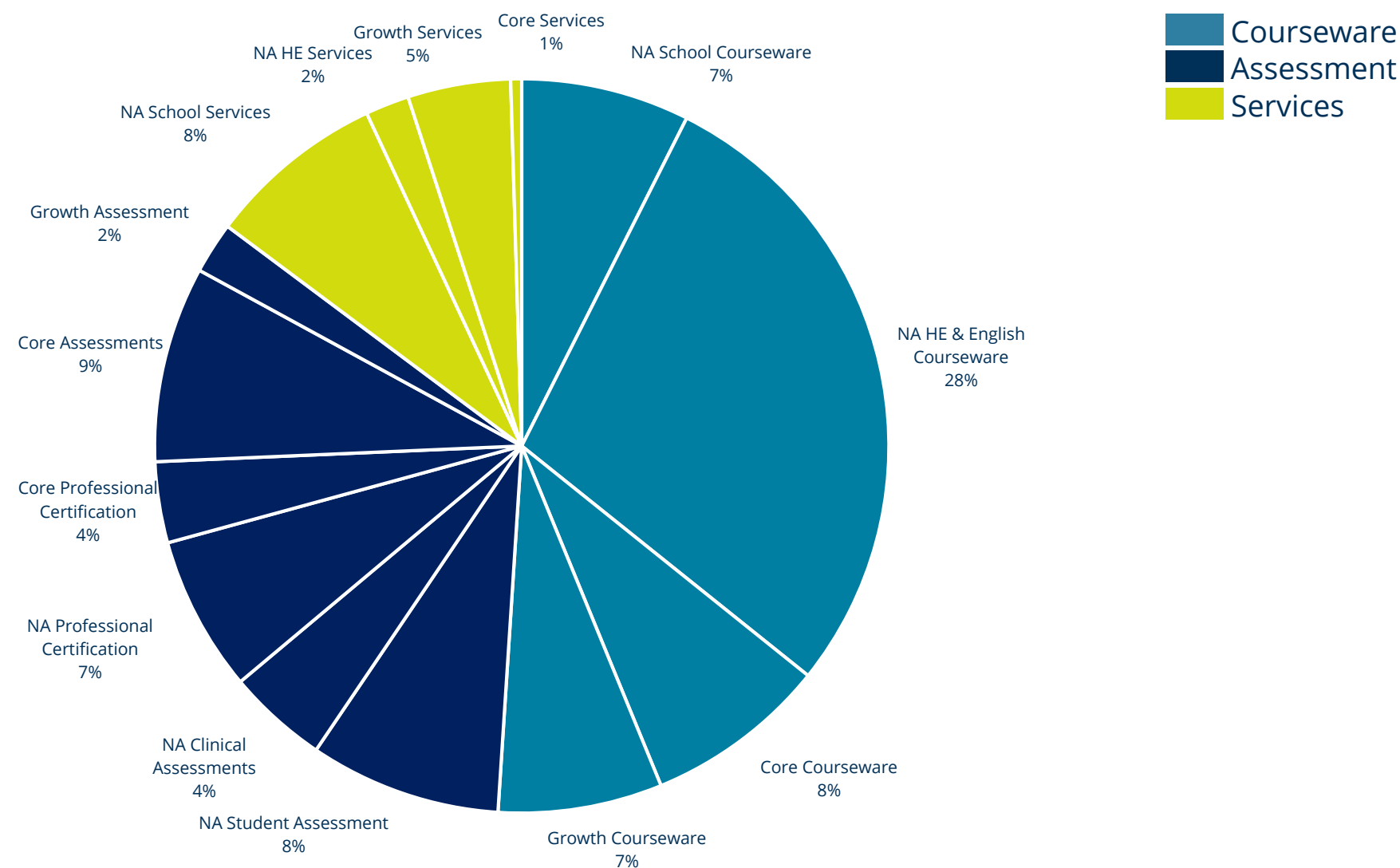
2018 revenue split by product line



2018 contribution split



2018 contribution split by product line



North America – Sales detail

£m	2018	2017	<i>Underlying growth</i>
School Courseware	378	394	(4)%
HE & English Courseware	1,058	1,166	(5)%
Courseware	1,436	1,560	(5)%
School Assessment	332	355	(4)%
Clinical	140	146	(1)%
Professional Certification	344	341	5%
Assessment	816	842	0%
School Services	288	274	8%
HE Services	244	253	3%
Services	532	527	6%
Total	2,784	2,929	(1)%

