Financial review

We've delivered another strong set of results in 2023. This continued progress underpins our confidence that we're set for another good year in 2024 and on track to meet our 2025 objectives.

Sally Johnson Chief Financial Officer

Financial Summary

£m	2023	2022
Business performance		
Sales	**3,674**	3,841
Adjusted operating profit	**573**	456
Operating cash flow	**587**	401
Free cash flow	**387**	222
Adjusted earnings per share	**58.2p**	51.8p

£m	2023	2022
Statutory results		
Sales	**3,674**	3,841
Operating profit	**498**	271
Profit for the year	**380**	244
Net cash generated from operations	**682**	527
Basic earnings per share	**53.1p**	32.8p

Throughout this section: a) Growth rates are on an underlying basis unless otherwise stated. Underlying growth rates exclude currency movements and portfolio changes; b) The 'business performance' measures are non-GAAP measures, and reconciliations to the equivalent statutory heading under IFRS are included in the financial key performance indicators section on pages 221-226; c) Constant exchange rates are calculated by assuming the average FX in the prior year prevailed through the current year.

Group Financial Expectations

2024 expectations				Underlying sales 3-year CAGR 2022 to 2025*	2025 Margin expectations**
Sales growth	Adjusted operating profit	Tax	Interest		
Expect to be in line with current market expectations		c.24%	c.£45m***	Mid-single digits	16-17%

* Excluding the OPM and Strategic Review businesses.

** Adjusted operating profit margins.

*** Our interest charge will be c.£45m given our £300m share buyback and its extension by a further £200m.

NB: 2024 consensus on the Pearson website: underlying sales growth 3.7%, adjusted operating profit of £621m at £:$ 1.22, effective tax rate c.24%. For reference, each 1c move in USD FX rate equates to c.£5m of adjusted operating profit.

Operating results

On a headline basis, sales decreased by £167m or 4% from £3,841m in 2022 to £3,674m in 2023 and reported operating profit increased by £227m from £271m in 2022 to £498m in 2023. In addition, adjusted operating profit increased by £117m or 26% from £456m in 2022 to £573m in 2023 (for a reconciliation of this measure see page 28 and note 2 to the consolidated financial statements).

The increase in reported operating profit in 2023 is mainly due to increased trading profits and a reduction in the costs of major restructuring, partially offset by a net loss related to acquisitions and disposals compared to a net gain in 2022.

The headline basis simply compares the reported results for 2023 with those for 2022. We also present sales and adjusted operating profit on an underlying basis which exclude the effects of exchange, the effect of portfolio changes arising from acquisitions and disposals and the impact of adopting new accounting standards that are not retrospectively applied. Our portfolio change is calculated by excluding sales and profits made by businesses disposed in either 2022 or 2023 and by ensuring the contribution from acquisitions is comparable year on year. Portfolio changes mainly relate to the disposals of the Group's interests in POLS, Pearson College, our international courseware local publishing business in India and businesses within Higher Education in 2023, the disposal of our international courseware local publishing businesses in Europe, French-speaking Canada, South Africa and Hong Kong in 2022, the acquisition of PDRI in 2023 and the acquisitions of Credly and Mondly in 2022.

On an underlying basis, sales increased by 5%, excluding OPM and Strategic Review, and by 1% in aggregate, in 2023 compared to 2022 and adjusted operating profit increased by 31%. Currency movements decreased sales by £33m and decreased adjusted operating profit by £10m. Portfolio changes decreased sales by £175m and decreased adjusted operating profit by £8m. There were no new accounting standards adopted in 2023 that impacted sales or statutory or adjusted operating profits.

2024 outlook

We expect Group underlying sales growth, adjusted operating profit and tax will be in line with current market expectations. Our interest charge will be c.£45m given our ongoing £300m share buyback and extension by a further £200m.

— In Assessment & Qualifications we expect sales growth of low to mid-single digit.

— In Virtual Schools we expect sales to decline at a similar rate to 2023, given the previously cited loss of a larger partner school for the 2024/25 academic year. We are pleased to have secured two new schools in the States impacting the 2023/24 and 2024/25 academic years and therefore expect the division to return to growth beyond 2024.

— In Higher Education we expect to return to sales growth.

— In English Language Learning we continue to expect high single digit sales growth.

— In Workforce Skills we expect to achieve high single digit sales growth.

— We expect a free cash flow conversion of 95-100%.

