

# Borussia Dortmund

Half-year results

Das Wunder von Dortmund is still alive

The recent dip in form (one win in eight games) risks distracting from Borussia Dortmund's highly successful season with a new head coach and a developing squad. While disappointment is understandable, given raised expectations, the share price upset (down over 25% from its November peak) appears exaggerated as Dortmund (BVB) remains well-placed for its Bundesliga title challenge and has already all but secured Champions League participation for next season, its overriding KPI. Moreover, we are now raising forecasts to reflect the buoyancy of international TV marketing and January's bumper transfer of Pulisic. Transfermarkt.de's new €45m upgrade in squad valuation, highlighted by Sancho (18) as most valuable Bundesliga player (€80m), suggests more to come, reinforcing EV/EBITDA of under 6x FY19e as unbecoming of BVB's brand and financial strengths.

Year end	Revenue* (€m)	EBITDA (€m)	PBT** (€m)	EPS** (€)	DPS (€)	EV/EBITDA (x)
06/17	328.4	74.1	61.1	0.56	0.06	8.6
06/18	313.3	126.6	111.2	1.03	0.06	4.9
06/19e	365.0	105.0	94.0	0.87	0.06	5.9
06/20e	378.0	110.0	100.0	0.92	0.06	5.7

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

## Q2 step change in EBITDA

Admittedly against a weak comparative, the three months to December saw an impressive 41% increase in pre-transfer revenue, driven by sporting success, ie 10 Bundesliga wins against two and top of Champions League group table compared with just two points last time, and a favourable y-o-y fixture pattern (10 home games vs seven). This led to a near doubling in TV marketing income from European competition, boosted by some residual from the previous year, which is customary. On-field buoyancy also permeated advertising, up 6% thanks to Champions League knockout bonuses in addition to the benefit of newly enhanced virtual advertising to international audiences, and merchandising, up 8% in otherwise sluggish conditions. Notwithstanding the absence of severance costs related to the previous coach's set-up, the rise in EBITDA (from €2m to €31m) was striking in the face of understandably persistent wage pressure (+11%).

## Strong across the board

The changes to our forecasts, detailed on page 2, relate mainly to player transfers and TV marketing. The €18m EBITDA upgrade for the current year reflects the €64m transfer of Pulisic to Chelsea (no change in our c €25m allowance for end of season dealings) and €15m higher TV marketing revenue than we had expected.

## Valuation: Asset-rich

Transfermarkt.de's new Bundesliga player valuation (€602m) provides a respected pointer to Dortmund's hidden reserves (c €400m surplus of market value to net player assets). Admittedly notional and at possible sporting cost, this is a welcome buttress to our forecasts, given the increasing reliance on transfers.

Travel & leisure

8 March 2019

Price **€7.25**

Market cap **€667m**

Net cash (€m) at December 2018 including finance leases 3.1

Shares in issue 92.0m

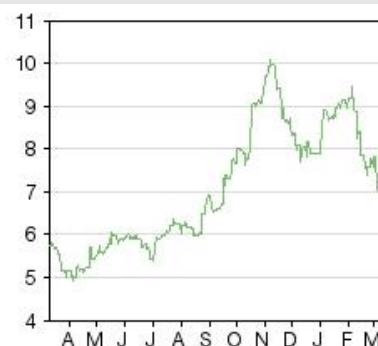
Free float 60.1%

Code BVB

Primary exchange FRA

Secondary exchange N/A

## Share price performance



%	1m	3m	12m
Abs	(18.7)	(10.3)	22.2
Rel (local)	(22.2)	(16.0)	29.9
52-week high/low		€10.1	€4.9

## Business description

The group operates Borussia Dortmund, a leading German football club, DFB Cup winners in 2016/17 and Round of 16 participants in this season's UEFA Champions League (quarter-finalists in 2016/17).

