TALENOM

Business Review Q1 2023

Talenom's growth continued as strong in line with the selected strategy

1 Jan to 31 March 2023
(unaudited)

Business Review Q1 2023:

Talenom's growth continued as strong in line with the selected strategy

January–March 2023 in brief

- Net sales EUR 31.3 million (25.2), growth 24.2% (24.1)
- EBITDA EUR 8.4 million (8.9), 26.7% (35.2) of net sales
- Operating profit (EBIT) EUR 3.5 million (4.9), 11.0% (19.3) of net sales
- Net profit EUR 2.1 million (3.7)
- Earnings per share EUR 0.05 (0.09)

Key figures

Group	1–3/2023	1–3/2022	Change, %
Net sales, EUR 1,000	31,311	25,209	24.2%
Net sales, increase %	24.2%	24.1%	
EBITDA, EUR 1,000	8,365	8,864	-5.6%
EBITDA of net sales, %	26.7%	35.2%	
Operating profit (EBIT), EUR 1,000	3,458	4,861	-28.9%
Operating profit (EBIT), as % of net sales	11.0%	19.3%	
Return on investment (ROI), % (rolling 12 months)	11.7%	16.8%	
Interest-bearing net liabilities, EUR 1,000	68,060	46,573	46.1%
Net gearing ratio, %	130%	106%	
Equity ratio, %	31.4%	34.6%	
Net investments, EUR 1,000	12,641	7,402	70.8%
Liquid assets, EUR 1,000	13,255	12,891	2.8%
Earnings per share, EUR	0.05	0.09	-46.7%
Weighted average number of shares during the period	44,893,388	43,731,739	2.7%
Net profit, EUR 1,000	2,057	3,748	-45.1%

Guidance for 2023 unchanged

Talenom estimates that 2023 net sales will be about EUR 120–130 million and that its euro-denominated EBITDA and operating profit will grow from 2022.

CEO Otto-Pekka Huhtala

Talenom wants to promote the digitalization of Europe's SMEs. We believe, the time for strong growth is now, because the European financial management market is becoming digitalized and consolidated. This change is accelerated by several ongoing significant structural changes in the industry. For example, the introduction of the e-invoicing directive in the EU will force every company to implement software that enables sending and receiving e-invoices. We have systematically developed our systems to respond to the changes in the operating environment brought on by digitalization. We have, thus, chosen strong growth as a strategic focus area in many different European countries, although it will burden our short-term relative profitability.

During the first quarter, we made determined progress on strategic priorities:

1. Accelerating digital distribution progressed with the new website and a unified brand. The digital purchasing path was simplified, which is visible as more successful sales. TiliJaska's products have now been replaced with Talenom and Talenom One products.
2. Distribution of banking services progressed and Talenom Accounts are being used by test customers. We are gradually expanding the distribution of accounts and cards during spring.
3. In Sweden, implementation of own software has, during the season, focused on refining functionalities and introducing new features such as the PSD2 directive. The PSD2 directive imposes an obligation to open bank interfaces across the EU, allowing banking services to be integrated into the accounting firm's service offering. This provides easy payment for customers and makes the accountant's work more efficient. Based on the experience in Finland, the introduction of Talenom's processes and accounting software will reduce routine work to up to a quarter of the current time spent on such tasks.
4. The project to improve the productivity of acquisition targets progressed. We standardized an effective integration model to take over acquisition targets.

In the first quarter, our net sales increased by 24.2% (24.1) to EUR 31.3 million (25.2), which was slightly below the targeted level due to volume-based and consultative invoicing and the exchange rate effect of the weak SEK. The growth was based on several acquisitions in Sweden and Spain and strong organic growth in Finland. EBITDA was EUR 8.4 million (8.9) and the EBITDA margin was still strong at 26.7% (35.2). EBITDA was depressed by the system platform acquired in Spain in autumn 2022 that had a weakening effect of around EUR 0.5 million (0.0) on EBITDA. In addition, the weakening effect of non-recurring items related to acquisitions and other expenses was EUR 0.5 million compared to the comparison period. Operating profit was EUR 3.5 million (4.9) and the EBIT margin was 11.0% (19.3). Relative profitability was depressed by our planned investments in growth, wage inflation, as well as integration and other costs arising from acquisitions.

