

Borussia Dortmund

Half-year results

The price of success

While maintained revenue in H116 was no mean feat without the Champions League, pre-transfer EBITDA (our key metric) was a casualty (-59%) of much higher than expected costs, driven by the team's outstanding performance. With inflationary wage pressure unlikely to abate in the face of continued success, we are lowering our EBITDA forecasts by €10m and €12m for FY16 and FY17. However, we are encouraged that Dortmund's current runaway second place in the Bundesliga, with just a quarter of the season to go, justifies confidence in a possible step change in returns in FY17, assuming Champions League qualification. We still look for a doubling in pre-transfer EBITDA, albeit from the newly reduced base, and strong cash generation for player investment. Finances remain typically disciplined.

Year end	Revenue* (€m)	EBITDA* (€m)	PBT** (€m)	EPS** (€)	DPS (€)	EV/EBITDA* (x)
06/14	256.3	44.7	37.1	0.51	0.10	9.0
06/15	263.6	48.0***	44.2***	0.43***	0.05	6.8
06/16e	270.0	24.0	26.9	0.25	0.05	13.2
06/17e	300.0	48.0	39.0	0.36	0.05	6.0

Note: *Before player transfer income. **PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments. ***Including insurance claim benefit (our estimate €12m).

H1: Mixed picture

Although notable for success across the board (Bundesliga, German Cup and Europa League), the half to December 2015 saw a sharp reduction in pre-transfer EBITDA, ie €11.8m vs €29.1m in H115, owing to 13% higher labour and operating costs. Management attributes this to pressures associated with key player retention and performance-related variable expenses, eg player bonuses, advertising agency commissions, administration and match operations. By contrast, revenue held up well in the absence of Champions League (TV marketing income from European competition down €16m), owing largely to an increase of c 40% from Bundesliga broadcasting (new deal on international marketing rights).

Reduction in forecasts reflects investment

The change to our forecasts, detailed on page 2, relates mainly to labour costs, which we had expected to be stable without the Champions League but rose by 17% in H1. On current playing assumptions, which may be cautious after the 3-0 first-leg Europa win against Tottenham, some moderation in H2 to +8% may be in order, as costs were an issue in the comparative. We look for just 2% rise in labour expenses in FY17 as the squad is already run on Champions League lines.

Valuation: Room for counterattack

Dortmund's season has surpassed expectations, with renewed access to Champions League riches apparently within reach (only 11 points needed), yet the FY17e EV/EBITDA rating of 6.0x is not high. Also, the scope for transfer gains is escalating. Albeit notional, the surplus of market value to net player assets is c €238m (c €190m at June 2015) if the December 2015 carrying value of €78m is set against the sports website's (www.transfermarkt.de) current valuation of €316m.

Travel & leisure

11 March 2016

Price €3.88

Market cap €357m

Net cash (€m) at December 2015 including finance leases 6.4

Shares in issue 92.0m

Free float 60.5%

Code BVB

Primary exchange Frankfurt

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 3.5 (2.6) (4.2)

Rel (local) (1.7) 8.7 16.0

52-week high/low €4.21 €3.23

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 UEFA Europa League (Round of 16 participants in 2014/15 UEFA Champions League).

Next events

Europa League Round of 16 against Tottenham 17 March 2016

German Cup semi-final against Hertha Berlin 20 April 2016

Q3 results 13 May 2016

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Exhibit 1: Revenue and profit analysis

Year end June (€m)	H115	H215	FY15	H116	H216e	FY16e	FY17e
Home matches							
Bundesliga	8	9	17	8	9	17	17
Champions League	3	1	4	-	-	-	4**
Europa League	-	-	-	5	2**	7**	-
DFB Cup	-	1	1	1	- ***	1***	2***
Away matches:							
Champions League	3	1	4	-	-	4	4**
Europa League	-	-	-	5	2**	7**	-
DFB Cup	2	2+Final	4+Final	2	2***	4***	3***
Revenue							
Match operations:							
Bundesliga	13.1e	13.7e	26.8	13.6e	14.1	27.7	28.5
Champions League	5.2e	2.2e	7.4	-	-	-	-
Europa League	-	-	-	7.5e	3.3	10.8	9.0
DFB Cup	0.6e	3.8e	4.4	1.3e	1.7	3.0	3.2
Other	0.9e	0.4e	1.3	1.1e	0.4	1.5	1.3
Total	19.8	20.1	39.9	23.5	19.5	43.0	42.0
Broadcasting:							
Bundesliga	21.6	22.0	43.6	30.0	29.0	59.0	60.0
Champions League	27.7	4.8	32.5	3.2	-	3.2	38.0
Europa League	-	-	-	8.3	2.5	10.8	-
Domestic Cups	1.8	4.2	6.0	0.7	2.3	3.0	3.0
Total	51.2	30.9	82.1	42.2	33.8	76.0	101.0
Advertising	37.5	38.2	75.7	40.0	42.0	82.0	83.0
Merchandising	23.9	15.4	39.3	24.4	16.6	41.0	44.0
Catering/other	12.4	14.2	26.6	13.3	14.7	28.0	30.0
Total	144.7	118.9	263.6	143.5	126.5	270.0	300.0
Other operating income	2.8	14.2*	17.0*	1.9	3.1	5.0	5.0
Labour costs	(56.6)	(61.3)	(117.9)	(66.1)	(65.9)	(132.0)	(135.0)
Share of revenue	39%	52%	45%	46%	52%	49%	45%
Material costs	(12.0)	(8.7)	(20.7)	(14.5)	(10.5)	(25.0)	(25.0)
Other operating costs	(49.8)	(44.2)	(94.0)	(53.0)	(41.0)	(94.0)	(97.0)
EBITDA before transfers	29.1	18.9	48.0	11.8	12.2	24.0	48.0
Margin	20%	16%	18%	8%	10%	9%	16%
Profit on disposal of players	1.6	6.0	7.6	13.7	-	13.7	-
Transfer income	5.6	6.8	12.4	24.7	-	24.7	-
Less: Carrying value	(4.0)	(0.8)	(4.8)	(11.0)	-	(11.0)	-

