EVLI

TALENOM

Commercial Services & Supplies/Finland, May 7, 2019
Company report

Solid performance to continue

Talenom has seen success in achieving well above market growth while simultaneously vastly improving profitability, relying on technological advances to automate processes and enhance efficiency. We continue to see room for near-term margin improvement, while the fragmented bookkeeping services market offers continued room for growth.

Focusing on rapid organic growth

Talenom has taken a different approach from the mainly inorganic growth focused competitors in the fragmented bookkeeping services market by successfully focusing on organic growth, having achieved a sales CAGR of 14% during 2015-2018. Growth has been enabled by Talenom's separation of accountants and sales force, which we expect to continue supported by benefits of digitalization and the market fragmentation. We expect a sales CAGR of 17% during 2018-2021E.

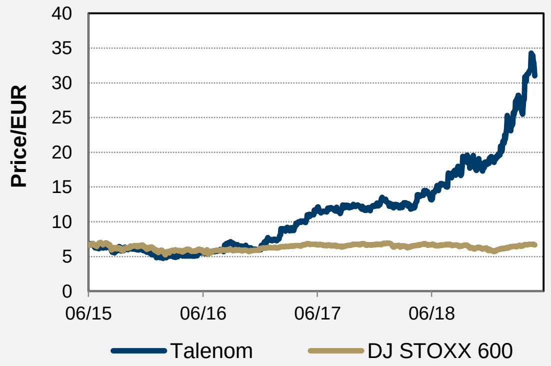
Margin improvements from process efficiency

Talenom has invested heavily in improving the efficiency of its bookkeeping production line. Through centralization of bookkeeping tasks and automation of processes the company has been able to decrease resource needs, resulting in sizeable improvements in margins. We expect further development in 2019 to give a slight boost to margins, with our 2019E operating profit margin estimate at 19.5% (2018: 17.5%).

BUY with a target price of EUR 35.0

We retain our BUY rating and target price of EUR 35.0. Our target price values Talenom at 27.5x 2019E P/E, slightly above our business support services peer group, which we consider warranted due to the highly recurring nature of revenue and stability of the bookkeeping services market. The high valuation is further supported by earnings growth through both sales growth and margin improvements (Evli 2019E sales growth +20.9% and EBIT margin +2 %p).

Rating — BUY



Share price, EUR (Last trading day's closing price)	31.00
Target price, EUR	35.0
Latest change in recommendation	05-Feb-19
Latest report on company	24-Apr-19
Research paid by issuer:	YES
No. of shares outstanding, '000's	6,872
No. of shares fully diluted, '000's	6,872
Market cap, EURm	213
Free float, %	57.0
Exchange rate	0.000
Reuters code	TNOM.HE
Bloomberg code	TNOM FH
Average daily volume, EURm	-
Next interim report	29-Jul-19
Web site	www.talenom.fi

Analyst	Jerker Salokivi
E-mail	jerker.salokivi@evli.com
Telephone	+358 9 4766 9149

BUY HOLD SELL

KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	Ptx profit EURm	EPS EUR	P/E (x)	EV/Sales (x)	P/CF (x)	EV/EBIT (x)	DPS EUR
2017	41	5	11.7%	4	0.50	23.4	2.5	8.9	21.6	0.32
2018	49	9	17.5%	8	0.93	20.6	3.2	10.8	18.4	0.55
2019E	59	12	19.5%	11	1.27	24.3	4.0	13.8	20.7	0.75
2020E	69	14	20.7%	14	1.58	19.6	3.5	11.6	16.8	0.95
2021E	77	16	21.0%	16	1.82	17.0	3.1	10.2	14.6	1.09

Market cap, EURm	213	BV per share 2019E, EUR	3.6	CAGR EPS 2018-21, %	25.3
Net debt 2019E, EURm	25	Price/book 2019E	8.5	CAGR sales 2018-21, %	16.6
Enterprise value, EURm	238	Dividend yield 2019E, %	2.4	ROE 2019E, %	40.1
Total assets 2019E, EURm	67	Tax rate 2019E, %	20.0	ROCE 2019E, %	21.4
Goodwill 2019E, EURm	19	Equity ratio 2019E, %	37.5	PEG, P/E 19/CAGR	1.5

All the important disclosures can be found on the last pages of this report.

Investment summary

Rapidly growing and highly profitable technology focused accounting company

Talenom is one of the largest companies providing bookkeeping services in Finland. Talenom focuses on the small and mid-sized customer enterprises. In addition to the main business comprising of bookkeeping, invoicing and payroll services, the company offers advisory and other complementary business services including staffing, funding services, and software. The company has a solid track-record of profitable growth, with a sales CAGR of around 14 % during 2015-2018, while having improved EBIT-margins from below 5 % to 17.5% in 2018.

Large and stable market with high fragmentation

The market for accounting companies amounted to nearly a billion euros in 2017 and has been growing steadily, with average growth in the past ten years at around 4 %. The stability in the market is increased by business entities being subject by law to a bookkeeping obligation and as such considerably less cyclical. Fragmentation in the market is considerable, with roughly 4,300 bookkeeping firms in total in Finland.

High recurring revenue and customer retention

Over 90 % of Talenom's revenue is from on-going contracts for bookkeeping services. The customer contracts are generally long, according to management 10 years on average and only a fraction of customer's are lost annually. The high customer retention and recurring revenue offers considerable top-line stability.

Scalable business model, with digital offering and increased automation

The company has taken a different approach, in a market where expansion has been mainly acquisition-driven and digitalization has been low, by establishing a separate sales force to focus on organic growth and investing in software development and automation of its bookkeeping production line to enhance process efficiency.

Opportunity in new complementary services to SMEs

Talenom has introduced a range of complementary services for SMEs, such as funding and staffing services. The services are part of the company's strategic approach in serving SMEs as broadly as possible. The new services offer a means of improving customer retention, but also offer potential in increasing sales. These services have yet to show a significant impact, but we recognize a considerable potential given the extensive customer networks.

Expected CAGR 2018-2021E of 17 %

We see Talenom with its digitalized service offering and scalable business model as being well positioned to consolidate the bookkeeping market and continue to grow its market share. We expect Talenom to grow at a 17 % CAGR 2018-21E. We expect growth to be mainly organic, through growth in bookkeeping customers in Finland, although the acquisition of Swedish Wakers Consulting will have a minor inorganic contribution.

Slight margin improvements expected

Talenom's profitability has improved notably up until 2018, achieving an operating profit margin of 17.5%, largely due to enhanced efficiency of the bookkeeping production line. Talenom expects its operating margin to improve in 2019. We expect margin improvements to derive from further enhancement of the bookkeeping production line during H2/2019, which we expect to further support margins in 2020E. We expect an operating profit margin of 19.5 % and 20.7 % in 2019E and 2020E respectively.

Main risks to investment case

The main risks to our investment case in our view are 1) price erosion of bookkeeping services in the long-term, 2) increasing competition among the large digital accounting companies, and 3) growth being expensive; the profitability could be affected if the company is unsuccessful in acquiring new customers.

BUY with a target price of EUR 35.0

We retain our BUY rating and target price of EUR 35.0. Our target price values Talenom at 27.5x 2019E P/E, slightly above our business support services peer group, which we consider warranted due to the highly recurring nature of revenue and stability of the bookkeeping services market. The high valuation is further supported by earnings growth through both sales growth and margin improvements (Evli 2019E sales growth +20.9% and EBIT margin +2 %p).

Company and business overview

One of the largest bookkeeping companies in Finland

Talenom is one of the biggest accounting service providers in Finland. In addition to the main business comprising of bookkeeping, invoicing, and payroll services, the company offers advisory and other complementary business services including for instance staffing services and invoice financing. The company's shares have been listed on the main list of the Helsinki Stock Exchange since 15.6.2017.

Table 1: Talenom's key figures

EURm	2014	2015	2016	2017	2018
Revenue	29.6	33.0	37.0	41.4	48.9
Growth	*14.0 %*	*11.6 %*	*12.0 %*	*12.1 %*	*18.0 %*
EBIT	1.5	1.2	4.2	4.8	8.5
EBIT-margin	*5.2 %*	*3.7 %*	*11.3 %*	*11.7 %*	*17.5 %*
Employees	486	588	542	613	673

Source: Talenom

Digitalizing a traditionally paperwork dependent industry

Talenom has developed its own software and to a large extent digitalized its service offering. The bookkeeping industry in Finland is still characterized by large amounts of paper documents being sent from the customer to the accounting firm. By transmitting documents electronically and through automated processing of data the company seeks to achieve a competitive advantage and scalability.

Focus on organic growth, automation and efficiency enhancing margins

The company has separated its sales force and accountants and focused on growing organically, which it sees as a cheaper alternative to acquisitions. The actual accounting processes take place at centralized service centres in Oulu and Tampere. The company's bookkeeping production line along with the centralized service centres have made it possible to exploit economies of scale and increase process efficiency through the use of technology and automation, which has significantly improved margins.

Building a platform of services for small and mid-sized enterprises

Talenom's strategy revolves around improving the everyday way of how small and mid-size enterprises operate. Bookkeeping still remains the core service area but Talenom has sought to broaden its service offering within other supportive services, including advisory services and staffing services. This additional offering is sold along with the other services to create a larger service coverage catering to an increased extent to the needs of small and mid-sized enterprises.

Talenom SWOT-analysis

Strengths
- Scalable and competitive business model
- Over 90 % recurring revenues
- Own software development
- Stable and fragmented market

Weaknesses
- Growth is expensive
- High debt and goodwill on balance sheet
- High investments impact on cash flow

Opportunities
- Potential in new services
- Increasing efficiency and profitability
- Geographical expansion
- Licensing of technology

Threats
- Price erosion in bookkeeping services
- Increased competition from other large digital competitors

Source: Evli research

Service areas

Accounting services the main business area

Talenom's main business area is accounting services, which includes bookkeeping, invoicing and payroll services. These services are complemented with advisory services such as tax and legal advisory. In addition, the company offers complementary services, which are not directly accounting related, to widen the service mix and benefit from the synergies with the sales network and existing client relationships.

Figure 1: Talenom's service offering and examples of services

Accounting Services	Advisory	Complementary Business Services
• Monthly bookkeeping	• Tax advisory	• Talenom staffing service
• Financial statements	• Legal advisory	• Invoice funding
• Invoice payment	• Managerial accounting	• Receivables solutions
• Sales invoicing		• Software solutions
• Payroll services		
• Performance monitoring		

Source: Talenom, Evli research

Accounting Services

93% of revenue from accounting services

Accounting services is by far the largest service area. Accounting services accounted for 93 % of the revenues in 2018. The share of revenues from accounting services of the company's total revenues has remained relatively stable, as sales of the additional services started to pick up first during 2018 but still accounting for a low share of sales.

