

RESEARCH INSIGHTS

M&A IN THE LEGAL SECTOR

MILLBOURN ROSS M&A RESEARCH - LEGAL SECTOR

As part of the pre-launch due diligence into the M&A market within the legal sector, Millbourn Ross have conducted informal research calls with more than 70 managing partners/CEOs and other c-suite operational leaders covering a wide range of law firms with revenue of £1m to £800m.

The following insights come from the conversations conducted with law firms and have been reinforced with the perspectives of industry leading suppliers and advisors, including banks, chartered accountants, management consultants and corporate financiers.

We have provided the analysis of participating law firms by revenue (£), role and geography.

2020 OVERVIEW

The legal market is set to enter a period of sustained transformation. That's not to suggest it has not been the beneficiary of change in the last decade, but that the pace of change will continue to accelerate.

The coronavirus pandemic is the catalyst for a period of rapid change within the sector. At one end of the spectrum, the pandemic has served to magnify the challenges faced by firms who were already wrestling with the pace of change pre-pandemic, and at the other end there are firms who are financially robust, well governed and in a good position to take advantage of the opportunities that are presented to them.

QUARTER BY QUARTER

Q2 represented an unprecedented period of change in response to the pandemic and economic uncertainty. Firms quickly adapted working behaviours, protected cash and applied rigorous financial best practice across the business.

Q3 was a period of consolidation. Firms refined new policies and procedures, and looked to identify and interpret internal and external indicators that would underpin decision making. The key performance indicator being firms half-year results.

The focus in Q4 has shifted to longer-term strategy. Cautious optimism will prevail. Many firms have a higher degree of clarity on 2020/21 and are now planning for the future.

There are high expectations of market consolidation during 2021 and beyond.

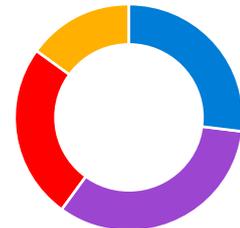
ANALYSIS OF PARTICIPATING LAW FIRMS

BY REVENUE



£1m to £15m	37%
£15m to £30m	21%
£30m to £75m	17%
£75m to £200m	13%
£200m to £800m	12%

BY ROLE



Managing Partner/CEO	27%
COO	33%
CFO/Finance director	25%
Board member/partner/Chair	15%

BY LOCATION



London	51%	Yorkshire	2%
South West	10%	North West	4%
South East	12%	North East	0%
Anglia	6%	Scotland	2%
Midlands	13%		

KEY FINDINGS

A number of key themes emerged during the research.

1

Serendipity over strategy

- The genesis of a surprising number of M&A transactions is not a robust process involving strategic review, market mapping, analysis, identification and approach.
- Known local entities, partner referrals and leadership connections all play a significant part in the outcome of M&A transactions. Too much reliance on these methods is not strategic.
- *"Time spent on reconnaissance is seldom wasted"*. Field Marshall Erwin Rommel

2

Fragmented advisory market

- The Law Society has over 10,000 law firms on its register, so it is unsurprising that the advisory market is fragmented.
- The advisors and consultants that have an interest in the M&A market span a relatively clear spectrum, operating in overlapping segments of the market by size for firm, different geographies and occasionally practice area specialisations.

3

Growth strategies require investment

- Firms are not investing enough management time or money in actioning their growth strategy.
- Those with organic growth strategies focused on cultivating existing/new clients and markets feel less pressure to energetically pursue opportunities.
- Firms committed to a growth strategy that proactively identify lateral hires, team or bolt-on acquisitions or potential merger partners, need to be committed to achieving the outcome.

4

Market research and introductions lack sophistication

- This is possibly a self-fulfilling prophecy driven by the lack of time and financial investment from law firms at the outset.
- The opportunistic behaviours of some advisors leans towards a 'spray and pray' behaviour when it comes to sale mandates. It is this approach to law firm M&A that is unsophisticated, often unhelpful, constitutes a poor use of time and is non-strategic.

5

Competing priorities - tactical versus strategic

- Managing partners/CEOs and leadership teams struggle to maintain a cadence of activity against a growth strategy that includes any aspect of M&A, as they often have to prioritise the day to day running the business.

