



# BLACKROCK'S ACQUISITION OF GIP

DEC 2024

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## Sectoral overview: The Growth of Private Infrastructure Investment

The private infrastructure sector has evolved into a critical pillar of global economic progress, offering solutions to pressing challenges such as urbanization, climate change, and the increasing demand for <sup>1</sup>digital connectivity. Historically dominated by public funding and government oversight, the sector has seen a transformative shift towards private capital in recent decades. This transition is driven by the growing complexity of infrastructure projects, the need for significant financial resources, and the pressing demand for innovation in areas like energy, transportation, and technology. The public funding gap, measured at \$15 trillion worldwide over the next 2 decades by the G20 global infrastructure outlook<sup>1</sup>, has been pivotal in the industry's rapid growth over the past years.

According to data from investment conglomerate KKR, which itself has been a leader in the private infrastructure market with AUM of \$77 billion and 16 years in the industry, the private infrastructure sector has witnessed robust growth in deal volumes, reflecting its increasing appeal to institutional investors. This form of investment is particularly attractive due to its well-established market and the clear visibility of long-term cash flows<sup>2</sup>. KKR's analysis underscores that infrastructure investments are providing stable, inflation-linked returns, making them particularly attractive in volatile economic climates (see Appendix 1 and 2). The shift is also fueled by long-term trends such as digitalization, which necessitates the construction of data centers, fiber networks, and 5G infrastructure<sup>3</sup>. Simultaneously, decarbonization efforts are pushing investments into renewable energy projects, including wind and solar farms, which align with global sustainability goals (see Appendix 3).

The OECD also emphasizes the vital role private capital plays in enhancing the efficiency and innovation of infrastructure projects. Their findings suggest that private involvement<sup>4</sup>, under the right regulatory frameworks, can accelerate project delivery while introducing cutting-edge technologies and practices. For instance, the development of high-speed rail systems and smart grids has benefited significantly from private-sector innovation and funding<sup>5</sup>.

Experts are optimistic about the sector's trajectory. Research predicts that global infrastructure spending will exceed \$94 trillion by 2040<sup>6</sup>, driven by urbanization and the ongoing transition to green energy.

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<sup>1</sup> Global Infrastructure Outlook: "Global Infrastructure Outlook." Global Infrastructure Hub, <https://outlook.gihub.org>. Accessed 24 Nov. 2024.

<sup>2</sup> Private Infrastructure Investments: What You Need to Know: "Private Infrastructure Investments: What You Need to Know." KKR, <https://www.kkr.com/alternatives-unlocked/private-infrastructure>. Accessed 24 Nov. 2024.

<sup>3</sup> IBID

<sup>4</sup> Araújo, S., and D. Sutherland. "Public-Private Partnerships and Investment in Infrastructure." OECD Economics Department Working Papers, no. 803, OECD Publishing, 2010, <https://doi.org/10.1787/5km7jf6q8f0t-en>.

<sup>5</sup> Construction to Begin on High-Speed Rail Between Las Vegas and Los Angeles: "Construction to Begin on High-Speed Rail Between Las Vegas and Los Angeles." AP News, 22 Apr. 2024, <https://apnews.com/article/high-speed-train-vegas-los-angeles-brightline-595913ff2fa3d9001fb89bfab4e6c4d2>. Accessed 24 Nov. 2024.

<sup>6</sup> "Global Infrastructure Outlook." Global Infrastructure Hub, <https://outlook.gihub.org/>. Accessed 24 Nov. 2024.

Data from the Global Infrastructure Hub, the World Bank Public-Private Infrastructure Advisory Facility's global knowledge platform, further reinforces this trend in the growth of private infrastructure investment both by deal volume and value (see Appendix 4), and especially emphasizes the role of funds as vehicles for such investment (see Appendix 5).

In summary, the private infrastructure sector is well-positioned for continued growth, supported by megatrends, investor demand, and a pipeline of transformative projects. It stands as a testament to the potential of private capital to address global challenges while delivering sustainable economic returns.

One pivotal transaction highlighting this evolution is BlackRock's acquisition of Global Infrastructure Partners (GIP). This deal is emblematic of the sector's consolidation and the strategic alignment of private equity giants with long-term infrastructure objectives. Such transactions reflect the sector's ability to attract substantial capital while positioning itself at the forefront of global priorities like sustainability and technological advancement.

### **The Acquirer: Overview of Blackrock and Its Involvement in Infrastructure**

BlackRock, Inc., the world's largest asset manager, oversees approximately \$11.5 trillion in assets under management (AUM) as of October 2024<sup>7</sup>. Within this vast portfolio, BlackRock has significantly expanded its infrastructure investments, particularly in the energy sector. It envisions infrastructure as a significant asset with strong incentives due to its stable and long-term nature.

