

Borussia Dortmund

Company outlook

The roar of the fans

Borussia Dortmund has an established track record as one of the most successful football clubs in Europe. This enables it to exploit structural tailwinds, increasing global and multi-media coverage, to drive long-term revenue growth. FY21 was a challenging year financially due to the negative effects of COVID-19 related restrictions, but the team was relatively successful including winning major silverware and guaranteed participation in the financially lucrative Champions League in FY22. The phased return of fans to the stadium through FY22 should lead to better financial results. The share price weakness has led to it trading at recent low multiples and well below our sum-of-the-parts valuation of €11.56/share.

Year end	Revenue (€m)	EBITDA* (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	EV/EBITDA (x)
06/20	370.2	63.0	45.6	0.47	0.00	10.2	8.3
06/21	334.2	39.0	24.3	0.26	0.00	18.2	13.3
06/22e	376.6	97.2	81.4	0.71	0.00	6.7	5.3
06/23e	404.3	114.5	99.3	0.83	0.00	5.8	4.5

Note: *EBITDA, PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Sustainable investment

Football is the largest and most popular sport in the world, with expanding global consumer interest, which feeds increasing interest from corporate sponsors and media owners. Borussia Dortmund's consistent domestic success and regular participation in international club competitions have enabled it to develop its brand and fan following, driving long-term revenue growth from multiple sources, while increasing the predictability of that revenue. In contrast to the majority of its sporting peers, its success has been achieved with a net positive cash inflow from its investment in the playing squad.

FY22: More optimism as the fans return

The expectation of a phased return of fans to the stadium, with full capacity from H222, drives a new air of optimism for the coming year, which should increase numerous revenue streams (attendance, catering and advertising), profitability and cash flow. Management guides to FY22e revenue excluding transfers of €374m, y-o-y growth of c 12%, EBITDA of €92–97m (FY21: €39.0m) and a net loss of €12–17m (FY21: loss of €73m). Our new FY22 estimates are in line with guidance, and we forecast further growth in FY23: revenue to €404m (+7%) and EBITDA €114m (+18%). The October 2021 equity raise with gross proceeds of €86m and a significant post year-end player transfer should restore the company to its typical net cash position.

Valuation: Asset backing and low relative multiples

The share price has been weak due to uncertainties around the effects of COVID-19 restrictions and the recent equity raise. This has resulted in the share price trading at an FY22e EV/sales of 1.4x, which is below its long-term average of 1.6x, and a little above its own recent low multiples (1.0–1.3x). It continues to trade at a significant discount of 59% to our asset-backed sum-of-the-parts of €11.56/share.

Travel & leisure

1 November 2021

Price €4.77

Market cap €527m

Net debt (€m) at 30 June 2021 (pro forma net cash post October 2021 equity raise of €10.2m) 76.2

Shares in issue 110.4m

Free float 72.27%

Code BVB

Primary exchange Frankfurt

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	(4.6)	(20.0)	14.5
Rel (local)	(6.5)	(20.3)	(15.4)

52-week high/low	€6.84	€4.10
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Business description

The group operates Borussia Dortmund, a leading football club, placed third in the Bundesliga in 2020/21, DFB Super Cup winners in 2019/20 and DFB-Pokal winners in 2020/21. The club has qualified for the Champions League in nine of the last 10 seasons.

Next events

Q122 results 12 November 2021

H122 results February 2022

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Borussia Dortmund is a research client of Edison Investment Research Limited

Investment summary

Company description: A leading football club

Borussia Dortmund has been one of the most successful German football clubs for decades. FY21, was challenging from a financial perspective due to the COVID-19 related restrictions, but on the pitch it was a relatively successful year: winning the DFB Pokal, reaching the quarter finals of the Champions League, and finishing third in the Bundesliga, guaranteeing its place in the Champions League for the ninth time in the last 10 seasons.

The corporate strategy has been to make its financial success less dependent on short-term sporting success by increasing the domestic and international marketing of the brand. Coupled with this, the team's sporting success must be sustainable (ie without taking on new debt). The relatively consistent on-the-pitch success has enabled the company to generate long-term revenue growth of c 12% from multiple revenue sources, while increasing the relative predictability of those revenues. The strength of the brand is reflected in over 42 million followers across social media platforms.

Financials: Strong recovery as the fans return

To reflect the more optimistic outlook with the gradual return of fans to the stadium through the season, we upgrade our forecasts for FY22 and introduce forecasts for FY23. We assume a gradual build to full capacity from H222 and effective capacity for the season of 78% (70% previously). Our FY22e estimates are broadly in line with management's new guidance, with year-on-year growth in revenue of c 13% to €377m and EBITDA of c 150% to €97m. In FY23, we estimate 7% revenue growth to €404m and 18% EBITDA growth to €114m.

Exhibit 1: Summary forecast changes

	Revenue (€m)			EBITDA (€m)			EPS normalised (€)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
FY22e	369.9	376.6	1.8	80.8	97.2	20.2	0.62	0.71	14.5
FY23e		404.3			114.5			0.83	

Source: Edison Investment Research

Valuation: Well-supported by assets and multiples

We value Borussia Dortmund using an asset-backed sum-of-the-parts, which separately values the playing squad, the club's brand (last quoted valuation adjusted to reflect estimated market movements) and other assets (at net book value). Our valuation of €11.56/share is at a premium of 142% to the current share price. Using more traditional multiples, the current FY22e EV/sales multiple of 1.4x is at a significant discount to the long-run average of 1.6x, and a little above more recent low multiples (1.0–1.3x), suggesting strong upside potential.

Sensitivities: Sporting success, squad development and brand

- The key near-term sensitivities are those that can affect the more variable revenue streams: success in lucrative knock-out competitions, fan attendance at the stadium, and the ability to travel (eg on promotional tours).
- The company has a history of identifying and nurturing young talent that it has ultimately sold for great profits. Continuation of this is important to the company's future profitability.
- Dependence on brand perception is tempered by long-term contracts with major sponsors.
- It is subject to external governing bodies, which may change the structure of German and European football, and negotiation of key media contracts is outside the company's control.

Company description: A leading German football club

Borussia Dortmund was formed as Ballspielverein Borussia e.V. Dortmund (Borussia club for ball games) in 1909, hence the BVB 09 logo. 'Borussia' was taken from the brewery name Borussia-Brauerei, today known as Dortmunder Actien Brauerei (DAB). Since its formation in 1909, it has become one of Germany's most successful football clubs and one of the most valuable global football clubs and brands. The company was listed in October 2000, becoming the first publicly traded football club on the Frankfurt Stock Exchange. It remains one of the few quoted European football clubs, with an investible free float of 72.27%.

A history of sporting success

Exhibit 2: Honours

Contest	Seasons
German championship*	1956, 1957, 1963, 1995, 1996, 2002, 2011 and 2012
DFB-Pokal (German Cup)	1965, 1989, 2012, 2017 and 2021
DFL-Supercup	1989, 1995, 1996, 2008**, 2013, 2014 and 2019
UEFA Champions League	1997
European Cup Winners' Cup	1966
Intercontinental Cup	1997

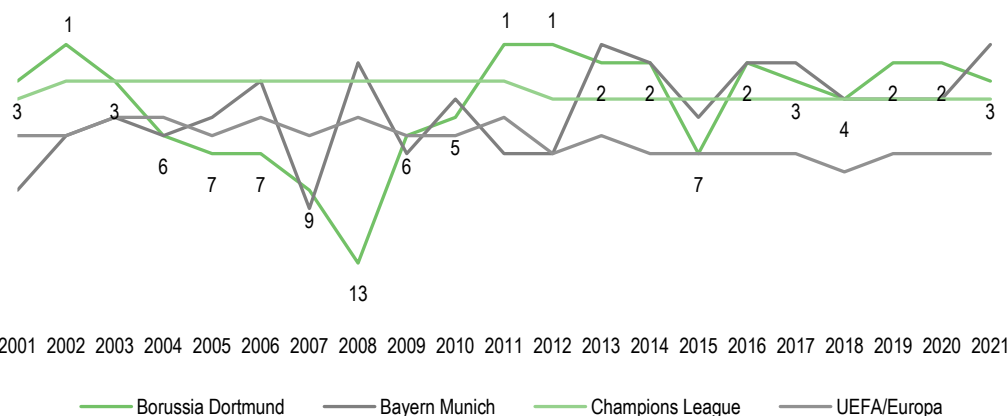
Source: Borussia Dortmund. Note: *Bundesliga since 1964. **Unofficial.