In Finland, net sales grew by 11.5% (16.5) to EUR 23.4 million (21.0). EBITDA was EUR 8.3 million (8.3). The EBITDA margin was excellent at 35.4% (39.5). Increased costs were not passed on to customer prices until the end of the reporting period, which was reflected in weakened relative profitability. The very strong performance of the Finnish business continued. The working time freed up by the high degree of automation enabled delivery of more extensive monthly service packages. Thanks to more extensive services we managed to win over more new customers than targeted.

In Sweden, growth continued as strong driven by acquisitions. Net sales grew by 68.6% (73.1) to EUR 6.7 million (4.0). EBITDA was EUR 0.8 million (0.5) representing 11.9% (11.6) of net sales. The weak Swedish krona had a negative impact on euro-denominated net sales and EBITDA development. Sweden's profitability is still burdened by strengthening the organization as planned and accelerating integration, as well as implementation of the own software. These costs are front-loaded.

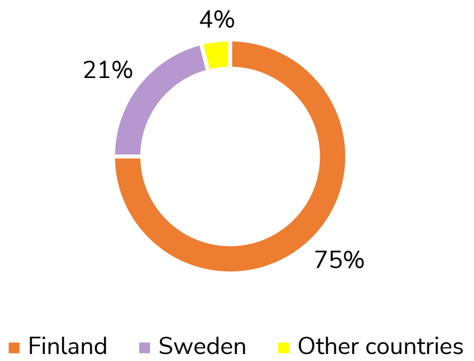
In Spain, acquisition-driven growth accelerated. We have utilized our experience of becoming established in Sweden and strengthened resources in management on a front-loaded basis while simplifying and accelerating integration processes. In Spain, we also harmonized our product offering to boost growth and launched robotics projects to improve process efficiency. Measured by EBITDA, the Spanish accounting business is profitable. The profitability of the Spanish business is burdened by the platform business. The platform enables customer segmentation, which supports future profitability growth. In Italy, we continue to learn about the market and operating environment through the acquisition we completed.

The profitability of the first quarter was mainly depressed by non-recurring costs related to acquisitions and the Spanish platform business. In Spain, we are moving to a more profitable customer segment in the platform business and implementing changes in processes that improve profitability. We also expect the profitability of Finland's business to improve thanks to price increases.

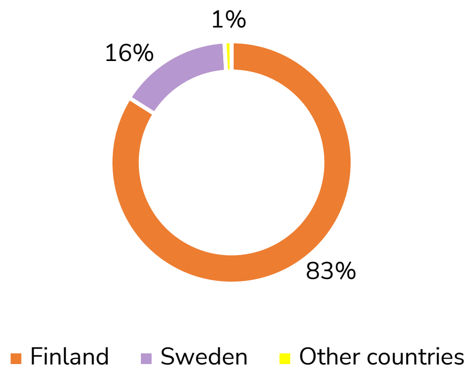
We keep our guidance unchanged. We estimate that our 2023 net sales will be about EUR 120–130 million and that euro-denominated EBITDA and operating profit will grow from 2022.

