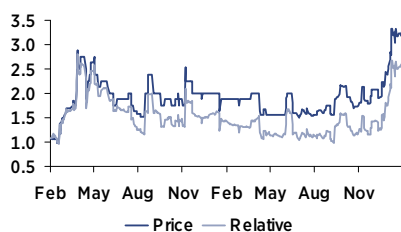


# ClearDebt Group (AIM:CLEA) 3,4,5, F

## BUY

<b>Share price</b>	<b>3.3p</b>
Target price	3.6p
9% Upside	
Market cap (£m)	10.3
Net debt (£m)	2.4
Enterprise value* (£m)	12.7
No. of shares (m)	308.3
Free float (%)	45.0
Average daily vol ('000, -3m)	404
Dividend yield (%)	0.0
PER at Target price (Y1)	7.6
Sector PER	13.2
Price/book	2.1
12 month high/low (p)	3/2
(%)	<b>1m</b> <b>3m</b> <b>12m</b>
Absolute	+39.6    +93.6    +105.5
FTA relative	+39.0    +82.8    +74.0

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



Source: Datastream

Share price as at close: 25 February 11

### Next news

FY11 results - September 2011

### Business

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## Clearly moving ahead

The challenging economic environment is placing stress on indebted individuals in the UK. Persistent weakness in the economy is likely to drive continued demand for appropriate debt solutions enabling CLEA to grow its business further. Moreover, CLEA is gaining market share organically as well as having good cash flow resources to apply to acquiring additional business. Despite the strong interim performance, we believe our original estimates may be ambitious owing to the seasonally weaker second half and so are lowering them. However, the valuation metrics remain undemanding and we maintain our BUY recommendation and 3.6p target price.

### Strong performance continues

Interim results with turnover up 75% to £3.97m and EBITDA up 164% to £1.16m, demonstrate that this company is delivering well and managing the scale up effectively. EBIT and net profit numbers are affected significantly by the amortisation of the Relax back book assets - now fully accounted for although CLEA is still generating good income from them. Cash flow generation is strong (£520k generated from operations) and CLEA applied £278k of this to purchasing additional DMP business.

### Forecasts downgraded

Whilst these are clearly very robust results, our full year forecasts for revenues of £8.1m and adjusted net profit of £1.8m look slightly high given that the second half year is seasonally weaker than the first half year. We are therefore reducing our FY11E turnover to £7.8m (still +18% YOY) which results in an adjusted net profit of £1.46m (+9.7% YOY) and EPS of 0.48p. The outlook is, nevertheless, very encouraging given the current economic environment and the opportunities for consolidation within the industry. Whilst CLEA remains a small player in a fragmented market, it has accumulated a 1% market share of IVA's passed during 2H10 and this greater visibility and reputation will add to the group's ability to attract new business going forward. Based on our full year EBITDA forecast of £2.1m the EV/EBITDA (using interim cash of £0.5m) is an undemanding 5.7x and PER is 6.7x. We maintain our BUY recommendation and 3.6p price target

3,4,5 Please see regulatory disclosure notes at the end of this document

F Forecast change

A draft of this research has been shown to the company following which minor factual amendments have been made.

Year end June	Revenue (£m)	EBIT* (£m)	PBT* (£m)	Tax (%)	Adj. EPS* (p)	PER (x)	EV/EBIT* (x)	Div yield (%)
2009A	3.4	0.6	0.5	11.7	0.1	25.2	22.0	0.0
2010A	6.6	1.9	1.7	26.5	0.4	7.7	6.8	0.0
2011E	7.8	2.0	1.5	28.0	0.5	7.0	6.4	0.0
2012E	9.8	2.8	2.4	28.0	0.7	5.0	4.5	0.0
2013E	10.9	3.3	3.2	28.0	0.8	4.2	3.9	0.0

\* excludes exceptional items and amortisation of acquired intangibles.

^ EV calculation adjusted for core cash, investments etc.

Source: Seymour Pierce Ltd

## Interim results

Revenues up 75% following strong growth in IVA business

The interim results show revenues up 75% to £3.97m YOY following strong growth in the number of Individual Voluntary Arrangements (IVAs) provided. The group arranged 761 IVAs over the six months, up 117% YOY so that the revenue from this business, including ongoing fees from the IVAs already in place, rose to £2.4m in the half year compared with £0.9m a year earlier. Management indicates that those with debt problems are realising that the IVA product, which has a fixed 5 year term to discharge debt and is based on affordability, is a more attractive alternative to Debt Management Plans (DMP) if customers are heavily indebted.

