

Pearson 2022 Full Year Results

3rd March 2023



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 (pearsonplc.com).

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.

Here Today

Andy Bird CEO

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Tom ap Simon President, Higher Education & Virtual Learning

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Sulaekha 'Sue' Kolloru Barger Chief Strategy Officer

Ali Bebo Chief Human Resources Officer

Cinthia Nespoli Chief Legal Officer

Priorities for 2022



Deliver sales and profit growth



Focus on execution, quality and trust



Embed customer & consumer insights

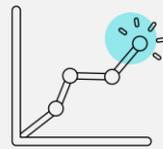


Scale and grow Pearson+

Key achievements in 2022



Focus on execution delivered sales and profit growth, ahead of expectations



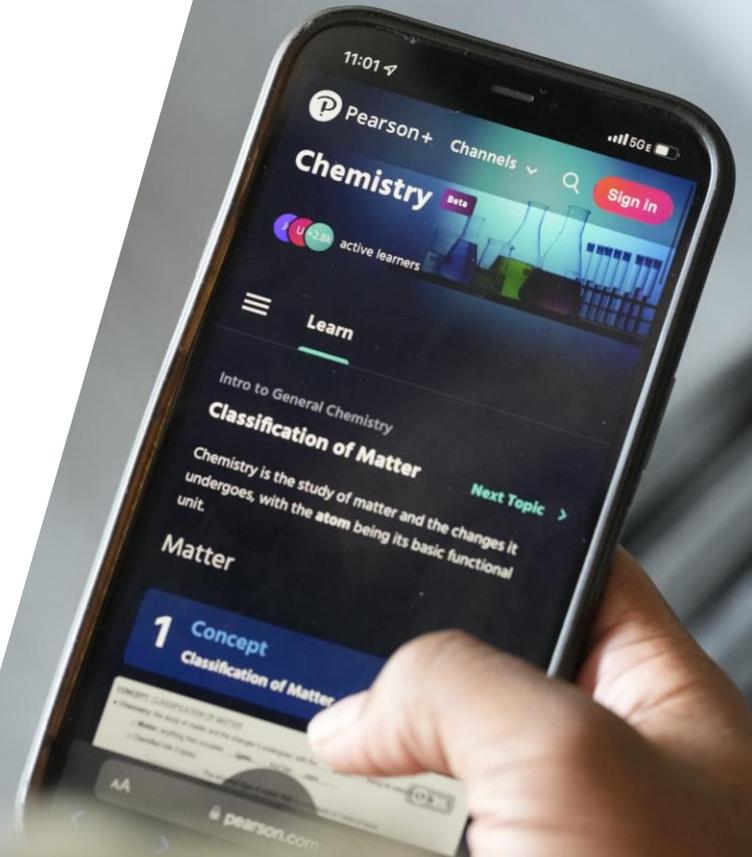
Delivered cost efficiencies yielding £120m of benefit in 2023



Delivering strategic progress by reshaping our portfolio and increasing interconnectivity



Progress of Pearson+ increasing consumer footprint and providing valuable insights



Financial Review & Outlook



2022 Financial Highlights

- Group performance ahead of expectations
- Underlying sales up **5%**, adjusted operating profit up **11%**, EPS up **48%**
- Strong underlying cash performance
- Robust balance sheet
- Dividend up **5%**
- £350m share buyback completed
- Well positioned to support long term growth ambitions

Revenue £3,841m
up 5% underlying

(2021: £3,428m)

Adjusted operating
profit £456m up
11% underlying

(2021: £385m)

Operating cash flow
£401m 88% cash
conversion

(2021: £388m)

Adjusted
earnings per
share 51.8p up 48%

(2021: 34.9p)

Full year dividend
21.5p up 5%

(2021: 20.5p)

Net debt £0.6bn

(2021: £0.4bn)

2022 Sales

| £m | 2022 | 2021 | CER growth* | Underlying growth |
|-------------------------------------|--------------|--------------|-------------|-------------------|
| Assessment & Qualifications** | 1,444 | 1,238 | 8% | 8% |
| Virtual Learning | 820 | 713 | 4% | 4% |
| Higher Education | 898 | 849 | (4)% | (4)% |
| English Language Learning | 321 | 238 | 28% | 24% |
| Workforce Skills | 204 | 172 | 16% | 7% |
| Businesses under strategic review** | 154 | 218 | (30)% | (16)% |
| Total sales | 3,841 | 3,428 | 3% | 5% |

*Constant exchange rates are calculated by assuming the average FX in the prior year prevailed through the current year

** Note: Changes to prior year comparatives reflect transfer of retained English-speaking Canadian and Australian K12 Courseware businesses to Assessment & Qualifications division.

2022 Adjusted Operating Profit

| £m | 2022 | 2021 | Margin (%) 2022 | Underlying growth |
|---|-------------|-------------|------------------------|--------------------------|
| Assessment & Qualifications* | 258 | 219 | 18% | 6% |
| Virtual Learning | 70 | 32 | 9% | 88% |
| Higher Education | 91 | 73 | 10% | 12% |
| English Language Learning | 25 | 15 | 8% | 33% |
| Workforce Skills | (3) | 27 | (1)% | (67)% |
| Businesses under strategic review* | 15 | 19 | 10% | 0% |
| Total adjusted operating profit/(loss) | 456 | 385 | 12% | 11% |

*Note: Changes to prior year comparatives reflect transfer of retained English-speaking Canadian and Australian K12 Courseware businesses to Assessment & Qualifications division.

