

Preparing new avenues for growth

Talenom reported solid Q3 figures despite slight sales weakness. Attention was drawn to the new small customer concept, with the for us surprising addition of banking services. Although still in its infancy, the concept in our view appears promising.

Solid profitability, slight COVID-19 sales weakness

Talenom reported solid Q3 results. Revenue was slightly weaker than expected, at EUR 14.8m (Evli/cons. EUR 15.3m/15.2m), as the pandemic has a slight impact on transaction volumes. Cost control however aided profitability and the EBIT of EUR 3.1m beat expectations (Evli/cons. EUR 2.6m/2.8m). The financial figures were clearly of lesser interest in the earnings report as focus lied on the new small customer concept.

Seeking to cater previously underserved customer segment

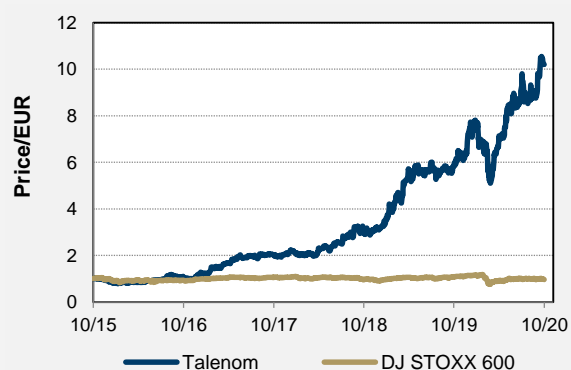
Talenom launched a new small customer concept, the TiliJaska service, a free accounting system, as well as Talenom Light Entrepreneur, designed for the smallest, previously by Talenom underserved customers. Costs for the system arise with usage after a certain threshold. The product is intended to broaden the service offering and attracting growing enterprises to Talenom's bookkeeping services but also to be a profitable product in itself. The product will be in beta until the end of the year and is also planned to be launched next year in Sweden. A potentially very interesting and unexpected new angle was the addition of banking services. In our view the service, or essentially the idea of in the long-run potentially creating a much broader service platform, view has clear potential. Talenom also mentioned that it is looking into other markets in Europe, but we see it as too early to make any assumptions regarding such expansion.

HOLD with a TP of EUR 10.2 (8.5)

Talenom's valuation continues to be stretched but with the interesting new sales growth potential and more light to be shed on the new services in the upcoming Capital Markets Day (November 11th), we can justify to stay along for the ride. We adjust our TP to EUR 10.2 (8.5), valuing Talenom at a 2020 P/E of 45x, and retain our HOLD-rating.

Rating

HOLD



Share price, EUR (Last trading day's closing price) 10.20

Target price, EUR 10.2

Latest change in recommendation 04-Feb-20

Latest report on company 04-Aug-20

Research paid by issuer: YES

No. of shares outstanding, '000's 42,758

No. of shares fully diluted, '000's 42,758

Market cap, EURm 436

Free float, % 58.5

Exchange rate 0.000

Reuters code TNOM.HE

Bloomberg code TNOM FH

Average daily volume, EURm 0.28

Next interim report -

Web site talenom.fi/en/investors

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BUY HOLD SELL

KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	FCF EURm	EPS EUR	P/E (x)	EV/Sales (x)	EV/EBIT (x)	FCF yield %	DPS EUR
2018	48.9	8.5	17.5%	3.3	0.15	20.6	3.2	18.4	2.5	0.09
2019	58.0	10.4	18.0%	3.2	0.18	41.2	5.9	32.9	1.0	0.13
2020E	65.5	13.1	19.9%	0.9	0.23	45.1	7.1	35.7	0.2	0.15
2021E	76.0	15.2	20.0%	1.9	0.27	38.4	6.2	30.9	0.4	0.18
2022E	86.6	17.3	20.0%	7.7	0.30	33.5	5.4	27.1	1.8	0.20
Market cap, EURm	436			Gearing 2020E, %	93.3			CAGR EPS 2019-22, %	18.7	
Net debt 2020E, EURm	29			Price/book 2020E	13.8			CAGR sales 2019-22, %	14.3	
Enterprise value, EURm	466			Dividend yield 2020E, %	1.5			ROE 2020E, %	35.1	
Total assets 2020E, EURm	84			Tax rate 2020E, %	20.5			ROCE 2020E, %	19.9	
Goodwill 2020E, EURm	24			Equity ratio 2020E, %	37.8			PEG, P/E 20/CAGR	3.2	