6

Spotlight on strategy (Succession planning, exit, growth)

- Long-term strategies are under the spotlight. Now, more than ever, managing partners need to have clarity about their future strategy.
- Managing partners need to be confident that they have the support of the equity and wider partnership in order to be decisive and respond to opportunities that are presented.

KEY FINDINGS

A number of key themes emerged during the research.

7

Mid-market growth fuelled by Team/Bolt-on acquisitions

- There is a clear appetite amongst all firms with a growth strategy to do so in a controlled and measured way.
- Firms who are sensitive to dilution of their culture and values through large scale M&A, all express an interest in Teams and Bolt-ons as a more appealing and less disruptive approach.

8

Growth without boundaries

- Firms are more open to conversations beyond their previous geographical restrictions, which will increase competition for acquiring firms and offer more choice to those exiting.

9

Pinch points will create fluidity in the market

- Future pinch points will need to be planned for and navigated.
- The PII renewal season in October was one such pinch point, with others including deferred tax payments, Partners tax payments and the cessation of government support all putting downward pressure on forecast cashflow.
- These pinch points may serve to create fluidity in the market and ultimately play into the hands of the acquiring firms.

10

Emergence of cohorts

- We've seen the emergence of distinct cohorts who can be categorised by their attitude to M&A alongside the financial, regulatory and operational pressures that have manifested as a result of the economic climate.

11

Everyone wants their name above the door

- With the exception of a distressed sale, very rarely do firms enter into conversations without an expectation that it'll be their name above the door.
- This plays into the observation that a Team/Bolt-on growth strategy is more appealing and perhaps suggests that a 'merger of equals' will be a long time coming.
- Growth doesn't have to be about acquisition. Whether some firms can achieve their growth aspirations by being acquired, will come down to an alignment of work synergies, culture, values and aspirations.

12

Goodwill is not that good

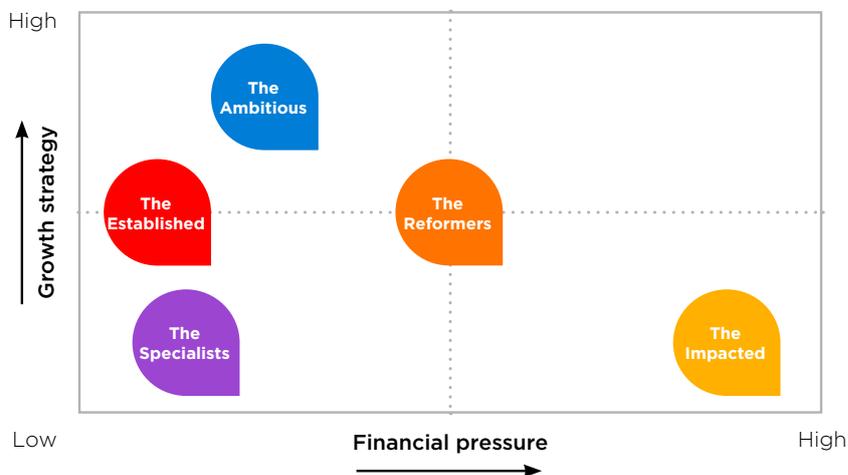
- Valuations are one of the most emotive subjects of conversation. Buyers want assets and sellers want cash, and somewhere in the middle they must meet.
- Going through a proper, agreed upon valuation process is essential in order to manage expectations.

OBSERVATIONS

COHORTS

The emergence of distinct cohorts can be categorised by their attitude to a growth strategy and M&A, alongside the financial, regulatory and operational pressures that have developed as a result of the economic climate.

