Welcome to the first edition of Momentum, Acquira Professional Services' quarterly law firm M&A roundup

The purpose of this newsletter is to track M&A activity amongst law firms in England and Wales, as well as to provide thoughtful and robust commentary on business strategy and the state of the market.

This first edition rounds up activity during the first two quarters of 2021. It also focuses on the rise and rise of acquisitive professional services provider Knights PLC.

In future editions we plan to cover a range of themes such as the drivers behind M&A and what makes a merger work well.

If any of this publication sparks your interest, please don't hesitate to get in touch.

Jeff Zindani
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ACQUIRA
Professional Services

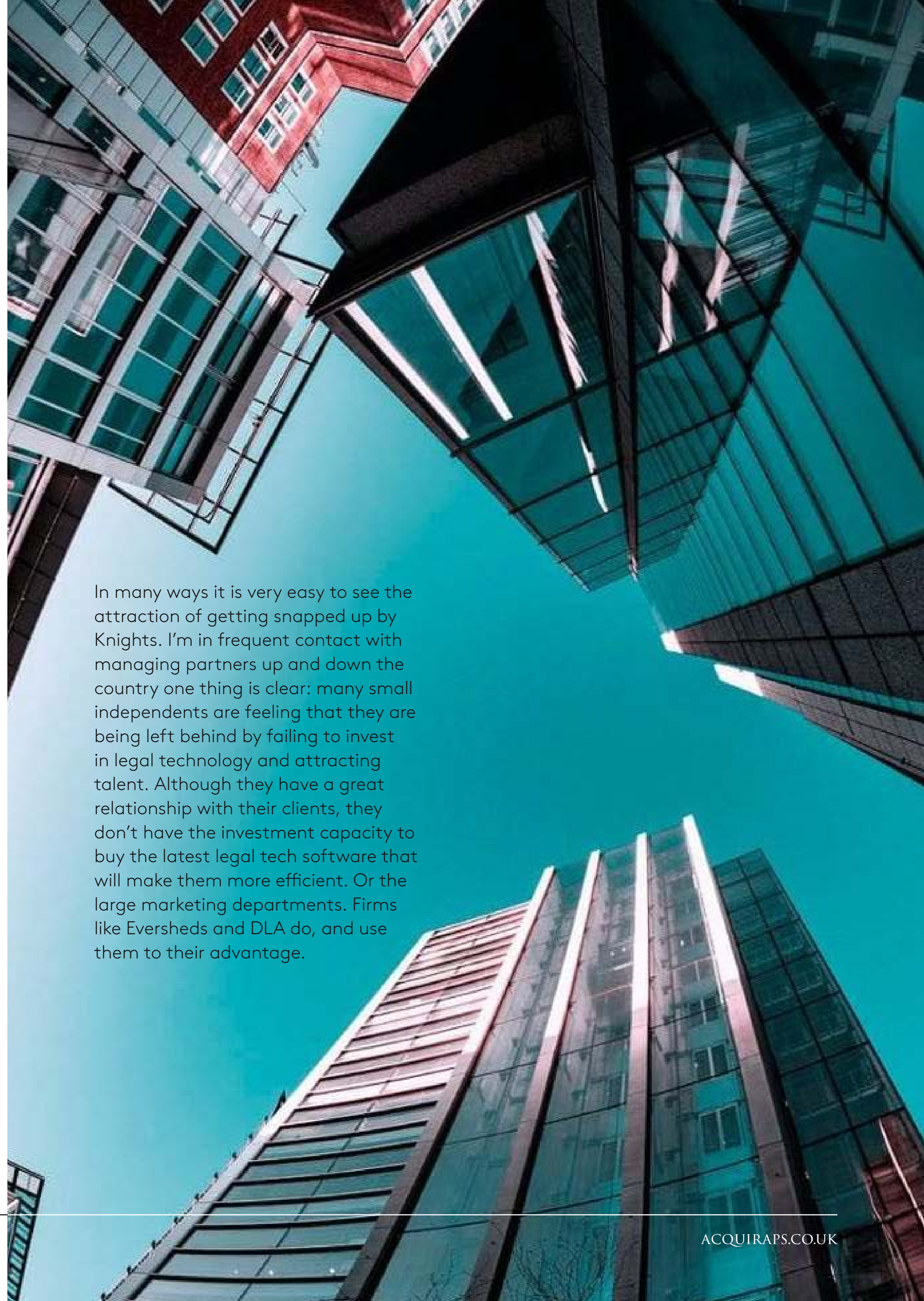
Opinion: A Knight in shining armour?

