

# Borussia Dortmund

## A full recovery

Borussia Dortmund is a leading football club with a strong track record of success in its domestic league, making it a relatively consistent competitor in Europe's top club competitions. This success has been achieved with a level of player investment that should be the envy of its peers. The first team, backed by a full stadium of fans (thanks to lifted COVID-19 restrictions), came as close to winning the Bundesliga in the 2022/23 season as is possible without actually winning it. This first season without COVID-19 restrictions led to the expected full recovery in financial results to pre-COVID-19 levels. Despite the recovery in profitability, the share price continues to trade at a significant discount to pre-COVID-19 levels, its quoted peers and our asset-backed valuation of €10.63 per share, suggesting significant upside to the current share price.

Year end	Revenue (€m)	EBITDA (€m)	PBT* (€m)	EPS* (€)	DPS (€)	EV/ EBITDA (x)	P/E (x)	Yield (%)
06/22**	351.6	83.8	66.3	0.61	0.00	5.0	5.9	N/A
06/23	418.2	123.2	104.1	0.63	0.00	3.4	5.7	N/A
06/24e	433.6	113.6	103.5	0.63	0.06	3.7	5.8	1.7
06/25e	457.0	121.3	111.5	0.68	0.06	3.5	5.3	1.6

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. \*\*2022 is restated.

## Structural growth drivers

As a leading global football brand, Borussia Dortmund's structural drivers, which include growing global audiences, increasing demand for media rights and developing sponsorship partners, have driven a revenue CAGR of 10% since FY05 and a positive profit before tax in most financial years. Borussia Dortmund's relatively consistent sporting success is exceptional in the context of management's financial prudence, which is in contrast to most of its European peers, which spend more heavily on acquiring more established players. FY25 will see the start of new formats for European football competitions that are expected to significantly enhance financial distributions to clubs, and there should be clarification regarding the distributions for the next cycle (2025/26 onwards) of Bundesliga media rights.

## Financials

Our updated estimates for FY24 are broadly in line with management's guidance, which was issued at the start of the fiscal year. Management has guided to higher revenue in FY24 of €427m (vs c €418m for FY23) but lower EBITDA to €104–114m (vs c €123m for FY23) due to catch-up investment in the first-team squad and IT infrastructure. We reduce our FY24 estimates to reflect the higher spend and reduce the forecast for net transfer income. Our forecast EBITDA reduces to c €114m from [€165.2m](#).

## Significant valuation gap persists

Borussia Dortmund's share price continues to trade well below pre-COVID-19 levels, despite the recovery in its financials, and its valuation is at a substantial discount to quoted peers and our asset-backed sum-of-the-parts (SOTP) valuation.

## Q124 results and outlook

### Travel and leisure

11 December 2023

**Price** €3.63

**Market cap** €401m

Net debt (€m) at 30 September 2023 17.9

Shares in issue 110.4m

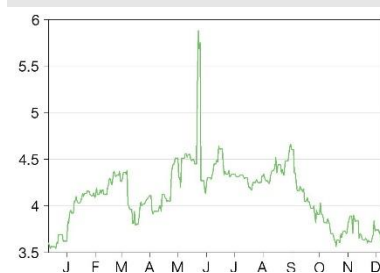
Free float 67.2%  
(includes 4.7% holding of founding football club)

Code BVB

Primary exchange Frankfurt

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs (6.2) (14.2) 1.9

Rel (local) (14.8) (19.3) (13.3)

52-week high/low €5.88 €3.54

### Business description

The group operates Borussia Dortmund, a leading football club, placed second in the Bundesliga in 2022/23, DFB Super Cup winners in 2019/20 and DFB-Pokal winners in 2020/21. The club has qualified for the Champions League in 12 of the last 13 seasons.

### Next events

Q224 results February 2024

Q324 results May 2024

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## Investment summary

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### Company description: Leading German football club

Borussia Dortmund has been one of the most successful German football clubs for decades. FY23 was a great year for the first team, as it almost won the Bundesliga, failing to win its match on the last day of the season and finishing second in the league due to inferior goal difference. FY23 was also the first season that did not experience any disruption to the company's operations since FY19. At home games the stadium was back to full capacity, leading to strong growth in multiple revenue streams, albeit with extra costs to 'service' those games too.

The corporate strategy has been to make Borussia Dortmund's financial success less dependent on short-term sporting success by increasing the domestic and international marketing of the brand. Coupled with this, the team's sporting success must be sustainable (ie without taking on new debt). The relatively consistent on-the-pitch success has enabled the company to generate long-term revenue growth, a CAGR of c 12% from FY05 to FY19 from multiple revenue sources, while increasing the relative predictability of those revenues. The club's reputation for spotting and developing young talent was further enhanced with the post-season-end transfer of Jude Bellingham for initial proceeds of €103m, the third consecutive season of headline-grabbing sales of players that were bought at low prices and sold for significant gains to other clubs. The strength of the brand is reflected in over 58 million followers across social media platforms at the end of June 2023, versus 52 million in the 12 months prior.

### Financials: Back to normality

Following a full recovery in the company's financial results in FY23 to above pre-COVID-19 (ie FY19) levels, it is back to normality for the coming financial years, meaning incremental changes to profit expectations are dependent on success on the pitch. Management's guidance assumes progression through to the 'round of 16' in the Union of European Football Associations (UEFA) Champions League. Our new estimates for FY24 are broadly in line with management's guidance.

### Valuation: Significant valuation gap

We value Borussia Dortmund using an asset-backed SOTP approach, which separately values the playing squads, the club's brand (last quoted valuation adjusted to reflect estimated market movements) and other assets (at net book value). Our valuation of €10.63 per share is at a premium of 193% to the current share price. Using more traditional multiples, the current FY24e EV/sales multiple of 1.0x is at a significant discount to the long-run average of 1.6x, and towards the bottom end of more recent low multiples (0.9–1.3x), suggesting strong upside potential.

### Sensitivities: Sporting success, squad development and brand

The key near-term sensitivities are those that can affect the more variable revenue streams:

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

## Company description: Leveraging its brand globally

Borussia Dortmund was formed as Ballspielverein Borussia e.V. Dortmund (Borussia club for ball games) in 1909, hence the BVB 09 logo. 'Borussia' was taken from the brewery name Borussia-Brauerei, today known as Dortmunder Actien Brauerei. Since its formation in 1909, it has become one of Germany's most successful and one of the most valuable global football clubs and brands. The company was listed in October 2000, becoming the first publicly traded football club on the Frankfurt Stock Exchange. It remains one of the few quoted European football clubs. Management includes the stake owned by Ballspielverein Borussia 09 e.V. Dortmund of 4.7% as part of its free float to give its 'quoted' free float of 67.2%. The company has a relatively complex [corporate structure](#).

### Consistent success in the Bundesliga

Domestically, the men's team has won eight national championships (known as the Bundesliga since 1964), five 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).

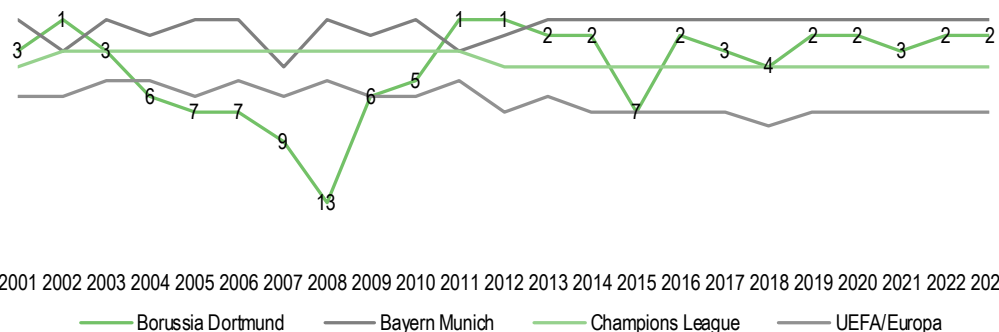
**Exhibit 1: First-team honours**

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

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

Borussia Dortmund's finishing position in the Bundesliga has been relatively consistent, qualifying in the top four in 12 of the last 13 seasons, enabling it to play in the financially lucrative UEFA Champions League in the following season. In Exhibit 2 we show Borussia Dortmund's finishing position (quoted) in the Bundesliga in every season since FY01 (when the company was listed), compared to the 18 competing teams, as well as that of its main competitor, Bayern Munich. We also show the lowest finishing position required to compete in the UEFA Champions League or the UEFA Europa Cup, previously known as UEFA Cup, in the following season.

