

Share issue update, TP EUR 6.7

Talenom made a share issue without payment on the 28.2. to improve share liquidity, with five new shares for each existing share, after which the nr. of shares amounts to 41.836m. We adjust our target price to EUR 6.7 (prev. split adj. EUR 6.83) accounting for dividend distribution (split. adj. EUR 0.125 per share) and retain our HOLD-rating.

Share issue without payment to improve share liquidity

Talenom made a share issue without payment on the 28.2. to improve the liquidity of its share, with five new shares given for each existing share, upon which the number of shares increased to 41.836m (6x pre-issue). We have since our previous update adjusted our quarterly estimates due to the impact of the Income Register, which based on discussion with management should be just below double the Q4/19 impact and we have as such lowered our Q1/20 revenue and EBIT estimates by EUR 0.6m, while upward adjustments to the latter quarters in the year keep our full year estimates intact. Talenom announced the acquisition of Addvalue Advisors on the 28.2., a bookkeeping company with around EUR 0.5m in revenue. The acquisition has no material impact on our estimates.

Growth and profitability improvement in 2020

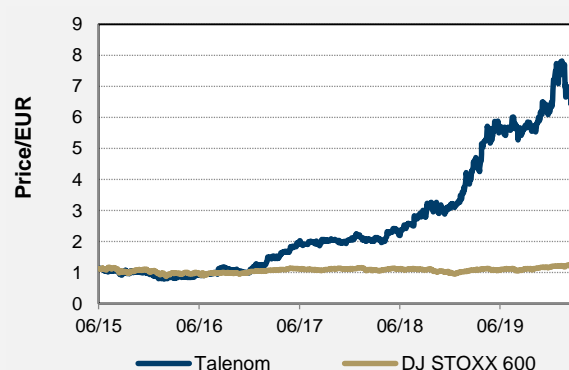
Talenom expects relative growth in net sales and relative profitability in 2020 to be in line with 2019. We expect revenue in 2020 to grow 18.7% to EUR 68.8m mainly due to organic growth in Finland, with revenue growth in Sweden in our view expected to start to show in 2021. We expect EBIT to amount to EUR 12.6m, with growth of ~21% y/y.

HOLD with a target price of EUR 6.7

We adjust our target price to EUR 6.7 (prev. split adj. EUR 6.83), taking into account the distribution of dividend (record date 27.2., split adj. EUR 0.125 per share). Our target price values Talenom at ~30x 2020E P/E. With valuation in line with our estimates we retain our HOLD-rating.

Rating

HOLD


 Share price, EUR (Last trading day's closing price) **6.36**

 Target price, EUR **6.7**

 Latest change in recommendation **04-Feb-20**

 Latest report on company **04-Feb-20**

 Research paid by issuer: **YES**

 No. of shares outstanding, '000's **41,836**

 No. of shares fully diluted, '000's **41,836**

 Market cap, EURm **266**

 Free float, % **58.5**

 Exchange rate **0.000**

 Reuters code **TNOM.HE**

 Bloomberg code **TNOM FH**

 Average daily volume, EURm **0.28**

 Next interim report **27-Apr-20**

 Web site **talenom.fi/en/investors**

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BUY HOLD SELL

KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	FCF EURm	EPS EUR	P/E (x)	EV/Sales (x)	EV/EBIT (x)	FCF yield %	DPS EUR
2018	48.9	8.5	17.5%	3.3	0.15	20.6	3.2	18.4	2.5	0.09
2019	58.0	10.4	18.0%	3.2	0.18	41.2	5.9	32.9	1.0	0.13
2020E	68.8	12.6	18.3%	3.6	0.23	28.2	4.3	23.5	1.3	0.15
2021E	79.8	14.9	18.7%	6.3	0.27	23.6	3.7	19.9	2.4	0.18
2022E	91.0	17.5	19.2%	8.2	0.32	20.0	3.2	16.9	3.1	0.21
Market cap, EURm	266		Gearing 2020E, %	109.3		CAGR EPS 2019-22, %		20.4		
Net debt 2020E, EURm	30		Price/book 2020E	9.6		CAGR sales 2019-22, %		16.2		
Enterprise value, EURm	296		Dividend yield 2020E, %	2.4		ROE 2020E, %		36.7		
Total assets 2020E, EURm	81		Tax rate 2020E, %	20.0		ROCE 2020E, %		19.8		
Goodwill 2020E, EURm	21		Equity ratio 2020E, %	34.5		PEG, P/E 20/CAGR		1.6		

All the important disclosures can be found on the last pages of this report.

