

TALENOM PLC BUSINESS REVIEW JANUARY–SEPTEMBER 2021 (UNAUDITED): NET SALES GROWTH ACCELERATED AND PROFITABILITY WAS EXCELLENT

1 January–30 September 2021

Talenom is an agile and progressive accounting firm established in 1972. Our business idea is to make day-to-day life easier for entrepreneurs with the easiest-to-use digital tools on the market and highly automated services. In addition to comprehensive accounting services, we support our customers' business with a wide range of expert services as well as financing and banking services. Our vision is to provide unbeatable accounting and banking services for SMEs.

Talenom has a history of strong growth – the average annual increase in net sales was approximately 15.5% between 2005 and 2020. In January-September 2021, Talenom had on average 1,001 (853) employees in Finland and Sweden, at a total of 63 locations. Talenom's share is quoted on the main market of Nasdaq Helsinki.



TALENOM

yritykselämän iloa

TALENOM PLC BUSINESS REVIEW JANUARY–SEPTEMBER 2021 (UNAUDITED): NET SALES GROWTH ACCELERATED AND PROFITABILITY WAS EXCELLENT

JANUARY-SEPTEMBER 2021 IN BRIEF:

- Net sales EUR 61.1 million (48.7), growth 25.4% (13.1%)
- EBITDA EUR 21.1 million (18,2), 34.5% (37.4%) of net sales
- Operating profit (EBIT) EUR 12.0 million (10.5), 19.6% (21.5%) of net sales
- Net profit EUR 8.9 million (7.8)
- Earnings per share EUR 0.21 (0.18)
- Talenom's 2021 guidance remains unchanged: Net sales for 2021 are expected to amount to EUR 80–84 million and operating profit is expected to be EUR 14–16 million.

KEY FIGURES JANUARY-SEPTEMBER 2021

Group	1-9/2021	1-9/2020	Change
Net sales, EUR 1,000	61,052	48,698	12,354
Net sales growth, %	25.4%	13.1%	12.2 percentage points
EBITDA, EUR 1,000	21,077	18,231	2,846
EBITDA of net sales, %	34.5%	37.4%	-2.9 percentage points
Operating profit, EUR 1,000	11,996	10,456	1,540
Operating profit of net sales, %	19.6%	21.5%	-1.8 percentage points
Return on investment (ROI), % (rolling 12 months)	17.8%	18.5%	-0.6 percentage points
Liquid assets, EUR 1,000	8,625	7,681	945
Earnings per share, EUR	0.21	0.18	0.02
Net profit, EUR 1,000	8,941	7,776	1,164

KEY FIGURES JULY-SEPTEMBER 2021

Group	7-9/2021	7-9/2020	Change
Net sales, EUR 1,000	19,364	14,845	4,519
Net sales growth, %	30.4%	10.0%	20.5 percentage points
EBITDA, EUR 1,000	6,679	5,799	880
EBITDA of net sales, %	34.5%	39.1%	-4.6 percentage points
Operating profit, EUR 1,000	3,445	3,144	301
Operating profit of net sales, %	17.8%	21.2%	-3.4 percentage points
Return on investment (ROI), % (rolling 12 months)	17.8%	18.5%	-0.6 percentage points
Liquid assets, EUR 1,000	8,625	7,681	945
Earnings per share, EUR	0.06	0.05	0.00
Net profit, EUR 1,000	2,530	2,320	210

This Business Review is not an Interim Financial Report prepared in accordance with the IAS 34 standard. The Company prepares its interim financial reporting in accordance with the Securities Market Act, in addition to which the Company releases Business Reviews for the first three and nine months of the year. The Business Reviews contain key information regarding the financial position and development of the Group.

GUIDANCE FOR 2021 UNCHANGED

15 April 2021 revised guidance for 2021:

Net sales for 2021 are expected to amount to EUR 80–84 million and operating profit is expected to be EUR 14–16 million.

