

Borussia Dortmund

Final results

It's football

While a surge in Q4 costs denied the expected step change in FY13 pre-transfer EBITDA, a 34% rise in full-year underlying revenue confirms Borussia Dortmund's continuing positive brand development on the back of sustained playing success. Even our possibly cautious forecasts (we assume exit from the Champions League at the group stage) reflect the creation of a sustainable high-margin business before lucrative transfer activity. Finances remain characteristically disciplined.

Year end	Revenue* (€m)	EBITDA* (€m)	PBT** (€m)	EPS** (€)	DPS (€)	EV/EBITDA (x)
06/12	189.1	36.8	45.1	0.55	0.06	7.7
06/13	253.4	42.1	71.6	0.99	0.10	6.7
06/14e	226.0	37.0	24.0	0.33	0.06	7.6
06/15e	236.0	40.0	27.5	0.38	0.06	7.0

Note: *Before player transfer income. **PBT and EPS are normalised, excluding intangible amortisation and exceptional items.

Q4: The price of success

Although the quarter to June enjoyed continuing involvement in the Champions League (five games against none in Q412), the expected bumper pre-transfer profit did not materialise. Despite revenue up c €32m underlying EBITDA barely rose, predominantly as a result of variable costs associated with the club's progress to the Champions League Final, eg player bonuses, advertising agency commissions, administration and match operations. Unsurprisingly, revenue was up across the board, mainly in broadcasting and match operations but with double-digit increases by advertising and merchandising thanks notably to the change of kit supplier to PUMA and new Champions League partners such as Turkish Airlines in Q4.

Another good year in prospect

Our FY14 forecast of a small decline in revenue and pre-transfer EBITDA assumes that the company's growing trading momentum in advertising and merchandising as well as a substantial boost to domestic TV rights may materially offset a failure to qualify for the knock-out stage of the Champions League. Such resilience of profit despite reduced on-field success is welcome, while our playing assumption may prove cautious as Dortmund's group is finely poised at the halfway stage. We look for the club to finish in the top three in the Bundesliga (after almost a third of the season Dortmund is nine points clear of fourth place).

Valuation: Long-term value

Despite a lower than forecast FY13 result at pre-transfer EBITDA level, share price strength suggests growing acceptance of the sustainability of the business model and scope for value creation, and confidence that Dortmund will again go deep in the Champions League. While the latter may prove misplaced, in terms of pre-transfer EV/EBITDA, our key metric, a rating of 7.6x on possibly conservative FY14 forecasts fits the long-term potential of strong brand development, valuable media rights and positive cash flow, backed by substantial season ticket sales and hidden reserves from player investment.

Travel & leisure

30 October 2013

Price €3.72

Market cap €228m

Net debt (€m) including finance leases at end June 53.9

Shares in issue 61.4m

Free float 81%

Code BVB

Primary exchange Frankfurt

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	2.0	19.4	48.7
Rel (local)	(2.1)	9.3	18.7

52-week high/low	€3.81	€2.58
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Business description

The group operates Borussia Dortmund, a leading German football club, recent back-to-back champions of the Bundesliga and competing in this season's UEFA Champions League (finalist last season).

Next events

German Eigenkapitalforum	13 November 2013
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Q1 results	13 November 2013
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Core value

FY14 forecast: Measured optimism

While our playing assumptions have not changed, ie elimination at the Champions League group stage in December, our caution about advertising and merchandising revenues (still ahead on a like-for-like basis) and on labour costs, has led to a material cut in our pre-transfer EBITDA forecast, as shown in Exhibit 1. However, encouragingly, the significance of variable costs, which was accentuated in Q413 results, underpins our relative confidence that non-transfer profit margins may be broadly held on less positive playing assumptions than last year. Notwithstanding the volatility of quarterly reporting, Exhibit 3 shows that in Q4 bumper revenue (+64%) from Champions League success was not rewarded at the bottom line. Pre-transfer EBITDA margin even declined year-on-year, directly as a result of variable labour and operating expenses compounding already inflated player wages costs, as reflected in much higher labour costs in previous quarters.

Exhibit 1: Changes to forecasts

	Revenue before transfers (€m)			EBITDA before transfers (€m)			PBT (€m)			EPS (€)		
	Old	New	% chg	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2013	249.0	253.4	+2	60.0	42.1	-30	83.2	71.6	-14	1.18	0.99	-16
2014e	233.0	226.0	-3	49.0	37.0	-24	36.0	24.0	-33	0.53	0.33	-38
2015e	-	236.0	-	-	40.0	-	-	27.5	-	-	0.38	-

Source: Edison Investment Research

Failure to participate in the Champions League in H214 (possible involvement in the Europa League post-exit would be a poor substitute, financially) explains an obvious year-on-year reduction in match operations and broadcasting income (we look for parity with H113). There should be some mitigation in other activities thanks to positive brand development, eg new Champions League partners and merchandising. Costs may reasonably be expected to fall broadly in line with revenue, ie by up to 10%, hence our forecast of a stable pre-transfer EBITDA margin. Arguably the biggest threat to this is player wage inflation and inevitable uncertainty about costs associated with the three major summer signings (Mkhitaryan, Aubameyang and Sokratis). Our assumption of a 35% rise in domestic broadcasting revenue is in line with the Bundesliga's successful sale of rights until 2016/17.

