

2013 results presentation

Friday 28 February 2014

Financial summary

£m	2013	2012	Headline growth	CER growth	Underlying growth
Sales*	5,177	5,059	2%	2%	1%
Operating profit before restructuring	871	932	(7)%	(6)%	(9)%
Operating profit	736	932	(21)%	(21)%	(23)%
Adjusted EPS	70.1p	82.6p	(15)%		
Operating cash flow	588	788	(25)%		
Net debt	(1,379)	(918)	(50)%		
Dividend	48p	45p	7%		

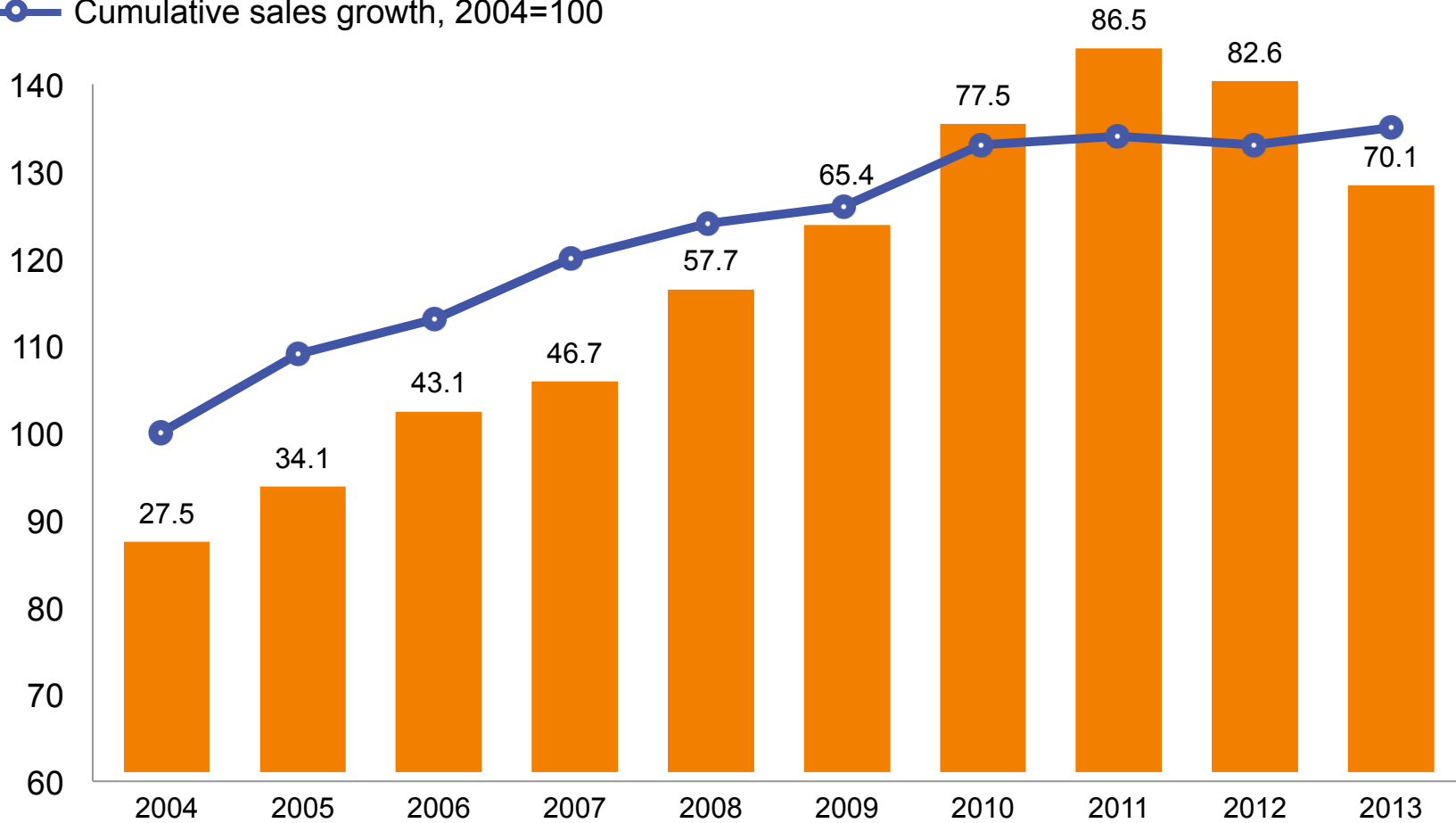
Total business unless otherwise stated

* Includes Mergermarket, excludes Penguin

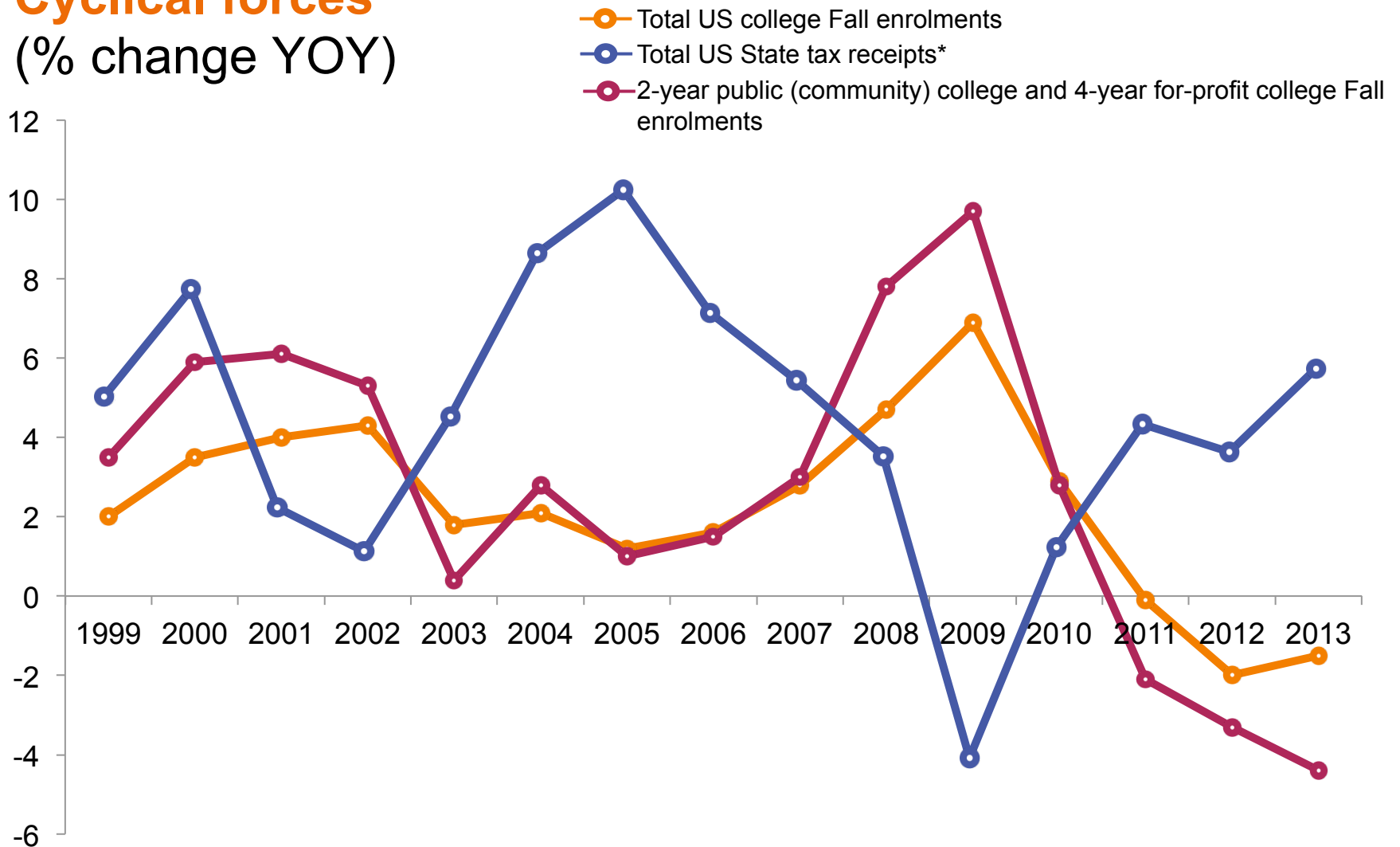
Long term context

Adjusted earnings per share (p)

—●— Cumulative sales growth, 2004=100



Cyclical forces (% change YOY)

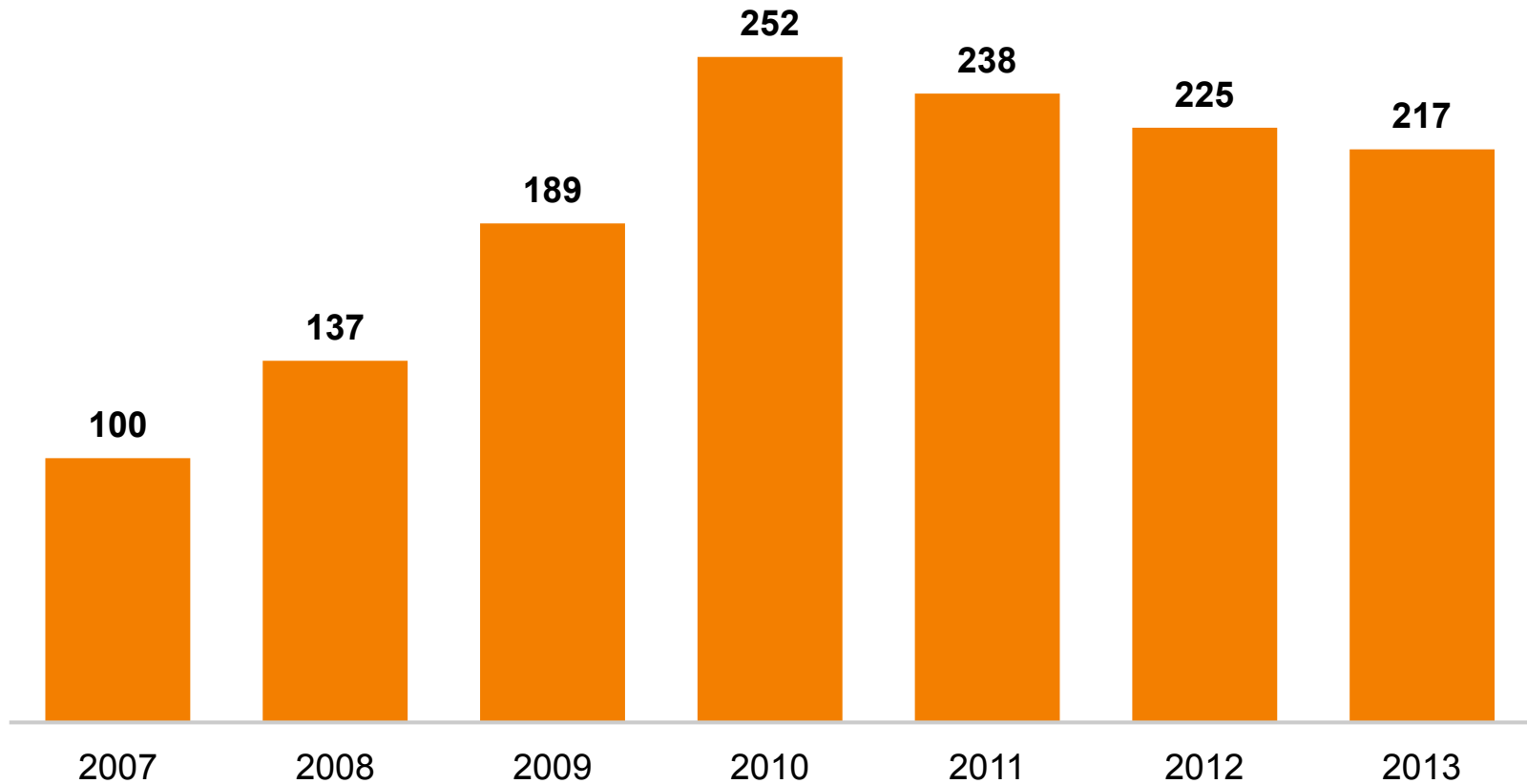


* 2013 tax receipts LTM to 30th June 2013

Sources: US Census Bureau, National Center of Education Statistics, National Student Clearinghouse

Policy change

(UK school BTEC enrolments, 2007=100)



Summary

2013

US higher education enrolments

Down

Curriculum change in US and UK

Negative

Net restructuring cost

£135m

Planned infrastructure and product investment

Increased

Progress on our strategic goals

- Global education strategy and organisation design
- Strong growth in digital, services and emerging markets
- Restructuring programme on track
- Disposal of Mergermarket, acquisition of Grupo Multi
- Completion of Penguin Random House transaction

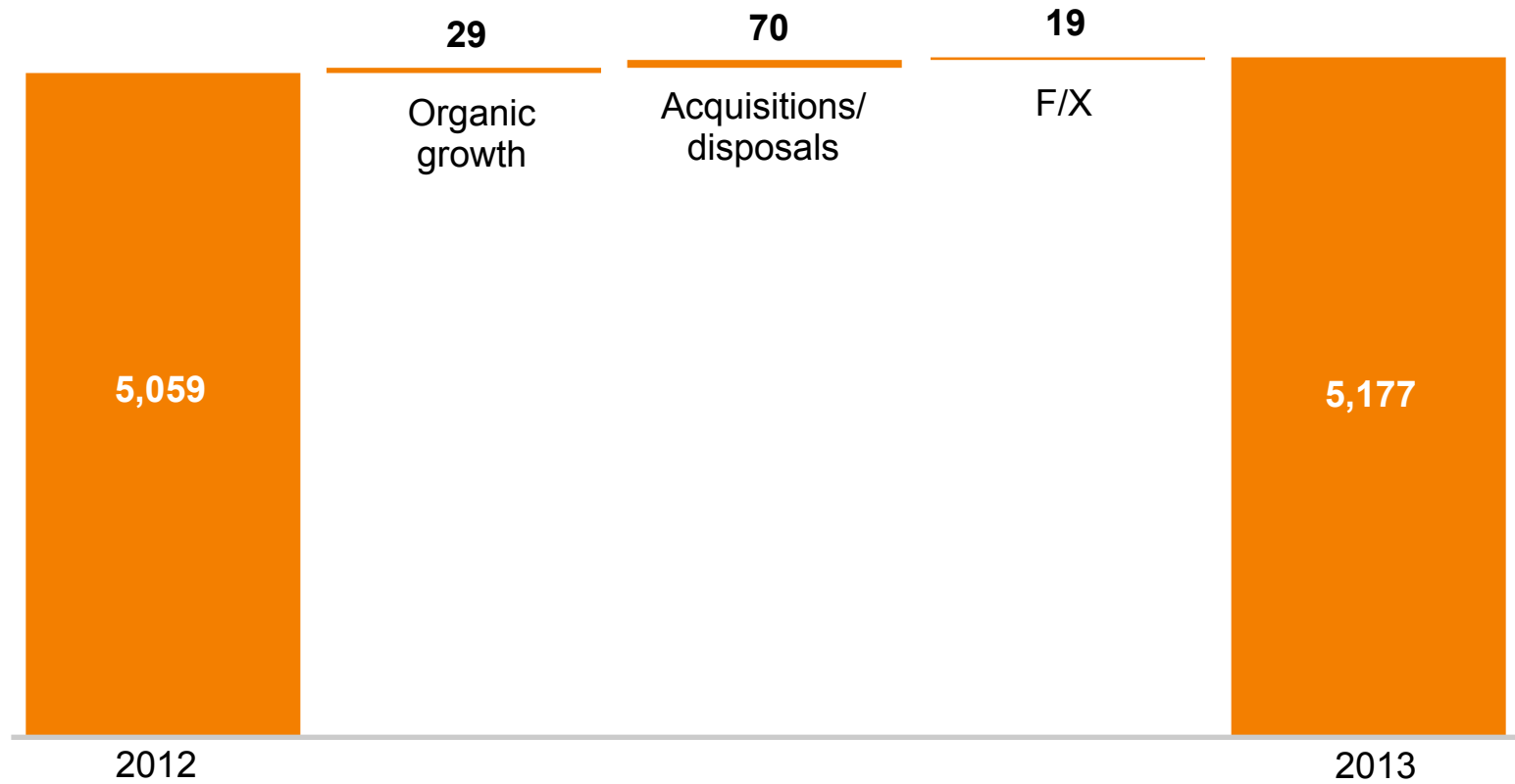
Financial review

Sales

£m	2013	2012	CER growth	Underlying growth
North American Education	2,779	2,658	3%	0%
International Education	1,539	1,568	0%	1%
Professional	410	390	4%	8%
Education	4,728	4,616	2%	1%
FT Group	449	443	0%	0%
Sub-total before Penguin	5,177	5,059	2%	1%
Penguin	513	1,053	<i>n/a</i>	6%
Total	5,690	6,112	<i>n/a</i>	1%