**Exhibit 2: Borussia Dortmund's Bundesliga position since 2001**



Source: Bundesliga, Borussia Dortmund

Borussia Dortmund's relatively consistent long-term success is demonstrated below with cumulative statistics for the top 10 teams in the Bundesliga since FY01 (Exhibit 3). Of the 38 teams to have competed in the Bundesliga since 2001, Borussia Dortmund ranks as the second most successful in terms of points won, games won, games lost and goals scored. Naturally, there is a survivorship bias given the worst-performing teams are relegated every season and the long-term record omits

the rise of new challengers. Borussia Dortmund is one of only six teams in the 38 that competed in Bundesliga 1 over that time to feature in every season.

Exhibit 3: Bundesliga cumulative statistics since 2001							
Team	Games Won	Games Drawn	Games Lost	Goals For	Goals Against	Goal Difference	Points
Bayern Munich	532	141	109	1,842	696	1,146	1,737
<b>Borussia Dortmund</b>	<b>414</b>	<b>185</b>	<b>183</b>	<b>1,512</b>	<b>937</b>	<b>575</b>	<b>1,427</b>
Bayer 04 Leverkusen	375	177	230	1,405	1,014	391	1,301
Schalke	319	184	245	1,082	977	105	1,141
VfL Wolfsburg	300	198	284	1,193	1,125	68	1,098
Werder Bremen	300	177	271	1,243	1,152	91	1,081
VfB Stuttgart	267	181	266	1,028	1,046	(18)	982
Borussia Mönchengladbach	260	182	272	1,010	1,026	(16)	960
Hertha Berlin	248	177	289	954	1,074	(120)	921
Hamburger SV	221	155	236	806	889	(83)	818

Source: Bundesliga

Internationally, Borussia Dortmund became the first German team to win a European competition, the European Cup Winners' Cup in 1966, and 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 UEFA Champions League and the South American equivalent, Copa Libertadores.

## Financial history

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

## Borussia Dortmund's business model

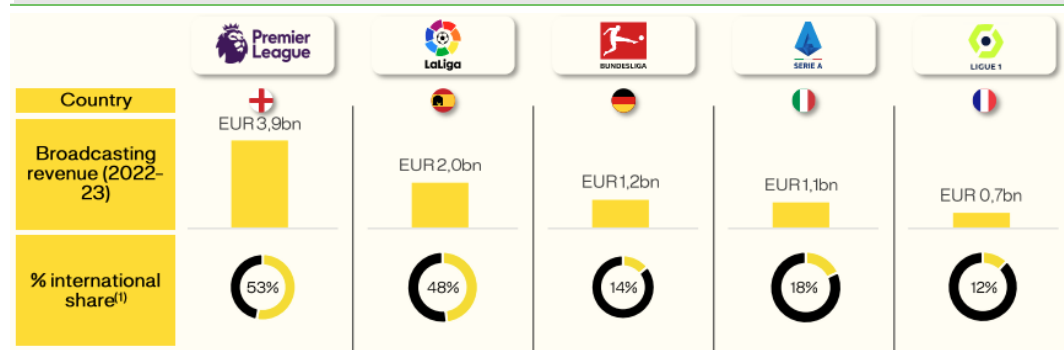
Borussia Dortmund's corporate objective is to defend its position in the top-flight of the Bundesliga, to be achieved by a five-pronged business strategy.

- **Sustainably adjusting athletic prospects:** maximising sporting success, namely continuing at the top level of the Bundesliga, ongoing qualification for the Champions League and progress in other competitions without incurring new debt.
- **Intensifying the promotion of up-and-coming talent:** as can be seen from the club's sporting success (above) and transfer activity (see later), Borussia Dortmund has a proven and enviable track record of identifying, through a worldwide scouting network, and nurturing talent. There is potentially a conflict between the club's sporting success and the company's financial interests, as a player may be sold based on financial considerations rather than the potential effect it may have on the team's performance.
- **Increasing fan involvement:** expanding fan services and opportunities for them to engage with the club via different platforms, including television and social media.

- **Using and maintaining the Borussia Dortmund brand:** further domestic and international marketing of the brand name through, for example, the playing of 'friendly' games in international markets, and selling of inventory on digital advertising boards in the stadium to more global/regional advertising partners.
- **Structuring business activities and relationships sustainably:** to grow Borussia Dortmund's multiple revenue streams and actively manage costs so that the company does not incur new debt.

Supporting the above strategy is the fact 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. Also, Germany is one Europe's largest football markets, but it lags other markets in terms of media exploitation rights.

**Exhibit 4: Broadcasting revenues of major European football leagues**



Source: Borussia Dortmund presentation, September 2023

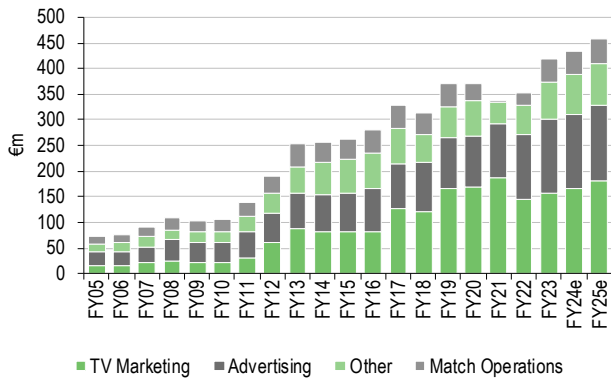
The Bundesliga's total broadcast revenues in 2022/23 of €1.2bn are significantly lower than those of England's Premier League and Spain's La Liga, as are those of Italy's Serie A and France's Ligue 1. Equally, the Premier League and La Liga have been more successful at growing and exploiting international audiences than the Bundesliga, Serie A and Ligue 1.

## Sources of revenue

Borussia Dortmund reports revenue from five sources: match operations (ticket receipts for attendance at games), advertising (sponsorship and advertising from companies), TV marketing (broadcast rights), merchandising, and conference, catering and miscellaneous.

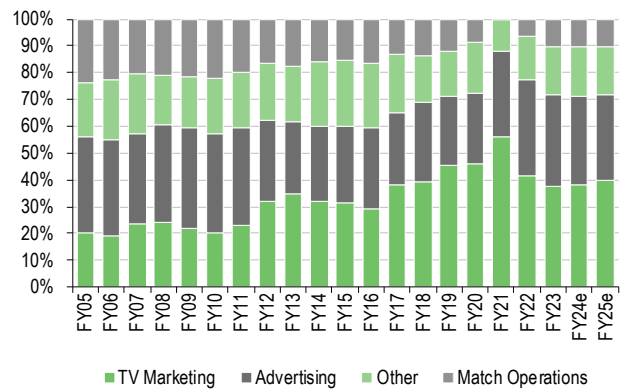
Below we show how the revenue sources have evolved since FY05, when IFRS was adopted. We have combined merchandising and conference, catering and miscellaneous revenues into 'Other' as there was a minor change to revenue disclosure between FY14 and FY15.

**Exhibit 5: Sources of revenue**



Source: Borussia Dortmund accounts, Edison Investment Research

**Exhibit 6: Revenue mix**



Source: Borussia Dortmund accounts, Edison Investment Research

Borussia Dortmund's revenue has grown from €75m in FY05 to €418m in FY23, a CAGR of c 10% per year, significantly ahead of German GDP growth. COVID-19-related restrictions hampered revenue growth but, by the end of FY23, revenue had recovered to more than pre-COVID-19 (ie FY19 levels) albeit this comparison is influenced by relative success in the various competitions the team competes in.

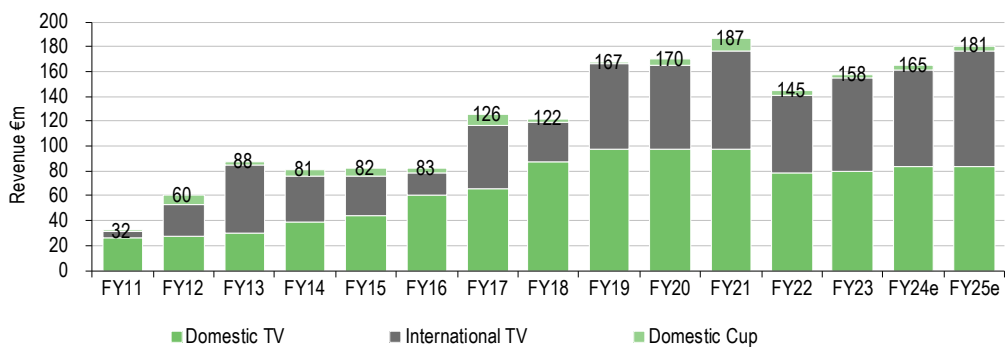
Management's success in better national and international exploitation of the brand is demonstrated by a revenue decline in only two years between FY05 and before the COVID-19 pandemic (FY09 and FY18), which followed seasons when the team achieved greater success than in a typical year.

Before a change in accounting standards in FY20, Borussia Dortmund included gross revenue from transfer deals in total group revenue. Revenue including transfer proceeds is now called 'total operating proceeds'.

