

FAIRPOINT.

Fairpoint Group plc

Interim Results for the six months ended 30 June 2009

15 September 2009

Fairpoint Group plc (“Fairpoint” or “the Group”) today announces its interim results for the six months ended 30 June 2009.

Highlights

- First half earnings show significant improvement on H1 FY08 in line with management expectations.
- Adjusted profit before tax* rose to £2.4 million in H1 FY09 (H1 FY08: £0.3 million).
- Net bank borrowings fell £2.1 million in H1 FY09 to £6.5 million (H1 FY08: £10.9 million).
- Revenue of £13.8 million in H1 FY09 (H1 FY08: £13.8 million) with gross profit increasing to £5.7 million (H1 FY08: £4.1 million).

Strong progress has been made across all key business priorities, namely:

- Cash generation – the business has now consistently reduced its borrowings for 12 months including our peak Q1 marketing expenditure period;
- Cost effectiveness – significant improvements have been made in the efficiency of marketing and our ability to convert leads into product solutions. This has led to a “cost per solution sold” improvement from £1,102 in H1 FY08 to £756 in H1 FY09;
- Diversified revenue – the debt management business is now contributing 14% of gross profit up from 5% at H1 FY08 and represents 29% of product solutions sold;
- Fee stability – creditor approval rates are now consistently in excess of 95%.

The outlook for the second half of 2009 is positive, driven by:

- Continued cash generation with net bank borrowings as at the end of August falling to £5.7 million;
- Reliability of operational process improvements;
- Breakage levels in line with expectations;
- We have significantly reduced the cost of our ClearStart debt management proposition and can now offer this to partners at fee levels in line with the largest third sector providers with the expectation that distribution will increase;
- Continued growth in the range of products and services provided;
- An expectation of continued strong demand for debt advice across the UK

* adjusted for brand amortisation and exceptional items of £0.2million (H1 FY08 £1.5million)

Matthew Peacock, Chairman, said

“Chris and the management team have now realigned the Fairpoint business model so that it is able to profitably serve financially stressed consumers. We have strong foundations in place, which have led to significant improvements in profitability and we can now turn our attention to our growth agenda. Our strategic aim, to establish a suite of consumer debt solutions across a complementary range of brands, is taking shape and will allow the Group to build its market share.”

Chris Moat, Chief Executive, said

“I am pleased that the operational turnaround in 2008 has been firmly embedded into the business and is delivering significantly improved returns. It is clear now that, in a rapidly growing market for our services, we have a stable platform on which to build future revenue and profit.”

Chief Executive Officer's Report

The foundations laid for performance improvement during the second half of 2008 have resulted in a significantly enhanced H1 FY09 performance compared to H1 FY08. The Group is now more robust having made strong progress in its key operational targets and is well placed to take advantage of a rapidly improving market for its core products.

The operational recovery plan implemented in the second half of 2008 has been cemented in place and continues to drive a strong improvement in performance – we are now converting leads to product solutions at 30% higher than H1 FY08. Whilst our fee levels are slightly reduced, this is as a consequence of having a wider range of IVAs approved. Marketing efficiency also improved so that revenues have been maintained whilst marketing costs fell from 35% of revenue in H1 FY08 to 23% in H1 FY09. The combination of these two factors has been a £1.6 million improvement in gross profit from H1 FY08 to £5.7 million.

We continue to be the IVA market leader with an 18% market share in the period, rising to 19% in Q2. In the last six months we have seen a growing preference for IVA solutions from consumers as they seek to permanently resolve their debt situation rather than deferring the issue. Similarly creditor attitudes have changed, with greater recognition that IVAs represent the best solution for specific customers, evidenced by IVA approval rates of over 95%. As a result we have successfully extended the reach of our IVA solutions to consumers with lower levels of indebtedness.

We have continued to diversify our business with the number of live debt management cases rising 27% in the six months, generating revenues of £1.5 million and a contribution of £0.8 million. However, the shift in consumer preference towards IVAs has meant that the growth of the debt management business has slowed.

Our Financial Services division continues to diversify from being focused on mortgages, towards other financial solutions. We introduced a prepaid card offering to our customers towards the end of 2008 and have now added 1,079 new customers. Our mortgage revenues were down 82% on the prior year due to the lack of credit supply and so the division suffered a small loss, due partly to investment in new product development. Our Allixium product switching website will be launched in the second half of the year and the division is expected to generate a small profit in H2 FY09.

Total Group revenues amounted to £13.8 million (six months to 30 June 2008: £13.8 million) and profit before tax adjusted for brand amortisation and exceptional items reached £2.4 million (six months to 30 June 2008: £0.3 million). The focus on efficient marketing and operations meant that net bank borrowings fell a further £2.1 million to £6.5 million at 30 June 2009 despite increased tax liabilities.

