ON YOUR MARKS: LAW FIRM M&A IN 2024

ACQUIRA
Professional Services

FOREWORD

JEFF ZINDANI, MANAGING DIRECTOR

WELCOME TO ON YOUR MARKS: LAW FIRM M&A IN 2024, OUR REVIEW OF LAST YEAR'S ACTIVITY AND PREDICTIONS FOR THIS YEAR.

From transatlantic tie-ups to high-street mergers, we have seen the full range of deals in the past 12 months, and you will see that we believe that the market is starting to heat up.

One firm we didn't mention in our round-up of last year was the then-Axiom DWFM, and its pre-pack acquisitions of first Ince & Co and then Plexus. These were probably the highest-profile deals of the year, but for all the wrong reasons.

As we explain later on, the Axiom Ince debacle has put the role of the regulator in M&A under the spotlight, and we will be keeping a close eye on how this plays out.

In the meantime, I am keen to keep the conversations going, so please get in touch to discuss the issues we raise in this report and how Acquira could help you and your firm.

J Zindani

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CONTENTS

2023 REVIEW

LAST YEAR MAY NOT HAVE BEEN EXCEPTIONAL IN TERMS OF M&A ACTIVITY, BUT IT CERTAINLY WASN'T QUIET. ONE NOTABLE FEATURE OF THIS SNAPSHOT IS THE GROWTH OF GROUPS, ESPECIALLY THOSE WITH EXTERNAL FINANCIAL BACKING.

Private equity house Blixt Group, which operates through its legal brand Lawfront and aims to build a £100 million operation, was busy.

In May, it made leading East Midlands firm Nelsons its third major acquisition, after Essex firm Fisher Jones Greenwood in 2021 and Lancashire practice Farleys in 2022. Nelsons then made two bolt-ons later in the year: Pattersons Commercial Law in Leicester and Nottingham-based Cleggs Solicitors.

Lawfront also supported Farleys in buying Mulderrigs, a two-partner firm specialising in serious injury and professional negligence claims.

Private-equity-owned Stowe Family Law did two deals: three-partner, three-office Hampshire and Surrey firm Watson Thomas, and five-partner Crisp & Co, a 17-office practice based in the South-East. It now has 86 offices of different types in total, with over 160 lawyers spread across them.

Fletchers Group, the serious injury law firm owned by private equity house Sun European Partners, acquired the personal injury division of Leeds firm Emsleys, with all 28 staff transferring over to Fletchers' Leeds office, which opened last February.

Acquira was proud to have brokered this deal for the sole shareholder, Andrew Greenwood.

The MAPD Group added Cumbrian firm Thomson Hayton Winkley and Ashton-under-Lyne practice Bromleys, adding around 60 staff each, and now has a group turnover of £30 million.Shard Credit Partners once more provided support for the deals.

Other firms made multiple acquisitions. Express Solicitors, the Manchester firm aiming to become the biggest claimant PI practice in the country, bought Lancashire firm Michael W. Halsall Solicitors, which was in run-off, as well as Amelans and Jeffries Solicitors, both well-known Greater Manchester practices. The deals were backed by RBS.

Mayo Wynne Baxter is part of the multi-disciplinary Ampa group and has snapped up fellow Sussex firms Lawson Lewis Blakers and Pure Employment Law. MWB joined Ampa, which operates a 'house of brands' strategy, in 2022, becoming the "regional legal anchor brand" for the South-East. Shakespeare Martineau, the national firm from which Ampa has grown, absorbed the five-strong company secretarial business of Bruce Wallace Associates.

The largest firm in Wales, Hugh James, acquired Manchester-based catastrophic personal injury and clinical negligence practice Potter Rees Dolan, which had nine partners and more than 65 staff. It then took over sports, charities, and media practice Loosemores, with four partners and 24 other staff moving across Cardiff.

