



Pearson

2019 Results

Friday 21 February 2020

Forward-looking statements

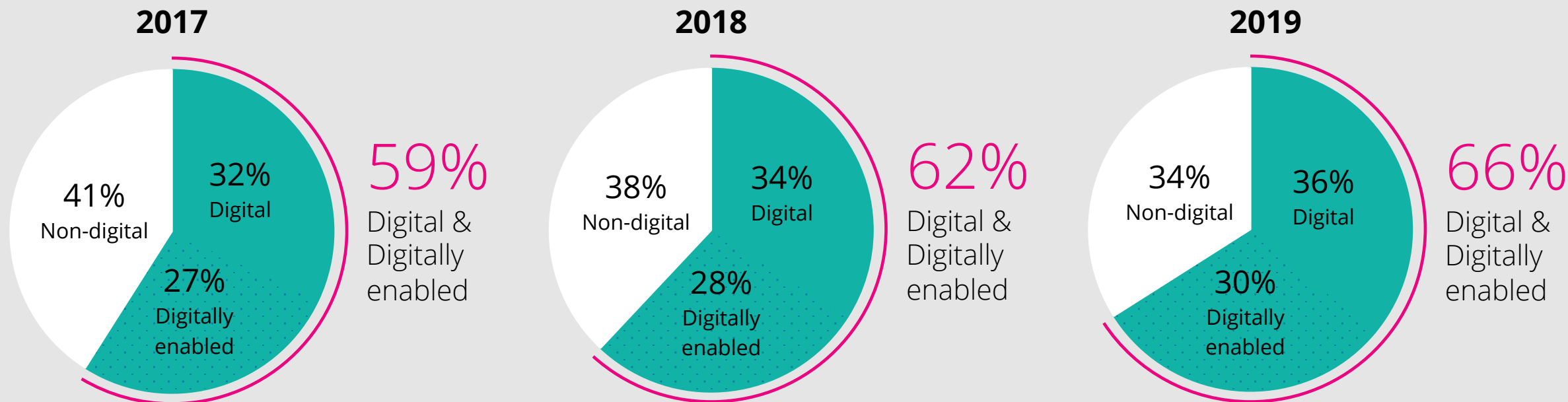
Except for the historical information contained herein, the matters discussed in this statement include forward-looking statements. In particular, all statements that express forecasts, expectations and projections with respect to future matters, including trends in results of operations, margins, growth 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.

Pearson digital revenue- a three year view



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)



*Financial
review & outlook*

Financial summary

£m	2019	2018	Headline growth	CER growth	Underlying growth
Sales	3,869	4,129	(6)%	(9)%	0%
Adjusted operating profit	581	546	6%	4%	6%
Adjusted EPS	57.8p	70.3p	(18)%		
Operating cash flow	418	513	(19)%		
Net debt*	(1,016)	(809)	(26)%		
Dividend	19.5p	18.5p	5%		

*Net debt on a post IFRS 16 basis for 2018 and 2019

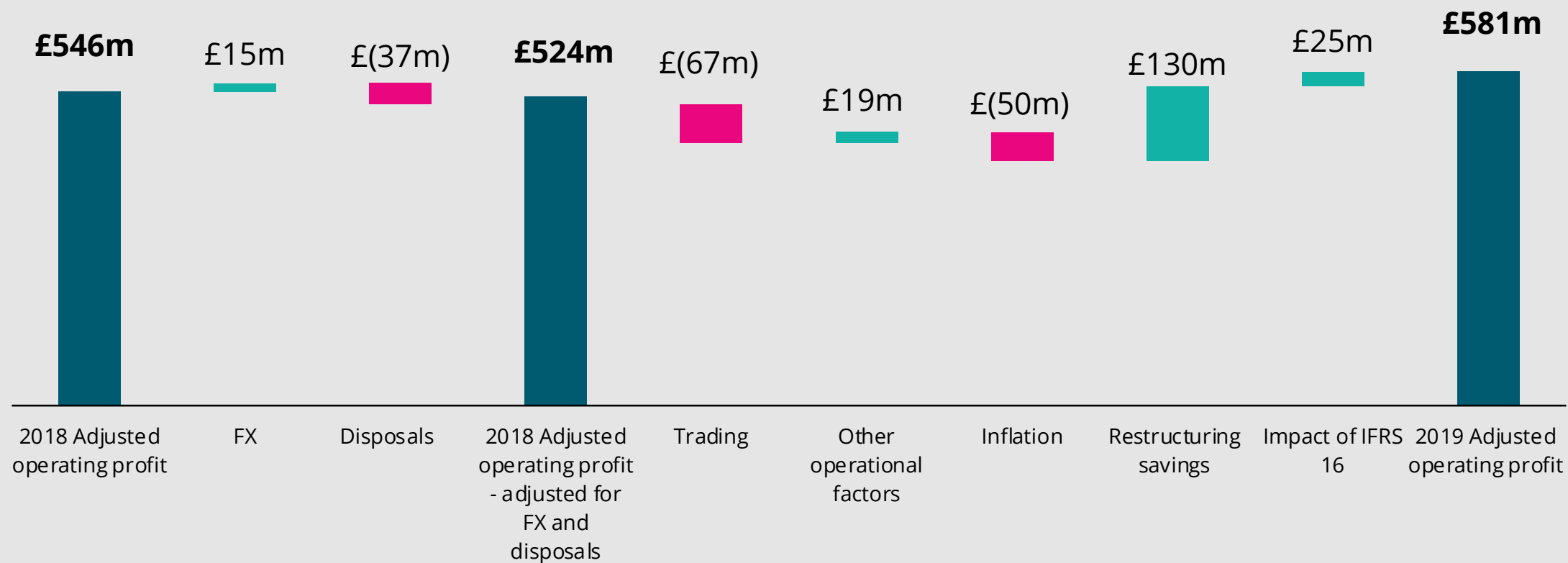
Sales

£m	2019	2018	CER growth	Underlying growth
North America	2,534	2,784	(13)%	(3)%
Core	838	806	4%	5%
Growth	497	539	(7)%	4%
Total sales	3,869	4,129	(9)%	0%

Adjusted operating profit

£m	2019	2018	CER growth	Underlying growth
North America	361	362	(6)%	(3)%
Core	92	57	67%	58%
Growth	63	59	7%	24%
Penguin Random House	65	68	(1)%	(1)%
Total adjusted operating profit	581	546	4%	6%

2019 profit bridge



Adjusted EPS

£m	2019	2018
Adjusted operating profit	581	546
Interest	(41)	(24)
Taxation	(89)	27
Effective tax rate	16.5%	(5.2%)
Profit after tax	451	549
Non controlling interest	(2)	(2)
Adjusted earnings	449	547
Weighted average number of shares (m)	777.0	778.1
Adjusted EPS*	57.8p	70.3p

* 2018 Adjusted earnings per share of 70.3p included a one-off tax benefit of around 20p

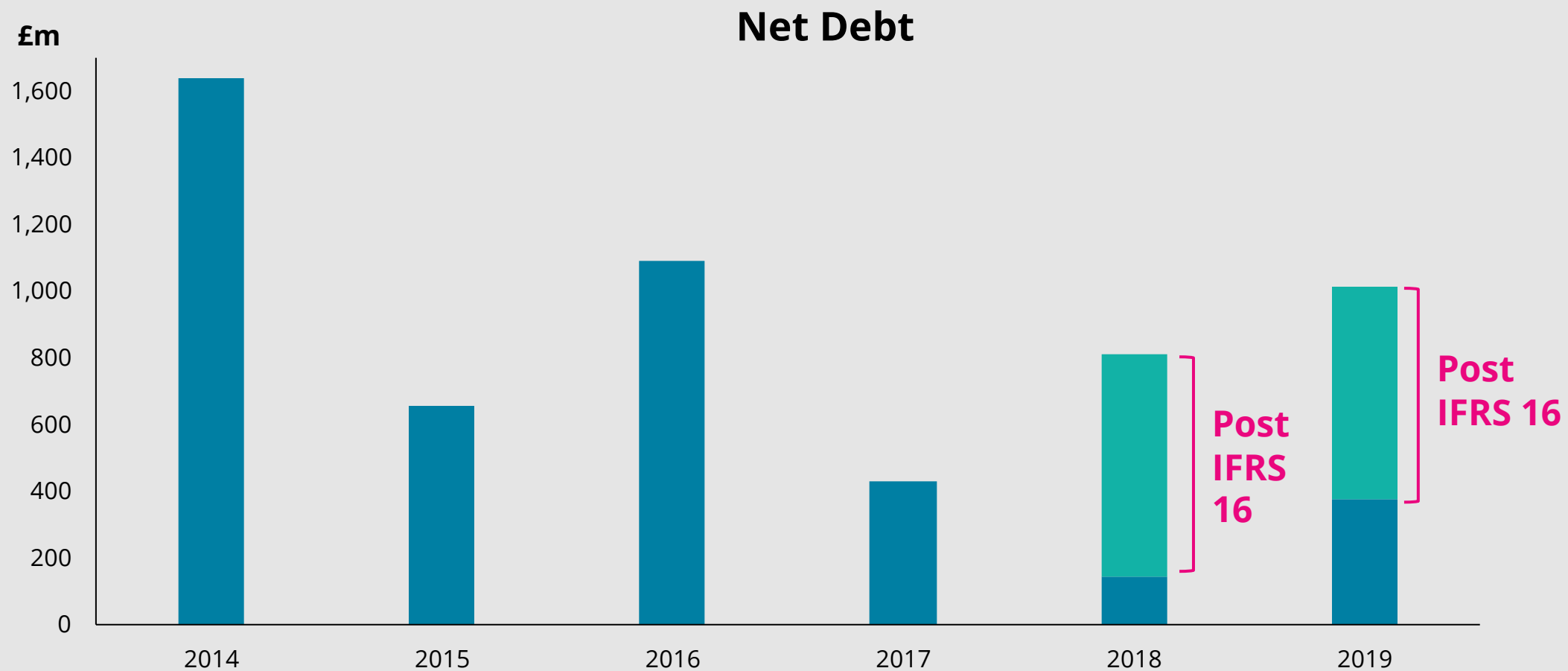
Statutory P&L

£m	2019	2018
Adjusted operating profit	581	546
Amortisation of intangibles	(163)	(113)
Other net gains and losses	16	230
Restructuring cost	(159)	(102)
UK Pension GMP equalisation	-	(8)
Operating profit	275	553
Net interest payable	(41)	(24)
Other net finance costs	(2)	(31)
Profit before tax	232	498
Taxation	34	92
Profit for the year	266	590
Basic EPS	34.0p	75.6p

