

Borussia Dortmund

Annual report

Warming up

A broadly positive start to the season both at home and in the Champions League confirms coach Tuchel's successful record of squad development after high-profile departures. Renewed strength in depth and typically attractive style of play complement escalating scope for transfer gains. Despite inflationary wage pressure we still look for a doubling this year in pre-transfer EBITDA (our key metric), albeit from a reduced base (FY16 pre-transfer EBITDA was slightly below our expectations). A new lucrative deal on Bundesliga media rights drives FY18 growth prospects, assuming continued Champions League. Finances remain impressively disciplined.

Year end	Revenue* (€m)	EBITDA* (€m)	PBT** (€m)	EPS** (€)	DPS (€)	EV/EBITDA (x)
06/15	263.6	48.0***	44.2***	0.43***	0.05	8.8
06/16	281.3	15.3	73.8	0.68	0.06	27.5
06/17e	307.0	30.0	51.0	0.47	0.06	13.6
06/18e	340.0	42.0	66.0****	0.61****	0.06	9.1

Note: *Before player transfer income. **PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. ***Including insurance claim benefit (our estimate €12m). ****Assuming €37m player transfer profit.

Q4: Success at a price

Dortmund ended the year well with Q4 pre-transfer revenue up 13% on the back of Europa League involvement, Champions League qualification and a return to the German Cup Final. However, also as expected, costs were again an issue, hence pre-transfer EBITDA reduced to €1m from €4m in Q415, as adjusted for a 'negative outcome' insurance claim. This is attributed to pressures associated with key player retention and variable expenses, eg player bonuses, advertising agency commissions and match operations. For the full year, advertising was especially buoyant (+12%) thanks to on-field success and a growing presence in Asia.

Profit growth to resume

Our forecasts, detailed on page 2, are notable for strong revenue generation from renewed Champions League access and a new Bundesliga broadcasting deal from FY18. On the other hand, labour costs are also set to continue to rise sharply; after +19% last year we now assume +14% in the current period, which explains our pre-transfer EBITDA downgrade from €35m, and +10% next year. Our forecast FY18 PBT and EPS reflect transfer gains, which are notional but reasonable, given the company's record and significant surplus of market value to net player assets (c €165m if the June 2016 carrying value of €65m plus estimated subsequent spend of c €110m is set against the current www.transfermarkt.de valuation of €340m).

Valuation: Possible breakout

The market's positive appreciation of Dortmund rebuilding and a possible step-change in profit is welcome, albeit early days. Even after recent share price buoyancy, an EV/EBITDA of 9.1x FY18e does not fully recognise the long-term potential of powerful brand development, valuable media rights and strong cash flow, backed by season ticket sales and hidden reserves from player investment.

Travel & leisure

5 October 2016

Price €4.90

Market cap €451m

Net cash (€m) at June 2016 including finance leases 30.1

Shares in issue 92.0m

Free float 60.5%

Code BVB

Primary exchange Frankfurt

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 15.5 21.3 24.0

Rel (local) 16.5 12.9 10.6

52-week high/low €4.59 €3.59

Business description

The group operates Borussia Dortmund, a leading German football club, runners-up in the 2015/16 Bundesliga and competing in this season's UEFA Champions League (quarter-finalists in 2015/16 UEFA Europa League).

Next events

Edison London roadshow 6 October 2016

Q1 results 11 November 2016

AGM 21 November 2016

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Exhibit 1: Revenue and profit analysis

Year end June (€m)	2015	H116	Q316	Q416	FY16	FY17e	FY18e
Home matches							
Bundesliga	17	8	5	4	17	17	17
Champions League	4	-	-	-	-	4**	4**
Europa League	-	3+2qual.	2	1	6+2qual.	-	-
DFB Cup	1	1	-	-	1	2***	2***
Super Cup	1	-	-	-	-	1	1
Away matches:							
Champions League	4	-	-	-	-	4**	4**
Europa League	-	3+2qual.	2	1	6+2qual.	-	-
DFB Cup	4+Final	2	1	1+Final	4+Final	2***	2***
Revenue							
Match operations:							
Bundesliga	26.8	12.9e	7.9e	6.4e	27.1	27.1	27.5
Champions League	7.4	-	-	-	-	7.9	8.0
Europa League	-	7.5e	4.0e	1.9e	13.4	-	-
DFB Cup / Super Cup	4.4	1.3e	0.5e	1.9e	3.7	3.5	3.5
Other	1.3	1.8e	0.3e	0.4e	2.5	3.0	3.0
Total	39.9	23.5	12.7	10.6	46.8	41.5	42.0
TV marketing:							
Bundesliga	43.6	30.0	14.9	15.9	60.8	65.0	90.0
Champions League	32.5	3.2	-	-	3.2	40.0	43.0
Europa League	-	8.3	2.3	3.4	14.0	-	-
DFB Cup / Super Cup	6.0	0.7	0.7	3.0	4.4	4.0	4.0
Total	82.1	42.2	17.9	22.5	82.6	109.0	137.0
Advertising	75.7	40.0	20.0	24.6	84.6	87.0	89.5
Merchandising	39.3	24.4	7.4	8.0	39.8	41.0	42.5
Catering/other	26.6	13.3	6.2	8.0	27.5	28.5	29.0
Total	263.6	143.5	64.2	73.6	281.3	307.0	340.0
Other operating income	17.0*	1.9	0.5	1.1	3.5	4.0	4.0
Labour costs	(117.9)	(66.1)	(35.0)	(39.1)	(140.2)	(160.0)	(176.0)
Share of revenue	45%	46%	54%	53%	50%	52%	52%
Material costs	(20.7)	(14.5)	(5.2)	(6.0)	(25.7)	(27.0)	(28.0)
Other operating costs	(94.0)	(53.0)	(22.0)	(28.6)	(103.6)	(94.0)	(98.0)
EBITDA before transfers	48.0	11.8	2.5	1.0	15.3	30.0	42.0
Margin	18%	8%	4%	1%	5%	10%	12%
Profit on disposal of players	7.6	13.7	(0.3)	58.0	71.4	33.0****	37.0*****
Transfer income	12.4	24.7	8.2	62.1	95.0	42.0	50.0
Less: Carrying value/selling costs	(4.8)	(11.0)	(8.5)	(4.1)	(23.6)	(9.0)	(13.0)

