



Riding out the downtrend

**M&A trends in
financial services**

Q2'24

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A mixed quarter

The trend in mergers and acquisitions (M&A) activity among financial services (FS) companies was mixed in Q2'24. Compared to Q1, total deal volume rose 2.1 percent to 1,146, while total deal value sank 32 percent to \$67.2 billion. Year-to-date (YTD) results versus the first half of 2023 went in the opposite directions: Volume dropped 5.3 percent to 2,268 deals and value surged 30 percent to \$165.5 billion.

Activity within the main subsectors of banking, capital markets, and insurance was mixed, as well. Quarter-over-quarter (QoQ) deal volume fell 11.0 percent in banking, yet rose 13.7 and 0.6 percent in insurance and capital markets, respectively. Value dropped significantly QoQ in all subsectors, while results for the YTD period were inconsistent.

Of the quarter's 10 highest-value transactions, seven were strategic and six involved private equity (PE) buyers. All featured prices above \$1 billion. The two biggest deals were in capital markets and banking. These were Blackstone Real Estate Advisors's \$10 billion purchase of Apartment Income REIT Corp., and the \$6.3 billion take-private acquisition of payments tech company Nuvei by PE firm Advent International and a group of smaller investors.

Rates and inflation still top of mind. Investor perceptions regarding U.S. inflation and interest rates remained the primary drivers of activity during the quarter. While the annualized Consumer Price Index fell during April and May, it didn't fall far and fast enough to convince the Federal Reserve to start cutting rates.

The Fed announced in June that it expected to make its first cut near the end of the year. Deal makers considered this good news, yet it also meant that the costs of deal financing and corporate capital would stay at elevated levels for the time being. Many players—notably PE firms—stayed away from large deals accordingly.

Geopolitics adds to caution. The political scene both in the US and internationally gave M&A players further incentive to stay on the sidelines. At home, partisanship continued to divide congressional Democrats and Republicans, meaning that little legislation was passed. Financial markets' attention

to the national elections in November rose a bit, adding to the sense of uncertainty about future economic and regulatory policies—and whether it was prudent to do deals.

Elsewhere, the wars in Ukraine and Gaza raged on, and tensions about them remained high in many countries. The leaders of the UK and France called for snap national elections, reinforcing existing nervousness about their respective governments and economies.

Light at the end of the tunnel? We're still cautious about the prospects for financial services M&A in the near term, chiefly because deal makers increasingly are focusing on the outcome of the November elections. Companies likely will be in wait-and-see mode until they know the identity of the next president and the composition of both houses of Congress.

That said, a flurry of economic data released in July has prompted widespread optimism (including by KPMG Economics) that the Fed will cut interest rates sooner than previously expected. In addition, the longer-term forces that are positive for M&A in financial services—consolidation, the quest for growth, strategic focus on core businesses—are very much intact.

We see clear indications that companies are thinking ahead and preparing to buy or sell when the time is right. This is particularly true among our clients in banking and insurance.



Jonathan Froelich

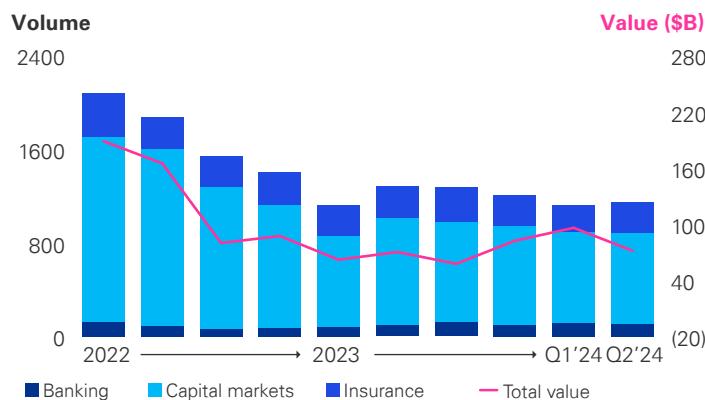
Partner
Deal Advisory & Strategy
FS Leader

