

NASHVILLE NOTES

M&A as an investment thesis depends on timing

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Kudos to [Holdco Asset Management LP](#), again. Seventy days after the investor [went public](#) with a campaign to push [Comerica Inc.](#)'s board to pursue a sale, the company announced a [transaction](#) with [Fifth Third Bancorp](#). Holdco is attempting [another bite](#) of the underperformer apple with recent [campaigns](#) announced against [Eastern Bankshares Inc.](#) and [First Interstate BancSystem Inc.](#)

I do not know what Holdco's 1.8% basis was in Comerica's shares, but the shares rose about 18% between July 27 — the day before Holdco went public with its campaign — and Oct. 6, the day of the Fifth Third merger announcement.

Robert W. Baird analyst David George started the (most recent) public pile-on a few days earlier during the second quarter [earnings call](#) when he noted the company's share price was about the same price as when he initiated coverage of the company in 2000. As an aside, an inherently asset-sensitive Comerica navigated 2000 to 2003 well when the Fed reduced the fed funds target rate to 1.0% from 6.50%. A sizable received fixed-rate payment to variable swap book protected the yield on a portion of the company's Libor-based commercial loan portfolio.

No doubt other investors gave Comerica an earful for its underperformance since 2022. At that time, its net interest margin (NIM) neared 4% and its efficiency ratio was in the low 50s, but both were pummeled in the post-Silicon Valley Bank environment when Comerica's NIM fell to less than 3% and its efficiency ratio rose to around 70%. Although every bank had [post-SVB issues](#), Comerica's issues were more severe in part because of asset-liability management decisions made earlier and limitations created by the loss of some low-cost deposits.

Making money from investing in banks based on M&A as a catalyst is tough, because timing is unknowable and being too early is synonymous with being wrong on Wall Street.

Bank M&A has been underway for 40 years since the 1985 landmark case Northeast Bancorp Inc. v. Board of Governors of the Federal Reserve System, which affirmed state-sponsored regional banking compacts. Interstate banking barriers were completely removed with the Riegle-Neal Banking and Branching Efficiency Act of 1994.

Thematically, M&A has been an important consideration for bank investors for decades. However, making money from investing in banks based on M&A as a catalyst is tough, because timing is unknowable and being too early is synonymous with being wrong on Wall Street. Sometimes activists such as Holdco, [Stilwell Value LLC](#), and others can [force a situation](#), but not always.

At times it was seemingly easy to invest in anticipation of a takeout (e.g., the 1990s) and other times tough (e.g., during the Biden Administration when regulators slow-walked merger applications and rate hikes produced punitive fair value marks). One-day premiums may not make up for holding an underperforming stock for an extended period of time waiting for a deal that seems obvious to everyone but the subject's board of directors.

Comerica is an M&A success for investors this year with a one-day premium of 17%, as is [Veritex Holdings Inc.](#), which announced an agreement to be [acquired](#) by [Huntington Bancshares Inc.](#) on July 14 with a one-day premium of 23%. However, Comerica has been considered a likely seller for years (and Veritex in recent years). Plus, investors do not always like deals that are announced — or what they hear from management.

Investors [panned](#) the [Pinnacle Financial Partners Inc. merger of \(semi\) equals](#) when it was announced on July 24, and [First Horizon Corp.](#)'s shares fell 9% on Oct. 15 when the CEO talked about [potentially acquiring](#), whereas investors had penciled in First Horizon as a sure-bet seller to follow Comerica.

M&A is easy in Excel and PowerPoint, but not in reality.

Ironically, I began my career in 1985 at AmSouth in Mobile, Alabama, shortly after AmSouth had acquired Mobile-based First Gulf Bancorp and immediately before the subsidiary banks were merged, with the accompanying systems conversion. I had not heard the adage yet, but looking back it was definitely true that M&A is easy in Excel and PowerPoint, but not in reality. People, systems and culture are tough to combine.

M&A was easier in the 1990s because there were plenty of buyers and sellers and pooling accounting precluded fair-value marks and the recording of goodwill, while a bull market for bank stocks led to multiple expansion in the M&A market. According to S&P Global Market Intelligence data, the average M&A price/tangible book value multiple rose to 262% in 1998 from 143% in 1990. This year the average multiple is 147% as of mid-October.

Bank M&A will continue to be an important theme going forward for investors as the industry undergoes much more inevitable consolidation, but the backdrop is not like the booming 1990s. Choppy seems more likely in our unsettled world, for which there are many datapoints, including [JPMorgan Chase & Co.](#)'s Jamie Dimon and Marc Lipschultz, CEO of [Blue Owl Capital Inc.](#), accusing each other of having cockroaches in their loan portfolios.

In some instances, activists like Holdco will give the boards a shove to sell or buy back shares.

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