Talenom

Company report

10/10/2024

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Inderes corporate customer

This report is a summary translation of the report "Kasvuhaasteisiin haetaan uutta ratkaisua" published on 10/10/2024 at 7:30 am EEST.

Seeking new solutions to growth challenges

We reiterate our Buy recommendation for Talenom but lower our target price to EUR 5.3 (was EUR 5.6) after a negative profit warning. In connection with the warning, the company announced plans to spin off its software business into a separate company, which in practice means that the company's software will also be sold to third parties. The disadvantage of in-house software has always been the high investment required, and with the slowdown in growth on the service side, it is logical to look for external "payers". Over the next few years, a major strategic shift is expected to take place that will change the dynamics of both the software and service businesses.

Profit warning was no surprise, even though we thought the company could avoid it

In yesterday's profit warning, Talenom estimated revenue for 2024 at 126-129 MEUR, EBITDA at 34-37 MEUR and EBIT at 11-14 MEUR. Revenue has been affected by "the prolonged economic downturn, especially in Finland", which is a plausible explanation for business services companies in general. Talenom, in particular, is suffering from the poor situation in the construction sector, which the company says is increasing customer churn despite good new sales. The company's cost structure is fixed in the short term, which means that the lower-than-expected revenue is directly reflected in the earnings figures. We now forecast 2024 EBITDA of around 35 MEUR and reported EBIT of around 12.3 MEUR (range 11-14 MEUR). Our forecast includes 0.5 MEUR one-off costs related to the separation of the software business (including change negotiations). 2024 will therefore be a weak year for Talenom, but the core business in Finland is still very profitable. . We have also lowered our EBIT forecast for next year by approximately 10% to reflect more moderate growth expectations.

Spinning off the software business is logical, but also opens up the competitive situation

Talenom plans to spin off its software business, through which it will start offering its own software to other accounting firms. It's a major change in strategy, but not as dramatic as you might think. We believe this is driven by the growth challenges of the service business and the investment required for competitive software - the desire to share the burden of software development. Talenom's software and services have supported each other, but they have held each other “captive”. The biggest opportunity is related to the software business potential (estimated revenue in Finland 15-20 MEUR), but there are also benefits in supporting the organic growth of the service business. In the coming years, volumes will increase with the Swedish and Spanish deployments, but the share of "outsiders" will gradually increase in the coming years. International software business is certainly not easy. The biggest potential problem is the sharing of the clearest competitive advantage of the service business to competitors.

Valuation picture has not changed much; success in Sweden still key

Talenom's valuation multiples are quite attractive out to 2025 (P/E 20x and EV/EBIT 16x), but this include strong earnings growth. EBIT continues to come solely from Finland next year, which means that the value of the Swedish and Spanish businesses will not be reflected in the earnings multiples. Our sum-of-the-parts calculation now indicates a value of around EUR 5.3 per share (was EUR 5.6), after a decline in Finnish earnings forecasts weighed on its value. The Swedish and Spanish values are now at their assumed book values (below EUR 1.6 per share). If even a moderate part of the Finnish success story could be replicated overseas in the coming years, the stock would be very cheap. We see great potential in the change of strategy, and while there is no evidence of success in the software business yet (confidence will be built from the Q3'24 report), at current valuations we still see this as a positive option for investors.

Recommendation

Buy
(was Buy)

5.30 EUR
(was EUR 5.60)

Share price:
4.34

Key figures

	2023	2024e	2025e	2026e
Revenue	122	127	138	154
growth-%	19%	5%	9%	11%
EBIT adj.	11.1	12.8	17.2	23.1
EBIT-% adj.	9.1 %	10.0 %	12.4 %	15.0 %
Net Income	3.4	6.1	10.0	14.7
EPS (adj.)	0.14	0.14	0.22	0.32
P/E (adj.)	43.2	30.3	20.1	13.7
P/B	5.0	3.7	3.7	3.4
Dividend yield-%	3.1 %	4.6 %	4.8 %	5.1 %
EV/EBIT (adj.)	32.1	22.0	16.4	12.0
EV/EBITDA	11.2	8.0	6.9	5.8
EV/S	2.9	2.2	2.0	1.8

Source: Inderes

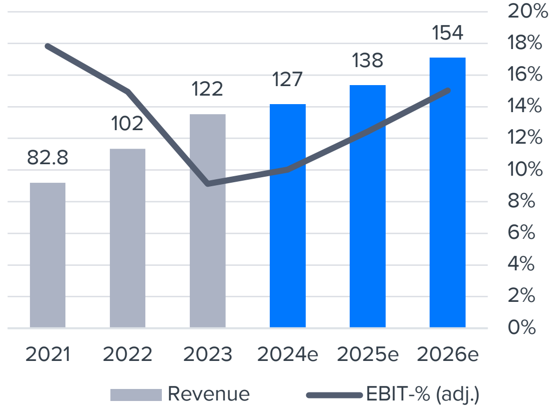
Guidance (Downgraded)

Talenom estimates revenue for 2024 at 126-129 MEUR, EBITDA at 34-37 MEUR and EBIT at 11-14 MEUR.

Share price

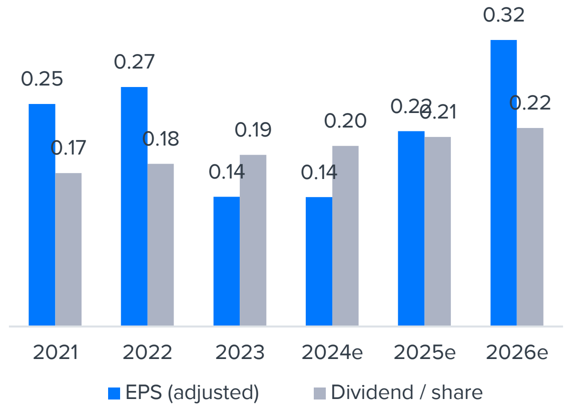
Source: Millistream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes

Value drivers

- Strong earnings growth after the acquisition-driven growth phase
- Clear competitive advantages contribute to increasing the market share
- Growth of Swedish and Spanish businesses and significant profitability improvement
- Fragmented market is transforming, which opens new opportunities
- Business model that utilizes economies of scale strengthens with growth
- In the long term, expansion elsewhere in Europe

Risk factors

- Failure to improve efficiency and profitability in Sweden
- Failure in internationalization
- Competitive advantage relies on technology, whose development tends to be fast
- Potential drop in customer retention
- Potential tightening competition in digital financial management
- Transformation can bring new challengers to the industry
- Risks associated with the balance sheet have increased

Valuation	2024e	2025e	2026e
Share price	4.34	4.34	4.34
Number of shares, millions	45.9	46.4	46.4
Market cap	199	201	201
EV	280	283	277
P/E (adj.)	30.3	20.1	13.7
P/E	32.8	20.1	13.7
P/B	3.7	3.7	3.4
P/S	1.6	1.5	1.3
EV/Sales	2.2	2.0	1.8
EV/EBITDA	8.0	6.9	5.8
EV/EBIT (adj.)	22.0	16.4	12.0
Payout ratio (%)	151%	97.1 %	69.3 %
Dividend yield-%	4.6 %	4.8 %	5.1 %

Source: Inderes

Profit warning was no surprise, even though we thought the company could avoid it

Revenue growth remains subdued

Talenom now estimates revenue for 2024 at 126-129 MEUR, EBITDA at 34-37 MEUR and EBIT at 11-14 MEUR. Previously, the corresponding ranges were 130-140 MEUR, 34-40 MEUR and 14-17 MEUR. According to the company, the prolonged economic downturn, particularly in Finland, had a stronger-than-expected impact on revenue. This is a plausible explanation when looking at the performance of service companies.