VALUATION RESULTS	BASE CASE DETAILS	VALUATION ASSUMPTIONS	ASSUMPTIONS FOR WACC	
Current share price	6.36 PV of Free Cash Flow	105 Long-term growth, %	2.3 Risk-free interest rate, %	2.25
DCF share value	7.46 PV of Horizon value	235 WACC, %	7.4 Market risk premium, %	5.8
Share price potential, %	17.3 Unconsolidated equity	0 Spread, %	0.5 Debt risk premium, %	3.3
Maximum value	8.4 Marketable securities	8 Minimum WACC, %	6.9 Equity beta coefficient	0.80
Minimum value	6.7 Debt - dividend	-36 Maximum WACC, %	7.9 Target debt ratio, %	25
Horizon value, %	69.1 Value of stock	312 Nr of shares, Mn	41.8 Effective tax rate, %	20

DCF valuation, EURm	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	Horizon
Net sales	58	69	80	91	100	107	112	118	124	130	133	136
<i>Sales growth, %</i>	<i>18.6</i>	<i>18.7</i>	<i>16.0</i>	<i>14.0</i>	<i>10.0</i>	<i>7.0</i>	<i>5.0</i>	<i>5.0</i>	<i>5.0</i>	<i>5.0</i>	<i>2.3</i>	<i>2.3</i>
Operating income (EBIT)	10	13	15	17	20	22	24	25	26	27	28	29
<i>Operating income margin, %</i>	<i>18.0</i>	<i>18.3</i>	<i>18.7</i>	<i>19.2</i>	<i>20.0</i>	<i>21.0</i>	<i>21.0</i>	<i>21.0</i>	<i>21.0</i>	<i>21.0</i>	<i>21.0</i>	<i>21.0</i>
+ Depreciation+amort.	8	10	10	10	11	12	13	14	14	15	16	
EBITDA	19	22	24	28	31	35	37	39	40	42	44	
- Paid taxes	-3	-3	-3	-3	-4	-4	-5	-5	-5	-5	-6	
- Change in NWC	1	1	1	1	1	0	0	0	0	0	0	
<i>NWC / Sales, %</i>	<i>-6.4</i>	<i>-6.4</i>	<i>-6.4</i>	<i>-6.4</i>	<i>-6.4</i>	<i>-6.4</i>	<i>-6.4</i>	<i>-6.4</i>	<i>-6.4</i>	<i>-6.4</i>	<i>-6.4</i>	
+ Change in other liabs	0	0	0	0	0	0	0	0	0	0	0	
- Operative CAPEX	-11	-14	-13	-14	-14	-14	-14	-14	-15	-16	-15	
<i>opCAPEX / Sales, %</i>	<i>22.9</i>	<i>23.8</i>	<i>19.0</i>	<i>17.5</i>	<i>16.1</i>	<i>15.0</i>	<i>14.3</i>	<i>14.3</i>	<i>14.3</i>	<i>14.3</i>	<i>13.4</i>	
- Acquisitions	-2	0	0	0	0	0	0	0	0	0	0	
+ Divestments	0	0	0	0	0	0	0	0	0	0	0	
- Other items	1	0	0	0	0	0	0	0	0	0	0	
= FCFF	6	6	9	11	14	17	19	20	21	22	24	473
= Discounted FCFF		6	8	9	11	12	12	12	12	12	12	235
= DFCF min WACC		6	8	9	11	12	13	12	12	12	12	273
= DFCF max WACC		6	8	9	11	12	12	12	11	11	11	205