Domestically, the club has won eight national championships (named the Bundesliga since 1964), five DFB-Pokals (the German knockout cup competition) including in 2020/21, and six DFL-Supercups (played towards the start of a new football season between the winners of the Bundesliga and the DFB-Pokal from the prior season).

Internationally, Borussia Dortmund became the first German team to win a European competition, the European Cup Winners' Cup in 1966, and won the Union of European Football Associations' (UEFA's) most important and financially lucrative competition, the Champions League, in 1997. In the same season, it won the Intercontinental Cup, today known as the FIFA Club World Cup, played between the champions of the Champions League and the South American equivalent, Copa Libertadores.

In Exhibit 3 we show Borussia Dortmund's finishing position (quoted) in the Bundesliga in every season since FY01, when the company was listed, of the 18 competing teams, as well as that of its main competitor, Bayern Munich. We also show the lowest finishing position required to compete in the Champions League or the UEFA/Europa Cup in the following season. In the last 10 seasons, the team has finished in the top four of the Bundesliga on nine occasions.

Exhibit 3: Borussia Dortmund's Bundesliga position since 2001



Source: Bundesliga, Borussia Dortmund

Exhibit 4 reinforces Borussia Dortmund's relatively consistent long-term success, showing the cumulative statistics for the top 10 teams in the Bundesliga 1 since FY01. Of the 38 teams to have competed in Bundesliga 1 since then, Borussia Dortmund ranks as the second most successful team in terms of points won, games won, games lost, goals scored and goals conceded. There is a survivorship bias given the worst-performing teams are relegated every season, and the long-term record omits the rise of new challengers. Borussia Dortmund is one of only six teams in the 38 that competed in Bundesliga 1 over that time to feature in every season. In Exhibit 5 we show the same statistics for the last five seasons to capture more recent form.

Exhibit 4: Bundesliga table since 2001 (cumulative)

Place	Team	Games won	Games drawn	Games lost	Goals for	Goals against	Goal difference	Points
1	Bayern Munich	487	128	99	1,653	621	1,032	1,589
2	Borussia Dortmund	370	177	167	1,344	841	503	1,287
3	Bayer 04 Leverkusen	342	162	210	1,268	918	350	1,188
4	Schalke	312	174	228	1,047	906	141	1,110
5	Werder Bremen	290	171	253	1,192	1,088	104	1,045
6	VfL Wolfsburg	275	182	257	1,093	1,023	70	1,007
7	VfB Stuttgart	253	157	236	942	930	12	916
8	Borussia Mönchengladbach	237	163	246	904	910	(6)	872
9	Hertha Berlin	232	163	251	875	934	(59)	859
10	Hamburger SV	221	155	236	806	889	(83)	818

Source: Bundesliga

Exhibit 5: Bundesliga table since 2017 (cumulative)

	Games won	Games drawn	Games lost	Goals for	Goals against	Goal difference	Points
Bayern Munich	126	26	18	468	158	310	404
Borussia Dortmund	97	37	36	376	218	158	328
RB Leipzig	91	44	35	327	190	137	317
Bayer 04 Leverkusen	77	38	55	294	234	60	269
1899 Hoffenheim	70	53	47	305	244	61	263
Borussia Mönchengladbach	74	39	57	277	239	38	261
Eintracht Frankfurt	69	43	58	269	249	20	250
VfL Wolfsburg	62	49	59	241	233	8	235
SC Freiburg	55	48	67	220	276	(56)	213
Hertha Berlin	49	47	74	198	276	(78)	194

Source: Bundesliga

Financial history

After listing in 2000, the company was at risk of bankruptcy in 2005, broadly attributed to extravagance, notably on foreign players, after winning the Bundesliga in 2002. New management (the current CEO and CFO) implemented a reorganisation programme, including restructuring liabilities through a long-term, fixed-interest loan from Morgan Stanley, cost-cutting, and a strategy of revenue development and sustainable investment in players. Key initiatives included repurchasing the stadium, eliminating high rental costs and early repayment of the loan via a long-term agreement with marketing partner Sportfive, while early extension of flagship contracts endorsed the advertising strategy. A c €140m fund-raising in 2014, backed by key sponsors and new partnerships, was a strong endorsement of the strategy. In October 2021, the company raised further equity with gross proceeds of €86m in order to repay the financial debt taken on during the COVID-19 pandemic and provide flexibility in the event of further COVID-19 related restrictions.

Corporate structure

The listed company, which runs the professional football club, is Borussia Dortmund GmbH & Co KGaA, a hybrid corporate entity that combines elements of a limited partnership (ie KG or Kommanditgesellschaft) and one limited by stocks (ie AG or Aktiengesellschaft).

The share capital of the KGaA is divided into shares that are held by at least one shareholder that has unlimited liability (referred to as the general partner) and other shareholders that have limited liability (ie the listed shares). The KGaA does not have an executive board but is run by the general partner, with sole legal authorisation to manage and represent the KGaA.

Borussia Dortmund Geschäftsführungs GmbH is the general partner of the KGaA. The sole owner of this GmbH is the founding football club, Ballspielverein Borussia 09 e.V. Dortmund. This ownership of the GmbH provides effective majority ownership of the KGaA to the football club. This legal structure was designed to ensure a tight legal connection between the football club and the company. The managing directors of the GmbH are Hans-Joachim Watzke, Thomas Treß and Carsten Cramer.

The share capital of the KGaA following the October 2021 capital raise was held by the following key shareholders: Bernd Geske (8.24%), Evonik Industries (8.19%), Signal Iduna 5.98%, Puma 5.32%, Ballspielverein Borussia 09 e.V. Dortmund 4.61%, and Ralph Dommermuth Beteiligungen (ie the owner of 1&1) 4.17%, leaving a free float of 72.27%. Evonik, Signal Iduna, Puma and 1&1 are long-term club partners, or sponsors, which are typically encouraged to have a shareholding in the company. Bernd Geske is a member of the supervisory board of the KGaA and belongs to the circle of friends of the Council of Elders of Ballspielverein Borussia 09 e.V. Dortmund.

Under DFL (the German Football League) rules, the so-called 50+1 rule was introduced in 1998. The rule requires clubs (ie the fans) hold a majority of the voting rights in order to play in the Bundesliga and commercial investors may not hold more than a 49% stake in the company. The rationale behind the rule is the clubs should be run in accordance with the wishes of the supporters, to keep ticket prices low, and to keep debts and wages under control. The rule prevents an outside investor taking over football clubs.

Borussia Dortmund's business model

Following the club's financial troubles in the mid-2000s, the corporate strategy was to establish itself as the leading German football club after Bayern Munich, and to make its financial success less dependent on short-term sporting success by increasing the domestic and international marketing of the brand name in order to grow the core revenue sources.

As identified above, it is clear the company has successfully established itself as a leading German football club. Now the strategy is to defend its position in the top flight of the Bundesliga, while continuing to further develop the brand and enhance its multiple revenue streams.

The team's sporting success needs to be sustainable (ie without taking on new debt) and achieve a balance between the company's financial interest and its sporting interests, which can sometimes conflict, that is a player may be sold based on financial considerations rather than the potential impact it may have on the team's performance in the future.

The key structural growth drivers for the business are: the team is one of the most successful and well-known German football clubs, with one of the highest average number of spectators in Europe, and Germany is one Europe's largest football markets, but lags behind other markets in terms of media exploitation rights.

Sources of revenue

Borussia Dortmund reports revenue from five sources: Match Operations (ticket receipts for attendance at games), Advertising (sponsorship and advertising from companies), TV Marketing (broadcast rights), Merchandising, and Conference, Catering & Miscellaneous.

Below we show how the revenue sources have evolved since FY05, when IFRS was adopted. We have combined Merchandising and Conference, Catering & Miscellaneous revenues into 'Other' as there was a minor change to revenue disclosure between FY14 and FY15.

