

Continuing rapid acquisition pace

Talenom acquired Balance-Team Oy, a specialist in financial management for associations, and raised its 2021 sales guidance to EUR 80-84m (prev. EUR 78-82m). We now expect growth of 24.6% in 2021. We retain our HOLD-rating with a target price of EUR 12.0 (11.5).

Acquired Balance-Team Oy and raises sales guidance

Talenom expands its operations in Finland by acquiring Helsinki-based Balance-Team Oy, a specialist in financial management for associations. The acquisition will make Talenom a leading provider of financial management services for nonprofit organisations in Finland. The sales and EBITDA in 2020 of the transferring operations were EUR 2.7m and EUR 1.0m respectively. The share capital of the transferring operations was transferred to Talenom on April 15th. The transaction price is EUR 5.3m, implying an approx. price of 5.0x EV/EBITDA on 2020 figures, to be paid 50/50 in cash and shares. Due to the acquisition Talenom raises its sales guidance for 2021 from EUR 78-82m to EUR 80-84m. The EBIT guidance (EUR 14-16m) remains intact.

Rapid growth in 2021 with our estimate at 24.6%

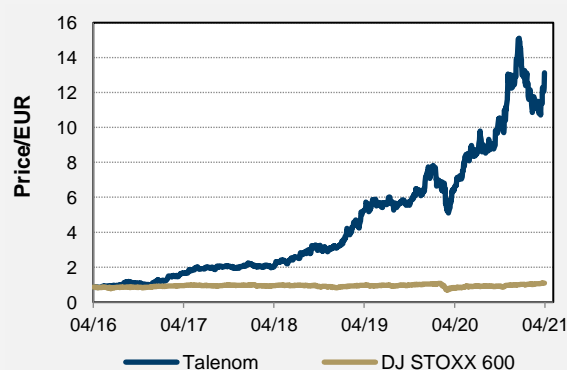
The guidance revisions did not come as a major surprise given the guidance being raised already in March due to acquisitions, while the EBIT guidance quite as expected remains intact. The pace of acquisitions has been rapid so far during H1 and a further guidance revision is not completely unlikely if the pace continues. We have adjusted our 2021 sales estimate to EUR 81.2m, implying a growth of 24.6%, with our EUR 15.3m EBIT estimate intact. Talenom reports Q1 results on April 26th, with our sales and EBIT estimates at EUR 19.9m and EUR 4.4m respectively.

HOLD with a target price of EUR 12.0 (11.5)

In light of the accelerating growth pace we adjust our target price to EUR 12.0 (11.5) and retain our HOLD-rating. Our target price values Talenom at approx. 45x 2021 P/E, which we see as justifiable given the stability of the business and the rapid profitable growth.

Rating

HOLD



Share price, EUR (Last trading day's closing price) 13.12

Target price, EUR 12.0

Latest change in recommendation 09-Feb-21

Latest report on company 19-Mar-21

Research paid by issuer: YES

No. of shares outstanding, '000's 43,466

No. of shares fully diluted, '000's 43,466

Market cap, EURm 570

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 26-Apr-21

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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
2019	58.0	10.4	18.0%	2.6	0.18	41.2	5.9	32.9	0.8	0.13
2020	65.2	12.9	19.8%	3.3	0.22	68.1	10.5	52.9	0.5	0.15
2021E	81.2	15.3	18.9%	-4.2	0.26	49.6	7.5	39.8	-0.7	0.18
2022E	92.6	18.5	20.0%	3.8	0.32	41.0	6.6	33.2	0.7	0.21
2023E	101.8	20.4	20.0%	11.1	0.35	37.2	6.0	30.0	1.9	0.23
Market cap, EURm		570	Gearing 2021E, %			106.8	CAGR EPS 2020-23, %			16.9
Net debt 2021E, EURm		40	Price/book 2021E			15.3	CAGR sales 2020-23, %			16.0
Enterprise value, EURm		610	Dividend yield 2021E, %			1.4	ROE 2021E, %			33.2
Total assets 2021E, EURm		106	Tax rate 2021E, %			20.0	ROCE 2021E, %			19.3
Goodwill 2021E, EURm		34	Equity ratio 2021E, %			35.1	PEG, P/E 21/CAGR			3.0