The debt solutions market is showing signs of growth after introduction of the new fee protocol in 2007 and 2008. Second quarter Insolvency Service statistics show IVA numbers rising 27% year-on-year and we believe an upwards trend will continue into the second half.

Whilst the IVA market remains stable in terms of creditor fee protocols the large debt management market remains volatile with regulatory questions surrounding future standards. Increasingly consumers are being directed by government and charitable advisers to fair share providers in the third sector who are capacity constrained. In response, Fairpoint has introduced its own fair share debt management plan under the ClearStart brand. We currently have a low representation in the debt management market place and so have a unique opportunity to champion standards and product design in this sector to create a sustainable competitive advantage without incurring the opportunity costs with which current market incumbents have to contend.

Finance Director's Report

Revenues were in line with H1 FY08 at £13.8 million. Revenues were maintained whilst reducing overall marketing spend by £1.4 million as the group benefitted from greater operational efficiency. Marketing spend in the period amounted to 23% of revenues compared to 35% in H1 FY08. Despite the lower expenditure our pipeline of new IVA cases has significantly improved against both the preceding and the comparative periods. Overall gross margin was significantly improved year-on-year at 42% (H1 FY08: 30%).

Overheads of £2.9 million were 5% lower than H1 FY08 reflecting the benefits of management restructuring in June 2008. The Group benefitted from lower finance costs due to steadily decreasing borrowings and lower interest rates.

Profit after tax was £1.5 million compared to a loss of £0.8 million in the same period last year.

	6 months to June 09 £'m	6 months to June 08 £'m
Revenue	13.8	13.8
Gross Profit	5.7	4.1
Adjusted Profit Before Tax	2.4	0.3
Exceptional Items	-	(1.3)
Profit/(Loss) After Tax from continuing operations	<u>1.5</u>	<u>(0.8)</u>

Selected Segmental Information	6 months to June 09 £'m	6 months to June 08 £'m
Revenue		
IVA	12.1	12.2
Financial Services	0.2	0.9
Debt Management	<u>1.5</u>	<u>0.7</u>
	13.8	13.8
Contribution¹		
IVA	5.1	3.6
Financial Services	-	0.5
Debt Management	<u>0.8</u>	<u>0.2</u>
	5.9	4.3
Total Group Contribution	5.9	4.3
Overheads ²	(2.9)	(3.0)
Interest, depreciation and amortisation	<u>(0.6)</u>	<u>(1.0)</u>
Adjusted Profit Before Tax	<u>2.4</u>	<u>0.3</u>
	6 months to June 09 No.	6 months to June 08 No.
New Customers		
IVA Services	3,858	3,916
Financial Services	1,144	408
Debt Management	<u>2,029</u>	<u>3,301</u>
	<u>7,031</u>	<u>7,625</u>
Existing Customers		
IVA Services	18,771	16,197
Debt Management	<u>4,516</u>	<u>1,130</u>
	<u>23,287</u>	<u>17,327</u>

The total number of new product solutions fell as we reduced marketing expenditure on inefficient channels with the conversion rate from leads into the business increasing by 30% as we focused on more profitable sales. Debt management solutions sold fell as we increasingly found IVA solutions for these customers, whilst financial services solutions saw a further decline in secured lending solutions sold offset by a large increase in sales of our prepaid card product.

Balance Sheet and Cashflow	June 2009 £m	June 2008 £m
Shareholder funds	33.7	30.6
Net bank borrowings	6.5	10.9

¹ Contribution includes gross profit of £5.7m (H1 FY08: £4.1m), finance income from the unwinding of discounts of £2.2m (H1 FY08: £1.6m) and bad debt expenses of £2.0m (H1 FY08: £1.4m).

² Overheads comprise administrative expenses of £5.6m (H1 FY08: £6.5m) less bad debt expenses, exceptional items, depreciation and amortisation of £2.6m (H1 FY08: £3.5m).

Net bank borrowings fell to £6.5 million with the Group generating cash of £2.1 million before debt repayments in the period despite a higher tax payment of £0.4 million. Improved profitability and strong working capital management meant that the Group's cash flow performed ahead of expectations.

The Group's aim is to reduce net borrowings to below one year's trailing adjusted Profit before Tax. At 30 June 2009 these figures were £6.5 million and £4.9 million respectively. The Group does not propose a dividend at the interim stage but is confident that the achievement of our gearing target in the second half will allow a reintroduction of dividends to be considered at the year end.