INTERIM FIGURES

EVLI ESTIMATES, EURm	2019Q1	2019Q2	2019Q3	2019Q4	2019	2020Q1E	2020Q2E	2020Q3E	2020Q4E	2020E	2021E	2022E
Net sales	14.8	14.8	13.5	14.9	58.0	16.9	17.8	16.1	18.0	68.8	79.8	91.0
EBITDA	5.2	5.2	4.2	4.3	18.9	5.5	6.5	5.3	5.2	22.4	24.5	27.6
<i>EBITDA margin (%)</i>	<i>35.5</i>	<i>35.3</i>	<i>30.8</i>	<i>28.8</i>	<i>32.6</i>	<i>32.3</i>	<i>36.4</i>	<i>32.8</i>	<i>28.8</i>	<i>32.5</i>	<i>30.7</i>	<i>30.3</i>
EBIT	3.4	3.2	2.4	1.5	10.4	3.5	4.0	3.0	2.2	12.6	14.9	17.5
<i>EBIT margin (%)</i>	<i>23.3</i>	<i>21.4</i>	<i>17.4</i>	<i>9.8</i>	<i>18.0</i>	<i>20.6</i>	<i>22.5</i>	<i>18.3</i>	<i>11.9</i>	<i>18.3</i>	<i>18.7</i>	<i>19.2</i>
Net financial items	-0.1	-0.3	-0.2	-0.2	-0.8	-0.2	-0.2	-0.2	-0.2	-0.8	-0.8	-0.9
Pre-tax profit	3.3	2.9	2.1	1.3	9.6	3.3	3.8	2.8	2.0	11.8	14.1	16.6
Tax	-0.7	-0.6	-0.4	-0.3	-2.0	-0.7	-0.8	-0.6	-0.4	-2.4	-2.8	-3.3
<i>Tax rate (%)</i>	<i>20.0</i>	<i>21.2</i>	<i>20.0</i>	<i>20.3</i>	<i>20.4</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>
Net profit	2.6	2.3	1.7	1.0	7.6	2.6	3.0	2.2	1.6	9.4	11.3	13.3
EPS	0.06	0.05	0.04	0.02	0.18	0.06	0.07	0.05	0.04	0.23	0.27	0.32
EPS adjusted (diluted no. of shares)	0.06	0.05	0.04	0.02	0.18	0.06	0.07	0.05	0.04	0.23	0.27	0.32
Dividend per share	0.00	0.00	0.00	0.00	0.13	0.00	0.00	0.00	0.00	0.15	0.18	0.21
SALES, EURm												
Talenom	14.8	14.8	13.5	14.9	58.0	16.9	17.8	16.1	18.0	68.8	79.8	91.0
Total	14.8	14.8	13.5	14.9	58.0	16.9	17.8	16.1	18.0	68.8	79.8	91.0
SALES GROWTH, Y/Y %												
<i>Talenom</i>	<i>16.1</i>	<i>17.7</i>	<i>21.1</i>	<i>19.8</i>	<i>18.6</i>	<i>14.3</i>	<i>20.6</i>	<i>19.3</i>	<i>20.7</i>	<i>18.7</i>	<i>16.0</i>	<i>14.0</i>
<i>Total</i>	<i>16.1</i>	<i>17.7</i>	<i>21.1</i>	<i>19.8</i>	<i>18.6</i>	<i>14.3</i>	<i>20.6</i>	<i>19.3</i>	<i>20.7</i>	<i>18.7</i>	<i>16.0</i>	<i>14.0</i>
EBIT, EURm												
Talenom	3.4	3.2	2.4	1.5	10.4	3.5	4.0	3.0	2.2	12.6	14.9	17.5
Total	3.4	3.2	2.4	1.5	10.4	3.5	4.0	3.0	2.2	12.6	14.9	17.5
EBIT margin, %												
<i>Talenom</i>	<i>23.3</i>	<i>21.4</i>	<i>17.4</i>	<i>9.8</i>	<i>18.0</i>	<i>20.6</i>	<i>22.5</i>	<i>18.3</i>	<i>11.9</i>	<i>18.3</i>	<i>18.7</i>	<i>19.2</i>
<i>Total</i>	<i>23.3</i>	<i>21.4</i>	<i>17.4</i>	<i>9.8</i>	<i>18.0</i>	<i>20.6</i>	<i>22.5</i>	<i>18.3</i>	<i>11.9</i>	<i>18.3</i>	<i>18.7</i>	<i>19.2</i>

