



Pearson
2024 Full Year Results

Friday, 28th February 2025

Introduction

Omar Abbosh

CEO, Pearson

Welcome

Good morning, and welcome to all of you. Thank you for joining us today. As well as hearing from Sally and me, we are also joined by our colleagues, Art, Tom, Vishaal, Tony and Sharon for Q&A.

Many of you will recognise Sharon from the Assessments and Qualifications investor seminar that we held back in November 2023. But let me formally introduce her to all of you. Sharon has held many leadership roles over her successful Pearson career and is currently MD of our US Student Assessments and UK and International Qualifications businesses. She has a track record of strong results delivery.

I am pleased to announce that Sharon will become our new President of English Language Learning effective next month. This means that Gio Giovannelli has decided to leave Pearson. Gio has contributed so much to Pearson over the last 12 years. Grazie Gio. He has been instrumental in driving the strong revenue and profit growth of our English Language Learning business. I would like to thank him for his big contribution and wish him all the best in his next endeavour. He will continue to be available to Sharon and the team over the coming period.

Delivered on our 2024 priorities

Now I will kick off with an update on our strategic progress before handing over to Sally, who will run you through our financial results for 2024 and our expectations for 2025.

You will remember that we set out three priorities for 2024, and I am pleased to say that we successfully delivered on all three.

First, we delivered a financial performance in line with market expectations. We grew sales by 3% and profits by 10%. I am particularly happy with the resulting EBIT margin of 16.9% and strong free cash flow generation.

Second, as further evidenced by today's announcement of our partnership with AWS, we are building real momentum in the enterprise business. And third, we are scaling the application of AI across a wide range of our products and services, and this is happening across the entire business, and we are starting to see commercial benefits flow through from these initiatives. We will share various examples during the presentation. And, for those of you here in the room, we have lots of great demos for you outside that I would love for you to go and experience.

I am now one year in, and I would like to take a moment to step back and reiterate some of my initial observations about the company that I shared at our interims presentation last year as they are every bit as applicable today as they were then.

Strategic framework remains the same

Pearson is a financially strong business with good growth options, and it is a trusted business with a respected brand and is viewed as the gold standard by many of our customers. And our core is in assessments and verification.

We spoke last year to you about two seismic trends of AI and demographics that are shaping the world of work and education. Last month at Davos, we published a paper, *Lost in Transition*, quite a nice bit of research on the cost of the gaps in the learning to earning transition, which in the US alone accounts for \$1.1 trillion of loss.

We spoke to dozens of CEOs on the back of this, and they all shared a common concern, how do they upskill their employees while they are busy driving AI-based transformations in their business. This reinforces our conviction in these trends, and I believe strongly that Pearson is uniquely well placed to help address these issues.

Driving performance in the Core Business

I would like now to run through our progress on each of the four strategic priorities that you can see on the slide, starting with driving core performance. I am pleased with our progress on our execution orientation, the evolution of our products and services and our people initiatives.

We achieved many milestones in our two largest business units and delivered what we said we would deliver. Our team in Assessment & Qualifications had a fantastic year of execution. Pearson VUE achieved customer retention of 99%. We successfully renewed key contracts in US student assessments and scaled our qualifications business internationally.

We also continue to evolve our products and services. In Pearson VUE, we built out test prep content and sales capabilities. And, in clinical assessment, we launched the fifth edition of the Wechsler Scale, the leading measure of adult intelligence in the world. And we extended our digital assessment library for schools.

These achievements set us up well for 2025. And this year, Art and the team will focus on maintaining our leading positions through contract renewals and new wins, as well as expanding into faster-growing markets. For example, monetising our test prep capabilities in Pearson VUE and accelerating our efforts in formative assessments in US student assessment.

Just as we said we would, we successfully returned Higher Ed to growth for the first time in a decade and improved our adoption share position in 2024. This was achieved through customer focused sales execution and rapid innovation in the products. These included the accelerated rollout of our AI-powered instructor tools for teachers and study tools for students.

Critically, these tools are delivering results for learners, and our research shows that students are 4 times as likely to engage in active and efficient studying when using our AI tools. I would encourage you to check out some great examples of our progress on this in the product demo zone for those of you here, in particular, the new image-powered features, for example, around MyLabs, which further enrich and personalise the learning experience.

We also built out a direct sales team to extend our reach directly into the US K-12 channel for Advanced Placement, dual enrolment and career and technical offerings. This improves our ability to capture value from this fast-growing segment over the medium term. In addition, we successfully scaled and started to monetise our channels product. Thanks, Tony.

These achievements provide a strong basis for 2025 when combined with the execution mindset that Tom and the team have brought to the business unit. They will focus on continuing to win adoption share, further scaling our channels product and expanding our target market through our new K-12 channel and opportunities in new collar skills.

We also successfully delivered on our strategic milestones across our other business units. In Virtual Learning, we opened three new schools, scaled our career programmes and made numerous operational improvements, including implementing a new portal that halves enrolment times. This progress gives us greater confidence in the growth outlook for virtual schools.

We are also continually improving the Connexus product offering, leveraging the technology piloted in higher education. We have extended our AI study tools into the platform to provide high school students with step-by-step assistance. And for teachers, we have launched an AI-generated custom assessment, which halves the time it takes to create an assessment.

We are confident in delivering improved performance this year and stronger growth over the long term as we continue to scale our career and college readiness programmes, drive improvements in the enrolment performance and look to expand our school footprint through new school openings.

