

# Talenom

Initiation of coverage



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9.6.2021 14:52

## Strong focus on growth

- **We are initiating coverage of Talenom with an Accumulate recommendation and a target price of EUR 14.50.** Talenom has a strong track record of competitiveness in a steadily growing and fragmented sector. The company's solid growth and excellent profitability in accounting operations in Finland enable investments in growth. After the sharpened strategy, investments are targeted at the company's strength areas in Finland and abroad. At the current earnings level, share valuation is high, but the predicted strong earnings growth (average annual EPS growth 26% in 2021–2023) will quickly bring down the valuation multiples.
- **Sharpened strategy:** Talenom's core business consists of accounting operations in Finland. The solid earnings and cash flow of this business enable investments in acquisitions and development of digital services, geographical expansion as well as increasing the automation level of accounting. The company's sharpened strategy relies firmly on the company's competitive advantages, which reduces risks related to the realisation of growth.
- **Extensive growth potential:** Talenom's market share in the Finnish accounting market is a little less than 5%, and the company has managed to grow clearly faster than the market. Extending the service offering to cover smaller companies grows the size of the target market considerably. In addition, international expansion has been boosted further. In 2021, the focus is particularly on launching new services and advancing in Sweden both on the commercial and technological front. Talenom has accelerated acquisitions over the past two years, and we think they create value and speed up the company's profitable growth.
- **Recommendation and target price:** We are initiating coverage of Talenom with an Accumulate recommendation and a target price of EUR 14.50. In valuation, we apply a DCF model as well as valuation multiples in which we consider the company's robust earnings growth. We accept for Talenom an EV/EBITDA multiple 16.5x for 2023, which corresponds to an EV/EBIT multiple of around 26 and a P/E multiple 32. The value indicated by the DCF model is EUR 15 per share.

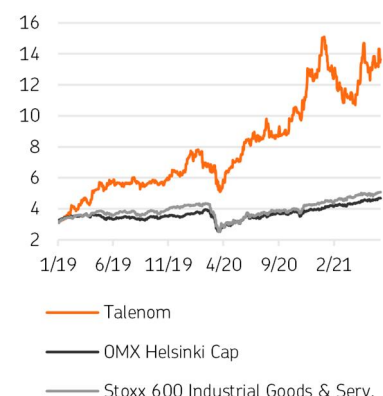
Recommendation **ACCUMULATE**

Target price (€) **14,50**

Price (€)\* 13,64  
High (12m) 15,25  
Low (12m) 7,76

Market cap (M€) 596  
Index weight 0,2 %  
Beta 0,81  
Ticker TNOM  
Next report date 2.8.2021

Performance 1m 3m 12m  
Price (€) 12,88 11,20 8,50  
Change 5,9 % 21,8 % 60,5 %



Source: OP Markets, Bloomberg, \*) as of 8.6.

Talenom						
EURm	2018	2019	2020	2021e	2022e	2023e
Sales	48.9	58.0	65.2	81.4	93.6	107.6
Sales Growth (%)	18.1 %	18.6 %	12.4 %	24.9 %	15.0 %	15.0 %
EBIT	8.5	10.4	12.9	15.5	20.2	25.0
EBIT (%)	17.5 %	18.0 %	19.8 %	19.1 %	21.6 %	23.2 %
PTP	8.0	9.6	12.0	14.8	19.4	24.2
EPS	0.15	0.18	0.22	0.27	0.36	0.45
DPS	0.09	0.13	0.15	0.17	0.20	0.23
Yield (%)	2.9 %	1.7 %	1.0 %	1.2 %	1.5 %	1.7 %
EV/Sales	3.0	5.9	10.4	7.7	6.7	5.7
EV/EBITDA	10.9	18.0	29.0	22.6	18.6	15.7
P/E	20.6	40.8	67.7	49.9	37.8	30.3
P/B	7.0	13.2	20.1	15.7	12.9	10.3
ROE	34 %	32 %	30 %	31 %	34 %	34 %
ROCE	19 %	17 %	17 %	17 %	22 %	25 %
Equity Ratio	36 %	33 %	37 %	38 %	42 %	47 %
Gearing	96 %	116 %	87 %	81 %	60 %	40 %

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.

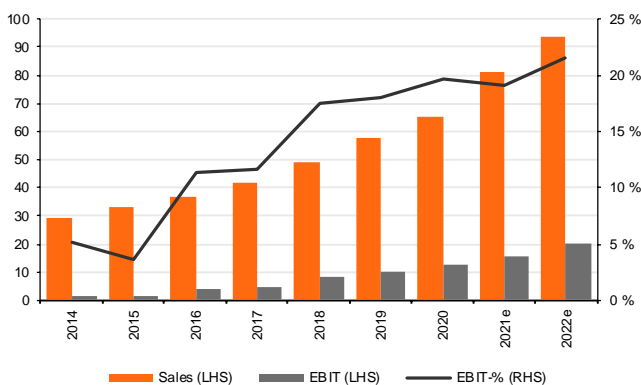
## Drivers

- **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

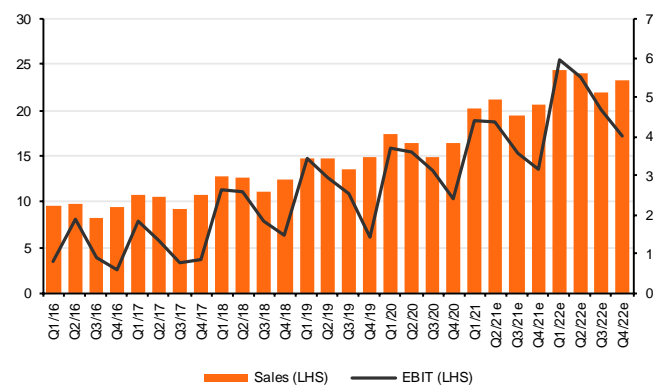
- **Intensifying competition:** Advancing automation and digitalisation in the sector will probably lead to intensifying price competition in the future.
- **Failure in international expansion:** There is not yet any proof that the profitability of business operations in Sweden can be raised through 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

## Company description

Talenom is an accounting firm founded in 1972. The core of its business consists of accounting operations in Finland. In addition to accounting services, Talenom provides financial management software and digital services to customers. The company's specialist unit also offers advisory services related to legal affairs, taxation and finances as well as banking services as the most recent option.

The company's competitive edge is based on a highly automated accounting production line, which improves the company's efficiency. At the same time, specialists can focus on value-added services instead of routine work, which improves customer service and brings additional sales for Talenom.

In addition to streamlining its accounting operations, the company has made sizeable investments in sales activities, which is the fastest way to grow profitably, according to the company. Approximately 15% of Talenom's personnel are engaged in sales. Talenom's strategy is to accelerate growth through acquisitions in addition to own sales activities. Acquisitions have become more important for the execution of the growth strategy in the past two years.

The company expanded operations to Sweden in 2019, and we estimate that Talenom aims to open one new market within a year. We estimate that sales in Sweden will clearly exceed EUR 10m in 2021, in which case the proportion of the whole Talenom's sales would already be significant. At the same time, a sales level after which software localisation becomes profitable has been exceeded, enabling Talenom to export the processes it has refined in Finland to Sweden.

Talenom has also expanded its service offering to smaller customer groups to which the distribution is digital. The TiliJaska-Freemium concept includes a free DIY bookkeeping application, bank accounts and cards and a flexible selection of accounting firm services according to the customer's need. At the same time, Talenom announced that it would expand to banking services.

### Wide accounting services

- Bookkeeping
- Sales invoicing
- Results monitoring
- Payroll, HR

### Advisory services

- Taxation
- Legal affairs
- Financial management planning
- Financing

### Software

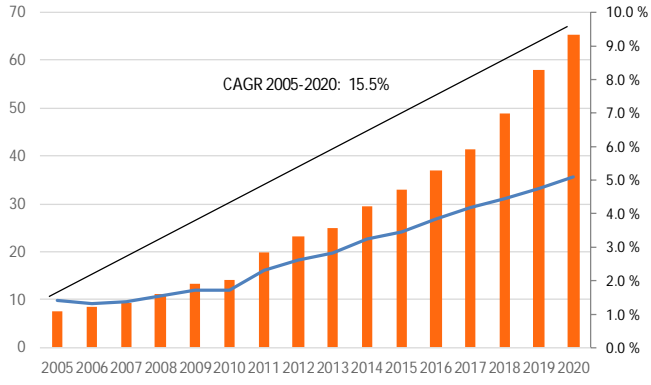
- Talenom Online
- Talenom App
- Talenom Tietoväylä
- Talenom Business Intelligence

### Services for smaller customers

- Light Entrepreneur
- TiliJaska
- Banking services

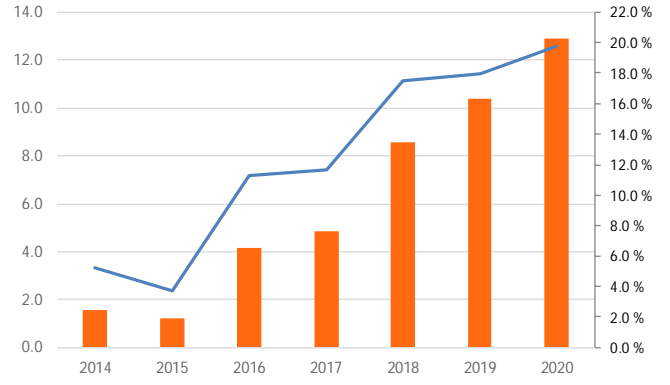
Talenom's financial performance has been very positive. The company's annual sales growth was 15.5% in 2005–2020. Growth has been clearly faster than market growth. Talenom has a market share of nearly 5% of the accounting market in Finland, and the company is one of the largest players in the fragmented sector. The strong profitability improvement is based especially on a higher level of automation in accounting.

Talenom - sales and market share 2005-2020



Source: Talenom, OP Markets

Talenom - operating profit and operating profit margin 2014-2020



Source: Talenom, OP Markets

## Talenom's services for customers

Talenom offers accounting services, financial management software and digital services as well as diverse specialist, advisory, financing and banking services to small and medium-sized businesses.

Talenom's highly automated accounting system changes its operating method compared with most competitors. Expert resources that are freed from routines can be directed increasingly towards higher value-added services as well as consulting which supports entrepreneurs' work. Value-added services include tasks related to taxation and legal affairs, among other things. Consultations regularly with an entrepreneur's own accountant increase customer satisfaction, improves the wellbeing of own employees when routine work decreases and offers Talenom potential for additional sales. We understand that the trend has been positive in recent years in this respect, which shows as improved customer satisfaction, among other things (net promoter score, NPS).

More than 70% of the whole Talenom's sales consist of fixed monthly accounting as well as drawing up of tax reports and financial statements. The rest (a little less than 30%) is transaction-based invoicing. Overall, demand for services is very defensive.

Talenom's competitiveness relies on the highly automated accounting line developed by the company. The company focused strongly on the automation of accounting in 2006–2017, which is also reflected in the company's profitability as a leap to another level. The biggest leaps have now been taken in raising the level of automation, but there is still room for streamlining in payrolls, among other things.

In addition to the systems Talenom has developed for its own use, the company has made sizeable investments in developing the digital services that are visible to customers. The bookkeeping system is also being localised for new countries. Sweden is now in this phase.

### **Accounting services form the core of business**

Accounting services include bookkeeping, sales invoicing, invoice payment, payroll accounts, financial performance monitoring and services related to human resources management. Financial performance monitoring provides monthly interim statement-level reports to the Talenom Online service.

Accounting services are provided with continuing customer agreements in which customer relationships are long, even tens of years. As a result, the business is very predictable, but new customer acquisition is slow and rather costly. Customer-specific invoicing depends on the scope of the service package.

Talenom's strong customer sectors include construction, transportation, restaurants, care services, car and machinery trade, pharmacies, associations and foundations, retail and travel. Customers can access systems that are tailored for their sector, and sector knowledge improves customer service and enables better sparring for entrepreneurs by general analysis of the sector.

For some customers, care services form a fixed additional part to the service. In this case, the customer can utilise the sector expertise and also has a designated accountant as well as the resources of the customer service centre.

### **Digital financial management services (customer interfaces)**

In the past couple of years, Talenom has invested heavily in software and digital services. Talenom does not sell software, but software is provided to customers as part of a more extensive service package.

With Talenom Online, customers can easily take care of the daily tasks of financial management. The software can be used for handling various kinds of reports, invoices and payroll. Customers can also access financing and credit information services, among other things, through cooperation partners. Talenom is planning to launch a new version of Talenom Online in 2021.

Talenom App is a mobile application which the customer can use to take a photo of a receipt, for example, and send it directly to bookkeeping. The customer can also pay travel invoices with the mobile app.

With the help of Talenom Tietoväylä, customers' own systems can be integrated with Talenom's financial management processes.

Talenom Business Intelligence offers tools for business management and knowledge-based management. It has been noticed that this is also an important element for Talenom's specialists for improving their customer knowledge and developing the service on that basis.

