EVLI

TALENOM

Commercial Services & Supplies/Finland, April 27, 2021
Company report

Realizing further growth potential

Talenom is more strongly seeking to supplement its organic growth strategy with inorganic growth, supported by the favourable market conditions. Near-term margin upside appears limited due to the increased M&A activity, but margins are set to remain healthy. We retain our HOLD-rating and adjust our target price to EUR 13.3 (12.0).

Organic growth supplemented by acquisitions

Talenom has in the past years focused clearly on organic growth and achieved double-digit growth figures in doing so. With favourable conditions for acquisitions Talenom is now clearly seeking to supplement the organic growth, which has slowed down slightly due to the pandemic, with inorganic growth. With the acquisitions made so far during 2021 we expect growth of 25.2% y/y and a sales CAGR of 16% during 2020-2023E, not including any likely new acquisitions.

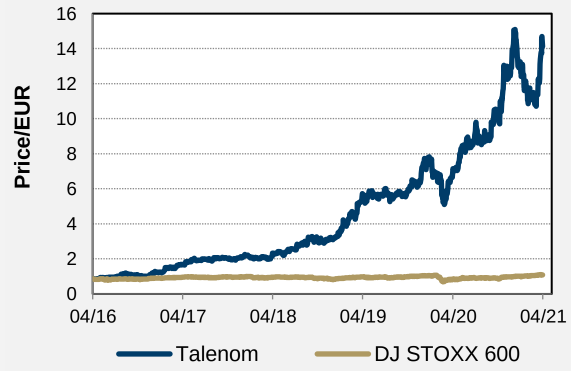
Healthy margins but M&A limits near-term upside

Talenom has invested heavily in improving the efficiency of its bookkeeping production line. Through digitalization and automation of bookkeeping tasks and processes the company has been able to better allocate personnel resources, resulting in sizeable improvements in margins. We expect further development to be limited in the near-term due to the increased M&A activity, with the typically lower margins of acquirees and integration costs burdening profitability. Likely future efficiency improvements and thus profitability should also be of smaller magnitude, with a larger share of actions already taken.

HOLD with a target price of EUR 13.3 (12.0)

We retain our HOLD-rating and adjust our target price to EUR 13.3 (12.0). Our target price values Talenom at 50x 2021E P/E. Valuation is certainly not on the cheaper side but the multi-year track of rapid growth and profitability improvement along with the very defensive nature of the business and pick-up in M&A activity in our view justify the high valuation.

Rating HOLD



Share price, EUR (Last trading day's closing price)	14.12
Target price, EUR	13.3
Latest change in recommendation	09-Feb-21
Latest report on company	16-Apr-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	614
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	02-Aug-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	81.6	15.3	18.8%	-4.3	0.26	53.3	8.0	42.6	-0.7	0.18
2022E	91.4	18.3	20.0%	9.5	0.32	44.4	7.1	35.7	1.5	0.21
2023E	100.5	21.1	21.0%	11.9	0.37	38.1	6.5	30.7	1.9	0.24

Market cap, EURm	614	Gearing 2021E, %	107.2	CAGR EPS 2020-23, %	18.8
Net debt 2021E, EURm	40	Price/book 2021E	16.5	CAGR sales 2020-23, %	15.6
Enterprise value, EURm	654	Dividend yield 2021E, %	1.3	ROE 2021E, %	33.2
Total assets 2021E, EURm	106	Tax rate 2021E, %	20.3	ROCE 2021E, %	19.3
Goodwill 2021E, EURm	34	Equity ratio 2021E, %	35.0	PEG, P/E 21/CAGR	3.2

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

Investment summary

Rapidly growing and highly profitable technology focused accounting company

Talenom is one of the largest companies providing accounting services in Finland. Talenom focuses on the small and mid-sized customer enterprises and is seeking to increase its presence also among the smallest customer segments. In addition to the main business comprising of bookkeeping, invoicing and payroll services, the company offers advisory and other complementary business services including funding and staffing services. The company has a solid track-record of profitable growth, with a sales CAGR of near 15% during 2015-2020, while having improved EBIT-margins from below 5% to 19.8% in 2020.

Large and stable market with high fragmentation

The market for accounting services amounted to slightly over a billion euros in 2019 and has been growing steadily, with average growth in the past ten years at around 4%. The stability in the market is increased by business entities being subject by law to a bookkeeping obligation and as such considerably less cyclical. Fragmentation in the market is considerable, with over 4,000 bookkeeping firms in total in Finland.

Digitalization and process automation have yielded high profitability

The company has been a pioneer in digitalization and automation of bookkeeping processes in the traditionally paper-driven and labour-intensive sector. Talenom has over the years invested heavily in software development and process automation, which has yielded clear results in higher sales per employee ratios and higher profitability.

High recurring revenue and customer retention

Over 90% of Talenom's revenue comes from on-going contracts for bookkeeping services and other business support services with for instance payroll functions. The customer contracts are generally long, according to management 10 years on average, and only a small share of customers are lost annually. The high customer retention and recurring revenue offers considerable top-line stability.

Inorganic growth picking up clearly

Recent market developments have seen near-term growth shifting towards M&A driven growth, after several years of rapid organic growth. The pandemic had a negative impact on new customer sales, and stronger organic growth figures will likely have to wait until 2022. The current high valuation is also clearly favourable for M&A activity, with Talenom's EV/Sales at around 8.0x and acquirees multiples typically well below 2.0x.

Expect rapid growth to continue while seeing limited near-term margin upside

Talenom's growth slowed down slightly in 2020 due to the pandemic, but with the increased M&A activity growth is set to pick up clearly and we expect growth of 25.2% (2020: 12.4%) in 2021. Talenom's profitability has improved clearly in the past years, largely due to enhanced efficiency of the bookkeeping production line, and an EBIT-margin of 19.8% was achieved in 2020. With a larger share of the measures to enhance operating efficiency already done and the typically somewhat lower profitability of acquired companies and acquisition integration costs we see limited near-term margin upside and estimate an EBIT-margin of 18.8% in 2021. Talenom's sales and EBIT guidance for 2021 are EUR 80-84m and 14-16m respectively. In the coming years we see organic geographic expansion potential in Finland becoming more limited and organic growth sought to be accelerated in Sweden. M&A activity will most likely continue to be an important part of growth in the coming years, with sights also set on expansion in Europe in the future. We estimate a sales CAGR of 16% during 2020-2023E.

HOLD with a target price of EUR 13.3 (12.0)

We retain our HOLD-rating and adjust our target price to EUR 13.3 (prev. 12.0). Our target price values Talenom at 50x 2021E P/E. Valuation is certainly not on the cheaper side but the multi-year track of rapid growth and profitability improvement along with the very defensive nature of the business have warranted the high valuation. We have previously seen 45x P/E levels as acceptable, but with the M&A activity picking up clearly, we see the longer-term value creation to continue to justify higher valuation.

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 invoice financing. The company's shares have been listed on the main list of the Helsinki Stock Exchange since 15.6.2017.

Table 1: Talenom's key figures

	2016	2017	2018	2019	2020
Revenue	37.0	41.4	48.9	58.0	65.2
Growth-%	12.0%	12.1%	18.0%	18.6%	12.4%
EBIT	4.2	4.8	8.5	10.4	12.9
EBIT-margin	11.3%	11.7%	17.5%	18.0%	19.8%
Employees	542	613	673	746	868

Source: Talenom, Evli Research

Digitalizing a traditionally paperwork dependent industry

Talenom has developed its own software and to a large extent digitalized 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 has been able to achieve scalability and a competitive advantage.

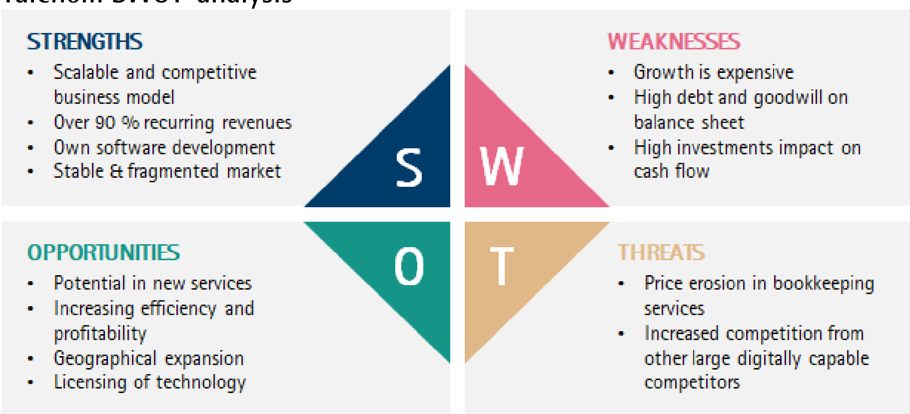
Focus on growth, automation and efficiency

The company has created a separate sales force for new customer sales, giving the accountants more time to focus on aiding the customers. Focus has been on organic growth, as Talenom sees it as more profitable than inorganic growth, while more recently also having clearly increased M&A activity to speed up growth. The company's bookkeeping production line has made it possible to exploit economies of scale and increase process efficiency through use of technology and automation, which has significantly improved the company's profit margins.

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. Bookkeeping remains the core service area but Talenom has sought to broaden its service offering to other supportive services, including advisory and staffing services. This additional offering is sold along with the other services to create a larger service coverage catering the needs of small and mid-sized enterprises.

Talenom SWOT-analysis



Source: Evli Research

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 offers complementary services, which are not directly accounting related, to widen the service mix and benefit from synergies in sales and existing client relationships.

Figure 1: Talenom's service offering in a nutshell

Source: Talenom, Evli Research

Accounting Services

96% of revenue from accounting services

Accounting services is by far the largest service area and accounted for 96% of the revenues in 2020. The share of revenues from accounting services of the company's total revenues has been increasing in the past years. Sales of the additional services, not included in accounting services, started to pick up during 2018, but the development has been weak since when comparing to the growth in accounting services.

