

MOMENTUM

AUTUMN 2023



FOREWORD

JEFF ZINDANI, MANAGING DIRECTOR



WELCOME TO THE
AUTUMN EDITION
OF MOMENTUM,
ACQUIRA
PROFESSIONAL
SERVICES' 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.

We have seen steady M&A activity in the legal sector with over 100 deals this year and counting, with the last few weeks seeing a flurry of deals.

Despite the economic headwinds affecting the UK economy, there is still an appetite for growth using M&A, and our prediction is that this will continue into next year.

In this edition, we look at the growing importance of private equity in the legal sector and how this is playing out.

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

A red, cursive handwritten signature of Jeff Zindani.

NOVEMBER 2023

CONTENTS

PRIVATE EQUITY IN THE LEGAL SECTOR 4

MERGER & ACQUISITION ROUNDUP 11

IN THE NEXT EDITION 16

WHAT WE DO 17

PRIVATE EQUITY IN THE LEGAL SECTOR: THE COMING WAVE

TALK OF PRIVATE EQUITY OR OTHER EXTERNAL INVESTORS INVARIABLY ELICITS A NEGATIVE RESPONSE WITH MANY LAW FIRMS VIEWING THESE ORGANISATIONS AS 'RUTHLESS ASSET STRIPPERS' OR QUESTIONING THEIR ABILITY TO RUN LAW FIRMS WHEN COMPARED TO THE TRADITIONAL PARTNERSHIP MODEL.

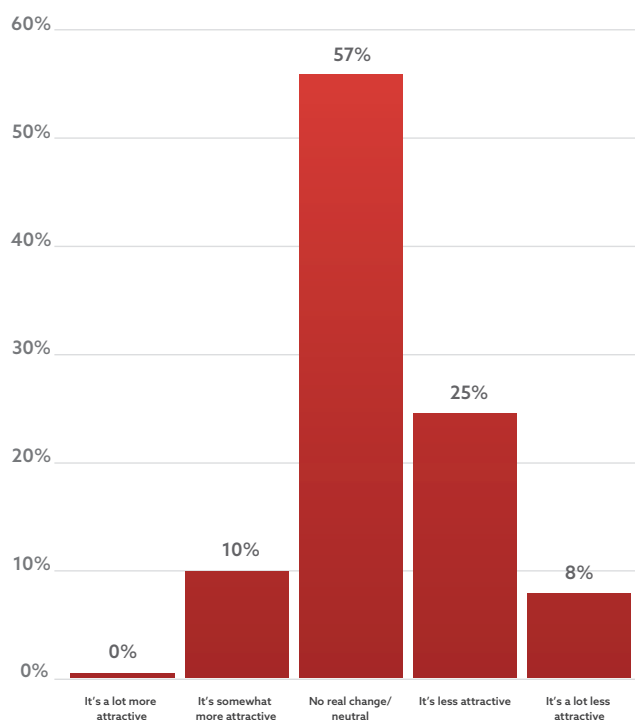
A recent HSBC report found that 33% of law firm leaders considered private equity investment as a route to growth to be less attractive than they did two years ago.

Perhaps this isn't surprising when even the likes of Warren Buffet see private equity firms as 'evil' actors with exaggerated promises and poor returns.

There remains an opaqueness around private equity but the reality is they follow a predictable playbook, and more importantly are becoming a real force in the legal sector with the potential to challenge many conventional law firms.

So what is private equity and how do these firms operate? Who are the major players and what impact are they having on the legal sector and the market for mergers and acquisitions?

How has your perception of the attractiveness of private equity investment as a route to finance future growth/transformation changed over the past two years?



GROWTH AND EXIT

IN SIMPLE TERMS, PRIVATE EQUITY IS A FORM OF FINANCING WHERE MONEY OR CAPITAL IS INVESTED INTO A COMPANY. NORMALLY, PRIVATE EQUITY INVESTMENTS ARE MADE INTO WELL-ESTABLISHED, TRADITIONAL INDUSTRIES IN EXCHANGE FOR EQUITY OR AN OWNERSHIP STAKE.

