

TALENOM PLC BUSINESS REVIEW JANUARY–MARCH 2020 (UNAUDITED): NET SALES GREW BY 17% AND OPERATING PROFIT IMPROVED BY 8% – FIRST QUARTER IN LINE WITH OBJECTIVES

1 January–31 March 2020

Talenom is an accountancy company established in 1972, and it offers its customers a wide range of accountancy and other services supporting their customers' business activities. Talenom engages in its own software development and offers its accountancy customers digital financial management tools.

Talenom has operations at 42 locations, including service centres in Oulu and Tampere. During the period between 1 January–31 March 2020, Talenom had an average of 831 (688) employees. Talenom reported net sales of 17.4 (14.8) million euros for 1 January–31 March 2020, representing a year-on-year increase of 17.4%.



TALENOM
yritykselämän ilo

TALENOM PLC BUSINESS REVIEW JANUARY–MARCH 2020 (UNAUDITED): NET SALES GREW BY 17% AND OPERATING PROFIT IMPROVED BY 8% – FIRST QUARTER IN LINE WITH OBJECTIVES

JANUARY–MARCH 2020 IN BRIEF:

- Net sales 17.4 (14.8) million euros, increase 17.4% (16.1%)
- Operating profit (EBIT) 3.7 (3.4) million euros, 21.4% (23.3%) of net sales
- Net profit 2.8 (2.6) million euros
- Earnings per share 0.07 (0.06) euros
- Talenom revises its guidance for 2020: Net sales for 2020 are expected to amount to 64-68 million euros and operating profit to 12-14 million euros.

Group	1-3/2020	1-3/2019	Change
Net sales, thousands of euro	17,350	14,783	2,567
Net sales, increase %	17.4%	16.1%	1.3 percentage points
Operating profit (EBIT), thousands of euro	3,718	3,442	276
Operating profit (EBIT), as % of net sales	21.4%	23.3%	-1.9 percentage points
Return on investment (ROI), % (rolling 12 months)	19.7%	21.5%	-1.9 percentage points
Liquid assets, thousands of euro	5,268	5,330	-62
Earnings per share, euro	0.07	0.06	0.00
Net profit, thousands of euro	2,806	2,585	221

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 first nine months of the year. The Business Reviews contain key information regarding the financial position and development of the Talenom Group.

GUIDANCE FOR 2020

Talenom revises its guidance for 2020:

Net sales for 2020 are expected to amount to 64-68 million euros and operating profit to 12-14 million euros.

The previous guidance published in the Financial Statement Bulletin 2019 on 3 February 2020:

2020 is expected to be in line with 2019 in terms of relative growth in net sales and relative profitability.

CEO OTTO-PEKKA HUHTALA

In the Annual Report, I predicted that in this decade, Talenom's accountants will become consultants. Now, during the coronavirus pandemic, this journey is coming true. We are telecommuting and working hard in our home offices to help our customers. In practice, this takes the form of seeking different kinds of support measures, cash flow simulation services for our customer companies, credit information services, a manyfold increase in the demand for financing services and above all in the advice we provide to our customers on our own initiative. We have received positive feedback from our customers and key stakeholders for our rapid and open reaction. We want to do our part to foster the wellbeing of entrepreneurs diligently and without compromise also in these exceptional circumstances.

First-quarter net sales were up 17% to 17.4 million euros and operating profit rose by 8% to 3.7 million euros. Our strong growth continued and most of it was organic. Due to the coronavirus pandemic, our entire sales team changed over to a distance sales model. We are pleased to note that sales are still almost in line with plans. The deployment of the latest version of the bookkeeping production line last year has freed up resources for new customers and consulting work. In other words, the main drivers of profitable growth are still going strong. We make routines as easy as possible for our customers. Our bookkeeping production is automated – we also keep in mind that our operations must continue to revolve around taking care of our customers.

We revised our financial outlook. The range of variation is wide due to the uncertainties posed by the coronavirus pandemic. We are pleased that society has made it clear that it wants to keep companies up and running. Thanks to our strong degree of automation and digitalisation and our consultative approach, we are well-adapted to the prevailing conditions. The uncertainties involved in forecasts will increase if these exceptional circumstances continue for a long time into autumn, causing bankruptcies among our customer companies as well as a decline in our sales to new customers and in transaction based invoicing.