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

VALUATION RESULTS	BASE CASE DETAILS	VALUATION ASSUMPTIONS	ASSUMPTIONS FOR WACC
Current share price	10.20 PV of Free Cash Flow	101 Long-term growth, %	2.5 Risk-free interest rate, %
DCF share value	8.12 PV of Horizon value	280 WACC, %	6.9 Market risk premium, %
Share price potential, %	-20.4 Unconsolidated equity	0 Spread, %	0.5 Debt risk premium, %
Maximum value	9.3 Marketable securities	8 Minimum WACC, %	6.4 Equity beta coefficient
Minimum value	7.1 Debt - dividend	-42 Maximum WACC, %	7.4 Target debt ratio, %
Horizon value, %	73.6 Value of stock	347 Nr of shares, Mn	42.8 Effective tax rate, %

DCF valuation, EURm	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	Horizon
Net sales	58	65	76	87	95	102	107	112	118	124	127	130
<i>Sales growth, %</i>	<i>18.6</i>	<i>13.0</i>	<i>16.0</i>	<i>14.0</i>	<i>10.0</i>	<i>7.0</i>	<i>5.0</i>	<i>5.0</i>	<i>5.0</i>	<i>5.0</i>	<i>2.5</i>	<i>2.5</i>
Operating income (EBIT)	10	13	15	17	19	21	22	24	25	26	27	27
<i>Operating income margin, %</i>	<i>18.0</i>	<i>19.9</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>21.0</i>	<i>21.0</i>	<i>21.0</i>	<i>21.0</i>	<i>21.0</i>	<i>21.0</i>	<i>21.0</i>
+ Depreciation+amort.	8	11	11	12	12	13	14	14	15	16	17	
EBITDA	19	24	27	30	31	34	36	38	40	42	43	
- Paid taxes	-3	-3	-3	-3	-4	-4	-4	-5	-5	-5	-5	
- Change in NWC	1	0	1	1	1	0	0	0	0	0	0	
<i>NWC / Sales, %</i>	<i>-6.4</i>	<i>-6.4</i>	<i>-6.4</i>	<i>-6.4</i>	<i>-6.4</i>	<i>-6.4</i>	<i>-6.4</i>	<i>-6.4</i>	<i>-6.4</i>	<i>-6.4</i>	<i>-6.4</i>	
+ Change in other liabs	0	0	0	0	0	0	0	0	0	0	0	
- Operative CAPEX	-11	-13	-14	-16	-14	-14	-14	-15	-16	-16	-16	
<i>opCAPEX / Sales, %</i>	<i>22.9</i>	<i>22.8</i>	<i>21.8</i>	<i>21.3</i>	<i>17.6</i>	<i>16.5</i>	<i>15.7</i>	<i>15.7</i>	<i>15.7</i>	<i>15.7</i>	<i>14.7</i>	
- Acquisitions	-2	-5	-5	0	0	0	0	0	0	0	0	
+ Divestments	0	0	0	0	0	0	0	0	0	0	0	
- Other items	1	0	0	0	0	0	0	0	0	0	0	
= FCFF	6	4	5	11	13	16	18	19	19	20	22	519
= Discounted FCFF		4	4	9	11	12	13	12	12	12	12	280
= DFCF min WACC		4	4	9	11	12	13	13	12	12	13	330
= DFCF max WACC		4	4	9	10	12	12	12	12	11	12	241

