



The sound of silence

**M&A trends in
financial services**

Q1'23

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Introduction

Very quiet

- Financial services (FS) mergers and acquisitions (M&A) activity fell dramatically from Q4'22 to Q1'23. Total deal value dropped 66 percent to \$28.8 billion from \$85.8 billion. Total volume fell 45 percent to 771 deals from 1,406.
- Most deal makers stayed on the sidelines as inflation and rising interest rates created economic uncertainty.
- The stress in the banking system in March sent shock waves through financial markets, which created fresh fears of a lending slowdown and tighter banking regulation.
- We expect activity to stay muted for at least the next two quarters, although distress sales may occur.



Jonathan Froelich

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Q1'23 highlights

771

Deals



45%

Decrease from Q4'22

\$28.8

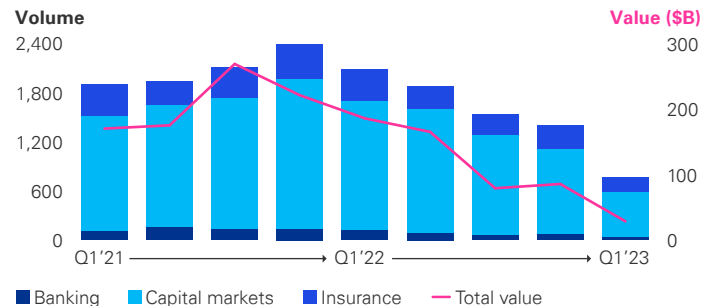
Billion deal value



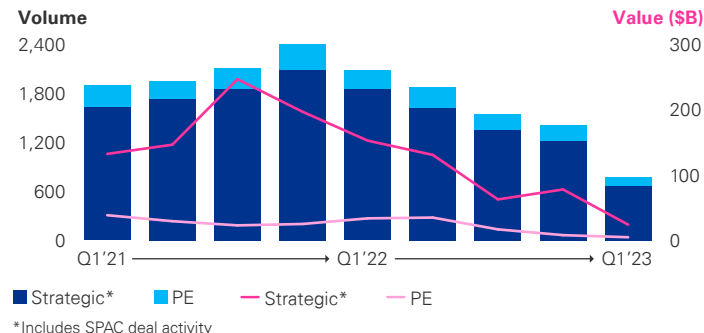
66%

Decrease from Q4'22

FS activity by sector



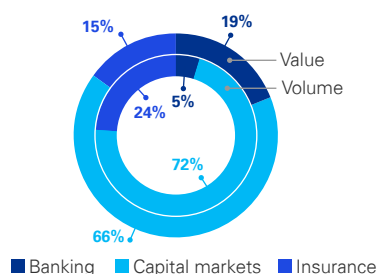
FS deal activity by type



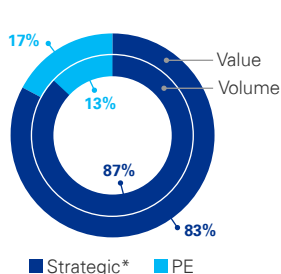
Q1'23 deal mix

Outer ring represents value. Inner ring represents volume

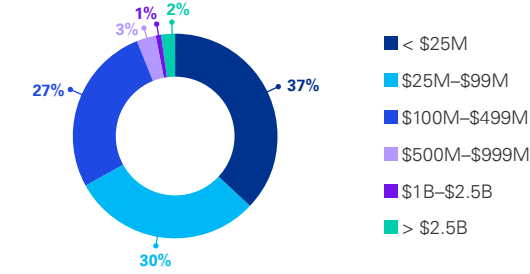
Sector mix



PE/Strategic mix



Value size mix



*Includes SPAC deal activity

Top strategic deals

Acquirer	Target	Value (billions)
First Citizens Bank	Silicon Valley Bank	\$5.0
EQT Active Core Infrastructure, PSP Investments	Radius Global Infrastructure	\$3.0
Realty Income Corporation	Convenience store assets (EG Group)	\$1.5
Prime Impact Acquisition I	Cheche Technology Inc.	\$0.8
Ready Capital Corporation	Broadmark Realty Capital	\$0.8