INCOME STATEMENT, EURm	2015	2016	2017	2018	2019	2020E	2021E	2022E
Sales	33.0	37.0	41.4	48.9	58.0	68.8	79.8	91.0
<i>Sales growth (%)</i>	<i>11.6</i>	<i>12.0</i>	<i>12.1</i>	<i>18.0</i>	<i>18.6</i>	<i>18.7</i>	<i>16.0</i>	<i>14.0</i>
EBITDA	3.2	6.8	9.5	13.7	18.9	22.4	24.5	27.6
<i>EBITDA margin (%)</i>	<i>9.6</i>	<i>18.5</i>	<i>23.0</i>	<i>28.0</i>	<i>32.6</i>	<i>32.5</i>	<i>30.7</i>	<i>30.3</i>
Depreciation	-2.0	-2.6	-4.7	-5.1	-8.5	-9.8	-9.6	-10.1
EBITA	1.2	4.2	4.8	8.5	10.4	12.6	14.9	17.5
Goodwill amortization / writedown	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	1.2	4.2	4.8	8.5	10.4	12.6	14.9	17.5
<i>EBIT margin (%)</i>	<i>3.7</i>	<i>11.3</i>	<i>11.7</i>	<i>17.5</i>	<i>18.0</i>	<i>18.3</i>	<i>18.7</i>	<i>19.2</i>
Reported EBIT	1.2	4.0	4.7	8.5	10.4	12.6	14.9	17.5
<i>EBIT margin (reported) (%)</i>	<i>3.7</i>	<i>10.7</i>	<i>11.3</i>	<i>17.5</i>	<i>18.0</i>	<i>18.3</i>	<i>18.7</i>	<i>19.2</i>
Net financials	-1.1	-0.5	-0.5	-0.6	-0.8	-0.8	-0.8	-0.9
Pre-tax profit	0.1	3.6	4.3	8.0	9.6	11.8	14.1	16.6
Taxes	0.0	-0.7	-0.9	-1.6	-2.0	-2.4	-2.8	-3.3
Minority shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	0.1	2.7	3.3	6.4	7.6	9.4	11.3	13.3
Cash NRIs	0.0	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0
Non-cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET, EURm								
Assets								
Fixed assets	11	14	17	21	28	34	40	45
Goodwill	18	18	18	18	21	21	21	21
Right of use assets	0	0	0	8	8	9	9	9
Inventory	0	0	0	0	0	0	0	0
Receivables	4	5	5	5	7	8	9	10
Liquid funds	5	4	5	6	8	9	11	12
Total assets	40	42	46	59	71	81	89	97
Liabilities								
Shareholder's equity	9	12	14	19	24	28	33	39
Minority interest	0	0	0	0	0	0	0	0
Convertibles	0	0	0	0	0	0	0	0
Lease liabilities	0	0	0	8	8	9	9	9
Deferred taxes	0	0	1	1	1	1	1	1
Interest bearing debt	24	23	23	24	28	31	32	33
Non-interest bearing current liabilities	7	7	8	8	10	12	14	16
Other interest-free debt	1	1	1	0	0	0	0	0
Total liabilities	40	42	46	59	71	81	89	97
CASH FLOW, EURm								
+ EBITDA	3	7	10	14	19	22	24	28
- Net financial items	-1	-1	-1	-1	-1	-1	-1	-1
- Taxes	-1	0	0	-1	-2	-2	-3	-3
- Increase in Net Working Capital	0	0	1	-1	1	1	1	1
+/- Other	0	1	1	1	1	0	0	0
= Cash flow from operations	2	7	10	12	18	20	22	24
- Capex	-3	-4	-5	-9	-13	-16	-15	-16
- Acquisitions	0	0	0	-1	-2	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Free cash flow	-1	2	5	3	3	4	6	8
+/- New issues/buybacks	9	0	0	1	1	0	0	0
- Paid dividend	0	0	-1	-2	-4	-5	-6	-8
+/- Other	-3	-3	-4	-1	1	3	1	1
Change in cash	4	-1	1	1	2	1	1	2

