

Talenom

Post-results report Q3 2021



First disseminated
2.11.2021 11:00

Growth projects advancing

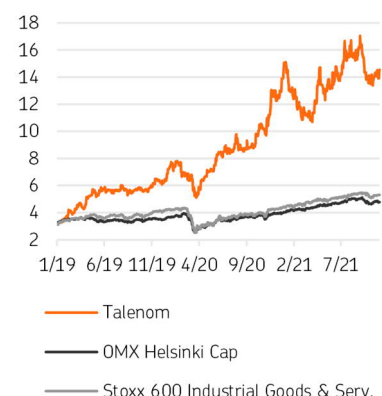
- Talenom's robust growth continued, driven by acquisitions, and profitability remained good despite growth investments. The company is progressing as planned in its strategic priorities: software development in Sweden is advancing on schedule, the digital sales channel for the small customer segment brings new customers and the margin of Finnish operations remained good despite acquisitions. This factors will enable sizeable investments in an attractive sector in the future as well. After minor forecast revisions, we update our target price to EUR 15.70 and upgrade our recommendation to Accumulate (previously Reduce).
- **Q3:** Sales growth (+30%) was at the Q2 level, which management described as the right level. The breakdown of growth was also similar to the early part of the year (2/3 from acquisitions, 1/3 organic). EBIT growth (10%) was slower as acquisitions weaken relative profitability, as estimated. Absolute EBIT improved in both Finland and Sweden. Sales growth in Sweden is carrying general expenses better than before even without support from own software.
- **Outlook:** Talenom repeated its guidance and expects net sales of EUR 80–84m and operating profit of EUR 14–16m in 2021. Talenom increased transparency in reporting by providing a breakdown of the sales and profitability figures for Finland, Sweden and other countries (Spain). This will make it easier to assess the performance of international growth and profitability and is a positive change. A key element in terms of financial performance is the progress in software development in Sweden. The plan is to introduce own software in the autumn of 2022. We expect this to have a positive effect on margins from 2023 onwards. The process may take some time and involve risks, but things appear to be progressing as planned for now.
- **Target price.** We have not changed our valuation principles. We accept an EV/EBITDA multiple 18x for 2023 for Talenom, which indicates a target price of EUR 15.70 (prev. EUR 16.00). This is also supported by the value indicated by the DCF model.

Recommendation **ACCUMULATE**
Upgraded (prev. REDUCE)
Target price (€) **15.70**
(prev. 16,00)

Price (€)* 14,54
High (12m) 17,04
Low (12m) 9,54

Market cap (M€) 637
Index weight 0,2 %
Beta 0,82
Ticker TNOM
Next report date 8.2.2022

Performance 1m 3m 12m
Price (€) 13,64 16,72 9,70
Change 6,6 % -13,0 % 49,9 %



Source: OP Markets, Bloomberg, *) as of 2.11. 10:05

Talenom						
EURm	2018	2019	2020	2021e	2022e	2023e
Sales	48,9	58,0	65,2	82,4	96,0	110,4
Sales Growth (%)	18,1 %	18,6 %	12,4 %	26,5 %	16,5 %	15,0 %
EBIT	8,5	10,4	12,9	15,1	19,2	24,3
EBIT (%)	17,5 %	18,0 %	19,8 %	18,3 %	20,0 %	22,0 %
PTP	8,0	9,6	12,0	14,3	18,4	23,5
EPS	0,15	0,18	0,22	0,26	0,34	0,44
DPS	0,09	0,13	0,15	0,17	0,20	0,23
Yield (%)	2,9 %	1,7 %	1,0 %	1,2 %	1,4 %	1,6 %
EV/Sales	3,0	5,9	10,4	8,2	7,0	6,0
EV/EBITDA	10,9	18,0	29,0	24,8	20,0	16,8
P/E	20,6	40,8	67,7	55,3	42,5	33,3
P/B	7,0	13,2	20,1	16,9	14,1	11,3
ROE	34 %	32 %	30 %	30 %	33 %	34 %
ROCE	19 %	17 %	17 %	14 %	18 %	22 %
Equity Ratio	36 %	33 %	37 %	33 %	38 %	42 %
Gearing	96 %	116 %	87 %	122 %	89 %	61 %

