

## Solid quarter, investments ahead

Talenom's Q3 profitability beat expectations. Based on Jan-Sep profitability development potential for guidance beat is strong but investments in Q4 are expected to affect profitability. We anticipate a further impact during early 2019 and expect slower EPS growth. Continued increases in new customers support continued robust sales growth. Our 2019E estimates do not give significant support for valuation increases and we retain our HOLD-rating with a target price of EUR 18.5 (18) per share.

### Solid earnings, investments to impact from Q4

Talenom's Q3 results beat profitability expectations, with EBIT at EUR 1.9m vs. EUR 1.0m Evli, improving some 136 % y/y. Sales were in line with expectations, at EUR 11.1m, growing 19.8 % y/y. With Jan-Sep EBIT at EUR 7.1m, the FY 2018 guidance of EUR 7.4–8.0m appears conservative, but investments into the additional services are expected to impact in Q4. We anticipate the investments to continue to show during early 2019. We expect profitability to remain at solid levels but with slower EPS growth, with our 2018E and 2019E EPS growth estimates at 55 % and 6 % respectively.

### No signs of larger sales growth slow down

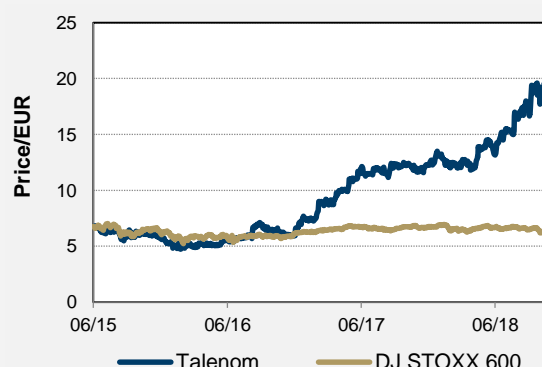
We expect sales growth to remain good, supported by growth in new customers and pick-up in the sales of additional services, mainly in staff leasing. We have mainly made minor estimates adjustments post-Q3 but increase our 2019E sales growth estimates by 2 percentage points. We also raise our DPS estimates, with our FY 2018E estimate at EUR 0.45. Our 2018E sales and EBIT estimates are at EUR 49m and EUR 7.9m respectively.

### HOLD with a target price of EUR 18.5 (18)

We retain our HOLD rating with a target price of EUR 18.5 (18). On our estimates and target price Talenom's 2019E target P/E and EV/EBIT are at 20.5x and 17.3x respectively and do not give support for significant valuation increases.

## Rating

HOLD



Share price, EUR (Last trading day's closing price) 19.55

Target price, EUR 18.5

Latest change in recommendation 26-Apr-18

Latest report on company 23-Oct-18

Research paid by issuer: YES

No. of shares outstanding, '000's 6,872

No. of shares fully diluted, '000's 6,872

Market cap, EURm 134

Free float, % 55.7

Exchange rate 0.000

Reuters code TNOM.HE

Bloomberg code TNOM FH

Average daily volume, EURm 0.071

Next interim report

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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
2016	37	4	11.3%	4	0.43	16.9	1.8	7.2	16.1	0.20
2017	41	5	11.7%	4	0.50	23.4	2.5	9.0	21.6	0.32
2018E	49	8	16.1%	7	0.85	22.9	3.1	12.1	19.3	0.45
2019E	56	8	15.0%	8	0.90	21.6	2.7	11.9	18.1	0.50
2020E	62	10	16.0%	9	1.07	18.2	2.5	10.2	15.4	0.59
Market cap, EURm			134	BV per share 2018E, EUR		2.6	CAGR EPS 2017-20, %			25.2
Net debt 2018E, EURm			18	Price/book 2018E		7.6	CAGR sales 2017-20, %			14.4
Enterprise value, EURm			152	Dividend yield 2018E, %		2.3	ROE 2018E, %			37.0
Total assets 2018E, EURm			51	Tax rate 2018E, %		20.0	ROCE 2018E, %			20.4
Goodwill 2018E, EURm			18	Equity ratio 2018E, %		35.1	PEG, P/E 18/CAGR			1.8

