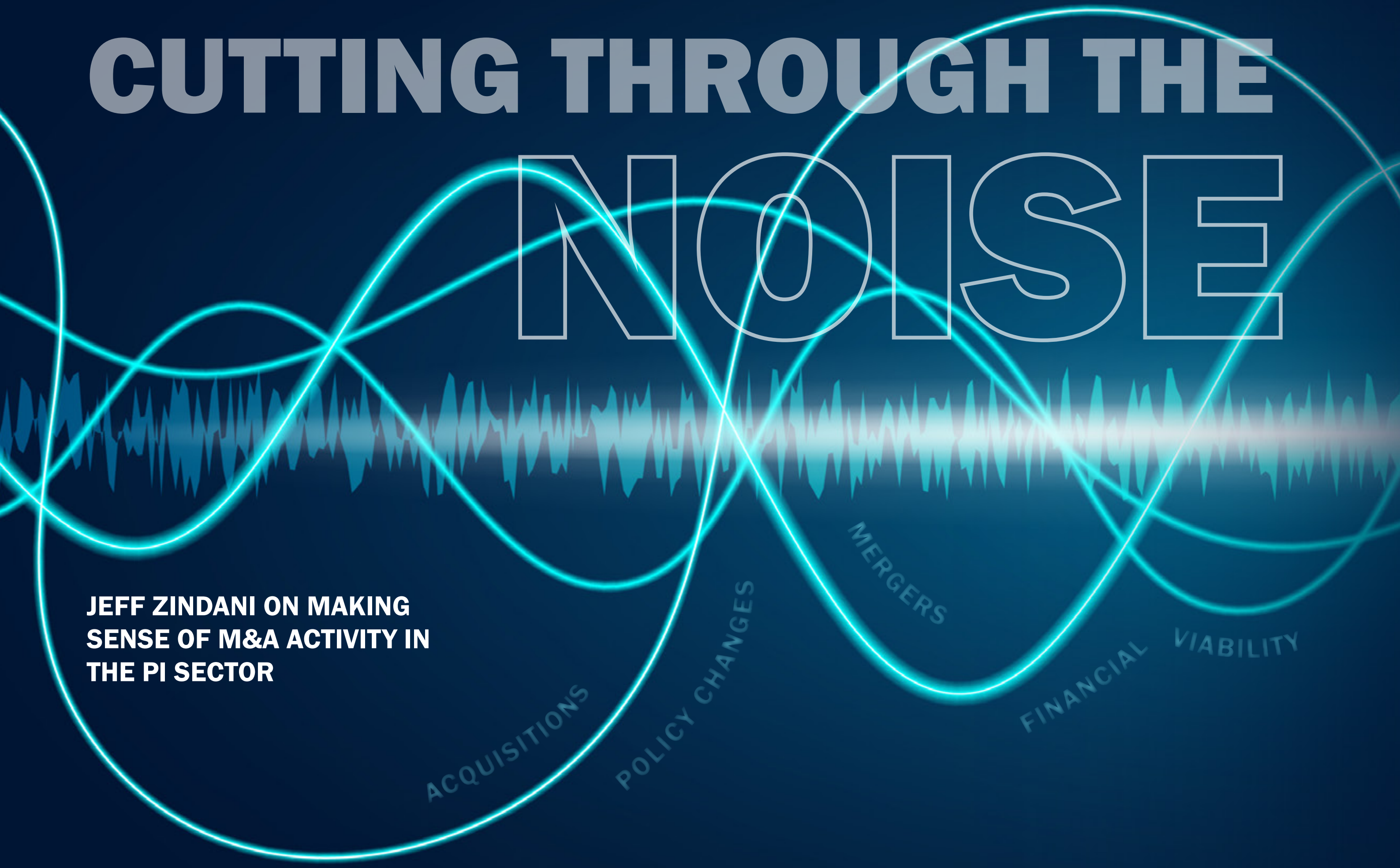
CUTTING THROUGH THE NOISE



JEFF ZINDANI ON MAKING SENSE OF M&A ACTIVITY IN THE PI SECTOR

The personal injury and clinical negligence world has changed dramatically for claimant firms since I first started out as a solicitor over 30 years ago at Russell Jones & Walker, now part of Slater & Gordon.

We have witnessed a succession of legislative and policy changes that have chipped away at the financial viability of claimant work. Significant structural changes have taken place as a result, with volume RTA firms for example virtually disappearing or moving into other practice areas.

According to IRN's 2023 Personal Injury Market Report, fee income in this sector is around £4.1 billion per annum, but there is a continuing decline in the number of active law firms - along with a fall in claims.

This long-term trend is reflected in analysis of claims registered at the Compensation Recovery Unit. Looking back at the last decade, claims have fallen by more than half, from over 1.1 million in 2013/14 to just 484,300 in 2022/23.

The volume of PI claims going to court also fell for the fifth year running, supporting the often-quoted Marc Galanter concept of the 'vanishing trial' syndrome whereby more and more cases are not pursued, dropped or settled out of court. This appears to be at play not just in the USA, but here as well.

