Pearson Plc

LSE : PSON

Exchange	LSE
Sector	Impact
Price	£10.35
52 Week High/Low	£10.84 / 8.85
Target Price	£11.55
Market Capitalisation	£6,872 (mil)
Price/Earnings	16.85
Enterprise Value/EBITDA	9.30
Beta	0.71
Dividend Yield	2.26%
Return on Equity	8.78%
Debt/Equity	0.288

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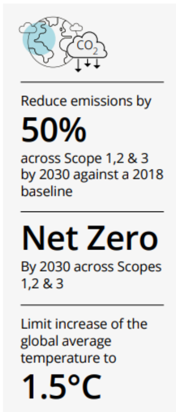
OVERVIEW

Pearson Plc offers educational courseware, assessments, and services in the United Kingdom, the United States, Canada, the Asia Pacific, other European countries, and internationally. The company was founded in 1844 and is headquartered in London, UK. It is undervalued due to its low P/BV ratio and low EPS, suggesting there is plenty room for financial growth.

Launch of AI certifications: Pearson Plc is a stand-out company due to a new Generative AI Foundations certification it has launched, which has already increased sales by 5%. This move aligns Pearson with the digital transformation wave, positioning the company as a player in tech-driven education, and strengthens its position against more technology driven education companies such as Coursera and Khan Academy. Pearson has partnered with Mindstone to deliver practical AI application training to help employees boost their productivity, efficiency and workflow. It will be delivered in test centres as well as on Pearson VUE's online testing platform – OnVUE – to increase its accessibility. The certification has a focus on the societal impact of AI, including recognising bias and understanding privacy concerns. According to the 2024 Work Trend Index Annual Report1 from Microsoft and LinkedIn, 71% of business leaders prefer to hire a less experienced candidate who possesses AI skills over a more experienced one without them. This innovation can enhance Pearson's brand, diversify its offerings, and increase investor confidence, potentially boosting its stock price as it demonstrates adaptability to future workforce needs.

Macroeconomic factors and industry outlook: Pearson holds headquarters in the UK, but operates globally; including the UK, US, Canada and India. Therefore, Pearson faces the ongoing trend of global growth stagnation. However, Pearson's low 3Y Beta of 0.79 makes it a safer stock, as the impact of any upcoming volatility in the UK and global economy will have limited impact. The education sector has demonstrated consistent growth, and expansion into emerging markets such as Africa and Asia, which Pearson operates in. Pearson's main sales sector is Assessment and Qualifications, achieving sales of 1,559m in 2023, based primarily in the US and UK in which growth is forecasted to increase (to 2.7% in the US and 1.1% in the UK) due to projected interest rate lowering. Additionally, government support for the education sector is influential in the US and UK and ensures future industry growth. Pearson is also the market leader in the resources for Higher Education sector, credited to their relationships with authors, and technology platform. This is expected to continue, as Pearson is the first higher education provider to introduce AI initiatives. The theme of digital learning solutions has grown, and Pearson has also positioned itself to benefit from shifts to online learning, with online courses and digital textbooks, which are easily scalable and allow future diversification. A digital approach is more efficient, shown in last year's annual report, where profit grew 31%, achieved by 120m in cost savings.

ESG: Holding a MSCI rating of AA, Pearson is an ESG leader. Being in the education sector, its business is fundamentally impactful for society. Pearson reaches millions of learners worldwide, helping to democratize education by making quality learning materials available regardless of location. The firm has increased its accessibility by digitalising its resources, which enables remote and blended learning. An example of how this is delivered through their app, Mondly, which provides language learning for free to everyone. As quoted in their 2024 Annual report, 'English Language Learning sales increased 11% due to strong growth in Institutional as well as growth in Mondly'. To increase community impact, Pearson also launched Learning for Impact in 2023, where eligible employees receive 5 paid days to volunteer. Since its launch, employees have completed 20,000 hours of volunteering. A strong presence in local communities improves their corporate reputation, which can influence consumer perception and loyalty, leading to higher sales. Furthermore, carbon emissions decreased 17% between 2022 and 2023, from supply chain improvements outlined in their Climate Action Plan. For example, they plan to reorganize the print supply chain to drive efficiencies and use better forecasting to reduce inventory of print products. This will include rationalizing paper suppliers and increasing the use of responsibly sourced paper.



