



2024 banking and capital markets M&A outlook

The next chess move

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A time of calculated choices

Inflation. Interest rate hikes. Geopolitical conflict.

That's the tagline for last year's muted mergers and acquisitions (M&A) activity in banking and capital markets across the United States. Amid broader market instability, valuations fell, sending buyers in search of bargains. But stalemate ensued as many companies found it difficult to justify a sale at prices that were significantly lower than they might have been just a couple years before.¹

With financing more expensive, many private equity buyers stayed on the sidelines. That opened the door to strategic buyers, typically not as reliant on external financing, becoming more competitive and selective with their acquisitions. Selectivity was vital given increasing regulatory scrutiny of financial institutions, along with proposed M&A transactions more generally.

Against that backdrop, how did M&A activity play out in 2023—and what does the current state of play mean to industry participants weighing their next chess move? Let's unpack these questions one sector at a time.

Banking

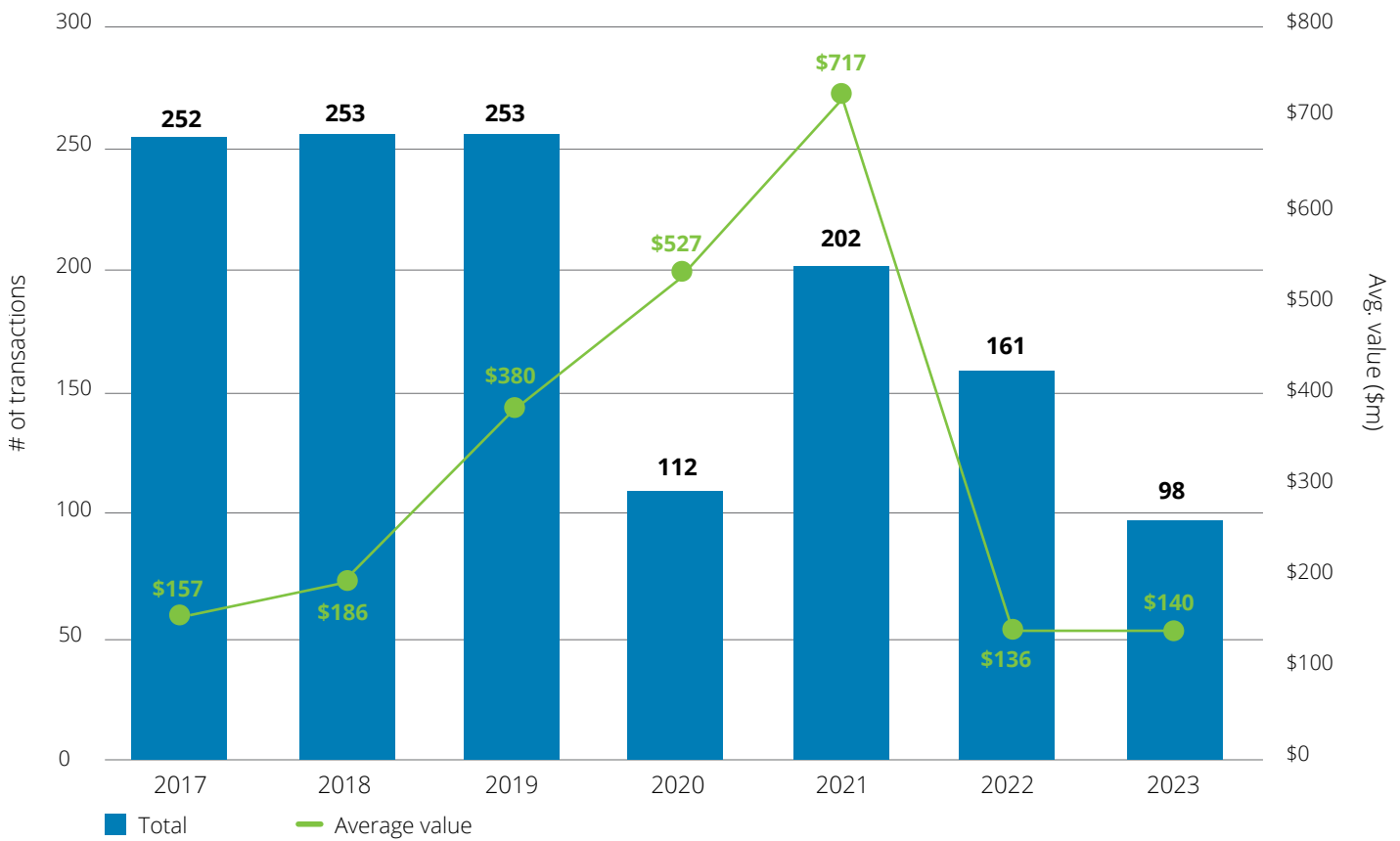
2023 in review

Soaring inflation prompted the Federal Reserve to implement the most significant interest rate hike in decades, with its benchmark federal funds rate hitting a 22-year high in the summer of 2023.² That benefited US banks by boosting their return on equity and profitability. But it also made deals more expensive and hurt legacy fixed-rate loans and investments, which were now off-market in a new rate environment. At the same time, the industry dealt with

the fallout from a string of bank failures and distressed takeovers in the spring. And behind the headlines, the potential for net interest margin erosion lurked as market watchers forecast an economic slowdown.

The topline result for M&A is that both the number of deals and average deal value were the lowest in seven years (figure 1).

Figure 1. Banking M&A metrics



Top five bank deals						
Target	Buyer	Announcement date	Value (\$m)	Price/TBV	Region	
Banc of California, Inc.	PacWest Bancorp	July 25, 2023	\$1,043	NA	West	
Cambridge Bancorp	Eastern Bankshares, Inc.	September 19, 2023	\$527	116%	Northeast	
American National Bankshares Inc.	Atlantic Union Bankshares Corporation	July 25, 2023	\$448	186%	Southeast	
Summit Financial Group, Inc.	Burke & Herbert Financial Services Corp.	August 24, 2023	\$372	115%	Southeast	
CapStar Financial Holdings, Inc.	Old National Bancorp	October 26, 2023	\$344	115%	Southeast	