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	19.55 PV of Free Cash Flow	44 Long-term growth, %	2.3 Risk-free interest rate, %
DCF share value	19.42 PV of Horizon value	109 WACC, %	7.4 Market risk premium, %
Share price potential, %	-0.7 Unconsolidated equity	0 Spread, %	0.5 Debt risk premium, %
Maximum value	22.1 Marketable securities	5 Minimum WACC, %	6.9 Equity beta coefficient
Minimum value	17.2 Debt - dividend	-25 Maximum WACC, %	7.9 Target debt ratio, %
Horizon value, %	71.1 Value of stock	133 Nr of shares, Mn	6.9 Effective tax rate, %

DCF valuation, EURm	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	Horizon
Net sales	41	49	56	62	68	73	78	83	87	91	93	95
<i>Sales growth, %</i>	<i>12.1</i>	<i>18.4</i>	<i>15.0</i>	<i>10.0</i>	<i>9.0</i>	<i>8.0</i>	<i>7.0</i>	<i>6.0</i>	<i>5.0</i>	<i>5.0</i>	<i>2.3</i>	<i>2.3</i>
Operating income (EBIT)	5	8	8	10	11	12	13	13	13	14	14	15
<i>EBIT margin, %</i>	<i>11.7</i>	<i>16.1</i>	<i>15.0</i>	<i>16.0</i>	<i>16.5</i>	<i>16.5</i>	<i>16.0</i>	<i>16.0</i>	<i>15.5</i>	<i>15.5</i>	<i>15.5</i>	<i>15.5</i>
+ Depreciation+amort.	5	5	5	6	6	6	7	7	7	8	8	
- Income taxes	0	-1	-2	-2	-2	-2	-3	-3	-3	-3	-3	
- Change in NWC	1	0	-1	-1	-1	-1	-1	-1	0	-1	0	
<i>NWC / Sales, %</i>	<i>-7.0</i>	<i>-5.0</i>	<i>-2.8</i>	<i>-1.5</i>	<i>-0.4</i>	<i>0.6</i>	<i>1.3</i>	<i>1.9</i>	<i>2.4</i>	<i>2.9</i>	<i>3.1</i>	
+ Change in other liabs	0	0	0	0	0	0	0	0	0	0	0	
- Capital Expenditure	-7	-9	-9	-8	-8	-10	-9	-8	-8	-9	-9	-9
<i>Investments / Sales, %</i>	<i>17.9</i>	<i>18.4</i>	<i>15.2</i>	<i>13.4</i>	<i>12.4</i>	<i>13.3</i>	<i>11.1</i>	<i>10.2</i>	<i>9.6</i>	<i>10.4</i>	<i>9.5</i>	<i>9.5</i>
- Other items	0	0	0	0	0	0	0	0	0	0	0	
= Unlevered Free CF (FCF)	2	2	3	5	6	5	8	9	9	9	10	209
= Discounted FCF (DFCF)		2	2	4	5	4	5	6	6	5	5	109
= DFCF min WACC		2	2	4	5	4	5	6	6	5	6	126
= DFCF max WACC		2	2	4	5	4	5	6	5	5	5	95

## INTERIM FIGURES

EVLI ESTIMATES, EURm	2017Q1	2017Q2	2017Q3	2017Q4	2017	2018Q1	2018Q2	2018Q3	2018Q4E	2018E	2019E	2020E
Net sales	11	11	9	11	41	13	13	11	13	49	56	62
EBITDA	3	2	2	2	10	4	4	3	2	13	14	16
<i>EBITDA margin (%)</i>	<i>26.5</i>	<i>21.7</i>	<i>20.6</i>	<i>22.7</i>	<i>23.0</i>	<i>29.3</i>	<i>30.8</i>	<i>27.4</i>	<i>16.4</i>	<i>25.9</i>	<i>24.5</i>	<i>25.5</i>
EBIT	2	1	1	1	5	3	3	2	1	8	8	10
<i>EBIT margin (%)</i>	<i>17.2</i>	<i>12.6</i>	<i>8.4</i>	<i>8.1</i>	<i>11.7</i>	<i>20.7</i>	<i>20.6</i>	<i>16.6</i>	<i>6.3</i>	<i>16.1</i>	<i>15.0</i>	<i>16.0</i>
Net financial items	0	0	0	0	-1	0	0	0	0	-1	-1	-1
Pre-tax profit	2	1	1	1	4	2	2	2	1	7	8	9
Tax	0	0	0	0	-1	0	-1	0	0	-1	-2	-2
<i>Tax rate (%)</i>	<i>19.9</i>	<i>20.4</i>	<i>24.6</i>	<i>18.4</i>	<i>20.5</i>	<i>19.9</i>	<i>20.6</i>	<i>19.3</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>
Net profit	1	1	0	1	3	2	2	1	1	6	6	7
EPS	0.20	0.14	0.07	0.09	0.50	0.29	0.29	0.21	0.07	0.85	0.90	1.07
EPS adjusted (diluted no. of shares)	0.20	0.19	0.07	0.09	0.55	0.29	0.29	0.21	0.07	0.85	0.90	1.07
Dividend per share	0.00	0.00	0.00	0.00	0.32	0.00	0.00	0.00	0.00	0.45	0.50	0.59
<b>SALES, EURm</b>												
Talenom	11	11	9	11	41	13	13	11	13	49	56	62
Total	11	11	9	11	41	13	13	11	13	49	56	62
<b>SALES GROWTH, Y/Y %</b>												
Talenom	13.5	8.9	12.9	13.2	12.1	18.1	17.9	19.8	18.0	18.4	15.0	10.0
Total	13.5	8.9	12.9	13.2	12.1	18.1	17.9	19.8	18.0	18.4	15.0	10.0
<b>EBIT, EURm</b>												
Talenom	2	1	1	1	5	3	3	2	1	8	8	10
Total	2	1	1	1	5	3	3	2	1	8	8	10
<b>EBIT margin, %</b>												
Talenom	17.2	12.6	8.4	8.1	11.7	20.7	20.6	16.6	6.3	16.1	15.0	16.0
Total	17.2	12.6	8.4	8.1	11.7	20.7	20.6	16.6	6.3	16.1	15.0	16.0

