# Pearson Pre-AGM Shareholder Event

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## Sizzle opening

One year ago, we woke up to a whole new world. So, we did what humans do: we adapted. We found new ways to do everyday things. We kept going, because we kept learning. This past year was a call to action; to learn. Companies also answered the call by getting smarter and more agile. They gave their people tools to adapt. By empowering their people to learn, companies got better and faster and created new potential. Now, we learn not only when we must but because we choose to. From young to old, from school to work and beyond, life will keep surprising us, and when that happens, we will keep learning. Education is where we start but learning is for life. The time for learning is now.

## Presentation

Sidney Taurel

*Chair, Pearson*

Hello everyone. I'm Sidney Taurel, Chair of Pearson. I would like to welcome you to today's shareholder webcast, which is taking place ahead of our forthcoming annual general meeting this Friday. Due to Covid-related restrictions, we are unable to hold an open AGM this year. However, I am pleased to hold this virtual event to ensure that you, our shareholders, can ask questions before registering your AGM vote.

As you know, we have encouraged all participants to pre-submit questions and these will be answered in order of submission. You can also submit questions at any point during the presentation, using the online chat Q&A function. We will endeavour to ensure that any question that does not get answered today will be addressed on our website within 24 hours of this event.

Joining me today, virtually of course, are our Chief Executive, Andy Bird, and Chief Financial Officer, Sally Johnson; our Pearson Board Committee Chairs, Elizabeth Corley, Chair of our Remuneration Committee; Vivienne Cox, Chair of our Nominations and Governance Committee and Senior Independent Director; Linda Lorimer, Chair of Reputation and Responsibility Committee; and Tim Score, Chair of our Audit Committee. All will be available to answer questions if required. And I'm also pleased to have on the line our Head of Investor Relations and Financial Communication, Joanne Russell, who will be moderating the Q&A later.

**Changes on board and in senior management**

*Chairman's retirement*

As you may be aware from our recent company announcement that I have informed the board of my intention to retire as Chairman and step down from the board in due course, no later than the 2022 annual general meeting. It's long been my intention that with a new Chief Executive firmly in place and with strong foundations from which we can grow, I would retire from the Pearson board. The process will now be to identify and appoint the successor.

Pearson has made good progress over the years in transforming to become a more focused, digital learning company. We have a new CEO and a clear vision for the future, supported by a refreshed board and a strengthened senior management team. The unveiling of our new strategy in March 2021 provided greater clarity regarding the future direction of the company and a platform from which we can deliver sustainable growth, creating value for all stakeholders. With all this in place, I believe that this year is the appropriate time to conduct a search for my successor.

*New CEO*

I'm delighted that Andy became our Chief Executive in October 2020. Andy was the stand-out candidate from a very strong field. After a career in the UK and US in the media and entertainment industry, his last job was Chairman of Walt Disney International, where he was responsible for the company's business outside of the US. He led a major expansion of Walt Disney International, transforming the organisation into a digital-first business focused on the diverse needs of consumers around the world. So he has the right experience to lead Pearson in its next chapter. And having been also a non-executive director of Pearson since May 2020, he was able to hit the ground running. I'm sure that many of you watched his presentation in early March of the new strategy to return Pearson to growth, something that I will ask him to talk to shortly.

*New CFO*

Sally Johnson, our former Deputy CFO, was appointed Chief Financial Officer in April 2020 following our annual general meeting. Sally has a deep knowledge of the business and the markets we operate in and her financial acumen, leadership skills and incredible work ethic have made a positive impact on our business. I'm delighted to have her on our management team and board.

*Other changes on the board*

I also have other changes to the board to note today. We bid farewell this week to our Senior Independent Director. Vivienne will be missed as her nine-year term on the Pearson board reaches its conclusion. Michael Lynton, board director since 2018, is also stepping down from his role this week at the AGM. Vivienne and Michael have made tremendous contributions to Pearson and on behalf of the board I would like to thank them both for their service to Pearson and wish them all the very best. Tim Score will replace Vivienne as Senior Independent Director immediately following the conclusion of the AGM and I will replace Vivienne as Chair of the Nomination and Governance Committee. Tim will lead the succession process for my replacement.