Thirteen mergers in almost ten years makes AIM-listed Knights PLC one of the fastest-growing professional services companies in the UK. But what is behind the strategy of growth growth growth? Is Knights a saviour to a struggling regional tier of commercial law firms, or an asset-stripper forced, like a shark, to keep moving to please its stock-market investors? Jeff Zindani explains more...

Around ten years ago the firm now known as Knights PLC had offices in Stoke and Chester, 150 professionals, and an annual revenue of around £9 million. On paper, that's a healthy regional operation in a position to pay salaries appropriate to the market.

Fast-forward to 2021 and the firm has 15 offices across England, and 1,150 professionals. Revenue has grown a whopping 730% to around £75 million.

And look at its activities in 2021 alone. It is already the most acquisitive law firm of the year, having acquired Mundays, Housing Law Services LLP and Keebles in the first two quarters.



In many ways it is very easy to see the attraction of getting snapped up by Knights. I'm in frequent contact with managing partners up and down the country one thing is clear: many small independents are feeling that they are being left behind by failing to invest in legal technology and attracting talent. Although they have a great relationship with their clients, they don't have the investment capacity to buy the latest legal tech software that will make them more efficient. Or the large marketing departments. Firms like Eversheds and DLA do, and use them to their advantage.

This is where Knights comes in. It positions itself as a low-hierarchy, high tech, well branded operation in which solid central back office and software together with good marketing comes on tap. What is striking is there is not the usual partnership politics but modern corporate governance.

It is very easy to see why regional firms who feel they can't compete with the regional heavyweights might want to join the club and get acquired by Knights.

Knights has a policy of full integration into its culture. So, soon after signing on the dotted line, the acquired firm can expect to lose its sign, website and email addresses, and have them replaced by Knights'.

And that is fair enough. Because the solicitors inside the building will still be doing the same high-quality work for their loyal and well-served clients but will be able to harness the power of better technology and marketing to become more efficient and make more money.

It seems like a virtuous circle. But the truth might not be so rosy.

In my experience, the biggest problem when it comes to law firm mergers isn't negotiating a deal, it is blending cultures. As the great American business guru, Peter Drucker, once said, "culture kills strategy for breakfast". We also know that empirically most mergers actually fail.

Cultures must fit for a merger to work. If they don't, lawyers over time walk, and take their clients with them. Equity partners are, however, happy to put up with a culture they don't like if it undisputedly gives them significantly more money through a favourable deal structure but what about junior partners and associates?

Well, this has already happened and we will all see before too long if it's a trickle or a flood. This is not helped, when on day one, a large number of back office and support staff are made redundant. This never goes down well in a law firm as questions are then asked about who is next and is this "our" new culture?

In my view, a ruthless private equity model for a new 'platform' business is utterly doomed to fail in the legal sector.

The perceptive chief executive, Sarah Walker-Smith of Shakespeare Martineau gets this with their 'house of brands' strategy which is designed to keep distinct law firm brands and cultures intact: "So often in our industry large and aggressive businesses will acquire firms only to destroy the very heart of that brand and the reason they have loyal clients – we want to reverse that".

As one managing partner recently remarked, Knights are not creating a cohesive and sustainable law firm but a "house of cards".

What is Knights' culture? Their website doesn't help much, and neither does the CEO. I'm not aware of Knights explaining its culture at all – it simply says it has one.

