

# Borussia Dortmund

Half-year results

## Finding its feet

While arguably riding its luck of late, Borussia Dortmund (BVB) is well-placed to exploit immediate Bundesliga and Europa League opportunities. However, there is minimal room for error in terms of prized Champions League qualification, the driver of our forecast improvement in FY19 operational profit (in Bundesliga just four points separate the second place from sixth and BVB is ranked only fourth since the winter break). To its credit, BVB's Q2 financial performance was much more assured than on the field, with steady revenue and slightly lower EBITDA without the buttress of transfers. The rise in our current-year forecast is due wholly to January transfers (notably Aubameyang), further proof of Dortmund's ability to generate substantial hidden reserves.

Year end	Revenue* (€m)	EBITDA (€m)	PBT** (€m)	EPS** (€)	DPS (€)	EV/EBITDA (x)
06/16	281.3	86.7	73.8	0.68	0.06	5.6
06/17	328.4	74.1	61.1	0.56	0.06	6.6
06/18e	331.0	135.0	120.0	1.11	0.06	3.5
06/19e	375.0	85.0	71.0	0.66	0.06	5.3

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

## Q2: A different kind of quarter

The three months to December saw a similar y-o-y fixture pattern but contrasting outcomes ie no Bundesliga wins until new coach Stöger joined late in the period and an equally poor Champions League (just two points against top of group table last time). This led to much lower (c 40%) broadcasting income from European competition, albeit fortuitously redeemed by the initial benefit of the new deal on domestic TV marketing. While advertising remained encouraging (up 7%), marked by new Champion Partners Opel and bwin, there was a further decline in merchandising (down 24%), which is common across the league. The shortfall in EBITDA (c €7m, relatively minor in full-year context) on flat revenue was due mainly to wage pressure, compounded by one-off severance costs related to the previous coach's set-up.

## Transfer gains fuel FY18 upgrade

Despite such quarterly volatility, we retain our operational assumptions for this year and next. The changes to our forecasts, detailed on page 2, relate predominantly to player transfers. The €37m EBITDA upgrade for the current period reflects January transfers (Aubameyang and Bartra) with no allowance for end of season dealings. We are now a little more cautious about transfers in FY19, given Aubameyang's exit so soon after Dembélé. However, management has recently stated a need to adjust the squad, even if this would be subject to the vagaries of the new coach.

## Valuation: Understandable caution

The contrast in reaction to the sale of Aubameyang with that of Dembélé (share price up c 40%) is telling, with evident concern about conflicting sporting and financial interests. This may persist in the face of unconvincing performances on the field, uncertainty about a long-term coach as well as main goal-scorer and growing financial reliance on transfer activity, however good the record.

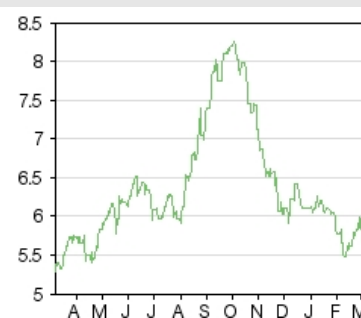
## Travel & leisure

6 March 2018

**Price** €5.62  
**Market cap** €517m

Net cash (€m) at end December 2017 including finance leases	14.2
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	(3.8)	(6.4)	6.9
Rel (local)	1.0	1.0	6.4
52-week high/low		€8.3	€5.2

## Business description

The group operates Borussia Dortmund, a leading German football club, DFB Cup winners in 2016/17 and competing in this season's UEFA Champions and Europa Leagues (Champions League quarter-finalists in 2016/17).