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	13.12 PV of Free Cash Flow	122 Long-term growth, %	2.5 Risk-free interest rate, %
DCF share value	10.30 PV of Horizon value	354 WACC, %	6.9 Market risk premium, %
Share price potential, %	-21.5 Unconsolidated equity	0 Spread, %	0.5 Debt risk premium, %
Maximum value	11.8 Marketable securities	9 Minimum WACC, %	6.4 Equity beta coefficient
Minimum value	9.1 Debt - dividend	-38 Maximum WACC, %	7.4 Target debt ratio, %
Horizon value, %	74.4 Value of stock	448 Nr of shares, Mn	43.5 Effective tax rate, %

DCF valuation, EURm	2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	Horizon
Net sales	65	81	93	102	109	114	120	126	132	139	143	146
<i>Sales growth, %</i>	<i>12.4</i>	<i>24.6</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>5.0</i>	<i>2.5</i>	<i>2.5</i>
Operating income (EBIT)	13	15	19	20	24	26	29	32	33	35	36	37
<i>Operating income margin, %</i>	<i>19.8</i>	<i>18.9</i>	<i>20.0</i>	<i>20.0</i>	<i>22.0</i>	<i>23.0</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.	10	11	13	12	13	14	15	15	16	17	18	
EBITDA	23	27	32	33	37	40	44	47	49	52	53	
- Paid taxes	-2	-3	-4	-4	-5	-5	-6	-6	-7	-7	-7	
- Change in NWC	1	1	1	1	1	0	0	0	0	1	0	
<i>NWC / Sales, %</i>	<i>-7.8</i>	<i>-7.8</i>	<i>-7.8</i>	<i>-7.8</i>	<i>-7.8</i>	<i>-7.8</i>	<i>-7.8</i>	<i>-7.8</i>	<i>-7.8</i>	<i>-7.8</i>	<i>-7.8</i>	
+ Change in other liabs	0	0	0	0	0	0	0	0	0	0	0	
- Operative CAPEX	-15	-15	-18	-15	-15	-15	-16	-17	-17	-18	-17	
<i>opCAPEX / Sales, %</i>	<i>26.3</i>	<i>21.3</i>	<i>21.1</i>	<i>17.0</i>	<i>15.8</i>	<i>15.1</i>	<i>15.1</i>	<i>15.1</i>	<i>15.1</i>	<i>15.1</i>	<i>14.1</i>	
- Acquisitions	-2	-11	-5	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	-2	7	14	18	21	23	25	26	27	29	679
= Discounted FCFF		-1	6	12	14	15	15	16	15	15	15	354
= DFCF min WACC		-1	6	12	14	15	16	16	16	16	16	418
= DFCF max WACC		-1	6	12	14	15	15	15	15	15	15	304

