



Pearson's Assessment and Qualifications Investor Seminar

Monday, 6th November 2023

Introduction

Joanne Russell

Senior VP, Investor Relations, Pearson PLC

Good morning, everyone and welcome to Pearson's Assessment and Qualifications Investor Seminar. Today we will host a presentation followed by a Q&A session.

With that, Andy, over to you.

Assessment & Qualifications Investor Seminar

Andy Bird

CEO, Pearson PLC

Welcome to everyone in the room and online, and many thanks for joining us today here at the New York Stock Exchange for a deep dive into our largest and most profitable business, Assessment and Qualifications. I am Andy Bird. I am Pearson's Chief Executive, and with me is Sally Johnson, our CFO, and Art Valentine, who leads our A&Q business, together with the senior members of Art's team who he will introduce shortly.

Now, as I have said many times before, A&Q is Pearson's crown jewel, with credentials at the heart of everything we do. It is a very strong platform for continued growth. And, as you will hear today, it is increasingly interconnected with the broader Pearson ecosystem, enhancing our ability to serve the enterprise and English language learning markets.

Well-positioned to benefit from 3 global demand drivers

A&Q is one of the many reasons that Pearson is so well positioned for future growth within a wider learning market that is estimated to reach about £8 trillion by 2030, up from about £6 trillion today.

There are three major global demand drivers in our market, and A&Q touches all of them.

- Firstly, technology is increasing the use of digital tools for schools and learning more broadly. This trend accelerated during COVID and has been further supported by generative AI. Digitally-enabled products and solutions are driving nearly all of A&Q's growth today.
- Secondly, there is the workforce skills gap. As technology rapidly advances, employers are responding by investing in upskilling and reskilling their workforces. Within A&Q, Pearson VUE addresses this trend head on, supporting certifications in high demand industries like IT and healthcare.
- And thirdly, there is a rapidly growing need for individuals to prove their skills in the form of an accreditation or certification. Again, this is where Pearson VUE shines and where our schools and clinical businesses also deliver trust and quality to the market.

These trends are creating opportunities right across Pearson, and the recent acquisitions, such as Credly and PDRI, have strengthened A&Q's ability to respond to these market demands.

So today's presentation will demonstrate that A&Q is an extremely high-quality business with a vital role to play in our future.

- You will see how each business unit within A&Q is well positioned to drive revenue growth both now and in the years ahead.
- You will also see the underlying stability and consistency of this business, a reflection of its trusted customer relationships and impressive contract renewal rates.
- You will see the strong position that each business unit has in its respective field and the strong interplay with the rest of Pearson.
- And finally, you will see this exciting financial trajectory underpinned by high returns and cash generation.

So let me stop there and hand over to Art and his team for a deeper dive into all that is A&Q. Art.

A&Q Overview

Art Valentine

President, Assessment & Qualifications, Pearson PLC

Assessment & Qualifications

Thanks very much, Andy. Good morning, everyone. Thank you for joining us to hear about this outstanding part of the Pearson portfolio. The breadth, scale, and crystal-clear value proposition of our Assessment and Qualifications business is a winning combination for all of our stakeholders.

Here Today – some of the A&Q Leadership Team

Let me start out by introducing you to the team. You will first hear from Gary Gates, who has played an integral role in building Pearson VUE into a global leader in the test delivery space.

Next up will be Sharon Hague, who will cover our K-12 Assessment and Qualification units. Sharon and her team operate businesses that play a critical role in the education of young students.

After Sharon, I will talk about our Clinical business, which helps professionals assess people across a wide range of developmental areas to understand how they learn.

Then our finance lead, Mary Kempf, will walk you through our performance and investment for continued growth and enhanced profitability.

Key Takeaways from today's presentation

Let us talk about the fundamental aspects of this business that we would like you to take away from this morning. Scale and breadth underpin our offerings. Our products and services are sold all over the world, representing far greater geographic reach than any of our competitors. Every one of our business units have strong competitive positions in their respective markets. And our ability to deliver large volumes, multiple languages, in different countries, and in all types of settings, differentiates us and makes us a provider of choice in everything that we do.

A combination of our market leading offer with excellent customer relationships built on trust ensures long-term contracts and outstanding renewal rates.

A&Q is Pearson's largest business, delivering consistent revenue growth, strong margins driven by sharp operational management, and supports the group's excellent cash generation.

Now lastly, let me just spend a moment on the final one of our key drivers – our purpose. Assessments sit at the heart of the value we bring to our customers. What we do matters. It makes a real difference in people's lives. We are trusted by millions of individuals around the world. You will hear some examples today of the many ways in which we help organisations and individuals through their educational journey.

Assessment and Qualifications at a glance

We are made up of four businesses. Pearson VUE is the largest and operates in a certification market, which is \$1-2 billion with the opportunities of \$15-20 billion in the training and preparation space. Our School Assessment and Qualification businesses play a central role in the learning journey for K-12 students. In just the US alone, we operate in a \$1.1 billion market, and in the UK, we are a top four player addressing a student population over 1.5 million with a market share that approaches 25%.

Finally, our Clinical Assessment business plays an invaluable role, supporting learners and patients of all ages. Like our other businesses, we have a set of market leading offerings – in this case, products for clinicians, teachers, and other professionals to measure general social and emotional wellbeing across all ages. We see good growth in US customers in this space, with the number of psychologists expected to grow 6% and speech and language pathologists by 19%, as two examples.

Last year, A&Q generated £1.4 billion of revenue with margins of 18%. We delivered 90 million tests. This year, revenues are expected to grow mid-single digits.

Before I hand over to the team, I wanted to spend just a moment to highlight how the power of assessments extends across the rest of Pearson. These capabilities are at the heart of our growth and drive results across all parts of the enterprise. Whether it is the use of the Pearson VUE technology and physical infrastructure to deliver the Pearson Test of English and its outstanding growth, the combination of our higher education learning content with VUE testing to offer professionals a full-service path to technology certification, or the use of our School Assessments AI engine to score essay exams in our English language portfolio, our capabilities are driving growth throughout the enterprise.

Let us turn now to my colleague, Gary, to hear about the VUE business.

Pearson VUE

Gary Gates

MD, VUE, Pearson PLC

Many thanks, Art, and good morning, everyone. It is a great pleasure to be here today.