Harbour has moved beyond its core litigation funding business and is now backing M&A as well. It supported Rothley Law, part of the Rothley Group, to take on Shoosmiths' 41-strong private client practice, which will operate from offices in Birmingham, Leicester, London, Manchester, Milton Keynes, and Reading.

Harbour also funded law firm platform Bamboo in acquiring Dudley-based Hawkins Hatton.

Away from the main legal centres, we've seen some significant regional mergers, such as Nottingham-based Rotheras and Bray & Bray in Leicester joining forces as Rothera Bray, bringing together firms best known for their private client and corporate/commercial work, respectively. The new firm has 27 partners and a 200-strong team operating from eight offices in Nottinghamshire, Derbyshire, and Leicestershire.

Devon firms Kitsons and Boyce Hatton created Kitson Boyce, headquartered in Torquay with other offices in Exeter, Plymouth, and Totnes. The combined firm has 20 partners and more than 30 other legal professionals, while in Lincolnshire, Grimsby and Louth-based John Barkers merged with Symes Bains Broomer in Goole to form the Humber Legal Group, with both firms retaining their own identities in their respective regions.

Martyn Prowel of Cardiff and Bridgend merged with Gartsides in Newport and Abergavenny to create Martyn Prowel Gartsides. The combined legal practice has doubled in size to 60 staff.

IBB Law, based in Uxbridge in West London with offices into the Thames Valley, merged with five-partner Slough-based commercial firm Owen White Solicitors, creating a 36-partner, 110-lawyer, £24m-turnover full-service law firm. The plan is to reach a turnover of £30 million by 2024/25.

> **It looks like a market that needs capital...We've had a surprising number of very good conversations and we seem to be in the right place at the right time with our proposition.**
>
> NEIL LLOYD, CEO, LAWFRONT

Kent proved a bit of a hot spot: Boys & Maughan brought in three-partner Canterbury-based Gardner Croft to create a practice with 180 staff, initially spread across seven sites.

Top-50 law firm Birketts, headquartered in Ipswich, took over Batchelors Solicitors, which has around 40 staff in Bromley and the City of London.

Cripps has expanded its presence in the South-East by buying commercial law firm PDT Solicitors, a £5 million turnover business based in Horsham, West Sussex. Indeed, the South-East has become something of a battleground.

We also saw Hampshire and Dorset firm Dutton Gregory move into Surrey by taking over Mackrell Turner Garett.

The big law end of the market has been pretty quiet except for the combination of Allen & Overy and US firm Shearman & Sterling, creating a firm with around 800 partners and 4,000 lawyers across 48 offices and combined revenues of approximately $3.5bn. The transaction should be completed in the spring.

Irwin Mitchell expanded its Scottish practice significantly by acquiring Wright Johnston & Mackenzie, which had 36 partners and 150 staff across five offices. Irwin Mitchell also boosted its family law offering in the North-East of England by acquiring Silk Family Law, a 25-person firm with offices in Newcastle, Leeds, and Richmond, North Yorkshire.

We can also report on activity from a mystery law firm that is backed by external investors and has made several high-level acquisitions in the last quarter of 2023. We cannot reveal the firm's name(we don't do that), but we have helped the owners of one of the practices that have joined this group.

The name of the firm and its astute CEO will be revealed shortly, but we predict they will grow further this year and comfortably reach £50 million in revenue.

OUR REVIEW: MORE THAN GREEN SHOOTS?

WHILE 2023 WAS NOT A BUMPER YEAR FOR LAW FIRM M&A, THERE WAS STILL PLENTY OF ACTIVITY AND CLEAR SIGNS THAT THE SCALE AND PACE WILL INCREASE IN 2024.

NatWest's 2023 legal sector report said that a third of SME firms described themselves as either likely or very likely to seek a merger or acquisition in the short term, and 22% reported that they had been approached by a consolidator in the previous year. At the same time, macroeconomic conditions will have a big say, as they undoubtedly depressed activity last year.

A survey recently carried out by funder Harbour saw 42% of respondents from the top 200 firms predict that 2024 is going to be one of the busiest years for law firm M&A activity.

