

## Pearson's strategy: Marjorie Scardino, chief executive

### The Education of Pearson

"Anyone who stops learning is old, whether twenty or eighty."

In that powerful sentence Henry Ford, one of the great innovators of the 20th century, captured perfectly our attitude to the 21st – we're trying to make sure we're **always learning**.



**Marjorie Scardino** Chief executive

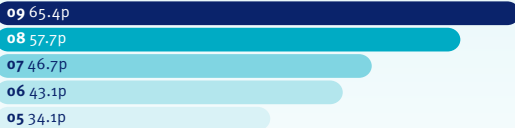
As a company, we learned a lot in 2009. We started the year facing a ragged array of challenges. The threat of a full financial meltdown looked less seismic, but the aftershocks of recession were rippling out to just about every one of our markets. At the same time, the gathering pace of disruptive technological change was testing the strategy and imagination of every media company.

So we reviewed the lessons we'd learned in previous years – *keep our eyes on our goal; keep investing; keep people working; change, change, change*. And in spite of the challenges, we can now look back on 2009 as Pearson's best year yet.

To achieve that in any market would be a cause for modest pride. To achieve it in the most difficult trading conditions I've seen in my time at the company puts me in awe of my colleagues here. It's a testament to their talent, ingenuity and sheer bloody-minded grit, for which I'm grateful every day. And it's a just reward for our long-term shareholders who had confidence in our vision for Pearson when confidence was a scarce commodity. We thank you sincerely for your trust in us.

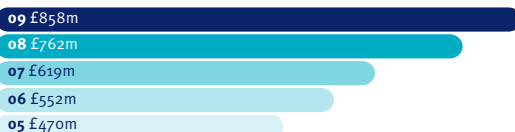
#### Adjusted earnings per share pence

**+13%**



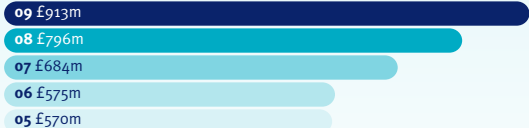
#### Adjusted operating profit £m

**+4%**



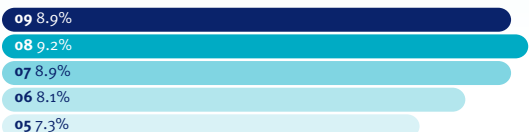
#### Operating cash flow £m

**+15%**



#### Return on invested capital %

**-0.3%**



## The 2009 lessons

Our approach to 2009 and the global economic downturn was aggressive. We saw an opportunity, not to ease off the gas but to accelerate, to invest both money and imagination in the fast-growing digital, services and international markets that have given us our impetus. We reckoned that in the short term we could pull further away from our competitors, and that in the long term we simply could not afford to pause for rest on the journey from publisher to digital services company that has been our goal for some years now.

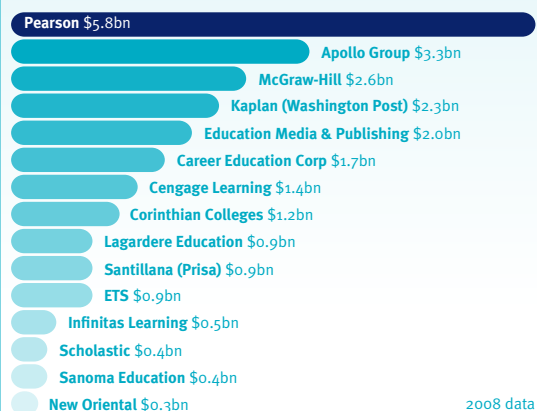
I'm happy to say that, though we did not by any means get everything exactly right, that reckoning was true. **It showed up in our financial results:**

- Sales of £5.6bn, against £4.8bn in 2008, an increase of 4% at constant exchange rates;
- Profits of £858m, up 4% from £762m in 2008;
- Adjusted earnings per share of 65.4p, up from 57.7p in 2008 and well ahead of our expectations at the start of the year;
- A dividend increase of 5%, underlining our conviction that the dividend is both a reliable cash distribution to shareholders and a signal of the board's confidence and determination about the future.

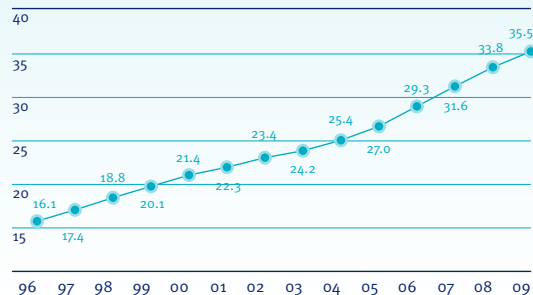
## The lessons of our strategy also showed in some remarkably **strong competitive performances:**

In North America, we pulled further away from our traditional education competitors. In School and Higher Education we grew 5%, a full five percentage points faster than the industry. In testing, we won 60% of the state and national contracts that were up for bid during the year.

