

Borussia Dortmund

Company outlook

Another brick in the yellow wall

The 2019/20 season was typically successful from a sporting perspective, which reaffirmed Borussia Dortmund's position as one of the leading football teams in Germany and Europe. The coming year is likely to be more challenging financially due to the operating restrictions necessitated by COVID-19, but the company is well-placed to deliver a strong recovery in earnings if restrictions ease, albeit visibility on these is limited. The valuation reflects the uncertain outlook as it is trading at a significant (166%) discount to our sum-of-the-parts valuation, broadly in-line with historic sales multiples, and at a discount to its peers.

Year end	Revenue (€m)	EBITDA (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	EV/EBITDA (x)
06/19	370.3	116.0	101.5	0.88	0.06	5.6	4.1
06/20	370.2	63.0	45.6	0.47	0.00	10.5	7.6
06/21e	336.2	39.5	23.0	0.25	0.00	19.6	12.1
06/22e	346.6	60.8	43.8	0.43	0.00	11.4	7.9

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles and exceptional items.

Sustainable investment drives performance

Borussia Dortmund has demonstrated relatively consistent on-pitch performance over the long term, which has positioned it as one of the leading football clubs in Europe. In 'normal' times, this enabled it to generate strong revenue growth, improve profitability and gain a secure financial position as investment in the squad was made in a responsible way in a competitive market. Despite near-term earnings uncertainty due to the outbreak of COVID-19, the company has strong structural growth drivers of increasing domestic and global interest, which should enable it to monetise the brand globally.

FY21: Cautious outlook due to COVID

For the coming year, management estimates that the restrictions required to counter COVID-19 will lead to a 5% decline in revenue which, coupled with other effects, eg lower transfer activity and high operational gearing, will translate into a reported operating loss due to amortisation of intangibles. Our forecasts, which are downgraded significantly (EBITDA by c 69%) assume no significant improvement in the operating environment through FY21 and FY22, providing good scope for upgrades if and when operating restrictions end.

Valuation: Well supported by asset backing

The share price has been weak since the outbreak of COVID-19. Our asset-backed valuation of €13.03, which takes into account unrealised value in the playing squad and brand, points to upside of 166% to the current share price. The share price attributes a lower value to the brand and the playing squad, which likely reflects the uncertain outlook for revenue and profitability given the high level of operational leverage. The EV/sales multiple of 1.4x is in line with the long-run average, and at a discount to its peers.

Travel & leisure

14 October 2020

Price €4.9

Market cap €451m

€£ 0.91

Net debt (€m) at 30 June 2020 (including finance leases) 29.1

Shares in issue 92.0m

Free float 59.9%

Code BVB

Primary exchange Frankfurt

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (14.6) (13.2) (48.0)

Rel (local) (13.4) (14.7) (50.0)

52-week high/low €9.4 €4.6

Business description

The group operates Borussia Dortmund, a leading football club, Bundesliga runners up in 2019/20, DFB Super Cup winners in 2019/20 and DFB Cup winners in 2016/17. The club has qualified for the Champions League in eight of the last 10 seasons.

Next events

Q121 results November 2020

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Borussia Dortmund is a research client of Edison Investment Research Limited

Investment summary

Company description: A leading German football club

Borussia Dortmund has been one of the most successful German football clubs for decades. Second only to Bayern Munich in terms of Bundesliga titles, it was the first German club to win a European competition, the European Cup Winners' Cup in 1966, and Dortmund won the Champions League in 1997. The 2019/20 season was typically successful for the club as it finished second in the Bundesliga and reached the Round of 16 in the final stages of the Champions League. Borussia Dortmund has qualified to play in the financially lucrative Champions League in eight of the last 10 seasons. The club's fabled stadium, Signal Iduna Park, has long enjoyed the highest average football attendance (more than 81,000) in the world. It is the largest stadium in Germany and the famous Südtribüne-nicknamed Die Gelbe Wand ('The Yellow Wall') is the largest standing terrace for fans in Europe.

The corporate strategy has been 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 to grow core revenue sources. On-the-pitch success has been consistently high, leading to long-term revenue growth from FY05–19 of 12.2% pa, improved profitability and a more stable financial position.

Valuation: Strong underlying asset support

We value Borussia Dortmund using an asset-based sum-of-the-parts, which separately values the playing squad, the club's brand (at a discount to the last quoted valuation to reflect potential market movements) and other assets (at net book value), and highlights the hidden or unrealised value of club's assets. The current valuation of €13.03/share is at a premium of 166% to the current share price, which reflects concerns about whether and how quickly its revenue and profitability can improve given the restrictions enforced on the club to cope with COVID-19. Every 10% change in the value of the playing squad or brand is equivalent to €0.64/share and €0.49/share respectively.

Financials: Downgrades for FY21e

The near-term outlook for the company is negatively influenced by the ongoing effects of COVID-19, which are likely to lead to reductions in most revenue streams and lower net transfer income. As a result, management expects to deliver a net loss in the coming year. To reflect the more difficult trading outlook, we downgrade our forecasts for FY21 and introduce forecasts for FY22, which cautiously assume no significant change in current operating restrictions or any cost savings to address a prolonged difficult trading environment, which are unlikely in such an event.

Exhibit 1: Summary forecast changes

€m	Revenue (€m)			EBITDA (€m)			EPS normalised (€)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
FY21e	424.8	336.2	(20.9)	125.5	39.5	(68.5)	0.96	0.25	(73.9)
FY22e		346.6			60.8			0.43	

Source: Company accounts, Edison Investment Research

Sensitivities

- Reliance on sporting fortunes, especially on participation in lucrative UEFA competitions.
- Restrictions on the team's ability to travel and compete in games, or preventing fans' attendance at games, due to eg a pandemic, may affect financial performance.
- Serious player injuries cannot be foreseen, but are mitigated by a strong squad.

- Competes for a share of disposable consumer income but home attendance resilient and substantially pre-sold.
- Dependence on brand perception tempered by long-term contracts with major sponsors.
- Subject to external governing bodies, which may change the structure of German and European football.
- Negotiation of key media contracts is outside the company's control. Obligated to pay players and coaching staff in line with competitors.
- Potential conflict between sporting and financial aims.

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 name of the brewery, Borussia-Brauerei, which is today known as Dortmunder Actien Brauerei (DAB). Since its formation in 1909, it has become one of Germany's most successful football clubs and 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. Indeed, it remains one of the few quoted European football clubs with an investible free float of 59.9%. Borussia Dortmund celebrates its 20th anniversary as a listed company in October 2020. Therefore, where possible in this note, we highlight the long-term progress that the club has made on the pitch and the company has made financially. The company transitioned from German GAAP to IFRS in FY05, which makes comparison of some financial reporting items on a like-for-like basis more difficult, therefore most of our narrative on financial performance focuses on the period since adoption of IFRS accounting.

A history of sporting success

Exhibit 2: Club honours

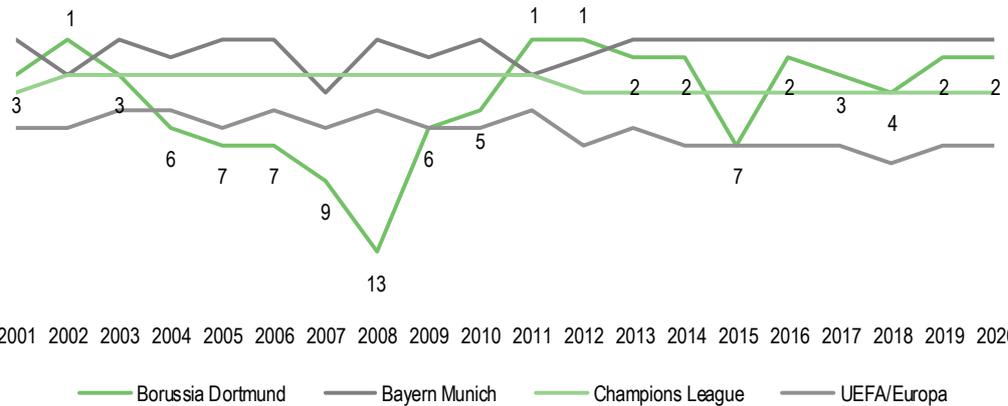
Contest	Year(s)
German championship*	1956, 1957, 1963, 1995, 1996, 2002, 2011 and 2012
DFB-Pokal (German Cup)	1965, 1989, 2012 and 2017
DFL-Supercup	1989, 1995, 1996, 2008**, 2013 and 2014
UEFA Champions League	1997
European Cup Winners' Cup	1966
Intercontinental Cup	1997

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

Domestically, the club has won eight national championships (named the Bundesliga since 1964), four DFB-Pokals (the German knockout cup competition) 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).

Exhibit 3 shows Borussia Dortmund's finishing position (quoted) in the Bundesliga in every season since FY01 in the 18 competing teams, as well as that of its main competitor, Bayern Munich. In addition, we highlight the lowest finishing position required to compete in the Champions League or the UEFA/Europa Cup in the following season. Since its IPO in 2000, Borussia Dortmund has won the Bundesliga on three occasions. In the last 10 seasons, the team has finished in the top four of the Bundesliga on nine occasions. Its prolonged decline between 2004 and 2008 reflects the financial troubles under previous management. The 2015 dip proved short-lived when the team finished seventh in the Bundesliga (change of coach), but still allowed successful international participation as UEFA Europa league quarter finalists in the following season.

Exhibit 3: Borussia Dortmund's Bundesliga position since 2001



Source: Bundesliga, company accounts

Exhibit 4 shows cumulative statistics for the top 10 teams in the Bundesliga 1 since FY01, the season in which Borussia Dortmund was listed. Of the 38 teams that have competed in the 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 second fewest 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, eg RB Leipzig over the last four seasons. However, it does reflect the team's long-term and relatively consistent success. Borussia Dortmund is one of only six teams in the 38 that have competed in Bundesliga 1 over that time to feature in every season.