Q2'24 highlights

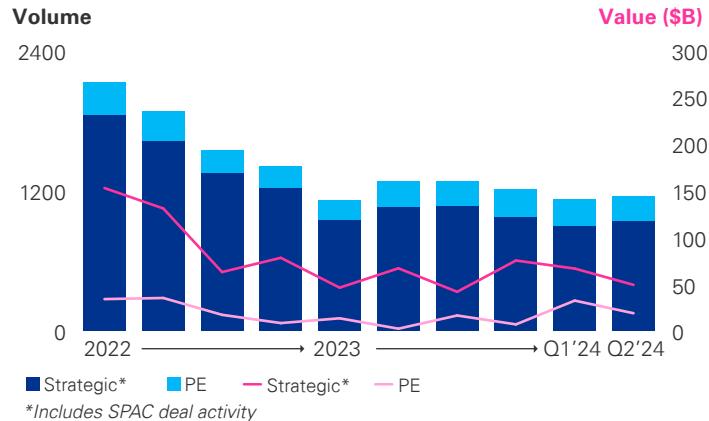
1,146 **2%**
deals

\$67.2 **32%**
billion deal value

FS deal activity by sector



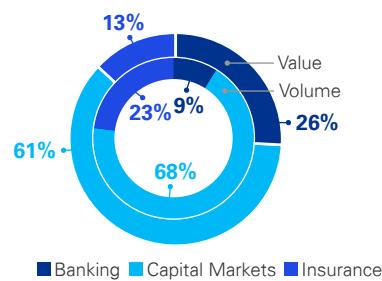
FS deal activity by type



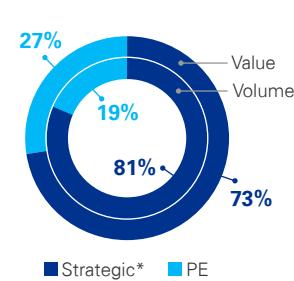
Q2'24 deal mix

Outer ring represents value. Inner ring represents volume.

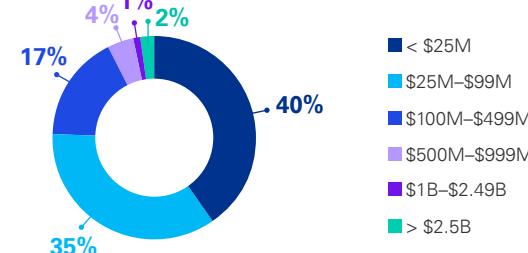
Sector mix



PE/Strategic mix



Value size mix



Top strategic deals

Acquirer	Target	Value (billions)
Blackstone Real Estate Advisors L.P.	Apartment Income REIT Corp.	\$10.0
Nippon Life Insurance Company	Corebridge Financial, Inc.	\$3.8
Bank of America, National Association	Portfolio of approximately 2000 commercial multi-family real estate loans of Washington Federal Bank	\$2.8
Blackstone Real Estate Income Trust, Inc., MRP Group (in affiliation with CIBanco, S. A., Institución de Banca Múltiple)	FIBRA Terrafina	\$2.6
SouthState Corporation	Independent Bank Group, Inc.	\$2.0

Top PE deals

Acquirer	Target	Value (billions)
Advent International alongside Philip Fayer, CDPQ and Novacap	Nuvei	\$6.3
Abu Dhabi Investment Authority, Advent International	Fisher Investments (Asset Management)	\$2.8
GTCR	AssetMark	\$2.7
Temasek Holdings, Warburg Pincus	Specialist Risk Group	Unconfirmed
Blue Owl Capital	Kuware Insurance Services LP	\$0.8

Deal data has been sourced from Capital IQ, Pitchbook, and KPMG analysis. The values and volumes data are for U.S. deals announced between April 1, 2024 to June 10, 2024. Deal values are presented based on publicly available deal data and might not be exhaustive. Previously published statistics may be restated to incorporate new data and/or any changes.



Banking

Headwinds continue to blow

Banking M&A activity weakened in the second quarter after a solid first quarter. Deal volume fell 11.0 percent to 105, and value tumbled 51.5 percent to \$17.7 billion. Year-to-date results were far more positive, reflecting Capital One's proposed \$35.5 billion acquisition of Discover announced in Q1. Compared to the same period in 2023, YTD volume rose 27.4 percent and value soared 416.8 percent.

