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BlackRock-BGI Expected to Spark Wave of M&A

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BlackRock[1]'s acquisition of Barclays Global Investors[2] is not likely to be the only big deal to hit the asset management industry this year, experts and sources say. BNY Mellon[3] has made no secret of its desire to expand through acquisition, and the firm was widely reported to have been in the running to buy BGI. And a new Goldman Sachs[4] analyst report cites Franklin Resources[5], Blackstone Group[6] and Invesco as being potential buyers this year too.

BlackRock is almost certainly done acquiring other managers for the time being; CEO Laurence Fink said as much on a conference call Friday when he was discussing his firm's $13.5 billion acquisition of BGI. But he thinks other firms will pick up the slack. "I just think this is just in the forefront of a big consolidation wave in the asset management business," he said.

Goldman Sachs reaches a similar conclusion. The report, written by analyst Marc Irizarry and released last Monday – a few days before the BlackRock-BGI deal was announced – estimates that as much as $2.8 trillion in assets could be in play through mergers and acquisitions this year. Goldman got that estimate by screening for financial institutions that received government assistance or that have been cited in press reports as potentially looking to sell their asset management businesses.

As for buyers, the Goldman Sachs report screened publicly traded asset management firms to assess both their willingness and ability to pursue a large-scale acquisition. It determined the willingness by measuring each firm's average annual growth in assets from mergers and acquisitions, and measured ability by looking at each manager's net cash position as a percentage of shareholders' equity.

When screening for those two items, BlackRock was measured as the strongest potential buyer, followed in order by Franklin Resources, Blackstone Group and Invesco. The report also notes that Legg Mason screened well in terms of being willing to make an acquisition, but they did not score as well in terms of ability because of the firm's relatively high leverage.

Invesco officials declined comment, while officials at Franklin and Blackstone could not be reached by deadline. Legg Mason[7] officials have said recently they would be interested in making acquisitions, though the firm says nothing is likely in the short-term, as reported.

The market environment has given large asset management firms a great opportunity to increase their scale. “Market turmoil and limited competition from larger financial institutions has created a scarcity of buyers in the space,” the Goldman report states. “We believe this dynamic gives mono-line public managers with stronger balance sheets and access to both equity and credit markets an upper hand in the negotiating process,” the report says.

An investment banker working with asset management firms says Franklin Resources is in a particularly strong position to make acquisitions. In general, he says publicly-traded firms have a greater ability to make deals right now because it’s easier to attach a fair value to their stock – if stock is to be used in the acquisition – than to ownership of a private firm. The liquidity of the public stock is also more attractive to the firm being acquired. Franklin Resources’ stock trades at high earnings multiples, making their stock even more attractive in an M&A deal than other publicly-traded managers, the banker says.

It could be a great time for a mega-deal such as the BlackRock-BGI deal, some say. “There isn’t a more opportune time to do something transformational,” says Elizabeth Nesvold, a managing partner for New York investment bank Silver Lane Advisors[8].

She explains that smaller firms with only a couple of products may need to join with a bigger firm, even if their products have performed well. Consultants are now more concerned about the financial viability of asset managers and partnering with a larger firm could help smaller firms show they still have the available resources to be successful, Nesvold explains.

Meanwhile, “for the larger firms it’s about picking up talent, products or distribution capabilities they didn’t have in the past,” Nesvold says.

Various research reports in recent months, from organizations like Jefferies Putnam Lovell[9], have forecast a surge in asset management M&A activity later this year. Besides BGI, other asset managers that could see new owners in the near future include Columbia Management Group, which Bank of America[10] is said to be shopping, and Lincoln Financial Group’s Delaware Investments[11].