Pearson 2023 Interim Results

31st July 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.

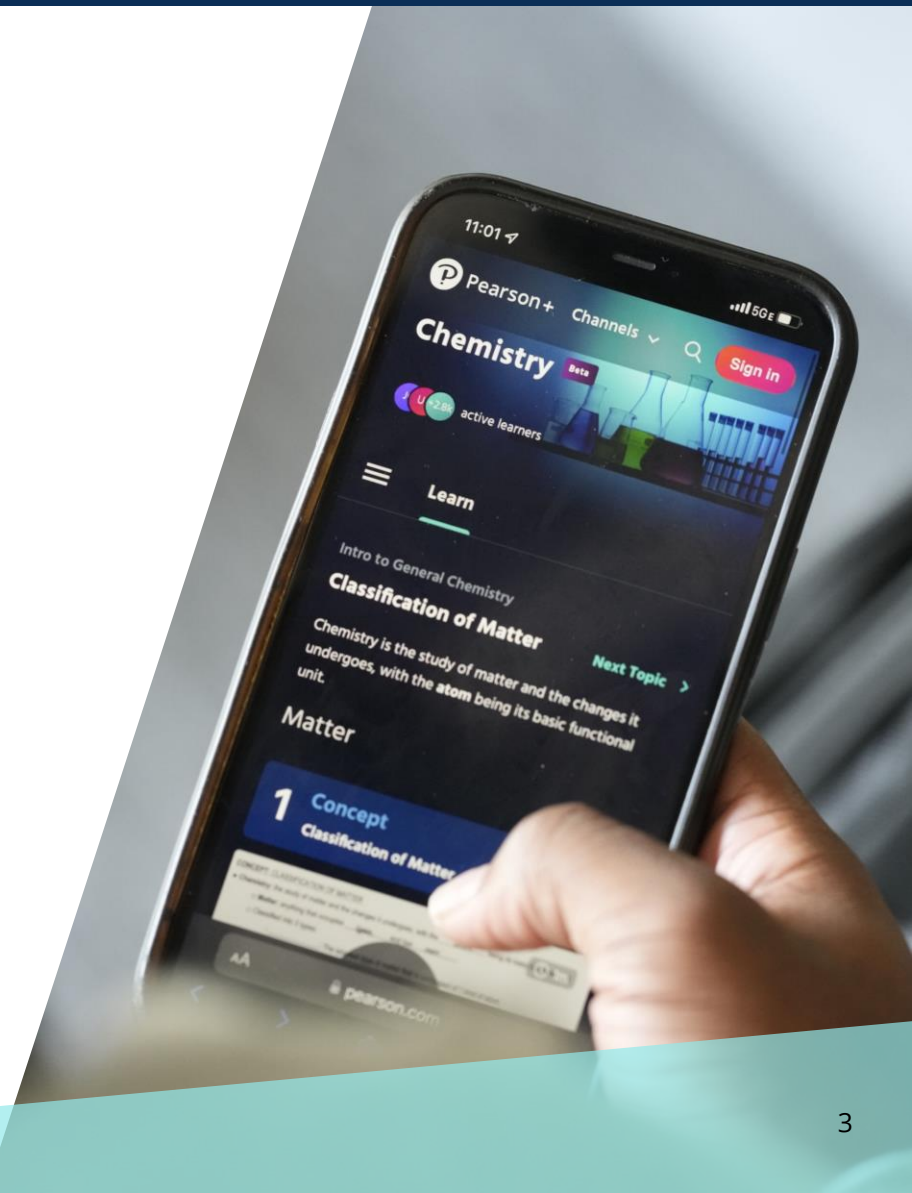
Key messages

Excellent H1 financial performance, full year expectations reaffirmed

Significant profit growth and margin expansion reflecting benefits of cost efficiency programme

Confident in group guidance for 2023 and the medium-term

Continued momentum with Pearson+ as paid subscriptions increased c.200%



Continued operational and strategic progress

English Language Learning

- Recognition for PTE by Canadian government for both economic migration and Student Direct Stream increases market opportunity
- Continue to gain market share with PTE in India
- Mondly growth particularly strong in MondlyWorks

Virtual Learning

- Launching Connections Academy Career Pathways programmes for middle and high school students
- Offering a tri-credit approach to career readiness courses