Valuation: Not expensive

Among major listed peers, there is limited comparability with Borussia Dortmund in terms of valuation indicators. By far the largest by market capitalisation, Manchester United and Arsenal offer very limited free float, while Juventus, although with similar market value to Dortmund, has a majority shareholder and has been heavily loss-making (no dividend) and is much more highly indebted. Against available peer numbers Borussia Dortmund is rated the lowest both on EV/EBITDA and EV/sales:

Exhibit 2: Valuation comparison with major listed peers

	EV	EBITDA*	Revenue*	EV/EBITDA	EV/revenue
Prospective (FY14)					
Borussia Dortmund	€282m	€37m	€226m	7.6	1.2
Manchester United	\$3.10bn	\$208m**	\$680m**	14.9	4.5
Historic (FY13)					
Borussia Dortmund	€282m	€42.1m	€253m	6.7	1.1
Juventus	€401m	€41.7m	€272m	9.6	1.5
Arsenal	£1.09bn	£29.6m	£283m	36.8	3.8

Source: Company accounts. Note: *Excluding transfers; **Mid-point of management guidance at September 2013 (\$1.60/£). Year-end June for all except Arsenal (May).

The company is also undervalued in respect of the strength of its non-transfer revenue, which showed impressive resilience during a dip in playing fortunes in the past decade, reflecting the longer-term nature of most of the income. The EV/non-transfer revenue FY14e multiple is just 1.2x.

Value creation is emphasised by a transfer policy that continues to generate significant hidden reserves in player values. The past five years under coach Klopp have seen average capital gains of €16m and the potential for further gains remains high. Despite a neutral balance of transfer income and expenditure since 2009 the surplus of market value, as estimated by www.transfermarkt.de, to net player assets is c €210m if the reported June 2013 carrying value of €28m is adjusted for subsequent player purchases of c €50m and set against the sports website's current valuation of €288m. That surplus is reassuring, even though it is to be treated with caution, as it is notional, and because company policy is for disposal only in special cases. There is further security in the freehold value of the stadium – as at June 2013 €121.3m or €1.97 NAV.

Exhibit 3: Revenue and profit analysis

Year end June (€m)	2012	H113	Q313	Q413	FY13	2014e	2015e
Home Matches:							
Bundesliga	17	8	5	4	17	17	17
Champions League	3	3	1	2	6	3	3
DFB Cup	1	1	-	-	1	1	2
Away Matches:							
Champions League	3	3	1	2+Final	6+Final	3	3
DFB Cup	4+Final	2	1	-	3	3	2
Revenue							
Match operations:							
Bundesliga	24.5	12.0e	7.0e	6.6e	25.6	26.4	27.2
Change	+5%	+4%	-13%	+33%	+4%	+3%	+3%
UEFA	4.4	5.0e	2.8e	8.4e	16.2	6.2	6.3
Change	+30%	+14%	n/m	n/m	+268%	-62%	+2%
DFB Cup	1.9	1.8e	0.6e	-	2.4	2.7	2.8
Other (friendlies etc)	0.6	0.3e	0.2e	0.1e	0.6	0.7	0.7
Total	31.4	19.1	10.6	15.1	44.8	36.0	37.0
Change	+13%	+9%	+22%	+190%	+43%	-20%	+3%
Broadcasting:							
Bundesliga	27.9	11.0e	7.2e	11.5e	29.7	40.0	44.0
Change	+4%	Flat	+6%	+13%	+6%	+35%	+10%
UEFA	25.6	35.0e	4.3e	16.1e	55.4	36.0	37.0
Change	x5	+33%	n/m	n/m	+116%	-35%	+2%
DFB Cup	6.9	0.9e	1.6e	-	2.5	3.0	3.0
Total	60.4	46.9	13.1	27.6	87.6	79.0	84.0
Change	+88%	+20%	+34%	+138%	+45%	-10%	+6%
Advertising	57.8	31.7	15.2	22.4	69.3	65.0	68.0
Change	+16%	+26%	+24%	+10%	+20%	-6%	+5%
Merchandising	23.7	17.8	5.4	8.8	32.0	27.0	28.5
Change	+63%	+51%	+32%	+24%	+39%	-16%	+5%
Catering/other (rent etc)	15.7	8.2	1.9	6.4	16.5	15.0	15.5
Change	+10%	+4%	-41%	+18%	+5%	-10%	+3%
Release fees for national players**	-	-	-	3.2	3.2	4.0	3.0
Total	189.1	123.7	48.3	81.4	253.4	226.0	236.0
Change	+37%	+22%	+27%	+64%	+34%	-8%	+4%
Release fees for national players**	3.9	3.0e	0.2e	(3.2)	N/A	N/A	N/A
Other operating income	3.7	0.5e	0.4e	1.9	2.8	4.0	4.0
Labour costs	(79.9)	(44.5)	(22.9)	(38.8)	(106.2)	(96.0)	(100.0)
Change	+30%	+31%	+25%	+40%	+33%	-10%	+4%
Share of revenue	42%	36%	47%	48%	42%	43%	43%
Material costs	(12.5)	(9.9)	(2.9)	(4.7)	(17.5)	(17.0)	(18.0)
Other operating costs	(67.5)	(42.4)	(17.1)	(30.9)	(90.4)	(80.0)	(82.0)
Change	+30%	+17%	+33%	+67%	+34%	-11%	+2%
EBITDA before transfers	36.8	30.4	6.0	5.7	42.1	37.0	40.0
Margin	19.5%	24.6%	13.4%	7.4%	16.6%	16.4%	16.9%
Depreciation	(10.1)	(5.4)	(2.8)	(2.6)	(10.8)	(9.0)	(9.0)
Operating profit before transfers	26.7	25.0e	3.2e	3.1e	31.3	28.0	31.0
Profit on disposal of player registrations	23.2	Neg.	3.2	42.2***	45.4	-	-
Transfer income	26.1	0.4	7.3	44.3	51.6	-	-
Less: carrying value	2.9	0.4	4.1	2.1	6.2	-	-
Trading profit	49.9	25.0e	6.4e	45.3e	76.7	28.0	31.0