### **Advisory and financing services**

Apart from actual accounting and related additional services, Talenom offers its customer advisory services in legal affairs, taxation and finances. These services relate to areas such as changes in corporate and ownership structure, generation changes, tax planning as well as financial management development.

Talenom's Financing services offer corporate customers flexible sales invoice financing, instalment financing service and corporate loans.

### **Services to smaller customers through digital distribution**

Talenom announced its new value-added service TiliJaska for small entrepreneurs in October 2020. The service includes a free bookkeeping application, banking services (IBAN accounts and cards) and scalable accounting services tailored to the customer's needs. A corresponding service will also be launched in Sweden in 2021 (KontoKalle).

Talenom's Light Entrepreneur service is designed for self-employed persons who do not yet have a Business ID. In the service, a Light Entrepreneur pays a 2% service fee of the final sum of the invoice paid by the customer. The service brings Talenom new customers to whom other services can be sold in the long run. So, the TiliJaska and Light Entrepreneur concepts provide their own potential as well as a path to become Talenom's full service customer when the customer's business expands.

### **Banking services to be included in the service package**

After launching the TiliJaska service, the plan is to launch Talenom's own account and card services to all Talenom's customers. The customer can then buy accounting and banking services under one roof.

# Accounting market and competition

## Defensive growth market

**Long-term annual growth in the accounting market has been over 5%**

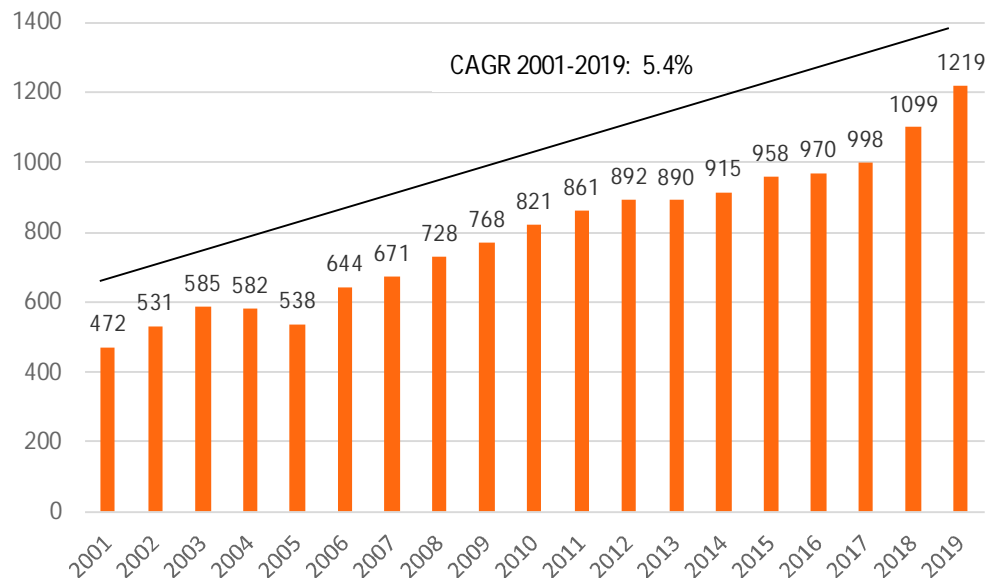
In 2019, the Finnish accounting market totalled around EUR 1.2bn. The market has grown rather steadily and during the recessions witnessed in the past decades as well. Companies have a statutory obligation to arrange their bookkeeping, which balances demand during economic downturns, too. Market growth is also underpinned by the rise of prices, growth in the number of receipts as well as growing sales of value-added services.

Although the sector is stable, its growth rate is somewhat affected by economic cycles. A rise in economic activity increases the amount of transaction-based invoicing, and an improving labour market situation is visible as growing payroll accounting volumes. The impact of economic recessions can be seen as slowing growth in 2012–2014 as a result of Finland's poor economic situation. Even at that time, the market did not contract, strengthening the view of the sector's defensive nature.

The figures for 2020 are not yet available, but the accounting market's growth has presumably returned closer to the long-term growth rate after the faster growth phase in 2018–2019. According to Statistics Finland, the accounting market grew 10.9% in 2019, which is clearly more than the long-term average. Faster growth in relation to historical growth may be attributable to the new Incomes Register (electronic database for income information), which increased accounting firms' invoicing. In 2020, the Covid-19 pandemic probably slowed down the sector's growth and Talenom's organic growth in Finland also slowed down. The economic recovery to be seen in 2021 should correspondingly have a slight positive impact on the sector's growth. In chum, bankruptcies also have a small impact on the sector's growth, but bankruptcies have not increased sharply during the Covid-19 pandemic.

The impact of price increases on growth has been approximately 1–3%, and growth in additional services and software sales will lift growth in the sector to approximately 3–4% in the future as well.

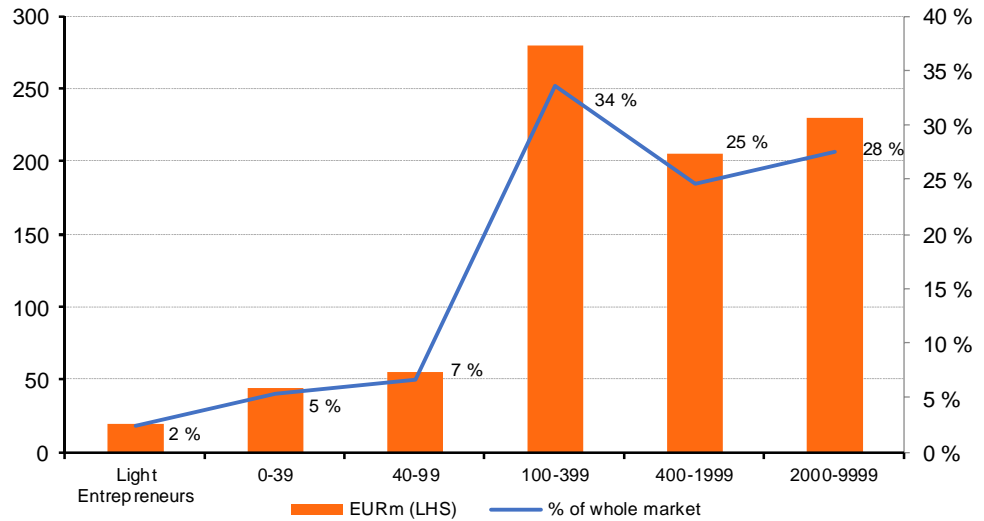
Accounting market size (EURm)



Source: Talenom, Statistics Finland

The structure of the Finnish accounting market is shown on the next page according to the size of corporate customers. Talenom steers its active sales efforts towards companies with sales of EUR 0.4–10m. For companies smaller than this, Talenom has launched a new service (TiliJaska) which is based on digital distribution. This new customer size category will considerably increase Talenom's customer potential.

Accounting market according to customer size (EUR '000)



Source: Talenom, OP Markets

**Only a few large players in the accounting market**

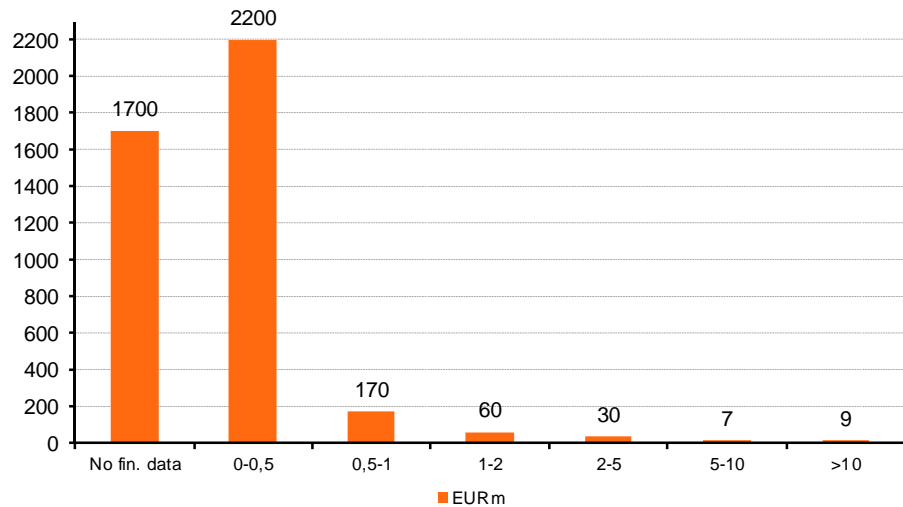
In addition to healthy and stable growth, what makes the accounting market very interesting is that it is very fragmented. According to Statistics Finland, in 2019, there were 4,104 accounting firms in Finland and their average size was 2.9 employees. The number of accounting firms has somewhat decreased in the past couple of years but is still rather high.

From the statistics of Statistics Finland below we can see that a typical accounting firm is run by an individual accountant or a few of them at the most. There are only a handful of larger accounting firms with sales over EUR 10m and even less than a hundred medium-sized firms (EUR 1–10m). This affects competition in the sector, companies’ ability to invest in the future and the M&A transaction market as well.

The companies’ profitability is reasonable on average as the average operating profit margin is around 10%, but there is a lot of variation in profitability.

We understand that in addition to Talenom, other strong players in the field include at least Accountor. Prominent challengers include Rantalainen, which is financed by a private equity company, Administer, Azets as well as Aallon Group, which is listed on First North. All of them are among the ten largest players in Finland.

Number of accounting firms in Finland by sales category (EURm)



Source: Talenom, OP Markets



# Talenom's strategy and competitive advantages

## Sector transition accelerating

The accounting market is undergoing a powerful transition, and structural change is likely to accelerate in the coming years. The strengthening trends of change open up growth opportunities for the sector's strong players and increase the willingness among smaller players to sell their enterprise. The most significant drivers for change within the sector are changing legislation, customers' increasing requirements for digital services and the paperless office trend.

Intensifying competition poses challenges to smaller accounting firms. Among the key challenges are customers' increasing requirements with the digitalisation of the accounting market. It is nearly impossible for small companies to respond to these challenges. In the future, accountant work in its present form will cease to exist, and players focusing solely on this business will be treading a tightrope.

The change in accountant work in tandem with digitalisation has driven larger companies in the field to invest heavily in enhancing their service offering. Smaller players are less capable and often also less willing to reinvent themselves. The transition to a digital operating model also requires software investments, learning new operating practices and development work. The increasing significance of software also changes the power relations between accounting firms and software companies in relation to end customers.

The drivers for change described above manifest themselves as sector consolidation. Smaller players in the field do not have the financial resources nor capacity to invest in the execution of the change process described above. Sector consolidation is also supported by the increasing number of accounting entrepreneurs going into retirement. In our view, Talenom's position in this change is strong, and the company has proven to be capable of value-creating acquisitions. We examine the M&A market from Talenom's viewpoint in more detail on pages 16–17.

## Talenom's strengths in technology and economies of scale

Talenom's competitiveness relies on the highly automated accounting line developed by the company. Increased automation resulted in clearly improved profitability in 2017.

In 2019–2020, development work focused on migrating customers from commercial software to the company's own platform. This work was largely completed in 2019, and the benefits could be seen in 2020. With the help of own software, the accounting production line started to serve Talenom's own needs better.

According to the company, the automation level of the accounting production line is now a little above 70%, and the target is to reach a level of over 90% in 2023. It is now clearly more challenging to increase the percentage when the easiest parts have already been automated.

Talenom uses commercial software in payroll accounting, which makes its automation different. Customers were migrated to the new software during 2020. The automation level was previously zero and was lifted to around 25% in 2020. The goal is 100% automation of manual routines during 2021.

The automation level has already been high in the sales ledger and is now around 90%. Automation of the remaining part continues to bring benefits because of the large volumes, and this part can be automated in full first, according to the company.

There are still gains to be made by increasing automation, even though the pace of change will slow down from the previous years. The present level has already freed a considerable amount of the specialists' time for serving customers, enabling the acquisition of new customers at the same time without significant investments.