Millbourn Ross Cohort Matrix



COHORT CHARACTERISTICS

The Impacted	<ul style="list-style-type: none"> • Revenue Change: Reduced fee income up to 30% • Finances: Downward pressure on cashflow/finances – this is likely to play out more significantly into 2021 when government support ceases and the true impact of Covid surfaces • Succession: Challenges to hire and retain talent presents longer-term succession planning challenges • Technology: Pace of technological change becomes costly to maintain in order to compete
The Reformers	<ul style="list-style-type: none"> • Revenue Change: Experienced a low or modest up to 15% impact on fee income • Growth: Maintain aspirations to grow in order to retain or gain a competitive edge and access economies of scale • Funding: Self-funded or financed with banking partners, so tendency to adopt a Team or Bolt-on approach
The Ambitious	<ul style="list-style-type: none"> • Growth: Significant growth agenda - desire to grow revenues by multiples of 2, 3 or 4 and ultimately grow the bottom line • Funding: Private equity backed or significantly funded via banking partners • UK Opportunities: Real desire to acquire firms in the £2m-£15m revenue range across the UK. Maybe a merger of equals? • Overseas Opportunities: Possibly Transatlantic merger for some of the larger firms in the £50m to £250m revenue point
The Established	<ul style="list-style-type: none"> • Revenue Change: Limited impact on revenues from Covid • Growth: The largest firms find it difficult to move the needle on revenue with organic or lateral hire strategy, yet very disruptive to explore large-scale merger • Outcome: Business as usual
The Specialists	<ul style="list-style-type: none"> • Revenue Change: Limited impact on revenues from Covid • Growth: Pursuing an organic growth strategy • Status: Leader in area of specialisation or boutique firm

OBSERVATIONS

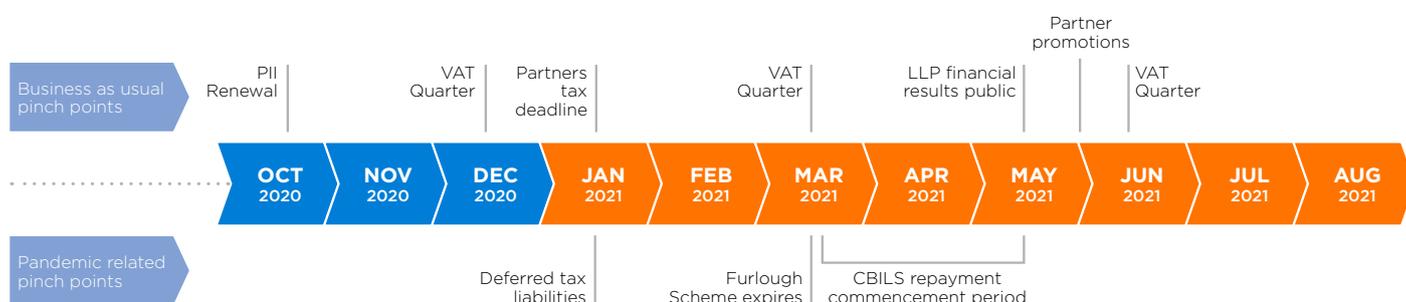
PINCH POINTS

Future pinch points will need to be navigated. The PII renewal season in October was an early hurdle that all firms, irrespective of financial pressures, have faced.

Prudent financial governance will dictate all firms pay close attention to forecasts and cashflow through 2021, although pinch points will become particularly pertinent to firms who have experienced a significant drop in fee income during 2020.

The overall effect of reduced cashflow combined with any lack of rigour around billing and collections may have been eased by government support. However, the cessation of government support, commitment to repay CBILS, deferred tax payments and regular tax liabilities is likely to drive many firms into M&A conversations.

These pinch points can be categorised as ‘business as usual’ pinch points and ‘pandemic related’ pinch points and may serve to create fluidity in the market and ultimately play into the hands of acquiring firms.



Notes

- VAT quarters may vary between firms
- Partners tax deadline may also include any deferred July 20 payments on-account

PRIORITIES FOR GROWTH

There is no consistency as to the priorities or drivers for growth across firms, primarily because of the broad spectrum of businesses.

The core areas that can be influenced can be distilled into;

- **Expertise**
- **Practice areas**
- **Sectors**
- **Geography**

Firms must be clear about purpose, ensuring that the drivers for growth are understood across the leadership team.

Firms should analyse their core areas and apply a methodology to each area that considers the outcomes and benefits of the following scenarios;

- **Entering new**
- **Consolidating existing**
- **Growing existing**
- **Reinforcing existing**



OBSERVATIONS

KEY M&A CONSIDERATIONS

It is no surprise that firms who are looking to scale through M&A, are looking for well run, profitable businesses that fulfil four key criteria;

