

2020 Interim Results

24th July



Pearson

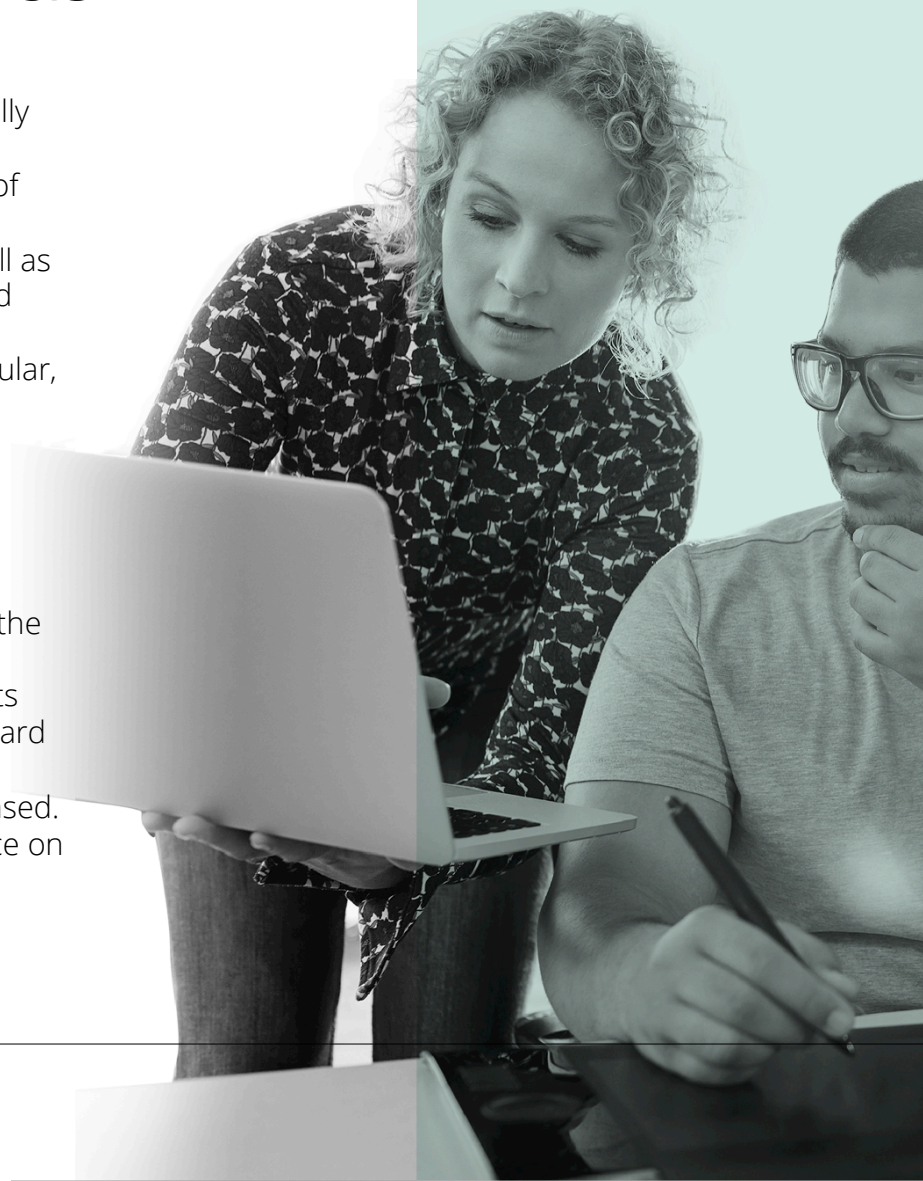
Forward-looking statements

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.