Top PE deals

Acquirer	Target	Value (billions)
Clayton, Dubilier & Rice, Stone Point Capital	Focus Financial Partners	\$7.0
Vista Equity Partners	Duck Creek Technologies	\$2.6
Centerbridge Partners, GIC Real Estate	INDUS Realty Trust	\$0.9
Credit Suisse Asset Management, Trinity Investments	The Diplomat Beach Resort (Brookfield)	\$0.8
J&J Ventures Gaming, Oaktree Capital Management	Golden Route Operations	\$0.4



At a glance



Capital markets

Active, but slow

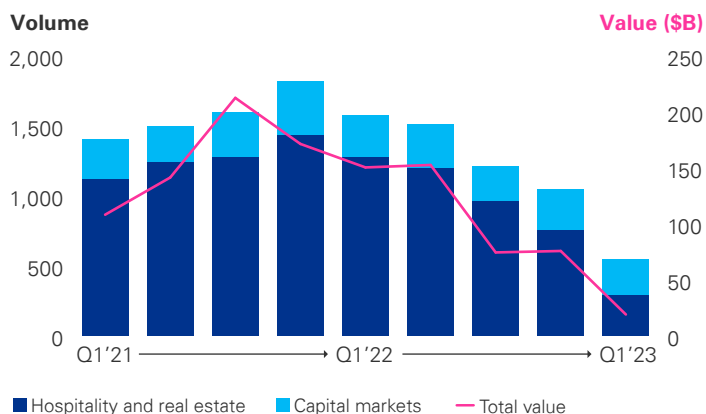
- Even in a difficult environment, capital markets accounted for eight of the quarter's 10 biggest FS transactions.
- We expect deal making to remain slow for much of 2023. Deal makers will continue to look for transactions to reduce organizational costs, increase revenues, acquire technology, and gain scale or new market share.
- We expect more smaller deals aimed at supplementing or enhancing existing capabilities or to provide entry into new markets. We are also seeing organizations acquire smaller, specialized businesses to gain technology, talent, or access to market share.

Q1'23 highlights

553 **▼47%**
Deals Decrease QoQ

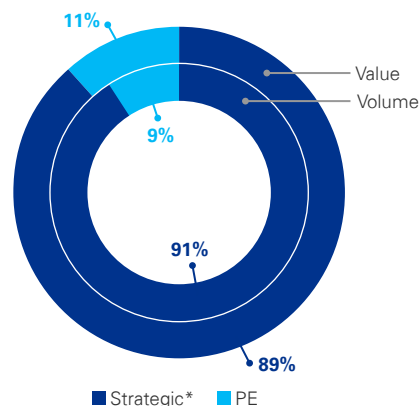
\$19.2 **▼75%**
Billion deal value Decrease QoQ

Capital markets deal activity by subsector



Capital markets PE/strategic mix

Outer ring represents value, inner ring represents volume



*Includes SPAC deal activity

Top capital markets deals

Acquirer	Target	Value (billions)
Clayton, Dubilier & Rice, Stone Point Capital	Focus Financial Partners	\$7.0
EQT Active Core Infrastructure, PSP Investments	Radius Global Infrastructure	\$3.0
Realty Income Corporation	Convenience store assets (EG Group)	\$1.5
Centerbridge Partners, GIC Real Estate	INDUS Realty Trust	\$0.9
Credit Suisse Asset Management, Trinity Investments	The Diplomat Beach Resort (Brookfield)	\$0.8

Data was sourced from Capital IQ, Refinitiv, Pitchbook, and KPMG analysis. The values and volumes data cited are for U.S. deals announced between 1/1/2023 and 3/10/2023. Deal values are only presented based on publicly available deal data and are not exhaustive. Previously published statistics may be restated to incorporate new data and/or changes in deal volumes.