We have continued to make further investments in customer interfaces. We released updates to the Talenom mobile App. Its new image processing feature for receipts facilitates customer routines. We are further developing Talenom Online and recently released a new version of the service in which we offer services in line with the new e-Invoicing Directive. At the same time, we have continued to make further investments in automation and new customer acquisition.

As a major new strategic endeavour, we are developing an exceptionally ambitious concept for small customers. We believe it will revolutionise the sector. With respect to service design and technology, product development has now progressed to the point that the first customers are piloting the service in a closed environment. We are convinced that this concept will enable us to solve the financial and administrative needs of small entrepreneurs in a flexible and attractive way. I hope to be able to tell you more about this concept soon.

We carried out one small acquisition during the review period as we acquired the business operations of Addvalue Advisors Oy in February. In addition to pursuing organic growth, we want to be involved in the transformation of the accounting sector. Thanks to our substantial investments in digitalisation and personnel training, we are well poised to accelerate growth through acquisitions as well. Partly for this reason, we have reorganised our financing after the end of the review period. We have now negotiated an additional loan of 10 million euros that can be used for acquisitions

and for other projects in support of growth in Finland and Sweden. In addition, we have authorisations to issue shares and use treasury shares for acquisitions. We have positive experiences of operating in the Swedish market and view it as an attractive avenue for growth. In the short term, acquisitions weaken relative profitability, but in the longer term the profitability of the acquired business operations will increase to the same level as existing operations thanks to the scalability benefits of the bookkeeping production line and operating processes.

In January, we were recognised for the third time in a row in the Great Place to Work Finland survey, ranking as the fourth best workplace in the Large Companies category. This is a strong indication of the commitment and motivation of our personnel to keep developing Talenom as a trendsetter in the industry. As someone who has been with Talenom for a long time, I am very proud of this!

FINANCIAL DEVELOPMENT

KEY FIGURES

Group	1-3/2020	1-3/2019	Change
Net sales, thousands of euro	17,350	14,783	2,567
Net sales, increase %	17.4%	16.1%	1.3 percentage points
Operating profit (EBIT), thousands of euro	3,718	3,442	276
Operating profit (EBIT), as % of net sales	21.4%	23.3%	-1.9 percentage points
Return on investment (ROI), % (rolling 12 months)	19.7%	21.5%	-1.9 percentage points
Interest-bearing net liabilities, thousands of euro	31,771	26,629	5,141
Net gearing ratio, %	142%	150%	-8 percentage points
Equity ratio, %	31.1%	29.7%	1.4 percentage points
Working capital, thousands of euro	-4,609	-3,912	-698
Net investments, thousands of euro	4,059	2,335	1,724
Liquid assets, thousands of euro	5,268	5,330	-62
Earnings per share, euro	0.07	0.06	0.00
Weighted average number of shares during the period *)	41,871,790	41,221,812	649,978
Net profit, thousands of euro	2,806	2,585	221

*) The number of shares outstanding has been adjusted due to the share issue carried out free of charge during the review period by multiplying the preceding number by six.

NET SALES, PROFITABILITY AND FINANCIAL PERFORMANCE – JANUARY-MARCH 2020

During the period from January to March, Talenom's net sales increased by 17.4% compared to the corresponding period of the preceding year. Amounting to 17.4 (14.8) million euros, net sales grew by around 2.6 million euros. The growth was mainly due to the increase in the number of accounting service customers.

In the review period, personnel expenses amounted to 8.6 (7.3) million euros, 49.5% (49.3%) of net sales.

Other operating expenses, including materials and services, totalled 2.6 (2.2) million euros, accounting for 14.9% (14.7%) of net sales.

In the review period, operating profit (EBIT) was 3,718 (3,442) thousand euros, 21.4% (23.3%) of net sales, with a net profit of 2,806 (2,585) thousand euros.

BALANCE SHEET, FINANCING AND INVESTMENTS

On 31 March 2020, the consolidated balance sheet total was 72.2 (59.9) million euros. The Group's equity ratio was 31.1% (29.7%) and the net gearing ratio was 142% (150%).