Exhibit 4: Bundesliga table since FY01 (cumulative)

Place	Team	Games won	Games drawn	Games lost	Goals for	Goals against	Goal difference	Points
1	Bayern Munich	463	122	95	1,554	577	977	1,511
2	Borussia Dortmund	350	173	157	1,269	795	474	1,223
3	Bayer 04 Leverkusen	328	152	200	1,215	879	336	1,136
4	Schalke	309	167	204	1,022	820	202	1,094
5	Werder Bremen	283	161	236	1,156	1,031	125	1,014
6	VfL Wolfsburg	258	172	250	1,032	986	46	946
7	VfB Stuttgart	241	148	223	886	875	11	871
8	Hertha Berlin	224	152	236	834	882	(48)	824
9	Borussia Mönchengladbach	224	153	235	840	854	(14)	823
10	Hamburger SV	221	155	236	806	889	(83)	818

Source: Bundesliga, Edison Investment Research

Internationally, Borussia Dortmund became the first German team to win a European competition, the European Cup Winners' Cup in 1966, and it won 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.

Since 2009/10, the club has qualified to play in the Champions League competition in eight of the 10 seasons and, during that period, the team reached the Round of 16, ie the knockout stage of the competition in six seasons, including an appearance in the 2012/13 final.

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, which included 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. Jürgen Klopp's appointment as coach ahead of the 2009 season was in tune with management's approach to player investment. A c €140m fund-raising in 2014, backed by key sponsors and new partnerships, was a strong endorsement of the strategy.

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 which 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, which has 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, ie 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 at the end of June 2020 was held by the following key shareholders: Evonik Industries (9.83%), Bernd Geske (9.35%), Ballspielverein Borussia 09 e.V. Dortmund 5.53%, Signal Iduna 5.43%, Ralph Dommermuth Beteiligungen (ie the owner of 1&1) 5.0% and Puma 5.0%, leaving a free float of 59.86%. 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, which prevents a private investor from taking over football clubs. It requires that 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 that 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.

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 exploit the brand and enhance revenue streams.

The team's sporting success needed to be sustainable, ie without taking on new debt and achieving a balance between the company's financial interest and its sporting interests, which can sometimes

conflict, ie 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.

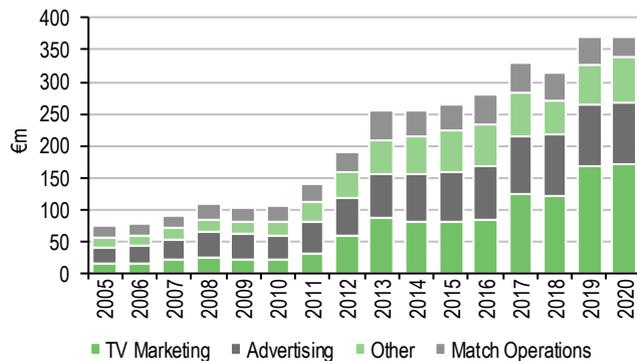
The key structural growth drivers for the business are that the team is one of the most successful and well-known German football clubs, with one of the highest average number of spectators in Europe, and Germany is one Europe's largest football markets, but lags behind other markets in terms of media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

Borussia Dortmund's revenue sources

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.

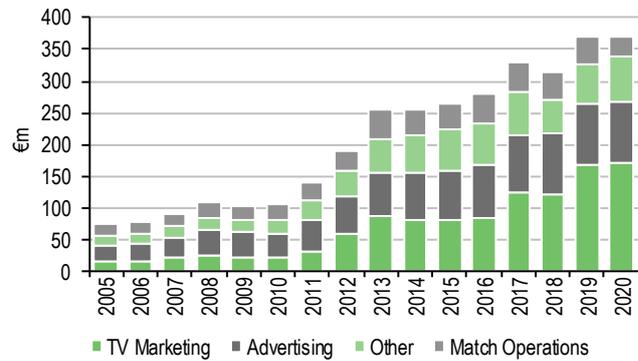
Exhibits 5 and 6 illustrate how the revenue sources have evolved since FY05, when IFRS was adopted. We have combined Merchandising and Conference, Catering & Miscellaneous revenues into 'Other' as there was a minor change to revenue disclosure between FY14 and FY15, and the combination aids analysis of longer-term trends.

Exhibit 5: Borussia Dortmund's revenue (€m)



Source: Company accounts

Exhibit 6: Revenue mix (%)

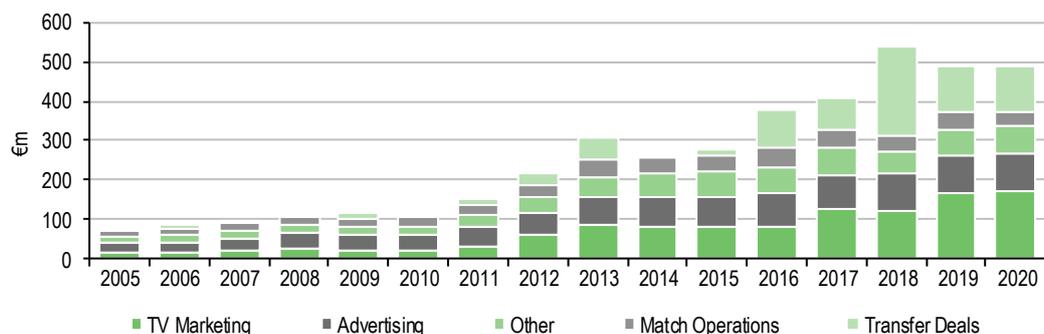


Source: Company accounts

In descending order of size, the revenue sources in FY20 were TV Marketing at 46% of the group total, Advertising 26%, Other 19% and Match Operations 9%.

Before the 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. When we refer to revenue in this note, it is to revenue before transfer deals, unless stated otherwise, which is consistent with the company's new and future disclosure. For completeness, Exhibit 7 includes transfer deals.

Exhibit 7: Borussia Dortmund revenue including transfer deals



Source: Company accounts

Borussia Dortmund's revenue has grown from €74.7m in FY05 to €370.2m in FY20, a CAGR of 11.3% pa, significantly ahead of German GDP growth. TV Marketing revenue grew ahead of the group average, with a CAGR of 17.6%, and CAGRs for the remaining revenues were: Other 10.8%, Advertising 9.1% and Match Operations 4.2%. FY20 was affected by the COVID-19 pandemic, predominantly in the fourth quarter when games were postponed and subsequently played behind closed doors before the end of the financial year. If we exclude the COVID-affected FY20 to give a better indication of how the company performed in more 'normal' times, the CAGR for revenue was 12.2%.

As a result of the differing growth profiles, TV Marketing is now the most important revenue for the group, increasing from 20% of total revenue in FY05 to 46% in FY20. Advertising was the second most important revenue source at 26% of the total in FY20, having been the most important revenue source in FY05 at 36% of the total. Other and Match Operations represent a smaller percentage of group revenue than in FY05 at 19% and 9% respectively, despite both exhibiting strong compounded growth rates.

Revenue has declined in only three years since FY05: in FY09 when it fell by 3.8%, in FY18 when it declined by 4.6% and in FY20 when the fall was very modest. Revenue declines have usually followed seasons in which the team achieved greater success than in a typical year. In FY09, the revenue decline was mainly attributable to lower TV Marketing as the team appeared in the final of the DFB-Pokal in the prior season but reached only the third round of the competition in the following season. In FY18, all revenues excluding Advertising fell year-on-year due to a less successful season in European and domestic competitions. The team was eliminated from the Champions League after the group stage and went on to play in the financially less lucrative Europa League. In addition, in the prior season the team won the DFB-Pokal. As already highlighted, FY20 revenue was affected by the COVID-19 pandemic and led to a modest decline to €370.2m from €370.3m in the prior year. Before the outbreak performance had been good, with revenue growth of 6.3% y-o-y in the first nine months of the year.

TV Marketing (revenue €169.8m in FY20, 46% of total revenue)

TV Marketing is revenue earned from the broadcasting rights of the games played by the team. It has grown at a CAGR of 17.6% since FY05 and by 19% since FY10 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 has become the company's most important revenue source, with a high degree of visibility on the near and medium term.

Since FY11, the company has disclosed revenues from domestic TV (domestic and international rights for the Bundesliga), international TV (Champions League etc) and Domestic Cup, or provided commentary on the absolute growth rates between years. Please note that the totals in Exhibit 8 may not sum in every year, because not all items are disclosed in every year.

Exhibit 8: TV Marketing revenue

€m	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	CAGR 11-20 (%)
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	15.5
International TV							4.9	25.6	55.4	36.2	32.5	17.2	51.0	31.8	68.1	67.4	33.7
Domestic Cup							0.4	6.9	2.5	6.1	6.0	4.4	8.6	2.6	1.2	4.7	32.5
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	20.3
Growth y-o-y (%)																	
Domestic TV				0.0	(1.5)	(1.2)	32.6	4.0	6.6	31.7	11.5	39.5	8.7	33.0	11.5	(0.4)	
International TV								417.7	116.6	(34.7)	(10.3)	(47.0)	195.9	(37.7)	114.4	(1.0)	
Domestic Cup								1,751.7	(64.4)	146.2	(1.8)	(25.6)	94.4	(70.1)	(54.9)	307.0	
Total		(0.3)	43.2	22.5	(13.8)	(6.0)	52.2	88.2	45.1	(7.0)	0.8	0.5	52.3	(2.7)	36.8	1.5	

Source: Company accounts

Marketing of media rights is conducted centrally by the organisers of their respective competitions, ie 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 to help clubs plan.

In FY11–20, the CAGR for domestic TV rights was 15.5%. The current domestic Bundesliga broadcast rights contract runs for the four seasons 2017/18 to 2020/21 and is worth €4.64bn in total, or €1.16bn per season. This was an increase of c 85% on the prior contract, which ran for the four seasons 2013/14 to 2016/17 of €2.5bn in total or €625m per season. The prior deal from 2009/10 to 2012/13 was worth €1.65bn or €412m pa, and the deal for the three seasons 2006/07 to 2008/09 was €1.26bn or €420m pa.

