Danske Bank

Professional Business Support Services

Key data

Price (EUR)*	14.7
Country	Finland
Bloomberg	TNOM FH
Reuters	TNOM.HE
Free float	59.6%
Market cap (EURm)	641
Net debt (current Y/E) (EURm)	36
No. of shares (m)	43.7
Next event	Q2: 2-Aug

** Price as at 11:45 CET on 15 June 2021*

CEO	Otto-Pekka Huhtala
CFO	Antti Aho

Company description

Talenom is an accounting services company operating in Finland and Sweden. Talenom offers a wide range of accountancy and other services including tax and legal advisory and financial management tools for SMEs. Talenom has over 700 employees and 40 locations. Talenom has ca. 5% market share in the fragmented Finnish market. In June 2015, Talenom was listed on the Helsinki First North Growth Market and in June 2017 to the main list of Nasdaq Helsinki.

Ownership structure

Harri Tahkola	18.6%
Markus Tahkola	11.0%
Danske Invest Finnish Equity Fund	4.7%
Conficap	4.2%
Evli Suomi Pienyhtiöt	3.9%

Source: Company data (15 June 2021)

Estimate changes

	21E	22E	23E
Sales	0.0%	0.0%	0.4%
EBITDA	0.0%	0.0%	0.4%
EBIT (adj.)	0.0%	0.0%	0.2%
EPS (adj.)	n.m.	n.m.	n.m.

Source: Danske Bank Equity Research estimates

Analyst(s)

Daniel Lepistö

Panu Laitinmäki

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

Important disclosures and certifications are contained from page 30 of this report

Talenom

A winning growth model with inorganic support

We have looked at the Finnish accounting service market and we continue to view Talenom's business model as the winning one in this field. Talenom's high appetite for M&A is justified by its ability to deliver consistent cost synergies within three years due to its in-house accounting software. Furthermore, the new TiliJaska freemium platform provides Talenom with a new pocket of organic growth.

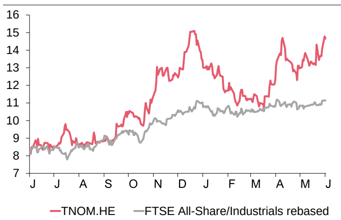
- **In-house software ensures M&A cost synergies.** As Talenom's in-house accounting software automation level is currently over 70% in bookkeeping and over 40% in payrolls, its internal process efficiency is higher than ever. The high level of automation enables Talenom to lift almost any acquired accounting firm to its base profitability within three years. Our M&A scenario suggests that Talenom can acquire EUR5-15m revenue annually with its own FCF and cash position. This would keep Talenom's growth rate around 20% over the forecast period, whilst keeping its EBIT-margin at approximately 18%.
- **Large addressable market in favourable transition.** The accounting service markets in both Finland and Sweden are in an accelerating transition towards digitalisation, which favours Talenom. The new TiliJaska freemium platform enables Talenom to tap into the smallest SME segment, which is now financially viable due to the high level of automation. International expansion is ongoing and we estimate that 14% of Talenom's sales already originates from Sweden, with a third-country expansion starting this year. Overall, Talenom is able to address the approximately EUR3bn market combined in Finland and Sweden.
- **Estimates.** We lift our long-term estimates slightly as we feel more confident about the future organic growth profile, backed by the new freemium platform.
- **Valuation.** Talenom trades at a 20% premium to Admicom on 2022E EV/EBIT but at a 37% discount to Fortnox. Valuation can be justified by still increasing scalability, a large addressable market with low penetration and new freemium offering with similarities to SaaS providers. Continuing bolt-on M&A could provide upside to our estimates, but we struggle to find meaningful upside currently We raise our 12M fair value range to EUR13-15 (from EUR12-14). With this report, we transfer coverage to Daniel Lepistö.

Key financials

Year-end Dec (EUR)	2019	2020	2021E	2022E	2023E
Revenues (m)	58.0	65.2	81.0	91.5	103
Revenues growth	18.6%	12.4%	24.3%	13.0%	12.5%
EBITDA (m)	18.9	23.3	27.5	31.7	35.9
EBIT adj. (m)	10.4	12.9	15.8	18.5	21.0
EBIT growth	21.8%	23.7%	22.5%	17.1%	13.9%
Pre-tax profit (m)	9.6	12.0	15.1	17.8	20.3
EPS adj.	0.18	0.22	0.28	0.32	0.37
DPS	0.13	0.15	0.16	0.17	0.18
Dividend yield	1.7%	1.0%	1.1%	1.2%	1.2%
FCFE yield (pre-IFRS16)	1.7%	0.9%	0.4%	1.7%	2.2%
EBIT margin (adj.)	18.0%	19.8%	19.5%	20.2%	20.4%
Net debt/EBITDA (x)	1.5	1.2	1.3	1.1	0.9
ROIC	18.9%	18.0%	18.7%	19.3%	20.5%
EV/sales (x)	5.9	10.4	8.4	7.4	6.5
EV/EBITDA (adj.) (x)	18.1	29.2	24.6	21.3	18.7
EV/EBITA (adj.) (x)	20.9	34.2	27.2	23.3	20.3
EV/EBIT (adj.) (x)	32.9	52.8	42.9	36.6	31.9
P/E (adj.) (x)	40.9	67.9	52.9	45.1	39.4

Source: Company data, Danske Bank Equity Research estimates

Price performance



	1M	3M	12M	5Y
Absolute	13%	30%	81%	n.m.
Rel. local market	n.m.	n.m.	n.m.	n.m.
Rel. EU sector	10%	23%	32%	970%

Source: FactSet

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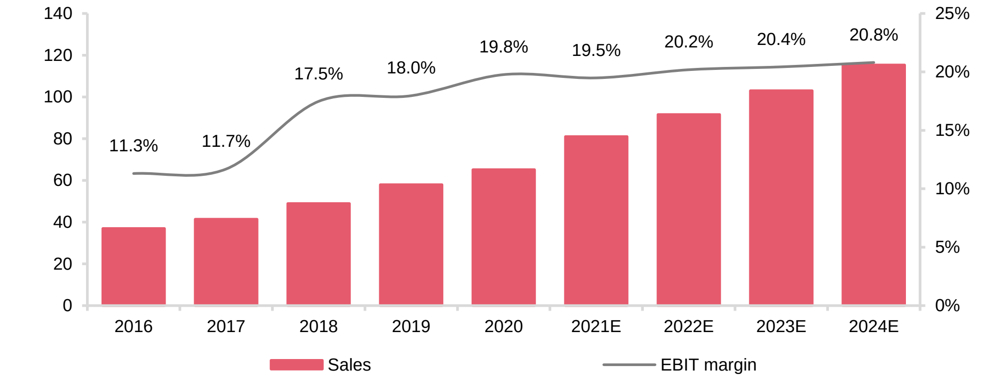
Executive summary

In this report, we take a closer look at Talenom's organic growth potential from the new TiliJaska freemium service in the small customer segment and the growth potential from bolt-on M&A. Our main conclusions are the following.

- TiliJaska could add 1-3% to organic growth in the medium term assuming the freemium platform grows to 20,000 end-users by 2025 with EUR250 average annual revenue per user (Talenom's full customer average annual billing is EUR6,000). TiliJaska service is progressing as planned and we have slightly upped our long-term estimates due to higher confidence in the company's future organic growth profile.
- We estimate that Talenom can generate EUR5-15m revenues annually for 2022-24E (5-10% on top of organic sales) if it uses all its FCF after dividends for acquisitions and if we assume an EV/sales multiple of 0.6x, in line with past transactions. This would keep Talenom's sales growth around 20% over the forecast period, whilst keeping its EBIT-margin at 18%.
- Our M&A scenario implies that Talenom's EV/sales multiple would decline to 4.6x from 5.7x in 2024E as a result of M&A-driven growth and EV/EBIT 2024E to 26.0x from 27.6x, assuming that Talenom is able to turn the acquired companies to its own EBIT margin level in the third year after the acquisition.

We see Talenom as a growth case driven by market share gains in fragmented and non-cyclical end-markets in accounting services. The company operates in Finland and Sweden and is set to enter a third country during 2021. Over 90% of Talenom's revenue is recurring and it is set to keep growing its sales organically over 10% CAGR during the next years, in our view. The company's current appetite for M&A is driven by both Talenom's international expansion and the company's 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 is set to keep acquiring smaller accounting firms mostly for their existing customer base, which is set to drive revenues near term but keep the company's profitability expansion modest.

Sales (EURm) and EBIT-margin (2016-24E)



Source: Company data, Danske Bank Equity Research estimates

Differentiating model in a conservative industry

Talenom is a Finnish accounting service provider whose strategy can be summarised by the following key elements.

1. Talenom aims to provide easy and automated financial accounting for customers, which are mainly smaller companies.

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2. Talenom has in-house own 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.

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 higher capacity of firms for accountants to oversee. Moreover, the streamlined accounting process enables Talenom to make value-creative M&A easily, as the company is able to convert acquired local companies to Talenom's own profitability within three years, by management estimates. This allows Talenom to purchase recurring revenue with low risk and keep its sales growth up even in times of weakening organic growth.

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

Talenom's service offering is described below. Traditional accounting services, including bookkeeping, represented 96% of sales as of 2020. Other services, including tax and legal advisory and other financial services represented 4% of sales. Talenom has developed its own software but it does not sell it separately. The software is used by Talenom's own customers and Talenom internally. Therefore, Talenom has no revenues related to software sales. The main advantage of own software is better service for customers (easy-to-use tools), high level of automation and better efficiency for Talenom that receives most of the accounting material in digital form.

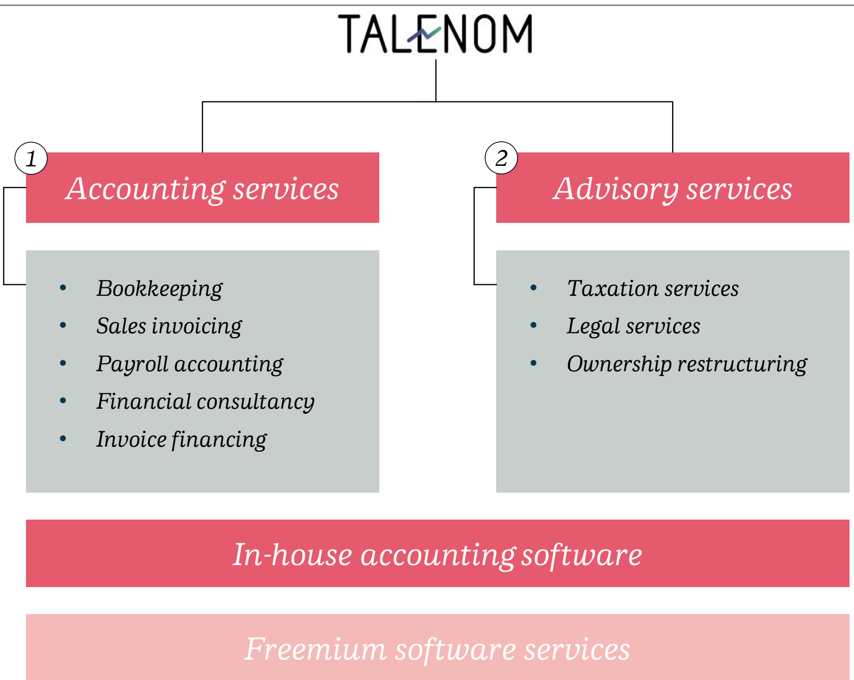
Business model is the current best practice

Bookkeeping as a functionality has traditionally been focusing on delivering information about historical performance and current state of operations. Traditionally, financial data collection has been primarily manual and therefore highly labour intensive. In recent years, digitalisation has started to change data creation and has made data collection more efficient but operating models and usage of this data have not changed substantially. Moreover, as the demand for management accounting and financial forecasts has become more common, most of the mainstream accounting software is very capable of giving financial indications and forecasts both for the accountant and for the customers to use in decision-making.

