Inside BlackRock's 'Once in a Lifetime' Deal With Barclays, 10 Years Later

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Larry Fink, chief executive officer of BlackRock. PHOTOGRAPH BY STEFAN WERMUTH/BLOOMBERG

Staff at the San Francisco headquarters of Barclays Global Investors had little idea in early 2009 that BlackRock was about to become their new employer.

In April that year, Barclays had accepted a $4.4bn offer from UK buyout firm CVC Capital Partners to acquire BGI's exchange traded funds division. But the British bank was still in the market for better offers, including bids for the entire BGI investment management business.

It was a slip-up by the chauffeur who drove the chief executive of New York-based BlackRock to and from his dealmaking talks with Barclays executives on the west coast that gave the game away.

"The employee base is often the last to know about a lot of things, but one day Larry Fink had a black car waiting outside with his name in the window. That was how everyone learned BlackRock was involved," said a former San Francisco-based BGI employee who worked there when the deal was brokered.

In the landmark acquisition, announced in June 2009, BlackRock agreed to buy the entire BGI business for $13.5bn, although this figure rose to $15.2bn by the time the deal completed in December that year. The sale generated much-needed capital for Barclays to fend off anxious regulators after the bank resisted a government bailout during the financial crisis.

The cash would also help Barclays fund its acquisition of Lehman Brothers' assets in the US, a deal that completed in September 2008.

But while BlackRock has reaped the benefits of acquiring BGI, several Barclays executives who were involved in the process are said to harbour deep regrets about offloading the business.

“Barclays ended up selling BGI to fund the acquisition of Lehman Brothers. That is the big regret at the top table of Barclays,” said one former Barclays executive.

“It was a real area of excellence in asset management and a high-growth business with iShares and the quant active business. It had high recurring revenues and low capital requirements — the type of business Barclays needs today.”

CVC probably also regrets letting Barclays’ prized asset slip through their fingers. Over the past decade, iShares, which had $300bn in assets when the deal was completed, has swelled to almost $2tn.

CVC was one of the few financial firms able to stump up the cash to make such large acquisitions at a time when the Federal Reserve was bailing out big US banks, which limited their ability to make large-scale acquisitions.

“CVC did not know much about financial services at that time, but they were the only ones who could write an equity cheque to buy iShares. The others were thinking of clubbing up,” said one former London-based BGI executive closely involved in the negotiations.

A “go-shop” period Barclays agreed with CVC allowed other large financial services companies, including BlackRock, to throw their hats into the ring to acquire the entire BGI business.

“Between the CVC announcement and the BlackRock deal being announced, there was a wooing period,” said the former London BGI employee.

Senior people were taken to Fink’s favourite restaurant on the Upper East Side in Manhattan, they said. “Once the deal was announced, however, the gloves came off.”

Despite missing out on the prized iShares business, CVC walked away with the $175m break fee Barclays was forced to pay for turning down its initial bid.

That, however, is cold comfort. Since acquiring BGI, BlackRock has grown to become the world’s largest fund manager, with more than $6tn in assets. This is more than double the amount it had at the end of December 2009.

One of the biggest challenges for BlackRock in the immediate aftermath of the deal was managing an enlarged workforce, in particular the cultural differences between its New York and San Francisco offices.

“The cultures could not have been more different,” said the former San Francisco-based BGI employee.

“Those differences bore out in the number of BGI managing directors and senior people leaving in the first year of the transaction completing. There are very few left today, probably just a handful out of about 150.”

Mark Wiedman, head of international and corporate strategy at BlackRock, said that although iShares still has its own salespeople and product team, at a leadership and overall staffing level, integration is complete.

“This was a long journey, and it has taken a decade to integrate it,” he added.

Some argue BlackRock would still have achieved the market dominance it has today without bringing the BGI business into the mix.

Diana Mackay, managing director at Broadridge Financial Solutions, said: “BlackRock’s behemoth position has undoubtedly been advanced by the iShares acquisition, but it is very hard to conclude that BlackRock would not have become top dog if it had organically grown its ETF business.

“Its position without iShares is still strong and BlackRock’s dominance remains absolutely solid.”

BlackRock consistently comes top of an annual fund management brand survey conducted by Broadridge, which scores iShares separately.

BGI aside, over the past decade BlackRock has built a powerful software, risk and operations platform, Aladdin, which is used by almost 90 asset managers worldwide.

According to BlackRock’s most recent annual report, in 2018 the asset manager’s technology services revenue reached $785m — up 19% on the previous year. Aladdin represented the majority of the money generated.

Ultimately, the BGI acquisition was a gamble that paid off for Fink. According to the former BGI executive, BlackRock leadership was “very much split” about whether to pursue the deal at the time.

“One thing Larry is very good at is circling the globe and talking to clients and having a handle on trends. He knew ETFs was one of the megatrends and he got the crown jewel of the ETF industry,” he said.

“BlackRock would have continued to grow inorganically, by doing deals. But this was a once-in-a-lifetime opportunity.”

Wiedman observed that, “At the time, people thought we paid a rich price of $13bn to $15bn, depending on how you count it. But Larry bought at the bottom, and this really helped as markets recovered.”

Although no stranger to deals — BlackRock bought Merrill Lynch Investment Managers for $9.6bn in 2006 — the former London-based BGI employee said the acquisition was “transformational” for BlackRock.

“Without it, they would probably have been more of a fixed income business, and they would not have had the growth profile and market presence without the iShares business.

“A big proportion of what BlackRock is today came from that transaction,” he said.

Wiedman said: “It was successful because it wasn’t a cost play. It was adding things that we could never have built on our own. We know that.”

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