The accounting service offering includes the following services:

- Outsourcing services: Bookkeeping, sales invoicing, invoice payment and financial reporting.
- Customer care services: Additional service giving the customer access to a designated accountant and additional financial situation follow-ups.
- Financial management software: Includes for instance in-house developed financial management tools Talenom Online and Talenom App as well as interfaces to other financial management software and a Business Intelligence solution for corporate customers.

Advisory

Advisory share of revenue estimated at 3-5 %

Talenom offers advisory services related to law, taxation and financial management. Advisory services also cover more complex areas such as changes in business structures and ownership restructuring. Advisory services are estimated to account for approx. 3-5 % of the total revenue.

Complementary business services

Complementary services to aid SME customers

Talenom has sought to expand its service offering to SME's through services that support the companies' business, with some examples listed below. The revenue generation of these services started to pick up in 2018 but still accounts only for a marginal share of revenue. The new business services offer a means of utilizing existing customer networks for additional sales and differentiating Talenom's service mix from its competitors'.

The new services include:

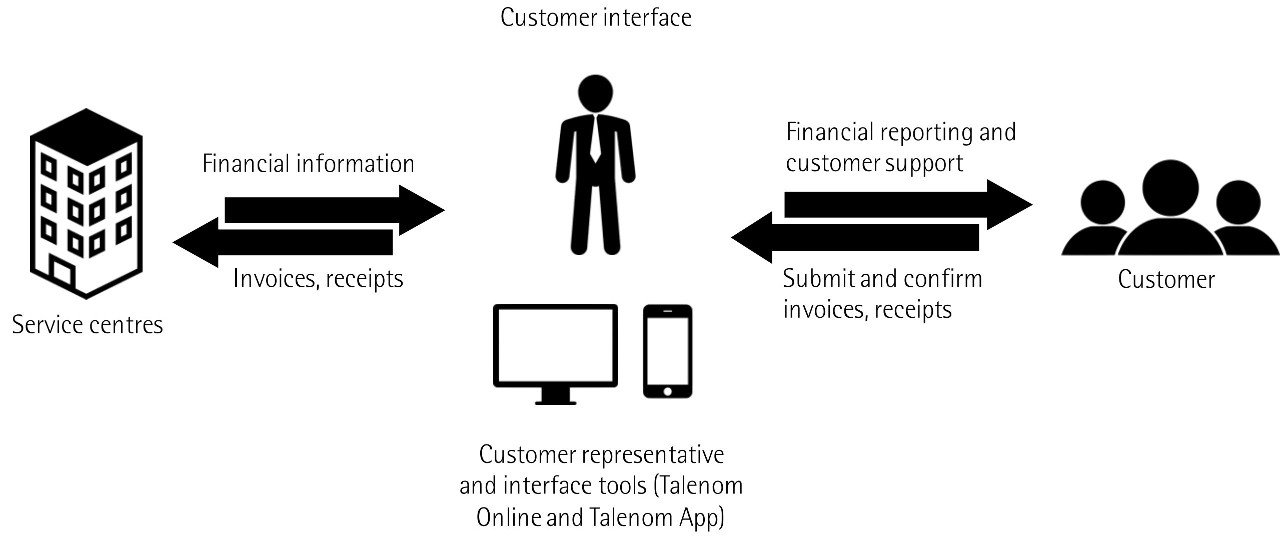
- **Talenom Financing Services:** Talenom's services include different funding solutions, for instance a partnership with AREX for the funding of customer invoices. The services are still in quite an early stage but given the transactional volume of customers' management sees good potential in these business operations. As a newer addition is the partnership with Fellow Finance to provide access to business financing solutions.
- **Talenom staffing service:** Talenom can assist customers with a temporary or continuous need for workforce. The scope of the staffing service includes accounting and various office tasks. Talenom offers similar services under the accounting and advisory service areas. According to company management Talenom is more flexible in how short assignments the staffing services can be offered for than competitors in the area.
- **ERP and analytics software:** Talenom has introduced two cloud-based software tools: the ERP solution Talenom Pro for concentrating financial management tools under one service, and reporting software Talenom Business Intelligence. The software is sold separately to clients as a Software as a Service solution.

Operating model

Talenom has a competitive and scalable business model which is based on separation of the sales network from the actual accounting processes and own software development. Four central parts of the operating model are:

- Centralized service centres
- Separated sales and customer service force
- Own software development
- Focus on organic growth

Figure 2: Simplified operating model



Source: Evli research

Centralized service centres

Separated sales and accounting functions

Traditionally accounting companies have been accountant centred; an accountant acts as the sales person, account manager, and assumes responsibility for the bookkeeping tasks. Talenom has taken a different approach by separating sales and the actual accounting from each other. The separated model frees the sales forces to focus on acquiring new customers and selling additional services and accountants to focus on the accounting tasks.

Services centres in Oulu and Tampere

The actual accounting processes take place at centralized service centres in Oulu and Tampere. The centralized service centres make it possible to better exploit economies of scale through automation and process design. In addition, the location outside the Helsinki region should offer some advantages in rental and employee costs.

Focusing on organic growth

Outsourcing level high in SME's, acquisitions hist. preferred way to expand

It has been estimated that some 90 % of the Finnish small enterprises have outsourced their bookkeeping (Taloushallintoliitto). Around 95 % of the Finnish companies are small firms employing fewer than 10 employees (Statistics Finland) and the demand created by new companies does not alone support growth. With the higher saturation level and high customer retention rates the traditional way of acquiring larger amounts of new customers has been through acquisitions.

Talenom used acquisitions as the main expansion strategy until 2010 when it established a separated sales network to drive organic growth. According to the company, there are many reasons why organic growth is more appealing than an acquisition driven strategy. The main reasons for this include:

- Sustaining uniform contracts, operating model and IT systems
- Total costs of organic growth are estimated to be lower than in the case of acquisitions
- Avoiding risks related to integration

Acquisitions still possible, recent acquisition to open new market in Sweden

Despite the main focus on organic growth, Talenom has not completely withstood from making acquisitions and has not excluded the possibility of further acquisitions in the future. The latest completed acquisition was that of Stockholm-based accounting firm Wakers Consulting during Q1/2019, through which Talenom opened operations in Sweden. Organically establishing operations in the new market would in our view have been challenging and we expect further efforts to be mainly on organic growth.

Recurring and stable income but large upfront costs from acquiring new clients

Over 90 % of revenue recurring

The high customer retention and mostly fixed fee based income structure from the on-going client service agreements stabilizes the revenue streams. The standard agreement is valid until further notice with a two month notice period. The service is invoiced monthly and the price typically includes a fixed fee and volume based fee. According to management the amount of recurring revenue is over 90 %.

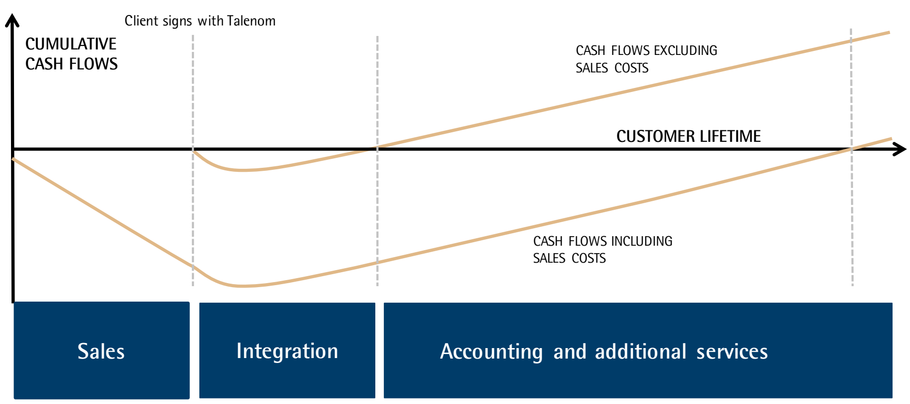
Significant client acquisition costs and effort

On average a new customer reaches breakeven after around six months, when taking into account the service integration costs and costs related to training new clients in the use of Talenom's software. However, to acquire a new client a substantial amount of sales effort is required and therefore the payback time of all the upfront costs of bringing in a new client can be a couple of years.

High customer retention rate

Customers generally do not switch bookkeeping firms very often and customer retention is high in the industry. Depending on the firm the customers lost annually would be in the range of 5-10 %. A part of customers leave due to reasons relating to the bookkeeping firm but other common reasons also include for instance M&A and bankruptcy. Company management has estimated an average customer lifetime of approximately 10 years.

Figure 3: Cumulative cash flows and customer lifetime



Source: Talenom, Evli research

Sales model

Use of franchising-model to enhance sales

Talenom has 36 offices in locations throughout Finland and an office in Stockholm. Talenom operates its business both through the use of own offices and through a franchising model. The franchising offices operate through a similar business model as Talenom's local offices but with the franchise entrepreneur acting as the local link to the client. Clients acquired by the franchising entrepreneurs are ultimately Talenom's clients and not clients of the entrepreneur. The compensation of the franchising entrepreneurs is usually structured in a way that rewards customer acquisition. Talenom has a total of 23 franchising entrepreneurs.

Franchising model a way to expand in smaller regions

The franchising-model is a way for Talenom to set up offices also in smaller areas, where they would not likely otherwise set up an own office. Setting up a franchise office can be accomplished with relatively limited resources, as the work tasks are mainly limited to sales activity and customer support. According to management a franchise could be set up with a sole entrepreneur but usually at least some four employees would be needed to ensure that a representative is always present once customers have been acquired.

Own software development

Software development team of around 60 persons

Talenom has a software development team of around 60 persons, developing both client software and technology for the company's bookkeeping production line. Development of the latter is crucial to maintaining efficient procedures behind the curtains of the client software. The client software is provided as a software-as-a-service (SaaS), meaning that the fee structure of the software is based on subscription and usage and the software is also cloud based. The accounting interface is accessible by computer or mobile through Talenom's own interface access software Talenom Online and Talenom App.

Additional software developed for customers' more advanced needs

Besides the accounting software, Talenom has also developed the software tools Talenom ERP and Talenom Business Intelligence, for the business needs of larger customers in areas of financial management and analytics. Whereas Talenom Online is used by nearly all customers, Talenom ERP and Talenom Business Intelligence are used only by a small fraction of customers.