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H1 2020 Financial Highlights -

Significant disruption as a result of COVID-19

- * **£260m COVID-19 impact on sales**
- * **£140m COVID-19 impact on profit** - driven mainly by test centre / school closures in Global Assessment and International offset by cost mitigations
- * Deterioration from March to May, June sales showing **improving trends**
- * Uncertainty remains but business **well placed to bounce back**:
- * **Financial strength** enabling continued dividend

Revenue

£1,492m

down 17% underlying

Adjusted operating loss

£(23)m

(H1 2019: profit of £144m)

Operating cash flow

£(214)m

(H1 2019: £(129)m)

Adjusted losses per share

(5.1)p

(H1 2019: earnings of 13.2p)

Interim dividend

6.0p

(H1 2019: 6.0p)

Net debt

£982m

(H1 2019: £1,376m)

H1 2020 - Highlights

Global Online Learning

21%

of Group Revenue

OPM:

- In the last three months, applications are up significantly year on year
- Digitisation of recruitment and enrolment processes starting to deliver productivity gains

Virtual Schools:

- Applications up 61% in the first half of the year

Global Assessment

27%

of Group Revenue

Pearson VUE:

- More than 8x increase in online proctored tests to 580,000 compared to H1 2019

US Student Assessment:

- Won two new contracts

US Clinical Assessment:

- 33% increase in the use of our digital platform

North American Courseware

25%

of Group Revenue

US Higher Education Courseware:

- Digital registrations including ebooks are up 5% year to date and 10% for Q2
- In July, new digital course creations by faculty using Pearson platforms are up

International

27%

of Group Revenue

English:

- My English Lab active users have increased by over 40% to 1.1m year on year
- Nearly doubled test bookings for PTE in China in month of June vs last year

Assessment:

- In Egypt, online testing volumes rising from around 5.9m in the whole year to around 19.8m in the first half of this year