Outlook

Our progress through 2009 has benefited from operational improvement which has converted more of our enquiries into product solutions and allowed us to improve gross margins by more focused marketing expenditure.

This has delivered improved profitability and cash generation whilst we have sacrificed market share that we could not convert profitably.

We believe our operational process improvements and our marketing efficiencies are stable and will endure, giving us confidence that full year 2009 will be in line with current market expectations.

As we look further ahead, the debt solutions market is now growing, the debt burden is high and the volumes of consumers experiencing financial difficulties will probably persist for some time as interest rate growth introduces a new expense strain through the cycle.

In order to continue to develop the business within these market conditions our strategy will consist of the following themes:

Operational effectiveness - we have made significant progress on developing our operating model and see further opportunity to enhance our operational effectiveness;

Product diversification - our product range is continuing to expand through the introduction of our prepaid cards and debt management. Our debt management product has made an important contribution in the first half of this year and we will now focus on growing our market share in the debt management market place;

Distribution capability - our embryonic partnership business will be used to widen our distribution channels and support continued growth.

Enquiries:

Fairpoint Group plc

Chris Moat, Chief Executive Officer
Andrew Heath, Company Secretary

0845 296 0183
0845 296 0200

Oriel Securities

Tom Durie
Emma Ormond

020 7710 7600

Financial Dynamics

Nick Henderson
David Cranmer

020 7269 7114
020 7269 7217

Interim Results

There will be an analyst presentation to discuss the interim results at 09:30 on 15 September 2009 at Financial Dynamics, Holborn Gate, 26 Southampton Buildings, London, WC2A 1PB. Those analysts wishing to attend are asked to contact Yasmeen Amorese at Financial Dynamics on +44 207 269 7418 or at yasmeen.amorese@fd.com.

FAIRPOINT GROUP PLC
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
PERIOD FROM 1 JANUARY 2009 TO 30 JUNE 2009

	Period from 1 January 09 to 30 June 09 Unaudited £'000	Period from 1 January 08 to 30 June 08 Unaudited £'000	Year ended 31 December 2008 Audited £'000
CONTINUING OPERATIONS			
Revenue	13,759	13,837	26,459
Cost of sales	<u>(8,023)</u>	<u>(9,690)</u>	<u>(16,606)</u>
GROSS PROFIT	5,736	4,147	9,853
Administrative expenses	(5,604)	(6,500)	(11,788)
Finance income - unwinding of discount on IVA Revenue	2,242	1,586	3,851
Finance income - other	9	8	23
Finance cost	<u>(208)</u>	<u>(415)</u>	<u>(815)</u>
ADJUSTED PROFIT BEFORE TAX	2,361	317	2,853
Exceptional restructuring costs	-	(1,302)	(1,352)
Amortisation - brands	<u>(186)</u>	<u>(189)</u>	<u>(377)</u>
PROFIT/(LOSS) BEFORE TAX	2,175	(1,174)	1,124
Corporation tax (charge)/credit	<u>(647)</u>	<u>370</u>	<u>(479)</u>
PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS	1,528	(804)	645
DISCONTINUED OPERATIONS			
Loss for the period from discontinued operations	—	<u>(146)</u>	<u>(96)</u>
PROFIT/(LOSS) FOR THE PERIOD	<u>1,528</u>	<u>(950)</u>	<u>549</u>
Other comprehensive income/(expense):			
Exchange differences on translating foreign operations	—	<u>(4)</u>	<u>(4)</u>
Other comprehensive expense for the period	—	<u>(4)</u>	<u>(4)</u>
Total comprehensive income/(expense) for the period	<u>1,528</u>	<u>(954)</u>	<u>545</u>
All of the profit/(loss) and the total comprehensive income/(expense) for the period is attributable to equity holders of the parent.			
Earnings/(Loss) per ordinary share - basic and diluted			
Profit/(Loss) from continuing operations	3.58	(1.89)	1.51
(Loss) from discontinued operations	—	<u>(0.34)</u>	<u>(0.23)</u>
Total profit/(loss) from operations	<u>3.58</u>	<u>(2.23)</u>	<u>1.28</u>

