Initiating coverage with HOLD

We initiate coverage of Talenom with a HOLD recommendation and a target price of EUR 13.2. Talenom has been successful in achieving above market growth and improved process efficiency has boosted profitability. We expect continued strong near-term growth and slight additional margin improvements.

Strong organic growth

Talenom has grown organically on average at over 10 % per year in recent years supported by a separated sales force, a large but fragmented market, and increasing digitalization of the bookkeeping market. The high customer retention and long contracts stabilize revenue with over 90 % of revenue recurring. Talenom has launched a range of complementary services to better serve SMEs that could further support growth. We expect Talenom to grow at 12 % CAGR 2016-19E.

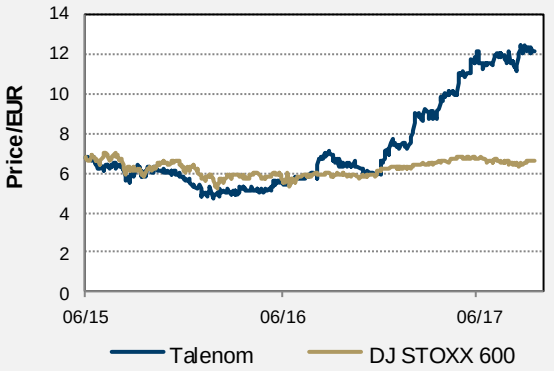
Margin improvements from process efficiency

Talenom has invested heavily in improving efficiency in accounting processes. Through centralization of bookkeeping tasks and automation of processes the company has been able to decrease resource needs, resulting in sizeable improvements in margins. Talenom also develops its own software used by employees and clients, and further digitalization could still benefit overall process efficiency.

HOLD with a target price of EUR 13.2

Talenom's share price has rallied some 70 % during this year and looking at peers the valuation is now largely neutral. Based on peer multiples we value Talenom at 2018E peer median EV/EBIT and P/E multiples of 15.3x and 18.5x but emphasize our DCF-model in the valuation, giving Talenom a target price of EUR 13.2 and HOLD recommendation.

Rating HOLD



Share price, EUR (Last trading day's closing price)	12.10
Target price, EUR	13.2
Latest change in recommendation	28-Sep-17
Latest report on company	28-Sep-17
Research paid by issuer:	YES
No. of shares outstanding, '000's	6,812
No. of shares fully diluted, '000's	6,812
Market cap, EURm	82
Free float, %	56
Exchange rate	0.000
Reuters code	TNOM.HE
Bloomberg code	TNOM FH
Average daily volume, EURm	0.08
Next interim report	06-Nov-17
Web site	www.talenom.fi

Analyst	Jerker Salokivi
E-mail	jerker.salokivi@evli.com
Telephone	+358 9 4766 9149

BUY HOLD SELL

KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	Ptx profit EURm	EPS EUR	P/E (x)	EV/Sales (x)	P/CF (x)	EV/EBIT (x)	DPS EUR
2015	33	1	3.7%	0	0.01	400.0	1.5	11.3	41.1	0.07
2016	37	4	11.3%	4	0.43	16.9	1.8	7.2	16.1	0.20
2017E	42	6	13.2%	5	0.58	19.3	2.5	10.3	18.6	0.25
2018E	47	6	13.5%	6	0.66	18.4	2.2	9.4	16.4	0.30
2019E	52	7	14.0%	7	0.77	15.8	2.0	8.3	14.3	0.35

Market cap, EURm	82	BV per share 2017E, EUR	2.0	CAGR EPS 2016-19, %	21.5
Net debt 2017E, EURm	20	Price/book 2017E	6.1	CAGR sales 2016-19, %	12.0
Enterprise value, EURm	103	Dividend yield 2017E, %	2.1	ROE 2017E, %	31.4
Total assets 2017E, EURm	46	Tax rate 2017E, %	20.1	ROCE 2017E, %	15.3
Goodwill 2017E, EURm	18	Equity ratio 2017E, %	29.6	PEG, P/E 17/CAGR	1.8

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

Investment summary

Growing digital accounting company

Talenom is one of the largest accounting companies providing bookkeeping services in Finland. Talenom focuses on the small and mid-sized customer enterprises. In addition to the main business comprising of bookkeeping, invoicing and payroll services, the company offers advisory and other complementary business services including staffing, ICT support, call center services, and software. The company has a solid growth track-record, with a CAGR of over 15 % from 2005-2016.

Large and stable market with high fragmentation

The market for accounting companies was EUR 960m in 2015 and has been growing steadily. The market CAGR during 2001-2015 has been approximately 5 %[1]. The stability in the market is increased by business entities being subject by law to a bookkeeping obligation, and is not affected by cyclicality. Fragmentation is considerable, with roughly 4,300 bookkeeping firms in total in Finland.

High recurring revenue and customer retention

Over 90 % of Talenom's revenue is from on-going contracts for bookkeeping services. The customer contracts are generally long, according to management 10 years on average and only some 5-7 % of customer's are lost annually. The high customer retention and recurring revenue offers considerable top-line stability.

Scalable business model, with digital offering and increased automation

The company has taken a different approach, in a market where expansion has been mainly acquisition-driven and digitalization has been low, by establishing a separate sales force and investing in software development and centralized services centers with higher degrees of automation to enhance process efficiency.

Opportunity in new complementary services to SMEs

Talenom has introduced a range of new complementary services for SMEs, such as ICT-support and call center services. The services are part of the company's strategic approach in serving SMEs as broadly as possible. The company sees the new services as a means of improving customer retention, but also offering potential in increasing sales. We see these new services as bringing a positive upside, but have not included them in our estimates as these services are still in an early phase.

Expected CAGR 2016-2019E of 12 %

We see Talenom with its digitalized service offering and scalable business model as being well positioned to consolidate the bookkeeping market and continue to grow its market share. The larger bookkeeping firms do not appear to be competing intensely with each other as there is still room to grow in the fragmented market. Talenom's target for sales growth in 2017 is 11.5-13.5 %. We expect Talenom to grow at 12 % CAGR 2016-19E.

Slight profitability improvements expected

Talenom's profitability improved notably in 2016 largely due to increased automation. The financial target for 2017 is an EBITDA-margin between 22 % and 24 %. Investments made in software and acquiring new clients have been high and the related depreciations have a large effect on EBIT-margins. We expect margins to remain stable with slight improvements and an EBIT-margin of 13.2 % and 13.5 % for 2017 and 2018 respectively.

Main risks to investment case

The main risks to our investment case in our view are 1) price erosion of bookkeeping services in the long-term, 2) increasing competition among the large digital accounting companies, and 3) growth being expensive; the profitability could be affected if the company is unsuccessful in acquiring new customers.

HOLD with target price of EUR 13.2

We value Talenom based on our DCF-model and 2018E peer median EV/EBIT and P/E multiples of 15.3x and 18.5x respectively. Due to the anticipated stability in in revenue and earnings our valuation emphasizes the implied DCF value, giving Talenom a target price of EUR 13.2 and a HOLD recommendation.

[1] Statistics Finland, Structural business and financial statements statistics

Company and business overview

One of the largest bookkeeping companies in Finland

Talenom is one of the biggest accounting service providers in Finland. In addition to the main business comprising of bookkeeping, invoicing, and payroll services, the company offers advisory and other complementary business services including for instance staffing services and ICT support. The company's shares have been listed on the First North marketplace since June 2015 and on the main list of Helsinki Stock Exchange since 15.6.2017.

Table 1: Talenom's key figures

MEUR	2013	2014	2015	2016
Revenue	25,9	29,6	33,0	37,0
Growth	*11,3 %*	*14,0 %*	*11,6 %*	*12,0 %*
EBIT	0,3	1,5	1,2	4,2
EBIT-margin	*1,1 %*	*5,2 %*	*3,7 %*	*11,3 %*
Employees	365	486	576	543

Source: Talenom

Digitalizing a traditionally paperwork dependent industry

Talenom has developed its own software and digitalized to a large extent its service offering. The bookkeeping industry in Finland is still characterized by large amounts of paper documents being sent from the customer to the accounting firm. By transmitting documents electronically and through automated processing of data the company seeks to achieve a competitive advantage and scalability.

Separated sales force and centralized service centres

The company has separated its sales force and accountants and focused on growing organically, which it sees as a cheaper alternative to acquisitions. The actual accounting processes take place at centralized service centres in Oulu and Tampere. The centralized service centres make it possible to better exploit economies of scale through automation and process design.

Building a platform of services for small and mid-sized enterprises

Talenom's strategy revolves around improving the everyday way of how small and mid-size enterprises operate. Apart from accounting and complimentary services the company has initiated partnerships with several firms offering for instance insurance and leases of equipment. This additional offering is sold along with the other services to create a larger service coverage catering to an increased extent to the needs of small and mid-sized enterprises.

Talenom SWOT-analysis

Strengths
- Scalable and competitive business model
- Over 90 % recurring revenues
- Own software development
- Stable and fragmented market

Weaknesses
- Growth is expensive
- High debt and goodwill on balance sheet
- High investments impact on cash flow

Opportunities
- Potential in new services
- Increasing efficiency and profitability
- Geographical expansion
- Licensing of technology

Threats
- Price erosion in bookkeeping services
- Increased competition from other large digital competitors

Service areas

Accounting services the main business area

Talenom's main business area is accounting services, which includes bookkeeping, invoicing and payroll services. These services are complemented with advisory services such as tax and legal advisory. In addition, the company has begun to offer complementary services, which are not directly accounting related, to widen the service mix and benefit from the synergies with the sales network and existing client relationships.

Figure 1: Talenom's service areas and examples of services

Source: Talenom, Evli

Accounting Services

Accounting services the main business area

Accounting services is by far the largest service area. It accounted for 94 % of the revenues in 2014, after which the company has not disclosed service area revenues separately. The share of revenues from accounting services of the company's total revenues has not changed significantly since then.

