

Defensive characteristics showing

Talenom's Q1 results slightly beat our expectations, with net sales of EUR 17.4m (Evli 16.9m) and EBIT of EUR 3.7m (Evli 3.5m). Net sales and EBIT guidance for 2020 was set at EUR 64–68m and 12–14m respectively. Growth outlook remains favourable and any plausible impact from the coronavirus pandemic for now appears limited. We adjust our target price to EUR 7.0 (6.7), HOLD-rating intact.

Q1 slightly better than expected

Talenom's Q1 results were slightly better than expected. Net sales grew 17.4% to EUR 17.4m (Evli 16.9m) and EBIT amounted to EUR 3.7m (Evli 3.5m). Talenom gave a numeric guidance for 2020, expecting net sales of EUR 64–68m and EBIT of EUR 12–14m. Sales plans have progressed almost in line with plans despite the coronavirus pandemic. Investments are being made to customer interfaces and plans for a new concept for small customers were floated, which sounds promising but will likely have little sales impact before 2021. Additional financing of EUR 10m was secured for acquisitions and growth projects in Finland and Sweden.

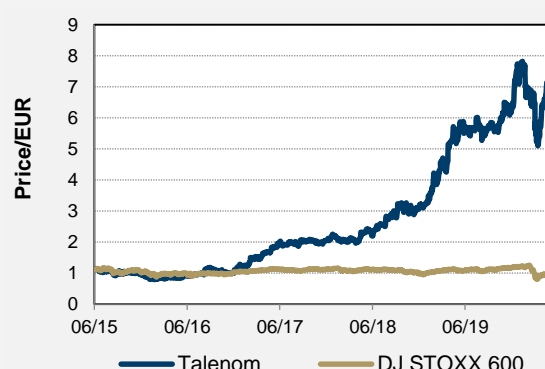
Near-term risks limited

Our post-Q1 estimates revisions are minuscule and we expect 2020E net sales and EBIT of EUR 67.3m and EUR 12.5m respectively. Near-term risks due to the pandemic are limited, with transactional volumes possibly affected. A prolonged situation and an increase in defaults would have a heavier impact on 2021 due to customer bookkeeping obligations. The resilience of the bookkeeping market is noteworthy, and the near-term uncertainty may open more opportunities for inorganic growth.

HOLD with a target price of EUR 7.0 (6.7)

Talenom remains an attractive investment case through its track-record and defensive nature, valuation slightly less so, with the share price essentially at pre-COVID levels. We adjust our target price to EUR 7.0 (6.7), valuing Talenom at ~32x 2020E P/E, and retain our HOLD-rating.

Rating HOLD



Share price, EUR (Last trading day's closing price) 7.14

Target price, EUR 7.0

Latest change in recommendation 04-Feb-20

Latest report on company 02-Mar-20

Research paid by issuer: YES

No. of shares outstanding, '000's 42,608

No. of shares fully diluted, '000's 42,608

Market cap, EURm 304

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 03-Aug-20

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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	67.3	12.5	18.6%	0.9	0.22	32.9	5.0	26.8	0.3	0.15
2021E	78.0	14.6	18.7%	5.2	0.25	28.2	4.3	23.1	1.7	0.18
2022E	88.9	17.1	19.2%	7.3	0.30	23.8	3.8	19.8	2.4	0.19
Market cap, EURm			304	Gearing 2020E, %		111.1	CAGR EPS 2019-22, %			18.1
Net debt 2020E, EURm			32	Price/book 2020E		10.6	CAGR sales 2019-22, %			15.3
Enterprise value, EURm			336	Dividend yield 2020E, %		2.1	ROE 2020E, %			35.4
Total assets 2020E, EURm			90	Tax rate 2020E, %		20.0	ROCE 2020E, %			18.3
Goodwill 2020E, EURm			21	Equity ratio 2020E, %		31.9	PEG, P/E 20/CAGR			2.0

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	7.14 PV of Free Cash Flow	100 Long-term growth, %	2.5 Risk-free interest rate, %
DCF share value	7.25 PV of Horizon value	243 WACC, %	7.4 Market risk premium, %
Share price potential, %	1.6 Unconsolidated equity	0 Spread, %	0.5 Debt risk premium, %
Maximum value	8.3 Marketable securities	8 Minimum WACC, %	6.9 Equity beta coefficient
Minimum value	6.4 Debt - dividend	-42 Maximum WACC, %	7.9 Target debt ratio, %
Horizon value, %	70.9 Value of stock	309 Nr of shares, Mn	42.6 Effective tax rate, %