This value-added information has traditionally been accessible for larger companies with sophisticated accounting and ERP systems that have enabled more informative and accurate business forecasts. Talenom's operating model and value proposition is to make this value-added information available for even the smallest SMEs without sacrificing the company profitability or losing the affordability of the service. Access to digital and closer to real-time financial data will improve customers' business planning and understanding of underlying business drivers, and retain them as customers as their own business develops.

Talenom's service offering consists mostly of traditional accounting services, including bookkeeping, payroll accounting, sales invoicing and other value-add financial consultancy. Talenom has its own in-house software, tailor made for its internal bookkeeping process, which it does not sell separately. In other words, to use Talenom's main accounting software, you must purchase your bookkeeping from Talenom as well. Talenom's new freemium service TiliJaska slightly departs from this tradition, as the freemium service, as per its name, is free up to certain financial thresholds. However, TiliJaska software is a stripped-down version of Talenom's main software, with simpler user interface (UI) and fewer features.

Overview of Talenom's service offering



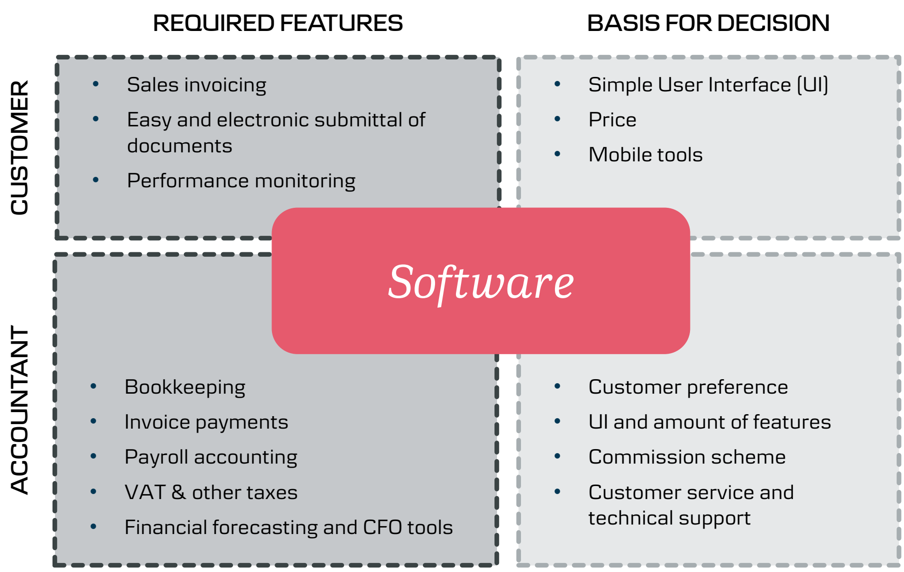
Source: Company data, Danske Bank Equity Research

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 for a large heterogenic group of accountants, as the only professionals using the software at the bookkeeping side are Talenom's own employees. For example, using machine-learning based classification algorithms has resulted in clearly faster document management. Management estimates that the level of automation is currently over 70% in bookkeeping and over 40% in payroll accounting (bookkeeping target over 95% by 2024), overall clearly higher than among key competitors.

The role of software in the accounting service industry

As the stakeholders involved in choosing the accounting software depend on both the accounting firm's contracts and the preferences of the customers, the marketing for the software firms needs to cater for both groups as potential targets. By roughly categorising, the smallest firms are the most price-conscious, mid-sized firms are more interested in features and UI (but also pricing) and larger firms take several factors into account and most likely have their own ERP solutions and integrated bookkeeping software. As the reasoning why to use a certain accounting software is slightly obscure, we illustrate the dynamic in reasoning to choose certain products and who are the stakeholders involved.

Stakeholders and requirements in choosing the accounting software



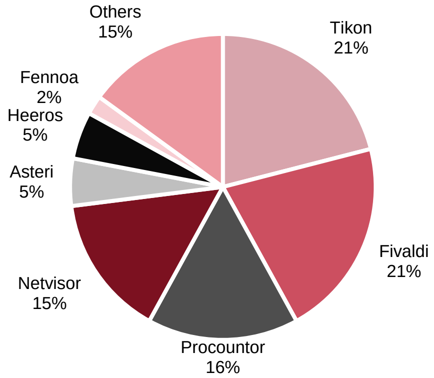
Source: Company data, Danske Bank Equity Research estimates

As illustrated by the figure, both accountants (accounting offices) and customers have input on what accounting software to use and the typical motives. For the customers, simplicity and functionality of the features needed (case-by-case basis) are the key factors when deciding which software to use. However, the push for the software options often comes from the accounting office, which either has a commission scheme with software providers or internally prefers certain software to others. However, a customer's preference can override the software the accounting office suggested and larger firms typically use several different software side-by-side, depending on customer preferences and needs.

Overall, the functionality of the software is key, both for customers and accountants, but the key issue has traditionally been that most of the accounting software is easy to use for accountants (professionals) but difficult for customers. Pricing of the software is also a factor, but by our research, accounting software pricing models broadly differ very little from each other, making the largest differing factor the price of accounting itself. One key benefit for Talenom is that the software only needs to cater for the needs of the customers (entrepreneurs, SMEs), as the 'back-end' of the software (bookkeeping) is used by Talenom's own employees. Moreover, Talenom is set to launch an overhauled new version of the Talenom Online and new UI and added features for its mobile app. We find these upcoming changes strictly positive, both for retaining current customers and attracting new users from software competitors.

As the widely used Finnish accounting software Tikon is set to be discontinued by the end of 2021, several small accounting firms and their customers are forced to find a new platform for their bookkeeping. The competition of who gets the foothold from the users departing from Tikon has already started. In our view, key accounting software systems in Finland are Procountor (owner: Accountor), Netvisor (Visma), Talenom Online, Heeros (Heeros) and Fennoa (Fennoa). In our view, these five are bound to share the departing customers, with Talenom, Procountor and Netvisor taking the majority, and Fennoa, Heeros and other smaller software systems sharing the rest. Talenom's software is not included in the statistic below, as it is not sold separately. However, by management estimates, Talenom's current user base is very similar in size to Netvisor's.

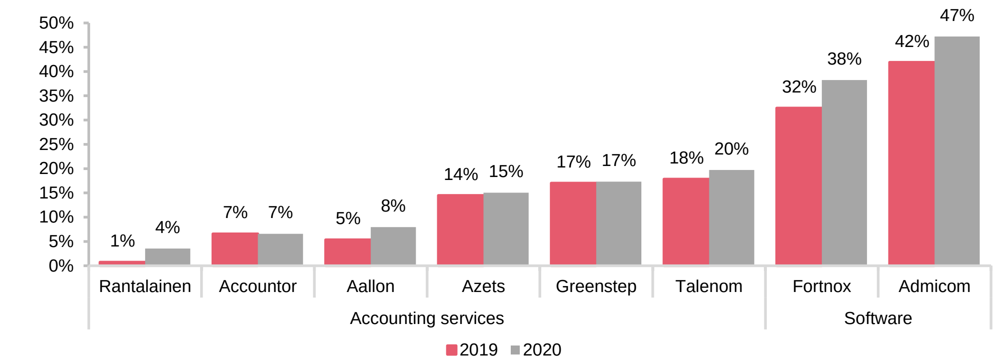
Accounting software shares in the Finnish market (by user base)



Source: Taloushallintoliitto 2020, Danske Bank Equity Research estimates

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

Competitors EBIT-margins (2019-20)



Note: 2020 figures for Accountor are not available. Source: Company data, Danske Bank Equity Research

In the longer term, we believe that companies like Talenom and Accountor with own software will be the most likely winners in the Finnish accounting service market, due to the licence cost risk overhang burdening traditional players' profitability. However, the model with Accountor and Procountor, where the software is both owned by the accounting firm and sold to outsiders, is difficult as one needs to cater for the widest user base (accountants) possible, and not just one's own employees that are familiar with the software. 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 on structural profitability.

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-orientated. Many SME customers want the accountant to have a consultative view on their business, which often strengthens the customer-accountant relationship. In our view, Talenom's low total customer churn of 5-10% (our estimate) and high NPS (51) (2021) are mostly derived from the software solutions (Talenom Online and Talenom App) being user-friendly and that Talenom has created industry-specific accountant teams to serve customers in different industries. Moreover, even though COVID-19 has pushed a lot of accountant-customer communication to remote platforms, most of the customers looking for accounting services tend to prefer local offices. This is a key reason for Talenom to keep making strategic acquisitions motivated by location as well.

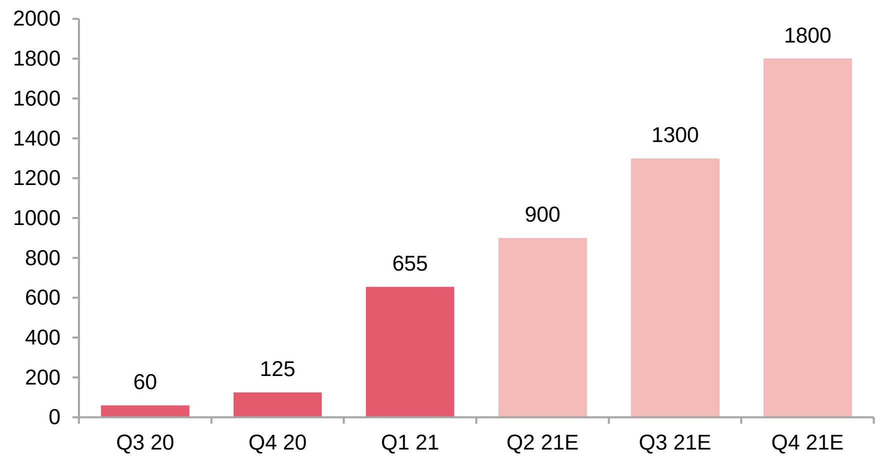
Organic and inorganic growth sources

New freemium offering set to boost organic growth

As the Tikon software (used by thousands of very small SMEs) is closing early next year (2022), naturally most of the users are seeking a free alternative instead of moving to paid service. TiliJaska is a free accounting software that transforms into premium package when certain financial activity thresholds are broken. After that, the pricing scales upwards until Talenom's full accountancy pricing model for established businesses. Talenom has been a clear early mover with the freemium service, by launching TiliJaska in Q3 20.

