

PEARSON PLC

The Call for a New Direction in Their Business Strategy for Education

Shareholder Meeting: April 2016

2016 AGM Resolution

“The Board of Directors of Pearson PLC immediately conduct a thorough business strategy review of Pearson PLC including education commercialization and its support of high stakes testing and low-fee private schools and to report to shareholders within six months.”

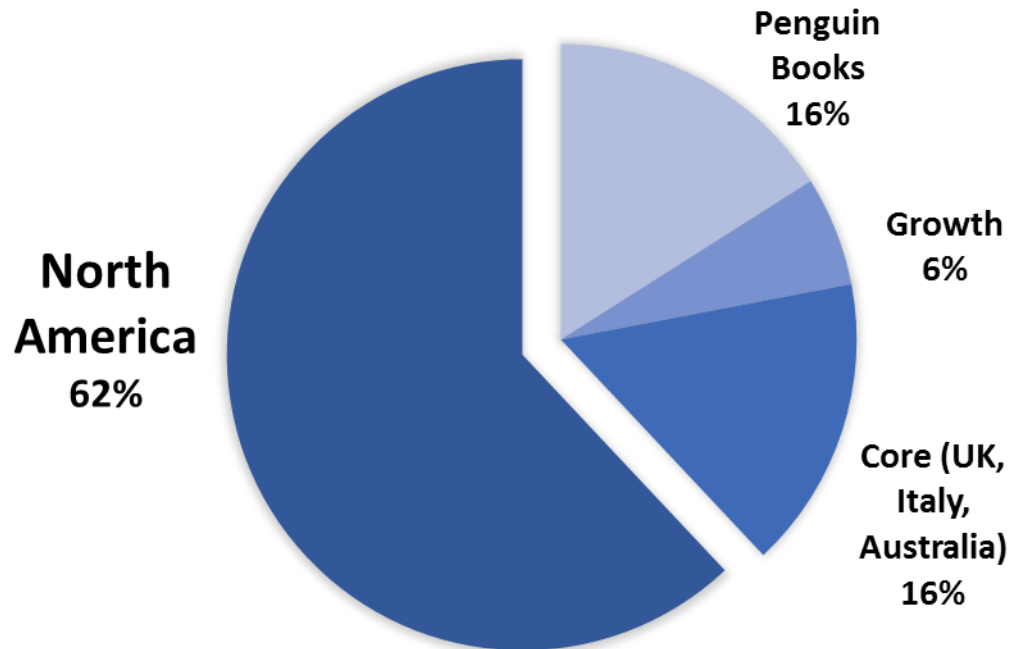
Pearson in Brief

- One of the most powerful (and controversial) players in US education
- Disastrous 5-yr performance
- Profound problems tied K-12 missteps, toxic reputation, high prices
- Latest cost-focused restructuring fails to address strategic challenges; simply buys time
- Investors demanding comprehensive strategic review at 2016 shareholder meeting
- What you can do:
 - Ask your fund to support the resolution
 - Tell your asset managers about importance of this vote and get asset manager's proxy voting staff meeting w/ proponents of resolution
 - Attend, bring asset managers to Pearson investor forum at CII Conference, DC, March 22

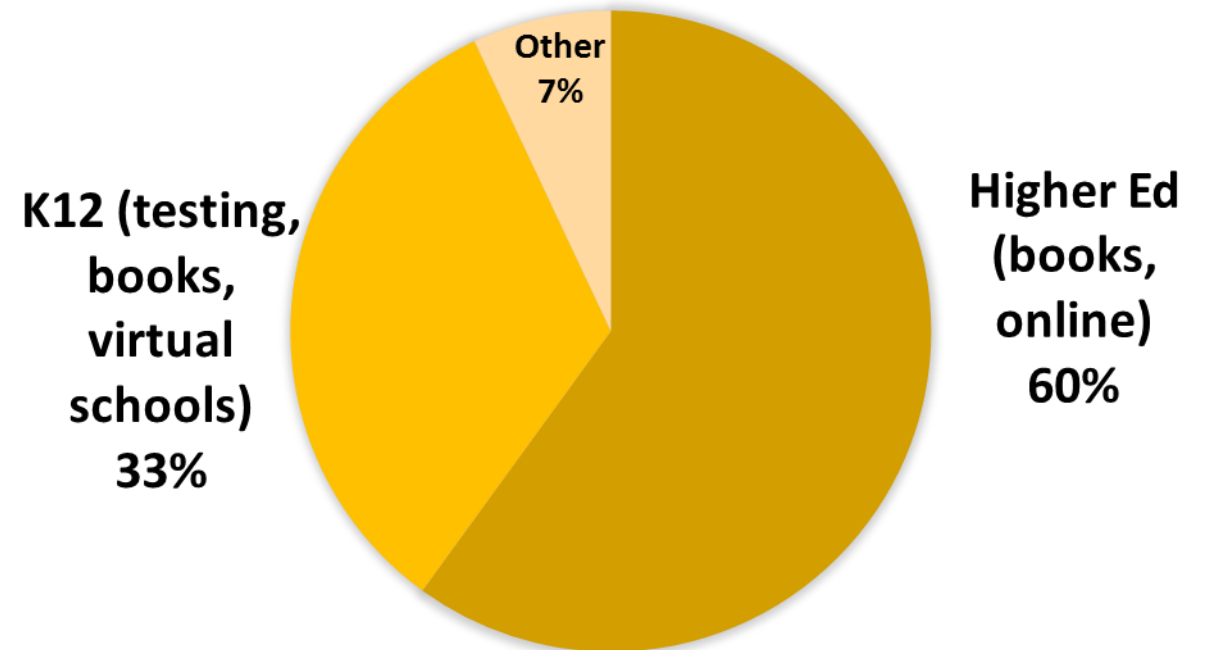
Largest, Most Powerful Education Company