It is similar to venture capital, with private firms using capital raised from limited partners to invest in promising private companies. Unlike venture capital however, private equity firms often take a majority stake—50% ownership or more—and usually have majority ownership of multiple companies at once.

To invest in a company they raise pools of capital from limited partners to form a fund. When they have reached a funding target, they close the fund and invest that capital into target companies.

The objective is to grow the fund, generally with a view to exiting after four to five years. Any profit is then distributed to the limited partners who originally invested. When a private equity firm sells one of its portfolio companies to another company or investor, the firm usually makes a profit and distributes returns to the limited partners that invested in its fund.

A NEW FRONTIER

THE LEGAL SECTOR IS SEEN AS A NEW FRONTIER WHERE SOLID MARGINS OF AROUND 30% ARE THE NORM FOR MOST WELL RUN LAW FIRMS. THESE KIND OF PROFITS ARE WELL ABOVE THOSE TYPICALLY ENJOYED BY NON-LEGAL BUSINESSES.

As one private equity executive told me recently, they like established law firms as they are seen as “eternally profitable businesses” particularly if they are full-service firms that can ride economic storms by having mixed practice areas.

Private equity investors normally have a strategy around buy-and-build which involves forming a platform company and then aggregating and integrating smaller add-on acquisitions to achieve rapid growth and scale.

On exit, the investment benefits from the arbitrage between the higher EBITDA (earnings before interest, taxes, depreciation, and amortisation) multiples that larger enterprises command and the lower multiples paid across for the various smaller acquisitions.

In a study commissioned by management consultants, the Boston Consulting Group, it was found that in lower middle-market type businesses, returns from this strategy are nearly two and a half times greater than standalone investments without M&A. The relative benefit of this strategy appears to decline as deal sizes increase.

There is no reason why this analysis should not apply to the legal sector and we can see already this strategy being used by Lawfront who have, in the past two years acquired North West firm Farleys, Essex practice FJG and Nelsons in the East Midlands, giving the company annual revenues of more than £45m. The other active acquirer in a similar space is MAPD Group which most recently acquired Cumbrian firm Thomson Hayton Winkley and Ashton-under-Lyne practice Bromleys.



This is interesting because this puts probably more of an impetus on the part of those law firms looking at an IPO or external investment. It is actually “game on” almost with private equity in the corporate/commercial space.

JEFF ZINDANI COMMENTING ON THE DWF DEAL WITH INFLEXION

CONSOLIDATION STRATEGY

IT APPEARS THAT CONSOLIDATION IN THE LEGAL SECTOR IS BECOMING A COHERENT AND PROPERLY FUNDED STRATEGY AND, AS PRIVATE EQUITY STEPS UP ITS INVESTMENT, IS BOUND TO GATHER MORE PACE, PARTICULARLY AROUND MID-SIZED LAW FIRMS.

Consider the remarkable entry by Sun European Partners into the legal sector two years ago when it acquired leading claimant serious personal injury firm Fletchers for over £40m. This clearly demonstrates not only intent but real firepower.

These developments have taken a lot of law firms by surprise as many observers, including ourselves, never thought private equity would branch out into consumer facing legal services. This is perhaps because the history of private equity in the personal injury sector is controversial, with another large personal injury practice Roberts Jackson becoming one of the biggest failures, leaving its private equity investors North Edge Capital with a £22.5m loss back in 2019.

“

I've been predicting consolidation.

A&O AND SHEARMAN BOSSES
ON WHY THE TIME WAS RIGHT
FOR A MERGER

A PLAYBOOK FOR THE LEGAL SECTOR

PRIVATE EQUITY FIRMS ARE WINNERS BECAUSE THEY ARE GLOBALLY SOME OF THE MOST SOPHISTICATED BUYERS AND INVESTORS OUT THERE. THE LIKES OF INFLEXION AND SUN EUROPEAN CAPITAL WOULD NOT BE INVESTING UNLESS THEY COULD SEE A RETURN. INTERESTINGLY, IN 2019, THE *FINANCIAL TIMES* REPORTED THAT INFLEXION WAS PRODUCING RETURNS AS MUCH AS THREE TIMES INVESTED CAPITAL.