The method of distributing the income between the clubs in the Bundesliga (two divisions) was changed at the start of the current contract. Distributions 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, 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 June 2020, it was announced that the German broadcasting rights for the Bundesliga for the four seasons 2021/22 to 2024/25, ie covering Borussia Dortmund's FY22–25, were sold for €4.4bn, a reduction of c €240m or 5% from the current contract. The lower proceeds reflect the timing of the auction, ie during the height of economic uncertainty and COVID-19 lockdowns. The main live pay TV rights have been split between the incumbents Sky Deutschland (Saturday games) and DAZN, a subscription streaming service (Friday and Sunday games), and some live games are screened free-to-air on Pro7. The majority of delayed highlights shows are with the state broadcasters, ARD and ZDF as before, apart from on-demand highlights straight after the game, which have been bought by Axel Springer. In the prior contract, Sky also had rights to the majority of Sunday games (DAZN had a number of ad hoc games).

UEFA (Union of European Football Associations) 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 2018/19 to 2020/21. The current rights in Germany are held by Sky Deutschland and DAZN, so are only available to be seen behind a paywall. In the 2000–03 cycle, gross revenue for the club competitions totalled €2,204m and, following high levels of inflation in every cycle except for the 2003–06 cycle, total revenue climbed to €9,605m for the current contract. After UEFA expenses and other payments, the net amount is distributed in a ratio of 4:1 between the Champions League/Supercup and the Europa Cup competitions. Distributions to Champions League participants are based on four 'pillars' versus three in the previous cycle: 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; 30% based on a coefficient which 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.

Distributions to clubs that compete in the Europa League are made in a broadly similar manner. Exhibit 9 illustrates how the pillars shaped distributions to three clubs in the Champions League, which had varying degrees of success: Barcelona (eliminated at the semi-final stage), Borussia Dortmund (eliminated at the Round of 16) and Liverpool FC (the winners). We also include the monies received by the winners of the Europa League in the same season, Chelsea, to highlight the relative financial attractions of playing and success in the two competitions.

Exhibit 9: UEFA distributions in 2018/19

€000s	Champions League			Europa League
	Barcelona	Borussia Dortmund	Liverpool	Chelsea
Starting fee	14,500	14,500	14,500	2,750
Coefficient	34,348	22,160	23,268	3,429
Market pool	22,915	6,318	13,131	21,832
Group matches	13,800	12,900	9,000	4,300
Round of 32				500
Round of 16	9,500	9,500	9,500	1,100
Quarter-finals	10,500		10,500	1,500
Semi-finals	12,000		12,000	2,400
Final			19,000	8,500
Final account	167	426	200	68
Total	117,730	65,804	111,099	46,379

Source: UEFA

Barcelona received more money despite being less successful than Liverpool in the competition, due to the coefficient payment (Barcelona has enjoyed more consistent long-term success in the competition) and the market pool payment.

Advertising (revenue €98m in FY20, 26% of total revenue)

Exhibit 10: Advertising revenue

€m	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	CAGR 2005-20 (%)
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	9.1
Growth y-o-y (%)		2.9	11.4	28.7	(0.3)	(0.9)	28.6	15.7	19.8	5.4	3.7	11.8	3.2	7.6	3.0	1.2	

Source: Company accounts

Advertising is the sponsorship income from Borussia Dortmund's key corporate partners as well as advertising on the billboards in the ground. It has grown at a CAGR of 9.1% since FY05.

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 market new opportunities.

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

- Evonik Industries, the speciality chemicals group, is the sponsor of the team shirt in international competitions and the DFB-Pokal from FY21–25. Evonik has been the shirt sponsor since 2007;
- Signal Iduna, the insurance company (sponsor of the stadium since December 2005 and contracted until 2026);
- Puma has been the sporting equipment partner since FY13 and has recently extended its contract from 2025 to 2028. Prior sponsors have included Nike and Kappa; and
- 1&1, the 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 had been 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 these principal partners, there are three different levels of partner, which contribute differing levels of income in return for differing levels of sponsorship benefits: BVB

ChampionPartner (partners include Opel and bwin), BVB PremiumPartner (partners include Coca-Cola, L'Oréal, Effect and Eurowings) and BVB Partner (partners include ARAL and REWE).

We believe the long-term partnerships identified above represent over half of Borussia Dortmund's advertising and should be relatively predictable. For other partners, it is likely that some revenue will be sensitive to the economic cycle. Therefore, the COVID-19 outbreak and following economic downturn may have an impact on this revenue source from FY21. In the coming year, the recent signing of new shirt sponsor 1&1 and extension of the Puma deal is likely to support advertising growth.

During the global financial crisis from 2008 onwards, Borussia Dortmund's advertising revenue declined by 0.3% in FY09 and by 0.9% in FY10, before growing by c 29% in FY11. Isolating the economic sensitivity of advertising during that period is complicated by FY09 and FY10, which coincided with below average Bundesliga league positions and the fact that partners pay a variable element dependent on the team's success. From FY10 onwards, the club benefited from improved success in the Bundesliga.

The activity of seeking new sponsors is currently outsourced to Lagardère, 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 ranged between 26% and 31% of reported advertising revenue. At a cost of €27.0m in FY20, commission represents c 6% of total operating expenses of €440.3m. From FY21, the commission rate payable to Lagardère is reducing.

Match Operations (revenue €32.5m in FY20, 9% of total revenue)

Match Operations represents revenue earned from the attendance of fans at its home ground, Signal Iduna Park, as well 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. Known as the Westfalenstadion until 2005, the facility was built for the 1974 World Cup, but has since been extensively enlarged and modernised. The stadium is not multi-functional.

Exhibit 11: Match Operations revenue

€m	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
- 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
- International						N/D	3.4	4.4	16.2	10.0	7.6	13.4	9.5	9.1	7.5	8.8
- 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
- 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
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
Growth y-o-y (%)																
- Domestic					12	N/M	N/M	4	4	2	3	1	(0)	2	3	(28)
- International					N/M	N/M	N/M	30	272	(38)	(23)	76	(30)	(3)	(18)	18
- National Cup					(71)	N/M	N/M	N/M	26	54	21	(16)	42	(58)	20	(17)
- Friendlies					27	N/M	N/M	(22)	(7)	46	13	152	(14)	63	78	(83)
Match Operations		(2)	6	24	(2)	6	18	13	43	(9)	(1)	17	(6)	(4)	6	(27)

Source: Company accounts

Since FY05, Match Operations revenue has grown at a CAGR of 4.2% pa. 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. The last financial year was affected by the COVID-19 outbreak, which meant that five home games in the Bundesliga (from a season total of 17 games) at the end of the season had to be played behind closed doors, ie fans were not allowed to attend games, and the club therefore earned no revenue from ticket receipts. If we exclude FY20, the CAGR for Match Operations revenue in FY05–19 was 6.9% and represented 12% of total revenue in FY19.

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

Revenue is naturally a function of the number of games played, the number of fans that attend each game and price per ticket. Therefore, 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, as it is a community club. The club benefits from the advance sale of 55,000 season tickets (which may or may not include tickets to other competitions as well as the Bundesliga), roughly two-thirds of capacity with exceptionally high take-up, which brings revenue visibility. The remaining tickets typically go on sale approximately one month ahead of the game. The price of a ticket varies depending on location in the ground, the competition or team that is being played and concessions based on age and disability. We estimate that revenue per domestic game during FY19 was c €1.66m, the last season not affected by the COVID-19 pandemic.

While there is a reasonably predictable element from domestic ticket sales, revenue from other competitions is less predictable given these include knockout competitions or the fact that 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. Therefore, there is likely to be a variable number of home games for these competitions in any season that would affect revenue. Our estimate of revenue per European game in FY19 was c €1.87m, a slight premium to a typical Bundesliga game, which reflects a combination of higher ticket prices and lower attendance as standing fans are not permitted at these games.

Due to the outbreak of COVID-19, it was announced on 13 March 2020 that all Bundesliga games would be temporarily suspended after the 25th match of the season, of a total 34 games. The Bundesliga recommenced games over the weekend commencing 15 May 2020, with an elevated and significant level of media attention in overseas countries. There were nine games to play, and the season was completed before the end of June, as hoped. As all games were played behind closed doors, the club generated no revenue from ticket sales (refunding where applicable) and lost other revenues such as catering at games and merchandising.

Looking to FY21 and beyond, the COVID-19 pandemic remains a risk to future revenue from Match Operations, as there is a risk that games in all competitions may be played behind closed doors or with lower attendance again, and that overseas travel may not be possible.

In August 2020, the Bundesliga announced that attendance at stadia would be restricted from the start of the 2020/21 season in September until at least the end of October 2021, in response to the ongoing threat from COVID-19. The restrictions include away fans not being allowed to attend games (to limit the threat of infections while travelling), and that stadia will be all seated (to comply with social distancing requirements), which will affect Dortmund as the Tribune is traditionally a standing area, and the sale of alcohol will not be permitted at games. In September 2020, it was announced that the maximum attendance at games may be 20% of available capacity. For Borussia Dortmund, this would represent c 16,000 attendees. The club must agree the weekly allocation of seats with local authorities, which will consider reinfection rates in the local community. For the first home game of the 2020/21 season (versus Borussia Mönchengladbach), attendance was c 9,300, and for the second (home) game (versus SC Freiburg), attendance was c 11,500 vs the typical 81,000+. Weekly attendance at games is likely to increase until the end of October when the trial to see how attendance can be managed ends.

For Champions League games, there are currently no proposals to allow fans at games. The club hopes that UEFA observes the success it is having with restricting attendance.

Other (revenue €69.8m in FY20, 19% of total revenue)

In Exhibit 12, we aggregate a number of revenue streams into 'Other', due to the change in disclosing the various sources between FY13 to FY14. Since FY05, other revenue has grown at a CAGR of 10.8% pa. In aggregate, it represented c 19% of total group revenue in FY20. As well as the more obvious revenue streams of team merchandise and sales of beer at the stadium, it includes booking fees for the sale of tickets and fees received for squad players who represent their national teams, so can be quite variable.

