



# Shaking up the competitive landscape

M&A trends in financial services

Q1'24

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# Declining activity amidst disruption

The mergers and acquisitions (M&A) trend among financial services (FS) companies remained downward Q1'24. Total deal volume fell 18.2 percent (to 987) versus Q4'23—most quarter-over-quarter (QoQ) comparisons were negative for each of the main subsectors of banking, capital markets, and insurance.

The good news appeared to be that deal value soared a whopping 1,503 percent (to \$95.6 billion) from the fourth quarter. But the gain was a mirage, as nearly all of it was attributable to a single banking deal: Capital One's proposed \$35.5 billion acquisition of Discover. Without this transaction, total value would have dropped 26.2 percent to \$60.1 billion.

**Stuck on rates and inflation.** Dealmakers were singularly focused on the direction of U.S. interest rates and inflation, as they've been for an extended period. The Federal Reserve (Fed) left its benchmark fed funds rate unchanged at 5.25 percent–5.50 percent during the first quarter. Annualized headline inflation rose somewhat in February and March; although much lower than its mid-2022 peak of 9.1 percent, it remained higher than the Fed's target rate of 2.0 percent.

While the Fed has announced its intention to cut rates this year, the persistence of above-target inflation has kept it from making the all-important first cut. This means that the costs of deal financing and debt still are too high for most dealmakers to pull the trigger.

**Politics in the mix.** Politics—both domestic and international—continued to hurt M&A sentiment in the quarter, as well. A number of factors weighed on participants' minds: the Biden administration's tough stance on antitrust enforcement, gridlock in Congress, geopolitical concerns, and the build-up to the presidential election in November.

**One deal, multiple implications.** The proposed deal between Capital One and Discover holds significance that goes beyond just the transaction. It would merge two highly complementary credit card businesses to create a globally competitive payments network and scale up a "digital first"

national bank with increased resources and the critical mass to compete over the long term.

We believe the deal's implications are broader. First, it shows that large transactions between major players are possible despite the challenging interest-rate and antitrust environments. Second, it shakes up the competitive landscape in banking and financial services more generally. Finally, it turns up the heat on smaller players to re-evaluate their strategic plans and decide whether to buy or sell accordingly.

**Little visibility ahead.** It's unrealistic to be especially positive or negative about the prospects for FS M&A at the moment, in our view. On one hand, we're heartened both that interest rates are likely to decline this year and there is pent-up demand for deals. But on the other, deal-related costs remain discouragingly high, and many players may choose to wait until the outcome of the election to see whether the government's antitrust posture could change.



