



# **Pearson 2022 Full Year Results**

Friday, 3<sup>rd</sup> March 2023

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## Introduction

Joanne Russell

*SVP Investor Relations, Pearson plc*

Good morning everyone and welcome to Pearson's 2022 Full Year Results. Today we will host a presentation followed by a Q&A session. If you are joining online please can you use the chat function on the platform to input your questions during the presentation. As a reminder, please can you put your phones on silent and with that I will hand over to Andy.

## Opening Remarks

Andy Bird

*CEO, Pearson plc*

### Welcome

Thanks a lot Jo and welcome to everyone here in the room and for you joining online many thanks for joining our full year results and strategy presentation. As usual I am here with Sally and it is great to also have my full leadership team with me here today with the exception of Marykay Wells who unfortunately had knee surgery last week and was unable to travel.

Whilst you will hear from the divisional presidents in due course, I do want to acknowledge the whole team that you see behind me because what we are building and what you are going to see today is truly a team effort. I also want to take the opportunity to thank Mr Modesty Tim Bozik for over 39 years of service at Pearson. Now, Tim was set to retire at the end of last year but such is his commitment to this company and to what we are building he has agreed to stay on to help both me and to partner with Lynne in building the next iteration of Pearson+. You will be able to see that outside for those of you here in the room after this presentation.

Now, this morning you are going to hear about some the significant strategic and operational progress we made last year, which has strengthened our foundations for a future of sustainable growth.

### Priorities for 2022

At the start of 2022 I identified four clear priorities for Pearson. Firstly, deliver sales and profit growth. Secondly, increase our focus on execution, quality and trust. We want to embed customer and consumer insights across the whole company and finally scale and grow Pearson+. Now, the results that we announced today demonstrate the strong momentum that we have been building over the past 24 months.

### Key Achievements in 2022

For a second consecutive year our financial performance was ahead of our expectations, with sales growing by 5% and operating profits increasing by 11% to £456 million. This reflects excellent progress across the Group driven by our strategic initiatives. Our strategy centres around a lifetime of learning. A major focus last year was to enhance the interconnectivity between our divisions, making more parts of Pearson more relevant to each other while driving financial and operational benefits. Our business model is now moving from standalone

products to connected learning applications, centred around the trusted relationships we are creating with consumers.

In 2022 we delivered on those priorities and evolved our overall proposition. We have also been adding new capabilities and market opportunities through the acquisitions of Mondly, Credly and the recent decision to acquire PDRI. We saw significant growth in Pearson+ paid subscriptions and just last month we received Canadian government approval for our Pearson Test of English. We have also been hard at work on our Workforce Skills talent investment platform and exciting innovations in our English products. These are just some of the ways we are moving Pearson forward.

As we do all of this we are growing our universe of consumer relationships. Last year our products and services impacted the lives of around 160 million global users. While we continue to serve the full spectrum of learning institutions, the workplace is now the heart of many people's learning journey. Throughout today's presentation you will hear about the central role of credentials in a lifetime of learning. Be that a college degree or increasingly workplace skilling, enterprise learning has been foundational to Pearson and is more important than ever to our future. We now have more than 2000 enterprise learning clients. Increasingly when employers need trusted workplace learning solutions they think of Pearson.

### **Enterprise Customer Testimonial Video**

For over 25 years Pearson VUE has delivered real life impact and change around the world one test at a time. Now with the power of Faethm and industry leader Credly Pearson is the trusted partner you need. When you need experience think of Pearson.

'They've given us exactly the right level of data to help us to really picture how we are going to build our offerings over the next five years.'

When you need results think of Pearson.

'By supplying anonymised employee data to Faethm what we've been able to do is use the platform to identify emerging technology impacts on each of the roles within our business.'

When you need impact think of Pearson.

'We have an amazing relationship with Pearson and we've seen a lot of changes over the years. And [inaudible] partner [inaudible] to continuously modernise and innovate all while growing the program dramatically.'

When you need a partner for the future of work who is already trusted by over 2,000 organisations around the world think of Pearson.

This part of our business is and will continue to be subject to strategic investment. As you will see today the capabilities of Faethm and Credly are coming together in a product with the potential to accelerate the growth of our Workforce Skills division. In addition we continue to expand our Pearson VUE offerings and we are capitalising on the demand for English as a gateway to employment.

Beyond our workforce offerings the progress of Pearson+ continues to point to an exciting future. In calendar year 2022, our first full year in market, Pearson+ had 600,000 paid subscribers and 4.8 million registered users. As many of you know, while we started Pearson+ with eTextbooks the addition of Channels content covering subjects beyond Higher

Education you are going to see us start to expand our total addressable market beyond institutional higher education and into enterprise learning on a global basis. I found it very interesting that since launch last August, Pearson+ Channels have been viewed by learners in over 170 countries, demonstrating great product market fit and presenting a big opportunity given that we have not even actively marketed the offering outside of the United States.

As you can see 2022 has been a year of extraordinary momentum. The level of activity around the business is unprecedented but it is also focused and better executed. Pearson is in a strong position to capture the opportunities in front of us. Now, shortly we will hear from our division presidents. Each of them will take you through the significant progress they have made in the last 12 months and explain their plans for the future. However first I will hand over to Sally for our financial performance and expectations.

## **Financial Review & Outlook**

Sally Johnson

*CFO, Pearson plc*

Thanks Andy. Hi everyone. I will walk you through the detail in a bit but in summary we have had a great 2022 and are on our way to achieving the 2025 commitments that we made last year.

### **2022 Financial Highlights**

We saw continuing momentum in 2022 with 5% sales growth and profit up 11% to £456 million. EPS increased 48% to 51.8p given this increase in operating profit and the changes in tax and interest that I highlighted at Q1 last year, as well as lower issued shares because of the share buyback. Our cash performance was good with cash conversion of 88%, despite the impact of disposals which I have previously flagged. Our free cashflow continues to be an area of strength for the Group. Year-end net debt increased to £0.6 billion given our £350 million share buyback and dividend payments. This was partially offset by strong operating cash and net M&A proceeds. Given these strong results and our confidence in the outlook for the Group, the Board are proposing a 5% increase to the full year dividend to 21.5p.

### **2022 Sales**

We shared our revenue performance with you in our January trading update so I will keep the comments on this slide brief. We saw good underlying sales growth of 5% in 2022, in part helped by a return to a normalised exam pattern and borders re-opening following covid, but also due to continued momentum across the business. Assessment & Qualifications grew 8% partly because of the normalised exam pattern but also due to Clinical Assessments where government funding was strong and the increased interest in wellbeing providing a tailwind. Pearson VUE growth returned in Q4 as the DVSA contract change fell out of the year on year comp. Virtual Learning grew 4% with growth of 4% for both Virtual Schools and OPM. Higher Education saw an improving trend on 2021 and was down 4%. English grew 24% following a strong performance in Pearson Test of English, partially as borders re-opened but also driven by market share performance particularly in India. Workforce skills grew 7% as we saw good growth in BTEC and Apprenticeships and GED. In 2023 Faethm and Credly will be part of our underlying growth measures.