The accounting service offering includes the following services:

- Outsourcing services: Bookkeeping, sales invoicing, invoice payment and financial reporting.
- Customer care services: Additional service giving the customer access to a designated accountant and account manager and additional financial situation follow-ups.
- Financial management software: Includes for instance in-house developed financial management tools Talenom Online and Talenom App as well as interfaces to other financial management software and a Business Intelligence solution for corporate customers.

Advisory

Advisory share not disclosed, estimated at 5-6 %

Talenom offers advisory services related to law, taxation and financial management. Advisory services also cover more complex areas such as changes in business structures and ownership restructuring. Advisory services are estimated to account for approx. 5-6 % of the total revenue.

Complementary business services

New complementary services from 2016 onward

Talenom made public its efforts to expand its service portfolio in the summer 2016. Later in 2016, the company launched a set of new services which expanded the service offering outside the traditional accounting services. The new business services clearly differentiate Talenom's service mix from its competitors'.

The new services include:

- **Talenom ICT-support:** Talenom offers a solution for a company's need of workstations and related ICT support to its customers, aimed more at smaller enterprises. Through the ICT support services the maintenance of workstations and software and software security responsibilities can be transferred from the customer to the service provider.
- **Talenom staffing service:** Talenom can assist customers with a temporary or continuous need for workforce. The scope of the staffing service includes accounting and various office tasks. Talenom offers similar services under the accounting and advisory service areas. According to company management Talenom is more flexible in how short assignments the staffing services can be offered for than competitors in the area.
- **Talenom call centre:** Talenom offers solutions for outsourcing a client's customer service. Possible customer service channels include phone, email, webpage or social media. The call centre services can address small and mid-sized enterprise's size related issues to maintaining continuous customer service hours.
- **ERP and analytics software:** Talenom has introduced two cloud-based software tools: the ERP solution Talenom Pro for concentrating financial management tools under one service, and reporting software Talenom Business Intelligence. The software is sold separately to clients as a Software as a Service solution.
- **Additional partnership services:** Talenom offers a variety of other services through various partnerships. For instance, Talenom has a partnership with Mandatum Life.

Potential for complementary services from large customer base and sales network

Talenom strives to offer a comprehensive set of services to enable clients to shift away company resources from administrative tasks. The existing customer base and the separated sales force provide a good platform to sell additional services. With the high effort and costs of acquiring new accounting customers the simultaneous selling of complementary services with only a small additional effort could boost sales and profitability. The company has stated that currently the main purpose of the complementary services is not in achieving good profitability, but instead creating a larger service offering for the customer that would also improve customer retention.

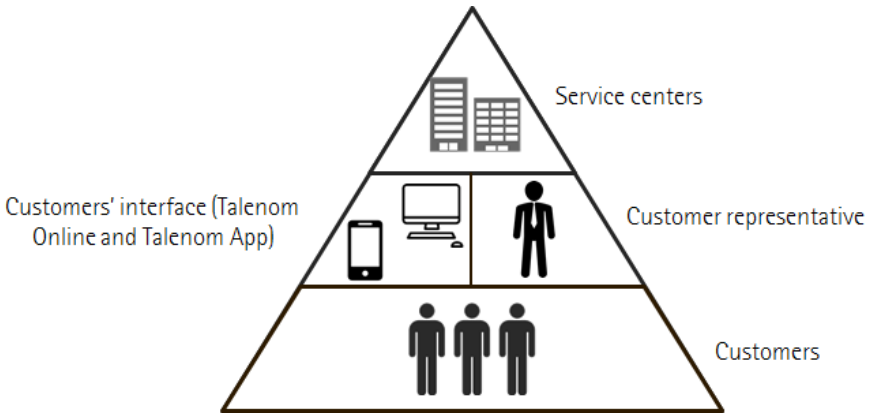
Some of the complimentary services are just sold and billed through Talenom and the actual service is provided by a partner. For instance, Talenom ICT-support is operated this way. In case of the partnerships where a product is sold to a customer Talenom recognizes the revenues on net basis. In those cases only the sales commission is recognized. However, revenues from services are mainly recognized on gross basis and therefore the whole sale price excluding VAT is recognized.

Operating model

Talenom has a competitive and scalable business model which is based on separation of the sales network from the actual accounting processes and own software development. Four central parts of the operating model are:

- Centralized service centres
- Separated sales and customer service force
- Own software development
- Focus on organic growth

Figure 2: Talenom's operating model



Source: Evli

Centralized service centres

Separated sales and accounting functions

Traditionally accounting companies have been accountant centred; an accountant acts as the sales person, account manager, and assumes responsibility for the bookkeeping tasks. Talenom has taken a different approach by separating sales and the actual accounting from each other. The separated model frees the sales forces to focus on acquiring new customers and selling additional services and accountants to focus on the accounting tasks.

Services centres in Oulu and Tampere

The actual accounting processes take place at centralized service centres in Oulu and Tampere. The centralized service centres make it possible to better exploit economies of scale through automation and process design. In addition, the location outside the Helsinki region should offer some advantages in rental and employee costs.

Focusing on organic growth

Outsourcing level high in SME's, acquisitions hist. preferred way to expand

It is estimated that some 90 % of the Finnish small enterprises have outsourced their bookkeeping (Taloushallintoliitto). Around 95 % of the Finnish companies are small firms employing fewer than 10 employees (Statistics Finland) and the demand created by new companies does not alone support growth. With the higher saturation level and high customer retention rates the traditional way of acquiring larger amounts of new customers has been through acquisitions.

Talenom used acquisitions as the main expansion strategy until 2010 when it established a separated sales network to drive organic growth. According to the company, there are many reasons why organic growth is more appealing than an acquisition driven strategy. These reasons include:

- Sustaining uniform contracts, operating model and IT systems
- Total costs of organic growth are estimated to be lower than in the case of acquisitions
- Avoiding risks related to integration

Acquisition of Trust Accounts TKG in 01/17

Despite the main focus of growth being organic, Talenom made an asset deal in acquiring Trust Kapital's accounting services providing subsidiary Trust Accounts TKG in January 2017. Talenom does not exclude the possibility of further acquisitions in the future, in which case they would most likely be smaller strategic acquisitions to acquire new customers.

Recurring and stable income but large upfront costs from acquiring new clients

Over 90 % of revenue recurring

The high customer retention and mostly fixed fee based income structure from the on-going client service agreements stabilizes the revenue streams. The standard agreement is valid until further notice with a two month notice period. The service is invoiced monthly and the price typically includes a fixed fee and volume based fee. According to management the amount of recurring revenue is over 90 %.

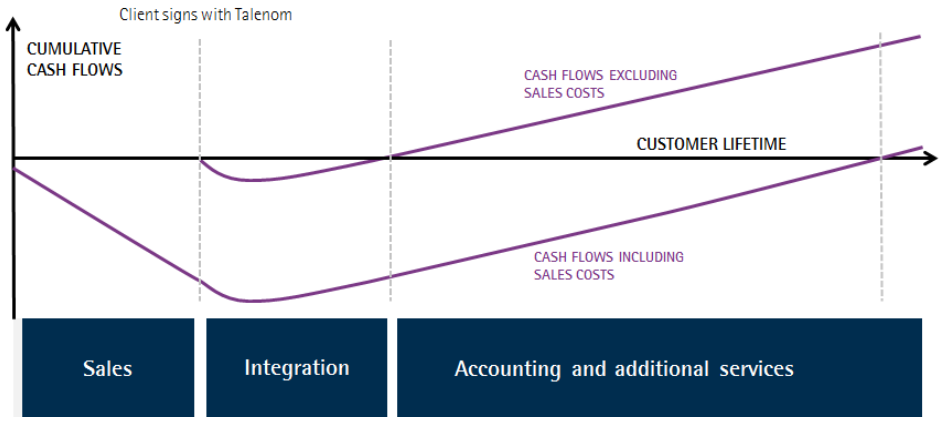
Significant client acquisition costs and effort

On average a new customer reaches breakeven after six months, when taking into account the service integration costs and costs related to training new clients in the use of Talenom's software. However, to acquire a new client a substantial amount of sales effort is required and therefore the payback time of all the upfront costs of bringing in a new client is approximately two years according to the company.

High customer retention rate

Customers generally do not switch bookkeeping firms very often and customer retention is high in the industry. Depending on the firm the customers lost annually would be in the range of 5-10 %. A part of customers leave due to reasons relating to the bookkeeping firm but other common reasons also include for instance M&A and bankruptcy. Company management has estimated an average customer lifetime of approximately 10 years.

Figure 3: Cumulative cash flows and customer lifetime



Source: Talenom, Evli

Sales model

17 local and 8 franchising offices, room to grow

Talenom has offices in 25 locations. Out of these offices 17 are Talenom's own offices and 8 are operated through a franchising model. The franchising offices operate through a similar business model as Talenom's local offices but with the franchise entrepreneur acting as the local account manager and the link to the client. Clients acquired by the franchising entrepreneurs are ultimately Talenom's clients and not clients of the entrepreneur. The compensation of the franchising entrepreneurs is usually structured in a way that rewards customer acquisition. Company management has stated that the company could reasonably establish up to 20 franchising offices in Finland.

Franchising model a way to expand in smaller regions

The franchising-model is a way for Talenom to set up offices also in smaller areas, were they would not likely otherwise set up an own office. Setting up a franchise office can be done with relatively small resources as the work tasks are limited to sales activity and customer support. According to management a franchise could be set up with a sole entrepreneur but usually at least some four employees would be needed to ensure that a representative is always present once customers have been acquired.

Own software development

Software offered as SaaS for own clients

Talenom has developed its own software which it provides only to its clients. The software is provided as a software-as-a-service (SaaS), meaning that the software is cloud based and the fee structure is based on subscription and usage. The accounting interface is accessible by computer or mobile through Talenom's own interface access software Talenom Online and Talenom App.

Additional software developed for customers' more advanced needs

Besides the accounting software, Talenom has also developed the software tools Talenom ERP and Talenom Business Intelligence, for the business needs of larger customers in areas of financial management and analytics. Whereas Talenom Online is used by nearly all customers, Talenom ERP and Talenom Business Intelligence are used only by a small fraction of customers.

