AIM Advisers, Inc.
Maximizing Present & Future Value

1223 Wilshire Blvd., Suite 1855, Santa Monica, CA 90403
mmcgowan@aimadvisers.com
+1 310 903 0322

ClearStar Raises $15 Million in AIM IPO

Overview

Alpharetta, Georgia-based ClearStar, Inc. raised $15.1 million in its recent IPO on the London Stock Exchange's AIM.

ClearStar is a technology and service provider to the background check industry. The Company's Aurora platform supports all of its screening management solutions and workflow processes, having delivered employment intelligence to over 20,000 employers; including, Toyota, Six Flags, IBM, the University of Pennsylvania, ADP and FedEx. The Aurora platform consists of a collection of applications which utilize data from over 3,000 sources, ranging from resumes to records with local authorities.

The Company was founded in 1995 by white labeling its technology for use by Credit Reporting Agencies (CRA) and Channel Partners (CP) to provide background checks for employers. The original business still accounts for 71% of the Company's revenue. In 2008, ClearStar launched its Medical Information Services (MIS) offering, an automated, web-based drug and alcohol testing and results review service, sold directly to employers. MIS recently expanded into the occupational health sector since they were also being asked to provide services for employment physicals and medicals. MIS has grown to account for 26% of the Company's revenue in 2013 from only 8% in 2011. In 2013, ClearStar launched a retail offering so as to directly engage with employers for the provision of background screening services. While this competes with the original business, the Company's CRA and CP customers only cover 4% of the background check market. The MIS and retail offerings provide cross-selling opportunities.

ClearStar has 39 employees; 32 in Georgia, six in Florida and one in the U.K. The employees are mainly engaged in software development, sales and marketing and general management. Since 2007, despite the worldwide recession, there has been a fourfold increase in revenue with no capital injection.

The Company plans to substantially expand its retail sales force and enhance its branding within the geographies and industries in which it currently operates. With the recent opening of an office in London and the hiring of a General Manager of International Business, ClearStar is also planning to grow internationally. Finally, strategic acquisitions will be a focus where the target background screening companies have revenues of approximately $1.5m - $3.0m, profit margins of at least 10%, an opportunity for sales and/or margin uplift, a pipeline of work directly from employers and homegrown technology.

Key Financial Metrics

(in USD millions)	Y/E 12/31/11	Y/E 12/31/12	Y/E 12/31/13	Δ '11 - '12	Δ '12 - '13
Revenue	$5.2	$6.8	$8.0	+31%	+18%
Cost of Goods Sold	1.7	2.3	3.1	+35%	+35%
Operating Expenses	3.8	3.8	4.2	+0%	+11%
Net (Loss) / Income[1]	(0.3)	0.7	0.7	+333%	+0%
EBITDA	(0.1)	0.9	1.0	+1,000%	+11%
Total Assets	0.8	1.1	1.7	+38%	+55%
Cash	0.1	0.1	0.3	+0%	+200%

The Company's revenue was almost entirely generated from the United States. The largest customer accounted for 10% of revenue in 2013, the top three accounted for 28% and the top ten accounted for

[1] This is effectively pre-tax net income since ClearStar was an S Corporation; therefore, any Federal and most State tax liabilities were passed-through to the shareholders.

1223 Wilshire Blvd., Suite 1855, Santa Monica, CA 90403
mmcgowan@aimadvisers.com
+1 310 903 0322

58%, compared to 49% and 42% in 2012 and 2011, respectively. Since the IPO completed within nine months of the latest audited financial statements, audited, comparative stub period financials were not required and management chose not to provide unaudited, comparative management accounts for 2014.