In particular, we estimate that revenue was impacted by the weakness in the construction industry and customer attrition due to bankruptcies and store closures. We understand that the construction sector had a high weight of around 10% before the troubled waters, and the company hasn’t been able to escape the effects. On a slightly positive note, despite the misery in the construction sector, the sector has recently shown signs of life, which (like the recession) should have a delayed impact on Talenom. The company also attributed the lower revenue to fewer acquisitions than planned. On the other hand, this is also due to the company's profitability challenges.

We have lowered our 2024 revenue estimate to around 127 MEUR from our previous one of 130 MEUR, which is at the lower end of our previous forecast range. In practice, this means that Talenom's organic growth in Finland will also be negative in H2.

Cost structure is fixed in the short term

Talenom’s cost structure is fixed in the short term, which means that the lower-than-expected revenue is directly reflected in the earnings figures. We were a bit more cautious on the cost structure before, so the impact is not as straightforward in our 2024 projections. We now forecast 2024 EBITDA of around 35 MEUR (range 34-37 MEUR) and reported EBIT of around 12.3 MEUR (range 11-14 MEUR). Our forecast includes one-time charges of around 0.5 MEUR related to restructuring costs associated with the separation of the software business (including change negotiations). According to the company, the new guidance also takes into account one-time costs related to the updated strategy and restructuring. We discuss the change in strategy in more detail on the next page.

2024 will remain subdued, but its impact on the overall picture will be limited

Talenom's visibility for the rest of the year should be good at this stage, so the 2024 performance level is now relatively well understood. Group revenue growth will remain weak at around 5% and the adjusted EBIT margin will be around 10%, a slight improvement from the weak prior year (2023: 9.1%). With rising financing costs and taxes, adjusted EPS will land at last year's level (forecast at EUR 0.14), making 2024 a clear disappointment and undermining market confidence in the narrative of profitable growth.

Although the overall picture is weak, Talenom's Finnish business will significantly improve profitability and earnings, indicating that the company's competitiveness is intact. In Sweden, despite the challenges, the software roll-out is progressing and we can expect to see benefits next year. Things are progressing in Spain, but the slowdown in acquisitions is causing problems in scaling the business here.

Estimate revisions	2024e	2024e	Change	2025e	2025e	Change	2026e	2026e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	130	127	-2%	142	138	-3%	159	154	-4%
EBITDA	37.0	35.0	-5%	41.8	40.8	-2%	49.6	48.1	-3%
EBIT (exc. NRIs)	14.2	12.8	-10%	18.9	17.2	-9%	24.5	23.1	-6%
EBIT	14.2	12.3	-14%	18.9	17.2	-9%	24.5	23.1	-6%
PTP	9.9	7.9	-20%	14.9	13.0	-13%	20.5	19.1	-6%
EPS (excl. NRIs)	0.17	0.14	-14%	0.24	0.22	-11%	0.34	0.32	-6%
DPS	0.20	0.20	0%	0.21	0.21	0%	0.22	0.22	0%

Source: Inderes

Software solutions will be sold to others in the future

2025 will shed light on competitiveness in Sweden

After 2024, Talenom will have a lot to prove in the coming years, but we do not believe the big picture has changed much. However, we have lowered our EBIT forecasts for next year by around 10%, mainly due to more moderate growth forecasts (both organic and acquisitions in Spain). In general, the growth outlook has weakened somewhat, and on the other hand, the company's track record of growth is even weaker after the profit warning.

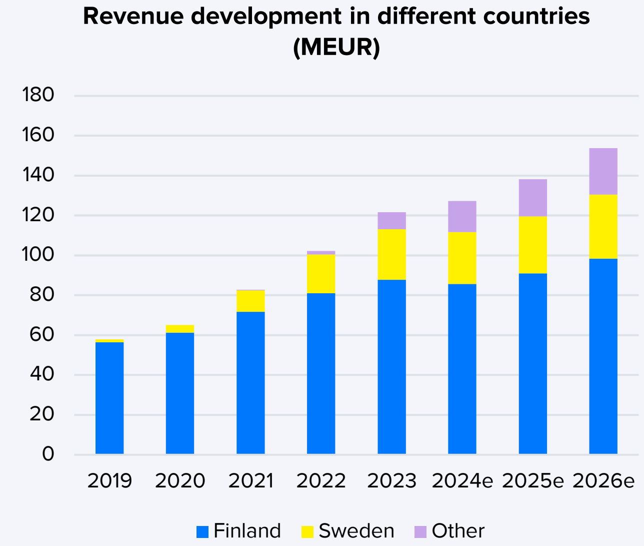
In recent years, Talenom has grown aggressively through acquisitions in Sweden and Spain. We forecast revenue in Sweden to be some 26 MEUR and in Spain (incl. Italy) almost 16 MEUR in 2024, accounting for around one third of the group's revenue. However, at the EBIT level, the contribution is clearly negative this year, and in the projections for 2025, the international business is still in the red (EBITDA positive).

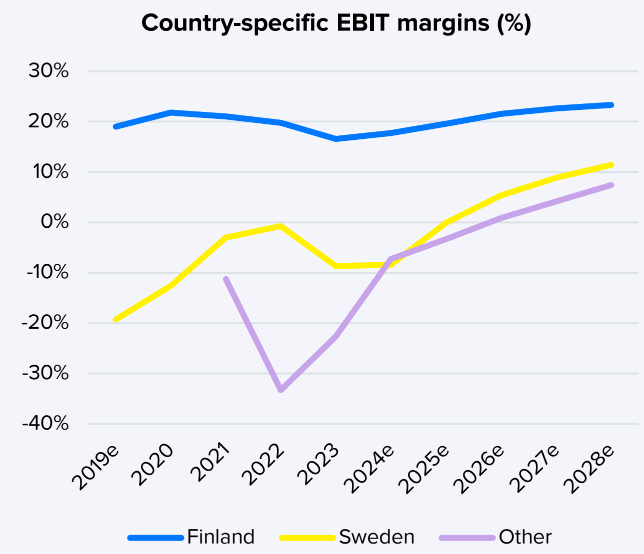
Sweden is in the process of implementing its own systems and the benefits will be seen in the coming years. In three years' time, Sweden's profitability should theoretically be close to Finland's, with an EBITDA margin difference of around 35% in 2024. Our own forecasts are much more modest, but the improvements from current levels will still be significant if the international strategy works at all. In Spain, the strategy is different and the benefits should be more straightforward, but in both cases the company must succeed in organic growth. Although there is considerable uncertainty surrounding the international business, the company's earnings growth outlook for the next few years is excellent from the weak starting level. At the same time, Talenom's profitability and growth potential would recover to excellent levels.

