

## Solid case, valuation stretched

Talenom's Q4 results should not contain any major surprises and our sights are set on information on 2021 expectations. Recent acquisitions support continued growth in 2021, with our growth estimate at 18%.

### Good finish to year expected

Talenom will report Q4 results on February 8<sup>th</sup>. We expect revenue of EUR 16.8m (Q4/19: 14.9m) and EBIT of EUR 2.6m (Q4/19: 1.5m). Our respective FY2020 estimates are EUR 65.5m and EUR 13.1m, with co's guidance at EUR 64-68m and 12-14m respectively. With the predictability in revenue streams and the CMD held in November we do not expect any major surprises and the guidance for 2021 will be of most interest. We expect Talenom to propose a dividend distribution of EUR 0.15 per share (2019 EUR 0.125 adj.).

### Acquisitions providing growth boost for 2021

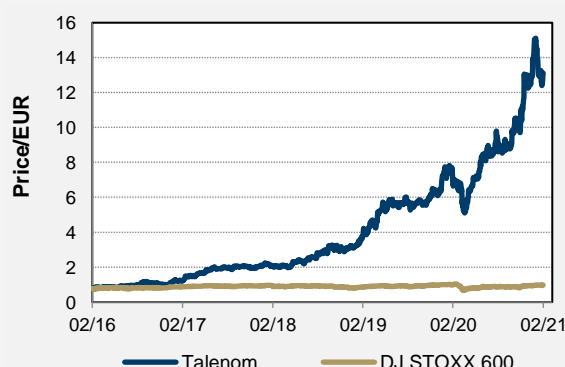
Talenom announced the acquisitions of two accounting firms in Sweden earlier on in Q4 and of acquisitions in Finland in February. The total combined net sales of these acquisitions amounted to roughly EUR 4.5m, providing a good start for growth in 2021. We had already assumed a pickup in inorganic growth and have made only minor adjustments to our estimates. We expect revenue growth of 18.0% in 2021, driven to a larger extent by acquisitions. Talenom has noted that organic growth domestically has been more challenging, and the current environment and digitalization needs offer opportunities for growing inorganically.

### SELL (HOLD) with a target price of EUR 11.5 (10.2)

Talenom's share price has increased some 16% since our previous update and on our estimates now trades at 2021 P/E of close to 50x. Talenom has a solid multiyear track of rapid profitable growth, but with some uncertainty in the somewhat different growth approach and organic growth slowdown we find the current valuation hard to justify. We adjust our target price to EUR 11.5 (10.2), valuing Talenom at 43x and 38x 2021E and 2022E P/E respectively and downgrade our rating to SELL (HOLD).

## Rating

SELL



Share price, EUR (Last trading day's closing price) 13.10

Target price, EUR 11.5

Latest change in recommendation	04-Feb-21
Latest report on company	12-Nov-20
Research paid by issuer:	YES
No. of shares outstanding, '000's	43,352
No. of shares fully diluted, '000's	43,352
Market cap, EURm	568
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	08-Feb-21
Web site	talenom.fi/en/investors

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BUY HOLD SELL

## KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	FCF EURm	EPS EUR	P/E (x)	EV/Sales (x)	EV/EBIT (x)	FCF yield %	DPS EUR
2018	48.9	8.5	17.5%	2.8	0.15	20.6	3.2	18.4	2.1	0.09
2019	58.0	10.4	18.0%	2.6	0.18	41.2	5.9	32.9	0.8	0.13
2020E	65.5	13.1	19.9%	0.9	0.22	58.7	9.1	45.8	0.2	0.15
2021E	77.3	15.5	20.0%	1.5	0.27	49.1	7.8	39.0	0.3	0.18
2022E	88.1	17.6	20.0%	4.8	0.30	43.0	6.9	34.4	0.8	0.20
Market cap, EURm	568			Gearing 2020E, %	93.3		CAGR EPS 2019-22, %		18.7	
Net debt 2020E, EURm	29			Price/book 2020E	18.0		CAGR sales 2019-22, %		15.0	
Enterprise value, EURm	597			Dividend yield 2020E, %	1.1		ROE 2020E, %		35.1	
Total assets 2020E, EURm	84			Tax rate 2020E, %	20.5		ROCE 2020E, %		19.9	
Goodwill 2020E, EURm	24			Equity ratio 2020E, %	37.8		PEG, P/E 20/CAGR		4.0	

