# Pearson 2024 Interim Results and Strategic Update

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# Pearson 2024 Interim Results & Strategic Update

Omar Abbosh

*CEO, Pearson*

**Agenda**

Ladies and gentlemen, thank you for joining us today for our Interim Results and Strategy Update. I have been really looking forward to spending this time with you. We have a busy session. I am going to kick us off today by sharing my early impressions on the business, and then I am going to hand over to Sally to break down our interim results that many of you will have already seen in our RNS this morning. Next, I will share with you our strategy update and what it means for our business going forward. Sally will then highlight what this means for all of you financially. And then we will move to Q&A.

For the first part of the conversation, it is just Sally and me. And then for the Q&A, I have asked some of our wonderful team to join us here, many of whom you have met before: Art Valentine, Gio Giovannelli, Tom Ap Simon, Tony Prentice, Sue Kolloru, and our new face, Vishaal Gupta.

**First six months**

Okay. Since I last saw you for Prelims in March, I have continued my listening and learning journey. I have had the pleasure of meeting 100s and 100s of our people, dozens of our customers, including following our sellers around with their customers. I met about 20 investors, a wide range of partners, and, with our Pearson executive team, we have conducted about 20 town halls around the world.

Also, starting in early March through June, we ran a process with about 65 of our top leaders to look at every single aspect of our business. We brought this group together physically and covered all the topics that you would expect, market, competition, customers, operations, and more. We organised the group into 'action teams', addressing core business performance and growth, and people and culture, data, AI and product, and strategic partnerships. I have to tell you that the journey so far has been very exciting, I have learned a lot, and I continue to learn each day, and working with this team has been thoroughly enjoyable.

**Pearson does three things**

Let me share a few perspectives with you on our business today. As I told you in March, Pearson does three things really well. We create and curate high-quality content in the form of learning materials and assessments. This ranges from assessment materials for surgery and nursing exams to author-driven content in Pearson+. We distribute this content primarily through digital systems such as the VUE Testing System (VTS) or the Pearson Connexus platform for Virtual Schools. And we build and verify skills through assessments like Certiport and PDRI, capabilities like Faethm for skills design and diagnosis, and Credly for credentialing.

So as you can see, Pearson offers a very diverse array of products across multiple learning and education segments, and this gives our business resilience and a range of options for future growth. Also, I have learned that under the hood, we have two distinct business models. The first is B2B Services, for example, VUE, Virtual Schools, Pearson School Qualifications. And the second is the software business model, for example, Higher Ed Courseware or Clinical

Assessments or Mondly. I find that thinking about the business in this way really helps us see many areas of value creation upside. So let me share three observations about our business.

**Initial Observations**

Firstly, we have five strong businesses, each with clear lines of accountability and each on a growth trajectory. I have kicked the tyres on sales, sales operations, cost structure, processes, technology systems, skills and capabilities. And I can confirm, as I told you in March, that Pearson is a solid business on a solid foundation that provides a platform with many good strategic options.

As we look forward to understand future opportunity, we see that Assessments and Qualifications is a great operation. It is well run. It is highly trusted by customers. It scales well, and it is trusted in the most high-stake situations.

Virtual Schools has lots of potential as one of just two national players. Again, it performs an invaluable service. It is trusted and is back on a growth footing after a couple of lost customers in past years.

English Language Learning. This is an entrepreneurial team, and notwithstanding the ups and downs of market trends, for example, in PTE, the team under Gio has responded extremely well by diving into hybrid institutional opportunities because they are on the detail and very focused on execution and getting results.

Workforce Skills, as you know, consists of two parts. The traditional strength in Vocational Qualifications & GED, the US high school diploma equivalent, is there, and it performs very well from a growth and a margin perspective. In the last couple of years, the company invested heavily in Solutions, given the clear upside potential in the worlds of skills and certifications. This is an area of focus for us and is why we have Vishaal Gupta, who has landed very well, thank you, Vishaal, focused on beefing up the go-to-market capability as we scale that offering.

It is no secret that the Achilles heel of Pearson for the last 10 years has been US Higher Ed. Many of the issues were exogenous – secondary market, Open Educational Resources, piracy and enrolment swings – but some were of our own making, for example, with product stability, sales team focus and innovation in the core product. On the external factors, we see a significant reduction in the impact today, and on the internal factors, Higher Ed is competitive again. This is why we are confident for return to growth this year for the first time since 2014.

I am happy with our portfolio as it stands. Pearson is a unique company in a class of its own, delivering strong profitability, great cash flow conversion, and is diversified across customer segments and services. In fact, we are the only B2B services company serving the full breadth of K12 and Higher Ed institutions and students, governments, employers and employees across a wide range of learning and education services. Each of our assets has a purpose in making us the natural home for learning and education.

Secondly, Pearson is a trusted business. As I spoke to our customers, ranging from enterprise leaders to professional associations to Higher Ed leaders, to school leaders to franchise owners, I heard over and over what people value in Pearson. Firstly, this is our people and culture. They are collegiate, customer responsive and care deeply about helping learners around the world. In other words, they are strongly mission driven, and our customers feel this.

Next is our domain and industry knowledge. As I mentioned, Pearson is the home of learning and education. We are connected deeply to networks of authors, institutions, educators, policy makers, students, companies, start-ups and more, all in the space of learning and education. And these networks have resulted in several petabytes of data, high-quality, leading edge content and learning assessments, and a deep insight into how people learn.

We also hear all the time from our customers that we are the gold standard. We are trusted by governments, professional organisations, educational institutions and companies to set standards and then carry those standards for them.

Finally, about two-thirds of Pearson's business is pure assessments. Think of VUE, BTEC, Clinical, GED, Pearson Test of English and Versant, while the remaining one-third is products and services with assessments embedded. This means that our core business is Assessments and Verification, which is increasingly important in a world of AI, because in a world of AI, anyone can make out they know almost anything, but at some point we need to demonstrate skills and learning. And this is where assessments are so important.

In March, we set out our strategic priorities for the year. We said that we will hit consensus numbers for 2024, that we would focus on the workforce opportunity and that we will drive AI through our products and services. And we see AI as a tool that accelerates value and growth for Pearson. I am happy to say that we are on track to meet our commitments for 2024, and Sally will take you through our interims update now where you will see a little bit more detail on these numbers. After Sally does this, I will get into the strategy update where I will expand further on workforce and AI. Over to you Sally.

## Interim Financials

Sally Johnson

*CFO, Pearson*

### H1 Financial results

Thanks Omar and hi everyone. We have delivered another good performance in the first half, with underlying sales, excluding OPM, up 2% and adjusted operating profits up 4% to £250 million. Earnings per share were flat at 25.6p with higher net interest costs offset by the impact of the reduced share count, both predominantly due to the share buyback. Operating cash performance was again strong, up £50 million from last year, with good underlying fundamentals as well as some phasing and FX benefits.

Free cash flow was also strong up £77 million, given that operating cash performance, and below the line reorganisation costs have now fallen away.

Our balance sheet remains robust with net debt at June 2024 of £1.2 billion, £0.3 billion more than last year, given the £500 million share buyback and dividends which were partially offset by strong free cash flow. Reflecting our strong performance and our confidence in the outlook, we are proposing a 6% increase in the interim dividend to 7.4p.