KEY FIGURES	2016	2017	2018	2019	2020E	2021E	2022E
M-cap	49	87	131	314	266	266	266
Net debt (excl. convertibles)	18	18	26	29	30	30	30
Enterprise value	67	105	157	342	296	296	296
Sales	37	41	49	58	69	80	91
EBITDA	7	10	14	19	22	24	28
EBIT	4	5	9	10	13	15	17
Pre-tax	4	4	8	10	12	14	17
Earnings	3	3	6	8	9	11	13
Equity book value (excl. minorities)	12	14	19	24	28	33	39
Valuation multiples							
EV/sales	1.8	2.5	3.2	5.9	4.3	3.7	3.2
EV/EBITDA	9.9	11.0	11.5	18.1	13.2	12.1	10.7
EV/EBITA	16.1	21.6	18.4	32.9	23.5	19.9	16.9
EV/EBIT	16.1	21.6	18.4	32.9	23.5	19.9	16.9
EV/OCF	9.8	10.6	12.9	18.7	14.9	13.8	12.3
EV/FCFF	46.6	38.2	41.8	57.9	47.8	32.5	26.6
P/FCFE	127.4	98.6	238.9	587.2	74.6	41.9	32.3
P/E	16.9	23.4	20.6	41.2	28.2	23.6	20.0
P/B	4.2	6.2	7.0	13.3	9.6	8.1	6.9
Target EV/EBITDA	0.0	0.0	0.0	0.0	13.9	12.7	11.2
Target EV/EBIT	0.0	0.0	0.0	0.0	24.7	20.8	17.7
Target EV/FCF	0.0	0.0	0.0	0.0	87.1	49.0	37.7
Target P/B	0.0	0.0	0.0	0.0	10.1	8.6	7.3
Target P/E	0.0	0.0	0.0	0.0	29.7	24.9	21.1
Per share measures							
Number of shares	40,842	40,872	41,231	41,836	41,836	41,836	41,836
Number of shares (diluted)	40,842	40,872	41,231	41,836	41,836	41,836	41,836
EPS	0.07	0.08	0.15	0.18	0.23	0.27	0.32
Operating cash flow per share	0.17	0.24	0.30	0.44	0.48	0.51	0.58
Free cash flow per share	0.06	0.13	0.08	0.08	0.09	0.15	0.20
Book value per share	0.29	0.34	0.45	0.56	0.66	0.78	0.92
Dividend per share	0.03	0.05	0.09	0.13	0.15	0.18	0.21
Dividend payout ratio, %	46.9	63.9	59.4	68.7	66.5	66.8	65.0
Dividend yield, %	2.8	2.5	2.9	2.0	2.4	2.8	3.2
FCF yield, %	4.7	6.1	2.5	1.0	1.3	2.4	3.1
Efficiency measures							
ROE	27.5	26.6	39.0	36.0	36.7	37.2	37.3
ROCE	12.5	13.7	19.7	18.8	19.8	21.1	22.7
Financial ratios							
Inventories as % of sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Receivables as % of sales	13.0	13.2	11.2	11.3	11.3	11.3	11.3
Non-interest bearing liabilities as % of sales	19.2	20.2	15.8	17.6	17.6	17.6	17.6
NWC/sales, %	-6.2	-7.0	-4.6	-6.4	-6.4	-6.4	-6.4
Operative CAPEX/sales, %	11.0	11.0	17.7	22.9	23.8	19.0	17.5
CAPEX/sales (incl. acquisitions), %	9.9	11.0	16.7	19.3	23.8	19.0	17.5
FCFF/EBITDA	0.2	0.3	0.3	0.3	0.3	0.4	0.4
Net debt/EBITDA, book-weighted	2.7	1.9	1.9	1.5	1.4	1.2	1.1
Debt/equity, market-weighted	0.5	0.3	0.2	0.1	0.1	0.1	0.1
Equity ratio, book-weighted	27.7	30.4	31.5	33.0	34.5	36.9	39.5
Gearing, %	155.2	126.4	138.0	121.8	109.3	92.5	76.8

COMPANY DESCRIPTION: Talenom operates as an accounting company, with services targeted towards small and mid-size companies. The company offers accounting, bookkeeping, taxation, and legal services, as well as invoicing, financial performance monitoring and management software, and payroll services. Talenom also provides other services aimed at assisting entrepreneurs, such as staffing services.

INVESTMENT CASE: The fragmented bookkeeping market offers ample opportunities for Talenom to continue on its track of profitable growth. The opening of its first offices should also start to contribute to growth once its sales force has been established. Margin upside potential exists but is in our view quite limited and affected by the growth pace, and earnings growth should primarily derive from top-line growth. The recurring nature of Talenom's revenue provides exceptionally good predictability and revenue stability.

OWNERSHIP STRUCTURE	SHARES	EURm	%
Tahkola Harri	1,454,315	9.249	3.5%
Tahkola Markus	919,304	5.847	2.2%
Ilmarinen Mutual Pension Insurance Company	787,776	5.010	1.9%
Evli Finnish Small Cap fund	400,000	2.544	1.0%
Skandinaviska Enskilda Banken (nominee reg.)	373,742	2.377	0.9%
Skandinaviska Enskilda Banken (nominee reg.)	368,535	2.344	0.9%
Danske Invest Finnish Institutional Equity fund	326,252	2.075	0.8%
Föreningen Konstsamfundet r.f	130,000	0.827	0.3%
Siuruainen Mikko	115,786	0.736	0.3%
Church Pension Fund	101,000	0.642	0.2%
Ten largest	4,976,710	31.652	12%
Residual	36,859,322	234.425	88%
Total	41,836,032	266.077	100%

EARNINGS CALENDAR	
April 27, 2020	Q1 report
August 03, 2020	Q2 report
October 26, 2020	Q3 report
OTHER EVENTS	
February 25, 2020	AGM

