



Pearson

2019

Interim Results

Friday 26 July 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.

H1 2019 *Financial Highlights*

Revenue

£1,829m

↑ +2% underlying

Adj. operating profit

£144m

↑ +30% underlying

Operating cash flow

£(129)m

H1 2018: £(202)m

Adjusted EPS

13.2p

H1 2018: 8.2p

Interim dividend

6.0p

H1 2018: 5.5p

Net debt

£1,376m
£726m ex IFRS16

H1 2018: £775m

Strategic *Priorities*

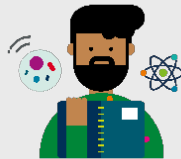
1. Grow market share through digital transformation



-1%
Underlying
Growth
(H1 2019)

65% 2018
Revenue

2. Invest in growing market opportunities



+6%
Underlying
Growth
(H1 2019)

35% 2018
Revenue

3. Become simpler and more efficient



- Modernised systems providing platform for growth
- Increase speed of product development and innovation
- Improve stability and provide better customer experiences



Financial Review & Outlook

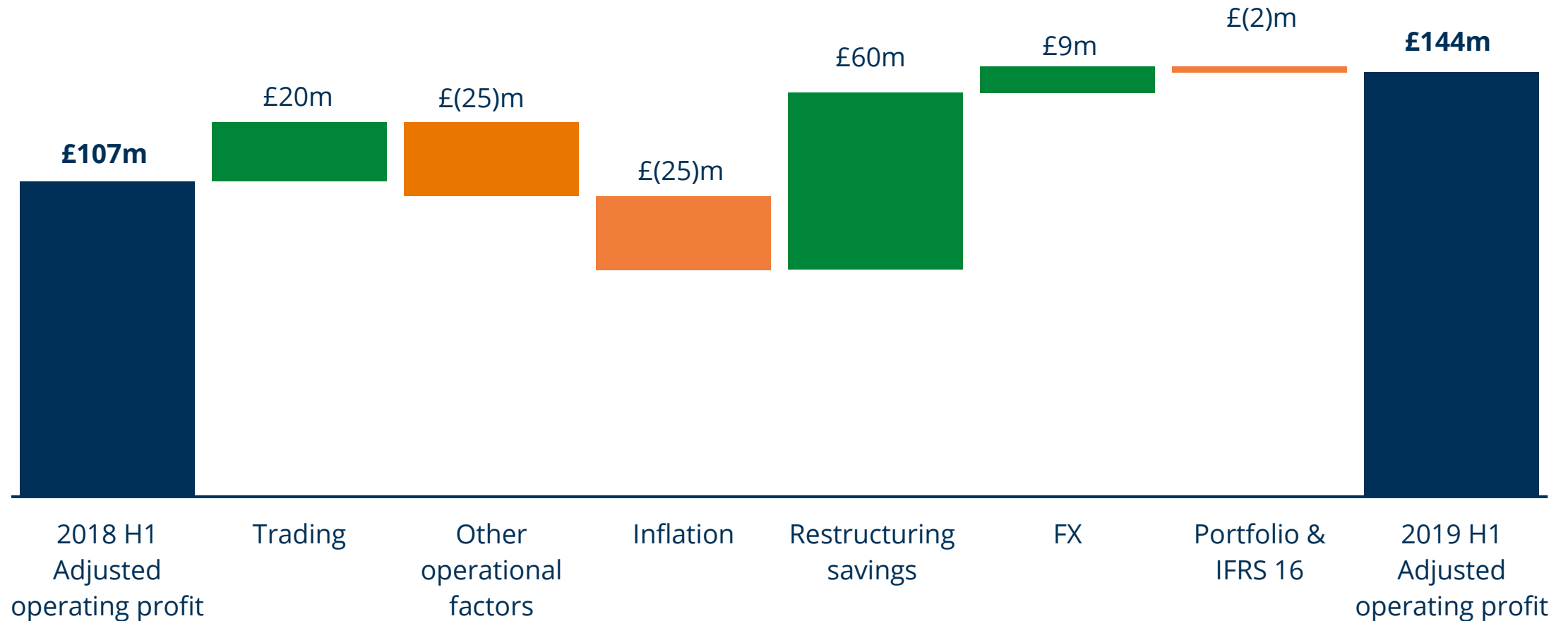
Sales

£m	2019	2018	<i>CER growth</i>	<i>Underlying growth</i>
North America	1,209	1,223	(7)%	1%
Core	403	383	5%	6%
Growth	217	259	(15)%	2%
Total sales	1,829	1,865	(6)%	2%