Market overview and competitive landscape

Roughly one billion euro market, growth on average 4% p.a. in past 10 years

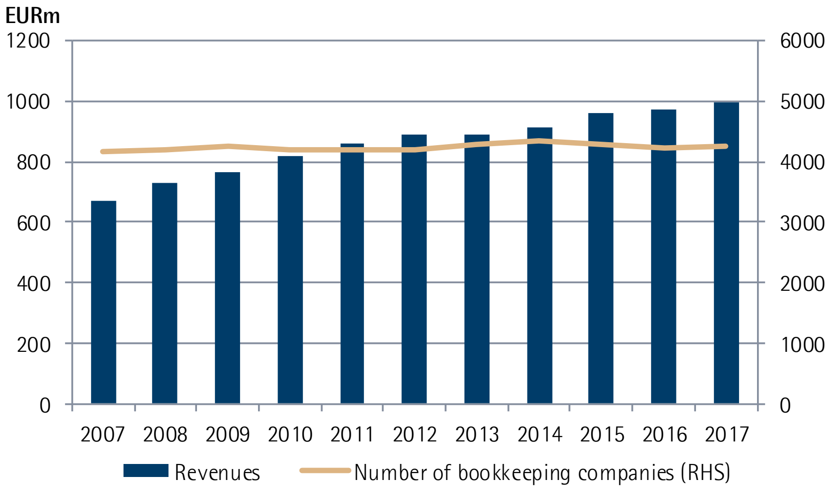
The bookkeeping industry in Finland can be described as fragmented but stable. The bookkeeping market size was approximately a billion euros in 2017, based on the total revenues of the bookkeeping companies in Finland. During the past 10 years the market has grown some 4% on average p.a.[1].

Defensive market due to bookkeeping obligation

Essentially all business entities are subject by law to a bookkeeping obligation. This greatly reduces the effect of cyclicality due to economic trends. The bookkeeping market has also grown nearly constantly since 2001. In addition, the number of companies required to do bookkeeping has fluctuated only a little.

[1] Statistics Finland, Structural business and financial statement statistics

Figure 4: Market size and number of companies in the bookkeeping market in Finland

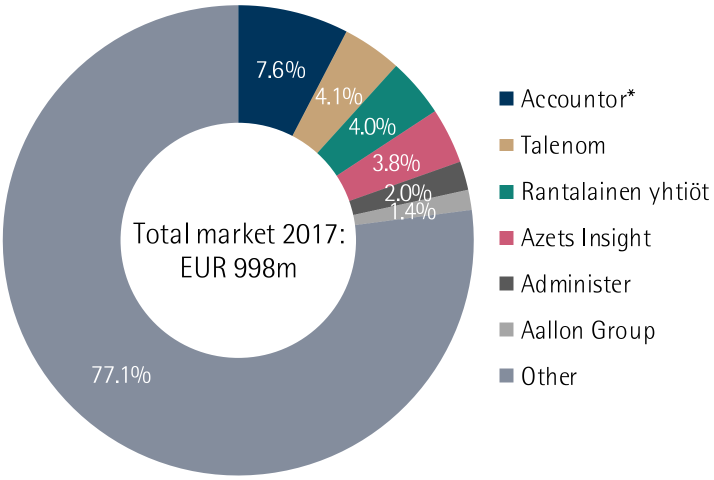


Source: Statistics Finland - The data before 2013 is not fully comparable to the data after 2012 due to changes in the statistics.

Fragmented market with over 4,000 bookkeeping companies

The bookkeeping market is very fragmented. In 2017, the number of bookkeeping companies amounted to 4,249 and the average accounting firm employed less than three people[2]. Whereas total revenue of the bookkeeping market has grown steadily, the number of firms has remained more or less unchanged. The five largest bookkeeping companies had an estimated combined market share of just above 20 % in 2017.

Figure 5: Market shares in the bookkeeping market in Finland



*Estimate based on outsourcing services revenue in Finland, co's total revenue EUR 226m
Source: Company reports, Statistics Finland, Evli research. Rantalainen yhtiöt's fiscal year 1.4.2017-31.3.2018, others 1.1.2017-31.12.2017.

Digitalization and automation enables scalability

A historical driver behind the market fragmentation has been the lack of digitalization and automation, limiting possibilities for economies of scale due to personnel dependency. However, digitalization is changing these industry characteristics when economies of scale play a larger role as certain processes can to a larger extent be automated and software oriented operating models offer scalability.

[2] Statistics Finland, Structural business and financial statement statistics

Segmented market

Level of outsourcing of bookkeeping services higher in smaller firms

The level of outsourcing of bookkeeping services in small companies is high but declines with firm size. In the largest enterprises bookkeeping tasks are mostly performed in-house. The large companies prefer internal accounting functions because they have the resources to handle their own accounting and the analysis of the data can be used more efficiently. The largest enterprises are more likely to outsource only certain separate functions, for instance payroll processes.

Relevant customer size based on revenue roughly EUR 0.4-40m

According to company management the relevant customer size would be firms up to some EUR 40m in revenue, after which the size advantages makes it more efficient to perform bookkeeping tasks in-house. The smallest companies are virtually all potential customers, but from the customer perspective there is usually a threshold based on transaction volume. With low volumes small accounting firms offering hourly prices are likely the better option, as larger accounting firms often opt not to offer hourly rates. Once volumes rise the fixed-price monthly contracts offered by larger firms become more relevant. According to company management the relevant customer size based on annual revenue would be roughly between EUR 0.4-40m, with the preferable customer size in the range of EUR 3-6m.

High customer retention

Generally long contracts and high customer retention rates

The customer retention is high in the industry. According to management a typical customer lifetime is estimated to be approximately 10 years. A typical reason for staying with the same accounting firm is the familiarity with the accountant and the knowledge that accountant has built up of the business, which is especially the case in firms with named accountants.

Switching accounting firms is effortful

Switching accounting firms takes time for both the customer and the new accountant because the old accounting data usually has to be re-entered into a new accounting system and the new accountant has to familiarize himself or herself with the business of the new client. This is especially resource-consuming if the accounting has not been transferred to a digital format. Transferring data in digital format simplifies the process for the accountant and the client. The level of digital accounting is still low.

Digitalization is changing the industry

Digitalization is increasing efficiency in bookkeeping

Digitalization and automation are shaping the industry; automation increases process efficiency and basic bookkeeping tasks require fewer working hours. Digitalization also increases efficiency when the accounting material can be handled fully in digital format. The number of employees has remained at stable levels since 2011 despite the increasing total revenues of the industry. There is still room for further digitalization – the share of fully or nearly fully digital accounting is still low. General expectations for the number of accountants in the future is a stable or declining trend.

Larger firms are driving digitalization, software benefits available also for smaller firms

The large accounting companies are driving the digitalization through developing digital services and automating their processes. The smaller accounting companies will likely struggle to keep up with the change due to lack of resources, expertise and lower customer volumes. Still, the high personal service level and near connections to the direct accountant as well as companies developing software that can also be used by the smaller firms, aid the smaller companies in retaining their market positions, delaying consolidation of the market.

Competitors and competitive landscape

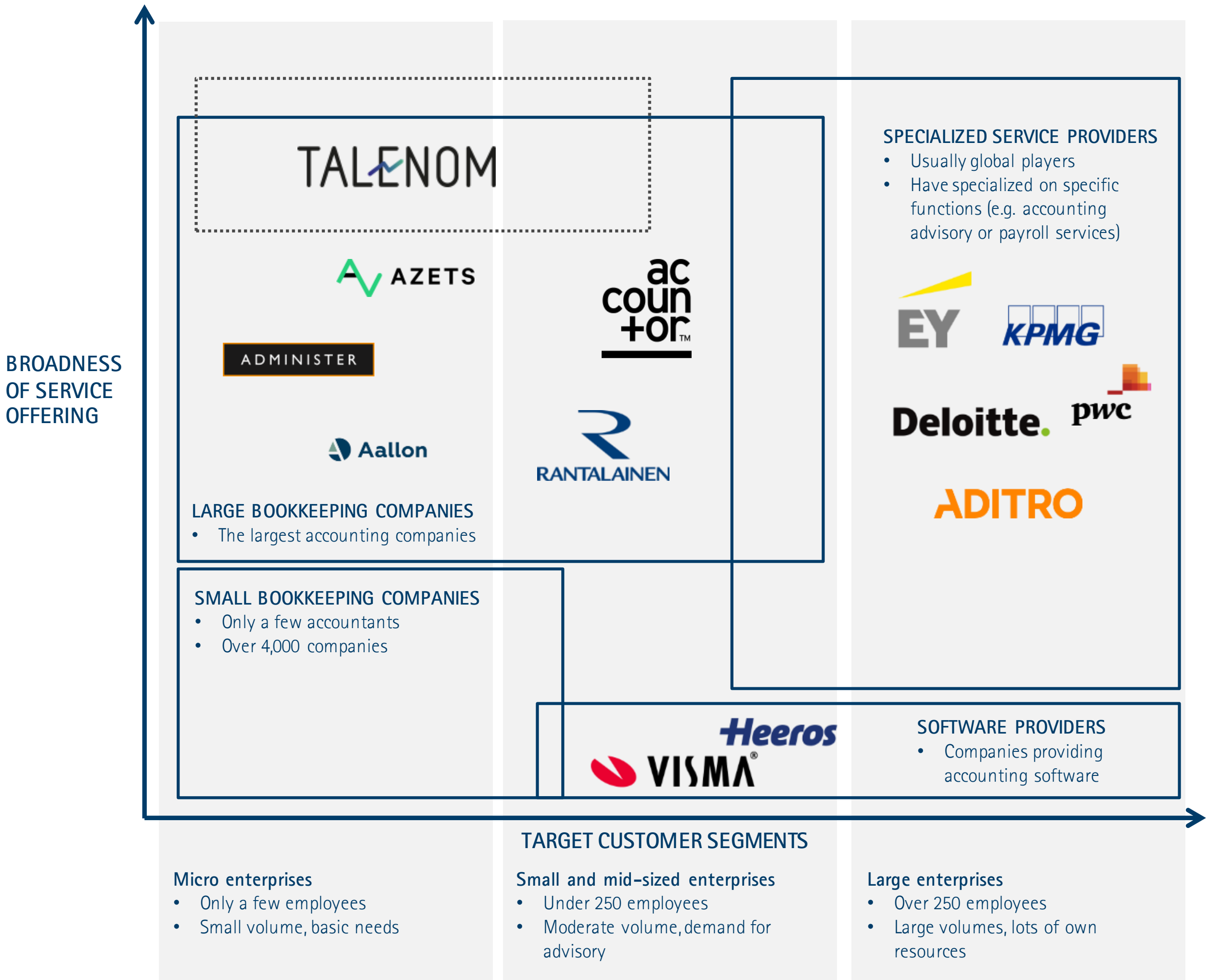
Bookkeeping centred companies focusing on SMEs

The bookkeeping market in Finland can be divided into the micro, small and mid-sized customer enterprises, and large customer enterprises. The bookkeeping companies are focused on the market of small and mid-sized companies whereas the larger customer enterprises are served by more diversified sets of service providers due to the different needs.

