

Borussia Dortmund

Revised forecasts

“We’re absolutely not satisfied”

While uncertainty about a head coach and Champions League qualification has been satisfactorily resolved, there is no denying the challenge for Borussia Dortmund (BVB) in making a fresh start after its most difficult season since near-bankruptcy. Without pre-empting new coach Favre, who takes over in July, radical change in the squad make-up and size has already been indicated by management. Likely enhanced transfer activity should therefore support our FY19 EBITDA forecast despite lower pre-transfer income expectations (still up 11%) on greater clarity of Champions League payout. However, for the current year no such transfer offset is assumed (admittedly cautious), hence our 13% EBITDA downgrade.

Year end	Revenue* (€m)	EBITDA (€m)	PBT** (€m)	EPS** (€)	DPS (€)	EV/EBITDA (x)
06/16	281.3	86.7	73.8	0.68	0.06	5.8
06/17	328.4	74.1	61.1	0.56	0.06	6.8
06/18e	315.0	117.0	100.0	0.92	0.06	4.3
06/19e	350.0	87.0	73.0	0.68	0.06	5.8

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

Q3: Tough going on and off the pitch

After the early Christmas gift of immediate wins under coach Stöger, the quarter to March saw renewed stability flatter to deceive, culminating in a bumpy Europa League run and a 6-0 “thrashing” by Bayern. This was reflected in flat pre-transfer revenue, despite two more home matches (eight against six). Broadcasting was redeemed by the new deal on domestic TV marketing, which made up for no Champions League and DFB Cup. While advertising was again encouraging (up 8%), marked by new Champion Partners, there was a further fall in merchandising (down 17%). By contrast, a resurgent EBITDA (€44.6m vs €0.7m) was testament to Dortmund’s sustained ability to generate high levels of transfer income (€73m, notably from the sale of Aubameyang to Arsenal).

Caution in order but likely salvaged by transfers

While squad rebuilding may well elicit transfer gains, we now highlight our lower operating expectations. As shown on page 2, there is a small cut in our pre-transfer revenue forecasts (5% this year and 7% next). This reflects the recent troubled season and for FY19e a better view of Champions League distribution after UEFA clarification. For the year just ending, this drives an EBITDA downgrade of €18m, assuming no material pre-year end dealings. However, for FY19e, as change is in the air, we are now more positive about transfer gains and labour costs (conceivably lower, for a change), hence our marginally raised EBITDA forecast.

Valuation: Fair

Caution apart, coach Favre’s record of player development (not least of Reus and Piszczek at Gladbach and Hertha respectively) and the availability of significant funds for reinvestment make for exciting opportunity. News of c 50,000 season ticket requests alone shows the enduring brand and financial strengths of BVB.

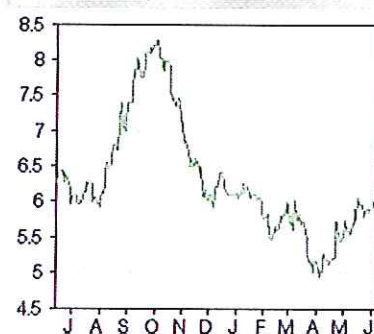
Travel & leisure

11 June 2018

Price €5.90
Market cap €543m

Net cash (€m) at March 2018 including finance leases	42.5
Shares in issue	92.0m
Free float	60.1%
Code	BVB
Primary exchange	Frankfurt
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	6.5	(2.3)	(8.2)
Rel (local)	7.7	(5.5)	(8.6)
52-week high/low		€8.3	€4.9

Business description

The group operates Borussia Dortmund, a leading German football club, who were DFB Cup winners in 2016/17 and competed in this season’s UEFA Champions and Europa Leagues (Champions League quarter-finalists in 2016/17).

Next events

Edison Zürich roadshow	15 June 2018
International Champions Cup in US	20 – 25 July 2018
FY18 final results	Late August 2018

Analysts

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Revenue and profit analysis

Exhibit 1: Revenue and profit analysis									
Year end June (€m)	H117	Q317	Q417	FY17	H118	Q318	Q418e	FY18e	FY19e
Home matches									▲
Bundesliga	8	4	5	17	8	6	3	17	17
Champions League	3	1	1	5	3	-	-	3	4
Europa League	-	-	-	-	-	2	-	2	-
Domestic cups	2	1	-	3	1	-	-	1	2
Away matches:									
Champions League	3	1	1	5	3	-	-	3	4
Europa League	-	-	-	-	-	2	-	2	-
Domestic cups	1	1	1+Final	3+Final	3	-	-	3	3
Revenue									
Match operations:									
Bundesliga	12.9e	6.3e	7.7e	27.0	13.1e	9.1e	4.8e	27.0	27.5
Champions League	5.7e	1.9e	1.9e	9.5	5.9e	-	-	5.9	8.0
Europa League	-	-	-	-	-	3.4e	-	3.4	-
Domestic cups	2.1e	1.2e	2.0e	5.3	1.7e	-	-	1.8	3.5
Other	1.6e	0.4e	0.2e	2.2	3.1e	0.3e	0.9e	4.3	2.5
Total	22.3	9.8	11.8	43.9	23.8	12.8	5.8	42.4	41.5
Broadcasting:									
Bundesliga	32.5	16.2	17.4	66.1	43.4	21.6	23.0	88.0	92.0
Champions League	33.6	8.1	8.4	50.1	27.4	-	-	27.4	53.0
Europa League	0.9	-	-	0.9	-	2.9	-	2.9	-
Domestic cups	1.3	1.5	5.8	8.6	3.3	-	-	3.3	4.5
Total	68.3	25.8	31.7	125.8	74.1	24.5	23.0	121.6	149.5
Advertising	40.1	20.7	26.6	87.4	45.2	22.3	26.5	94.0	96.0
Merchandising	23.2	6.5	9.8	39.5	19.4	5.5	8.1	33.0	36.0
Catering/other	15.2	7.4	9.3	31.9	13.0	5.7	5.3	24.0	27.0
Revenue before transfers	169.0	70.3	89.1	328.4	175.6	70.9	68.5	315.0	350.0
Transfers	45.2*	1.0	31.1	77.3	136.2**	72.6***	6.2	215.0	90.0****
Total revenue	214.2	71.3	120.2	405.7	311.8	143.5	74.7	530.0	440.0
Other operating income	1.7	0.3	2.2	4.2	2.8	0.2	2.0	5.0	5.0
Labour costs	(82.2)	(41.7)	(54.0)	(177.9)	(94.3)	(45.0)	(50.7)	(190.0)	(180.0)
Share of revenue	49%	59%	61%	54%	54%	63%	74%	60%	51%
Material costs	(14.4)	(4.7)	(6.8)	(25.9)	(12.3)	(4.2)	(5.5)	(22.0)	(24.0)
Other operating costs	(69.3)	(24.4)	(38.3)	(132.0)	(124.2)	(49.9)	(31.9)	(206.0)	(154.0)
EBITDA	49.9	0.7	23.5	74.1	83.9	44.6	(11.5)	117.0	87.0