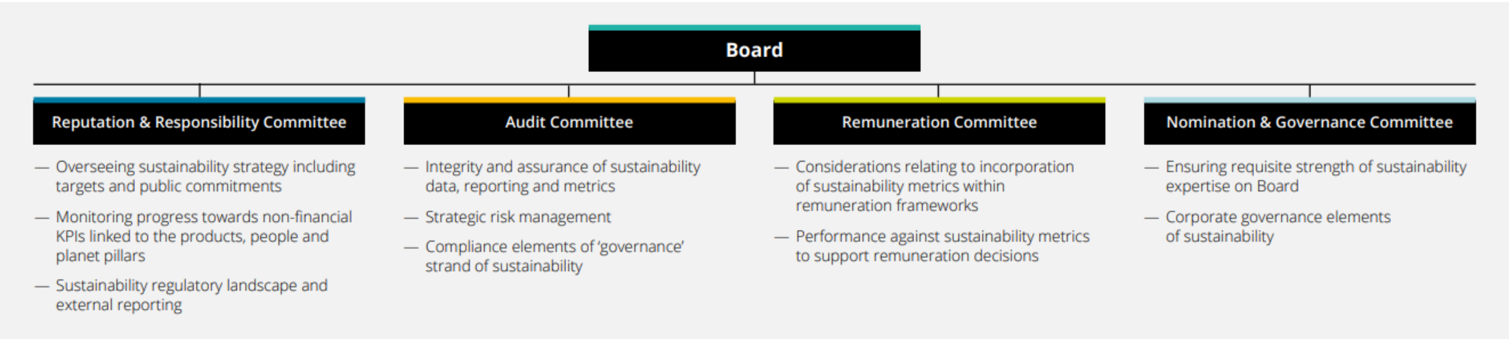
Risks: Pearson may be adversely affected by policy changes: austerity measures, cuts in education funding, or modification of curriculum mandates. For example, the introduction of the new National Curriculum in England (2014) has affected Pearson's product offerings, resulting in additional investment to realign their resources and materials to meet new standards. However, the potential stock's holding horizon is under the new Labour government, who will prioritise education spending. Pearson actively engages with policymakers and educational institutions to keep up with regulatory change. With the shift to more digital learning and competition from tech-driven companies, Pearson must evolve to new learning platforms and technology usage. Failing to keep pace with this digital adoption and innovation, could lead to Pearson's revenues diminishing and losing market share. However, in 2021, Pearson launched Pearson+ as part of its digital-first strategy, a subscription-based platform for learning and textbook materials, to compete with such competitors. In fact, they reported that as of 2023, 70% of their revenue comes from digital products. Currently, EUTIC does not hold an education stock in the impact sector, let alone in the fund's portfolio, so through portfolio diversification, this will help reduce any idiosyncratic risk affecting other held stocks they have already invested in.

EXECUTIVE SUMMARY

Primary catalysts

The top 3 reasons as to why Pearson is a strong 'buy' are: the company's ESG focus, the rising demand for AI learning, and their stable financial outlook and historic performance.

1. Pearson's **focus on ESG** reduces risk as it lengthens the longevity of the investment. As the firm already has forward-thinking initiatives such as volunteering schemes, carbon reduction plans, and community outreach programmes, Pearson will be less impacted by the possibility of stricter environmental regulations as they are already internally improving.
2. The **market outlook for AI focused firms** swings in Pearson's favour as society's technological advancements perpetuate a need for its services. A new International Data Corporation (IDC) forecast shows that worldwide revenue for AI platforms software will grow to $153.0 billion in 2028 with a compound annual growth rate (CAGR) of 40.6% over the 2023-2028 forecast period. Pearson is able to capitalise on this as they continue to focus more on providing AI training.
3. Finally, Pearson is widely recognised by analysts as a **stable stock, with steady return potentials,** with total sales being up 3% in the last 9 months. The firm has a long history which proves they can ride the waves of the market with a beta of 0.71. What really makes Pearson stand out are their strong operating margins, emphasising the productivity of their capital and efficiency of management.



How Pearson fits into EUTIC's portfolio

Buying Pearson will help to diversify EUTIC's portfolio, as no other education stocks as currently held. This protects the folio against firm-specific risks and means there are no other similar competitors. The company has a market capitalisation of £6,872 million, which is relatively large compared to other players in the industry. This will benefit EUTIC as large cap stocks inherently improve diversification because they have wider product lines and have exposure to various sectors within themselves. Due to the international reach Pearson has, currency risk is low which provides natural diversification and reduces dependency on one single currency. Lastly, as Pearson operates internationally, this investment will provide EUTIC with exposure to different global markets.

Suggested strategy

Due to Pearson's well-established standing in the education sector, a more long-term approach is suggested. Our suggested strategy would be one of 4-5 years, whereby dividends are reinvested into Pearson right before times of high demand, such as before the start of the academic year. It would be a buy-and-hold strategy where you exit right after the peak periods during school term times. This gives EUTIC exposure to the education sector and provides a more defensive stock with a steady income stream.

Key takeaways

- Pearson has strong relationships with suppliers due to their long-standing history, which ensures supply-chain security. As they also have connections with academic institutions and technology firms, their sustainability as a stock is enhanced.
- The education sector is stable and inherently ESG – friendly. Every country has schools and so Pearson's services will always be demanded, which promotes life-long learning in all communities.
- Pearson is deemed to be undervalued in comparison to its competitors, and has significantly higher profitability ratios.
- Due to its international reach, the risks Pearson faces are natural mitigated due to the diversification in the firms operating currencies, product range, and sectors it operates in.