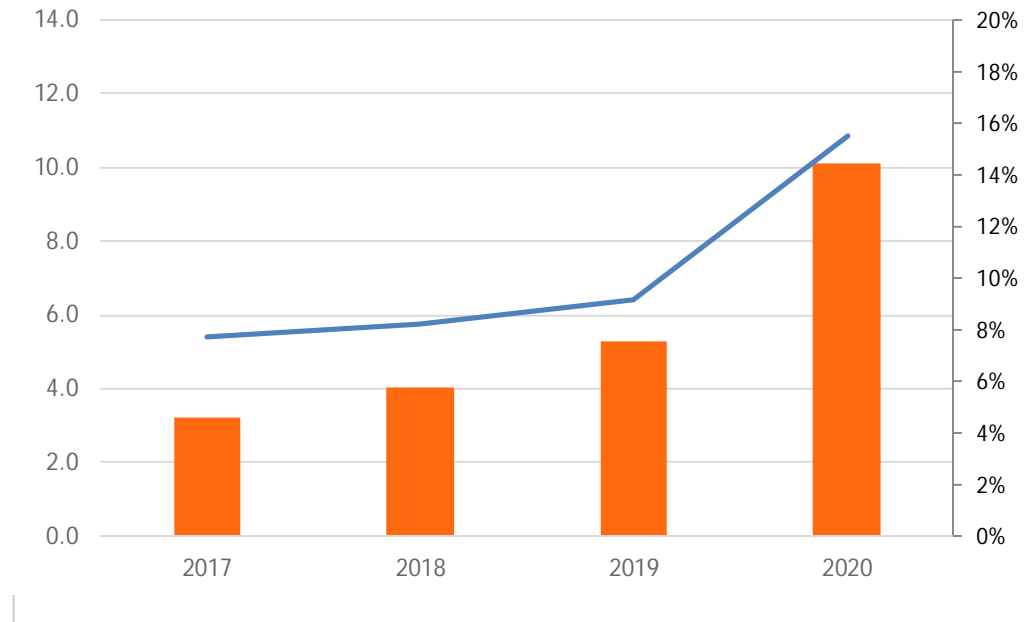
Ease-to-use digital services are a key to improving the customer experience. Talenom's approach differs from the other players in the field in that the company develops software for customers' use in support of good customer service. Software houses sell software and smaller accounting firms serve their customers with the help of this software.

The time freed from specialists is invested in customer care. An entrepreneur is typically quite alone with matters related to financial management. It is important to know and support the

customer, which improves customer service and the customer's commitment to Talenom. In addition to more informal contacting, Talenom holds care meetings with customers. According to the company, this has led to a situation where customer retention nears the level of small accounting firms, which is a very challenging goal for larger firms.

For the development work described above Talenom employs around 90 experts in digital services, software design and business processes. Around 60% of these experts work in development. The team also includes help desk functions. The graph below shows that Talenom has accelerated investments in software and digital services in both absolute terms and relative to sales during 2020. In 2020, investments in software and digital services amounted to EUR 10.1m; that is, 15.5% of sales.

Investments in software and digital services (EURm) and % of sales



Source: Talenom, OP Markets

Talenom expanded operations in 2017 by providing its accounting firm customers with other services, too. These included staffing services, telephone services and procurement services. The idea behind this earlier strategy was to enhance the selection of products and services for existing customers. After reassessment of the strategy, the selection has been reduced, and in future, customers will be provided with superior accounting firm and banking services in accordance with the company's vision. The company can offer services to a wider group of customers amidst narrower supply.

In our view, the sharpened strategy relies more clearly on the company's strengths. Coupled with international growth investments, this creates a clearer big picture in which the earnings outlook is stronger in the long term, in our view.

## Talenom's financial performance

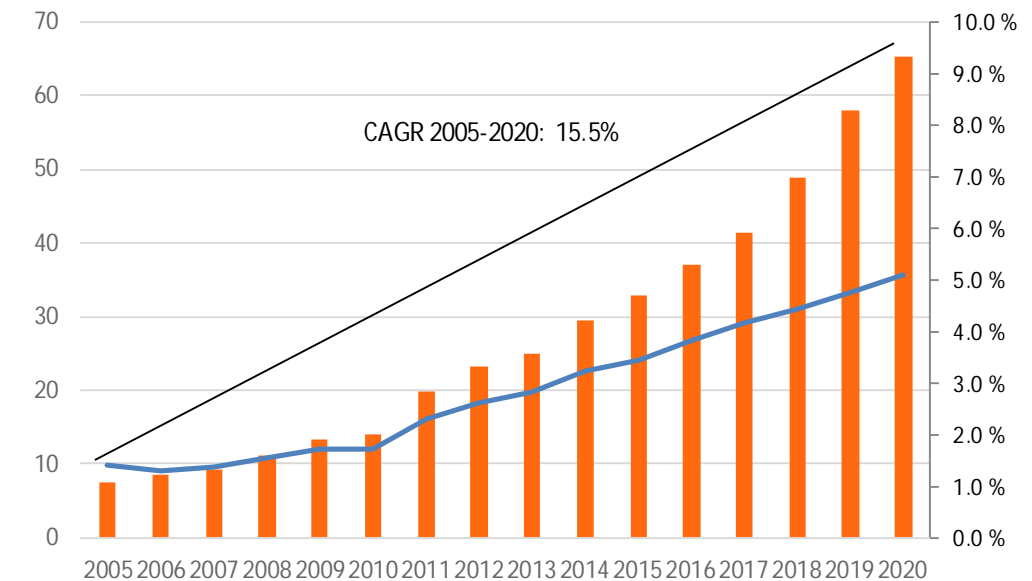
### Sales growth has been clearly faster than market growth

The trend in Talenom's sales and profitability has been positive in recent years, and growth has clearly exceeded general market growth.

Talenom's average annual sales growth (CAGR) was 15.5% in 2005–2020. In the same period, the Finnish accounting market grew 5.9%. According to Talenom's estimate, their market share was 4.8% in Finland in 2019. The sector's figures for 2020 are not yet available.

Talenom expanded to Sweden in 2019 through an acquisition, and we estimate that sales of Swedish operations stood at around EUR 4m in the previous year, Talenom does not report the sales and profitability of the Swedish operations separately.

#### Talenom - sales and market share 2005-2020



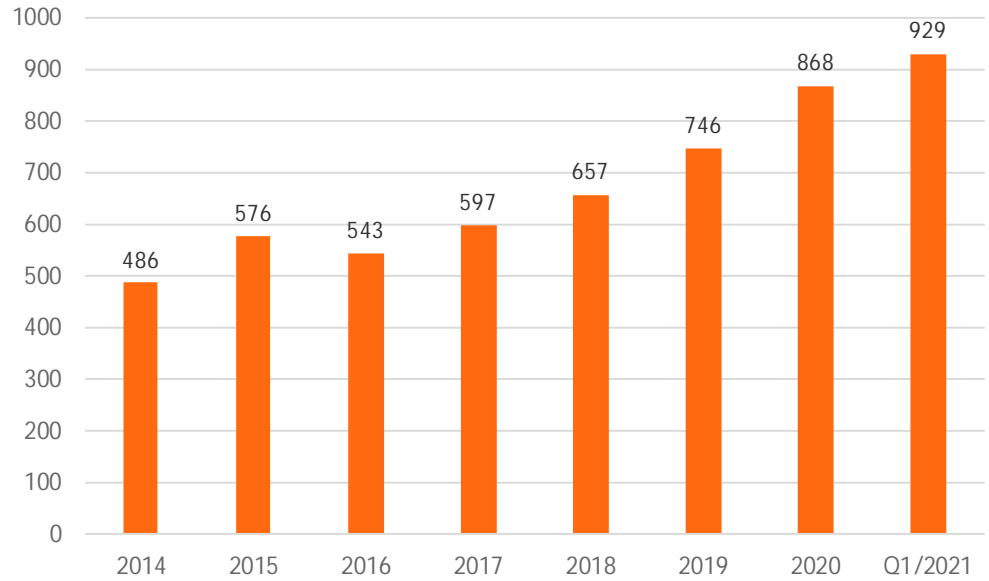
Source: Talenom, OP Markets

### Costs mainly relate personnel

Talenom's clearly most important cost item is personnel costs. They represented around 65% of all costs in 2020. The number of personnel was 929 on average in Q1 2021, and in the wake of growth, the number of personnel has increased in recent years (graph on following page).

The ratio of personnel expenses to sales has dropped in recent years in the wake of increasing automation of accounting. In 2016, the ratio of personnel costs to sales was around 60% when it was around 52% in 2020. This trend has had a positive effect on profitability and also freed experts' resources for producing higher value-added services for customers.

**Number of personnel (on average)**

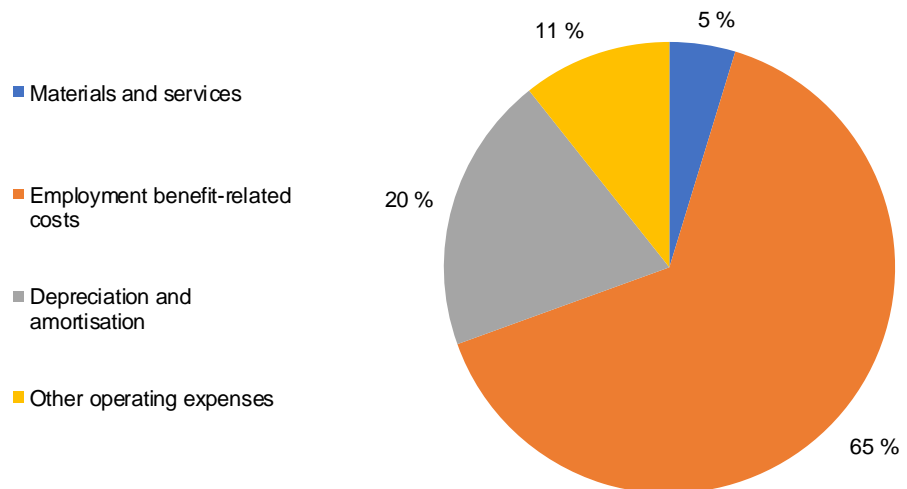


Source: Talenom, OP Markets

It is typical of this kind of business that material and service costs are low. They have represented around 5–8% of Talenom’s sales in recent years. Other operating expenses include marketing and travel expenses, part of R&D expenses, IT, equipment and machinery expenses and rent costs. Other expenses represented 11% of sales in 2020. Aggregate material, service and other operating expenses represented around 15% of sales in 2020. Some variation to the cost level is brought by the annual fluctuation of external development work and other investigation costs.

The proportion of depreciation and amortisation of costs has risen due to increased amortisation on intangible assets, among other things. The proportion of costs was 20% in 2020.

**Talenom - cost structure in 2020**

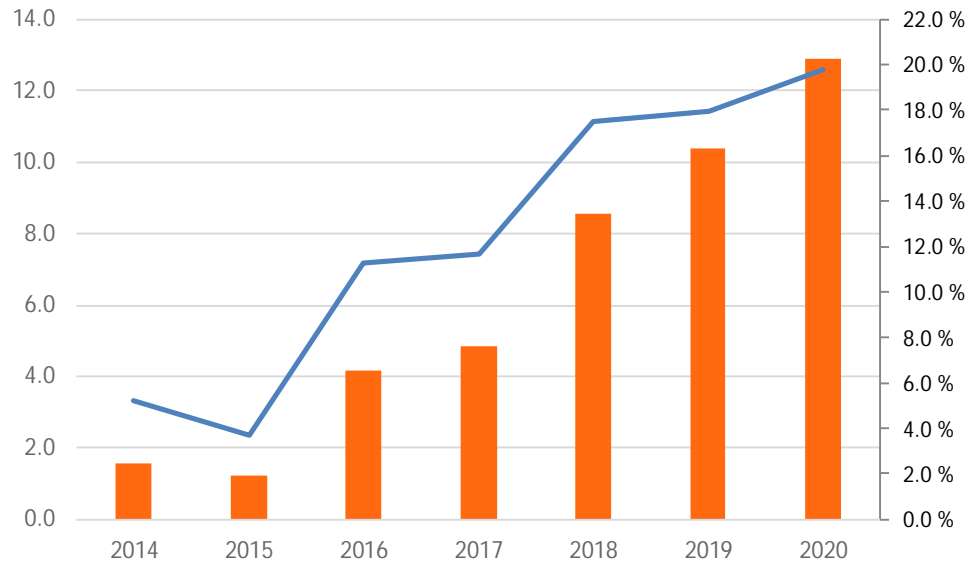


Source: Talenom, OP Markets

## Operating profit margin has improved greatly, driven by automation

The graph below shows Talenom’s operating profit and operating profit margin in 2014–2020. The higher automation level of the accounting line in own use shows as a steep rise in profitability as of 2016 when the accounting line was launched. The higher automation level and development of processes have lifted relative profitability. In 2020, EBITDA totalled EUR 23.3m (35.7% of sales) and operating profit EUR 12.9m (19.8% of sales). Talenom has one reporting segment, and the company does not therefore itemise profitability in Finland and Sweden, for instance. However, company management has commented that EBITDA is approaching a 40% level in Finland.