And I'm delighted to welcome a new board member, Annette Thomas, CEO of Guardian Media Group, to the board of directors. Annette brings with her a wealth of experience in digital learning, media and data. Annette will join the Reputation and Responsibility Committee and the Nomination and Governance Committee. I look forward to working with her when she joins later this year.

**Overview of last year**

Now, before asking Andy to make a few comments, I wanted to give you a brief overview of last year. We will then move to Q&A.

*Stakeholder support*

Our purpose at Pearson, as you know, is to help people achieve their potential through learning. The exceptional challenges of the past year have impacted all aspects of our lives and affected all aspects of our business, but the environment that we have all lived through for the last 12 months has made learning more important and relevant than ever. We are proud to have played our part in supporting our stakeholders, most notably our employees, customers and shareholders, who are also crucial to our company's success.

For our employees, the board took the decision to not take advantage of any government funding and we did not furlough anyone. Where possible, we redeployed our employees to high-growth areas of the business, such as online learning, to maximise our efficiency.

For our customers, we made the right decision early on to make some of our popular digital materials and content available for free to them in the early months of the pandemic, to help enable the process of moving to digital learning. We believe this will lead to deeper, more durable, long-term relationships.

And for our shareholders, the board decided that due to the strength of our balance sheet, strong financial position and liquidity, as well as confidence in our outlook in a post-pandemic world, the right decision was to maintain our dividend. We know our shareholders rely on dividends and we strongly believe it was the responsible thing to do in recognition of your support and loyalty. We are recommending maintaining our dividend for 2020 at the same level and our priority going forward is to maintain a progressive and sustainable dividend. At this point we believe maintaining a very strong balance sheet is appropriate and as such, we are not planning to reinitiate the share buy-back. We will keep our balance sheet strength and potential for surplus cash returns under review, but do not see in the immediate horizon a return to our share buy-back.

So these are just a few examples that I hope give you the extent of our commitment to support Pearson's stakeholders through challenging times.

*Company performance*

Turning now to performance, the performance of the company. As you will see from the slide, in a challenging year I'm encouraged that we were able to achieve both sales and adjusted operating profit in line with the revised expectations that we laid out in March 2020 in response to the pandemic's impact. Our balance sheet remains strong and we are recommending maintaining the dividend in 2020, as noted in the prior slide.

Now, looking at our Q1 results, we have had a very strong start of the year and are building momentum. Our performance is on track, with group revenue up 5%, driven by a strong performance in our virtual learning business.

In terms of outlook for the rest of the year, we expect revenue growth with recovery post Covid-19 and adjusted operating profit to be in line with expectations.

Pearson has a fundamentally strong social purpose and our historic commitment to embed sustainability into all business functions and operations has been further strengthened during the last year. We launched our sustainable business plan 2030 last year, focusing on the most material and environmental, social and governance issues, and we know this work will only strengthen our strategic objectives. The board has been engaged on overseeing plans in progress towards our sustainability ambitions and I'm pleased with the progress that we made in this past year, particularly with the launch of our social bond and our ambitious goals on reducing emissions. We are also strengthening our approach to sustainability reporting and transparency and have an ongoing focus on diversity, equity and inclusion, that was also strengthened significantly in the last year.

And finally, looking ahead, the board remains confident about Pearson's 2021 prospects as we aim to return to sales and adjusted operating profit growth this year in line with current market expectations, as I just said. We are excited about our longer-term prospects and the opportunities to build shareholder value through the delivery of profitable growth and strong cash generation, while continuing to invest in the future.

So thank you for your continued support and with that, I will hand over to Andy.

## Presentation

Andy Bird

*CEO, Pearson*

Thank you Sidney and good afternoon everyone. I'm delighted to be here with you today as your Chief Executive for the first time. As Sidney was saying, Pearson is a unique company, with a position in society that has never been more relevant. The last 12 months have seen an acceleration in learning globally, which should allow Pearson to participate in an exciting growth sector. We're becoming a digital-first, consumer-centric company, with a very dedicated and talented workforce. We're focusing on creating and delivering the most innovative and relevant learning solutions for millions of individuals globally.

