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Momentum

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Welcome to the Autumn 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 the UK, as well as to provide thoughtful and robust commentary on business strategy and the state of the market.

The last quarter continued to see a steady stream of law firm mergers and acquisitions with the consolidation we predicted earlier in the year showing no sign of letting up just yet.

As the economic storm clouds gather, we are likely to see changes to the M&A landscape, with indications that some firms are facing financial difficulties and others are revaluating potential merger targets. In this edition we consider what the future holds, who the winners and losers will be and why this downturn is different from the recession precipitated by the 2008 financial crash.

In future editions, we plan to continue 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
November 2022

An end to the M&A boom?

So far 2022 has seen a steady stream of law firm mergers and acquisitions but with predictions the country is set go into recession early next year, the M&A landscape is likely to change considerably.

So what does the future hold?

Post-covid, there was a sustained increase in M&A deals across the legal sector, from global mergers such as Clyde & Co and BLM, to consolidators like Knights snapping up regional firms.

This was driven primarily by the recognition amongst law firm management that if they wanted to grow apace, they needed to make acquisitions – organic growth alone was not enough. Acquisitive firms were also fuelled by cheap money and, more recently, by the talent war which has seen competition to attract and retain the brightest and best lawyers reach new heights.

But the legal sector is not immune to the economic volatility we are currently experiencing. September saw a sudden spike in the number of law firms of all sizes reporting to the Solicitors Regulation Authority (SRA) that they were facing financial difficulties. The SRA suggested reasons for the increase included the need to repay the government's Covid support, deferred tax bills and rises in professional indemnity insurance costs. It appears many firms are already struggling and will be exposed in the event of a future downturn.

It is inevitable that this will have repercussions for M&A activity in the coming months and law firm leaders we have been speaking to are already wondering whether what is currently a sellers' market be replaced by a buyers' market, or at least whether some equilibrium will be restored.

Winners and losers

A halt to all M&A activity as the result of the downturn is unlikely. Instead, we are more likely to see a shift in activity that will vary sector by sector. There will be both winners and losers.

Certain practices will still be "hot". This will include the obvious recession-proof practices such as personal injury and clinical negligence which will continue to see demand regardless of the economic outlook. Growth areas such as family, private client and employment law will, we anticipate, continue to thrive. We also see real resilience and perhaps modest growth in insurance services and of course significant growth in insolvency and litigation.

Firms operating in these areas will increasingly be targeted for acquisition or be in a strong position to bolt on new teams and practices.

For those eyeing strategic acquisitions, boutique commercial and private client firms still remain top of their wish list. Some managing partners we speak to have rather more unusual requests that fit in with their specific requirements, ranging from requests for court of protection specialists to financial services firms.

As one private equity house remarked, the legal sector has some

"ETERNALLY PROFITABLE BUSINESSES THAT ARE PERFECT INVESTMENT PLATFORMS."

It certainly does not appear to be time for them to stop buying.

On the other side of the coin, the losers will inevitably be those most exposed to soaring interest rates and the considerable squeeze on consumers. Conveyancing businesses and other related property practices that until recently were boom areas will suffer, particularly if we witness a house price crash.

Fortune favours the brave (but only if there's available cash)

As some less resilient businesses see revenues begin to decrease and overheads rise, the pressure to merge may well become impossible to avoid. A report published by chartered accountants, Hazlewoods in August suggested that while partners were happy to sit tight as the profits rolled in over recent years, many are beginning to feel the strain and are likely to decide it's time to sell up.

There will be firms woefully unprepared to weather the economic storm - unfortunately, some partners only seek change when it is too late and the pain is already being felt. Management guru Peter Drucker was right when he said:

> "The organisations likely to suffer the most are those with the delusion that tomorrow will be like yesterday."

As some firms inevitably begin to see a merger, or more accurately, acquisition, as the only way out of financial distress, opportunities will be created for those looking to acquire. They will need to make crucial judgements about whether these firms are rich pickings or risky liabilities.

That means looking beyond the financials, which, from experience, are often wrong. Buyers who focus simply on making the sums add up can encounter serious issues post-merger.

A recent Deloitte report found that culture was the cause of 30% of failed integrations. Acquirers need to do in depth cultural due diligence to guard against choosing the wrong merger partner and have a clear shared vision of what a post-merger strategy looks like.

Opportunities: a buyers' market?

It is easy to see how a downturn could pave the way for a true buyers' market for law firm M&A, particularly when so many potential acquirers have a large amount of cash on their balance sheets. Added to this, despite the doom and gloom, there is still funding and external investment available for the right deal, including from private equity firms who are ready with money to invest. Seeing potentially rich pickings, they are unlikely to be deterred by a recession.

This is where we see profound difference between today's market and the 2008 recession. This time around there is still an enormous amount of deployable private capital, including buyout, venture capital funding, and funding from other investors in the wider global economy. Available investment is at its highest level in history at $3.6trn - three times the figure in 2008.

This presents a real opportunity for savvy firms to achieve growth despite the prevailing economic winds. The downturn offers the chance to acquire or merge with firms that fit into a more long-term strategic vision, potentially making long sought-after firms a more realistic target than they might otherwise been.