## 2022 Adjusted Operating Profit

Group profit grew 11% on an underlying basis to £456 million through operating leverage partially offset by inflation. We continued to invest for growth, reallocating spend as necessary. At a headline level we benefitted from FX which was partially offset by the mid-year disposal of our International courseware local publishing businesses, which removed approximately £15 million of profit.

At a divisional level Assessment & Qualifications maintained its margin at 18%. Profit grew strongly in the year with operating leverage partially offset by inflation. Virtual Learning margins improved to 9% through operating leverage as well as efficiencies across Virtual Schools and OPM. Higher Education grew margin to 10% with cost efficiencies and margin improvement offsetting declining revenues. The headline profit for each of these divisions was also impacted by FX given their weighting to the US and therefore the dollar. English grew profit through operating leverage partially offset by increased investment with margins rising to 8% and Workforce profit was broadly breakeven as expected due to investment in the business, and in particular in Faethm, Credly and our new workforce skills talent investment platform. These investments will drive significant future growth with operating leverage which will support both further investment and improved margins.

## Key Cash Flow Movements

We saw a good cash conversion of 88% despite the impact of the timing of the disposal of our International courseware local publishing businesses. This impacted conversion by approximately 10% which can be seen predominantly on the other working capital movements line. From a net debt movement of funds perspective this impact is offset by the standard M&A working capital adjustment. In short our operating cash performance remains strong. As expected, our capital investment profile changed in the year with capex reducing and focus shifting to investment in product development.

## Cash & Balance Sheet

Our free cash flow is also a point of strength we plan to maintain and we have adjusted our incentive plan metrics towards this measure on a go forward basis. Net debt increased to £0.6 billion given our £350 million share buyback and dividend payments, partially offset by strong operating cash and positive net M&A proceeds. Return on capital increased from 7.9% to 8.7%. We continue to be disciplined in our investments and rigorous about securing required returns.

## Financial Expectations

Turning to 2023 and beyond we gave you our expectations out to 2025 this time last year and our expectations of mid-single digit underlying growth across the 2022-2025 period remain the same. Given that we have bought forward our mid-teens margin expectation from 2025 to 2023, we now see upside to this for 2025 predominantly through the operating leverage we expect to achieve from revenue growth.

At a divisional level growth rate expectations remain consistent with those previously outlined, with the exception of Virtual Schools where we now expect low single digit growth over the period and English where we expect high single digit growth. Virtual Schools is impacted by the Covid cohort unwind in the 2022/2023 school year, as well as the loss of a major school in each of 2023/2024 and 2024/2025. Whilst we had planned for school churn

and we can mitigate the impact over time, the size of these particular schools impacts revenue growth over this time period. However, we remain confident in the long term performance of this division which we still expect to demonstrate high single digit growth over the 2019-2025 period and we plan to invest in career and technical curriculum to drive growth and synergies with Workforce. English expectations have risen to high single digits given the significant revenue synergies Mondly brings to the Group.

In 2023 specifically at a Group level excluding OPM we expect low to mid-single digit revenue growth with declines in Higher Education moderating further and Virtual Schools impacted by the factors I have mentioned. There will be growth across all the other divisions, with Assessment & Qualifications growing low to mid-single digit and VUE returning to growth, English growing high single digit and Workforce growing double digits with the launch of the talent investment platform.

Adjusted operating profit and tax will be in line with market expectations but the interest charge will be lower at about £35 million. Profit growth will be driven by operating leverage and cost efficiencies, partially offset by higher inflation and the residual impact of the disposal of our International courseware local publishing businesses. Margin in 2023 will be at mid-teens with improvement driven by the efficiency programme which we announced in August 2022 and delivered by the end of last year.

As a side note given our profit growth and the increased percentage of profit in US dollars a one cent move in FX from 2023 will equate to £4 million of profit.

### **Phasing**

In terms of quarterly phasing divisional growth will be relatively consistent across the year with each quarter aligning to the full year expectation which I have given you, with a few exceptions which I have outlined on this slide. Obviously OPM will be included in results at least until we have concluded the strategic review with the impact of the ASU contract loss reflected. As a reminder, the 2022-2023 revenue impact of ASU is £130 million.

### **Balance Sheet**

Balance sheet expectations remain the same with capex reducing and investment mix shifting towards product development with cash conversion of 90%+ and a return on capital improvement in 2023 and a double digits target in 2025.

### **Capital Allocation**

We continue to have a disciplined approach to capital allocation building on the track record of recent years. In the short term we will maintain our balance sheet strength and the optionality that brings should further investment opportunities arise. However at this point we have no current material M&A plans beyond the completion of PDRI which is expected to take place in the first half of 2023. The Board is committed to our progressive and sustainable dividend and will keep capital allocation policy application under continuous review.

### **Summary**

In summary we exceeded financial expectations in 2022. We are on track to meet expectations in 2023 and remain committed to our targets out to 2025. We will meet the mid-teens margin target in 2023. We have a strong balance sheet which provides optionality

and we maintain strong operating cash conversion, an attractive free cashflow profile and see improving return on capital. With that, I will hand over to Gio who will update you on our English Language Learning business.

## **English Language Learning**

Gio Giovannelli

*President English Language Learning, Pearson plc*

### **Key Takeaways**

Great, thank you Sally and good morning everyone. I am Gio, President of English Language Learning. Today I am going to remind you of our strategy in ELL, share the progress we made in 2022 and how we intend to continue to drive growth for the division in 2023.

Let us start with our strategy. In ELL we aim to be the world's leading destination for committed learners. These are people looking to learn and to prove their English proficiency in order to make progress in their lives, whether through study, work opportunities or migration. We are building personalised language learning at scale, which allows us to expand our addressable market, to increase our market share and capture more customer lifetime spend. As a reminder everything we do in ELL is based on our proprietary Global Scale of English. It is a simple scale that allows learners to track the progress of their language learning journey.

Last year we highlighted two areas of focus for the division in 2022. Firstly, we shared our plan to further build our direct-to-consumer strategy. As you know, we did this through acquiring Mondly. Secondly, we outlined our aim to win in two other segments, high stakes assessments and institutional learning. In 2022 we gained market share and increased revenue in the Pearson Test of English. We also launched Pearson English Connect, a new digital solution that enhances the learning experience for students and teachers across our institutional customer base.

