Talenom

Extensive report

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Inderes corporate customer

This report is a summary translation of the report "Kansainvälistysresepti testataan lähivuosina" published on 12/28/2023 at 7:41 am EET

International recipe tested in the next few years

We raise our target price for Talenom to EUR 6.5 (was EUR 6.0) but lower our recommendation to Accumulate (was Buy). The company's earnings growth story will get back on track in the next few years as the company moves from aggressive growth to reviving profitability. The company is facing critical years for internationalization, as Sweden seeks efficiency from its own accounting system and Spain is being ramped up. After a strong price rise, the stock is no longer in the bargain bin, but if Finland's success story can be transferred abroad, the stock is still cheap. The track record is still weak outside Finland, but the ingredients for a recipe for success are present.

It is hard to question the success story in Finland

Talenom has a strong position in the fragmented Finnish accounting industry, it has a clear technological competitive edge thanks to the automated accounting production line. This is proven by Finland's superior efficiency and manifold profitability compared to the sector (EBITDA in Finland 36-40%). The hybrid strategy, in which Talenom has combined development of its own software and its service, is quite unique in the industry. We expect the growth of the Finnish core business directed at the SME sector will slow to 5-10% as the market share rises, but the expansion to the small company sector and continuous development of automation will continue to offer opportunities for the success story to continue. Economies of scale are becoming increasingly important, and we believe that Talenom's competitive advantage will last long and the company is one of the clear winners in the industry in Finland.

Internationalization started shakily, but ingredients for success exist

In recent years, Talenom has grown aggressively through acquisitions in Sweden and Spain. We forecast revenue in Sweden to be some 29 MEUR and in Spain (incl. Italy) close to 15 MEUR in 2024. This is more than 30% of revenue, but the earnings contribution has been negative. This, together with the slow reaction to the market turning in Finland, has pushed Talenom's adjusted EBIT margin to less than half (2023e 9.4%) of what it was in 2020 (19.8%). In Sweden, the company faces critical years as the introduction of own systems will be completed in 2024. The full benefits should be visible three years after this, and in theory Sweden's profitability should be close to Finland's. Our forecasts are much more moderate, but improvements from current levels will be strong. In Spain, the strategy is different and the benefits should be more straightforward, but in both, the company must succeed in organic growth. The earnings growth outlook for the next few years is excellent from the weak starting level and the result will grow quickly in the next few years. Next year, we expect an improvement in earnings mainly from Finland, but after that Sweden and Spain will have to offer significant pull. The ingredients of the recipe for success are in the company's hands, but the uncertainty related to internationalization is still high for the time being.

A new perspective to the valuation from the SOTP calculation

During our Buy recommendation, the share has risen by almost 30% while the clearest undervaluation has dissolved. Valuation multiples seem relatively challenging (2024e P/E over 30x and EV/EBIT over 22x) and the result turnaround for next year is already priced. However, the values of the Swedish and Spanish businesses are not reflected in the earnings multiples, although we see significant potential in these in the medium term. Our sum of the parts calculation still indicates a slight undervaluation, although in our own scenarios success abroad remains relatively subdued. In the next few years, we will see if Talenom's business model also works in Sweden. If a reasonable share of Finland's success story can be replicated abroad, the share would still be very cheap.

Recommendation

Accumulate
(previous Buy)

EUR 6.50
(previous EUR 6.00)

Share price:
6.03

Key figures

	2022	2023e	2024e	2025e
Revenue	102	121	137	153
growth-%	23%	19%	13%	12%
EBIT adj.	15.3	11.4	15.8	22.1
EBIT-% adj.	15.0 %	9.4 %	11.6 %	14.4 %
Net Income	11.8	3.2	9.1	14.1
EPS (adj.)	0.27	0.14	0.20	0.30
P/E (adj.)	35.4	43.1	30.6	20.0
P/B	7.5	5.1	5.1	4.7
Dividend yield-%	1.9 %	3.0 %	3.2 %	3.3 %
EV/EBIT (adj.)	31.1	30.4	22.5	16.3
EV/EBITDA	14.6	10.7	9.2	7.8
EV/S	4.6	2.9	2.6	2.3

Source: Inderes

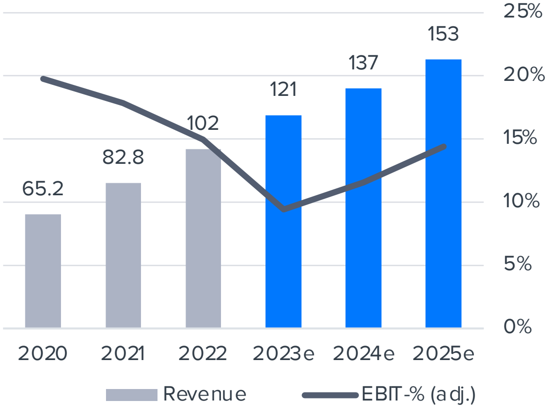
Guidance (Unchanged)

Talenom estimates that 2023 revenue will be around 120-125 MEUR, EBITDA around 30-34 MEUR, comparable operating profit excluding software-related write-downs around 10-13 MEUR and operating profit around 7-10 MEUR.

Share price

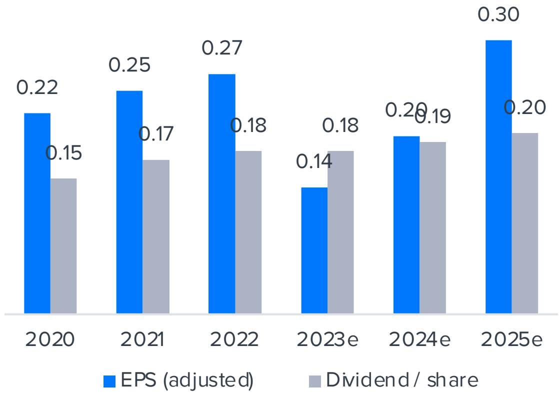
Source: Millistream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes

Value drivers

- Strong earnings growth after the acquisition-driven growth phase
- Clear competitive advantages contribute to increasing the market share
- Growth of Swedish and Spanish businesses and significant profitability improvement
- Fragmented market is transforming, which opens new opportunities
- Business model that utilizes economies of scale strengthens with growth
- In the long term, expansion elsewhere in Europe

Risk factors

- Failure to improve efficiency and profitability in Sweden
- Failure in internationalization
- Competitive advantage relies on technology, whose development tends to be fast
- Potential drop in customer retention
- Potential tightening competition in digital financial management
- Transformation can bring new challengers to the industry
- Risks associated with the balance sheet have increased

Valuation	2023e	2024e	2025e
Share price	6.08	6.08	6.08
Number of shares, millions	45.8	46.3	46.8
Market cap	278	281	284
EV	350	358	362
P/E (adj.)	43.5	30.9	20.1
P/E	85.9	30.9	20.1
P/B	5.1	5.1	4.7
P/S	2.3	2.1	1.9
EV/Sales	2.9	2.6	2.4
EV/EBITDA	10.8	9.3	7.9
EV/EBIT (adj.)	30.6	22.6	16.4
Payout ratio (%)	254%	96.5 %	66.2 %
Dividend yield-%	3.0 %	3.1 %	3.3 %

Source: Inderes

Contents

Talenom in brief

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

1972
Year of establishment

2015
IPO

16.6 % 2005-2022
Long-term growth (CAGR-%)

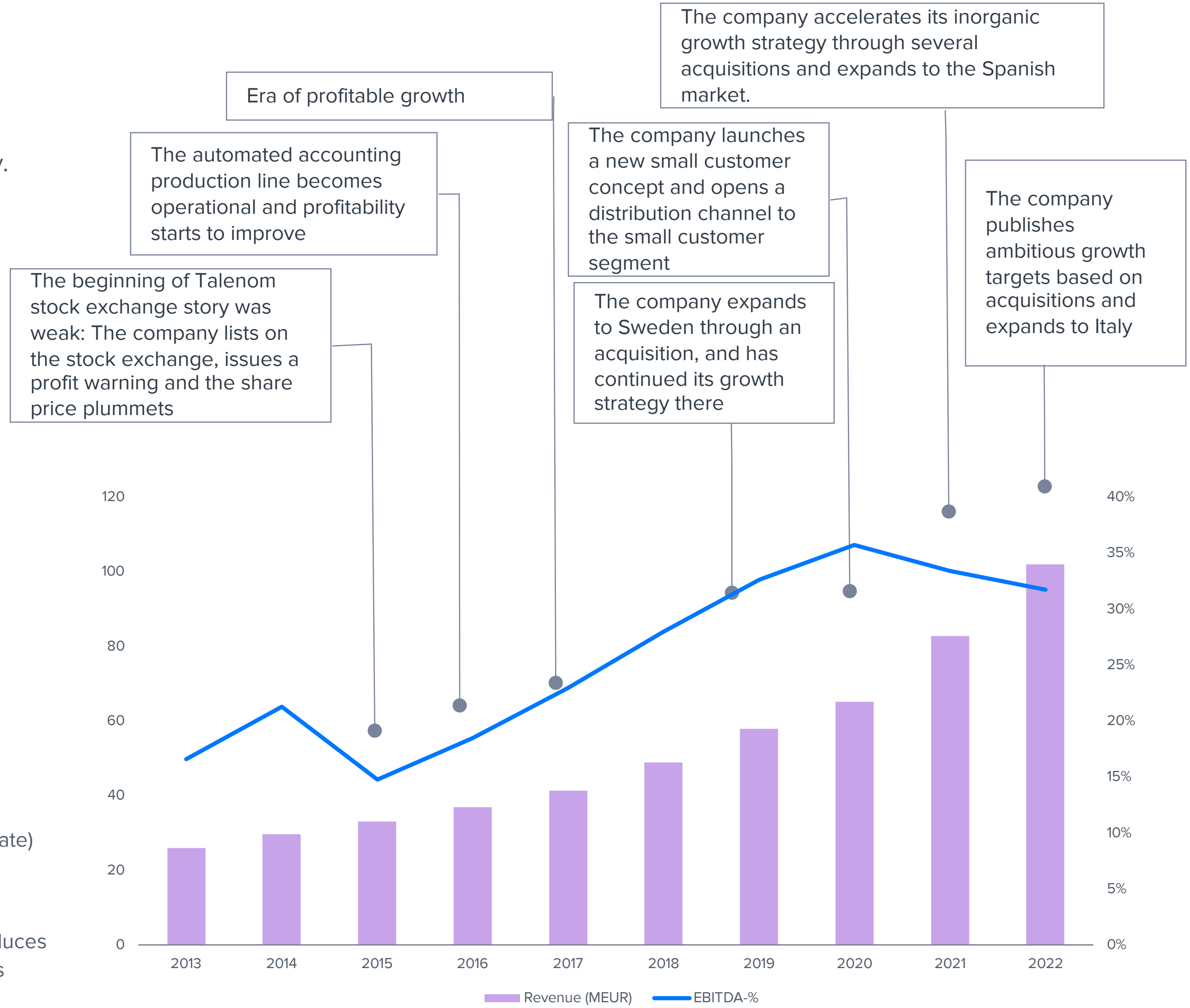
102 MEUR (+4% vs. 2021)
Revenue 2022

15.3 MEUR (15.0 % of revenue)
EBIT 2022

~6%
Talenom's market share in Finland (Inderes 2022 estimate)

Technological competitive edge

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



Source: Inderes

Company description 1/2

A strongly growing and digitalizing accounting firm

Talenom is one of the largest accounting firms and financial support services providers in Finland. The company has focused on being a partner especially for SMEs, providing a much wider range of services than regulatory accounting, including comprehensive professional services, as well as financial and banking services. In recent years, the company has expanded its offering to the small company segment. The business idea is to make daily life easier for entrepreneurs with easy-to-use digital tools and to do this efficiently with highly automated services. The company's vision is to provide superior accounting and banking services for SMEs. In 2022, Talenom had an average of 1,336 employees in Finland, Sweden, Spain and Italy at 74 locations. The company's business model has small variations in different countries, which we will discuss separately later.

Talenom has one of the largest market shares in the industry with about 6% of the fragmented Finnish market. In Sweden, Talenom is also already among the big players in the industry. The company is very growth-oriented and challenges its competitors with active sales in the industry that is going through a transformation. Efficiency in accounting routines is sought with the company's highly automated accounting production line and carefully honed processes. In addition to conventional accounting services, Talenom has expanded its offering to value-added services, support services for entrepreneurs, as well as financing, payment account and card services. This is how the company aims to differentiate itself from competitors and strengthen its competitive edge.

Accounting services

Talenom's key accounting services are bookkeeping, financial statements, reporting, payroll management, invoicing services and internal accounting. In practice, the company offers all the typical services for the industry. Talenom offers a different accounting solution depending on the customer segment based on the size of the customer and the scope of service requirements.

Talenom's business model enables the focus on value-added services in financial management and the company has sought to expand its offering to advisory services, such as tax and legal services. Accountants' time can be increasingly targeted at consultative work as routine tasks are automated. This creates significant additional earnings opportunities for both accountants (job satisfaction) and Talenom. The company has also launched banking and card services in Finland, with which the company aims to accelerate new customer acquisition especially in the small company field.

In SMEs, financial management is often left in the hands of the entrepreneurs, which means that by buying additional services the entrepreneur can focus on the business rather than financial management We believe that this makes Talenom's strong market position in this sector even more valuable. Small accounting firms are usually unable to provide similar services and there are big differences in the offering of accounting firms. In our view, the importance of additional services will be significantly enhanced in the future, as statutory routines will be automated. In the largest companies with their own financial management and professionals, the most important thing is cost-efficiency.

Change in the accounting service market

Before and usually still

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

Now and in the future

- Much of the routine accounting tasks can be automated, but this is still rare
- In our view, the added value of accounting firms is moving toward consultative work, with emphasis on the accountant's expertise
- Growth in the industry will continue despite the transformation, but is likely to slow down from the historical level (our estimate: 0-4% in the coming years)
- The future growth of the industry depends on the success of accounting firms in expanding services
- The number of players is likely to remain high (over 4,100 accounting firms in Finland), but we expect the share of the largest players will increase
- We believe the industry has been and will be very defensive although economic cycles are reflected in transaction volumes

Company description 2/2

High-level of automation delivers efficiency

Talenom produces services in industry-specific teams, which means the customer gains more deep expertise from their personal accountant, the location does not matter and the service can be produced remotely. Each unit provides local customers with local service, and depending on the industry, remote services can be provided to other customers. Talenom has large service centers in Oulu and Tampere. All of this is based on an accounting production line, with an automation rate of over 75% that is still rising.

Talenom's bookkeeping is completely electronic and tedious paperwork has abandoned in the digital transformation. Customers can use paper documents that the company scans when needed, but this is already relatively rare in Finland. The company has been able to increasingly automate routine accounting tasks, and this year the company prepared its first monthly accounts without any manual work. The automation of routines frees up human resources for additional services requiring higher expertise. In addition, this limits the required accountant recruitment, which is generally quite challenging. This supports scaling of profitability.

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

Talenom has a broad customer base

We estimate that Talenom's number of customers is over 20,000 and its customers are fairly evenly distributed across different industries. Therefore, the company isn't dependent on the success of a particular sector. To our understanding, the main customer sectors are industry, construction and retail. We believe that the ten largest customers account for less than 5% of the company's revenue, so the loss of a single customer has no major impact on the company. The customer base is also increasingly geographically dispersed due to the growing share of the Swedish and Spanish businesses.

We see a broad, diversified and well-maintained customer base as a clear strength for Talenom. It provides business continuity and transparency in general. Talenom's ability to attract new customers speaks volumes about the company's competitiveness and the performance of its business model, which is visible as revenue growth. We believe the company has not been able to significantly increase the average billing per customer so far. This is mainly due to the fact that new customers have been increasingly smaller and thus start at significantly lower invoicing levels. The average invoicing of old customers is still on the rise.

Strengths and weaknesses of the company

Strengths and opportunities

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

Weaknesses and threats

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

Talenom's company description in brief

Digital marketing	Organic growth: ~100 person sales and deployment team	Acquisitions
New market small companies	**Talenom's core market:** Finnish SMEs (revenue 0.4-2 MEUR)	**Expansion in Europe:** Sweden, Spain and Italy opened

Talenom One for small customers

Talenom One and Talenom Account

- Streamlined version developed on top of automated production line technology
- Multi-level service package with different pricing options
- At lower levels, the only manual work is in practice (chargeable) advisory services
- Very scalable
- Potential future growth area both in Finland and abroad

Large-scale accounting services
Hybrid strategy combines software and service

Automated production line

- Accounting centralized: Automated production line and service centers in Oulu and Tampere
- Digital material
- Automation of routine tasks increases efficiency and frees up time for accountants
- Own team of ~100 software developers
- Also partially utilizes external commercial software
- The goal is to increase the automation rate significantly from 75%

Service processes

- Automation is far from complete: Not useful in rarely repeated transactions
- Teams specialized in different industries
- Refining processes and making the best use of technology
- Exceptional situations and repairs
- Personal service do not scale, but software significantly increases performance

International growth strategy

Systematic growth model

- 1. Examination of target country
- 2. Establishing a bridgehead (acquisition)
- 3. Growth through acquisitions, country organization development and software localization
- 4. Own technology and service (duplication of the concept)
- Sweden is in stage four, Spain in stage three and Italy in stage two

Banking services (Payment cards and accounts)

Digital services (Financial services, monitoring, etc.)

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

Additional services (e.g. legal services)

Source: Inderes

Investment profile

Talenom belongs to the compounder category

We believe that Talenom is one of the relatively few companies on Nasdaq Helsinki that belongs to the compounder category. The company has a long track record of profitable growth, although in recent years profitability has developed negatively following Talenom's significant internationalization leap by expanding to Sweden and Spain. The company has every precondition to return to scalable growth as the focus has shifted strongly to accelerating and harmonizing organic growth and implementing its own accounting line. Acquisitions will not be seen in the near future to the extent as in the past couple years, and improving profitability is now the number one priority.

We feel the company has both a clear competitive advantage ('a moat') and attractive investment opportunities that enable the company to maintain very high returns on capital in the future. Uncertainty is heightened by the fact that growth opportunities are now largely outside the previously highly profitable core business (Finnish SME sector). Talenom already has a strong position in the growing, defensive and transforming accounting services industry, and we estimate it will be one of the future winners, at least in Finland. We see good prospects for success in Sweden and Spain as well. We feel the core of Talenom's growth story is that the company utilizes its technological competitive edge more efficiently and in a larger scale.