Exhibit 12: Other revenue

€m	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	CAGR (%)
Merchandising										35.0	39.3	39.8	39.5	29.5	30.0	33.3	(0.8)
Conference, Catering, Misc										26.3	26.6	27.5	31.9	25.2	31.4	36.6	5.6
Total										61.3	65.9	67.3	71.4	54.7	61.4	69.8	2.2
Merchandising, Catering, Misc.	13.9	12.0	14.4	17.7	17.5	19.7	26.4	37.1	45.4	52.3							15.8
Other	1.0	5.2	5.9	1.9	2.1	2.1	2.3	2.4	6.4	9.0							27.5
Total	14.9	17.2	20.3	19.7	19.7	21.9	28.7	39.5	51.8	61.3							17.0
Growth y-o-y (%)																	
Merchandising											12.1	1.4	(0.9)	(25.2)	1.7	11.0	
Conference, Catering, Misc											1.1	3.4	16.1	(20.9)	24.6	16.2	
Total											7.4	2.2	6.1	(23.3)	12.2	13.7	
Merchandising, Catering, Misc.	(13.5)	19.4	23.2	(1.0)	12.5	33.9	40.5	22.2	15.4								
Other	409.4	14.5	(67.2)	9.8	(0.1)	9.1	2.5	170.6	39.9								
Total	15.1	17.9	(3.1)	0.1	11.1	31.5	37.4	31.1	18.4								

Source: Company accounts

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. In FY14–20, revenue was relatively volatile, but over this period has declined at a compound rate of 0.8% pa. At €33m in FY20, it represented c 9% of total group revenue. 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

Sporting success and therefore investment in the squad was, and still is, required to be sustainable, ie without taking on new debt, and achieving a balance between financial and sporting interest.

These can sometimes conflict as the company might sell a player based on financial considerations rather than the impact this may have on the team's future performance.

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.

Over the long term, Borussia Dortmund has a reputation and proven track record of prudent investment in young talent while maintaining, and indeed, improving success on the pitch. In Exhibit 13 we highlight net transfer spend per season (amount received less amount spent on the squad) since the 2010/11 season for a range of Borussia Dortmund's competitive peers. These include the large/leading clubs in Europe, the leading clubs in Germany as well as the emerging RB Leipzig. We also include cumulative totals for the 10 seasons from 2011–20 and the 20 seasons from 2001–20.

Exhibit 13: Net transfer spend

Club	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	Cum. 2011-20	Cum. 2001-20
European peers:												
Atlético Madrid	(10)	0	15	35	(54)	21	(35)	(19)	(96)	70	(73)	(165)
Barcelona	(20)	(13)	(33)	(73)	(85)	13	(91)	(155)	5	(114)	(566)	(943)
Chelsea	(105)	(64)	(84)	(52)	5	(3)	(24)	(60)	(137)	112	(412)	(911)
Internazionale	22	16	(13)	(49)	7	13	(141)	(58)	(22)	(107)	(332)	(536)
Juventus	(23)	(81)	(49)	24	(36)	(74)	(19)	(22)	(153)	(22)	(455)	(609)
Liverpool	4	(44)	(60)	(26)	(52)	(36)	5	21	(141)	31	(298)	(496)
Manchester City	(144)	(60)	(18)	(105)	(72)	(141)	(180)	(226)	(24)	(98)	(1,068)	(1,509)
Manchester United	(12)	(49)	(67)	(75)	(146)	(54)	(138)	(153)	(52)	(142)	(888)	(1,078)
Paris Saint-Germain	(2)	(98)	(146)	(109)	(47)	(93)	(75)	(140)	(113)	11	(812)	(895)
Real Madrid	(83)	(47)	(5)	(62)	(21)	(77)	8	88	(29)	(222)	(450)	(1,071)
Bundesliga teams:												
Bayern Munich	(11)	(47)	(70)	(22)	(5)	(58)	(18)	(84)	74	(90)	(331)	(544)
Borussia Dortmund	(1)	(1)	7	(5)	(60)	23	(10)	164	24	(23)	118	30
Bayer 04 Leverkusen	(1)	(5)	(6)	13	(18)	5	(33)	36	14	(63)	(58)	(74)
Borussia Mönchengladbach	(5)	2	(7)	(5)	5	(22)	7	(6)	0	(2)	(33)	(49)
Schalke	(16)	27	0	(18)	4	20	18	(42)	(15)	(7)	(29)	(79)
RB Leipzig	(1)	0	(1)	(3)	(23)	(24)	(78)	(39)	7	(25)	(187)	(187)

Source: Transfermarkt.com

Borussia Dortmund has been the only one of the 16 clubs listed to generate a net surplus on transfers in 2001–20 and 2010–20, which is testimony to its ability to recruit and trade talent in football over the long term. The cumulative total is helped by the impressive net surplus of €164m in 2017/18 from the sale of two players: Dembélé to Barcelona for €138m and Aubameyang to Arsenal for c €64m. However, the net unrealised value of the current squad as shown in Exhibit 14 suggests that the club's ability to spot and nurture talent continues.

The figures reflect the fact that clubs select and buy players in different ways. Some place more emphasis on buying established/more expensive talent over developing younger/less expensive talent. It also reflects that different backers of clubs following, say ownership changes, eg Chelsea, Manchester City and Paris Saint-Germain, had a greater appetite and available finances to invest in developing teams and brands.

According to www.transfermarkt.com, Borussia Dortmund currently has the 15th most valuable squad of 500 football teams that are valued globally, with an estimated market value of €587m versus the purchase cost of €288m. Exhibit 14 shows the current estimated market value (in descending order) versus the purchase cost of the top 20 most valuable football squads.

Exhibit 14: Most valuable football squads

Club	Country	Market value (€m)	Purchase value (€m)	Gain (€m)	Gain (%)
Liverpool	England	1,090	579	511	88
Manchester City	England	1,050	939	111	12
Barcelona	Spain	920	603	317	53
Bayern Munich	Germany	874	364	510	140
Real Madrid	Spain	867	603	264	44
Chelsea	England	852	568	284	50
Paris Saint-Germain	France	842	762	80	10
Manchester United	England	813	747	66	9
Tottenham Hotspur	England	756	428	328	77
Atlético Madrid	Spain	731	463	268	58
Internazionale	Italy	698	325	373	115
Juventus	Italy	690	552	138	25
Arsenal	England	625	502	123	25
Napoli	Italy	594	357	237	66
Borussia Dortmund	Germany	587	288	299	104
RB Leipzig	Germany	521	157	364	232
Everton	England	472	364	108	30
Leicester	England	456	316	140	44
AC Milan	Italy	410	237	173	73
Atalanta	Italy	373	132	241	183

Source: Transfermarkt.com

Borussia Dortmund is one of three German teams to feature in the 20 most valuable football squads in the world. Of the 20 clubs, nine have an accumulated purchase cost greater than €500m, and all clubs have a squad with an estimated market value greater than the accumulated purchase value. When considering the relative return on investment, ie percentage gain, Borussia Dortmund has the fifth highest unrealised gain in the value of its squad at 104% on the purchase value of €288m.

The current playing squad, with estimated market values from Transfermarkt.com and purchase values, is shown in Exhibit 15. Two players, Jadon Sancho and Erling Haaland, at a combined market value of €197m, represent c 34% of Borussia Dortmund's squad valuation. During the 2020/21 summer transfer window, there was much speculation about the future of Jadon Sancho. The club received a number of bids from Manchester United below the rumoured asking price of €120m, but he was not sold. The summer transfer window saw the arrival of Jude Bellingham (aged 17) from Birmingham City at a cost of €11m (valued at above €27m) and Jesus Reinier (aged 18) from Real Madrid.

Exhibit 15: Current squad and value (6 October 2020)

Player	Position	Joined BVB	Contract expiry	Age	Market value (€m)	Purchase value (€m)
Roman Bürki	Goalkeeper	15/16	22/23	29	11.0	3.5
Marwin Hitz	Goalkeeper	18/19	20/21	32	1.7	0.0
Luca Unbehauen	Goalkeeper	19/20	21/22	19	0.4	0.0
Dan-Axel Zagadou	Defence	17/18	21/22	21	31.5	0.0
Mats Hummels	Defence	19/20	21/22	31	20.0	30.5
Manuel Akanji	Defence	17/18	21/22	25	20.0	21.5
Nico Schulz	Defence	19/20	23/24	27	10.0	25.5
Marcel Schmelzer	Defence	08/09	20/21	32	1.0	0.0
Mateu Morey Bauzá	Defence	19/20	23/24	20	3.0	0.0
Lukasz Piszczek	Defence	10/11	20/21	35	2.0	0.0
Raphaël Guerreiro	Defence	16/17	22/23	26	35.0	12.0
Felix Passlack	Midfield	15/16	20/21	22	1.3	0.0
Emre Can	Midfield	20/21	23/24	26	26.0	25.0
Axel Witsel	Midfield	18/19	21/22	31	17.0	20.0
Thomas Meunier	Midfield	20/21	23/24	28	24.0	0.0
Jesus Reinier	Midfield	20/21	21/22	18	22.5	0.0
Tobias Raschl	Midfield	19/20	21/22	20	0.9	0.0
Julian Brandt	Midfield	19/20	23/24	24	40.0	25.0
Thomas Delaney	Midfield	18/19	21/22	28	17.5	20.0
Jude Bellingham	Midfield	20/21	22/23	17	27.0	23.0
Mahmoud Dahoud	Midfield	17/18	21/22	24	6.5	12.0
Giovanni Reyna	Midfield	19/20	20/21	17	15.0	0.0
Thorgan Hazard	Midfield	19/20	23/24	27	32.0	25.5
Jadon Sancho	Midfield	17/18	21/22	20	117.0	7.8
Marco Reus	Forward	12/13	22/23	31	25.0	17.1
Erling Haaland	Forward	19/20	23/24	20	80.0	20.0
Youssefou Moukoko	Forward	16/17	21/22	15	0.0	0.0
Total					587.3	

Source: Borussia Dortmund, Transfermarkt.com

During the 2019/20 season, Jadon Sancho was the third highest goal scorer in the Bundesliga with 17 goals, and Erling Haaland was the joint sixth highest goal scorer, despite playing just 15 games, with 13 goals. Across all competitions, Erling Haaland scored 16 goals in 18 appearances, has already gained much admiration from other clubs due to his prolific goal scoring record and reaffirms the club's ability in identifying young talent. The leading scorers in the Bundesliga were Robert Lewandowski of Bayern Munich (34 goals) and Timo Werner of RB Leipzig (28 goals), who was subsequently sold to Chelsea. With respect to goal assists, Jadon Sancho and Thorgan Hazard were ranked second and third respectively in the Bundesliga with 16 and 13 assists, behind Thomas Müller of Bayern Munich with 21 assists.