**Jonathan Froelich**

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## Q1'24 highlights

**987**

deals

**18%**

decrease  
QoQ

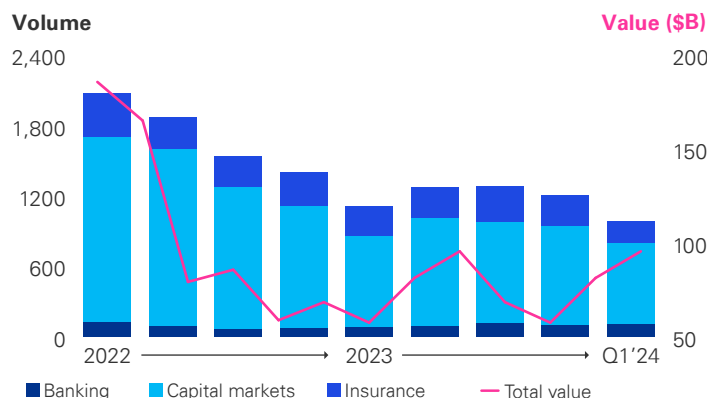
**\$95.6**

billion  
deal value

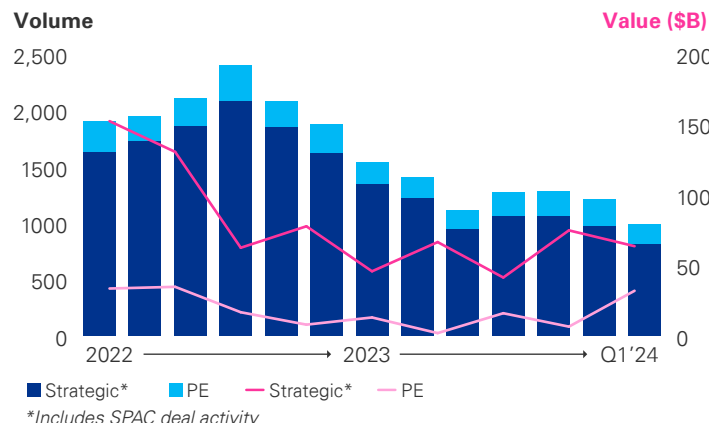
**17%**

increase  
QoQ

## Financial services deal activity by sector



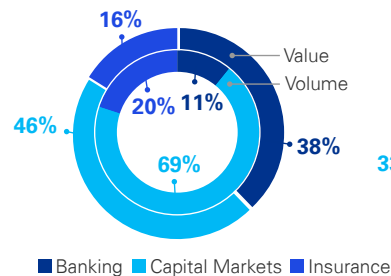
## Financial services deal activity by type



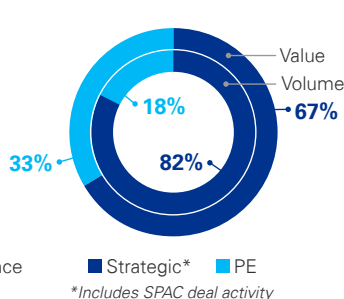
## Q1'24 deal mix

Outer ring represents value. Inner ring represents volume.

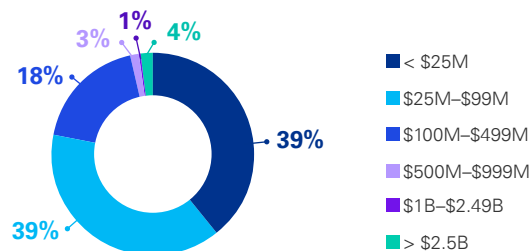
### Sector mix



### PE/Strategic mix



### Value size mix



## Top strategic deals

Acquirer	Target	Value (billions)
Capital One Financial Corporation	Discover Financial Services	\$35.3
Everi Holdings Inc.	Global Gaming and PlayDigital Businesses of International Game Technology PLC	\$6.2
Global Growth, LLC	Quadro Acquisition One Corp.	\$3.0
Berkshire Hathaway Inc.	Pilot Travel Centers LLC	\$2.6
CBRE Group, Inc.	J&J Maintenance, Inc.	\$1.1

## Top PE deals

Acquirer	Target	Value (billions)
Clayton, Dubilier & Rice (David Winokur), Mubadala Investment Company, Stone Point Capital (Charles Davis)	Truist Insurance Holdings	\$15.5
BlackRock	Global Infrastructure Partners	\$12.5
Blackstone Real Estate Advisors L.P.	Tricon Residential Inc.	\$3.5
Lone Star Funds	Hammerson's Union Square Shopping Mall	\$0.1

Deal data has been sourced from Capital IQ, Pitchbook, and KPMG analysis and majorly excludes asset purchases/minority purchases. The values and volumes data cited are for US deals announced between January 1 and March 31, 2024. Deal values are based on publicly available deal data and are not exhaustive. Previously published statistics may be restated to incorporate new data and/or any changes.



Banking

# Activity should be muted in 2024

There were 110 banking M&A deals during the first quarter, up 8.9 percent from 101 in Q4'23. Deal value skyrocketed 1,503.8 percent to \$36.4 billion on the back of Capital One's \$35.5 billion acquisition of Discover.

All of the quarter's other top banking transactions involved consolidation among smaller regional players. They included Southern California Bancorp's purchase of California BanCorp for \$233.6 million, the \$231.2 million acquisition of First Financial Northwest Bank by Global Federal Credit Union, and FirstSun Capital Bancorp's \$175 million purchase of HomeStreet, Inc.

