

Borussia Dortmund

Half-year results

Hitting form

Although in transition after high-profile player departures, Borussia Dortmund (BVB) continues to compete well on all fronts. Its financial performance is similarly spirited with a near doubling in H1 pre-transfer EBITDA, driven by the Champions League. However, costs remain an issue, so we are maintaining our full-year pre-transfer EBITDA forecast despite better than expected progress in Europe. Apart from a new deal on Bundesliga media rights, FY18 should benefit from a significantly lower player cost base, hence our €8m EBITDA upgrade and forecast bumper cash generation (over €100m net cash at June 2018), which provides ample scope for profitable investment and returns to shareholders.

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	9.6
06/16	281.3	15.3	73.8	0.68	0.06	30.0
06/17e	324.0	30.0	51.0	0.47	0.06	15.0
06/18e	336.0	50.0	74.0****	0.68****	0.07	7.6

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.

H1: Solid profit recovery

Fortunes were predictably buoyed by renewed Champions League access, so, while positive, rises of 18% and 72% in pre-transfer revenue and EBITDA, respectively, should be seen against a weak Europa League comparative (H116 pre-transfer EBITDA down 59% y-o-y). Aside from the Champions League broadcasting boost, revenue was broadly flat in advertising, merchandising and match operations, reflecting in part fewer home UEFA games. Labour costs from the renewed squad were up 18% in the period, slightly higher than we expected.

FY18 lower labour costs may not be wishful thinking

The changes to our forecasts, detailed on page 2, relate mainly to labour costs, which we now envisage up by c 25% in H217, as in Q2. This offsets the likely benefit from reaching an extra round (quarter-finals) of the Champions League, which drives our €17m full-year revenue upgrade. By contrast, labour costs may fall next year owing to a planned pruning of the squad (28 players of whom only 10 have started even half of this season's matches). On current playing assumptions, we look for 7% lower labour costs and c €40m proceeds from associated transfers. Our forecast FY18 PBT reflects transfer gains, which are notional but reasonable, given the company's record and surplus of market value to net player assets (c €220m if the December 2016 carrying value of €160m is set against the current www.transfermarkt.de valuation of €378m).

Valuation: All to play for

The market's continuing appreciation of Dortmund rebuilding is justified in terms of potential trading profit break-out and significant transfer gains. However, with Champions League predicating our FY18 forecast, there is little room for Bundesliga slippage as BVB is now only narrowly in qualifying position.

Travel & leisure

16 March 2017

Price €5.30
Market cap €489m

Net cash (€m) at December 2016 including finance leases	18.6
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	(3.5)	(10.6)	32.9
Rel (local)	(6.5)	(20.2)	6.0
52-week high/low		€5.88	€3.76

Business description

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

Next events

Champions League quarter-finals	11/12 and 18/19 April 2017
DFB Cup semi-final against Bayern Munich	25/26 April 2017
Q3 results	12 May 2017

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Exhibit 1: Revenue and profit analysis

Year end June (€m)	H116	H216	FY16	H117	H217e	FY17e	2018e
Home Matches							
Bundesliga	8	9	17	8	9	17	17
Champions League	-	-	-	3	2*	5	4*****
Europa League	5	3	8	-	-	-	-
DFB Cup	1	-	1	1	1**	2	2**
SuperCup	-	-	-	1	-	1	-
Away Matches:							
Champions League	-	-	-	3	2*	5	4*****
Europa League	5	3	8	-	-	-	-
DFB Cup	2	2+Final	4+Final	1	2**	3	3**
Revenue							
Match operations:							
Bundesliga	12.9e	14.3e	27.1	12.7e	14.4e	27.1	27.5
Champions League	-	-	-	6.0e	3.4e	9.4	8.0
Europa League	7.5e	5.9e	13.4	-	-	-	-
DFB Cup/Super Cup	1.3e	2.4e	3.7	2.0e	1.5e	3.5	2.5
Other	1.8e	0.7e	2.5	1.6e	1.4e	3.0	3.0
Total	23.5	23.3	46.8	22.3	20.7	43.0	41.0
Broadcasting:							
Bundesliga	30.0	30.8	60.8	32.5	33.5	66.0	90.0
Champions League	3.2	-	3.2	33.6	18.4	52.0	38.0
Europa League	8.3	5.7	14.0	0.9	-	0.9	-
DFB Cup/Super Cup	0.7	3.7	4.4	1.3	2.8	4.1	4.0
Total	42.2	40.4	82.6	68.3	54.7	123.0	132.0
Advertising	40.0	44.6	84.6	40.1	48.4	88.5	91.0
Merchandising	24.4	15.4	39.8	23.2	17.8	41.0	42.0
Catering / other	13.3	14.2	27.5	15.2	13.3	28.5	30.0
Total	143.5	137.8	281.3	169.0	155.0	324.0	336.0
Other operating income	1.9	1.6	3.5	1.7	2.3	4.0	4.0
Labour costs	(66.1)	(74.1)	(140.2)	(78.2)	(94.8)	(173.0)	(160.0)
Share of revenue	46%	54%	50%	46%	61%	53%	48%
Material costs	(14.5)	(11.2)	(25.7)	(14.4)	(11.6)	(26.0)	(27.0)
Other operating costs	(53.0)	(50.6)	(103.6)	(57.7)	(41.3)	(99.0)	(103.0)
EBITDA before transfers	11.8	3.5	15.3	20.4	9.6	30.0	50.0
Margin	8%	3%	5%	12%	6%	9%	15%
Profit on disposal of players							
Transfer income	24.7	70.3	95.0	45.2	6.8	52.0	50.0
Less: Carrying value/selling costs	(11.0)	(12.6)***	(23.6)	(15.7)***	(2.3)	(18.0)***	(13.0)

