

(AIM:CLEA)3,5

# ClearDebt Group

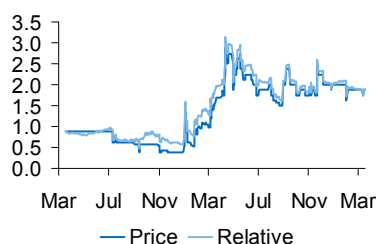
**BUY**
**Share price 1.875p**
**Target price 3.6p**

91% Upside

Market cap (£m)	5.8
Net debt (£m)	0.8
Enterprise value (£m)	6.6
Return on equity (%)	10.2
No. of shares (m)	308.3
Free float (%)	45.0
Price/book	1.3
Average daily vol (3m)	160
Dividend yield (%)	0.0
PE at target price (Y+1)	8.8
Sector PE	13.3
Sector dividend yield (%)	5.4

12 month high/low (p) 3/1

(%)	1m	3m	12m
Absolute	+0.0	-6.0	+91.8
FTA relative	-7.7	-12.7	+28.0

**Price & price relative (-2yr)**


Source: Datastream

Share price as at close: 29 March 10

**Next news**

Final results Sep 2010

**Business**

Provider of financial advice

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## Confident interim results

ClearDebt has reported strong interim results with eps up 233% on revenues up by 56.7%. The numbers are on track to meet our full year figures which we now hold with a higher degree of confidence. The Relax acquisition will add substantially to 2H10 revenues and cash flows so that most of the acquisition cost can be met from internally generated funds. We maintain our BUY recommendation and target price of 3.6p.

**Good economies of scale**

Encouragingly the revenues were driven by significantly increased business in both IVA's and DMP's as well as £265k for the first month of contributions from Relax. Although the economic environment is causing more personal debt problems, ClearDebt is also gaining market share, albeit to an estimated 1.5%. The operational gearing we have expected is becoming evident with the operating margin rising from 11.2% for the six months to December 2008 to 24.4% for these results.

**Relax acquisition funding**

We had anticipated that ClearDebt would borrow £1.7m in order to satisfy the £2.7m cost of the Relax portfolio. However, the free cash flow generation, now running at some £250k per month, will reduce the funding requirement to £1m, even with the estimated additional £0.5m of integration costs. ClearDebt received a loan of £0.5m from Synergy for 2 months to bridge fund part of earlier tranche payments. The Company indicated in an announcement on the 12 February that it is looking to issue a convertible or equity to complete the funding. We would expect a convertible, given the current share price.

**Delivering well**

ClearDebt is delivering well on its targeted expansion plans and should make a profit, excluding exceptional costs and amortisation relating to the acquisition, of over £1m this year. We have made minor amendments to our forecasts to reflect the clearer funding arrangements.

3,5 Please see regulatory disclosure notes at the end of this document

Year end	Sales (£m)	EBIT* (£m)	PBT* (£m)	Tax (%)	DPS (p)	F.Dil. EPS* (p)	PER (x)	Div yield (%)
June								
2007A	0.4	(0.7)	(0.7)	0.0	0.0	(0.2)	(7.8)	0.0
2008A	1.9	(0.9)	(1.0)	42.9	0.0	(0.1)	(12.6)	0.0
2009A	3.4	0.6	0.5	11.7	0.0	0.1	14.1	0.0
2010E	6.0	1.5	1.3	28.0	0.0	0.4	4.6	0.0
2011E	7.1	2.2	0.9	12.6	0.0	0.6	3.4	0.0
2012E	8.2	2.5	1.7	28.0	0.0	0.6	3.0	0.0

\* excludes exceptional items and amortisation of intangibles.

Source: Seymour Pierce Ltd

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## INTERIM RESULTS

ClearDebt has reported continued strong growth in its operations during the six months to December 31 2009 with revenues rising 56.7% to £2.3m. Apart from the first month of contribution from Relax of £265k, the growth was all organic. This follows from a 75% rise in the number of Individual Voluntary Arrangements (IVA's) completed and a 38% increase in the Debt Management Plans (DMP's) which are revenue generating. The gross profit margin rose to 41.7% reflecting improving economies as the business is scaled up. Profits have been lifted by a £253k gain on bargain purchase but, even without that, the pre-tax profit would have grown 70.3% compared with the first half of FY08 and about 18% higher than the six months to June 30 2009.

