**Mergers and acquisitions (M&A) in the US banking system**

**Trends in Banking M&A**

* After a record-breaking year for US banking M&A in 2022, deal volume declined by 37% in the first 9 months of 2023 due to economic headwinds, potential recession, and geopolitical uncertainty.
* However, M&A professionals predict the next 18-24 months will offer better value-creating opportunities compared to the last 2 years.
* The main drivers for banking M&A are expected to be continued consolidation and scaling, as well as fintech acquisitions to enhance capabilities.

**Challenges and Regulatory Environment**

**Key challenges include finding suitable targets, integrating acquired technology, and retaining acquired talent.**

* Regulatory scrutiny of bank mergers has increased, with the DOJ and FTC releasing new merger guidelines in 2023 that indicate a more rigorous review process.
* Proposed Basel III reforms will significantly increase capital requirements for banks, potentially impacting M&A appetite.
* Regulatory uncertainty and the risk of deals being terminated have increased, with 8 US bank deals canceled in the first 9 months of 2023.

**Opportunistic Acquisitions of Troubled Banks**

* The failure of banks like Silicon Valley Bank, First Republic, and Credit Suisse led to a first wave of opportunistic acquisitions by healthier banks to maintain stability.
* Some banks also divested non-core assets or made scope deals to add fintech capabilities or wealth management businesses.

**Outlook for 2024**

* In the US, large-scale bank consolidation is not expected due to regulatory barriers and economic uncertainty, though more troubled bank acquisitions may occur.
* In Europe, domestic concentration is sufficient, so significant in-market M&A is unlikely. Cross-border deals may increase if regulatory hurdles are reduced.
* Banks are encouraged to adopt a "string of pearls" approach to identify and integrate smaller, targeted deals without destroying value.

**26% of the total fees collected by the top 10 investment banks in the US in 2024 came from M&A advisory services.**

**Here are some additional key points and data on M&A advisory services provided by investment banks:**

**Importance of M&A Advisory**

* M&A advisory became an increasingly profitable line of business for investment banks in the 1990s due to significant corporate consolidation.
* M&A advisory is a cyclical business that was badly hurt during the 2008-2009 financial crisis but rebounded in 2010.
* JP Morgan, Goldman Sachs, Morgan Stanley, Credit Suisse, Bank of America/Merrill Lynch, and Citigroup are generally recognized as leaders in M&A advisory.

**Scope of M&A Advisory Services**

* Investment banks provide M&A advisory services related to various aspects of acquiring and selling companies, such as business valuation, negotiation, pricing, and structuring transactions, as well as procedures and implementation.
* Common analyses performed include accretion/dilution analysis and understanding M&A accounting rules.
* Investment banks also provide fairness opinions attesting to the fairness of a transaction.

**M&A Advisory Process**

* Investment banks can be engaged by either the seller (sell-side) or the buyer (buy-side) to provide M&A advisory services.
* The M&A due diligence process involves gathering, analyzing, and interpreting the target's financial information, analyzing historical and projected results, evaluating potential synergies, and assessing operations to identify opportunities and risks.
* Thorough due diligence enhances the probability of success by providing risk-based analysis and intelligence to help identify risks and benefits throughout the transaction.

**M&A Advisory Fee Percentages**

* Typical M&A advisory fees range from 1-5% of the total transaction value.
* Larger deals tend to have higher fee percentages, as the complexity and effort involved is greater.
* The average M&A advisory fee percentage varies across industries and deal sizes, but generally falls within the 1-3% range for middle-market transactions.

**Factors Influencing M&A Advisory Fees**

* Deal size is a key factor, with larger deals justifying higher fee percentages due to increased complexity and resources required.
* The scope of services provided, such as due diligence, valuation, and financial analysis, can drive higher fees.
* The experience, reputation, and negotiation skills of the advisory firm impact the fees they can command.
* Economic conditions and market competition also influence fee levels, with more competitive markets leading to lower fees.

**Recent M&A Trends**

* M&A professionals expect better value-creating opportunities in the next 18-24 months.
* Drivers for future M&A include continued consolidation, scaling, and fintech acquisitions to enhance capabilities.

**Conclusion**  
US banking M&A activity has declined recently due to economic and regulatory headwinds but is expected to rebound in the next 18-24 months.

Key drivers will be consolidation, scaling, and fintech acquisitions.

While large mergers face increased scrutiny, opportunistic acquisitions of troubled banks will continue. Banks should pursue targeted "string of pearls" deals to build long-term value.

**Analysis**The M&A slowdown reflects broader economic and regulatory challenges. However, banks recognize the need to adapt through consolidation and acquiring innovative capabilities.

Opportunistic troubled bank acquisitions demonstrate M&A's role in maintaining financial system stability.

Effective management of risks will be crucial for banks to navigate the evolving M&A landscape.