Total business

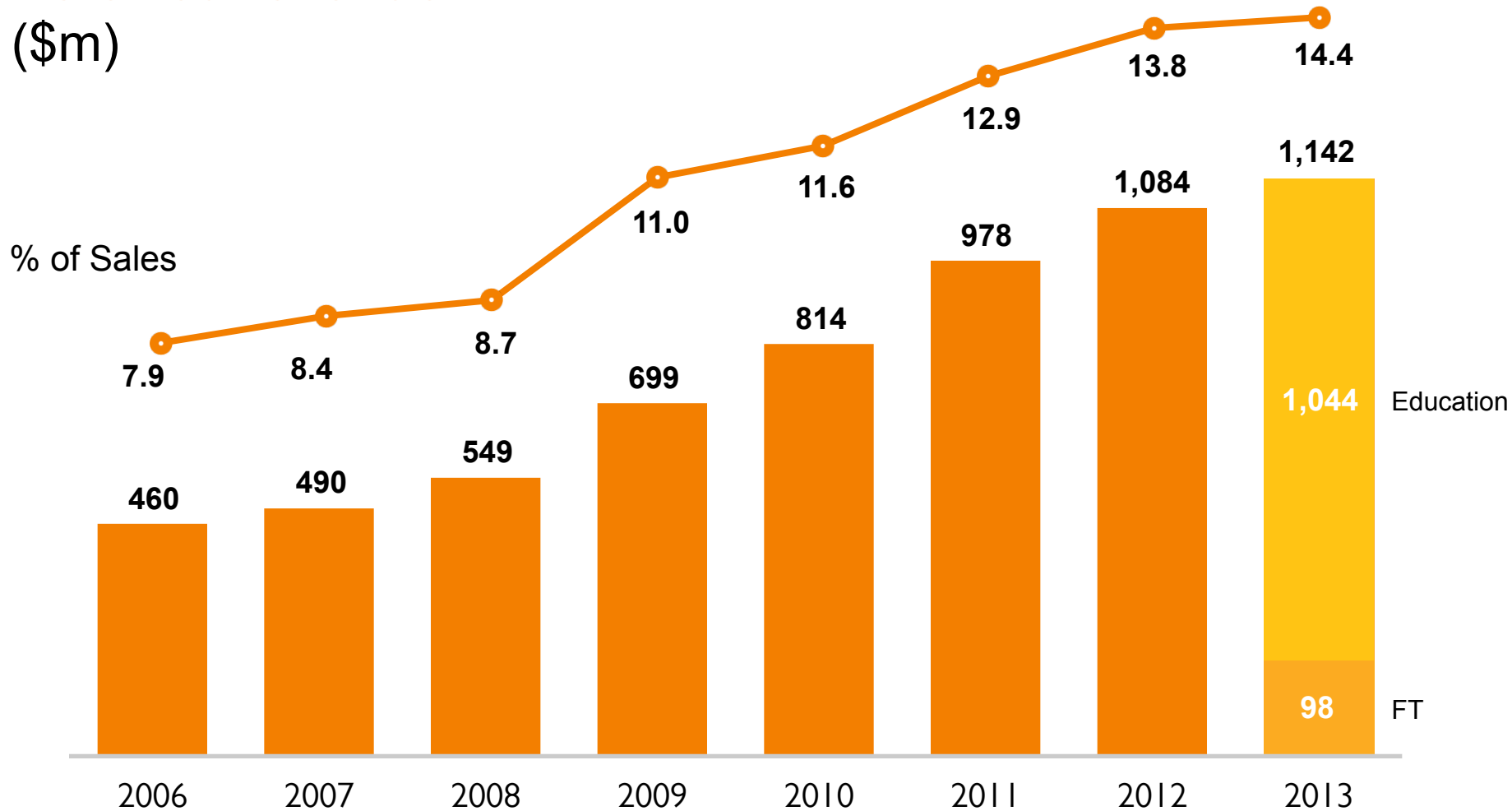
Sales movements, £m



Excludes Penguin

Deferred revenue*

(\$m)



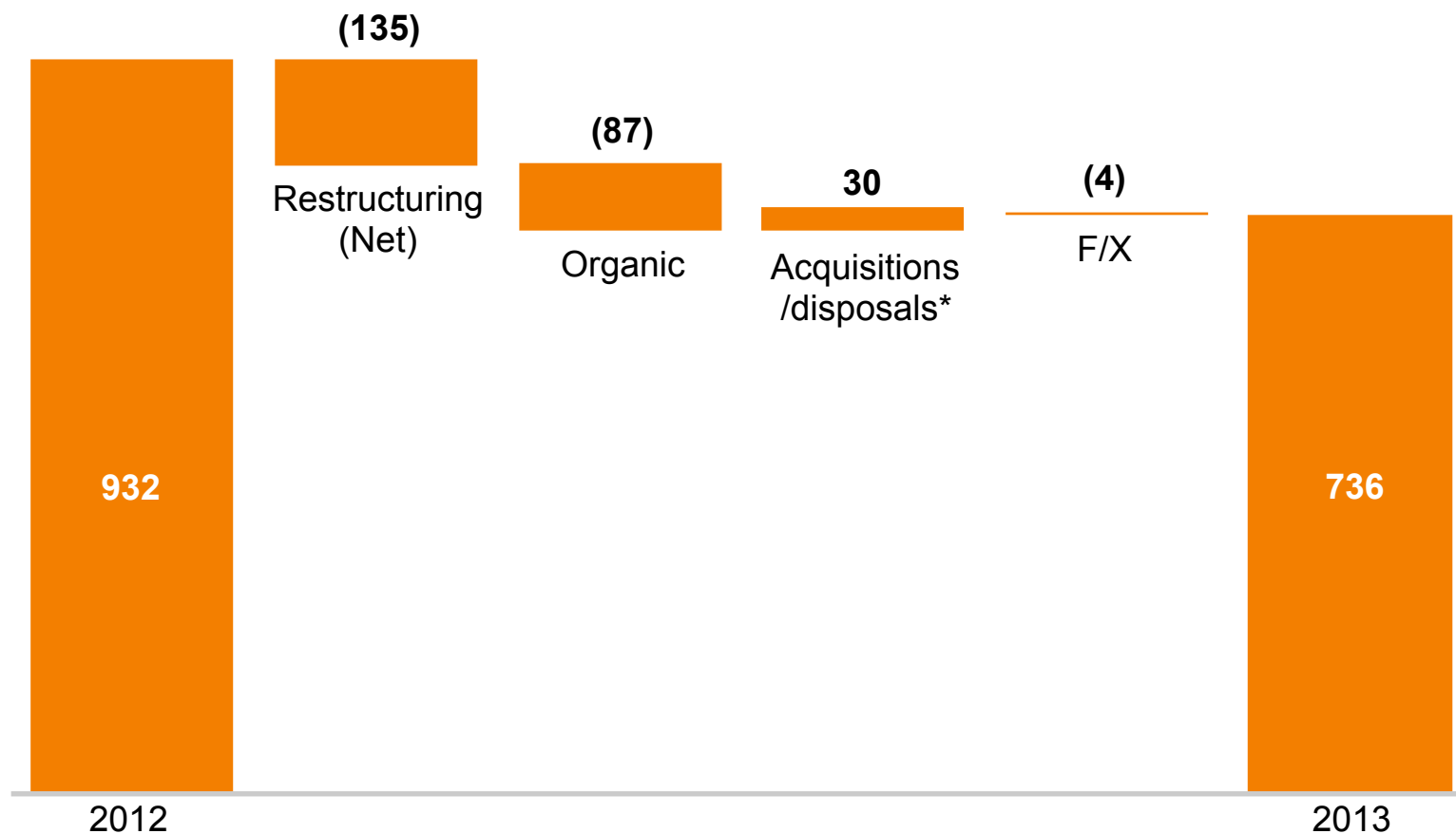
*Excludes Penguin and Mergermarket

Operating profit – post restructuring

£m	2013*	2012	CER growth	Underlying growth
North American Education	406	536	(25)%	(30)%
International Education	140	214	(29)%	(30)%
Professional	57	37	51%	(7)%
Education	603	787	(23)%	(28)%
FT Group	55	47	17%	17%
Total (ex Penguin / PRH)	658	834	(20)%	(26)%
Penguin / PRH	78	98	(22)%	(2)%
Total	736	932	(21)%	(23)%

*Includes £135m net restructuring charges as follows: North American Education, £49m; International Education, £69m; Professional Education, £6m, FT Group, £11m.

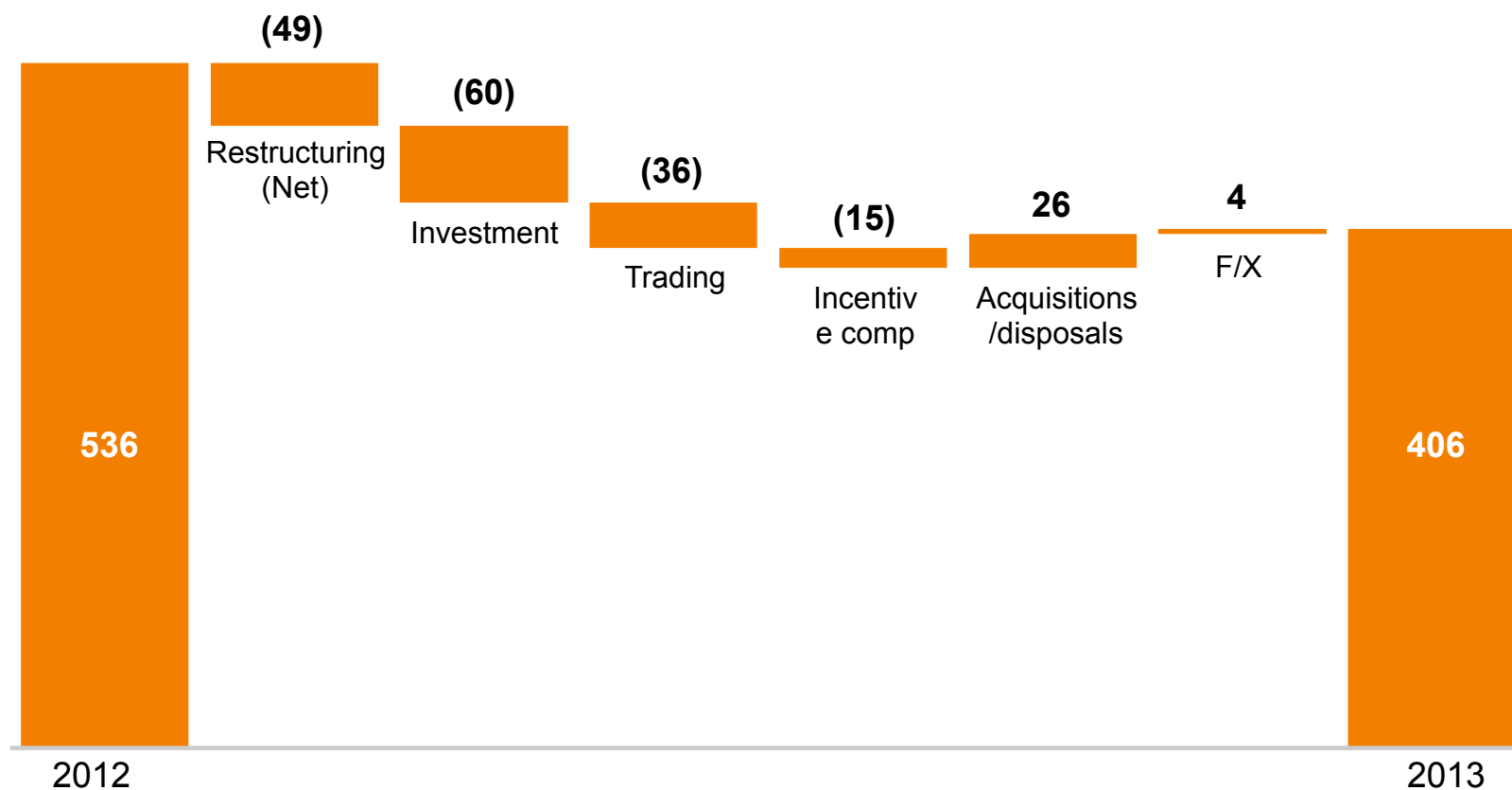
Profit movements, £m



Total business

* Includes impact of Penguin Random House Associate tax accounting of £23m

North American Education profit, £m



Adjusted EPS

£m	2013	2012	Headline growth
Operating profit	736	932	(21)%
Interest	(72)	(65)	(11)%
Taxation	(97)	(200)	(52)%
Tax rate	14.6%	23.1%	
Profit after tax	567	667	(15)%
Minorities	(1)	(3)	67%
Adjusted earnings	566	664	(15)%
Shares in issue	807.8	804.3	
Adjusted EPS	70.1p	82.6p	(15)%

Total business

Statutory P&L

£m	2013	2012	Headline growth
Operating profit	458	487	(6)%
Interest	(72)	(65)	(11)%
Finance costs – IAS39 / IAS21	(4)	(31)	87%
Profit before tax	382	391	(2)%
Taxation	(87)	(138)	37%
Profit after tax	295	253	17%
Discontinued operations*	244	61	300%
Profit for the year	539	314	72%
Basic EPS (total)	66.6p	38.7p	72%

*2013 includes profit on sale of Penguin

Operating cash flow

£m	2013	2012	var
Operating profit	736	932	(196)
Working capital	(37)	(100)	63
- of which pre-publication expenditure	(77)	(54)	(23)
- of which other working capital	40	(46)	86
Net capital expenditure	(169)	(156)	(13)
Depreciation	141	134	7
Share of operating results of associates	(84)	(19)	(65)
Dividends from associates and JVs	64	27	37
Exchange	(40)	(21)	(19)
Other movements	(23)	(9)	(14)
Operating cash flow	588	788	(200)
Cash conversion %	80%	85%	