## Next events

Edison roadshows, New York	6 & 7 March 2018
Europa League round of 16 against RB Salzburg	8 & 15 March 2018

## Analysts

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## Revenue and profit analysis

Exhibit 1: Revenue and profit analysis									
Year end June (€m)	Q117	Q217	H217	FY17	Q118	Q218	H218e	FY18e	FY19e
							▲	▲	▲▲
<b>Home matches:</b>									
Bundesliga	3	5	12	17	3	5	9	17	17
Champions League	1	2	2	5	1	2	-	3	4
Europa League	-	-	-	-	-	-	2	2	-
DFB Cup	-	1	1	2	-	-	-	-	2
SuperCup	1	-	-	1	1	-	-	1	-
<b>Away matches:</b>									
Champions League	1	2	2	5	1	2	-	3	4
Europa League	-	-	-	-	-	-	2	2	-
DFB Cup	1	-	2+final	3+final	1	2	-	3	3
<b>Revenue</b>									
<b>Match operations:</b>									
Bundesliga	4.7e	8.2e	14.1e	27.0	4.8e	8.3e	13.9e	27.0	27.5
Champions League	1.9e	3.8e	3.8e	9.5	2.0e	3.9e	-	5.9	8.0
Europa League	-	-	-	-	-	-	4.0e	4.0	-
Domestic cups	1.1e	1.0e	3.2e	5.3	1.2e	0.5e	0.1e	1.8	3.5
Other	0.8e	0.8e	0.6e	2.2	2.6e	0.5e	1.2e	4.3	2.5
<b>Total</b>	<b>8.5</b>	<b>13.8</b>	<b>21.6</b>	<b>43.9</b>	<b>10.6</b>	<b>13.2</b>	<b>19.2</b>	<b>43.0</b>	<b>41.5</b>
<b>Broadcasting:</b>									
Bundesliga	16.2	16.3	33.6	66.1	21.6	21.8	44.6	88.0	92.0
Champions League	19.6	14.0	16.5	50.1	18.9	8.5	-	27.4	68.0
Europa League	0.9	-	-	0.9	-	-	4.0	4.0	-
Domestic cups	1.6	(0.3)	7.3	8.6	1.8	1.5	0.3	3.6	4.5
<b>Total</b>	<b>38.3</b>	<b>30.0</b>	<b>57.5</b>	<b>125.8</b>	<b>42.3</b>	<b>31.8</b>	<b>48.9</b>	<b>123.0</b>	<b>164.5</b>
Advertising	17.8	22.3	47.3	87.4	21.3	23.9	50.8	96.0	99.0
Merchandising	9.2	14.0	16.3	39.5	8.7	10.7	17.6	37.0	37.0
Catering / other	7.8	7.4	16.7	31.9	5.8	7.2	19.0	32.0	33.0
<b>Revenue before transfers</b>	<b>81.6</b>	<b>87.4</b>	<b>159.4</b>	<b>328.4</b>	<b>88.7</b>	<b>87.0</b>	<b>155.3</b>	<b>331.0</b>	<b>375.0</b>
Transfers	45.2*	-	32.1	77.3	136.2**	-	73.8**	210.0**	75.0***
<b>Total revenue</b>	<b>126.8</b>	<b>87.4</b>	<b>191.5</b>	<b>405.7</b>	<b>224.8</b>	<b>87.0</b>	<b>229.1</b>	<b>541.0</b>	<b>450.0</b>
Other operating income	1.0	0.7	2.5	4.2	0.5	2.3	2.2	5.0	5.0
Labour costs	(38.4)	(43.8)	(95.7)	(177.9)	(43.9)	(50.4)	(100.7)	(195.0)	(205.0)
Share of revenue before transfers	47%	50%	60%	54%	49%	58%	65%	59%	55%
Material costs	(5.8)	(8.6)	(11.5)	(25.9)	(5.6)	(6.7)	(11.7)	(24.0)	(24.0)
Other operating costs	(43.4)	(25.9)	(62.7)	(132.0)	(94.4)	(29.8)	(67.8)	(192.0)	(141.0)
<b>EBITDA</b>	<b>40.1</b>	<b>9.8</b>	<b>24.2</b>	<b>74.1</b>	<b>81.4</b>	<b>2.5</b>	<b>51.1</b>	<b>135.0</b>	<b>85.0</b>

Source: Edison Investment Research. Note: ▲ Assuming exit in Europa League round of 16. ▲▲ Assuming Champions League round of 16 and DFB Cup semi-final. \*Including disposal of Mkhitarian. \*\*Including disposals of Dembélé, Bender, Mor, Bartra and Aubameyang. \*\*\*Notional (assumed average of transfer revenue of three previous years excluding "exceptional" Dembélé and Aubameyang transactions).

