

# Capital One / Discover: 1-Year Retrospective

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**Deal.** \$35.3B all-stock; 1.0192 COF/DFS exchange ratio; 26.6% premium to \$110.49 unaffected. Announced 19-Feb-2024; Federal Reserve and OCC approval 18-Apr-2025; closed 18-May-2025. **Pro forma.** ~\$660B assets and ~22% U.S. card balance share. **Multiples paid.** ~7.8x FY24 P/E and ~2.0x P/TBV. The 26.6% premium sits above the 2022 average of ~20% and the 2023 average of ~17% on five-day announce premiums for U.S. bank M&A deals greater than \$100M (Mercer Capital, Bank M&A 2023).

## Why I picked this deal

First time a major U.S. bank has acquired a combined card issuer and payment network (AmEx aside, which has always run both internally). The reason I built the model rather than another announce-day teardown is

that the deal closed twelve months ago, so a year of post-close disclosures now exists to test the announce-day case against. Most teardowns are written at announce; this one can be a retrospective.

## Strategic rationale (per management)

Vertical integration into payments. Two synergy buckets: \$1.2B network synergies from re-routing COF debit and selected credit volume onto Discover's rails, and \$1.5B expense synergies from card servicing and overlapping functions. Total \$2.7B run-rate by 2027, >15% Y2 EPS accretion, 16% ROIC, >20% IRR.

## Sources & uses and pro forma capital

100% stock; approximately 252.8M COF shares issued. Per COF's Q2 2025 10-Q, purchase accounting produced \$13.2B of goodwill, \$10.3B of purchased credit-card relationships, and \$3.1B of network intangibles on top of DFS's \$17.9B GAAP book equity. DFS loans were marked down approximately \$9B to fair value, which feeds the \$7.9B Discover-driven allowance build COF booked in Q2 2025.

The capital optics are unusual. Pro forma CET1 came in at **14.0%** at Q2 2025, up from COF's standalone 13.6% at Q1 2025. Equity issued to DFS shareholders added more to the regulatory capital base than goodwill plus intangibles consumed. Rare for a \$35B all-stock deal of this profile and largely absent from the sell-side notes I read at close.

Purchase price allocation	\$B
Equity issued to DFS holders	35.3
Goodwill created	13.2
Card-relationship intangible	10.3
Network intangible	3.1
Pro forma CET1, Q2 2025	<b>14.0%</b>

Source: COF Q2 2025 10-Q; Q2 2025 earnings disclosure.

## Synergy framing: announce to today

Disclosure	Run-rate	Timing	Composition
Announce headline (19-Feb-2024 deck)	\$2.7B	by 2027	\$1.5B expense + \$1.2B network
Q2 2025 earnings call	\$2.5B	by mid-2027	"Net" synergies; integration carve-out moved outside the target
My case	<b>\$1.9B</b>	by 2027	~30% haircut to announce; OCC remediation and integration run hot

Source: COF investor presentation, 19-Feb-2024; Q2 2025 earnings transcript; author's model.

## Year-1 disclosures

- COF reported a \$4.3B GAAP loss in Q2 2025, the first consolidation quarter; total Discover-related charges that quarter ran to \$9.4B (loan loss reserve build, integration costs, and deal costs combined).
- The headline synergy framing shifted from "\$2.7B in expected synergies by 2027" (Feb 2024 deck) to "\$2.5B in total net synergies by mid-2027" (Q2 2025 transcript). Whether that is a re-statement or a quiet haircut

depends on how one treats the additional integration investments now sitting outside the synergy box. Either way: the headline number got smaller and the 2027 finish line slipped to mid-2027.

- DFS came into the deal with a regulatory tail that landed at close: a \$100M Fed civil money penalty, a \$150M FDIC penalty, and a \$1.225B merchant restitution settlement (preliminary court approval 30-Jul-2025) tied to historical card misclassification.
- Fairbank described integration costs as "somewhat higher than \$2.8B" (the announced budget) without disclosing a new figure. H1 2025 spend was \$409M.
- The OCC's conditional approval requires COF to submit a remediation plan for outstanding Discover Bank enforcement actions; this is an open-ended cost not sized in the announce-day synergy math. The \$265B Community Benefits Plan (announced Jul 2024) layers on with five years of opex commitments around branch retention, CRA-aligned lending, and supplier diversity.