## Next events

Edison roadshows, New York	12/13 March 2019
Bundesliga vs Bayern Munich	6 April 2019
Q3 results	15 May 2019

## Analysts

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## Revenue and profit analysis

Exhibit 1: Revenue and profit analysis									
Year end June (€m)	Q118	Q218	H218	FY18	Q119	Q219	H219e	FY19e	FY20e
<b>Home matches:</b>									▲
Bundesliga	3	5	9	17	3	6	8	17	17
Champions League	1	2	-	3	-	3	1	4	4
Europa League	-	-	2	2	-	-	-	-	-
Domestic cups	1	-	-	1	-	1	1	2	2
<b>Away matches:</b>									
Champions League	1	2	-	3	1	2	1	4	4
Europa League	-	-	2	2	-	-	-	-	-
Domestic cups	1	2	-	3	1	-	-	1	3
<b>Revenue</b>									
<b>Match operations:</b>									
Bundesliga	4.8e	8.3e	14.3e	27.4	4.8	10.0e	13.0e	27.8	28.0
Champions League	2.0e	3.8e	-	5.8	-	6.0e	2.2e	8.2	8.2
Europa League	-	-	3.3	3.3	-	-	-	-	-
Domestic cups	1.2e	0.8e	0.2e	2.2	0.1	0.6e	0.9e	1.6	3.5
Other	2.6e	0.2e	0.7e	3.5	5.8	0.1e	0.5e	6.4	6.3
<b>Total</b>	<b>10.6</b>	<b>13.2</b>	<b>18.5</b>	<b>42.3</b>	<b>10.7</b>	<b>16.7</b>	<b>16.6</b>	<b>44.0</b>	<b>46.0</b>
<b>TV marketing:</b>									
Bundesliga	21.6	21.8	44.6	88.0	24.5	23.9	49.6	98.0	103.0
Champions League	18.9	9.2	-	28.1	22.3	34.4	13.3	70.0	70.0
Europa League	-	-	3.6	3.6	-	-	-	-	-
Domestic cups	1.8	0.8	-	2.6	0.2	0.3	0.5	1.0	4.0
<b>Total</b>	<b>42.3</b>	<b>31.8</b>	<b>48.2</b>	<b>122.3</b>	<b>47.0</b>	<b>58.6</b>	<b>63.4</b>	<b>169.0</b>	<b>177.0</b>
Advertising	21.3	23.9	48.8	94.0	21.1	25.4	50.5	97.0	99.0
Merchandising	8.7	10.7	10.1	29.5	6.6	11.6	9.8	28.0	28.0
Catering/other	5.8	7.2	12.2	25.2	5.8	10.2	11.0	27.0	28.0
<b>Revenue before transfers</b>	<b>88.7</b>	<b>87.0</b>	<b>137.6</b>	<b>313.3</b>	<b>91.1</b>	<b>122.5</b>	<b>151.3</b>	<b>365.0</b>	<b>378.0</b>
Transfers	136.1*	-	86.6**	222.7	41.0***	1.4	87.6****	130.0	130.0
<b>Total revenue</b>	<b>224.8</b>	<b>87.0</b>	<b>224.2</b>	<b>536.0</b>	<b>132.1</b>	<b>123.9</b>	<b>238.9</b>	<b>495.0</b>	<b>508.0</b>
Other operating income	0.5	2.3	1.1	3.9	0.7	3.5	0.8	5.0	4.5
Labour costs	(43.9)	(50.4)	(92.4)	(186.7)	(45.3)	(56.0)	(98.7)	(200.0)	(210.0)
Material costs	(5.6)	(6.7)	(7.8)	(20.1)	(4.5)	(7.1)	(7.4)	(19.0)	(19.5)
Other operating costs	(94.4)	(29.8)	(82.3)	(206.5)	(60.3)	(33.0)	(82.7)	(176.0)	(173.0)
<b>EBITDA</b>	<b>81.4</b>	<b>2.5</b>	<b>42.7</b>	<b>126.6</b>	<b>22.8</b>	<b>31.3</b>	<b>50.9</b>	<b>105.0</b>	<b>110.0</b>

Source: Edison Investment Research. Note: ▲ Assuming Champions League round of 16 and DFB Cup semi-final. \*Including disposals of Dembélé, Bender, Merino and Mor. \*\*Including disposals of Aubameyang and Bartra. \*\*\*Including disposals of Sokratis and Yarmolenko. \*\*\*\*Including disposal of Pulisic.

