PRIVATE EQUITY'S NEXT FRONTIER: TRANSFORMING UK LAW FIRMS

ACQUIRA
Professional Services

FOREWORD

JEFF ZINDANI LLB MA, FOUNDER AND MANAGING DIRECTOR

FROM CULTURAL INTEGRATION TO GOVERNANCE CHALLENGES, PRIVATE EQUITY IS NOT A ONE-SIZE-FITS-ALL SOLUTION. YET, FOR FORWARD-THINKING LAW FIRMS, IT COULD BE THE CATALYST THAT REDEFINES THEIR FUTURE.

The UK legal sector stands at a crossroads, balancing tradition with transformation, as private equity investment opens new frontiers. This white paper delves into the opportunities and challenges of this significant shift, exploring how law firms and investors can harness innovation to stay ahead.

Private equity investment offers law firms the firepower to scale, innovate, and future-proof their businesses. In a rapidly evolving market, standing still is simply not an option.

However, with opportunity comes complexity.

From cultural integration to governance challenges, private equity is not a one-size-fits-all solution. Yet, for forward-thinking law firms, it could be the catalyst that redefines their future.

This white paper serves as an essential guide to navigating the evolving landscape of legal sector investment.

J Zindani

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CONTENTS

EXECUTIVE SUMMARY

- **Rising Interest:** Private equity (PE) investors are increasingly drawn to the legal services sector, spurred by significant capital reserves (often referred to as "dry powder") and the need to broaden their portfolios by finding consistent returns in new markets.

- **UK at the Forefront:** The liberalised UK legal market, underpinned by the Legal Services Act 2007 and the creation of Alternative Business Structures (ABSs), has become a prime target for PE investment.

- **Unique Culture:** Investors must understand the deeply rooted culture of law firms, which are often hierarchical and reliant on the reputation of individual partners. Success here rests on intangible assets—chief among them, legal expertise and client relationships.

- **Buy-to-Build Strategy:** Many PE firms employ a buy-to-build model, acquiring a "platform" law firm and bolting on smaller practices with complementary expertise. This can generate growth through consolidation in a fragmented market.

- **Risks:** Common pitfalls include excessive debt, cultural misalignment, over-leveraging during expansions, and potential regulatory obstacles. Thorough due diligence, cultural alignment, and carefully managed financial structures are crucial to a successful investment.

WHY LAW FIRMS CAN'T IGNORE PRIVATE EQUITY

PRIVATE EQUITY'S GROWING INTEREST IN THE LEGAL SECTOR HAS, UNTIL RELATIVELY RECENTLY, BEEN MET WITH CAUTION BY MANY LAW FIRM LEADERS—LONG ACCUSTOMED TO PARTNERSHIP STRUCTURES AND WARY OF EXTERNAL OWNERSHIP.

However, PE's transformative potential and deep pockets mean that its arrival is more than a passing trend. Law firm leaders who dismiss the opportunity outright may miss out on a strategic avenue to fund growth, drive digital transformation, and strengthen market positioning.

"Private equity investment into law firms is still nascent, and yet to reach a tipping point," says senior investment manager **Robin Elley** from **Waterland Private Equity**. Waterland, a Dutch buy-to-build investor, made its first investment into the UK legal market through North-West based **Beyond Law Group** in 2024. "The UK legal market offers opportunities as it is highly fragmented, which offers scope for consolidation and revenue growth," he says.

2023 was a strong year for UK law firm mergers, according to accounting firm Hazlewoods. The total of 122 mergers was on a par with the 121 recorded in 2022, marking a recovery from the ten-year low in 2021.[1]

Our M&A tracker recorded over 150 deals in 2024, and we anticipate an even more active year ahead.[2]

Although global tie-ups capture the headlines, much activity emanates from the regional market, as larger firms acquire niche practices to add complementary specialisms. Looking closer, behind a number of these deals is a private equity backer.

Private equity provides investment that can be used for technology upgrades, regional expansion and talent acquisition. The private equity directors who sit on the law firm board also bring experience of multiple industry sectors, with fresh ideas on how to achieve profitability. Jeff Zindani, managing director at Acquira Professional Services, sums up the advantages:

"In a competitive legal market in which digital transformation is becoming vital to service delivery, law firms are seeking ways to scale their businesses," he says. "One of the options is private equity investment. The capital injection that these investors provide allows law firms to build their practices and roll out the changes required to create operational efficiencies and future-proof their practice."

1 Legal update: Little slowdown in UK law firm mergers – 121 in past year Hazlewoods: Business Advisers and Accountants

2 Momentum, Acquira Professional Services Newsletter October 2024.

> In a competitive legal market in which digital transformation is becoming vital to service delivery, law firms are seeking ways to scale their businesses. One of the options is private equity investment. The capital injection that these investors provide allows law firms to build their practices and roll out the changes required to create operational efficiencies and future-proof their practice.
>
> JEFF ZINDANI, MANAGING DIRECTOR, ACQUIRA PROFESSIONAL SERVICES

Yet this route is not for everyone.

While private equity can fuel rapid growth and inject valuable strategic expertise, it also carries implications for governance and culture that not all firms will find acceptable.

For law firm leaders wary of external ownership or tighter oversight, alternative financing options—ranging from traditional bank loans and specialist lenders to hedge funds—may be more appealing. It is important to note that PE deals vary widely; a full buyout is only one option among minority stakes, co-investments, and structured partnerships that can preserve elements of a firm's autonomy.

Ultimately, for private equity to be a springboard rather than a stumbling block, leaders need a firm grasp of both the potential benefits—capital for expansion, upgraded technology, enhanced managerial skills—and the possible drawbacks, such as diluted control, intensified performance targets, and cultural disruption.

In a legal market where consolidation and digital transformation are accelerating, understanding the entire financing landscape is critical to making sound, strategic decisions.

A SURGE IN INTEREST—GOLD RUSH OR GOOD BUSINESS?

In the last six months, we've seen a notable spike in interest from private equity and external investors, a trend that feels akin to a modern-day gold rush in the legal market. Whether this reflects **"irrational exuberance,"** as Alan Greenspan famously put it, or simply good business sense remains to be seen, but the rapid pace of investment underscores why no law firm can afford to ignore the possibilities.

UNDERSTANDING PRIVATE EQUITY: KEY CONCEPTS AND STRATEGIES

NOW AN ESTABLISHED ALTERNATIVE INVESTMENT CLASS, PRIVATE EQUITY TARGETS BUSINESSES WHERE THERE IS THE PROSPECT OF RAPID GROWTH, BOTH IN THE PUBLIC AND PRIVATE MARKETS.

The average holding period for a portfolio company is typically between three and five years, with the median holding period increasing to six years in the last decade.[3]

The buy-to-build model is currently popular. A platform company is used to bolt on smaller businesses which enhance its potential – adding tech capabilities, or complementary practices. In an exit, the investment will benefit from the arbitrage between the higher EBITDA multiples for a larger business and lower multiples paid across smaller acquisitions.

EVOLVING REPUTATION AND MARKET AGILITY

Private equity has a long and mixed reputation, with opinions often sharply divided.

Although some see it as an invigorating force that revitalises companies with fresh capital and managerial expertise, others remain sceptical, recalling 1980s-era asset-stripping and leveraged buyouts epitomised in the best-selling book in 1989, *Barbarians at the Gate: The Fall of RJR Nabisco.*

> **So private equity is among the many asset classes that investors can deploy their money into. It carries a certain level of risk, much higher than the risk in investing bond and public shares.**
>
> SHERMAN SET, UNVEILING THE SECRETS OF PRIVATE EQUITY: BY AN INSIDER

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[3] How Long Do Private Equity Firms Keep Companies? Private Equity List -March 2024

Today's private equity, however, is far more diverse:

- **Sector Specialists:** Smaller, focused operators bringing deep expertise in a specific vertical.
- **Global Giants:** Firms like Apollo, Blackstone, Carlyle, and KKR, with billions in Assets Under Management (AUM), many of which are publicly listed and subject to greater disclosure requirements.