We built new foundations in our Workforce Skills division in 2024. Vishaal and the team are building momentum in their enterprise approach and have landed key wins over the recent months with ServiceNow, Microsoft and now AWS. This is on top of the partnership with Degreed that broadens out our capabilities.

I am happy to also report that they turned to profit. I will speak more about the evolution of Workforce Skills to Enterprise Learning and Skills later in the presentation.

For 2025, the focus is on execution for the new business unit, capitalising on sales momentum in Enterprise Solutions, aided by the new go-to-market approach as well as international expansion in Vocational Qualifications.

And lastly, we turn to English Language Learning. Gio and the team continue to execute with strong performance in the institutional business, scaling in key international markets, delivering an exceptional performance in PTE, where we grew sales despite a challenging market backdrop. While we expect the immigration market to remain a headwind this year, we remain confident in the medium-term outlook for PTE, given demographic projections and our competitive strength.

We continue to release AI-powered product services for English students and teachers globally. I would now like to give you a taste of our most recent AI-powered product launch, a Digital Language Tutor, you could also take it for a spin in the product zones after the presentation. If we can roll the video, please.

[VIDEO]

We have also been applying AI internally to drive improvements in our core operations. These benefit all five business units, allowing our teams to be more productive, service our customers better, release products to market faster and ultimately drive cost efficiencies.

Let me give you more detail on our progress. We have made a suite of content development tools available for our authoring and editorial teams, which are powered by a range of leading LLMs, giving our content teams the best possible tools for their use cases and offering significant time savings.

Importantly, these tools are always inside our secure environment, ensuring the protection and ongoing development of our valuable proprietary data sets.

On customer service, our analysis finds that 40% of incoming support calls are initiated because there is no alternative. This represents a target of approximately three million customer service interactions per annum that can be reduced through the application of AI. We are deploying a range of solutions here, including greater automation, AI bots and agent support to improve and deliver efficiencies in our customer experience.

Finally, on people. I believe strongly that if we have the right people in the right positions with real clarity on expectations and incentives, we get much better outcomes. This is why we have implemented a new career architecture across the whole company that lays out career expectations and career pathways across all the roles.

We have also optimised organisational spans of control and put in place other elements of our performance culture. As anticipated, this work has identified efficiencies that we have already implemented.

Before I move on, I wanted to take a step back. I am really pleased with the rapid progress that we have made in driving performance, and you have heard the execution milestones we accomplished in 2024.

And we know this is a journey. There is always room to improve. For example, with work ongoing in areas like growth rates in Virtual Schools, our margin in Higher Ed and rolling out our enterprise account management approach. You can be confident that we continue to focus on all these areas and Naseem Tuffaha, who recently joined us as our Chief Business Officer, is going to help a lot in our ongoing progress here.

Execution Synergies

We spoke last year to you about execution synergies, and I would like to highlight our progress in the product and software areas. Let me reiterate a point I made last year. Pearson is a major software business. But historically, we have not run ourselves in a way to take advantage of modern software approaches.

Under Tony, we have now put in place a product excellence team that is implementing new approaches for product discovery, development and deployment. This will benefit Pearson as a whole, ensuring a common software product development life cycle, enabling faster innovation and expansion into ever more valuable learning experiences.

It also provides a sharper investment focus on scaling emerging products that have the best chance of commercialisation to support our growth ambitions. In addition, we will benefit from a common approach to a small number of core platform services across Pearson, which will drive cost efficiencies in our product development spend.

You could already see the early benefits of this approach through the speed of AI product enhancements that we are already making across the business, and we are pleased to show you another example from Assessments and Qualifications.

Video, please.

[VIDEO]

This sharper focus on product development has several additional benefits. Now when we look across the entire product estate, we acknowledge it is still quite fragmented but looking at our products in this holistic way is also a route to simplification.

One way you will see us simplify is through changing our product branding approach, which over time will improve our external signal to noise ratio. We will deliver changes through clearer product suites, better branding and more established market positioning, which will help customers better navigate our offerings, and in turn, make it easier for them to buy from us.

Targeted Market Expansion

You will remember our targeted market expansion where we spoke about investing more intentionally in higher growth markets. And on this, I want to mention three things.

First, I would like to explain a little bit more of our thinking regarding the formation of Enterprise Learning and Skills. You will recognise this slide from last year, where we identified the enterprise customer segment, you can see the big rectangle there, as one of the key opportunities to expand our addressable market from a \$15 billion core to a larger \$80 billion market growing at 5% plus.

To sharpen our focus on this customer segment, we have simplified our approach by bringing together our sales capabilities that target enterprises, both corporations and government agencies, excluding education departments.

We are building dedicated strategic account management and a joined-up go-to-market approach so that we can better service this customer segment with the full suite of Pearson solutions. As we are starting to build momentum, as we have shown through the deals that we recently announced with large-scale technology companies, the product bundling across our enterprise offerings, for example, VUE with Credly and Faethm, and also our Pearson VUE team developing test prep content and capabilities to target the enterprise segment.

Secondly, we are making good progress outside the enterprise space as well, capturing value from shifting focus to faster growing markets. An example here is in formative assessments, in particular, our work with the school districts in North Dakota, where we are providing a comprehensive assessment approach, including formative, interim and summative assessments that provide a fuller narrative of an ongoing student performance.

Thirdly, we have established our internal capital allocation process, which targets investment dollars at businesses that provide a platform for faster growth. We are also progressing steadily with our medium-term growth vectors, and you will recall these are in Early Careers and Enterprise Skilling.