Exhibit 6: Revenue (€m)

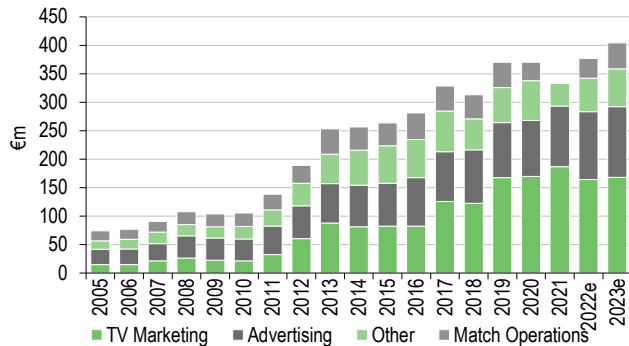
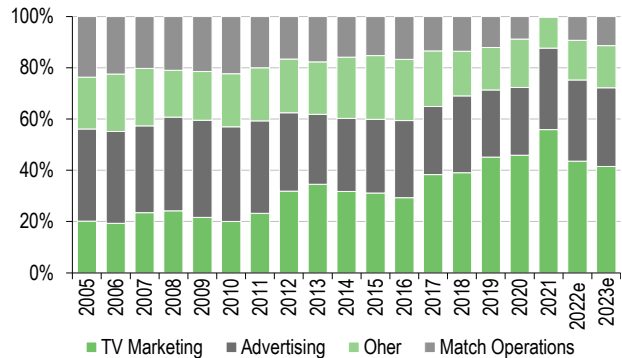


Exhibit 7: Revenue mix (%)



Source: Borussia Dortmund, Edison Investment Research

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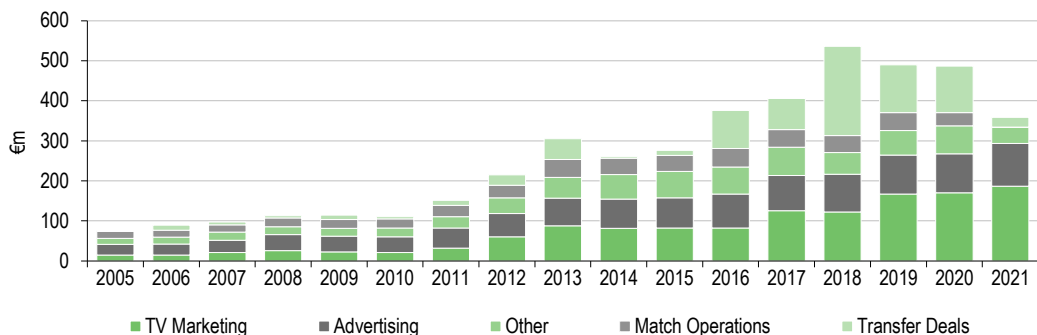
Borussia Dortmund's revenue has grown from €75m in FY05 to €334m in FY21, a CAGR of c 10% pa, significantly ahead of German GDP growth. Excluding the COVID-19 affected years FY20 and FY21, the revenue CAGR through FY19 was c 12%.

TV Marketing had become the most important source of revenue, increasing from 20% of the total in FY05 to 46% in FY20. Advertising was the second most important revenue source at 26% of the total, having been the most important revenue source in FY05 at 36%. These have led to an increasing proportion of more predictable revenues.

Revenue has declined in only four years since FY05, two (FY09 and FY18) followed seasons in which the team achieved greater success than in a typical year, and two (FY20 and FY21) were due to the effects of COVID-19.

Before a change in accounting standards in FY20, Borussia Dortmund included gross revenue from transfer deals in total group revenue. The charts above exclude transfer deal revenue, which, due to its nature, fluctuates between financial years. In this note we refer to revenue before transfer deals, unless stated otherwise. For completeness, Exhibit 8 shows revenue including transfers.

Exhibit 8: Revenue including transfers



Source: Borussia Dortmund

TV Marketing (45% of pre-COVID-19 FY19 revenue)

TV Marketing is revenue earned from the broadcasting rights of the games played by the team. It has grown at a CAGR of c 17% since FY05 and by 19% since FY11 due to inflation in media rights from increased demand for premium content from competing media platforms and the team's

improved and more consistent on-pitch success. It is the company's most important revenue source, with a high degree of visibility in the near and medium term for the largest revenue source (ie domestic (Bundesliga rights)), whereas International TV and Domestic Cup are more dependent on success on the pitch.

Exhibit 9: TV marketing revenue

€m	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	CAGR 11–21 (%)
Domestic TV			20.8	20.8	20.4	20.2	26.8	27.9	29.7	39.1	43.6	60.8	66.1	88.0	98.1	97.7	97.8	14
International TV							4.9	25.6	55.4	36.2	32.5	17.2	51.0	31.8	68.1	67.4	78.7	32
Domestic Cup							0.4	6.9	2.5	6.1	6.0	4.4	8.6	2.6	1.2	4.7	10.1	39
Total	14.9	14.8	21.3	26.0	22.4	21.1	32.1	60.4	87.6	81.4	82.1	82.6	125.8	122.3	167.3	169.8	186.7	19
Growth y-o-y (%)																		
Domestic TV				0	(2)	(1)	33	4	7	32	11	40	9	33	12	(0)	0	
International TV								418	117	(35)	(10)	(47)	196	(38)	114	(1)	17	
Domestic Cup								1,752	(64)	146	(2)	(26)	94	(70)	(55)	307	114	
Total		(0)	43	22	(14)	(6)	52	88	45	(7)	1	1	52	(3)	37	1	10	

Source: Borussia Dortmund

Marketing of media rights is conducted centrally by the organisers of their respective competitions (the Bundesliga and UEFA), hence it is outside Borussia Dortmund's control. However, the system of revenue distribution to clubs is defined well in advance, which provides a high level of visibility.

The German broadcasting rights for the four seasons 2021/22 to 2024/25 were sold for €4.4bn, a reduction of c €240m or 5% from the prior contract. The lower proceeds reflected the timing of the auction during the height of economic uncertainty and COVID-19 lockdowns. The prior domestic Bundesliga contract for the four seasons 2017/18 to 2020/21 was worth €4.64bn or €1.16bn per season, an increase of c 85% on the prior contract for four seasons 2013/14 to 2016/17 of €2.5bn in total or €625m per season. This has been helped by the persistent emergence of new entrants to the media landscape. Management believes there is significant opportunity to further develop Bundesliga rights; it estimates 2020–21 Bundesliga broadcasting revenue of €1.4bn, versus Spain's La Liga at €2bn and England's Premier League at €3.4bn.

Distributions from the broadcasting rights are made based on four 'pillars', or criteria, including the ranking of the teams over different time periods and the playing time of younger players, to encourage youth development, versus two pillars previously. Distributions from international rights are made based on three pillars, with a proportion shared equally between the clubs and the remainder based on performance. In order to help the clubs manage the financial impact of the COVID-19 pandemic, in the first two years of the current contract, a lower share will be split based on team performance, increasing revenue to smaller clubs at the detriment of the larger clubs.

UEFA is responsible for the centralised marketing of all media and commercial rights for all European club competitions, and subsequent distributions to competing clubs. The rights are typically sold in three-year cycles: the current cycle covers the seasons from 2021/22 to 2023/24. The current rights in Germany are held by Amazon, DAZN and ZDF. Distributions to Champions League participants are based on four 'pillars': 25% to the clubs that participate in the group stage; 30% for performance in the latter knockout stages of the competition (ie Round of 16 onwards) with escalating fees per game (Borussia Dortmund is currently second in its group after three games); 30% based on a coefficient that ranks a team's 10-year relative success in the competition (the newly added pillar) and 15% based on the value of the club's own TV market relative to all countries (ie the market pool).

Advertising (26% of pre-COVID-19 FY19 revenue)

Advertising is the sponsorship income from Borussia Dortmund's key corporate partners as well as advertising on the billboards in the ground and bonuses dependent of the team's success. It has grown at a CAGR of 9% since FY05.

Despite the challenging environment due to the COVID-19 pandemic, Advertising increased by c 9% to €107m in FY21. The increase was mainly due to new sponsorship deals or extensions to existing major ones (Evonik, 1&1 Telecommunications) and higher prize money, offset by declines in sponsor hospitality and match day advertising due to the pandemic.

Exhibit 10: Advertising revenue

€m	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Advertising	26.6	27.4	30.5	39.3	39.2	38.9	50.0	57.8	69.3	73.0	75.7	84.6	87.4	94.0	96.8	98.0	106.6
Growth y-o-y (%)		3	11	29	(0)	(1)	29	16	20	5	4	12	3	8	3	1	9

Source: Borussia Dortmund

Sponsorship revenue is typically earned from multi-year contracts, although there are annual contracts too, with leading international and regional companies that want to be connected with sporting success and to promote their brands. The company has a proven ability to renew at higher prices or by attracting new partners (sponsors).

