SECTOR SNAPSHOT: BUSINESS SERVICES LEGAL SECTOR

THE LEGAL SECTOR IS SHAPING UP TO BE AN EXCITING SPACE FOR INVESTOR CAPITAL AND CONSOLIDATION. THIS SNAPSHOT COVERS:

KEY MARKET THEMES
VALUATION DRIVERS
RECENT M&A ACTIVITY
LISTED LAW FIRMS
ACCOUNTANCY SECTOR CASE STUDY

COOPER PARRY
CORPORATE FINANCE

GLOBÁL M&A PARTNERS

KEY MARKET THEMES

The legal space along with other professional service firms are rising to the challenges presented in the post-pandemic world

OVERALL MARKET

The estimated UK legal market is worth £38bn of which the SME/ private legal space is worth £11bn

KEY THEMES

Customer expectations

An increased demand for clearer, adaptable and personalised service to meet customer needs has led to increased investment in training and technology such as DMS, collaboration tools & matter management.

Automation

There is an opportunity for firms to invest in technology to improve systems and increase automation in high volume/ process driven work such as residential, wills, trust and probate work.

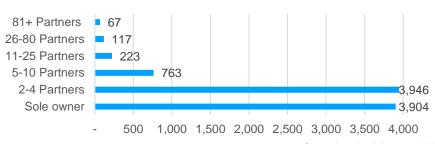
Back office function

The pandemic has enabled SME firms to reflect on streamlining back office support functions to enhance margins or alternatively invest to take the administrative burden of fee earning staff.

Cyber risk

Cyber risk has been heightened by the impact of the Pandemic and remote working practices, therefore, firms are looking to strengthen their insurance policies and internal practices/ training to address cyber threats.

Private practice firms by size



Source: Annual statistics report-2021

Fragmented market

A fragmented market with a tough economic climate provides the opportunity to accelerate plans to consolidate and acquire smaller firms. 77% of law firms have < 5 Partners which could face increased financial pressure during a recession.

Future of the office

With an increased focus on hybrid/ remote working, culturally, offices have become a more prevalent feature for collaboration, bonding and relationship building than ever before.

SRA regulation

SRA regulation changes permitting firms to change from a six month, four times rotation to full 2 year sitting is expected to increase productivity in trainees and retain talent as they strengthen their departmental knowledge.

War for talent

Talent retention and bringing in staff are at the forefront of challenges facing the legal sector – especially those outside London. Consequentially, the pay scale has been moved north for qualified staff.

CORE M&A VALUE DRIVERS Below are some key areas driving valuation in the legal sector for the SME space





Market dynamics

Company specific

MARKET OPPORTUNITY	DECLINING	GROWING	services space, in particular, the accountancy space over the last few years. There is an expectation that PE firms and national consolidators will look to make platform investments in the legal sector.			
CYCLICALITY	HIGH	LOW	The SME space has proven to be more recession resilient and the nature of services provided across departments such as residential, private client and dispute will continue.			
COMPETITION	нідн	LOW	The market is fragmented with a significant number of smaller providers operating across the private/ SME space. Some of the 3 rd tier law firms are pushing for bigger ticket commercial work created more space for regional SME firms to operate.			
REVENUE VISIBILITY	LOW	нібн	A high level of recurring revenue or predictability of cash flows will drive a higher market multiple.			
SERVICE RANGE	LIMITED	EXTENSIVE	A broad level of resources and disciplines to deliver services to a 'firm client'			
KPI'S	WEAK	STRONG	Firms with strong KPI's such as revenue per Partner, recovery, and utilisation will be attractive to acquirers.			
STAFF TRAINING AND COMPETENCE	LOW	HIGH	Increased investment in staff and low staff turnover relative to peers are good attributes.			
MANAGEMENT TEAM	WEAK	STRONG	A strong second tier management team that can lead the business will be attractive for a financial investor.			
SYSTEMS	WEAK	STRONG	Front loaded investment in systems that enable the streamlining/ automation of high volume process work will be favourable to an investor.			

There has been significant investment across the professional

RECENT TRANSACTIONS

The fragmented nature of the sector provides a platform for consolidation – below are some recent transactions.





Radcliffes LeBrasseur up





Knights, listed legal and professional firm acquired Keebles, commercial law firm based in Sheffield with 138 fee earners.

Greenwood, Essex was acquired by Lawfront Group, backed by private equity firm Blixt, with ambition to build a £100m+ law firm.

