



GNAM Investment Competition



Score Big from A Solid Football Investment

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Executive Summary

Borussia Dortmund (BVB) is the only German football club that is publicly traded, providing a unique opportunity to investors willing to have exposure to this market. The club has established an attractive business model and demonstrates stable performance in Bundesliga, thus securing streams of increasing revenues. All revenue components indicate stable growth, while the management is able to keep operating expenses on a reasonable level. Comparative performance and valuation analysis suggests that BVB share is currently underpriced and will outperform its peers on the market. The estimated price target for Borussia Dortmund is €8.35, or +49% to the current market price of €5.59.

Introduction

Borussia Dortmund GmbH & Co KGaA is a successful Germany-based company engaged in the operation of Ballspielverein Borussia (BVB), a professional football club based in Dortmund, Germany. BVB is one of the few European football clubs listed on a stock exchange and is the only publicly traded club in Germany.

BVB was founded in 1909. To date, the club has won eight German championships (Bundesliga), three DFB-Pokals, five DFL-Supercups, one UEFA Champions League, one UEFA Cup Winners' Cup, and one Intercontinental Cup. The club operates from its home stadium Signal Iduna Park with a capacity of 81,360 spectators. BVB keeps the highest average attendance of any football club in Europe, at 80,478 per match in season 2010/2011. It is the third largest sports club by membership in Germany with more than 115 thousand members.

Several years after going public in 2000, BVB ran into serious financial problems with debt management and was on the verge of bankruptcy in 2005. After a long transformation phase, the company has stabilized its operative performance over the last five years.

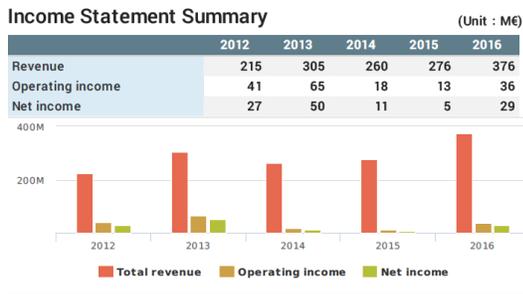
Along with a steady improvement in net income and EBIT margin, the company pushed ahead with achieving the Champions League final and therefore generating more revenues than the company has ever achieved before.

Price (Oct 28th)	€5.59
Market Cap	€514.56M
Net cash (€M) at June 2016 including finance leases	30.1
Shares in issue	92.0M
Free Float	60.5%
Code	BVB
Primary Exchange	Frankfurt
52-weeks high/low	5.89€ 3.56€

BVB ended the year well with revenues increased 36% to 376.3 €Million. Net income increased from 5.3€ Million to 29.2€Million. Q4 pre-transfer revenue was up 13% on the successful Europe League involvement, Champions League qualification, and a return to German Cup final.

Strong revenue generation is expected for the coming quarters from renewed Champions League access and a new Bundesliga broadcasting deal from 2018.

BVB's squad is currently valued at 292€ Million by transfermarkt.co.uk, making BVB 13th most valuable teams in the world. Given the club's record of significant surplus from squad development and net player transfer, BVB's transfer gains can bring in possible step-change in profit.



Long-term potential of powerful brand development, particularly growing presence in Asia, valuable media rights and strong cash flow combined with impressively disciplined finances put BVB at the favorable position.

Industry Analysis

The European League Story

Playing in Champions League is valuable not only because of prestige which helps selling more tickets and merchandise but only because direct revenues generated by competing in it.

- All net revenue from the club competitions is centralized, in one single pot, and reallocated to the UEFA Champions League and UEFA Europa League on a fixed ratio of 3.3:1.
- Out of the estimated gross amount, 12% is deducted to cover organizational and administrative competition-related costs and 8.5% is allocated to solidarity payments. Of the resultant net revenue of 8% will be reserved for European football and remain with UEFA, and the other 92% will be distributed to the participating clubs.