The company's principal partners, representing approximately half of total Advertising revenue, are:

- Evonik Industries, a speciality chemicals group, is the sponsor of the team shirt in international competitions and the DFB-Pokal from FY21–25. It has been the shirt sponsor since 2007;
- Signal Iduna, an insurance company, has been the sponsor of the stadium since December 2005 and is contracted until 2026;
- Puma has been the sporting equipment partner since FY13 and the extended contract runs to 2028. Prior sponsors have included Nike and Kappa; and
- 1&1, a telecommunications company, sponsor of the first team shirt in the Bundesliga from FY21–25.

Prior to splitting sponsorship of the shirt by competition from FY21, Evonik was the sole shirt sponsor since July 2006. Opel became the team's first ever shirt sleeve sponsor from FY18, when clubs were allowed to find their own partners, prior to which sleeve sponsorship of all Bundesliga teams was sold under a centralised deal. Principal partners tend to be shareholders of the company in order to strengthen the relationship with the club.

In addition to the principal partners above, there are three different levels of partner, which contribute differing levels of income in return for varying levels of sponsorship benefits: BVB ChampionPartner (11 partners including Opel, bwin and FIFA 22), BVB PremiumPartner (nine partners including Coca-Cola, L'Oréal and Eurowings) and BVB Partner (19 partners including ARAL and H-Hotels.com).

We believe the long-term principal partnerships represent over half of Borussia Dortmund's advertising and should be relatively predictable given the multi-year relationships. For other partners, it is likely some revenue is sensitive to the economic cycle.

The activity of seeking new sponsors is currently outsourced to Sportfive, a media group, which receives a commission on revenue generated. For Borussia Dortmund, commission and expenses are reported as Advertising within other operating expenses. Over time, the effective commission rate has reduced from 31% of reported advertising revenue to 25/26%, but a new licensing agreement in FY21 reduced the agency commission and led to a significant 60% y-o-y reduction in the expense to €10.7m, now equivalent to 10% of revenue.

Match Operations (12% of pre-COVID-19 FY19 revenue)

Match Operations represents revenue earned from the attendance of fans at its home ground, Signal Iduna Park, as well as from friendly games played by the team including overseas tours, which typically take place before the start of the new season and during the winter break.

Management regards Signal Iduna Park, Germany's largest football stadium with capacity for 81,365 fans, as its most valuable asset apart from the team.

Exhibit 11: Match Operations

€m	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Domestic				16.7	18.7	N/D	23.5	24.5	25.6	26.0	26.9	27.1	27.0	27.4	28.2	20.4	0.5
International						N/D	3.4	4.4	16.2	10.0	7.6	13.4	9.5	9.1	7.5	8.8	0.0
National Cup				4.1	1.2	N/D		1.9	2.4	3.7	4.5	3.7	5.3	2.2	2.7	2.2	0.0
Friendlies				1.8	2.3	N/D	0.8	0.6	0.6	0.9	1.0	2.5	2.2	3.5	6.3	1.0	0.0
Match Operations	17.5	17.2	18.3	22.6	22.2	23.4	27.7	31.4	44.8	40.5	39.9	46.8	43.9	42.3	44.7	32.5	0.6
Growth y-o-y (%)																	
Domestic					12	N/M	N/M	4	4	2	3	1	(0)	2	3	(28)	(97)
International					N/M	N/M	N/M	30	272	(38)	(23)	76	(30)	(3)	(18)	18	N/M
National Cup					(71)	N/M	N/M	N/M	26	54	21	(16)	42	(58)	20	(17)	N/M
Friendlies					27	N/M	N/M	(22)	(7)	46	13	152	(14)	63	78	(83)	(99)
Match Operations		(2)	6	24	(2)	6	18	13	43	(9)	(1)	17	(6)	(4)	6	(27)	(98)

Source: Borussia Dortmund

The COVID-19 pandemic severely affected revenue due to the initial postponement of games in FY20 and subsequent restrictions on the level of fan attendance at games and travel on promotional overseas tours. Excluding FY20 and FY21, the revenue CAGR from FY05–19 was c 7%. Key drivers of growth have been minor increases in capacity, price increases and greater on-pitch success, which has led to more appearances in European competitions.

Within Match Operations, the company separately discloses revenues from domestic (Bundesliga games), international (UEFA competitions), national cup (DFB-Pokal) and friendlies (tours).

Revenue is a function of the number of games played, the number of fans attending and price per ticket. In 'normal' circumstances, there is a relatively predictable element to domestic revenue, the most significant source of revenue, as there are 17 home Bundesliga games in every season, which are typically sold out. Over the long term, there has been a gradual increase in the capacity of the stadium as the ground has been updated, and management's policy with respect to ticket prices is typically to grow them by inflation. The club benefits from the advance sale of 55,000 season tickets, which brings revenue visibility. The ticket price varies depending on location in the ground, the competition and opposition being played and concessions.

Revenue from other competitions is less predictable given these include knockout competitions and revenues are shared in different ways. For example, net income (revenue less stadium costs) from DFB-Pokal games is split equally between the two competing teams, and in the latter stages of the Champions League the home team receives all of the ticket income.

In 2020/21 the majority of home games were played behind closed doors. For the start of the FY22 season, the Bundesliga ruled most clubs were allowed to operate with a 50% stadium capacity or a maximum of 25,000 fans (c 30% capacity for Borussia Dortmund). From the middle of October up to 67,000 fans (c 82% capacity) are permitted at the stadium, and management hopes to return to full capacity in the second half of the season.

Other (17% of pre-COVID-19 FY19 revenue)

In Exhibit 12, we aggregate a number of revenue streams into 'Other', due to the change in disclosure between FY13 to FY14. Prior to COVID-19, the revenue CAGR was 11% pa. As well as

the more obvious revenue streams, it includes booking fees for the sale of tickets and fees received for squad players who represent their national teams, so can be variable

Exhibit 12: Other revenue

€m	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Merchandising										35.0	39.3	39.8	39.5	29.5	30.0	33.3	32.6
Conference, Catering, Misc										26.3	26.6	27.5	31.9	25.2	31.4	36.6	7.7
Total										61.3	65.9	67.3	71.4	54.7	61.4	69.8	40.4
Merchandising, Catering, Misc.	13.9	12.0	14.4	17.7	17.5	19.7	26.4	37.1	45.4	52.3							
Other	1.0	5.2	5.9	1.9	2.1	2.1	2.3	2.4	6.4	9.0							
Total	14.9	17.2	20.3	19.7	19.7	21.9	28.7	39.5	51.8	61.3							
Growth y-o-y (%)																	
Merchandising											12	1	(1)	(25)	2	11	(2)
Conference, Catering, Misc											1	3	16	(21)	25	16	(79)
Total											7	2	6	(23)	12	14	(42)
Merchandising, Catering, Misc.		(14)	19	23	(1)	12	34	41	22	15							
Other		409	14	(67)	10	(0)	9	3	171	40							
Total		15	18	(3)	0	11	31	37	31	18							

Source: Borussia Dortmund

Merchandising represents the award of licences and revenue from the sale of team merchandise (eg replica team kits). In addition to partners' wholesale distribution channels, sales are made via a major FanWelt centre near the stadium, branded stores (FanShops) in Dortmund, sales kiosks at the stadium and e-commerce (www.bvbonlineshop.com). Growth should be driven by the increasing global appeal of the brand, as well as the company's ability to increase and improve the range of merchandising.

Conference and catering is closely linked to attendance at the stadium as well as the company's ability to monetise improved (ie higher value) hospitality.

Squad development and transfers

Borussia Dortmund's strategy has been the development of a competitive team with a focus on identifying promising young players at minimal cost (even free), who can then be further developed at the BVB Academy. It currently has a worldwide network of about 30 scouts.

Over the long term, Borussia Dortmund has a proven track record of prudent investment in talent. Below, we show the net transfer spend per season (amount received less amount spent on the squad) since the 2010/11 season for the first team squads of a range of Borussia Dortmund's competitive peers, including the large/leading clubs in Germany and Europe. We also include cumulative totals for the 12 seasons from 2011–22 and the 22 seasons from 2001–22.