The accounting service offering includes the following services:

- Outsourcing services: Bookkeeping, sales invoicing, invoice payment, payroll services, financial reporting and other mandatory reports to public authorities.
- Customer care services: Additional service giving the customer access to a designated accountant and additional financial situation follow-ups. Management accounting including project monitoring and cost accounting.
- Financial management software: Includes for instance in-house developed financial management and user interface tools Talenom Online and Talenom App (used by virtually all customers) as well as interfaces to other financial management software and BI solutions for corporate customers.

Advisory

Advisory share of revenue estimated at 3-5 %

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. 3-5% of the total revenue.

Complementary business services

Complementary services to aid SME customers

Talenom has sought to expand its service offering to SME's through services that support the companies' business, with some examples listed below. The revenue generation of these services started to pick up in 2018 but still accounts only for a marginal share of total revenue and the development has not been quite as envisioned in earlier years. The new business services offer a means of utilizing existing customer networks for additional sales and increase in average purchase per customer. These services also differentiate Talenom's service mix from most of its competitors'.

The new services include:

- **Talenom Financing Services:** Talenom's services include different funding solutions, for instance a partnership with AREX for the funding of customer invoices. The services are still in quite an early stage but given the total transaction volume of customers, management sees good potential in these business operations in the long-term. The newest addition is a partnership agreement with Fellow Finance to provide access to other business financing solutions.
- **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 the company management, Talenom is more flexible in how short-term staffing assignments can be offered for customers than competitors in this area.
- **Talenom HR services**: For companies requiring broader HR services than payroll calculation Talenom provides additional tools for managing human resources. These include Talenom HR software for streamlining HR management and a team of professionals to improve processes and manage HR related daily activities for customer companies.
- **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 (SaaS) solution.

Small customer segment

New business model to cater also the smallest customer segments

While announcing their earnings for Q3/2020 Talenom presented a new business model offered to small customers under the brand of TiliJaska. The main objective is to be able to offer relevant services throughout the lifecycle of companies, starting from the initial establishment and scaling up the service selection in line with the customer's revenue. To meet this requirement, Talenom also started to provide light entrepreneurship services to serve even the smallest businesses. As light entrepreneurs, the customers do not necessarily need to establish business entities, but are able to invoice their work through Talenom's mobile app.

Freemium tool with sales from additional premium packages

As a customer's business grows, the next step is to provide a freemium tool for the customer to handle their own accounting. The TiliJaska software is free of charge and the company seeks sales by selling additional premium packages including bookkeeping services and invoicing done by Talenom.

Started to offer banking services through an external partner

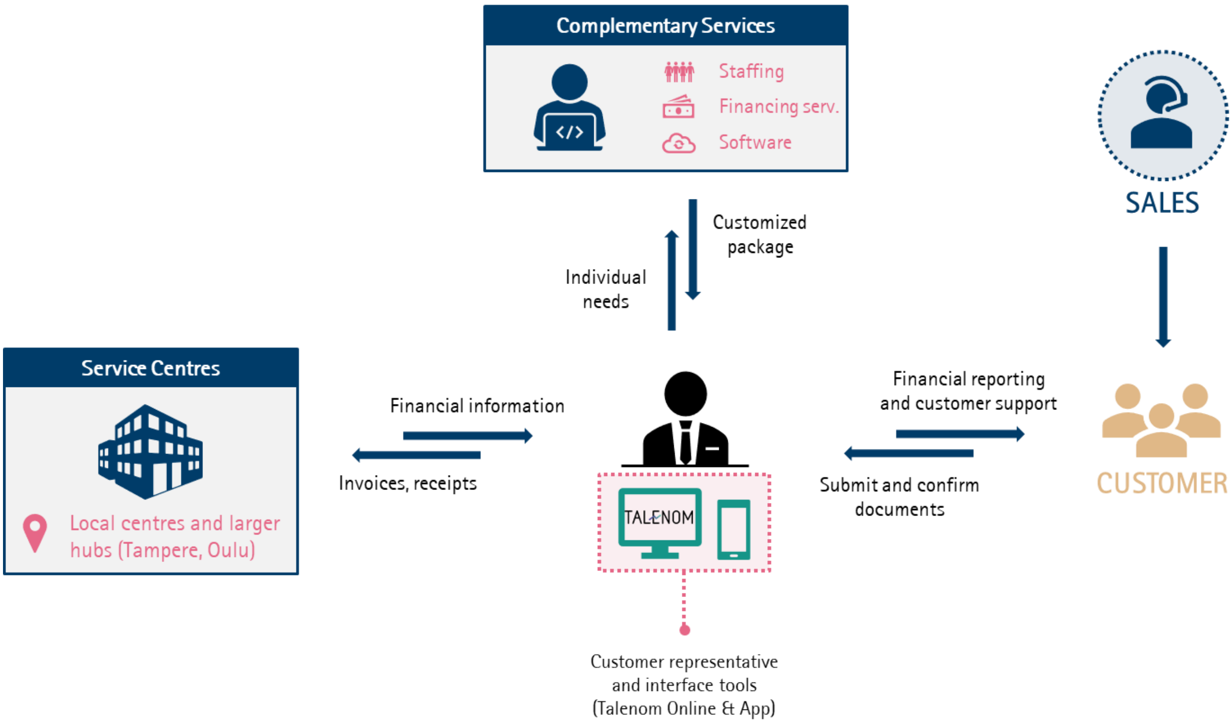
As a part of the new segment, Talenom has started to provide banking services to its customers, which is so far largely unheard of in the accounting business. Payment transactions and card payments have been extensively controlled by traditional banks, but MiFID II regulation has forced the banks to open their application programming interfaces to external service providers. Banking services are offered to small customers only, but the company management signaled its intentions to scale the model to incorporate a larger share of the customer base in the future. Payment cards and IBAN accounts are enabled by a third party, for which Talenom uses PrePay Solutions as its partner.

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:

- Bookkeeping production line
- Separate new sales organization, increasing accountants value additivity
- Own software development
- Focus on organic growth, complemented by inorganic

Figure 2: Simplified operating model of Talenom's core business



Source: Evli Research

Separated new sales and accounting functions

Traditionally accounting companies have been accountant centred; an accountant acts as the salesperson, account manager, and takes responsibility for the bookkeeping tasks. Talenom has taken a somewhat different approach by using a separate sales force for acquiring new customers and using automation to free up time from accountants from the automatable duties towards more value adding consultative tasks and aiding the customer in their needs, in turn enabling sales of additional services.

Local services centres and larger hubs in Oulu and Tampere

The actual accounting processes take place at local service centres and some tasks are carried out in centralized service centres in Oulu and Tampere. For instance, the latter have the capabilities of automated processing of any material in paper, while the vicinity to relevant educational facilities also aids in recruitments. The service centres make it possible to better exploit economies of scale through automation and process design. In addition, the locations outside the Helsinki region should offer slight advantages in rental and employee costs. With Talenom's way of operations the location for performing the actual accounting tasks would be mostly irrelevant, but it is still typical for customers to want to be able to visit an office in their vicinity.

Organic growth strategy shifting towards M&A driven growth

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

It has been 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. The main reasons for this 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

M&A activity clearly on the rise again

Despite the main focus having been on organic growth for a longer period of time, the amount of acquisitions measured with acquired revenue has shown clear signs of picking up lately. Company management has also admitted that organic growth in the core businesses in Finland has become more challenging in 2020. On the other hand, if the level of digitalization and automation is currently high enough, the management could see possibilities of rapid value creation, since the Price/Sales ratios of the acquisition targets are significantly lower (typically well below 2.0x vs ~8.0x Talenom). According to management, the integration, pick-up in revenue and profitability and stabilization of acquired companies typically takes around 2-3 years. The renewed interest in the M&A strategy is partly driven by digitalization, as smaller accounting firms are at a certain crossroad in having to decide upon investing into digitalization or finding a suitable partner with adequate infrastructure to keep up in the changing landscape.

Table 2: Acquisitions in 2019–2021

Target	Year	Revenue (EURm)	Market	Rationale
Wakers Consulting AB	2019	2.6	Sweden	Growth/Strategic
Wasa Tilit Oy Ab	2019	1.7	Finland	Growth
WT Företagstjänster Ab Oy	2019	0.5	Finland	Growth
Addvalue Advisors Oy	2020	0.5	Finland	Growth
Niva Ekonomi AB	2020	1.4	Sweden	Growth
Frivision AB	2020	1.4	Sweden	Growth/Strategic
Vanaja Technologies Oy	2020	0.0	Finland	Strategic
Larsen & Co Tilitoimisto Oy	2020	1.4	Finland	Growth
Ekonomianalys KL AB / Persson & Thorin AB	2020	3.5	Sweden	Growth
Balance Systems Oy / Laskentalinja Oy + Lapinlahden Yrityspalvelu Oy	2021	0.9	Finland	Growth
Crescendo Ab + Progredo Ab	2021	2.3	Sweden	Growth/Strategic
Frivolous Oy (AC-Tilit) / Tilitoimisto Reijo Mäki Oy	2021	0.6	Finland	Growth
Balance-Team Oy	2021	2.7	Finland	Growth

Source: Talenom, Evli Research

In August 2020 Talenom acquired Vanaja Technologies, which previously acted as a partner for developing Talenom's new small customer concept. This transaction was especially of interest given the new growth initiative in the small customer segment, since profitable productization in this category requires high level of digitalization in the service production due to low average customer contract values.