Notably, the company's CEO, Larry Fink, stated in an interview with Bloomberg<sup>8</sup> that in his perspective, infrastructure is set to become a "real major asset class" in the coming years. More specifically, he praised the infrastructure asset class for its fit to retirement investors, a significant target group representing "65%" of company clients, due to its "long duration assets, with a high coupon, that [are] inflation protected", emphasizing Blackrock's incentive to diversify their large portfolio to include significant stakes in infrastructure. The company has demonstrated their interest through several notable acquisitions in the sector.

For example, in July 2022, BlackRock Real Assets acquired Vanguard Renewables, a leading U.S. company specializing in converting organic waste into renewable energy, for approximately \$700 million, and is poised to spend a further \$1 billion in financing its expansion<sup>9</sup>. This strategic acquisition aligns with BlackRock's commitment to expanding its renewable energy portfolio and supporting the transition to a low-carbon economy. This move underscores BlackRock's dedication to sustainable

infrastructure investments and its role in advancing decarbonization efforts.

In another major infrastructure acquisition by the firm, in 2022, BlackRock invested over \$1 billion in Akaysha Energy, an Australian battery storage developer, aiming to deliver over 1 GW of storage to the national electricity market between 2025 and 2027<sup>10</sup>. The firm's portfolio encompasses nine projects within Australia's National Electricity Market (NEM), with plans to deploy large-scale batteries in regions such as New South Wales and Queensland<sup>11</sup>. In July 2024, Akaysha Energy secured a further \$650 million in debt financing deal to advance the construction of the 415 MW Orana BESS, which is expected to start commercial operations in 2026<sup>12</sup>.

While precise data on BlackRock's total infrastructure-focused assets remain undisclosed, its substantial investments underscore its influential role within the sector. BlackRock's contributions reflect a broader diversification strategy within its overall portfolio, highlighting its commitment to addressing critical global challenges through targeted infrastructure investments.

Through these initiatives, BlackRock continues to align its investment strategies with global trends toward sustainable and resilient infrastructure development.

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<sup>7</sup> BlackRock's Assets Reach Record High: "BlackRock's Assets Hit Record \$11.5 Trillion on Market Rally, ETF Boost." Reuters, 11 Oct. 2024, <https://www.reuters.com/business/finance/blackrock-hits-record-high-115-trillion-assets-market-rally-etf-boost-2024-10-11/>. Accessed 24 Nov. 2024.

<sup>8</sup> Infrastructure as a Major Asset Class: "Infrastructure Will Be a Major Asset Class, Fink Says." Bloomberg, 12 Jan. 2024, <https://www.bloomberg.com/news/videos/2024-01-12/infrastructure-will-be-a-major-asset-class-fink-says-video>. Accessed 24 Nov. 2024.

<sup>9</sup> BlackRock Acquires Vanguard Renewables: "BlackRock Acquires Vanguard Renewables for \$700M: WSJ." Yahoo Finance, 22 July 2022, <https://finance.yahoo.com/news/blackrock-acquires-vanguard-renewables-700m-114422188.html>. Accessed 24 Nov. 2024.

<sup>10</sup> BlackRock's Investment in Australian Battery Storage: "BlackRock Commits Over A\$1 Billion to Acquire Australian Battery Storage Provider Akaysha." ESG Today, 17 Aug. 2022, <https://www.esgtoday.com/blackrock-commits-over-a1-billion-to-acquire-australian-battery-storage-provider-akaysha/>. Accessed 24 Nov. 2024.

<sup>11</sup> BlackRock's Commitment to Big Battery Developments in Australia: Peacock, Bella. "US Giant BlackRock Commits \$1 Billion to Big Battery Developments in Australia." PV Magazine Australia, 16 Aug. 2022, <https://www.pv-magazine-australia.com/2022/08/16/us-giant-blackrock-commits-1-billion-to-big-battery-developments-in-australia/>. Accessed 24 Nov. 2024.