Financial Review & Outlook



Pearson

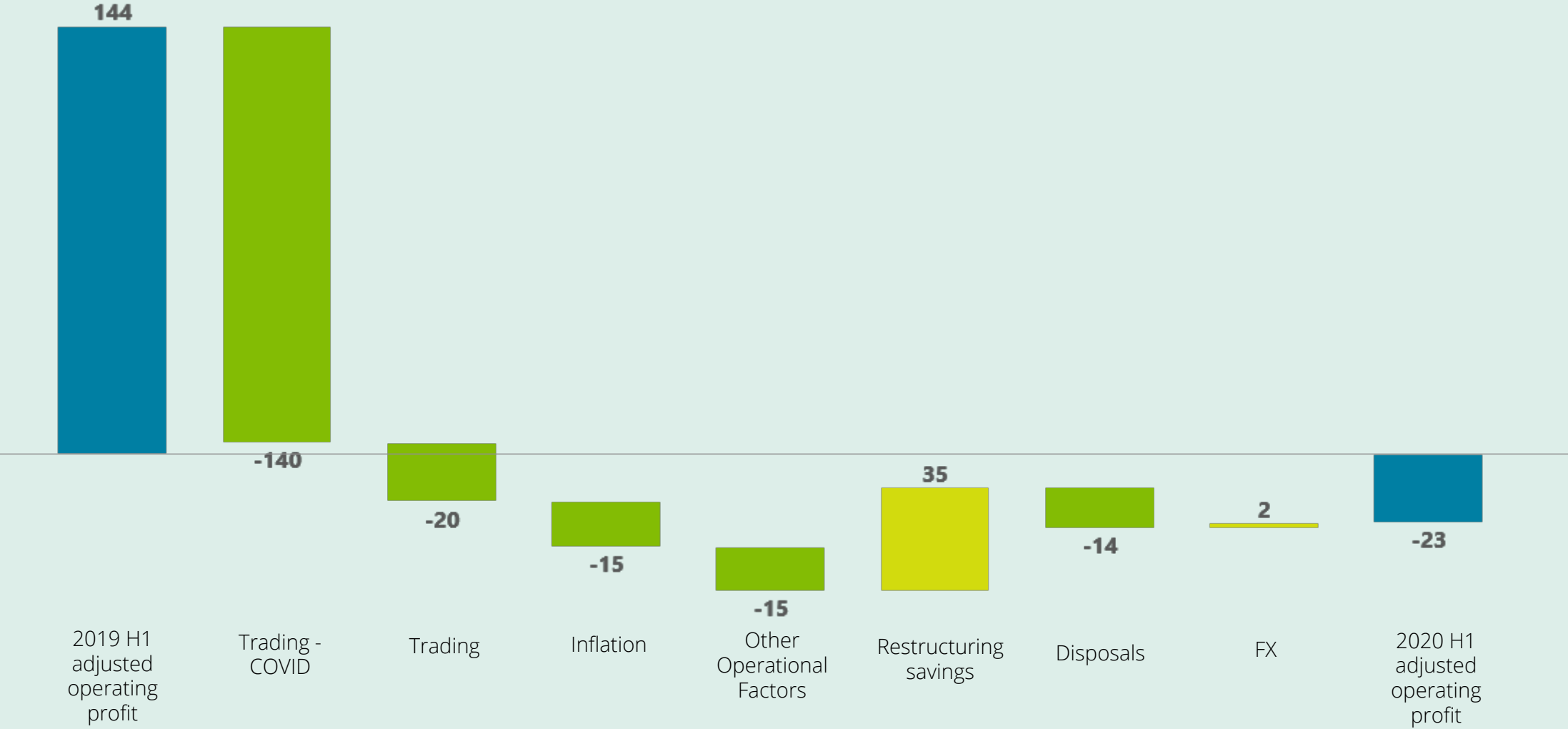
Sales

£m	H1 2020	H1 2019	CER growth	Underlying growth
Global Online Learning	316	288	6%	5%
Global Assessment	397	525	(27)%	(27)%
North American Courseware	375	475	(24)%	(14)%
International	404	541	(23)%	(23)%
Total sales	1,492	1,829	(20)%	(17)%

Adjusted operating profit

£m	2020	2019	CER growth	Underlying growth
Global Online Learning	24	41	(44)%	(41)%
Global Assessment	71	174	(61)%	(61)%
North American Courseware	36	28	21%	(11)%
International	46	120	(60)%	(60)%
Enabling Functions	(201)	(244)	19%	19%
PRH	1	25	(96)%	-
Total adjusted operating (loss)/profit	(23)	144	(117)%	(119)%