DMP division slower but as expected

The DMP business, by contrast, experienced a more difficult trading environment with the number of cases under management declining. We had anticipated that the number of DMPs would decline over the year since the attrition rates on these are high. Turnover from DMPs nevertheless increased by 16.5% to £1.55m and the division reported an EBITDA of £200k (+33.6% YOY) but pre-tax loss of £0.3m after the £421k amortisation cost for the Relax assets.

### Interim Results

Six months ended (Figures in £'000; unless specified)	H1 10A Dec	H1 11A Dec	Change %
Revenue	2,265	3,916	72.9%
Acquisitions	-	55	
Cost of sales	(1,431)	(1,929)	
Gross profit	834	2,042	144.7%
<i>Gross margin</i>	<i>36.8%</i>	<i>52.1%</i>	
Selling, general and administrative	(382)	(780)	
Separately discloseable items	-	(74)	
Share based payments	(15)	(31)	
EBITDA	438	1,157	164.1%
Gain on bargain purchase	253	21	
Depreciation	(49)	(64)	
Amortisation	(155)	(814)	
Operating profit	488	300	-38.5%
Operating margin	21.5%	7.7%	
Finance income	1	2	
Finance costs	(63)	(264)	
Profit on ordinary activities before taxation	425	37	-91.2%
Income tax expense	(119)	(7)	
Profit for the year	306	31	-90.0%
Adjusted profit	461	845	83.3%
Earnings per share (p)	0.1	0.01	-90.0%
Adjusted eps (p)	0.15	0.27	83.3%

Source: Company data

EBITDA up 164% , adjusted net profit £919k +100%

EBITDA registered a strong gain up 164% to £1.16m. The PBT and net profit are affected by the heavy amortisation required on the Relax and other assets amounting to £814k as well as the higher finance costs from the convertible debt. Consequently, reported profit and EPS were just £37k and 0.01p (FY10 £306k and 0.1p) although after adjusting for amortisation and exceptional items, the figures are £919k and 0.29p (FY10 £460k and 0.15p). Importantly, CLEA generated strong cash flow after interest of £358k, £278k of which was used to acquire new assets.

## Forecast Revisions

Lowering revenue forecast due to seasonality for new IVAs from £8.1m to £7.8m

Management report that the second half has begun very well with 77 IVAs already arranged, up from just 20 in Jan 2010, a month that is seasonally slow. Some IVAs were delayed because of the impact of the snow which closed CLEA's office in Staveley for three days in December 2010. We continue to expect that this division will perform well since individuals are realising that an IVA is often a more appropriate solution than a DMP. Moreover, the book of IVA's which are active continues to grow, providing CLEA with increasing recurrent income.

We see continued market out performance but 2H seasonally weaker

CLEA is gaining market share since the rate of growth in its IVA book has significantly exceeded the growth in the market. We believe CLEA will continue to build on this market penetration both by continued organic growth and by acquisition and so should carry on outperforming the market. However, the second half is generally seasonally slower than the first half and the recent data from the Insolvency Service (see below) indicates some weakness in quarterly IVAs passed. Consequently, we are adjusting our figures for the full year to reflect this. Moreover, in 2HFY10, CLEA benefited from new lead sources which increased the figures and whilst it is likely that additional leads may be found this year too, we are taking a conservative stance.

### Individual Insolvencies in England and Wales

	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Q4 p	% change - Q4 2010 on Q4 2009
Total Individuals	35,574	35,682	34,743	33,935	30,729	-13.6
Bankruptcy Orders	17,007	18,256	14,982	13,907	12,049	-29.2
Debt Relief Orders	5,348	5,644	6,295	7,068	6,172	15.4
IVA's	13,219	11,782	13,466	12,960	12,508	-5.4
p = provisional						

Source: Insolvency Service

We had anticipated a lower number of DMPs to be active by Jun 30 2011 as we felt that new plans would not match the attrition rate. In the first half, the number fell to 6,354 compared with 6,793 as at June 30 2010 and we continue to anticipate the number at the end of FY11E to be c5,920.

As a result of the more conservative expectations for the IVA business, we are lowering our revenue forecast for FY11E to £7.8m from £8.1m. We have also increased our operating cost forecast from £1.5m to £1.7m and finance costs from £389k to £490k. The latter is not all cash cost but includes the fair value and amortisation adjustments on the convertible debt. The changes are detailed below.