Medium Term Growth Vectors

In our Virtual Schools business, we have expanded our career programmes to over half of our network, and we are seeing very strong student usage and demand for the offering. We have also expanded our career partnerships with associations like the National Technical Honor Society, the CAPS Network as well as universities like the University of North Texas and Southern New Hampshire.

This helps expand our reach of the career programmes and provide students with additional opportunities to identify a unique customised pathway for their own individual career journey.

In Higher Education, the extension of our career and technical offerings, now being sold direct into the US K-12 channel is also part of our effort here.

On Enterprise Skilling, Vishaal and Art are making steady progress across enterprise learning and skills and the VUE team. As you know, our multiyear deal with ServiceNow is aimed at accelerating the identification, development and validation of skills for employers. As part of this, ServiceNow will collaborate with Pearson on research and insights to explore how emerging technologies like agentic AI will transform key technology occupations globally and how to test, credentialise and award employees for those skills.

Pearson will use the ServiceNow's AI-powered Now platform to boost employee productivity, efficiency and talent retention.

Hot on the heels of the Microsoft announcement last month, today, I am delighted to let you know about another large-scale strategic partnership, this time with AWS. At Pearson, we have had a 13-year partnership with AWS, and I am pleased that we are taking our relationship to the next level.

There are three main elements:

- First, leveraging AWS engineers to help us accelerate our tech transformation across Higher Education, Virtual Learning and English Language Learning by deploying AWS high-performance cloud infrastructure to improve the learner experience across our products;
- Second, AWS and Amazon are increasingly important customers across a range of talent planning and development areas and have committed to extending our enterprise learning relationship, including Pearson VUE, alongside our GEDWorks programme and the Credly platform;
- Third, we will also collaborate on joint go-to-market opportunities, focusing on clinical assessments, professional assessments and English Language Learning.

We are really pleased to add this partnership as it plays into a number of strategic priority areas for us and helps enhance our AI and technology capabilities in areas that we know AWS are best placed to support us.

I see this deal through a similar lens as our Microsoft relationship:

- First, that we have secured the base business that we have with these partners for the coming several years;
- Second, we are expanding that base business as part of the arrangement to deliver at least mid-single-digit growth; and
- Third, we will collaborate on joint go-to-market activities across many parts of our business.

We are really excited by what these partnerships can do for us strategically and operationally, and these deals together, support our confidence in our medium-term growth outlook.

With regards to the joint go-to-market, we are in the early stages of these long-term relationships where our leaders and theirs are co-innovating and co-designing future products

and solutions. As these are built out, we will have incentives for our and their salespeople in place to drive our joint growth. I look forward to updating you on this as we progress.

I will come back to you to discuss our 2025 priorities before we close out. But for now, Sally will take a more in-depth look at our financials.

Financial Review & Outlook

Sally Johnson

CFO, Pearson

2024 Financial Highlights

Good morning, everybody. 2024 proved another year of good financial performance. We saw a 10% increase in profit with margin expanding from 15.6% to 16.9%. Adjusted EPS increased 7% to 62.1p, reflecting that trading performance as well as reduced share count due to the buybacks in the year, partially offset by higher interest and tax.

Cash performance was excellent with operating cash conversion of 110% and free cash flow conversion of 117%. This strong performance, alongside our balance sheet strength, means that we are increasing the dividend by 6%, as well as announcing a share buyback of £350 million, which will commence as soon as administratively possible.

Financial progress provides foundation for ongoing confidence

Before we get into the detail, I think it is worth reflecting on our financial performance over the last five years. This progress shows real momentum across the business, which gives us confidence in delivering another good year in 2025 and in our guidance beyond that.

2024 Sales

In 2024, we delivered underlying Group sales growth of 3%, excluding OPM. By business unit, Assessments and Qualifications delivered a solid performance across each sub-business unit, accelerating growth in H2. Virtual Schools declined 1% due to the known school losses but 2024-2025 enrolments were up 4% on a same school basis, and we also opened three new schools.

Virtual Learning declined 4%, given the final portion of OPM ASU in the first half comp. Higher Ed returned to growth given gains in adoption share, enrolments and pricing, partially offset by mix.

The H2 US Higher Ed growth of circa 3.5% underpins our confidence going forward. English Language Learning delivered a strong 8% performance, driven by Institutional with PTE performing well against a tough market. And Workforce Skills grew 6% with a solid performance from both Vocational Qualifications and Workforce Solutions and momentum given recent partnership contracts with ServiceNow, Microsoft and now AWS.

2024 Adjusted Operating Profit

Group adjusted operating profit grew 10% on an underlying basis to £600 million, with margin up 130 basis points to 16.9%. This was driven by margin on sales growth and delivery of cost efficiencies, partially offset by investments and inflation.

By business unit, Assessments and Qualifications grew its margin to 23% due to margin on sales growth, partially offset by inflation. Virtual Learning margins increased to 13% with absolute profit reducing due to the final portion of OPM ASU in the first half comp.

Higher Ed margins remained flat given sales growth and cost savings were offset by inflation as well as one-off investment and restructuring costs. English Language Learning margins increased to 12%, with profit increasing due to margin on sales growth, partially offset by currency movements.

Workforce Skills turned profitable, delivering a 4% margin, driven by margin on sales growth and cost savings.

Key cash flow movements

I highlighted last year that 2024 would see a step change in Pearson's free cash flow generation, and we have seen it increase by more than £100 million to £490 million.