As futurist Joel A. Barker commented,

"A VISION WITHOUT ACTION IS MERELY A DREAM."

Past experience suggests that potential acquirers should be gearing up to make deals. As Paul Romer, a Stanford economist once said,

"A CRISIS IS A TERRIBLE THING TO WASTE."

There is solid evidence from the global financial crisis of late 2007/early 2009 showing that companies that made significant acquisitions during the economic downturn outperformed those that did not.

When the going gets tough

How about recruitment? Will the sector see a continuation of this chase for talented professionals? Or will it slow to a halt as the going gets tough? The answer is of course well known to fans of Mr B. Ocean, that the tough get going. There will always be room to add new hires where there is a solid business case, the firm has the bandwidth to do so, and the culture is appealing enough to entice them to join from somewhere else. In some cases, this could mean looking at the option of rolling out the red carpet to lawyers on a fee sharing basis.

Adding to a firm's talent pool via discreet channels to plug the gaps in those lucrative service offerings is always a good call, a tactical play alongside the strategic drive to grow through acquisition.

The coming year will be a tough time for the country and for many legal businesses, with much uncertainty. For firms that find themselves in financial difficulties there will be hard decisions to make. For those in a strong position as the downturn hits, a bold strategy around well executed acquisitions and selective new hires could allow those firms to steal a march on the competition.

What does the current outlook mean for your law firm? Let's have a confidential 'fireside chat' to help you light the way forward.

Feel free to reach out, even if all you need is an independent 'sounding board' to explore your plans. Perhaps you are considering buying or selling all, or part of, a firm? Or enforcing your firm's positioning through targeted senior hires?

We are always here for a conversation. Jeff is at **jeff@acquiraps.co.uk** and Pierre is at **pierre@acquiraps.co.uk**

Merger and Acquisition Round Up

It's been a busy few months of M&A activity across the legal market, bearing out our prediction that consolidation would continue, although interestingly there have been fewer announcements around the 1 October indemnity insurance deadline than usual.

Perhaps this is because firms are keen to get on with their business but from our experience deals having taken place without the fanfare of a press announcement. Take from instance, the consolidator Metamorph's acquisition of Luton High Street firm Knowles Benning in July.

More significant is the new consolidator on the blocks, LawFront Group, who appear to have acquired either whole or in part a few weeks ago the Lancashire full-service firm, Farleys LLP. LawFront are part of the acquisitive private equity firm, the Blixt Group, who acquired earlier this year Fisher Jones Greenwood, another full-service law firm based in Essex.

Despite the doom and gloom, there is a strong pipeline of deals, and our prediction is there will be more announcements in the next few weeks and into Q1.

One of the most eye-catching deals was Property Exchange Australia (PEXA), which processes 80% of conveyancing completions in Australia, acquiring specialist property law firm Optima Legal from listed company Capita. Leeds-based Optima specialises in fees-assisted remortgage and equity release work. Its last reported turnover was £10m.

The deal was announced the day after the launch of PEXA's remortgage platform in England and Wales, having entered the market earlier this year to support the digitisation of property transactions.

Consolidators remain active. The MAPD Group – a business bringing together local law firms – has made the first in what it says will be a series of acquisitions this year by taking a majority stake in North-West firm Bermans, which has 70 staff and a turnover of £8m. It takes the group turnover to £24m.

MAPD – which stands for Making A Positive Difference – has bought 75% of the business from its owners. One of the reasons the Bermans partners have retained 25% is to ensure that its people can continue to access ownership.

The group was created in 2020 following a management buy-out of the Jackson Lees Group, made up of North-West firms Jackson Lees and Broudie Jackson Canter. MAPD also revealed that last year it bought Stoke-based Myers & Co in the first stage of its buy-and-build strategy.

MAPD are ones to watch with the extremely capable management team of Joanna Kingston-Davies and Brian Cullen at the helm, further deals are inevitable. Watch this space!

Southport-based Fletchers – which took private equity investment last year – has bought Leeds firm Minton Morrill as part of its plan to consolidate the serious injury market. Minton Morrill has three partners and 15 staff specialising in complex medical negligence claims and Court of Protection work.

It will continue to operate from its offices and under its brand, with Fletchers set to use the name as a trading style for some high-value work, in particular birth injury cases, given its reputation in the field.

As we reported in May, earlier this year Fletchers acquired the personal injury work of Burnley firm Smith Jones and its specialist brand for injured cyclists, Cycle SOS.

Shakespeare Martineau has moved into Bristol by acquiring GL Law, taking on more than 60 people, including a team in London, and entering the creative industries and leisure and hospitality markets. It joins Ampa, the holding LLP of a so-called house of brands, but GL Law will take on the Shakespeare name as part of Ampa's strategy of investing in and bolstering the brands within the group.

Ampa's strategy, outlined in 2020, is to attract mergers, acquisitions and hires to the house of brands, double in size by 2023 and hit turnover of at least £200m by 2025.