The long-term story is supported by expanding the offering to small companies and internationalization, whose significance in the investment story has grown markedly. We are positive about both in the long term but uncertainty is much higher than in Talenom's relatively steadily moving core business in Finland.

Internationalization has raised the risk profile

The risk profile of Talenom's core business is low, which enables the company to, e.g., use reasonable debt leverage, thus increasing the return on equity. As regards the core business, we believe that the company's risk profile is one of the lowest on Nasdaq Helsinki, although in the longer term, the industry's transformation may come with discontinuity. However, the company's risk profile is raised by large investments in international growth, as the company has not yet proven its technological competitive edge abroad. Thus far, the company has no track record of improving the operational efficiency of its acquisition targets abroad, as in Finland. Thus, the company's success in Sweden, and continental Europe involves much more uncertainty than in Finland. The company's aggressive acquisition strategy has been negatively reflected in profitability and cash flow, which in turn has had a negative impact on Talenom's risk profile together with the rise in interest rates.

In our opinion, Talenom's valuation risk has largely disappeared since the share price has fallen by more than 60% from its peak. However, the current valuation still contains expectations of strong earnings growth, especially from the exceptionally weak profitability level in 2023. We are confident about significant earnings growth in the coming years.

SWOT analysis of the investment target

Strengths	Weaknesses
• Defensive and growing industry • Good customer retention • Deep moats through technology • High profitability and very good returns on capital of the core • Long and mostly strong track record	• Uncertainty related to expansion to new areas • Organic growth is relatively expensive • Risks related to acquisitions (e.g. churn) • Technological risks • Reputation risks
• New growth opportunities in Sweden and Europe • Banking services can accelerate new customer acquisition • Transformation and consolidation of the industry	• Success in managing growth • Share valuation still requires major earnings improvements • A surprising turn in the industry's transition • Tighter competition
Opportunities	**Threats**

Investment profile

1. **Strong growth, which if successful strengthens the company's economies of scale**

2. **Profitability scaling as automation progresses abroad**

3. **Very strong position in Finland in a defensive market**

4. **International growth has increased opportunities and risks**

5. **Generally reasonable risk profile**

Potential

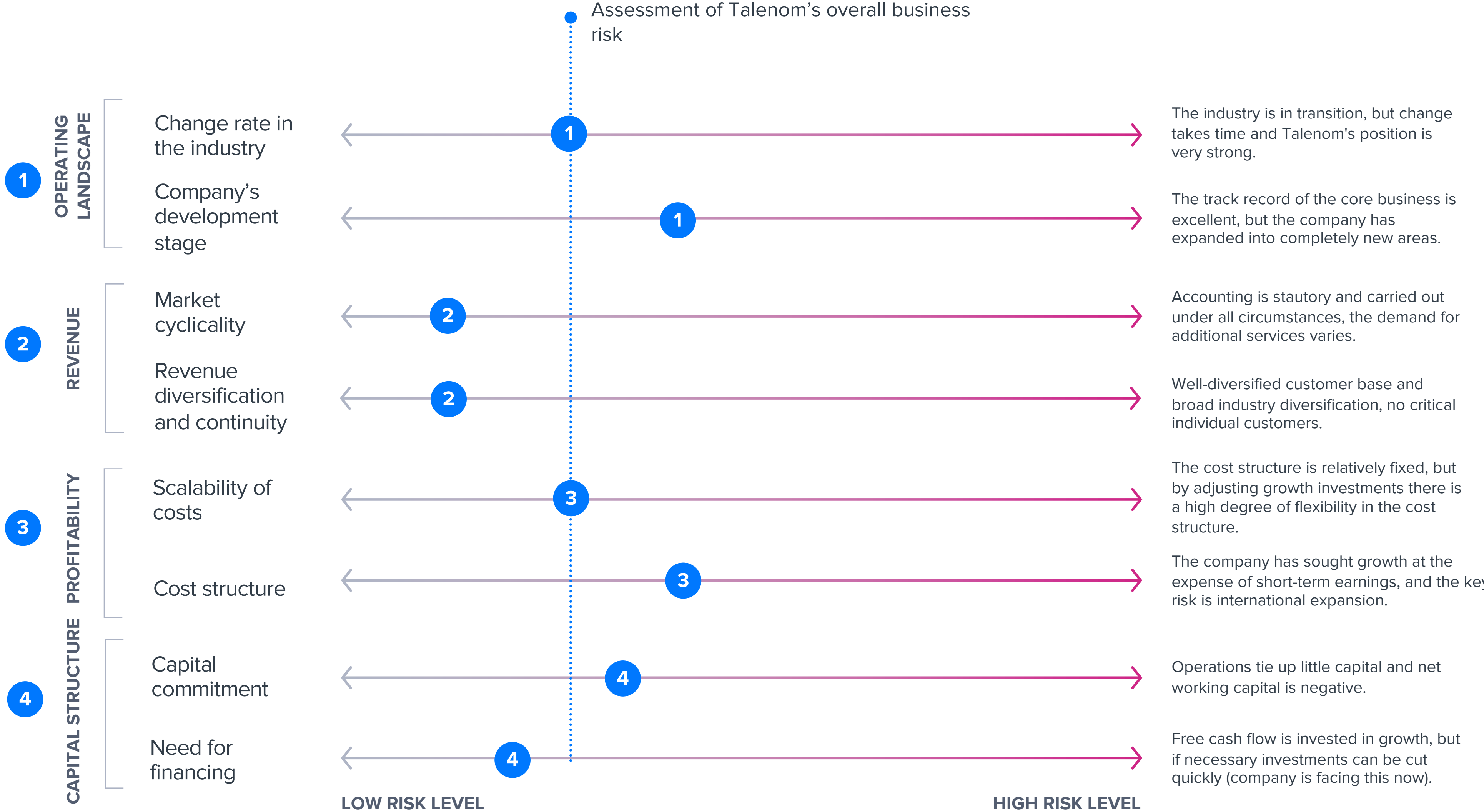
- Good organic growth will continue thanks to clear competitive advantages, acquisitions will support growth in the future
- Very well-positioned in the industry's transition, which is accelerated by digital transformation and automation
- Profitability is scaled up relatively well by the automated accounting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

Risks

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

Source: Inderes

Risk profile of the business model



Source: Inderes

Finland 1/4

A growing and defensive market

The Finnish market for accounting and financial reporting services was around 1.2 BNEUR in 2021. Based on the size class of accounting firm customers, the market is mainly composed of micro, small and medium-sized companies. In large enterprises, financial management is still largely an internal activity, but the outsourcing trend progresses gradually. If the value of the financial management work carried out by customers themselves and the financial management work of non-outsourced companies were considered when defining the market, the market size would be considerably larger than the current definition.

The market is very defensive. Companies are legally obliged to keep accounts, so the need remains as long as the tax authority wants their cut. In addition, a strong trust is typically formed between accountants and their customers, which makes customer retention in the industry very high. This defensiveness is well illustrated by the fact that the industry has overcome the financial crisis and the euro crisis without a decrease in revenue. In connection with the COVID pandemic in 2020, the sector's revenue fell by close on 3% and recovered rapidly in 2021. Defensiveness and high customer retention make a strong market position very valuable in the industry. However, it should be noted that as customers' businesses shrink, the accounting firm's invoicing also usually decreases.

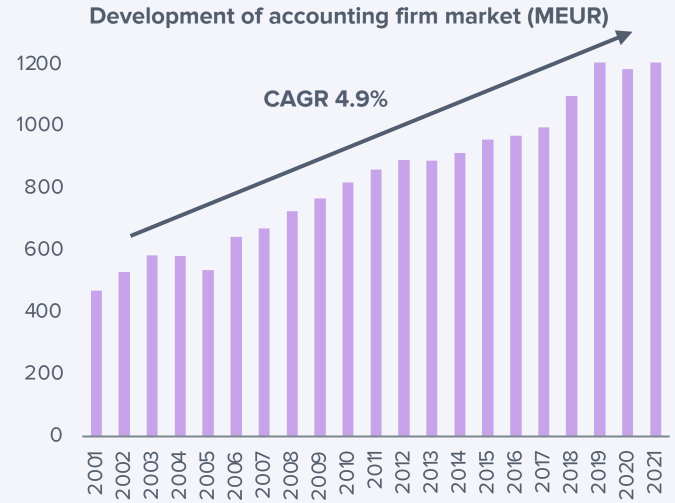
According to Statistics Finland, revenue in accounting and financial reporting services has grown by an average of 4.9% in 2001-2021. We expect the Finnish market to grow by about 3-4% p.a. in the long term, and we believe that the big picture is the same in Sweden.

The industry is undergoing a transformation

The accounting industry is facing a major transformation driven by digitalization, growing importance of service offering and consulting, legislative changes, and entrepreneurs retiring. Even though one could assume that electrification of accounting transactions is already the prevailing practice, paper documents are still part of everyday life in many accounting firms. In recent years, development toward electronic and more efficient handling has progressed on a broad front in the sector and it is bound to become more common driven by digital transformation.

Electrification will change the services, processes, skills needed and division of labor in different customers. We believe that the role of the traditional accountant will lose some value, but the work of consultants becomes more important. This frees up resources for value-added services, which we expect will generate an increasing share of accounting firms' revenue in the future. We expect sales of additional services to complement conventional accounting and increasing outsourcing of financial management to accounting firms to be the main growth drivers for the industry in the coming years. However, it's worth noting that personal service cannot be replaced by automation. The customer/accounting firm relationship is often close and personal service is of great importance, which also explains the small customer turnover in the industry.

For many of these small accounting firms, technological development is a major challenge and they might lack the necessary resources to promote competition or challenge other accounting firms. In contrast, the largest players in the industry can provide electronic services and want to expand their operations in the transition.



Source: Statistics Finland, Association of Finnish Accounting Firms

Finland 2/4

Highly fragmented market

The industry structure is fragmented because being close to your accountant has been a major competitive factor and thus the sector has been characterized by locality. According to Statistics Finland, the market comprised 4,068 accounting firms in 2021 and the average company had just three employees. Our assessment is that the industry will continue to drive many small businesses to the wall, as they do not have sufficient resources to develop their own IT systems. Although the number of players will not necessarily decrease significantly, we estimate that an increasing share of the market will concentrate to large players. Key players in the industry are Accountor, Talenom, Rantalainen, Administer, Azets, and Aallon Group, as well as Monetra and Provincia that concentrate on the public sector. Talenom is competing in roughly the same size class as Accountor, Rantalainen, Administer and Azets (the public sector is not relevant). These companies have scale, resources and at least a relatively high level of technological competitiveness.

According to our estimates, only about 34% of the market was held by the eight largest operators in the sector in 2021, so the vast majority of the market remains with small local companies. Not all companies have the resources to meet the challenges that the transition in the industry brings, which is why we expect consolidation to accelerate in the coming years. Accounting firm entrepreneurs retiring is also one of the factors contributing to the consolidation of the sector.

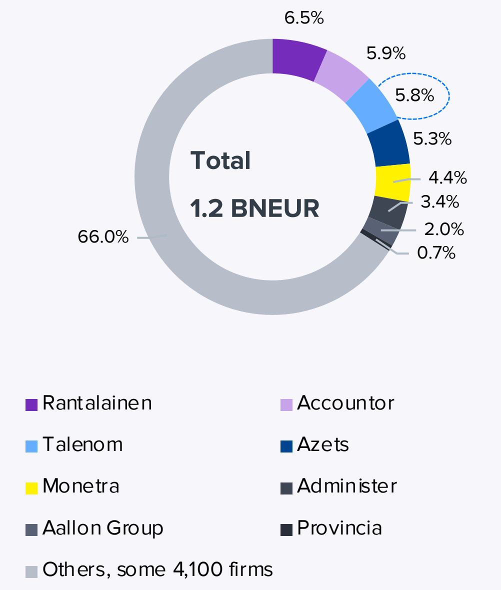
In the accounting services market, competition for customers has practically always been limited. In practice, Talenom has been one of the few companies to have active, large-scale new sales for a long time. Most small companies have focused on protecting their own 'territory' and other major players have mainly invested in acquisitions. Thus, we estimate that the large number of operators in the industry is upheld by the lack of competition or its regional nature.

The importance of economies of scale is emphasized

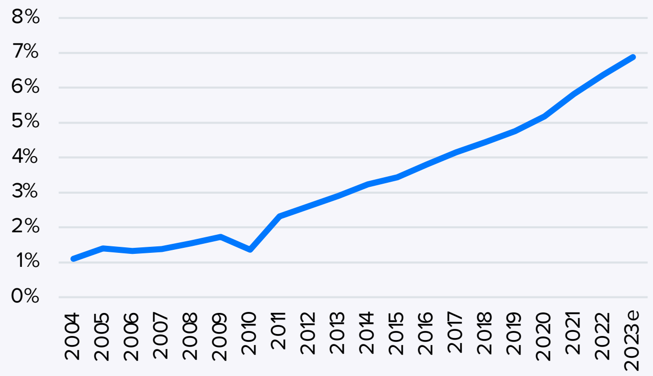
Unlike in history, today's business models receive significant support from scale. Economies of scale support the profitability of automated accounting firms and professional services. Economies of scale in automation enable very strong profitability in the core business and also a growing price competition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

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

Estimate of the market shares of accounting firms in Finland in 2021 (%)



Talenom's market share in Finland*



Source: Companies' financial statements and websites, Inderes
*Inderes' estimate

Industry and competitive landscape in Finland

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

Winners

accountor TALENOM

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

Challengers

RANTALAINEN ADMINISTER

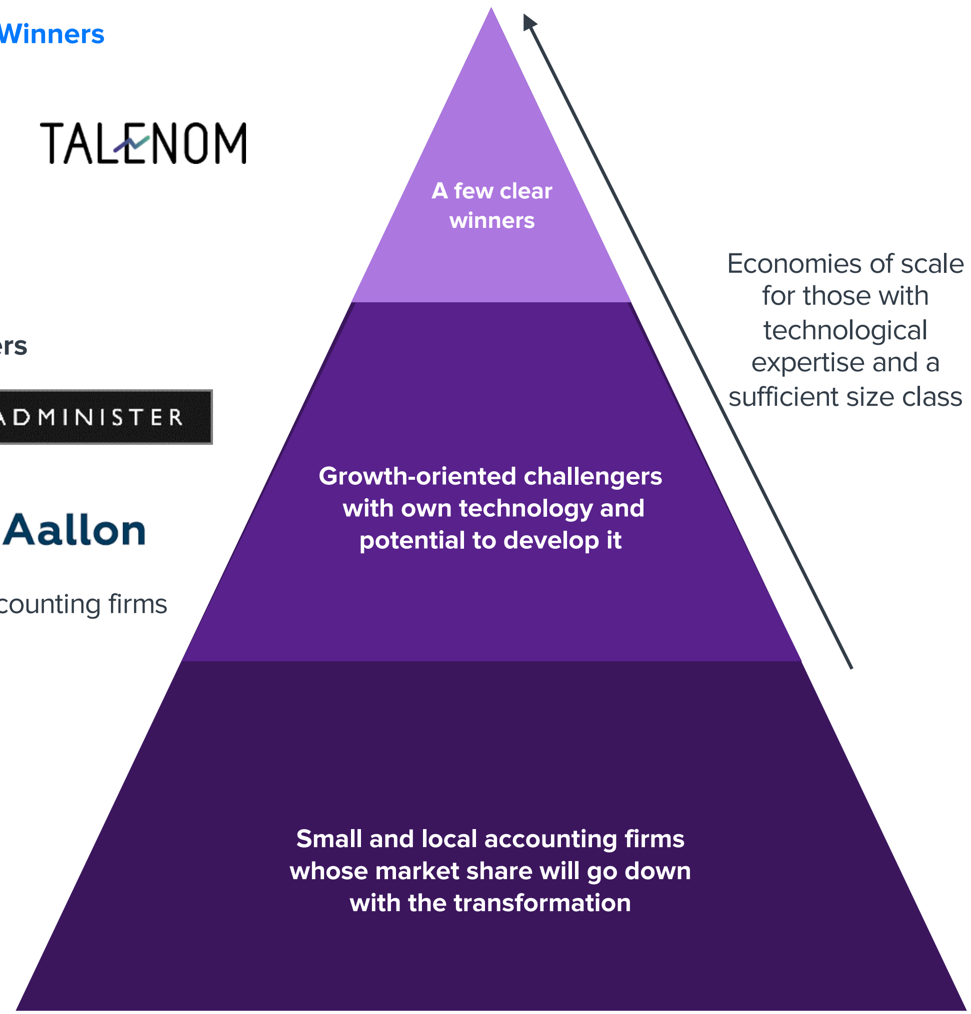
AZETS Aallon

+ a few other large accounting firms

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

Losers

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



Source: Inderes

Finland 3/4

In Finland, Talenom has been a success story

The success story of Talenom in Finland is hard to deny. The company has grown profitably for decades and over the past ten years, earnings growth has only accelerated. When we look at the time series from 2013 to the soon-ending 2023, the average annual growth of Finnish operations has been around 13%. This has been achieved mainly organically, although the company has naturally made a lot of acquisitions during the period.

During the same period, Talenom's EBITDA margin has risen from a good industry level of 17% to an exceptionally strong level of around 37%, and 2023 is not even particularly good for the company in terms of profitability. Thus, growth has been extremely profitable, and profitability has scaled nicely since the company introduced its own accounting system in 2015. There were difficulties in implementing the system at the time, and the company's EBITDA margin temporarily decreased to around 15%. However, as the benefits of the system began materializing in the following years, profitability increased sharply, reaching roughly its current level in 2020 (EBITDA margin 38%). Since then, the system has been further developed and the degree of automation has increased, so in principle the introduction in Sweden should produce even more efficiency gains. Talenom's development in Finland has been very convincing and the company has created strong shareholder value for decades.

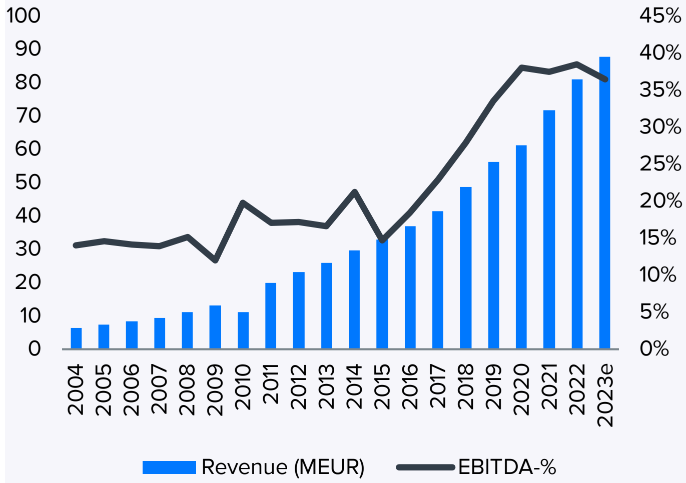
Strong technological competitive edge

The competitive advantage of Talenom's accounting system and its own software is strong, as is already demonstrated by the excellent profitability of the Finnish business. The benefits of automation also grow with the volumes, which ultimately enables profitability to be scaled up with growth.