Total business

Free cash flow

£m	2013	2012	var
Operating cash flow	588	788	(200)
Operating tax paid	(191)	(65)	(126)
Net interest paid	(73)	(66)	(7)
Operating free cash flow	324	657	(333)
Non operating tax paid	(55)	-	(55)
Free cash flow	269	657	(388)
Free cash flow / share	33.3p	81.7p	

Total business

Balance sheet

£m	2013	2012	var
Goodwill / intangible assets	5,959	6,622	(663)
Tangible fixed assets	344	367	(23)
Associates & JVs	1,092	39	1,053
Pre-publication	717	682	35
Deferred revenue	(751)	(733)	(18)
Traditional working capital	397	741	(344)
Other net liabilities	(61)	(361)	300
Net trading assets	7,697	7,357	340
Shareholders' funds	5,700	5,686	14
Deferred tax	363	354	9
Pensions	56	198	(142)
Other provisions	193	177	16
Minorities	6	24	(18)
Net debt	1,379	918	461
Capital employed	7,697	7,357	340
Year end \$/£	1.66	1.63	

Total business

Credit rating

- Net debt/ EBITDA: 1.6x
- Interest cover: 10.2x
- Committed to BBB+/Baa1 over long term
- BBB/Baa2 possible during current 2013/4 restructuring and investment phase

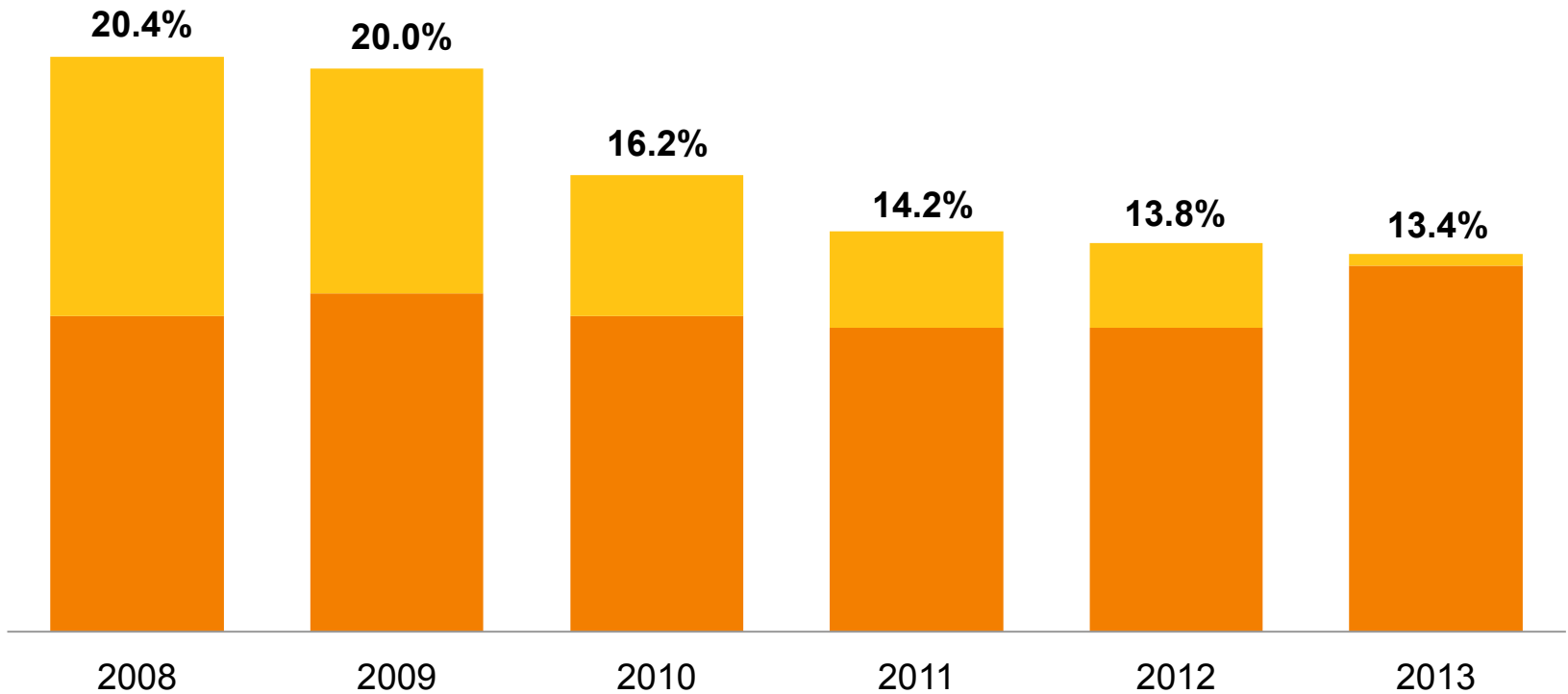
Return on invested capital

£m	2013	2012
Operating profit	736	932
Less actual cash tax (operating)	(191)	(65)
Cash tax rate	26%	7%
Return	545	867
Average: goodwill - gross	6,828	6,720
other intangibles - gross	2,075	1,830
Pre-publication investments	736	662
Tangible fixed and working capital	491	366
Average total invested capital	10,130	9,578
ROIC	5.4%	9.1%

Total business

Working capital / sales

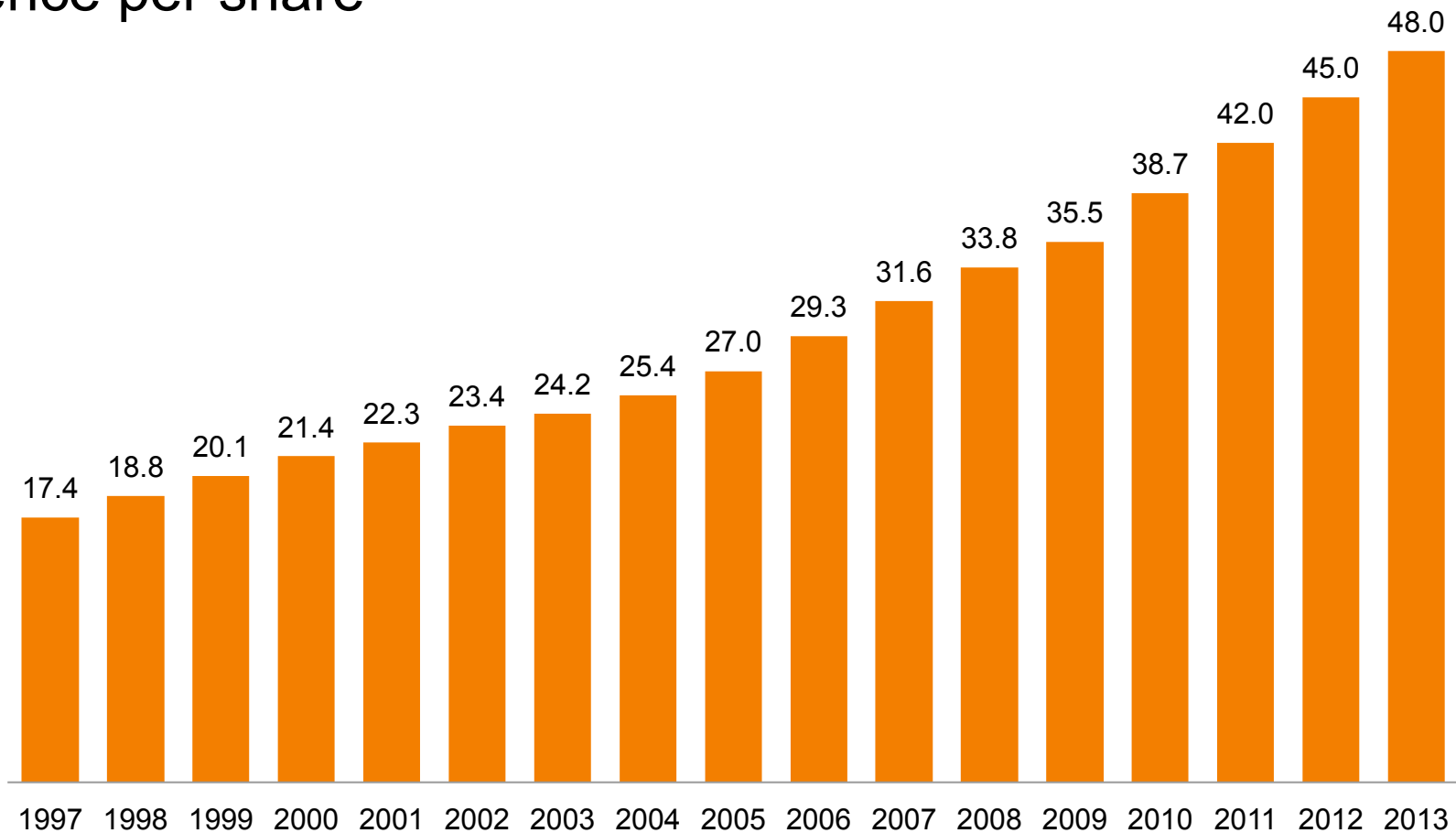
- Traditional working capital
- Pre-publication investment



Total business

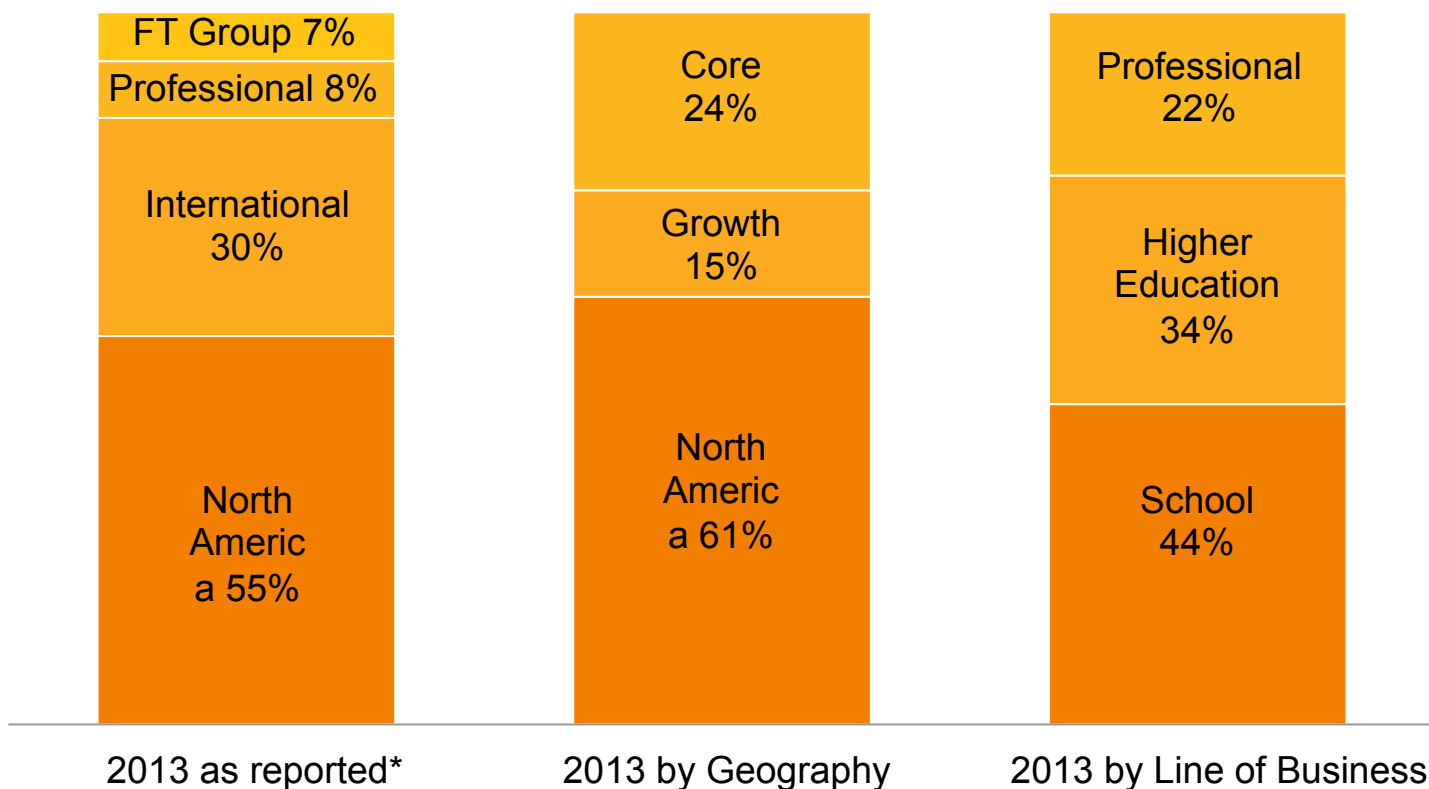
Growing dividend

Pence per share



Disclosure

Estimate of revenues by Line of Business and Geography

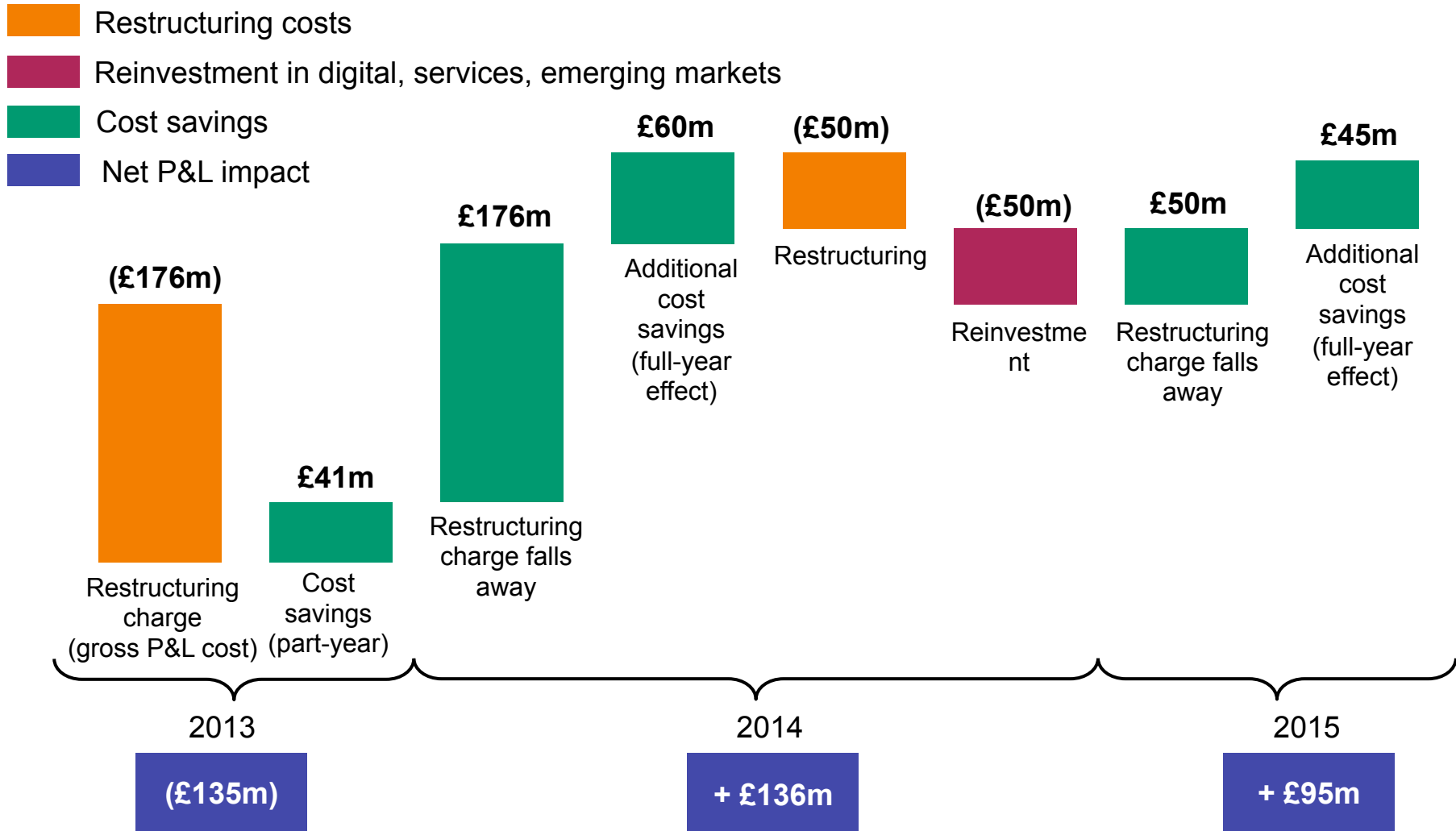


*Continuing revenues of £5,069m

2013 vs. 2014 base

- Portfolio changes
 - Mergermarket: (£28m)
 - Grupo Multi: completed on 11 February; integration; currency
 - Penguin Random House associate tax accounting: (£10m)
- Currency
 - £/US\$ @ 1.67: (£30m)
 - Emerging markets (Rand, Renminbi, Real): (£20m)
- Restructuring charges/benefits; reinvestment
 - Absence of 2013 restructuring: £176m
 - Incremental savings from 2013 restructuring: £60m
 - 2014 restructuring: (£50m)
 - 2014 reinvestment: (£50m)
- Tax on PBT including PRH: 19%-21% in 2014 vs. 15% in 2013