Key Listing Metrics

- $15.1m gross was raised, $12.6m net of offering costs, intended to be used for:
  - $4.0m – Sales and marketing
    - Headcount additions in the U.S. and internationally
    - Global marketing initiatives
  - $3.1m – Working capital and to strengthen the balance sheet
  - $3.0m – Research and development
    - Expand existing products and services
    - Develop new products and services
  - $2.5m – Acquisitions

- Offering costs amounted to 16.6% of the gross capital raised for the Company
  - The offering was undertaken on a 'best efforts' basis, as opposed to being underwritten
    - Broking commission of 5.0%
    - Corporate finance fee of £250k ($425k), 90% payable in cash and 10% in shares

- Opening market capitalization of $35.5m
- Dilution to existing shareholders of 42.4%
- Free float of 42.4%

- Trailing pre-money revenue multiple of 2.6
- Trailing pre-money EBITDA multiple of 20.4
- Trailing pre-money P/E ratio of 29.1

Shareholder Base

The Company had 20.7 million shares outstanding prior to the IPO, issued 15.5 million new shares for cash in the IPO and issued 0.1 million shares to the AIM Nominated Broker, leaving the Company with 36.3 million shares outstanding. The table below details those who held 3% or more of the Company prior to and/or after the IPO, along with the collective ownership of the Other New U.K. Investors.

Shareholder	Pre-IPO %	Post-IPO %
Co-Founder & CEO	54.55	31.14[2]
Co-Founder & CIO	24.15	13.79[2]
Co-Founder	11.43	6.52[2]
Three Gift Trusts Established by the Co-Founder	6.37	3.64[2]
CFO	3.50	2.56[2]
London Institution (Pension and Insurance Funds)	-	9.92
Global Institution (Various Funds)	-	8.24
London Private Client Broker	-	6.43
London Fund Manager (Retail)	-	4.89
London Fund Manager (Institutional and Retail)	-	4.83
Other New U.K. Investors	-	8.04
Totals	100.00	100.00

[2] Subject to a 12-month lock-in and customary orderly market provisions for a further 12 months.

AIM Advisers, Inc.
Maximizing Present & Future Value

1223 Wilshire Blvd., Suite 1855, Santa Monica, CA 90403
mmcgowan@aimadvisers.com
+1 310 903 0322

An important element of ClearStar's AIM IPO was its ability to raise $5.8 million of the $15.1 million from tax-advantaged Venture Capital Trust (VCT) and Enterprise Investment Scheme (EIS) investors. In order for the Company to become eligible for VCT and EIS investors, ClearStar had to, amongst other things, create a 'permanent establishment' in the U.K., which was achieved by hiring a London-based Senior Vice President and General Manager of International Business a few months before the IPO. The Company also opened an office in London a couple months before the IPO.

The Company now has an adequate amount of growth capital to fund its ongoing marketing operations, build out its international business and continue R&D investment in its platform. With a solid base of new blue-chip investors, the Company can more easily raise additional capital for organic and/or acquisitive growth. In addition, the Company believes that its IPO and public market status on AIM will enhance its credibility and profile within the marketplace, enhance its ability to attract, recruit and retain key directors, employees and consultants and allow it to create equity-based incentive mechanisms with Share Options.

Board of Directors and Corporate Governance

The Board of Directors consists of three Executive Directors (the Co-Founder & CEO, the Co-Founder & CIO and the CFO), an independent Non-Executive Chairman (NEC) and an independent Non-Executive Director (NED); all with solid resumes and a good blend of complementary experiences and skill sets.

Companies listed on AIM are not required to comply with the U.K. Corporate Governance Code published by the Financial Reporting Council, which is mandatory for companies listed on the Main Market; however, the Company does intend to observe the requirements to the extent considered appropriate in light of the Company's size, stage-of-development and resources. AIM listed companies typically follow, and the Company will do so as far as practicable, the recommendations set out in the Corporate Governance Code for Small and Mid-Size Quoted Companies published by the Quoted Companies Alliance. The overarching principle of such recommendations is to ensure that a company is managed in an efficient, effective and entrepreneurial manner for the benefit of all shareholders over the long term.

Since the Company's Co-Founder & CEO remains a substantial shareholder, he entered into a Relationship Agreement with the Company. The Relationship Agreement regulates certain aspects of the continuing relationship between the parties with the intention of enabling the Company to conduct its business affairs independently of the Co-Founder & CEO and to ensure that future transactions between the parties are commercially normal and conducted on arm's-length terms. Certain provisions of the Relationship Agreement fall away if the Co-Founder & CEO's shareholding drops below 30%.