Main competitors are other large bookkeeping companies

The main competitors of Talenom are the largest bookkeeping companies in Finland, although due to the fragmentation Talenom generally competes more with the smaller bookkeeping companies for new customers. The larger bookkeeping companies have the closest service mix to Talenom and are large enough to benefit from the economies of scale and to keep up with digitalization. The largest companies are driving the market consolidation through acquisitions, software development, and a wider service offering compared to the small bookkeeping companies.

Figure 6: Competitive landscape of Talenom's market in Finland



Source: Evli research

Positioning of the small bookkeeping companies

Majority of competitors' small, local companies

The majority of bookkeeping companies are very small and therefore do not have the capacity to offer a wide range of services and benefit from economies of scale. The small number of accountants in these companies restricts the capacity and limits the target customer segments mainly to small enterprises. The small bookkeeping companies are also local players without a nationwide office network. The small bookkeeping companies are generally not positioned to grow aggressively because the accountants handle everything from the daily operations to customer representation and the expertise is usually limited specifically to bookkeeping.

Larger bookkeeping companies generally avoid non-fixed fees

In addition, the small companies can compete with price; very small micro enterprises have so small volumes that the hourly fee structure of the small bookkeepers is more appealing than the more fixed fees of the large bookkeeping companies. These advantages are not enough to stop the consolidation but will probably keep the market fragmented for an extended duration and make it expensive to acquire new customers for the largest bookkeeping companies.

Positioning of the largest bookkeeping companies

The main larger bookkeeping companies in Finland include Accountor, Azets (former subsidiary of Visma), Administer and Rantalainen Yhtiöt. A recent "new" entrant to the larger firms is Aallon Group, formed through the unification of six smaller bookkeeping companies in 2018. The company listed on the First North Finland -exchange in 2019. The largest companies are actively expanding through acquisitions or organic growth and therefore driving the industry consolidation. The large companies utilize digitalization to gain economies of scale and provide new services for their clients.

Table 2: Talenom's competitor comparison (2017 figures)

	TALENOM	accountor	ADMINISTER	AZETS	RANTALAINEN	Aallon
Revenue (EURm)	41.4	226.3	20.2	46.6	41.6	15.4
EBITDA-margin	23.0 %	11.4 %	N/A	N/A	N/A	14.7 %
EBIT-margin	11.7 %	3.6 %	3.9 %	13.8 %	7.3 %	11.7 %
Employees	613	~2,500	334	536	531	185
Sales CAGR ('15-'17)	12.0 %	7.9 %	24.7 %	7.2 %	-1.6 %	9.3 %
Own software	Yes	Yes	Yes	(Visma)	No	No
Offices outside Finland	Yes	Yes	Yes	Yes	Yes	No

Source: Suomen Asiakastieto, Company annual reports, Kauppalehti, Evli research. Figures based on fiscal year 1.1.2017-31.12.2017, for Rantalainen Yhtiöt fiscal year 1.4.2017-31.3.2018. Azets figures include Azets Insight and Azets Employee for comparability.

The larger firms growing at above market pace on average

The big accounting companies have been actively increasing their market share. Acquisitions still remain a significant source of growth but along with Talenom, Accountor has also grown mainly organically in recent years. Administer has made several acquisitions and the acquisition of Silta is expected to over double revenue in 2018.

Talenom a top performer among peers

Talenom has been able to achieve a healthy balance between growth and profitability, especially when considering the 18% growth and 17.5% EBIT-margin achieved in 2018. Talenom has based on growth and profitability figures been a top performer among peers.

Accountor and Administer more similar to Talenom

Accountor is the largest bookkeeping company in Finland and together with Administer in our view form the key competition based on the business model. Both Accountor and Administer have focused on developing their own software, while for instance Rantalainen to our understanding has focused on developing software for integrating other service providers accounting software. Azets was formerly part of Visma but was separated to become an own accounting services focused entity. Visma now focuses on developing enterprise software and solutions including accounting software. Aallon group intends to grow aggressively through acquisitions and intends to utilize third-party software along with developing its own software.

Different needs limit expansion to large customer enterprises

Lower need for bookkeeping outsourcing in larger companies

The large bookkeeping companies are better positioned to serve larger companies than their smaller counterparts due to their size, but as the customer size grows the need for bookkeeping services declines as a larger part is done in-house. The larger customers' needs differ from the small companies and with a higher need for advisory services, the competitive landscape shifts more towards the large, global service providers.

Larger companies mainly outsource specific functions

The large companies usually outsource only specific functions or activities because they have their own accounting personnel. There are focused players, including for instance Aditro, competing for certain functions such as payroll services. The largest bookkeeping companies are not aggressively competing against the specialized service providers in the segment of larger companies but provide similar services to the small and mid-sized customer segment.

Positioning of Talenom

Talenom striving to compete through service offering

Talenom is striving to differentiate itself from competitors through its service offering and software as well as the mainly organic growth strategy. The complementary business services are not yet financially substantial but can give a competitive edge and aid in customer retention. The competition in the areas of the new services within the bookkeeping companies is fragmented and Talenom is one of the only providers actively working towards combining multiple services under one roof for businesses. Within the complementary services some competition comes from telecom operators with lots of SME clients and a similar kind of distribution strategy in regards of additional services.

Growth opportunities

The fragmented market still provides growth opportunities for the largest bookkeeping companies to continue to grow their market share. Talenom has a good opportunity to grow organically through customers who value the improved service offering and through the occurring digitalization of the industry. Opportunities for expanding operations and implementing Talenom's proven growth strategy abroad also exist and Talenom already took the first step in early 2019 by acquiring Sweden-based Wakers Consulting. Another growth opportunity could be to sell Talenom's software to other clients than their own accounting clients. The alternative has been mentioned by management but is in our view unlikely at least in the near-term. This would also to our understanding require a shift to using solely own software, as external parties are still in some instances used. We see no indication of this at the moment and current efforts seems to be on focusing more on establishing operations in Sweden, expanding the franchising network, and establishing new and ramping up existing complementary services.

Financial performance

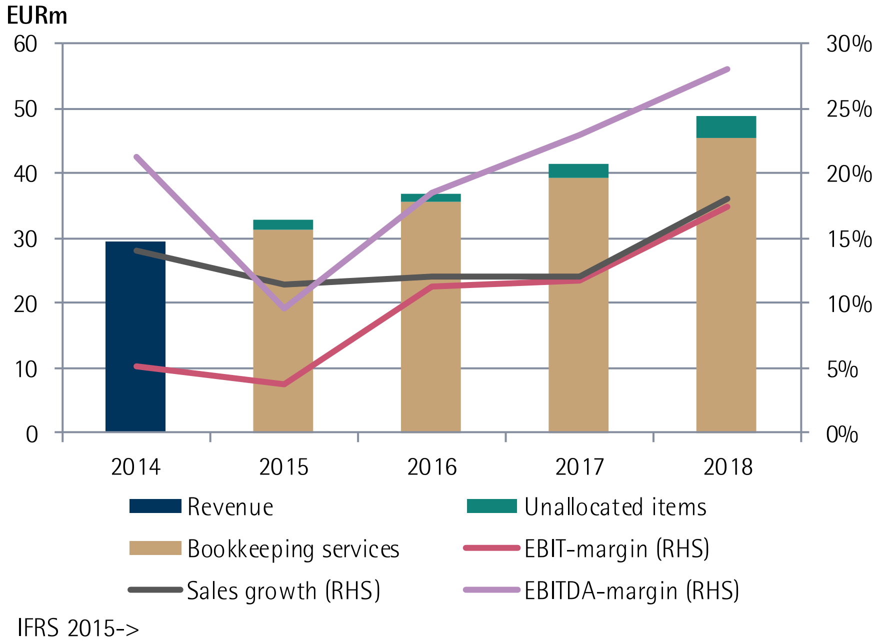
Good and steady growth; accounting services main revenue source

Talenom has historically managed to grow steadily, with a CAGR of 15.5% during the time period 2005-2018. Although Talenom's growth historically has relied to a larger extent on acquisition, the continued solid growth in recent years has been attributed mainly to organic growth in accounting services from acquiring new customers. Talenom reports revenue separately as revenue from bookkeeping services and unallocated items and eliminations. The bookkeeping services include some revenue related to the advisory services but the majority of advisory services are booked under the unallocated items. The unallocated items also include the complementary services such as staffing. The total growth of the unallocated items amounted to 62.8%. The growth of the complementary services has not been disclosed but as these services only started to show progress during the latter half of 2017, the revenue growth percentage is expected to have been well into triple-digit figures.

2018: revenue grew 18% to EUR 48.9m and EBIT-margin improved to 17.5%

Since its IPO in 2015 Talenom has shown continued healthy revenue growth and margin improvements. The average revenue growth between 2015-2018 amounted to some 13% p.a., with revenue reaching EUR 48.9m in 2018, while the EBIT-margin improved from below five percent to 17.5% in 2018. The improved profitability has been driven mainly by technological advances and operational efficiency relating to the company's bookkeeping line, which have enabled more efficient use of employee time, thus reducing the proportional share of employee expenses. Talenom's revenue in Q1/19 amounted to EUR 14.8m, growing 16.1% y/y, with the EBIT-margin at 23.3%. Wakers Consulting figures will be incorporated during Q2/19.

Figure 7: Talenom's revenue and profitability development



Source: Evli research, Talenom

Guidance for FY 2019

Talenom updated its guidance the 4.4.2019 in conjunction with the acquisition of Wakers Consulting. Talenom expects its net sales growth percentage to increase from 2018 (18.0% in 2018) and the operating profit margin (17.5% in 2018) to increase from 2018.