The results mean that ClearDebt is on track for achieving our full year forecasts of a 74% improvement in revenue. This forecast is, of course, significantly boosted by seven months of revenue contribution from Relax.

### Profit & Loss

Six months ended December	2008	2009	Change
(Figures in £'000; unless specified)	Dec	Dec	%
Revenue	1,445	2,000	56.7%
Acquisitions		265	
Cost of sales	(913)	(1,431)	
Gross profit	532	834	56.9%
<i>Gross margin</i>	36.8%	41.7%	
Selling, general and administrative expenses	(449)	(600)	
Gain on bargain purchase	-	253	
Separately discloseable items	78	-	
Operating profit	160	488	203.8%
<i>Operating margin</i>	11.1%	24.4%	
Finance income	4	1	
Finance costs	(63)	(63)	
Profit before taxation	101	425	319.3%
Income tax expense	(21)	(119)	
Profit for the year	80	306	282.2%
Earnings per share (p)	0.03	0.10	233.3%

Source: Company

CLEA is now generating good cash flows and, now that the Relax portfolio has been integrated, free cash flows are exceeding £250k per month. The consideration of £2.7m for this acquisition and £0.5m of integration costs can therefore be funded substantially from internally generated funds. CLEA has drawn on a £500k loan from Synergy and has stated that it may issue a convertible or new equity up to a maximum of £3m, if necessary.

We expect that new equity would not be considered an attractive proposition at the current share price, so a convertible is more likely. We have assumed, for the purposes of our forecasts that the current £500k debt is rolled into a convertible and increased to £1m when the debt is due to be repaid in mid-April. We have also assumed that £650k of the payment will be made in FY2011.

As a result, we have made minor amendments to our forecasts. Note that the adjusted profit figures exclude exceptional items and amortisation arising from the acquisition.

## Financial model

## Income Statement

Year ending June (£m)	2008A	2009A	2010E	2011E	2012E
Group Turnover	1.9	3.4	6.0	7.1	8.2
Cost of Sales	(1.8)	(2.0)	(3.2)	(3.8)	(4.1)
Gross profit	0.1	1.4	2.7	3.3	4.1
Total operating expenses	(1.2)	(0.9)	(1.9)	(2.2)	(2.3)
EBITDA	(0.8)	0.7	2.0	2.4	2.7
EBIT	(1.1)	0.6	0.8	1.1	1.8
Adjusted EBIT*	(0.9)	0.6	1.5	2.2	2.5
Associate income	0.0	0.0	0.0	0.0	0.0
Net interest income	(0.1)	(0.1)	(0.1)	(0.2)	(0.1)
Adjusted PBT*	(1.0)	0.5	1.3	0.9	1.7
PBT	(1.2)	0.5	0.2	2.0	1.7
Tax	0.5	(0.1)	(0.0)	(0.2)	(0.5)
Effective tax rate (%)	42.9	11.7	28.0	12.6	28.0
Minorities	0.0	0.0	0.0	0.0	0.0
Adjusted earnings	(0.5)	0.4	1.3	1.7	1.9
Earnings	(0.7)	0.4	0.1	0.6	1.2
DPS (p)	0.0	0.0	0.0	0.0	0.0
EPS (p)	(0.2)	0.1	0.1	0.2	0.4
EPS [F. Dil.] (p)	(0.2)	0.1	0.1	0.2	0.4
EPS [Adj.]* (p)	(0.1)	0.1	0.4	0.6	0.6
EPS [Adj. F. Dil.]* (p)	(0.1)	0.1	0.4	0.6	0.6
Weighted average no. shares (m)	0.3	0.3	0.3	0.3	0.3
Fully diluted no. shares (m)	0.3	0.3	0.3	0.3	0.3

\* excludes exceptional items and amortisation of intangibles.

