AP CAPITAL RESEARCH

M&A Deal of The Week
BlackRock & HPS Partners

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Executive Summary

M&A DEAL OF THE WEEK

Deal Summary

- On December 3rd, 2024, BlackRock (NYSE: BLK) announced its acquisition of HPS Investment Partners ("HPS") in a $12 billion all-equity deal. This all-stock transaction is a strategic move for BlackRock, enhancing its position in the fast-growing private credit market while integrating HPS's expertise to meet client needs effectively.
- The acquisition will add approximately $148 billion in client assets from HPS, creating a combined private credit franchise with ~$220 billion in client assets. This is expected to increase BlackRock's private markets fee-paying AUM and management fees by approximately 35% to 40%.
- The deal, structured entirely in BlackRock equity via "SubCo Units," ensures leadership continuity, with HPS's leadership team heading the new private financing solutions business unit. The transaction fosters alignment with BlackRock's shareholders and long-term growth strategy.
- This move builds on BlackRock's strategy to expand its private credit footprint, combining its corporate and asset-owner relationships with HPS's flexible capital solutions. The partnership will enhance offerings across public and private fixed-income portfolios, optimizing liquidity, yield, and diversification.
- With this acquisition, BlackRock extends its private credit capabilities to address rising global demand for private financing solutions. The transaction positions BlackRock to support businesses of all sizes by financing investments that drive economic growth and job creation.
- The deal enhances BlackRock's ability to provide full-spectrum financing solutions, uniting direct lending, fund finance, real estate, CLOs, and BlackRock's GP and LP solutions under one platform. This comprehensive offering will support clients across corporate and asset-based finance.
- Leadership continuity is a key feature, with Scott Kapnick, Scot French, and Michael Patterson leading the new business and joining BlackRock's Global Executive Committee. Mr. Kapnick will also serve as an observer to BlackRock's Board of Directors.
- BlackRock expects the private debt market to more than double to $4.5 trillion by 2030, making private credit a structural growth area. This partnership combines HPS's disciplined investment approach with BlackRock's global scale and expertise.
- This acquisition is a milestone in BlackRock's evolution as a leading provider of integrated public and private financing solutions. It positions the firm to capture future opportunities in a competitive and rapidly growing market segment.

Key Figures

- **Deal Value:** $12 billion
- **Blackrock EV/EBITDA:** 20.8x
- **Blackrock EV:** $154.1 B
- **Blackrock P/E:** 22.07x
- **Blackrock D/E:** 33%
- **Blackrock P/S:** 7.59x
- **Blackrock Market Cap:** $151.9 B

- **Deal premium:** N/A
- **HPS AUM:** $148 B
- **HPS Avg. Holding Period:** 8 Years
- **HPS Founding Date:** 2007
- **HPS CEO:** Scott Kapnick
- **HPS Employees:** 760+ Globally
- **HPS Headquarters:** New York

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Company Information

M&A DEAL OF THE WEEK

BlackRock (NYSE:BLK)

- Founded in 1988, BlackRock is a leading global asset management firm and the largest asset manager in the world.
- BlackRock offers services including investment management (active and passive strategies, as well as ETFs like iShares), private market investments, retirement planning, wealth management, and ESG-focused solutions.
- It also provides advanced technology platforms like Aladdin for risk and portfolio management, and eFront for private equity analytics. Other offerings include financial advisory, cash management, and bespoke solutions for institutional investors.
- BlackRock has a total of AUM of $11.47 trillion, up 26% year-over-year, supported by $221 billion in net inflows in the 3rd quarter and favourable market trends.
- It operates in over 100 countries, with a global client base, and approximately 55% of employees located outside the U.S.
- BlackRock has increased its emphasis on sustainable investments, deepening its focus on decarbonization across its investment platform, integrating it more deeply into existing strategies, and offering new active public-market strategies, index thematic strategies, and green bond strategies.
- It has three investment themes for 2025: Mega forces like AI are transforming economies, with private markets driving the funding for this change. BlackRock emphasises thematic investing over traditional asset classes and recommends tactical, adaptive strategies. They remain pro-risk, favouring U.S. stocks due to corporate strength but remain watchful of shifts, like rising bond yields or escalating trade protectionism.
- BlackRock reported Q3 2024 revenue of $5.19 billion, a 15% increase from the previous year, driven by base fee growth and higher performance fees. Net income rose 2% to $1.63 billion, while earnings per share (EPS) increased slightly to $10.09, up 2.25% year over year.