INCOME STATEMENT, EURm	2013	2014	2015	2016	2017	2018E	2019E	2020E
Sales	26	30	33	37	41	49	56	62
<i>Sales growth (%)</i>	<i>0.0</i>	<i>14.0</i>	<i>11.6</i>	<i>12.0</i>	<i>12.1</i>	<i>18.4</i>	<i>15.0</i>	<i>10.0</i>
Costs	-22	-23	-30	-30	-32	-36	-43	-46
Reported EBITDA	4	6	3	7	10	13	14	16
Extraordinary items in EBITDA	0	0	0	0	0	0	0	0
<i>EBITDA margin (%)</i>	<i>16.4</i>	<i>21.3</i>	<i>9.6</i>	<i>18.5</i>	<i>23.0</i>	<i>25.9</i>	<i>24.5</i>	<i>25.5</i>
Depreciation	-3	-3	-2	-3	-5	-5	-5	-6
EBITA	2	3	1	4	5	8	8	10
Goodwill amortization / writedown	-1	-2	0	0	0	0	0	0
Reported EBIT	0	2	1	4	5	8	8	10
<i>EBIT margin (%)</i>	<i>1.1</i>	<i>5.2</i>	<i>3.7</i>	<i>11.3</i>	<i>11.7</i>	<i>16.1</i>	<i>15.0</i>	<i>16.0</i>
Net financials	-1	-1	-1	-1	-1	-1	-1	-1
Pre-tax profit	-1	0	0	4	4	7	8	9
Extraordinary items	0	0	0	0	0	0	0	0
Taxes	0	0	0	-1	-1	-1	-2	-2
Minority shares	0	0	0	0	0	0	0	0
Net profit	-1	0	0	3	3	6	6	7
<b>BALANCE SHEET, EURm</b>								
Assets								
Fixed assets	6	10	11	14	17	21	24	27
<i>% of sales</i>	<i>23</i>	<i>33</i>	<i>34</i>	<i>38</i>	<i>41</i>	<i>43</i>	<i>43</i>	<i>43</i>
Goodwill	20	19	18	18	18	18	18	18
<i>% of sales</i>	<i>78</i>	<i>63</i>	<i>56</i>	<i>50</i>	<i>44</i>	<i>38</i>	<i>33</i>	<i>30</i>
Inventory	0	0	0	0	0	0	0	0
<i>% of sales</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Receivables	4	4	4	5	5	6	7	7
<i>% of sales</i>	<i>14</i>	<i>15</i>	<i>13</i>	<i>13</i>	<i>13</i>	<i>12</i>	<i>12</i>	<i>12</i>
Liquid funds	1	2	5	4	5	5	6	6
<i>% of sales</i>	<i>3</i>	<i>5</i>	<i>16</i>	<i>12</i>	<i>12</i>	<i>10</i>	<i>10</i>	<i>10</i>
Total assets	31	34	40	42	46	51	55	59
Liabilities								
Equity	1	1	9	12	14	18	21	25
<i>% of sales</i>	<i>2</i>	<i>2</i>	<i>28</i>	<i>32</i>	<i>34</i>	<i>36</i>	<i>37</i>	<i>40</i>
Deferred taxes	0	0	0	0	1	1	1	1
<i>% of sales</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>1</i>	<i>1</i>	<i>2</i>	<i>2</i>	<i>2</i>
Interest bearing debt	24	26	24	23	23	23	25	24
<i>% of sales</i>	<i>91</i>	<i>86</i>	<i>71</i>	<i>61</i>	<i>54</i>	<i>47</i>	<i>44</i>	<i>39</i>
Non-interest bearing current liabilities	1	1	0	0	0	0	0	0
<i>% of sales</i>	<i>4</i>	<i>5</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Other interest free debt	5	7	7	8	9	9	9	9
<i>% of sales</i>	<i>20</i>	<i>23</i>	<i>21</i>	<i>21</i>	<i>21</i>	<i>18</i>	<i>16</i>	<i>14</i>
Total liabilities	31	34	40	42	46	51	55	59
<b>CASH FLOW, EURm</b>								
+ EBITDA	4	6	3	7	10	13	14	16
- Net financial items	-1	-1	-1	-1	-1	-1	-1	-1
- Taxes	0	0	-1	0	0	-1	-2	-2
- Increase in Net Working Capital	2	0	0	0	1	0	-1	-1
+/- Other	-1	2	1	1	0	0	0	0
= Cash flow from operations	3	7	3	7	9	10	11	13
- Capex	-30	-7	-3	-6	-7	-9	-9	-8
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Net cash flow	-26	-2	-1	0	1	1	2	4
+/- Change in interest-bearing debt	24	2	-2	-1	0	0	2	0
+/- New issues/buybacks	2	0	9	0	0	0	0	0
- Paid dividend	0	0	0	0	-1	-2	-3	-3
+/- Change in loan receivables	1	0	-1	0	0	0	0	0
Change in cash	1	1	5	-2	0	0	1	1