INTERIM FIGURES

EVLI ESTIMATES, EURm	2020Q1	2020Q2	2020Q3	2020Q4	2020	2021Q1E	2021Q2E	2021Q3E	2021Q4E	2021E	2022E	2023E
Net sales	17.4	16.5	14.8	16.5	65.2	19.9	21.0	19.2	21.1	81.2	92.6	101.8
EBITDA	6.2	5.5	6.5	5.0	23.3	7.2	7.1	6.5	5.8	26.6	31.6	32.7
<i>EBITDA margin (%)</i>	<i>36.0</i>	<i>33.6</i>	<i>43.4</i>	<i>30.7</i>	<i>35.7</i>	<i>36.3</i>	<i>33.9</i>	<i>33.6</i>	<i>27.6</i>	<i>32.8</i>	<i>34.2</i>	<i>32.1</i>
EBIT	3.7	3.6	3.1	2.4	12.9	4.4	4.3	3.6	3.0	15.3	18.5	20.4
<i>EBIT margin (%)</i>	<i>21.4</i>	<i>21.8</i>	<i>21.2</i>	<i>14.7</i>	<i>19.8</i>	<i>22.1</i>	<i>20.5</i>	<i>18.9</i>	<i>14.2</i>	<i>18.9</i>	<i>20.0</i>	<i>20.0</i>
Net financial items	-0.2	-0.2	-0.2	-0.2	-0.9	-0.2	-0.2	-0.2	-0.2	-1.0	-1.1	-1.2
Pre-tax profit	3.5	3.4	2.9	2.2	12.0	4.2	4.1	3.4	2.8	14.4	17.4	19.2
Tax	-0.7	-0.7	-0.6	-0.4	-2.4	-0.8	-0.8	-0.7	-0.6	-2.9	-3.5	-3.8
<i>Tax rate (%)</i>	<i>20.1</i>	<i>21.2</i>	<i>21.1</i>	<i>18.4</i>	<i>20.3</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>
Net profit	2.8	2.7	2.3	1.8	9.6	3.3	3.2	2.7	2.2	11.5	13.9	15.3
EPS	0.06	0.06	0.05	0.04	0.22	0.08	0.07	0.06	0.05	0.26	0.32	0.35
EPS adjusted (diluted no. of shares)	0.06	0.06	0.05	0.04	0.22	0.08	0.07	0.06	0.05	0.26	0.32	0.35
Dividend per share	0.00	0.00	0.00	0.00	0.15	0.00	0.00	0.00	0.00	0.18	0.21	0.23
SALES, EURm												
Talenom	17.4	16.5	14.8	16.5	65.2	19.9	21.0	19.2	21.1	81.2	92.6	101.8
Total	17.4	16.5	14.8	16.5	65.2	19.9	21.0	19.2	21.1	81.2	92.6	101.8
SALES GROWTH, Y/Y %												
Talenom	17.4	11.8	10.0	10.4	12.4	14.7	27.3	29.3	28.2	24.6	14.0	10.0
Total	17.4	11.8	10.0	10.4	12.4	14.7	27.3	29.3	28.2	24.6	14.0	10.0
EBIT, EURm												
Talenom	3.7	3.6	3.1	2.4	12.9	4.4	4.3	3.6	3.0	15.3	18.5	20.4
Total	3.7	3.6	3.1	2.4	12.9	4.4	4.3	3.6	3.0	15.3	18.5	20.4
EBIT margin, %												
Talenom	21.4	21.8	21.2	14.7	19.8	22.1	20.5	18.9	14.2	18.9	20.0	20.0
Total	21.4	21.8	21.2	14.7	19.8	22.1	20.5	18.9	14.2	18.9	20.0	20.0

INCOME STATEMENT, EURm	2016	2017	2018	2019	2020	2021E	2022E	2023E
Sales	37.0	41.4	48.9	58.0	65.2	81.2	92.6	101.8
<i>Sales growth (%)</i>	<i>12.0</i>	<i>12.1</i>	<i>18.0</i>	<i>18.6</i>	<i>12.4</i>	<i>24.6</i>	<i>14.0</i>	<i>10.0</i>
EBITDA	6.8	9.5	13.7	18.9	23.3	26.6	31.6	32.7
<i>EBITDA margin (%)</i>	<i>18.5</i>	<i>23.0</i>	<i>28.0</i>	<i>32.6</i>	<i>35.7</i>	<i>32.8</i>	<i>34.2</i>	<i>32.1</i>
Depreciation	-2.6	-4.7	-5.1	-8.5	-10.4	-11.3	-13.1	-12.3
EBITA	4.2	4.8	8.5	10.4	12.9	15.3	18.5	20.4
Goodwill amortization / writedown	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	4.2	4.8	8.5	10.4	12.9	15.3	18.5	20.4
<i>EBIT margin (%)</i>	<i>11.3</i>	<i>11.7</i>	<i>17.5</i>	<i>18.0</i>	<i>19.8</i>	<i>18.9</i>	<i>20.0</i>	<i>20.0</i>
Reported EBIT	4.0	4.7	8.5	10.4	12.9	15.3	18.5	20.4
<i>EBIT margin (reported) (%)</i>	<i>10.7</i>	<i>11.3</i>	<i>17.5</i>	<i>18.0</i>	<i>19.8</i>	<i>18.9</i>	<i>20.0</i>	<i>20.0</i>
Net financials	-0.5	-0.5	-0.6	-0.8	-0.9	-1.0	-1.1	-1.2
Pre-tax profit	3.6	4.3	8.0	9.6	12.0	14.4	17.4	19.2
Taxes	-0.7	-0.9	-1.6	-2.0	-2.4	-2.9	-3.5	-3.8
Minority shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	2.7	3.3	6.4	7.6	9.6	11.5	13.9	15.3
Cash NRIs	-0.2	-0.1	0.0	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	14	17	21	28	37	44	50	55
Goodwill	18	18	18	21	24	34	39	39
Right of use assets	0	0	8	8	8	8	7	7
Inventory	0	0	0	0	0	0	0	0
Receivables	5	5	5	7	7	9	10	11
Liquid funds	4	5	6	8	9	11	13	14
Total assets	42	46	59	71	85	106	120	127
Liabilities								
Shareholder's equity	12	14	19	24	32	37	43	50
Minority interest	0	0	0	0	0	0	0	0
Convertibles	0	0	0	0	0	0	0	0
Lease liabilities	0	0	8	8	8	8	7	7
Deferred taxes	0	1	1	1	2	2	2	2
Interest bearing debt	23	23	24	28	30	43	49	48
Non-interest bearing current liabilities	7	8	8	10	12	15	17	19
Other interest-free debt	1	1	0	0	1	1	1	1
Total liabilities	42	46	59	71	85	106	120	127
CASH FLOW, EURm								
+ EBITDA	7	10	14	19	23	27	32	33
- Net financial items	-1	-1	-1	-1	-1	-1	-1	-1
- Taxes	0	0	-1	-2	-2	-3	-3	-4
- Increase in Net Working Capital	0	1	-1	1	1	1	1	1
+/- Other	0	0	0	1	1	0	0	0
= Cash flow from operations	6	9	12	18	23	24	28	28
- Capex	-4	-5	-9	-13	-17	-17	-20	-17
- Acquisitions	0	0	-1	-2	-2	-11	-5	0
+ Divestments	0	0	0	0	0	0	0	0
= Free cash flow	2	5	3	3	3	-4	4	11
+/- New issues/buybacks	0	0	1	1	4	0	0	0
- Paid dividend	0	-1	-2	-4	-5	-7	-8	-9
+/- Other	-3	-3	0	2	-1	13	6	-1
Change in cash	-1	1	1	2	1	2	2	1