Source: OP Markets



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Investment case

- Defensive growth market:** In 2019, the Finnish accounting market totalled around EUR 1.2bn. Annual growth in this market was 5.4% on average in 2001–2019, which is clearly faster than economic growth in general. In addition to healthy growth, the sector is very defensive – the sector grew even during the financial crisis in 2008–2009.
- Competitive advantage in technology and service:** Automation gains and economies of scale are sizeable in this sector, so it is inevitable that consolidation will continue. Digitalisation will accelerate consolidation, as small, manually operating accounting firms do not have sufficient resources to develop their operations. Talenom’s business model is based on efficiency brought by in-house software development, which means that specialists may focus on value-added services. This will improve customer satisfaction and enable additional sales to existing customers.
- Additional growth from international expansion as well as new services and customer groups:** Talenom expanded operations to Sweden in 2019 and is investigating other European countries for potential expansion. Internationalisation offers significant growth potential for the company. Talenom has profound expertise in contract law and taxation, among other things, and the company’s strategy is to provide services to SMEs widely on matters related to business management. The company has also expanded operations to smaller companies with new business based on digital distribution and enhanced its product offering to banking services, among other things.

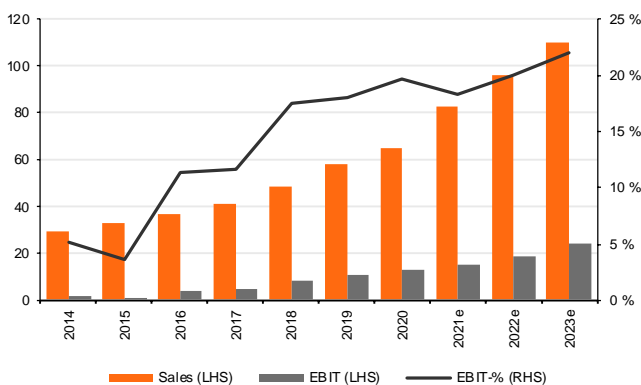
Drivers

- International expansion:** Talenom’s international expansion started in Sweden in 2019 and now the scope of expansion is considerable. New countries are actively charted.
- Increasing importance of value-added services:** The automation of accounting has meant that specialists have more time for value-added services, which increases sales per customer and improves customer experience and the personnel’s job satisfaction.
- Value-creating acquisitions:** Talenom has accelerated acquisitions both in Finland and Sweden in recent years. Talenom has very successfully integrated acquisitions and raised their profitability, which creates shareholder value coupled with inexpensive acquisition prices.

Risks

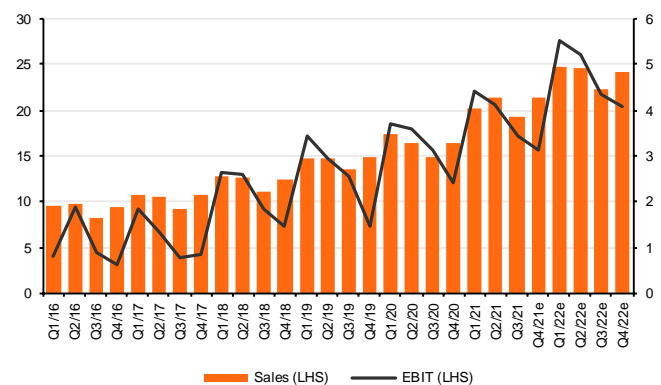
- Intensifying competition:** Advancing automation and digitalisation in the sector will probably lead to intensifying price competition in the future.
- Failure in international expansion:** There is not yet any proof that the profitability of business operations in Sweden can be raised through the localisation of software that increases automation.
- Goodwill and intangible rights:** The amount of goodwill and intangible rights is high in Talenom’s balance sheet. If profitability declined sharply, these items would involve uncertainty. However, in our view the risk is very low.