KEY FIGURES	2014	2015	2016	2017	2018E	2019E	2020E
M-cap	0	32	49	87	134	134	134
Net debt	24	18	18	18	18	19	18
Enterprise value	24	50	67	105	152	153	152
Sales	30	33	37	41	49	56	62
EBITDA	6	3	7	10	13	14	16
EBIT	2	1	4	5	8	8	10
Pre-tax	0	0	4	4	7	8	9
Earnings	0	0	3	3	6	6	7
Book value	1	9	12	14	18	21	25
<b>Valuation multiples</b>							
EV/sales	0.8	1.5	1.8	2.5	3.1	2.7	2.5
EV/EBITDA	3.8	15.8	9.9	11.0	12.0	11.1	9.6
EV/EBITA	7.2	41.1	16.1	21.6	19.3	18.1	15.4
EV/EBIT	15.5	41.1	16.1	21.6	19.3	18.1	15.4
EV/operating cash flow	3.5	17.7	9.8	10.8	13.7	13.6	11.6
EV/cash earnings	5.0	41.1	10.8	12.2	13.7	13.2	11.5
P/E	0.0	400.0	16.9	23.4	22.9	21.6	18.2
P/E excl. goodwill	0.0	400.0	16.9	23.4	22.9	21.6	18.2
P/B	0.0	3.4	4.2	6.2	7.6	6.4	5.4
P/sales	0.0	1.0	1.3	2.1	2.7	2.4	2.2
P/CF	0.0	11.3	7.2	9.0	12.1	11.9	10.2
Target EV/EBIT	0.0	0.0	0.0	0.0	18.4	17.3	14.6
Target P/E	0.0	0.0	0.0	0.0	21.7	20.5	17.2
Target P/B	0.0	0.0	0.0	0.0	7.2	6.1	5.1
<b>Per share measures</b>							
Number of shares	101	6,084	6,807	6,812	6,872	6,872	6,872
Number of shares (diluted)	101	6,084	6,807	6,812	6,872	6,872	6,872
EPS	0.30	0.01	0.43	0.50	0.85	0.90	1.07
EPS excl. goodwill	18.11	0.01	0.43	0.55	0.85	0.90	1.07
Cash EPS	47.51	0.20	0.91	1.27	1.61	1.68	1.93
Operating cash flow per share	66.65	0.46	1.00	1.42	1.61	1.64	1.92
Capital employed per share	243.67	4.52	4.39	4.63	5.21	5.80	6.25
Book value per share	7.08	1.54	1.72	2.05	2.58	3.04	3.61
Book value excl. goodwill	-175.81	-1.49	-0.99	-0.66	-0.10	0.36	0.93
Dividend per share	0.00	0.07	0.20	0.32	0.45	0.50	0.59
Dividend payout ratio, %	0.0	532.3	46.9	63.9	52.7	55.3	55.0
Dividend yield, %	0.0	1.3	2.8	2.5	2.3	2.6	3.0
<b>Efficiency measures</b>							
ROE	4.4	1.6	27.5	26.6	37.0	32.2	32.3
ROCE	6.1	4.1	12.5	13.7	20.4	19.6	21.0
<b>Financial ratios</b>							
Capex/sales, %	23.3	9.4	15.5	17.9	18.4	15.2	13.4
Capex/depreciation excl. goodwill,%	234.3	163.2	217.0	159.1	186.4	159.4	140.8
Net debt/EBITDA, book-weighted	3.8	5.7	2.7	1.9	1.4	1.4	1.1
Debt/equity, market-weighted	0.0	0.7	0.5	0.3	0.2	0.2	0.2
Equity ratio, book-weighted	2.1	23.5	27.7	30.4	35.1	37.7	42.0
Gearing	33.42	1.93	1.55	1.26	1.02	0.91	0.73
Number of employees, average	486	588	542	613	660	687	721
Sales per employee, EUR	60,856	56,116	68,186	67,571	74,315	82,103	86,055
EBIT per employee, EUR	3,176	2,075	7,707	7,896	11,938	12,316	13,769