Assessment & Qualifications

- New programme launched for U.S. TSA and next generation nursing licensure (NCLEX)
- Launched next generation digital platform in Clinical Assessments
- Progress in offering onscreen exams with roll out of GCSE Computer Science and international GCSEs in English Language and Literature

Higher Education

- Re-organisation of sales force helping to increase retention rates and generate new wins
- Platform migration to improve customer experience progressing well
- Good uptake of iLabs products
- MyLabs IT driving strong takeaway adoptions for Fall

Workforce Skills

- Signed contract with Jordanian Ministry of Education to deliver BTECs
- Won 3 T level contracts in the UK
- Continued enterprise client growth
- Re-assessed talent investment platform; focused on delivering modular, personalised approach, through Credly and Faethm

Financial Review & Outlook

Excellent H1 financial results

- Excellent Group performance
- Divisional results in line with or ahead of expectations
- Significant profit growth supported by delivery of cost efficiencies
- Strong operating cash performance
- Robust balance sheet
- Dividend up 6%
- £300m share buyback on track to commence in Q3
- Well positioned to support long-term growth ambitions

Revenue £1,879m up 6% underlying*

(2022: £1,788m)

Adjusted operating profit £250m up 44% underlying

(2022: £160m)

Operating cash flow £79m, up £70m from last year

(2022: £9m)

Adjusted EPS 25.6p up 14%

(2022: 22.5p)

Interim dividend 7.0p up 6%

(2022: 6.6p)

Net debt £0.9bn

(2022: £0.8bn)

*excluding OPM and Strategic Review businesses

H1 2023 sales

£m	2023	2022	CER growth*	Underlying growth
Assessment & Qualifications	796	710	8%	7%
Virtual Learning	373	390	(9)%	(15)%
Higher Education	379	373	(2)%	(2)%
English Language Learning	184	122	50%	44%
Workforce Skills	140	127	9%	9%
Businesses under strategic review***	7	66	(89)%	(50)%
Total sales	**1,879**	**1,788**	**2%**	**4%**
Total excluding OPM & Strategic Review***				**6%**

*Constant exchange rates are calculated by assuming the average FX in the prior year prevailed through the current year.
** We have completed the sale of the Pearson Online Learning Services (POLS) business and as such have removed from underlying measures throughout. Within this specific measure we have excluded our entire OPM business (POLS and ASU) to aid comparison to guidance.
***Strategic Review is revenues in international courseware local publishing businesses being wound down, which will continue to be reported separately until dissipated.

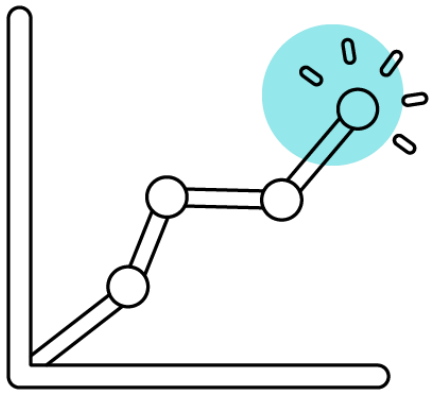
H1 2023 adjusted operating profit

£m	2023	2022	Margin (%) 2023	Underlying growth
Assessment & Qualifications	174	136	22%	20%
Virtual Learning*	47	14	13%	72%
Higher Education	(1)	(4)	0%	25%
English Language Learning	8	(4)	4%	275%
Workforce Skills	21	28	15%	(20)%
Businesses under strategic review**	1	(10)	14%	100%
Total adjusted operating profit/(loss)	**250**	**160**	**13%**	**44%**

* We have completed the sale of the Pearson Online Learning Services (POLS) business and as such have removed from underlying measures throughout.
**Strategic Review is revenues in international courseware local publishing businesses being wound down, which will continue to be reported separately until dissipated.