Based on the above-mentioned revenue allocations, the total amount available for distribution to participating clubs in previous years was:

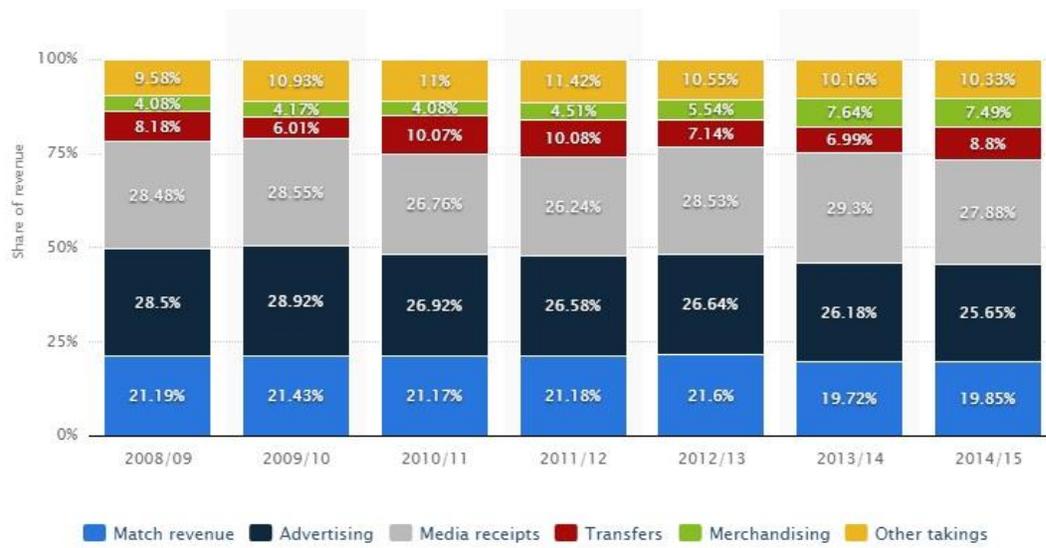
- UEFA historical revenues distributed among clubs in €
 - 2011 754.100,000
 - 2012 904,600,000
 - 2013 904,600,000
 - 2014 988,000,000
 - 2015 1,207,000,000
 - 2016 1,300,000,000

The growth of revenues has been significant in previous years. Thanks to increasing fan base, both TV providers and sponsors are getting access to wider group of potential customers. It is safe to say that thanks to wide spread of technology that makes watching Champions League accessible for people around the globe, revenues will increase although pace is hard to predict.

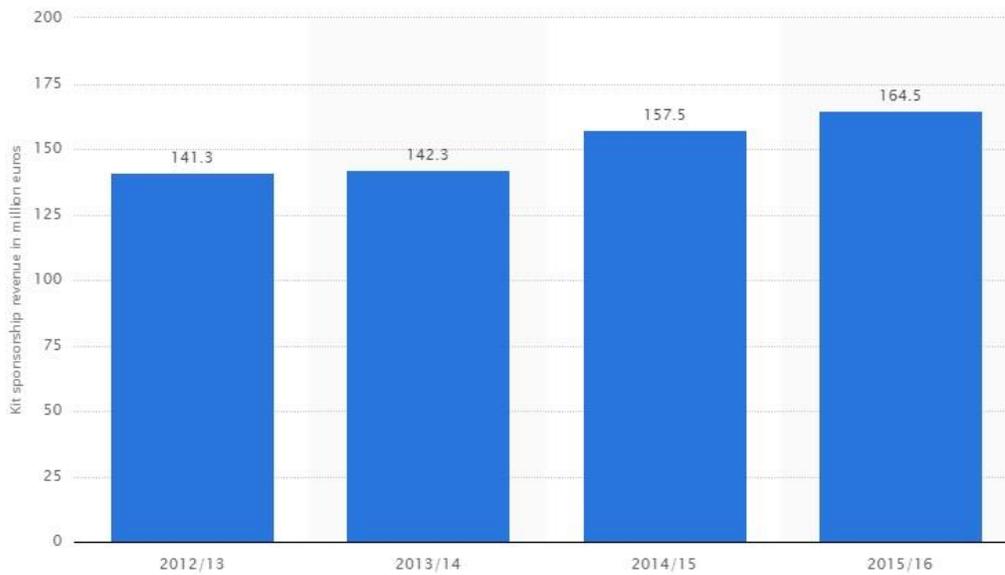
The Competition in Bundesliga

In Bundesliga, BVB is one of the top players. Historically it's been very successful with champion title in years 1956, 1957, 1963, 1995, 1996, 2002, 2011, 2012. Currently BVB is 5th, 8 points shy of the leading team (Bayer).