HPS Investment Partners

- Founded in 2007, HPS Investment Partners is an investment management firm known for credit investment management with approximately $148 billion in assets under management as of December 2024.
- The firm offers a diverse range of investment strategies across the capital structure, including private credit, public credit, private equity, and real assets.
- HPS operates 14 offices worldwide, employing over 760 professionals, and maintains a significant global presence.
- HPS has demonstrated a commitment to sustainable investments, exemplified by its recent partnership with Enhanced Capital to invest in renewable energy and battery storage projects across the United States.
- In April 2023, HPS finished closing $17 billion in new investable capital for its Strategic Investment Partners. This fund seeks to leverage HPS's global credit platform and relationships to source investments directly from private and public companies, as well as private equity-backed businesses across a broad array of industries.
- HPS's investment approach emphasises flexibility and creativity in providing capital solutions, aiming to generate attractive risk-adjusted returns for its clients.
- The firm's global reach and diverse investment strategies position it as a significant player in the alternative investment landscape.

WRITTEN BY
Max Hanson

Deal Rationale and Risk

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Rationale – Stronger position in Private Credit

Expansion

In anticipation of enormous growth in the private credit industry, BlackRock saw this deal as a strategic move to enhance its presence in this market. They expect it to double by 2030, reaching roughly $4.5tn. This is driven by businesses seeking financing outside traditional banking systems.

Before the acquisition, BlackRock managed around $89bn in private credit assets. With the addition of HPSs', that number will increase to approximately $240bn, positioning them among the top five private credit managers worldwide.

Diversification

This acquisition enables BlackRock to offer a more comprehensive suite of investment products that bridge public and private markets, catering to a broader range of client needs and preferences. It's part of a broader strategy to diversify beyond its core business of index investing and ETDs, aiming to build its fee-generation capacity through increased exposure to alternative assets. Additionally, HPSs' expertise and client relationships, particularly direct lending and junior capital, complement BlackRocks existing offerings, allowing for deeper engagement with institutional clients, like insurance and wealth management companies where there is a growing demand for private debt assets. A demand BlackRock will now be able to meet.

Risk

Integration

Incorporating two firms with different corporate cultures, operational processes, and client bases may lead to conflicts or inefficiencies. During the transition period, workflows and focus will likely be disrupted. Additionally, there is a risk of losing key HPS clients if they perceive changes in service quality or strategy.

Regulatory and Compliance

The acquisition increases BlackRock's exposure to regulatory oversight, particularly in the private credit market, which has become a focus area for regulators concerned about systematic risks. HPS operates in various jurisdictions, each with its own compliance requirements. Integrating these frameworks into BlackRock's existing structures may be challenging.

Market and Economy

Private credit assets are typically less liquid and can be riskier during economic downturns. Rising interest rates or a credit crisis could increase default risks in HPS's portfolio. Also overpaying for their assets could lead to goodwill impairments if the private credit market underperforms.

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Noah Benger-Pereira

Industry Analysis

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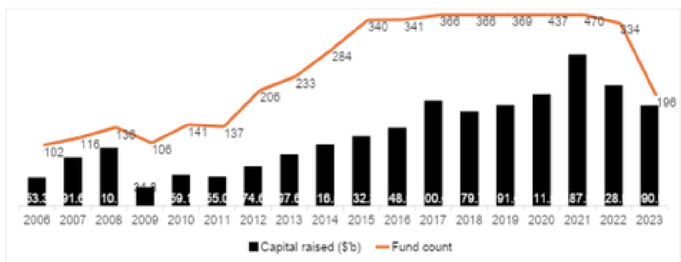
The Private Credit Industry

Private credit fundraising has grown steadily at 13% CAGR since the GFC, though growth slowed recently. In 2023, institutional shifts to liquid alternatives created competition for private credit. Now the second-largest private market strategy after private equity, private credit AUM exceeds $1.75 trillion, including $434.4 billion in dry powder. Direct lending leads allocations at 32%, followed by mezzanine strategies. Rising rates and reduced bank risk appetite due to regulatory scrutiny have driven borrowers to private lenders for speed and certainty. With expanding retail participation, private credit remains a resilient, high-performing asset class in volatile markets.

Global Private Credit fundraising activity



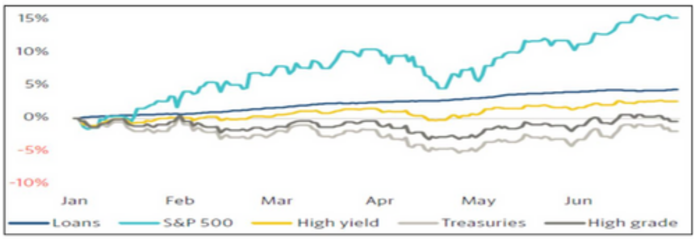
Drivers of Growth in Private Credit: Regulatory, Macro, and Market Tailwinds:

Regulatory Tailwinds: Stricter bank regulations like Dodd-Frank and Basel III limit lending, creating opportunities for private credit with flexible compliance and adaptable funding solutions.

