

# TALENOM PLC BUSINESS REVIEW JANUARY–SEPTEMBER 2019 (UNAUDITED): OPERATING PROFIT IMPROVES BY 25.4% AND NET SALES GROW BY 18.2% – FINANCIAL OUTLOOK FOR GROWTH AND PROFITABILITY REMAINS STRONG

1 January – 30 September 2019

*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 40 locations, including service centres in Oulu and Tampere. During the period between 1 January–30 September 2019, Talenom employed 732 personnel on average. Talenom's net sales were EUR 43.0 (36.4) million between 1 January–30 September 2019, representing a year-on-year increase of 18.2%.*



# TALENOM

*yritykselämän iloa*

# TALENOM PLC BUSINESS REVIEW JANUARY–SEPTEMBER 2019 (UNAUDITED): OPERATING PROFIT IMPROVES BY 25.4% AND NET SALES GROW BY 18.2% – FINANCIAL OUTLOOK FOR GROWTH AND PROFITABILITY REMAINS STRONG

## JANUARY–SEPTEMBER 2019 IN BRIEF:

- Net sales EUR 43.0 (36.4) million, an increase of 18.2% (18.6%)
- Operating profit (EBIT) EUR 9.0 (7.1) million, 20.8% (19.4%) of net sales \*)
- Net profit EUR 6.6 (5.4) million \*)
- Earnings per share EUR 0.95 (0.78)
- The company's outlook remains strong. 2020 is expected to be in line with 2019 in terms of relative growth in net sales and relative profitability

Group	1–9/2019	1–9/2018	Change
Net sales, thousands of euro	43,042	36,423	6,620
Net sales, increase %	18.2%	18.6%	-0.4 percentage points
Operating profit, thousands of euro *)	8,951	7,079	1,872
Operating profit, as % of net sales *)	20.8%	19.4%	1.4 percentage points
Return on investment (ROI), % (rolling 12 months) *)	20.9%	20.7%	0.2 percentage points
Liquid assets, thousands of euro	6,984	3,804	3,179
Earnings per share, euro	0.95	0.78	0.17
Net profit, thousands of euro *)	6,599	5,362	1,236

\*) The Talenom Group adopted IFRS 16 Leases on 1 January 2019, due to which the review periods are not fully comparable. During the period 1–9/2019, the standard had a positive effect on operating profit (+EUR 74 thousand) and a negative effect on net profit (-EUR 62 thousand) and return on investment (-2.4 percentage points). The effects of adopting the standard on the Group's financial information are described in detail under the section Basis of Preparation.

Group	7–9/2019	7–9/2018	Change
Net sales, thousands of euro	13,497	11,145	2,352
Net sales, increase %	21.1%	19.8%	1.3 percentage points
Operating profit (EBIT), thousands of euro **)	2,351	1,852	499
Operating profit (EBIT), as % of net sales **)	17.4%	16.6%	0.8 percentage points
Return on investment (ROI), % (rolling 12 months) **)	20.9%	20.7%	0.2 percentage points
Liquid assets, thousands of euro	6,984	3,804	3,179
Earnings per share, euro	0.24	0.21	0.03
Net profit, thousands of euro **)	1,675	1,415	260

\*\*\*) The Talenom Group adopted IFRS 16 Leases on 1 January 2019, due to which the review periods are not fully comparable. During the period 7–9/2019, the standard had a positive effect on operating profit (+EUR 27 thousand) and a negative effect on net profit (-EUR 20 thousand) and return on investment (-2.4 percentage points). The effects of adopting the standard on the Group's financial information are described in detail under the section 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.

## **GUIDANCE**

### **Guidance for 2019 remains unchanged:**

The company's net sales growth percentage is expected to increase from 2018 (18.0% in 2018). Operating profit margin (17.5% in 2018) is expected to increase from 2018.