2025 ambition

We continue to expect the Group to achieve mid-single digit underlying sales 3-year CAGR from 2022 to 2025, excluding OPM and Strategic Review businesses, and remain on track to achieve our 16-17% adjusted operating profit margin guidance.

All figures in £ millions	2023	2022
Operating profit	498	271
Add back: Cost of major restructuring	-	150
Add back: Property charges	11	-
Add back: Intangible charges	48	56
Add back: UK pension discretionary increases	-	3
Add back: Other net gains and losses	16	(24)
Adjusted operating profit	573	456

Adjusted operating profit includes the results from discontinued operations when relevant but excludes charges for intangible amortisation and impairment, acquisition related costs, gains and losses arising from disposals, the cost of major restructuring, certain property charges and one-off costs related to the UK pension scheme. A summary of these adjustments is included below and in more detail in note 2 to the consolidated financial statements.

In 2023, there are no costs of major restructuring. Property charges of £11m relate to impairments of property assets arising from the impact of updates in 2023 to assumptions initially made during the 2022 and 2021 restructuring programmes. In 2022, restructuring costs of £150m mainly related to staff redundancies and impairment of right-of-use property assets including the impact of updated assumptions related to the recoverability of right-of-use assets made in 2021.

Intangible amortisation charges in 2023 were £48m compared to a charge of £56m in 2022. This is due to decreased amortisation from recent disposals partially offset by additional amortisation from recent acquisitions.

UK pension discretionary increases in 2022 related to one-off pension increases awarded to certain cohorts of pensioners in response to the cost of living crisis.

Other net gains and losses in 2023 relate largely to the gain on disposal of the POLS business and gains on the releases of accruals and a provision related to previous acquisitions and disposals, partially offset by losses on the disposal of Pearson College and costs related to current and prior year disposals and acquisitions. Other net gains and losses in 2022 largely related to the gain on disposal of the international courseware local publishing business in French-speaking Canada and a gain arising on a decrease in the deferred consideration payable on prior year acquisitions, offset by costs related to disposals and acquisitions.

1. We have completed the sale of the POLS business and as such have removed from underlying measures throughout. Within this specific measure we exclude our entire OPM business (POLS and ASU) to aid comparison to guidance.
2. Strategic Review is sales in international courseware local publishing businesses being wound down. There will be no sales or profits reported in the division going forwards.

Divisional Results

£m	2023	2022	Headline growth	CER Growth	Underlying growth
Sales					
Assessment & Qualifications	1,559	1,444	8%	9%	7%
Virtual Learning	616	820	(25)%	(24)%	(20)%
Higher Education	855	898	(5)%	(4)%	(3)%
English Language Learning	415	321	29%	32%	30%
Workforce Skills	220	204	8%	8%	11%
Strategic Review	9	154	(94)%	(94)%	(74)%
Total	3,674	3,841	(4)%	(3)%	1%
Total, excluding OPM[1] and Strategic Review[2]					5%

Adjusted operating profit/loss					
Assessment & Qualifications	350	258	36%	36%	33%
Virtual Learning	76	70	9%	9%	(17)%
Higher Education	110	91	21%	22%	20%
English Language Learning	47	25	88%	116%	112%
Workforce Skills	(8)	(3)	(167)%	(167)%	(400)%
Strategic Review	(2)	15	(113)%	(107)%	94%
Total	573	456	26%	28%	31%

Assessment & Qualifications

In Assessment & Qualifications, sales increased 8% on a headline basis and 7% on an underlying basis. Adjusted operating profit increased 33% in underlying terms due to operating leverage on sales growth and margin and opex cost efficiencies, partially offset by inflation and 36% in headline terms due to this, portfolio changes and currency movements.

Pearson VUE sales were up 10% in underlying terms with particularly strong growth in the IT and healthcare segments, alongside the commencement of new contracts. VUE test volumes grew 6% to 20.7m. We maintained our high contract renewal track record, reporting a rate of 93.6% across the business for 2023.

In US Student Assessment, sales increased 4% in underlying terms driven by the commencement of new contracts following new business wins.

In Clinical Assessment, sales increased 5% in underlying terms supported by pricing, good government funding and continued focus on health and wellbeing.

In UK and International Qualifications, sales increased 6% in underlying terms driven by price increases and good international growth.

Virtual Learning

In Virtual Learning, sales decreased 25% on a headline basis and 20% on an underlying basis, primarily due to the expected decrease in our OPM business. Adjusted operating profit decreased 17% in underlying terms due to trading performance partially offset by cost efficiencies and increased 9% in headline terms due to this and portfolio changes.

