

# Newcastle United Takeover: A new era for the Premier League?

## Introduction

On 7th October, Newcastle United Football club was acquired for £300m by a Saudi-led consortium made up of Public Investment Fund, PCP Capital Partners and RB Sports & Media. The Public Investment Fund is the sovereign wealth fund of Saudi Crown Prince Mohammed bin Salman who will control 80% of the club, PCP Capital Partner is led by the businesswoman Amanda Staveley while the company RB Sports&Media Consortium is an off-shoot of private equity and investment operation, Reuben Brothers. The acquisition made Newcastle the richest club in the Premier League.

## About Newcastle United

Newcastle United Football Club is a professional football club that plays in the Premier League and was founded in 1892 by the merger of Newcastle East End and Newcastle West End. The club was owned by Mike Ashley from 2007 until 2021, who succeeded long-term chairman Sir John Hall. The club is among the 20th highest revenue producing club in the world in terms of annual revenue, its highest placing was in 1999, when they were the fifth highest revenue producing football club in the world, and second in England only behind Manchester United.

During the Covid-19 pandemic Newcastle United Football Club has made an overall loss of £22.5m, which reflects mostly on the first wave of the coronavirus outbreak. Newcastle's turnover was drastically hit following the outbreak of Coronavirus resulting in a turnover of about £153m, down from £176.4m the year prior. When the Premier League resumed in June, the teams were forced to play all nine of their remaining fixtures behind closed doors and as a result, matchday revenue dropped from £24.8m to £17.4m.

## About Public Investment Fund

The Public Investment Fund is the sovereign wealth fund of Saudi Arabia, created in 1971 for the specific purpose of operating and investing on behalf of the government of the Kingdom. The PIF boasts \$430bn in assets under management, which positions it in 9th place in the world ranking of sovereign wealth funds. Since 2015, the fund has been headed directly by Mohammad bin Salman, the young Crown Prince of the Saudi Kingdom. Bin Salman has set up a huge project of change in the country, summarized by the Saudi Vision 2030, the strategic plan launched in 2016 to guide the renewal of the economy and the international image of Saudi Arabia. In this project the PIF plays a key role, and since 2015 investments have been directed to bring them in line with Vision 2030.

The PIF boasts an international portfolio, with investments ranging from Russia to the United States, passing through India, France, Morocco and many others. It has agreements with General Electric and Blackstone, and owns minority stakes in Boeing, Facebook and Citigroup. It actively invests in "Giga-projects" which are

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programs for the diversification of the Saudi economy and support for the multisectoral transformation of the Kingdom. It is setting itself the ambitious goal of soon becoming the richest sovereign wealth fund in the world, a position currently held by Norway.

## Industry Analysis

The Premier League constitutes the highest level of professional football in England and is a member of the "Big-Five leagues" in Europe including La Liga (Spain) and Bundesliga (Germany).

The gross value added by the Premier League last year was £7.6bn, it employs over 100000 and provides a boost to both domestic and foreign tourism moving around 686000 visitors into the country annually. The Premier League has always represented the most competitive and prestigious football league able to maintain higher prices, with an average of £55.1 per ticket, against the equivalent of £41.7 for Bundesliga. Compared to the Big Five, the English soccer league has the largest revenues: about £6.1bn in the 20/21 season, against the £3.4bn of La Liga and £3bn of Bundesliga. The Premier League's revenue trend over the last 10 years is strictly positive: starting from 2015/2016 the CAGR is estimated at 4.63%.

The composition of the revenues is divided into 3 main channels: commercial, matchday, and broadcasting. The matchday revenue stream has been enormously impacted by the Covid-19 outbreak, given the stop lasting from March 2020 to May 2021 and the current limited capacity of stadiums. However, broadcasting revenues jumped by more than 68% in the last year, representing the most relevant source of revenue accounting for about 70% of total revenues. Each club is given an equal share of total broadcasting revenues (estimated at £31.8m in 2020/2021) from the domestic TV deal, with an extra facility fee depending on how many times they are broadcasted. They then receive an extra share of overseas TV rights income, with the value depending on where they finish in the rankings. The commercial channel, including retail and merchandising has registered steady figures in the last year. Related to this last channel, Puma, Adidas, and Nike hold an oligopoly. The three apparel giants are contracted with 60% of the Premier league teams, with Adidas being the largest partner contracted with six out of the 20 clubs.

At present, there are six major players in the league: Chelsea, Manchester City, Manchester United, Tottenham, Arsenal, and Liverpool. Manchester City has the highest team market value, estimated at €1.08bn, followed by Manchester United (€907.25m) and Chelsea (€890.50m). Considering Newcastle's mid-table position goal, its main competitors, in terms of market value are Crystal Palace and Southampton. Gao Jisheng, the majority owner of Southampton Football club, publicly declared that "the club needs to feed itself", underlying the absence of ambition in terms of future goals and investments. This quote helps summarize the mentality of the mid-tier clubs in the Premier League and is likely an accurate representation of what the Newcastle management's approach was till today.