Banks face significant headwinds that start with the higher-interest-rate environment. They're also contending with the uncertainty surrounding both the finalization of the Basel III

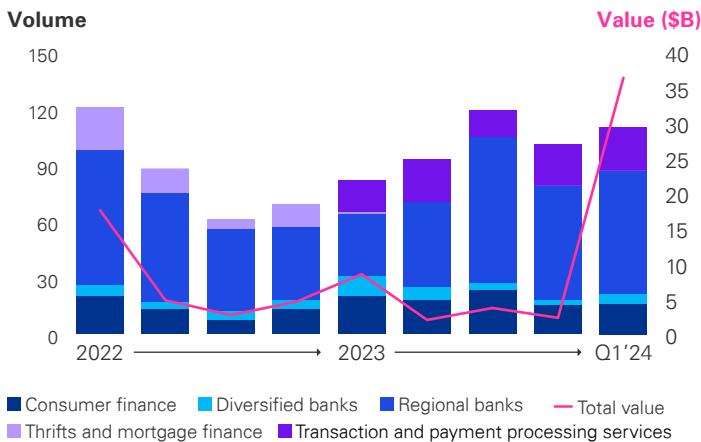
Endgame rules (see p.8 for our deep dive on the topic) and the outcome of the US presidential election, which likely will affect the government's stance on antitrust enforcement.

We expect muted activity in the rest of 2024, with regional consolidation driving most deals.

## Q1'24 highlights – Banking

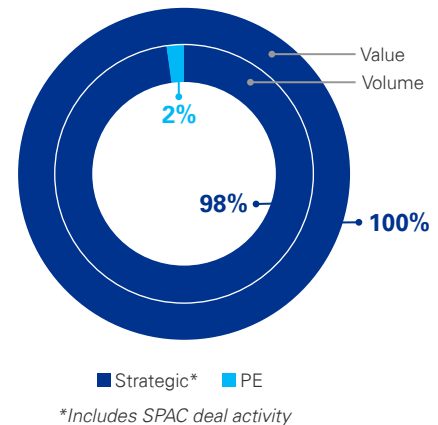


## Banking deal activity by subsector



## Q1'24 banking PE/strategic mix

Outer ring represents value, inner ring represents volume.



## Top banking deals

Acquirer	Target	Rationale	Value (billions)
Capital One Financial Corporation	Discover Financial Services	Aims to enhance Capital One's payment network, to combine complementary businesses and to scale digital-first national bank	\$35.3
Southern California Bancorp	California BanCorp	To establish a franchise that has a presence in California	\$0.2
Global Federal Credit Union	First Financial Northwest Bank	To expand its business and commercial financial product and service offerings, and enhance its branch presence in Western Washington	\$0.2
FirstSun Capital Bancorp	HomeStreet, Inc.	To form a leading midcap bank, focusing on C&I growth in top markets, using HomeStreet's robust customer base	\$0.2

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# Capital markets Not much going on

Capital markets M&A slowed in the first quarter as measured by both the number and value of deals. Compared to Q4'23, total deal volume and value dropped 19.1 percent (to 684) and 24.0 percent (to \$43.5 billion), respectively.

Higher interest rates continued to dissuade companies from buying or selling. Private equity (PE) firms were particularly stymied, as market conditions weren't conducive to traditional exit strategies such as divestitures or initial public offerings. The sluggish pace of activity in nonfinancial sectors additionally hurt capital markets businesses, which generate significant revenues and profits when overall M&A is strong.

Capital markets accounted for seven of the quarter's top 10 financial services deals. The biggest, by far, was BlackRock's

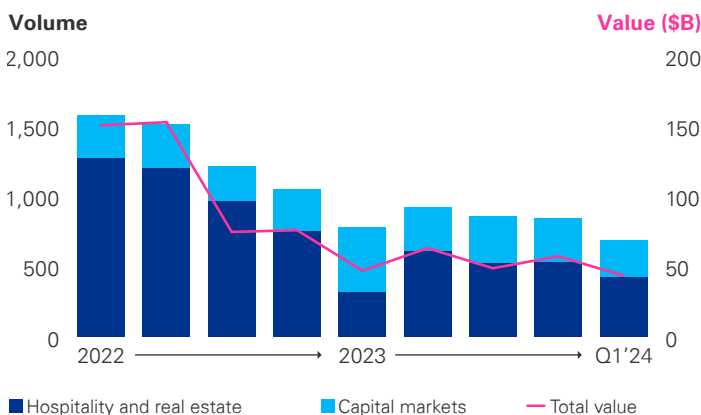
strategic acquisition of Global Infrastructure Partners for \$12.5 billion.

Looking ahead, we're cautiously optimistic that activity will improve as 2024 progresses. We expect consolidation among asset managers to continue, while the difficult environment for real estate likely will persist.

