



What's the Outlook for M&A in 2024?

📌 industry update Mergers and Acquisitions

Summary: Bank Director's 2024 Bank M&A Survey explores FIs' attitudes towards M&A. Although enthusiasm for a deal is somewhat flat, stagnant earnings may motivate FIs' management and their boards to partner with other institutions in search of low-cost deposits. We discuss possible M&A trends for this year.

Many animal species choose to live in groups: wolves in packs, dolphins in pods, camels in caravans, crows in murders, and bats in cauldrons, to name a few. They do so for several reasons, including safety, hunting together, and helping take care of each other. Likewise, community financial institutions (CFIs) may have their own reasons to partner with other organizations.

Amid concerns of a looming recession and increased regulatory scrutiny, M&A activity slowed significantly in 2023. As we begin 2024, pressure on earnings combined with rising confidence in the health of the market is expected to drive [a rebound in M&A deals](#). To understand how CFIs see M&A fitting into their growth strategy, [Bank Director surveyed senior leaders](#) from 201 US banks, 87% of which have under \$5B in assets. We discuss the key findings.

CFI Growth Strategies

CFIs have faced many challenges over the last year, including economic uncertainty due to rates remaining higher for longer, intensified competition for deposits, limited or sluggish loan demand, and the collapse of three major banks.

In their pursuit of organic growth, institutions have employed varying strategies such as: adding staff in revenue-generating areas of the bank (57%), adding new products within existing business areas (42%), introducing new digital initiatives or upgrades that attract deposits (39%), as well as engaging in marketing strategies to attract new customers and boost their service offering. Similarly, to generate new revenue streams, many CFIs have also added wealth advisory services and taken advantage of the opportunities offered by embedded finance.

Views on Acquiring Other Institutions

Acquisitions are rightly viewed by many as a potential route to fuel their growth and to share the rising costs of technology and regulatory compliance. As digital transformation remains central to a CFI's ability to stay ahead of the competition, scale to drive technology and other investments was ranked highest among the drivers of an acquisition. Other reasons cited in the Bank Director report included geographical expansion and the option of adding a low-cost deposit base.

One-third of bank executives expect to acquire another bank by the end of 2024, down from 39% in 2023 and 48% in 2022. Looking ahead, almost one in four respondents said that they planned to be active acquirers in the next five years, while 56% claimed to be open to acquisitions but would focus primarily on organic growth. Four in ten respondents indicated they would be open to a merger of equals, as pressure on earnings may cause them to reconsider their independence. Indeed, joining forces with similarly sized organizations may enable smaller CFIs to compete with larger banks' offerings.

Leaders highlighted that in today's environment, the top acquisition target would have the following characteristics: an attractive deposit base (85%), followed by a complementary culture (58%), the potential for efficiency gains (55%), and locations in growing markets (48%).

Views on Being Acquired by Other Institutions

CFIs are proving attractive targets for larger banks looking to acquire greater scale or expand into new markets. Just under one in three executives noted that another FI approached them about acquiring their institution in 2022 or 2023.

Just over half of respondents (53%) said their board and management would be open to their FI being acquired over the next five years if the price were right. Of those, the majority would consider a regional bank (65%) or a community bank (60%) to be the preferred acquirer.

Although private investors are way down the list of preferred acquirers, 2023 has seen [an increase in the number of deals involving private investors](#) and small banks. Many of these deals allow the institution to remain locally run and committed to their community, which may appeal to many CFIs.

Obstacles to M&A

For execs who declared their interest in acquisitions, pricing expectations of potential targets are reported as a top barrier (71%), followed by a lack of suitable targets in the desired market or area (59%). Of course, this may change as sellers adjust to the current pricing trends and accept that multiples may take a while to return to their peak. Stressed CFIs, with their margins under pressure, may well be brought to the bargaining table sooner than they expected. At the same time, acquirers in search of cheap deposits could be persuaded to pay a little more for an attractive target.

Expectations of Bank Failures in 2024

The collapse of Silicon Valley Bank, Signature Bank, and First Republic Bank in the first half of 2023 rocked the financial markets, trounced the banking industry, and unsettled the public. Fears of further failures haven't materialized so far, but some anxiety persists. One-third of survey respondents anticipate more bank failures over the next 18 months. The majority of those (59%) expect fewer than 10 failures to occur, while 32% believe between 10 and 25 institutions will fail. Nearly one in five leaders is interested in acquiring a failed bank and has informed their regulator of their intentions.

With inflation abating and a more stable interest rate environment in the cards, there is a general expectation that M&A activity will pick up. Some CFIs are open to pursuing an acquisition to gain the scale needed to continue their digital transformation journey and attract a larger customer base, but elevated pricing expectations remain an issue. CFIs are also likely to be a target for regional banks looking to branch out into new markets at speed. Either way, a successful deal will rely on clearly articulated goals and a solid plan to operationalize the deal.

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ECONOMY & RATES

Rates As Of: 01/22/2024 10:41AM (GMT-0800)

Treasury	Yields	MTD Chg	YTD Chg
3M	5.45	0.05	0.05
6M	5.21	-0.05	-0.05
1Y	4.83	0.06	0.06
2Y	4.37	0.12	0.12
5Y	4.03	0.18	0.18
10Y	4.11	0.23	0.23
30Y	4.32	0.29	0.29
FF Market	FF Disc	IORR	
5.33	5.50	5.40	
SOFR	Prime	OBFR	
5.31	8.50	5.31	

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