Professional Business Support Services

Talenom

Industry pioneer set to keep the growth high

We revisit our investment case, and continue to see notable international potential with Talenom's software-enabled business model. The highly defensive accounting services market should support growth despite a gloomy economic outlook. We estimate 21% sales growth and 18% EBIT growth for 2023E with further upside depending on M&A activity. We lower our 12M valuation range to EUR10.0-12.0 (EUR12.0-14.0).

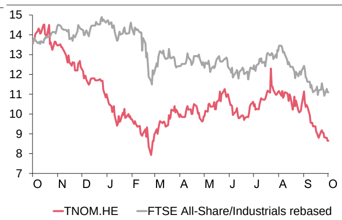
- **Business model pioneer in a fragmented industry.** We believe that Talenom's business model is the current optimal practice in the accounting services market, where Talenom has developed its highly automated, internal accounting software to serve both its customers and its own accountants. We believe this has become a clear economic moat against competitors, who are either pure software players unable to produce a high-value service, or pure service players dependent on other software vendors, and suffering from these vendors' tendency to raise prices. Talenom has developed its internal accounting software for over 10 years, making over EUR30m worth of software investments during the past five years. An industry-leading Net Promoter Score (65) at the end of 2021 suggests high existing customer satisfaction (low churn) and bodes well for the growth story to transition to Sweden and Spain, we believe.
- **In-house software enables high margins and low-risk M&A.** The high automation level enables Talenom to consolidate smaller accounting firms mostly for their existing customer base, as they are able to lift the acquired companies to their base profitability, currently within two to three years. Talenom's current EBITDA margin in Finland is close to 40%, in comparison to an industry standard 10-15%. We see no reason why Talenom should not be able to replicate this level in its other markets (Sweden and Spain) over time.
- **Estimates.** We lift our 2023-24E top-line estimates, but adjust our profitability estimates downwards due to higher conviction on the company continuing temporarily margin-dilutive M&A activity, especially in Sweden next year.
- **Valuation.** We decrease our 12M valuation range for Talenom to EUR10.00-12.00 (previously EUR12.00-14.00), on the back of lower peer valuations and lower profitability estimates. With >90% recurring revenues and a clear path to notable margin expansion in the future, we believe Talenom should be trading closer to its Nordic SaaS peers. Talenom currently trades at 17.9x EV/EBITA 2023E and a c.5% FCF yield excluding M&A.

Key financials

Year-end Dec (EUR)	2020	2021	2022E	2023E	2024E
Revenues (m)	65.2	82.8	106	128	142
Revenues growth	12.4%	27.1%	27.5%	21.4%	11.1%
EBITDA (m)	23.3	27.7	33.7	41.2	47.3
EBIT adj. (m)	12.9	14.8	16.5	19.5	24.7
EBIT growth	23.7%	14.6%	11.9%	18.3%	26.7%
Pre-tax profit (m)	12.0	14.0	15.3	17.5	22.7
EPS adj.	0.22	0.25	0.28	0.31	0.41
DPS	0.15	0.17	0.18	0.19	0.20
Dividend yield	1.0%	1.5%	2.1%	2.2%	2.3%
FCFE yield (pre-IFRS16)	0.9%	0.3%	0.5%	2.7%	5.5%
EBIT margin (adj.)	19.8%	17.8%	15.7%	15.2%	17.4%
Net debt/EBITDA (x)	1.2	1.4	1.4	1.1	0.8
ROIC	18.1%	15.5%	14.3%	15.4%	19.0%
EV/sales (x)	10.4	6.7	4.1	3.4	3.0
EV/EBITDA (adj.) (x)	29.2	20.0	12.9	10.6	9.0
EV/EBITA (adj.) (x)	52.7	32.7	21.8	17.9	14.2
EV/EBIT (adj.) (x)	52.7	37.4	26.3	22.2	17.1
P/E (adj.) (x)	67.9	47.2	31.3	27.7	21.3

Source: Company data, Danske Bank Equity Research estimates

Price performance



	1M	3M	12M	5Y
Absolute	-22%	-17%	-36%	321%
Rel. local market	n.m.	n.m.	n.m.	n.m.
Rel. EU sector	-13%	-7%	-22%	397%

Source: FactSet

Key data

Price (EUR)*	8.65
Country	Finland
Bloomberg	TNOM FH
Reuters	TNOM.HE
Free float	59.6%
Market cap (EURm)	388
Net debt (current Y/E) (EURm)	47
No. of shares (m)	44.9
Next event	Q3: 25-Oct

** Price as at close on 11 October 2022*

CEO	Otto-Pekka Huhtala
CFO	Matti Eilonen

Company description

Talenom is an accounting services company operating in Finland, Sweden and Spain. Talenom offers a wide range of accountancy and other services including tax and legal advisory, banking services and financial management tools for SMEs. Talenom has over 1000 employees and 55 locations, and provides accounting through its proprietary in-house software. The company is headquartered in Oulu, Finland.

Ownership structure

Harri Tahkola	17.7%
Markus Tahkola	10.8%
SEB Funds	6.6%
Allianz Vie S.A.	5.0%
Danske Invest	4.2%

Source: Company data

Estimate changes

	22E	23E	24E
Sales	-0.1%	7.2%	6.3%
EBITDA	-0.5%	4.5%	2.3%
EBIT (adj.)	-1.0%	-4.0%	-5.8%
EPS (adj.)	n.m.	n.m.	n.m.

Source: Danske Bank Equity Research estimates

Analyst(s)

Daniel Lepistö

Find our research here:
https://research.danskebank.com

Important disclosures and certifications are contained from page 31 of this report

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Executive summary

In this report, we have revisited our investment case in Talenom. We continue to see notable potential with the business model (software + service), internationalisation and the company's M&A strategy. Our main conclusions are:

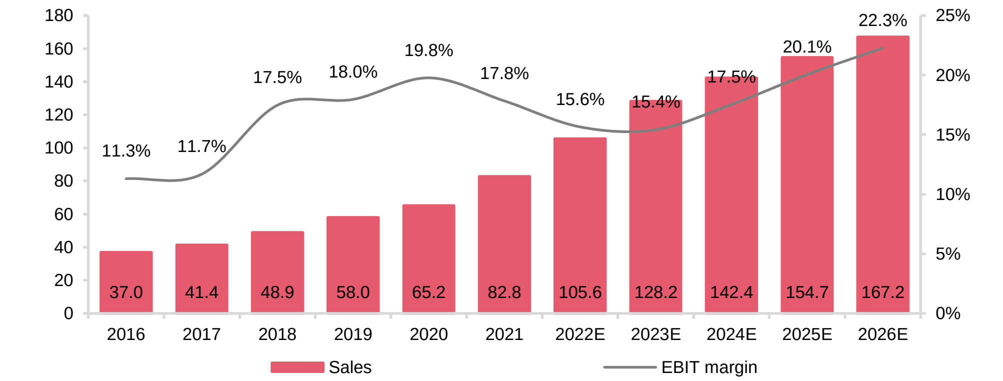
- **Combination of software and service is a clear economic moat.** We have spent some time on looking into the typical service models in the SME accounting industry, and find Talenom's service with its own software the most convincing longer-term. On the one hand, pure software players (e.g. Visma, Fortnox) are unable to address the service-side, which represents c.75% of the total market, and have no incentive to change this due to the high number of employees currently needed, we believe. On the other hand, service players (e.g. Rantalainen, Aspia) are highly dependent on external software vendors who provide the mission-critical tools for the accountants. We think, that this dependency is set to become a near-term struggle, as software providers have been hiking prices by as much as 10-20%.

- **High M&A activity especially in Sweden should support FY 2023 growth.** We are more convinced that Talenom will keep up its high pace with acquisitions in the next year, and expect the FY 2023 guidance to be along the lines of FY 2022, which included an estimation of possible acquisitions. The company has in past years and very recently (latest acquisition 3 October 2022) demonstrated its willingness and ability to keep growing inorganically, and the management commentary suggests that Talenom will be continuing to underline growth as the number one priority in its strategy. Due to this, we believe that the inorganic track will be continuing in 2023, as it has in 2021 and 2022.

  In practice for 2023, we expect Talenom to guide between EUR120-130m sales (FY 2022 EUR100-110m) with EBIT of EUR17-21m (FY 2022 EUR15-18m), where the majority of growth will be inorganic (we estimate some 13% inorganic, 8% organic). We estimate that Talenom will be able to keep the high acquisition pace up due to its strong cash flow (especially from Finland) and its moderate indebtedness (87% gearing in H1 22, 1.4x net debt/EBITDA for 2022E), discussed in more detail in our M&A scenario.

- **New markets Sweden and Spain are the potential next catalysts.** As Talenom is approaching operationally the final phase (own technology and service, with strong growth and profitability) with its Swedish operations, next year will be interesting in terms of the success of Talenom's own software and the feedback the company gets from its Swedish customers. As our current 2023-24E growth estimates do not account for meaningful organic growth from either Sweden nor Spain, we believe that organically progressing in these markets faster than expected would be a clear positive catalyst for both company perception and for estimates.

Chart 1 : Talenom Sales (EURm) and EBIT-margin (2016-26E)



Source: Company data, Danske Bank Equity Research estimates

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We see Talenom as a profitable growth case driven by market share gains and M&A in fragmented and non-cyclical end-markets in accounting services. The company operates in Finland, Sweden and Spain. Over 90% of Talenom's revenue is recurring and we expect the company to show organic sales growth of around 7-10% for the coming years. The company's current appetite for M&A is driven by both its international expansion strategy and its ability to convert acquired local (Finnish) businesses to its current profitability level, due to its largely automated in-house accounting software. In our view, Talenom will continue to acquire smaller accounting firms, mostly for their existing customer bases, which is set to drive revenues near term but keep the company's profitability expansion modest.

Differentiating model in a conservative industry

Talenom is a Finnish accounting service provider that has the following three elements to its strategy. 1) Talenom aims to provide easy and automated financial accounting for customers, which are mainly smaller companies. 2) Talenom has its own in-house software, which has largely automated the bookkeeping process, improving profitability and eliminating Talenom's dependency on third-party accounting software firms. 3) With increased automation, Talenom aims to provide more value-added services to its existing customers, including hourly-paid financial consulting and other tax, legal and advisory services. We believe that the in-house software (not sold separately from the service, and used only by Talenom's own accountants and customers), has become a clear economic moat in favor of Talenom.

Talenom's own accounting software has been developed for over 10 years and the high automation increases process efficiency, which significantly improves accountant productivity, enabling faster processes and a higher capacity for taking on new clients for the accountants to advise. Moreover, the streamlined accounting process enables Talenom to create value through M&A, as the company is able to convert acquired local companies to Talenom's own profitability within three years, according to management estimates. This allows Talenom to purchase recurring revenue with low risk and maintain its sales growth even in times of weakening organic growth.

Talenom's main strategic choices include investing heavily in own software development and automation of operations and it has developed a scalable bookkeeping production line, with dedicated teams for different industries. This has improved company profitability and releases people for value-added consultancy work. Organic growth is seen by management as the best way to grow due to lower total cost, but the significant salesforce (up to 15% of personnel) burdens the cash flow (costs are partly capitalised and depreciated over 10 years so they are not immediately visible in the income statement). Talenom's core business is stable with >90% recurring revenues, low customer churn and long contracts.