The Group's interest-bearing financial loans at the end of the review period on 31 March 2020 were 28.0 (23.5) million euros, excluding instalment debts. Other non-current interest-bearing liabilities (instalment debts) were 0.2 (0.2) million euros and other current interest-bearing liabilities (instalment debts) were 0.2 (0.3) million euros.

In accordance with IFRS 16 Leases, as of 1 January 2019, the Group recognises leases of business premises in the balance sheet mainly as assets and liabilities. In accordance with IFRS 16, non-current lease liabilities stood at 6.6 (6.4) million euros and current lease liabilities at 2.0 (1.4) million euros.

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. These costs are presented in the balance sheet under "capitalised contract costs". Furthermore, the Group recognises a part of the development costs related to software and digital services as investments according to the requirements outlined in IAS 38. These costs are presented in the balance sheet under "other intangible assets". Investments stemming from new customer contracts amounted to 1.1 (1.0) million euros in the review period. Investments concerning software and digital services amounted to 2.4 (1.0) million euros.

The company's total net investments in the review period 1 January–31 March 2020 were 4.1 (2.3) million euros.

During the review period, the company acquired the business operations of the accounting firm Addvalue Advisors Oy. The purchase price totalled 268,000 euros, of which 134,000 euros was paid with new Talenom Plc shares subscribed for in a directed share issue. The acquisition accounted for 0.3 million euros of Talenom's net investments.

Liquid assets at 31 March 2020 were 5.3 (5.3) million euros. In addition, the company had unused overdraft limits of 1.0 (1.0) million euros at the end of the review period.

PERSONNEL AND MANAGEMENT

The average number of personnel during the review period 1 January–31 March 2020 was 831 (688). 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 Ahosola (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

The Annual General Meeting held on 25 February 2020 resolved to issue new shares free of charge in order to enhance the liquidity of the company's share. The new shares were issued to shareholders without payment in proportion to their holdings such that five (5) new shares were issued for each share. In addition, it was decided that new shares would be issued to the company on the basis of treasury shares held by the company. A total of 34,863,360 new shares were issued. The new shares were entered in the Trade Register on 27 February 2020 and recorded on the book-entry accounts of shareholders on 28 February 2020. After the issue, the number of Talenom shares totalled 41,836,032. After the share issue without payment, Talenom held 150,600 treasury shares.

On 31 March 2020, Talenom Plc had a total of 42,757,526 shares entered in the Trade Register. The company held 150,600 company shares (0.35% of the total number of shares and total number of votes) on 31 March 2020. On 31 March 2020, Talenom had a total of 5,194 (3,132) shareholders, representing an increase of 2,062 shareholders, year on year.

There were 63 trading days in the review period 1 January–31 March 2020. A total of 7,094,606 shares were traded during this period, and the value of the shares traded was 46,215,201 euros. The highest price of the share was 7.92 euros and the lowest price was 4.93 euros. The volume weighted average price was 6.51 euros and the closing price at the end of the review period (31 March 2020) was 5.88 euros. In accordance with the closing price, the combined market value of the shares was approximately 251.4 million euros.

FLAGGING NOTIFICATIONS

During the review period, Talenom received four notifications of changes in holdings in accordance with Chapter 9, Section 5 of the Securities Markets Act.

According to a notification received on 14 February 2020, the number of Talenom Plc shares owned by Ilmarinen Mutual Pension Insurance Company decreased below the 10% limit of all Talenom Plc shares due to share transactions.

According to a notification received on 18 February 2020, the number of Talenom Plc shares owned by Evli Bank Plc decreased below the 5% limit of all Talenom Plc shares due to share transactions.

According to a notification received on 27 February 2020, the number of Talenom Plc shares owned by Danske Bank A/S decreased below the 5% limit of all Talenom Plc shares due to share transactions.

According to a notification received on 3 March 2020, the number of Talenom Plc shares owned by Danske Bank A/S rose above the 5% limit of all Talenom Plc shares due to share transactions.

SIGNIFICANT EVENTS IN THE REVIEW PERIOD

On 14 February 2020, Talenom announced that it was ranked as one of Finland's best workplaces for the third time in a row in the Great Place to Work survey. Talenom was ranked fourth in the Large Companies category.