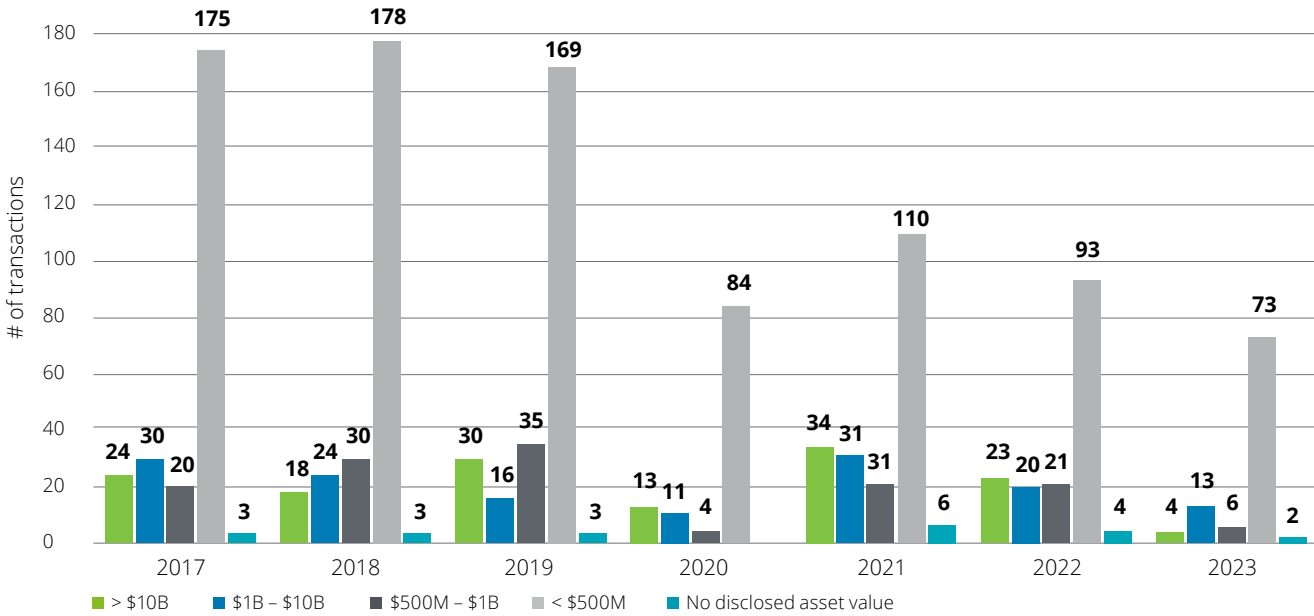
Note: Average deal size is based on disclosed deal values. Among reported deals, 33%, 36%, 42%, 53%, 47%, 59%, and 69% did not disclose deal values for FY17, FY18, FY19, FY20, FY21, FY22, and FY23, respectively.

Sources: SNL Financial and S&P Global Market Intelligence as of December 31, 2023; accessed January 4, 2024.

Transactions for the largest and smallest banks were also the lowest in our seven-year tracking period. Transactions for banks of other sizes hovered near seven-year lows (figure 2).

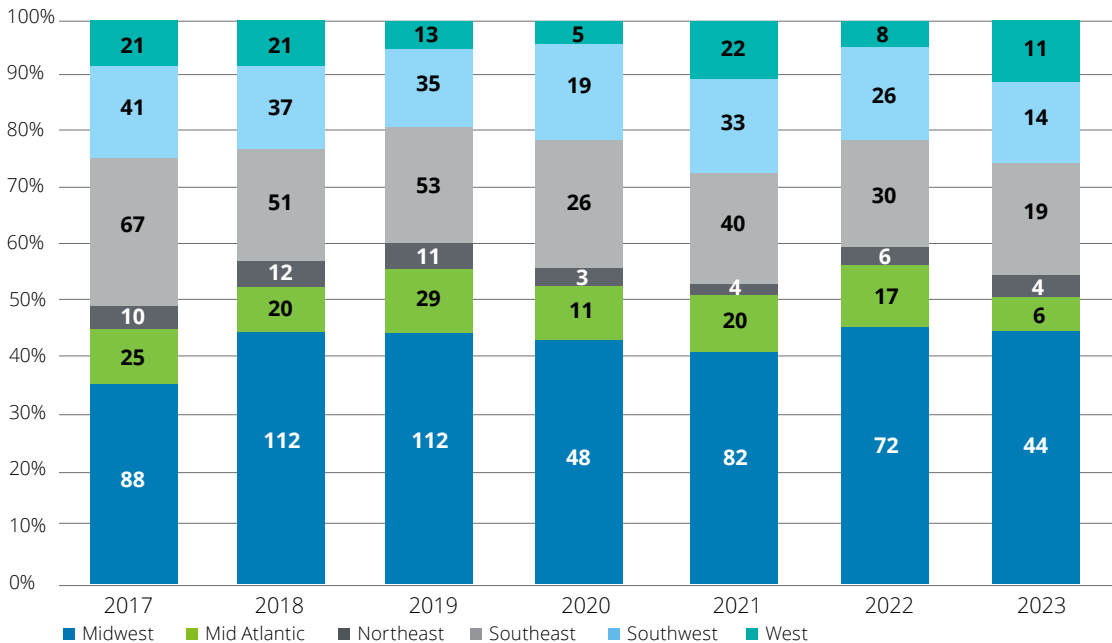
Although the regional distribution of targets was fairly consistent with prior years, targets in every region except the Northeast and West saw the fewest deals in the seven-year period (figure 3).

Figure 2. Bank transactions by asset size



Sources: SNL Financial and S&P Global Market Intelligence as of December 31, 2023; accessed January 4, 2024.

Figure 3. Banking M&A by target region

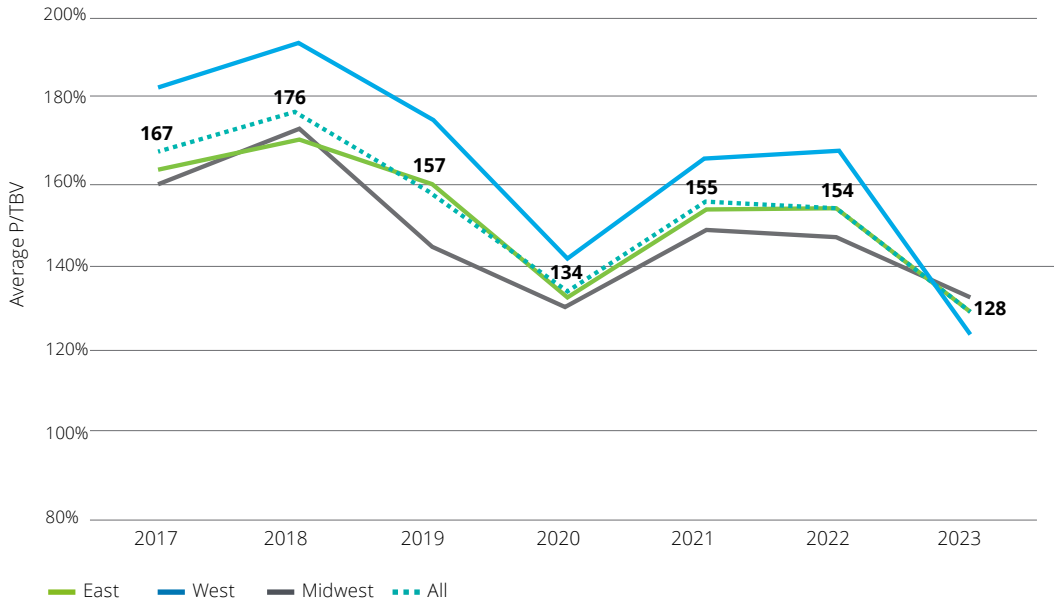


Sources: SNL Financial and S&P Global Market Intelligence as of December 31, 2023; accessed January 4, 2024.