Expanded to Sweden in 2019, looking at further expansion in Europe

Internationally Talenom has so far only expanded to Sweden. Organically establishing operations in the new market would in our view have been quite challenging but since the operations are now up and running, we expect further growth efforts to be a mix of organic and inorganic growth. The company also announced its endeavors to seek growth in selected European countries. Expansion will be executed following the model applied in Sweden, so first steps would most likely be to enter the markets via selected acquisitions. The management did not specify the anticipated time frame of such efforts, but we do not expect to have to wait many years for the first most likely non-Nordic acquisition as we expect the next countries of interest to be within the DACH region or Benelux countries, or possibly the Baltics.

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

Over 90% of revenue from on-going contracts

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 revenue from on-going contracts is over 90%.

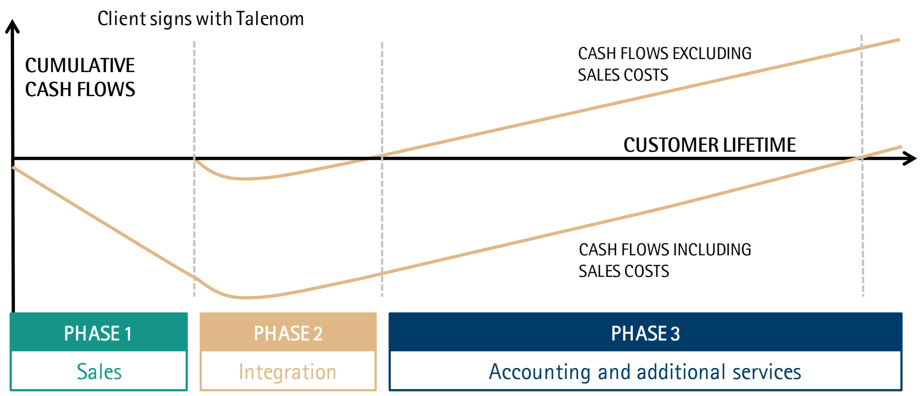
Significant client acquisition costs and effort

On average, a new customer would reach the break-even point after somewhere around six months, when taking into account the service integration costs and costs related to training new clients on how to use Talenom's software. However, in order 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 could be 1-2 years.

High customer retention rate

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

Figure 3: Cumulative cash flows and customer lifetime



Source: Talenom, Evli Research

The second wave of the coronavirus and subsequent financial distress in certain industries could increase the amount of bankruptcies among Talenom's customers. However, the most likely sufferers from prolonged restrictions on free movement e.g. HoReCa and transportation make up for only a small fraction of Talenom's fragmented customer base. So far, the actual number of customers lost has been quite in line with the company's estimates. Volume based invoicing has recovered from the levels observed before the pandemic and according to our view, a potential economic downturn affects Talenom's revenue from current customers relatively little. The consequences will likely be greater in the company's ability to acquire new customers organically. Even though several promising results regarding potential vaccines have been posted, the second wave of the pandemic is still adversely affecting the economy.

Sales model

Use of franchising-model to enhance sales

Talenom has over 40 offices in locations throughout Finland and Sweden. Talenom operates its business both through the use of own offices and 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 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. Currently Talenom has a total of 21 franchising entrepreneurs.

Franchising model a way to expand in smaller regions

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

Own software development

Bookkeeping automation level currently at roughly 70%

Talenom has a software development team of around 80 persons developing client software and technology for the company's bookkeeping production line. Development of own software is crucial to capitalize full potential of the service production efficiency. Currently the level of automation in accounting is roughly 70%, with a target of over 90% in 2023. Improving the level of automation is an important aspect for Talenom as reducing the time employees have to spend on automatable routine procedures frees up time for the accountants to instead allocate into consultative efforts in order to provide advisory services to their clients, which is seen as high value-added activity in the long run, especially if the anticipated price erosion of bookkeeping occurred. The higher automation level also provides margin improvement potential.

The client software is provided as a software-as-a-service (SaaS), meaning that the fee structure of the software is based on subscription and usage and the software is also cloud based. The accounting interface is accessible by computer or mobile phone through Talenom's own interface access software's 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 catering 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

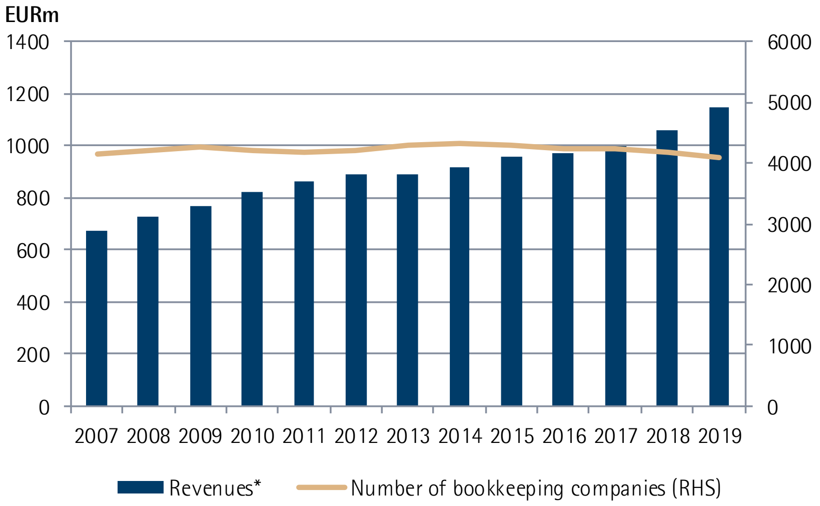
Roughly EUR 1.1bn market, growth on average 4% p.a. in past 10 years

The bookkeeping industry in Finland can be described as fragmented but stable. The bookkeeping market size was approximately EUR 1.1bn in 2019, based on the total revenues of the bookkeeping companies in Finland. During the past 10 years the market has grown some 4% on average p.a.[1] In 2019, the growth was at 4.5%.

Defensive market due to bookkeeping obligation

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

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



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

Fragmented market with over 4,000 bookkeeping companies

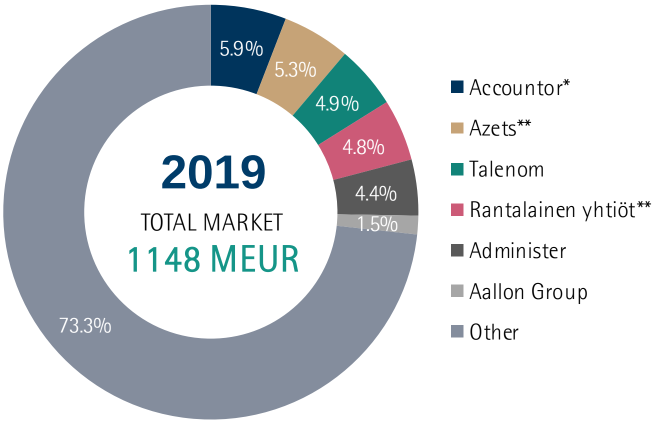
The bookkeeping market is very fragmented. In 2019, the number of bookkeeping companies amounted to 4,105 and the average accounting firm employed three people[2]. Whereas total revenue of the bookkeeping market has grown steadily, the number of firms has remained more or less unchanged. The six largest bookkeeping companies had an estimated combined market share of just above 25 % in 2019.

Digitalization and automation provide economies of scale

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

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

Figure 5: Market shares in the bookkeeping market in Finland



*Evli estimate for accounting services Finland (excl. software)
**Evli 2019 annualized estimate (differing fiscal periods)
Source: Company reports, Statistics Finland, Asiakastieto, Kauppalehti, Evli Research. Estimated to exclude revenue outside Finland

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 certain separate functions, for instance payroll processes.

Optimal 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 viable for companies 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 somewhere in the range of EUR 3-6m. Talenom is however seeking to change this with its small customer concept.

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 familiarity with the accountant and tacit knowledge, 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 usually 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 resource-consuming 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 quite 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 tasks require fewer working hours. 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. General expectations for the number of accountants in the future is a stable or declining trend.

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, could aid the smaller companies in retaining their market positions, delaying consolidation of the market.

Competitors and competitive landscape

Bookkeeping companies focusing on SMEs

The bookkeeping market in Finland can be divided into the micro, small and mid-sized customer enterprises, and 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, although due to the fragmentation Talenom generally competes more with the smaller bookkeeping companies for new customers. The larger bookkeeping 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.

Table 2: Talenom's competitor comparison

	TALENOM	accountor	ADMINISTER	AZETS	RANTALAINEN	Aallon
Revenue (EURm)	58.0	244.3	50.0	60.9	71.2	16.7
EBIT-margin	18.0%	3.8%	3.7%	14.1%	0.7%	5.4%
Employees	799	2354	645	600	743	236
Own software	Yes	Yes	Yes	Yes	No	No
Offices outside Finland	Yes	Yes	Yes	Yes	Yes	No

Source: Asiakastieto, Company annual reports, Kauppalehti, Evli Research. Figures based on fiscal year 1.1.2019-31.12.2019, for Rantalainen Yhtiöt fiscal year 1.10.2018-31.12.2019. Azets Insight fiscal year 1.7.2018-30.6.2019.

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 capacity 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 larger bookkeeping companies in Finland include Accountor, Azets (former subsidiary of Visma), Administer and Rantalainen Yhtiöt. A more recent "new" entrant to the larger firms is Aallon Group, formed through the unification of six smaller bookkeeping companies in 2018. The company listed on the First North Finland -exchange in 2019. 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.