Balance sheet

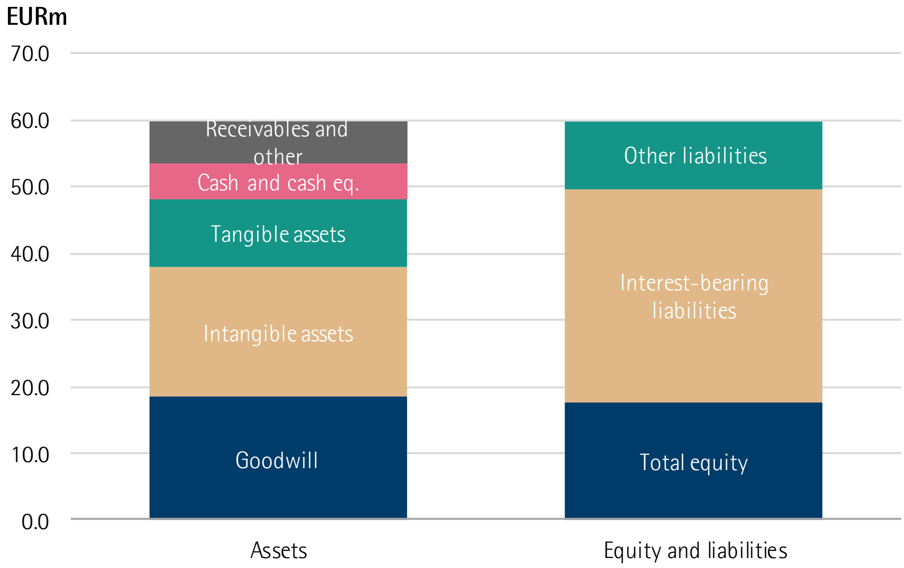
Large goodwill mainly from acquisitions before 2010

A larger share of the assets on Talenom's balance sheet consist of goodwill from acquisitions made during Talenom's earlier stages, as well as intangible assets relating mainly to capitalized development costs and customer acquisition expenses. Goodwill as per the 31.3.2019 amounted to EUR 18.4m, corresponding to 104% of total shareholders' equity. Of the intangible assets EUR 8.6m relate to capitalized customer acquisition expenses and a larger share of the remainder to capitalized software development costs. The capitalized customer acquisition expenses are expenses of such nature that would not be paid unless a new customer is signed, such as bonuses and integration costs. The expenses are capitalized due to the long duration of the customer contracts and are depreciated over a ten-year duration. Cash and cash equivalent amounted to EUR 5.3m.

Equity ratio at 29.7%

Talenom's long-term financial liabilities in the form of a bank loan amounted to EUR 23.5m. Net interest-bearing liabilities, including IFRS 16 lease liabilities, amounted to EUR 32.0m and net debt to EUR 26.6m. Of the liabilities long-term debt per the 31.3.2019 was EUR 21.5m. Talenom's equity ratio and net gearing ratio amounted to 29.7% and 150% respectively.

Figure 8: Talenom's balance sheet composition as per 31.3.2019



Source: Talenom, Evli research

Large investment needs but profitability supports balance sheet situation

For a mostly labour-intensive company Talenom's has substantial investment needs from the investments into developing software and obtaining new customers. There is a certain strain on the balance sheet due to the high amount of goodwill and intangibles as well as a rather high level of debt. The company's financial situation is supported by the high profitability in recent years, which have continued to enable extensive investments. A need for increasing debt is also unlikely as M&A activity is expected to be limited and the company's valuation would support use of own shares.

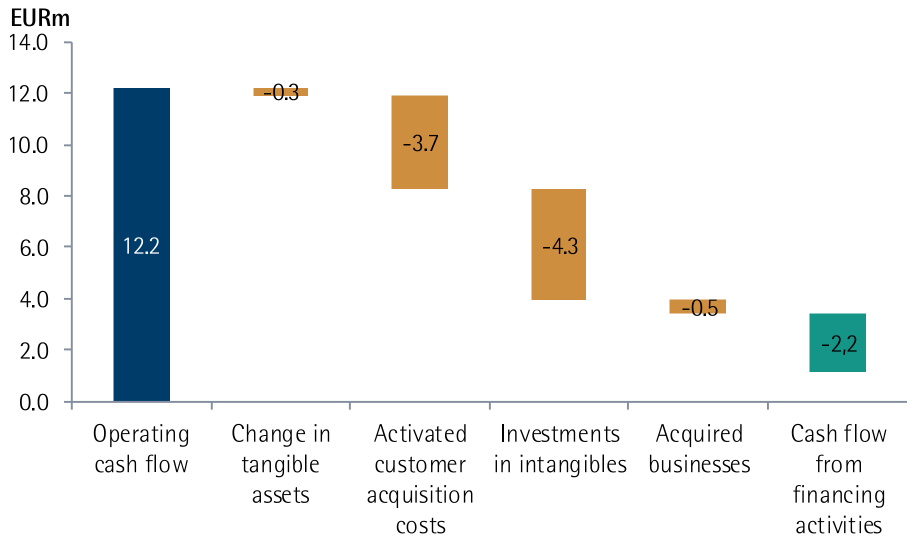
Investments and cash flow

Growth initiatives require large investments

Talenom's growth initiatives have required and will continue to require a large amount of investments to support the growth pace. Figure 9 breaks down the main components of these investments as part of the cash flow statement. Due to the large investments the company's free cash flow has been rather low despite high profitability, at EUR 3.3m compared to EBITDA of EUR 13.7m in 2018.

The activated customer acquisition costs include a part that is based on the cost for acquiring a new customer contract and a part related to the integration costs when bringing in a new customer. The activated costs for acquiring a customer include provisions to the sales team that would not have been paid if the contract were not signed. A larger part of the costs relating to the sales work are booked as costs in the income statement. The activated customer acquisition costs increased some 18% compared to 2017. As the costs are only activated if a customer contract is signed and as we expect provisions to be linked to some extent to the revenue that a new customer will generate, these investments give a good indication of how successful Talenom has been in creating future revenue growth.

Figure 9: Components of Talenom's cash flow statement in 2018



Source: Evli research

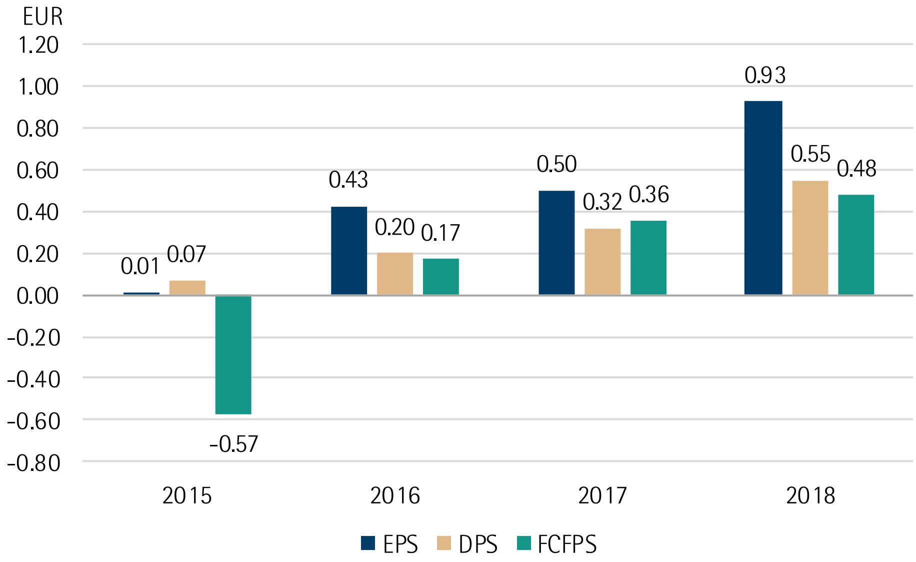
Largest investments from developing software

The larger component of investments has been the activated development costs of the company's software, amounting to EUR 4.0m in 2018. These investments have been high for several years and with new software projects in the pipeline it is unlikely that they will decrease substantially in the near future.

Investments impacting on cash flow and dividends

As a result of the rapid growth phase and significant investments Talenom's free cash flow per share amounted to EUR 0.48 compared to earnings per share of EUR 0.93. The dividend per share amounted to EUR 0.55, in effect partly financed by an increase in bank loans. The corresponding dividend yield on the share price for the end of the year 2018 was 2.9%. As we expect Talenom to continue to seek further rapid growth dividend distribution is unlikely to be a priority and with risen valuation multiples we expect the dividend yield to decrease from 2018 levels in the coming years.

Figure 10: Earnings, dividend, and free cash flow per share



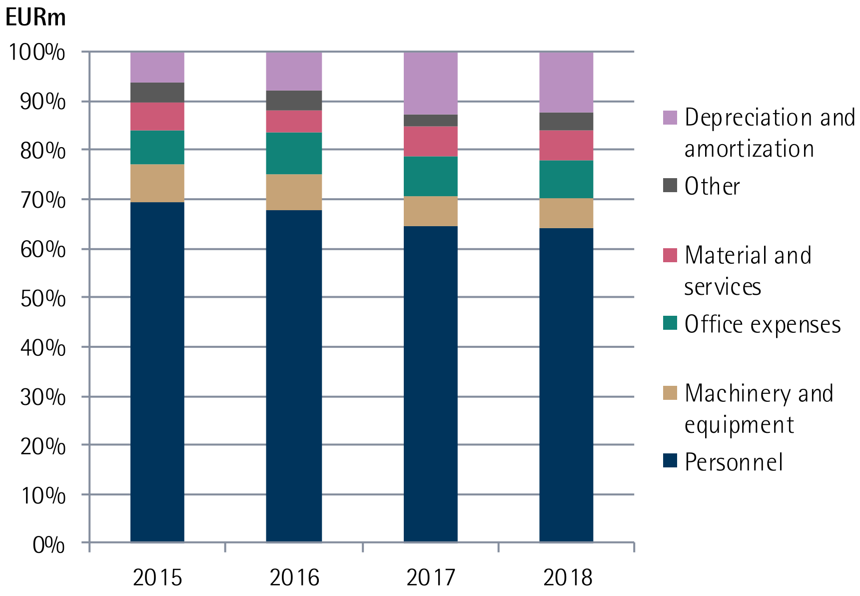
Source: Talenom, Evli research

Cost structure

Costs mainly personnel related

Talenom's services are labour-intensive, which is reflected in the high personnel costs. Through enhanced operational efficiency and automation Talenom has been able to reduce the time employees spend on certain tasks, which has led to an increase of around 30% in the revenue per employee from 2015 to 2018. The number of employees at the end 2018 amounted to 673. The other cost items amounted to roughly 23% of costs and consist largely of such items that increase with the size of operations. Depreciation and amortization accounted for some 13% of the total expenses. With the adoption of IFRS 16 the cost base is expected to change, as operating expenses are expected to decrease by EUR 1.7m and depreciations increase by EUR 1.6m.

Figure 11: Talenom's cost base



Source: Talenom, Evli research

Estimates

Expected sales CAGR of 17 % for 2018-2021E

Talenom has been growing mainly organically through its own sales organization as well as the expanding franchising network. The sales growth has surpassed the majority of larger Finnish competitors, that have grown mainly through acquisitions. The growth outlook in Finland remains favourable due to the fragmentation of the bookkeeping services market along with the minor but steady growth. We expect a sales CAGR of around 17 % during 2018-2021E. We expect sales growth mainly from new bookkeeping customers in Finland. The acquisition of Wakers Consulting will have a smaller inorganic contribution to 2019-2020E sales growth while we remain cautious to major organic near-term growth in Sweden while the operating model is established and ramped-up. We also expect growth in advisory and complementary services, supported by the growth in customers and ramping up of complementary services areas, where we see potential mainly in Talenom's Financing Services and Staffing services.