In connection with the TiliJaska service, Talenom is set to offer benefits in the form of banking and financing services. Outsourced financing services have been in Talenom's offering since 2018 and now the company is set to launch its own virtual bank account and card services to all its customers. The bank account and card offering is convenient for small customers' cost-efficiency and increases Talenom's automation efficiency in terms of bookkeeping. This is also a key differentiating factor in favour of Talenom, when we compare the two early-mover freemium accounting software platforms.

TiliJaska service users (reported and estimate)



Source: Company data, Danske Bank Equity Research estimates

TiliJaska's beta service so far has acquired around 700 users (Q2 21 management estimates). Of these, around 500 are micro/small enterprises and around 200 light entrepreneurs. Talenom's management communicated that even though using the freemium service, almost all of the enterprise customers purchased the 'closing of the books' and annual tax declaration services from Talenom, resulting in an average annual revenue per customer around EUR500. This implies that the UI is easy to use and useful enough to retain the customers, who then are ready to pay for Talenom's value-add services that they could acquire from anywhere else. Our key findings of the current situation are the following.

- When customers are using the free (TiliJaska) platform, they are likely to buy at least the mandatory 'closing of the books' (EUR249 per customer) from Talenom, instead of buying the service elsewhere, as it is convenient.
- TiliJaska is free only for the smallest customers, with 0-20 transactions per month. After this threshold, customers are moved to the EUR13.90 monthly service, which is still inexpensive.
- Next step for Talenom is to introduce the TiliJaska (or KontoKalle) in Sweden.

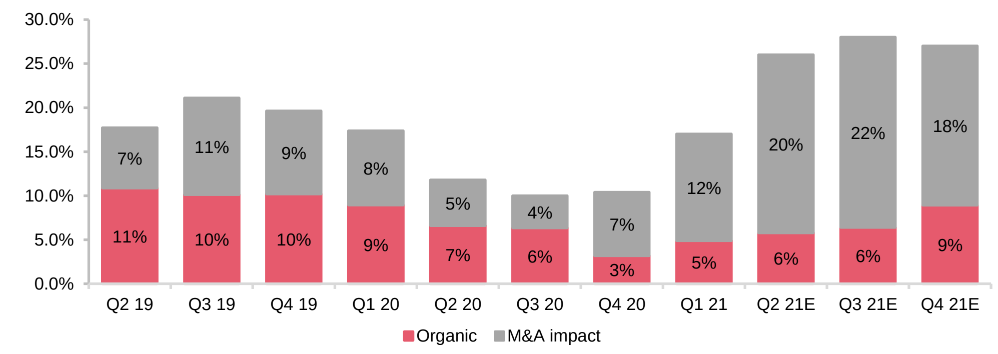
However, key competitor Accountor has launched a service called Procountor Solo, which also has a freemium option up until a certain average annual revenue threshold. In Procountor Solo, the customer is, however, unable to do his own bookkeeping and can only use the software for invoicing. One key player not yet out with a freemium solution is Visma, which we think is poised to offer something similar or at least an extended try-for-free subscription for Netvisor, like Talenom and Accountor. However, Talenom's TiliJaska solution is not only meant to capture the users departing from Tikon, but is also a long-term strategical choice to efficiently acquire the smallest customers, who will in time grow to more profitable established companies and remain at Talenom.

As new customer acquisition is one of the key drivers for Talenom's growth, the freemium channel that yields new customers towards paid services is the most cost-efficient way to grow sales. In our view, TiliJaska freemium channel will be the next leg of organic growth for Talenom and it is set to be a cost-efficient and more scalable entry point for new customers. Moreover, as the TiliJaska beta phase seems to be nearly finished and because of the opening in Sweden in June-July 2021, we expect almost 2,000 users for the platform by the end of the 2021.

Continuous bolt-on M&A with repeating synergies

Since 2020, Talenom has put more and more emphasis on inorganic growth, even though it is the least profitable means of acquiring new customers. This is explained by two factors. Firstly, the closing down of the Tikon software that releases thousands of small and mid-sized accounting offices who are unsure about their next step. Thus, the number of potential acquisition candidates is high. Secondly, the automation level has increased with Talenom's own software, 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 done by moving the acquired company's customers to Talenom's software and training the new personnel.

Organic and M&A impact on sales growth (Q2 19 – Q4 21E)



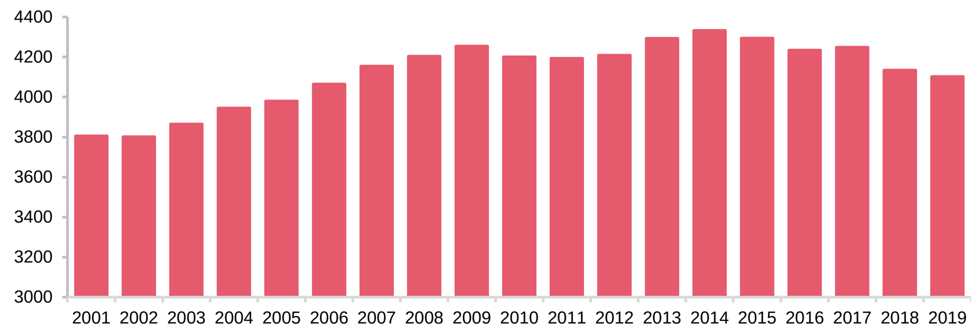
Source: Company data, Danske Bank Equity Research estimates

As briefly discussed earlier, due to Talenom's own software and highly tuned bookkeeping process that benefits from automation, Talenom is able to convert the majority of its acquisitions (essentially all Finnish) 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, with the acquired company's internal profitability initially declining in the first year due to customer conversion to Talenom's software and training of the new employees to 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 localizing Talenom's own software in Sweden, the company will be able to lift the profitability to Finland's level and create value with any further acquisitions similar to Finland.

In terms of acquisition candidates in the accounting service market, we discussed earlier that the shift from the free Tikon software leaves several entrepreneurs unsure about their next steps, looking for opportunities to consolidate. Even though there are currently several active players doing small acquisitions in the Finnish accounting service market (for example Rantalainen Oy, owned by Intera Partners and Aallon Group plc), Talenom's management states that its target companies differ from what the typical consolidators are currently looking for. Moreover, the number of accounting offices is over 4,100 in Finland, which has been in a slight decline over the past years mostly due to digital transformation and ongoing consolidation.

Number of accounting offices in Finland (2001-19)



Source: Statistics Finland

Talenom is looking for targets that are still at a low level of digitalisation who are ready to begin their transformation, whereas most of its competitors are looking for offices that are already using some of the key accounting software (Procountor or Netvisor). This is positive for Talenom, as it limits the multiple expansion pressure in the industry, when there is clear demand for inorganic growth. Thus far, Talenom has been able to acquire most of the companies at the range of 0.3-1.0x EV/sales or 3.0-5.0x EV/EBITDA, when the company itself is trading at 7.4x EV/sales and 21.3x EV/EBITDA for 2022E. Previously, Talenom typically paid for its acquisitions by cash (50%) and issued new shares (50%).

In our scenario, Talenom is able to keep its sales growth rate around 20% whilst not significantly diluting its margin, by making steady acquisitions. Moreover, the Finnish (and Swedish) accounting service industry remains very fragmented and there is plenty of room to consolidate the market. Talenom, with its in-house software and clear internal bookkeeping process platform is able to convert the acquired companies more easily as a part of Talenom's efficient bookkeeping engine, whereas competitors' acquisitions are often rough bolt-ons with just the name of the accounting office changing (if even that). The key restricting factor with the consistent M&A strategy is the relatively modest FCF.

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. Assuming 0.6x EV/sales for the price of the acquisitions, we can see that Talenom's EBIT-margin remains around 18% (19.8% in 2020) whilst boosting the sales growth to around 20% annually. Our illustration assumes EUR5m revenue bought for 2022E, EUR7.5m for 2023E and EUR15m for 2024E. All acquisitions go by the same model: first year of acquisition is -5% EBIT due to one-off integration costs, in the second year profitability is boosted to 15% EBIT and in the third to 20%.

When taking a longer-term view on the M&A scenario, Talenom would trade around 4.6x EV/sales (current estimate 5.7x) and 26.0x EV/EBIT (current estimate 27.6x) in 2024E.

Annual acquisition scenario

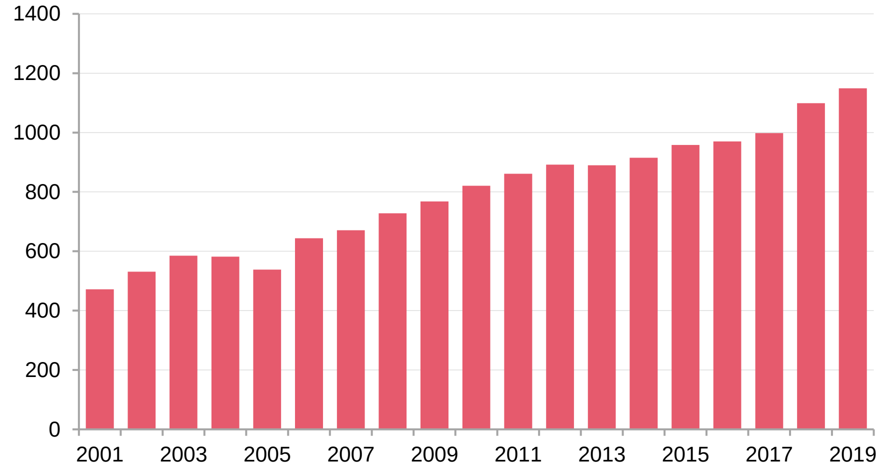
Current estimates (EURm)	**2019**	**2020**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
Sales	58.0	65.2	81.0	91.5	103.0	115.3	128.0
Growth	18.6%	12.4%	24.3%	13.0%	12.5%	12.0%	11.0%
EBIT	10.4	12.9	15.8	18.5	21.0	24.0	26.8
EBIT-margin	18.0%	19.8%	19.5%	20.2%	20.4%	20.8%	21.0%
EPS (EUR)	0.18	0.22	0.28	0.33	0.37	0.43	0.48
2022 acquisition(s) with EV/sales 0.6x							
Size of acquisition(s)				3.0			
Sales (target 0.6x sales)				5.0	5.2	5.3	5.5
Growth					3%	3%	3%
EBIT				-0.3	0.8	1.1	1.1
EBIT-margin				-5%	15%	20%	20%
2023 acquisition(s) with EV/sales 0.6x							
Size of acquisition(s)					4.5		
Sales (target 0.6x sales)					7.5	7.7	8.0
Growth						3%	3%
EBIT					-0.4	1.2	1.6
EBIT-margin					-5%	15%	20%
2024 acquisition(s) with EV/sales 0.6x							
Size of acquisition(s)						9.0	
Sales (target 0.6x sales)						15.0	15.5
Growth							3%
EBIT						-0.8	2.3
EBIT-margin						-5%	15%
Consolidated numbers with acquisition(s)							
Sales			81.0	96.5	115.6	143.4	156.9
Growth			24.3%	19.2%	19.8%	24.0%	9.4%
EBIT			15.8	18.2	21.4	25.5	31.8
EBIT-margin			19.5%	18.9%	18.5%	17.8%	20.3%
Current market cap			641	641	641	641	641
Enterprise value			677	676	671	663	652
EV/EBIT			42.9	37.1	31.3	26.0	20.5
Current multiples and scenario multiples							
EV/Sales current	5.9x	9.2x	8.4x	7.4x	6.5x	5.7x	5.1x
EV/Sales scenario				**7.0x**	**5.8x**	**4.6x**	**4.2x**
EV/EBIT current	32.9x	46.4x	42.9x	36.6x	31.9x	27.6x	24.3x
EV/EBIT scenario				**37.1x**	**31.3x**	**26.0x**	**20.5x**