Adjusted operating profit

£m	2019	2018	<i>CER growth</i>	<i>Underlying growth</i>
North America	79	64	13%	11%
Core	31	10	200%	190%
Growth	9	11	(18)%	50%
Penguin Random House	25	22	9%	9%
Adjusted operating profit	144	107	26%	30%

H1 2019 *Profit Movements*



2019 *Updated Guidance*

Full Year 2019 Guidance [†]	Prior Guidance		Updated Guidance	
	Lower	Upper	Lower	Upper
Adjusted operating profit	£590m	£640m	£590m	£640m
Finance charge	c.£60m		c.£45m	
Tax rate	21%		17-19%	
Adjusted EPS	53.5p	59.0p	57.5p	63.0p

FX Sensitivity

Dividends

Cash flow

Capex

A 5c movement in the US Dollar has a c.2.0p- 2.5p impact on EPS

Sustainable and progressive

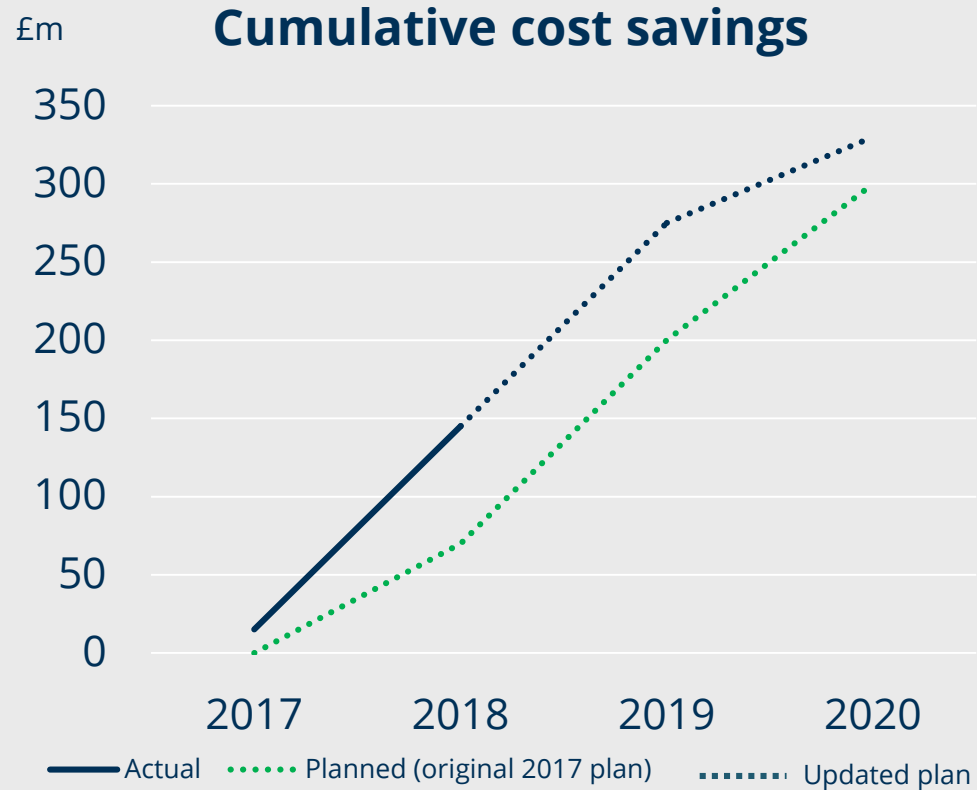
Cash conversion c.90%

Capital expenditure in line with 2018

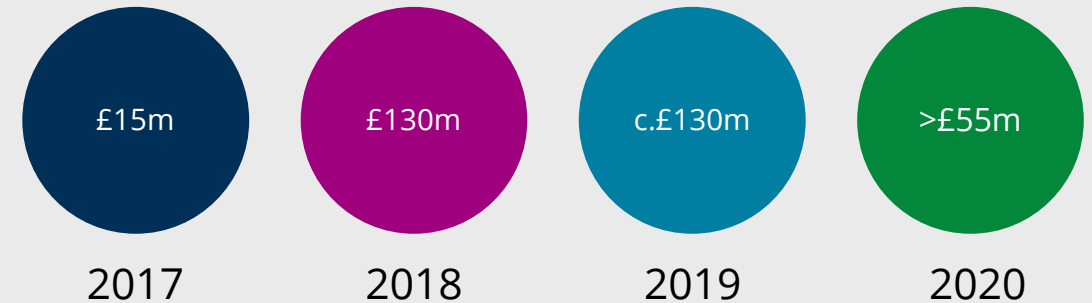
Adjusted operating profit is after adjusting for IFRS16 and the disposal of US K12 Courseware but excludes the expected restructuring cost of £150m in 2019 associated with the 2017-2019 cost efficiency programme

[†]based on 31 December 2018 exchange rates and portfolio

Reduce *Operating Costs* by More Than £330m



In year cost savings towards £330m+ target



Restructuring costs:

£79m

£102m

c.£150m

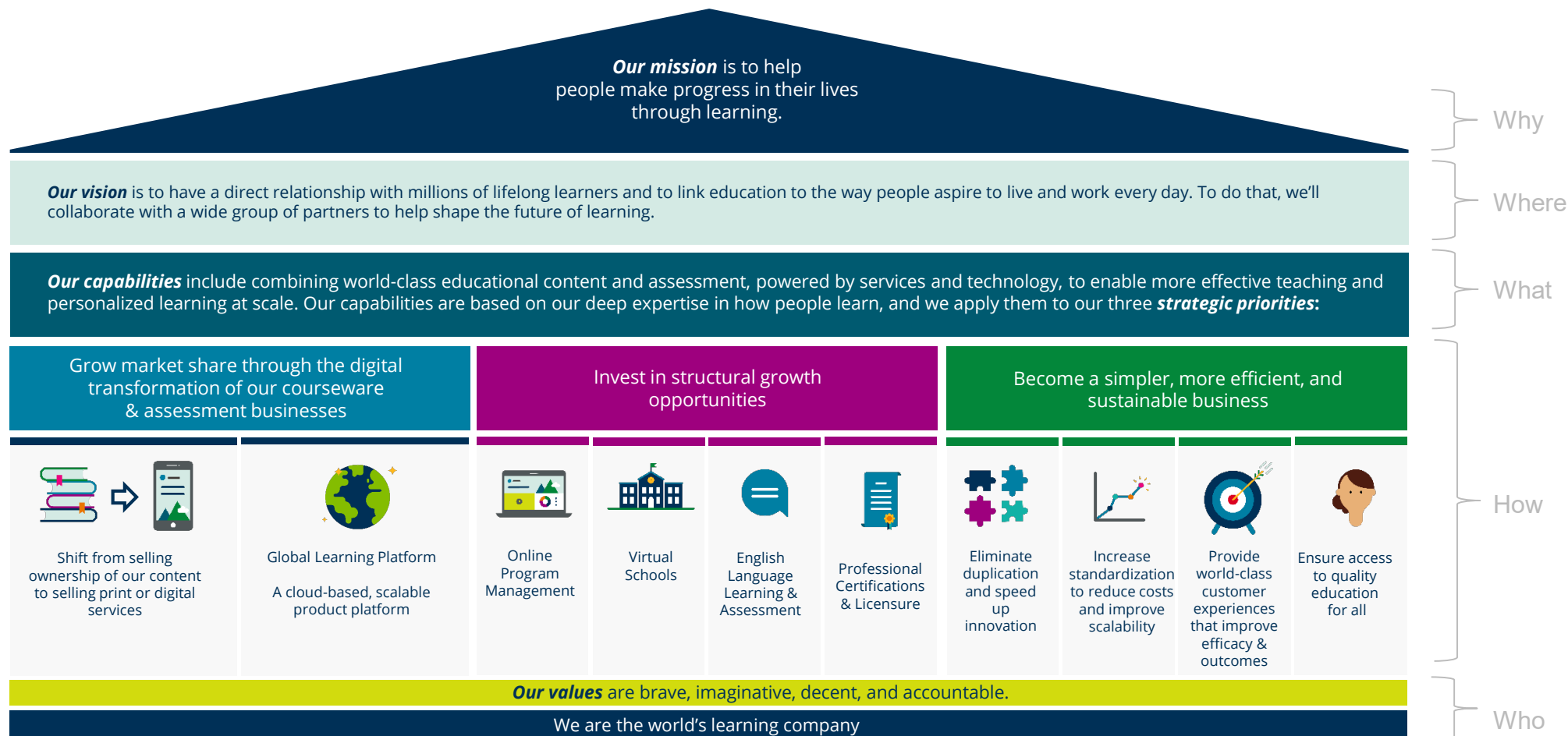
Cash flow and net debt

£m	H1 2019	H1 2018
Adjusted operating profit	144	107
Change in working capital (ex Pre-Pub)	(282)	(273)
Product Development (Pre-Pub) capitalisation	(160)	(166)
Product Development (Pre-Pub) amortisation	133	153
Net CapEx	(87)	(113)
Depreciation	113	73
Share based payments	14	19
Share of operating results of associates	(25)	(22)
Dividends from associates	15	15
Other movements	2	(3)
Exchange	4	8
Operating cash flow	(129)	(202)
Restructuring costs paid including net property disposal	(60)	(27)
Net cash interest paid	(31)	(18)
Cash tax paid	(8)	(8)
Free cash flow	(228)	(255)
Memo: Net Debt	1,376	775
Memo: Net Debt pre IFRS 16	726	775



Executing on Our Strategy

Our *Strategy*



Strategic *Priorities*

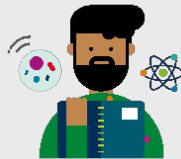
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US & Core Student Assessment & Qualifications

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.

Long-Term Opportunity



US Student Assessment

- Enabling a future of fewer, better tests more embedded in the workflow of teaching



Core Student Assessment & Qualifications

- Increasing focus on Employability
- Global opportunities

H1 *Progress*

US Student Assessment