<sup>12</sup> IBID

## **The Acquiree: Overview of GIP and its Importance in the Private Infrastructure Sector**

Global Infrastructure Partners (GIP), founded in 2006, is a prominent private equity firm that specializes in infrastructure investments across energy, transportation, and digital sectors. Concentrated solely on essential infrastructure, identifying the sector's capacity to deliver consistent, long-term returns by emphasizing active management and enhancing operational efficiency<sup>13</sup> the firm has established itself as a cornerstone in the private infrastructure market with approximately \$100 billion AUM as of 2023.<sup>14</sup>

GIP's portfolio showcases its diverse investments across multiple infrastructure categories. In the aviation sector, it has stakes in Gatwick, Edinburgh, and Sydney Airports, reflecting a strong presence in global transportation hubs. Its contributions to the energy sector include investments in major renewables platforms such as Clearway, Vena, Atlas, and Eolian, demonstrating a commitment to advancing clean energy solutions. In logistics and transportation, GIP owns assets like Pacific National (rail), Italo (high-speed rail), Peel Ports, and the Port of Melbourne, vital for facilitating global trade and connectivity. Additionally, in the utilities and digital infrastructure space, GIP's investments include Suez, a leader in water and waste management, and CyrusOne, a prominent data center provider.

Renowned for its strategic expertise, GIP focuses on acquiring and managing large-scale infrastructure assets, with an emphasis on driving operational efficiency and fostering long-term growth. Its proven ability to navigate complex regulatory frameworks and mobilize large-scale investments has solidified its reputation as a critical player in the private infrastructure space.

The partnership between BlackRock and Global Infrastructure Partners (GIP) is rooted in a mutual commitment to fostering sustainable infrastructure development. Both organizations recognize the critical role of private capital in addressing global infrastructure challenges, particularly in advancing the energy transition and achieving decarbonization goals.

Larry Fink has emphasized how rising public deficits, the drive for energy independence, the energy transition, and a rapidly modernizing digital economy are accelerating the need for private capital to fund critical infrastructure projects, aligning with the firm's strategic focus<sup>16</sup>. Likewise, Adebayo Ogunesi, GIP's Chairman and CEO, has voiced optimism about the combined entity's ability to lead in infrastructure investment, providing integrated solutions across equity, debt, and other financing structures<sup>17</sup>. This alignment of priorities reflects a shared dedication to driving resilient and forward-looking infrastructure projects on a global scale.

### Deal, Thesis, and Value Creation

BlackRock's landmark acquisition of GIP was executed with a \$3 billion cash deal alongside approximately 12 million BlackRock common shares, divided into two tranches: 7 million shares delivered at closing with a 2-year lockup period, with the remaining 5 million shares disbursed over 5 years, contingent upon meeting specific performance milestones. This structure allows BlackRock's leverage profile to stay unaffected, to maintain its strong credit ratings of AA-/Aa3 (from S&P and Moody's, respectively). The financial metrics of the acquisition are particularly compelling, with the acquired business expected to generate more than \$400 million in post-tax annual FRE (Fee-Related Earnings) at margins exceeding 50%, while nearly doubling pro-forma private markets management fees to over \$1.5 billion. The deal boasts an estimated 15% internal rate of return (IRR), significantly higher than BlackRock's cost of capital, while the acquisition valuation implies a multiple of approximately 25-29x 2024E P/FRE. This aligns with premium private markets franchises currently valued at 25-35x P/FRE, which Michael Brown, an analyst at KBW, called a "premium price for a premium asset."<sup>18</sup>

To finance the acquisition, BlackRock put in place a sophisticated structure that aligns short and long-term incentives between both parties. The deal includes a \$650 million retention pool specifically designated to incentivise GIP employees, funded directly from the proceeds of the transaction. The existing GIP carry structure, which is currently 100% owned by GIP employees, will be maintained, preserving the incentive alignment for the investment team. This ensures the long-term value creation of the deal and retains key talent, with GIP founders leading the new infrastructure platform and its founder, chairman, and CEO Adebayo Ogunlesi to join BlackRock's board of directors.

The FT also reported in January that Fink and Ogunlesi share the vision that infrastructure investments will be the "fastest-growing part of the private markets"<sup>19</sup> in the coming years, a view they have been building upon since the 1980s, when they both worked at First Boston. Fink put it best, stating that "through the combination of BlackRock and GIP, we are well positioned to capitalize on the long-term structural trends that will continue to drive the growth of infrastructure and deliver superior investment opportunities for clients globally." The merger combines BlackRock's \$50 billion infrastructure platform with GIP's \$100 billion portfolio, effectively tripling BlackRock's infrastructure presence and creating the second-largest infrastructure private markets manager globally, with over \$150 billion in client assets across equities, securities, and debt.

By bringing together both firms' deep networks of relationships with global corporate and public sectors and creating a scaled infrastructure platform with significant AUM across asset classes, BlackRock is positioning itself to support larger average deal sizes, especially in GIP's areas of expertise.