At a glance



Banking

The environment gets tougher

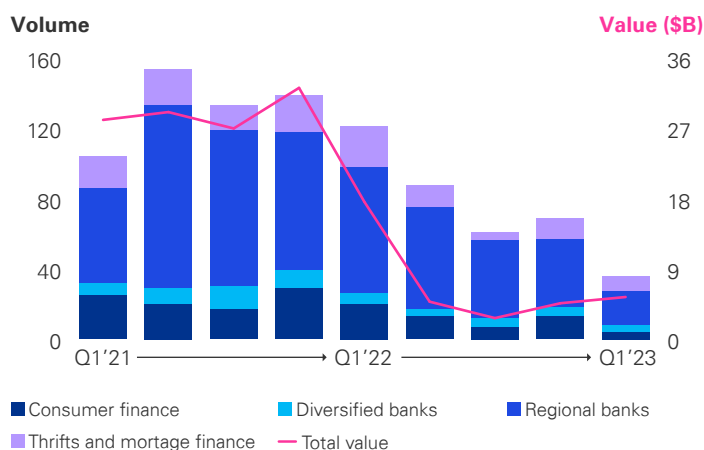
- Banking is the only FS subsector in which M&A value rose in Q1'23; deal volume fell by nearly half, but value increased by 17 percent.
- The stress in the banking subsector late in the quarter raised concerns about rising risks. These concerns sparked anticipation of stricter regulation and higher capital requirements.
- While we expect deal making to remain slow in the near term, we also believe that more sellers could emerge as banks ponder their future in a tougher environment.

Q1'23 highlights

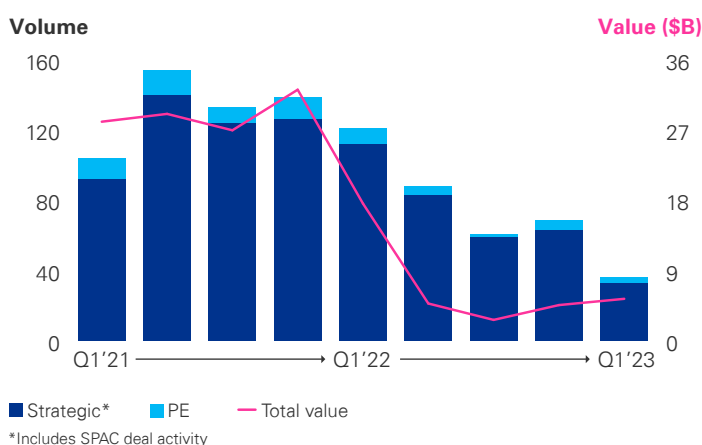
36 ▼ **48%**
Deals Decrease QoQ

\$5.4 ▲ **17%**
Billion deal value Increase QoQ

Banking deal activity by subsector



Banking deal activity by type



Top banking deals

Acquirer	Target	Value (billions)
First Citizens Bank	Silicon Valley Bank	\$5.0
LINKBANCORP	Partners Bancorp	\$0.2
United Community Banks	First Miami Bancorp	\$0.1
Wayne Savings Bancshares	Main Street Financial Services	\$0.1

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At a glance



Insurance

Staying on the sidelines

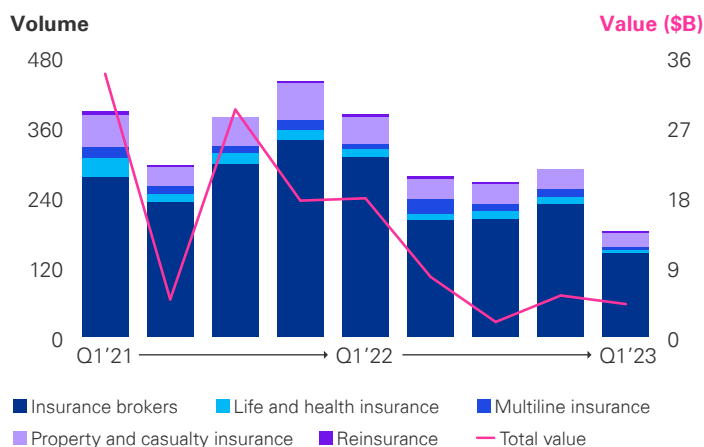
- Insurance M&A slowed significantly in the quarter; compared to Q4'22, deal value and volume fell 19 percent and 37 percent, respectively.
- Insurance carriers with strong capital positions are looking for acquisitions that are good strategic fits and potentially accretive to earnings. However, there appears to be a scarcity of such opportunities recently.
- We expect most carriers to stay on the sidelines until the economic environment improves.