### **Growth Opportunities Across all Three of Our Product Areas**

This work has laid the foundations for growth for ELL in 2023 across our three product areas. Firstly, in our institutional English business we are accelerating the development of digital-first, flexible products that will deliver personalized pathways for learners. Secondly, within high stakes assessments, as Andy mentioned, we recently received approval from the Canadian government to accept PTE for migration and will start delivering tests later in 2023. We are also looking to expand our addressable market outside traditional high stakes assessments by launching the Pearson English Skills Certificate later this year. This is a new mid-stakes, four-skills English test.

Finally, within online self-study language learning we will continue to invest in Mondly integration and product enhancements. This will be critical to driving our direct to consumer growth strategy. We will explore an offering for corporate language learning, starting with MondlyWORKS for enterprises and further develop existing content on platforms such as VR. There is a demo in the breakout area where the team will be ready to answer your questions. We are constantly working on ways to innovate and expand what we can offer to learners. Here is a look at some of the exciting new features we are building and testing right now.

## **ELL New Features Video**

At Pearson we help people master the English language making ambitions of education, moving to a new country or career progression a reality. That is why we offer engaging learning experiences that suit everyone. In school, at work, at home, on mobile, laptop or even a VR headset. This year we will be launching a new user interface and features from Mondly complete with a new look and feel. We will be tapping into a large market by launching a new mid-stakes English certification and we have already issued more than 3,000 Credly badges for our certifications. We are also working on game-changing enhancements across our world class platforms. We are using global scale of English benchmarks to give learners instant scores and feedback across speaking and writing exercises. We are piloting a conversational AI platform to support learners' practice anytime anywhere. Plus we are already top-ten in the Oculus Store. Now we are developing a new immersive world that will allow learners to connect and practice their language skills. At Pearson we are helping build proficiency and confidence one learner at a time so anyone can be themselves in English.

## **Interconnectivity**

Alongside our product innovation we are also supporting Pearson's growth strategy. First we will bring millions of direct-to-consumer relationships into the broader Pearson ecosystem and we are working to establish direct relationships with even more of our end users. Second we have growing interconnectivity with other divisions, such as Workforce Skills where we are building a joint go-to-market plan and positioning English language proficiency as a key skill for career progression. Let us not forget that in 2022 we successfully integrated Mondly into Pearson+. Third we bring a truly global team to Pearson with presence and relationships in over 150 countries creating opportunities for other divisions.

## **Performance and Product Roadmap**

Moving to the financials we foresee high single digit revenue growth in 2023 and through to 2025 underpinned by share gain and because of our strong operational leverage we can expect margin enhancement across ELL. We know that we are tapping into a large, growing market with an exceptional set of capabilities and a clear product roadmap supported by an exciting strategy. That is the key to our growth and we are fully focused on execution. With that, I will hand it over to Tom who will update you on our Higher Education business. Thank you.

## **Higher Education**

Tom ap Simon

*President Higher Education & Virtual Learning, Pearson plc*

## **Key Takeaways**

Thanks Gio. It is great to be with you all today. I am Tom ap Simon, President of Virtual Learning as well as Higher Education which I took over last September. Today I am going to focus on Higher Education, talking about some of the changes we have made in 2022 before moving on to what we are doing now, all of which will make this part of Pearson more competitive and more successful. I want to start off by saying that we have got some really good strengths in Higher Education. Incredible IP, great author relationships, deep expertise in learning technology, strong relationships with faculty and of course a small little thing

called Pearson+. However, we have not been as commercial from an organisational, sales, service, product and cultural perspective as we need to be. Addressing each one of these will help us tackle adoption losses and recapture the secondary market over time.

### **Initial Impressions and Action Taken**

There are five things we are doing to increase competitiveness. Bringing in new talent, reducing fixed costs and product investment as we focus on key initiatives, setting up a product led operating model, investing in sales and transforming our product. Since August 2022 we have changed the leadership team with four new hires and we have reduced the number of senior roles by 30% to increase accountability. Alongside our other cost initiatives we have made major structural efficiency savings and delivered margin expansion in 2022. We should see further operating leverage going forward.

Alongside the reductions in fixed costs we have continued to invest in our key growth drivers, in particular our go to market strategy. As I mentioned, we are implementing a new product led operating model in the first half of 2023. General Managers will now be responsible for revenue growth, product profitability and building successful learning franchises, like Campbell's Biology, Tro Chemistry and Triola Statistics. At the same time we are working on transforming our product.

### **Honing our Go to Market Strategy Whilst Focusing on Product**

Our new Go To Market strategy will be driven by a reorganised and larger sales team, designed to improve the win rate of new adoptions and drive much higher renewal rates in our existing business. Our core team will continue to focus on five key disciplines: maths, business, science, computer science and engineering where we already have a strong positions and the potential to win new adoptions. They will be complemented by a customer loyalty team to manage renewals for lower value, high penetration existing business with a focus on retention. We will also have a team entirely focused on winning new business in white space, high potential departments and we are developing our coverage for professional disciplines, teacher education and nursing, with a larger dedicated team and we are doubling our efforts to cover disciplines such as English, humanities and social sciences.

From a product perspective in 2022 we migrated Mastering to the cloud and this year we are migrating MyLabs to the cloud. Through this we are enhancing stability and performance and driving a better user experience. Building on these initiatives we are going to focus on four key areas: converging and upgrading our courseware platforms; simplifying Inclusive Access integration strategies; building out our digital learning experiences; and driving improvements in stability. We are launching three interactive MyLabs titles in calculus, algebra and statistics this fall and we are also launching new ILabs in biology and microbiology with anatomy and physiology to follow in 2024. Of course we now have 18 study channels to grow Pearson+, which helps widen our total addressable market and helps us with secondary market recapture.

We are simplifying and reducing the number of Inclusive Access integration models we have to make our offering more competitive, and that includes the adoption of Pearson+ in IA models for roughly a third of our schools this fall. We are building out our digital learning experiences to deliver more interactive and personalised learning experiences and to take a

digital-first content creation approach. Finally we are focused on improving the stability of our core learning experiences.

### **Performance and Product Roadmap**

Turning to the financials we expect revenue declines to moderate further in 2023 to low single digit and additional margin improvements as we benefit from cost efficiencies. We continue to expect revenue growth of low to mid-single digit for 2022-2025 and for margins to further improve driven by operating leverage as the business returns to growth. We will focus our investment on key product launches as we look to enhance the user experience to drive better performance in the future.

To summarise, in 2022 we have put in place a new management team and significantly reduced our fixed costs. We have started to implement a new operating model with sweeping changes to our sales teams and are putting in place plans to transform our product. We are excited about the developments in Pearson+ which helps to widen our addressable market and also helps with the secondary market recapture. Over the medium term I am confident that these initiatives will help us build a higher education organisation that can define the future of learning. To realise this vision will take time, as it is not a straightforward endeavour, but it represents a huge opportunity for us, one we are seizing with both hands. With that, I will hand over to Mike who will update you on our Workforce Skills business.

