

Successful Merger Tactics: Key Factors for Value Creation

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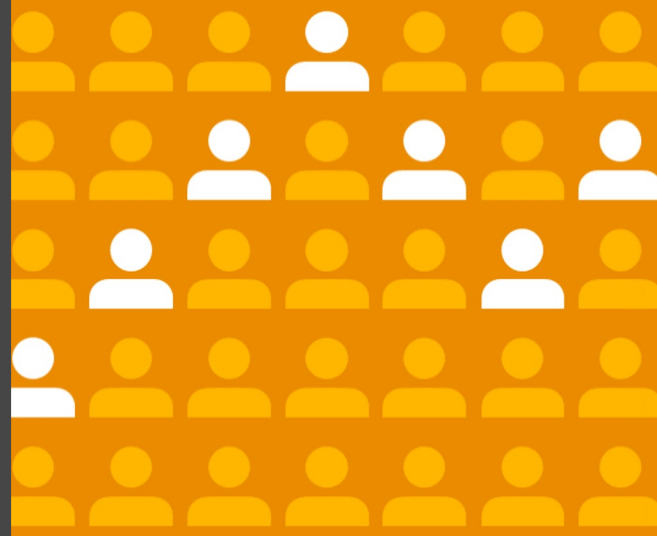
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PwC



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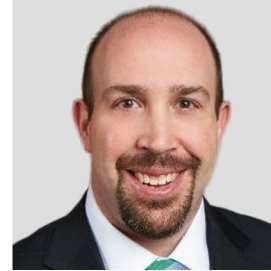
Presentation by **Dan Goerlich and Josh Carter**
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Introductions



Dan Goerlich
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Partner, Banking Deals
Transformation

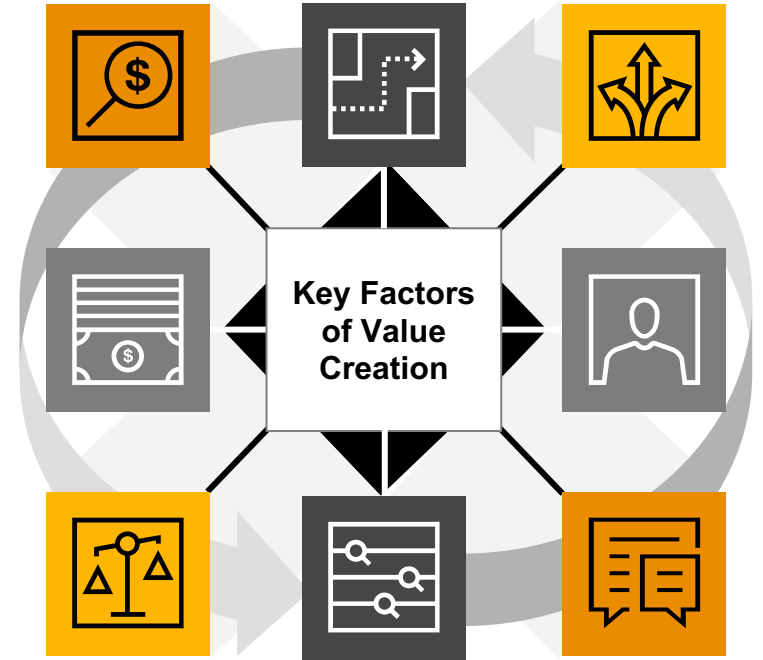
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“Banking leaders must remain focused on what the industry will look like when the economic cycle turns up again. Capital allocation decisions made today may very well determine which institutions emerge from a recession in the strongest position.”

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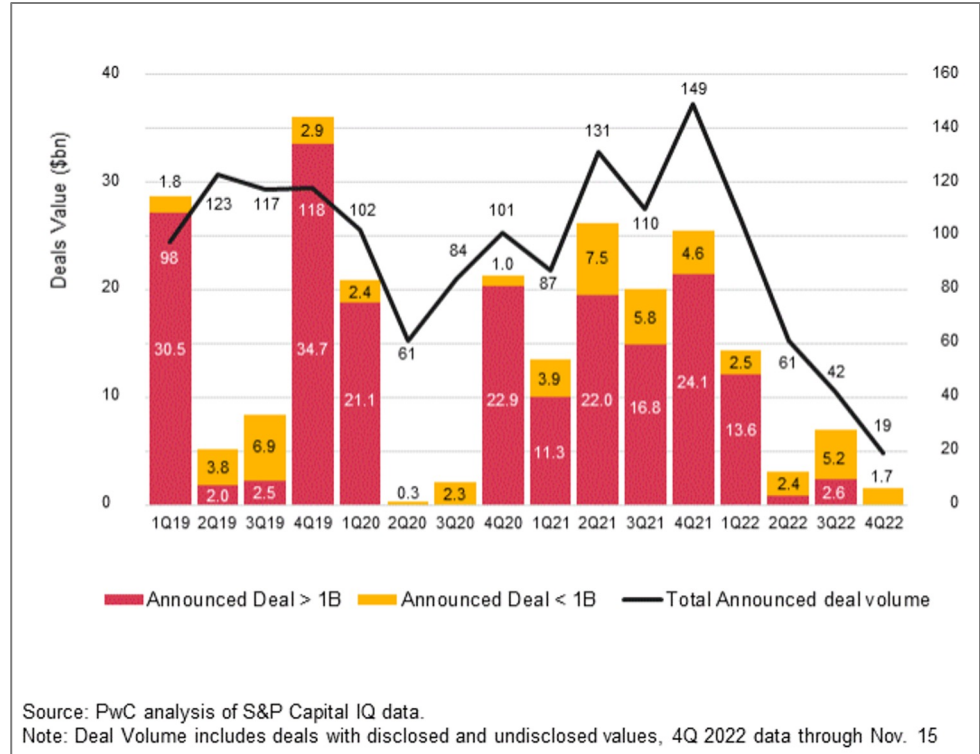
Agenda