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	13.10 PV of Free Cash Flow	113 Long-term growth, %	2.5 Risk-free interest rate, %	2.25
DCF share value	9.74 PV of Horizon value	342 WACC, %	6.9 Market risk premium, %	5.8
Share price potential, %	-25.6 Unconsolidated equity	0 Spread, %	0.5 Debt risk premium, %	3.3
Maximum value	11.2 Marketable securities	10 Minimum WACC, %	6.4 Equity beta coefficient	0.70
Minimum value	8.6 Debt - dividend	-39 Maximum WACC, %	7.4 Target debt ratio, %	25
Horizon value, %	75.2 Value of stock	422 Nr of shares, Mn	43.4 Effective tax rate, %	20

DCF valuation, EURm	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	Horizon
Net sales	58	65	77	88	97	104	109	114	120	126	129	132
<i>Sales growth, %</i>	<i>18.6</i>	<i>13.0</i>	<i>18.0</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	18	19	23	26	29	30	32	32	33
<i>Operating income margin, %</i>	<i>18.0</i>	<i>19.9</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>22.0</i>	<i>24.0</i>	<i>25.0</i>	<i>25.0</i>	<i>25.0</i>	<i>25.0</i>	<i>25.0</i>
+ Depreciation+amort.	8	11	11	13	12	13	14	15	15	16	17	
EBITDA	19	24	27	30	31	36	40	43	45	47	49	
- Paid taxes	-3	-3	-3	-4	-4	-5	-5	-6	-6	-6	-6	
- Change in NWC	1	0	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	-13	-15	-17	-15	-15	-14	-15	-16	-17	-16	
<i>opCAPEX / Sales, %</i>	<i>22.9</i>	<i>22.8</i>	<i>21.7</i>	<i>21.5</i>	<i>17.6</i>	<i>16.4</i>	<i>15.7</i>	<i>15.7</i>	<i>15.7</i>	<i>15.7</i>	<i>14.7</i>	
- Acquisitions	-2	-5	-5	-3	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	5	4	4	8	13	17	21	23	24	25	27	622
= Discounted FCFF		4	4	7	11	13	15	15	15	15	15	342
= DFCF min WACC		4	4	7	11	13	15	16	15	15	15	402
= DFCF max WACC		4	4	7	11	13	14	15	14	14	14	295