DCF valuation, EURm	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	Horizon
Net sales	58	67	78	89	98	105	110	115	121	127	130	134
<i>Sales growth, %</i>	<i>18.6</i>	<i>16.0</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>2.5</i>	<i>2.5</i>
Operating income (EBIT)	10	13	15	17	20	22	23	24	25	27	27	28
<i>Operating income margin, %</i>	<i>18.0</i>	<i>18.6</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	11	12	13	14	15	15	16	17	
EBITDA	19	23	25	28	32	35	37	39	41	43	44	
- Paid taxes	-3	-3	-3	-3	-4	-4	-5	-5	-5	-5	-5	
- 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	-12	-14	-15	-15	-15	-15	-15	-16	-17	-16	
<i>opCAPEX / Sales, %</i>	<i>22.9</i>	<i>21.0</i>	<i>20.9</i>	<i>19.0</i>	<i>17.5</i>	<i>16.4</i>	<i>15.6</i>	<i>15.6</i>	<i>15.6</i>	<i>15.6</i>	<i>14.6</i>	
- Acquisitions	-2	-5	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	4	8	10	13	16	18	19	20	21	23	484
= Discounted FCFF		3	7	9	10	12	12	12	12	11	12	243
= DFCF min WACC		4	7	9	10	12	12	12	12	12	12	284
= DFCF max WACC		3	7	8	10	11	12	11	11	11	11	211

INTERIM FIGURES

EVLI ESTIMATES, EURm	2019Q1	2019Q2	2019Q3	2019Q4	2019	2020Q1	2020Q2E	2020Q3E	2020Q4E	2020E	2021E	2022E
Net sales	14.8	14.8	13.5	14.9	58.0	17.4	17.2	15.4	17.3	67.3	78.0	88.9
EBITDA	5.2	5.2	4.2	4.3	18.9	6.2	6.1	5.0	5.3	22.7	24.7	27.8
<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>36.0</i>	<i>35.7</i>	<i>32.2</i>	<i>30.9</i>	<i>33.7</i>	<i>31.6</i>	<i>31.2</i>
EBIT	3.4	3.2	2.4	1.5	10.4	3.7	3.7	2.6	2.5	12.5	14.6	17.1
<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>21.4</i>	<i>21.4</i>	<i>17.1</i>	<i>14.4</i>	<i>18.6</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	-1.0	-1.1	-1.1
Pre-tax profit	3.3	2.9	2.1	1.3	9.6	3.5	3.4	2.4	2.2	11.6	13.5	16.0
Tax	-0.7	-0.6	-0.4	-0.3	-2.0	-0.7	-0.7	-0.5	-0.4	-2.3	-2.7	-3.2
<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>20.1</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	2.8	2.7	1.9	1.8	9.3	10.8	12.8
EPS	0.06	0.05	0.04	0.02	0.18	0.07	0.06	0.04	0.04	0.22	0.25	0.30
EPS adjusted (diluted no. of shares)	0.06	0.05	0.04	0.02	0.18	0.07	0.06	0.04	0.04	0.22	0.25	0.30
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	0.19
SALES, EURm												
Talenom	14.8	14.8	13.5	14.9	58.0	17.4	17.2	15.4	17.3	67.3	78.0	88.9
Total	14.8	14.8	13.5	14.9	58.0	17.4	17.2	15.4	17.3	67.3	78.0	88.9
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>17.4</i>	<i>16.5</i>	<i>14.1</i>	<i>16.0</i>	<i>16.0</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>17.4</i>	<i>16.5</i>	<i>14.1</i>	<i>16.0</i>	<i>16.0</i>	<i>16.0</i>	<i>14.0</i>
EBIT, EURm												
Talenom	3.4	3.2	2.4	1.5	10.4	3.7	3.7	2.6	2.5	12.5	14.6	17.1
Total	3.4	3.2	2.4	1.5	10.4	3.7	3.7	2.6	2.5	12.5	14.6	17.1
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>21.4</i>	<i>21.4</i>	<i>17.1</i>	<i>14.4</i>	<i>18.6</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>21.4</i>	<i>21.4</i>	<i>17.1</i>	<i>14.4</i>	<i>18.6</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	67.3	78.0	88.9
<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>16.0</i>	<i>16.0</i>	<i>14.0</i>
EBITDA	3.2	6.8	9.5	13.7	18.9	22.7	24.7	27.8
<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>33.7</i>	<i>31.6</i>	<i>31.2</i>
Depreciation	-2.0	-2.6	-4.7	-5.1	-8.5	-10.2	-10.1	-10.7
EBITA	1.2	4.2	4.8	8.5	10.4	12.5	14.6	17.1
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	12.5	14.6	17.1
<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>18.6</i>	<i>18.7</i>	<i>19.2</i>
Reported EBIT	1.2	4.0	4.7	8.5	10.4	12.5	14.6	17.1
<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>18.6</i>	<i>18.7</i>	<i>19.2</i>
Net financials	-1.1	-0.5	-0.5	-0.6	-0.8	-1.0	-1.1	-1.1
Pre-tax profit	0.1	3.6	4.3	8.0	9.6	11.6	13.5	16.0
Taxes	0.0	-0.7	-0.9	-1.6	-2.0	-2.3	-2.7	-3.2
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	9.3	10.8	12.8
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	37	43	49
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	17	16	17
Total assets	40	42	46	59	71	90	97	105
Liabilities								
Shareholder's equity	9	12	14	19	24	29	33	38
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	40	40	41
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	90	97	105
CASH FLOW, EURm								
+ EBITDA	3	7	10	14	19	23	25	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	-14	-16	-17
- Acquisitions	0	0	0	-1	-2	-5	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Free cash flow	-1	2	5	3	3	1	5	7
+/- New issues/buybacks	9	0	0	1	1	1	0	0
- Paid dividend	0	0	-1	-2	-4	-5	-6	-8
+/- Other	-3	-3	-4	-1	1	12	0	2
Change in cash	4	-1	1	1	2	9	-1	1