**H1 2024 sales**

*Assessments and Qualifications*

Touching on the key elements of divisional sales performance, Assessments and Qualifications grew 2% with growth across VUE, Clinical and UK and International Qualifications, partially offset by an expected small decline in US Student Assessments.

VUE renewed and won a number of key contracts, all of which support future pipeline growth. We are also pleased with the growth in PDRI where we saw strong volumes across the TSA and United States Airforce contracts. We continue to expect low to mid-single-digit sales growth in A&Q for the full year.

*Virtual Learning*

In Virtual Learning, sales decreased 8%, most of which is attributable to the final portion of the OPM ASU contract in H1 last year. Virtual Schools was down 1%, reflecting the previously announced contract losses for the current academic year. We have already announced the opening of three new schools this year and a further 19 career programmes, and we continue to expect Virtual School sales to decline at a similar rate to 2023 in 2024, and for the division to return to growth in 2025.

*Higher Education*

Higher Education sales were down 2% in line with our expectations, and there are encouraging signs of progress in HE with spring market adoption data indicating small share gains. In H1, we saw 3% growth in core text units, 2% growth in US digital subscriptions, 25% growth in inclusive access and K12 growth of 12%, given the strong adoption cycle fundamentals in that market this year. Pearson+ performed well with 5 million registered users and 1.1 million paid subscriptions for the 2023/2024 academic year, the latter representing 18% growth.

So we continue to be confident that Higher Education will return to growth in the second half and for the full year. We are of course keeping a close eye on the FAFSA student aid situation, given the uncertainty it creates around enrolments, but we currently expect any impact to be immaterial. Lastly, on Higher Ed, the usual reminder of the impact on digital growth, shifting rev rec from Q3 to Q4.

*English Language Learning*

English Language Learning grew 11%, with strong growth in Institutional and Mondly, partially offsetting a sales decline in PTE. We have continued to gain market share in PTE despite a market which has declined, given the tightening of migration and international study in H1. The Argentina FX impact discussed at Q1 has faded, as expected, and will be immaterial in a full-year context.

Given the current market dynamics for PTE, we expect sales to be flat to down this year, offset by strong growth in other English Language Learning elements, such that we continue to expect high single-digit sales growth for the division as a whole. Our market share gains in PTE and the ramp up for Canada mean we are well placed for English high stakes testing market growth, which we expect in the medium term, given demographic projections.

*Workforce Skills*

Workforce Skills grew 6%, with strong performances in vocational qualifications, GED and Credly, driven by strong renewals.

### H1 2024 adjusted operating profit

Turning to profit. Group adjusted operating profit with up 4% to £250 million, with the trading performance alongside net cost phasing and savings partially offset by inflation and restructuring charges in Higher Education. These were always expected to be weighted for the first half. Divisionally, profits improved with the exception of Virtual Learning, given the highlighted impact of OPM on H1 profit in 2023. We remain on track to meet the Group sales, profit, tax and interest expectations I laid out for prelims. And as a reminder, every 1 cent movement in the FX rate equates to £5 million of adjusted operational profit.

So in summary, in H1, we have seen sales growth, a 4% increase in profit and a £77 million increase in free cash flow, and we remain on track for the full-year guidance. At which point I will hand back to Omar for our strategic update.

## Strategic Update

Omar Abbosh

*CEO, Pearson*

Thank you, Sally. As I listen to our investors, I was trying to understand what are they really thinking and what are really their past experiences with Pearson. And at the bottom of it all, I heard essentially three questions. Firstly, can this team execute? Secondly, is this really a mid-single-digit growth company in the medium term? And thirdly, Pearson seems complex. What are the small number of things they are really going to focus on and be excellent at? These are fair questions, and I want to take you through an outside-in perspective on the company that I hope will answer these questions for you.

We formed this perspective with our team of leaders from across the company who took part in our business review process, the one that I described earlier. As we share our update, we also want to show you some of the progress our teams are making with applying AI in our product suites, which is of course one of our strategic priorities for 2024. This time last year you saw a demo of AI capabilities planned for our Higher Ed products. We have executed against that and expanded that plan further for Back to School. So I want to begin by just rolling one of those demos. If we could play the demo please.

[VIDEO]

***Speaker:*** *Students are enthusiastic about the AI tools we launched last fall in Mastering, MyLab and Pearson+ with more than 2 million student interactions with the tools. We are expanding the tools into international markets and into more MyLab and Mastering titles for fall, and we are pushing AI technology even further. In Pearson+ channels, we are rolling out three new features for fall.*

*Let us see how they work if I am a chemistry student. Our first new feature allows me to upload my professor's syllabus. I just drop it in. Then the AI generates a personalised learning experience and puts what I need to learn in the order that is on my syllabus. I can click into any of the assigned chapters and immediately get the videos and practice questions I need.*

*Next, if I need to get unstuck on a hard concept, our AI tutor is now in Pearson+ channels. When I ask the tutor for help, it gives me the steps to solve my question and gives me video content and practice questions.*

*Next, if I do not understand the concepts in a channel's video, I can use our third and newest most cutting edge feature. I can click on the AI tutor window that is right on the video. The video stops, and the tutor can answer my questions about the video concepts. It is kind of like I am raising my hand to ask the video a question.*

*While we are increasing the depth of student AI engagement, we are not forgetting about their instructors. We are rolling out our first AI instructor tools in Mastering and MyLab titles this fall. These tools use AI to help instructors build assignments for their students and adjust them based on length and difficulty.*

*Finally, we are adapting the tool for the K12 landscape for the first time in Connections Academy. When high school students struggle with quizzes and practice tests, they can now use the same AI study tool available in Mastering with step-by-step help to walk them through tough material. It is an important step forward for younger students as AI becomes part of the way everyone learns.*

**Omar Abbosh:** Is that not cool? The hand raise thing there is literally the AI is 'seeing' what the student is seeing in real time in the video so they can interrupt it and essentially chat mid video for explanations. We will have more on how AI is adding value to Pearson and its customers as we move through the presentation.

I am going to begin the strategy update by giving you the six conclusions, six headline conclusions, and then I am going to break each of these into more detail on the subsequent slides.

**Conclusions**

Firstly, there are two powerful secular trends that will power Pearson's growth over the next 10 years. And what is more, these trends sharpen why our purpose is so relevant in the world. The two large secular trends that will drive our market and Pearson's growth are the shifts in demographics that are happening and the growth in the power of AI. These increase the importance of learning, skills, verified skills, talent sourcing and talent management, and serving these needs means Pearson will unlock growth and margin.

Next, Pearson has a very powerful 'why'. We know that people benefit hugely from learning. People need to learn to progress in their lives, and Pearson is the world's lifelong learning company.

Then we turn our attention to shareholder value creation and have four value drivers. First, our market analysis shows us that we are strong leaders in sub-segments of the market that are about $15 billion in size, but that have been growing at about 2%. The markets that we are targeting going forward are $80 billion in size and grow at 5% or more.

Second, as you know, Pearson has been on a journey from being a holding company to an operating company. This ongoing journey with increasing focus on organic growth and execution gives us opportunity to drive more performance from our existing five core businesses.

Thirdly, we can unlock execution-based synergies from across the business units, from products and services bundling, secondly, from a modern approach to software and product development, and finally, from a focus on strategic partnerships.

And the fourth, shareholder value driver is that we see two important growth vectors in enterprise skills and early careers that are good adjacencies that we will focus on. I do not really want you to plug these into your models quite yet, but as we develop the work in the space, we will keep you fully updated.

