

Borussia Dortmund

Revised forecasts

Fresh start

While the simultaneous loss of key players Hummels, Mkhitarjan and Gündogan necessarily invites caution, coach Tuchel's record of player development and the availability of significant funds for reinvestment make for exciting opportunity. Understandably, given squad rebuilding, financial implications are uncertain. However, assuming maintained positive sporting prospects and further c €40m player spend, we still look for a doubling in pre-transfer EBITDA (our key metric) in FY17, albeit from a reduced base in the face of inflationary wage pressure (we are lowering EBITDA forecasts by €6m for FY16 and by €13m for the year just started).

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	9.1
06/15	263.6	48.0***	44.2***	0.43***	0.05	6.9
06/16e	281.0	18.0	82.5	0.76	0.05	19.4****
06/17e	307.0	35.0	58.0	0.53	0.05	9.5

Note: *Before player transfer income. **PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. ***Including insurance claim benefit (our estimate €12m). ****15.8x including estimated €65m player sales proceeds

Reduction in EBITDA forecasts reflects investment

The changes to our EBITDA forecasts, detailed on page 2, relate substantially to labour costs, which may now be expected to continue to rise sharply, assuming on-field success. We had previously envisaged a moderation to +2% in the current period on the premise that the squad is already run on Champions League lines. Our new forecast of labour expenses up 11%, ie by €15m, is based on likely expenditure on new players of over €100m, ie reported transactions estimated at c €60m by www.transfermarkt.de plus, importantly, further as yet unspecified c €40m spend, thereby effectively representing reinvestment of the proceeds from the aforementioned high-profile disposals. In this context, H216 labour costs may also be assumed to have endured double-digit growth (we had expected +8%). Our FY16 EBITDA downgrade also reflects unexpectedly high material costs driven by the very success of the newly enhanced catering and events activities.

Successful value creation

Cost inflation apart, there is considerable encouragement from the company's active revenue generation (we are raising forecasts by €11m and €7m for FY16 and FY17) and realisation of very significant surpluses to book value on player disposals, while ensuring a balance between financial and sporting interests. With regard to the Mkhitarjan transaction, management was evidently a reluctant seller but accepted that the offer by Manchester United was simply too good to refuse. The forecast increases in PBT and EPS reflect net transfer gains (see page 2).

Valuation: Fair

At an EV/EBITDA of 9.5x, FY17e recognises 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. We await details of the recent lucrative deal on Bundesliga media rights for four seasons from 2017/18.

Travel & leisure

15 July 2016

Price €3.95

Market cap €63m

Net cash (€m) at March 2016 including finance leases 13.3

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	(3.0)	(3.2)	8.9
Rel (local)	(8.2)	(2.9)	24.5

52-week high/low €4.50 €3.58

Business description

The group operates Borussia Dortmund, a leading German football club, last season runners-up in the Bundesliga and quarter-finalists in the UEFA Europa League (Round of 16 participants in 2014/15 UEFA Champions League).

Next events

International Champions Cup China against Manchester United and Manchester City	22 + 28 July 2016
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German Supercup against Bayern München	14 August 2016
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Preliminary results	19 August 2016
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Exhibit 1: Revenue and profit analysis									
Year end June (€m)	H115	Q315	Q415	FY15	H116	Q316	Q416e	FY16e	FY17e
Home matches									
Bundesliga	8	4	5	17	8	5	4	17	17
Champions League	3	1	-	4	-	-	-	-	4****
Europa League	-	-	-	-	2qual + 3	2	1	2qual + 6	-
DFB Cup	-	-	1	1	1	-	-	1	2*****
Away matches:									
Champions League	3	1	-	4	-	-	-	-	4****
Europa League	-	-	-	-	2qual + 3	2	1	2qual + 6	-
DFB Cup	2	1	1+Final	4+Final	2	1	1+Final	4+Final	2*****
Revenue									
Match operations:									
Bundesliga	13.1e	6.3e	7.4e	26.8	13.6e	8.0e	6.4	28.0	29.0
Champions League	5.2e	2.2e	-	7.4	-	-	-	-	9.0
Europa League	-	-	-	-	7.5e	4.0e	1.5	13.0	-
DFB Cup	0.6e	0.3e	3.5e	4.4	1.3e	0.5e	1.7	3.5	3.5
Other	0.9e	0.1e	0.3e	1.3	1.1e	0.2e	0.2	1.5	1.5
Total	19.8	8.9	11.2	39.9	23.5	12.7	12.7	46.0	43.0
Broadcasting:									
Bundesliga	21.6	9.0	12.9	43.6	30.0	14.9	16.1	61.0	64.0
Champions League	27.7	4.8	-	32.5	3.2	-	-	3.2	38.0
Europa League	-	-	-	-	8.3	2.3	2.2	12.8	-
DFB Cup	1.8	0.3	3.9	6.0	0.7	0.7	4.6	6.0	3.0
Total	51.2	14.1	16.8	82.1	42.2	17.9	22.9	83.0	105.0
Advertising	37.5	18.1	20.1	75.7	40.0	20.0	22.0	82.0	85.0
Merchandising	23.9	6.9	8.5	39.3	24.4	7.4	9.2	41.0	44.0
Catering/other	12.4	5.5	8.7	26.6	13.3	6.2	9.5	29.0	30.0
Total	144.7	53.6	65.3	263.6	143.5	64.2	73.3	281.0	307.0
Other operating income	2.8	0.8	13.4*	17.0*	1.9	0.5	1.6	4.0	5.0
Labour costs	(56.6)	(28.7)	(32.6)	(117.9)	(66.1)	(35.0)	(35.9)	(137.0)	(152.0)
Share of revenue	39%	53%	50%	45%	46%	54%	49%	49%	51%
Material costs	(12.0)	(4.1)	(4.6)	(20.7)	(14.5)	(5.2)	(10.3)	(30.0)	(33.0)
Other operating costs	(49.8)	(19.1)	(25.1)	(94.0)	(53.0)	(22.0)	(25.0)	(100.0)	(92.0)
EBITDA before transfers	29.1	2.5	16.4	48.0	11.8	2.5	3.7	18.0	35.0
Margin	20%	5%	25%	18%	8%	4%	5%	6%	11%
Profit on disposal of players	1.6	0.2	5.8	7.6	13.7	(0.3)	62.6**	76.0**	35.0***
Transfer income	5.6	0.2	6.6	12.4	24.7	8.2	65.1	98.0	42.0
Less: Carrying value	(4.0)	-	(0.8)	(4.8)	(11.0)	(8.5)	(2.5)	(22.0)	(7.0)