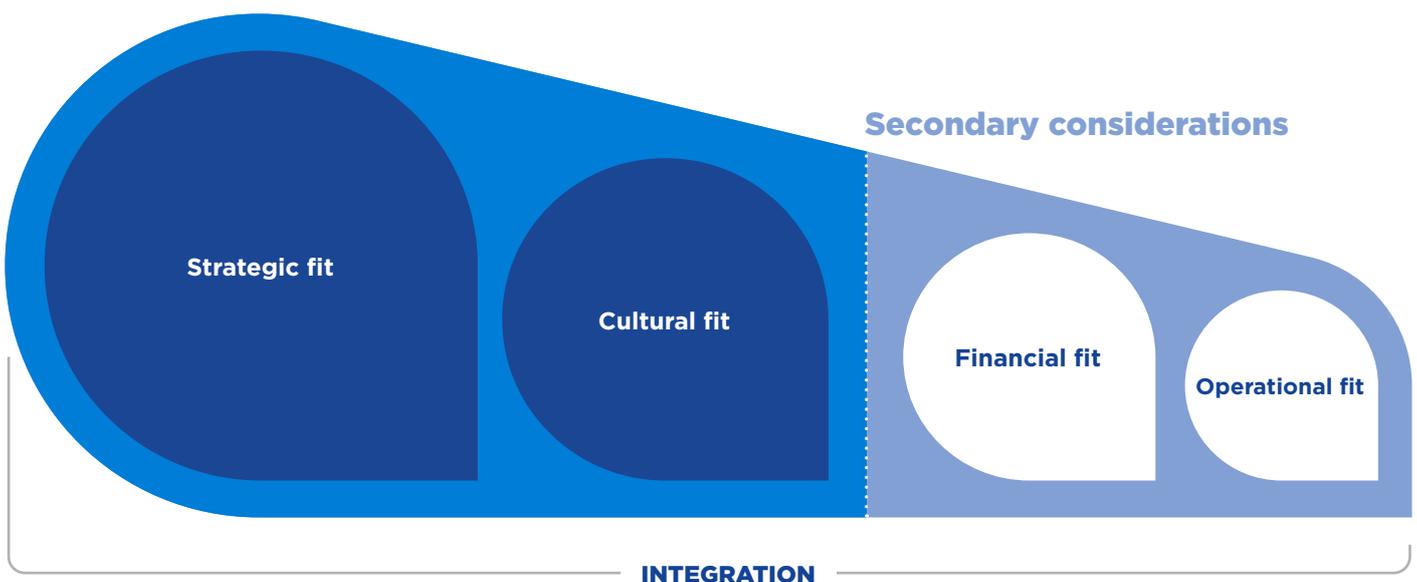
- 1 Strategic fit**
- 2 Cultural fit**
- 3 Financial fit**
- 4 Operational fit**

Whilst there will be opportunities in 2021 for firms to acquire distressed practices, some out of pre-pack, the overriding desire will be to engage firms who have a proven track record with positive financial indicators.

Acquiring or merging firms' future success will rest on the ability to identify strategic and cultural synergies above anything else.

Firms will prioritise these criteria differently – but ultimately strategic and cultural fit must be the primary considerations.

Primary considerations



INTEGRATION

At the outset of M&A, even before a deal has been struck, it is imperative that firms have a clear integration strategy that allows the leadership team to maintain its existing levels of performance.

Well documented failures often cite the misunderstanding of leadership time consumed by integration, alongside a failure to implement a consistent culture as key reasons for unsuccessful transactions.

Identifying external support from integration specialists who can manage the process alongside your existing leadership team should be a consideration.

CONCLUSION

We set out to take the temperature of the law firm M&A market as it pertains to the current economic climate.

Following conversations exclusively with managing partners and leadership teams across a broad spectrum of law firms in the UK, from £1m to £800m in revenues, we have identified some consistent and clear themes across the sector.

Managing partners and leadership teams have successfully navigated the immediate challenges of the coronavirus pandemic, adopted agile operating models to reflect the workforce of the future and are now well placed to turn their attention to growth and longer-term strategy.

Opportunities for growth will surface from a variety of sources. Firms who have found the pandemic magnifies their pre-existing financial or succession planning challenges will be seeking to engage with firms who can ensure a future, whilst disillusioned partners or teams may see this as an opportunity to find a new home more aligned to their own aspirations.

Naturally, most firms risk profile suggests they will apply a cautious and conservative approach to M&A, ensuring that culture and values are not diluted over growth and profit.

M&A SOUNDBITES

M&A related announcements in recent months.