Cash flow

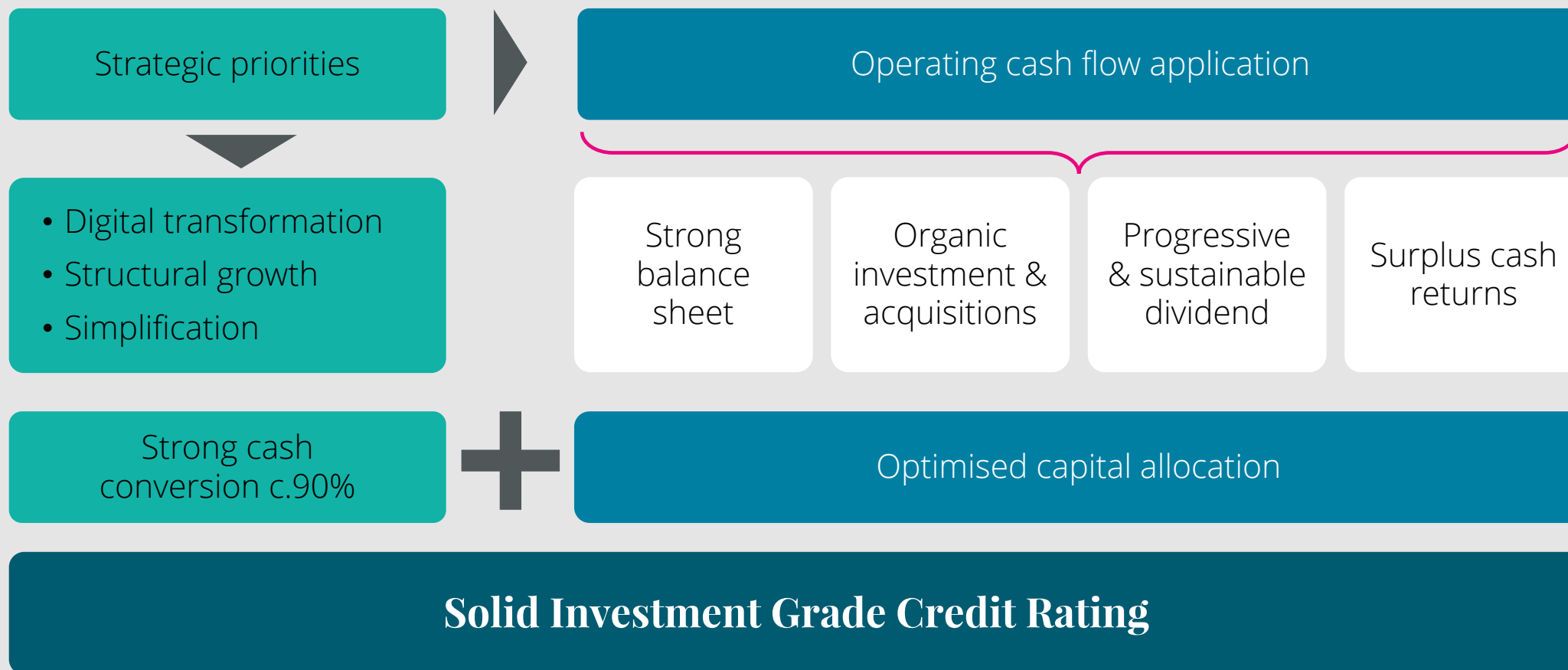
£m	2019	2018
Adjusted operating profit	581	546
Change in working capital (ex Pre-Pub)	(108)	10
Product Development (Pre-Pub) capitalisation	(318)	(388)
Product Development (Pre-Pub) amortisation	268	327
Net CapEx (inc right-of-use assets)	(236)	(194)
Depreciation	229	153
Share based payments	25	37
Share of operating results of associates	(68)	(70)
Dividends from associates	64	67
Other movements	10	(16)
Exchange	(29)	41
Operating cash flow	418	513
Cash conversion %	72%	94%
Restructuring costs paid including net property disposal in 2018	(111)	25
Net cash interest paid	(64)	(22)
Cash tax paid	(30)	(43)
Free cash flow	213	473

Stronger *balance sheet*



Capital allocation

Our medium term financial framework



New reporting structure

Segment	Business units
Global Online Learning	OPM, Virtual Schools
Global Assessment	Pearson VUE, US Student Assessment, US Clinical Assessment
International	English, Core and Growth excluding online learning. Includes UK Student Assessment & Qualifications
North American Courseware	US Higher Education Courseware, Canadian Courseware

Sales

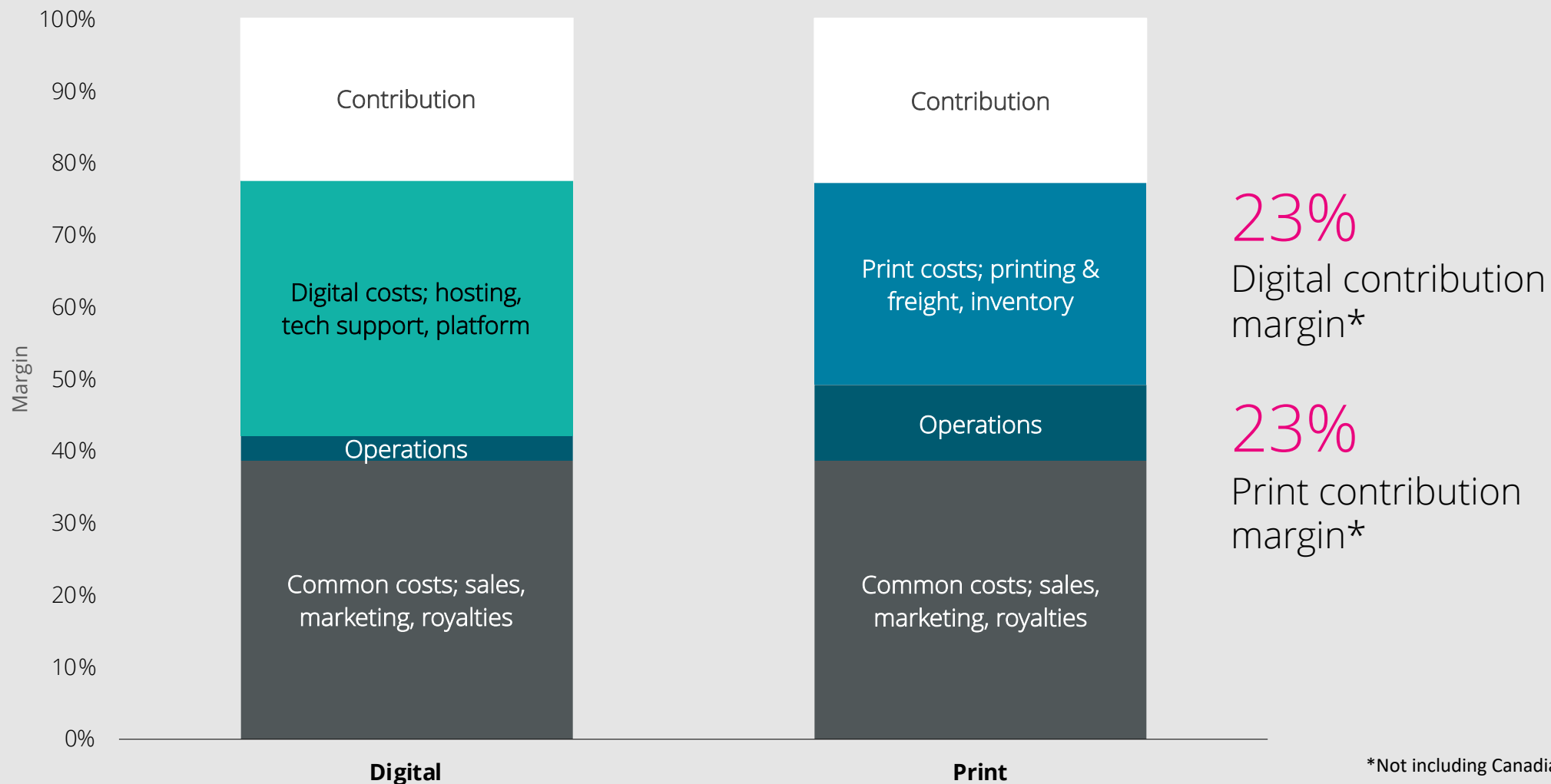
£m	2019	2018	CER growth	Underlying growth
Global Online Learning	586	521	8%	8%
Global Assessment	1,031	955	4%	4%
North American Courseware	1,091	1,461	(28)%	(11)%
International	1,161	1,192	(2)%	3%
Total sales	3,869	4,129	(9)%	0%

Segmental contribution

£m	2019	2018	2019 margin	2018 margin
Global Online Learning	84	99	14%	19%
Global Assessment	351	304	34%	32%
North American Courseware	231	297	21%	20%
International	299	305	26%	26%
Enabling Functions*	(449)	(527)		
Penguin Random House	65	68		
Total adjusted operating profit	581	546	15%	13%

* Functions such as enterprise technology, Finance, HR, other corporate functions

US Higher Education Courseware digital/print margin



2020 guidance

Full Year 2020 Guidance ¹	Lower	Upper
Adjusted operating profit	£410m	£490m
Finance charge		c.£50m
Tax rate		c.21%
Adjusted EPS	38.0p	47.0p