- Revenue decline as expected
- 20.7m digital tests delivered on the TestNav platform in H1
- 33% of open questions marked by AI
- Recent contract wins in Tennessee, Kentucky, Maryland and New Jersey

Core Student Assessment & Qualifications

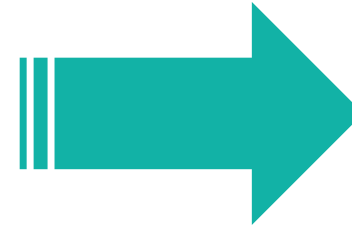
- Good growth in GCSEs, A-levels, BTEC Firsts and Higher Nationals
- New agreements in Thailand and Egypt

Accelerating Access and Digital

Paradigm shift in how we produce and sell materials. No longer revising new editions of print textbooks.

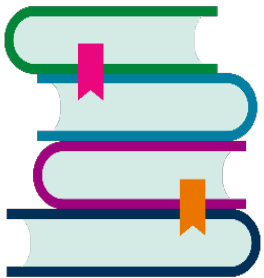
- Three year edition cycle replaced by digital first release with print only becoming available through rental
- Simpler pricing, more affordable choice, more predictable business model
- c. 540 titles out of 1,500 actively managed titles on access only models in 2020
- Pearson 2018 dollar per course enrolment was c.\$50 based on 28m¹ course enrolments
- Moving faster to access with average prices from \$40 for eText to \$79 for digital suite

1. Refined following further analysis see appendix



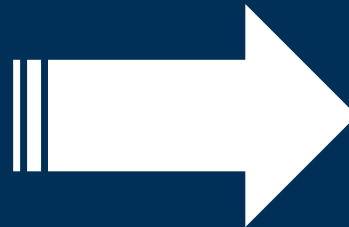
Access

- 1 No secondary market – take back share of value
- 2 More predictable revenue and visibility
- 3 Better quality of earnings