## Q1'24 highlights – Capital markets

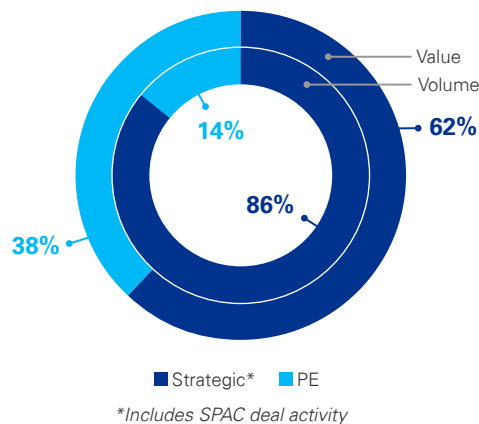


## Capital markets deal activity by subsector



## Q1'24 capital markets PE/strategic mix

Outer ring represents value, inner ring represents volume.



## Top capital markets deals

Acquirer	Target	Rationale	Value (billions)
BlackRock	Global Infrastructure Partners	To invest in alternative assets, expand its portfolio, compete with peers, prepare for leadership succession, and continue its financial growth	\$12.5
Everi Holdings Inc.	Global Gaming and PlayDigital Businesses of International Game Technology PLC	To diversify its global gaming and fintech operations, foster potential growth, and propel long term value for shareholders	\$6.2
Blackstone Real Estate Advisors L.P.	Tricon Residential Inc.	To help Tricon complete its ongoing development projects for new single-family homes in US and new apartments in Canada	\$3.5
Global Growth, LLC	Quadro Acquisition One Corp.	To go public via SPAC deal	\$3.0

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Insurance

# Weakness now, strength later

Dealmaking in the insurance business declined in the first quarter versus Q4'23. There were 193 deals, down 26.1 percent, and total deal value fell 28.6 percent to \$15.7 billion.

The Q4'23 numbers—the point of comparison for the first quarter—should be taken with some perspective. Not only was the fourth quarter's \$21.9 billion deal value the highest such number, by far, since Q3'21, but a single transaction accounted for 61.2 percent of the total (i.e., Aon's \$13.4 billion acquisition of NFP Corp.). Excluding this one deal, the first quarter's deal value would've been the first to reach double digits in two years.

The biggest insurance deal in the first quarter was the second-largest in any of the main financial services subsectors. This was the purchase of 80 percent of Truist Insurance Holdings by

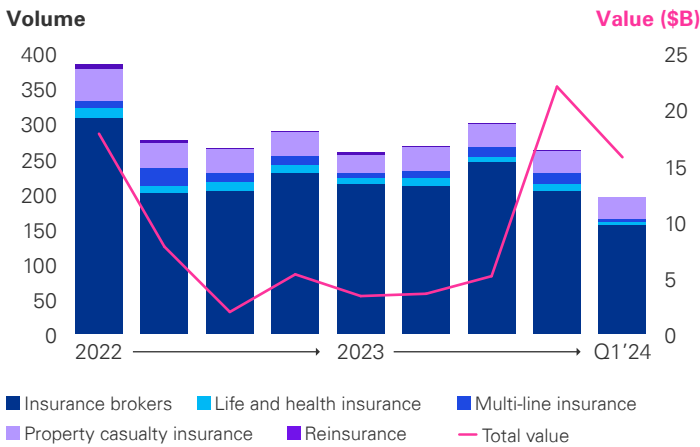
a consortium of PE investors at a whole-company valuation of \$15.5 billion. The consortium had already owned a 20 percent stake in the business.

We're optimistic about insurance M&A in 2024. The industry's ongoing consolidation and strategic focus trends remain strong, and buyers and sellers alike should continue to emphasize deals that improve their growth prospects.

## Q1'24 highlights – Insurance

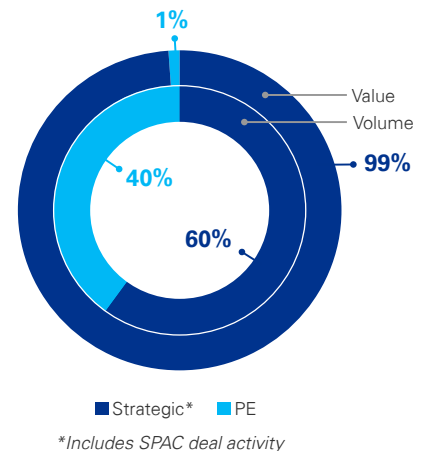


## Insurance deal activity by subsector



## Q1'24 insurance PE/strategic mix

Outer ring represents value, inner ring represents volume.



