

Borussia Dortmund

Plenty in reserve

Company and estimates
update

Travel & leisure

4 October 2017

Price €8.17

Market cap €752m

Net cash (€m) at June 2017 including finance leases 30.3

Shares in issue 92.0m

Free float 60.5%

Code BVB

Primary exchange Frankfurt

Secondary exchange N/A

Borussia Dortmund enters the international break in good heart as wire-to-wire leaders of the Bundesliga after a record start to the season (19 points after seven games). It is early days but confirmation of a favourable reaction to new coach Peter Bosz and key player signings even if found wanting at the highest level in recent Champions League. A positive annual report and the remarkable sale of Dembélé to Barcelona further prompt us to raise substantially our current-year forecast. For FY19 we are confident that Dortmund's conspicuously successful development record and transfer policy as well as initial benefits from Champions League reform should generate another strong outturn, even if Dembélé makes FY18 a hard act to follow.

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	8.3
06/17	328.4	74.1	61.1	0.56	0.06	9.7
06/18e	340.0	102.0	88.5	0.82	0.07	6.6
06/19e	380.0	97.0	83.5	0.77	0.07	6.6

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

Q417: Dortmund shows how to finish

The quarter to June was notable for 21% pre-transfer revenue growth, reflecting favourable UEFA comparatives (continuing involvement in Champions rather than Europa League) and DFB Cup triumph, all the more satisfying so soon after the team bus attack. Progress was across the board, driven by double-digit increases in broadcasting and merchandising and a boost to advertising from year-end sporting bonuses. On-field success came inevitably at a price with labour costs up almost 40%. Finances were again disciplined with net cash unchanged at €30m.

Hidden reserves fuel upgrades

The Dembélé deal not only all but guarantees record gross EBITDA in the current year but acts as a reference sale for Dortmund's sustained ability to generate high levels of transfer income, hopefully without sporting detriment. The raising of our FY18 gross EBITDA forecast from €87m to €102m is thus transfer-led with marginal uplift to pre-transfer revenue. Champions League Round of 16 is factored in to our forecasts, so failure to reach the knockout stage (Dortmund has lost its first two group matches) would be a blow. However, likely involvement in the Europa League would mitigate this. Transfer gains are also to the fore in our newly introduced FY19 forecast (we assume on a par with the average of the previous three years excluding some impact from exceptional Dembélé), but there should also be a sizeable boost in broadcasting income from the revamped Champions League (tba by UEFA).

Valuation: Seller's market

Dembélé's move has been a catalyst for market awareness of Dortmund's riches (share price up 40% in last two months). We do not expect this to abate, given the scale of the remaining surplus of market value to net player assets (broadly, c €250m per www.transfermarkt.de) and further lively player transfer inflation.

Share price performance



% 1m 3m 12m

Abs 11.8 37.2 68.4

Rel (local) 5.2 32.6 37.2

52-week high/low €8.2 €4.8

Business description

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

Next events

Edison London roadshow 5 October 2017

Champions League against APOEL 17 October and 1 November 2017

Q1 results 14 November 2017

Analysts

Richard Finch +44 (0)20 3077 5700

Paul Hickman +44 (0)20 3681 2501

consumer@edisongroup.com

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Exhibit 1: Financial summary

	€'000s	2016	2017	2018e	2019e
June		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		376,300	405,700	505,000	462,000
EBITDA*		86,700	74,100	102,000	97,000
Operating Profit (before amort. and except.)		75,900	62,600	90,000	85,000
Intangible Amortisation		(32,000)	(51,900)	(64,000)	(65,000)
Exceptionals		(7,500)	(100)	0	0
Other		0	0	0	0
Operating Profit		36,400	10,600	26,000	20,000
Net Interest		(2,100)	(1,500)	(1,500)	(1,500)
Other financial items		0	0	0	0
Profit Before Tax (norm)		73,800	61,100	88,500	83,500
Profit Before Tax (FRS 3)		34,300	9,100	24,500	18,500
Tax		(4,900)	(900)	(3,500)	(2,500)
Profit After Tax (norm)		62,700	51,900	75,200	71,000
Profit After Tax (FRS 3)		29,400	8,200	21,000	16,000
Minority interests		0	0	0	0
Net income (normalised)		62,700	51,900	75,200	71,000
Profit after tax (FRS3)		29,400	8,200	21,000	16,000
Average Number of Shares Outstanding (m)		92.0	92.0	92.0	92.0
EPS - normalised (c)		68.2	56.4	81.7	77.2
EPS - (IFRS) (c)		32.0	8.9	22.8	17.4
Dividend per share (c)		6.0	6.0	7.0	7.0
EBITDA Margin (%)		23.0	18.3	20.2	21.0
Operating Margin (before GW and except.) (%)		20.2	15.4	17.8	18.4
BALANCE SHEET					
Fixed Assets		302,800	354,900	322,000	295,000
Intangible Assets		65,300	141,500	120,000	95,000
Tangible Assets		188,400	184,700	182,000	180,000
Investments		49,100	28,700	20,000	20,000
Current Assets		121,800	123,700	159,000	191,000
Stocks		10,200	9,000	10,000	10,000
Debtors		51,100	48,800	50,000	50,000
Cash		51,700	49,300	95,000	127,000
Other		8,800	16,600	4,000	4,000
Current Liabilities		(78,800)	(140,900)	(127,000)	(125,000)
Creditors		(76,200)	(130,600)	(117,000)	(115,000)
Short term borrowings		0	0	0	0
Finance leases		(2,600)	(10,300)	(10,000)	(10,000)
Long Term Liabilities		(36,200)	(25,400)	(27,000)	(25,000)
Long term borrowings		0	0	0	0
Finance leases		(19,000)	(8,700)	(8,000)	(8,000)
Other long term liabilities		(17,200)	(16,700)	(19,000)	(17,000)
Net Assets		309,600	312,300	327,000	336,000
CASH FLOW					
Operating Cash Flow		44,400	12,200	12,000	37,000
Net Interest		(1,400)	(2,000)	(1,500)	(1,500)
Tax		(300)	(5,500)	(3,300)	(3,100)
Capex		(9,400)	(8,100)	(9,000)	(9,000)
Acquisitions/disposals		(20,500)	9,100	54,000	15,000
Financing		(7,700)	0	0	0
Dividends		(4,600)	(5,500)	(5,500)	(6,400)
Net Cash Flow		500	200	46,700	32,000
Opening net debt/(cash)		(29,600)	(30,100)	(30,300)	(77,000)
Finance leases initiated		0	0	0	0
Other		0	0	0	0
Closing net debt/(cash)		(30,100)	(30,300)	(77,000)	(109,000)

Source: Borussia Dortmund accounts, Edison Investment Research. Note: *EBITDA calculation includes player transfer income in line with the company's reporting approach; player transfers have previously been excluded from our calculation of EBITDA.

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