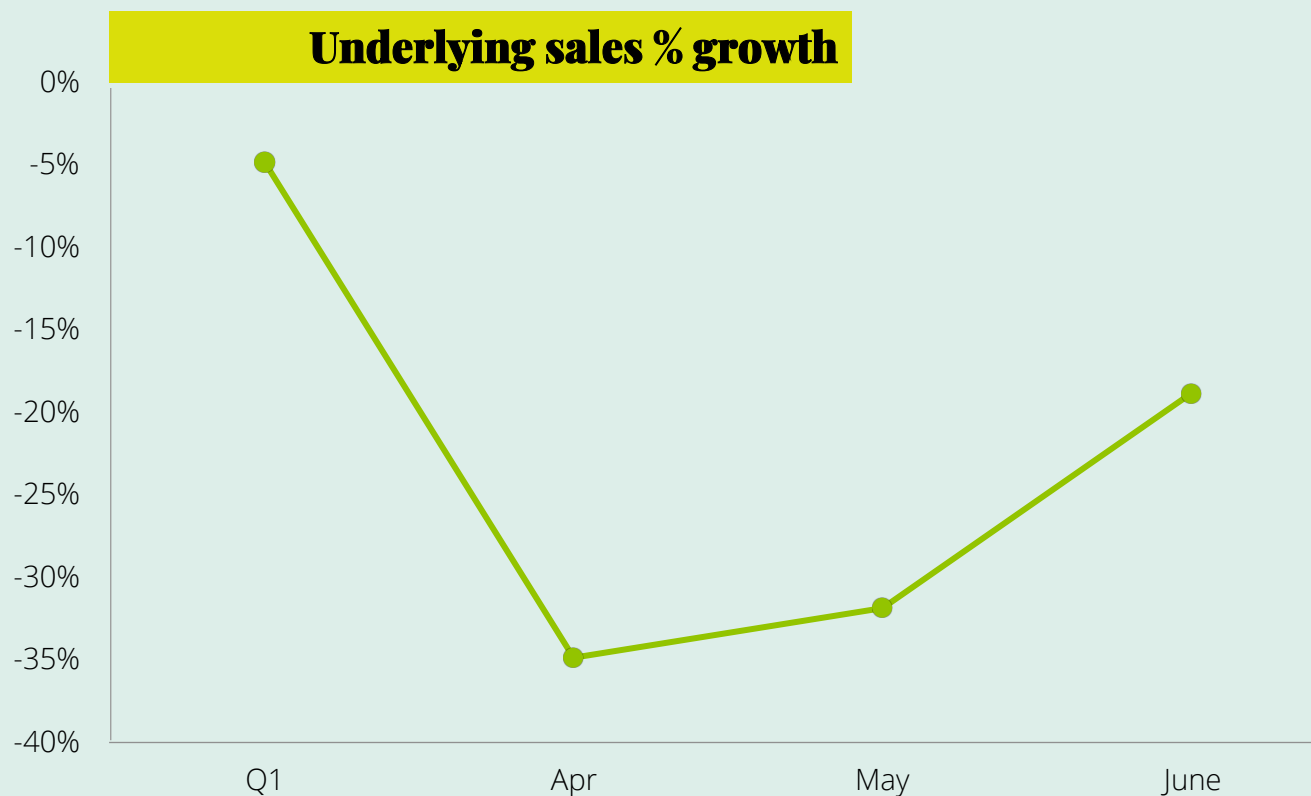
H1 2020 profit movements



Q2 trends and H2 outlook

H1 2020

- * Disruption in our businesses which rely on physical locations:
 - * Test centre closures
 - * School and bookstore closures
- * Strong lead indicators in Global Online Learning



H2 2020

- * Higher Virtual Schools enrolments
- * Recovery based on test centres opening with extended hours and social distancing measures
- * Schools and bookstores expected to reopen as lockdowns ease
- * In US Higher Education Courseware, we expect 2019 trends to continue with further decline in print and unbundling of packages, partially offset by growth in digital with associated in-year phasing impact in deferred revenue

Global Online Learning

21% of Group Revenue

H1 2020



Immediate impact and decisive action

Virtual Schools:

- Growth driven by new school launches and enrolments in current schools in academic year 2019/20
- Increasing capacity to meet demand
- Higher retention rates in existing schools
- Investment in curriculum and teaching platform

OPM:

- 12% decline in enrolments due to discontinued programs
- Continued portfolio rationalisation
- Margin pressure as expected due to impact of discontinued programs and investment in new programs

H2 2020



Immediate positive trends in Virtual Schools, continuation of portfolio rationalisation in OPM

Virtual Schools:

- 61% increase in applications for Back to School 2020
- 3 new virtual schools to be opened for 2020/21 school year

OPM:

- Growth in enrolment
- Retention rates expected to increase
- Continued investment in employability and upskilling and reskilling
- Combining OPM partnerships with digital courseware

Longer-term



Creating long-term value

Virtual Schools:

- Potential opening of new states, school districts
- International opportunity
- Increase in market share in existing states

OPM:

- Strong growth in undergraduate degree segment
- Increase profitability – move to digitisation and consortium model
- Employability opportunity in upskilling/reskilling and lifelong learning

Global Assessment

27% of Group Revenue

H1 2020



Immediate impact and decisive action

US Student Assessment:

- Contracts cancelled – impact of c.£20m after cost mitigation
- Won two new contracts

Pearson VUE:

- Test centres closed from mid-March to May – impact of £74m after mitigating actions and adapting for social distancing rules and offering longer hours
- In June, the majority of test centres reopen
- Increased demand for online proctoring – volume grew to 580k vs 66k in 2019.