Source: Borussia Dortmund, Edison Investment Research. Note: *Including estimated c €12m insurance claim benefit. **Assuming exit in Round of 16. ***Assuming exit in semi-final.

Exhibit 2: Financial summary

	€000s	2014	2015	2016e	2017e
June		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		256,300	263,600	270,000	300,000
EBITDA		44,700	48,000*	24,000	48,000
Player transfers		4,400	7,600	13,700	0
Operating Profit (before amort. and except.)		40,900	46,100	27,700	38,000
Intangible Amortisation		(22,500)	(32,900)	(33,000)	(33,000)
Exceptionals		0	0	(7,500)***	0
Other		0	0	0	0
Operating Profit		18,400	13,200	(12,800)	5,000
Net Interest		(3,800)	(1,900)	(800)	1,000
Other financial items		0	(5,300)**	0	0
Profit Before Tax (norm)		37,100	44,200	26,900	39,000
Profit Before Tax (FRS 3)		14,600	6,000	(13,600)	6,000
Tax		(2,600)	(500)	(500)	(1,000)
Profit After Tax (norm)		34,500	43,700	26,400	38,000
Profit After Tax (FRS 3)		12,000	5,500	(14,100)	5,000
Average Number of Shares Outstanding (m)		61.4	87.3	92.0	92.0
EPS - normalised (c)		50.8	42.7	24.6	35.8
EPS - (IFRS) (c)		19.1	6.0	(15.7)	5.1
Dividend per share (c)		10.0	5.0	5.0	5.0
EBITDA Margin (%)		17.4	18.2	8.9	16.0
Operating Margin (before GW and except.) (%)		16.0	17.5	10.3	12.7
BALANCE SHEET					
Fixed Assets		249,500	289,500	259,000	229,000
Intangible Assets		61,600	96,300	63,000	30,000
Tangible Assets		184,500	189,500	192,000	195,000
Investments		3,400	3,700	4,000	4,000
Current Assets		42,800	97,000	110,100	140,100
Stocks		5,900	9,400	11,000	12,000
Debtors		14,900	29,700	30,000	31,000
Cash		17,800	53,700	65,100	93,100
Other		4,200	4,200	4,000	4,000
Current Liabilities		(71,000)	(61,600)	(59,500)	(56,800)
Creditors		(60,500)	(59,100)	(57,000)	(54,300)
Short term borrowings		(8,900)	0	0	0
Finance leases		(1,600)	(2,500)	(2,500)	(2,500)
Long Term Liabilities		(76,000)	(38,800)	(42,600)	(45,300)
Long term borrowings		(32,100)	0	0	0
Finance leases		(20,100)	(21,600)	(21,600)	(21,600)
Other long term liabilities		(23,800)	(17,200)	(21,000)	(23,700)
Net Assets		145,300	286,100	267,000	267,000
CASH FLOW					
Operating Cash Flow		33,900	24,400	19,000	43,000
Net Interest		(3,600)	(7,200)	(500)	1,000
Tax		(3,800)	(200)	(500)	(1,000)
Capex		(10,900)	(10,400)	(10,000)	(10,400)
Acquisitions/disposals		2,100	(61,700)	8,000****	0
Financing		(2,600)	135,700	0	0
Dividends		(6,100)	(6,100)	(4,600)	(4,600)
Net Cash Flow		9,000	74,500	11,400	28,000
Opening net debt/(cash)		53,900	44,900	(29,600)	(41,000)
Finance leases initiated		0	0	0	0
Other		0	0	0	0
Closing net debt/(cash)		44,900	(29,600)	(41,000)	(69,000)

Source: Company accounts, Edison Investment Research. Note: *Including estimated c €12m insurance claim benefit. **Early repayment of financial liabilities. ***Player asset write-down. ****Including acquisitions of Castro, Bürki, Weigl and Park and disposals of Kampl, Immobile, Hofmann and Grosskreutz (valuations estimated by www.transfermarkt.de).

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