Core – Sales detail

£m	2018	2017	<i>Underlying growth</i>
School Courseware	172	171	1%
HE Courseware	87	93	(6)%
English Courseware	58	60	(3)%
Courseware	317	324	(2)%
School & HE Assessment	247	256	(4)%
Clinical	45	46	0%
Pearson Test of English	56	47	23%
Professional Certification	94	91	4%
Assessment	442	440	1%
School Services	2	5	(60)%
HE Services	40	34	18%
English Services	5	12	50%
Services	47	51	10%
Total	806	815	0%

Growth – Sales detail

£m	2018	2017	<i>Underlying growth</i>
School Courseware	127	139	(4)%
HE Courseware	57	63	(5)%
English Courseware	102	102	11%
Courseware	286	304	1%
School & HE Assessment	23	23	(4)%
Pearson Test of English	21	18	22%
Professional Certification	43	42	5%
Assessment	87	83	6%
School Services	47	54	0%
HE Services	29	32	(6)%
English Services	90	296	2%
Services	166	382	(1)%
Total	539	769	1%

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	3,177	(168)	3,009	3,145	(181)	2,964
Tangible fixed assets	237	-	237	297	(16)	281
Associates & JVs	392	-	392	398	-	398
Capitalised Product Development (Pre-Pub)	1,059	(242)	817	988	(247)	741
Deferred revenue	(912)	525	(387)	(839)	517	(322)
Traditional working capital	421	(92)	329	376	(52)	324
Deferred tax	22	(98)	(76)	(3)	(66)	(69)
Pensions	471	-	471	441	-	441
Other provisions	(165)	-	(165)	(80)	-	(80)
Other net liabilities	(34)	-	(34)	(270)	-	(270)
Net debt	(143)	-	(143)	(432)	(127)	(559)
Held For Sale	-	75	75	-	172	172
Net Assets	4,525	-	4,525	4,021	-	4,021
Shareholders' funds	4,516	-	4,516	4,013	-	4,013
Minorities	9	-	9	8	-	8
Total Equity	4,525	-	4,525	4,021	-	4,021

