

Pearson

FY23 first take: FY23 in line, but some blemishes in the guide

Maintain Rating: NEUTRAL | PO: 1,030 GBp | Price: 960.60 GBp

Maintain Neutral, 1,030p PO

FY23 results look broadly in line with market expectation, though guidance for FY24 contains some blemishes at the divisional level and the adj.EBITA outlook together with higher net interest could see some modest pressure on EPS forecasts in the wake of the statement. We see shares likely range bound – Pearson (PSON) trades on 15x CY24E P/E for c.9% 3yr EPS CAGR, with a broader strategic update under new CEO Omar Abbosh in the summer. Maintain Neutral, 1,030p PO.

FY23 results: In line

Underlying revenue growth (+5%) and adj.EBITA £570-575m were both pre-announced. Revenue came in at £3,674m vs. cons: £3,690m, with adj.EBITA of £573m bang in line with the pre-announcement (cons: £575m). EPS of 58.2p is a touch ahead vs. cons: 57.5p while the DPS 22.7p is similarly in line (cons: 22.6p).

Outlook: A few blemishes in guide

PSON expects adj.EBITA in line with company-compiled consensus forecasts, which are for £621m at USD/GBP 1.22 (1c in USDGBP = £5m). Updating for FX, this would imply c.£601m vs. current Visible Alpha consensus on £622m. We will look for confirmation on the call, but this looks a touch disappointing and likely implies modest downgrades at group level. Added to this is modestly higher guidance for net interest costs of £45m (cons: £33m). Within the detail PSON expects low/mid-single digit underlying revenue growth in the core Assessment division (cons: 4%), and reiterated expectations for Higher Education to return to growth (cons: 2%) both of which look in line. Elsewhere, high single digit growth in the smaller English Language division (cons: 13%) looks a touch disappointing but comes in the context of a toughening regulatory backdrop. Similarly in the smaller Workforce division the high single digit growth guide looks weaker vs. cons: 15%, though with plans to maximise the enterprise opportunity across the group. The share buyback was extended by a further £200m, we think an extension was likely anticipated.

01 March 2024

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Stock Data

Price (Common / ADR)	960.60 GBp / 12.18 USD
Price Objective	1,030 GBp / 13.10 USD
Date Established	13-Oct-2023 / 18-Jan-2024
Investment Opinion	B-2-7 / B-2-7
52-Week Range	749.40 GBp-994.40 GBp
Market Value (mn)	6,563 GBp
Shares Outstanding (mn)	683.3 / 683.3
Average Daily Value (mn)	15.40 USD
Free Float	99.8%
BofA Ticker / Exchange	PSORF / LSE
BofA Ticker / Exchange	PSO / NYS
Bloomberg / Reuters	PSON LN / PSON.L
ROE (2023E)	9.5%
Net Dbt to Eqty (Dec-2022A)	15.2%
ESGMeter™	High

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Timestamp: 01 March 2024 03:08AM EST

Exhibit 1: FY23 results in line

FY23 results vs. expectations

£m unless stated	2023 Actual	2023 Consensus	Actual vs cons.	2023 BofAe	Actual vs BofAe	2022 Actual	YoY growth
Revenues	3,674	3,690	-0.4%	3,871	-5%	3,841	-4%
Virtual Learning	616	625	-1%	616	0%	820	-25%
Higher Education	855	855	0%	855	0%	898	-5%
English Language Learning	415	422	-2%	422	-2%	321	29%
Workforce Skills	220	224	-2%	224	-2%	204	8%
Assessment & Qualifications	1,559	1,559	0%	1,600	-3%	1,444	8%
Businesses under strategic review	9	25	-65%	154	-94%	154	-94%
Organic growth	5%	2%		5%		5%	
Virtual Learning	-20%	-20%		-20%		4%	
Higher Education	-3%	-3%		-3%		-4%	
English Language Learning	30%	30%		30%		24%	
Workforce Skills	11%	11%		11%		7%	
Assessment & Qualifications	7%	7%		7%		8%	
Adjusted operating profit	573	575	-0.4%	603	-5.1%	456	26%
Virtual Learning	76	73	5%	76	0%	70	9%
Higher Education	110	119	-8%	110	0%	91	21%
English Language Learning	47	50	-6%	53	-12%	25	88%
Workforce Skills	-8	17	-148%	15	-153%	-3	167%
Assessment & Qualifications	350	321	9%	351	0%	258	36%
Businesses under strategic review	-2	-1	130%	-2	0%	15	-113%
Adjusted interest		-34	-100%	-36	-100%	-1	-100%
Adjusted PBT	540	540	0%	567	-5%	455	19%
Adjusted tax	-124	-130	-5%	-136	-9%	-71	75%
Adjusted tax rate	-23%	24.1%		24%		16%	
Adjusted net profit	416	409	2%	429	-3%	382	9%
Diluted no. of shares	717.30	710.99	0.9%	711.26	1%	742.00	-3%
Adjusted EPS	57.7	57.5	0%	60.2	-4%	51.5	12%
DPS	22.7	22.6	0%	23.0	-1%	21.5	6%

Source: BofA Global Research estimates, company report, Visible Alpha

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Price objective basis & risk**Pearson (PSORF / PSO)**

Our 1,030p (ADR US\$13.10) PO is based on 16x CY24E P/E, in line with a broad group of European Media sector peers. We think that a sector rating is appropriate, balancing growth/margin characteristics in Assessment & Qualifications and Virtual Learning, as well as the more uncertain outlook for Higher Education.

