



An economic and financial perspective on Vitória sport club (1st League – Portugal)

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Abstract

Football, considered the king sport, moves millions of euros through the numerous clubs, associations and federations. In Portugal, all entities are obliged to draw up and constantly update accounting records, always aiming at transparency.

Vitória Sport Clube, object of study of the present work, every season, presents to its members a report of accounts, where is present the summary of the sports season as well as, the accounting instruments that allow to ascertain the patrimonial state of the club and also the financial behavior during the analyzed period.

This study used as a methodology an exploratory analysis which was based on the observation of the reports and accounts of the club in the seasons 2016/2017, 2017/2018 and 2018/2019.

It was possible to conclude that the club's financial health is on the rise as well as its financial capacity and maintenance in the 1st Portuguese league.

Keywords: Vitória sport Clube; sociedade anónima desportiva; economic and financial analysis

Introduction

It was at the beginning of the 20th century, more specifically in 1918, thanks to the union of a group of students interested in football, that Vitória Sport Clube was born. However, it was only on 22 September 1922 that Vitória Sport Clube was officially founded, its first president being Mr. António Macedo Guimarães, a profound football expert who was also a coach and referee.

In the middle of 1923, he started his first matches in a friendly, being the first recorded on March 27, 1923, and portrays the 7-1 victory against SC Braga, in the field of Atouguia. In that same year, it officially begins its participation in the district championship of Braga.

On January 1, 1930, designed by Captain Mário Cardoso, the official emblem of the SC Victory was born inspired by D. Afonso Henriques, first King of Portugal, and assuming the colors black and white in an allusion to equality and the admission of all without distinction of race.

The sporting and financial development of the club in the city of Berço, led to an increase in the number of members, thus reaching in 1943 the mark of a thousand members. On June 12, 1948, the mythical headquarters of Vitória SC was inaugurated on Rua D. João I in the heart of the city of Guimarães.

On January 3, 1965, the Municipal Stadium of Guimarães was built, receiving decades later, on September 30, 1995 the name of Stadium D. Afonso Henriques, to whom the heartfelt homage was paid after the construction of its stadium, having this, the club continued to grow exponentially, achieving its first participation in a European competition.

In 1980, Mr. Pimenta Machado assumed the leadership of the club and, since then, Vitória has been one of the main clubs in Portuguese football, this date was marked by the construction of

the first sports complex in Portugal, representing a benefit to the institution.

After eight years of Pimenta Machado's leadership, Vitória Sport Clube writes its first golden page winning the first national trophy, the "Cândido de Oliveira" super cup, at the time of 1988/1989, beating Futebol Clube do Porto with an aggregate result of 2-0.

The departure of President Pimenta Machado, in 2004, plunges the club in a negative spiral, having even fallen from division after forty-eight consecutive years in the largest league of Portuguese football.

In fact, the story would be registered again years later in the 2010/2011 season returning to Jamor, twenty-five years later, for the final of the Portuguese Cup, where he would end up losing to Futebol Clube do Porto.

Definitely, the club was going through good qualifying moments looking forward to accomplish historic feats, having therefore, achieved three years later on 26 May 2013 the greatest historic achievement of the club, the conquest of the Cup of Portugal beating SL Benfica by 2-1, a day that all Victorians do not forget. Over time were added to the achievements of Vitória Sport Club, training titles and the expansion of its image in other sports. The club had some remarkable achievements such as winning the first Olympic medal on 18 September 2016 as well as the Federation Cup in volleyball on 27 April 2019 and finally, more recently, on 15 June 2019 becomes the national champion of the water polo sport.

2. Methodology

From a methodological point of view, the reports and accounts of the club have been observed to verify that it is in good financial

health and economically sustained. In order to make the analysis as neutral as possible it should be noted that none of the authors of this study is a fan or sympathizer of it, and that the reason for their choice is that it is a club belonging to the 1st Portuguese football league. Any other club in this league could be the object of study, but as each of the authors has different clubs, it was decided to draw lots among the 19 clubs that belong to the 1st league so that the election of the club for study was as random as possible.

Taking into account the election made and the observation of the reports and accounts two important factors must be noted: i) the fact that Vitoria Sport Club holds only 40% of SAD and ii) has

been the target of a financial restructuring, are factors that have greatly influenced the reports and accounts studied, being determinant in some revenues and other financial earnings.