Knightsplc

Type: Acquisition announcement
Date: Nov 2020
Buyer: Knights Group Plc, Newcastle-under-Lyme
Seller: OTB Eveling, Exeter

OTB EVELING

Listed law firm Knights has agreed to acquire an independent commercial law firm based in Exeter.

OTB Eveling was founded in 2012. Knights will buy the firm from its two existing members on a debt free, cash free basis for a total consideration of £2.1m.

wiggin



Type: Acquisition announcement
Date: Nov 2020
Buyer: Wiggin, Cheltenham & London
Seller: Purewal & Partners, London

Wiggin, the media, technology and IP law firm, announces the acquisition of boutique digital entertainment practice Purewal & Partners, to strengthen Wiggin's existing offering. Founder Jas Purewal joins Wiggin's digital entertainment practice as a partner, alongside his team.

Deloitte.
Digital



Type: Acquisition announcement
Date: Nov 2020
Buyer: Deloitte Legal
Seller: Kemp Little

Deloitte Legal has announced the acquisition of law firm Kemp Little, in a move that enhances Deloitte Legal's offering to UK clients. The deal will add 29 partners and up to 57 lawyers upon completion of landmark transaction.

M&A SOUNDBITES



Type: Acquisition announcement
Date: Nov 2020
Buyer: Express Solicitors, Manchester
Seller: McKays Solicitors, Liverpool



Manchester-based personal injury (PI) law firm, Express Solicitors, has acquired Liverpool's McKays Solicitors. The package includes 1,400 ongoing client matters and the continued employment of 18 members of staff.



Type: Acquisition announcement
Date: Nov 2020
Buyer: Schofield Sweeney, Leeds
Seller: Prodicus Legal, Leeds



PRODICUS LEGAL

Established by James Wood in 2013. The firm specialises in complex shareholder disputes, commercial frauds, insolvency litigation and property disputes for businesses and individuals across the UK.



Type: Funding announcement
Date: Oct 2020

Bristol-headquartered law firm VWV has secured a seven-figure finance facility from HSBC UK to support its ongoing growth strategy and ensure it is well-placed to adapt to the changing economy.

The facility gives VWV, which moved its full banking to HSBC earlier this year, the financial headroom and the flexibility to make funding decisions, including on potential acquisitions as well as strategic hires.



Type: Funding announcement
Date: Aug 2020

UK top 25 law firm DAC Beachcroft has sealed a £65m financing deal with Lloyds and HSBC to help give it the "firepower" to push through the covid-downturn.

The London-headquartered law firm, which has 19 offices and more than 2,600 people around the world, said it boosted its finance facility to ensure its plans for growth will not be disrupted by the covid-19 pandemic.

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WORK WITH MILLBOURN ROSS

Millbourn Ross is a specialist independent M&A advisory business for professional services firms and legal technology companies.

By operating a live portfolio of retained businesses on both the buy and sell side, Millbourn Ross work closely with each business to deeply understand their strategy and deliver meaningful introductions as an outcome of market research, mapping and analysis.

Our live portfolio includes businesses that are either;

- Actively looking for growth opportunities through merger or acquisition – Firm, Bolt-on or Teams
- Looking for investment
- Exploring divestment of a practice group or team
- Seeking to be acquired

Millbourn Ross support managing partners/CEOs and strategic leadership teams by providing valuable market insight, introductions and connections that are aligned to the business strategy. Deeply understanding firm cultures, financial, operational and technology frameworks provides our foundation to support your growth.



David Sparkes is the CEO and founder of Millbourn Ross.

A 25 year career in the legal sector provides the foundation for David to support business leaders with their growth strategy.

A strong exponent of investing in people, networks and connections, David is dedicated to close working relationships that drive material value. Having a deep understanding of individual and business goals enables him to facilitate meaningful introductions that are aligned to outcomes and ultimately accelerate the path to success.

David is best known for being the CEO and founder of the highly successful legal media business Burlington Media Group, and responsible for creating some of the most respected communities for operational leaders within the legal sector including Legal Support Network (LSN), Legal Practice Management (LPM), and Briefing communities.

An early career in law with Thomas Eggar Solicitors on the south coast (now Irwin Mitchell), Hanne & Co Solicitors a legal aid franchise in Clapham, London and a successful nine year career in legal recruitment underpins a deep industry network.

Accelerating Growth
through **Strategic Connections**