Talenom

Extensive report

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Inderes corporate customer

This report is a summary translation of the report "Kasvupyrähdys uuteen kokoluokkaan" published on 04/13/2022 at 07:45 am.

Growth leap to the next level

We reiterate our Buy recommendation and EUR 12.0 target price for Talenom. After an acquisition-driven growth leap, the company has moved to a new size class and become a significant player in Sweden as well. Profitability has been hurting due to growth investments, but we expect the situation to improve in the coming years and earnings growth rate to return to over 20% annually. The technological competitive advantage of the core business has strengthened with the scale growing and new growth drivers may emerge from new ventures in the next few years. The valuation has fallen to a reasonable level (2023e P/E 29x and EV/EBIT 24x), but in the short term the increase in interest rates may still weigh on the share. However, for a long-term investor, we consider the risk/return ratio of the share to be attractive now.

Talenom is one of the winners in accounting industry transformation

Talenom has a strong position in the fragmented Finnish accounting industry, where the company has a clear technological competitive advantage thanks to the automated accounting production line. The hybrid strategy, in which the company has combined the development of its own software and its own service, is quite unique in the industry. Scale benefits are becoming increasingly important and at the same time driving consolidation in the industry. Talenom has accelerated its own growth through acquisitions in both Finland and Sweden. In Sweden, Talenom's net sales are already about EUR 19 million and in the fall the company will introduce its own localized software. Thereafter, Sweden's so far weak profitability should also begin to improve, which is critical to the company's growth and internationalization. Despite the strong competitive advantage, growth in the defensive industry is slow and expensive, but ultimately even more valuable.

Twofold earnings, but earnings growth outlook is strong

Talenom's strong earnings growth has slowed down as high growth investments weigh on profitability. While the profitability of the core business has continued to improve, supported by automation, we estimate that about 30% of net sales (Sweden and Spain, Finland's recent acquisitions) drag profitability downwards significantly. However, this area represents a significant improvement potential in the coming years. If Talenom were able to increase the profitability of this area by 10% through software implementation, we estimate that this would improve EPS by just under 20% (based on 2022e). Talenom has a track record in Finland, and the same idea is now being brought to Sweden. To conquer Europe, Talenom has developed a new, more scalable application-based solution that is based on investments in the small customer segment. There are many different growth templates and options for the future, but we expect the company to focus more on efficiency and profitability after the growth leap. We now expect EPS growth to be over 20% (CAGR) in 2021-2024 as profitability starts to scale again.

Valuation at a sound level again

The fall in valuation levels for growth stocks has been strongly reflected in Talenom, which was just going all-in on growth and temporarily sacrificed earnings development. At the same time, the drop in the share price has made the valuation attractive: With the 2023 forecasts, Talenom’s P/E is 29x and EV/EBIT is 24x, which are moderate, considering the expected annual growth rate of about 20% (PEG under 1.5x). In relation to peers, Talenom’s valuation is still challenging, but we don’t think that the “built-in” significant increase in earnings is considered in it. We believe that the greatest risks relate to the development in Sweden, where Talenom doesn’t have a proven track-record yet, and the pressure that might still be exerted on the valuation with interest rates continuing to rise.

Recommendation

Buy
(previous Buy)

12.00 EUR
(previous 12.00 EUR)

Share price:
9.99

Key figures

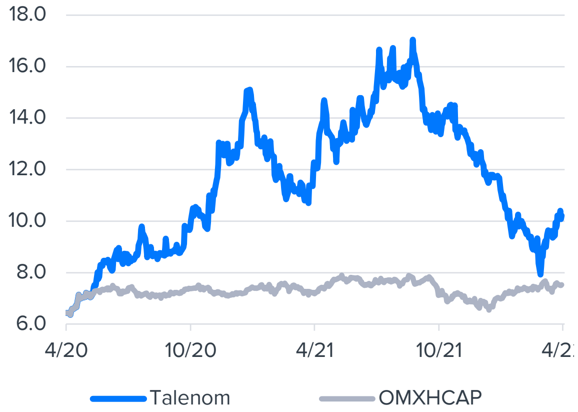
	2021	2022e	2023e	2024e
Net sales	83	104	120	138
growth-%	27%	26%	15%	15%
EBIT adj.	14.8	16.6	20.4	26.2
EBIT-% adj.	17.8 %	15.9 %	17.0 %	19.0 %
Net Income	10.8	12.6	15.5	20.1
EPS (adj.)	0.25	0.28	0.35	0.45
P/E (adj.)	47.5	35.5	28.9	22.3
P/B	11.5	8.9	7.8	6.6
Dividend yield-%	1.5 %	1.8 %	2.2 %	2.9 %
EV/EBIT (adj.)	37.4	29.3	23.7	18.2
EV/EBITDA	19.9	14.5	12.7	10.9
EV/S	6.7	4.7	4.0	3.5

Source: Inderes

Guidance (Unchanged)

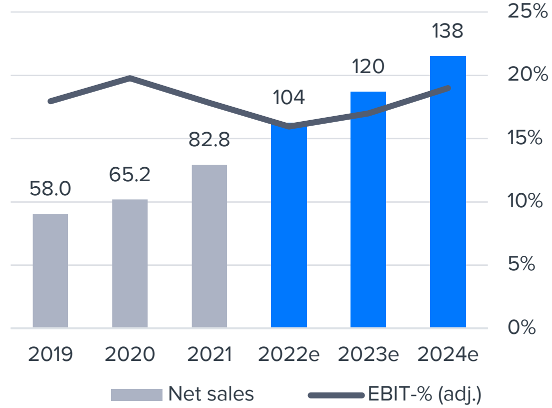
Talenom expects 2022 net sales to be EUR 100-110 million and operating profit to be EUR 15-18 million.

Share price



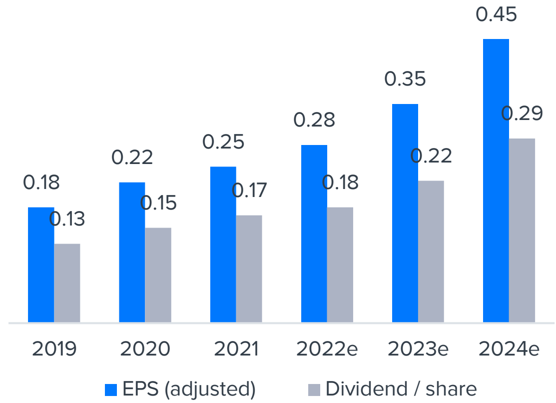
Source: Thomson Reuters

Net sales and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes

Value drivers

- We forecast that the company's earnings growth will be over 20% per year on average over the next few years
- Clear competitive advantages will continue to contribute to increasing market share
- Strengthening Sweden's market position and international expansion
- Fragmented market is facing transfomation, which opens up new opportunities
- Business model that utilizes economies of scale will be strengthened with growth
- TiliJaska small customer concept
- Expansion in Spain and elsewhere in Europe

Risk factors

- Failure in improving Sweden's profitability
- Failure in internationalization
- Disappointing results and decline of acceptable valuation factors
- The competitive edge lies in technology, which is generally fast-developing
- Potential drop in customer retention
- Potential competition in digital financial management
- Transformation can bring new challenges to the industry

Valuation	2022e	2023e	2024e
Share price	9.99	9.99	9.99
Number of shares, millions	44.7	44.9	44.9
Market cap	446	448	448
EV	485	483	476
P/E (adj.)	35.5	28.9	22.3
P/E	35.5	28.9	22.3
P/FCF	57.9	34.3	24.2
P/B	8.9	7.8	6.6
P/S	4.3	3.7	3.3
EV/Sales	4.7	4.0	3.5
EV/EBITDA	14.5	12.7	10.9
EV/EBIT (adj.)	29.3	23.7	18.2
Payout ratio (%)	65.0 %	65.0 %	65.0 %
Dividend yield-%	1.8 %	2.2 %	2.9 %

Source: Inderes

Contents

Talenom in brief

Talenom is a strongly growing and digitalizing accounting company with a strong technological competitive advantage in a fragmented industry.

1972
Year of establishment

2015
IPO

+16.3% **2005-2021**
Long-term growth (CAGR-%)

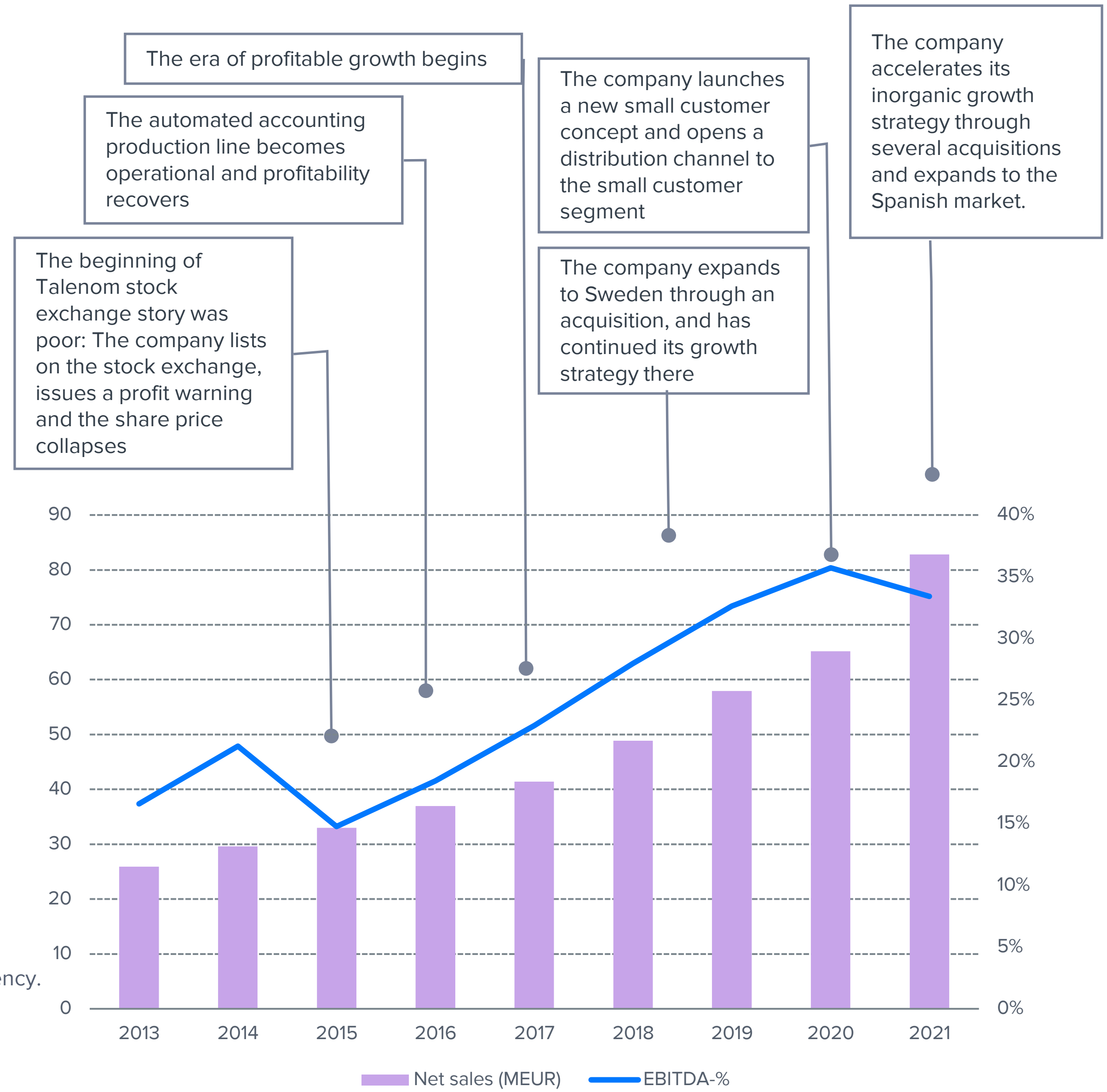
83 MEUR **(+27´% vs. 2020)**
Net sales 2021

14.8 MEUR **(17.8% of net sales)**
Operating profit 2021

~6%
Talenom's market share in Finland (Inderes 2021 estimate)

Technological competitive advantage

A highly automated accounting production line that reduces routine tasks for accountants significantly and improves efficiency.



Source: Inderes

Company description and business model 1/2

Company description

Talenom is one of the largest accounting firms and financial support services providers in Finland. The company has focused on being a partner for especially SMEs, providing them with a much wider range of services than regulatory accounting, including comprehensive professional services as well as financial and banking services. In recent years, the company has also expanded its offering to the small customer segment. The business idea is to make daily life easier for entrepreneurs with easy-to-use digital tools on the market and highly automated services. The company's vision is to provide superior accounting and banking services for SMEs. In 2021, Talenom had an average of 1,012 employees in Finland, Sweden and Spain at a total of 52 locations.

Talenom that has one of the largest market shares in the industry with about 6% of the fragmented Finnish market. In Sweden too, Talenom is already among the big players in the industry. The company is very growth-oriented and challenges its competitors with active sales in the industry that is going through a transformation. The company is seeking efficiency in accounting routines especially through a highly automated accounting production line. In addition to traditional accounting services, Talenom also aims to expand its offering to value-added services and support services for entrepreneurs. This is how the company aims to differentiate itself from competitors and to strengthen its competitive edge.

Accounting services

Talenom's key accounting services are bookkeeping, financial statements, reporting, payroll management, invoicing services and internal accounting. In practice, the company offers all the typical services for the industry. Talenom offers a different accounting solution depending on the customer segment based on the size of the customer and the scope of service requirements. In recent years, the company has developed TiliJaska freemium concept that's especially aimed for small customers, which is growing strongly.

Talenom's service range is wider than traditional

Talenom's business model enables the focus on value-added services in financial management and the company has sought to expand its offering to advisory services, such as tax and legal services. Accountants' time can be increasingly targeted at consultative work as routine tasks have been efficiently automated. This creates significant additional earnings opportunities for both accountants (job satisfaction) and Talenom.

In small and medium-sized enterprises, financial management is often left in the hands of entrepreneurs. Thus, additional services can be very desirable so that entrepreneurs can focus on business rather than financial management. We believe that this makes Talenom's strong market position in this sector even more valuable. In the largest companies with their own financial management and professionals, the most important thing is generally cost-efficiency. Small accounting firms are unable to provide similar services and there are other major differences in the offering of accounting firms. In our view, the importance of additional services will be significantly enhanced in the future, as statutory routines will be automated.

Change in the accounting services market

Before and usually still

- The accountant is a local small company with its own customer base, but no major growth ambitions
- High level of personal dependence (customer relations)
- Accounting is done with external software (Accountor and Visma), limited own investments
- Competition is limited and local, the market is highly fragmented
- The accounting services market has grown historically by ~5%, about half of which has come from price increases

Now and in the future

- Much of the routine accounting tasks can be automated, but this is still rare
- In our view, the added value of accounting firms is moving toward consultative work, with emphasis on the accountant's expertise
- Growth in the industry will continue despite the transformation, but is likely to slow down from the historical level (our estimate: 2-4% in the coming years)
- The future growth of the industry depends on the success of accounting firms in expanding services
- Although the number of operators is likely to remain high (now >4,100 accounting firms), the share of major players is increasing
- The industry has been and will be very defensive in our estimate

Company description and business model 2/2

High-level automation delivers efficiency

Talenom now provides service in nine industry-specialized teams. Thus, the customer gains more deep expertise from their personal accountant, the location doesn’t matter, and the service can be produced remotely. Each unit provides local customers with local service, and depending on the industry, remote services can be provided to other customers. In addition, the company has large service centers in Oulu and Tampere. All of this is based on an accounting production line, with an automation rate of over 75%.

Talenom's bookkeeping is completely electronic and tedious paperwork has been left behind with digital transformation. Customers can use paper documents that the company scans when needed, but this is already relatively rare. The company has been able to automate more and more routine accounting tasks, freeing up human resources for additional services that require higher levels of competence. Moreover, Talenom hasn’t had to recruit accountants, which is generally quite challenging. This supports profitability scaling up with growth.