Market overview and competitive landscape

Market size EUR 960m in 2015, steady growth

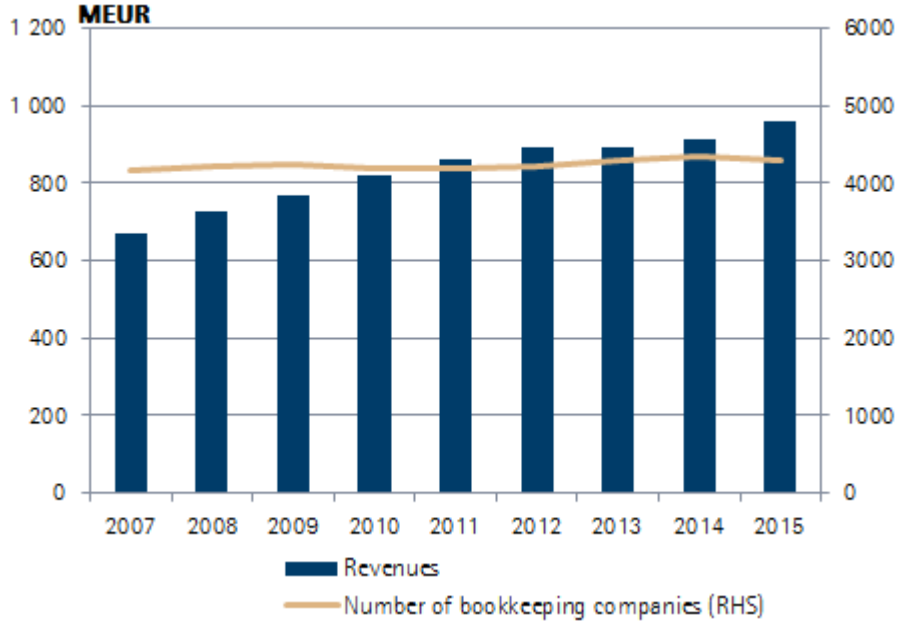
The bookkeeping industry in Finland can be described as fragmented but stable. The bookkeeping market size was approximately € 960 million in 2015, based on the total revenues of the bookkeeping companies in Finland. The market size has grown nominally approximately 5 % annually during 2001-2015[2].

Defensive market due to bookkeeping obligation

Essentially all business entities are subject by law to a bookkeeping obligation. This greatly reduces the effect of cyclicality due to economic trends. The bookkeeping market has also grown nearly constantly since 2001. In addition, the number of companies required to do bookkeeping has fluctuated only a little.

[2] Statistics Finland, Structural business and financial statement statistics

Figure 4: Market size and number of companies in the bookkeeping market in Finland

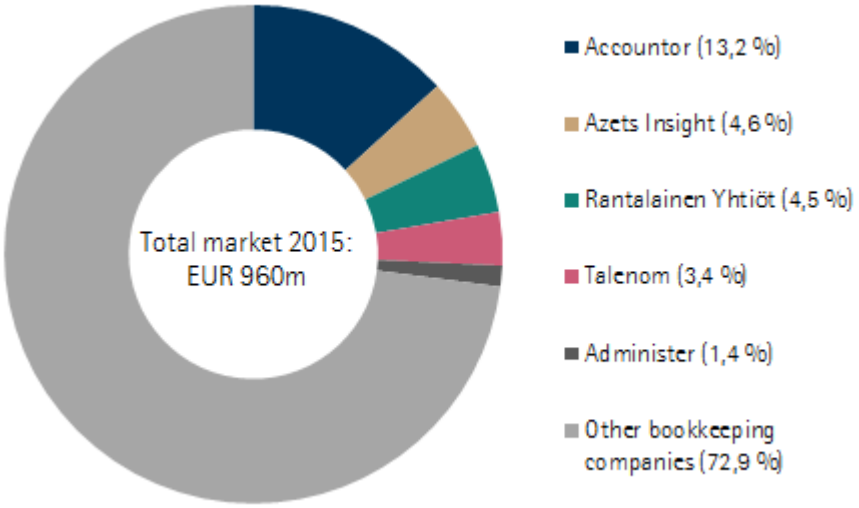


Source: Statistics Finland - The data before 2013 is not fully comparable to the data after 2012 due to changes in the statistics.

Fragmented market, five largest companies under 30 % market share (2015)

The bookkeeping market is very fragmented. In 2015, the number of bookkeeping companies was almost 4,300 and the average accounting firm employed less than three people[3]. This means that the majority of the accounting companies employ only the entrepreneur and a few accountants. The five largest bookkeeping companies had a combined market share of less than 30 % in 2015 (Talenom).

Figure 5: Market shares in the bookkeeping market in Finland



Source: Talenom, Statistics Finland

[3] Statistics Finland, Structural business and financial statement statistics

Digitalization and automation enables scalability

A historical driver behind the market fragmentation has been the lack of digitalization and automation, limiting possibilities for economies of scale due to personnel dependency. However, digitalization is changing these industry characteristics when economies of scale play a larger role as certain processes can to a larger extent be automated and software oriented operating models offer scalability.

Segmented market

Level of outsourcing of bookkeeping services higher in smaller firms

The level of outsourcing of bookkeeping services in small companies is high but declines with firm size. In the largest enterprises bookkeeping tasks are mostly performed in-house. The large companies prefer internal accounting functions because they have the resources to handle their own accounting and the analysis of the data can be used more efficiently. The largest enterprises are more likely to outsource only some separate functions, for instance payroll processes.

Relevant customer size based on revenue roughly EUR 0.4-40m

According to company management the relevant customer size would be firms up to some EUR 40m in revenue, after which the size advantages makes it more efficient to perform bookkeeping tasks in-house. The smallest companies are virtually all potential customers, but from the customer perspective there is usually a threshold based on transaction volume. With low volumes small accounting firms offering hourly prices are likely the better option, as larger accounting firms often opt not to offer hourly rates. Once volumes rise the fixed-price monthly contracts offered by larger firms become more relevant. According to company management the relevant customer size based on annual revenue would be roughly between EUR 0.4-40m, with the preferable customer size in the range of EUR 3-6m.

High customer retention

Generally long contracts and high customer retention rates

The customer retention is high in the industry. According to management a typical customer lifetime is estimated to be approximately 10 years. A typical reason for staying with the same accounting firm is the familiarity with the accountant and the knowledge that accountant has built up of the business, which is especially the case in firms with named accountants.

Switching accounting firms is effortful

Switching accounting firms takes time for both the customer and the new accountant because the old accounting data has to be re-entered into a new accounting system and the new accountant has to familiarize himself or herself with the business of the new client. This is especially the case if the accounting has not been transferred to a digital format. Transferring data in digital format simplifies the process for the accountant and the client. The level of digital accounting is still low.

Digitalization is changing the industry

Digitalization is increasing efficiency in bookkeeping

Digitalization and automation are shaping the industry; automation increases process efficiency and basic bookkeeping requires less employees. Digitalization also increases efficiency when the accounting material can be handled fully in digital format. The number of employees has remained at stable levels since 2011 despite the increasing total revenues of the industry. There is still room for further digitalization – the share of fully or nearly fully digital accounting is still low.

Larger firms are driving digitalization, software benefits available also for smaller firms

The large accounting companies are driving the digitalization through developing digital services and automating their processes. The smaller accounting companies will likely struggle to keep up with the change due to lack of resources, expertise and lower customer volumes. Still, the high personal service level and near connections to the direct accountant as well as companies developing software that can also be used by the smaller firms, help to some extent the smaller companies in retaining their market positions, delaying consolidation of the market.

Competitors and competitive landscape

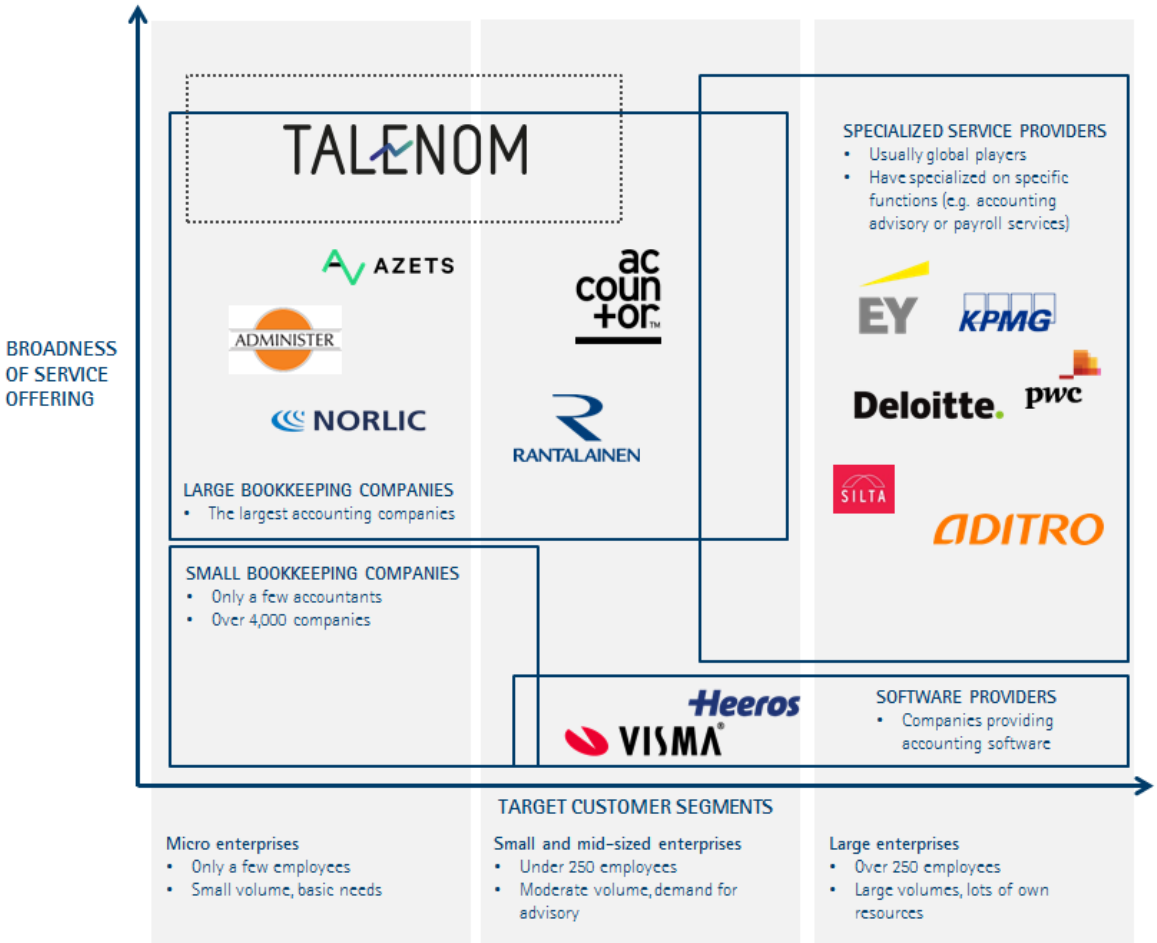
Bookkeeping centred companies focusing on SMEs

The bookkeeping market in Finland can be divided into the micro, small and mid-sized customer enterprises and the large customer enterprises. The bookkeeping companies are focused on the market of small and mid-sized companies whereas the larger customer enterprises are served by more diversified sets of service providers due to the different needs.

