MAINFIRST
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Borussia Dortmund

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Travel & Leisure

30 September 2020

INITIATION OF COVERAGE

Hold

PT: €6.00

Key data

Ticker	**BVB GY**
Price (29 September 2020)	**€5.11**
Upside to Price Target (%)	17.5
Market Cap (m)	400
Free Float (%)	60.0
Daily Value Traded (m)	1.4
Next Reporting Date	Nov 13 2020
No. of Shares (m)	92.00
1mth perf (%)	(8.9)
3mth perf (%)	(11.6)
12mth perf (%)	(44.7)
12mth high-low (€)	10 - 4

Key financials

(In EUR M)

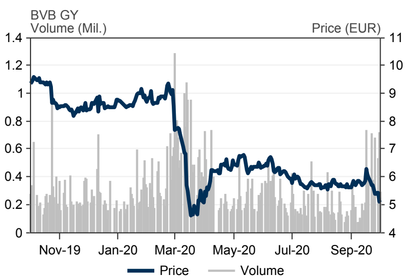
Year to Jun	**2020A**	**2021E**	**2022E**
Group revenue	370	335	336
EBITDA (rep.)	63.0	28.0	74.8
EBIT (rep.)	(43.14)	(63.09)	(15.88)
EPS (adj.) (c)	(0.48)	(0.64)	(0.18)
EPS (cons.) (c)	0.0	0.0	0.0
DPS (c)	0.00	0.00	0.00
Net debt/(cash)	29.1	50.7	45.2
ROCE (NOPAT) (%)	(11.7)	(18.0)	(4.7)
EPS (adj.) y/y (%)	(352.7)	33.5	(72.4)
Net debt/EBITDA	0.46	1.81	0.60
EV/Sales	1.6	1.8	1.8
EV/EBITDA (adj.)	9.4	21.9	8.1
EV/EBIT (adj.)	(13.7)	(9.7)	(38.2)
P/E (adj.)	(10.7)	(8.0)	(29.0)
Dividend yield (%)	0.0	0.0	0.0
Free CF yield (%)	(28.4)	(2.5)	(0.5)
EV/CE	1.7	1.9	2.0

Prices are as of close 29 September 2020

Completed: 30 September 2020 12:42EDT
Disseminated: 30 September 2020 12:42EDT

All sources unless otherwise stated: Company data, FactSet, MainFirst estimates

Share price performance (indexed)



Initiation of coverage: Waiting for the starting whistle

Summary

- **We initiate coverage on Borussia Dortmund with a Hold recommendation and price target of €6.00.**
- **Borussia Dortmund has shown a consistent on-pitch performance over the past decade and ranks among the 15 leading professional football clubs in Europe. Our analysis suggests that the company is well positioned to weather the perfect COVID-19 storm and potentially gain market share.**
- **However, the next two seasons will likely prove challenging, as BVB depends heavily on matchday revenues and transfers. Visibility on both revenue streams is low at this stage.**
- **We believe that German and European professional football is likely to return to growth beyond the COVID-19 pandemic, but we also see risks in the first signs of market saturation.**

Key Points

COVID-19 brought the football industry to a hard stop and visibility is low

Until the pandemic struck, professional football in Europe seemed an attractive growth story, reflected in a CAGR of ~7% over the past ten years to a market worth ~€21.1bn in the 2018/19 season. However, the next two fiscal years will likely prove challenging as we do not envisage full stadiums until FY22/23E. With regard to TV marketing, we sense some uncertainty around the development of the UEFA rights pot and note that the value of Bundesliga content for the next rights cycle has dropped by 5% on average. In addition, seasonality in the distribution will make a year-over-year comparison in FY20/21E look even more depressed. Lastly, visibility regarding the future development of the transfer market, which contrary to other football clubs, is an integral part of BVB's business model, is low, in our view.

Advertising should prove the growth engine for the business

On the positive side, management has taken the first steps to drive commercial revenues, most importantly advertising and sponsorships, which we identify as the main growth driver for the business over the next three years. In general, European football should remain a growth industry. Our analysis suggests that BVB is well positioned to benefit and, potentially, win market share, based on a strong and well differentiated brand and a smart and somewhat unique transfer strategy. While we concede that net debt will likely rise further in FY20/21E in light of the current standstill in player transfer markets, BVB carries a sound balance sheet, which should allow the club to hold investments at high levels to ensure on-field competitiveness.

Our valuation framework suggests fair value of €6.00 per share

We value the stock on an equal mix of peer group-derived target multiples; applying a 1.7x EV/sales and 5.2x EV/EBITDA multiple to our FY21/22E estimates yields an equity value of €6.00. Our DCF analysis (WACC 7.5%, TGR 2%) shows the long-term upside for the business. However, in light of negative trading momentum and high uncertainty, in particular around income from gate receipts and transfers, we remain on the sidelines and initiate coverage with a Hold recommendation. We think more than any other industry, live entertainment is subject to the impact of COVID-19. Hence, any newsflow around the pandemic will likely lead to a corresponding rerating. Changes to the status quo in the player transfer market and, with a more long-term perspective, a potential removal of the '50+1 Rule', which prevents investors from taking full control of any football franchise in Germany, should be welcomed by investors. On the negative side, shrinking popularity of football, potentially due to oversupply, would negatively affect BVB's brand value and the value of TV-broadcasting rights.

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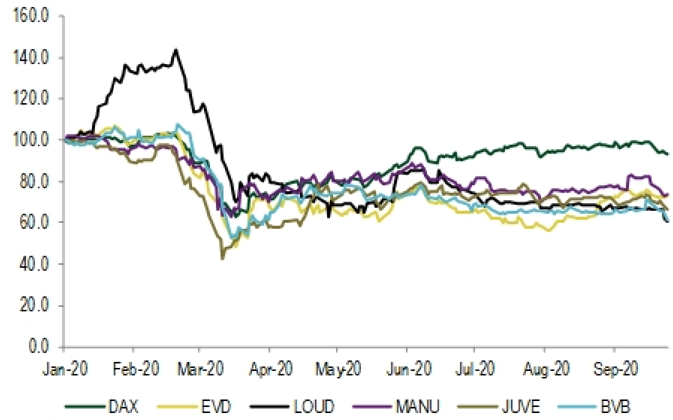
KEY FINANCIALS AND RATIOS

YEAR TO JUNE (IN EUR m)	2018A	2019A	2020A	2021E	2022E	2023E
PROFIT & LOSS ACCOUNT						
Group revenue	**302**	**370**	**370**	**335**	**336**	**386**
EBITDA (rep.)	**137**	**116**	**63.0**	**28.0**	**74.8**	**121**
EBIT (rep.)	**39.0**	**23.5**	**(43.14)**	**(63.09)**	**(15.88)**	**29.4**
t/o: At-equity result	0	0	0	0	0	0
Pre-tax results	34.7	21.8	(47)	(65)	(18)	27.3
Income tax and other items	(3)	(4)	2.63	6.52	1.80	(3)
Net result group	31.7	17.4	(44)	(59)	(16)	24.5
Minorities and other items	0	0	0	0	0	0
Net result shareholders, rep.	**31.7**	**17.4**	**(44)**	**(59)**	**(16)**	**24.5**
EPS, fully diluted (c)	**0.34**	**0.19**	**(0.48)**	**(0.64)**	**(0.18)**	**0.27**
Exceptionals in EBIT	0	0	0	0	0	0
Profit and Loss Account (adj)						
EBITDA	**137**	**116**	**63.0**	**28.0**	**74.8**	**121**
EBIT	**39.0**	**23.5**	**(43)**	**(63)**	**(16)**	**29.4**
Operating result (company definition)	39.0	23.5	(43)	(63)	(16)	29.4
Net result, shareholders	31.7	17.4	(44)	(59)	(16)	24.5
EPS (adj.) (c)	**0.34**	**0.19**	**(0.48)**	**(0.64)**	**(0.18)**	**0.27**
CASH FLOW STATEMENT						
EBITDA (rep.)	137	116	63.0	28.0	74.8	121
Cash interest and tax payments	(5)	(4)	(3)	4.42	(0)	(5)
Change in working capital	(9)	5.67	(18)	30.6	0.16	7.24
Other operating cash flow items	47.8	(89)	(42)	0	(0)	0.00
Cash flow before capex	**170**	**28.7**	**(0)**	**63.0**	**74.7**	**124**
Capital expenditure	(143)	(139)	(159)	(77)	(77)	(81)
Free cash flow	**27.3**	**(111)**	**(159)**	**(14)**	**(3)**	**42.6**
Acquisitions/Disposals/Financial assets	(0)	(0)	0	0	0	0
Dividends, minority payouts	(6)	(6)	(6)	0	0	0
Equity measures, other	4.30	105	98.6	(8)	8.08	11.5
Change in net cash	26.1	(11)	(66)	(22)	5.50	54.1
Net cash (debt)	**48**	**37**	**(29)**	**(51)**	**(45)**	**9**
BALANCE SHEET						
Fixed assets	351	372	441	427	414	403
Goodwill	0	0	0	0	0	0
Current Assets	135	130	76.5	31.8	29.5	82.0
t/o Inventories	5.59	4.57	6.75	4.02	4.03	4.63
t/o Trade receivables	23.0	30.1	36.5	23.4	23.5	27.0
t/a Cash and equivalents	59.5	55.9	3.32	(20)	(15)	39.6
Group equity	344	355	305	247	231	255
t/o Shareholders equity	344	355	305	247	231	255
Interest-bearing liabilities	11.2	18.7	32.4	30.4	30.4	30.8
Other liabilties and provisions	132	128	180	182	182	199
t/ Pension provisions	0	0	0	0	0	0
t/o Trade libabilities	64.3	62.1	137	140	140	151
Balance sheet total	**487**	**502**	**518**	**459**	**443**	**485**
Net Working Capital	(36)	(28)	(94)	(112)	(113)	(119)
Capital Employed (incl. Goodwill)	316	344	348	315	301	284
RATIOS						
Revenue y/y (%)	(7.0)	22.8	(0.0)	(9.6)	0.3	15.0
EBITDA Margin (adj.) (%)	45.5	31.3	17.0	8.36	22.3	31.4
EBIT adj margin (%)	12.9	6.3	(11.7)	(18.8)	(4.7)	7.6
EPS (adj.) y/y (%)	286.2	(45.1)	(352.7)	33.5	(72.4)	(251.6)
Working capital intensity (%)	(12)	(7)	(25)	(34)	(34)	(31)
DSOs	27.8	29.6	36.0	25.6	25.6	25.6
Inventory turnover (Days)	6.76	4.50	6.66	4.38	4.38	4.38
Net debt (cash) / EBITDA (adj.)	(0.4)	(0.3)	0.46	1.81	0.60	(0.1)
EBITDA (adj.) / Capex	0.96	0.83	0.40	0.36	0.97	1.50
Free CF yield (%)	4.9	(19.7)	(28.4)	(2.5)	(0.5)	7.6
Oper. FCF Yield (%)	6.0	(20.8)	(26.4)	(1.9)	(0.1)	8.1

Case in 6 charts

BVB has shown a significant underperformance ...

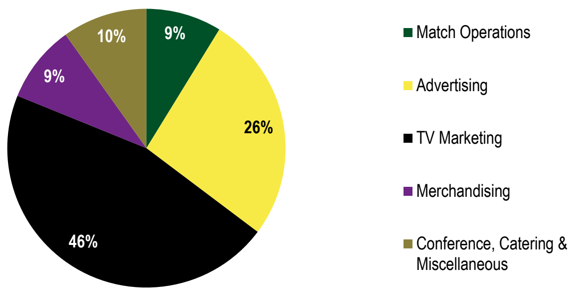
YTD share price performance BVB vs. DAX and peers



Source: Bloomberg

... as most revenue streams have been hit by COVID-19

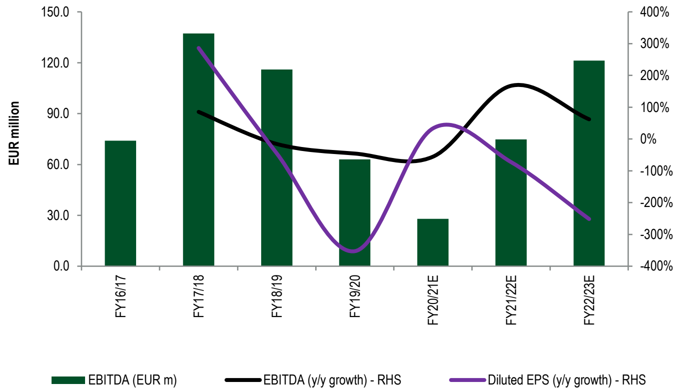
FY19/20 revenues split



Source: Company data, MainFirst Research

Two difficult years ahead

EBITDA and EPS forecasts

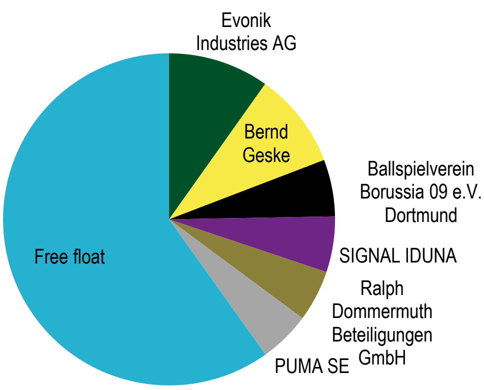


Source: Company data, MainFirst estimates

Professional football: the winner takes the most

Source: MainFirst Research

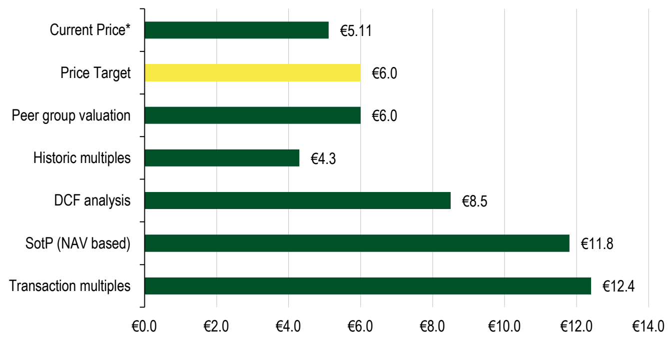
Cap table is dominated by sponsors



Source: Company data, MainFirst Research

Our valuation is based on a FY21/22E EV/EBITDA target multiple

Valuation overview



Source: MainFirst Research

Company Snapshot

Investment case summary

- Borussia Dortmund has shown a consistent on-pitch performance over the past decade and ranks among the 15 leading professional football clubs in Europe. Our analysis suggests that the company is well positioned to weather the perfect COVID-19 storm and potentially gain market share.
- However, the next two seasons will likely prove challenging, as BVB depends heavily on matchday revenues and transfers. Visibility on both revenue streams is low at this stage, in our view.
- We believe that German and European professional football will return to growth beyond the COVID-19 pandemic but also see risks in ever increasing competition for the best players, paired with first signs of market saturation.

Target price methodology

We value Borussia Dortmund on a mix of three valuation metrics: (1) DCF analysis (WACC of X and TGR of Y), (2) peer group-derived target multiples, focusing on EV/sales and EV/EBITDA and (3) historical multiples. While DCF reveals the long-term potential for value creation, the other approaches are less supportive.

Risk to our valuation and rating

- On-field success is the biggest uncertainty factor in forecasting the financial success of a professional football club, most notably the failure to quality for the UEFA Champions League and, in a worst case scenario, relegation from the Bundesliga.
- Player salaries have been constantly on the rise over the past decade. This may put sustainable pressure on the ability of a professional football club to generate profits and pay dividends to shareholders.
- The adverse regulatory framework for professional football clubs in Germany may prove a competitive disadvantage in an industry which is characterised by winner take the most dynamics.

Key dates

- 13 Nov - Q1 2020/21 results

Company description

Borussia Dortmund (BVB) is a leading European professional football franchise. It has been the second most successful club in Germany, after Bayern Munich, since inception of the Bundesliga (BuLi), one of the Big 5 Leagues in Europe. In terms of revenues BVB ranks 12th in Europe (€370m or €490m, including transfers, in FY18/19). BVB has for the past ten years shown impressive on-field consistency, in our view. Titles since the inception of the BuLi in 1963/64 include: 6x German Championship, 4x National Cup, 1x UEFA Champions League, 1x UEFA Cup.

Key products, clients and end markets

In essence, the business model of a professional football club consists of content creation, which, in this particular case, are football matches. The fixed assets needed for this are a high-performance football squad as well as an attractive stadium. This content is then monetised via match tickets, often subscriptions in the form of season tickets, catering, TV-broadcasting rights, sponsorships and merchandising. Key clients are therefore (1) fans, (2) broadcasting stations and (3) advertising partners.

Key shareholders

- Evonik: 10%
- Ralph Dommermuth Beteiligungen: 5%
- PUMA SE: 5%
- Iduna Insurance Group: 5%
- BVB e.V.: 6%
- Bernd Geske: 9%

Senior management

The management board of the general partner ('Komplementaer') of the Borussia Dortmund GmbH & Co. KGaA consists of:

- Hans-Joachim Watzke, CEO
- Thomas Tress, CFO
- Carsten Cremer, CMO

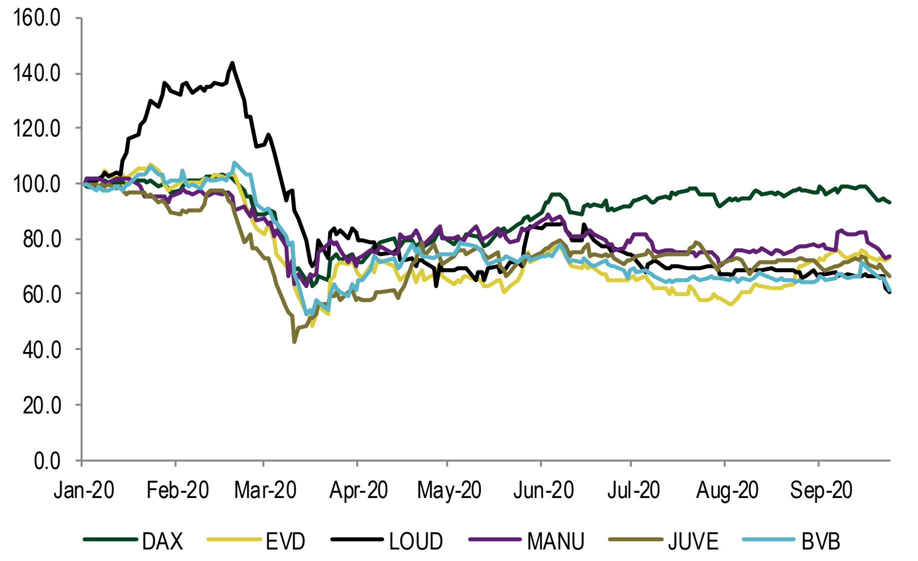
Executive summary

Borussia Dortmund (BVB) is a leading European professional football franchise. It has been the second most successful club in Germany, after Bayern Munich, since the inception of Bundesliga (BuLi), one of Europe's Big 5 Leagues. In terms of revenues, BVB ranks 12th in Europe (€370m, rising to €490m including player transfers, in FY18/19).

We initiate with a Hold recommendation and price target of €6.00

The live entertainment industry, including professional football, is clearly one of the most adversely affected in the current COVID-19 pandemic. Not surprisingly, related stocks have materially underperformed the DAX year to date (Figure 1). BVB underperformed the DAX by 31% YTD compared with -26% and -19% for Juventus Turin (Not Covered) and Manchester United (Not Covered), respectively vs the DAX -7% YTD. CTS Eventim (Not Covered) and Deutsche Entertainment AG[1] (LOUD GY, Buy, €2.74) underperformed by 29% and 31% YTD, respectively.

Figure 1: Share price performance, Live Entertainment Sector vs. DAX



Source: Bloomberg, MainFirst Research

While we concede that valuation levels of all live entertainment stocks appear depressed, visibility around many parts of the business is low. For football clubs, like BVB, this is particularly true for the revenue contribution from matchday operations but also transfers and, arguably to a lesser extent, the value of TV-broadcasting rights. As professional football is characterised by a high share of fixed costs, a declining top-line performance has disproportionate effects on BVB's profitability. In our view, the company enjoys a solid balance sheet, especially compared with peers. However, in the event that the COVID-19 pandemic prevents a return to 'normal' operations beyond FY20/21, we cannot rule out the need for significant cost-cutting measures and / or the need for fresh capital. We firmly believe that European professional football remains a highly attractive market in the mid- to long term and that BVB is well positioned to participate in the growth opportunities the industry offers. This is also reflected in long-term valuation analysis frameworks, such as DCF and net asset value-based sum-of-the-parts analysis. However, over the next 12 months, the stock will likely move on sentiment around the pandemic and, in light of the high risk and low visibility for the next fiscal year, we believe it is too early for investors to seek exposure. Hence, we initiate coverage with a hold recommendation and a price target of €6.00, based on a peer group multiple approach.

[1] Sponsored Research

Professional football: first-in, last-out of the COVID-19 crisis?

Borussia Dortmund's total addressable market was worth ~€21.1bn in the 2018/19 season, up ~5% vs. 2017/18, according to UEFA (Union of European Football Associations) data. The association of professional football clubs in Germany, Deutsche Fussball Liga (DFL), reported aggregated revenues of €4.8bn for professional football clubs in Germany in 2018/19, up ~9% yoy. Moreover, due to growing professionalism and increasing attractiveness of the content, the European football industry has enjoyed impressive growth characteristics over the past decade, reflected in a revenue CAGR of ~8% and ~7% in Germany and Europe, respectively. Pre-COVID-19 the industry has also proven rather resilient to macro-downturns. This is despite higher exposure to the general advertising cycle, compared with other live entertainment formats. In general, we categorise professional football as a sub-group of the (live) entertainment industry, with a high degree of customer (fan) loyalty, not dissimilar to music concerts. However, the emergence of the COVID-19 pandemic turned the professional sports industry upside down: in an attempt to contain coronavirus, governments across the world banned large events, including football matches. Match cancellations led to an estimated direct revenue shortfall for BVB of ~€4m per match. In addition, sponsors will likely request compensation while the value of broadcasting rights has taken a (temporary) hit. Last but not least, transfer markets have become distorted as high macro uncertainly has led to tighter budgets among the majority of European football clubs. We concede that visibility for short-term financial forecasts is poor, but also note that our analysis suggests that professional football should remain a structural growth industry with potential to expand revenues outside current core regions.

Financial strength will prove a clear competitive advantage

The European football industry has increasingly transformed into an oligopoly, fuelled by ever-rising investments in players. We argue that money often buys the best squad, which translates into superior on-field success and, in turn, attracts not only the highest share of broadcasting rights revenues but also sponsorship budgets. As a publicly listed entity and with courtesy to its disciplined financial policy in the past, we believe that BVB is well positioned to maintain high investment levels and establish itself in the top-tier bracket among European football clubs. The success of the business model is naturally based on the team's on-pitch performance, which implies that investors will always be exposed to the vagaries of sporting luck. However, BVB, for the past ten years, has shown an impressive on-field consistency, in our view, which should bolster confidence in financial forecasts. Titles since the inception of the Bundesliga in 1963/64 include 6x German Championship, 4x DFB Cup, 1x UEFA CL and 1x UEFA Cup.