Figure 6: Comparison of service offerings among Talenom's largest competitors

	TALENOM	accountor	AZETS	ADMINISTER	RANTALAINEN	Aallon
Bookkeeping	✓	✓	✓	✓	✓	✓
Payroll	✓	✓	✓	✓	✓	✓
Staffing	✓	✓	✓			
Financing*	✓		✓	✓		
Legal/Tax Advisory	✓	✓		×/✓	✓	✓
Business consulting			✓			
HR Management	✓	✓	✓	✓	✓	
CFO Service	✓	✓	✓	✓	✓	✓
ERP software	✓	✓	✓			
Cards & payments	✓					
Own software	✓	✓	✓	✓		

*Provides financing solutions to its customers, financing consulting excluded

Source: Evli Research

The larger firms growing at above market pace on average

The big accounting companies have been actively increasing their market share. Acquisitions remain a significant source of growth and apart from Talenom organic growth has more limited in recent years. Administer has made several acquisitions and the acquisition of Silta in 2018 more than doubled the company's revenue.

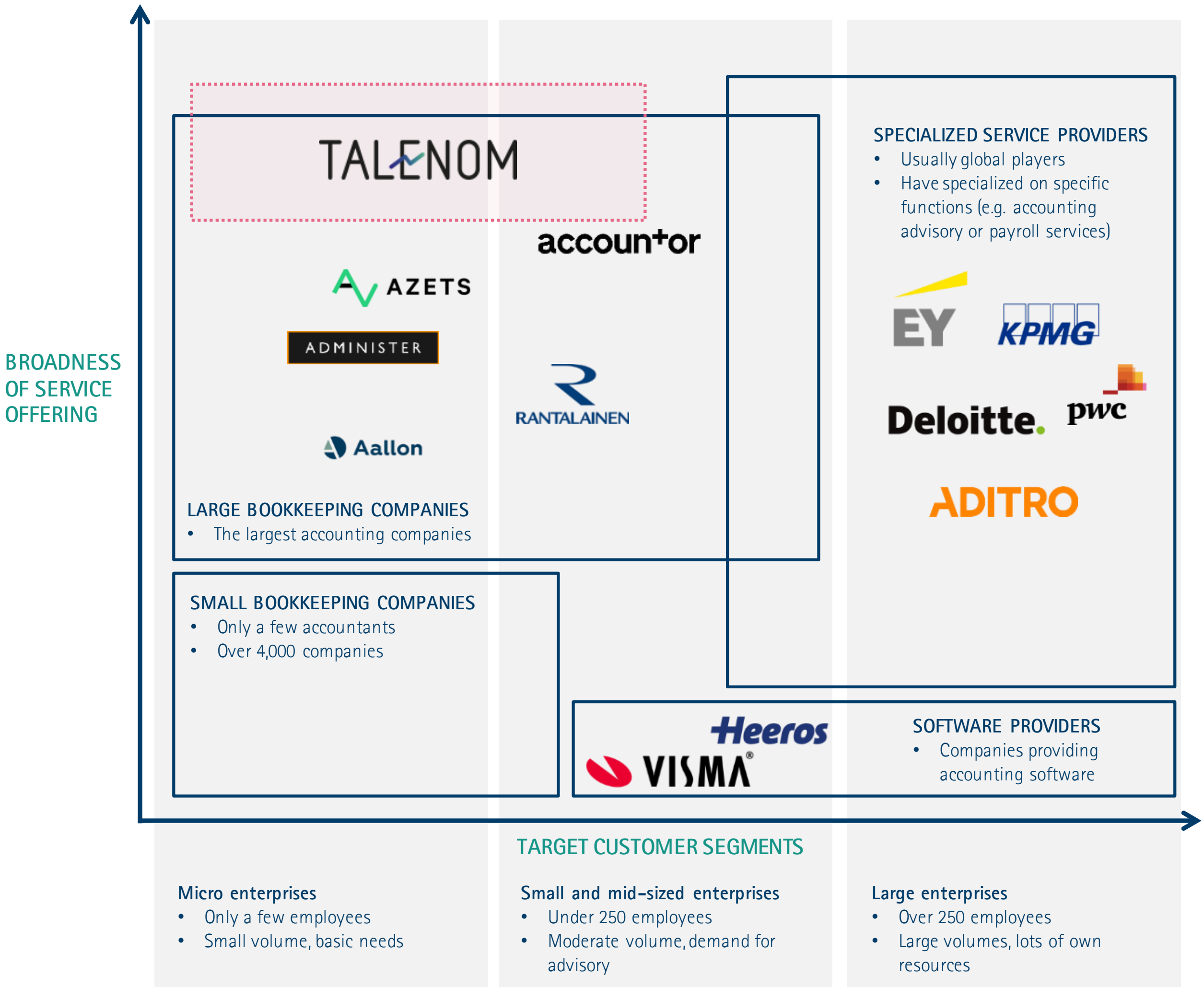
Talenom a top performer among peers

Talenom has been able to achieve a healthy balance between growth and profitability, especially when considering the 18.6% growth and 18.0% EBIT-margin achieved in 2019. Talenom been a top performer among peers measured by both growth and profitability.

Accountor and Administer in our view 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 to our understanding has focused on developing 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. Aallon group intends to grow aggressively through acquisitions and intends to utilize third-party software along with developing its own software.

Figure 7: Competitive landscape of Talenom's market in Finland



Source: Evli Research

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, 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 competitors through its service offering, own software development and increasing value-adding activities through automation of routine tasks. The complementary business services are financially not that significant but can give a competitive edge and aid in customer retention. 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.

Growth opportunities

Good possibilities for both organic and inorganic growth

The fragmented market still provides growth opportunities for the largest bookkeeping companies to continue to increase their market share. Talenom has a good opportunity to grow organically through customers who value the improved service offering and through the digitalization trend within the industry. Opportunities for expanding operations and implementing Talenom's proven growth strategy abroad also exist and Talenom already took the first step in early 2019 by acquiring Sweden-based Wakers Consulting. Another growth opportunity could be to sell Talenom's software outside their own accounting client base. This alternative has been mentioned in the past but is in our view unlikely. We see no indication of this at the moment and current efforts seems to be focusing on scaling up operations in Sweden, expanding the customer base to include small customers in Finland, increasing automation and ramping up consultative services and seeking international growth.

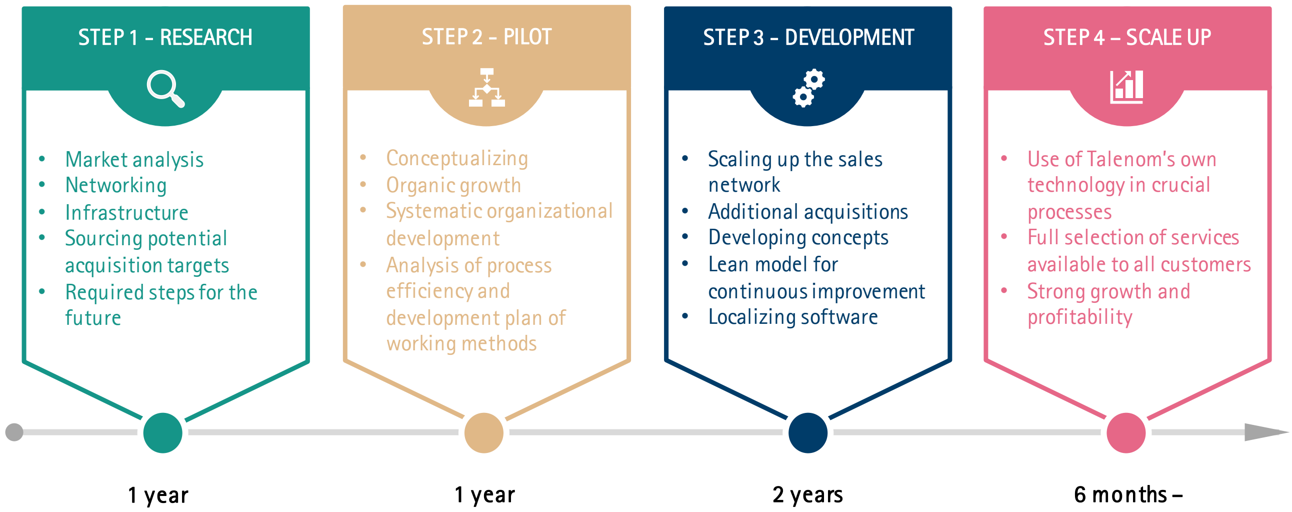
Also looking at further expansion internationally...

The most interesting opening regarding the updated strategy was Talenom's plan to seek expansion in Europe. The company had previously implied of such efforts, but anything concrete had not been given. The expansion will likely be done according to the model applied in Sweden: first an acquisition of a suitable, not too small accounting company and then organic growth supported by small acquisitions if the target market is promising enough. Further growth also requires establishing a sales network. Before Talenom can properly scale up the business, some amount of credibility and brand awareness is required according to the company management, which will potentially take a couple of years. Furthermore, the localization of the bookkeeping software will be carried out after the target's operational processes have been standardized to meet the requirements of Talenom's service concept. Only after these procedures can high profitability be achieved.

... but unlikely to have a significant near-term impact

As a result, the company emphasizes patience and highlights the uncertainty related to the internationalization strategy. However, tentative exploration has begun in several European countries, so according to our view the initiative is promising, even though it will probably take a long time before one can expect to observe any significant results. In the short-term the effect on profitability will most likely be negative. According to our estimate, the most potential target countries include the DACH countries, Benelux region and the Baltics.

Figure 8: Estimated roadmap for international expansion



Source: Talenom CMD 2020, Evli Research

The new small customer concept a further mid-term growth avenue

In regard to the small customer concept, it will take several years for it to significantly affect Talenom's revenue and earnings according to management. One key factor is how well the company is able to exploit digital marketing channels. According to our view, prerequisites for success are good, as the concept fits the target segment, and the pricing structure is clear. The beta phase ended during Q1/2021 in Finland and is expected to begin in Sweden in mid-2021. To our understanding, so far, the preliminary interest in the system has clearly exceeded expectations. As with international expansion, the company called for patience and expected to shed light on the preliminary results and experiences of the concept after the first half of next year.