FX Sensitivity

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

Dividends

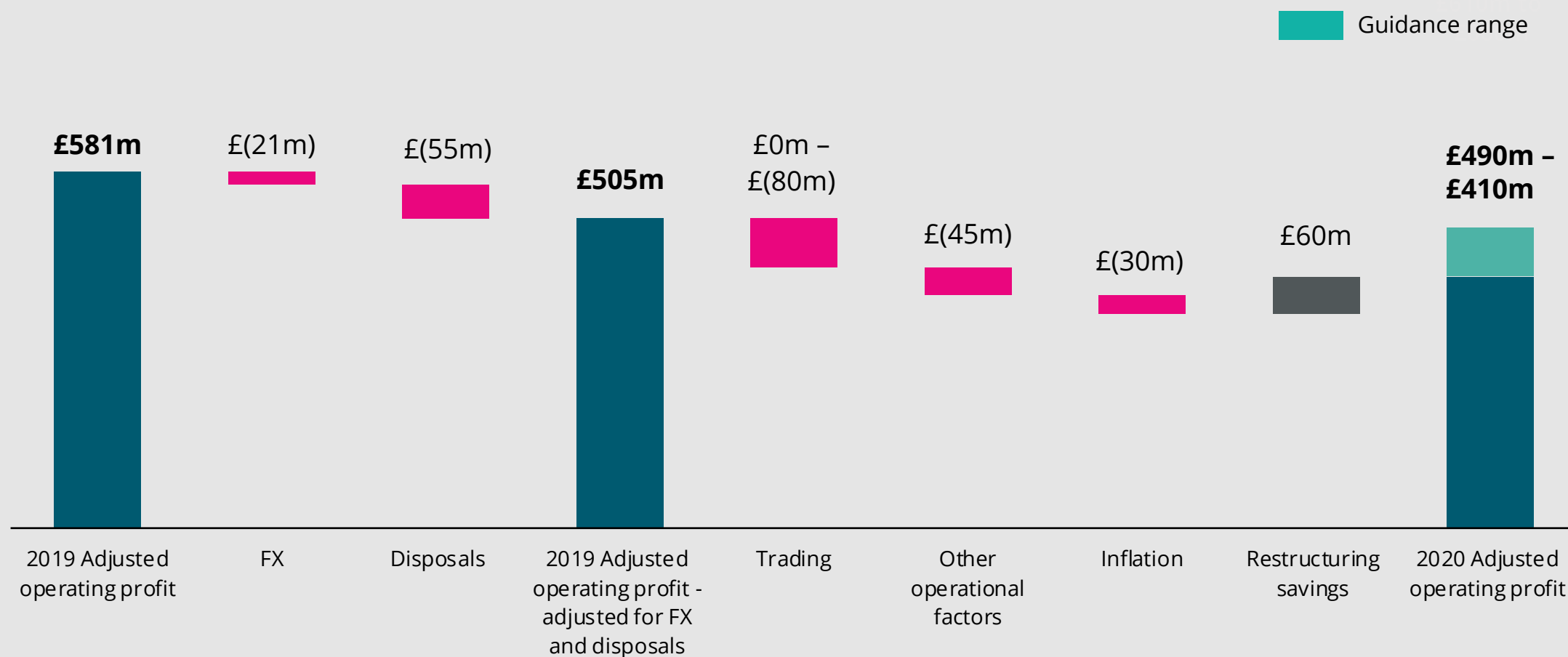
Progressive and sustainable

¹ Based on December 2019 exchange rates of 1.32 \$ to £.

2020 revenue guidance assumptions

Segment	Business units	2020 revenue drivers	Longer term revenue outlook
Global Online Learning	OPM, Virtual Schools	<ul style="list-style-type: none"> • Growth driven by enrolments • Mid-single digits growth 	<ul style="list-style-type: none"> • Mid to high-single digits
Global Assessment	Pearson VUE, US Student Assessment, US Clinical Assessment	<ul style="list-style-type: none"> • Growth in Pearson VUE, stabilisation in US Student Assessment • Low to mid-single digit growth 	<ul style="list-style-type: none"> • Low to mid-single digits
International	English, Core and Growth excluding online learning. Includes UK Student Assessment & Qualifications	<ul style="list-style-type: none"> • Growth driven by English, UK Student Assessment and Qualifications partially offset by loss of NCT • Low to mid-single digit growth 	<ul style="list-style-type: none"> • Low to mid-single digits
North American Courseware	US Higher Education Courseware, Canadian Courseware	<ul style="list-style-type: none"> • Similar trends to 2019 with continued declines in print and modest growth in digital 	<ul style="list-style-type: none"> • Stabilisation, then growth

2020 guidance bridge



Disposals includes an impact of £65m due to the sale of Penguin Random House.

Further optimisation



LEARNER

LEARNER CENTRIC,
NOT PRODUCT CENTRIC



**COST /
EFFICIENCIES**

FURTHER OPPORTUNITY
AS SYSTEMS AND
PROCESSES BED IN



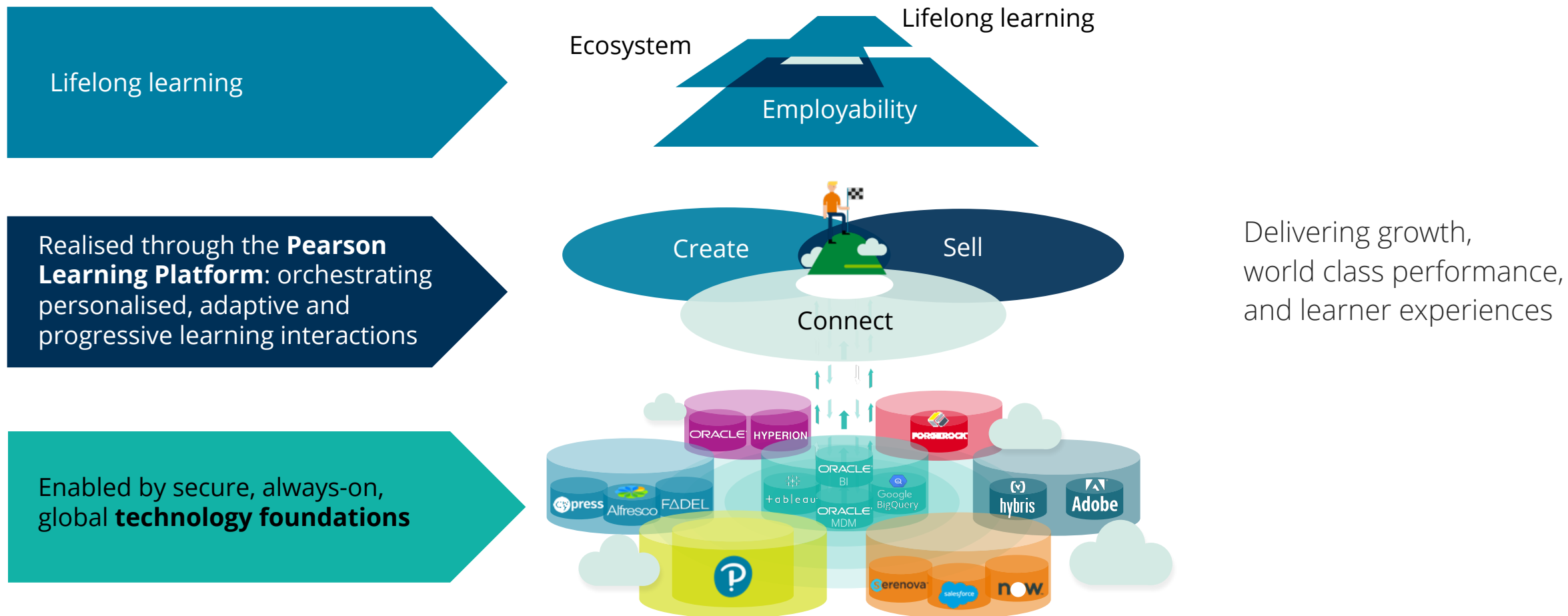
**BALANCE
SHEET AND
CASH**

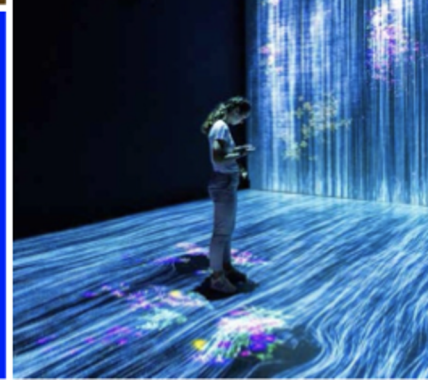
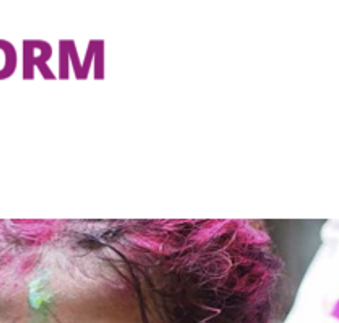
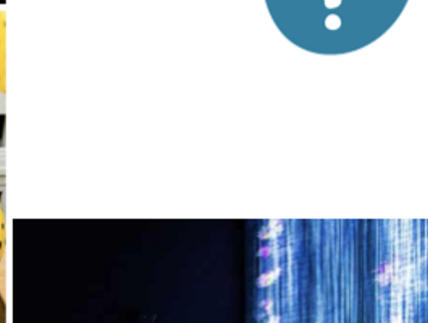
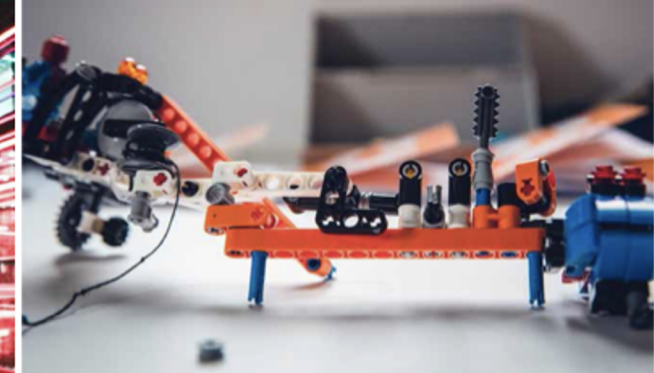
STRONG BALANCE SHEET
ENABLING INVESTMENT
IN BUSINESS

Strategy



From technology platforms to the *Pearson Learning Platform*





 **Pearson**
LEARNING PLATFORM

The Pearson Learning Platform

Drive sales, learner connections, and content creation to deliver a better learning experience