Whatever your views, with an estimated 3,530 private equity firms active across the world, private equity is now a major player in global capital flows that cannot be ignored.

What many law firm owners may not realize is that private equity has evolved to place ESG considerations at the heart of its investment strategies.

As **Simon Witney** explains in a chapter on ESG in the seminal book, Private Equity (5th Edition, 2024):

"While some are sceptical that the private equity model can be relied upon to address societal concerns, given its historical focus on corporate performance and financial outcomes, there is evidence that private equity sponsors are now prioritizing ESG (or sustainability) issues."

Furthermore, many modern private equity funds uphold standards of corporate governance and transparency that the SRA can only dream of.

RESHAPING STAFF RELATIONS IN LAW FIRMS?

PE often finds itself at the centre of criticism, accused of acting as ruthless asset strippers who impose poorer employment terms, stricter performance management regimes, and onerous reporting requirements on acquired companies.

While the empirical evidence for such claims remains contentious, anecdotal accounts paint a concerning picture. Reports from legal professionals, for instance, suggest that private capital's entry into law firms has placed considerable pressure on staff[4].

The shift from bespoke personal services to more automated, standardised work has been a notable consequence of private equity investment. As highlighted in the Financial Times article, *"The introduction of private capital has triggered discontent among some law firm staff, who say a ruthless focus on productivity and growth has pushed up workloads and impacted the quality of client interaction."*

> **While some are sceptical that the private equity model can be relied upon to address societal concerns, given its historical focus on corporate performance and financial outcomes, there is evidence that private equity sponsors are now prioritizing ESG (or sustainability) issues.**
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> SIMON WITNEY, PRIVATE EQUITY (5TH EDITION, 2024)

This trend is particularly evident in consumer-focused practice areas such as personal injury or family law, where scale and efficiency are often prioritised. However, this transformation may accelerate further with the rapid adoption of generative AI in the legal sector.

Generative AI is poised to revolutionise legal services by automating tasks that were once highly bespoke, such as drafting contracts, reviewing documents, and even creating tailored legal advice. While this innovation holds significant potential to drive efficiency and reduce costs, it also risks further eroding the traditional client-centric approach that defines the profession. Private equity firms, eager to maximise returns, are likely to embrace this technology to standardise and scale operations even further, potentially exacerbating concerns about increased workloads and reduced personal interaction with clients.

It is worth noting, however, that private equity itself is deeply reliant on human capital. As the legal profession is fundamentally a people-driven business, the loss of key talent would be counterproductive for any acquirer. Successful private equity firms often recognise the importance of alignment between their objectives and those of the professionals they rely on.

As **Sachin Khajuria** explains in Two and Twenty: How the Masters of Private Equity Always Win, *"Private equity is a people business... The connective tissue is investment professionals working on deals. They behave as engaged owners—they eat what they cook. Their ingrained sense of personal ownership makes the difference. Outcome-based financial incentives in private equity underpin the alignment between investment professionals and their investors. The folks doing the deals get paid when those who put up most of the money get paid—they win together. This symbiosis is critical to success."*

For private equity firms to succeed in the evolving legal landscape, they must go beyond financial engineering and technological innovation. Embracing generative AI may bring operational efficiencies, it is essential to balance these advancements with strategies that retain key talent and preserve the human relationships that underpin the profession.

Failure to do so could result in long-term damage to employee morale, client relationships, and the reputation of both the law firms and their investors

[4] Private Equity Money Flows into UK's Consumer Law Firms, Financial Times, 13 January 2025.

SHIFTING ATTITUDES TOWARD PRIVATE EQUITY IN THE UK LEGAL SECTOR

A NOTABLE BELLWETHER REPORT, BY HSBC , IS THE RESULT OF AN ANNUAL SURVEY CONDUCTED AMONG NEARLY 100 SENIOR STRATEGIC LEADERS IN THE UK'S LEGAL SECTOR. THIS SURVEY INCLUDES CEOS, MANAGING PARTNERS, AND CHIEF OPERATING AND FINANCIAL OFFICERS FROM ALL THE LEADING UK-BASED LAW FIRMS, PROVIDING COMPREHENSIVE INSIGHTS INTO THEIR STRATEGIC PRIORITIES AND INVESTMENT OUTLOOK.

The research reveals that while nearly half (49%) of senior law firm leaders anticipate mergers or acquisitions in the near future, only 8% currently expect private equity (PE) backing to play a role in their immediate strategies. This low figure reflects the longstanding resistance among law firms to PE investment, driven by concerns over autonomy, cultural impact, and operational independence.

However, attitudes are shifting.

The survey indicates that more law firm leaders now see PE as a more attractive option than they did two years ago. Notably, the proportion of respondents who view private equity as "less attractive" for their firm's growth or transformation has fallen sharply from 33% to just 11%. This trend aligns with our own discussions with law firm leaders, where we've observed increasing openness to PE and external investment as strategic drivers of growth and innovation. The typical "let's watch and see" approach may mean that some firms miss out on opportunities.

As Jeff Zindani pointed out in an interview with the Financial Times in January of this year, *"Profit-driven investors and partnership-led firms rarely mix, but if it can be done, the return on investment can be huge."*

Over the past three months, we have interviewed more than 10 leaders from the UK's top 100 law firms and 20 from the top 200. While overall sentiment towards PE remains lukewarm to negative, what stood out was a deep-rooted concern about the influence and control PE investors could exert in the legal sector.

THIS SHIFT IS DRIVEN BY SEVERAL FACTORS:

1. ENHANCED VALUE PROPOSITION FROM PE FIRMS:

PE firms are increasingly offering more than just capital. They provide strategic guidance, operational improvements, and access to broader networks, aligning with law firms' aspirations for sustainable growth and innovation.

2. MARKET PRESSURES AND GROWTH OPPORTUNITIES:

Competitive pressures in the legal market, coupled with opportunities for technological advancements and service diversification, are prompting firms to consider external investment as a means to accelerate their transformation and maintain competitiveness.

3. SUCCESSFUL PE PARTNERSHIPS:

Early adopters of PE investment within the legal sector have demonstrated successful outcomes, showcasing how such partnerships can drive efficiency, expand service capabilities, and enhance client offerings. These success stories are gradually influencing the perceptions of other law firm leaders.

4. IMPROVED CULTURAL ALIGNMENT:

PE firms are becoming more attuned to the unique culture and operational dynamics of law firms. By emphasizing cultural alignment and maintaining the professional autonomy of legal practices, PE investors are addressing one of the primary concerns that have historically hindered collaboration.

These factors collectively contribute to the changing perceptions of private equity within the legal sector. As cultural alignment between PE investors and legal practices improves and more success stories emerge, it is expected that an increasing number of law firms will consider strategic PE partnerships as viable pathways to achieving long-term success and maintaining their competitive edge in the rapidly evolving legal market.

> **Profit-driven investors and partnership-led firms rarely mix, but if it can be done, the return on investment can be huge.**
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> JEFF ZINDANI, MANAGING DIRECTOR, ACQUIRA PROFESSIONAL SERVICES

PRIVATE EQUITY ENTERS THE LEGAL MARKET: THE STORY SO FAR

PERMEATING MOST INDUSTRY SECTORS: FINANCE, INSURANCE, HOSPITALITY, HEALTHCARE, PRISONS, AND MORE RECENTLY ACCOUNTANCY AND CONSULTING – PRIVATE EQUITY HAS NOW TURNED ITS ATTENTION TO THE LAW. ONE REASON IS THE UNPRECEDENTED AMOUNTS OF "DRY POWDER" – CAPITAL COMMITTED BUT NOT YET DEPLOYED – WHICH REACHED AN ALL-TIME HIGH OF US$3.7 TRILLION IN 2023, ACCORDING TO MCKINSEY. LAW AND OTHER PROFESSIONAL SERVICES ARE NEW FRONTIERS FOR DIVERSIFICATION OF THESE RESOURCES.