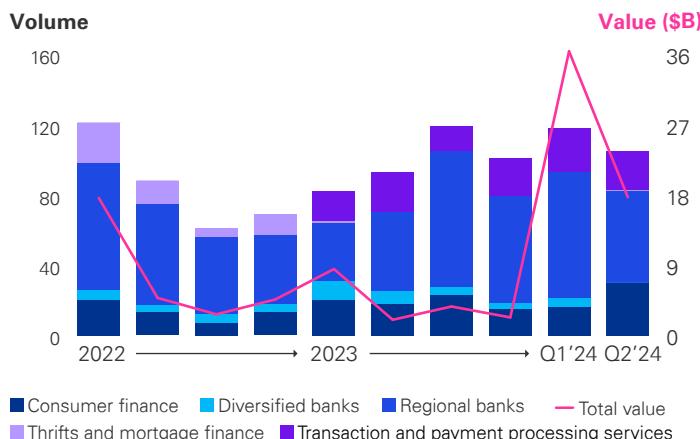
In the quarter's top banking transaction, an investor group led by private equity firm Advent International said that it would take payments tech company Nuvei private for \$6.3 billion. Other large deals included Bank of America's acquisition of a real estate loan portfolio from Washington Federal Bank for \$2.8 billion, and two \$2 billion consolidation moves involving regional banks.

Our near-term view is that banks—like most potential deal makers at present—will refrain from much buying or selling until the outcome of the November elections is clear. And while the macroeconomic environment finally appears to be turning more favorable, banks continue to face the strong headwinds of federal regulators' tough antitrust stance, rising arrearages in unsecured loans and credit cards, and ongoing uncertainty about the Basel III Endgame capital rules.

Q2'24 highlights

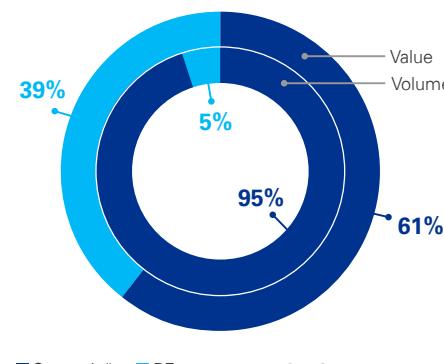
105	▼	11%	▼	\$17.7	▼	51%
deals		decrease		billion		decrease
	QoQ		QoQ	deal value		QoQ

Banking deal activity by subsector



Q2'24 Banking PE/strategic mix

Outer ring represents value. Inner ring represents volume.



Top banking deals

Acquirer	Target	Rationale	Value (billions)
Advent International alongside Philip Fayer, CDPQ and Novacap	Nuvei	Strengthen Nuvei's presence in payments industry by leveraging Advent's fintech expertise and resources.	\$6.3
Bank of America, National Association	Portfolio of approximately 2,000 commercial multi-family real estate loans of Washington Federal Bank	Scale down Washington Federal Bank's exposure to the commercial real estate sector.	\$2.8
SouthState Corporation	Independent Bank Group, Inc.	Strengthen and expand SouthState's presence in growing markets.	\$2.0
UMB Financial Corporation	Heartland Financial USA, Inc.	Expand UMB's footprint into new markets, and strengthen presence in existing markets.	\$2.0
Corpay, Inc.	GPS Capital Markets, LLC	Scale corporate payments business.	\$0.7

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Capital markets

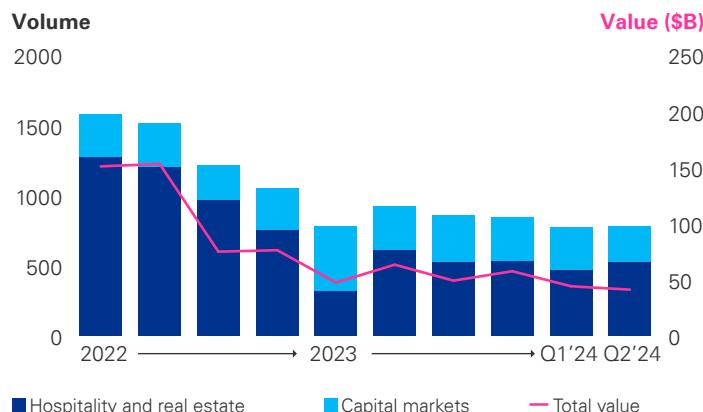
All quiet for now

Whether measured by QoQ or YTD results, 2024 hasn't been a good year for M&A in capital markets so far. There were 775 deals in the second quarter, up just 0.6 percent from Q1, while value fell 11.1 percent to \$40.8 billion. In the YTD period, volume and value fell 8.9 percent (to 1,545) and 21.3 percent (to \$86.6 billion), respectively, from their levels in 2023.