The automated production line will be further developed through e.g., machine learning and robotics. The company's efficiency will likely improve further as the increasing volumes offer the company economies of scale. For competitors, a technological level adjustment is possible for larger competitors, but it’s almost impossible for some 4,100 small accounting firms in Finland (aggregate market share > 65%). As these are customers of Accountor and Visma, they have no significant incentive to fully automate accounting tasks. Talenom is a rare player in the industry because it can credibly combine its own software technology with accounting services. With this hybrid strategy, the company also stands out from software-focused companies.

Talenom has a broad customer base

According to our estimates, Talenom has over 15,000 customers, which are distributed fairly evenly across different industries. Therefore, the company isn’t dependent on the success of a particular sector. To our understanding, the main customer sectors are industry, construction and retail. Our view is that the ten largest customers account for less than 5% of the company's net sales, so the loss of a single customer has no major impact on the company.

We see a broad, diversified and well-maintained customer base as a clear strength for Talenom. It gives the company good business continuity and transparency. Talenom's ability to attract new customers speaks volumes about the company's competitiveness and the performance of its business model, which is visible in net sales growth. To date, we don’t believe that the company has been able to increase the average invoicing per customer, mainly because new customers are getting smaller and start with a significantly lower invoicing level. The average invoicing of old customers is still on the rise.

Strengths and weaknesses of the company

Strengths and opportunities

- Highly efficient and highly automated accounting process, enabling the company's software expertise and business model
- Profitability scales up as the increase in accounting volumes doesn’t require new recruitment from the company
- Excellent position in the industry's transformation with Talenom being one of the winners in our view
- By increasing the market share, the company's economies of scale continue to strengthen
- The franchising model has proved to work and enables strengthening the market position in smaller cities
- Significant growth opportunities in consulting and other additional services in which the company invests
- Significant growth opportunities internationally if the company proves the viability of its model abroad

Weaknesses and threats

- Growth requires expensive investments
- Talenom's competitive edge is heavily based on technology, which is developing rapidly (also outside the company)
- Possible decline in customer retention if the company fails in customer service (this risk may be lower in the traditional industry model)
- Potential competition in digital financial management
- In the long term, performing routine accounting tasks are subject to price pressure (general risk for the industry);

Talenom's strategy and business model

Digital marketing	Organic growth: ~100 person sales and deployment team	Acquisitions

New market
small companies, light entrepreneurs

Talenom's core market:
Finnish SMEs (net sales EUR 0.4-2 million)

Expansion in Europe:
Sweden & Spain have been opened

Small customer concept

Large-scale accounting services
Hybrid strategy combines software and service

International growth strategy

TiliJaska concept

- Streamlined version developed on top of automated production line technology
- Multi-level service package with different pricing options
- At lower levels, the only manual work is in practice (chargeable) advising
- Highly scalable
- Potential spearhead for international markets

Automated production line

- Accounting centralized: Automated production line and service centers in Oulu and Tampere
- Digital material
- Automating routine tasks increases efficiency and frees up time for accountants
- Own team of ~50 software developers
- Also partially utilizes external commercial software
- Automation level of accounting is now >75%, with the target of reaching >90% in 2023

Service processes

- Automation is far from complete: Not useful in rarely repeated events
- Industry-specialized teams
- Refining processes and making the best use of technology
- Exceptional situations and repairs
- Personal service doesn't scale, but software significantly increases performance

Systematic growth model

- 1. Studying target country
- 2. Acquisition of a bridgehead (acquisition)
- 3. Growth through acquisitions and software localization or expansion with the freemium concept
- 4. Own technology and service (concept duplication)
- Sweden is in stage three and Spain is in stage two/three

Banking services
(payment cards and accounts)

Digital services
(Financial services, monitoring, etc.)

Support and care services
(From an accountant to a consultant)

Additional services
(e.g. legal services)

Source: Inderes

Investment profile

Talenom belongs to the compounder category

We believe that Talenom is one of the relatively few companies on Nasdaq Helsinki, which clearly belongs to the compounder category. The company already has a long track-record of profitable growth and all the conditions for continuing this long-term. We believe that the company has both a clear competitive advantage ("a moat") and attractive investment opportunities, which enable the company to keep the return on capital at a very high level. Of course, the fact that much of the potential is now outside the previous core business (the Finnish SME sector) increases uncertainty. In our view, the company's long-term investment story is still one of the most attractive ones on Nasdaq Helsinki.

Talenom has a strong position in the growing, defensive and rapidly changing accounting industry. In our assessment, Talenom is among the future winners of the industry. We believe that at the heart of Talenom's growth story is the fact that the company takes advantage of its technological competitive advantage (automated production line and service center model) more and more efficiently and in a larger scale. In practice, the company's growth is strengthening its already strong competitive advantage and resources for new investments.

In addition, the story is supported by new opportunities, the most important of which are the new internationalization strategy and the small customer concept. We consider both positive, but uncertainty is much higher than in Talenom's steadily moving core business.

Risk profile remains moderate, even though internationalization projects elevate it

The risk profile of Talenom's business is low, which enables the company to use debt leverage with confidence, thereby increasing the return on equity. As regards the core business, we believe that the company's risk profile is one of the lowest on Nasdaq Helsinki, although in the longer term, the industry's transformation may come with discontinuity.

However, the company's growing investments in international growth elevate the risk profile. The company's success in Sweden, and especially in continental Europe, comes with much more uncertainty than in Finland. At this stage, the company has no track-record of its new digital internationalization strategy. The success of the small customer concept also remains a question mark in Finland, and Talenom's increased activity in the acquisition market also increases risks. We believe that these factors will significantly elevate Talenom risk profile.

Talenom's share price has fallen by about 40% from its peak. We believe that the greatest valuation risk has already materialized, even though the present valuation still contains expectations of strong earnings growth. However, the general decline in the valuation of growth companies could still be reflected in the share, especially if cracks were to appear in the company's earnings growth outlook. However, we are very confident that the earnings growth will materialize and thus believe that the greatest valuation risk has clearly decreased over the last year.

SWOT analysis of the investment target

Strengths	Weaknesses
• Good visibility on the core business • Good customer retention • Deep moats through technology • High profitability and very good returns on capital • Strong track record	• Uncertainty related to expansion to new areas • Organic growth is relatively expensive • Risks associated with acquisitions • Technological risks • Reputation risks
• Defensive and growing industry • New market segment offered by the small customer concept • New growth opportunities in Sweden and Europe • Industry consolidation	• Valuation of the share includes assumptions about future earnings growth • Success in managing growth • Surprising turn in the industry's transition • Tighter competition
Opportunities	**Threats**

Investment profile

1. **Strong growth, which also strengthens the company's economies of scale**
2. **Profitability scaling up gradually as automation progresses**
3. **Very strong position in Finland in a truly defensive market**
4. **Possibilities of the small customer concept and international growth**
5. **Generally reasonable risk profile**

Potential

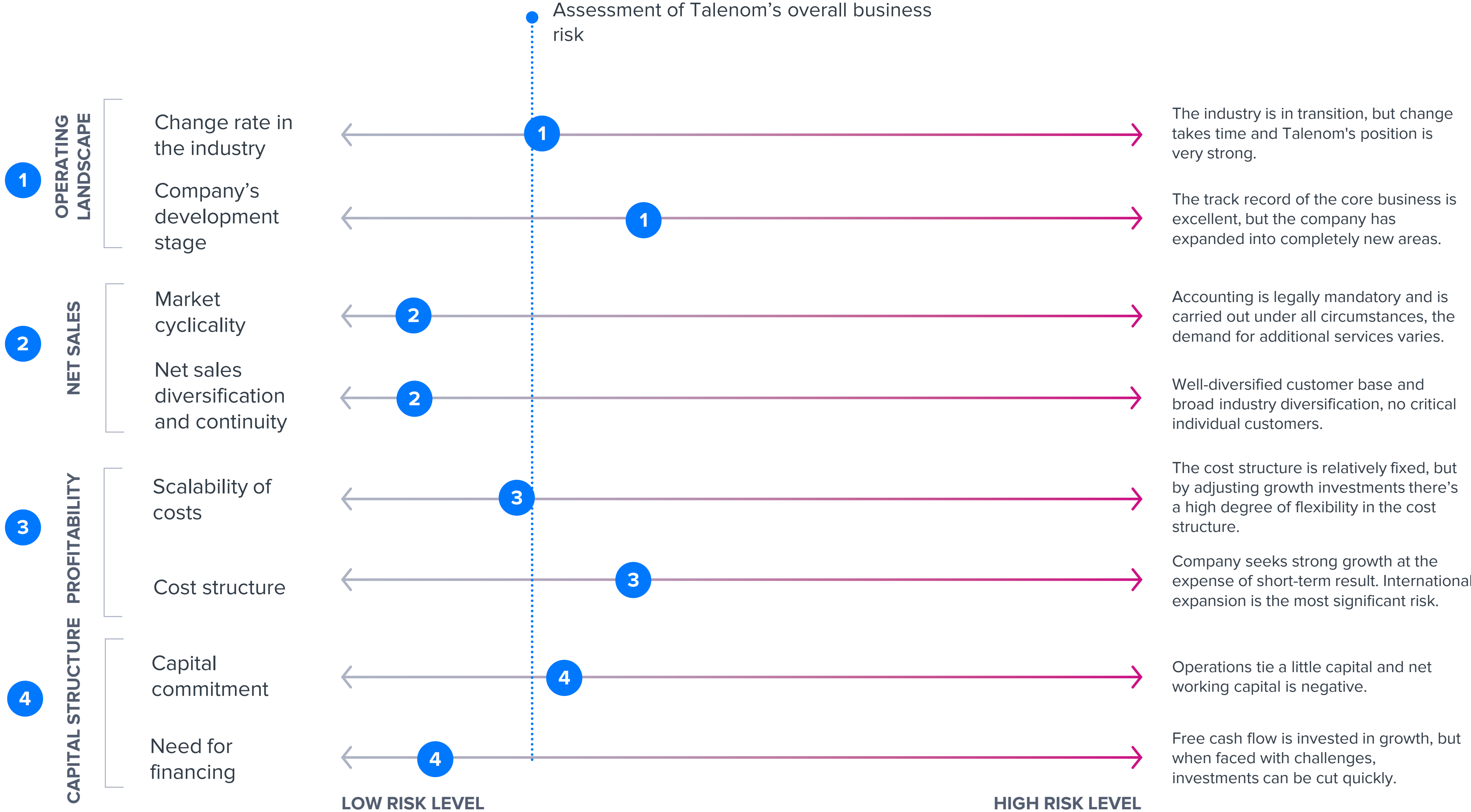
- Strong organic growth continues thanks to clear competitive advantages with acquisitions supporting growth
- Very well-positioned in the industry's transition, which is accelerated by digital transformation and automation
- Profitability is scaled up relatively well by the automated accounting line
- Talenom's competitive advantages are strengthened with scale
- Potential success of the small customer concept both in Finland and internationally

Risks

- Risks associated with expanding to new areas: Failure in internationalization or acquisitions
- Competitive situation is becoming more tense, and the transition potentially attracts new challengers
- In the long term, possible price erosion in the industry
- Any earnings disappointments and the general weak sentiment about growth companies and its negative impact on the acceptable valuation of the share

Source: Inderes

Risk profile of the business model



Source: Inderes

Industry 1/5

A growing and defensive market

The Finnish market for accounting and financial reporting services was around EUR 1.2 billion in 2020. Based on the size class of accounting firm customers, the market is mainly composed of micro, small and medium-sized companies. In large enterprises, financial management is still largely an internal activity, but the outsourcing trend is progressing gradually. If the value of the financial management work carried out by customers themselves and the financial management work of non-outsourced companies were considered when defining the market, the market size would be considerably higher than the current definition.

The market is very defensive. Companies are legally obliged to keep their accounts, so the need remains as long as the tax man wishes to have his cut. In addition, a strong trust is typically formed between accountants and their customers, which makes customer retention in the industry very high. This defensiveness is well illustrated by the fact that the industry has overcome the financial crisis and the euro crisis without a decrease in turnover. In the context of the COVID pandemic in 2020, the sector's turnover fell by just under 3% year-on-year, but we estimate that it has recovered rapidly. Defensiveness and high customer retention make a strong market position very valuable in the industry.

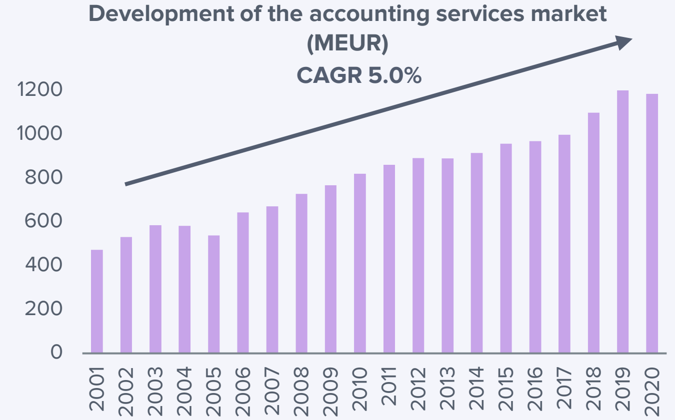
According to Statistics Finland, net sales in accounting and financial reporting services has grown by an average of 5.0% in 2001-2020. We expect the Finnish market to grow by about 3-4% p.a. in the long term, and we believe that the big picture is the same in Sweden.

Growth drivers are changing

Historically, the stability and continuity of growth were largely explained by price increases, which we estimate to have accounted for about half of the growth in the market. However, the electrification of accounting and digitalization have made the competition tighter, making it more difficult to pull off significant price increases in recent years. Accounting firms have been strongly linked to the development of the number of accountants and salaries. However, according to our estimates, this linkage is breaking as digitization and automation clearly enhance the routine tasks of accountants.

The other half of the growth comes from the increase in transaction volumes, which correlates with economic activity. The economy picking up or weakening is typically reflected in transaction volumes after about six months. A temporary fall in transaction volumes was seen due to the COVID pandemic in 2020, which was visible in the industry figures. However, the market rapidly bounced back from this, and no longer-term effects have been identified.

In our estimate, sales of additional services to complement traditional accounting and more widespread financial management outsourcing to accounting firms are the main growth drivers for the industry in the coming years. Companies are outsourcing their support functions (e.g. IT) more and more when focusing on their core business, so outsourcing financial management would be a natural step in this process. For accounting firms, this would mean a growing demand for controller, finance manager and HR specialist services.



Sources: Statistics Finland, Association of Finnish Accounting Firms

Industry 2/5

The industry is undergoing a major transformation

The accounting industry is facing a major transformation driven by digitalization, growing importance of service offering and consulting, legislative changes, and entrepreneurs retiring. Even though one could assume that electrification of accounting transactions is already the prevailing practice, paper documents are still part of everyday life in many accounting firms. In recent years, development toward electronic and more efficient handling has progressed on a broad front in the sector and are bound to become more common driven by digital transformation. Electrification will change the services, processes, skill needs and division of labor in different accounts. We believe that the role of the traditional accountant will lose some value, but the work of consultants becomes more important. This will free up resources to provide value-added services. However, it's worth remembering that a professional and personal service cannot be replaced by automation. The customer/accounting firm relationship is traditionally close and personal service is of great importance, which also explains the small customer turnover in the industry.

The vast majority of small and local accounting firms are mainly concerned with keeping their existing accounts. For many of these players, technological development is a major challenge, and they might lack the necessary resources to promote competition or challenge other accounting firms. In contrast, the largest players in the industry can provide of electronic services and want to expand their operations in the transition. The electrification of services and the development of financial management software have been rapid in recent years, which has enabled early adopters to become more competitive.