So let us double click on each of these six elements. With our team, we started by looking at the external context around us, and we broke it down into four areas. These were the macro environment, including government spending, geopolitics, consumer trends; then our own industry where we studied the education and learning markets, edtech, content, classroom trends; then our competitive landscape from the traditional to the edtech players to the range of platform businesses; and finally, we look at technology in all its forms that are relevant to learning education.

I will not get into all the details, but I will share with you that we have gone deep on the data in these areas, and we have codified them in our Pearson Factbook that our leaders now use to guide our decisions. But the two trends that emerges as the most pertinent growth drivers, the first is the demographic shifts.

**Two seismic trends**

This means that of the baby boomer generation, most are leaving in the next six years, which increases pressure on talent sourcing in already constrained markets. The second is the fast development of ever more powerful AI models. The combination of these two trends means that CEOs today are trying hard to, firstly, find new pools of talent to access – think for example, of 135,000 GED graduates that we graduate in the US every year. Secondly, work out how people's skills can develop at a pace to cope with the advances in technology and AI. We already assess and certify millions of people in technology skills each year. Thirdly, they need to figure out how to design a future workforce that takes account of skills that can be automated or augmented by AI. This is a very real talent management question, and we have many of the elements needed to address this challenge.

Technology, of course, continues to accelerate, and AI is the big story and will have profound implications over the next 10 years in the world of learning and education, thanks to the power of personalisation with multimodal models, even if we are in a hype bubble in the short term.

Now, coming together, these two trends challenge us to keep growing human skills at a pace that can somehow match the incredible speed of development in new technology in the context of a workforce with fewer people who are augmented by AI. And it is this combination that creates great opportunities for Pearson in the worlds of work and learning. Now, let me turn to our purpose.

**The World's Lifelong Learning Company**

We know that the minute a child is born, it starts learning. Learning is a very human trait. Like sleep and nutrition, learning is vital in our lives, and we know that when we learn more, we get happier, we get healthier, we live longer, and we can earn more. We know that with every extra year of education, there is a 2% reduction in mortality risks, and yet, in a market like the United States, there are already 40 million adults without a high school diploma. The world badly needs more learning, and Pearson is the world's lifelong learning company. Our people are propelled by this 'why', and our purpose is 'to help people realise the life they imagine through learning.' This is our 'why'.

So in addition to studying the trends, we also took a deep hard look at our market, and I want to illustrate this to you by looking at a very simplified version of the United States market.

**Market context – USA example**

At the top level, this is a $2 trillion per annum market, and what our team did is we broke this along two dimensions. Firstly, the customer segments, the demand side, so think K12, Higher Ed and Enterprise; and then the supply side, offerings from content to tech services and solutions – this is where a lot of the EdTech resides – and to the actual delivery of the content and services. Exactly as you would expect, about $1.9 trillion is down to things like the physical delivery of learning in the form of teacher and facility costs. We have excluded this as not being part of the business that we want to focus on.

To give you a sense, we actually broke down the supply side into approximately 35 different types of market services.

**Targeted Market Expansion**

And then we looked at the TAM sizes, the growth rates and the profit trends for every cell in the matrix. Once we created our market analysis, we asked ourselves two things. Firstly, how is Pearson positioned in this particular cell in the segment today? And secondly, we asked, how are the profit pools going to move over the next few years given the trends that we have learned about that we have looked at before? And it is that work that is guiding our thinking on the market segments and the adjacencies that we will focus on. As we dug into the market analysis, we found that Pearson is strongly established in segments worth about $15 billion, and they grow at about 2% per annum. And you can see those in navy.

We also identified another set of segments, illustrated in light blue, where we already have presence or that provide a close adjacency to us where we are confident we can build a strong position. These segments, inclusive of our core market, are worth about $80 billion, and they collectively grow at 5% or faster. For example, three areas where we have strength and can grow further are in the areas of learning apps, technology workforce content, and organisational evaluations and analytics. We are establishing a new capital allocation approach internally that prioritises these higher growth segments over time. In other words, we will invest at a faster rate in the higher growth segments going forward, and this will contribute to a higher, more sustained growth rate for the business over time.

The second conclusion that we have is that simply by focusing on organic growth and performance management, we can continue to drive value in our core five businesses. Our leaders have already done a lot of good work on the journey from holding company to operating company, driving growth and meaningful margin expansion, but, as we discussed with our teams, just because we are fit does not mean we do not continue to get to the gym. Our team is focusing hard on areas ranging from sales, sales operations, go-to-market execution, process optimisation, vendor consolidation, our performance culture, building more execution muscle. Specifically, we are focusing on increasing customer centricity in our work, investing in our leaders, increasing clarity on our performance expectations by every role across the company and driving collaboration in pursuit of value.

**Technology drives performance**

Aggressive deployment of modern technology is clearly a lever in all of this. Our teams are now working on leveraging AI to improve customer services, for example, in customer-facing chatbots, AI assistants for our agents and call transcribing. Also to improve our productivity and performance in content generation and, of course, in the core product suites themselves. We can see that effective deployment of technology will help us realise millions of dollars in savings over the medium term – tens of millions of dollars of savings in the medium term. The beauty of these conclusions is that we see a solid route to continued performance improvement as part of our normal rhythms of business.

Beyond these areas that apply across each of the five businesses, each individual business unit has its own view of how to better drive growth as they execute against our corporate strategy.

**Unlocking value from Core Business**

For example, in Assessments & Qualifications and English Language Learning, we see opportunity in geographic and vertical sector expansion. In Higher Ed, we can continue to accelerate the modernisation of our courseware assets with AI. The same applies in Virtual Schools. In Workforce Skills, we see good growth opportunities in product bundling for enterprises, in further professionalisation of our sales motions and our approach for cross-selling vocational and professional assessments. And as you can see, each of the divisions is increasing its investment in AI capabilities across the board.

Our consumer product development teams also drive innovation into the business. For example, the AI study tools developed in Pearson+ have been rapidly expanded across our platform portfolio, so that by this fall we will have over 60 Pearson+ and over 80 platform titles featuring the latest office hours and AI study tools. These teams are also drivers of the practical synergies when it comes to building software. More on this in a moment. And you can assume that an increasing focus on producing consumer grade software is a key feature for our businesses going forward.

So in addition to driving growth from capital allocation and driving performance in our five core businesses, we can also drive value from synergies across the business. And we are tackling these carefully so as to not diffuse accountability, and the synergies fall in three distinct areas.

**Execution synergies**

Firstly, products and service bundling. We are working on the incentive regime to make it easier for our sellers to bundle products where it makes sense. It does make sense for institutional and enterprise buyers, so we see packages like PDRI and TalentLens, or TalentLens and Versant, or VUE and Credly becoming increasingly meaningful as we make it easier for our buyers to buy.

Secondly, on product development, I touched on this a little bit earlier, but with consumer grade software, I want us to go a bit deeper here. By recognising that, in fact, Pearson is a major software product developer and that by simply adopting modern approaches to product design, development and deployment we can bring a range of revenue and margin synergies to the business. This comes from common services, common data platforms, harmonised tech stacks, tooling best practices and more. We are reviewing in detail our product processes and policies as we evolve as part of the business.