Key Cash Flow Movements

| £m | 2022 | 2021 |
|---|-------------|-------------|
| Adjusted operating profit | 456 | 385 |
| Capex cash | (196) | (206) |
| Depreciation | 209 | 213 |
| Net capex investment | 13 | 7 |
| Product development cash | (357) | (287) |
| Amortisation | 290 | 264 |
| Net product development investment | (67) | (23) |
| Other working capital movements | (1) | 19 |
| Operating cash flow | 401 | 388 |
| Operating cash conversion | 88% | 101% |

Cash & Balance Sheet

| £m | 2022 | 2021 |
|-----------------------|-------|-------|
| Operating cash flow | 401 | 388 |
| Cash conversion % | 88% | 101% |
| Free cash flow | 222 | 133 |
| Net debt | (557) | (350) |
| Net debt: adj. EBITDA | 0.8x | 0.6x |
| ROC | 8.7% | 7.9% |
| Dividend | 21.5p | 20.5p |

Financial Expectations

| Segment | 2022 Revenue (£m) | Margins* 2022 | 2023 expectations | | Underlying revenue 3-year CAGR 2022 to 2025 | Margins* 2025 |
|-----------------------------|-------------------|---------------|---|-----------|---|------------------------|
| | | | Revenue growth | Margins* | | |
| Assessment & Qualifications | 1,444 | 18% | Low to mid-single digit | Increase | Low to mid-single digit | Increase |
| Virtual Learning | 820 | 9% | | | | |
| • Virtual Schools | 519 | | Mid-single digit decline | Increase | Low-single digit | Increase |
| • OPM | 301 | | Under Strategic review | | | |
| Higher Education | 898 | 10% | Low-single digit decline | Increase | Low to mid-single digit | Increase |
| English Language Learning | 321 | 8% | High-single digit | Increase | High-single digit | Increase |
| Workforce Skills | 204 | (1)% | Double-digits | Improve | Greater than 20% | Increase |
| Strategic review | 154 | 10% | | | | |
| Group | 3,841 | 12% | Excluding OPM and strategic review: Low to mid-single digit | Mid-teens | Mid-single digit | Upper end of mid-teens |

*Adjusted operating profit margins

Financial Expectations

Phasing

Phasing considerations

1. English Language Learning

- Expect a particularly strong Q1 against a comparative in 2022 where global mobility had not fully returned.

2. Workforce Skills

- Growth will build over the year given talent investment platform launch.

3. Higher Education

- Revenue recognition shift between Q1 and Q2 given Pearson+.



Balance Sheet

| Group | 2022 | 2023 | 2025 |
|-----------------------------|----------------|--|--|
| Capex & product development | £196m £357m | Capex reduces, investment mix shifting towards product development | Capex reduces, investment mix shifting towards product development |
| Cash conversion | 88% | > 90% | > 90% |
| Return on capital | 8.7% | Improvement | Double-digits |

Capital Allocation

Strong balance sheet | Investment grade credit rating

Invest in the business to accelerate growth opportunities

Dividends

Surplus cash returns

Capex and product development for organic growth

Focused and disciplined approach

Progressive and sustainable

Buybacks or special dividends as and when appropriate

Summary

Exceeded financial expectations in 2022

On track to meet market expectations in 2023*

Mid-teens margin target to be delivered in 2023

Revenue growth and margin improvement in 2025

Balance sheet capacity to invest and increase dividend

Strong operating cash conversion, attractive free cashflow profile, and improving return on capital

English Language Learning



Key Takeaways

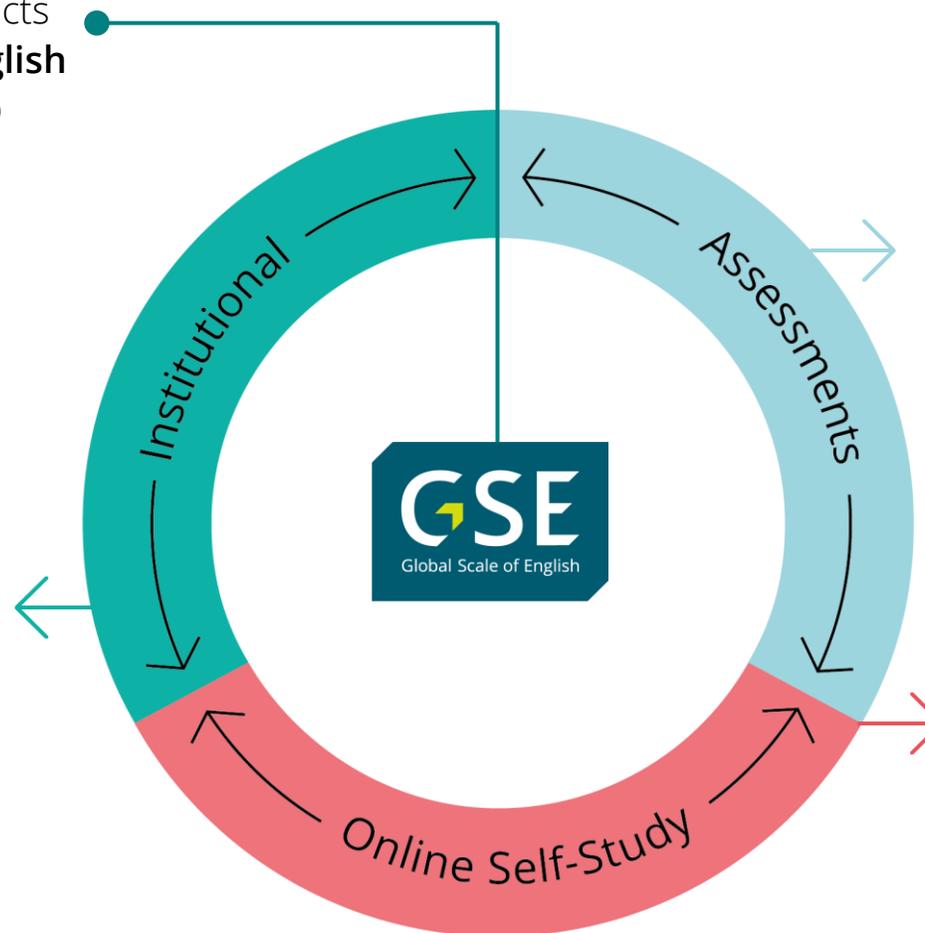
- Strategy that enables us to expand our addressable market, increase market share, and capture more customer lifetime spend.
- Mondly giving us access to online self-study language learning market to drive growth.
- Targeting high-single digit revenue CAGR to 2025 with increased profitability.