Source: Borussia Dortmund accounts, Edison Investment Research. Note: *Assuming exit in quarter-finals. **Assuming exit in semi-final. ***Including selling costs (reported by BVB in labour and other operating costs) of €3m in Q416 and €8m in Q117.

****Predominantly on disposal of Mkhitarian. *****Notional (assumed average of transfer profit in FY15, FY16 and FY17e).

*****Assuming exit in Round of 16.

Exhibit 2: Financial summary

	€000s	2015	2016	2017e	2018e
Year end June		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		263,600	281,300	324,000	336,000
EBITDA		48,000*	15,300	30,000	50,000
Player transfers		7,600	71,400	34,000	37,000
Operating Profit (before amort. and except.)		46,100	75,900	53,000	76,000
Intangible Amortisation		(32,900)	(32,000)	(50,000)	(45,000)
Exceptionals		0	(7,500)***	0	0
Other		0	0	0	0
Operating Profit		13,200	36,400	3,000	31,000
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	74,000
Profit Before Tax (FRS 3)		6,000	34,300	1,000	29,000
Tax		(500)	(4,900)	(200)	(3,500)
Profit After Tax (norm)		43,700	68,900	50,800	70,500
Profit After Tax (FRS 3)		5,500	29,400	800	25,500
Average Number of Shares Outstanding (m)		87.3	92.0	92.0	92.0
EPS - normalised (c)		42.7	68.2	47.2	68.4
EPS - (IFRS) (c)		6.0	32.0	0.9	27.7
Dividend per share (c)		5.0	6.0	6.0	7.0
EBITDA Margin (%)		18.2	5.4	9.3	14.9
Operating Margin (before GW and except.) (%)		17.5	27.0	16.4	22.6
BALANCE SHEET					
Fixed Assets		289,500	302,800	316,000	258,000
Intangible Assets		96,300	65,300	126,000	70,000
Tangible Assets		189,500	188,400	185,000	183,000
Investments		3,700	49,100	5,000	5,000
Current Assets		97,000	121,800	106,500	185,500
Stocks		9,400	10,200	11,000	12,000
Debtors		29,700	51,100	30,000	41,000
Cash		53,700	51,700	61,500	128,500
Other		4,200	8,800	4,000	4,000
Current Liabilities		(61,600)	(78,800)	(80,500)	(81,500)
Creditors		(59,100)	(76,200)	(78,000)	(79,000)
Short term borrowings		0	0	0	0
Finance leases		(2,500)	(2,600)	(2,500)	(2,500)
Long Term Liabilities		(38,800)	(36,200)	(37,000)	(38,000)
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)	(18,000)	(19,000)
Net Assets		286,100	309,600	305,000	324,000
CASH FLOW					
Operating Cash Flow		24,400	44,400	30,000	50,000
Net Interest		(7,200)	(1,400)	(400)	(300)
Tax		(200)	(300)	(2,000)	(200)
Capex		(10,400)	(9,400)	(10,200)	(11,000)
Acquisitions/disposals		(61,700)	(20,500)	(2,000)****	34,000*****
Financing		135,700	(7,700)	0	0
Dividends		(6,100)	(4,600)	(5,500)	(5,500)
Net Cash Flow		74,500	500	9,900	67,000
Opening net debt/(cash)		44,900	(29,600)	(30,100)	(40,000)
Finance leases initiated		0	0	0	0
Other		0	0	0	0
Closing net debt/(cash)		(29,600)	(30,100)	(40,000)	(107,000)

Source: Borussia Dortmund accounts, Edison Investment Research. Note: *Including estimated c €12m insurance claim benefit. **Early repayment of financial liabilities. ***Player asset write-down. ****Including acquisitions of Schürle, Götze, Dembélé, Rode, Guerreiro, Isak and Mor and disposals of Mkhitarian, Hummels and Gündogan. *****Including acquisition of Toprak and €40m from estimated €50m transfer revenue in FY18.

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