FROM

Text based
edition led
revision cycle
every 3-5 years



TO

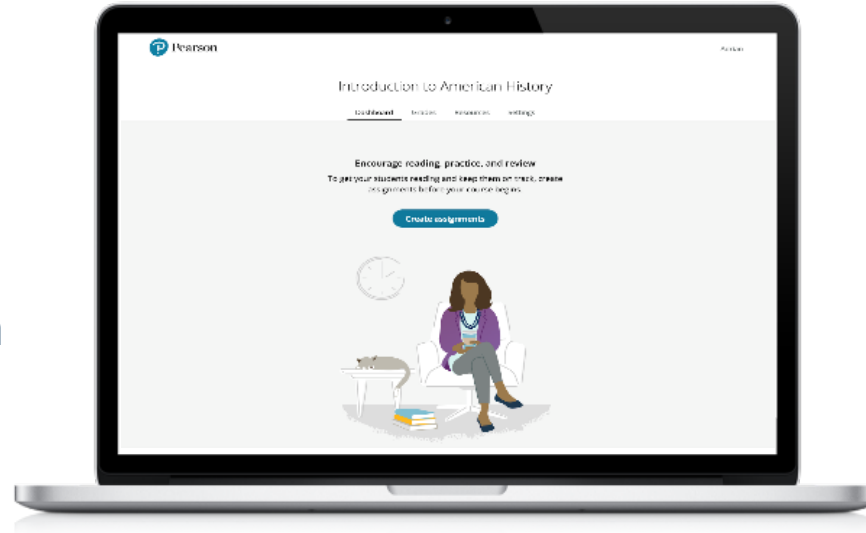
Digital first model with
insight & event driven
content and technology
updates, driven by market
and customer needs


Digital *Innovation*

Driving growth with the upcoming launch of GLP and new Aida app

Revel on GLP

Advancing Our Position
as a Leader in Education

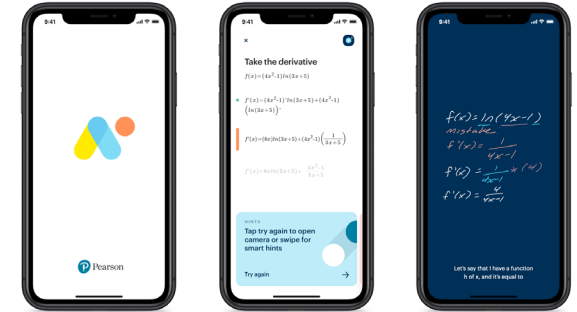


- Scalable, highly learnable information architecture
- Enhanced features to improve learning outcomes
- Available on  amazon alexa



18 of our Revel titles in 2019
300 Additional titles in 2020

Aida by Pearson



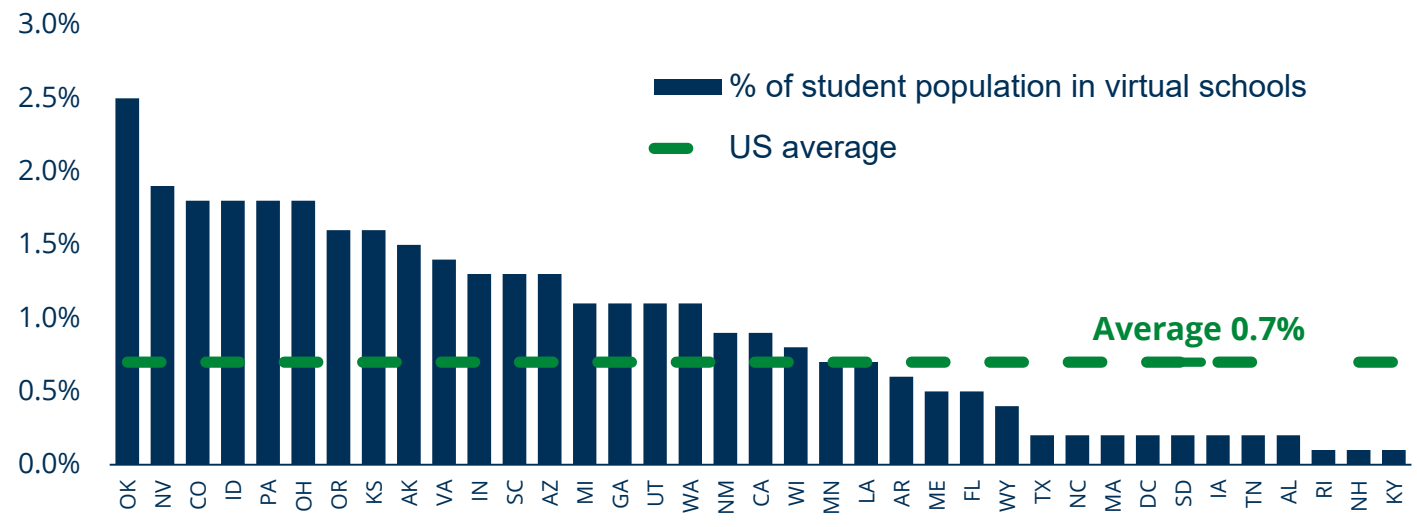
- Pearson's first direct to consumer AI product
- Debuts Pearson as a leader in AI education
- Step by step feedback on handwritten work
- Leveraging machine learning in one of the most critical STEM disciplines: Calc 1