US Clinical Assessment:

- Impacted by school closures

H2 2020



Test centres reopen. Prepping for 2021 testing

US Student Assessment:

- Prepping for 2021 testing season
- Modest further impact

Pearson VUE:

- Test centres reopened and adapted for social distancing with minimal loss of capacity due to extended hours
- Phasing of cost savings benefit in H2

US Clinical Assessment:

- Reopening of schools

Longer-term



Creating long-term value

US Student Assessment:

- Opportunity to win contracts

Pearson VUE:

- Diverse portfolio with 450+ global partners
- Increasing demand for licensing and certification
- Good exposure to healthcare and IT sectors
- Resilient through downturns

US Clinical Assessment:

- New products to be released in 2021

North American Courseware

25% of Group Revenue

H1 2020



Immediate impact and decisive action

US Higher Education Courseware:

- Continuation of trends seen in 2019
- Modest impact due to campus bookstore closures
- Provided digital courseware for spring/summer term to support students separated from print materials
- IA revenue growth up 28%
- Digital revenue growth increased slightly on a net actual basis, reflecting unbundling and shift of product mix
- Digital registrations including eBooks up 5%

Canadian Courseware:

- Impacted by school and bookstore closures

H2 2020



Uncertainty around enrolments, shift to digital accelerates

US Higher Education Courseware:

- Uncertainty around college enrolment trends for Back to School 2020
- Further decline in print with unbundling of packages, partially offset by growth in digital with associated in-year phasing impact in deferred revenue
- Growth in Inclusive Access
- Further digital product roll out including new Pearson eText and Revel titles on PLP
- Uncertainty around school closures which could impact our Advanced Placement sales

Longer-term



Creating long-term value

US Higher Education Courseware:

- Sustainable digital business
- Predictable cash flows, long-term margin improvement with further efficiencies as move to digital only
- Well placed to recapture share from secondary market with further digital volume growth
- Innovative digital products leading to increased market share. Roadmap on track

International

27% of Group Revenue

H1 2020



Immediate impact and decisive action

School & HE courseware (35% of 2019 revenue):

- School and bookstore closures impacted courseware purchases, with a greater impact than initially expected due to the extent of closures

Assessment (30% of 2019 revenue):

- Cancellation of UK exams had modest impact on profit as expected

English (26% of 2019 revenue):

- Test centre closures impacted PTE
- Language school closures impacted courseware
- Closure of our Wizard franchise in Brazil and move to virtual model

School & HE services (9% of 2019 revenue):

- South Africa – closure of PIHE campuses and move to virtual model
- Sistemas business in Brazil - school closures

H2 2020



Recovery with schools reopening, PTE testing resumes

School & HE courseware:

- Better H2 performance as lockdowns ease and schools and bookstores expected to reopen

Assessment

- No further impact in H2 expected

English

- Test centres reopening at reduced capacity, pent up demand in China, India and Australia. SELT contract launch to drive H2 volume
- Recovery expected with more private language schools reopening

School & HE services

- Virtual models to continue

Longer-term



Creating long-term value

- English: new Secure English Language Test (SELT) contract for PTE expected to drive future growth, as well as continued market share gain as PTE is the only English assessment of its type in the world that combines a fully digital experience with AI scoring. Significant opportunity in courseware as fluency in English improves job prospects.
- Employability: our market presence and reach allows us to leverage capabilities such as BTECs
- Geographically diverse, good margin and cash generating business, enables group investment and emerging market opportunities for other divisions such as Pearson VUE and Global Online Learning.

Enabling Functions

Costs

19% lower

in H1 2020 vs
H1 2019

We continue to benchmark our enabling functions with external advisors and they are **in line with** the median of our peers in 2019 excluding technology

Corporate costs² are **less than 1%** of full year sales.

Enabling function costs include enterprise technology, finance, HR, legal, corporate communications, and corporate costs.

We have successfully delivered a number of cost saving programmes –

further £50m planned for next year.

We continue to pursue further efficiencies that will enable us to improve cost competitiveness – our current and planned actions will result in us

reaching top-quartile¹

for all these costs lines in 2021, except technology, where we will reach median.