**Exhibit 2: Financial summary**

	€'000s	2017	2018	2019e	2020e
June year-end		IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>					
Revenue		405,700	536,000	495,000	508,000
EBITDA		74,100	126,600	105,000	110,000
Operating Profit (before amort. and except.)		62,600	115,500	94,000	99,000
Intangible Amortisation		(51,900)	(59,000)	(65,000)	(68,000)
Exceptionals		0	(20,400)	0	0
Other		0	0	0	0
Operating Profit		10,700	36,100	29,000	31,000
Net Interest		(1,500)	(4,300)	0	1,000
Other financial items		0	0	0	0
Profit Before Tax (norm)		61,100	111,200	94,000	100,000
Profit Before Tax (FRS 3)		9,200	31,800	29,000	32,000
Tax		(900)	(3,300)	(3,000)	(4,000)
Profit After Tax (norm)		51,900	94,500	79,900	85,000
Profit After Tax (FRS 3)		8,300	28,500	26,000	28,000
Minority interests		0	0	0	0
Net income (normalised)		51,900	94,500	79,900	85,000
Profit after tax (FRS3)		8,300	28,500	26,000	28,000
Average Number of Shares Outstanding (m)		92.0	92.0	92.0	92.0
EPS - normalised (c)		56.4	102.7	86.8	92.4
EPS - (IFRS) (c)		9.0	31.0	28.3	30.4
Dividend per share (c)		6.0	6.0	6.0	6.0
EBITDA Margin (%)		18.3	23.6	21.2	21.7
Operating Margin (before GW and except.) (%)		15.4	21.5	19.0	19.5
<b>BALANCE SHEET</b>					
Fixed Assets		354,900	341,900	384,000	395,000
Intangible Assets		141,500	109,700	159,000	173,000
Tangible Assets		184,700	180,700	178,000	175,000
Investments		28,700	51,500	47,000	47,000
Current Assets		123,700	136,400	107,000	105,000
Stocks		9,000	5,600	6,000	6,000
Debtors		48,800	23,000	28,000	28,000
Cash		49,300	59,500	53,000	51,000
Other		16,600	48,300	20,000	20,000
Current Liabilities		(140,900)	(119,000)	(122,000)	(122,000)
Creditors		(130,600)	(117,000)	(122,000)	(122,000)
Short term borrowings		0	0	0	0
Finance leases		(10,300)	(2,000)	0	0
Long Term Liabilities		(25,400)	(23,000)	(22,000)	(22,000)
Long term borrowings		0	0	0	0
Finance leases		(8,700)	(6,700)	(7,000)	(7,000)
Other long term liabilities		(16,700)	(16,300)	(15,000)	(15,000)
Net Assets		312,300	336,300	347,000	356,000
<b>CASH FLOW</b>					
Operating Cash Flow		117,900	163,500	125,000	130,000
Net Interest		(2,100)	(3,700)	0	1,000
Tax		(5,500)	(1,700)	(6,000)	(4,000)
Capex		(8,100)	(7,200)	(8,300)	(8,500)
Player acquisitions		(96,500)	(123,600)	(110,000)	(115,000)
Financing		0	(1,300)	0	0
Dividends		(5,500)	(5,500)	(5,500)	(5,500)
Net Cash Flow		200	20,500	(4,800)	(2,000)
Opening net debt/(cash)		(30,100)	(30,300)	(50,800)	(46,000)
Finance leases initiated		0	0	0	0
Other		0	0	0	0
Closing net debt/(cash)		(30,300)	(50,800)	(46,000)	(44,000)

Source: Company data, Edison Investment Research

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