Exhibit 13: Net transfer spend (€m)

Club	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	Cum. 2011–22	Cum. 2001–22
European peers:														
Atlético Madrid	(10)	0	17	34	(55)	33	(35)	8	(110)	64	(6)	(63)	(123)	(244)
Barcelona	(20)	(13)	(33)	(73)	(85)	13	(91)	(142)	5	(148)	30	49	(508)	(885)
Chelsea	(105)	(65)	(84)	(52)	5	(9)	(24)	(66)	(125)	112	(188)	2	(599)	(1,098)
Internazionale	28	16	(13)	(49)	7	13	(141)	(58)	(11)	(125)	(26)	161	(198)	(402)
Juventus	(23)	(81)	(50)	24	(36)	(101)	13	(19)	(152)	(21)	(36)	3	(479)	(633)
Liverpool	4	(42)	(60)	(26)	(52)	(36)	5	11	(141)	34	(65)	(12)	(380)	(578)
Manchester City	(143)	(60)	(18)	(104)	(72)	(141)	(180)	(226)	(21)	(89)	(100)	(89)	(1,243)	(1,684)
Manchester United	(12)	(49)	(67)	(75)	(149)	(55)	(138)	(153)	(52)	(154)	(65)	(110)	(1,079)	(1,269)
Paris Saint-Germain	(2)	(98)	(146)	(109)	(47)	(93)	(75)	(140)	(113)	11	(62)	(74)	(948)	(1,031)
Real Madrid	(83)	(48)	(5)	(62)	(13)	(70)	8	92	(27)	(220)	104	47	(277)	(898)
Bundesliga teams:														
Bayern Munich	(11)	(47)	(70)	(22)	(5)	(58)	(18)	(84)	74	(86)	(40)	(58)	(425)	(638)
Borussia Dortmund	(1)	2	7	(5)	(60)	23	(30)	161	24	(16)	(43)	63	125	37
Bayer 04 Leverkusen	1	(4)	(6)	11	(20)	5	(40)	35	14	(63)	45	(11)	(33)	(49)
Borussia Mönchengladbach	(5)	1	(9)	(5)	5	(22)	4	(6)	0	(6)	(14)	(11)	(68)	(84)
Schalke	(16)	27	0	(18)	4	20	18	(42)	(16)	(10)	4	39	10	(40)
RB Leipzig	(1)	(0)	(1)	(3)	(23)	(24)	(95)	(39)	7	(34)	2	4	(207)	(207)

Source: www.transfermarkt.com

Borussia Dortmund has been the only the club to generate a net surplus on transfers from 2001–22 and 2010–22, testimony to its ability to recruit and trade talent over the long term. The cumulative figures are helped by the exceptional profits in 2017/18 from the sale of two players. Although there is an element of subjectivity in valuing the current squad, the above provides some comfort there is unrealised value in the current squad versus its book value.

According to www.transfermarkt.com Borussia Dortmund has the 11th most valuable first-team squad of 500 football teams valued globally, with an estimated value of c €604m versus the purchase cost of €306m. Below we show the estimated market values in descending order for the top 20 most valuable global football squads.

Exhibit 14: Most valuable football squads

Club	Country	Market value October 2021 (€m)	Market value October 2020 (€m)	Change y-o-y (%)	Purchase cost (€m)	Unrealised gain (€m)	Unrealised gain (%)
Manchester City	England	1,080	1,050	3	1,020	60	6
Paris Saint-Germain	France	990	842	18	834	156	19
Manchester United	England	907	813	12	890	17	2
Chelsea	England	891	852	5	652	239	37
Liverpool	England	867	1,090	(21)	566	301	53
Bayern Munich	Germany	841	874	(4)	366	475	130
Real Madrid	Spain	756	867	(13)	530	227	43
Atlético Madrid	Spain	746	731	2	476	270	57
Tottenham Hotspur	England	697	756	(8)	378	319	84
Barcelona	Spain	672	920	(27)	378	294	78
Borussia Dortmund	Germany	604	587	3	306	298	98
Juventus	Italy	603	690	(13)	449	154	34
Arsenal	England	564	625	(10)	551	13	2
Leicester	England	548	456	20	351	197	56
Internazionale	Italy	526	698	(25)	229	297	129
Napoli	Italy	519	594	(13)	319	199	62
RB Leipzig	Germany	498	521	(5)	245	253	103
AC Milan	Italy	477	410	16	224	253	113
AS Roma	Italy	430	N/A	N/A	267	162	61
Everton	England	429	472	(9)	268	160	60

Source: www.transfermarkt.com

The above suggests Borussia Dortmund's squad has increased in value by 3% over the last 12 months, while the value of many other clubs has declined. The above includes players on loan; when these are excluded the current first team squad valuation is €579m (see below).

The current first-team squad is shown below. The combined estimated values for Haaland (€150m) and Bellingham (€70m) represent c 38% of the adjusted squad valuation of €579m, and are testimony to the club's scouting system, having been purchased for €20m and €23m respectively. Haaland's contract ends in 2023/24 but given his phenomenal success he has been closely linked with the majority of the larger European football clubs already. We believe Haaland has a release clause in his contract in the summer of 2022 for €75m but given the level of interest from many clubs it is likely to be exceeded. Bellingham was signed in 2020/21, and has established himself as a first-team regular and appeared for the English national squad.

Exhibit 15: Borussia Dortmund first-team squad (20 October 2021)

Player	Position	Joined BVB	Contract expiry	Age	Market value (€m)	Purchase value (€m)
Gregor Kobel	Goalkeeper	21/22	25/26	23	18	15
Roman Bürki	Goalkeeper	15/16	22/23	30	3	4
Marwin Hitz	Goalkeeper	18/19	22/23	34	2	0
Luca Unbehaun	Goalkeeper	19/20	21/22	20	2	0
Stefan Drtjaca	Goalkeeper	20/21	21/22	22	0	0
Manuel Akanji	Defence	17/18	22/23	26	30	22
Dan-Axel Zagadou	Defence	17/18	21/22	22	14	0
Mats Hummels	Defence	19/20	22/23	32	12	31
Marin Pongracic	Defence	21/22	21/22	24	9	N/A
Soumaïla Coulibaly	Defence	21/22	23/24	18	1	0
Raphaël Guerreiro	Defence	16/17	22/23	27	40	12
Nico Schulz	Defence	19/20	23/24	28	6	26
Marcel Schmelzer	Defence	08/09	21/22	33	1	0
Thomas Meunier	Defence	20/21	23/24	30	12	0
Mateu Morey Bauzá	Defence	19/20	23/24	21	4	0
Felix Passlack	Defence	15/16	22/23	23	3	0
Emre Can	Midfield	20/21	23/24	27	26	25
Axel Witsel	Midfield	18/19	21/22	32	9	20
Abdoulaye Kamara	Midfield	21/22	N/A	16	1	0
Jude Bellingham	Midfield	20/21	24/25	18	70	23
Mahmoud Dahoud	Midfield	17/18	22/23	25	18	12
Tobias Raschl	Midfield	19/20	21/22	21	1	0
Gökhan Gürpüz	Midfield	N/A	21/22	18	0	0
Giovanni Reyna	Midfield	19/20	24/25	18	42	0
Julian Brandt	Midfield	19/20	23/24	25	20	25
Reinier Jesus	Midfield	20/21	21/22	19	16	N/A
Marco Reus	Midfield	12/13	22/23	32	13	17
Marius Wolf	Midfield	18/19	23/24	26	4	5
Thorgan Hazard	Midfield	19/20	23/24	28	27	26
Ansgar Knauff	Forward	21/22	22/23	19	3	0
Erling Haaland	Forward	19/20	23/24	21	150	20
Donyell Malen	Forward	21/22	25/26	22	30	30
Youssef Moukoko	Forward	20/21	22/23	16	18	0
Steffen Tigges	Forward	20/21	23/24	23	1	0
Total squad valuation					604	
Less players on loan					(25)	
Adjusted valuation					579	

Source: Borussia Dortmund, www.transfermarkt.com

In the FY21/22 season to date there have been a total of 11 arrivals (including loans) and seven departures (including loan movements) from the club for a net spend of €63m. The most significant departure was Jadon Sancho to Manchester United for €85m, whose estimated market value in October 2020 was €117m, and is currently €100m. To determine whether there is a consistent upward bias in the valuations versus eventual transfer fees, we have examined Borussia Dortmund's transfers that resulted in a fee during the last five years and compared the fee to

estimated value. Over the five years, the fees realised were 12% higher than estimated market values, with a wide range of apparent under and over valuations for individual players. The average can, naturally, be skewed by significant one-off gains, for example Dembélé was sold for €135m versus an estimated market value of €33m. Excluding this transfer, the cumulative realised transfer fees were 6% lower than the estimated market values. Therefore, we believe the estimated market values are a reasonable proxy for the aggregate squad valuation over the long term.

