

BlackRock Inc.
Form 10-K
February 28, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the transition period from _____ to _____ .

Commission File No. 001-33099

BlackRock, Inc.

(Exact name of registrant as specified in its charter)

Delaware 32-0174431
(State or Other Jurisdiction of (I.R.S. Employer

Incorporation or Organization) Identification No.)
55 East 52nd Street, New York, NY 10055

(Address of Principal Executive Offices)

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(212) 810-5300

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$.01 par value	New York Stock Exchange
1.250% Notes due 2025	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known, seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer

Smaller reporting company

Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the voting common stock and nonvoting common stock equivalents held by nonaffiliates of the registrant as of June 30, 2018 was approximately \$79.1 billion.

As of January 31, 2019, there were 158,031,934 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference herein:

Portions of the definitive Proxy Statement of BlackRock, Inc. to be filed pursuant to Regulation 14A of the general rules and regulations under the Securities Exchange Act of 1934, as amended, for the 2019 annual meeting of stockholders to be held on May 23, 2019 ("Proxy Statement") are incorporated by reference into Part III of this Form 10-K.

BlackRock, Inc.

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Part I

Item 1. Business

Overview

BlackRock, Inc. (together, with its subsidiaries, unless the context otherwise indicates, “BlackRock” or the “Company”) is a leading publicly traded investment management firm with \$5.98 trillion of assets under management (“AUM”) at December 31, 2018. With approximately 14,900 employees in more than 30 countries who serve clients in over 100 countries across the globe, BlackRock provides a broad range of investment and technology services to institutional and retail clients worldwide.

Our diverse platform of alpha-seeking active, index and cash management investment strategies across asset classes enables the Company to tailor investment outcomes and asset allocation solutions for clients. Product offerings include single- and multi-asset portfolios investing in equities, fixed income, alternatives and money market instruments. Products are offered directly and through intermediaries in a variety of vehicles, including open-end and closed-end mutual funds, iShares® exchange-traded funds (“ETFs”), separate accounts, collective investment trusts and other pooled investment vehicles. BlackRock also offers technology services, including the investment and risk management technology platform, Aladdin®, Aladdin Wealth, Cachematrix and FutureAdvisor, as well as advisory services and solutions to a broad base of institutional and wealth management clients. The Company is highly regulated and manages its clients’ assets as a fiduciary. We do not engage in proprietary trading activities that could conflict with the interests of our clients.

BlackRock serves a diverse mix of institutional and retail clients across the globe. Clients include tax-exempt institutions, such as defined benefit and defined contribution pension plans, charities, foundations and endowments; official institutions, such as central banks, sovereign wealth funds, supnationals and other government entities; taxable institutions, including insurance companies, financial institutions, corporations and third-party fund sponsors, and retail investors.

BlackRock maintains a significant global sales and marketing presence that is focused on establishing and maintaining retail and institutional investment management and technology service relationships by marketing its services to investors directly and through third-party distribution relationships, including financial professionals and pension consultants.

BlackRock is an independent, publicly traded company, with no single majority shareholder and over two-thirds of its Board of Directors consisting of independent directors. At December 31, 2018, The PNC Financial Services Group, Inc. (“PNC”) held 21.6% of BlackRock’s voting common stock and 22.0% of BlackRock’s capital stock, which includes outstanding common and nonvoting preferred stock.

Management seeks to deliver value for stockholders over time by, among other things, capitalizing on BlackRock’s differentiated competitive position, including:

- the Company’s focus on strong performance providing alpha for active products and limited or no tracking error for index products;
- the Company’s global reach and commitment to best practices around the world, with approximately 50% of employees outside the United States serving clients locally and supporting local investment capabilities. Approximately 40% of total AUM is managed for clients domiciled outside the United States;
- the Company’s breadth of investment strategies, including market-cap weighted index, factors, systematic active, traditional fundamental active, high conviction alpha and illiquid alternative product offerings, which enhance its

ability to tailor single- and multi-asset investment solutions to address specific client needs;
• the Company's differentiated client relationships and fiduciary focus, which enable effective positioning toward changing client needs and macro trends including the secular shift to index investing and ETFs, a focus on income and retirement, and barbell using index, active and illiquid alternatives products; and
• the Company's longstanding commitment to innovation, technology services and the continued development of, and increased interest in, BlackRock technology products and solutions, including Aladdin, Aladdin Wealth, Cachematrix, and FutureAdvisor. This commitment is further extended by minority investments in distribution technologies including Scalable Capital, iCapital, Acorns and Envestnet.

BlackRock operates in a global marketplace impacted by changing market dynamics and economic uncertainty, factors that can significantly affect earnings and stockholder returns in any given period.

The Company's ability to increase revenue, earnings and stockholder value over time is predicated on its ability to generate new business, including business in Aladdin and other technology products and services. New business efforts depend on BlackRock's ability to achieve clients' investment objectives in a manner consistent with their risk preferences and to deliver excellent client service. All of these efforts require the commitment and contributions of BlackRock employees. Accordingly, the ability to attract, develop and retain talented professionals is critical to the Company's long-term success.