Talenom's Annual General Meeting was held on 25 February 2020 in Helsinki. The AGM resolved to pay a dividend of 0.75 euros per share for the financial period 1 January–31 December 2019. The dividend was paid to shareholders on 5 March 2020.

The Annual General Meeting resolved to issue new shares to the shareholders without payment in proportion to their holdings so that five (5) new shares was issued for each share. The new shares were recorded in the book-entry accounts of shareholders on 28 February 2020.

The AGM authorised the Board of Directors to resolve on the repurchase of a maximum of 300,000 shares in the company in one or several tranches using the company's unrestricted shareholders' equity. The shares will be repurchased otherwise than in proportion to the shareholdings of the shareholders in public trading arranged by Nasdaq Helsinki Ltd for the market price at the moment of purchase.

The Annual General Meeting authorised the Board of Directors to resolve on the issuance of shares and the issuance of special rights entitling to shares as referred to in Chapter 10 Section 1 of the Finnish Limited Liability Companies Act in one or several tranches, either against payment or without payment.

The aggregate amount of shares to be issued, including the shares to be received based on special rights, must not exceed 1,800,000 shares. The authorisation is used for the purposes of paying purchase prices of corporate acquisitions, share issues directed to personnel or share award schemes or for other purposes decided by the Board of Directors

The AGM decided to re-elect Harri Tahkola, Mikko Siuruainen, Olli Hyypä, Anne Riekkö and Johannes Karjula as the members of the Board of Directors and Sampsa Laine as a new member of the Board of Directors. In its organising meeting after the AGM, the Board of Directors elected Harri Tahkola as Chairman of the Board.

On 25 February 2020, the Board of Directors resolved, based on the terms and conditions of Talenom's 2016, 2018 and 2019 option rights, to amend the number of shares to be subscribed and the subscription price due to the Annual General Meeting's decision on share issue without payment.

On 25 February 2020, the Board of Directors resolved to establish two new share-based incentive plans for the Group's key employees. The Performance Share Plan 2020-2024 consists of three performance periods, covering the calendar years 2020-2022, 2021-2023 and 2022-2024. During the performance period 2020-2022, approximately 50 persons are included in the target group of

the plan, including the company's Executive Board members. The Restricted Share Plan is intended for selected key employees only, including the Executive Board members.

On 28 February 2020, Talenom agreed to acquire the business operations of the accounting firm Addvalue Advisors Oy from its owners. The purchase price totalled 268,000 euros, of which 134,000 euros was paid with new Talenom Plc shares subscribed for in a directed share issue. The 20,594 new shares subscribed for in the directed share issue were entered in the Trade Register on 4 March 2020.

On 11 March 2020, Talenom announced that its market making agreement with Lago Kapital Ltd in compliance with the Liquidity Providing (LP) requirements issued by Nasdaq Helsinki Ltd will end on 9 June 2020. Talenom estimates that the liquidity of the share will be sufficient without market making operations.

The 900,900 new Talenom Plc shares subscribed for with 2016C and 2018 stock options were entered in the Trade Register on 13 March 2020.

In February-March 2020, Talenom carried out a brand survey on the brand awareness of the company, the impressions that potential customers have of the company and Talenom's positioning amongst its competitors. The results indicate that Talenom is clearly the best known, top-of-mind accounting firm among its core target group.

EVENTS AFTER THE REVIEW PERIOD

In April, Talenom agreed on a 30 million euro collateralised loan with Danske Bank A/S, Finland branch. Following the arrangement, Talenom's annual financing costs will decline by a total of around 0.12 million euros. The loan period is three years and can be extended by one year if necessary. With this new loan, Talenom will repay its collateralised loans from OP Financial Group, which total 28 million euros. In addition, Talenom has agreed on an additional loan of 10 million euros for potential acquisitions and projects in support of growth.

In a stock exchange release on 27 April 2020, Talenom announced that the Board of Directors had decided on the detailed terms and conditions of the personnel share issue and its schedule. The terms and conditions of the personnel share issue are specified in the release. A maximum total of 120,000 new shares in the company will be offered in the personnel share issue for subscription by employees and franchise entrepreneurs in Finland, in deviation from shareholders' pre-emptive subscription rights.