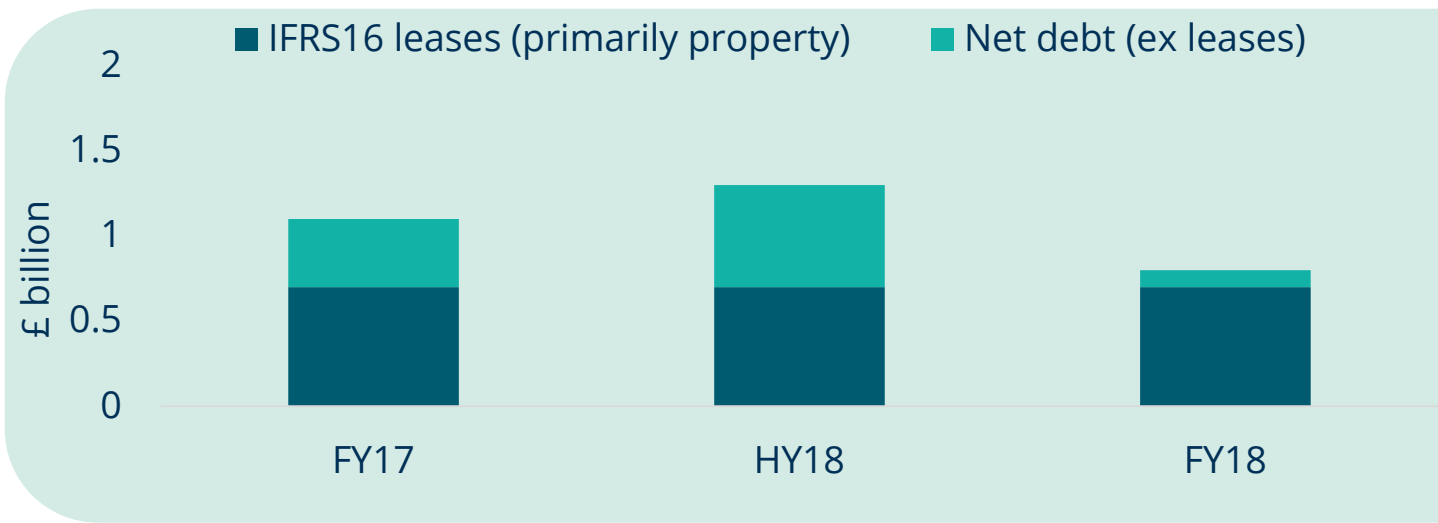
Return on Invested Capital

£m	2018	2017
Adjusted operating profit	546	576
Less: operating tax paid	(43)	(75)
Return	503	501
Total invested capital	10,672	11,568
Gross ROIC	4.7%	4.3%
Net invested capital	7,544	8,126
Net ROIC	6.7%	6.2%

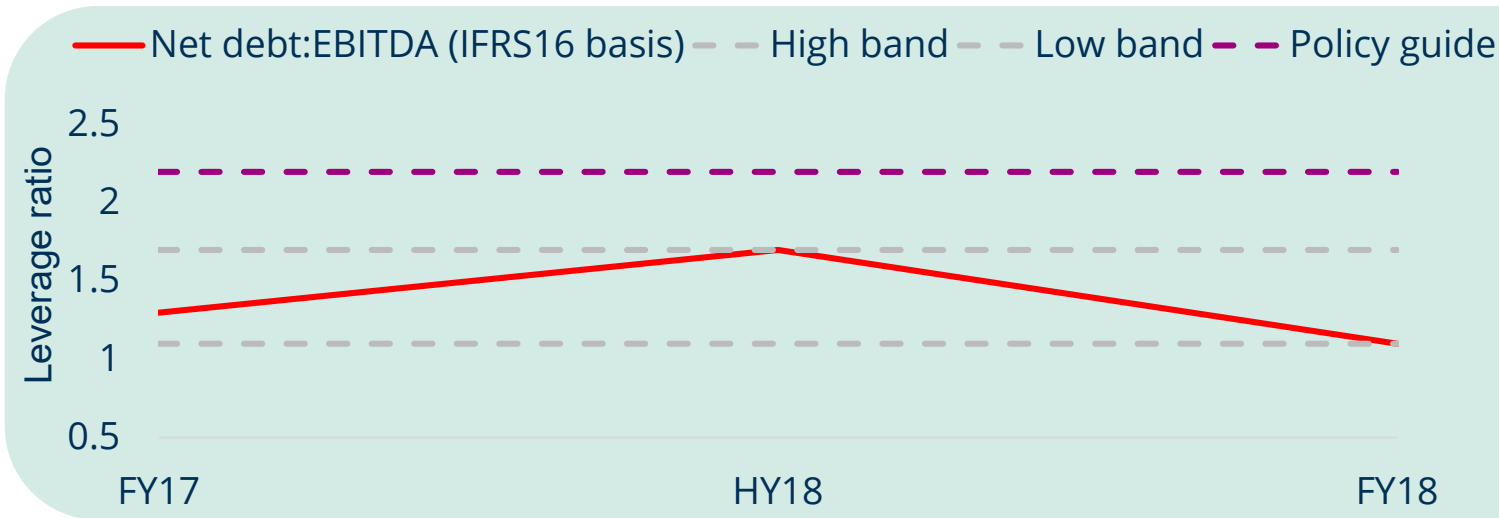
Simplified Credit Rating Agency (CRA) Net Debt/EBITDA

