



Talenom - Defensive business in a downturn, growth case intact once the situation normalises

Conclusion

Talenom share price is down ca. 30% YTD but we believe the risk for Talenom's earnings is not as significant. In our view the two attractions in Talenom are 1) defensive existing business; and 2) scalable growth potential through market share gains. We think the first point is very relevant now, and the second is intact once the dust settles, even though 2020 growth estimates are at risk (Talenom has guided 2020 to be similar to 2019, when sales grew by 18%). We remain positive on the shares and see this as a good long term entry point.

How defensive is Talenom?

Around 90% of Talenom's revenues are recurring and the company has a fixed monthly fee invoicing (although not all services are fixed price). The accounting services market has historically been resilient to macroeconomic cycles, because bookkeeping needs to be done even in tough times. The main downside in the market has come from customer bankruptcies - which once again look more likely in Finland.

We can look at history from two angles: a top-down perspective showing that the Finnish accounting services market value grew in 2008-09 despite a drop in Finnish GDP (source: Statistics Finland). Talenom's own revenue grew in those years as shown in chart below.

Chart: Finnish GDP and accounting services market, 2006-2010 (indexed)

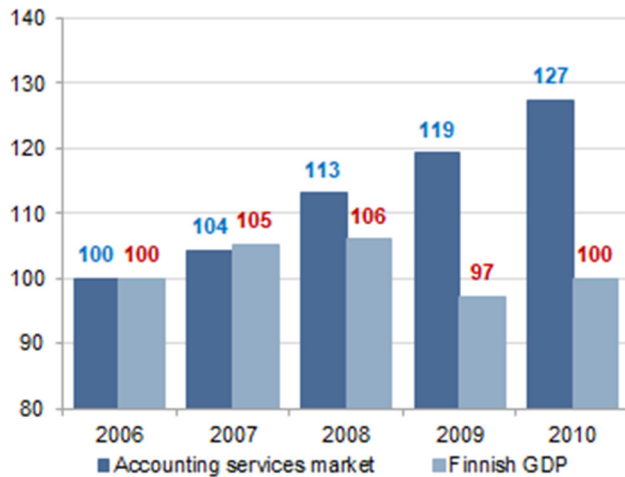
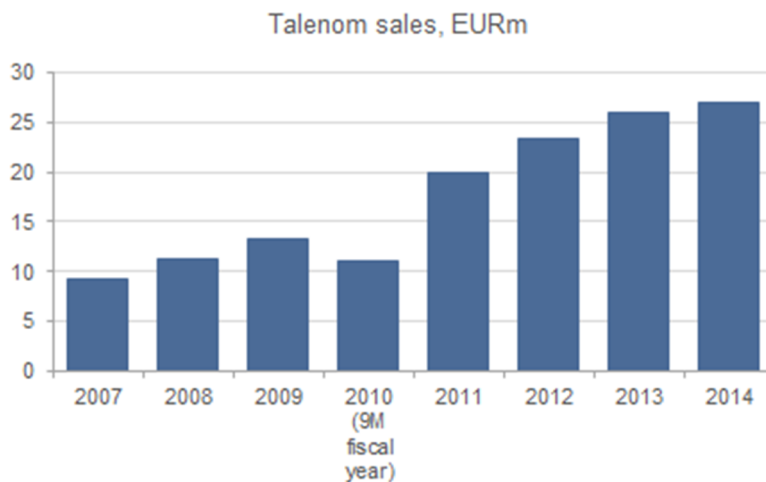


Chart: Talenom sales in 2007-2014. Growth in 2008-09. 2010 was lower but not comparable due to a 9-month fiscal year (we estimate growth was about 11% if adjusted for shorter period).



Comments from CEO

We got some comments from Talenom's CEO about the risks: Customer bankruptcies are a real risk, but usually the impact comes slowly because also the bankruptcy estate's books need to be done and Talenom does that.

What was the impact in 2008-09? In those years revenue grew due to organic growth and acquisitions. Bankruptcies increased, but no major impacts to total customer volume, because also new companies are being founded. In the current situation it is likely that there will be government subsidies for laid-off people who

found new companies. Talenom's customer structure is fairly similar now compared to 2008 and Talenom has customers from all industries and of many sizes. Most are in the range of EUR 0.4-10m revenue.

How big exposure to service sector? One-person entrepreneur customers are a small part of revenue. Will target this segment more going forward. Restaurants are the most important segment in services, but Talenom has about same share of these as Finland as a whole (3.3% of Finnish companies were in this industry in 2018, according to Statistics Finland).

Other things to mention: the financing services products are seeing good demand now, because Talenom is able to quickly help companies to acquire financing [our comment - this is encouraging, and could speed up the growth in financing services that were launched in 2018, and where Talenom has a commission model = high gross margin]. So far Talenom has had remote sales meetings and even closed deals fairly well. Worst-case scenarios have not materialised.

Valuation and estimates

Talenom is not a cheap stock even after the 30% fall in share price. On our latest estimates shown below, 2020E EV/EBIT is 21x but should fall to 13.7x by 2022E. High multiples are justified due to the defensive qualities discussed above, and especially due to growth potential (still ca. 5% market share in Finland and almost zero in Sweden) and scalability (degree of automation has risen which has enabled higher growth in revenues than in headcount, expanding margins - we think there's more to come).

We think the possible downside risk in Talenom shares near-term would be more from multiple de-rating (along with market uncertainty) rather than from actual earnings declines. If we would set 2020 revenue growth to zero (vs. 18.5%), our 2020 EBIT estimate would fall by 15%. CEO's comments indicate that the change is probably not as dramatic. Over time, when the situation normalises, we believe there is significant upside potential in the shares.

Key figures (our latest published estimates)

Year-end Dec (EUR)	2018	2019	2020E	2021E	2022E
Revenues (m)	48.9	58.0	68.7	79.7	90.8
Revenues growth	18.0%	18.6%	18.5%	16.0%	14.0%
EBITDA (m)	13.7	19.6	24.0	28.1	31.2
EBIT adj. (m)	8.5	10.4	12.8	16.4	19.5
EBIT growth	65.9%	21.8%	23.3%	27.5%	19.1%
Pre-tax profit (m)	8.0	9.6	11.9	15.4	18.5
EPS adj.	0.16	0.18	0.23	0.29	0.35
DPS	0.09	0.13	0.14	0.18	0.20
Dividend yield	2.9%	1.7%	2.4%	3.1%	3.4%
FCFE yield (pre-IFRS16)	2.5%	1.7%	3.6%	4.6%	5.3%
EBIT margin (adj.)	17.5%	18.0%	18.7%	20.5%	21.5%
Net debt/EBITDA (x)	1.3	1.5	1.2	0.9	0.7
ROIC	20.0%	18.5%	18.4%	21.9%	24.1%
EV/sales (x)	3.04	5.94	3.98	3.40	2.95
EV/EBITDA (adj.) (x)	10.9	17.6	11.4	9.6	8.6
EV/EBIT (adj.) (x)	17.4	33.1	21.3	16.5	13.7
P/E (adj.) (x)	20.5	40.9	25.8	19.9	16.5
P/BV (x)	7.00	13.31	8.80	7.16	5.92

Source: Company data, Danske Bank Equity Research estimates