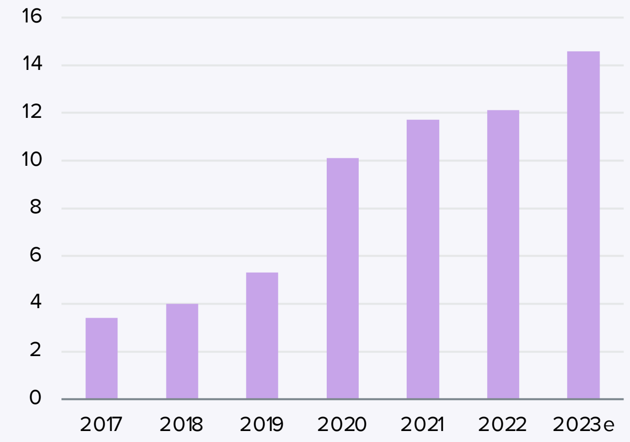
The automation rate of the accounting system used in Finland is already very high, but there is still room for improvement. In the accounting process, Talenom is moving toward full automation of routine tasks, and this year the company has had fully automated customers. For Talenom, the accounting system is an internal tool and is developed to improve efficiency. Talenom Online, in turn, is the customer interface where the company emphasizes ease of use and simplicity. Most recently, Talenom has combined banking services (cooperation with Alisa Bank) with the service, which enables the company to offer an even wider package to its customers.

Costs related to Talenom's system development and automation have been frontloaded. We estimate that the company has invested over 50 MEUR in developing its own IT systems over the past five years. Investments in software and digital services were at a new peak level of 12.1 MEUR in 2022 (2021: 11.7 MEUR), but the growth of investments has slowed down. In the future, the growth should roughly correspond to wage inflation, as the company has said that the current development team of some 100 people is optimal. We feel that investments will further strengthen Talenom's competitive edge, but in recent years investments have depressed the company's earnings due to increased depreciation.

Key figures for Finnish business



Investments: Software and digital services (MEUR)



Finland 4/4

In Finland, growth will slow down if the small customer concept is not successful

Despite a strong growth history and heavy sales investments, we estimate that Talenom's growth rate in Finland will decline organically at 5-10% in the coming years. Next year, organic growth may well be clearly lower if the headwind in the market continues as strong and the recession in Finland's economy deepens. Although customer prices are in principle fixed and contracts are continuous, a significant reduction in customers' own business puts pressure on prices. In addition, a rise in bankruptcies will increase customer exit, and bankruptcies are now at a very high level historically. It is also important to note that about 30% of revenue is volume-based and, e.g., the number of pay slips decreases with the personnel.

In our view, the slowdown in growth is due to the fact that Talenom already has a strong market position in its core area, the SME sector. We estimate that the majority of Talenom's revenue in Finland falls into this market segment of around 500 MEUR, which would mean a market share of some 14-18% in the segment. There is still considerable room for improvement, but growth is hampered by the fact that Talenom has already conquered the important cities in Finland. Significant geographical expansion in Finland is, therefore, challenging, making new sales more difficult.

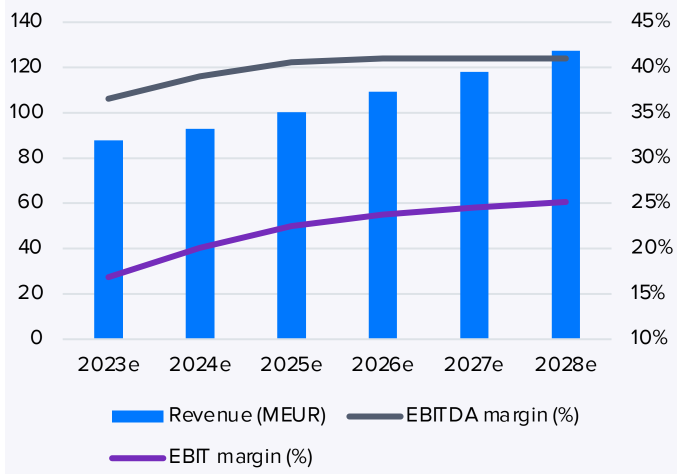
However, Talenom can significantly accelerate its growth in the small customer segment, to which the company has expanded its offering in recent years. We believe the company's position here is still relatively weakish, but the product should be competitive, especially once the company gets the banking services to work properly. A potential breakthrough in the small customer segment could accelerate growth back to the historical level of above 10%, but proof of the concept working in the small customer segment is needed first. We do not expect significant acquisitions in Finland which Talenom has not made on the domestic market in a long time. We believe that acquisitions will focus on Spain in the future.

We forecast Talenom's Finnish revenue will grow by close on 6% in 2024 and accelerate to around 8% in 2025 as market growth picks up. We expect this to be close to the average growth in 2026-2028.

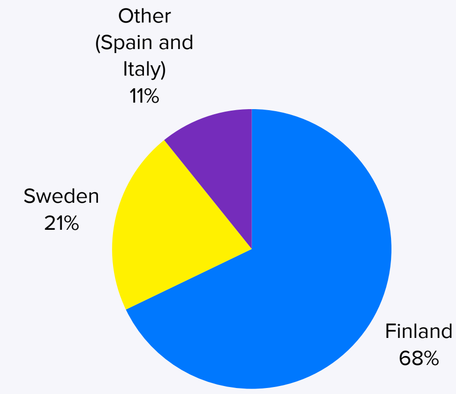
Profitability is already excellent, but will improve next year with the efficiency improvement

The profitability of the Finnish business remains excellent, even though the company failed to anticipate a significant decline in the market in 2023. As a result, the number of personnel was oversized and the cost structure far from optimal, which leads us to forecast that Finland's EBITDA margin will be 'only' 37% in 2023 (2022: 38.5%). In the spring, the company stopped recruiting and, through normal churn, the number of personnel will decrease, which could result in savings of up to 5 MEUR for the business in 2024. We predict that this, together with the overall focus on profitability, will raise Finland's EBITDA margin to around 39% in 2024, from which we expect slight improvements in the coming years to around 41%. At EBIT level, the improvements will be bigger as the company's high depreciation mass will no longer increase substantially in the coming years.

Estimates: Finland



Revenue distribution (2024e)



Sweden 1/4

Swedish accounting services market

The size of the Swedish accounting market is good 2 BNEUR, which means that the market is almost twice the size of Finland. To our understanding, the Swedish market is growing at roughly the same rate as Finland. In general, Sweden lags behind Finland in the development of the accounting industry, e.g., in terms of digitalization, but the level is very good in a European comparison.

There are more than 20,000 accounting firms, but a significant proportion of them are parties making forest tax returns as a secondary activity. The number of professional firms is estimated to be around 7,000 of which some 900 also do auditing. In Sweden, a significant part of the accounting business is carried out by auditing firms, which are called 'kombi-byrå'. This means an office that combines accounting and auditing functions (e.g. EY, BDO and Grant Thornton). As a whole, the Swedish market is fragmented like the Finnish market. In recent years, we believe that industry consolidation has accelerated, which is driven especially by medium-sized accounting firms.

No boogeymen found in the competitive field

To our understanding, there are only two large accounting firms in Sweden: Aspia and Ludvig & Co. Aspia has about 1,200 employees and 55 offices around Sweden (also present in Finland, Norway and Denmark). Similarly, Ludvig has about 1,300 employees in a total of about 130 locations. Both are large in scale, but we believe that the companies' own technological level is not exceptional. Fortnox is the most significant software provider in Sweden, whose various software is widely used in the SME sector. Fortnox is an exceptional success story from a commercial point of view, but its interests related to improving accounting efficiency are limited. At least a partial reason for this is that in Sweden accounting services are largely priced as timework and Fortnox uses accounting firms as distribution channels. Accountants in hourly billing have a limited willingness to improve the efficiency of their business. In this sense, Talenom can gain a significant competitive advantage with its own software also in Sweden.

Of the Finnish competitors Azets and Accountor also have significant operations in Sweden. PE Accounting and ECIT that was listed in 2021 are also worth mentioning Talenom is one of the largest companies in the industry because there are few large players. Overall, the structure and dynamics of the Swedish market seem favorable for Talenom if the company succeeds in implementing its operating methods and software.

The Swedish business has grown rapidly to a significant size class

Talenom expanded to Sweden in 2019, when the company acquired the Stockholm-based accounting firm Wakers Consulting Ab in April. At that time, the company employed 30 people and had an annual revenue of 2.5 MEUR. The acquisition gave Talenom a 'bridgehead', and after a year of research, the company decided to invest in the Swedish market. Since then, Talenom has made 20 acquisitions in Sweden, with which the size of the business has grown strongly.

Swedish market in brief

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

Sweden 2/4

We forecast Sweden's revenue to be over 25 MEUR and represent over 20% of Talenom's revenue in 2023, so the business has grown to a significant part of the Group in a few years.

The Swedish earnings contribution to the Group has so far been non-existent. Sweden's EBIT has been continuously loss-making and losses will increase in 2023, as profitability is depressed by introduction of own software, growing the country organization and the weakened economic situation. However, at EBITDA level, profitability in Sweden is positive. In connection with the Q2'23 result, Talenom announced that it will focus on improving profitability in the future. For Sweden, this means at least a temporary cessation of acquisitions and focus shifting to improving productivity and profitability.

Talenom tries to replicate the Finnish success story in Sweden

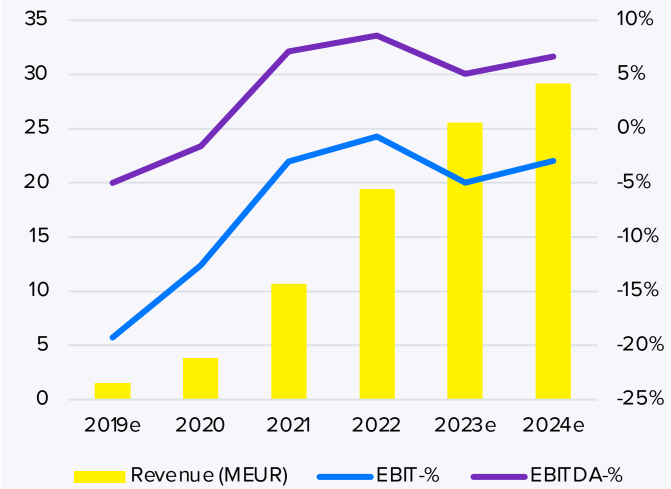
In Sweden, Talenom has now reached a critical mass and the company's strategy will rely on the implementation of own software and processes. In Sweden, Talenom will try to copy Finland's recipe for success, which is largely based on superior productivity and active new customer acquisition.

Talenom started implementing its own software in some accounting firms in Sweden in the fall of 2022, after which implementations have been gradually expanded office by office. We believe Talenom's accounting system has now been implemented in some ten offices in the Stockholm and Gothenburg regions. Talenom's goal is to complete implementation in all offices during 2024.

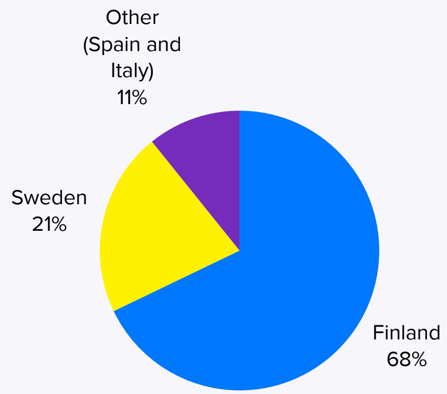
The benefits of introducing own software are gradually achieved by automating manual tasks and improving process efficiency. The introduction of new software initially requires accountants to become accustomed to new ways of working, which takes time and creates discontinuity. In the short term, the introduction of new operating methods causes a drop in profitability and can accelerate turnover in both personnel and customers. Thus, no major profitability benefits from the accounting system should be expected in the first year after implementation, which still makes 2024 difficult in terms of profitability.

Once the accounting system is implemented successfully, productivity increases sharply after adoption, which significantly reduces the time an accountant spends on a single receipt or customer. After the change, an accountant can manage a manifold number of customers, which increases the revenue/accountant ratios and profitability. However, before profitability scales in the income statement, Talenom must either succeed in acquiring new customers (organic growth) or reduce the number of accountants. If necessary, the latter can be done by simply restricting recruitment due to the relatively high exit rate in the industry. In both scenarios, Talenom's profitability in Sweden should increase significantly in 2025 as the benefits of the system surface. From here, profitability should continue to improve significantly in 2026, as an increasing share of efficiency gains have also become visible in the income statement due to scalability.

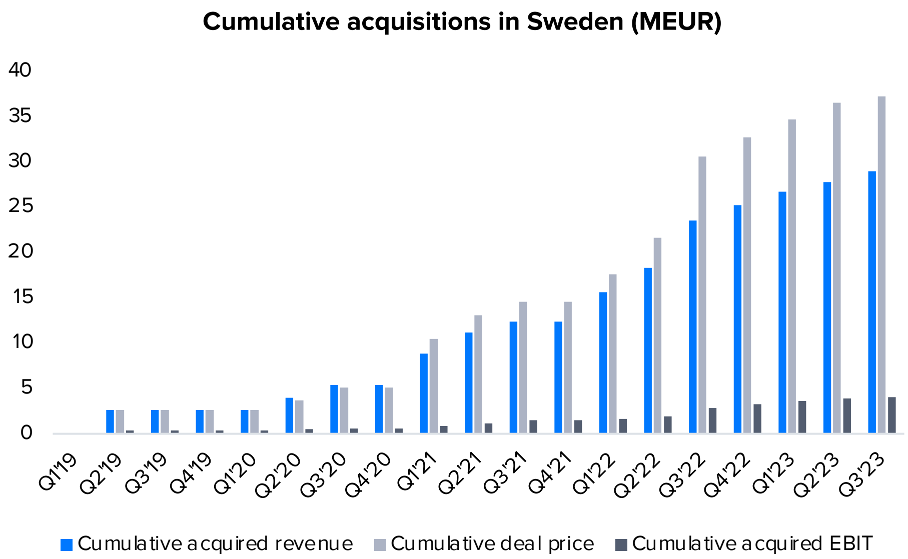
Development of Swedish business

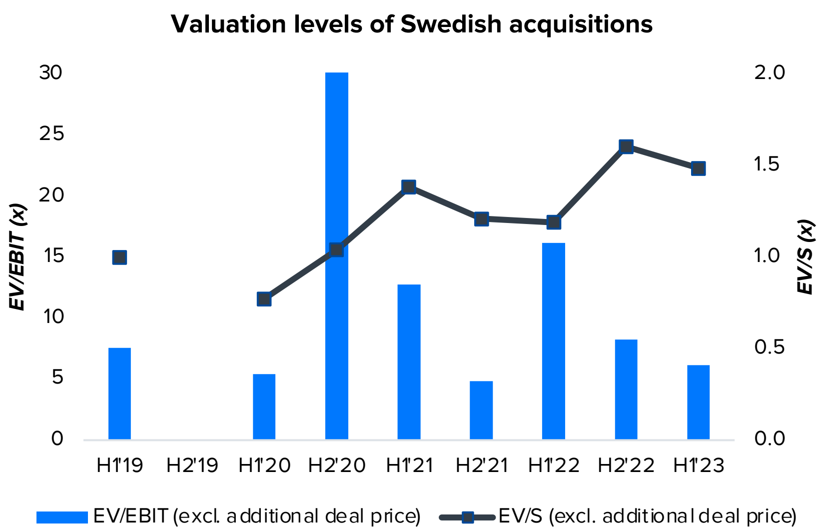


Revenue distribution (2024e)



Acquisition-driven growth in Sweden





Acquisition target	Time of acquisition	Personnel (number)	Revenue (MEUR)	Deal price (MEUR)	Conditional deal price	EV/S
2019						
Wakers Consulting	4'2019	30	2.60	2.6		1.0
2020						
Niva Ekonomi	5'2020	17	1.4	1.1	0.1	0.8
Frivision	9'2020	20	1.4	1.5	0.4	1.0
Ekonomianalys KL	12'2020	27	2.3	3.6	2.1	1.5
Persson & Thorin	12'2020	15	1.2	1.8	0.7	1.6
2021						
Crescendo	3'2021	13	1.3	1.1	0.3	0.9
Progredo	3'2021	12	1.0	1.5	0.0	1.5
YOUnited Professionals	9'2021	14	1.2	1.5	0.2	1.2
MH Konsult Väst	11'2021	22	2.3	2.2	0.6	0.9
Kjell Wengbrand Redovisnings	11'2021	13	1.0	0.9	0.3	0.9
2022						
Lindgren & Lindgren Ekonomi	3'2022	8	0.6	0.7	0.2	1.1
Confido	3'2022	16	1.0	1.7	0.7	1.7
Redovisningsbyrån Öckerö	3'2022	20	1.4	1.7	0.7	1.2
Mazards Sweden	5'2022	46	5.2	9.0	6.8	1.7
Baran Redovisning	10'2022	8	0.7	0.9	0.2	1.3
Alcea Redovisning	10'2022	13	1.0	1.2	0.3	1.2
2023						
MTE Göteborg	1'2023		0.3	0.5	0.2	1.5
R2 Redovisning	3'2023	7	0.7	1.0	0.3	1.4
Easycount	2'2023	5	0.5	0.6	0.3	1.2
LR Redovisning i Strängnäs	5'2023	10	1.1	1.9	0.8	1.7
VM Redovisning	8'2023	14	1.2			

Note concerning graphs: The acquired businesses are included in the figures at the time of the transaction. Talenom reports EBIT for all acquisition targets as a lump sum, which means that assumptions have been made concerning EBIT if the company made acquisitions in both Sweden and Spain during the quarter.

Sweden 3/4

The overall benefit of the introduced system should be visible three years after its introduction. For existing offices, this means in 2027, when the profitability of Talenom's Swedish business should in theory be at the level of the Finnish business in the current business (excluding possible new acquisitions and implementations).