Main competitors are other large bookkeeping companies

The main competitors of Talenom are the largest bookkeeping companies in Finland. Those companies have the closest service mix to Talenom and are large enough to benefit from the economies of scale and to keep up with digitalization. The largest companies are driving the market consolidation through acquisitions, software development, and a wider service offering compared to the small bookkeeping companies.

Figure 6: Competitive landscape of Talenom's market in Finland



Source: Evli research

Positioning of the small bookkeeping companies

Majority of competitors' small, local companies

The majority of bookkeeping companies are very small and therefore do not have the volumes to offer a wide range of services and benefit from economies of scale. The small number of accountants in these companies restricts the capacity and limits the target customer segments mainly to small enterprises. The small bookkeeping companies are also local players without a nationwide office network. The small bookkeeping companies are generally not positioned to grow aggressively because the accountants handle

everything from the daily operations to customer representation and the expertise is usually limited specifically to bookkeeping.

Larger bookkeeping companies generally avoid non-fixed fees

In addition, the small companies can compete with price; very small micro enterprises have so small volumes that the hourly fee structure of the small bookkeepers is more appealing than the more fixed fees of the large bookkeeping companies. These advantages are not enough to stop the consolidation but will probably keep the market fragmented for an extended duration and make it expensive to acquire new customers for the largest bookkeeping companies.

Positioning of the largest bookkeeping companies

The main competitors of Talenom include: Accountor, Azets (former subsidiary of Visma), Administer and Rantalainen Yhtiöt. The largest companies are actively expanding through acquisitions or organic growth and therefore driving the industry consolidation. The large companies utilize digitalization to gain economies of scale and provide new services for their clients.

Table 2: Talenom's competitor comparison

	TALENOM	ac countor	ADMINISTER	AZETS	RANTALAINEN
Revenue (EURm)	37,0	N/A	16,3	46,6	38,6
EBITDA-margin	18,5 %	N/A	5,0 %	15,3 %	15,0 %
EBIT-margin	11,3 %	N/A	2,7 %	14,4 %	7,8 %
Employees	543	N/A	255	550	530
Sales CAGR ('14-'16)	11,8 %	N/A	24,8 %	6,3 %	19,2 %
Own software	Yes	Yes	Yes	(Visma)	No
Offices outside Finland	No	Yes	Yes	Yes	Yes

Source: Asiakastieto, Company annual reports, Evli. Figures based on fiscal year 1.1.2016-31.12.2016, for Rantalainen Yhtiöt fiscal year 1.4.2016-31.3.2017. Azets figures include Azets Insight and Azets Employee (separated entity in 2016) for comparability.

Competition still low between larger companies; acquisition driven growth

The big accounting companies have been actively increasing their market share. The main driver of growth has been through acquisitions. The acquisition based growth has largely reduced the competition between the largest companies as growth is sought from acquiring client bases instead of competing for existing customers.

Growth has affected competitors' profitability

The strong growth of especially Administer and Rantalainen seems to have had an inverse effect on EBIT-margins. Administer and Rantalainen have grown strongly both through acquisitions and investments into new offices and the integration of clients and expansion related investments have likely had a diminishing effect on profitability. Azets has had the highest EBIT-margin but has grown less aggressively.

Accountor and Administer more similar to Talenom

Accountor is the largest bookkeeping company in Finland and together with Administer in our view form the key competition based on the business model. Both Accountor and Administer have focused on developing their own software while for instance Rantalainen has developed software for integrating other service providers accounting software. Azets was formerly part of Visma, but was separated to become an own accounting services focused entity. Visma now focuses on developing enterprise software and solutions including accounting software.

Different needs limit expansion to large customer enterprises

Lower need for bookkeeping outsourcing in larger companies

The large bookkeeping companies are better positioned to serve larger companies than their smaller counterparts due to their size, but as the customer size grows the need for bookkeeping services declines as a larger part is done in-house. The larger customers' needs differ from the small companies and with a higher need for advisory services, the competitive landscape shifts more towards the large, global service providers.

Larger companies mainly outsource specific functions

The large companies usually outsource only specific functions or activities because they have their own accounting personnel. There are focused players, including for instance Aditro and Silta, competing for certain functions such as payroll services. The largest bookkeeping companies are not aggressively competing against the specialized service providers in the segment of larger companies but provide similar services to the small and mid-sized customer segment.

Positioning of Talenom

Talenom striving to compete through service offering

Talenom is striving to differentiate itself from the main competitors through its service offering and software. The new complementary business services are not yet financially substantial but can give a competitive edge. In addition, the competition in the areas of the new services within the bookkeeping companies is fragmented and Talenom is one of the only providers actively working towards combining multiple services under one roof for businesses. Within the additional services some competition comes from telecom operators with lots of SME clients and a similar kind of distribution strategy as Talenom in regards of additional services.

Growth opportunities

The fragmented market still provides growth opportunities for the largest bookkeeping companies to continue to grow their market share. Talenom has a good opportunity to grow organically through customers who value the improved service offering and through the occurring digitalization of the industry. Expansion abroad is also a possibility, although unlikely, as there is still room to grow in Finland and expansion would require considerable investments. Another growth opportunity could be to sell Talenom's software to other clients than their own accounting clients. We see no indication of this at the moment and management seems to be focusing efforts more on ramping up the new additional services. The complimentary services are discussed more in detail on page 17.

Financial performance and estimates

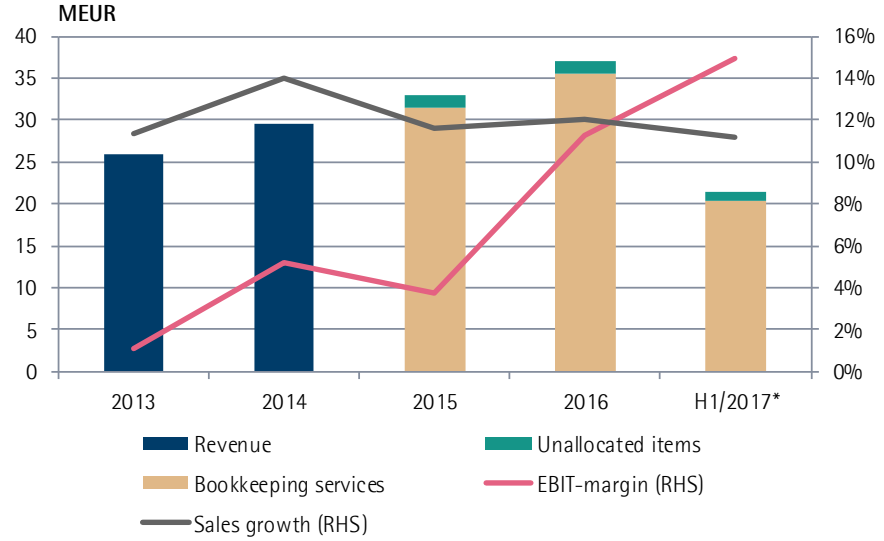
Good and steady growth; bookkeeping services still main revenue source

Talenom has historically managed to grow steadily, with a CAGR of nearly 16 % during the time period 2005-2016. The good growth in recent years has remained relatively steady, attributed mainly to organic growth in accounting services from acquiring new customers. Talenom has since 2015 reported revenue separately as revenue from bookkeeping services and unallocated items and eliminations. The bookkeeping services include some revenue related to the advisory services but the majority of advisory services are booked under the unallocated items. The unallocated items also include the additional services such as staffing. We estimate that advisory accounted for some 5-6% of total revenue in 2016.

Notable EBIT-margin in 2016, customer acquisition has pressed profitability

During 2013 and 2014 the result was affected heavily by such depreciation and amortization items that are not applicable with the IFRS accounting standard and we estimate that the comparable EBIT-margin for the period would have been around or above 10 %. As such 2015 was a weak year measured by profitability. The lower profitability was mainly due to the integration of an unusually high amount of customers and the company's IPO was also during 2015. As the integration of customers takes some time and the first revenue is usually generated some 4-5 months after signing the customer, the customer growth will have stronger impact on revenue with a delay. The effect on profitability to some extent highlights the high costs related to acquiring the new customers.

Figure 7: Talenom's revenue and EBIT development 2013-H1/2017



Accounting standards: FAS (13-14), IFRS (15->)
*Growth comparison to H1/2016

Source: Evli research, Talenom

Financial targets

Guidance for 2017:
Sales growth 11.5-13.5 %
EBITDA-margin 22-24 %

Talenom has given financial targets for sales growth and the EBITDA-margin for 2017. The company expects to continue growth at a pace clearly above the bookkeeping markets and sales growth to be between 11.5 % and 13.5 %. The company expects the EBITDA-margin to be between 22 % and 24 %.