- UK-listed firm, but reliant on North America for bulk of earnings
- North America earnings focused on K-12, higher-ed, virtual schools

PROFIT BY GEOGRAPHY



NORTH AMERICAN PROFIT BY SEGMENT



“Everyone Hates Pearson”

Fortune Magazine Cover Story

January 21st, 2015

“Pearson was no longer a sleepy textbook publisher; it was now a powerful player in every corner of a burgeoning but more controversial industry, one that spurs deep anxiety in the lives of millions of families.”

“All of this change, including Fallon’s strong shift to centralization, has shaken Pearson itself, which was long a diffused, friendly, and somewhat sleepy organization. Morale has tumbled; reviews on the career site [Glassdoor.com](https://www.glassdoor.com) describe a scene of constant reorganizations and confusion, with only half saying they support the CEO.”

"The Most Powerful (and Hated) Force in Education"

(Fortune Magazine, January 2015)



"At this point, you have to ask yourself, if standardized tests are bad for teachers and they're bad for kids, who exactly are they good for?" Oliver said.

John Oliver on HBO's Last Week Tonight.
May 4th, 2015

Disastrous Five-Year Performance

- Poor share performance: Negative 3yr (-8%), 1yr (-40%); trailing FTSE 100 by 30pp over 1yr
- Failure to grow core business for 5 years
- Loss of market credibility: 4 profit warnings, 2 restructurings in 3yrs under CEO Fallon.
- A toxic reputation from its association with K12 education reform, no-bid contract wins and performance hiccups

Pearson's Strategy Isn't Working

- 1. Market is tiring of excuses:** “CEO blaming economy, one-off factors for failure to meet targets, but analysts point to missteps” (*Financial Times*)
- 2. Mishandling of K-12 testing business:** PARRC and high-stakes testing gone from boon to albatross in face of unprecedented reputational damage and political backlash . “Issues have become legend” (Jefferies), the “brand has been shredded” (*Librium Capital*) and further risk of “contagion” from testing to K-12 courseware (*Kepler Cheuvreux*)
- 3. “Every Student Succeeds Act” demands new approach:** New law decentralizes education policy making it harder for Pearson to win new contracts, rebuild brand, and repair relationships. The law also provides states with resources to pay costs associated with terminating procurement contracts

Pearson's Strategy Isn't Working (cont.)

4. College kids can't afford Pearson: Students unwilling to pay high price of Pearson textbooks -- turning to book rentals and cheaper, open source educational materials, including Google and Apple.

“[T]ogether with pervasive wireless broadband [this will] rip up the established order in educational publishing.” (Jefferies)

5. Pearson's model of commercializing education under threat: Market becoming more fragmented and competitive with for-profit providers like Pearson facing increasing competition from new entrants including many non-profit providers” (*Deutsche Bank*)

Latest Restructuring Fails the Test Again

- January 2016, announces 10% cut to workforce and pushes back turnaround another 2 years, blames economic and policy factors.
- Analysts unimpressed:
 - “[The job cuts and restructuring] looks more of an exercise in delaying the inevitable than tackling the true causes of their deep-rooted problems” (Librium Capital)
 - “It’s another three years of minimal growth even on their optimistic scenario. There’s still no sign of the long-term vision of education growth coming through.” (Panmure Gordon)
 - “This leaves investors grasping at rather hollow assurances that things will get better” (Macquarie)
 - “A turnaround is unlikely to be a simple as embarking on another cost-cutting plan” (Kepler Cheuvreux)
 - “We find it difficult to build confidence that [the new restructuring] will deliver” (Barclays)

Time for a New Strategic Direction

- April 2016 shareholder meeting: resolution urging company to conduct review of business model, including K-12 testing
- Vital opportunity for long-term investors to express views before a hedge fund pounces on failures
- Pearson has steadfastly refused to reconsider strategy, preferring drastic cost-cutting and blame-shifting
- Strategic review vital before allocating proceeds of recent asset sales

Trustees:

1. Ask your fund to support the resolution
2. Tell your asset managers about importance of this vote and get asset manager's proxy voting staff meeting w/ proponents of resolution
3. Attend and bring asset managers to Pearson investor forum at CII Conference, DC, March 22, 4pm (***or send Int'l asset managers to London forum on February 25th***)

Guidelines:

- “This vote is very important to us.”
- “We would like you to pay close attention to this vote.”
- “Would you like a presentation on this?”
- “Can I arrange to have someone brief your proxy voting staff on the details?”
- “Can you join us for an investor forum at the CII conference, Tuesday, March 22 at 4:00 pm?” (***or the London forum on 2-25***)

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