The Company has established Audit, Remuneration, Nominations and AIM Compliance and Corporate Governance Committees. The Audit Committee is chaired by the NED with the NEC serving as the other member and will meet at least three times a year, at appropriate times in the financial reporting and audit cycle, and regularly with the Auditors. The Remuneration Committee is also chaired by the NED with the NEC serving as the other member and will meet at least two times a year. The Nominations Committee is chaired by the NEC with the NED serving as the other member and will meet at least two times a year. Finally, the AIM Compliance and Corporate Governance Committee is chaired by the Co-Founder & CEO with the Co-Founder & CIO and CFO serving as the other members and will meet as often as is required.

Accounting Considerations

The Company is domiciled in the Cayman Islands, which allows for the use of any internationally recognized GAAP. Since the Company's operating subsidiary is incorporated in Delaware and virtually all of the Company's historic revenues have been generated from the United States, the Company has

1223 Wilshire Blvd., Suite 1855, Santa Monica, CA 90403
mmcgowan@aimadvisers.com
+1 310 903 0322

chosen to report using U.S. GAAP. Since all of the Company's revenues are earned in U.S. Dollars, the U.S. Dollar is the functional currency and was also chosen as the reporting currency.

The U.S. and U.K. Member Firms of an international accountancy network acted as Auditor and Reporting Accountant, respectively. Since the IPO completed within nine months of the latest audited financial statements, audited, comparative stub period financials were not required and management chose not to provide unaudited, comparative management accounts for 2014.

An unaudited pro forma statement of net assets is never required in connection with an AIM IPO and was not provided in this instance since the effect of the net proceeds from the IPO on the net assets of the Company is obvious.

Legal Considerations

Since the Company is not incorporated in the U.K. or one of its Crown Dependencies, the Channel Islands and the Isle of Man, but rather in the Cayman Islands, and its 'place of central management and control' is also outside these jurisdictions, the three most important elements of English corporate law do not automatically apply. As is customary, the Company amended its constitutional documents for these three main differences as outlined below.

1. Pre-emption rights (i.e. anti-dilution) – Shareholders may participate in, or the Company has to obtain approval from at least 75% of them for, the issuance of shares for cash of more than 15% of the then outstanding shares during any 12-month period.[3]

2. Notifiable Interests – Shareholders are required to notify the Company of, and the Company is required to publicly announce, holdings at or above the 3% level and whenever a full percentage point is breached in either direction.

3. Takeovers (i.e. mandatory offer) – If any party, or parties acting in concert, accumulates a holding of 30% or more, they must make a cash offer to the other shareholders at the highest price they paid for the Company's shares during the last 12 months.

The Company relied on the safe harbor afforded by Regulation S of the U.S. Securities Act of 1933 so as to not have to file a registration statement with the U.S. SEC. Shares subject to Reg. S (generally, those issued in the IPO for a period of one year, issued within one year prior to the IPO and/or held by affiliates) are not eligible for dematerialization and, as such, are always held and traded in certificated form.

Since the Company did not re-domicile into the U.K. or one of its Crown Dependencies, the Channel Islands and Isle of Man, its shares that are not subject to Reg. S are not eligible for trading within CREST; the most common electronic system for the holding and transfer of shares in the U.K., however, a Depositary could be appointed and Depositary Interests (DIs), which represent an entitlement to shares, could be created, allowing for the immediate trading of these non-Reg. S DIs within CREST. The Company has, however, arranged for its registrar, in its capacity as Depositary, to issue DIs for the shares issued in the IPO, a subset of the Reg. S shares, upon the expiration of the one-year distribution compliance period and upon the provision of proper instructions from the shareholder(s) to the transfer agent and registrar.

---

[3] Since the Company raised a relatively small amount of capital at the time of the IPO, this is higher than the typical 10% level at which AIM-listed companies seek an annual standing authorization from their shareholders for the issuance of additional shares for cash. This flexibility increases the certainty and speed of small capital raises during the year and reduces transaction costs, since further communications with, and approvals from, shareholders are not required.