CEO OTTO-PEKKA HUHTALA

The autumn has kicked off energetically in the internationalising Talenom. The strong development of the domestic business continued. We expanded into the large accounting business market in Spain through an acquisition in July. In Sweden, we have continued integration and are preparing for implementing our own software. We have also continued to explore the European market, looking for opportunities to expand into new countries. At the same time, our TiliJaska concept for the small customer segment has provided clear indications that it works as a new digital sales channel. The company accounts and cards that were launched with TiliJaska have been well received by our customers. The new financial service we piloted revealed the importance of real-time customer data for correctly timed financing. As a digital accounting business, we receive data about each transaction immediately when it occurs compared to the generally used financial statement information.

We have decided to report country-specific key figures for countries whose annual net sales exceeds EUR 10 million and countries that are in earlier development stages that fall short of this target as one group. The key figures to be reported are net sales, EBITDA and operating profit. This division will allow us to better describe the economic performance of countries at different stages. Currently, Finland is in a mature phase, Sweden in a growth and development phase and Spain in an early development stage. The separately presented Finnish figures give an indication of the development potential we aim for on new markets.

Overall, business performed as expected. In January-September, our net sales grew by 25.4% to EUR 61.1 million. EBITDA grew by 15.6% to EUR 21.1 million. Operating profit grew by 14.7% to EUR 12.0 million.

Finland's business continued developing positively. In January-September, Finnish net sales grew by 15.3% (9.5) to EUR 53.1 million (46.1). Around one-half of the growth was organic and one-half came from acquisitions. EBITDA was 38.0% (39.0) of net sales and operating profit was 22.4% (22.7) of net sales. In Finland, the lower profitability of acquisition targets depressed relative profitability. According to our experience, the profitability of acquisition targets can in Finland be raised to the level of our core business within about three years of the acquisition.

Swedish net sales increased by 196.5% (168.6) to EUR 7.8 million (2.6), EBITDA was 11.6% (9.5) of net sales and operating profit was 1.7% (-0.7) of net sales. Growth came mainly from acquisitions. Profitability in Sweden is typical for the industry measured by EBITDA. Our aim is to implement our own software in autumn 2022, after which we expect to achieve Finland's profitability level within three years.

We have accelerated growth in line with our strategy, which requires a higher investment level in software and M&A transactions. The digital transformation of our industry is progressing right now, and with the investments we want to strengthen and expand our market position and ensure continued development of our competitive product. Strong growth in investments will increase the relative share of depreciation in net sales.

The company is progressing nicely. We focus on solving entrepreneurs' financial management needs in an internationally scalable manner. Our competitiveness on new markets continues to be based on our strategic strengths: ease of entrepreneurship and efficiency brought by automation, which frees our experts' time for proactive customer consultation.

GROUP FINANCIAL DEVELOPMENT

GROUP KEY FIGURES

Group	1-9/2021	1-9/2020	Change
Net sales, EUR 1,000	61,052	48,698	12,354
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EBITDA, EUR 1,000	21,077	18,231	2,846
EBITDA of net sales, %	34.5%	37.4%	-2.9 percentage points
Operating profit, EUR 1,000	11,996	10,456	1,540
Operating profit of net sales, %	19.6%	21.5%	-1.8 percentage points
Return on investment (ROI), % (rolling 12 months)	17.8%	18.5%	-0.6 percentage points
Interest-bearing net liabilities, EUR 1,000	39,987	31,685	8,302
Net gearing, %	94%	105%	-11 percentage points
Equity ratio, %	38.1%	37.4%	0.7 percentage points
Working capital, EUR 1,000	-5,528	-3,838	-1,689
Net investments, EUR 1,000	31,846	15,544	16,302
Liquid assets, EUR 1,000	8,625	7,681	945
Earnings per share, EUR	0.21	0.18	0.02
Weighted average number of shares during the period	43,403,560	42,517,688	885,872
Net profit, EUR 1,000	8,941	7,776	1,164

GROUP NET SALES, PROFITABILITY AND FINANCIAL PERFORMANCE JANUARY-SEPTEMBER 2021

In January-September, Talenom's net sales grew by 25.4% year-on-year. Net sales increased by EUR 12.4 million to EUR 61.1 million (48.7). In addition to organic growth and increased number of customers in accounting services, growth in net sales came from acquisitions in Finland and Sweden. Around two-thirds of the growth came from acquisitions and one-third organically through own active new customer acquisition. The pandemic had no significant impact on operations during the review period.