Likewise, the average price to tangible book value (P/TBV) ratio was the lowest of the seven-year tracking period (figure 4). Meanwhile, banks with more than \$1 billion in assets continued their longer-

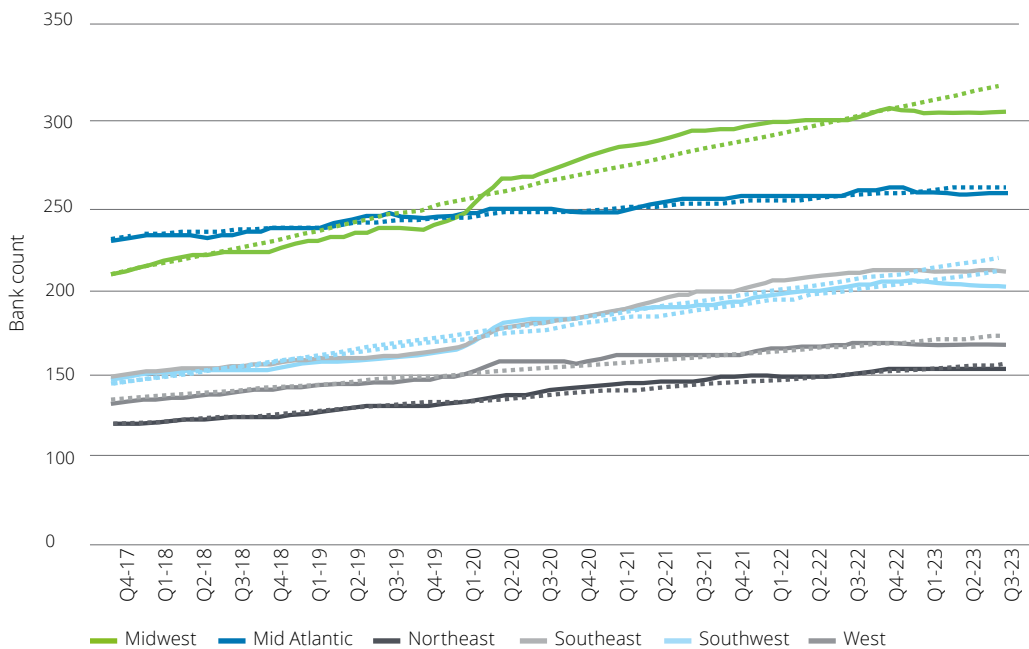
term growth trend, although growth leveled off in 2022 and 2023 (figure 5). That bodes well for a healthy M&A market as these banks develop more scale and thus become more attractive targets.

Figure 4. Banking deal P/TBV by region



Note: Average deal size is based on disclosed deal values. Among reported deals, 33%, 36%, 42%, 53%, 47%, 59%, and 69% did not disclose deal values for FY17, FY18, FY19, FY20, FY21, FY22, and FY23, respectively.
Sources: SNL Financial and S&P Global Market Intelligence as of December 31, 2023; accessed January 4, 2024.

Figure 5. Banks with more than \$1 billion in assets, by region



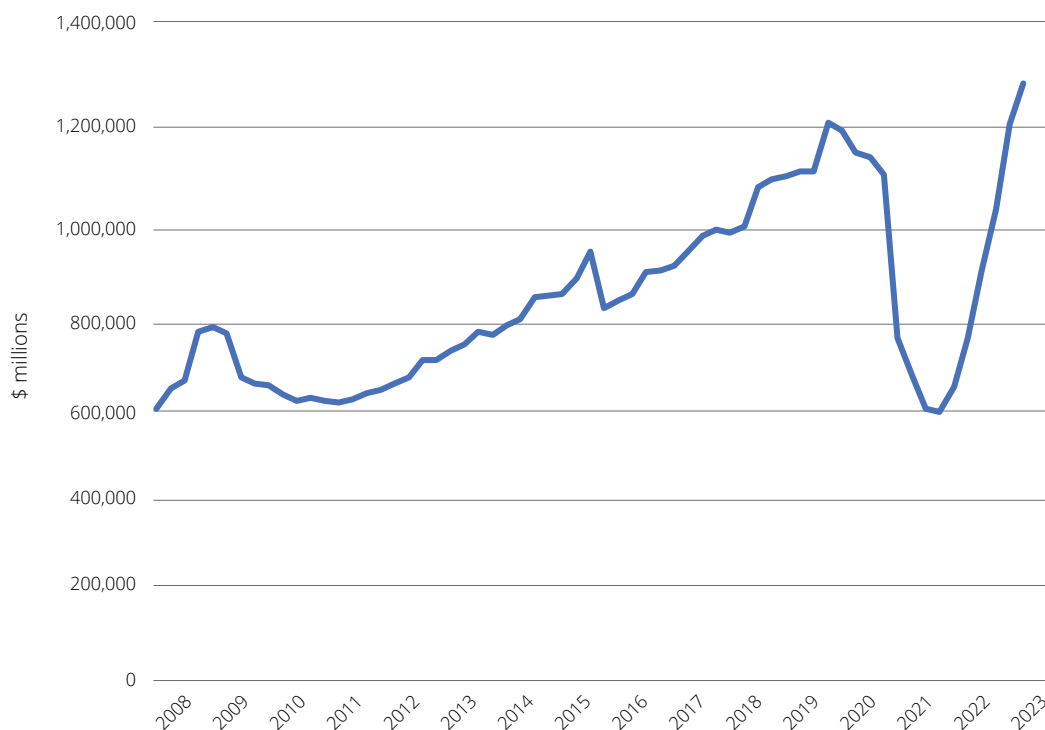
Sources: SNL Financial and S&P Global Market Intelligence as of September 30, 2023; accessed January 4, 2024.

Expectations for 2024

Mixed economic factors influencing M&A outlook. Following the 2023 banking turmoil, banks are increasingly turning to higher-cost funding sources to protect against deposit outflows (figure 6). This is leading to compressed margins and increased market

volatility as banks try to stabilize their liabilities and propel asset growth in an environment of weakening demand. Look for these conditions to increase the appetite for M&A among banks struggling to secure deposits, meet regulatory requirements, and stabilize their balance sheets.

Figure 6. Brokered deposits at all Federal Deposit Insurance Corporation (FDIC) insured institutions



Source: FRED Economic Data, [Balance Sheet: Total Liabilities and Capital: Deposits: Domestic Office Deposits: Brokered Deposits, Economic Research](#), December 5, 2023.

At the same time, however, deal activities face several notable headwinds. These include lower bank equity valuations and losses sustained by financial institutions due to higher interest rates.