LEARNER PROFILE

Learner console
Adaptivity
Learner history

SELL

APPS AND MARKETPLACE

Revel, Mastering, MyLabs
Direct to Learner Hub
Global English
Employability

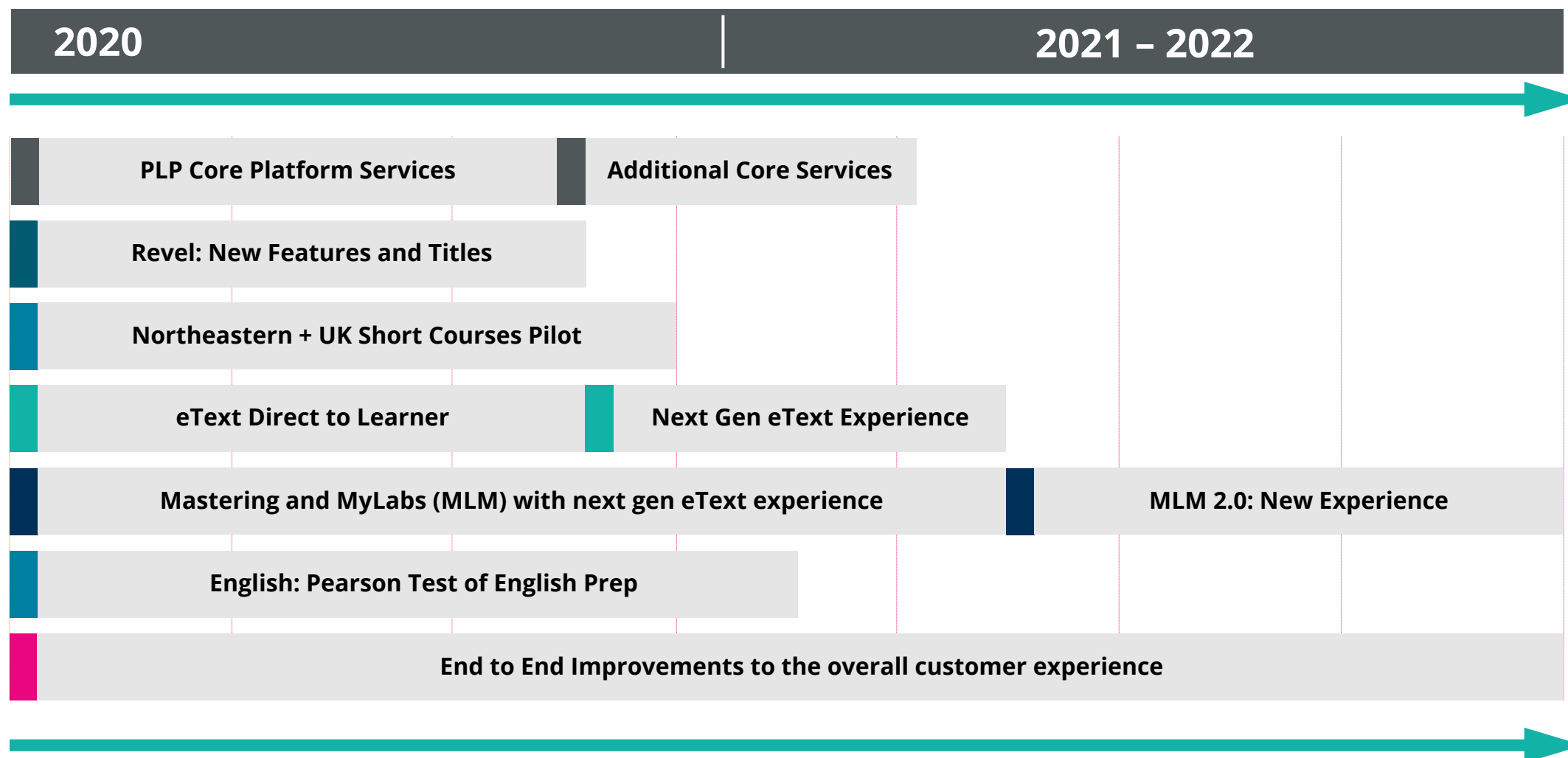
CONNECT

CREATE

CREATE AND CURATE CONTENT

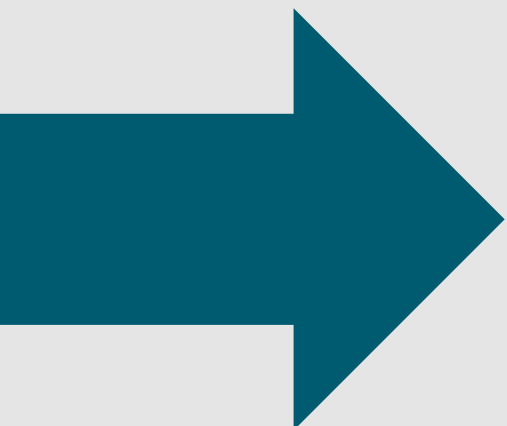
Pearson content
3rd party content ingestion

Digital roadmap



Revel

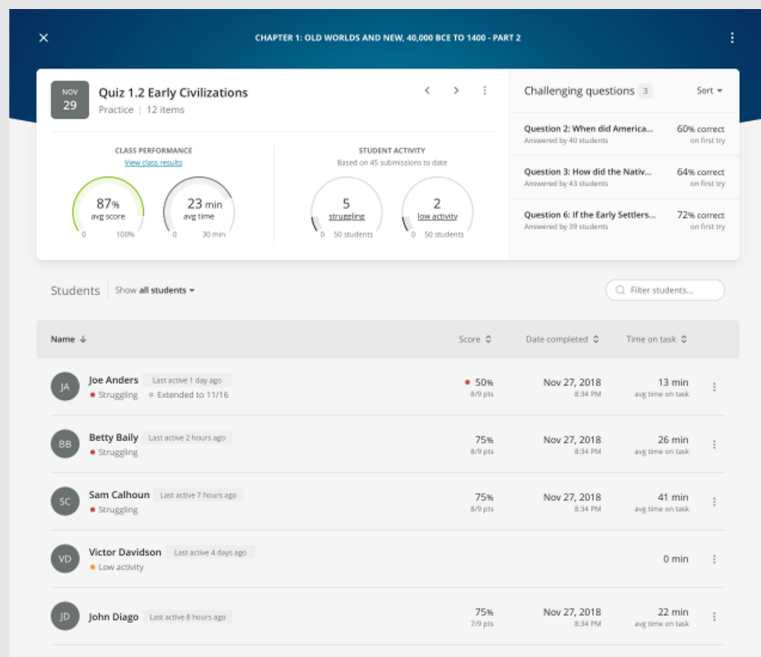
- Expanded library of discipline-specific interactives to drive better student experience and outcomes
- Improved stability, performance and data security
- Advanced text-to-speech supports audio access across the full Revel portfolio



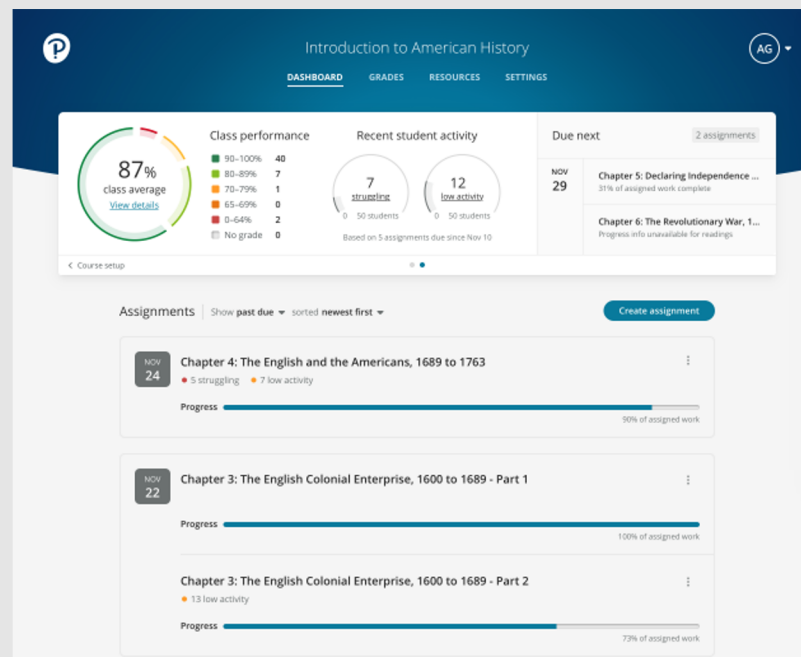
60% of fall subscriptions on new platform starting August 1st
80% of spring subscriptions on new platform starting January 1st
New wave of growth starting 2021