Growth opportunities across all three of our product areas

Central to the success of all our products is our proprietary **Global Scale of English** – a simple scale that allows learners to track the progress of their language learning journey.

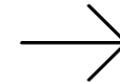
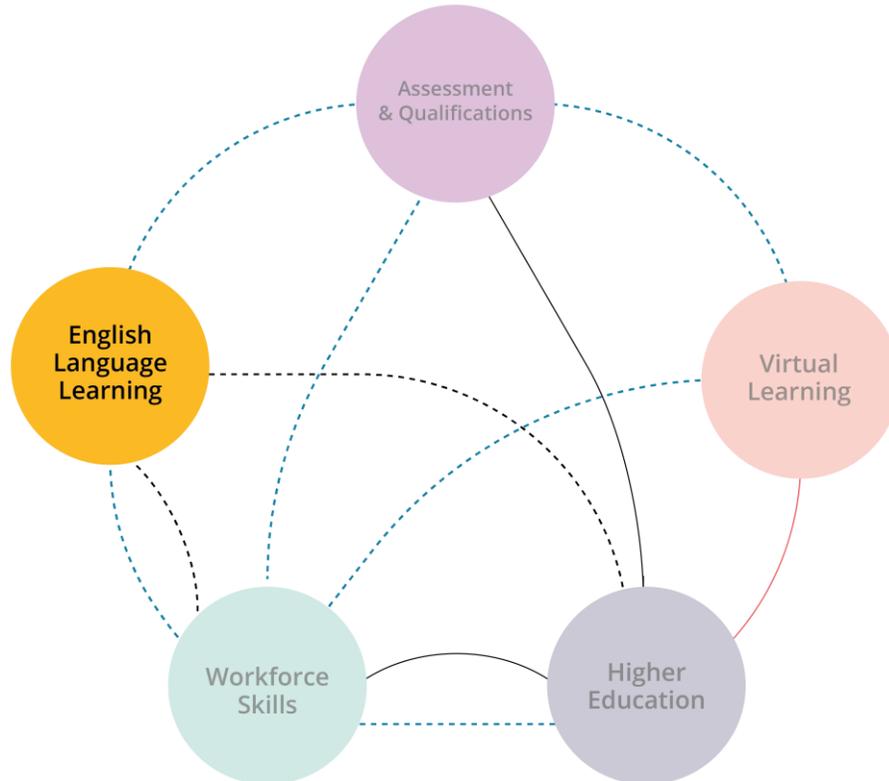
- Addressable market **c.£3bn**.
- **1 of 3** biggest players in courseware.
- Growth to be driven by accelerating development of digital-first, flexible products.



- Addressable market for high stakes **c.£900m** with **c.6m** assessments delivered annually.
- PTE: top 3 player with volume share **c.14%**.
- Growth to be driven by test delivery in Canada and expanding addressable market outside of traditional high-stakes assessment.
- Addressable Market size **c.£2bn with c.67m consumers** and double-digits growth to 2025.
- Rated **top 10** in the Oculus Store.
- Growth to be driven by further integration and product enhancements.
- Exploring corporate language learning through MondlyWORKS.

English Language Learning Interconnectivity

Bringing millions of direct-to-consumer relationships into the broader Pearson ecosystem. Growing interconnectivity with Pearson's other divisions.



Connection examples

- English added to Faethm's skills framework.
- Credly badges for suite of English assessment products.
- Developing enterprise joint go-to-market with Workforce Skills.
- Mondly via Pearson+.

English Language Learning Performance and product roadmap

2022 financial KPIs

- Sales: **£321m** / 2021: £238m (+24% UL)
- Adjusted operating profit: **£25m** / 2021: £15m (+33%)

2022 non-financial KPIs

- PTE score return: **1.3 days** (vs 1.2 days PY)
- PTE volume: **827k tests** (+90% vs PY)
- PTE NPS: **+52** (2021: +56)

| Segment | 2022 revenue (£m) | Margin* 2022 | 2023 expectations | | Underlying revenue 3-year CAGR 2022 to 2025 | Margin* 2025 |
|---------------------------|-------------------|--------------|-------------------|----------|---|--------------|
| | | | Revenue | Margin* | | |
| English Language Learning | 321 | 8% | High-single digit | Increase | High-single digit | Increase |

*Adjusted operating profit margin

Product roadmap



Higher Education



Key Takeaways

- We have strengths in IP, author and faculty relationships, learning technology and Pearson+.
- We are increasing our competitiveness – driving share through go-to-market strategy, upgrading our platforms, launching new products in 2023.
- Targeting a low to mid-single digit revenue CAGR to 2025 and increased margins.



Initial impressions and actions taken

Key strengths

- Incredible IP.
- Great author relationships.
- Deep expertise in learning technology.
- Strong faculty relationships.
- P+ / Channels.

Increasing our competitiveness

- Bringing in new talent.
- Reducing fixed costs.
- New product led operating model.
- Investing in sales.
- Transforming product.



Honing our go to market strategy whilst focusing on product

Go to market changes

- Core team continue focus on 5 key disciplines - Math, Business, Science, Computer Science and Engineering.
- Customer loyalty team with a focus on retention.
- New team focused on winning new business in white space.
- Developing our coverage for professional disciplines.
- Increasing efforts to cover disciplines such as English, Humanities and Social Sciences.

Focus on product

- Converging and upgrading our courseware platforms.
- Simplifying Inclusive Access integration strategies.
- Building out our digital learning experiences.
- Driving improvements in stability.



