

# Borussia Dortmund

Q221 trading update

## Passing the financial fitness test

Borussia Dortmund's Q221 trading update showed higher profitability year-on-year due to active cost control despite lower revenue in aggregate as a result of COVID-19, and noting that the majority of revenue sources increased. Our recent [Outlook note](#) highlighted the attractive financial characteristics of Borussia Dortmund's business, in isolation and versus its peers, in 'normal' times. Therefore, the company should be a prime beneficiary of life returning to normal, with improving momentum in revenue and profitability, subject to sporting results. Our asset-based valuation indicates upside of 144% from the current share price to €12.55.

Year end	Revenue (€m)	EBITDA (€m)	PBT* (€m)	EPS* (€)	P/E (x)	EV/EBITDA (x)
06/19	370.3	116.0	101.5	0.88	5.8	4.9
06/20	370.2	63.0	45.6	0.47	11.0	9.0
06/21e	331.5	39.5	22.9	0.25	20.6	14.4
06/22e	346.6	60.8	43.8	0.43	12.0	9.3

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles and exceptional items.

## Q221: Improved profit despite lower revenue

The Q221 revenue decline of 3% y-o-y to €120.9m was a significant improvement from Q121's decline of 50%, as three of Borussia Dortmund's five sources of revenue increased year-on-year despite the ongoing challenges caused by COVID-19. This highlights the long-term resilience/growth dynamics of the majority of the revenue base. Coupled with a c 13% reduction in cash operating costs, EBITDA for Q221 of €36.6m was an impressive c 23% higher than the prior year. Lower taxes led to a threefold improvement in profit after tax to c €9.5m. The team's current sixth position in the Bundesliga requires an improvement in on-the pitch results for the rest of the season to ensure qualification for the Champions League in FY22.

## Forecasts: No change ahead of Q221 results

Our profit forecasts for FY21 and FY22 are broadly unchanged and will be reviewed further on publication of full financial results for the period. The strong cost control in H121 leads us to assume lower personnel and other operating expenses for FY21 than previously. These are offset by lowering forecasts for revenue from Match Operations as fans are less likely to attend games this season due to COVID-19 than we previously anticipated, and lower net transfer income to reflect the financial uncertainty facing all football clubs.

## Valuation: SOTP supports €12.55/share

Our asset-based sum-of-the-parts (SOTP) valuation of €12.55/share points to 144% upside from the current share price of €5.14. The valuation includes the unrealised value in the playing squad and the brand, each of which have an estimated valuation greater than the current share price. The EV/sales multiple for FY21e of 1.7x is broadly in line with the long-run average since FY05 despite the depressed revenues and higher financial gearing, indicating potential for strong share price performance on a recovery in revenue and profitability post COVID-19.

Travel & leisure

10 February 2021

**Price** €5.14  
**Market cap** €473m

Net debt (€m) at 30 September 2020 (including finance leases)	94.1
Shares in issue	92.0m
Free float	59.9%
Code	BVB
Primary exchange	Frankfurt
Secondary exchange	N/A

## Share price performance



%	1m	3m	12m
Abs	(7.8)	1.6	(40.8)
Rel (local)	(7.6)	(5.1)	(42.9)
52-week high/low		€9.39	€4.21

## Business description

The group operates Borussia Dortmund, a leading football club, Bundesliga runners up in 2019/20, DFB Super Cup winners in 2019/20 and DFB Cup winners in 2016/17. The club has qualified for the Champions League in eight of the last 10 seasons.

## Next events

Q221 financial report	26 February 2021
Q321 results	14 May 2021

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## Q221 results: Strong profit delivery

Borussia Dortmund's Q221 headline results indicated a marked improvement in profitability due to a combination of a sequential quarter-on-quarter improvement in revenue, despite the ongoing disruption from COVID-19 that continues to negatively affect a number of sources of revenue, as well as impressive management of the cost base where possible.