### The world's leading education companies Education revenues \$bn

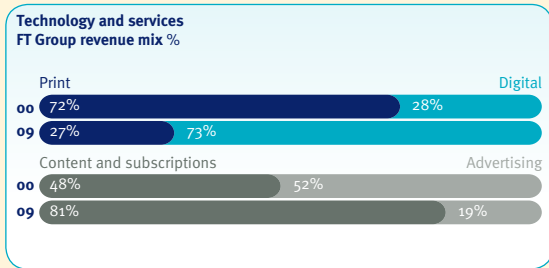


### Dividend per share paid in fiscal year pence

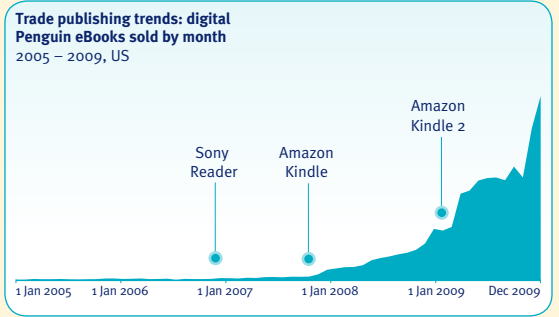


# Pearson's strategy: Marjorie Scardino, chief executive continued

- In International education, we chalked up another year of good growth and at the same time built the foundations for faster progress in dynamic markets like China, India and Southern Africa.
- At the FT Group, we produced healthy profits in spite of a precipitous fall in business advertising. This was possible because of our continued shift towards subscription and digital revenues.



- And in Penguin we had another solid year of financial results and of great books while doing the things that will allow the publisher who invented the paperback to take its rightful place as a leader in the age of digital readers – both people and devices.



(In some ways, those competitive performances are even more important than the financial results they make possible. They show that our customers are choosing Pearson's products and services – finding something more valuable or compelling or alluring in what we do. Those customers are the ultimate arbiters of whether our strategy is working.)

**Our strategy**

# 1

**Long-term organic investment in content:**

Over the past five years, **we have invested £2.3bn in content: new education programmes; new and established authors for Penguin; the FT's journalism.** In 2009, that investment reached an all-time high of £500m. We believe that this constant investment is critical to the quality and effectiveness of our products and services; and that it has helped us gain share in many of our markets.

---

**Education and Penguin pre-publication expenditure and author's advances \$m**

09	794
08	775
07	741
06	657
05	642

**Our strategy**

# 2

**Digital and services businesses:**

**Our strategy centres on adding services to our content, usually enabled by technology,** to make the content more useful, more personal, more valuable. These digital products and services give us access to new, bigger and faster growing sources of revenue to sustain our growth. In 2009, digital products accounted for £1.7bn in revenues – close to one-third of Pearson's total sales – and more than double the total five years ago.

---

**Pearson's digital revenues**  
% of sales

09	31%
08	29%
07	27%
06	24%
05	21%

## Our world in 2010

Last year we faced down tougher markets – in some cases, much tougher. And we expect many to remain tough through this year. Some of our markets have ‘cyclical challenges’, and *all* our industries are going through a period of significant structural change.

So naturally, the question we’ve asked ourselves is: “Can we continue our record of performance in unpredictable markets and contracting economies?” To answer, we’ve had to stop and review our assumptions and revisit our plans. But our conclusion is a simple truth about demand: No matter what, people will still go to school; still need information about markets; still want to escape from their present into someone else’s story. Those are the things we do.

And there is still much to do to further them. There are still 72 million children who don’t go to school at all; still 30 million people who will enter university this year and not ever graduate; still a complex world of business, finance and politics to illuminate and explain; still buyers for some \$70bn worth of books this year (and less than 2% of those are eBooks). So much to do.

Our approach to the task and our business is to stick with our strategy and to take a long-term view.

That may seem obvious, but don’t take it as a ‘business as usual’ approach. We’re making it ambitious and aggressive at every level.

Our *goal* is unchanged: *To help people make progress in their lives and to thrive in a brain-based economy through learning.* We’re reaching for a wide definition of ‘learning’, though: one not constrained by age or circumstance or confined to a classroom. We think learning never stops: it’s happening all the time, all around us. And we’re setting out to prove it.

Our basic *strategy* to achieve that grand goal is pursued by all Pearson’s businesses in some shape or form and has four fundamental parts:

1. To develop **high-quality, compelling, trustworthy content** that customers deem worth paying for;
2. To serve it up not just naked, but with **services, mostly delivered by technology**, to make it more useful, more valuable, more personal;
3. To work in **selected geographic markets** that are growing and have strong demand for our services;
4. To reap **cost savings and competitive advantages** from Pearson’s global scale and the similarities of its businesses and processes **through efficiencies** in our central services.