The company is in a strong position, with solid foundations laid for growth, and this is due in no small part to the contribution of our Chair, Sidney Taurel. Since Sidney's appointment in January 2016, Pearson has become a greatly simplified company in terms of portfolio, processes and focus. Sidney has overseen a significant investment in both our technology and our talent to ensure that we can become the global leaders in digital learning. We're in a strong financial position with a renewed focus on embedding sustainability into our business, and our strength direction has never been clearer.

The resilience of Pearson has also been highlighted in the last 12 months as we've been navigating through an exceptionally challenging Covid-19 environment. As Pearson's new Chief Executive, I've already come to greatly appreciate Sidney's guidance, oversight and leadership, and I look forward to working with him until a successor is found.

**Vision for growth**

Now, let me explain our vision for how we will unlock our potential and return to growth and why I'm optimistic about our future. Because the learning market is vast, at around £5 trillion today, growing to over £7 trillion by 2030. Formal primary, secondary and tertiary education 75% of that market and will remain a significant majority. We expect over a billion more learners to have moved through formal education by 2030. A growing middle class and longer careers are also driving lifelong and non-academic learning, particularly for re- and up-skilling, a trend that has been accelerated over the past year. This all adds up to a huge momentum in our industry and a great opportunity for Pearson to innovate and scale up to meet the growing and changing demands of learners globally.

The most interesting thing about that extraordinary £5 trillion learning market? It's currently on 3% digital. So that's a huge opportunity for us to grow our business and with a highly attractive digital business model. In this changing world of learning, I see three big, global market opportunities for Pearson. The rise in online and digital tools for schools and education; the workforce skills gap; and the growing need for accreditation and certification. These represent a balance between the profitable markets where Pearson has a leading position, and new markets, where we believe we have the capabilities to grow rapidly.

**Reorganisation into five divisions**

To capitalise on these opportunities, I've announced the reorganisation of Pearson along five new business divisions that are the foundation for the long-term growth of the company, as outlined on this slide. And all supported by our new direct-to-consumer group, which sits across the five divisions and provides products and consumer expertise to each one.

These five divisions will form Pearson's foundation going forward. They're great businesses in themselves and each is linked to the others through our shared IP and our shared capabilities. We'll derive new value from that ecosystem by linking our products together across the lifelong learning journey, by building new, direct relationships with our consumers and by focusing everything we do on producing the most effective, valuable and enjoyable learning experiences.

**Strategic review**

We've also launched a strategic review of our international courseware local publishing businesses, and we're simplifying our property portfolio to occupy a significantly smaller square footage as we imagine what return to work will look like.

**Outlook**

So what does all this mean for you, our shareholders, and the broader company stakeholders? Well, five years from now we'll be a different company than the one today. The foundations that I've laid out will deliver a business that will be 100% digital, with a strong direct-to-consumer focus and greatly scaled in terms of revenue. This will lead to long-term sustainable growth and shareholder value creation.

And moving forward, these are the five guiding principles I'll use to lead this company into its next and most exciting chapter, enabling Pearson to develop the highest quality products and services utilising our technology and our talented employees to drive innovation, excellence and quality in everything we do. We'll put the consumer at the centre of everything we do, providing them with the highest quality and best value products. We'll only be in businesses that will drive scale, growth, profitability and shareholder value. And we'll have the capabilities to deliver, using an entrepreneurial culture, diverse talent and effective technology. And finally, we'll move with speed and agility.

This is good for our customers, our employees, our shareholders and the wider society. And with that, it's over to Jo for the Q&A.

## Q&A

**Joanne Russell:** Many thanks Andy and Sidney and good afternoon everyone. As Sidney mentioned, we have encouraged all participants to pre-submit questions and these have been prioritised in terms of responses, answered in order of submission. You can also submit questions at any time during the presentation using the online chat Q&A function. The first question comes from Mr Ian Hunter, who's a shareholder.