Source: Company data, Seymour Pierce Ltd

**Cashflow Statement**

Year ending June (£m)	2008A	2009A	2010E	2011E	2012E
Operating income	(1.1)	0.6	0.8	1.1	1.8
Depreciation & amortisation	0.3	0.2	1.1	1.3	0.9
Net change in working capital	0.2	(0.4)	(0.0)	(0.0)	(0.1)
Other	0.0	0.0	0.0	0.0	0.0
Operating cash flow	(0.7)	0.4	1.9	2.4	2.6
Capital expenditure	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Net financial items	(0.1)	(0.1)	(0.1)	(0.2)	(0.1)
Tax paid	0.0	0.1	0.1	(0.2)	(0.4)
Net acqns./disposals	(1.2)	(0.0)	0.0	0.0	0.0
Dividend paid	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Cash flow before financing	(2.1)	0.3	1.9	1.9	1.9
Proceeds from shares issued	0.3	0.0	(0.1)	0.0	0.0
Investments	0.0	0.0	0.0	0.0	0.0
Loans, etc.	1.2	0.0	1.0	0.0	(1.2)
Net movement in cash/(debt)	(0.6)	0.3	2.8	1.9	0.7
Opening net cash/(debt)	0.8	0.3	0.6	0.4	1.6
Adjustments (Forex, etc.)	0.0	0.0	0.0	0.0	0.0
Closing net cash/(debt)	0.3	0.6	0.4	1.6	2.3

Source: Company data, Seymour Pierce Ltd

**Balance Sheet**

Year ending June (£m)	2008A	2009A	2010E	2011E	2012E
Property plant and equipment	0.2	0.2	0.2	0.2	0.2
Goodwill	0.0	0.0	0.0	0.0	0.0
Other intangibles	0.1	4.5	6.6	5.5	4.8
Other	0.4	0.3	0.3	0.3	0.3
Non current assets	5.2	5.1	7.1	6.0	5.3
Stocks & WIP	0.0	0.0	0.0	0.0	0.0
Trade receivables	0.5	0.6	0.0	0.7	1.1
Cash	0.3	0.6	0.4	1.6	2.3
Other	0.1	0.0	0.0	0.0	0.0
Current assets	0.8	1.3	1.6	3.0	3.8
Total assets	6.0	6.4	8.7	9.0	9.1
Trade creditors	0.7	1.7	1.3	1.3	0.0
Short term borrowings	0.0	0.0	0.0	0.0	0.0
Long term borrowings	1.2	1.2	2.2	2.2	1.0
Other liabilities	0.0	0.0	0.0	0.0	0.0
Total liabilities	1.9	1.9	4.1	3.7	2.6
Net assets	4.1	4.5	4.7	5.3	6.5
Issued share capital	6.1	6.2	6.2	6.2	6.2
Share premium account	0.3	0.3	0.3	0.3	0.3
Retained earnings	(2.4)	(2.0)	(1.9)	(1.3)	(0.0)
Other reserves	0.1	0.1	0.1	0.1	0.1
Minority interests	0.0	0.0	0.0	0.0	0.0
Total equity	4.1	4.5	4.7	5.3	6.5

Source: Company data, Seymour Pierce Ltd

**Key Ratios**

Year ending June (£m)	2008A	2009A	2010E	2011E	2012E
Revenue growth (%)	344.0	81.2	76.2	18.9	15.5
EBITDA growth (%)	31.0	(191.4)	163.0	22.3	13.3
Adjusted EBIT growth (%)	27.8	(164.9)	152.3	51.0	15.6
Gross margin (%)	5.8	42.4	46.0	46.0	50.0
EBITDA margin (%)	(43.5)	21.9	32.7	33.7	33.0
Adjusted EBIT margin (%)	(47.5)	17.0	24.4	30.9	30.9
Gearing (%)	n/a	n/a	n/a	n/a	n/a
Interest cover (x)	(9.9)	5.0	10.4	9.8	18.5
Dividend cover (x)	n/a	n/a	n/a	n/a	n/a
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	(24.1)	10.2	28.1	16.7	26.0
ROCE (%)	(6.0)	3.7	8.9	13.8	15.9
ROIC (%)	(11.2)	9.0	27.1	32.5	29.4
Net working cap / revenue (%)	5.4	19.5	(2.1)	23.9	30.4
Operating cash conversion (%)	73.4	66.1	133.8	108.1	101.9
Free cash conversion (%)	121.1	108.2	161.9	143.5	139.5
Cap Ex / revenue (%)	5.5	1.8	1.8	1.4	1.2

