Capital One Acquires Discover in $35.3bn Bid to Transform Payments Landscape

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"From Capital One's founding days, we set out to build a payments and banking company powered by modern technology. Our acquisition of Discover is a singular opportunity to bring together two very successful companies with complementary capabilities and franchises, and to build a payments network that can compete with the largest payments networks and payments companies" – Richard Fairbank, CEO of Capital One

Deal Overview

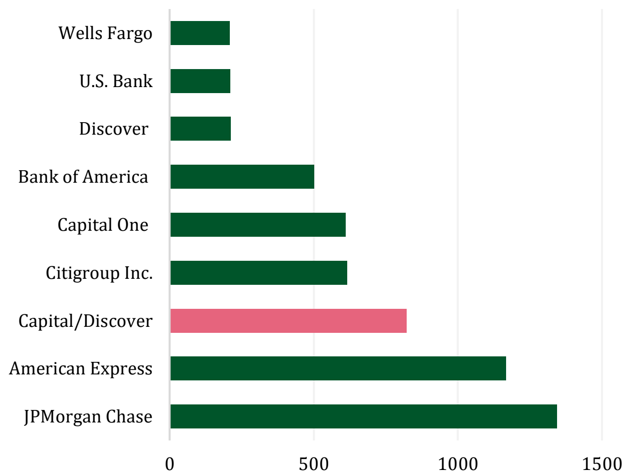
- Acquiror: Capital One Financial Corp (NYSE: COF)
- Target: Discover Financial Services (NYSE: DFS)
- Industry: Financial Services
- Transaction amount: $35.3bn
- Announcement date: February 19, 2024
- Advisors to Capital One: Centerview Partners
- Advisors to Discover: Morgan Stanley, PJT Partners

Deal Summary

On February 19, 2024, Capital One announced the acquisition of Discover, positioning the combined entity as the largest United States (US) credit card issuer by loan volume and a top-10 US bank by assets.

The strategic rationale behind the transaction lies in expanding scale and network reach. The combination significantly enhances Capital One's ability to compete as a vertically integrated payments provider. Capital One already ranked among the top US credit card issuers by purchase volume (see Figure 1), and the addition of Discover further consolidates its market position.

Figure 1: Top US Issuers of credit cards by purchase volume, 2024 (in $bn)



Source: Nilson Report, 2025 – own depiction

With the added volume from the merger, the company will be able to expand its network, strengthen customer relationships, and gain greater influence in pricing discussions with merchants. As of April 18, 2025, the deal had received regulatory approval under certain conditions, including $250m in fines paid by Discover for past fee issues. Still, some observers worry about reduced competition in payments and higher consumer costs. Upon closing, the merged company will serve around 150m cardholder accounts and manage approximately $450bn in loans, creating a behemoth in the US consumer finance space.

Company Overview – Capital One

Capital One, founded in 1994 and headquartered in McLean, Virginia, is a major US consumer bank with core operations in credit cards, retail banking, and auto lending. With over 50,000 employees, the bank operates primarily in the US, Canada, and the United Kingdom. Notably, it is the third-largest issuer of Visa and Mastercard credit cards in the US. By assets, it ranks among the country's largest institutions, managing approximately $490bn as of 2024. With $162.5bn in credit card receivables and tens of millions of active customers, Capital One has built a nationwide presence anchored in both physical and digital channels.

Since its inception, Capital One has pursued a strategy centered on digital banking and payments innovation. The 2011 acquisition of HSBC's US credit card business expanded receivables by $30bn, strengthening its position among the largest credit card issuers in the country. In 2012, the acquisition of ING Direct USA for $9bn added over 7m digital deposit customers and laid the foundation for Capital One 360, which has since become a cornerstone of its direct banking platform.

More recently, the bank has made targeted technology acquisitions, including AI personalization firm Monsoon (2018) and B2B credit provider BlueTarp (2019), reinforcing its ambitions to stay at the forefront of technological advancement. Capital One was also one of the first major US banks to migrate its entire technology infrastructure to public cloud services, completing the transition to Amazon Web Services by 2020.