## **Workforce Skills**

Mike Howells

*President Workforce Skills, Pearson plc*

### **Key Takeaways**

Many thanks Tom. Good morning everyone. It is great to be with you all this morning and with my fantastic group of colleagues. I am Mike Howells, President of our Workforce Skills division and I am going to spend the next few minutes talking to you about the significant progress that we made during 2022, what we intend to deliver this year and how that underpins our growth outlook. 2022 has been a year of great progress for us. From a product point of view we restructured our existing portfolio and built a series of new products and new features. From a technology point of view we re-engineered our product platform and created a single state-of-the-art global marketing and sales tech stack. Organisationally we integrated what were previously disparate product and engineering teams into one global organisation and we have created a single global sales and marketing team. We have a clear strategy, a unique set of innovative products and a great team to sell them. We have achieved all of that in 2022 while also delivering solid financial performance. This is a team that knows how to execute.

### **Vision, Market Opportunity and Business Segments**

To focus on the needs of our different customer segments we have organised our Workforce Skills division into two parts: Vocational Qualifications and Workforce Solutions. Now, Vocational Qualifications is what we previously referred to as our Performance Zone and here we offer globally renowned qualifications and training services that allow learners to build the knowledge, skills and behaviours they need for career success. Now, whether that is a Higher National Diploma in Computing, a BTEC in Health and Social Care or training as part of the TQ

Construction Academy, we provide the skills and qualifications that our economy needs now and in the future.

The second part of our business is Workforce Solutions which we previously referred to as our Transformation Zone. This is our enterprise and consumer focused business. It brings together our two recent acquisitions, Credly and Faethm, with our existing portfolio of products and capabilities in Talentlens, GED and Accelerated Pathways. Workforce Solutions' portfolio of services is specifically designed to meet the needs of enterprises but always with a core focus on the needs of individual consumers, the employees upon whom the success of any organisation depends. Workforce Solutions will be the growth engine of the division and we see near-term priority growth opportunities in pre-hire recruitment, talent management and learning as an enterprise employee benefit.

At the heart of our strategy is our new talent investment platform and this is available now as an MVP with a full launch coming in 2023. We first told you about our ambition 12 months ago and now we can show you the product itself. The platform helps enterprises solve their connected challenges in workforce planning, upskilling and recruitment. It connects Faethm's skills, AI and data science capabilities with Credly's portable skills profile and credentialed learning for enterprises.

### **Talent Investment Platform in Focus**

#### *Product functionality today and future developments*

We developed the platform based on testing and feedback from a number of enterprise customers. These insights have helped us put the customer and their employees at the heart of this product. They love the unique data and services that we offer so now we are making those available in a newly connected and above all actionable way. We designed this product to tackle the fragmentation that enterprises told us was one of their key frustrations with other solutions in the market. As with all good technology businesses we will continue to rely heavily on customer feedback and insights to develop the platform over time and we will share updates with you as we progress.

Let us go into a bit more detail on the functionality. At the most basic level enterprises using the product can give each employee their own personal and portable skills profile based on a mix of inferred skills from their current role and verified skills from prior credentials and certifications. Employees benefit from personalised recommendations for accredited learning to boost success within their current role as well as a future path to maximise their career potential. Senior executives, HR leaders and managers can see at a glance the real skills they have within their organisation and the skills they need in the future to remain competitive. That helps them build training and skills programmes that truly maximise the performance and the value of their employees.

We are selling this as a software as a service product supplemented by additional professional services. We have a demo available in the breakout area afterwards where the team will be ready to answer any questions that you may have but here is a short taster video to set the scene.

### **Talent Investment Platform Taster Video**

Meet Jeremy an IT Specialist. His industry is changing and he wants to stay competitive but he has no idea where to start. Luckily his company has partnered with Pearson to help

employees like him navigate situations just like this. Jeremy signs up with Pearson's new Workforce platform and creates a custom profile that highlights and verifies his valuable skills. Through his profile he can discover new career opportunities that are just a certification away and where he can go to earn it. Thanks to Pearson Jeremy knows how to grow his career.

Meet HR Manager David. To help his company succeed in a changing industry David needs real time visibility into their workforce talent and expertise. Now with Pearson's new Workforce platform David can quickly identify skills gaps so they can reskill and deploy employees. By helping their people learn and move into new roles he is ensuring his company stays competitive.

Meet Engineering Manager Faye. She is building a dream team with the right skills for today and for the future but finding qualified candidates is a challenge. David suggests Faye use the Pearson Workforce platform to search current employees that might be a good fit. They quickly discover several great candidates including Jeremy.

Dream team assembled. Jeremy earned a new certification and found his next opportunity. Faye hired a great new employee with the right skills and David helped future-proof his company. All with the power of Pearson.

### **Commercial Relationships with Broad Range of Clients**

In 2022 we grew our enterprise client base by 133% to 1,503. Our clients include Fortune Global 500 companies and many other household names, a selection of which you can see on this slide. As well as continuing to grow customer reach in this way we will grow the value we bring to these clients through expanded features within the core platform itself and additional high-value services such as our Strategic Workforce Planning and Market Data tools. To strengthen the way we go to market we have created one global enterprise sales team with hubs in the US, UK and Australia focused on our target industries including tech, healthcare, financial services and retail.

### **Interconnectivity**

I am sure you can see how Workforce Skills fits into Pearson's wider strategy with products that can interconnect with others across the Pearson ecosystem, supporting and accelerating Pearson's lifelong learning ambition. For example, English is the globally recognised language of business so we have added English to Faethm's skills framework, as well as offering Credly badges for Pearson's range of English assessment products, as you heard from Gio earlier. This allows consumers to prove their language proficiency to employers. The connection between students and work is an obvious collaboration point with Pearson+ and there are fantastic opportunities to connect our services with Pearson VUE to maximise the value that Pearson can bring to our enterprise customers and consumers.

### **Performance and Product Roadmap**

Turning to our financials, we expect double digit revenue growth in 2023. For 2022-2025 we expect revenue growth of more than 20% and for margins to increase so we remain firmly on track with the guidance we gave last year. In summary we have made significant progress over the past year, executing against our plan, building our organisation and expanding our value proposition for our customers. As we enter this next phase this is an incredibly exciting moment for the division and I am confident that we have another year of significant progress ahead of us. Thanks for listening and with that, I will hand over to Art.