Highly fragmented market

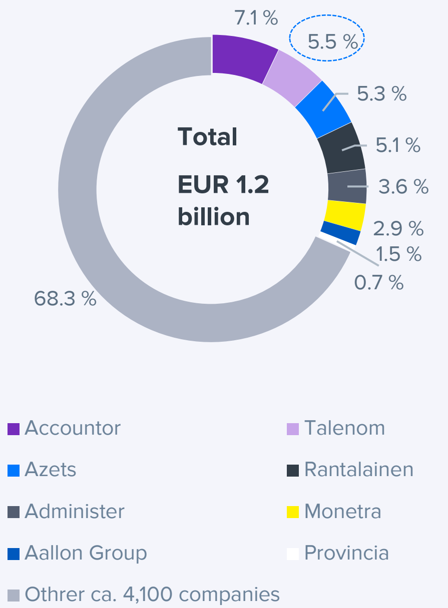
The industry structure is fragmented because being close to your accountant has been a major competitive factor and thus the sector has been characterized by locality. According to Statistics Finland, the market comprised 4,110 accounting firms in 2020 and the average company had just three employees. Our assessment is that the industry will continue to drive many small businesses to the wall, as they don't have sufficient resources to develop their own IT systems. Although the number of operators doesn't necessarily decrease significantly, we estimate that an increasing share of the market will be concentrated to large operators.

Key players in the industry are Accountor, Talenom, Rantalainen, Administer, Azets, and Aallon Group, as well as Monetra and Provincia that concentrate on the public sector. Talenom is competing in roughly the same size class as Accountor, Rantalainen, Administer and Azets (the public sector is not relevant). These companies have scale, resources and, at least in relative terms, a high level of technological competitiveness.

The industry is gradually consolidating

According to our estimates, only about 32% of the market was held by the eight largest operators in the sector in 2020. Thus, the vast majority of the market remains with small local companies. Not all companies have the resources to meet the challenges that the transition in the industry brings, which is why we expect consolidation to accelerate in the coming years. Accounting firm entrepreneurs retiring is also one of the factors contributing to the consolidation of the sector. In addition, Accountor's decision to discontinue Tikon accounting software after the financial statement period of 2021 can accelerate consolidation.

Estimate of the market shares of accounting firms in Finland in 2020 (%)



Source: Companies' financial statements and websites, Inderes

Industry 3/5

Moving away from Tikon will force many to switch the key software used for work and think about future choices. Talenom's ecosystem will be a relevant option. We believe that this is one of the reasons why Talenom has become more active in acquisitions.

The importance of economies of scale is emphasized

Unlike in history, today's business models receive significant support from scale. Economies of scale support the profitability of automated accounting firms and professional services. Economies of scale in automation enable very strong profitability in the core business and also a growing price competition if automation becomes more common and at some point, imposes a so-called "limit price". In 10 years' time, Talenom estimates that no substantial fees will be paid for the basic accounting tasks because they have been fully automated. In professional services, economies of scale are limited to human resources, but can still be significant for overall competition. Furthermore, economies of scale can be achieved in sales and marketing.

The industry's transformation and fragmentation turn the accounting services market into a growth market for larger operators for the next 5-15 years. The transformation pressures are challenging the industry and leave small accounting firms in particular with a decision: Leave the market, specialize or diversify. It's relatively easy to predict who are going to be the winners. According to our estimates, Talenom and Accountor, who have invested heavily in software development will be among them for sure. In addition, other larger accounting firms such as Azets, Rantalainen, Administer and Aallon Group, all of which also have their own software development, are notable challengers.

Competition in the sector remains rather limited

In the accounting services market, competition for customers has practically always been limited. In practice, Talenom has been the only company to have active, large-scale new sales for a long time. Most small companies have focused on protecting their own "territory" and other major players have mainly invested in acquisitions.

Thus, we estimate that the large number of operators in the industry is maintained by the lack of competition or its regional nature. Finnish corporate customers are still used to meeting their accountants face-to-face, making competition regional. Competition may also be restricted due to the still conservative practices and habits of the industry. The small size of accounting firms and the fragmentation of the industry also reflect the small size of the companies' target market. However, small companies' ability to consolidate the industry is weak, and smaller companies in small towns aren't necessarily very attractive acquisition targets to larger operators.

Seasonal variation around financial statements

There has been a clear seasonal variation in the accounting business. The preparation and closure of financial statements create a regular demand spike for December-March. This underscores the first quarter's share of invoicing and profitability. Q2 is also usually strong. This is also reflected in the formation of Talenom's net sales and profit, although the biggest differences have been leveled out in the last few years.

Summary of the accounting firm sector

- According to our estimates, the accounting industry will grow by about 3-4% p.a in the next few years.
- The industry is highly fragmented
- The majority of net sales are continuous/recurring
- One of the most defensive sectors on Nasdaq Helsinki, as accounting is a legal obligation for all companies
- Competition is peaceful and regional, investments in new customer acquisition are generally low
- Price competition remains relatively moderate
- Customer relationships are normally very long and churn is often due to an acquisition or bankruptcy
- Due to defensiveness, growth and healthy profitability, a strong market position in the industry is very valuable
- In our view, the role of consulting services will increase in the coming years as routine accounting tasks are automated
- More widespread outsourcing of financial management to accounting offices offers a potential growth driver for the industry
- Our estimate is that the importance of economies of scale will be emphasized as automation progresses in the future
- We estimate that the value of the industry will be concentrated in large companies, although the number of companies in the industry may remain high

Industry and competitive landscape in Finland

Common factors for winners:
- Strong IT systems
- Past investments in electrification and digital transformation
- Sufficient size for continuous development
- Business model that utlizes economies of scale

Winners

accountor TALENOM

Common factors for challengers:
- Very competitive companies to date
- Sufficient size class for own development
- Appetite for acquisitions high
- Opportunities for growth or decline in categories

Challengers

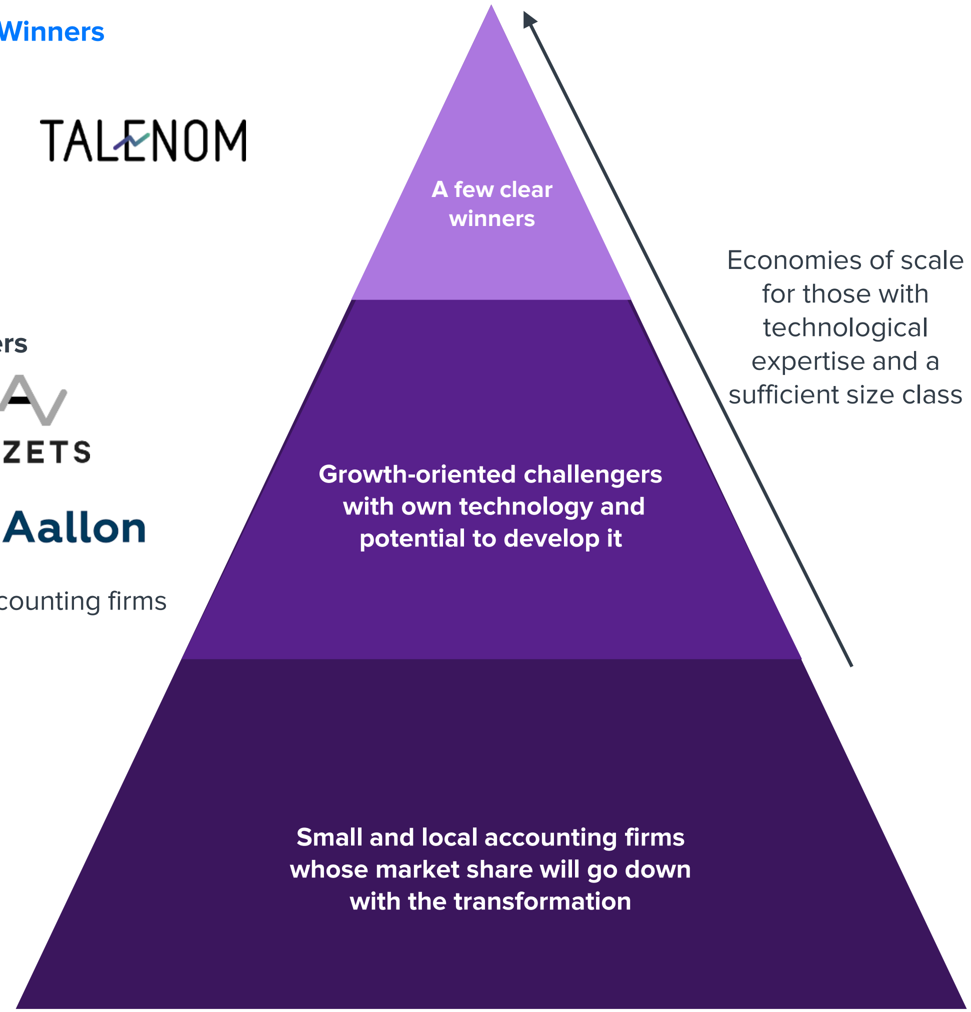
RANTALAINEN AZETS ADMINISTER Aallon

+ a few other large accounting firms

Common factors for losers:
- Mostly small or regional accounting firms
- No resources for independent software development
- Difficult position when value is more focused on software
- Strongly entrepreneur-driven and dependent on personal relationships

Losers

Most of the current ca. 4,100 small accounting firms



Industry 4/5

Swedish accounting services market

Talenom expanded to Sweden with the Wakers acquisition in 2019 and the business has grown through several acquisitions, especially during 2021. Sweden's net sales in 2021 were EUR 10.7 million, representing over 10% of the total net sales of Talenom. We believe that Sweden is critical to Talenom's internationalization strategy, so investors should familiarize themselves with the market.

The Swedish accounting services market is about EUR 2 billion, which is almost twice the size of the Finnish market. To our understanding, the Swedish market is growing at roughly the same rate as Finland (3-4% forecast p.a.). There are more than 20,000 accounting firms, but a significant proportion of them are parties making forest tax returns as a secondary activity. The number of professional firms is estimated to be around 7,000 of which ca. 900 also do auditing. In Sweden, a significant part of the accounting business is carried out by auditing firms, which are called 'kombi-byrå'. In practice, this means a firm that combines accounting and auditing functions. These include EY, BDO, Mazars and Grant Thornton.

To our understanding, there are only two large accounting firm in Sweden: Aspia and Ludvig & Co. Aspia has about 1,200 employees and 55 offices around Sweden (also present in Finland, Norway and Denmark). Similarly, Ludvig has about 1,300 employees in a total of about 130 locations. Both are large in scale, but we believe that the companies' own technological level isn't exceptional. In our opinion, Aspia's system relies on Fortnox and similarly Ludvig bought Bokoredo, which hasn't led to a clear competitive advantage. Of the Finnish competitors Azets and Accountor also have significant operations in Sweden. PE Accounting and ECIT are also worth mentioning, latter of which was listed in 2021 and ended up in Talenom's peer group. Talenom is already among the ten largest companies in the industry with its current business, due to the limited number of large players.

An interesting market

In general, Sweden lags Finland in the development of the accounting industry, e.g., in terms of digitalization, but the level is very good in a European comparison. Sweden has interesting software companies in the sector, such as Fortnox, which has been very successful. It's a pure software company that uses accounting firms as distribution channels, just like e.g., Accountor does. However, Fortnox doesn't have its own service network. Even still, the structure and dynamics of the Swedish market seem good for Talenom. Sweden's pricing dynamics are similar to those in Finland, although both prices and wages are higher.

The Swedish accounting services market is rather fragmented, but according to the company consolidation in the industry has clearly accelerated in recent years. Development is driven by local medium-sized accounting firms. In addition, other Finnish accounting firms are also seeking to expand to the Swedish market, such as the recently listed Administer.

Swedish market in brief

- The market size is about EUR 2 billion, which is about double the Finnish market.
- The number of professional accounting firms is about 7,000, so the market is highly fragmented, like in Finland
- The largest companies in Sweden are Aspia and Ludwig & Co.
- Of jnotable Finnish competitors Azets and Accountor also have significant operations in Sweden
- Despite the business being small in Sweden, Talenom is among the ten largest companies in the industry
- In general, Sweden lags Finland in the development of the accounting industry, e.g., in terms of digitalization, but the level is very good in a European comparison.
- However, Sweden also has very successful software companies such as Fortnox

Industry 5/5

Overview of the Spanish market

The expansion of Talenom to continental Europe started in Spain, where the company made a small acquisition in July 2021. The Spanish accounting services market is about ten times that of Finland, i.e., around EUR 10 billion. There are more than 65,000 accounting firms and 3 million companies in the country. Thus, market size won't limit the growth potential. The digital transformation of the Spanish accounting services market is far behind in the development of Finland and Sweden. However, now the market transformation and the electrification of accounting is driven by, e.g., the new e-invoicing requirements of the tax administration.

With its 2021 financial report, Talenom announced that it had launched a market investigation into the utilization of "the most scalable product possible" in the Spanish market and said it had started developing a digital sales channel. We believe that the aim is to create the least light application-based solution that interested companies can deploy with minimal effort. The application is free for users and Talenom aims primarily to maximize the number of users.

The earnings logic is based on the fact that (not even close to all) customers don't want to do bookkeeping, financial statements or tax returns themselves. Thus, Talenom gets close to customer and can provide services that easily solve these problems. The idea has been tested in the small customer segment in Finland, where traditional sales work isn't cost-effecient due to the small average size of customers. By applying this strategy, we also see expanding to new countries as a sensible option, because the required investments are considerably smaller.

The European accounting sector is clearly lagging Finland in digitalization

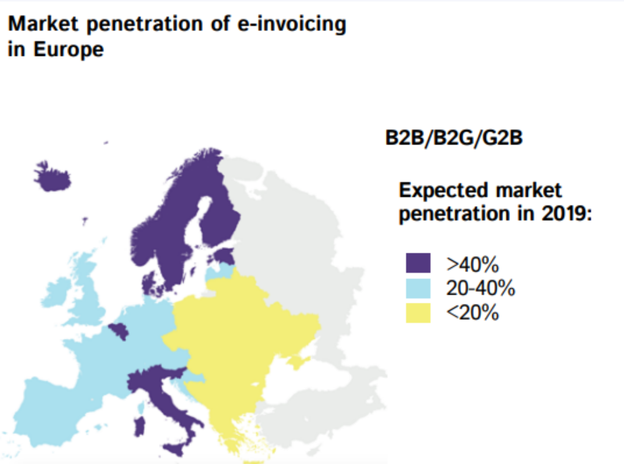
Talenom has openly stated that it wants to expand its business to other European countries too, with the above-described model. In general, Central Europe is lagging significantly behind Finland in digital transformation, including in the accounting industry. In Europe, the 'standard' of accounting firms remains highly paper-based, but it's clear that change is also imminent in Europe.

The market dynamics in Europe seem to be very favorable to Talenom in other ways too. There is a huge number of micro and small companies in Europe that are served by myriad individual consultants and small accounting firms. The market is also highly fragmented and is dominated by small accounting firms, which from Talenom's point of view using operate with old working methods and, in our estimate, without significant technological developments of their own.

There are about 17 million companies in Europe with fewer than 250 employees. In other words, the market has enormous potential, but finding the right solution for different markets with limited resources is challenging. We consider the current light and scalable approach to be a good opportunity to test expansion to different markets with limited risks. In our opinion, expansion to Europe is an important opportunity for Talenom in the long term and the risk/return ratio of the company's strategy seems good. The internationalization strategy will be discussed in more detail in the Strategy section.

Talenom's observations on Europe:

- Legislation has developed over hundreds of years into its current rather complex form -> need for expertise is permanent
- Weak economic growth is the driving force in efficiency projects
- Share of SMEs of GDP is significant (+50%)
- Fragmented accounting services market –> limited investment capacity
- Traditional working methods -> strong need for investment
- Lack of skilled professionals -> optimizing workload by networking and subcontracting



Source: Billentis 2019

Source: Talenom's 2020 Capital Markets Day presentation

Strategy 1/3

Core of the strategy was presented in 2020

Talenom announced the main features of its strategy at its Capital Markets Day in November 2020. The company's vision is to provide superior accounting and banking services for SMEs. With the updated growth strategy, the target market expanded to small customers in addition to medium-sized SMEs. At the same time, Talenom expanded its strategic goal to exporting its expertise to new markets in Europe and growing through acquisitions. Since then, the strategy has been adjusted slightly and we believe that the internationalization strategy in particular has been sensibly finetuned.

In the future, the company will be able to expand to new markets with a light and highly scalable application-based platform that would be easy and fast to deploy in new countries. The company is testing the market and a new digital marketing channel on the Spanish market, after which the concept can be tested in new markets with relatively low risks. We will see initial results this year already.

In recent years, Talenom that previously invested heavily in organic growth has accelerated growth strongly through acquisitions both in Finland and abroad. This is reflected in a very strong net sales growth in 2021 and 2022.