Figure 2: BVB historical on-field success

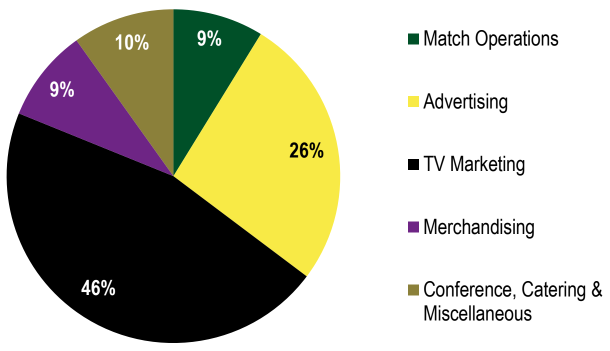
SEASON	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Bundesliga	1	1	2	2	7	2	3	4	2	2
DFB Pokal	Second Round	Champions	Quarter-Finals	Second Place	Second Place	Second Place	Champions	Third Round	Third Round	Third Round
DFL Supercup		2	2	1	1		2	2		1
Champions League	NA	Group Stage	Second Place	Quarter-Finals	Round of 16	NA	Quarter-Finals	Group Stage	Round of 16	Round of 16
Euro League	Group Stage					Quarter-Finals		Round of 16		

Source: DFL, UEFA

Football content creates various revenue streams – 45% are recurring (at least in a non-COVID-19 environment)

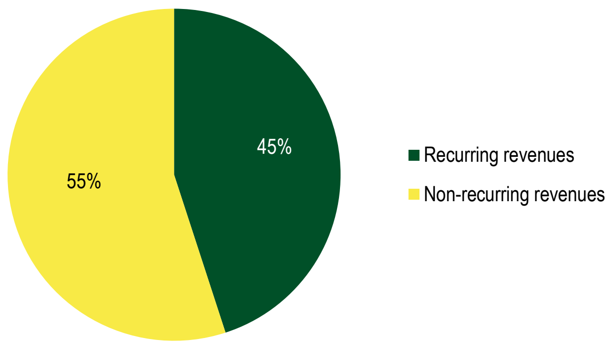
In essence, the business model of a professional football club consists of content creation, which, in this particular case, are football matches. The fixed assets needed for this are a high-performance football squad as well as an attractive stadium. This content is then monetised via match tickets, often via subscriptions in the form of season tickets, as well as catering, broadcasting rights, sponsorships and merchandising. It seems fair to say that BVB has successfully managed to build a valuable brand ("*Echte Liebe*" = "True Love") over the past few decades, a strong basis for building and maintaining a loyal fan base and attracting advertising customers. We display the club's revenue split in Figure 3. We estimate that – in non-COVID-19 times, ~40-50% of those revenues are of a recurring nature, which investors will likely appreciate.

Figure 3: Segment revenue split, FY19/20



Source: Company accounts, MainFirst Research

Figure 4: Recurring revenue split



Source: Company accounts, MainFirst Research

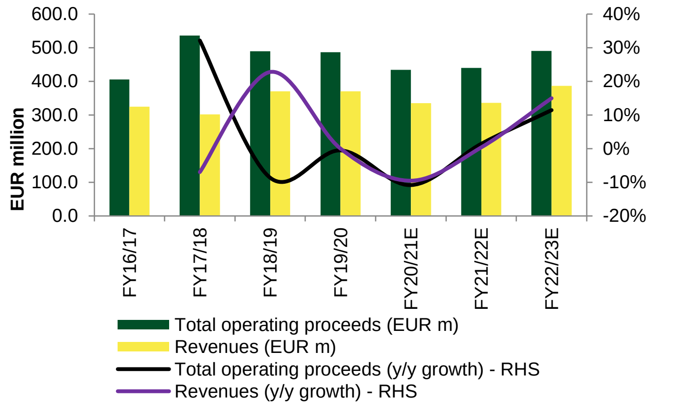
Content is still king – reflected in the recent TV-rights tender in Germany

Despite the COVID-19-induced adverse market environment, football content will likely retain its attractiveness in the mid- to long term, simply due to the underlying scarcity of the content. This is reflected in the outcome of the recent tender process for the football TV rights in Germany, which resulted in total proceeds for the DFL of ~€4.4bn for the next four seasons until 2024/25. This marks a decline of ~5% compared with the last rights cycle but should still be seen as a respectable achievement, in our view. We believe that the balance of power in the broadcasting industry will continue to shift in favour of content producers. Emerging distribution platforms, namely the platforms such as DAZN, Netflix, Amazon Movie or Facebook, have become increasingly viable contenders for sports content, competing with established pay-TV channels, such as Sky, and FTA (Free-to-Air) broadcasters. We therefore believe that TV rights will remain a structural growth driver for BVB in the mid- to long term, albeit potentially at a slower pace (CAGR of ~40% since 2005/06).

COVID-19 will likely continue to depress BVB's financial performance

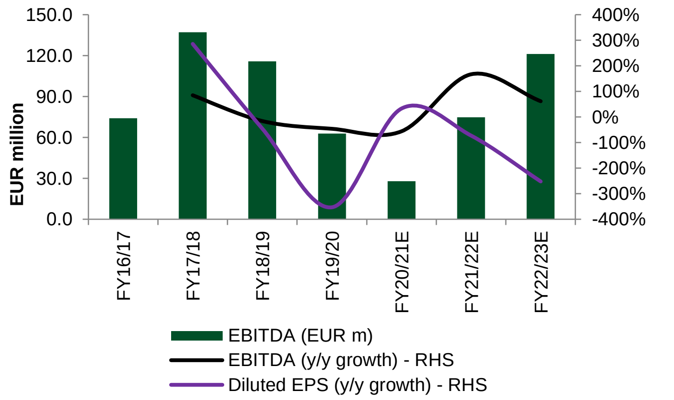
Besides moderately lower revenues from TV-broadcasting rights beyond 2020/21, we believe that other important revenue streams, such as match operations and catering, will need more than one year to recover to pre-COVID-19 levels. In our base case, we assume that COVID-19 can be contained at current levels, which should ensure that match operations will continue under the existing hygiene rules and advice. Nevertheless, we expect gate receipts and catering revenues to halve in FY20/21E, before a likely strong rebound in FY21/22E and coming close to FY18/19 levels in FY22/23E. Sponsorships should hold up well as BVB managed to not only renew large parts of existing contracts, in particular with kit supplier PUMA, on better terms, but win new, major sponsorship partners, like 1&1. In total, we forecast a sharp decline in group revenues, ex transfers, of ~10% to ~€335m. However, driven by a return to full stadium capacity, our underlying assumption that BVB will reach the UEFA CL Quarter Finals and a strong development in advertising / sponsorship revenues, the club's top-line performance in FY22/23E should even exceed FY18/19 pre-crisis levels by ~€16m. We note that probably for more than any other industry, a full recovery of live entertainment events will depend on the successful introduction of vaccines and / or therapeutics. On the cost side, we expect that management will apply rigorous discipline on discretionary costs, while player salaries will likely remain at elevated levels to ensure competitiveness. Due to a high fixed cost base, operating profits heavily move with swings in revenues. In the next fiscal year, we project EBITDA ~€28m, down from €63.0m in FY19/20, followed by a steep recovery in FY21/22E, albeit almost exclusively driven by a re-opening of the transfer market, rather than improvements in operating business activities.

Figure 5: Revenue and total operating proceeds (€m)



Source: Company data, MainFirst estimates

Figure 6: Forecasts for EBITDA (€m) and EPS (€)



Source: Company data, MainFirst estimates

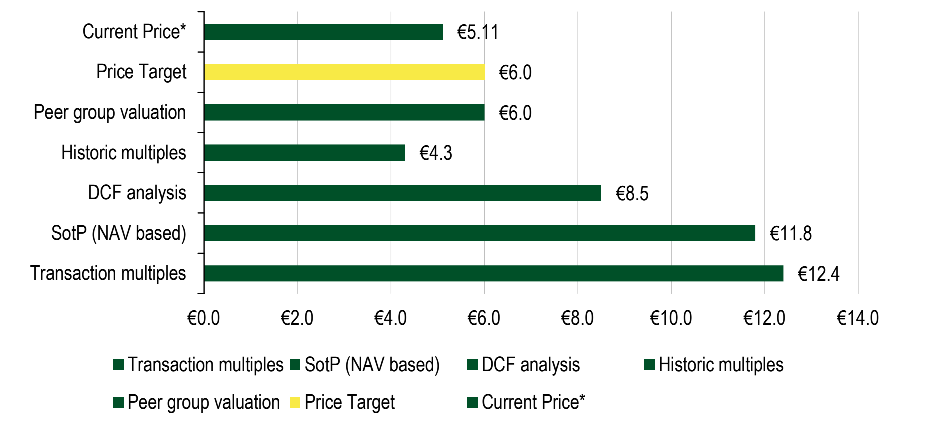
Can BVB emerge stronger from the COVID-19 pandemic?

The COVID-19 crisis clearly revealed material shortcomings in the management of a number of European football clubs. With an equity position of €305m and net debt of €29m (~0.5x EBITDA) at the end of FY19/20 BVB is among the financially most sound in the European football industry. This should create a sustainable competitive advantage. As such, we believe that COVID-19 will further reinforce the trend towards an oligopolistic industry structure with BVB as a long-term member of the top-15 clubs in the UEFA rankings. As the only Big-5 League in Europe, the German Football Association (DFB) does not allow full ownership of clubs by investors. However, as the hard stop to all business activities due to COVID-19 brought a number of German football clubs to the edge of bankruptcy, we may see the debate around the so-called '50+1' Rule resurface. Any liberalisation of the regulatory framework would likely prove a positive trigger for BVB as a publicly listed company.

Valuation signals little upside but a clear opportunity for long-term value creation

We value BVB on peer group derived two-year forward target multiples. We apply an equal weight to the implied equity value derived by using EV/EBITDA, EV/sales and EV/total operating proceeds multiples. A DCF framework, using a WACC of 7.5% and a terminal growth rate of 2% signals significant upside potential but we argue that the company beta is likely higher in current times of high uncertainty around the business model. A sum-of-the-parts analysis, based on net asset values of the squad, brand and stadium, also indicates upside but, in our view, is difficult to interpret. The same is true for the result of a valuation based on recent transactions in European football.

Figure 7: Valuation overview (€)



Note: Closing price as of 29 September 2020.
Source: Bloomberg, MainFirst Research,

Main **risks** to our financial forecasts are (a) any unforeseen and sudden developments around the COVID-19 pandemic in both directions, (b) on-field success, which may exceed or disappoint our expectation and (c) value-accretive or destructive transfer management.

Contents

Professional football in times of COVID-19

Below we provide an overview of the way that COVID-19 has affected BVB's business lines. We also recap the recent newsflow on the topic. We conclude that visibility on the exogenous factors that determine the financial success of professional football operations is still at a low point.

Short-term impact or structural changes to the industry?

- The clearest financial impact for football clubs stems from the loss of **matchday revenues** in light of match cancellations or the introduction of so-called 'ghost matches' on both national and European levels. Assuming revenues of ~€4m per matchday, as indicated by BVB's CEO, the annual shortfall amounts to a startling ~€68m.
- In the mid- to long term – and on a more philosophical scope – experts debate the impact on the way people define and organise their leisure activities.
- To further complicate the matter, the DFL held the tender process for the 2021/22-2024/25 **TV-rights** cycle. In light of the current adverse economic environment, the outcome of €4.4bn was solid, in our view, but still €240m lower than the previous TV-rights cycle. We may see a similar development in the value of UEFA TV rights in the coming years, albeit likely less pronounced.
- Another big unknown is the speed of recovery in **advertising**-related revenues. While BVB management has admirably negotiated better terms for large contracts and even won major new sponsors, such as 1&1, we note that the contribution of long-tail sponsoring partnerships will likely decline in FY20/21.
- **Merchandising** held up surprisingly well in Q4 2019/20, but lower consumer sentiment on the back of a worsening macro environment may take its toll on the business. In any case, the overall impact on the group's financials will likely be small.
- BVB, more than many other professional football club, relies on **income from transfers**. While we acknowledge that management has an impressive track record with regard to identifying young high-potential players, COVID-19 has created significant headwinds to the business as the 2020/21 winter transfer window has remained more or less closed.

Newsflow over recent months reflects high degree of uncertainty

Below we list selected newsflow in the European football industry over the past few weeks as an indication of the current state of professional football in Europe:

- In a press conference, following its extraordinary general meeting on 31 March 2020, the professional football clubs agreed (unanimously) to postpone the start of the Bundesliga to 30 April 2020.
- The **German Bundesliga then restarted on 16 May 2020**. All players and staff are subject to mandatory COVID-19 testing and strict social distancing/hygiene rules are being applied. The first weekend of football passed without any major hiccup and the BuLi restart was apparently seen as a success by the national and international press.
- The French Ligue 1, on the other hand, was the first European top league to suspend any possible efforts to end the season in 2020. The Spanish La Liga Santander recommenced on 11 June 2020 with matches played until 19 July 2020.
- On 27 March 2020, the top BuLi clubs, BVB, Bayern Munich, RB Leipzig and Bayer Leverkusen transferred €20m to build a **rescue parachute for other clubs**, which, in our view, reveals the dire state in which many of BVB's competitors currently find themselves. Local rival Schalke 04 even received government aid.
- The DFL determined that the 2020/21 BuLi season would kick off on 18 September 2020 (originally scheduled for 21 August) and conclude on 15 May 2021.

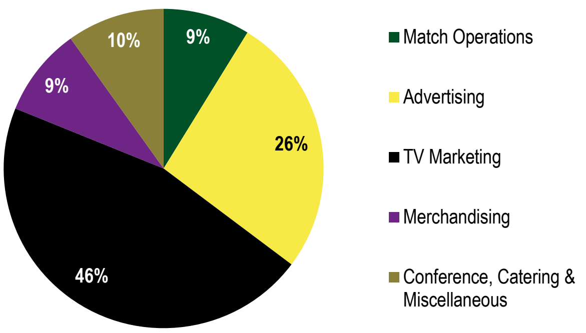
- Intense political debate surrounds the future handling of **visitor attendance** for large live events, including football matches. In our view, the most likely scenario is a partial return of visitors under strict social-distancing rules in the summer season. The path to return to full(er) football stadiums in Germany remains uncertain at this stage. While the German states signalled a green light to use stadium capacity of up to 20% in a test phase, approval is conditional on the further evolution of COVID-19 cases and will only last until the end of October, when the decision will be revisited
- On 21 April 2020, DFL and its main broadcasting rights partners, Sky, ARD/ZDF and DAZN agreed on last instalment payments for the 2019/20 season. While these came at a discount to the originally agreed amounts , it secured the survival of many BuLi clubs, in our view.
- On 11 March 2020, UEFA put the **Champions League** on hold. The competition resumed on 7 August. The quarter-finals were organised a single-match knock-out competition, starting on 12 August, with the final on 23 August. At this stage, we understand that UEFA will return to a pre-crisis format for the 2020/21 season.
- The **UEFA European Championship** was postponed by a year to 2021. According to various press articles this may trigger a ~€300m compensation claim by UEFA for UEFA clubs.
- In an interview on n-tv.de, Bayern Munich's board chairman, Karl-Heinz Rummenigge, stated that he expects significantly lower **transfer values** for players in Germany's current transfer window, even though it has been extended to the beginning of October. Supply may overshoot demand as many clubs are facing liquidity constraints. As we outline later, BVB's business model is heavily reliant on the transfer business and, hence, current distortions may post a significant risk.

Leveraging a strong brand

While the next two fiscal years will likely prove challenging, we believe that structural growth drivers in European football remain intact. Our analysis suggests that BVB is well positioned to benefit and, potentially, win market share. This is based on a strong and well differentiated brand and a smart and somewhat unique transfer strategy. The club has a strong domestic fan base, reflected in 159k memberships (#3 among all BuLi clubs and #7 worldwide) and 55,000 season tickets sold. In its 2018 "Football 50" report, *Brand Finance* estimates BVB's brand value at ~US$587m.

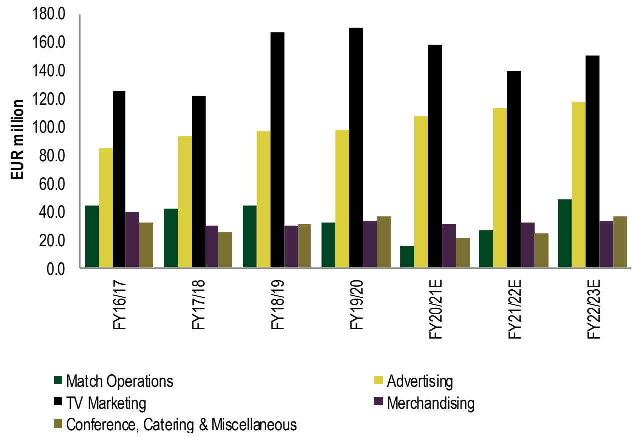
Management has taken first steps to boost commercial revenues, most importantly advertising and sponsorships, which we identify as the main growth driver for the business over the next three to five years. In total, we forecast depressed group revenues of ~€335m in FY20/21E. FY21/22E should see growth in all segments except TV marketing, mainly due to heavy seasonality in the distribution format over the rights cycle, but also an overall 5% decline in the value of BuLi rights. While this may look dire, we expect the club to emerge stronger from the three-year drought. We model BVB's top-line performance in FY22/23E to even exceed FY18/19 pre-crisis levels by ~€16m, driven by an estimated return to full stadium capacity, the underlying assumption of on-field success and strong development in sponsorship revenues.

Figure 8: Revenue split by segment, FY19/20



Source: Company data

Figure 9: Revenue forecasts by segment, FY17/18-FY22/23E



Source: Company data, MainFirst estimates

Our forecasts are based on an extrapolation of the on-pitch success that BVB has achieved over the past ten years: (1) runner-up in the BuLi, (2) last 16 in the DFB Cup, (3) quarter finals in the UEFA Champions League. Rankings directly affect revenues from TV rights but, indirectly, all other segments too as a lack of on-field success negatively affects brand value.

Advertising and sponsorships …

We see attractive growth opportunities for BVB from a more effective monetisation of its brand via advertising deals. In terms of this most important pillar of 'commercial' revenues, the company lags behind its nearest European rivals and we expect management to launch further strategic initiatives to improve on that front. Examples include the instalment of digital advertising inventory in the stadium, more aggressive social media marketing campaigns and a strengthening of fan awareness in the US, China and India. As such, the **Advertising** segment should emerge as the main growth driver over the next three years. This assessment is based on the recently reported win of 1&1 as additional shirt sponsor from the 2020/21 season. In addition, the long-standing kit supplier contract with PUMA has been extended on better terms until 2027/28, providing a high degree of visibility. In our view, global sporting goods companies will continue to compete aggressively for attractive advertising inventory, which should hold sponsorship revenues at sustainably high levels. Conversely, we expect pressure on general advertising budgets in times of high macro uncertainty. As a result, the revenue contribution from partners outside the major sponsor group may be depressed in the current fiscal year.

… and TV rights are the main value drivers, in our view

The **TV-Marketing** division, which has by far the highest revenue share, will likely show a subdued performance over the next four years, due to COVID-19 induced concessions made to broadcasters. Fees for the next BuLi rights cycle will be, on average, 5% lower – provided that our assumptions on the underlying on-pitch performance prove correct. However, our analysis suggests that the current dip should be temporary. Going forward, we see a high likelihood that domestic and international broadcasting rights will further increase in value. On the one hand, football content remains a scarce resource and, on the other, we expect to see continuously rising demand from broadcaster such as DAZN or companies like Amazon or Facebook, in an attempt to fuel their respective core business. All these companies have already secured important football TV rights in selective regions.

Gate receipts and catering are hit the hardest, disguising their recurring nature

Beyond advertising and income from TV rights, football clubs generate direct **matchday-related revenues** from gate receipts as well as in-stadium catering and hospitality events. BVB has one of the largest stadiums in Europe, with a capacity of ~81k, and one of the most loyal fan bases, reflected in ~55k season tickets. These numbers have made the Match Operations and Catering / Conference segments reliable and highly profitable businesses. The current status of the COVID-19 pandemic means visitor numbers are unlikely to return to normal levels any time soon. As a result, we assume a decline of ~50% yoy and ~40% yoy in the two segments, respectively, in FY20/21E. Looking beyond the pandemic, revenues from this business should be recurring in nature but, at the same time, offer limited upside potential, explained by a fan-friendly pricing policy. We concede that hospitality events will likely continue to show a certain cyclicality in the future.

Merchandising

Merchandising only accounted for ~9% of total group revenues in FY19/20. In addition, profitability is limited by (high) licence costs. Nevertheless, the segment held up surprisingly well in Q4 2019/20, which, we believe, shows the rising attractiveness of the BVB brand, also globally. We expect merchandising revenues to show a broadly stable performance over the next three years.

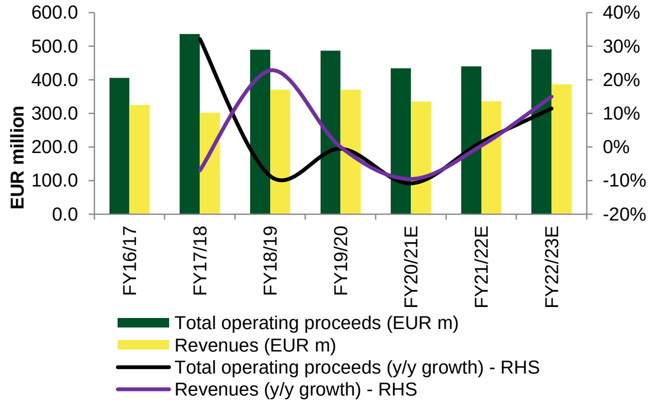
Transfers are an integral part of BVB's business but are difficult to value

Last but not least, player transfers command an important role for the economic success of BVB. Contrary to many of its peers, management focuses on buying talented, young players, developing them and, subsequently selling them at (significantly) higher values. We concede that BVB has built an impressive track record in this respect: over the past four fiscal years, the club generated aggregated gross transfer proceeds of ~€532m. Net transfer income, a recently introduced IFRS metric to better gauge economic success of the transfer business, amounted to €117m, €83m and €40m in FY17/18, FY18/19 and FY19/20, respectively. At same time, we note that results from player transfers are even more difficult to predict than on-field success. Hence, we believe that investors are unlikely to assign a high valuation to these revenues and profits. Our forecasts suggest ~€70m per annum in net transfer income over the next three fiscal years.

Top-line uncertainty leaves operating profit forecasts prone to error

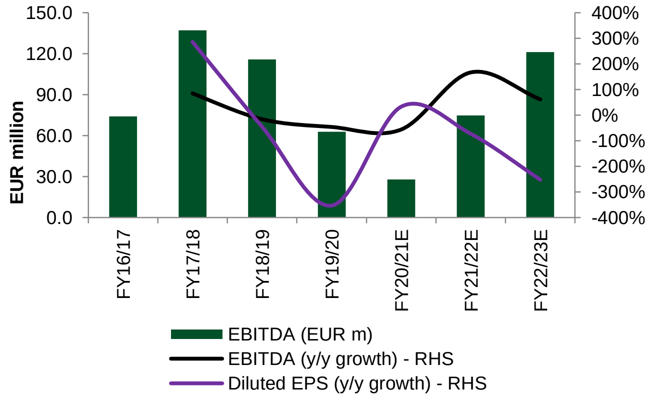
Not surprisingly, personnel costs make up the bulk of the operating costs of a football club. We acknowledge that rising player salaries across Europe are a clear risk to BVB as management needs to strike the right balance between securing a high quality squad, as a prerequisite for future sporting success, and near-term profitability. This is ever more important as the economic success between the top European football clubs has widened considerably over the past few years, as we outline in our industry analysis. As a result, football clubs face high operating leverage. Hence, COVID-19 induced revenue shortfalls translate into a disproportionate decline in profitability. BVB reported EBITDA of €63m in FY19/20, down ~45% versus FY18/19's level. For FY20/21E we forecast EBITDA of €28m, significantly below FY19/20 levels, followed, however, by a significant jump to ~€75m in FY21/22E and a steep rise to €121m in FY22/23E as revenues should have fully recovered, according to our estimates.

Figure 10: BVB, revenue and total operating proceeds forecasts (€m)



Source: Company data, MainFirst estimates

Figure 11: BVB, EBITDA (€m) and EPS (€) forecasts



Source: Company data, MainFirst estimates

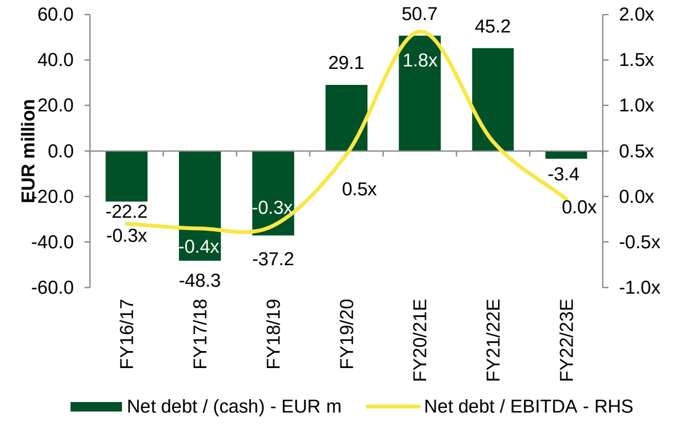
The most relevant assumptions behind our estimates:

- Personnel costs will likely stay on elevated levels to secure continued on-field success. Due to lower than expected transfer activity, we even expect an increase in this P&L-line in FY20/21E, unless BVB sells more players by the end of the current transfer period, i.e. by early October.
- The company successfully renegotiated the contract with its long-standing marketing agency, Sportfive. Due to the elimination of a revenue share component, we expect other operating costs to improve by ~€15m in FY20/21E compared with FY19/20.
- In addition, we believe that management will be highly disciplined on all other OPEX items in the current fiscal year.