Besides the study of the club accounts will also be studied through economic and financial ratios the short-term liquidity situation.

3. Empirical analysis

A look at the club's reports and accounts was made from which the information in tables 1 and 2 below was extracted. The analyses of the accounts shall be made according to the times at which the account reports were drawn up.

Table 1: Income Statement by Nature

| Income and expenditure | 2016 | 2017 | 2018 | 2019 |
|--|------------------|------------------|------------------|------------------|
| Sales and services rendered | 3 342 973,01 € | 3 583 418,40 € | 4 080 660,83 € | 4 261 138,52 € |
| Operating subsidies | 113 013,31 € | 224 026,18 € | 119 632,79 € | 464 799,30 € |
| Imputed gains/losses from subsidies (MEP) | - € | 906 235,53 € | 326 288,85 € | 483 202,68 € |
| Cost of goods sold and materials consumed | - 241,69 € | - 473,16 € | - 744,90 € | - 661,73 € |
| External supplies and services | - 1 956 115,97 € | - 2 139 451,85 € | - 2 457 547,41 € | - 2 739 990,62 € |
| Spending on staff | - 1 001 470,51 € | - 962 177,63 € | - 1 174 635,78 € | - 1 117 290,28 € |
| Impairment of receivables (losses/reversions) | 45 143,07 € | - 6 970,97 € | - 421,70 € | 103 800,00 € |
| Other income and gains | 543 249,28 € | 590 760,75 € | 520 434,85 € | 651 690,27 € |
| Other expenses and losses | - 114 457,66 € | - 305 876,50 € | - 85 238,18 € | - 426 282,83 € |
| Income before depreciation, financing costs and taxes | 972 092,84 € | 1 889 490,75 € | 1 328 429,35 € | 1 680 405,31 € |
| Depreciation and amortization expense/reversals | - 881 917,62 € | - 838 197,81 € | - 801 200,99 € | - 743 290,00 € |
| Operating result (before financial expenses and taxes) | 90 175,22 € | 1 051 292,94 € | 527 228,36 € | 937 115,31 € |
| Interest and similar expenses obtained | - € | - € | - € | - € |
| Interest and similar expenses incurred | - 344 412,93 € | - 253 287,22 € | - 223 593,51 € | - 190 188,30 € |
| Profit before tax | - 254 237,71 € | 798 005,72 € | 303 634,85 € | 746 927,01 € |
| Income tax for the period | - € | - € | - € | - € |
| Net profit for the period | - 254 237,71 € | 798 005,72 € | 303 634,85 € | 746 927,01 € |

Source: the authors.

Table 2: Balance sheet

| Assets | 2016 | 2017 | 2018 | 2019 |
|---------------------------------|-------------------|-------------------|-------------------|-------------------|
| Non-Current Assets | | | | |
| Tangible fixed assets | 32 428 297,50 € | 31 607 499,68 € | 30 822 023,68 € | 30 079 776,52 € |
| Financial participation - MEP | - € | 908 785,53 € | 1 235 074,38 € | 1 671 911,70 € |
| Receivables | 3 193 572,69 € | 2 795 247,56 € | 2 317 721,67 € | 1 601 231,85 € |
| | 35 621 870,19 € | 35 311 532,77 € | 34 374 819,73 € | 33 352 920,07 € |
| Current Assets | | | | |
| Inventories | 385,55 € | 217,94 € | 548,94 € | 794,06 € |
| Customers | 33 030,58 € | 122 001,15 € | 75 829,05 € | 131 084,93 € |
| State and Other Public Entities | 3 220,24 € | - € | - € | - € |
| Deferrals | - € | - € | - € | - € |
| Other receivables | 331 510,50 € | 197 177,36 € | 270 054,25 € | 189 557,97 € |
| Cash and bank deposits | 69 862,21 € | 166 019,29 € | 185 733,63 € | 391 639,01 € |
| | 438 009,08 € | 485 415,74 € | 532 165,87 € | 713 075,97 € |
| Total Assets | 36 059 879,27 € | 35 796 948,51 € | 34 906 985,60 € | 34 065 996,04 € |
| Equity funds and liabilities | | | | |
| Equity | | | | |
| Equity Funds | | | | |
| Other reservations | 14 392 550,60 € | 14 392 550,60 € | 14 392 550,60 € | 14 392 550,60 € |
| Results carried forward | - 19 261 569,04 € | - 18 910 157,37 € | - 17 524 469,09 € | - 16 645 496,95 € |
| Revaluation Surplus | 29 838 802,51 € | 29 233 153,13 € | 28 645 470,57 € | 28 070 133,28 € |
| Other changes in equity funds | 513 807,36 € | 360 681,71 € | 226 270,96 € | 51 729,84 € |
| | 25 483 591,43 € | 25 076 228,07 € | 25 739 823,04 € | 25 868 916,77 € |
| Net profit for the period | - 254 237,71 € | 798 005,72 € | 303 634,85 € | 746 927,01 € |
| Total Equity Fund | 25 229 353,72 € | 25 874 233,79 € | 26 043 457,89 € | 26 615 843,78 € |
| Liabilities | | | | |
| Non-Current Liabilities | | | | |