Personnel expenses for January-September amounted to EUR 32.4 million (24.6), representing 53.1% (50.5) of net sales. Other operating expenses, including materials and services, totalled EUR 8.1 million (6.0). They accounted for 13.3% (12.3) of net sales

Operating profit in January-September was EUR 12.0 million (10.5), or 19.6% (21.5) of net sales and net profit was EUR 8.9 million (7.8). Operating profit improved by 14.7%. As Talenom's growth was increasingly based on acquisitions, relative profitability was depressed by the lower profitability of the acquired businesses compared to other Talenom units and by the integration costs of the acquisitions. According to our experience, the profitability of acquisition targets can in Finland be raised to the level of our core business within about three years of the acquisition.

In July-September, Talenom's net sales grew by 30.4% year-on-year. Net sales increased by some EUR 4.5 million to EUR 19.4 million (14.8). Two-thirds of net sales growth came from acquisitions and one-third was organic. Operating profit in July-September was EUR 3.4 million (3.1), or 17.8% (21.2) of net sales and net profit was EUR 2.5 million (2.3). In July-September, operating profit improved by 9.6% year-on-year.

COUNTRY-SPECIFIC FINANCIAL DEVELOPMENT

FINLAND'S KEY FIGURES

Finland	1-9/2021	1-9/2020	Change	7-9/2021	7-9/2020	Change
Net sales, EUR 1,000	53,148	46,083	7,065	16,759	13,830	2,929
Net sales growth, %	15.3%	9.5%	5.8 % points	21.2%	6.5%	14.6 % points
EBITDA, EUR 1000	20,205	17,982	2,223	6,380	5,744	636
EBITDA of net sales, %	38.0%	39.0%	-1.0 % points	38.1%	41.5%	-3.5 % points
Depreciation and amortisations, EUR 1,000	-8,306	-7,507	-799	-2,927	-2,538	-389
Operating profit, EUR 1,000	11,899	10,475	1,424	3,453	3,206	247
Operating profit of net sales, %	22.4%	22.7%	-0.3 % points	20.6%	23.2%	-2.6 % points

Half of Finland's net sales growth in January-September was organic and half came from acquisitions. The development of automation had a positive and acquisitions a negative impact on relative profitability.

SWEDEN'S KEY FIGURES

Sweden	1-9/2021	1-9/2020	Change	7-9/2021	7-9/2020	Change
Net sales, EUR 1,000	7,754	2,615	5,139	2,455	1,015	1,440
Net sales growth, %	196.5%	168.6%	27.9 % points	141.8%	96.3%	45.5 % points
EBITDA, EUR 1000	899	249	650	327	56	271
EBITDA of net sales, %	11.6%	9.5%	2.1 % points	13.3%	5.5%	7.8 % points
Depreciation and amortisations, EUR 1,000	-768	-268	-499	-300	-118	-182
Operating profit, EUR 1,000	131	-20	151	27	-62	89
Operating profit of net sales, %	1.7%	-0.7%	2.4 % points	1.1%	-6.1%	7.2 % points

Sweden's net sales growth in January-September came mainly from acquisitions. Sweden's profitability is typical for the industry before implementation of own software. Profitability has been depressed by our investments in sales, building support functions and developing management structures. However, because of the growth, the relative share of these in net sales has decreased, which explains the positive profitability development compared to the comparison period.

OTHER COUNTRIES' KEY FIGURES

Other countries	1-9/2021	1-9/2020	Change	7-9/2021	7-9/2020	Change
Net sales, EUR 1,000	150			150		
Net sales growth, %						
EBITDA, EUR 1,000	-27			-27		
EBITDA of net sales, %	-18.1%			-18.1%		
Depreciation and amortisations, EUR 1,000	-8			-8		
Operating profit, EUR 1,000	-35			-35		
Operating profit of net sales, %	-23.3%			-23.3%		

Talnom expanded to the Spanish accounting business market through an acquisition in July. Business started there on 1 August 2021.

GROUP BALANCE SHEET, FINANCING AND INVESTMENTS

On 30 September 2021, the consolidated balance sheet total was EUR 111.7 million (81.0). The Group's equity ratio was 38.1% (37.4) and net gearing was 94% (105). On 30 September 2021, interest-bearing financial loans totalled EUR 40.2 million (30.0), excluding instalment debts. Other non-current interest-bearing liabilities (instalment debts) amounted to EUR 0.2 million (0.2) and other current interest-bearing liabilities (instalment debts) were EUR 0.2 million (0.2).