1. Improving automation and economies of scale

The competitive advantage of Talenom's account production line is very clear, which is already visible in the excellent profitability of Talenom's core business. The benefits of automation also grow with the volumes, which ultimately enables profitability to be scaled up with growth. However, sometimes significant growth invesments weigh on profitability.

The company's focus has been on improving process efficiency in 2019 and 2020, where clear benefits have been achieved. Now the focus has shifted again to the development of automation. According to Talenom, the automation rate of the accounting production line in H1'21 was 75% and the automation rate for payroll was 50% (H1'20: 68% / 0%). At the end of 2021, the company already reached a level of over 85% in payroll automation. In the long term, the company's goal is to achieve a 95% automation rate in both, but the actual time targets haven't been announced.

With regard to accounting process automation, Talenom is slowly moving toward full automation of routine tasks and investments will continue in the future. Costs related to this have been front-loaded. We estimate that the company has invested over EUR 30 million in developing its own IT systems over the past five years. Investments in software and digital services were at a new peak level of EUR 11.6 million in 2021 (2020: 10.1 MEUR), and we estimate that they will remain at this level in the foreseeable future. Our view is that investments will further strengthen Talenom's competitive edge, but in the coming years investments will weigh on the company's earnings due to growing depreciation.

The higher the number of different repetitive operations, the greater the benefits of automation. Thus, growth in customer and document volumes also constantly supports technological development. This makes the company's growth particularly attractive, as scaling up also strengthens the technological competitive edge.

2. Improving customer service

The second cornerstone of Talenom's hybrid strategy is the quality of service (in addition to technology). The company's objective is to provide a superior customer experience, which the company aims to achieve through a seamless co-operation of technology and service. According to the company, a superior customer experience is created by combining a digital user experience with high-quality active service. Simultaneously, the time that automation frees up from actual accounting has been channeled into customer encounters, and the proactive contacts of experts have increased manifold. According to Talenom, the satisfaction with the customer's own expert is higher than ever (Q4'21 NPS in Finland: 65 vs. Q4'20 NPS: 51), which further improves customer retention.

At the same time, a significant opportunity for consulting services is opened up, which is based on selling the freed up time of existing accountants. The extra income from this is expected to be distributed between the accountant (higher salary) and Talenom. Talenom will not incur any new fixed costs, which makes the opportunity particularly attractive. In our view, the role of various consulting services will grow in the coming years as more and more routine accounting tasks are automated and a sufficient number of accountants are trained.

Strategy 2/3

3. Organic and inorganic growth

Talenom's growth strategy is based on organic growth, which the company accelerates through acquisitions. The role of acquisitions has grown significantly in recent years, as the company's own processes and technologies have evolved and the benefits from these are much greater than before. The industry is undergoing a strong transformation driven by digitalization, which means that small accounting firms in particular must rethink their software strategy. This opens up opportunities for Talenom. In addition, the core business now produces strong cash flow, which the company can continuously allocate to acquisitions. In 2021, about 2/3 of the growth was organic.

Talenom's strength in M&A has been the fact that it has been able to increase the profitability of the target company heavily by bringing its automated accounting system and efficient operating processes to the company. Talenom's objective is to increase the profitability of the acquisition targets in about three years to the profitability level of Talenom's own business, which may mean an improvement of up to 20 percentage points. In history, the company has been successful in improving profitability, but so far, the track-record is only from the Finnish business. In Sweden, Talenom has said that the three-year window is realistic when the company's own localized system has been implemented in Sweden (partly fall of 2022).

Talenom continues to invest heavily in organic growth and has a sales organization of about 90 people. Although the company partly capitalizes costs related to customer acquisition, the fixed cost is constantly weighing the company's profitability and the early stages of new accounts are loss-making for Talenom.

In addition, Talenom seeks growth through increasing the quality and range of the offered services, as well as geographical expansion to new cities in Finland and abroad. In Finland, the company is also expanding its franchise network in a business model where the company offers a centralized service center model for entrepreneurs. Franchisees are responsible for acquiring new customers when after the deal the responsibility for the customer is transferred to a service manager and an accountant. In this way, the company has strengthened its position in smaller sites in Finland, where setting up an own office wouldn't be justified due to a limited customer base.

Overall, growth in such a defensive industry with high customer retention is expensive. On one hand, this is a challenge for Talenom in customer acquisition, but on the other one, it makes the market position particularly valuable. The acquisition of customers entails substantial front-loaded costs, the highest of which are the fixed salaries and commissions of the salespeople.

4. Expansion to Europe

The new focus area of Talenom's strategy is the expansion to new markets in Europe. According to the company, there are several very interesting countries in Europe with 1) a huge number of SMEs, 2) traditional financial processes, and 3) fragmented accounting services markets.

Talenom's internationalization process has evolved since the company decided to expand to Sweden, where the company wanted to first grow to a large enough size, after which it sought to localize its technology and integrate its own software in the country. The expansion to Sweden has been a heavy process for the company, where large investments have been needed in acquisitions and the development of the local organization. There are no guarantees that copying the Finnish model works. Only in a few years will we see the efficiency gains of own software and whether they will improve profitability in the same way as in Finland. Considering Talenom's proven ability to improve the efficiency and profitability of the acquired companies in Finland, Sweden is entering a critical phase.

In the context of the 2021 financial statement, Talenom discussed its redefined internationalization angle. In the new process, Talenom aims to expand to new countries with a lighter and more scalable application-based platform solution for small business. In this way, the company aims to attract a large number of new customers to its platform quickly and to sell its own services to some of them. The company will try this kind of model in Spain, where the company currently has only minor operations (through acquisition). The model will allow for significantly lower investments when expanding to a new country, as the service will be marketed mainly through digital channels. At this stage, we consider the new internationalization process as an interesting and low-risk option.

Strategy 3/3

With the favorable structure of the European market, the company's systematic approach to international expansion and the clear process that has been built for it, we are convinced that Talenom's internationalization plan has been carefully thought out and has significant potential. We believe that this is an important opportunity for Talenom in the long term and the risk/return ratio of the company's strategy seems good. At the same time, it's important to note that it will take years to turn a new country into a substantial income stream even in good circumstances. The investor can monitor how the operations are progressing in different countries, as Talenom started reporting country-specific key figures in more detail from Q3'21.

5. Expanding to the small customer field

A significant new business opening is the TiliJaska concept for small customers, with which Talenom expanded not only to a new customer segment but also to banking services. The TiliJaska concept was launched at the Q3'20 event and in April 2021 the service entered production phase and the introduction of bank accounts and cards to customers was started. The purpose of TiliJaska is to provide small customers with a free accounting application, banking services (IBAN accounts and cards) and flexible accounting services according to the customer's needs. As the transaction volumes increase and/or the bookkeeping become more complex, the aim is to raise the service level and hence the income earned. A significant expansion of the target market, easier access to growth companies and further improvement of customer retention are strategically important.

The TiliJaska platform is based on the same technology as the accounting production line. This has reduced development costs and increases synergies. There is a version of TiliJaska for the Swedish market (KontoKalle) and the model can be used when expanding to continental Europe. In recent times, however, Talenom has talked only about an application-based strategy that would be even more scalable. However, the basis is the same as with the TiliJaska concept.

Through the freemium TiliJaska concept, Talenom gets a distribution channel for the small company and light entrepreneur markets, which the company hasn't previously had. For traditional Talenom sales (direct customer meetings), the segment has been too expensive in terms of cost/benefit ratio, which is why traditional sales have focused on companies in the turnover category of about EUR 0.4-10 million. Among small customers, Talenom's position has been relatively weak in the past, despite having some customers.

In other words, TiliJaska offers a new distribution channel to small customers. According to Talenom's estimate, they account for about 40% of the market. At the same time, Talenom also challenges the interesting light entrepreneur field and compete with, e.g., Ukko.fi (in cooperation with Nordea), OP and Eezy of listed companies. Talenom will enter the competition partly through pricing, since it will only take a 2% fee for the invoiced amount (+VAT), whereas we estimate the industry's "standard" to be 5% now. Talenom has yet to start any actual marketing efforts and there is little data so far on the success of the service. Therefore, it's difficult to assess the success of the concept or how significant the earnings driver TiliJaska may be after the "ramp-up phase". In our forecasts, the small customer concept has a small role, and we expect it to accelerate Talenom's net sales growth by just 1-2% this year.

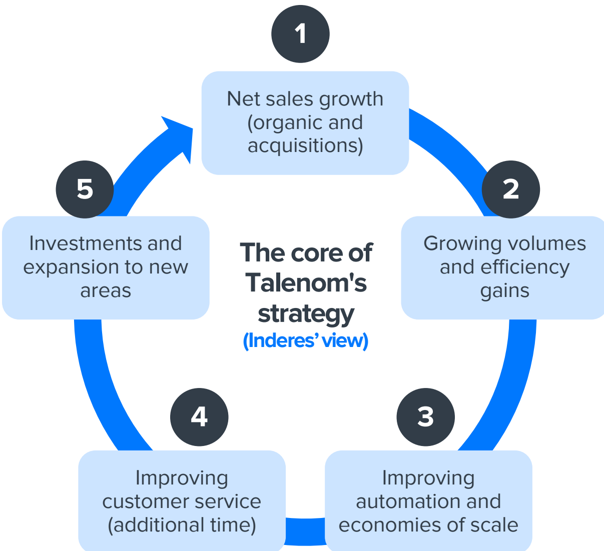
6. Added value for customers from payment and financial services

Talenom aims to add value for its customers and to strengthen its ecosystem and customer retention through its "one-roof" payment and financial services. Account and card services were launched together with TiliJaska. This clearly separates Talenom from traditional accounting firms and can be significant in the small customer segment. Banking services will make the whole package more comprehensive, and the automation of the accounting system can also be further developed. The process has been significantly slowed down by a delay in obtaining Finnish IBAN accounts (an account in Belgium via a partner, PPS).

In addition to payment accounts and cards, Talenom also offers financial services to its customers through its partners. The partners are Arex in invoice financing and Fellow Finance in corporate loans. In financial services, Talenom's strength is that it knows the financial situation of its customers virtually in real time, and thus can better assess credit risks than other players. To our understanding, the volumes of financial services have at least so far remained low. Talenom has been working to better integrate the service into Talenom Online to increase its use.

Summary of strategy

Inderes' view of Talenom's business flywheel



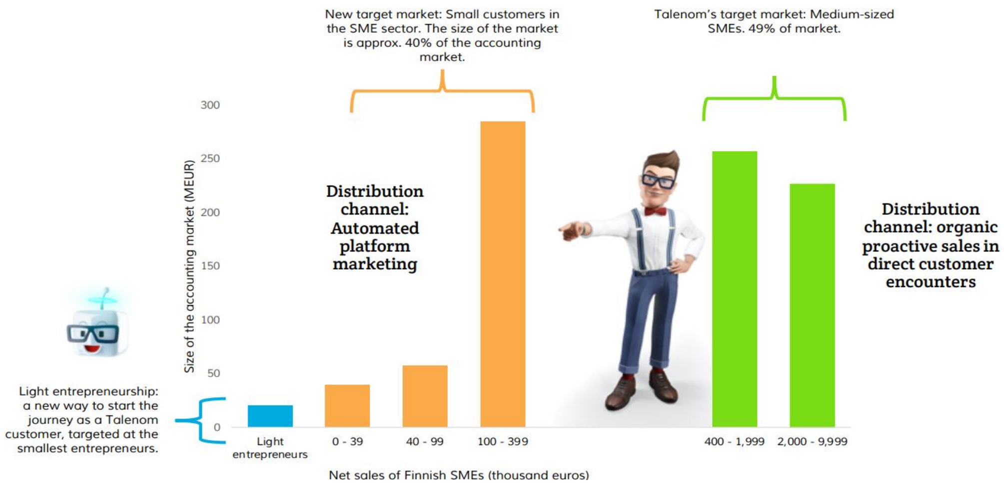
New openings

1. Expanding the distribution channel to the small customer and light entrepreneur segments with the TiliJaska concept

2. Banking services through a partner: Cards and IBAN accounts

3. Seeking international growth from the fragmented European market

A new, concerted effort to enter the market for small customers in the SME sector



Talenom's internationalization process step-by-step

1 Investigation (12 months)
- market analysis
- networking
- infrastructure
- de facto working methods
- exploring M&A options

2 Bridgehead (12 months)
- conceptualization and organic growth
- process efficiency analysis and development of working methods
- systematic development of organization and management

3 Growth and development (24 months)
- growing the sales organization
- acquisitions
- developing sector concepts
- continuous development model
- localization of own software

4 Own technology and service (24 months)
- service as a service
- own technology in vital processes
- strong growth and profitability

The duration of the process is ca. 3.5 to 4.5 years

Source: Talenom (images and markets) / Inderes (reviews)

Historical development and economic situation 1/3

Impressive long-term development

Talenom's strong growth story has been going on for a long time. Between 2005 and 2021 the company's net sales have increased by an average of 16.3% (CAGR) annually. The average growth in the last five years (2017-2021) has been 17.5%. At the same time, Talenom's profitability has been mostly very good, but overall profitability depends heavily on the company's growth rate and investments. In the last six years, profitability has been scaled up beautifully at EBITDA level.

In 2021, EBIT was 33%, going down from a strong 36% level in 2020. The declining profitability was explained by the numerous acquisitions made during the year. The profitability of acquisition targets is generally significantly lower than Talenom's own profitability before integrating its own software and processes. Furthermore, depreciation increases (especially in Sweden) and there are one-off costs related to the acquisitions. However, Talenom's profitability is excellent for an accounting firm, which indicates that the technology investments have been successful. While the company's core business and old customers are still much higher in profitability, the continuously sought growth requires significant sales investments as new customer acquisition is still relatively expensive. In addition, the company is constantly making major investments in technology.

Talenom's profitability is also significantly affected by capitalization that inflates the company's balance sheet. However, all the capitalization related to the customer acquisition in the balance sheet generate cash flow for the company, as otherwise it would have to write them down. Therefore, we don't see capitalization being problematic, even though they temporarily improve the profitability that the company reports.

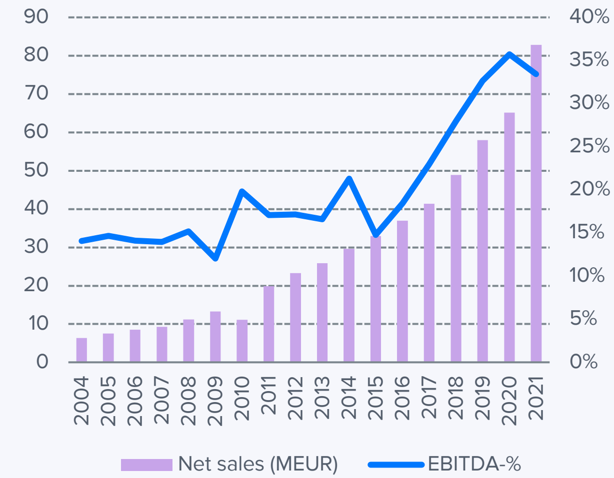
Development in Sweden is crucial

Talenom expanded to Sweden in April 2019, when the company acquired Stockholm-based accounting firm Wakers Consulting AB. The company employed 30 people at the time of the acquisition and had a turnover of EUR 2.5 million annually. The profitability of the acquired company was good at 14.7% EBIT, but we estimate that after all expenses, Sweden's contribution to Talenom's operating profit was still negative in 2019.

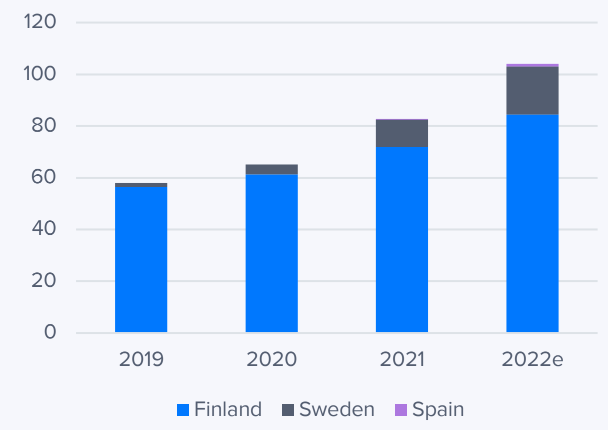
Since then, the company has several acquisitions in Sweden, which have significantly increased the size of the company. The latest acquisitions were made in November 2021 by the company (Kjell Wengbrand Redovisings AB and MH Konsult Väst AB), which were finalized at the beginning of 2022. The net sales transferred to Talenom from the acquired companies is some EUR 3.3 million annually. After the latest acquisitions, we estimate that the 12-month rolling net sales are above EUR 16.5 million. Further acquisitions can be expected in 2022, as the company continues to grow its business in Sweden.