INTERIM FIGURES

EVLI ESTIMATES, EURm	2019Q1	2019Q2	2019Q3	2019Q4	2019	2020Q1	2020Q2	2020Q3	2020Q4E	2020E	2021E	2022E
Net sales	14.8	14.8	13.5	14.9	58.0	17.4	16.5	14.8	16.8	65.5	76.0	86.6
EBITDA	5.2	5.2	4.2	4.3	18.9	6.2	6.2	5.8	5.5	23.7	26.6	29.7
<i>EBITDA margin (%)</i>	<i>35.5</i>	<i>35.3</i>	<i>30.8</i>	<i>28.8</i>	<i>32.6</i>	<i>36.0</i>	<i>37.5</i>	<i>39.1</i>	<i>32.4</i>	<i>36.2</i>	<i>35.1</i>	<i>34.3</i>
EBIT	3.4	3.2	2.4	1.5	10.4	3.7	3.6	3.1	2.6	13.1	15.2	17.3
<i>EBIT margin (%)</i>	<i>23.3</i>	<i>21.4</i>	<i>17.4</i>	<i>9.8</i>	<i>18.0</i>	<i>21.4</i>	<i>21.8</i>	<i>21.2</i>	<i>15.5</i>	<i>19.9</i>	<i>20.0</i>	<i>20.0</i>
Net financial items	-0.1	-0.3	-0.2	-0.2	-0.8	-0.2	-0.2	-0.2	-0.2	-0.9	-1.0	-1.1
Pre-tax profit	3.3	2.9	2.1	1.3	9.6	3.5	3.4	2.9	2.4	12.2	14.2	16.3
Tax	-0.7	-0.6	-0.4	-0.3	-2.0	-0.7	-0.7	-0.6	-0.4	-2.5	-2.8	-3.3
<i>Tax rate (%)</i>	<i>20.0</i>	<i>21.2</i>	<i>20.0</i>	<i>20.3</i>	<i>20.4</i>	<i>20.1</i>	<i>21.2</i>	<i>21.1</i>	<i>19.1</i>	<i>20.5</i>	<i>20.0</i>	<i>20.0</i>
Net profit	2.6	2.3	1.7	1.0	7.6	2.8	2.7	2.3	1.9	9.7	11.4	13.0
EPS	0.06	0.05	0.04	0.02	0.18	0.07	0.06	0.05	0.04	0.23	0.27	0.30
EPS adjusted (diluted no. of shares)	0.06	0.05	0.04	0.02	0.18	0.07	0.06	0.05	0.04	0.23	0.27	0.30
Dividend per share	0.00	0.00	0.00	0.00	0.13	0.00	0.00	0.00	0.00	0.15	0.18	0.20
SALES, EURm												
Talenom	14.8	14.8	13.5	14.9	58.0	17.4	16.5	14.8	16.8	65.5	76.0	86.6
Total	14.8	14.8	13.5	14.9	58.0	17.4	16.5	14.8	16.8	65.5	76.0	86.6
SALES GROWTH, Y/Y %												
Talenom	16.1	17.7	21.1	19.8	18.6	17.4	11.8	10.0	12.7	13.0	16.0	14.0
Total	16.1	17.7	21.1	19.8	18.6	17.4	11.8	10.0	12.7	13.0	16.0	14.0
EBIT, EURm												
Talenom	3.4	3.2	2.4	1.5	10.4	3.7	3.6	3.1	2.6	13.1	15.2	17.3
Total	3.4	3.2	2.4	1.5	10.4	3.7	3.6	3.1	2.6	13.1	15.2	17.3
EBIT margin, %												
Talenom	23.3	21.4	17.4	9.8	18.0	21.4	21.8	21.2	15.5	19.9	20.0	20.0
Total	23.3	21.4	17.4	9.8	18.0	21.4	21.8	21.2	15.5	19.9	20.0	20.0