Strong cash & balance sheet position

£m	2023	2022
Operating cash flow	79	9
Net debt	(911)	(810)
Dividend	7.0p	6.6p



Key takeaways

- Strong operating cash flow improvement driven by increased profits
- Higher net debt largely due to dividends, tax, and 2022 share buyback more than offsetting strong operating cash flows
- Progressive and sustainable dividend

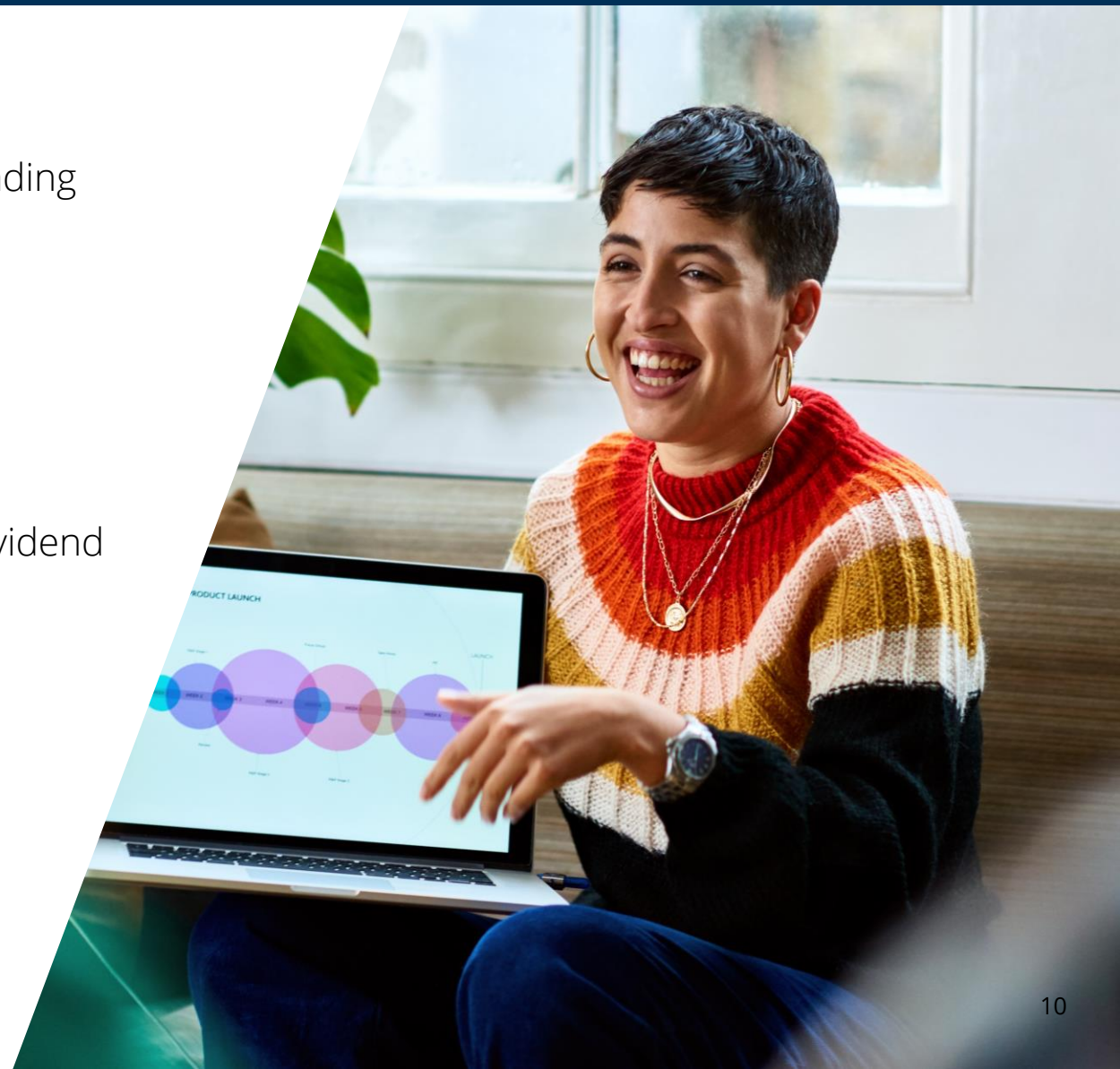
Capital allocation

Strong progress on portfolio reshaping

- Completed acquisition of PDRI in March. Significantly expanding Pearson's services to the U.S. federal government
- Completed the disposal of POLS

Returning excess cash to shareholders

- Reaffirming commitment to progressive and sustainable dividend
- On track to commence £300m share buyback in Q3



2023 Group expectations reaffirmed

Group outlook*

- 2023 Group revenue, adjusted operating profit and profit margin outlook remain in line with expectations.
- We reiterate our guidance of mid-single digit Group revenue growth for 2022-2025 and for margins to rise to upper end of mid-teens in 2025.