While Sweden's net sales have increased strongly in recent years, the business hasn't brought any operating profit at group level so far. It's interesting to differentiate Sweden's contribution in the profitability analysis, which gives us a better picture of the development of the overall situation and Finland.

Long-term development



Net sales development in different countries



Historical development and economic situation 2/3

Talenom has released country-specific key figures for 2020 and 2021, but the 2019 operating margin for Sweden is our own rough estimate. However, we can see from the graph that the profitability of Finland's business has remained very good despite the very heavy investments and many acquisitions. This supports our assessment that the profitability of Talenom's core business in Finland has continued to improve as automation progresses.

Sweden's profitability should start to improve clearly during 2023 if Talenom can implement its own accounting system in the country in fall 2022 as planned. This should generate significant efficiency gains, after which the company has estimated that the profitability will normalize to Talenom's general level over a period of three years (as with other acquisitions). We believe that this is a critical factor in the investment story of Talenom.

Operational cash flow is reinvested

Talenom's business model generates very good operational cash flow, but growth and IT investments eat the majority of this cash flow. Over the past eight years (2014-2021), the average net cash flow from operations has been EUR 13.3 million per year, while average EBIT has been EUR 13.9 million per year. Both have been growing strongly in recent years and last year the cash flow from operations was already EUR 25.6 million.

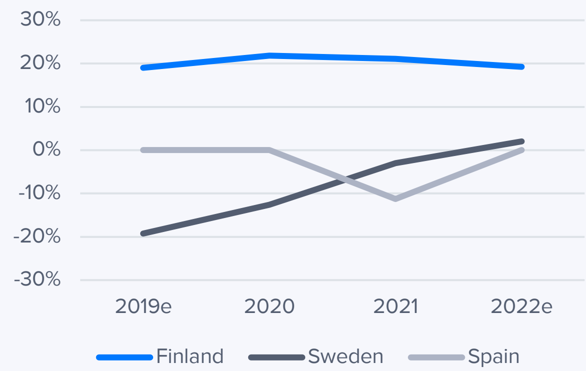
Strong operational cash flow has been invested almost entirely in technology and growth. Development of software and digital services (2016-2021 estimate over EUR 35 million) and sales-driven growth has been relatively expensive. Over the years, the amount of money spent on investments has increased clearly and last year a total of EUR 24.4 million was spent on investments, which was explained by the large number of acquisitions. Moreover, as the company has paid out dividends, the cash flow has largely been used. Naturally, the company's cash has also strengthened in recent years.

Once the accounting production line has started to run efficiently, the business model has generated more and more cash flow. We estimate that the cash flow from operations will be about EUR 30 million this year and will grow almost at the same pace as EBIT, which is sufficient for system investments that strengthen competitive advantages, growth and dividends. Today, Talenom's cash flows are already very strong, which continues to support the growth outlook.

Large investments increase depreciation

Talenom's very high investments in automation, user interfaces and the small customer segment in recent years as well as in the internationally scalable software platform will significantly increase the depreciation level in relation to net sales in the coming years. The jump is particularly high in 2022, as Talenom introduced a new version of Talenom Online in fall 2021, which also triggered depreciation of this major project. We currently predict that depreciation in 2022 will be EUR 16.8 million, compared to EUR 12.9 million in 2021. This has a significant impact on the EBIT margin.

Estimated operating profit margin (%) in different countries



Key elements of cash flow

Historical development and economic situation 3/3

Therefore, investors should consider the impact of the heavily increasing depreciation on profitability and monitor not only the EBIT margin but also the development of the EBITDA margin. A similar jump in investment and depreciation levels is not expected in the coming years, which means that depreciation won't grow faster than net sales anymore. 2022 is an exception in this respect.

Debt in the balance sheet, but it's justified

Talenom's economic situation is very good and the balance sheet that was previously heavily leveraged has strengthened over the last five years. At the end of H1'2021, the equity ratio was 38.1% and gearing 88.1%. We believe that these are more than sufficient for the company. The balance sheet will also be strengthened in the future unless the company takes significant amounts of new interest-bearing debt. At the same time, however, the business produces very strong cash flow, which the company invests in growth.

Although the company has a relatively high interest-bearing net debt (2021: 39.2 MEUR), we don't see this as a problem in such a defensive and predictable industry. The long-term loan has an interest rate of about 2%, which we consider to be very moderate. The annual interest expenses are estimated to be around EUR 1 million in the coming years, while ROE will be much better. We believe that Talenom's balance sheet is extremely robust due to the further strengthening cash flows, and the use of debt leverage is well justified, especially if interest rates remain at a reasonable level. We believe that a significant increase in the overall interest rates in Europe is highly unlikely, even if there is pressure make rate hikes. With a smart use of debt leverage, the company can optimize its ROE without significantly increasing its risk profile.

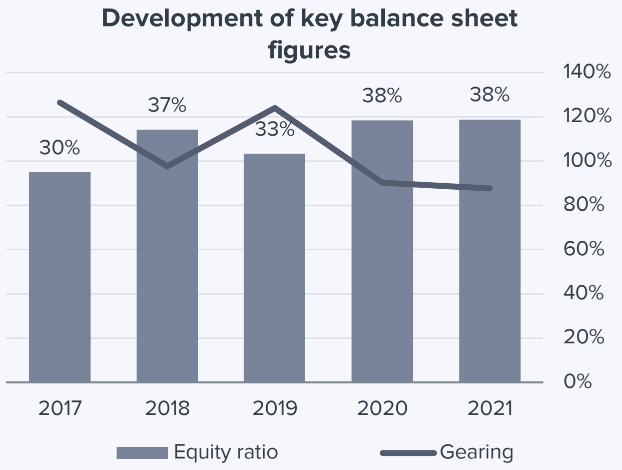
Problems could arise in a bad scenario

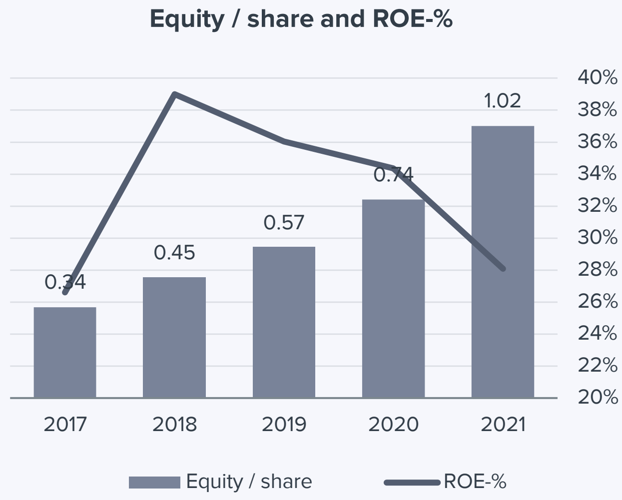
In a hypothetical bad scenario, the unlikely rapid deterioration of the company's economic situation could also cause problems for the balance sheet. At the end of 2021, the balance sheet included some EUR 37 million of goodwill, about EUR 36 million of intangible assets (including software development costs) and about EUR 12 million of capitalized customer contracts, so these (85.4 MEUR) far exceed the company's equity (2021: 44.7 MEUR). If the company were to lose a significant number of customers for some reason, the company's technology would become useless and the profitability of its business would develop very little, the marketability of these values could become a source of doubt and balance sheet risk would rise rapidly. However, we consider this to be highly unlikely, and in general Talenom's risk profile is very moderate.

Dividends grow with the result

In our opinion, Talenom's balance sheet no longer needs bolstering, and we estimate that dividends will rise at least in line with the result. However, dividends are limited by the company's desire to grow aggressively, which we believe is justified in the current state of the industry. At the current growth rate, the company will continue to have sufficient funds for dividends, and we believe that the company also wants to retain the ever-increasing dividend and payout ratio of ca. 60% (dividend/earnings).

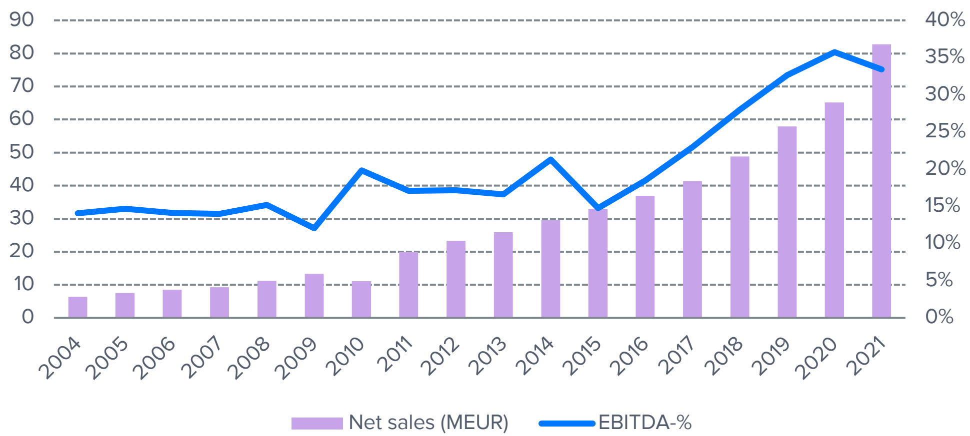
NB! The adoption of IFRS 16 weakened the key figures in 2019, otherwise a positive trend.



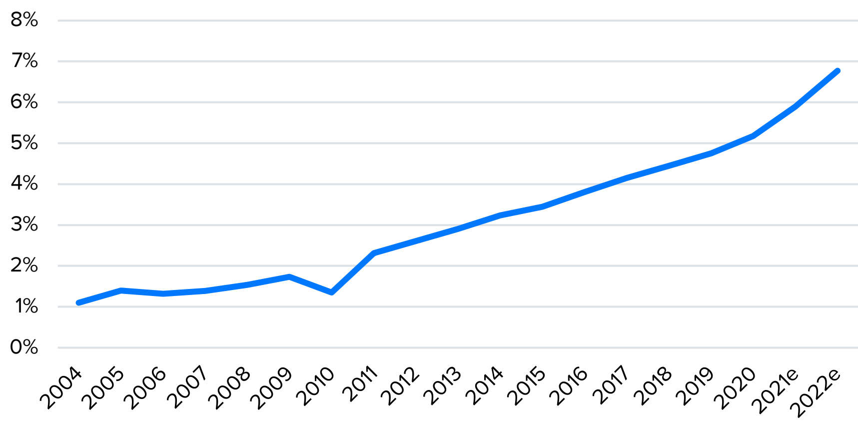


Historical development and economic situation

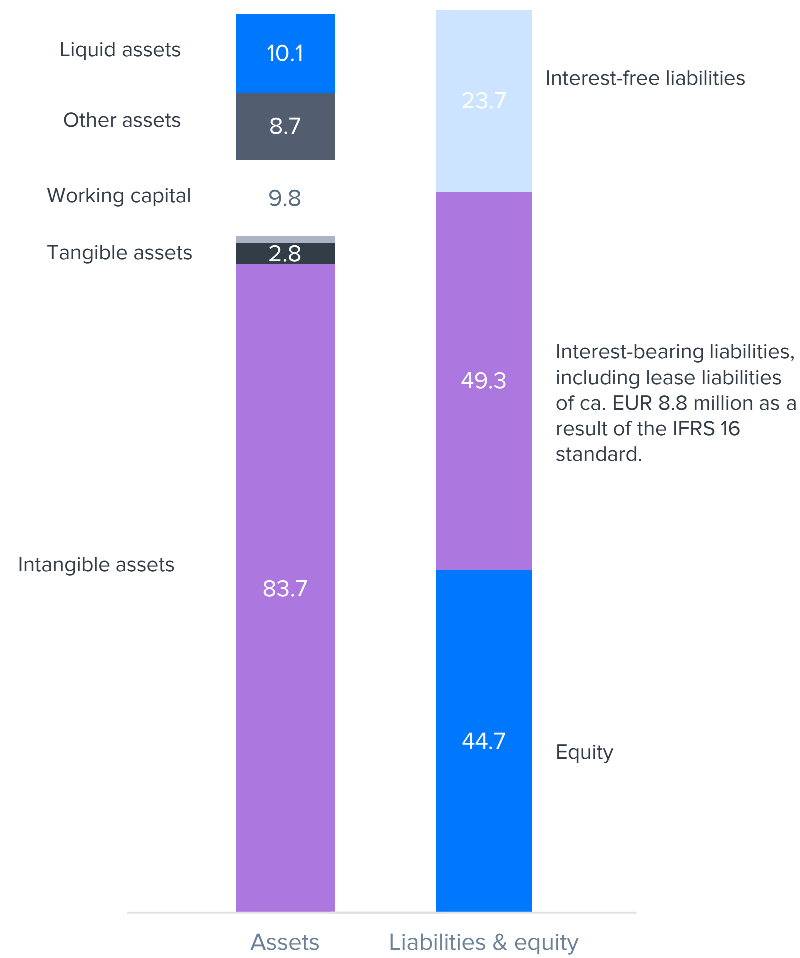
Long-term development



Talenom's market share in Finland*



Simplified balance sheet structure 2021 (MEUR)



Source: Inderes/Talenom

* Inderes estimate, the share of Sweden and Spain deducted from Talenom's net sales

Estimates 1/4

Growth has been significantly accelerated by acquisitions

Talenom has accelerated its growth with several acquisitions in recent years. A significant change has been seen in the acquisition strategy over the past five years, as the company previously invested in organic growth in particular and acquisitions were relatively rare. However, in recent years there have been very many acquisitions and 2021 was a clear record year. All acquisitions made by the company from 2016 onwards are listed on the company's investors website.

In 2021, Talenom acquired a total of 16 businesses in Finland, Sweden and Spain. In total, acquisitions accounted for EUR 20.2 million of net investments (2020: EUR 5.1 million) including some contingent consideration. Acquisitions will continue in 2022 and Talenom's guidance also contains a significant number of them. In strategic terms, the company has switched into the growth gear, which is also significantly reflected in profitability. According to our estimates, after 2022, Talenom will turn the focus of growth back on organic.

We think there are good reasons for strong growth, because the company's own technology and high levels of automation create a significant incentive to increase the scale. The industry is currently undergoing a rapid transformation as small companies are thinking about their own digital strategy, and Talenom wants to be involved in this new deal with its own solution. Furthermore, the company's internationalization strategy is based on acquisitions, because a purely organic approach would make especially the early stages in a new country difficult. The strong cash flow generated by Talenom's core business, and the increased resources generated through it also play a certain role in the strategic change.

Significant part of net sales weighs on relative profitability

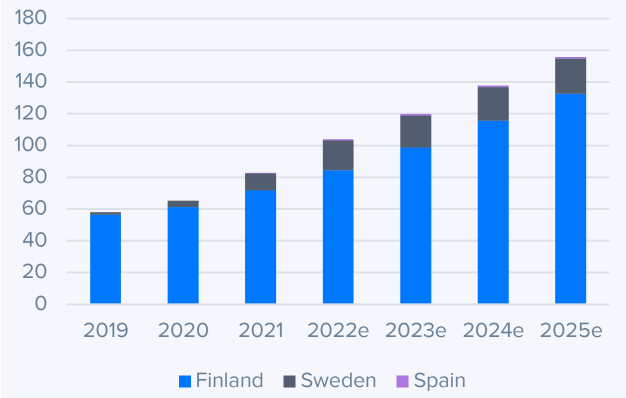
Talenom's profitability has been under pressure since the company decided to accelerate its growth strongly through acquisitions. In the short term, the impact of the acquisitions on relative profitability is clearly negative: The profitability of the acquisition targets is generally significantly lower than that of Talenom, and the integration costs and the increasing depreciation of the purchases weigh on profitability. In principle, Talenom doesn't "reorganize" the acquired companies, but improves their performance with its own automated software. Thus, profitability gains will only be visible when companies receive new customers and the net sales per accountant increases with the help of automation. The benefits will generally be gradually realized, because learning new ways of working takes time.