### **Guidance for 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**

We performed excellently during this review period as well. Operating profit saw year-on-year improvement of 25.4%. Operating profit was 20.8% of net sales (EUR 9.0 million). Net sales during the review period increased year-on-year by 18.2% to EUR 43 million. Over 90% of net sales comprises continuous billing. The third quarter also met our expectations. Operating profit saw year-on-year improvement of 26.9% in the third quarter. Net sales in turn increased by 21.1%.

In our financial guidance we have given, it has been taken into account that the annual payroll reports have been discontinued due to the change in the income register. This has offset and will offset the seasonality around the turn of the year in the monthly billed work. Since this spring, the staffing business has been focused on supporting the core accounting business, and this is reflected in a decline in the volume of the staffing business and at the same time improved profitability.

The financial outlook for growth and profitability remains strong, and we expect our financial outlook for 2020 to be in line with 2019 in terms of growth and profitability.

Our main business drivers have remained the same ever since we were listed on the stock exchange. Our sales are extremely effective and we have been able to further increase our acquisition of new customers. Product development investments targeted at the bookkeeping production line have long underpinned our excellent scalability and profitability development – and will continue to do so.

As the development of the production line reduces the amount of routine work, we see clear indications of how the widespread adoption of a consultative approach to customer work in accounting services further improves customer satisfaction and retention. We are making further investments into strengthening our employees' expertise in customer work, as we believe that growth in the high-quality advisory services provided by our experts will bolster our long-term competitiveness.

The most recent phase in the development of the production line enables us to serve ever smaller customers even more profitably, and due to this, we are looking into expanding our customer base to smaller companies.

We trust that our main business drivers – such as making financial administration routines easy to entrepreneurs, automated service production and high-quality care and value-added services – will carry our operations in the future, too. We will thus continue to make investments into the development of the bookkeeping production line and customer interfaces. We have been able to

demonstrate that outlays on technological development and growth improve our long-term competitiveness.

New products are assessed based on their scalability and integration into customer transactions. The financial services we launched earlier are a good example of this. The service area is still seeing strong growth.

Our operations in Sweden are progressing according to plan. We are currently implementing the first steps in the automation of service production. We have also productised our service portfolio and started piloting sales under the Talenom brand.

## FINANCIAL DEVELOPMENT OF THE GROUP

### KEY FIGURES

Group	1–9/2019	Effect of IFRS 16 **)	Adjusted 1–9/2019	1–9/2018	Adjusted change
Net sales, thousands of euro	43,042	0	43,042	36,423	6,620
Net sales, increase %	18.2%	0.0 percentage points	18.2%	18.6%	-0.4 percentage points
Operating profit (EBIT), thousands of euro	8,951	+74	8,877	7,079	1,798
Operating profit (EBIT), as % of net sales	20.8%	+0.2 percentage points	20.6%	19.4%	1.2 percentage points
Return on investment (ROI), % (rolling 12 months)	20.9%	-2.4 percentage points	23.3%	20.7%	2.6 percentage points
Interest-bearing net liabilities, thousands of euro	30,214	+8,598	21,616	18,923	2,693
Net gearing ratio, %	135%	+39 percentage points	96%	107%	-11 percentage points
Equity ratio, %	32.7%	-4.7 percentage points	37.4%	37.2%	0.2 percentage points
Working capital, thousands of euro	-2,866	0	-2,866	-2,379	-488
Net investments, thousands of euro	12,045	0	12,045	7,123	4,923
Liquid assets, thousands of euro	6,984	0	6,984	3,804	3,179
Earnings per share, euro	0.95	-0.01	0.96	0.78	0.18
Weighted average number of shares during the period *)	6,923,021	0	6,923,021	6,859,713	63,307
Net profit, thousands of euro	6,599	-62	6,661	5,362	1,299

\*) Weighted average of treasury shares held by the company during the period has been deducted from the figure

\*\*) The Talenom Group adopted IFRS 16 Leases on 1 January 2019; its impacts are presented in this column

### NET SALES, PROFITABILITY AND FINANCIAL PERFORMANCE – JANUARY–SEPTEMBER 2019

In the period from January to September, Talenom's net sales increased by 18.2% compared to the corresponding period of the previous year. Net sales grew by about EUR 6.6 million and amounted to EUR 43.0 (36.4) million. The growth was mainly due to the increase in the number of accounting service customers.