In spite of this, a potential catalyst for bank M&A may be private equity funds, which are sitting atop more than \$2 trillion in dry powder with increasing pressure to deploy their uncommitted capital.³ While individually these firms rarely take control stakes, they're often a source of liquidity for banks via minority stakes that either provide dry powder for acquisitions or increased operational liquidity and capital buffer. Either way, private equity firms play a significant role in bank acquisitions, accounting for about 25% of failed bank asset acquisitions and 11% of bank M&A transactions, and may help buoy market interest in bank M&A in 2024.⁴

Consumer credit distress. If credit card and auto loan balances remain high into 2024, banks may see more consumer credit distress paired with higher delinquency and loss rates. These factors may have an impact on profitability, reserve rates, and perhaps available capital and appetite for buyers, especially in specialty credit subsectors. The trends also could cause a reevaluation of specific business segments, the potential for divestiture of noncore asset portfolios, and the valuation of those portfolios.

Basel III Endgame. On July 27, 2023, banking regulators released proposed rules for the finalization of US Basel III reforms.⁵ The proposal sets out the most consequential changes to the capital rules since the original Basel III reforms were implemented in the United States in 2013. As a result, capital requirements are expected to significantly increase, with federal banking agencies estimating an aggregate increase in capital and risk-weighted assets of 16% and 20%, respectively.⁶

Midsized banks (those above \$100 billion in assets) will be particularly impacted as the proposal would impose similar regulatory requirements on those smaller institutions as currently apply to the largest, most systemically important banks. The proposed changes may, therefore, spur further consolidation as banks look for M&A opportunities to leapfrog—rather than organically grow beyond—the \$100 billion threshold. That may, in turn, give banks the necessary scale to effectively compete within an environment of increased compliance and regulatory costs.

Regulatory focus areas. The failure of three large regional banks in spring 2023 prompted banking regulators to conduct a series of postmortem reviews and analyses that have set the tone for future regulatory focus areas. Common themes among the agency reports include risks of concentrated business models, inadequate governance and risk management practices, overreliance on uninsured deposits, and engagement with novel activities and market segments (table 1). These are areas that will likely come up in review of M&A proposals.

In January 2024, Acting Comptroller of the Currency Michael Hsu said that his agency is taking steps to make the approval process for bank mergers more transparent. This includes scrapping rules that allow

mergers to go through because the Office of the Comptroller of the Currency (OCC) hasn't acted on the application, as well as putting out a policy statement laying out what types of pending deals will likely receive approval.⁷

Over the past decade, 10% of bank M&A proposals, on average, were withdrawn each year—often due to agency feedback that staff are unable to make an approval recommendation based on financial, managerial, or compliance-related considerations.⁸ Since regulators are likely to focus on these drivers in the future, potential acquirers should do the same as part of their due diligence.

Table 1: Select themes from regulators' bank failure postmortem analyses and material loss reviews⁹

Theme	Agencies								
	FRB	FRB IG	FDIC	FDIC IG	GAO	NYDFS	CA DFPI	BIS	
Bank's concentrated business model left it vulnerable to risks	✓		✓	✓	✓		✓	✓	
Bank failed to prevent asset liability mismatch			✓	✓					
Board and management exhibited weaknesses in corporate governance and risk management	✓		✓	✓	✓	✓	✓	✓	
Board and management prioritized short-term profits	✓							✓	
Board and management failed to prevent significant deposit outflows		✓	✓	✓				✓	
Bank management prioritized aggressive growth over implementation of adequate risk management practices				✓	✓	✓	✓	✓	
Bank's management failed to sufficiently mitigate interest rate risk	✓	✓	✓	✓	✓			✓	
Bank failed to understand the risk of its association with and reliance on crypto industry deposits or its vulnerability to contagion			✓					✓	
Insufficient liquidity and contingency funding mechanisms impeded the bank's ability to withstand a run on deposits	✓		✓	✓	✓	✓		✓	

Legend	
BIS - Bank for International Settlements	✓ Regulators identified root-cause issue in report
CA DFPI - California Department of Financial Protection and Innovation	■ Federal
FDIC - Federal Deposit Insurance Corporation	■ State
FDIC IG - FDIC Inspector General	■ International
FRB - Federal Reserve Board of Governors	
FRB IG - FRB Inspector General	
GAO - Government Accountability Office	
NYDFS - New York State Department of Financial Services	

Be aware that regulator-driven takeovers tend to have less (or, in some cases, no) pre-deal diligence and accelerated timelines to finalize a transaction as regulators move to shore up the failed or failing bank. There are also differences in how the acquirer pays. In the failed bank fact pattern, the FDIC usually will share the cost of acquiring troubled assets to help compensate for covering the

struggling bank's customers. Buyers in 2024 and beyond should take note of the 2023 activity to inform regulatory communications and help get approvals, but they should also maintain a level of perspective to differentiate commercially driven deals from their failed-bank scenario counterparts.

Increased merger scrutiny. On July 9, 2021, President Biden issued an executive order that encouraged the US Department of Justice (DOJ) and federal banking agencies—which have independent review authority—to update their oversight of bank mergers.¹⁰ Those guidelines, issued in 1995, are still being reviewed without a defined time frame for any update.¹¹

In the summer of 2023, the DOJ's assistant attorney general for antitrust delivered a speech providing insights into how the department is reviewing proposed bank mergers. The speech emphasized increased scrutiny of transactions using a broader set of harm theories and competition metrics.¹²

In December 2023, the DOJ and Federal Trade Commission (FTC) jointly released new merger guidelines,¹³ which replaced prior 2010 horizontal merger guidelines and 2020 vertical merger guidelines. The new guidelines (which aren't specific to financial services) significantly expand the number and types of transactions subject to antitrust challenges and set forth more aggressive regulatory scrutiny.

Taken together, these actions indicate that mergers will likely continue to face increased scrutiny. While the market waits for finalized, banking-specific merger guidance, potential acquirers will have to navigate a relatively uncertain and rigorous review process for any potential bank M&A.

Regulators try to reinforce regulatory frameworks

On August 29, 2023, US federal banking regulators—the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation—issued three proposals regarding minimum long-term debt for large banking organizations and resolution planning.¹⁴ The proposals, alongside Basel III and Community Reinvestment Act rulemaking, reflected an accelerated regulatory agenda with:

- Supervisory pressure coming from lessons learned from bank failures.
- Complexity and volume of proposed regulations across banking and securities agencies.
- Concern about the regulated perimeter and supervision of nonbanks.
- Cascading expectations of global systematically important banks on all regional banks.

These proposals have led to a focus on personal reputation risk among policymakers and supervision staff. Concerned about the strength of the bank business model, regulators may adopt a “zero trust, always verify” approach to bank boards and management.

Meanwhile, regulators will likely be challenged to keep up in formulating supervisory views on banking-as-a-service, artificial intelligence, further innovations in cloud and infrastructure technology, and payment utilities.

In short, it's a volatile time in which everything is taking longer. Before entering a deal, it's critical for organizations to understand what capital requirements apply, to whom they apply, and what the balance-sheet impact of an acquisition could be.