While BlackRock has acumen in decarbonization, energy, and renewables, GIP's lies mainly in digital infrastructure and transportation. With its joint \$15 billion acquisition of CyrusOne (NASDAQ: CONE), a leading data center developer, and high-profile investments in the aforementioned air, rail, water, and land projects, GIP boasted a strong track record of differentiated, landmark infrastructure transactions in areas where BlackRock had little presence. Indeed, BlackRock assured shareholders that the deal had minimal investor overlap, with only 5% of limited partners (LPs) shared between both firms in the infrastructure segment.

As we have seen, BlackRock's acquisition of GIP marks a significant milestone in the evolution of the private infrastructure sector. This strategic move not only consolidates BlackRock's position as a leader in infrastructure investment but also signals the growing importance of private capital in addressing global infrastructure challenges. As the industry continues to expand, fueled by megatrends such as<sup>3</sup> urbanization, digitalization, and the transition to sustainable energy, one question remains at the forefront: How will this increasing consolidation impact the sector's ability to meet the world's growing infrastructure needs, while balancing returns for investors alongside benefits for communities?

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<sup>18</sup> Masters, Brooke, and Antoine Gara. "BlackRock to Buy Global Infrastructure Partners for \$12.5bn." *Www.ft.com*, 12 Jan. 2024, [www.ft.com/content/a0901489-6caa-42b8-ac55-1a09e64ef927](https://www.ft.com/content/a0901489-6caa-42b8-ac55-1a09e64ef927).

<sup>19</sup> Masters, Brooke, and Antoine Gara. "How the \$12.5bn BlackRock-GIP Deal Is Set to Shake up Investment Management." *Www.ft.com*, 24 Dec. 2024, [www.ft.com/content/8f1c7825-425e-4bae-8909-da3db52cc8d1](https://www.ft.com/content/8f1c7825-425e-4bae-8909-da3db52cc8d1).

## Appendix:

The essential nature of infrastructure's asset base, with contracted yield, has historically provided downside protection.



Figure 1

Inflation-linked cash flows have allowed private infrastructure historically to outperform during periods of elevated inflation.