FAIRPOINT GROUP PLC
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2009

	As at 30 June 2009 Unaudited £'000	As at 30 June 2008 Unaudited £'000	As at 31 December 2008 Audited £'000
ASSETS			
Non current assets			
Property, plant and equipment	1,672	2,147	1,807
Goodwill	11,343	11,318	11,343
Other intangible assets	<u>5,529</u>	<u>5,770</u>	<u>5,701</u>
Total non current assets	18,544	19,235	18,851
Current assets			
Trade and other receivables	23,276	23,416	23,150
Other current assets	1,466	2,459	1,632
Cash and cash equivalents	<u>425</u>	—	<u>565</u>
Total current assets	<u>25,167</u>	<u>25,875</u>	<u>25,347</u>
Total assets	<u>43,711</u>	<u>45,110</u>	<u>44,198</u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	429	424	429
Share premium account	18	-	18
Merger reserve	11,842	11,842	11,842
Other reserves	254	254	254
Retained earnings	21,155	18,147	19,599
Translation Reserve	—	<u>(66)</u>	—
Total equity attributable to equity holders of the parent	33,698	30,601	32,142
Non current liabilities			
Long-term borrowings	6,900	116	8,944
Deferred tax liabilities	<u>801</u>	<u>353</u>	<u>854</u>
	7,701	469	9,798
Current liabilities			
Bank overdraft	-	10,135	-
Trade and other payables	1,976	2,177	1,774
Current tax liabilities	336	871	126
Short-term borrowings	—	<u>857</u>	<u>358</u>
	<u>2,312</u>	<u>14,040</u>	<u>2,258</u>
Total liabilities	<u>10,013</u>	<u>14,509</u>	<u>12,056</u>
Total equity and liabilities	<u>43,711</u>	<u>45,110</u>	<u>44,198</u>

The interim financial statements were approved by the board of directors on 14 September 2009

FAIRPOINT GROUP PLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
PERIOD FROM 1 JANUARY 2009 TO 30 JUNE 2009

	Share Capital	Share Premium Account	Merger Reserve	Other Reserves	Retained Earnings	Translation Reserve
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2008	424	-	11,842	254	20,748	(62)
Changes in equity for the six months ended 30 June 2008 :						
Total comprehensive expenditure for the period		-	-	-	(950)	(4)
Share based payment expense	-	-	-	-	47	-
Dividends	-	-	-	-	(1,698)	-
Balance at 30 June 2008	424	-	11,842	254	18,147	(66)
Changes in equity for the six months ended 31 Dec 2008 :						
Total comprehensive income for the period	-	-	-	-	1,499	-
Realisation on disposal	-	-	-	-	(66)	66
Share issues	5	18	-	-	-	-
Share based payment expense	-	-	-	-	19	-
Dividends	-	-	-	-	-	-
Balance at 31 December 2008	429	18	11,842	254	19,599	-
Changes in equity for the six months ended 30 June 2009 :						
Total comprehensive income for the period	-	-	-	-	1,528	-
Share based payment expense	-	-	-	-	28	-
Dividends	-	-	-	-	-	-
Balance at 30 June 2009	429	18	11,842	254	21,155	-

FAIRPOINT GROUP PLC
CONSOLIDATED STATEMENT OF CASH FLOWS
PERIOD FROM 1 JANUARY 2009 TO 30 JUNE 2009

	Period from 1 January 2009 to 30 June 2009 Unaudited	Period from 1 January 2008 to 30 June 2008 Unaudited	Year ended 31 December 2008 Audited
	£'000	£'000	£'000
Cash flows from continuing operating activities			
Profit/(Loss) on continuing operations before tax	2,175	(1,174)	1,124
Share based payments charge	28	47	66
Depreciation of property, plant and equipment	221	393	522
Amortisation of intangible assets and development expenditure	410	348	744
Loss on sale of non current assets	-	-	165
Interest received	(9)	(8)	(23)
Interest expense	208	415	815
Decrease/(Increase) in trade and other receivables	729	(939)	111
(Decrease) in trade and other payables	(487)	(245)	(1,630)
Cash flows from discontinued operations	-	(146)	(37)
Cash generated from/(absorbed by) operations	3,275	(1,309)	1,857
Interest paid	(208)	(415)	(681)
Corporation taxes paid	(490)	-	(118)
Net cash generated from/(absorbed by) operating activities	2,577	(1,724)	1,058
Cash flows from investing activities			
Purchase of property, plant and equipment (PPE)	(91)	(185)	(226)
Proceeds from sale of non current assets	5	-	11
Interest received	9	8	23
Purchase of intangible assets	(238)	(392)	(811)
Net cash (absorbed by) investing activities	(315)	(569)	(1,003)
Cash flows from financing activities			
Proceeds from issue of share capital	-	-	23
Payment of short-term borrowings	(243)	-	(729)
Equity dividends paid	-	(1,698)	(1,698)
Proceeds from long-term borrowings	-	-	8,900
(Payment) of long-term borrowings	(2,000)	(486)	(243)
Payment of finance lease liabilities	(159)	(22)	(107)
Net cash (absorbed by)/generated from financing activities	(2,402)	(2,206)	6,146
Net change in cash and cash equivalents	(140)	(4,499)	6,201
Cash and cash equivalents at start of period	565	(5,636)	(5,636)
Cash and cash equivalents at end of period	425	(10,135)	565

FAIRPOINT GROUP PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2009

1. BASIS OF PREPARATION

The financial information presented in this documentation has been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations that are expected to be applicable for the year ending 31 December 2009.

