creditclear limited

28 February 2023
ASX Announcement

1H23 Results

REVENUE GROWTH, STRONG SALES AND GROWING PROFITABILITY WITH MACRO TAILWINDS INTENSIFYING

Highlights:

- Revenue of $17.4m[1] up 17% on 2H22 and 161% PCP[2]
- Normalised EBITDA[3] on a Pre-Technology Development basis of $1.0m, an improvement of 114% on 2H22 and 67% PCP
- 182 new clients signed during 1H23 with a potential revenue of $6.2m[4] per annum
- $0.7m revenue earned from new clients in 1H23, with the remaining $5.5m in potential revenue expected to be earned in the next 12 months
- Record digital collections of $30.7m up 35% on 2H22 and 105% PCP
- Insurance sector pipeline is particularly strong, with the customised Insurtech solution attracting significant interest in Australian and International markets
- The ongoing integration of the Company's businesses is expected to achieved operational efficiencies, a reduction in duplicate systems and role consolidation
- The challenging economic environment has strengthened tailwinds for the Company, with the average value of debt files increasing 28% between January 2022 and January 2023
- Paul Dwyer has been appointed Chairman of the Board (effective 1 March 2023), bringing deep insurance sector experience and global relationships
- Cash at bank of $9.3m on 31 December 2022, from $10.2m on 30 June 2022
- The Company will host an investor briefing today at 12pm, to join please click **here**

Australian technology and debt collection provider **Credit Clear Limited (ASX: CCR) ("Credit Clear"** or **"the Company")** is pleased to announce its results for the financial half year to 31 December 2022 (1H23).

The Company recorded 1H23 revenue of $17.4m, up 17% on 2H22 and 161% PCP. The Company signed 182 new customers in 1H23, worth a potential $6.2m in annual revenue. The Company recorded $0.7m in new revenue from these clients in 1H23, with the remaining $5.5m in new revenue expected to ramp up during 2023. Payments collected via the digital platform continue to grow strongly, with a record of $30.7m in transactions processed, up 35% on 2H22 and 105% PCP.

The success of the ARMA acquisition, completed in February 2022, is clearly highlighted by the Company's strong growth in PCP revenue and profitability percentages. The Company's improved combined position is reflected by the strong sales performance and rapid adoption of the high margin digital platform with 72% of all ARMA files receiving a digital treatment.

Cash flow and profitability

The Company has achieved $1.0m in Normalised EBITDA on a Pre-Technology Development basis[2] in 1H23 an improvement of 114% on 2H22 and 67% PCP. Operating leverage continues to improve with 33% of additional revenue flowing through to EBITDA on a Post-Technology Development basis.

		1H'22 $000's	2H'22 $000's	1H'23 $000's
	Normalised			
	Revenue	6,651	14,811	17,374
	Expenses			
	Employee Benefits	(4,481)	(9,095)	(10,675)
	Other	(3,619)	(5,264)	(5,731)
Normalised EBITDA Pre Tech Dev		**(1,449)**	**453**	**968**
	Tech Development - OPEX	(1,212)	(1,367)	(1,019)
Normalised EBITDA Post Tech Dev		**(2,660)**	**(915)**	**(51)**
	Non Business-as-Usual			
	Revenue	0	0	618[2]
	Expenses	(1,368)	(3,950)	(2,962)[1]
	Share Based Expenses	(779)	(835)	(1,989)
EBITDA	(Statutory)	(4,807)	(5,700)	(4,384)
Depreciation & amortisation		(1,041)	(2,907)	(2,870)
Interest		(24)	(103)	29
Tax		0	3,455	(2)
Net P/(L)	(Statutory)	(5,872)	(5,255)	(7,227)

1. 1H23 ARMA Earnout $2.5m (2H22 $2.0m)
2. Government employee training grant

Cash and cash equivalents at the end of the quarter stood at $9.3m.

New business

Credit Clear signed 182 new clients in 1H23 including notable blue-chip accounts with Queensland Urban Utilities, a large consumer finance provider and a major water provider. The new clients signed have a potential annual revenue of $6.2m. The Company recorded $0.7m in new revenue from these clients in 1H23, with the remaining $5.5m expected to be earned in the next 12 months.

During 1H23, management has placed particular focus on new clients that have been signed and onboarded, working towards shortening the time to achieve full potential annual revenue. As previously communicated, due to client-side processes and preparedness, a typical large client, once signed, can take between one to three months to onboard, and then, up to twelve months to achieve full annual revenue potential. Therefore, much of the significant new business signed in 1H23 has yet to reach its potential revenue and expectations are that new revenue will ramp up materially during 2023.