In accordance with IFRS 16, non-current lease liabilities stood at EUR 5.3 million (6.2) and current lease liabilities at EUR 2.5 million (2.8) on 30 September 2021.

The Group recognises the costs of new customer contracts, such as costs of obtaining and fulfilling a contract, as investments as specified in IFRS 15 and records them in the balance sheet as capitalised contract costs. Furthermore, the Group recognises a part of development costs related to software and digital services as investments according to the requirements outlined in IAS 38 and records them under other intangible assets in the balance sheet. Investments stemming from new customer contracts amounted to EUR 2.8 million (3.2) in the review period. Investments in software and digital services totalled EUR 8.1 million (7.1) during the review period.

Net investments totalled EUR 31.8 million (15.5) million between 1 January and 30 September 2021.

During the review period, Talenom acquired 7 business entities as share transactions and 7 as asset purchases in Finland, Sweden and Spain. The purchase prices of the share transactions carried out during the review period totalled EUR 17.0 million, including recognition of contingent consideration, and the purchase prices of asset purchases amounted to EUR 1.6 million, including recognition of contingent consideration. In acquisitions, part of the purchase price was paid with new Talenom Plc shares subscribed for in directed issues. Acquisitions accounted for EUR 19.8 million (4.6) of net investments. Read more about acquisitions under "Acquisitions in the review period".

Investments	1 Jan to 30 Sept 2021	1 Jan to 30 Sept 2020	Change
New customer agreements, EUR 1,000	2,799	3,219	-420
Software and digital services, EUR 1,000	8,085	7,127	958
Acquisitions in Finland, EUR 1,000	8,077	1,630	6,447
Acquisitions abroad, EUR 1,000	11,719	3,003	8,716
Other investments	1,166	565	601
Total net investments, EUR 1,000	31,846	15,544	16,302

Liquid assets on 30 September 2021 totalled EUR 8.6 million (7.7). In addition, the company had unused overdraft limits of EUR 0.0 million (3.0) on 30 September 2021.

PERSONNEL AND MANAGEMENT

Talenom's average number of employees from 1 Jan to 30 Sept 2021 was 1,001 (853). During the review period, the members of the company's Executive Board were Otto-Pekka Huhtala (CEO), Antti Aho (CFO and CHRO), Tuomas Iivanainen (Director, International Business), Juho Aho (Director, Accounting Services) and Juha Jutila (Director, Business Development). There were no changes in the composition of the Executive Board during the review period.

SHARES AND SHAREHOLDERS

On 30 September 2021, Talenom Plc had a total of 43,790,252 shares entered in the Trade Register. The company held 150,600 treasury shares (0.34% of the total number of shares and votes) at the end of the review period. On 30 September 2021, Talenom had a total of 7,599 (5,923) shareholders. The number of shareholders is based on information collected by Modular Finance from various sources, such as Euroclear Finland Ltd.

A total of 9,305,358 shares were traded in January-September, and the value of the shares traded was EUR 121,298,166. The highest share price was EUR 17.04 and the lowest EUR 10.6. The volume weighted average price was EUR 13.04 and the closing price on 30 September 2021 was EUR 13.98. Based on the closing price, the combined market value of the shares was approximately EUR 612.2 million.

BUSINESS ACQUISITIONS DURING THE REVIEW PERIOD

Asset purchases during the review period (January-September):

- Balance systems Oy's accounting business, Kemi (February)
- The business entity formed by Laskentalinja Oy and Lapinlahden Yrityspalvelu Oy, Kuopio. (February)
- Tilipalvelu Pirkko Kemppainen Oy's accounting business, Ivalo (March)
- Frivolous Oy's accounting firm operations under the auxiliary company name AC-Tilit, Espoo (April)
- Accounting firm operations of Tilitoimisto Reijo Mäki Oy, Hämeenlinna (April)
- Lapin Tulostieto Oy's accounting firm operations in Tornio, Ylitornio and Kolari (June)
- Accounting firm operations of Kuortaneen Kirjanpito Oy, Kuortane (August)

