

ClearDebt



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CLEA

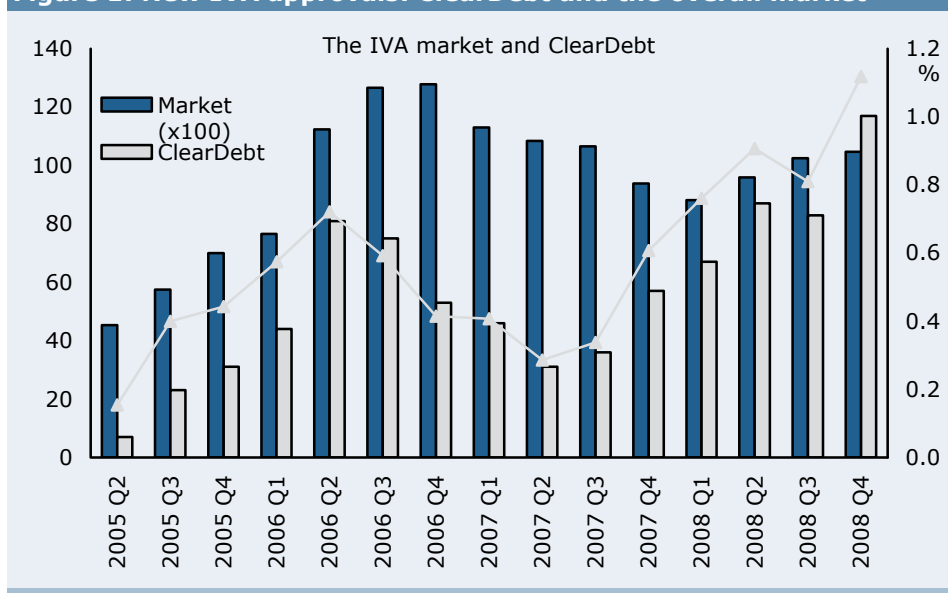
Date:	23.03.09	
Price p (prior close)	1.3	
52 week High/Low p	1.35/0.375	
Issued share cap m	308.3	
Market cap £m	4.0	
NAV p	1.4	
Year to end-June	Pre-tax £m	
2007	(0.66)	
2008	(1.22)	
2009 est	0.45	
Year to end-June	EPS p	PER
2007	(0.24)	
2008	(0.23)	n/a
2009 est	0.12	11.20

Company Description: ClearDebt offers debt resolution services, primarily IVAs and DMPs, 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 confirm the encouraging statements made at the AGM. Strong growth in both divisions, more than doubling the number of IVAs approved, has combined with reduced costs; the group is now making profits and generating positive cash flow.

For each half of 2008 and for each of the last three quarters the number of IVA cases approved was double or more than double that in the comparable half/quarter of 2007. The three quarters were each higher (the latest was 45% higher) than the previous peak in 2006 while the IVA market has, so far, only recovered about half of the fall it suffered during the "Creditors' Strike".

Figure 1: New IVA approvals: ClearDebt and the overall market



Company and ED data

ClearDebt's impressive initial growth was reversed for a year due a combination of the poaching of a key employee, a period of excessive advertising spending by one or two competitors and the "Creditors' strike" that led to the total number of IVAs approved falling at a time of rapidly rising demand. The latter led to a lagged increase in the number of consumers declaring themselves bankrupt (that in the latest quarter was over 50% greater than for the whole of 1997), with a consequent major increase in the losses the creditors themselves suffered, as well as delaying the group's move into profit. Since a protocol brokered by the Insolvency Service and the British Bankers' Association was agreed in February 2008, the market has started to return to normality.

ClearDebt cut back spending on advertising when it was not cost-effective but started to recover nearly a year ahead of the market thanks to its ability to provide cost-effective IVAs for those with moderate debts (many other providers cannot cover their costs for those) and a determination to maintain high quality.

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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Table 1: Summary results for last three half-years

	H1 2007-8	H2 2007-8	H1 2008-9
	£000	£000	£000
Insolvency revenue	193.0	293.6	376.5
Debt Management revenue	601.9	780.7	1,068.3
Total revenue	794.8	1,074.4	1,444.8
Cost of sales	(808.2)	(953.2)	(913.0)
Gross profit	(13.4)	121.2	531.8
Other operating expenses	(530.5)	(709.2)	(371.4)
Operating profit/(loss)	(543.9)	(588.0)	160.5
Net interest received/(paid)	(37.8)	(52.1)	(59.1)
IFRS Profit/(loss) before tax	(581.7)	(640.2)	101.4
Tax	0.00	524.60	(21.3)
IFRS Profit/(loss) after tax	(581.68)	(115.59)	80.1
Earnings/(loss) per share (p)	(0.19)	(0.04)	0.03
No of IVAs passed	93	154	200

Company Data

Turnover in both divisions has grown strongly in each successive half-year; after adjusting onto a like-for-like basis Abacus is still up by 62% compared with the first half of 2007-8 with ClearDebt Ltd up by 95%.

