BGI may be the exception in sale potential – M&A expert

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GLOBAL – The potential takeover of Barclays Global Investors (BGI) by rival passive management firm BlackRock has been hailed as one of the few asset management deals with the potential and value to be completed in the current economic climate, a merger and acquisitions specialist has suggested.

Barclays today confirmed it has been in talks with officials at Blackrock Asset Management, headed by Larry Fink, to sell its giant asset management division to the rival passive manager, though talks are still ongoing.

“Following the announcement by Barclays of the sale of its iShares business to CVC Capital Partners SICAV-FIS S.A. for a total consideration of approximately $4.4bn (€3.17bn) on 9 April 2009, Barclays has received other proposals for iShares and the broader BGI business,” said the firm in a statement to the stock market.

“In assessing such proposals, Barclays has had discussions with a number of parties, including with BlackRock, about both iShares and BGI. The discussions are not yet concluded and there are a number of significant open issues which could affect the nature and terms of any transaction.”

Bank of New York Mellon is also known to be one the interested parties which is keen to step in and negotiate a deal should BlackRock be unable to complete the transaction.

Should either deal go ahead, this would likely make the new owner the largest asset manager in Europe as BGI was the largest asset manager last year, according to IPE’s Top 400 Asset Manager survey 2008, and had €1.084bn in assets under management at the end of March.

In contrast, BlackRock and BNY Mellon are smaller, as Blackrock has AuM of €971.9m while BNY had €667.451m at the end of 2008, so any takeover would therefore place them in the dominant position compared with their rivals.

Ray Soudah, co-founder of Swiss-based Millennium Associates, an M&A analysts and asset management consultancy, noted while the BGI has yet to be finalised, the deal could be important in as much as several asset managers have sought a buyer but failed to win the appropriate attention.

“I think the debate over whether the sale is right or wrong is irrelevant because Barclays is selling it for capital reasons. This is more of a Barclays story than an asset management story,” said Soudah.

“There are not many BGI-type firms, but there are lots of asset managers for sale. Most of these have not bee able to sell themselves. The automation of the business operations [at BGI] makes them different from others and the market. Most other firms, such as F&C, Insight, will not be sold.”

He continued: “Barclays is very close to its [capital] cushion but this is not the time to be selling asset management companies, unless they have something special about them; this one being an index company has some premium which is probably justifiable. I would call this a superior company and because it is unique it can get a good price. For ordinary asset managers, this is not the right time to sell,” he added.

While the sale of BGI could be hugely beneficial to a potential buyer, given its size and role in the pensions industry, pension funds themselves would be unlikely to see any major changes should a deal complete, according to Soudah.

“I don’t believe there would be much change for the fund investors. BGI doesn’t have a bad track record and this is not a distressed sale. It’s more a portfolio adjustment for Barclays,” he said.

If you have any comments you would like to add to this or any other story, contact Julie Henderson on + 44 (0)20 7261 4602 or email julie.henderson@ipe.com

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