Revel

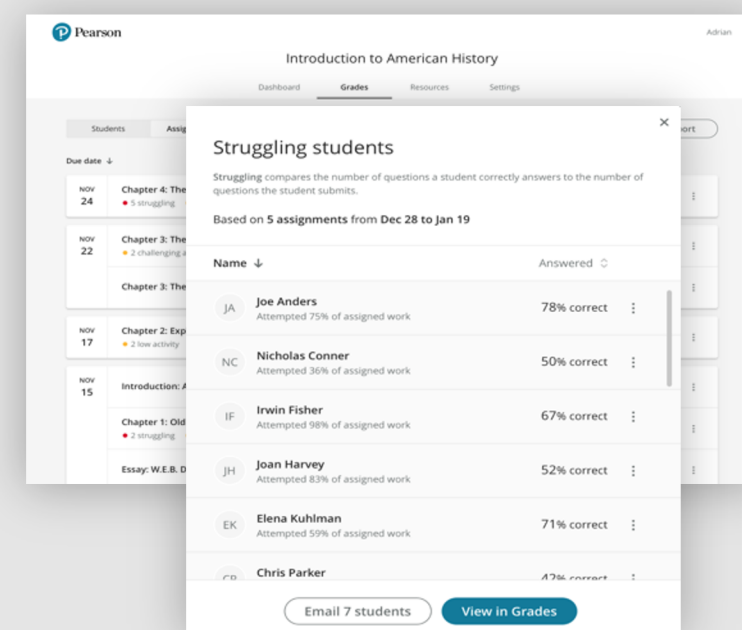
Educator Dashboard



Enhanced Gradebook



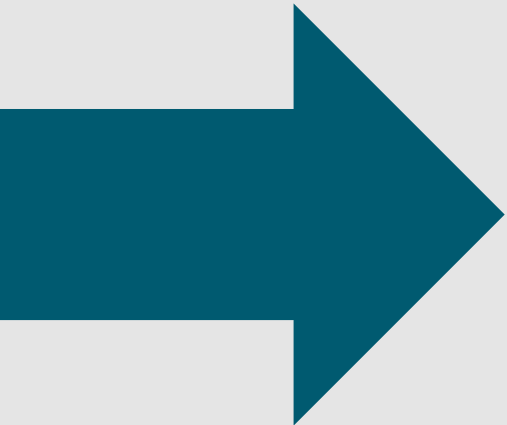
Identify Struggling Students



Better performance, better experience, new customer-driven features

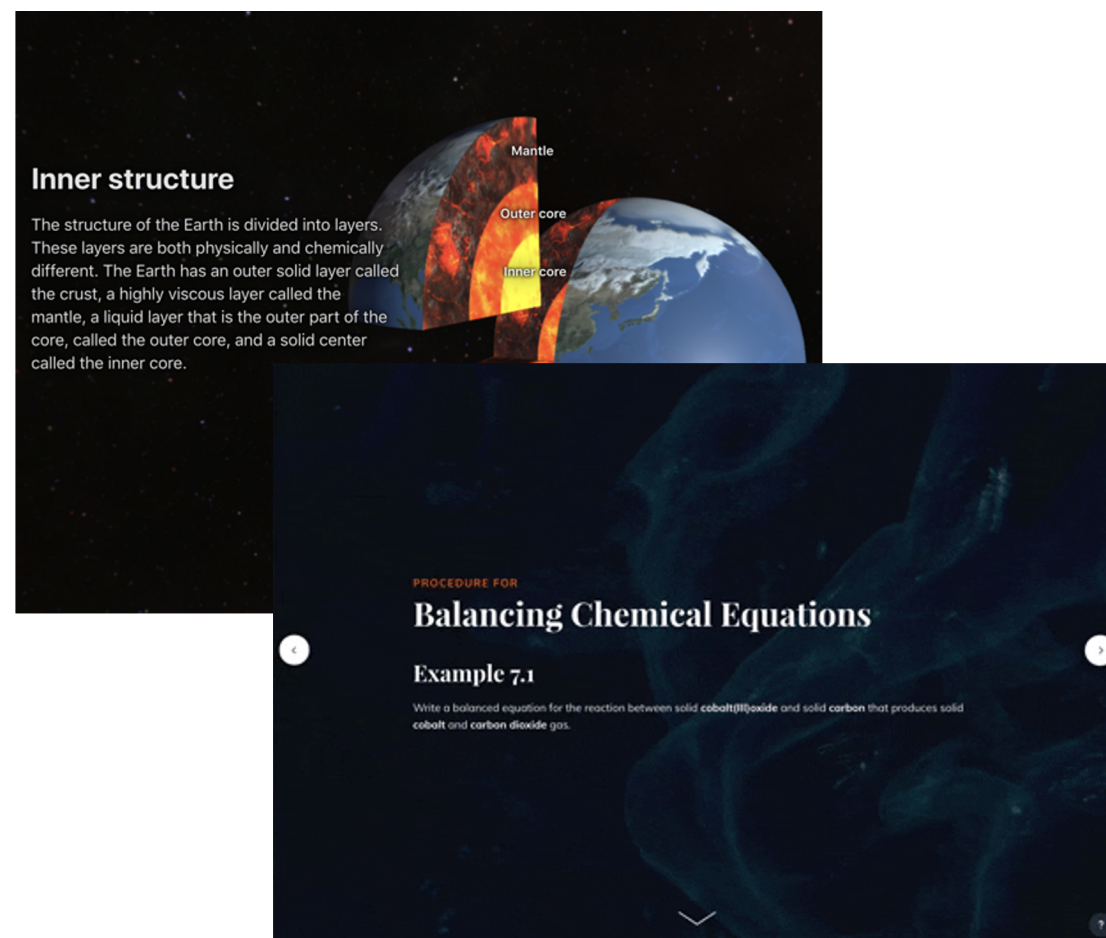
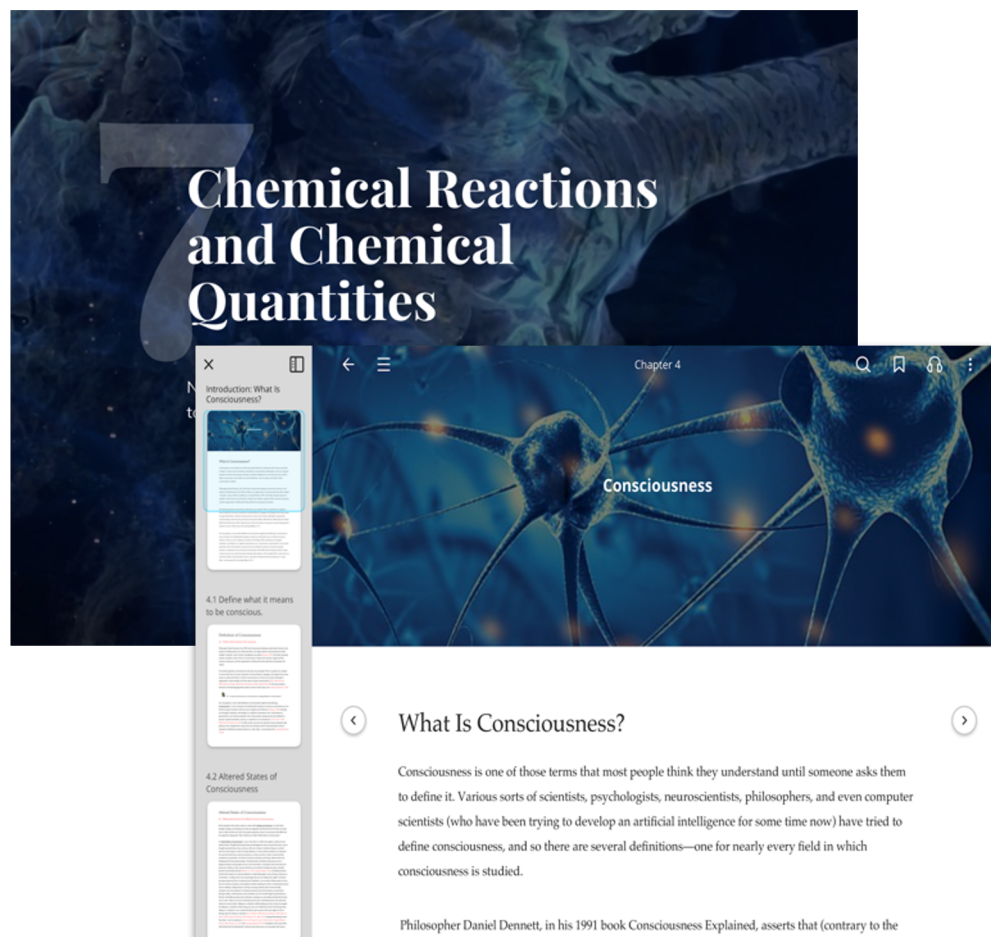
Pearson eText

- Launch Direct to Learner Portal and grow subscriptions in 2020
- Extend relationship with MyLab, Mastering, Revel customers via renewable Pearson eText subscription with ongoing 'live' content updates
- Extend Standalone eText library from 150 to 500 titles by EOY
- Create an innovative digital learning experience to improve outcomes



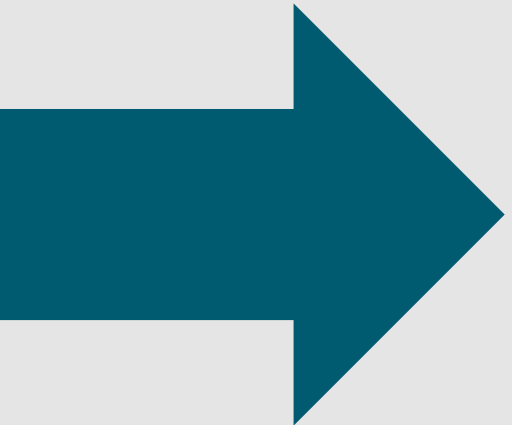
Grow direct to learner revenue in 2020
Ongoing growth through 2025

Next Gen Pearson eTexts powered by new technology acquisition



MyLabs and Mastering

- Launch innovative market leading apps with fully integrated, personalised premium learning experiences
- Enable faster time to market to get customer feedback, test and iterate and drive growth in product category
- Move to cloud for improved scalability, data protection, and global performance



Launch new MyLab and Mastering in 2021 and 100+ titles with next gen immersive technology features

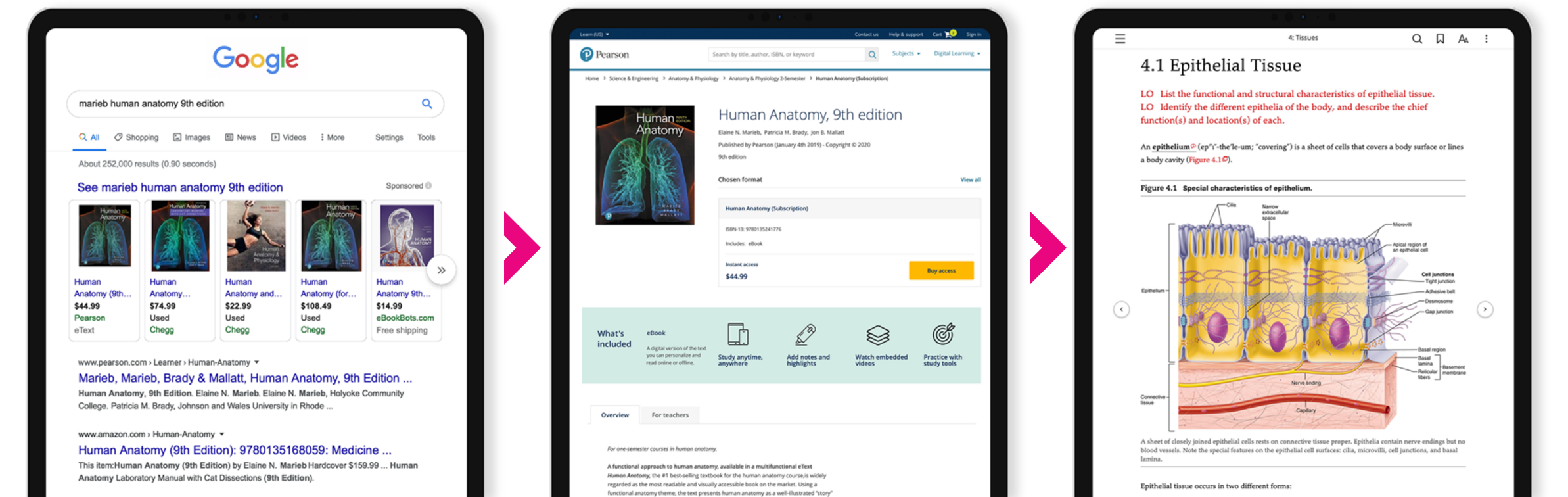
End to end customer experience

Significantly improve the customer journey for learners and educators on mobile and web

- “One click to learning” top of funnel and eCommerce experience.
- Enhanced console for students to create a digital library of their courses.
- Evolve to a more metrics based test and learn culture with analytics, and other user-centred methodologies to serve customers better and faster, and to drive predictable business outcomes.