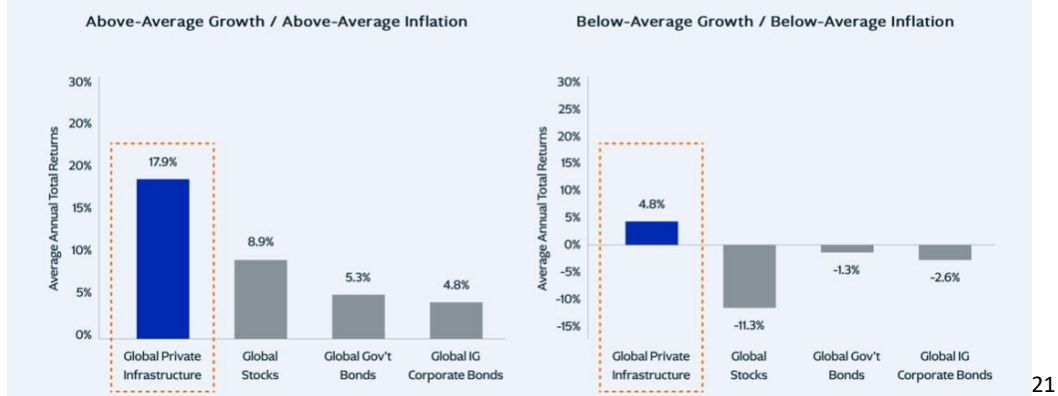


Figure 2

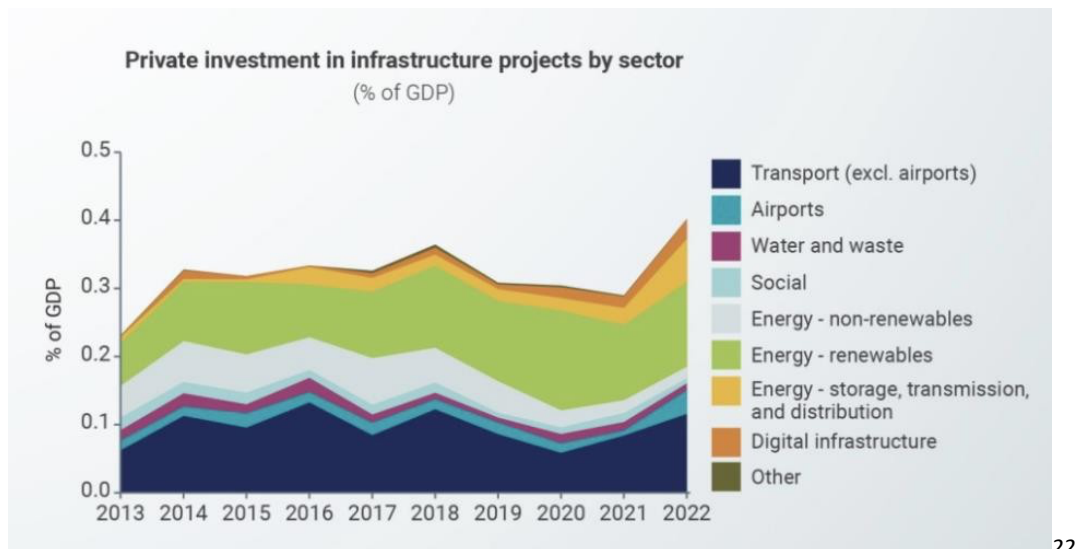
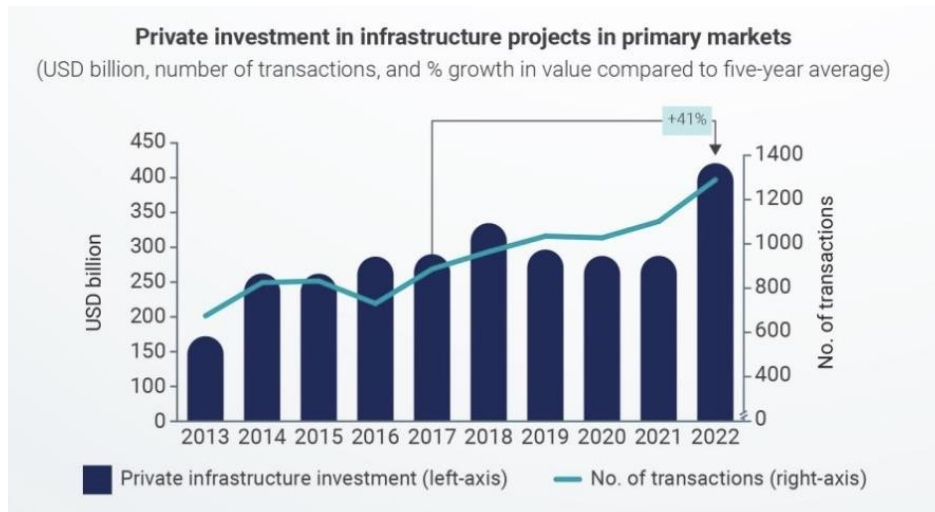


Figure 3





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Figure 4

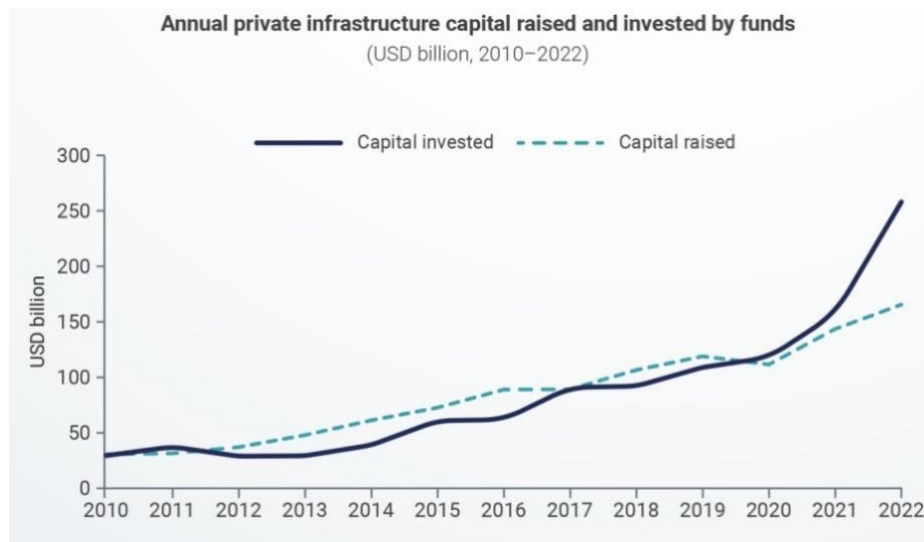


Figure 5

<sup>22</sup> "Infrastructure Monitor." Global Infrastructure Hub, <https://www.gihub.org/infrastructure-monitor/>. Accessed 24 Nov. 2024.

<sup>23</sup> "Infrastructure Monitor." Global Infrastructure Hub, <https://www.gihub.org/infrastructure-monitor/>. Accessed 24 Nov. 2024.

<sup>24</sup> IBID