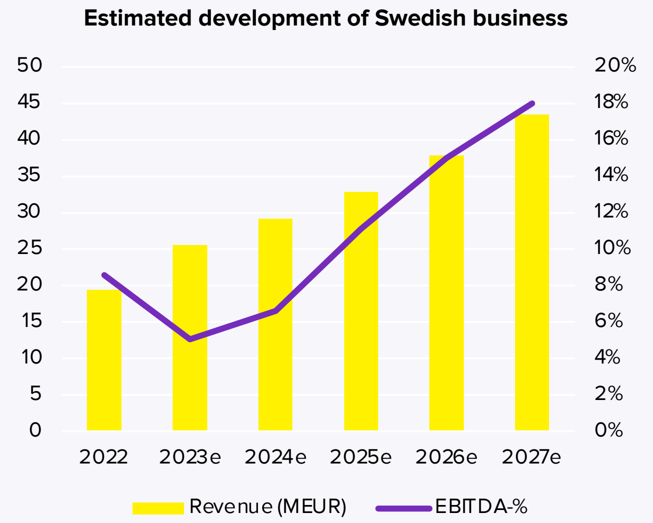
According to the company, it has all the prerequisites for achieving similar profitability in Sweden as in Finland and it has been able to present similar signs of improvement in offices that have started on the path earlier. However, thus far, the track record is flimsy, so one should be skeptical about the claim for the time being. However, we consider it clear that Sweden's profitability will increase sharply in the next few years as the benefits of the system and processes surface. In principle, a good reference point is the development of Talenom's Finnish operations since the accounting system was operational in 2015 (presented in the graph). In Sweden, however, the productivity leap should in theory be even more significant because the starting level is lower. This makes the situation and development in the coming years very interesting.

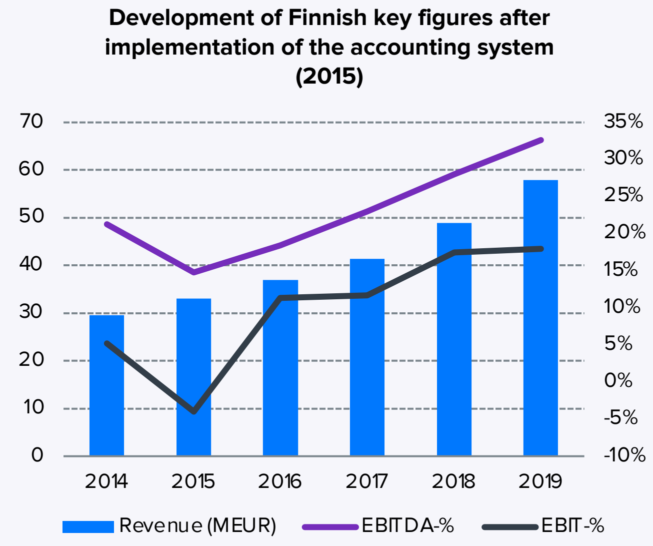
We expect profitability to improve gradually

Talenom has announced that it will at least temporarily cease acquisitions in Sweden and focus on improving productivity and profitability. A critical factor here is the introduction of the accounting system discussed above, but also important are the introduction of Talenom Online (Fortnox is currently the primary customer interface), the change in the pricing model, and the overall improvement of operational efficiency and profitability after an aggressive acquisition streak.

We believe more than half of Talenom's invoicing in Sweden is still hourly-based, from where the company aims to quickly move toward fixed monthly contracts (like in Finland). This is a significant change, especially as the company's productivity starts to improve. At the same time, the change improves the predictability and continuity of the business, even though a certain volume-based share of the business will always remain (e.g. payroll).

In the coming years, Talenom's profitability in Sweden will very likely improve strongly, but the slope is difficult to estimate. In 2024, Sweden's profitability will continue to be depressed by the introduction of its own systems, which may also cause extra turnover. In addition, the market situation is likely to also provide a clear headwind in Sweden, at least in the early part of the year. On the other hand, the above-mentioned change in the pricing model may improve profitability slightly already in 2024, but we expect a greater impact from general cost discipline and focus as acquisitions cease. We suspect that there is a lot of room for improvement in the business after a really strong growth phase. Overall, we forecast that Sweden's EBITDA will rise moderately in 2024 to approximately 6.6% (2023e: 5.1%). After that, however, we expect profitability to scale significantly faster.





Sweden 4/4

We forecast the EBITDA margin for 2025 to be around 11%, which would be a significant leap from the current level but still moderate relative to the industry's average profitability. As we expect Talenom's technological competitive edge to work also in Sweden in the medium term, we expect profitability improvements to continue in a relatively linear manner in 2026 and 2027. In 2028, Sweden will achieve a 20% EBITDA margin in our forecasts, which is far from the company's own target. Talenom has estimated that the profitability in Sweden should be on the Group's general level, i.e. in practice on the Finnish level, three years after the introduction of its own systems (to take place in 2024).

In our forecasts, Sweden's EBIT will turn positive in 2025 and will rise sharply thereafter as the depreciation mass accumulated by acquisitions will grow moderately in the future. Therefore, in our forecasts, the Swedish business will strongly dilute Finland's excellent profitability. In our view, there is potential for significantly higher profitability levels, but first we want to see proof of Talenom's competitive advantage on Swedish soil.

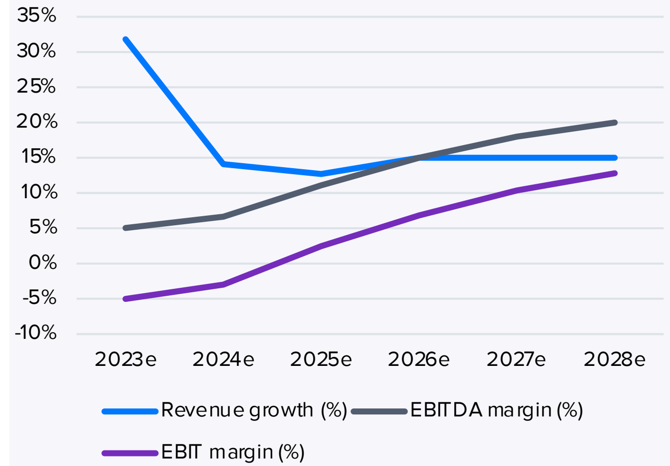
Organic growth determines a lot of success

Critical for success in Sweden is also success in organic growth, which is the key to scaling profitability. In our opinion, the company has excellent prerequisites for organic growth in Sweden, and we believe that new customer acquisition has already been successful. The problem has been that customers have leaked from acquisitions, which has depressed growth figures. Now, both are being given more focus, which means more improvement can also be expected in both. However, it is very difficult to estimate the future growth rate when there is practically no evidence of organic growth yet. In Sweden's case, our forecasts do not include new acquisitions, which means the growth forecasts are organic from 2025 onwards (the 'tails' of acquisitions completed before still affect 2024).

The Swedish market does not impose any growth restrictions on Talenom because its market share is small and the market is large. Geographically, the company can expand if it wishes, but there is still potential in the current areas (especially Stockholm). We currently estimate that organic growth will accelerate significantly during 2024, as this probably becomes a very high priority in Sweden. In 2025, we expect organic growth to be around 13% and to accelerate to around 15% in 2026, where we expect growth to continue thereafter. There is potential for even higher growth, but no track record for these levels either.

Talenom is facing critical years that will largely determine whether the company will be able to replicate the Finnish recipe for success in Sweden. If the company succeeds in achieving a level of profitability in Sweden that is even roughly equivalent to Finland's, this would prove Talenom's technological competitive edge in Sweden as well. At the same time, this would mean that the recipe could be expected to work elsewhere as well, which would boost internationalization.

Estimates: Swedish key figures



Spain 1/3

Overview of the Spanish market

The Spanish accounting firm market is worth about 10 BNEUR, which is roughly ten times larger than in Finland. There are more than 65,000 accounting firms and some 3 million companies in the country. In other words, the size of the market does not limit Talenom's growth potential. The digitalization of the Spanish accounting services market is clearly behind Finland and Sweden but now the electrification of accounting is driven by, e.g., the new e-invoicing requirements of the tax administration. In Spain and in mainland Europe in general, the 'standard' for accounting firms is still strongly paper-based, but the transformation is ongoing.

In our view, the market dynamics are very favorable for Talenom. The market is highly fragmented and there are very few large-scale players. By contrast, there is a huge number of micro and small companies in the country that are served by a myriad of individual consultants and small accounting firms. We believe the largest market share is dominated by small accounting firms that operate using old working methods compared to Talenom and without substantial technological development of their own. This means that there is considerable room for improvement in efficiency, but the average profitability of the industry in Spain is still better than in Finland, for example. In this sense, the competitive field should be very favorable, although Talenom still has a lot to learn on the Spanish market.

Talenom also expanded to Italy in late 2022, which is similar to Spain. In Italy, the market is around 12 BNEUR and there are 6 million companies, but the market is still of little importance to Talenom. For the sake of simplicity, we currently treat the small Italian business as part of Spain, which means that the whole corresponds to the Other countries segment in reporting. In our view, this simplification does not create major problems.

Growth has been strong

Talenom expanded to Spain in July 2021 after acquiring Avain Services SL (Avalanding). Avalanding's 2020 revenue was approximately 0.9 MEUR and the company employed 16 people, so it was a small opening in a new market. After that, the company explored the market for nearly a year and started investing heavily in the country in summer 2022. Then, the company acquired, e.g., the Nomo platform business for digital accounting, financial and tax planning directed at small entrepreneurs, which has become Talenom's customer interface in the country.

In our opinion, Nomo has been a good technology platform, but in business terms, the company was in a weak condition at the time of the acquisition. Revenue was only 0.5 MEUR and the result was heavily loss-making, which increased Talenom's losses heavily in Spain in the initial phase. Nevertheless, the company has considered the investment good, as it enabled the company to accelerate its own development and obtain its own competitive customer interface (cf. Fortnox often used in Sweden). Financial figures have also been depressed by the fact that in Spain, Talenom immediately built a significant country organization to support growth, while in Sweden, the company relied especially on key personnel gained in the acquisitions.

Spanish market in brief

- The market size is about 10 BNEUR, which is almost tenfold the Finnish market
- The number of accounting firms is over 65,000, so the market is highly fragmented
- The largest market share is held by small accounting firms with low technology levels
- The digitalization of the Spanish accounting services market is clearly behind Finland and Sweden but the transformation is underway
- The overall profitability of the industry in Spain is better than in Finland, although the efficiency of the companies is questionable
- The competitive landscape seems favorable for Talenom

Talenom's general observations on Europe:

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

Spain 2/3

The profitability of Spain has been very weak before reaching a critical revenue mass, even though we believe most of the acquired companies are highly profitable operationally.

Spain's acquisition rate has accelerated strongly in 2023. Since the beginning of the year, the company has already completed ten acquisitions, some of which have also been of a reasonable size. In total, revenue (annual) has been acquired for 13.6 MEUR, which makes the business reasonably significant. In 2023, we expect the revenue of the Other countries segment to be around 8 MEUR, but a significant part of the already acquired revenue will not be visible in Group figures until 2024 and acquisitions will continue in Spain. In 2024, we expect Spain to generate over 10% of Talenom's revenue, and the growth outlook is strong long into the future.

Spain's strategy is different from Sweden

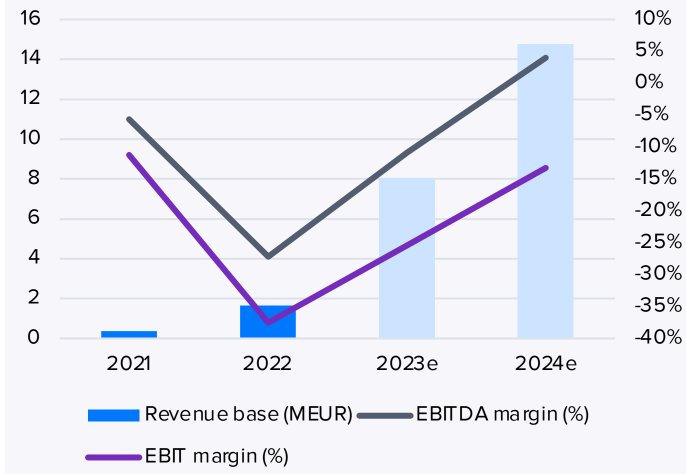
Talenom's strategy in Spain has been honed over time especially based on the experiences gained in Sweden. Previously, the company's goal was to expand in the country with a light, scalable application-based platform. The advantage was that the investment required for the expansion would be light, as there would be no heavy software deployment and significant acquisitions were not required for expansion, but growth would be based on digital sales. However, the strategy changed when the company acquired the digital accounting platform Nomo in June 2022.

The Nomo 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. This Nomo does not exist anymore, but Talenom now uses the platform as a customer interface in its Spanish accounting firms. In this way, the company's customers have the same features as Talenom Online, and similar localization is not required.

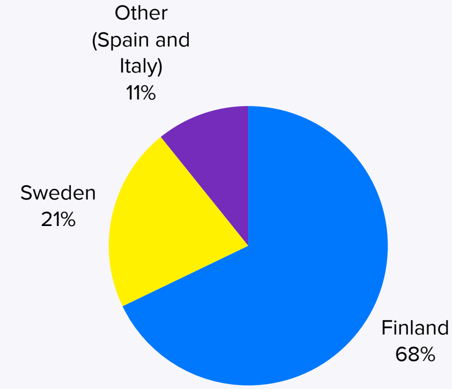
Talenom is not yet implementing its own accounting system in Spain. We suspect this is partly due to the limited scale of business relative to the investment, and partly to the fact that Talenom's implementation resources are currently fully employed in Sweden. In Spain, efficiency is sought in particular through activities related to robotics and processes, which should enable the company to significantly improve its efficiency without major investments. By creating robotics between the user interface and the accounting system, Talenom can improve the efficiency of manual processes, of which the company has a lot of experience in Finland.

In the absence of major operating method changes, the profitability improvements in Spain should be significantly more straightforward than in Sweden. On the other hand, the profitability potential is also significantly lower, which means this is probably an interim stage when looking far into the future. Next year, Talenom's resources are tied up in Sweden, but the introduction of own software could, at least in theory, start in Spain in 2025. However, before this, the company probably wants to ensure that efficiency gains emerge in Sweden.

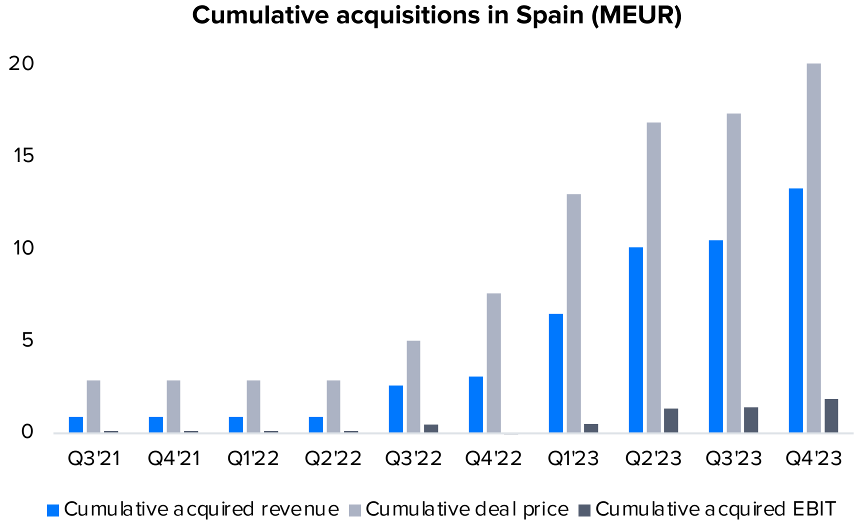
Spanish key figures

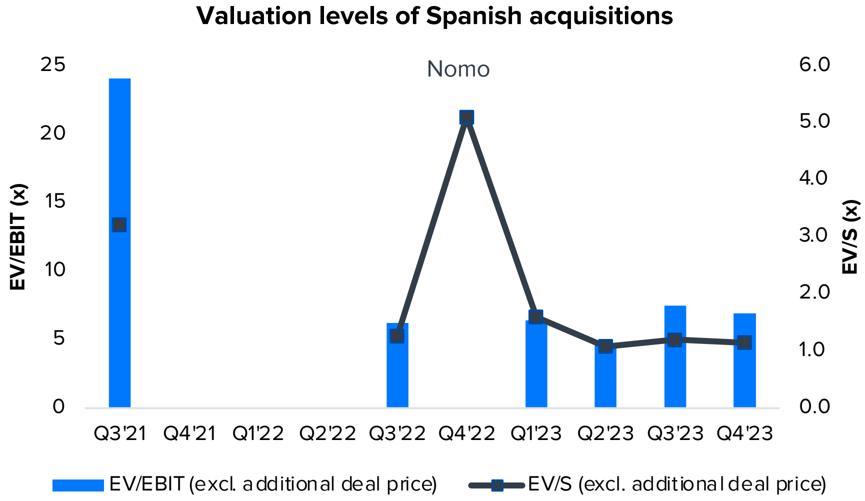


Revenue distribution (2024e)



Acquisition-driven growth in Spain





Acquisition target	Time of acquisition	Personnel (number)	Revenue (MEUR)	Deal price (MEUR)	Conditional deal price	EV/S
2021						
Avalanding	8'2021	16	1.25	2.9	1.5	2.3
2022						
Nomo	6'2022	25	0.5	2.6	0	5.1
Acompany Asesoraria y Gestion d	7'2022	12	0.7	0.7	0	0.9
Gestoria Teruel SL	8'2022	13	1.0	1.5	0.0	1.5
Studio Gavazzi	12'2022	10	0.6	0.4	0.2	0.7
2023						
BKF Asesores	2'2023	9	0.7	1.7	0.3	2.4
Bv Coruña Asesoría De Empresas	2'2023	17	0.9	1.7	0.3	1.9
Consultoria Granadina	3'2023	21	1.2	1.6	0.5	1.3
Aditio Gestion	6'2023	30	1.7	1.3	0.0	0.8
Advisoria Advocats I Economistesi	6'2023	28	1.9	2.6	0.0	1.4
Acega Asesores S.l.u.	7'2023	8	0.4	0.3	0.1	0.7
Sant Cugat Consulting	9'2023	17	1.3			
Gesgal Asesores	9'2023	5	0.5			
Novak Digital Solutions	12'2023	9	0.5			
Bujan Y Asociados	12'2023	13	0.5			

Note concerning graphs: The acquired businesses are included in the figures at the time of the transaction. Talenom reports EBIT for all acquisition targets as a lump sum, which means that assumptions have been made concerning EBIT if the company made acquisitions in both Sweden and Spain during the quarter. For 2023 the purchase prices of the most recent acquisitions in Spain are also estimates (based on historical valuation multiples), as the company has not reported these yet. We will get the information in connection with the financial statements.