Personnel expenses during the review period were EUR 22.1 (19.5) million, amounting to 51.4% (53.5%) of net sales. The ratio of the personnel expenses to net sales decreased year-on-year from 2018.

Other operating expenses, including materials and services, totalled EUR 6.4 million, being 15.0% of net sales. Due to the adoption of IFRS 16 Leases, other operating expenses are not directly comparable in periods 1–9/2018 and 1–9/2019. In the period 1-9/2019, the adoption of the standard decreases other operating expenses by EUR 1.4 million.

In the review period, operating profit (EBIT) was EUR 8,951 thousand (20.8% of net sales), with a net profit of EUR 6,599 thousand. Adoption of IFRS 16 Leases had a positive effect on operating profit (+EUR 74 thousand) and a negative effect on net profit (-EUR 62 thousand). Adjusted operating profit excluding the impacts of IFRS 16 was EUR 8,877 (7,079) thousand (20.6% (19.4%) of net sales) and net profit EUR 6,661 (5,362) thousand.

The improved profitability was due to the improvement in the efficiency of bookkeeping.

## BALANCE SHEET, FINANCING AND INVESTMENTS

### CONSOLIDATED BALANCE SHEET

Thousands of euro	30 September 2019	Effect of IFRS 16 *)	Adjusted 30 September 2019	30 September 2018	31 December 2018
<b>ASSETS</b>					
<b>Non-current assets</b>					
Goodwill	20,728		20,728	18,420	18,420
Other intangible assets	13,948		13,948	10,103	10,493
Property, plant and equipment	11,112	+8,520	2,592	2,277	2,248
Other non-current financial assets	306		306	237	237
Deferred tax assets	83	+16	67	68	62
Capitalised contract costs	9,734		9,734	7,904	8,357
<b>Total non-current assets</b>	<b>55,910</b>	<b>+8,535</b>	<b>47,375</b>	<b>39,009</b>	<b>39,817</b>
<b>Current assets</b>					
Trade and other receivables	5,858		5,858	4,948	5,473
Current tax assets	148		148	0	11
Cash and cash equivalents	6,984		6,984	3,804	5,914
<b>Total current assets</b>	<b>12,989</b>	<b>0</b>	<b>12,989</b>	<b>8,752</b>	<b>11,398</b>
<b>Total assets</b>	<b>68,899</b>	<b>+8,535</b>	<b>60,364</b>	<b>47,761</b>	<b>51,215</b>
<b>CAPITAL AND RESERVES</b>					
Share capital	80		80	80	80
Reserve for invested unrestricted equity	13,009		13,009	10,850	10,850
Fair value reserve	-68		-68	-93	-93
Retained earnings	9,400	-62	9,462	6,825	7,850
<b>Total equity</b>	<b>22,421</b>	<b>-62</b>	<b>22,483</b>	<b>17,663</b>	<b>18,688</b>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Liabilities to credit institutions	28,000		28,000	22,000	23,500
Trade and other payables	202		202	299	230
Other non-current financial liabilities	6,997	+6,912	85	116	116
Deferred tax liabilities	292		292	44	50
<b>Total non-current liabilities</b>	<b>35,491</b>	<b>+6,912</b>	<b>28,579</b>	<b>22,459</b>	<b>23,896</b>
<b>Current liabilities</b>					
Financial liabilities	0		0	0	0
Trade and other payables	8,303		8,303	6,836	7,728
Other current financial liabilities	1,762	+1,686	76	0	0
Current tax liabilities	921		921	803	903
<b>Total current liabilities</b>	<b>10,987</b>	<b>+1,686</b>	<b>9,301</b>	<b>7,639</b>	<b>8,631</b>
<b>Total liabilities</b>	<b>46,478</b>	<b>+8,598</b>	<b>37,881</b>	<b>30,098</b>	<b>32,528</b>
<b>Total equity and liabilities</b>	<b>68,899</b>	<b>+8,535</b>	<b>60,364</b>	<b>47,761</b>	<b>51,215</b>

\*) The Talenom Group adopted IFRS 16 Leases on 1 January 2019; its impacts are presented in this column.