Operating cash conversion was 110% with favourable working capital given lower inventory purchases as we increasingly become a digital business, good collections and favourable FX. Investment amortisation and depreciation was higher than the cash cost with CAPEX stable year-on-year. Product development cash spend decreased slightly as we drove further cost efficiencies in Higher Education.

Our free cash flow conversion was 117%, reflecting operating cash performance and cash tax of less than the adjusted tax charge.

In comparison to the prior year, free cash has increased due to the operating cash and below-the-line reorganisation costs dropping away, slightly offset by tax and interest.

Net debt stood at £0.9 billion at the end of 2024, a £0.1 billion increase year-on-year with free cash flow more than offset by dividends and in-year share buybacks. During the year, we issued a £350 million education bond, providing long-term financing for the business. Both Moody's and Fitch upgraded Pearson's long-term issuer rating, moving the outlook to stable.

Cash & Balance Sheet

Return on capital increased slightly to 10.4% as whilst the return growth is higher than the capital increase, the particular mix of average versus closing FX rates counterbalanced.

Taking a step back, we show on screen a five-year view of financial strength with positive cash flow characteristics, comfortable leverage and improved return on capital.

Turning to 2025. We expect each business unit to grow with Group underlying sales growth, adjusted operating profit and tax in line with current market expectations. Underlying free cash flow conversion will be 90% to 100% with an additional assumption that we receive the £100 million state aid repayment this year.

Interest will be circa £65 million, equating to market expectations of 2025 interest plus the impact of the £350 million share buyback. Included within this guidance is new investment to support our strategy and drive growth, including brand and innovation spend, as well as transformation costs. This investment is more than offset by the margin on sales growth and operational improvements, which drive the Group's margin expansion.

As a reminder, on FX, a US 1c move against the pound equates to around £5 million of adjusted operating profit.

Group Financial Expectations

As we announced in January, Workforce Skills will evolve to become Enterprise Learning and Skills, resulting in modest revenues and costs being transitioned into the Enterprise Learning and Skills business unit from Higher Education. We have outlined this impact for 2024 financial terms in the appendix to the presentation.

On a business unit basis, Assessments & Qualifications will grow low to mid-single digits following the successful retention of several contracts in 2024. Virtual Learning will return to growth through enrolment increases, partially from new school openings for the 2025-2026 academic year.

Higher Education growth in 2025 will be higher than in 2024 as we build on the successful results of our sales team transformation and product innovations, particularly using AI.

English Language Learning growth will moderate given the likely impacts of elections on immigration rates in 2025 but we remain confident in the medium-term outlook given demographic progressions.

Enterprise Learning & Skills will grow high single digits with both Vocational Qualifications seeing solid growth and the addition of a number of new contracts for Enterprise Solutions.

As we have previously guided beyond 2025, you can expect CAGR underlying sales growth at mid-single digits, sustained margin improvement equating to an average of 40 basis points per annum and strong free cash flow conversion in the region of 90% to 100% on average across the period.

2025 Phasing

In terms of phasing, as we have seen in other years, growth will generally be weighted to H2, given these known business unit dynamics.

Assessments & Qualifications growth will be H2 weighted with those new and renewed contracts and the new test prep business building during the year.

Virtual Learning will decline in H1 given the final impact of the previous school losses and the timing of funding in the previous year. H2 and the full year will grow through enrolment increases for the 2025-2026 school year.

Given the growth profile of English Language Learning in 2024, we expect Q1 to decline with growth increasing in each quarter thereafter.

ELS growth will increase quarter-on-quarter and Higher Education growth will remain relatively stable throughout the year.

So for the Group overall, Q1, which is our smallest quarter, will be muted. H1 will see low single-digit growth with stronger growth in H2.

Capital allocation – uses of cash

Our disciplined capital allocation policy remains the same with a focus on maintaining a strong balance sheet, investing both organically and inorganically, paying a progressive and sustainable dividend and then returning surplus cash to shareholders.

The slide you see now demonstrates the application of this policy over the last five years. Organic investment is relatively stable at a macro level, albeit internal capital allocation priorities evolve over time and are monitored continuously, as Omar described, as markets and customers' needs change.

Leverage remains comfortable, currently below our medium-term average expectation of 2 times EBITDA to maintain optionality to make value-enhancing investments. You can also see the £1 billion of share buybacks over the period with a further £350 million announced today, given the strength of 2024 free cash flow and our confidence in 2025 and beyond.

Going forward, we will continue to apply this policy and through our strong cash generation, we will continue to invest behind opportunities to drive further growth and create value for our stakeholders.

Financial Summary

In summary, 2024 performance was in line with expectations with excellent margin expansion. We saw strong free cash flow. And this, combined with our strong balance sheet, means we are announcing a further £350 million share buyback and our confidence in the future and the strength of the business is reflected in our guidance for 2025 and beyond.

With that, I will hand back to Omar.

Wrap Up

Omar Abbosh

CEO, Pearson

Pearson's New Power Metrics

Thank you so much, Sally. I would like to turn to the topic of how we track the progress of the business and the metrics we will use.

Now the way we think about this is in three tiers. At the bottom of the pyramid, we have hundreds of analytics that we use to track the performance of the business every day. So, think of things like user engagement or pipeline aging metrics.

Next, we have a small number of metrics, less than 20, that the Pearson executive team use to run the business, for example, new bookings. Now at the top of the pyramid are our power metrics, a small number of KPIs that we plan to share externally to track our progress against our strategic priorities.