Higher Education

Performance and product roadmap

2022 financial KPIs

- Sales: **£898m** / 2021: £849m (-4% UL)
- Adjusted operating profit: **£91m** / 2021: £73m (+12% UL)

2022 non-financial KPIs

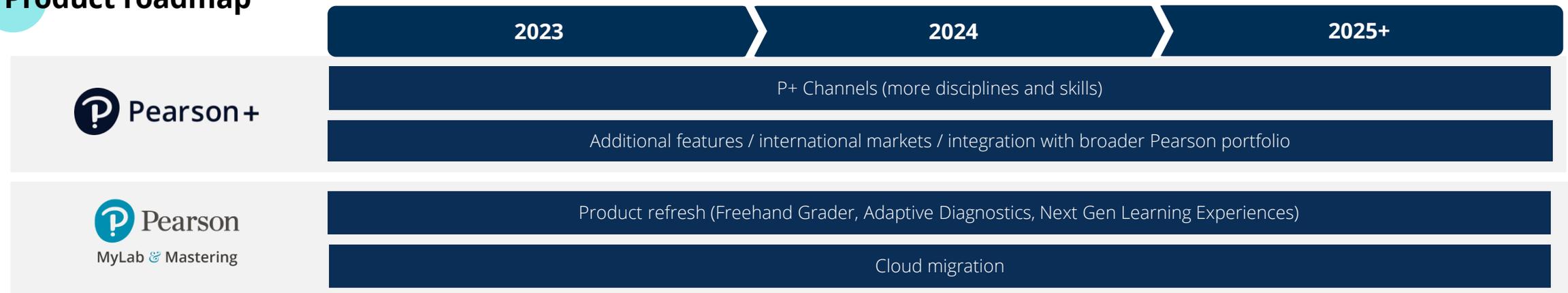
- HE US digital registrations: **9.9m** (11.1m^{**})
- HE product usage- text units: **4.8m** (5.4m)
- Pearson+ registered users: **2.83m** (2.75m)

| Segment | 2022 revenue (£m) | Margin* 2022 | 2023 expectations | | Underlying revenue 3-year CAGR 2022 to 2025 | Margin* 2025 |
|------------------|-------------------|--------------|--------------------------|----------|---|--------------|
| | | | Revenue | Margin* | | |
| Higher Education | 898 | 10% | Low-single digit decline | Increase | Low to mid-single digit | Increase |

*Adjusted operating profit margin

**2021 US digital registrations restated from 11.4m to 11.1m due to recategorising 0.3m of registrations from US to International

Product roadmap



Workforce Skills



Key Takeaways

- In 2022 we delivered solid financial performance whilst developing new product and setting the business up for success.
- Workforce Solutions will be the growth engine of the division, supported by our new talent investment platform.
- Targeting revenue CAGR greater than 20% to 2025 and increased margins.



Workforce Skills

Vision, market opportunity and business segments

Vision

Our ambition is to build a world where success in work is no longer about what you've done, but *what you can do*.

We enable a world where people and organizations can achieve their full potential in the new skills economy.

Market opportunity

1 bn people

Will need reskilling by 2030
(The World Economic Forum estimates)

£200bn +

Revenue opportunity in the
markets we want to operate in

7% CAGR

In the workforce skills market
to 2025

Vocational Qualifications

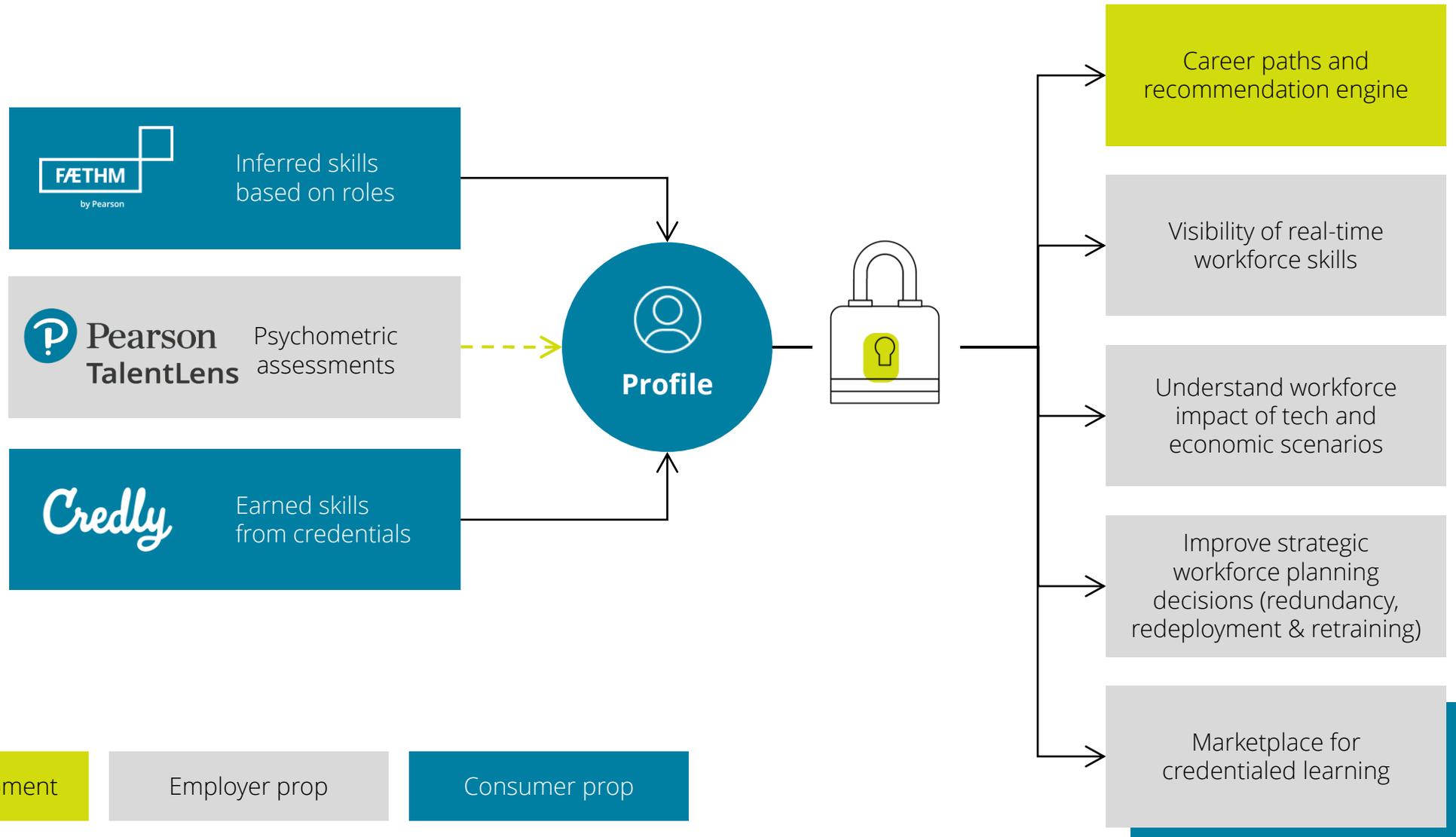


Workforce Solutions



Talent investment platform in focus

Product functionality today and future developments



Commercial relationships with broad range of clients



Workforce Skills

Performance and product roadmap

2022 financial KPIs

- Sales: **£204m** / 2021: £172m (+7% UL)
- Adjusted operating profit: **-£3m** / 2021 £27m (-67% UL)