Private equity may not seem like an obvious fit for the legal profession, which tends to be conservative, with a complex, hierarchical culture. That a law firm's core value rests in intangibles - the knowledge of its people and client pipeline - rather than industrial assets, is also a challenge. Yet there is an emerging pattern of private equity investors targeting certain types of legal businesses. Private equity firms active in the UK legal market include Inflexion, Blixt, Sun European Partners, Investcorp, Horizon Capital and Waterland.

ALTERNATIVE INVESTORS AND CAPITAL SOURCES IN THE LEGAL SECTOR

ALTERNATIVE FINANCE PROVIDERS

Private equity is not the only route to external investment. Alternative finance providers offer loans or mezzanine financing without taking an equity stake.

MAPD Group was established in 2020 through a management buyout of Jackson Lees Group, which comprised the North West firms Jackson Lees and Broudie Jackson Canter. To finance the acquisition, it partnered with Shard Credit Partners, an alternative finance provider specialising in the UK's lower mid-market SMEs. Founders **Brian Cullen** and **Joanna Kingston-Davies**, both with business management backgrounds, retained full ownership.

Since then, MAPD Group has pursued an ambitious buy-to-build strategy, acquiring several well-established firms, including Stoke-based Myers & Co, Liverpool and Manchester firm Bermans, Cumbrian firm Thomson Hayton Winkley, Ashton-under-Lyne practice Bromleys, and Southport-based private client specialists Farrington Law.

At the heart of MAPD's strategy is a commitment to **Making a Positive Difference**—a unifying ethos that drives business performance, motivates people, strengthens client service, and fosters deeper community ties. The group's focus on sustainable growth ensures that its firms not only expand but also remain true to their core values.

Looking at its position in 2024, MAPD Group reports an annualised turnover of £38 million and EBITDA of approximately £6.6 million, reflecting steady growth driven by its strategic acquisitions and operational model.

Speaking with us, CEO Brian Cullen emphasised the importance of selecting the right investment partners:

"For us, the critical challenge is balancing entrepreneurship with governance. By staying true to this principle, we are building a sustainable law firm group on solid foundations and whilst we haven't chosen Private Equity for the first stage of our journey we can see the merits of bringing the right partner on board to fuel further growth."

MAPD Group's trajectory highlights an alternative path to scale and success in the legal sector—one that prioritises independence, values-driven leadership, and long-term resilience over external capital.

We have even seen a private equity–backed law firm, **Fletchers**—owned by **Sun European Partners** since 2021—secure a significant long-term loan in June 2024 from **Pemberton**, a leading European asset manager specializing in private debt and backed by **Legal & General**.

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> BRIAN CULLEN, CEO, MAPD GROUP

This financing serves as a multi-year facility that Fletchers will use to settle existing bank, vendor, and acquisition loans. The move illustrates how sophisticated funding structures can support ambitious law firms in managing their debt obligations while positioning themselves for continued growth.

However, it does raise the question of why Sun did not provide the necessary financing themselves?

Using mainstream or alternative finance providers for loans can provide more autonomy than a private equity firm, which will take a stake and place directors on the board. A loan could be suitable for those who wish to maintain control of the strategic direction of the firm, and do not feel they need external management expertise.

The disadvantage is that loan providers are not decision-makers. They will not steer the growth of the business nor always wait for longer-term investments into talent to play out before calling in the investment.

It is important to recognise that these financing arrangements often come at a premium, with lenders typically charging high interest rates—sometimes in the high teens—alongside additional fees.
This reflects the lender's limited control over strategic decisions and the increased risk involved.

Financing may be more accessible when firms have an asset base to leverage, such as in personal injury, but for most law firms, this will not be the case. However, we anticipate that the private credit sector will continue to expand, with even litigation funders showing increasing interest in this space.

Harbour exemplifies this shift, moving beyond litigation funding to support law firm growth through alternative finance. Its backing of **Rothley Law's** acquisition of Shoosmiths' private client business in 2023 highlights this trend, enabling Rothley to expand its consumer legal services

THE FUSION OF PRIVATE EQUITY, PRIVATE CREDIT, AND BANKS: A NEW GROWTH ENGINE FOR UK LAW FIRMS?

THE EVOLVING RELATIONSHIP BETWEEN BANKS, PRIVATE CREDIT FIRMS, AND PRIVATE EQUITY IS RESHAPING HOW CAPITAL FLOWS INTO THE UK LEGAL MARKET—OPENING UP NEW FUNDING AVENUES FOR LAW FIRM GROWTH.

As **Victoria Ritchie**, Head of Professional Services at HSBC, put it *"We understand that law firms frequently need customised funding solutions, especially for M&A transactions and other strategic initiatives. Although traditional financing models play an important role and continue to be essential for supporting growth in the sector, there is a growing interest in tailored private credit options to address both growth and operational requirements".*

Stricter post-Global Financial Crisis regulations have led banks to increasingly partner with private credit providers, ensuring continued lending capacity while navigating regulatory constraints. These collaborations have already transformed financing in high-growth sectors, and we predict that this trend will extend to the legal sector, providing firms with new opportunities to secure capital for expansion.

At the same time, private equity's deepening ties with private credit are creating a compelling funding model that combines speed, flexibility, and scalability. By aligning capital from both sources, private equity-backed businesses can access bespoke financing solutions with greater certainty—an approach that we expect law firms to increasingly leverage.

Whether for strategic acquisitions, lateral hires, or specialist practice development, private credit could provide law firms with the financial firepower traditionally reserved for corporate deals.

A notable example of this trend is the UK-focused partnership between **Lloyds Bank** and **Oaktree Capital**, which provides lending to private-equity-backed borrowers in the mid-market.

"The core of the partnership is to increase their hold capability. It also provides certainty and speed of execution," explains **Nael Khatoun**, Managing Director at Oaktree.

As private credit continues to gain traction, we anticipate a shift towards structured financing solutions within the legal sector, enabling firms to scale and compete more aggressively in an evolving market.

HEDGE FUNDS

Hedge funds have also dipped their toes into legal services, mainly in litigation funding and debt recovery.

Azurro Law launched in 2020, backed by debt recovery litigation financier Azzurro Associates. Elliott Management, the activist US hedge fund with AUM totalling around US$69.7 billion, is Azzuro's parent company. In 2024 Azzurro Law became Solaris Law, after acquiring the legal services division of Equivo and Shoosmiths' business-to-business recoveries division. Solaris Law is now one of the largest consumer and commercial collections and legal debt recovery operations in the UK.

PRIVATE EQUITY

Most private equity investments adopt a **buy-to-build** formula typically snapping up niche practices that enhance a "platform" law firm's offerings.

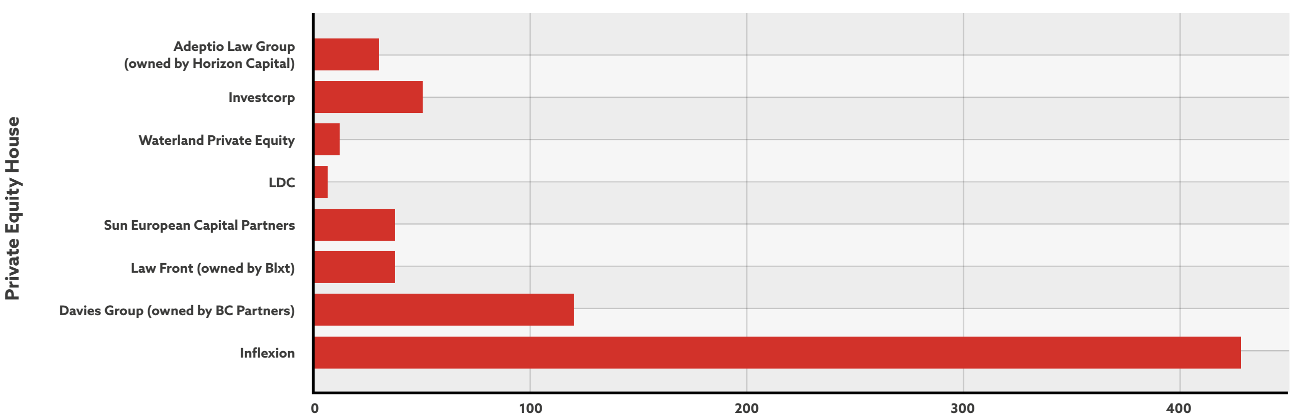
In recent years, deals of note include:

Beyond Law Group: In July 2024 Waterland took a minority stake in Beyond Law Group: an ensemble of legal brands including Beyond Corporate, McAlister Family Law and Home Property Law. Established in 2017, Beyond Law has offices in Manchester, Cheshire and London. Beyond Law describes itself as "a disruptor" offering an alternative to big law, building specialist legal practices that can compete under their own brands under one umbrella. The cash injection will fund growth and further acquisitions of specialist practices.