On 30 September 2019, the consolidated balance sheet total was EUR 68.9 (47.8) million. The Group had an equity ratio of 32.7% and a net gearing ratio of 135%.

With the adoption of IFRS 16, the Group's equity ratio has decreased by 4.7 percentage points, and its net gearing ratio increased by 39 percentage points. Equity ratio adjusted to ignore the effects of IFRS 16 stood at 37.4% (37.2%) and net gearing ratio at 96% (107%).

On 30 September 2019, the Group's interest-bearing financial loans were EUR 28.0 million, excluding instalment debts. Other non-current interest-bearing liabilities (instalment debts) stood at EUR 0.2 million, with other current interest-bearing liabilities (instalment debts) amounting to EUR 0.2 million.

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 EUR 6.9 million and current lease liabilities at EUR 1.7 million on 30 September 2019.

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 EUR 3.3 (2.6) million in the review period. Investments concerning software and digital services amounted to EUR 3.4 (2.9) million.

The company's total net investments during the period 1 January-30 September 2019 were EUR 12.0 (7.1) million.

During the review period, the company acquired the share capital of Wakers Consulting Ab in Stockholm and the business operations of Oy Wasa tilit Ab and Företagstjänster Ab Oy. These transactions accounted for EUR 4.2 million of net investments and half was paid for with new Talenom Plc shares subscribed for in a directed issue.

On 30 September 2019, liquid assets amounted to EUR 7.0 (3.8) million. In addition, the company's unused overdraft limits stood at EUR 1.0 million on 30 September 2019.



## PERSONNEL AND MANAGEMENT

The average number of personnel during the review period 1 January–30 September 2019 was about 732. The members of the executive board were Otto-Pekka Huhtala (CEO), Antti Aho (CFO and CHRO), Tuomas Iivanainen (Director, International Business), Juho Aho (Director, Accounting Services) as of 4 February 2019, Juha Jutila (Director, Business Development) as from 13 August 2019, Juusi Paaso (CEO) until 27 July 2019, Nina Lukkari (Director, Value-added Services) until 4 February 2019, and Sakari Jorma (CIO and CTO) until 4 February 2019.

## SHARES AND SHAREHOLDERS

On 30 September 2019, Talenom Plc. had a total of 6,972,672 shares entered in the Trade Register. The company held 25,100 company shares (0.36% of the total number of shares and total number of votes) on 30 September 2019. On 30 September 2019, Talenom had a total of 3,727 (2,538) shareholders, representing a year-on-year increase of 1,189 shareholders.

There were 189 trading days in the review period 1 January–30 September 2019. A total of 1,202,254 shares were traded during this period, and the value of the shares traded was EUR 35,822,492. The highest share price was EUR 37.00 and the lowest EUR 18.90. The volume-weighted average price was EUR 29.80 and the closing price at the end of the review period (30 September 2019) was EUR 34.10. In accordance with the closing price, the combined market value of the shares was approximately EUR 237.8 million.

## FLAGGING NOTIFICATIONS

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

**According to a notification received on 30 April 2019**, the number of Talenom Plc shares owned by Ilmarinen Mutual Pension Insurance Company decreased below the 15% limit of all Talenom Plc shares due to share transactions.

## SIGNIFICANT EVENTS IN THE REVIEW PERIOD

During the review period, Talenom signed franchising agreements with four new entrepreneurs and opened new franchise offices in Rauma, Kirkkonummi and Nurmijärvi. Talenom now has a total of 25 franchising entrepreneurs.