It is also worth pointing out that, although it might be counterintuitive to many in the legal sector, private equity like to take underperforming businesses and turn them into something special. The rationale behind private equity is to take a business and to make it more valuable. This will clearly chime with partners in law firms who know that whilst they may be excellent managers, they never came into the law to run a business.

As the *Harvard Business Review* said in its 2007 piece *The Strategic Secret of Private Equity*, "The fundamental reason behind private equity's growth and high rates of return is something that has received little attention, perhaps because it's so obvious: the firms' standard practice of buying businesses and then, after steering them through a transition of rapid performance improvement, selling them. That strategy, which embodies a combination

of business and investment-portfolio management, is at the core of private equity's success."

My prediction is that we will see the major players in private equity continuing to use this playbook of making a law firm more valuable by buying platform firms with a clear "buy to build" strategy.

We know from discussions with a number of law firms over the past five years that there is little appetite for private equity, particularly amongst traditional law firms, but this may well change as the success of these outfits becomes more apparent.

The six-million-dollar question will, of course, be the PE exit strategy for the law firm. This is perhaps the most challenging issue.

Will they look to an IPO, a sale to another PE house, or an external investor? However, in the short term, this could be a serious issue, as selling may not be that easy:

“Private equity firms are facing the worst year in a decade for selling portfolio companies after higher interest rates and geopolitical tensions ended the buyout industry’s boom. In the first nine months of the year, buyout firms generated \$584bn from either selling companies outright or through taking them public, according to data from PitchBook. The amount is more than \$100bn shy of what the industry raised

during the same period last year and almost two-thirds below the record \$1.4tn generated in 2021, when borrowing costs were low and US equities still in a bull market”: Financial Times October 2023

If not enamoured by private equity, perhaps law firms can learn something from their playbook. It could potentially benefit some to consider the buy to build approach - imitation can be better than innovation. What is clear however, is that we are looking at a coming wave of private equity that is set to increase competition and heat up this fluid sector.



Private equity firms are facing the worst year in a decade for selling portfolio companies after higher interest rates and geopolitical tensions ended the buyout industry’s boom. In the first nine months of the year, buyout firms generated \$584bn from either selling companies outright or through taking them public, according to data from PitchBook. The amount is more than \$100bn shy of what the industry raised during the same period last year and almost two-thirds below the record \$1.4tn generated in 2021, when borrowing costs were low and US equities still in a bull market.

FINANCIAL TIMES OCTOBER 2023

WHO ARE THE MAIN PRIVATE EQUITY PLAYERS IN THE LEGAL SECTOR?

THERE ARE APPROXIMATELY 2000 PRIVATE EQUITY FIRMS IN THE UK, COVERING A WIDE RANGE OF SECTORS AND REVENUES. THE KEY PLAYERS CURRENTLY IN THE LEGAL SECTOR ARE REFERRED TO BELOW.

LAWFRONT GROUP LIMITED

Blixt is a pan-European private equity firm headquartered in London that claims to have access to more than £200m in long-term institutional investor funding. Owner of Lawfront, it invests in the legal, wealth management and accounting sectors, targeting full-service businesses concentrated on private client services and services to small and medium-sized corporates.

MAPD GROUP

MAPD is more of a hybrid company than pure private equity, with its financing provided by Shard Credit Partners.

MAPD stands for 'Making a Positive Difference'. It is building a group of successful law firms, propelled by a single shared purpose; Making a Positive Difference. This ethos fuels business performance, motivates people, leads MAPD to deliver high quality work for their clients and roots firms more deeply in their communities, focusing on sustainable growth.