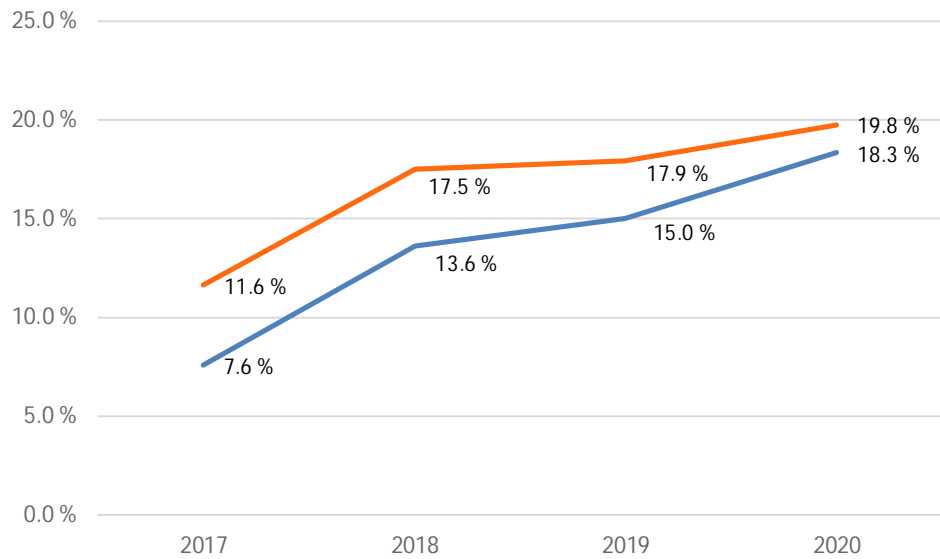
Talenom - operating profit and operating profit margin 2014-2020



Source: Talenom, OP Markets

Talenom handles some of the costs caused by new customer agreements as investments. EUR 4.2m of these investments were capitalised into the balance sheet in 2020. Depreciation on these capitalised agreements amounted to EUR 3.3m in the previous year. In history, the impact of the capitalisations on the reported operating profit margin was considerable, but in 2020 the effect was only 1.5 percentage points, as shown by the graph below.

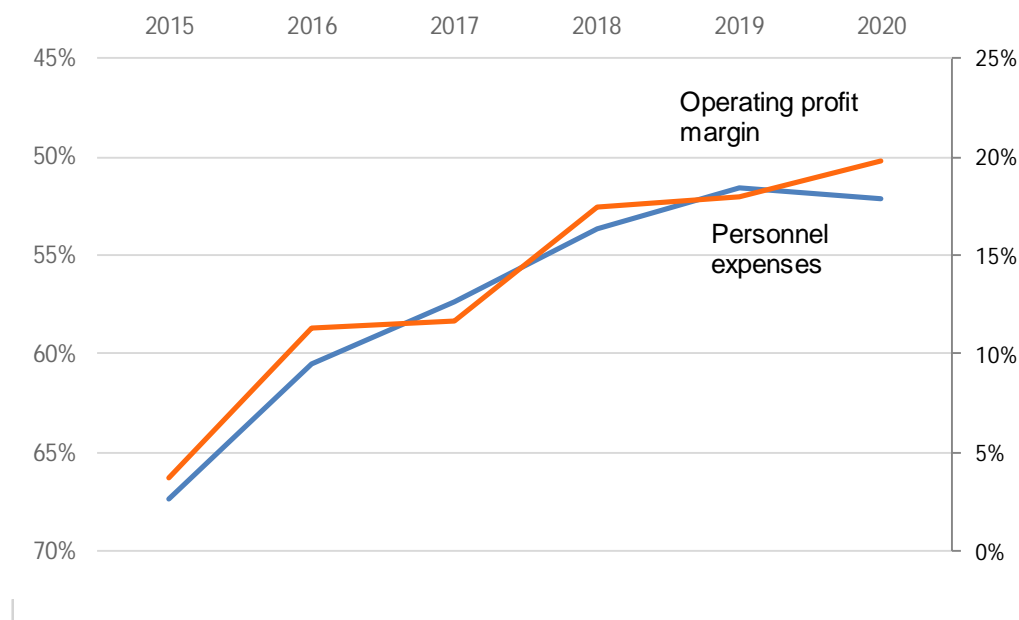
Talenom's EBIT margin - reported and adjusted for sales capitalisations



Source: Talenom, OP Markets

In 2013–2018, Talenom focused strongly on developing its own accounting system, which was reflected as improved automation and consequently, a relative decrease in personnel expenses. The connection between this trend and these factors can be seen in the graph below, in which the proportion of personnel expenses of sales (inverse scale LHS) declined from around 67% in 2015 to 52% in 2019 and 2020. The operating profit margin rose roughly as much at the same time. Certainly, profitability is also affected by other factors, but we think that this comparison summarises well the benefits gained from the numerical side.

#### Talenom - personnel expenses of sales (LHS) and operating profit margin



Source: Talenom, OP Markets

Talenom has sped up acquisitions over the past two years, expanded to Sweden and developed new services for smaller customer groups, among other things. These growth investments weighed on relative profitability slightly in 2018–2020 although the trend has remained upwards.

Acquisitions weigh on relative profitability in the short term even though they increase absolute profit. The integration of acquired companies typically takes three years as a whole, after which the profitability of the acquired companies rises to Talenom's average profitability level. The rise in profitability is based on improved efficiency brought by Talenom's software and effective processes, which will also enable acceleration of organic growth in the acquired company. Despite these growth investments, the trend in profitability has been excellent and shows that the business model works.

#### Talenom Income Statement

	2014	2015	2016	2017	2018	2019	2020
<b>SALES</b>	<b>29.6</b>	<b>33.0</b>	<b>37.0</b>	<b>41.4</b>	<b>48.9</b>	<b>58.0</b>	<b>65.2</b>
Other operating income	0.6	0.3	0.3	0.3	0.7	0.4	0.1
Materials and services	1.9	1.8	1.5	2.1	2.6	3.6	2.5
Employee benefit expenses	16.2	22.2	22.3	23.8	26.2	29.9	33.9
Depreciation and amortisation	4.7	2.0	2.6	4.7	5.1	8.5	10.4
Other operating expenses	5.7	6.1	6.7	6.3	7.1	5.9	5.6
<b>EBIT, reported</b>	<b>1.5</b>	<b>1.2</b>	<b>4.2</b>	<b>4.8</b>	<b>8.5</b>	<b>10.4</b>	<b>12.9</b>
Non-recurring items	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>EBIT, adjusted</b>	<b>1.5</b>	<b>1.2</b>	<b>4.2</b>	<b>4.8</b>	<b>8.5</b>	<b>10.4</b>	<b>12.9</b>
EBIT margin, adjusted (%)	5.2 %	3.7 %	11.3 %	11.6 %	17.5 %	18.0 %	19.8 %

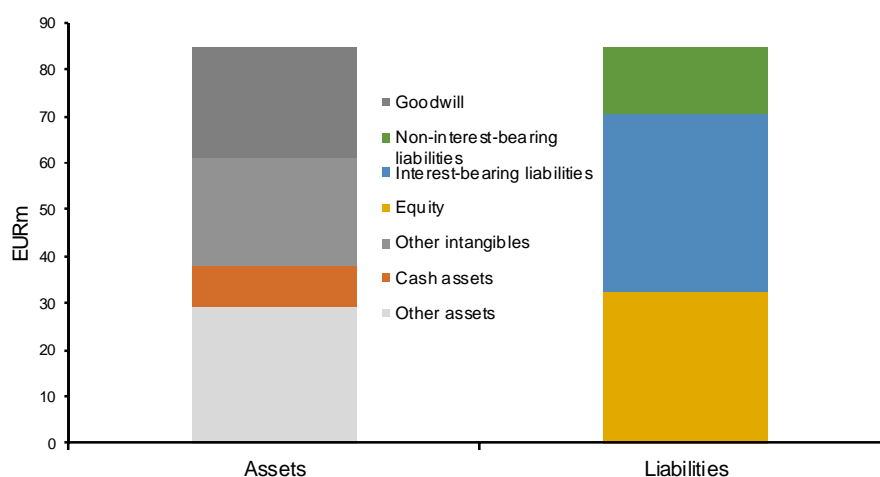
Source: Talenom, OP Markets

## Balance sheet includes goodwill and intangible rights

Talenom's balance sheet total was EUR 84.9m at the end of 2020. At the end of the year, goodwill totalled EUR 24.0m, intangible assets EUR 22.9m and costs caused by capitalised agreements EUR 11.0m, representing 68% of the balance sheet. These balance sheet items were formed as a result of software development and acquisitions.

At the end of the year, interest-bearing net debt totalled EUR 29.3m and equity EUR 32.2m, and net gearing was 91% and the equity ratio 38.1%. The net debt/EBITDA ratio has declined in recent years as a result of solid earnings performance and was 1.3x on the previous year's figures. In our opinion, gearing does not pose a risk, considering the good business predictability and high operating cash flow. We estimate that company management also considers the present gearing level adequate so that cash flow can be partly spent on growth and moderate dividends.

### Talenom's balance sheet at the end of 2020



Source: Talenom, OP Markets

## Operating cash flow mainly goes to growth investments

The company's operating cash flow is strong, and the company invests part of these assets in digitalisation, new services and acquisitions. We have not modelled new acquisitions for the coming years in our forecasts, but potential additional transaction prices have been estimated separately. It is very likely that the company will continue acquisitions in Finland and abroad, and growth of dividends is partly dependent on the size of these growth investments. From a value creation perspective, we think that successful growth investments are of critical importance.

### Talenom's cash flow

EURm	2020	2021e	2022e	2023e
EBITDA	23.3	27.7	33.6	39.4
Paid taxes	-1.9	-3.0	-3.9	-4.8
Paid net financial expenses	-0.9	-0.8	-0.8	-0.8
Change in net working capital	2.5	1.3	1.1	1.8
<b>Operating cash flow</b>	<b>23.0</b>	<b>25.2</b>	<b>30.0</b>	<b>35.6</b>
<b>Investments</b>				
Investments in software and digital servi	-10.1	-10.6	-11.4	-12.1
Investments from new customer agreem	-4.2	-3.9	-4.2	-4.5
Investments, other	-1.6	-1.8	-2.2	-2.4
<b>Total investments</b>	<b>-15.9</b>	<b>-16.3</b>	<b>-17.9</b>	<b>-19.1</b>
Other items	0	0	0	0
<b>FCFE before M&amp;A</b>	<b>7.0</b>	<b>8.9</b>	<b>12.2</b>	<b>16.5</b>
Acquisitions	-4.4	-11.1	-2.0	-1.0
Divestments	0.0	0.0	0.0	0.0
<b>FCFE</b>	<b>2.6</b>	<b>-2.2</b>	<b>10.2</b>	<b>15.5</b>
Dividend	6.5	7.4	8.7	10.1

Source: OP Markets

## Four growth directions

At the core of Talenom’s investment story lies business growth, which company management also brings forward determinedly. The company’s average annual growth has been 15.5% in the past 15 years. Next, we will discuss the four key growth drivers, which we consider to be: (1) organic growth in the Finnish accounting business, (2) acquisitions, (3) international growth and (4) growth in new customer target groups.

### Organic growth

- Efficiency of own operations
- Value-added services
- Active sales work
- Brand recognition, customer satisfaction

### Acquisitions

- Fragmented market
- Growing pressure on consolidation
- Successful integration
- Profitability increase in acquired company

### International expansion

- Software localisation phase in Sweden
- Utilisation of technology and processes
- Europe an attractive market

### New customer groups

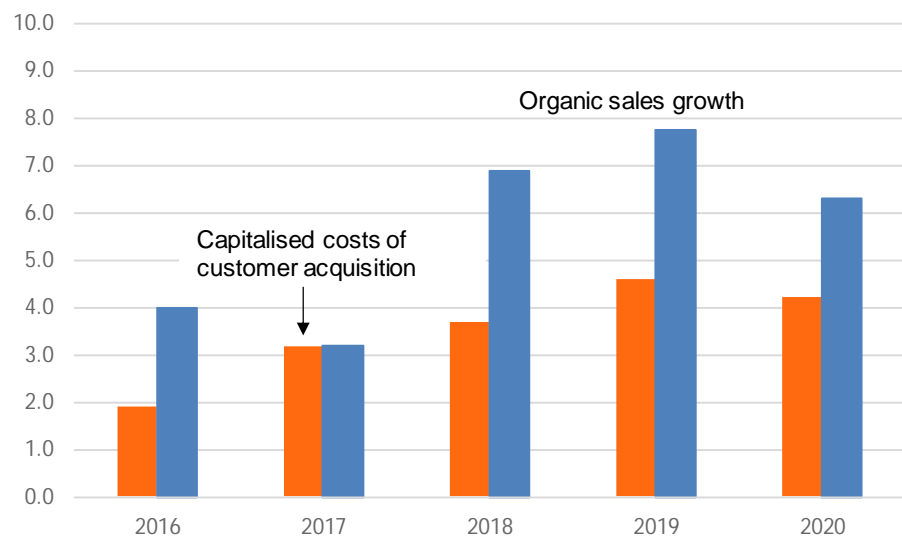
- Efficiency of own operations => price competitiveness
- Brand recognition
- Digital distribution

Source: Talenom, OP Markets

## Organic growth is the most profitable way to grow

Based on company management’s comments, organic growth is the most profitable way to expand the company. The estimated payback period of a new customer is around two years when it is somewhat longer in acquisition situations. In organic growth, the customer chooses Talenom as a service provider and becomes the company’s customer willingly. At the same time, the new customer can be introduced to Talenom’s way of providing services, which is the best solution in terms of efficiency. Organic growth is based on own active sales activity. Recommendations are of great importance, so a lot of attention is paid to customer satisfaction. The trend has been positive in this respect. According to Talenom, it is the best known accounting firm in Finland (Innolink’s survey), which is important from a new customer acquisition perspective. Around 15% of the company’s personnel work with new sales, and the company has a strong track record of successful sales work. The graph below shows our estimate of organic sales growth and the number of customer acquisition capitalisations (EURm), indicating sales efforts. Our calculations show that in 2018–2020 organic sales growth was in the range of EUR 6–8m per year.