Table 1 : Quarterly estimates

EURm	2020	Q1 21	Q2 21	Q3 21	Q4 21	2021	Q1 22	Q2 22	Q3 22E	Q4 22E	2022E	2023E
Sales	**65.2**	**20.3**	**21.4**	**19.4**	**21.8**	**82.8**	**25.2**	**27.0**	**25.0**	**28.4**	**105.6**	**128.2**
Growth y/y	12.4%	17.0%	29.6%	30.4%	32.2%	27.1%	24.1%	26.2%	29.0%	30.5%	27.5%	21.4%
Personnel costs	-33.9	-10.8	-11.5	-10.1	-12.2	-44.6	-13.4	-14.2	-13.3	-16.1	-56.9	-69.1
% of sales	-52.1%	-53.2%	-54.0%	-52.1%	-56.1%	-53.9%	-53.2%	-52.6%	-53.1%	-56.6%	-53.9%	-53.9%
Materials and services	-2.5	-0.5	-0.8	-0.8	-0.9	-3.1	-0.9	-0.9	-0.9	-1.1	-3.8	-4.5
Other costs	-5.6	-1.9	-2.0	-2.1	-2.3	-8.2	-2.6	-2.6	-3.0	-3.4	-11.6	-13.8
EBITDA	**23.3**	**7.2**	**7.2**	**6.7**	**6.6**	**27.7**	**8.9**	**9.3**	**7.8**	**7.8**	**33.7**	**41.2**
EBITDA margin	35.7%	35.4%	33.7%	34.5%	30.3%	33.4%	35.2%	34.3%	31.1%	27.6%	31.9%	32.1%
D&A	-10.4	-2.5	-2.6	-2.7	-2.6	-2.8	-2.8	-3.1	-3.2	-3.8	-12.9	-17.2
EBIT	**12.9**	**4.4**	**4.1**	**3.4**	**2.8**	**14.8**	**4.9**	**5.1**	**3.4**	**3.2**	**16.5**	**19.5**
EBIT margin	19.8%	21.7%	19.4%	17.8%	12.7%	17.8%	19.3%	18.9%	13.6%	11.2%	15.6%	15.2%
Net financials	-0.9	-0.2	-0.3	-0.2	-0.2	-0.8	-0.1	-0.3	-0.4	-0.5	-1.2	-2.0
Pre-tax profit	**12.0**	**4.2**	**3.8**	**3.3**	**2.6**	**14.0**	**4.7**	**4.8**	**3.0**	**2.7**	**15.3**	**17.5**
Taxes	-2.4	-0.7	-0.7	-0.6	-0.4	-3.2	-1.0	-1.0	-0.6	-0.5	-3.1	-3.5
Tax rate	20.3%	16.6%	18.6%	18.9%	15.6%	22.9%	20.6%	20.0%	20.0%	20.0%	20.0%	20.0%
Net income	**9.6**	**3.5**	**3.1**	**2.7**	**2.2**	**10.8**	**3.7**	**3.9**	**2.4**	**2.2**	**12.3**	**14.0**

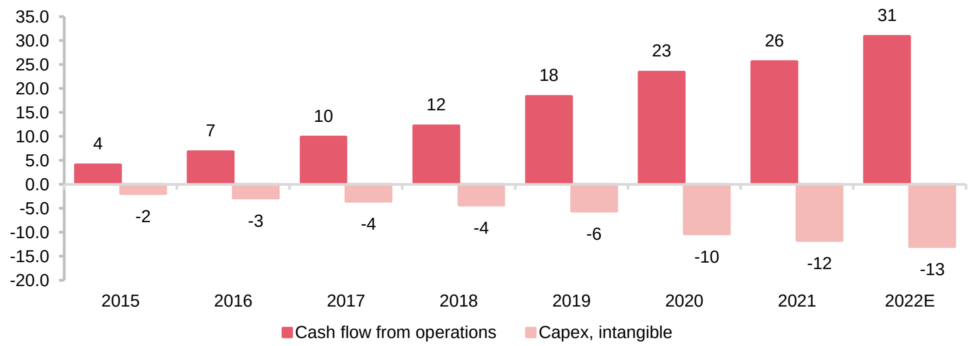
Source: Company data, Danske Bank Equity Research estimates

In-house software creates a clear economic moat

We believe that with digitalisation Talenom is ahead of the competition, as it started to invest heavily into its proprietary software platform and automation of the bookkeeping more than 10 years ago. Moreover, as Talenom is keeping the software in-house, it does not need to cater towards large heterogenic groups of accountants, as the only professionals using the software on the bookkeeping side are Talenom's own employees. We see several benefits for Talenom to have its own internal software, which all combined create a clear economic moat against its competitors:

Intangible software asset developed for over 10 years. Talenom has developed its proprietary in-house accounting software to serve the best-possible efficiency and automation. This enables Talenom to have notably higher margins (c.40% EBITDA in Finland) than its service peers (c.10-15%). Talenom makes and has made considerable investments in its software, last year spending c.EUR12m on software development (14% of revenues). In contrast, a pure software competitor Visma Solutions (Finland) described using some 40% of its revenues (EUR85m in 2021) for software product development. We believe that the high upfront investments deter any current service-side competitors from starting a similar software development in the near-future.

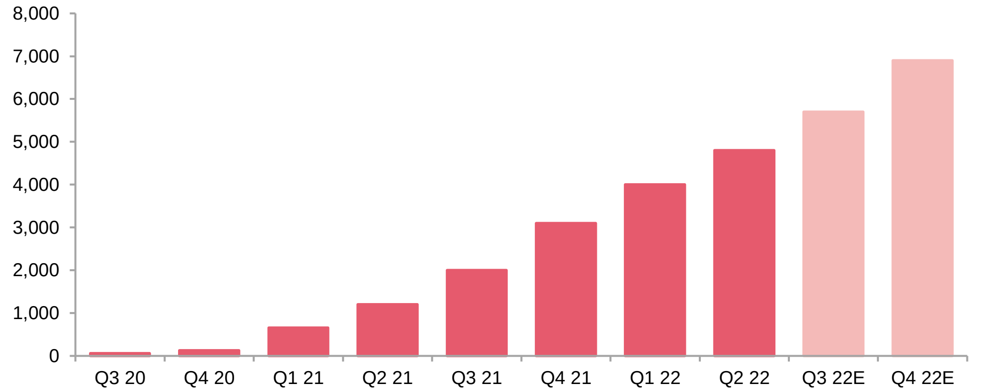
Chart 2 : Cash flow from operations and intangible capex (EURm)



Source: Company data, Danske Bank Equity Research estimates

Freemium software and banking services are forming an ecosystem for micro firms. Talenom's freemium software offering (TiliJaska in Finland, Nomo in Spain) addresses the smallest segment of the SME space, providing simple, free-to-use tools for basic accounting with premium features such as more transactions and outsourced bookkeeping just one click away. To complement this, Talenom also offers banking services through partners (Fellow bank as of September 2022), in practice meaning cards and bank accounts to lock in small customers that grow into more revenue-generating accounts over time. We think that such offerings create long-lasting customer relationships with lower churn in accounts that have been using Talenom's tools since the beginning of their corporate journey. Talenom is also able to cost-efficiently serve these customers (do their bookkeeping) due to high automation and the relative simplicity of such small accounts.

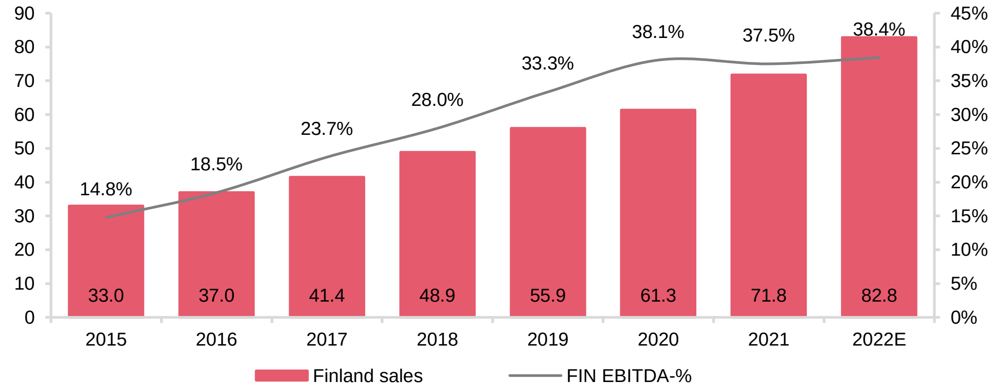
Chart 3 : Freemium customer user base



Source: Company data, Danske Bank Equity Research estimates

Industry-leading margins create competitive advantage. As Talenom is able to produce its service on notably lower costs than its competitors (measured by both Finnish EBITDA margins and sales per employee) it is able to reinvest the excess profits not only back to its software, but also to top-line growth accelerating M&A. In a scenario where the industry might see price competition, Talenom would have most room to manoeuver and potentially undercut competition for market share gains (which is mostly recurring revenue and continuous customer relationships on average for 10 years).

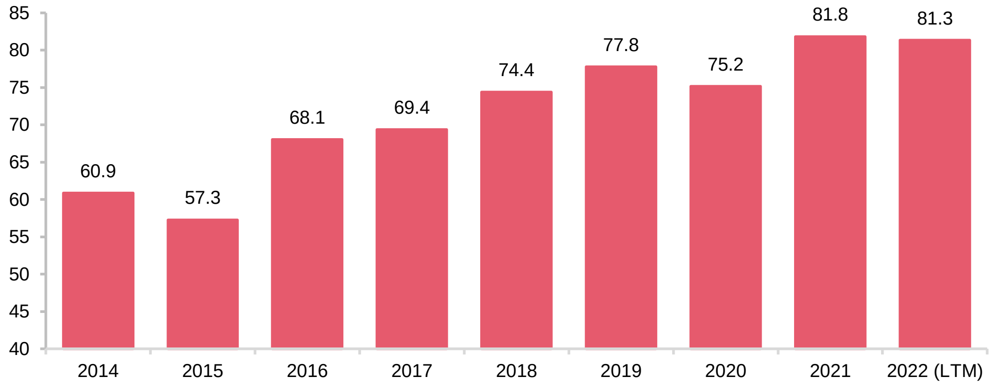
Chart 4 : Finland sales (EURm) and EBITDA margin (2015-22E)



Source: Company data, Danske Bank Equity Research estimates

In-house software enables scalable growth as automation develops. Talenom has been showing improvement in its in-house software automation level for several years, and is not yet done with its automation journey. Management estimates that the level of automation in 2021 was over 70% with bookkeeping and over 40% with payroll accounting (bookkeeping target over 95% by 2024), overall clearly higher than among key competitors. For example, using machine-learning based classification algorithms has achieved clearly faster document management. Looking at Talenom's sales per employee, the company has steadily improved from around EUR60k to over EUR80k sales per employee from 2015 to 2021, despite making numerous acquisitions with temporarily diluting effect and recruiting software developers (with no billing effect).

Chart 5 : Annual sales per employee (EURk)



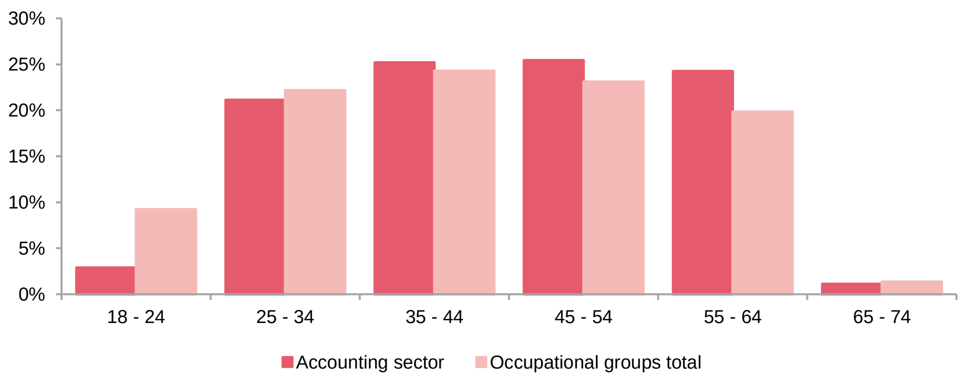
Source: Company data, Danske Bank Equity Research estimates

Role of accounting software and service in accounting industry

As Talenom is not selling its accounting software to external users and is keeping it fully in-house, Talenom's key competitors are directly the other accounting firms and indirectly the accounting software companies. Generally, bigger accounting firms use several software programs side-by-side depending on internal efficiency and customer preferences. Accounting firms are also often engaged in commission schemes as an incentive from the software providers to push and recommend their products to the end-users. In our view, high dependency on external accounting software products makes traditional accounting firms vulnerable when software providers raise prices, as this is directly reflected in either the accounting firm's profitability or in forcing it to raise customer prices.

In the longer term, we believe that companies like Talenom with their own proprietary software will be the most likely winners in the accounting services market, due to the licence cost risk overhang burdening traditional players' profitability. Moreover, we believe that the automation benefits from the external software solutions are also less than Talenom is able to produce at least short-term, due to both conflicts of interest (in terms of automation decreasing the billable hours for accounting firms) but also to large variance in terms of end users' (accountants') skill-sets to use such features. In terms of the accounting sector in Finland, the employee base is skewed towards older employees, and the lack of young professionals in the industry (age 18-24) is lagging compared to the averages in Finnish occupational totals.

Chart 6 : Accounting sector age split vs Finnish occupational groups total



Source: Statistics Finland, Danske Bank Equity Research

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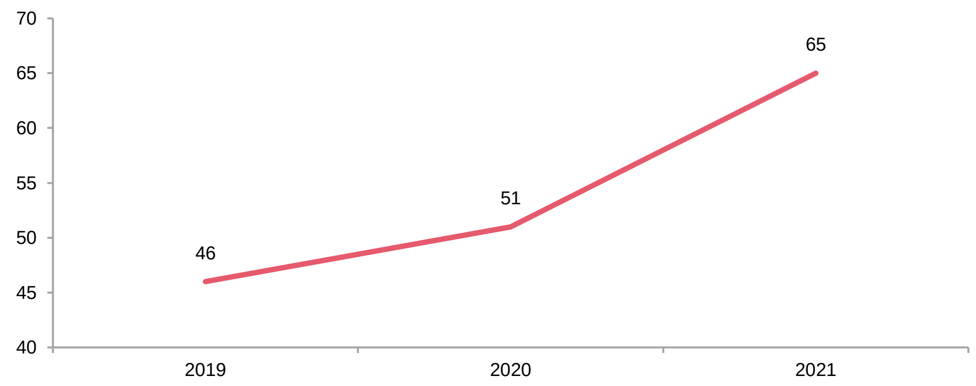
Overall, we see Talenom as the best positioned accounting firm due to its high level of automation, which is in our view an inevitable trend in the industry, and the lack of dependence on external accounting software, which we see as a burden for structural profitability for other players. Moreover, we think that the high focus on software and value-added consulting (Talenom has some 50-60 developers, with a total of c.100 personnel working only on software) should help to attract younger tech-savvy professionals that could first specialise in bookkeeping, and then move towards different, more challenging roles in-house.