Source: Edison Investment Research. Note: ▲ Assuming Champions League round of 16 and DFB Cup semi-final. *Including disposal of Mkhitarjan. **Including disposals of Dembélé, Bender, Mor and Bartra. ***Including disposal of Aubameyang. ****Notional (assumed average of transfer revenue of three previous years excluding 'exceptional' Dembélé and Aubameyang transactions).

Exhibit 2: Financial summary

	€'000s	2016	2017	2018e	2019e
June		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		376,300	405,700	530,000	440,000
EBITDA		86,700	74,100	117,000	87,000
Operating Profit (before amort. and except.)		75,900	62,600	105,000	75,000
Intangible Amortisation		(32,000)	(51,900)	(60,000)	(60,000)
Exceptionals		(7,500)	(100)	0	0
Other		0	0	0	0
Operating Profit		36,400	10,600	45,000	15,000
Net Interest		(2,100)	(1,500)	(5,000)	(2,000)
Other financial items		0	0	0	0
Profit Before Tax (norm)		73,800	61,100	100,000	73,000
Profit Before Tax (FRS 3)		34,300	9,100	40,000	13,000
Tax		(4,900)	(900)	(5,000)	(1,000)
Profit After Tax (norm)		62,700	51,900	85,000	62,100
Profit After Tax (FRS 3)		29,400	8,200	35,000	12,000
Minority interests		0	0	0	0
Net income (normalised)		62,700	51,900	85,000	62,100
Profit after tax (FRS3)		29,400	8,200	35,000	12,000
Average Number of Shares Outstanding (m)		92.0	92.0	92.0	92.0
EPS - normalised (c)		68.2	56.4	92.4	67.5
EPS - (IFRS) (c)		32.0	8.9	38.0	13.0
Dividend per share (c)		6.0	6.0	6.0	6.0
EBITDA Margin (%)		23.0	18.3	22.1	19.8
Operating Margin (before GW and except.) (%)		20.2	15.4	19.8	17.0
BALANCE SHEET					
Fixed Assets		302,800	354,900	371,000	368,000
Intangible Assets		65,300	141,500	163,000	158,000
Tangible Assets		188,400	184,700	178,000	175,000
Investments		49,100	28,700	30,000	35,000
Current Assets		121,800	123,700	129,000	137,000
Stocks		10,200	9,000	8,000	8,000
Debtors		51,100	48,800	36,000	40,000
Cash		51,700	49,300	60,000	59,000
Other		8,800	16,600	25,000	30,000
Current Liabilities		(78,800)	(140,900)	(135,000)	(136,000)
Creditors		(76,200)	(130,600)	(133,000)	(134,000)
Short term borrowings		0	0	0	0
Finance leases		(2,600)	(10,300)	(2,000)	(2,000)
Long Term Liabilities		(36,200)	(25,400)	(24,000)	(22,000)
Long term borrowings		0	0	0	0
Finance leases		(19,000)	(8,700)	(7,000)	(7,000)
Other long term liabilities		(17,200)	(16,700)	(17,000)	(15,000)
Net Assets		309,600	312,300	341,000	347,000
CASH FLOW					
Operating Cash Flow		44,400	12,200	(29,000)	2,000
Net Interest		(1,400)	(2,000)	(3,800)	(2,200)
Tax		(300)	(5,500)	(3,000)	(6,000)
Capex		(9,400)	(8,100)	(8,000)	(9,300)
Acquisitions/disposals		(20,500)	9,100	70,000	20,000
Financing		(7,700)	0	0	0
Dividends		(4,600)	(5,500)	(5,500)	(5,500)
Net Cash Flow		500	200	20,700	(1,000)
Opening net debt/(cash)		(29,600)	(30,100)	(30,300)	(51,000)
Finance leases initiated		0	0	0	0
Other		0	0	0	0
Closing net debt/(cash)		(30,100)	(30,300)	(51,000)	(50,000)

Source: Company accounts, Edison Investment Research

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