The Beyond Law/Waterland tie up is a "strategic partnership" between the parties. The type of investment arrangement, and how it is messaged to employees and the outside world, is an essential part of the negotiations between investor and law firm.

Lawfront: Blixt is a pan-European private equity firm focused on growing professional services firms. Since 2021 Blixt has, through its Lawfront platform, partnered with a

Tracked PE Investment Deal Values in the UK Legal Sector (2019-2024)



Source: Private Equity in the Legal Sector: A Special Report by Acquira Professional Services, London, Due January 2025 handful of regional firms, including Essex firm FJG, north-west practices Farleys and Slater Heelis, East Midlands law firm Nelsons and Patterson Commercial Law. Further firms joining the group will be announced in spring 2025.

Carl Harring, CEO of Blixt, explained his business rationale to us:

"We are active business partners who bring a particular skill set that law firms often do not have internally, including knowledge of high-calibre operations, technology, finance and marketing," he says. "We have the ability to make swift decisions and enable lawyers to do what they love, while benefiting from our support with the rest of the business."

Fletchers: Fletchers, a personal injury and medical negligence specialist, was acquired by European mid-market specialists Sun European Partners in October 2021. New offices have opened in Leeds and Manchester, and Fletchers has made a string of acquisitions: the personal injury division of Burnley firm Smith Jones and its brand targeting injured cyclists, Cycle SOS; Leeds medical negligence firm Minton Morill; Leeds based Emsleys (brokered by Acquira) and Blume, a customer acquisition specialist.

In 2024 Serious Injury Law was added to the portfolio and more recently Scott Rees, a large personal injury and clinical negligence practice .

The string of Fletchers' acquisitions demonstrates private equity taking advantage of opportunities for consolidation in the fragmented personal injury and medical negligence market.

FBC Manby Bowdler: In November 2024 **Horizon Capital** announced a £30 million investment in Wolverhampton-based firm FBC Manby Bowdler to fund significant expansion at the 200-strong firm. FBC Manby Bowdler will serve as the cornerstone for Horizon's new law group **Adeptio**.

Horizon Capital is definitely one to watch in 2025 for future acquisitions, led by CEO **Neil Lloyd**—not to be confused with Lawfront's CEO of the same name—an experienced law firm leader who brings a keen understanding of both culture and financial performance.

It's business as usual for Adeptio Law Group, but the opportunities for growth appear boundless.

Neil Lloyd, CEO of Adeptio Law Group, shared in an interview with us, his enthusiasm for the firm's future: *"This is an incredibly positive step for our firm, our 200-strong team, and, most importantly, our clients. They'll continue to work with the trusted teams they know and rely on, but now with the added strength of being part of a larger, more diverse legal network. This enables us to provide even more comprehensive solutions to complex legal challenges while maintaining the stellar service we're renowned for.*

This investment will allow us to create high-quality jobs, attract top legal talent to the area, and deliver world-class legal services to businesses and individuals both in the Midlands and beyond."

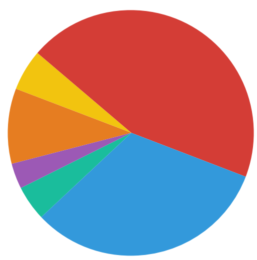
The broader strategic vision driving this move was neatly summarised by **Simon Hitchcock**, Managing Partner at Horizon Capital:

"We are thrilled to be investing in the legal services market, which boasts strong organic growth drivers and presents a compelling opportunity for consolidation."

HF: UK mid-market private equity firm CBPE announced in December 2024 that it is acquiring a minority stake in HF, a UK-wide firm focused on insurance companies and corporates. HF transitioned from a partnership to a limited company in 2021, a move that facilitated the introduction of an all-employee share scheme. It also has an AI focused subsidiary, HighFive.

PE Investment Deal Values by Year (in Millions)

- 2019: 60m
- 2020: 120m
- 2021: 40.7m
- 2022: 54.9m
- 2023: 377m
- 2024: 534m



Source: Private Equity in the Legal Sector: A Special Report by Acquira Professional Services, London, Due January 2025

CASE STUDY

INFLEXION'S TRANSFORMATIVE STEP WITH DWF

PE IS INCREASINGLY TARGETING THE BUSINESS LEGAL SERVICES SECTOR, ATTRACTED BY ITS GROWTH POTENTIAL AND OPPORTUNITIES FOR INNOVATION AND CONSOLIDATION. INFLEXION PRIVATE EQUITY'S ACQUISITION OF DWF GROUP, A GLOBAL LEADER IN LEGAL AND BUSINESS SERVICES, STANDS AS THE LARGEST PRIVATE EQUITY ACQUISITION IN THE UK LEGAL SECTOR TO DATE. THIS DEAL DEMONSTRATES HOW PE MUSCLE CAN TRANSFORM A LEGAL PRACTICE, DELIVERING REMARKABLE FINANCIAL RESULTS AND OPERATIONAL ADVANCEMENTS.

OVERVIEW OF THE ACQUISITION

In July 2023, Inflexion Private Equity acquired DWF Group plc for £342 million, offering shareholders £1 per share—a 52.7% premium on DWF's July 7 closing price. The deal was finalised in October 2023, cementing its status as a landmark transaction.

STRATEGIC RATIONALE

The acquisition aligns with Inflexion's strategy to invest in high-growth, scalable sectors. Key drivers include:

- **Resilient Growth:** Sustained demand for scalable legal solutions.
- **Consolidation Potential:** Opportunities to integrate fragmented markets.
- **Global Expansion:** Leveraging DWF's international footprint for cross-border growth.

Simon Turner, Managing Partner at Inflexion, remarked: *"DWF's reputation and global presence make it a perfect fit for our portfolio. We look forward to driving growth together."*

DWF'S STRENGTHS

DWF's market-leading position is underpinned by:

- **Excellence:** Integrated legal and business services with a strong reputation.
- **Global Reach:** 4,000 employees in 30 offices across 18 countries.
- **Innovation:** Advanced technology and alternative service models.

FINANCIAL AND BUSINESS PERFORMANCE

For the year ending 30 April 2024, DWF has delivered remarkable financial outcomes, reflecting the transformative impact of Inflexion's investment:

- **Net Revenue Growth:** Up 14% to £435 million.
- **Divisional Performance:**
  - **Insurance Services:** Grew by 24% following the acquisition of Whitelaw Twining in Canada.
  - **Commercial Services and Legal Operations:** Achieved 8% growth each.
- **Client Engagement:** Secured 30+ panel appointments, with a Net Promoter Score rising from +62 to +69.

TALENT AND INNOVATION

DWF prioritises talent and digital transformation:

- Promoted 33 colleagues to partner roles and hired 25 lateral partners.
- Announced the acquisition of Australian claims management business Proclaim, expanding its Claims Management team to 320 professionals in nine jurisdictions.
- Launched an AI-driven digital transformation programme, including Microsoft Copilot rollout.