**Forecast Revisions**

INCOME STATEMENT						
Year to June 30	2011			2012		
(£,000)	New	Old	Change %	New	Old	Change
Revenue	7,847	8,104	-3.2%	9,775	10,006	-2.3%
Gross profit	3,959	3,899	1.5%	4,790	5,003	-4.3%
Selling, general and administrative	(1,720)	(1,487)	15.7%	(1,806)	(1,562)	15.6%
Separately discloseable items	(74)			(74)	-	
Share based payments	(62)			(62)	-	
EBITDA	2,103	2,412	-12.8%	2,848	3,441	-17.2%
Depreciation	(200)	(102)		(102)	(102)	
Amortisation	(1,275)	(1,035)		(915)	(775)	
Gain on bargain purchase	21	-		-		
Operating profit	649	1,275		1,830	2,564	
Finance income	3	11		4	25	
Finance costs	(490)	(389)	26.1%	(447)	(263)	70.1%
Profit before taxation	162	897		1,387	2,326	
Income tax expense	(45)	(251)		(388)	(651)	
Profit for the year	117	646		999	1,675	
Adjusted Profit for the Year	1,466	1,830	-19.9%	2,084	2,620	-20.5%

Source: Seymour Pierce Ltd

Cash flow generation strong

The financial position of the group remains robust and the cash flow generating ability is an important factor for the group. We demonstrate that, even including potentially a full cash repayment of the convertible debt in 2013, CLEA will have growing cash balances enabling the group to acquire further assets or companies. We would therefore expect the group to continue to be acquisitive which will add to revenues and profits in the future.

**Valuation**

At TP of 3.6p CLEA PER is 7.5x FY11E earnings and EV/EBITDA of 6.4x

The shares have performed well since the beginning of the year. Based on our new forecasts they trade on a PER multiple of 7.0x and an EV/EBITDA of 5.7x neither of which are considered to be demanding for a cash generating growth story. Our existing target price of 3.6p values CLEA on a PER of 7.5x falling to 5.3x FY12E earnings and EV/EBITDA of 6.4x F11E. Fairpoint, its closest listed peer is trading on 6.9x and 6.0x FY10E and FY11E earnings respectively even though CLEA adopts a more conservative income recognition policy on the IVA's passed. We retain our target price of 3.6p and BUY recommendation.

## Financial model

### Income Statement

Year end June (£m)	2009A	2010A	2011E	2012E	2013E
Group revenue	3.4	6.6	7.8	9.8	10.9
Cost of sales	(2.0)	(3.3)	(3.9)	(5.0)	(5.6)
Gross profit	1.4	3.3	3.9	4.8	5.3
Total operating expenses	(0.9)	(2.6)	(3.3)	(3.0)	(2.9)
EBIT	0.6	0.7	0.6	1.8	2.4
Net interest/financial income/(cost)	(0.1)	(0.2)	(0.5)	(0.4)	(0.1)
Associate and Other non-op. income/(cost)	0.0	0.0	0.0	0.0	0.0
PBT	0.5	0.5	0.2	1.4	2.3
Tax	(0.1)	(0.1)	(0.0)	(0.4)	(0.7)
Effective tax rate (%)	11.7	26.5	28.0	28.0	28.0
Minorities	0.0	0.0	0.0	0.0	0.0
Earnings	0.4	0.3	0.1	1.0	1.7
EBITDA	0.7	1.8	2.1	2.8	3.3
Adjusted EBITDA*	0.7	2.0	2.2	2.9	3.4
Adjusted EBIT*	0.6	1.9	2.0	2.8	3.3
Adjusted PBT*	0.5	1.7	1.5	2.4	3.2
Adjusted earnings*	0.4	1.3	1.5	2.1	2.5
DPS (p)	0.0	0.0	0.0	0.0	0.0
EPS (p)	0.1	0.1	0.0	0.3	0.5
EPS [F. Dil.] (p)	0.1	0.1	0.0	0.3	0.5
EPS [Adj.]* (p)	0.1	0.4	0.5	0.7	0.8
EPS [Adj. F. Dil.]* (p)	0.1	0.4	0.5	0.7	0.8
Weighted average no. shares (m)	306.2	308.3	308.3	308.3	308.3
Fully dil. w. ave. no. shares (m)	306.2	308.3	308.3	308.3	308.3
Year end no. shares (m)	306.2	308.3	308.3	308.3	308.3

\* excludes exceptional items and amortisation of acquired intangibles.