Direct to learner eText sales



1 FIND

Learners can easily find the title they are looking for, with **Pearson's Learner Store** showing at the top of search results

2 BUY

They learn more about the digital text and buy access **directly from Pearson.com**

3 LEARN

Learners start engaging with the title via **our best-in-class Pearson eText experience**

Reaching beyond North American Courseware

into lifelong learning and global markets

EMPLOYABILITY

Opening a visionary lifelong learning market with Northeastern University in the US, and UK short courses



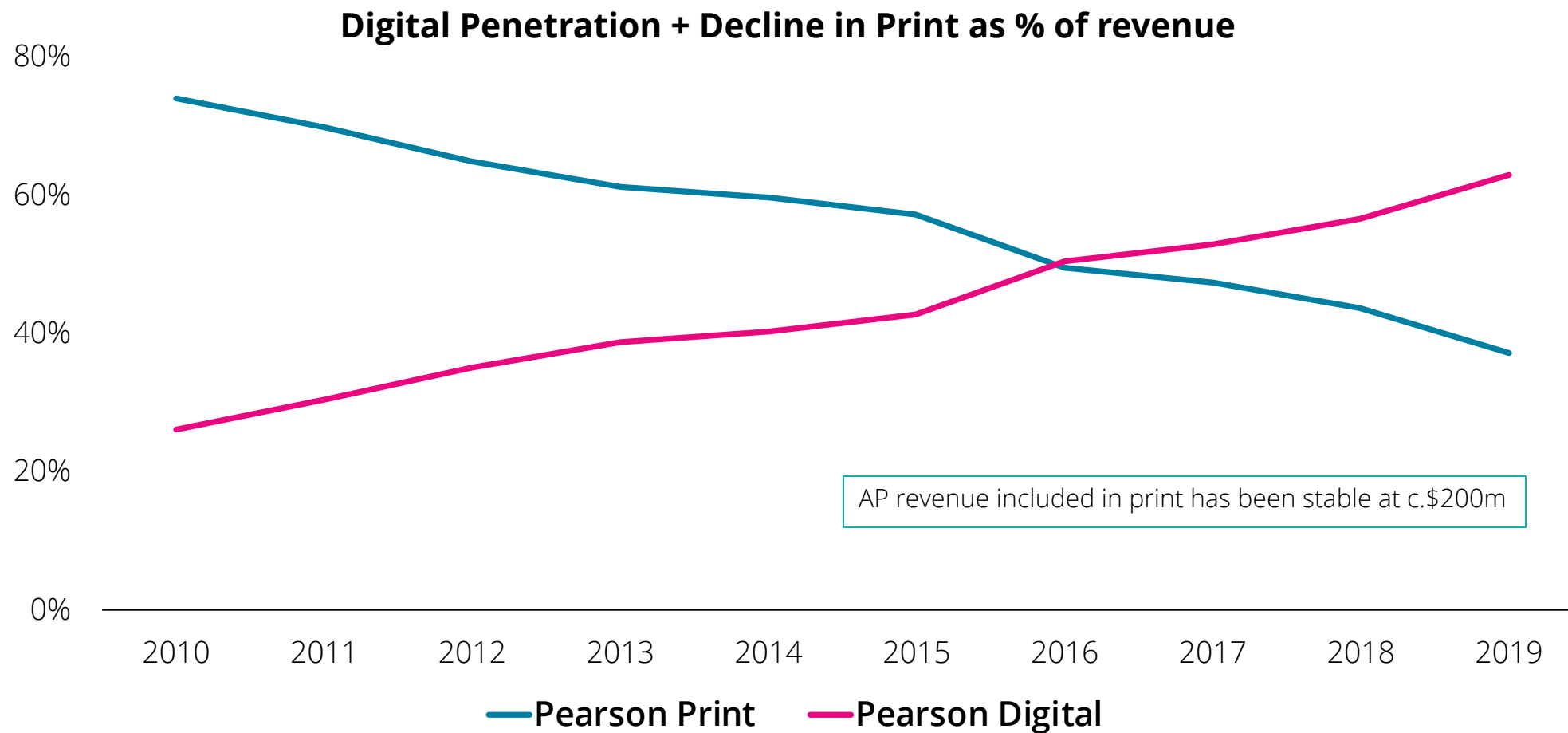
PEARSON TEST OF ENGLISH (PTE)

Migrate PTE Academic onto the Pearson Learning Platform to complement its rapid growth and global expansion



Business impact: Digital shift

US Higher Education Courseware



Business impact: Digital growth

The Pearson Learning Platform will drive digital growth through:

SHARE

gains with better
experiences and
outcomes

EXPANDING

the platform segment
with new product
models

RECAPTURING

sales from
the secondary
market

DIRECT

to learner
relationships



Global Assessment

Bob Whelan, President

Global Assessment

1. Medium term outlook

- Revenue growth of low to mid-single digits

2. Two main businesses with strong market positions

- US Student Assessment - market size is c.\$1.15bn, stable
- Global Certification - market size is c.\$1.8bn, faster growing

3. Drivers of growth

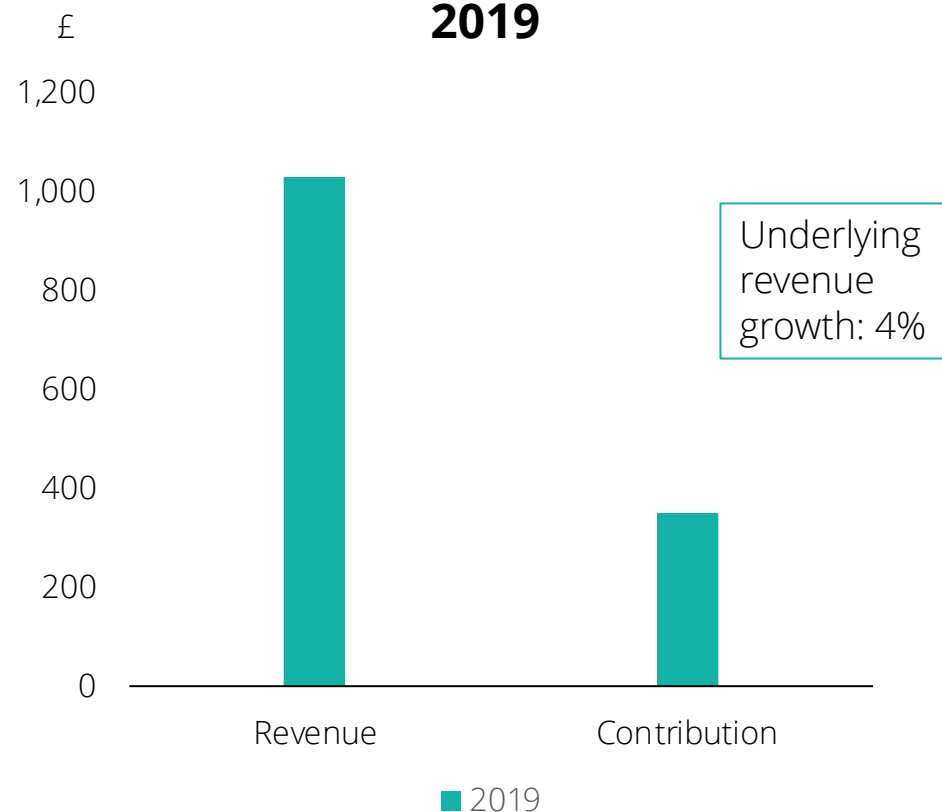
- Converting PARCC states to custom assessment through digital solutions
- Increased regulation in license to practice and career progression with external certification

4. Competitive advantage

- Flexible model to offer print or digital based tests
- Network of 20,000 test centres at Pearson VUE

5. Digital scalable model

Revenue and Contribution 2019



Global Assessment

Digital progress

- Digital delivery with leading platforms
- AI scoring already in use

Structural growth drivers

US Student Assessment:

- Move to fewer, smarter, digital tests
- Growing our flexible, digital solutions with online tests and further opportunities for AI Scoring

Pearson VUE:

- Increase in demand for certification to practice
- Providing both learning and certification

Competitive advantage

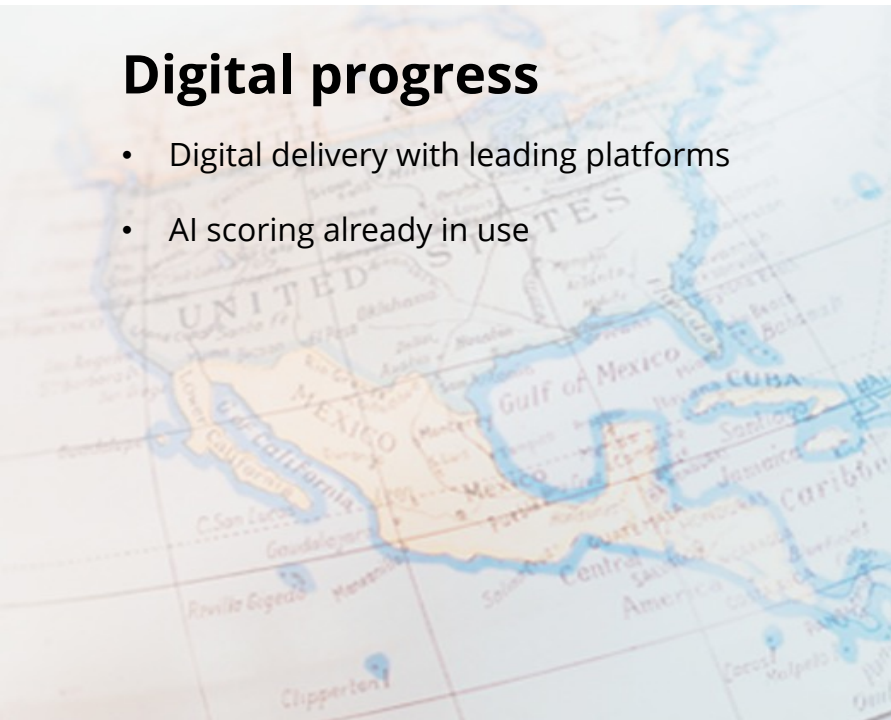
- Proven record of secure, reliable and accurate test administration
- 450+ credential partners in Pearson VUE showing strength of our brand and breadth of relationships
- High operational leverage, scalable model for Pearson VUE

Value to the customer

- Our assessments continue to meet or surpass industry quality standards
- More than a third of students who have taken our new GED test go on to enrol in higher education within a year

Key customers:

- US Student Assessment: state and institutional partners, as well as other assessment players
- Pearson VUE: governments, academia and employers across the professional, IT and regulatory sectors



Pearson VUE professional & IT clients



A photograph of three young adults, two men and one woman, smiling and looking upwards. The woman in the center has long brown hair and is wearing a light blue button-down shirt. The man on the left is wearing a white t-shirt under a dark blue jacket and has his right arm raised. The man on the right is wearing a dark blue polo shirt. The background is slightly blurred, showing what appears to be a classroom or meeting room with colorful sticky notes on a wall.