Revenue declined by c 3% to €120.9m, EBITDA increased by c 23% to €36.6m, and profit after tax increased by more than threefold to €9.5m. Please note that the headline numbers for Q221 and H121 are reported to one decimal place, ie €x.xm, therefore numbers below may vary slightly versus the company's news release due to rounding. Full financial statements for Q221 will be published on 26 February 2021.

### Revenue: Sequential improvement from Q121

The revenue decline of c 3% in Q221 was a significant improvement on the decline of 50% reported for Q121, which featured fewer games than is typical in the first quarter of a financial year as the start of the German football season was delayed due to COVID-19. The revenue of €120.9m was more than double Q121's €56.5m.

<b>Exhibit 1: Borussia Dortmund's revenue</b>						
€m	Q120	Q220	H120	Q121	Q221	H121
Match Operations	8.6	14.0	22.6	0.2	0.4	0.6
Advertising	24.1	26.4	50.5	22.4	29.9	52.3
TV Marketing	51.2	61.9	113.1	23.1	75.6	98.7
Merchandising	9.0	12.1	21.2	8.2	12.3	20.5
Conference, Catering & Miscellaneous	19.4	9.7	29.2	2.5	2.8	5.3
Total revenue	112.4	124.2	236.6	56.5	120.9	177.4
Growth y-o-y%						
Match Operations	(19%)	(16%)	(17%)	(97%)	(97%)	(97%)
Advertising	14%	4%	9%	(7%)	13%	3%
TV Marketing	9%	6%	7%	(55%)	22%	(13%)
Merchandising	38%	4%	17%	(9%)	1%	(3%)
Conference, Catering & Miscellaneous	236%	(7%)	79%	(87%)	(72%)	(82%)
Total revenue	23%	1%	11%	(50%)	(3%)	(25%)
Net transfer income	10.3	0.9	11.2	5.2	(0.7)	4.5
o/w Gross transfer fees	62.8	(2.0)	60.8	9.0	3.9	12.9

Source: Borussia Dortmund data

It is notable that three of the company's five sources of revenue grew year-on-year, including Borussia Dortmund's two largest revenue streams, Advertising and TV Marketing, which operate with multi-year commitments with partners and rights holders, and represented 71% of group revenue before COVID-19. Advertising increased by 13% y-o-y to €29.9m due to the addition of a new sponsor; TV Marketing increased by 22% to €75.6m due to the phasing of Bundesliga and Champions League; and Merchandising increased by c 1% to €12.3m. Conversely, Match Operations and Conference, Catering & Miscellaneous declined by c 97% and 72% as fan attendance at the stadium was only partially and temporarily permitted during the period given national lockdowns and other restrictions.

As well as lower revenues from a lack of fans at games, the uncertainty created by COVID-19 for the rest of the industry is evidenced by the lower gross transfer fees of €12.9m for H121 compared with the prior year's €60.8m.

## Profitability: Active cost control leads to higher profit

It is not unusual for Borussia Dortmund to report volatility in its profitability in the different financial quarters given, mainly the phasing and number of home games and the level of transfer activity. However, its EBITDA of €36.6m in Q221 and €27.3m in H121 is notable given the lower revenue in a very difficult operating environment. Specifically, for Q221, its EBITDA of €36.6m was higher than Q220's €29.7m despite generating c €3.3m less revenue than the prior year. Further, for H121 the company's revenue declined by c €59.2m y-o-y, but its EBITDA declined by only €27.4m.