### TV marketing (38% of FY23 revenue)

TV marketing is revenue earned from the broadcasting rights of the games played by the team. It has grown at a CAGR of c 14% since FY05 due to long-term inflation in media rights from increased demand for premium content by competing media platforms and the team's improved and more consistent on-pitch success. It has become the company's most important revenue source, overtaking advertising in FY12.

**Exhibit 7: TV marketing revenue**



Source: Borussia Dortmund accounts, Edison Investment Research

There is a high degree of visibility in the near and medium term for the largest revenue source (Bundesliga rights represented just over 50% of TV marketing and 19% of total company revenue in FY23), whereas international TV and domestic cup are more dependent on the team's success on the pitch and progression through the rounds of these competitions.

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

The current Bundesliga broadcasting rights for the four seasons 2021/22 to 2024/25 were sold for €4.4bn, a reduction of c €240m or c 5% from the prior contract. The lower proceeds for the current cycle reflected the timing of the auction, which was resolved in December 2020 during the height of economic uncertainty and COVID-19 lockdowns. The reduction included a more significant decline in revenue from international markets than German-speaking markets. The prior Bundesliga contract for the four seasons 2017/18 to 2020/21 was worth €4.64bn or €1.16bn per season, an increase of c 85% on the prior contract for the four seasons 2013/14 to 2016/17 of €2.5bn in total or €625m per season. Management believes there is significant opportunity to further develop Bundesliga rights in the long term, as evidenced by the relative scale of the media rights of the major European leagues (see Exhibit 4). Borussia Dortmund's domestic TV revenue increased by c 2% to €79.9m in FY23 and management expects a further increase of c 4% to €83.2m in FY24. Over the next 12 months news should emerge about the next cycle of Bundesliga media rights, which will take effect from the 2025/26 season. Future media inflation will require ongoing competitive tensions between existing and potential new broadcasters, which may be affected by the external macroeconomic environment and shifts in strategy on the allocation of spend across different forms of entertainment and sports.

To determine the relative attractiveness of the Bundesliga rights for international viewers, below we attempt to demonstrate how 'exciting' the main European leagues are by quantifying the dominance of the top teams in the last 10 seasons. While the dominance of Bayern Munich in Germany is unhelpful in sustaining interest in the Bundesliga, we can see that competition below first place is healthy compared to other leagues based on the number of clubs that have gained UEFA Champions League positions and the average points gap between those clubs and the next best-placed team.

**Exhibit 8: 'Excitement' of the European leagues, 2014–23**

	Germany	England	Spain	Italy	France
Number of winners	1	4	3	4	3
Number of wins by dominant team	10	6	5	7	8
Number of teams in UEFA Champions League places	9	8	8	7	8
UEFA Champions League teams % of total points	32%	30%	31%	28%	23%
Average points UEFA Champions League clubs clear of next place	3.9	3.1	8.1	6.7	3.5

Source: Bundesliga, Premier League, La Liga, Serie A, Ligue 1, Edison Investment Research

UEFA is responsible for the centralised marketing of all media and commercial rights for all European club competitions, and subsequent distributions to competing clubs. The rights are typically sold in three-year cycles; the current cycle covers the seasons from 2021/22 to 2023/24. The current Champions League rights in Germany are held by Amazon, DAZN and ZDF. Distributions to Champions League participants are based on four 'pillars': 25% to the clubs that participate in the group stage; 30% for performance with escalating fees per game in the latter knockout stages of the competition (ie 'round of 16' onwards); 30% based on a coefficient that ranks a team's 10-year relative success in the competition (the newly added pillar); and 15% based on the value of the club's own TV market relative to all countries (ie the market pool). To highlight the sensitivity of this income to a team's success and the influences of coefficients etc, in FY22, the last season for which figures are available at the time of writing, the winners of the Champions League, Real Madrid generated revenue of c €134m (source: UEFA Annual Report 2022) versus

Eintracht Frankfurt €38m for winning the Europa League. In that season, the losing quarter finalists of the Champions League earned between €66m (Benfica) and €110m (Bayern Munich); the losing semi-finalists earned between €78m (Villareal) and €109m (Manchester City); and the losing finalist, Liverpool, earned €120m. Borussia Dortmund earned €62m from competing in the initial group stage of the Champions League and a further €2m for competing in the Europa League.

There will be significant changes to the format of the Champions League and other European competitions from the 2024/25 season, no doubt given fresh impetus by UEFA to hinder the formation of breakaway competitions, such as the attempted launch of the European Super League. The most significant changes to the Champions League can be found [here](#).

UEFA is also changing the way that money is distributed, initially for the 2024–27 cycle. There will be a shift to a greater share of the money being distributed based on participation (increasing to 27.5% from 25%) and performance (increasing to 37.5% from 30%) at the expense of lower distributions based on market pool and coefficient (both are merged and reduced from 45% to 35%) than under the current system. Therefore, there will be more teams in the competition, each team will play a greater number of games in the first round of the competition, there will more games in a season (189 games vs the current 125 games), and the chances of proceeding beyond the initial group stage will increase (ie two-thirds of teams that enter will qualify vs half of teams currently). UEFA has predicted a one-third increase in broadcast and sponsorship revenue under the new format, which sounds like a good increase in the simple average amount that each team might earn, but there will be just over 50% more games under the new format, suggesting the simple average amount per game will reduce. However, these calculations ignore the greater skew of distributions towards success. Therefore, the simplest thing that can be said about the new format is predicting likely future revenues remains complicated even before considering the difficulties of predicting a team's success in the competition.

Domestic cup revenue is highly variable given its dependence on the team's success in a knock-out competition, the DFB-Pokal as well as the DFL SuperCup, a one-off game played between the winners of the Bundesliga and DFB-Pokal in the prior season. The revenue is relatively low, typically €1–5m per season for the club over the last decade except in seasons where the team is successful. Winning the DFB-Pokal in FY17 and FY21 led to revenues of €9m and €10m, respectively. While it is great to win from a sporting perspective, success in the domestic cups does not have a material impact on the company's financials, especially after player bonuses for achieving the success are deducted.

## Advertising (34% of FY23 revenue)

Advertising comprises the sponsorship income from Borussia Dortmund's key corporate partners, as well as advertising on the billboards at Signal Iduna Park and bonuses dependent on the team's success. Advertising has grown at a CAGR of 10% from FY05–23 and is the second-most important revenue stream after TV marketing.

The resilience of the income stream is demonstrated by its continued growth through the COVID-19 pandemic, due to a combination of new sponsorship deals or extensions to existing major ones (Evonik, 1&1 Telecommunications) and more prize money (FY21), while sponsor hospitality and match day advertising have been a bit more variable, recovering in FY22 after declines in FY21.

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 associated with sporting success and want to promote their brands. Borussia Dortmund has a proven ability to renew at higher prices and attract new partners (sponsors).

The company's principal partners, representing approximately half of total advertising revenue, include:



- Evonik Industries, a speciality chemicals group, which is the sponsor of the team shirt in international competitions, friendlies abroad and the DFB-Pokal from FY21–25. It has been the shirt sponsor since 2007.
- Signal Iduna, an insurance company, which has been linked to the club since 1974. It has been the sponsor of the stadium since December 2005 and the partnership was recently extended to 2031 (from 2026).
- Puma has been Borussia Dortmund's sporting equipment partner since FY13 and the extended contract runs to 2028. Prior sponsors have included Nike and Kappa.
- 1&1, a telecommunications company, which is the sponsor of the first team shirt in the Bundesliga from FY21–25.

Before splitting the sponsorship by competition from FY21, Evonik Industries 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 to strengthen the relationship with the club.

In addition to the principal partners above, there are three other levels of partner, which contribute differing amounts of income in return for various sponsorship benefits: BVB ChampionPartner (10 partners including General Logistic Systems bwin and EA Sports), BVB PremiumPartner (12 partners including Coca-Cola, Eurowings and REWE) and BVB Partner (18 partners including L'Oréal, ARAL and H-Hotels.com).

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

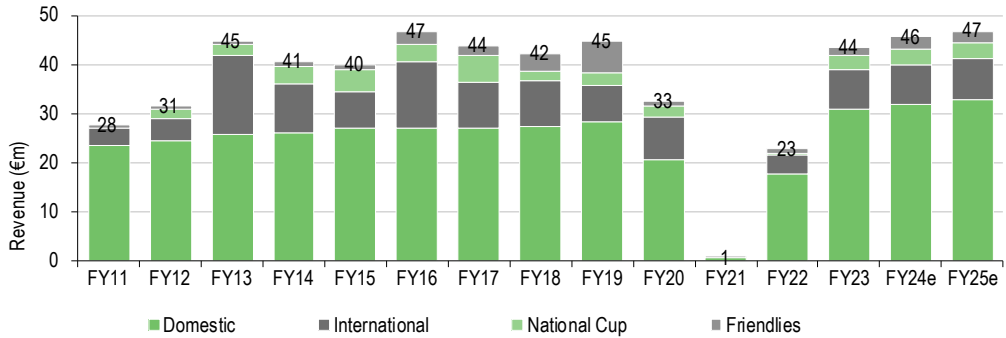
The activity of seeking new sponsors is currently outsourced to Sportfive, a media group, which receives a commission on revenue generated. For Borussia Dortmund, commission and expenses are reported as advertising within other operating expenses. Over time, the effective commission rate has reduced from 31% of reported advertising revenue to 25/26%, but a new licensing agreement from FY21 reduced the agency commission to c 10% of revenue.