Pearson VUE at a glance

At Pearson VUE, our mission is to deliver high-stakes exams to industries that can advance their professions and safeguard their communities across the globe. We help learners obtain a professional certification or license so they can advance their education or career journey. Simply put, we turn learners into earners.

Pearson VUE is a global provider of computer-based, high-stakes testing services. We deliver more than 19 million certification and licensure exams annually. That is an exam every 1.6 seconds.

We offer our customers a multimodal approach to exam delivery, from remote proctoring to testing in one of our 20,000 testing centres. We have the most comprehensive test centre network in the sector, with more test centres than our two biggest competitors combined. We also provide our customers with a full suite of additional services, including content development, psychometric services, and security services.

For example, customers like the National Council of State Board of Nursing, who have a clear mission to ensure medical providers are competent, come to Pearson VUE because we are trusted to provide their candidates with a fair, reliable, and secure testing experience. A test taker in New York will have the same testing experience as a test taker in Manila.

Pearson VUE's financial profile at a glance

Let me quickly touch on our recent financial performance. In 2022, Pearson VUE had £575 million of revenue, and through the first nine months of 2023, the business has delivered strong growth of around 11% on an underlying basis. We are on track for continued growth through to 2025.

Pearson VUE's balanced portfolio drives growth

Now, as you can see from this chart, Pearson has a diverse portfolio of over 550 clients with a strong presence across an array of sectors, including technology, healthcare, finance, professional associations, and many others. This provides resilience against economic swings for always in-demand areas such as nursing, pharmaceuticals, emergency and medical technicians, and all other healthcare professions.

Now we typically sign multi-year service contracts with our clients and have strong customer retention rates. Our contract renewal rate was over 99% last year, and we have many long-term relationships of over five years or more.

As you can see from this slide, Pearson VUE has seen consistent strong growth over the last 20 years, driven by new contracts, strong retention rates, and the breadth of our portfolio.

Building out our sources of growth

We are really excited about the growth prospects with Pearson VUE, and we are focused on three strategic initiatives. The first of these is investing in our platform to maintain a high contract renewal rate, to win new customers, and to realise opportunities for IP ownership and geographical expansion in regions such as India, Southeast Asia, and Africa; and also through cross-divisional partnerships, the most notable of those being the Pearson Test of English.

Our second has been our expansion into the US Federal assessment market with the recent acquisition of PDRI.

And the third is the investment we are making in the expansion of VUE's service offerings.

I would now like to spend a couple of minutes talking you through each of these initiatives.

A partnership to drive global growth Pearson Test of English

Let me start with PTE, which is a really great example of collaboration with Pearson's English Language Learning division. PTE is a digitally AI-scored four skills test of English for study and working abroad or for other immigration purposes. It is also one of the fastest growing products in Pearson. PTE operates in a nearly £1 billion market and has a strong position as a top three player.

PTE is well-established in Australia and the UK for study and immigration and is well-positioned for growth, having recently received recognition from the Canadian authorities.

The tests are delivered via the Pearson VUE platform and leverages VUE's global test centre network. We continue to invest in our test centre network to support the growth of PTE, and only last month we announced the opening of one of our largest company-owned test centres in India, with the ability to simultaneously accommodate 90 candidates and deliver more than 14,000 tests per month.

The partnership we have with PTE ultimately strengthens both of our businesses, utilising VUE's infrastructure to drive growth for PTE and Pearson as a whole.

PDRI: Federal workforce assessment service provider

Now, moving on to PDRI, PDRI has built a strong reputation for quality talent assessments, including tailored assessments to support US federal government hiring. The US federal government is one of the world's largest employers in the world, with more than 4 million professionals. Its USA Hire platform serves more than 40 government agencies and is used to assess more than 0.5 million applicants annually.

PDRI has delivered strong results at the end of Q3, supported by the growth from the recent contract to provide selection tests for the TSA. This contract also leverages the VUE test-centre network to deliver the assessments.

Now we are also seeing strong momentum going into 2024 with recent contract wins, the most noticeable being a five-year contract to provide the US Air Force with promotion assessments. This partnership exemplifies the additional assessment opportunities we can offer the federal government, while we are also seeing the potential for cross-selling opportunities with our Workforce division.

We could not be more pleased to have the PDRI team on board. The integration has progressed well. They are profit accretive and have contributed to the growth by bringing new partners on board.

[VIDEO starts]

Speaker: *Are you ready to pass your certification exam? This course is designed to help you do just that. Pearson CertPrep is a great supplement to your class because it provides a comprehensive set of tools to help prepare you for your exam. While your instructor may use this material in specific ways, this course generally follows a certain path. Course content is broken down into topic areas that are mapped directly to the key concepts and exam objectives that are published by the exam programme. Through a combination of text explanations, diagrams, real world examples, and video demonstrations, you can rest assured that you will learn the specific skills and concepts you need to know, not only to pass the certification exam but to be successful in the real world.*

Interactive activities at the end of each section will ensure that you truly grasp the objectives from each section and help you retain what you learn. Test your retention of concepts and terminology with interactive quizzes and practice completing tasks in a safe environment within the real application with hands-on lab activities.

Finally, experience what it is like to take the real exam by taking the included practice test in timed mode. Then, view your score report so you can see how you are doing with the material. You can customise the practice test to focus only on the areas in which you need the most help. With hundreds of questions, you can take the practice test over and over until you feel confident. When you have passed the practice test in timed mode twice, you are ready to take the certification exam. All the tools included in this Pearson CertPrep course are tailored to prepare you for your exam. When you are ready, get tips for how to plan for, schedule, and take your exam, including what to expect at a test centre and how to be in the best mind-set to pass. You are on your way to earning that certification.

[VIDEO ends]

Expanding VUE's Service offering: moving up the technology value chain

Okay, that was a video showing the third and final strategic initiative I would like to highlight. And this is the opportunity for Pearson VUE to move up the technology value chain. As we all know, growth in the technology sector continues to compound at a rapid pace. Because of the high demand for training and prep materials, we are expanding VUE's core service offerings. We are transitioning from an exam delivery provider to a broader value-added, Full-Service Provider. We will service our customers, channel partners, and test takers across the entire learn, practice, certify life cycle.