We believe these will be more helpful to you in understanding the progress that we are making, and they therefore will replace our current set of strategic KPIs going forward.

You will recognise this slide as the executive summary of our strategy that we shared last July. You will remember that Assessments forms approximately two-thirds of our business and that we are very focused on driving growth in the Enterprise segment.

For this reason, we will share two power metrics linked to these two themes going forward. First is our Assessments & Verifications renewals and also the level of Assessments' new business acquisition. And second is the number of customers in our most commercially and strategically material tiers.

We have customers at different levels of scale and scope in terms of their usage of Pearson services and the most important are our advanced and elite tiers that individually contribute millions of dollars per annum. We will share with you the absolute number of these customers going forward as a second leading indicator of growth.

Now of course, I am very pleased to announce today an enhanced customer relationship in our elite tier, which is AWS.

Three priorities for 2025

I would now like to share our priorities for 2025, which are simply an evolution of our 2024 priorities, and that is because they have been serving the business well. And we see plenty more to go for.

- First, we will deliver financial performance in line with market expectations;
- Second, we will continue to lead on the application of innovative technologies like AI across our products and services; and
- Third, we will grow our business across the Enterprise customer segment.

We have embedded these three priorities across the whole organisation through our detailed objectives and key results approach. And everyone knows that this is what we are focused on.

Key takeaways

Closing out, I would like to leave you with these two takeaways. Firstly, I am happy with the strategic and financial progress our team has made in 2024. This leadership team is focused on driving performance in the core business with a strong execution mindset. And I am pleased with the milestones achieved in our approach to the enterprise market and infusing AI capabilities across our products and services.

Second, we are building momentum in the business and putting in place the building blocks for the future sustained shareholder value creation. The opportunities for Pearson in our markets are significant, and we are making good progress towards unlocking them.

We are, therefore, confident in meeting the financial guidance outlined for 2025 and sustaining mid-single-digit growth with ongoing margin improvement in the years beyond that. And we will do it while helping people around the world realise the life they imagine through learning.

With that, I would like to open up for Q&A for me and the team.

Q&A

Adam Berlin (UBS): Three questions, if I could. I would really like to hear in your own words, Omar, what you have in mind with these partnerships with AWS and Microsoft? Like what are people actually be doing? What is going to be the revenue? What are these businesses? It is just very hard for us to imagine what you are thinking will be the way these new products work. If you can explain it in normal, that would be really helpful.

The second question is, I just wanted to get your views on how you think the new Trump administration policies could affect your business. I mean the obvious areas in my mind are PDRI and Student Assessment within A&Q. Any updates you can share with us, positive or negative around that?

Thirdly, I just wondered if you could unpack the guidance on English for us a little bit. You have talked about a deceleration from the 8% last year. But could you talk through what you are thinking about in terms of volumes, pricing, institutional? Just help us understand the moving parts in English, that would be very helpful.

Omar Abbosh: Absolutely. You said you want me to answer this, the hyperscaler relationship in plain English. That is the hardest part of what you just asked there, Adam. I mean, I will talk about how I think of the deals in terms of their composition, and then I will talk about the financial implications.

In terms of the composition, these companies are investing hundreds of billions of CAPEX in the ground in AI data centres as we speak. They have got some of the world's best engineers. So in making these relationships, we are recruiting some of those engineers to work with Pearson on the development of its own product set, making sure we apply AI in the most advanced way possible. That is one core component.

The other core component, of course, is they are an existing customer of ours, and they are now an expanding customer of ours, and that is part of the agreement. That is across the suite of Pearson services. So, I can say to you, for example, that Vishaal had Amazon's top six talent people in this building not long ago. These are people who recruit two million employees a year, looking at like all the latest techniques that you can deploy around talent sourcing, talent development, talent planning.

They would like really going deep with us in terms of how does what they have and how does what we have come together in a way to help serve that need for them as a company themselves but also for their customers. That is the third part, which is these joint go-to-markets.

The joint go-to-market, the way you should think about it is we have software engineers from Tony's team, software engineers from these companies sitting together and saying, like if I could apply an AI engine that can give me nudges in my flow of work in terms of how am I doing my work and how could I improve whether it is a language capability or a content capability, that becomes a really valuable tool, and you can expose that through quite big surface areas.

So, the teams are working on what those exact products are now. Like I said, that takes time because you are developing new software. But as we build them out, there will be incentives for tens of thousands of Microsoft and AWS sellers and our sales force to bring those things to

their customers. So that is what the composition of those deals are. I tried that in plain English as much as I could.

But as I said, financially, you can imagine that at one level, you are underpinning the business that we already have. You are expanding the business that we already have at least at mid-single digits, and then you have this optionality of joint go-to markets that could be quite interesting.

On the topic of the new US administration, I mean, I will say a couple of words, and then maybe I will ask Art to comment a little bit as well. The new administration is focused on things like school choice, parental choice and ultimately building an incredibly adaptive competitive workforce for the US in an era of AI. Those things play super well to what Pearson does.

Virtual Schools will benefit tremendously from school choice. By the way, accountability and meritocracy are also at the heart of a lot of the thinking there. Like maintenance and management of standards is a critical part of this. And then, of course, the whole alternative skill pathways part of this is a key consideration.

Now you asked about PDRI, and maybe, Art, you would like to say something about how you think about it and also Schools Assessments.