## **Match operations (10% of FY23 revenue)**

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

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

**Exhibit 9: Match operations revenue**



Source: Borussia Dortmund accounts, Edison Investment Research

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

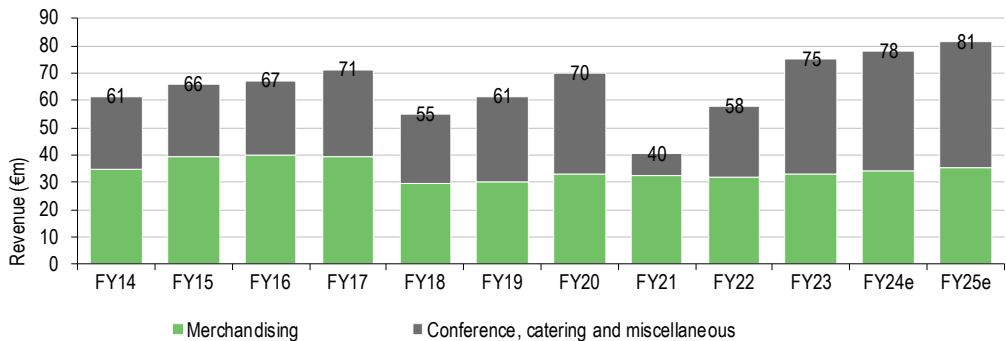
Revenue is a function of the number of games played, the number of fans attending and price per ticket. In 'normal' circumstances, there is a relatively predictable element to domestic revenue, the most significant source of revenue, as there are 17 home Bundesliga games in every season, which are typically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

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

## Other

We aggregate several revenue streams, merchandising and conference, catering and miscellaneous income (as disclosed by the company) into 'other', due to a change in disclosure between FY13 and FY14. As well as the more obvious revenue streams, it includes booking fees for the sale of tickets and fees received for squad players who represent their national teams, so it can be quite variable relative to other revenue streams.

**Exhibit 10: Other revenues**



Source: Borussia Dortmund accounts, Edison Investment Research

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](http://www.bvbonlineshop.com)). Growth should be driven by the increasing global appeal of the brand, as well as the company's ability to increase and improve the range of merchandising.

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

There is likely to be some economic sensitivity to some of the revenue streams, as fans may spend less on food and beverages or not buy new kits in a more challenging macroeconomic environment.

## Squad development and transfers

Borussia Dortmund's strategy has been the development of a competitive team with a focus on identifying promising up-and-coming talent at minimal cost (even free), who can then be further developed at the 'BVB Academy'.

Over the long term, Borussia Dortmund has a proven track record of prudent investment in players and has a good 'eye' for spotting new talent, who are ultimately sold for a good profit. In recent years notable successes have included:

- Jude Bellingham, sold for an initial fixed fee of €103m three years after being bought for c €30m;
- Erling Haaland, acquired for €20m and sold for €67m two and a half years later;
- Jadon Sancho, sold for €85m four years after being bought for €8m;
- Ousmane Dembélé, bought for €14m and sold for €135m one and a half years later; and
- Christian Pulisic, sold for €64m four years after being acquired for €0.5m.

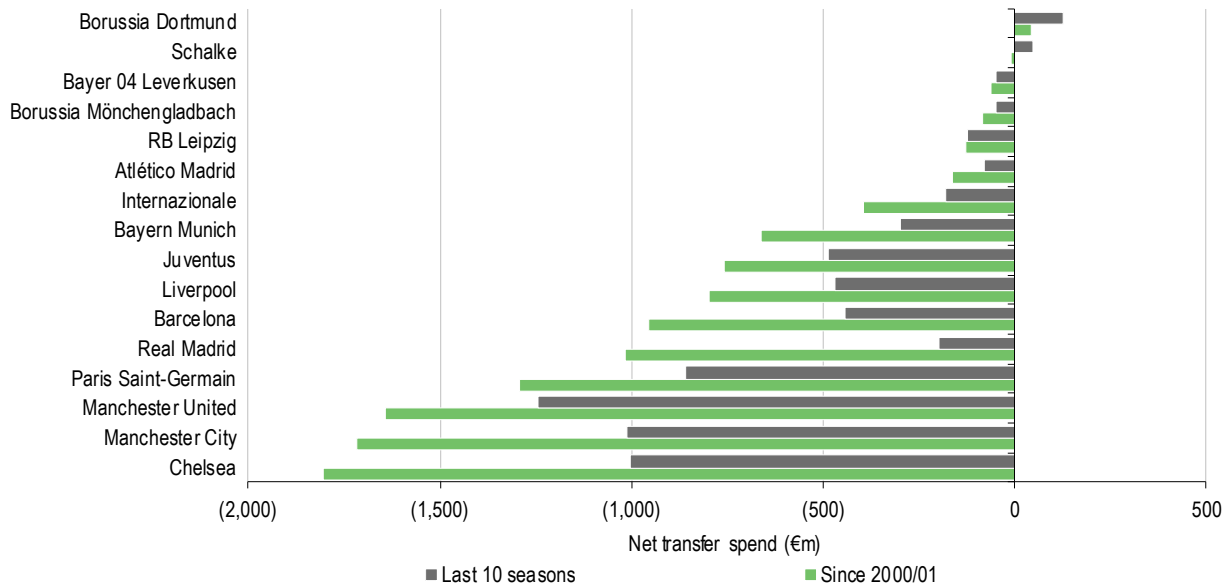
We note that the gains on the sale of players have been an important driver of Borussia Dortmund's profitability over the long term; however, these gains are unpredictable.

Describing why one club is better at identifying up-and-coming talent than another is as difficult as explaining why one music industry representative is better at finding promising new artists than another. Therefore, our comments are reserved to Borussia Dortmund's development structure and highlight the company's success with respect to player transfers.

Regarding player scouting, the club uses a worldwide network of around 30 scouts who are supported by technology, enabling them to conduct individual player analyses. Management believes its modern training centre and the 'BVB Academy' provide excellent training for players, and there is a clear willingness to play young players in the first team, which may be lacking at other clubs.

Borussia Dortmund's success in the transfer market is evidenced by its net spend versus its local and international peers over the long term. Below, we show the cumulative net transfer spend for a range of competitive peers from the Bundesliga and other large European clubs over two timeframes: the last 10 seasons (including 2023/24, which, by definition, is only part of the season) and from the 2000/01 season. The data are sorted by net transfer spend since 2000/01.

**Exhibit 11: Cumulative net transfer spend by club**

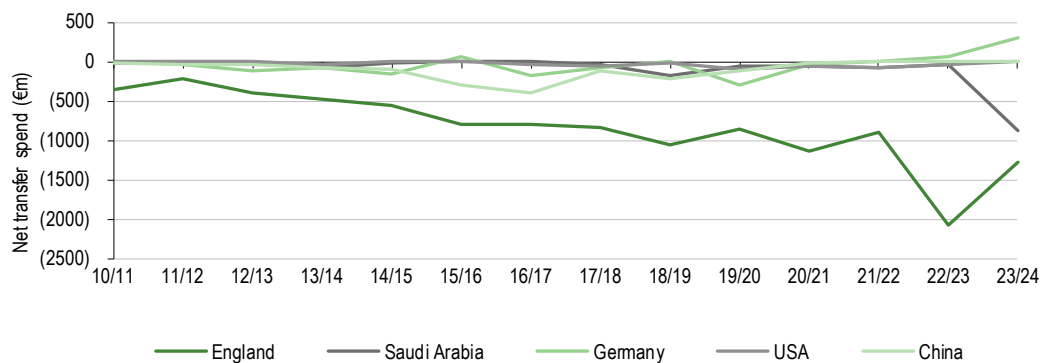


Source: Transfermarkt.com

Borussia Dortmund has been the only club to generate a net surplus on transfers over the long term (from 2001–23) and one of two clubs (including Schalke) to generate a net surplus over the last 10 years, which is testimony to its ability to recruit and trade talent. There is an apparent clear distinction between the level of spend between the clubs in the Bundesliga and elsewhere. Therefore, although it has been several years since Borussia Dortmund last won the Bundesliga, we would argue its regular qualification to compete in the Bundesliga comes at a significantly lower cost than its bigger-spending peers.