Annual sales and EBIT



Source: OP Markets

Quarterly sales and EBIT



Source: OP Markets

Q3 results

Talenom's sales grew 30.4% YoY. As anticipated, the EBIT margin declined YoY with acquisitions weighing on relative profitability in Finland in the short term. Yet profitability was slightly better than forecasted.

Talenom						
EURm	Q3/21a	vs. OP	Q3/2021e		Q3/20a	Growth
			OP	Cons.		
Sales	19,4	-3 %	19,9	19,6	14,8	31 %
EBIT	3,4	1 %	3,4	3,4	3,1	11 %
EBIT margin	17,8 %		17,1 %	17,3 %	20,9 %	
PTP	3,3	3 %	3,2	3,2	2,9	13 %
EPS	0,06	0 %	0,06	0,06	0,05	20 %

Source : OP Markets and InFront

Forecast revisions

Our sales forecasts have decreased due to slightly lower organic growth in Finland than we estimated. The drop in the EBIT forecasts for 2022–2023 is largely attributable to higher depreciation than previously estimated. The changes were small on EBITDA level.

Forecast revisions									
EURm	2021			2022			2023		
	New	Old	Diff.	New	Old	Diff.	New	Old	Diff.
Total sales	82,4	82,4	0 %	96,0	97,5	-1 %	110,4	112,1	-1 %
Sales growth				16,5%	17,5%		15,0%	15,0%	
EBITDA	27,4	27,5	0 %	33,6	33,9	-1 %	39,8	40,0	-1 %
Margin	33,2 %	33,4 %		35,0 %	34,8 %		36,0 %	35,7 %	
EBIT	15,1	15,1	0 %	19,2	20,8	-8 %	24,3	26,0	-7 %
Margin	18,3 %	18,3 %		20,0 %	21,3 %		22,0 %	23,2 %	
PTP	14,3	14,3	0 %	18,4	20,0	-8 %	23,5	25,2	-7 %
EPS	0,26	0,26	0 %	0,34	0,37	-8 %	0,44	0,47	-7 %

Source: OP Markets

Talenom's acquisitions in 2017-2021

Acquired company	Location	Staff	Sales	Result	Transaction price	Additional transaction price (max.)	EV/S (max.)
2017							
Trust Accounts TKG	Kuopio	17	1,2	0,1	0,5		0,4
2018							
Tiltoimisto K Ollila	Oulu		0,5				
Tiltoimisto Tuloslaskenta and ATT yrityspalv.			1,4				
2019							
Wakers Consulting	Stockholm	30	2,6	0,4	2,6		1,0
Wasa Tilit and WT Företagstjänster	Vaasa	30	2,2	0,2	1,6		0,7
2020							
Addvalue Advisors	Vantaa	6	0,5	0,1	0,3		0,5
Niva Ekonomi AB	Stockholm	17	1,4	0,2	1,1	0,2	0,9
Frivision	Gothenburg and Malmö	20	1,4	0,0	1,4	0,6	1,4
Larsen & Co Tiltoimisto	Helsinki	17	1,4	0,2	1,0		0,7
Ekonomianalys and Persson&Thorin	Järfälla, Växjö	42	3,5	0,3	2,9	2,3	1,5
2021							
Balance Systems and Laskentalinja	Kemi and Kuopio		0,9		0,6	0,3	1,0
Tilipalvelu Pirkko Kemppainen	Ivalo, Rovaniemi	5	0,4		0,2	0,1	0,8
Crescendo and Progredo	Nacka, Östersund, Åre	25	2,3	0,3	2,2	0,4	1,1
AC-Tilit and Tiltoimisto Reijo Mäki	Espoo and Hämeenlinna		0,6		0,3		0,5
Balance-Team	Helsinki	20	2,7	1,0	5,3		2,0
Lapin Tulostieto	Tornio, Ylitornio, Kolari	7	0,5				
Avail Services SL	Barcelona	16	0,9	0,0	1,9	1,5	3,8
YUUnited Professionals	Nyköping	14	1,2	0,3	1,3	0,2	1,3
Suomenselän Tiltoimisto Oy	Ahtäri	8	0,6				