We believe this will open up the potential for Pearson VUE to access a \$15-20 billion certification prep market.

We are well positioned to win it in this highly fragmented adjacent market for several reasons:

- First, we are seen as the authority in the test delivery space.
- Second, our market expansion is straightforward through our existing network of training and testing centres.
- Third, we have longstanding relationships with in-demand technology certification partners.
- And last, we have the unique ability to leverage our wider learning experience.

We have been working in partnership with our higher education division to support a series of CertPrep coursework products, and you actually seen the highlights of that in the video that we have just shown. Our CertPrep offering is a vital step in becoming a full-service provider, offering learners prep material all the way through to test delivery.

So in summary, Pearson VUE is a global leader in high stakes computer-based testing, with a strong diverse portfolio of customers and the most extensive test centre network in the sector. We have seen strong growth in 2023, and we are on track for a continued growth as we expand our core offerings and capitalise on the opportunity to move up the certification value chain.

And with that, I would like to hand over to my colleague, Sharon.

US Student Assessment and UK & International School Qualifications

Sharon Hague

MD, School Qualifications, Pearson PLC

Thanks Gary, and good morning. My name is Sharon Hague and I run the School Assessment and School Qualification businesses at Pearson. These are purpose-driven and trusted businesses focused on helping K-12 students at a critical time in their lives.

US Student Assessment and UK & International Qualifications at a glance

So let me explain briefly a little bit more about what we do. In the US School Assessments business, we provide the technology, operational content development, psychometric, and scoring services to deliver assessment tests in schools from grades 3 through to 8, and then onto high school and college readiness. We are experts at addressing the complex and differing state-level accountability criteria, customising programmes to meet each state's unique requirements and delivering these services under contract over a multi-year period. The impact of this business on educators and testing state-wide requires a relentless focus on quality and a high degree of trust.

In the UK and international markets, we provide globally recognised qualifications, including GCSEs and A Levels. We help students at the end of two phases of secondary education in the British curriculum. GCSEs and international GCSEs are typically taken at the age of 16 in approximately eight subjects per student. A Levels and international equivalents are taken at the age of 18 and enable entry into university or onto employment. The GCSE or A level itself includes the curriculum, the assessment and the certification, and teachers choose whether to use the Pearson qualifications or those from a couple of other providers. In addition, this business also provides the print and digital teaching and learning resources that support teachers in delivering the curriculum. The content is owned by Pearson, and we are known for our high-quality math offering and are also a leading provider in history, business and economics. The impact of the work that we do on individual students means that this is a highly trusted business with an absolute focus on quality.

In both businesses, we provide the data that can assist with the continual improvement of education standards, helping governments and schools understand the overall performance of students. And for the students themselves, the outcomes of these assessments and qualifications help them in the progression of their learning journey. Our UK and international qualifications are recognised globally by universities and employers, enabling student progression and importantly strengthening the Pearson brand.

Now, the primary and secondary education landscape is very dependent on government policy, which evolves over time. When policy changes are implemented, it happens over a long cycle, which stimulates demand over a multi-year period, as both governments and teachers seek support in implementing the changes. Importantly, there are exciting opportunities for growth. K-12 is very important to governments, at a local level and all the way up to federal level. The relationships and trust we are able to build with a broad range of stakeholders, including governments, supports Pearson more broadly, strengthening our brand.

US Student Assessment and UK & International Qualifications financial profile at a glance

Let me quickly highlight how these units have been performing. US School Assessment delivered a revenue of just over £360 million last year and is up 8% through the first nine months of this year. Meanwhile, UK and International Qualifications delivered £245 million of revenue in 2022 and is also growing 8% so far this year. Going forward, we expect this unit to grow due to our International Qualification offer and product launches.

Two national K-12 focussed testing service providers

Onto our competitive advantage. Some of our key competitive advantages are, firstly, our strong in-market position. We have an incumbent advantage both in the US and the UK. Secondly, our scale enables us to innovate, for example, in onscreen assessment, and we have access to technologies that we can use to leverage the expertise that exists in other parts of Pearson, for example, in Pearson VUE.

We are also experts at managing a range of stakeholder expectations and are important trusted advisors. Our stakeholders include students, parents, teachers, schools and governments, and our ability to understand and share best practice globally is an advantage and becoming increasingly important in K-12 education.

We share, across the two businesses, specialist capabilities such as content production, scoring, assessment design, and we can leverage those across all of the markets that we operate in, but always meet in the specific government standards. And most importantly, all of this is done at scale. We deliver millions of tests a year and manage the very many different stakeholder relationships and expectations in a range of markets.

Strengthening our presence globally

Now, I mentioned earlier the opportunity for growth in our International Qualifications, so let me walk you through this opportunity in a little more detail. Global demand for British education remains strong. Parents and students want internationally recognised qualifications that can provide access to the best colleges and universities around the world.

Internationally, we are bringing to market innovation in high stakes assessment. We were the first exam board to provide onscreen assessments in both GCSEs and international GCSEs, and in addition, we offer modular and linear routes to completion.

In the last eight years, we have significantly expanded our global presence. The number of schools that we are working with has nearly doubled, and we have expanded to an additional 24 markets. So we expect this growth to be driven in the following three ways:

- Firstly, we are continually analysing our markets and make sure that we focus on the ones with the most growth potential and are dedicating resources to those markets;
- Secondly, we will use our technology capabilities to launch innovative, future-ready assessments;
- And thirdly, we can win and retain business through our fantastic team and relentless focus on a superior customer experience.

Thank you for your time and I will now hand over to Art. Thank you.

Clinical Assessment

Art Valentine

President, Assessment & Qualifications, Pearson PLC

Clinical Assessment at a glance

Thanks very much, Sharon. The clinical assessment portfolio, this part of our business helps professionals assess learners and patients across a wide range of developmental areas. A couple of examples:

- Determining if a child shows signs of conditions such as ADHD, autism, or dyslexia;
- Assessing learning and cognitive traits such as memory, language processing, spatial recognition, behaviour traits and other attributes to guide future support;
- Or evaluating general personality traits to help make high stakes decisions, such as hiring someone for a job in public protection (such as a police officer or a pilot) or determining someone's suitability to obtain child custody as part of a divorce settlement.