Revenues of clubs in Bundesliga come mainly from advertising and media rights. Table shows distribution.

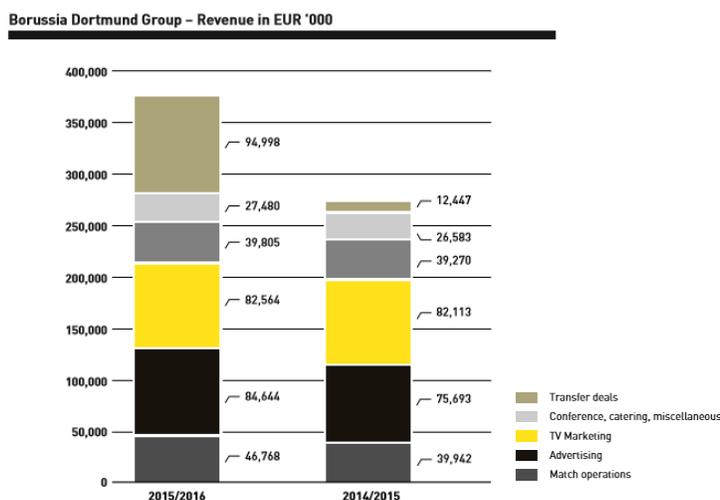
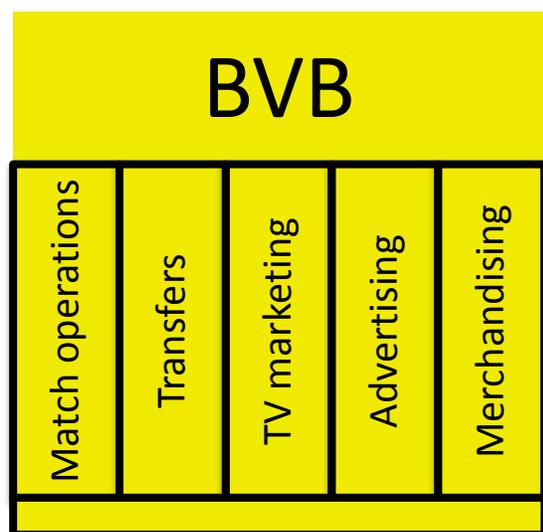


Kit sponsorship growth:



The Football Business Model

BVB employs football's classic business model, comprising of five key pillars: match operations, transfers, TV marketing, advertising, and merchandising. BVB has a stated objective of "defending its position at the top flight of the Bundesliga", and uses the five pillars of the business model to accomplish this goal.



Match operations

This segment consists of the revenues from ticket sales to home games in the Bundesliga and any other participated competitions. Match operations is the company's fourth largest revenue stream in 2015/2016 with a share of 14.4% (EUR 46.8 million). With an average attendance of 81,178 spectators in Bundesliga matches during the 2015/2016 season (99.8% of total capacity), the club has remained Germany's #1 club in attendance for 18 years.

BVB's home stadium, the Signal Iduna Park, has a total capacity of 81,360 spectators (standing and seated) for Bundesliga games, and 65,829 spectators (seated only) for international competitions like the UEFA Champions League or the UEFA Europa League. The club generated EUR 27.1 million from ticket sales to Bundesliga matches and EUR 13.4 million from UEFA Europa League ticket sales. The club hosted four more Europa League home matches than it did the previous league, because it managed to advance further in the tournament.

In the 2016/2017 season the club is playing in the UEFA Champions League, the top tier European football competition, and after the first three matches it seems very likely to qualify for the second stage of the competition. The club is also able to command a higher price for the tickets to UEFA Champions League games compared to Europa League games.

During the 2015/2016 season 55,000 tickets were sold as season tickets, amounting to 67.7% of league spectator capacity, which is among the highest proportions in German football. The remaining seats are filled with single-matchday tickets, which are sold in 6 price categories (plus an additional category for standing tickets in Bundesliga matches). For home games sales start every Monday, usually 4-6 weeks prior to the match. Seat ticket prices range from EUR 54.40 to EUR 31.20, with an additional 20% increased charged for tickets to games against top national rivals Bayern München and FC Schalke 04, as well as for home games in the UEFA Champions League.