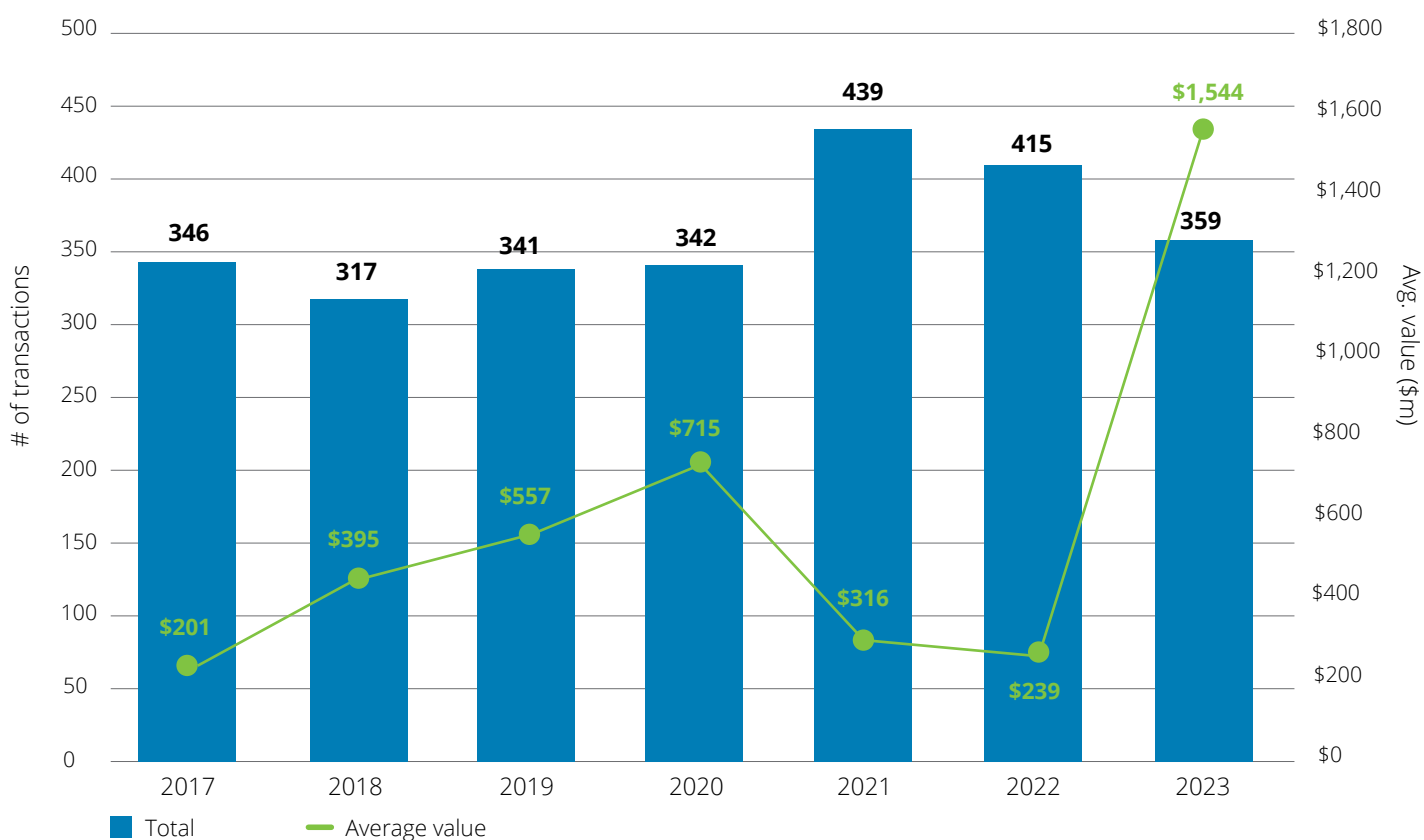
Investment management and wealth management

2023 in review

Growth in the investment and wealth management sector hit a speed bump last year. For the first time in nearly 50 years, broad market indices for both equities and bonds were down at the same time, creating revenue challenges for asset owners.¹⁵ As a result, many sector participants operated through 2023 with uncertainty and volatility in mind.

That uncertainty was reflected in the overall number of deals, which were the lowest since 2020, while average deal value shot up to the highest in the seven years we tracked (figure 7).

Figure 7: Investment management and securities M&A metrics



Top five investment management/securities deals						
Target	Buyer	Seller country	Target country	Announcement date	Value (\$m)	AUM
Focus Financial Partners Inc.	Investor Group	USA	USA	February 2, 2023	\$4,135	NA
Angelo, Gordon & Co., L.P.	TPG Inc.	USA	USA	May 15, 2023	\$3,098	NA
Putnam Investments, LLC	Franklin Resources, Inc.	Canada	USA	May 31, 2023	\$1,300	\$1,248
Avantax, Inc.	Cetera Financial Group, Inc.	USA	USA	September 11, 2023	\$1,025	NA
Energy Capital Partners, LLC	Bridgepoint Group Plc	USA	USA	September 6, 2023	\$1,023	NA

Note: Average deal size is based on disclosed deal values. Among reported deals, 82%, 80%, 81%, 82%, 85%, 90%, and 93% did not disclose deal values for FY17, FY18, FY19, FY20, FY21, FY22, and FY23, respectively.

Sources: SNL Financial and S&P Global Market Intelligence as of December 31, 2023; accessed January 4, 2024.

Deal volume for investment banks, brokers, and capital markets also fell to a seven-year low. On the other hand, while off their 2021 peak, the number of asset and wealth managers' transactions was the

third-highest in the seven-year tracking period (figure 8). Meanwhile, the number of deals with private equity involvement was at its lowest since 2017 (figure 9).