Over several years, Pearson sold many valuable assets at low prices and destroyed or at best damaged shareholder value. Divisions which have held up the share price were slashed and profits always underwhelmed expectation. With the new and most generously paid CEO, could the company please set out clearly what its business plan actually is, how it will deliver it and when it will be able to resume its dividend payments and revert to previous payout regime? Surely a special dividend to make up for last year's pandemic-inspired caution should now be made. With the rapid in working from home and learning from home in 2020, Pearson should have been able to capitalise on having the appropriate product to service the huge new demand, and I and other institutional shareholders will be expecting a record year's profit recovery and solid value creation in the results reported. Failing that, the board should put themselves up for re-election individually.

Sidney, shall I hand over to you?

**Sidney Taurel:** Yes please. Thank you Jo. Thank you Mr Hunter for your detailed question. There are several themes that you raised and I will endeavour to answer each of them in my response. I'd broadly categorise them into three main areas: strategy, performance and growth outlook, and shareholder returns. And let me take each of those in turn.

So, first one is strategy. As you know, Pearson made a decision several years ago to focus on education. We are not unique in pursuing a single focus, it's something that many other companies have done in the last two or three decades. Many conglomerates in the last three, four decades have heard from their shareholders that they do not want the companies that they invest in to be diversified, they want the companies they invest in to be the best at what they do, and it's very difficult to do this when you're involved in many different and often disparate businesses. So indeed today, when you do a sum-of-the-parts analysis of any conglomerate, you typically see that it is higher than the value of the company itself. That is the basic, fundamental reason why first Pearson decided many years before Andy or I were involved that the right thing to do was to focus on learning and education.

Crucially, the world of learning offered a significant opportunity. There is a great need around the world for better education and learning and we are well placed to benefit from this, given our position as the world's leading learning company. What's more, the global learning market is vast, as you've just heard from Andy, valued at £5 trillion and expected to grow to £7 trillion by 2030.

And as you've just heard also, Andy outlined three strategic global opportunities that we are pursuing: the growth in digital learning tools; the workforce skills gap; and the growing need for accreditation and certification. And in order to capitalise on these opportunities, we have organised our business around five divisions, underpinned by a new direct-to-consumer group, as we look to target consumers directly across the world. We have a world class assessment business, we are leaders in virtual schooling, we have a unique position in English and an opportunity to embrace the workplace skills market as employers look to partner with companies that they can trust. And we also have an opportunity to build a direct-to-consumer business.

So we will invest in opportunities in markets that are structurally growing, we have strong competitive positions, the best content, great digital products and world-class assessment capabilities, all of which we can grow from. It's an exciting time from us as we look to capitalise on the new strategy and return to growth.

Now let me turn to performance and growth outlook. We have made progress in the essential work of focusing the portfolio, reducing the cost base, shoring up the balance sheet, modernising back-office functions and technology, reducing our physical footprint and investing in our digital future. This has enabled us to become a world-class, agile and efficient company, which is now well placed for growth. We are also becoming ever more digital, which is good for our business, as digital revenues are more predictable and sustainable. In 2020, we reported 73% digital and digitally-enabled sales, and our goal is to hit 100% in the next five years.

However, like many businesses globally, our business has been impacted by Covid in 2020, particularly the closure of schools and physical test centres around the world for large parts of the last year and the cancellation of school exams in our largest markets, which inevitably hit our sales and profits. At the same time, however, our virtual learning business grew rapidly over the pandemic period, as more people saw the promise and opportunity of online learning. In this sense, the pandemic has served, as you indicated in your question, to accelerate the positive trends already underway in the shift to digital learning.

Looking ahead, we expect our business to bounce back after a Covid year and we expect to grow both the top line and the bottom line in 2021 and sustainably thereafter to create shareholder value.

Which brings me to the third part of your question, which is shareholder returns. As shareholders will know, and linked to the above strategy update, we have spent the last few years significantly modernising and simplifying the company as we worked through a challenging digital transformation. During this time, we had to make tough decisions and one of them, in 2017, was to reduce the dividend. This was a difficult decision to take and I empathise with the shareholder experience. It's why, when we took this decision, we ensured we reset the dividend to a level that was both sustainable and progressive going forward. It was this commitment to shareholders and also due to the work done to strengthen the balance sheet that enabled us to maintain our full-year dividend in 2020, even when the pandemic was hitting its peak and many other companies, as I'm sure you're aware, were not able to do so. And, while shareholders would be aware that we are not currently planning to reinitiate a share buy-back, in order to maintain our strong balance sheet, we are recommending maintaining our dividend for 2020 at the same level and our priority going forward is to sustain a progressive and sustainable dividend to reward shareholders for your ongoing support.