In February 2019, Talenom announced that according to a survey performed by Great Place to Work Finland, Talenom is one of the best workplaces in Finland: it was ranked seventh in the Large Companies category. Talenom was again awarded a Great Place to Work® certification.

On 4 April 2019, Talenom Plc agreed with the owners of Stockholm-based Swedish accounting firm Wakers Consulting AB on the purchase of the entire share capital of said accounting firm. A part of the purchase price was paid with shares of Talenom Plc in a share issue for the owners of Wakers Consulting AB. The acquisition changed Talenom's financial outlook, and the company adjusted its guidance for 2019.

Wakers Consulting AB is a Stockholm-based authorised accounting firm, with approximately 30 employees at the time of acquisition. The firm's net sales were SEK 27.2 million (EUR 2.6 million) in the financial period 1 September 2017-31 August 2018. Profitability over the financial period was good (EBITDA of SEK 4.0 million (EUR 0.4 million), 14.7% of net sales). The sale price was SEK 27.0 million (EUR 2.6 million), of which SEK 13.5 million (EUR 1.3 million) was paid in cash and financed by the liquid assets of Talenom Plc. The remainder of the sale price was paid by means of new subscribed shares of Talenom Plc in a special issue.

In accordance with the terms of sale, the new shares were subscribed for and their subscription price was considered paid with all the shares in Wakers Consulting AB as consideration in kind on 2 May 2019. The subscription price for the new shares was fully booked in Talenom Plc's invested unrestricted equity fund. In the directed issue, 48,678 new shares were offered for subscription. The number of new shares issued corresponded to around 0.71% of all Talenom Plc shares before the directed issue.

In its meeting of 23 April 2019, the Board of Directors decided to cancel 60,549 option rights, marked as 2016B, held by the company. The other options in the 2016B series had been used earlier to subscribe for shares. Thus, following the cancellation, the company has no more outstanding stock options of the 2016B series.

On 31 May 2019, Talenom Plc agreed with the owners of Vaasa-based accounting firms Oy Wasa Tilit Ab and WT Företagstjänster Ab Oy to acquire the businesses of the firms. Part of the purchase price was paid with the shares of Talenom Plc subscribed in a directed share issue to the owners of the acquired companies.

The acquired businesses employed a total of 30 people. The combined net sales of the businesses amounted to EUR 2.2 million between 1 March 2018 and 28 February 2019 (unaudited) and the operating margin (EBITDA) was EUR 0.2 million. The purchase price totalled EUR 1,590 thousand, of which EUR 690 thousand was paid with new Talenom Plc shares subscribed for in a directed share issue. The rest of the purchase price was paid with cash and financed through the liquid assets of Talenom Plc and by taking over the holiday pay reserves of the acquired businesses.

20,280 new shares were offered for subscription in accordance with the terms and conditions of the purchase agreement in the directed share issue. The number of new shares issued was equivalent to approximately 0.29% of all Talenom shares before the issue of the new shares.

In accordance with the terms and conditions of the purchase agreement, the new shares were subscribed and their subscription price was considered to be paid with the businesses of Oy Wasa Tilit Ab and WT Företagstjänster Ab Oy, which were delivered as a contribution in kind at the same time. The subscription price for the new shares was fully booked in Talenom Plc's invested unrestricted equity fund.

Talenom's Annual General Meeting was held on 26 February 2019 in Helsinki. The AGM decided to issue a dividend of EUR 0.55 per share for the financial period 1 January-31 December 2018. The dividend was paid to shareholders on 7 March 2019.

The AGM authorised the Board of Directors to decide on the buyback of up to 50,000 of the company's shares in one or more instalments with the company's unrestricted equity.

The Annual General Meeting resolved to authorise the Board of Directors to decide on share issues and the issuance of special rights entitling to shares, as referred to in Chapter 10, Section 1 of the Limited Liability Companies Act. The maximum number of shares to be issued, including shares received under special rights, is 300,000 shares in total. The Board of Directors will use the authorisation to pay transaction prices in connection with acquisitions, or for other purposes decided by the Board of Directors.