These are subject to ongoing review and endorsement by the European Commission, and possible amendment by the International Accounting Standards Board (IASB), and are therefore subject to possible change.

The financial information in this statement relating to the six months ended 30 June 2009 and the six months ended 30 June 2008 has neither been audited nor reviewed pursuant to guidance issued by the Auditing Practices Board. The financial information for the periods ended 30 June 2009 and 31 December 2008 does not constitute the full statutory accounts for those periods. The Annual Report and Financial Statements for 2008 have been filed with the Registrar of Companies. The Independent Auditors' Report on the Annual Report and Financial Statements for 2008 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 237(2) or 237(3) of the Companies Act 1985.

2. SEGMENT INFORMATION

The Group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision makers in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor standard (IAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's 'system of internal financial reporting to key management personnel' serving only as the starting point for the identification of such segments.

Set out below are highlights of segmental performance based on IFRS 8 with full disclosure to be included at year end.

2. SEGMENT INFORMATION (Continued)

For the period ended 30 June 2009					
	IVA	Financial Services	Debt Management	Unallocated	Total
	£'000	£'000	£'000	£'000	£'000
Revenue	12,058	173	1,528	-	13,759
Segment result	2,027	(116)	463	-	2,374
Unallocated costs	-	-	-	-	-
Finance income	-	-	-	9	9
Finance costs	-	-	-	(208)	(208)
Taxation (charge)	-	-	-	(647)	(647)
Profit for the period (all continuing)					1,528

For the period ended 30 June 2008					
	IVA	Financial Services	Debt Management	Unallocated	Total
	£'000	£'000	£'000	£'000	£'000
Revenue	12,188	963	686	-	13,837
Segment result	(1,150)	309	74	-	(767)
Unallocated costs	-	-	-	-	-
Finance income	-	-	-	8	8
Finance costs	-	-	-	(415)	(415)
Taxation (charge)	-	-	-	370	370
Profit for the period (all continuing)					(804)

For the year ended 31 December 2008					
	IVA	Financial Services	Debt Management	Unallocated	Total
	£'000	£'000	£'000	£'000	£'000
Revenue	22,890	1,263	2,306	-	26,459
Segment result	1,283	249	384	-	1,916
Unallocated costs	-	-	-	-	-
Finance income	-	-	-	23	23
Finance costs	-	-	-	(815)	(815)
Taxation (charge)	-	-	-	(479)	(479)
Profit for the period (all continuing)					645

3. CORPORATION TAX (CHARGE)/CREDIT

Interim period corporation tax is accrued based on the estimated average annual effective corporation tax rate of 30% (6 months ended 30 June 2008: 32%)

4. EARNINGS/(LOSS) PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	Period from 1 January 09 to 30 June 09	Period from 1 January 08 to 30 June 08	Year ended 31 December 2008
	£'000	£'000	£'000
Numerator			
Continuing operations			
Profit/(Loss) for the period - used in basic and diluted EPS	1,528	(804)	645
Discontinuing operations			
Loss for the period - used in basic and diluted EPS	-	(146)	(96)
Total operations			
Profit/(Loss) for the period - used in basic and diluted EPS	1,528	(950)	549
Denominator			
Weighted average number of shares used in basic EPS	42,678,488	42,454,403	42,463,128
Effects of:			
- employee share options	-	-	132,878
Weighted average number of shares used in diluted EPS	42,678,488	42,454,403	42,596,006

5. DIVIDENDS

During the interim period, no dividend was paid (6 months ended 30 June 2008: 4p per share)

6. RELATED PARTY TRANSACTIONS

Related party transactions are as follows :

Related party relationship	Type of transaction	Transaction amount			Balance owed/(owing)		
		30 June 2009	30 June 2008	31 Dec 2008	30 June 2009	30 June 2008	31 Dec 2008
		£'000	£'000	£'000	£'000	£'000	£'000
Companies in which directors or their immediate family have an interest	Sales to group	-	-	77	-	66	-

Services are purchased from entities in which a director has an interest on normal commercial terms and conditions. Mr C S Mindenhall has an interest in two entities which form the basis of the related party transactions. The group has not made any provision for bad or doubtful debts in respect of related party debtors nor has any guarantee been given or received during the 6 months ended 30 June 2009 regarding related party transactions.