CEO Sir Nigel Knowles stated: *"This excellent performance demonstrates our integrated approach. Inflexion's investment has accelerated our goals, with Proclaim's acquisition and our digital transformation marking key milestones. We anticipate further growth in 2024."*

IMPACT ON DWF

The partnership with Inflexion has profoundly transformed DWF, delivering:

- **Resources:** Financial and strategic backing to drive growth.
- **Scalability:** Expanded operations and service offerings.
- **Talent Development:** Enhanced employee retention and recruitment.

CONCLUSION: A WAKE UP CALL?

Inflexion's acquisition of DWF underscores the transformative potential of private equity in the legal sector.

By leveraging PE muscle, DWF has achieved remarkable financial results and operational advancements, as evidenced by its recent financial performance. This case study highlights the pivotal role of private equity in reshaping the legal market, balancing profitability with client-focused service and innovation.

Partners at traditional firms need to wake up to this.

As the legal sector evolves under the influence of private equity, standing still is not an option. The remarkable financial results achieved by DWF are a clear signal that traditional firms must adapt or risk being left behind in a rapidly consolidating market, emphasising the urgency for innovation and agility in the face of such transformative change.

THE INVESTMENT STRUCTURES: BUYOUTS, CO-INVESTMENT & MINORITY STAKES

WHEN A PE FIRM INVESTS IN A LAW FIRM, THE STRUCTURE IS FAR FROM A BINARY CHOICE; ARRANGEMENTS CAN RANGE FROM SMALL MINORITY STAKES THAT PRESERVE LEADERSHIP AUTONOMY TO FULL BUYOUTS WHERE THE INVESTOR ASSUMES TOTAL CONTROL, AND EVERYTHING IN BETWEEN.

BUYOUTS

This is when the investor (or investors in the case of a consortium) takes ownership of its acquisition. An example is of course Inflexion's £342 million take-private of DWF Group in July 2023, when DWF was the UK's largest publicly traded law firm.

CO-INVESTMENT

This is an emerging trend in private equity whereby an investor acquires a minority stake in a company alongside a private equity fund manager. Typically, this co-investor is a large institutional entity rather than a retail investor, though high-net-worth individuals can also participate. Co-investors gain access to potentially lucrative deals without incurring the usual private equity management fees.

Moreover, from our experience, there is growing appetite among external investors for these co-investment arrangements rather than pursuing full-scale acquisitions, reflecting a broader shift toward more flexible deal structures in the legal sector. Such arrangements can also be more appealing to traditional partnership models, as a minority stake structure may assuage concerns over ceding control to external parties.

WHEN LAW FIRM INVESTMENTS GO WRONG: CAUTIONARY TALES

THE COLLAPSES OF KINGLY, METAMORPH LAW AND, MOST RECENTLY AND INFAMOUSLY, AXIOM INCE HAVE TRAINED A HARSH SPOTLIGHT ON CONSOLIDATOR LAW FIRMS.

MCMILLAN WILLIAMS:

Business Growth Fund (BGF) provides long-term, minority capital to SMEs in the UK and Ireland. In 2015 BGF bought a 26% equity share in Croydon firm McMillan Williams, known for its legal aid practice. By 2019, McMillan Williams had accrued over £20 million in debts while pursuing an aggressive growth strategy, before being bought in 2020 as part of a pre-pack administration deal by Taylor Rose TTKW.

Administrators Quantuma indicated that, as McMillan was highly leveraged with steep levels of historic debt and a high fixed-cost base, it was particularly vulnerable to the pandemic downturn. Lenders included not only BGF (which also provided further loans) but Doorway Capital, Lombard North Central and its own founding partner, John McMillan.

ROBERTS JACKSON:

When industrial disease specialist Roberts Jackson failed in 2019, private equity firm NorthEdge Capital, which invested in the firm in 2014, did not receive any of the £22.5 million it was owed. The administrator Quantuma cited the high cost of funding case files as having *"a severe detrimental effect on firms"* such as Roberts Jackson.

Robust due diligence is indispensable, allowing both the law firm and the private equity investor to fully grasp the target market's inherent risks and the firm's specific vulnerabilities. Although private equity backers can bring significant managerial expertise and fresh perspectives, their strategic playbooks vary widely; law firms should thoroughly assess how each investor approaches governance, operational support, and growth.

Equally important is planning for effective debt management in the event of an economic downturn—particularly because high leverage secured against work in progress can be a chronic warning sign of future insolvency.

A buy-to-build strategy, meanwhile, can fortify resilience by assembling a portfolio of complementary practice areas, helping to balance revenue streams across the business cycle.

CASE STUDY

KEYSTONE LAW

FOUNDED IN 2002, KEYSTONE LAW OFFERS A BLUEPRINT FOR PE-ASSISTED EVOLUTION: FROM EARLY ADOPTION OF AN ABS LICENCE TO A SUCCESSFUL AIM FLOTATION, ALL BOLSTERED BY CAPITAL FROM ROOT CAPITAL.

THE RESULT?

Rapid expansion, technology-enabled service delivery, and a sustainable IPO.

- 2002 - established as Lawyers Direct.
- 2008 - changed name to Keystone Law.
- 2011 - established a technology platform that allowed flexible, remote working.
- 2013 - granted an ABS (alternative business structure) licence in October.
- May 2014 - established in Australia under the name Keypoint Law.
- October 2014 - secured £3.15 million in funding from boutique private equity firm Root Capital.
- 2016 - established offices in Isle of Man, also in the Northern Ireland through merger with McMahon McKay.
- 2017 - IPO on the AIM market of the London Stock Exchange, the third law firm to do so. Keystone was valued with a market cap of £50 million, following an £15 million fundraising. Share value rose by over 20% from 160p to 196p in the first few hours of trading.
- 2024 – as of 31 January 2024, Keystone had revenue growth of 15.1% to £87.9 million, compared to £76.4 million for the same period in 2023. The more recent half yearly figures show a steady increase and solid profit margin around 13.3%.

The private equity arrangement: Root held 35% of Keystone's shares, with its managing partner **Simon Philips** holding a place on the board. At the time Philips commented that Root liked Keystone's *"innovative leadership"* and that it was not *"weighed down by a partnership and [it] has the infrastructure, people and processes to make huge waves in the legal market."*

A HYBRID PATH TO EXPANSION: RRADAR'S STRATEGIC MINORITY INVESTMENT

RRADAR, A FAST-GROWING LEGAL SERVICES PROVIDER SPECIALIZING IN THE INSURANCE SECTOR, HAS TAKEN A DISTINCTIVE APPROACH TO FUNDING ITS AMBITIOUS EXPANSION PLANS.

At the end of 2022, it secured a *"very substantial"* eight-figure injection from both a Middle Eastern sovereign wealth fund and a major US-based private equity firm. Despite this large capital boost, these backers only acquired a significant minority position, reflecting Rradar's valuation, which Chief Executive **Gary Gallen** describes as *"well over £100m."*

BALANCING ORGANIC GROWTH AND ACQUISITIONS

Gallen explains that the firm had already been expanding organically by hiring new talent and strengthening its core operations. However, the sheer volume of new contracts and business opportunities meant organic growth alone could not keep pace. The fresh investment enables Rradar to accelerate its **buy-to-build** strategy without sacrificing control or altering its core vision.

BUILDING AN M&A PIPELINE

We understand that Rradar is currently assessing a number of potential acquisition targets and aims to acquire two niche law firms in the near future. This strategy builds on its successful acquisition of **Backhouse Jones** at the end of 2023—brokered by Acquira Professional Services—which brought on board 65 solicitors and other staff specializing in haulage and transport law.

WHY IT MATTERS

By structuring the deal as a minority stake, Rradar retains significant autonomy while tapping into external capital and expertise. This approach underscores a growing trend in the legal services sector, where firms increasingly look to hybrid financing models—blending internal growth with targeted acquisitions and partial equity investments—to outmanoeuvre competitors, strengthen niche practices, and respond quickly to market demands.