Spain 3/3

Both organic and inorganic growth expected

Talenom has announced that it will continue its acquisitions in Spain, but we expect it will slow down the pace of recent years as the focus has shifted strongly to profitability. Our forecast for 2024 now includes 4 MEUR of acquired revenue (forecast halved from earlier), which we model would require an investment of 6 MEUR (assumed EV/S 1.5x based on history). In our forecasts, acquisitions are made evenly at 1 MEUR per quarter, but the outcome will not be even and the forecasts will live with time. The annual revenue of 4 MEUR would naturally already mean strong inorganic growth for the still relatively small business in Spain, but it would be a clear slowdown from recent years. We assume that the same pace of acquisitions will continue in 2026-2028 in Spain.

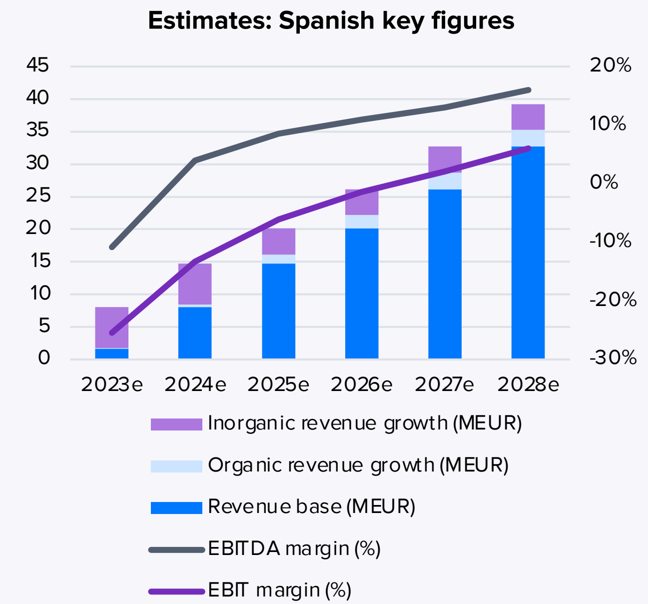
Instead of acquisitions, we expect that Talenom is aiming to accelerate organic growth strongly in Spain, which will be a major test for the international business. We see the Spanish market as very interesting in terms of organic growth, but the company has no track record of this yet. Thus, forecasting organic growth is extremely difficult, but we currently predict organic growth of around 5% next year and accelerating to around 10% in the following years. Much will depend on how strongly the company is ready to invest in organic growth in Spain in the next few years and what type of value-for-money on sales can be achieved.

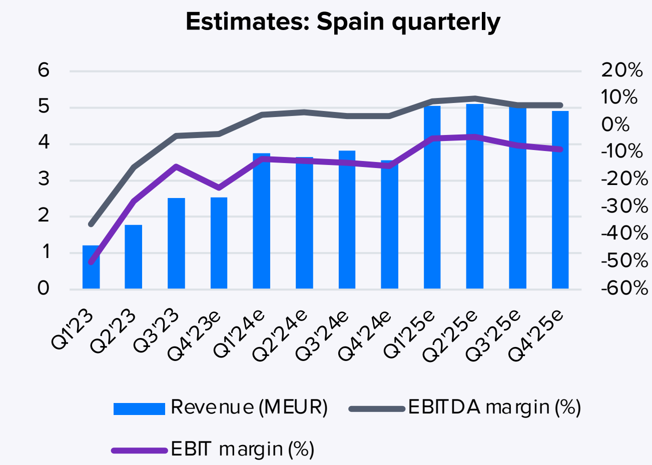
Overall, growth in Spain is expected to be high next year (2024e +84%), but calm down clearly after that and be around 30% in 2026. The forecasted growth scenario is presented in the adjacent graph and the associated uncertainty is very high.

We expect profitability to improve with scale

In Spain, Talenom's profitability should develop relatively linearly at first along with revenue growth, as there are no plans to introduce own systems in the country at the moment. We estimate that the fixed costs of the country organization (including Nomo) are around 2.0-2.5 MEUR per year, which the company should be able to scale with growth. At the same time, companies' productivity should grow moderately supporting profitability.

We are now predicting that the EBITDA in Spain (incl. Italy) will reach some 4% in 2024, which would mean a continuation of the trend seen in 2023. In 2025, we expect EBITDA to reach 8.5% and 11% in 2026. In 2028, our forecasts reach 16%, which is still a reasonable level for the industry in general. On the other hand, we expect strong growth investments to continue far into the future, which means optimal profitability will not be seen during this period. The expected acquisitions will also continuously increase the depreciation mass, which means that the improvement in EBITDA will not be directly reflected in the EBIT margin. In our forecasts, EBIT turns positive only in 2027.





Cash flow and financial situation 1/2

Operating cash flow is invested in growth

Talenom's core business in Finland generates abundant operational cash flow and the cash flow profile is favorable in the sense that the business does not tie up working capital. Especially in recent years, cash flow has been efficiently spent on acquisitions and IT investments.

Over the past nine years (2014-2022), the average net cash flow from operations has been 14.9 MEUR per year, while average EBIT has been 15.9 MEUR per year. Both have been growing strongly in recent years and last year the cash flow from operations was already 27.4 MEUR. On the other hand, development of software and digital services (2016-2022 estimate some 50 MEUR) and growth has been expensive in general. Over the years, the amount of money spent on investments has increased clearly and last year a total of 32.0 MEUR was spent on investments, which was explained by a large number of acquisitions. Thus, the free cash flow has been negative and when , in addition, dividends have been paid, the company's interest-bearing debt has increased significantly in recent years.

The net cash flow from operations is muddled especially by customer acquisition-related capitalizations and IFRS 16 lease liabilities. These are in accordance with IFRS included in investments and financing, even though, e.g., premise rents are in practice operational expenses. If we adjust the above items back to net cash flow from operating activities, the figures change substantially. However, the cash flow from operations is at a reasonable level (see graph) but the free cash flow is very weak.

Intangible assets have ballooned in the balance sheet

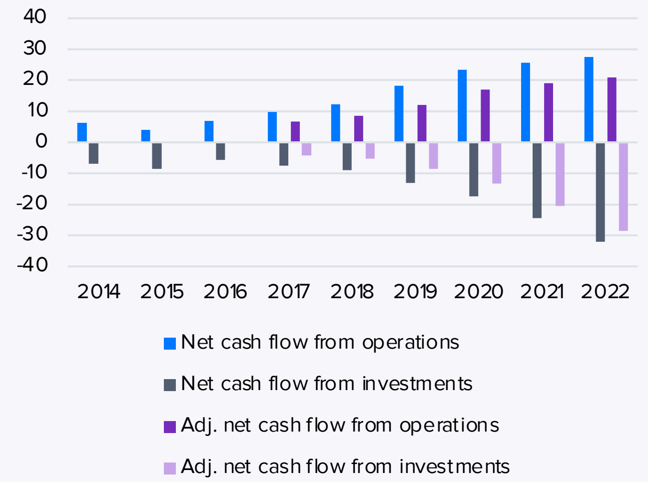
In recent years, goodwill (due to acquisitions) and other intangible assets have ballooned in Talenom's balance sheet, which we believe grew due to acquisitions and software investments. For example, capitalized contract costs have not increased substantially in the balance sheet, so their capitalization and depreciation are in balance. This means that they do not 'distort the flow of money.

The balance sheet and cash flow impact of acquisitions is, in principle, clear, so software and digital services may remain questionable in investments. Here, growth has been strong over the past five years, as the number of Talenom's software developers and related costs have risen sharply. The big jump occurred in 2020 when the item almost doubled to 10.1 MEUR (2019: 5.3 MEUR). Currently, we believe Talenom has a developer team of some 100 people, the associated costs of which the company capitalizes in the balance sheet (2022: 12.1 MEUR). In our opinion, the competitive advantage of software is so clear that it is hard to consider capitalization unjustified. However, if this item was recognized directly as an expense, the company's profitability would be significantly lower.

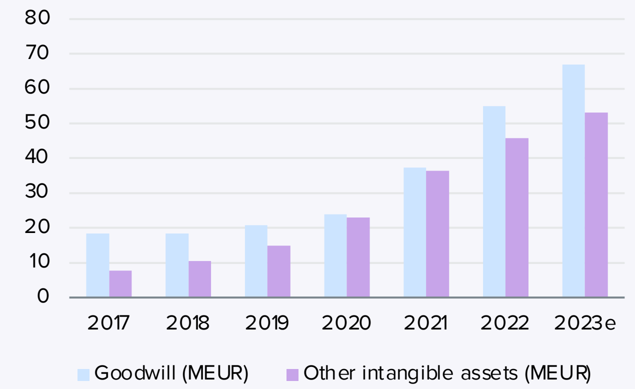
Depreciation mass has continued to rise

Talenom's very large investments in recent years have increased the company's depreciation rate heavily in recent years, and the increase has also been faster than revenue growth. In the coming years, the change will stabilize, but the increase in depreciation will continue as significant.

Main elements of cash flow (reported and adjusted)



Assets that have grown strongly in the balance sheet



Cash flow and financial situation 2/2

In practice, Talenom's depreciation is divided into three components: 1) intangible assets, 2) capitalized contract costs, and 3) tangible fixed assets (property, plant and equipment IFRS16). Depreciation of intangible assets will continue to grow with the balance sheet, but we estimate that growth will be slower than revenue growth in the future. Capitalized customer acquisition costs fluctuate with customer exit (depreciation), which means the item can cause surprises. However, the size class is reasonable. Property, plant and equipment, on the other hand, fluctuate more with the business volume. In general, we feel it is essential that the balance between depreciation and investment should improve significantly in the coming years as investments decrease with acquisitions.

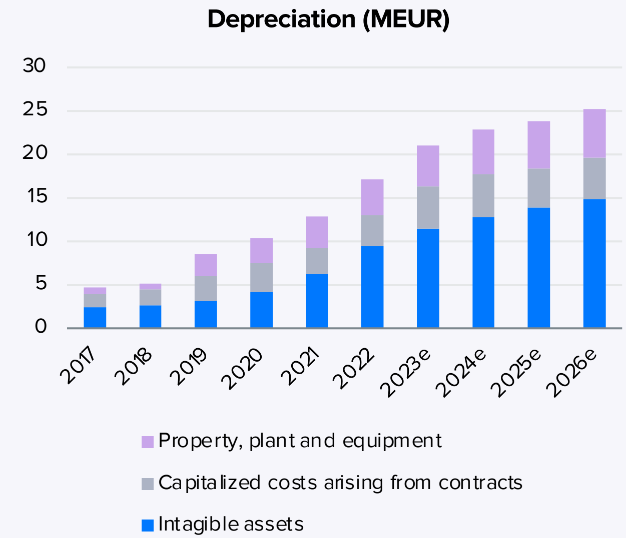
Debt in the balance sheet, but this is justified

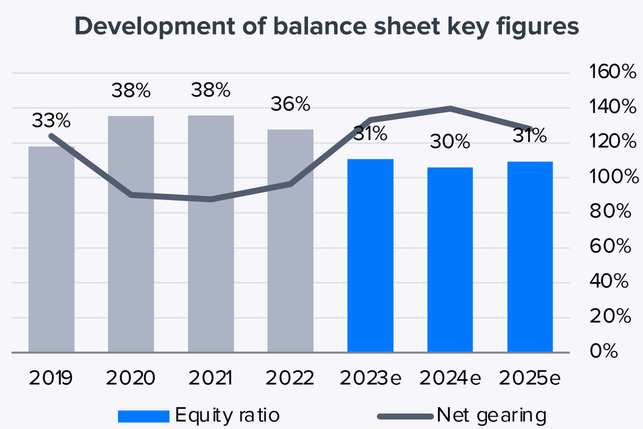
Talenom's financial situation is still good, but with strong acquisition-driven growth, the amount of interest-bearing debt has increased clearly. The equity ratio at the end of Q3'23 was 31.6% and gearing 130%. Interest-bearing net debt amounted to 71.4 MEUR, but its ratio to the previous 12 months' EBITDA remained reasonable at 2.3x. Talenom's business model is mainly defensive and the company operates in a predictable industry, which makes the use of leverage justified in our opinion. With a smart use of debt leverage, the company can optimize its ROE without significantly increasing its risk profile. However, the increased interest rates are now diluting the benefits of this.

We are not concerned about the amount of debt as such, even though at current interest rate levels it is causing significant interest costs. According to our estimate, annual interest expenses will be approximately 4 MEUR in the coming years. Applying a temporary brake on growth investments is justified also from the point of view of the balance sheet. As the company now again focuses on improving profitability, the balance sheet position may strengthen quite rapidly, thanks to the cash flow from the company's operations. A lot depends on the amount of investments made by the company.

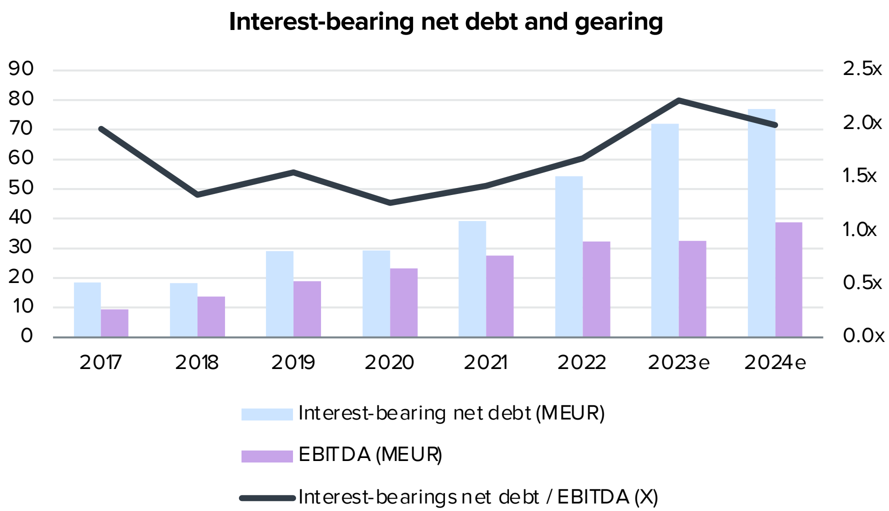
The company's balance sheet is not risk-free, and in an unlikely negative scenario, the rapid deterioration of the financial situation could cause problems. At the end of H1'23, the balance sheet included some 64 MEUR of goodwill, about 53 MEUR of intangible assets (including software development costs) and around 11 MEUR of capitalized customer contracts, so these (128 MEUR) far exceed the company's equity (H1'23: 56 MEUR). If the company were to lose a significant number of customers for some reason, the company's technology would become useless and/or the profitability of its business would develop very poorly, the balance sheet risk would rise rapidly. However, we consider this highly unlikely, and in general Talenom's risk profile is moderate.

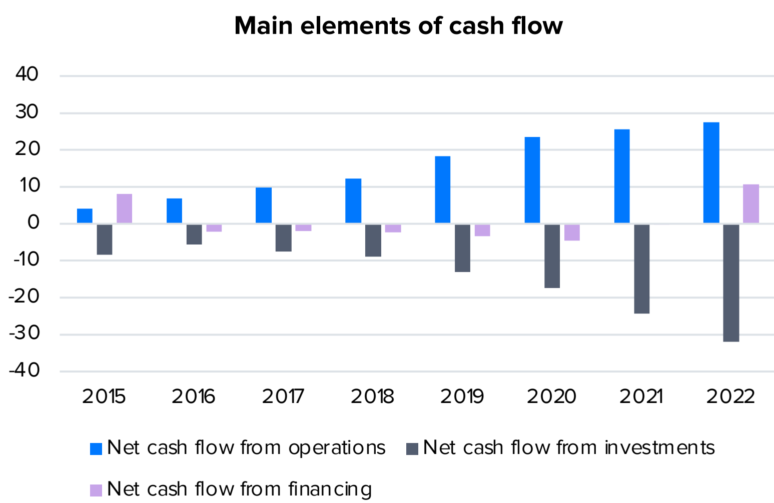
Talenom's financial targets include an annually increasing dividend, which is currently a quite challenging target considering the sharp earnings drop and increased indebtedness. In the longer term, we estimate that the result will recover, after which there will be significantly more leeway for dividend payments.

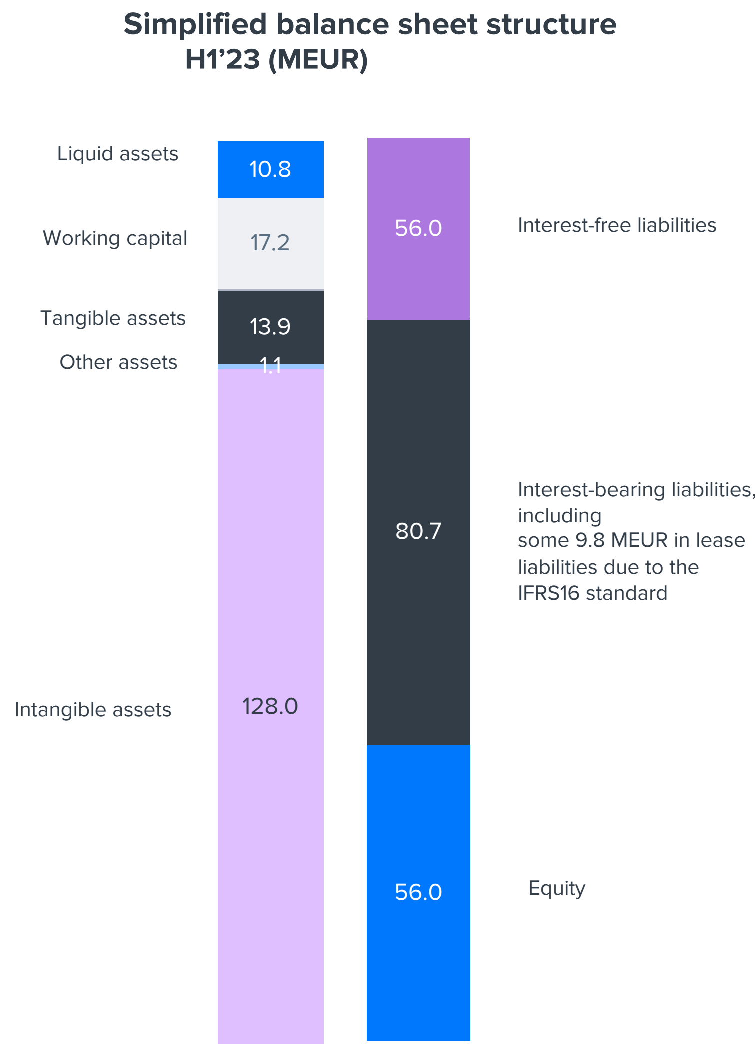




Financial situation in brief







Source: Inderes/Talenom. NB! Figures are not fully comparable due to changes in accounting practices.