£m	2018	2017
Net debt	143	432
Share buyback remaining cash commitment	-	151
Leases (NPV)	906	933
CRA adjusted net debt	1,049	1,516
EBITDA	699	738
Restructuring	(102)	(79)
Operating lease add back	130	144
PRH disposal	-	(65)
CRA adjusted EBITDA	727	738
Simplified CRA Net Debt to EBITDA	1.4	2.1

IFRS16 leases and debt seasonality



- Capital structure is impacted by:
1. Adoption of IFRS16
 2. Intra-year debt seasonality
 3. Disposals and investment strategy



Our approach has been to maintain net debt to EBITDA of less than 1.5x

Updating this for IFRS16 which makes some of the adjustments that the rating agencies make, this is equivalent to net : EBITDA < 2.2 times.

Reconciliation: statutory to adjusted earnings 2018

£m	Statutory	Restructuring	Other net gains and losses	Intangible charges	Other net finance costs	Impact of GMP equalisation	Tax amortisation benefit	Adjusted earnings
Operating profit	553	102	(230)	113	-	8	-	546
Net finance costs	(55)	-	-	-	31	-	-	(24)
Profit before tax	498	102	(230)	113	31	8	-	522
Income tax	92	(37)	(31)	(18)	(6)	(2)	29	27
Profit for the year	590	65	(261)	95	25	6	29	549
Minority interest	(2)	-	-	-	-	-	-	(2)
Earnings	588	65	(261)	95	25	6	29	547

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: pre-publication costs

£m	2018	2017
Opening balance	988	1,024
Exchange	29	(60)
New spend capitalised	388	362
Acquisitions/disposals/transfers (net)	(6)	-
Amortisation	(327)	(324)
Restructuring charge	(11)	(14)
Closing balance	1,061	988

