

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

GLOBAL
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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.

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.

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.

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.

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.

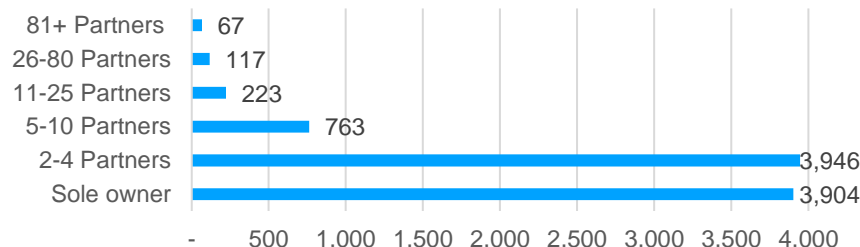
SRA regulation

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.

Private practice firms by size



Source: Annual statistics report-2021

CORE M&A VALUE DRIVERS

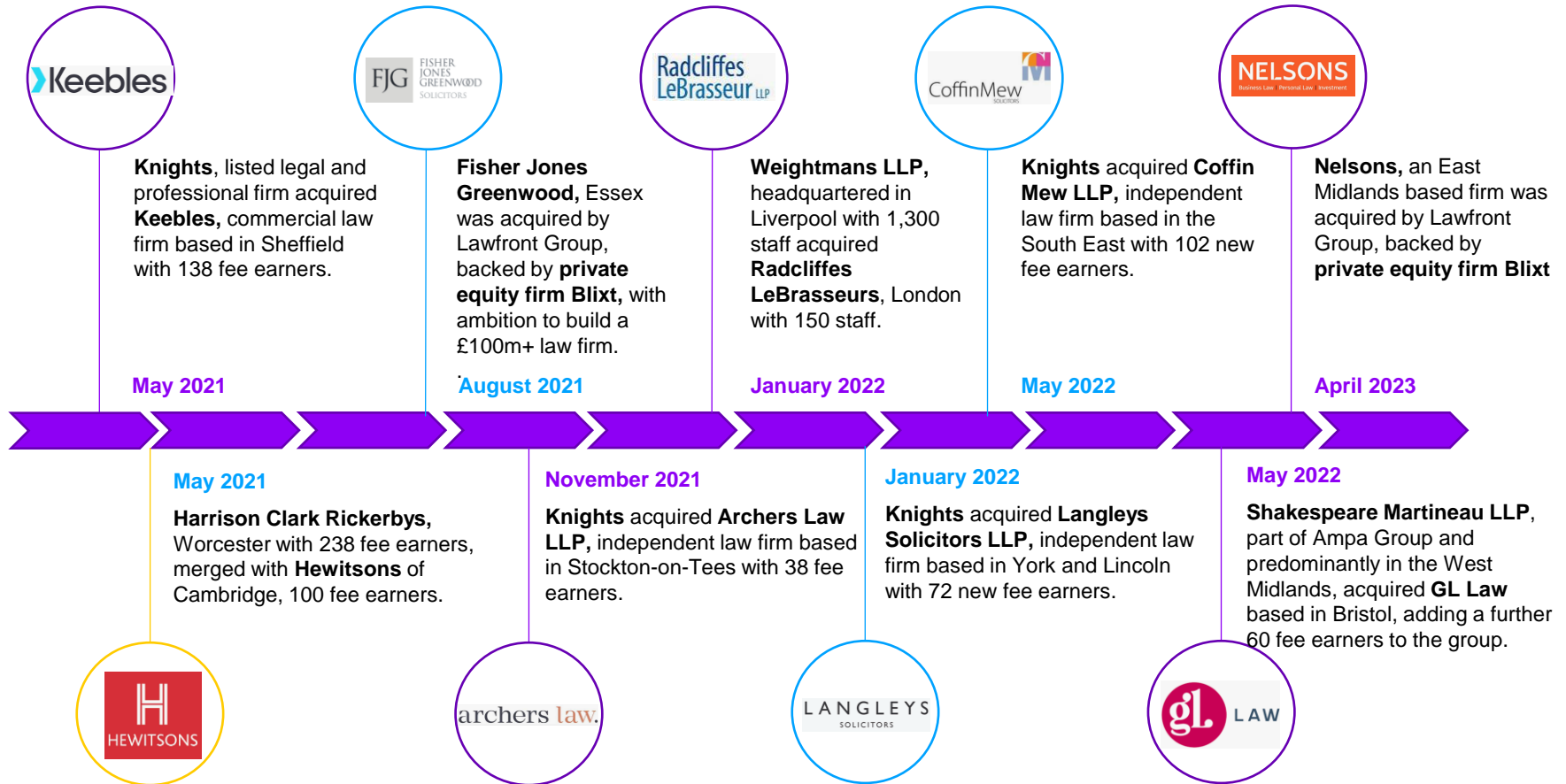
Below are some key areas driving valuation in the legal sector for the SME space



	DECLINING	GROWING		
Market dynamics	MARKET OPPORTUNITY		There has been significant investment across the professional 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	HIGH	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.
Company specific	REVENUE VISIBILITY	LOW	HIGH	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.

