

Borussia Dortmund

Revised forecasts

Costs!

Higher than expected costs, driven by H2 on-field recovery, suggest that our forecast of broadly maintained pre-transfer EBITDA in the year just ended may now be met only thanks to a Champions League revenue loss insurance claim (our estimate €10m), for which we had not previously accounted. However, we are encouraged by continuing top-line buoyancy and the prospect of underlying profit resilience in FY16 despite no Champions League. Initial reaction to new coach Thomas Tuchel seems very positive, eg key players Gündogan and Hummels deciding to stay.

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	264.0	46.0***	39.0***	0.38***	0.10	6.1
06/16e	256.0	34.0	27.0	0.25	0.10	8.4

Note: *Before player transfer income. **PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments. ***Including estimated €10m insurance claim benefit.

Q4: Success at a price

Although Dortmund ended the year on a strong note with Europa League qualification and progress to the German Cup Final, we now envisage a c 11% increase in labour and operating costs in the quarter to June, which threatens a marked reduction in like-for-like pre-transfer EBITDA, our key metric, ie €4m against €13m in Q414. As evident in Exhibit 1, this is at odds with preceding quarters and thus attributed by management to pressures associated with key player retention and variable expenses associated with progress to the Cup Final, eg player bonuses, advertising agency commissions, administration and match operations. In mitigation, there should be the unexpected benefit (our estimate €10m) of a “negative outcome” insurance claim to recover income lost by failing to qualify for the Champions League for the first time since 2010. Consequently, full year headline pre-transfer EBITDA may slightly exceed FY14.

Current year optimism

Although we are reducing our FY16 pre-transfer EBITDA forecast by €5m owing to higher costs, we expect returns to be on a par with FY15 (pre-insurance), which is impressive, given the absence of Champions League. Profit should be bolstered by a valuable new deal on the international marketing of Bundesliga media rights (revenues to more than double) and by a rise in Europa League fees.

Valuation: Long-term appeal

Caution remains justifiable as the new coach has yet to prove himself. However, the spectre of no Champions League has been confronted (eg key players have stayed) and sponsors and investors supported management’s strategy at a much higher price. At an EV/EBITDA of 8.4x, FY16e 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.

Travel & leisure

15 July 2015

Price €3.62

Market cap €333m

Net cash (€m) at March 2015 including finance leases 20.6

Shares in issue 92.0m

Free float 69%

Code BVB

Primary exchange Frankfurt

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	4.0	1.6	(27.0)
Rel (local)	1.1	7.8	(38.0)

52-week high/low	€5.1	€3.2
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Business description

The group operates Borussia Dortmund, a leading German football club, recent back-to-back champions of the Bundesliga and Round of 16 participant in 2014/15 UEFA Champions League (quarter-finalist in 2013/14).

Next events

Europa League third qualifying round	30 July & 6 August 2015
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Start of Bundesliga season	15 August 2015
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Preliminary results	21 August 2015
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Analysts

Richard Finch	+44 (0)20 3077 5700
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Paul Hickman	+44 (0)20 3681 2501
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consumer@edisongroup.com
[Edison profile page](#)

Exhibit 1: Revenue and profit analysis

Year end June (€m)	H114	Q314	Q414	FY14	H115	Q315	Q415e	FY15e	FY16e
Home matches									
Bundesliga	9	5	3	17	8	4	5	17	17
Champions League	3	1	1	5	3	1	-	4	-
Europa League	-	-	-	-	-	-	-	-	6**
DFB Cup	-	-	1	1	-	-	1	1	2***
Away matches:									
Champions League	3	1	1	5	3	1	-	4	-
Europa League	-	-	-	-	-	-	-	-	6**
DFB Cup	3	1	Final	4+Final	2	1	1+Final	4+Final	2***
Revenue									
Match operations:									
Bundesliga	14.6e	7.5e	3.9e	26.0	13.1e	6.3e	7.6e	27.0	28.0
Champions League	5.1e	2.3e	2.6e	10.0	5.5e	2.3e	-	7.8	-
Europa League	-	-	-	-	-	-	-	-	8.0
DFB Cup	0.6e	0.4e	2.7e	3.7	0.4e	0.2e	3.1e	3.7	2.8
Other	0.5e	0.2e	0.1e	0.8	0.8e	0.1e	0.1e	1.0	1.2
Total	20.8	10.4	9.3	40.5	19.8	8.9	10.8	39.5	40.0
Broadcasting:									
Bundesliga	20.3e	8.5e	10.2e	39.1	23.0e	8.0e	13.5e	44.5	58.0
Champions League	25.4	5.6	5.2	36.2	27.7	5.8	-	33.5	-
Europa League	-	-	-	-	-	-	-	-	7.0
DFB Cup	0.9e	0.6e	4.6e	6.1	0.5e	0.3e	5.2e	6.0	3.0
Total	46.7	14.7	20.0	81.4	51.2	14.1	18.7	84.0	68.0
Advertising	33.8	17.3	21.9	73.0	37.5	18.1	21.4	77.0	80.0
Merchandising	22.6	5.8	6.6	35.0	23.9	6.9	7.7	38.5	39.0
Catering/other	11.1	5.5	9.7	21.6	11.4	5.5	7.1	25.0	25.0
Total	135.0	53.8	67.5	256.3	144.7	53.6	65.7	264.0	256.0
Other operating income	2.6	1.1	1.5	5.2	2.8	0.8	10.9*	14.5*	5.0
Labour costs	(52.2)	(25.9)	(29.7)	(107.8)	(56.6)	(28.7)	(31.7)	(117.0)	(115.0)
Share of revenue	39%	48%	44%	42%	39%	53%	48%	44%	45%
Material costs	(12.3)	(3.5)	(4.5)	(20.3)	(12.0)	(4.1)	(5.4)	(21.5)	(22.0)
Other operating costs	(48.0)	(19.1)	(21.6)	(88.7)	(49.8)	(19.1)	(25.1)	(94.0)	(90.0)
EBITDA before transfers	25.1	6.4	13.2	44.7	29.1	2.5	14.4	46.0	34.0
Margin	19%	12%	19%	17%	20%	5%	22%	17%	13%
Profit on disposal of players									
Transfer income	1.6	2.6	0.2	4.4	5.6	0.2	-	5.8	-
Less: Carrying value	Neg.	Neg.	Neg.	Neg.	(4.0)	Neg.	-	(4.0)	-

