

## Chair's introduction

# Pearson is transforming to succeed



Sidney Taurel  
Chair

### Dear shareholders,

In a year of significant change for Pearson, the Board and the Executive Management team continued to work together to lay the foundations to create a sustainable, profitable, digitally-enabled organisation which helps millions of learners make progress through their lives.

### Progress and performance

We entered 2019 with a determination to return to growth on our top line and deliver increased profit. However, despite a strong performance across 76% of Pearson, a disappointing performance in our US Higher Education Courseware business, driven by a much quicker decline in print textbooks, meant underlying Group revenue was flat. Underlying adjusted operating profit was up 6% on 2018, in line with the bottom of our guidance range. We acknowledge there are still challenges to overcome and we remain focused on building on the progress we have made so far – Pearson is now a leaner, more efficient and more digital company with a strong balance sheet and this gives us a platform from which we can address these challenges.

Technology is disrupting every industry and education is no exception. The US Higher Education Courseware market is experiencing fundamental structural shifts as students swap expensive textbooks for more affordable, digital options. There is an increasing focus on employability and reskilling or upskilling for different careers in a lifetime. There is a greater demand for lifelong learning and the digital tools and services required to fulfil this demand. A key tenet of our strategy has been the steady investment in digital innovation and technology, which places us in an advantageous position to meet these changing demands, and ultimately to deliver sustainable growth in earnings and dividends over the long-term.

### Succession planning and leadership changes

In December 2019, we announced that John Fallon had informed the Board of his intention to retire from his role as Chief

Executive. John has been in role for seven years. In that time, he has worked tirelessly to lead Pearson through a period of significant change, and has been successful in transforming it from a media conglomerate to a single-focused learning company. Under his leadership, Pearson has become a simpler, more digitally-focused business, underpinned by a stronger balance sheet and better positioned to deliver a sustainable and healthy future.

Such a transformation and shift in the ways a company operates is never an easy change, and the Board and I would like to thank John for his significant contribution during his tenure. A succession process is under way that will consider both external and internal candidates.

In January 2020, we announced that Coram Williams, our Chief Financial Officer (CFO), had informed the Board that he will be leaving Pearson to take on a comparable role elsewhere. On behalf of the Board, I would like to thank Coram for the fundamental role he has played in the company's achievements over the last five years. We wish him all the best in his new role.

Sally Johnson, our current Deputy CFO, will succeed Coram when he leaves Pearson at our AGM in April. At that point, Sally will become the CFO and an Executive Director on the Board. Sally is exceptionally well-qualified to be the new CFO of Pearson. She has a deep understanding of the company and the markets we operate in. She will be a strong addition to the Board, bringing a focused, analytical and commercial perspective.

### Simplifying Pearson

2019 saw continued progress in our planned simplification programme initiated in 2017. The programme is on track to deliver ahead of both our initial and upwardly revised targets for cost savings, with total annualised cost savings of £335m by the end of 2019.

We also continued to simplify the portfolio to enable us to focus on the biggest opportunities in education, and we completed the disposal of our US K12 Courseware business. In December,

we announced an agreement to sell our remaining 25% stake in Penguin Random House to Bertelsmann for approximately \$675m. The formation of Penguin Random House in 2013 created the first truly global consumer book publishing company and has created significant value for Pearson shareholders, generating c.£1.9bn in net disposal proceeds and dividends. The disposal is enabling us to return capital to you, our shareholders, through a £350m share buyback which commenced in January 2020.

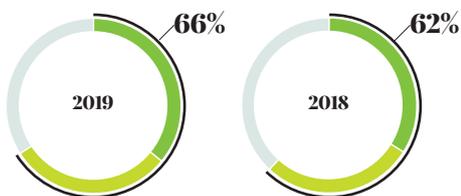
You can read more about these accomplishments in the Chief Executive's overview that follows.

### Maintaining financial strength while looking to Pearson's longer-term future

The Board remains confident about Pearson's medium and long-term prospects and our growth opportunities are significant. Our immediate focus is on improving financial and operational performance and continuing to grow the 76% of the business that represents the future growth drivers of Pearson. Our longer-term vision is to deliver lifelong learning to customers, leading to increased employability and work-related skills – all as part of a wider ecosystem of delivery partners and stakeholders.

Our capital allocation policy is to maintain a strong balance sheet and a solid investment grade rating, to continue to invest in the business, to have a sustainable and progressive dividend policy, and to return surplus cash to our shareholders where appropriate, as evidenced through the two share buybacks we have launched. While our focus is generally on organic investment, we have recently completed two small but interesting acquisitions – Lumerit Education and Smart Sparrow. You can read more about these in the Chief Executive's overview that follows. Thanks to the strength of our balance sheet, we now have optionality for more should we see a good strategic opportunity. Our strategy is clearer than ever, and due to management's work to modernise the company, any potential future acquisitions can now be integrated quickly and seamlessly.