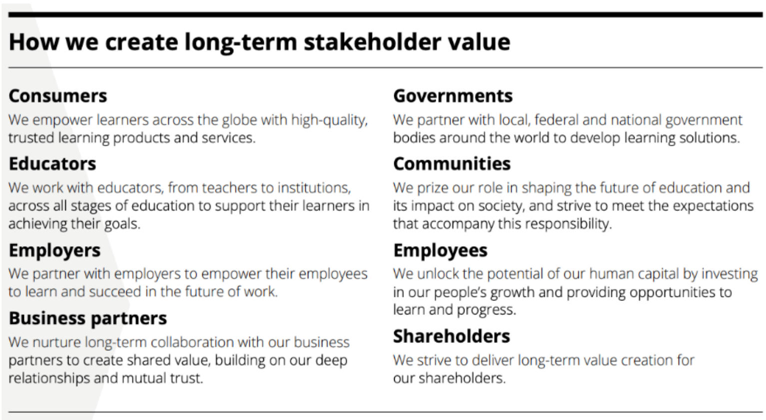
Pearson is in a constantly demanded sector with historically stable and positive returns. It continues to improve its ESG standing whilst branching out into AI. The stock is the perfect long-term investment and will help to diversify EUTIC's portfolio.

COMPANY OVERVIEW

Business Model

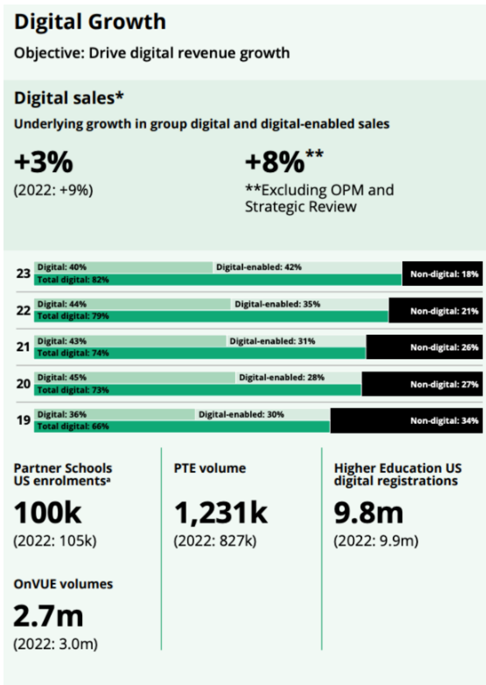
- Pearson PLC is a global firm specialising in educational publishing and digital learning services. Pearson caters to multiple educational markets, including K-12, higher education and professional training.
- Pearson splits its products into 5 categories: Global Online Learning, Global Assessment, North American Courseware, International, and workforce skills. Pearson is placing an increasing level of focus on digital solutions, centred around it's Pearson+ platform, which offers consumers a subscription-based digital library.
- Key customers of Pearson PLC include students, educators and professionals, from a variety of educational institutions, individuals and corporate clients. Stakeholders include management, customers, suppliers including authors and publishers of resources, and governments requiring regulatory compliance.
- The chart highlights the ways Pearson PLC engages with its stakeholders.

- Pearson maintains strong personal connections with its authors, ensuring future supplier security.
- Pearson captures value through its exclusive use of technology to enhance traditional educational experience. It's recent R&D investments in AI enhance and personalise customer experience and increase educational analytics, improving customer engagement.
- Additionally, Pearson has a high ESG rating, and is committed to delivering education to communities, and meeting its sustainability goals.



Financial Overview

- Pearson has demonstrated a strong financial outlook in 2023. They have sales growth for the third consecutive year, an increase to £3674m of 5% in 2023. Profit grew 31%, driven by cost savings of 120m. Dividend growth in 2023 was 6%.
- Pearson PLC in recent years has moved from print reliance to alternative revenue streams. Digital growth accounted for 75% of revenue growth in 2023, and Pearson has a high profit margin due to the increased efficiency of digital products.
- There is varied profitability in Pearson's business categories, with digital learning clearly driving revenue growth due to low distribution costs and high demand, reflecting the success of its strategic digital planning. Given that this product maintains the highest profit margin, the shift in focus to digital products promotes success.
- There is a varied balance between dividend policy and reinvestment, showing Pearson's commitment to digital growth as well as shareholder value.
- Pearson's previous year showed a return on equity of 7.8% and a debt-to-equity ratio of 0.45, reflecting well on the company's financial leverage, despite industry challenges.
- The chart outlines Pearson's digital growth in 2023.

