

TALÉNOM

EQUITY RESEARCH



Andres Gomez
Andresgomez8528@simplestockreview.com



INVESTMENT SUMMARY

Investment Summary

- Long Track record of growth
- 10% market share in Finland
- Significant territorial expansion with an addressable market of 1Billion EUR
- +30% of Shares held by insiders
- Negative sentiment due to AI accounting software
- Recurrent revenue and low churn
- Management is confident about a double-digit organic growth

Catalysts

- Profitability and growth in new markets
- E-invoicing mandate in 2025 and 2026 in Spain
- Synergies of acquisition and efficiencies of transferring clients to own Software in Sweden

Market Data

52 Week High	€6.41
52 Week Low	€4.07
Avg. 3 Month V...	0.04 MM
5 Yr Beta	1.23
Float %	66.6%

Capital Structure

Market Cap (MM)	€186.69
Enterprise Value ...	€269.46
Shares Outsta...	45.48 MM
LTM Net Debt (MM)	€82.77
LTM Net Debt/EBIT...	3.82x

Efficiency

LTM Gross Margin	37.5%
LTM EBIT Margin	9.8%
LTM ROA	4.3%
LTM ROE	7.1%
LTM ROIC	8.1%
LTM ROCE	8.2%

Valuation

Street Target Price	€5.87
NTM EV/Revenues	2.01x
NTM EV/EBITDA	7.11x
NTM P/E	22.81x
NTM MC/FCF	18.12x
LTM EV/Revenues	2.14x



Talenom Oyj was founded in 1972 in Finland, initially as a traditional accounting firm. Over the decades, the company evolved significantly, embracing digital transformation to become one of the pioneers in automated financial administration. The company went public in 2015, listing on the Helsinki Stock Exchange, which accelerated its growth. Through both organic growth and strategic acquisitions, Talenom has expanded its presence beyond Finland, establishing itself as a leading provider of accounting services in the Nordic region and other parts of Europe.

Business Model

Talenom operates primarily through a subscription-based business model, offering a suite of digital accounting and financial services tailored to small and medium-sized enterprises (SMEs). The company provides cloud-based accounting software, automated payroll services, and financial advisory, charging clients a regular fee for these services. Talenom's business model emphasizes scalability, with a strong focus on automation and efficiency to maintain profitability as it grows. Geographically, Talenom has expanded beyond its Finnish roots, with operations now extending into Sweden, Spain, and Italy, among other European countries. The company's strategy includes both organic growth and acquisitions to increase its market share in these regions.

Business Segments

Accounting services: This segment represents the largest portion of the company's revenue, contributing approximately 75% of the total.

Payroll services: This segment benefits from the company's automated systems, it accounts for around 15% of the revenue.

Advisory: The remaining 10% comes from financial advisory and other ancillary services, which provide clients with tailored financial planning and business consulting

High Recurring Revenue and Reinvestment Capacity: Talenom's 90% recurring revenue ensures stable cash flow, allowing continuous reinvestment in technology, operations, and expansion. This predictable income supports organic growth and long-term sustainability, giving the company flexibility to pursue strategic initiatives and maintain its competitive edge.

Separation of Sales and Operations: Talenom's clear separation between sales and operations enhances efficiency by allowing specialized teams to focus on their strengths. This structure makes the company more scalable, improving customer acquisition through dedicated sales efforts while maintaining high service quality through its operations team.

Geographic Expansion and Rapid Market Penetration: Talenom has successfully expanded into Sweden, Spain, and Italy, with 28% of 2023 revenue from these markets. Its fast growth, particularly via acquisitions in Spain, diversifies its revenue base and reduces dependence on the Finnish market, enabling further scalability across Europe.

Proprietary Software for Accounting Services: Talenom's in-house software offers customization and quick problem-solving, giving it flexibility to meet client needs efficiently. This control over technology allows Talenom to adapt quickly to market changes, offering superior client service compared to competitors using third-party systems.

Focus on SMEs as a Core Market: Talenom targets SMEs with revenue between €0.4 million and €40 million, a segment that often outsources accounting services. This niche focus provides a strong and growing client base, helping Talenom build stable, long-term relationships and solidify its market leadership.

Industry

Adoption Rate: The accounting software market is experiencing strong growth, with an increasing adoption of cloud-based solutions, particularly among small and medium-sized enterprises (SMEs). In 2023, the market was valued at USD 15,138.47 million and is projected to reach USD 27,201.9 million by 2032 (Global Growth Insights, 2024). The shift toward cloud solutions is driven by their accessibility, real-time updates, and cost-efficiency, allowing businesses to manage their finances remotely and streamline operations. The pandemic further accelerated this trend as companies transitioned to remote work, highlighting the need for flexible and scalable accounting tools.

Outlook and Trends: The future of the accounting software market is shaped by technological advancements, particularly the integration of Artificial Intelligence (AI), machine learning, and data analytics. These innovations automate routine tasks such as data entry and enhance financial planning through predictive analytics. Additionally, trends like open banking are simplifying financial data flow between banks and accounting systems, improving reconciliation processes. Mobile accounting solutions are also gaining traction, especially among SMEs, offering on-the-go financial management. The growing focus on regulatory compliance, driven by evolving regulations like GDPR in Europe, ensures continuous demand for updated and secure accounting software.