**Pearson digital revenue<sup>1</sup>**



	2019	2018
Digital	36%	34%
Digitally-enabled	30%	28%
Non-digital	34%	38%

1 Excludes WSE and US K12 Courseware.

**Progress over the last three years**

	2019	2018	2017
Adjusted operating profit	£581m	£546m	£576m
Dividend per share	19.5p	18.5p	17p
Net debt	£1,016m	£143m	£432m

This includes the impact of IFRS 16. Excluding this, and on a like for like basis, 2019 net debt is £374m.

As we navigate through a period of significant change, both within Pearson and across the industry as a whole, our financial strength provides a firm foundation for our business transformation, and our continuing investment in the company to grow shareholder value through the prudent allocation of capital.

We have proposed a final 2019 dividend of 13.5p resulting in a full year dividend of 19.5p, an increase of 5%. This is consistent with underlying profit growth in 2019 and reflects the Board's continued confidence in the future growth of the business and our sustainable and progressive dividend policy.

**Corporate governance and engagement with stakeholders**

In 2019, our Board continued to engage with, and encourage participation from employees, educators, learners, community and thought leaders, as well as other stakeholders to ensure the company is contributing to wider society. My fellow Board members and I attended and spoke at various events with employees and other stakeholders in London and in the US. In addition we held meetings with a broad range of stakeholders to understand the challenges and opportunities they faced with digital teaching and learning in schools, higher education and industry.

Furthermore, the Board and I spent time throughout the year with many of our shareholders to ensure we maintained an open, transparent dialogue on our strategy and progress.

**Nourishing talent and focusing on sustainability**

As always, I would like to thank all colleagues in the business for their efforts towards our achievements in 2019. All of our employees are lifelong learners – and our biggest asset. We want to make Pearson the employer of choice. We know that we must continue to do for employees what we do for people all over the world: help them make progress in their lives and careers. That starts by enabling our employees to grow and develop using the

world's very best learning and assessment tools made by us.

In addition, the Board continues to focus on having a corporate culture that is inclusive, innovative, meritocratic and aligned with the company's purpose, values and strategy. Part of this means ensuring that all Directors act with integrity, lead by example and promote the desired culture.

In December, my fellow Board members and I identified a diverse pipeline of 'ready later' emerging talent both at the Executive management level and other key roles, and plans have been put in place to accelerate their path to succession where possible.

As a company with a clear purpose, our sustainability footprint is increasingly becoming more integrated into our core business and operations. In 2020, I am pleased that we are launching our 2030 Sustainability Strategy, in line with the UN Sustainable Development Goals (SDGs). We are committed to embedding Environmental, Social and Governance (ESG) principles more deeply across our business. We are focused on leveraging our products and partnerships to advance equity in learning for under-represented groups and equip learners with the skills they need to build a more sustainable future for all. We will continue to scale up our initiatives to respect human rights and minimise environmental impact across our value chain. The Board has been very engaged on this topic because integrating ESG across the company is an important way to drive growth, manage risk and reduce costs. You can read more about our approach in our Sustainability section on p16 and Governance section on p51 ➔

**Board composition**

We made two important additions to the Board in 2019. I would like to officially welcome Graeme Pitkethly, the CFO of Unilever PLC and NV, and Sherry Coutu, angel investor and entrepreneur. We are benefiting from Graeme's financial expertise, global overview and deep understanding of consumer behaviour, particularly as we look to build more direct relationships with

learners. Sherry's expertise in building fast-growth, entrepreneurial businesses, focused on technology and education, is already proving invaluable, as we target digital-first, high-growth business models.

The Board benefits from a wide range of backgrounds, skills and experience spanning key areas for the future of Pearson, such as digital technology, sustainability, international regulatory affairs and entrepreneurship. We are also passionate about supporting diversity and promoting diverse talent internally, as part of our company goal to unleash our world of talent.

To this effect, I am delighted with the appointment of Sally Johnson. My fellow Board members and I aim to further support the talent pipeline. You can read more about our employee engagement and talent initiatives in the Governance sections which begins on p51 ➔

**The world's learning company**

Our purpose is to empower people to progress in their lives through learning. Our vision is to enable that to happen through a direct relationship with tens of millions of learners who we will support through a lifetime of learning, helping them link their education to better employment. We will be able to play that role because of the world-class capabilities we bring to bear, and the ways in which we combine them to achieve better learning outcomes.

The Board remains confident about Pearson's longer-term prospects and resilience to near term challenges and we are excited about the opportunities to build shareholder value through the delivery of profitable growth and strong cash generation, while continuing to invest for the future.

I look forward to seeing you in the coming year and thank you for your ongoing support.

Sidney Taurel  
Chair