Deal makers remained disinclined to buy or sell, as interest rates—i.e., the cost of deal financing—stayed high. This reluctance was especially pronounced among PE firm, whose M&A activity helps to fuel revenues and profits for capital markets businesses.

Capital markets accounted for half of the quarter's 10 highest-value financial services transactions. The largest was the \$10 billion acquisition of Apartment Income REIT by Blackstone Real Estate Advisors.

Capital markets deal activity by subsector



The strong stock market has provided one of 2024's few bright spots: a resurgence of initial public offerings. According to Bloomberg, IPOs raised more than \$20 billion YTD through Q2, the fastest such pace since 2021.¹ Investment banks and trading firms have benefited accordingly.

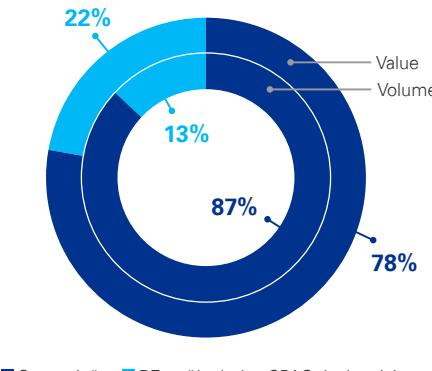
As with banking, we don't expect a material uptick in capital markets M&A through the rest of the year. Elections-related hesitation should be enough to keep activity fairly muted until 2025.

Q2'24 highlights

775	▲ 0.6%	\$40.8	▼ 11%
deals	increase QoQ	billion deal value	decrease QoQ

Q2'24 Capital markets PE/strategic mix

Outer ring represents value. Inner ring represents volume.



Top capital markets deals

Acquirer	Target	Rationale	Value (billions)
Blackstone Real Estate Advisors L.P.	Apartment Income REIT Corp.	Capitalize on strong multifamily market fundamentals and provide superior resident experiences.	\$10.0
Abu Dhabi Investment Authority, Advent International	Fisher Investments (Asset Management)	Provide long-term investment	\$2.8
GTCR	AssetMark	Promote growth and expand AssetMark offerings.	\$2.7
Blackstone Real Estate Income Trust, Inc., MRP Group (with CIBanco, S.A., Institución de Banca Múltiple)	FIBRA Terrafina	Provide immediate value for Terrafina's shareholders while avoiding negative tax consequences.	\$2.6
CoStar Group, Inc.	Matterport, Inc.	Promote the growth and utilization of advanced AI and digital twin technology in all of CoStar Group's product offerings.	\$1.6

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¹ Source: Ryan Gould, Amy Or, "US IPOs See Best Start Since '21 as Election Shortens Window," Bloomberg, June 27, 2024



Insurance

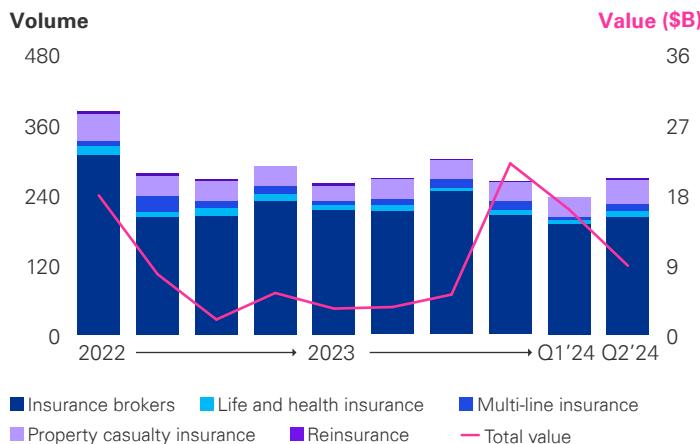
Almost time for an upturn

Insurance M&A activity in 2024 has followed a mixed directional pattern. Second-quarter deal volume rose 13.7 percent (to 266) versus the first quarter, while value dropped 45.1 percent (to \$8.8 billion). Compared to 2023, YTD volume was down 4.6 percent (to 500) and value rocketed upward 261.3 percent (to \$24.8 billion).