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## 2027 EPS accretion: three cases

Case	Synergy run-rate	Phase-in by 2027	A/(D) %
Management (announce)	\$2.7B	100%	+13.0%
Base (revised framing)	\$2.5B	85%	+8.6%
Haircut (author)	\$1.9B	65%	+3.3%

*Source: author's model. COF standalone 2027 NI anchored to consensus of approximately \$8.1B; 2025 and 2026 are dilutive in all three cases on integration spend.*

*A note on the gap to management's >15% headline: that guidance was almost certainly built on a more conservative COF standalone case than the one in this model. Once the standalone denominator is anchored to consensus 2027 NI of approximately \$8.1B, even the announce-day synergy stack delivers ~13%.*

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## Where I disagree with the Street

The deal is accretive, but by less than what was guided. The biggest piece of the gap is the synergy reframing. "\$2.7B by 2027" became "\$2.5B *net* by mid-2027" on the Q2 2025 call, and the additional investments needed to unlock the network-side revenue have been moved *outside* the synergy target. That is a real reframing rather than a clean restatement: a piece of what used to sit in the cost stack of synergy realization now lives in a separate, open-ended bucket. The 2027 finish line also slipped six months.

The Year-1 actuals supply the rest of the haircut. DFS came in with a regulatory tail that landed at close (a \$1.225B merchant restitution, a \$100M Fed CMP, a \$150M FDIC penalty, and an open-ended OCC remediation requirement), none of it sized in the announce-day math, and all of it sitting in opex rather than in one-time charges. Fairbank's "somewhat higher than \$2.8B" comment on integration spend is the most candid signal so far, and the cost is front-loaded into 2025 and 2026, which is why both years are dilutive in my model even before any synergy haircut.

The bull case is real and I want to mark it honestly. Network volume migration is structurally durable once it happens; COF began re-issuing debit cards onto the Discover network in pilot in June 2025, with phased rollout into early 2026. The expense bucket has reasonable precedent in BAC/MBNA, which targeted \$850M after-tax expense synergies by end-2007 and was tracking on plan through 2006 (\$357M pre-tax run-rate by Q3 2006); the consolidation logic is similar. If integration runs cleaner than I assume from 2027 onwards, accretion above 10% by 2028 is plausible. I do not see the path to a 2027 print above 10% given what has already been disclosed.

One framing I keep coming back to is the buyback counterfactual. \$35B at the announce price would have repurchased roughly 60% of COF's float; not a realistic single-step move past the SCB and 4(c) framework, but the right comparison for whether the deal compounded value or just bought scale. On the disclosed numbers it bought scale, and the synergy story has to do most of the value-creation work for that to have been the right trade.

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## Open questions

- Quarterly progress on debit and credit volume migration onto Discover's network. The hardest synergy to fake on a slide.
- Whether the \$2.5B net synergy target gets re-affirmed or quietly dropped on 2026 calls; OCC remediation milestones (open-ended cost crystallizes when COF reports completion-plan progress).

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## Risks visible at announce

- **DFS regulatory exposure.** Card-misclass settlement (which turned into \$1.225B post-close) plus DFS Bank's standing FDIC, Fed, and CFPB enforcement actions, all disclosed pre-deal.
- **Approval gauntlet.** Fed, OCC, DOJ, and state AGs, all needed and none guaranteed under the prior administration's bank-consolidation scrutiny.
- **Network re-platforming complexity.** First major U.S. bank to own both a card issuer and a payment network as a combined entity (AmEx aside, which has always operated both internally).

- **Goodwill impairment risk.** \$13.2B of goodwill plus \$13.4B of newly-recognized intangibles on the balance sheet against a Q2 2025 GAAP loss; one bad integration quarter from triggering an impairment test that would itself be a real headline.

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*Further work. An ROIC trajectory tracker (post-tax NOPAT including phased-in synergies, scaled against the all-in acquisition cost, walked annually against the announce-day 16% target); conversion of the stylized one-way Data Tables to live `Data > What-If > Data Table` arrays in Excel; and a 2026-onward refresh once COF reports Q2 2026, which will be the first clean print free of integration-cost noise.*

*What is in the model. 20 sheets: Cover (case toggle), standalone IS for COF and DFS, combined NI build, Sources & Uses, Purchase Price Allocation, intangible amortization, full pro forma BS, capital walk-down to 2028, quarterly synergy phase-in, accretion/(dilution) with Earnings Impact Footnotes 1-5 (including breakeven synergies), Analysis at Various Prices, stacked one-way Data Tables, contribution analysis, two-way sensitivity, comparing structures, precedent transactions, trading comps, and a football-field valuation summary.*

*Sources: COF S-4 (Mar 2024); Joint DEFM14A; COF FY2024 10-K; COF Q2 2025 10-Q and earnings transcripts (Q2/Q3/Q4 2025; Q1 2026); Federal Reserve and OCC approval orders (18-Apr-2025); Discover merchant class-action settlement filings; Mercer Capital, Bank M&A 2023; Banking Dive and Payments Dive integration coverage. Independent student work; not investment advice.*