In Finland Talenom cannot increase its market share indefinitely in a market labeled with high vendor switching costs and high customer retention. During the last decade, according to our understanding the growth of the overall accounting market has stemmed from index raises in prices and broader service selection. On the other hand, Talenom has been able to achieve growth figures clearly above market. On principle this type of organic growth can go on for quite an extended period of time, but when the service selection has been quite similar among Talenom's largest competitors it can be argued that seeking growth will require even more sales efforts in the future. From this point of view the new openings are very interesting, even though the visibility for the actual potential is weak. Additionally, the likelihood of acquisitions playing a larger part in Talenom's growth in the long-term has clearly increased.

Financial performance

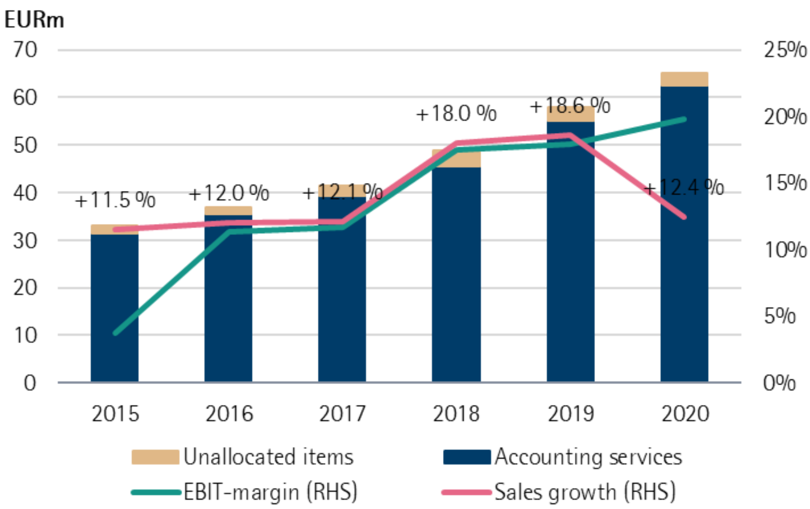
Solid, rather steady growth; accounting services main revenue source

Talenom has historically managed to grow steadily, with a CAGR of 15.5% within the time period 2005-2020. Although Talenom's growth has historically relied to a large extent on acquisitions, the continued solid growth in the latter half of the 2010s can be attributed mainly to organic growth in accounting services from acquisition of new customers. Talenom has one reporting business segment, accounting services, and reports unallocated items and eliminations separately, of which the latter includes for instance revenue related to advisory services as well as the additional services such as staffing. The development of the subcategories of services included in the unallocated items has not been disclosed, but revenue from unallocated items has been quite clearly on decline since 2018.

2020: revenue grew 12.4% to EUR 65.2m and EBIT-margin improved to 19.8%

Since its IPO in 2015 Talenom has shown continued healthy revenue growth and margin improvements. The average revenue growth between 2015-2020 amounted to near 15% p.a. Revenue growth slowed down in 2020 due to the coronavirus pandemic but revenue still grew 12.4% to EUR 65.2m, while the EBIT-margin improved slightly y/y to 19.8%. Talenom's revenue is to a very high extent recurring and as such the impact of the pandemic on revenue was rather small. Certain transactional revenue was however lower due to the pandemic, for instance within payroll functions as fewer recruitments of temporary employees and temporary lay-offs affected volumes. The improved profitability during 2020 and previous years has been driven mainly by technological advances and operational efficiency relating to the company's bookkeeping production line, which have enabled more efficient use of employee time, thus reducing the proportional share of employee expenses.

Figure 9: Talenom's revenue and profitability development



Source: Evli Research, Talenom

Guidance for FY 2021

Talenom updated its guidance already twice during 2021. The revenue guidance was raised from EUR 75-80m to EUR 78m-82m and then to the current EUR 80-84m. The guidance for the operating profit has remained at EUR 14-16m. Talenom made several acquisitions during the first half of 2021, prompting the revenue guidance revisions, while expected integration costs and lower profitability of acquirees have kept the operating profit guidance intact.

Balance sheet

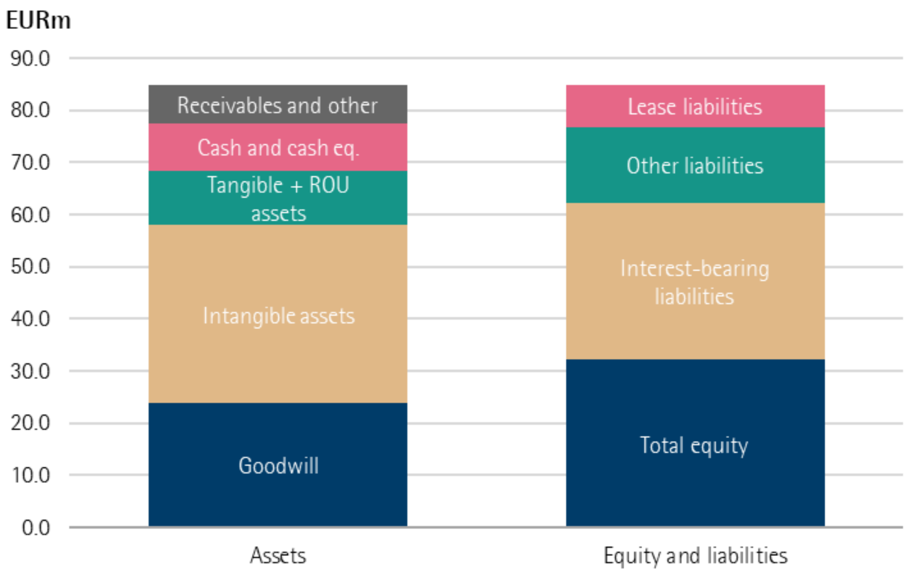
Relatively heavy balance sheet despite labour-intensive business

A significant share of the assets on Talenom's balance sheet consist of goodwill from acquisitions made during Talenom's earlier stages, as well as intangible assets relating mainly to capitalized development costs and customer acquisition expenses. Goodwill per 31.12.2020 amounted to EUR 24.4m, corresponding to 74% of total shareholders' equity. Capitalized customer acquisition expenses amounted to EUR 11.0m. These are expenses that would not have occurred unless a new customer was signed, consisting of commissions paid to sales personnel and customer integration costs. The expenses are capitalized due to the long duration of the customer contracts (IFRS 15) and expensed over a ten-year period. Other intangible assets amounted to EUR 22.9m, of which a larger part consists of capitalized software development costs (2020: EUR 17.8m). Cash and cash equivalent amounted to EUR 9.1m.

Equity ratio at 38.1%

Per 31.12.2020 Talenom's long-term bank loans amounted to EUR 30.0m. Interest-bearing liabilities, including IFRS 16 lease liabilities, amounted to EUR 38.1m and net debt to EUR 29.0m. Talenom's equity ratio and net gearing ratio amounted to 38.1% and 91%, respectively.

Figure 10: Talenom's balance sheet composition as per 31.12.2020



Source: Talenom, Evli Research

Large investment needs but profitability supports balance sheet situation

For a mostly labor-intensive company Talenom's has substantial investment needs from the investments into developing software and obtaining new customers. 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 financial situation is supported by the high profitability in recent years, which have continued to enable extensive investments. Talenom's updated expansion plan to Europe is estimated to increase required investments since the software has to be tailored to some extent to meet local needs and regulation. The management implied that in relation to current investments this amount will not be overly significant, so a need for increasing the debt to equity ratio is unlikely.

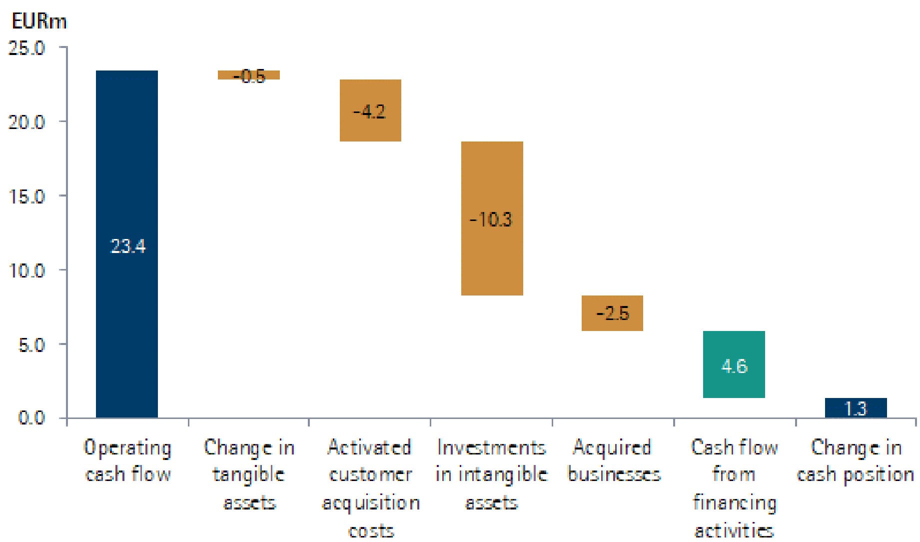
Investments and cash flow

Growth initiatives require large investments

Talenom's growth initiatives have required and will continue to require a large amount of investments to support rapid growth. Figure 11 breaks down the main components of these investments as part of the cash flow statement. Due to the large investments, the company's cash conversion has been rather low despite high profitability, with a change in cash of EUR 1.3m compared to EBITDA of EUR 23.3m in 2020.

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 capitalized 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 capitalized contract costs in 2020 declined some 7% compared to 2019. 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 certain indication of how successful Talenom has been in creating future organic revenue growth. The growth in capitalized contract costs in 2020 slowed down clearly from the previous year, reflecting the challenges in new customer sales presented by the coronavirus pandemic.