Q1'23 highlights

182 Deals
37% Decrease QoQ

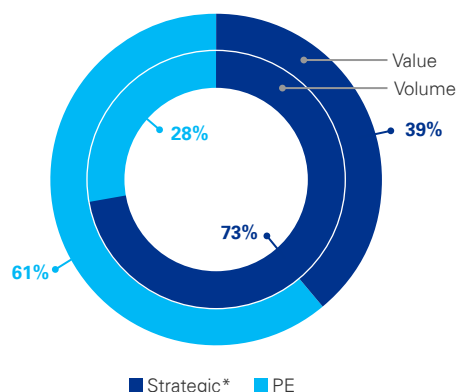
\$4.2 Billion deal value
19% Decrease QoQ

Insurance deal activity by subsector



Insurance PE/strategic mix

Outer ring represents value, inner ring represents volume



*Includes SPAC deal activity

Top insurance deals

Acquirer	Target	Value (billions)
Vista Equity Partners	Duck Creek Technologies	\$2.6
Prime Impact Acquisition I	Cheche Technology Inc.	\$0.8
Amynta Group	Ambridge Group	\$0.4
Capitalworks Emerging Markets Acquisition Corp.	Lexasure Financial Group	\$0.3
Essent Group	Agents National Title Holding Company, Boston National Holdings (Incenter)	\$0.1

Data was sourced from Capital IQ, Refinitiv, Pitchbook, and KPMG analysis. The values and volumes data cited are for U.S. deals announced between 1/1/2023 and 3/10/2023. Deal values are only presented based on publicly available deal data and are not exhaustive. Previously published statistics may be restated to incorporate new data and/or changes in deal volumes.



Greater urgency for bank divestitures

The environment for M&A in banking changed dramatically in March when two U.S. banks failed and others required cash infusions to stay afloat. Our view on banking M&A changed as well. While we always have advocated divestitures of individual units or entire lines of business as sound strategic moves, consideration of such divestitures has become more urgent as banks think harder about their prospects for survival.

Divestitures already were on the table prior to March due to challenging economic conditions. We now believe that banks will be even more open to selling all or parts of their operations in anticipation of increased capital requirements, stricter regulation, and reduced competitiveness and liquidity.

The strategic case. Banks can use divestitures as an opportunity to re-evaluate their strategic goals and refine their portfolios to support new strategic objectives. And although valuations have fallen sharply, banks could find that the losses they might incur by divesting today could drive significant gains—both strategic and financial—in the not-so-distant future.

Significant benefits. Given the benefits that smart divestitures can generate, it's surprising that banks haven't done them more often.¹ These are the primary benefits:

- Allow management to focus on core businesses.
- Improve overall return on equity or return on investment by eliminating underperforming businesses.
- Use proceeds to strengthen existing operations, fund acquisitions, pay down debt, or otherwise improve the balance sheet.
- Signal to investors that the bank is committed to its strategy.
- Raise the bank's equity valuation via all of the above.

There is strong evidence that divesting in an economic downturn can be highly beneficial. Our research reveals that during the teeth of the global financial crisis—December 2007 through June 2009—public companies that divested earned excess returns of 5.3 percent, compared to 3.5 percent for companies that didn't.

Excess returns during a downturn



Sources: KPMG Research; Prequin; Research by Emilie Feldman associate professor of management, The Wharton School, University of Pennsylvania, KPMG analysis CEO survey (n=50) conducted by KPMG, Factset database

Note(s): *Returns from 12/1/2007-6/30/2009; U.S. public companies, market capitalization > \$2 billion, excluding financial service companies

What to divest? The most likely candidates for divestiture are noncore units or LOBs that are unprofitable, insufficiently profitable, have limited growth prospects, or no longer make strategic sense. For instance, a bank may have acquired a promising fintech to build a new service, only to encounter integration issues and find that the fintech needed far more investment than expected. Or a regional bank might have bought another's branch network to gain entry into a new territory, but later concluded that it couldn't successfully compete in that territory.