Under the leadership of founder and CEO Richard Fairbank, Capital One has remained committed to embedding technology across every layer of the organization. Its modest premium trading multiple relative to traditional banks reflects investor confidence in its innovation-led strategy. On the consumer side, the bank consistently ranks among the top US institutions for customer satisfaction in digital banking and mobile app experience.

Company Overview – Discover

Discover Financial Services, headquartered in Riverwoods, Illinois, is a leading US consumer finance company recognized for its unique position as both an issuer and payments network operator. Founded in 1986, Discover reshaped the credit card industry by introducing cashback rewards and eliminating annual fees – practices that have since become industry standards.

Today, Discover ranks among the largest US credit card issuers, with over 60m card members worldwide. Its product portfolio spans credit cards, debit/ATM services, personal and student loans, and deposit offerings through Discover Bank. What distinguishes Discover from most peers is its ownership of a proprietary global payments network, placing it alongside American Express as one of the few US issuers to control both card issuance and network infrastructure.

Through its Discover, Diners Club International, and PULSE networks, as well as partner arrangements, the company connects with more than 70m merchants in over 200 countries. This end-to-end infrastructure enables Discover to directly manage merchant relationships, optimize interchange economics, and capture valuable network data in real time – a strategic advantage over banks that issue cards solely on third-party rails.

Discover's financial strength rests on a high-yield consumer loan portfolio, particularly in personal and private student loans, supported by a strong deposit funding base. In recent years, the company has invested heavily in digital transformation, cybersecurity, and fraud prevention, enhancing both its operational resilience and customer experience platforms.

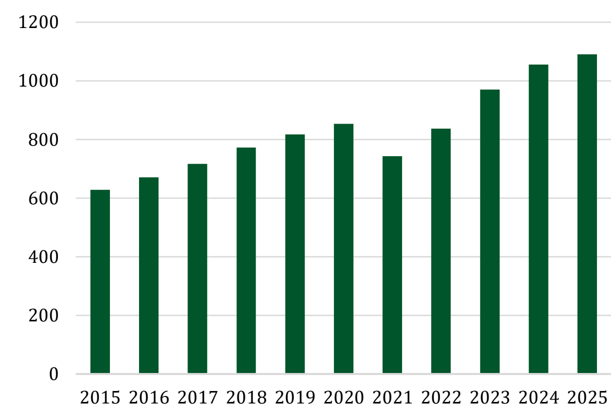
Industry Overview – Financial Services

The acquisition takes place in a stable yet challenging US consumer finance environment. On the one hand, credit card demand remains strong. According to recent Federal Reserve data, applications are near all-time highs, and major issuers reported record volumes in Q4 2024. Consumer spending, particularly digital and card-based, remains elevated even as the Fed's policy rate held at around 5.25–5.50% throughout 2024. Card issuers have benefited from wider interest margins as rates rose, although charge-off rates on subprime cards have inched higher.

The consumer lending picture is mixed: while credit demand is robust, there are early signs of financial strain among households. US credit card balances held by commercial banks have continued to climb steadily (see Figure 2), reflecting resilient borrowing despite higher interest rates. In short, demand remains high, and issuers have so far absorbed the impact of rising rates.

Meanwhile, payments industry trends strongly support the rationale for the deal. Non-cash transactions are expanding globally, with credit and debit cards enjoying acceptance at over 75% of merchants. In this environment, owning a large payments network has become a critical strategic advantage. Visa and Mastercard continue to dominate the global landscape, processing approximately $23tn in volume and over 390bn transactions in 2024. However, both face growing regulatory scrutiny and legal challenges over interchange fees and network exclusivity, particularly in the US and EU.