Group forecasts 1/3

Growth has been significantly accelerated by acquisitions

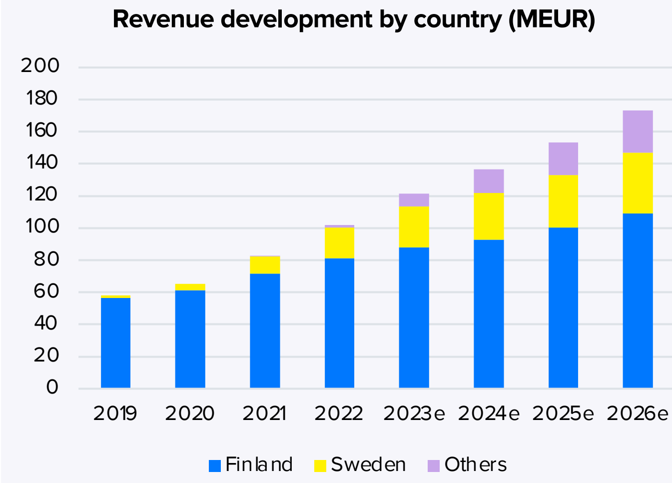
Talenom has accelerated its growth with several acquisitions in recent years. Most of the acquisitions have been made in Sweden and Spain, through which the company has quickly built significant business operations in both countries. All acquisitions made by the company from 2016 onwards are listed on the company's investors website. Once the acquisitions made this year are fully reflected in Talenom's figures, we predict that the share of revenue outside Finland will rise to over 30%.

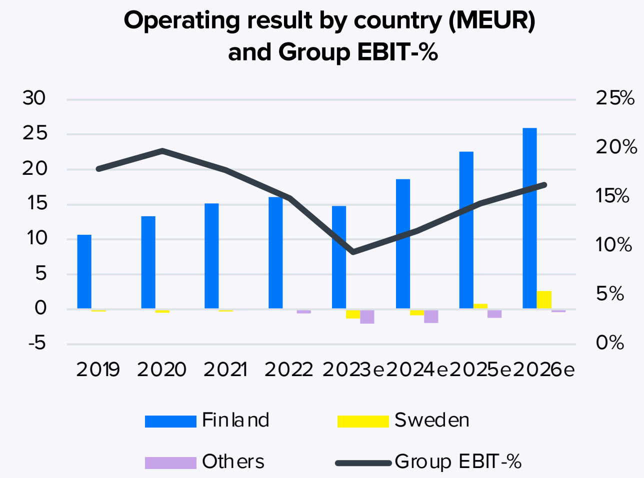
Now, however, acquisitions have been frozen not only in Finland but also in Sweden, and the pace will slow down significantly in Spain as well. The focus has shifted strongly to profitability that has fallen sharply during the aggressive growth phase. Despite the current relative weakness, the profitability of Talenom's Finnish business is excellent, but the international earnings contribution is practically zero (EBITDA slightly positive, EBIT clearly negative). We discussed the situation in Sweden and Spain separately in country-specific sections, but it is critical to understand that almost a third of the Group's revenue is not currently generating a result. This naturally has a huge impact on the whole, and Talenom's EBIT margin has at least halved in recent years. In 2020, the Group's EBIT margin was 19.8%, but this year even the EBIT margin adjusted for the one-off write down will be below 10%.

Earnings potential vs. current performance

In the short term, the impact of international acquisitions on relative profitability is strongly negative. Country organizations generate fixed costs, integration and software implementation involve significant costs and the starting profitability of the acquisition targets is significantly lower than that of Talenom in Finland. In principle, Talenom does not 'reorganize' the acquired companies, but improves their performance with its own processes and automated software. This means significant changes in operating methods that in a good scenario require time and can easily cause turnover in both personnel and customers. Efficiency gains will become visible when the accountants adopt the new operating methods but profitability gains will only become visible when the companies gain new customers and the revenue per accountant increases supported by automation. This way, the delay is long.

Talenom has estimated that the profitability of the acquisition target will rise to the profitability of Talenom's other business three years after the acquisition. The company has evidence of this from previous acquisitions made in Finland, but this requires the introduction of its own accounting systems. This is currently under way in Sweden and the completion of the implementation project will take all of 2024. According to Talenom's estimates, Sweden's profitability should in practice rise to Finland's level in 2027.





Balance sheet

Assets	2021	2022	2023e	2024e	2025e
Non-current assets	**94.3**	**124**	**146**	**155**	**163**
Goodwill	37.3	55.0	67.0	71.0	75.0
Intangible assets	44.7	55.9	64.1	68.1	71.1
Tangible assets	2.8	2.8	4.0	4.8	5.4
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	0.9	0.3	0.3	0.3	0.3
Other non-current assets	8.6	9.9	10.1	10.3	10.5
Deferred tax assets	0.1	0.4	0.4	0.4	0.4
Current assets	**20.0**	**30.5**	**28.5**	**32.1**	**36.0**
Inventories	0.0	0.0	0.0	0.0	0.0
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	9.8	14.5	16.4	18.5	20.7
Cash and equivalents	10.1	16.0	12.1	13.7	15.3
Balance sheet total	**118**	**156**	**175**	**186**	**197**

Source: Inderes

Liabilities & equity	2021	2022	2023e	2024e	2025e
Equity	**44.7**	**56.0**	**54.3**	**55.1**	**60.5**
Share capital	0.1	0.1	0.1	0.1	0.1
Retained earnings	23.1	29.1	24.3	25.1	30.5
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	21.6	26.9	29.9	29.9	29.9
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	**50.4**	**62.3**	**80.7**	**81.8**	**87.4**
Deferred tax liabilities	2.0	3.0	4.1	4.1	4.1
Provisions	0.0	0.0	0.0	0.0	0.0
Interest bearing debt	46.2	56.4	73.8	74.9	80.5
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	2.2	2.8	2.8	2.8	2.8
Current liabilities	**22.6**	**38.0**	**39.6**	**48.5**	**48.9**
Interest bearing debt	3.2	13.7	10.5	15.7	12.1
Payables	16.6	24.3	29.1	32.8	36.8
Other current liabilities	2.9	0.0	0.0	0.0	0.0
Balance sheet total	**118**	**156**	**175**	**186**	**197**

Group forecasts 2/3

In Spain, the situation is slightly different because Talenom's own accounting system is not being introduced for the time being. The company has its own customer interface in Spain (cf. Talenom Online) and accounting processes are streamlined with robotics, which also delivers significant efficiency gains. This approach does not require heavy investment, so development should be clearly more stable than in Sweden.

Talenom's proven EBITDA margin in Finland is around 40%, against which we can view the potential profitability improvement in Sweden. We forecast Sweden's EBITDA to be around 5% this year, so the potential improvement is a whopping 35 percentage points over the next 3-4 years. We estimate that Sweden's 2024 revenue will be around 29 MEUR, so the profit improvement potential at EBITDA level is around 10 MEUR just in light of this. This does not consider organic growth, which is a requirement for the improvements and, if successful, increases the size of the improvement significantly.

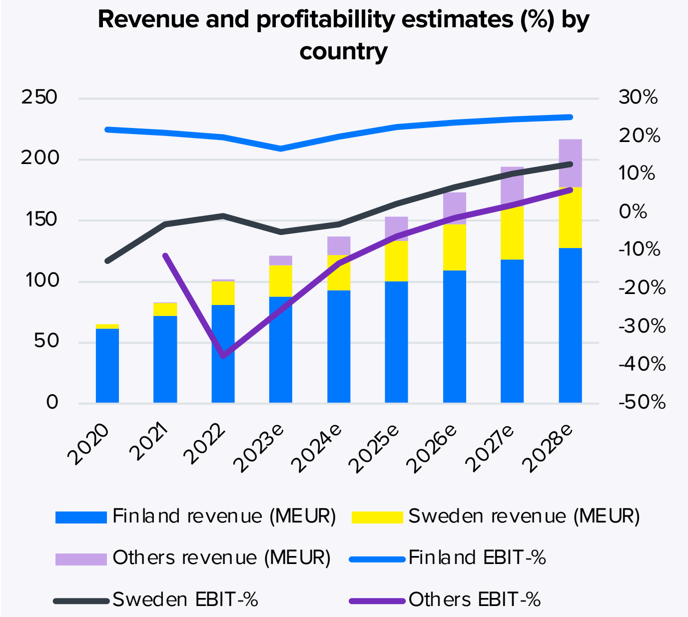
In Spain, the potential profitability is significantly lower without own systems, but at least an EBITDA margin of over 20% should be achievable in a generally well-performing country. In 2023, we expect the EBITDA margin for Spain to be in the range of -10%, so here the potential for improvement would be around 30 percentage points as scale and efficiency increase. In absolute euros, this would be around 4.5 MEUR with the 2024 revenue forecast (some 15 MEUR). In Spain, growth will be both organic and inorganic, making the situation even more complex.

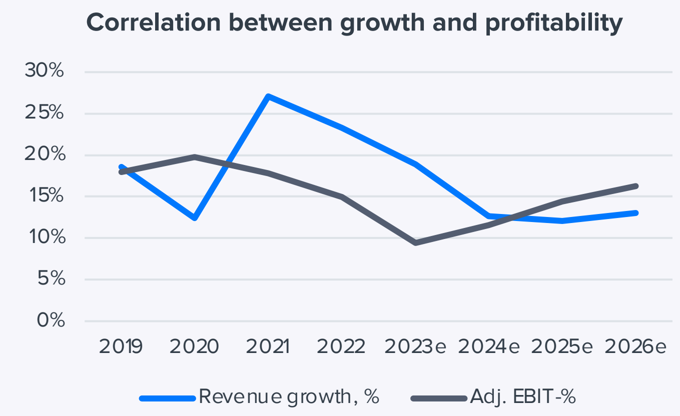
As a whole we can roughly estimate that the potential for earnings improvement in international businesses in the transition stage is at least 15 MEUR over the next five years. Talenom's 2023 EBITDA is over 30 MEUR, to which the potential profit improvement can be compared. At the same time, we emphasize that our forecasts do not rely on the realization of the profitability improvements indicated by Talenom. Our own expectations, which we address in the country-specific sections, are significantly lower.

Earnings growth outlook is excellent

Although the above mentioned potential should be viewed very critically without proof of profitability improvements and organic growth abroad, Talenom's medium-term earnings growth outlook is excellent. Focus shifting from growth back to profitability and resulting soft efficiency measures will be reflected in the profitability of the Finnish business in 2024. In Sweden, next year will be difficult due to the heavy software implementation, but in Spain the profitability trend is clearly positive (from a very low starting level).

Historically, Talenom has often grappled between growth and profitability. It is practically impossible to achieve both in the short term, but by changing focus results have been gained in both directions (see graph). Now the focus has shifted strongly toward profitability, and we expect results in 2024 especially in Finland.





Group forecasts 3/3

The earnings growth we forecast from the exceptionally weak performance in 2023 is very strong in the coming years. However, it should be noted that the EPS forecast for 2023 of EUR 0.14 is below the 2018 level (EUR 0.15). Talenom's revenue was 48.9 MEUR in 2018, while this year the level is over 120 MEUR. This reflects how weak Talenom's profitability is at the moment relative to the company's performance and, on the other hand, how poor the earnings level for 2023 really is.

We would approach Talenom's earnings growth outlook for the coming years through two critical factors: 1) increase in revenue and 2) change in EBIT margin. Revenue growth in the next few years will be mostly organic (acquisitions will continue only in Spain), and especially abroad, new customer acquisition will also be critical proof of Talenom's business model working. We expect that Talenom's revenue will grow by 12-13% annually in 2024-2027, as the company focuses on and invests in organic growth also in Sweden and Spain. This naturally provides a good basis for earnings growth.

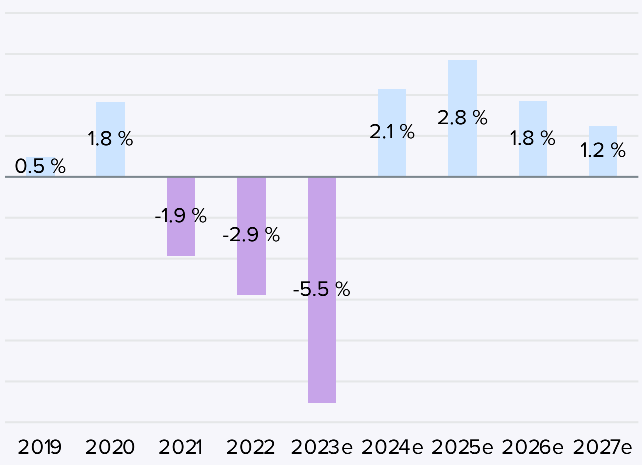
In terms of the EBIT margin, we expect the three-year downward trend to break next year, and the EBIT margin to improve by 2.1 percentage points. We expect profitability to recover to 'normal' levels in Finland as efficiency improves and recover in Spain as the share of fixed costs decreases. In 2025, we also expect the first significant improvement in Sweden, which should become a significant earnings driver for 2026-2027. The EBIT margin improvement naturally provides a significant lever for EPS growth, which thus increases strongly in 2024-2027.

Return on equity will recover with profitability

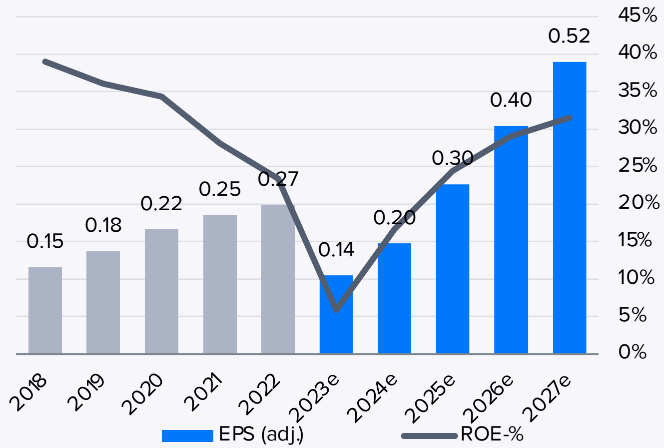
Talenom's return on equity has historically been at an excellent level of 30-40%. The collapse in profitability in recent years has hit the return on equity strongly, and investments in international growth have also been heavy. From the pathetic level of 2023, at which creation of shareholder value can be questioned, the company will improve strongly in the coming years.

Investments will decrease significantly as acquisitions decrease, and at the same time earnings growth will be strong as profitability improves. However, the company will not return to its previous level of over 30% in our forecasts until 2027, reflecting the investments required by international growth. In any case, we expect Talenom to return to the group of companies that create clear shareholder value already next year and the pace to accelerate significantly from there on.

Change in EBIT margin (y/y, %)