Sales in our OPM business were down 87% on an underlying basis, as expected, following the wind down of the ASU contract. Pearson Online Learning Services sales are no longer included in underlying measures following the completion of the disposal in the first half of the year.

Virtual Schools sales were down 2%, driven by lower enrolments and lower district partnership renewals, partially offset by good retention rates, improvements in funding and growth associated with the launch of our Connections Academy Career Pathways. Enrolments for the 2023/24 academic year were down 5% due to the previously cited loss of a larger partner school. Excluding the impact of this school, enrolments were up 1%.

Higher Education

In Higher Education, sales decreased 5% on a headline basis due to trading, currency movements and portfolio changes, and declined 3% for the full year on an underlying basis, in line with expectations. Adjusted operating profit increased 20% in underlying terms driven primarily by cost efficiencies, partially offset by trading performance and inflation, and increased 21% in headline terms due to this, currency movements and portfolio changes.

In the US, sales declines were driven by the loss of adoptions to non-mainstream publishers in the first half of the year, as well as pricing mix. There was strong growth in Inclusive Access with 22% sales growth to not-for-profit institutions and the total number of institutions increasing to c1,250. We delivered 2% growth in platform units in 2023 enabled by changes we have made to our sales team and go to market strategy with the support of increasing platform stability. Pearson+ performed well in the Fall semester with 3.03m registered users and 516k paid subscriptions, representing 27% growth compared to the prior year Fall semester. Pearson+ passed the milestone of 1 million cumulative paid subscriptions for the calendar year.

English Language Learning

In English Language Learning, sales were up 29% on a headline basis and 30% on an underlying basis. Adjusted operating profit increased by 112% in underlying terms due to sales growth partially offset by increased investment in brand awareness and testing capacity and inflation, and was up 88% in headline terms due to this and currency movements.

PTE volumes were up 49% supported by favourable migration policy in Australia as well as market share gain in India. Our Institutional business performed well, with strong performance across Latin America and Middle East markets. Our Mondly business also contributed to growth with an increase in consumer billings.

Workforce Skills

In Workforce Skills, sales were up 8% on a headline basis and 11% on an underlying basis. Adjusted operating profit declined by £8m in underlying terms due to investment in the business across our Workforce Solutions product suite partially offset by trading and decreased £5m in headline terms due to this and portfolio changes.

Sales growth was driven by solid performances in both the Vocational Qualifications and Workforce Solutions businesses. The Vocational Qualifications business grew by 10% in underlying terms. The Workforce Solutions business grew by 13% in underlying terms. Pearson has 1,547 enterprise clients in its Workforce Skills portfolio, up 3% on last year.

Strategic Review

Sales in our international courseware local publishing businesses under strategic review were down 94% on a headline basis for the full year and declined 74% on an underlying basis. Operations in these businesses have now been wound down in line with our previous communications. There will be no sales or profits reported in this division going forwards.

Net Finance Costs

Net finance costs increased on a headline basis from a net income of £52m in 2022 to a net cost of £5m in 2023. The increase is primarily due to the release, in 2022, of £35m of interest recorded in respect of provisions for uncertain tax positions, a reduction in gains arising from mark to market movements on investments and derivatives, partially offset by additional finance income in respect of retirement benefits.

Net interest payable reflected in adjusted earnings in 2023 was £33m, compared to £1m in 2022. The difference is primarily due to the items noted above. In addition, in 2023, there were increased interest costs related to the drawdown during the year of the revolving credit facility, partially offset by reduced bond interest due to the bond repayments made in 2022.

Net finance income in respect of retirement benefits has been excluded from our adjusted earnings as we believe the income statement presentation does not reflect the economic substance of the underlying assets and liabilities. Also included in the net finance costs (but not in our adjusted measure) are interest costs relating to acquisition or disposal transactions, fair value movements on investments classified as fair value through profit and loss, foreign exchange and other gains and losses on derivatives. Interest relating to acquisition or disposal transactions is excluded from adjusted earnings as it is considered part of the acquisition cost or disposal proceeds rather than being reflective of the underlying financing costs of the Group. Foreign exchange, fair value movements and other gains and losses are excluded from adjusted earnings as they represent short-term fluctuations in market value and are subject to significant volatility. Other gains and losses may not be realised in due course as it is normally the intention to hold the related instruments to maturity (for more information see the financial key performance indicators section on pages 221–226). Interest on certain tax provisions is excluded from our adjusted measure in order to mirror the treatment of the underlying tax item.