Cash flow and net debt

£m	2020	2019
Adjusted operating (loss)/profit	(23)	144
Change in working capital (ex Pre-Pub)	(172)	(282)
Product Development (Pre-Pub) capitalisation	(161)	(160)
Product Development (Pre-Pub) amortisation	132	133
Net CapEx (inc. right-of-use assets)	(124)	(87)
Depreciation	114	113
Share based payments	12	14
Share of operating results of associates	(2)	(25)
Dividends from associates	3	15
Other movements	6	2
Exchange	1	4
Operating cash flow	(214)	(129)
Restructuring costs paid including net property disposal	(24)	(60)
Net cash interest paid	(33)	(31)
Cash tax received/(paid)	20	(8)
Free cash flow	(251)	(228)
Memo: Net Debt	982	1,376

Strong balance sheet & significant liquidity headroom

Strong balance sheet



- * Net debt of £982m at H1 2020 including leases of £662m
- * Penguin Random House proceeds of £531m received in April 2020
- * £176m of share buyback completed.
- * Active management of working capital: H1 outflow reflects phasing of profit and typical working capital phasing
- * Solid investment grade credit ratings ensure good capital markets access
 - Baa2 (negative outlook) with Moody's, BBB- (stable outlook) with Standard and Poor's
- * Comfortable covenant headroom

Liquidity



- * Raised £350m through 10 year Education Bond issued June 2020
 - Provides long-term funding at reasonable cost and pre-funds 2021 and 2022 maturities
- * Significant cash and facilities available
 - Approximately £1.6bn in total liquidity immediately available from cash and the Revolving Credit Facility

Bond maturities



Three key areas of focus

1**KPIs****2****Divisional
Profitability****3****ROI**

Strategically well-placed to respond to the *accelerated shift to digital and online learning*

Beyond the short-term impact on our business as a result of COVID-19, the pandemic has *accelerated three trends:*

1

Direct to learner experiences

We're enabling people to take control of their learning experience through a lifetime of learning and careers - so they get the education that fits them best.

2

Enabling the growth of hybrid education models

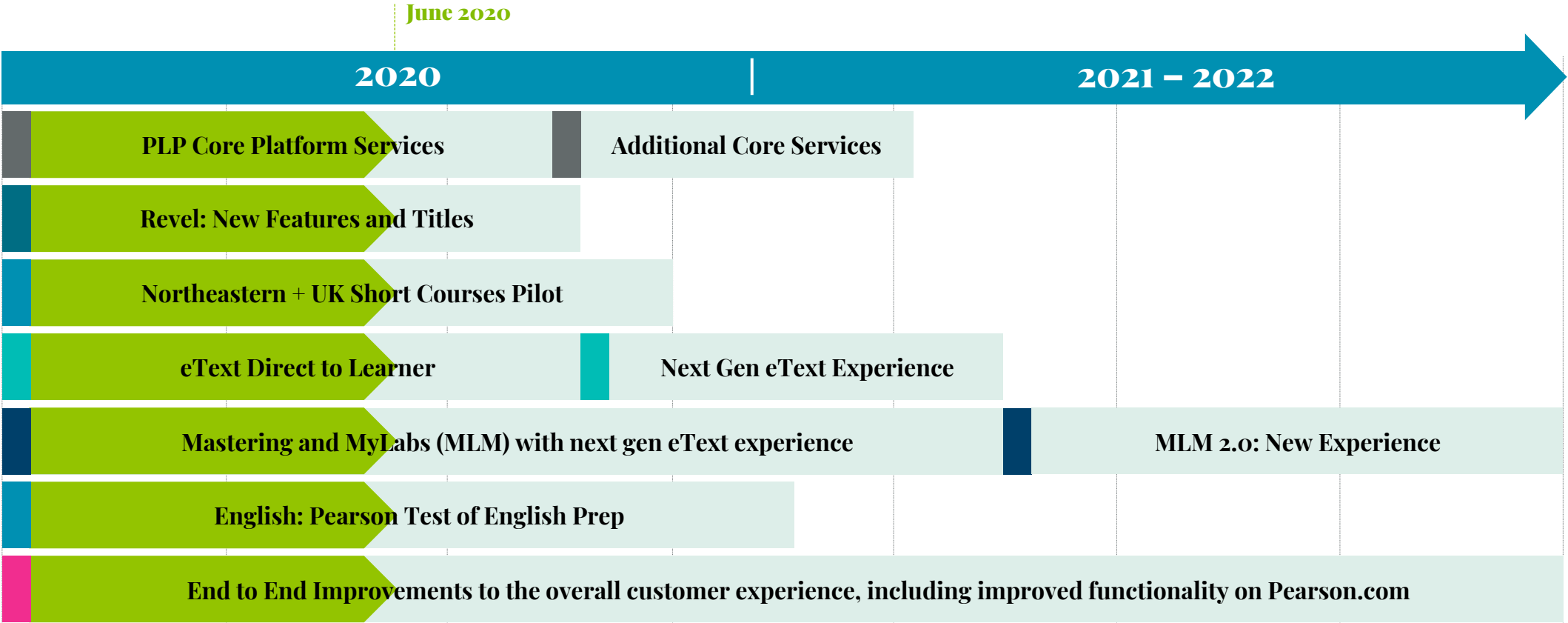
We're the partner bringing the most engaging learning experiences that now combine the best of face to face and online learning.