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	30.582	22.8%
Ilmarinen Mutual Pension Insurance Company	1,181,174	23.092	17.2%
Tahkola Markus	1,031,189	20.160	15.0%
Danske Capital Finland (through its funds)	468,595	9.161	6.8%
Evli Finnish Small Cap fund	402,000	7.859	5.8%
EQ Asset Management	160,000	3.128	2.3%
Aktia Nordic Micro Cap fund	141,996	2.776	2.1%
Skandinaviska Enskilda Banken	140,560	2.748	2.0%
Siuruainen Mikko	130,086	2.543	1.9%
Church Pension Fund	101,000	1.975	1.5%
Ten largest	5,320,915	104.024	77%
Residual	1,550,948	30.321	23%
Total	6,871,863	134.345	100%

EARNINGS CALENDAR

OTHER EVENTS

COMPANY MISCELLANEOUS

CEO: Jussi Paaso

Töölönlahdenkatu 3B, 00100 Helsinki

CFO: Antti Aho

Tel:

IR:

## 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	Balance sheet 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)	$\frac{\text{Turnover}}{\text{Balance sheet total (average)}}$
ROA, %	$\frac{\text{Operating profit} + \text{financial income} + \text{extraordinary items}}{\text{Balance sheet total} - \text{interest free short term debt} - \text{long term advances received and accounts payable (average)}}$	Debt/Equity, %	$\frac{\text{Interest bearing debt}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}$
ROCE, %	$\frac{\text{Profit before extraordinary items} + \text{interest expenses} + \text{other financial costs}}{\text{Balance sheet total} - \text{non interest bearing debt (average)}}$	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>

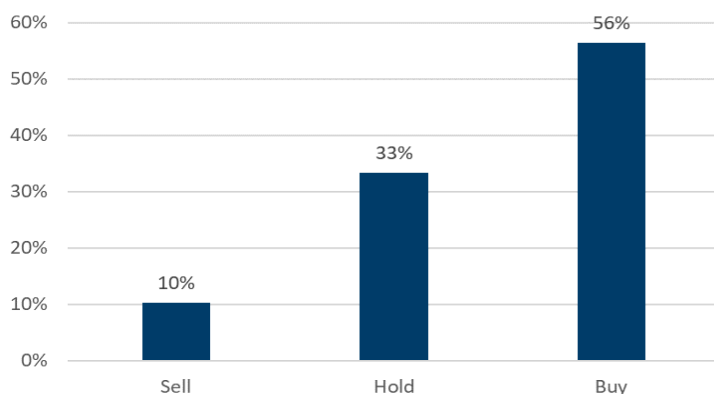
Detailed information about the valuation or methodology and the underlying assumptions is accessible via ERP:

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Investment recommendations are defined as follows:

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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