Thirdly, strategic partnering. Historically, we maybe treated our vendors a little bit all in the same way without spending enough time distinguishing between transactional and more strategic relationships. This opens up possibilities in reciprocal trade, joint go-to-market and joint innovation. As we consolidate down to a smaller number of strategic partners, we can drive top and bottom line synergies. Dave Treat, our new CTO, will be very helpful in advancing some of these agendas.

We are planning on reviewing our strategic KPIs to reflect on the changes that I have been hinting at here across the business, and we will update you on that in our prelims next year.

Now, before I move on to talk about our medium-term growth vectors, let us look at some of the up and coming AI tools in English Language Learning, Virtual Schools and Workforce Skills. Please roll the video.

[VIDEO]

***Speaker:*** *We are currently working on a tool for English Language Learning that makes lesson creation easier with an AIdriven platform for English teachers. If I am an English teacher, I may spend hours creating lessons from Pearson courseware, searching the web for materials or creating my own. Now, AI can do it for me with Teaching PAL. Let us say I want a lesson on climate change, so I select the proficiency level I need, I choose the topic of what I want to teach, and it gives me more topic recommendations. Then I choose the kind of activities I want to include for the student, like reading, speaking or writing. The AI generates a custom lesson plan, complete with content like grammar practice, reading passages or vocabulary tests. I can rearrange the content, add more activities or even bring in content I have created myself.*

*We have also built help for Connections Academy teachers by adding AI to the tools that help them build custom assessments. Teachers can choose their subject, the student grade level, and the types of questions that they want, like multiple choice or fill in the blank. Then teachers can let the AI do the work. Within minutes, they will get a fully AI-generated assessment with various types of questions that they can edit, adjust or further customise for their students.*

*Finally, in Workforce Skills, we are adding skill proficiency levels to our Faethm capability. We will start using AI to better define skill needs for people at all levels from early career workers to C-suite executives.*

**Omar Abbosh:** I hope you like that one as well. Okay, finally, in addition to the growth drivers that I have just talked about, we also do see two medium-term growth vectors that are a very good fit for Pearson.

**Medium-term growth vectors**

The first is Early Careers with tens of millions of jobs needing to be filled in the coming years. For example, we already have a gap of 511,000 roles for nursing jobs, 300,000 roles for engineering and 273,000 allied health roles in the US alone. We see a strong need for new approaches and alliances to talent development based around career and technical education, apprenticeships and partnerships with educational institutions and enterprises. By building on our strong network of educational institutions, our unrivalled IP and existing strengths, including GED and vocational qualifications, plus our relationships with enterprises, we are uniquely positioned to support both educational institutions and enterprises as AI and demographics reshape the future workforce.

Also Enterprise Skills. As you know, we made workforce a strategic priority for this year. The reason is that that market is very significant, and Pearson has several very relevant capabilities there. Vishaal is focused on the following things: helping pre-assess new employees, identifying high-value skills and aptitude and candidates for early careers; learning and upskilling pathways, diagnosing learning and future proofing skills in the age of AI; and finally, redesigning the future workforce, augmenting and automating away tasks, changing the nature of work and jobs.  We can support employers with bundled solutions from across all of Pearson.

Therefore, on the back of our market analysis, we are targeting capital allocation to faster growth areas.  By focusing on performance in our core business, we see opportunity for profit expansion, and we can add to this with synergies that are based on our execution orientation. And finally, even if I said do not put it in your models, we see good room for medium-term expansion in the two growth factors that I just spoke about.

So what does this all add up to? Let me hand over to Sally to share our financial summary with you.

## Financial Strategy

Sally Johnson

*CFO, Pearson*

### Financial outlook

Thank you.  I will start by outlining the overall financials and then dive a bit deeper on cost.  Of course, the Group guidance I have previously given for 2024 and 2025 is consistent and still stands.  As we look out to the medium term beyond this, we will be focusing our effort and investment, as Omar explained, on a larger aggregate market that is growing at 5+%.  So you can expect CAGR underlying sales growth of mid-single digits.  As we continue to drive operational improvements, we expect to be able to deliver sustained margin improvement over time that will equate to an average of 40 basis points per annum beyond 2025, and we expect to maintain strong free cash flow conversion in the region of 90 to 100% on average across that period.  The Pearson investment proposition provides diversified access to the growing learning market, strong financials and highly rated planet, people and product credentials.

### Capital allocation

In terms of capital allocation, we are aligning our investment priorities around where we see the best opportunities for growth and returns.  Firstly, assessments and verifications, and then Enterprise Skills and early careers.  English Language Learning is of course relevant to each of these areas of investment focus.  We expect to invest both organically and inorganically, always following the disciplined approach that Omar will describe shortly.

We will continue to maintain a strong balance sheet by which I mean net debt to EBITDA of around two times on average over time, equating approximately to the guidelines of our rating agencies.  Shorter term, it will likely be somewhat lower than that as we want to have the flexibility to make selective, high-returning investments to complement or accelerate growth, in line with our allocation priorities.

Our dividend policy is progressive and sustainable.  And having bought back £1 billion of our shares in the last few years, we do not, at present, plan to further extend our buyback programme, but we are committed to regularly reviewing this in the context of foreseeable investment opportunity and maintaining a strong but efficient balance sheet.  We are also focused on continuing cost efficiency and customer experience. Our last AI demo demonstrates some of the early ways we are using those strategies this technology enables.

[VIDEO]

***Speaker:*** *A core focus of AI efforts inside Pearson is making content production more efficient with a tool to speed up the tedious work of copy editing. If I am a copy editor on a higher education book about construction, I can upload a chapter and I will get a fully edited text. The tool is smart enough to give me nuanced notes and suggestions about building codes and the correct use of technical terms. This ensures authors have the most relevant and accurate content. We are also putting AI use in different customer service venues, like accelerating rebates for customers. And we are giving our employees a secure tool that lets them access various AI models for help with generating presentations, images, and written materials, all to encourage employees to build AI skills, be more creative and infuse AI in their daily work.*

**Technology drives performance**

**Sally Johnson:** So let me expand on this. We have identified a number of technology enabled initiatives, which we expect to unlock tens of millions[1] of pounds of savings over the medium term. Initially, those savings will be offset by our restructuring costs, but as these pay back, they will enable us to further invest in the opportunities Omar has highlighted to drive future growth. You saw what we are doing in customer services and content in the video. In addition to this, our technology teams will continue to consolidate the services used across our business units to remove duplication and ensure the highest quality security. We will choose partners who use the latest technologies to reduce outsource costs as well as enhance trading balance. And the improved product design processes and tools Omar discussed will enhance our consumer grade products as well as reducing the related cost base. These initiatives will drive better operational performance, improved customer experience, and enhanced productivity.

Now back to Omar to close us out.

## Closing Remarks

Omar Abbosh

*CEO, Pearson*

Thank you Sally. Hopefully this gives you a good sense of how we are thinking about our capital structure and future financial posture. I want to dig into the one area that Sally touched on here, on M&A. In our leadership team, we are being very, very clear about the criteria under which we may consider acquisitions. Firstly, we will strongly prefer deals that are part of a pre-agreed strategy. Next, we expect our teams to originate thoughtfully and build up solid pipelines of possible deals over time. In other words, we will be proactive. Deals need to have very clear synergies with our core business, synergies that can be capability extensions that bring us into a new area or perhaps they may extend our reach into newer markets.

