JAN 24
Grace Broadbent

Capital One and Discover highlight merger prep in Q4 earnings

Article

The news: **Capital One's** and **Discover's** Q4 earnings tell differing stories ahead of their expected merger.

- **Capital One's credit card purchase volume increased 7% YoY**, up from 4% in Q4 2023.

- Meanwhile, **Discover's total card volume fell 4% YoY**, down from a 3% YoY increase the year prior.

Consumer health update: Both issuers saw similar card delinquency trends.

- Capital One's 30-day delinquency rate for Q4 was 4.53%, flat from the prior quarter and slightly down from last year (4.61%).
- Discover's credit card 30-day delinquency rate was 3.84%, also flat on the quarter and slightly down YoY (3.87%).

Net charge-off trends differ, although Capital One's charge-off rate jumped mainly from the **Walmart** card's loss sharing agreement ending, the company said.

- Capital One's net charge-offs (NCOs) were 6.02%, up on both the quarter (5.60%) and the year (5.33%). Without the Walmart effect, NCOs for the quarter would have been 5.66% in Q4 2024.
- Discover's net charge-off rate was 5.03%, down from the prior quarter (5.28%) but up on the year (4.68%).

The latest with the merger: Both Capital One and Discover will hold individual shareholder meetings on February 18 to vote on the merger. Capital One is working with the **Federal Reserve**, the **OCC**, and the **Department of Justice** on its application. Last month, it received approval from the Delaware State Bank Commissioner.

Capital One is well-positioned to complete the acquisition early in 2025 pending approval, CEO Richard Fairbank said during the earnings call. And Discover's "integration planning efforts are progressing well," interim CEO Michael Shepherd said during its earnings call.

Looming traveler headaches: Capital One also addressed concerns over Discover's international acceptance during its earnings call.

- Discover has a more limited international merchant acceptance network than **Visa** and **Mastercard**.
- Capital One cardholders might find their cards no longer as useful abroad after the bank switches some cards to Discover's network.

Fairbank said growing this network, especially in popular travel destinations, will be an investment priority after the merger. He also said to mitigate the issue, Capital One could start by only switching over cards that aren't frequently used by international travelers.

Our take: While the merger still has hurdles to overcome before it becomes official, both issuers are optimistic about its future.

- Their Q4 earnings show both firms are in a relatively strong position. Improving delinquencies can help mitigate concerns from regulators about concentrating their riskier debt profiles into one entity.
- And while Discover's card volume is slowing, Capital One's volume growth (likely from its higher income consumers) can help offset the slowdown once combined.

This article is part of EMARKETER's client-only subscription Briefings—daily newsletters authored by industry analysts who are experts in marketing, advertising, media, and tech trends. To help you start 2025 off on the right foot, articles like this one—delivering the latest news and insights—are completely free through January 31, 2025. If you want to learn how to get insights like these delivered to your inbox every day, and get access to our data-driven forecasts, reports, and industry benchmarks, schedule a demo with our sales team.