How will the DoL fiduciary rule impact M&A?

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How will the Department of Labor's fiduciary rule impact deal making in the advisory market?

Expect fewer RIA transactions, says Pershing Adviser Solutions CEO Mark Tibergien, one of the industry's most prominent thought leaders.

Just the opposite, countered prominent M&A consultant and investment banker **Dan Seivert**: "We expect deals to go up as a result of the DoL rule."

While the fireworks didn't match the clash between Hillary Clinton and Donald Trump, the two advisory industry experts also went head-to-head in a debate format at the Deals & Deal Makers Summit in New York, each making a spirited case for their respective positions.

RED FLAGS: RISING EXPENSES, FALLING PROFITS

Expenses are projected to increase by anywhere from 5% to 17% as compliance and monitoring costs rise, in addition to the possible threat of potential lawsuits, according to Tibergien. Industry profits will also be hit hard, he asserted, decreasing by at least 27%.

Smaller RIAs with under $500 million in assets who are likely to be sellers are most likely to be severely impacted, Tibergien argued. "The real question for acquisition targets is whether they can capitalize on the opportunity or are they depleted oil wells?" he said.

The real and perceived acquisition risks by buyers will be high, according to Tibergien, leading to a meaningful decrease in valuations.

The value of an RIA can be determined by dividing cash flow by risk minus growth, Tibergien says. But as risk rises and growth slows, multiples will be reduced, he declared.

Deals are likely to be harder to finance after the fiduciary rule is implemented, Tibergien argued. What's more, "buyers are likely to pay less cash to sellers up front, insist on larger claw back provisions and command more favorable terms," according to Tibergien.

NO, IMPACT WILL BE MINIMAL

The financial impact of the DoL rule will hardly be catastrophic, countered Seivert, the CEO of **Echelon Partners**, which presents the annual Deal Makers conference.

While revenues related to IRA assets, 12-b1 fees, front end loads, annuity trails and mutual fund revenue sharing will be sharply reduced or disappear, only about 11% of the industry's $27 trillion in assets will be affected by the fiduciary rule, he pointed out.

Risks associated with RIA purchases "will be low as a result of deal structuring and transitions already completed," Seivert said.

Revised income statements and business model changes from commissions to fees will insulate, if not improve, valuations, Seivert argued.

Financing for deals "will be fine," he asserted. "Financiers have already made their adjustments." Deal structures are also unlikely to change, Seivert maintained, with upfront payments ranging between 20% and 35% and complete payments finished in two to four years.

BUYERS AND SELLERS: DIFFERENT DESCRIPTIONS

Seivert characterized potential sellers after April 2017 as "those that are ready for liquidity," while Tibergien said sellers would be "desperate" firms with "low energy."

Post-fiduciary rule buyers would be "large, resource rich companies looking to gain scale and grow," according to Seivert. "They will have solutions to address the associated risks and understand the opportunity around these deals."

Tibergien had a more succinct take.

Beginning next spring the buyers of RIAs will be "the vultures and the opportunistic," he declared.