[1] Corrected

Very important for me, we are very mindful of who can do an acquisition. This means landing deals in areas with a track record of past success. And finally, it has to be a good deal at a good price.

**Stepping back…**

If one steps back, we can see that Pearson is rapidly evolving. Once upon a time it was a holding company with a set of loosely held assets where the company moved in and out of different markets. Now we are a unified operating company with very clear, higher growth addressable markets with a capital allocation approach focused on assessments and verification, early careers and enterprise skills. As you can see, the analogue publishing business is a very small part of our current and future business, and the company today is a digital, learning and assessments company. It serves its customers through convenient, usable and AI-powered platforms.

Our company is well focused with 80% of our revenues coming from the US and the UK, and we are moving quickly from a legacy culture to a more modern one oriented on execution and high performance.

**Executive summary**

So to wrap up, Pearson is the world's lifelong learning company. We have 17,000 people who are exceptionally focused on this mission and on helping individuals realise the life they imagine through learning. We have a strong core business in the worlds of learning and education through our assessment and verification strengths, which is the bulk of our business. And we can grow value around this core through organic business performance, targeted capital allocation and disciplined M&A. And in the medium term, our growth is fuelled by the two secular trends of the demographic shift and the expansion of AI, which drive demand in our two natural adjacencies of early careers and enterprise skills.

We are allocating capital in the United States to a large market of $80 billion that grows at 5% or more, and we are committed to growing at mid-single digits underlying sales CAGR while also driving margin expansion of at least 40 bps, on average, per annum. You can put those in your models. And we are making this happen through a capital allocation approach targeted against this strategy, a deep focus on product innovation and an increased execution orientation through our performance culture. We are well advanced with our 2024 priorities with progress on our numbers on AI and on workforce. For the coming years, we are focused on a small number of growth areas with a clear path to sustained growth with a leadership team that is oriented on execution.

With that, let us go to Q&A.

## Q&A

**Adam Berlin (UBS):** Hi. Good morning. It is Adam Berlin from UBS. Thank you very much for the presentation. Good to see you. I will ask two areas of questions. The first is I am trying to understand the difference between your core business growing at 2% and the guidance for mid-single-digit growth. Maybe you can help a little bit by explaining how much of the business today is core versus in these growth areas. And can you maybe tell us, are you thinking it is lots of little things that you are doing in these growth areas that will add up to accelerate from 2 to 5%, or are there two or three big things you are excited about you can tell us about today that can give us more confidence that you can get from that 2 to 5%? That is the first question.

And the second question is just more for Sally on the restructuring costs. Can you explain a bit more about the size and the timing of those restructuring costs and whether they will continue to be reported above the line or will you go back to what you were doing before and report them below the line? Thank you.

**Omar Abbosh:** All right, so Adam, I am going to try and be super, super clear so that there is zero confusion. So the 2% figure related to those navy blue boxes, what we are saying is those are the markets that Pearson predominantly has been focused on and where we have high market share. Actually, we have, as you know, performed faster than that recently. So it is just that the markets that we have been more invested in, where we have higher market share, have on average grown at 2%. What we are saying is, is looking forward, there is a set of other markets, the light blue ones, which are adjacent, that we are already in, but that we have been less intentional about. And they grow at 5% or more. So when you ask me why am I confident about mid-single-digit thing, it is actually fairly simple. Each of the five businesses is already performing very nicely. Look at what A&Q did last year. Workforce and ELL are ahead of that number and Higher Ed, as we have said, is coming back, return to growth. So we know that the core business is actually performing very nicely in that direction anyway, so it does not need any huge stretch of the imagination.

Now in addition to that, Sally and I are going to be intentional with our internal capital allocation approach to say, all right, when we make our budgets for next year and when we make our budgets for the year after, where are we going to put disproportionate investment? And so we are going to be a bit mindful about the segments that grow faster, and they will probably see a bit more of the investment focused over time. And that is why we feel very comfortable with that. The restructuring one I think is very easy, but Sally, why do you not..?

**Sally Johnson:** Hi Adam. So first of all, just to be super clear, 2024 and 2025 guidance and then the 40 basis points beyond 2025, all the investment needs we have are within that and within the free cash flow, 90 to 100%. So in answer to the last bit of your question, restructuring costs above the line. And the comment that I am making is you do not immediately see those cost benefits fall straight through because I have got to pay for them. But on average, I usually think of about six months, sometimes a year, but usually on average six months' worth of that saving goes into restructuring costs in the first instance, and then you see it come through.

**Omar Abbosh:** Thanks Sally. Nick.

**Nick Dempsey (Barclays Capital):** Yes morning, it is Nick Dempsey from Barclays. I have got three please. So the first one, if mid-single digit is 3.5 to 6.4%, then I guess the 2024 organic guidance is between 2 and 10%, which is quite a wide range, really, not especially helpful is it? Is it possible at this point or as we go to the nine-month stage to narrow what you are expecting for 2025 when we are backing it out of that three-year mid-single digit?

Second question, this year in Higher Education you have talked about winning some small share in adoptions, but beyond that, what visibility do you have on the second half? Historically we have been watching this and it has not been great at this time of year, so how do you know that you are going to grow in the second half? Is it because you are going to push price? Just to tack onto that, why are you confident that the FAFSA form debacle[?] is not going to have an impact on the number of students going to college this year?

And then, sorry, just the third one is in ELL, institutional going really strongly this year. I think if we have got high single digit for the division and PTE is flat to down, we need 16 to 17, something like that, for institutional or at least institutional plus Mondly. That is not a normal year, so will we see a fall off, a tough comp effect from that next year and then still some headwinds in PTE next year?

**Omar Abbosh:** All right, you definitely cheated there, Nick. There are at least like five in there, but it is good, we are going to manage, no problem. So on the mid-single digit for 2024, 2025, I think Sally, maybe you should take that one and then I will come to Tom on the Higher Ed.

**Sally Johnson:** Okay, so I will guess I will answer it simply, which I think you said 3.5 to 6.4%, I think 4 to 6%, and I would be aiming in the middle of that range and then trying to push the teams to deliver a little bit more than that. So that is the way I would look at it, and maybe not widen that range quite so much as you had been. We are really confident of getting that growth for the reasons that Omar outlined.

**Omar Abbosh:** Thank you Sally. All right, so on Higher Ed, I will make a couple of comments and then Tom, if you would not mind chipping in. So under Tom's leadership, the team has fundamentally structured how our sales team approached the market. The product is fully in the cloud and way more resilient than it was previously. And I have gone and kicked the tyres on some of the details around things like how we do sales operations. And I have to tell you that it is a very professional shop now in terms of what we are doing. Now in terms of Back to School, yes, I think as a company, we have disappointed often in the past on that, so we are very mindful of that when we are giving you the guidance that we are giving you. But Tom, why do not you say a couple about why we are so comfortable about it?

**Tom Ap Simon:** Yes, sure. Thanks, and Nick, appreciated the three-part question on Higher Education in and amongst all the other questions. So I think from that FAFSA perspective, if you take a step back, clearly the FAFSA thing has been a debacle. And we have seen that really unfolding over the last six months, and it has been fairly painful to watch. I think at a macro level, FAFSA clearly only applies to a subset of the population which actually needs federal financial aid. So you have got to back that out. Then you have to understand how that impacts the freshmen and the other cohorts in university today. And so we have done that and so we have looked at it in a number of different ways. We have modelled best-case, worst-case scenarios and actually we feel fairly good because, to Sally's point earlier. There will be a relatively immaterial number.

