Outlook: 2012

The external environment is likely to remain challenging in 2012 in the face of turbulent macroeconomic conditions and rapid structural change in our industries. However, we will once again make progress on our strategic goals of making Pearson more digital, more exposed to fast-growing markets and more directly engaged in helping students succeed.

Our 2012 financial results will reflect the sale of our 50% stake in FTSE International (which contributed no sales, £20m of operating profit and 2.2p of adjusted EPS in 2011) and higher tax rates (after one-off benefits in 2011). At this early stage in the year we expect Pearson to achieve growth in sales and operating profits in 2012. Margins will reflect integration costs on acquisitions made in 2011 (which are expensed) and the FTSE sale. This guidance is struck at current exchange rates (£1:$1.59).

Education

In Education, we expect to achieve continued growth in 2012. In North America, we anticipate modest growth in higher education as rapid take-up of our technology and services is partially offset by lower college enrolments and challenging conditions in the market for printed textbooks. We expect our Assessment and Information business to remain resilient as it prepares for the transition to next-generation Common Core assessments. We expect good growth in digital school programmes and services, but another tough year for the School textbook publishing industry, which will continue to be affected by pressure on state budgets and delays in purchasing decisions during the transition to the new Common Core standards.

International

We expect our International education business to show good growth. Austerity measures will continue to affect education spending in much of the developed world, but we see significant opportunity in emerging markets in China, south-east Asia, Latin America, the Middle East and Sub-Saharan Africa – which together accounted for more than 40% of our International education revenues in 2011. Across our education company, we will be integrating acquisitions made in 2011 (and expensing the costs) and making a series of organic investments in fast-growing segments including digital learning, English language teaching and institutional services.

Professional

We expect our Professional education business to grow again, benefiting from the continued strength of our worldwide professional testing business. In the UK, government funding pressures and policy change relating to apprenticeships are creating a tough trading environment in professional training.

FT Group

The FT Group's profits will be lower in 2012 than in 2011, reflecting the sale of our 50% stake in FTSE International and further actions weighted towards the first half of the year to accelerate the shift from print to digital. The Financial Times and The Economist Group (in which Pearson owns a 50% stake) are predicting weak advertising markets but strong growth in digital subscription revenues. Mergermarket will benefit from its high subscription renewal rates, although the outlook for M&A activity remains uncertain.

Penguin

Penguin has performed strongly in recent years in the context of rapid structural change in the consumer publishing industry. We expect it to perform in line with the overall industry this year, facing tough conditions in the physical bookstore channel but helped by its strong position in digital. eBook revenues accounted for 12% of Penguin revenues worldwide in 2011, up from 6% in 2010, and we expect this percentage to increase significantly again in 2012.

Interest and tax

In 2012, our net interest charge will be broadly level with 2011. We anticipate our P&L tax charge against adjusted earnings to be in the 24–26% range with our cash tax rates around the same level.

Exchange rates

Pearson generates approximately 60% of its sales in the US. A five cent move in the average £:$ exchange rate for the full year (which in 2011 was £1:$1.60) has an impact of approximately 1.3p on adjusted earnings per share.