Art Valentine: Yes, absolutely. First off, Omar is right. Our products and services support the ultimate goals of many of the objectives of the output that we are seeing from the administration. Specific to the Department of Education, Adam, I will remind the group here that almost all of our work across all of our business, including A&Q is at the state level. The thrust of many of the initiatives coming out of the administration are about giving more control to the states from the federal government.

We are quite experienced at dealing with different types of states with different viewpoints on these types of things. We are quite comfortable continuing to navigate that.

Now of course, we are watching carefully the announcements that are coming out, and there is volatility happening in all of the departments, and we have got the right relationships to stay plugged into that.

On PDRI specifically, I will remind this group here. PDRI is a relatively small part of the overall Pearson portfolio, less than 2% of our revenue. While it does do a lot of direct federal government work, the core value proposition of PDRI is around merit-based hiring. The overwhelming bulk of its offerings help hiring agencies identify candidates who have the exact skills and the exact knowledge to fill the jobs that they need. This, again, is absolutely in line with what the objectives of the administration are.

The passage of things like the recent Chance to Compete Act really wonderfully support that value proposition. Now, again, in the current swirl of things that are happening, we are paying very close attention to specific contracts, although much of our work is with military and public safety functions like TSI, which are viewed differently in the scope of the administration actions.

We are very, very bullish on the long-term match between our value proposition and what is coming out, while at the same time, monitoring each of those specific things.

Omar Abbosh: Thank you, Art. Now on ELL, normally, I would throw this at Sharon, who is not yet officially in position. She has been going through a fantastic transition with Gio, which

we strongly appreciate. But you asked really about guidance unpacking. So, I am going to ask Sally to pick up on that.

Sally Johnson: You used the word decelerate. I used the word moderate. English is still going to grow really well, just not quite as much as it did last year because PTE is probably going to decline a little bit because of the Australian and Canadian elections caused the market to fluctuate a little bit this year.

We are really confident that those demographic points that we have laid out mean that, that is going to be a great market for us in the future. There is just a little bit of volatility in it this year. Our institutional business grew brilliantly last year. It will grow brilliantly this year as well. I pointed out that phasing piece, but the full year, super confident in the growth in that business.

You saw the video of that English language tutor. I think it is out in the demo area as well and the lesson-building tool within English as well. Those sorts of innovations that we are bringing to that product is really going to drive growth in those markets. Then last but not least, we are also looking at things from a geographical point of view and looking at driving growth in MENA and in Latin America, in particular as well. So really confident in English for this year.

Nick Dempsey (Barclays): I have got three as well, please. First of all, following the logic of the shape of the year, if low single-digit in the first half is somewhere around 2%, then you need about 7% in the second half. It feels like quite a lot. Can you just maybe give us a sense of how much of that you have good visibility on to prevent people worrying about it being difficult to climb up there in the end of the year?

The second question. In Higher Education, you are pointing to similar rates of growth all through the year. But I guess the really surprisingly strong enrolment growth in fall 2024 flows through first half but almost certainly does not flow through second half. What do you have up your sleeve to maintain the rate of growth in the second half against a likely lower enrolment environment?

The third question also on Higher Ed. Cengage and McGraw Hill, I think, have been outperforming peers on the top line for a couple of years now. As far as I can see, when you listen to them, it is because they have a much higher percentage from Inclusive Access, which has been growing well for them. How do they get to that higher level percentage terms? And are you going to be able to catch up so that you can start to match their growth?

Omar Abbosh: Thanks, Nick, for your forensically detailed questions, which is perfect. Sally, why do not you take the one on H2 visibility, please?

Sally Johnson: Sure. So, we do not have perfect visibility but I have got good visibility. Obviously, internally, I have got a detailed budget, which is why I am able to share how the quarterly growth dynamics are going to play out. As we look to H2, all of those things I talked about from a business unit basis is what is building that growth. So Higher Education relatively stable throughout the year. I will let Tom double down on the Higher Ed bit when he talks.

That English piece that I just talked to as well, seeing that growing throughout the year, then the contract wins and the renewals that we have had in both Assessments and Qualifications and in ELS, I almost called it Workforce, all of those dynamics we built a detailed bottom-up budget that shows that phasing throughout the year.

And pointing to some of the data points that we use. So for example, in English and in PTE, we are using detailed data around trends about students moving and immigration across borders, detailed bottom-up budgets in terms of what we are expecting in market share, what we are expecting to see in terms of enrolments, which we are expecting them to be relatively flat for H2 but what we are seeing in market share, what we have done in product, that data point that we showed you, the fall back-to-school last year around double-digit growth in our AI products. We are going to have a lot more of those in next year. So really confident in both that phasing profile but also that growth dynamics that we have given you for the full year.

Omar Abbosh: Thanks, Sally. All right, Mr Tom. The first one on enrolment growth by H2.

Tom ap Simon: I mean a couple of things to think about. Firstly, as Sally highlighted or we highlighted in the presentation, good growth in the second half of last year. We are confident about good growth in the first half of this year. Obviously, January and February are pretty much underway now. They are the third and fourth biggest month of the year, and we are tracking well and in line with that progress.

Clearly, your opportunity for the Fall is somewhat dependent on how you have done from an adoption share perspective this spring and where we win new adoptions in the spring, that is an additional business that we can retain in the fall. Clearly, some of the things that we have been doing around reorganising the sales team means that there are segments of the market that we have not really gone after properly in the past that we are going after much more aggressively now.