Category	Prices in EUR
Regular Table	price on request
Category 1	€ 54,40
Category 2	€ 51,20
Category 3	€ 48,10
Category 4	€ 44,90
Category 5	€ 37,70
Category 5 (Disabled Persons)*	€ 15,80
Category 6	€ 31,20
Category 6 (Youth, up to age 18)	€ 21,90
Wheelchair	€ 9,30
Standing Place	€ 16,70
Standing Place (Discount Rate)	€ 10,90
Standing Place (Disabled Persons)	€ 9,90
REWE Family Block (Block 64-65, up to age 14)	€ 6,80
VIP	price on request

Figure 1: Ticket Price Season 15/16

Transfers

In the financial year 2015/2016 Borussia Dortmund generated transfer income of EUR 95.0 million, with this revenue item having the largest share of total sales (29.3%) for the first time in the club's history. In financial year 2014/2015 transfer income amounted to EUR 12.4 million, which speaks to the high variability of this revenue item.

According to FIFA rules, players can only be transferred during a transfer window. In Germany the scheduled period is between 1 July to 31 August and from 1 to 31 January. A written offer will be made for a player and the selling club may reject or accept the bid. When a player moves from one club to another, his old contract is terminated and he negotiates a new one with the club he is moving to. A transfer fee is usually paid for the player's rights, and if the player is less than 23 years old, the selling club also receives a training compensation. If a professional is transferred before the expiry of his contract, any club that has contributed to his education and training shall receive a proportion of the compensation paid to the selling club.

During the 2015/2016 season, Borussia Dortmund's income from transfer deals was mainly due to the sale of Matt Hummels, Ilkay Gundogan, Kevin Kampl, Ciro Immobile, Jonas Hofmann, Kevin Grosskreutz, Oliver Kirch, and Jeremy Dudziak, as well as the loan of Jakub Blaszczykowski. There have been rumors of one of Borussia Dortmund's most valuable current players, Pierre-Emerick Aubameyang being transferred to England club Manchester City, for a fee of GBP 71 million (EUR 78.8 million). This transfer is expected to happen during the January transfer window, and would add to Borussia's revenue and profit for fiscal year 2016/2017.

TV marketing

Revenues from international and domestic TV marketing amounted to EUR 82.5 million in the financial year 2015/2016, representing 25.5% of total sales. This revenue stream summarizes the commercialization of media rights and performance bonuses from the tournaments. Football organizations, like the German Football League (DFL) or UEFA distribute the revenue they receive from selling TV rights to clubs participating in organized tournaments. These funds are usually allocated based on some measure of sporting success. In the Bundesliga, for example, the distribution of revenue is determined based on a five-year summary of success in the league.

In the 2015/2016 season the DFL distributed EUR 663 million to the clubs playing in the first and second Bundesliga tournaments, with first Bundesliga being allocated 79% of that amount. In the 2016/2017 season the distributed sum will increase to EUR 673 million, while starting from the 2017/2018 seasons, October 2016

due to a new TV rights agreement made in June 2016, the amount distributed to clubs will exceed EUR 1 billion. This will naturally lead to a significant increase in BVB revenue for the 2017/2018 season.

Another large part of TV marketing income comes from international competitions: the UEFA Champions League and the UEFA Europa League. UEFA distributions include the market pool allocation, which is divided based on the size of a club's domestic TV market and the number of clubs from that country, and fixed match bonuses as well as performance-based bonuses. The total amount distributed to UEFA Champions League clubs is 3.3 times larger than the sum distributed to competitors in the Europa League.

The income lost from not competing in the UEFA Champions League in 2015/2016, and competing in the Europa League instead was almost fully offset by the higher income from international TV marketing for Bundesliga matches, which is determined on the basis of the UEFA coefficient that Borussia Dortmund earned over the previous five seasons, and a higher TV advertising distribution. Having qualified and successfully competing in the Champions League will lead to a significant increase in international TV marketing revenue for the 2016/2017 financial year.