Strategy change in software business

Talenom also announced yesterday a major strategy change, where Talenom plans to spin off its software business into a separate company. The most significant change is that Talenom's software business will be spun off into a separate company and the company will start offering its own software to other accounting firms and their clients. The role of the software business has been the subject of much debate over the years, and the change is not as dramatic as it might first appear.

We believe that the change is driven by the growth challenges of Talenom's service business and the investments required for competitive software. The challenge for proprietary software has always been the same - scale. Internally, the software scale is limited to the scale of Talenom's service business, where growth has proven to be more modest than the company's previous targets. Acquisition-driven growth in recent years has proven to be reckless from a profitability perspective, and organic growth is challenging when a client is "forced" to change not only the accounting service provider but also the software, especially abroad, to an unfamiliar Talenom system. The other side of the equation, especially in recent years, has been the disproportionately high investments (2023: 14.5 MEUR) required by software for Talenom's size, which have continued to grow. This, together with Talenom's declining profitability, has put pressure on the company's cash flows and weakened its balance sheet, further limiting the aforementioned acquisition-driven growth. In this sense, the change is logical: Talenom wants to share the burden of software development with others.





Software can provide a new platform for growth

Software can provide scalable growth

Talenom's software and services have supported each other, but they have held each other “captive”. The greatest opportunity lies in the business potential of software, which is significant even at moderate levels. Talenom estimates the revenue of the software business in Finland to be around 15-20 MEUR. As a rule, Talenom's prices are fixed, of which the share of software and services has now been estimated, especially for accounting software. The company has "direct revenue" from the use of Talenom Online, for example, but we understand that these are significantly lower.

The number of users of the software is expected to grow rapidly in the coming years, as Talenom is currently rolling out the software to existing customers in Sweden and Spain. Otherwise, the software will be sold directly to individual companies and financial departments, as well as accountants and accounting firms. We expect the transition to be gradual, and the software distribution strategy is unclear business but. Our initial assessment is that growth in the coming years will be mainly "ancillary" to the company’s service business, while in the longer term (possibly from 2026-2027) the importance of fully external customers is expected to increase.

The new software company will be led by an expert in the international software business, and until then the unit will be led by Talenom's Executive Vice President Antti Aho. We believe that the software business requires new skills and that success, especially in an international context, also requires significant sales power. Based on current data, we are cautious on the growth outlook for the software business, but will refine our estimates in connection with the Q3'24 report. In the future, we expect Talenom to report key figures for the software business, which would allow for a sum-of-the-parts valuation of the software business.

Software competitiveness can be verified later

According to Talenom, the competitive advantage of the company’s software is based on a package developed over more than two decades, which has considered the entire value chain in an optimal way, both in terms of ease of use for the end customer and automation for the producer. From our point of view, the main strength is the high level of automation and efficiency from the producer's point of view, as Talenom has always had a special reason to optimize this. Accountor and Visma also strive to make accounting easy, but the benefits of automation, for example, may not be obvious to a client base that relies in part on hourly billing. Instead, Talenom's motivation was to make the process as efficient as possible from the accountant's point of view, because in a fixed-price service, efficiency gains always generate extra euros for the company.

However, ease of use is partly relative, as customers often find the system they are used to the easiest one. In this way, those who are used to the Talenom system will certainly find it easy to use, but the same may be true for those who are used to Visma or Accountor software. Ultimately, we believe that the strength of the competitive advantage of Talenom's software is seen when "new" users objectively compare it to competitors. However, we believe that Talenom's software is very competitive in the SME sector.

Software business spin-off from a strategic perspective

Strengths and opportunities

- Sharing major investments with third parties and a new revenue stream from software
- Opportunity for scalable growth internationally, allowing for higher valuation multiples
- Service business no longer tied to proprietary software, improving organic growth opportunities
- Opportunity to improve the operational efficiency of the software and service businesses in the new form

Weaknesses and threats

- The clearest competitive advantage and differentiation factor in the service business is “under threat”
- The dynamics of the software business are changing and success requires different skills
- There is no concrete evidence of the competitiveness of the software outside Talenom
- In a bad scenario, the breakdown of Talenom’s own ecosystem that functioned very well (in Finland)

Competitive landscape in software

New stimulus for the service business

Biggest software efforts are behind and the investment burden is lightening

In recent years, Talenom's software has undergone a major architectural reform, which enables faster deployment in new countries and, in our view, facilitates the sale of the software to an external producer. This has of course also been reflected in the investments already briefly discussed earlier (see the adjacent graph). On the positive side, the biggest leaps now seem to be behind.

Talenom said in the stock exchange release that it will start change negotiations regarding the planned separation of its software business. The negotiations concern around 180 people in Finland and may lead to the termination of up to 35 employment contracts. The company said that the restructuring will result in total annual savings of around 2-3 MEUR in investments and direct costs. As a result, it appears that technology investments, which have steadily increased in recent years, will decrease next year, which will support Talenom's free cash flow.

If the software strategy is successful, these investments will be offset by external cash flows in the coming years, which will further improve the situation. However, in light of the current data, we do not want to draw any major conclusions.

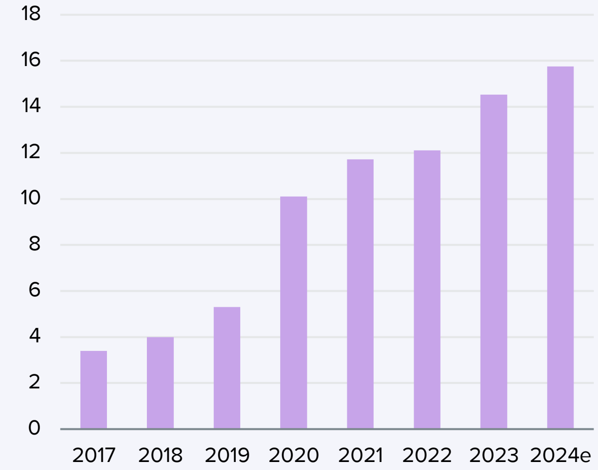
New situation in service business

In our opinion, having a powerful proprietary accounting software has been a great competitive advantage for Talenom's service business, but it has also been a partial hindrance. Talenom's accounting software is well suited for small and medium-sized companies, but for larger companies we find it challenging to integrate it with ERP systems, for example. As a result, Talenom's service business has been more or less tied to the SME sector, where the company has had a clear competitive advantage. In the future, the service business will be able to use not only its own software but also commercial software for larger customers, enabling a wider range of customer services. We still don't think that Talenom will go for bigger customers by force, but it is much easier to grow with customers.

