

# Borussia Dortmund

## Game changer

The newly-announced rights issue, potentially raising c €114m (gross), ie four for 11 at €4.66 per share, is welcome in terms of cash and the scope for a step change in profit. Binding undertakings from key sponsors Puma, Evonik and SIGNAL IDUNA, covering c €82m of the issue, recognise management's creation of a sustainable business with underlying profit growth. This was shown by record pre-transfer EBITDA in FY14, which confirmed that the Wembley-led comparative was not as good as it gets. We will review fully our forecasts on completion of the capital increase and release of the annual report.

Year end	Revenue* (€m)	EBITDA* (€m)	PBT** (€m)	EPS** (€)	DPS (€)	EV/EBITDA (x)
06/13	253.4	42.1	71.6	0.99	0.10	9.2
06/14	256.3	44.7	37.1	0.51	0.10	8.5
06/15e	256.0	49.0	38.0	0.48	0.10	7.6

Note: \*Before player transfer income \*\*PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments.

### Q4: Strong profit growth

Although the quarter to June saw less involvement in the Champions League (two games against five in Q413) with a 15% reduction in overall revenue, pre-transfer EBITDA more than doubled to c €12.5m. This largely reflected the absence of variable costs associated with the club's progress to the 2013 Champions League Final, eg player bonuses, advertising agency commissions and match operations. It is nonetheless creditable in view of the persistent high costs of player signings, key contract renewals, merchandise expansion and stadium refurbishment. For the year as a whole, advertising (28% of pre-transfer revenue) and merchandising showed further top-line strength (+5% and +11% respectively). The dividend is to be maintained at last year's raised level.

### Another good year in prospect

FY15 should see further progress and may be cautious as we have not allowed for Champions League beyond the Round of 16 (estimated additional c €4m EBITDA in FY14). The acquisitions of last season's Serie A top scorer Immobile and fourth-highest Bundesliga scorer Ramos may allay concern at the loss of Lewandowski, as should the return of key players who missed much of 2013/14 through injury. Even before this proposed capital raise, Dortmund's finances remain robust (FY15e net debt/EBITDA of 0.8x), boosted by c €26m proceeds from Evonik's investment, which helps to meet the current spike in net player spend (likely c €43m).

### Valuation: Share price consolidating well

The market's appreciation of Evonik's investment and apparent additional interest has been encouraging, given its backing of Dortmund's strategy and a possible step change in the business on a material provision of resources. An EV/EBITDA of 7.6x FY15e arguably does not recognise the long-term potential of powerful brand development, valuable media rights and strong cash flow, backed by season ticket sales and hidden reserves from player investment.

## Travel & leisure

22 August 2014

**Price** €4.95  
**Market cap** €334m

Net debt including finance leases at June 2014 (€m)	44.9
Shares in issue	67.5m
Free float	69%
Code	BVB
Primary exchange	Frankfurt
Secondary exchange	N/A

### Share price performance



%	1m	3m	12m
Abs	(1.4)	33.3	42.5
Rel (local)	0.8	37.5	25.5
52-week high/low		€5.15	€3.46

### Business description

The group operates Borussia Dortmund, a leading German football club, recent back-to-back champions of the Bundesliga and competing in this season's Champions League (quarter-finalist last season).

### Next events

Champions League group stage draw	28 August 2014
Annual report	26 September 2014
Q3 results	14 November 2014

### Analysts

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**Exhibit 1: Financial summary**

	€'000s	2012	2013	2014	2015e
June		IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>					
Revenue		189,100	253,400	256,300	256,000
EBITDA		36,800	42,100	44,700	49,000
Player transfers		23,200	45,400	4,400	0
Operating Profit (before amort. and except.)		49,900	76,700	40,900	41,500
Intangible Amortisation		(8,500)	(11,600)	(22,500)	(28,000)
Exceptionals		0	0	0	0
Other		0	0	0	0
Operating Profit		41,400	65,100	18,400	13,500
Net Interest		(4,800)	(5,100)	(3,800)	(3,500)
Profit Before Tax (norm)		45,100	71,600	37,100	38,000
Profit Before Tax (FRS 3)		36,600	60,000	14,600	10,000
Tax		(9,100)	(8,800)	(2,600)	(1,500)
Profit After Tax (norm)		36,000	62,800	34,500	36,500
Profit After Tax (FRS 3)		27,500	51,200	12,000	8,500
Average Number of Shares Outstanding (m)		61.4	61.4	61.4	67.5
EPS - normalised (c)		55.0	99.2	51.5	47.9
EPS - (IFRS) (c)		44.8	83.4	19.5	12.6
Dividend per share (c)		6.0	10.0	10.0	10.0
EBITDA Margin (%)		19.5	16.6	17.4	19.1
Operating Margin (before GW and except.) (%)		26.4	30.3	16.0	16.2
<b>BALANCE SHEET</b>					
Fixed Assets		210,400	212,200	249,500	255,000
Intangible Assets		25,700	28,400	61,600	70,000
Tangible Assets		182,600	178,400	184,500	183,000
Investments		2,100	5,400	3,400	2,000
Current Assets		38,300	90,200	42,800	47,800
Stocks		5,800	7,600	5,900	6,000
Debtors		24,500	65,900	14,900	17,000
Cash		5,300	12,500	17,800	20,800
Other		2,700	4,200	4,200	4,000
Current Liabilities		(61,900)	(74,400)	(71,000)	(71,600)
Creditors		(54,600)	(68,500)	(60,500)	(64,000)
Short term borrowings		(6,000)	(4,500)	(8,900)	(6,000)
Finance leases		(1,300)	(1,400)	(1,600)	(1,600)
Long Term Liabilities		(93,300)	(87,300)	(76,000)	(82,200)
Long term borrowings		(41,300)	(40,800)	(32,100)	(30,000)
Finance leases		(21,100)	(19,700)	(20,100)	(20,200)
Other long term liabilities		(30,900)	(26,800)	(23,800)	(32,000)
Net Assets		93,500	140,700	145,300	149,000
<b>CASH FLOW</b>					
Operating Cash Flow		32,700	40,700	32,500	46,000
Net Interest		(4,900)	(5,000)	(3,900)	(3,500)
Tax		(1,100)	(8,800)	(3,900)	(2,000)
Capex		(7,300)	(6,500)	(10,900)	(8,900)
Acquisitions/disposals		(1,500)	(7,600)	2,000	(43,500)
Financing		0	0	0	26,000
Dividends		100	(3,600)	(6,100)	(6,100)
Net Cash Flow		18,000	9,200	9,700	8,000
Opening net debt/(cash)		69,900	64,400	53,900	44,900
HP finance leases initiated		(12,500)	1,300	(700)	(100)
Other		0	0	0	0
Closing net debt/(cash)		64,400	53,900	44,900	37,000

Source: Borussia Dortmund, Edison Investment Research

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