Talenom has itself estimated the profitability of the acquisition target to rise to the profitability of Talenom's other business three years after the acquisition. The company has a track record of this with past acquisitions in Finland. In Sweden, improving the profitability of acquisitions is more complex because the company doesn't yet have its own highly automated software in Sweden. In Sweden, the company expects similar profitability improvements to those in Finland after implementing the software in Sweden in fall 2022.

Completed acquisitions per year

Note : Net sales figures are the previous 12 months from the date of acquisition, and the figures are broken down according to the realization of the transaction. The impact on Talenom's figures is different. Profitability levels partly estimated by Inderes.

Net sales estimates for different countries



Estimates 2/4

However, this only applies to acquisitions already made and we believe that acquisitions made and to-be-made in 2022 will be excluded from this implementation (fall 2023). We believe that the degree of the profitability improvement in Sweden is significantly more uncertain than in Finland, because the operating and competitive environment is different and still relatively new for Talenom. Nevertheless, it's justified to expect significant profitability improvements in Sweden from 2023 onward.

Significant 'built-in' earnings growth

According to our estimates, Talenom's EBITDA margin in Finland's core business is over 40% and has continued to improve. However, it's significantly lower in new acquisitions and in Sweden it's less than 10%. We estimate that of the turnover for 2022 around EUR 31 million (about 30% of turnover) has lower-than-normal profitability levels. This figure contains the projected turnover of Sweden and Spain (under 20 MEUR) and the acquisitions made in Finland between 2019 and 2022e (about 11 MEUR). We note that the forecasts still contain a small number of acquisitions that haven't been completed yet.

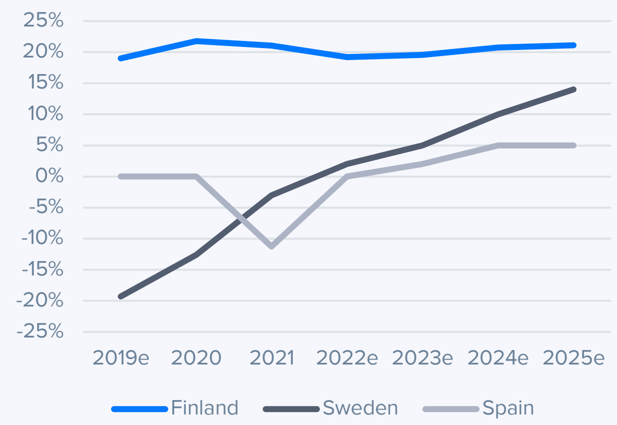
Therefore, we estimate that about 30% of Talenom's turnover have a significant profitability improvement potential over the next three years. If we assume that Talenom were able to increase the profitability of this turnover by 10 percentage points through to its technological advantage, this will mean an improvement of EUR 3.1 million in EBITDA. We estimate that this would increase EPS in 2022 by just under 20%. In our estimate, the difference between the profitability of recent acquisitions and the old core business is much more than 10 percentage points. Therefore, the potential will be even greater if Talenom could bring its Swedish business to its historical profitability level in Finland. This is a critical factor for the earnings growth of the next few years.

Acquisition-driven growth continues in 2022

Talenom estimates that its net sales will be EUR 100-110 million and operating profit (EBIT) EUR 15-18 million in 2022. Exceptionally, the guidance includes acquisitions that aren't completed yet, and it's impossible to predict them from outside, particularly in terms of timing. However, in the early part of the year, Talenom has already made several acquisitions, and the role of unannounced ones has been diminished. However, our forecast continues to include two new acquisitions, which we have assumed will have net sales of EUR 2 million per year. In our modeling, these will be realized at the beginning of Q3'22 and Q4'22.

We expect Talenom's net sales for 2022 to be about EUR 104 million, which would mean an increase of 25.6% year-on-year. We expect organic growth to be about 10% with the rest coming from acquisitions. Inorganic growth is supported by numerous acquisitions made in 2021 and early 2022 (Talenom acquisitions). Our forecasts also include minor net sales (about 1 MEUR) from the small customer segment, which is also a new growth area for Talenom. There is considerable uncertainty here, but the overall impact is still very small.

Profitability estimates for different countries



Earnings growth (EPS) and ROE-%

Estimates 3/4

Talenom's relative profitability will decline this year due to acquisitions and growth investments, and we estimate the EBIT margin of 2022 to be 15.9% (2021: 17.8%). This would mean an EBIT of about EUR 16.6 million, which is close to the center of the guidance range. Minor forecast changes are mainly related to acquisitions-related adjustments with the update.

However, the profitability trend of the business is better illustrated by the EBITDA margin, as depreciation will also rise significantly this year due to the very high investments in recent years. Major investments in automation, user interfaces, small customer segment and internationally scalable software platform will significantly increase the depreciation level in relation to net sales. We predict that depreciation will be EUR 16.8 million in 2022, compared to EUR 12.9 million in 2021 and EUR 10.4 million in 2020. We expect the 2022 EBITDA margin to be around 32%, which will be slightly lower than last year (2021: 33.4%) due to the impact of acquisitions. In addition, high cost inflation in general increases costs, even if this can be compensated by price increases with a reasonable delay. The effects of the pandemic are expected to be limited, but the negative effects of the Russian-Ukrainian war on Finland's economic growth can slow down the growth of the accounting services market. However, the potential impact would be felt after a delay of about 6 months from the economic turnaround. We expect the profitability of the core business to further improve through efficiency gains from automation. All in all, the earnings engine is still going forward, even though acquisitions and international expansion weigh on profitability in the short term.

Profitability will start to improve in 2023

Talenom's scalable growth story has been on a break in 2021-2022, with heavy investments in acquisition-driven growth and internationalization. According to our estimates, the acquisition rate will calm down next year and the company will focus a notch more on efficiency improvements, when its own software will be partly implemented in Sweden in fall 2022. We also believe that it's strategically justified to focus on profitability at times, so that the house will remain in order under the cross-pressure of many growth projects. Of course, optimizing profitability isn't in the cards yet, but we estimate that a slight change in development is imminent.

In 2023, we expect that Talenom's net sales growth will be stabilize to around 15%. It's important to note that our longer-term forecasts don't include new non-announced acquisitions afte 2022. However, these are to be expected, so the actualized growth will likely be higher than we anticipate. Since the contribution of new acquisitions to earnings is small in the early stages, we believe that earnings forecasts are more important.

We expect Talenom's EBIT margin to rise moderately to around 17% in 2023. Depreciation is no longer subject to similar upward pressure and at EBITDA margin level, profitability remains stable at around 32% in our forecast. In Finland, the core business is expected to continue rolling ahead, but the Swedish business should show signs of profitability development as the benefits of own software are gradually realized. However, much of the earnings improvement potential remains hidden and we expect Talenom to remain active in acquisitions.

Estimate revisions	2022e	2022e	Change	2023e	2023e	Change	2024e	2024e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	105	104	-1%	121	120	-1%	139	138	-1%
EBITDA	33.7	33.4	-1%	38.3	38.0	-1%	43.8	43.6	0%
EBIT (exc. NRIs)	16.9	16.6	-2%	20.7	20.4	-2%	26.4	26.2	-1%
EBIT	16.9	16.6	-2%	20.7	20.4	-2%	26.4	26.2	-1%
PTP	16.0	15.7	-2%	19.7	19.4	-2%	25.3	25.1	-1%
EPS (excl. NRIs)	0.29	0.28	-3%	0.36	0.35	-3%	0.46	0.45	-2%
DPS	0.19	0.18	-3%	0.23	0.22	-3%	0.32	0.29	-9%

Source: Inderes

Estimates 4/4

In 2023, Talenom may well have already expanded to new countries, which causes uncertainty in the forecasts. However, we estimate that this would be done by a lighter business model that's based on digital marketing and a scalable application. This will allow Talenom to test different markets with less investment and limited risk, which we believe is a reasonable strategy.

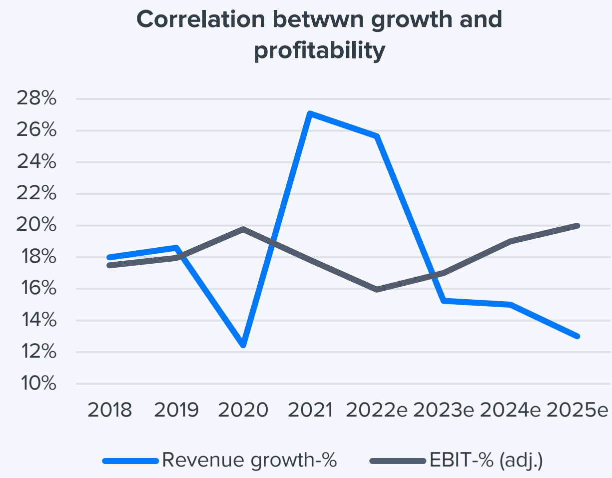
We believe that Talenom has potential for significantly better profitability, but we assume that the company's growth investments will remain high. The growth and profitability trend is significantly influenced by the company's strategic choices, i.e., the emphasis on growth or profitability in different periods. If the company were to stop investing strongly in growth, we estimate that its profitability would quickly rise to the 2020 level, when the company reduced its front-loaded costs. In 2020, the company's EBITDA was 36% and EBIT 20% of net sales. However, this would mean a temporary sacrifice of an attractive growth outlook, and we don't think that it would be justified. We predict that the EPS in 2023 will be EUR 0.35, which would mean a good 23% of earnings growth for the company.

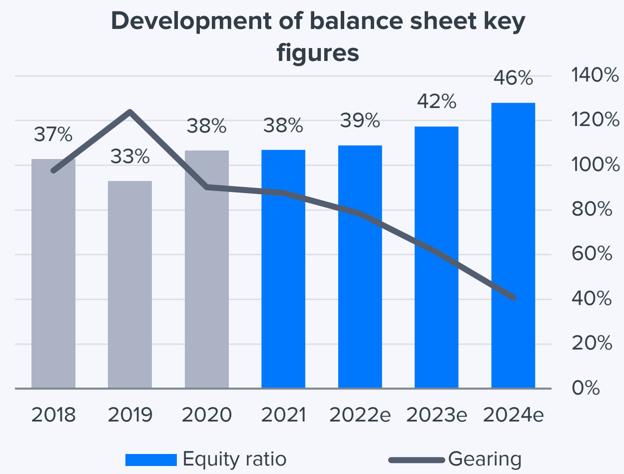
Long-term earnings growth outlook is strong

We believe that Talenom's long-term growth drivers are very strong and expect that the company will be able to achieve an average annual growth rate of over 20% (EPS) between 2022 and 2025. A strong position in a defensively growing industry, economies of scale from technology and internal efficiency through automation offer the company a clear competitive advantage and pricing power. As the automation progresses, the transfer of accountants to higher value-added consulting makes the transformation profitable for the company.

In general, we see significant opportunities to improve profitability as own software is implemented to acquired accounting firms and the benefits from that are realized. Relative to this, we consider that the stable EBITDA margin that we forecast is very moderate for the company, especially as our growth forecasts go down when looking further in the future. In the next few years, high growth investments continue to weigh down the margins, although the focus is expected to gradually shift to the prioritizing organic growth.

In addition, Talenom has made significant investments in future opportunities, which currently mainly incur costs for the company. These include in particular internationalization (including application development and digital marketing), expansion to the small customer segment, expansion of service provision (e.g. banking and financial services) and other additional digital services (such as financial monitoring tools). However, we believe that the key issue is Sweden, where the company must be able to duplicate the very well-functioning business model of Finland over the next few years. If the company succeeds in this, the outlook for future years will be excellent. So far, the new internationalization strategy that relies on the digital platform to elsewhere in Europe remains an interesting option in the investment story.





Income statement

Income statement	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22e	Q2'22e	Q3'22e	Q4'22e	2022e	2023e	2024e	2025e
Net sales	**65.2**	**20.3**	**21.4**	**19.4**	**21.8**	**82.8**	**25.7**	**27.2**	**24.4**	**26.8**	**104**	**120**	**138**	**156**
EBITDA	**23.3**	**7.2**	**7.2**	**6.7**	**6.6**	**27.7**	**8.5**	**8.8**	**8.0**	**8.1**	**33.4**	**38.0**	**43.6**	**50.7**
Depreciation	-10.4	-2.8	-3.1	-3.2	-3.8	-12.9	-4.2	-4.2	-4.2	-4.2	-16.8	-17.6	-17.4	-19.6
EBIT (excl. NRI)	**12.9**	**4.4**	**4.1**	**3.4**	**2.8**	**14.8**	**4.3**	**4.6**	**3.8**	**3.9**	**16.6**	**20.4**	**26.2**	**31.2**
EBIT	**12.9**	**4.4**	**4.1**	**3.4**	**2.8**	**14.8**	**4.3**	**4.6**	**3.8**	**3.9**	**16.6**	**20.4**	**26.2**	**31.2**
Net financial items	-0.9	-0.2	-0.3	-0.2	-0.2	-0.8	-0.2	-0.2	-0.2	-0.2	-0.9	-1.0	-1.1	-1.1
PTP	**12.0**	**4.2**	**3.8**	**3.3**	**2.6**	**14.0**	**4.1**	**4.4**	**3.6**	**3.7**	**15.7**	**19.4**	**25.1**	**30.1**
Taxes	-2.4	-0.9	-0.8	-0.8	-0.8	-3.2	-0.8	-0.9	-0.7	-0.7	-3.1	-3.9	-5.0	-6.0
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	**9.6**	**3.3**	**3.1**	**2.5**	**1.9**	**10.8**	**3.2**	**3.5**	**2.8**	**3.0**	**12.6**	**15.5**	**20.1**	**24.1**
EPS (adj.)	**0.22**	**0.08**	**0.07**	**0.06**	**0.04**	**0.25**	**0.07**	**0.08**	**0.06**	**0.07**	**0.28**	**0.35**	**0.45**	**0.54**
EPS (rep.)	**0.22**	**0.08**	**0.07**	**0.06**	**0.04**	**0.25**	**0.07**	**0.08**	**0.06**	**0.07**	**0.28**	**0.35**	**0.45**	**0.54**

Key figures	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22e	Q2'22e	Q3'22e	Q4'22e	2022e	2023e	2024e	2025e
Net sales growth-%	12.4 %	17.0 %	29.6 %	30.4 %	32.2 %	27.1 %	26.7 %	27.0 %	26.0 %	23.0 %	25.6 %	15.2 %	15.0 %	13.0 %
Adjusted EBIT growth-%	23.7 %	18.7 %	15.2 %	9.6 %	14.1 %	14.6 %	-2.9 %	11.5 %	9.7 %	41.6 %	12.4 %	22.8 %	28.6 %	18.9 %
EBITDA-%	35.7 %	35.4 %	33.7 %	34.5 %	30.3 %	33.4 %	33.0 %	32.5 %	32.7 %	30.3 %	32.1 %	31.7 %	31.6 %	32.5 %
Adjusted EBIT-%	19.8 %	21.7 %	19.4 %	17.8 %	12.7 %	17.8 %	16.6 %	17.0 %	15.5 %	14.6 %	15.9 %	17.0 %	19.0 %	20.0 %
Net earnings-%	14.7 %	16.5 %	14.3 %	13.1 %	8.5 %	13.0 %	12.6 %	12.9 %	11.7 %	11.0 %	12.1 %	12.9 %	14.6 %	15.4 %

Source: Inderes

Valuation 1/4

Very good foundation for value creation

Talenom's costly growth efforts over the last ten years have already created significant value, but their full materialization is still ongoing. In our view, Talenom's technological competitive edge and business model give it a clear competitive advantage that gives it a high return on growth investment. Growth is slowed down by the industry's generally high customer retention, but with growth, Talenom's economies of scale are strengthened and, in our estimate, supply is improved.