Group financial development January–March 2023

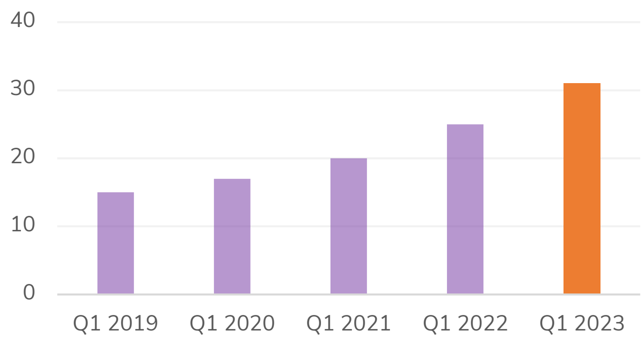
Net sales by country 1–3/2023



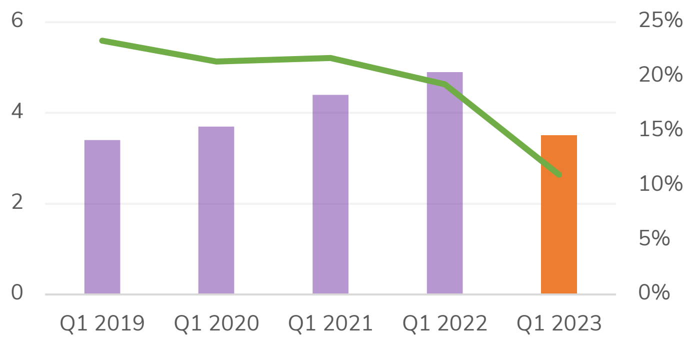
Net sales by country 1–3/2022



Net sales development, EUR million



EBIT development, EUR million



Net sales increased by 24.2% to EUR 31.3 million (25.2). Some 60% of the increase in net sales came from acquisitions and some 40% organically through growth in customer numbers and sales of value-added services in Finland.

Personnel costs amounted to EUR 18.1 million (13.4) representing 57.8% (53.2) of net sales. Other operating expenses, including materials and services, totalled EUR 5.1 million (3.4) or 16.1% (13.5) of net sales.

EBITDA decreased by -5.6% to EUR 8.4 million (8.9) or 26.7% (35.2) of net sales. EBITDA was depressed by the system platform acquired in Spain in autumn 2022 that had a weakening effect of around EUR 0.5 million (0.0) on EBITDA. In addition, the weakening effect of non-recurring items related to acquisitions and other expenses was EUR 0.5 million compared to the comparison period. Operating profit decreased by -28.9% to EUR 3.5 million (4.9) or 11.0% (19.3) of net sales. Relative profitability was depressed by our planned investments in growth, wage inflation, as well as integration and other costs arising from acquisitions. Net profit decreased by -45.1% to EUR 2.1 million (3.7). Net financial expenses increased to EUR 0.7 million (0.1).

Country-specific financial development January-March 2023

Finland

	1–3/2023	1–3/2022	Change, %
Net sales, EUR 1,000	23,377	20,965	11.5%
Net sales growth, %	11.5%	16.5%	
EBITDA, EUR 1000	8,278	8,274	0.0%
EBITDA of net sales, %	35.4%	39.5%	
Depreciation and amortisations, EUR 1,000	-4,155	-3,612	15.0%
Operating profit, EUR 1,000	4,123	4,661	-11.6%
Operating profit of net sales, %	17.6%	22.2%	

January-March 2023

Net sales increased by 11.5% to EUR 23.4 million (21.0). Growth was mainly organic and was driven by increased customer numbers and sales of value-added services. Bankruptcies and business closures increased, but their impact on Talenom's business was limited.

Measured by EBITDA and operating profit, relative profitability weakened. Nevertheless, profitability was still at an excellent level. Increased costs were not passed on to customer prices until the end of the reporting period, which was reflected in weakened relative profitability.

Sweden

	1–3/2023	1–3/2022	Change, %
Net sales, EUR 1,000	6,727	3,989	68.6%
Net sales growth, %	68.6%	73.1%	
EBITDA, EUR 1000	800	461	73.5%
EBITDA of net sales, %	11.9%	11.6%	
Depreciation and amortisations, EUR 1,000	-585	-378	55.0%
Operating profit, EUR 1,000	214	84	156.5%
Operating profit of net sales, %	3.2%	2.1%	

January-March 2023

Net sales increased by 68.6% to EUR 6.7 million (4.0). Net sales growth came mainly from acquisitions. The weak Swedish krona had a negative impact on euro-denominated net sales development.

