

Borussia Dortmund – QuickView

28 February 2013

Investment summary: Finding ‘true love’

Borussia Dortmund continues to impress both on and off the field. Q2 revenue gain of 24% at enhanced margin despite vigorous investment is no mean feat and testament to the increasingly positive development of the club’s powerful brand, as well as of course to sustained playing success. Furthermore, the prospect of a significant long-term boost to domestic TV rights tempers concern about player wage pressures and consumer spending. Importantly, strong, disciplined finances should hold the company in good stead in a market subject to growing regulation.

Q2 easy on the eye

The quarter to December more than maintained the heady pace of Q1 with double-digit top-line increases by all key activities. Advertising and merchandising were again to the fore (+29% and +45% respectively), thanks particularly to a change of kit supplier to PUMA and new Champions League partners, while a successful European campaign boosted broadcasting income. Indeed, the advance in profit was even more marked (EBIT up by a third), which is impressive in view of substantially higher costs associated with the club’s new star signing, Marco Reus, certain key contract renewals, merchandise expansion and stadium refurbishment. There was a useful contribution from lucrative release fees for national players. H1 PBT was up 9% at €16.7m. Net debt at December was €35.9m, ie just 35% gearing and effectively lower, as players are not shown on the balance sheet at market value.

Forecasts cautious even without Champions League boost

While uncertainty at this critical stage in the season is reasonable, as is management’s traditionally ‘very conservative’ budget, the company’s trading and playing momentum in the year to date suggest scope to surprise. Progress in the Champions League would be a bonus (eliminated at the group stage in FY12) and its recent good performance in the Bundesliga suggests qualification for next season’s competition. Although some transfer profit is included in forecasts, the boost could be as material as last year (sale of Kagawa to Manchester United).

Valuation: Forsaken

A modest rating (4x FY13 EV/EBITDA, albeit with some transfer gain) disregards the long-term potential of strong brand development, healthy subscriptions and valuable media rights. The company should be further rewarded for its self-sustaining model.

Consensus estimates

| Year End | Revenue (€m) | PBT (€m) | EPS (€) | DPS (€) | P/E (x) | Yield (%) |
|----------|--------------|----------|---------|---------|---------|-----------|
| 06/11 | 152 | 9.5 | 0.09 | 0.00 | 34.2 | N/A |
| 06/12 | 215 | 36.6 | 0.45 | 0.06 | 6.8 | 1.9 |
| 06/13e | 234 | 30.4 | 0.39 | 0.06 | 7.9 | 1.9 |
| 06/14e | 205 | 35.0 | 0.42 | 0.06 | 7.3 | 1.9 |

Source: Bloomberg

Price **€3.08**
 Market cap **€189m**

Share price graph



Share details

Code **BVB**
 Listing **Frankfurt**
 Sector **Leisure**
 Shares in issue **61.4m**

Business

The group operates Borussia Dortmund, a leading German football club, current champions of the Bundesliga and competing in this season’s UEFA Champions League.

Bull

- Successful player squad with significant transfer value potential.
- One of the best supported clubs in Europe with major brand and stadium assets.
- Strong finances.

Bear

- Inherently unpredictable business.
- Pressures on consumer spending.
- Subject to external governing bodies.

Analysts

Richard Finch +44 (0)20 3077 5700

Jane Anscombe +44 (0)20 3077 5740

consumer@edisoninvestmentresearch.co.uk

EDISON QUICKVIEWS ARE NORMALLY ONE OFF PUBLICATIONS WITH NO COMMITMENT TO WRITING ANY FOLLOW UP. QUICKVIEW NOTES USE CONSENSUS EARNINGS ESTIMATES.

EDISON INVESTMENT RESEARCH LIMITED

Edison Investment Research Limited (Edison) is a leading international investment research company. Edison and its subsidiaries (Edison Group) have won industry recognition, with awards both in Europe and internationally. The team of 110 includes over 60 analysts supported by a department of supervisory analysts, editors and assistants. Edison writes on more than 400 companies across every sector and works directly with corporates, fund managers, investment banks, brokers and other advisers. Edison's research is read by institutional investors, alternative funds and wealth managers in more than 100 countries. Edison, founded in 2003, has offices in London, New York, Sydney and Wellington. Edison is authorised and regulated by the United Kingdom's Financial Services Authority (www.fsa.gov.uk/register/firmBasicDetails.do?sid=181584). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only.

DISCLAIMER

Copyright 2013 Edison Investment Research Limited. All rights reserved. This report has been prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c)(1)(a), (b) and (c) of the FAA). It is not intended for retail clients. This is not a solicitation or inducement to buy, sell, subscribe, or underwrite securities. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct an investment business and, accordingly, does not hold any positions in the securities mentioned in this report. However, their respective directors, officers, employees and contractors may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication.

Registered in England, number 4794244, Edison Investment Research Limited is authorised and regulated by the United Kingdom Financial Services Authority. www.edisoninvestmentresearch.co.uk. Registered on the New Zealand Financial Service Providers Register, number 247505, Edison Investment Research (NZ) Limited is registered to provide wholesale and/or generic financial adviser services and is regulated by the New Zealand Financial Markets Authority.

London +44 (0)20 3077 5700
Lincoln House, 296-302 High Holborn
London, WC1V 7JH, UK

New York +1 646 653 7026
245 Park Avenue, 24th Floor
NY 10167, New York, US

Wellington + 64 4894 8555
Level 15 HP Tower, 171 Featherston St
Wellington 6011, NZ

Sydney +61 (0)2 9258 1162
Level 33, Australia Square, 264 George St,
Sydney, NSW 2000, Australia