Talenom - organic sales growth and customer acquisition capitalisations (EURm)



Source: Talenom, OP Markets



Apart from Talenom’s sales organisation, additional growth is sought by expanding the franchising network, too. The franchising model was launched in 2015, and Talenom has continued to expand at a brisk pace after that. At present, there are franchising offices in 17 locations, which complement Talenom’s own offices (26 locations).

We understand that the company can still expand its own office network as well as the franchising network to some extent. The company also aims to expand its own sales organisation and increase the number of personnel in the franchising network. The graph below shows Talenom’s present coverage in Finland and Sweden.

**Talenom’s own and franchising offices**



**Growth accelerated by acquisitions**

Talenom has made more acquisitions in recent years than before. We understand that acquisitions have become more attractive from Talenom’s perspective when the ongoing transition in the sector spurs accounting firm entrepreneurs to consider selling their firm more earnestly than before. The reason behind this is particularly digitalisation in the sector as well as stricter legislative requirements.

The sector is rapidly digitalising, and there is increasing pressure to shift to a digital operating model. Investments in software are needed to see this transition through. When an accounting firm acquires software in order to streamline operations and improve customer experience, the platform is visible to the end customer as well. This means that the software firm will hold a stronger position for the end customer than the accounting firm.

Shifting to a new software-based operating model will require changes in the company’s operations. For customers to start using software platforms, agreements need to be updated, among other things. In addition to that, the personnel need to be trained and the customers taught to use the software. It is typically difficult to bill the customer for this kind of work. The accounting firm’s daily work process also changes, which requires business development work. Small firms (1–5 employees) do not usually have administrative support resources. Growing pressures from legislation (AML, GDPR, more detailed reporting) require administrative work as well as changes to processes. All this increases the workload. When an accounting firm entrepreneur sells its enterprise or business to Talenom, in addition to software, it can also avail of the business support that Talenom can give.

On the following page, we have gathered the acquisitions made by Talenom since 2017. As shown by the table, the typical size of an acquired company has been EUR 1–3m measured by sales.

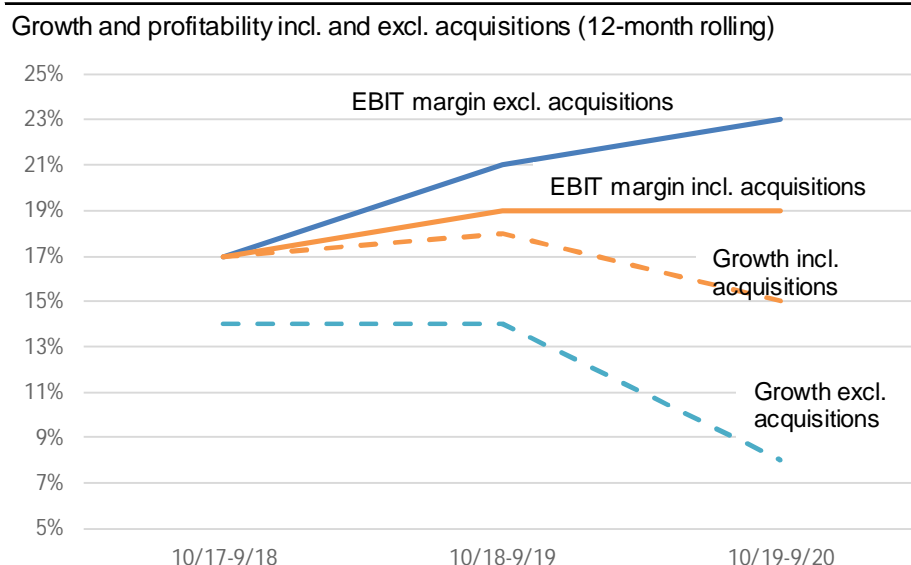
The purpose of acquisitions has been to strengthen geographical coverage, to enter the Swedish market and also to acquire new expertise to the company.

Talenom's acquisitions in 2017-2021						
Acquired company	Location	Number of staff	Sales	Result	Transaction price	Additional transaction price (max.)
2017						
Trust Accounts TKG	Kuopio	17	1.2	0.1	0.5	
2018						
Tilitoimisto K Ollila	Oulu		0.5			
Tilitoimisto Tuloslaskenta and ATT yrityspalv.			1.4			
2019						
Wakers Consulting	Stockholm	30	2.6	0.4	2.6	
Wasa Tilit and WT Foretagstjänster	Vaasa	30	2.2	0.2	1.6	
2020						
Addvalue Advisors	Vantaa	6	0.5	0.1	0.3	
Niva Ekonomi AB	Stockholm	17	1.4	0.2	1.1	0.2
Frivision	Gothenburg and Malmö	20	1.4	0.0	1.4	0.6
Larsen & Co Tilitoimisto	Helsinki	17	1.4	0.2	1.0	
Ekonomianalys and Persson&Thorin	Järfalla, Växjö	42	3.5	0.3	2.9	2.3
2021						
Balance Systems and Laskentalinja	Kemi and Kuopio		0.9		0.6	0.3
Tilipalvelu Pirkko Kemppainen	Ivalo, Rovaniemi	5	0.4		0.2	0.1
Crescendo and Progreo	Nacka, Östersund, Åre	25	2.3	0.3	2.2	0.4
AC-Tilit and Tilitoimisto Reijo Mäki	Espoo and Hämeenlinna		0.6		0.3	
Balance-Team	Helsinki	20	2.7	1.0	5.3	
Lapin Tulostieto	Tornio, Ylitornio, Kolari	7	0.5			

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

The valuations of the acquired companies have remained moderate. Talenom has estimated that in a M&A transaction situation in general valuations have been 0.3–1x sales or tai 3–5x EBITDA. The table above also includes paid transaction prices, and they strengthen Talenom's general estimate of prices. Certainly, there is variation in the transaction prices because of differences between the acquired companies. The result presented in the table is either EBITDA or operating profit, but it gives a view of the acquired companies' profitability as independent companies. Compared with Talenom's own valuation multiples, the transaction prices are very low and create clear value for Talenom along with successful integration. In larger acquisitions, Talenom has also used its own shares for payment in addition to cash. It has been noted that this serves as a committing element for the company's salespeople and the employees that remain with Talenom.

An essential element in the integration of acquired companies and improvement of profitability is utilisation of Talenom's software and operating practices in developing the acquired company's operations. This integration will also enable the sale of new customers to the acquired company, thereby boosting growth after the acquisition. The graph below which is based on the calculations delivered by Talenom shows the impact of acquisitions made in the past three years on growth and profitability. In the short term, relative profitability will weaken before the acquired company can be integrated into Talenom.



Source: Talenom, OP Markets

## International expansion began in Sweden

Talenom expanded to Sweden through an acquisition, and we predict that the expansion to other countries will also take place through an acquisition. In 2019, Talenom acquired an accounting firm operating in the Stockholm region (Wakers Consulting), Sweden. The acquired company's sales stood at around EUR 2.6m at the time of acquisition, and the company employed 30 people. After that, Talenom has strengthened its foothold in Sweden through four acquisitions, and we estimate that the sales of the Swedish operations will exceed EUR 10m in 2021. The company does not report the profitability of Swedish operations, but based on management's comments, it is clearly lower than that of Finnish operations. Improving the profitability of the companies acquired in Sweden will be slower than in Finland because there is not yet an own accounting production line in Sweden. The Swedish accounting market is around double the Finnish accounting market, and in digitalisation Sweden lags behind Finland. So, there are good prospects for success.

At the Capital Markets Day in autumn 2020, Talenom presented its roadmap for international expansion. The graph below shows the progress made, and there is a summarised schedule. After a new target country has been investigated and possible acquisition targets charted, a bridgehead is established. Sweden has now moved into phase three, the key elements of which are localisation of own software and development of concepts. This is key for improving profitability and increasing sales, and it remains to be seen in the next few years how Talenom succeeds in this. The company estimates that it will take 3.5–4 years to complete all four phases.

It is positive that the scale of Swedish operations has enabled the start of this work and that localisation will begin from services directed at smaller customers (KontoKalle) This is a lighter system which is based on the same system already used in the operational TiliJaska service in Finland. Apart from changing the language, the alteration work relates to building user interfaces for the tax authority and banks. Risks appear to be under control in this respect. When the localisation of the small enterprise segment is completed, the company will move on to localise the software (incl. Talenom Online) that is in the background of the services directed at larger customers.

Parallel to customer interfaces, Talenom's own production systems will also be localised first for the small enterprise segment. The development work for systems is made easier by the fact that the software related to Talenom's own production is used only by the company. So, customers' wishes or licence issues need not be taken into account in its development, among other things. There are relatively small differences between the accounting acts of Finland and Sweden. We estimate that the need for change is less than 20% compared with the systems now used in Finland. Investments made in Finland total over EUR 20m, so the localisations related to internationalisation could be a few million euros as an investment. Although the estimates above

are indicative, they indicate the benefits brought by scalable technology in international expansion, too. However, we expect that Talenom's investments in software and digital services will grow in absolute terms from the 2020 level (EUR 10.1m). In addition to localisations and new services, this is also affected by the continuing development work related to lifting the automation level in Finland.

### 1. James Bond (12mo)

- Market analysis
- Networking
- De facto working methods
- Looking into acquisitions

### 2. Bridgehead (12mo)

- Conceptualisation and organic growth
- Process efficiency analysis and development of working methods
- Systematic development of organisation and management

### 3. Growth and development (24mo)

- Growing the sales organisation
- Acquisitions
- Developing sector concepts
- Continuous development model
- Localisation of own software

### 4. Own technology and service

- Service as a service
- Own technology in vital processes
- Strong growth and profitability

Source: Talenom, OP Markets

## Potential and opportunities for expansion to Europe

In our opinion, the previously described phases in international expansion and the progress made in Sweden give a good picture of how the company plans to expand to other European countries, too. We understand that the company has a few countries in an active research phase, and we find it likely that Talenom will announce expansion to a new country through an acquisition in the next year.

At the Capital Markets Day in November 2020, the company presented key observations about the European market. In general, the European accounting market is fragmented, as the market is in Finland too. This had led to a similar situation as in Finland: an observation about the limited investment capacity of small players. Accounting firms also have traditional work methods, which is why there is a need for Talenom's approach. According to Talenom's research, competent professionals are also in short supply. Legislation varies by country, but a common feature is a rather complicated form of operations. This will support the need for expertise in the sector in the future as well. From Talenom's perspective, an interesting feature is the high proportion of small and medium-sized companies of GDP in many countries. The operating models of these SME sector companies are also rather traditional, for instance in Germany, although the operating practices of large companies' subcontractors are advanced.

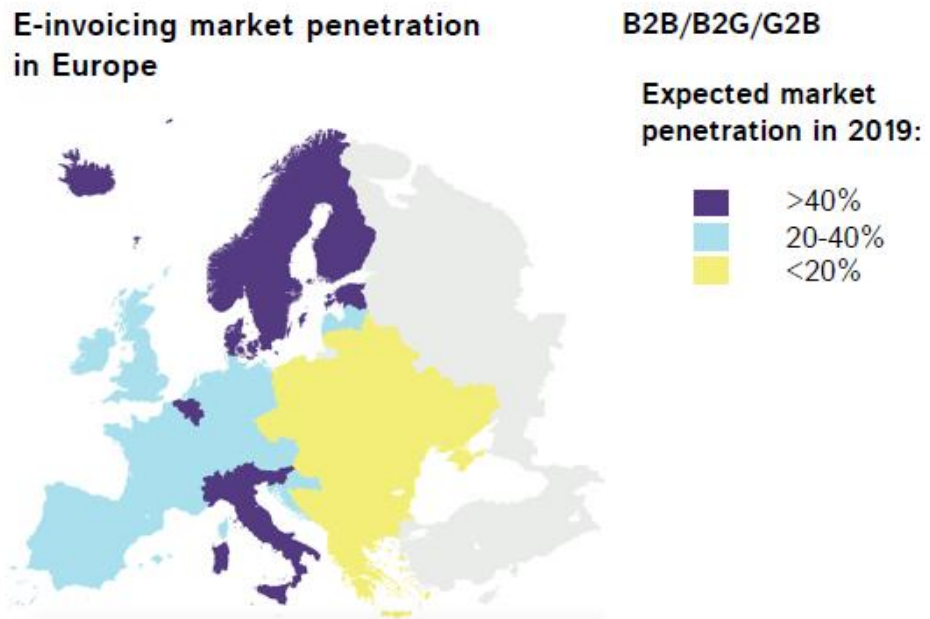
A characteristic of European countries is slow economic growth. In addition to the accounting firm structure described above, this exerts pressure on streamlining operations. The table below shows international potential as examples of a few potential countries. The Swedish market where Talenom already has a significant position is double the Finnish market. The markets of the countries shown as examples are huge compared with Talenom's present size, and we see therefore no need to break down the market more closely. It is crucial to find the right company to acquire, committed personnel and country management and be successful in bringing own processes to a new country.