Figure 8: Investment management and securities M&A volume

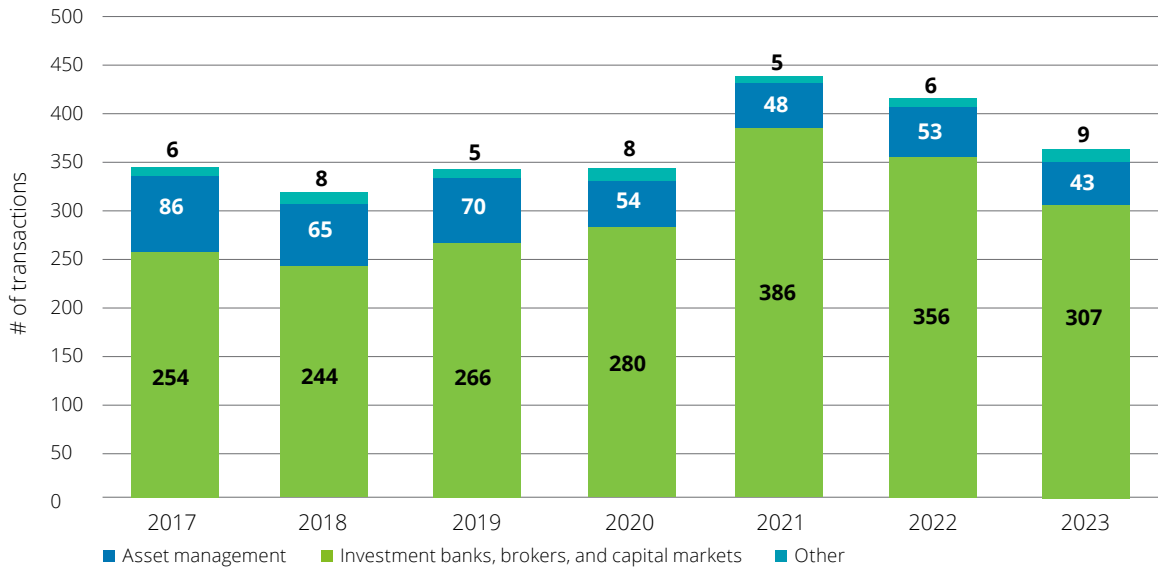
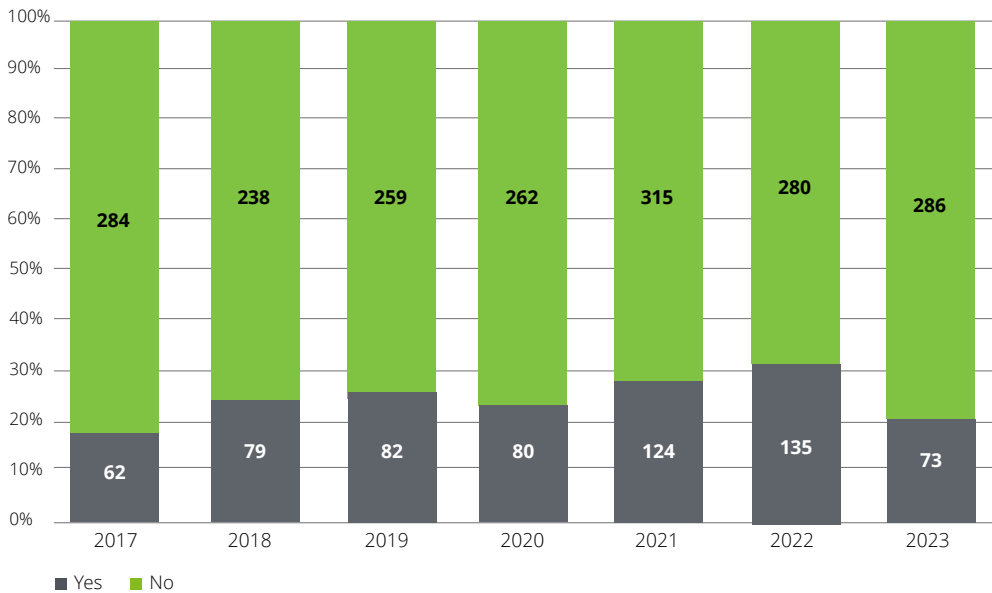


Figure 9: Investment management and securities deals with private equity investor involvement



Sources: SNL Financial and S&P Global Market Intelligence as of December 31, 2023; accessed January 4, 2024.

Expectations for 2024

Continued secular headwinds. Slower growth will likely create revenue challenges for asset managers. As a result, many managers will likely continue to offer fee discounts and position to be a strategic partner to large asset owners. Costs in the industry are expected to continue their rise, specifically as they relate to data, technology, and increased regulation.

Cross-border deals. As managers continue to seek growth pockets in the global industry, there could be an increased amount of cross-border deals to drive scale in specific asset classes or gain access to new investor types.

Focus on delivering a broader set of alternative capabilities. Investment management M&A is likely to increase in 2024 and beyond as organizations look to build scaled multi-alternative platforms with in-demand asset class capabilities like private credit, real estate, and infrastructure.

A slight slowdown in rollups. Independent broker-dealers and registered investment advisers will likely continue to centralize their portfolio and investment decision-making in order to lighten their compliance, regulatory, technology, and infrastructure burdens. Many also aim to limit legal risk and deliver more consistent client outcomes. So, although the number of targets is getting smaller, aggregators and private equity may still find adviser shops willing to sell.

Larger deals. The average size of deals may increase in 2024 as well, reflecting growth among wealth managers as well as more private equity-owned wealth managers looking to sell part of their ownership as they reach the latter stages of their hold period.

Evolving tax laws and regulations change the M&A equation

When it comes to tax policy and M&A, there are three key headlines going into 2024.

Inflation Reduction Act (IRA) credits and incentives. The IRA offers a host of clean-energy related incentives and tax credits that may offset some of the cost of doing an M&A restructuring.¹⁶ Watch for some dealmakers to bake the projected synergies and cost savings of these benefits into the overall cost of doing a transaction.

The corporate alternative minimum tax (CAMT). The IRA also imposes a 15% corporate minimum tax on companies with profits greater than \$1 billion.¹⁷ This tax has certain rules and features that could have an impact on M&A activity in several different ways, one of which is to make certain targets more attractive to certain acquirers depending on who has a CAMT liability.

Pillar Two global minimum tax rules. Pillar Two rules generally require multinational enterprises with €750 million or more in annual revenue to pay a global minimum tax of 15% on income received in each country where they operate.¹⁸ While US implementation of Pillar Two remains stalled, many US multinational companies are working through the impact Pillar Two has on worldwide effective tax rate planning, as well as the impact Pillar Two may have on potential transactions. Transactions going forward may impact these entities' Pillar Two position and potential Pillar Two (top-up tax) liabilities across those jurisdictions implementing these rules.

Tax modeling and due diligence are more complex, and more important than ever, for dealmakers in this evolving environment.

Fintech, payments, and exchanges

2023 in review

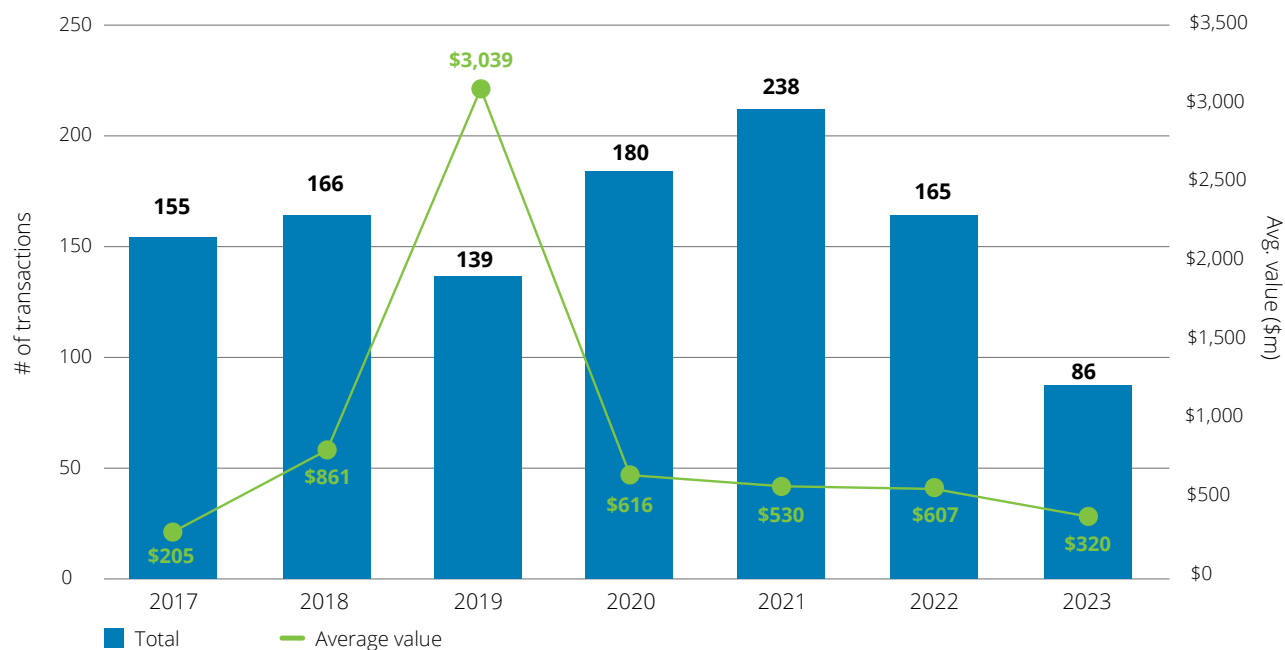
Last year was a tough one for fintech. Many companies struggled to raise the same amount of funding they raised in prior years. Most fintechs that are susceptible to consumer spend—think business-to-consumer (B2C) payments; buy now, pay later (BNPL) apps; and mobile wallets—took a dramatic hit in their valuations.