INCOME STATEMENT, EURm	2015	2016	2017	2018	2019	2020E	2021E	2022E
Sales	33.0	37.0	41.4	48.9	58.0	65.5	76.0	86.6
<i>Sales growth (%)</i>	<i>11.6</i>	<i>12.0</i>	<i>12.1</i>	<i>18.0</i>	<i>18.6</i>	<i>13.0</i>	<i>16.0</i>	<i>14.0</i>
EBITDA	3.2	6.8	9.5	13.7	18.9	23.7	26.6	29.7
<i>EBITDA margin (%)</i>	<i>9.6</i>	<i>18.5</i>	<i>23.0</i>	<i>28.0</i>	<i>32.6</i>	<i>36.2</i>	<i>35.1</i>	<i>34.3</i>
Depreciation	-2.0	-2.6	-4.7	-5.1	-8.5	-10.6	-11.4	-12.4
EBITA	1.2	4.2	4.8	8.5	10.4	13.1	15.2	17.3
Goodwill amortization / writedown	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	1.2	4.2	4.8	8.5	10.4	13.1	15.2	17.3
<i>EBIT margin (%)</i>	<i>3.7</i>	<i>11.3</i>	<i>11.7</i>	<i>17.5</i>	<i>18.0</i>	<i>19.9</i>	<i>20.0</i>	<i>20.0</i>
Reported EBIT	1.2	4.0	4.7	8.5	10.4	13.1	15.2	17.3
<i>EBIT margin (reported) (%)</i>	<i>3.7</i>	<i>10.7</i>	<i>11.3</i>	<i>17.5</i>	<i>18.0</i>	<i>19.9</i>	<i>20.0</i>	<i>20.0</i>
Net financials	-1.1	-0.5	-0.5	-0.6	-0.8	-0.9	-1.0	-1.1
Pre-tax profit	0.1	3.6	4.3	8.0	9.6	12.2	14.2	16.3
Taxes	0.0	-0.7	-0.9	-1.6	-2.0	-2.5	-2.8	-3.3
Minority shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	0.1	2.7	3.3	6.4	7.6	9.7	11.4	13.0
Cash NRIs	0.0	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0
Non-cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET, EURm								
Assets								
Fixed assets	11	14	17	21	28	34	42	47
Goodwill	18	18	18	18	21	24	26	26
Right of use assets	0	0	0	8	8	8	9	9
Inventory	0	0	0	0	0	0	0	0
Receivables	4	5	5	5	7	7	9	10
Liquid funds	5	4	5	6	8	10	11	13
Total assets	40	42	46	59	71	84	96	105
Liabilities								
Shareholder's equity	9	12	14	19	24	32	37	42
Minority interest	0	0	0	0	0	0	0	0
Convertibles	0	0	0	0	0	0	0	0
Lease liabilities	0	0	0	8	8	8	9	9
Deferred taxes	0	0	1	1	1	1	1	1
Interest bearing debt	24	23	23	24	28	31	37	38
Non-interest bearing current liabilities	7	7	8	8	10	12	13	15
Other interest-free debt	1	1	1	0	0	0	0	0
Total liabilities	40	42	46	59	71	84	96	105
CASH FLOW, EURm								
+ EBITDA	3	7	10	14	19	24	27	30
- Net financial items	-1	-1	-1	-1	-1	-1	-1	-1
- Taxes	-1	0	0	-1	-2	-2	-3	-3
- Increase in Net Working Capital	0	0	1	-1	1	0	1	1
+/- Other	0	1	1	1	1	0	0	0
= Cash flow from operations	2	7	10	12	18	21	23	26
- Capex	-3	-4	-5	-9	-13	-15	-17	-18
- Acquisitions	0	0	0	-1	-2	-5	-5	0
+ Divestments	0	0	0	0	0	0	0	0
= Free cash flow	-1	2	5	3	3	1	2	8
+/- New issues/buybacks	9	0	0	1	1	4	0	0
- Paid dividend	0	0	-1	-2	-4	-5	-6	-8
+/- Other	-3	-3	-4	-1	1	3	6	2
Change in cash	4	-1	1	1	2	2	2	2