Cash flow and working capital

Net cash generated from operations, was £682m in 2023 compared to £527m in 2022. The increase is largely explained by the drop-through of increased trading profits, good cash collections and the impact of disposals, partially offset by increased restructuring cash outflows.

Our operating cash flow measure is an adjusted measure used to align cash flows with our adjusted profit measures. Compared to net cash generated from operations, this measure excludes restructuring costs and acquisition costs but includes regular dividends from associates. It also includes capital expenditure on property, plant, equipment and software, and additions to right-of-use assets as well as disposal proceeds from the sale of property, plant, equipment and right-of-use assets (including the impacts of transfers to/from investment in finance lease receivable). In 2023, restructuring cash outflow was £63m compared to £35m in 2022.

Operating cash inflow increased on a headline basis by £186m from £401m in 2022 to £587m in 2023. The increase is largely explained by the drop-through of increased trading profits, good cash collections and reduced investment spend in Higher Education connected to the 2022 efficiency programme, as well as the impact of disposals.

In 2023, there was an overall £234m decrease in cash and cash equivalents compared to a decrease of £394m in 2022. The decrease in 2023 is primarily due to payments for acquisitions of subsidiaries of £171m, dividends paid of £154m, share buyback programme of £186m, other own share purchases of £35m, tax paid of £97m, capital expenditure of £126m, and repayments of lease liabilities of £84m. These were offset by the cash inflow from operations of £682m.

all figures in £ millions	2023	2022
Net cash generated from operations	**682**	527
Dividends from joint ventures and associates	**-**	1
Purchase / disposal of PPE and software	(121)	(133)
Net addition of right-of-use assets	(41)	(29)
Net costs paid for major restructuring	63	35
Other net gains and losses	4	-
Operating cash flow	**587**	401
Tax paid	(97)	(109)
Net finance costs paid	(40)	(35)
Net cost paid for major restructuring	(63)	(35)
Free cash flow	**387**	222

Liquidity and capital resources

The Group's net debt increased from £557m at the end of 2022 to £744m at the end of 2023. The increase is largely due to the share buyback programme, cash outflows on acquisitions and disposals, dividend payments and tax payments, partially offset by strong operating cash flow.

The Group's borrowings fluctuate by season due to the effect of the school year on working capital requirements. Assuming no share buyback prorammes, acquisitions or disposals, the maximum level of net debt normally occurs in the third quarter, and the minimum level of net debt normally occurs in December.

In May 2022, the Group repaid the remaining $117m (£95m) of its 2022 US dollar bond upon maturity. In December 2022, the Group repaid the remaining $94m (£76m) of its 2023 US dollar bond.

At 31 December 2023, the Group had approximately £1.0bn in total liquidity immediately available from cash and its Revolving Credit Facility maturing February 2027. In assessing the Group's liquidity and viability, the Board analysed a variety of downside scenarios including a severe but plausible downside scenario where the Group is impacted by a combination of all principal risks, as well as reverse stress testing to identify what would be required to either breach covenants or run out of liquidity. The Group would maintain comfortable liquidity headroom and sufficient headroom against covenant requirements during the period under assessment in the severe but plausible scenario, even before modelling the mitigating effect of actions that management would take in the event that these downside risks were to crystallise. In all scenarios it is assumed that the Revolving Credit Facility is available and that the €300m bond with a maturity due within the going concern assessment period is refinanced ahead of time with a £250m bond or bank facility.

At 31 December 2023, the Group was rated BBB- (positive outlook) with Fitch and Baa3 (stable outlook) with Moody's.

Net debt

all figures in £ millions	2023	2022
Cash and cash equivalents (excluding overdrafts)	**312**	558
Overdrafts	**(3)**	(15)
Investment in finance lease	**100**	121
Derivative financial instruments	**5**	(6)
Bonds	**(611)**	(610)
Lease liabilities	**(547)**	(605)
Net debt	**(744)**	(557)

Post-retirement benefits

Pearson operates a variety of pension and post-retirement plans. The UK Group pension plan has by far the largest defined benefit section. The Group has some smaller defined benefit sections in the US and Canada but, outside the UK, most of the companies operate defined contribution plans.

