Flogging a dead horse

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19/01/2024

Once you've started flogging a dead horse, when do you stop? There's no obvious time to hang up the whip. And that's very much the case with the consolidation of infra funds… as well as the desire to write about it.

As the dust settles on the eye-watering $12.5 billion acquisition of Global Infrastructure Partners by BlackRock, the focus of last week's Friday Editorial (which one source called "slightly brutal") – it feels only right to continue the theme.

On the GIP sale, another chum was rude enough to point out that the BlackRock share price over the last 3-4 months had logged a 30% increase, and mulled – given $3 billion cash and the rest being 12 million shares of BlackRock common stock – that it was "paying for an overvalued asset manager with overvalued shares".

But the desire to continue flogging that late pony is fuelled by news this week that Commerzbank was acquiring a 74.9% stake in Hamburg-based asset manager Aquila Capital, and that General Atlantic was buying UK-based Actis.

You may read elsewhere that the world's gone infra loopy, that we've entered the "Age of Consolidation" and that 2024 will for all times be recalled as the year they broke the auction hammer.

Truth is, everyone on the street is being approached. We could write a story every day on pretty much every single fund manager, trumpeting that they are being approached for acquisition.

The vultures are most certainly circling and, on occasion, swooping to dine.

However, it's only really going to work in certain situations and the primary case is a retirement play – because the founders won't let go of their "baby" (as one described it this week) unless the time's right to take that long walk into the wilderness.

Many partner-led managers were founded by people who still have a lot of miles to add to the odometer and aren't ready to crystallise a return (even if that's on a super yacht).

As one infra luminary says: "Your ideal target seller is a fund with 'aging' founders/management and your ideal purchaser is a mega shop wanting to become even more mega."

Another adds: "I imagine that every independent infra fund manager is being looked at as there are only so many of them. If you want to acquire the infra fund management skills and AUM to participate in the growth of this market, you need to move.

"And this does coincide with a number of owners of the independents being ready to cash out, or at least sell with a view to existing down the road. So, it's led by the buyers and they are finding the independents are ready to listen."

If timing is everything when telling a good joke, it also needs to be a match on a cultural level… and that's not the team, for the sale to go through – that's the owner.

Given the nature of people who pioneer their own businesses, you could wile away a few happy hours identifying fund managers who respond poorly to having "a boss" for the first time in a long time.

And that's why a lot of independent managers that are having their doors kicked repeatedly will not see them give at the hinges any time soon.

But appetite remains.

Every independent fund is a target

Larry Fink put it rather nicely when talking about the acquisition of GIP, saying that "BlackRock only had one target", and pointing out: "We believe the expansion of both physical and digital infrastructure will continue to accelerate as governments prioritise self-sufficiency and security through increased domestic industrial capacity, energy independence, and onshoring or near-shoring of critical sectors."

But he had us retching in the aisles when he said: "I just received an email from a government that wants to work with us." Heave, it's all coming back.

As to merging the businesses, he said it was a "less complex integration" as they have "limited overlap in clients and investment solutions". He might want to take a look at the assets GIP owns and his shop has lent to!

But enough of GIP, that's yesterday's news. Today's news is that "infra is sexy". Finally they've cottoned on.

And why not, especially given the current market where, as one industry veteran puts it: "Crypto's burnt out, commercial real estate is a bloodbath – so hey – infra is the new M&A playground."

Another joins in: "A lot is being driven by bankers who have not been able to earn fees doing capital raises for funds – why invest in risky infra at 8-10% when NS&I is paying 7%!

"They are ogling funds as juicy M&A targets. Especially when funds are trading at a discount to NAVs. It's almost a no brainer if you can pull off an M&A deal.

And more on the discount rates as an aid to this M&A activity: "When rates were low, future date cash flows were worth a lot more than in today's high interest environment. So, if you're a seller, the back end cash flows of your portfolio are worth more to someone with a lower cost of capital than to yourself with a higher cost of capital as an independent."

But the consensus from industry sources this week is that these sales demonstrate the maturity of the asset class.

As one infra doyenne says: "It really was the last step that needed to happen to prove that it is a mature asset class similar to PE and real estate."