Source: Company data, Danske Bank Equity Research estimates

Market overview

The Finnish accounting service market has grown steadily for more than 15 years, according to data from Statistics Finland. The average annual growth (CAGR) from 2001 to 2019 was 5%. Growth rates were steeper in 2018-2019 but in our view, the Finnish accounting service market will keep growing at a pace of around 4% CAGR in the near future, due to the growing amount of value-added services to SME clients and modest price inflation in bookkeeping services and software costs. The Finnish accounting service market is highly fragmented and the number of companies has been slowly declining in the recent years due to ongoing consolidation in the industry. In 2019 there were around 4,100 companies (Statistics Finland).

Accounting service market in Finland 2001-19 (EURm)

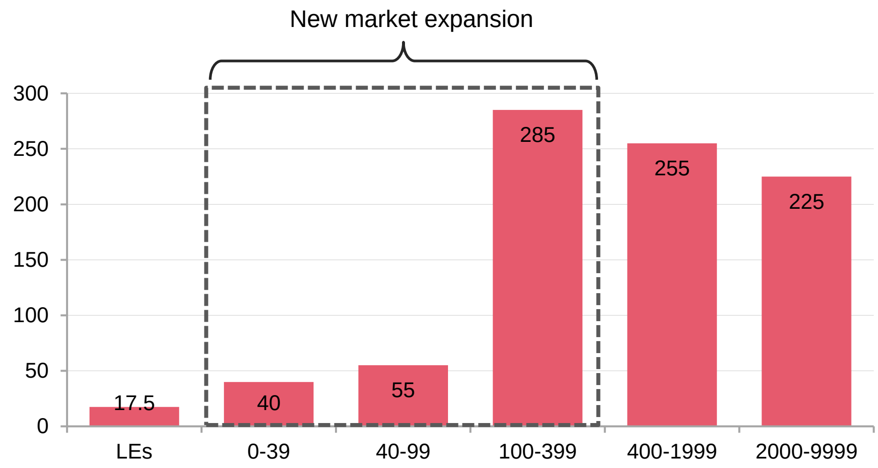


Source: Statistics Finland, Danske Bank Equity Research

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. As Talenom's customer focus is on 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.

By our estimates, the proportion of the software in the accounting service market is only 10-20% of the total market. In terms of the internal market dynamics, Talenom estimates that 30-40% of the Finnish accounting service market consists of the smallest customers of the SME sector (0-399 thousands of annual revenues). This segment has traditionally been the most difficult one to address, as the customers solvency levels and potential vary significantly. The payoff in serving these small firms is that the companies grow with Talenom and become accustomed to its 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 freemium service even for the smallest customers.

Size of the accounting service market (EURm) by the company net sales (EUR '000)



Note: LEs = Light entrepreneurs. Source: Company data, Danske Bank Equity Research

Key characteristics and growth drivers in the accounting service market

Small customer size. Most of the accounting service customers are small and mid-size 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 with customers having revenues between EUR0.2-10m. Talenom is set to 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, as the widely used free accounting software Tikon (owned by Accountor) will be discontinued by the beginning of 2022. This shift will drive 'digitalised' accounting firms towards new pay-to-use software and accelerate 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 to 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 service 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 service market growth (CAGR) has been 5%, clearly outpacing Finnish GDP growth.

Finnish accounting service market vs GDP (indexed nominal)

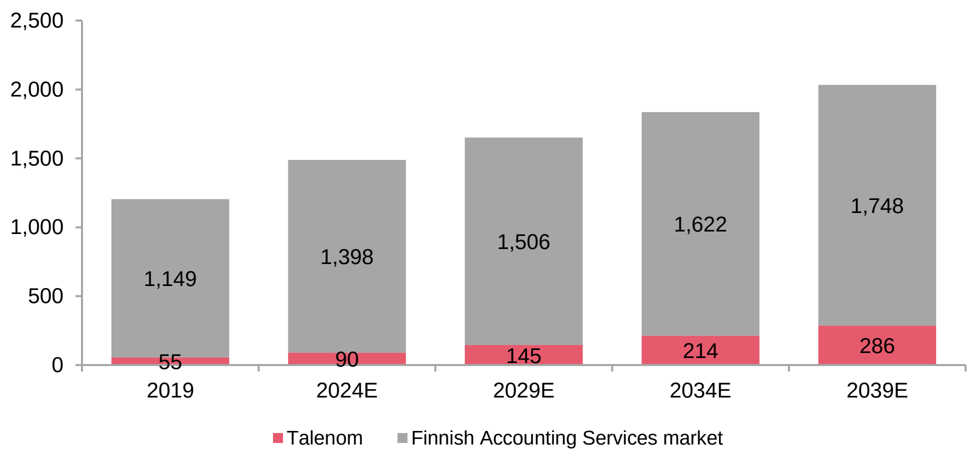
Source: Statistics Finland, Danske Bank Equity Research

Market penetration

To continue growing at a higher pace than the underlying market Talenom must gain market share continuously from its competitors. Clear benefit for Talenom is that the accounting service market is not yet very concentrated and the bigger players have just begun to consolidate the market. Moreover, digitalisation and an increasing amount of value-add consultancy have resulted in steeper market growth during recent years. However, as the accounting service market in total is over EUR3bn in Finland and Sweden combined, a lot of market remains to be captured for Talenom with both organic and inorganic growth. Our assumptions for the market growths are the following.

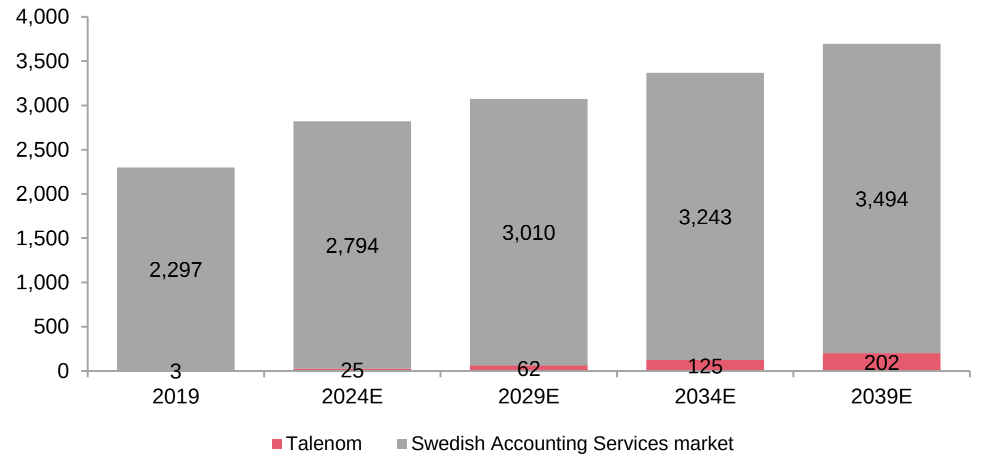
- Accounting service markets in both Finland and Sweden are growing 4% for the next 5 years due to the boost in digitalisation and cost inflation and are expected to settle down at 1.5% long-term growth.
- We are using three long-term growth periods for Talenom's organic growth. In Finland the long-term growth decreases gradually from 10% to 6% and in Sweden from 20% to 10%.
- At the end of the forecast period (2039E) Talenom would have 16% penetration in the Finnish market and 6% in Sweden. We find these figures plausible.

Market penetration estimate in Finland



Source: Statistics Finland, Danske Bank Equity research estimates

Market penetration estimate in Sweden

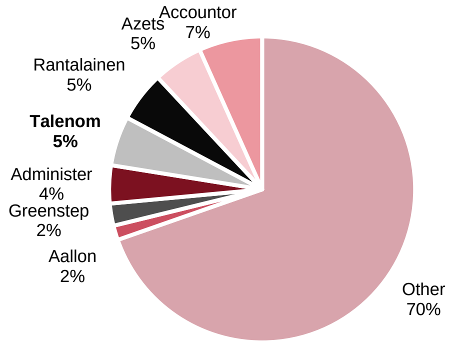


Source: Statistics Sweden, Danske Bank Equity Research estimates

Key competitors

As previously discussed, Talenom's key competitors are other traditional accounting firms (directly) and accounting software providers (indirectly). Talenom's business model is hybrid in the sense that it both develops its proprietary accounting software and does the bookkeeping on it. Amongst Talenom's competitors, only Accountor has a slightly similar way of working as it has its own software, but is actively marketing and selling it to third-party accounting firms. In our view, this decreases the potential process efficiency benefits especially in automation, as one has to tailor the software to be accessible for a wider range of accountants. Overall, Talenom is the best performer in terms of profitability of the key competing accounting service firms.

Estimated market shares in accounting services, Finland (2020)

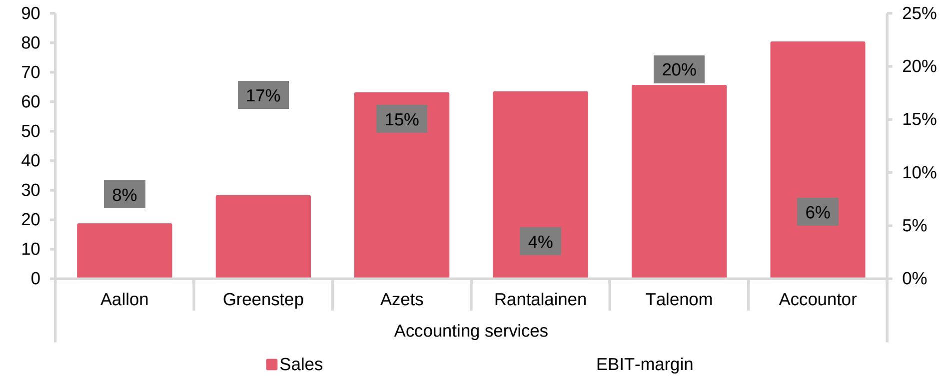


Note: Accountor figures are from 2019

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

Not for US distribution

Accounting service companies sales (EURm) and EBIT-margin (2020)



Note: Danske Equity Research estimate figures from 2019 for Accountor

Source: Danske Bank Equity Research estimates

Accountor

Accountor provides software and services for financial and HR management. The company aims at helping its customers to use modern technology and digitalisation in their everyday work. Accountor is the leading financial management and payroll administration services company in Northern Europe. Accounting services are the core of Accountor's business. In addition, Accountor provides Payroll & HR management, financial management software, financial consulting services and legal and tax advisory for companies of all sizes and all fields of business. Accountor owns widely used accounting software Procountor, which is one of the key competitors for Talenom Online. In 2019, Accountor had revenues of EUR244m of which we estimate that around EUR80m was accounting services. In 2019, Accountor Finago (software business) contributed 70% of group EBIT, which implies very modest profitability for the accounting and other consultancy operations.