2022 non-financial KPIs

- Number of enterprise customers: **1,503** (645)
- Number of Workforce Skills registered users: **4.7m**
- Enterprise customer net retention rate: **74%**

| Segment | 2022 revenue (£m) | Margin* 2022 | 2023 expectations | | Underlying revenue 3-year CAGR 2022 to 2025 | Margin* 2025 |
|------------------|-------------------|--------------|-------------------|---------|---|--------------|
| | | | Revenue | Margin* | | |
| Workforce Skills | 204 | (1)% | Double-digits | Improve | Greater than 20% | Increase |

*Adjusted operating profit margin

Product roadmap



Assessment & Qualifications



Key Takeaways

- Business demonstrated continued momentum in 2022.
- Pearson VUE growth initiatives will help us expand the scope and reach of our offering.
- Targeting low to mid-single digit revenue CAGR to 2025 with increased profitability.



Pearson VUE's balanced portfolio drives growth

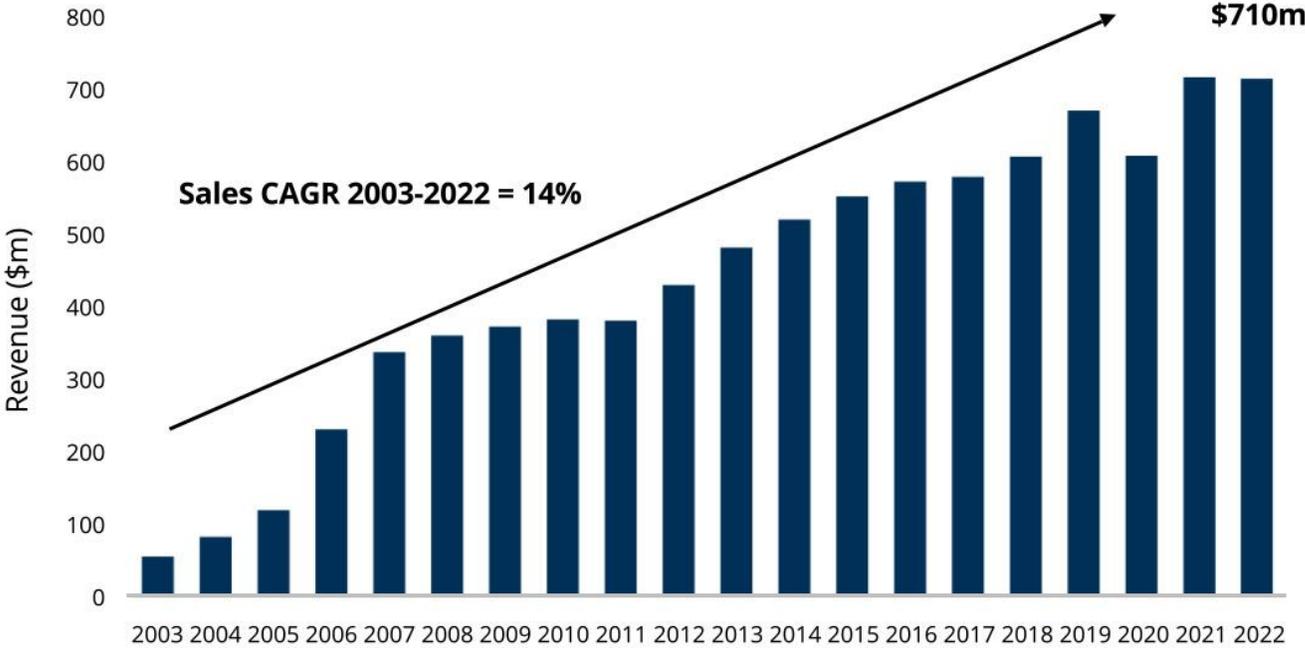
Broad portfolio of clients across industries



- IT
- Healthcare
- Insurance
- Professional
- Finance
- Teacher Licensure
- Government
- Other
- Real Estate

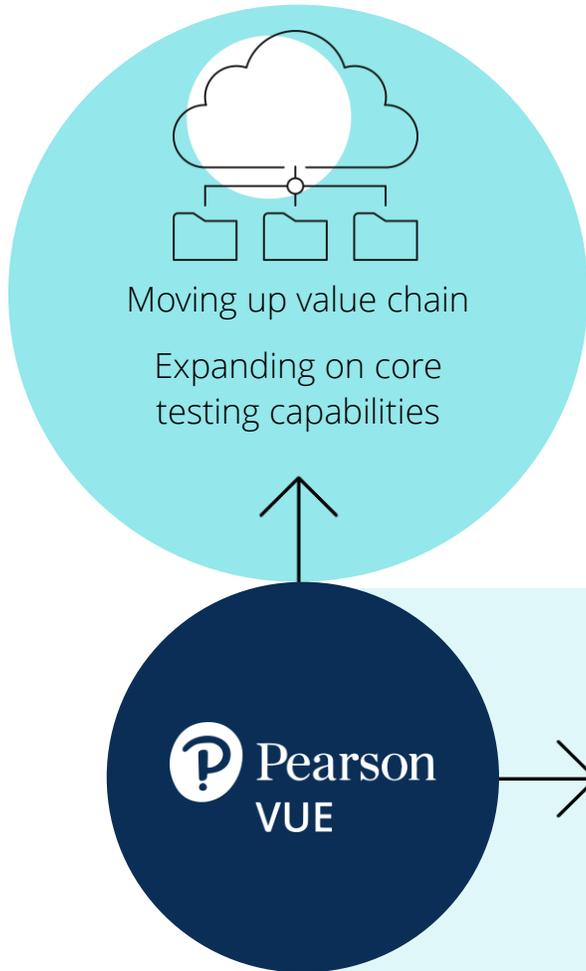
Note: Portfolio exposure by client count