| | | | | |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Financing obtained | 5 402 315,47 € | 4 950 430,76 € | 4 429 377,57 € | 3 975 310,47 € |
| Suppliers | 458 859,77 € | 141 082,38 € | - € | - € |
| State and other public bodies | 2 670 106,59 € | 2 447 445,66 € | 1 994 699,87 € | 1 525 175,51 € |
| Other debts payable | 1 250,00 € | - € | - € | - € |
| | 8 532 531,83 € | 7 538 958,80 € | 6 424 077,44 € | 5 500 485,98 € |
| Current Liabilities | | | | |
| Provision | - € | - € | - € | - € |
| Suppliers | 364 438,18 € | 445 015,01 € | 432 152,40 € | 337 272,25 € |
| State and other public bodies | 491 833,21 € | 580 867,13 € | 557 995,34 € | 537 456,78 € |
| Financing obtained | 480 443,37 € | 439 709,96 € | 485 197,15 € | 451 322,00 € |
| Other debts payable | 913 054,46 € | 867 065,82 € | 878 814,54 € | 623 615,25 € |
| Deferrals | 48 224,50 € | 51 098,00 € | 85 290,84 € | |
| | 2 297 993,72 € | 2 383 755,92 € | 2 439 450,27 € | 1 949 666,28 € |
| Total Liabilities | 10 830 525,55 € | 9 922 714,72 € | 8 863 527,71 € | 7 450 152,26 € |
| Total Equity Funds and Liabilities | 36 059 879,27 € | 35 796 948,51 € | 34 906 985,60 € | 34 065 996,04 € |

Source: the authors.

2016/2017 Season

At that time, the accounting of Vitória Sport Clube started to apply the equity method (MEP) because, whenever the entity has a significant influence in the associated companies or controls the financial and operational decisions, these financial investments are recorded according to this method. In this procedure, investments are recorded at acquisition cost, thus there is a need to adjust them taking into account the net results of the associated or participated companies.

The management of Vitória Sport Clube, begins the explanation of the values of its income statement, giving relevance to the income of 906,235.53 euros through the application of the equity method and also clarifying the importance that this income had in the Net Profit for the Period of 798,005.72 euros. This result together with a positive cash flow of around 150,000 euros led to the decrease in liabilities.

The income of Vitória Sport Clube in this period came mainly from various sources such as

- Collection of quotas;
- Advertising;
- Rent;
- Donations;
- Subsidiary companies.

As far as spending is concerned, this results from

- Quota transferred to SAD;
- Club activity;
- Spending on general staff;
- Spending on athletes;
- State and other public entities.

All this income reached a total value of 5,314,458.70 Euros and the expenses a value of 3,424,967.95 Euros.

In terms of assets and liabilities, there is a decrease in both, however, because of the positive results; Vitoria's net worth is positive and equity funds have increased.

Although the club's management is satisfied with the results presented as well as with the compliance with the conditions of financial restructuring and also with the increase in equity funds, it is relevant to point out that in the 2015/2016 season the equity funds were not mentioned or applied, being the net result of this period negative. After the application of the method mentioned above and explained, the result of the following season

(2016/2017) was positive, largely due to the application of this method.

The reduction of liabilities becomes somewhat important, however, the decrease of assets, more specifically, tangible fixed assets, is a cause of some concern.

2017/2018 Season

The 2017/2018 season was marked by an increase in contribution revenues (coming from subsidiary companies) and accompanied by an increase in annual seat sales, in contrast, there was an increase in investment in the modalities. Once again, there was a reduction in liabilities with the help of the payment of amounts owed and also of amounts that SAD gave to the club.