## Assessment & Qualifications

Art Valentine

*President Assessment & Qualifications, Pearson plc*

### Key Takeaways

Thanks Mike and good morning everyone. I am thrilled to be here today to talk about a business that I love, Assessment & Qualifications. Our A&Q business showed great momentum in 2022 and we are poised to deliver revenue growth and continued strong margins in 2023 with an excellent longer-term outlook driven by growth initiatives that will help us to expand the scope and the reach of our offering. Each of our business units within A&Q, Clinical Assessments, Pearson VUE, US School Assessments and our UK Pearson School Qualifications business, maintain strong market positions with excellent offerings and a blue-chip customer base. Our offerings help people and enterprises at all stages of learning and career advancement. They make an excellent value proposition for our customers and deliver good business results for us.

### Pearson VUE's Balanced Portfolio Drives Growth

Allow me to focus for a moment on our Pearson VUE business. Just as our full A&Q portfolio offers great diversification so does the sectors that Pearson VUE serves. We have a strong presence in information technology, healthcare, insurance, professional associations, finance and others across our 550 clients. This breadth gives us exposure to areas of significant growth like cybersecurity and cloud computing as well as resilience to economic swings via areas such as nursing, pharmaceuticals, emergency medical technicians and other healthcare professions. We are continuing to invest in the Pearson VUE platform, which you heard Andy say earlier delivers one test every 1.6 seconds around the world. We are steadily expanding the global delivery platform's reach, scalability, security, and features.

### Building Out Our Sources of Future Growth

We have made further investments in targeted growth initiatives. In late 2022 we announced the decision to acquire PDRI, a company that specialises in assessments for human capital in government. PDRI gives us immediate accretive growth and expands our reach into a key strategic area. The US federal government is one of the largest employers in the world with more than four million professionals.

We are also investing in an expansion of Pearson VUE's service offering. We will be moving up the value chain by broadening our offering to provide more support for the professional learner's journey to certification. With our partners we will expand our core capabilities in select industries to offer tools and guidance to our test takers to help prepare them for their certification exam. We will be sharing more as we bring these expanded capabilities to market.

### Interconnectivity

These growth initiatives are an excellent testimony to the synergies across the entire Pearson portfolio. In particular the role that Pearson VUE plays in helping global professionals get certified is a perfect complement to our Workforce Skills business. Pearson VUE is the delivery backbone of our Pearson Test of English and our Higher Education business provides

content as part of Pearson VUE's work to help professionals prepare for their certification journey.

### **Performance and Product Roadmap**

We see growth of low to mid-single digit in 2023 and through to 2025. We will continue our strong market position and margins. In summary our A&Q business continues to be a mainstay of Pearson revenues and profits with dependable results and growth. Diversification across numerous economic sectors, complementary relationship with the rest of the Pearson products and reputation for quality adds up to a winning business that we can count on. With that I will now turn it over to Lynne.

## **Pearson+**

Lynne Frank

*Co-Head Direct-to-Consumer, Pearson plc*

### **Key Takeaways**

Thank you Art and good morning everyone. On behalf of Tim and I it is great to be here with you today to share an update on Pearson+. Here are the key headlines. Pearson+ has quickly gained traction in the market, our Channels offer is expanding both the addressable market and reach with college students, and Pearson+ will increasingly become a key offering to integrate consumers into the Pearson ecosystem.

### **Building Momentum with Pearson+**

Now, as you know, we created Pearson+ to provide students with affordable access to enhanced eTextbooks with the kind of consumer grade digital experience we all now take for granted. In a relatively short space of time, we have made huge progress in bringing that vision to life. This year Pearson+ made strong headway. It performed well in the 2022 fall semester with 406,000 paid subscriptions, a 3x increase over the same period last year and in the same period it reached 2.83 million registered users. For calendar year 2022, our first full year in market, this translates to 600,000 paid subscriptions and 4.8 million registered users.

This progress was driven by a consistent and rigorous focus on three areas, product improvements, growing our catalogue which now stands at more than 1800 titles, and expanding our distribution to include college bookstores alongside our direct to consumer channel. We are pleased with the progress of Pearson+ but we have always been clear that this is just the starting point for what will be a far more expansive journey.

Now, we started out on this path last fall with the launch of a Channels MVP. Channels provides original and curated video content and practice materials to help students learn the most challenging subjects, pass their courses, and perform better on their exams. We have already grown to 18 channels covering 23 college courses containing over 40,000 videos and practice problems.

### **Expanding Pearson+ Channels**

By year end we are planning to add another six channels, like Calculus for Business and Managerial Accounting. For a product that is still in its infancy it is impressive that since August 2022 students have engaged in nearly two million minutes of video content and more than one million practice problems in Channels. Channels is relevant to every student

studying subjects like chemistry, biology or economics, not just those assigned Pearson course materials. This meaningfully expands our addressable market and reach with college students and we are now developing our commercial plans with the goal to be ready for launch in fall this year.

However that is not all. We continue to look to other student and consumer learning needs. As they reach the end of their formal education students need a bridge from academic knowledge and skills to those that will help them thrive in employment. Pearson+ can offer them more tools and more ways to prepare for entering the workforce. We are currently piloting an enhanced content offer in Pearson+ with a focus on in-demand technical skills and essential soft skills, classes such as Intro to Python, JavaScript, Critical Thinking, and Emotional Intelligence. This is all part of how Pearson can support people throughout their learning journeys and a great illustration of how we can extend our value proposition, creating strong connections across the different parts of the company and leveraging the wealth of our unique IP.

### **Interconnectivity and Extending Our Value Proposition**

#### *An illustrative example*

To give just one tangible example of how this could work, imagine a college student who comes to Pearson+ for their college textbook and study needs who can also now learn AWS Cloud Foundations who then goes on to complete their Tech certification via Pearson VUE and ultimately earns a Credly badge. We are very excited about the market response to Pearson+. We see further momentum in subscription numbers this Spring semester and we have a clear strategic roadmap. To tell you more about how we see this future opportunity for the consumer and for the future of Pearson I will hand back to Andy.

## **Summary**

Andy Bird

*CEO, Pearson plc*

### **Key Takeaways**

Thank you Lynne. In summary English Language Learning is growing strongly and bringing millions of direct-to-consumer relationships into the company. Our Higher Ed business has undergone strategic organisational changes and we are investing in our products to get us back to top line growth. Pearson+ continues to grow and serve as a springboard for the future of our Higher Ed business and our ambitions across a lifetime of learning. In Workforce Skills the launch of our talent investment platform represents a significant step forward in this division's strategy and capitalising on the market demand for reskilling and upskilling.

Finally, Assessment & Qualifications continues as a source of stability and growth for Pearson. We are excited to expand the scope of its offering and it will play a central role in our lifetime learning strategy. We are delivering on what we promised to do and we will continue that. The crossover between our businesses is accelerating, creating synergies and forming the foundations of our digital learning ecosystem. Now our focus is on leveraging our progress to make that ecosystem a reality.

**Priorities for 2023**

Our priorities in 2023 will focus on moving us closer this goal. Specifically, I have identified three critical priorities for 2023. Drive sustainable and profitable revenue growth. Delight our consumers and become obsessed with meeting their expectations. Finally, focus on execution across all of the business.