Advertising

Income from advertising has been one of the fastest growing revenue streams for Borussia Dortmund, indicating the rising power and value of its brand. In 2015/2016 advertising revenues totaled EUR 84.7 million, representing 26.1% of total sales and increasing by just under 9 million euro from the previous financial year. This includes income from sponsorship agreements and other premium payments from sponsors, as well as bonuses for sport success in the clubs participated competitions: advancing to the group stage, knockout phase and quarterfinals of the UEFA Europa League, reaching the final of the DFB Cup, and finishing second in the Bundesliga standings, thus qualifying for the 2016/2017 UEFA Champions League season.

During the 2015/2016 season the club managed to grow its base of German sponsors and also gain additional sponsors in Asia as a result of the marketing activities in connection with the club's Asia tour in July 2015. The club opened its first representative office outside of Germany in Singapore in October 2014 to make use of the club's rapidly growing appeal in Asia.

Commerce

The commerce revenue stream includes revenue from merchandising as well as conference, catering and miscellaneous revenue. In the 2015/2016 financial year commerce revenue totaled EUR 67.3 million, compared to EUR 65.9 million the previous year. This is one of the more stable revenue streams, but growth opportunities exist in new markets, such as Asia, and depend on the further development and international recognition of the Borussia Dortmund brand, as well as continued sporting success.

Business strategy

The club believes that it can only be financially successful if it enjoys sporting success over the long-term. It is also taking steps to make financial success less dependent on short-term sporting success by focusing on national and international marketing of its brand name. BVB's current business strategy is summarized as follows in the company's annual report:

- Sustainably adjusting athletic prospects
- Intensifying the promotion of up-and-coming talent
- Increasing fan involvement
- Utilizing and maintaining the Borussia Dortmund brand

Comparative Business Analysis

BVB operates within the Sports clubs, managers, and promoters sector. Due to its focus in European football market, its peer group companies include the listed companies with similar business models in different countries: Italy's Juventus (JUVE); France's Olympique Lyonnais (OLG), and United Kingdom's Manchester United (MANU).

The following chart shows general favorable trend of market sentiment towards BVB's performance compared with its competitors for the last year.

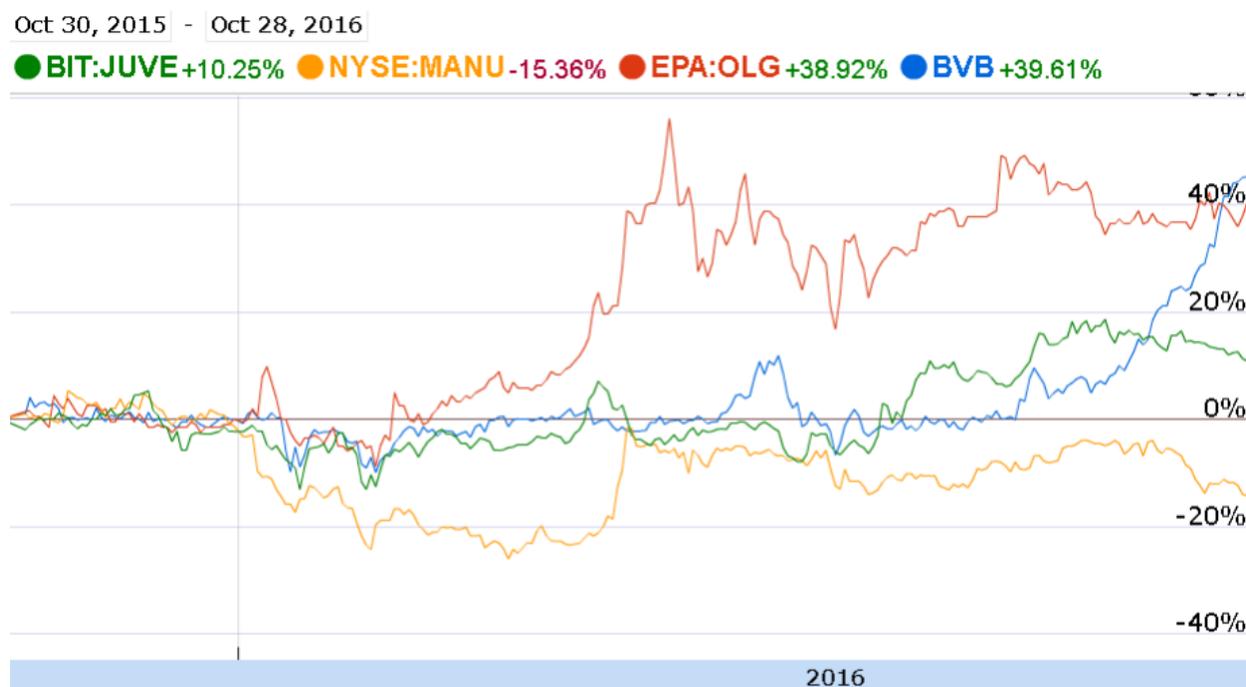


Figure 2: 1Y Performance (Google Finance)