Downside risks to our PO: 1) Weaker US higher education enrolments due to structural enrolment pressures, 2) scope for a new strategy to demand additional investment in future years, 3) potential for online transitions in education to unwind post-COVID, 4) scope for faster monetisation of Pearson+ than we currently envisage.

Upside risks to our PO are 1) Higher US enrolments 2) Positive surprise on cost savings 3) Better than take up of Pearson+ and other direct to consumer product 4) Assets disposed at a premium to our expectations.

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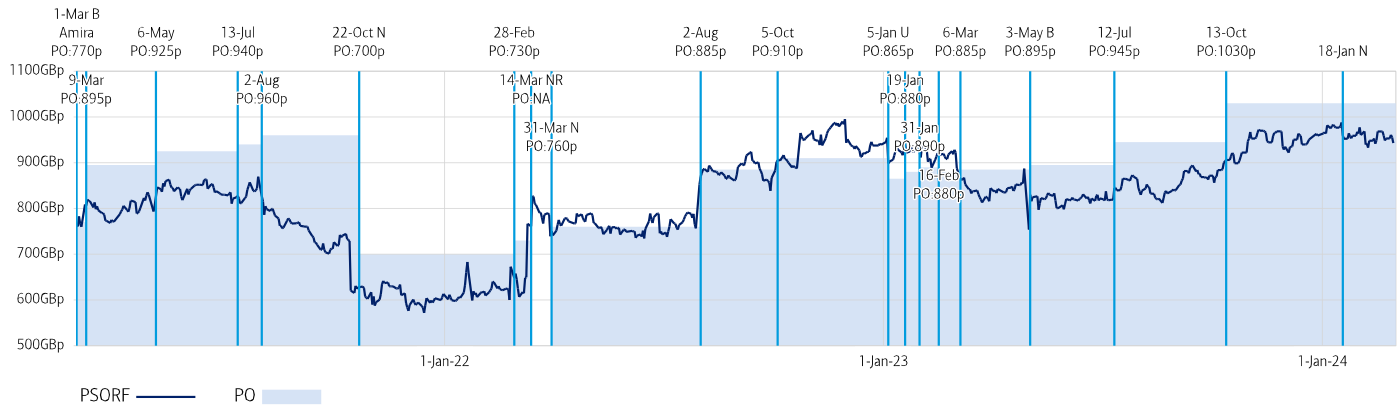
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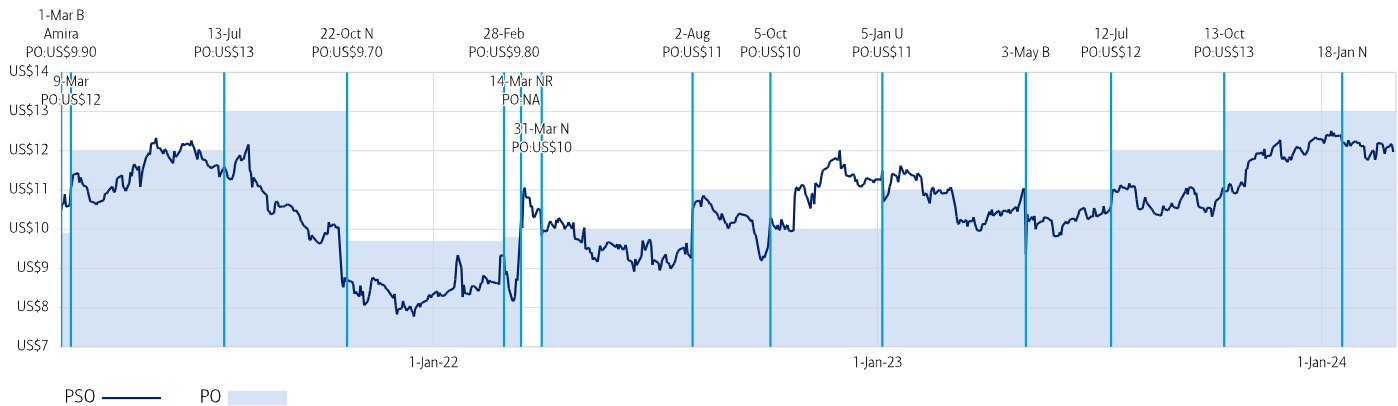
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Pearson (PSORF) Price Chart



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Pearson (PSO) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	35	53.85%	Buy	15	42.86%
Hold	15	23.08%	Hold	8	53.33%
Sell	15	23.08%	Sell	7	46.67%

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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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