Azets

Azets is an accounting, payroll, advisory and business services company operating in the Nordics and the UK. Azets's main objective is to integrate, simplify and streamline its customers' financial processes. In Finland Azets provides services within accounting, analytics and reporting, technology, payroll, HR and recruiting, leadership and property management. In addition, Azets Legal Services helps the customers with legal and taxation questions and the payroll services are offered to small, medium, large and international clients. Azets in its current form originated when Visma Services Oy was spun off to Cogital Group. Azets is mainly offering Netvisor at its go-to accounting software, due to its past ties to Visma. Azets's revenue in Finland was EUR62.8m in 2020, showing just 3% growth y/y but its EBIT is at a relatively high level with 15.1% EBIT-margin.

Rantalainen

Rantalainen offers financial administration services such as accounting, payroll and expert services and is one of the largest accounting services networks in Finland. Rantalainen is owned by the Intera Partners private equity firm and has been very active in the Finnish accounting office consolidation scene. In addition to accounting, payroll and expert services, Rantalainen offers international affairs-, employer representative- and auditing services. The auditing services are provided by Rantalainen Auditing Services, which is a sister-company of Rantalainen. Rantalainen uses most of the accounting software available in Finland. In 2020, Rantalainen had EUR63.1m in sales and EBIT-margin of 3.5%.

Greenstep

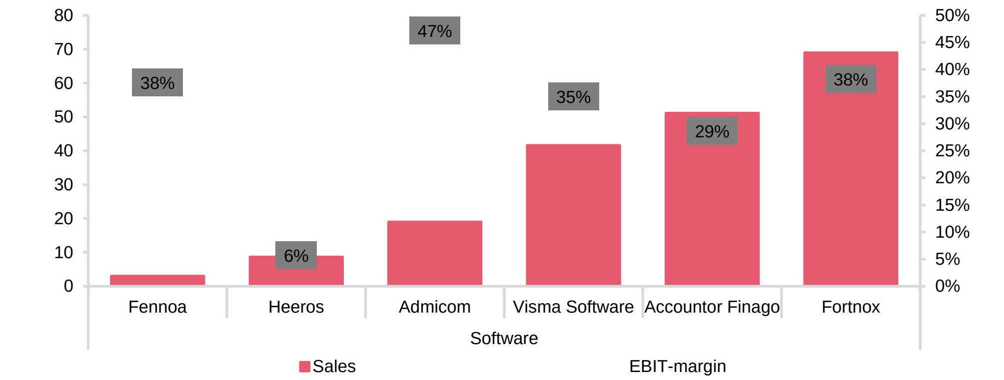
Greenstep provides services within Accounting & Tax, HR & Payroll, CFO, Transaction & Finance and Business Management. Greenstep helps companies at every stage of their life cycle, from start-up financing to acquisitions. Accounting is overall the key competence of the firm. The Business Management services help companies to manage their business in the right direction. The services range from process development and analytic services to large NetSuite projects. Greenstep recommends Netvisor as its go-to accounting software. Greenstep has been growing strongly over the recent years, showing EUR27.3m revenues with 23% y/y growth and 17.3% EBIT-margin.

Aallon Group

Aallon provides accounting services for companies operating in Finland. The services are provided close to the customer, mainly as a digital and monthly invoiced service package. Aallon offers daily financial services, payroll & HR services, advisory and financial management services as well as industry-specific solutions. The industry-specific services and strong special expertise are offered to, for example, the IT industry, private equity companies, foundations, the construction industry and real estate companies. Aallon has been active in the Finnish accounting firm consoldiation during the recent years. Aallon uses most of the accounting software available in Finland. Aallon Group had revenues of EUR18.3m in 2020 with 8% EBIT-margin.

Accounting software and ERP providers

Accounting software and ERP company sales (EURm) and EBIT-margin (2020)



Note: Vsima software and Accountor Finago numbers are from the Finnish subsidiaries
Source: Company data, Danske Bank Equity Research estimates

Admicom

Founded in 2004, Admicom is a Finnish provider of cloud-based ERP solutions for construction, building services and manufacturing companies as well as software and accounting services. The ERP system (Adminet) currently has over 20,000 users and monthly recurring invoices derive majority of revenue. Admicom offers also accounting services as a value-add for their narrow construction, building services and manufacturing verticals. Admicom is listed at First North Finland and had revenues of EUR19m and EBIT-margin of 47% in 2020.

Fortnox

Is a provider of internet-based business applications for small and medium-sized companies. It offers software for accounting, invoicing, direct debit, orders, salaries, time tracking, facility records and file location. Fortnox was founded in 2001 and is headquartered in Vaxjo, Sweden and has over 6,000 accounting firms in Sweden using their software. The company's turnover in 2020 was EUR69m and EBIT-margin 38%.

Visma Software

Visma software is a software company that offers ERP and financial management, invoicing and other systems for SMEs. Visma's most used accounting software are Fivaldi and Netvisor in Finland. In 2020 Visma software had EUR41m in revenues and 35% EBIT-margin.

Accountor Finago

Accountor Finago is a software company offering financial management software solutions in Finland as a part of Accountor Group's SME software business. Accountor's best known financial software are Tikon (discontinued) and Procountor. In 2020 Accountor Finago had EUR51m in sales and 29% EBIT-margin.

Heeros

Heeros is a First North-listed Finnish software company that provides cloud-based financial administration solutions. The company's solutions include, for example, invoicing, archiving, bookkeeping, reporting and wage calculation. Heeros's software has approximately 5% share of the Finnish market and the company had revenues of EUR8.6m and EBIT-margin of 5.7%.

Fennoa

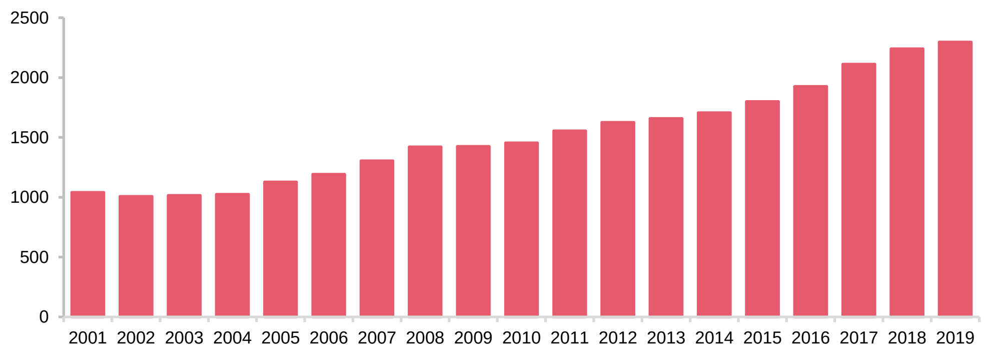
Is an unlisted emerging new accounting software firm that has been winning market share steeply in the Finnish accounting software field. Fennoa had sales of EUR3m in 2020, growing 119% y/y with EBIT-margin of 37.7%.

International expansion

Talenom entered Sweden in 2019 through the acquisition of Stockholm-based Wakers Consulting in April 2019. Talenom's aim is to use Wakers as a platform for further growth in Sweden. After the initial acquisition in Sweden, Talenom has acquired six small accounting firms in Sweden, total of approx. EUR11.4m in revenues and it communicates that the profitability in Sweden is set to remain lower than in Finland due to software localisation and process ramp-up, which should enable similar profitability as in Finland by 2023-2024.

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 twice 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 already now when the limits for growth in Finland have not been reached yet.

Accounting service market in Sweden 2001-19 (EURm)



Source: Danske Bank Equity Research estimates, Statistics Sweden

Talenom's strategy in Sweden is to operate locally and produce the services in Sweden, not from the centralised production hubs in Finland. Talenom's own digital tools will be used to improve operational efficiency in Sweden. The company wants to grow organically in Sweden and improve the efficiency of the accounting services production first before moving to a faster growth phase. Sweden should not be a considerable drag on earnings near term, but the entry to the new market will suppress steeper margin expansion in near future, in our view.

In Sweden, the competitive landscape is very similar to Finland, as there are a handful of larger accounting offices (for example Aspia, Ludvig & Co, Azets, Accountor and EY), but the majority of the market is very fragmented, revolving around smaller accounting offices with local customers. In this sense, Talenom has an excellent opportunity to kick start a similar momentum in Sweden. In terms of accounting software used in Sweden, Fortnox has a significant foothold with around 6,000 accounting firms (of total of 24,000) using the software. Additionally, eEkonomi and Speedledger (Visma), Procountor (Accountor Finago) are commonly used in Sweden. Currently, Talenom uses Fortnox in its Swedish operations and is set to begin to transform the operations to its own software as the expansion progresses.

As by Talenom's comments, the process in Sweden has been positive and the company is set to enter a third European country in 2021. We infer that the process will be similar to Sweden, where Talenom is set to enter the country with an acquisition, continue with smaller bolt-ons gaining geographical presence in the new country, implement the Talenom software and ways of working and lift the profitability of the acquired companies. At its 2020 CMD, Talenom introduced examples of the potential countries and their accounting service markets. In our view, all of the mentioned countries (Austria, Germany and the Netherlands) are potential candidates for Talenom's next expansion step and the destination is likely to be decided by where the company is able to find the most attractive entry acquisition target.