Relative EBITDA was 11.9% (11.6) and operating profit 3.2% (2.1) of net sales. Sweden's profitability is still burdened by strengthening the organization as planned and accelerating integration, as well as implementation of the own software. The weak Swedish krona had a negative impact on euro-denominated EBITDA development.

Other countries

	1–3/2023	1–3/2022	Change, %
Net sales, EUR 1,000	1,207	256	372.3%
Net sales growth, %	372.3%		
EBITDA, EUR 1000	-435	-62	-607.0%
EBITDA of net sales, %	-36.0%	-24.1%	
Depreciation and amortisations, EUR 1,000	-168	-12.3	1261.8%
Operating profit, EUR 1,000	-602	-73.8	-716.1%
Operating profit of net sales, %	-49.9%	-28.9%	

January-March 2023

Net sales increased by 372.3% to EUR 1.2 million (0.3). Net sales growth came mainly from acquisitions.

Business was loss-making. Measured by EBITDA, the Spanish accounting business is profitable. The profitability of the Spanish business is burdened by the platform business. The platform enables customer segmentation, which supports future profitability growth.

Unallocated items

Unallocated items include revenue and cost recognition of additional purchase prices related to acquisitions.

	1–3/2023	1–3/2022	Change, %
Net sales, EUR 1,000			
Net sales growth, %			
EBITDA, EUR 1000	-278	190	
EBITDA of net sales, %			
Depreciation and amortisations, EUR 1,000			
Operating profit, EUR 1,000	-278	190	
Operating profit of net sales, %			

Investments and acquisitions during the review period

The total net investments during the review period were EUR 12.6 million (7.4).

Investments	Q1 2023	Q1 2022
New customer agreements, EUR 1,000	778	886
Software and digital services, EUR 1,000	3,769	3,172
Acquisitions in Finland, EUR 1,000	0	282
Acquisitions abroad, EUR 1,000	7,198	2,897
Other investments	896	166
Total net investments, EUR 1,000	12,641	7,402

*) includes an estimated EUR 0 (46,000) in recorded additional deal prices
**) includes an estimated EUR 1,570,000 (872,000) in recorded additional deal prices

Business acquisitions in January-March:

- Studio Gavazzi, Italy

Share transactions in January-March:

- MTE Göteborg Ab, Sweden
- R2 Redovisning Ab, Sweden
- BKF Asesores, S.l., Spain
- Easycount Ab, Sweden
- Bv Coruña Asesoría De Empresas, S.l., Spain
- Consultoria Granadina S.l. and Grupo CG Consultores 2012 S.l., Spain

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

EUR 1,000	Share transactions	Business acquisitions
Total purchase prices	5,587	270
Maximum contingent consideration	1,982	170
Net sales, previous 12 months at time of purchase, total	4,306	553
Operating profit, previous 12 months at time of purchase, total	1,071	0

In acquisitions, part of the purchase price was paid with new Talenom Plc shares subscribed for in directed issues. A total of 212,456 shares were subscribed for in directed share issues related to acquisitions during 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 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 IFRS. Alternative performance measures 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 ratio %, equity ratio %, working capital and net investments. The formulas and explanations of alternative performance measures are presented below under section Formulas.

TABLES

Consolidated comprehensive income statement

EUR 1,000	1–3/2023	1–3/2022	2022
Net sales	**31,311**	**25,209**	**102,107**
Other operating income	197	486	1,625
Materials and services	-933	-853	-3,950
Employee benefit expenses	-18,088	-13,421	-55,682
Depreciation and amortisations	-4,908	-4,002	-17,128
Other operating expenses	-4,122	-2,559	-11,706
Operating profit	**3,458**	**4,861**	**15,266**
Financial income	111	174	466
Financial expenses	-819	-315	-1,178
Net financial expenses	**-708**	**-140**	**-712**
Profit (loss) before taxes	**2,750**	**4,721**	**14,554**
Income taxes	-692	-973	-2 753
Profit (loss) for the financial period	**2,057**	**3,748**	**11,801**
Other items of comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Translation differences	99	8	57
Total comprehensive income for the financial period	**2,157**	**3,756**	**11,858**

