

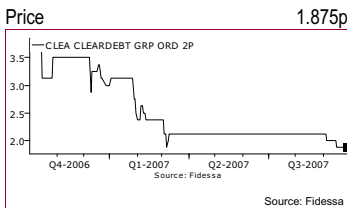


ClearDebt Group

HOLD

IVA ongoing uncertainty

Share Price



Market Data

Stock Code	CLEA
Listing	AIM
Sector	Financial Services
Market Cap	£5.7m
Enterprise Value	£4.9m
12-month high/low	3.8/1.9
Next results	April

Company Statistics

Shares in Issue	304.6m
Net cash	£0.8m
Gearing	N/A
Interest Cover	N/A
NAV per share	N/A

Company Description

Provider of IVAs (individual voluntary arrangements), debt management plans and loan services

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Today's final results from ClearDebt were disappointing and reflect the ongoing uncertainty surrounding the IVA sector. Through the acquisition of Abacus, ClearDebt has sought to increase the flow of IVA cases and diversify the model and this integration is going to plan. ClearDebt was established as a low cost IVA provider coupled with a low cost case acquisition model. Under the likely new IVA regime, ClearDebt should capitalise at the expense of its higher cost peers. It is not immune to the vicissitudes of the sector, however, and we have a HOLD recommendation until the situation becomes clearer.

Abacus acquisition – broadens offering to debt management plans and loan referrals

ClearDebt has sought to increase the flow of IVA cases and broaden its product offering (debt management plans and loan services) through the acquisition of Abacus for up to £6.2m in July and the partnership with The Money Helper. ClearDebt will also use the Abacus call centre to improve conversion rates and times with prospective clients. The combined business has moved to new premises and management reports an increase in business. Although the broader offering is to be welcomed, the current 'credit crunch' is likely to impact Abacus' loan services business.

IVA landscape – awaiting new protocol and settlement with creditor groups

The continued uncertainty in the IVA sector has been well documented - most recently the trading update and strategic review from DebtMatters. Major creditors concluded that IVA providers' fee levels were too high with too much of the payment received upfront. This resulted in reduced IVA conversion rates as creditor attitudes hardened. For example, there was a 15.1% decline in IVAs on a sequential basis in Q2 2007 to 10,698 cases after 12 quarters of sequential growth.

New protocol – likely to favour low cost operators

Discussions hosted by the British Bankers Association and Insolvency Service are ongoing and ClearDebt management are confident that there will be a favourable announcement in the not too distant future. The new protocol is likely to be based on lower total fees with a lower initial fee plus supervisory income taken as a percentage of contributions drawn over the life of the IVA. ClearDebt was set up as a low cost operator with efficient Internet-based processes. This enables ClearDebt to offer IVAs at a lower cost to both debtor and creditor and should result in higher approval rates.

Financial performance – impacted by IVA sector turmoil

ClearDebt recognised revenues from 204 cases in the year to June 2007 compared with 179 cases in the 18 months to June 2006. The rate of case approval dropped during the year, however, and ClearDebt recognised 31 cases in Q4 down 32.6% on Q3 and less than half Q4 FY06. At the same time, ClearDebt increased costs in line with anticipated growth in cases. As a result, adjusted operating loss was £671k on revenues of £421k. Given the lower case volumes, marketing spend has been reduced. Cash at period end was £0.8m.

Outlook – resolution required

ClearDebt's outlook is dependent on resolution of the current impasse between creditors and debtors. We believe that with increased levels of consumer indebtedness, there is a role for IVAs as an alternative to bankruptcy or debt management plans and the Government remains supportive. Fee levels are certain to drop and we anticipate further consolidation favouring the lower cost operators. On this basis, ClearDebt is well positioned to capitalise but we retain a HOLD recommendation until the situation becomes clearer.

Disclosure checklist

Company	Code	Disclosure
ClearDebt	CLEA.L	1, 2, 3, 6
Debtmatters	DEBT.L	3

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