Financial Highlights

(in millions, except per share data)

GAAP:	2018	2017 ⁽⁴⁾	2016 ⁽⁴⁾	2015 ⁽⁴⁾	2014 ⁽⁴⁾
Total revenue	\$14,198	\$13,600	\$12,261	\$11,401	\$11,081
Operating income	\$5,457	\$5,254	\$4,565	\$4,664	\$4,474
Operating margin	38.4 %	38.6 %	37.2 %	40.9 %	40.4 %
Nonoperating income (expense) ⁽¹⁾	\$(76)	\$(32)	\$(108)	\$(69)	\$(49)
Net income attributable to BlackRock, Inc.	\$4,305	\$4,952	\$3,168	\$3,345	\$3,294
Diluted earnings per common share	\$26.58	\$30.12	\$19.02	\$19.79	\$19.25

(in millions, except per share data)

As adjusted ⁽²⁾ :	2018	2017 ⁽⁴⁾	2016 ⁽⁴⁾	2015 ⁽⁴⁾	2014 ⁽⁴⁾
Operating income	\$5,531	\$5,269	\$4,669	\$4,695	\$4,563
Operating margin	44.3 %	44.1 %	43.8 %	42.9 %	42.9 %
Nonoperating income (expense) ⁽¹⁾	\$(76)	\$(32)	\$(108)	\$(70)	\$(56)
Net income attributable to BlackRock, Inc. ⁽³⁾	\$4,361	\$3,698	\$3,210	\$3,313	\$3,310
Diluted earnings per common share ⁽³⁾	\$26.93	\$22.49	\$19.27	\$19.60	\$19.34

(1) Net of net income (loss) attributable to noncontrolling interests (“NCI”) (redeemable and nonredeemable).

(2) BlackRock reports its financial results in accordance with accounting principles generally accepted in the United States (“GAAP”); however, management believes evaluating the Company’s ongoing operating results may be enhanced if investors have additional non-GAAP financial measures.

See “Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP Financial Measures”, for further information on non-GAAP financial measures and for as adjusted items for 2018, 2017, and 2016.

In 2014, general and administration expense relating to the reduction of an indemnification asset has been excluded since it is directly offset by a tax benefit of the same amount and, consequently, did not impact BlackRock’s book value. In 2015 and 2014, the portion of compensation expense associated with certain long-term incentive plans (“LTIP”) funded, or to be funded, through share distributions to participants of BlackRock stock held by PNC has been excluded because it ultimately did not impact BlackRock’s book value. Compensation expense associated with appreciation (depreciation) on investments related to certain BlackRock deferred compensation plans has been excluded as returns on investments set aside for these plans, which substantially offset this expense, are reported in nonoperating income (expense).

(3) Net income attributable to BlackRock, Inc., as adjusted, and diluted earnings per common share, as adjusted exclude the after-tax impact of the items referred to above and also include the effect on deferred income tax expense resulting from certain income tax matters.

(4) Results for 2017 and 2016 were recast to reflect the adoption of the new revenue recognition standard. Results for 2015 and 2014 reflect accounting guidance prior to the adoption of the new revenue recognition standard.

Assets Under Management

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The Company's AUM by product type for the years 2014 through 2018 is presented below.

(in millions)	December 31,					5-Year	
	2018	2017	2016	2015	2014	CAGR ⁽¹⁾	
Equity	\$3,035,825	\$3,371,641	\$2,657,176	\$2,423,772	\$2,451,111	6	%
Fixed income	1,884,417	1,855,465	1,572,365	1,422,368	1,393,653	9	%
Multi-asset	461,884	480,278	395,007	376,336	377,837	6	%
Alternatives	143,358	129,347	116,938	112,839	111,240	5	%
Long-term	5,525,484	5,836,731	4,741,486	4,335,315	4,333,841	7	%
Cash management	448,565	449,949	403,584	299,884	296,353	10	%
Advisory	1,769	1,515	2,782	10,213	21,701	(45)	%
Total	\$5,975,818	\$6,288,195	\$5,147,852	\$4,645,412	\$4,651,895	7	%

(1)Percentage represents CAGR over a five-year period (2013-2018).

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Component changes in AUM by product type for the five years ended December 31, 2018 are presented below.

	December 31,	Net inflows	Adjustment/ acquisitions and dispositions ⁽¹⁾	Market change	FX impact	December 31,	5-Year CAGR ⁽²⁾	
(in millions)	2013	(outflows)				2018		
Equity	\$ 2,317,695	\$ 301,915	\$ 2,590	\$ 528,873	\$(115,248)	\$ 3,035,825	6	%
Fixed income	1,242,186	551,223	18,539	181,947	(109,478)	1,884,417	9	%
Multi-asset	341,214	87,540	1,048	57,759	(25,677)	461,884	6	%
Alternatives	111,114	26,719	10,121	1,192	(5,788)	143,358	5	%
Long-term	4,012,209	967,397	32,298	769,771	(256,191)	5,525,484	7	%
Cash management	275,554	100,672	81,321	4,245	(13,227)	448,565	10	%
Advisory	36,325	(31,324)	—	1,302	(4,534)	1,769	(45)%
Total	\$ 4,324,088	\$ 1,036,745	\$ 113,619	\$ 775,318	\$(273,952)	\$ 5,975,818		