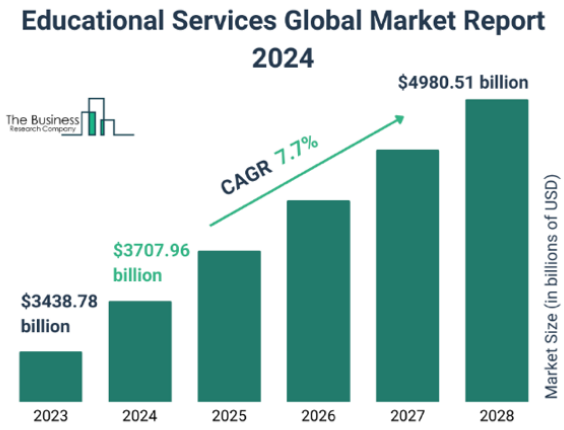


Strategic partnerships and Innovation

- Pearson maintains strategic relationships with stakeholders, and it focuses on supplier loyalty, through producing
- To strengthen its digital strategy, Pearson also holds established partnerships with academic institutions, technology firms, and other platforms. This not only aids the expansion of Pearson+ but assists its community impact goals to make education accessible.

INDUSTRY OVERVIEW

Performance and Outlook



- The global education and e-learning industry is a growing industry and encompasses and services all levels of education. It is actively changing and expanding its digitisation as well as it's accessibility. The educational services market is expected to grow at a compound annual growth rate (CAGR) of 7.8% in 2024, growing to $3707.96 billion.
- The industry growth trends are shown in the graph:
- This forecasted growth is attributed to online and remote learning technologies which became widely relied on during the Covid-19 pandemic, and which Pearson is ideally aligned to capitalise on. Additionally, other trends include microlearning, corporate training, AI and personalisation and language learning, all of which Pearson operates.
- The traditional industry profit margin is modest, around 10-15%, however, a shift to digital technologies moves profit margins up to 20%.
- North America and Europe remain key educational markets, whilst the Asia-Pacific region is rapidly emerging.
- Pearson is diversified in terms of products, so has exposure to a range of markets: higher education and K12, digital learning, and workforce development. The market has characteristics of oligopoly, with major companies holding rights over key textbooks and authors, a position Pearson benefits in due to its supplier relationships.

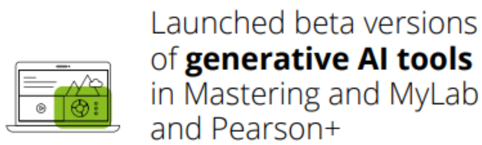
Regulations

- Regulation and policy pay a crucial role in the educational services market, as much consumption of educational services occurs in the public sector.
- The recent Labour government has increased funding for schools by £2.3 billion next year in the Autumn budget.
- The UK government has a National Skills Fund, which was introduced in 2020, and is a £2.5 billion investment aiming to improve and enhance adult skills and training. This funding prioritises short courses and certifications, aligning it with Pearson's online and workforce training products including micro-credentials and certifications. The Labour government has just announced £40 million towards foundation and shorter apprenticeships.
- The US has the ESSA signed in 2015. This is a federal law that allows states to allocate funds to institutional programs, and is funded at $18.39 billion in 2023, increasing. It provides funding for all sectors of school education as well as career and technical education, increasing demand for Pearson's products. Additionally, the Perkins V act funds career and technical education (CTE) programs, promoting the use of digital learning technologies. The WIOA act also provides federal funding for workforce development, focusing on unemployed or underemployed individuals, increasing demand for Pearson's certifications and vocational training materials.

Competition

- Pearson's competitors include textbook providers such as McGraw-Hill, Cengage Learning, Houghton Mifflin and EdTech platforms such as Coursera, Udemy, and Khan Academy.
- Pearson strategically partners with Microsoft to integrate Microsoft Teams into Pearson's digital platform to make Pearson easily accessible, and the go-to company out of its competitors.

Macroeconomic factors



- The education industry is in its maturity phase for traditional publishing, however in its growth phase for digital learning, reflecting well on Pearson's business strategy shift to AI and EdTech.
- The demand is non-cyclical as education is an essential, nevertheless, workforce training products will change dependent on the current job market.
- Other macroeconomic factors do not play a large role, as education is an essential, and the role of regulation is overall positive.