Source: Edison Investment Research. Note: *Including €12m insurance claim benefit (our estimate). **Assuming exit in Round of 16. ***Assuming exit in quarter-final. ****Predominantly on disposal of Mkhitarian. *****Notional (assumed average of transfer profit in FY15, FY16 and FY17e).

Exhibit 2: Financial summary

	€'000s	2015	2016	2017e	2018e
June		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		263,600	281,600	307,000	340,000
EBITDA		48,000*	15,300	30,000	42,000
Player transfers		7,600	71,400	34,000	37,000
Operating Profit (before amort. and except.)		46,100	75,900	53,000	68,000
Intangible Amortisation		(32,900)	(32,000)	(50,000)	(53,000)
Exceptionals		0	(7,500)***	0	0
Other		0	0	0	0
Operating Profit		13,200	36,400	3,000	15,000
Net Interest		(1,900)	(2,100)	(2,000)	(2,000)
Other financial items		(5,300)**	0	0	0
Profit Before Tax (norm)		44,200	73,800	51,000	66,000
Profit Before Tax (FRS 3)		6,000	34,300	1,000	13,000
Tax		(500)	(4,900)	(200)	(1,500)
Profit After Tax (norm)		43,700	68,900	50,800	64,500
Profit After Tax (FRS 3)		5,500	29,400	800	11,500
Average Number of Shares Outstanding (m)		87.3	92.0	92.0	92.0
EPS - normalised (c)		42.7	68.2	47.1	61.0
EPS - (IFRS) (c)		6.0	32.0	0.9	12.5
Dividend per share (c)		5.0	6.0	6.0	6.0
EBITDA Margin (%)		18.2	5.4	9.8	12.4
Operating Margin (before GW and except.) (%)		17.5	27.0	17.3	20.0
BALANCE SHEET					
Fixed Assets		289,500	302,800	311,000	245,000
Intangible Assets		96,300	65,300	120,000	55,000
Tangible Assets		189,500	188,400	187,000	186,000
Investments		3,700	49,100	4,000	4,000
Current Assets		97,000	121,800	111,500	182,500
Stocks		9,400	10,200	11,000	12,000
Debtors		29,700	51,100	32,000	76,000
Cash		53,700	51,700	64,500	90,500
Other		4,200	8,800	4,000	4,000
Current Liabilities		(61,600)	(78,800)	(78,500)	(79,500)
Creditors		(59,100)	(76,200)	(76,000)	(77,000)
Short term borrowings		0	0	0	0
Finance leases		(2,500)	(2,600)	(2,500)	(2,500)
Long Term Liabilities		(38,800)	(36,200)	(38,000)	(36,000)
Long term borrowings		0	0	0	0
Finance leases		(21,600)	(19,000)	(19,000)	(19,000)
Other long term liabilities		(17,200)	(17,200)	(19,000)	(17,000)
Net Assets		286,100	309,600	306,000	312,000
CASH FLOW					
Operating Cash Flow		24,400	44,400	30,000	42,000
Net Interest		(7,200)	(1,400)	(400)	(300)
Tax		(200)	(300)	(2,000)	(200)
Capex		(10,400)	(9,400)	(10,200)	(10,000)
Acquisitions/disposals		(61,700)	(20,500)****	1,000*****	0
Financing		135,700	(7,700)	0	0
Dividends		(6,100)	(4,600)	(5,500)	(5,500)
Net Cash Flow		74,500	500	12,900	26,000
Opening net debt/(cash)		44,900	(29,600)	(30,100)	(43,000)
Finance leases initiated		0	0	0	0
Other		0	0	0	0
Closing net debt/(cash)		(29,600)	(30,100)	(43,000)	(69,000)

Source: Company accounts/Edison Investment Research Note: *Including estimated c €12m insurance claim benefit. **Early repayment of financial liabilities. ***Player asset write-down. ****Including acquisitions of Castro, Bürki and Weigl and disposals of Kampl, Immobile and Hofmann. *****including acquisitions of Schürle, Götze, Dembélé, Rode, Guerreiro, Bartra and Mor and disposals of Mkhitarjan, Hummels and Gündogan NB valuations estimated by www.transfermarkt.de.

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