And finally, to respond to the final point in your question, in accordance with the UK corporate governance code, every member of the board puts themselves up for re-election every year at the AGM.

Back to you Jo.

**Joanne Russell:** Thank you Sidney. And the second question comes from a shareholder, Mr Alan Smith. When were the present auditors first appointed to Pearson? Sidney, back to you.

**Sidney Taurel:** I'm going to ask Tim Score, the Chair of our Audit Committee to answer that question.

**Tim Score:** Thank you Sidney. And thank you Mr Smith for the question and indeed thank you for your patience, as I believe that you first raised the issue of audit tenure at the 2017 AGM, if not before. To directly answer your question, PwC has been Pearson's auditor since 1996 and relatively recent EU and UK regulations stipulate that Pearson will need to appoint a new audit firm no later than for the 2024 financial year end. And as discussed in our recent annual reports and as discussed at recent AGMs, the Audit Committee and board have been considering the most appropriate time to conduct a tender process to appoint a new auditor. As I said last year, we considered conducting a tender in 2018 or 2019 but decided to defer to 2020 in light of the level of transformation activity being undertaken by the company during that period. In 2020, given the impact of the pandemic and the associated guidance from the Financial Reporting Council, we decided to put the tender on hold.

You may be pleased to know that the tender has now recommenced and we expect the board to approve the appointment of a new audit firm in the summer, which will work on the transition with management and PwC over the 2021 year end and become the company's auditors for the 2022 year end. And going forward, as required, Pearson will run an audit tender process at least every ten years.

Over to you Sidney.

**Sidney Taurel:** Thank you. Jo, what's the next question?

**Joanne Russell:** Thank you. So the third question comes from Mr Tom Schuler, who is a shareholder and also appointed representative of Shareholder Action.

I'm submitting a question as an appointed representative of ShareAction. I'm delighted that Pearson remains an accredited living wage employer. The Living Wage Foundation have launched a living hours standard, which presents living wage employers with the opportunity to go further and provide staff with security and stability. Living hours accredited employers commit to providing workers with the right to a contract that reflects actual hours worked and a guaranteed minimum 16 hours a week, at least four weeks' notice with guaranteed payment if shifts are cancelled within this notice period. I would like to ask the board to give an overview of Pearson's approach to contracts. Additionally, would the board be willing to meet ShareAction and the Living Wage Foundation to discuss the living hours standard in more detail? I look forward to your response during the session.

Sidney, over to you again.

**Sidney Taurel:** Thank you Jo. I think that's a question that is for our Chief Executive, so Andy, to you.

**Andy Bird:** Thanks Sidney and thank you Mr Schuler for the question. As you correctly note, Pearson is an accredited living wage employer and this is an area that's very, very important to us. Supporting our employees is an ongoing priority for the whole company. And as noted in my presentation, during the peak of the pandemic, where staff were prevented from working, for example in our Pearson VUE test centres, Pearson continued to pay normal wages and we didn't use any of the government's furlough scheme. Where possible, we also deployed employees to high-growth areas of the business. Here in the UK, all of our Pearson have full, contractual employment rights, including guaranteed hours. We do recognise that there are areas of our business where a degree of flexibility is valued, both by the employees and by Pearson. And the living hours standard is an area we'd be happy to discuss further with you in principle and with ShareAction, so I invite you to get in touch with my office so that I can put you in contact with the right people to have those discussions.

Back to you Sidney.

**Sidney Taurel:** Thank you. Jo, any more questions on the webcast? On the chat?

**Joanne Russell:** Yes Sidney, we have one more question, from a shareholder, Mr Philip Clark.

I could not see anywhere in the annual report and accounts an explanation for the 10% reduction in underlying term. The [inaudible] report does nothing more than mention a decrease. The five pages in the report dedicated to the business divisions only mention comparative revenues for one division and that shows an increase of 29%, and segmental data on pages 150 and 151 only shows headline numbers, so not comparable to the casual reader. I'm sure there has been a significant impact from Covid, but I cannot establish what this is from the report, nor whether we assume it is a temporary effect.