Source: Talenom, Asiakastieto, OP Markets, OP's estimates marked with grey

Peer companies

It is difficult to find listed peer companies for Talenom. The company's operating model differs from companies that provide accounting services, such as Aallon Group which is listed in Finland, but also from software houses, such as Admicom or Fortnox.

We have gathered four types of peer companies in the table below: (1) Finnish service companies of which Enento (former Asiakastieto) we think is closest based on the defensive nature of its business and good competitive position, (2) Nordic IT service firms that sell specialist work, (3) Nordic software houses and (4) accounting service providers.

As shown by the table, there are great valuation differences between the companies. The valuations of software houses whose profitability and growth are high are naturally higher compared with service companies whose business is clearly less scalable.

In terms of sales growth and profitability, Talenom is between software houses and service companies.

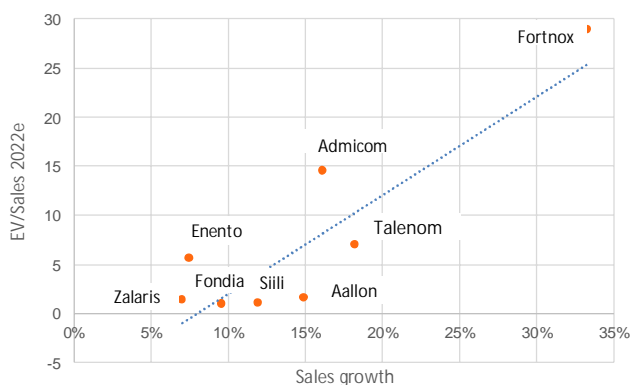
Peer valuation

Company	MCAP EURm	EV/Sales			EV/EBITDA			EV/EBIT			P/E			
		2021e	2022e	2023e	2021e	2022e	2023e	2021e	2022e	2023e	2021e	2022e	2023e	
Finnish peer companies														
Enento Group Oyj	868	6,1x	5,6x	5,2x	16,5x	14,7x	13,2x	26,3x	22,3x	19,6x	30,6x	26,2x	23,2x	
Fondia Oyj	27	1,1x	0,9x	na.	16,8x	7,8x	na.	34,3x	11,5x	na.	39,9x	16,8x	12,0x	
Gofore Plc	326	3,1x	2,8x	2,5x	19,6x	16,7x	14,7x	27,9x	22,2x	19,0x	36,0x	28,4x	24,8x	
Silli Solutions Oy	107	1,2x	1,0x	0,9x	9,8x	7,8x	6,7x	16,0x	11,9x	9,8x	15,4x	12,1x	10,8x	
Nordic software firms														
Admicom Oyj	450	17,3x	14,5x	12,2x	36,0x	30,8x	25,6x	37,2x	31,7x	26,1x	48,6x	42,3x	35,4x	
Fortnox AB	3 730	39,2x	28,9x	21,8x	89,0x	64,0x	46,1x	112,1x	76,3x	52,8x	143,2x	100,6x	72,9x	
Accounting service providers														
Zalaris ASA	117	1,6x	1,3x	1,2x	14,0x	10,4x	8,4x	17,4x	12,1x	9,4x	25,1x	16,4x	13,9x	
Aallon Group Oyj	47	1,8x	1,6x	na.	14,8x	10,9x	na.	16,4x	12,5x	na.	22,0x	17,1x	16,4x	
Talenom Oyj	625	8,0x	7,0x	6,1x	24,2x	20,5x	17,3x	43,4x	35,4x	28,9x	54,0x	43,9x	36,4x	
Median - Finnish companies			2,2x	1,9x	2,5x	16,7x	11,2x	13,2x	27,1x	17,0x	19,0x	33,3x	21,5x	17,6x
Median - Nordic software firms			28,3x	21,7x	17,0x	62,5x	47,4x	35,9x	74,7x	54,0x	39,5x	95,9x	71,4x	54,2x
Median - Accounting service providers			1,8x	1,6x	3,6x	14,8x	10,9x	12,9x	17,4x	12,5x	19,2x	25,1x	17,1x	16,4x
Talenom (OP)			8,2x	7,0x	6,0x	24,8x	20,0x	16,8x	44,9x	35,1x	27,5x	55,3x	42,5x	33,3x