Conservative financing is a positive in times of uncertainty

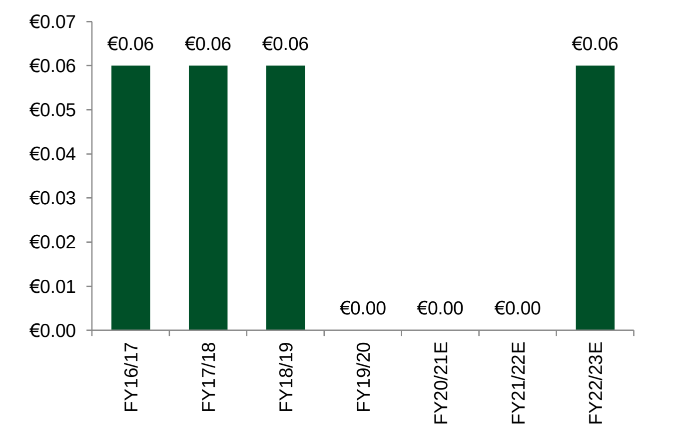
It seems that Borussia Dortmund learned from its near bankruptcy in 2004/05. The upshot is reflected in a very solid balance sheet. Pre-COVID-19, net debt amounted to €21m, -€14m and -€4m in FY16/17, FY17/18 and FY18/19, respectively. CFO Thomas Treß continues to stress his negative stance on bank debt. However, the last fiscal year clearly left its mark on the company's balance sheet. Due to subdued operating revenues in Q4 and a lack of (planned) player transfers, the club's net debt position increased to €29m at the end of FY19/20. At the analyst presentation on 17 August, the CFO made it clear that BVB secured new credit lines for continued uncertainty around many business activities. We also note that the winter transfer period has been extended to October and, hence, the sale of up to two players may still materialise, which should then have a positive liquidity effect. At this stage and at current share price levels, we do not envisage BVB tapping equity markets.

Figure 12: Net debt / (cash) (€m)



Source: Company data, MainFirst estimates

Figure 13: DPS (€)*



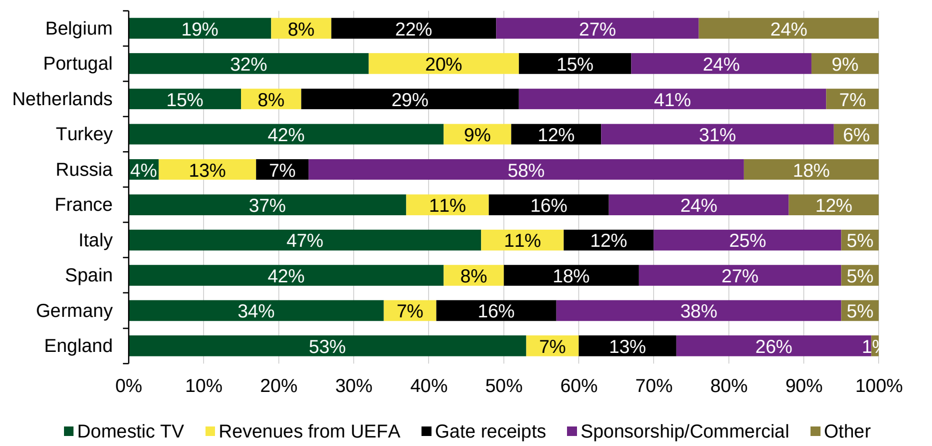
**Our DPS forecast of €0.06 in FY22/23E implies a payout in FY23/24E.*
Source: Company data, MainFirst estimates

Traditionally, BVB has been known as a steady dividend payer (DPS of €0.06). However, in response to the depressed financial performance and high uncertainty going into the 2020/21 season, management will recommend the suspension of dividend payments for the past fiscal year. We estimate that BVB will not return to dividend payouts before the FY23/24 season.

Broadcasting rights dominate core business

The European football industry has enjoyed ever increasing economic success, mainly driven by the entry of pay-TV and OTT-broadcasting platforms such as DAZN and Netflix. As we show in Figure 14, domestic TV rights contribute the lion's share of clubs' revenues, followed by revenues from sponsorships and advertising partners (all based on the 2018 UEFA benchmark report).

Figure 14: Breakdown of aggregate revenues across ten European football leagues



Source: UEFA

Bundesliga TV rights (national pot) were up 85% for the current cycle

In Germany, for instance, a new common era for national football rights broke in 2011 when Sky Deutschland emerged as the highest bidder in the tender process for the BuLi TV rights for the four-year rights cycle starting in the 2013/14 season. Sky Deutschland paid €628m on average per season to the DFL to secure Germany's national TV-broadcasting rights. This represents an increase of ~42% compared with the prior cycle. By way of smart packaging of the rights, for instance, split by more matchdays and by broadcasting medium, the DFL more than tripled its revenues from 2017/18. In summer 2016, the DFL announced new record revenues of €4.64bn for a four-year cycle (2017/18, 2018/19, 2019/20 and 2020/21), averaging €1.16bn per season, again for the national TV-rights pot. The share of pay-TV providers, most notably Sky Deutschland, expanded to 82%, from 78%. A longer-term analysis shows that the value of the BuLi broadcasting rights has expanded by an impressive 287% over the past three seasons.

Figure 15: Value of national TV-rights cycle for Bundesliga

Season	Total package, national rights (€m)	Per season (€m)	Growth, cycle over cycle
05/06--8/09	1,617	404	NA
13/14--16/17	2,512	628	55%
17/18--20/21	4,640	1,160	85%
21/22--24/25	4,400	1,100	-5%

Source: MainFirst Research

We show the split by broadcasting station for the 2017/18-2020/21 cycle in Figure 16.

Figure 16: Bundesliga, national TV-broadcasting rights ownership split 2017/18-2020/21

Rights owner	Fees (€m)	Description	Comments
Sky	876	Exclusive live-TV rights for 266 BuLi matches (ex Friday, Sunday matches)	-
		Exclusive live-TV rights for 36 conference shows on Saturday	-
		Exclusive live-TV rights for 306 Second League matches	-
Eurosport (Discovery Inc.)	70	Exclusive live-TV rights for 43 BuLi matches	-
		Live-TV rights for 4 relegation matches	-
		Live-TV rights for SuperCup	-
ARD	122	Highlights for BuLi matches on Fridays and Saturdays (ex late night match)	"Sportschau"; for the broadcasting time slot of 18.30-20.15
		Highlight rights for Second League matches on Saturdays	
		Highlight rights for BuLi matches on Sundays	For the broadcasting time slot of 21.15-23.00
		Audio rights for UKW broadcasting	-
ZDF	57	Live TV-rights 1 match each on 1. / 17. / 18. BuLi match day	-
		Live rights for relegation matches for the Second League and SuperCup: "4 Pillar Key"	-
		Highlight rights for BuLI matches on Fridays and Saturdays	"Aktuelles Sportstudio", for the broadcasting time slot of 21.45-24.00
DAZN	20	Highlight rights for digital VoD broadcasting for all BuLI and Second League matches	Broadcasting to start 40min post the live-end of the matches
Sport.1 (Constantin Medien)	10	Highlight TV rights for BuLi matches on Fridays and Saturdays; Second League matches on Fridays and Saturdays	"Doppelpass", for the broadcasting time slot of 6.00-15.00
Amazon	5	Audio rights for web / mobile broadcasting	-
TOTAL	**1,160**		

Source: MainFirst Research

Adding the international TV-rights pot, the value of the BuLi rights developed as shown in Figure 17.

Figure 17: Total Bundesliga TV-rights value, national & international

Season	Rights owner	Value national TV rights (€m)	International rights	Total TV-rights value
2013/14	ARD/Sky	561.0	45	606.0
2014/15	Sky/ARD/ZDF/Sport1/AxelSpringer AG	615.0	75.0	690.0
2015/16	Sky/ARD/ZDF/Sport1/AxelSpringer AG	663.0	154.0	817.0
2016/17	Sky/ARD/ZDF/Sport1/AxelSpringer AG	673.0	162.0	835.0
2017/18	Sky/Eurosport/ARD/ZDF/Sport1/Amazon/DAZN	910.0	50.6	960.6
2018/19	Sky/Eurosport/ARD/ZDF/Sport1/Amazon/DAZN	1,150.0	97.9	1,247.9
2019/20	Sky/Eurosport/ARD/ZDF/Sport1/Amazon/DAZN	1,260.0	223.0	1,483.0
2020/21	Sky/Eurosport/ARD/ZDF/Sport1/Amazon/DAZN	1,320.0	200.0	1,520.0

Source: MainFirst Research

A comparison with the other European top leagues shows that the BuLi TV-rights value has risen disproportionately in the recent past. In Spain and Italy, for instance, aggregated TV-rights revenues increased by only 15% and 14%, respectively. Even the UK's Premier League witnessed a contraction in the rights value but still tops the rankings with an average €1.72bn per season. Broadcasting rights values for the France's Ligue 1 show an impressive increase of 59%, to average €1.15bn per season.

Figure 18: TV-rights values across the 'Big 5' leagues

League	Revenues (€bn)	Change season/season	Rights cycle
Bundesliga	1.16	85%	2017/18-2020/21
Premier League	1.72	-10%	2019/20-2021/22
Ligue 1	1.15	59%	2020/21-2022/23
La Liga	1.14	15%	2019/20-2021/22
Serie A	1.07	14%	2018/19-2020/21

Source: MainFirst Research

UEFA Champions League is the most valuable club football content

Beyond the domestic competition, the UEFA Champions League is by far the most valuable football content globally. High price inflation for these rights has triggered big jumps in TV marketing revenues for European top clubs. Figure 19, based on UEFA data, shows the recent development of TV deals in selected European countries. Broadcasters in Southern Europe were willing to step up payments, with aggregated content fees rising by ~21% in Spain since the 2012/13 season and by as much as 57% in Portugal. In the recent past, the most lucrative deals in absolute numbers have been signed in the English Premier League (€5,531m and €5,127m for the domestic and international three-year cycles, respectively). Domestic broadcasting rights for Germany top €4,640m over four years (€840m over three years for international rights).

Figure 19: Historical development of domestic and international TV-rights packages in UEFA Top-10 leagues

TV deals overview		Past deals					Ongoing rights deal				Future rights deal			Ongoing 19/20 vs. 17/18	
Country	Property	Rights in EUR mn	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Growth Eur mn	Growth %
England	Premier League	Total per year	1,255	2,256	2,442	2,505	3,643	3,512	3,555	3,602	3,635	3,635	To be negotiated	90	3%
		Domestic cycle	2,207 (3 years)	4,048 (3 years)			7,241 (3 years)			5,531 (3 years)					
		International cycle	1,629 (3 years)	2,916 (3 years)			4,590 (3 years)			5,127 (3 years)					
Spain	La Liga	Total per year	845	927	947	862	1,688	1,688	1,808	2,049	2,049	2,049	To be negotiated	361	21%
		Domestic cycle	685	693	713	628	998	998	1,118	3,455 (3 years)					
		International cycle	481 (3 years)	703 (3 years)			2,070 (3 years)			4,485 (5 years)					
Italy	Serie A	Total per year	967	967	967	1,151	1,151	1,151	1,313	1,313	1,313	To be negotiated		162	14%
		Domestic cycle	2,523 (3years)			2,895 (3 years)			2,919 (3 years)						
		International cycle	369 (3 years)			557 (3 years)			1,020 (3years)						
Germany	Bundesliga	Total per year	444	669	669	794	794	1,335	1,440	1,440	1,440	To be negotiated		105	8%
		Domestic cycle	1,574 (4 years)	2,477 (4 years)				4,640 (4 years)							
		International cycle	150 (3 years)			525 (3 years)			840 (3 years)						
France	Ligue 1	Total per year	640	640	640	640	771	771	818	818	1232	1232	1232	48	6%
		Domestic cycle	2,428 (4 years)				2,952 (5years)				4,608 (4 years)				
		International cycle	Part of domestic deal						480 (6 years)						
Portugal	Primeira Liga	Total per year	63	65	77	84	119	126	172	198	190	190	190	72	57%
		Domestic cycle	63	65	77	84	119	126	172	198	190	190	190		
		International cycle	Part of domestic deal					8	8	8	To be negotiated				
Turkey	Süper Lig	Total per year	259	259	256	328	328	453	453	371	371	371	To be negotiated	- 82	-18%
		Domestic cycle	1,033 (3 years)			655 (2years)		906 (2 years)		1,114 (3 years)					
		International cycle	Part of domestic deal			Part of domestic deal		Part of domestic dea		Part of domestic deal					
Netherlands	Eredivisie	Total per year	46	107	118	118	118	118	119	119	119	119	To be negotiated	2	1%
		Domestic cycle	40	941 (9 years)											
		International cycle	6	6	50 (4years)				56 (4 years)						
Belgium	First Division A	Total per year	61	61	75	75	75	83	83	83	To be negotiated			-	0%
		Domestic cycle	61	61	225 (3 years)			249 (3 years)							
		International cycle	Part of domestic deal												
Poland	Ekstraklasa	Total per year	28	28	26	32	32	32	32	58	58	To be negotiated		26	84%
		Domestic cycle	83 (3 years)		153 (5 years)					116 (2 years)					
		International cycle	Part of domestic deal		Part of domestic deal					Part of domestic dea					
UEFA club competition		**Total per year**	**1,324**	**1,324**	**1,324**	**1,978**	**1,978**	**1,978**	**2,744**	**2,744**	**2,744**	**To be negotiated**		**766**	**39%**
		UEFA territories	1,053 (3 years)			1,498 (3 years)			**2,067 (3 years)**						
		Rest of World	271 (3 years)			480 (3 years)			**677 (3 years)**						

Source: UEFA

Dip in the next TV rights cycle but long-term trends appear intact

The financial development in BVB's TV-Marketing segment has clearly mirrored the structural trend outlined above. Revenues grew by 37% yoy in FY18/19 to ~€167m, accounting for ~45% of group revenues (before net transfer income). Over the last DFL rights cycle the segment recorded accumulated revenues of ~€370m with a big jump in FY16/17, driven by the qualification for the UEFA Champions League, a higher distribution from the foreign pot of domestic TV marketing, and DFB Cup victory. In general, we expect a continuation of the trend as football content remains a scarce resource, for which an increasing number of broadcasters are competing. However, it is clear, in our view, that COVID-19 will also leave its mark on this segment.

On-field success is an important factor for a club's TV-rights revenues. Well aware of the shortcomings of this approach, we base our forecasts on the extrapolation of BVB's historical performance to determine the club's future on-field success. **This means we assume a BuLi runner-up position, three rounds of the DFB Cup and qualification to the Quarter Finals in the UEFA Champions League.** Our estimates are summarised in Figure 20.

Figure 20: Revenue forecasts for the TV-Marketing segment

(€M)	FY19/20	FY20/21E	FY21/22E	FY22/23E
BuLi	97.5	77.7	56.8	66.3
Change, y/y	*NM*	*-20.3%*	*-26.9%*	*16.8%*
National TV rights	68.4	51.5	41.1	45.9
Change, y/y	*NM*	*-24.7%*	*-20.3%*	*11.7%*
International TV rights	29.1	26.2	20.4	20.4
Change, y/y	*NM*	*-10.0%*	*-40.0%*	*30.0%*
DFB Cup	2.5	2.6	2.7	2.7
Change, y/y	*NM*	*5.7%*	*2.0%*	*2.0%*
UEFA Champions League	66.3	78.3	79.7	81.2
Change, y/y	*NM*	*18.2%*	*1.8%*	*1.9%*
Others	1.0	0.0	0.0	0.0
Change, y/y	*NM*	*NM*	*NM*	*NM*
TOTAL	**167.3**	**158.7**	**139.2**	**150.3**
Change, y/y	***-7.3%***	***-5.1%***	***-12.3%***	***8.0%***
As % of total revenues	***44%***	***48%***	***39%***	***38%***

Source: MainFirst estimates

DFL rights value declined by 5% vs. the last rights cycle

We note that visibility for the segment is reasonably high, despite the fact that large parts depend on on-field success. With regard to the BuLi rights, the DFL completed the tender process for the next four seasons, starting in 2021/22, in summer 2020. It had originally aimed to increase further the content rights value by at least 15%, according to an article in *Manager Magazin* at the time. However, it turned out that the value of the BuLi rights will decline by ~5%, on average, over the next rights cycle (starting in 2021/22). While the outcome was below initial expectations, the result was depressed by rising uncertainty because of the emergence of the COVID-19 pandemic. In light of these highly adverse circumstances, we regard an aggregated value of €4.4bn as a solid achievement. For 2020/21, we note that the DFL made concessions to Sky Deutschland, which will negatively affect the payments for the season. In addition, we understand that the foreign pot is likely to decline further as Asian and South American broadcasters are demanding discounts.

National TV DFL rights are distributed to the 18 BuLi clubs based on four pillars, while the international pot has three distribution buckets, clearly more skewed towards the top clubs in the BuLi. This will undoubtedly drive the international attractiveness of the league. We display our detailed forecasts in Figure 21.

Figure 21: Bundesliga TV-rights revenue forecasts (€m)

Pillar	Share	Description	Comment	FY19/20A	FY20/21E	FY21/22E	FY22/23E
"DFB Performance Ranking”"	70%	Based on 5-year performance ranking, multiplier: 5,4,3,2,1, starting with the last season	See Ranking Tab for details	48.0	42.0	3342	37.5
"Competition"	23%	Based on a 5-year performance ranking, multiplier: 5,4,3,2,1, starting with the last season, clubs ranked 1-6 receive the same EUR amount in fees	Assuming in-line growth with total TV-rights budget and progressive distribution over 4 years	18.4	6.0	4.7	5.3
"Sustainability"	5%	Based on a 20-year performance ranking, equal weight to all seasons	Assuming in-line growth with total TV-rights budget and progressive distribution over 4 years	2.0	3.0	2.4	2.6
"Talent Development"	2%	Young talent development	Assuming in-line growth with total TV-rights budget and progressive distribution over 4 years	0.5	0.5	0.5	0.5
TOTAL national pot Growth, yoy				**68.9** NM	**51.5** -25.2%	**41.1** -20.3%	**45.9** 11.7%
"Solidarity"		Divided equally among all professional German football clubs	-	3.1	2.8	1.7	2.2
"Performance"		Based on the performance of all Bundesliga clubs on UEFA level	-	18.0	16.2	9.7	12.6
"Sustainability"		Based on the performance of all Bundesliga clubs over a 10-year period	-	8.0	7.2	4.3	5.6
TOTAL international pot Growth, yoy				**29.1** NM	**26.2** -10.0%	**15.7** -40.0%	**20.4** 30.0%
TOTAL BuLi TV-rights pot Growth, yoy				**98.0** NM	**77.7** -20.7%	**56.8** -26.9%	**66.3** 16.8%

Source: MainFirst Research

UEFA rights may prove more stable – upside from better on-field success

TV-broadcasting rights for the UEFA Champions League accounted for ~40% of BVB's TV-marketing revenues in FY19/20. We concede that the next two seasons may also prove challenging for UEFA, not least because of the postponement of the UEFA European Championship tournament. While this may have negative repercussions for the distribution of TV-rights money to the clubs, we firmly believe that the overall value of broadcasting rights for the UEFA Champions League tournament has a good chance to rise further over the next few years. As we show in our industry analysis, football displays clear winner-takes-most characteristics, which should also be reflected in the price development for TV rights for the best clubs in Europe. Our view that competition for UEFA Champions League rights will remain fierce was supported by the outcome of the recent tender process for the TV rights in Germany: DAZN and, to a lesser extent, Amazon snapped up the content rights from Sky Deutschland, a long-time rights owner and most likely at higher prices compared with the last three-year cycle.

Similar to DFL, UEFA determines the payments to the clubs on four pillars, namely (1) success fees, (2) market pool, (3) starting fees, (4) UEFA co-efficient. We are not aware that UEFA is planning any changes to the overall distribution scheme. The total TV-rights pot that is paid amounts to ~€2bn, according to UEFA data.

Figure 22: UEFA Champions League TV rights revenues

(€M)	FY19/20	FY20/21E	FY21/22E	FY22/23E
Success Fee	17.6	28.6	30.0	31.5
Change, yoy	*NM*	*62.3%*	*5.0%*	*5.0%*
Market Pool	9.0	10.1	10.1	10.1
Change, yoy	*NM*	*11.9%*	*0.0%*	*0.0%*
Starting Fee	15.3	15.3	15.3	15.3
Change, yoy	*NM*	*0.0%*	*0.0%*	*0.0%*
UEFA Ranking	24.4	24.4	24.4	24.4
Change, yoy	*NM*	*0.0%*	*0.0%*	*0.0%*
TOTAL	**66.3**	**78.3**	**79.7**	**81.2**
Change, yoy	*NM*	*18.2%*	*1.8%*	*1.9%*

Source: MainFirst estimates

Upside from new club competitions?

While somewhat unclear at this stage, we see potential upside for the value of European football TV rights from the introduction of new club competitions, either by FIFA or even additional tournaments under the UEFA umbrella. We do not factor in any such events in our financial forecasts at this stage.

FIFA Club World Cup

In March 2019, the FIFA Council approved the strategic plan to establish a new club tournament under the name **FIFA Club World Cup** from 2021 onwards, held once every four years. However, according to various press reports, the first edition of a potential competition will be postponed to the winter break 2021 at the earliest, due to the postponement of the UEFA European Championship in 2020 and the Copa América due to the COVID-19 crisis.

The new tournament would replace the old format, which had featured the winners of the highest club championship of the respective six confederate football associations (e.g. the UEFA Champions League winner). China was earmarked as the host country for the competition, likely in an attempt to promote European football even more in Asia. The format of the new FIFA Club World Cup would include 24 teams from the six different continental football associations, which we summarise in Figure 23. The teams will be split into eight groups with three teams each; the group stage winners will advance to the quarterfinals with classic knockout mechanisms from then on.

Figure 23: Slot allocation amongst associations

Association	Continent	No. of teams	Comment
CAF	Africa	3	Top three teams of CAF Champions League
AFC	Asia	2.5	Finalists of the Asian Champions League and half slot will be contested by semi-finalist losers
UEFA	Europe	8	Last four CL winners + four highest ranked team according to UEFA lub Coefficient
CONCACAF	North and Central America	3	
OFC	Oceania	0.5	
CONMEBOL	South America	6	
Host nation	Undecided	1	

Source: MainFirst Research, transfermarkt.com

According to transfermarkt.de, the current FIFA plans suggest that all teams that qualify for the FIFA Club World Cup will receive **US$50m as an entry fee**; the **winner of the tournament will receive another US$115m** in prize money.

The proposal of the new tournament naturally created tensions between footballs' heavyweight associations FIFA and UEFA. While FIFA proposed the inclusion of 12 UEFA teams, UEFA is in favour of only eight starters to limit risks of potential cannibalisation of the attractiveness of the UEFA Champions League.

UEFA club competitions beyond the Champions League

Apart from the outcome of those discussions, UEFA will continue the **'International Champions Cup',** a series of friendly matches between European top clubs, hosted in the US.

In addition, UEFA plans the launch of a new club competition from 2022, named **'UEFA Europa Conference League'**, for clubs with no presence in current Champions League and Euro League competitions.

Last but not least, the ECA (European Club Association) is reported to be pushing for a **'European Super League'**, a league featuring the top clubs in Europe. In this set-up the clubs would drop out of their respective domestic leagues and exclusively focus on the 'Super League'. We understand that Fiorentino Pérez, club president of Real Madrid, is a main advocate of the new competition.