Driving robust sales growth through economic cycles



Note: Revenues calculated using constant exchange rate

Building out our sources of future growth



2 **Expanding Pearson VUE's service offering**

1 **PDRI acquisition**

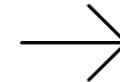
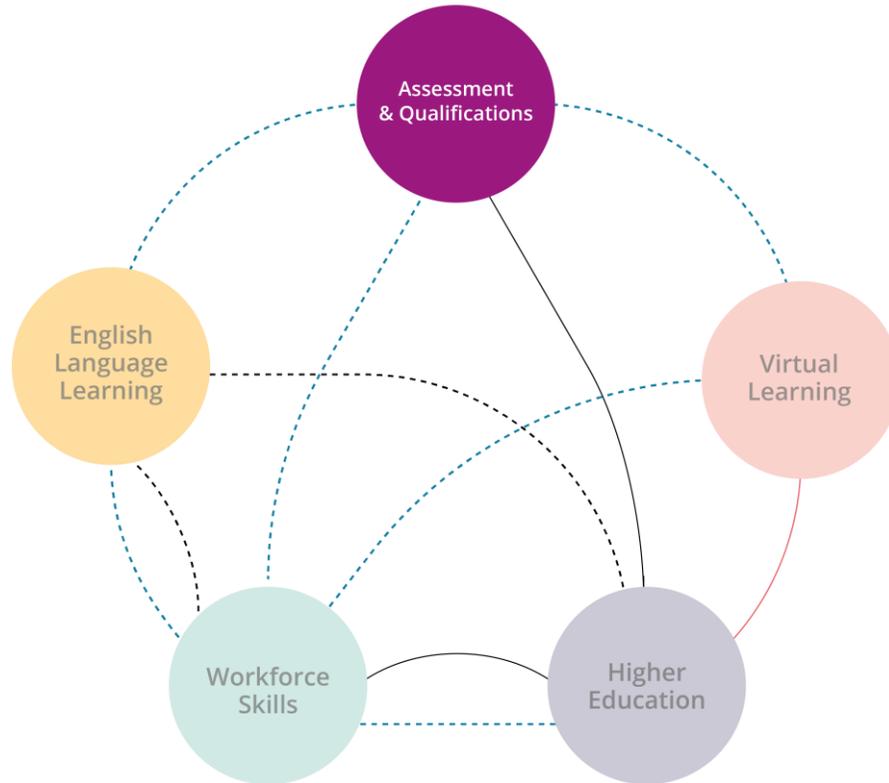


Accretive to growth
Expanding reach in key strategic area



Assessment & Qualifications Interconnectivity

Complementary relationships with a number of Pearson products evidencing growing synergies across portfolio.



Connection examples

- Professional certifications complementing Workforce Skills.
- Testing centre network as the delivery backbone of Pearson Test of English.
- Leveraging Higher Education content for professionals to prepare for certification journey.

Assessment & Qualifications

Performance and product roadmap

2022 financial KPIs

- Sales: **£1,444m** / 2021 £1,238m (+8% UL)
- Adjusted operating profit: **£258m** / 2021 £219m (+6% UL)

2022 non-financial KPIs

- VUE test volumes: **19.4m** (+16%)
- OnVue test volumes: **3m** (2021: 3m)
- VUE customer retention: **99.9%** (2021: 99%)

| Segment | 2022 revenue (£m) | Margin* 2022 | 2023 expectations | | Underlying revenue 3-year CAGR 2022 to 2025 | Margin* 2025 |
|-----------------------------|-------------------|--------------|-------------------------|----------|---|--------------|
| | | | Revenue | Margin* | | |
| Assessment & Qualifications | 1,444 | 18% | Low to mid-single digit | Increase | Low to mid-single digit | Increase |

*Adjusted operating profit margin

Product roadmap



Pearson+



Key Takeaways

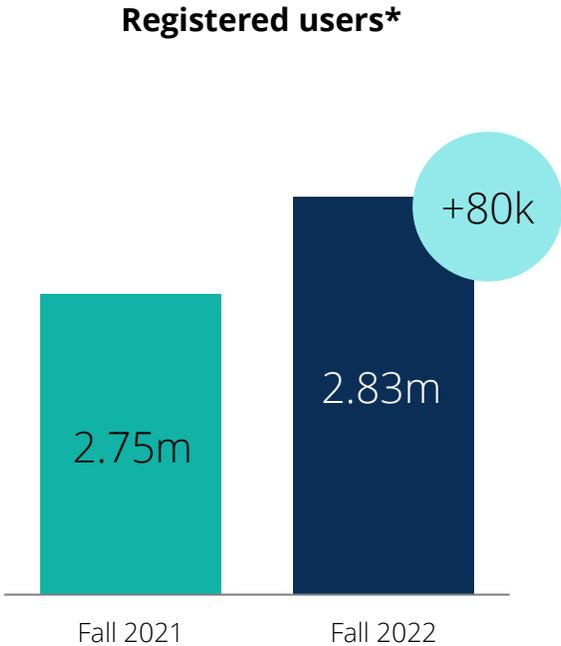
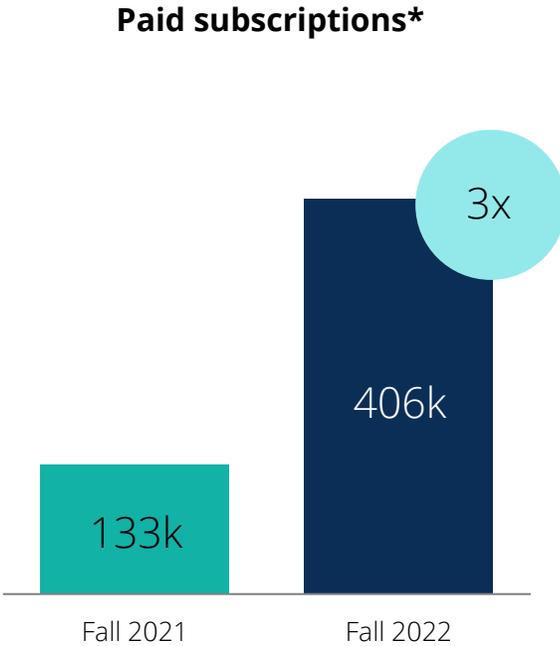
- Pearson+ has quickly gained traction in the market.
- Channels is meaningfully expanding the addressable market and reach with college students.
- Pearson+ will increasingly become a key offering to integrate consumers into the Pearson ecosystem.