Source: FactSet, OP (1 Nov 2021)

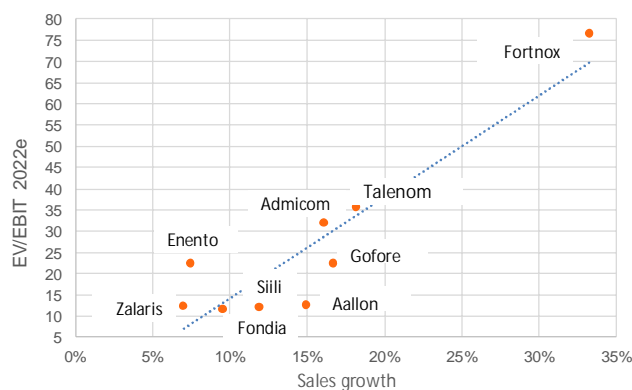
Based on the comparison, the predicted high average sales and earnings growth for the next few years (CAGR 2020–2023e) lifts the valuation multiples sharply. We have included the companies above in the graphs below. The forecasts are consensus forecasts.

EV/Sales 2022e and sales growth 2020-23e (CAGR)



Source: Consensus forecasts FactSet (1 Nov 2021)

EV/EBIT 2022e and sales growth 2020-23e (CAGR)



Source: Consensus forecasts FactSet (1 Nov 2021)

Financial performance and forecasts – by quarter

Talenom - Segments by Quarter

EURm	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21e
Total sales	17,4	16,5	14,8	16,5	20,3	21,4	19,4	21,4
Sales growth (YoY)	17 %	12 %	10 %	10 %	17 %	30 %	30 %	30 %
Total EBIT	3,7	3,6	3,1	2,4	4,4	4,1	3,4	3,1
Margin	21,4 %	21,8 %	21,2 %	14,7 %	21,7 %	19,4 %	17,8 %	14,6 %
PTP	3,5	3,4	2,9	2,2	4,2	3,8	3,3	2,9
EPS	0,07	0,06	0,05	0,04	0,08	0,07	0,06	0,05

Source: OP Markets

Financial performance and forecasts – by year

Talenom estimates

EURm	2020	2021e	2022e	2023e
SALES				
Finland	61,2	71,7	82,0	93,1
Growth	9 %	17 %	14 %	14 %
Sweden	4,0	10,7	13,0	16,0
Growth	100 %	168 %	21 %	23 %
Other countries		0,4	1,0	1,3
			150 %	30 %
IN TOTAL	65,2	82,4	96,0	110,4
Growth	12 %	26 %	16 %	15 %
Other operating income	0,1	0,6	0,2	0,2
EXPENSES				
Materials and services	2,5	2,9	3,2	3,7
Employee benefit expenses	33,9	44,8	52,2	59,2
Depreciation and amortisation	10,4	12,3	14,4	15,5
Other operating expenses	5,6	7,9	7,2	8,0
EBIT, reported	12,9	15,1	19,2	24,3
Margin	19,8 %	18,3 %	20,0 %	22,0 %
Non-recurring items	0,0	0,0	0,0	0,0
EBIT, adjusted	12,9	15,1	19,2	24,3
Margin	19,8 %	18,3 %	20,0 %	22,0 %
EBIT by country				
Finland		14,9	18,5	22,5
Margin		21 %	23 %	24 %
Sweden		0,2	0,6	1,6
Margin		2 %	5 %	10 %
Other countries		0,0	0,1	0,2