Management

The company's senior management (see below) is backed by highly experienced members of the non-sports businesses and coaching staff.

- **Chief executive: Hans-Joachim Watzke.** Before his appointment in 2005, Mr Watzke was treasurer of the football club. His contract runs to 2022. 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 2022. He was previously a partner at RölfsPartner, 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. 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 (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 58, he has just extended his contract by one year until 2022.
- **Head coach: Lucien Favre** joined Dortmund in May 2018 after two years as head coach at Nice. He took Nice to its highest league position for 40 years (third, with Champions League qualification) in his first season with the club, but European competition was narrowly missed in the following season (eighth in Ligue 1). Over the previous decade he gained valuable Bundesliga experience as coach both at Hertha Berlin (fourth in 2008/09) and then at Borussia Mönchengladbach (third in 2014/15). This followed a long and successful association with Swiss football, both as player (regular international with 24 caps and a Swiss league title with Servette) and manager (two league titles with FC Zürich). He is 62 and his contract at Dortmund runs until June 2021.

Sensitivities

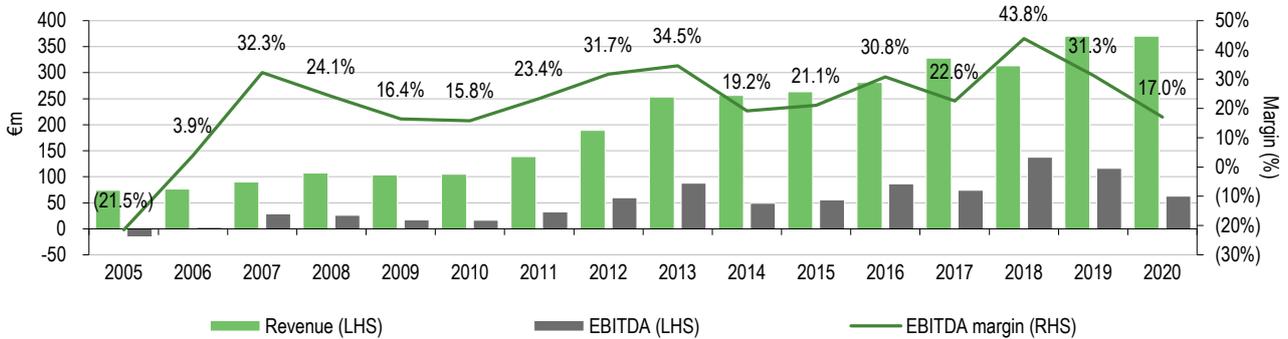
- The company's business operations are dependent on sporting success. A weak performance could cause revenue to fall and affect the ability to attract and retain players and coaches. Participation in lucrative UEFA competitions cannot be relied on, although the club has qualified regularly.
- The company's financial performance depends on the team's ability to play in competitive and non-competitive games, eg friendlies, both domestically and internationally, and on fans attending games. Any restrictions on the ability to travel and compete in games due to eg, 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. The increasing popularity of the Bundesliga is evident in a sharp rise in the value of future broadcast rights.
- 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, eg 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

In the sections above we highlighted the growth drivers of Borussia Dortmund's revenue. Before we consider the effects of COVID-19 on the company's results in FY20 and its outlook, we show how strong long-term revenue growth in FY05–19 translated into improved profitability, cash flow generation and cash returns for shareholders.

Exhibit 16: Revenue and EBITDA profile



Source: Company accounts

In FY05–19, Borussia Dortmund's revenue grew at a CAGR of 12.2%. Over the same period, EBITDA increased from a loss of €15.9m to a profit of €116m, reaching a high of €137.3m in FY18 due to an exceptionally successful season of transfers. From FY06 (we exclude FY05 due to the reported loss), the CAGR for Borussia Dortmund's EBITDA of 32.4% pa compares very favourably with long-term revenue growth over the same period of 12.9% pa, which demonstrates the operational leverage in the business.

The key line items of Borussia Dortmund's income statement since FY05 are shown in Exhibit 17.

Exhibit 17: Income statement

€m	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	CAGR 2007-20 (%)
Revenue excl. transfers	74.0	76.7	90.3	107.6	103.5	105.2	138.5	189.1	253.4	256.3	263.6	281.3	328.4	313.3	370.3	370.2	11.5
Transfer deals	0.7	12.4	6.8	5.4	11.3	4.9	13.0	26.1	51.6	4.5	12.4	95.0	77.3	222.7	119.3	116.7	24.5
Revenue incl. transfers	74.7	89.1	97.1	113.0	114.7	110.1	151.5	215.2	305.0	260.7	276.0	376.3	405.7	536.0	489.5	486.9	13.2
Cost of materials	(4.1)	(3.6)	(3.2)	(4.7)	(3.5)	(4.7)	(7.7)	(12.5)	(17.5)	(20.3)	(20.7)	(25.7)	(25.9)	(20.1)	(21.3)	(22.4)	16.1
Net transfer income															82.9	40.2	N/A
Other operating income	3.3	3.6	8.9	8.7	2.2	2.1	4.3	7.6	2.8	5.2	17.0	3.5	4.2	3.9	7.7	9.2	0.3
Personnel expenses	(46.7)	(39.8)	(37.0)	(45.4)	(50.0)	(48.0)	(61.5)	(79.9)	(106.2)	(107.8)	(117.9)	(140.2)	(177.9)	(186.7)	(205.1)	(215.2)	14.5
Other operating expenses	(43.2)	(46.3)	(36.6)	(45.7)	(46.4)	(42.9)	(54.1)	(70.5)	(96.6)	(88.7)	(98.8)	(127.2)	(132.0)	(195.8)	(118.5)	(119.0)	9.5
EBITDA	(15.9)	3.0	29.1	26.0	17.0	16.7	32.4	60.0	87.5	49.1	55.6	86.7	74.1	137.3	116.0	63.0	6.1
Depreciation	(8.1)	(8.2)	(8.6)	(8.7)	(8.8)	(8.7)	(8.9)	(10.1)	(10.8)	(8.2)	(9.6)	(10.9)	(11.5)	(11.2)	(12.8)	(13.9)	3.8
Normalised operating profit	(24.0)	(5.2)	20.6	17.2	8.3	8.0	23.5	49.9	76.7	41.0	46.0	75.8	62.6	126.2	103.2	49.1	6.9
Amortisation	(17.5)	(6.1)	(4.9)	(6.8)	(8.6)	(8.5)	(8.6)	(8.5)	(11.6)	(22.5)	(32.9)	(31.9)	(51.9)	(66.8)	(65.9)	(88.3)	24.9
Exceptionals	0.0	0.0	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(7.5)	0.0	(20.4)	(13.8)	(3.9)	39.0
Operating income	(41.5)	(11.2)	15.6	10.5	(0.4)	(0.5)	14.9	41.4	65.1	18.5	13.2	36.4	10.7	39.0	23.5	(43.1)	(208.1)
As % of revenue excl. transfers:																	
Personnel expenses (%)	63.1	51.9	40.9	42.2	48.3	45.6	44.4	42.3	41.9	42.1	44.7	49.9	54.2	59.6	55.4	58.1	
Amortisation (%)	23.7	7.9	5.4	6.3	8.4	8.0	6.2	4.5	4.6	8.8	12.5	11.3	15.8	21.3	17.8	23.8	
EBITDA (%)	(21.5)	3.9	32.3	24.1	16.4	15.8	23.4	31.7	34.5	19.2	21.1	30.8	22.6	43.8	31.3	17.0	
Normalised operating profit	(32.4)	(6.7)	22.8	16.0	8.0	7.6	17.0	26.4	30.3	16.0	17.5	26.9	19.1	40.3	27.9	13.2	
As % of revenue incl. transfers:																	
EBITDA (%)	(21.3)	3.4	30.0	23.0	14.8	15.1	21.4	27.9	28.7	18.8	20.1	23.0	18.3	25.6	23.7	12.9	
Normalised operating profit (%)	(32.1)	(5.8)	21.2	15.2	7.2	7.2	15.5	23.2	25.1	15.7	16.7	20.1	15.4	23.5	21.1	10.1	
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.06	0.10	0.10	0.05	0.06	0.06	0.06	0.06	0.00	

Source: Company accounts

Looking at the main expense items, the above-average growth of personnel expenses has been compensated for by the lower growth of other operating expenses to deliver an improved normalised operating margin.

Personnel expenses have grown at CAGR of 14.5%, the highest long-run growth rate of any of the company's expenses, as might be expected given the environment of wage inflation for football players at the more successful teams across Europe, and have modestly exceeded the long-run growth rate of revenue. At €215.2m in FY20, they represented c 58% of revenue.

Other operating expenses include costs related to staffing of matches, retail operations, advertising commissions, general admin expenses, as well as expenses relating to transfer deals including commissions. There will be a reasonable element of flexibility in the cost base.

We draw attention to the new accounting and disclosure of 'net transfer income', which is equivalent to net profit on the sale of players (gross proceeds less the written down value and associated transfer/agent fees) for FY19 onwards, which was required by IAS 8.42. Previously, gross amounts for revenue and unamortised costs, etc were recognised. The net effect is that profitability is not affected, but gross revenue and costs for the group, as previously disclosed, are lower. At €82.9m in FY19 and €40.2m in FY20, success in the transfer market is an important driver to the company's profitability and its ability to pay a dividend.

Amortisation represents, primarily, the annual write-down of the value of the team squad, and it too has represented an increasing proportion of the total cost base, reflecting increased investment in the squad.

The company introduced an annual dividend in FY12, which is paid in the following financial year. The initial dividend for FY12 was set at €0.06 per share and increased to €0.10 in the next two financial years. In FY15, the dividend was reduced to €0.05, since when it has been stable at €0.06, representing a cash outflow of €5.5m pa. For the year ended June 2020, no dividend was proposed given the uncertainty created by COVID-19.

Cash flow

In Exhibit 18 we present a summary of the key elements of Borussia Dortmund's free cash flow generation and its uses, and the improving net financial position since FY05.