## Top insurance deals

Acquirer	Target	Rationale	Value (billions)
Clayton, Dubilier & Rice (David Winokur), Mubadala Investment Company, Stone Point Capital (Charles Davis)	Truist Insurance Holdings	To strengthen Truist's balance sheet, expand its position in insurance market and invest in emerging technology and services	\$15.5
AmWINS Group, Inc.	Connected Risk Solutions, LLC	To enhance Amwins' E&S brokerage capabilities, particularly in healthcare and cyber insurance, while enabling BRP Group to streamline its operations	\$0.1

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PE M&A trends

# A mixed picture

M&A activity involving PE firms was mixed in the first quarter. Compared to Q4'23, total deal volume fell 26.4 percent to 173, yet deal value soared 384.4 percent to \$32.0 billion. While the number of deals was the lowest such count in at least three years, deal value was the highest since mid-2022.

Much of the surge in value came from one large acquisition, in which a group of PE investors bought the 80 percent of Truist Insurance Holdings that they didn't already own. The all-cash transaction valued the target at a total of \$15.5 billion. The seller was the regional banking giant Truist Financial, which used the deal both to focus on its core banking business and strengthen its balance sheet.

Our 2024 outlook for PE-related M&A is balanced. The optimistic case rests on pent-up demand, a huge stash of dry powder, and the likelihood that the Fed will start to cut rates this year. The picture becomes less favorable, though, given ongoing hesitation among dealmakers and the fact that the economy hasn't yet fully absorbed the impact of higher interest rates.

## Q1'24 highlights – PE

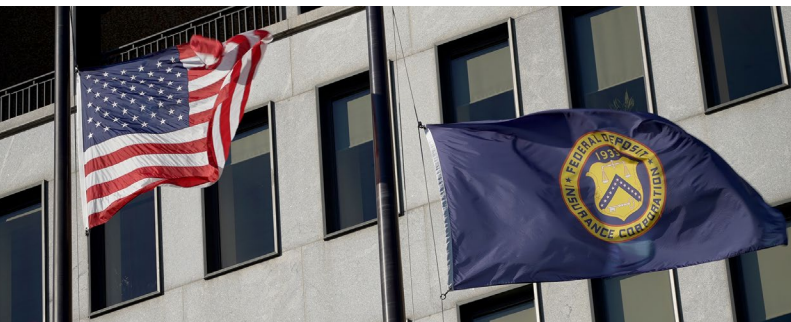


# New regs could trigger banking M&A wave

A proposed regulatory regime that aims to raise banks' capital requirements in order to reduce risks to the overall banking system for US banks—known as “Basel III Endgame” (B3E)—could be finalized as soon as the middle of this year.

We believe that B3E will have major implications for banks both individually and collectively. It's already compelling banks to reassess their competitive positioning—which should set off a fresh wave of M&A in which banks will have to choose whether to be buyers or sellers. Banks that choose neither role set themselves up for potential irrelevance.

**What is B3E?** B3E is a highly complex update to existing US banking regulations and has been in the works since 2009. Its sponsors are the top three federal banking regulators: the Federal Deposit Insurance Corporation (FDIC), Fed, and Office of the Comptroller of the Currency.



As proposed, B3E would increase banks' risk-weighted assets by approximately 20 percent in the aggregate, or nearly \$3 billion, and require banks to raise their Tier 1 equity capital by 20 percent, as well. (The average percentage of banks' risk-weighted assets varies from bank to bank due to differences in their exposure to credit, market, and operational risks, the application of internal risk measurement approaches, counterparty credit risk and credit valuation adjustments, alongside the impact of regulatory requirements such as leverage ratios, liquidity coverage, net stable funding ratios, and the output floor, which limits the extent to which banks can reduce their RWAs through the use of internal models). B3E also broadens its reach by reducing the minimum threshold for compliance from the current standard of banks with at least \$700 billion in assets to those with assets of at least \$100 billion.

The proposal's comment period ended in mid-January, suggesting issuance of final rules in the Q3–Q4 time frame. There likely will be a phase-in of compliance that should take 2–3 years. Given how long banks have had to think about it and plan

for its implementation, many are well on their way to living in a B3E world.