At the same time, buyers were keen to acquire companies that can show consistent revenue growth and a quick ramp to profitability. But for much of 2023, private equity buyers stayed relatively quiet compared with prior periods, presumably due in large part to higher interest rates and declining revenue projections for sellers.

With less competition from private equity buyers, strategic buyers had more opportunity to conduct comprehensive due diligence and decide where it would be better to buy a solution or build their own. A majority of 2023 deals were bolt-on acquisitions for strategic buyers in the hundreds of millions of dollars, in comparison to the billion-dollar-plus private equity deals we got used to seeing in the fintech space over the previous couple years¹⁹

Overall, the total number of fintech deals was the lowest (by a considerable margin) in the seven years we tracked. Average deal value was the lowest since 2017 (figure 10).

Figure 10: Fintech M&A metrics



Top five fintech deals

Target	Buyer	Seller country	Target country	Announcement date	Value (\$m)	General industry
Duck Creek Technologies, Inc.	Vista Equity Partners Management, LLC	NA	USA	January 9, 2023	\$2,369	Insurance Technology
NCR Atleos Corporation	NA - Spin-off	USA	USA	October 16, 2023	\$1,465	Payment Service Providers and Gateways
Paya Holdings Inc.	Nuvei Corporation	USA	USA	January 9, 2023	\$1,387	Payment Processors
ETF Flows LLC	TMX Group Limited	USA	USA	December 13, 2023	\$848	Financial Media and Data Solutions
The Burgiss Group, LLC	MSCI Inc.	USA	USA	August 14, 2023	\$697	Investment and Capital Markets Technology

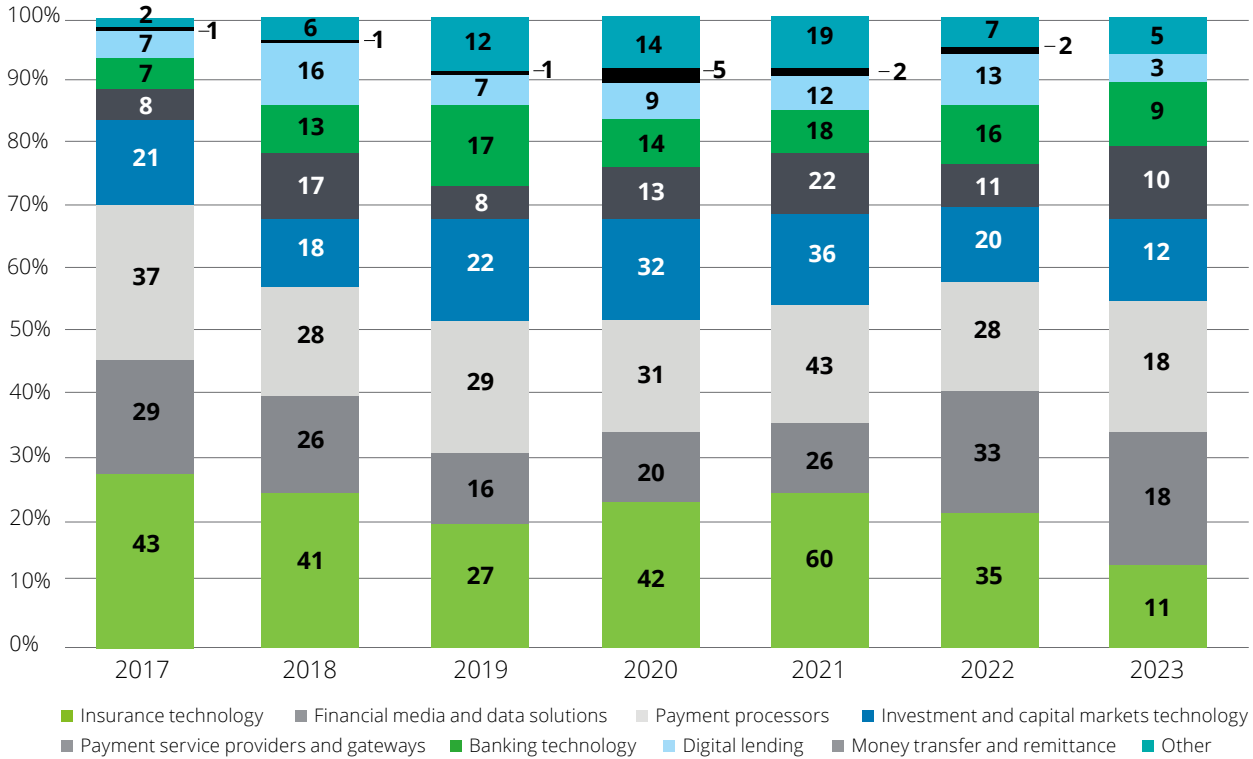
Note: Average deal size is based on disclosed deal values. Among reported deals, 63%, 63%, 67%, 66%, 68%, 70%, and 70% did not disclose deal values for FY17, FY18, FY19, FY20, FY21, FY22, and FY23, respectively.

Sources: SNL Financial and S&P Global Market Intelligence as of December 31, 2023; accessed January 4, 2024.