We have got a much more focused sales team now. We have got sales teams focused on winning new business, retaining new business. We are thinking about the customer life cycle very carefully. We have got a much stronger approach to sales operations and how we think about the market and segmentation. So, we feel very good about the selling side of things.

Then on the product side of things, a very close partnership with Tony. I think we are building a much more robust product value proposition. You saw that last year with some of the wins that we saw in some of the products powered by AI.

With all that in mind, plus some pricing, we feel fairly good about the second half dynamics from a growth perspective.

The other thing to say is from an international perspective, international obviously had a tough year last year. So, we expect to see that factored into the first half of this year. So, where you see more growth in higher education in the second half, a lot of that is driven by international. We have got a great leader in the international team. He has built a great new team out. They have been making a number of changes in terms of sales operations, in terms of increasing our footprint in key emerging markets.

We are looking forward to seeing a return to growth in international this year in Higher Education, and that will also help.

Then lastly, on the IA piece, I might dispute some of your analysis on sort of the relative growth rates of some of our competitors once you break them down in a bit more detail, and we can chat about that offline, if you like.

What I would say is, as Sally alluded to, we did a good job of taking share for the first time last year, both in the spring and the fall. That had not happened for a long time. So, we feel very pleased about that.

Also from an IA perspective, it is a law of marginal gains. What do I mean by that? If you have got a math title, you are already going to have relatively high sell-through. So, the pricing reduction you get in math is not going to offset the revenue growth you are getting by moving that into IA. Clearly, that is not necessarily a discipline you would want to.

There are some other products that you might have in print, for example, on eText, which makes sense to move into IA. So, we have built in more analytics in terms of understanding where it makes sense to move some titles into IA that we would not have necessarily done so in the past. It is very much a horses for courses approach in terms of disciplines. If you have got disciplines like we do with high market share in those STEM areas, they are not natural candidates to move into IA because you are giving more of a discount away in terms of the discount versus price as you're thinking about revenue.

Clearly, we are thinking about the most cost-effective and holistic approach for students in terms of value creation in the first place. And really, what we want to do is we want to provide great quality products to students at reasonable prices and try and think about how we manage the channel as best as possible because what we have seen over time is that there has been a lot of buildup in the channel, which is a potential area of thinking through how we manage that more efficiently and more effectively in the future.

The IA strategy certainly propagates more complexity in the channel, not less. And we would obviously like less complexity because, as I said, we are about trying to get great products with great learning outcomes into the hands of students at reasonable prices. So, thinking through all of that very carefully is really important as we think about our holistic strategy.

Steve Liechi (Deutsche-Numis): Just following on Nick's question about the first half, second half. I do not know if you can give us any idea in terms of exposure to discretionary or project type spend relative to subscription. Just to remind us there, that would be helpful.

Then equally, if you look at your guidance for the full year in revenue terms, I guess a fair question would be, how much is in the bag and signed sealed backlog type revenue in that and how much is still to be done? That is first point.

Second point, just on the share buyback. Well, last year, whatever, you said we are running out sort of net debt leverage below where we would think it should be because we want to do M&A. You alluded to that a bit in your commentary. Just the fact that you are doing the £350 million buyback now, does that mean some of the stuff that you thought you might be interested in from an M&A perspective is not there? Or have you lost interest in doing that and focusing more on the organic stuff? Just anything you can give us there, please?

Omar Abbosh: Yes. I mean just one thing to remind you, which I know you know, and Sally will dig into the guidance is for the services part of our business, so think of things like school assessments, VUE PVS, those are very long run contracts. When you have got a multiyear contract in place, like a lot of the revenue backlog is in place. But just, Sally, over to you.

Sally Johnson: That was how I was going to answer it actually. I am not going to call out anything particular. You were asking about big exposures. There is not anything like that in

there. Then there is a proportion of our businesses like students pointed behind me because its business, like the Student Assessment business, for example, where it is long-term contracts. We are already delivering against them, that is using your words in the bag. And then something like Higher Education, we are going into full back-to-school with knowledge of that adoption pipeline that we have built but then the sales happen nearer to when the kids are going back to school. So it is a mixture across the piece.

Omar Abbosh: And then have we lost interest in M&A versus share buybacks? That was the heart of the question.

Sally Johnson: Yes. Should I start that and then you can.

Omar Abbosh: You start.

Sally Johnson: Our capital allocation policy is clear, invest in the business, the dividend, the leverage that you talked to. And we apply the policy in that way, and then the Board makes a decision about whether a further return to shareholders is the right thing to do. We are not the sort of business where a M&A budget for the year makes sense. It is about the opportunity that comes up and a tool that we can use that helps to move our strategy forward.

We are really focused on organic growth. But at points in time, the stars will align on a piece of M&A that makes sense. But it will be about driving the strategy of the business at the right return as opposed to I have got a budget in the year, and I am going to fill out the budget. So that is the way we think about it. Do you want to add?

Omar Abbosh: Totally agree with what Sally said. I mean, our leaders here have got their organic growth baked in their budgets, and that is the plan. If someone has got a brilliant idea of some M&A target, which, by the way, must be part of a pre-agreed deeply debated strategy and based on a pipeline of targets that we have been thoroughly investigating and typically working with testing out that our capabilities jointly make a difference for customers, then we can consider it, but it means that we adjust the plan.

If you are going to bring an M&A into your organic plan, fine but your plan has just gone up. That is okay as well. For us, it is a tool for accelerating organic growth. Anyone else?