Even though digitalisation is a key driver for the processes and tools used in the accounting service industry, accounting as a process remains very relationship and service oriented. Many SME customers want the accountant to have a consultative view of their business, which often strengthens the customer-accountant relationship. We estimate that Talenom's total customer churn (leavers + bankruptcies) was some 5-10% during 2020-21. As the company's NPS has risen considerably (from 51 to 65 at year-end 2020-21), we believe that this 2020-21 churn figure is likely to contract by at least some percentage points in future.

Chart 7 : Talenom customer NPS (net promoter score)



Source: Company data, Danske Bank Equity Research

We believe that the clear improvement is caused by the software solutions' (Talenom Online & Talenom App) user-friendliness, and Talenom's industry-specific accountant teams providing specialist services to customers of different industries. Management commentary suggests that the customer NPS is even higher (80-90) for customers that use their value-added (financial consultancy) services the most, which would further decrease customer churn, we think.

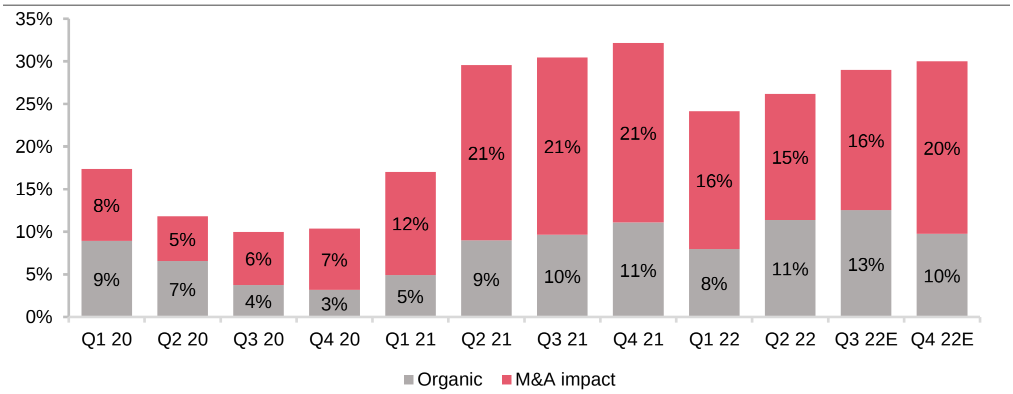
In the longer term, we argue that the role of software will inevitably become a bigger part of the total accounting services market. Talenom's, competitors' and our approximations point towards a 40-60% software share of the total accounting services market in Finland (which was worth some EUR1.2bn in 2021) that could in future be linked to the software side directly (15-25% as of today). Talenom is in an excellent position to capture this shift in the market as it is already pioneering the most automated processes in the industry.

Considerable M&A potential with low-risk acquisitions

Since 2019 Talenom has put more and more emphasis on inorganic growth, even though it is the least profitable means of new customer acquisition for the firm. This is explained by two key factors that are appearing on the market currently. First, there are over 4,000 small and mid-sized accounting offices in Finland, and around double the amount in Sweden, with some portion always unsure about their next steps, basically looking to be consolidated. Thus, the number of potential acquisition candidates is high.

Secondly, Talenom's accounting automation is at a high level, which enables a clear route to lift the acquired company's profitability to the same level as Talenom's in three years (in Finland where the in-house software is established). This is basically done by moving the acquired company's customers to Talenom's software and training the new personnel in the automated processes. In general, Talenom aims to retain all the old employees as end customers are often quite attached to their previous accountants, and making sudden changes can increase the customer churn, we believe.

Chart 8 : Quarterly organic and inorganic growth



Source: Company data. Danske Bank Equity Research estimates

As briefly discussed earlier, due to Talenom's own software and highly-tuned bookkeeping processes, it is able to convert the majority of its acquisitions (essentially in Finland) to at least Talenom's own profitability level, thus indicating no margin dilution in the long term even when acquiring less profitable companies. The conversion process is relatively straightforward, where on average the acquired company's internal profitability initially declines in the first year due to customer conversion to Talenom's software and training of the new employees in Talenom's ways of working.

In the second year after the acquisition, the acquired company's profitability should already be higher than at the time of the transaction, and by the third year, profitability should be at the target level. In Sweden the converting track is not yet at the same level as in Finland, but in our view, after the first inorganic ramp-up and localising of Talenom's own software in Sweden, the company will be able to lift profitability to Finland's level and create value with any further acquisitions. Moreover, we believe that the company will be able to speed up the process in the future, as the process has been repeated numerous times on different sizes of acquired companies.

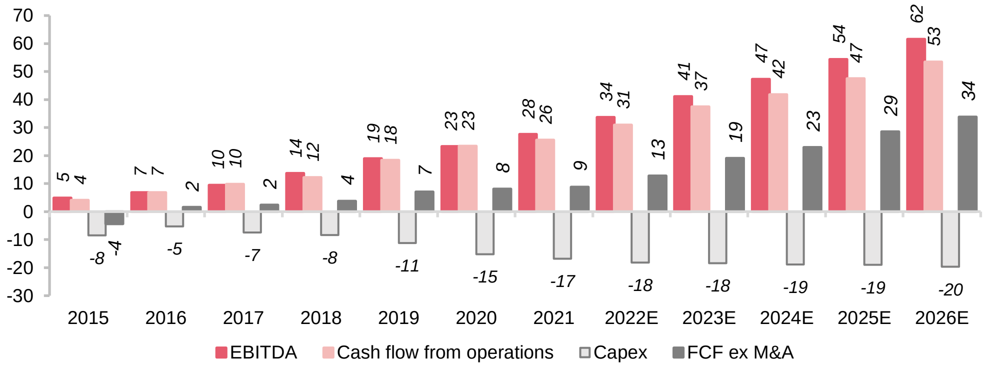
In terms of target company valuations, the message from the management suggests relatively higher valuation levels in Finland than in Sweden, where in Finland the target accounting office transactions are completed at around 5-7x EBITDA (the larger the business, the higher the multiple), whereas in Sweden the current level is around 4-5x EBITDA. Higher valuations are due to numerous accounting firm roll-ups, such as Rantalainen, Aallon Group (AALLON FH) and

Administer (ADMIN FH) competing in the space. For reference, Talenom trades around 13x EBITDA looking at our FY 2022 estimates.

In contrast to the other consolidators, Talenom is looking for targets that are still at a low level of digitalisation and ready to begin transformation, whereas others are looking for offices that are already using some of the key accounting software products (Procountor or Netvisor in Finland). This is positive for Talenom, as it somewhat limits the multiple expansion pressure in the industry, when there is a clear demand for inorganic growth.

In our M&A scenario, we use our future estimates of the FCF (free cash flow) minus the estimated paid dividends as the limit on how much revenue Talenom is able to buy annually without having to resort to issuing debt or equity. Thus far, Talenom has mostly used debt financing (some EUR60m gross interest-bearing debt at the end of H1 22) and typically a 50% stock 50% cash split for any relatively bigger acquisitions. Talenom's ability to service its current debt is excellent, with a coverage ratio above 10x.

Chart 9 : EBITDA, cash flow from operations, capex and FCF excl. M&A (EURm)



Source: Company data, Danske Bank Equity Research estimates

Assuming 0.6x EV/sales for the price of the acquisitions, we deduct that Talenom should be able to keep its sales growing above 20% for the coming years, financing the acquisitions mainly from its FCF (FCF before acquisitions EUR9m in 2021, our estimate EUR12m in 2022). In practice, the scenario below will see clear overlap in inorganic growth between years, as acquisitions are completed steadily year-around, not on the first/last day of the year.

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Table 2 : M&A valuation scenario

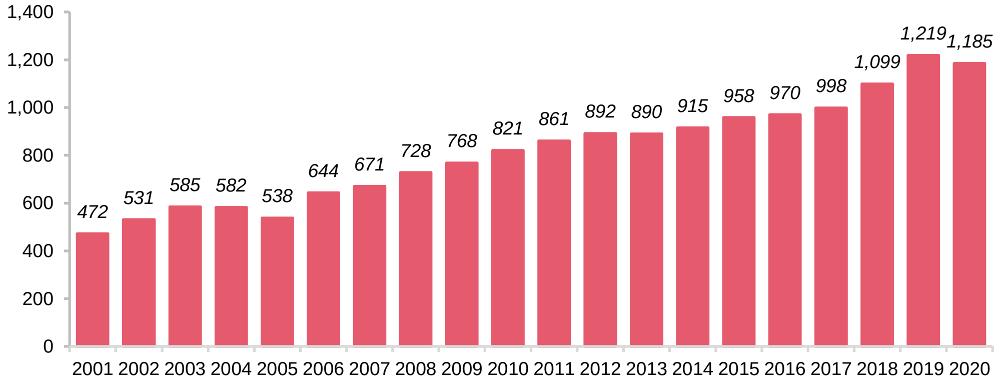
Current estimates (EURm)	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Sales	58.0	65.2	82.8	105.6	128.2	142.4	154.7	167.2
Growth	18.6%	12.4%	27.1%	27.5%	21.4%	11.1%	8.6%	8.1%
EBIT	10.4	12.9	14.8	16.5	19.8	25.0	31.0	37.2
EBIT-margin	18.0%	19.8%	17.8%	15.6%	15.5%	17.6%	20.1%	22.3%
EPS (EUR)	0.18	0.22	0.25	0.28	0.32	0.41	0.52	0.63
2023 acquisition(s) with EV/sales 0.6x								
Size of acquisition(s)					9.0			
Sales (target 0.6x sales)					15.0	15.5	15.9	16.4
Growth						3%	3%	3%
EBIT					0.0	1.5	3.2	3.3
EBIT-margin					0%	10%	20%	20%
2024 acquisition(s) with EV/sales 0.6x								
Size of acquisition(s)						12.0		
Sales (target 0.6x sales)						20.0	20.6	21.2
Growth							3%	3%
EBIT						0	2.1	4.2
EBIT-margin						0%	10%	20%
Consolidated numbers			**2021**	**2022E**	**2023E**	**2024E**	**2025E**	**2026E**
Sales			**82.8**	**105.6**	**128.2**	**162.4**	**195.3**	**213.4**
Growth			27.1%	27.5%	21.4%	26.7%	20.2%	9.3%
EBIT			**14.8**	**16.5**	**19.8**	**26.5**	**36.1**	**42.7**
EBIT-margin			17.8%	17.8%	15.6%	15.4%	16.3%	18.5%
Current market cap			446	446	446	446	446	446
Enterprise value			484	484	439	439	429	414
EV/EBIT			32.8	26.6	22.2	16.2	11.5	9.2
Current and scenario multiples								
EV/Sales current	5.9x	9.2x	5.8x	4.2x	3.4x	3.0x	2.7x	2.4x
EV/Sales scenario				**4.2x**	**3.4x**	**2.6x**	**2.1x**	**1.8x**
EV/EBIT current	32.9x	46.4x	32.8x	26.6x	22.2x	17.2x	13.3x	10.6x
EV/EBIT scenario				**26.6x**	**22.2x**	**16.2x**	**11.5x**	**9.2x**

Source: Company data, Danske Bank Equity Research estimates

Finnish market overview

The Finnish accounting services market has grown steadily for more than 15 years, according to data from Statistics Finland. The average annual growth (CAGR) from 2001 to 2020 was 5%. In our view, the Finnish accounting services market will keep growing at the pace of around 3-4% CAGR in the future, due to the growing amount of value-added services to SME clients, and price inflation in bookkeeping services and software costs. The Finnish accounting services market is highly fragmented and the number of companies has been slowly declining in recent years due to ongoing consolidation in the industry. In 2019 there were around 4,100 companies (Statistics Finland).