Talenom's business is mostly recurring, demand is defensive due to regulation related to accounting, business is largely scalable and competitive advantages strong. In addition, the company operates in a fragmented market, which is bound to become consolidated over the next decade as digitalization progresses. We believe that this offers a pioneer of the field a very good opportunity to create shareholder value.

Internationalization elevates the risk profile

In general, we consider Talenom's risk profile low, because the efficiency of the automated accounting production line and the scalability if the business has been proven in Finland. However, as far as internationalization is concerned, the company still has a lot to prove, since the success of Talenom's approach has yet to be demonstrated in Sweden or elsewhere in Europe.

In Talenom's cash flow model, over 70% of the value will be generated in more than ten years' time, so the company's investment story must be looked at far into the future. The end result of the industry transformation will also be visible then. Talenom's own estimate is that in ten years no substantial income stream is available from routine accounting tasks because in practice everything has been automated. This would mean a dramatic change in the industry and although Talenom has for long prepared for this, the final result isn't necessarily favorable for it.

The historically high valuation risk has been reduced considerably as the share price fell very sharply from its peak of last year. However, the price still contains expectations of strong earnings growth in the coming years, but we believe that these expectations are now realistic.

Valuation has moderated following the re-pricing of growth companies

Talenom's valuation has been under strong pressure since the pricing environment of growth companies changed significantly in the summer of 2021. The main reason for this are the increasing interest rates which are reflected in investors' required returns especially in growth companies with high valuations. Talenom's share price has fallen by over 40% from the peak last year, even though the company's investment story hasn't changed significantly. However, the investments in growth at the expense of profitability were weak timing-wise in the sense that the market horizon has shortened. Due to the low profitability level in 2022, we believe that the share price appears currently more expensive than it is in reality. However, it's clear that at its peak Talenom's share was highly overvalued or even in a bubble.

Factors affecting the acceptable valuation of Talenom

- About 70% of Talenom's net sales are recurring monthly billing and about 30% is volume-based (e.g. payroll), which is also largely recurring. This reflects the very defensive nature of the business and the market.
- Mainly thanks to the recurring net sales and the defensiveness of the industry, the visibility to the development of the core business is very good. However, acquisitions and internationalization cause challenges.
- Talenom is one of the winners of the industry's transformation through its competitive advantages that are based on scale and its operating model and grows clearly faster than the market.
- Talenom's profitability will scale up as the degree of accounting automation continues to rise. 2021-2022 will be gap years for scalable profitability as the company has been exceptionally active in M&A.
- The accounting services sector is one of the most defensive sectors on Nasdaq Helsinki, as accounting is a legal obligation for all companies. This also makes Talenom's risk profile very low. However, internationalization projects elevate the risk level.
- Talenom is one of the clear pioneers of the Finnish accounting services market, which is why we believe it deserves a clear premium in relation to the overall valuation level of the industry (barring software companies).
- Talenom's new openings create new growth opportunities for the company, and the company also has an interesting internationalization strategy, which considerably increases its long-term potential.

Valuation 2/4

Our view of Talenom's internationalization has become more positive than before, because we believe that the new lighter, scalable solution for small customers will provide a lower risk solution for expanding to new markets. The digital application and marketing solution remains a positive option for the time being. If the company proves to be able to repeat its success in Finland internationally, the company's long-term potential will grow significantly.

In addition, the new small customer concept offers an important distribution channel for small customers and takes the company to the interesting light entrepreneur field. In our view, the company has created new growth opportunities and options in recent years in addition to the continuing positive development of the core business. The valuation of these options is very challenging, but we believe that they should be a positive factor for the valuation multiples in coming years.

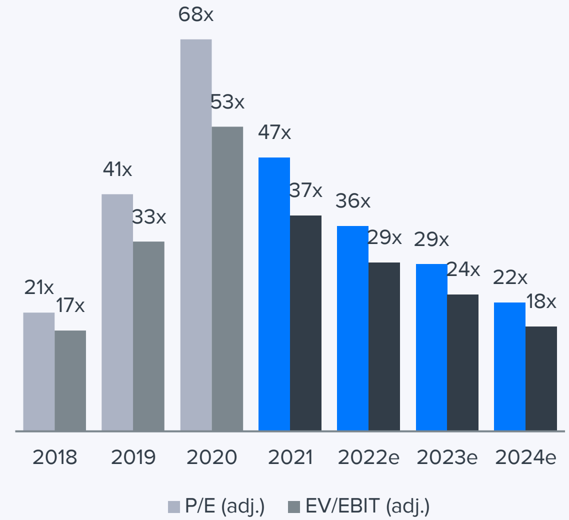
Valuation factors at a reasonable level

Talenom 2022e P/E is about 36x and EV/EBIT about 29x, which we don't consider particularly attractive despite the quality of the company. If and when we rely on the company's ability to improve the profitability of acquisition targets significantly, the profitability or earnings level in 2022 doesn't accurately reflect Talenom's performance potential. Moreover, in recent years, Talenom has launched a number of new growth projects, whose costs are being borne now, but which bear fruit far away in the future. We believe that the valuation multiples should be examined mainly through next year's forecasts, which are also significantly more relevant for the target price that's set 12 months away.

With the 2023 forecasts P/E is already under 29x and EV/EBIT is about 24x, which we think are very attractive with Talenom's growth outlook being strong far ahead. In a rapidly changing market situation, we are careful in locking the valuation multiples to a certain level. However roughly 30x P/E sounds like a moderate level for a company, whose earnings growth we expect to be over 20% p.a. If the company can return to the 20% earnings growth path as expected, the PEG ratio would be less than 1.5x. We believe that this would provide an attractive expected return for the investor.

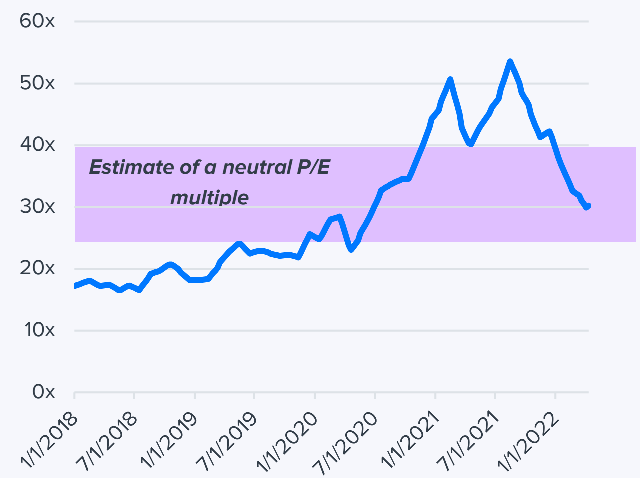
In the longer term, the valuation is attractive for a defensive growth company with significant "built-in" earnings growth (possibly over 20%) through acquisitions over the next few years. If an investor is tempted to look at the investment story of Talenom for a few years to come, we believe that the expected return is attractive due to strong earnings growth. At the same time, it's important to note that, in a potential bear market, the overall horizon for investors is significantly shortened. It's therefore important to note that the 2022 valuation multiples are currently high in relation to the subdued earnings growth. Therefore, even if the company continues to move in the right direction, the valuation may still very well fall in the short term.

Talenom's valuation has seen radical changes in recent years



Talenom P/E (12-month forward-looking)

Data: Thomson Reuters consensus



Valuation 3/4

Relative valuation and peers

Talenom doesn't have particularly good peers on Nasdaq Helsinki, but Aallon Group and Administer represent the same industry with a more traditional model and Admicom operates on the same field. The valuation levels of Aallon Group and the Administer are very moderate compared to Talenom, but we consider Talenom's competitive advantage and earnings growth outlook clearly stronger at the moment. Aallon Group is valued like a defensive service company (2022e P/E 15x and EV/EBIT 12x), and we consider the company's valuation to be very reasonable. Since the IPO, Administer's share price has developed poorly and the valuation appears to be already fit into the turnaround company category. In relation to the starting points, Administer's financial development even seems surprisingly weak, so market mistrust may be earned. In the peer group, we aren't currently displaying Administer's valuation because there are no forecasts for the company in Reuters' databases. Inderes doesn't monitor the company either. In addition, ECIT AS which offers IT services and business solutions (such as ERP and CRM) in addition to accounting services was listed in Norway in 2021.

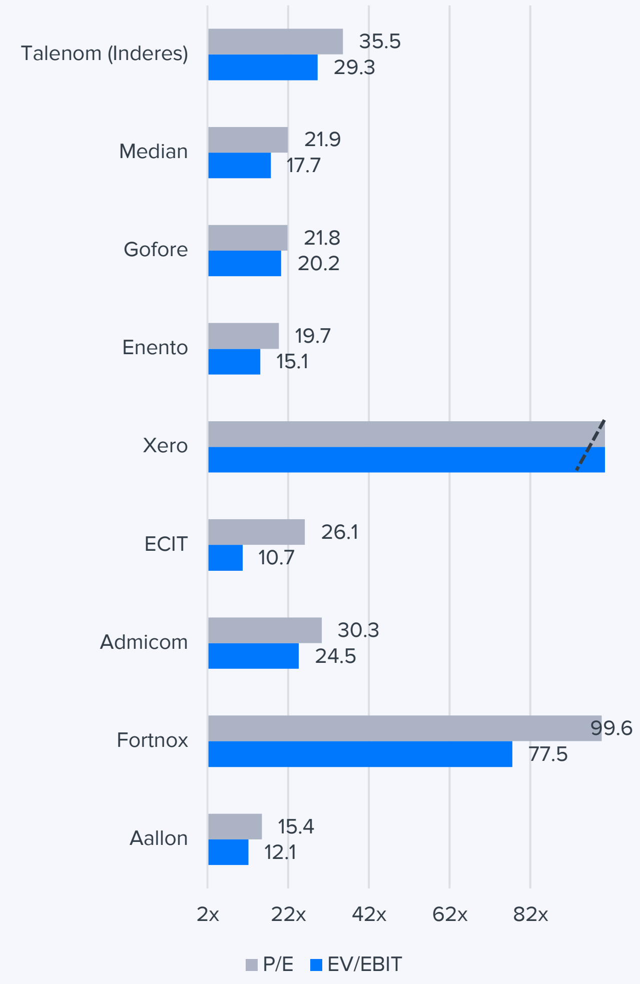
Admicom and Fortnox from Sweden are interesting companies for the technological side of Talenom, but they are SaaS companies. Talenom doesn't sell software, and we believe that the company's hybrid strategy is unique in the stock market world. The company doesn't just enjoy the very high gross margins of the software business, so it's dangerous to compare its valuation with software companies.

Admicom's share price has declined sharply by over 55% from its peak and at the same time, in spite of the significant slowdown in growth and earnings growth rates, the valuation level has declined. Now the 2022e P/E is about 28x and EV/EBIT 21x, and the corresponding multiples for 2023e are 25x and 19x. The multiples are lower than Talenom's, which in turn gives a warning for the valuation of Talenom, even though the company's market potential (especially internationally) is significantly higher than that of Admicom.

Fortnox's valuation (2022e P/E 100x and EV/EBIT 78x) is much higher than Talenom's, but the company's earnings growth rate has historically been several times higher than Talenom's, the outlook remains excellent and potential profitability is very high (gross margins for software). With consensus forecasts, Fortnox's 2023e P/E is 65x and EV/EBIT over 50x, so there are still very many earnings growth expectations despite the decrease in valuation.

Additionally, there's Australian software company Xero that operates with a SaaS cloud model. One of Xero's application-based products has been compared to be roughly like Talenom's TiliJaska. It's difficult to comment on Xero's valuation, which may be the hottest in the sector at the moment, as the company is expected to become profitable this year. The valuation multiples are extreme (2022e P/E >1000x). Extreme valuation factors were seen in early 2022 when Visma acquired Bokio. To our understanding, Bokio's offering was relatively similar to Talenom's TiliJaska concept. According to Dagens Industri, Visma paid up to EUR 100 million for Bokio.

Peer group valuation multiples (2022e)



Valuation 4/4

The valuation is extreme as Bokio's net sales were apparently about EUR 1 million (P/S ~100x) and the company was heavily loss-making. It's not possible to draw conclusions from this as regards Talenom, but the Bokio deal tells us something about the attractiveness of the TiliJaska concept. Still, TiliJaska is more of a loss leader product and a growth platform for Talenom than an independent business.

From outside the industry, the company can be compared to Enento (formerly Asiakastieto), whose business is at least roughly for the same target group. Enento's valuation level (2022e P/E 20x and EV/EBIT 15x) is also currently moderate compared to Talenom. In addition, we have taken Gofore, Vincit, Fondia and Etteplan of service companies on Nasdaq Helsinki to the peer group. In general, the role of relative valuation is limited with Talenom. However, the peer group offers a harsh reference framework for how service business could be valued without technological advantage (Aallon Group) and also as a potential software company if Talenom's technology were to be commercialized. At the moment, the peer group's influence on our view of Talenom's valuation is slightly negative, as the valuation of many peer companies would appear to be superficially offering a higher risk/return ratio than Talenom. In our opinion, Talenom's appreciation should be a kind of hybrid between a traditional service company and software.

DCF calculation

Our DCF calculation gives Talenom's share a value of around EUR 12 with high yet realistic assumptions. However, the DCF value is driven very strongly by assumptions about long-term growth and profitability, which are relatively low in visibility when the industry is transforming. The weight of the terminal period (over 70%) is high and underscores the risks as the share price is at the DCF level.

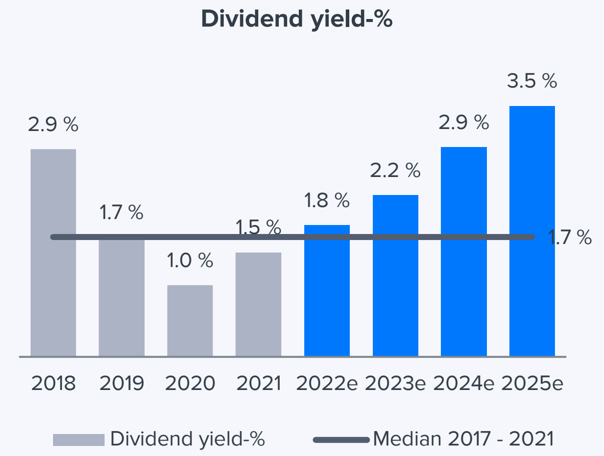
We have set the growth expectation of the terminal period to 3.2% and set the EBIT margin at 19% (2020e: 20.5%). This is a moderate profitability level as growth costs disappear with the above-mentioned growth expectations. However, over 10 years, the whole industry may change as accounting becomes automated. In the calculation, we have used 8.0% as the cost of equity and WACC was 7.4%. We believe that both are neutral to Talenom because of the defensive nature of the company, but a possible significant increase in interest rates is still a clear risk. Our entire DCF model is presented in the appendices.

Great long-term story

The investment story of Talenom has many attractive elements and opportunities that few listed companies in Helsinki have. Most of the business is recurring, defensive, profitability is partially scalable, and competitive advantages strong. The company already has a strong position in the growing, defensive and transforming accounting services industry, and we estimate Talenom to be one of the future winners at least in Finland. Add the new opportunities in the small customer segment (TiliJaska) and international markets to this and you have a very attractive investment story. The company and shareholder value are being developed over a very long period of time.