Divisional guidance and phasing

- English Language Learning revenue growth raised from high-single digit to c.20% for 2023. Investing a portion of operating leverage to support future growth opportunities.
- In Workforce Skills, given our focus on delivering modular solutions, our 2023 and 2022 to 2025 growth expectations for this division are likely to be more stretching.
- Growth in Pearson+ will lead to a shift in Higher Education revenue recognition from Q3 to Q4.
- Contract timing in A&Q will see delivery in earlier quarters with Q4 revenue growth lower than average. We are confident in achieving our full year revenue growth expectations.
- In Virtual Learning the termination of the ASU contract will continue to impact growth in H2.
- Revenue growth expectations for Virtual Schools remain unchanged with H2 enrolments impacted by the loss of a previously cited large school contract.

*2023 consensus on the Pearson website as at 19th April 2023; median adjusted operating profit of £568m at £:$ 1.20, interest charge £34m, tax rate 24%. Our Group revenue growth expectation for 2023 is low to mid-single digit, excluding OPM and the Strategic Review businesses.

Financial highlights: key takeaways

Excellent H1 financial performance

On track to deliver £120m cost efficiency program

Full year expectations reaffirmed*

Strong balance sheet supports further investment in product innovation and shareholder returns

Strong operating cashflow

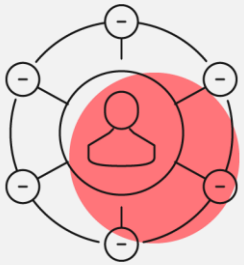
*2023 consensus on the Pearson website as at 19th April 2023; median adjusted operating profit of £568m at £:$ 1.20, interest charge £34m, tax rate 24%.
Our Group revenue growth expectation for 2023 is low to mid-single digit, excluding OPM and the Strategic Review businesses.

Artificial Intelligence

AI is a long-term positive for Pearson

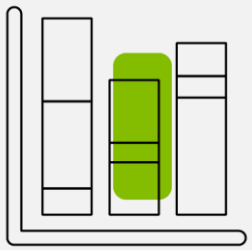
1. Value of our proprietary IP and data sets will increase over time
2. We have deep AI experience and expertise across company
3. Starting to introduce new, AI-enabled products across the business
4. AI can unlock further opportunities for cost efficiencies

Pearson well positioned for the future of learning

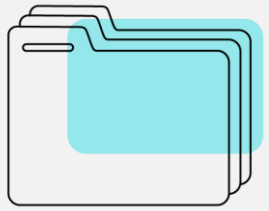


Optimistic about growth prospects going forward

Executing on our strategy with excellent financial performance



Stable, growing and more evenly distributed portfolio, with learning and certification at its heart



Opportunities to leverage our IP and data sets to create innovative products incorporating generative AI

Appendix

Measuring our success: strategic KPIs

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

KPI	Objective	KPI Measure	H1 2023	H1 2022
Digital Growth	Drive digital revenue growth	OnVUE volumes	1.7m	1.4m
		Higher Education US digital registrations	4.5m	4.6m*
		PTE volume	606k	344k

***** H1 2022 US digital registrations restated from 4.8m to 4.6m due to recategorising 0.2m of registrations from US to International
Note: For a full list of KPI measure definitions, please refer to: https://plc.pearson.com/en-GB/purpose/our-targets-kpis

Measuring our success: strategic KPIs

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

KPI	Objective	KPI Measure	H1 2023	H1 2022
Consumer Engagement	Create engaging and personalised consumer experiences	NPS for Connections Academy	+67	+67
		NPS for PTE	+56	+51
		Pearson+ registered users	4.7m	4.5m
		Workforce Skills registered users	5.3m	4.1m
		Mondly paid subscriptions	473k	336k

Note: For a full list of KPI measure definitions, please refer to: https://plc.pearson.com/en-GB/purpose/our-targets-kpis

Measuring our success: strategic KPIs

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

KPI	Objective	KPI Measure	H1 2023	H1 2022
Product Effectiveness	Improve the effectiveness of our products to deliver better outcomes	PTE speed of score return	1.1 days	1.3 days
		VUE test volumes	12.2m	10.0m
		Higher Education product usage - text units	2.0m	2.1m
		Workforce Skills number of enterprise customers	1,556	1,387

Note: For a full list of KPI measure definitions, please refer to: https://plc.pearson.com/en-GB/purpose/our-targets-kpis