#### International potential, examples

	Population (million)	GDP (EURbn)	Market size (EURm)
Finland	5.5	239	1,000
Sweden	10.2	479	2,000
Austria	8.9	392	2,500
Germany	82.9	3403	32,000
Netherlands	17.3	788	7,400
Total			44,900

Source: Talenom, OP Markets

The level of infrastructure and digitalisation in different countries can also be compared with the market penetration of electronic invoicing in different countries. As shown by the picture below, the Nordic countries are well ahead of the rest of Europe, which coupled with the accounting market structure described above, offers good potential for Talenom, in our view.



Source: Billentis (2019)

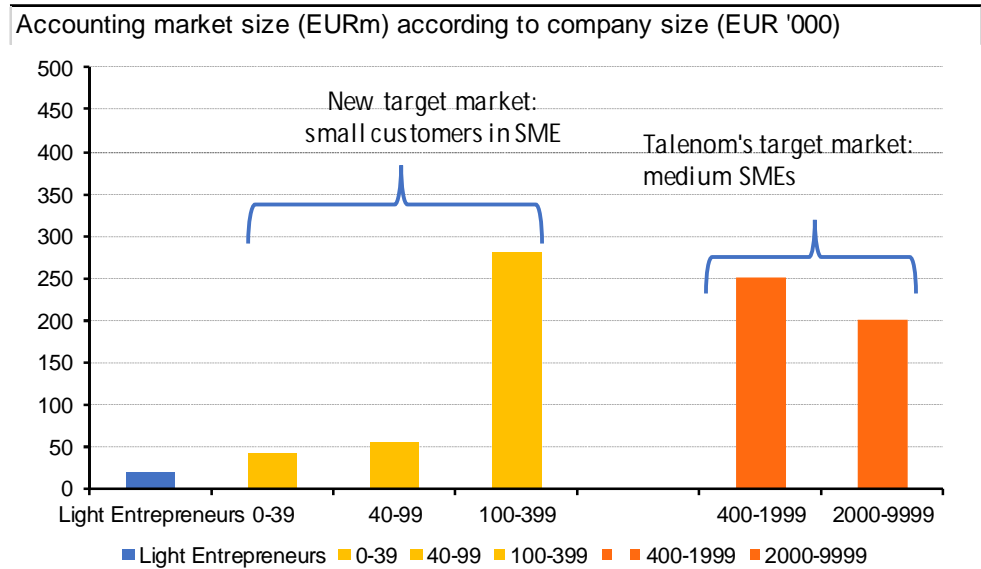
## Expansion to smaller customer groups

The lightest platform in Talenom's service offering is the Light Entrepreneur service, and the name of the wider service package is TiliJaska. These new service packages are designed for smaller customers which Talenom's service range did not suit earlier. Service distribution takes place digitally, and the platforms are highly automated, which is key in view of price competitiveness.

The company announced the TiliJaska-Freemium concept the first time in November 2020. The service includes a free DIY bookkeeping application, bank accounts and cards and a flexible selection of accounting firm services according to the customer's need. At the same time, Talenom announced that it would expand to banking services. In the service, the bank account is integrated into the bookkeeping system.

The new services will expand the number of Talenom's potential new customers as well as the market considerably. Talenom has estimated that its previous services covered around 40% of the total market. With the launch of the new services, Talenom can now offer services to customers whose sales are below EUR 0.4m. Previously, Talenom's target group consisted of SME companies in the sales category EUR 0.4–10m. At present, the TiliJaska service has more than 500 customers and the Light Entrepreneur service more than 200 customers.

In April 2021, the company announced that the first customers had started to use its banking services. Consequently, banking services will be introduced in the TiliJaska service. Talenom sees that it is competitive in banking services with small customers. It is possible that the company may also expand to larger customers in the future, but banks' competitiveness certainly improves in that category.



Source: Talenom, OP Markets

It is difficult to estimate at this stage what kind of effect these new services will have on Talenom’s future growth. Talenom has also not set a target for the short or long term. Talenom will likely release more exact information about the financial impacts of the services when it has received enough data to draw up estimates. Our forecasts are cautious at this stage, and we estimate that sales of these new services will rise to EUR 2m by the end of the forecast period (2023).

We see these services as a good feed to Talenom’s other services when customers’ size grows or their needs expand. The whole company becomes stronger, and the projects seem interesting relative to our estimate of the size of investments made.

## Forecasts

We have modelled the sales forecasts on the basis of market growth, market share growth, value-added services and the additional growth brought by new services. Key parameters below:

- We have predicted 3% annual market growth. The growth forecast for the market is lower than the historical level when we predict that price increases for basic bookkeeping will be lower than historically due to intensifying competition (approx. 1–3%)
- We expect Talenom to continue growing its market share, as in the previous years. In our view, the market structure and change drivers rather support the competitiveness of larger players relative to small accounting firms. We also presume that the reduction of churn will have a mild positive effect on growth.
- Based on our calculations, the acquisitions made in Finland and Sweden lift 2021 sales by more than EUR 10m and lift 2022 sales by a little less than EUR 2m. Our forecasts only include M&A transactions already concluded.
- We expect that the experts' freed resources will show as sales growth (and in profitability as well).
- We expect that the sales of the Light Entrepreneur and TiliJaska services will rise to EUR 2m in 2023.
- For Sweden, we expect that organic growth will accelerate in 2022 and especially from 2023 onwards when localisation of software makes processes more efficient, enabling effective new customer sales.

Key factors in terms of profitability are:

- Higher automation level in Finland, as described in section "Talenom's strategy and competitive advantages". The impact at the backdrop of the improved margin forecast for 2022 mainly originates from Finnish operations.
- We expect that the profitability of Swedish operations will also improve from 2023 onwards when the benefits of software localisation begin to show in earnings.
- We predict that the trend in personnel expenses and other expenses will be similar to the previous years. The salary level is higher in Sweden, but the price level is also higher, so we estimate that the impact on the margin level will be small.

### Talenom estimates

EURm	2020	2021e	2022e	2023e
<b>SALES</b>				
Finland	61.2	70.4	80.6	91.6
Growth	9 %	15 %	15 %	14 %
Sweden	4.0	11.0	13.0	16.0
Growth	100 %	175 %	18 %	23 %
<b>IN TOTAL</b>	<b>65.2</b>	<b>81.4</b>	<b>93.6</b>	<b>107.6</b>
<b>Growth</b>	<b>12 %</b>	<b>25 %</b>	<b>15 %</b>	<b>15 %</b>
Other operating income	0.1	0.2	0.2	0.2
<b>EXPENSES</b>				
Materials and services	2.5	3.0	3.5	4.0
Employee benefit expenses	33.9	44.6	50.3	57.0
Depreciation and amortisation	10.4	12.2	13.4	14.4
Other operating expenses	5.6	6.3	6.4	7.4
<b>EBIT, reported</b>	<b>12.9</b>	<b>15.5</b>	<b>20.2</b>	<b>25.0</b>
Margin	19.8 %	19.1 %	21.6 %	23.2 %
Non-recurring items	0.0	0.0	0.0	0.0
<b>EBIT, adjusted</b>	<b>12.9</b>	<b>15.5</b>	<b>20.2</b>	<b>25.0</b>
Margin	19.8 %	19.1 %	21.6 %	23.2 %

Source: OP Markets

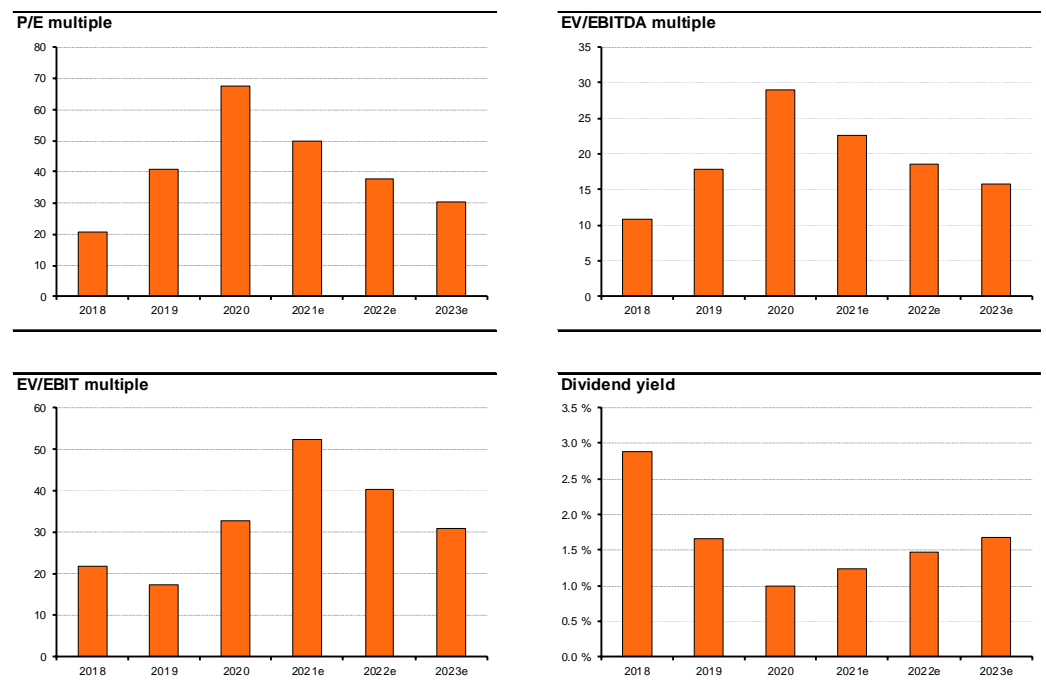
The table below shows a summary of Talenom's financial performance in 2018–2020 and forecasts for 2021–2023.

According to its guidance, Talenom expects its 2021 sales to amount to EUR 80–84m and EBIT to EUR 14–16m.

<b>Talenom</b>						
EURm	2018	2019	2020	2021e	2022e	2023e
Sales	48.9	58.0	65.2	81.4	93.6	107.6
Sales Growth (%)	18.1 %	18.6 %	12.4 %	24.9 %	15.0 %	15.0 %
EBIT	8.5	10.4	12.9	15.5	20.2	25.0
EBIT (%)	17.5 %	18.0 %	19.8 %	19.1 %	21.6 %	23.2 %
PTP	8.0	9.6	12.0	14.8	19.4	24.2
EPS	0.15	0.18	0.22	0.27	0.36	0.45
DPS	0.09	0.13	0.15	0.17	0.20	0.23
Yield (%)	2.9 %	1.7 %	1.0 %	1.2 %	1.5 %	1.7 %
EV/Sales	3.0	5.9	10.4	7.7	6.7	5.7
EV/EBITDA	10.9	18.0	29.0	22.6	18.6	15.7
P/E	20.6	40.8	67.7	49.9	37.8	30.3
P/B	7.0	13.2	20.1	15.7	12.9	10.3
ROE	34 %	32 %	30 %	31 %	34 %	34 %
ROCE	19 %	17 %	17 %	17 %	22 %	25 %
Equity Ratio	36 %	33 %	37 %	38 %	42 %	47 %
Gearing	96 %	116 %	87 %	81 %	60 %	40 %

Source: OP Markets

As a result of the rapid predicted earnings growth, valuation multiples fall quickly as shown by the graphs below.



Source: OP Markets

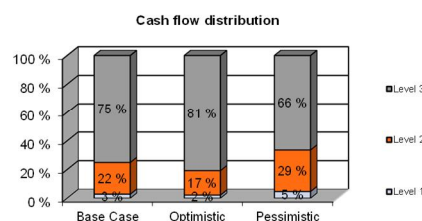


## DCF analysis

We have prepared three DCF models, a base case scenario, an optimistic scenario and a pessimistic scenario, for the valuation of Talenom in which we apply varying growth and profitability percentages. Our target price setting is based on a value derived from the base case scenario in which we apply the figures presented in the Forecasts section. Based on the parameters below, value per share in line with the base case scenario is EUR 15.00 per share.