Earnings growth (EPS) and ROE-%



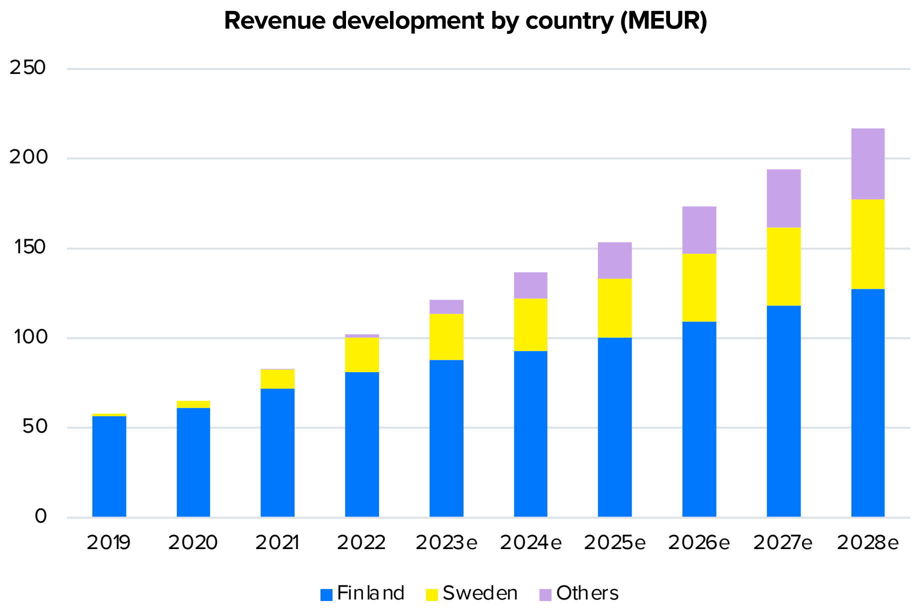
Income statement

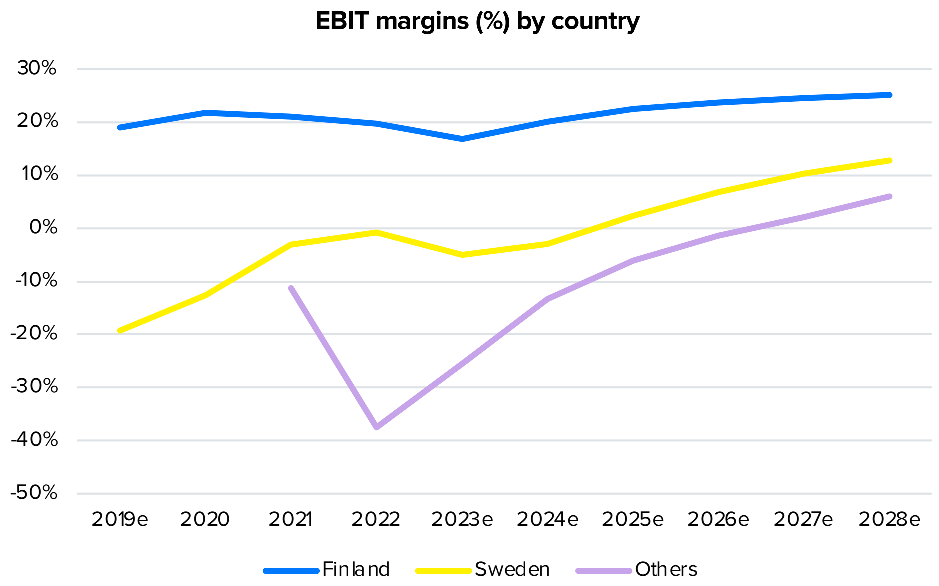
Income statement	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23	Q3'23	Q4'23e	2023e	2024e	2025e	2026e
Revenue	**82.8**	**25.2**	**27.0**	**23.6**	**26.3**	**102**	**31.3**	**32.4**	**28.3**	**29.4**	**121**	**137**	**153**	**173**
Finland	71.8	21.0	21.4	18.8	19.8	81.0	23.4	23.3	20.3	20.8	87.8	92.8	100	109
Sweden	10.7	4.0	5.3	4.3	5.8	19.4	6.7	7.3	5.5	6.0	25.6	29.2	32.9	37.8
Other countries	0.4	0.3	0.3	0.4	0.7	1.7	1.2	1.8	2.5	2.5	8.0	14.8	20.1	26.2
EBITDA	**27.7**	**8.9**	**9.3**	**7.3**	**7.0**	**32.4**	**8.4**	**8.9**	**7.6**	**7.6**	**32.5**	**38.7**	**45.9**	**53.4**
Depreciation	-12.9	-4.0	-4.2	-4.2	-4.8	-17.1	-4.9	-5.2	-8.4	-5.7	-24.2	-22.9	-23.8	-25.2
EBIT (excl. NRI)	**14.8**	**4.9**	**5.1**	**3.1**	**2.2**	**15.3**	**3.5**	**3.7**	**2.4**	**1.9**	**11.4**	**15.8**	**22.1**	**28.2**
EBIT	**14.8**	**4.9**	**5.1**	**3.1**	**2.2**	**15.3**	**3.5**	**3.7**	**-0.8**	**1.9**	**8.3**	**15.8**	**22.1**	**28.2**
Finland	15.1	4.8	4.8	3.3	3.1	16.0	4.1	4.0	3.5	3.2	14.8	18.7	22.5	25.9
Sweden	-0.3	0.1	0.4	-0.2	-0.5	-0.1	0.2	-0.1	-0.7	-0.7	-1.3	-0.9	0.8	2.6
Other countries	0.0	-0.1	-0.1	0.0	-0.5	-0.6	-0.6	-0.5	-0.4	-0.6	-2.0	-2.0	-1.2	-0.4
Unallocated	0.0	0.0	0.0	0.0	0.0	0.0	-0.3	0.2	-3.2	0.0	-3.2	0.0	0.0	0.0
Net financial items	-0.8	-0.1	-0.1	-0.3	-0.2	-0.7	-0.7	-0.8	-1.1	-1.0	-3.6	-4.0	-4.0	-3.9
PTP	**14.0**	**4.7**	**5.1**	**2.8**	**2.0**	**14.6**	**2.7**	**2.9**	**-1.9**	**0.9**	**4.7**	**11.8**	**18.1**	**24.3**
Taxes	-3.2	-1.0	-1.0	-0.6	-0.1	-2.8	-0.7	-0.7	0.2	-0.2	-1.4	-2.7	-4.0	-5.3
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings	**10.8**	**3.7**	**4.1**	**2.2**	**1.8**	**11.8**	**2.1**	**2.2**	**-1.7**	**0.7**	**3.2**	**9.1**	**14.1**	**18.9**
EPS (adj.)	**0.25**	**0.09**	**0.09**	**0.05**	**0.04**	**0.27**	**0.05**	**0.05**	**0.03**	**0.02**	**0.14**	**0.20**	**0.30**	**0.40**
EPS (rep.)	**0.25**	**0.09**	**0.09**	**0.05**	**0.04**	**0.27**	**0.05**	**0.05**	**-0.04**	**0.02**	**0.07**	**0.20**	**0.30**	**0.40**

Key figures	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23	Q3'23	Q4'23e	2023e	2024e	2025e	2026e
Revenue growth-%	27.1 %	24.1 %	26.2 %	21.7 %	21.1 %	23.3 %	24.2 %	20.1 %	20.0 %	11.6 %	18.9 %	12.6 %	12.1 %	13.0 %
Adjusted EBIT growth-%	14.6 %	10.1 %	24.0 %	-10.1 %	-21.2 %	3.4 %	-28.9 %	-28.6 %	-22.3 %	-12.1 %	-25.0 %	38.3 %	39.6 %	27.5 %
EBITDA-%	33.4 %	35.2 %	34.4 %	30.8 %	26.4 %	31.7 %	26.7 %	27.3 %	27.0 %	26.0 %	26.8 %	28.3 %	29.9 %	30.8 %
Adjusted EBIT-%	17.8 %	19.3 %	19.0 %	13.0 %	8.4 %	15.0 %	11.0 %	11.3 %	8.4 %	6.6 %	9.4 %	11.6 %	14.4 %	16.3 %
Net earnings-%	13.0 %	14.9 %	15.0 %	9.2 %	7.0 %	11.6 %	6.6 %	6.7 %	-6.0 %	2.4 %	2.7 %	6.7 %	9.2 %	10.9 %

Source: Inderes

Estimates and estimate revisions





Estimate revisions	2023e	2023e	Change	2024e	2024e	Change	2025e	2025e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	123	121	-1%	141	137	-3%	164	153	-7%
EBITDA	32.3	32.5	1%	38.8	38.7	0%	44.3	45.9	4%
EBIT (exc. NRIs)	11.6	11.4	-1%	17.0	15.8	-7%	23.8	22.1	-7%
EBIT	8.4	8.3	-1%	17.0	15.8	-7%	23.8	22.1	-7%
PTP	4.8	4.7	-3%	13.0	11.8	-9%	19.7	18.1	-8%
EPS (excl. NRIs)	0.14	0.14	-2%	0.22	0.20	-11%	0.33	0.30	-9%
DPS	0.18	0.18	0%	0.19	0.19	0%	0.20	0.20	0%

Source: Inderes

Note to estimate revisions

For the first time, we have modeled Talenom by country, which makes it difficult to open estimate revisions precisely. We have focused on opening the background to current forecasts. In the future, it will be easy to follow the changes, assuming that the modeling method remains the same.

Valuation 1/4

2023 was a crossroads in the growth story

Talenom's costly growth investments over the last ten years have already created significant value. The results are visible in Finland, but the huge investments in international growth have so far produced little more than expenses. Although earnings growth involves significant uncertainty, especially abroad, we are very confident in a significant earnings improvement in the medium term. In this sense, 2023 is a significant crossroads where the company turns back toward profitability after an aggressive growth phase.

The equity story of Talenom has many attractive elements and opportunities that few listed companies in Helsinki have. The business is mainly recurring and defensive, profitability is quite scalable and competitive advantages are strong in the SME sector selected by the company, as evidenced by the still excellent profitability in Finland. The company has a strong position in the transforming accounting services industry, and we estimate Talenom to be one of the future winners, at least in Finland. The abundant cash flow from Finland has been invested in international growth, which opens realistic prospects for success in the European market as well in the long term.

Overall, the risk profile is reasonable

As a whole, we consider the risk profile of Talenom's core business low, because the efficiency of the automated accounting system and the scabality of the business has been proven in Finland. However, as far as internationalization is concerned, the company still has a lot to prove, since the success of Talenom's approach has yet to be demonstrated in Sweden or elsewhere in Europe. This clearly raises the overall risk profile of Talenom, which is, however, still reasonable. The historically high valuation risk has been reduced considerably as the share price fell very sharply from its peak of last year. However, the valuation still contains expectations of strong earnings growth in the coming years, but we believe these expectations are realistic.

Sum of the parts included in the valuation

Talenom has historically been a fast-growing company with excellent return on capital, but especially with strong international growth, earnings growth has temporarily reversed and returns on capital decreased. When Finland generates the Group's earnings and others destroy it, the image reflected by the valuation multiples does not give value to the international business. Thus, the valuation multiples for the next few years abandon the entire potential of the international business, which we believe in in the medium term.

The situation can be assessed by looking at valuation multiples at a longer perspective or by comparing the valuation multiples to the expected earnings growth in the coming years, but there is significant uncertainty about the slope of earnings growth. Therefore, we have now also examined Talenom's valuation by evaluating the values of its businesses by country and making the sum of the parts calculation a significant part of the valuation.

Factors affecting the acceptable valuation of Talenom

- About 70% of Talenom's revenue are recurring monthly billing and some 30% is volume-based (e.g. payroll), which is also largely recurring. This reflects the very defensive nature of the business and the market.
- Mainly thanks to the recurring revenue and the defensiveness of the industry, the visibility to the development of the core business is generally very good. Challenges have been caused by acquisitions and internationalization.
- Talenom is one of the winners of the industry's transformation through its competitive advantages that are based on scale and its operating model, and grows clearly faster than the market.
- Talenom's profitability will scale up as the degree of accounting automation continues to rise. 2021-2023 are gap years for scalable profitability because the company has been exceptionally active in M&A and expanded strongly internationally.
- The accounting services sector is one of the most defensive sectors on Nasdaq Helsinki, as accounting is statutory for all companies. Therefore, Talenom's risk profile is also low in principle, but now risks are elevated by internationalization projects.
- Talenom is one of the clear pioneers of the Finnish accounting services market, which is why we believe it deserves a clear premium relative to the overall valuation level of the industry (barring software companies).
- Talenom's new openings create new growth opportunities for the company, and the company also has an interesting internationalization strategy, which considerably increases its long-term potential.

Valuation 2/4

Valuation through book values

A simple way to perceive Talenom's valuation is to give Sweden and Spain their book value, and allocate the remaining enterprise value to Finland. In this case, we assume in terms of the international business only that Talenom has not destroyed shareholder value with its acquisitions. This should be a relatively safe assumption, as the majority of acquisitions were made at a very reasonable valuation levels and there should be buyers for the businesses in a consolidating industry. In practice, the remaining risk is that Talenom would cause permanent disadvantages to companies when changing the operating methods.

We estimate that the book value of Sweden will be approximately 38 MEUR at the end of 2023. This is calculated from the 2022 value (33 MEUR) and from the new acquisitions that the company has made in Sweden this year. The value is not exact, but it should provide a reasonable basis for the examination. For the Other countries segment, the logic is the same, and our estimate is approximately 24 MEUR at the end of 2023. Talenom's debt-free enterprise value (EV) is around 347 MEUR (at a EUR 6.00 share price), which leaves 285 MEUR for the Finnish business .

We predict that Finland's EBIT will be 28.7 MEUR in 2024, which means Finland's EV/EBIT would be approximately 15x with the remaining value. We think this is reasonable, considering that it is a business with strong moats in a defensive industry and the business continues to grow moderately (5-10% organically). This strengthens our view that Talenom's valuation is not unreasonable. We note out of interest that Talenom's book value for Finland was approximately 65 MEUR at the end of 2022.

Sum-of-the-parts calculation

In the actual sum of the parts calculation, we aim to determine the true value for all relevant parts. In the case of both Sweden and Spain, we must look far into the future in the valuation to obtain a sensible earnings-based multiple. We present 2025-2027 for both, but will rely especially on 2026.

Due to the considerable uncertainty associated with the forecasts and the long time horizon, the use of a high required return is justified. Talenom itself uses very high discount rates (WACC) for both Sweden (17.5%) and Spain (19.3%) in its impairment test in the 2022 annual report. Values should not be taken out of context, but they still provide an indication. Here we use a required return of 15% for Sweden and 18% for Spain, and we define EV/EBITDA 11x as a neutral ratio for Sweden and 14x for Spain with 2026 estimates. Both should still be in a strong growth phase at that time, but in Spain the trajectory would still be in the initial stages.

As a result, the EV for Sweden is approximately 45 MEUR and for Spain approximately 27 MEUR by 2024 discounted by the required return. The values are slightly higher than Talenom's book values. We believe this reflects the current weak profitability of the businesses, the long delay in improvements typical of the industry and, on the other hand, our rather moderate forecasts for the coming years.

Sweden	2025e	2026e	2027e
Revenue (MEUR)	32.9	37.8	43.5
EBITDA (MEUR)	3.7	5.7	7.8
EBIT (MEUR)	0.8	2.6	4.5
EV/EBITDA ratio (x)	12.0	11.0	10.0
EV/EBIT ratio (x)	55.0	24.1	17.4
EV/S ratio (x)	1.3	1.7	1.8
EV (MEUR)	43.8	62.4	78.3
Required return	15 %	15 %	15 %
Value 2024e	37.3	45.1	48.1

Source: Inderes

Spain	2025e	2026e	2027e
Revenue (MEUR)	20.1	26.2	32.7
EBITDA (MEUR)	1.7	2.9	4.3
EBIT (MEUR)	-1.2	-0.4	0.7
EV/EBITDA ratio (x)	16.0	14.0	12.0
EV/EBIT ratio (x)	-	-	73.6
EV/S ratio (x)	1.4	1.5	1.6
EV (MEUR)	27.4	40.3	51.0
Required return	18 %	18 %	18 %
Value 2024e	22.5	27.1	28.1

Source: Inderes

Valuation 3/4

In our view, the value of the Finnish operations is in a straightforward manner EV/EBIT 16x with the 2024 earnings estimate, i.e. approximately 298 MEUR. We believe the total value of the sum of the parts is around 370 MEUR, while we are still talking about EV. At the end of 2023, we estimate that Talenom's net interest-bearing liabilities will be approximately 72 MEUR, and deducting them the market cap is around 300 MEUR Per share, this means approximately EUR 6.5. There are a lot of uncertainties in the calculation, but we estimate that it gives a reasonable picture of how the value of Talenom's stock is distributed at the moment. In Finland, the value is relatively concrete, whereas in the international business it is mainly based on future potential.

Valuation multiples

The P/E ratio adjusted for the weak performance in 2023 is high at above 40x and the adjusted EV/EBIT is over 30x. Investors get no support from these, so the valuation requires confidence in the company's profitability and earnings turn materializing. However, we are highly confident that the result will recover next year and the company will again have a strong earnings growth driver. Then the valuation multiples will also look significantly better, although we no longer think the company is in the actual bargain bin. With 2024 forecasts, P/E is a good 30x and EV/EBIT is good 22x. We feel the ratios are justified in the current situation, but not particularly attractive. So, the turnaround is already priced in the stock.

If we look forward one year from now (as you should with a 12-month target price), we are looking at 2025 multiples. By then, the earnings growth machine is fired up and the multiples for the next year would be quite attractive (2025e P/E 20x and EV/EBIT 16x), considering that internationally Talenom's story is only beginning. Although visibility to 2025 is still extremely low, we believe that Talenom's EBIT margin will slowly rise at least to around 15% (2020: 19.8%), as the fruits of international growth begin to ripen. With this in mind, 2025 profitability remains subdued (EBIT estimate 14.4%) and there is a lot of unpriced potential.

Cash flow

Although Talenom does not generate much free cash flow when investing heavily in growth, next year we expect operating cash flow to be about 37 MEUR and also free cash flow to turn slightly positive. Relative to this, the current EV of approximately 300 MEUR still sounds rather moderate This is also indicated by the EV/EBITDA ratio that is a low 9x for next year. EBITDA is also a relatively good indicator of the company's operating cash flow in the longer term, which the company still generates abundantly.

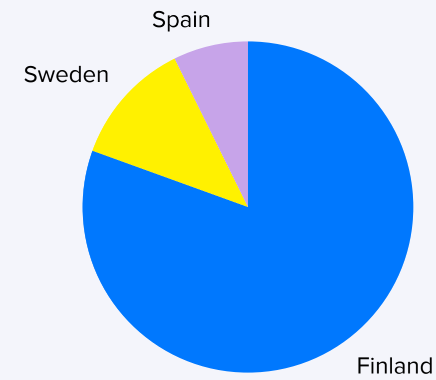
However, the cash flow of Talenom's operations has been criticized, and we believe that this is justified at least in part (e.g. customer acquisition capitalizations and IFRS16 in the cash flow for financing). As acquisitions decrease, we estimate that the net impact of possible adjustments will eventually be relatively small in the coming years. This is because the investment/depreciation balance will improve significantly and problematic items no longer grow strongly in our balance sheet forecasts. If we were to make adjustments to cash flow now, we would also have to consider these on the depreciation side, which makes the matter complex. It is clear, however, that measured with the free cash flow of the next few years, Talenom is expensive.