Fisher Jones

archers law

August 2021

Weightmans LLP, headquartered in Liverpool with 1,300 staff acquired Radcliffes LeBrasseurs. London

January 2022

with 150 staff.

Knights acquired Coffin Mew LLP, independent law firm based in the South East with 102 new fee earners.

acquired by Lawfront Group, backed by private equity firm Blixt

Midlands based firm was

Nelsons, an East

May 2022

April 2023

May 2021

May 2021

Harrison Clark Rickerbys, Worcester with 238 fee earners, merged with **Hewitsons** of Cambridge, 100 fee earners.





Knights acquired Archers Law LLP, independent law firm based in Stockton-on-Tees with 38 fee earners.



January 2022

Knights acquired Langleys Solicitors LLP, independent law firm based in York and Lincoln with 72 new fee earners.

May 2022

Shakespeare Martineau LLP, part of Ampa Group and predominantly in the West Midlands, acquired GL Law based in Bristol, adding a further 60 fee earners to the group.



LISTED LAW FIRMS

Listed law firms remain acquisitive











Law firms are allowed to list on the stock market as a result of the Legal Services Act 2007, which removed the rule preventing non-lawyers from owning law firms. Since the Act was implemented in 2010 several firms have gone public in the UK, the first being Gateley in 2015.

Law firm	Listing date	Revenue (m)	Market cap (m)	Enterprise value (m)	Enterprise Value/EBITDA	Acquisitions
Slater & Gordon (ASX)	Jun-07	156	79	193	8.71	5
Gateley (LSE)	Jul-15	137	222	241	9.48	5
Keystone Law Group (LSE)	Dec-17	72	135	128	13.93	-
Knights Holdings (LSE)	Jul-18	125	74	150	10.59	23
DWF (LSE)	Mar-19	416	258	408	8.00	6

INVESTMENT IN THE ACCOUNTANCY SECTOR

Below are some recent transactions across the accountancy space







Hg capital supported the formation of Azets through the merger of Visma BPO. Blick Rothenberg, and Baldwins in 2016. Recent acquisition includes Yorkshire based Garbutt + Elliot with ~£12m turnover in December 2021.

August 2016

Spectrum

Anderson Black & **Brown** received significant investment from August Equity with the aim of becoming a key UK regional player in the accountancy and wider business services market.

October 2021

Tenzing invested in Jeffreys Henry, London who provide audit, tax and advisory services to over 2,000 fast-growth businesses, international companies and high net worth individuals.

March 2022

March 2021

Listed accountancy firm FRP advisory acquired Spectrum corporate finance for £9.4m.

December 2021

Dains, Midlands based accountancy firm with 200 employees received investment from Horizon, private equity investor specialising in technology and business services. 2 bolt on acquisitions have been made since.



December 2022

Cooper Parry received investment from Waterland PE.





PE interest in the accountancy space driven by:

- 1. Big addressable market as demand > supply of accountants
- Fragmented sector so there is an opportunity to grow businesses quickly by scaling up through M&A bolt- on's
- Sector is ripe for service diversification, adding value with technological innovation, and attracting a strong talent pipeline to improve margins.

THESE ARE ALL **THEMES THAT ARE TRANSLATABLE** TO THE LEGAL **SECTOR**

GET IN TOUCH

Drop the team a message if you have any questions



ANDY PARKER PARTNER

Andy leads Cooper Parry's Corporate Finance business across the Midlands and has over 25 years' M&A experience, the majority at PWC where he was a partner based in the Midlands and then the North West

His focus is working with entrepreneurs to realise the value they have created in their businesses and with private equity investors

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SACHIN PARMAR ASSOCIATE DIRECTOR

Sachin has been advising on deals since 2018 and joined the Cooper Parry Corporate Finance team in 2019

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LAURA CLARKE BD DIRECTOR

Laura leads the Origination Team, organising a series of networking events and topical insight publications for business owners. She keeps a close eye on M&A in our key sectors, to provide useful and timely information.

Laura is a Chartered Accountant, having trained at Deloitte.

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BUSINESS SERVICES



Sale of Nelsons Solicitors to Lawfront Group



Sale of Z-Tech Control Systems to M Group Services



Sale of leading energy services provider to Indian trade buyer



Sale of Leicester Tissue Company to Accrol Group



Sale of Charles Pugh to Cary Group



Investment into Ross Trustees Ltd by LDC