Share transactions during the review period (January-September):

- Ekonomianalys KL AB, Member and Persson & Thorin AB, Växjö, Sweden (January)
- Crescendo Redovisning AB, Nacka and Progreto Ab's accounting firms, Östersund and Åre, Sweden (April)
- Balance-Team Oy, Helsinki (April)
- Avail Services SL, Barcelona, Spain (July)
- YOUNited professionals Nyköping, Sweden (July)

Purchase prices, net sales and operating profit of the acquisition targets during the review period:

EUR 1,000	Share transactions	Asset purchases
Total purchase prices	13,605	1,370
Maximum contingent consideration	4,366	1,210
Net sales, previous 12 months at time of purchase, total	10,548	2,777
Operating profit, previous 12 months at time of purchase, total	1,951	502

In acquisitions, part of the purchase price was paid with new Talenom Plc shares subscribed for in directed issues. A total of 560,722 shares were subscribed for in directed share issues related to acquisitions during the review period

FLAGGING NOTIFICATIONS IN THE REVIEW PERIOD (JULY-SEPTEMBER 2021)

During the review period (July-September 2021), Talenom received one notification of changes in holdings in accordance with Chapter 9, Section 5 of the Securities Markets Act.

On 3 September 2021, Talenom Plc received a notification from Danske Bank A/S that the number of shares it holds of all Talenom Plc's shares fell below the 5% limit because of share transactions carried out on 2 September 2021.

BASIS OF PREPARATION

This Business Review is not an Interim Financial Report prepared in accordance with the IAS 34 standard. The Company prepares its interim financial reporting in accordance with the Securities Market Act, in addition to which the Company releases Business Reviews for the first three and nine months of the year. The Business Reviews contain key information regarding the financial position and development of the Group.

The figures of the Business Review are unaudited.

The Company reports commonly applied alternative performance measures to reflect the underlying business performance and enhance comparability between financial periods. Alternative key figures not based on IFRS standards provide notable additional information to company management, investors and other interested parties. Alternative key figures should not be considered as a substitute for key figures in accordance with IFRS.

The alternative key figures used by the company include operating profit (EBIT), operating profit (EBIT) as % of net sales, EBITDA, EBITDA as % of net sales, return on investment (ROI) %, interest-bearing net liabilities, net gearing %, equity ratio %, working capital and net investments. The formulas and explanations of alternative key figures are presented below under section Formulas.

TABLES

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

EUR 1,000	1 Jan to 30 Sept 2021	1 Jan to 30 Sept 2020	2020
Net sales	61,052	48,698	65,161
Other operating income	553	91	121
Materials and services	-2,174	-1,880	-2,466
Employee benefit expenses	-32,422	-24,589	-33,947
Depreciation and amortisations	-9,082	-7,775	-10,398
Other operating expenses	-5,932	-4,089	-5,589
Operating profit	11,996	10,456	12,881
Financial income	90	65	82
Financial expenses	-706	-707	-939
Net financial expenses	-616	-642	-857
Profit (loss) before taxes	11,379	9,814	12,024
Income taxes	-2,439	-2,038	-2,445
Profit (loss) for the financial period	8,941	7,776	9,579
Other items of comprehensive income	0	0	0
Total comprehensive income for the financial period	8,941	7,776	9,579