Potential for international expansion (an example)

	Population (million)	GDP (EURbn)	Market size (EURm)
Finland	5.5	239	1,000
Sweden	10.2	479	2,000
Austria	8.9	392	2,500
Germany	82.9	3403	32,000
Netherlands	17.3	788	7,400
Total			**44,900**

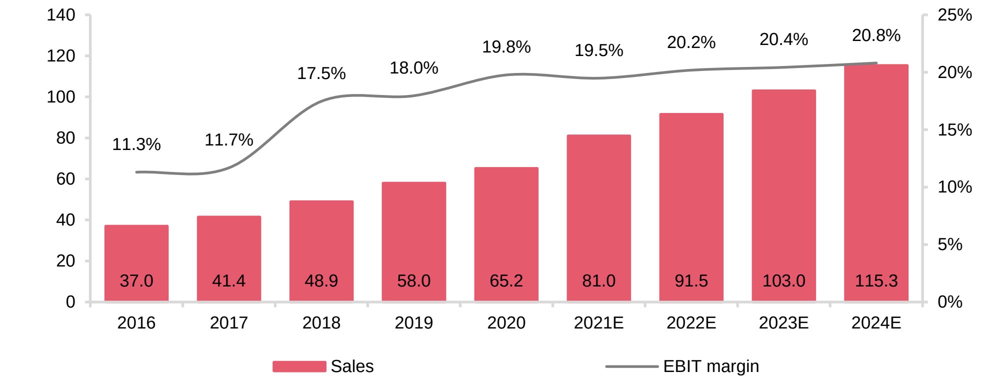
Source: Company data, Danske Bank Equity Research

The number of potential customers (SMEs) in Europe is high and by Talenom's estimates SMEs account for +50% share of target country GDPs. Moreover, as the local accounting service markets are fragmented and in transition towards digitalisation, Talenom is in a good position to start its expansion and bring best-practice processes to new markets. As the accounting industry in Nordics is further in its 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 keep our 2021E estimates unchanged and in line with Talenom's guidance (EUR80-84m revenues and EUR14-16m EBIT). We lift our long-term estimates due to higher confidence in Talenom's organic growth profile backed by the TiliJaska freemium platform. We expect Talenom's sales to grow 12-13% annually in 2022-24E, while retaining around 20% EBIT-margin.

Sales (EURm) and EBIT-margin (2016-24E)



Source: Company data, Danske Bank Equity Research estimates

We assume that Talenom had c. 11,800 customers in 2020, based on management comment of average billing being EUR5,000-7,000 per customer. We expect the billing to remain flat because (1) there is downward pressure in the average billing as Talenom has said it will target even smaller customers, thanks to automation making it commercially feasible and (2) the increased selling of advisory and other value-added services should increase as automation releases worker capacity from traditional bookkeeping. We believe that these drivers offset each other. Our estimates imply market share growing from 5.0% in 2019 to 6.0% in 2023 in Finland, assuming market growth of around 4%.

Sales growth estimates

EURm	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Sales	33.0	37.0	41.4	48.9	58.0	65.2	81.0	91.5	103.0
Growth	23%	12%	12.1%	18.0%	18.5%	12.4%	24.3%	13.0%	12.5%
Growth EURm	0%	4.0	4.5	7.5	9.1	7.2	15.8	10.5	11.4
Average billing/customer	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Total customers	5499	6160	6904	8148	9659	10860	13501	15256	17163
New customers	0	660	744	1245	1511	1201	2640	1755	1907
Implied mkt share in Finland	3.4%	3.8%	4.2%	4.4%	4.8%	4.7%	5.6%	5.9%	6.2%
Implied mkt share in Sweden	0%	0%	0%	0%	0.1%	0.4%	0.5%	0.6%	0.7%

Source: Company data, Danske Bank Equity Research estimates

We expect Talenom's EBITDA and EBIT margins to continue to improve. We expect this to happen due to the scalability of the business model, i.e. lower growth in personnel costs than in revenues, in the scenario that the company focuses solely on organic growth. Furthermore, as Talenom's automation rate is not yet at the target levels, we can expect slight improvement in the bookkeeping and payroll accounting efficiencies, enabling more time for accountants to provide value-added services, or take in even more new customers without increasing the number of personnel. However, we find steeper margin expansion unlikely near term, as kick starting the organic growth phase in Sweden will require recruitment of sales personnel and upfront costs from marketing etc.

As we expect Talenom to deliver over 10% organic growth in the near term, we motivate our high expectations by the new TiliJaska freemium platform boosting the organic new user acquisition, which over time converts naturally to full-paying customers. Furthermore, in the next years, we will see a slight boost in organic revenue generation from the platform's current freemium customers, as we expect these freemium users to buy at least the 'preparation of the financial statements' service by Talenom (EUR249 per customer). Using this annual 'ARPU' with our estimated user growth in the TiliJaska platform and setting an 80% service conversion rate, we find that the freemium platform would generate EUR1m in revenues already in 2022E. Overall, the EUR249 ARPU is in our view rather a conservative take, as Talenom's management comments suggested EUR500 ARPU in Q1 21, as most beta users (small sample) bought the 'preparation of the financial statements' from the platform plus other value-add services.

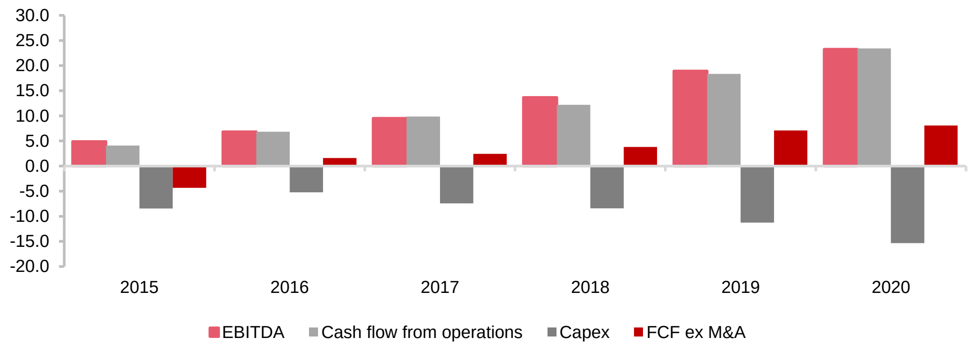
TiliJaska freemium platform revenue scenario

	2021	2022	2023	2024	2025
Freemium customers	1800	5000	10000	15000	20000
ARPU (EUR)	250	250	250	250	250
TOTAL (EURm)	**0.4**	**1.0**	**2.0**	**3.0**	**4.0**
Talenom revenue	81.0	91.5	103.0	115.3	128.0
% of freemium sales	**0.4%**	**1.1%**	**1.9%**	**2.6%**	**3.1%**
Current sales growth %		13.0%	12.5%	12.0%	11.0%
Organic growth (excl. Freemium)		11.9%	10.6%	9.4%	7.9%
New organic customers (excl. Freemium)		1588	1574	1560	1448
Micro firms in Finland	275000	277750	280528	283333	286166
Penetration	0.7%	1.8%	3.6%	5.3%	7.0%

Source: Danske Bank Equity Research estimates

In the recent past, Talenom has had steadily growing capex investments for its in-house software, translating into high automation level, highly efficient bookkeeping processes, 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.

EBITDA, CFFO, capex and FCF excluding M&A (2015-20)

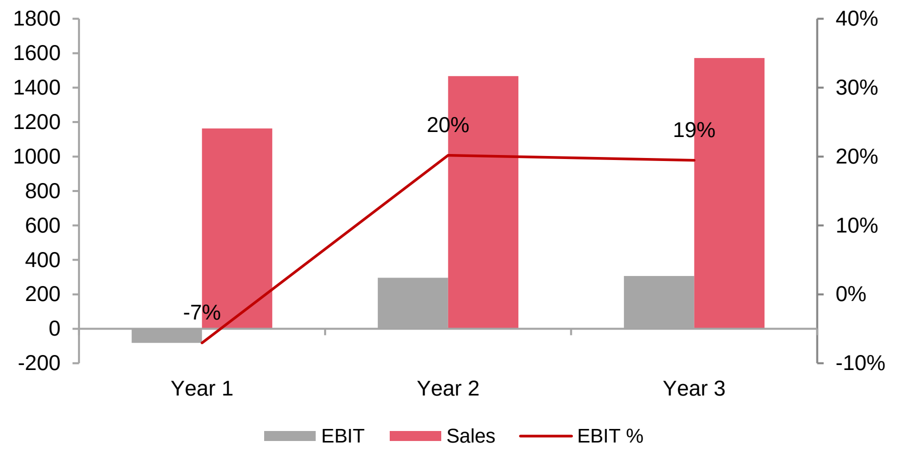


Source: Company data, Danske Bank Equity Research

M&A offers a stable option for sales growth

As previously described, Talenom's in-house software platform has been developed far enough that it enables a straightforward route to automation of customers' bookkeeping processes. Due to this, Talenom is able to acquire even the less technologically sophisticated firms and convert them to its profitability and ways of working within three years. This simple arithmetic ensures that Talenom is able to keep growing its revenues with acquiring a stack of new customer relationships with as low as 0.3x sales.

Case example Kuopio, acquired company sales and EBIT (EUR '000)



Source: Company data, Danske Bank Equity Research

Looking at the Kuopio's case example introduced at Talenom's 2020 CMD, the profitability of the acquired company decreases steeply in the first year, due to rearrangement of the personnel and administration. This decrease in profitability can be seen as the effect of one-off integration costs to obtain the cost synergies in the later years. As seen in the chart above, already in the second year the synergies have come through, and the EBIT margin is 20% (typical acquisition profitability is 5-10% EBIT before the acquisition). In the third year, profitability is stabilised and remains at a similar level to Talenom's. Kuopio's case example was actually quicker than the standard acquisition process where the profitability in the second year should be slightly below Talenom's core profitability, but serves as a useful illustration and motivator to our scenario estimates.

Valuation

We increase our 12M valuation range for Talenom to EUR13.00-15.00 (previously EUR12.00-14.00). We apply higher multiples because the risks around Talenom's long-term growth rate seem lower than we thought. Customer bankruptcies do not significantly threaten organic growth and the many bolt-on acquisitions are keeping reported sales growth at a high level (and consensus estimates on a rising trend). Well advancing expansion to Sweden has essentially tripled Talenom's total addressable market, and ambitions to expand more internationally show the company's trust in its business platform.

Talenom remains a growth case in our view and multiples decline if we take a longer-term perspective: we estimate 2025E EV/EBIT of 24.8x (2021E: 42.9x) and FCF yield of 3.4%, which are both close to peer Enento's 2021E multiples. Our range implies that Talenom would be valued at on par to Nordic SaaS software companies and at c.70% premium to Nordic information services companies on 2022E EV/EBIT.

There are no perfect peers for Talenom, which shares similarities with Nordic SaaS software companies like Fortnox, but we believe deserves a discount to those companies due to lower scalability, as Talenom is a services company, not a software provider. On the other hand, given Talenom's increasing automation (and scalability), significantly higher total addressable market (than for example Admicom has) and new concept for small customers, which shares similarities with Fortnox products, the comparability to SaaS peers becomes more relevant. 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 current customer base (>90% recurring revenues, on average 10-year customer contracts, low churn) and non-cyclical end-markets.