### Exhibit 2: Costs and profitability

€m	Q120	Q220	H120	Q121	Q221	H121
Personnel expenses	(55.5)	(55.9)	(111.5)	(48.4)	(53.9)	(102.3)
% of revenue	49.4%	45.0%	47.1%	85.5%	44.6%	57.7%
Other operating expenses	(37.3)	(33.4)	(70.6)	(19.6)	(23.6)	(43.2)
% of revenue	33.2%	26.9%	29.9%	34.6%	19.6%	24.4%
EBITDA	25.0	29.7	54.7	(9.3)	36.6	27.3
Margin	22.2%	23.9%	23.1%	(16.4%)	30.3%	15.4%
Depreciation and amortisation	(25.7)	(23.6)	(49.3)	(26.5)	(26.3)	(52.8)
% of revenue	22.9%	19.0%	20.8%	46.9%	21.8%	29.8%
Profit before tax	(1.5)	6.0	4.5	(36.0)	9.8	(26.2)
Profit after tax	0.0	2.9	3.0	(35.8)	9.5	(26.3)

Source: Borussia Dortmund data

In descending order of contribution to the improvement in Borussia Dortmund's EBITDA in Q221, other operating expenses fell by c 29% y-o-y to €23.6m, and the less-flexible personnel expenses declined by c 4% to €53.9m. Below EBITDA, the 12% increase in depreciation and amortisation, mostly the non-cash amortisation of the book value of player registrations, offset some of the cash cost savings, and lower taxes of c €200k (versus c €3.0m in Q220) ensured that Borussia Dortmund reported a higher absolute profit after tax of €9.5m (€2.9m in Q220).

## Forecasts: FY21 and FY22 profit unchanged

Our profit forecasts for FY21 and FY22 are unchanged ahead of the full financial release of Q221 results on 26 February 2021. However, we make some changes to assumptions for key revenue and cost line items of the income statement following the trading update. Given the strong cost control in H121 we now assume lower personnel expenses and other operating expenses than previously, which add a combined €28m to our prior EBITDA forecast. These are offset by lower revenue from match operations as fans are less likely to attend games this season than we previously anticipated, and lower net transfer income to reflect the financial uncertainty facing all football clubs.

## Valuation: SOTP suggests 144% upside

We typically value Borussia Dortmund using an asset-backed SOTP valuation that takes into account the unrealised value of the squad and the brand. Our €12.55 valuation represents a premium of 144% to the current share price of €5.14.

**Exhibit 3: Sum-of-the-parts valuation**

	€m	Per share (€)	Comments
Value of squad	564.1	6.13	Per Transfermarkt.com less discount of 8.3%
Brand value	494.1	5.37	Brand Finance (May 2018) \$587m plus premium of 1%
Stadium	190.2	2.07	Net book value at 30 September 2020
<b>Enterprise value</b>	<b>1,248.4</b>	<b>13.57</b>	
Net cash/ (debt)	(94.1)	(1.02)	At 30 September 2020
<b>Equity value</b>	<b>1,154.3</b>	<b>12.55</b>	
Shares (m)	92.0		
Current share price		5.14	
Premium to current share price		144%	

Source: Edison Investment Research

The current value of the first team squad according to Transfermarkt.com is €615.2m, a premium of 169% to the balance sheet valuation of €228.3m at the end of June 2020. To this we now apply a discount of 8.3% reflecting the average transfer costs as a percentage of gross transfer fees since the change in accounting for transfer activity in FY20. The valuation of players is subjective and vulnerable to changes in the financial positions of other clubs, but we also highlight that it includes no value for players in the wider footballing squad including the youth team. Management's long-term record in realising gains on player disposals provides comfort that the squad's market value is at a premium to book value. The book value of the squad is equivalent to €2.48/share, and the unrealised gain of €335.8m represents €3.65/share.

The last quoted valuation of the Borussia Dortmund brand by Brand Finance of US\$587m is from May 2018, equivalent to €489m at the current exchange rate of US\$1.20/€. The valuation is more than two years old. As the valuation of brands is outside our field of expertise, we use the change in share prices of the four largest quoted peers (sports franchises and general sports entertainment) since the end of May 2018 as a proxy for the change in Borussia Dortmund's brand, and adjust it accordingly.