Banks have been active sellers in the past year. Most recently, in February, Truist Financial Corp. announced the sale of a 20 percent stake in its insurance brokerage business to a private equity-led investment group. Notable examples in 2022 included HSBC's exit from its U.S. retail business, MUFG's sale of its West Coast consumer operations to U.S. Bank, and Citigroup's withdrawal from its retail businesses in Mexico and certain Asian markets.

Buyers are paying attention. At this point, potential sellers can reasonably expect to find buyers that are ready, willing, and able to make a deal, if the price and fit are right. Many banks of all sizes are well capitalized, highly profitable and open to opportunities, and many private equity firms not only are actively aggregating financial businesses, but also are flush with investor cash that they are obligated to spend.



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¹ "Divesting for growth in banking," KPMG LLP

Outlook

Rates remain the key

We continue to believe that macroeconomic conditions will dampen FS M&A in 2023. Many deal makers likely will take a wait-and-see posture; some may look to strengthen their current businesses via acquisitions.

Interest rates should remain the key to deal sentiment and activity. While the pace of inflation has been declining, it's still far above the Federal Reserve's 2 percent target. The Fed responded in the first quarter by raising its benchmark federal funds rate twice—by quarter-point increments—to a range of 4.75 to 5.00 percent. The Fed is both committed to fighting inflation (which points to possibly another rate hike this year) and struggling to navigate a challenging macroeconomic landscape and a likely credit crunch that essentially substitutes for additional rate increases.

We expect this uncertainty to moderate both the level and pace of deal making in the FS sector for at least the next two quarters.

Optimism for opportunists. There are several factors that support a modestly optimistic view for M&A. At the top of the list is valuations. They're compellingly low and unlikely to rise much for now, which creates opportunities for buyers and sellers alike. Potential acquirers with healthy finances and strong prospects could seize the moment to add attractive strategic targets at bargain prices. The number of sellers could rise as smaller companies conclude that their chances of survival are highest with new ownership while larger ones opt for divestitures as they refocus their businesses for the future.

In addition, we note that several long-term trends that have powered M&A across financial subsectors remain firmly in place. These include consolidation, cost reduction, disruptive technological advances, competition for top talent, and the need for operational scale and efficiencies.

Capital markets. We expect a slow deal-making environment with the market focused on smaller transactions involving technology, passive investment products, alternative asset managers, and fixed income. Companies will try to position themselves for public exits and leverage alternatives to seek liquidity and additional funding for growth. We anticipate an increase in divestitures as organizations refocus their operations.

Banking. The banking stress experienced in March—exacerbated by the forced sale of Credit Suisse—has made the M&A landscape even more difficult than it already was. As banks of all sizes reassess their exposure to various risks, we believe more will conclude that selling could be in their best interest.

Insurance. While large insurance carriers—in general—have a moderate-to-high appetite for deals and capital to deploy, most are taking a more measured stance given the macroeconomic environment. The marketplace could continue to be more active in the insurance brokerage sector, where the consolidation trend remains unchanged.

Key considerations as we look ahead

FS dealmakers should think about the following as they consider pursuing M&A in the current environment:

1 Add by subtracting

In a period of so much uncertainty, companies should consider divesting noncore units. This is the time to focus on your core and strengthen the business lines with greatest potential.

2 Expect regulatory delays

Banking deals already were facing greater regulatory attention before the recent closures. Expect further delays if you're thinking about buying or selling now.

3 Do your diligence

Deal makers must more closely scrutinize their due diligence processes, integration approach, and the financial performance of their transactions.



How we can help you

KPMG helps its clients overcome deal obstacles by taking a truly integrated approach to delivering value, leveraging its depth in the FS industry, providing data-supported and tools-led insights, and delivering full M&A capabilities across the deal lifecycle.

With an FS specialization, our teams bring both transactional and operational experience, delivering rapid results and value creation.

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