Management

- **Chief executive: Hans-Joachim Watzke.** Before his appointment in 2005, Mr Watzke was treasurer of the football club. His contract has been extended to December 2025. He is also the owner-founder of Watex, a leading manufacturer of protective clothing for industrial workers and firefighters.
- **Chief financial officer: Thomas Treß** was appointed second managing director in 2005. He has been responsible for finance since 2006 and is responsible for other parts of the organisation including stadium management and security. His contract has also been extended to 2025. He was previously a partner at RöfIsPartner, one of the leading business consultancies in Germany. He was awarded CFO of the year 2013 by the German Finance Magazin.
- **Managing director: Carsten Cramer** became a further managing director in 2018, having served as sales & marketing director since 2010. His contract has been extended to 2025. He joined from leading sports marketing agency Sportfive (now Lagardère Sports), where he served latterly as a team leader at BVB and then as senior VP with nationwide duties.
- **Sporting director: Michael Zorc** has spent his whole career at Dortmund, first as player for 17 years (a Bundesliga appearance record for the club), culminating in the Bundesliga and Champions League success of the mid-1990s, and he played in the German national team on seven occasions. He was appointed as sports director in 1998. Aged 59, he has just extended his contract by one year until 2022. Michael will be succeeded by Sebastian Kehl, currently head of the professional squad.
- **Head Coach:** Marco Rose was appointed as head coach at the start of July 2021 having previously been manager of Borussia Mönchengladbach for two seasons, and RB Salzburg for the two seasons prior to that. He played for football clubs including VfB Leipzig, Hannover 96, and FSV Mainz 05 until he retired in 2011. He is 45 and his contract at Dortmund runs until June 2024.

Sensitivities

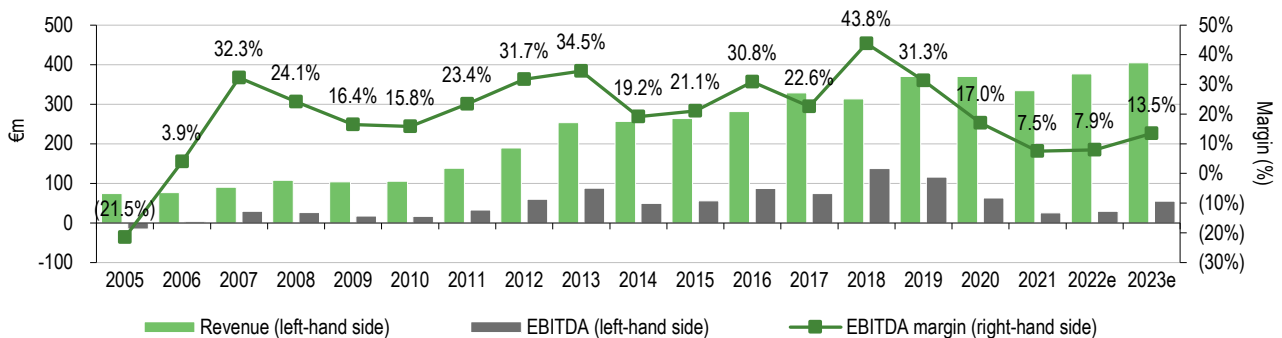
- The company's financials are dependent on sporting success. A weak performance could cause revenue to fall and affect the ability to attract and retain players and coaches. Participation in lucrative UEFA competitions cannot be relied on, although the club has qualified regularly.
- The company's financial performance depends on the team's ability to play in competitive and non-competitive games, for example friendlies, both domestically and internationally, and on fans attending games. Any restrictions on the ability to travel and compete in games due to, for example, a pandemic may therefore affect financial performance.
- While serious injuries cannot be anticipated, the club maintains a strong squad and minimises the risk of poor investment in new players by intensive scouting and medical examinations.

- The company competes for a share of disposable consumer income, which may be eroded by economic downturn. However, attendance at home matches is resilient (much the highest in the Bundesliga) and ticket prices are lower than those of leading competitors.
- Dortmund is dependent on the strength and perception of its brand. While damage may impair its ability to attract sponsors, the company invests heavily to ensure consistent quality.
- Long-term contracts with major sponsors provide security independent of sporting performance.
- Dortmund is subject to external governing bodies, such as the Bundesliga, DFB, UEFA and FIFA, which may change the structure of German and European football. In terms of finances, the company is in tune with a market subject to growing regulation, notably the break-even requirement for participation in UEFA competitions.
- Negotiation and pricing of key media contracts are outside the company's control and those contracts may change.
- The company's digital media strategy is still developing. Piracy and illegal live streaming may adversely affect its broadcasting and new media and mobile revenue.
- The club is obliged to pay players and coaching staff in line with competitors. Labour costs have risen sharply, accounting for c 58% of its revenue excluding transfers, similar to key peers.
- Substantial increases in the cost of signing new players could adversely affect the business, but the company's strategy for talent development and its financial success to date suggest this is less of a risk than for other clubs.
- There is a potential conflict between sporting objectives and financial requirements, highlighted by an increased reliance on transfers.

Financials

We have highlighted the growth drivers of Borussia Dortmund's revenues in the individual sections above.

Exhibit 16: Revenue and EBITDA profile



Source: Borussia Dortmund, Edison Investment Research

FY21 revenue declined by c 10% to €334m, EBITDA by c 38% to €39m and reported EPS was negative €0.79 versus negative €0.48 in FY20. Revenue was in line with our expectations of €335m, as higher Advertising was offset by marginally lower Merchandising than expected. EBITDA of €39m (margin 11.7%) was above management's most recent guidance issued with [Q321 results](#) of €33m (raised from €25–30m).

The relatively strong EBITDA performance was due to robust cost control: personnel expenses (64% of revenue) flat year-on-year, depreciation and amortisation (33% of revenue) up 5%, and other operating expenses (26% of revenue) declined by 28% y-o-y.

New forecasts: Upgrade for FY22

Management guides to a strong recovery in FY22 revenue excluding transfers of €374m, y-o-y growth of c 12%. It expects higher revenue from Advertising, Match Operations, and Conference and Catering. The guidance is marginally ahead of pre-lockdown (FY19) revenue of c €370m. In addition, it expects to generate €110m of gross transfer proceeds (including €85m for Jadon Sancho) to give revenue including transfers of €484m, year-on-year growth of c 35% from FY21's €359m. At the net income level, management expects to report a net loss of €12–17m, an operating loss of €10–15m, and EBITDA of €92–97m.

In Exhibit 17 we show our new forecasts for FY22 and introduce forecasts for FY23. Our typical working assumption is that the team finishes in the top four of the Bundesliga and qualifies from its Champions League group stage.

Exhibit 17: Summary of new estimates					
€m	FY21	FY22e old	FY22e new	Change	FY23e new
Revenue	334.2	369.9	376.6	1.8%	404.3
Growth y-o-y		10.7%	12.7%		7.4%
- Match Operations	0.6	31.3	34.6	10.7%	45.6
- Advertising	106.6	113.3	119.4	5.4%	124.1
- TV Marketing	186.7	165.0	164.0	(0.6%)	168.0
- Merchandising	32.6	36.7	33.6	(8.4%)	34.6
- Conference, Catering & Misc.	7.7	23.8	25.0	5.2%	32.0
Net transfer income	15.4	50.0	60.0	20.0%	60.0
EBITDA	39.0	80.8	97.2	20.4%	114.5
Margin	11.7%	21.8%	25.8%		28.3%
Growth y-o-y		107.3%	149.6%		17.8%
Operating income (reported)	(72.1)	(28.6)	(10.8)	N/M	3.2
Profit before tax (reported)	(73.2)	(31.0)	(12.9)	N/M	2.0
Profit after tax (reported)	(72.8)	(37.4)	(12.9)	N/M	2.0
EPS reported (€)	(0.79)	(0.41)	(0.12)	N/M	0.02
EPS normalised (€)	0.26	0.62	0.71	13.7%	0.83
DPS (€)	0.00	0.00	0.00	N/M	0.00

Source: Borussia Dortmund, Edison Investment Research

In the absence of further COVID-19 related restrictions, we forecast year-on-year revenue growth of c 13% in FY22 to €377m and a further 7% increase in FY23 to €404m. The most significant contributors to the €70m revenue growth from FY21 to FY23 are: Match Operations (+€45m); Conference, Catering etc (+€24m); and Advertising (+€18m); offset by a €19m reduction in TV Marketing. Revenue growth and a €10m absolute increase in forecast net transfer income in FY22 leads to EBITDA growth of 150% in FY22 (€97m) and 18% in FY23 (€115m). The FY23 revenue forecast of €404m compares with FY19's pre-COVID-19 revenue of €370m, and the FY23 EBITDA forecast of €115m is similar to FY19's €116m.