Figure 11: Breakdown of Talenom's cash flow statement in 2020



Source: Talenom, Evli Research

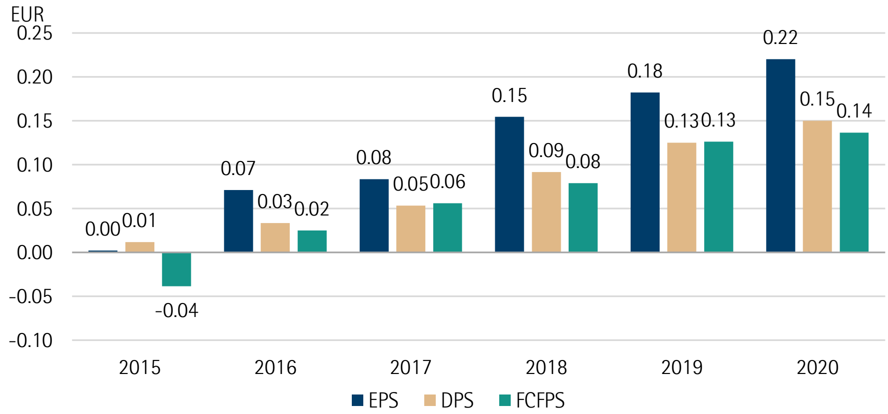
Largest investments from developing software

The largest component of investments has been the activated development costs of the company's software, amounting to EUR 10.1m in 2020 and accounting for a large share of all the company's investments. These investments have been large for several years and increased clearly in 2020. The software investments are expected to have a clear impact on the cash flows also in the future.

Investments impacting on cash flow and dividends

As a result of the rapid growth phase and significant investments, Talenom's free cash flow per share in 2020 amounted to EUR 0.14 compared to earnings per share of EUR 0.22. The dividend per share amounted to EUR 0.15. The corresponding dividend yield on the share price at the end of the year 2020 was 1.0%. As we expect Talenom to continue to seek further rapid growth, dividend distribution is unlikely to be a top priority. Due to current high valuation multiples we expect the dividend yield to remain at a similar level in the medium-term.

Figure 12: Earnings, dividend, and free cash flow per share (split adjusted)



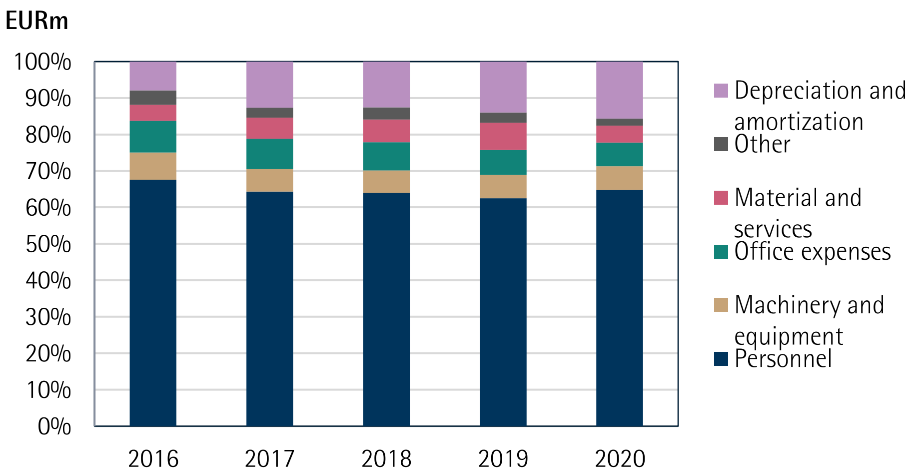
Source: Talenom, Evli Research

Cost structure

Costs mainly personnel related

Talenom's services are labour-intensive, which appears as a high proportion of personnel costs in the income statement. Through enhanced operational efficiency and automation in accounting processes Talenom has been able to reduce the time employees spend on certain routine tasks, which has enabled a larger number of customers per bookkeeper This, in turn, has been a beneficial factor in increasing the revenue per employee by some 34% from 2015 to 2020. The number of employees on average in 2020 was 867. In relation to sales, costs have been on the decline during recent years. In 2020 the percentage of personnel expenses to net sales had fallen to 52% from 60% in 2016. The sum of other expenses excl. D&A has fallen from 22% to 16% in the same period of time. Depreciations and amortizations have increased quite clearly during the period, from 7% to 13%. The adoption of IFRS 16 affected the reported cost base, with office expenses reported under D&A. In the comparisons and in Figure 13 we have to the best of our ability adjusted these items for comparability. D&A has been clearly on the rise as the company has in the previous years made substantial investments into software development as well as having capitalized clearly more customer contract costs due to improved organic growth.

Figure 13: Development of Talenom's cost base 2016-2020



Source: Talenom, Evli Research

Estimates

Expect sales CAGR of 16% for 2020-2023E not including likely new acquisitions

Talenom has up until quite recently been growing mainly organically through its own sales organization as well as the expanding franchising network. Partly due to a slowdown in organic growth but also given the rather clear financial rationale Talenom has accelerated growth through M&A activities. The fragmented nature of the bookkeeping services market in both Finland and Sweden provide ample opportunities for smaller acquisitions. In Q1/21 Talenom's revenue grew 17% to EUR 20.3m, of which one-third was organic growth. We expect sales growth to pick up during the year, aided by the acquisitions made so far during the first half of 2021. We expect sales to grow 25.2% to EUR 81.6m in 2021. Talenom's guidance puts sales at EUR 80-84m. During 2022-2023 we expect an average annual sales growth of 11%. The estimates do not include any new acquisitions due to execution uncertainty. As such we assume that Talenom will grow organically clearly above the market pace (hist. ~4% p.a), which Talenom has certainly succeeded with in the past. The organic growth has however taken a hit from the coronavirus pandemic, affecting new sales activities, and management has also noted that organic growth in Finland has become more challenging. Our estimates thus assume a pick-up from LTM organic growth levels but to remain below the growth pace seen in years prior to the pandemic.

M&A activity a limiting factor in near-term margin upside potential

Talenom has been able to improve margins through investments into its bookkeeping production line, which has resulted in some of the highest margins among competitors. Talenom is continuing to improve processes and invest in software development and further developments will continue to have a positive impact. We see that with a large share of actions having already been taken, that further upside potential is limited compared with the pace during 2015-2020. With M&A activity having picked up clearly, this will also be a contributing factor in limiting near-term upside potential, as acquired companies typically have lower profitability and integration costs are also somewhat sizeable. The integration and pick-up in profitability of acquired companies usually takes around three years, and with the M&A pace having picked up clearly during 2020-2021 margins should gradually see minor improvement going towards 2022-2023. We expect the EBIT-margin to decline slightly in 2021 to 18.8% and pick up to 21.0% in 2023.

Valuation

HOLD with a target price of EUR 13.3 (12.0)

We retain our HOLD rating and adjust our target price to EUR 13.3 (prev. 12.0). Our target price values Talenom at 50x 2021E P/E. Valuation is certainly not on the cheaper side but the multi-year track of rapid growth and profitability improvement along with the very defensive nature of the business have warranted the high valuation. We have previously seen 45x P/E levels as acceptable, but with the M&A activity picking up clearly, we see the longer term value creation to continue to justify higher valuation.

Identifying a peer group for Talenom is challenging due to the lack of comparable public accounting firms. In Finland there is only one other public accounting company, Aallon Group, which in virtue of strategy and financial figures is in our view not a suitable comparison to Talenom. 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 Nordic business support service firms with a focus on firms where the nature of the business would imply less project-based revenue and that have shown solid growth/profitability.

In comparison to the business support service peers, Talenom shares similarities to Admicom and Fortnox and to a slightly lesser extent Enento Group. All the three companies have exhibited rapid growth and high profitability, while Enento on coming year estimates is behind the others on growth pace and profitability. We have in our previous update justified a valuation of 45x 2021 P/E. When comparing to peers this could be well within justifiable bounds. Admittedly, Talenom's organic growth has slowed down recently due to a larger extent to the pandemic, and we have in our 2021-2023 estimates assumed average annual organic growth of around 10%. Our estimates do not, however, include any new M&A apart for the revenue from those already completed so far in 2021. Although the inorganic growth is more expensive and less appealing for Talenom, the value creation potential is clear. As a crude example, let us assume that Talenom would buy a smaller accounting office with EUR 1m in revenue and a 15% EBITDA-margin for 1.5x EV/Sales. In three years, assuming successful integration, 10% revenue growth and the implementation of Talenom's processes having improved the EBITDA-% to 30%, closer to that of Talenom, the value of the profits created by the acquired firm from shareholder point of view assuming current multiples would have increased sixfold. As the integration of acquired objects and implementation of Talenom's processes is a rather lengthy process, usually closer to three years, it will take some time for the more recent acquisitions to bear fruit. As our estimates do not include the potential of M&A growth, we feel that with Talenom's track of successful integration and the growth pace potential this should be reflected in valuation. We can thus see a 50x 2021 P/E valuation as justified and could further justify higher levels if clearer signs of a faster than the current M&A growth pace can be identified.