I also note adjusted operating profit fell by 40% from £581 million to £313 million, despite sales only being down 10%. Nowhere in the report is this explained. Can you help us understand, please, and in future, could the annual report please explain rather than just report changes year on year in key financials?

Sidney, over to you.

**Sidney Taurel:** I will ask Sally Johnson, our CFO, to respond to this question.

**Sally Johnson:** Yes, absolutely. Thank you Sidney and thank you Mr Clark for your question. I will try and walk through each element. So, as you rightly said, underlying sales were down 10% in 2020, and that was predominantly due to Covid, but there is a more detailed explanation for each of our four business divisions.

So, starting on page 37 of the annual report, we talk about global online learning, which was up 18%, that's an element of the minus 10%. And this was driven by our virtual schools business, where we saw an over 40% increase in enrolments as students decided to move to virtual online learning within that school part of the business.

On the next page, so page 38, we talk about global assessment. Global assessment was down 14%. This was due to Covid, because our test centres for our professional certification business were closed while lockdowns were happening, and also some high-stakes exams were cancelled.

On the same page we talk about North American courseware, which was down 13%. This was due to the impact of a reduction in our print product, which is at a high price point, only partially offset by an increase in our digital product, which is at a lower price point.

Two other KPIs that we pick out in this section are an increase in unit sales across that year, and why that's important is because we see a future opportunity to regain what's called the secondary market, so print books that are sold on as second hand, and as we move to digital, we think we can recapture that secondary market. And another key performance indicator that we include in that section is a 9% increase in digital registration, which also shows the opportunity for growth in digital sales.

And then last but not last, on page 39 we talk about our international division, which was down by 19%. Again, this was due to Covid and an impact on our courseware sales, as there was pressure on school budgets, etc, and also on our English business, which is driven by private language schools, which were impacted by lockdowns. And also, our Pearson Test In English, which is a test that people take as they cross borders and emigrate, and obviously that was something that was impacted last year as well.

I think you also asked about sales growth looking into the future. For 2021 we indicated we expect to see sales growth actually as well as profit growth, as the business rebounds following Covid hopefully getting better through the year, and our North America courseware business that I just referred to, we believe will be down less in 2021 than it has been in recent years and we believe as we stretch out into the future, that recapturing the secondary market will return that division to growth as well.

And then I think the last part of your question was adjusted operating profits. There are a few movers that we've indicated there. So first of all, there's a portfolio effect. So, we disposed of PRH, a business that we have 25% share in, in the year. So that means that we don't have the profits from that business anymore. And then inflation, which is usually about £30 million on our cost base. And then the offsetting part of that is the sales impact due to, as we said, predominantly Covid, and that's dropping through at about a 60% operating leverage, which is normal for our business.

Thank you very much.

**Sidney Taurel:** Thank you Sally for this comprehensive response. Jo, are there more questions?

**Joanne Russell:** Sidney, there's just one more question, which has come in from Mr Clark. He says, 'How many shareholders are attending this webcast and how does this compare with a normal AGM?'

**Sidney Taurel:** I believe, and you will correct me, Jo, if I'm incorrect, that we have not very many people attending. 11 were registered, I believe. It's – from what we hear from our brokers and other people who observe what's going on right now in the governance environment in the UK, this is typical of what's going on in other companies. We very much look forward to the day when we can come back and have meetings where we can actually combine the benefits of in-person meeting and also allow people from a distance to participate. So, hybrid meetings, and we actually are requesting a change in our by-laws in order to enable us to conduct such meetings in the future.

**Joanne Russell:** Thank you Sidney. And with that, there are no more questions, so I will pass back to you.

**Sidney Taurel:** Well, it being the case, let me bring this meeting to a close by thanking all of you, our shareholders who participated in this webcast, for your loyalty to the company or your interest in our company. The presentations and Q&As will be available on our website. And with that let me conclude the meeting. Thank you very much.

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