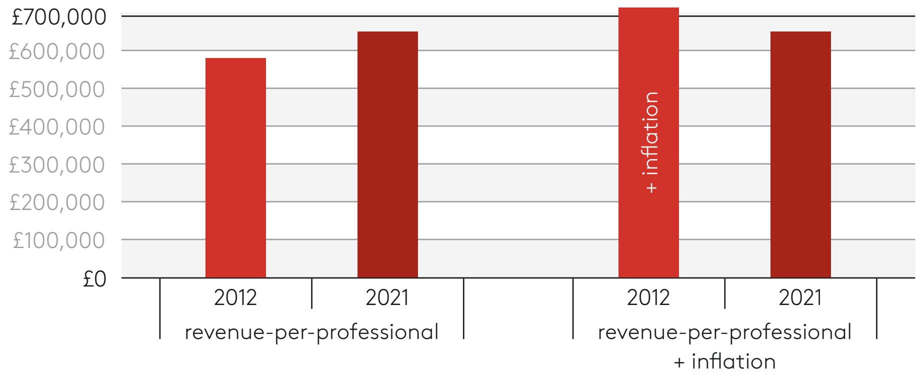
And what about the growth? Let's unpack the figures.

The Knights of 2012 had 150 professionals and around £9 million in revenue. While profitability is key, revenue-per-employee can be useful if crude way of examining growth.

In 2012 revenue-per-professional was £580,000

In 2021 the £75millon-reveune, 1,150 person firm has revenues-per-professional of £646,000. A modest growth.

Adjust the 2012 figure for inflation and the figure is a touch above £700,000. Which means that if the employees of Knights had stayed put in Stoke and Chester and done the same work, day in day out, their revenue would have been higher than they are now.



The merger trail, therefore, can only be worth it if it is bringing greatly increased profitability.

And even if it has, size has its limitations.

Small firms lack resources. Large firms lack agility and distinctiveness. And blandly-marketed behemoths lose customer loyalty.

Right now, Knights might seem like a lifeline to static regional commercial firms in a difficult time. But if Knights expansionist strategy is simply designed to please stock-exchange investors, and it doesn't make mergers work culturally, then it isn't a white knight – it is a cost cutting asset-stripper.

Or, to put it more bluntly: a barbarian at the gate.

I think Warren Buffet was spot on when he said:

" Beware the investment activity that produces applause; the great moves are usually greeted by yawns."

M&A ROUNDUP

There is no doubt that there is a mini-M&A boom going on in the UK at the moment. At least ten firms have merged or have been acquired in Q1 and Q2, and are currently in advanced merger discussions, which means a summer of mergers may well be on the cards.

What is driving this? There isn't one simple answer.

There is no doubt that there is a Covid-19 hangover effect at play, both in terms of pent-up demand and financial difficulty. While the government's furlough scheme has been widely accessed by law firms, equity partners can't be furloughed so, as always, plummeting profits hit them the hardest.

At times like this, selling out to a consolidator and getting two guaranteed years of bumper pay-outs plus salary can be tempting.

It is, therefore, fair to assume that some of this year's mergers were marriages of convenience, driven by short-term considerations.

There is another factor at play too: consolidation.

Consolidation is happening at both ends of the market. RGB'S April acquisition of Memery Crystal is an obvious example of consolidation towards the top end. News that RGB, which also owns Rosenblatt, is considering building to distinct brands, one contentious the other non-contentious, is a good indication of things to come.

But consolidation can also be more prosaic. You can't successfully run a law firm from a filing cabinet anymore. So, when a big consolidator like Knights knocks on the door promising immediate access to all the latest case-management software and offering money, many equity partners will see it as being good for them, good for their employees, and good for their clients.

After all, the nameplate outside the office might change, but it will still be the same people inside doing all the work, right?

Maybe, maybe not. You can read more about it in our editorial above.

In the meantime, here is a roundup of M&A activity amongst law firms in the UK in Q1 and Q2 2021.

In April, RGB Holdings, the AIM-listed professional services group that also owns law firm Rosenblatt Limited acquired London-based law firm Memery Crystal. In a statement to the London Stock Exchange RGB said that both firms would keep their own names and premises. In an interview with The Lawyer, RGB Chief Executive Nicola Foulston said she was considering creating two separate legal brands, one contentious and the other non-contentious. In June Memery Crystal partner Alex Barnes left to join BDP Pitmans. Barnes had previously led Memery Crystal's tax group.