We expect slight continued margin improvements

Talenom has been able to improve margins through investments into its bookkeeping production line, which has resulted in some of the highest margins among competitors. Talenom is continuing to improve processes and invest in software development and further developments during H2/2019 are expected to further increase margins through enhanced efficiency. The actions to be taken will support increased margins also in 2020, as the effects will then impact on the full year. We do not expect any major improvements in margins post 2020, as visibility into any further bookkeeping production line development remains limited and a larger share of processes have already been optimized.

Table 3: Estimates summary

Talenom	2017	Q1/'18	Q2/'18	Q3/'18	Q4/'18	2018	Q1/'19	Q2/'19E	Q3/'19E	Q4/'19E	2019E	2020E	2021E
Net sales	**41.4**	**12.7**	**12.5**	**11.1**	**12.4**	**48.9**	**14.8**	**14.4**	**13.8**	**16.1**	**59.1**	**68.5**	**77.4**
sales growth %	*11.9%*	*18.1%*	*17.9%*	*19.8%*	*16.3%*	*18.0%*	*16.1%*	*14.8%*	*23.8%*	*29.3%*	*20.9%*	*16.0%*	*13.0%*
EBITDA	**9.5**					**13.7**					**18.8**	**22.2**	**25.1**
EBITDA margin	*23.0%*					*28.0%*					*31.9%*	*32.4%*	*32.3%*
EBIT	**4.8**	**2.6**	**2.6**	**1.9**	**1.5**	**8.5**	**3.4**	**3.2**	**2.4**	**2.5**	**11.5**	**14.2**	**16.3**
EBIT margin	*11.7%*	*20.7%*	*20.6%*	*16.6%*	*11.8%*	*17.5%*	*23.3%*	*22.2%*	*17.4%*	*15.5%*	*19.5%*	*20.7%*	*21.0%*

Source: Talenom, Evli research estimates

Valuation

BUY with a target price of EUR 35.0

We retain our BUY rating and target price of EUR 35.0. Our target price values Talenom at 27.5x 2019E P/E, slightly above our business support services peer group, which we consider warranted due to the highly recurring nature of revenue and stability of the bookkeeping services market. The high valuation is further supported by earnings growth through both sales growth and margin improvements (Evli 2019E sales growth +20.9% and EBIT margin +2 %p)

Identifying a peer group for Talenom is challenging due to the lack of comparable public accounting firms. Generally speaking within accounting, auditing and similar business support service firms the investment needs have been very low, as the main resource is the personnel and the need to raise new capital is limited. There are also certain regulatory issues that hinder firms from going public and in the common partnership-based models the desire to go public is lower. We have constructed our peer group based on business support service firms with a focus on firms where the nature of the business would imply less project-based revenue.

In comparison to our peer group Talenom trades at a slight discount on P/E and EV/EBITDA figures. According to our assessment, Talenom's share of recurring revenue is among the highest of the selected peers, which along with the underlying stable bookkeeping services market would afford a higher valuation. Valuation is also supported by, as for most of the peers, earnings growth through both margin improvement and sales growth.

Table 4: Peer group

	MCAP	EV/EBITDA			EV/EBIT			P/E		
TALENOM PEER GROUP	MEUR	19	20	21	19	20	21	19	20	21
Asiakastieto Group	636	16.0x	14.2x	12.9x	23.9x	20.1x	17.5x	26.6x	22.7x	19.9x
CBIZ	979	10.6x	9.8x					16.8x	15.2x	
Fortnox	668	39.7x	30.7x	24.6x	46.7x	34.8x	27.4x	60.5x	45.4x	35.9x
Paychex	27140	18.5x	17.1x		21.3x	19.5x	18.8x	28.3x	26.0x	24.0x
Zalaris	52	8.9x	7.6x	7.2x	16.7x	12.9x	11.6x	22.0x	12.5x	10.2x
Peer Group Average	5895	**18.7x**	**15.9x**	**14.9x**	**27.1x**	**21.8x**	**18.8x**	**30.8x**	**24.4x**	**22.5x**
Peer Group Median	668	**16.0x**	**14.2x**	**12.9x**	**22.6x**	**19.8x**	**18.1x**	**26.6x**	**22.7x**	**21.9x**
Talenom (Evli est.)	**220**	**13.0x**	**11.0x**	**9.7x**	**21.3x**	**17.3x**	**15.0x**	**25.1x**	**20.2x**	**17.6x**
Talenom prem./disc. to peer median		*-19%*	*-23%*	*-25%*	*-6%*	*-13%*	*-17%*	*-6%*	*-11%*	*-20%*

Source Bloomberg, Evli Research

	Sales	Sales gr.		EBIT-%			Div. yield		
TALENOM PEER GROUP	18	19	20	19	20	21	19	20	21
Asiakastieto Group	98	41%	10%	23.4 %	25.2 %	27.1 %	3.6 %	3.9 %	4.2 %
CBIZ	781	10%	5%						
Fortnox	37	29%	23%	30.3 %	33.0 %	35.0 %	0.4 %	0.6 %	0.7 %
Paychex	3067	18%	5%	35.2 %	36.7 %	36.7 %	2.7 %	2.8 %	2.9 %
Zalaris	78	7%	7%	5.8 %	7.0 %	7.3 %	3.2 %	5.0 %	
Peer Group Average	**812**	**21%**	**10%**	**23.7 %**	**25.5 %**	**26.5 %**	**2.5 %**	**3.1 %**	**2.6 %**
Peer Group Median	**98**	**18%**	**7%**	**26.8 %**	**29.1 %**	**31.1 %**	**2.9 %**	**3.3 %**	**2.9 %**
Talenom (Evli est.)	**49**	**21%**	**16%**	**19.5 %**	**20.7 %**	**21.0 %**	**2.3 %**	**3.0 %**	**3.4 %**
Talenom prem./disc. to peer median									

Source Bloomberg, Evli Research

VALUATION RESULTS		BASE CASE DETAILS		VALUATION ASSUMPTIONS		ASSUMPTIONS FOR WACC	
Current share price	31.00	PV of Free Cash Flow	68	Long-term growth, %	2.3	Risk-free interest rate, %	2.25
DCF share value	27.73	PV of Horizon value	152	WACC, %	7.4	Market risk premium, %	5.8
Share price potential, %	-10.5	Unconsolidated equity	0	Spread, %	0.5	Debt risk premium, %	3.3
Maximum value	31.5	Marketable securities	6	Minimum WACC, %	6.9	Equity beta coefficient	0.80
Minimum value	24.6	Debt - dividend	-35	Maximum WACC, %	7.9	Target debt ratio, %	25
Horizon value, %	69.1	Value of stock	191	Nr of shares, Mn	6.9	Effective tax rate, %	20

DCF valuation, EURm	2018	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	Horizon
Net sales	49	59	69	77	85	91	97	101	107	112	114	117
Sales growth, %	*18.0*	*20.9*	*16.0*	*13.0*	*10.0*	*7.0*	*6.0*	*5.0*	*5.0*	*5.0*	*2.3*	*2.3*
Operating income (EBIT)	9	12	14	16	18	17	18	18	19	20	21	21
EBIT margin, %	*17.5*	*19.5*	*20.7*	*21.0*	*21.0*	*19.0*	*19.0*	*18.0*	*18.0*	*18.0*	*18.0*	*18.0*
+ Depreciation+amort.	5	7	8	9	9	10	11	12	12	13	13	
- Income taxes	-1	-2	-3	-3	-4	-3	-4	-4	-4	-4	-4	
- Change in NWC	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	0	
NWC / Sales, %	*-4.6*	*-1.9*	*-0.1*	*1.2*	*2.1*	*2.7*	*3.2*	*3.6*	*3.9*	*4.3*	*4.4*	
+ Change in other liabs	0	0	0	0	0	0	0	0	0	0	0	
- Capital Expenditure	-18	-12	-12	-13	-13	-13	-13	-14	-14	-15	-15	-15
Investments / Sales, %	*36.2*	*20.5*	*17.7*	*16.3*	*14.9*	*14.1*	*13.8*	*13.5*	*13.5*	*13.5*	*12.7*	*12.7*
- Other items	0	0	0	0	0	0	0	0	0	0	0	
= Unlevered Free CF (FCF)	-6	3	6	8	10	11	12	12	13	13	15	302
= Discounted FCF (DFCF)		3	6	7	8	8	8	7	7	7	8	152

= DFCF min WACC		3	6	7	8	8	8	8	8	7	8	176
= DFCF max WACC		3	5	7	8	7	8	7	7	7	7	132

INTERIM FIGURES

EVLI ESTIMATES, EURm	2018Q1	2018Q2	2018Q3	2018Q4	2018	2019Q1	2019Q2E	2019Q3E	2019Q4E	2019E	2020E	2021E
Net sales	13	13	11	12	49	15	14	14	16	59	69	77
EBITDA	4	4	3	3	14	5	5	4	5	19	22	25
EBITDA margin (%)	*29.3*	*30.8*	*27.4*	*24.4*	*28.0*	*34.8*	*34.0*	*29.7*	*29.2*	*31.9*	*32.4*	*32.3*
EBIT	3	3	2	1	9	3	3	2	3	12	14	16
EBIT margin (%)	*20.7*	*20.6*	*16.6*	*11.8*	*17.5*	*23.3*	*22.2*	*17.4*	*15.5*	*19.5*	*20.7*	*21.0*
Net financial items	0	0	0	0	-1	0	0	0	0	-1	-1	-1
Pre-tax profit	2	2	2	1	8	3	3	2	2	11	14	16
Tax	0	-1	0	0	-2	-1	-1	0	0	-2	-3	-3
Tax rate (%)	*19.9*	*20.6*	*19.3*	*20.8*	*20.1*	*20.0*	*20.0*	*20.0*	*20.0*	*20.0*	*20.0*	*20.0*
Net profit	2	2	1	1	6	3	2	2	2	9	11	13
EPS	0.29	0.29	0.21	0.15	0.93	0.38	0.36	0.26	0.27	1.27	1.58	1.82
EPS adjusted (diluted no. of shares)	0.29	0.29	0.21	0.15	0.93	0.38	0.36	0.26	0.27	1.27	1.58	1.82
Dividend per share	0.00	0.00	0.00	0.00	0.55	0.00	0.00	0.00	0.00	0.75	0.95	1.09
SALES, EURm												
Talenom	13	13	11	12	49	15	14	14	16	59	69	77
Total	13	13	11	12	49	15	14	14	16	59	69	77
SALES GROWTH, Y/Y %												
Talenom	*18.1*	*17.9*	*19.8*	*16.3*	*18.0*	*16.1*	*14.8*	*23.8*	*29.3*	*20.9*	*16.0*	*13.0*
Total	*18.1*	*17.9*	*19.8*	*16.3*	*18.0*	*16.1*	*14.8*	*23.8*	*29.3*	*20.9*	*16.0*	*13.0*
EBIT, EURm												
Talenom	3	3	2	1	9	3	3	2	3	12	14	16
Total	3	3	2	1	9	3	3	2	3	12	14	16
EBIT margin, %												
Talenom	*20.7*	*20.6*	*16.6*	*11.8*	*17.5*	*23.3*	*22.2*	*17.4*	*15.5*	*19.5*	*20.7*	*21.0*
Total	*20.7*	*20.6*	*16.6*	*11.8*	*17.5*	*23.3*	*22.2*	*17.4*	*15.5*	*19.5*	*20.7*	*21.0*