Building momentum with Pearson+



Paid subscriptions and registered users growing



2022 Calendar Year

606k Paid subscriptions

4.8m Registered users

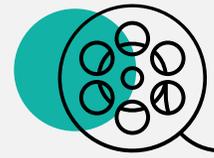
*Registered users and paid subscriptions represent July 16 to Dec 31

Expanding Pearson+ Channels



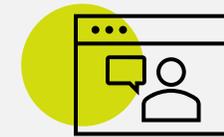
Video & Practice Content

40k+



Video Minutes Played

c.2m



Practice Engagements

1m

Interconnectivity and extending our value proposition

An illustrative example



Summary

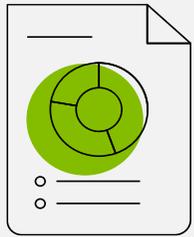


Key Takeaways

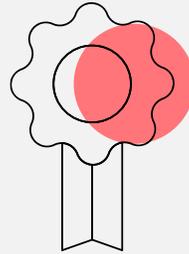
- English Language Learning growing, expanding direct-to-consumer relationships.
- Organisational changes and investment in products to drive growth in Higher Education.
- Pearson+ will support our ambitions within Higher Education and across a lifetime of learning.
- Workforce Solutions represents a significant step forward in the Workforce Skills strategy.
- Assessment & Qualifications expanding the scope of its offering, will play a central role in our lifetime of learning strategy.



Priorities for 2023



Drive sustainable
and profitable
revenue growth



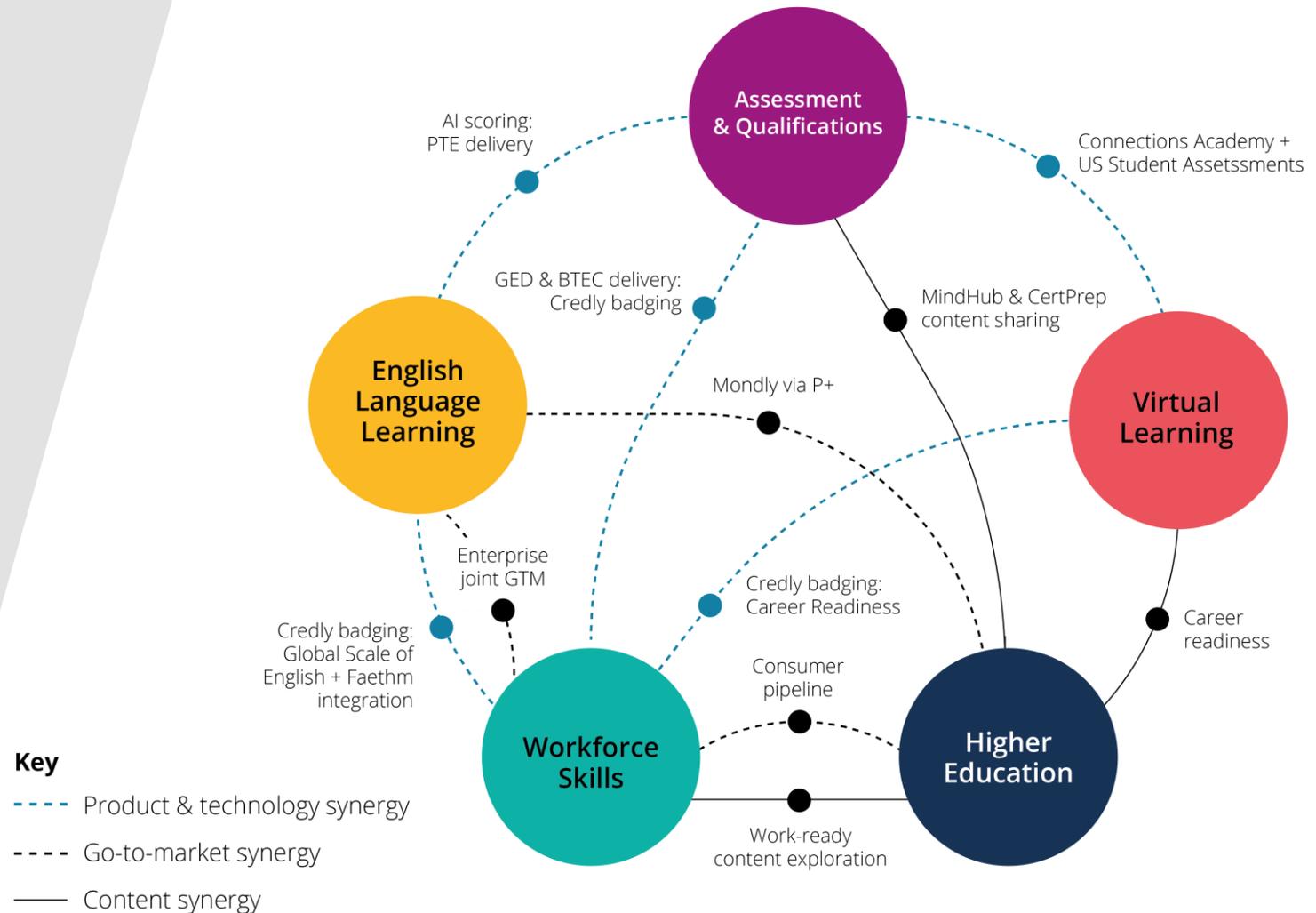
Delight our consumers
and be obsessed
with meeting their
expectations