Source: OP Markets

Income statement and balance sheet

Income Statement

EURm	2017	2018	2019	2020	2021e	2022e	2023e
Sales	41,4	48,9	58,0	65,2	82,4	96,0	110,4
EBITDA	9,5	13,7	18,9	23,3	27,4	33,6	39,8
Depreciation	4,7	5,1	8,5	10,4	12,3	14,4	15,5
EBIT	4,8	8,5	10,4	12,9	15,1	19,2	24,3
Financials	-0,5	-0,6	-0,8	-0,9	-0,8	-0,8	-0,8
PTP	4,3	8,0	9,6	12,0	14,3	18,4	23,5
Taxes	0,9	1,6	2,0	2,4	3,0	3,7	4,7
Net profit	3,4	6,4	7,6	9,6	11,3	14,7	18,8
EPS, reported	0,08	0,15	0,18	0,22	0,26	0,34	0,44
DPS	0,05	0,09	0,13	0,15	0,17	0,20	0,23

Source: OP Markets

Balance Sheet

EURm	2017	2018	2019	2020	2021e	2022e	2023e
Assets:							
Goodwill	18	18	21	24	36	36	36
Other intangibles	14	19	25	34	46	48	54
Tangible assets	3	2	11	10	10	10	10
Investments	0	0	0	0	0	0	0
Inventory	0	0	0	0	0	0	0
Receivables	5	5	7	7	10	11	13
Short-term investments	0	0	1	2	2	2	3
Cash and bank	5	6	8	9	7	10	13
Total assets	46	51	72	87	111	118	130
Liabilities:							
Share capital	0	0	0	0	0	0	0
Other restricted share capital	0	0	0	0	0	0	0
Retained earnings	14	19	24	32	37	44	55
Minority interest	0	0	0	0	0	0	0
Shareholders equity total	14	19	24	32	37	44	55
Provisions	0	0	0	0	0	0	0
LT interest bearing debt	23	24	35	37	52	49	47
LT non-interest bearing debt	0	0	0	0	0	0	0
Other long-term debt	0	0	1	2	2	2	3
ST interest bearing debt	1	0	0	0	0	0	0
ST non-interest bearing debt	9	9	13	16	20	22	25
Total liabilities	46	51	72	87	111	118	130

Source: OP Markets

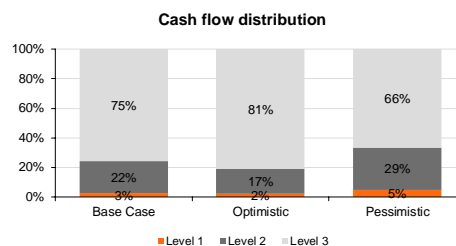
Cash flow forecasts

Talnom

CASH FLOW PROJECTIONS

EURm	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Revenues	82	96	110	126	143	162	181	202	219	235	247
Revenue growth	26,5 %	16,5 %	15,0 %	14,3 %	13,5 %	12,9 %	12,2 %	11,6 %	8,0 %	7,5 %	5,0 %
EBIT	15	19	24	28	31	35	40	44	48	51	54
EBIT margin	18,3 %	20,0 %	22,0 %	21,9 %	21,9 %	21,9 %	21,9 %	21,9 %	21,8 %	21,8 %	21,8 %
Gross Investments	27	20	20	20	21	23	25	27	30	32	32
Gross inv./depreciation	2,2	1,4	1,3	1,3	1,3	1,2	1,2	1,1	1,1	1,1	1,1
Free cash flow	-2	10	16	19	23	27	30	35	37	39	43

