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Law firms eye M&A as route to private equity or listing

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Zindani: Time to challenge notion that growth can only be attained organically

Nearly half of law firms are considering mergers and acquisitions, with a surprising number looking to grow in a bid to attract private equity investment or to go public, according to new research

The in-depth survey of 100 law firms of varying sizes, commissioned by Acquira Professional Services, indicated that firms felt they needed to move faster than organic growth allows.

But it also found they often have a "dangerously ad hoc" approach to identifying targets for M&A.

Two-thirds said they expected the legal services sector to consolidate even more in the next 18 months, with nearly half (45%) foreseeing greater investment from outside the sector and 41% expecting more law firm flotations.

"Certainly, there has been nothing in the experience of the various listed firms to date to discourage the right firms – rather, the multi-million-pound pay-outs to some owners who have sold their shares may act as a significant incentive," said the Acquira report, *Growth Agenda 2022: The New Era of Law Firm M&A* (https://forms.acquiraps.co.uk/acquiraps/form/SubscribetoReport/formperma/lUhGb2YCD8I2HvkIrgOzi4No4ImnJLN3-odIW9AHCbQ?referrername=article) [1].

A total of 47 of the 100 law firms interviewed by IRN Research said they were considering M&A, nearly a quarter of whom (23%) were already in talks about a possible deal, and a further 57% "actively" seeking it.

Geographic expansion was the biggest reason for firms looking at M&A, followed by desires to expand into new practice areas and to scale-up and compete.

Looking more broadly at how they expected to drive growth, most respondents identified investment in IT systems and infrastructure, although the report questioned the extent to which this is actually a driver.

"Is it really more about keeping up? Among the top firms, it's looking like an arms race," it said.

Other significant drivers were private equity investment (cited by 37% of firms), and sales and marketing (34%).

Flotation was in the minds of 18% of the large firms, 9% of mid-sized and even 4% of smaller firms. More than a quarter (27%) of large firms were also looking to buy a non-legal business.

The report said: "Our experience is that the few private equity firms interested in the legal market are generally looking at practices with non-traditional business models, such as subscription services which generate repeat business.

"They want to build scale. Any notion that it is an easy way for partners to cash out will send them running for the hills."

It said one of the reasons mergers went wrong was the informal way they often started – a chance meeting or knowing counterparts in local firms from the golf club. "But proximity doesn't necessarily mean affinity," it warned.

Acquira managing director Jeff Zindani said: "The findings back up the general sentiment in the market that greater consolidation is on the way.

"There are a lot of good reasons to consider M&A. You can boost fee income and access larger financing pools for expansion, compete with the bigger boys and girls, and increase the overall value of your business.

"We are in an era where customers expect slick, professional services and it may be that being a larger, better-funded operation is the way to achieve that more quickly."

Mr Zindani argued that it was time for law firm owners to challenge the conventional wisdom that growth could only be attained organically.

The report explained: "In our conversations with managing partners across the country, there is a clear message: growth in itself produces a kind of momentum that lights up a firm.

"Without it, key talent will not be attracted to join and key players may well leave."

The report quoted John Durkan, managing director of fast-growing Yorkshire firm Switalskis, saying he has never seen so many firms looking to acquire, be acquired or merge as there were at the moment.

Asked why, he said: "Latterly it's been Covid. Whatever value partners felt they had in their businesses, something like Covid can take away overnight. It has concentrated minds."

Other drivers included the personal injury reforms and the wider issue of an ageing profession.

"You can only go on for so long," Mr Durkan said. "There are quite a lot of 'ghost' firms out there that are not attractive acquisition targets as they are not making profits but only surviving because they took out government-backed loans to prop up a failing firm.

“Once the loan repayments kick in, they can’t afford to make the repayments, so I expect there will be more law firm failures over the coming year as a consequence.”