THE MACRO FACTORS DRIVING PE INTO THE LEGAL SECTOR

TOUGH GEOPOLITICAL CONDITIONS - PARTICULARLY THE WAR IN UKRAINE - HAVE COMBINED WITH A GLOBAL SLOWDOWN, CAUSING INFLATION AND HIGHER INTEREST RATES THAT HAVE EXTINGUISHED THE SUPPLY OF CHEAP DEBT.

There are few successful IPOs, and private equity firms are struggling to find buyers for their portfolio companies, which have been priced high. Private equity has had to seek new, creative strategies to achieve the growth it needs to make a profit for investors.

Law firms that specialise in services to the individual such as high-end private client, family, insurance, personal injury or medical negligence are less affected by economic downturns than other business sectors, making them a resilient investment with consistent cash flow.

The UK is an attractive market because of the liberalised approach to providing legal services. The Legal Services Act, which took effect in 2011, allowed investment from third parties and the creation of alternative business structures (ABSs). ABSs are legal services businesses that can be owned and managed by non-lawyers, either through investment or as a partner or director.

"Alternative business models that have a corporate-based structure are more attractive to private equity than traditional partnerships," says Elley. *"They are a better fit for debt funding, and a smoother route to funding an acquisition agenda."*

This is why the UK currently leads the way in private equity investment into law firms.

Private equity is also highly active in investing in legal tech companies, which have surged post-pandemic. The synergies for private equity with multiple investments across advisory and tech-focused legal businesses are clear. Inflexion is a good example, with a pattern of investments in integrated legal and business services, compliance, and tech tool operations.

With the capital to buy bolt-on businesses and invest in technology and top talent, private equity can consolidate in a fragmented market and reap the benefits from economies of scale.

For law firms, external involvement can solve the problem of funding the digital transformation required to remain competitive, which partners on the cusp of retirement may be reluctant to pay for, while providing a neat exit strategy for those individuals. Private equity funding is also attractive for no-win-no-fee firms that must take the burden of costs of cases upfront.

A key question remains: how can junior partners be incentivised if a private equity firm takes the lion's share of the profits?

The answer is a re-imagining of the structure of the law firm away from the traditional partnership model. Attracting and retaining talent is a core focus for private equity as it is fundamental for growth.

THE ENDGAME: PRIVATE EQUITY'S EXIT STRATEGIES IN THE LEGAL SECTOR

WITH IPOS CURRENTLY SPARSE, PRIVATE EQUITY MAY SEEK PRIVATE EXITS, SUCH AS SECONDARY BUYOUTS OR SALES TO LARGER PE FIRMS.

The most likely route is into the private rather than public markets.

"Public markets are very focused on short-term focus on performance, whereas private capital firms like Blixt can take a 5 to10 year view," says Harring. *"We make investments into team hires, technology and management that will create value and a stronger business in the future. This is hard to explain in the public markets, which makes the private markets a more feasible exit route."*

The trajectory of Livingbridge's involvement in Stowe Family Law may provide a precedent for future divestments.

B2B mid-market specialist Livingbridge bought family law specialist Stowe in 2017, growing the number of Stowe's offices from 12 to 90 across the UK. Stowe has around 400 staff supporting 5,000 clients a year and a reported annual turnover of over £37 million in the year ending March 2024.

In September 2024 Livingbridge sold its stake in Stowe to Bahrain-based **Investcorp**, known for its portfolio of lux-brands including Gucci and Tiffany. Investcorp has a history of investing in technology-enabled professional services and has announced its aim to achieve Stowe's goal of serving more than 10,000 clients by 2029.

The deal reflects the wider trend across diverse market sectors for smaller private equity firms selling to larger ones in secondary buyouts.

OTHER JURISDICTIONS: LESSONS FROM AUSTRALIA & THE US

AUSTRALIA

Looking at what private equity has achieved in other common law jurisdictions may prove a helpful guide to future private equity strategies in the UK.

In Australia, the second private equity investment into a law firm was announced in May 2023: Sydney-based **Allegro Funds'** takeover of personal injury and consumer law firm **Slater & Gordon**.

Before Allegro, Victoria private equity firm **Straight Bat** broke new ground when it bought a minority stake in Asia Pacific insurance and risk-focused legal specialists Wotton + Kearney in 2022. Wotton + Kearney bought a boutique health law firm in Melbourne shortly after the investment.

Wotton + Kearney's business model was a good fit for private equity, in emphasising its brand rather than stellar performers. Managing partner David Kearney pointed out to *Law.com* in an interview at the time that each client is allocated around 20 partners for its matters, minimising the risk of a partner departing with core clients and weakening the brand.[6]

This example demonstrates how firms with successful niche specialisms can benefit from private equity funding, in accessing funds to invest in technology and data analytics, while enabling expansion by bolting on smaller complementary practices.

THE US

The US has more regulatory hurdles than Australia and the UK. The American Bar Association (ABA) Rule 5.4 prohibits the non-lawyer ownership of law firms and this rule stands in many US states.

The legal landscape is changing.

Arizona abolished Rule 5.4 entirely in 2020, opening the legal market to a variety of ABSs. In the same year, the Utah Supreme Court approved an experimental regulatory "sandbox" focused on ABSs, which runs through to August 2027.

The first 'law company' to be granted an ABS licence in the US by the Arizona Supreme Court was Elevate, which provides consulting and technology to law firms and in-house legal departments, in January 2022. The move made Elevate and its affiliated law firm, ElevateNext, a single entity and the one of the first to hold ABS licences in the UK and US.

Elevate entered the UK market through buying ABS Halebury in 2019, before securing a US$25 million minority investment from US private equity firm Kanye Partners to scale up.

Like in the UK, private equity tends to home in on mid-size firms with an established regional footprint or niche specialisms, as these offer opportunities for geographic expansion and are often in need of capital to make the next technology-driven operational leap.

Advocates for continued reform argue that ownership by non-lawyers fosters innovation and expands the remit of legal services.

This view is not universally held.

In August 2022, the California Lawyers Association affirmed the key principle upheld by the ABA that "allowing non-lawyers to share fees or own/control practices could undermine the integrity and core values of the legal profession."

The Californian example shows that there remains strong lawyer opposition grounded in the fear that non-lawyers with decision-making powers might prioritise profit over ethical duties to clients. The ABA is working to establish guidelines over the use of ABSs, while state bar associations have been developing their own ABS-specific licensing and compliance rules.

[6] It's 'Not Only About Money': Why a Law Firm Decided to Sell a Minority Stake to a Private Equity Firm ALM.LAW.COM June 2022.

ADAPTING THE PLAYBOOK: PRIVATE EQUITY IN OTHER PROFESSIONAL SERVICES

IT IS NOT SUCH A LEAP TO APPLY THE PRIVATE EQUITY PLAYBOOK USED FOR OTHER PROFESSIONAL SERVICES TO LAW FIRMS.

Accountants and consultants are also traditionally structured as equity partnerships and have knowledge-based rather than industrial assets. The difference is that the focus tends to be on divestment rather than consolidation: EY, Deloitte, PwC and KPMG have long sought a way to split auditing services from consulting.

Is private equity, with its talent for carving out assets and maximising the most lucrative parts of a business, the answer?

Possibly. Private equity is establishing a record for successfully hiving off niche consultancy services.

Two months after Allegro's acquisition of Slater & Gordon, it bought PwC Australia's government consulting arm in an AUS$1 fire sale, re-naming it Scyne Advisory. The move followed Veritas' 2018 acquisition of PwC US's public sector consulting business Guidehouse – sold to Bain Capital for US$5.3 billion in November 2023.

Government agencies are desirable clients from which private equity can reap recurring returns.

