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Scale and pace of law firm M&A “will increase this year”

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Zindani: Market starting to heat up

There is a “higher level of confidence” among law firm buyers and “clear signs that the scale and pace” of M&A will increase in 2024, a report has found.

Meanwhile, sellers are becoming “more cautious” in their approach to law firm consolidators, following the collapses of Kingly, Metamorph Law and Axiom Ince.

In *On your marks: Law firm M&A in 2024* (https://zfrmz.com/x1yQrKUNk6hWdCu0JGCW?referrername=legalfutures) [1], Acquira Professional Services said: “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.

“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.”

Researchers noted that three listed legal businesses left the stock markets last year – Ince & Co and MJ Hudson for financial reasons, and DWF, which was bought by private equity firm Inflexion.

They were not aware of “any firm looking to list at the moment”, with “global uncertainties” meaning it had been a slow couple of years for IPOs in London, and “legal businesses are not high on the list to revive them”.

However, as Inflexion showed, “private equity does not want to be left out”, with 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 funding from Shard Credit Partners.

The report said there was “a lot of ‘dry powder’ (i.e available capital) around as buyers decide on their moves”, along with “interest from more hybrid investors, like sovereign wealth funds”.

Despite some “horror stories over the years in personal injury (Parabis, Roberts Jackson), in general, private equity sees the law as a decent bet”.

There were also “sources of new money”, with Harbour diversifying from its core litigation funding work to provide credit facilities for M&A, backing Rothley Law to acquire Shoosmiths’ private client practice and law firm platform Bamboo to buy Midlands-based Hawkins Hatton.

The collapses of Kingly, Metamorph and Axiom Ince had “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.”

Researchers said the failure of Axiom Ince raised questions about the extent to which the SRA should become involved in M&As, particularly where a smaller firm was buying a larger one out of administration.

Although law firms had to notify the SRA about takeovers, the regulator’s touch had been “feather-light” to date, and Acquira said it was unaware of a single case where the regulator had taken action.

On the seller side, they said there was a “significant ‘passive’ marketplace of law firm owners who are not willing to exit but are willing to look at how a deal could support their growth plans”.

In terms of practice areas, the list of what is “hot in the market” included “firms with lawyers in the digital space, healthcare, contentious probate, and construction”.

Jeff Zindani, founder and managing director of Acquira, said: “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.”