Source: Company data, Seymour Pierce Ltd

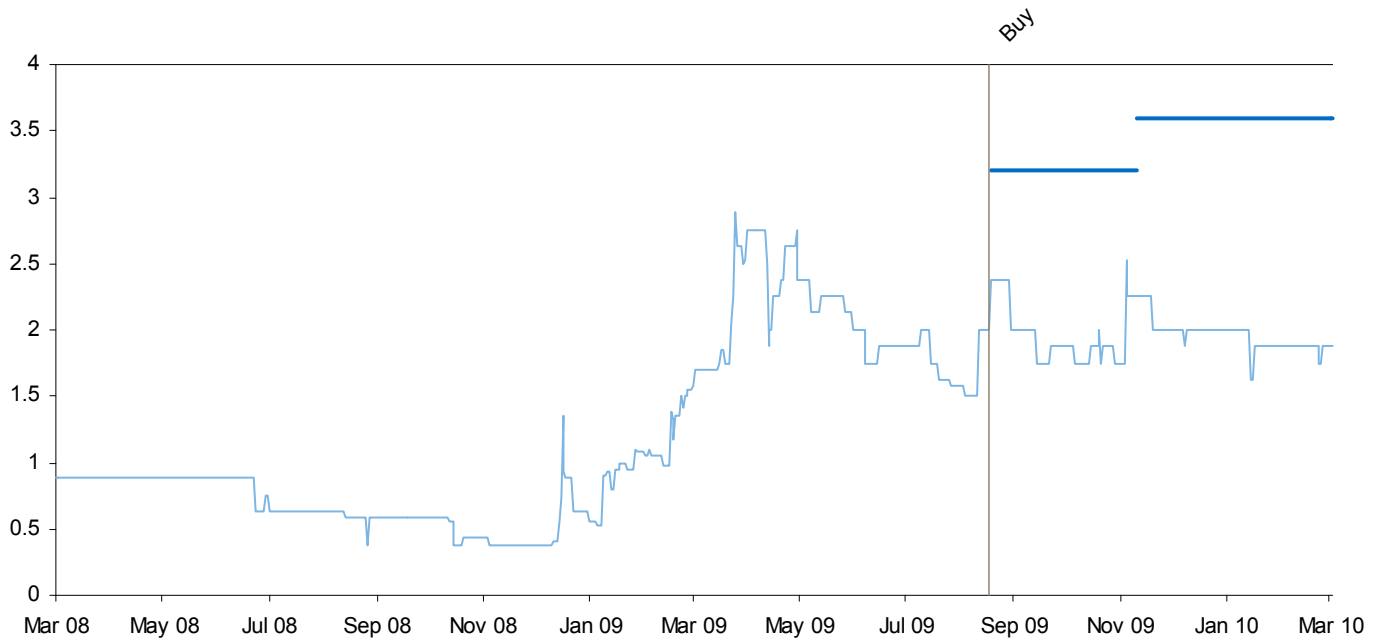
**Valuation Metrics**

Year ending June (£m)	2008A	2009A	2010E	2011E	2012E
PER (x)	(12.6)	14.1	4.6	3.4	3.0
EV / Sales (x)	3.5	2.0	1.1	0.9	0.8
EV / EBITDA (x)	(8.1)	8.9	3.4	2.8	2.4
EV / adjusted EBIT (x)	(0.9)	1.4	4.6	3.0	2.6
Yield (%)	0.0	0.0	0.0	0.0	0.0
Earnings yield (%)	(12.2)	7.1	6.3	11.0	21.1
P / CFPS (x)	(0.0)	0.0	3.0	2.4	2.2
NAV per share (p)	1,333.5	1,481.1	1.5	1.7	2.1

Source: Company data, Seymour Pierce Ltd

### Target Price & Recommendation History

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Source: Datastream, Seymour Pierce Ltd

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Rating	Definition
Buy	Absolute return expected to increase by more than 10%
Outperform	Absolute return expected to increase by between 5% and 10%
Hold	Absolute return expected to change by between -5% and +5%
Underperform	Absolute return expected to decrease by between 5% and 10%
Sell	Absolute return expected to decrease by more than 10%

As at 31 December 2009 the distribution of all our published recommendations is as follows:

Rating	Proportion of recommendations	Proportion of these provided with investment banking services
Buy	55.7%	48.0%
Outperform	8.5%	60.0%
Hold	21.6%	23.7%
Underperform	1.1%	50.0%
Sell	10.2%	0%

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