STRATEGIC ANALYSIS

Porter's Five Forces

Threat of New Entrants ***(Low)***

Pearson is one of the largest education companies globally, commanding a significant market presence in educational publishing and digital learning services. In 2021, Pearson generated over £3.4 billion in revenue, reflecting its dominant position across various regions, holding a 40% market share in US educational content and assessment services. Entering the global education sector requires substantial capital investment, in developing high-quality content, building digital infrastructure, and establishing global distribution channels. Competing with this and Pearson's scale and ability to license content across multiple countries is challenging. Pearson's leadership in global education is evident through its educational testing/publishing and ability to leverage decades of expertise, e.g., through standardized testing. This learning curve serves as a deterrent to new firms. Pearson's specialist knowledge in AI-driven education tools is a significant differentiator, amplifying how competitors would struggle to compete at scale. Pearson enjoys cost advantages through long-term contracts with educational institutions and governments, making it hard for new entrants to undercut price. Pearson has proprietary technologies and content, particularly in its digital learning platforms, Pearson+, which would be difficult and costly for new entrants to replicate. Patents, copyrights, and content licenses help protect Pearson's technological edge, creating another entry barrier. The most significant potential threat Pearson faces is from larger, well-established competitors introducing superior digital products or content that could capture market share.

Supplier Power ***(Low to Moderate)***

Pearson benefits from a diversified and complex supply chain involving content creators, digital platform providers, and other specialized services, and suppliers across different segments. Pearson works with a wide range of freelance content developers and smaller firms for content production, and given the oversupply of such services, the company holds the upper hand in negotiations. While some suppliers may have influence in niche areas, Pearson often works with large companies for its digital needs, such as cloud infrastructure, partnership with Microsoft, and digital platform support, where supplier power can increase slightly due to their size. Many of the services Pearson uses for content production and development are not highly specialized, which reduces supplier bargaining power. In content creation and editorial services, Pearson can easily switch between suppliers or bring some services in-house, but when it comes to substituting certain specialized digital services such as cloud computing infrastructure - relying on large cloud providers like Amazon or Microsoft - may limit their ability to substitute these services. The cost of switching suppliers is relatively low for Pearson when it comes to content creators and editors, but higher for digital platform and infrastructure services, so transitioning from one digital provider to another (e.g., cloud services or AI tools) could incur significant costs.

Buyer Power ***(Moderate to High)***

Pearson serves a wide range of customers, including educational institutions, individual learners, and governments. Large institutional customers (schools, universities, and governments) make up the most of Pearson's revenue, giving these buyers considerable bargaining power. Educational institutions and governments place large-scale orders for Pearson's products, allowing them to negotiate pricing or custom solutions, e.g., universities and schools often negotiate multi-year contracts with Pearson for digital platforms like Pearson MyLab or Pearson+, resulting in large, high-value orders. However, Pearson's scale and broad product offerings help mitigate the impact of any single large order. Competitors like McGraw-Hill and Cengage offer similar educational content and services, which increases buyer power as they can choose between comparable options, but Pearson's established reputation, comprehensive assessment services, and partnerships with governments give it some differentiation. Educational budgets are frequently constrained, and institutions seek to minimize costs by negotiating favourable terms or switching to lower-cost alternatives, so this sensitivity further increases the bargaining power of buyers. In fact, many universities and schools are moving toward open-source educational materials or free resources from organizations like OpenStax to reduce textbook costs, putting pressure on companies like Pearson to remain competitive on pricing. The rise of MOOCs (Massive Open Online Courses), Coursera, Khan Academy, and other free platforms means that institutions and individual learners now have more alternatives. Reports from the World Bank and UNESCO frequently discuss the rise of open educational resources and digital platforms as disruptors in the traditional educational publishing industry. For institutional buyers, switching digital platforms like Pearson's MyLab or Pearson+ can involve significant integration and training costs, which somewhat reduces buyer power.

Threat of Substitution ***(High)***

Free online resources like Khan Academy, Coursera, and edX provide high-quality educational materials, and these substitutes are often interactive, easily accessible, and regularly updated, which can outperform traditional textbooks in terms of engagement and flexibility. The cost of switching from Pearson's offerings to substitutes can be relatively low, particularly for individual learners and smaller educational institutions. Digital platforms like Coursera and Udemy offer subscription or pay-per-course models, which are more affordable than Pearson's offerings. Additionally, many schools and universities have increasingly adopted open educational resources (OER), which provide free or low-cost alternatives.

Competitive Rivalry *(High)*

Pearson faces stiff competition from a variety of players, particularly in educational publishing and digital learning - McGraw-Hill, Cengage, and Houghton Mifflin Harcourt in traditional publishing, as well as Coursera, Udemy, and Khan Academy in the digital learning and EdTech space. The growth of open-source platforms and free educational resources has increased competitive pressure. Companies like Coursera and edX provide online courses in partnership with top universities, attracting learners away from traditional educational publishers. Schools and universities that have integrated Pearson's digital learning tools and assessment services often face significant costs in retraining staff and adjusting to new platforms. However, individual users and smaller institutions face lower switching costs when choosing alternatives. Pearson enjoys considerable brand loyalty, however, in the digital space, customer loyalty is more fragmented due to the rise of competing platforms offering similar services. Pearson's long-standing relationships with governments and universities help maintain some level of customer retention.