The move of Lionel Messi to the US Major League and the sudden emergence of the Saudi Pro League, which has attracted a number of high-profile players (including Cristiano Ronaldo in the 2023/23 season and Neymar in 2023/24), leads to obvious concerns that the competition for signing players has increased. Below we show the annual net spend of several leagues since 2010/11. The English Premier League has dominated net transfer spend in most seasons, but the emergence of the Saudi Pro League, with net spend of just under €900m in the current season, is astonishing in the context of anything that has happened in recent years, including the emergence of the Chinese Super League from 2014/15, which appears to have petered out.

**Exhibit 12: Net transfer spend per season for main leagues**



Source: Transfermarkt.com

For some players, the prospect of earning higher wages may be more appealing than playing in more established leagues, especially so towards the end of their careers. We note that of the 25

most expensive signings to the Saudi Pro League in the 2023/24 season, nine players were aged 30 years and over, and 12 were aged between 25 and 29 years. The transfer fees themselves for individual players were not high in the context of fees paid for other players in Europe, as for many players the appeal is to earn a higher salary. The most expensive signing was Neymar for €90m, and the 25th most expensive signing was Frank Kessie for €12.5m versus his estimated market value of €12.5m per Transfermarkt.com.

Having described how the squad is developed and looked at Borussia Dortmund's historical success in the transfer market, we move on to looking at the valuation of the current squad. At the time of writing, Borussia Dortmund has the 21st most valuable first-team squad of the 500 that are valued globally, with an estimated value of c €467m versus the purchase cost of €312m (source: Transfermarkt.com). The estimated value of the squad of c €467m compares with the valuation of c €483m in our prior [Outlook note](#).

Below we show the estimated market values in descending order for the top 25 most valuable global football squads. We would highlight that the majority of the teams listed below appear to have unrealised gains in the valuations of their squads, except Chelsea, Manchester United, Aston Villa, West Ham United and Juventus.

<b>Exhibit 13: Most valuable global first-team squads</b>						
Club	Country	Market value 21 November 2023 (€m)	Purchase cost 21 November 2023 (€m)	Unrealised gain (€m)	Unrealised gain (%)	
Manchester City	England	1,260	992	268	27	
Arsenal	England	1,100	685	415	60	
Paris Saint-Germain	France	1,070	895	175	19	
Real Madrid	Spain	1,030	573	457	80	
Chelsea	England	999	1,010	(11)	(1)	
Bayern Munich	Germany	948	425	523	123	
Liverpool	England	877	664	214	32	
Manchester United	England	877	998	(120)	(12)	
Barcelona	Spain	863	327	536	164	
Tottenham Hotspur	England	748	656	92	14	
Newcastle	England	651	566	84	15	
Aston Villa	England	631	417	(5)	(1)	
Napoli	Italy	588	373	215	58	
Internazionale	Italy	563	223	340	153	
AC Milan	Italy	543	328	215	66	
Bayern Leverkusen	Germany	523	232	155	67	
RB Leipzig	Germany	489	336	153	46	
Atlético Madrid	Spain	472	361	111	31	
West Ham United	England	471	457	(103)	(22)	
Brighton	England	468	193	275	142	
<b>Borussia Dortmund</b>	<b>Germany</b>	<b>467</b>	<b>312</b>	<b>155</b>	<b>50</b>	
Real Sociedad	Spain	433	91	342	376	
Juventus	Italy	422	429	(8)	(2)	
Nottingham Forest	England	396	257	139	54	
Brentford	England	379	180	199	111	

Source: Transfermarkt 21 November 2023

The value of Borussia Dortmund's first-team squad is currently more balanced (ie not so dependent on the valuation of one player) than it has been in prior years. For example, in our prior Outlook note, Jude Bellingham represented c 20% of the squad's estimated value at that time; in the current squad, four players each have an estimated market values that is 8–9% of the total squad's value. The contracts of six of the current squad of 28 player are due to expire at the end of the current season, including older players such as Mats Hummels and Marco Reus. As might be expected given the club's recruitment strategy, the first-team squad skews to a younger age range: 16 of the 28 players are aged less than 25 years, eight players are between 26 and 30, and four are over 30.

Given the importance of the estimated squad valuation in our overall valuation of the company, and the estimated valuation is that of a third party, we have examined all of Borussia Dortmund's

transfers during the last seven seasons (ie from 2017/18) to determine whether there is any positive or negative bias to the estimate. Over this period the fees realised were c 12% below the estimated market values. The overall result is heavily influenced by lower realised fees on the more significant transfers, particularly the sale of Haaland. In 2023/24 Jude Bellingham was sold for an initial fixed fee of €103m versus an estimated market of €120m, with variable fees to follow that are dependent on sporting success of up to 30% of the initial fixed fee; in 2022/23 Erling Haaland was sold for €60m versus an estimated market value of €150m; and Sancho was sold for €85m versus an estimated market value of €100m in 2021/22. It is difficult to determine whether the estimated valuations were unrealistic or there were special circumstances around the transfers that enabled the purchasing clubs to get a genuine bargain. Haaland's purchase price by Manchester City looks relatively low given his impact on the team and when compared to the fees paid by other Premier League clubs for players that have performed less well. Bellingham has made a very promising start at Real Madrid. Conversely, Sancho has struggled to make a significant impact at Manchester United since he joined. We therefore now apply a c 12% discount to the estimated squad valuation in our overall company valuation.

## Management

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- **Chief executive: Hans-Joachim Watzke.** Before his appointment in 2005, Mr Watzke was treasurer of the football club. His contract has been extended to December 2025. He is also the owner-founder of Watex, a leading manufacturer of protective clothing for industrial workers and firefighters.
- **Chief financial officer: Thomas Treß** was appointed second managing director in 2005. He has been responsible for finance since 2006 and is responsible for other parts of the organisation including stadium management and security. His contract has also been extended to June 2025. He was previously a partner at RöfPsPartner, 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 managing director in 2018, having served as sales and marketing director since 2010. His contract has been extended to June 2025. He joined from leading sports marketing agency Sportfive where he served as a team leader at BVB and then as senior VP with nationwide duties.
- **Sporting director: Sebastian Kehl** retired as a player in 2015 having won the Bundesliga title in 2002, 2011 and 2012 with Borussia Dortmund. Following his retirement from playing football he completed a management course with UEFA and acquired his A Licence as a coach. He has been head of the players department since the beginning of the 2018/19 season. His contract as sporting director runs until June 2025.
- **Head Coach: Edin Terzic** was appointed as head coach in May 2022. Having been a player in lower leagues in Germany, he was scout and assistant coach at Borussia Dortmund (2010–13), assistant coach at Beşiktaş (2013–15), assistant coach at West Ham United (2015–17), and returned to Borussia Dortmund as assistant coach in 2018. His contract at Dortmund runs until June 2025.

## Sensitivities

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We view the key sensitivities for Borussia Dortmund as follows:

- The company's financials are dependent on sporting success. A weak performance could cause revenue to fall and affect its ability to attract and retain players and coaches.

Participation in lucrative UEFA competitions cannot be relied on, although the club has qualified regularly.

- The company's financial performance depends on the team's ability to play in competitive and non-competitive games, for example friendlies, both domestically and internationally, and on fans attending games. Any restrictions on the ability to travel and compete in games due to, for example, a pandemic may therefore affect financial performance.
- While serious injuries cannot be anticipated, the club maintains a strong squad and minimises the risk of poor investment in new players by intensive scouting and medical examinations.
- The company competes for a share of disposable consumer income, which may be eroded by economic downturn. However, attendance at home matches is resilient (much the highest in the Bundesliga) and ticket prices are lower than those of leading competitors.
- Dortmund is dependent on the strength and perception of its brand. While damage may impair its ability to attract sponsors, the company invests in its squad and infrastructure to ensure consistent success.
- Long-term contracts with major sponsors provide security independent of sporting performance.
- Dortmund is subject to external governing bodies, such as the Bundesliga, DFB (German Football Association), 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 56.5% of its revenue excluding transfers in FY23, 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

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In the previous sections of the report we have focused on the main growth drivers and revenue streams, so we turn our attention to the drivers of Borussia Dortmund's profitability, cash flow and balance sheet.

Borussia Dortmund has demonstrated a broad improvement in EBITDA profitability over the long term, with growth in personnel expenses (relative to revenue) at the expense of other operating expenses. Depreciation has been a relatively consistent 3–4% of revenue in more recent years, while amortisation, predominantly of the playing squad, has been increasing relative to revenue, reflecting the increased investment in the squad. The company's financial prudence is demonstrated by the generation of a positive operating profit, profit before tax and net income in every financial year since FY10, irrespective of the team's success, except for FY20–22 when restrictions due to the COVID pandemic affected activities.