**Exhibit 2: Financial summary**

	€'000s	2016	2017	2018e	2019e
Year end June		IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>					
Revenue		376,300	405,700	541,000	450,000
EBITDA		86,700	74,100	135,000	85,000
Operating Profit (before amort. and except.)		75,900	62,600	123,000	73,000
Intangible Amortisation		(32,000)	(51,900)	(64,000)	(60,000)
Exceptionals		(7,500)	(100)	(1,100)	0
Other		0	0	0	0
Operating Profit		36,400	10,600	57,900	13,000
Net Interest		(2,100)	(1,500)	(3,000)	(2,000)
Other financial items		0	0	0	0
Profit Before Tax (norm)		73,800	61,100	120,000	71,000
Profit Before Tax (FRS 3)		34,300	9,100	54,900	11,000
Tax		(4,900)	(900)	(7,000)	(1,000)
Profit After Tax (norm)		62,700	51,900	102,000	60,400
Profit After Tax (FRS 3)		29,400	8,200	47,900	10,000
Minority interests		0	0	0	0
Net income (normalised)		62,700	51,900	102,000	60,400
Profit after tax (FRS3)		29,400	8,200	47,900	10,000
Average Number of Shares Outstanding (m)		92.0	92.0	92.0	92.0
EPS - normalised (c)		68.2	56.4	110.9	65.7
EPS - (IFRS) (c)		32.0	8.9	52.1	10.9
Dividend per share (c)		6.0	6.0	6.0	6.0
EBITDA Margin (%)		23.0	18.3	25.0	18.9
Operating Margin (before GW and except.) (%)		20.2	15.4	22.7	16.2
<b>BALANCE SHEET</b>					
Fixed Assets		302,800	354,900	364,000	348,000
Intangible Assets		65,300	141,500	147,000	140,000
Tangible Assets		188,400	184,700	182,000	180,000
Investments		49,100	28,700	35,000	28,000
Current Assets		121,800	123,700	149,000	166,000
Stocks		10,200	9,000	10,000	10,000
Debtors		51,100	48,800	50,000	50,000
Cash		51,700	49,300	59,000	76,000
Other		8,800	16,600	30,000	30,000
Current Liabilities		(78,800)	(140,900)	(140,000)	(138,000)
Creditors		(76,200)	(130,600)	(137,000)	(135,000)
Short term borrowings		0	0	0	0
Finance leases		(2,600)	(10,300)	(3,000)	(3,000)
Long Term Liabilities		(36,200)	(25,400)	(18,000)	(18,000)
Long term borrowings		0	0	0	0
Finance leases		(19,000)	(8,700)	(8,000)	(8,000)
Other long term liabilities		(17,200)	(16,700)	(10,000)	(10,000)
Net Assets		309,600	312,300	355,000	358,000
<b>CASH FLOW</b>					
Operating Cash Flow		44,400	12,200	1,000	30,000
Net Interest		(1,400)	(2,000)	(2,800)	(2,200)
Tax		(300)	(5,500)	(6,000)	(6,000)
Capex		(9,400)	(8,100)	(9,000)	(9,300)
Acquisitions/disposals		(20,500)	9,100	40,000	10,000
Financing		(7,700)	0	0	0
Dividends		(4,600)	(5,500)	(5,500)	(5,500)
Net Cash Flow		500	200	17,700	17,000
Opening net debt/(cash)		(29,600)	(30,100)	(30,300)	(48,000)
Finance leases initiated		0	0	0	0
Other		0	0	0	0
Closing net debt/(cash)		(30,100)	(30,300)	(48,000)	(65,000)

Source: Borussia Dortmund accounts, Edison Investment Research

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