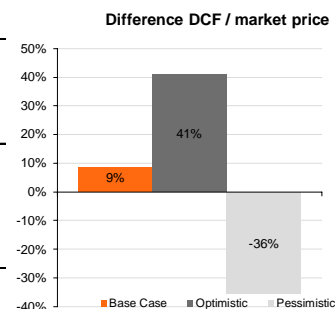
FCF	Base Case		Optimistic		Pessimistic	
	growth	% pv*	growth	% pv	growth	% pv
Level 1						
2021						
:	114,4 %	3 %	114,4 %	2 %	114,4 %	5 %
2023						
Level 2						
2024						
:	13,3 %	22 %	15,8 %	17 %	10,8 %	29 %
2031						
Level 3						
2032	3,0 %	75 %	3,5 %	81 %	1,0 %	66 %
PV total	720	100 %	926	100 %	441	100 %



* Level share of present value cash flows

IMPLIED SHARE PRICE vs CURRENT SHARE PRICE

Talnom	Base Case	Optimistic	Pessimistic
Present value FCF	720	926	441
- debt (int.-bearing)	41	41	41
- minority interest	0	0	0
+ fin. investments	0	0	0
+ cash and bank	9	9	9
PV shareholder equity	688	894	409
No. of shares (million)	43,7	43,7	43,7
Implied share price	15,7	20,5	9,3
Current share price	14,5	14,5	14,5
Difference (EUR)	1,2	6,0	-5,2
Difference %	8,5 %	41,1 %	-35,5 %



SENSITIVITY ANALYSIS

Interest rate sensitivity		Implied share price			
		Base Case	Optimistic	Pessimistic	
risk-free rate	1,50 %	18,3	24,4	10,4	
	2,00 %	15,7	20,5	9,3	
	2,50 %	13,7	17,5	8,4	

Growth sensitivity		Implied share price					WACC
		5,8 %	6,3 %	6,8 %	7,3 %	7,8 %	
Base Case				6,8 %			
	2,00 %	17,3	14,9	13,1	11,6	10,3	
	2,50 %	19,4	16,5	14,2	12,5	11,0	
cash flow	3,00 %	22,3	18,5	15,7	13,6	11,9	
	3,50 %	26,5	21,3	17,7	15,0	13,0	
	4,00 %	32,9	25,2	20,3	16,9	14,3	

WACC vs risk-free rate

Risk-fr. r.	1,50 %	2,00 %	2,50 %
CAPM	5,90 %	6,40 %	6,90 %
WACC	6,35 %	6,8 %	7,3 %
	WACC ₂	WACC ₁	WACC ₃

WACC

Cost of equity capital:

CAPM	
Risk-free rate	2,00 %
Market risk premium	5,50 %
Company beta	0,80
Cost of equity capital	6,40 %

Cost of debt capital:

Risk-free rate	2,00 %
Risk premium	1,50 %
Tax rate	20,0 %
Tax shield on interest exp.	0,70 %
Cost of debt capital	2,80 %

WACC:

Cost of equity capital	6,40 %
Cost of debt capital	2,80 %
Debt ratio (target)	30,0 %
Equity ratio (target)	70,0 %
Liquidity premium	1,50 %
WACC	6,8%

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Recommendations and target price history			Talenom	
Recommendation	Target price (€)	Price (€)	Date	
ACCUMULATE	15,70	14,50	2.11.2021	Recommendation and target price change
REDUCE	16,00	16,72	3.8.2021	Recommendation and target price change
ACCUMULATE	14,50	13,64	9.6.2021	

The recommendation breakdown of OP Corporate Bank plc for all companies under its coverage and for the aforementioned* companies OP Corporate Bank plc or another company pertaining to the same group has been party to an agreement with concerning the provision of investment banking services:

Share recommendation breakdown (as of 29 October 2021)				
Recommendation	All Companies		Inv. Banking Relationships*	
	Count	%	Count	%
BUY	20	26	4	36
ACCUMULATE	40	52	5	45
REDUCE	12	16	1	9
SELL	5	6	1	9
	77	100	11	100

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