



Clearstar

Mar 31st 2015

ClearStar firing on all cylinders

Recent AIM listing ClearStar (LON:CLST) is firing on all cylinders. Last year top line growth was 37%, according to the annual results statement published earlier this month.

While it was modestly loss-making, having accelerated investment in growth, the City's number crunchers expect this to be a temporary phenomenon.

ClearStar provides background checking, medical information services and technologies that fit seamlessly into the human resources systems of customers.

It has a number of blue-chip customers, including the American theme parks operator Six Flags, which uses the ScreenMeNow on mobile devices at recruitment fairs for its largely seasonal workforce.

The firm is so highly regarded in this field that over 90% of its customers have been with it for 10 years or more.

With its roots firmly in the US, but growing internationally, it came to the UK junior market to access capital (it raised US\$15mln) and to enhance its profile.

"AIM provides us with the growth capital we need," says chief executive Bob Vale.

"As a private company we have grown very well historically, but having the added visibility and credibility the listing gave us we expect to grow even faster. The opportunities that the listing alone has instigated surprised us."

ClearStar followed the IPO with the purchase of Florida-based background screening company SingleSource for US\$4mln.

It fits the acquisition template with ClearStar looking to pay 1.2-1.5 times turnover.

The next deal could be bigger, Vale reveals, and his team is also looking overseas to bolster the international division.

There is a tendency, according to the CEO, to view companies such as ClearStar and SingleSource as Orwellian'.

"We really aren't Big Brother. We are an advocate for the individual," explains Vale.

"And we think the individual should have control over the public and private records that represent them his or her authentic self."

Vale says that while the company's background check contract might be with the employer, ClearStar's primary responsibility is to the applicant and ensuring that they are represented accurately.

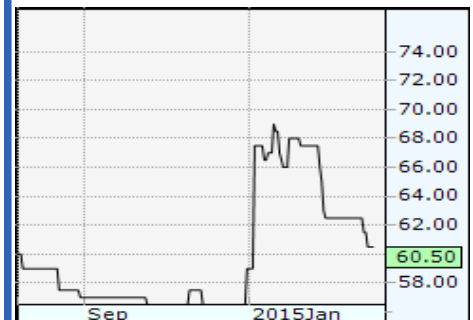
And he or she has the right to object to any information unearthed that may be unfair or erroneous.

"The applicant gives us the information that says who and what they are we go back in the name of the applicant and verify all of the information that the applicant provides confirming where they went to school, where they worked last

Price: 60.50p

Market Cap: £21.96M

1 Year Share Price Graph



Share Information

Code: CLST

Listing: AIM

Sector: Technology Hardware & Equipment

Website: www.clearstar.net

Company Synopsis:

ClearStar, Inc. is listed on AIM, a market operated by the London Stock Exchange, under trading symbol CLST'. ClearStar is a technology and service provider to the background check industry, supporting background screening companies, employers and employees with their recruitment and employment application decisions.

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and that they are drug free or a safe driver," Vale adds.

"In the event that we find information in conflict with what the applicant reported, we then present the information we have garnered to the applicant and say, is this you and is this fair and true?"

"The applicant is allowed to object and we must re-verify the information at the source. Also, information not needed for the job is extracted and masked from the employer. ClearStar acts as a trusted third party between that applicant and the employer to ensure that all information reported is accurate and represents that applicant as transparently as possible."

In the US, the market for ClearStar's technology is estimated to be worth circa US\$2.5bn annually so this isn't a cottage industry spawned of paranoia.

Vale estimates there are around 3,000 firms involved in background checking in the States.

Most of them are small, but ClearStar does come up against some bigger competitors such as the credit checkers Experian and Equifax.

The business generates gross margins of around 58%, while customers are "very, very sticky".

Chief financial officer David Pattillo reckons the retention rate is over 90% annually, while he points to last year's strong financial showing as indicative of ClearStar's potential.

"The combination of strong organic growth combined with acquisitions makes this a compelling story," he says.

Certainly the company's broker Cenkos seems to think the business has legs.

It is predicting ClearStar will deliver revenues of US\$17.9mIn this year, rising US\$25mIn then US\$33mIn.

In that time pre-tax profits are expected to grow from US\$2.2mIn to US\$8.9mIn.

On that basis, the forward price-to-earnings ratio drops from a fairly rich looking 21.5 times for 2015 to just 5.5 times by end-2017.

Analyst Simon Strong says: "Management sees a very significant market opportunity and is investing accordingly.

"Notwithstanding this investment, we see the revenue momentum from 2014 continuing and sharply recovering the increased overhead in the new fiscal period.

"This is aggressively driving down the rating of the stock."

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