Balance sheet

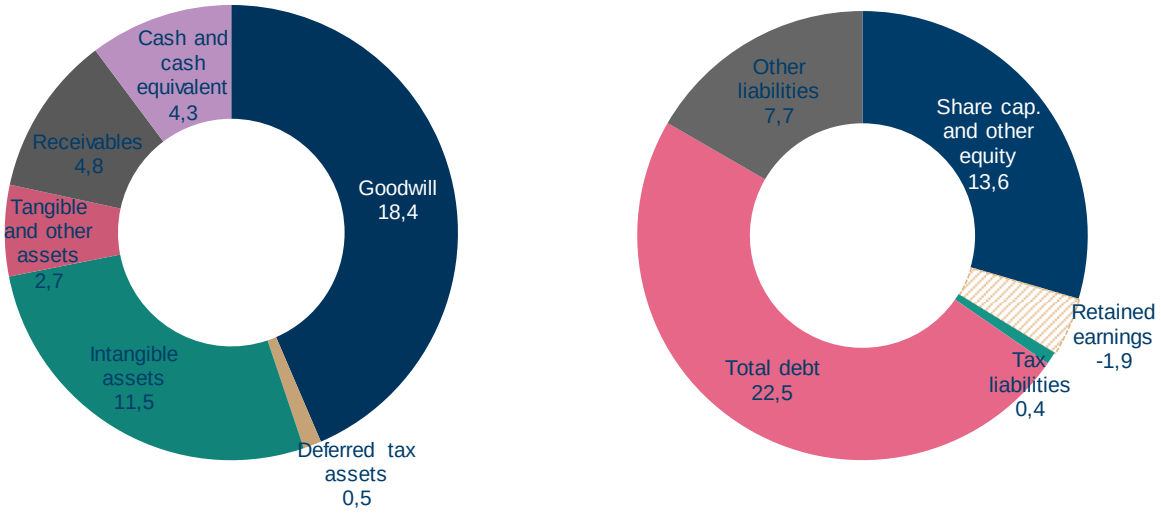
Large goodwill from acquisitions before 2010

The single largest item on Talenom's assets consists of the goodwill that has arisen from the acquisitions made in earlier years. Under FAS accounting the goodwill was amortized annually but after switching to IFRS accounting the goodwill still accounts for nearly half of the balance sheet. The Intangible assets have grown in recent years due to activated expenses from costs arisen when acquiring new clients as well as costs related to software development. Cash and cash equivalents were some 10 % of total assets. The intangible assets are expected to continue to grow due to continuing software development with new projects in the pipeline and from increasing client acquisition costs.

Sizeable debt, gearing in 2016 at 155.2 %

Of the shareholder's equity and liabilities long-term debt in 2016 was EUR 21.5m. Gearing in 2016 was 155.2 %. The long-term debt is quite large but the company has been able to reduce the debt amounts during recent years. Of the share capital and other equity essentially the whole amount consists of the reserves for invested unrestricted equity, of which a large part is from the IPO in 2015.

Figure 8: Talenom's balance sheet composition 2016 (mEUR)



Source: Evli research, Talenom

Debt level likely to hinder larger investments

There is a certain strain on the balance sheet due to the high amount of goodwill and intangibles as well as a rather high level of debt. The company's operating model is rather investment heavy and as such the lowered cash flows make loan repayments more challenging. We do not see the debt levels as too high but view the options to take on higher amounts of debt cautiously. This could limit larger investments but with the current strategy such investments would appear unlikely. The debt matures in late 2020.

Investments and cash flow

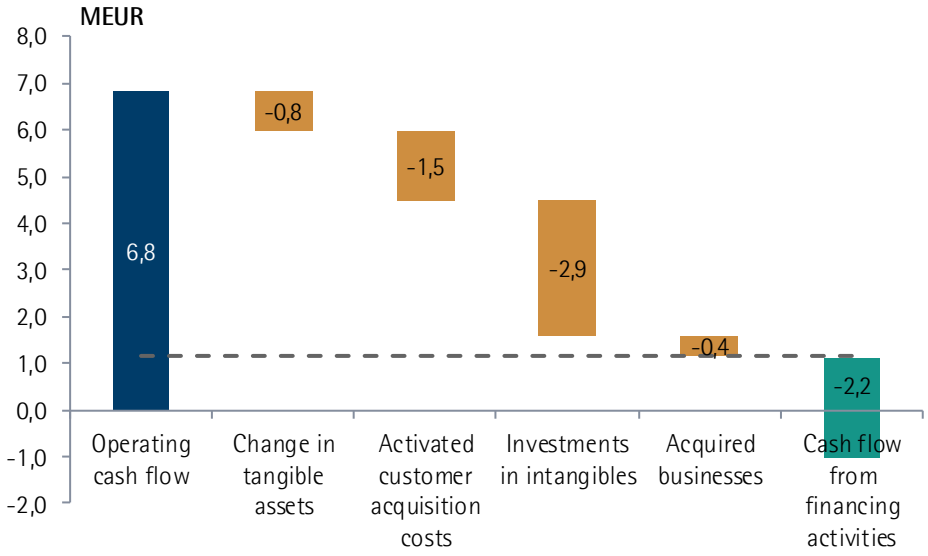
Growth initiatives require large investments

Talenom's growth initiatives have required and will continue to require a large amount of investments to support the growth pace. Figure 9 breaks down the main components of these investments as part of the cash flow statement. Due to the large investments the cash flow after investments has been rather low despite good operating cash flows.

Costs activated from client acquisition have increased substantially in H1/2017

The activated customer acquisition costs include a part that is based on the cost for acquiring a new customer contract and a part related to the integration costs when bringing in a new customer. The activated costs for acquiring a customer include provisions to the sales team that would not have been paid if the contract were not signed. A larger part of the costs relating to the sales work are booked as costs in the income statement. The activated customer acquisition costs have increased heavily during H1'17, up to EUR 1.7m versus EUR 1.5m for the full year 2016. As the costs are only activated if a customer contract is signed and as we expect provisions to be linked to some extent to the revenue that a new customer will generate, these investments give a good indication of how successful Talenom has been in creating future revenue growth.

Figure 9: Components of Talenom's cash flow statement in 2016



Source: Evli research

Largest investments from developing software

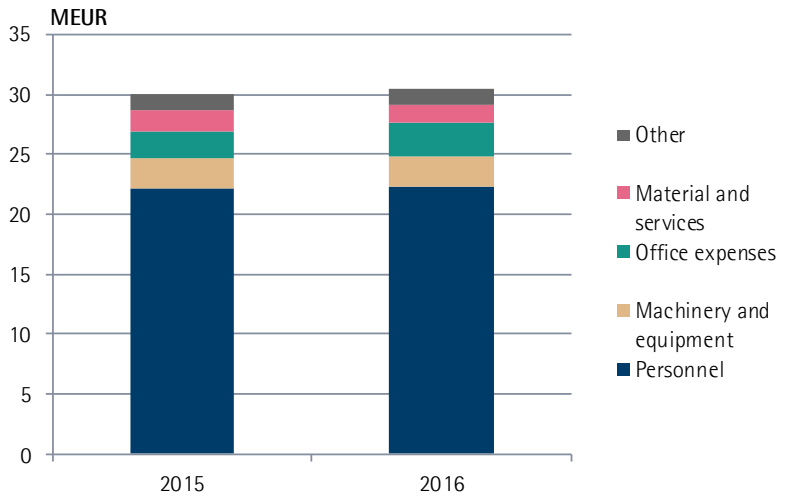
The larger component of investments has been the activated development costs of the company's software. In 2016 these investments were roughly EUR 2.7m. These investments have been high for several years and with new software projects in the pipeline it is unlikely that they will decrease in the near future.

Cost structure

Costs mainly personnel related

Bookkeeping services are largely dependent on employees, which is reflected in the high personnel costs. Talenom's average personnel decreased from 576 in 2015 to 543 in 2016, and the personnel costs have as such not risen. The amount of employees has since risen and the average number of employees during H1'17 was 585. This was already reflected in higher personnel costs and we expect costs to increase with the growing sales. The other cost items were roughly 27 % of costs in 2016 and consists largely of such items that increase with the size of operations.

Figure 10: Talenom's operating expenses 2015-2016



Source: Evli research

Complementary services

Complementary services offered 2016 onward, revenue not reported

Talenom started to provide additional complementary services to its offering from 2016 but so far these services have not had an impact on revenue and Talenom does not report revenue from these services. We have estimated the possible contribution of these services to the company's revenues based on information about pricing of these services. Table 3 illustrates the effect on revenue. Our estimates are based on our 2017E revenue estimates and 7,850 customers. Talenom does not report the total amount of customers and we have used the average of an estimated customer amount range of 7,700-8,000.

Staffing services offer largest potential based on revenue

Measured by revenue we see the largest potential in the staffing services. In smaller firms it is often not financially sound to employ one person working with business support services but it is nevertheless something that is necessary. There are also some peak times were larger companies need extra personnel for a shorter period of time in which case in-house recruiting would not be optional. We do not expect the average hours used on staffing services by a customer to exceed two days due to the needs for such services and when hours increase it may become more cost-effective to employ a person doing the tasks in-house.

No visibility in complementary services yet

With the lack of information regarding the complementary services we have only given illustrative estimates for the revenue potential of selected services. The complementary services can be split into services booked as revenue and services booked based on sales commissions. The latter category would as such directly improve EBIT-margins. The company has a primary view on the complementary service as a means to create a larger service offering for customers and achieving high profitability in these would not be a priority at least in the near term. According to company management the staffing service has been profitable but not at same levels as the bookkeeping services.