The comparison of BVB's profitability and management efficiency with that of its closest competitors highlights the high quality, solid underlying fundamentals, and strong long-term business growth of BVB stock.

Company	Currency	Market Cap (in millions)	EV (in millions)	EBITDA (in millions)	Sales (in millions)	EPS (US\$)	P/E	P/B	ROE	Dividend Yield	Revenue per employee
BVB	EUR	514.6	484.8	83.6	376.3	0.32	17.63	1.2	9.81%	1.07%	535,219
JUVE	EUR	295.6	553.71	45.6	299.8	0.04	6.67	5.54	N/A	N/A	1,123,346
OLG	EUR	130.7	N/A	41	218.1	0.21	17.24	0.85	6.20%	N/A	472,219
MANU	USD	2,490	2,830	267.3	763.4	0.33	46.2	4.49	7.77%	1.18%	785,593

Valuation

To obtain an estimation of BVB share price, the market-oriented approach was applied. The same group of peers, as in the comparative business analysis, was considered: *Italy's Juventus (JUVE)*; *France's Olympique Lyonnais (OLG)*, and *United Kingdom's Manchester United (MANU)*. For valuation, EV/Sales multiple was used, as earnings are negative for some of the peers for the period considered, and consequently P/E multiple cannot be employed. The German ruling '50+1%' related to clubs willing to obtain a license to play in Bundesliga, was taken into account by applying a 20% discount to the market cap of BVB. The analysis shows significant potential upside for BVB share price.

Company / club	Currency	Enterprise value (EV)			
		12/13	13/14	14/15	15/16
Juventus	EUR	259,412,332	283,895,332	315,369,998	359,720,665
Lyon	EUR	46,503,941	41,324,585	n/a	n/a
Manchester United	GBP	2,876,329,400	3,118,722,300	3,180,108,700	2,866,101,700

Company / club	Currency	Sales			
		12/13	13/14	14/15	15/16
Juventus	EUR	283,801,000	315,783,000	348,194,000	389,692,000
Lyon	EUR	137,600,000	120,500,000	n/a	n/a
Manchester United	GBP	363,189,000	433,164,000	395,178,000	515,345,000

Company / club	Currency	EV/Sales				Average
		12/13	13/14	14/15	15/16	
Juventus		0.91	0.90	0.91	0.92	0.91
Lyon		0.34	0.34	n/a	n/a	0.34
Manchester United		7.92	7.20	8.05	5.56	7.18
						2.81 [1]

BVB sales 15/16 327,117,000 [2]

BVB EV as at 30/06/16 based on peer valuation, EUR 919,526,855 [3] = 1*2

Plus: BVB cash and cash equivalents, 30/06/16, EUR 49,682,000 [4]

Less: BVB borrowings, 30/06/16, EUR 8,931,000 [5]

Equity market value of BVB as at 30/06/16 based on peer valuation, EUR 960,277,855 [6] = 3+4-5

Less: Discount 20% for non-controlling based on German '50+1' ruling, EUR 192,055,571 [7] = 6*20%

Estimated equity market value of BVB as at 30/06/16, EUR 768,222,284 [8] = 6-7

BVB number of shares 92,000,000 [9]

Target share price, EUR 8.35 [10] = 8/9



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Deutsche Bank



DAIMLER

Performance Stock Picks

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Infineon Technologies AG (FRA:IFXA)

16.24 -0.01 (-0.04%)

Oct 28 - Close
FRA real-time data - Disclaimer
Currency in EUR

Range	16.06 - 16.30	Div/yield	0.20/1.23
52 week	10.19 - 16.45	EPS	0.74
Open	16.22	Shares	1.13B
Vol.	0.00	Beta	-
Mkt cap	18.39B	Inst. own	-
P/E	21.93		