Brokering a deal in the sector is not straightforward. In August 2024 EY rejected an offer from US private equity group TPG which would fragment the Big Four firm and give TPG a stake in its consulting business. The pitch followed the collapse of EY's Project Everest, an attempt to sever EY's audit from consultancy and seek a $100 billion stock market listing for the consultancy arm.

Recently, we have seen KPMG make a significant move by applying for an ABS licence in Arizona, marking the first instance of a Big Four firm seeking to establish a law practice in the United States. This development underscores a growing trend of multidisciplinary practices entering the legal sector in innovative ways. For instance, the spin-out of Vialto Partners from PwC and its subsequent acquisition by CDR Private Equity highlights how major players are reconfiguring their legal and consulting operations to align with market demands.

At the top mid-tier there are also opportunities. Grant Thornton's UK franchise excited interest from Swedish private equity firm EQT and Grant Thornton's US business, a separate partnership majority-owned by New Mountain Capital. Buyout firm Cinven eventually scooped an undisclosed stake, in what the *Financial Times* called "the most significant private equity transaction to date in the UK sector."

Industry commentators have expressed fears that private equity ownership of professional services firms could damage audit quality, due to its short-term investment objectives. There is also uncertainty over untested exit routes.

A key takeaway from the experiences of other professional services sectors in the United States is the importance of structural separation.

In fields like healthcare and accountancy, we observe a clear division between the professional practice and the back office, technology, and intellectual property operations of the firm. This separation enables private equity to invest in the economic aspects of the professional practice while preserving the integrity of ethics and professional judgment. This model is now being increasingly adapted to the legal sector, with several high-profile deals already completed.

SO HOW DOES PRIVATE EQUITY EXIT AN ACCOUNTANCY OR CONSULTANCY INVESTMENT?

A secondary buyout to a larger private equity firm is the most likely option in the current climate. London investor Hg sold half its stake in advisory and accountancy Azets to PAI Partners in June 2023. Another example of a secondary buyout is Veritas' sale of Guidehouse to Bain Capital in December 2023.

MAKING THE DEAL: KEY STEPS TO NEGOTIATING A SUCCESSFUL EXTERNAL INVESTMENT

SET CLEAR BUSINESS GOALS

Internal wrangling between partners over the direction of the business can create opportunities for private equity - as the reported approaches to EY after the collapse of Project Everest attest - but can also be a block if enough decision-makers baulk at the prospect of external investment.

KNOW YOUR CULTURE

In professional services, a firm's culture—shaped and reinforced by its senior leadership—often spells the difference between attracting top talent and watching it walk out the door.

This dynamic becomes even more pronounced for boutique firms exploring partnerships or acquisitions with larger entities.

In a March 2022 Harvard Business Review article, **Nancy Langer** and **Sharon Heaton** introduce the concept of "cultural literacy," highlighting how real-time dashboards, performance metrics, and other operational norms at bigger organizations can feel foreign to smaller law firms.

"Our years of doing deals in this part of the market have taught us that without cultural literacy, one cannot build a depth of trust with these hardworking owners, clinch a deal, or even master a smooth post-close integration."
— Nancy Langer & Sharon Heaton

The stakes are higher still when private equity or other external investors enter the mix.

Lawyers generally have limited business-management training, while PE firms typically lack familiarity with the legal world's unique hierarchies and professional ethos. Without a skilled "mediator" who can translate and reconcile these differing perspectives, the chances of a deal collapsing—and post-integration failure—skyrocket.

Ultimately, each firm must pinpoint what makes its culture distinctive and articulate those qualities clearly. By embracing "cultural literacy," leadership teams can foster trust, streamline negotiations, and lay the groundwork for a successful partnership.

> **We also look at the quality of the team driving the business, who sits in the C-suite and just below it.**
>
> ROBIN ELLEY, WATERLAND PRIVATE EQUITY

CONSIDER WHAT MAKES THE FIRM ATTRACTIVE TO INVESTORS

A well-rounded and profitable client book, such as a clutch of SMEs which may also need complex high-net-worth advice. A desire to re-think the traditional law firm business model, so that it can attract and retain the best talent.

Elley says: "We also look at the quality of the team driving the business, who sits in the C-suite and just below it." The psychology of the law firm leaders is important – without the right fit the investment will not work.

"The number one factors we look for is in law firm leaders is ambition for growth and openness to change, rather than just seeking a cash injection," says Harring. "Law firm leaders can benefit from being receptive and open to embracing support in a rapidly changing market environment."

EVALUATE THE RISKS

Leavers. The prospect of new management may cause rainmakers to leave, taking business with them. This is less of an issue in a practice where brand is more important than the reputation of individual practitioners. How can talent be encouraged to stay? Time and resources must be allocated to this question.

Clash of expectations. Another point to weigh up is a cultural disconnect between the expectations of the investor and those of law firm leaders. A private equity investor will expect regular performance reviews and an accounts-based approach, which is unfamiliar practice to many law firms. Often, they will be the decision maker in the business and the lawyers should feel comfortable with this.

Client confidentiality concerns. This is crucial. How can this be preserved with non-lawyers on the board? Any breach of this core professional duty has serious regulatory, reputational and financial implications.

As the cases of McMillan Williams and Roberts Jackson show, investments into law firms can founder. A sudden market downturn or too much debt can tip the balance. Law firm leaders should be clear how much risk they are happy with taking on.

Jeff Zindani says: *"Both parties will need set down clear markers of their expectations for the strategic direction of the business post-investment. What type of culture they are striving to create? Successfully navigating these questions will maximise not just profit but the retention of clients, staff and reputation."*

NAVIGATING REGULATION: SRA AND BEYOND

THE LAW SOCIETY AND SOLICITORS REGULATORY AUTHORITY (SRA) DO NOT HAVE SPECIFIC ADVICE ON PRIVATE EQUITY INVESTMENT INTO THE LEGAL MARKET. INSTEAD, THE APPROPRIATE GUIDANCE FOCUSES ON ABSS.

SRA statistics show that the number of ABS licences is on the rise. In terms of professional risk, SRA disciplinary records show that ABSs are no more likely to be disciplined as traditional law firms. ABSs are treated differently by the SRA where there is a breach, however, being liable for higher fines. The maximum penalty for traditional law firms (from July 2022) is £25,000, whereas the penalties for ABSs are up to £250 million, or up to £50 million for an individual working at an ABS. Though the disciplinary tribunal can impose unlimited fines on traditional firms and solicitors.

The SRA also highlights that owners or managers should not do anything that causes the firm, or anyone in it, to breach their regulatory obligations under the SRA's Code of Conduct for Firms. Like the Financial Conduct Authority, the SRA must be "satisfied" that owners/managers are "suitable" (i.e.: "fit and proper") for the role they hold within a firm. This means they:

- must be of good character
- satisfy us that they will safeguard regulatory compliance, and
- meet any specific requirements of the role.

If law firms are considering private equity investment, they must do a level of proportionate due diligence into the people who will be future decision-makers at the firm to ensure SRA compliance. And investors need to be comfortable with the SRA authorisation process which, because of the legislation that underpins ABS, can be overly intrusive.

Crispin Passmore, co-founder of Stratify by law firm Kingsley Napley and an advisor to legal businesses and investors across the Atlantic, emphasizes the importance of obtaining expert advice early in the investment process. This ensures that firms and investors can fully understand and address regulatory considerations in advance. *'The SRA is really open to PE so there is nothing to fear. But there is a process and there are ways to make it more or less painful.'*

KEY CONSIDERATIONS FOR LAW FIRM LEADERS

LAW FIRM LEADERS CONTEMPLATING EXTERNAL INVESTMENT NEED TO CONSIDER:

- The full range of investment options, including private equity, legal funders, alternative and traditional finance providers. What is the best route forward to enable the adoption of new technologies, talent acquisition and expansion into new legal sectors and/or geographies?
- How to position themselves as a desirable target. Private equity and other investors will look at a range of factors including past financial performance, growth potential, operational efficiency, and brand reputation. A key takeaway is that the attitude of law firm leaders and their openness to change and growth was consistently name-checked by private equity specialists as a critical decider of whether to invest or not.
- How to manage the impact on the culture of the firm. Private equity is known for prioritising profit and having short-term investment horizons – how will that affect staffing, billable hours, client service? Thorough due diligence should be conducted on potential investors, including looking at their past conduct with investments.
- How to guard against potential conflict between professional obligations to consider the best interests of clients and the investor's goal to maximise profit.
- How to manage a loss of control with a move away from the partnership model. Are they happy to have external lenders sitting on the board having a say in the strategic direction of the firm? Or would a "hands off" loan be more appropriate?
- Appetite for risk. Private equity investments can go wrong. Some PE firms use creative financial engineering such as debt-loaded dividends to extract value in a difficult market. This can be a complex world alien to the certainties of the partnership model.