In deviation from shareholders' pre-emptive rights, the Annual General Meeting decided to issue option rights to Talenom Group's key employees in accordance with the terms and conditions of Talenom Plc's Option Rights 2019. The terms and conditions are available (in Finnish) on Talenom's investor pages at: [Talenom.fi/sijoittajat/yhtiokokoukset](http://Talenom.fi/sijoittajat/yhtiokokoukset).

The composition of the Board of Directors remained unchanged as the AGM resolved to renew the terms of Harri Tahkola, Mikko Siuruainen, Olli Hyypä, Anne Riekkö and Johannes Karjula. In its organising meeting after the Annual General Meeting, the Board of Directors elected Harri Tahkola as Chairman of the Board. The auditing firm KPMG Ltd was selected to continue as the auditor, with Tapio Raappana, APA as the principal auditor.

Otto-Pekka Huhtala started as CEO on 29 July 2019. Previous CEO Jussi Paaso will continue to work for the company.

On 13 August 2019, Talenom announced that it had signed a market making agreement with Lago Kapital Ltd in compliance with the requirements of Nasdaq Helsinki Ltd's Liquidity Providing (LP) operations. A market making agreement with Lago Kapital Ltd had already been in force for the Talenom Plc share. The agreement was updated to meet the requirements of Nasdaq Helsinki Ltd's Liquidity Providing (LP) operations.

On 22 August 2019, Talenom started repurchasing its own shares. The share buyback ended on 20 September 2019. During this period, Talenom acquired 20,000 of its own shares at an average price of EUR 33.7208 per share. The shares were acquired at the market price quoted at the time of the repurchase in public trading on Nasdaq Helsinki Ltd. The share buyback was based on the authorisation granted by the Annual General Meeting of 2019, in which the Board of Directors was authorised to decide on the repurchase of a maximum of 50,000 of its own shares, and the decision of the Board on 22 August 2019 to carry out a repurchase programme for 20,000 shares.

After the buyback, Talenom Plc holds a total of 25,100 own shares, representing about 0.36% of all shares in the company.

## **EVENTS AFTER THE REVIEW PERIOD**

No significant events took place after the review period.

## 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 lease periods of continuous leases are determined based on the estimate given by the Group management. IFRS 16 includes exemptions for short-term leases and leases of low-value assets, which the company has applied. The related payments have been recognised as expenses in equal instalments in the income statement. In the interest of comparability, in its key figures and consolidated balance sheet for the review period, the company presents both the effects of the IFRS 16 standard and information adjusted to ignore the effects of IFRS 16.

The amount of the asset recognised in the balance sheet on 1 January 2019 and the corresponding interest-bearing debt was EUR 8.0 million. Other operating lease commitments on 31 December 2018 amounted to EUR 11.8 million. Lease liabilities and operating lease commitments differed at the time of adoption mainly because the company has separated out the non-lease component of lease agreements for business premises (maintenance charges) and has recognised an asset according to IFRS 16 only for the net rent component. This difference is also affected by the application of exemptions for short-term leases and leases of low-value assets as well as the interest rate used in discounting lease liabilities, 2.5% on average. Interest on lease liabilities is disclosed in financial expenses.

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 metrics are presented below under section Formulas.

In addition to the aforementioned, the company presents alternative performance metrics in describing the effects of the IFRS 16 standard on its financial information (see Financial development).

## **FINANCIAL REPORTING**

Talenom Plc will publish interim reports as follows:

Financial Statement Bulletin 2019 on Monday 3 February 2020 at 13:30

The Financial Statement Reports, 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](http://www.talenom.fi/en/investors).

## 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)	=	$\left( \frac{\text{net sales at the end of the period}}{\text{net sales in the beginning of the period}} \right)^{1/\text{number of years} - 1}$	

**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.