KEY FIGURES	2016	2017	2018	2019	2020E	2021E	2022E
M-cap	49	87	131	314	304	304	304
Net debt (excl. convertibles)	18	18	26	29	32	33	33
Enterprise value	67	105	157	342	336	337	338
Sales	37	41	49	58	67	78	89
EBITDA	7	10	14	19	23	25	28
EBIT	4	5	9	10	13	15	17
Pre-tax	4	4	8	10	12	14	16
Earnings	3	3	6	8	9	11	13
Equity book value (excl. minorities)	12	14	19	24	29	33	38
Valuation multiples							
EV/sales	1.8	2.5	3.2	5.9	5.0	4.3	3.8
EV/EBITDA	9.9	11.0	11.5	18.1	14.8	13.7	12.2
EV/EBITA	16.1	21.6	18.4	32.9	26.8	23.1	19.8
EV/EBIT	16.1	21.6	18.4	32.9	26.8	23.1	19.8
EV/OCF	9.8	10.6	12.9	18.7	16.8	15.6	14.0
EV/FCFF	46.6	38.2	41.8	57.9	91.7	41.1	32.6
P/FCFE	127.4	98.6	238.9	587.2	338.8	58.0	41.8
P/E	16.9	23.4	20.6	41.2	32.9	28.2	23.8
P/B	4.2	6.2	7.0	13.3	10.6	9.2	8.0
Target EV/EBITDA	0.0	0.0	0.0	0.0	14.5	13.4	11.9
Target EV/EBIT	0.0	0.0	0.0	0.0	26.4	22.7	19.4
Target EV/FCF	0.0	0.0	0.0	0.0	367.7	63.2	45.5
Target P/B	0.0	0.0	0.0	0.0	10.4	9.0	7.8
Target P/E	0.0	0.0	0.0	0.0	32.2	27.6	23.3
Per share measures							
Number of shares	40,842	40,872	41,231	41,836	42,608	42,608	42,608
Number of shares (diluted)	40,842	40,872	41,231	41,836	42,608	42,608	42,608
EPS	0.07	0.08	0.15	0.18	0.22	0.25	0.30
Operating cash flow per share	0.17	0.24	0.30	0.44	0.47	0.51	0.57
Free cash flow per share	0.06	0.13	0.08	0.08	0.02	0.12	0.17
Book value per share	0.29	0.34	0.45	0.56	0.67	0.78	0.90
Dividend per share	0.03	0.05	0.09	0.13	0.15	0.18	0.19
Dividend payout ratio, %	46.9	63.9	59.4	68.7	69.1	71.0	65.0
Dividend yield, %	2.8	2.5	2.9	1.7	2.1	2.5	2.7
FCF yield, %	4.7	6.1	2.5	1.0	0.3	1.7	2.4
Efficiency measures							
ROE	27.5	26.6	39.0	36.0	35.4	34.9	35.8
ROCE	12.5	13.7	19.7	18.8	18.3	18.3	20.0
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	21.0	20.9	19.0
CAPEX/sales (incl. acquisitions), %	9.9	11.0	16.7	19.3	13.6	20.9	19.0
FCFF/EBITDA	0.2	0.3	0.3	0.3	0.2	0.3	0.4
Net debt/EBITDA, book-weighted	2.7	1.9	1.9	1.5	1.4	1.3	1.2
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	31.9	34.3	36.3
Gearing, %	155.2	126.4	138.0	121.8	111.1	99.8	87.5