**Exhibit 14: Summary income statement, as % of revenue**

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24e	FY25e
Cost of materials	(5.5)	(6.6)	(6.9)	(7.9)	(7.8)	(9.1)	(7.9)	(6.4)	(5.7)	(6.0)	(5.9)	(6.4)	(5.8)	(5.6)	(5.5)
Net transfer income	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	22.4	10.8	4.6	17.6	17.3	18.9	15.9
Other operating income	3.1	4.0	1.1	2.0	6.4	1.2	1.3	1.2	2.1	2.5	3.1	6.7	1.6	1.6	1.6
Personnel expenses	(44.4)	(42.3)	(41.9)	(42.1)	(44.7)	(49.9)	(54.2)	(59.6)	(55.4)	(58.1)	(64.5)	(65.8)	(56.5)	(59.9)	(58.6)
Other operating expenses	(39.1)	(37.3)	(38.1)	(34.6)	(37.5)	(45.2)	(40.2)	(62.5)	(32.0)	(32.1)	(25.7)	(29.1)	(27.3)	(28.8)	(26.8)
EBITDA	23.4	31.7	34.5	19.2	21.1	30.8	22.6	43.8	31.3	17.0	11.7	23.0	29.5	26.2	26.5
Depreciation	(6.4)	(5.3)	(4.3)	(3.2)	(3.6)	(3.9)	(3.5)	(3.6)	(3.5)	(3.8)	(4.1)	(3.8)	(3.1)	(3.1)	(3.1)
Normalised operating profit	17.0	26.4	30.3	16.0	17.5	26.9	19.1	40.3	27.9	13.2	7.6	19.2	26.4	23.1	23.5
Amortisation	(6.2)	(4.5)	(4.6)	(8.8)	(12.5)	(11.3)	(15.8)	(21.3)	(17.8)	(23.8)	(27.7)	(24.9)	(21.5)	(19.3)	(18.3)
Exceptionals	0.0	0.0	0.0	0.0	0.0	(2.7)	0.0	(6.5)	(3.7)	(1.1)	(1.4)	(2.6)	(0.9)	0.0	0.0
Operating profit	10.8	21.9	25.7	7.2	5.0	13.0	3.2	12.4	6.3	(11.7)	(21.6)	(8.3)	4.0	3.7	5.2
Profit before tax	6.9	19.3	23.7	5.7	2.3	12.2	2.8	11.1	5.9	(12.6)	(21.9)	(9.5)	2.6	4.6	6.1
Net income	3.9	14.6	20.2	4.7	2.1	10.5	2.5	10.1	4.7	(11.9)	(21.8)	(10.0)	2.3	3.9	5.4

Source: Borussia Dortmund accounts, Edison Investment Research

We draw attention to the 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) from FY19 onwards, which was required by IAS 8.42. Previously, gross amounts for revenue and unamortised costs, etc, were recognised in the income statement. The net effect is that profitability is not affected, but gross revenue and costs for the group, as previously disclosed, are lower. We can see that net transfer income is important to the group's profitability.

**Exhibit 15: Importance of transfer gains to profit**

€m	FY19	FY20	FY21	FY22	FY23	FY24e	FY25e
Net transfer income	82.9	40.2	15.4	61.9	72.5	82.0	72.5
EBITDA	116.0	63.0	39.0	80.8	123.2	113.6	121.3
Profit before tax	21.8	(46.6)	(73.2)	(33.4)	10.8	19.5	27.3

Source: Borussia Dortmund accounts

The company introduced an annual dividend in FY12, initially at €0.06/share, which continued through FY19 before the pandemic led to a rightful focus on preserving cash. In FY23 loss carry forwards/net accumulated losses were offset against the revenue/capital reserves so it can legally once again pay a dividend in future years, provided it generates the necessary net profits. We note there is no company definition of what would constitute the 'necessary net profits'. In the years of prior dividend payments, net profit ranged between c €5m and €51m, therefore management's current guidance for FY24 net profit of €15–25m would suggest a resumption of dividend payments is possible. We assume the company resumes the payment of a dividend of €0.06 per share for FY24.

## FY23 results: Full recovery

Borussia Dortmund produced a strong financial recovery in FY23, exceeding pre-pandemic levels of revenue and profitability, as it enjoyed a first full season since FY19 in which there was no disruption from the pandemic (ie it was able to sell out all games).

Revenue (excluding transfers) grew by c 19% y-o-y to €418m (exceeding FY19's €370m and management's guidance from the start of the year of €394m), EBITDA increased by 47% to €123m (versus FY19's €116m and guidance of €101–106m) and it generated a net profit of c €10m (still slightly below FY19's €17m but above guidance of €2–7m). All revenue streams enjoyed year-on-year growth, which provided good operational gearing on operating costs to give an EBITDA margin of 29.5% (FY22: 23.8%), which compares favourably with more recent pre-pandemic profitability of 31.3% in FY19. The improvement in profitability included the second highest net transfer income (net transfer fees less residual book values of players sold) since the accounting for transfers and



financial disclosure with respect to transfers changed in FY19, reaching €73m versus the previous high of €83m in FY19. This is further evidence that the industry has regained confidence to spend money post the pandemic. For completeness, total operating proceeds of c €516m grew by c 13% y-o-y, exceeding guidance of €489m and the prior peak of c €490m in FY19.

## Q124 results: Phasing differences

Borussia Dortmund's results were influenced by the different phasing of games this season versus the prior season, which had to accommodate the unusual timing of the FIFA World Cup in November-December 2022 instead of the more typical Northern Hemisphere summer. The first team played fewer (three, solely Bundesliga) home games in Q124 than in Q123 (five including four Bundesliga and one Champions League game). Revenue excluding transfers declined by c 2% y-o-y to c €103m (Q123: €104m) with fewer games reflected in lower revenue from match operations, advertising and TV marketing, while merchandising (special edition kit) and conference, catering and miscellaneous revenue increased. The period benefited from net transfer income of c €82m, which includes the gain on the sale of Jude Bellingham versus €62m recognised in Q123 for the sale of Erling Haaland and other players. As a result EBITDA increased by 8% y-o-y to c €79m. The absolute increase in EBITDA of c €6m versus the incremental net transfer income of c €20m was affected by the relative number of games.

## FY24 guidance: Further progress expected

Management introduced FY24 guidance with the publication of its FY23 results, and it was subsequently reiterated at the Q124 results; changes were unlikely given it is still early in the season. At the start of the season, management typically assumes the first team will reach the round of 16 of the Champions League competition. The team has already qualified for the round of 16 of this year's competition, having played five of the six group qualifying games at the date of writing. In the event of not reaching the round of 16, Borussia Dortmund would naturally generate lower revenues, although still with the potential to earn revenue from the Europa League competition, and there would be lower operating costs such as personnel costs due to lower player bonuses given they were less successful.

The FY24 guidance is for total operating proceeds of €538m, revenue (excluding transfers) of €427m, EBITDA of €104–114m, operating profit of €15–25m and net income of €15–25m.

A summary of our updated forecasts for FY24 and new forecasts for FY25 is shown in the following table:

<b>Exhibit 16: New forecasts</b>				
€m	FY24e new	FY25e new	FY24e old	FY24e change
Revenue	433.6	457.0	420.5	3%
– Match Operations	45.6	46.9	46.2	(1%)
– Advertising	145.1	148.0	141.7	2%
– TV Marketing	164.8	180.8	159.4	3%
– Merchandising	34.4	35.4	33.4	3%
– Conference, Catering & Miscellaneous	43.7	45.8	41.5	5%
Net transfer income	82.0	72.5	105.0	(22%)
Personnel expenses	(259.8)	(267.6)	(231.1)	12%
Other operating expenses	(124.8)	(122.6)	(112.8)	11%
EBITDA	113.6	121.3	165.2	(31%)
Operating profit	16.3	23.6	57.3	(72%)
PBT reported	19.7	27.7	57.0	(65%)

Source: Edison Investment Research

Our new FY24 profit estimate includes a lower forecast net transfer income of c €82m (already recognised in Q124), versus €105m previously, and higher personnel and other operating expenses, offsetting upgrades to revenue estimates. In the absence of greater clarity on the new

distributions for the Champions League for the FY25 season, we assume c 5% y-o-y revenue growth to €457m and c 7% EBITDA growth to c €121m.