Table 3: Estimated revenue impact of complementary services on base revenue

ICT-service					
Average unit price	79 eur/month				
	Share of customers using the service				
Devices	2,5 %	5 %	7,5 %	10 %	20 %
1	0,4 %	0,9 %	1,3 %	1,8 %	3,5 %
2	0,9 %	1,8 %	2,7 %	3,5 %	7,1 %
3	1,3 %	2,7 %	4,0 %	5,3 %	10,6 %
4	1,8 %	3,5 %	5,3 %	7,1 %	14,2 %
5	2,2 %	4,4 %	6,6 %	8,9 %	17,7 %

Average unit price based on mix of offered products and services

Customer support services					
Average unit price	5,3 eur/hour				
Hours/	Share of customers using the service				
month	2,5 %	5 %	7,5 %	10 %	20 %
25	0,8 %	1,5 %	2,3 %	3,0 %	6,0 %
50	1,5 %	3,0 %	4,5 %	6,0 %	12,0 %
75	2,3 %	4,5 %	6,8 %	9,0 %	18,0 %
100	3,0 %	6,0 %	9,0 %	12,0 %	24,0 %
150	4,5 %	9,0 %	13,5 %	18,0 %	36,0 %

Average unit price based on a assumed mix of different sized companies using on average above one channel 75h/month

Staffing service					
Average unit price	44 eur/hour				
Hours/	Share of customers using the service				
month	2,5 %	5 %	7,5 %	10 %	20 %
8	2,2 %	4,3 %	6,3 %	8,2 %	15,2 %
20	4,8 %	9,2 %	13,2 %	16,9 %	28,9 %
40	9,0 %	16,4 %	22,8 %	28,2 %	44,0 %
60	12,2 %	21,7 %	29,4 %	35,7 %	52,6 %
80	15,2 %	26,4 %	35,0 %	41,8 %	58,9 %

Price is volume dependent, average price is based on 40h/month usage

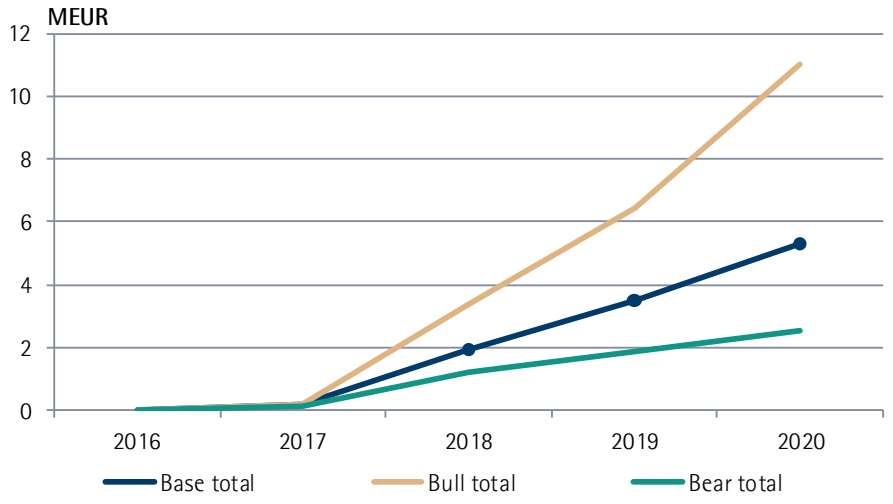
Business Intelligence					
Average unit price	300 eur/month				
	Share of customers using the service				
Licenses	1 %	2 %	3 %	4 %	5 %
1	0,7 %	1,4 %	2,0 %	2,7 %	3,4 %

Average unit price based on a average use of four years

Source: Evli research

Based on our estimates for the average unit prices of the additional services presented in table 3, an estimated customer range, and an estimated component for revenue from other additional services, we have constructed scenario estimates for the complementary services. In our scenario analysis the amount of customers using the additional services is only a small portion of the estimated total customers. We have assumed staffing services to be the strongest driver in revenue based on the viewed potential. We have not emphasized potential revenue from software as the target customer group of Talenom's total customers in our view is small. If Talenom's efforts to push through the complementary services are successful, the complementary services have the potential to become a significant portion of total revenue.

Figure 11: Scenario analysis of revenue from complementary services



Source: Evli research

Table 4: Estimated EBIT-effect of complementary services

EBIT in EURm		2018E	2019E	2020E
Base	Complementary services	0,13	0,24	0,37
	Evli EBIT estimates	6,32	7,28	8,01
	Additional EBIT-effect	2,1 %	3,4 %	4,6 %
Bull	Complementary services	0,25	0,47	0,80
	Evli EBIT estimates	6,32	7,28	8,01
	Additional EBIT-effect	3,9 %	6,4 %	10,0 %
Bear	Complementary services	0,08	0,12	0,17
	Evli EBIT estimates	6,32	7,28	8,01
	Additional EBIT-effect	1,2 %	1,7 %	2,1 %

Source: Evli research

Estimated minor EBIT-effect potential in complementary services

In table 4 we have illustrated the estimated EBIT-effect of the complementary services. We have included estimates for revenue based on the complementary services in figure 11 as well as estimates for the products sold under complementary services that are booked on net basis and effectively just add to EBIT. We have assigned a larger weight to the services, mainly from our view on potential in staffing services. However, we do not see that the services would reach profitability near the levels of the bookkeeping services and in companies offering staffing services margins are typically low and could be only a couple of percent. The EBIT from sold products helps to some extent to improve the margins and our estimates are based on an average EBIT-margin of 7 % with some volume effects included in the estimates.

Complementary services not yet included in estimates

Due to the complementary services being in such an early stage and with no visibility into the development or sales of these services we have not included estimates for these services in our valuation. However, we see that the potential in the complementary services acts to support our estimates. Apart from some development costs and employee tie-up in staffing services, with most of the services being provided by third parties, we see a very small downside in the services and a much larger upside.

Estimates

Expected sales CAGR of 12 % for 2016-2019E

Talenom benefits from digitalization of the bookkeeping market as the demand for digital bookkeeping services is expected to exceed the average market growth. Indicative success in new client acquisitions and new franchise offices support continuing strong near-term growth. Due to the market fragmentation competition is not likely to strike the price levels of bookkeeping services, which have been growing slightly due to index raises, as there is still room to grow within the smaller bookkeeping firms. We expect sales growth mainly from new clients in bookkeeping services and a sales CAGR of around 12 % for 2016-2019E.

We expect EBIT-margins to improve slightly

Talenom has made investments into improving efficiency by automating certain operations, which is shown in improved margins in 2016 and onwards. Talenom is continuing to improve processes and invest in software development. In our view the main improvements have been made in automating the data processing of clients' documents in the service centers, which released some resources from otherwise manual work. We believe that in the near-term any further improvements will be minor and as such should not significantly improve profitability. We expect slight improvements in profitability, with EBIT-margins of 13.2 %, 13.5 %, and 14 % for 2017, 2018, and 2019 respectively.

Valuation

No clear peer group for Talenom

There is no complete peer group for Talenom as virtually all accounting firms are non-public. Generally speaking within accounting, auditing and similar business support service firms the investment needs have been very low, as the main resource is the personnel and the need to raise new capital is limited. There are also certain regulatory issues that hinder firms from going public and in the common partnership-based models the desire to go public is lower. We have constructed our peer group based on business support service firms with a focus on firms where the nature of the business would imply less project-based revenue.

Trading in line with peers

In comparison to our peer group Talenom trades at a slight discount on EV/EBITDA '18E and '19E. Taking into account the large depreciations of intangible assets and their continuing nature EV/EBIT-multiples reflect valuation better, and looking at '18E and '19E figures Talenom trades at a slight premium. The P/E –multiple for '18E is neutral but shows a slight discount for '19E.

HOLD with target price of EUR 13.2

Talenom's share has seen a strong rally during the last year, with an increase of closer to 100 %. Based on our peer group the multiples have now largely evened out. We value Talenom based on our DCF-model as well as the peer group multiples. We emphasize the DCF-model more heavily due to the anticipated stability in revenues. We value Talenom based on 2018E peer median EV/EBIT and P/E multiples of 15.3x and 18.5x respectively. The DCF-model weighted valuation approach gives Talenom a target price of EUR 13.2 and a HOLD recommendation.

VALUATION	
	Implied value
DCF	13,6
Peer EV/EBIT '18E	11,2
Peer P/E '18E	12,1
Target price (EUR)	**13,2**

Source: Evli Research

Table 5: Peer group

TALENOM PEER GROUP	MCAP MEUR	EV/EBITDA 17E	EV/EBITDA 18E	EV/EBITDA 19E	EV/EBIT 17E	EV/EBIT 18E	EV/EBIT 19E	P/E 17E	P/E 18E	P/E 19E
Asiakastieto	347	17,2x	16,2x	14,4x	19,6x	18,3x	15,8x	22,7x	21,9x	18,9x
CBIZ	771	10,6x	10,1x					19,0x	17,4x	
Capita	4257	9,7x	9,7x	9,4x	13,6x	12,8x	11,8x	10,8x	10,4x	10,0x
H&R Block	4756	7,3x	7,4x	7,9x	9,2x	9,1x	8,8x	13,8x	13,5x	13,6x
Paychex	18446	14,5x	14,0x	13,2x	16,6x	15,5x		26,2x	24,4x	22,7x
Zalaris	101	15,8x	10,2x	9,0x	36,2x	15,3x	12,9x	50,5x	19,5x	16,5x
Peer Group Average	4780	**12,5x**	**11,3x**	**10,8x**	**19,0x**	**14,2x**	**12,3x**	**23,8x**	**17,8x**	**16,3x**
Peer Group Median	2514	**12,5x**	**10,1x**	**9,4x**	**16,6x**	**15,3x**	**12,3x**	**20,8x**	**18,5x**	**16,5x**
Talenom (Evli est.)	**82**	**10,7x**	**9,6x**	**8,6x**	**18,5x**	**16,3x**	**14,3x**	**19,1x**	**18,3x**	**15,7x**
Talenom prem./disc. to peer median		*-14 %*	*-5 %*	*-9 %*	*11 %*	*7 %*	*16 %*	*-8 %*	*-1 %*	*-5 %*