During FY22 we assume fan attendance will be c 78% of the total available capacity, including a gradual build through H122 and full capacity for H222. The better attendance should lead to growth for Match Operations and other associated revenues such as drinks and food at the stadium.

We increase our forecasts for net transfer income to €60m in both FY22 and FY23 versus €15m realised in FY21 to reflect an expected more buoyant transfer market. Given the unpredictable nature of player transfers, we typically estimate future transfers as an average of activity in the prior three years. In FY19–21 Borussia Dortmund reported net transfer income of €83m, €40m and €15m, a three-year average of €46m. As FY21 was negatively affected by the COVID-19 outbreak, we feel it is more appropriate to assume an average of the more typical non-COVID-19 affected years, that is FY19 and FY20, of €60m. In FY22, this is supported by the sale of Sancho for gross proceeds of €85m and an expected benefit to EBITDA of €56m.

We assume zero effective tax in FY22 and FY23 given the corporate tax loss carry forward of €119m and trade tax loss carry forwards of €100m. For normalised earnings we assume a tax rate of 8%.

The growth in EPS in FY22 and FY23 is lower than the growth in net income due to the October 2021 share issue (see below).

Given the expected net loss of €13m in FY22 and modest net profit of €2m in FY23, we assume no dividend will be proposed.

Cash flow: FY21 net debt eliminated post year-end

Despite the challenging operating environment, the company generated positive operating cash flow after interest of €16m in FY21, an improvement from the FY20 outflow of €0.4m. The net debt position increased from €29m at end FY20 to €76m. In aggregate there was lower year-on-year investment in the squad and fixed assets (€92m versus €159m in FY20) and lower transfer proceeds (€30m versus €108m in FY20). Prior to the COVID-19 pandemic, the company typically operated with a year-end net cash position. Following the period end, the company announced the sale of Jadon Sancho for €85m, and in October 2021 an equity raise with gross proceeds of €86.2m was completed. The company issued 18.4m new shares, one new share for every five shares already held, at a price of €4.7, a discount of 24% to the €6.2 share price when the raise was announced.

Our new profit forecasts lead to operating cash flow generation post interest in FY22 and FY23 of €12m and €50m respectively. We assume capex of €6m pa and net investment in the playing squad of €3m pa, including gross investment of €88m, in line with FY21, but higher proceeds of €85m (equivalent to Sancho's proceeds) in both years. We assume the new debt raised during FY21 of €57m is repaid in FY22 using the proceeds from the equity raise. By year-end FY22 these lead to a forecast net cash position of €13m, and a further improvement to €54m by the end of FY23.

Balance sheet: Asset heavy with limited debt

The net loss generated in FY21 led to a reduction in net assets to €233m from €305m at end FY20. Intangible assets (€193m), mainly the playing squads, and tangible assets (€183m) represented the bulk of the total asset base of €451m. The most significant liability was closing gross debt of €78m, including short-term debt of €57m (to be repaid in FY22) and leases of €21m.

Valuation

We typically value Borussia Dortmund using an asset-backed sum-of-the-parts valuation, taking into account the potential unrealised value of the football squads and the brand name. Our valuation of €11.56 a share is a premium of 142% to the current share price of €4.77. The share price is lower than the value of the squad in isolation, or at a modest premium to our estimate of the brand value in isolation, implying a lower value is being attributed to at least one of them.

Exhibit 18: Sum-of-the-parts

	€m	Per share (€)	Comments
Value of squad	561.4	5.09	Per Transfermarkt.com less discount of 8%
Brand value	521.2	4.72	Brand Finance (May 2018) \$587m plus premium of 3%
Stadium	183.5	1.66	Net book value at 30 June 2021
Enterprise value	1,266.1	11.47	
Net cash/(debt)	10.2	0.09	Proforma for equity raise
Equity value	1,276.3	11.56	
Shares (m)	110.4		
Current share price		4.77	
Premium to current share price		142%	

Source: Edison Investment Research

The current value of all of Borussia Dortmund's footballing squads (ie the Bundesliga, UEFA under 19s, 3. Liga and the junior team) is €610m (source: www.transfermarkt.com), including €579m for the Bundesliga first-team squad. To this we apply a discount of 8%, which is the average cost of transfers, expensed through the income statement, since FY19. The squad valuations are a premium of 192% to the June 2021 book value of €192m, which still includes Sancho, therefore the comparison is not on a like-for-like basis. Management's long-term record in realising gains on players disposals provides comfort the squad market values are at a premium to book value. The book value of the squad at June 21 was equivalent to €1.74/share, and the unrealised gain of €392m represents €3.34/share.

The last quoted valuation of the Borussia Dortmund brand by Brand Finance of US\$587m was made in May 2018, equivalent to €506m at the current exchange rate of US\$1.18/€. To estimate the potential change in brand value, we use the change in the market values of Borussia Dortmund's listed peers since the end of May 2018 as a proxy.

Exhibit 19: Peer group valuations

	Year-end	Ccy	Share price	Market value current (m)	Market value 31 May 2018 (m)	Change (%)	EV/ sales FY1 (x)	EV/ sales FY2 (x)	EV/ EBITDA FY1 (x)	EV/ EBITDA FY2 (x)
Ajax	Jun	€	14.9	273	221	24	2.4	1.6	4.2	2.7
Juventus	Jun	€	0.7	939	595	58	2.5	2.3	N/A	11.9
Manchester United	Jun	US\$	16.3	2,655	3,440	(23)	4.0	3.7	19.8	13.9
Olympique Lyonnais	Jun	€	2.2	130	178	(27)	0.5	0.4	9.0	2.1
Average of football clubs						20	3.0	2.5	12.0	9.5
Madison Square Garden	Jun	US\$	189.5	4,590	6,201	(26)	6.8	6.4	114.9	58.4
World Wrestling Entertainment	Dec	US\$	61.1	4,658	4,467	4	4.3	3.8	15.9	13.2
Average of other sports/ entertainment						(11)	5.6	5.1	65.4	35.8
Average of four largest companies						3				
Borussia Dortmund	Jun	€	4.77	527	542	(3)	1.4	1.3	5.3	4.5
Premium/ (discount) to average football club							(54%)	(49%)	(56%)	(53%)
Premium/ (discount) to average other sports/ entertainment							(75%)	(75%)	(92%)	(87%)

Source: Refinitiv, Edison Investment Research. Note: Priced 29 October 2021.

The average market value for the four quoted football peers has increased by 20% since the end of May 2018. The two largest quoted peers have experienced very different fortunes: Juventus's value has increased by 58%, while Manchester United's has reduced by 23%, partly reflecting relative sporting success. The other quoted sports/entertainment peers have declined by an average of 11%. If we consider the four largest companies (Juventus, Madison Square Garden, Manchester United and World Wrestling Entertainment), the average increase has been 3%. Applying this premium to the last quoted brand valuation produces €521m or €4.72/share.

Peer group comparison: Significant discount

Borussia Dortmund is trading at a significant discount to its quoted football club peers and the wider universe of other companies with sports/entertainment exposure.

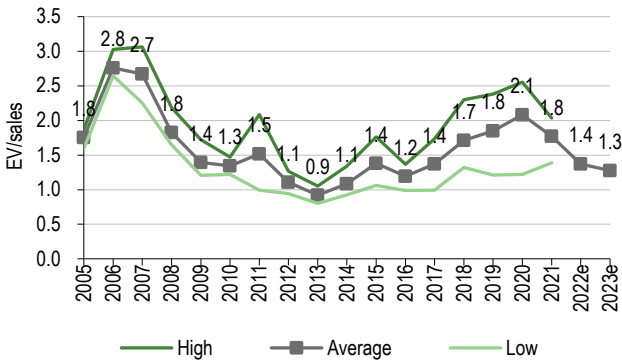
Borussia Dortmund's FY1 EV/sales multiple of 1.4x is a 54% discount to the average of the football peers 3.0x, with larger clubs at Juventus (2.5x) and Manchester United (4.0x) trading at a premium to the smaller clubs.

The football clubs also have a wide range of EV/EBITDA multiples within an average for the group for FY1 of 12.0x. Borussia Dortmund's multiple of 5.3x is more comparable with Ajax (4.2x) than Manchester United (19.8x).