VALUATION

- STRIDE: Stride offers technology-based education packages to schools in the US, similar to Pearson. It is the US version of Pearson, and also has a very large market capitalisation and on the higher end of stock prices.
- CHEGG: Chegg offers AI services and online platform to learners, which is directly competing with Pearsons AI initiative. Whilst it is based in the US, its online presence reaches UK markets and Pearson's potential customers.
- COURSERA: Internationally recognised and offers online certified courses, much like Pearson.
- ACADE MEDIA: Acade is based in Europe and not the US which makes it more geographically diverse to compare.
- BRIGHT HORIZONS: This company has a similar market capitalisation and beta to Pearson.

Based on the CCA model, Pearson is determined to be **UNDERVALUED**, with an implied upside of 49%. Current market price per share is £10.45, whilst the mean of all means in the CCA states that the implied share price is £15.60.

= Implied Price per Share					
High	16.9	39.2	22.9	251.1	24.5
Low	1.2	0.2	2.6	6.0	0.0
Mean	5.6	11.0	9.6	73.4	7.3
Median	3.6	6.9	6.6	18.3	3.3

Mean Equity Value Across Multiples	Equity Value	Price Per Share	Implied Upside / (Downside)
High	31,216	47.1	**350%**
Low	1,654	2.5	**-76%**
Mean	10,351	15.6	**49%**
Median	4,737	7.1	**-32%**

Comparable analysis

The standout-statistics from Pearson lie in their operating and profit margins. They have the highest EBITDA (17.5%) and EBIT (14.8%) margin, which highlights their profitability, and potential longevity. They also have one of the lowest 3-year beta (0.7) compared to its peers, which suggests that the stock is a safer investment and experiences less volatility. Furthermore, they have a low amount of debt/capital (2.5) out of the comparables, which emphasises the stability of the stock.

However, Pearson has a few multiples that may appear to be negative. They have an estimated EPS on the lower side of its peers, but this can show room for improvement and growth potential. Furthermore, companies with a low EPS can reduce pressure from shareholders, allowing them to make more strategic investments and spent on growth initiatives without the short-term pressure of maintaining a high EPS. Pearson also has a low P/B ratio, which may suggest that the stock is trading below its book value in comparison to industry peers. During market downturns or economic recessions, stocks with low P/B ratios become more attractive to investors seeking conservative investment. Overall, we can see through comparison to its peers that Pearson is currently undervalued, and its stability makes it a safer investment with the potential for growth in the long run.

Company Name	Gross Margin %	EBITDA Margin %	EBIT Margin %	Net Income Margin %	Total Revenues, 1 Yr Growth %	EBITDA, 1 Yr Growth %	EBIT, 1 Yr Growth %	Net Income, 1 Yr Growth %	Total Debt/ Capital %	Total Debt/EBITDA	Estimated EPS	3 Year Beta
	LTM	LTM	LTM	LTM	LTM	LTM	LTM	LTM	LTM	LTM	NTM	Country
High	73.4	14.5	12.2	10.0	16.2	56.9	122.0	60.9	67.6	6.7	3.9	1.5
Low	23.2	-17.2	-18.1	-91.7	-7.7	-28.2	-26.8	-36.3	0.4	1.7	0.1	0.5
Mean	43.5	6.7	2.4	-17.7	9.2	13.9	39.1	22.6	44.1	3.8	1.6	1.0
Median	37.4	12.3	8.7	3.6	11.5	13.7	30.7	32.9	58.8	3.4	0.6	1.0
Pearson plc	**50.6**	**17.5**	**14.8**	**9.8**	**-9.7**	**-2.1**	**-2.4**	**19.5**	**30.3**	**2.5**	**0.7**	**0.7**
AcadeMedia AB (publ)	31.2	10.6	8.7	3.6	11.5	13.7	14.3	9.3	67.6	3.6	0.6	0.6
Chegg, Inc.	73.4	12.3	0.2	-91.7	-7.7	-4.0	NM	NM	62.8	6.7	0.6	1.2
Coursera, Inc.	52.3	-17.2	-18.1	-14.3	16.2	-28.2	-26.8	-36.3	0.4	NM	0.1	1.5
Bright Horizons Family Solutions Inc.	23.2	13.3	9.1	4.0	14.7	56.9	122.0	56.4	58.8	3.3	2.9	1.0
Stride, Inc.	37.4	14.5	12.2	10.0	11.0	31.1	47.0	60.9	31.0	1.7	3.9	0.5

FINANCIAL ANALYSIS

Comparable companies used: *Stride, Chegg, Coursera, Acade Media, and Bright Horizons Family Planning.* These 5 companies were selected due to their similar market capitalisations, business structures, and ESG scores.