Source Bloomberg, Evli Research

TALENOM PEER GROUP	Sales 16A	Sales gr. 17E	Sales gr. 18E	EBIT-% 17E	EBIT-% 18E	EBIT-% 19E	Div. yield 17E	Div. yield 18E	Div. yield 19E
Asiakastieto	49	12 %	6 %	37,2 %	37,5 %	40,8 %	4,1 %	4,3 %	4,7 %
CBIZ	800	7 %	5 %						
Capita	4909	-8 %	0 %	9,8 %	10,4 %	11,1 %	5,7 %	5,6 %	5,7 %
H&R Block	3036	1 %	1 %	23,3 %	23,2 %	23,6 %	3,3 %	3,6 %	3,7 %
Paychex	3151	3 %	6 %	39,7 %	40,3 %		3,0 %	3,3 %	3,5 %
Zalaris	397	32 %	24 %	5,7 %	10,8 %	12,0 %	1,7 %	2,9 %	2,9 %
Peer Group Average	**2057**	**8 %**	**7 %**	**23,1 %**	**24,5 %**	**21,8 %**	**3,6 %**	**3,9 %**	**4,1 %**
Peer Group Median	**1918**	**5 %**	**5 %**	**23,3 %**	**23,2 %**	**17,8 %**	**3,3 %**	**3,6 %**	**3,7 %**
Talenom (Evli est.)	**42**	**12 %**	**11 %**	**13,2 %**	**13,5 %**	**14,0 %**	**2,1 %**	**2,5 %**	**2,9 %**
Talenom prem./disc. to peer median									

Source Bloomberg, Evli Research

VALUATION RESULTS		BASE CASE DETAILS		VALUATION ASSUMPTIONS		ASSUMPTIONS FOR WACC	
Current share price	12.10	PV of Free Cash Flow	28	Long-term growth, %	2.5	Risk-free interest rate, %	2.25
DCF share value	13.63	PV of Horizon value	85	WACC, %	7.4	Market risk premium, %	5.8
Share price potential, %	12.6	Unconsolidated equity	0	Spread, %	0.5	Debt risk premium, %	3.3
Maximum value	15.8	Marketable securities	4	Minimum WACC, %	6.9	Equity beta coefficient	0.80
Minimum value	11.9	Debt - dividend	-24	Maximum WACC, %	7.9	Target debt ratio, %	25
Horizon value, %	75.3	Value of stock	93	Nr of shares, Mn	6.8	Effective tax rate, %	20

DCF valuation, EURm	2016	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	Horizon
Net sales	37	42	47	52	57	62	67	72	76	80	82	84
Sales growth, %	*12.0*	*13.2*	*12.0*	*11.0*	*10.0*	*9.0*	*8.0*	*7.0*	*6.0*	*5.0*	*2.5*	*2.5*
Operating income (EBIT)	4	6	6	7	8	9	9	10	11	11	11	11
EBIT margin, %	*11.3*	*13.2*	*13.5*	*14.0*	*14.0*	*14.0*	*14.0*	*14.0*	*14.0*	*13.5*	*13.5*	*13.5*
+ Depreciation+amort.	3	4	4	5	5	6	7	7	8	8	8	
- Income taxes	0	-1	-1	-1	-2	-2	-2	-2	-2	-2	-2	
- Change in NWC	0	-1	-1	-1	-1	-1	-1	-1	-1	0	0	
NWC / Sales, %	*-6.2*	*-4.0*	*-2.2*	*-0.7*	*0.6*	*1.6*	*2.4*	*3.1*	*3.7*	*4.1*	*4.3*	
+ Change in other liabs	0	0	0	0	0	0	0	0	0	0	0	
- Capital Expenditure	-6	-7	-8	-8	-8	-8	-9	-9	-9	-9	-9	-9
Investments / Sales, %	*15.5*	*17.4*	*16.2*	*15.3*	*13.8*	*13.5*	*13.2*	*12.4*	*11.4*	*10.8*	*10.8*	*10.8*
- Other items	0	0	0	0	0	0	0	0	0	0	0	
= Unlevered Free CF (FCF)	1	0	1	2	3	4	5	6	7	7	8	163
= Discounted FCF (DFCF)		0	1	2	3	3	3	4	4	4	4	85

= DFCF min WACC		0	1	2	3	3	3	4	4	4	4	99
= DFCF max WACC		0	1	2	3	3	3	4	4	4	4	74

INTERIM FIGURES

EVLI ESTIMATES, EURm	2016Q1	2016Q2	2016Q3	2016Q4	2016	2017Q1	2017Q2	2017Q3E	2017Q4E	2017E	2018E	2019E
Net sales	10	10	0	18	37	11	11	10	10	42	47	52
EBITDA	1	3	0	3	7	3	2	2	2	10	11	12
EBITDA margin (%)	*14.8*	*26.4*	*0.0*	*16.0*	*18.5*	*26.5*	*21.7*	*20.3*	*22.3*	*22.7*	*22.8*	*23.2*
EBIT	1	2	0	2	4	2	1	1	1	6	6	7
EBIT margin (%)	*8.5*	*19.1*	*0.0*	*8.5*	*11.3*	*17.2*	*12.6*	*10.4*	*12.4*	*13.2*	*13.5*	*14.0*
Net financial items	0	0	0	0	-1	0	0	0	0	-1	-1	-1
Pre-tax profit	1	2	0	1	4	2	1	1	1	5	6	7
Tax	0	0	0	0	-1	0	0	0	0	-1	-1	-1
Tax rate (%)	*19.7*	*20.0*	*0.0*	*20.2*	*20.0*	*19.9*	*20.4*	*20.0*	*20.0*	*20.1*	*20.0*	*20.0*
Net profit	1	1	0	1	3	1	1	1	1	4	4	5
EPS	0.08	0.20	0.00	0.14	0.43	0.20	0.14	0.11	0.13	0.58	0.66	0.77
EPS adjusted (diluted no. of shares)	0.08	0.20	0.00	0.14	0.43	0.20	0.19	0.11	0.13	0.63	0.66	0.77
Dividend per share	0.00	0.00	0.00	0.00	0.20	0.00	0.00	0.00	0.00	0.25	0.30	0.35
SALES, EURm												
Talenom	10	10	0	18	37	11	11	10	10	42	47	52
Total	10	10	0	18	37	11	11	10	10	42	47	52
SALES GROWTH, Y/Y %												
Talenom	-	-	-	*8.8*	*12.0*	*13.5*	*8.9*	-	-	*13.2*	*12.0*	*11.0*
Total	-	-	-	*8.8*	*12.0*	*13.5*	*8.9*	-	-	*13.2*	*12.0*	*11.0*
EBIT, EURm												
Talenom	1	2	0	2	4	2	1	1	1	6	6	7
Total	1	2	0	2	4	2	1	1	1	6	6	7
EBIT margin, %												
Talenom	*8.5*	*19.1*	*0.0*	*8.5*	*11.3*	*17.2*	*12.6*	*10.4*	*12.4*	*13.2*	*13.5*	*14.0*
Total	*8.5*	*19.1*	*0.0*	*8.5*	*11.3*	*17.2*	*12.6*	*10.4*	*12.4*	*13.2*	*13.5*	*14.0*

Talenom reports interim business reviews (Q1 and Q3) since Q1/17 and semi-annual interim reports.

INCOME STATEMENT, EURm	2013	2014	2015	2016	2017E	2018E	2019E
Sales	26	30	33	37	42	47	52
Sales growth (%)	*0.0*	*14.0*	*11.6*	*12.0*	*13.2*	*12.0*	*11.0*
Costs	-22	-23	-30	-30	-32	-36	-40
Reported EBITDA	4	6	3	7	10	11	12
Extraordinary items in EBITDA	0	0	0	0	0	0	0
EBITDA margin (%)	*16.4*	*21.3*	*9.6*	*18.5*	*22.7*	*22.8*	*23.2*
Depreciation	-3	-3	-2	-3	-4	-4	-5
EBITA	2	3	1	4	6	6	7
Goodwill amortization / writedown	-1	-2	0	0	0	0	0
Reported EBIT	0	2	1	4	6	6	7
EBIT margin (%)	*1.1*	*5.2*	*3.7*	*11.3*	*13.2*	*13.5*	*14.0*
Net financials	-1	-1	-1	-1	-1	-1	-1
Pre-tax profit	-1	0	0	4	5	6	7
Extraordinary items	0	0	0	0	0	0	0
Taxes	0	0	0	-1	-1	-1	-1
Minority shares	0	0	0	0	0	0	0
Net profit	-1	0	0	3	4	4	5
BALANCE SHEET, EURm							
Assets							
Fixed assets	6	10	11	14	17	21	24
% of sales	*23*	*33*	*34*	*38*	*42*	*44*	*46*
Goodwill	20	19	18	18	18	18	18
% of sales	*78*	*63*	*56*	*50*	*44*	*39*	*35*
Inventory	0	0	0	0	0	0	0
% of sales	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Receivables	4	4	4	5	5	6	7
% of sales	*14*	*15*	*13*	*13*	*13*	*13*	*13*
Liquid funds	1	2	5	4	4	5	5
% of sales	*3*	*5*	*16*	*12*	*10*	*10*	*10*
Total assets	31	34	40	42	46	50	55
Liabilities							
Equity	1	1	9	12	14	16	20
% of sales	*2*	*2*	*28*	*32*	*33*	*35*	*38*
Deferred taxes	0	0	0	0	1	1	1
% of sales	*0*	*0*	*0*	*1*	*1*	*1*	*1*
Interest bearing debt	24	26	24	23	24	26	27
% of sales	*91*	*86*	*71*	*61*	*58*	*55*	*52*
Non-interest bearing current liabilities	1	1	0	0	0	0	0
% of sales	*4*	*5*	*0*	*0*	*0*	*0*	*0*
Other interest free debt	5	7	7	8	7	7	7
% of sales	*20*	*23*	*21*	*21*	*18*	*16*	*14*
Total liabilities	31	34	40	42	46	50	55
CASH FLOW, EURm							
+ EBITDA	4	6	3	7	10	11	12
- Net financial items	-1	-1	-1	-1	-1	-1	-1
- Taxes	0	0	0	-1	-1	-1	-1
- Increase in Net Working Capital	2	0	0	0	-1	-1	-1
+/- Other	-1	2	1	1	0	0	0
= Cash flow from operations	3	7	3	7	7	8	9
- Capex	-30	-7	-3	-6	-7	-8	-8
- Acquisitions	0	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0
= Net cash flow	-26	-2	-1	0	0	1	1
+/- Change in interest-bearing debt	24	2	-2	-1	2	2	1
+/- New issues/buybacks	3	0	11	0	-1	0	0
- Paid dividend	0	0	0	0	-1	-2	-2
+/- Change in loan receivables	1	0	-1	0	0	0	0
Change in cash	1	1	5	-2	0	1	1

Figures for 2013, 2014 are in accordance with the FAS accounting standard and IFRS from 2015 onward.