This blue-chip portfolio of intellectual property drives much of the competitive advantage that we have. We offer hundreds of products in the market to support this very broad array of needs.

The increased awareness and acceptance of general mental health services and government funding for tools to assess cognitive, language and learning capabilities have enabled more clinicians, teachers and learners to benefit from our offerings. This is all happening on a global scale. Our products are adapted and sold around the world. We have a particularly strong position in North America, Europe, Southeast Asia.

Clinical Assessment financial profile at a glance

In 2022, Clinical Assessments delivered £62 million of revenue. Year-to-date, this unit is growing on a 4% underlying basis.

Now let us spend a moment taking a peek at a video of our digital delivery platform, Q-interactive. First, and most important, this is going to give you a short view of the setting in which our highly skilled and compassionate customers use our products to help the development of learners of all ages.

[VIDEO]

Clinical Assessment Growth initiatives

That digital capability that you just saw is at the centre of our growth story. Let me talk a little bit about some of these examples. The Digital Assessment Library for Schools, DALs, is in market today for US school districts. This innovative offering provides a subscription for use of our entire digital library of assessments for all students in the district who qualify.

We have seen this offering grow 95% over the last four years, with an exceptionally high retention rate of over 90%. We are continuing to invest in this offer, with plans to make it available outside of school districts – for example, private health practitioners – in upcoming releases.

Clinical pharmaceutical trials are another source of promising growth. Our tools provide great value as part of global drug trials. They are used to help measure various traits of trial participants, helping to measure both the direct efficacy as well as potential side effects of the drug that is being tested.

I hope this gives you a good overview of our Clinical business and the drivers of its growth, going forward.

And with that, we will hear from our A&Q finance lead, Mary Kempf, on some specifics of the overall performance of the business. Mary?

A&Q Financials and Outlook

Mary Kempf

Senior VP, Finance Assessments and Qualifications, Pearson PLC

Assessment & Qualifications Financials and outlook

Thanks, Art, and good morning, everyone. It is my pleasure to highlight how our strong competitive position, scale and services are translating into strong financial results with consistent growth and increasing profits.

A&Q delivering strong financial performance

Looking back at 2022, A&Q delivered strong results with underlying revenue growth of 8% and an operating profit of 18%. Last week we reported strong year-to-date 2023 performance, sales up 8%, driven by solid growth in each business unit, particularly strong results from VUE. We also raised our outlook for the year and now expect mid-single-digit revenue growth. In addition, we are on track for profit margins to increase in 2023.

I want to also emphasise that in many of our units, we have strong visibility and predictability into our revenue and returns on continued investment. This visibility was demonstrated with some of the points my colleagues mentioned earlier, specifically:

- We have strong relationships with our VUE partners and as Gary mentioned, the business consistently has a retention rate in the high 90s.
- As Art just spoke to for Clinical, the business is increasingly shifting to a digital subscription model where we have an exceptionally high retention rate of over 90%.

Putting this all together, we have strong visibility into a high proportion of our A&Q revenues, which helps us to manage the business and guide our future financial performance.

Investment and cash flow in Assessment & Qualifications

Now let me touch on the investment priorities. Our goal is to continue delivering strong growth and contributing to strong return on capital and cash generation for the group.

As a result, we prioritise our investments in two ways:

1. We invest to maintain that strong in-market position; and
2. We will invest in those strategic growth opportunities where we can expand into new segments, geographies and services.

For instance, the acquisition of PDRI, which Gary mentioned, which significantly expands Pearson VUE services to the US federal government. It is profit accretive and also contributes to growth by bringing on board new key federal agencies.

In our Clinical and Student Assessment and Qualifications businesses, we are investing in our product offering. Art and Sharon discussed earlier how we are bringing innovative products to market to serve both existing needs and areas of growth, with examples such as:

- The future-ready assessments and international qualifications; and
- A continuous pipeline of products in clinical, along with new digitally-enabled business subscription models.

Collectively, the investments we are making today enable us to maintain our strong market position while also setting us up for continued growth in the years ahead. We continue to be disciplined in our investments and rigorous in our focus on securing those required returns.

Drivers of margin expansion

Let me now turn to our margin performance and how we can further improve this. We are very proud of our 18% margin in A&Q, but we also know there is room for this to move higher. And while we want to continue delivering strong top-line performance, we want to do so profitably.

Our margins are on-track to increase in 2023 and through to 2025. There are three levers that will be key to driving this improvement:

- First is through operating leverage on sales growth. As our top-line grows, we see strong drop-through to profits.
- Second, as we invest behind our product and continue to bring innovations to market, these premium products support margin expansion.
- And third, we are always looking at ways to deploy innovation, particularly generative AI, to drive cost efficiencies across the business.

With that, I will now hand it over to Sally.

The Role of A&Q in Group Financial Performance

Sally Johnson

CFO, Pearson PLC

Thanks, Mary, and good morning, everyone. Today I want to highlight our recent nine-month results and the importance of A&Q within it; the exciting growth opportunities we have ahead; and our investment case.

Nine-month trading update – Strong financial performance

Starting with a quick overview of our strong third quarter update that we presented last week. I am not going to run you through all the details again, but I will outline some key highlights, including the continued momentum we are seeing across the business, with a particularly strong performance in both PTE and Assessments and Qualifications.

As you have heard, A&Q is our largest business, so the underlying revenue growth of 8% that it delivered in the first nine months of the year was the largest contributor to group revenue growth in the period. This strong performance led us to raise our sales guidance for A&Q this year, which in turn has driven an increase in our group level growth expectations.

And with a strong drop-through from revenues to profits, we have also increased our full year adjusted operating profit guidance by about £20 million to £570-575 million.

Driving long-term value through sustainable profitable growth

Having talked about the contribution that A&Q is making to the current year, I will now turn to our medium-term outlook. As a group, we plan to deliver mid-single-digit underlying revenue growth across the 2022-2025 period. We also expect to reach a group level 2025 adjusted profit margin of 16-17%, which will represent a meaningful improvement from the 12% we delivered last year.

One factor that is not widely known about Pearson is our attractive cash dynamics and improving return on investment. A&Q is an important contributor to our guidance of group cash conversion of above 90%, both this year and through to 2025, and a return on capital well above WACC.