DuPont Analysis

Pearson has *a net profit margin* of 9.8%, which is behind only Stride with 10%. The rest of the comparable companies have a mean of only -17.7, proving that Pearson is one of the best in the industry at streamlining its revenue. One reason for this could be that Pearson is one of only 4 exam boards in the whole of England, meaning there is less competition. This allows the firms to raise their prices and increase their profit margins. The firm also has an *asset turnover ratio* of 1.2x, which is higher than the mean of the comparable companies, suggesting that Pearsons's assets are productive. This is likely due to the fact that Pearson sells a lot of textbooks and exam papers, meaning they have high sales alongside a smaller asset base. Finally, *the financial leverage* of the company is measured by a debt/capital ratio of 30.3%. This is the 2nd lowest out of its peers, which is attractive because it shows Pearson has the cash flow to be able to fund new investments If opportunities arise, and also lowers the irks of the investment.

- From this, we can see that Pearsons strengths lie in its revenue generation, suggesting that the firm has good financial management and efficient production processes. However, the lower amount of debt means that Pearson may not be utilising its strong cash flow to the best of its abilities.

Company Name	TEV/ LTM Total Revenues	TEV/Gross Profit	TEV/ LTM EBITDA	TEV/ LTM EBIT	TEV/CF from Ops.	Price/BV	TEV/ NTM Total Revenue	TEV/ NTM EBITDA	PEG Ratio	Forward P/E
						17/10/2024			NTM	NTM
High	3.5x	15.2x	26.7x	318.6x	29.9x	5.95x	3.3x	20.7x	0.2x	41.3x
Low	0.6x	0.8x	4.9x	10.1x	2.3x	0.43x	0.7x	2.8x	0.1x	1.9x
Mean	1.4x	4.8x	12.5x	95.0x	10.5x	2.38x	1.4x	10.3x	0.1x	19.8x
Median	1.0x	3.3x	9.2x	25.5x	6.0x	2.05x	1.0x	6.1x	0.1x	12.8x
Pearson plc	**2.3x**	**4.6x**	**13.4x**	**15.7x**	**14.1x**	**1.9x**	**2.3x**	**10.1x**	**2.5x**	**16.0x**
AcadeMedia AB (publ)	1.0x	3.4x	9.8x	12.0x	5.2x	1.1x	1.0x	4.5x	NA	7.7x
Chegg, Inc.	0.6x	0.8x	4.9x	318.6x	2.3x	0.4x	0.7x	2.8x	0.1x	1.9x
Coursera, Inc.	0.7x	1.4x	NM	NM	6.0x	2.0x	0.7x	17.5x	0.2x	41.3x
Bright Horizons Family Solutions Inc.	3.5x	15.2x	26.7x	39.1x	29.9x	6.0x	3.3x	20.7x	NA	35.2x
Stride, Inc.	1.2x	3.3x	8.5x	10.1x	9.1x	2.4x	1.2x	6.1x	NA	12.8x

Ratio analysis

There are some standout figures in the table above. The most relevant is Pearsons' forward P/E ratio of 16x, which suggests the company is relatively undervalued. A lower forward P/E indicates that analysts expect future earnings to increase, making Pearson an attractive investment.

- Another important ratio to analyse is the price to book value. This further helps to identify if the stock is over or undervalued. Pearsons P/BV is only 1.9x, which is low in comparison to its peers, suggesting the stock is potentially undervalued.
- Pearson has an EV/LTM EBITDA of 13.4x. This is in line with the industry average and suggests that the company is priced fairly.
- However, Pearson also has an EV/NTM EBITDA of 10.1x which is below the industry average, suggesting that in the next 12 months the stock is expected to become more undervalued, making the stock more attractive.
- Furthermore, Pearson also has a Beta of 0.7, making the stock less volatile than market averages. This is advantageous because it makes the investment less risky and will help to diversify the systematic risk in EUTIC's portfolio. It increases the likelihood of positive returns but reduces the size of these gains, making it a safer investment.

RISK ANALYSIS

Macroeconomic Risks:

- Inflation and Interest Rate Risk: Ongoing inflationary pressures in the US and UK, pose a significant risk that costs of Pearson's operations will rise, potentially eroding profit margins. However, Pearson has a diversified revenue base across multiple regions, and has shown a strong ability to adjust pricing and leverage digital products, which are less sensitive to inflationary pressures on materials, like paper. Rising US interest rates, where Pearson generates a substantial portion of its revenue, pose a risk to the company's borrowing costs. A 0.5% rise in interest rates could mean Pearson face more than £8 million annual additional interest expenses (current total debt is $1.66 billion). However, Pearson's debt structure includes fixed-rate obligations that shield it from short-term interest rate hikes. Also in the US, inflation and hence the Fed's current rate hikes are anticipated to stabilize.
- Currency Risk: Current speculation that the USD will appreciate against the GBP over the next six months, would mean that the GBP-denominated return on the investment in Pearson would enhance. Fortunately, Pearson benefits from natural hedges due to its international revenue spread, where costs and revenues in the same currency help balance out fluctuations.
- Trade: Pearson's reliance on the US market for a significant portion of its revenue makes it vulnerable to economic fluctuations in that region, however, the education sector is less cyclical than other industries, meaning Pearson's core business in the US is more insulated from economic volatility, reducing dependence on short-term market conditions.
- Vulnerabilities in the Financial System: Pearson may face vulnerabilities related to credit availability and investment capacity, given the potential for economic downturns, restricting access to financing. But Pearson has a strong cash flow position and a relatively low debt-to-equity ratio (0.288 - June 2024) compared to industry peers, positioning it well to fund its strategic goals even if external credit conditions tighten.