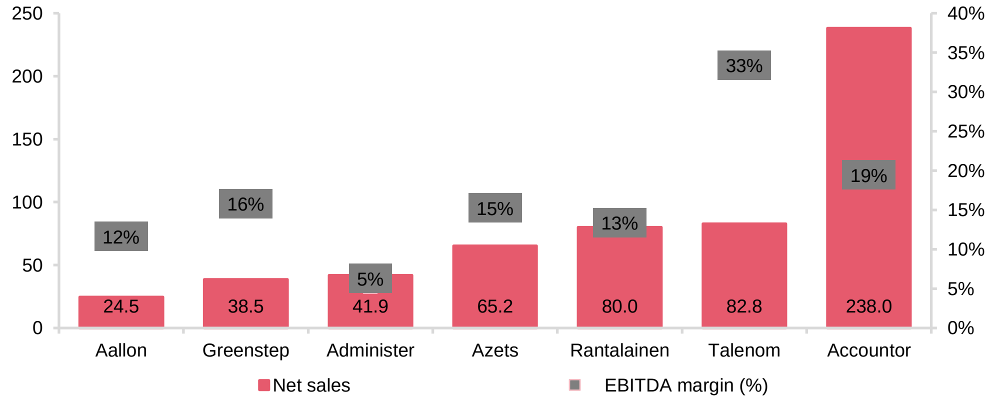
Chart 10 : Finnish accounting services market (EURm)



Source: Statistics Finland, Company data, Danske Bank Equity Research

The clear benefit for Talenom in terms of the estimated Finnish total addressable market is that Talenom is able to address almost the full market due to its own software, in contrast to traditional accounting service firms who rely on external software, and pure accounting software providers who do not provide accounting services. The traditional accounting firm competitors in Finland include Accountor, Rantalainen, Azets and Administer (ADMIN FH).

Chart 11 : Finnish accounting services companies sales (EURm) and EBITDA-margin (2021)

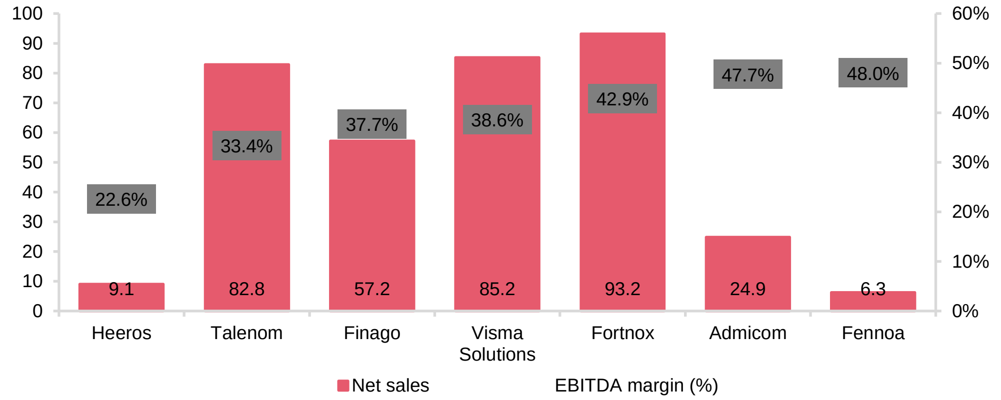


Note: Accountor includes software division Finago

Source: Company data, FactSet, Danske Bank Equity Research

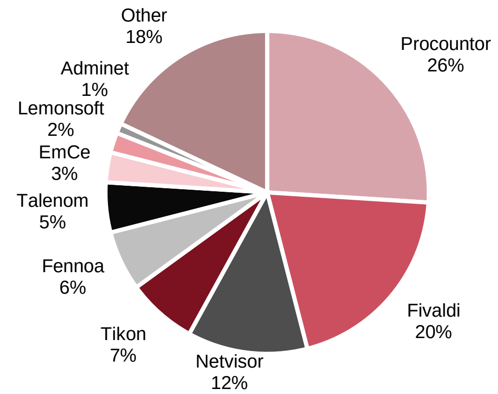
Talenom's key competitors on the software side in Finland are Netvisor and Fivaldi (Visma), Procountor (Accountor) and Fennoa. Looking at the Finnish Tax Administration's voluntarily collected data on by which accounting software the most self-assessed taxes are submitted, we can see that in terms of submission volumes (which is not the same as the economic value of customers) Talenom represents only 5% of the Finnish market, despite being the second largest accounting firm by revenues. Overall, the accounting software market represents some 15-25% of the total market (EUR1.2bn), we believe.

Chart 12 : Accounting software companies sales (EURm) and EBITDA-margin (2021)



Source: Company data, FactSet, Danske Bank Equity Research

Chart 13 : Self assessed taxes submitted through Finnish Tax Administration API (Software split)



Source: Finnish Tax Administration, Danske Bank Equity Research

Key characteristics and growth drivers in the accounting services market

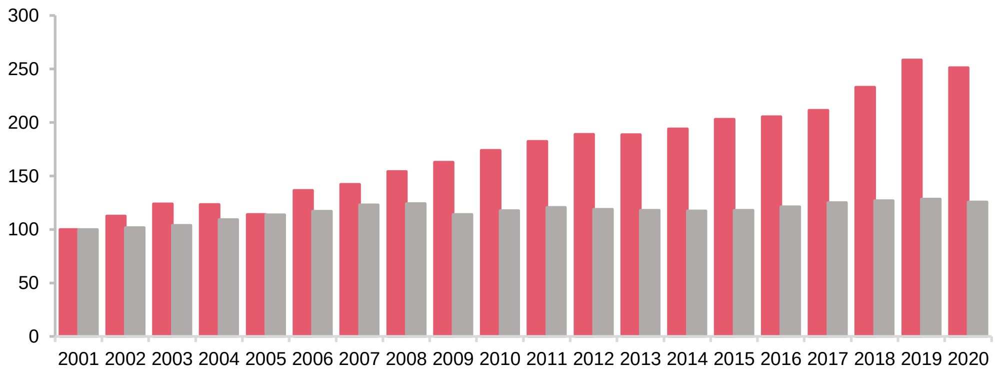
Small customer size. Most of the accounting services customers are small and mid-sized companies, which have outsourced their bookkeeping and other financial tasks due to lack of internal resources and expertise. As the amount of outsourcing declines with increasing company size, Talenom has traditionally addressed mostly the SME segment, the typical customer having revenues of between EUR0.2m and EUR10m. Talenom will expand its focus towards even smaller companies (EUR0-0.1m), thanks to its high automation level, which makes it commercially feasible.

Shift towards digitalisation accelerating. The Finnish accounting industry is in a major shift towards new technologies. For example, it was announced in 2019 that a widely used free accounting software program Tikon (owned by Accountor) was to be discontinued in June 2022. The move away from this discontinued program has driven 'digitalised' accounting offices towards new software and accelerated consolidation of the smallest firms by the larger players, in our view. Moreover, by management estimates, over half of the Finnish accounting firms still do paper-based bookkeeping, meaning an inevitable shift towards digital processes for many in the near future.

Defensive industry. Regulation for financial accounting ensures that market activity is relatively stable over time: companies need to report their finances regardless of the business cycle. As shown in the chart below, the accounting services market continued to grow in 2009, even when GDP declined heavily, and in 2012-14 when Finnish GDP growth was negative. From 2001 to 2019 the accounting services market growth (CAGR) has been 5%, clearly outpacing Finnish GDP growth.

Historically the accounting services market has been very defensive, and the key risks in the industry are mainly the number of bankruptcies, and some mostly volume-based components, such as the number of payslips which can see negative development during a distressed economy. Looking at indexed accounting services market growth in Finland in comparison to Finnish GDP growth, growth has been very stable despite general sluggishness in the Finnish economy.

Chart 14 : Finnish accounting services market and GDP growth, indexed = 100

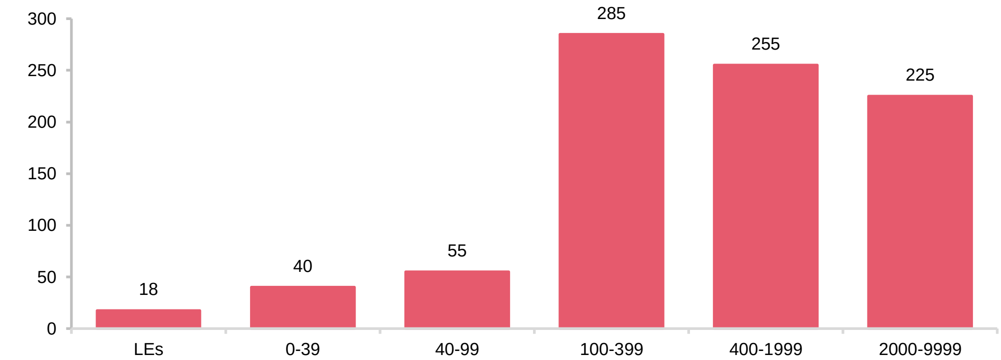


Source: Statistics Finland, Danske Bank Equity Research

Talenom's customer focus is in the SME segment with a slight tilt towards mid- and small-sized firms (EUR0.1-10m sales). The total serviceable market for Talenom is around EUR900m in Finland, by our estimates. In terms of the internal market dynamics, Talenom estimates that 30-40% of the Finnish accounting services market consists of the smallest customers in the SME sector (EUR0–399,000 annual revenues).

This segment has traditionally been the most difficult one to address, as the customers' solvency levels and future potential vary significantly. The payoff by serving these small firms is that the best companies grow with Talenom and become accustomed to their software and service early on, and later become more profitable, larger customers. Talenom's TiliJaska service is set to tap this difficult market by offering a freemium service even for the smallest customers.

Chart 15 : Market sizes (EURm) of different sized SMEs (EUR000s of sales)



Source: Talenom data, Danske Bank Equity Research *LEs=Light Entrepreneurs*

Not for US distribution

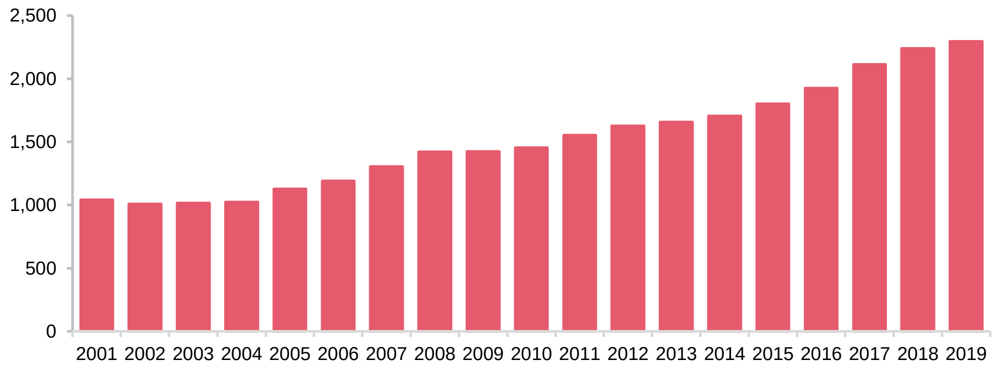
International expansion

Talenom's internationalisation journey started in 2019, as the company entered Sweden through the acquisition of Stockholm-based Wakers Consulting (c.EUR2.6m annual sales) in April 2019. Talenom's aim was to use Wakers as a platform for further growth in Sweden. After around three years, Talenom has grown its Swedish operations mostly with acquisitions to c.EUR15m annual sales (LTM as of H1 22), with revenues likely surpassing EUR20m at the end of FY 2022, we estimate. Talenom also entered Spain in July 2021, and has continued acquisitions there, and we expect Spanish operations to show some EUR2.5m revenues at the end of FY 2022.

Inflection point approaching in the Swedish market

According to Talenom, the logic of expansion to Sweden is that the Swedish market offers growth potential, as it is possibly even more fragmented than Finland. By our estimates, the Swedish accounting services market is at least 2x the Finnish market, with 4-5% long-term CAGR. Talenom's view is that Finland is a more digitalised market than Sweden and that the company has expertise and technology that can be exported and utilised in Sweden. In terms of timing, the company wants to be early in international expansion and take the first steps now when the limits for growth in Finland have not yet been reached.

Chart 16 : Accounting services market in Sweden 2001-19 (EURm)

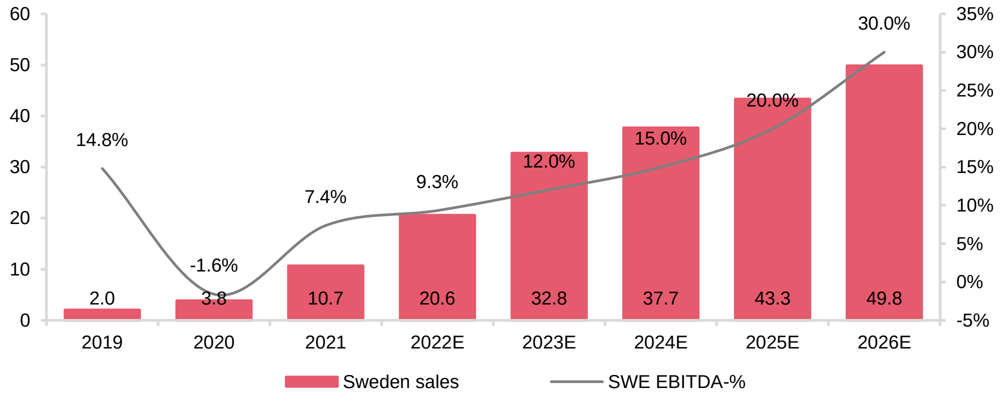


Source: Statistics Sweden, Danske Bank Equity Research estimates

We think that Sweden is a clear first catalyst market for Talenom, as alongside Finland it is one of the most developed in terms of digitalisation in accounting services, and has high-profile software-side players such as Fortnox (FNOX SE) and Visma operating in the space. We believe that if Talenom can successfully demonstrate that its own software (Talenom Online) is competitive as a concept against the current SME space leader Fortnox, there is no reason why Talenom could not duplicate its business model to other European countries (such as Spain).