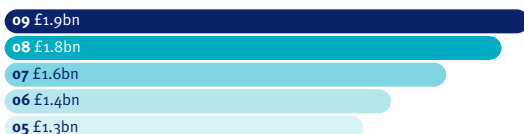
### Our strategy

# 3

## International expansion:

**Pearson has market-leading positions in major developed economies** – particularly the US, UK and Western Europe. We are already present in more than 60 countries and **we are investing to become a much larger global education company**, with particular emphasis on fast-growing markets in China, India, Africa and Latin America. Over the last five years, our international education business has grown headline sales at an average annual rate of 17%, becoming a £1bn business in 2009.

#### International revenues (outside USA and Canada) £bn



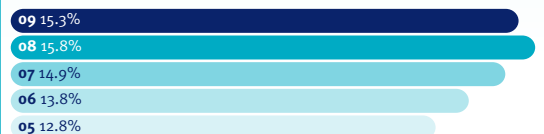
### Our strategy

# 4

## Efficiency:

**Our investments in content, services and new geographic markets are fuelled by steady efficiency gains**, often generated through Pearson’s overall scale. Since 2005, our operating profit margins have increased from 12.8% to 15.3% and our ratio of average working capital to sales has improved from 27.4% to 25.1%. In 2009 our margins fell slightly compared to 2008 due to a decline in advertising, restructuring charges at Penguin and transactional exchange losses.

#### Pearson margins %



# Pearson's strategy: Marjorie Scardino, chief executive continued

## Who are we now?

Based on that goal and strategy, you should look out for many things that will continue to change in Pearson: our focus on consumers; our participation in more links of the chain of formal learning; our interest in training not only the minds of citizens, but also the skills of 21st-Century workers; our take-up of opportunities all over the world.

The 2009 results written up in this report are already just footnotes to history. Perhaps more important to you as you think about Pearson's future should be those things that are changing, because I believe Pearson today may not be *quite the company that you think we are*.

We're still a *publishing company* – and convinced that quality content is valuable. But today we're also a *digital services company*, and that change is responsible for our market share and efficiency as well as our growth opportunities.

In 2009, about a third of our sales came from digital products and services. Over the past five years, our digital revenues have grown at an average annual rate of 19%. Seven years ago, our testing and qualifications businesses (a good example of our providing education services, rather than 'products') had sales of less than £200m. This past year, they produced more than £1bn.

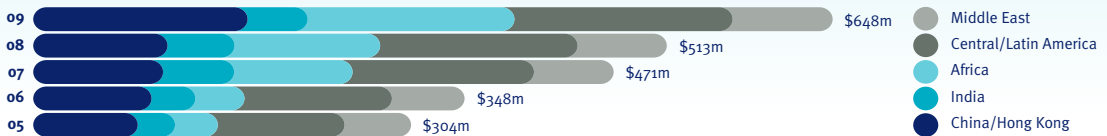
We're still proud to have strong roots in the UK, our historic 'home' market, and in North America, home to our largest concentration of business and people. But Pearson is becoming an ever more international company – in our mix of business and (maybe more importantly) in our attitude. Even though we've been growing well in the US, over the past five years Pearson's sales outside America have grown 11% per year on average and our profits outside America now amount to more than £250m, one-third of our operating profit.

**Growth in services businesses**  
Pearson worldwide testing revenues \$m



For some years now, our strategy has been yielding a virtuous circle of competitive advantage, strong financial results and heavy investment in new products. For now we believe that circle is spinning, but we can't count on its continuing. That's why we have to keep making changes of emphasis.

**Rapid growth in emerging markets**  
Pearson revenues \$m



We're certainly proud of 2009, but we're much more pleased about the foundations we've laid out for our next chapter. Our approach to that next chapter is based on a fundamental truth: We're always learning. But the experience of learning is different for every person. That's why we've been talking about and working on 'personalizing learning' long enough for it to become a buzz word.

So now we're trying to take it to a new level that still uses our strategy of content + services + internationalism + efficiency but is:

- more thoroughly involved in the whole process of education;
- more service-oriented than ever;
- more indifferent to medium;
- as interested in informal, consumer learning as in institutional learning and
- moving more deeply into the developing world.

We've made a good start on building the world's leading learning company. Our financial results say we're making progress. But we know that, to make more and faster progress, more and more of our customers have to see that we are also helping them make progress in their lives. That's our goal.

## The road ahead

As we plunge out into 2010, we're clear that in macroeconomic terms the world is by no means a slick superhighway. We're expecting many of our markets to remain slow and subdued this year, and perhaps into the next one as well.

But *we're* anything but subdued. We have a successful strategy, one that's been producing consistent growth and high performance for some years now. We believe in it, and we're pushing ahead with it – with some bold changes.

Our strong performance – both financial and competitive – is largely the result of our having had the strategy and made the investment over the last decade to make Pearson a unified, digital, services-based, global education company. That strategy and investment will help us remain the innovator and the scale player in our industries, and remain both a durable company, and a long-term growth company, but not if we don't keep changing, keep learning.

That's why this 160-year-old company tries to be always learning. Like many students, we're finding that the learning itself can be as stimulating as the results. And all the time, that's making this company – one I hope you'd like to continue to call "your company" – stronger and stronger.

**Marjorie Scardino** Chief Executive