Revenue from IVAs has not risen quite as fast as the number of cases approved partly because the supervisory fees rise in proportion to the increase in total cases administered rather than new cases and partly because the charging structure imposed by creditors for new cases defers more of the IVA provider's income to align it with Creditors' recoveries rather than its own costs.

The benefits of the acquisition of Abacus in July 2007 are most visible in the reduced cost of sales relative to turnover. This is mostly thanks to the ability to cross-refer leads since many clients do not know before contacting the group whether they are best served by an IVA or a DMP, but also because advertising rates have declined. The recession has reduced the total demand for advertising and some IVA producers folded during the "Creditors' strike" so there is less competition for insolvency-specific sites.

The numbers for other operating expenses are distorted by a provision in H2 2007-8 for legal expenses, most¹ of which were recovered in H1 2008-9 after the defendants had admitted that they were wrong and apologised. They were also naturally affected by the acquisition of Abacus, the office move and the subsequent reorganisation, so those for the last half-year are nearer to a "normal" level than either of the two previous periods.

The accounts show a tax charge although no tax is actually payable because the group can offset past losses against current profits. The tax credit in H2 2007-8 is recognition of their ability to utilise these losses. On profits after tax of £80,100 earnings per share are 0.03p.

Net cash decreased by £.04m in the half-year due to normal seasonal swings in the debtors/creditors balance but remained comfortable at £0.22m, more than an average month's total expenditure, and has since risen to £0.41m.

¹ *The court froze the defendants' assets but only after they had transferred some to third parties.*

Current trading and Prospects

Growth is continuing strongly; although the year-on-year growth in new IVAs passed in January and February eased to 50%, it is accelerating again in March. We expect the year's total to be around 90% higher than for 2007-8. The number of DMPs making payments has increased by 36% in four months since the AGM.

In January ClearDebt acquired "The Debt Advice Portal" for an initial consideration of a nominal £75k satisfied by 3.75m shares and deferred consideration of up to 3.55m shares. "The Debt Advice Portal" is a web-based system to aid IFAs to refer indebted clients to providers of IVAs and DMPs. We expect this to be earnings-enhancing but not significantly so in the current year.

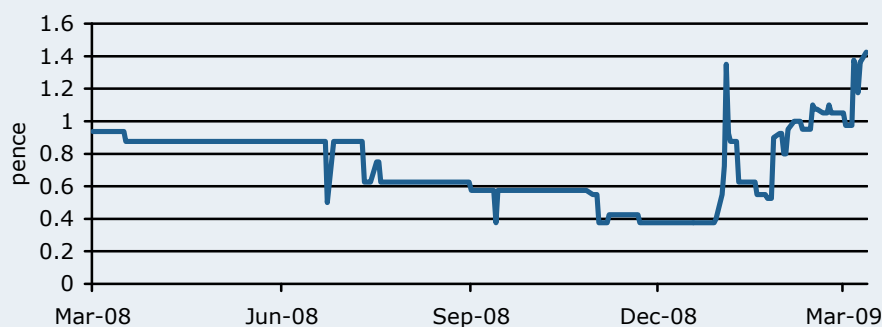
Demand for the group's products continues to increase as redundancies, scrapping of bonuses and "voluntary" salary reductions put more pressure on indebted consumers. Sadly the government squeeze on local authority incomes has led to a cut-back in their funding for the Citizens' Advice Bureaux just as demand for their services from indebted citizens has soared. Some debtors will be pushed into bankruptcy, but many still have some equity (albeit less) in their houses so an IVA remains the better option and for those able to regain employment fairly soon a DMP will be suitable.

The cancellation of the oft-delayed proposals to introduce SIVAs (a.k.a. "Fast-track IVAs") is inevitably a blow, but the change in Northern Rock's approach since I started complaining that it conflicted with both government policy and its own self-interest is a minor offset. Although client numbers have grown faster than expected I have reduced my central forecast for 2008-9 marginally to £0.45m pre-tax leading, after a notional tax charge, to eps of 0.12p. We do not expect a dividend either this year or next.

It would be pretentious (and foolish) to make a precise forecast for 2009-10 before we have some idea of how deep the recession will be. It would be possible to argue for any number between £1m and £3m for pre-tax profit.

The share price has risen by one-third since Fairpoint's results suggested a recovery in the market, but at the current price of 1.3p the group is on a modest multiple of 11.2x 2008-9 eps, and less than half that for 2009-10, and a discount to net asset value. Since ClearDebt is one of a small handful of growth companies in the current environment, this seems to significantly undervalue the group.

Figure 2: Price performance



ADVFN

I certify that this report represents my own opinions
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