Having substantially completed the integration of the Company's businesses, CCR will provide a rolling new revenue cohort analysis by half year in future reports.

Increasing debt value and volumes, international and pipeline

An analysis of a control group of clients that referred debt to ARMA's consumer division in January 2022 and January 2023 has revealed a 40% increase in the average value of debt files from $696 to $977 per file. The control group referred 5% more files (volume) to ARMA in January 2023 vs January 2022.

	Date	#Referrals	Ave. Debt
Control group	Jan 2022	19,814	$696
	Jan 2023	20,762	$977
% change		5%	40%

The data shows that while the average debt value per file is significantly higher, due to inflationary drivers, the percentage of customers falling behind on payments has remained relatively stable. This is likely due to saving buffers accumulated through 2020 and 2021 or "COVID Cash", now being used by consumers to keep up with significantly larger payments.

Once these savings buffers are depleted, and with an expected worsening of cost of living pressures across the economy, with 800k fixed mortgage loans rolling off, further interest rate hikes expected and many organisations (e.g. water utilities and councils) restarting collection activity paused during the past two years, the Company expects the percentage of consumers falling behind on payment to increase more in line with 28% average debt value per file seen across its consumer collection division.

An analysis of total referrals from all ARMA's consumer clients has shown a 136% increase in the volume of files referred to the Company from 22k files in January 2022 to 52k files in January 2023. This increase in volume is due to the number and nature of new clients signed by ARMA during the calendar year 2022 (i.e. larger businesses with more customer accounts), as well as winning a greater share of files from existing clients not included in the control group. The value of total files referred to the consumer division is up $204%, from $12.1m in January 2022 to $38.8m in January 2023.

	Date	#Referrals	Total value	Ave. Debt
Total referrals	Jan 2022	22,132	$12,761,594	$577
	Jan 2023	52,317	$38,792,161	$741
% change		136%	204%	28%

The number and value of debt files being referred to the Company is a key leading indicator for future revenue and, with Credit Clear's technology platform deployed across its clients, ARMA's collection performance is enhanced, providing the business with the opportunity to grow revenues, upsell existing business, win a larger share of work from competitors and cross sell to earlier stage collections taking business off internal collection teams.

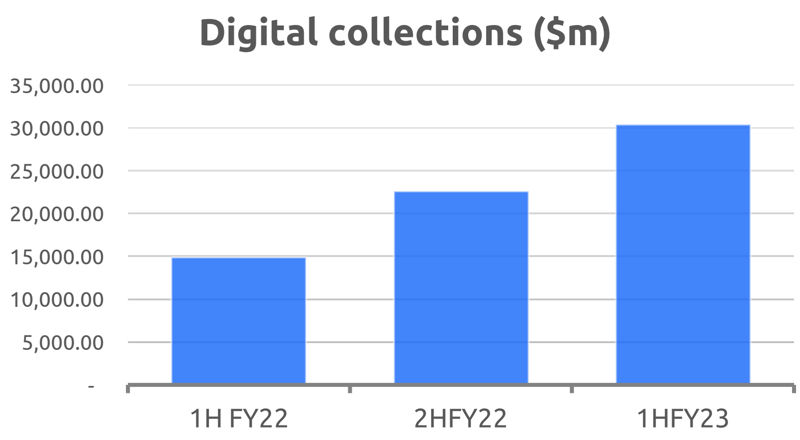
As 2023 progresses, the Company anticipates the more challenging economic environment to intensify, which will highlight Credit Clear's hybrid (digitally led and traditional) offering to other prospective tier-one clients, including several marquee customers in the insurance and banking sectors that the company expects to sign in the near term.

With an increase in the amount of debt being referred, companies will be looking for an efficient, digitally led solution to maintain collection outcomes. Credit Clear's technology platform delivers this solution to the market with its evolving AI tools that support its client's collections and brand value.

Internationally, the Company continues to pursue partnership opportunities where, once delivered locally, the digital platform can be deployed at scale. In South Africa, the technology team delivered further customisations for Techub, including additional payment gateways. Referral levels from Techub have not met original expectations, and following discussions late last year, more significant volumes of files have been referred post 1H23 (in late February) and Techub have given commitments to refer these larger volumes ongoing in 2023.