CASH FLOW PROJECTIONS											
EURm	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Revenues	81	94	108	123	140	158	177	197	213	229	241
Revenue growth	24.9 %	15.0 %	15.0 %	14.3 %	13.5 %	12.9 %	12.2 %	11.6 %	8.0 %	7.5 %	5.0 %
EBIT	16	20	25	28	32	36	40	44	47	50	52
EBIT margin	19.1 %	21.6 %	23.2 %	23.0 %	22.9 %	22.7 %	22.5 %	22.3 %	22.1 %	22.0 %	21.8 %
Gross Investments	27	20	20	20	21	22	25	27	29	31	31
Gross inv./depreciation	2.2	1.5	1.4	1.3	1.3	1.2	1.2	1.1	1.1	1.1	1.1
Free cash flow	-2	10	15	20	23	28	31	35	36	39	42

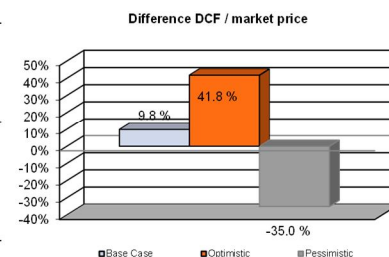
FCF	Base Case		Optimistic		Pessimistic	
	growth	% pv*	growth	% pv	growth	% pv
<b>Level 1</b>						
2021						
:	107.9 %	3 %	107.9 %	2 %	107.9 %	5 %
2023						
<b>Level 2</b>						
2024						
:	13.3 %	22 %	15.8 %	17 %	10.8 %	29 %
2031						
<b>Level 3</b>						
2032	3.0 %	75 %	3.5 %	81 %	1.0 %	66 %
PV total	682	100 %	873	100 %	415	100 %



\* Level share of present value cash flows

### IMPLIED SHARE PRICE vs CURRENT SHARE PRICE

Talenom	Base Case	Optimistic	Pessimistic
Present value FCF	682	873	415
- debt (int.-bearing)	37	37	37
- minority interest	0	0	0
+ fin. investments	0	0	0
+ cash and bank	9	9	9
PV shareholder equity	654	845	387
No. of shares (million)	43.7	43.7	43.7
<b>Implied share price</b>	<b>15.0</b>	19.3	8.9
<b>Current share price</b>	<b>13.6</b>	13.6	13.6
<b>Difference (EUR)</b>	<b>1.3</b>	5.7	-4.8
<b>Difference %</b>	<b>9.8 %</b>	41.8 %	-35.0 %



### SENSITIVITY ANALYSIS

Interest rate sensitivity		Implied share price				
		Base Case	Optimistic	Pessimistic		
risk-free rate	1.50 %	17.5	23.2	9.9		
	2.00 %	<b>15.0</b>	19.3	8.9		
	2.50 %	13.0	16.5	8.0		

Growth sensitivity		Implied share price					WACC
Base Case		5.8 %	6.3 %	6.8 %	7.3 %	7.8 %	
	2.00 %	16.5	14.2	12.5	11.0	9.8	
	2.50 %	18.5	15.7	13.6	11.9	10.5	
	<b>3.00 %</b>	21.3	17.7	<b>15.0</b>	12.9	11.3	
	3.50 %	25.2	20.3	16.8	14.3	12.3	
	4.00 %	31.3	24.0	19.3	16.0	13.6	

### WACC vs risk-free rate

Risk-fr. r.	1.50 %	2.00 %	2.50 %
CAPM	5.90 %	6.40 %	6.90 %
WACC	6.35 %	<b>6.8 %</b>	7.3 %

WACC<sub>2</sub> WACC<sub>1</sub> WACC<sub>3</sub>

### 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 %
<b>WACC</b>	<b>6.8 %</b>

## Valuation multiples have risen steeply

Thanks to good profitability and growth, Talenom has been valued with rather high valuation multiples. As we can see from the trend in Talenom's valuation multiples presented below, valuation multiples have risen particularly sharply over the past year after the corona fall in the previous spring. In this respect, the trend is in line with the generally witnessed rise of growth companies' valuation multiples. The rise in valuation has also been affected by the company's progress in the Swedish market, which has clearly increased confidence in the realisation of international growth.

Factors speaking in favour of high valuation multiples include: the defensive quality and stable growth of the accounting market, Talenom's clearly faster growth than market growth, good profitability, ability to make value-creating acquisitions in a fragmented sector and the above-mentioned potential related to internationalisation. We currently find the risk relating to the profit-generating Finnish accounting business very low, which lifts the acceptable valuation.

Talenom - P/E (12kk forward)



Talenom - EV/EBITDA (12kk forward)



Talenom - EV/SALES (12kk forward)



Talenom - P/B (12kk forward)



Source: Factset, OP Markets

## Recommendation and target price

We are initiating coverage of Talenom with an Accumulate recommendation and a target price of EUR 14.50.

In valuation, we apply a DCF model as well as valuation multiples in which we consider the company's robust earnings growth. We accept for Talenom an EV/EBITDA multiple 16.5x for 2023, which corresponds to an EV/EBIT multiple of around 26 and a P/E multiple 32. Based on the calculation on the previous page, the value indicated by the DCF model is EUR 15 per share.

## Important competitors and peer group

### **Accountor**

Accountor specialises in software solutions for financial and HR management as well as outsourcing services. It employs around 2,200 people. In addition to Finland, the company operates in Sweden, Norway, Denmark, Netherlands, Russia and Ukraine. In 2020, sales totalled EUR 221m.

### **Rantalainen**

Rantalainen provides full service financial management in more than 40 locations. Its services include financial administration, payroll, HR and other specialist services.

### **Azets**

Azets delivers financial, payroll, HR and advisory services as well as supporting technological solutions. In the financial period ending in 6/2020, Azets Finland's total sales, including AST Accounting Services Tilimatic Oy and Isännöitsijätoimisto Jarmo Rantamäki Oy, stood at EUR 71.7m. The EBITDA margin was 15.6%, and the company has around 700 employees in 15 locations.

### **Administer**

Administer is an accounting firm specialised in digital financial management services. The company also provides payroll administration and CFO services. The company's sales total around EUR 50m and it employs more than 700 people.

### **Aallon Group**

Aallon Group provides accounting services and supporting specialist services in Finland. Aallon Group listed on First North in 2019. In 2020, its sales totalled EUR 18.3m. Aallon Group is targeting annual sales growth of 15–20% and a rising EBITDA margin (2020: 11.1%).

## Peer company valuation and financial performance

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.

### Peer valuation

Yhtiö	MCAP	EV/Sales			EV/EBITDA			EV/EBIT			P/E		
	EURm	2021e	2022e	2023e	2021e	2022e	2023e	2021e	2022e	2023e	2021e	2022e	2023e
<b>Finnish peer companies</b>													
Enento Group Oyj	817	5.9x	5.4x	4.9x	15.8x	13.7x	12.2x	24.8x	20.8x	18.5x	28.5x	24.6x	22.0x
Fondia Oyj	29	1.2x	1.0x	na.	10.1x	7.6x	na.	12.7x	9.8x	na.	20.0x	15.4x	12.1x
Gofore Plc	278	2.7x	2.3x	2.1x	16.4x	13.4x	12.5x	21.6x	16.8x	15.6x	24.3x	20.5x	18.3x
Silli Solutions Oy	109	1.2x	1.0x		9.6x	7.5x	na.	16.1x	11.7x	na.	13.8x	11.3x	11.3x
<b>Nordic software firms</b>													
Admicom Oyj	434	17.0x	14.1x	na.	36.8x	29.9x	na.	37.8x	30.6x	na.	48.7x	40.0x	32.5x
Fortnox AB	2,436	25.1x	19.2x	14.6x	59.7x	43.5x	31.4x	74.0x	52.7x	37.1x	95.0x	68.8x	49.5x
<b>Accounting service providers</b>													
Zalaris ASA	125	1.9x	1.6x	1.5x	11.4x	9.5x	9.8x	18.3x	14.3x	11.2x	23.1x	18.7x	13.4x
Aallon Group Oyj	44	1.7x	1.4x	na.	12.0x	9.7x	na.	13.6x	10.8x	na.	18.2x	14.9x	14.1x
Talenom Oyj	589	7.7x	6.8x	6.0x	22.8x	19.7x	17.3x	39.8x	33.7x	29.3x	50.1x	41.0x	36.5x
<b>Median - Finnish companies</b>		<b>1.9x</b>	<b>1.7x</b>	<b>3.5x</b>	<b>12.9x</b>	<b>10.5x</b>	<b>12.3x</b>	<b>18.9x</b>	<b>14.3x</b>	<b>17.0x</b>	<b>22.1x</b>	<b>18.0x</b>	<b>15.2x</b>
<b>Median - Nordic software firms</b>		<b>21.1x</b>	<b>16.7x</b>	<b>14.6x</b>	<b>48.2x</b>	<b>36.7x</b>	<b>31.4x</b>	<b>55.9x</b>	<b>41.6x</b>	<b>37.1x</b>	<b>71.9x</b>	<b>54.4x</b>	<b>41.0x</b>
<b>Median - Accounting service providers</b>		<b>1.9x</b>	<b>1.6x</b>	<b>3.7x</b>	<b>12.0x</b>	<b>9.7x</b>	<b>13.5x</b>	<b>18.3x</b>	<b>14.3x</b>	<b>20.2x</b>	<b>23.1x</b>	<b>18.7x</b>	<b>14.1x</b>
<b>Talenom (OP)</b>		<b>7.6x</b>	<b>6.6x</b>	<b>5.7x</b>	<b>22.4x</b>	<b>18.4x</b>	<b>15.5x</b>	<b>39.9x</b>	<b>30.6x</b>	<b>24.5x</b>	<b>49.4x</b>	<b>37.4x</b>	<b>30.0x</b>

Source: FactSet, OP (7 June 2021)

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

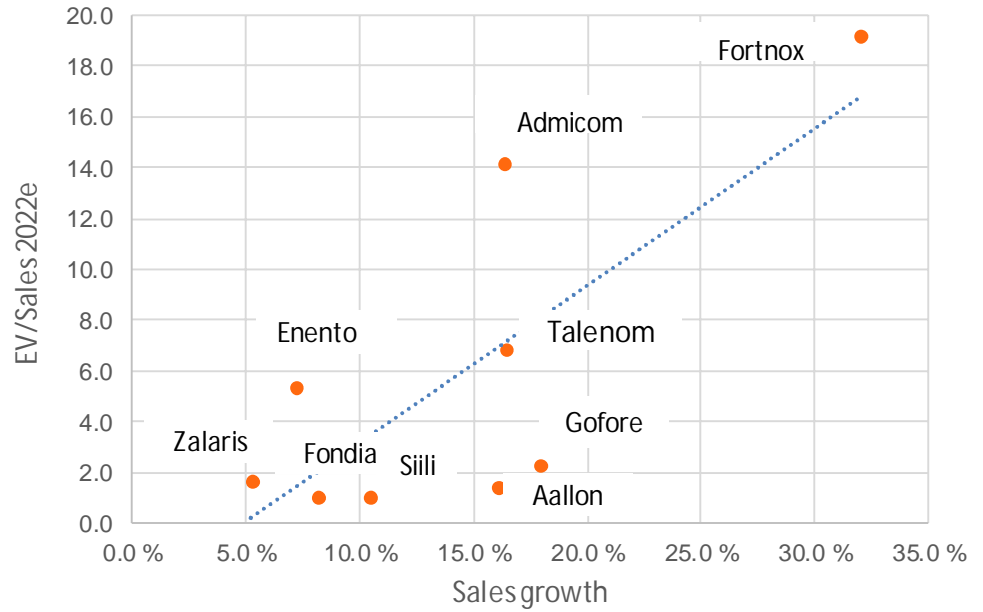
### Peer companies' financial performance

Company	Net debt	Sales growth			EBIT, %			ROCE, %			Dividend, %		
	2021e	2021e	2022e	2023e	2021e	2022e	2023e	2021e	2022e	2023e	2021e	2022e	2023e
<b>Finnish peer companies</b>													
Enento Group Oyj	132	7 %	8 %	7 %	23.6 %	25.8 %	26.6 %	7.3 %	8.5 %	9.2 %	2.9 %	3.2 %	3.4 %
Fondia Oyj	-5	6 %	8 %	10 %	9.1 %	10.7 %	12.5 %				4.1 %	4.3 %	5.1 %
Gofore Plc	-4	31 %	13 %	11 %	12.4 %	13.7 %	13.7 %	19.9 %	22.2 %	22.0 %	1.7 %	2.0 %	2.2 %
Silli Solutions Oy	10	18 %	10 %	4 %	7.5 %	8.8 %	9.0 %				2.5 %	2.9 %	3.2 %
<b>Nordic software firms</b>													
Admicom Oyj	-19	12 %	18 %	19 %	44.9 %	46.2 %	47.8 %				1.2 %	1.5 %	1.9 %
Fortnox AB	-413	38 %	29 %	29 %	34.0 %	36.4 %	39.4 %	29.2 %	31.9 %	34.3 %	0.2 %	0.2 %	0.3 %
<b>Accounting service providers</b>													
Zalaris ASA	200	2 %	8 %	6 %	10.2 %	11.4 %	12.9 %	15.9 %	17.5 %	18.2 %			
Aallon Group Oyj	-3	35 %	10 %	6 %	12.1 %	13.3 %	14.3 %				2.2 %	2.6 %	3.1 %
Talenom Oyj	35	25 %	13 %	13 %	19.3 %	20.2 %	20.5 %	18.5 %	20.3 %	21.6 %	1.2 %	1.4 %	1.7 %
<b>Median - Finnish companies</b>		<b>13 %</b>	<b>9 %</b>	<b>9 %</b>	<b>11 %</b>	<b>12 %</b>	<b>13 %</b>	<b>14 %</b>	<b>15 %</b>	<b>16 %</b>	<b>2.7 %</b>	<b>3.0 %</b>	<b>3.3 %</b>
<b>Median - Nordic software firms</b>		<b>25 %</b>	<b>24 %</b>	<b>24 %</b>	<b>39 %</b>	<b>41 %</b>	<b>44 %</b>	<b>29 %</b>	<b>32 %</b>	<b>34 %</b>	<b>0.7 %</b>	<b>0.9 %</b>	<b>1.1 %</b>
<b>Median - Accounting service providers</b>		<b>25 %</b>	<b>10 %</b>	<b>6 %</b>	<b>12 %</b>	<b>13 %</b>	<b>14 %</b>	<b>17 %</b>	<b>19 %</b>	<b>20 %</b>	<b>1.7 %</b>	<b>2.0 %</b>	<b>2.4 %</b>
<b>Talenom (OP)</b>		<b>25 %</b>	<b>15 %</b>	<b>15 %</b>	<b>19 %</b>	<b>22 %</b>	<b>23 %</b>	<b>17 %</b>	<b>22 %</b>	<b>25 %</b>	<b>1.3 %</b>	<b>1.5 %</b>	<b>1.7 %</b>