Needless to say, our ambitions stretch well beyond 2025 and we see a range of opportunities to drive sustainable top-line growth and margin expansion, not only through organic growth, but also from significant synergies and cross-selling opportunities across our portfolio and continued investment into new consumer and enterprise products.

We have a disciplined approach to capital allocation, and thanks to our strong balance sheet and excellent cash generation we are well positioned to invest in future growth opportunities whilst also returning cash to shareholders through our dividend policy as well as the current share buyback.

Hopefully today, you will have gained a greater sense of those opportunities which will drive long-term shareholder value through sustainable, profitable growth and higher returns.

Five reasons to invest in Pearson

So, why invest in Pearson?

- As you have heard, we operate in a growing market where no other company has the breadth and depth of our assets.
- We have a strong competitive position, giving us unique advantages of being able to offer one-stop solutions to our customers.
- Our strategy centres around a lifetime of learning, with us starting to build interconnectivity between our divisions, but with much more opportunity to drive customer acquisition potential.
- Each of our core financial KPIs is growing – sales, profit margins, free cash flow and returns – all supporting realisation of our purpose.
- Our ultimate goal is to help people learn, a fundamental need for human progress.

We hope you have enjoyed the presentation today and learning more about Pearson and about A&Q. And with that, we would be happy to take your questions. Thank you.

Q&A

Luke Holbrook (Morgan Stanley): It is Luke Holbrook from Morgan Stanley. Thanks very much for the presentation. I thought that was really helpful. My first question really just comes from an M&A standpoint, because you discussed a lot about organic growth opportunities and also what PDRI brought to VUE. How are you thinking, going forwards, on the possibility of further M&A to help accelerate some of the opportunities that you see in front? Maybe that is either for Art or Gary as well.

And then the second one, I think would be helpful to get an understanding a little bit more on the market share dynamics, specifically within, I think, VUE or US Student Assessments, how those have trended over the last few years. You discussed about opportunity into 2024, in particular in VUE. So again, just getting an understanding on that front as well. Thank you.

Andy Bird: Art, would you like to lead with the M&A question? In fact, with both questions, I think are fairly in your...

Art Valentine: Yeah, makes sense. Nice to see you, Luke. Good to have you here today. We do feel great about the progress that we are making with PDRI, and I suspect that that came through well during the remarks that we had. We do have a strong balance sheet, but as of right now we are not planning any material M&A. But we are always scanning the market and put ourselves in a position to react to opportunities that come up.

Andy Bird: On market share?

Art Valentine: Yes, in terms of market share, VUE and School Assessments are two very good examples to call out, because those businesses are almost exclusively won by competitively bid contracts. And our market share performance is very good in both of those businesses. The number of bids that are available is discreet enough that we can track our performance pretty well, and we are doing extremely favourably versus the competitors in winning both new bids and ones that are up for renewal, as you saw by the outstanding renewal rate that we have. So very good news to report on market share of those two.

Andy Bird: And I will just add, hopefully you all get a sense of the scale of these businesses, the unique IP that all of the businesses have, which is going to become increasingly important and increasingly valuable as we go forward. And the fact that we continually invest both in product, in testing centres, as Gary referred to, so in our infrastructure, our digital capabilities. And when we have an opportunity, like a PDRI is a great example, that adds to the existing portfolio of assets and is accretive to the business and opens up a whole new market sector for us, or whether in International Assessments, School Assessments, geographical expansion, we are constantly looking at the best ways to utilise our existing capital, not necessarily just doing M&A for the sake of it.

Matt Saltzman (Morgan Stanley): Great, thank you. Matt Saltzman also with Morgan Stanley. Could you just talk a little bit about how you see the competitive dynamics in the US federal space and some of the initiatives you have in place in addition to the PDRI acquisition in terms of going after the market opportunity? Thanks.

Andy Bird: Gary?

Gary Gates: Thanks for the question, Matt. Yes, I think what I would say is, as we said, the PDRI acquisition has gone really well, and they have really got a unique position in the market because the expertise we have with PDRI really fits well with the federal market, because I think it is a bit fragmented and bringing that together – and also coupled with the synergy with our Pearson VUE network – really helps us in terms of progressing that market. And as I highlighted in the presentation, we have run some contracts very recently, particularly in the US Air Force, which shows that we are really gaining market share there. So we are really excited about the opportunity, expanding a vertical which VUE had played very little in. I think we have got a real opportunity to push that forward.

Adam Berlin (UBS): Hi, good morning to you all in New York. Good afternoon, London. I had three questions if I could. The first question, I was interested what you are saying about international expansion of Edexcel, your GCSE and A level business. Can you tell us a bit more about which markets you are targeting for that growth? And maybe you can share a little bit more about how big that international revenue is today and how fast it is growing. That would be really helpful. That is the first question.

The second question is on Pearson VUE. As you said, you have had a really strong performance this year up 11%. It is almost like two years of growth in one year. So I am just wondering, as you think about 2024, should we expect a much more flat year next year just given how strong it has been? Or do these initiatives you talked about mean we can have another strong year of growth? Just trying to think that through.

And thirdly, you talked about drop-through to profit in A&Q revenue growth. Can you give us an idea of the range of drop-through on profit? I know there is cost savings coming in this year which will make it a little bit different, but just say beyond 2023, what is the right drop-through we should be thinking about on the operating leverage in A&Q growth?

Thanks very much.

Sally Johnson: Shall I take that last question? And then first one for you, Sharon, and I will pick up on VUE, and you can complement, if you like, Gary. So from a profit drop-through perspective, you have heard me talk before, Adam, about the cost savings that have come through this year that are driving that margin improvement this year. Obviously, we have got operating leverage coming through from our trading growth as well. And then as we look out from 2023 to across that 2025 period, that margin improvement coming through from operating leverage, and across the Assessments and Qualification business, the way I look at operating leverage is between about 40 and 60%, with VUE being at the lower end of that, with the smaller fixed-cost base underneath it, and Clinical Assessments being at the higher end of that range. So hopefully that gives you a good idea.

And then from a VUE perspective, obviously amazing performance, up 11% for Q3 this year. We have always indicated that VUE is a mid-ish growth over the 2022-2025 period. So I think you will see that growth moderate out a little bit this year. But with those initiatives that Gary has talked about, so that expansion into the vertical, with PDRI growing, with the other investments we are making in the base business, I think there is a lot of opportunity for us to accelerate that in the future. Thanks Adam.