The considerable increase in sales was mainly due to the increase in the number of members as well as the annual seat purchases for football, but also for the other modalities. The unfreezing of careers and the transfer of staff to SAD explains the values transmitted from SAD to the club, significantly increasing the club's revenue, eventually compensating for the reduction in subsidies given by the Municipality of Guimarães.

The good performance of SAD is responsible for the increase in financial participation (recorded using the MEP).

The main expenses in this period were the use of external service suppliers (ESF) as well as the expenses with the modalities and also the personnel expenses, thus there was a generalized increase in expenses which explains a net result lower than the one registered in the previous year, in the order of 303,634.85

Once again, we highlight the importance of the decrease in assets and liabilities, the influence that the results of the subsidiary companies have on the construction of Vitória Sport Clube's positive net result, thus allowing it to have a positive net position and also the increase in the equity fund.

2018/2019 Season

According to the last season analyzed, there are some similar highlights when compared to previous seasons, such as, the increase in contributions as well as, the increase in income from the modalities, due not only to the high participation of members, sympathizer's but also the remaining population and the income resulting from the solidarity mechanism for the transfer of the athlete Ricardo Pereira, again, the expenses with the modalities increased and liabilities decreased.

The good results of the subsidiary companies led to an increase in revenue for the MEP, which was registered under the heading

of operating subsidies, the biggest increase in the period due to the support provided by the Guimarães City Council for the works on the Castro Twin Rinks.

Other income and expenses recovered from the fall seen in the previous period and shows the highest value of the three financial years analyzed, due to the donations as well as the results of training and also the insurance compensations.

With regard to expenses, the use of ESF rose, giving rise to the club's largest expense, however, it is important to highlight the reduction in personnel expenses.

All these occurrences resulted in a net profit of 746,290.00 euros, once again leading to an increase in asset funds.

The continued devaluation of tangible fixed assets, not compensated by the good results of the subsidiary companies, leads to a further decrease in the assets of Vitória Sport Clube.

In fulfilling its obligations and subsequently always showing net results of the positive periods, Vitória Sport Clube observes the reduction of its debts, always generating value for the club due to the performance of its subsidiary companies.

Liquidity Ratio

In conclusion, of the various analyses, it becomes pertinent to reveal the liquidity ratios that allow us to conclude whether the club generates sufficient assets to meet its obligations.

General Liquidity Ratio: being a short-term measure, it compares short-term assets with short-term liabilities, resulting in the relationship between cash assets and the amount the company will need in the short term. In other words, for every 100 euros of debt, Vitoria Sport Club only has 27 euros to pay. We can thus say that the club is in difficulty.

Reduced Liquidity Ratio: it measures liquidity more tightly, using the same formula excluding inventories. The possible conclusion is the same as above.

Immediate Liquidity Ratio: even more restricted than the previous one, it only compares the value of cash with the value of short-term liabilities. For every 100 euros of debt, Vitória Sport Clube has only 20 euros to pay.

Conclusions

In fact, on the leadership of the presidents Júlio Mendes and Luís Lisboa, who presided over Vitória Sport Clube during the time period of this study, it can be concluded that during these last three sporting seasons the club showed positive net results and still achieved a reduction in its liabilities year after year, with the total equity fund increasing slightly during this time period.

However, the institution always obtains the creation of value with the increase of its patrimonial funds, being that the financial participation of the MEP method has a fundamental role in the accounts of the club, that is, not only the subsidiary companies and the insurance company, but also, SAD from where the positive results through these mentioned partnerships come fundamentally.

This study has identified the economic and financial difficulty of the club regarding the liquidity ratio, thus concluding that the club, despite the positive results, is still not in a very favorable position, due to the income generated not fully covering the amounts they have to pay.

The Sporting Entities Accounting has now highlighted and taken the necessary steps in the processing of the data of the annual analysis of the clubs.

According to the observation of the accounts of Vitória Sport Clube, the structure of this information is done in an organized way, and disposed in a serious and professional way. For this, the organization is constituted by a working group with qualification to deal with the information so necessary for the development of the Club. In this way, and quoting Michael Jordan's phrase "With talent we only win matches, with teamwork and intelligence we win championships".

References

<https://www.vitoriasc.pt/pt/>.