Advertising should emerge as main growth driver

Although most revenues are closely linked to a club's football operations, we believe that investors should increasingly look at BVB as one of the most attractive sports brands in Europe, and even globally. As such, the company is competing for big advertising and sponsorship budgets in the sector.

With a sustainable national and international on-field success over the past few decades, BVB has laid the foundations for a strong brand ("*Echte Liebe*" = "True Love"). BVB enjoys the highest visitor average in professional football in Europe, reflecting the adherence to the sport in the region. At the same time, the significant and loyal local fan base has become an integral part of the brand, which, in turn, attracts fans globally. Last but not least, we point to BVB's transfer policy, which focuses on attracting young talent which usually forms a squad that is focused on the attacking game.

Management has already stepped up its efforts around more effective brand monetisation, which resulted in the win of German telecommunications company (challenger) 1&1 as new main sponsor. In addition, the kit supplier contract with Puma has been extended until 2027 and on better terms. As a result, we are optimistic that revenues in the group's advertising division will show moderate growth in FY20/21E, acknowledging that budgets of the long-tail of sponsors will likely shrink significantly due to high macro uncertainly. Our segment forecasts are summarised in Figure 24.

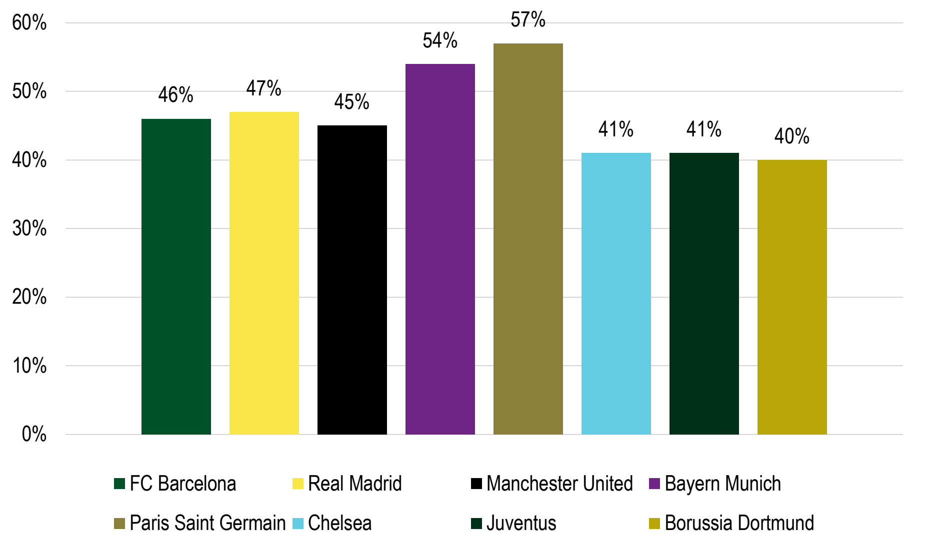
Figure 24: Revenue forecasts for the Advertising segment

(€m)	FY19/20	FY20/21E	FY21/22E	FY22/23E
TOTAL	**98.0**	**106.9**	**114.7**	**118.4**
Change, y/y	*1.2%*	*9.1%*	*7.3%*	*3.3%*
As % of total revenues	*27%*	*32%*	*34%*	*30%*

Source: Company data, MainFirst estimates

Despite these impressive achievements, we see potential for BVB to grow its advertising revenues further over the next few years based on the brand characteristics outlined above, provided the on-field success remains stable. In our view, there is still significant catch-up potential compared with clubs in its peer group in relation to digital media but also marketing efforts outside Germany.

Figure 25: Commercial revenues as % of total revenues across major European football clubs



Source: Deloitte Football Money League

Borussia Dortmund's management communicated a clear strategy to grow advertising revenues over the next few years, based on two pillars: (1) a step-up of international presence through specific tours, including friendlies and training camps in the US, Asia and the Middle East; (2) improved presence in the most important social media channels, which should further accelerate digital advertising revenues.

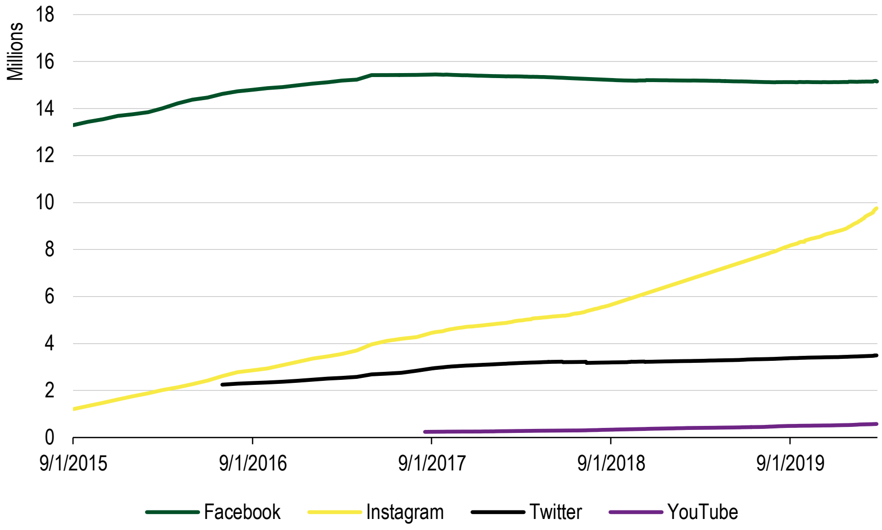
International customer wins

Borussia Dortmund Travels has established an annual trip to Asia in 2015 and has toured the US three times a year since 2018. Domestic rival FC Bayern Munich also started touring in Asia in 2015. A look beyond the BuLi shows that British Premier League clubs, in particular Manchester United, were pioneers with regard to attracting revenues beyond their domestic regions. This includes not only the US but also China as new markets. Manchester United had its first marketing trip to Asia in 2001 after it opened a fan shop in Singapore a year earlier.

Manchester United is consequently the most popular football club in China besides local Guangzhou Evergrande. Around 56% of Chinese fans follow a Premier League club and 85% of Chinese fans actively follow clubs beyond their one favourite club, according to Brand Finance. One of the reasons for the popularity among Chinese fans may be Manchester United signing a deal to make their in-house TV Channel "MUTV" available to ~108 million Chinese fans, paired with a step-up in social media campaigns. In comparison, we found that every big European football club is already present on the four main social media platforms: Facebook, Instagram, Twitter and Youtube.

In addition to driving international advertising sales, the club has increasingly started to address its existing and future fans via social media. BVB records around 15 million users on Facebook, its strongest but also most mature channel, with even a slight decline over the recent years. Compared with the European competition, BVB ranks 13th in terms of Facebook user numbers. The followership on Instagram grew by more than 570% between 2015 and 2019, from 1.2 million to over 8 million. Twitter shows rather little growth and only represents 12.3% of the club's total social media followers. YouTube numbers are less pronounced, with around half a million users.

Figure 26: Development of followers on social media



Source: MainFirst Research, KPMG

Composition of advertising revenues in detail

Borussia Dortmund has already attracted a number of lucrative advertising and sponsorship deals (c.40 according to SPONSORS magazine). Moreover, newsflow around the advertising business has been quite positive over recent months:

- BVB successfully extended its kit supplier partnership with Puma. The new contract, starting in July 2020 could be worth c.€200m over a five-year period (€40m per season), according to German sports magazine, *kicker*. While this is clearly seems respectable result, we note that there may be scope for further increases. For instance, Adidas reportedly pays ~€60m p.a. to Bayern Munich and Nike pays ~€75m to Manchester City and ~€115m to FC Barcelona for kit supplier contacts.

- From next season onwards, BVB will have 1&1 as new shirt sponsor for all BuLi matches for the next five seasons. Long-standing sponsorship partner, Evonik Industries, will remain a shirt sponsor for international matches. According to *Der Spiegel*, the 1&1 deal is worth c.€25-30m p.a., while the Evonik Industries partnership, currently worth c.€20m, according to various media, will be adjusted accordingly. We assume annual revenues of c.€45m p.a. from the combined deal through FY24/25E, but would flag that parts of the income from sponsorships is linked to on-field success.

- Signal Iduna prolonged the contract for the name rights of BVB's stadium until 2026 for €5.8m p.a.

- Other sponsors are categorised as 'Champion Partner' or 'Premium Partner' and include companies like Opel (sleeves) and Coca-Cola, as displayed in Figure 27.

Figure 27: Borussia Dortmund advertising partners as of March 2020

Source: Borussia Dortmund

Matchday operations suffer the most from COVID-19

Borussia Dortmund has the highest spectator attendance among all European football leagues, which we find an impressive achievement. The Signal Iduna Stadium, which is fully owned by the company, has total capacity for over 81k visitors for domestic matches and more than 65k for international matches. The fill ratio over the past few seasons has been close to 100%. To add to those strong statistics, the club sold 55.5k season tickets and we understand there is a waiting list of around a further 88k.

Figure 28: Signal Iduna Park stadium

Source: MainFirst Research

Figure 29: Impressions from a BVB matchday

Source: MainFirst Research

In FY18/19, BVB generated revenues from matchday operations of €44.7m, up 5.5% yoy but only up 2% vs. those in FY16/17. Over the past five seasons, matchday operations proved a very stable revenue line with €43.9m, €42.3m and €44.7m in 16/17, 17/18 and 18/19 respectively. Moreover, we view this business as non-cyclical and therefore consider it highly recurring in nature. The negative flipside is limited growth potential, beyond inflation. COVID-19 had the biggest negative impact on this particular revenue source of BVB as visitors were banned from the stadium. As a result, segment revenues declined by 27% yoy to €32.5m in FY19/20.

We acknowledge that any forecasts for the segment depend on the future development of the pandemic. Our underlying assumptions for revenue forecasts are as follows:

- FY20/21: winter season without visitors; summer season with half capacity
- FY21/22: full season with half capacity
- FY22/23: full season with full capacity

Figure 30: Revenue forecasts for the Match Operations segment

(€m)	FY19/20	FY20/21E	FY21/22E	FY22/23E
Bundesliga	22.5	9.5	16.7	34.3
Change, yoy	*NM*	*-58.0%*	*77.0%*	*105.0%*
DFB Cup	1.7	0.8	1.1	1.1
Change, yoy	*NM*	*-50.0%*	*40.0%*	*75.0%*
UEFA matches	7.8	5.8	5.9	9.5
Change, yoy	*NM*	*-26.0%*	*3.0%*	*60.0%*
Others (e.g. friendlies)	0.5	0.5	3.5	4.0
Change, yoy	*NM*	*0.0%*	*600.0%*	*14.3%*
TOTAL	**32.5**	**16.6**	**27.2**	**48.9**
Change, y/y	***-27.2%***	***-49%***	***64.3%***	***79.5%***
As % of total revenues	***10%***	***5%***	***9%***	***14%***

Source: Company data, MainFirst estimates

Figure 31 shows our underlying assumptions for a “normal” season:

Figure 31: Match Operations model for a "normal" season (€m)

NATIONAL competition	
Seat capacity, national match days	81,365
Fill ratio national matches	99%
Total tickets sold per matchday (m)	80,551
Avg price per tickets (€)	25.0
Avg. price ex VAT (€)	21.0
Ticket revenues per national matchday	1.7
BuLi home matchdays per season	17
Ticketing revenues, national BuLi home matchdays	**28.8**
DFB Cup home matches	1
Ticketing revenues, DFB Cup home matchdays	**1.7**
INTERNATIONAL competition	
Seat capacity, international matches (000)	65,829
Fill ratio national matches	99%
Total tickets sold per matchday (m)	65,171
Avg price per tickets (€)	35.0
Avg. price ex VAT (€)	29.4
Ticket revenues per international matchday	1.9
International home matchdays per season	5
Ticketing revenues, international home matchdays	**9.6**
Ticketing revenues, national team and friendlies (e.g. US / Asia Tour)	**2.8**
TOTAL Revenues matchday operations	**42.8**

Source: MainFirst Research

Note that BVB accounts for catering revenues as well as all hospitality services, such as VIP services, in a separate segment.

Merchandising – retail business around on-field success

Merchandising accounted for only 9% of total group revenues in FY19/20. While we acknowledge that the segment held up surprisingly well in the previous fiscal year, we do not expect it to prove a significant financial performance driver for the club, essentially showing the economic characteristics of a retail business. Beyond significantly better-than-expected on-field success, especially in international competitions, growth opportunities may arise from better brand awareness in emerging football markets such as China, which, however, is naturally difficult to predict. We summarise our top-line forecasts for the Merchandising division in Figure 32.

Figure 32: Revenue forecasts for the Merchandising segment

(€m)	FY19/20	FY20/21E	FY21/22E	FY22/23E
Merchandising revenues	31.5	31.5	33.1	34.4
Change, yoy	*5.0%*	*0.0%*	*5.0%*	*4.0%*
TOTAL	**31.5**	**31.5**	**33.1**	**34.4**
Change, y/y	*5.2%*	*-0.2%*	*5.2%*	*4.0%*
As % of total revenues	*9%*	*10%*	*10%*	*9%*

Source: Company data, MainFirst estimates

Conferences & Catering – in sync with matchday operations

Revenues in the segment consist of matchday catering, essentially beer and sausages, hospitality events, including VIP lodges, and other revenues. In FY18/19, the latter included, among other items, a TV documentary about the club, named "Inside Borussia Dortmund", exclusively broadcast by Amazon Prime. Within the subsegments, we expect matchday catering and hospitality events to move almost in lockstep with ticketing revenues. Our forecasts are summarised in Figure 33.

Figure 33: Revenue forecasts for the Conference & Catering segment

(€m)	FY19/20	FY20/21E	FY21/22E	FY22/23E
Catering matchdays	20.3	10.1	11.7	21.0
Change, yoy	*8.0%*	*-50.0%*	*15.0%*	*80.0%*
Hospitality events	10.5	6.3	7.9	11.0
Change, yoy	*5.0%*	*-40.0%*	*25.0%*	*40.0%*
Others	5.8	5.0	5.5	5.7
Change, yoy	*235.0%*	*-15.0%*	*10.0%*	*5.0%*
TOTAL	**36.6**	**21.4**	**25.0**	**37.7**
Change, y/y	*20.0%*	*-41.5%*	*16.8%*	*51.0%*
As % of total revenues	*11%*	*7%*	*8%*	*10%*

Source: Company data, MainFirst estimates

Transfers: integral part of BVB's business

Borussia Dortmund management has demonstrated a highly successful transfer policy in previous years, which we believe should (a) lay the foundation for continued strong on-field success and (b) contribute positively to BVB's P&L through the **net transfer income** line.

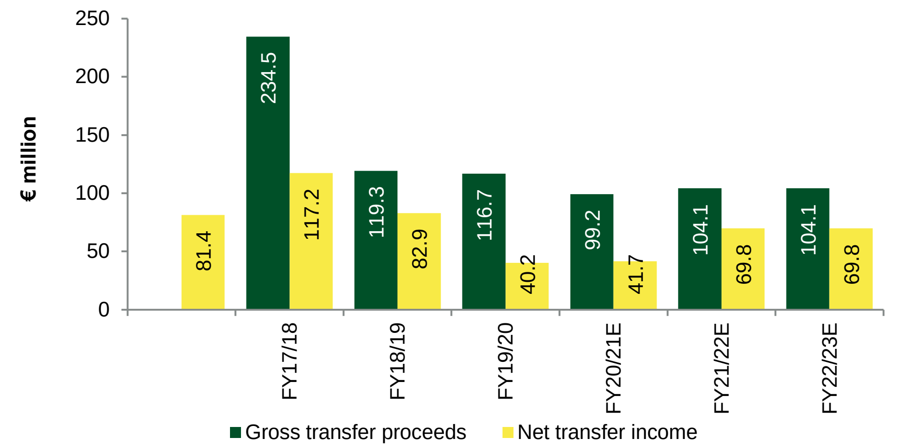
Borussia Dortmund management is constantly stressing the importance of transfers as an essential component to generate profits. We concede that the company has built an impressive track record of identifying and eventually buying young talent at 'reasonable' prices. The strategy not only promises a highly dynamic and attacking match strategy, which significantly contributes to the club's brand value, in our view, it also implies a high likelihood that those players can potentially be sold at an attractive gain.

Despite the strong track record, investors should be aware that forecasts for this segment are difficult to predict, not dissimilar to M&A transactions in other industries, in our view. We also point out that large transfers will not trigger any extra dividend payouts as those players clearly have to be replaced to at least maintain the quality of the squad. The club's transfer strategy is supported by continued investments in talent development in its own academy.

Net transfer income

The accounting rules for the transfer business changed in H1 2019/20. While BVB used added gross transfer proceeds to revenues from the other business units to derive consolidated total operating proceeds, IFRS did not require the company to determine so called **net transfer income**, which is added to revenues. The position is derived by deducting transfer costs (i.e. mainly player advisors) as well as the residual carrying value of the player, who has been sold, from gross transfer proceeds. We display our gross transfer proceeds as well as net transfer income in Figure 34.

Figure 34: BVB: Gross transfer proceeds and net transfer income



Source: Company data, MainFirst estimates

The winner takes the most

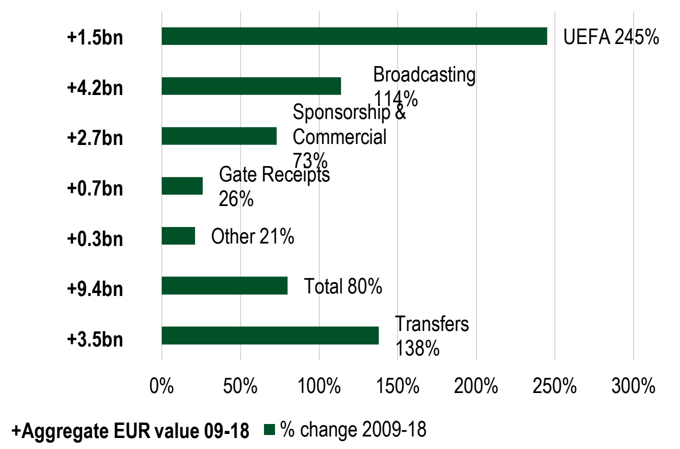
European football has been a growth market over the past decade. According to the Union of European Football Associations (UEFA), aggregated revenues of the clubs in its 55 member associations amounted to ~€21bn in 2018, up 5% vs. 2017 levels, driven by an increase in revenues from domestic broadcasting rights (+40% yoy) and gate receipts (+8% yoy). Clubs in the 'Big-5' leagues, i.e. England, Germany, Spain, Italy and France generated €5.4bn, €3.2bn, €3.1bn, €2.3bn and €1.7bn, respectively. The biggest contributors to the industry's growth had been UEFA competitions, which grew by €1.5bn on aggregate in 2009-18, an increase of 245%, followed by broadcasting rights (+114% or €4.2bn).

Figure 35: UEFA revenues per country, 2008

COUNTRY	REVENUE (€bn)
England	5.40
Germany	3.20
Spain	3.10
Italy	2.30
France	1.70
Russia	0.75
Turkey	0.75
Netherlands	0.50
Belgium	0.39
Portugal	0.44

Source: UEFA

Figure 36: Revenue categories on UEFA level development, 2009-18



Source: UEFA

The attractiveness of the sport is reflected in constantly high visitor numbers across the 'Big-5' leagues.

Figure 37: Average Attendance in the 'Big-5' leagues (000s)

SEASON	GERMANY	ENGLAND	SPAIN	ITALY	FRANCE
01/02	31.1	34.3	23.2	25.9	21.4
02/03	31.9	35.4	25.0	25.5	19.6
03/04	35.0	35.0	25.2	25.7	20.1
04/05	35.2	33.9	24.6	25.0	21.3
05/06	38.2	33.9	25.7	21.4	21.5
06/07	37.6	34.4	25.7	18.8	21.8
07/08	39.0	36.1	25.3	23.1	21.8
08/09	41.9	35.7	24.6	24.7	21.1
09/10	41.8	34.2	25.3	24.1	20.1
10/11	42.1	35.4	25.9	23.5	19.7
11/12	44.3	34.6	26.1	22.0	18.9
12/13	41.9	35.9	25.5	22.6	19.2
13/14	43.5	36.6	26.8	23.4	21.0
14/15	43.5	36.2	27.0	22.2	22.2
15/16	43.3	36.5	28.2	22.6	21.0
16/17	41.5	35.8	27.7	22.2	21.0
17/18	44.6	38.3	26.9	24.8	22.5
18/19	43.4	38.2	26.8	25.2	22.8

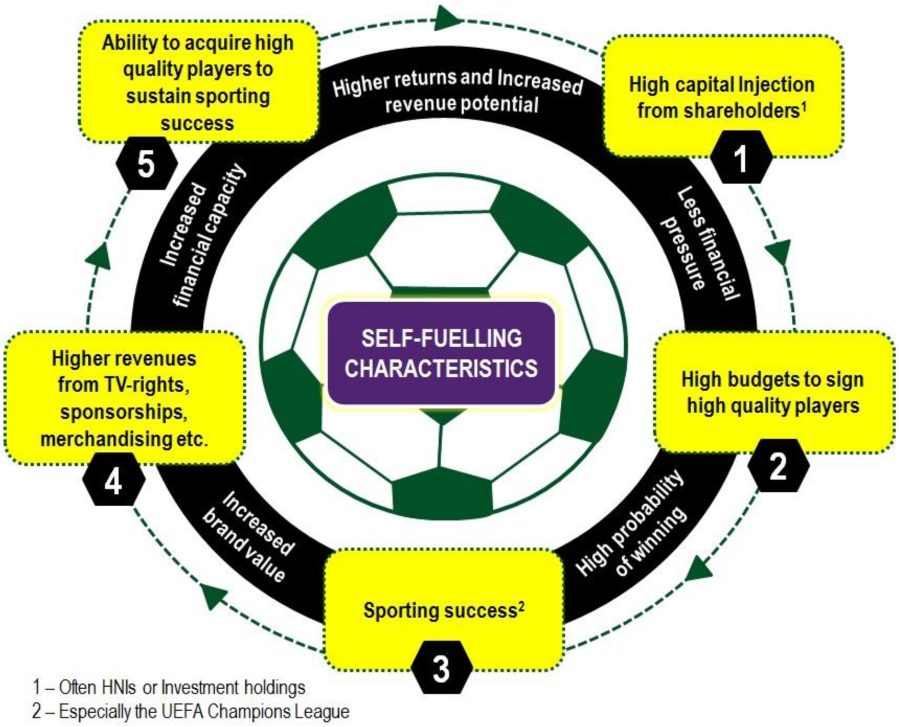
Source: weltfussball.de

"Victories are not accidents"

Competition in professional football is fierce, on- and off-field. The latter is characterised by wrangling over TV-rights revenues, advertising budgets of kit suppliers, shirt sponsors and others and merchandising revenues on a global scale. These, to a large extent, are distributed based on teams' on-field success. Hence, the ability of clubs to attract capital is crucial to ignite the virtuous cycle of professional football economics by the purchase of high-quality players.

Clubs in most European top leagues are all privately owned, often by high net worth individuals or investment groups (e.g. Sheikh Mansour bin Zayed al-Nahyan, who owns Manchester City, or the Quatar Sports Investment Group, QSI, which acquired Paris St. Germain in 2011). These investors' financial positions facilitate significant injections of capital into their teams, which are subsequently invested into high-quality players. This, in turn, almost guarantees sporting success, leading to disproportionately high advertising, sponsorship and merchandising revenues, which can be invested in high-quality players, and so on, as sketched out in Figure 38. QSI, for instance, has invested ~€1bn into PSG's squad since the acquisition, according to various press reports. The economics of the football business therefore have winner-takes-the-most characteristics, and the success becomes increasingly self-fuelling or, as the CEO of City Football Group (CFG), which runs a model of collective ownership of football clubs around the globe, was recently quoted as saying: "Victories are not accidents".

Figure 38: Virtuous circle in professional football



Source: MainFirst Research

Is the '50+1' Rule a structural disadvantage for German clubs?

With this analysis in mind, it becomes clear to us that the regulatory framework around the ownership structure in the German Bundesliga, i.e. the '50+1' Rule, may hold back potential investors for fear of limited influence on a club's operations. While we agree with this argument to a certain extent, we highlight the following points in defence of the competitiveness of German clubs, both on-field and for investors.