P&L charges/ benefits of restructuring programme*



*Excludes impact of any underlying change in performance

2014 outlook (organic)

North American Education

- K12 Learning Services
 - better year for curriculum; another good year for Connections
 - significant revenue deferral; increased plate amortisation
- Assessment & Information
 - disruption during transition to Common Core
- College
 - good growth in digital & services
 - lower college enrolments, notably career and community colleges

Growth

- good growth in China, Brazil
- slower year in South Africa after significant curriculum change in 2012

Core

- ongoing disruption from curriculum change to resources and assessment in UK
- Australia still challenging; curriculum change in Italy

2013 results presentation

Friday 28 February 2014

Summary

	2013	2014	2015
US higher education enrolments	➤ Down	➤ Down	➤ Stabilise
Curriculum change in US and UK	➤ Negative	➤ Negative	➤ Neutral/ positive
Restructuring cost	£176m	£50m	Normalised
Restructuring benefit	£41m	£60m	£45m
Planned infrastructure and product investment	Increased	Increased	Stable

Agenda

Restructuring

Investment

Transformation

Opportunity

Restructuring

Print => Digital & Services

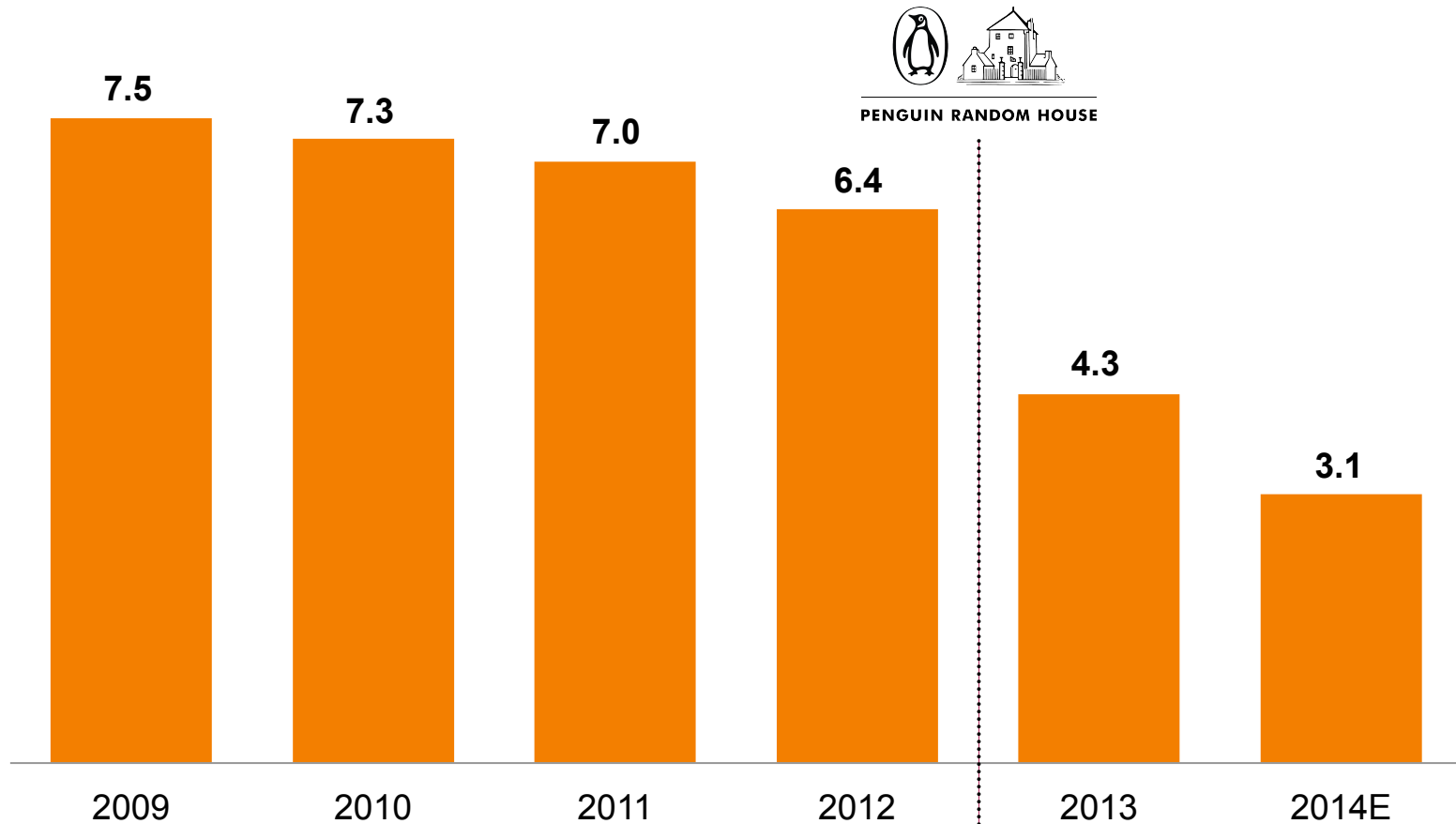
Mature markets => Emerging markets

Learning inputs => Learning outcomes

Restructuring



Restructuring: physical infrastructure (warehouse capacity, millions of sq ft)



Investment

- Growth markets
- Digital infrastructure
- Next generation products and services
- Learning outcomes

Investment: principles

- Based on world class R&D in the science of teaching and learning
- Adaptable, engaging, easy to use
- Digital, globally available and device neutral
- Assignable tasks, feedback and assessment
- Generating data and learning analytics to improve quality learning outcomes
- Connected to services, training, and adapted for the “last mile” for customers
- Evidence of learning outcomes
- Scalable and replicable for a global market of customers and learners

Investment across our business models

A powerful suite of products



- Common Core Systems
- World Class Qualifications
- MyLabs
- Textbooks

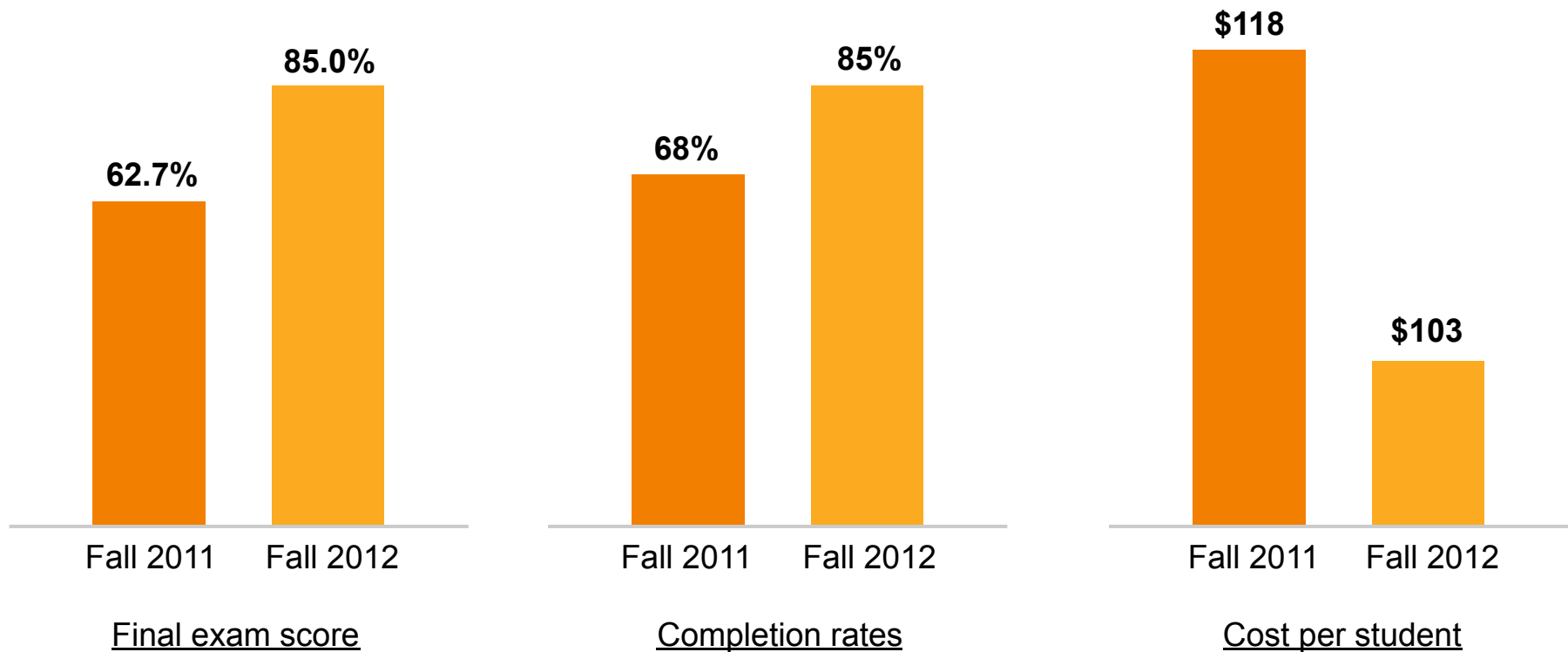
- Learning Studio
- Embanet
- Sistemas
- Connections Learning

- Wall Street English
- Global Education
- Grupo Multi
- CTI
- Pearson College
- Connection Academy
- Nexus Academy
- Pearson School, India

- US State & National
- Edexcel
- BTEC
- Vue

Doing more, and better, with less

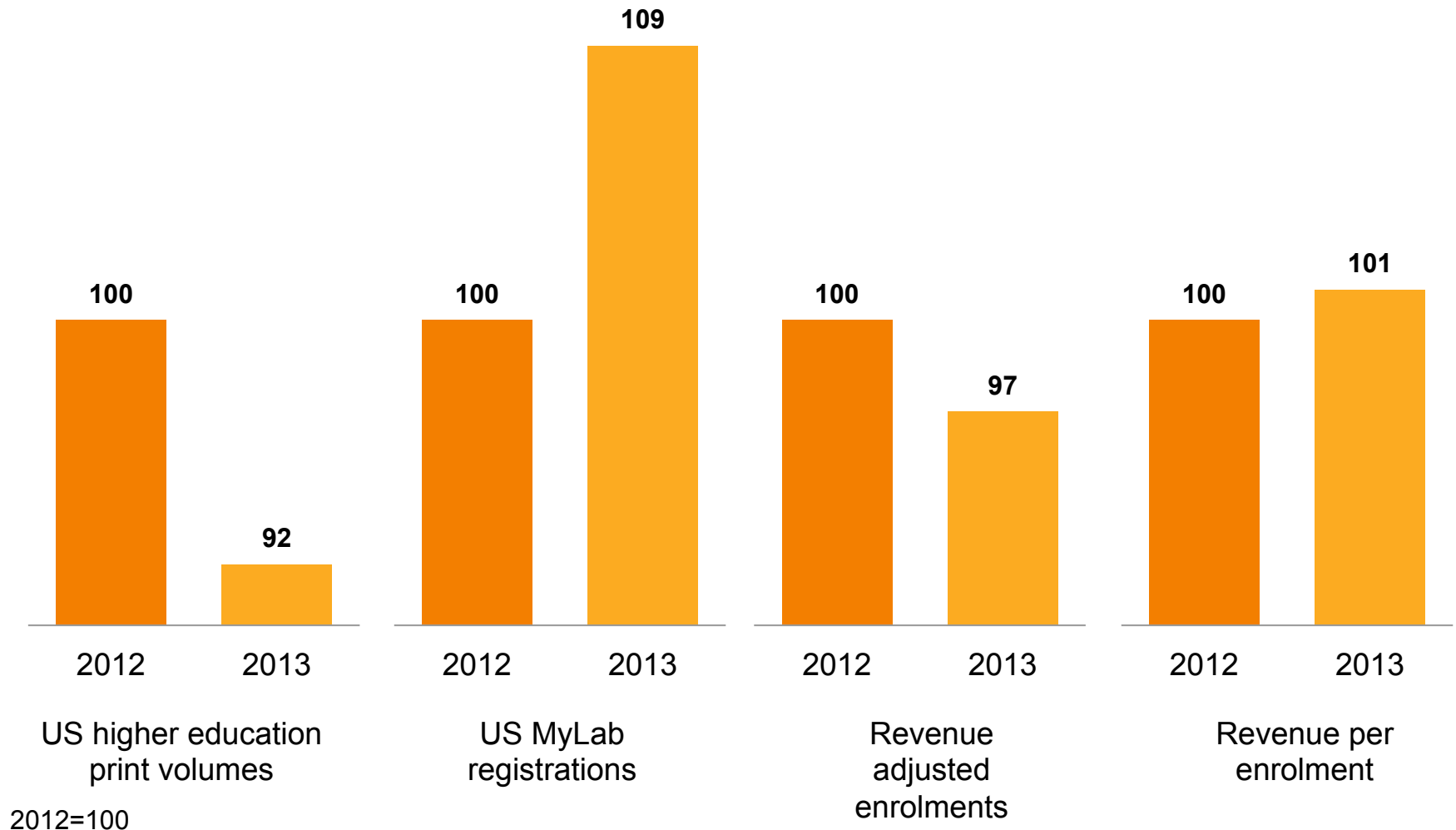
Learning gains at Central Missouri with Pearson support



Source: National Center for Academic Transformation: University of Central Missouri (Intermediate Algebra)