- 1 2022 merger market recap
- 2 Expectations for 2023
- 3 Key trends in deals
- 4 Potential challenges
- 5 Success factors for value creation



2022 Merger Market Recap

- Significant decrease in deal activity year over year with 227 closed deals through November 15, 2022, with a deal value of roughly \$29 billion. Down from 477 deals in 2021 with a deal value of roughly \$96 billion
- It would have been unprecedented for 2022 to keep pace with 2021 given the banner year, even without a lot of the market forces we saw including
 - rising interest rates
 - supply chain issues



Expectations for 2023

- Mega Banks and Super Regionals will continue to assess their portfolios for non-core or underperforming businesses/assets to divest
- Regional Banks and Community Banks will seek consolidation to address technology and compliance costs and slow loan and deposit growth
- FinTech investments will be more feasible in the short-mid term as valuations have come back significantly where indices are at parity with the regional banking indices
- Private equity has continued to be extremely interested in consumer finance and credit platforms, and has recently shown interest in traditional retail banking and insurance as well



Key Trends in Deals

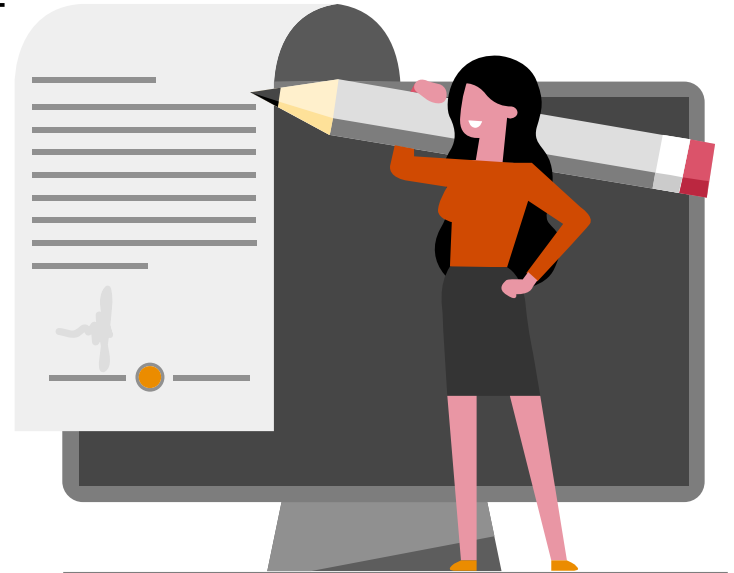
- Diligence has become more challenging - accelerated processes, less access to information, and more complex transactions
- Bank Merger approval processes have changed, particularly for larger banks (Community Benefit Plans, Resolvability)
- Anti-trust and privacy concerns have substantially changed information sharing practices during sign-to-close periods - changing standard integration playbooks



Potential Challenges

Mergers can create a lot of value, but there are a few things to watch out for:

- Key employee retention has become significantly more challenging, especially with longer approval timelines - banks need to budget more resources for this
- An integration is potentially a “switch inducing event” significant measures should be taken to address
- Bank account number changes
- Payment/deposit/account processing issues during conversion
- Password and account access issues
- Multiple account conversions
- Overly optimistic technology cost savings



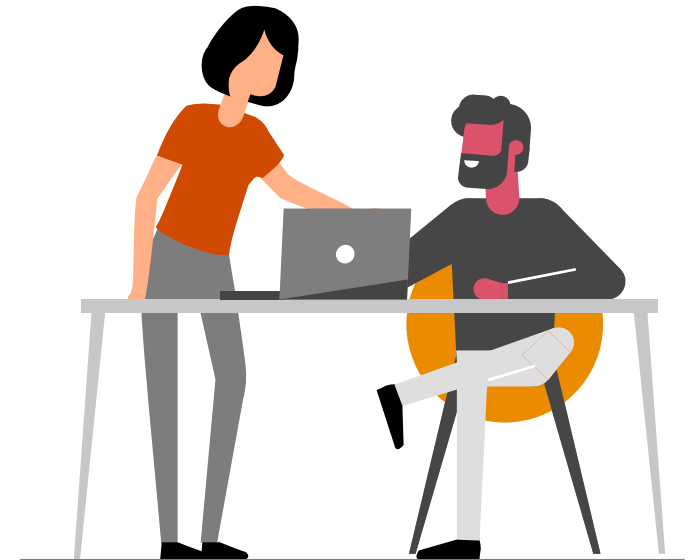
Success Factors for Value Creation

Revenue synergies are becoming more common in bank deals

- Cross-sell of capabilities
- Implementing strong practices
- Pricing
- Cost of fund, funding and or capital advantages

Transacting to support a transformation

- Acquiring a better operating platform and reverse converting
- Using MRC's to fund transformation
- Using the transaction to re-evaluate talent



Thank you

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