Source: Company data, Seymour Pierce Ltd

**Cash flow Statement**

Year end June (£m)	2009A	2010A	2011E	2012E	2013E
Operating income	0.6	0.7	0.6	1.8	2.4
Amortisation of acquired intangibles	0.1	1.0	1.3	0.9	0.8
Amortisation of other intangibles	0.0	0.0	0.0	0.0	0.0
Depreciation	0.1	0.1	0.2	0.1	0.1
Net change in working capital	(0.4)	(0.1)	(0.6)	(0.2)	(0.1)
Other	0.0	(0.2)	0.0	0.1	0.1
Operating cash flow	0.4	1.5	1.5	2.7	3.3
Capital expenditure	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)
Investment in Other intangibles	0.0	(2.8)	(0.6)	(0.1)	(0.1)
Net interest/financial income/(cost)	(0.1)	(0.2)	(0.3)	(0.2)	(0.1)
Tax paid	0.1	0.0	0.0	(0.3)	(0.6)
Net acqns./disposals	(0.0)	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	0.3	(1.7)	0.5	2.0	2.4
Proceeds from shares issued	0.0	(0.2)	0.0	0.0	0.0
Investments	0.0	0.0	0.0	0.0	0.0
Other	0.0	1.8	(0.5)	(0.5)	(2.1)
Net movement in cash/(debt)	0.3	(0.0)	0.0	1.5	0.3
Opening net cash/(debt)	(0.9)	(0.6)	(2.2)	(1.7)	0.0
Adjustments (Forex, etc.)	0.0	0.0	0.0	0.0	0.0
Closing net cash/(debt)	(0.6)	(2.2)	(1.7)	0.0	2.3

Source: Company data, Seymour Pierce Ltd

**Balance Sheet**

Year end June (£m)	2009A	2010A	2011E	2012E	2013E
Property plant and equipment	0.2	0.2	0.2	0.2	0.3
Goodwill and Acquired intangibles	4.5	6.8	5.8	5.0	4.2
Other intangibles	0.0	0.0	0.0	0.0	0.0
Other fixed assets	0.3	0.2	0.2	0.2	0.2
Non current assets	5.1	7.2	6.2	5.3	4.7
Stocks & WIP	0.0	0.0	0.0	0.0	0.0
Trade receivables	0.6	0.0	0.7	1.2	1.5
Cash	0.6	0.5	0.6	2.1	2.3
Other current assets	0.0	0.0	0.0	0.0	0.0
Current assets	1.3	1.7	2.1	4.0	4.4
Total assets	6.4	8.9	8.3	9.3	9.1
Trade creditors	1.0	0.8	1.0	1.1	0.0
Short term borrowings	0.0	0.0	0.0	0.0	0.0
Long term borrowings	1.2	2.8	2.3	2.0	0.0
Other liabilities	0.0	0.1	0.1	0.2	0.2
Total liabilities	1.9	3.8	3.1	3.2	1.3
Net assets	4.5	5.0	5.1	6.1	7.8
Issued share capital	6.2	6.2	6.2	6.2	6.2
Share premium account	0.3	0.3	0.3	0.3	0.3
Retained earnings	(2.0)	(1.7)	(1.6)	(0.6)	1.1
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	4.5	5.0	5.1	6.1	7.8

Source: Company data, Seymour Pierce Ltd

**Key Ratios**

Year end June	2009A	2010A	2011E	2012E	2013E
Revenue growth (%)	81.2	95.9	18.3	24.6	11.6
Adj. EBITDA* growth (%)	(182.0)	194.8	10.8	34.2	16.0
Adj. EBIT* growth (%)	(164.9)	223.2	6.2	42.6	16.0
Gross margin (%)	42.4	49.8	49.8	49.0	49.0
Adj. EBITDA* margin (%)	19.7	29.6	27.7	29.9	31.1
Adj. EBIT* margin (%)	17.0	28.1	25.2	28.8	30.0
Gearing (%)	13.6	44.3	32.5	n/a	n/a
Interest cover (x)	5.0	9.1	4.1	6.4	37.5
Net debt/Adj. EBITDA* (x)	(0.9)	(1.1)	(0.8)	0.0	0.7
Dividend cover (x)	n/a	n/a	n/a	n/a	n/a
ROE (%)	10.2	33.0	29.0	38.7	40.7
ROIC (%)	9.0	26.6	28.6	34.0	31.4
ROCE (%)	2.8	7.5	7.0	10.9	14.1
Operating cash conversion (%)	51.3	82.9	73.3	95.7	98.6
Net cash conversion (%)	78.4	(484.5)	433.6	198.1	142.4
Net working cap / revenue (%)	19.5	10.5	17.3	30.8	31.0
Cap Ex / revenue (%)	1.8	2.2	1.9	1.5	1.4

\* excludes exceptional items and amortisation of acquired intangibles.