It's approach, according to CEO Brian Cullen, is based on acquiring strong regional law firms and "giving them the rocket fuel they need to take them to the next level".

SUN EUROPEAN PARTNERS LLP

Sun European Partners operates as a private equity firm. The company focus has traditionally been on food and beverage, industrial, packaging, chemical, building products, automotive, restaurant, and retail sectors. Since 1995, affiliates of Sun European Partners have invested in more than 425 companies worldwide across a broad range of industries and transaction structures with turnover of approximately £40 billion. More recently the company has branched out into the legal sector and it now owns the Fletchers Group.

INFLEXION PRIVATE EQUITY PARTNERS

This London headquartered private equity house was set up over 20 years ago by Simon Turner and John Hartz. The company has approximately £8bn in funds under management and its current portfolio in the legal sector includes Chambers Directory, National Accident Helpline, a claims management company in the personal injury sector, and O'Neil Patient, a top 100 conveyancing law firm

Most recently Inflexion acquired top 50 law firm, DWF and a managing partner of a top law firm recently told me he considers them "a class act at what they do" and he expects them to "really shake up the legal sector".

MERGER & ACQUISITION ROUNDUP

It's been quite the six months since our last M&A round-up, with **Axiom DWFM** the most eye-catching. Having acquired both listed firm **Ince** and defendant insurance firm **Plexus Law** out of administration, the renamed Axiom Ince then imploded spectacularly, with allegations against its chief executive about £64m of missing client money and the SRA eventually closing the firm down.

Axiom DWFM went from relatively obscurity to a firm with more than 1,000 staff in the space of three months or so, and then to a sinking ship which has seen staff rescued by firms across the country. There is still much of this tale to come out and an awful lot of questions to be answered.

The rest of the M&A activity has been far less dramatic but very interesting nonetheless.

The combination of **Allen & Overy** and US firm **Shearman & Sterling** is the first City mega-merger for some time. It will increase to a firm with around 800 partners and 4,000 lawyers across 48 offices, and combined revenues of approximately \$3.5bn. The transaction will complete around May 2024.

Harbour Litigation Funding has moved beyond its core activity and is now backing M&A as well. It supported **Rothley Law** to take on **Shoosmiths'** 41-strong private client practice, which will operate from offices in

Birmingham, Leicester, London, Manchester, Milton Keynes and Reading.

The transfer follows a strategic review by Shoosmiths last year that led to the national firm withdrawing from private client and family services.

Leicester-headquartered Rothley Law is part of the Rothley Group, whose main member up to now has been claims management company Money Redress. The law firm, an ABS, was set up in 2022 but only opened its doors with the Shoosmiths team moving over. Rothley said it planned to build its consumer law offering by opening offices in Bristol and Leeds later this year, and through further acquisitions of firms, business units or teams. Its chair, John Verrill, is a former Norton Rose Fulbright partner.

Harbour also backed law firm platform **Bamboo** in acquiring Dudley-based **Hawkins Hatton**, making it the fifth practice operating through its umbrella ABS. Bamboo was developed in 2020 by virtual firm Carbon Law Partners and provides back and middle office support. A corporate boutique, Hawkins Hatton will retain its name following the deal and its two owners remain with the firm.

Bamboo both owns law firms and also provides a platform for start-up firms or those that want to delegate operational issues to someone else. It is looking to acquire firms with fee income from £3m to £20m. Founder Michael Burne said he expected this to be the first of a series of acquisitions and that he was in talks with Harbour about a £30m facility to back them.

Irwin Mitchell has expanded its Scottish practice significantly by acquiring **Wright Johnston & Mackenzie**, which has 36 partners and 150 staff across offices in Glasgow, Edinburgh, Aberdeen, Dunfermline and Inverness. Its revenue for its last financial year was £11.7m and the firm has grown rapidly in recent years, with six mergers or acquisitions in the last seven years.

The two firms will retain their separate legal status, with the deal taking the form of investment by Irwin Mitchell. Irwin Mitchell Scotland operates out of Glasgow predominantly in banking and finance and complex personal injury work. WJM specialises in corporate, private client, property and asset management.