Sum of the parts

Finland (EV)	298	MEUR
Sweden (EV)	45	MEUR
Spain (EV)	27	MEUR
Interest-bearing net debt (2023e)	72	MEUR
Market cap	299	**MEUR**
Number of shares (2023e)	45,8	Millions
Per share value	6,5	**EUR**

Source Inderes

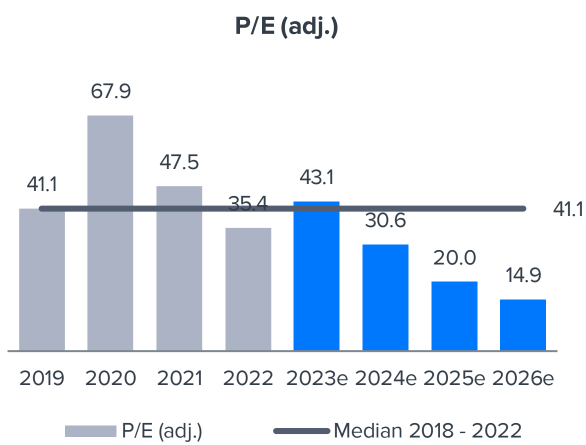
Distribution of the current value of the business

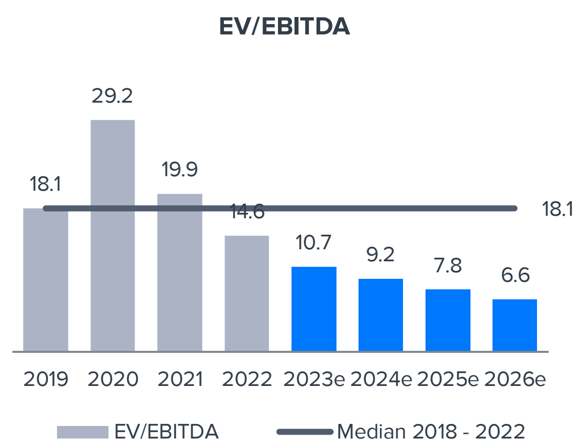


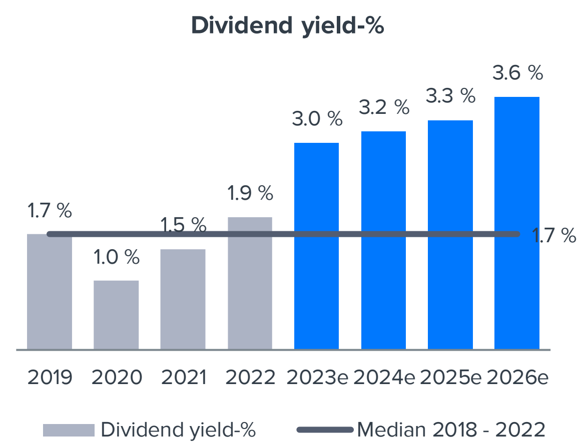
Valuation table

Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price	3.18	7.50	15.1	11.7	9.39	**6.03**	**6.03**	**6.03**	**6.03**
Number of shares, millions	41.2	41.7	43.2	43.8	44.5	**45.8**	**46.3**	**46.8**	**46.8**
Market cap	131	313	650	512	420	**276**	**279**	**282**	**282**
EV	149	342	679	552	475	**348**	**356**	**359**	**353**
P/E (adj.)	20.6	41.1	67.9	47.5	35.4	**43.1**	**30.6**	**20.0**	**14.9**
P/E	20.6	41.1	67.9	47.5	35.4	**85.2**	**30.6**	**20.0**	**14.9**
P/B	7.0	13.3	20.2	11.5	7.5	**5.1**	**5.1**	**4.7**	**4.0**
P/S	2.7	5.4	10.0	6.2	4.1	**2.3**	**2.0**	**1.8**	**1.6**
EV/Sales	3.1	5.9	10.4	6.7	4.6	**2.9**	**2.6**	**2.3**	**2.0**
EV/EBITDA	10.9	18.1	29.2	19.9	14.6	**10.7**	**9.2**	**7.8**	**6.6**
EV/EBIT (adj.)	17.5	32.8	52.7	37.4	31.1	**30.4**	**22.5**	**16.3**	**12.5**
Payout ratio (%)	59.4 %	68.4 %	67.7 %	69.0 %	68.3 %	**254.2 %**	**96.5 %**	**66.2 %**	**54.3 %**
Dividend yield-%	2.9 %	1.7 %	1.0 %	1.5 %	1.9 %	**3.0 %**	**3.2 %**	**3.3 %**	**3.6 %**

Source: Inderes







Valuation 4/4

Relative valuation

Talenom does not have particularly good peers but Aallon Group and Administer represent the same industry with a more traditional model and Admicom also operates in the same field. The valuation levels of Aallon Group and Administer are low compared to Talenom, but, on the other hand, we consider Talenom's competitive advantage and earnings growth outlook clearly stronger. We feel Aallon Group is priced as a defensive service company (2024e P/E 13x and EV/EBIT 11x), and we consider the company's pricing attractive. In the end, a relatively small share of Administer's business is accounting business, and the group's earnings development has been subdued since the listing. Administer is priced as a turnaround company, and compared to Talenom the volume-based multiples are particularly low. In addition, ECIT AS that offers IT services and business solutions (like ERP and CRM) in addition to accounting services is listed in Norway.

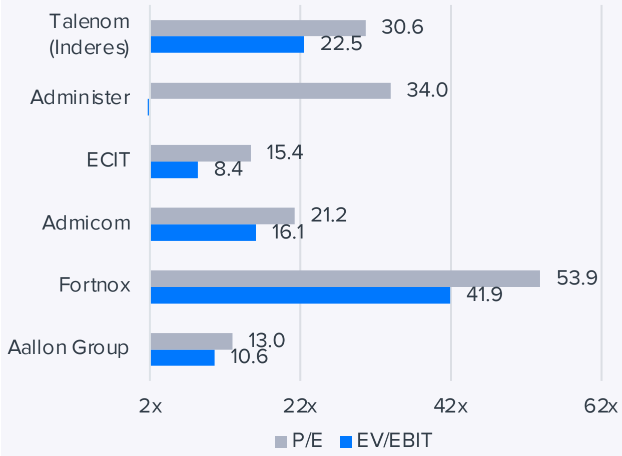
Admicom and Fortnox are interesting companies considering Talenom's technological side, but they are SaaS companies. Talenom does not sell software, and the company's hybrid strategy is quite unique in the stock market landscape. In any case, Admicom's valuation is currently significantly lower than Talenom's with the multiples for the next few years. Admicom's 2024e adjusted P/E is around 21x and adjusted EV/EBIT 16x, which gives a warning signal to Talenom's valuation despite the company's great international potential. Fortnox's valuation is still clearly higher than Talenom's, but the company's financial success and outlook are also very convincing.

DCF calculation

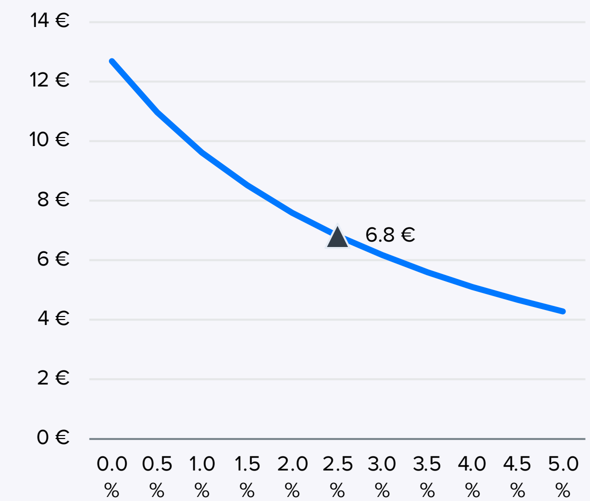
Our cash flow calculation (DCF) plays a very important role for Talenom today, as it enables us to capture the long-term potential of the company. Forecasting is particularly difficult in the long term, but in a scenario that we consider realistic and moderate in terms of international success, we reach a DCF value of approximately EUR 6.8. Value is strongly driven by assumptions concerning long-term growth and profitability, which is essentially influenced by the success of internationalization. If Finland's success could be repeated abroad, our assumptions would be very low.

We have set the growth outlook for the terminal period at 3.0% and assumed that the EBIT margin would be 15.0%, which is low relative to the peaks but requires the strong competitive advantage to withstand the industry's transformation. In the calculation, we have used 9.3% as the cost of equity, which is a relatively high and the WACC is 8.4%. These reflect, in particular, the considerable uncertainty associated with internationalization. As interest rates have made a downturn, the risks in required returns seem to already point downward, and Talenom is sensitive to these changes (see graph). The weight of the terminal (70%) is high, highlighting the risks when the share price is at the level of the DCF value, but also partly reflects the perseverance required in the business.

Valuation multiples of the peer group (2024e)



Sensitivity of the DCF value to changes in the risk-free interest rate



Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%	
Company	**MEUR**	**MEUR**	**2023e**	**2024e**	**2023e**	**2024e**	**2023e**	**2024e**	**2023e**	**2024e**	**2023e**	**2024e**
Aallon Group	41	45	12.0	10.6	8.1	7.2	1.4	1.3	14.3	13.0	2.1	2.2
Fortnox	3239	3223	54.6	41.9	43.6	27.5	21.7	17.4	70.8	53.9	0.2	0.3
Admicom	220	213	16.1	16.1	15.9	15.9	6.2	6.1	21.1	21.2	2.3	2.3
ECIT	236	317	11.1	8.4	6.8	5.3	1.0	0.9	22.7	15.4	1.3	1.3
Administer	34	46			11.5	10.2	0.6	0.6		34.0	0.8	2.7
Xero	10295	10295	262	82	66	38	12.8	10.6	593	115		
Enento	448	593	16.2	13.9	11.1	9.8	3.8	3.7	18.6	15.4	5.3	5.5
Fondia	25	20	9.9	8.5	7.7	6.5	0.8	0.7	15.7	14.0	4.7	4.7
Vincit	52	42	11.8	7.6	18.7	6.6	0.4	0.4	17.9	13.1	3.2	4.8
Gofore	359	336	13.4	12.1	12.2	11.0	1.8	1.6	17.9	17.0	1.9	2.2
Etteplan	343	410	12.6	11.5	9.1	7.7	1.2	1.1	15.5	14.2	2.4	2.9
Talenom (Inderes)	**276**	**348**	**30.4**	**22.5**	**10.7**	**9.2**	**2.9**	**2.6**	**43.1**	**30.6**	**3.0**	**3.2**
Average			**42.0**	**21.3**	**19.1**	**13.2**	**4.7**	**4.0**	**80.7**	**29.7**	**2.4**	**2.9**
Median			**13.0**	**11.8**	**11.5**	**9.8**	**1.4**	**1.3**	**18.3**	**15.4**	**2.2**	**2.5**
Diff-% to median			***134%***	***91%***	***-7%***	***-6%***	***109%***	***107%***	***136%***	***99%***	***37%***	***26%***

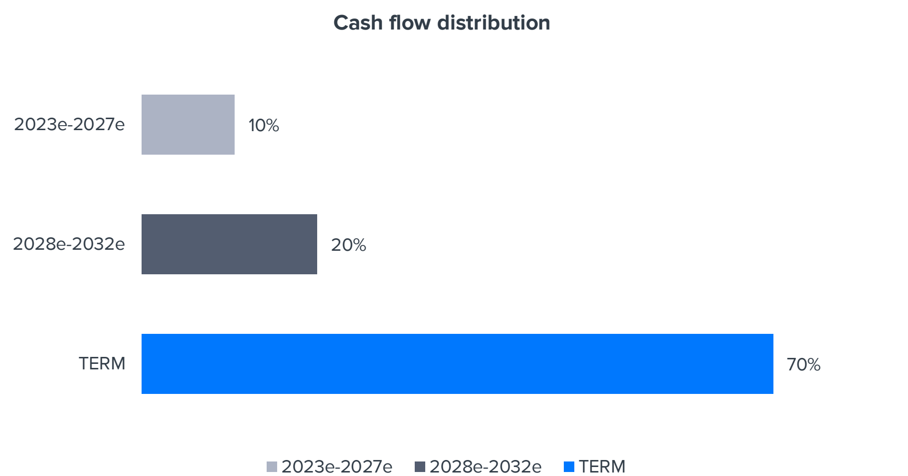
Source: Refinitiv / Inderes

DCF calculation

DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue growth-%	23.3 %	18.9 %	12.6 %	12.1 %	13.0 %	13.0 %	10.0 %	7.0 %	5.0 %	5.0 %	3.0 %	3.0 %
EBIT-%	15.0 %	6.8 %	11.6 %	14.4 %	16.3 %	17.5 %	17.0 %	16.0 %	15.5 %	15.0 %	15.0 %	15.0 %
EBIT (operating profit)	**15.3**	**8.3**	**15.8**	**22.1**	**28.2**	**34.3**	**36.6**	**36.9**	**37.5**	**38.1**	**39.3**	
+ Depreciation	17.1	24.2	22.9	23.8	25.2	26.2	27.6	28.7	30.1	31.4	32.5	
- Paid taxes	-2.1	-0.4	-2.7	-4.0	-5.3	-6.9	-7.4	-7.6	-7.8	-8.0	-8.2	
- Tax, financial expenses	-0.1	-1.1	-0.9	-0.9	-0.9	-0.7	-0.7	-0.6	-0.5	-0.5	-0.5	
+ Tax, financial income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	
- Change in working capital	0.2	2.9	1.6	1.7	2.1	2.4	2.1	1.6	1.2	1.3	0.8	
Operating cash flow	**30.4**	**33.9**	**36.7**	**42.8**	**49.3**	**55.3**	**58.2**	**59.0**	**60.6**	**62.4**	**63.9**	
+ Change in other long-term liabilities	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-44.9	-44.4	-30.2	-31.2	-30.2	-30.0	-36.2	-33.9	-34.0	-35.6	-35.3	
Free operating cash flow	**-13.8**	**-10.5**	**6.5**	**11.6**	**19.1**	**25.4**	**22.0**	**25.1**	**26.6**	**26.9**	**28.6**	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	-13.8	-10.5	6.5	11.6	19.1	25.4	22.0	25.1	26.6	26.9	28.6	544
Discounted FCFF		**-10.4**	**6.0**	**9.8**	**15.0**	**18.3**	**14.7**	**15.5**	**15.1**	**14.1**	**13.8**	**263**
Sum of FCFF present value		375	385	379	369	354	336	321	306	291	277	263
Enterprise value DCF		**375**										
- Interest bearing debt		-70.1										
+ Cash and cash equivalents		16.0										
-Minorities		0.0										
-Dividend/capital return		-8.1										
Equity value DCF		**313**										
Equity value DCF per share		**6.8**										

WACC	
Tax-% (WACC)	22.0 %
Target debt ratio (D/(D+E)	15.0 %
Cost of debt	4.5 %
Equity Beta	1.30
Market risk premium	4.75%
Liquidity premium	0.60%
Risk free interest rate	2.5 %
Cost of equity	**9.3 %**
Weighted average cost of capital (WACC)	**8.4 %**

Source: Inderes



Summary

Income statement	2020	2021	2022	2023e	2024e
Revenue	65.2	82.8	102.1	**121.4**	**136.8**
EBITDA	23.3	27.7	32.4	**32.5**	**38.7**
EBIT	12.9	14.8	15.3	**8.3**	**15.8**
PTP	12.0	14.0	14.6	**4.7**	**11.8**
Net Income	9.6	10.8	11.8	**3.2**	**9.1**
Extraordinary items	0.0	0.0	0.0	**-3.2**	**0.0**

Balance sheet	2020	2021	2022	2023e	2024e
Balance sheet total	84.9	117.7	156.3	**174.6**	**185.5**
Equity capital	32.2	44.7	56.0	**54.3**	**55.1**
Goodwill	24.0	37.3	55.0	**67.0**	**71.0**
Net debt	29.0	39.2	54.1	**72.1**	**77.0**

Cash flow	2020	2021	2022	2023e	2024e
EBITDA	23.3	27.7	32.4	**32.5**	**38.7**
Change in working capital	2.4	3.3	0.2	**2.9**	**1.6**
Operating cash flow	23.5	28.9	30.4	**33.9**	**36.7**
CAPEX	-22.2	-41.9	-44.9	**-44.4**	**-30.2**
Free cash flow	1.8	-11.3	-13.8	**-10.5**	**6.5**

Valuation multiples	2020	2021	2022	2023e	2024e
EV/S	10.4	6.7	4.6	**2.9**	**2.6**
EV/EBITDA (adj.)	29.2	19.9	14.6	**10.7**	**9.2**
EV/EBIT (adj.)	52.7	37.4	31.1	**30.4**	**22.5**
P/E (adj.)	67.9	47.5	35.4	**43.1**	**30.6**
P/B	20.2	11.5	7.5	**5.1**	**5.1**
Dividend-%	1.0 %	1.5 %	1.9 %	**3.0 %**	**3.2 %**

Source: Inderes

Per share data	2020	2021	2022	2023e	2024e
EPS (reported)	0.22	0.25	0.27	**0.07**	**0.20**
EPS (adj.)	0.22	0.25	0.27	**0.14**	**0.20**
OCF / share	0.54	0.66	0.68	**0.74**	**0.79**
FCF / share	0.04	-0.26	-0.31	**-0.23**	**0.14**
Book value / share	0.74	1.02	1.26	**1.19**	**1.19**
Dividend / share	0.15	0.17	0.18	**0.18**	**0.19**

Growth and profitability	2020	2021	2022	2023e	2024e
Revenue growth-%	12%	27%	23%	**19%**	**13%**
EBITDA growth-%	23%	19%	17%	**0%**	**19%**
EBIT (adj.) growth-%	24%	15%	3%	**-25%**	**38%**
EPS (adj.) growth-%	21%	11%	8%	**-47%**	**41%**
EBITDA-%	35.7 %	33.4 %	31.7 %	**26.8 %**	**28.3 %**
EBIT (adj.)-%	19.8 %	17.8 %	15.0 %	**9.4 %**	**11.6 %**
EBIT-%	19.8 %	17.8 %	15.0 %	**6.8 %**	**11.6 %**
ROE-%	34.4 %	28.1 %	23.4 %	**5.9 %**	**16.7 %**
ROI-%	19.8 %	18.0 %	13.9 %	**6.4 %**	**11.2 %**
Equity ratio	38.1 %	38.2 %	35.9 %	**31.1 %**	**29.8 %**
Gearing	90.3 %	87.7 %	96.6 %	**132.9 %**	**139.6 %**

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Recommendation history (>12 mo)

The company made 1/5 split on 2/25/2020, share and target prices adjusted

Date	Recommendation	Target	Share price
7/24/2019	Accumulate	6.00 €	5.68 €
7/30/2019	Accumulate	6.33 €	6.02 €
10/22/2019	Accumulate	6.33 €	5.67 €
1/8/2020	Reduce	7.33 €	7.42 €
2/4/2020	Reduce	7.00 €	6.97 €
2/26/2020	Accumulate	6.80 €	6.40 €
4/1/2020	Reduce	6.00 €	5.88 €
4/28/2020	Accumulate	7.50 €	7.14 €
6/15/2020	Reduce	8.20 €	8.20 €
8/4/2020	Reduce	9.00 €	9.32 €
10/27/2020	Reduce	10.00 €	10.20 €
11/19/2020	Reduce	12.00 €	12.20 €
2/9/2021	Reduce	12.00 €	12.50 €
3/2/2021	Accumulate	12.00 €	11.15 €
4/27/2021	Reduce	14.00 €	14.12 €
8/3/2021	Reduce	16.00 €	16.72 €
10/1/2021	Accumulate	15.00 €	13.98 €
11/2/2021	Accumulate	15.50 €	14.50 €
12/17/2021	Accumulate	13.50 €	11.92 €
2/9/2022	Buy	12.00 €	9.84 €
4/13/2022	Buy	12.00 €	9.99 €
4/27/2022	Buy	12.00 €	10.00 €
8/3/2022	Reduce	12.50 €	12.30 €
10/26/2022	Reduce	9.50 €	9.39 €
2/1/2023	Reduce	9.00 €	9.09 €
3/27/2023	Accumulate	9.00 €	7.69 €
4/21/2023	Accumulate	8.80 €	7.88 €
7/24/2023	Accumulate	8.00 €	6.96 €
10/13/2023	Buy	6.00 €	4.65 €
10/23/2023	Buy	6.00 €	4.70 €
12/28/2023	Accumulate	6.50 €	6.03 €

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