Profitability in Sweden is set to remain lower than in Finland due to software localisation and process ramp-up, which should enable similar profitably to Finland in around two to three years. However, the margin improvement is contingent on M&A activity and the organic growth that Talenom will seek in Sweden after the software has been localised (after H2 22). Current management commentary suggests that Talenom could be seeking around the typical accounting firm profitability level (10-15% EBITDA margin) before its own software is in full use.

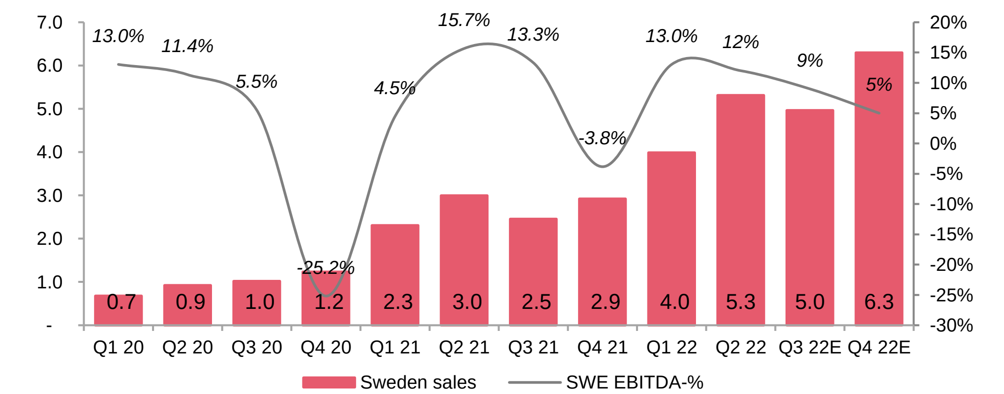
Chart 17 : Sweden sales (EURm) and EBITDA-margin (2019-2026E)



Source: Company data, Danske Bank Equity Research estimates

We expect that especially Q3 and Q4 22E will be muted in terms of profitability, as most work and front-loaded personnel and opex investments are targeted during those quarters. For 2023E, we see Talenom continuing its high pace of acquisitions, while starting to get the first benefits from its own software being used in a foreign market. We remain cautious for now in terms of full margin potential (in our 2026 estimates) being notably below the current Finnish level. We think that if a considerable number of Talenom's current or new customers want to remain in the Fortnox ecosystem in the UI side, Talenom would not be able to reach the same margin level as in Finland, due to a bigger additional external software cost component.

Chart 18 : Sweden quarterly sales (EURm) and EBITDA margin



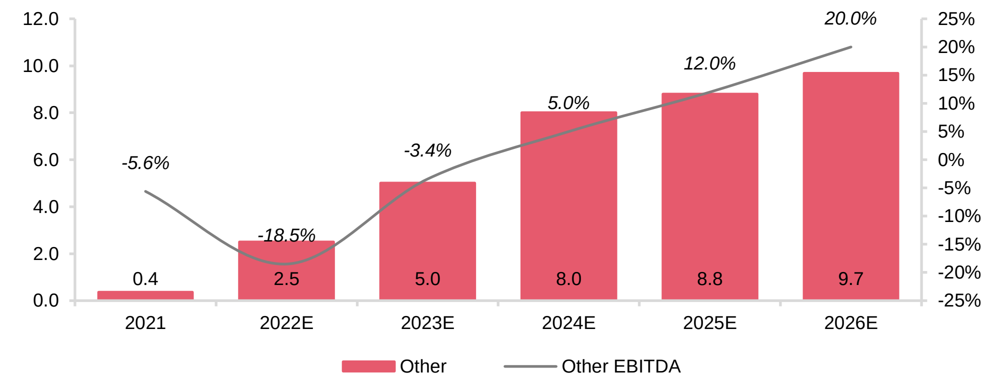
Source: Company data, Danske Bank Equity Research estimates

Spanish operations have been growing – potential medium-term catalyst

Talenom expanded into the Spanish market in July 2021 by acquiring Avail Services SL in Barcelona, Spain. Following the first acquisition, Talenom proceeded with further acquisitions around one-year after the first one, being in phase one (market analysis, networking, infrastructure, working methods and acquisitions) of its operating model in the new market. The Spanish accounting services market is worth around EUR10bn annually (estimated by Talenom), with more than 65,000 accounting firms operating in the country, dwarfing Talenom's previous Finnish and Swedish market exposures by a notable margin.

Especially interesting in contrast to the Swedish acquisitions is the acquisition of the Nomo fintech platform, which will be used as a complementary platform alongside the current freemium platform TiliJaska. In Spain, Talenom will proceed with marketing the existing Nomo platform, but will over time combine the freemium platform to a single product, potentially used as a scalable entry tool to new markets.

Chart 19 : Spain sales (EURm) and EBITDA-margin



Source: Company data, Danske Bank Equity Research estimates

We think that the Spanish operations could be a medium-term catalyst for Talenom in terms of our currently cautious estimates in terms of growth. We expect in total some EUR10m revenues in 2026E, driven mostly by acquisitions. In contrast, Talenom grew its Swedish operations to over EUR20m revenues in just three years, in a market that is notably smaller in comparison to Spain.

Table 3 : Talenom's acquisitions in Spain

Company	Date	Talenom comment
Avail Services	July 2021	Avalanding (Avail Services) has experience in serving demanding international clients and significant expertise in providing **value-added services**. Talenom is in an excellent position to develop its business in Spain, and the Spanish market has substantial potential. We're taking a big step in the execution of our strategy. EUR1.2m sales with positive operating profit for FY 2021, 16 employees in total.
Nomo	June 2022	Nomo is one of the leading Spanish fintech platforms, which offers its customers a comprehensive **digital platform for accounting and financial and tax planning**. The platform is aimed at self-employed people and SMEs and includes solutions for sales invoicing, expense management, bank connections and reconciliation, payment accounts and cards, accounting and tax advice. The acquisition of Nomo provides Talenom access to 6m micro-SMEs and self-employed people on the Spanish market, who have traditionally been underserved by digital solutions. Nomo will form the basis for Talenom's operations in this strategic customer segment with a scalable solution that combines software, automation and personal service. No sales or profitability figures disclosed, 25 employees in total.
ACompany Asesoraria	June 2022	The acquisition target is a **high-quality accounting firm** with skilled and development-oriented personnel. The acquisition complements our service offering well and increases our volumes in the Spanish accounting market, where we originally expanded a year ago and where we acquired important local technological know-how at the end of June 2022. Net sales transferred to Talenom are some EUR0.7m annually, 12 employees in total.
Gestoria Teruel	August 2022	I am very pleased that we were able to carry out the Gestoria Teruel SL acquisition in addition to our previous acquisitions. This is a strong indication of our desire to grow on the Spanish market. Net sales transferred to Talenom are some EUR1.0m annually, 13 employees in total.

Source: Company data, Danske Bank Equity Research

Talenom's software side Nordic competitor Visma has also expanded into the Spanish market, just one month prior to Talenom in June 2021. After that, Visma conducted two more acquisitions, and the commentary from them indicates similarly considerable market potential in Spain. We believe that two Nordic firms specialising in accounting side digitalisation seeing notable potential in the Spanish market indicates heavily that the market is in fact in positive transition, and is at the moment more attractive than, for example, Germany.

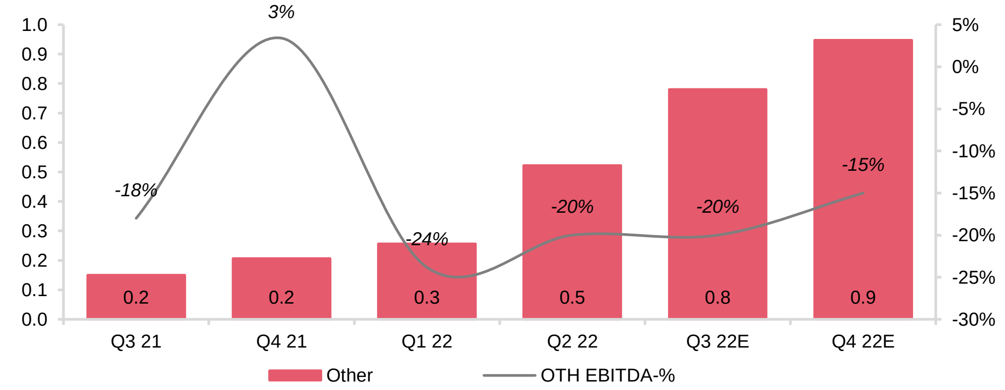
Table 4 : Visma's acquisitions in Spain

Company	Date	Comment
Holded	June 2021	Visma acquired Holded, provider of the **fastest-growing cloud ERP and accounting software** in Spain. Holded was founded in 2016 and has become one of Spain's leading cloud ERP solutions designed for small businesses to manage invoicing, accounting, CRM, inventories, projects and HR, with an attractive and easy-to-use interface. By joining the Visma family, Holded will benefit from Visma's international experience to boost product development and consolidate its strong position in Spain.
Declarando	April 2022	Visma acquired a majority stake in Declarando, the **leading provider of accountancy and tax software** in Spain. Declarando was founded in 2016 and the platform was designed exclusively for freelancers. The company aims to simplify the invoicing, accountancy, bookkeeping, taxes and financial control of thousands of small business owners. The deal strengthens Visma's growing presence in Spain and Declarando will get the support and experience of one of the largest European software companies.
Woffu	April 2022	Visma's third acquisition in Spain was Woffu, which is a cloud-based **time and attendance optimisation software** company. Woffu was founded in 2015 and it provides solutions allowing employees to optimise their time, request vacations, manage absences and comply with time control regulations. Joining Visma will allow Woffu to meet customer needs even better than before. Woffu will maintain its leadership and culture while benefiting from Visma's international network, expertise, and complementary products.

Source: Company data, Danske Bank Equity Research

Short term, we see the Spanish operations being clearly unprofitable, as long as the initial growth investment and acquisitions dilute the underlying margin. In the medium term, we think that Spanish operations could be seeing a somewhat similar margin trajectory to Sweden, i.e. being stable at some 10-15% EBITDA margin until Talenom's software or freemium solution enables higher margins. In 2023E, we believe, however, that freemium software (Nomo and TiliJaska) related investments will burden profitability and keep the margin negative.

Chart 20 : Spain quarterly sales (EURm) and EBITDA margin



Source: Company data, Danske Bank Equity Research estimates

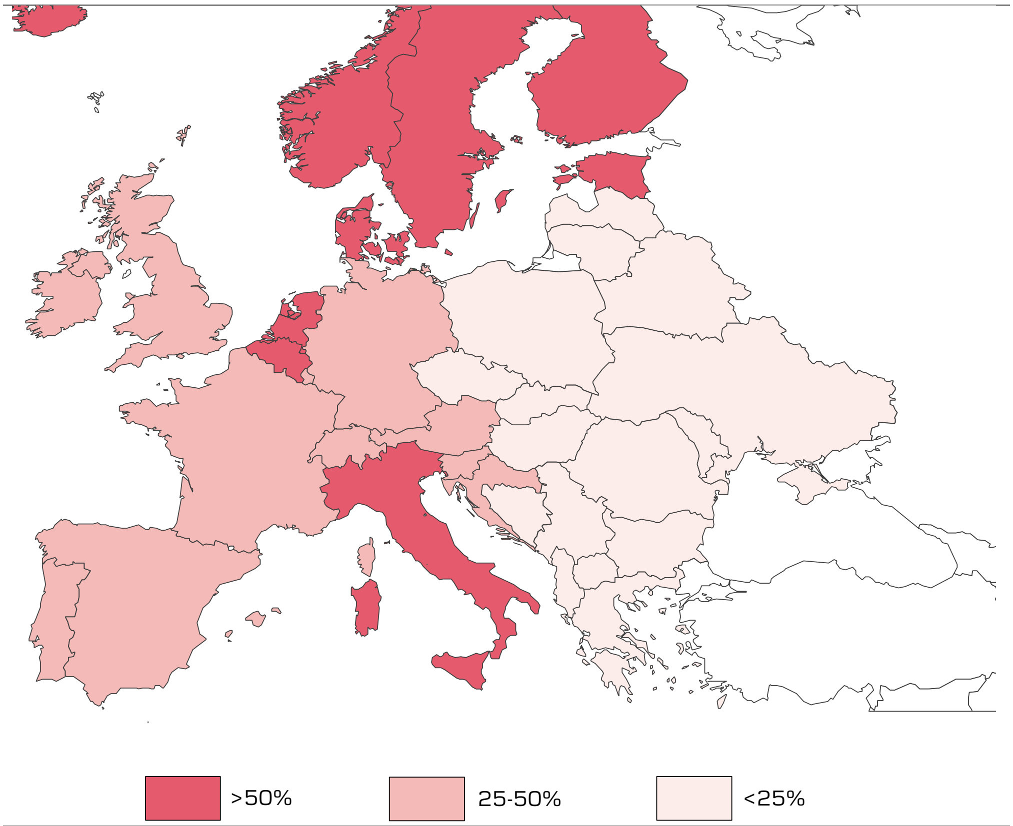
What is coming next?