Source: Google Finance (<https://www.google.com/finance>)

On an organic basis, Infineon has grown by 8% in the first half of 2016, while the semi market declined by 5.8 % y/y and its European peers (NXP and STMicro) by 9.2% y/y and 4.3% y/y respectively. This like-for-like outperformance against the industry and key players, demonstrates our belief that Infineon is a quality growth company, supported by its leading market share for power semis, which have demonstrated strong and secular growth. Although this gap is likely to narrow as the semi industry recovers, we expect Infineon to continue to outperform due to its end market exposure in Automotive Electrification and Advanced Driver Assistance Systems, which are expected to grow healthily.

Infineon trades at 22.4x PE, which is at a discount to STMicro and a marginal premium to Texas Instruments. As Infineon is likely to grow faster due to its strong correlation to fast growing industrial and automotive markets, we believe it deserves a premium to both. In addition, semis with predictable earnings growth over a long period such as Intel and ASML, have realized steady PEx expansions. Conversely, Infineon's PEx has been much more volatile, despite its steady top- and bottom-line growth performance in the past 3 years.

The next catalyst is on the 23rd of November when the company reports FY 2016 results. Given the Management's conservative approach we expect Infineon to meet or slightly exceed expectations. Finally, the Wolfspeed acquisition further strengthens Infineon as a supplier in high-growth markets, supporting a strong 2017 guidance.

Deutsche Bank AG (ETR:DBK)

13.32 -0.05 (-0.37%)

Oct 28 - Close

ETR data delayed by 15 mins - Disclaimer

Currency in EUR

Range	13.20 - 13.37	Div/yield	-
52 week	9.90 - 27.87	EPS	-5.91
Open	13.29	Shares	1.37B
Vol / Avg.	7.98M/17.64M	Beta	-
Mkt cap	18.38B	Inst. own	-



Source: Google Finance (<https://www.google.com/finance>)

Today, Deutsche Bank's shares are trading at a record low of less than €15 or 0.24x its book value (significantly lower than other European banks). The write-downs, litigation charges, and restructuring costs have consistently generated downward pressure on stock prices and left analysts and investors with negative sentiments. However, there are certain signals that the company can slowly turn around with incremental improvements and the stock recovers in slow motion, with significant upside depending on the result of negotiation with DOJ.

On one hand, EU is desperate to spur back growth in its members' economy by pushing low interest rates via ECB and pairing it with synchronized economic policies. This strategy might have potential to deliver the needed turnaround that EU has been pining for. Subsequently, that would end a prolonged period of underperformance of Deutsche Bank.

On the other hand, Deutsche Bank is in its vulnerable state due to speculation on the amount of litigation charges and the sensitivity of the litigation payments. Nonetheless, the settlement with DOJ might conclude with about a third of the fine coming in the form of "consumer relief" that involves no cash outlays, which indicates significant lower need for capital. When the legal fine is settled, it would revert the negative headlines and reduce the market's fears and volatility.

Finally, recent HSBC report has concluded that Deutsche Bank remains exposed compared to its peer group but is not that risky. That indicates the potential recovery in IB segment revenue and profitability.

Daimler AG (ETR:DAI)

65.34 -0.11 (-0.17%)

Oct 28 - Close

ETR data delayed by 15 mins - Disclaimer

Currency in EUR

Range	64.33 - 65.46	Div/yield	3.25/4.97
52 week	50.83 - 85.50	EPS	7.64
Open	65.08	Shares	1.07B
Vol / Avg.	3.04M/3.77M	Beta	-
Mkt cap	69.90B	Inst. own	-
P/E	8.55		



Source: Google Finance (<https://www.google.com/finance>)

In the last 3 years Daimler 's revenues increased at an average growth rate of 9% and its net operating margin improved from 7% to 9%. At current prices, the stock is worth 7,9 times 2015 net profit adjusted.

Daimler is diversifying revenues by increasing weight of financial services in its portfolio and exploring possibilities of utilizing clients that have been outside of their scope. It's been possible thanks to growing car sharing business – CAR2GO.