Figure 2: US Credit card balances held by commercial banks (seasonally adjusted; in $bn)



Source: Federal Reserve Bank of St. Louis, 2025 – own depiction

Against this backdrop, combining Capital One and Discover offers the potential to establish a viable "fourth network," enhancing competition and innovation by shifting more transaction flows onto Discover's infrastructure. The broader financial services sector is also grappling with competition from fintech entrants such as Apple Card, PayPal, and buy-now-pay-later providers like Affirm.

Macroeconomic conditions further underline the importance of scale. Persistent inflation has prompted the Federal Reserve to keep interest rates elevated, making sustained investment in technology critical for banks to protect profitability, improve customer experience, and defend market share against both traditional competitors and digital challengers.

Deal Structure

The Capital One–Discover transaction is structured as an all-stock merger valued at approximately $35.3bn. Under the agreement, Discover shareholders will receive 1.0192 shares of Capital One stock for each Discover share they hold, representing a 26.6% premium based on closing prices on February 16, 2024. Upon completion, Capital One shareholders are expected to own roughly 60% of the combined company, with Discover shareholders holding around 40%.

Management projects approximately $2.7bn in pre-tax synergies by 2027, comprising about $1.5bn in operating cost reductions and $1.2bn from payment volume migration onto Discover's proprietary network. These synergies are expected to drive more than 15% accretion to adjusted earnings per share within three years of closing, supported by an anticipated return on invested capital of around 16%.

The transaction received final regulatory clearance from the Federal Reserve Board and the Office of the Comptroller of the Currency on April 18, 2025. Following a comprehensive antitrust review, the Department of Justice concluded its examination without objection. Shareholders of both companies voted overwhelmingly to approve the deal earlier in 2025, with closing scheduled for May 18, 2025.

Upon completion, the merged entity will manage approximately $638bn in assets and will become the largest credit card issuer by outstanding balances, with an estimated $265bn across consumer and small business portfolios. For context, this would place it ahead of JPMorgan Chase ($233bn) and Citigroup ($171bn), based on FY2024 figures.

Unusually for a deal of this nature, the merger gives Capital One direct control over a global payments network – a strategic asset that is rare in a market dominated by a few players. To support a smooth transition and preserve institutional knowledge, three members of Discover's Board will join Capital One's Board, aligning both organizations on culture and direction.

Potential Risks & Upsides

The acquisition positions Capital One to reshape the US payments landscape by combining its scale in credit card issuance with Discover's fully owned network infrastructure. This integrated model could unlock significant cost synergies and enable vertical integration of payments. In addition, owning Discover's network strengthens Capital One's bargaining power with Visa and Mastercard, potentially reducing reliance on third-party networks.

However, the deal carries notable risks. Regulatory approval was far from certain, as the merger reduces competition among US credit card issuers and concentrates payment network ownership in an already consolidated market. Heightened antitrust scrutiny, particularly in the current political climate, could have led to delays or modified terms. A key consideration was the merged entity's exposure to roughly 30% of the US subprime credit card market. Integration challenges are also material: while the two companies operate complementary businesses, cultural differences and systems integration may present obstacles.

From a financial standpoint, investors will be watching whether Capital One can deliver the projected revenue synergies without overextending itself. The all-stock structure limits immediate leverage concerns, but integration costs and potential additional regulatory concessions could weigh on future returns. Moreover, macroeconomic risks, including a possible consumer credit downturn or unexpected rate spikes, could pressure asset quality and erode anticipated benefits.

Consumer advocacy groups have raised concerns that the merger could result in higher credit card interest rates and fees, particularly for subprime borrowers. Capital One's existing practices – such as high rates and aggressive debt collection – have already been scrutinized, prompting questions about the potential impact on low- and moderate-income communities.

At its core, the deal reflects Capital One's ambition to build a fully integrated payments ecosystem. Its ultimate value for shareholders will depend on how effectively the company navigates regulatory hurdles, integrates the two organizations, and activates the untapped potential of Discover's network in a highly competitive market.