KEY FIGURES	2017	2018	2019	2020	2021E	2022E	2023E
M-cap	87	131	314	652	570	570	570
Net debt (excl. convertibles)	18	26	29	29	40	44	42
Enterprise value	105	157	342	681	610	614	612
Sales	41	49	58	65	81	93	102
EBITDA	10	14	19	23	27	32	33
EBIT	5	9	10	13	15	19	20
Pre-tax	4	8	10	12	14	17	19
Earnings	3	6	8	10	11	14	15
Equity book value (excl. minorities)	14	19	24	32	37	43	50
Valuation multiples							
EV/sales	2.5	3.2	5.9	10.5	7.5	6.6	6.0
EV/EBITDA	11.0	11.5	18.1	29.3	22.9	19.4	18.7
EV/EBITA	21.6	18.4	32.9	52.9	39.8	33.2	30.0
EV/EBIT	21.6	18.4	32.9	52.9	39.8	33.2	30.0
EV/OCF	11.1	13.4	19.3	29.9	25.4	22.0	21.6
EV/FCFF	45.8	48.3	64.9	115.1	-395.2	91.9	43.4
P/FCFE	108.0	282.4	732.8	196.3	-137.2	148.7	51.3
P/E	23.4	20.6	41.2	68.1	49.6	41.0	37.2
P/B	6.2	7.0	13.3	20.3	15.3	13.2	11.5
Target EV/EBITDA	0.0	0.0	0.0	0.0	21.1	17.9	17.2
Target EV/EBIT	0.0	0.0	0.0	0.0	36.6	30.5	27.7
Target EV/FCF	0.0	0.0	0.0	0.0	-135.0	147.4	50.7
Target P/B	0.0	0.0	0.0	0.0	14.0	12.1	10.5
Target P/E	0.0	0.0	0.0	0.0	45.4	37.5	34.0
Per share measures							
Number of shares	40,872	41,231	41,836	43,352	43,466	43,466	43,466
Number of shares (diluted)	40,872	41,231	41,836	43,352	43,466	43,466	43,466
EPS	0.08	0.15	0.18	0.22	0.26	0.32	0.35
Operating cash flow per share	0.23	0.28	0.42	0.53	0.55	0.64	0.65
Free cash flow per share	0.12	0.07	0.06	0.08	-0.10	0.09	0.26
Book value per share	0.34	0.45	0.56	0.74	0.86	0.99	1.14
Dividend per share	0.05	0.09	0.13	0.15	0.18	0.21	0.23
Dividend payout ratio, %	63.9	59.4	68.7	67.9	68.0	65.0	65.0
Dividend yield, %	2.5	2.9	1.7	1.1	1.4	1.6	1.7
FCF yield, %	5.6	2.1	0.8	0.5	-0.7	0.7	1.9
Efficiency measures							
ROE	26.6	39.0	36.0	34.4	33.2	34.6	33.1
ROCE	13.7	19.7	18.8	19.8	19.3	19.7	19.8
Financial ratios							
Inventories as % of sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Receivables as % of sales	13.2	11.2	11.3	10.8	10.8	10.8	10.8
Non-interest bearing liabilities as % of sales	20.2	15.8	17.6	18.6	18.6	18.6	18.6
NWC/sales, %	-7.0	-4.6	-6.4	-7.8	-7.8	-7.8	-7.8
Operative CAPEX/sales, %	11.0	17.7	22.9	26.3	21.3	21.1	17.0
CAPEX/sales (incl. acquisitions), %	11.0	16.7	19.3	22.7	7.8	16.2	17.0
FCFF/EBITDA	0.2	0.2	0.3	0.3	-0.1	0.2	0.4
Net debt/EBITDA, book-weighted	1.9	1.9	1.5	1.2	1.5	1.4	1.3
Debt/equity, market-weighted	0.3	0.2	0.1	0.0	0.1	0.1	0.1
Equity ratio, book-weighted	30.4	31.5	33.0	37.9	35.1	36.2	39.1
Gearing, %	126.4	138.0	121.8	90.3	106.8	101.0	84.0

