Executive summary

Capital One's bid for Discover Financial Services

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The following document presents the findings and conclusions of the executive team at Capital One regarding the proposed merger with Discover Financial Services.
Following a thorough analysis of Discover's business as well as an internal strategic review of Capital One's objectives, we are convinced that Capital One should proceed with the acquisition of Discover Financial Services in the coming months.

Introduction

The U.S. credit card industry has more than $1.23 trillion in outstanding debt and plays a key role in digital payments and consumer credit. Credit cards account for over a third of all private spending, and their market share is growing as demand for contactless payments increases. Although the market is mature, it remains highly concentrated: the largest issuers control most transaction volume, and the payment infrastructure is dominated by Visa and Mastercard.
In the ever-changing landscape of the US financial services market, two major players stand out: Capital One and Discover are right in the thick of things. One of the top three largest credit card providers in the States and operating one of just four global proprietary credit card networks, Discover has certainly made its mark. Consolidation, mergers and acquisitions, as well as intense pressure from fintechs, are reshaping the landscape. Economies of scale and absolute control over the payment chain have now become key to survival. Capital One is betting that its proposed takeover of Discover will enable it to take on the changing landscape and rewrite the rules of US retail banking.

Discover and Its Industry

In the United States, Discover is a major player in consumer finance, specialising in credit cards, payments and digital banking. They run the Discover Global Network, one of the world's largest end-to-end payment systems, with around 70 million acceptance terminals in over 200 countries. Although it is only the fourth largest of the US-based global networks, Discover has still managed to carve out a well-known brand identity and a loyal customer base. Discover is well-known for its vertically integrated strategy, which encompasses card issuance and transaction processing on its proprietary network. The company generates revenue from interchange fees and interest on loans, and boasts high profit margins and complete control over the consumer experience. In 2024, the company generated around $17.9 billion in total revenue and $4.5 billion in net profit, primarily thanks to its excellent credit portfolio and rapidly expanding online banking platform, which runs on low-cost consumer deposits. Discover is consistently ranked highly for customer satisfaction with its credit card services.
However, Discover is in a mature sector of consumer finance that is still evolving rapidly. Digital payments are gaining ground, and there is increasing competition from fintechs and large financial institutions. Despite these changes, Visa and Mastercard remain the dominant players in the industry, which limits Discover's ability to grow without significant investment and achieve large-scale success. Furthermore, major banks such as JPMorgan Chase and Citi, as well as digital wallets and buy-now-pay-later platforms, are continuously raising the bar for customer experience and innovation. Therefore, size, integrated technology and seamless client journeys are key to long-term survival and success in this setting. Discover has strong fundamentals, but its size is a limiting factor. Merging with Capital One would strengthen its position in a consolidating industry.

Capital One Internal and External Analysis

Capital One is operating in a challenging competitive environment heavily influenced by digital transformation, changing consumer expectations and increased regulatory scrutiny. The US credit card market, our core segment, has shown stable but slow growth, mostly benefiting major players such as JPMorgan Chase, Citigroup, and American Express. Meanwhile, fintechs and digital platforms are altering the competitive landscape. While our digital leadership position enables us to react efficiently, our dependence on Visa and Mastercard restricts long-term value creation. By purchasing Discover, however, we would be able to internalise the most important payment functions and gain value from every step of the transaction chain.

Capital One has a strong credit card portfolio, a well-known brand, and a high-quality digital banking platform. Our early adoption of cloud infrastructure and data-driven underwriting has established us as a technology leader in retail banking. Our size enables us to operate efficiently and obtain favourable terms from suppliers. However, the absence of a proprietary network weakens our strategic control in the payments ecosystem. Integrating Discover would solve this problem by enabling us to extend our infrastructure and customer base, and improve our capacity to innovate.

While most of our competitors have diversified their credit portfolios, we have mainly focused on US consumer credit, particularly unsecured lending. This has made us more susceptible to fluctuations in the economic cycle. In terms of risk profile, therefore, Discover is a good match, with its stable, deposit-funded franchise, proprietary network and customer-centric approach. Merging with us would expand our product offerings, lessen our reliance on infrastructure, and make Capital One a vertically integrated player. This deal would propel our growth and strategic positioning.

Strategic Fit & Post-Merger Integration

The strategic fit between Capital One and Discover is solid and has huge potential to transform the industry. By purchasing Discover, we will own a worldwide payments network, enabling us to reduce our reliance on Visa and Mastercard while ensuring that the majority of financial transactions are processed through our own company, Capital One. Vertical integration at this level of the transaction chain gives us a significant competitive advantage, enabling us to capture more fee revenue, generate more data and offer merchants and partners a new option. Moreover, the two cultures are strongly aligned, as both organisations are customer-centric credit card franchises with award-winning services and inclusive financial products, making the integration process smooth and coherent.

The merger plans to generate annual synergies of around $2.7 billion by 2027, comprising $1.5 billion in cost savings and $1.2 billion in revenue benefits, primarily arising from network optimisation and cross-selling. The main cost savings will result from operational efficiency, shared technology infrastructure and combined marketing. These synergies are expected to produce an EPS accretion of over 15% and an IRR of more than 20%. The all-stock deal maintains strong capitalisation, thus enabling continued investment capacity and preserving flexibility in capital deployment. As a result of the merger, Capital One would become the largest credit card issuer in the US by loans, enabling the creation of a scaled, more resilient platform for long-term growth. A solid integration plan has been devised to promptly achieve these results. We will use our cloud-based infrastructure to integrate technology, linking systems and gradually moving Discover accounts while keeping disruption to a minimum. We have learned from our previous M&A experiences, enabling us to carry out operations, risk management and customer experience in a disciplined manner. Staff amalgamation is also on the agenda, and the key Discover management team will remain in place after the deal is finalised, with three Discover directors joining our board. The integration office, entrusted with managing all workstreams over the 18- to 24-month period and maintaining equilibrium between speed and stability, will be supported by a dedicated team. Throughout the process, we are committed to maintaining open communication and providing an uninterrupted service to all stakeholders.