Source: Edison Investment Research. Note: *Including estimated €10m insurance claim benefit. **Assuming exit in Round of 32; includes qualifying third round and play-offs. ***Assuming exit in quarter-final.

Exhibit 2: Financial summary

	€000s	2012	2013	2014	2015e	2016e
June		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		189,100	253,400	256,300	264,000	256,000
EBITDA		36,800	42,100	44,700	46,000*	34,000
Player transfers		23,200	45,400	4,400	1,800	0
Operating Profit (before amort. and except.)		49,900	76,700	40,900	40,300	26,500
Intangible Amortisation		(8,500)	(11,600)	(22,500)	(30,000)	(30,000)
Exceptionals		0	0	0	0	0
Other		0	0	0	0	0
Operating Profit		41,400	65,100	18,400	10,300	(3,500)
Net Interest		(4,800)	(5,100)	(3,800)	(1,300)	500
Other financial items		0	0	0	(4,300)**	0
Profit Before Tax (norm)		45,100	71,600	37,100	39,000	27,000
Profit Before Tax (FRS 3)		36,600	60,000	14,600	4,700	(3,000)
Tax		(9,100)	(8,800)	(2,600)	(700)	0
Profit After Tax (norm)		36,000	62,800	34,500	38,300	27,000
Profit After Tax (FRS 3)		27,500	51,200	12,000	4,000	(3,000)
Average Number of Shares Outstanding (m)		61.4	61.4	61.4	87.3	92.0
EPS - normalised (c)		55.0	98.5	50.8	37.7	24.7
EPS - (IFRS) (c)		44.8	82.7	19.1	4.2	(3.6)
Dividend per share (c)		6.0	10.0	10.0	10.0	10.0
EBITDA Margin (%)		19.5	16.6	17.4	17.4	13.3
Operating Margin (before GW and except.) (%)		26.4	30.3	16.0	15.3	10.4
BALANCE SHEET						
Fixed Assets		210,400	212,200	249,500	289,000	278,000
Intangible Assets		25,700	28,400	61,600	100,000	87,000
Tangible Assets		182,600	178,400	184,500	186,000	188,000
Investments		2,100	5,400	3,400	3,000	3,000
Current Assets		38,300	90,200	42,800	109,500	104,500
Stocks		5,800	7,600	5,900	7,000	9,000
Debtors		24,500	65,900	14,900	22,000	23,000
Cash		5,300	12,500	17,800	76,500	68,500
Other		2,700	4,200	4,200	4,000	4,000
Current Liabilities		(61,900)	(74,400)	(71,000)	(64,400)	(62,600)
Creditors		(54,600)	(68,500)	(60,500)	(62,800)	(61,000)
Short term borrowings		(6,000)	(4,500)	(8,900)	0	0
Finance leases		(1,300)	(1,400)	(1,600)	(1,600)	(1,600)
Long Term Liabilities		(93,300)	(87,300)	(76,000)	(45,900)	(43,900)
Long term borrowings		(41,300)	(40,800)	(32,100)	0	0
Finance leases		(21,100)	(19,700)	(20,100)	(20,900)	(20,900)
Other long term liabilities		(30,900)	(26,800)	(23,800)	(25,000)	(23,000)
Net Assets		93,500	140,700	145,300	288,200	276,000
CASH FLOW						
Operating Cash Flow		32,700	40,700	32,500	40,000	29,000
Net Interest		(4,900)	(5,000)	(3,900)	(7,900)	700
Tax		(1,100)	(8,800)	(3,900)	(2,000)	(1,500)
Capex		(7,300)	(6,500)	(10,900)	(11,000)	(10,000)
Acquisitions/disposals		(1,500)	(7,600)	2,000	(54,800)	(17,000)***
Financing		0	0	0	140,700	0
Dividends		100	(3,600)	(6,100)	(6,100)	(9,200)
Net Cash Flow		18,000	9,200	9,700	98,900	(8,000)
Opening net debt/(cash)		69,900	64,400	53,900	44,900	(54,000)
HP finance leases initiated		(12,500)	1,300	(700)	0	0
Other		0	0	0	0	0
Closing net debt/(cash)		64,400	53,900	44,900	(54,000)	(46,000)

Source: Edison Investment Research, company accounts. Note: *Including estimated €10m insurance claim benefit. **Early repayment of financial liabilities. ***Acquisitions of Castro, Bürki and Weigl (estimated by www.transfermarkt.de).

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