The charge to profit in respect of worldwide pensions and post-retirement benefits amounted to £45m in 2023 (2022: £66m), of which a charge of £71m (2022: £75m) was reported in operating profit and income of £26m (2022: £9m) was reported in other net finance costs. In 2022, a charge of £3m related to one-off discretionary pension increases has been excluded from adjusted operating profit.

The overall surplus on UK Group pension plans of £574m at the end of 2022 has decreased to a surplus of £491m at the end of 2023. The decrease has arisen principally due to the actuarial loss noted above in the other comprehensive income section. In total, the worldwide net position in respect of pensions and other post-retirement benefits decreased from a net asset of £520m at the end of 2022 to a net asset of £455m at the end of 2023.

Businesses acquired

In March 2023, the Group completed the acquisition of 100% of the share capital of Personnel Decisions Research Institutes, LLC ('PDRI') for cash consideration of £152m ($187m). There is no contingent or deferred consideration. Net assets acquired of £91m were recognised on the Group's balance sheet including £117m of acquired intangible assets. Goodwill of £61m was also recognised in relation to the acquisition.

The cash outflow in 2023 relating to acquisitions of subsidiaries was £171m plus £4m of acquisition costs. In addition, there were cash outflows relating to the acquisition of associates of £5m and investments of £8m.

The cash outflow in 2022 relating to acquisitions of subsidiaries was £228m arising primarily from the acquisitions of Credly and Mondly. In addition, there were cash outflows relating to the acquisition of associates of £5m and investments of £12m.

Businesses disposed

In 2023, the Group disposed of its interests in its POLS businesses in the US, UK, Australia and India. The business disposed excludes Pearson's contract with ASU. The consideration to be received is deferred and comprises a 27.5% share of positive adjusted EBITDA in each calendar year for 6 years and 27.5% of the proceeds received by the purchaser in relation to any future monetisation event. The consideration has been valued at £12m and a pre-tax gain on disposal of £13m has been recognised.

In addition, £19m of losses arose from the disposals of Pearson College and the international courseware local publishing business in India, £12m of costs related to previous disposals were recognised and a gain of £9m has been recognised in relation to the release of a provision related to a historical disposal.

In 2023, the cash outflow from the disposal of businesses of £38m mainly relates to the disposals described above. In 2022, the cash inflow from disposals of £333m mainly related to the disposal of the Group's international courseware local publishing businesses and the receipt of deferred proceeds from the US K12 Courseware sale in 2019.

In addition, proceeds of £7m (2022: £17m) were received in relation to the disposal of investments.

Dividends

The dividend accounted for in our 2023 financial statements totalling £155m represents the final dividend in respect of 2022 (14.9p) and the interim dividend for 2023 (7.0p). We are proposing a final dividend for 2023 of 15.7p bringing the total paid and payable in respect of 2023 to 22.7p. This final 2023 dividend which was approved by the Board in February 2024, is subject to approval at the forthcoming AGM. For 2023, the dividend is covered 2.6 times by adjusted earnings.

Share buyback

On 28 April 2023, the Group announced its intention to commence a £300m share buyback programme in order to return capital to shareholders. The programme commenced on 21 September 2023. At 31 December 2023, approximately 20m shares had been bought back at a cash cost of £186m. The liability for the remainder of the £300m programme plus related costs has been accounted for in 2023. The nominal value of the cancelled shares of £5m has been transferred to the capital redemption reserve.

The £300m share buy back programme completed on 7 March 2024 with a total of 32m shares repurchased across the programme. We intend to extend our share buy back programme by £200m.

Climate change

The Group has assessed the impacts of climate change on the Group's financial statements. The assessment did not identify any material impact on the Group's significant judgements or estimates, the recoverability of the Group's assets at 31 December 2023 or the assessment of going concern for the period to June 2025.

Conclusion

We delivered another strong set of financial results, exceeding financial expectations in 2023 and achieving cost savings of £120m. We are on track to meet expectations in 2024 and remain committed to our targets out to 2025. We have a strong balance sheet, providing optionality, and are extending our share buy-back programme by £200m. Free cash flow has improved and we expect 95-100% conversion in 2024.

My colleagues across finance have once again helped the business successfully respond to opportunities and challenges that have arisen, through appropriate financial control, critical insights and value creation. I would like to thank them for their hard work and commitment throughout the year.

We have a strong balance sheet providing optionality and are extending our share buyback by £200m. We have improved our free cash flow and expect 95-100% conversion in 2024.

Sally Johnson Chief Financial Officer