Industry Growth Rate: The global accounting software market is projected to grow at a CAGR of 6.73% from 2024 to 2032, expanding from USD 16,157.28 million in 2024 to USD 27,201.9 million by 2032. This growth is fueled by the increasing need for real-time financial insights, automation, and compliance with regulatory frameworks.

	Talenom Oyj	Intuit	Sage	SAP	Xero	Visma	Paychex	CBIZ	Zalaris	ADMINISTER	Fast Accounting
Gross Margins	37%	79%	92%	72%	87%	54%	70%	15%	43%	15%	69%
Operating Margings	10%	21%	19%	20%	6%	12%	40%	10%	6%	-3%	13%
Net Debt /EBITDA	2,3	0,77	1,17	- 0,33	0,21	2,50	-0,32	2,18	3,15	2,75	-13,00
NTM Market Cap/FCF	18	29	22	55	62	N/A	26,00	20,94	42,00	10,00	65,00
ROCE	8%	13%	15%	12%	4%	5%	45%	12%	9%	-6%	9,64
Shares Dilution (8years)	22%	-1%	-4%	-2%	12%	N/A	-1%	-4%	26%	N/A	N/A

The selected metrics to compare Talenom with its peers place it among the less efficient companies, both in terms of margins and capital structure. Its return on capital is within the mid-range, while share dilution has been among the highest.

Looking ahead, we expect these metrics to improve significantly over the next three years, with margins normalizing after the increased sales in Spain and Sweden. We anticipate that operations in Italy will continue to slightly depress margins. This margin expansion will positively impact the Net Debt/EBITDA ratio, bringing it below 2 times.

Additionally, the company has not yet reached the scale required to fully maximize its margins. Given that its value-added business model is labour-intensive, gross margins have a certain limit, making comparisons with companies like Visma or Administer more appropriate.

In conclusion, the current negative position compared to peers is primarily due to the company's territorial expansion into new countries.

Chief Executive Officer (CEO): Otto-Pekka Huhtala

Otto-Pekka Huhtala has been with Talenom since 2002 and has held various roles, including business development and management positions. He became the CEO in 2019 after serving as deputy CEO from 2016 to 2019. He holds a master's degree in economics and has played a pivotal role in the company's expansion and growth strategy over the years.

Chief Financial Officer (CFO): Matti Eilonen

Matti Eilonen has been with Talenom since 2002 and was appointed CFO in 2022. He has extensive experience in finance, administration, and business development, having previously served as Group Financial Controller. Eilonen has played a significant role in overseeing the company's financial operations as it continues to expand across Europe.

Chairman- Harri Tahkola

Harri Tahkola has been the Chairman of the Board since 2017 and has been a member of the board since 1998. Tahkola has a long history with Talenom, having previously served as its CEO from 2003 to 2016. His deep experience with the company and his leadership on the board help shape Talenom's strategic direction.

Basis for Stock Based Compensation

- Operating Profit
- Internationalization
- Value-added services as % of net sales
- Net sales

VALUATION

Pesimistic Scenario

	2024e	2025e	2026e	2027e	2028e	5 Year CAGR
FCF/Per Share Estimate	0,77	0,84	0,90	0,98	1,05	6%
Price Target	£3,87	£4,18	£4,52	£4,88	£5,27	5%

Moderate Scenario

	2024e	2025e	2026e	2027e	2028e	5 Year CAGR
FCF/Per Share Estimate	0,91	0,98	1,06	1,14	1,23	6%
Price Target	£8,15	£8,80	£9,51	£10,27	£11,09	22%

Optimistic Scenario

	2024e	2025e	2026e	2027e	2028e	5 Year CAGR
FCF/Per Share Estimate	0,96	1,11	1,28	1,47	1,69	12%
Price Target	£9,64	£11,09	£12,76	£14,67	£16,87	33%

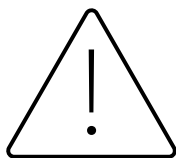
CONCLUSION

This investment has the characteristics of a compounder, so it is important to ensure that the decline is solely related to macroeconomic factors and not due to a loss of competitive advantages. Performance in Sweden is crucial for understanding the company's efficiency and operational excellence, as strong performance in Sweden over the coming years could provide valuable experience when expanding into Spain.

The catalysts are medium to long term, as the mandatory implementation of e-invoicing in Spain in 2025-2026 could face delays. Finally, a recovery in European macroeconomic dynamics could lead to an acceleration in sales growth and operational leverage.

The company already went through a period of decline in Finland in 2015 due to macroeconomic factors, but since then, its growth has been impressive. The industry benefits from tailwinds that, although they could be disrupted by artificial intelligence, still require professional oversight in sensitive areas like corporate accounting. Thus, the threat from AI is fairly limited, which strengthens the investment thesis, as the current stock price depression is not due to the company's decline but rather to temporary setbacks during a crisis, margin compression from territorial expansion, and pessimism from investors fueled by AI competition.

DISCLAIMER



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