Commercial Services & Supplies/Finland, October 27, 2020
Company update

KEY FIGURES	2016	2017	2018	2019	2020E	2021E	2022E
M-cap	49	87	131	314	436	436	436
Net debt (excl. convertibles)	18	18	26	29	29	34	34
Enterprise value	67	105	157	342	466	470	470
Sales	37	41	49	58	65	76	87
EBITDA	7	10	14	19	24	27	30
EBIT	4	5	9	10	13	15	17
Pre-tax	4	4	8	10	12	14	16
Earnings	3	3	6	8	10	11	13
Equity book value (excl. minorities)	12	14	19	24	32	37	42
Valuation multiples							
EV/sales	1.8	2.5	3.2	5.9	7.1	6.2	5.4
EV/EBITDA	9.9	11.0	11.5	18.1	19.7	17.6	15.8
EV/EBITA	16.1	21.6	18.4	32.9	35.7	30.9	27.1
EV/EBIT	16.1	21.6	18.4	32.9	35.7	30.9	27.1
EV/OCF	9.8	10.6	12.9	18.7	22.4	20.0	18.0
EV/FCFF	46.6	38.2	41.8	57.9	129.7	97.6	43.9
P/FCFE	127.4	98.6	238.9	587.2	495.7	226.0	56.9
P/E	16.9	23.4	20.6	41.2	45.1	38.4	33.5
P/B	4.2	6.2	7.0	13.3	13.8	11.9	10.4
Target EV/EBITDA	0.0	0.0	0.0	0.0	19.7	17.6	15.8
Target EV/EBIT	0.0	0.0	0.0	0.0	35.7	30.9	27.1
Target EV/FCF	0.0	0.0	0.0	0.0	529.2	243.6	61.3
Target P/B	0.0	0.0	0.0	0.0	13.8	11.9	10.4
Target P/E	0.0	0.0	0.0	0.0	45.1	38.4	33.5
Per share measures							
Number of shares	40,842	40,872	41,231	41,836	42,758	42,758	42,758
Number of shares (diluted)	40,842	40,872	41,231	41,836	42,758	42,758	42,758
EPS	0.07	0.08	0.15	0.18	0.23	0.27	0.30
Operating cash flow per share	0.17	0.24	0.30	0.44	0.49	0.55	0.61
Free cash flow per share	0.06	0.13	0.08	0.08	0.02	0.05	0.18
Book value per share	0.29	0.34	0.45	0.56	0.74	0.86	0.98
Dividend per share	0.03	0.05	0.09	0.13	0.15	0.18	0.20
Dividend payout ratio, %	46.9	63.9	59.4	68.7	66.3	67.7	65.0
Dividend yield, %	2.8	2.5	2.9	1.7	1.5	1.8	1.9
FCF yield, %	4.7	6.1	2.5	1.0	0.2	0.4	1.8
Efficiency measures							
ROE	27.5	26.6	39.0	36.0	35.1	33.4	33.2
ROCE	12.5	13.7	19.7	18.8	19.9	19.9	20.3
Financial ratios							
Inventories as % of sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Receivables as % of sales	13.0	13.2	11.2	11.3	11.3	11.3	11.3
Non-interest bearing liabilities as % of sales	19.2	20.2	15.8	17.6	17.6	17.6	17.6
NWC/sales, %	-6.2	-7.0	-4.6	-6.4	-6.4	-6.4	-6.4
Operative CAPEX/sales, %	11.0	11.0	17.7	22.9	22.8	21.8	21.3
CAPEX/sales (incl. acquisitions), %	9.9	11.0	16.7	19.3	15.1	15.2	21.3
FCFF/EBITDA	0.2	0.3	0.3	0.3	0.2	0.2	0.4
Net debt/EBITDA, book-weighted	2.7	1.9	1.9	1.5	1.2	1.3	1.1
Debt/equity, market-weighted	0.5	0.3	0.2	0.1	0.1	0.1	0.1
Equity ratio, book-weighted	27.7	30.4	31.5	33.0	37.8	37.9	39.8
Gearing, %	155.2	126.4	138.0	121.8	93.3	92.9	81.2

COMPANY DESCRIPTION: Talenom operates as an accounting company, with services targeted towards small and mid-size companies. The company offers accounting, bookkeeping, taxation, and legal services, as well as invoicing, financial performance monitoring and management software, and payroll services. Talenom also provides other services aimed at assisting entrepreneurs, such as staffing services.

INVESTMENT CASE: The fragmented bookkeeping market offers ample opportunities for Talenom to continue on its track of profitable growth. The opening of its first offices should also start to contribute to growth once its sales force has been established. Margin upside potential exists but is in our view quite limited and affected by the growth pace, and earnings growth should primarily derive from top-line growth. The recurring nature of Talenom's revenue provides exceptionally good predictability and revenue stability.

OWNERSHIP STRUCTURE	SHARES	EURm	%
Tahkola Harri	8,679,015	88.526	20.3%
Skandinaviska Enskilda Banken (nominee reg.)	5,374,780	54.823	12.6%
Tahkola Markus	5,065,824	51.671	11.8%
Nordea Bank Abp (nominee reg.)	4,101,013	41.830	9.6%
Danske Invest Finnish Institutional Equity fund	1,897,512	19.355	4.4%
Conficap	1,850,000	18.870	4.3%
Ilmarinen Mutual Pension Insurance Company	1,800,000	18.360	4.2%
Evli Finnish Small Cap fund	1,588,080	16.198	3.7%
Föreningen Konstsfundet r.f	780,000	7.956	1.8%
Siuruainen Mikko	694,716	7.086	1.6%
Ten largest	31,830,940	324.676	74%
Residual	10,926,586	111.451	26%
Total	42,757,526	436.127	100%