Valuation range

	Share price				
2021E	**12.0**	**13.0**	**14.0**	**15.0**	**16.0**
EV/sales (x)	6.9	7.5	8.0	8.5	9.1
EV/EBITDA (x)	20.3	21.9	23.5	25.1	26.7
EV/EBIT (x)	35.5	38.3	41.0	43.8	46.6
P/E (x)	43.5	47.2	50.8	54.4	58.0
2022E	**12.0**	**13.0**	**14.0**	**15.0**	**16.0**
EV/sales (x)	6.1	6.6	7.0	7.5	8.0
EV/EBITDA (x)	17.6	19.0	20.4	21.7	23.1
EV/EBIT (x)	30.2	32.5	34.9	37.3	39.6
P/E (x)	36.9	40.0	43.1	46.2	49.2

Source: Danske Bank Equity Research estimates

Relative valuation multiples

		Price*	Mcap	EV/Sales (x)			EV/EBITDA (x)			EV/EBIT (x)			P/E (x)		
	Ticker	**lcl ccy**	**lcl ccy**	**2020**	**2021E**	**2022E**	**2020**	**2021E**	**2022E**	**2020**	**2021E**	**2022E**	**2020**	**2021E**	**2022E**
Nordic information services															
Enento	ENENTO FH	34.7	834	6.3	6.0	5.5	17.6	16.1	13.9	28.9	25.3	21.1	35.6	29.0	25.1
Karnov	KAR SS	50.7	4,961	8.4	6.8	6.4	19.8	15.8	14.4	30.1	24.4	21.6	19.3	19.7	18.2
Nordic SaaS software															
Admicom	ADMCM FH	87.3	430	29.7	16.8	14.0	65.1	36.4	29.6	68.6	37.4	30.3	56.3	48.2	39.7
Fortnox	FNOX SS	434.8	26,512	39.7	27.2	20.8	83.0	65.6	47.9	104.0	81.6	58.2	125.4	104.7	75.8
Lime	LIME SS	364.0	4,835	16.0	12.2	10.1	44.9	35.5	28.7	66.2	49.8	37.9	66.3	57.0	45.0
SimCorp	SIM DC	794.0	31,521	10.8	8.6	7.8	35.1	29.0	26.4	39.6	32.3	28.8	48.5	41.6	36.9
Median, Information services				7.4	7.4	6.4	5.9	18.7	16.0	14.1	29.5	24.8	21.4	27.4	24.3
Median, Software				22.9	14.5	12.0	55.0	36.0	29.2	67.4	43.6	34.1	61.3	52.6	42.3
Talenom	**TNOM FH**	**14.1**	**616**	**9.2**	**8.4**	**7.4**	**25.7**	**24.6**	**21.3**	**46.4**	**42.9**	**36.5**	**59.3**	**53.2**	**45.1**

** Prices as at close on 14 June 2021.*

Source: FactSet (prices and peer consensus) Danske Bank Equity Research estimates (Talenom estimates)

Relative financial summary

		Price	Mcap	Sales growth (%)			EBITDA margin (%)			EBIT margin (%)			FCF yield (%)		
	Ticker	**lcl ccy**	**lcl ccy**	**2020**	**2021E**	**2022E**	**2020**	**2021E**	**2022E**	**2020**	**2021E**	**2022E**	**2020**	**2021E**	**2022E**
Nordic information services															
Enento	ENENTO FH	34.7	834	3.6%	7.2%	7.5%	35.7%	37.0%	39.2%	21.7%	23.6%	25.8%	3.7%	4.2%	4.9%
Karnov	KAR SS	50.7	4,961	1.8%	11.4%	4.1%	42.5%	43.1%	44.2%	28.0%	28.0%	29.4%	5.4%	2.6%	6.1%
Nordic software															
Admicom	ADMCM FH	87.3	430	40.4%	11.9%	18.4%	45.7%	46.1%	47.2%	43.4%	44.9%	46.2%	-0.5%	2.2%	2.6%
Fortnox	FNOX SS	434.8	26,512	30.5%	38.3%	29.3%	47.8%	41.5%	43.4%	38.2%	33.3%	35.7%	0.6%	0.2%	1.4%
Lime	LIME SS	364.0	4,835	17.1%	20.6%	19.5%	35.6%	34.5%	35.1%	24.1%	24.6%	26.6%	2.0%	1.3%	2.4%
SimCorp	SIM DC	794.0	31,521	-0.2%	8.7%	9.8%	30.7%	29.8%	29.7%	27.3%	26.7%	27.2%	2.1%	2.0%	1.9%
Median, Information services				3%	9%	6%	39.1%	40.1%	41.7%	24.8%	25.8%	27.6%	4.6%	3.4%	5.5%
Median, Software				24%	16%	19%	40.6%	38.0%	39.3%	32.7%	30.0%	31.5%	1.3%	1.7%	2.2%
Talenom	**TNOM FH**			**12.4%**	**24.3%**	**13.0%**	**35.7%**	**34.0%**	**34.6%**	**19.8%**	**19.5%**	**20.2%**	**1.4%**	**1.2%**	**1.6%**

** Prices as at close on 14 June 2021.*

Source: FactSet (prices and peer consensus) Danske Bank Equity Research estimates (Talenom estimates)

Scenario analysis

As there are lots of moving parts with Talenom's investment case currently, we believe that an illustration of the blue-sky scenario is relevant when looking at the long-term return potential for the company. Our blue-sky scenario for 2024E has the following assumptions.

- Talenom continues with the M&A scenario we described earlier and simultaneously gradually lifts Sweden's profitability to the level of Finland, whilst gaining further efficiency benefits from the targeted 95% automation rate with its software. We estimate that the optimal profitability in this scenario would be a 25% EBIT-margin.
- We use 22x EV/EBIT for valuing the company, which is a 5% premium to Admicom's 2024E EV/EBIT estimate of 20.9x (FactSet consensus).
- Implied share price would be EUR17.8, implying around 21% upside potential versus the current share price of EUR14.7.

Blue-sky scenario

EURm	2021E	2022E	2023E	2024E
Sales	81.0	96.5	115.6	143.4
Growth	24.3%	19.2%	19.8%	24.0%
EBIT	15.8	19.3	26.0	35.8
EBIT-margin	19.5%	19.5%	22.5%	25.0%
EV/EBIT multiple				22.0x
EV				788
Net debt				11
Equity value				777
Per share				**17.8**

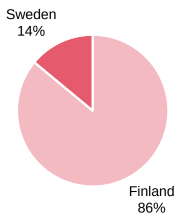
Source: Danske Bank Equity Research estimates

Risks

- **COVID-19.** The impacts could be bigger and longer lasting than we estimate. These could materialise both through slower-than-estimated revenue growth if the pace of Talenom's new customer acquisition remains lower for longer, as well as through customer bankruptcies, which so far have not increased significantly.
- **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.
- **EBIT margins.** Talenom has made several acquisitions in the past year and is targeting more. The acquired companies typically have much lower margins than Talenom, which burdens margins initially. In addition, its growth efforts (such as the new concept for small customers) burden margins. We assume that Talenom is able to maintain its c.20% EBIT margin and even increase it gradually in the coming years, but margins could be lower than we estimate.
- **Risks related to internationalisation.** Talenom has since 2019 operated in Sweden, where it has built a presence through acquisitions and is now working to localise its software. The company also targets to enter new countries in addition to Finland and Sweden. Risks in international expansion are higher than in Talenom's core business in Finland, of which it has decades of experience. Even though we believe Talenom can be successful in Sweden, we note that there is not yet 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.
- **Balance sheet risk.** Talenom has capitalised significant amounts of its customer acquisition and development costs to the balance sheet. If it needs to write down these assets, loan covenants could be at risk (the company has equity ratio-based covenants, in addition to net debt / EBITDA covenant). We believe the risk of write-downs is low, however.

Company summary

Sales breakdown by geographical area



Sales breakdown by division

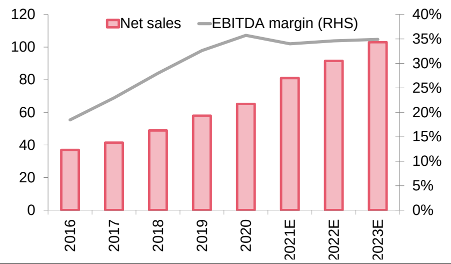
Company information

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

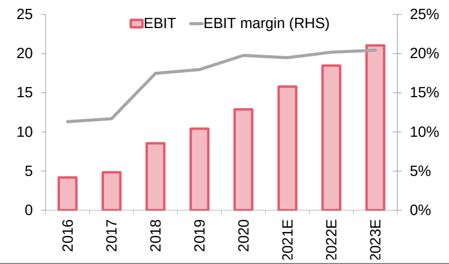
Main shareholders

Name	Votes (%)	Capital (%)
Harri Tahkola	18.6%	18.6%
Markus Tahkola	11.0%	11.0%
Danske Invest Finnish Equity Fund	4.7%	4.7%
Conficap	4.2%	4.2%
Evli Suomi Pienyhtiöt	3.9%	3.9%

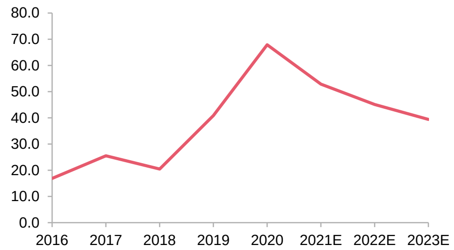
Net sales and EBITDA margin (EURm)



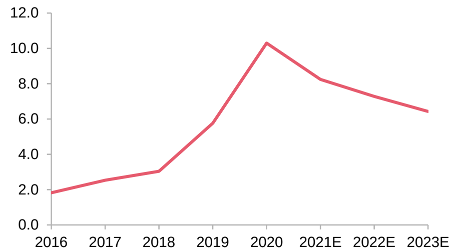
EBIT and EBIT margin (EURm)



P/E NTM (x)



EV/sales NTM (x)



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

Not for US distribution

Summary tables

INCOME STATEMENT										
Year end Dec, EURm	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**	**2023E**
Net sales		33.0	37.0	41.4	48.9	58.0	65.2	81.0	91.5	103
Cost of sales & operating costs		-28.4	-30.5	-32.3	-35.9	-39.4	-42.0	-53.5	-59.9	-67.0
EBITDA		**4.9**	**6.8**	**9.5**	**13.7**	**18.9**	**23.3**	**27.5**	**31.7**	**35.9**
EBITDA, adj.		4.9	6.8	9.5	13.7	18.9	23.3	27.5	31.7	35.9
Depreciation		-6.2	-2.6	-0.7	-0.7	-2.5	-3.4	-2.6	-2.7	-2.8
EBITA		**-1.3**	**4.2**	**8.8**	**13.0**	**16.4**	**19.9**	**24.9**	**29.0**	**33.1**
EBIT incl. EO, bef. ass.		**-1.3**	**4.2**	**4.8**	**8.5**	**10.4**	**12.9**	**15.8**	**18.5**	**21.0**
EBIT, adj.		-0.3	4.2	5.2	8.5	10.4	12.9	15.8	18.5	21.0
Financial items, net	0.0	-1.1	-0.6	-0.5	-0.6	-0.8	-0.9	-0.7	-0.7	-0.7
Pre-tax profit		**-2.5**	**3.6**	**4.3**	**8.0**	**9.6**	**12.0**	**15.1**	**17.8**	**20.3**
Taxes		0.0	-0.7	-0.9	-1.6	-2.0	-2.4	-3.0	-3.6	-4.1
Net profit, rep.		**-2.4**	**2.9**	**3.4**	**6.4**	**7.6**	**9.6**	**12.0**	**14.2**	**16.3**
Net profit, adj.		-1.5	2.9	3.7	6.4	7.6	9.6	12.0	14.2	16.3