Source: FactSet, OP (7 June 2021)

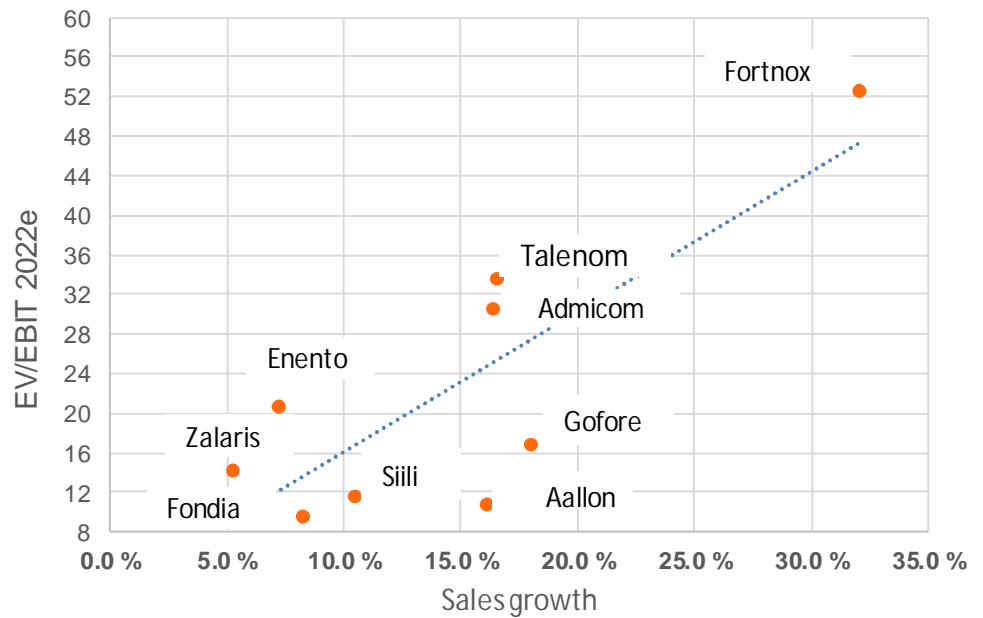
Based on the comparison, the predicted high average sales and earnings growth for the next few years (CAGR 2020–2023e) lifts the valuation multiples sharply. We have included the companies on the previous page in the graphs below. The forecasts are consensus forecasts.

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



Source: FactSet, OP Markets

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



Source: FactSet, OP Markets

## Ownership structure

<b>Talenom - largest shareholders</b>		
<b>Name</b>	<b>Shares</b>	<b>% of shares</b>
Tahkola Harri	8,120,015	18.58
SEB (nominee reg.)	7,328,558	16.77
Tahkola Markus	4,815,824	11.02
Nordea (nominee reg.)	3,416,438	7.82
Danske Invest Suomi Osake	2,125,347	4.86
Conficap	1,850,000	4.23
Evli Suomi	1,695,000	3.88
Ilmarinen	1,645,517	3.77
Konstsamfundet	780,000	1.78
Siurainen Mikko	624,716	1.43
SEB Finland Small Cap	570,000	1.30
Aktia Nordic Micro Cap	515,515	1.18
Huhtala Otto-Pekka	387,160	0.89
Kirkon eläkerahasto	370,000	0.85
Varma	270,000	0.62
Other	9,107,497	21.64
<b>Total</b>	<b>43,351,587</b>	<b>100</b>

Source: Talenom, OP Markets (31 May 2021)

## Financial performance and forecasts – quarters

### Talenom - Segments by Quarter

EURm	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21
<b>Total sales</b>	<b>17.4</b>	<b>16.5</b>	<b>14.8</b>	<b>16.5</b>	<b>20.3</b>	<b>21.1</b>	<b>19.4</b>	<b>20.5</b>
Sales growth (YoY)	3 %	3 %	10 %	3 %	11 %	16 %	18 %	17 %
<b>Total EBIT</b>	<b>3.72</b>	<b>3.59</b>	<b>3.14</b>	<b>2.43</b>	<b>4.41</b>	<b>4.38</b>	<b>3.58</b>	<b>3.18</b>
Margin	21.4 %	21.8 %	21.2 %	14.7 %	21.7 %	20.7 %	18.4 %	15.5 %
PTP	3.51	3.36	2.94	2.21	4.25	4.18	3.38	2.98
<b>EPS</b>	<b>0.07</b>	<b>0.06</b>	<b>0.05</b>	<b>0.04</b>	<b>0.08</b>	<b>0.08</b>	<b>0.06</b>	<b>0.06</b>

Source: OP Markets

## Financial performance and forecasts – years

### Income Statement

EURm	2017	2018	2019	2020	2021e	2022e	2023e
<b>Sales</b>	<b>41.4</b>	<b>48.9</b>	<b>58.0</b>	<b>65.2</b>	<b>81.4</b>	<b>93.6</b>	<b>107.6</b>
<b>EBITDA, reported</b>	<b>9.5</b>	<b>13.7</b>	<b>18.9</b>	<b>23.3</b>	<b>27.7</b>	<b>33.6</b>	<b>39.4</b>
Depreciation	4.7	5.1	8.5	10.4	12.2	13.4	14.4
<b>EBIT, reported</b>	<b>4.8</b>	<b>8.5</b>	<b>10.4</b>	<b>12.9</b>	<b>15.5</b>	<b>20.2</b>	<b>25.0</b>
Financials	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>PTP</b>	<b>4.3</b>	<b>8.0</b>	<b>9.6</b>	<b>12.0</b>	<b>14.8</b>	<b>19.4</b>	<b>24.2</b>
Taxes	0.9	1.6	2.0	2.4	3.0	3.9	4.8
<b>Net profit</b>	<b>3.4</b>	<b>6.4</b>	<b>7.6</b>	<b>9.6</b>	<b>11.8</b>	<b>15.5</b>	<b>19.4</b>
<b>EPS, reported</b>	<b>0.08</b>	<b>0.15</b>	<b>0.18</b>	<b>0.22</b>	<b>0.27</b>	<b>0.36</b>	<b>0.45</b>
<b>DPS</b>	<b>0.05</b>	<b>0.09</b>	<b>0.13</b>	<b>0.15</b>	<b>0.17</b>	<b>0.20</b>	<b>0.23</b>

Source: OP Markets

### Balance Sheet

EURm	2017	2018	2019	2020	2021e	2022e	2023e
<b>Assets:</b>							
Goodwill	18	18	21	24	28	28	28
Other intangibles	14	19	25	34	39	45	53
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	9	10	12
Short-term investments	0	0	1	2	2	2	3
Cash and bank	5	6	8	9	9	12	14
<b>Total assets</b>	<b>46</b>	<b>51</b>	<b>72</b>	<b>87</b>	<b>98</b>	<b>107</b>	<b>121</b>
<b>Liabilities:</b>							
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	46	57
Minority interest	0	0	0	0	0	0	0
<b>Shareholders equity total</b>	<b>14</b>	<b>19</b>	<b>24</b>	<b>32</b>	<b>37</b>	<b>46</b>	<b>57</b>
Provisions	0	0	0	0	0	0	0
LT interest bearing debt	23	24	35	37	40	39	37
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	19	21	24
<b>Total liabilities</b>	<b>46</b>	<b>51</b>	<b>72</b>	<b>87</b>	<b>98</b>	<b>107</b>	<b>121</b>

Source: OP Markets

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OP's Research team has abandoned the Neutral recommendation as of 1 October 2020 and started to use a new four-rank recommendation structure: Buy, Accumulate, Reduce and Sell. The recommendation is relative to the expected return of the share within the next 12 months. If the return of the share is expected to exceed 15% within the next 12 months, the recommendation is Buy. If the expected return is 5–15% within the next 12 months, the recommendation is Accumulate. If the expected return is (-5)–(5)% within the next 12 months, the recommendation is Reduce. If the expected return is below (-5%), the recommendation is Sell. Expected return is measured as upside potential of a stock calculated as a percentage difference between target price and current price. This includes dividends.

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OP Corporate Bank plc's divisions within Banking and Investment Services engage in own-account trading and issuing of financial instruments, and also offer services related to share issues and investment advice regarding financial instruments and engage in selling, buying and brokerage of securities on behalf of clients. As stipulated by the OP Financial Group's conflict of interests' policy, Corporate Finance operations which relate to issuance of financial instruments on behalf of clients are separated from investment research and brokerage operations both physically and



operationally. In addition, it has been identified as a conflict of interests situation that the Chair of OP Corporate Bank plc's Board of Directors is a member of Kesko Corporation's Board of Directors. It is estimated that this conflict of interests situation does not compromise the objectivity and independence of the investment research on Kesko Corporation produced by OP Corporate Bank plc's Research Team.

The analysts of the Research Team and their related parties may own securities issued by the companies analysed by the Research Team. The analysts of OP Corporate Bank plc may receive a merit pay bonus that is subject to the total return of OP Corporate Bank plc or one of its divisions or business areas. The salaries of the analysts are not directly dependent on the execution of an individual investment banking assignment executed by OP Corporate Bank plc or another company pertaining to the same group.

The holdings of OP Corporate Bank plc and other companies pertaining to the same group exceed the 5% limit in Terveystalo Plc and SRV Group Plc through the shareholdings of Pohjola Insurance Ltd. OP Corporate Bank plc or other companies pertaining to the same group do not have holdings of more than 5% in other companies subject to analysis. The exception to OP Financial Group's obligation to disclose shareholdings is applied to this calculation of ownerships in companies subject to analysis. In accordance with the exception, the securities owned by funds managed by OP Fund Management Company Ltd in Finnish companies and the votes carried by such shares are excluded from the ownerships calculated here for the companies pertaining to the same group with OP Corporate Bank plc. The holdings of OP Bank Group Pension Fund and the votes carried by such holdings are also excluded from said ownership and voting rights figures.

OP Corporate Bank plc, or another company pertaining to the same group, does not act as a market maker or other liquidity provider for the stocks of issuers subject to analysis. OP Corporate Bank plc, or another company pertaining to the same group, may, however, act as a market maker or other liquidity provider for the debt instruments of issuers subject to analysis. OP Corporate Bank plc may hold a position in a financial instrument mentioned in this research report.

OP Corporate Bank plc's business functions strive to actively establish relations with different issuers for the provision of various services offered by OP Corporate Bank plc. Within the past 12 months, OP Corporate Bank plc, or another company pertaining to the same group, has acted as a lead manager or co-manager in the public issue or offering of securities by the following companies subject to analysis or has been party to an agreement with an issuer concerning the provision of investment banking services at the time the analysis was released or within the past 12 months\*: Ahlstrom-Munksjö, Aspo, CapMan, Caverion, Citycon, Finnair, HKScan, Kojamo, Kreate, Lehto Group, Metso Outotec, Normet Group, Sanoma, Sato, Stora Enso, Tornator and YIT.

OP Corporate Bank plc conducts commission-based equity research for certain companies under coverage where the research has been provided against payment under an agreement concluded with the company under coverage. The payment charged on this kind of research is not significant from OP Corporate Bank plc's perspective, and OP Corporate Bank plc estimates that it does not compromise the independence of OP Research. At the time of dissemination of this report, OP Corporate Bank plc had an agreement on commission-based research with the following companies: Exel Composites, Rapala and Talenom.

Recommendations and target price history			Talenom
Recommendation	Target price (€)	Price (€)	Date
ACCUMULATE	14.5	13.6	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 10 May 2021)				
Recommendation	All Companies		Inv. Banking Relationships*	
	Count	%	Count	%
BUY	12	16	2	15
ACCUMULATE	35	47	6	46
REDUCE	21	28	4	31
SELL	7	9	1	8
	75	100	13	100

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