Why Credit Unions Are a Hot Bed for M&A in 2024

Published: Tue Jan 23 13:10:36 EST 2024

By Matthew Monks

(Bloomberg) --

Hi, it's Matt Monks in New York, looking at a corner of the financial services industry that's awash with deals. Elsewhere, Sanofi doubles down on innovative medicines and an update on Klarna's IPO plans.

Today's top stories

- Sanofi to buy Inhibrx for $2.2 billion in rare-disease push.
- Fintech Klarna CEO signals IPO in US may happen 'quite soon.'
- Mubadala aims to double exposure to Asia by end of the decade.
- AI startup Fusemachines strikes SPAC deal to list on Nasdaq.

State of union

Michael Bell, chair of the financial institutions practice group at law firm Honigman, is one of the top advisers on M&A involving credit unions in the US. He recently worked on Hudson Valley Credit Union's deal for Catskill Hudson and Global Federal Credit Union's takeover of First Financial Northwest.

I caught up with Bell to discuss deals trends in this corner of the financial services industry, including how credit unions are increasingly looking to buy community banks. Here are some highlights from our chat. —*Matthew Monks*

What's the difference between a bank and a credit union?

I call a credit union and a community bank, kissing cousins. Banks, appropriately so, are owned by a shareholder or shareholders. Credit unions, there are no shareholders, no equity, except they're owned by their members. People may be familiar with not-for-profit hospitals, agricultural cooperatives, energy cooperatives. They're all over our country in different sectors. But in the financial industry, a credit union is just that.

Talk us through the landscape for credit union M&A?

I think there's probably 4,500 credit unions today. That's an approximate number. Really there's only 200 or 300 of those that have any sort of critical size or mass. So, there's a huge division in the industry itself between what you would picture as a very small, small institution and then those institutions with critical mass. In the last 10 years, those credit unions in that 200 to 300 group have seen a desire to scale and grow non-organically and have increased their playbook and have decided to look at other things beyond credit union to credit union combinations and look outside their industry. And that's kind of the soup of the day. More and more are now looking in the banking industry, in the community banking industry, for a solution and possible partnership, whether it's a whole bank deal or bank branch deal.

So is this trend of credit unions buying banks accelerating?

The space is becoming more active. There's reasons in the credit union side, on the buy side, why these transactions make good sense and bring a lot of value to the credit union. But I'll tell you, I believe there's strong reasons on the sell side, or on the bank side, why you're seeing more of these. In the 10 years I've done this, it hasn't been the case where I was lacking a buyer. It's more been the case where we were lacking a seller. One, banks didn't know about it as an option, or two, didn't understand it, or had reservations. Today that has largely disappeared. I think more and more small banks or community banks are realizing that this is a real option for them and they are pursuing it.

Michael Bell
Honigman

Walk me through the importance of cash in these transactions?

When a credit union buys, they have one form of currency and that's cash. Period. So, if a selling bank does want equity or wants shares or stock, we, we can't participate. All they do is give 100% cash.

And is cash a big draw right now for community bank sellers?

From my experience, I think nine out of 10, eight out of 10 of the sellers have a preference for cash. There are occasional reasons, whether it's a tax thing or a family thing ,where there's a specific hunt for shares or equity. But I'd say far more often than not cash is king. And here's a little trend or phenomenon that I can share, a personal anecdote. I have noticed in the last couple years, more inbound calls from selling bankers saying to me, ‘Hey, Mike, I have a community bank client. They have a preference for cash. They're interested in an all-cash buyer, do you have any buyers?’

What’s your outlook for M&A in this sector in 2024?

I firmly believe we shall have the highest volume we've ever had since we started, barring some act of

God or major economic turmoil. I absolutely see activity levels right now higher than I've ever seen them. I can imagine we're going to do 20 plus. We're going do more of these than we've ever done before, in my opinion, in 2024.

Tell us about your outsized role in this market?

Back in 2009, I was sitting down with a client and we were talking about the struggles of growing non-organically. Thank God, I was young and naive at the time because we came up with this idea to buy a bank. I looked and nothing said that we couldn't, nothing said we could, and it was gray. And I said, well then of course we can. It just became my life from that moment. We closed the deal in 2010. Shortly after that, someone saw it and I did the second one, I did the third one. And it just took on a life of its own.

Finally, what about political pushback on these types of deals?

Obviously this industry can be very political. And the politics have always surrounded this. Every time we announce a deal, the bank lobbyists come out and rage against credit unions and their tax-exempt status and that kind of thing. But we keep doing these and that hasn't stopped them. There are no hostile takeovers here. No one can make anybody do anything. This is a seller choosing of their own free will to sell to a buyer who's choosing of their own free will to buy them. The bank shareholders voluntarily approve these. There's the free market at work here. And I think sometimes that gets lost in the politics.

M&A focus

Sanofi has agreed to buy the US biotech Inhibrx for as much as $2.2 billion, giving the French drugmaker a potential therapy for a genetic disorder that affects the lungs and liver. It’s the latest in a string of small- and mid-sized deals as Sanofi looks to double down on innovative medicines.

Stelco is seeking fresh opportunities to expand through acquisitions while boosting shareholder returns to make Canada’s largest steelmaker more appealing to investors and—eventually—to potential buyers, writes *Joe Deaux*.

Lufthansa’s €325 million investment into Italian carrier ITA Airways faces an in-depth investigation from European Union deals watchdogs, amid concerns over competition on long- and short-haul routes.

Photographer: Michaela Rehle/Bloomberg

Italian aerospace firm Leonardo has called for consolidation in the European defense sector, and said it wants to play a central role in creating bigger entities in the region that can compete more effectively on the global market.

IPO watch

Klarna Bank, the Swedish fintech that was once Europe's most valuable startup, may soon launch a stock market listing in the US, according to CEO Sebastian Siemiatkowski. He pointed out that the US is a natural choice for an IPO given that it's the firm's largest market by revenue.

SPAC wrap

Fusemachines, which develops artificial intelligence products for enterprise use, is merging with a blank check company in a $200 million deal to begin trading on the Nasdaq. The combination with CSLM Acquisition Corp. is expected to be completed by the end of 2Q.

Private equity pulse

Mubadala is seeking to roughly double its exposure to Asia, joining a bevy of Abu Dhabi-based entities eyeing opportunities in faster-growing emerging markets, writes *Abeer Abu Omar*. Mubadala is one of Abu Dhabi's three main wealth funds, charged with helping diversify its oil-rich economy.

Best of the rest

- Blackstone agrees to sell luxury Arizona hotel for $705 million.
- Xperi holder Rubric pushes for cost cuts, AI unit review.
- Arkhouse urges Macy's to open books after seeing bid rejected.
- Axis investment banking head leaves amid IPO boom.

Got a tip or want to send in questions? Email dealsnews@bloomberg.net, or Tweet/DM @bloombergdeals or any of our reporters.

--With assistance from Phil Serafino.

To contact the author of this story:
Matthew Monks in New York at mmonks1@bloomberg.net

To contact the editor responsible for this story:
Fareed Sahloul at fsahloul@bloomberg.net