

Borussia Dortmund

Update

Spanish eyes

Travel & leisure

Continued Champions League progress in the guise of a quarter-final draw against Real Madrid promises further valuable incremental income (broadcasting and sponsor bonuses) and merchandising potential. The consequent increase of €4m in our pre-transfer EBITDA forecast points to a record outturn at that level in the current year, suggesting the Wembley-led comparative is not an impossible act to follow.

24 March 2014

Price €3.89

Market cap €239m

Net debt (€m) including finance leases at end Dec 2013 57.0

Shares in issue 61.4m

Free float 81%

Code BVB

Primary exchange Frankfurt

Secondary exchange N/A

Year end	Revenue* (€m)	EBITDA* (€m)	PBT** (p)	EPS** (c)	DPS (c)	EV/EBITDA* (x)
06/12	189.1	36.8	45.1	0.55	0.06	8.0
06/13	253.4	42.1	71.6	0.99	0.10	7.0
06/14e	242.0	45.0	33.5	0.46	0.06	6.6
06/15e	236.0	40.0	27.5	0.38	0.06	7.4

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

Share price performance



%	1m	3m	12m
Abs	0.7	6.4	21.7
Rel (local)	4.1	7.1	3.4

52-week high/low	€4.08	€2.90
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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 quarter-finalist in this season's UEFA Champions League (finalist last season).

Next events

Champions League quarter-finals	2 and 8 April 2014
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Q3 results	15 May 2014
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Win increases forecasts

Borussia Dortmund's success in the Champions League Round of 16 against Zenit St Petersburg brings an assured financial return in terms of a €3.9m UEFA broadcasting fee for reaching the quarter-finals on 2 and 8 April as well as bonuses from company sponsors and higher match day income. We are therefore raising our current year revenue and EBITDA forecasts by €8m and €4m respectively.

Victory over Real Madrid would secure, from UEFA alone, a €4.9m fee for participation in the semi-finals and further income from its broadcast market pool. Our forecasts envisage that a 17% reduction in H1 EBITDA will be recouped in the second half as Q413 was severely depressed by exceptional costs associated with the Champions League Final, eg player bonuses, advertising agency commissions, administration and match operations.

Safety first

While Dortmund fared well against Real Madrid in last season's Champions League, with victories at both the group stage and in the semi-finals, our forecasts assume elimination at this point, given the teams' contrasting form of late. However, we still look for the club to finish in the top three in the Bundesliga, which brings automatic qualification for next season's Champions League. With just eight matches to go, Dortmund is seven points ahead of fourth place but faces a possibly tougher finish than immediate rivals, Schalke and Bayer Leverkusen.

Valuation: Long-term appeal

Recent share price strength reflects not only continued Champions League success but also growing acceptance of the sustainability of the business model and scope for value creation. In terms of pre-transfer EV/EBITDA, a rating of 6.6x 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.

Exhibit 1: Financial summary

	€'000s	2012	2013	2014e	2015e
June		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		189,100	253,400	242,000	236,000
EBITDA		36,800	42,100	45,000	40,000
Player transfers		23,200	45,400	1,500	0
Operating Profit (before amort. and except.)		49,900	76,700	37,500	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	15,500	9,000
Net Interest		(4,800)	(5,100)	(4,000)	(3,500)
Profit Before Tax (norm)		45,100	71,600	33,500	27,500
Profit Before Tax (FRS 3)		36,600	60,000	11,500	5,500
Tax		(9,100)	(8,800)	(1,700)	(800)
Profit After Tax (norm)		36,000	62,800	31,800	26,700
Profit After Tax (FRS 3)		27,500	51,200	9,800	4,700
Average Number of Shares Outstanding (m)		61.4	61.4	61.4	61.4
EPS - normalised (c)		55.0	99.2	46.4	38.1
EPS - (IFRS) (c)		44.8	83.4	16.0	7.7
Dividend per share (c)		6.0	10.0	6.0	6.0
EBITDA Margin (%)		19.5	16.6	18.6	16.9
Operating Margin (before GW and except.) (%)		26.4	30.3	15.5	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	54,000	72,000
Stocks		5,800	7,600	7,000	8,000
Debtors		24,500	65,900	26,000	27,000
Cash		5,300	12,500	18,000	33,000
Other		2,700	4,200	3,000	4,000
Current Liabilities		(60,600)	(73,000)	(59,100)	(55,600)
Creditors		(54,600)	(68,500)	(54,100)	(50,600)
Short term borrowings		(6,000)	(4,500)	(5,000)	(5,000)
Long Term Liabilities		(93,300)	(87,300)	(82,600)	(82,600)
Long term borrowings		(41,300)	(40,800)	(41,000)	(41,000)
Finance leases		(21,100)	(19,700)	(19,600)	(19,600)
Other long term liabilities		(30,900)	(26,800)	(22,000)	(22,000)
Net Assets		94,800	142,100	146,700	147,800
CASH FLOW					
Operating Cash Flow		32,700	40,700	40,000	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	4,800	15,000
Opening net debt/(cash)		69,900	64,400	53,900	49,000
HP finance leases initiated		(12,500)	1,300	100	0
Other		0	0	0	0
Closing net debt/(cash)		64,400	53,900	49,000	34,000

Source: Company accounts/Edison Investment Research

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