Sharon Hague: Thank you. So on the international expansion, the first thing I would say is we keep the markets under a continuous review. As you know, in the international space,

opportunities can emerge quite quickly. So we are continually reviewing where we are prioritising, where we are focusing. You can see from the presentation that we have expanded the number of countries that we operate in, from 90 to 114 over the past few years, and we expect to continue to do that as well as deepen the relationships that we have in existing markets. We have some very strong relationships in a number of existing markets, and we are seeing really good growth there.

And the way we are doing it, I think, is really exciting. So not just that focus on where we are operating, but also on the offer that we have. And we are really positioning ourselves as the innovative exam board, with different routes to completion of the products as well as different modes of assessment, which in many markets where young people face quite an uncertain future and really need to make sure that they have the skills to enable them to progress their careers in a world where many of the jobs that they will be doing do not even exist now, that innovative approach is very, very appealing to both parents as well as the schools themselves.

And we do have a fantastic team on the ground. And I think another element to this is that we really are able to leverage our centralised capabilities to then deploy in very many markets around the world. So that expansion is really about people and having people in markets and building the relationships, which we know we have a really strong track record of doing and have a fantastic team to do that.

Andy Bird: Thanks Sharon, and thanks for the question. Next question please.

Joanne Russell: I will take a couple actually from the platform. I have got one from Sami from Exane. I will break it down into a different question. First part, can you please provide a revenue breakdown of Pearson VUE by verticals, and how big is technology for this business? Second question from Sami is, can you provide some comments on the calendar of US school state testing contract renewals? When are California, Texas and Florida are up for renewal?

Andy Bird: Okay, who wants to break down the revenue by vertical? Sally.

Sally Johnson: I think on one of the slides in the pack, we did that for you actually. So you can see some of the larger segments in technology, across the healthcare sectors, you can see the professional piece in it. So it is about midway through that presentation, there is a nice pie chart that breaks it down for you. Anything you want to add in terms of...?

Gary Gates: No, that is right. Just look at the pie chart and you will see the data.

Joanne Russell: I think the thing that I would like to point out from that is its diverse range of verticals that we are in, with technology being a large one, which gives us that opportunity into that CertPrep business that you saw in that video earlier.

Gary Gates: And what I would add is obviously we talked about PDRI, so we are going to see the federal market increase as well in terms of going into next year.

Andy Bird: Contract renewals?

Sharon Hague: Yes, thank you. So as you saw from the presentation, the US School Assessments business is up 8% this year, and I think that reflects the relentless focus that we have right now on providing our customers with the best service that we can. We know that

K-12 education is really a priority for governments at state level and around the world right now. So we have an absolutely relentless focus on delivering value for our customers and helping them to drive those improvements in educational outcomes.

So in any one year, there will be contracts up for renewal. They cover multi-year periods, but that focus that we have on doing absolutely the best job that we can to deliver high quality and support our customers in delivering what they need, is what is going to be our key to success.

Andy Bird: Yes, thank you Sharon. I think the theme, and you heard it in the presentations, is not just the breadth of offering, but the stability of those relationships, the high renewal rates of contracts, whether it is in school, in VUE, in Clinical, this is a really high-quality set of businesses. Really, really high-quality cash generation and very high visibility going forward and extremely good management team – I think I am contractually obliged to say that.

And the other thing that is worth noting that is implied in the presentation, of course, in those sectors, to your first question, Sami, is of course the very sectors that we deal with at scale – think healthcare, think IT and technology, think professional services, finance, accounting for example – many of those certifications you need as an individual to get re-certified. So many of these instances are not one-and-done in terms of if you got a certification in 2020, a cloud certification, for a certain provider and they then update their product, their technology, there is a need for you to go back and re-certify.

So there is this notion of not only are we capturing a lot of people at scale on an annualised basis, the requirement for those individuals to come back and recertify. And that is where particularly the Credly business, as the world's largest certification wallet in some regards, plays a significant part, and you will see that increasing going forward.

Joanne Russell: Next question is from Nick Dempsey from Barclays. There are three, but I think we have answered the US Student Assessment, Nick, so I am going to go for two. Is e-proctoring an opportunity or a threat for Pearson VUE? If e-proctor tests become the norm, does that not mean that your network of testing centres is less competitive as an advantage? And then the next question is the Edexcel business in the UK likely to see growth much better than Flashes[?] going forward? That was roughly the historical growth, I believe.

Andy Bird: Gary?

Gary Gates: Okay, so I will take the e-proctoring or online proctoring question. Thanks for the question, Nick. It is a really interesting question, and as I highlighted in my part of the presentation, we take a multimodal approach to exam delivery. And we meet customers where they are. One thing to look at, obviously online proctoring really accelerated during COVID, obviously, and we were actually at an online proctoring solution before COVID. And that ramped up to 3 million exams. I did say we do 19 million. Actually, what we are seeing now is that peaked, and it is coming down slightly, and there are reasons for that is because some customers – you think some customers are taking these exams, some of them are six hours. Do you want to sit at home for six hours to take an online proctored exam? You could be disturbed. People have spent months and years getting ready to take these exams. So, actually, what we are seeing in the market is actually that people are moving back to test centres.

Online proctoring is not going away. And our job at Pearson VUE is making sure that we provide the optionality for our customers to deliver a fair, reliable testing experience that is secure, and we work with our customers to make sure that is right. So we are actually leading the way to make sure we meet the customers where they are. So the answer is online proctoring is here to stay, but actually, people want choice, and we are seeing when we are providing that choice.

Andy Bird: Sharon?

Sharon Hague: Yes, thank you. I mentioned in the presentation, we have delivered 8% growth this year in the School Qualifications business. So in answer to the question, we are delivering growth, and we are working hard to do that through product innovation going forward. And as we go into the next three years, I indicated as I spoke that changes in government policy are a huge stimulus to the market, and we will no doubt see some changes over the next few years. So I am very optimistic about the next few years for that business, but we are delivering growth right now.

Joanne Russell: Thanks Sharon. And next two questions are from Danielle Kerven from JP Morgan. First question, what are the longer-term risks and opportunities from AI and automated marketing for summative and formative assessments? Second question, is proctoring online testing an alternative to physical testing centres? And is it an advantage not just for VUE but also for Pearson Test of English?