Table 4: Peer group

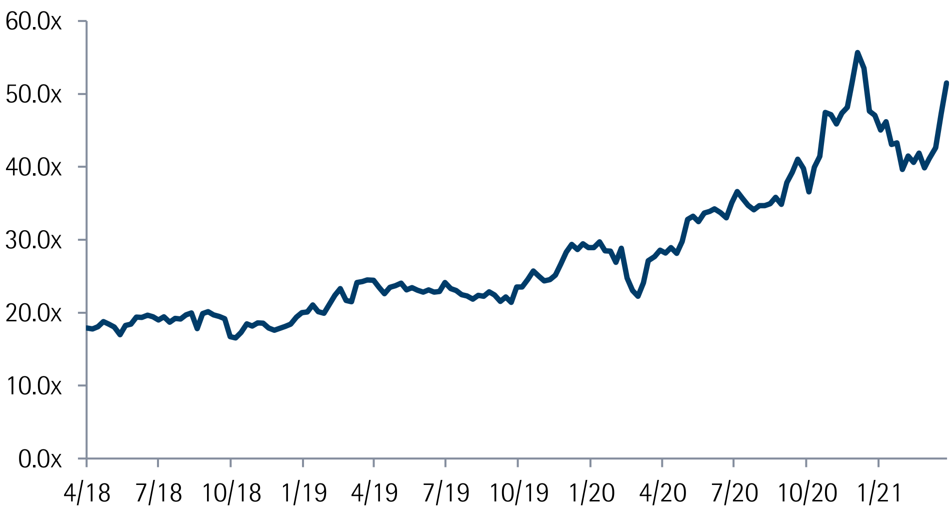
TALENOM PEER GROUP	MCAP MEUR	EV/EBITDA 21	EV/EBITDA 22	EV/EBITDA 23	EV/EBIT 21	EV/EBIT 22	EV/EBIT 23	P/E 21	P/E 22	P/E 23
Enento Group	817	16.0x	14.3x	13.2x	25.2x	21.5x	19.5x	28.9x	24.6x	22.2x
Admicom	522	44.9x	37.0x	30.4x	46.1x	37.9x	30.8x	58.6x	48.2x	39.1x
Fortnox	2858	67.1x	50.9x	37.8x	84.7x	62.5x	45.2x	108.6x	81.6x	59.0x
Zalaris	129	11.1x	10.1x	10.1x	20.2x	17.5x	16.2x	27.0x	21.3x	18.4x
Aallon Group	45	11.2x	9.8x	8.4x	13.2x	10.9x	9.5x	19.3x	16.1x	15.3x
Peer Group Average	874	**30.1x**	**24.4x**	**20.0x**	**37.9x**	**30.1x**	**24.2x**	**48.5x**	**38.4x**	**30.8x**
Peer Group Median	522	**16.0x**	**14.3x**	**13.2x**	**25.2x**	**21.5x**	**19.5x**	**28.9x**	**24.6x**	**22.2x**
Talenom (Evli est.)	**614**	**24.5x**	**20.7x**	**19.5x**	**42.6x**	**35.7x**	**30.7x**	**53.3x**	**44.4x**	**38.1x**
Talenom prem./disc. to peer median		*53%*	*45%*	*48%*	*69%*	*66%*	*57%*	*84%*	*80%*	*72%*

Source FactSet, Evli Research

TALENOM PEER GROUP	Sales 20	Sales gr. 21	Sales gr. 22	Sales gr. 23	EBIT-% 21	EBIT-% 22	EBIT-% 23	Div. yield 21	Div. yield 22	Div. yield 23
Enento Group	146	10.8%	7.1%	6.0%	23.6 %	25.8 %	26.7 %	2.9 %	3.2 %	3.4 %
Admicom	16	57.1%	18.4%	19.0%	44.9 %	46.2 %	47.8 %	1.0 %	1.3 %	1.6 %
Fortnox	51	84.8%	28.8%	29.7%	35.3 %	37.2 %	39.6 %	0.2 %	0.2 %	0.3 %
Zalaris	75	10.7%	6.2%	6.1%	9.4 %	10.2 %	10.3 %	1.5 %	2.3 %	3.0 %
Aallon Group	17	44.3%	8.3%	5.4%	11.6 %	13.0 %	14.2 %	2.1 %	2.6 %	3.0 %
Peer Group Average	**61**	**41.5%**	**13.8%**	**13.2%**	**25.0 %**	**26.5 %**	**27.7 %**	**1.6 %**	**1.9 %**	**2.3 %**
Peer Group Median	**51**	**44.3%**	**8.3%**	**6.1%**	**23.6 %**	**25.8 %**	**26.7 %**	**1.5 %**	**2.3 %**	**3.0 %**
Talenom (Evli est.)	**65**	**25.2%**	**12.0%**	**10.0%**	**18.8 %**	**20.0 %**	**21.0 %**	**1.3 %**	**1.5 %**	**1.7 %**
Talenom prem./disc. to peer median										

Source FactSet, Evli Research

Figure 14: Talenom's NTM P/E



Source: FactSet, Evli Research

VALUATION RESULTS		BASE CASE DETAILS		VALUATION ASSUMPTIONS		ASSUMPTIONS FOR WACC	
Current share price	14.12	PV of Free Cash Flow	127	Long-term growth, %	2.5	Risk-free interest rate, %	2.25
DCF share value	10.17	PV of Horizon value	351	WACC, %	6.9	Market risk premium, %	5.8
Share price potential, %	-28.0	Unconsolidated equity	0	Spread, %	0.5	Debt risk premium, %	3.3
Maximum value	11.7	Marketable securities	9	Minimum WACC, %	6.4	Equity beta coefficient	0.70
Minimum value	8.9	Debt - dividend	-45	Maximum WACC, %	7.4	Target debt ratio, %	25
Horizon value, %	73.5	Value of stock	442	Nr of shares, Mn	43.5	Effective tax rate, %	20

DCF valuation, EURm	2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	Horizon
Net sales	65	82	91	101	108	113	119	125	131	137	141	144
Sales growth, %	*12.4*	*25.2*	*12.0*	*10.0*	*7.0*	*5.0*	*5.0*	*5.0*	*5.0*	*5.0*	*2.5*	*2.5*
Operating income (EBIT)	13	15	18	21	24	26	28	31	33	34	35	36
Operating income margin, %	*19.8*	*18.8*	*20.0*	*21.0*	*22.0*	*23.0*	*24.0*	*25.0*	*25.0*	*25.0*	*25.0*	*25.0*
+ Depreciation+amort.	10	11	13	12	13	14	15	15	16	17	18	
EBITDA	23	27	31	33	37	40	43	46	49	51	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	
NWC / Sales, %	*-7.8*	*-7.8*	*-7.8*	*-7.8*	*-7.8*	*-7.8*	*-7.8*	*-7.8*	*-7.8*	*-7.8*	*-7.8*	
+ Change in other liabs	0	0	0	0	0	0	0	0	0	0	0	
- Operative CAPEX	-15	-16	-16	-15	-15	-15	-16	-16	-17	-18	-17	
opCAPEX / Sales, %	*26.3*	*21.3*	*20.0*	*17.0*	*15.9*	*15.1*	*15.1*	*15.1*	*15.1*	*15.1*	*14.1*	
- Acquisitions	-2	-11	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	-2	12	15	18	20	22	24	26	27	29	672
= Discounted FCFF		-2	11	12	14	15	15	16	15	15	15	351
= DFCF min WACC		-2	11	12	14	15	16	16	16	16	16	414
= DFCF max WACC		-2	11	12	14	15	15	15	15	14	15	301

INTERIM FIGURES

EVLI ESTIMATES, EURm	2020Q1	2020Q2	2020Q3	2020Q4	2020	2021Q1	2021Q2E	2021Q3E	2021Q4E	2021E	2022E	2023E
Net sales	17.4	16.5	14.8	16.5	65.2	20.3	21.0	19.2	21.1	81.6	91.4	100.5
EBITDA	6.2	5.5	6.5	5.0	23.3	7.3	7.1	6.5	5.8	26.7	31.5	33.3
EBITDA margin (%)	*36.0*	*33.6*	*43.4*	*30.7*	*35.7*	*35.9*	*33.9*	*33.6*	*27.6*	*32.7*	*34.4*	*33.1*
EBIT	3.7	3.6	3.1	2.4	12.9	4.4	4.3	3.6	3.0	15.3	18.3	21.1
EBIT margin (%)	*21.4*	*21.8*	*21.2*	*14.7*	*19.8*	*21.7*	*20.5*	*18.9*	*14.2*	*18.8*	*20.0*	*21.0*
Net financial items	-0.2	-0.2	-0.2	-0.2	-0.9	-0.2	-0.2	-0.2	-0.2	-0.9	-1.0	-1.0
Pre-tax profit	3.5	3.4	2.9	2.2	12.0	4.2	4.1	3.4	2.8	14.5	17.3	20.1
Tax	-0.7	-0.7	-0.6	-0.4	-2.4	-0.9	-0.8	-0.7	-0.6	-2.9	-3.5	-4.0
Tax rate (%)	*20.1*	*21.2*	*21.1*	*18.4*	*20.3*	*21.2*	*20.0*	*20.0*	*20.0*	*20.3*	*20.0*	*20.0*
Net profit	2.8	2.7	2.3	1.8	9.6	3.3	3.2	2.7	2.2	11.5	13.8	16.1
EPS	0.06	0.06	0.05	0.04	0.22	0.08	0.07	0.06	0.05	0.26	0.32	0.37
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	0.37
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	0.24
SALES, EURm												
Talenom	17.4	16.5	14.8	16.5	65.2	20.3	21.0	19.2	21.1	81.6	91.4	100.5
Total	17.4	16.5	14.8	16.5	65.2	20.3	21.0	19.2	21.1	81.6	91.4	100.5
SALES GROWTH, Y/Y %												
Talenom	*17.4*	*11.8*	*10.0*	*10.4*	*12.4*	*17.0*	*27.3*	*29.3*	*28.2*	*25.2*	*12.0*	*10.0*
Total	*17.4*	*11.8*	*10.0*	*10.4*	*12.4*	*17.0*	*27.3*	*29.3*	*28.2*	*25.2*	*12.0*	*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	18.3	21.1
Total	3.7	3.6	3.1	2.4	12.9	4.4	4.3	3.6	3.0	15.3	18.3	21.1
EBIT margin, %												
Talenom	*21.4*	*21.8*	*21.2*	*14.7*	*19.8*	*21.7*	*20.5*	*18.9*	*14.2*	*18.8*	*20.0*	*21.0*
Total	*21.4*	*21.8*	*21.2*	*14.7*	*19.8*	*21.7*	*20.5*	*18.9*	*14.2*	*18.8*	*20.0*	*21.0*