CONSOLIDATED BALANCE SHEET

EUR 1,000	30 Sept 2021	30 Sept 2020	31 Dec 2020
ASSETS			
Non-current assets			
Goodwill	36,313	23,569	23,956
Other intangible assets	34,350	20,665	22,921
Right-of-use assets	7,672	8,327	7,965
Property, plant and equipment	2,907	2,565	2,479
Other non-current financial assets	850	237	337
Deferred tax assets	90	74	64
Capitalised contract costs	11,613	10,873	11,033
Total non-current assets	93,796	66,310	68,754
Current assets			
Trade and other receivables	9,293	7,048	7,055
Current tax assets	0	0	10
Cash and cash equivalents	8,625	7,681	9,104
Total current assets	17,919	14,728	16,168
Total assets	111,714	81,038	84,923
CAPITAL AND RESERVES			
Share capital	80	80	80
Reserve for invested unrestricted equity	21,587	14,818	14,818
Fair value reserve	0	0	0
Retained earnings	20,748	15,315	17,271
Total equity	42,415	30,214	32,169
LIABILITIES			
Non-current liabilities			
Financial liabilities	40,206	30,000	30,000
Trade and other payables	4,070	157	556
Lease liabilities	5,324	6,173	5,859
Other non-current financial liabilities	0	0	0
Deferred tax liabilities	2,044	487	732
Total non-current liabilities	51,643	36,816	37,147
Current liabilities			
Financial liabilities	89	0	0
Trade and other payables	13,372	10,105	12,134
Lease liabilities	2,548	2,844	2,280
Current tax liabilities	1,648	1,058	1,193
Total current liabilities	17,656	14,008	15,607
Total liabilities	69,299	50,824	52,754
Total equity and liabilities	111,714	81,038	84,923

FORMULAS

Net sales growth, %	=	$\frac{\text{net sales} - \text{net sales of the preceding year}}{\text{net sales of the preceding year}} \times 100$
Operating profit	=	net sales + other operating income - materials and services - personnel expenses - depreciations and amortisations - other operating expenses
Operating profit (EBIT), %	=	$\frac{\text{operating profit (EBIT)}}{\text{net sales}} \times 100$
Return on investment (ROI), % (rolling 12 months)	=	$\frac{\text{operating profit (EBIT) before taxes} + \text{interest and other financial expenses}}{\text{total equity and liabilities} - \text{non-interest-bearing liabilities (average of the accounting period)}} \times 100$
Interest-bearing net liabilities	=	interest-bearing liabilities - cash in hand and in banks
Net gearing, %	=	$\frac{\text{interest-bearing liabilities} - \text{cash in hand and in banks}}{\text{capital and reserves}} \times 100$
Equity ratio, %	=	$\frac{\text{capital and reserves}}{\text{balance sheet total} - \text{advances received}} \times 100$
Working capital	=	inventories + non-interest-bearing current receivables - non-interest-bearing current liabilities
Net investments	=	investments in tangible and intangible assets - sales of assets
Earnings per share	=	$\frac{\text{net profit of the review period}}{\text{Weighted average number of shares outstanding during the review period}} \times 100$
Compound annual growth rate (CAGR)	=	$\left(\frac{\text{liikevaihto jakson lopussa}}{\text{liikevaihto jakson alussa}} \right)^{\frac{1}{\text{vuosien määrä}}} - 1$
EBITDA	=	operating profit + depreciation + amortisation
EBITDA, %	=	$\frac{\text{EBITDA}}{\text{net sales}} \times 100$

Operating profit (EBIT) measures Talenom's ability to generate a profit in its business operations. Operating profit is a key metric of the company's profitability and financial performance, and indicates the profit generated from business operations.

Operating profit margin refers to operating profit as a percentage of net sales and is used to proportion operating profit in relation to net sales and improve comparability of operating profit over reporting periods.

Return on investment, meanwhile, measures operating result in relation to invested equity. It describes Talenom's relative profitability, in other words how effectively the company can generate profit for capital invested in the company.

Interest-bearing net liabilities is the net sum of Talenom's debt financing. The key figure provides information on the company's indebtedness and capital structure

Net gearing is the ratio between Talenom's equity and interest-bearing liabilities. It describes the level of risk associated with the company's financing and is a useful metric for tracking the company's debt to equity ratio.

Equity ratio is a financing structure metric that shows what proportion of the company's balance sheet is financed by its own equity. Equity ratio provides information on the level of risk associated with financing and the level of equity used in business operations and describes the company's solvency and tolerance against loss in the long term.

Working capital measures the amount of financing committed in Talenom's business operations and describes the efficiency of capital use.

Net investments measure the amount of investments minus the sale of fixed assets. The key figure provides additional information on the cash flow needs of business operations.

EBITDA is an important key figure that measures Talenom's ability to generate profit in business before depreciation, impairment and financial items.

EBITDA margin refers to EBITDA as a percentage of net sales and is used to proportion EBITDA in relation to net sales and improve comparability of EBITDA over reporting periods.

ADDITIONAL INFORMATION:

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