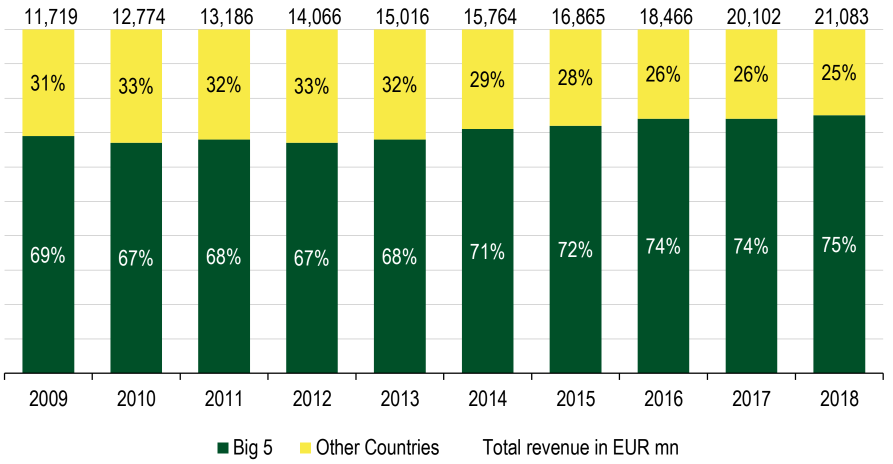
- While we acknowledge that the competitive landscape in European football is changing, Bayern Munich, Borussia Dortmund and FC Schalke 04 have consistently ranked among the Top-20 European football clubs by revenues. Bayern Munich consistently ranked among the Top-5.

- Its public listing gives BVB the flexibility to tap the equity market and raise cash to invest into its squad quality, although arguably to a lesser extent compared with the deep pockets of billionaire investors.
- Despite the shortcomings of the regulatory framework, German football clubs have attracted the interest of single high-net-worth investors and investment groups. Examples are Second League club 1860 Munich (Hasan Ismaik, a Jordananian businessman and Chairman of a UAE-based group of investment companies), Bundesliga Club TSG 1899 Hoffenheim (SAP co-founder Dietmar Hopp), RB Leipzig (Red Bull Group) and, most recently, Hertha BSC Berlin (investment company Tennor Holdings). In the latter transaction, Tennor injected €250m into the club, aimed at repaying debt and step-up investments in the squad.

Widening gap

The football clubs in the most important football leagues in Europe ('Top-5'), i.e. England, Germany, Spain, Italy and France, capture an impressive 75% of total revenues in European football. The number stood at 69% in 2009, which shows that the gap between the leagues is widening. For instance, the English Premier League generates more revenue that the 50 bottom UEFA countries combined.

Figure 39: Revenue share of 'Big 5' leagues



Source: UEFA

At a club level, UEFA data suggest that the top 30 clubs accounted for ~49% of the revenues of all top-division clubs in 2019. Another striking statistic shows that the Top-15 clubs' share in total sponsorship and commercial revenues has expanded from 27% to 46% over the past ten years.

This development is also well captured in the *'Deloitte Football Money League'*, which ranks football clubs by revenues on an annual basis. The oligopolistic nature of the European football industry is also demonstrated by fact that the composition of the 'League' has remained relatively stable over the years. Moreover, the Top-20 positions are exclusively held by teams of the 'big five leagues'. BVB's ranking over the years has moved in a narrow placement range of 11-13 and the company finished 12th in the 2020 edition, one position down on the previous year's ranking. This corresponds to the club's UEFA co-efficient, which ranks BVB 12th in the 2019/20 season (11th in 2018/19).

Figure 40: BVB's rank in the 'Deloitte Money League' since 2010

YEAR	RANK
2010	18
2011	22
2012	16
2013	12
2014	11
2015	11
2016	11
2017	11
2018	12
2019	12
2020	12

Source: Deloitte and UEFA

Figure 41: BVB UEFA ranking

SEASON	RANK
2010/11	86
2011/12	66
2012/13	31
2013/14	15
2014/15	13
2015/16	8
2016/17	7
2017/18	10
2018/19	13
2019/20	12

Source: Deloitte and UEFA

What is striking, according to the findings of Deloitte, is the emergence of smaller oligopolies within the Top-20 and a widening gap European football clubs in terms of revenues. A closer analysis shows that the clubs can be clustered into six groups, which we display below.

Figure 42: Deloitte Football Money League: Six revenue clusters reflect a widening gap

Source: Deloitte

Borussia Dortmund is in Tier 4 of the revenue clusters mentioned above, alongside Atlético Madrid, Inter Milan and local rival Schalke 04. While this may be initially seen as a promising starting point, the market analysis laid out above indicates that catching up with clubs in Tier 3 or even Tier 2, which includes German rival Bayern Munich, may be difficult without a (significant) step-up in investments or improvements in on-pitch performance – both, as indicated, are closely interlinked.

On a positive note, we note that BVB is in close proximity to clubs in the next tier up, Tier 3 (i.e. the ~€500m revenue tier), especially as Arsenal has not delivered a strong on-pitch performance on a European level over the past few years. Hence, we believe that, provided BVB's on-pitch performance stays at current high levels, we think the likelihood of the club closing the gap with many European rivals is promising.

Figure 43: 'Deloitte Money League': Borussia Dortmund vs. peer group averages

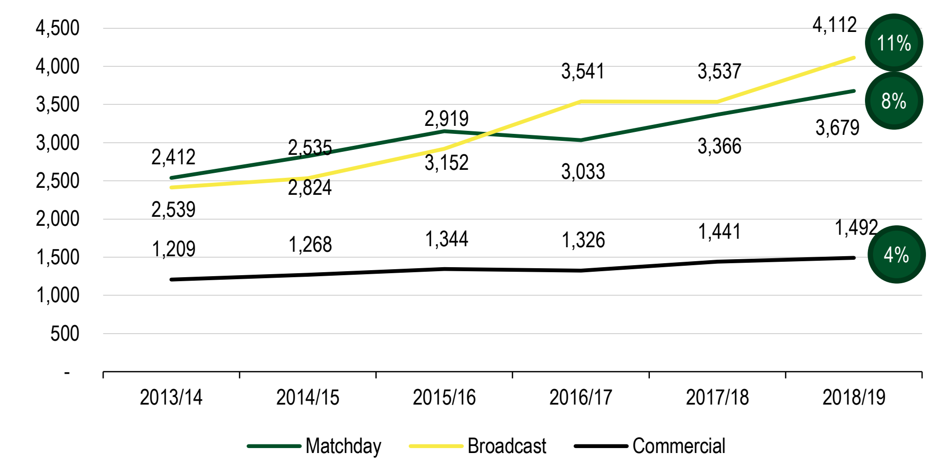
Club	Total Revenues	Matchday	Matchday as % of total	Broadcast	Broadcast as % of total	Commercial	Commercial as % of total
Borussia Dortmund	**377.1**	**59.6**	**16%**	**167.3**	**44%**	**150.2**	**40%**
Average Tier 4	358.5	55.7	16%	174.3	49%	128.6	36%
Average Tier 3	484.9	85.7	18%	230.7	47%	168.4	35%
Average Tier 2	627.8	91.3	15%	238.6	38%	298.0	47%
Average German Clubs	454.0	68.5	15%	179.9	42%	205.6	43%
Average Total	**464.2**	**74.6**	**16%**	**205.6**	**48%**	**184.0**	**36%**

Source: Deloitte

European football – top-20 generate >€9bn in revenues

We think the most crucial factor for success is TV-broadcasting revenues. While gaps between the 'Big 5' leagues have narrowed over recent years, this shows that a sustainable on-pitch success in the UEFA Champions League makes the difference. Success at a European level fuels the interest of powerful advertising partners and often leads to a disproportionate increase in merchandising revenues, especially in new markets outside Europe. As illustrated in Figure 44, the Top-20 clubs in Europe generated revenues of c.€9.3bn, implying a year-over-year increase of 11%, based on data by Deloitte. In line with that, TV rights showed the most significant hike (+16% yoy), followed by commercial revenues (+9% yoy). Matchday operations were up 4% yoy, which, in our view, signals a certain saturation of this particular business line as clubs need to strike a fine balance between the interests of fans and shareholders.

Figure 44: Revenue growth of European Top-20 clubs 2013/14-2018/19



Source: Deloitte

New strategies emerging in European football

The *Deloitte Football Money League* (Figure 45) provides a comprehensive overview of BVB's main competitors. We also provide a benchmark analysis of how the club ranks vs. its main peers at the bottom of the table.

Figure 45: Deloitte Money League 2020 (€m)

Deloitte Football Money League 2020							
Club	**Total Revenues**	**Matchday**	**Matchday as % of total**	**Broadcast**	**Broadcast as % of total**	**Commercial**	**Commercial as % of total**
FC Barcelona	840.8	159.2	19%	298.1	35%	383.5	46%
Real Madrid	757.3	144.8	19%	257.9	34%	354.6	47%
Manchester United	711.5	120.6	17%	273.7	38%	317.2	45%
Average Tier 1	**769.9**	**141.5**	**18%**	**276.6**	**36%**	**351.8**	**46%**
Bayern Munich	660.1	92.4	14%	211.2	32%	356.5	54%
Paris Saint Germain	635.9	115.9	18%	156.6	25%	363.4	57%
Manchester City	610.6	62.4	10%	287.2	47%	261.0	43%
Liverpool FC	604.7	94.5	16%	299.3	49%	210.9	35%
Average Tier 2	**627.8**	**91.3**	**15%**	**238.6**	**38%**	**298.0**	**47%**
Tottenham Hotspur	521.1	92.5	18%	276.7	53%	151.9	29%
Chelsea	513.1	75.6	15%	227.1	44%	210.4	41%
Juventus	459.7	65.6	14%	208.5	45%	185.6	41%
Arsenal	445.6	109.2	25%	210.6	47%	125.8	28%
Average Tier 3	**484.9**	**85.7**	**18%**	**230.7**	**47%**	**168.4**	**35%**
Borussia Dortmund	**377.1**	**59.6**	**16%**	**167.3**	**44%**	**150.2**	**40%**
Atlético de Madrid	367.6	58.6	16%	209.4	57%	99.6	27%
FC Internazionale Milano	364.6	50.9	14%	159.2	44%	154.5	42%
Schalke 04	324.8	53.6	16%	161.1	50%	110.1	34%
Average Tier 4	**358.5**	**55.7**	**16%**	**174.3**	**49%**	**128.6**	**36%**
AS Roma	231.0	31.8	14%	144.5	62%	54.7	24%
Olympique Lyonnais	220.8	41.8	19%	122.0	55%	57.0	26%
West Ham United	216.4	30.8	14%	144.5	67%	41.1	19%
Everton	213.0	16.6	8%	151.7	71%	44.7	21%
SSC Napoli	207.4	15.9	8%	145.1	70%	46.4	22%
Average Tier 5	**217.7**	**27.4**	**13%**	**141.6**	**65%**	**48.8**	**22%**
German Clubs	**454.0**	**68.5**	**15%**	**179.9**	**42%**	**205.6**	**43%**
Average Total	**464.2**	**74.6**	**16%**	**205.6**	**48%**	**184.0**	**36%**

Source: Deloitte

Where does Borussia Dortmund stand vs. its competition?

Below we illustrate how Borussia Dortmund's business compares with its key peers.

- BVB shows a relatively high dependency on TV-broadcasting revenues, which accounted for 46% of total sales in 20198/20. This compares with 38% of total sales and only 36% of total sales at European top clubs.
- Commercial revenues accounted for 40% of total revenues, interestingly above the average of its tier and even the average Tier 3 clubs. However, commercial revenues of €150m clearly trail German rival Bayern Munich which generated €357m from commercial activities, equivalent to 54% of total revenues.
- Matchday revenues are in line with other Tier 4 clubs, despite a significantly higher capacity in the Signal Iduna Park, which implies significantly lower average ticket prices. The average matchday revenues among Tier 3 clubs was ~€25m higher and Bayern Munich even generated €34m more revenues in this category.

Quick comparison of clubs in the 'Big 5'

While the Deloitte Money League gives a good overview of the revenue power of the Top-20 clubs it omits another crucial part of long-term success, i.e. profitability. In light of the absence of large investors ('50+1' Rule), German football clubs had been under pressure to manage their business for profit. Other top clubs compensated losses with fresh capital injections from large investors.

- In **Germany**, Bayern Munich tops the charts in terms of profitability. The club did not record a single loss for more than ten years; net income in FY18/19 amounted to €52.5m. Schalke 04 has a more volatile track record with net income €40.5m in FY17/18 but a net loss of €26.1m FY18/19. The club also recorded losses in the seasons 2005/06, 2008/09, 2011/12 and 2016/17. Borussia Dortmund reported net profits of €32m and €17.3m in FY17/18 and FY18/19, respectively.

- In the **Premier League**, Liverpool FC recorded net profit of €46.8m in 2017/18 compared with its world record profit of €117.9m the season before. Manchester United, England's most valuable football club, recorded net income of €21.0m in 2018/19, €41.5m in 2016/17 and €50.5m in 2015/16, but a net loss of €37.2m in 2017/18. Investor-backed Manchester City has recorded profits for the past five season, albeit at relatively low levels, i.e. €11.3m and €11.6m in 2018/19 and 2017/18, respectively.
- The top **Spanish** clubs are partially backed by wealthy investors. Real Madrid, for instance, is owned by the club's president, Fiorentino Perez, the former CEO of the Spanish construction company ACS. Real Madrid recorded net income of €31.2m in 2017/18 and €38.4m in 2018/19. FC Barcelona has operated profitably over the past eight seasons with accumulated net profit of €213m.
- In **Italy**, we find that Juventus Turin, which has made significant investments in players over the past few years, is struggling financially with the club posting net losses of ~€40m in 2018/19 and ~€19m in 2017/18.
- Top clubs in **France**, such as publicly listed Olympique Lyonnais, reported net income of €6.4m, €7.3m and €8.0m, in the past three seasons. Rival PSG, on the other hand, recorded a net loss of €19m in 2016/17 (arguably after net income of €10m in FY15/16).

Investors in the European football industry seem to pursue viable strategies which go beyond simple trophy hunting. We also found examples of **collective ownership strategies**, designed to create synergies across different clubs and attract global brand partners, e.g. City Football Club. In other cases, clubs are acquired in an attempt to push the owners' proprietary brand, e.g. Red Bull.

- We understand that the rationale of the significant investments by Red Bull in sports is to support and push the Red Bull brand globally, with a concept of giving young sportsmen and women a chance to compete at the highest level. Over the past few years, **Red Bull** has built a sizeable portfolio of sports clubs around the world in categories such as Formula One, ice hockey and football. The latter consists of Red Bull Salzburg (2005), RB Leipzig (2009), New York Red Bulls, West African Football Academy in Ghana and Red Bull Brazil in Serie D in Campinas.

  In contrast to other European clubs with dominant investors, like Manchester City, Juventus Turin or Paris St. Germain, RB Leipzig does not spend big money on transfers but rather invests in the long-term development of young players. This is reflected in the club's transfer balance, which, according to transfermarkt.de, shows net investment ~€160m since the 2015/16 season (cf. ~€143m for BVB). The success of the strategy is demonstrated by the emergence of talents such as Erling Håland (Red Bull Salzburg), who was recently transferred to BVB.

- City Football Club (CFG) is a holding company under the ownership of Abu Dhabi United Group (ADUG). Other shareholders include China Media Capital since 2015 (13%) and private equity investor Silverlake since 2019 (10%). Sheikh Mansour, a billionaire businessman and member of the Abu Dhabi royal family, bought Manchester City in 2008. He established City Football Group, which set out to buy into clubs worldwide. The portfolio comprises New York City (CFG is reportedly in the process of building a stadium in NY), Melbourne City, Yokohama F. Marinos, Montevideo City Torque, Girona, Sichuan Jiuniu and Mumbai city FC.

  CFG therefore follows a clear collective ownership strategy, designed to attract global sponsors, which can be associated across all the partner clubs. In 2019, the company signed a landmark deal with Puma which reportedly pays £600m per annum. According to the *FT*, Manchester City is the only profitable club in CFG's portfolio.

From the ‘50+1’ Rule in Germany to UEFA Financial Fairplay

The football industry is subject to certain regulations, which we outline below.

The ‘50+1’ Rule in German Football

A background to the somewhat complicated legal structure of BVB is the introduction of a paragraph in the charter of the German Football Association (**DFB)**, named the **‘50+1’ Rule.** In essence, the paragraph links the DFB licence award to the voting rights control of the professional football operations by a non-profit organisation (club). In other words, the club will always hold 50% plus one voting right in any German football club. This said, the ‘50+1’ Rule is purely related to voting rights, not the shareholder structure.

The broader rationale behind the rule is to ensure competitiveness among the professional football teams in Germany, which could be distorted by a full takeover of a German football club, associated with the subsequent injection of (considerable) capital.

There have been intense (legal) discussions around the ‘50+1’ Rule over recent years and we understand that the DFL may be willing to accept certain concessions, which could imply interesting upside potential for the BVB’s equity story.

Financial Fairplay (FFP)

UEFA introduced a so-called **Financial Fairplay regulation framework** to ensure a level playing field amongst European clubs and to secure their financial stability. In a nutshell, the rules say that clubs must not spend more money than they earn.

- Total spending can exceed revenues by a maximum of €30m over a three-year period, with the clear target to bring it back to zero over time.
- Expenses include all transfers, employee benefits (including wages), amortisation of transfers, finance costs and dividends.
- Income, according to the UEFA, include gate receipts, TV revenue, advertising, merchandising, disposal of tangible fixed assets, finance, sales of players and prize money.
- Money that the clubs spend on investments in infrastructure, training facilities or youth development are not classified as expenses.

In case the rules are broken, UEFA can impose punishments, including reprimand / warning, fines, points deduction, withholding of revenue from a UEFA competition, prohibition to register new players for UEFA competitions, restrictions on how many players a club can register for UEFA competitions, disqualification from a competition in progress and exclusion from future competitions. We list a number of examples below:

- On 28 June 2019 Italian club AC Milan was banned from European competitions for a year due to breaches of the UEFA Fair Play regulations.
- On 14 February 2020, English club Manchester City was banned from all UEFA club competitions for the 2020-21 and 2021-22 seasons and fined €30m. However, recent newsflow suggests that Manchester City officials have successfully appealed the judgment of the UEFA in front of the CAS.
- PSG was investigated in 2018 after a number of record transfers in 2017 with a total spent of more than €200m for new players.
- Spanish top clubs were also subject of investigation several times as their “socio” setup of clubs does not provide any kind of transparency with regard to money flows. Real Madrid, for instance, spent €300m for transfers in summer 2019. Following UEFA investigations, the club was forced to sell players worth around €200m, all based on data from transfermarkt.de.

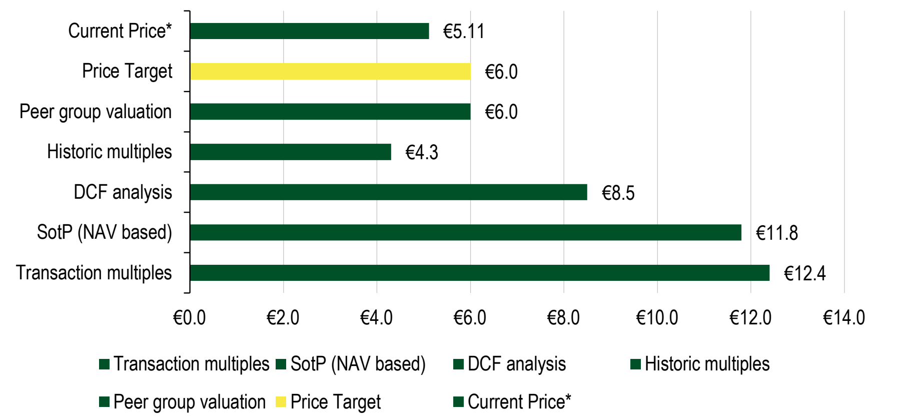
It is frequently noted that the regulatory framework has a significant loophole as clubs are able to artificially increase their income by investor-financed sponsorship deals. Both Paris St. Germain and Manchester City have been accused of this practice, according to an article in SPIEGEL.

We set our initial price target at €6.00

How to value a football club

Valuing a football club is fraught with complexities. On-field success is difficult to predict. The same goes for the success on the transfer market, an integral part of BVB's strategy. We therefore opt to value the stock on a peer group multiple approach. We apply an equal weight to the implied equity values, which we derive from applying 2-forward, EV/EBITDA, EV/sales and EV/total operating proceeds target multiples to our FY21/22E estimates. This approach yields an equity value of €6.00 per share, which we set as our initial price target.

Figure 46: Valuation summary



Note: Closing prices as of 29 September 2020.
Source: MainFirst Research

- Based on average historic multiples, we derive an equity value for BVB of €4.50, which reflects the COVID-19-induced depressed financial performance in FY20/21E.
- In the long term, we think it will be of utmost importance for BVB to maintain a positon among the Top-4 clubs in the Bundesliga and among the Top-15 clubs in Europe. As we indicate in our report, our base case calls for a runner-up positon in the BuLi, three rounds in the DFB Cup and qualification to the Quarter Finals of the UEFA Champions League. Working on this base-case assumption, we derive a DCF value for the company of €8.50. This is based on a WACC of 7.5% and a terminal growth rate of 2.0% (Figure 52).
- For reference purposes, we also run a bottom-up net-asset-value analysis, consisting of team, brand and stadium value, and show multiples that were paid in recent transactions in the European football industry.

Multiple analysis yields an equity value of €6.00

Based on a peer group of publicly listed European football clubs, namely Manchester United, Olympique Lyonnais, Juventus Turin, Celtic Glasgow and Aja Amsterdam, we derive 2-year forward target multiples of 1.7x and 5.2x for EV/sales and EV/EBITDA, respectively. We note that we refrain from applying any discount, which may be warranted due to the company's legal structure and potentially related corporate governance concerns. Investors may also chose to apply a discount to reflect the '50+1 Rule' in German football when comparing BVB to other European clubs. Figures 47-48 show the peer group in detail.

Figure 47: BVB, peer group valuation (€m), based on FY20/21E

	Valuation Metric	Target Multiple	Metric BVB FY21/22E
Total operating proceeds	1-year forward sales	1.7x	440.1
Revenues	1-year forward sales	1.7x	336.0
	1-year forward EBITDA	5.2x	74.8
Implied EV: EV/total operating proceeds			748.2
Implied EV: EV/sales plus net transfer income			581.2
Implied EV: EV/EBITDA			546.3
Adj. net debt / (cash), FY19/20			29.1
Number of shares (m)			92.0
Equity value per share EV/total operating proceeds			7.8
Equity value per share: EV/sales plus net transfer income			6.0
Equity value per share: EV/EBITDA based			3.9
Average Equity value per share (€)			**6.0**

Source: Bloomberg, MainFirst estimates

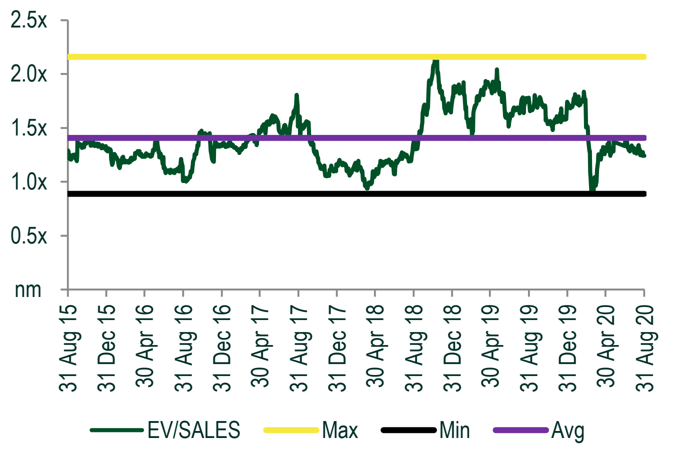
Figure 48: BVB, peer group professional football

			EV/Sales		EV/EBITDA		Y/Y Sales growth		EBITDA Margin	
Name	**Price***	**Market Cap**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**
Celtic Glasgow	1.11	108	1.1x	1.1x	NM	NM	-6%	1%	-4%	-4%
Juventus Turin	0.86	1,222	2.3x	2.0x	8.8x	5.1x	14%	4%	25%	25%
Manchester United	11.37	1,885	4.6x	3.6x	20.3x	11.7x	0%	28%	22%	30%
Olympique Lyon	2.04	130	1.7x	1.3x	30.6x	5.4x	-10%	33%	6%	24%
Ajax Amsterdam	16.38	317	1.8x	1.7x	4.1x	3.3x	34%	10%	44%	51%
MEDIAN - professional football			**1.8x**	**1.7x**	**14.6x**	**5.2x**	**0.5%**	**9.6%**	**22.4%**	**25.3%**

Prices as of 29 September 2020.
Source: Bloomberg

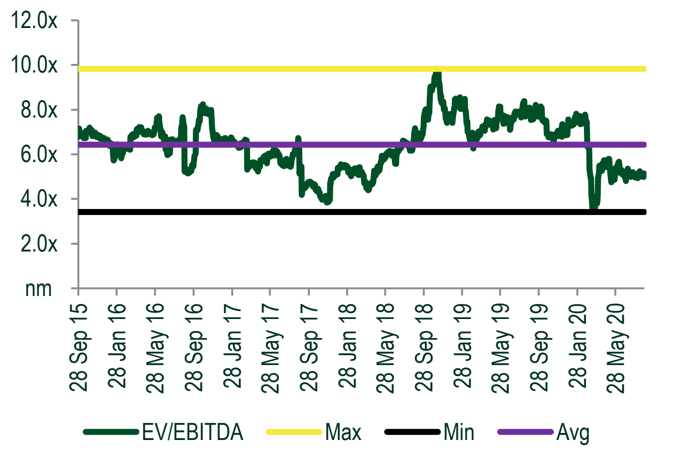
We also provide a historical multiples analysis, depicted in Figures 49-50.

