

ClearDebt



Company Description: ClearDebt offers debt resolution services to insolvent individuals using a state-of-the-art web-based system for initial contact and individual supervision of all the later stages in the process, resulting in a higher success rate and lower overall costs than its competitors.

ClearDebt

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Date:	02.10.07
Share price p	1.875
52 week High/Low p	4.0/1.6
Issued share cap	305m
Market cap £m	5.7

FULL YEAR RESULTS

The results for the year to June 2007 show the impact of the irrational rejection by certain creditors of IVA proposals and consequently revenue is lower and losses are higher than originally expected. An increase in competition early in the year that caused a steep increase in the price for advertising and reduced the flow of new 'leads' also harmed revenue and profits but was less significant,

The total number of IVAs approved in the year was, at 204, 14% higher than in the previous 18 months but the numbers in the last quarter showed both a quarter-on-quarter and year-on-year decline, in common with the sector as a whole.

Table 1: Preliminary results for 2006/7

Period (18/12 months) to	Jun-06	Jun-07
	£000	£000
Turnover	174.80	420.96
Cost of sales	(284.29)	(647.46)
Gross profit	(109.49)	(226.49)
Other operating expenses	(158.25)	(468.54)
Operating profit/(loss)	(267.74)	(695.03)
Net interest received/(paid)	(73.36)	37.54
Share based payments	(268.70)	
Loss before tax and amortisation of goodwill	(609.81)	(657.49)
Goodwill amortisation	(161.52)	(323.05)
FRS3 Loss before and after tax	(771.33)	(980.55)
Headline loss per share (p)	(0.67)	(0.24)
FRS3 eps	(0.85)	(0.36)

Company

The slowdown in the rate of IVAs approved culminating in a year-on-year decline in the last quarter is obviously disappointing and resulted in an increased loss. First half approvals were more than twice those in the corresponding six months and further growth in the second half was anticipated and facilities provided. The company was fully equipped to process more than twice as many IVAs at a very low marginal cost so the shortfall in anticipated revenue led to almost the same shortfall in profit. The absence of share based payments and the swing from net interest payable to net interest received alleviated the pre-tax loss.

ClearDebt is quoted on AIM and investors should be aware that shares traded on AIM are subject to lighter due diligence than shares quoted on the main market and are therefore more likely to carry a higher degree of risk than main market companies.

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The group raised £1m from shareholders during the year so it ended the year with shareholders' funds of £4.1m and net cash of £0.85m. The subsequent acquisition of Abacus was financed partly through the issue of shares and partly by a loan of £1.6m from the CEO, David Mond, so the group's finances are relatively robust.

The announcement two days ago by Debtmatters that it had ceased advertising because certain creditors were trying to reduce fees to a level where it could not make a profit on processing IVAs and that it was considering all options including seeking a takeover sent a shockwave through the sector, although DFD is unworried since its large bank of cases agreed at highly profitable rates means that it can ride out the storm – the stream of supervisory fees should be adequate to cover all its expenses.

It seems to me that the creditors' attack on Debtmatters is misdirected as their fee rates were among the more reasonable ones charged, and significantly lower than, for instance, Accuma and DFD.

Every decision of creditors to reject an IVA proposal results in an immediate loss to the creditors since they will receive less from bankruptcy proceedings than from an IVA: the rejections are linked to a campaign to persuade IVA producers to reduce the level of fees to something not much greater than those currently charged by ClearDebt. However Debtmatters and those other listed IVA producers that also charge reasonable fees, not vastly higher than ClearDebt's, are also suffering, whereas an intelligent campaign would have accepted the more modest fees and rejected the higher ones.

ClearDebt's longer term strategy of providing a high-quality, lower cost, service to debtors ought to attract the support of creditors as well as debtors, and remains valid: unfortunately the current upheavals in the market have deferred the rewards.

Two initiatives, a partnership deal with "The Moneyhelper" and the acquisition after the year-end of Abacus, should provide additional sources and a return to growth. The introduction of "IVA Protect" that insures creditors against the debtor's temporary loss of income through sickness or short-term unemployment will improve (reduce) the failure rate to the benefit of both debtor and creditor and, to a much smaller extent, ClearDebt. The abandonment of advertising by Debtmatters should also help by reducing the price and increasing the returns unless other groups respond by increasing their advertising spend.

An agreement between the British Bankers' Association and all stakeholders in the debt resolution market place, including members of the Debt Resolution Forum, on an agreed fee structure is still awaited and expected shortly. ClearDebt has already amended its fees in anticipation, so the new structure should present it with no problems and it is to be hoped that the agreement will allow debtors to choose IVAs in preference to bankruptcy and the better IVA producers to expand their share of the market.

I certify that this report represents my own opinions
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