KEY FIGURES	2013	2014	2015	2016	2017E	2018E	2019E
M-cap	0	0	32	49	82	82	82
Net debt	23	24	18	18	20	21	22
Enterprise value	23	24	50	67	103	104	104
Sales	26	30	33	37	42	47	52
EBITDA	4	6	3	7	10	11	12
EBIT	0	2	1	4	6	6	7
Pre-tax	-1	0	0	4	5	6	7
Earnings	-1	0	0	3	4	4	5
Book value	1	1	9	12	14	16	20
Valuation multiples							
EV/sales	0.9	0.8	1.5	1.8	2.5	2.2	2.0
EV/EBITDA	5.4	3.8	15.8	9.9	10.8	9.7	8.7
EV/EBITA	15.1	7.2	41.1	16.1	18.6	16.4	14.3
EV/EBIT	79.5	15.5	41.1	16.1	18.6	16.4	14.3
EV/operating cash flow	7.1	3.5	17.7	9.8	12.8	11.8	10.5
EV/cash earnings	7.6	5.0	41.1	10.8	12.5	11.7	10.4
P/E	0.0	0.0	400.0	16.9	19.3	18.4	15.8
P/E excl. goodwill	0.0	0.0	400.0	16.9	19.3	18.4	15.8
P/B	0.0	0.0	3.4	4.2	6.1	5.0	4.2
P/sales	0.0	0.0	1.0	1.3	2.0	1.8	1.6
P/CF	0.0	0.0	11.3	7.2	10.3	9.4	8.3
Target EV/EBIT	*0.0*	*0.0*	*0.0*	*0.0*	*19.9*	*17.6*	*15.4*
Target P/E	*0.0*	*0.0*	*0.0*	*0.0*	*21.0*	*20.1*	*17.3*
Target P/B	*0.0*	*0.0*	*0.0*	*0.0*	*6.6*	*5.5*	*4.6*
Per share measures							
Number of shares	101	101	6,084	6,807	6,812	6,812	6,812
Number of shares (diluted)	101	101	6,084	6,807	6,812	6,812	6,812
EPS	-9.50	0.30	0.01	0.43	0.58	0.66	0.77
EPS excl. goodwill	2.63	18.11	0.01	0.43	0.63	0.66	0.77
Cash EPS	29.70	47.51	0.20	0.91	1.21	1.30	1.47
Operating cash flow per share	31.80	66.65	0.46	1.00	1.18	1.29	1.46
Capital employed per share	231.85	243.67	4.52	4.39	4.95	5.53	6.09
Book value per share	6.39	7.08	1.54	1.72	2.00	2.41	2.87
Book value excl. goodwill	-194.25	-175.81	-1.49	-0.99	-0.71	-0.30	0.17
Dividend per share	0.08	0.00	0.07	0.20	0.25	0.30	0.35
Dividend payout ratio, %	-0.8	0.0	532.3	46.9	42.8	45.7	45.7
Dividend yield, %	0.0	0.0	1.3	2.8	2.1	2.5	2.9
Efficiency measures							
ROE	0.0	4.4	1.6	27.5	31.4	29.8	29.0
ROCE	2.4	6.1	4.1	12.5	15.3	15.8	16.4
Financial ratios							
Capex/sales, %	116.4	23.3	9.4	15.5	17.4	16.2	15.3
Capex/depreciation excl. goodwill,%	316.5	234.3	163.2	217.0	182.2	174.1	166.4
Net debt/EBITDA, book-weighted	5.4	3.8	5.7	2.7	2.1	2.0	1.8
Debt/equity, market-weighted	0.0	0.0	0.7	0.5	0.3	0.3	0.3
Equity ratio, book-weighted	2.1	2.1	23.5	27.7	29.6	32.6	35.8
Gearing	35.31	33.42	1.93	1.55	1.48	1.30	1.12
Number of employees, average	365	486	588	542	600	642	687
Sales per employee, EUR	71,058	60,856	56,116	68,186	69,700	72,957	75,678
EBIT per employee, EUR	786	3,176	2,075	7,707	9,199	9,849	10,595

TALENOM

Commercial Services & Supplies/Finland, September 28, 2017
Company report

COMPANY DESCRIPTION: Talenom Oyj operates as an accounting company. The Company offers accounting, bookkeeping, taxation, and legal services, as well as invoicing, financial performance monitoring and management software, and payroll services.

INVESTMENT CASE:

OWNERSHIP STRUCTURE	SHARES	EURm	%
Tahkola Harri	1,564,315	18.928	23.0%
Etera Mutual Pension Insurance Company	1,181,174	14.292	17.3%
Tahkola Markus	1,059,189	12.816	15.5%
Finnish Industry Investment	600,057	7.261	8.8%
Danske Capital Finland (through its funds)	466,252	5.642	6.8%
EQ Asset Management	160,000	1.936	2.3%
Varma Mutual Pension Insurance Company	145,000	1.754	2.1%
Dividend House	98,445	1.191	1.4%
Huhtala Otto-Pekka	90,150	1.091	1.3%
Paaso Jussi	85,500	1.035	1.3%
Ten largest	5,450,082	65.946	80%
Residual	1,361,964	16.480	20%
Total	6,812,046	82.426	100%

EARNINGS CALENDAR

November 06, 2017 Q3 report

OTHER EVENTS

COMPANY MISCELLANEOUS

CEO: Jussi Paaso
CFO: Antti Aho
IR:

Töölönlahdenkatu 3B, 00100 Helsinki
Tel:

DEFINITIONS

P/E $\frac{\text{Price per share}}{\text{Earnings per share}}$	EPS $\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}{\text{Number of shares}}$
P/Sales $\frac{\text{Market cap}}{\text{Sales}}$	DPS Dividend for the financial period per share
P/BV $\frac{\text{Price per share}}{\text{Shareholders' equity} + \text{taxed provisions per share}}$	CEPS $\frac{\text{Gross cash flow from operations}}{\text{Number of shares}}$
P/CF $\frac{\text{Price per share}}{\text{Operating cash flow per share}}$	EV/Share $\frac{\text{Enterprise value}}{\text{Number of shares}}$
EV (Enterprise value) Market cap + net debt + minority interest at market value – share of associated companies at market value	Sales/Share $\frac{\text{Sales}}{\text{Number of shares}}$
Net debt Interest bearing debt – financial assets	EBITDA/Share $\frac{\text{Earnings before interest, tax, depreciation and amortisation}}{\text{Number of shares}}$
EV/Sales $\frac{\text{Enterprise value}}{\text{Sales}}$	EBIT/Share $\frac{\text{Operating profit}}{\text{Number of shares}}$
EV/EBITDA $\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortisation}}$	EAFI/Share $\frac{\text{Pretax profit}}{\text{Number of shares}}$
EV/EBIT $\frac{\text{Enterprise value}}{\text{Operating profit}}$	Capital employed/Share $\frac{\text{Total assets} - \text{non interest bearing debt}}{\text{Number of shares}}$
Div yield, % $\frac{\text{Dividend per share}}{\text{Price per share}}$	Total assets Balancesheet total
Payout ratio, % $\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}$	Interest coverage (x) $\frac{\text{Operating profit}}{\text{Financial items}}$
Net cash/Share $\frac{\text{Financial assets} - \text{interest bearing debt}}{\text{Number of shares}}$	Asset turnover (x) $\frac{\text{Turnover}}{\text{Balancesheet total (average)}}$
ROA, % $\frac{\text{Operating profit} + \text{financial income} + \text{extraordinary items}}{\text{Balancesheet total} - \text{interest free short term debt} - \text{long term advances received and accounts payable (average)}}$	Debt/Equity, % $\frac{\text{Interest bearing debt}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}$
ROCE, % $\frac{\text{Profit before extraordinary items} + \text{interest expenses} + \text{other financial costs}}{\text{Balancesheet total} - \text{non interest bearing debt (average)}}$	Equity ratio, % $\frac{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}{\text{Total assets} - \text{interest free loans}}$
ROE, % $\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions (average)}}$	CAGR, % Cumulative annual growth rate = Average growth per year

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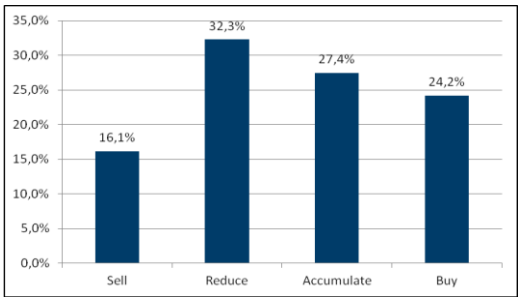
https://research.evli.com/JasperAllModels.action?authParam=key;461&authParam=x;G3rNagWrtf7K&authType=3
Detailed information about the valuation or methodology and the underlying assumptions is accessible via ERP:
http://research.evli.com
Investment recommendations are defined as follows:

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

ERP's investment recommendation of the analyzed company is in general updated 2 – 4 per year.



The graph above shows the distribution of ERP's recommendations of companies under coverage in 22nd of February 2017. If recommendation is not given, it is not mentioned here.

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

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