Gateley has acquired its second firm of chartered patent attorneys this year with a £2.5m deal to buy Symbiosis IP Ltd. It is the 13th acquisition – 10 of which are non-legal services businesses – since Gateley became the first law firm to list in June 2015.

Symbiosis, which specialises in intellectual property services for the life sciences industry, joins trade mark and patent attorneys Adamson Jones, which Gateley announced it was buying, also for £2.5m, in January.

Fast-growing Scottish law firm Gilson Gray entered England by acquiring Lincoln-headquartered Home Property Lawyers (HPL) from Knights as the first step in what it said would be a major expansion. Knights took on HPL as part of its acquisition of York and Lincoln firm Langleys earlier this year but said at the time that it was reviewing its options for the business as conveyancing was "non-core".

HPL – which will in time adopt the Gilson Gray name – will add up to £20m in additional revenue within two years, with the Scottish firm looking to double the current 65 staff "as soon as possible". Progeny Group – which describes itself as the only firm in the UK to bring together independent financial planning, asset management, tax, HR, and private and corporate legal services – has gone the other way by buying Scottish firm Moray Group, which combines legal, property and financial services.

Among smaller firms:

- Property firms ET Law and Abacus Solicitors have merged to formalise a longstanding partnership. It creates a 50 strong team with offices in Manchester, South Warrington and, soon, Altrincham. It will operate under the new name Able Legal from the New Year.
- Rawlins Davy and Jacobs & Reeves have joined forces as Rawlins Davy Reeves, with offices in Poole and Bournemouth.
- BBS Law Solicitors, a Manchester-based firm with an office in the City of London, has acquired North-West London firm OGR Stock Denton. BBS Law (incorporating OGR Stock Denton) has around 60 lawyers, almost half of whom have joined from OGR.
- Altrincham-headquartered MLP Law has bought Tebbitts & Co, based in Crewe and Warrington. Max Tebbitts joins as a partner in the commercial IP and litigation team. MLP has also established a presence in central Manchester, in addition to existing offices in Lymm and Leeds.
- A rare merger at the Bar too with 9 Gough Chambers and 1 Chancery Lane combining to create Deka Chambers (Deka is Greek for the number 10). It comprises over 110 barristers, including 14 KCs, and is now one of the biggest common law sets in the country.

There's been one disposal worth noting after a difficult summer for The Ince Group PLC, which had to raise £9.3m from shareholders and its bank to ward off financial difficulties and exited its chief executive, who took the firm public. It has also disposed of the first business it acquired after listing so as to focus on its core legal practice.

CW Energy, a corporate tax consultancy to the oil and gas industry, joined the group in November 2017 for an initial consideration of £4m, payable in cash over five years. More was payable depending on performance in that time, plus further payments on fees earned between the fifth and 10th anniversaries of completion. The total consideration was capped at £8m.

However, CW Energy has now been passed back to the two original vendors on the basis that Ince is no longer be liable to pay them £2.9m of deferred consideration.

Meanwhile, one of the country's largest conveyancing firms, O'Neill Patient (ONP), has put acquisitions on hold in the wake of the pandemic and conveyancing boom. Nick Hale, group chief executive, told Legal Futures that ONP wanted to focus on service and technology before buying any more law firms.

He said the pandemic and the stamp duty holiday had created "challenging times" for conveyancing firms, some of which remained. As a result, ONP had "changed our direction" to focus on "core brands" and improve turnaround times.

"Once we have achieved that, we may yet again look to buy other law firms in the future."

Finally, the merger between London firms Seddons and Lawrence Stephens – was called off. It would have created a full-service firm of over 180 people with £25m annual turnover.

In a joint statement, they said:

"Together we have concluded that, while a merger between our firms presented an attractive opportunity with clear benefits for our clients and our people, ongoing negotiations highlighted considerations that prevented further progress."

Hot off the press. We understand that BDB Pitmans and Womble Bond Dickinson are in merger discussions in a deal that that would create a £440m revenue firm. Early discussions but this would be a huge merger or dare we say it an acquisition dressed up as merger?

...IN THE NEXT EDITION

I'm still travelling and Zooming around the country interviewing law firm leaders and decision-makers about their M&A plans -particularly in the so-called "independent" sector.

We are also later this month starting a series of podcasts around growth through M&A, which will also involve interviews with key decision makers on their thoughts on external growth strategies and their plans.

So, in next edition of Momentum, as well as providing an M&A roundup and commentary we plan to focus on what is happening in the independent sector. The movers and shakers and the steady "under the radar" firms will be covered.

If you have not already signed up to future newsletters, please do so, as you will receive the news and market intelligence first.

Momentum Q1: Due March 2023

Jeff Zindani
Founder and 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 **jeff@acquiraps.co.uk**.

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**.

ACQUIRA PROFESSIONAL SERVICES
5 Chancery Lane, Holborn, London EC4A 1BL

T: **020 3239 3192**
E: **contact@acquiraps.co.uk**

Jeff Zindani
Merger Consultant

E: **jeff@acquiraps.co.uk**

Pierre Watson
Head of Talent Acquisition

E: **pierre@acquiraps.co.uk**

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