3

Helping people to quickly reskill and upskill

People need to quickly upskill and reskill their way to a new career. We provide assessments, certifications and courses that are fast, affordable and flexible.

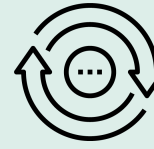
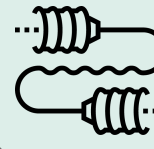
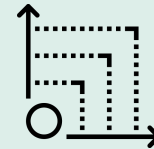
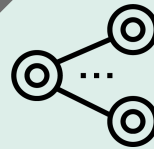
Digital roadmap – *on track*



Pearson Learning Platform – *driving digital growth*

Share gains with differentiated experiences that improve learning outcomes

Establishing direct relationships with an evergreen supply of learners who we engage with over a lifetime of learning



Expanding the platform segment with innovative new products

Recapturing share from the secondary market

US Higher Education Courseware – Total addressable market¹

Taking share from Secondary

- * The total market has **c.107m units** assigned (excluding K12 and career colleges)
- * Shift to digital leads to better sell-through and **increased digital volumes**. Provides a more sustainable recurring revenue stream
- * Opportunity for **volume and revenue growth** as we recapture share from secondary market
- * **5% growth in volume in digital registrations including ebooks** and **slight growth in digital sales** in H1

Pearson's share is c.33m units

c. 7m units in non-consumption/piracy

c. 14m units lost to the secondary market