A potentially bigger opportunity for the service business is to accelerate organic growth, especially abroad. New customer acquisition, and therefore organic growth, is much more difficult when the customer has to commit not only to a service provider, but also to a change in software or ecosystem. For example, Talenom will be able to offer its services on Fortnox systems, which will facilitate customer acquisition. On the other hand, customer retention is expected to be weaker if customers cannot be converted to Talenom's own software.

At the same time, of course, this means that Talenom's service business will also have to be competitive in the future in order to make its own software more efficient. This is both a challenge and an opportunity. According to the company, the competitive advantages of the service business are a conceptualized and easily purchasable product, efficiently produced through integrated operating models, high quality and expertise, and local and industry-specialized service teams. The clearest differentiation factor is gone, but also potentially the biggest challenge, especially in terms of organic international growth. It remains to be seen how the competitiveness of the new approach will ultimately develop.

Talenom's investments in software and digital services (MEUR)



Valuation

Potential increases with strategy change, but poor performance erodes confidence

The market took Talenom's negative profit warning hard, with the share price falling 11% yesterday. Although the 2024 result is of limited significance, the weak performance also raises concerns about future developments. Our own forecasts fell sharply, which put pressure on our target price. Meanwhile, the sum of the parts has not changed much, as the big picture remains largely unchanged despite the software business spin-off.

We see real opportunities in the strategy change, but so far we do not have enough confidence in the company's ability to succeed in the software business to justify higher forecasts. This confidence will presumably be built in the Q3'24 report as we get more information on the strategy. However, we estimate that we will have to wait a long time for the actual evidence.

The 2024e P/E of the share is 30x and EV/EBIT 22x, which are already bearable levels. Visibility to 2025 is limited, but with the projected performance, the multiples (P/E 20x and EV/EBIT 16x) are attractive. If Talenom succeeds in Sweden, the current valuation will be very low. However, in a negative scenario, momentum is still sought at a lower level, but we still consider the current risk/reward ratio to be very attractive.

Talenom's business is mainly recurring and defensive, profitability is partially scalable and competitive advantages are strong in the SME sector selected by the company, as evidenced by the excellent profitability in Finland. The company has a strong position in the fast-changing accounting industry, where Talenom is one of the winners, at least in Finland. The potential for success also exists in the European market, and in the coming years we will know that the concept works in Sweden as the company's rolls out its own software.

Limited negative adjustments to SOTP

When Finland generates the group's earnings and others destroy it, the image reflected by the valuation multiples does not give value to the international business. Thus, we examine the valuation using the sum-of-the-parts calculation. The SOTP now gives a value of around EUR 5.3 per share (previously EUR 5.6). The forecast downgrades of the Finnish business reduced the value of the Finnish business, which we value at around 250 MEUR in the calculation (previously around 260 MEUR).

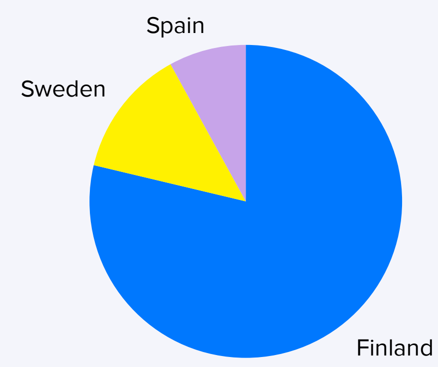
We accept an EV/EBIT multiple of 15x for Finland in the sum-of-the-parts calculation for 2024 and 2025 (the average of these). Sweden is valued at around 42 MEUR and Spain (incl. Italy) about 25 MEUR, corresponding to an estimate of the book value of the businesses in these countries (i.e. the investments made in them). Together, these are less than EUR 1.5 per share. At the end of 2024, Talenom is estimated to have net interest-bearing debt of approximately 70 MEUR (excluding IFRS 16 liabilities), which is deducted from the enterprise value (EV). This brings the indicative SOTP market value of Talenom to around 245 MEUR.

We believe that the calculation gives a reasonable picture of the distribution of Talenom's share value. In Finland, the value is very tangible, while in the international business it is largely based on future potential and on the investments made. But if international growth turns sour, the destruction of value is likely to be limited. The company has a lot of potential, but even in a good scenario, it will take a significant amount of time to unlock it.

Valuation	2024e	2025e	2026e
Share price	4.34	4.34	4.34
Number of shares, millions	45.9	46.4	46.4
Market cap	199	201	201
EV	280	283	277
P/E (adj.)	30.3	20.1	13.7
P/E	32.8	20.1	13.7
P/B	3.7	3.7	3.4
P/S	1.6	1.5	1.3
EV/Sales	2.2	2.0	1.8
EV/EBITDA	8.0	6.9	5.8
EV/EBIT (adj.)	22.0	16.4	12.0
Payout ratio (%)	151%	97.1 %	69.3 %
Dividend yield-%	4.6 %	4.8 %	5.1 %