Figure 49: BVB, historical 1-year forward multiples (EV/sales)



Source: MainFirst Research

Figure 50: BVB, historical 1-year forward multiples (EV/EBITDA)



Source: MainFirst Research

Applying these historical multiples to our FY20/21 forecasts results in an implied equity value range of €1.6-6.3, as summarised in Figure 51.

Figure 51: Historical average multiples valuation

	Valuation Metric	Avg. Multiple	Metric BVB FY2020/21E
	1-year forward sales	1.4x	434.0
	1-year forward sales	1.4x	335
	1-year forward EBITDA	6.4x	28.0
EV - EV/total operating proceeds			610.7
EV - EV/sales plus net transfer income			471.2
EV - EV/EBITDA			179.9
Adj. net debt / (cash), FY19/20			29.1
Number of shares (m)			92.0
Equity value per share EV/total operating proceeds (€)			**6.3**
Equity value per share: EV/sales plus net transfer income (€)			**4.8**
Equity value per share: EV/EBITDA based (€)			**1.6**
Average Equity value per share (€)			**4.3**

Source: MainFirst Research

DCF analysis

We display our detailed DCF model in Figure 52. Main input parameters are a WACC of 7.5% and a terminal growth rate of 2.0%.

Figure 52: DCF analysis (€m)

	FY19/20	FY20/21E	FY21/22E	FY22/23E	FY23/24E	FY24/25E	FY25/26E	FY26/27E	FY26/28E	FY26/29E	TV
Revenue	370.2	334.8	336.0	386.2	405.2	419.3	431.9	449.1	462.6	474.2	
Growth y/y	0.0%	-9.6%	0.3%	15.0%	4.9%	3.5%	3.0%	4.0%	3.0%	2.5%	**2.0%**
EBIT	-43.1	-63.1	-15.9	29.4	43.9	46.9	49.7	53.9	57.8	61.6	
Growth y/y	-283.6%	46.3%	-74.8%	-284.9%	49.6%	6.7%	6.0%	8.5%	7.3%	6.6%	
EBIT margin	-11.7%	-18.8%	-4.7%	7.6%	10.8%	11.2%	11.5%	12.0%	12.5%	13.0%	
Tax rate	6%	10%	10%	10%	10%	10%	10%	10%	10%	10%	
NOPAT	**-40.7**	**-56.8**	**-14.3**	**26.4**	**39.5**	**42.2**	**44.7**	**48.5**	**52.0**	**55.5**	
Growth y/y	-317.2%	39.5%	-74.8%	-284.9%	49.6%	6.7%	6.0%	8.5%	7.3%	6.6%	
D&A	106.1	91.1	90.7	91.9	92.4	94.3	90.7	89.8	78.6	71.1	
% revenue	29%	27%	27%	24%	23%	23%	21%	20%	17%	15%	
Net Capex (transfers)	44.6	67.0	67.2	69.5	68.9	71.3	70.0	70.0	70.0	70.0	
% revenue	12%	20%	20%	18%	17%	17%	16%	16%	15%	15%	
Change in WC	-1.6	-18.6	-0.1	-4.9	-1.9	-1.4	-4.3	-4.5	-2.3	0.0	
% revenue	0%	-6%	0%	-1%	0%	0%	-1%	-1%	-1%	0%	
Free cash flow	19.2	-51.2	9.1	43.9	61.2	63.8	61.1	63.8	58.4	56.6	
Growth y/y	-84.6%	NM	-117.8%	381.4%	39.4%	4.4%	-4.3%	4.5%	-8.6%	-3.0%	
WACC	**7.5%**	**7.5%**	**7.5%**	**7.5%**	**7.5%**	**7.5%**	**7.5%**	**7.5%**	**7.5%**	**7.5%**	
PV of FCF	19.2	-48.5	8.0	36.0	46.6	45.3	40.3	39.2	33.3	30.0	
PV of cumulative FCF	249.3										
Terminal Value	557.2	69%	TV as % of total EV								
Enterprise Value	806.6										
Net debt / (cash) end of FY19/20	29.1										
Equity value	777.8										
Number of outstanding shares (m)	92.0										
Equity value per share	8.5										

Source: Company accounts, MainFirst estimates

NAV analysis

The valuation of professional football clubs is often determined within a sum-of-the-parts framework, adding the values of the most important assets, such as the value of the current squad, the brand value as well as other material assets, such as a proprietary stadium. While this approach may have its merits, the outcome depends heavily on the validity of the valuation methodologies for squad and brand, which we find difficult to reproduce.

Figure 53: SotP of net asset values

Asset	Value	Comment
Brand	489	Source: Brand Finance 2018 report, US$/€1.20
Squad	580	Source: transfermarkt.de as per 02 Sep 2020
Stadium	100	Book value of the stadium
TOTAL EV	**1,169**	
Net debt / cash end FY19/20	29	
Equity value	1,089	
Per share	**11.8**	

Source: MainFirst Research, transfermarkt.de, Brand Finance

Transaction multiples show upside in a de-regulated industry structure

In Figure 54, we show a number of recent transactions in the European football industry. While we acknowledge that accurate data is often difficult to compile, we took an attempt to determine the implied transactions multiples. The result shows clear upside to BVB's valuation in case the regulatory framework in the German football market became more liberal.

Figure 54: Transactions in the European football industry

Year	Investor	Club	Implied EV	Sales in year of acquisition	Trailing EV/sales	Comments
2020	Saudi Arabia Public Investment Fund (PIF)	Newcastle	£ 300	179	1.7	Club had been up for sale since 2017
2019	Tennor Holding / Lars Windhorst	Hertha BSC Berlin	€450	140	3.2	49.9% stake for €225m; repayment of debt and investment in the squad; previous owner was KKR (valuation: €330m)
2019	SilverLake	City Football Group (CFG) / Manchester City	US$4,800	532	7.6	10% stake in CFG, the owner of Manchester City; SilverLake owns a portfolio of sports clubs and rights (e.g. Ultimate Fighting Championship)
2018	Stan Kroenke	Arsenal FC	£ 2,010	339	5.9x	Kroenke increased his stake in several steps, the first in 2007; purchase of a 30% stake from Russian oligarch, Alisher Usmanow, in 2018 to bring the shareholding to 100%; Kroenke then took the club private; Kroenke also owns US football club Colorado Rapids and other US sports clubs spanning the NFL and NHL
2017	Elliot Advisors	AC Milan	€740	192	3.9x	Li Younhong defaulted on a loan to Elliot Investments in mid-2018 and, subsequently, Elliot assumed full ownership of AC Milan
2015	China Media Capital	City Football Group (CFG) / Manchester City	US$3,000	464	6.5x	13% stake; CFG is the owner of Manchester City
2014	Allianz	Bayern Munich	€1,325	480	2.8x	Allianz acquired a 8.3% stake for €110m
2016	Suning Commerce Group	FC Internazionale Milan	€270	198	1.4x	
2011	Nasser Al-Khelafi, Qatar Sports Investment (QSI)	Paris Saint Germain	€135	100	1.4x	QSI spent c.US$1.17bn on players since the takeover; al-Khelafi is reported to target Premier League clubs, such as Leeds and Nottingham Forest, as well as Serie A club AS Roma
2011	Hasan Ismaik	TSV 1860 Munich	€30	NA	NA	Jordanian billionaire; 60% stake for €18.4m; owns H.I. Squared International, which is responsible for the clubs' marketing
2009	Audi AG	Bayern Munich	€1,080	269	4.0x	Audi AG acquired a 8.3% stake for €90m
2008	Sheikh Mansour	Manchester City	US$265	104	2.5x	
2004	Malcom Glazer	Manchester United	£ 800	251	3.2x	IPO at NYSE in 2012, A and B Class shares with Glazer family retaining ownership of the B-Class voting shares; current market cap: US$2.2bn
2003	Roman Abramovich	Chelsea FC	£203	134	1.5x	
2002	Adidas AG	Bayern Munich	€930	176	5.3x	Adidas acquired a 8.3% stake for €77m

Source: Sporting press reports, MainFirst Research

Risks

We list the main risks to our investment case below:

- On-field success is the biggest uncertainty factor in forecasting the financial success of a professional football club, most notably the failure to quality for the UEFA Champions League and, in a worst-case scenario, a relegation from the Bundesliga. On the other hand, a qualification for the semi-finals of the UEFA CL would imply significantly upside to our current estimates.
- Management of football clubs, particularly in Germany, face one major challenge: balancing the interests of its main stakeholders, i.e. shareholders and the club members / fan base. While shareholders may expect maximum returns, fans demand, beyond their team's sporting success, affordable access to their team, i.e. reasonable ticket prices and broadcasting via media channels which are more or less for free.
- The European football industry is characterised by winner-takes-the-most dynamics and the regulatory environment for football clubs in other European leagues facilitate significant capital injections by high net-worth individuals or shareholder groups. Hence, BVB may potentially lack competitiveness in the bidding process for 'star' players, which may ultimately lead to an inferior quality team. A lack in on-field success may have further negative effects on several business lines, such as starting and success fees, advertising and merchandising.
- Advertising is the most important growth driver for BVB, in our view. As this business is highly cyclical, any macro-downturn, which we believe is inevitable in light of the current COVID-19 crisis, will likely have negative effects on BVB's financial performance. We note that the effects should be mitigated by the fact that many of the sponsorship agreements are multi-year deals. As a result, professional football clubs will need to invest heavily to understand their fan base in order to provide advertising partners with effective targeting solutions.
- As media usage becomes increasingly fragmented, especially among millennials, we see a risk of shrinking overall TV-rights values. On the other hand, there may be upside as we believe that broadcasting platforms will continue to compete fiercely for the best content.
- Player salaries have been constantly on the rise over the last decade. This may put sustainable pressure on the ability of a professional football club to generate profits and pay dividends to its shareholders.
- Borussia Dortmund, just as any other football club, faces the risk of losing important players or its manager- / coaches.

Financial estimates

Profit & Loss Account

Figure 55: Profit & Loss Account

Borussia Dortmund: Group P&L (in €m)							
(Year end June)	**FY16/17**	**FY17/18**	**FY18/19**	**FY19/20**	**FY20/21E**	**FY21/22E**	**FY22/23E**
Consolidated total operating proceeds	**405.7**	**536.0**	**489.5**	**486.9**	**434.0**	**440.1**	**490.4**
% growth y/y		32.1%	-8.7%	-0.5%	-10.9%	1.4%	11.4%
Revenue	**324.3**	**301.6**	**370.3**	**370.2**	**334.8**	**336.0**	**386.2**
% growth y/y	NM	NM	22.8%	0.0%	-9.6%	0.3%	15.0%
Net transfer income	**40.7**	**117.2**	**82.9**	**40.2**	**41.7**	**69.8**	**69.8**
% growth y/y	NM	188%	-29%	-52%	4%	68%	0%
Other operating income	4.2	3.9	7.7	9.2	8.7	8.4	8.5
% revenue	1.0%	0.7%	2.1%	2.5%	2.6%	2.5%	2.2%
Cost of Materials	-25.9	-20.1	-21.3	-22.4	-23.4	-23.5	-23.9
% revenue	6.4%	3.7%	5.7%	6.0%	7.0%	7.0%	6.2%
Personnel expenses	-177.9	-186.7	-205.1	-215.2	-235.0	-215.0	-215.0
% revenue	43.9%	34.8%	55.4%	58.1%	70.2%	64.0%	55.7%
Other operating expenses	-172.7	-313.0	-118.5	-119.0	-98.8	-100.8	-104.3
% revenue	42.6%	58.4%	32.0%	32.1%	29.5%	30.0%	27.0%
TOTAL costs	-372.3	-516.0	-337.2	-347.4	-348.5	-330.9	-334.7
% revenue	114.8%	171.1%	91.1%	93.8%	104.1%	98.5%	86.7%
EBITDA	**74.1**	**137.3**	**116.0**	**63.0**	**28.0**	**74.8**	**121.3**
% growth y/y	NM	85.4%	-15.5%	-45.7%	-55.6%	167.4%	62.1%
EBITDA margin	18.3%	25.6%	31.3%	17.0%	8.4%	22.3%	31.4%
Depreciation and Amortisation	-63.4	-98.3	-92.5	-106.1	-91.1	-90.7	-91.9
% revenue	15.6%	18.3%	25.0%	28.7%	27.2%	27.0%	23.8%
Result from operating activities (EBIT)	**10.7**	**39.0**	**23.5**	**-43.1**	**-63.1**	**-15.9**	**29.4**
% growth y/y		265.7%	-39.7%	-283.6%	46.3%	-74.8%	-284.9%
EBIT margin	2.6%	7.3%	6.3%	-11.7%	-18.8%	-4.7%	7.6%
Financial result	**-1.5**	**-4.3**	**-1.7**	**-3.4**	**-2.1**	**-2.1**	**-2.1**
% revenue	-0.4%	-0.8%	-0.5%	-0.9%	-0.6%	-0.6%	-0.5%
Profit before taxes	**9.1**	**34.7**	**21.8**	**-46.6**	**-65.2**	**-18.0**	**27.3**
% growth y/y		280.0%	-37.1%	-313.6%	39.9%	-72.4%	-251.6%
Pre-tax profit margin	2.2%	6.5%	5.9%	-12.6%	-19.5%	-5.4%	7.1%
Income taxes	-0.9	-2.9	-4.4	2.6	6.5	1.8	-2.7
Tax rate	10%	9%	20%	6%	10%	10%	10%
Consolidated net profit	**8.2**	**31.7**	**17.4**	**-44.0**	**-58.7**	**-16.2**	**24.5**
% growth y/y		286.2%	-45.1%	-352.7%	33.5%	-72.4%	-251.6%
Net profit margin	2.0%	5.9%	4.7%	-11.9%	-17.5%	-4.8%	6.4%
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% revenue	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net profit attributable to shareholders	**8.2**	**31.7**	**17.4**	**-44.0**	**-58.7**	**-16.2**	**24.5**
% growth y/y		286.2%	-45.1%	-352.7%	33.5%	-72.4%	-251.6%
Net profit margin, post minorities	2.0%	5.9%	4.7%	-11.9%	-17.5%	-4.8%	6.4%
Earnings per share (in €)							
Basic EPS (EUR)	0.09	0.34	0.19	-0.48	-0.64	-0.18	0.27
Diluted EPS (EUR)	**0.09**	**0.34**	**0.19**	**-0.48**	**-0.64**	**-0.18**	**0.27**
Number of shares outstanding (m)							
Basic	*92.0*	*92.0*	*92.0*	*92.0*	*92.0*	*92.0*	*92.0*
Diluted	*92.0*	*92.0*	*92.0*	*92.0*	*92.0*	*92.0*	*92.0*
Pay-out ratio	67%	17%	32%	0%	0%	0%	22%
Dividend	-5.5	-5.5	-5.5	-5.5	0.0	0.0	-5.5
DPS (in €)	**0.06**	**0.06**	**0.06**	**0.00**	**0.00**	**0.00**	**0.06**

Source: Company accounts, MainFirst estimates

Segment Reporting

Figure 56: Segment Reporting

Segment Reporting (in EURm)							
(Year end June)	FY16/17	FY17/18	FY18/19	FY19/20	FY20/21E	FY21/22E	FY22/23E
Match Operations	**43.9**	**42.3**	**44.7**	**32.5**	**16.3**	**26.8**	**48.3**
growth y/y	NM	-3.6%	5.5%	-27.2%	-50.0%	65.0%	80.0%
% of core operating business	13%	14%	12%	9%	5%	8%	12%
Advertising	**85.0**	**94.0**	**96.8**	**98.0**	**107.8**	**113.2**	**117.7**
growth y/y	NM	10.5%	3.0%	1.2%	10.0%	5.0%	4.0%
% of core operating business	26%	30%	26%	26%	32%	34%	30%
TV Marketing	**125.8**	**122.3**	**167.3**	**169.8**	**157.9**	**139.0**	**150.1**
growth y/y	NM	-2.7%	36.8%	1.5%	-7.0%	-12.0%	8.0%
% of core operating business	39%	39%	45%	46%	47%	41%	39%
Merchandising	**39.5**	**29.5**	**30.0**	**33.3**	**31.6**	**32.6**	**33.6**
growth y/y	NM	-25.2%	1.7%	11.0%	-5.0%	3.0%	3.0%
% of core operating business	12%	9%	8%	9%	9%	10%	9%
Conference, Catering & Miscellaneous	**31.9**	**25.2**	**31.4**	**36.6**	**21.2**	**24.4**	**36.6**
growth y/y	NM	-20.9%	24.6%	16.2%	-42.0%	15.0%	50.0%
% of core operating business	10%	8%	8%	10%	6%	7%	9%
Revenues core operating business	**326.0**	**313.3**	**370.3**	**370.2**	**334.8**	**336.0**	**386.2**
growth y/y	NM	-3.9%	18.2%	0.0%	-9.6%	0.3%	15.0%

Source: Company accounts, MainFirst estimates

Cash Flow Statement

Figure 57: Cash Flow Statement

Cash Flow Statement in EURm							
(Year end June)	**FY16/17**	**FY17/18**	**FY18/19**	**FY19/20E**	**FY20/21E**	**FY21/22E**	**FY22/23E**
Profit before income taxes	**9.1**	**34.7**	**21.8**	**-46.6**	**-40.2**	**-14.6**	**30.0**
Depreciation & Amortization	63.4	98.3	90.1	99.1	91.1	90.7	91.9
+/- on disposal of non-current assets	0.0	7.6	-97.2	8.3	0.0	0.0	0.0
+/- other non-cash expenses or income	12.3	40.2	-4.2	-3.1	0.0	0.0	0.0
Transfer costs	0.0	0.0	15.1	7.4	0.0	0.0	0.0
Interest income	-0.7	-0.6	-0.4	-0.3	-0.4	-0.4	-0.4
Interest expense	2.2	4.9	2.1	2.7	2.5	2.5	2.5
+/- Investments in associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+/- other assets not classified as investing or financing	16.0	-0.7	-4.4	-62.2	13.7	-0.1	-6.0
+/- other liabilities not classified as investing or financing	15.5	-8.7	10.1	-45.8	8.9	0.3	13.2
Interest received	0.0	0.0	0.0	0.1	0.4	0.4	0.4
Interest paid	-2.0	-3.7	-1.5	-2.3	-2.5	-2.5	-2.5
Income taxes paid	-5.5	-1.7	-2.8	2.9	4.0	1.5	-3.0
Others	0.0	0.0	0.0	39.2	0.0	0.0	0.0
Cash Flow from operating activities	**110.4**	**170.4**	**28.7**	**-0.6**	**77.5**	**77.7**	**126.1**
Payments for invesmtents in intagibles	-96.5	-135.6	-129.5	-152.7	-67.0	-67.2	-69.5
Proceeds from disposal of intangibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net proceeds from transfers	0.0	0.0	115.8	108.1	0.0	0.0	0.0
Payments for investments in PPE	-8.2	-7.5	-9.9	-6.1	-10.0	-10.1	-11.6
Proceeds from disposals of PPE	0.1	0.3	0.1	0.0	0.0	0.0	0.0
Proceeds from financial assets	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Payments for invesmtents in financial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Changes in other non-current assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash Flow from investing activities	**-104.6**	**-142.7**	**-23.5**	**-50.8**	**-77.0**	**-77.3**	**-81.1**
FCF, as reported	**5.8**	**27.6**	**5.2**	**-51.4**	**0.5**	**0.4**	**45.0**
Growth, y/y		378.2%	-81.2%	-1088.3%	-101.0%	-16.3%	9974.4%
Acquisition of minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payment for settlement of derivatives	0.0	-1.7	0.0	0.0	0.0	0.0	0.0
Dividend payments	-5.5	-5.5	-5.5	-5.5	0.0	0.0	-5.5
Repayment of liabilities under finance leases	-2.6	-10.3	-3.3	-3.9	-2.0	0.0	0.4
Changes in other financial and non-current liabilities				8.3	-15.7	0.1	3.5
Cash Flow from financing activiteis	**-8.2**	**-17.5**	**-8.8**	**-1.1**	**-17.7**	**0.1**	**-1.6**
Change in cash and cash equivalents	-2.4	10.2	-3.6	-52.5	-17.1	0.5	43.4
Cash at the beginning of the period	51.7	49.3	59.5	55.9	3.3	-13.8	-13.3
Cash and cash equivalents at the end of the period	**49.3**	**59.5**	**55.9**	**3.3**	**-13.8**	**-13.3**	**30.1**

Source: Company accounts, MainFirst estimates

Balance Sheet

Figure 58: Balance Sheet

Borussia Dortmund: Balance Sheet in (€m)							
(Year end June)	**FY16/17**	**FY17/18**	**FY18/19**	**FY19/20**	**FY20/21E**	**FY21/22E**	**FY22/23E**
Intangibles	155.4	120.3	163.7	229.7	216.3	202.8	191.2
PPE	184.7	180.7	184.0	193.0	192.4	192.4	193.1
Investments accounted for using equity method	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Financial assets	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Trade and financial receivables	10.3	39.7	9.7	12.7	12.7	12.7	12.7
Deferred tax assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Prepaid Expenses	13.5	10.3	13.9	5.7	5.7	5.7	5.7
NON-CURRENT ASSETS	**364.2**	**351.4**	**371.7**	**441.5**	**427.4**	**414.0**	**403.1**
Inventories	9.0	5.6	4.6	6.8	4.0	4.0	4.6
Trade and other financial receivables	48.8	23.0	30.1	36.5	23.4	23.5	27.0
Tax assets	0.2	0.6	1.8	0.4	1.7	1.7	1.9
Cash and cash equivalents	49.3	59.5	55.9	3.3	-33.5	-28.0	18.4
Accruals	11.2	14.5	15.0	9.9	10.7	10.8	12.4
Assets held for sale	0.0	31.1	21.0	19.6	19.6	19.6	19.6
CURRENT ASSETS	**118.4**	**134.2**	**128.4**	**76.5**	**26.0**	**31.6**	**84.0**
TOTAL ASSETS	**482.6**	**485.6**	**500.1**	**518.0**	**453.4**	**445.6**	**487.2**
Subscribed capital	92.0	92.0	92.0	92.0	92.0	92.0	92.0
Reserves	224.5	251.7	263.0	213.6	154.9	138.7	157.7
Treasury shares	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
EQUITY	**316.3**	**343.6**	**354.9**	**305.4**	**246.8**	**230.6**	**249.6**
Lease liabilities	8.7	6.7	8.4	20.1	20.1	20.1	20.1
Trade payables	0.5	9.7	1.5	69.6	69.6	69.6	69.6
Other financial liabilities	8.2	2.6	7.2	0.0	0.0	0.0	0.0
Deferred tax liabilities	0.0	0.0	2.7	0.0	0.0	0.0	0.0
Deferred income	8.0	4.0	0.0	0.2	0.2	0.2	0.2
NON-CURRENT LIABILITIES	**25.4**	**23.0**	**19.8**	**89.9**	**89.9**	**89.9**	**89.9**
Provisions	1.2	1.1	1.7	0.0	0.7	0.7	0.8
Lease liabilities	10.3	2.0	3.1	4.4	2.3	2.4	2.7
Trade payables	63.6	54.6	60.7	67.4	70.3	70.6	81.1
Financial liabilities	0.0	0.0	0.0	8.0	8.0	8.0	8.0
Other financial liabilities	43.3	34.7	33.7	39.1	23.4	23.5	27.0
Tax liabilities	0.7	2.0	0.8	0.0	0.3	0.3	0.4
Deferred income	21.9	24.7	25.5	3.6	11.6	19.6	27.6
CURRENT LIABILITIES	**140.9**	**119.0**	**125.4**	**122.6**	**116.7**	**125.1**	**147.7**
TOTAL EQUITY AND LIABILITIES	**482.6**	**485.6**	**500.1**	**518.0**	**453.4**	**445.6**	**487.2**

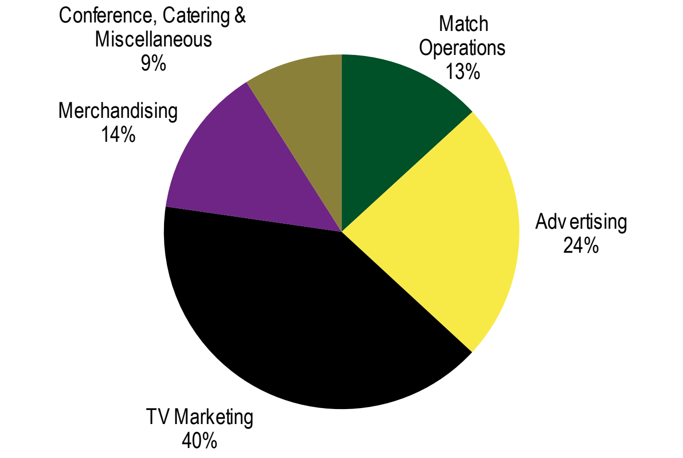
Source: Company accounts, MainFirst estimates

Borussia Dortmund GmbH & Co KGaA

Apart from the recent IPO of third league football club, Spielvereinigung Unterhaching GmbH & Co. KGaA on 30 July 2019, Borussia Dortmund GmbH & Co. KGaA, is the only German football club which is publicly listed.