c. 12m units sold by Pearson in print, ebook and platform products

Opportunity to gain c. 21m units from secondary and non-consumption

¹ FY 2019

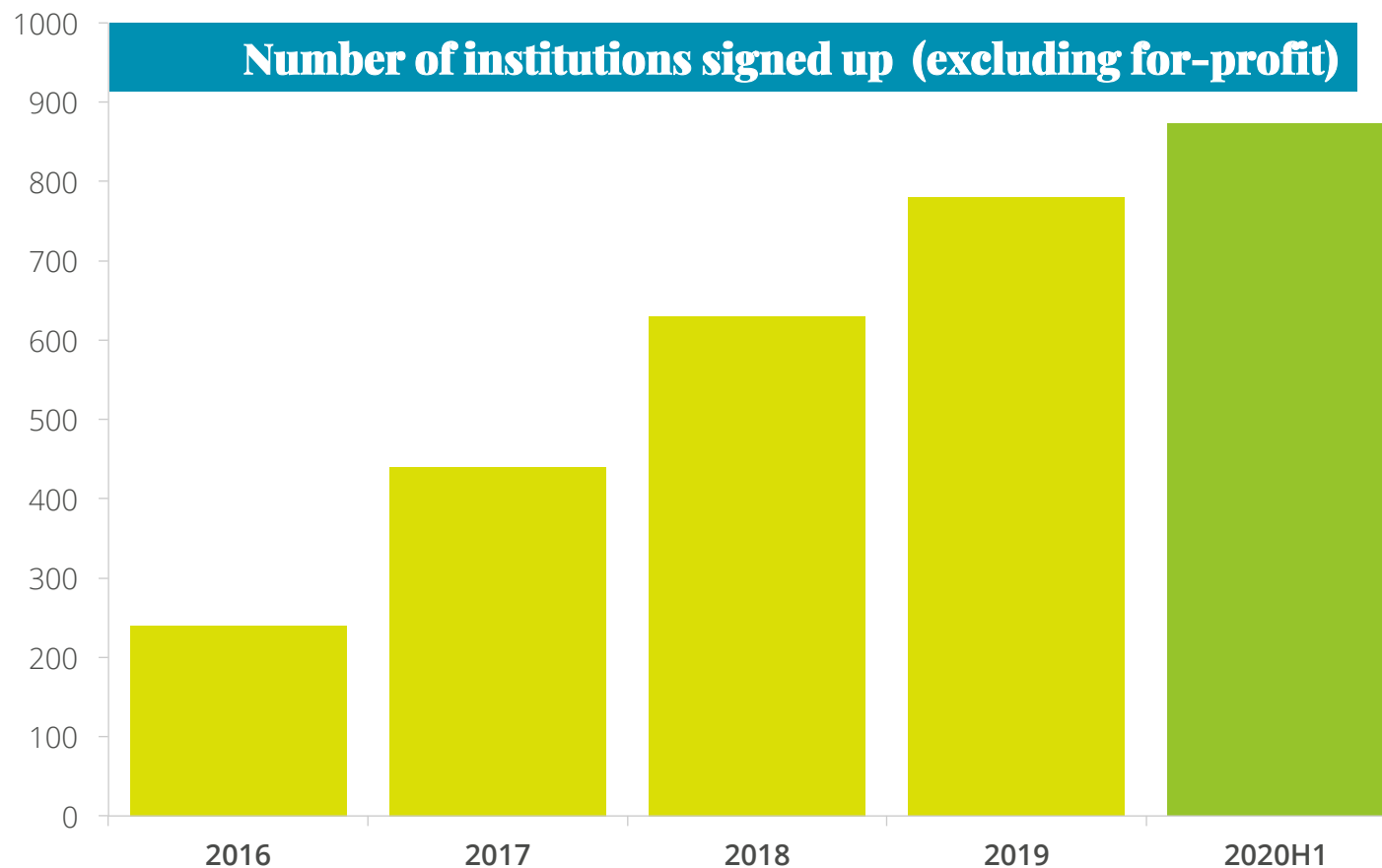
Accelerating the shift to digital

Inclusive Access



- * Inclusive access revenue up 28% on 2019
- * Partnerships with institutions so that whole classes have access to affordable digital materials on day one
- * Strong class sell-through leads to reduced leakage to secondary market
- * Longer term more predictable business model

Number of institutions signed up (excluding for-profit)



Accelerating the shift to digital

Our digital transformation is nearing inflection, with the pandemic accelerating the decline in print and *shift to digital*



Digital First

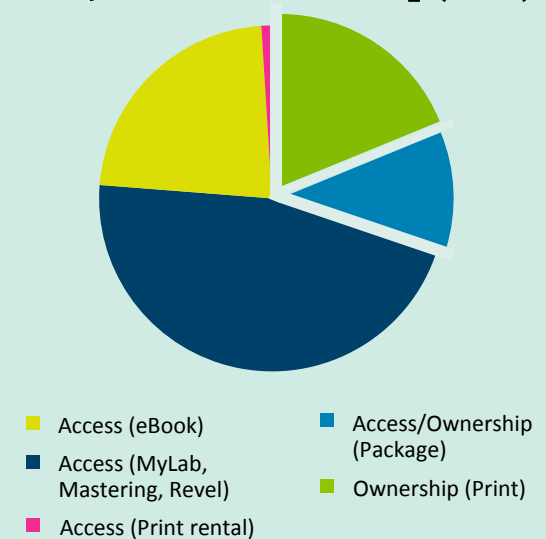


In 2019, we announced we are no longer producing new editions of print textbooks but instead updates will be made to digital courseware as we move to a **digital first model** for BTS 2020.

Ownership vs access pie



2019 Access vs Ownership (units)



Summary: Strategically well-placed to create value from the accelerated shift to digital and online learning

H1 2020



* Performance broadly **in line with expectations**

H2 2020



* **Improvement in H2 expected**, uncertainty due to COVID-19 remains

Longer-term



* **A further shift to digital and online learning with increased opportunities** for employability and lifelong learning.