Macro Tailwinds: Low interest rates and economic uncertainties drive investors to private credit for higher yields, stability, and diversification.

Market Dynamics: Mid-sized firms prefer private credit's tailored financing; rising yields, efficiency gains, and strong performance attract growing investor interest.

2024 Cumulative returns by asset class – US



Fund Managers

The top 20 private credit fund managers account for a significant portion of the global AUM, with combined assets exceeding $1 trillion. The competitive landscape shows significant market concentration, with the top 5 players commanding nearly 50% of the total AUM among the top 20. The dominance of Oaktree Capital Management, GSAM, and Ares highlights the preference of investors for established, diversified, and experienced managers.

S/N	Fund Manager	AUM ($billions)
1	Oaktree Capital Management	116.1
2	Goldman Sachs AM	105.1
3	Ares Management	103.0
4	HPS Investment Partners	84.2
5	Blackstone Group	73.9
6	ICG	55.0
7	Clearlake Capital Group	41.1
8	Fortress Investment Group	33.7
9	Crescent Capital Group	32.2
10	Arcmont Asset Management	31.5
11	Bain Capital	30.4
12	BlackRock Financial Management	27.2
13	Apollo Global Management	27.0
14	Cerberus Capital Management	26.4
15	Avenue Capital Group	26.2
16	Golub Capital	25.7
17	Hayfin Capital Management	25.4
18	KKR	25.4
19	Barings	25.2
20	AB Carval Investors	22.7

Emerging Trends and Insights

1. Rise of Larger Managers: The market is becoming increasingly consolidated, with larger, more experienced managers crowding out smaller firms. Top 10 fund managers accounted for over 30% of all private credit fundraising in 2022, signalling a preference for stability and track records during uncertain economic periods.

2. Diversification of Strategies: Leading managers are broadening their product offerings, spanning direct lending, distressed debt, mezzanine financing, and opportunistic credit. Firms like Ares and HPS exemplify this trend by maintaining flexibility across various capital structures.

3. Institutional and Retail Involvement: The rise of public offerings from non-traded registered funds has boosted retail participation, expanding the private credit investor base. Blackstone's retail-focused strategies illustrate the growing trend of democratizing access to private credit investments.

4. Technology Integration: Leading firms are leveraging data analytics and AI to improve credit underwriting and portfolio management. BlackRock and GSAM are at the forefront of integrating technology into their investment processes.
Geographical Expansion: Managers are increasingly targeting underserved regions, with firms like Bain Capital and Barings focusing on cross-border opportunities to tap into new markets.

The private credit landscape is dominated by a mix of established giants and specialized managers, each leveraging their unique strengths to navigate a competitive and evolving market. As AUM continues to grow, successful firms will likely be those that can adapt to emerging trends, maintain strong investor relationships, and deliver innovative, diversified strategies.

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Final Thoughts

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Samuel

BlackRock's acquisition of HPS marks a significant step in its strategy to expand within the growing private credit market, which is becoming increasingly important as businesses and investors seek alternatives to traditional financing. By adding HPS's $148 billion in AUM, BlackRock is well-positioned to capitalize on this trend, creating a comprehensive platform that combines its global scale with HPS's expertise and adapts to shifting market dynamics. While the move strengthens BlackRock's foothold in private credit, its success will depend on navigating challenges such as cultural alignment, regulatory complexity, and integration risks. As private credit continues to grow in relevance, this deal reflects BlackRock's ambition to lead in a rapidly evolving sector

Max Hanson

This deal strengthens BlackRock's competitiveness through diversification, expanded client offerings, and significant growth in private credit AUM. However, challenges such as integrating differing corporate cultures, navigating regulatory scrutiny, and the potential for rising interest rates or default risks could limit the deal's long-term impact if the anticipated industry growth fails to materialise.

Philip

The acquisition is a strategic move that not only solidifies BlackRock's dominance in the private market but also aligns with key trends in the private credit industry. Adding HPS's private credit AUM to BlackRock's portfolio would significantly enhance its total AUM and diversify revenue streams. By integrating HPS's private credit products into its broader investment ecosystem, BlackRock can unlock cross-selling opportunities for both institutional and retail clients. However, achieving the full potential of this deal will depend on successful integration and strategic execution.

Noah Benger-Pereira

BlackRock's acquisition of HPS is a strategic move that positions it as a dominant player in the rapidly growing private credit market. By adding HPS's expertise and $150 billion in private credit assets, BlackRock strengthens its portfolio diversification, enhances its competitive edge, and broadens its appeal to clients seeking private market opportunities. This acquisition emphasizes BlackRock's focus on high-growth, higher-margin alternative investments, putting it in a position for long-term growth and dominance in the private credit space.

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