Focus on execution
across the business

Pushing further into a business model that connects consumer led learning into one Pearson experience

Opportunity to further combine our capabilities to benefit a vast number of individuals and enterprises



Appendix



Measuring Our Success

Strategic KPIs

Enabling sustainable growth, driving shareholder value and contributing to a more equitable world

| KPI | Objective | KPI Measure | 2022 Actual | 2021 Actual |
|-----------------------|------------------------------|--|-------------|-------------|
| Digital Growth | Drive digital revenue growth | Underlying growth in Group digital and digital-enabled sales | 9% | 9% |
| | | Virtual Schools US enrolments | 106k | 111k |
| | | OPM student enrolments | 270k | 275k |
| | | OnVUE volumes | 3.0m | 3.0m |
| | | Higher Education US digital registrations | 9.9m | 11.1m |
| | | PTE volume | 827k | 436k |

Note:
2021 US digital registrations restated from 11.4m to 11.1m due to recategorising 0.3m of registrations from US to International

Measuring Our Success

Strategic KPIs

Enabling sustainable growth, driving shareholder value and contributing to a more equitable world

| KPI | Objective | KPI Measure | 2022 Actual | 2021 Actual |
|---------------------|---|-----------------------------------|-------------|-------------|
| Consumer Engagement | Create engaging and personalised consumer experiences | NPS for Connections Academy | +67 | +62 |
| | | NPS for PTE | +52 | +56 |
| | | Pearson+ registered users | 2.83m | 2.75m |
| | | Workforce Skills registered users | 4.7m | n/a |
| | | Mondly paid subscriptions | 446k | n/a |

Notes:

Pearson+ registered users represents the number of unique user accounts added over an academic year.

Workforce Skills registered users represents the number of net new user accounts on a trailing 12-month basis and includes net new user accounts from Credly pre-acquisition.

Measuring Our Success

Strategic KPIs

Enabling sustainable growth, driving shareholder value and contributing to a more equitable world

| KPI | Objective | KPI Measure | 2022 Actual | 2021 Actual |
|------------------------------|--|---|-------------|-------------|
| Product Effectiveness | Improve the effectiveness of our products to deliver better outcomes | PTE speed of score return | 1.3 days | 1.2 days |
| | | VUE test volumes | 19.4m | 16.8m |
| | | VUE Partner retention | 99.9% | 99% |
| | | Higher Education product usage - text units | 4.8m | 5.4m |
| | | Workforce Skills number of enterprise customers | 1,503 | 645 |
| | | Workforce Skills enterprise customer net retention rate | 74% | n/a |

Notes:

VUE test volumes include GED tests.

VUE Partner retention is based on revenue mix.

Workforce Skills number of enterprise customers represents the number of customers at period end.

Measuring Our Success

Strategic KPIs

Enabling sustainable growth, driving shareholder value and contributing to a more equitable world

| KPI | Objective | KPI Measure | 2022 Actual | 2021 Actual |
|--|--|---|---|----------------------------|
| Culture of Engagement & Inclusion | Build a culture of engagement and inclusion where diverse talent is heard, invested in and valued for their strengths and skills | Employee engagement <i>Pearson uses the GallupQ¹² survey to measure engagement, annually</i> | 3.96 GrandMean on a 5 point Likert scale | n/a |
| | | Investing in diverse talent <i>The % of responses who agree or strongly agree to Gallup Q¹² survey questions.</i> | In the last six months, someone at work has talked to me about my progress= 67% | n/a |
| | | Culture of Inclusion Index The GrandMean of 3 Gallup Q ¹² survey questions: | This last year, I have had opportunities at work to learn and grow = 72% | n/a |
| | | <ul style="list-style-type: none"> At work, I am treated with respect My company is committed to building the strengths of each employee If I raised a concern about ethics and integrity, I am confident my employer would do what is right | 4.12 GrandMean on a 5 point Likert scale | n/a |
| | | Increasing diverse talent | Diverse candidates in leadership development and mentoring programmes= 75% | n/a |
| | | Diverse candidates in succession plans for leadership: Women= 52% People of colour/BAME= 26% | Women= 72% People of colour/BAME= 24% | |
| Sustainability Strategy | Achieve net zero carbon by 2030 | Progress against achieving net zero carbon by 2030, as measured through percentage carbon reduction | 33% reduction vs 2018 base | 31% reduction vs 2018 base |

Note:

Net zero carbon figures have been restated in 2021 to reflect acquisitions, disposals and data improvements. The net zero carbon figures have been assured by an independent third-party, Corporate Citizenship.

US Higher Education Courseware College Units

| Units by format | 2022 units (m) | 2021 units (m) | Year on year change |
|-----------------|----------------|----------------|---------------------|
| Print | 1.1 | 1.5 | (28)% |
| Bundles | 0.3 | 0.5 | (44)% |
| Platforms | 5.5 | 6.1 | (10)% |
| Rental | 0.3 | 0.3 | 21% |
| eText | 3.4 | 3.6 | (6)% |
| Total | 10.6 | 12.0 | (12)% |

KEY

Print: College textbooks

Bundles: College textbooks + platform

Platforms: MyLab, Mastering and Revel

Rental: Print textbook rental

eText: eText and Pearson+

Product Roadmap

2023 2024 2025+



Integrate more intermediate & advanced content / Institutional & Global Scale of English alignment / Pearson+ integration / UI & UX enhancements



Pearson English Skills Certificate with Credly badging

PTE for Canada Migration



P+ Channels (more disciplines and skills)

Additional features / international markets / integration with broader Pearson portfolio



Product refresh (Freehand Grader, Adaptive Diagnostics, Next Gen Learning Experiences)

Cloud migration



Course customization capabilities for teachers

Pearson-built curriculum

Standards based reporting



Launch talent investment platform and product suite. Integrate skills services for consumers

Expand skills services & talent network



Vertical market expansion

Value chain expansion

Geographic expansion