**Pushing Further Into a Business Model that Connects Consumer Led Learning into one Pearson Experience**

As I have mentioned, we are at a unique moment where we are beginning to combine our capabilities to benefit a vast number of individuals and enterprises. We believe there is enormous power in an ecosystem that brings our products together and that there is significant growth potential when we combine Pearson+, our talent investment platform, Pearson VUE and English into one unified platform. As we move into 2023 and beyond you will see us push further into a business model that connects the 160 million consumers we reach each year into one connected Pearson experience. Even as we turn this concept into reality we continue to work hard to deliver what consumers demand every day. As we deepen relationships with our consumers they can move with ease between our products and services as their learning needs evolve. That creates lifetime value for each one of them and for Pearson and for all our stakeholders.

With that the entire Group will be happy, including any ESG questions or legal questions to Cynthia our General Counsel, strategy Sue who recently joined us from Delta and Ali since we are in the talent business. We also focus a lot internally on our own talent and of course myself, the divisional Presidents. We will take questions in the room. Jo, you are monitoring the questions that are coming in online.

**Q&A**

**Tom Singlehurst (Citigroup):** Thank you very much. There is so much to talk about so I am going to bring it down to three. At least two of them are going to be on Workforce Skills because it is obviously a big new development. The first question when I look at some of the other companies exposed to the enterprise learning environment they have talked about that lengthening sales cycle and things like that. I am wondering whether you could offer some perspectives on the broad macro outlook and trying to sell this new product. Then one follow on question on your 1,500 enterprises. We obviously do not know the exact number in terms of revenue for Faethm and Credly but that feels like something like £15,000 or £20,000 or dollars per client. Could you just talk about how that evolves? I presume a lot of this is land and expand but if you can just give a sense of pathway. Then maybe the third question on English Language Learning, another very exciting area, the Canada designation feels very exciting. Can we maybe unpack the opportunity there and also talk about whether there are further big contracts like that somewhere in the pipeline?

**Mike Howells:** Thanks for the question Tom. At the macro level this continues to be a very exciting opportunity, a very exciting market for Pearson. It is going through a huge amount of change and disruption. Our belief very strongly is that we are still really in the early phases of digital disruption of the HR technology and the learning and development market. We still see very strong growth signals in spite of the macroeconomic backdrop and above all the meta trend we see is that there is very clear and emerging awareness within

organisations of the need to understand the value of their people, particularly of the value of their people as opposed to the value of their technology or in partnership with the value of their technology. Automation and augmentation actually reveal the value of people and we can talk a bit more about that. We great growth prospects, great opportunities in the change and disruption that we are solving for with our core platform.

Sales cycle is about 90-120 days typically for the platform which we have built into our model. You are right, within that very large number of enterprise customers that we have as you would expect we have a big variety of the extent to which we serve them. We have some very, very high consumers of the full suite of products that we offer and we have others that are presently consuming one portion, one slice. You are correct, our approach here is a land and expand strategy. We are trying to bring a very differentiated core set of services that help them make sense of the change that they see in this space and in particular to deal with that fragmentation that they are suffering from. In so doing we think that gives us great opportunities for further growth with all of those relationships.

**Gio Giovannelli:** Thanks for your question Tom. Canada is the biggest destination for migration and study in the world. It represents approximately 30% of the overall market. Migration, as Andy said, is what we received approval for, we estimate is about £100 million and we think we can over time gain share in that market as we have done in other destination locations. We are already accepted by 91% of Canadian universities for study admissions so to your second point we believe that we can further grow in the study market which is slightly bigger than the migration opportunity for Canada. For that we are also in conversations with the Canadian government to obtain approval for the SDS, the fast track approval on that study segment which would further expedite that because it requires a simpler application from the student's perspective.

On top of that, as you heard me saying, we believe that there is opportunity in mid-stakes assessments. We have had the nursing recognition in the US which is not sizeable in terms of revenue but is an example of how we can continue to address our addressable market going into specific professional bodies. Then lastly the important thing to realise is that the assessment opportunity overall is very large and as we unfold that product experience that I described I think we can capture further growth across our different platforms.

**James Ho (Goldman Sachs):** Hi, good morning. I have got two questions please. First you mentioned a couple of years ago that the secondary market in Pearson textbooks in Higher Ed was around 14 million units. Can you give us an update on the progress since then, how successful has the recapture in the secondary market been and how much is still to come? Secondly, just to double-check you mentioned that you do not expect any material future M&A. Does that mean that you now have all the capabilities you want in Workforce Skills? I guess you slightly changed the wording of your mid-term growth guidance for the division to greater than 20% CAGR but do you still expect revenue in 2025 to be double 2021? Thank you.

**Tom ap Simon:** I will take the first one on the secondary market. I will not get into the exact units in terms of the secondary market today but there are two fundamental strategies. One is how do we make sure that we are attracting more students up front in terms of purchasing and we do that by thinking through the inclusive access model. If you do that and you get that right then you have got more students opting in at the start of class. That is

especially relevant for some of the humanities and social sciences courses where you have got lower sell-through. That is how we think about that in terms of the institutional approach to the secondary market. Then obviously as we think about Pearson+ and our overall pricing strategy when you are thinking from a consumer perspective clearly we are being very deliberate and thoughtful from a pricing perspective to make sure that as you look at some of the secondary market options we are pricing at a more attractive rate than what you might get in a second hand book store and so on and so forth. We are thinking about it from the institutional point of view as well as the consumer point view and making sure that the pricing works both institutionally and for the consumer. That is how we are thinking about it.

**Mike Howells:** On capabilities yes we have all of the core building blocks that we need going forward and we will continue to look for new opportunities to accelerate returns for shareholders and to progress our strategy. As you rightly said, we have no plans for any material M&A but like any good growth minded company we keep our eyes open for opportunities to reward shareholders. However, for now absolutely no plans because we have what we need. You are correct, yes, we are retaining our guidance for double revenue by 2025.

**Matthew Walker (Credit Suisse):** Hi, thanks for taking the questions. The first one is on Higher Ed. You mentioned you wanted to have a growth CAGR for 2022 to 2025. I guess this is for Sally. Does that mean that you therefore need growth to return in Higher Ed in 2024 or alternatively you have got a massive growth rate coming in 2025? Just some colour on that first of all please. The second question is also for Sally which is on the margin for the Group in 2025. What does high mid-teens mean? Does that mean 16-17%? Does it mean 17-18%? I know you do not want to define it but I am asking anyway because it is a little bit vague. The last question is not a criticism because I think the articulation of the strategy is really good. A lot of messages around interaction between the different divisions. There have been a couple of slip-ups on contracts in the last couple of years. There was ASU. Now it is Virtual Schools. What reassurance can you give us on other contracts? How are the contracts structured in Virtual Schools? What is the concentration of contracts and how do we know that we are not going to sitting down full year next year discussing another loss of a school contract that has an impact on numbers?