INCOME STATEMENT, EURm	2014	2015	2016	2017	2018	2019E	2020E	2021E
Sales	30	33	37	41	49	59	69	77
Sales growth (%)	*14.0*	*11.6*	*12.0*	*12.1*	*18.0*	*20.9*	*16.0*	*13.0*
Costs	-23	-30	-30	-32	-35	-40	-46	-52
Reported EBITDA	6	3	7	10	14	19	22	25
Extraordinary items in EBITDA	0	0	0	0	0	0	0	0
EBITDA margin (%)	*21.3*	*9.6*	*18.5*	*23.0*	*28.0*	*31.9*	*32.4*	*32.3*
Depreciation	-3	-2	-3	-5	-5	-7	-8	-9
EBITA	3	1	4	5	9	12	14	16
Goodwill amortization / writedown	-2	0	0	0	0	0	0	0
Reported EBIT	2	1	4	5	9	12	14	16
EBIT margin (%)	*5.2*	*3.7*	*11.3*	*11.7*	*17.5*	*19.5*	*20.7*	*21.0*
Net financials	-1	-1	-1	-1	-1	-1	-1	-1
Pre-tax profit	0	0	4	4	8	11	14	16
Extraordinary items	0	0	0	0	0	0	0	0
Taxes	0	0	-1	-1	-2	-2	-3	-3
Minority shares	0	0	0	0	0	0	0	0
Net profit	0	0	3	3	6	9	11	13
BALANCE SHEET, EURm								
Assets								
Fixed assets	10	11	14	17	30	34	38	42
% of sales	*33*	*34*	*38*	*41*	*60*	*58*	*56*	*54*
Goodwill	19	18	18	18	18	19	19	19
% of sales	*63*	*56*	*50*	*44*	*38*	*32*	*27*	*24*
Inventory	0	0	0	0	0	0	0	0
% of sales	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Receivables	4	4	5	5	5	7	8	9
% of sales	*15*	*13*	*13*	*13*	*11*	*11*	*11*	*11*
Liquid funds	2	5	4	5	6	7	8	9
% of sales	*5*	*16*	*12*	*12*	*12*	*12*	*12*	*12*
Total assets	34	40	42	46	59	67	73	79
Liabilities								
Equity	1	9	12	14	19	25	31	37
% of sales	*2*	*28*	*32*	*34*	*38*	*42*	*45*	*47*
Deferred taxes	0	0	0	1	1	1	1	1
% of sales	*0*	*0*	*1*	*1*	*2*	*2*	*1*	*1*
Interest bearing debt	26	24	23	23	32	33	33	33
% of sales	*86*	*71*	*61*	*54*	*65*	*55*	*48*	*43*
Non-interest bearing current liabilities	1	0	0	0	0	0	0	0
% of sales	*5*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Other interest free debt	7	7	8	9	8	8	8	8
% of sales	*23*	*21*	*21*	*21*	*17*	*14*	*12*	*10*
Total liabilities	34	40	42	46	59	67	73	79
CASH FLOW, EURm								
+ EBITDA	6	3	7	10	14	19	22	25
- Net financial items	-1	-1	-1	-1	-1	-1	-1	-1
- Taxes	0	-1	0	0	-1	-2	-3	-3
- Increase in Net Working Capital	0	0	0	1	-1	-1	-1	-1
+/- Other	2	1	1	1	1	0	0	0
= Cash flow from operations	7	3	7	10	12	15	18	20
- Capex	-7	-3	-6	-7	-18	-12	-12	-13
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Net cash flow	-2	-1	0	1	-7	3	6	8
+/- Change in interest-bearing debt	2	-2	-1	0	9	1	1	0
+/- New issues/buybacks	0	9	0	0	1	1	0	0
- Paid dividend	0	0	0	-1	-2	-4	-5	-7
+/- Change in loan receivables	0	-1	0	0	0	0	0	0
Change in cash	1	5	-2	0	1	1	1	1

KEY FIGURES	2015	2016	2017	2018	2019E	2020E	2021E
M-cap	32	49	87	131	213	213	213
Net debt	18	18	18	26	25	25	24
Enterprise value	50	67	105	157	238	238	237
Sales	33	37	41	49	59	69	77
EBITDA	3	7	10	14	19	22	25
EBIT	1	4	5	9	12	14	16
Pre-tax	0	4	4	8	11	14	16
Earnings	0	3	3	6	9	11	13
Book value	9	12	14	19	25	31	37
Valuation multiples							
EV/sales	1.5	1.8	2.5	3.2	4.0	3.5	3.1
EV/EBITDA	15.8	9.9	11.0	11.5	12.7	10.7	9.5
EV/EBITA	41.1	16.1	21.6	18.4	20.7	16.8	14.6
EV/EBIT	41.1	16.1	21.6	18.4	20.7	16.8	14.6
EV/operating cash flow	17.7	9.8	10.7	12.9	15.5	13.0	11.4
EV/cash earnings	41.1	10.8	12.2	13.1	14.9	12.6	11.1
P/E	400.0	16.9	23.4	20.6	24.3	19.6	17.0
P/E excl. goodwill	400.0	16.9	23.4	20.6	24.3	19.6	17.0
P/B	3.4	4.2	6.2	7.0	8.5	6.9	5.8
P/sales	1.0	1.3	2.1	2.7	3.6	3.1	2.8
P/CF	11.3	7.2	8.9	10.8	13.8	11.6	10.2
Target EV/EBIT	*0.0*	*0.0*	*0.0*	*0.0*	*23.0*	*18.7*	*16.2*
Target P/E	*0.0*	*0.0*	*0.0*	*0.0*	*27.5*	*22.1*	*19.2*
Target P/B	*0.0*	*0.0*	*0.0*	*0.0*	*9.6*	*7.8*	*6.6*
Per share measures							
Number of shares	6,084	6,807	6,812	6,872	6,872	6,872	6,872
Number of shares (diluted)	6,084	6,807	6,812	6,872	6,872	6,872	6,872
EPS	0.01	0.43	0.50	0.93	1.27	1.58	1.82
EPS excl. goodwill	0.01	0.43	0.55	0.93	1.27	1.58	1.82
Cash EPS	0.20	0.91	1.27	1.74	2.34	2.75	3.10
Operating cash flow per share	0.46	1.00	1.44	1.77	2.24	2.67	3.03
Capital employed per share	4.52	4.39	4.63	6.47	7.34	8.09	8.80
Book value per share	1.54	1.72	2.05	2.72	3.64	4.47	5.34
Book value excl. goodwill	-1.49	-0.99	-0.66	0.04	0.92	1.75	2.62
Dividend per share	0.07	0.20	0.32	0.55	0.75	0.95	1.09
Dividend payout ratio, %	532.3	46.9	63.9	59.4	58.9	60.0	60.0
Dividend yield, %	1.3	2.8	2.5	2.9	2.4	3.1	3.5
Efficiency measures							
ROE	1.6	27.5	26.6	39.0	40.1	39.0	37.1
ROCE	4.1	12.5	13.7	19.7	21.4	23.4	24.3
Financial ratios							
Capex/sales, %	9.4	15.5	17.9	36.2	20.5	17.7	16.3
Capex/depreciation excl. goodwill,%	163.2	217.0	159.1	345.1	162.0	151.0	144.0
Net debt/EBITDA, book-weighted	5.7	2.7	1.9	1.9	1.3	1.1	0.9
Debt/equity, market-weighted	0.7	0.5	0.3	0.2	0.2	0.2	0.2
Equity ratio, book-weighted	23.5	27.7	30.4	31.5	37.5	42.1	46.6
Gearing	1.93	1.55	1.26	1.38	1.02	0.81	0.65
Number of employees, average	588	542	613	673	805	925	1,035
Sales per employee, EUR	56,116	68,186	67,571	72,617	73,350	74,091	74,839
EBIT per employee, EUR	2,075	7,707	7,896	12,697	14,329	15,337	15,716

COMPANY DESCRIPTION: Talenom Oyj operates as an accounting company. The Company offers accounting, bookkeeping, taxation, and legal services, as well as invoicing, financial performance monitoring and management software, and payroll services.

INVESTMENT CASE:

OWNERSHIP STRUCTURE	SHARES	EURm	%
Tahkola Harri	1,564,315	48.494	22.8%
Ilmarinen Mutual Pension Insurance Company	1,061,560	32.908	15.4%
Tahkola Markus	939,304	29.118	13.7%
Evli Finnish Small Cap fund	400,000	12.400	5.8%
Skandinaviska Enskilda Banken (nominee reg.)	279,747	8.672	4.1%
Danske Invest Finnish Institutional Equity fund	231,252	7.169	3.4%
Nordea Bank (nominee reg.)	179,702	5.571	2.6%
EQ Nordic Small Cap fund	149,712	4.641	2.2%
Siuruainen Mikko	130,086	4.033	1.9%
Danske Invest Finnish Small Cap fund	120,000	3.720	1.7%
Ten largest	5,055,678	156.726	74%
Residual	1,816,185	56.302	26%
Total	6,871,863	213.028	100%

EARNINGS CALENDAR	
July 29, 2019	Q2 report
October 21, 2019	Q3 report

OTHER EVENTS

COMPANY MISCELLANEOUS	
CEO: Jussi Paaso	Töölönlahdenkatu 3B, 00100 Helsinki
CFO: Antti Aho	Tel:
IR: Miikka Hätälä	