**Self-evaluation.** B3E will force affected banks to become more capital efficient. Achievement of a critical mass of scale will be vital to their future viability. Accordingly, they should conduct several in-depth analyses, if they haven't already done so. These notably include examinations of their business models, earnings growth and profitability, competitive strategy, product and business portfolio mixes, and attractiveness to potential acquirers.

The results of these analyses will help banks determine how they go forward. They could choose to grow via expansion, make selective acquisitions and/or divestments to optimize their existing business model, or exit by selling themselves.

**Other relevant regulations.** In addition to B3E, banks must be particularly aware of two other regulatory factors. The first is the liquidity coverage ratio (i.e., a bank's liquid net assets as a percentage of its projected net cash outflow), which applies to banks with at least \$250 billion or more in total assets and has been in force since 2014.

The second factor is a proposal by the FDIC and the Fed that banks with at least \$100 billion in assets maintain a minimum amount of long-term debt. Doing so, the thinking goes, would enable banks to better absorb losses and give them more options in the event of failure. As with B3E, the comment period for this proposal ended in mid-January and finalization is expected later this year.

**M&A is inevitable.** Regardless of whether banks choose to be full or partial buyers or sellers, in our view, the bottom line is that B3E will compel them to make deals. We're especially positive about those with assets between \$100 billion and \$700 billion, which typically are regional and have been in a consolidation trend for years. B3E will only exacerbate the competitive pressures they face about costs and scale.

Our best advice to banks: Consider a self-evaluation as noted above, and chart a course that aligns with B3E. There is much to consider, and the sooner you do so, the better.



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# Stuck in the middle

“To be bullish or bearish, that is the question.” If we asked Shakespeare to characterize our outlook for financial services M&A, then that’s probably how he’d put it. We’re not comfortable with either side at the moment.

**The bullish case.** The likelihood that US interest rates will fall is at the heart of any pro-M&A view—or any positive view about the economy or financial markets as a whole, for that matter. KPMG Economics forecasts that the Fed will cut rates two or three times in 2024.

Another big plus is that the economy is thriving regardless of where rates are. Annualized unemployment is at its lowest level since the late 1960s. Job creation is booming. Consumers are consuming at a healthy clip. GDP grew at a brisk 3.4 percent annualized rate in the fourth quarter, revised upward from an initial estimate of 3.2 percent.

As if all of that isn’t enough, there is plenty of pent-up demand for deals following the drought years of 2022 and 2023. And private investors are sitting on \$3.9 trillion in dry powder.

**The bearish case.** Ironically, the economy’s strength could be seen to support the argument against more M&A. A buoyant economy reduces the need for interest-rate cuts and raises the odds that inflation won’t come down as much as the marketplace would like. Translation: debt and other deal costs could stay too expensive for many buyers to commit to large investments.

**The bottom line.** It’s fair to say that our overall outlook is cautious and includes different expectations for the key FS subsectors. In banking, we see subdued activity as the industry awaits the finalization of the B3E rules and the outcome of the presidential election. Consolidation among smaller players should continue.

Near-term prospects for capital markets are less sanguine. A potential bright spot is the possibility of more M&A by non-financial companies, which would drive higher revenues and profits for capital markets firms. We’re most optimistic about insurance, where the need for consolidation and growth remains high.

## Key considerations as we look ahead

FS dealmakers thinking about M&A in the current environment may consider the following:

### 1 Divest strategically

In such a challenging period, companies should contemplate divesting non-core units. This is the time to focus on the core and strengthen business lines with greatest potential.

### 2 Prepare for departure

To maximize their chances for a successful exit, private equity portfolio companies must concentrate on improving performance rather than pursuing growth at any cost.

### 3 Do your diligence

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



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# How we can help you

KPMG helps its clients overcome deal obstacles by taking a truly integrated approach to delivering value. We leverage our depth in the FS industry, data-supported and tools-led insights and full M&A capabilities across the deal lifecycle. Our specialized FS teams bring both transactional and operational experience, delivering rapid results and value creation.

We are passionate about leveraging generative AI as a tool used across the M&A deal decision-making process, and believe that our expertise in this domain can help you unlock the full potential of generative AI for your organization. With over 650 successful use cases across various organizational functions and roles, we can assess generative AI's potential impact on target companies. Our capabilities can add value to your operations, both by helping you determine a target's valuation and by identifying opportunities for cost synergies.

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