## Cash flow: Variable

The company has generated positive operating cash flow in every year except FY20 since FY06. Free cash flow has been a bit more variable given the variability of player transfer fees, but has mainly been positive over the long term. The variability of Borussia Dortmund's operating and free cash flow in more recent years, including the negative influences from the COVID-19 pandemic, are shown below:

<b>Exhibit 17: Cash generation, relative to revenue (%)</b>										
	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24e	FY25e
Operating cash flow	13.0	34.2	55.5	8.1	0.8	5.2	10.1	13.3	6.7	10.1
- PBT	12.2	2.8	11.1	5.9	(12.6)	(21.9)	(9.5)	2.6	4.6	6.1
- Depreciation and amortisation	17.9	19.3	31.4	24.3	28.7	33.2	31.3	25.4	22.5	21.4
- Loss/gain on sale of assets	(26.3)	0.0	2.4	(26.2)	(12.3)	(4.9)	(23.2)	(18.0)	(21.9)	(18.8)
- Other assets and liabilities	10.3	9.6	(3.0)	1.5	(4.9)	(2.1)	4.6	2.1	0.1	0.1
Investing cash flow	(10.5)	(31.9)	(45.6)	(6.3)	(13.7)	(18.6)	(14.6)	(18.3)	(10.5)	1.3
- Capex	(3.4)	(2.5)	(2.3)	(2.7)	(1.7)	(1.0)	(0.5)	(5.1)	(3.5)	(1.3)
- Investment in intangibles	(12.4)	(29.4)	(43.3)	(35.0)	(41.3)	(26.4)	(22.6)	(30.2)	(20.8)	(19.7)
- Sale of intangibles	5.3	0.0	0.0	31.3	29.2	8.9	8.5	17.0	11.3	19.9
Free cash flow	2.0	1.7	8.8	1.4	(13.8)	(13.8)	(4.6)	(5.3)	(5.4)	9.9

Source: Borussia Dortmund accounts, Edison Investment Research

In the next section we show how changes in receivables and payables from transfers have affected cash flow.

In FY23, management surpassed its guidance for operating cash flow (ie after net interest payments), reporting c €54m, a good improvement from FY22's c €35m and versus initial guidance of €45m. Free cash flow came in at an outflow of c €22m versus management's budget of zero.

Management is expecting lower cash generation in FY24, with expected net operating cash flow of €32m and a free cash outflow of €26m.

## Balance sheet: Typically conservative

Over the long term the company's balance sheet has become increasingly 'conservative' given management's preference for no or limited debt. Prior to the COVID pandemic the company had a net cash position since FY16 but the disruption to activities caused by the pandemic led to it taking on some debt. The company's financial position has improved since the depths of the pandemic, helped by the October 2021 equity raise. Net debt peaked at c €94m in Q121. By the end of Q124, the company had net debt of c €18m, marginally lower than the end FY23 position of c €30m.

The balance sheet is asset heavy, specifically intangibles, which is predominantly the playing squad, and tangibles, which is predominantly the stadium and training infrastructure. At the end of Q124, the net book value of intangibles was €237m and tangibles was €184m from total net assets of €335m.

Other important items on the balance sheet include debtors and creditors with respect to transfers, which are split between current and long term. There has been a notable increase in both since FY16, which should be expected given the general trend to higher transfer fees in the overall market. The figures are likely affected by different payment terms on each transfer. The changes from one financial year-end to another can have an important impact on the company's cash generation: note the significant increase in total receivables from FY21 to FY22 and then again to FY23; an increase in receivables negatively affects cash generation as does a reduction in payables.

**Exhibit 18: Trade payables and receivables**

€m	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY22R*	FY23
Total trade receivables	85.5	59.0	62.6	39.8	49.2	40.3	105.4	105.4	125.5
Short-term trade receivables	34.4	10.3	39.7	9.7	12.7	10.4	59.5	59.5	87.2
Long-term trade receivables	51.1	48.8	23.0	30.1	36.5	29.9	45.8	45.8	38.2
Includes transfer receivables	80.1	49.5	55.3	32.6	33.2	22.2	86.9	86.9	105.2
Change in total receivables		(26.4)	3.6	(22.8)	9.4	(8.9)	65.0	65.0	20.1
Total trade payables	18.1	64.1	64.3	62.2	137.1	101.4	98.5	109.3	132.9
Short-term trade payables	14.6	63.6	54.6	60.7	67.4	64.1	69.0	75.6	86.0
Long-term trade payables	3.4	0.5	9.7	1.5	69.6	37.3	29.6	33.6	46.8
Includes transfer payables	2.5	50.5	55.5	48.5	120.3	87.7	87.4	98.1	113.2
Change in total payables		(46.0)	(0.3)	2.2	(74.9)	35.7	2.8	N/A	(23.6)

Source: Borussia Dortmund accounts, Edison Investment Research. Note: \*R is restated.

## Valuation

Our preferred valuation method for Borussia Dortmund is an asset-backed SOTP approach, which incorporates the unrealised value of the football squads and the brand name. We also compare its valuation multiples to its quoted peers, a relatively small universe of companies, and its own trading history.

### SOTP valuation: Significant discount persists

Our updated valuation of €10.63 per share represents significant upside from the current share price of €3.63.

**Exhibit 19: SOTP valuation**

	€m	Per share (€)	Comments
Value of squad	356.1	3.23	Per Transfermarkt.com less discount of 25%
Brand value	651.6	5.90	Brand Finance (May 2018) \$587m plus premium of 21%
Stadium	184.0	1.67	Net book value at 30 September 2023
Enterprise value	1,191.8	10.80	
Net cash/ (debt)	(17.9)	(0.16)	
<b>Equity value</b>	<b>1,173.9</b>	<b>10.63</b>	
Shares (m)	110.4		
Current share price		3.63	
Premium to current share price		193%	

Source: Edison Investment Research

To the estimated market values for all Borussia Dortmund's football squads we apply a discount of 25%, to allow for the average transfer costs paid since FY19 (13%) and to allow for possible overestimation of market values by Transfermarkt.com of c 12% (see page 13). To the last quoted brand valuation from May 2018 we apply a premium based on the movements in market values of other quoted clubs since that time (see Exhibit 20), which have been helped by the recent changes at Manchester United. We would highlight the current share price of €3.63 compares with the combined estimated value of the squad and stadium of €4.90 above.

## Peer group: Significant discount

A comparison of Borussia Dortmund's valuation with its peers shows that it is trading at a significant discount.

**Exhibit 20: Peer valuations**

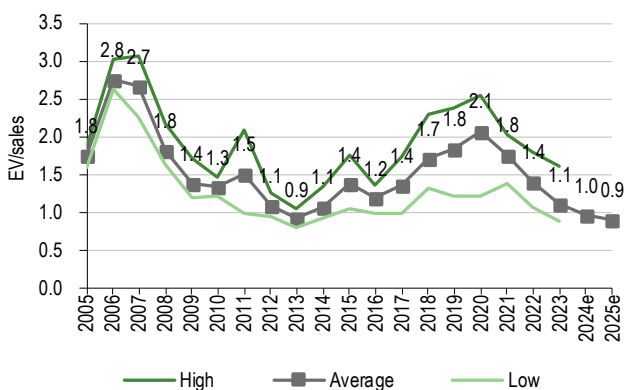
	Year end	Ccy	Share price	Market value (local)	Market value 31 May 2018 (local)	Change	EV/sales June '24	EV/sales June '25	EV/EBITDA June '24	EV/EBITDA June '25
Ajax	Jun	€	10.75	198	221	(11%)	N/A	N/A	N/A	N/A
Juventus	Jun	€	0.25	637	595	7%	2.4	1.6	48.2	6.8
Manchester United	Jun	\$	19.51	3,216	3,440	(7%)	4.6	4.3	17.2	15.5
Olympique Lyonnais	Jun	€	2.02	348	178	96%	2.3	2.7	19.1	32.2
<b>Average – football club</b>						<b>21%</b>	<b>3.1</b>	<b>2.9</b>	<b>28.2</b>	<b>18.2</b>
Madison Square Garden	Jun	\$	170.8	4,088	6,201	(34%)	5.0	4.8	44.9	43.7
World Wrestling Entertainment	Dec	\$	73.8	12,761	4,467	186%	6.8	4.9	17.1	10.9
<b>Average – other sports/ entertainment</b>						<b>76%</b>	<b>5.9</b>	<b>4.8</b>	<b>31.0</b>	<b>27.3</b>
Borussia Dortmund	Jun	€	3.63	401	542	(26%)	1.0	0.9	3.7	3.5
Premium/(discount) to average football club							(69%)	(68%)	(87%)	(81%)
Premium/(discount) to average other sports/entertainment							(84%)	(81%)	(88%)	(87%)

Source: Refinitiv, Edison Investment Research. Note: Priced 8 December 2023.

## Borussia Dortmund's long-term valuation

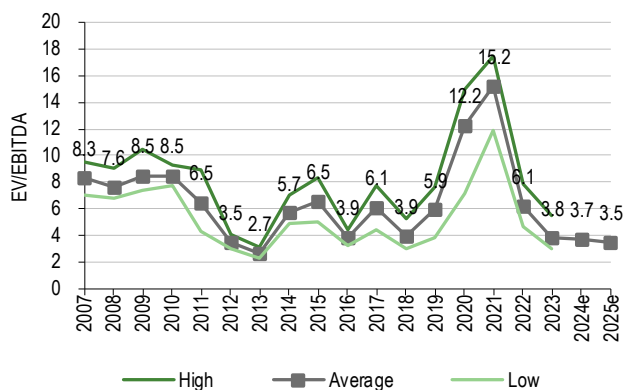
Below we show Borussia Dortmund's prospective EV/sales and EV/EBITDA (current EV) multiples for FY24e and FY25e versus historical multiples (historical enterprise values) with the high, average (quoted) and low multiples shown for each year. We exclude FY05 and FY06 from the EV/EBITDA charts as the company was emerging from its financial troubles and was either loss-making (FY05) or generating low EBITDA (FY06) and therefore valued on much higher multiples, which are less representative.