COMPANY MISCELLANEOUS	
CEO: Otto-Pekka Huhtala	Töölönlahdenkatu 2, 00100 Helsinki
CFO: Antti Aho	Tel:
IR: Miikka Hätälä	

DEFINITIONS

P/E	$\frac{\text{Price per share}}{\text{Earnings per share}}$	EPS	$\frac{\text{Profit before extraord. items and taxes} - \text{income taxes} + \text{minority interest}}{\text{Number of shares}}$
P/BV	$\frac{\text{Price per share}}{\text{Shareholders' equity} + \text{taxed provisions per share}}$	DPS	Dividend for the financial period per share
Market cap	Price per share * Number of shares	OCF (Operating cash flow)	EBITDA – Net financial items – Taxes – Increase in working capital – Cash NRIs ± Other adjustments
EV (Enterprise value)	Market cap + net debt + minority interest at market value – share of associated companies at market value	FCF (Free cash flow)	Operating cash flow – operative CAPEX – acquisitions + divestments
EV/Sales	$\frac{\text{Enterprise value}}{\text{Sales}}$	FCF yield, %	$\frac{\text{Free cash flow}}{\text{Market cap}}$
EV/EBITDA	$\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortization}}$	Operative CAPEX/sales	$\frac{\text{Capital expenditure} - \text{divestments} - \text{acquisitions}}{\text{Sales}}$
EV/EBIT	$\frac{\text{Enterprise value}}{\text{Operating profit}}$	Net working capital	Current assets – current liabilities
Net debt	Interest bearing debt – financial assets	Capital employed/Share	$\frac{\text{Total assets} - \text{non-interest bearing debt}}{\text{Number of shares}}$
Total assets	Balance sheet total	Gearing	$\frac{\text{Net debt}}{\text{Equity}}$
Div yield, %	$\frac{\text{Dividend per share}}{\text{Price per share}}$	Debt/Equity, %	$\frac{\text{Interest bearing debt}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}$
Payout ratio, %	$\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}$	Equity ratio, %	$\frac{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}{\text{Total assets} - \text{interest-free loans}}$
ROCE, %	$\frac{\text{Profit before extraordinary items} + \text{interest expenses} + \text{other financial costs}}{\text{Balance sheet total} - \text{non-interest bearing debt (average)}}$	CAGR, %	Cumulative annual growth rate = Average growth per year
ROE, %	$\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholder's equity} + \text{minority interest} + \text{taxed provisions (average)}}$		

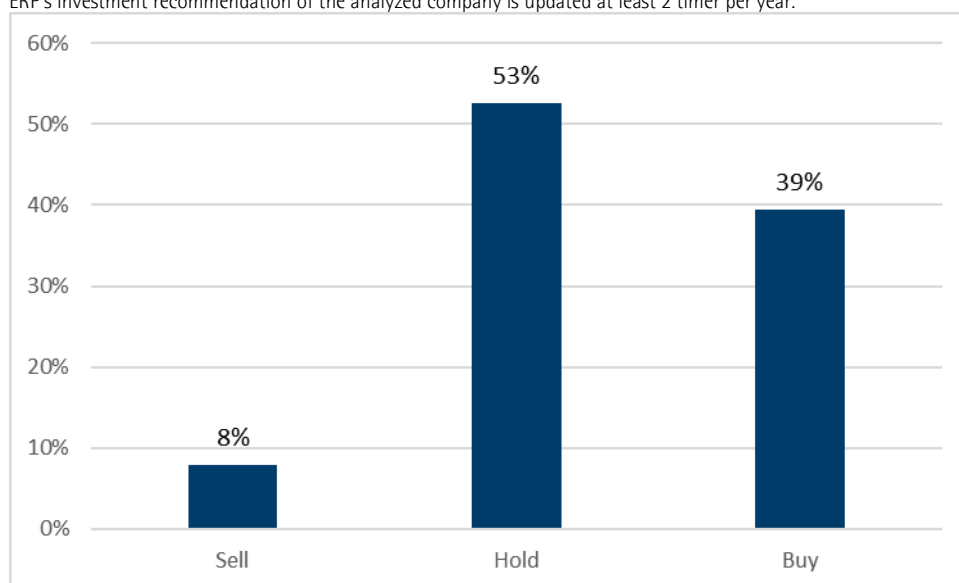
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Target price compared to share price	Recommendation
< -10 %	SELL
-10 – (+10) %	HOLD
> 10 %	BUY

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Name(s) of the analyst(s): Salokivi

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