Including businesses held for sale

Reconciliation: year end net debt

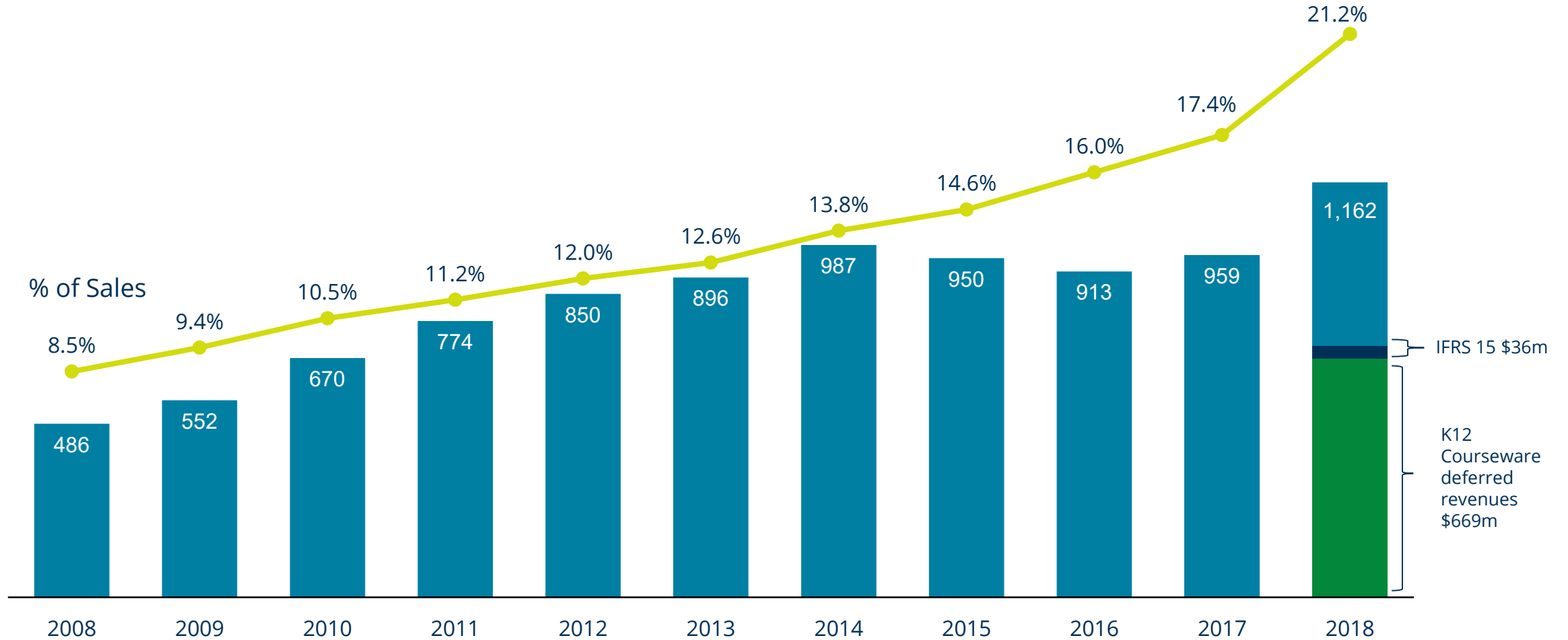
£m	2018	2017
Non current assets		
Derivative financial instruments	67	140
Current assets		
Derivative financial instruments	1	-
Marketable securities	-	8
Cash & cash equivalents	568	518
Non current liabilities		
Borrowings	(674)	(1,066)
Derivative financial instruments	(36)	(140)
Current liabilities		
Borrowings	(46)	(19)
Derivative financial instruments	(23)	-
Total	(143)	(559)
Cash & cash equivalents classified as held for sale	-	127
Net debt	(143)	(432)

Retirement benefit obligations

£m	2018	2017
Income statement		
Operating charge		
Defined benefit schemes	15	19
Defined contribution schemes	56	57
Post retirement medical benefit schemes	(12)	(1)
Non operating charge	8	-
Total charge	67	75
Interest	(11)	(3)
Total	56	72
Balance sheet		
UK pension scheme asset	571	545
Other pension scheme net liabilities	(38)	(26)
Post retirement medical benefit liability	(49)	(67)
Other pension accruals	(13)	(11)
Total	471	441

Deferred revenue*

(\$m)



*excludes GEDU & WSE; includes held for sale

Selected products

Registration and student volume growth

	2018	2017
Courseware		
MyLab/Mastering (Global user registrations)	13,130,000	13,100,000
Revel (Global registrations)	630,000	430,000
Stand alone eBook volume (North America registrations)	1,518,000	1,134,000
Inclusive Access – number of institutions (US non-profit institutions)	617	425
Inclusive Access number of enrolments (US non profit institutions)	1,400,000	1,000,000
MyEnglishLab and other ELT courseware (Global registrations)	1,261,000	1,102,000
Assessments		
State and National Paper (papers marked)	18,492,000	20,419,000
State and National TestNav (tests administered)	24,006,000	25,317,000
BTEC (calendar year registrations)	922,000	1,009,000
Edexcel GCSE/A level (papers marked)	5,373,000	5,562,000
VUE (tests administered)*	15,224,000	14,598,000
Services		
Pearson OPM (Global registrations)	401,000	352,000
Connections Education (Total Full Time Equivalent students)	75,400	77,600
Pearson sistemas (students)	321,000	348,000
Pearson Institute of Higher Education – CTI (students)	7,300	7,300

* 2017 Adjusted for the transfer of volumes to student assessment

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