EARNINGS CALENDAR

OTHER EVENTS

COMPANY MISCELLANEOUS

CEO: Otto-Pekka Huhtala

Töölönlahdenkatu 2, 00100 Helsinki

CFO: Antti Aho

Tel:

IR: Miikka Hätälä

DEFINITIONS

P/E	$\frac{\text{Price per share}}{\text{Earnings per share}}$	EPS	$\frac{\text{Profit before extraord. items and taxes} - \text{income taxes} + \text{minority interest}}{\text{Number of shares}}$
P/BV	$\frac{\text{Price per share}}{\text{Shareholders' equity} + \text{taxed provisions per share}}$	DPS	Dividend for the financial period per share
Market cap	Price per share * Number of shares	OCF (Operating cash flow)	EBITDA – Net financial items – Taxes – Increase in working capital – Cash NRIs ± Other adjustments
EV (Enterprise value)	Market cap + net debt + minority interest at market value – share of associated companies at market value	FCF (Free cash flow)	Operating cash flow – operative CAPEX – acquisitions + divestments
EV/Sales	$\frac{\text{Enterprise value}}{\text{Sales}}$	FCF yield, %	$\frac{\text{Free cash flow}}{\text{Market cap}}$
EV/EBITDA	$\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortization}}$	Operative CAPEX/sales	$\frac{\text{Capital expenditure} - \text{divestments} - \text{acquisitions}}{\text{Sales}}$
EV/EBIT	$\frac{\text{Enterprise value}}{\text{Operating profit}}$	Net working capital	Current assets – current liabilities
Net debt	Interest bearing debt – financial assets	Capital employed/Share	$\frac{\text{Total assets} - \text{non-interest bearing debt}}{\text{Number of shares}}$
Total assets	Balance sheet total	Gearing	$\frac{\text{Net debt}}{\text{Equity}}$
Div yield, %	$\frac{\text{Dividend per share}}{\text{Price per share}}$	Debt/Equity, %	$\frac{\text{Interest bearing debt}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}$
Payout ratio, %	$\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}$	Equity ratio, %	$\frac{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}{\text{Total assets} - \text{interest-free loans}}$
ROCE, %	$\frac{\text{Profit before extraordinary items} + \text{interest expenses} + \text{other financial costs}}{\text{Balance sheet total} - \text{non-interest bearing debt (average)}}$	CAGR, %	Cumulative annual growth rate = Average growth per year
ROE, %	$\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholder's equity} + \text{minority interest} + \text{taxed provisions (average)}}$		

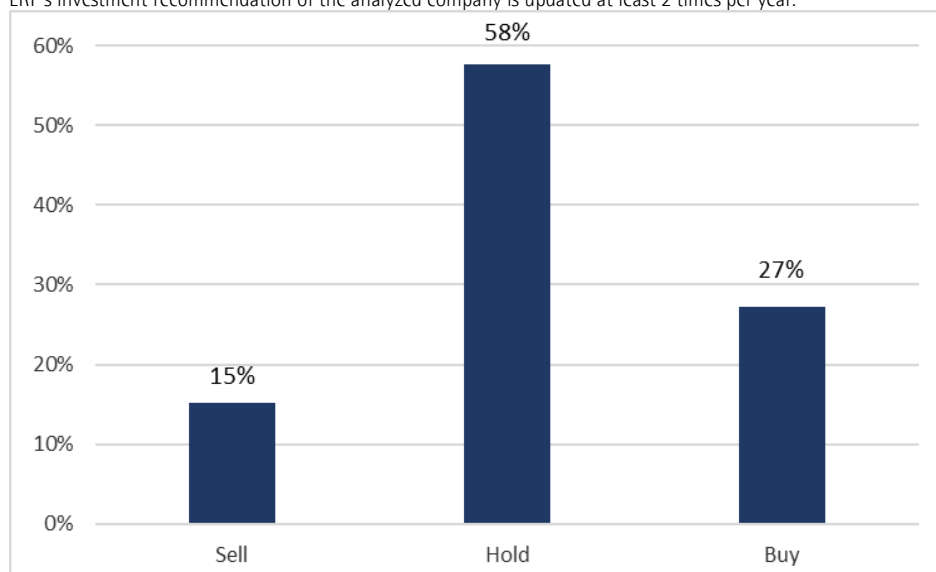
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Investment recommendations are defined as follows:

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

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

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