Then if you take a step back and you think about the performance of the business, as Omar mentioned, we have put a lot of practice in place in terms of sales operations, the sales team go to market. We brought in a new chief revenue officer, and we have done a lot of things to improve how we go to market. In short, as we talked about earlier, we have seen market share gains in two-year and four-year across all parts of the portfolio in the first half of the year. We are very pleased with that, and that was on the back of the fundamentals around product stability and the sales team being out and about in the market.

In the second half, we have obviously done a lot around retention. We have done a lot around the new pipeline and takeaways. We know where we think we have won, we are clear as to what that means in terms of some of the things you have seen from an instructor tool perspective as it relates to AI, as it relates to things like the AI from a student perspective, things like the integrated reading assignments, some of the changes we are making from a product perspective. So we feel fairly good about all of that in terms of the growth. The other thing I would say about 2024, of course, is the K12 adoption cycle is also positive, and so that also underpins our confidence. So if you just take a step back, whether it is the quantitative metrics, the qualitative feedback from the salesforce, we feel very good about where we are at this time of the year, getting into the key selling season.

**Omar Abbosh:** Thanks Tom. I am going to just pile on a little bit to what Tom said is once upon a time, Pearson was very famous for being the innovator in the world of learning education. And maybe we allowed ourselves to go a bit off the boil at one point. In reality now with all these AI tools, we are seeing higher win rates and great takeaway results in Tom's team, because, actually, our sellers are telling us the feedback from students and professors is incredibly positive about how helpful this stuff is for them in their lives.

So on the ELL question, I do not want to embarrass Gio here, but the fact is this team, as I mentioned earlier, is really in the detail of their markets, market by market, and really understanding where the growth comes from. And so Gio is going to comment on institutional in a minute and where we see that going, but as you look at PTE, I encourage you to look at some of the other players in the market and look at what that implies around share on the Pearson side, I think the team is doing extremely well, indeed, in a market where there are some political wins around migration in the current period. But go ahead, Gio, on institutional.

**Gio Giovannelli:** Yes, thank you Nick. It is a very good question. So I feel confident about maintaining the high single-digit guidance for this year, but also for next year. And I will tell you the reasons why. In PTE, which as you say is less than half of our revenue, we have done very well on relative terms. So the market is declining about 16% as of today, and we have declined only 9%. So we have been gaining share. The reason why I feel confident about PTE over time is that we can one, expand our addressable market. For example, we just started leveraging Canada, which is a big market for us. We have other smaller markets in which we are gaining recognition, we have professional recognitions, and so over time we can expand the market. At the same time, we are gaining sharing key sending geographies, like India and China. In both of them, we have numbers that show that our share has significantly increased. And over time I think we have a very good product in which we are making continuous improvement. So I feel pretty good about PTE.

As of Institutional, you are correctly saying it needs a significant double-digit growth. We will deliver that. Let me give you a couple of reasons why. Our Institutional business has about a 7% market share in a market that is worth approximately £3 billion. Of those £3 billion, £1 billion is in proficiency assessment where we just scratched the surface. So again, in the same rationale I gave you before, we can expand the addressable market by focusing on segments that we have not really looked at so far.

Second, in geography terms, we are pretty strong in LATAM and the Middle East, but we have opportunities to further grow. Our share is very small, and we can continue to do so.

And third, and most importantly, we are infusing AI in our products. So we have some incredible assets. If you think, the global scale of English is a granular scale that allows us to tag every bit of content assessment to a single standard, and that allows us to design personalised path for growing. So that also increases our possibility to grow revenue over time. Thank you.

**Sally Johnson:** On those PTE numbers, because there is quite a lot we are throwing at you, so from a market perspective, as Gio said, about 16% down. Then when you look at volumes, around about 10% down. When it comes to revenue, just 2% down. So performance like that in that market is something the team are rightly very proud of.

**Luke Holbrook (Morgan Stanley):** It is Luke Holbrook. My first question is on the tens of millions of pounds of cost savings that you are alluding to. Just interested to hear practical examples of where that lies. Is this AI resulting in a step change of cost savings that you can make? It just seems like every set of results, there is more costs to come out.

The second question is, you have done a lot of analysis on the TAM. Just would be interested to hear your discussion on market share, something that maybe was missing in that part of the presentation, maybe Higher Ed or VUE or just something to draw out there.

And then final question was just on the way that you are viewing Pearson now from more of a holding company to an operating company, are you comfortable with the way that the segmentation is currently split? Is that something that you are looking at on the way that you would rather Pearson be viewed from an equity perspective? Thank you.

**Omar Abbosh:** Thank you very much. I think we will start maybe with the cost one, that's one with you, Sally, in terms of early thoughts there. But I just want to reiterate one of the key messages, Luke, which is we look at the business, we need to improve every day. So the mind-set is I look at myself and say, how do I improve? I ask the team, 'How are you going to improve?' And then we ask the rest of the team how are they improving? So that is just part of the philosophy of raising the performance bar on ourselves is a key part of what we do. So the fact that we can make savings over time should not be surprising. That should be just what we do. But obviously, with the advent of AI and the productivity gauge you can get there, that just gives you some options. But Sally, if you would like to double click?

**Sally Johnson:** Yeah, absolutely. So there are opportunities that come about over time, and you have always heard me talk about Pearson being cost conscious. And that is about every time there is a new technology that comes out or a new opportunity or we see something that somebody else is doing, we make sure that we are on that and using that to Pearson's benefit. That is what you would expect from us, and that is what we do. And we have lots of projects underway at the moment. Some of the folks at the back of the room will be leaving them here, but they are in the areas that I called out. So customer services is a real opportunity for us, and each time I called each of these out, I was trying to demonstrate that it is not just about cost savings, there are other benefits from it as well. So in the customer services space, it means that we will be able to improve our customer expectations as well, which has a top line as well as a bottom-line impact to it. So customer services, content, you saw that video on the screen. Actually, Gio's team has been really leading the way internally to develop these schools so that the many hundreds of people we have across the business who are developing content on a day-to-day basis, who are programming in our software products, are doing it in an ever more efficient way.

Then there is the use of technology services across the business, making sure that we do it once and then share that across the business from a technology point of view, but also from a product point of view in Tony's team so that we are using the expertise we have centrally. And then last, but not least, the work that we do with our partners, so our vendors and our partners across the business, making sure that we choose partners who are using those technologies themselves, because that will improve the cost to us. And also looking at those relationships and making sure we are commercially helping people with our products in those businesses as well.

**Omar Abbosh:** Sorry, I am going to give you a little bit of an 'aha' moment that I had, Luke when I was starting to understand Pearson. As you know, because of the way Pearson grew up with all these different assets coming together, it turns out each one of them was building software on different technology stacks with different vendors. So the minute you look at that and go like, huh, if I am doing AI for item generation to build up an assessment, I do not need to do that 15 times. I can do it once. And that kind of approach gives us very clear line of sight to things that we can do here.

On your market share one, I am going to duck it a little bit, but I will tell you why. It depends what you think the denominator is. If you think the denominator is 15 billion, you get a market share number. If you think the denominator is 80 billion, you realise that our market share is relatively small and there is a huge upside space to grow into. And that is the focus that we have. So yes, VUE in its markets is very strong. Higher Ed in its markets is very strong. You know what those numbers are, but actually it depends how you frame the TAM. And we have looked at it very forensically to say exactly which bits of TAM are utterly addressable by Pearson because we have brand legitimacy, because we have skills and capabilities and we already have a presence, but we just need to focus on it a bit more. And so that is the intent on how we go after the market share.