International

Gio Giovannelli, President

International

1. Medium term outlook

- Revenue growth of low to mid single digits

2. Four key businesses

- English, Schools, Assessment and Higher Education

3. Drivers of growth:

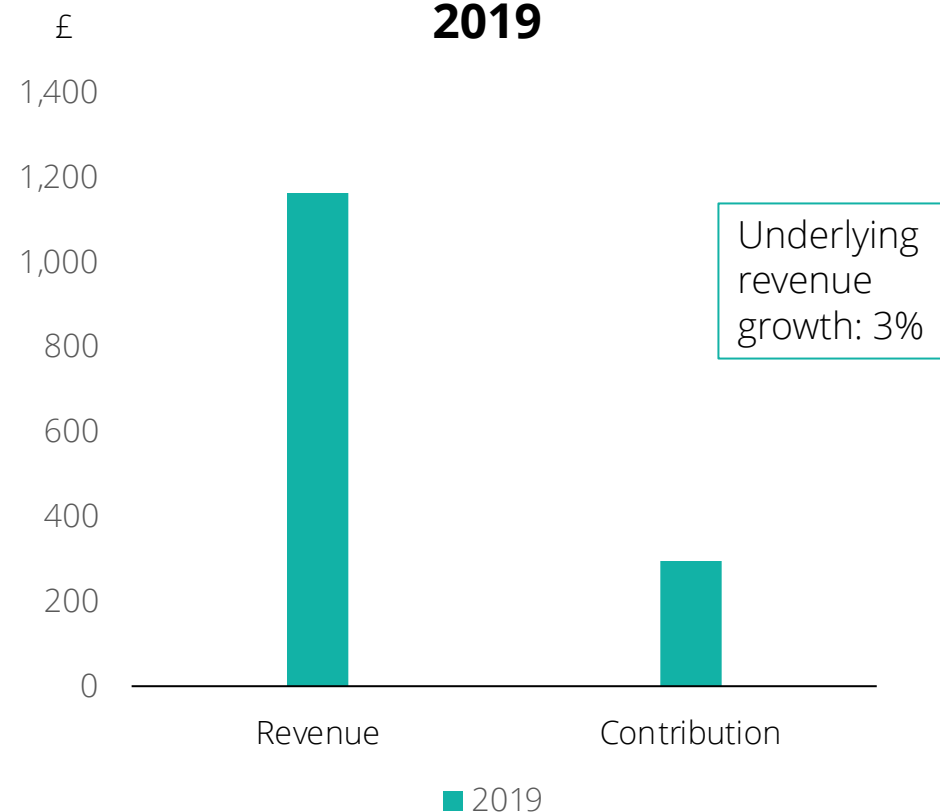
- Employability with English Language Learning
- Continued demand for reskilling and upskilling is growing demand for the vocational and assessment market

4. Competitive advantage

- Deep knowledge of market capabilities and deep customer relationships

5. Being part of the broader Pearson group by bringing economies of scale and efficiencies which enable us to drive affordable products

Revenue and Contribution 2019



International

Structural growth drivers

English:

- Expected growth after UK Government recognition
- Target recognition in other comparable markets including Canada and China

Assessment:

- Opportunity to deliver national high-stakes digital assessments at scale in emerging markets

Vocational qualifications:

- Technological change with AI driving major shifts in work and demand for vocational skills

Competitive advantage

- PTE Academic is faster with AI scoring leading to unbiased results
- Pearson VUE test centres providing breadth of network
- Unique status – leading provider and owner of vocational qualifications and content

Digital progress

- PTE Academic is the only English assessment of its type that combines a fully digital experience with AI scoring
- Expanding our digital courseware

Value to the customer

- Economies of scale and efficiencies drive affordable products

Key customers:

- English: Adult professionals (B2C), franchisees, schools and universities
- Employability opportunities: National and regional governments, regional training providers, private school chains and employability partners





Global Online Learning

Rod Bristow, President

Global Online Learning

1. Medium term outlook

- Revenue growth of mid to high single digits

2. Two large digital businesses

- Virtual Schools and Online Program Management (OPM)
- Virtual Schools market is c.\$2bn, OPM market is \$3.5bn
Both growing 8–10% and further upside in evolving markets
- Entering corporate segment

3. Drivers of growth:

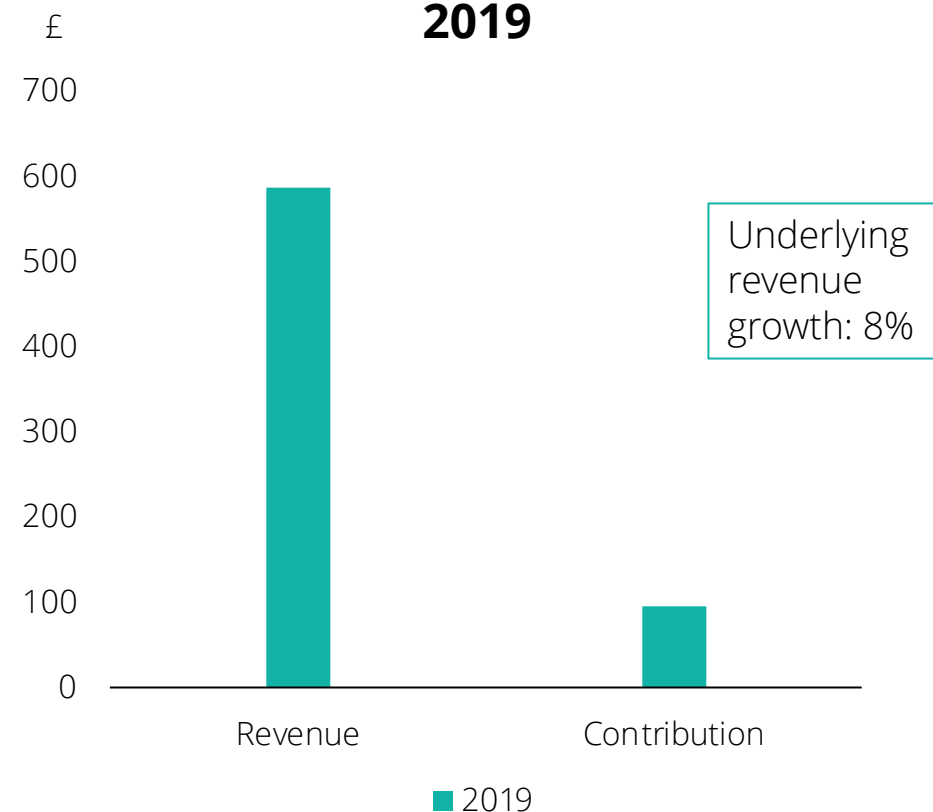
- Increased demand for online education

4. Competitive advantage:

- Flexibility, personalisation and market responsiveness
- Pearson courseware, assessment and technology

5. Scalable model providing access at more affordable prices

Revenue and Contribution 2019



Global Online Learning

Digital progress

- Fully digital, scalable model
- Invested in platform to improve learner experience

Structural growth drivers

Virtual Schools:

- Scale up in existing states to increase penetration
- Target states with high-growth potential

Higher Education - OPM:

- Improve conversion rates through portfolio and product innovation
- Optimise portfolio

Corporate Learning:

- Target large learner base available at corporates to upskill and retain employees

Value to the customer

- Gives students more control of their learning and so powers inclusion
- More responsive to the changing needs of employers

Key customers:

- Students of all ages in schools, higher education and corporate segments
- Key partners include universities and charter school boards

Competitive advantage

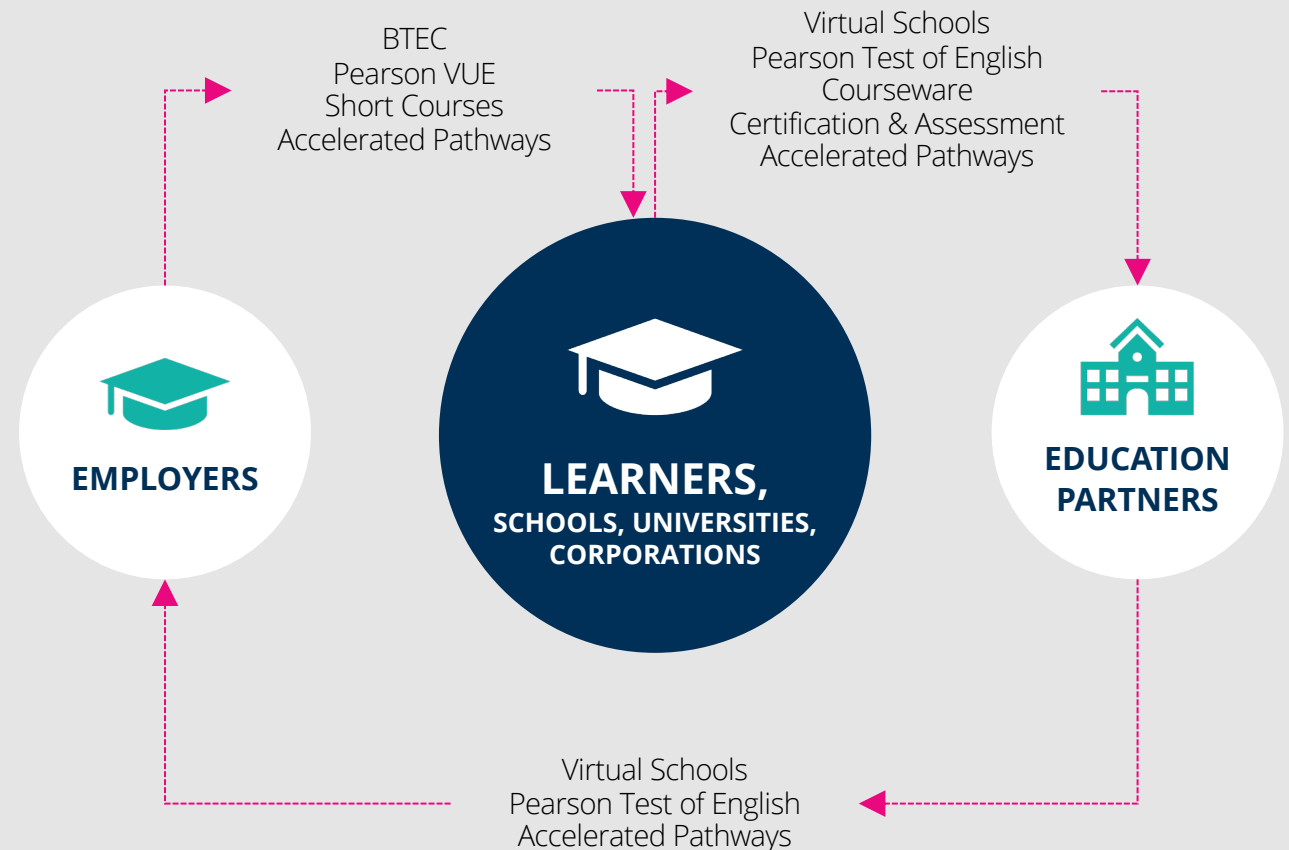
- Assessment, courseware and platform capabilities
- Capability to match learning needs in the workplace with providers
- Deep knowledge of education
- Operational scale



Pearson's Global Online Learning strategy

- We will provide the connective tissue that brings together key stakeholders in the online learning ecosystem.
- We will create a lifetime relationship with learners that provides credentials to prepare them for employment opportunities.