## INTERIM FIGURES

EVLI ESTIMATES, EURm	2019Q1	2019Q2	2019Q3	2019Q4	2019	2020Q1	2020Q2	2020Q3	2020Q4E	2020E	2021E	2022E
Net sales	14.8	14.8	13.5	14.9	58.0	17.4	16.5	14.8	16.8	65.5	77.3	88.1
EBITDA	5.2	5.2	4.2	4.3	18.9	6.2	5.5	6.5	5.5	23.7	26.9	30.2
<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>33.6</i>	<i>43.4</i>	<i>32.4</i>	<i>36.2</i>	<i>34.8</i>	<i>34.3</i>
EBIT	3.4	3.2	2.4	1.5	10.4	3.7	3.6	3.1	2.6	13.1	15.5	17.6
<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>21.8</i>	<i>21.2</i>	<i>15.5</i>	<i>19.9</i>	<i>20.0</i>	<i>20.0</i>
Net financial items	-0.1	-0.3	-0.2	-0.2	-0.8	-0.2	-0.2	-0.2	-0.2	-0.9	-1.0	-1.1
Pre-tax profit	3.3	2.9	2.1	1.3	9.6	3.5	3.4	2.9	2.4	12.2	14.5	16.5
Tax	-0.7	-0.6	-0.4	-0.3	-2.0	-0.7	-0.7	-0.6	-0.4	-2.5	-2.9	-3.3
<i>Tax rate (%)</i>	<i>20.0</i>	<i>21.2</i>	<i>20.0</i>	<i>20.3</i>	<i>20.4</i>	<i>20.1</i>	<i>21.2</i>	<i>21.1</i>	<i>19.1</i>	<i>20.5</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	2.3	1.9	9.7	11.6	13.2
EPS	0.06	0.05	0.04	0.02	0.18	0.06	0.06	0.05	0.04	0.22	0.27	0.30
EPS adjusted (diluted no. of shares)	0.06	0.05	0.04	0.02	0.18	0.06	0.06	0.05	0.04	0.22	0.27	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	0.20
<b>SALES, EURm</b>												
Talenom	14.8	14.8	13.5	14.9	58.0	17.4	16.5	14.8	16.8	65.5	77.3	88.1
Total	14.8	14.8	13.5	14.9	58.0	17.4	16.5	14.8	16.8	65.5	77.3	88.1
<b>SALES GROWTH, Y/Y %</b>												
Talenom	16.1	17.7	21.1	19.8	18.6	17.4	11.8	10.0	12.7	13.0	18.0	14.0
Total	16.1	17.7	21.1	19.8	18.6	17.4	11.8	10.0	12.7	13.0	18.0	14.0
<b>EBIT, EURm</b>												
Talenom	3.4	3.2	2.4	1.5	10.4	3.7	3.6	3.1	2.6	13.1	15.5	17.6
Total	3.4	3.2	2.4	1.5	10.4	3.7	3.6	3.1	2.6	13.1	15.5	17.6
<b>EBIT margin, %</b>												
Talenom	23.3	21.4	17.4	9.8	18.0	21.4	21.8	21.2	15.5	19.9	20.0	20.0
Total	23.3	21.4	17.4	9.8	18.0	21.4	21.8	21.2	15.5	19.9	20.0	20.0

INCOME STATEMENT, EURm	2015	2016	2017	2018	2019	2020E	2021E	2022E
Sales	33.0	37.0	41.4	48.9	58.0	65.5	77.3	88.1
<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>13.0</i>	<i>18.0</i>	<i>14.0</i>
EBITDA	3.2	6.8	9.5	13.7	18.9	23.7	26.9	30.2
<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>36.2</i>	<i>34.8</i>	<i>34.3</i>
Depreciation	-2.0	-2.6	-4.7	-5.1	-8.5	-10.6	-11.4	-12.6
EBITA	1.2	4.2	4.8	8.5	10.4	13.1	15.5	17.6
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	13.1	15.5	17.6
<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>19.9</i>	<i>20.0</i>	<i>20.0</i>
Reported EBIT	1.2	4.0	4.7	8.5	10.4	13.1	15.5	17.6
<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>19.9</i>	<i>20.0</i>	<i>20.0</i>
Net financials	-1.1	-0.5	-0.5	-0.6	-0.8	-0.9	-1.0	-1.1
Pre-tax profit	0.1	3.6	4.3	8.0	9.6	12.2	14.5	16.5
Taxes	0.0	-0.7	-0.9	-1.6	-2.0	-2.5	-2.9	-3.3
Minority shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	0.1	2.7	3.3	6.4	7.6	9.7	11.6	13.2
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
<b>BALANCE SHEET, EURm</b>								
<b>Assets</b>								
Fixed assets	11	14	17	21	28	34	42	48
Goodwill	18	18	18	18	21	24	26	29
Right of use assets	0	0	0	8	8	8	9	9
Inventory	0	0	0	0	0	0	0	0
Receivables	4	5	5	5	7	7	9	10
Liquid funds	5	4	5	6	8	10	12	13
Total assets	40	42	46	59	71	84	97	109
<b>Liabilities</b>								
Shareholder's equity	9	12	14	19	24	32	37	42
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	8	9	9
Deferred taxes	0	0	1	1	1	1	1	1
Interest bearing debt	24	23	23	24	28	31	37	42
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	84	97	109
<b>CASH FLOW, EURm</b>								
+ EBITDA	3	7	10	14	19	24	27	30
- 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	0	1	1
+/- Other	0	0	0	0	1	0	0	0
= Cash flow from operations	2	6	9	12	18	21	24	27
- Capex	-3	-4	-5	-9	-13	-15	-17	-19
- Acquisitions	0	0	0	-1	-2	-5	-5	-3
+ Divestments	0	0	0	0	0	0	0	0
= Free cash flow	-1	2	5	3	3	1	2	5
+/- New issues/buybacks	9	0	0	1	1	4	0	0
- Paid dividend	0	0	-1	-2	-4	-5	-7	-8
+/- Other	-3	-3	-3	0	2	3	7	5
Change in cash	4	-1	1	1	2	2	2	2