Consolidated balance sheet

EUR 1,000		31 March 2023	31 March 2022	31 Dec. 2022
ASSETS				
	Non-current assets			
	Goodwill	59,778	39,914	54 986
	Other intangible assets	49,264	37,860	45 806
	Right-of-use assets	10,709	8,766	9 922
	Property, plant and equipment	3,359	2,724	2 752
	Other non-current financial assets	259	850	254
	Deferred tax assets	472	115	443
	Capitalised contract costs	11,572	11,889	11 694
	Total non-current assets	**135,413**	**102,117**	**125 857**
	Current assets			
	Trade and other receivables	17,543	12,127	14 178
	Current tax assets	545	101	315
	Cash and cash equivalents	13,255	12,891	15 970
	Total current assets	**31,343**	**25,119**	**30 463**
Total assets		**166,756**	**127,236**	**156,320**
CAPITAL AND RESERVES				
	Share,capital	80	80	80
	Reserve,for,invested,unrestricted,equity	28,909	23,893	26 861
	Retained,earnings	23,300	19,911	29 085
Total equity		**52,289**	**43,884**	**56,026**
LIABILITIES				
	Non-current,liabilities			
	Financial,liabilities	60,258	50,149	50 122
	Trade,and,other,payables	3,530	2,959	2 845
	Lease,liabilities	6,798	5,940	6 256
	Deferred,tax,liabilities	3,601	2,050	3 040
	Total,non-current,liabilities	**74,187**	**61,098**	**62 263**
	Current,liabilities			
	Financial,liabilities	10,000	16	10 001
	Trade,and,other,payables	26,315	18,862	23 724
	Lease,liabilities	3,919	3,037	3 705
	Current,tax,liabilities	46	340	601
	Total,current,liabilities	**40,280**	**22,255**	**38 032**
Total liabilities		**114,467**	**83,352**	**100,295**
Total equity and liabilities		**166,756**	**127,236**	**156,320**

Formulas

Net sales, increase % = $\frac{\text{net sales - net sales of the preceding year}}{\text{net sales of the preceding year}}$ x 100

Operating profit = net sales + other operating income - materials and services - personnel expenses - depreciations and amortisations - other operating expenses

Operating profit (EBIT), % = $\frac{\text{operating profit (EBIT)}}{\text{net sales}}$ x 100

Return on investment (ROI), % (rolling 12 months) = $\frac{\text{operating profit (EBIT) before taxes + interest and other financial expenses}}{\text{total equity and liabilities - non-interest-bearing liabilities (average of the accounting period)}}$ x 100

Interest-bearing net liabilities = interest-bearing liabilities - cash in hand and in banks

Net gearing ratio, % = $\frac{\text{interest-bearing liabilities - cash in hand and in banks}}{\text{capital and reserves}}$ x 100

Equity ratio, % = $\frac{\text{capital and reserves}}{\text{balance sheet total - advances received}}$ x 100

Working capital = inventories + non-interest-bearing current receivables - non-interestbearing current liabilities

Net investments = investments in tangible and intangible assets - sales of assets

Earnings per share = $\frac{\text{net profit of the review period}}{\text{Weighted average number of shares outstanding during the review x 100 period}}$ x 100

Compound annual growth rate (CAGR) = $\left(\frac{\text{net sales at the end of the period}}{\text{net sales in the beginning of the period}}\right)^{\frac{1}{\text{number of years}}} - 1$

EBITDA = operating profit + depreciation + amortisation

EBITDA, % = $\frac{\text{EBITDA}}{\text{Net sales}}$ x 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 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 financial 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.

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.

TALENOM PLC
Board of Directors

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