As the (accounting) software and tools require e-invoicing, the share of paperless billing of total invoicing volume is one of the more important indicators of assessing whether the country is currently ready to implement accounting-side software tools at full scale. As the current e-invoicing adoption in Spain does not clearly stand out against Talenom's previous markets (Finland, Sweden), we deduce that both Talenom and Visma, have noticed a favourable, accelerating shift in the general digitalisation level in the country, and want to be clear front-runners there before the shift happens.

Looking at the medium-term future, we think that Talenom is looking to further expand its addressable market, by expanding in new countries. We think that a suitable moment could be after the software localisation is finished in Sweden, and the company has further strengthened the Spanish operations through acquisitions and assessed the next steps with the local Nomo software, in our view earliest around Q2-Q3 23.

When looking at the potential markets for expansion, in terms of e-invoicing market adoption (Billentis 2022), we would in addition to the rest of the Nordics (Norway, Denmark) highlight the two key Benelux countries (Belgium, Netherlands) but also Italy, where the B2B/B2C/B2G/G2B (B2G = Business to Government) e-invoicing adoption is above 50%. However, the current economic climate somewhat shadows expansion to Italy, we believe. Longer-term and especially after potential success in Spain we can see the arguments for expanding to the Italian market.

Figure 1 : E-invoicing predicted market adoption 2022



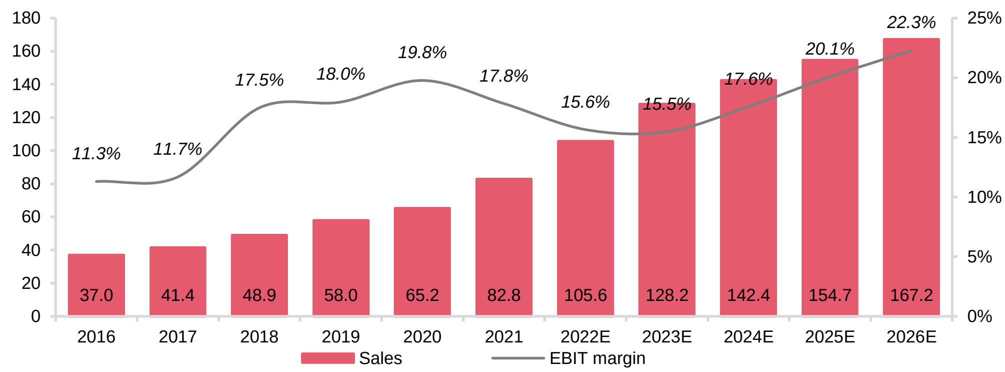
Source: Bruno Koch, Billentis, Danske Bank Equity Research

In general, the number of potential customers (SMEs) in Europe is high and by Talenom's estimates SMEs account for a +50% share of target countries' GDP. Moreover, as the local accounting service markets are fragmented and in transition towards digitalisation, Talenom is in a great position to start its expansion and bring best practice processes to new markets. As the accounting industry in the Nordics is further along in digitalisation than the rest of the Europe, the ongoing development is towards the model in the Nordics, where the accounting software is one of the key competitive elements in choosing the service, in our view.

Estimates and key financials

We raise our sales estimates notably for 2023E, due to our higher conviction that the company will proceed with the very high M&A activity it has shown during FY 2020-21. We raise our FY 2023 sales growth estimate to some 21% (previously 13%), a change driven solely by expected acquisitions. Furthermore, we expect the EBIT margin to remain suppressed in 2023, as the high M&A pace and the resulting PPA depreciation will suppress the reported figures. In terms of absolute EBITDA, we estimate 21% y/y growth, in line with the last few years. The growth is driven by both acquisitions (which are almost always EBITDA positive, albeit margin dilutive) but also improving automation levels in both Finnish and Swedish operations.

Chart 21 : Sales (EURm) and EBIT margin



Source: Company data, Danske Bank Equity Research estimates

In terms of the different geographic segments (Finland, Sweden and Other i.e. Spain), Finnish operations are the most profitable (c.40% EBITDA margin) and create the majority of the cash flow to the company. In practice, Talenom currently funds part of its international ambitions with the strong cash flow from the Finnish (and soon Swedish) operations. In the longer term, we see no reason why Talenom should not be able to replicate its Finnish profitability in its other markets.

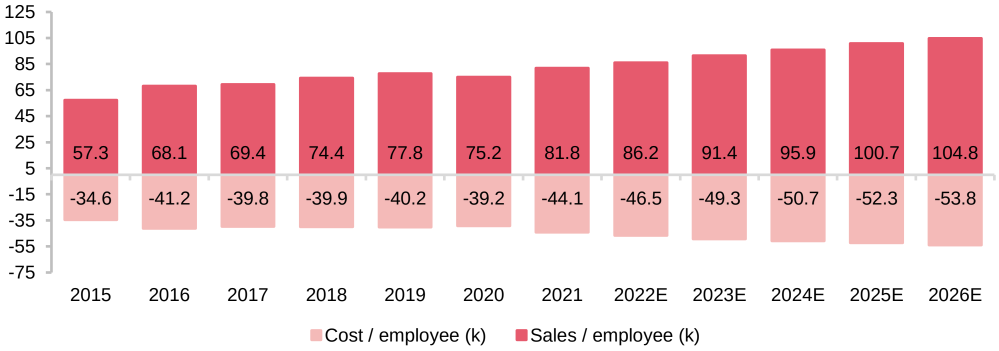
Table 5 : Quarterly estimates

EURm	2020	Q1 21	Q2 21	Q3 21	Q4 21	2021	Q1 22	Q2 22	Q3 22E	Q4 22E	2022E	2023E
Sales	**65.2**	**20.3**	**21.4**	**19.4**	**21.8**	**82.8**	**25.2**	**27.0**	**25.0**	**28.4**	**105.6**	**128.2**
Growth y/y	12.4%	17.0%	29.6%	30.4%	32.2%	27.1%	24.1%	26.2%	29.0%	30.5%	27.5%	21.4%
Personnel costs	-33.9	-10.8	-11.5	-10.1	-12.2	-44.6	-13.4	-14.2	-13.3	-16.1	-56.9	-69.1
% of sales	-52.1%	-53.2%	-54.0%	-52.1%	-56.1%	-53.9%	-53.2%	-52.6%	-53.1%	-56.6%	-53.9%	-53.9%
Materials and services	-2.5	-0.5	-0.8	-0.8	-0.9	-3.1	-0.9	-0.9	-0.9	-1.1	-3.8	-4.5
Other costs	-5.6	-1.9	-2.0	-2.1	-2.3	-8.2	-2.6	-2.6	-3.0	-3.4	-11.6	-13.8
EBITDA	**23.3**	**7.2**	**7.2**	**6.7**	**6.6**	**27.7**	**8.9**	**9.3**	**7.8**	**7.8**	**33.7**	**41.2**
EBITDA margin	35.7%	35.4%	33.7%	34.5%	30.3%	33.4%	35.2%	34.3%	31.1%	27.6%	31.9%	32.1%
D&A	-10.4	-2.5	-2.6	-2.7	-2.6	-2.8	-2.8	-3.1	-3.2	-3.8	-12.9	-17.2
EBIT	**12.9**	**4.4**	**4.1**	**3.4**	**2.8**	**14.8**	**4.9**	**5.1**	**3.4**	**3.2**	**16.5**	**19.5**
EBIT margin	19.8%	21.7%	19.4%	17.8%	12.7%	17.8%	19.3%	18.9%	13.6%	11.2%	15.6%	15.2%
Net financials	-0.9	-0.2	-0.3	-0.2	-0.2	-0.8	-0.1	-0.3	-0.4	-0.5	-1.2	-2.0
Pre-tax profit	**12.0**	**4.2**	**3.8**	**3.3**	**2.6**	**14.0**	**4.7**	**4.8**	**3.0**	**2.7**	**15.3**	**17.5**
Taxes	-2.4	-0.7	-0.7	-0.6	-0.4	-3.2	-1.0	-1.0	-0.6	-0.5	-3.1	-3.5
Tax rate	20.3%	16.6%	18.6%	18.9%	15.6%	22.9%	20.6%	20.0%	20.0%	20.0%	20.0%	20.0%
Net income	**9.6**	**3.5**	**3.1**	**2.7**	**2.2**	**10.8**	**3.7**	**3.9**	**2.4**	**2.2**	**12.3**	**14.0**

Source: Company data, Danske Bank Equity Research estimates

Personnel cost is Talenom's single biggest P/L line, but looking at the sales per employee and cost per employee measures, we can see a clear positive trend on both, with clear scalability as the automation improves the average employee's efficiency. We believe that Talenon will be able to inch its sales per employee towards 100k annually by simply gaining further automation benefits. The positive impact to EBIT(DA) margins should become more visible as the company eventually eases with its M&A activity, and if the software investments (and the resulting software depreciations) do not accelerate relatively.

Chart 22 : Cost per employee and sales per employee (EURk) (2015-26E)

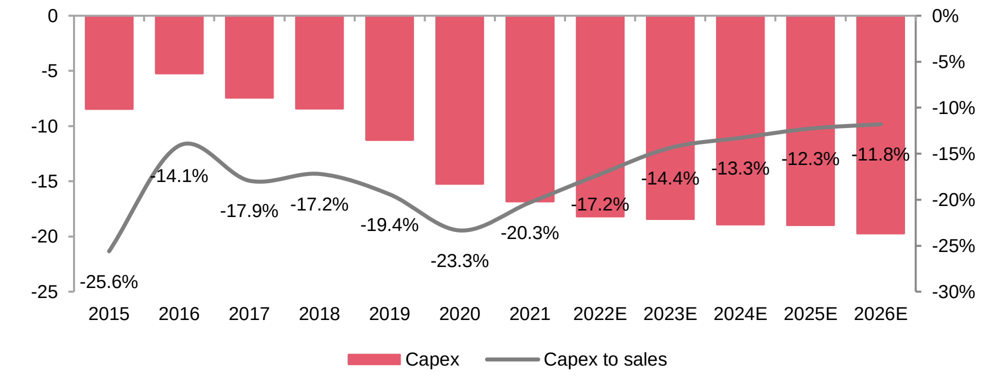


Source: Company data, Danske Bank Equity Research estimates

Cash flow is strong – but so is the willingness for M&A

In the recent past, Talenom has made steadily growing capex investments in its in-house software, translating into a high automation level, highly efficient bookkeeping processes, a new freemium offering and new UIs for both Talenom Online and Talenom Mobile. In our view, most of the front-loaded investments are largely behind Talenom and in the future, capex will be growing notably slower than revenues. Furthermore, we believe that Talenom is set to keep its high acquisition pace up in 2023E, further suppressing the FCF.

Chart 23 : Capex (EURm) and capex to sales (%)



Source: Company data, Danske Bank Equity Research estimates

Not for US distribution

Table 6 : Cash flow estimates

EURm	201	201	201	201	201	202	202	2022	2023	2024	2025	2026
EBITDA	**4**	**6**	**9**	**13**	**18**	**23**	**27**	**33**	**41**	**47**	**54**	**61**
Interest paid	-1	-0	-0	-0	-0	-0	-0	-1	-2	-2	-2	-2
Tax paid	0	-0	-0	-1	-2	-2	-3	-3	-3	-4	-5	-7
Change in working capital	0	-0	0	-0	1	1	-0	0	1	1	1	1
Other	0	0	0	0	0	0	0	0	0	0	0	0
Cash flow from operations	**4**	**6**	**9**	**12**	**18**	**23**	**25**	**30**	**37**	**41**	**47**	**53**
Capex	-8	-5	-7	-8	-11	-15	-16	-18	-18	-18	-19	-19
FCF ex M&A	**-4**	**1**	**2**	**3**	**7**	**8**	**8**	**12**	**19**	**22**	**28**	**33**
Acquisitions	0	-0	0	-0	-2	-2	-7	-11	-9	-1	-2	-2
Divestments	0	0	0	0	0	0	0	0	0	0	0	0
FCF	**-4**	**1**	**2**	**3**	**5**	**5**	**1**	**1**	**10**	**21**	**26**	**31**

Source: Company data, Danske Bank Equity Research estimates

Table 7 : Capex estimates

EURm	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Capex excl. M&A	**-3.1**	**-5.2**	**-7.4**	**-8.4**	**-11.0**	**-15.2**	**-16.8**	**-18.2**	**-18.4**	**-18.9**	**-19.0**	**-19.7**
Capex, tangible	-0.2	-1.2	-1.0	-0.6	-1.1	-0.9	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5
Capex, intangible	-1.9	-2.9	-3.5	-4.3	-5.6	-10.3	-11.7	-13.0	-13.6	-14.3	-15.0	-15.8
Capitalisation of customer acquisition costs	-1.5	-1.5	-3.2	-3.7	-4.6	-4.2	-3.9	-3.9	-3.5	-3.3	-2.6	-2.6
Sale of assets	0.5	0.4	0.3	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Capex to sales	**-9.4%**	**14%**	**17.9%**	**17.2%**	**18.9%**	**23.3%**	**20.3%**	**17.2%**	**14.4%**	**13.3%**	**12.3%**	**11.8%**

Source: Company data, Danske Bank Equity Research estimates

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Valuation

We decrease our 12M valuation range for Talenom to EUR10.00-12.00 (previously EUR12.00-14.00), on the back of lower peer valuations and lower EBIT estimates. Overall we think that the risks in Talenom long-term growth and international ambitions have been steadily coming down, and that the fast-growing and highly scalable Nordic SaaS peers continue to provide a good, aspirational valuation framework for Talenom.