An interesting comparison can be made to better understand the potential direction of Newcastle's future by looking at the takeover of Manchester City by Abu Dhabi United Group in 2008. Sheik Mansour is the owner of

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ADUG, a private equity company part of the Abu Dhabi Investment Authority, a Sovereign Wealth Fund owned by Abu Dhabi with \$830bn of estimated assets. There are some convincing similarities between the initial state of the clubs before their respective takeovers. In the 16 years prior to the acquisition by Mansour, (1992-2008), the club had reached, at its best, 8th place in the league. Starting from 08/09, the club has never ranked lower than 5<sup>th</sup> and the net amount spent on players over 10 years (2008-2018) is £1.4bn, an amount that ranks Manchester City first among football clubs for money spent in the world over this period. However, the absence of the financial fair-play regulation in 2008 that now limits the amount of money one can spend on the acquisition of a player, is a relevant distinction between the two clubs. It remains to be seen what strategy will be adopted by the new ownership of Newcastle United to overcome this constraint.

### **Deal Structure**

Following 18 months of negotiations, the acquisition was completed on 7th October. Public Investment Fund will take a majority 80% stake in the club for £300m, whilst Amanda Staveley's PCP Capital Partners and Reuben Brothers each receive 10%. In a statement, the Premier League said that they had "received legally binding assurances that the Kingdom of Saudi Arabia will not control Newcastle United Football Club", but rather the sovereign-wealth fund. The club's non-executive chairman is set to be Yasir al-Rumayyan, the head of the Public Investment Fund. Reuben Brothers, will also be on the board of directors alongside Staveley to oversee day-to-day operations.

### **Deal Rationale**

The rationale behind the takeover of Newcastle United by the Saudi Arabia-backed consortium entails various strategic decisions. Firstly, in the words of Amanda Staveley, CEO of PCP Capital Partners, it is a "long term investment": the club's previous ownership of Mike Ashley was long criticised by fans, that claimed a lack of investment as the cause of the underwhelming performance of the football club. Compared to other football clubs of the Premier League, the Newcastle ranked in the second bottom of the League for capital expenditures for players, with £129mn of capital expenditure, and at the bottom of the League for investments in infrastructures in the period 2010-2020, with just £7mln of investments.

It should be noted that Manchester City, in the year 2009 immediately following the acquisition by Sheikh Mansour reported losses, as many millions were spent on new players. However, the football club started registering from the second year onwards, a good profit margin coupled with improved results in the League. Crucially, Manchester City has seen its valuation skyrocket since the acquisition by Mansour; with an initial price of £212m in 2008 and a subsequent £1.8bn investment, Manchester City is now estimated to be worth nearly £4bn. Since 2015, Mansour has been selling stakes in the ownership of the club, firstly with the sale of a 13% stake to a consortium of Chinese investors for \$400m and this was followed by the sale of a 10% stake to Silver

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Lake in 2019. The new ownership of Newcastle United now has the resources to exploit fully the potential of the club, by investing in new players and new facilities and this will unlock the possibility to achieve attractive returns in the long term.

An additional reason behind the acquisition led by the PIF is diversification. Despite being officially independent of the Saudi Arabian government, the PIF may be seen as a state savings account for the Saudi Arabian government, whose main source of revenues is mineral fuels, such as gas and oil. The reliance of the PIF on these sources of revenues is high, and calls for a diversification across different sectors, in order to generate a revenue stream that makes Saudi Arabia less dependent on oil. For example, in 2020 alone the fund invested in a wide range of companies such as Boeing, Citigroup Facebook, Disney and Bank of America.

Lastly, the deal can also be seen as an attempt by the PIF at improving the image of Saudi Arabia abroad, which is often characterised by shocking human rights violations. This phenomenon, known as sportswashing, consists in investing in sport initiatives for the collectivity as a distraction from poor human rights records. Many point to the attempt of Qatar in hosting the World Football Cup in 2022 as an example of sportswashing.

## **Deal Aftermath**

The controversies discuss ethical implications, due to the lack of the guarantee of human rights in Saudi Arabia, and also political implications around the involvement of the government of Saudi Arabia in the Public Investment Fund.

The multiple alleged human rights violations committed by the Saudi Arabian government, such as the murder of the journalist Jamal Khashoggi created hesitancy around the deal. Sacha Deshmukh, Amnesty International UK's CEO, expressed disagreement with the decision of the Premier League to proceed with the deal finalisation, and urged the Premier League to change its owners' and directors' test "to address human rights issues", prompting it "to better understand the dynamic of sportswashing and tighten its ownership rules".

Partially also due to activists' opposition, the deal has been slowed down and taken several years to go through. Discussions began in 2018 and in April 2020 the takeover was finally agreed with Ashley. However, the deal remained blocked in the Premier League's approval process due to the ambiguous ownership of the club, as PIF's board is chaired by Saudi Arabia's Prince Mohammed, al-Rumayyan, a close collaborator of Prince Mohammed, and six Saudi ministers, and the consortium couldn't prove the separation between themselves and the Saudi government.

Another barrier preventing the Saudi-led group from taking over Newcastle United was Saudi Arabia's four-year ban on the sports channel beIN Sport (Qatar's Middle Eastern Premier League rights holder), which led to a

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worsening in the relationship between Saudi Arabia and Qatar. The ban, which didn't allow Premier League, UEFA and FIFA matches to air, has been lifted at the beginning of October 2021. The ban has now been lifted and the deal received the authorisation of the Premier League after the reception of legally binding assurances from the Saudi kingdom, granting "separation" between the ownership of the club and Saudi Arabia.

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