ADVICE FROM THE COAL FACE:

Passmore suggests firms don't get fixated on PE. *'Start with strategy. What is the firms ambition and plan for growth. Why does it need a cash injection? What is the money for? Is it for technology; or developing a new equity structure to incentivise retention and long-term alignment with all staff; or, is it for lateral higher, law firm rollup or international expansion. Too many firms start with how much can I raise rather than what is my strategy and from that as 'do I need capital?'."*

CONCLUSION AND KEY TAKEAWAYS

CONSISTENT RETURNS IN UNCERTAIN ECONOMIC TIMES, DIVERSIFICATION, COMPLEMENTARITIES WITH OTHER INVESTMENTS, AND THE NEED TO INVEST COMMITTED CAPITAL ARE AMONG THE REASONS WHY PRIVATE EQUITY IS SEIZING OPPORTUNITIES IN THE UK'S LEGAL MARKET.

As the examples set out in this paper show, there is now a recurring pattern of private equity investment despite the potential obstacles of the profession: SRA regulation, navigating the quirks of the traditional partnership model, the complexities of client relationships, and the conservative nature of the legal industry.

THE TRANSFORMATIVE POWER OF PRIVATE EQUITY

Private equity's deep reservoirs of capital can significantly accelerate a law firm's growth trajectory—fast-tracking mergers, enabling cutting-edge technology investments, and attracting top-tier talent. In a sector where progress has traditionally been incremental, this infusion of resources has the potential to turn regional practices into national contenders, all while reshaping competitive dynamics across the market.

For law firms, external investment can solve succession issues and energise the business, injecting operational expertise and capital that create exponential growth and value. The advantages must be weighed up against the possible cons: a cessation of control, potential cultural clash, and uncertainty over exit routes.

A dalliance with private equity is not for the risk-averse.

The **Bank of England** warned in its **June 2024 Financial Stability Report** that companies backed by private equity were more vulnerable to financial instability, as they were likely to rely on riskier forms of debt such as private credit and leveraged loans—structuring that is more exposed to market downturns and cash flow issues. The reliance on debt, combined with the higher interest rate environment, has increased refinancing risks for private equity–backed businesses.

Private equity investment is not for everyone," says Zindani. "If considering it, remember that private equity firms vary enormously—so it is vital to find an investor that is the right fit with the values of your firm. Being fully aware of all options for growth is essential. Even if a law firm decides that the private equity route is not for them, the industry's success in the buy-to-build approach is a useful masterclass in how to grow through adding viable businesses in complementary practice areas—something that can be achieved through M&A with or without private equity involvement.

EMPOWERING UK LAW FIRMS WITH INVESTMENT OPPORTUNITIES

EMPOWERING UK LAW FIRMS WITH INVESTMENT OPPORTUNITIES

IF YOUR LAW FIRM IS CONSIDERING EXTERNAL INVESTMENT—OR IF YOU'RE A PRIVATE EQUITY HOUSE LOOKING TO CAPITALIZE ON OPPORTUNITIES IN THE UK'S LEGAL SECTOR—WE INVITE YOU TO GET IN TOUCH.

Acquira Professional Services offers deep industry knowledge, a tailored approach to assessing cultural alignment, and access to a unique directory of private equity and external investors who can support your objectives.

Our comprehensive suite of services is designed to facilitate seamless investment processes, ensuring that both law firms and investors find the perfect partnership to drive growth and innovation.

WHY CHOOSE ACQUIRA PROFESSIONAL SERVICES?

Industry Expertise
With years of experience in the legal sector, Acquira Professional Services understands the unique challenges and opportunities within the UK legal market. Our team of experts stays abreast of the latest industry trends, regulatory changes, and market dynamics to provide you with informed and strategic advice.

Tailored Cultural Alignment
We recognize that successful investments go beyond financial metrics. Acquira takes a personalized approach to assess the cultural and operational alignment between law firms and potential investors. This ensures that partnerships are not only financially beneficial but also harmonious and sustainable in the long term.

Exclusive Investor Directory
Gain access to our exclusive directory of vetted private equity firms and external investors who specialize in the legal sector. This unique resource connects you with partners who are aligned with your firm's vision and goals, facilitating meaningful and productive investment relationships.

Strategic Growth Planning
Acquira assists law firms in developing strategic growth plans that leverage external investment to enhance service offerings, expand market reach, and drive innovation. Our team works closely with you to identify opportunities for expansion and to implement strategies that ensure sustainable growth.

Comprehensive Support
From initial consultation to deal closure and beyond, Acquira provides end-to-end support throughout the investment process. Our services include financial analysis, valuation, negotiation assistance, and post-investment integration, ensuring a smooth and successful partnership.

BENEFITS FOR LAW FIRMS

- **Access to Capital:** Secure the funding needed to expand your practice, invest in new technologies, or enter new markets.
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- **Streamlined Processes:** Benefit from Acquira's expertise in facilitating efficient and effective investment transactions.
- **Valuable Partnerships:** Establish meaningful and productive relationships with law firms poised for growth and innovation.

CONTACT US

READY TO EXPLORE EXTERNAL INVESTMENT OPPORTUNITIES OR CONNECT WITH TOP-TIER INVESTORS IN THE UK LEGAL SECTOR?

Contact **Acquira Professional Services** today to learn how we can help you navigate the complexities of private equity investment, secure sustainable growth, and ultimately transform the way you deliver legal services.

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All communications are handled in utter confidence.

JEFF ZINDANI

Founder & Managing Director

JEFF HAS OVER 25 YEARS' EXPERIENCE IN THE LAW AND HAS BEEN AN EQUITY PARTNER AT RUSSELL JONES AND WALKER, NOW SLATER & GORDON.

He has been described by law firm clients as "insightful", "market sensitive" and "incredibly discrete".

He advises both city type practices and boutique law firms on the challenges facing their businesses now and in the future. He has built up an impressive client list of law firms and legal tech companies.

He enjoys facilitating deals and is an expert on providing solutions for law firms looking to merge, acquire or to redesign their practices.

He is able to guide firms from start to finish and to maximise returns on their capital, work in progress and goodwill.

Although normally retained on a contingent basis, he provides in house advice on M&A processes and regularly helps firms as a consultant to identify suitable targets for merger, acquisition or sale. He can be contacted at

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PIERRE WATSON

Head of Talent Acquisition

PIERRE IS HEAD OF TALENT ACQUISITION. THAT IS, SOURCING AND ACQUIRING TALENTED INDIVIDUALS FOR YOUR LAW FIRM.

He focuses on bespoke headhunting in the legal sector, senior-level executive search, coaching and selection, and has over 15 years' experience in enabling clients to secure the right professionals for their businesses.

His approach steers away from traditional recruiting methods, for example, tending not to be candidate CV-centric, in order to seek 'deep dive' insights into career thinking from those legal professionals with a track record and an established following.

The method is discreet and sometimes a little 'off the wall', as the best results originate from relaxed and informal conversations with potential hires.

Pierre is happy to talk on the telephone, or in person, to explore your options in facilitating your firm's growth plans through the addition of key people and he can be contacted at pierre@acquiraps.co.uk.

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