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 first nine months of the year. The Business Reviews contain key information regarding the financial position and development of the Talenom Group.

The Talenom Group adopted IFRS 16 Leases on 1 January 2019. The standard affects the Group's financial information in cases where leases of premises are recognised in the balance sheet mainly as assets and liabilities. The standard concerns the Group's fixed-term lease agreements for business premises and those continuous leases for which the lease has continued for over 12 months.

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 performance measures i.e. performance measures not based on IFRS standards provide notable supplemental information to management, investors and other interested parties. Alternative performance measures may not be considered as a substitute for measures of performance in accordance with the IFRS.

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

FINANCIAL REPORTING

Talenom Plc will publish interim reports in 2020 as follows:

Half-year Report for January–June 2020 (H1) on Monday, 3 August 2020 at 13:30

In addition, the company will publish the Business Review for January–September 2020 on Monday, 26 October 2020 at 13:30.

The Financial Statement Bulletin for 2020 will be released on Monday, 8 February 2021 at 13:30.

The Financial Statements, Half-year Reports and Business Reviews as well as Stock Exchange Releases can be found on the company's investor pages: www.talenom.fi/en/investors/.

TABLES

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

Thousand euro	1-3/2020	1-3/2019	1-12/2019
Net sales	17,350	14,783	57,955
Other operating income	54	81	372
Materials and services	-1,030	-715	-3,598
Employee benefit expenses	-8,582	-7,291	-29,912
Depreciation and amortisations	-2,527	-1,963	-8,498
Other operating expenses	-1,547	-1,452	-5,911
Operating profit	3,718	3,442	10,409
Financial income	22	15	64
Financial expenses	-230	-211	-906
Net financial expenses	-209	-195	-843
Profit (loss) before taxes	3,510	3,247	9,566
Income taxes	-704	-662	-1,951
Profit (loss) for the financial period	2,806	2,585	7,615
Other items of comprehensive income			
Items that may be subsequently transferred to profit or loss			
Cash flow hedging	24	16	60
Taxes on items that may be subsequently transferred to profit or loss	-5	-3	-12
Other comprehensive income for the financial period after tax	19	12	48
Total comprehensive income for the financial period	2,825	2,597	7,663

CONSOLIDATED BALANCE SHEET

Thousand euro	31 Mar. 2020	31 Mar. 2019	31 Dec. 2019
ASSETS			
Non-current assets			
Goodwill	20,728	18,420	20,728
Other intangible assets	16,632	10,944	14,930
Right-of-use assets	8,493	7,813	8,400
Property, plant and equipment	2,633	2,322	2,584
Other non-current financial assets	237	237	237
Deferred tax assets	84	77	67
Capitalised contract costs	10,355	8,592	10,054
Total non-current assets	59,162	48,405	57,000
Current assets			
Trade and other receivables	7,750	6,138	6,521
Current tax assets	0	0	34
Cash and cash equivalents	5,268	5,330	7,786
Total current assets	13,017	11,468	14,342
Total assets	72,179	59,873	71,342
CAPITAL AND RESERVES			
Share capital	80	80	80
Reserve for invested unrestricted equity	12,353	11,025	11,234
Fair value reserve	-26	-81	-45
Retained earnings	9,962	6,698	12,304
Total equity	22,369	17,723	23,573
LIABILITIES			
Non-current liabilities			
Liabilities to credit institutions	28,000	23,500	28,000
Trade and other payables	215	230	215
Lease liabilities	6,574	6,399	6,553
Other non-current financial liabilities	32	101	56
Deferred tax liabilities	301	50	307
Provisions	27	0	0
Total non-current liabilities	35,148	30,280	35,130
Current liabilities			
Trade and other payables	11,838	9,960	10,208
Lease liabilities	2,021	1,440	1,940
Current tax liabilities	802	470	491
Total current liabilities	14,662	11,871	12,638
Total liabilities	49,810	42,150	47,769
Total equity and liabilities	72,179	59,873	71,342

FORMULAS

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

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 is able to generate profit for capital invested in the company.

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

Net gearing ratio 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 metric offers additional information on the cash flow needs of business operations.