Connections Academy – *Virtual Schools*

Long-Term Opportunity

- Total US virtual school enrolment is **c.360k** or around **0.7%** of the total US K12 population.
- **37 states** have approved virtual schools, covering **>75%** of K12 population and including the most populous states: CA, TX and FL
- Market opportunity with several states showing virtual school enrolment of more than 1.5% of total students but the majority are well below that level

Meeting the unmet demand for online learning



Source: NCES, Pearson estimates

H1 *Progress*

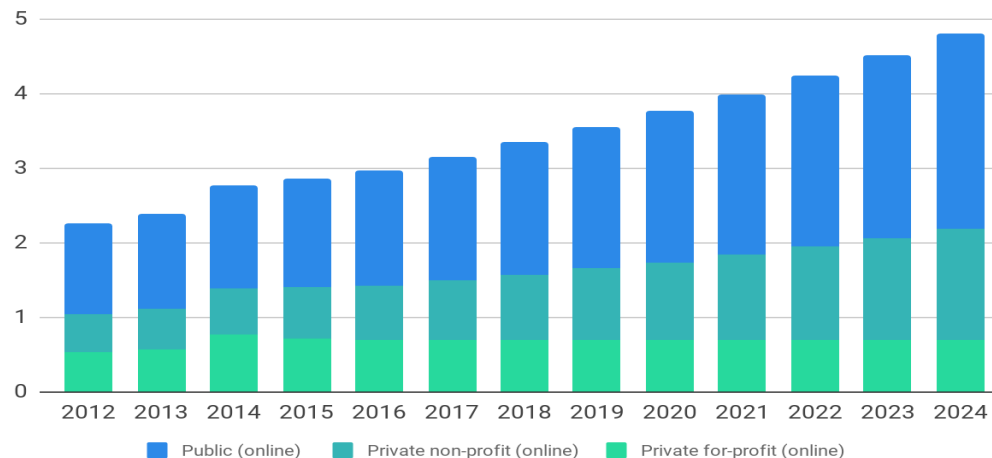
- **Six** new full-time online, state-wide partner schools will open in the 2019-20 school year.
- Connections Academies present in **28 states**
- Enrolment at continuing full time partner schools up 11%

OPM– *Opportunity and progress*

Long-Term Opportunity

- The OPM market projected to **grow to \$5.6bn** by 2024¹
- US online enrolments are growing and **expected to accelerate**¹
- There are c.40m adults in the US with credits towards of an undergraduate degree – **market for undergraduate large and underpenetrated**

U.S postsecondary exclusive online enrolment (in m)



Source: 1. IPEDS 2017, Eduventures, Entangled Solutions

H1 *Progress*



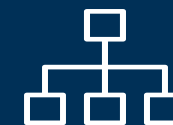
40

Global programs launched in H1 2019



13% growth

Global course registrations



364

Global Programs

Professional *Certification*

Long-Term Opportunity

Pearson VUE develops, manages, delivers and helps customers grow computer-based testing programmes; from online practice tests to high-stakes, proctored exams that require the industry's most secure testing environments