Deals were at or near seven-year lows in most subsectors, from digital lending to banking technology (figure 11). As with investment management and wealth management, private equity investors held

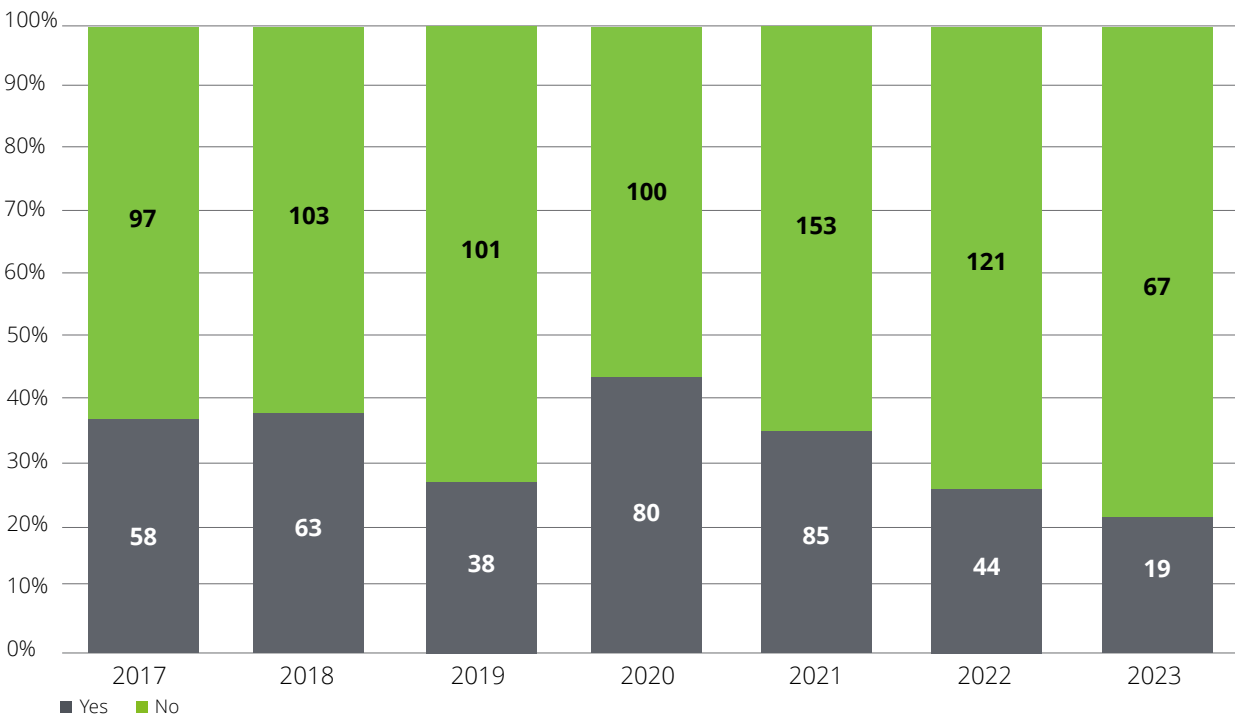
their fire in fintech M&A last year. They were involved in less than half of the number of deals as they were the year before and less than a quarter of the number in 2020 and 2021 (figure 12).

Figure 11: Fintech deals by subsector



Sources: SNL Financial and S&P Global Market Intelligence as of December 31, 2023; accessed January 4, 2024.

Figure 12: Fintech deals with private equity investor involvement



Sources: SNL Financial and S&P Global Market Intelligence as of December 31, 2023; accessed January 4, 2024.

Expectations for 2024

A target-rich environment for strategics. Cash burn is playing an integral role in who's selling and who's waiting out the storm. Given the decrease in private equity activity, this has been a strategic buyer's market so far. That may begin to change in 2024. In the meantime, strategic buyers are expected to continue their trend of smaller-dollar, bolt-on acquisitions to complement their existing portfolio of products and geographies. We also will likely continue to see venture arms of strategic buyers take minority stakes in fintechs as they try to determine potential winners in the sector and glean insight about cutting-edge trends.

Continued strength in business-to-business (B2B) payments.

While growth in B2B payments hasn't been as fast as business-to-consumer payments, its revenue streams tend to be more reliable. That means the strong M&A trend for B2B payments will likely extend into 2024, especially for platforms that offer:

- Easy integration with other applications.
- A variety of capabilities for collecting and disbursing payments (including expansion into new geographies and industries).
- Automation of the accounts receivable and accounts payable cycles.
- Software-as-a-service to supplement core payment processing capabilities like procure-to-pay and order-to-cash.

Ongoing consolidation in embedded finance. Look for large strategic players to continue acquisitions of fintechs in the embedded finance or banking-as-a-service space. A 2023 example is Visa's acquisition of Pismo, a Brazilian cloud-based solution that offers application programming interfaces to banks so they can provide digital services to their end customers. On the flip side, more nonfinancial services players may exit their internal client financing businesses and focus on core products and strategies this year.

A hot market for InsurTech. Legacy insurance carriers are expected to continue looking for ways to digitize, embed offerings to end customers, and otherwise achieve cost efficiencies in an industry that has generally lagged from a technology standpoint. This year may also see an increase in take-private deals (such as Vista Equity's 2023 acquisition of Duck Creek) in the wake of disappointing IPO performance in the InsurTech space.

Talent and compensation strategies shift toward cost reduction

Organizations face a changed talent landscape. The hot job market post-COVID-19 has cooled down. At many organizations, voluntary attrition numbers have plunged. The conversation has shifted from culture and retention to managing headcount cost commitments.

Even so, talent management and compensation strategies remain an afterthought in many M&A transactions. Besides the opportunity to rethink workforce alignment, there can be significant cost advantages to quickly integrating employees after a transaction. That means weighing the impact of pension liabilities, varying pay practices/total rewards, and other cost drivers up front.

Adapting to changing dynamics

By the end of 2023, recession fears had generally begun to recede. Inflation was improving, and the United States Federal Reserve indicated it could cut rates in 2024.²⁰

Corporate buyers may see silver linings in the current environment and pounce on openings created by industry disruptions. Sellers may reevaluate what their companies are really worth and come back to the table. Meanwhile, private equity appears poised to rejoin the M&A game despite the higher cost of capital. Look for an uptick in the number of private equity buyers leveraging private credit firms instead of traditional banks in order to get deals done.

That's the high-level view. When anticipating the future, though, it's all in the details. Banks must navigate mixed economic factors, increased merger scrutiny, and the potential for consumer credit distress. They also need to contend with the Basil III Endgame and other regulatory focus areas this year.

Investment and wealth managers face ongoing secular headwinds that may send them in different directions in the search for scale. Larger deals, cross-border deals, and expansion into multi-alternative platforms are all on the table. Rollups will likely continue as well.

As for fintech companies, strategic buyers will likely show continued interest in 2024, especially for embedded finance and InsurTech solutions, while B2B payments will likely continue their strong M&A trend.

Evolving tax laws, regulatory frameworks, and talent strategies could always change the calculus for M&A. For now, though, organizations can take advantage of the lull in M&A to lay the groundwork for future deals. Here are some considerations to take into account along the way:

- Be clear about your value proposition and how it would make you a better owner of a specific target or better off without a particular asset.
- Make sure you have a good story to tell customers, clients, and team members about the continuation or enhancement of your value proposition.
- Get your internal house in order (think data, technology, and enterprise functions) to clear the path for a future integration or divestiture.

Above all, keep your capital and playbooks ready because volatility can sometimes be a friend. Whatever space you operate in, if you can react with agility to an unexpected opportunity, the market may very well reward you for it.

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