Source: Inderes

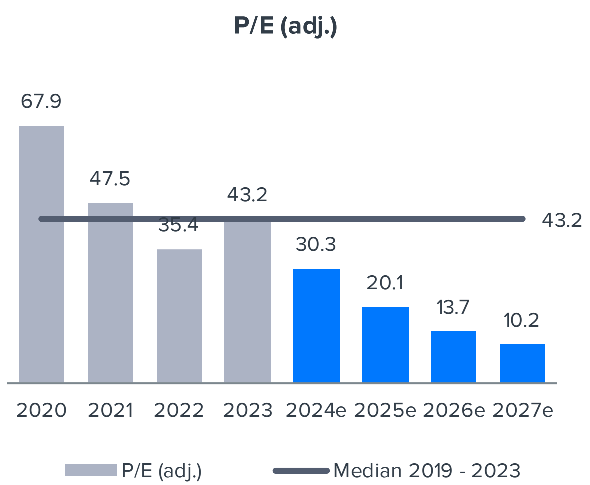
EV breakdown

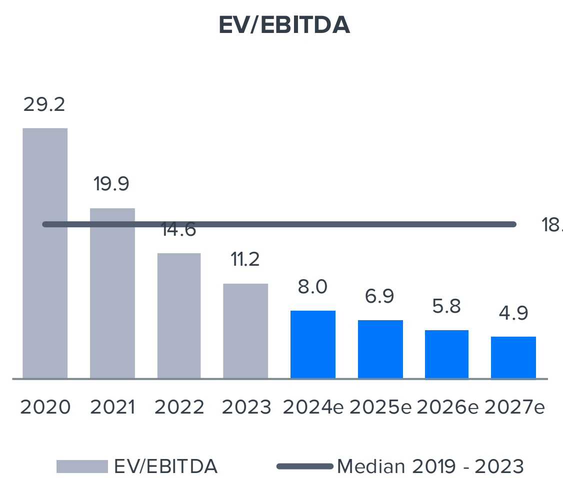


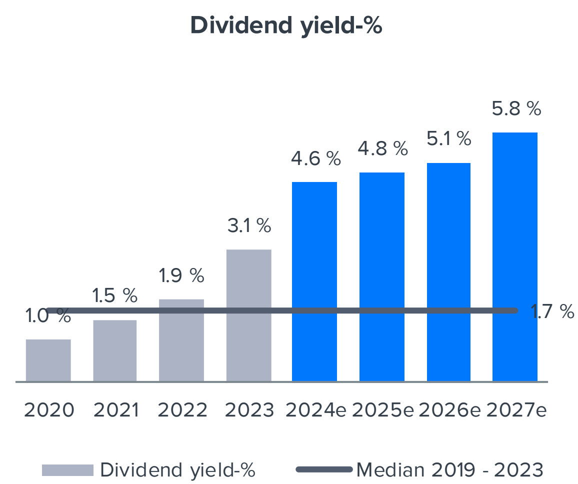
Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price	7.50	15.1	11.7	9.39	6.20	**4.34**	**4.34**	**4.34**	**4.34**
Number of shares, millions	41.7	43.2	43.8	44.5	45.4	**45.9**	**46.4**	**46.4**	**46.4**
Market cap	313	650	512	420	282	**199**	**201**	**201**	**201**
EV	342	679	552	475	357	**280**	**283**	**277**	**267**
P/E (adj.)	41.1	67.9	47.5	35.4	43.2	**30.3**	**20.1**	**13.7**	**10.2**
P/E	41.1	67.9	47.5	35.4	83.7	**32.8**	**20.1**	**13.7**	**10.2**
P/B	13.3	20.2	11.5	7.5	5.0	**3.7**	**3.7**	**3.4**	**2.9**
P/S	5.4	10.0	6.2	4.1	2.3	**1.6**	**1.5**	**1.3**	**1.2**
EV/Sales	5.9	10.4	6.7	4.6	2.9	**2.2**	**2.0**	**1.8**	**1.6**
EV/EBITDA	18.1	29.2	19.9	14.6	11.2	**8.0**	**6.9**	**5.8**	**4.9**
EV/EBIT (adj.)	32.8	52.7	37.4	31.1	32.1	**22.0**	**16.4**	**12.0**	**9.4**
Payout ratio (%)	68.4 %	67.7 %	69.0 %	68.3 %	256.6 %	**151.2 %**	**97.1 %**	**69.3 %**	**58.9 %**
Dividend yield-%	1.7 %	1.0 %	1.5 %	1.9 %	3.1 %	**4.6 %**	**4.8 %**	**5.1 %**	**5.8 %**

Source: Inderes







Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%	
Company	**MEUR**	**MEUR**	**2024e**	**2025e**	**2024e**	**2025e**	**2024e**	**2025e**	**2024e**	**2025e**	**2024e**	**2025e**
Aallon Group	33	34	10.4	9.2	6.6	6.0	1.0	0.9	12.8	12.2	2.7	2.8
Fortnox	3241	3217	42.4	32.2	34.4	26.6	17.6	14.2	53.8	41.4	0.4	0.5
Admicom	254	244	19.9	17.8	19.6	17.5	6.8	6.2	25.9	23.2	1.3	1.5
ECIT	298	418	19.0	15.1	9.1	7.9	1.3	1.3	20.3	16.5	0.6	1.0
Administer	38	48	96.3	24.1	8.0	6.4	0.6	0.6	25.0	16.9	2.7	3.4
Xero	13600	13600	110	71	51	40	14.4	11.8	149	91		
Enento	455	598	19.8	15.5	11.6	10.1	3.9	3.8	24.3	18.1	5.2	5.4
Fondia	23	20	10.1	8.5	8.1	6.6	0.8	0.7	15.1	12.9	4.8	4.9
Vincit	38	26	12.2	5.5	10.0	4.7	0.3	0.3	22.6	10.0	4.4	6.6
Gofore	341	317	12.3	11.3	10.7	9.9	1.7	1.6	16.5	15.3	2.3	2.7
Etteplan	278	348	10.9	8.9	7.8	6.1	0.9	0.9	13.1	10.9	2.5	3.7
Talenom (Inderes)	**199**	**280**	**22.0**	**16.4**	**8.0**	**6.9**	**2.2**	**2.0**	**30.3**	**20.1**	**4.6**	**4.8**
Average			**33.0**	**19.9**	**16.0**	**12.8**	**4.5**	**3.8**	**34.4**	**24.4**	**2.7**	**3.3**
Median			**19.0**	**15.1**	**10.0**	**7.9**	**1.3**	**1.3**	**22.6**	**16.5**	**2.6**	**3.1**
Diff-% to median			***15%***	***9%***	***-20%***	***-12%***	***72%***	***55%***	***34%***	***21%***	***78%***	***55%***

Source: Refinitiv / Inderes

Income statement

Income statement	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue	**102**	**31.3**	**32.4**	**28.3**	**29.7**	**122**	**34.1**	**33.9**	**29.1**	**30.3**	**127**	**138**	**154**	**172**
Finland	81.0	23.4	23.3	20.3	20.8	87.8	23.4	22.5	19.7	20.2	85.7	91.0	98.3	106
Sweden	19.4	6.7	7.3	5.5	5.9	25.5	7.0	7.3	5.6	6.1	26.0	28.5	32.3	36.8
Other countries	1.7	1.2	1.8	2.5	3.0	8.5	3.7	4.2	3.8	4.0	15.7	18.6	23.3	29.1
EBITDA	**32.4**	**8.4**	**8.9**	**7.6**	**7.0**	**31.9**	**9.5**	**10.3**	**7.7**	**7.6**	**35.0**	**40.8**	**48.1**	**54.2**
Depreciation	-17.1	-4.9	-5.2	-8.4	-5.4	-23.9	-5.6	-5.8	-5.7	-5.7	-22.8	-23.6	-25.0	-25.7
EBIT (excl. NRI)	**15.3**	**3.5**	**3.7**	**2.4**	**1.6**	**11.1**	**3.9**	**4.5**	**2.0**	**2.4**	**12.8**	**17.2**	**23.1**	**28.5**
EBIT	**15.3**	**3.5**	**3.7**	**-0.8**	**1.6**	**8.0**	**3.9**	**4.5**	**2.0**	**1.9**	**12.3**	**17.2**	**23.1**	**28.5**
Finland	16.0	4.0	3.8	3.4	3.2	14.5	4.9	4.3	2.9	3.1	15.2	17.9	21.2	24.0
Sweden	-0.1	0.3	0.0	-0.7	-1.8	-2.2	-0.7	-0.3	-0.6	-0.5	-2.2	0.0	1.7	3.3
Other countries	-0.6	-0.5	-0.4	-0.4	-0.6	-1.9	-0.5	-0.1	-0.2	-0.2	-1.1	-0.6	0.2	1.2
Unallocated	0.0	-0.3	0.2	-3.2	0.7	-2.5	0.3	0.6	0.0	-0.5	0.4	0.0	0.0	0.0
Net financial items	-0.7	-0.7	-0.8	-1.1	-1.1	-3.7	-1.0	-1.2	-1.0	-1.1	-4.3	-4.2	-4.0	-3.3
PTP	**14.6**	**2.7**	**2.9**	**-1.9**	**0.5**	**4.3**	**2.8**	**3.3**	**1.0**	**0.8**	**7.9**	**13.0**	**19.1**	**25.3**
Taxes	-2.8	-0.7	-0.7	0.2	0.3	-0.9	-0.8	-0.6	-0.2	-0.2	-1.8	-3.0	-4.4	-5.6
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings	**11.8**	**2.1**	**2.2**	**-1.7**	**0.8**	**3.4**	**2.0**	**2.7**	**0.8**	**0.6**	**6.1**	**10.0**	**14.7**	**19.7**
EPS (adj.)	**0.27**	**0.05**	**0.05**	**0.03**	**0.02**	**0.14**	**0.04**	**0.06**	**0.02**	**0.02**	**0.14**	**0.22**	**0.32**	**0.42**
EPS (rep.)	**0.27**	**0.05**	**0.05**	**-0.04**	**0.02**	**0.07**	**0.04**	**0.06**	**0.02**	**0.01**	**0.13**	**0.22**	**0.32**	**0.42**