In group tests, they have been very successful against main competitors which are Audi and BMW. Mercedes is aiming to lower the average age of Mercedes-Benz owner from 53 years old and it is succeeding by continuously introducing premium models at the lower end of its range (A, CLA, GLA models). Lately Mercedes-Benz started campaigns targeting at the millennials to attract their attention to the brand. Mercedes should beat its last years' record sales of 1,871,511 comfortably which could contribute to further growth of stock price. It has refreshed its entire range in last 4 years. Models that could surprise the markets with higher than expected sales are: entirely new E-class and GLC, both aiming to be best in class. Mercedes is also best in class in terms of autonomous driving tools presented with new E-class (the only car that can match Tesla in terms of driver's assistance). On top of all those positive factors all car manufacturers have been affected with strong reservations from investors because of emission cheating scandals that spread across industry. Mercedes is on the safe side because it has developed its own way of limiting emissions by installing a small tank of special add-blue supplement.

Summarizing, Daimler is a very stable stock that without serious incremental threats could surprise with higher than expected sales and results at the beginning of next year.

Basler AG (ETR:BSL)

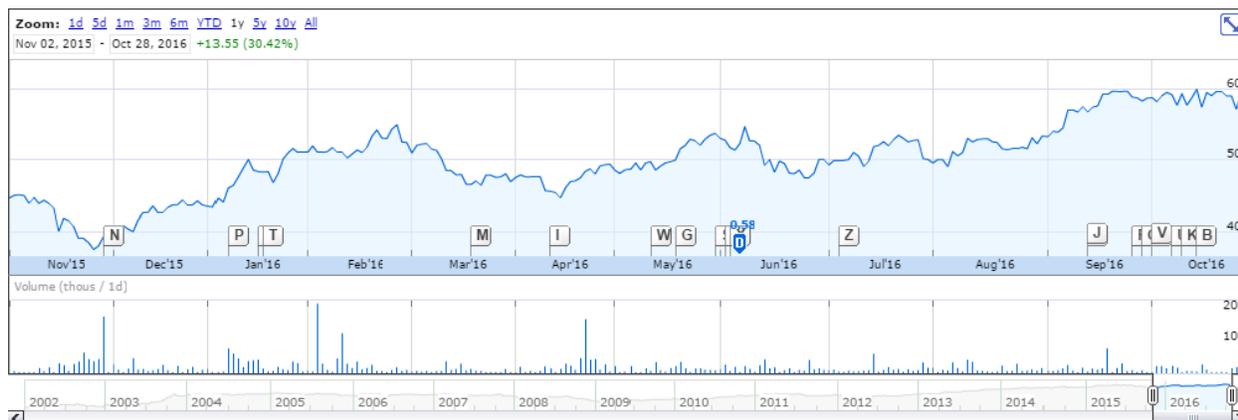
58.09 -1.20 (-2.02%)

Oct 28 - Close

ETR data delayed by 15 mins - Disclaimer

Currency in EUR

Range	56.60 - 59.75	Div/yield	0.20/1.00
52 week	36.61 - 60.29	EPS	1.82
Open	59.75	Shares	3.24M
Vol / Avg	2,345.00/1,201.00	Beta	-
Mkt cap	203.32M	Inst. own	-
P/E	31.85		



Source: Google Finance (<https://www.google.com/finance>)

Basler AG is a producer of industrial cameras with a wide range of possible applications. Currently the company is presented in the following market segments: factory automation, medical & life sciences, retail, traffic & transportation, sports & motion, security & surveillance, logistics, agriculture.

It is safe to say that all of the company's client markets are growing, and taking into account the current development focus on digitalization and IoT, Basler's prospects look very decent. To be on the edge of technology, the company invests heavily in research and development, and for FY2015 Basler's R&D expenses constituted 14.1% of its sales. According to the latest management report available, Basler closed the first half-year of 2016 with the record values in incoming orders and sales, and the operating cash flows improved significantly as well.

As for historical performance, Basler's stock is consistently beating DAX index, in the same time having very low correlation with it. Analysts assess Basler's beta to be around 0.3. For the last YTD, Basler outperformed DAX by 31.83 percentage points, while for the 5 years to date this figure is significantly higher: 365.62 percentage points.

To conclude, analysts, which are following Basler, share the opinion that the company is a strong BUY.