**Exhibit 21: EV/sales multiples**



Source: Refinitiv, Edison Investment Research. Note: Priced 8 December 2023.

**Exhibit 22: EV/EBITDA multiples**



Source: Refinitiv, Edison Investment Research. Note: Priced 8 December 2023.

Borussia Dortmund's EV/sales multiples of 1.0x for FY24e and 0.9x for FY25e are a large discount to the long-run average of 1.6x, and a little above its typical low multiples of 0.9–1.3x since FY15.

The prospective EV/EBITDA multiples for FY24e and FY25e of 3.7x and 3.5x are well below the long-run average (since FY07) of 6.7x, which is skewed by the high valuations of FY20 and FY21 when profitability was affected by the COVID-19 pandemic. The above would suggest potential for strong share price performance, even with only a normalisation to prior average multiples.

**Exhibit 23: Financial summary**

	€m	2020	2021	2022R	2023	2024e	2025e
Year end 30 June		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>							
Revenue		370.2	334.2	351.6	418.2	433.6	457.0
Cost of Sales		(22.4)	(19.6)	(22.6)	(24.1)	(24.3)	(25.1)
Gross Profit		347.8	314.6	329.0	394.1	409.3	431.8
EBITDA		63.0	39.0	83.8	123.2	113.6	121.3
Operating profit (before amort. and excepts.)		49.1	25.3	70.5	110.3	100.0	107.3
Amortisation of acquired intangibles		(88.3)	(92.6)	(87.4)	(89.7)	(83.8)	(83.8)
Exceptionals		(3.9)	(4.8)	(9.1)	(3.6)	0.0	0.0
Reported operating profit		(43.1)	(72.1)	(26.0)	16.9	16.3	23.6
Net Interest		(3.4)	(1.1)	(4.2)	(6.1)	3.5	4.2
Joint ventures & associates (post tax)		(0.0)	0.1	0.1	0.0	0.0	0.0
Profit Before Tax (norm)		45.6	24.3	66.3	104.1	103.5	111.5
Profit Before Tax (reported)		(46.6)	(73.2)	(30.2)	10.8	19.7	27.7
Reported tax		2.6	0.3	(1.7)	(1.2)	(3.0)	(3.0)
Profit After Tax (norm)		30.6	16.3	64.6	70.0	69.6	74.9
Profit After Tax (reported)		(44.0)	(72.8)	(31.9)	9.6	16.7	24.7
Minority interests		0.0	0.0	0.0	0.0	0.0	0.0
Net income (normalised)		30.6	16.3	64.6	70.0	69.6	74.9
Net income (reported)		(44.0)	(72.8)	(31.9)	9.6	16.7	24.7
Average Number of Shares Outstanding (m)		92.0	92.0	105.6	110.4	110.4	110.4
EPS - normalised (c)		33.3	17.7	61.2	63.4	63.0	67.9
EPS - normalised fully diluted (c)		33.3	17.7	61.2	63.4	63.0	67.9
EPS - basic reported (€)		(0.48)	(0.79)	(0.30)	0.09	0.15	0.22
Dividend (€)		0.00	0.00	0.00	0.00	0.06	0.06
Revenue growth (%)		(0.0)	(9.7)	5.2	18.9	3.7	5.4
Gross Margin (%)		94.0	94.1	93.6	94.2	94.4	94.5
EBITDA Margin (%)		17.0	11.7	23.8	29.5	26.2	26.5
Normalised Operating Margin (%)		13.2	7.6	20.0	26.4	23.1	23.5
<b>BALANCE SHEET</b>							
Fixed Assets		441.5	389.8	361.9	440.7	481.3	461.2
Intangible Assets		229.7	193.4	127.8	169.7	159.9	147.8
Tangible Assets		193.0	183.5	172.5	182.3	183.6	175.7
Investments & other		18.8	12.9	61.6	88.8	137.8	137.8
Current Assets		76.5	60.7	96.6	71.1	43.1	77.2
Stocks		6.8	6.8	4.4	5.4	5.4	5.4
Debtors		36.5	29.9	45.8	38.2	38.6	39.0
Cash & cash equivalents		3.3	1.7	10.6	4.5	(23.9)	9.8
Other		29.9	22.2	35.7	22.9	22.9	22.9
Current Liabilities		(122.6)	(163.6)	(137.3)	(161.0)	(161.9)	(169.4)
Creditors		(110.2)	(100.1)	(132.6)	(144.5)	(145.3)	(146.2)
Tax and social security		(0.0)	(0.0)	(0.0)	(1.1)	(1.1)	(1.1)
Short term borrowings		(8.0)	(56.9)	0.0	(12.8)	(12.8)	(12.8)
Finance leases		(4.4)	(4.2)	(4.6)	(2.6)	(2.6)	(2.6)
Other		0.0	(2.3)	0.0	0.0	0.0	(6.6)
Long Term Liabilities		(89.9)	(54.3)	(48.0)	(68.1)	(63.1)	(58.1)
Long term borrowings		0.0	0.0	0.0	(8.8)	(8.8)	(8.8)
Finance leases		(20.1)	(16.8)	(12.5)	(10.4)	(5.4)	(0.4)
Other long term liabilities		(69.9)	(37.5)	(35.5)	(48.9)	(48.9)	(48.9)
Net Assets		305.4	232.6	273.2	282.7	299.4	310.9
Minority interests		0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' equity		305.4	232.6	273.2	282.7	299.4	310.9
<b>CASH FLOW</b>							
Operating Cash Flow		59.5	37.9	79.6	117.1	117.1	125.5
Working capital		(18.0)	(6.9)	12.7	8.9	0.5	0.5
Exceptional & other		(38.9)	(13.6)	(56.9)	(70.5)	(85.5)	(76.7)
Tax		0.3	0.0	0.0	0.0	(3.0)	(3.0)
Net operating cash flow		3.0	17.4	35.4	55.5	29.1	46.3
Capex		(6.1)	(3.4)	(1.7)	(21.4)	(15.0)	(6.0)
Net investment in intangibles		(44.6)	(58.6)	(49.4)	(55.3)	(41.0)	0.8
Acquisitions/disposals		0.0	0.0	0.0	0.0	0.0	0.0
Net interest		(3.3)	(1.4)	(0.3)	(1.1)	3.5	4.2
Equity financing		0.0	0.0	86.5	0.0	0.0	0.0
Dividends		(5.5)	0.0	0.0	0.0	0.0	(6.6)
Other		(3.9)	52.5	(61.6)	16.3	(5.0)	(5.0)
Net Cash Flow		(60.6)	6.4	8.8	(6.1)	(28.4)	33.7
Opening net debt/(cash)		(44.4)	29.1	76.2	6.6	30.1	58.5
Other non-cash movements		(12.9)	(53.6)	60.8	(17.4)	0.0	0.0
Closing net debt/(cash)		29.1	76.2	6.6	30.1	58.5	24.8

Source: Borussia Dortmund accounts, Edison Investment Research. Note: R is restated.

<b>Contact details</b> 11 Rheinlanddamm 207–209 D-44137 Dortmund Germany +49 (0) 231 90 20 745 <a href="http://www.bvb.de/aktie">www.bvb.de/aktie</a>	<b>Revenue by geography</b> N/A
<b>Management team</b>	
<b>Chief executive: Hans-Joachim Watzke</b> Before his appointment in 2005, Mr Watzke had been treasurer of the football club for four years. His contract as CEO runs to December 2025. He is also the owner-founder of Watex, a leading manufacturer of protective clothing for industrial workers and firefighters.	<b>Chief financial officer: Thomas Treß</b> Thomas Treß was appointed second managing director in 2005 and has been responsible for finance since the start of 2006. His contract has been extended to June 2025. He was previously a partner at RöfIsPartner, one of the leading business consultancies in Germany. He was awarded CFO of the year 2013 by the German Finance Magazin.
<b>Managing director: Carsten Cramer</b> Carsten Cramer joined the board in 2018, having served as sales and marketing director since 2010. He was previously at leading sports marketing agency Sportfive where he served as a team leader at BVB and then as senior VP with nationwide duties.	
<b>Managing director: Carsten Cramer</b> Bernd Geske Evonik Industries Signal Iduna Puma Ralph Dommermuth Beteiligungen Ballspielverein Borussia 09 e.V. Dortmund	<b>(%)</b> 8.2 8.2 6.0 5.3 5.0 4.6

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