Key figures	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	23.3 %	24.2 %	20.1 %	20.0 %	12.8 %	19.2 %	8.8 %	4.5 %	2.9 %	1.8 %	4.6 %	8.6 %	11.3 %	11.8 %
Adjusted EBIT growth-%	3.4 %	-28.9 %	-28.6 %	-22.3 %	-27.4 %	-27.2 %	11.5 %	22.8 %	-14.5 %	47.3 %	14.8 %	34.9 %	34.4 %	23.4 %
EBITDA-%	31.7 %	26.7 %	27.3 %	27.0 %	23.7 %	26.2 %	27.9 %	30.3 %	26.6 %	25.0 %	27.5 %	29.5 %	31.3 %	31.5 %
Adjusted EBIT-%	15.0 %	11.0 %	11.3 %	8.4 %	5.4 %	9.1 %	11.3 %	13.3 %	7.0 %	7.8 %	10.0 %	12.4 %	15.0 %	16.6 %
Net earnings-%	11.6 %	6.6 %	6.7 %	-6.0 %	2.8 %	2.8 %	6.0 %	7.8 %	2.8 %	1.9 %	4.8 %	7.3 %	9.6 %	11.4 %

Source: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	**123**	**145**	**151**	**155**	**157**
Goodwill	55.0	66.6	68.6	70.6	72.6
Intangible assets	54.2	62.7	67.4	69.0	68.4
Tangible assets	2.8	4.7	4.0	3.6	4.0
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	0.3	0.2	0.2	0.2	0.2
Other non-current assets	9.9	9.4	9.6	9.8	10.0
Deferred tax assets	0.4	1.5	1.6	1.6	1.6
Current assets	**30.5**	**29.2**	**30.6**	**33.2**	**37.0**
Inventories	0.0	0.0	0.0	0.0	0.0
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	14.5	19.0	19.9	21.6	24.0
Cash and equivalents	16.0	10.3	10.7	11.6	13.0
Balance sheet total	**156**	**176**	**182**	**187**	**192**

Source: Inderes

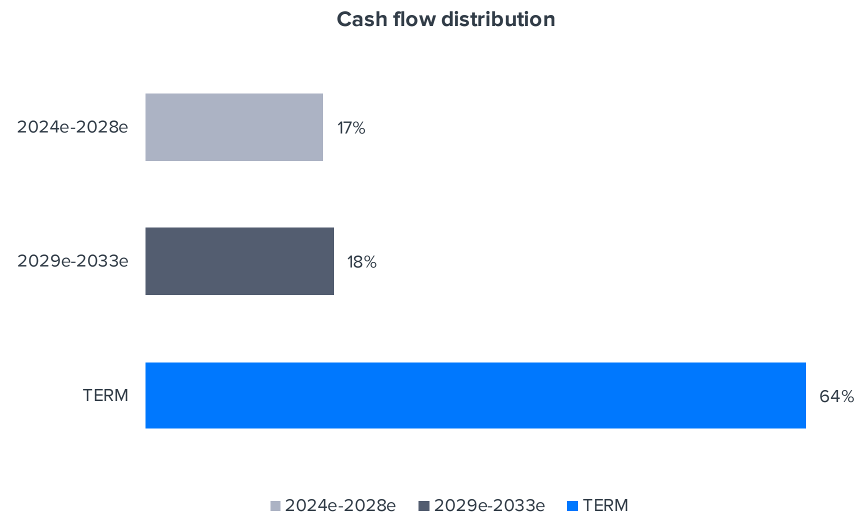
Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	**56.0**	**55.8**	**53.3**	**54.2**	**59.2**
Share capital	0.1	0.1	0.1	0.1	0.1
Retained earnings	29.1	24.9	22.3	23.2	28.1
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	26.9	30.9	30.9	30.9	30.9
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	**62.3**	**81.4**	**82.1**	**87.3**	**84.1**
Deferred tax liabilities	3.0	4.3	4.5	4.5	4.5
Provisions	0.0	0.0	0.0	0.0	0.0
Interest bearing debt	56.4	76.4	75.6	80.8	77.6
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	2.8	0.6	2.0	2.0	2.0
Current liabilities	**38.0**	**38.5**	**46.7**	**45.6**	**48.6**
Interest bearing debt	13.7	9.0	15.9	12.2	11.4
Payables	24.3	29.4	30.8	33.4	37.2
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	**156**	**176**	**182**	**187**	**192**