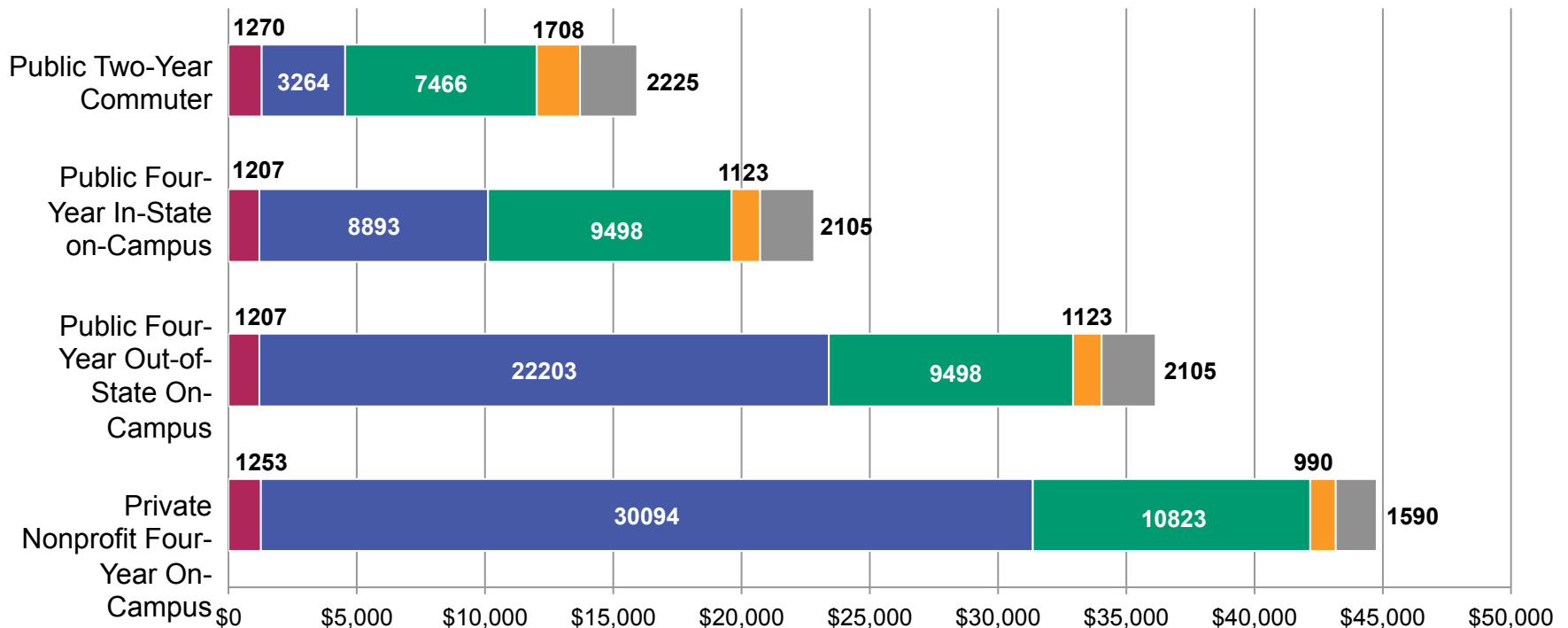
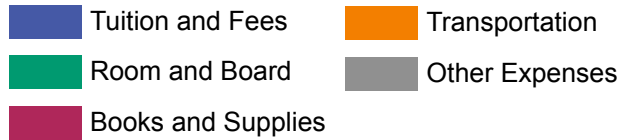
From textbooks to courseware

US Higher Education shifting from print to digital



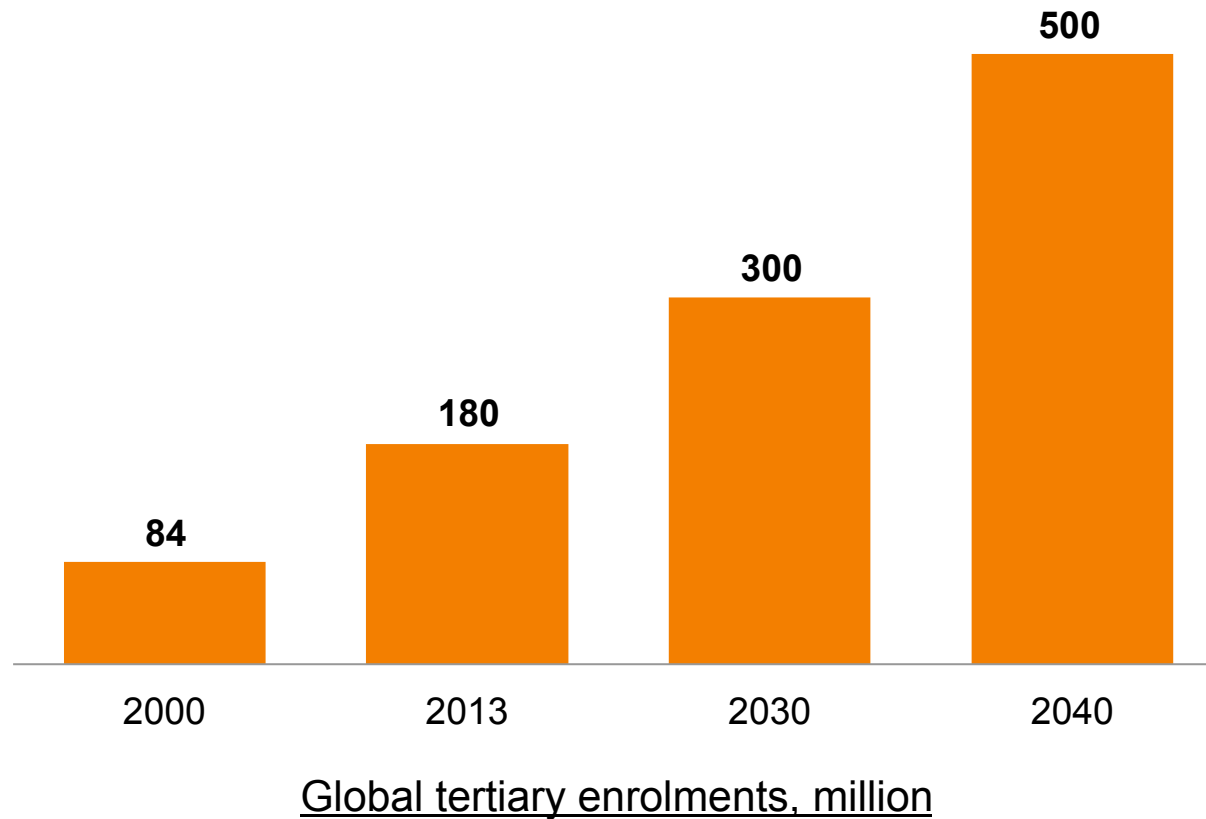
Expanded market opportunity

Average Estimated Full-Time Undergraduate Budgets 2013-14

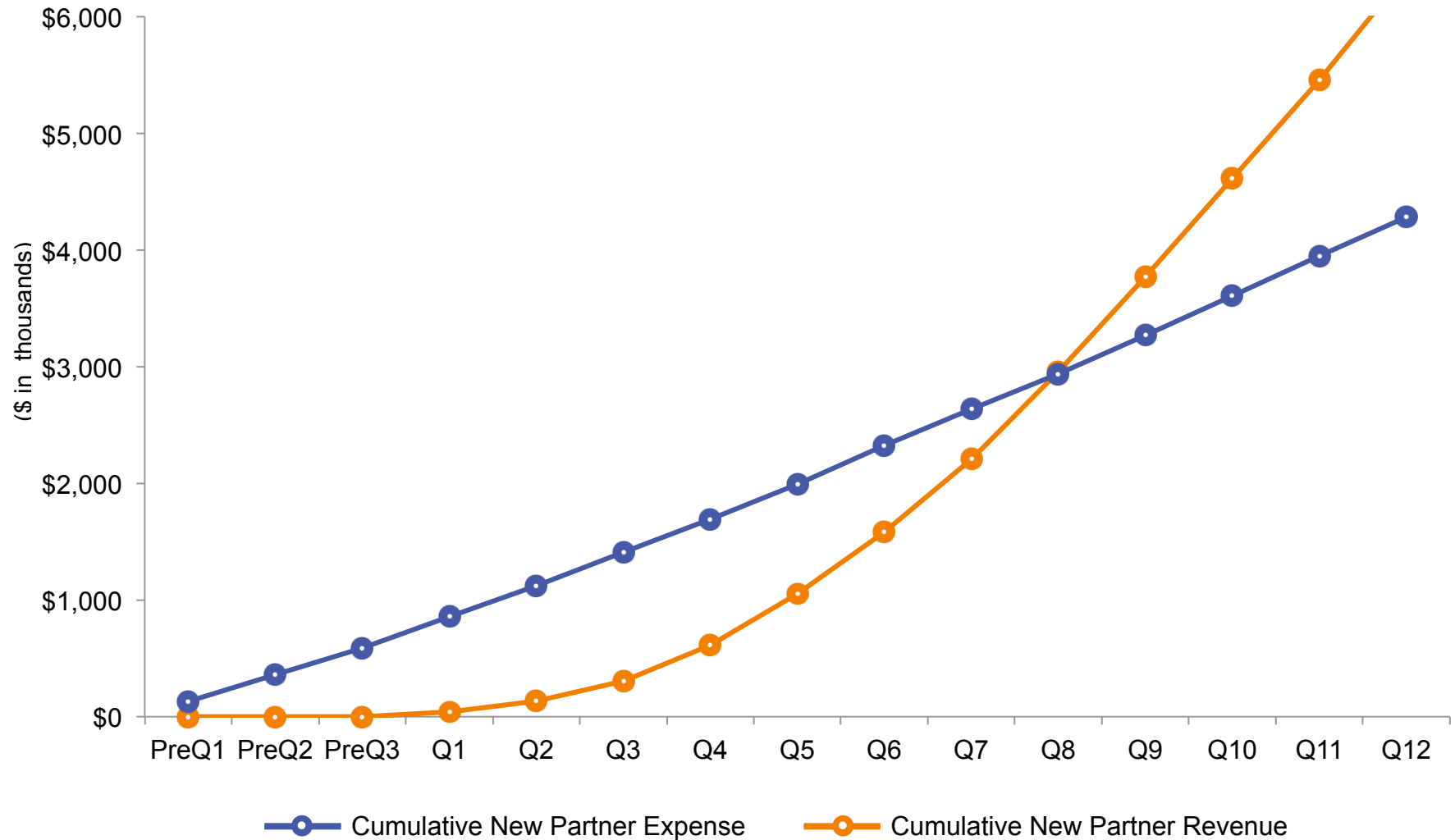


Source: the College Board, Annual Survey of Colleges

Higher Education, a large and growing global market

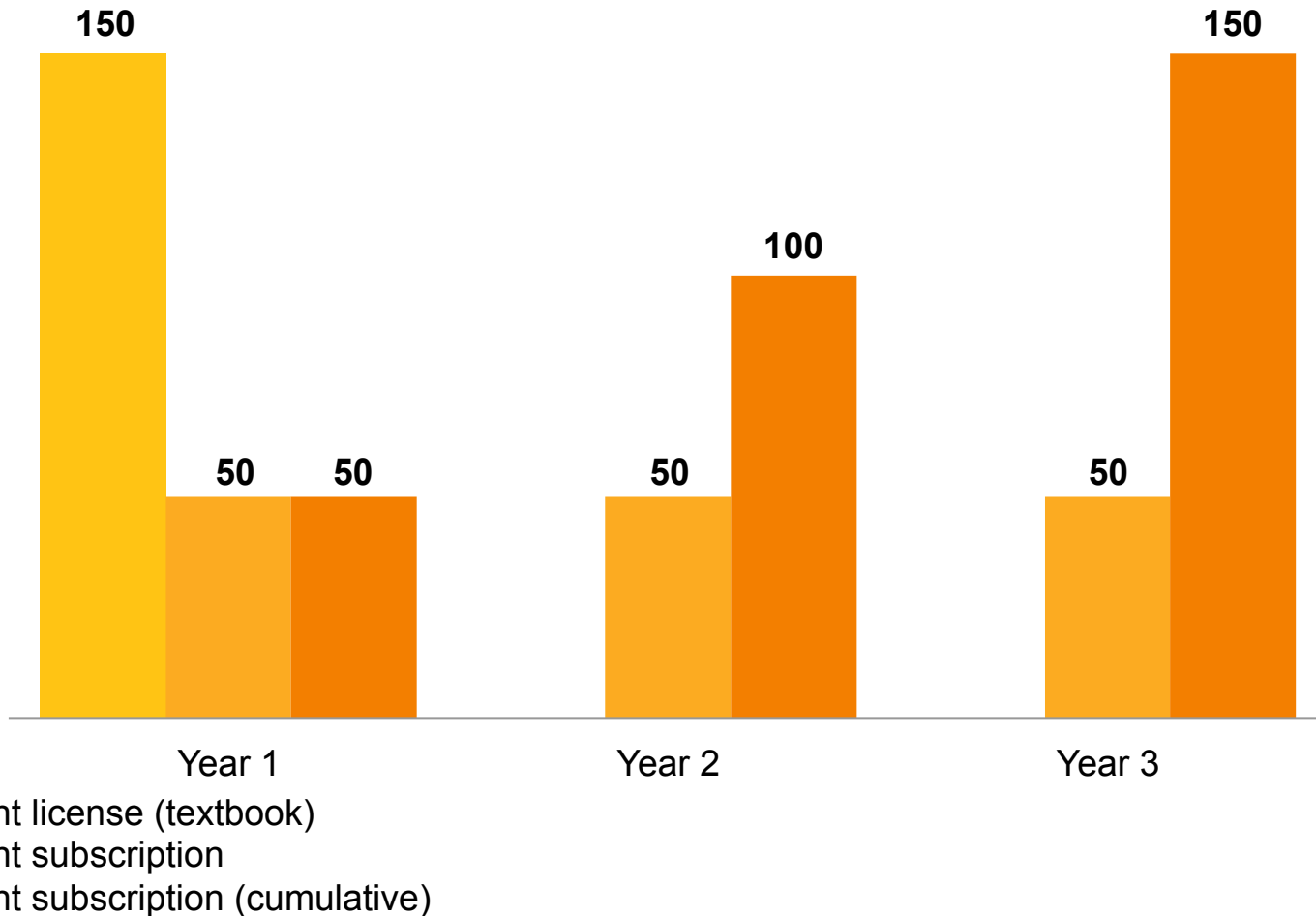


Investment profile of our new service businesses



Digital subscriptions to our content

Shift from license to subscription sales in higher education



Note: Illustrative example based on Pearson data showing impact of move from one off sale to annual subscription