Certainly, I am aware of some sophisticated buyers in the market, not all of whom have shown their hands yet, and they have good pipelines of prospects.

Beyond the law, the general consensus is that 2024 will see more M&A activity. *"Looking ahead with cautious optimism, 2024 will mark a shift toward the next M&A upcycle,"* said Goldman Sachs in its 2024 M&A Outlook. It predicted an *"elevated focus on M&A as a strategic lever,"* a re-emergence of cross-border activity, and growth in AI-driven M&A across industries (i.e., beyond the technology sector).

Jens Kengelbach, Boston Consulting Group's global head of M&A, said: *"We're relatively optimistic about the outlook for 2024, as deal activity shows promising signs of recovery. That said, challenges for dealmakers remain—in particular, a higher cost of capital."*

KPMG's recent survey of 200 big corporate and private equity M&A decision-makers in the US found that two-thirds expected more dealmaking this year than last. More than 70% said they were actively working on a deal now, giving further weight to the anticipation of early 2024 action.

Certainly, from our dealings with law firm buyers, there really is a higher level of confidence that we have not seen for some time. Those firms with external funding and a clear strategy are likely to make the headlines this year and will definitely heat up this sector.

SHOW ME THE MONEY

LAST YEAR SAW THREE LISTED LEGAL BUSINESSES LEAVE THE PUBLIC MARKETS: INCE & CO AND MJ HUDSON FOR FINANCIAL REASONS, AND DWF, THE ONLY LAW FIRM TO DATE ON THE MAIN LONDON STOCK EXCHANGE, AFTER IT WAS BOUGHT BY INFLEXION PRIVATE EQUITY PARTNERS.

I'm not aware of any firm looking to list at the moment; global uncertainties mean it's been a slow couple of years for IPOs in London, and legal businesses are not high on the list to revive them.

Undoubtedly, the experience of legal listings to date has been mixed, and Jeff Zindani's recent summary for the Law Society Gazette, *"disappointing to dismal,"* perhaps is close to where investors see law firm listed results.

However, for the likes of Gateley, Keystone Law, and Knights, it has largely been positive. Since becoming the first law firm to list in London back in 2015, Gateley has made 14 acquisitions, 11 of which have been non-legal businesses, while Knights has undertaken 21 acquisitions in five years. Keystone in particular has proven to be a good investment over the years.

As Inflexion shows, private equity does not want to be left out. The last year has seen the likes of Lawfront (owned by private equity firm Blixt Group) and serious injury giant Fletchers (owned by Sun European Partners) active in M&A, along with MAPD Group, which has debt finance from Shard Credit Partners, and there is a lot of 'dry powder' (i.e., available capital) around as buyers decide on their moves.

There is also interest from more hybrid investors, like sovereign wealth funds.

While there have been some horror stories over the years in personal injury (Parabis, Roberts Jackson), in general, private equity sees the law as a decent bet.

And there are other sources of new money—we have seen Harbour, for example, diversify from its core litigation funding work to provide credit facilities for M&A, backing Rothley Law to acquire Shoosmiths' 41-strong private client practice and law firm platform Bamboo to buy Midlands-based Hawkins Hatton.It is also led by the savvy Michael Burne, who has not only real experience in the legal sector but can turbocharge a practice to reach a new level of growth.

This is valuable for the market as opportunities arise and some firms do not have a war chest to take advantage of.

In what is quite a limited market for finance, it was encouraging to see Doorway Capital launch a s helf facility for law firms that want to grow through acquisition.

The facility is fully underwritten and documented but only becomes live when the law firm has found a target.

It's a long-overdue development, and down to the astute Steve Din, who gets not only the numbers but law firms!

SELL, SELL, SELL?

ON THE SELLER SIDE, WE SEE A SIGNIFICANT 'PASSIVE' MARKETPLACE OF LAW FIRM OWNERS WHO ARE NOT LOOKING TO EXIT BUT ARE WILLING TO LOOK AT HOW A DEAL COULD SUPPORT THEIR GROWTH PLANS; THIS MAKES IT MORE ABOUT JOINING FORCES THAN A FULL-BLOODED MERGER.