DCF calculation

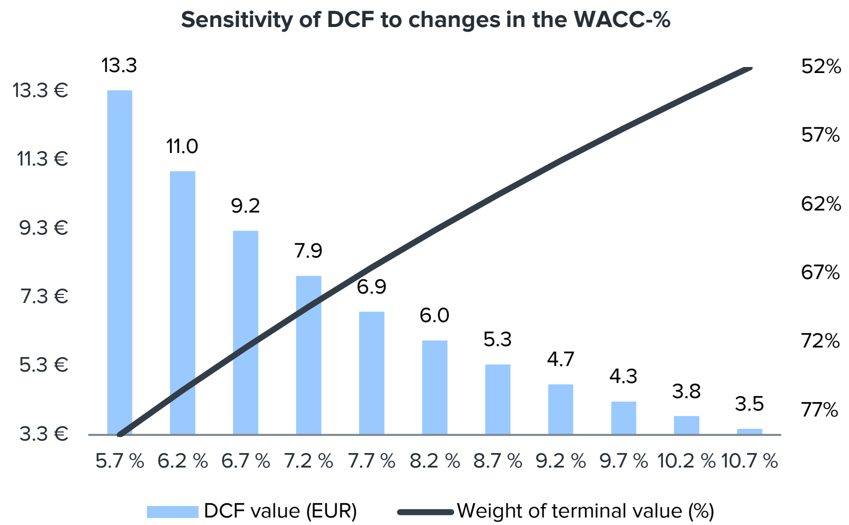
DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	19.2 %	4.6 %	8.6 %	11.3 %	11.8 %	10.0 %	7.0 %	5.0 %	5.0 %	5.0 %	3.0 %	3.0 %
EBIT-%	6.5 %	9.6 %	12.4 %	15.0 %	16.6 %	16.0 %	16.0 %	15.5 %	15.0 %	14.0 %	14.0 %	14.0 %
EBIT (operating profit)	**8.0**	**12.3**	**17.2**	**23.1**	**28.5**	**30.3**	**32.4**	**33.0**	**33.5**	**32.8**	**33.8**	
+ Depreciation	23.9	22.8	23.6	25.0	25.7	27.1	28.1	29.6	30.9	31.8	32.8	
- Paid taxes	-0.7	-1.8	-3.0	-4.4	-5.6	-6.0	-6.5	-6.7	-6.8	-6.7	-6.9	
- Tax, financial expenses	-0.8	-1.0	-1.0	-0.9	-0.7	-0.7	-0.7	-0.6	-0.6	-0.6	-0.6	
+ Tax, financial income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Change in working capital	0.6	0.5	0.9	1.3	1.6	1.5	1.1	0.9	0.9	1.0	0.6	
Operating cash flow	**31.1**	**32.7**	**37.8**	**44.1**	**49.5**	**52.2**	**54.5**	**56.2**	**57.9**	**58.4**	**59.8**	
+ Change in other long-term liabilities	-2.2	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-43.5	-27.8	-26.0	-26.0	-26.8	-34.5	-32.4	-32.7	-34.2	-35.4	-35.3	
Free operating cash flow	**-14.6**	**6.3**	**11.8**	**18.1**	**22.8**	**17.7**	**22.1**	**23.5**	**23.7**	**23.0**	**24.5**	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	-14.6	6.3	11.8	18.1	22.8	17.7	22.1	23.5	23.7	23.0	24.5	482
Discounted FCFF		**6.2**	**10.7**	**15.2**	**17.6**	**12.7**	**14.6**	**14.4**	**13.4**	**12.0**	**11.8**	**232**
Sum of FCFF present value		361	354	344	329	311	298	284	269	256	244	232
Enterprise value DCF		**361**										
- Interest bearing debt		-85.5										
+ Cash and cash equivalents		10.3										
-Minorities		0.0										
-Dividend/capital return		-8.6										
Equity value DCF		**277**										
Equity value DCF per share		**6.0**										

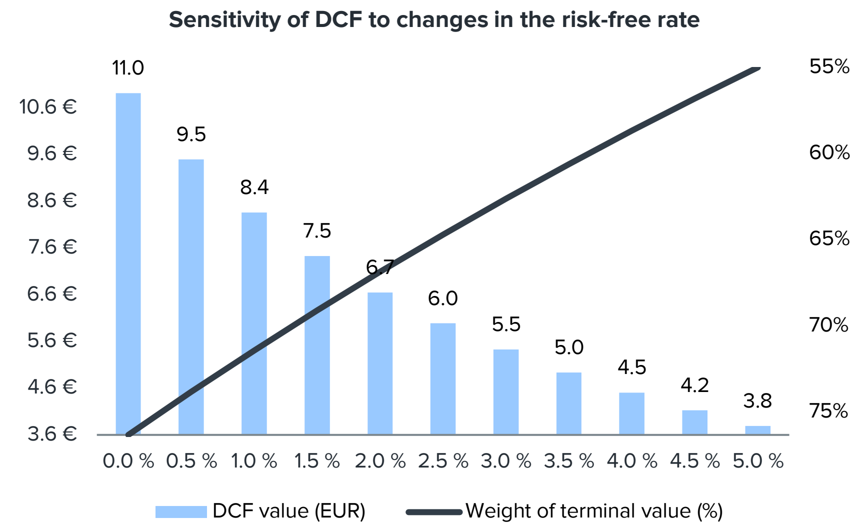
WACC	
Tax-% (WACC)	22.0 %
Target debt ratio (D/(D+E)	20.0 %
Cost of debt	4.5 %
Equity Beta	1.33
Market risk premium	4.75%
Liquidity premium	0.60%
Risk free interest rate	2.5 %
Cost of equity	**9.4 %**
Weighted average cost of capital (WACC)	**8.2 %**

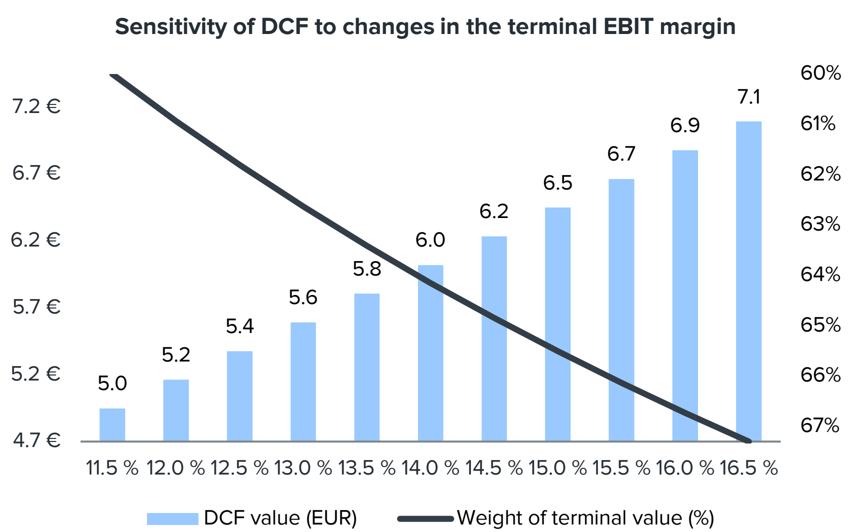
Source: Inderes

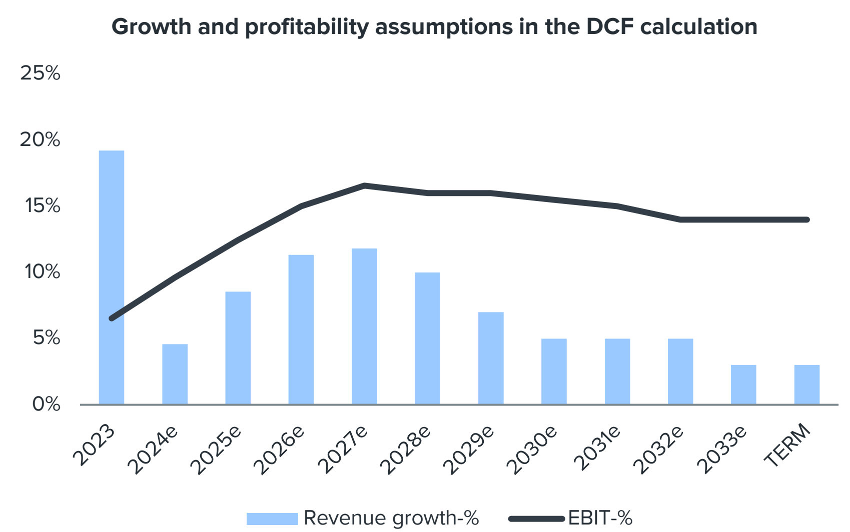


DCF sensitivity calculations and key assumptions in graphs









Source: Inderes. Note that the weight of the terminal value (%) is shown on an inverse scale for clarity.