Andy Bird: I think Gary answered the second piece as it relates to online versus physical. These are life-changing in many, many instances – they are literally life-changing. If you think about the Pearson Test of English, you are going to take that test as part of emigration to Australia, for example, where you are going to get a job. How you do in the Pearson Test of English affects not just you but your entire family. So we take that responsibility incredibly seriously, and the ability to do that, whether you are a student going to study or literally you are going to take your family and emigrate to Australia and start a new life – not just a new career, but a new life – these are very high stakes. And the need for security, the need for – as was referenced, whether you are taking the test in New York or you are taking the test in Manila, I think, was the example, or in Bangalore, you get consistency. And that is super, super important. So just a bit on that.

But in terms of generative AI, whatever it is...

Art Valentine: Well, Andy, your remarks about the responsibility that we bear in delivering this critical service to people ties very nicely to AI. We have leading capabilities in AI that are in the market today. We do lots of scoring of different types of exams. Sharon, in particular, talked about that during her remarks. We also have AI capabilities in our proctoring solutions that can aid the human proctor in detecting activities that require further investigation.

In terms of generative AI, we can all imagine what the possibilities could be. Our R&D activities are looking very, very hard at things like content generation, which is clearly a huge part of what we do as an assessment company. But it is worth pointing out that we are proceeding very cautiously with this in terms of going into market, and that is what our customers want. Because of the high stakes of the types of things that we do, the precision and care around what goes out to the field is paramount. We absolutely see generative AI as

a tool that will bring us efficiencies over time, but we are not in a race to push things out in front of test takers right now with generative AI. If anything, I would say it is the opposite.

Andy Bird: It is very well put. There is the AI of it, and we have been doing AI for over two decades across the businesses and across all of these three businesses. So AI, heavily embedded across the company, heavily utilised. The generative AI, you have heard us talk about last week about what we are doing in terms of higher education. And to Art's point, we have just to be very careful as it relates to this specific business because it has to be 100% correct 100% of the times. So we are doing a lot of interesting, as Art said, research into it, aside from the efficiencies from content creation and the like.

And then I would only add, which I referenced at our Q3 call last week, data and the value and the quality of the data sets and the IP that underpins those data sets, is only going to increase. And as a company, we have incredibly rich data across the company. You see and can imagine some of the examples of the data that we have within the businesses before you now. Talk about the data and insights we are getting in our higher education business, in our workforce solutions business. The value of that data, it is more than just words. People think about, oh, it is just textbooks or scraping the internet for words. The value of the data that we are generating internally is only going to increase as the applications to utilise that data with generative AI increases. And we are doing some interesting R&D, let us put it that, as it relates to that space.

Matt Saltman: Yes. Another follow-up. So on the topic of generative AI and what you are doing in R&D, can you just talk a little bit about the strategy that you are approaching those activities with? Are you looking to partner with larger players and utilise third-party large language models? Are you looking to actually build out, internally, those capabilities and do more education-focused, small language models? Just curious on the investment front, how you are approaching that.

Andy Bird: I remarked last week, we have been approached by everyone you could imagine to license our data. And some that you would not imagine have also approached us, which validates the hypothesis around the quality of the data. One of the things around our data is actually its complexity. I referenced scraping of words. If you think of the LLMs are really scraping a thin layer of information from the internet and beyond. What makes a lot of our content or a lot of our IP, whether it is in Clinical, in many of our Assessments, certainly within our higher ed courseware, is actually complexity. It is the depth of the data. With the greatest respect to other, it is not just words strung together. There is an architecture, there is a structure around how that data is utilised, that drives proven results. Whether that is Campbell's biology, as I often refer to, there is something inherent in the structure of how that courseware is constructed, or Troy's chemistry, another example, way through to many other parts of the business.

That is what we see a lot of value in. That is actually quite hard to replicate. And so then we are doing some interesting things where if you just take all of our small data sets and put them within a sandbox, and then you put that sandbox on top of other LLMs, we can then measure the data. One thing, when we do that, the quality output is far, far higher obviously because richness of data in and the purity of the data in – we are only putting our own data in – it leads to increased putative data out the other side.

And we are doing some very, very interesting research across the company into that. We have had very encouraging responses and engagement. We put generative AI study tools into Pearson+ this semester and into three MLM titles. And we are getting a lot of really useful feedback, Tom, Tony and the team.

So as I have said from day one, generative AI for Pearson is a significant net positive over the long run. But what we want to do is be very thoughtful. We see many people come up with a headline around gen AI this, gen AI that, and when you scrape beneath the surface, there is no 'there' there. And so what we want to do is trust in quality across all of our businesses – particularly in the businesses that you have seen highlighted today, it is so important. It is one of the reasons that sets Pearson apart from its peers in the different businesses that we operate in is you trust us, and you trust us because we deliver high quality.

So we are not going to go and just run after the headline. We know we have the confidence of RIP[?] as an asset. We have a confidence in the quality and the value and the increasing value of our data as it relates to a technology that whilst generative AI is several years old, it only really came to public consciousness 12 months ago. So we are investing a lot of money, a lot of time, a lot of effort, understanding what is possible and also what is not possible. But the net of this across all of our businesses is only going to be positive.

Thank you. Jo?

Joanne Russell: Thanks Andy. So Sally, this is definitely a question for you. It is on cash. Please could you elaborate more on how we get from 60% free cash flow conversion to 90% conversion for cash? And how should we think about free cash flow next year in terms of growth and thereafter?

Sally Johnson: Thanks, Jo. Who is that from?

Joanne Russell: Sean Johnstone from Goldman Sachs.

Sally Johnson: Hi. So in terms of free cash flow, you will have seen improvement over recent years. The 90% that I refer to is in operating cash. so if you look at our profit, what drops through to operating cash. And then the three factors underneath that as you get to free cash flow are restructuring costs that we have had historically, tax and interest. And one of the things that is going to be a part of Pearson from a go-forward point of view is that restructuring cost drops out, and therefore you will see that conversion raise when we look at free cash flow. So a really strong free cash flow conversion outlook.

Joanne Russell: Thanks Sally. And next question comes from Tom at Citigroup. How do you go about adding more tests when you own the entire value chain à la Pearson Test of English, and does this bring you into conflict with your customers?