Higher Education

New business models create much bigger revenue opportunities

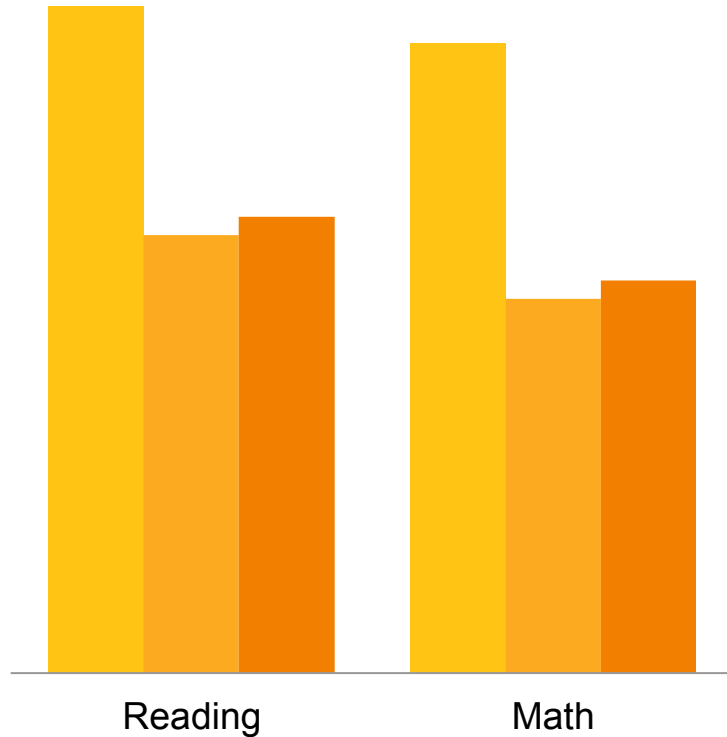
	College textbook (US)*	Inside service, mature campus (US)*	Direct delivery, mature campus (Emerging market)*
ARPU	100	1,400	900
Margin, %	100	115	95
Cash conversion, %	100	95	95

* Rebased to textbook = 100

Doing more, and better, with less

How Common Core opens up bigger opportunities

Average assessment score for grades 3-8.
Kentucky

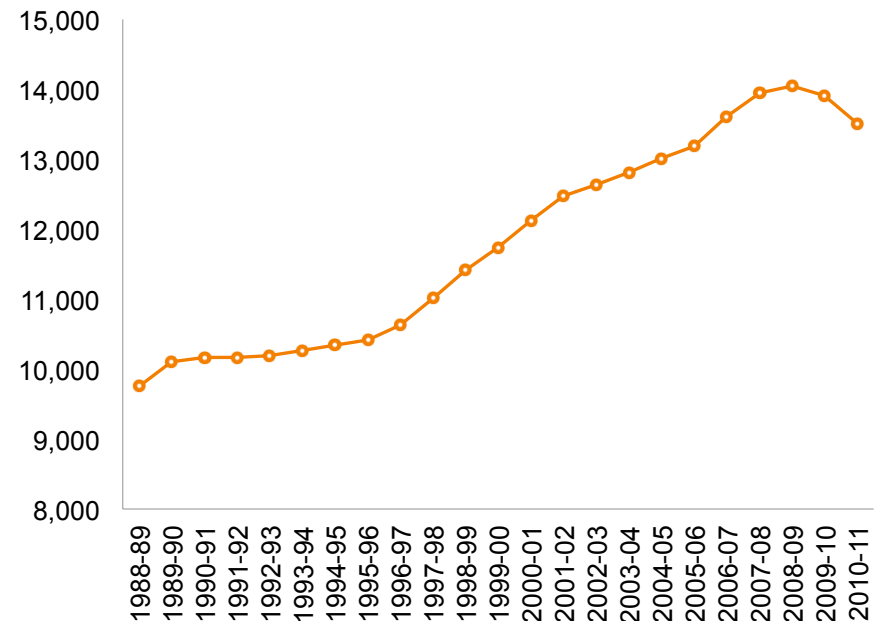


2011* 2012* 2013**

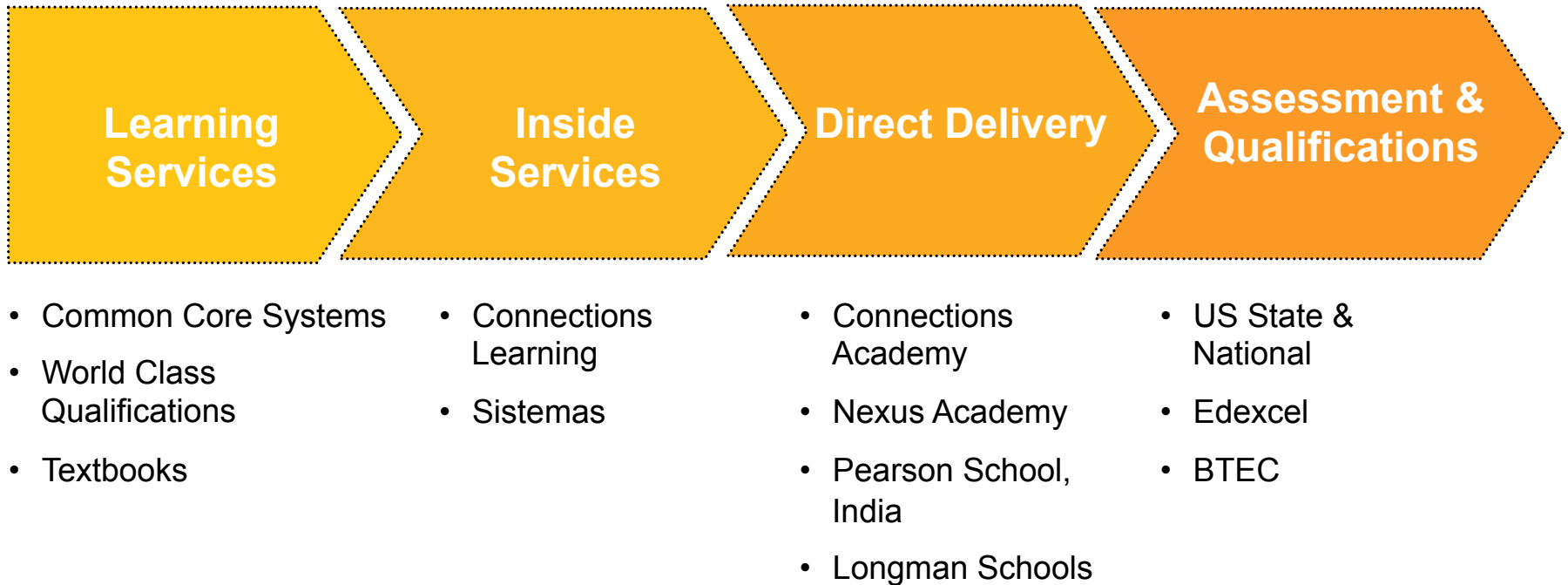
*NCLB test

**Common Core Test

Average expenditure per pupil, constant \$



Investment: School inside services and direct delivery



School

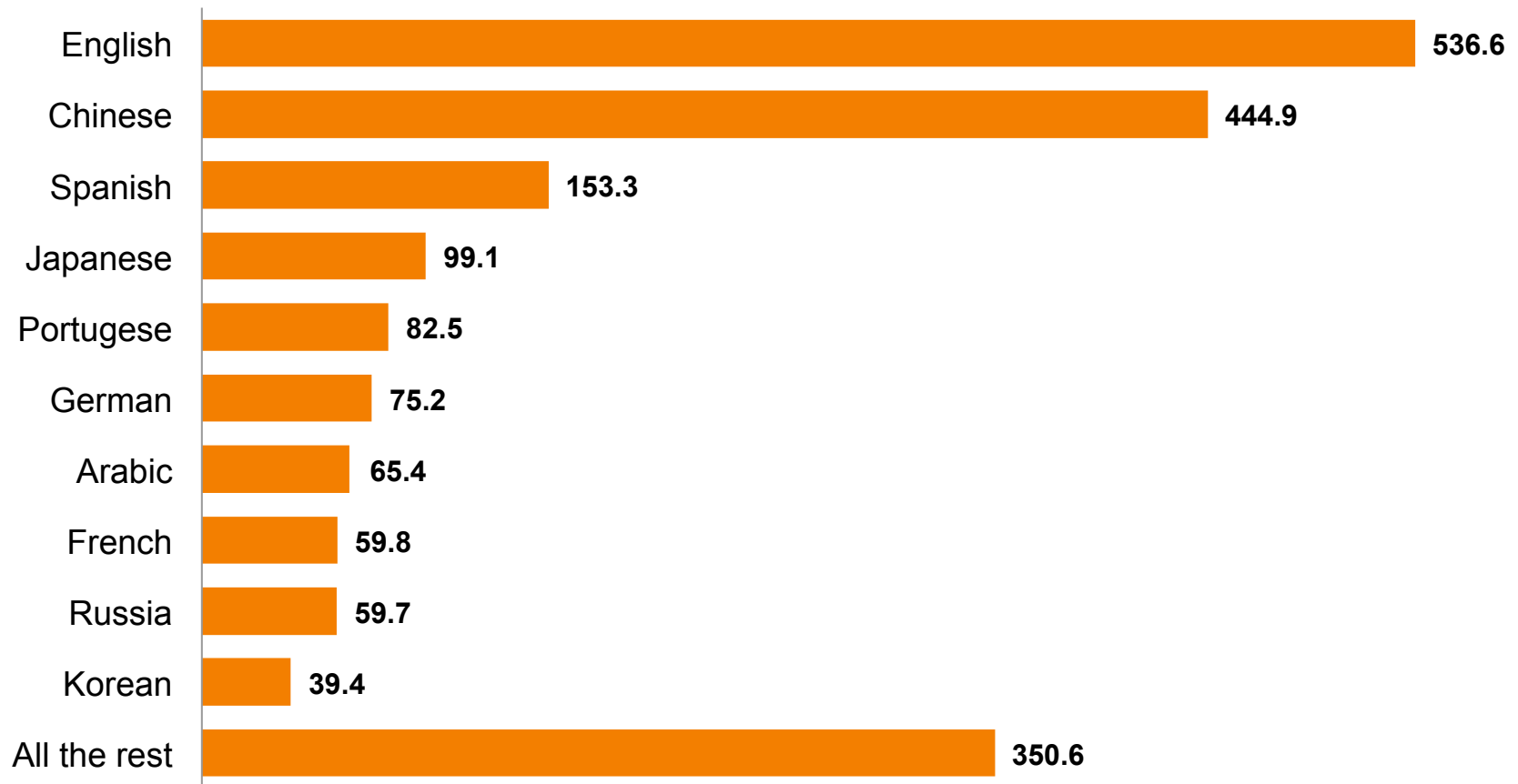
New business models create much bigger revenue opportunities

	Textbook	Inside service (emerging markets)	Inside service, mature campus (US)*
ARPU	100	270	11,000
Margin, %	100	100	90
Cash conversion, %	100	90	120

* Rebased to textbook = 100

English: the global language of communication

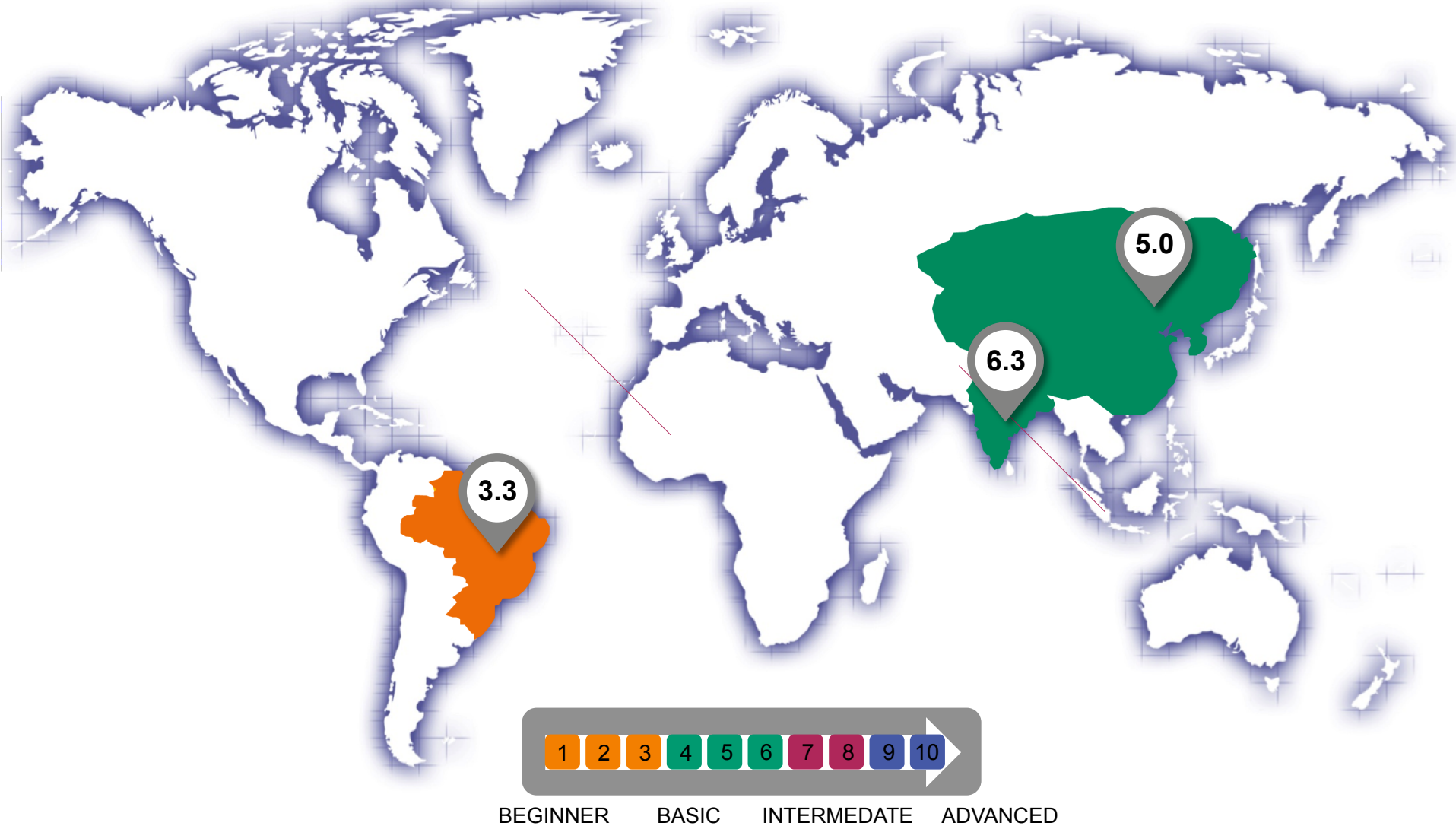
Top Ten Languages on the Internet 2010 – in millions of users