On the comment about the segments and how they are, I like the five businesses as they are today. It's very helpful. I love the fact that you have decision rights pushed as close to the market as possible, that you have people who know the market well and can make decisions on the basis of sensing the market. So that is something that, for now, I am very good with where we are at.

**James Tate (Goldman Sachs):** Good morning, it is James Tate from Goldman Sachs. Thanks for the presentation. I have two questions please. I think firstly, Omar, as part of the updated strategy, you are really looking to unlock revenue synergies across the business units through bundling and cross-selling. And I am just interested, where do you see the most significant opportunities and when do you expect to start realising benefits here at scale?

And then secondly, what has been the customer feedback from the strategy shift in Workforce Skills towards a more modular offering? And do you expect to maintain the current level of investment in the business beyond 2024, or do you think it will start to come down? Thank you.

**Omar Abbosh:** Yeah, so I am going to talk to Art a little bit on bundling, and he can maybe refer you to some of the work he is doing jointly with Vishaal in a space that we see something that is quite interesting there. On the modular one, we could talk about it a little bit. The customers, they are not necessarily focused on what we have publicly said about our strategy, or whatever, they are focused on, how do you solve this problem? And so there are three sets of problems that we are seeing that they want help with and that we are docking with. And

Vishaal will get into that with you for a moment, but let us start with the bundling question first. Art, why do you...?

**Art Valentine:** Yes, sure thing, Omar. So you would have seen in the presentation that we went through a couple of examples that referenced the VUE business and different parts of the VUE business. And I will just start with hopefully a not too obvious base point, VUE is one of the example businesses that is at the heart of verification. If you come out of VUE with a passing result, that means something about your knowledge, which is very interesting to the enterprises that Vishaal is selling to. So for example, our recent PDRI acquisition is very, very strong in assessing the skills of potential hires, very focused on the federal government, and we are quite happy with how that is performing thus far, but very nice synergy into the enterprise world.

The second example of that is an offering that sits within the workforce skills group called TalentLens, which is a part of the Pearson portfolio that is similarly focused on pre-hire assessments. Very interesting synergy opportunities with what we have in PDRI.

And then one last example that I will share with you, James, is the Credly offering. So imagine a world in which someone comes out of VUE, which leads them to a verification that is valuable in the workforce, and then that shows up in their Credly profile showcasing to their current employer and potential future employers, the richness of that verification. So building stronger bridges between those parts of the offering is a good example of the type of bundling that we are talking about.

**Omar Abbosh:** Thank you, Art. So Vishaal, do you want to pick up on how you are thinking about solutions, particularly with the modular question.

**Vishaal Gupta:** Sure. Thanks. So I want to pick up a bit on what Art was referencing. So we are really going after three problem statements for our clients. Problem statement one is all around what we call talent planning. And when we say planning, this is really about looking at your current talent base for their skills, but particularly in the world of AI, what skills do you have today? What skills would you build for the future? Which skills will be automated away, tasks will be automated away with AI? So that is one problem statement, which most of our clients are talking to us about.

The second one is what we call talent sourcing. And that is really about building talent pipelines, doing pre-assessment for people. The example that Art gave around TalentLens and PDRI, that is one of the bundles that we want to have in that space. That is really a second switch, by the way, is a very fast growing market as well.

And the third one is what we call talent development, which is really about learning, assessing and credentialising. So that is the cycle there, again, a market in which we have a presence across the board, but we are going to be laser focused on that. Again, a very large space for us to grow on. So those are some of the navy blue areas where we have a presence, as Omar was saying, but we see significant headroom for further growth.

**Omar Abbosh:** Thanks for that Vishaal.

**Tom Singlehurst (Citigroup):** Thank you. It is Tom from Citi, and thank you for the presentation and the opportunity to ask questions. The first one, a philosophical one then bleeding into an actual question, I suppose, is in general, are you willing, going forward, to sacrifice margin in order to deliver better growth? And then I suppose the pointed part of that is in 2025 you are guiding to 16 to 17% margins. And I think currently we are looking for about mid-16s for this year. So I suppose could we see margin at a group level dip before moving back up if there is a growth opportunity? So that was the first two questions.

The next one is on AI and in particular Higher Ed, but I guess maybe philosophically for the whole group, should we think about the AI aspirations being about driving adoption share rather than pricing per se? I think it was Adam asked about pricing and Higher Ed earlier on, but whether we could touch on that as well, whether there is scope for price off what seems to be strong success of the AI plan.

And then the final thing, pipeline for deals. You did talk a little bit about your criteria more broadly, but is there stuff oven ready? Thank you.

**Omar Abbosh:** I am actually going to take most of those. I might drag Tom and Tony a little bit in the second one. This is a philosophical question you said. So if you do the relative value of growth or the [inaudible] analysis on Pearson, etc., it will tell you that an incremental point of growth will give you more shareholder value than margin. We have zero intention of reducing our margins, just to be clear, but we understand the power of growth. There is a lot of evidence out there. I remember AQR did this analysis ages ago. You can have growth and margins, good companies weirdly do growth and margins and ESG. That is just what good companies do. So I think we should have that aspiration of ourselves. Yes, I could talk more about it, but I think you get the idea.

**Sally Johnson:** Can I pick up the 16 to 17 point, because I have heard people are saying, 'She is saying 16 to 17, I hoping for 17.' The reality is the 17 is more likely than the 16. And we are, as Omar has just said, focused on margins.

**Omar Abbosh:** On the AI topic, the way I think about the AI thing, and maybe I will pull you guys in, the beauty of AI allows you to personalise an interaction. It is just a very powerful tool. And if you are an instructor constructing a course, and there is a whole load of drudgery of finding the PowerPoint from last year to build a new curriculum and setting new assessments and sifting out the classroom schedule, our ambition is to free up instructors and educators to be able to coach students and interact with people. So the AI does the inhuman stuff so the humans can do the human stuff. That is the intent.

On the student side, again, we all learn in different ways. We have different modalities that suit us. Some people like listening, some people like watching, some people like reading. And so being able to interact with an AI that understands how I am learning and I can interrogate it at the right moment is a very powerful way. So the way I think about the AI is actually, it solves problems for learners, but it is a great engagement tool that keeps people in the Pearson platform where you can solve their problems. That is the right way, I think, to think about it. But I don't know, Tom or Tony, do you want to add to that?

**Tony Prentice:** Maybe just one thing to add, in Omar's thinking, he showed how we are moving to be a digital company. And I think just to build on what he is saying, because we now have these experiences where we are getting from the students what they are doing, we used to just throw a book and God knows what we did. I was just last week looking, I can tell you by topic exactly what the students are struggling with. I was looking yesterday at biology where we now know yesterday most students were struggling on DNA. So there is so much power in what Omar is saying around how we can bring those experiences, how we can bring them real time to create more value to free up time for teachers and to help students learn. And so that is the only add I would give.