James Tate (Goldman Sachs): Apologies I cannot be there, but I have got two questions, please. I think firstly, margin improvement in A&Q was quite strong last year with, I think, operating profit dropped for around 55%. Just wanted to ask if there are any one-offs you would like to flag for last year? And if not, is this the operating leverage we should expect going forward in the division?

Then secondly, just looking at margin for the full year came in at 16.9% at the Group. Given you originally guided for 16.5%, how should we think about Group margin over the next couple of years? Do you think there is potential for outperformance of the 40 bps?

Sally Johnson: Thanks, James. I hear you are poorly. I can hear it in your voice. Sorry to hear that. I hope you get better soon. On the margin improvement and any one-offs, there are no one-offs as such that I would call out, but that improvement well done was driven by sales growth and some cost efficiencies that we had in the year as well.

I generally think about the operating leverage in that business, depending on which business, sub-business unit it is being between 40% and around about 60%. So, 40% would be a kind of VUE business and 60% would be a Clinical business.

Then the margin, I am not sure I did guide to 16.9%. I think I guided to being happy with expectations. Obviously, we are delighted with the 16.9%. You can tell from guidance for 2025, we are going to see margin improvement in 2025. Then obviously, I have guided to the 40 basis points improvement over time. To kind of break down where that comes from, it is super simple and actually applies across each of the business units as well.

It is operating leverage on sales growth and then cost efficiencies that we will find as part of business as usual as new technologies come into place as we do things differently, offset by investment to drive that growth. Those three elements of it, same at each business unit, same for business from an overall perspective.

Omar Abbosh: Yes. I mean I am going to just pile on, James. I mean, firstly, get well soon. Our philosophy on margin is as follows, which is Pearson is focused on building amazingly good products that help learners and educators. Because they bring value, we will see that in our margins. Healthy margins are a sign of delivering amazing products to our customers, and that is our incredible focus.

And as Sally said, we want to apply the use of any technology management innovations in running our business to constantly drive efficiency and productivity. For me, it is not like you are ever done. Like this is a game of continually improving, and that is the push that I think we all feel, and you should expect to see that from us in the coming years. Anyone else on the platform?

Alex Shore: Thank you. Yes, we have got two questions from Sami at BNP Paribas. Firstly, despite improving contract renewal rates at VUE, your A&Q guidance points to low- to mid-single-digit growth. Under what scenario would you deliver low-single-digit growth, i.e., contract losses in US school, expected volume pressures in VUE or any other scenario?

The second question, despite enrolment growth in US Higher Ed, paid users to Pearson+ did not increase. Why was that?

Omar Abbosh: Yes. I mean, Sami, obviously, in any competitive business, if you lose customers, that is not a good outcome. Obviously, we are very focused on not doing that. But do you want to respond to that what would it take to make sure that A&Q is at the upper end of our guidance rather than at the lower end, Art?

Art Valentine: Absolutely. And I think we called out in our statement what the elements of growth are for 2025 within A&Q. It is the launch of new contracts that we won last year. We feel very, very good about that. That is an execution task that we have a wonderful track record on. We are continuing to invest in go-to-market resources for our test prep offering, which you will see we are now referring to as the Pearson Skilling solution, and that will ramp up throughout the year.

We are focusing on formative and interim assessment, as Omar pointed out in his introductory remarks. Those are the growth levers that we are counting on. We would not be committing to this guidance if we did not feel very, very strongly about delivering on them. But those are the things that we are watching closely.

Omar Abbosh: Thank you, Art. I have got a couple of words on Pearson+, but Tom, I think you should go first around like the subscriptions and then we will make a comment.

Tom ap Simon: Yes, sure. I mean, I think firstly, Pearson+ has been a great success for us, and we are delighted with it. It is one of our three product lineups, right? We have got the MyLabs. We have got Pearson+ and then we have got Channels. So, we are excited with that breadth of product portfolio in the Higher Education space.

I think secondly, in terms of any growth there, what has really happened is that as we think about distribution, one of the things we need to get right is how we integrate that into Inclusive Access. That is one of the things that is on our road map and we are working through. It is part of our broader portfolio strategy.

What we need to really get right is great products for each different part of the market in terms of segmentation and understanding. You have got courseware, you have got Pearson+ and you have got Channels. They are all appealing to faculty and students in different ways in terms of driving increased active learning.

So, as we are working through some of the integration pieces with the LMS and the integrations, you will expect to see that Pearson+ number grow over time. It is nothing I would be particularly concerned about. It is an important part of the strategy, and it is a great part of the portfolio for us to have.

Omar Abbosh: Yes. Thanks, Tom. I mean just my two pennies on top of it is the reason I am so happy that Pearson invested in Pearson+ is we learned some very useful new things. One is around a modern full stack cloud-native technology platform and the application of some of the most innovative techniques around AI. A lot of the thinking that happened there is what we are propagating across the rest of Pearson. So, I think that is super good.

The second thing is we learned a lot about engaging directly with end users in a different form and different channels. And again, that has proved very useful, and you will see us leverage that in clever ways going forward. Sami, thank you very much for the question.

We are out of questions. Anyone else in the room? Okay. Well, so thank you so much for being with us. I mean, seriously, for those of you here, please do take a few minutes and go and have a look at the products out there. I think you will find them enjoyable and hopefully productive. Thanks for being with us. We appreciate you.

Sally Johnson: Thank you.

Omar Abbosh: Thank you.

[END OF TRANSCRIPT]