Brokerage (i.e., insurance distribution) has been the busiest subcategory through Q2'24 and has accounted for a dominant share of volume in every quarter going back to at least 2021. Insurance carriers, brokers, and PE firms continued to invest heavily in distribution, which is usually lucrative and resistant to economic volatility.

The quarter's top deals highlighted different subcategories. By far, the biggest was Nippon Life's purchase of a 20 percent stake in life and retirement provider Corebridge Financial from AIG for \$3.8 billion. Alternative asset manager Blue Owl Capital acquired

Insurance deal activity by subsector



insurance-focused investment manager Kuware Insurance Services for \$750 million, and the PE duo of Temasek Holdings and Warburg Pincus paid an unconfirmed sum for specialized insurance brokerage Specialist Risk Group.

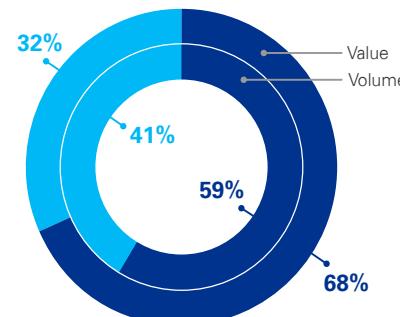
We expect a significant upturn in insurance M&A—but not until 2025. Despite there being many reasons for optimism (as we'll discuss in the outlook section), we believe that uncertainty about the November election's outcome will keep activity subdued until then.

Q2'24 highlights

266	▲ 14%	\$8.8	▼ 45%
deals	increase QoQ	billion deal value	decrease QoQ

Q2'24 Insurance PE/strategic mix

Outer ring represents value. Inner ring represents volume.



■ Strategic* ■ PE *Includes SPAC deal activity

Top Insurance deals

Acquirer	Target	Rationale	Value (billions)
Nippon Life Insurance Company	Corebridge Financial, Inc.	Diversify and expand Nippon into the growing US life insurance market.	\$3.8
Blue Owl Capital	Kuware Insurance Services LP	Expand Blue Owl's presence and capabilities in the investment-grade credit and real estate strategies.	\$0.8
Zurich Insurance Group	Global Personal Travel Insurance and Assistance Business of American International Group, Inc	Grow its footprint in the US, gain access to a new global retail customer base, and build its global reputation as a travel insurer.	\$0.6
Arch Insurance North America	MidCorp and Entertainment Insurance Businesses	To strengthen Arch Insurance's presence in the US middle market, foster distribution partnerships, and diversify their product offerings	\$0.5
Temasek Holdings, Warburg Pincus	Specialist Risk Group	Support SRG's international expansion further into Europe and Asia and to leverage its business model in new markets.	Unconfirmed

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Lenders have solid options for distressed CRE loans

Commercial real estate (CRE) is among the industries most adversely affected by today's elevated interest rates. Office lenders are especially exposed through borrowers' rising debt service costs and large tenants' willingness to move elsewhere in search of cheaper rents—moves that reduce the revenue borrowers need to service their debts.

Here are a couple of data points from Trepp Inc.'s mid-year 2024 report on the CRE market to help quantify the huge challenge that office lenders face:

- Of the \$5.5 trillion in total CRE loans outstanding, \$1.1 trillion (i.e., 19.5 percent) comes due in 2024 and 2025.
- \$135 billion of loans included in commercial mortgage-backed securities (CMBS) are scheduled to mature this year and next. Of this amount, \$75.7 billion—56.1 percent—will come due in 2025.

Given the volume of CRE loans coming due and volatile market conditions, it's reasonable to assume that a portion of these loans will reach monetary default or distressed status. Loan modification discussions can be productive and often yield a mutually satisfactory result.

But there are instances where negotiations break down without resolution. If this happens, what can lenders do when the borrower hands the keys back or foreclosure is inevitable? Taking title and possession of the property and then selling it usually results in writing down a loss. Fortunately, there are other options for value creation and loss mitigation.