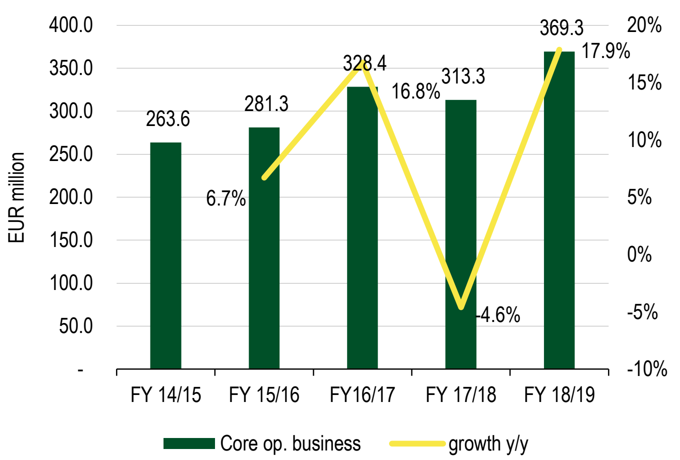
The business model of BVB centres on its professional football operations and is, therefore, inevitably linked to the on-field success of the team. The operations are predominantly monetised via five different revenue streams: (1) Match Operations, (2) Advertising, (3) TV-broadcasting rights, (4) Merchandising, (5) Conference & Catering and, last but not least, (6) Transfers. We show the revenue split for FY18/19 in Figure 59. Stripping out 'Transfers', BVB's core operating activities grew by ~18% yoy in FY18/19, driven by an increase in revenues from TV-broadcasting rights.

Figure 59: Revenue split by segment in FY18/19



Source: Company data

Figure 60: Historical revenue development, excluding 'Transfers'



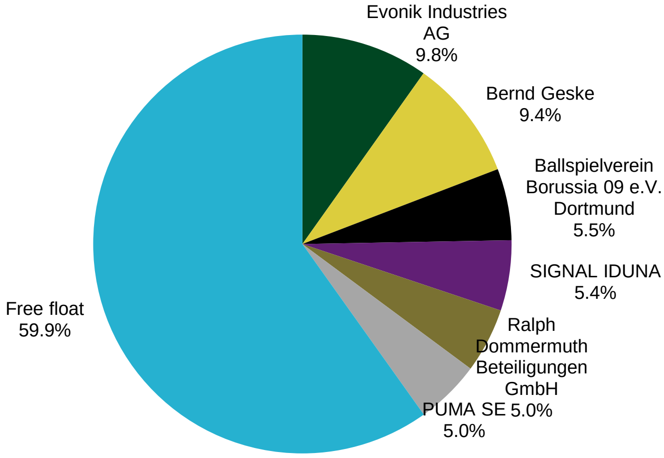
Source: Company data

While we acknowledge that match results and, therefore, BVB's sporting success if somewhat difficult to forecast, the club's track record over the past decade has led (1) to a high share of revenues, which, are of recurring nature and (2) the ability to maintain and further build a high-performance team, the prerequisite for a continued strong financial performance in the future. As we will outline later, this fuels a football club's ecosystem and secures a sustainable spot within the Top-15 football clubs in Europe, a clear strategic priority.

Shareholder structure: dominated by sponsors

Beyond the Club, Ballspielverein Borussia 09 e.V. Dortmund, which holds 5.5% of total shares in the listed GmbH & Co. KG, the current shareholder structure, which is depicted in Figure 61, is dominated by its main sponsors:

Figure 61: Shareholder structure



Source: Company accounts, MainFirst Research

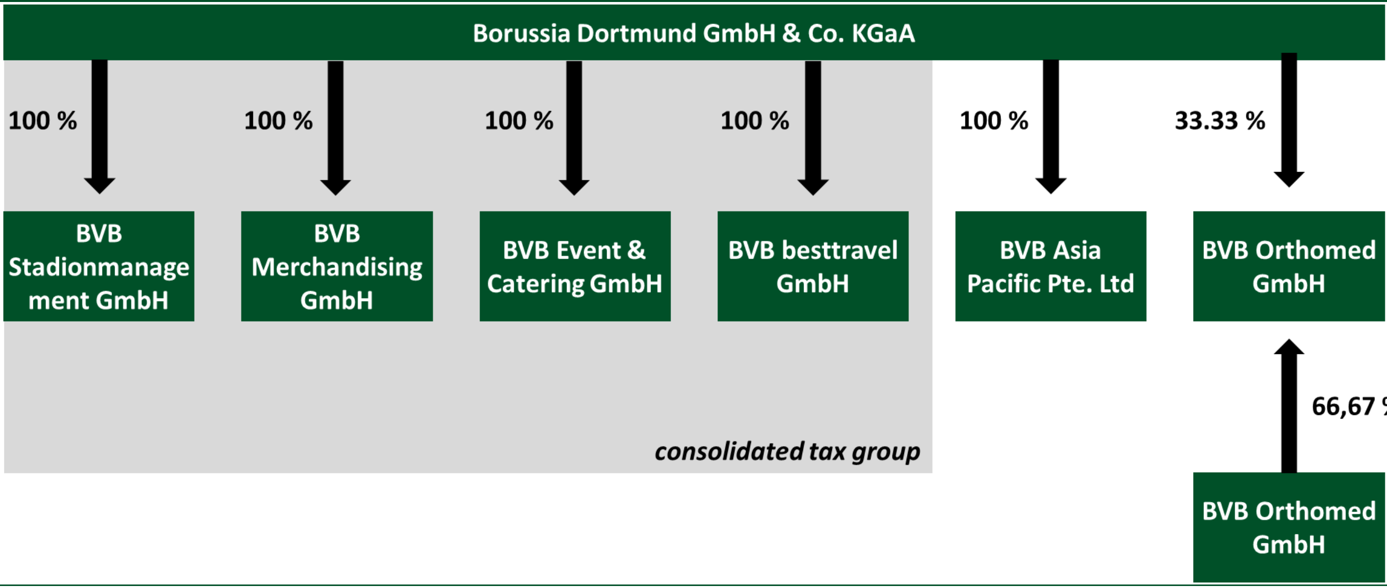
- Evonik Industries, the main jersey sponsor of BVB since 2006, remains the top single shareholder with a 9.8% stake.
- The ownership had recently been reduced from 14.8% with the likely buyer, in our view, being Ralph Dommermuth Beteiligungen GmbH, which announced to hold a 5.0% stake as per 4 March. This follows the announcement that 1&1 will become a second new jersey sponsor of BVB. Ralph Dommermuth is the founder and CEO of United Internet with its brands 1&1 Ionos (webhosting services) and its publicly listed subsidiary 1&1 Drillisch (DRI GY, Hold, €18.91, covered by MainFirst colleague Stéphane Beyazian).
- German insurance company Signal Iduna, holder of the name rights for BVB's stadium (Signal Iduna Park) until 2026, owns 5.4% of the company.
- Kit supplier Puma SE (PUM GY, Hold, €76.92, covered by MainFirst colleague Cédric Lecasble) holds 5.0% of the total shares outstanding.
- Mr Bernd Geske, a millionaire fan of BVB holds 9.3% of the shares. He has invested since the IPO and has bought additional shares ever since. According to BVB management, Mr Geske does not intend to be actively involved in club management, but sees his investment rather strategically than solely profit based.

The fact that main sponsors own significant stakes in football clubs is not unusual: Adidas, Audi and Allianz, for instance, own 8.3% each in Bayern Munich (FC Bayern Munich e.V.: 75%)

Reporting segments in detail

Borussia Dortmund generates revenues through five business lines, (1) TV Marketing, (2) Match Operations, (3) Advertising, (4) Merchandising, (5) Conferences & Catering and (6) Transfers. This is naturally reflected in the group's organisational structure (Figure 62).

Figure 62: Organisational overview



Source: Company accounts, MainFirst Research

***TV Marketing*: 45% of FY18/19 group revenues**

In FY18/19, income from domestic and international TV-broadcasting rights rose by €45.1m to €167.3m, driven by all competitions except for the DFB-Cup TV rights, which were down compared with the previous season, according to the annual report. With regard to domestic TV rights, the DFL stated that 12.25% more money was distributed compared with the previous season, which resulted in an increase in revenues by €10.2m to €98.1m. In comparison, income from international TV-rights marketing rose by 114% yoy to €68.1m. The steep hike is explained by the qualification to the last 16 round in the UEFA Champions League, which the club had not reached in the previous season. Another factor is the new revenue distribution system of the UEFA from the season 2018/19, which incorporates a coefficient factor, totalling €2.04bn, equivalent to an increase of 44.7%. As already outlined, the coefficient is calculated on the success and performance of the clubs over the past ten years.

***Advertising*: 26% of FY18/19 group revenues**

Advertising revenues accounted for around 20% of total revenues in FY18/19, which implies an increase of 3.0% yoy to €96.8m. The line includes all sponsoring deals recognised, ranging from Evonik Industries as shirt sponsor, Puma as main kit supplier, and Signal Iduna, which owns the stadium name rights, to a total of nine, so called “Champion Partners”, according to company information. In addition, BVB saw a substantial increase in national and product partners and expanded their international advertising and virtual advertising. The company invested heavily in its advertising technology, which allows an overlay of classical physical advertising boards / ringfences with digital adds, which are shown to a target advertising audience in different TV broadcasts. The advertising income also includes the prize money for the second place finish and the qualification for the UEFA Champions League group stage.

***Match Operations*: 12% of FY18/19 group revenues**

Revenues in the **Match Operations** segment are predominantly generated via ticket proceeds from match days in the Bundesliga, the UEFA Champions League and, to a lesser extent the DFB Cup. Borussia Dortmund grew revenues in the segment by €2.4m in FY18/19 to €44.7m, which translated into c.9% of BVB’s total revenue. The development was driven by a moderate upward adjustment in ticket prices which corresponds to €0.8m higher revenues. In contrast, income from international games shrunk from €9.1m to €7.5m due to only four home matches compared with five. Note that BVB played two additional matches in the Euro League in FY17/18, as the team did not make it through the group phase of the UEFA Champions League. Ticket proceeds from friendlies also increased by €2.8m yoy, due to a stronger focus on international marketing tours, particularly in the US.

Merchandising: 8% of FY18/19 group revenues

Revenue form Merchandising amounted to €30.0m in financial year 18/19, almost unchanged from the previous year. It comprises all sold merchandise and fan items in the fan shops of BVB as well as affiliated shops.

Conference, catering and miscellaneous

Revenues in the division amounted to €30.5m compared with €25.2m in the previous year. It comprises revenues from BVB Event & Catering GmbH, the hospitality areas and events as well as public catering. Despite one less match played in the international competition, demand for food and beverages increased by over 30% yoy. We note that 14 of the 17 Bundesliga home games were scheduled on either a Friday or a Saturday, which naturally leads to significantly higher catering revenue compared with Sunday / Monday matchdays. Miscellaneous income increased by €0.6m to €2.2m and includes revenues from the BVB Academy, leases and rentals, as well as BVB TV. It also includes revenues from the Amazon Prime documentary “Inside Borussia Dortmund”.

Transfer deals: 25% of FY18/19 group sales

In the financial year 2018/19 the income from transfer deals declined by €102.5m to €120.2m. The severe decline can be primarily explained by the extraordinarily high transfer income in the 2017/18 season, which saw blockbuster transfers of Ousmane Dembele to FC Barcelona and Aubameyang to Arsenal FC. Major transactions in FY18/19 included the departures of Christian Pulisic to Chelsea FC, Sokratis Papastathopoulos to Arsenal FC and Andriy Yarmolenko to West Ham United.

While transfer income is largely unpredictable, we note that BVB has a proven track record of identifying and developing talents. Helped by a strong scouting and youth academy, the company developed several talents to international known top performers. In our view, the revenue stream from transfers is somewhat similar to M&A for an industrial company.

For instance, Jadon Sancho, one of the most promising talents in European football, is connected with top clubs in the English Premier League. A sale could potentially lead to significant additional revenues for BVB, as he is currently priced at around c.€100m. We also note that the club won the ‘talent battle’ for Norwegian Erling Håland, who attracted the attention of several top clubs throughout Europe. Several press articles suggest that Håland is allowed to transfer for a fixed fee of around c.€75m; however, this is only valid after the completion of two seasons at BVB, in 2022 the earliest. In addition to the transfer fee, BVB had to pay an additional €10m to Håland’s father as consultant and €15m to advisor Mino Raiola. Håland will earn €6m in the first two years and €8m for the last two years of his contract. All in all, the transfer costs amounted to €55m, excluding salary, and €83m including the salary throughout the 2024 season.

Closer look at company’s legal structure

The company can be traced back to the foundation of the *Ballspielverein Borussia 09 e.V. Dortmund* on 19 December 1909. In the legal form of an e.V., it has been run as a non-profit organisation for 90 years before the members on 28 November 1999 and 26 February 2000 agreed on a landmark decision to spin off all existing economic activities “which are subject to taxation” into the then newly founded *Borussia Dortmund GmbH & Co. KGaA*. The company successfully went public in October 2000 and is today listed in the Prime Standard and SDAX of Deutsche Börse AG. The corporate legal structure of BVB was designed to ensure a balance in the interests of the company’s main stakeholders, i.e. the interest of the members and fan base and its shareholders.

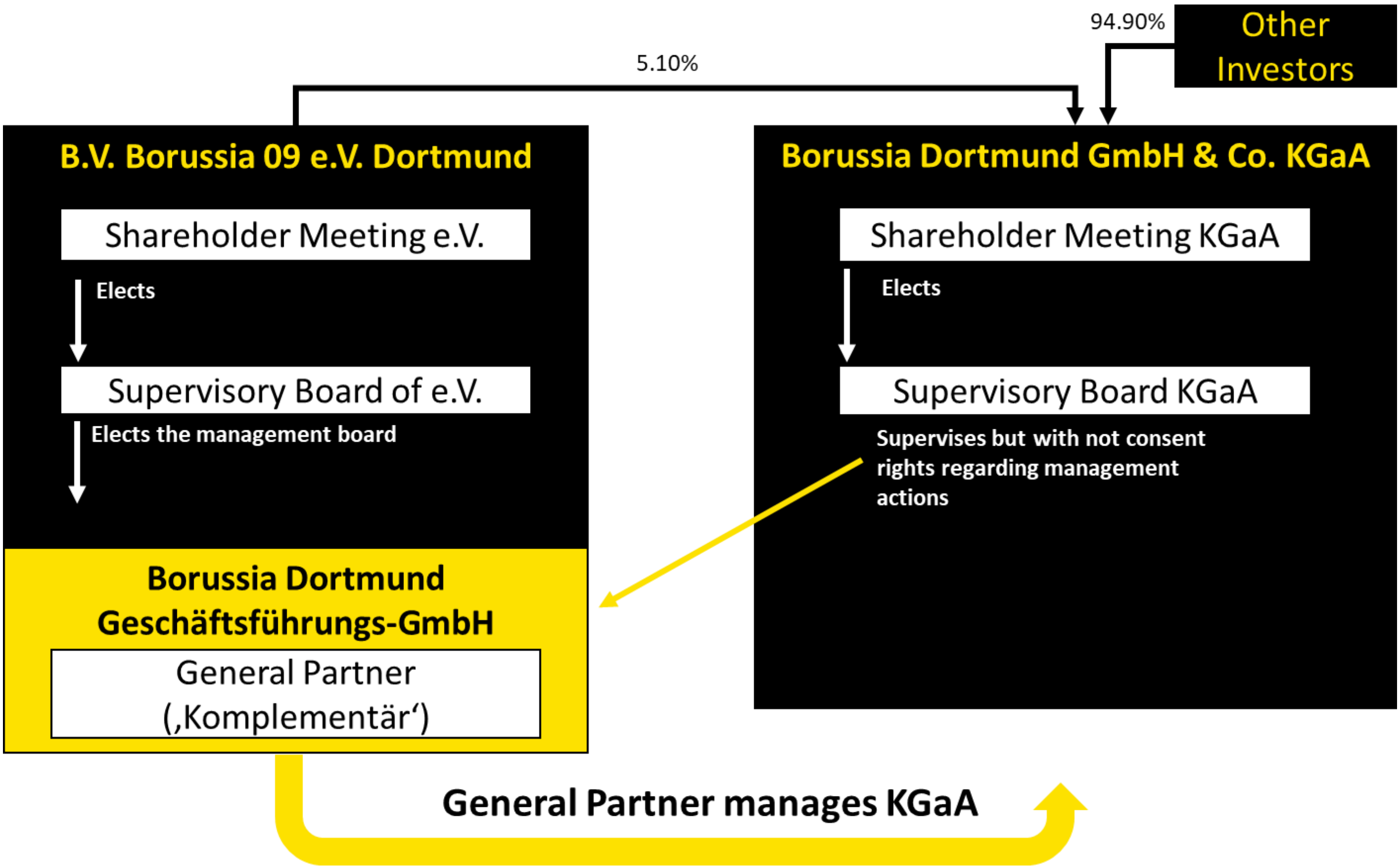
How does a GmbH & Co. KGaA work?

A KGaA is essentially a partnership limited by shares.

- Shareholders in *Borussia Dortmund GmbH & Co. KGaA (‘Kommanditaktionäre’*) have voting rights and elect the company’s supervisory board. They are entitled to a dividend. Similar to an AG (ordinary shares), the liability of shareholders is limited to investment.

- The main difference to the legal form of an 'AG' or 'SE' lies in the fact that the publicly listed GmbH & Co. KGaA does not have its own management board but is run by a *'Komplementär'* or *'General Partner'*, i.e. the ***Borussia Dortmund Geschäftsführungs-GmbH***, represented by Hans-Joachim Watzke (CEO), Thomas Treß (CFO) and Carsten Cramer (CMO).
- Hence, the *General Partner* has extensive rights, regardless of the size of its shareholding in the GmbH & Co. KGaA. In the case of BVB, the *'General Partner'* does not own any shares in the publicly listed entity.
- While the supervisory board of the KGaA supervises the management board of the *General Partner*, which includes information rights, is has no consent rights regarding extraordinary management action and, as such, very limited power.
- The non-profit organisation, i.e. *BV Borussia Dortmund 09 e.V.* (the 'club'), owns 100% of the *'General Partner'* and, hence, ultimately also controls the GmbH & Co KGaA. In the case of BVB, the club also owns a c.5.5% stake in the GmbH & Co. KGaA (Figure 63). *BV Borussia 09 e.V. Dortmund* is represented by its management board consisting of the president, Dr. Reinhard Rauball, the vice president, Gerd Pieper, and the treasurer, Dr. Reinhold Lunow.

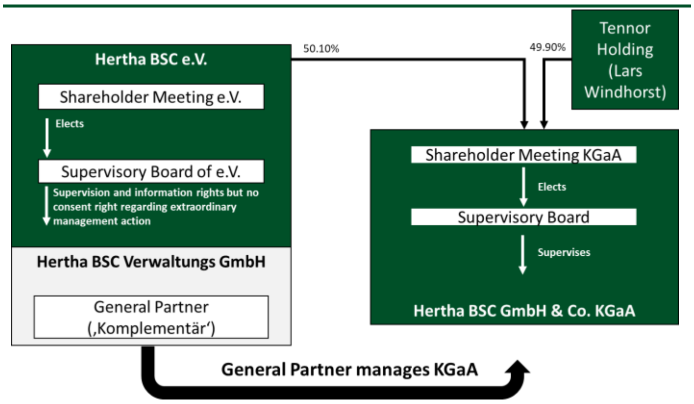
Figure 63: Overview of structures and responsibilities among BV Borussia 09 e.V. Dortmund



Source: Company accounts, MainFirst Research

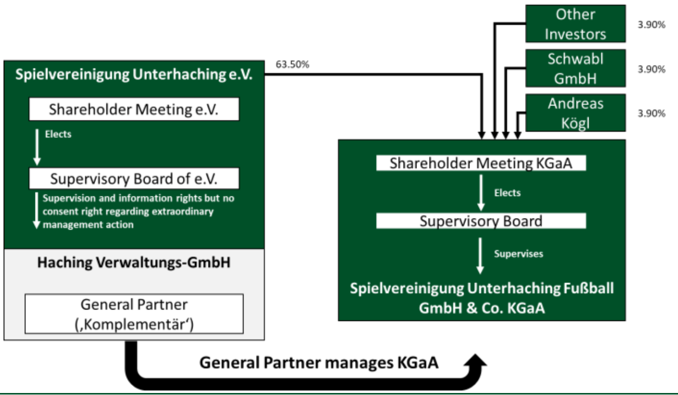
For a better understanding, we also provide the legal structures of Hertha BSC and Unterhaching in Figures 64-65.

Figure 64: Corporate structure of Hertha BSC GmbH & Co. KGaA



Source: Manager Magazin, SpVgg Unterhaching

Figure 65: Corporate structure of SpVgg Unterhaching GmbH & Co. KGaA



Source: Manager Magazin, SpVgg Unterhaching

Implications for corporate governance

So what are the implications of this legal structure for BVB shareholders? At first glance, we concede that the KGaA clearly raises concerns about potential governance issues. Below we list what we believe are the most important arguments and provide our view:

- The '50+1' Rule by the German Football Association (DFB) leaves very little options for the legal structure of a professional football business in Germany. The only feasible alternative, i.e. the legal form of an 'AG' or 'SE', would be accompanied with one dominating shareholder, i.e. the club, which, in our view, would have similar control rights to a General Partner.