INCOME STATEMENT, EURm	2016	2017	2018	2019	2020	2021E	2022E	2023E
Sales	37.0	41.4	48.9	58.0	65.2	81.6	91.4	100.5
Sales growth (%)	*12.0*	*12.1*	*18.0*	*18.6*	*12.4*	*25.2*	*12.0*	*10.0*
EBITDA	6.8	9.5	13.7	18.9	23.3	26.7	31.5	33.3
EBITDA margin (%)	*18.5*	*23.0*	*28.0*	*32.6*	*35.7*	*32.7*	*34.4*	*33.1*
Depreciation	-2.6	-4.7	-5.1	-8.5	-10.4	-11.3	-13.2	-12.2
EBITA	4.2	4.8	8.5	10.4	12.9	15.3	18.3	21.1
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	18.3	21.1
EBIT margin (%)	*11.3*	*11.7*	*17.5*	*18.0*	*19.8*	*18.8*	*20.0*	*21.0*
Reported EBIT	4.0	4.7	8.5	10.4	12.9	15.3	18.3	21.1
EBIT margin (reported) (%)	*10.7*	*11.3*	*17.5*	*18.0*	*19.8*	*18.8*	*20.0*	*21.0*
Net financials	-0.5	-0.5	-0.6	-0.8	-0.9	-0.9	-1.0	-1.0
Pre-tax profit	3.6	4.3	8.0	9.6	12.0	14.5	17.3	20.1
Taxes	-0.7	-0.9	-1.6	-2.0	-2.4	-2.9	-3.5	-4.0
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	13.8	16.1
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	54
Goodwill	18	18	18	21	24	34	34	34
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	114	121
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	44	44	42
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	114	121
CASH FLOW, EURm								
+ EBITDA	7	10	14	19	23	27	31	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	29
- Capex	-4	-5	-9	-13	-17	-17	-18	-17
- Acquisitions	0	0	-1	-2	-2	-11	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Free cash flow	2	5	3	3	3	-4	9	12
+/- 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	0	-2
Change in cash	-1	1	1	2	1	2	1	1

KEY FIGURES	2017	2018	2019	2020	2021E	2022E	2023E
M-cap	87	131	314	652	614	614	614
Net debt (excl. convertibles)	18	26	29	29	40	38	35
Enterprise value	105	157	342	681	654	652	649
Sales	41	49	58	65	82	91	101
EBITDA	10	14	19	23	27	31	33
EBIT	5	9	10	13	15	18	21
Pre-tax	4	8	10	12	14	17	20
Earnings	3	6	8	10	12	14	16
Equity book value (excl. minorities)	14	19	24	32	37	43	50
Valuation multiples							
EV/sales	2.5	3.2	5.9	10.5	8.0	7.1	6.5
EV/EBITDA	11.0	11.5	18.1	29.3	24.5	20.7	19.5
EV/EBITA	21.6	18.4	32.9	52.9	42.6	35.7	30.7
EV/EBIT	21.6	18.4	32.9	52.9	42.6	35.7	30.7
EV/OCF	11.1	13.4	19.3	29.9	27.1	23.5	22.4
EV/FCFF	45.8	48.3	64.9	115.1	-368.4	53.3	44.0
P/FCFE	108.0	282.4	732.8	196.3	-141.9	64.7	51.5
P/E	23.4	20.6	41.2	68.1	53.3	44.4	38.1
P/B	6.2	7.0	13.3	20.3	16.5	14.2	12.2
Target EV/EBITDA	*0.0*	*0.0*	*0.0*	*0.0*	*23.2*	*19.6*	*18.4*
Target EV/EBIT	*0.0*	*0.0*	*0.0*	*0.0*	*40.3*	*33.7*	*29.1*
Target EV/FCF	*0.0*	*0.0*	*0.0*	*0.0*	*-142.9*	*65.0*	*51.4*
Target P/B	*0.0*	*0.0*	*0.0*	*0.0*	*15.5*	*13.4*	*11.5*
Target P/E	*0.0*	*0.0*	*0.0*	*0.0*	*50.2*	*41.8*	*35.9*
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	0.37
Operating cash flow per share	0.23	0.28	0.42	0.53	0.56	0.64	0.67
Free cash flow per share	0.12	0.07	0.06	0.08	-0.10	0.22	0.27
Book value per share	0.34	0.45	0.56	0.74	0.86	0.99	1.16
Dividend per share	0.05	0.09	0.13	0.15	0.18	0.21	0.24
Dividend payout ratio, %	63.9	59.4	68.7	67.9	67.9	65.0	65.0
Dividend yield, %	2.5	2.9	1.7	1.0	1.3	1.5	1.7
FCF yield, %	5.6	2.1	0.8	0.5	-0.7	1.5	1.9
Efficiency measures							
ROE	26.6	39.0	36.0	34.4	33.2	34.4	34.5
ROCE	13.7	19.7	18.8	19.8	19.3	20.0	21.8
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	20.0	17.0
CAPEX/sales (incl. acquisitions), %	11.0	16.7	19.3	22.7	7.6	20.0	17.0
FCFF/EBITDA	0.2	0.2	0.3	0.3	-0.1	0.4	0.4
Net debt/EBITDA, book-weighted	1.9	1.9	1.5	1.2	1.5	1.2	1.1
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	35.0	38.0	41.6
Gearing, %	126.4	138.0	121.8	90.3	107.2	88.5	70.1

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 financing and staffing services.

INVESTMENT CASE: The fragmented bookkeeping market offers ample opportunities for Talenom to continue on its track of profitable growth, with valuation providing a good foundation for accelerating inorganic growth. 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	122.350	19.9%
Skandinaviska Enskilda Banken (nominee reg.)	6,698,998	94.590	15.4%
Tahkola Markus	5,065,824	71.529	11.7%
Nordea Bank Abp (nominee reg.)	3,203,726	45.237	7.4%
Danske Invest Finnish Institutional Equity fund	2,300,000	32.476	5.3%
Conficap	1,850,000	26.122	4.3%
Ilmarinen Mutual Pension Insurance Company	1,645,517	23.235	3.8%
Evli Finnish Small Cap fund	1,625,000	22.945	3.7%
Föreningen Konstsamfundet r.f	780,000	11.014	1.8%
Siuruainen Mikko	694,716	9.809	1.6%
Ten largest	32,528,796	459.307	75%
Residual	10,936,826	154.428	25%
Total	43,465,622	613.735	100%

EARNINGS CALENDAR	
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** $\frac{\text{Profit before extraord. items and taxes– income taxes + minority interest}}{\text{Number of shares}}$
P/BV $\frac{\text{Price per share}}{\text{Shareholders' equity + taxed provisions per share}}$	**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** $\frac{\text{Capital expenditure – divestments – acquisitions}}{\text{Sales}}$
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** $\frac{\text{Total assets – non-interest bearing debt}}{\text{Number of shares}}$
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, %** $\frac{\text{Interest bearing debt}}{\text{Shareholders' equity + minority interest + taxed provisions}}$
Payout ratio, % $\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes – income taxes + minority interest}}$	**Equity ratio, %** $\frac{\text{Shareholders' equity + minority interest + taxed provisions}}{\text{Total assets – interest-free loans}}$
ROCE, % $\frac{\text{Profit before extraordinary items + interest expenses+ other financial costs}}{\text{Balance sheet total – non-interest bearing debt (average)}}$	**CAGR, %** Cumulative annual growth rate = Average growth per year
ROE, % $\frac{\text{Profit before extraordinary items and taxes – income taxes}}{\text{Shareholder's equity + minority interest + taxed provisions (average)}}$	

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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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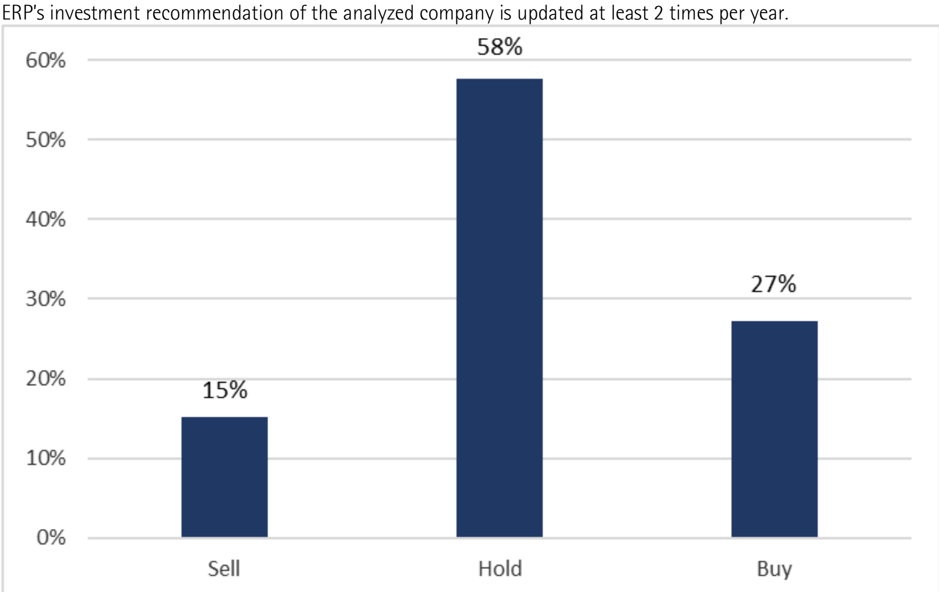

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Name(s) of the analyst(s): Salokivi

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