Valuation	2022e	2023e	2024e
Share price	9.99	9.99	9.99
Number of shares, millions	44.7	44.9	44.9
Market cap	446	448	448
EV	485	483	476
P/E (adj.)	35.5	28.9	22.3
P/E	35.5	28.9	22.3
P/FCF	57.9	34.3	24.2
P/B	8.9	7.8	6.6
P/S	4.3	3.7	3.3
EV/Sales	4.7	4.0	3.5
EV/EBITDA	14.5	12.7	10.9
EV/EBIT (adj.)	29.3	23.7	18.2
Payout ratio (%)	65.0 %	65.0 %	65.0 %
Dividend yield-%	1.8 %	2.2 %	2.9 %

Source: Inderes



Peer group valuation

Peer group valuation	Share price	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%	
Company		**MEUR**	**MEUR**	**2022e**	**2023e**	**2022e**	**2023e**	**2022e**	**2023e**	**2022e**	**2023e**	**2022e**	**2023e**
Aallon	10.30	40	37	12.1	10.1	10.5	8.7	1.4	1.2	15.4	14.6	2.1	2.7
Fortnox	60.05	3231	3223	77.5	50.9	60.7	42.0	26.8	19.9	99.6	64.8	0.2	0.1
Admicom	62.90	311	295	24.5	21.0	21.0	19.0	9.7	8.5	30.3	26.1	2.1	2.6
ECIT	6.96	245	281	10.7	8.4	6.2	5.0	0.9	0.8	26.1	18.8		
Xero	101.17	10314	10301	349	164	83	62	15.2	12.2	2281	244		0.0
Enento	24.85	599	741	15.1	13.7	11.5	10.7	4.3	4.1	19.7	17.2	4.3	4.6
Fondia	6.60	26	22	22.5	11.2	11.2	7.5	1.0	0.9	22.0	15.7	4.2	5.2
Vincit	6.01	76	68	11.3	9.7	7.5	6.8	1.0	0.9	16.6	13.0	3.7	4.0
Gofore	23.25	359	334	20.2	17.6	14.8	13.4	2.4	2.2	21.8	19.4	1.4	1.6
Etteplan	15.65	390	438	14.6	13.1	8.9	8.2	1.3	1.2	16.9	15.4	2.9	3.2
Talenom (Inderes)	**9.99**	**446**	**485**	**29.3**	**23.7**	**14.5**	**12.7**	**4.7**	**4.0**	**35.5**	**28.9**	**1.8**	**2.2**
Average				**55.7**	**31.9**	**23.5**	**18.4**	**6.4**	**5.2**	**255.0**	**44.9**	**2.6**	**2.7**
Median				**17.7**	**13.4**	**11.4**	**9.7**	**1.9**	**1.7**	**21.9**	**18.0**	**2.5**	**2.7**
Diff-% to median				***66%***	***77%***	***28%***	***31%***	***146%***	***135%***	***62%***	***60%***	***-27%***	***-17%***

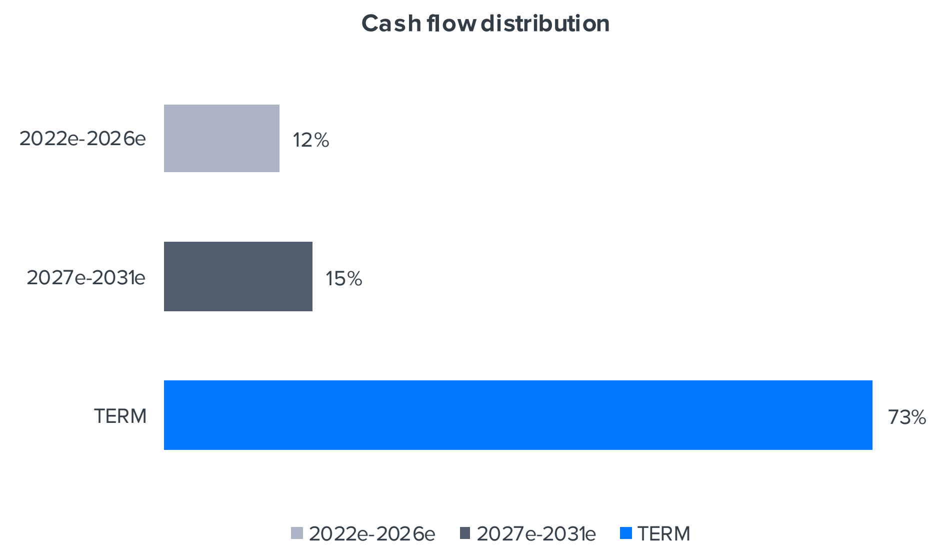
Source: Thomson Reuters / Inderes. NB: The market cap Inderes uses does not consider own shares held by the company.
NB: Fixed Aallon Group figures to match Inderes' estimates.

DCF calculation

DCF model	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TERM
EBIT (operating profit)	**14.8**	**16.6**	**20.4**	**26.2**	**31.2**	**34.6**	**37.7**	**39.3**	**40.2**	**42.3**	**43.6**	
+ Depreciation	12.9	16.8	17.6	17.4	19.6	21.5	23.4	25.1	26.6	25.9	26.6	
- Paid taxes	-1.9	-3.1	-3.9	-5.0	-6.0	-6.7	-7.3	-7.6	-7.8	-8.2	-8.5	
- Tax, financial expenses	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	
+ 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	3.3	1.7	2.3	1.6	1.6	3.3	1.6	1.3	1.0	1.1	0.7	
Operating cash flow	**28.9**	**31.8**	**36.2**	**40.0**	**46.1**	**52.5**	**55.1**	**57.8**	**59.8**	**60.7**	**62.2**	
+ Change in other long-term liabilities	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-41.9	-24.1	-23.2	-21.4	-25.2	-27.0	-28.0	-29.3	-29.1	-28.4	-28.2	
Free operating cash flow	**-11.3**	**7.7**	**13.1**	**18.5**	**20.9**	**25.4**	**27.1**	**28.5**	**30.7**	**32.3**	**33.9**	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	-11.3	7.7	13.1	18.5	20.9	25.4	27.1	28.5	30.7	32.3	33.9	838
Discounted FCFF		**7.3**	**11.6**	**15.3**	**16.0**	**18.2**	**18.1**	**17.7**	**17.7**	**17.4**	**17.0**	**420**
Sum of FCFF present value		577	569	558	542	526	508	490	472	455	437	420
Enterprise value DCF		**577**										
- Interesting bearing debt		-49.3										
+ Cash and cash equivalents		10.1										
-Minorities		0.0										
-Dividend/capital return		0.0										
Equity value DCF		**537**										
Equity value DCF per share		**12.0**										

Wacc	
Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E)	10.0 %
Cost of debt	2.5 %
Equity Beta	1.10
Market risk premium	4.75%
Liquidity premium	0.75%
Risk free interest rate	2.0 %
Cost of equity	**8.0 %**
Weighted average cost of capital (WACC)	**7.4 %**

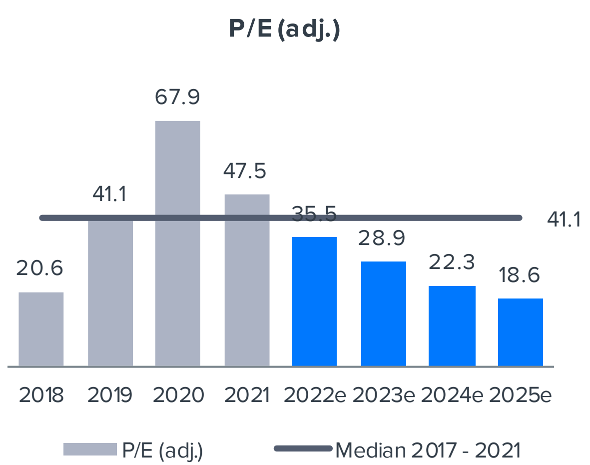
Source: Inderes

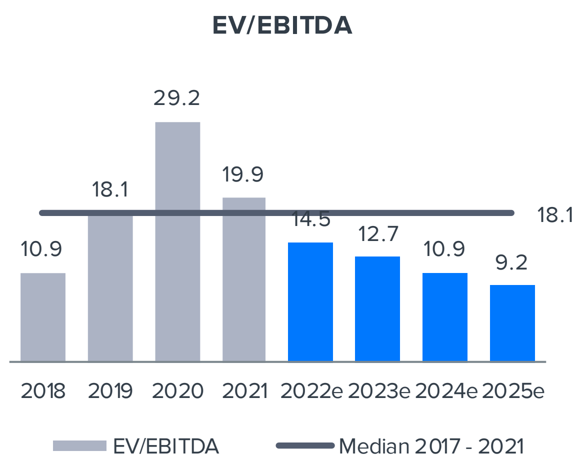


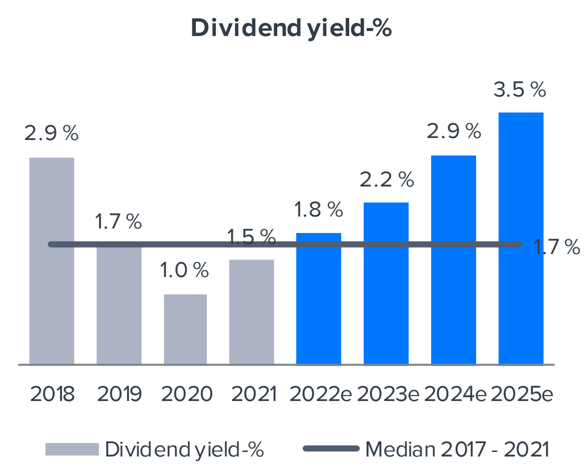
Valuation table

Valuation	2017	2018	2019	2020	2021	2022e	2023e	2024e	2025e
Share price	2.13	3.18	7.50	15.1	11.7	**9.99**	**9.99**	**9.99**	**9.99**
Number of shares, millions	40.9	41.2	41.7	43.2	43.8	**44.7**	**44.9**	**44.9**	**44.9**
Market cap	87	131	313	650	512	**446**	**448**	**448**	**448**
EV	105	149	342	679	552	**485**	**483**	**476**	**469**
P/E (adj.)	23.4	20.6	41.1	67.9	47.5	**35.5**	**28.9**	**22.3**	**18.6**
P/E	25.5	20.6	41.1	67.9	47.5	**35.5**	**28.9**	**22.3**	**18.6**
P/FCF	40.3	90.2	neg.	>100	neg.	**57.9**	**34.3**	**24.2**	**21.5**
P/B	6.2	7.0	13.3	20.2	11.5	**8.9**	**7.8**	**6.6**	**5.7**
P/S	2.1	2.7	5.4	10.0	6.2	**4.3**	**3.7**	**3.3**	**2.9**
EV/Sales	2.5	3.1	5.9	10.4	6.7	**4.7**	**4.0**	**3.5**	**3.0**
EV/EBITDA	11.0	10.9	18.1	29.2	19.9	**14.5**	**12.7**	**10.9**	**9.2**
EV/EBIT (adj.)	20.3	17.5	32.8	52.7	37.4	**29.3**	**23.7**	**18.2**	**15.0**
Payout ratio (%)	63.9 %	59.4 %	68.4 %	67.7 %	69.0 %	**65.0 %**	**65.0 %**	**65.0 %**	**65.0 %**
Dividend yield-%	2.5 %	2.9 %	1.7 %	1.0 %	1.5 %	**1.8 %**	**2.2 %**	**2.9 %**	**3.5 %**

Source: Inderes







Balance sheet

Assets	2020	2021	2022e	2023e	2024e
Non-current assets	**66.1**	**96.0**	**103**	**107**	**111**
Goodwill	24.0	37.3	37.3	37.3	37.3
Intangible assets	31.3	46.4	53.4	57.7	60.2
Tangible assets	2.5	2.8	2.5	2.7	3.4
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	0.3	0.9	0.9	0.9	0.9
Other non-current assets	8.0	8.6	8.7	8.8	8.9
Deferred tax assets	0.1	0.1	0.1	0.1	0.1
Current assets	**16.2**	**20.0**	**25.1**	**27.8**	**34.6**
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	7.1	9.8	12.4	13.2	15.2
Cash and equivalents	9.1	10.1	12.7	14.7	19.4
Balance sheet total	**84.9**	**118**	**130**	**138**	**149**

Source: Inderes

Liabilities & equity	2020	2021	2022e	2023e	2024e
Equity	**32.2**	**44.7**	**50.2**	**57.5**	**67.6**
Share capital	0.1	0.1	0.1	0.1	0.1
Retained earnings	17.3	23.1	28.2	35.5	45.5
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	14.8	21.6	22.0	22.0	22.0
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	**37.1**	**50.4**	**52.2**	**50.5**	**44.2**
Deferred tax liabilities	0.7	2.0	2.0	2.0	2.0
Provisions	0.0	0.0	0.0	0.0	0.0
Long term debt	35.9	46.2	48.0	46.3	40.0
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	0.6	2.2	2.2	2.2	2.2
Current liabilities	**15.6**	**22.6**	**27.7**	**30.4**	**37.4**
Short term debt	2.3	3.2	4.0	3.6	7.0
Payables	12.1	16.6	20.8	24.0	27.6
Other current liabilities	1.2	2.9	2.9	2.9	2.9
Balance sheet total	**84.9**	**118**	**130**	**138**	**149**

Summary

Income statement	2019	2020	2021	2022e	2023e
Revenue	58.0	65.2	82.8	**104.0**	**119.9**
EBITDA	18.9	23.3	27.7	**33.4**	**38.0**
EBIT	10.4	12.9	14.8	**16.6**	**20.4**
PTP	9.6	12.0	14.0	**15.7**	**19.4**
Net Income	7.6	9.6	10.8	**12.6**	**15.5**
Extraordinary items	0.0	0.0	0.0	**0.0**	**0.0**

Balance sheet	2019	2020	2021	2022e	2023e
Balance sheet total	71.3	84.9	117.7	**130.1**	**138.5**
Equity capital	23.6	32.2	44.7	**50.2**	**57.5**
Goodwill	20.7	24.0	37.3	**37.3**	**37.3**
Net debt	29.2	29.0	39.2	**39.3**	**35.2**

Cash flow	2019	2020	2021	2022e	2023e
EBITDA	18.9	23.3	27.7	**33.4**	**38.0**
Change in working capital	1.2	2.4	3.3	**1.7**	**2.3**
Operating cash flow	18.3	23.5	28.9	**31.8**	**36.2**
CAPEX	-25.7	-22.2	-41.9	**-24.1**	**-23.2**
Free cash flow	-7.6	1.8	-11.3	**7.7**	**13.1**

Valuation multiples	2019	2020	2021	2022e	2023e
EV/S	5.9	10.4	6.7	**4.7**	**4.0**
EV/EBITDA (adj.)	18.1	29.2	19.9	**14.5**	**12.7**
EV/EBIT (adj.)	32.8	52.7	37.4	**29.3**	**23.7**
P/E (adj.)	41.1	67.9	47.5	**35.5**	**28.9**
P/E	13.3	20.2	11.5	**8.9**	**7.8**
Dividend-%	1.7 %	1.0 %	1.5 %	**1.8 %**	**2.2 %**

Source: Inderes

Per share data	2019	2020	2021	2022e	2023e
EPS (reported)	0.18	0.22	0.25	**0.28**	**0.35**
EPS (adj.)	0.18	0.22	0.25	**0.28**	**0.35**
OCF / share	0.44	0.54	0.66	**0.71**	**0.81**
FCF / share	-0.18	0.04	-0.26	**0.17**	**0.29**
Book value / share	0.57	0.74	1.02	**1.12**	**1.28**
Dividend / share	0.13	0.15	0.17	**0.18**	**0.22**

Growth and profitability	2019	2020	2021	2022e	2023e
Revenue growth-%	19%	12%	27%	**26%**	**15%**
EBITDA growth-%	38%	23%	19%	**21%**	**14%**
EBIT (adj.) growth-%	22%	24%	15%	**12%**	**23%**
EPS (adj.) growth-%	18%	21%	11%	**14%**	**23%**
EBITDA-%	32.6 %	35.7 %	33.4 %	**32.1 %**	**31.7 %**
EBIT (adj.)-%	18.0 %	19.8 %	17.8 %	**15.9 %**	**17.0 %**
EBIT-%	18.0 %	19.8 %	17.8 %	**15.9 %**	**17.0 %**
ROE-%	36.0 %	34.4 %	28.1 %	**26.5 %**	**28.8 %**
ROI-%	20.2 %	19.8 %	18.0 %	**16.9 %**	**19.5 %**
Equity ratio	33.2 %	38.1 %	38.2 %	**38.9 %**	**41.9 %**
Gearing	123.9 %	90.3 %	87.7 %	**78.3 %**	**61.2 %**

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

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Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
2/5/2019	Accumulate	4.17 €	3.83 €
2/25/2019	Accumulate	4.42 €	3.97 €
4/5/2019	Accumulate	5.33 €	4.82 €
4/24/2019	Accumulate	6.00 €	5.33 €
6/5/2019	Reduce	6.00 €	5.85 €
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 €

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Olli Koponen
2020

Research belongs to everyone.