**Sally Johnson:** In terms of Higher Ed growth you will probably want to hear the same thing from Tom but absolutely yes it means growth in 2024 and 2025. In terms of margin in 2025 I am really confident about that margin improvement in 2025. It comes from the operating leverage on revenue, as I described, and 16-17% is probably a good way to look at it but we are really focused on that revenue growth and it dropping through nice and strongly. As you know, we have got a reputation for being really cost conscious as well so really confident in delivering that.

I guess I will give an overview on the contracts and maybe Tom will come in as well as leader of that business. Within the Virtual Schools business you get this rotation of schools. We see schools coming in, we see schools going out. I think in this particular circumstance it is about the size of this particular contract but we are really confident in this business. We know how to manage these contracts. The team are already on making sure that we mitigate this particular circumstance. We really see good future in this business and I think the shift into

the career and technical space is a real opportunity for us as well that we are already bringing online this year too. Would you add anything Tom?

**Tom ap Simon:** Yes, I would. I would reaffirm exactly what Sally said about Higher Education. If you think about Virtual Schools this business has grown from about 75,000 kids to 106,000 kids over the last few years. That is huge growth and against that backdrop we have seen improvements in NPS. We have seen improvements in retention. We have seen improvements in lifetime value. We are seeing good growth in the business which is why we feel good about it. The contracts are typically structured in terms of 3-5 years. They are coterminous with the length of charter of approval that the school gets. That is how the contracts work. As Sally mentioned, these are part and parcel of life. We probably lose one small to medium-sized school every year. We typically replace them. This is something that we are working through. If we think about mitigation from a Virtual Schools perspective in key states we look to have more than one school in a state so we can serve students differently. There was actually a very good example in the last six weeks where a virtual school that left us in 2019/2020 came back to us in the middle of the school year which is totally unheard of because they were very disappointed with the provider they had gone to. Our team did a heroic job of basically taking on a school with 1,000 kids in the middle of the school year to get them back into the fold. It happens. It is part and parcel of life. We roll with the punches and we continue to mitigate the risk holistically.

**Omar Sheikh (Morgan Stanley):** A couple of questions. First of all on the talent investment platform could you maybe just walk us through what the value proposition is for the customer? Why is it that a customer takes the product? Are they trying to drive revenue? Are they trying to save cost? That would give us a little bit of sense of how your go to market might play out. Also can you just maybe walk us through the unit economics? When you add a customer how does the revenue drop through to the bottom line and so on? That is the first question. Then secondly again on Virtual Schools, Sally, could you just explain whether the guidance that you have given for Virtual Schools this year assumes the mitigation strategies will work and you will get something else to replace it? Are you guiding more conservatively? Just a bit more colour on that. Finally a third question on OPM. Could you update us on the sale process please or the strategic review process please?

**Mike Howells:** I will take the first one. One of the curses I suspect Ali will understand well for a lot of HR professionals is that people are often seen as a cost centre rather than a growth engine and part of the reason why that has been the case traditionally is that companies and individuals and organisational leaders do not have the insights they need about the value creation potential of their people. We all know in theory that our people are our greatest assets and that the ability of our people to be effective individually and together is the differentiator between success of any organisation and failure. However, companies and individuals have lacked the tools and insights they need in order to understand that and make use of it. We think about this as bringing the same level of insights, predictability, forecasting and above all the ability to make sound investments so that you understand the returns from those investments, which is why we call it a talent investment platform, for people in other areas of your supply chain and the other areas of input to any commercial strategy for a business. Ultimately the value creation that we bring here is to help our companies and our individuals understand their value and how that translates through to

achieving commercial success. We will be devising targets in partnership with our customers that are focused on driving productivity improvements, that are focused on driving sales team improvements, for example. We feel that is an area of great differentiation. We are not here to tell you how many hours of learning content your team has consumed. That is an output. We are here to show you the impact that your interventions are having on the productivity, the performance and above all the commercial delivery of your staff.

In terms of the drop through from growth to profit fundamentally SaaS businesses are very attractive in that regard with very good operating leverage. Obviously we are at the moment in a growth phase so as we guided you towards margins were broadly breakeven this year. We see that increasing through 2023. I believe we guided you towards low teens profit in 2025. I think based on where we are at with our plans at the moment we think we can potentially improve on that.

**Sally Johnson:** Then Virtual Schools in terms of the guidance, it does not mean that we immediately mitigate that but we are used to mitigating it over a period of time. Then on the OPM strategic review I have got nothing to tell you today but it is progressing.

**Andy Bird:** Nice try.

**Question:** Thank you for that presentation. The change that has happened under this new management team has been very evident in everything that you have presented today so thank you for that. However, my question is on something else that caught my eye today. There is an article on Bloomberg with some comments attributed to Sally about a potential US listing. Could you just clarify your thoughts on that, why you would feel your [inaudible] would not be easy to sell in the UK or why that would even be a consideration? Just your thoughts around the matter please. Thank you.

**Andy Bird:** A quote without context is sometimes taken out of context and makes a very nice headline I guess. I was on CNBC myself this morning and was asked the same question. We gave the same answer. We are always as a board looking at opportunities but we have not actively discussed anything other than maintaining our presence on the FTSE. We are a very proud and longstanding member of the FTSE. We happened to perform quite well last year as memory recalls. If you do deliver on your promises or over-deliver on a promise it is always good. I would just countenance and reassure or reiterate that there is nothing active in terms of conversations that are going on. I know there area many companies that are doing that and ARM was on the front page of the *FT* today as well. The quote, or that portion of the quote as it was, was taken a little bit out of context.

**Nick Dempsey (Barclays Capital):** Good morning. I have got three still please. Just following on from Matt's question on Higher Ed, I make it that we need 5% growth in 2024 and 2025 to get to our three-year CAGR. When we look at 2022 the units went down quite a lot and was offset by price so when we are thinking about achieving that 5% growth do we think that we can carry on putting through price in those years or are we expecting to grow units a lot more than we have in the past? Second question when I add together the gap between product development cash and amortisation and then the cash restructuring in 2022 I get about £100 million. In other words the main difference between P&L and cash flow. When I am thinking about 2023 you have got £85 million of cash restructuring. I will guess there will be a further gap on product development. Beyond that can we expect that to come

down quite a lot so that we can then start looking at the P&L as more of an indicator for cash flow than it is at the moment? Third question, you have said you do not have anything notable in the M&A pipeline, you are pretty under-g geared. Do you expect to stay under-g geared or can we expect that buyback to come back or are you just waiting for the right deal to square that circle?