Source: Edison Investment Research. Note: *Including €12m insurance claim benefit (our estimate). **Predominantly gains on disposals of Hummels (estimated proceeds €38m and carrying value €1.5m) and Gündogan (estimated proceeds €27m and carrying value €1m). ***Gain on disposal of Mkhitarjan. ****Assuming exit in Round of 32. *****Assuming exit in quarter-final.

Exhibit 2: Financial summary

	€'000s	2014	2015	2016e	2017e
June		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		256,300	263,600	281,000	307,000
EBITDA		44,700	48,000*	18,000	35,000
Player transfers		4,400	7,600	76,000	35,000
Operating Profit (before amort. and except.)		40,900	46,100	84,000	59,000
Intangible Amortisation		(22,500)	(32,900)	(33,000)	(50,000)
Exceptionals		0	0	(7,500)***	0
Other		0	0	0	0
Operating Profit		18,400	13,200	43,500	9,000
Net Interest		(3,800)	(1,900)	(1,500)	(1,000)
Other financial items		0	(5,300)**	0	0
Profit Before Tax (norm)		37,100	44,200	82,500	58,000
Profit Before Tax (FRS 3)		14,600	6,000	42,000	8,000
Tax		(2,600)	(500)	(5,000)	(1,000)
Profit After Tax (norm)		34,500	43,700	77,500	57,000
Profit After Tax (FRS 3)		12,000	5,500	37,000	7,000
Average Number of Shares Outstanding (m)		61.4	87.3	92.0	92.0
EPS - normalised (c)		50.8	42.7	75.9	53.3
EPS - (IFRS) (c)		19.1	6.0	39.9	7.3
Dividend per share (c)		10.0	5.0	5.0	5.0
EBITDA Margin (%)		17.4	18.2	6.4	11.4
Operating Margin (before GW and except.) (%)		16.0	17.5	29.9	19.2
BALANCE SHEET					
Fixed Assets		249,500	289,500	259,000	314,000
Intangible Assets		61,600	96,300	63,000	115,000
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	157,100	104,100
Stocks		5,900	9,400	11,000	12,000
Debtors		14,900	29,700	100,000	34,000
Cash		17,800	53,700	38,100	54,100
Other		4,200	4,200	8,000	4,000
Current Liabilities		(71,000)	(61,600)	(59,500)	(57,800)
Creditors		(60,500)	(59,100)	(57,000)	(55,300)
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)	(38,600)	(39,600)
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)	(17,000)	(18,000)
Net Assets		145,300	286,100	318,000	320,700
CASH FLOW					
Operating Cash Flow		33,900	24,400	13,000	30,000
Net Interest		(3,600)	(7,200)	(500)	(400)
Tax		(3,800)	(200)	(4,500)	(2,000)
Capex		(10,900)	(10,400)	(10,000)	(11,000)
Acquisitions/disposals		2,100	(61,700)	(9,000)****	4,000*****
Financing		(2,600)	135,700	0	0
Dividends		(6,100)	(6,100)	(4,600)	(4,600)
Net Cash Flow		9,000	74,500	(15,600)	16,000
Opening net debt/(cash)		53,900	44,900	(29,600)	(14,000)
Finance leases initiated		0	0	0	0
Other		0	0	0	0
Closing net debt/(cash)		44,900	(29,600)	(14,000)	(30,000)

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 and Weigl and disposals of Kampl, Immobile and Hofmann. *****including acquisitions of Dembélé, Rode, Guerreiro, Mor and Bartra and our assumption of further €40m reinvestment and disposals of Mkhitarian, Hummels and Gündogan NB valuations estimated by www.transfermarkt.de.

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