Exhibit 18: Borussia Dortmund's cash flow

€m	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Operating cash flow	9.4	(0.6)	21.4	65.2	7.2	5.8	27.2	33.0	33.7	30.1	24.2	36.7	112.4	174.0	30.2	3.0
- Profit before tax	(43.9)	(11.2)	7.1	(0.1)	(6.0)	(6.2)	9.5	36.6	60.0	14.6	6.0	34.3	9.1	34.7	21.8	(46.6)
- Depreciation and amortisation	25.6	14.2	13.5	15.5	17.4	17.2	17.5	18.6	22.4	30.7	42.4	50.2	63.4	98.3	90.1	106.1
- Loss/(gain) on sale of assets	5.1	(5.9)	(6.8)	(4.3)	(6.2)	(3.5)	(10.1)	(23.0)	(44.4)	(4.3)	(7.3)	(74.1)	0.0	7.6	(97.2)	(45.7)
- Working capital	10.2	6.8	(3.0)	46.6	(2.5)	(5.9)	5.8	1.1	3.3	(6.7)	(20.9)	29.1	31.5	(9.4)	5.7	(18.0)
Investing cash flow	14.1	(1.1)	(9.9)	0.3	(10.3)	(2.8)	(7.8)	(8.6)	(14.2)	(8.8)	(72.3)	(29.6)	(104.7)	(142.7)	(23.5)	(50.8)
- Capex	(1.7)	(6.1)	(2.6)	(1.7)	(1.7)	(0.3)	(2.1)	(7.3)	(6.5)	(10.9)	(10.4)	(9.4)	(8.1)	(7.2)	(9.9)	(6.1)
- Investment in intangibles	(0.1)	(5.0)	(13.6)	(3.1)	(18.3)	(13.9)	(9.1)	(20.9)	(20.9)	(51.4)	(68.3)	(35.0)	(96.5)	(135.6)	(129.5)	(152.7)
Net interest	(10.6)	(4.4)	(9.3)	(8.7)	(5.8)	(5.8)	(5.5)	(4.9)	(5.1)	(3.6)	(7.2)	(1.4)	(2.0)	(3.7)	(1.5)	(3.3)
Free cash flow	12.9	(6.0)	2.2	56.8	(8.9)	(2.8)	13.9	19.4	14.4	17.7	(55.4)	5.6	5.7	27.6	5.2	(51.1)
- Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(3.7)	(6.1)	(6.1)	(4.6)	(5.5)	(5.5)	(5.5)	(5.5)
- Equity	23.2	28.9	15.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	140.7	0.0	0.0	0.0	0.0	0.0
- Borrowings	(41.4)	3.1	(32.4)	(62.1)	(4.2)	(0.3)	(5.5)	(11.7)	(2.0)	(4.3)	(41.0)	0.0	0.0	0.0	0.0	8.0
Closing net debt/(cash)	171.4	155.4	121.4	68.3	77.3	80.2	70.0	64.4	53.9	44.9	(29.6)	(30.1)	(30.3)	(50.8)	(44.4)	29.1
Net debt/(cash)/EBITDA (x)	(10.8)	51.4	4.2	2.6	4.5	4.8	2.2	1.1	0.6	0.9	(0.5)	(0.3)	(0.4)	(0.4)	(0.4)	0.5
Relative to revenue:																
Operating cash flow (%)	12.8	(0.8)	23.7	60.6	7.0	5.5	19.6	17.4	13.3	11.7	9.2	13.0	34.2	55.5	8.1	0.8
Investing cash flow (%)	19.0	(1.4)	(11.0)	0.2	(10.0)	(2.6)	(5.6)	(4.6)	(5.6)	(3.4)	(27.4)	(10.5)	(31.9)	(45.6)	(6.3)	(13.7)
- Capex (%)	(2.3)	(7.9)	(2.9)	(1.6)	(1.6)	(0.2)	(1.5)	(3.9)	(2.6)	(4.3)	(3.9)	(3.4)	(2.5)	(2.3)	(2.7)	(1.7)
- Investment in intangibles (%)	(0.1)	(6.5)	(15.1)	(2.8)	(17.7)	(13.2)	(6.6)	(11.1)	(8.2)	(20.1)	(25.9)	(12.4)	(29.4)	(43.3)	(35.0)	(41.3)
FCF (%)	15.7	(8.0)	2.1	52.4	(8.6)	(2.7)	9.9	10.2	5.7	6.9	(21.1)	2.0	1.7	8.8	1.4	(13.8)

Source: Company accounts

Following the company's financial problems in the mid-2000s, the focus has been on restoring the balance sheet. The net debt position peaked at €171.4m in FY05 and positive free cash flow generation in most financial years since then led to an improvement in the level of indebtedness until FY15, when the company moved to a net cash position. The impact of COVID-19 on FY20 results led to a cash outflow of €51.1m and a move back to a modest net debt position of €29.1m.

Over the long term, Borussia Dortmund's operating cash flow conversion (relative to revenue) improved due to higher profitability, as detailed earlier, and mostly positive working capital.

From a fixed asset perspective, the company is not capital intensive as investment in property, plant and equipment has represented c 2–3% of revenue over the long term. The main use of cash has been on investment in the team squad, which is reported in investment in intangibles. The capitalised cost is subsequently amortised through the income statement over the player's contract term, typically four years. In order to improve (initially) and now sustain the team's success, the level of investment has increased, as it has for the whole industry as revenue has grown, from €0–20m pa in FY05–13, but has stepped up to €100m+ in the last three financial years, which did not result in a significant improvement in net debt, prior to COVID.

FY20 results: Strong start to the year followed by COVID-19 induced weakness

Borussia Dortmund's financial results for FY20 were affected by the outbreak of COVID-19, notably during the company's final quarter when Bundesliga games were postponed but the season was successfully finished before the financial year end.

In the first nine months of the year, revenue grew by c 6%, but the year-on-year decline of c 25% in Q420 to €53.8m led to FY20 revenue €370.2m, which was broadly flat versus the €370.3m reported in FY19. During the final quarter, all revenues declined excluding Merchandising, which grew by c 11%. The most heavily affected revenues were Match Operations and Conference, Catering etc, which fell by 100% and 93% respectively, as fans were not permitted to attend home games and/or take advantage of hospitality. Advertising declined by 15% given the absence of fans in the stadium. TV Marketing fell by 8% as, along with the Bundesliga's other Champions League participants, Borussia Dortmund agreed to take a lower share of revenue in solidarity with the rest of the league to help the less financially secure teams.

Given the relatively fixed cost base in the short term and the fact that sporting activities had to cease quickly, limiting the time in which costs could be cut, Borussia reported an EBITDA loss of €20.2m in Q420 vs a profit of €5.1m in the comparative quarter, to give EBITDA of €63.0m for FY20, representing a decline of c 46% from €116m in FY19. Staff costs increased by c 5% to €215.2m. As well as lower profitability from match-related activities, Borussia Dortmund generated lower net transfer income of €40.2m compared to the much higher €82.9m earned in FY19. Despite a high volume of transfers during FY20, FY19 benefited from the sale of Pulisic to Chelsea for c €64m. Below EBITDA, amortisation of players' contracts increased by c 15%, leading to an operating loss of €43.1m. Given the move to an operating loss and a net loss €44.0m, it was decided that no dividend would be paid in respect of FY20.

As already indicated, no dividend was proposed in respect of FY20. The two key indicators that are assessed in deciding the company's dividend policy are net profit or loss and free cash flow (operating cash flow less investing cash flow). Given management's guidance of a net loss in FY21, discussed below, we expect no dividend to be paid for FY21 and FY22, as both are dependent dependant on the duration of COVID-19 on the company's activities.

The operating and net loss led to a deterioration in operating and free cash flow generation, with a free cash outflow of €51.1m, only the second year since FY10 that free cash flow has been negative. At the year end, the company moved back to a net debt position of €29.1m.

Management guidance for FY21: Subdued due to COVID-19

For FY21, management has provided its customary guidance, which will naturally be more affected by the ongoing effects of COVID-19 than FY20. Compared to FY20's €370.2m, management expects revenue to decline by 5% y-o-y, ie to c €351.7m in FY21, primarily due to lower income from Match Operations and TV Marketing. Match Operations will be affected by reduced attendance by fans at the stadium, and TV Marketing is expected to be lower than previously expected as the Bundesliga withholds an element of the rights as security for the time being. In addition, management expects total operating proceeds, which include gross transfer proceeds, to be c €388m, a year-on-year decline of c 20% from the €486.9m reported in FY20. This implies gross transfer proceeds of c €36m in FY21 versus €116.7m in FY20, and underlines management's conservatism with respect to transfers in the current season.

As most expenses are tied either to the level of sporting success, the level of attendance at games, or are relatively difficult to reduce in the short term, such as players' wages, management expects to report a net loss of €70–75m compared to the loss of €44.0m in FY20. For example, although fans' attendance at games is currently restricted, there is limited opportunity to save costs of

hosting matches as the number of stewards required remains the same as fans are dispersed around the ground to maintain social distancing. Moving back up the income statement, the net financial and tax expense is expected to be c €2m, implying an operating loss of €68–73m and EBITDA is estimated to be €100m higher than operating income, ie €27–32m. Given the expected operating loss and negative free cash flow, there is unlikely to be a dividend proposed for FY21.

With respect to cash flow, management forecasts operating cash flow of €34m and a free cash outflow of €34m.

New forecasts: Significant reductions due to COVID-19

Exhibit 19 highlights our new forecasts for FY21. As in prior years, our starting assumption is that the team finishes in the top four of the Bundesliga and qualifies in the Champions League group stage to progress to the Round of 16.