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	8,725,890	62.303	20.5%
Tahkola Markus	5,515,824	39.383	12.9%
Skandinaviska Enskilda Banken (nominee reg.)	3,633,329	25.942	8.5%
Nordea Bank Abp (nominee reg.)	3,137,873	22.404	7.4%
Ilmarinen Mutual Pension Insurance Company	2,202,436	15.725	5.2%
Danske Invest Finnish Institutional Equity fund	1,897,512	13.548	4.5%
Conficap	1,850,000	13.209	4.3%
Evli Finnish Small Cap fund	1,638,080	11.696	3.8%
Föreningen Konstsamfundet r.f	780,000	5.569	1.8%
Siuruainen Mikko	694,716	4.960	1.6%
Ten largest	30,075,660	214.740	71%
Residual	12,531,863	89.478	29%
Total	42,607,523	304.218	100%

EARNINGS CALENDAR	
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, %	$\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholder's equity} + \text{minority interest} + \text{taxed provisions (average)}}$		

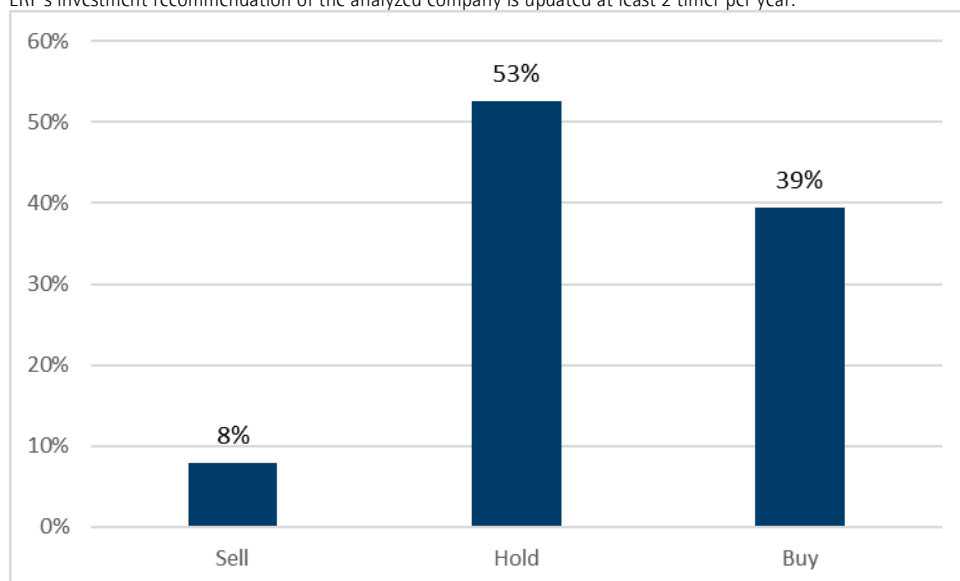
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Investment recommendations are defined as follows:

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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