**Exhibit 4: Share price performance of peers**

	Currency	Market value (m)	Share price 31 May 2018	Share price 8 February 2021	Change (%)
Manchester United	US\$	2,612	20.95	16.03	(23)
Juventus	€	1,064	0.54	0.81	50
Olympique Lyonnais	€	115	3.07	2.00	(35)
Ajax	€	286	12.05	15.72	30
<b>Average of football clubs</b>					<b>6</b>
Madison Square Garden	US\$	4,246	186.86	176.08	(6)
World Wrestling Entertainment	US\$	3,832	57.89	49.23	(15)
<b>Average of other sports/ entertainment</b>					<b>(10)</b>
<b>Average of four largest companies</b>					<b>1</b>

Source: Refinitiv. Note: Priced 8 February 2021.

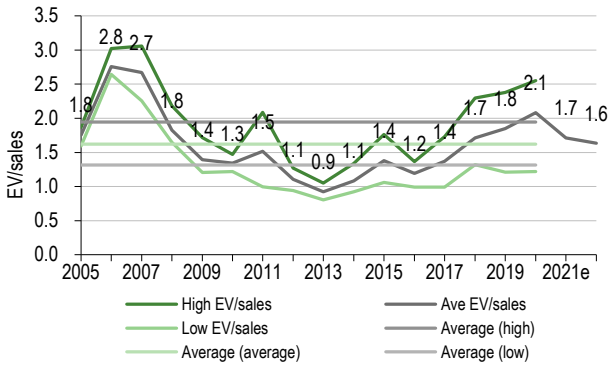
The share prices of the four largest peers have increased on average by 1% since May 2018, albeit with a wide range of changes. Therefore we inflate Borussia Dortmund's May 2018 brand valuation by 1% to arrive at a current valuation of €494.1m or €5.37/share.

The current share price of €5.14 is lower than the individual valuations of the playing squad (€6.13/share) and the brand (€5.37/share).

## Borussia Dortmund's long-term valuation

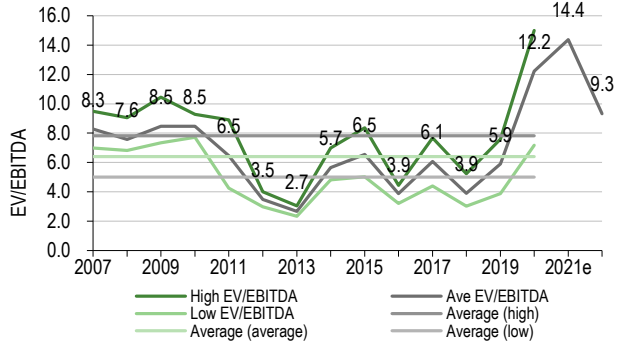
For FY21 and FY22, Borussia Dortmund's EV/sales multiples are broadly in line with the long-term average of 1.6x since FY05, despite revenue being depressed by the effects of COVID-19, highlighting good scope for share price appreciation on a return to revenue growth post COVID-19. The higher EV/EBITDA multiples of 14.4x and 9.3x represent the near-term COVID-19-depressed profitability.