Pearson Platform



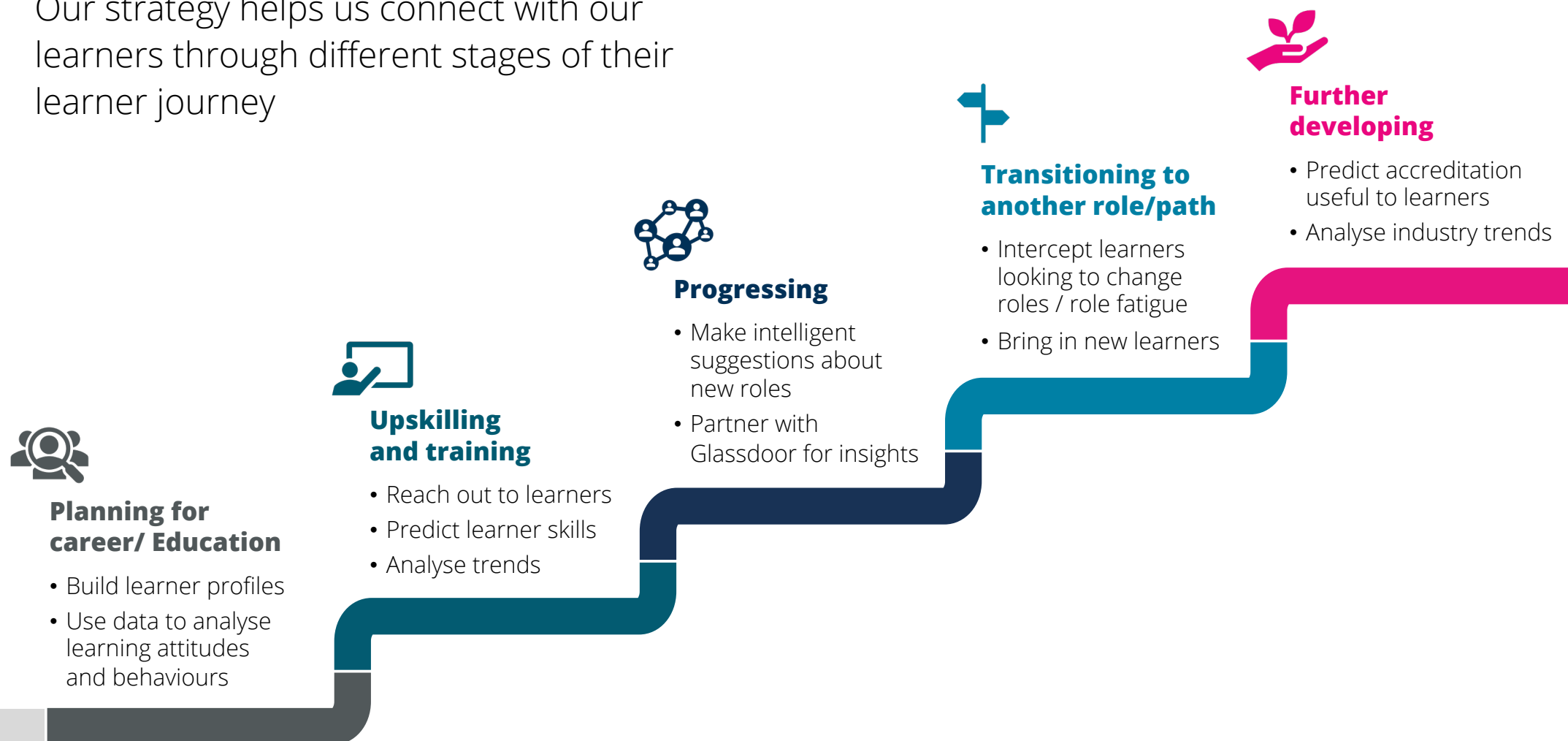


Platform for growth

John Fallon, CEO

Lifelong learning

Our strategy helps us connect with our learners through different stages of their learner journey





Closing words

Sidney Taurel, Chairman

A person wearing a blue long-sleeved shirt is holding a white document with various charts and graphs. They are pointing at the document with their right hand, which also holds a wooden pencil. The document is being held over a laptop screen. The background is a blurred office or workspace with a wooden desk, papers, and other people. The word "Appendix" is written in a white, italicized serif font across the middle of the image.

Appendix

North America – sales detail

£m	2019	2018	<i>Underlying growth</i>
School Courseware	86	378	(16%)
HE & English Courseware	989	1,058	(10%)
Courseware	1,075	1,436	(11)%
School Assessment	309	298*	(1)%
Clinical	175	174*	(3)%
Professional Certification	390	344	9%
Assessment	874	816	3%
School Services	319	288	6%
HE Services	266	244	4%
Services	585	532	5%
Total	2,534	2,784	(3)%

*restated

Core – sales detail

£m	2019	2018	Underlying growth
School Courseware	169	172	(1)%
HE Courseware	81	87	(6)%
English Courseware	56	58	(3)%
Courseware	306	317	(3)%
School & HE Assessment	264	237*	11%
Clinical	52	55*	(4)%
Pearson Test of English	61	56	11%
Professional Certification	107	94	12%
Assessment	484	442	10%
School Services	2	2	0%
HE Services	45	40	13%
English Services	1	5	(67)%
Services	48	47	7%
Total	838	806	5%

*restated

Growth – sales detail

£m	2019	2018	<i>Underlying growth</i>
School Courseware	118	127	5%
HE Courseware	44	57	(23)%
English Courseware	107	102	6%
Courseware	269	286	0%
School & HE Assessment	26	23	13%
Pearson Test of English	30	21	33%
Professional Certification	50	43	12%
Assessment	106	87	17%
School Services	46	47	5%
HE Services	26	29	(3)%
English Services	50	90	4%
Services	122	166	2%
Total	497	539	4%

Balance sheet

£m	2019 Incl Held For Sale	2019 Held for Sale	2019 Reported	2018 Incl Held For Sale	2018 Held for Sale	2018 Reported
Goodwill / intangible assets	2,900	-	2,900	3,177	(168)	3,009
Tangible fixed assets	618	-	618	237	-	237
Associates & JVs	404	(397)	7	392	-	392
Capitalised Product Development (Pre-Pub)	870	-	870	1,059	(242)	817
Deferred revenue	(360)	-	(360)	(912)	525	(387)
Traditional working capital	419	-	419	421	(92)	329
Deferred tax	11	-	11	22	(98)	(76)
Pensions	337	-	337	471	-	471
Other provisions	(65)	-	(65)	(165)	-	(165)
Other net assets (liabilities)	205	-	205	(34)	-	(34)
Net debt	(1,016)	-	(1,016)	(143)	-	(143)
Held For Sale	-	397	397	-	75	75
Net Assets	4,323	-	4,323	4,525	-	4,525
Shareholders' funds	4,313	-	4,313	4,516	-	4,516
Minorities	10	-	10	9	-	9
Total Equity	4,323	-	4,323	4,525	-	4,525

Reconciliation: statutory to adjusted earnings 2019

£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	275	159	(16)	163	-	-	-	581
Net finance costs	(43)	-	-	-	2	-	-	(41)
Profit before tax	232	159	(16)	163	2	-	-	540
Income tax	34	(35)	(68)	(48)	-	-	28	(89)
Profit for the year	266	124	(84)	115	2	-	28	451
Minority interest	(2)	-	-	-	-	-	-	(2)
Earnings	264	124	(84)	115	2	-	28	449

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: pre-publication costs

£m	2019	2018*
Opening balance	1,059	988
Exchange	(19)	27
New spend capitalised	318	388
Acquisitions/disposals/transfers (net)	(217)	(6)
Amortisation	(268)	(327)
Restructuring charge	(3)	(11)
Closing balance	870	1,059

*Including businesses held for sale

Reconciliation: year end net debt

£m	2019*	2018
Non current assets		
Derivative financial instruments	29	67
Trade and other receivables – investment in finance lease	171	-
Current assets		
Derivative financial instruments	25	1
Trade and other receivables – investment in finance lease	25	-
Cash & cash equivalents	437	568
Non current liabilities		
Borrowings	(1,572)	(674)
Derivative financial instruments	(24)	(36)
Current liabilities		
Borrowings	(92)	(46)
Derivative financial instruments	(15)	(23)
Net debt	(1,016)	(143)

*IFRS 16 adopted as of 1st January 2019

Retirement benefit obligations

£m	2019	2018
Income statement		
Operating charge		
Defined benefit schemes	13	15
Defined contribution schemes	57	56
Post retirement medical benefit schemes	(1)	(12)
Non operating charge	-	8
Total charge	69	67
Interest	(13)	(11)
Total	56	56
Balance sheet		
UK pension scheme asset	429	571
Other pension scheme net liabilities	(37)	(38)
Post retirement medical benefit liability	(43)	(49)
Other pension accruals	(12)	(13)
Total	337	471

Selected products

Registration and student volume growth

	2019	2018
North American Courseware		
US Higher Education Courseware: digital registrations including eBooks	10,669,000	10,860,000
US Higher Education Courseware: Inclusive Access - number of institutions (US non-profit institutions)	779	617
US Higher Education Courseware: Inclusive Access - number of enrolments (US non-profit institutions)	1,800,000	1,400,000
Global Assessment		
US Student Assessment: state and national paper (papers administered)	17,111,000	18,492,000
US Student Assessment: state and national digital (tests administered)	22,550,000	24,006,000
VUE (tests administered)	16,509,000	15,224,000
Global Online Learning		
OPM: global registrations	427,000	401,000
OPM: global programs	392	348
Virtual Schools: Full Time Equivalent students in continuing schools	76,000	73,000
Virtual Schools: number of continuing schools	42	37

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