Summary

Income statement	2021	2022	2023	2024e	2025e
Revenue	82.8	102.1	121.7	**127.3**	**138.2**
EBITDA	27.7	32.4	31.9	**35.0**	**40.8**
EBIT	14.8	15.3	8.0	**12.3**	**17.2**
PTP	14.0	14.6	4.3	**7.9**	**13.0**
Net Income	10.8	11.8	3.4	**6.1**	**10.0**
Extraordinary items	0.0	0.0	-3.2	**-0.5**	**0.0**

Balance sheet	2021	2022	2023	2024e	2025e
Balance sheet total	117.7	156.3	175.7	**182.1**	**187.1**
Equity capital	44.7	56.0	55.8	**53.3**	**54.2**
Goodwill	37.3	55.0	66.6	**68.6**	**70.6**
Net debt	39.2	54.1	75.2	**80.8**	**81.4**

Cash flow	2021	2022	2023	2024e	2025e
EBITDA	27.7	32.4	31.9	**35.0**	**40.8**
Change in working capital	3.3	0.2	0.6	**0.5**	**0.9**
Operating cash flow	28.9	30.4	31.1	**32.7**	**37.8**
CAPEX	-41.9	-44.9	-43.5	**-27.8**	**-26.0**
Free cash flow	-11.3	-13.8	-14.6	**6.3**	**11.8**

Valuation multiples	2021	2022	2023	2024e	2025e
EV/S	6.7	4.6	2.9	**2.2**	**2.0**
EV/EBITDA	19.9	14.6	11.2	**8.0**	**6.9**
EV/EBIT (adj.)	37.4	31.1	32.1	**22.0**	**16.4**
P/E (adj.)	47.5	35.4	43.2	**30.3**	**20.1**
P/B	11.5	7.5	5.0	**3.7**	**3.7**
Dividend-%	1.5 %	1.9 %	3.1 %	**4.6 %**	**4.8 %**

Source: Inderes

Per share data	2021	2022	2023	2024e	2025e
EPS (reported)	0.25	0.27	0.07	**0.13**	**0.22**
EPS (adj.)	0.25	0.27	0.14	**0.14**	**0.22**
OCF / share	0.66	0.68	0.68	**0.71**	**0.81**
FCF / share	-0.26	-0.31	-0.32	**0.14**	**0.25**
Book value / share	1.02	1.26	1.23	**1.16**	**1.17**
Dividend / share	0.17	0.18	0.19	**0.20**	**0.21**

Growth and profitability	2021	2022	2023	2024e	2025e
Revenue growth-%	27%	23%	19%	**5%**	**9%**
EBITDA growth-%	19%	17%	-2%	**10%**	**16%**
EBIT (adj.) growth-%	15%	3%	-27%	**15%**	**35%**
EPS (adj.) growth-%	11%	8%	-46%	**0%**	**51%**
EBITDA-%	33.4 %	31.7 %	26.2 %	**27.5 %**	**29.5 %**
EBIT (adj.)-%	17.8 %	15.0 %	9.1 %	**10.0 %**	**12.4 %**
EBIT-%	17.8 %	15.0 %	6.5 %	**9.6 %**	**12.4 %**
ROE-%	28.1 %	23.4 %	6.0 %	**11.1 %**	**18.7 %**
ROI-%	18.0 %	13.9 %	6.1 %	**8.6 %**	**11.9 %**
Equity ratio	38.2 %	35.9 %	31.8 %	**29.3 %**	**29.0 %**
Gearing	87.7 %	96.6 %	134.7 %	**151.5 %**	**150.3 %**

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Buy	The 12-month risk-adjusted expected shareholder return of the share is very attractive
Accumulate	The 12-month risk-adjusted expected shareholder return of the share is attractive
Reduce	The 12-month risk-adjusted expected shareholder return of the share is weak
Sell	The 12-month risk-adjusted expected shareholder return of the share is very weak

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Recommendation history (>12 mo)

The company made a 1/5 split on February 25, 2020, rates and target prices adjusted.

Date	Recommendation	Target	Share price
7/24/2019	Accumulate	6.00 €	5.68 €
7/30/2019	Accumulate	6.33 €	6.02 €
10/22/2019	Accumulate	6.33 €	5.67 €
1/8/2020	Reduce	7.33 €	7.42 €
2/4/2020	Reduce	7.00 €	6.97 €
2/26/2020	Accumulate	6.80 €	6.40 €
4/1/2020	Reduce	6.00 €	5.88 €
4/28/2020	Accumulate	7.50 €	7.14 €
6/15/2020	Reduce	8.20 €	8.20 €
8/4/2020	Reduce	9.00 €	9.32 €
10/27/2020	Reduce	10.00 €	10.20 €
11/19/2020	Reduce	12.00 €	12.20 €
2/9/2021	Reduce	12.00 €	12.50 €
3/2/2021	Accumulate	12.00 €	11.15 €
4/27/2021	Reduce	14.00 €	14.12 €
8/3/2021	Reduce	16.00 €	16.72 €
10/1/2021	Accumulate	15.00 €	13.98 €
11/2/2021	Accumulate	15.50 €	14.50 €
12/17/2021	Accumulate	13.50 €	11.92 €
2/9/2022	Buy	12.00 €	9.84 €
4/13/2022	Buy	12.00 €	9.99 €
4/27/2022	Buy	12.00 €	10.00 €
8/3/2022	Reduce	12.50 €	12.30 €
10/26/2022	Reduce	9.50 €	9.39 €
2/1/2023	Reduce	9.00 €	9.09 €
3/27/2023	Accumulate	9.00 €	7.69 €
4/21/2023	Accumulate	8.80 €	7.88 €
7/24/2023	Accumulate	8.00 €	6.96 €
10/13/2023	Buy	6.00 €	4.65 €
10/23/2023	Buy	6.00 €	4.70 €
12/28/2023	Accumulate	6.50 €	6.03 €
2/2/2024	Reduce	6.30 €	6.20 €
3/19/2024	Buy	6.30 €	5.18 €
4/19/2024	Accumulate	6.30 €	5.60 €
7/22/2024	Accumulate	6.00 €	5.28 €
8/20/2024	Buy	5.60 €	4.38 €
10/10/2024	Buy	5.30 €	4.34 €

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2014, 2016, 2017, 2019

Sauli Vilén
2012, 2016, 2018, 2019, 2020

Antti Viljakainen
2014, 2015, 2016, 2018, 2019, 2020

Olli Koponen
2020

Joni Grönqvist
2019, 2020

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