**Exhibit 5: Borussia Dortmund's EV/sales multiple**



Source: Refinitiv, company accounts

**Exhibit 6: Borussia Dortmund's EV/EBITDA multiple**



Source: Refinitiv, company accounts

**Exhibit 7: Financial summary**

	€'k	2014	2015	2016	2017	2018	2019	2020	2021e	2022e
30-June		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>										
Revenue	256,280	263,601	281,261	328,375	313,310	370,256	370,196	331,475	346,606	
Cost of Sales	(15,857)	(8,237)	69,322	51,388	202,639	(21,273)	(22,392)	(17,066)	(19,384)	
Gross Profit	240,423	255,364	350,583	379,763	515,949	348,983	347,804	314,408	327,222	
EBITDA	49,132	55,594	86,668	74,073	137,306	115,983	62,992	39,446	60,801	
Normalised operating profit	40,976	46,025	75,798	62,597	126,150	103,160	49,050	25,152	46,326	
Amortisation of acquired intangibles	(22,523)	(32,865)	(31,899)	(51,939)	(66,814)	(65,850)	(88,285)	(94,972)	(107,072)	
Exceptionals	0	0	(7,469)	0	(20,362)	(13,809)	(3,903)	0	0	
Reported operating profit	18,453	13,160	36,430	10,658	38,974	23,501	(43,138)	(69,820)	(60,746)	
Net Interest	(3,889)	(7,159)	(2,104)	(1,567)	(4,336)	(1,705)	(3,444)	(2,233)	(2,483)	
Joint ventures & associates (post tax)	27	0	8	28	13	13	(1)	0	0	
Profit Before Tax (norm)	37,114	38,866	73,702	61,058	121,827	101,468	45,605	22,918	43,843	
Profit Before Tax (reported)	14,591	6,001	34,334	9,119	34,651	21,809	(46,583)	(72,053)	(63,229)	
Reported tax	(2,621)	(469)	(4,898)	(910)	(2,946)	(4,418)	2,630	0	(4,384)	
Profit After Tax (norm)	30,447	35,828	63,188	54,965	111,469	80,913	43,030	22,918	39,458	
Profit After Tax (reported)	11,970	5,532	29,436	8,209	31,705	17,391	(43,953)	(72,053)	(67,613)	
Minority interests	(310)	(281)	(245)	0	0	0	0	0	0	
Net income (normalised)	30,137	35,547	62,943	54,965	111,469	80,913	43,030	22,918	39,458	
Net income (reported)	11,660	5,251	29,191	8,209	31,705	17,391	(43,953)	(72,053)	(67,613)	
Average number of shares outstanding (m)	61.4	92.0	92.0	92.0	92.0	92.0	92.0	92.0	92.0	
EPS - normalised (c)	49.06	38.64	68.42	59.74	121.16	87.95	46.77	24.91	42.89	
EPS - diluted normalised (€)	0.49	0.39	0.68	0.60	1.21	0.88	0.47	0.25	0.43	
EPS - basic reported (€)	0.19	0.06	0.32	0.09	0.34	0.19	(0.48)	(0.78)	(0.73)	
Dividend (€)	0.10	0.05	0.06	0.06	0.06	0.06	0.00	0.00	0.00	
Revenue growth (%)	1.1	2.9	6.7	16.8	(-4.6)	18.2	(-0.0)	(-10.5)	4.6	
Gross Margin (%)	93.8	96.9	124.6	115.6	164.7	94.3	94.0	94.9	94.4	
EBITDA Margin (%)	19.2	21.1	30.8	22.6	43.8	31.3	17.0	11.9	17.5	
Normalised Operating Margin	16.0	17.5	26.9	19.1	40.3	27.9	13.2	7.6	13.4	
<b>BALANCE SHEET</b>										
Fixed Assets	249,492	289,509	302,765	354,858	351,405	371,715	441,455	390,189	329,642	
Intangible Assets	61,602	96,340	65,278	141,521	120,342	163,710	229,667	189,695	137,624	
Tangible Assets	184,502	189,518	188,423	184,664	180,693	184,001	193,037	181,742	173,267	
Investments & other	3,388	3,651	49,064	28,673	50,370	24,004	18,751	18,751	18,751	