Fundamentally, Talenom operates in the highly defensive accounting services industry, with >90% recurring revenues and a scalable business model, that should provide high resiliency if Europe is heading into a recession. Accounting and tax reports are government regulated, inevitable recurring tasks for firms that cannot be dispensed with even in corporate distress. This makes the end market demand very resilient, and mass SME bankruptcies the potential tail-risk for Talenom.

Talenom remains a growth case in our view and multiples decline if we take a longer perspective: On our valuation mid-point we estimate 2025E EV/EBITA of 14.2x (2021: 28.7x) and FCF yield of 5.5%. Our range implies that Talenom would be valued on par to Nordic SaaS software companies on 2023E EV/EBIT. Talenom trades at a considerable 40-50% discount to SaaS peers if measured with EV/EBITDA, as the company has relatively high D&A sourced from both M&A related PPA depreciation and internal software development depreciation. In the future, we think that a more representative multiple would be EV/EBITA. The following key factors support the relatively high multiples for Talenom, in our view:

- High revenue growth rate and a favourable long-term outlook for further growth (only 5-6% market share in a fragmented market in Finland and under 1% in Sweden).
- High margins with potential to improve further along with higher revenue.
- Low risks in the current customer base (>90% recurring revenues, on average 10-year customer contracts, low churn) and non-cyclical end-markets.

Table 8 : Valuation range

EUR	Share price				
2023E	**9.0**	**10.0**	**11.0**	**12.0**	**13.0**
EV/Sales (x)	3.4	3.8	4.1	4.5	4.8
EV/EBITDA (x)	10.6	11.7	12.8	13.9	15.0
EV/EBIT (x)	22.3	24.6	26.9	29.2	31.5
P/E (x)	28.8	32.0	35.2	38.4	41.6
2024E	**9.0**	**10.0**	**11.0**	**12.0**	**13.0**
EV/Sales (x)	3.0	3.4	3.7	4.0	4.3
EV/EBITDA (x)	9.2	10.1	11.1	12.0	13.0
EV/EBIT (x)	17.5	19.3	21.1	23.0	24.8
P/E (x)	22.2	24.7	27.1	29.6	32.0

Source: Danske Bank Equity Research estimates

Table 9 : Peer group summary

		Mkt cap	*Price	EV/Sales			EV/EBITDA			EV/EBIT			P/E		
Company	**Ticker**	**EURm**	**lcl ccy**	**22E**	**23E**	**24E**	**22E**	**23E**	**24E**	**22E**	**23E**	**24E**	**22E**	**23E**	**24E**
Nordic Information services															
Enento Group	ENENTO FH	474	19.74	3.7	3.6	3.4	10.4	9.8	8.6	16.5	14.8	11.8	17.7	15.8	12.9
Karnov Group	KAR SS	531	54.10	4.8	2.7	2.6	13.6	9.1	8.0	15.8	10.8	9.3	19.6	13.3	11.2
ECIT	ECIT AS	290	6.70	1.2	1.0	0.8	8.4	6.7	5.2	14.6	10.8	8.3	20.3	14.9	14.3
Nordic SaaS software															
Admicom	ADMCM FH	217	43.55	6.9	6.1	5.6	15.0	13.7	12.1	15.4	14.6	13.0	19.2	17.6	15.7
cBrain	CBRAIN DC	359	133.50	12.8	10.0	7.9	41.1	30.0	21.7	48.3	32.9	24.9	63.2	45.5	33.5
Fortnox	FNOX SS	2,371	42.74	20.3	15.3	11.7	44.5	31.8	23.7	55.6	37.6	27.3	73.4	48.8	35.6
Lemonsoft	LEMON FH	210	11.40	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	38.0	28.5	23.8
Lime Tech.	LIME SS	264	218.00	6.4	5.7	5.0	20.3	18.2	15.3	34.2	28.5	24.0	35.0	27.8	26.3
Simcorp	SIM DC	2,339	431.40	4.3	4.0	3.7	17.6	15.2	12.7	19.5	15.8	14.2	24.2	19.8	17.5
Upsales Tech.	UPSALE SS	93	61.00	7.6	5.7	4.5	32.9	20.6	16.5	42.9	26.0	20.6	55.5	33.9	26.5
Nordic SaaS software				**7.2**	**5.9**	**5.3**	**26.6**	**19.4**	**15.9**	**38.6**	**27.2**	**22.3**	**38.0**	**28.5**	**26.3**
Nordic Information services				3.7	2.7	2.6	10.4	9.1	8.0	15.8	10.8	9.3	19.6	14.9	12.9
Peer group median				6.4	5.7	4.5	17.6	15.2	12.7	19.5	15.8	14.2	29.6	23.8	20.6
Talenom	**TNOM FH**	**390**	**8.70**	**4.1**	**3.4**	**3.0**	**13.0**	**10.6**	**9.0**	**26.4**	**22.4**	**17.2**	**31.5**	**27.8**	**21.4**
Vs Nordic SaaS software				**-43%**	**-42%**	**-43%**	**-51%**	**-45%**	**-43%**	**-31%**	**-18%**	**-23%**	**-17%**	**-2%**	**-19%**
Vs Nordic Information services				12%	25%	14%	25%	17%	12%	67%	107%	85%	60%	87%	67%
Vs Peer group median				-36%	-40%	-33%	-26%	-30%	-29%	36%	41%	21%	6%	17%	4%

Note: prices at 15:20 EET on 11 October 2022

Source: FactSet, Danske Bank Equity Research (estimates for Talenom)

Table 10 : Peer group financials

		Mkt cap	*Price	Sales growth			EBITDA margin			EBIT margin		
Company	**Ticker**	**EURm**	**lcl ccy**	**22E**	**23E**	**24E**	**22E**	**23E**	**24E**	**22E**	**23E**	**24E**
Nordic Information services												
Enento Group	ENENTO FH	474	19.74	3%	4%	5%	36%	36%	39%	22%	24%	29%
Karnov Group	KAR SS	531	54.10	45%	76%	4%	35%	30%	33%	30%	25%	28%
ECIT	ECIT AS	290	6.70	22%	19%	21%	14%	15%	16%	8%	9%	10%
Nordic SaaS software												
Admicom	ADMCM FH	217	43.55	27%	14%	8%	46%	44%	46%	45%	42%	43%
cBrain	CBRAIN DC	359	133.50	31%	27%	27%	31%	33%	36%	26%	30%	32%
Fortnox	FNOX SS	2,371	42.75	38%	33%	31%	46%	48%	49%	37%	41%	43%
Lemonsoft	LEMON FH	210	11.40	32%	22%	17%	32%	34%	35%	30%	32%	33%
Lime Tech.	LIME SS	264	218.00	19%	14%	14%	32%	31%	32%	19%	20%	21%
Simcorp	SIM DC	2,339	431.30	10%	7%	8%	24%	26%	29%	22%	25%	26%
Upsales Tech.	UPSALE SS	93	61.00	40%	34%	26%	23%	28%	27%	18%	22%	22%
Nordic SaaS software				**32%**	**25%**	**22%**	**39%**	**39%**	**41%**	**33%**	**36%**	**38%**
Nordic Information services				22%	19%	5%	35%	30%	33%	22%	24%	28%
Peer group median				31%	22%	17%	35%	34%	36%	30%	30%	32%
Talenom	**TNOM FH**	**390**	**8.70**	**27%**	**21%**	**11%**	**32%**	**31%**	**33%**	**15%**	**14%**	**17%**
Vs Nordic SaaS software				**-4pp**	**-3pp**	**-11pp**	**-7pp**	**-8pp**	**-9pp**	**-18pp**	**-22pp**	**-21pp**
Vs Nordic Information services				6pp	3pp	6pp	-4pp	1pp	0pp	-7pp	-10pp	-11pp
Vs Peer group median				-4pp	-1pp	-6pp	-4pp	-3pp	-4pp	-15pp	-16pp	-15pp

Note: prices at 15:20 EET on 11 October 2022

Source: FactSet, Danske Bank Equity Research (estimates for Talenom)

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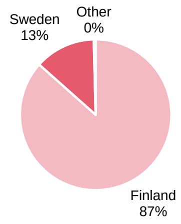
Danske Bank

Risks

- **Worsening economic conditions in Nordics.** The gloomy economic outlook could impact Talenom more than we estimate. This could materialise through slower-than-estimated revenue growth if the pace of Talenom's new customer acquisition decreases, as well as through customer bankruptcies, which so far have not increased significantly. Moreover, if companies generally start to reduce employees and unemployment rises, the number of payslips decreases which is a headwind for Talenom.
- **Competition and organic growth.** The market is fragmented and barriers to entry are low, because provision of bookkeeping services is not regulated. This could result in price erosion and make it more difficult for Talenom to continue to grow organically through new customer acquisition, if competitors are willing to accept lower prices to keep their customers.
- **Risks related to internationalisation.** Talenom has since 2019 operated in Sweden, where it is now working to localise its software and since 2021 in Spain where it is building a presence through acquisitions. The company also aims to enter new countries in addition to Finland, Sweden and Spain. Risks in international expansion are still higher than in Talenom's core business in Finland, where it has decades of experience. Even though we believe Talenom can be successful abroad, we note that there is not yet concrete evidence that it can replicate the success of Finland (i.e. fast organic growth through new customer acquisition).
- **Technology risk.** Talenom's competitive advantage in our view is the proprietary software enabling efficiency of operations. Competitors could catch up with Talenom's technology or new competitors could enter the market with disruptive solutions that could reduce bookkeeping companies' share of the total value chain.

Company summary

Sales breakdown by geographical area



Sales breakdown by division

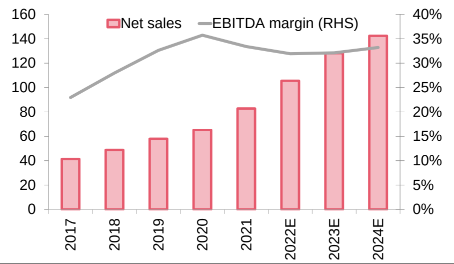
Company information

Talenom
Yrttipellontie 2, 90230 Oulu
Finland
www.talenom.fi

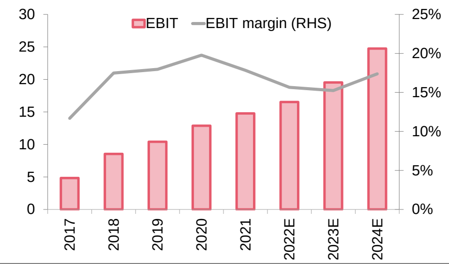
Main shareholders

Name	Votes (%)	Capital (%)
Harri Tahkola	17.7%	17.7%
Markus Tahkola	10.8%	10.8%
SEB Funds	6.6%	6.6%
Allianz Vie S.A.	5.0%	5.0%
Danske Invest	4.2%	4.2%

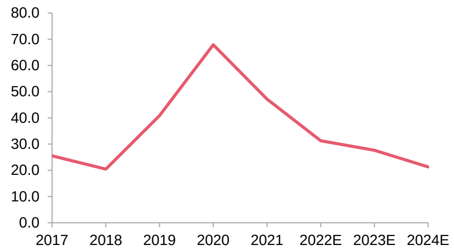
Net sales and EBITDA margin (EURm)



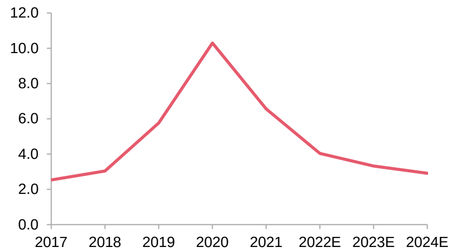
EBIT and EBIT margin (EURm)



P/E NTM (x)



EV/sales NTM (x)