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	8,665,015	113.685	19.9%
Skandinaviska Enskilda Banken (nominee reg.)	6,698,998	87.891	15.4%
Tahkola Markus	5,065,824	66.464	11.7%
Nordea Bank Abp (nominee reg.)	3,203,726	42.033	7.4%
Danske Invest Finnish Institutional Equity fund	2,300,000	30.176	5.3%
Conficap	1,850,000	24.272	4.3%
Ilmarinen Mutual Pension Insurance Company	1,645,517	21.589	3.8%
Evli Finnish Small Cap fund	1,625,000	21.320	3.7%
Föreningen Konstsamfundet r.f	780,000	10.234	1.8%
Siuruainen Mikko	694,716	9.115	1.6%
Ten largest	32,528,796	426.778	75%
Residual	10,936,826	143.491	25%
Total	43,465,622	570.269	100%

EARNINGS CALENDAR

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

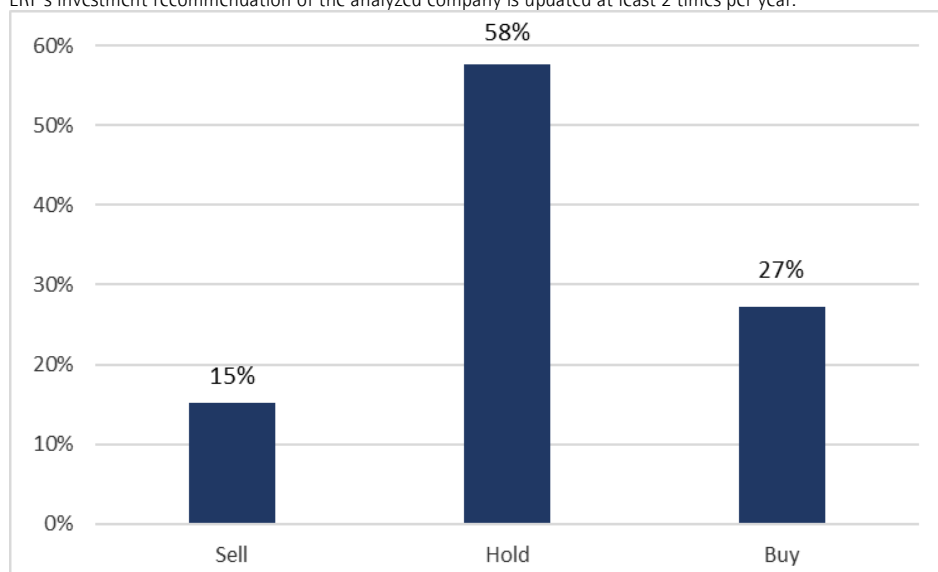
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Investment recommendations are defined as follows:

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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