Exhibit 19: Summary of new estimates					
€000s	FY20	FY21e old	FY21e new	Change	FY22e new
Revenue	370,196	424,818	336,239	(20.9%)	346,606
Growth y-o-y		14.8%	(9.2%)		3.1%
– Match Operations	32,510	43,072	5,365	(87.5%)	7,995
– Advertising	98,005	122,333	107,806	(11.9%)	113,196
– TV Marketing	169,836	182,796	169,836	(7.1%)	164,952
– Merchandising	33,292	32,988	34,957	6.0%	36,704
– Conference, Catering & Misc.	36,553	43,629	18,277	(58.1%)	23,759
Net transfer income	40,160	70,000	40,000	(42.9%)	50,000
EBITDA	62,992	125,464	39,500	(68.5%)	60,801
Margin	17.0%	29.5%	11.7%		17.5%
Growth y-o-y		99.2%	(37.3%)		53.9%
Operating income	(43,138)	14,432	(69,767)	N/M	(60,746)
Profit before tax (reported)	(46,583)	11,507	(72,000)	N/M	(63,229)
Profit after tax (reported)	(43,953)	(10,858)	(72,000)	563.1%	(67,613)
EPS reported (€)	(0.48)	(0.12)	(0.78)	563.1%	(0.73)
EPS normalised (€)	0.47	0.96	0.25	(73.9%)	0.43
DPS (€)	0.06	0.06	0.00	(100.0%)	0.00

Source: Company accounts, Edison Investment Research

In aggregate, we forecast that revenue will decline by c 9% in FY21 to €336.2m and grow by c 3% in FY22 to €346.1m. We assume that all revenues except Merchandising decline vs our prior estimates. Our estimate for FY21 is below management's guidance of €351.7m, which reflects more caution on the level of attendance, notably at Champions League games. The most significant decline is for Match Operations of 8% versus FY20 to €5.4m, for which we assume attendance at Bundesliga games over the season will be c 17% (ie c 14,000 fans) of a 'normal' season. This implies a gradual increase in attendance from the first two home games (9,300 and 11,500 respectively), and that the club is able to host fans towards the 20% permitted maximum beyond the end of October trial period and for the rest of the season. At €4.9m in FY21, revenue from domestic matches is 83% lower than the €28.2m received in FY19, which was unaffected by COVID, and therefore represents a good source of upside with a high level of drop-through to profit if attendance restrictions are eased. We assume no income from international, ie Champions League fixtures, and recognise that this may be too conservative given the positive experience of fans attending Bundesliga games so far. In FY22, we assume that attendance across the whole year for both competitions increases to 20%.

We forecast that advertising will grow by 10% in FY21 given introduction of the new Bundesliga shirt sponsor 1&1, extension of the Puma partnership deal for a higher amount than previously, a new partner for the youth team and the maturing of new digital advertising boards in the stadium.

We forecast that TV Marketing will be stable year-on-year in FY21 before declining by 3pp in FY22, when the next Bundesliga TV rights contract begins, which is reducing by 5% overall and represents just under 60% of TV Marketing revenue. The 'pillars' that determine the distribution per

club are likely to change with the new deal but, in the absence of better information, we assume the proportion received by Borussia Dortmund will be stable.

Following 11% growth in FY20, we assume that Merchandising revenue will grow by 5% in FY21, as we believe it will be relatively resilient as demonstrated in Q420 when, despite no attendance at games, revenue grew by c 11% as new shops matured and the company's international online shop continued to develop.

We expect a 50% decline in Conference & Catering in FY21 to reflect lower attendance at games and some recovery in the following year as attendance improves.

We assume net transfer income will decline to €40m, broadly in line with management guidance of €36m. For FY22, we assume it increases to €50m, which is similar to the average of the last two reported years and the coming financial year.

Our forecast operating income in FY21 moves from a profit of €14.4m previously to a loss of €69.8m, in line with management guidance of a loss of €68–73m. For FY22, our operating loss reduces to €60.8m, which is likely too conservative given we believe management would undertake a thorough review of all costs if the external operating environment, ie with respect to fans' attendance and travel, persists.

Given the expected net loss in FY22, we assume that no dividend will be proposed.

Valuation

We typically value Borussia Dortmund using an asset-backed sum-of-the-parts valuation, which takes into account the unrealised value of the squad and the brand. Our €13.03/share valuation of Borussia Dortmund represents a premium of 166% to the current share price of €4.9. The share price is lower than the individual values of the squad and the brand, which implies that a much lower value is being attributed to at least one of them.

Exhibit 20: Sum-of the-parts valuation

	€m	Per share (€)	Comments
Value of squad	587.0	6.38	Per Transfermarkt.com
Brand value	447.7	4.87	Brand Finance (May 2018) \$587m less discount of 10%
Stadium	193.0	2.10	Net book value at 30 June 2020
Enterprise value	1,227.7	13.35	
Net cash/(debt)	(29.1)	(0.32)	At 30 June 2020
Equity value	1,198.6	13.03	
Shares (m)	92.0		
Current share price		4.90	
Premium to current share price		166%	

Source: Edison Investment Research

The current value of the first team squad according to Transfermarkt.com, as already highlighted, is €587m, a premium of 157% to the balance sheet valuation of €228m at the end of June 2020. The valuation of players is subjective and vulnerable to changes in the financial positions of other clubs, but we highlight that it includes no value for players in the wider footballing squad including the youth team. Management's long-term record in realising gains on player disposals provides comfort that the squad's market value is at a premium to its book value. The book value of the squad of €228m is equivalent to €2.48/share, and the unrealised gain of €359m represents €3.9/share. Every 10% change in the valuation of the squad would represent €58.7m or €0.64/share.

The last quoted valuation of the Borussia Dortmund brand by Brand Finance of US\$587m is from May 2018, equivalent to €497.5m at the current exchange rate of €/US\$1.18. The valuation is more than two years' old and likely to have changed, but this is outside our field of expertise. Given the

improved financial performance from May 2018 through 9M20, the valuation should have increased, as it had from 2011 when the valuation was US\$125m. However, the outbreak of COVID-19 and the change in the company's near-term earnings profile is likely to have negatively affected the valuation since. To estimate the potential change in brand value, we use the change in the average share price of Borussia Dortmund's listed peers since the end of May 2018 as a proxy.

Exhibit 21: Share price performance of peers

	Currency	Market value (m)	Share price 31 May 2018	Share price 13 Oct 2020	Change (%)
Manchester United	\$	2,378	20.95	14.45	(31)
Juventus	€	1,030	0.54	0.77	43
Olympique Lyonnais	€	111	3.07	1.93	(37)
Ajax	€	296	12.05	16.14	34
Average - football clubs					2
Madison Square Garden	\$	3,599	186.86	149.96	(20)
World Wrestling Entertainment	\$	3,118	57.89	40.08	(31)
Average - other sports/ entertainment					(25)
Average - four largest companies					(10)

Source: Refinitiv

The average share price change for quoted football peers has increased by 2% since the end of May 2018. However, there is a wide range of changes. For the two largest quoted peers, Manchester United's share price has fallen by c 31% and Juventus's has increased by 43%. We highlight that Juventus, with nine consecutive Serie A wins, has been more successful than Manchester United in its domestic league in recent seasons. For other quoted peers that include sports franchises, ie Madison Square Garden, or more general sports entertainment exposure, eg World Wrestling Entertainment, there has been an average decline in share prices of c 25%. When we consider the four largest companies (Manchester United, Juventus, Madison Square Garden and World Wrestling Entertainment), the average rate of share price decline is 10%. As a result, we apply a discount of 10% to the last quoted brand valuation of €497m to derive a valuation of €447.7m or €4.87/share. Every 10% change in the brand valuation would represent €44.8m or c €0.49/ share.

Peer group comparison: Trading at a significant discount

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

Exhibit 22: Peer group multiples

	Year end	Ccy	Share price	Market value (local)	EV/sales FY0	EV/sales FY1	EV/sales FY2	EV/EBITDA FY0	EV/EBITDA FY1	EV/EBITDA FY2
Ajax	Jun	€	16.14	296	N/A	2.0	1.9	N/A	4.6	3.6
Juventus	Jun	€	0.77	1,030	2.3	2.5	2.2	9.1	91.2	13.0
Manchester United	Jun	\$	14.45	2,378	4.0	4.0	N/A	16.2	17.9	N/A
Olympique Lyonnais	Jun	€	1.93	111	1.1	1.2	0.9	6.7	14.9	3.6
Average - football club					2.5	2.4	1.7	10.7	32.2	6.7
Madison Square Garden	Jun	\$	150.0	3,599	6.5	11.2	5.5	N/A	N/A	55.9
World Wrestling Entertainment	Dec	\$	40.1	3,118	3.3	3.5	3.0	17.8	12.3	10.7
Average - other sports/ entertainment					4.9	7.4	4.3	17.8	12.3	33.3
Borussia Dortmund	Jun	€	4.9	451	1.3	1.4	1.4	7.6	12.1	7.9
Premium/ (discount) to average football club					(47%)	(41%)	(17%)	(29%)	(62%)	17%
Premium/ (discount) to average other sports/ entertainment					(74%)	(81%)	(67%)	(57%)	(1%)	(76%)

Source: Refinitiv, Edison Investment Research

Borussia Dortmund's FY21e EV/sales multiple of 1.4x is at a discount of 41% to the average multiple for the football peers of 2.4x. There is a wide range of multiples, with the larger companies, Juventus and Manchester United, trading at a premium to the smaller clubs. Relative to the other

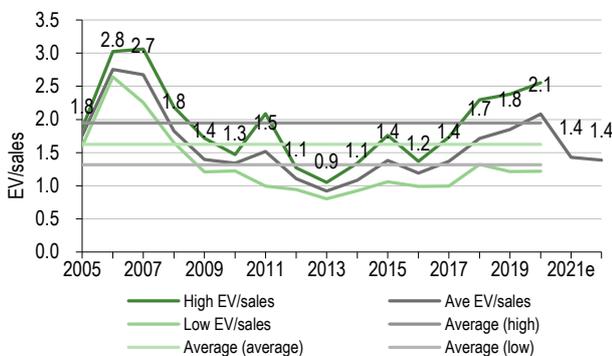
companies with sports/entertainment exposure, Borussia Dortmund's EV/sales multiple is also at a significant discount of 81%.

EV/EBITDA multiples for the football clubs have a wide range of multiples, with Manchester United trading at a premium multiple of 17.9x vs Borussia Dortmund's 12.1x, which may reflect the uncertain outlook for the coming season for all clubs.