Source: Internet World Stats

Investment in English: the language of business

Source: Business English Index, Global English



English

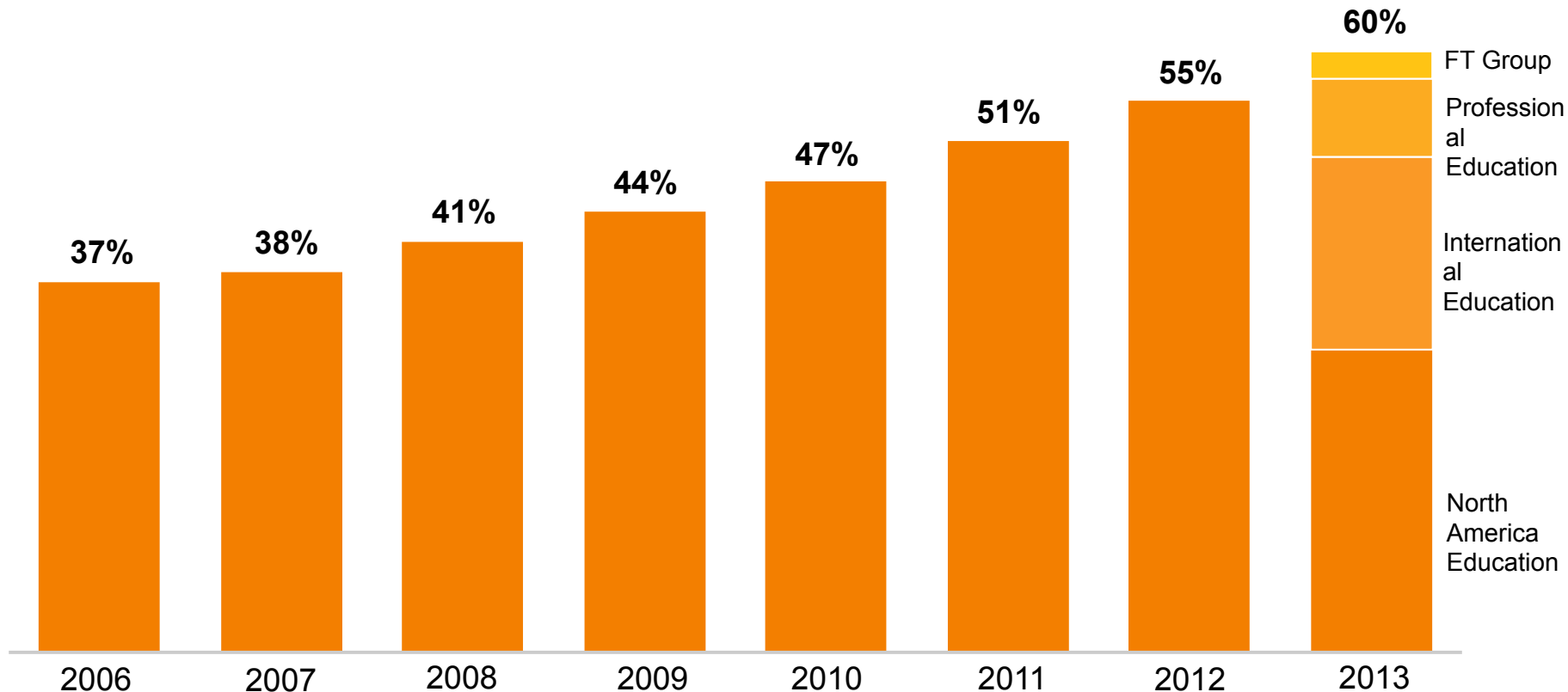
New business models create much bigger revenue opportunities

	Textbook	Inside service, mature campus (emerging market)	Direct delivery, mature campus (emerging market)*
ARPU	100	410	6,200
Margin, %	100	265	130
Cash conversion, %	100	115	100

* Rebased to textbook = 100

Transformation: revenues

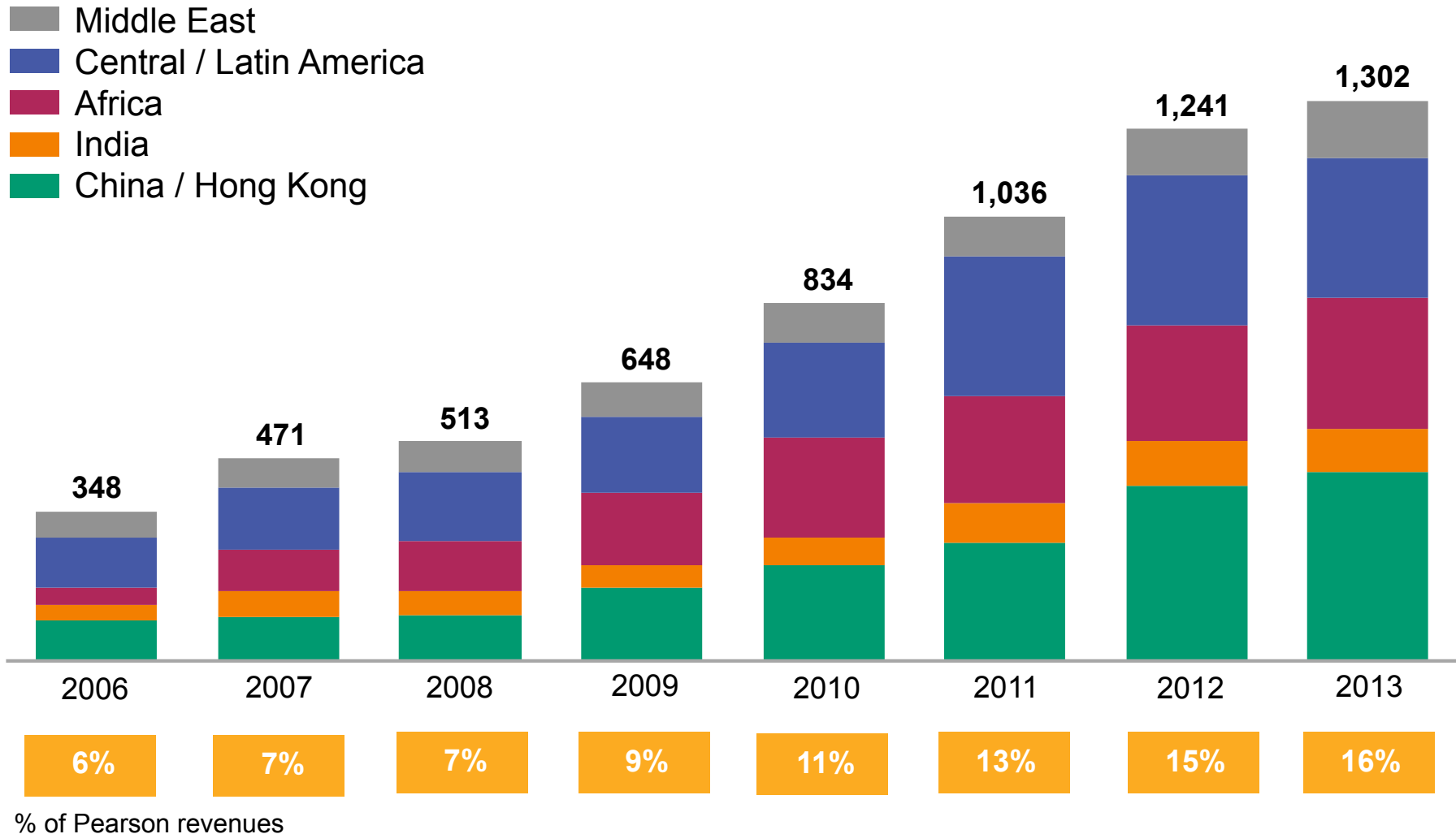
Pearson's digital & services revenues, % of sales



Excludes Penguin and Mergermarket

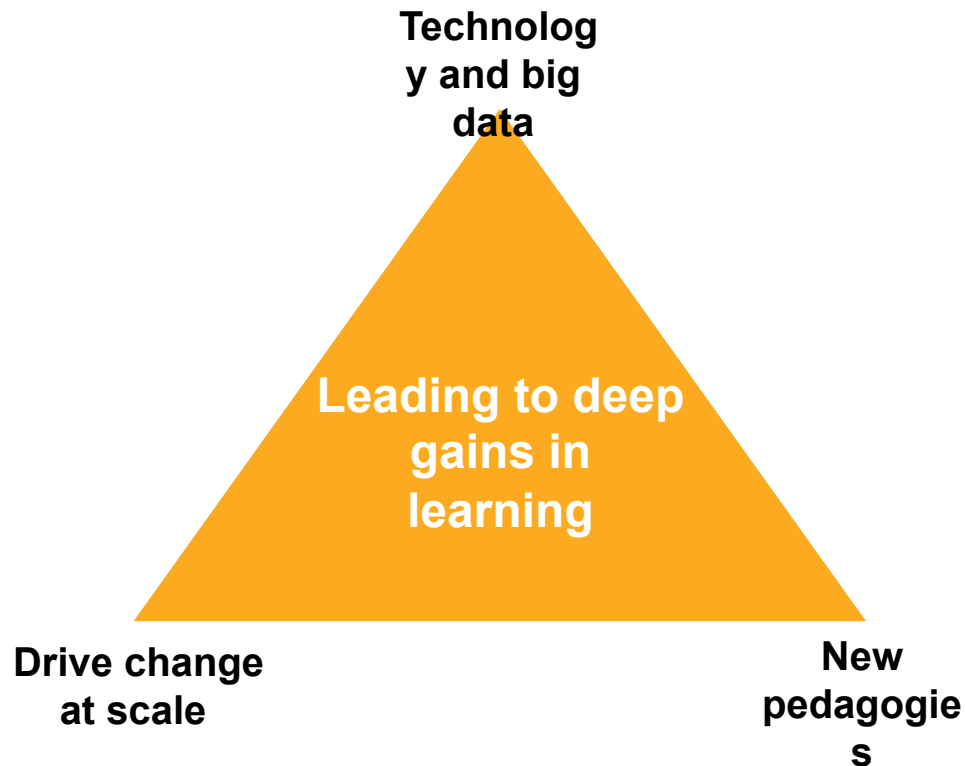
Transformation: geographic presence

Pearson emerging markets revenues, \$m



Combining digital, new pedagogies and scale

The opportunity to improve learning outcomes

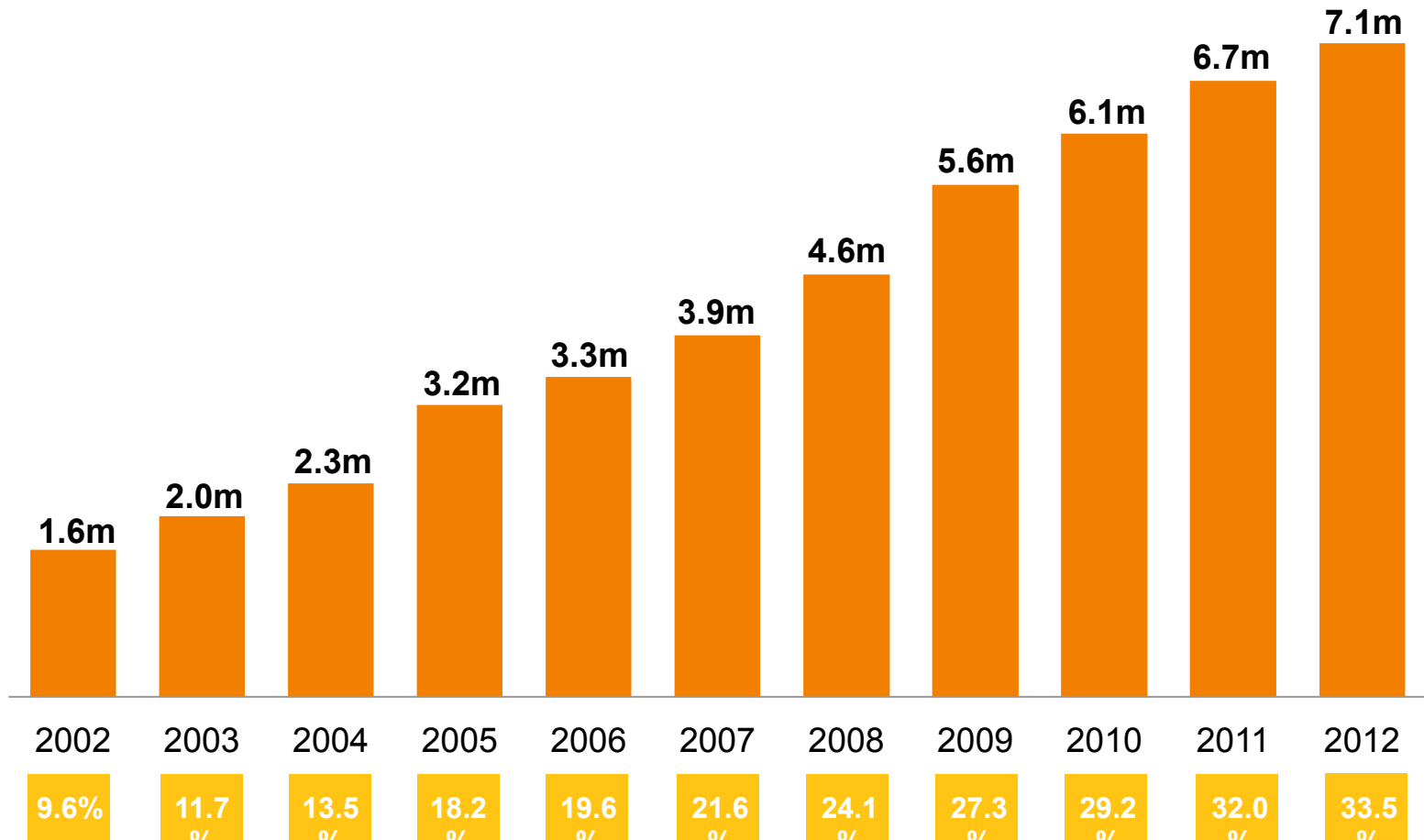


"As we continue to develop our understanding of technology's proof, potential and promise, we have an unprecedented opportunity to improve learning experiences in the classroom and beyond."