Receivership. In the event of a loan default, the loan documents often stipulate the appointment of a receiver to preserve and protect the property. The receiver is an independent arm of the court and has the authority to manage the property during foreclosure before title is transferred.

Receivership is an advantageous path to take during the foreclosure process, as it brings in an independent party with expertise in CRE and experience with the nuances associated with CRE foreclosure. An effective receiver steps into the



landlord's shoes to manage the asset, maintain its physical condition, stabilize the rent roll, engage with brokers and property managers, and prepare a value creation plan. In some instances, the receiver may be able to run a disposition process.

Repositioning. Once title has transferred, lenders may choose to hire an asset manager to reposition or redevelop the asset and create long-term value. This strategy requires more time, effort, and capital, but ultimately can yield a greater gain upon disposition.

There are a number of steps asset managers take that, collectively, can add substantial value. For example, they work closely with local brokers to stabilize the rent roll, upgrade the property's operations and appearance to attract new tenants at higher rents, and engage with the local community to get its perspective and earn its support.

Patience is critical for lenders that opt for repositioning. They must appreciate from the get-go that the process takes considerable time—anywhere from months to several years—and additional capital. For those willing to persevere, the eventual payoff can be rewarding.

What to look for in an asset manager. When looking to reposition an asset, lenders should hire an asset manager that meets a strict set of criteria. Of critical importance is a long track record of working out not just a variety of distressed CRE properties, but also doing so through multiple market cycles. Next, the manager must have close and longstanding relationships with the many other professionals involved in repositioning such as lenders, special servicers, lawyers, workout specialists, and brokers. Finally, it must have experience in addressing the specific asset's circumstances.

The election waiting game

When it comes to M&A in financial services, all bets are off at the moment. The whole world, it seems, is waiting to see what happens in November's general election. Deal makers would rather not bet than bet wrong.

The macroeconomic environment—more specifically, expectations about the direction of inflation and interest rates—has depressed the strength and pace of M&A activity since early 2022. But this trend appears to be waning, as recent economic indicators point to a sustainable decline in inflation.

We therefore agree with the consensus view that the Federal Reserve will cut its benchmark fed funds rate sooner than previously expected. KPMG Economics forecasts that the Fed will first cut by 0.50 percent in September, 0.25 percent in November, and 0.25 percent in December. Further cuts are likely in 2025.

This is welcome news for deal makers. Indeed, it's hard to imagine an upturn in activity not happening as rates fall. Nonetheless, the election's potential outcomes can be seen as bullish or bearish, depending on one's perspective.

Here are our M&A outlooks for the key FS subsectors of banking, capital markets, and insurance:

Banking. Many banks are actively preparing to do deals. Large players are looking at adjacent non-bank businesses, and regional and smaller banks need to get bigger or get out. Both groups are emphasizing profitability and strategic focus.

In the near term, though, they have major regulatory concerns whose resolution should be clearer when the election is over: overall federal antitrust policy, the Basel III Endgame capital rules, and Capital One's proposed acquisition of Discover. Banks should start pulling the trigger on deals once they have a better sense of how these situations will shake out.

Capital markets. While we've been less upbeat about capital markets than banking and insurance, that may be about to change. Falling interest rates—and the perception that they'll keep falling—should be a powerful driver of deal making by PE firms as well as in capital markets categories such as asset management, investment banking, and wealth management. We'll have a more defined view after the election.

Insurance. Our bullishness about insurance's M&A prospects has only increased with the likelihood that the Fed will cut rates. Lower rates mean lower costs for insurers which, in turn,

means they should have more excess capital to do deals. We're particularly optimistic about the ongoing convergence of life insurance and asset management, continued buying and selling by PE firms, the voracious appetite for distribution businesses, and growing interest in specialty areas such as managing general agents.

Key considerations as we look ahead

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

1 Rev up the engine.

If you haven't been prepping to buy or sell, it's time to get moving. Companies that aren't actively considering transactions or haven't sufficiently staffed their deal teams should find themselves at a competitive disadvantage.

2 Do your diligence.

With activity likely to heat up in the coming year, due diligence is more important than ever. Deal makers must more closely scrutinize their diligence processes, integration approach, and the financial performance of their transactions.

3 Prepare for departure.

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



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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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