Source: FactSet, Company data, Danske Bank Equity Research estimates

Summary tables

INCOME STATEMENT										
Year end Dec, EURm	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022E**	**2023E**	**2024E**
Net sales	33.0	37.0	41.4	48.9	58.0	65.2	82.8	106	128	142
Cost of sales & operating costs	-28.4	-30.5	-32.3	-35.9	-39.4	-42.0	-55.9	-72.3	-87.3	-95.1
EBITDA	**4.9**	**6.8**	**9.5**	**13.7**	**18.9**	**23.3**	**27.7**	**33.7**	**41.2**	**47.3**
EBITDA, adj.	4.9	6.8	9.5	13.7	18.9	23.3	27.7	33.7	41.2	47.3
Depreciation	-6.2	-2.6	-0.7	-0.7	-2.5	-2.9	-3.6	-3.9	-4.1	-4.3
EBITA	**-1.3**	**4.2**	**4.8**	**8.5**	**10.4**	**12.9**	**16.9**	**19.9**	**24.3**	**29.8**
EBIT incl. EO, bef. ass.	**-1.3**	**4.2**	**4.8**	**8.5**	**10.4**	**12.9**	**14.8**	**16.5**	**19.5**	**24.7**
EBIT, adj.	-0.3	4.2	5.2	8.5	10.4	12.9	14.8	16.5	19.5	24.7
Financial items, net	-1.1	-0.6	-0.5	-0.6	-0.8	-0.9	-0.8	-1.2	-2.0	-2.0
Pre-tax profit	**-2.5**	**3.6**	**4.3**	**8.0**	**9.6**	**12.0**	**14.0**	**15.3**	**17.5**	**22.7**
Taxes	0.0	-0.7	-0.9	-1.6	-2.0	-2.4	-3.2	-3.1	-3.5	-4.5
Net profit, rep.	**-2.4**	**2.9**	**3.4**	**6.4**	**7.6**	**9.6**	**10.8**	**12.3**	**14.0**	**18.2**
Net profit, adj.	-1.5	2.9	3.7	6.4	7.6	9.6	10.8	12.3	14.0	18.2

CASH FLOW										
EURm	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022E**	**2023E**	**2024E**
EBITDA	4.9	6.8	9.5	13.7	18.9	23.3	27.7	33.7	41.2	47.3
Change in working capital	0.1	-0.1	0.5	-0.5	1.4	1.4	-0.2	0.9	1.8	1.1
Net interest paid	-0.8	0.0	0.1	0.1	0.1	0.1	0.1	-1.2	-2.0	-2.0
Taxes paid	0.0	0.0	-0.4	-1.1	-2.4	-1.9	-2.9	-3.1	-3.5	-4.5
Other operating cash items	0.0	0.1	0.1	0.1	0.3	0.6	0.9	0.6		
Cash flow from operations	**4.1**	**6.8**	**9.9**	**12.2**	**18.3**	**23.4**	**25.6**	**30.9**	**37.5**	**41.9**
Capex	-8.4	-5.2	-7.4	-8.4	-11.3	-15.4	-16.8	-18.2	-18.4	-18.9
Div to min										
Free cash flow	**-4.3**	**1.6**	**2.4**	**3.8**	**7.1**	**8.1**	**8.8**	**12.7**	**19.1**	**23.0**
Disposals/(acquisitions)		-0.4		-0.5	-1.8	-2.2	-7.6	-11.0	-9.0	-1.8
Free cash flow to equity	**-4.3**	**1.2**	**2.4**	**3.3**	**5.2**	**5.9**	**1.2**	**1.7**	**10.1**	**21.2**
Dividend paid		-0.5	-1.4	-2.2	-3.8	-5.4	-6.6	-7.6	-8.1	-8.5
Share buybacks	0.0									
New issue common stock	6.6			-0.2		1.9				
Incr./(decr.) in debt	2.1	-1.0		1.0			10.0	21.0	9.0	1.8
Minorities & other financing CF	-0.6	-0.7	-0.5	-0.9	0.4	-1.0	-3.6	-2.0	-1.8	-1.8
Cash flow from financing	**8.1**	**-2.2**	**-1.9**	**-2.3**	**-3.4**	**-4.6**	**-0.2**	**11.4**	**-0.8**	**-8.5**
Disc. ops & other										
Incr./(decr.) in cash	**3.8**	**-1.0**	**0.5**	**1.0**	**1.9**	**1.3**	**1.0**	**13.2**	**9.2**	**12.7**

BALANCE SHEET										
EURm	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022E**	**2023E**	**2024E**
Cash & cash equivalents	5.4	4.3	4.9	5.9	7.8	9.1	10.1	23.3	32.5	45.2
Inventory										
Trade receivables	4.4	4.8	5.5	5.5	6.5	7.1	9.8	11.6	14.1	15.7
Other current assets		0.1	0.0	0.0						
Goodwill	18.4	18.4	18.4	18.4	20.7	24.0	37.3	41.7	45.3	46.0
Other intangible assets	9.8	6.7	7.8	10.5	14.9	22.9	36.3	45.2	49.1	49.1
Fixed tangible assets	2.1	2.5	2.5	2.2	2.6	2.5	2.8	3.3	3.3	2.4
Associated companies										
Other non-current assets	0.4	5.2	6.8	8.7	10.4	11.4	12.7	12.2	12.2	12.2
Total assets	**40.5**	**42.0**	**45.9**	**51.2**	**71.3**	**84.9**	**118**	**146**	**165**	**179**
Shareholders' equity	**9.9**	**11.7**	**13.9**	**18.7**	**23.6**	**32.2**	**44.7**	**49.4**	**55.3**	**65.0**
Of which minority interests										
Current liabilities	7.1	7.5	8.9	8.6	10.7	13.3	19.7	22.4	26.7	29.4
Interest-bearing debt	23.5	22.7	22.6	23.6	28.1	30.0	40.2	61.2	70.2	72.0
Pension liabilities										
Oth non-curr. liabilities		0.4	0.4	0.3	0.5	1.3	4.2	4.2	4.2	4.2
Total liabilities	**30.6**	**30.6**	**32.0**	**32.5**	**47.8**	**52.8**	**73.0**	**96.5**	**110**	**115**
Total liabilities and equity	**40.5**	**42.3**	**45.9**	**51.2**	**71.3**	**84.9**	**118**	**146**	**165**	**179**
Net debt	18.1	18.4	17.8	17.7	20.3	20.9	30.1	37.9	37.7	26.8

Source: Company data, Danske Bank Equity Research estimates

Summary tables

PER SHARE DATA	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
No. of shares, fully diluted (y.e.) (m)	40.9	40.9	40.9	41.2	41.8	43.2	43.9	44.9	44.9	44.9
No. of shares, fully diluted (avg.) (m)	40.9	40.9	40.9	41.1	41.5	43.2	43.5	44.4	44.9	44.9
EPS (EUR)	-0.06	0.07	0.08	0.16	0.18	0.22	0.25	0.28	0.31	0.41
EPS adj. (EUR)	-0.04	0.07	0.09	0.16	0.18	0.22	0.25	0.28	0.31	0.41
DPS (EUR)	0.01	0.03	0.05	0.09	0.13	0.15	0.17	0.18	0.19	0.20
CFFO/share (EUR)	0.1	0.2	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.9
Book value/share (EUR)	0.24	0.29	0.34	0.45	0.56	0.74	1.02	1.10	1.23	1.45

MARGINS AND GROWTH	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
EBITDA margin	14.8%	18.5%	23.0%	28.0%	32.6%	35.7%	33.4%	31.9%	32.1%	33.2%
EBITA margin	-4.0%	11.3%	11.7%	17.5%	18.0%	19.8%	20.4%	18.9%	19.0%	20.9%
EBIT margin	-4.0%	11.3%	11.7%	17.5%	18.0%	19.8%	17.8%	15.7%	15.2%	17.4%
EBIT adj margin	-1.0%	11.3%	12.4%	17.5%	18.0%	19.8%	17.8%	15.7%	15.2%	17.4%
Sales growth		12.0%	12.1%	18.0%	18.6%	12.4%	27.1%	27.5%	21.4%	11.1%
EBITDA growth		39.9%	39.4%	43.8%	38.3%	23.1%	18.8%	21.9%	22.1%	14.9%
EBITA growth		n.m.	15.9%	76.5%	21.8%	23.7%	30.8%	18.1%	22.2%	22.4%
EPS adj growth		n.m.	28.3%	70.2%	18.3%	20.9%	11.9%	11.5%	13.1%	29.7%

PROFITABILITY	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
ROIC (after tax, incl. GW, adj.)	-2.4%	11.5%	13.2%	20.0%	18.9%	18.1%	15.5%	14.3%	15.4%	19.0%
ROIC (after tax, excl. GW, adj.)	-6.8%	31.2%	32.5%	43.2%	33.6%	29.6%	26.3%	24.8%	26.7%	33.6%
ROE (adj.)	-29.4%	26.8%	29.0%	39.0%	36.0%	34.4%	28.1%	26.1%	26.8%	30.3%
ROIC (adj.) - WACC	-10.2%	3.6%	5.3%	12.1%	11.0%	10.2%	7.7%	6.5%	7.6%	11.2%

MARKET VALUE	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
Share price (EUR)	0.88	1.20	2.13	3.18	7.50	15.1	11.7	8.65	8.65	8.65
No. shares reduced by buybacks (m)	40.9	40.9	40.9	41.2	41.8	43.2	43.9	44.9	44.9	44.9
Mkt cap used in EV (m)	**36**	**49**	**87**	**131**	**314**	**650**	**513**	**388**	**388**	**388**
Net debt, year-end (m)	18	18	18	18	29	29	39	47	47	36
MV of min/ass and oth (m)	0	0	0	0	0	0	0	0	0	0
Enterprise value (m)	**54**	**67**	**105**	**149**	**343**	**679**	**552**	**435**	**435**	**424**

VALUATION	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
EV/sales (x)	1.64	1.82	2.53	3.04	5.91	10.42	6.66	4.12	3.39	2.98
EV/EBITDA (x)	11.1	9.9	11.0	10.9	18.1	29.2	20.0	12.9	10.6	9.0
EV/EBITA (x)	n.m.	16.1	21.7	17.4	32.9	52.7	32.7	21.8	17.9	14.2
EV/EBIT (x)	n.m.	16.1	20.4	17.4	32.9	52.7	37.4	26.3	22.2	17.1
P/E (reported) (x)	n.m.	16.9	25.5	20.5	40.9	67.9	47.2	31.3	27.7	21.3
P/E (adj.) (x)	n.m.	16.9	23.4	20.5	40.9	67.9	47.2	31.3	27.7	21.3
P/BV (x)	3.61	4.19	6.25	7.00	13.3	20.2	11.5	7.86	7.02	5.97
EV/invested capital (x)	5.6	5.7	7.8	8.2	10.7	17.8	11.0	7.4	7.2	7.2
Dividend yield	1.33%	2.78%	2.50%	2.89%	1.67%	1.00%	1.45%	2.08%	2.20%	2.31%
Total yield (incl. buybacks)	1.34%	2.78%	2.50%	2.89%	1.67%	1.00%	1.45%	2.08%	2.20%	2.31%
FCFE-yield	-12.13%	3.27%	2.79%	2.90%	2.26%	1.24%	1.71%	3.28%	4.91%	5.92%

FINANCIAL RATIOS	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
Net debt/EBITDA (x)	3.7	2.7	1.9	1.3	1.5	1.2	1.4	1.4	1.1	0.8
Net debt/equity (x), year-end	1.8	1.6	1.3	0.9	1.2	0.9	0.9	0.9	0.8	0.5
Dividend payout ratio	n.m.	46.9%	63.9%	59.1%	68.2%	67.7%	68.6%	65.1%	60.8%	49.3%
Interest coverage (x)	-1.2	7.2	8.1	13.5	12.4	15.0	19.2	13.9	9.8	12.4
Cash conversion (FCF/net profit)	n.m.	55.3%	71.2%	59.8%	93.0%	84.3%	81.2%	103.8%	135.9%	126.3%
Capex/sales	25.6%	14.1%	17.9%	17.2%	19.4%	23.6%	20.3%	17.2%	14.4%	13.3%
NWC/sales	-8.2%	-7.1%	-8.3%	-6.4%	-7.2%	-9.6%	-11.9%	-10.2%	-9.8%	-9.6%

QUARTERLY P&L	Q1 21	Q2 21	Q3 21	Q4 21	Q1 22	Q2 22	Q3 22E	Q4 22E
Sales (m)	20.3	21.4	19.4	21.8	25.2	27.0	25.0	28.4
EBITDA (m)	7.2	7.2	6.7	6.6	8.9	9.3	7.8	7.8
EBIT before non-recurring items (m)	4.4	4.1	3.4	2.8	4.9	5.1	3.4	3.2
Net profit (adj.) (m)	3.3	3.1	2.5	1.9	3.7	3.9	2.4	2.2
EPS (adj.) (EUR)	0.08	0.07	0.06	0.04	0.09	0.09	0.06	0.05
EBITDA margin	35.4%	33.7%	34.5%	30.3%	35.2%	34.3%	31.1%	27.6%
EBIT margin (adj.)	21.7%	19.4%	17.8%	12.7%	19.3%	18.9%	13.6%	11.2%

Source: Company data, Danske Bank Equity Research estimates

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