RECENT TRANSACTIONS

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



LISTED LAW FIRMS

Listed law firms remain acquisitive



Knights



Slater + Gordon
Lawyers

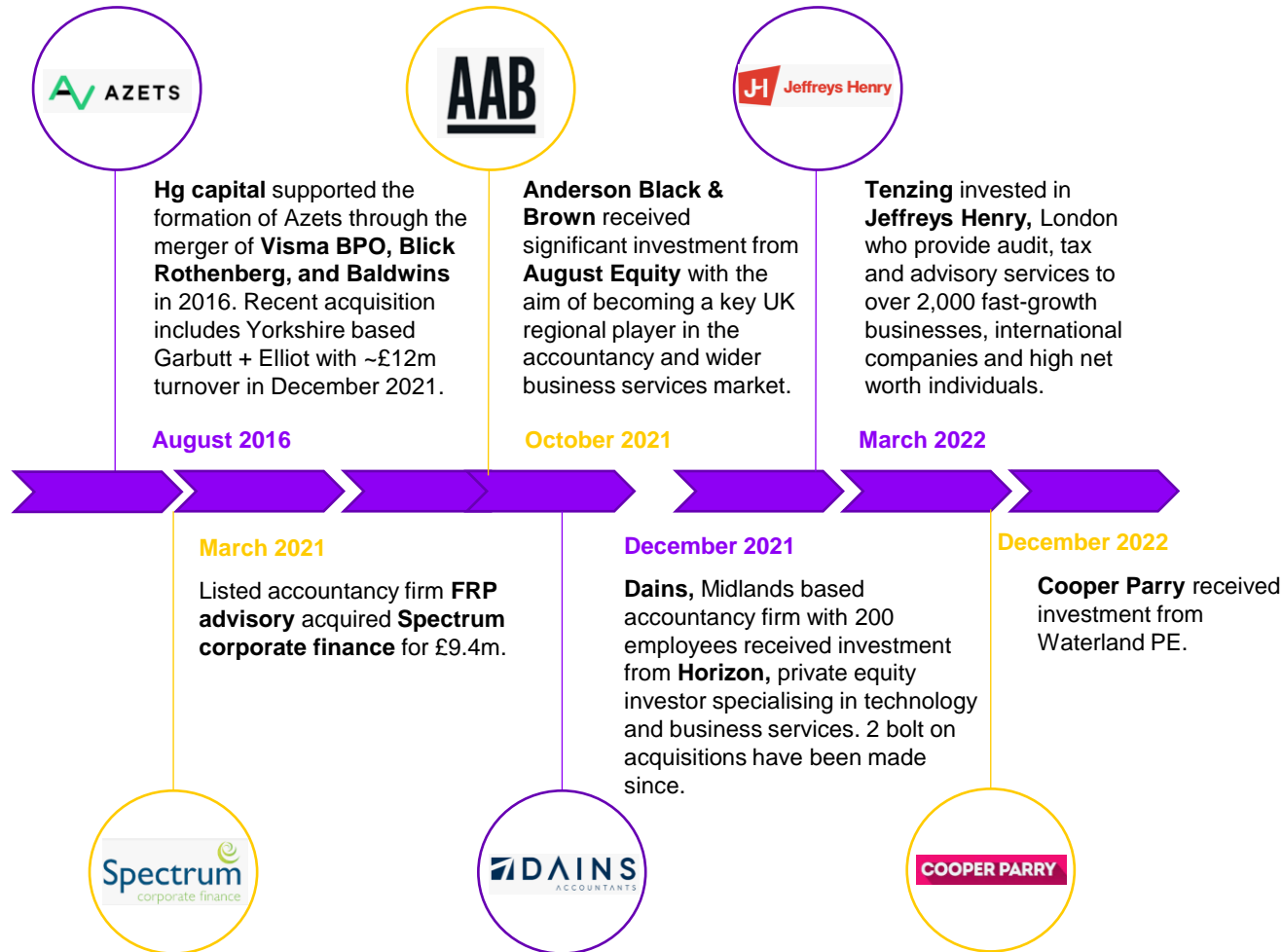


Law firms are allowed to list on the stock market as a result of the Legal Services Act 2007, which removed the rule preventing non-lawyers from owning law firms. Since the Act was implemented in 2010 several firms have gone public in the UK, the first being Gateley in 2015.

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



PE interest in the accountancy space| driven by:

1. Big addressable market as demand > supply of accountants
2. Fragmented sector so there is an opportunity to grow businesses quickly by scaling up through M&A bolt-on's
3. 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

Sachin is a Chartered Accountant and holds a degree in Business Management from the University of Manchester

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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



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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