**Omar Abbosh:** Perfect. Thank you, Tony. On the pipeline for deals, I just want to be incredibly clear. Our focus is on medium to long-term shareholder value expansion. So that is our focus. And so that means that you would expect us to know exactly what is happening in our landscape and the market around us, to understand exactly what is in play or what may be in play and what we would want to be in play. But that is for us to do. It is our homework. But M&A is just a tool. It is a tool to accelerate a growth strategy that we have already talked about in assessments and verifications or early careers or enterprise skills. And if we do M&A, it will have to fit the criteria that I outlined earlier.

**Joanne Russell:** I have three questions from Sami from BNP Paribas. So first one is, 'As your plan to focus investments on assessment and verification and then enterprise learning and early careers, shall we understand that Higher Education and Virtual Schools are no longer core and up disposal if an attractive opportunity presented itself? Second question from Sami is, 'Can you comment on your exposure to the K12 adoption cycle, which looks like a driver of the 2024 return to growth in HE? How big is K12 adoption revenues and is it just AP revenues, or have you gone back into the K12 adoption market after selling to Savvas? And then the third question from Sami is, 'Why did the number of enterprises in workforce solutions fall in first half 2024 versus 2023?'

**Omar Abbosh:** Yes, Sami, thank you very much for your questions. On the first one, as I said, I am very happy with the portfolio that we have. Each piece of the portfolio performs a role in making us the home of learning and education. Assessments and verifications is not only A&Q, just to be clear. Assessments and verifications happens across almost every bit of Pearson. So think about BTEC and GED and Versant and PTE. They are not in A&Q, but they are assessments. Also in Higher Ed courseware, it is full of assessments. So we do assessments across the business. And so, no, there are no plans to change the portfolio because we are focusing on assessments and verifications.

On the K12 adoption cycle, Tom, I would like you to pick that one up, please.

**Tom Ap Simon:** Sure. I would also just make the point, Sami, that Higher Education and Virtual Schools, they are early career businesses, because you need one of each of those to get somewhere for most of the time in your career. So it is important in that context. I think the K12 adoption cycle, so firstly, we are not going back into competing with Savvas or building the full K12 curriculum, so we are not doing that. This is AP and CTE product, which already exists in the higher education landscape. We sell that into the K12 space. So the way to think about it is that is obviously a market that is relatively steady state in some parts, and then you have some adoption benefits in some parts as well. We are seeing a material spike in the adoption cycle this year, and it is not a huge part of the business. It is an important part of the business. And so that is why it is giving us some confidence in a bump this year in terms of growth.

**Omar Abbosh:** Thanks, Tom. Vishaal, do you want to pick up on the shape of the curve in workforce?

**Vishaal Gupta:** So you would have noticed a drop in the number of enterprise customers, but I do want to clarify, that is by design. Because what we did was we went through an exercise to look at the large number of customers we have, and some of the customers that we found were very small in size, very limited stickiness and no ability to really grow in those customers. So we have been very thoughtful about that. And together with those customers, we found a way to exit those relationships. That is why you see a drop, but that has been pretty much by design.

**Omar Abbosh:** Yes, I think Sami, on enterprise, whenever you have a Pareto curve, the profitability tends to follow the Pareto curve. At the bottom end of the tail is not necessarily where you want to be. So keeping a sharp focus on the shape of the Pareto is an important part for what we do in enterprise.

**Joanne Russell:** Individual investor, James Gunn[?], 'If Pearson is looking to enhance the learning experience, are they looking to collaborate with AI companies?'

**Omar Abbosh:** So I mentioned one of the key sources of synergies that applies across the five businesses is strategic partnering. And I really do believe this, that the best companies in the world innovate fast and heavily, and no one company is big enough to innovate alone. And if you need evidence, look at Microsoft with OpenAI. It is literally a very, very critical way of driving the performance and growth of a business in the medium term. So yes, of course, you would expect us to build out some strategic partnerships. We see those in the areas of content. We see those in the areas of learning, and we certainly see them in the areas of technology including AI.

**Thomas Singlehurst (Citi):** Yes, I had a few questions if it was okay actually. First one on adoption share, which obviously you flag has ticked up. But I am just interested in whether you could give some qualitative commentary on whether that is a function of AI investments that you have already done and the trials in place, or is it a function of primarily the change in approach for the sales force? I am just trying to work out whether the AI effect is already kicking in or it is a down payment? If that is the right way of putting it on AI investment or whether the AI effect on adoption is yet to come? That was the first question.

Then secondly, on AI. Actually, I think it was as long ago as 12 months ago, you did talk about interest from third parties in licensing content off you. You have got data coming out of the platforms that you operate. I am just interested in your philosophy towards licensing data whether you are just completely against it in all instances or whether it could form part of the approach with respect to strategic partnerships. Those are the two questions I have got.

**Omar Abbosh:** Well, Tom, thank you very much. On the adoption share, I am going to pick on Tom here. It is true, and you are right to ask us the question because over the years, perhaps we have landed some surprises in that sense that none of us wanted. I do not think we would have come out this strongly and said about our confidence about Higher Ed coming back to growth, had we not really sort of double clicked on what's going on in the operation in that market. But I will let Tom comment a bit on what he is seeing in the adoption share space and what we believe is behind it.

**Tom Simon:** Yes, sure. Thanks, Omar. Tom, great questions. So from an adoption market share perspective, that was a mouthful to get out, I would say that this is not really a function of any of the AI yet. This is a function of just the improvements we have put in place in terms of the sales force, in terms of product stability, in terms of go-to-market coverage, in terms of the general manager operating model. So we have got much more specific plans in math and science business and economics, vocational or professional.

What was pleasing about the market share improvements was it within two years, is in four year. It was across all of the major portfolios. So we were really pleased with the first half performance. And although we have been pushing our CRO, it was all delivered without any of the new AI-related features, which are coming out this fall. So I am hopeful that, that will continue to bode well for a really strong fall.

So in short, not much AI in the numbers, product stability, high quality sales, better quality sales operations and the new operating model leading to dividends.

**Omar Abbosh:** But also kudos to Tom and the team for leaning into the innovation with the AI and the product set, which we are getting great anecdotal feedback from our students and professors that they love it, and it really helps them. And our sellers are commenting on how that helps them with win rates, which is just fantastic.

Tom, on your second question regarding AI and licensing, let me give you a synopsis. So of course, as we have said before, Pearson sits on an enormous amount of high quality curated professionally developed data, several petabytes worth of data as it happens. And indeed, if you are trying to build a very accurate LLM, our data is valuable. And as you suspect, all the characters in the West Coast and beyond have approached us about various licensing agreements. I am not against it. I just do not think that licensing needs to be our primary strategy. It is a kind of a one-off thing where you trade IP for money.

Our value comes from bringing the great content with our knowledge of learning science baked into the learning pathways in our platforms with AI modules along the lines that you saw earlier in the demonstrations, packaged together in a piece of courseware that really helps students or professors attain the outcomes there after. That is very valuable.

But rest assured, in fact, I just spent a week out in Palo Alto a couple of weeks back, met all the key characters across the businesses. These companies want to work with Pearson. They see us as a leader in the world of education and learning. And so we will, of course, double down on those relationships going forward. Anyone else coming up on the platform, Jo?

Okay. Well, just to say everyone, thank you so much for coming in and dialling into our call, spending time with us. We appreciate it very much indeed. Thanks to the team for all the great work that we are doing and looking forward to seeing you back I guess in the October timeframe. Take care, everyone. Thank you.

[END OF TRANSCRIPT]