This is particularly the case for boutique firms that are no longer the small practices they once were. Such firms are of particular interest to national firms that are looking for scale that they cannot achieve organically. There will typically be four or five large firms interested in a good boutique practice that comes onto the market.

There is a plethora of integration models out there for sellers; for example, do you want to be swallowed up and relieved of owner responsibilities (an acquisition by Knights, for example) or would you prefer to retain a large degree of independence but have the security of being part of a much bigger organisation (such as by joining Ampa, the 'house of brands', which has four law firms and three other professional services businesses in its group)?

Geography remains important, as the pandemic-inspired move to remote working has not made office location irrelevant. Regional independence is often displayed, for example, by firms refusing any tie-ups with London-headquartered firms.

Yorkshire is a perfect illustration; there are more of the so-called "independent" law firms outside the south-east in this region than elsewhere. It makes sense, as businesses there will often want to deal with Yorkshire law firms, or at the very least firms that have a presence in the county. How long this will continue is difficult to predict, but with the IT arms race gaining more momentum, will these firms be left out in the cold? Scale creates the inexorable cycle of economies of scale.

As for practice areas, we keep a list of what is "hot" in the market; for example, firms with lawyers in the digital space, healthcare, contentious probate, and construction are in demand. There's also the international dimension: the Middle East, particularly Dubai, is hot at the moment, going both ways.

And, as the Sun/Fletchers tie-up shows, there is still interest from buyers in serious injury/clinical negligence work.

> **For some reason people take their cues from price action rather than from values. Price is what you pay. Value is what you get.**
>
> WARREN BUFFET

STRATEGY VS. OPPORTUNISM

THE MOST SUCCESSFUL ACQUIRERS IN M&A TAKE A PROACTIVE, SYSTEMATIC, AND REPEATABLE APPROACH TO SCREENING TARGETS AND ORIGINATING DEALS.

As Don Harrison, vice president of corporate development at Google, has put it, ***"M&A will never be 100% successful and we learn from every deal we do, and so not to pick on any specific deal, but what I've learned, based on the relative success of deals we've done in the past, is making sure the strategy drives the M&A, as opposed to the M&A driving the strategy."***

It remains the case that most law firms do not follow this advice, and deals are generally opportunistic. This approach obviously has significant risks, most notably in the form of the cultural iceberg: you and your opposite number get along well, or at least the equity partners are happy because the deal will pay them well, but the lack of cultural due diligence means that under the surface lurks significant incompatibility.

In time, this will lead to the exit of more junior partners, as well as associates and their clients. Regular readers will know my view that the biggest mistake when it comes to law firm mergers isn't negotiating a deal; it is blending cultures. It remains the most poorly understood part of a transaction, both before and after.

Big firms circling boutiques are a good example of this. Often, the partners at the latter used to work at the former, and that's the reason they set up in the first place. Is it a good idea to try to bring them back in?

One deal I've recently been involved in took six months because we wanted to be sure that the culture and values of the two practices aligned. You can't do the deal just based on the numbers—not least because those numbers are almost always wrong as they are derived from assumptions.

As the renowned management consultant Peter Drucker put it, ***"An acquisition will succeed only if the acquiring company thinks through what it can contribute to the business it is buying, not what the acquired company will contribute to the acquirer, no matter how attractive the expected 'synergy' may look. What the acquiring company contributes may vary. It may be management, technology, or strength in distribution. This contribution has to be something besides money. Money by itself is never enough."***

THE SRA, M&A AND CONSOLIDATORS

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

Sellers are becoming more cautious as a result, especially as the Solicitors Regulation Authority (SRA) has promised to cast a more stringent eye on consolidators' operations. They have a bit of a smell about them as a result of these events, even if it is not justified in individual cases.