Political Risks:

- Specific Policies and Regulations: Pearson is subject to various policies and regulations, education standards, data privacy, digital content distribution, and labour laws. Changes in educational policy, could impact the company's curriculum requirement and funding from educational institutions, resulting in increased costs and reduced market reach, for example, Every Student Succeeds Act (ESSA) by the U.S. government in 2015, gave states more control over education systems, affecting Pearson's K-12 assessment services, as states adopted different testing methods. Fortunately, now Pearson's global presence allows it to pivot between markets, balancing regulatory challenges in one region with opportunities elsewhere. The company is a leader in digital transformation, a competitive advantage as educational policy increasingly supports online learning.
- Institutional Concerns and Corruption: Pearson may encounter varying levels of institutional integrity and corruption in certain markets, particularly in emerging markets, which could lead to reputational damage or create challenges in navigating local business environments. However, Pearson has robust governance practices and operates largely in developed, low-corruption markets, particularly in North America and Europe, and the company's commitment to ethical standards and compliance with international regulations minimizes exposure to institutional and corruption-related risks.

Company Specific Risks:

- Credit Risk: With nearly £1.7 billion in debt, Pearson's creditworthiness depends on its revenue stability and capacity to manage debt effectively without jeopardizing its financial health. Pearson might struggle to meet debt obligations, in the event of reduced cash flow or unexpected financial strain, potentially leading to refinancing difficulties or higher interest costs on new debt. However, Pearson's financial stability is bolstered by consistent cash flow from its diversified revenue streams and its manageable debt-to-equity ratio. The company has a favourable credit rating (BBB) and a history of responsible debt management. Furthermore, Pearson has maintained a flexible capital structure, allowing it to secure favourable loan terms and ensure a robust debt service capacity.
- Liquidity Risk: For Pearson, managing liquidity is essential, especially as it invests in its digital transformation and faces the cyclical nature of the education sector. If Pearson faces liquidity challenges, it could struggle to cover immediate expenses or fund strategic initiatives, potentially requiring asset sales or emergency financing at unfavourable terms. Although, Pearson has a solid cash reserve and regularly generates sufficient operating cash flow, ensuring it has the resources to meet short-term obligations. The company even proved to have strong liquidity, with a recorded free-cash flow of £387 million reported in 2023.
- Legal Risk: Pearson must adhere to international standards in data privacy, intellectual property, and contract law, all of which could present legal challenges. In 2019, Pearson faced a lawsuit following a data breach that affected student information in the U.S, prompting legal action and a settlement with the New York Attorney General, which led to Pearson improving its data security practices, highlighting legal risks tied to cybersecurity and data protection compliance. Pearson has invested in a comprehensive legal and compliance framework, reducing the likelihood of future legal issues, making this a low-probability threat.

ESG Risks:

- Environmental: Environmental risks may manifest through waste generated by print materials, carbon footprints from operations, and energy consumption in digital platforms. As a traditional publishing company transitioning to digital formats, Pearson has faced challenges related to its carbon footprint from printing and distributing physical books, so it has made strides in sustainability initiatives, committing to achieving net-zero carbon emissions by 2030 and implementing environmentally friendly practices in its operations.

- Social: Social risks could arise from labour practices in its supply chain or the impact of its educational products on various communities. In 2019, Pearson announced a restructuring plan that included cutting about 10% of its workforce, as part of its transition from traditional publishing to digital education, which raised concerns about workplace culture and employee morale. However, Pearson has committed to social responsibility, focusing on diversity, equity, and inclusion within its workforce, providing clear communication to employees regarding changes and job security, with support programs for affected employees, and establishing employee resource groups (ERGs) to foster a sense of community. Also, criticism of the company's pricing strategies and access, with high costs for educational resources, has led to claims they do not adequately support students from low-income backgrounds. Pearson has since made efforts to create more affordable educational resources, through introduced flexible subscription models and digital offerings to reduce costs, and developing open educational resources that are freely accessible.
- Governance: In 2017, Pearson faced criticism over its accounting practices regarding the revenue recognition of its digital products, raising concerns about transparency and governance. However, Pearson has implemented recent governance practices aimed at promoting transparency and accountability, and prioritizing strong cybersecurity measures to protect sensitive data, reducing the risk of breaches.

Data Sources

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