- As the recent change in the shareholding structure of German Bundesliga Club **Hertha BSC GmbH & Co. KGaA** shows, the structure does not scare off larger investors. In June 2019, Tennor Holdings, the investment vehicle of German investor Lars Windhorst, bought a 49.9% stake in the club; 50.1% remained in the hands of the General Partner, Hertha BSC Verwaltungs GmbH. In case of an IPO, which is mentioned as a strategic option by both parties, Hertha BSC Verwaltungs GmbH could reduce its shareholding to zero, just as it is the case at the BVB, while still complying to the '50+1' Rule.

- As we outline in more detail later, German clubs are in fierce competition to maintain a Top-20 position in Europe. Given that British, Spanish, Italian and French clubs do not have any ownership restrictions, German clubs need to compete even harder for investors, who are willing to support the company's growth strategy via a participation in capital increases. In other words, we believe that BVB management will behave in a shareholder-friendly way.

Corporate bodies of Borussia Dortmund GmbH & Co. KGaA

Below, we list the members of the different corporate bodies within Borussia Dortmund GmbH & Co. KGaA, namely Borussia Dortmund Geschäftsführungs-GmbH and BV Borussia e.V.

Management of Borussia Dortmund Geschäftsführungs-GmbH

The Borussia Dormund Geschäftsführungs GmbH management board consists of CEO, Hans-Joachim Watzke, CFO, Thomas Treß, and Carsten Cremer, who is responsible for sales and marketing.

- **CEO:** The presidential committee of the advisory board of Borussia Dortmund Geschäftsführungs- GmbH appointed **Hans-Joachim Watzke** as CEO of Borussia Dortmund Geschäftsführungs-GmbH on 15 February 2005 at the climax of the existential crisis of BVB. Before being appointed, Mr Watzke was the owner of Watex Schutzbekleidungs GmbH a local protective clothing company for workers and fire departments in North-Rhine Westphalia. Hans-Joachim Watzke has been a member of BV. Borussia 09 e.V. Dortmund since 1996. From 1 July 2005 until 31 December 2005 he acted as the sole managing director of Borussia Dortmund Geschäftsführungs-GmbH. He has been the chairman of the management board since 1 January 2006.

- **CFO: Thomas Treß** was appointed as second managing director of the GmbH on 11 October 2005 by the presidential committee of the advisory board of Borussia Dortmund Geschäftsführungs-GmbH. From the beginning of 2006 onwards, he was responsible for the finances and organisation in the company. He is a business graduate, tax advisor and auditor. Before his appointment, Mr Treß was a partner at the consulting firm “RölfsPartner”. He was one of the key persons responsible for the successful restructuring of BVB.
- **CMO: Carsten Cramer** joined BVB on 1 October 2010 as the Director of Sales & Marketing at times he was also responsible for the digitization and internationalization strategy. His other functions at BVB include the co-management of BVB Merchandising GmbH as well as the board activity in the BVB Foundation "Leuchte Auf". As of 1 March 2018, Carsten Cramer was appointed as managing director of Borussia Dortmund Geschäftsführungs-GmbH. Prior to joining BVB Mr Cramer was responsible for the nationwide marketing and sales business as Senior Vice-President at Sportfive, headquartered in Hamburg. He began his professional career as Managing Director and Head of Marketing at the traditional football club “Preußen Münster”.

Supervisory Board of Borussia Dortmund GmbH & Co. KGaA

- **Gerd Pieper** is the current chairman of the supervisory board and was appointed in November 2004. Mr Pieper studied business administration at the University of Cologne. After graduating as a Diplom-Kaufmann, he joined his parent's perfumery business, which they had founded in 1931. He has been the managing shareholder of Stadt-Parfümerie Pieper GmbH, which now has 131 stores and some 1,200 employees, since 1978. Besides, he was president of the Chamber of Commerce and Industry from 1992 to 2011 and continues to serve as an honorary president. He is also a member of the Advisory Board of the Signal Iduna Group.
- **Christian. Kullmann** is member of the supervisory board since May 2007 and has been appointed as the vice president of the supervisory board in August 2019. Christian Kullmann studied economic History and Politics at the University of Hanover and began his career at Deutsche Vermögensberatung in 1994. He became Head of Communications of RAG in Essen in 2003. Christian Kullmann then assumed this same role at Evonik Industries AG from 2007 to 2013. In 2013, he was appointed Chief Representative and since 1 July 2014 he has been a member of the Executive Board of Evonik Industries AG in Essen. In May 2016 he was named Deputy Chairman of the Executive Board and another year later he was named Chairman of the Executive Board of Evonik Industries AG.
- **Bernd Geske** is the shareholder of May Holding GmbH & Co. KG, a family owned company which produces foodstuffs and semi luxury goods near Cologne. In 1990, he graduated as a specialist in marketing communications from the *Westgerman academy of communication.* After his studies, he started working as a marketing manager at BDO Group Germany. By 1993, he started his own business in form of an agency for media and sport marketing in Meerbusch near Düsseldorf. He mainly worked with clients like Felix-Knusperfrisch, Teekanne and the Bundesliga club Fortuna Düsseldorf. Besides that, he is one of the main shareholders of BVB with holding c.9%.
- **Bjørn Gulden** is member of the supervisory board since November 2014 and currently the CEO of Puma SE. He is a MBA graduate from Babson Graduate School in Boston. Before starting his career as a marketing and financial consultant, he also spent some time studying at the University of Erlangen. Besides being the CEO of Puma since 2013, he is also member of the executive Committee of Kering, Puma’s parent company. In addition to the responsibilities mentioned, he is also member of the Advisory Board of Deichmann SE. Mr Gulden has over 20 years of experience in the sports and lifestyle industry, before joining Puma as CEO he was Chief Executive Office of Pandora from 2012 onwards. Prior to that, he was managing director of Deichmann SE, where he was also the head of the US subsidiaries. He played professional football for the Bundesliga club 1. FC Nuremberg in 1984/85.

- **Ulrich Leitermann** is a trained bank officer and studied business administration at the University of Mannheim. After his studies, he added different qualifications to its resume as a tax advisor and auditor. In 1997, he joined the predecessor of today's Signal Iduna insurance group as the head of their finance department as a member of the Managing Board. In 2013, he was appointed the Chairman of the Board of Signal Iduna, which was established in 1999. Besides that, he holds a position on the Executive Board of the Association of German Private Health Insurers.
- **Bodo Löttgen** is a trained law enforcement officer. After his training, he studied public administration at the Federal University of Applied Administrative Sciences in Cologne. Afterwards he started working for the German Federal Criminal Police Office (BKA), most recently as the Detective Chief Superintendent until 2005. He then was a member of the Landtag in North Rhine Westphalia for the CDU of which he has been a part of since 1999 and was active in local politics prior to the engagement on federal level. From 2012 to 2017, he was Secretary General of the CDU's North Rhine-Westphalia Regional Association and afterwards, from 2017 onwards, Chairman of the CDU Group in the Nord Rhine Westphalia Landtag.
- **Dr. Reinhold Lunow** studied medicine at the University of Bonn from 1974 to 1980. Afterwards, he completed his medical specialty training until 1986. He was as an internist since 1986 and has been the medical director and partner of a joint practice since 2005. From 2005 onwards, he was the treasurer of the Ballspielverein Borussia 09 e.V. Dortmund.
- After graduating from high school, **Silke Seidel** started her professional career at the City of Dortmund. After studying public administration at the Federal University, she started working in the administration department of the City of Dortmund. In 1990, she started working for the Montan Real Estate Development Group, a subsidiary of Ruhrkohle AG where she was project leader and chief executive of the project association "Minister Stein mbH". In 1994, she started working for the local utility company in Dortmund where she was the consultant for real estate developments and took the lead of that department in 1996. In 1999, she became chief executive of Westfalentor 1 GmbH and in 2005 as well from the Hohenbuschei GmbH & Co. KG. Since 2014, she is also chief executive of Dortmund Logistics GmbH.
- **Peer Steinbrück** served two years in the German military after graduating from high school. Afterwards he studied economics and social sciences at the University of Kiel where he graduated in 1974. Whilst studying he joined the Social Democratic Party (SPD) and energy trade union IG Bergbau. Until 1986, he held several roles at federal state and state ministries, the Federal Chancellery in Bonn, the Permanent Representation of the Federal Republic of Germany in East Berlin and in the SPD parliamentary group in the Bundestag. From 1986 to 1990, he was the Chief of Staff for the NRW state premier Johannes Rau. He later on worked in the state government of Schleswig-Holstein as State Secretary and Minister for Economic Affairs. After several stations in the state government of North Rhine-Westphalia including being state premier from 2002 to 2005, he was German Finance Minister and Vice Chairman of the SPD from 2005 to 2009. He was a member of the German Bundestag from 2009 to 2016. He ran as the SPD's nominee for chancellor in the 2013 elections. In 2010, Peer Steinbrück began a five-year term of office as a member of the Supervisory Board of Thyssen Krupp AG.

Management of Borussia Dortmund e.V.

As outlined in detail, the non-profit organisation, e.V., i.e. the Club, owns and controls the General Partner ('Komplementär'). Hence the supervisory board and management board of the e.V. are important to know and, hence, we provide detailed descriptions below:

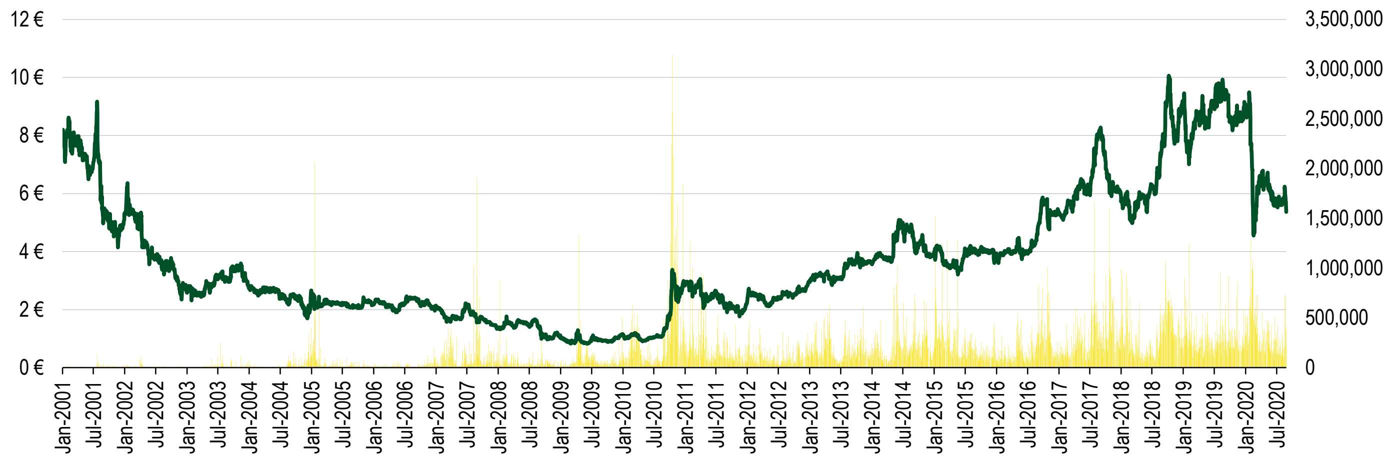
- **Dr. Reinhard Rauball** has been president of Borussia Dortmund e.V. since 2006. He is a lawyer and graduated from Ruhr university in Bochum in 1971 with his doctorate. Rauball was also Minister of Justice in North-Rhine Westphalia in March 1999 for eight days under Minister President Wolfgang Clement. His first term as BVB's president was from 1979 to 1982 aged 32, making him the youngest club president in BuLi history at that time. In August 2007, he succeeded Werner Hackmann as DFL's president until 2019.

- **Gerd Pieper** is the current chairman of the supervisory board and was appointed in November 2004. Mr Pieper studied business administration at the University of Cologne. After graduating as a Diplom-Kaufmann, he joined his parent's perfumery business, which they had founded in 1931. He has been the managing shareholder of Stadt-Parfümerie Pieper GmbH, which now has 131 stores and some 1,200 employees, since 1978. He was president of the Chamber of Commerce and Industry from 1992 to 2011 and continues to serve as honorary president. He is also a member of the Advisory Board of the Signal Iduna Group.
- **Dr. Reinhold Lunow** studied medicine at the University of Bonn from 1974 to 1980. He completed his medical specialty training up to 1986. He has been the medical director and partner of a joint practice since 2005. From 2005 onwards, he was the treasurer of Ballspielverein Borussia 09 e.V. Dortmund.

Share price development

The shares of BVB have been listed on the Prime Standard of Deutsche Börse AG since October 2000 following an IPO at a price of €11.00. The share price development since the IPO can be seen in Figure 66. We note that the performance is intrinsically linked to the club's on-field success.

Figure 66: Share price development since IPO



Source: MainFirst Research, Bloomberg

- The shares of BVB did not get off to a good start following the IPO, culminating in a financial and professional crisis in 2003/04 when FC Bayern issued a loan to the club, allowing payroll management and hibernation in the Champions League competition. After hitting an all-time low in 2009 at €0.82, the share price started to recover at the beginning of 2010. It reached a four-year high when the club's lead in the Bundesliga extended to more than four points, ultimately increasing the hopes for a starting place in the Champions League group stage again after an absence of almost ten years. After retaining one of its star players, Pierre-Emerick Aubameyang, by the end of 2011 the shares rallied, further supported by hope of a high price in the transfer of Dembele.
- The good operating result due to the transfers of Dembele and Aubameyang, as well as a strong start into the 2018/19 season and prolonging the contract of the season's shooting star Paco Alcacer saw the share price surge to new highs. A few of the more recent impacts on the share price were the strong engagement in the summer as well as winter transfer window of the 2019/20 season, with the signing of several high quality players from direct competitors and landing the transfer of Haaland, one of the more promising talents in European football, in the winter window.
- The emergence of the COVID-19 pandemic and the ban of all (large) live events triggered a sell-off in BVB stock. Contrary to the broader market, BVB stock, in line with other live entertainment business models, has not (yet) recovered.

Borussia Dortmund: full of history

Since the official start of the Bundesliga as we know it today, BVB has known a somewhat volatile history (Figure 67). The club recorded five national championships and won the DFB Cup once. It ranks second in the "Ewige Bundesliga" Ranking. At the European level, the club collected one UEFA Champions League title in 1996/97 and won the Intercontinental champion title in that year.

Figure 67: All-time Bundesliga ranking since its inception in 1963/64

All-Time table seit 1963/64	Years	Games	Wins	Draws	Losses	Scored	Conceded	Points	avg. Point	Titles
FC Bayern München	55	1861	1107	409	345	4091	2024	3730	2.00	28
Borussia Dortmund	53	1785	795	460	530	3191	2518	2845	1.59	5
SV Werder Bremen	56	1887	789	474	624	3157	2757	2841	1.51	4
Hamburger SV	55	1866	746	495	625	2937	2662	2733	1.46	3
VfB Stuttgart	53	1798	740	434	624	2969	2628	2654	1.48	3
Borussia Mönchengladbach	52	1758	713	460	585	2984	2544	2599	1.48	5
Schalke 04	52	1751	690	442	619	2576	2490	2512	1.43	0
Eintracht Frankfurt	51	1717	629	434	654	2684	2651	2319	1.35	2
1. FC Köln	48	1614	639	409	569	2644	2402	2317	1.44	0
Bayer Leverkusen	41	1385	594	377	414	2326	1855	2159	1.56	0

Source: bundesliga.com

Early years

The club was founded in December 1909 by a group of young men who were dissatisfied with the church-sponsored *Trinity Youth* where they played under the supervision of the local parish priest. Borussia is Latin for Prussia but was taken from Borussia beer from the nearby Borussia brewery in Dortmund. The team began playing in blue and white striped shirts with a red sash and black shorts. In 1913, the more familiar black and yellow striped kit was adopted. In the 1930s the club had more success playing in the newly founded Gauliga Westfalen, when the intense rivalry with Schalke 04 began. Borussia Dortmund made its first appearance in the national league final in 1949, losing 2-3 to VfR Mannheim.

Figure 68: Borussia Dortmund 1913

Source: Company reports

First national success

From 1946 to 1963 BVB played in the Oberliga West, then the highest division in North-Rhine Westphalia. The club dominated this league through the late 1950s, claiming its first national title in 1956 with a 4-2 win over Karlsruher SC. In 1957 BVB defended the title against HSV with a 4-1 win, marking its first back-to-back title. Borussia Dortmund also won the last season of the *old* German Football League before the **introduction of the Bundesliga in 1964**.

Bundesliga debut

In 1962, the DFB met in Dortmund and voted for the establishment of a professional football league in Germany, to begin in August 1963 formerly known as the Bundesliga. **Borussia Dortmund earned its place among the first 16 clubs to play in the league by winning the last pre-Bundesliga national championship**. The first ever Bundesliga goal was scored by the Dormund player Friedhelm Konietzka a minute into the match, which they would eventually lose 2-3 to Werder Bremen. In 1965 BVB won its first DFB Cup and in 1966 the European Cup Winner's Cup with a 2-1 against Liverpool. The 1970s were characterised by financial problems, relegation from the Bundesliga in 1972, and the opening of the Westfalenstadion, named after its home region Westphalia in 1974. The club earned its return to Bundesliga in 1976. Dortmund continued to have financial problems throughout the 1980s. BVB avoided being relegated in 1986 by winning a playoff game against Fortuna Köln after finishing the regular season in 16th place. Dortmund did not have any success until a 4-1 win over Werder Bremen in 1989 to win the DFB Cup.

The 1990s

With a fourth-place finish in the Bundesliga, Dortmund qualified for the 1993 UEFA Cup final, which they lost 6-1 on aggregate to Juventus. Nevertheless, Borussia walked away with DM25m prize money, which allowed them to sign players who later brought them numerous honours in the 1990s. Under the captaincy of 1996 European Footballer of the Year Matthias Sammer, BVB won its second back-to-back league title in 1995 and 1996. Dortmund also won the DFL-Supercup against Mönchengladbach in 1995 and 1. FC Kaiserslautern in 1996. In 1996/97 the team reached its first European Cup final. In a memorable 1997 UEFA Champions League Final at the Olympiastadion in Munich, Dortmund won against Juventus Turin. Dortmund then went on to beat Brazilian club Cruzeiro 2-0 in the 1997 Intercontinental Cup Final to become world club champions. Borussia Dortmund were the second German club to win the Intercontinental Cup, after Bayern Munich in 1976.

IPO was followed by a volatile time

In October 2000 Dortmund went public, being the first German football club until now to do so. **In 2002, BVB won its third Bundesliga title;** Borussia lost the final of the 2001-02 UEFA Cup to Feyenoord Rotterdam. Poor financial management back at the time led to a steep increase in debt and ultimately to the sale of the Westfalenstadion grounds. The situation aggravated by the failure to advance to the 2003/04 UEFA Champions League. The team was eliminated by penalty shootout in the qualifying round by Club Brugge. In 2003, Bayern Munich lent €2m to Borussia Dortmund to maintain salary payments but the management response to the crisis included a 20% pay cut for all players. In 2006, in order to reduce debt, the Westfalenstadion was renamed "Signal Iduna Park". Dortmund suffered a miserable start to the 2005-06 season, but rallied to finish seventh. The club failed to gain a place in the UEFA Cup via the Fair Play draw. The sale of David Odonkor to Real Betis and Tomáš Rosický to Arsenal brought the club back to profitability. In the 2006/07 season, Dortmund unexpectedly faced serious relegation trouble for the first time in years. After letting go of three coaches Borussia appointed Thomas Doll on 13 March 2007 after dropping to just one point above the relegation zone. In the 2007/08 season, Dortmund finished 13th in the Bundesliga table, but was able to reach the DFB-Cup Final against Bayern Munich, where they lost 2-1. The final appearance qualified Dortmund for the UEFA Cup because Bayern already qualified for the Champions League. Thomas Doll resigned on 19 May 2008 and was replaced by **Jürgen Klopp**.

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Entering the 2010/11 season, Dortmund had a young and vibrant roster. On the 4th December 2010, Borussia became *Herbstmeister* ("Autumn Champion"), an unofficial accolade going to the league leader at the winter break. On 30 April 2011, the club beat 1. FC Nürnberg 2-0 at home, while second-place Bayer Leverkusen lost, leaving Dortmund eight points clear with two games to play. This championship equalled the seven national titles held by rivals Schalke 04. One year later, Dortmund successfully defended its Bundesliga title with a win over Borussia Mönchengladbach, again on the 32nd match day. By the 34th and final match day, Dortmund set a new record with the most points – 81 – ever gained by a club in one Bundesliga season. This was surpassed the following season by Bayern Munich's 91 points. The club's eighth championship places it third in total national titles, and players will now wear two stars over their uniform crest in recognition of the team's five Bundesliga titles. The club capped its successful 2011/12 season by winning the double for the first time by beating Bayern 5-2 in the final of the DFB-Cup. Borussia Dortmund are one of only four German clubs to win the Bundesliga and DFB-Cup double, along with Bayern Munich, 1. FC Köln and Werder Bremen. Borussia Dortmund ended the 2012-13 season in second place in the Bundesliga. Dortmund played in their second UEFA Champions League Final against Bayern Munich in the first ever all-German club final at Wembley Stadium on 25 May 2013, which they lost 2-1. In April 2015, Dortmund announced that Thomas Tuchel would replace Klopp at the end of the season. Klopp's final season, however, ended on high note, rising and finishing seventh after facing relegation, gaining a DFB-Cup final with VfL Wolfsburg and qualifying for the 2015/16 Europa League.

Recent years

In the Europa League, they advanced to the quarter-finals, getting knocked out by a Jürgen Klopp-led Liverpool in a dramatic comeback at Anfield, where defender Dejan Lovren scored a late goal to make it 4-3 to Liverpool and 5-4 on aggregate. In the 2015/16 DFB-Cup, for the third-straight year Dortmund made it to the competition final, but lost to Bayern Munich on penalties. On 11 April 2017, three explosions occurred near the team's bus on its way to a Champions League match against AS Monaco at the Signal Iduna Park. Defender Marc Bartra was injured, and taken to hospital. Dortmund went on to lose the game 2-3 to AS Monaco. Dortmund's manager, Thomas Tuchel, blamed the loss as a result of an ignorant decision by UEFA. In the second leg, Dortmund went on to lose 1-3, leaving the aggregate score at 3-6, and seeing them eliminated from that year's UEFA Champions League. On 26 April, Dortmund defeated Bayern Munich 3-2 in Munich to advance to the 2017 DFB-Cup Final, Dortmund's fourth consecutive final and fifth in six seasons. On 27 May, Dortmund won the 2016-17 DFB-Cup 2-1 over Eintracht Frankfurt.

Appendix

Model development process and alternative approaches

Model theory

Revenues are a sum of the segments’ performance. Due to a high fixed costs base, profitability depends heavily on the volatility of top line.

Data sources

Main data sources are national and international football associations (DFL, UEFA), industry press and data from non-public and publicly listed football clubs.

Processing steps

We model BVB revenues, based on its segments, which exhibit different growth drivers. Our forecasts for the TV-Marketing business is based on a bottom-up analysis of DFL and UEFA rights distribution mechanisms; sponsorship revenues on a bottom-up, sponsor-by-sponsor, analysis; matchday operations as well as catering and conferences are modelled using a bottom-up volume x price formula and merchandising, based on year-over-year growth rates.

Assumptions

We assume a base-case on-field success of BVB in both, national and international competition, based on the club’s historic success (runner-up in Bundesliga, three rounds of National Cup and Quarter Finals of UEFA Champions League). Other main assumptions include the overall magnitude of TV-rights values and average attendance on matchdays.

Limitations

The major risk to our forecasts are deviations to our base case assumptions around on-field success. Moreover, a change in the overall macro-environment will affect our advertising revenue forecasts. Unforeseen changes in demand for professional football TV broadcasting will also trigger changes to our financial estimates

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Borussia Dortmund (BVB GY) as of September 30, 2020 (in EUR)

*Represents the value(s) that changed.
Buy=B; Hold=H; Sell=S; Discontinued=D; Suspended=SU; Discontinued=D; Initiation=I

For a price chart with our ratings and any applicable target price changes for BVB GY go to http://stifel2.bluematrix.com/sellside/Disclosures.action?ticker=BVB GY

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