The Proof, Promise and Potential of Digital Education, NESTA

Opportunity: online learning

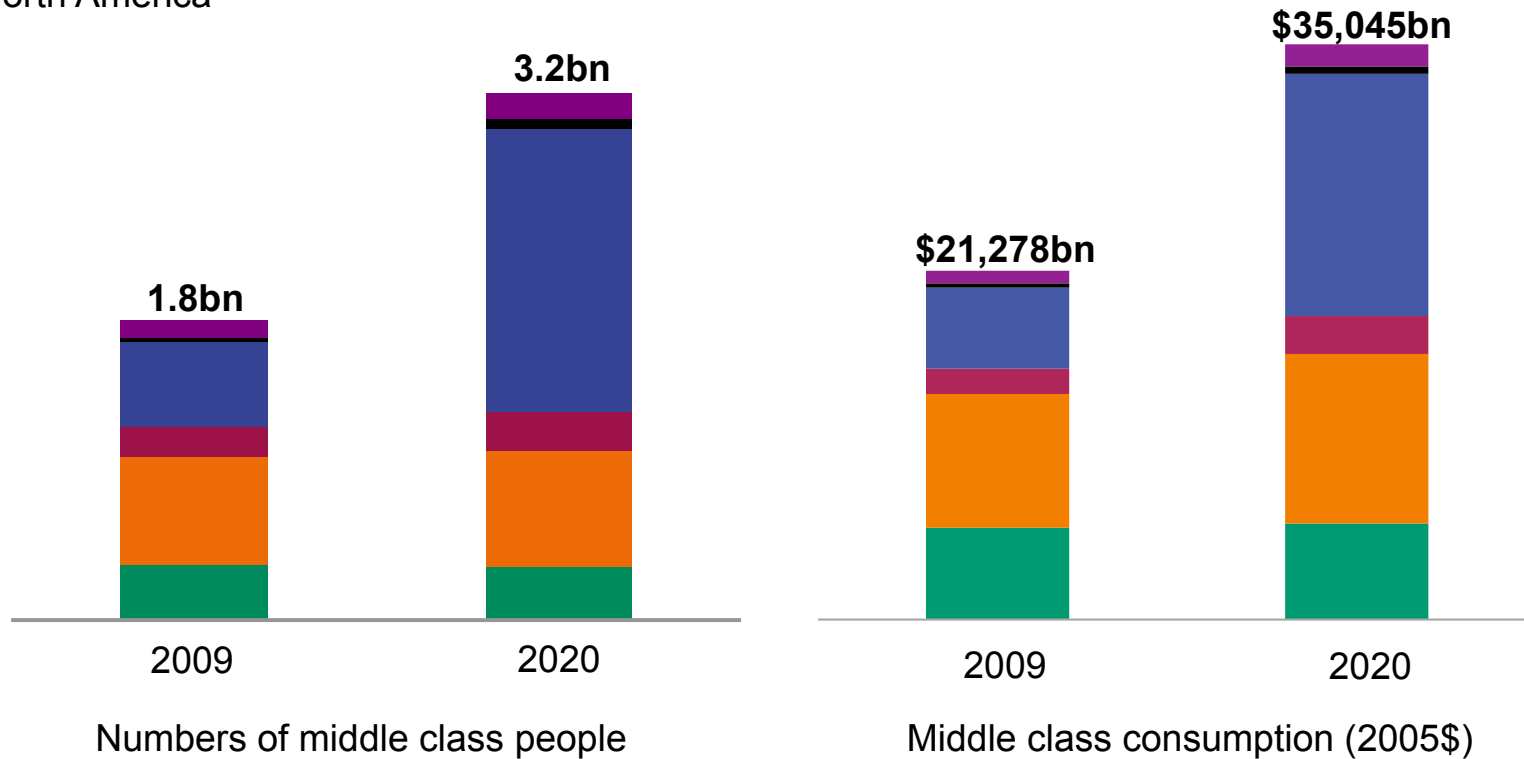
Number of US college students taking at least one online course (m)/% of total enrolments



Source: Babson annual online learning survey

Opportunity: emerging middle classes

- Middle East & North Africa
- Sub-Saharan Africa
- Asia Pacific
- Central & South America
- Europe
- North America



Source: The Brookings Institution

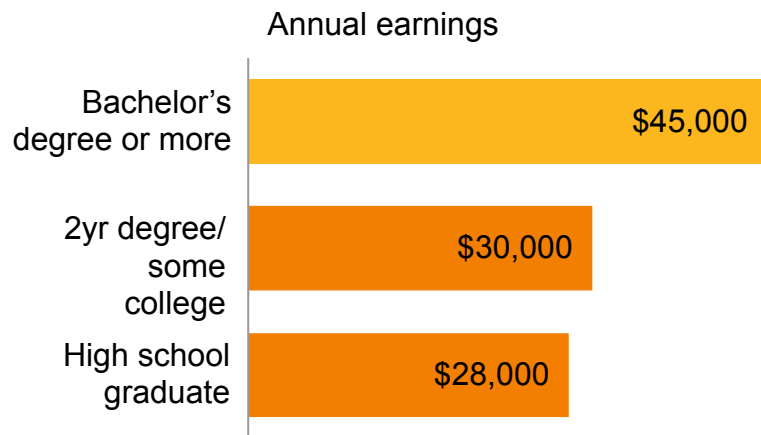
Opportunity: 21st Century Skills for young and working adults

47% of US jobs are “at risk” of being automated in the next 20 years

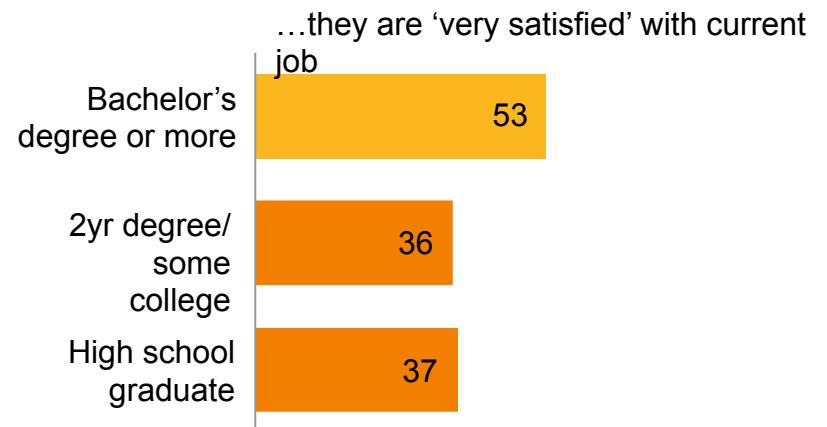
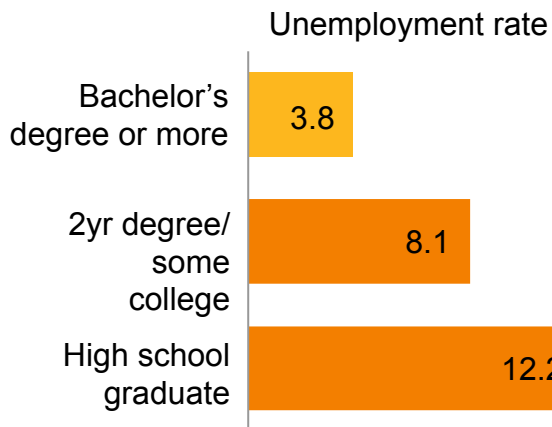
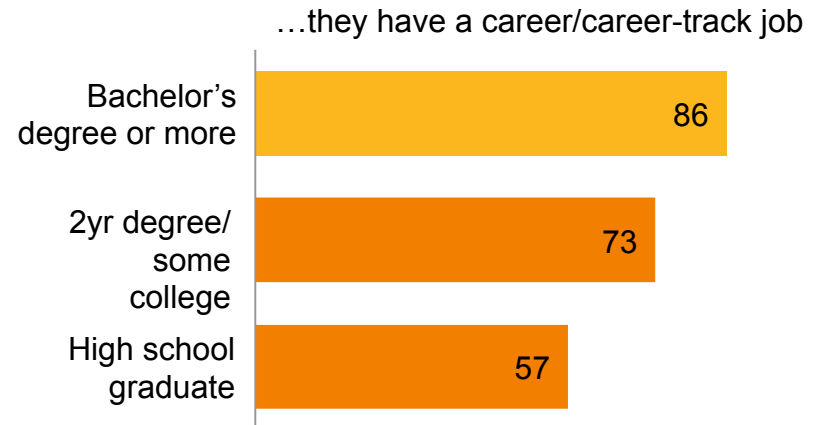


Opportunity: the value of education is increasing

Disparity among ages 25-32 by education level



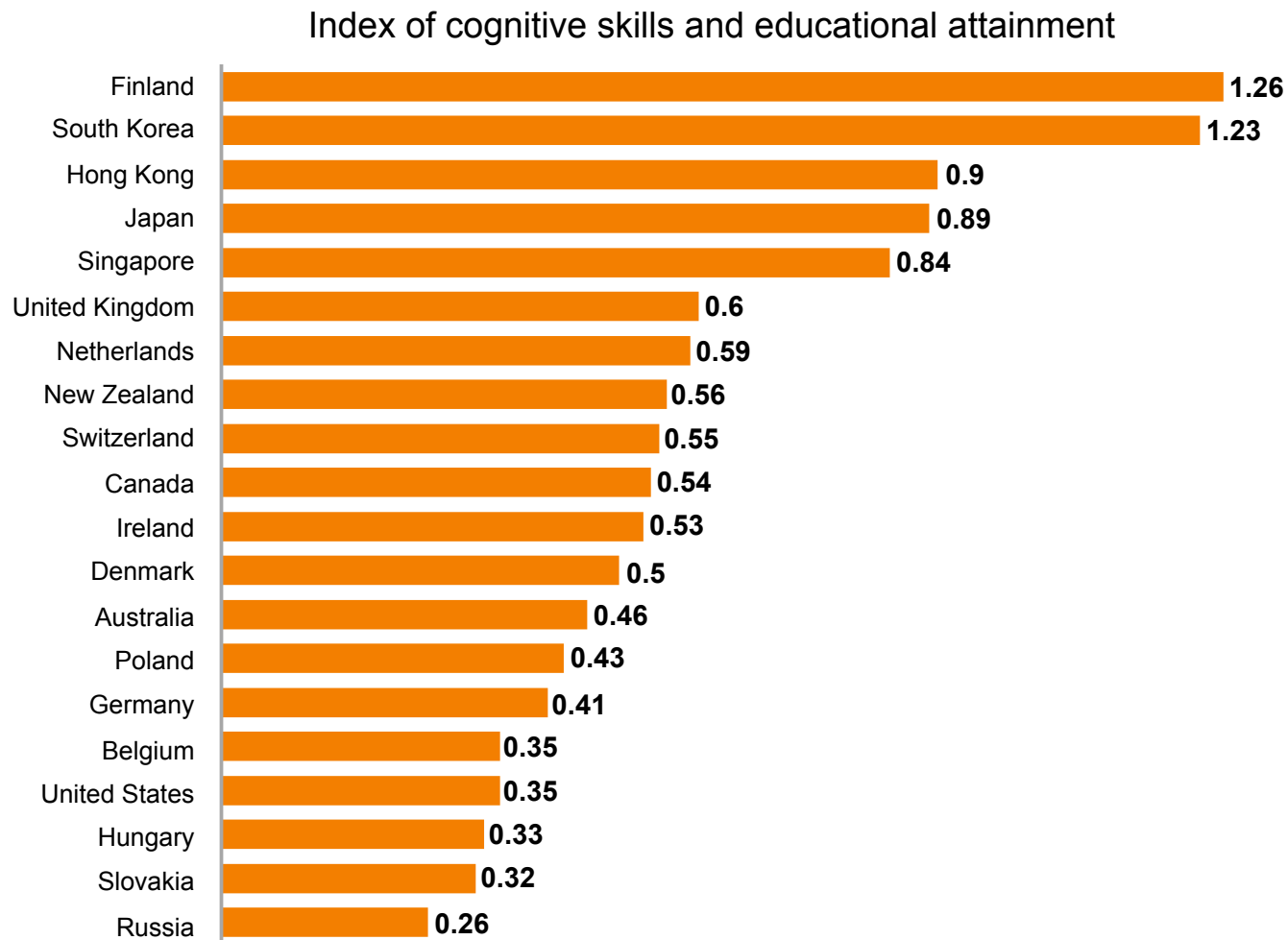
Education and Views about work



Opportunity: technology partnerships



Opportunity: inputs to outcomes



Source: Pearson/The Economist Intelligence Unit: The Learning Curve

The global education company

Scale in high growth economies = larger market opportunity

Strength in digital + services = larger part of value chain

Lower capital intensity = higher returns, investment capacity

Focus on efficacy = greater impact on learning outcomes

Appendices

Key Performance Indicators

Registrations and assessments volume growth

DIRECT DELIVERY	2012	2013
Connections Education	41,600	50,900
CTI/MGI	10,200	11,700
Global Education	1,100,000	1,306,000
Global English	426,600	428,400
India Schools	22,000	27,000
TutorVista	28,800	21,900
UTEL (Mexico)	2,400	6,000
Wall Street English (network total)	191,300	191,800
Total	1,800,000	2,000,000

ASSESSMENT	2012	2013
Accuplacer	6,700,000	7,000,000
BTEC onscreen	20,100	142,500
BTEC paper	1,700,000	1,500,000
Central Board of Secondary Education	--	2,500,000
Edexcel GCSE/A-level onscreen	5,700,000	5,900,000
Edexcel GCSE/A-level paper	633,000	431,000
State & National assessments online	8,000,000	11,900,000
State & National assessments paper	35,800,000	38,000,000
Versant & Pearson Test of English	23,300,000	32,500,000
Vue	9,300,000	11,600,000
Total	76,600,000	111,500,000

INSIDE SERVICES	2012	2013
Embanet	25,000	27,000
Pearson sistemas	533,000	497,000
TQ	19,300	28,600
Total	577,300	552,600

LEARNER SERVICES/ RESOURCES	2012	2013
AIMSWEB	4,200,000	4,300,000
Bug Club	420,000	734,000
Fronter	7,700,000	8,000,000
FT.com	315,900	415,300
LearningStudio	1,500,000	1,500,000
MyLabs/Mastering	11,000,000	12,100,000
PowerSchool	12,300,000	12,900,000
PSN/PSN+	7,200,000	11,100,000
Schoolnet	8,700,000	9,300,000
SmartThinking	230,400	228,600
SuccessNet	7,900,000	10,400,000
Total	61,500,000	70,000,000

Reconciliation: statutory to adjusted earnings

2013

£m	Statutory	Discontinue d operations	Acquisitio n costs	Other net gains and losses	Intangible charges	Other net finance costs	Tax amortisation benefit	Adjusted earnings
Operating profit	458	54	12	16	196	-	-	736
Net finance costs	(76)	-	-	-	-	4	-	(72)
Profit before tax	382	54	12	16	196	4	-	664
Income tax	(87)	(18)	(2)	32	(51)	(1)	30	(97)
Profit after tax	295	36	10	48	145	3	30	567
Discontinued operations	244	(36)	-	(209)	2	(1)	-	-
Profit for the period	539	-	10	(161)	147	2	30	567
Minority interest	(1)	-	-	-	-	-	-	(1)
Earnings	538	-	10	(161)	147	2	30	566

Reconciliation: statutory to adjusted earnings

2012

£m	Statutory	Discontinue d operations	Acquisitio n costs	Other net gains and losses	Intangible charges	Other net finance costs	Tax amortisation benefit	Adjusted earnings
Operating profit	487	123	20	123	179	-	-	932
Net finance costs	(96)	-	-	-	-	31	-	(65)
Profit before tax	391	123	20	123	179	31	-	867
Income tax	(138)	(38)	(5)	-	(54)	(1)	36	(200)
Profit after tax	253	85	15	123	125	30	36	667
Discontinued operations	61	(85)	1	20	3	-	-	-
Profit for the period	314	-	16	143	128	30	36	667
Minority interest	(3)	-	-	-	-	-	-	(3)
Earnings	311	-	16	143	128	30	36	664

Reconciliation: pre-publication costs

£m	2013	2012
Opening balance	682	650
Exchange	-	(19)
New spend capitalised	381	364
Acquisitions/Disposals (net)	(26)	3
Amortisation	(320)	(316)
Closing balance	717	682
Total education sales	4,728	4,616
Amortisation as a % of sales	6.8%	6.8%

Total business

Reconciliation: year end net debt

£m	2013	2012
Non current assets		
Derivative financial instruments	111	174
Current assets		
Derivative financial instruments	13	4
Marketable securities	6	6
Cash and cash equivalents	729	1,062
Non current liabilities		
Borrowings	(1,693)	(2,010)
Derivative financial instruments	(48)	-
Current liabilities		
Borrowings	(533)	(262)
Derivative financial instruments		-
Net debt – continuing operations	(1,415)	(1,026)
Net cash classified as held for sale	36	108
Total net debt	(1,379)	(918)

Retirement benefit obligations

£m	2013	2012 Restated
Income statement		
Operating charge		
Defined benefit schemes	29	30
Defined contribution schemes	72	78
Post retirement medical benefit schemes	-	4
	101	112
Interest	3	2
Total	104	114
Balance sheet		
UK pension scheme asset /(liability)	86	(19)
Other pension scheme liabilities	(35)	(55)
Post retirement medical benefit liability	(77)	(89)
Other pension accruals	(30)	(35)
Total	(56)	(198)
Total business		