Irwin Mitchell also boosted its family law offering in the North-East of England by acquiring **Silk Family Law**, a 25-person firm with offices in Newcastle, Leeds and Richmond, North Yorkshire.

The **MAPD Group** added Cumbrian firm **Thomson Hayton Winkley** and Ashton-under-Lyne practice **Bromleys**, and now has a group turnover of £30m. Thomson Hayton Winkley and its sister brand the Rural Law Practice have 60 staff across six offices and is one of the largest law firms in the Lake District; it also has estate agency and financial services arms. Bromleys has a 58-strong team. Both firms serve both commercial and individual clients.

MAPD co-founders Brian Cullen and Joanna Kingston-Davies said they were in talks with several other firms as they looked to expand the group nationwide. The latest deals were backed by Shard Credit Partners.

Rapidly growing **Express Solicitors** – the Manchester firm aiming to become the biggest claimant PI practice in the country – also made a double acquisition: **Amelans** and **Jeffries Solicitors**, both well-known Greater Manchester firms, adding around 20 and 50 staff respectively to Express and taking its headcount to about 650. The deals were backed by RBS.

We have been following M&A activity in Scotland for some time, and we have always taken the view that this strong legal services market is ripe for consolidation. It was therefore no surprise to see two well-established firms, **Morton Fraser** and **MacRoberts**, announce their intention to merge this month.

The merger of equals, in terms of size, will create a firm with more than 250 lawyers and annual revenues in the region of £46m – 30% more than its next rival behind the larger trio of Shepherd & Wedderburn (£66.7m), Burness Paull (£82.2m) and Brodies, which broke through the £100m barrier this year, reporting an 8% increase in turnover to £106.25m.

“

MAPD is passionate about acquiring great law firms and supporting their growth. It was immediately obvious when meeting [their leaders that both firms] had many of the credentials we look for in a law firm, namely: a loyal and diverse client base, strong roots in their local community and a keen commitment to their people.

JOANNA KINGSTON-DAVIES
COMMENTING ON THE
THOMSON HAYTON WINKLEY DEAL

OTHER DEALS INCLUDED:

- ➔ **Fletchers Group**, the serious injury law firm owned by private equity house Sun European Partners, acquired the personal injury division of Leeds firm **Emsleys**, with all 28 staff transferring over to Fletchers' Leeds office, which opened in February. This was brokered for the sellers by Acquiria Professional Services.
- ➔ Nottingham-based **Rotheras** and **Bray & Bray** in Leicester became Rothera Bray, bringing together firms best known for their private client and corporate/commercial work respectively. The new firm has 27 partners and a 200-strong team operating from eight offices in Nottinghamshire, Derbyshire and Leicestershire.
- ➔ Devon firms **Kitsons** and **Boyce Hatton** have created Kitson Boyce, headquartered in Torquay and with other offices in Exeter, Plymouth and Totnes. The combined firm has 20 partners and more than 30 other legal professionals.
- ➔ **Weightmans** bought eight-strong Anglo-French firm **Pierre Thomas Law**, which handles international personal injury claims and the defence of accident claims throughout Europe. This is a smart move by the capable John Schorah and his team.
- ➔ Fee-share law firm **Spencer West** has announced its first acquisition, London private wealth boutique **Hieron**, with six partners and one other fee-earner moving across. Spencer West has also brought six-partner London firm **Selig & Partners** onto its platform. Bringing in a large team from Axiom Ince has led to Spencer West opening an office in Birmingham as well.
- ➔ Manchester-based **Prosperity Law** has acquired **Carrick Read**, a five-person specialist insolvency and volume debt recovery practice in Leeds.
- ➔ Welsh firm **Hugh James** has taken over sports, charities and media practice **Loosemores**, with four partners and 24 other staff moving across Cardiff.
- ➔ London firm **Lewis Silkin** has acquired 11-person patent and trade mark firm **Miller Sturt Kenyon**.
- ➔ In Lincolnshire, Grimsby and Louth-based **John Barkers** merged with **Symes Bains Broomer** in Goole to form the **Humber Legal Group**, with both firms retaining their own identities in their respective regions. John Barkers acquired criminal defence firm **Michael Culshaw & Co** a week earlier. It now has more than 100 staff across five sites.
- ➔ Shropshire firm **Lanyon Bowdler** transferred its criminal department to Welsh firm **Richard George & Jenkins**, which has opened a Shrewsbury office as a result.