Indeed, Axiom Ince's failure has raised questions about the extent to which the regulator should become involved in M&A deals, especially in unusual circumstances such as a small firm (Axiom DWFM) buying a large one (Ince & Co) out of administration, for example.

Firms must notify the SRA if a takeover has happened, and it says it then assesses on a case-by-case basis the risks of that takeover, what assurances it might need, and actions it may need to take to protect the public. But this has been a feather-light touch to date; I'm not aware of the SRA having taken action on any M&A deal.

The SRA said that it visited Axiom in light of the Ince acquisition, given their respective sizes, and the fact that it was taking on a specialist area of law, shipping, in which Axiom was not experienced. And it was during this that the SRA discovered the huge hole in the client account. But it did not happen until the end of July, three months or so since the deal was done.

Should the SRA become more involved earlier on in M&A? Maybe only when, as with both Ince and Plexus, the firms are being bought out of administration? The SRA observed in November that there have been 110 M&A deals in the previous year, the implication being that it does not have the resources to do a deep dive on all of them. The reality is that from our reporting the real figure is much higher probably over 200 as not all firms report M&A deals.

The oversight regulator, the Legal Services Board, is holding an investigation into the SRA's actions around Axiom, and this too could have implications for how it deals with M&A in the future.

TIPS FOR LAW FIRM LEADERS

SO, HOW SHOULD YOU APPROACH M&A IN 2024?

THESE ARE MY TOP 10 TIPS:

1. BE BOLD.

I have seen a number of firms lose out to competitors who have more agile decision-making. By the time the board has made a decision, it's too late.

2. DEAL CURRENCY.

Equity swaps for acquired or merged practices will simply get you mediocre practices. If you want something special, you need to pay a premium.

3. YOU NEED A WAR CHEST.

If you are looking to buy, then you need funds to make acquisitions, and most firms don't have the available cash.

4. INTEGRATION STRATEGIES ARE CRITICAL.

This is often overlooked by firms that look at integration in a direct or brutal way, as opposed to preserving what is best.

5. CULTURE CAN BE THE DEAL KILLER.

The numbers are the numbers, although they are usually wrong. Due diligence around the cultural DNA of the firms is rarely done, and those icebergs below the surface are not picked up until it is too late.

6. BE SERIOUS ABOUT M&A.

Too often, the firm has not defined carefully its strategy around what it wants, where it wants it, and how much it wants to pay. M&A is not a strategy, but a tool to grow. If you can't do it in-house, we can help with buy-side mandates, as this is what we do every day.

7. DON'T CONFUSE VALUE AND PRICE.

Law firm valuations are very controversial, but there are countless valuation models that exist, with the more sophisticated ones being applied to larger law firms. Even more controversial is the market price, as this will be determined by market demand and supply. This is where Acquira comes in, as we are at the coalface with buyers and sellers and understand what makes a firm more valuable.

8. LOOSE LIPS.

It goes without saying (but I'll say it anyway) that strict confidentiality must be maintained throughout in order to safeguard clients. I may not be very popular when I say this, but lawyers can be scurrilous gossipers, and I've seen deals derailed or compromised by such breaches.

9. INTERMEDIARIES.

One of the biggest mistakes I see often is very capable law firm owners thinking that because they have run a law firm successfully, they can do the same when it comes to selling their firm. Hiring an M&A broker brings expertise, experience, and an extensive network of potential buyers or sellers. They can handle the complexities of the transaction, maintain confidentiality, and maximise the value of the deal while you focus on running your legal practice.

10. THE SUCCESSION TRAP.

The quicker law firm founders create an exit strategy and take steps to implement it, the higher their chances of a successful outcome if they ever need to sell their firm. Here is the problem for smaller practices: why would a buyer pay anything if the key fee-earners and those close to the main clients have exited? It's not unusual to see very profitable firms worth almost nothing because they do not have a succession plan in place.

> **Deals don't just happen, they are made.**
>
> JEFF ZINDANI

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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