

# ClearDebt



## ClearDebt

### CLEA

<b>Date:</b>	<b>6.3.07</b>
<b>Share price p</b>	<b>1.875</b>
52 week High/Low p	4.5/1.88
<b>Issued share cap</b>	<b>288.4m</b>
Market cap £m	5.4
NAV p	1.6

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's interim results to end-December 2006 show turnover 30% greater than for the six (or 18) months to June 2006, but this represents a temporary slowing in its growth rate.

**Table 1: Interim Results**

<b>Six months to</b>	<b>Dec-05</b>	<b>Jun-06</b>	<b>Dec-06</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Turnover		174.80	226.78
Operating expenses	(12.05)	(414.75)	(524.72)
Operating profit/(loss)	(12.05)	(239.95)	(297.94)
Net interest received/(paid)		(73.36)	8.91
Loss before tax and amortisation of goodwill	(12.05)	(313.31)	(289.03)
Goodwill amortisation		(161.52)	(161.53)
FRS3 Loss before and after tax	(12.05)	(474.84)	(450.55)
Headline loss per share (p)	(0.10)	(0.13)	(0.11)

The figures for 2005 are non-comparable but included for completeness. Relative to the previous six months, turnover rose 30%, but not as fast as planned; ClearDebt had geared itself up for much faster growth so its fixed costs increased significantly and operating expenses rose by 26% and the operating loss rose, but more slowly. A turn-round from paying to receiving interest resulted in a cut in the pre-tax loss and the loss per share was reduced from 0.13p to 0.11p.

After a record month in August, ClearDebt suffered administrative problems in September when the senior member of its IVA administration team was poached by a competitor and given the title 'Head of Business Development'. The resultant delays have had some impact on October and November as well but ClearDebt swiftly found a replacement.

A second problem was a significant increase in advertising expenditure by certain competitors, which (according to Debt Free Direct, the largest IVA producer) pushed up the price of advertising and reduced its effectiveness. The massive increase in spending did increase the size of the market (the number of IVAs completed in the second half of 2006 was 47% greater than in the whole of 2005) but at too high a cost and led to profit warnings from each of the two largest IVA producers. DFD has just issued a second profits warning stating that current year profits will fall short of the market's reduced expectations.

**Equity Development contact**

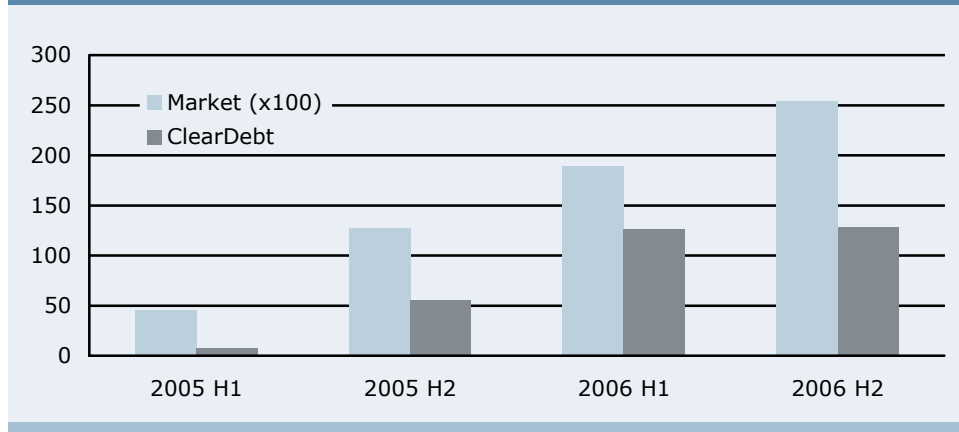
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ClearDebt made the sensible choice and reduced its advertising spend where it ceased to be cost-effective, which naturally reduced its case acquisition and completion rates. As a consequence of this and the abovementioned disruption, ClearDebt's completion rate fell short of its business plan and our expectations, although it completed more IVAs in the six months than in any previous six months, and it surrendered some of its recent gains in market share.

**Figure 1: Growth in IVAs**



Despite these setbacks, the group can report significant progress towards its longer-term objectives. This includes the launch in December of its IVA Protect, a ground-breaking and currently unique (although one may hope that the more ethical of its competitors will launch copy-cat products shortly) insurance policy protecting creditors from the debtor's temporary inability to pay through sickness or involuntary unemployment, which should significantly reduce the IVA failure rate; the creation of the Debt Resolution Forum to establish industry standards of conduct; and increasing awareness among the major creditors of the costs associated with IVAs. Sadly there has been some posturing by certain creditors with the worst bad debt provisions which might otherwise reflect badly on their strategy or competence which resulted in Accuma (an expensive IVA producer reporting a rejection rate of 22% of its proposals; ClearDebt, however, has never had a single proposal rejected on price grounds.

ClearDebt set out to be, and believes that it is, the lowest-cost producer of IVAs. This will provide it with a significant advantage when the market matures.

Also in December, the group raised £1m through a share placing that ensures that it has adequate funding for the next stage of development. At the end of the period, ClearDebt has cash balances of £1.18m, more than four times its operating loss excluding amortisation of goodwill.

After detailed analysis of the response rates from different forms of advertising and different sites, the group is currently increasing its expenditure on marketing and on staff training in anticipation of a resultant increase in responses and caseload. It is also in negotiations with a number of potential partners from whom they hope to receive referrals, thereby increasing at low cost their pipeline and conversion rate.

Profitability in the short- and medium-term should be improved by modest increases in the fee rates that were a long way below their competitors' marginal

cost for production of an IVA. The revised rates are still significantly cheaper than those of their major competitors.

The share prices in the sector have fallen in the last few months partly due to profit warnings and partly due to some slanted comments in the press that seemed to blame IVA producers for, inter alia, the losses suffered by lenders when a debtor went bankrupt. We consider this neither accurate nor fair, but cannot deny that the press influences its readers' perceptions and this is affecting the demand for IVAs. If, however, the major creditors pay more attention to fees in future, this should be to the longer-term benefit of ClearDebt.

ClearDebt's share price has fallen three times: first on the CEO's AGM statement, which presaged these results with its report of the poaching and resulting administration difficulties and the cutback in advertising spend, second on the results themselves, and thirdly on DFD's second profit warning which carries negligible, if any, implications for ClearDebt. As a result the share price is now half its level five months ago, which seems an overreaction in spades. If the future contracted income from IVAs already approved (which is excluded by accounting rules as it is "not yet earned") was added to net assets recognised in the Balance Sheet, the result would exceed the current market capitalisation, i.e. there is less than nil value attributed to future earnings. We think that this means the shares are priced too cheaply.

I certify that this report represents my own opinions  
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