#1 global player in a c.\$1.2bn market



Partnering with 450+ credential owners



20,000 worldwide testing centres



Proven track record of secure test administration



More than 15 million tests administered in 2018

H1 *Progress*

- **8%** growth in test volumes
- **17** new agreements
- **30** renewals

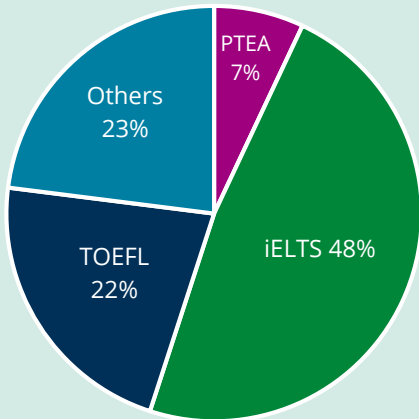
English *Assessment*

H1 *Progress*

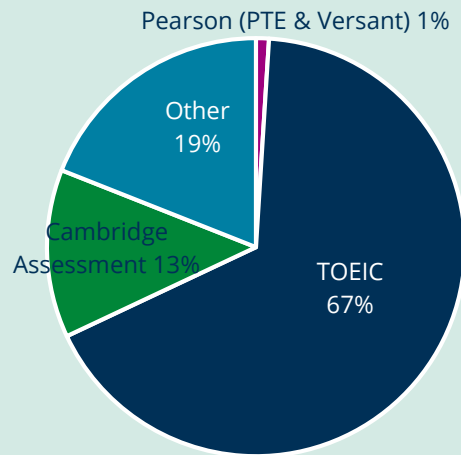
Long-Term Opportunity



Study & Visa market
c.\$1.3bn



Employment & School
Proficiency Market
c.\$1bn



Assessment aligned
English Language
Learning Ecosystem
>\$0.5bn

Super Saver Packages

Purchase one of our three preparation kits that include Scored Practice tests and Sample Questions, or buy a combination of Scored Practice tests and Sample Questions. You can also log into your Practice Test account to take tests you have already purchased.

Platinum Test Preparation Kit	Gold Test Preparation Kit	Silver Test Preparation Kit
US\$79.99 (Save \$37.97)	US\$59.99 (Save \$21.98)	US\$39.99 (Save \$5.99)
What you get: x3 Scored Practice Tests Sample Questions	What you get: x2 Scored Practice Tests Sample Questions	What you get: Scored Practice Test Sample Questions
Buy Now	Buy Now	Buy Now

- Pearson Test of English Academic volume up 18%
- 179 new universities began accepting Pearson Test of English Academic