In May, legal service group Knights PLC said it had agreed to acquire 138-fee-earner Sheffield, Leeds and Doncaster firm Keebles. At year ending 30 April 2020, Keebles reported revenue of £12.7m. It is budgeting revenue of £12.2m in the year to 30 April 2021. Under the terms of the deal Knights will acquire Keebles from its ten equity partners for total consideration of £11.54m. In a statement Knights said it targets firms that are "a strong cultural fit."

In April, Knights said it had completed the acquisition of Housing Law Services LLP, a niche firm based in East Sussex providing dedicated legal advice and practical support to registered providers of social housing, local authorities and management organisations.

Also in April, Knights said it had completed the acquisition of Mundays LLP in Weybridge, Surrey. 34-partener Mundays is a full service law firm that Knight says has a strong corporate, real estate and private client offering.

At year ending 31 July 2020, Mundays reported revenue of £7.9m and projected revenue of £6.9m in the year to 31 July 2021. Under the terms of the acquisition, Knights bought the firm from its six equity partners for a total consideration of £5.3 million, partially deferred over two years.

UK LISTED-ENTITIES M&A

In April, Yorkshire based Switalskis successfully acquired the niche Pryers Solicitors in York brokered by Acquira Profesional Services. The deal will see about 70 legal specialists and support staff from Pryers become part of the Switalskis group. The business will continue to trade under the Pryers brand from its base in York. An astute move by the clever John Durkan and his management team who had earlier on the year acquired a leading high value personal injury firm, Atherton Godfrey Solicitors in Doncaster. This has quickly turned Switalskis into one of Yorkshires largest independent firms.

In May, south-east of England form DMH Stallard merged with London family law firm and divorce specialist Brookman Solicitors. It will be DMH Stallard's fourth merger in recent years. The firm merged with Rawlison Butler in 2017, and both AWB Partnership and Ross & Craig Solicitors in 2015. The firm now has 123 lawyers and offices in London, Crawley, Brighton and Horsham. The combined firm, which has a revenue of around £31 million, will take the DMH Stallard name.

Also in May, law firm consolidator Metamorph Group acquired Southampton-based property law firm, Beeton Edwards. In March it acquired Buckinghamshire-based law firm, Browns Solicitors. Metamorph has made a total of ten acquisitions since 2016 and says it now has underlying revenue to around £35m pa and around 700 members of staff.

In April, Windsor firm Goldstein Legal, which specialises in franchising, was acquired by Nexa Law, a new legal platform, for an undisclosed sum. In the same month boutique firm Portfolio Legal merged with Cardiff-based Novello Law, a specialist commercial property practice, and full service Lincolnshire and South Yorkshire firm Sills & Bettridge acquired Sheffield's Rawson Family Law.

In February London firms Bishop & Sewell and Monro Wright & Wasbrough merged to become Bishop & Sewell LLP incorporating Monro Wright & Wasbrough. The combined firm has 76 fee earners and has property, private client, commercial, litigation and family departments. [Any financials?].

UK LAW FIRM M&A

INTERNATIONAL M&A

In May European professional services group ETL Global said that it had acquired 30-partner London for Laytons LLP. The acquisition doubles the size of ETL's law-firm footprint in the UK. In 2018 it entered the UK legal market by buying Manchester firm Glaisyers Solicitors LLP. Both firms will remain independent and will be rebranding as 'Glaisyers | ETL Global' and 'Laytons | ETL Global' respectively.

In February, US firm Armstrong Teasdale announced the acquisition of London and Dublin firm Kerman & Co.

....IN THE NEXT EDITION

I'm currently travelling the country interviewing law firm leaders and decision-makers about their M&A plans.

It's part of a large-scale field research project that Aquira is running into the drivers behind law firm mergers.

So in next edition of Momentum, as well as providing an M&A roundup and commentary we plan to share with you some of our early findings.

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