Current Assets	42,803	97,030	121,780	123,739	134,207	128,356	76,512	67,769	69,961	
Stocks	5,921	9,376	10,158	8,978	5,588	4,569	6,754	5,148	5,847	
Debtors	14,923	29,680	51,072	48,776	22,981	30,061	36,520	32,700	34,193	
Cash & cash equivalents	17,852	53,739	51,722	49,297	59,464	55,865	3,317	0	0	
Other	4,107	4,235	8,828	16,688	46,174	37,861	29,921	29,921	29,921	
Current Liabilities	(71,014)	(61,627)	(78,811)	(140,912)	(119,026)	(125,388)	(122,609)	(134,652)	(143,911)	
Creditors	(59,927)	(58,327)	(69,587)	(128,707)	(113,949)	(119,779)	(110,188)	(86,173)	(86,889)	
Tax and social security	(571)	(803)	(5,212)	(732)	(1,962)	(811)	(40)	(40)	(40)	
Short term borrowings	(8,889)	0	0	0	0	0	(8,031)	(44,090)	(52,632)	
Finance leases	(1,627)	(2,497)	(2,640)	(10,295)	(1,969)	(3,127)	(4,350)	(4,350)	(4,350)	
Other	0	0	(1,372)	(1,178)	(1,146)	(1,671)	0	0	0	
Long Term Liabilities	(76,032)	(38,834)	(36,192)	(25,383)	(23,001)	(19,764)	(89,911)	(89,911)	(89,911)	
Long term borrowings	(32,139)	0	0	0	0	0	0	0	0	
Finance leases	(20,142)	(21,630)	(18,990)	(8,695)	(6,726)	(8,381)	(20,054)	(20,054)	(20,054)	
Other long term liabilities	(23,751)	(17,204)	(17,202)	(16,688)	(16,275)	(11,383)	(69,857)	(69,857)	(69,857)	
Net Assets	145,249	286,078	309,542	312,302	343,585	354,919	305,447	233,394	165,781	
Minority interests	(334)	(305)	0	0	0	0	0	0	0	
Shareholders' equity	144,915	285,773	309,542	312,302	343,585	354,919	305,447	233,394	165,781	
<b>CASH FLOW</b>										
Op Cash Flow before WC and tax	45,270	48,435	84,572	72,534	132,983	111,914	59,547	37,213	58,318	
Working capital	(6,672)	(20,851)	29,052	31,488	(9,402)	5,673	(18,011)	(18,589)	(1,476)	
Exceptional & other	(4,649)	(3,193)	(76,641)	13,868	52,171	(84,587)	(38,877)	(13,767)	(47,517)	
Tax	(3,879)	(200)	(320)	(5,476)	(1,723)	(2,834)	305	0	(4,384)	
Operating cash flow	30,070	24,191	36,663	112,414	174,029	30,166	2,964	4,857	4,941	
Capex	(10,923)	(10,399)	(9,442)	(8,139)	(7,195)	(9,872)	(6,143)	(3,000)	(6,000)	
Net investment in intangibles	2,058	(61,682)	(20,038)	(96,526)	(135,556)	(13,643)	(44,646)	(39,000)	(5,000)	
Acquisitions/disposals	0	0	(500)	(45)	0	0	0	0	0	
Net interest	(3,644)	(7,244)	(1,435)	(2,002)	(3,668)	(1,456)	(3,326)	(2,233)	(2,483)	
Equity financing	5	140,708	1	0	0	0	0	0	0	
Dividends	(6,523)	(6,451)	(5,124)	(5,519)	(5,519)	(5,519)	(5,519)	0	0	
Other	(5,727)	(43,236)	(2,142)	(2,608)	(11,924)	(3,275)	4,122	10,000	0	
Net Cash Flow	5,316	35,887	(2,017)	(2,425)	10,167	(3,599)	(52,548)	(29,376)	(8,542)	
Opening net debt/(cash)	53,932	44,945	(29,612)	(30,092)	(30,307)	(50,769)	(44,357)	29,118	68,494	
Other non-cash movements	3,671	38,670	2,497	2,640	10,295	(2,813)	(20,927)	(10,000)	0	
Closing net debt/(cash)	44,945	(29,612)	(30,092)	(30,307)	(50,769)	(44,357)	29,118	68,494	77,036	

Source: Company accounts, Edison Investment Research

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