Borussia Dortmund's long-term valuation

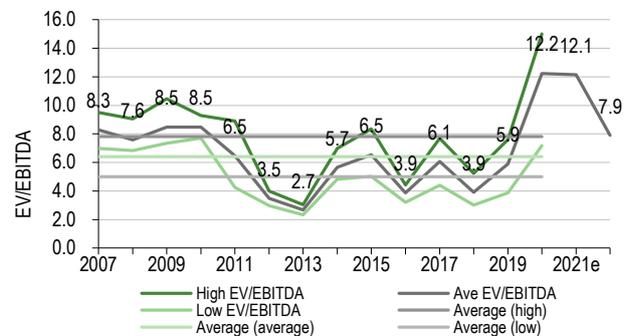
The charts below show the historic high, average and low EV/Sales multiples since FY05 and EV/EBITDA multiples since FY07 for Borussia Dortmund. The quoted numbers are the average multiple in the year along with the prospective multiples for FY20 and FY21. We exclude FY06 and FY07 from the EV/EBITDA 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 a much higher EV/EBITDA multiple of c 70x.

Exhibit 23: Borussia Dortmund's EV/ sales multiple



Source: Refinitiv, company accounts

Exhibit 24: Borussia Dortmund's EV/EBITDA



Source: Refinitiv, company accounts

For FY21e and FY22e, Borussia Dortmund's EV/sales multiples of 1.4x are broadly in line with its long-term average multiple of 1.5x. The company is therefore valued at an average multiple on lower revenue forecasts, which suggests upside on revenue recovery, albeit with a high level of uncertainty when that may be. Its highest EV/sales multiple during this period was 3.1x (FY07) and its lowest was 0.8x (FY13).

Due to the effects of COVID-19 and the resulting low profitability forecast, EV/EBITDA of 12.1x for FY21e and 7.9x for FY22e are above the long-term average since FY07 of 6.4x. The highest EV/EBITDA multiple since FY07 was 15.0x (FY20), but this was due to a higher share price at the start of the financial year before the effects of COVID-19 became apparent. If we remove this distortion by excluding FY20, the highest multiple was 10.5x (FY09).

Exhibit 25: Financial summary

	€'000s	2014	2015	2016	2017	2018	2019	2020	2021e	2022e
Year end 30 June		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT										
Revenue		256,280	263,601	281,261	328,375	313,310	370,256	370,196	336,239	346,606
Cost of Sales		(15,857)	(8,237)	69,322	51,388	202,639	(21,273)	(22,392)	(17,066)	(19,384)
Gross Profit		240,423	255,364	350,583	379,763	515,949	348,983	347,804	319,173	327,222
EBITDA		49,132	55,594	86,668	74,073	137,306	115,983	62,992	39,500	60,801
Normalised operating profit		40,976	46,025	75,798	62,597	126,150	103,160	49,050	25,205	46,326
Amortisation of acquired intangibles		(22,523)	(32,865)	(31,899)	(51,939)	(66,814)	(65,850)	(88,285)	(94,972)	(107,072)
Exceptionals		0	0	(7,469)	0	(20,362)	(13,809)	(3,903)	0	0
Reported operating profit		18,453	13,160	36,430	10,658	38,974	23,501	(43,138)	(69,767)	(60,746)
Net Interest		(3,889)	(7,159)	(2,104)	(1,567)	(4,336)	(1,705)	(3,444)	(2,233)	(2,483)
Joint ventures & associates (post tax)		27	0	8	28	13	13	(1)	0	0
Profit Before Tax (norm)		37,114	38,866	73,702	61,058	121,827	101,468	45,605	22,972	43,843
Profit Before Tax (reported)		14,591	6,001	34,334	9,119	34,651	21,809	(46,583)	(72,000)	(63,229)
Reported tax		(2,621)	(469)	(4,898)	(910)	(2,946)	(4,418)	2,630	0	(4,384)
Profit After Tax (norm)		30,447	35,828	63,188	54,965	111,469	80,913	43,030	22,972	39,458
Profit After Tax (reported)		11,970	5,532	29,436	8,209	31,705	17,391	(43,953)	(72,000)	(67,613)
Minority interests		(310)	(281)	(245)	0	0	0	0	0	0
Net income (normalised)		30,137	35,547	62,943	54,965	111,469	80,913	43,030	22,972	39,458
Net income (reported)		11,660	5,251	29,191	8,209	31,705	17,391	(43,953)	(72,000)	(67,613)
Average number of shares outstanding (m)		61.4	92.0	92.0	92.0	92.0	92.0	92.0	92.0	92.0
EPS - normalised (€)		0.49	0.39	0.68	0.60	1.21	0.88	0.47	0.25	0.43
EPS - diluted normalised (€)		0.49	0.39	0.68	0.60	1.21	0.88	0.47	0.25	0.43
EPS - basic reported (€)		0.19	0.06	0.32	0.09	0.34	0.19	(0.48)	(0.78)	(0.73)
Dividend (€)		0.10	0.05	0.06	0.06	0.06	0.06	0.00	0.00	0.00
Revenue growth (%)		1.1	2.9	6.7	16.8	(4.6)	18.2	(0.0)	(9.2)	3.1
Gross Margin (%)		93.8	96.9	124.6	115.6	164.7	94.3	94.0	94.9	94.4
EBITDA Margin (%)		19.2	21.1	30.8	22.6	43.8	31.3	17.0	11.7	17.5
Normalised Operating Margin		16.0	17.5	26.9	19.1	40.3	27.9	13.2	7.5	13.4
BALANCE SHEET										
Fixed Assets		249,492	289,509	302,765	354,858	351,405	371,715	441,455	390,189	329,642
Intangible Assets		61,602	96,340	65,278	141,521	120,342	163,710	229,667	189,695	137,624
Tangible Assets		184,502	189,518	188,423	184,664	180,693	184,001	193,037	181,742	173,267
Investments & other		3,388	3,651	49,064	28,673	50,370	24,004	18,751	18,751	18,751
Current Assets		42,803	97,030	121,780	123,739	134,207	128,356	76,512	44,802	35,413
Stocks		5,921	9,376	10,158	8,978	5,588	4,569	6,754	5,148	5,847
Debtors		14,923	29,680	51,072	48,776	22,981	30,061	36,520	33,170	34,193
Cash & cash equivalents		17,852	53,739	51,722	49,297	59,464	55,865	3,317	(23,436)	(34,548)
Other		4,107	4,235	8,828	16,688	46,174	37,861	29,921	29,921	29,921
Current Liabilities		(71,014)	(61,627)	(78,811)	(140,912)	(119,026)	(125,388)	(122,609)	(111,633)	(109,310)
Creditors		(59,927)	(58,327)	(69,587)	(128,707)	(113,949)	(119,779)	(110,188)	(89,212)	(86,889)
Tax and social security		(571)	(803)	(5,212)	(732)	(1,962)	(811)	(40)	(40)	(40)
Short term borrowings		(8,889)	0	0	0	0	0	(8,031)	(18,031)	(18,031)
Finance leases		(1,627)	(2,497)	(2,640)	(10,295)	(1,969)	(3,127)	(4,350)	(4,350)	(4,350)
Other		0	0	(1,372)	(1,178)	(1,146)	(1,671)	0	0	0
Long Term Liabilities		(76,032)	(38,834)	(36,192)	(25,383)	(23,001)	(19,764)	(89,911)	(89,911)	(89,911)
Long term borrowings		(32,139)	0	0	0	0	0	0	0	0
Finance leases		(20,142)	(21,630)	(18,990)	(8,695)	(6,726)	(8,381)	(20,054)	(20,054)	(20,054)
Other long-term liabilities		(23,751)	(17,204)	(17,202)	(16,688)	(16,275)	(11,383)	(69,857)	(69,857)	(69,857)
Net Assets		145,249	286,078	309,542	312,302	343,585	354,919	305,447	233,447	165,834
Minority interests		(334)	(305)	0	0	0	0	0	0	0
Shareholders' equity		144,915	285,773	309,542	312,302	343,585	354,919	305,447	233,447	165,834
CASH FLOW										
Op Cash Flow before WC and tax		45,270	48,435	84,572	72,534	132,983	111,914	59,547	37,266	58,318
Working capital		(6,672)	(20,851)	29,052	31,488	(9,402)	5,673	(18,011)	(16,020)	(4,045)
Exceptional & other		(4,649)	(3,193)	(76,641)	13,868	52,171	(84,587)	(38,877)	(37,767)	(47,517)
Tax		(3,879)	(200)	(320)	(5,476)	(1,723)	(2,834)	305	0	(4,384)
Operating cash flow		30,070	24,191	36,663	112,414	174,029	30,166	2,964	(16,520)	2,372
Capex		(10,923)	(10,399)	(9,442)	(8,139)	(7,195)	(9,872)	(6,143)	(3,000)	(6,000)
Net investment in intangibles		2,058	(61,682)	(20,038)	(96,526)	(135,556)	(13,643)	(44,646)	(15,000)	(5,000)
Acquisitions/disposals		0	0	(500)	(45)	0	0	0	0	0
Net interest		(3,644)	(7,244)	(1,435)	(2,002)	(3,668)	(1,456)	(3,326)	(2,233)	(2,483)
Equity financing		5	140,708	1	0	0	0	0	0	0
Dividends		(6,523)	(6,451)	(5,124)	(5,519)	(5,519)	(5,519)	(5,519)	0	0
Other		(5,727)	(43,236)	(2,142)	(2,608)	(11,924)	(3,275)	4,122	10,000	0
Net Cash Flow		5,316	35,887	(2,017)	(2,425)	10,167	(3,599)	(52,548)	(26,753)	(11,111)
Opening net debt/(cash)		53,932	44,945	(29,612)	(30,092)	(30,307)	(50,769)	(44,357)	29,118	65,871
Other non-cash movements		3,671	38,670	2,497	2,640	10,295	(2,813)	(20,927)	(10,000)	0
Closing net debt/(cash)		44,945	(29,612)	(30,092)	(30,307)	(50,769)	(44,357)	29,118	65,871	76,983

Source: Borussia Dortmund accounts, Edison Investment Research

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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 the end of 2022. 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 2022. He was previously a partner at RölfsPartner, 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 recently joined the board in 2018, having served as sales & marketing director since 2010. He was previously at 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.	
Principal shareholders	(%)
Evonik Industries	9.8%
Bernd Geske	9.4%
Ballspielverein Borussia 09 e.V. Dortmund	5.5%
Signal Iduna	5.4%
Ralph Dommermuth Beteiligungen	5.0%
Puma	5.0%
Free float	59.9%

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