KEY FIGURES	2016	2017	2018	2019	2020E	2021E	2022E
M-cap	49	87	131	314	568	568	568
Net debt (excl. convertibles)	18	18	26	29	29	34	37
Enterprise value	67	105	157	342	597	602	605
Sales	37	41	49	58	65	77	88
EBITDA	7	10	14	19	24	27	30
EBIT	4	5	9	10	13	15	18
Pre-tax	4	4	8	10	12	14	17
Earnings	3	3	6	8	10	12	13
Equity book value (excl. minorities)	12	14	19	24	32	37	42
<b>Valuation multiples</b>							
EV/sales	1.8	2.5	3.2	5.9	9.1	7.8	6.9
EV/EBITDA	9.9	11.0	11.5	18.1	25.2	22.4	20.0
EV/EBITA	16.1	21.6	18.4	32.9	45.8	39.0	34.4
EV/EBIT	16.1	21.6	18.4	32.9	45.8	39.0	34.4
EV/OCF	10.5	11.1	13.4	19.3	28.7	25.3	22.8
EV/FCFF	66.0	45.8	48.3	64.9	166.4	137.0	76.9
P/FCFE	156.0	108.0	282.4	732.8	645.5	377.8	118.9
P/E	16.9	23.4	20.6	41.2	58.7	49.1	43.0
P/B	4.2	6.2	7.0	13.3	18.0	15.5	13.5
Target EV/EBITDA	0.0	0.0	0.0	0.0	22.3	19.8	17.7
Target EV/EBIT	0.0	0.0	0.0	0.0	40.4	34.5	30.4
Target EV/FCF	0.0	0.0	0.0	0.0	600.1	354.6	112.2
Target P/B	0.0	0.0	0.0	0.0	15.8	13.6	11.8
Target P/E	0.0	0.0	0.0	0.0	51.5	43.1	37.7
<b>Per share measures</b>							
Number of shares	40,842	40,872	41,231	41,836	43,352	43,352	43,352
Number of shares (diluted)	40,842	40,872	41,231	41,836	43,352	43,352	43,352
EPS	0.07	0.08	0.15	0.18	0.22	0.27	0.30
Operating cash flow per share	0.16	0.23	0.28	0.42	0.48	0.55	0.61
Free cash flow per share	0.05	0.12	0.07	0.06	0.02	0.03	0.11
Book value per share	0.29	0.34	0.45	0.56	0.73	0.85	0.97
Dividend per share	0.03	0.05	0.09	0.13	0.15	0.18	0.20
Dividend payout ratio, %	46.9	63.9	59.4	68.7	67.2	67.4	65.0
Dividend yield, %	2.8	2.5	2.9	1.7	1.1	1.4	1.5
FCF yield, %	3.8	5.6	2.1	0.8	0.2	0.3	0.8
<b>Efficiency measures</b>							
ROE	27.5	26.6	39.0	36.0	35.1	33.9	33.5
ROCE	12.5	13.7	19.7	18.8	19.9	20.1	20.1
<b>Financial ratios</b>							
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	22.8	21.7	21.5
CAPEX/sales (incl. acquisitions), %	9.9	11.0	16.7	19.3	15.1	14.6	18.3
FCFF/EBITDA	0.1	0.2	0.2	0.3	0.2	0.2	0.3
Net debt/EBITDA, book-weighted	2.7	1.9	1.9	1.5	1.2	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	37.8	37.6	38.5
Gearing, %	155.2	126.4	138.0	121.8	93.3	94.0	89.1