CASH FLOW										
EURm	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**	**2023E**
EBITDA		4.9	6.8	9.5	13.7	18.9	23.3	27.5	31.7	35.9
Change in working capital		0.1	-0.1	0.5	-0.5	1.4	1.4	1.2	0.8	0.9
Net interest paid		-0.8	0.0	0.1	0.1	0.1	0.1	-0.7	-0.7	-0.7
Taxes paid		0.0	0.0	-0.4	-1.1	-2.4	-1.9	-3.0	-3.6	-4.1
Other operating cash items		0.0	0.1	0.1	0.1	0.3	0.6			
Cash flow from operations		**4.1**	**6.8**	**9.9**	**12.2**	**18.3**	**23.4**	**25.0**	**28.2**	**32.1**
Capex		-8.4	-5.2	-7.4	-8.4	-11.3	-15.4	-17.2	-17.9	-18.3
Div to min										
Free cash flow		**-4.3**	**1.6**	**2.4**	**3.8**	**7.1**	**8.1**	**7.8**	**10.4**	**13.7**
Disposals/(acquisitions)			-0.4		-0.5	-1.8	-2.2	-5.3		
Free cash flow to equity		**-4.3**	**1.2**	**2.4**	**3.3**	**5.2**	**5.9**	**2.5**	**10.4**	**13.7**
Dividend paid			-0.5	-1.4	-2.2	-3.8		-6.6	-7.0	-7.4
Share buybacks		0.0								
New issue common stock		6.6			-0.2					
Incr./(decr.) in debt		2.1	-1.0		1.0			10.0		
Minorities & other financing CF		-0.6	-0.7	-0.5	-0.9	0.4	-4.6	-2.2	-2.0	-2.0
Cash flow from financing		**8.1**	**-2.2**	**-1.9**	**-2.3**	**-3.4**	**-4.6**	**1.3**	**-9.0**	**-9.4**
Disc. ops & other										
Incr./(decr.) in cash		**3.8**	**-1.0**	**0.5**	**1.0**	**1.9**	**1.3**	**3.8**	**1.4**	**4.3**

BALANCE SHEET										
EURm	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**	**2023E**
Cash & cash equivalents		5.4	4.3	4.9	5.9	7.8	9.1	12.9	14.3	18.6
Inventory										
Trade receivables		4.4	4.8	5.5	5.5	6.5	7.1	8.8	9.9	11.1
Other current assets			0.1	0.0	0.0					
Goodwill		18.4	18.4	18.4	18.4	20.7	24.0	24.0	24.0	24.0
Other intangible assets		9.8	6.7	7.8	10.5	14.9	22.9	30.0	35.9	40.1
Fixed tangible assets		2.1	2.5	2.5	2.2	2.6	2.5	2.8	3.6	4.8
Associated companies										
Other non-current assets		0.4	5.2	6.8	8.7	10.4	11.4	11.4	11.4	11.4
Total assets		**40.5**	**42.0**	**45.9**	**51.2**	**71.3**	**84.9**	**98.8**	**108**	**119**
Shareholders' equity		**9.9**	**11.7**	**13.9**	**18.7**	**23.6**	**32.2**	**37.7**	**44.9**	**53.7**
Of which minority interests										
Current liabilities		7.1	7.5	8.9	8.6	10.7	13.3	16.3	18.2	20.4
Interest-bearing debt		23.5	22.7	22.6	23.6	28.1	30.0	40.0	40.0	40.0
Pension liabilities										
Oth non-curr. liabilities			0.4	0.4	0.3	0.5	1.3	1.3	1.3	1.3
Total liabilities		**30.6**	**30.6**	**32.0**	**32.5**	**47.8**	**52.8**	**66.5**	**68.7**	**71.0**
Total liabilities and equity		**40.5**	**42.3**	**45.9**	**51.2**	**71.3**	**84.9**	**104**	**114**	**125**
Net debt		18.1	18.4	17.8	17.7	20.3	20.9	27.1	25.7	21.4

Source: Company data, Danske Bank Equity Research estimates

Summary tables

PER SHARE DATA	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
No. of shares, fully diluted (y.e.) (m)		40.9	40.9	40.9	41.2	41.8	43.2	43.7	43.7	43.7
No. of shares, fully diluted (avg.) (m)		40.9	40.9	40.9	41.1	41.5	43.2	43.5	43.7	43.7
EPS (EUR)		-0.06	0.07	0.08	0.16	0.18	0.22	0.28	0.32	0.37
EPS adj. (EUR)		-0.04	0.07	0.09	0.16	0.18	0.22	0.28	0.32	0.37
DPS (EUR)		0.01	0.03	0.05	0.09	0.13	0.15	0.16	0.17	0.18
CFFO/share (EUR)		0.1	0.2	0.2	0.3	0.4	0.5	0.6	0.6	0.7
Book value/share (EUR)		0.24	0.29	0.34	0.45	0.56	0.74	0.86	1.03	1.23
MARGINS AND GROWTH	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**	**2023E**
EBITDA margin		14.8%	18.5%	23.0%	28.0%	32.6%	35.7%	34.0%	34.6%	34.9%
EBITA margin		-4.0%	11.3%	21.3%	26.6%	28.3%	30.5%	30.7%	31.6%	32.2%
EBIT margin		-4.0%	11.3%	11.7%	17.5%	18.0%	19.8%	19.5%	20.2%	20.4%
EBIT adj margin		-1.0%	11.3%	12.4%	17.5%	18.0%	19.8%	19.5%	20.2%	20.4%
Sales growth			12.0%	12.1%	18.0%	18.6%	12.4%	24.3%	13.0%	12.5%
EBITDA growth			39.9%	39.4%	43.8%	38.3%	23.1%	18.3%	15.0%	13.5%
EBITA growth			n.m.	n.m.	47.8%	26.1%	21.3%	25.1%	16.3%	14.4%
EPS adj growth			n.m.	28.3%	70.2%	18.3%	20.9%	25.1%	17.2%	14.4%
PROFITABILITY	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**	**2023E**
ROIC (after tax, incl. GW, adj.)		-2.4%	11.5%	13.2%	20.0%	18.9%	18.0%	18.7%	19.3%	20.5%
ROIC (after tax, excl. GW, adj.)		-6.8%	31.2%	32.5%	43.2%	33.6%	29.3%	28.6%	27.9%	28.8%
ROE (adj.)		-29.4%	26.8%	29.0%	39.0%	36.0%	34.4%	34.5%	34.4%	33.0%
ROIC (adj.) - WACC		-9.3%	4.6%	6.3%	13.0%	12.0%	11.1%	11.8%	12.4%	13.6%
MARKET VALUE	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**	**2023E**
Share price (EUR)		0.88	1.20	2.13	3.18	7.50	15.1	14.7	14.7	14.7
No. shares reduced by buybacks (m)		40.9	40.9	40.9	41.2	41.8	43.2	43.7	43.7	43.7
Mkt cap used in EV (m)		**36**	**49**	**87**	**131**	**314**	**650**	**641**	**641**	**641**
Net debt, year-end (m)		18	18	18	18	29	30	36	35	31
MV of min/ass and oth (m)		0	0	0	0	0	0	0	0	0
Enterprise value (m)		**54**	**67**	**105**	**149**	**343**	**680**	**677**	**676**	**671**
VALUATION	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**	**2023E**
EV/sales (x)		1.64	1.82	2.53	3.04	5.91	10.44	8.35	7.38	6.52
EV/EBITDA (x)		11.1	9.9	11.0	10.9	18.1	29.2	24.6	21.3	18.7
EV/EBITA (x)		n.m.	16.1	11.9	11.4	20.9	34.2	27.2	23.3	20.3
EV/EBIT (x)		n.m.	16.1	20.4	17.4	32.9	52.8	42.9	36.6	31.9
P/E (reported) (x)		n.m.	16.9	25.5	20.5	40.9	67.9	52.9	45.1	39.4
P/E (adj.) (x)		n.m.	16.9	23.4	20.5	40.9	67.9	52.9	45.1	39.4
P/BV (x)		3.61	4.19	6.25	7.00	13.3	20.2	17.0	14.3	11.9
EV/invested capital (x)		5.6	5.7	7.8	8.2	10.7	17.5	13.3	11.9	10.9
Dividend yield		1.33%	2.78%	2.50%	2.89%	1.67%	1.00%	1.09%	1.16%	1.23%
Total yield (incl. buybacks)		1.34%	2.78%	2.50%	2.89%	1.67%	1.00%	1.09%	1.16%	1.23%
FCFE-yield		-12.13%	3.27%	2.79%	2.90%	2.26%	1.24%	1.22%	1.62%	2.14%
FINANCIAL RATIOS	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**	**2023E**
Net debt/EBITDA (x)		3.7	2.7	1.9	1.3	1.5	1.2	1.3	1.1	0.9
Net debt/equity (x), year-end		1.8	1.6	1.3	0.9	1.2	0.9	1.0	0.8	0.6
Dividend payout ratio		n.m.	46.9%	63.9%	59.1%	68.2%	67.7%	57.7%	52.3%	48.4%
Interest coverage (x)			7.2	8.1	13.5					
Cash conversion (FCF/net profit)		n.m.	55.3%	71.2%	59.8%	93.0%	84.3%	65.0%	73.0%	84.3%
Capex/sales		25.6%	14.1%	17.9%	17.2%	19.4%	23.6%	21.3%	19.5%	17.8%
NWC/sales		-8.2%	-7.1%	-8.3%	-6.4%	-7.2%	-9.6%	-9.3%	-9.1%	-9.0%
QUARTERLY P&L			**Q1 20**	**Q2 20**	**Q3 20**	**Q4 20**	**Q1 21**	**Q2 21E**	**Q3 21E**	**Q4 21E**
Sales (m)			17.4	16.5	14.8	16.5	20.3	20.8	19.0	20.9
EBITDA (m)			6.2	6.2	5.8	5.0	7.2	7.3	6.8	6.2
EBIT before non-recurring items (m)			3.7	3.6	3.1	2.4	4.4	4.4	3.8	3.2
Net profit (adj.) (m)			2.8	2.7	2.3	1.8	3.3	3.4	2.9	2.4
EPS (adj.) (EUR)			0.06	0.06	0.05	0.04	0.08	0.08	0.07	0.06
EBITDA margin			36.0%	37.5%	39.1%	30.7%	35.4%	35.3%	36.0%	29.5%
EBIT margin (adj.)			21.4%	21.8%	21.2%	14.7%	21.7%	20.9%	20.3%	15.2%

Source: Company data, Danske Bank Equity Research estimates

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