Source: Company data, Seymour Pierce Ltd

**Valuation Metrics**

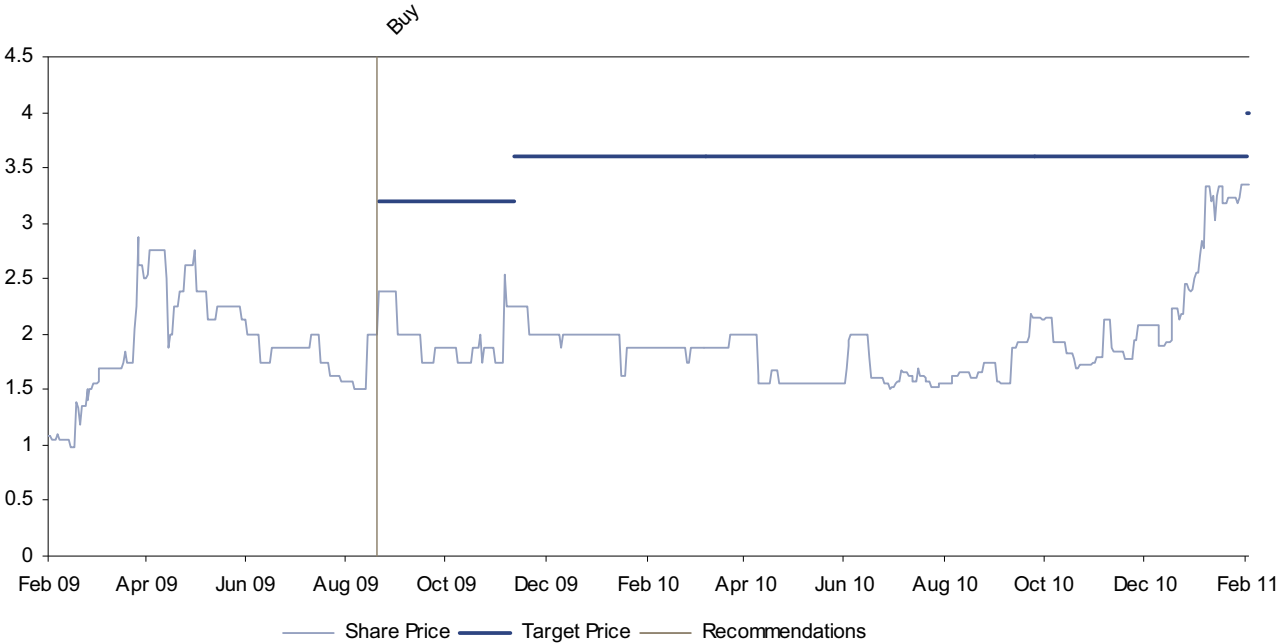
Year end June	2009A	2010A	2011E	2012E	2013E
PER (x)	25.2	7.7	7.0	5.0	4.2
EV / Revenue^ (x)	3.7	1.9	1.6	1.3	1.2
EV / Adj. EBITDA** (x)	19.0	6.5	5.8	4.3	3.7
EV / Adj. EBIT** (x)	22.0	6.8	6.4	4.5	3.9
EV / IC^ (x)	3.2	2.8	2.8	3.1	2.3
EV / Taxed Adj. EBIT** (x)	30.6	9.5	8.9	6.3	5.4
Yield (%)	0.0	0.0	0.0	0.0	0.0
P / CFPS (x)	32.2	(6.2)	20.4	5.2	4.3
NAV per share (p)	1.5	1.6	1.7	2.0	2.5

\* excludes exceptional items and amortisation of acquired intangibles.

^ EV calculation adjusted for core cash, investments etc.

Source: Company data, Seymour Pierce Ltd

Target Price & Recommendation History



Source: Datastream, Seymour Pierce Ltd







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Rating	Definition
Buy	Absolute return expected to be more than 10%
Add	Absolute return expected to be between 5% and 10%
Hold	Absolute return expected to be between -5% and +5%
Reduce	Absolute return expected to be between -5% and -10%
Sell	Absolute return expected to be less than -10%

As from 25 October 2010 the nomenclature of our recommendation was changed. Prior to that time Add recommendations were described as Outperform and Reduce recommendations were described as Underperform.

As at 31 December 2010 the distribution of all our published recommendations is as follows:

Rating	Proportion of recommendations	Proportion of these provided with investment banking services
Buy	53.6%	44.3%
Add	7.7%	14.3%
Hold	21.5%	20.5%
Reduce	3.9%	0.0%
Sell	7.2%	0.0%

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