Borussia Dortmund's long-term valuation

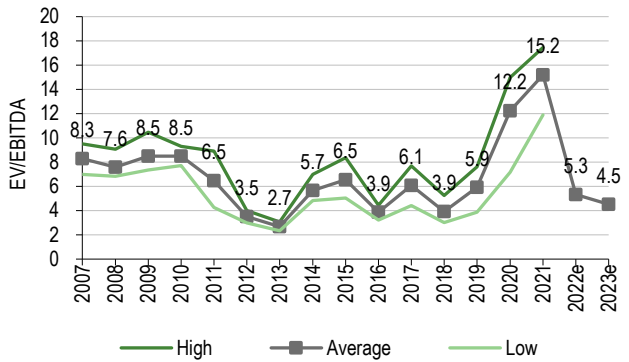
Below we show Borussia Dortmund's prospective EV/sales and EV/EBITDA (current EV) multiples for FY22e and FY23e versus historical multiples (historical enterprise values) with the high, average (quoted) and low multiples shown for each year. We exclude FY05 and FY06 from the EV/EBITDA charts as the company was emerging from its financial troubles and was either loss-making (FY05) or generating low EBITDA (FY06) and therefore valued on much higher multiples, which are less representative.

Exhibit 20: EV/sales multiple



Source: Refinitiv, Borussia Dortmund, Edison Investment Research

Exhibit 21: EV/EBITDA multiple



Source: Refinitiv, Borussia Dortmund, Edison Investment Research

For FY22e and FY23e, the EV/sales multiples of 1.4x and 1.3x are a large discount to the long-run average of 1.6x, and a little above the typical low multiples of 1.0–1.3x since FY15.

The prospective EV/EBITDA multiples for FY22e and FY23e of 5.3x and 4.5x are well below the long-run average (since FY07) of 7.0x, which is skewed by the high valuations of FY20 and FY21 when profitability was affected by the COVID-19 pandemic. Excluding FY20 and FY21, the average long-term multiple reduces to 6.0x, so it remains below the long-run average. The above would suggest potential for strong share price performance, even with only a normalisation to prior average multiples.

Exhibit 22: Financial summary

	€m	2019	2020	2021	2022e	2023e
Year end 30 June		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue		370.3	370.2	334.2	376.6	404.3
Cost of Sales		(21.3)	(22.4)	(19.6)	(20.6)	(21.6)
Gross Profit		349.0	347.8	314.6	356.0	382.7
EBITDA		116.0	63.0	39.0	97.2	114.5
Normalised operating profit		103.2	49.1	25.3	83.4	100.5
Amortisation of acquired intangibles		(65.9)	(88.3)	(92.6)	(94.3)	(97.3)
Exceptionals		(13.8)	(3.9)	(4.8)	0.0	0.0
Reported operating profit		23.5	(43.1)	(72.1)	(10.8)	3.2
Net Interest		(1.7)	(3.4)	(1.1)	(2.0)	(1.2)
Joint ventures & associates (post tax)		0.0	(0.0)	0.1	0.0	0.0
Profit Before Tax (norm)		101.5	45.6	24.3	81.4	99.3
Profit Before Tax (reported)		21.8	(46.6)	(73.2)	(12.9)	2.0
Reported tax		(4.4)	2.6	0.3	0.0	0.0
Profit After Tax (norm)		80.9	43.0	24.2	74.9	91.4
Profit After Tax (reported)		17.4	(44.0)	(72.8)	(12.9)	2.0
Minority interests		0.0	0.0	0.0	0.0	0.0
Net income (normalised)		80.9	43.0	24.2	74.9	91.4
Net income (reported)		17.4	(44.0)	(72.8)	(12.9)	2.0
Average number of shares outstanding (m)		92.0	92.0	92.0	105.4	110.4
EPS - normalised (€)		0.88	0.47	0.26	0.71	0.83
EPS - diluted normalised (€)		0.88	0.47	0.26	0.71	0.83
EPS - basic reported (€)		0.19	(0.48)	(0.79)	(0.12)	0.02
Dividend (€)		0.06	0.00	0.00	0.00	0.00
Revenue growth (%)		18.2	(0.0)	(9.7)	12.7	7.4
Gross Margin (%)		94.3	94.0	94.1	94.5	94.7
EBITDA Margin (%)		31.3	17.0	11.7	25.8	28.3
Normalised Operating Margin		27.9	13.2	7.6	22.2	24.9
BALANCE SHEET						
Fixed Assets		371.7	441.5	389.8	351.1	309.1
Intangible Assets		163.7	229.7	193.4	162.5	128.5
Tangible Assets		184.0	193.0	183.5	175.7	167.7
Investments & other		24.0	18.8	12.9	12.9	12.9
Current Assets		128.4	76.5	60.7	100.1	145.0
Stocks		4.6	6.8	6.8	9.9	11.2
Debtors		30.1	36.5	29.9	33.7	36.2
Cash & cash equivalents		55.9	3.3	1.7	34.2	75.4
Other		37.9	29.9	22.2	22.2	22.2
Current Liabilities		(125.4)	(122.6)	(163.6)	(90.7)	(91.6)
Creditors		(119.8)	(110.2)	(100.1)	(84.1)	(85.0)
Tax and social security		(0.8)	(0.0)	(0.0)	(0.0)	(0.0)
Short term borrowings		0.0	(8.0)	(56.9)	0.0	0.0
Finance leases		(3.1)	(4.4)	(4.2)	(4.2)	(4.2)
Other		(1.7)	0.0	(2.3)	(2.3)	(2.3)
Long Term Liabilities		(19.8)	(89.9)	(54.3)	(54.3)	(54.3)
Long term borrowings		0.0	0.0	0.0	0.0	0.0
Finance leases		(8.4)	(20.1)	(16.8)	(16.8)	(16.8)
Other long term liabilities		(11.4)	(69.9)	(37.5)	(37.5)	(37.5)
Net Assets		354.9	305.4	232.6	306.2	308.2
Minority interests		0.0	0.0	0.0	0.0	0.0
Shareholders' equity		354.9	305.4	232.6	306.2	308.2
CASH FLOW						
Op Cash Flow before WC and tax		111.9	59.5	37.9	95.2	113.3
Working capital		5.7	(18.0)	(6.9)	(22.9)	(2.9)
Exceptional & other		(84.6)	(38.9)	(13.6)	(58.0)	(58.8)
Tax		(2.8)	0.3	0.0	0.0	0.0
Operating cash flow		30.2	3.0	17.4	14.3	51.6
Capex		(9.9)	(6.1)	(3.4)	(6.0)	(6.0)
Net investment in intangibles		(13.6)	(44.6)	(58.6)	(3.3)	(3.3)
Acquisitions/disposals		0.0	0.0	0.0	0.0	0.0
Net interest		(1.5)	(3.3)	(1.4)	(2.0)	(1.2)
Equity financing		0.0	0.0	0.0	86.5	0.0
Dividends		(5.5)	(5.5)	0.0	0.0	0.0
Other		(3.3)	(3.9)	52.5	(56.9)	0.0
Net Cash Flow		(3.6)	(60.6)	6.4	32.5	41.1
Opening net debt/(cash)		(50.8)	(44.4)	29.1	76.2	(13.2)
Other non-cash movements		(2.8)	(12.9)	(53.6)	56.9	0.0
Closing net debt/(cash)		(44.4)	29.1	76.2	(13.2)	(54.3)

Source: Company accounts, Edison Investment Research

Contact details	Revenue by geography
11 Rheinlanddamm 207–209 D-44137 Dortmund Germany +49 (0) 231 90 20 745 www.bvb.de/aktie	N/A
Management team	
Chief executive: Hans-Joachim Watzke	Chief financial officer: Thomas Treß
Before his appointment in 2005, Mr Watzke had been treasurer of the football club for four years. His contract as CEO runs to June 2025. He is also the owner-founder of Watex, a leading manufacturer of protective clothing for industrial workers and firefighters.	Thomas Treß was appointed second managing director in 2005 and has been responsible for finance since the start of 2006. His contract has been extended to June 2025. He was previously a partner at RölfPartner, one of the leading business consultancies in Germany. He was awarded CFO of the year 2013 by the German Finance Magazin.
Managing director: Carsten Cramer	
Carsten Cramer joined the board in 2018, having served as sales and marketing director since 2010. He was previously at leading sports marketing agency Sportfive (now Lagardère Sports) where he served as a team leader at BVB and then as senior VP with nationwide duties.	
Principal shareholders	(%)
Bernd Geske	8.24
Evonik Industries	8.19
Signal Iduan	5.98
Puma	5.32
Ballspielverein Borussia 09 e.V. Dortmund	4.61
Ralph Dommermuth Beteiligungen	4.17
Free float	72.27

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