Source: Edison Investment Research. Note: *Assuming exit from Champions League at group stage and qualification for Europa League (exit in Round of 32); **Classified in Revenue from end FY13; ***Predominantly from disposal of Mario Götze.

Exhibit 4: Financial summary

	€'000s	2012	2013	2014e	2015e
June		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		189,100	253,400	226,000	236,000
EBITDA		36,800	42,100	37,000	40,000
Player transfers		23,200	45,400	0	0
Operating Profit (before amort. and except.)		49,900	76,700	28,000	31,000
Intangible Amortisation		(8,500)	(11,600)	(22,000)	(22,000)
Exceptionals		0	0	0	0
Other		0	0	0	0
Operating Profit		41,400	65,100	6,000	9,000
Net Interest		(4,800)	(5,100)	(4,000)	(3,500)
Profit Before Tax (norm)		45,100	71,600	24,000	27,500
Profit Before Tax (FRS 3)		36,600	60,000	2,000	5,500
Tax		(9,100)	(8,800)	(300)	(800)
Profit After Tax (norm)		36,000	62,800	23,700	26,700
Profit After Tax (FRS 3)		27,500	51,200	1,700	4,700
Average Number of Shares Outstanding (m)		61.4	61.4	61.4	61.4
EPS - normalised (c)		55.0	99.2	33.2	38.1
EPS - (IFRS) (c)		44.8	83.4	2.8	7.7
Dividend per share (c)		6.0	10.0	6.0	6.0
EBITDA Margin (%)		19.5	16.6	16.4	16.9
Operating Margin (before GW and except.) (%)		26.4	30.3	12.4	13.1
BALANCE SHEET					
Fixed Assets		210,400	212,200	234,400	214,000
Intangible Assets		25,700	28,400	52,000	33,000
Tangible Assets		182,600	178,400	176,000	174,000
Investments		2,100	5,400	6,400	7,000
Current Assets		38,300	90,200	46,000	64,000
Stocks		5,800	7,600	7,000	8,000
Debtors		24,500	65,900	26,000	27,000
Cash		5,300	12,500	10,000	25,000
Other		2,700	4,200	3,000	4,000
Current Liabilities		(61,900)	(74,400)	(60,500)	(57,000)
Creditors		(55,900)	(69,900)	(55,500)	(52,000)
Short term borrowings		(6,000)	(4,500)	(5,000)	(5,000)
Long Term Liabilities		(93,300)	(87,400)	(82,000)	(82,000)
Long term borrowings		(41,300)	(40,800)	(41,000)	(41,000)
Finance leases		(21,100)	(19,800)	(19,000)	(19,000)
Other long term liabilities		(30,900)	(26,800)	(22,000)	(22,000)
Net Assets		93,500	140,600	137,900	139,000
CASH FLOW					
Operating Cash Flow		32,700	40,700	32,000	35,000
Net Interest		(4,900)	(5,000)	(3,500)	(3,500)
Tax		(1,100)	(8,800)	(8,000)	(3,000)
Capex		(7,300)	(6,500)	(6,600)	(6,800)
Acquisitions/disposals		(1,500)	(7,600)	(11,000)	(3,000)
Financing		0	0	0	0
Dividends		100	(3,600)	(6,100)	(3,700)
Net Cash Flow		18,000	9,200	(3,200)	15,000
Opening net debt/(cash)		60,000	42,000	32,800	36,000
HP finance leases initiated		0	0	0	0
Other		0	0	0	0
Closing net debt/(cash)		42,000	32,800	36,000	21,000

Source: Edison Investment Research, company accounts

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