Digital collections

Digital collections in 1H23 set another record, collecting $30.7m up 35% on 2H22 and 105% increase on PCP. The Company achieved consecutive months of $5m plus digital payments in November and December. Notwithstanding that digital payments for December were impacted by the end-of-year holidays and the associated blackout period on collections, the result for the month continues the Company's upward trajectory.



Case study (content and presentation)

The Company continues to receive validation of the effectiveness of its digital messaging, with a 48% increase in collections for a major healthcare provider. The 'Champion/Challenger' case study, run over 28 days, showed changes made by Credit Clear to the content and presentation of the digital messaging driven by the Company's unique AI, additionally delivered a 14% increase in customer engagement and an 18% increase in the conversion rate. The success of the content changes was particularly evident at the higher debt bands above $500.

Content and presentation of digital messages

Collections:	Up 48%
Engagement rate:	Up 14%
Conversion rate:	Up 18%
Debt band:	Highest increase in collections for debts over $500

ARMA consideration shares

The Company notes that the voluntary escrow on the equity component of the upfront consideration was lifted on 7 February 2023. The balance of the earn-out consideration that is based on the amount of digital sales revenue achieved by ARMA on the ARMA client base from the acquisition date to 3 February 2023 has been calculated, and will be audited and paid in late March / early April 2023 in a mixture of cash and shares, pursuant to the transaction details released to the market on 16 December 2021. The cash component of the earnout is expected to be ~$2.9m and the script component is escrowed for a further 12 months.

Board update (refer to "Board Update" announced on 28 February 2023)

Paul Dwyer to be appointed as Chairman of the Board

The Company is pleased to announce that Paul Dwyer will be appointed as Chairman of the Board from 1 March 2023. Paul was appointed as a non-executive Director in September 2022 and has demonstrated his commitment and efforts to support the growth and governance of the Company as well as building his personal shareholding.

As the co-founder and Deputy Chairman of PSC Insurance (ASX: PSI), Paul brings an extensive knowledge and network of the insurance industry, having taken PSC Insurance to multiple new global markets and completed more than 70 acquisitions. Paul's broader governance, business-building and transaction experience is highly valued and well-aligned with the Company's strategic growth objectives.

Hugh Robertson to continue as non-executive Director

The Company is also pleased to advise that Hugh Robertson, will continue to serve as a non-executive Director of the Company. Hugh joined the Board of Credit Clear in September 2021, and his leadership has been instrumental in building and transitioning the business, the Board and the executive team through the acquisition of ARMA Group Holdings (**ARMA**) and its highly successful integration.

Andrew Smith appointed as Managing Director

CEO and major shareholder Andrew Smith joined the Board as an Executive Director in February 2022, having previously served as CEO for ARMA, the business he co-founded and grew into a highly successful and profitable receivable collections business, that Credit Clear subsequently acquired in February 2022. Following the completion of the twelve-month earn-out period and Andrew's strong performance as CEO and Executive Director to date, including exceeding the ARMA earn-out performance threshold, the Board is pleased to appoint him as Managing Director pursuant to the Company's constitution effective 1 March 2023.

CEO and MD Andrew Smith commented that:
"The strength of the combined Credit Clear and ARMA business, one year after the acquisition, is a testament to the strategic intent and operational capabilities of both teams. Credit Clear's technology has been efficiently deployed across the ARMA business, resulting in a significant performance uplift and 72% of all ARMA files receiving a digital treatment. Importantly, the combined "hybrid" (digital and traditional) service offering has been received well by existing and potential clients and ARMA's sales team has successfully embraced the digitally-led hybrid solution and achieved considerable new business success. From a new business perspective, the Company continues to target materially larger clients and is currently in discussions with several tier-one clients."

- ENDS –

NOTES:

1. 1H23 financials have been reviewed by auditors
2. ARMA Group Holdings was acquired in February 2022
3. Normalised EBITDA on a Pre-Technology Development basis
4. Estimated annual expected revenue

This ASX announcement was approved and authorised for release by the Board of Credit Clear.

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About Credit Clear
Founded in 2015, Credit Clear Limited is an Australian technology Company that has developed a digital billing and communication platform that helps organisations drive smarter, faster and more efficient financial outcomes by changing the way customers manage their re-payments through a user experience that the market demands in a digital age, powered by award winning artificial intelligence.

Credit Clear manages customer accounts across a range of industries including transport, financial services, insurance, government and utilities. The Company is based in Australia with headquarters in Melbourne and offices in Sydney, Brisbane, Adelaide and Perth.

www.creditclear.com.au