**Tom ap Simon:** As we think about Higher Education and the guidance out to 2025 a couple of things just to put in context. Firstly in 2022 we had the access card elimination. That weighed on volumes a little bit which made it a little starker than it otherwise would have been. As you think about 2023-2025 obviously we are in a price constrained environment but clearly we are able to put up pricing predominantly in our print products in 2022. We are going to be looking at pricing very carefully because obviously where we see opportunities to raise pricing that makes a lot of sense in an inflationary environment. You are right, clearly we have to grow units and then the other thing I would of course say is there is the rest of the world. As we think about growth internationally that is also a feature of helping us achieve that medium-term number.

**Sally Johnson:** In terms of product development and reorg and P&L, yes you are right, product development and amortisation will normalise back. Reorg is a 2023 factor not out in to the future and therefore that 90%+ cash conversion is absolutely achievable. Then from an M&A perspective no I am not suggesting that I am just sitting waiting for an acquisition. I am just pointing out that we have nothing near-term or material and the board keeps the capital allocation policy application under continuous review. At the right time there is the opportunity for share buybacks.

**Tom Singlehurst (Citigroup):** I apologise. It is only one question and you are probably not going to answer it anyway. It is actually on OPM and as we look back at Pearson's history you have got this track record of taking an asset and injecting it into something else on a nil capital invested basis and then running with it. I am particularly thinking about Penguin here. I am just interested big picture whether that could be a strategy you employ with OPM or when you are thinking about the strategic review are we thinking about a clean break?

**Andy Bird:** Great question Tom, not going to answer it as predicted. We are going through the review and at the appropriate time everyone will hear what the conclusion of that is.

**Emiljana Krali (The Analyst):** Just when you talk about interchangeable or intercommunication between the different platforms in Pearson, what is right now the cross-sell that is happening and where could it potentially go in the future?

**Andy Bird:** Yes I can take that since I have been partly inspiring or architecting some of that. There is a tendency when you have a business in divisional structure or any line of business to compartmentalise individuals. The last time I looked in the mirror I was not compartmentalised. I was one person and I did different things in my life both in terms of life's journeys and life stages. That is very much relatable to how you should think about and how we are thinking about this lifetime of learning opportunity. The one thing that we all do as humans from the moment we are born until the moment we pass is continually learn. Our learning journey is becoming largely driven by technology and is becoming increasingly diverse. It is no longer a straight linear path that certainly my formal education was. I think

today hopefully you are getting a sense of this interconnectivity that an individual has as they seek different learning opportunities.

Another way of looking at it is in some ways Pearson has been in the certification business for decades. The certificate that really mattered was your degree and so what we did as a company was provide courseware and content to help support you, whether you be an instructor or a student, pass that certificate. You got that certificate and you went to university or you went to college because there was a promise of greater job prospects when you graduated. What we see now and what is demonstrated whether it is with Credly, Workforce Skills, with English Language Learning and of course through Pearson VUE is there is now a proliferation of certificates that carry real value. If you think about one of the areas that we have not touched on in Tom's world is how we redefined what higher education is. Tom alluded to it but you should think going forward that higher education will be beyond institution. Clearly we have great strength and power within institutional learning but we have this opportunity to then provide resources and materials to help people who are taking certification credentials, whether it is through the Workforce Skills or whether it is coming through Pearson VUE, and start to create these different pieces together.

One could imagine, and you saw on one of Lynne's slides, that you have got the talent investment platform at the top, you have Pearson+ Channels being able to deliver content that enables an individual to then go to Pearson VUE to get that certification or to even do it all within one application. That then gets stored on your profile which utilises the technology of Credly. These lines are blurring between thinking about just one sector versus another sector just as our lives have become more blurred as it were. What is the common thread through all of it is our desire and need to learn and to satisfy that curiosity. Whether that is to take a job or to migrate. Part of what is one of the interesting things with Pearson Test of English, and Gio referenced this, is most people who are taking that test are taking it to migrate. Either to go to college or to go and get a job. You then start to link the Pearson Test of English with a certification in cloud computing or whatever it happens to be to help that individual. Now we have relationships with consumers. It is one of the most important things we have done. That is why we can say we reached 160 million consumers last year. These are no longer anonymous individuals and you are going to see the company move from being purely transactional in nature to building relationships. Once we start to build relationships then we can start to build lifetime value. You start to create a flywheel effect and you think of the businesses as customer acquisition funnels that are coming in. They may come in through English Language Learning. They may come in through Workforce, through your employer. They may come in and then graduate through Higher Education or from Pearson VUE or Pearson+. They are all coming in.

One thing we have not talked about which is somewhat implied is of course the value and the use of data through all of this. We have some very, very, very rich data and we will probably talk a bit more about this at interims when we start to expand on this notion. Hopefully that gives you a sense of when you saw the slides in your notes of the interconnectivity, that is how you should start to think about how the ecosystem will start to develop. I know we are focused on 2022-2025, 36 months but what starts to get interesting is 2025 and beyond as you start to think of that ecosystem starting to play. However, that is for another day.

**Kajal Shah [?]** (HSBC): Thank you for the lovely presentation. It was very helpful. Just a follow-on question. You said there are significant operational and financial savings from interconnectivity that you anticipate. Is there a number that you have in mind which you can share with us today?

**Andy Bird:** We just went through a process last year. We identified £120 million of savings through efficiencies. We have just literally finished that but as you can see there is the blurring of the lines I referred to and that takes some redundancy. It takes redundancy out of technology. It takes redundancy out of consumer acquisition. It allows you to move with the consumer as they move from division to division more efficiently. This is not necessarily about just saving money for the sake of saving money. This is about becoming more efficient so we can invest behind the real growth engines of the company going forward. That is how I would look at that. We have no specific targets in mind given what we have just done. I think it was quite precipitous that we did it, announced in July of last year but it was really driven by the actions we had taken in the previous 18 months which enabled us to do that. You are going to see us continue to be able to do that as this new construct matures. We are constantly looking at better ways of driving efficiency and ultimately driving growth, both top line and bottom line growth throughout the organisation.

Thank you very much for all of your interest and for those of you watching online really appreciate your support. For those of you that are here there a number of stations set up where you can now go and experience the talent investment platform. There is a new generation of Mastering iLab that you will be able to see in terms of where Higher Education is going and where we go beyond the textbook. Then there is Pearson+ Channels so you will be able to experience the channels beyond Higher Ed and see where that is going. Then in the room next door you can experience virtual reality as a way of learning languages through Mondly and meet an interesting character, shall we say, conversational character that will help you also learn languages. Please enjoy refreshments but go and get your hands dirty, as it were, and go and play. Ask lots and lots of questions. Of course we will all be around to answer any questions that you have. Again thank you for taking the time and for your interest and support of the company.

[END OF TRANSCRIPT]