Andy Bird: Gary?

Gary Gates: Thanks for the question, Tom. Interesting. Obviously, we have talked about, we have 550 different clients in different sectors, and there is this thing about obviously for some of the tests, particularly in the medical space, that is not really a space where we do prep materials or what have you. But we see the opportunity really in the technology space. And the reason is twofold. One is obviously we do a lot of certifications in the technology space, but also, we have relationships with those players in terms of have those certifications that want to support – and at the end of the day, the technology players want people to be

certified in their products and their services because that grows them. So it is a symbiotic relationship.

The other thing that is important is that from what we are doing, is that I think those opportunities, because technology changes quite rapidly, it means there is always a need for re-skilling and practicing and really quality products to give people the confidence to take an exam. If you think about it, what Pearson VUE do is offer a service which no one really wants. No one wants to take an exam, but they want the outcome of the exam. So what we are trying to do is make that really helpful for the test taker to have the best possible testing experience. But just to reiterate, some of the markets, we have to separate preparation from actually delivering the tests. But we think technology is the way to go.

Andy Bird: Anything to add Art, or are you all good? Yes. Hey Tom, I would also just add the size as it relates to PTE. At any one time, there is about 1.5 billion people in the world learning English. It is the global language of business. And so if you think about the overall share relative to that scale, you can see opportunity, particularly in enterprise. And we are seeing that in our workforce solutions where many global companies are hiring individuals where English is their second language. So the need for a proof of English language proficiency and the ability to get those individuals, those employees up to a level of English language proficiency increases productivity for the companies and for the enterprises. So we are doing a fair amount of work there, looking at introducing a mid-stakes Pearson Test of English, as we have mentioned prior, which will help address some of that market.

So a lot of growth within the PTE piece, Tom, but as you heard from Gary, again, it is that breadth of the number of certifications. And we are going to start, as Gary referenced, in the IT and tech space where we can start to move up that value chain. This is where you think about how you redefine what higher education is because within Tom's world, within higher education, we already are producing many technology textbooks and products that are used in order to study for the tests. So if we can start to bring those together and move up the value chain with greater and greater ARPU of each of the individuals coming to take a certification. Really interesting part of the business and ability for us to expand in that area.

Joanne Russell: Thanks, Andy. Two more questions from Ben from Deutsche Bank. The long-term growth of VUE has been impressive. Out to 2025, how should we think about the breakdown of growth between the existing testing business and adjacent markets? And secondly, given long-term contracts and high retention rates, Assessment seems quite a defensive business. Are there other characteristics you would highlight to reflect resiliency of this business?

Gary Gates: Yes, thanks for the question, Ben. As I explained, in terms of growth for Pearson VUE, there is three key areas. Obviously, we want to maintain and grow our current customer base, support the cross-divisional initiatives from PTE and help that scale, the federal market in terms of growing in the federal market, and obviously moving up the value chain. We think there is some real positive momentum there, as I have talked about, and we think the future looks fairly bright.

Art Valentine: Nice to have you with us today, Ben. And you are absolutely right about the defensive nature of the large contract portfolio that we have. And there is a couple of things that we think about as we are assessing what the future of that business looks like. We love

the visibilities that the contract gives us to the revenue, but beyond that it also gives us direct visibility to what government agencies are thinking in terms of regulation and policy change. It gives us visibility to what large technology partners who we service today are putting out into market in terms of innovating their own products and needing certification to go along with it. So it is not just the pure financials of those contracts that gives us an advantage in the business. It really does serve as an excellent platform for driving future ongoing advancements in the services that we offer.

The other thing that this breadth of contracts gives us is that breadth not only across all the different professions that we have in VUE, but across all different stages of learning. And this further protects us from swings in any one area at any one time. It is so broad and there is so many different components of where we are participating in learning, that it is an overall excellent base to give us that high confidence in the revenue numbers that we are delivering.

Joanne Russell: Thank you Art. Actually, Art, the next question is for you as well, because it is on Clinical. It comes from Nick again at Barclays. Clinical Assessments saw a modest decline in terms of organic revenue growth in each of 2016, 2017, 2018 and 2019. However recently that has improved. Does the improvement relate to inflation or is there a structural shift or change in the market?

Art Valentine: There have absolutely been changes both in the market as well as in our own execution abilities in that market. So I think I referenced in my remarks earlier that acceptance and demand for the types of products and services that our Clinical business supports is quite high right now. People recognise the value of these services, they want these services, and in many instances, there is funding support from government agencies to help get those products into the hands of the clinicians that can help folks who have that need.

We have also sharpened our execution quite a bit over the last few years. We have enhanced our customer service and our e-commerce capabilities to really capture that market well. We talked a little bit about our digital portfolio, and that has really not only captured the attention of our large school districts, but it also delivered tremendous predictability due to the exceptionally high retention rates that we have in there.

So it is a combination of, yes, the market has shifted in a way that is in support of these products, but we have also executed extremely well in those areas and taken advantage of it, which is what puts us in that very strong position in the market today.

Joanne Russell: And with that, Andy, I will hand back to you.

Andy Bird: Well, thank you all for your questions and your interest. I hope you all agree with me, I remember way back in the virtual times of March 2021 when I first did a presentation as CEO and I did reference the Assessment and Qualifications, I thought then were – I referred to them as the crown jewel of the company. I still strongly believe that. I believe that they provide the core asset base around certification and assessment, around which this company can drive even further growth. And it impacts other parts of the company. We have referenced English language learning. You heard a bit of a reference to higher ed. Obviously, workforce is another area that also interlinks, as it were, with this team.

Hopefully you have all got a sense of the quality of the management of these businesses. And they are very, very complex businesses, and they are extremely, extremely well managed – not just by the representatives up here, but they would be the first to say the many thousands of employees who help make these businesses so successful and deliver a high quality, consistent product again and again and again. In fact, every 1.6 seconds, someone somewhere in the world is getting a certification from Pearson. That is an incredible consistency and makes me incredibly proud, and I hope you have all gained a greater insight into this part of Pearson's business.

And thank you for your time, and for those of you online thank you for joining. And have a good afternoon, and the rest of you have a good morning.

[END OF TRANSCRIPT]