H1 2019 *progress*

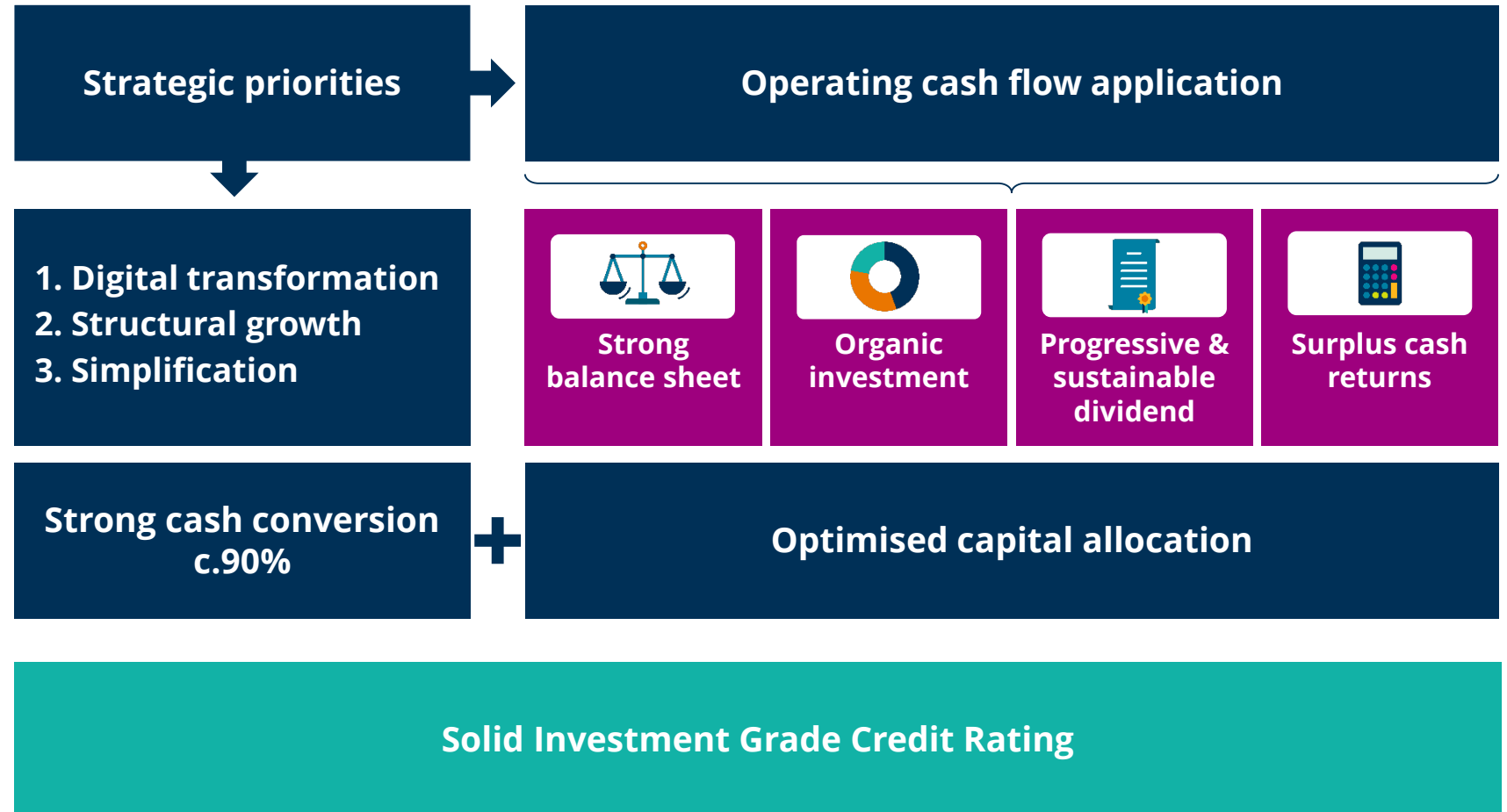
- Delivering against strategic priorities
- Underlying revenue growth
 - Momentum in structural growth opportunities more than offsetting the decline in US Higher Education Courseware and US Assessment
- Continued investment in our digital transformation
- Simplification programme on track
- Adjusted operating profit guidance reiterated



The background is a dark blue field filled with a repeating pattern of stylized galaxies and stars. The galaxies are depicted as blue rings with a central white dot, some appearing as simple circles and others as more complex, overlapping loops. The stars are represented by small white dots of varying sizes. In the center of the image is a large, solid white circle.

Appendix

Capital Allocation – Our Medium Term Financial Framework



US HE courseware TAM – Updated

New market analysis refines our understanding of the gap between value and usage.

Volume	125m total course enrolments (CE)	A more comprehensive roll up of instructional hours vs our prior estimate of 90m
TAM	85m+ accessible CE	A larger market with a longer tail of courses accessible to courseware than the prior estimate of 60-65m
Market	\$7bn-\$7.7bn	A larger accessible market of courses implies are larger primary and secondary market suggesting the value of the TAM is somewhat larger than the prior estimate of \$7bn
Usage	Pearson share of usage: 32% =c28m annual CE	Underlying share in key courses is stable but a larger market implies our share of usage is slightly lower than the original estimate of 35%
Value	Pearson share of value: 18%	A larger secondary market implies our share of value is slightly lower than the prior estimate of 20%

Balance Sheet

£m	2019 Reported	2018 Reported	2018 Held for Sale	2018 Incl Held For Sale
Goodwill / intangible assets	3,062	3,067	(72)	3,139
Tangible fixed assets	642	268	-	268
Associates & JVs	426	385	-	385
Capitalised Product Development (Pre-Pub)	834	771	(239)	1,010
Deferred revenue	(398)	(304)	471	(775)
Traditional working capital	648	392	(163)	555
Deferred tax	(42)	(86)	(86)	-
Pensions	337	570	-	570
Other provisions	(33)	(74)	-	(74)
Other net assets / (liabilities)	192	(206)	-	(206)
Net debt	(1,376)	(775)	-	(775)
Held For Sale	-	89	89	-
Net Assets	4,292	4,097	-	4,097
Shareholders' funds	4,282	4,088	-	4,088
Minorities	10	9	-	9
Total Equity	4,292	4,097	-	4,097

ALWAYS LEARNING