DEFINITIONS

P/E $\dfrac{\text{Price per share}}{\text{Earnings per share}}$	EPS $\dfrac{\text{Profit before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}{\text{Number of shares}}$
P/Sales $\dfrac{\text{Market cap}}{\text{Sales}}$	DPS Dividend for the financial period per share
P/BV $\dfrac{\text{Price per share}}{\text{Shareholders' equity} + \text{taxed provisions per share}}$	CEPS $\dfrac{\text{Gross cash flow from operations}}{\text{Number of shares}}$
P/CF $\dfrac{\text{Price per share}}{\text{Operating cash flow per share}}$	EV/Share $\dfrac{\text{Enterprise value}}{\text{Number of shares}}$
EV (Enterprise value) Market cap + net debt + minority interest at market value − share of associated companies at market value	Sales/Share $\dfrac{\text{Sales}}{\text{Number of shares}}$
Net debt Interest bearing debt − financial assets	EBITDA/Share $\dfrac{\text{Earnings before interest, tax, depreciation and amortisation}}{\text{Number of shares}}$
EV/Sales $\dfrac{\text{Enterprise value}}{\text{Sales}}$	EBIT/Share $\dfrac{\text{Operating profit}}{\text{Number of shares}}$
EV/EBITDA $\dfrac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortisation}}$	EAFI/Share $\dfrac{\text{Pretax profit}}{\text{Number of shares}}$
EV/EBIT $\dfrac{\text{Enterprise value}}{\text{Operating profit}}$	Capital employed/Share $\dfrac{\text{Total assets} - \text{non interest bearing debt}}{\text{Number of shares}}$
Div yield, % $\dfrac{\text{Dividend per share}}{\text{Price per share}}$	Total assets Balance sheet total
Payout ratio, % $\dfrac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}$	Interest coverage (x) $\dfrac{\text{Operating profit}}{\text{Financial items}}$
Net cash/Share $\dfrac{\text{Financial assets} - \text{interest bearing debt}}{\text{Number of shares}}$	Asset turnover (x) $\dfrac{\text{Turnover}}{\text{Balance sheet total (average)}}$
ROA, % $\dfrac{\text{Operating profit} + \text{financial income} + \text{extraordinary items}}{\text{Balance sheet total} - \text{interest free short term debt} - \text{long term advances received and accounts payable (average)}}$	Debt/Equity, % $\dfrac{\text{Interest bearing debt}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}$
ROCE, % $\dfrac{\text{Profit before extraordinary items} + \text{interest expenses} + \text{other financial costs}}{\text{Balance sheet total} - \text{non interest bearing debt (average)}}$	Equity ratio, % $\dfrac{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}{\text{Total assets} - \text{interest free loans}}$
ROE, % $\dfrac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions (average)}}$	CAGR, % Cumulative annual growth rate = Average growth per year

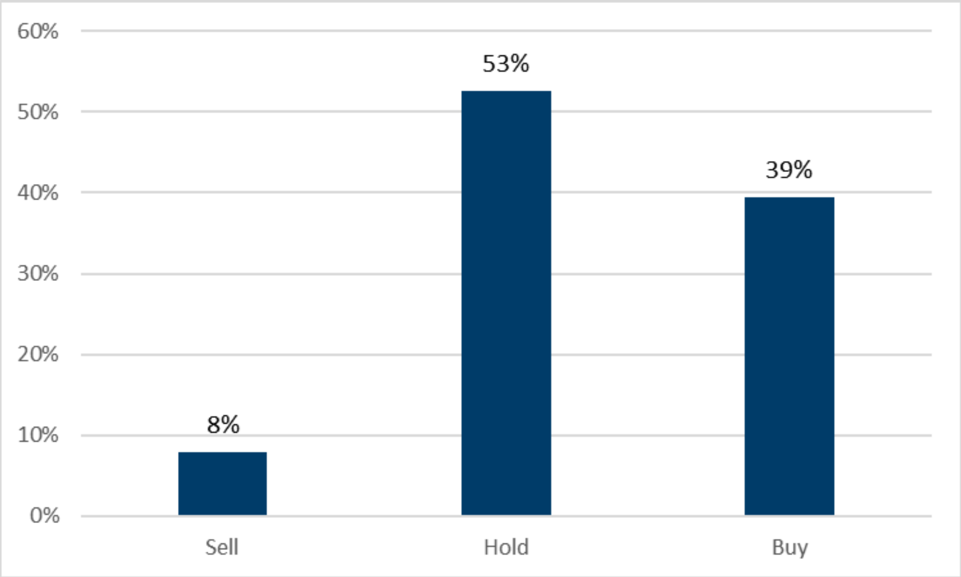
Important Disclosures

Evli Research Partners Plc ("ERP") uses 12-month target prices. Target prices are defined by utilizing analytical techniques based on financial theory including (but not limited to) discounted cash flow analysis and comparative valuation. The selection of valuation methods depends on different circumstances. Target prices may be altered on the basis of new information coming to light in the underlying company or changes in interest rates, changes in foreign exchange rates, other securities prices or market indices or outlook for the aforementioned factors or other factors that may change the conditions of financial markets. Recommendations and changes by analysts are available at https://research.evli.com/JasperAllModels.action?authParam=key;461&authParam=x;G3rNagWrtf7K&authType=3

Investment recommendations are defined as follows:

Target price compared to share price	Recommendation
< -10 %	SELL
-10 – (+10) %	HOLD
> 10 %	BUY

ERP's investment recommendation of the analyzed company is updated at least 2 timer per year.



The graph above shows the distribution of ERP's recommendations of companies under coverage in 1st of February 2019. If recommendation is not given, it is not mentioned here.

Name(s) of the analyst(s): Salokivi

This research report has been prepared by Evli Research Partners Plc ("ERP" or "Evli Research"). ERP is a subsidiary of Evli Bank Plc. Production of the investment recommendation has been concluded on 7.5.2019, 9:00. This report has been published on 7.5.2019, 9:15.

None of the analysts contributing to this report, persons under their guardianship or corporations under their control have a position in the shares of the company or related securities.

The date and time for any price of financial instruments mentioned in the recommendation refer to the previous trading day's closing price(s) unless otherwise stated in the report.

Each analyst responsible for the content of this report assures that the expressed views accurately reflect the personal views of each analyst on the covered companies and securities. Each analyst assures that (s)he has not been, nor are or will be, receiving direct or indirect compensation related to the specific recommendations or views contained in this report.

Companies in the Evli Group, affiliates or staff of companies in the Evli Group, may perform services for, solicit business from, hold long or short positions in, or otherwise be interested in the investments (including derivatives) of any company mentioned in the publication or report.

Neither ERP nor any company within the Evli Group have managed or co-managed a public offering of the company's securities during the last 12 months prior to, received compensation for investment banking services from the company during the last 12 months prior to the publication of the research report.

ERP has signed an agreement with the issuer of the financial instruments mentioned in the recommendation, which includes production of research reports. This assignment has a limited economic and financial impact on ERP and/or Evli. Under the assignment ERP performs services including, but not limited to, arranging investor meetings or –events, investor relations communication advisory and production of research material.

ERP or another company within the Evli Group does not have an agreement with the company to perform market making or liquidity providing services.

For the prevention and avoidance of conflicts of interests with respect to this report, there is an information barrier (Chinese wall) between Investment Research and Corporate Finance units concerning unpublished investment banking services to the company. The remuneration of the analyst(s) is not tied directly or indirectly to investment banking transactions or other services performed by Evli Bank Plc or any company within Evli Group.

This report has been disclosed to the company prior to its dissemination. The company has not made any amendments to its contents. Selected portions of the report were provided to the company for fact checking purposes only.

This report is provided and intended for informational purposes only and may not be used or considered under any circumstances as an offer to sell or buy any securities or as advice to trade any securities.

This report is based on sources ERP considers to be correct and reliable. The sources include information providers Reuters and Bloomberg, stock-exchange releases from the companies and other company news, Statistics Finland and articles in newspapers and magazines. However, ERP does not guarantee the materialization, correctness, accuracy or completeness of the information, opinions, estimates or forecasts expressed or implied in the report. In addition, circumstantial changes may have an influence on opinions and estimates presented in this report. The opinions and estimates presented are valid at the moment of their publication and they can be changed without a separate announcement. Neither ERP nor any company within the Evli Group are responsible for amending, correcting or updating any information, opinions or estimates contained in this report. Neither ERP nor any company within the Evli Group will compensate any direct or consequential loss caused by or derived from the use of the information represented in this publication.

This report or its copy may not be published or distributed in Australia, Canada, Hong Kong, Japan, New Zealand, Singapore or South Africa. The publication or distribution of this report in certain other jurisdictions may also be restricted by law. Persons into whose possession this report comes are required to inform themselves about and to observe any such restrictions.

Evli Bank Plc is not registered as a broker-dealer with the U. S. Securities and Exchange Commission ("SEC"), and it and its analysts are not subject to SEC rules on securities analysts' certification as to the currency of their views reflected in the research report. Evli Bank is not a member of the Financial Industry Regulatory Authority ("FINRA"). It and its securities analysts are not subject to FINRA's rules on Communications with the Public and Research Analysts and Research Reports and the attendant requirements for fairness, balance and disclosure of potential conflicts of interest. This research report is only being offered in U.S. by Auerbach Grayson & Company, LLC (Auerbach Grayson) to Major U.S. Institutional Investors and is not available to, and should not be used by, any U.S. person or entity that is not a Major U.S. Institutional Investor. Auerbach Grayson is a broker-dealer registered with the U.S. Securities and Exchange Commission and is a member of the FINRA. U.S. entities seeking more information about any of the issuers or securities discussed in this report should contact Auerbach Grayson. The securities of non-U.S. issuers may not be registered with or subject to SEC reporting and other requirements.

ERP is not a supervised entity but its parent company Evli Bank Plc is supervised by the Finnish Financial Supervision Authority.

Contact information

SALES, TRADING AND RESEARCH

Equity Sales

Ari Laine	+358 9 4766 9115
Lauri Ahokanto	+358 9 4766 9117
Niclas Henelius	+358 9 4766 9116

Trading

Lauri Vehkaluoto (Head)	+358 9 4766 9130
Pasi Väisänen	+358 9 4766 9120
Antti Kässi	+358 9 4766 9120

ETFs and Derivatives

Tobias Björk (Head)	+358 9 4766 9130
Joachim Dannberg	+358 9 4766 9123
Kimmo Lilja	+358 9 4766 9130
Sami Järvinen	+358 9 4766 9110

Structured Investments

Heikki Savijoki	+358 9 4766 9726
Aki Lakkisto	+358 9 4766 9123

Equity Research

Jonas Forslund	+358 9 4766 9314
Joonas Ilvonen	+358 44 430 9071
Jerker Salokivi	+358 9 4766 9149
Anna-Liisa Rissanen	+358 40 157 9919

Evli Investment Solutions

Johannes Asuja	+358 9 4766 9205
Markku Reinikainen	+358 9 4766 9669

EVLI BANK PLC
Aleksanterinkatu 19 A
P.O. Box 1081
FIN-00101 Helsinki, FINLAND
Phone +358 9 476 690
Fax +358 9 634 382
Internet www.evli.com
E-mail firstname.lastname@evli.com

**EVLI BANK PLC,
STOCKHOLMSFILIAL**
Regeringsgatan 67 P.O. Box 16354
SE-103 26 Stockholm
Sverige
stockholm@evli.com
Tel +46 (0)8 407 8000
Fax +46 (0)8 407 8001