**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	8,679,015	113.695	20.0%
Skandinaviska Enskilda Banken (nominee reg.)	5,829,006	76.360	13.4%
Tahkola Markus	5,065,824	66.362	11.7%
Nordea Bank Abp (nominee reg.)	4,095,353	53.649	9.4%
Danske Invest Finnish Institutional Equity fund	2,300,000	30.130	5.3%
Conficap	1,850,000	24.235	4.3%
Ilmarinen Mutual Pension Insurance Company	1,800,000	23.580	4.2%
Evli Finnish Small Cap fund	1,616,080	21.171	3.7%
Föreningen Konstsfundet r.f	780,000	10.218	1.8%
Siuruainen Mikko	694,716	9.101	1.6%
Ten largest	32,709,994	428.501	75%
Residual	10,641,593	139.405	25%
Total	43,351,587	567.906	100%

**EARNINGS CALENDAR**

February 08, 2021	FY 2020 Results
April 26, 2021	Q1 report
August 02, 2021	Q2 report
November 01, 2021	Q3 report

**OTHER EVENTS****COMPANY MISCELLANEOUS**

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

## DEFINITIONS

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

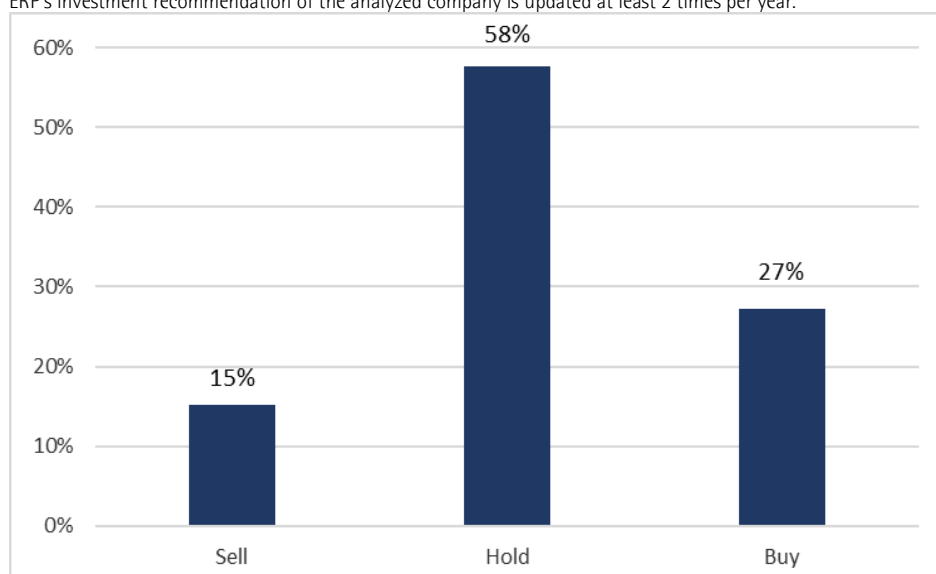
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Target price compared to share price	Recommendation
< -10 %	SELL
-10 – (+10) %	HOLD
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Name(s) of the analyst(s): Salokivi

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