- ➔ Manchester firm **Slater Heelis** entered insolvency work after acquiring four-strong specialist firm **NJ Goodman & Co** in Altrincham.
- ➔ Kendal-based firm **Arnold Greenwood** absorbed the practice of Cumbrian solicitor **Shirley M Evans**.
- ➔ Employee-owned law firm **Talbots Law** increased its presence in the Midlands by buying Coventry-based **Sarginsons Law**. It said the aim was to grow the 20-strong firm's turnover from £1m to £3m over the next two years. Talbots' fee income hit £22m last year and it now has nine offices.
- ➔ **Redkite Solicitors** has added offices in Gloucester and Cirencester with the acquisition of **Davey Law**. It now has six offices in the South-West in addition to 10 in Wales, employing around 240 staff. The deal takes its turnover to £16m.
- ➔ Hampshire and Dorset firm **Dutton Gregory** has moved into Surrey by taking over **Mackrell Turner Garett**. Earlier this year, Dutton Gregory also established an office in Liverpool and now has over 130 staff.
- ➔ **Williamsons Solicitors** has grown its criminal law practice by acquiring fellow Hull firm **Amber Solicitors**.
- ➔ Gloucestershire firm **Gwyn James Solicitors** has taken over **Dean Conveyancing**.
- ➔ North London law firm **Alexander & Partners** bought parts of the **Law Direct** group of 13 law firms in a pre-pack following the latter's administration.
- ➔ London firm **Richard Slade & Co** acquired **Checkmylegalfees.com**, the scourge of claimant PI firms with its claims of overcharging brought on behalf of former clients.
- ➔ **PEXA**, the Australian conveyancing technology giant that last year bought UK law firm Optima Legal, has agreed a £31m deal by buy listed company Smoove. **Smoove** is made up of four elements, with the main one being eConveyancer, its conveyancing comparison platform for introducers, and it also owns law firm **Amity Law**, a platform for consultant conveyancing solicitors.
- ➔ Listed law firm **Gateley** spent £6m on an East Midlands chartered surveyors **RJA Consultants**. It is Gateley's 14th acquisition since becoming the first law firm to list in London in 2015, 11 of which have been non-legal businesses.
- ➔ Flexible lawyering business **LOD**, which is not a regulated law firm, has been sold by its private equity backer Bowmark Capital to US company **Consilio**. With 10 offices around the world, the LOD group works with more than 4,500 lawyers, legal engineers, legal operations consultants, paralegals, and risk and compliance professionals.



ACQUIRA
Professional Services

IN THE NEXT EDITION

FOR THOSE WHO
FOLLOW WHAT WE
DO AT ACQUIRA
PROFESSIONAL
SERVICES, YOU WILL
KNOW THAT WE ARE
OBSESSED WITH LAW
FIRM CULTURE.

We keep saying that while numbers are fundamental to M&A deals, they are usually wrong, but where the real challenge lies is identifying the cultural DNA of both firms to see if they are compatible from the outset.

So, in the next edition of *Momentum*, as well as providing an M&A roundup and commentary, we will be looking at the business of culture when M&A gets done in the legal sector. We will look specifically at best practice from a cultural DD point of view.

MOMENTUM Q1: APRIL 2024



JEFF ZINDANI

**Founder &
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

Holborn Gate, 330 High Holborn, London, WC1V 7QH

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

ACQUIRAPS.CO.UK