Over the last three years we have also seen firms' costs creeping up, while fee income has not significantly changed.

The clinical negligence market has certainly held up better, with over £1.5 billion in fees excluding success fee income; but this is marginal, and not in any way seen as a high-growth sector.

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Real firepower

There is a paucity of hard empirical research into how these market changes have affected firms in the sector, but one thing we have certainly witnessed is a wave of consolidation.

In many ways, it is similar to the consolidation in the legal market as a whole, but within PI and clinical negligence the scale and pace seems to have accelerated in the past five years, with more mergers and acquisitions than other specialist areas.

Consider the entry by Sun European Partners (SEP) - a mid-tier private equity house - into the legal sector three years ago. It acquired leading claimant serious personal injury firm Fletchers for over £40 million, clearly demonstrating not only intent, but real firepower.

Since then, SEP has made a string of further acquisitions, including bringing in digital marketing agency, the Blume Group, a classic vertical integration which sees the acquisition of a business that is part of the supply chain.

These developments have taken a lot of law firms by surprise. Many observers, myself included, never thought private equity would branch out into consumer-facing legal services, let alone claimant personal injury work.

This is perhaps because the history of private equity in the personal injury sector is controversial, with large personal injury practice, Roberts Jackson, becoming one of the biggest failures, leaving its private equity investors, North Edge Capital, with a £22.5 million loss back in 2019.

SEP is not alone in expanding in the PI space. Simpson Millar, owned by Doorway Capital, is now very active in the market and is definitely one to watch over the next few months, given the firm's clear and coherent plan for M&A in the sector.

We are also seeing other strategic buyers move in despite a lack of private equity support. Recent examples include Manchester's Express Solicitors, a firm that boasts a £40 million plus turnover, which has begun to acquire smaller practices in the North West.

The pressure is on

In the UK there are several factors influencing consolidation among personal injury and clinical negligence firms.

The first is competitive pressure. We are seeing numerous firms vying for a limited and diminishing number of cases. Consolidation can provide a strategic advantage, allowing combined entities to leverage broader marketing capabilities and a stronger brand presence to attract more clients.

This is also reflected in the growing number of smaller firms turning to marketing networks and CMCs. There is an arms race being played out on the internet when it comes to Google search rankings, and smaller players cannot hope to compete with those with deep pockets.

As with other areas of the law, firms that merge into larger entities benefit from economies of scale. Consolidation allows firms to share administrative costs, invest in advanced case management software, and streamline operations, thereby reducing costs per case. This sector is ideal for volume processes because it does not require a lot of partner input on case handling.

Larger firms will also have more access to capital. Implementing the latest technology and expanding operations can be capital-intensive. Larger firms or conglomerates will have better access to financial resources, either through internal funding options or through more attractive terms from lenders and investors.

Where the firm is no longer constrained by the traditional partnership model, they also have the benefit of being able to reinvest profits or make very little profit in order to ensure future growth and stability.

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Cutting edge tech

Being able to invest in technology is vital to modern legal practices. Cutting-edge technologies such as generative AI for case assessment, quantum for legal analytics, automation tools for document handling and sophisticated client management systems are becoming a necessity.

It seems clear that the old technology used by many firms will soon be replaced by systems that take a case from onboarding to settlement in less time, and with a reduction in lawyer involvement. Software that analyses medical records for clinical negligence practices, for example, not only saves time; but with fixed recoverable costs, offers a competitive advantage.

Smaller firms will not be able to afford to invest, and so will have to work harder and for less against their larger, leaner rivals.

Consolidation also helps with staffing. Larger firms typically attract and retain top legal talent due to their perceived prestigious status. In addition, they can offer more diverse career paths and professional development opportunities, helping to retain talent. I recently saw this firsthand with a boutique high-value firm that just could not attract Grade B fee-earners without paying partner level salaries.

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> **At the same time as some are consolidating, agile, boutique firms are also on the rise in this sector**

The boutique firm paradox

At the same time as some are consolidating, agile, boutique firms are also on the rise in this sector, able to offer clients a more personalised and focused service away from potentially bureaucratic engagement with larger firms.

The vision that founders of firms like this have is often very personal, borne out of the problems and frustrations they have experienced working in larger, more traditional practices.

In the past few years, I have seen remarkably profitable firms take advantage of the shift towards high-value and complex work.

This, paradoxically, is why they are the number one target for larger firms that want to buy what they do not have.

We can safely say that the current wave of consolidation is set to continue as many smaller firms find they cannot survive or thrive without investment in new technology, marketing and talent, and private equity companies see the considerable opportunity presented by bringing firms like these together under one umbrella.

Those working in the sector should look to the future and consider how their practice will fit into this changing and increasingly competitive world.

Jeff Zindani is a merger consultant and matchmaker for PI and clinical negligence law firms at Acquira Professional Services