

ARDEN LEGAL TRENDS

Arden's monthly review of corporate trends and professional services valuations including the Arden Legal / Services Index

Market Trends

M&A abounds with 2021 expected to be a “moving year”, with market disruption for law firms creating M&A opportunities. A recent survey undertaken by legal consultant Viv Williams highlights that 3,000 or so firms may be forced to merge or close. As opportunities arise, leadership teams will need to have clarity of strategy and investment support for future strategic growth plans – COVID, and its aftermath, is continuing to be a unique catalyst for change.

On top of that indemnity insurance premiums have spiked an average of 17% for law firms, as insurers become increasingly cautious over growing claim sizes, with weak cashflow generation and COVID responses highlighting the inadequate management that has characterised some firms. Boards will need to consider successor practice risk as a factor into merger strategies and due diligence. The long-due Whiplash reforms are also ploughing ahead and are due to be introduced in April 2021, though we still have no full rules or final tariffs adding to uncertainty and challenges heading into 2021.

All these challenges present potential discount buying opportunities for those firms with available funding and innovative strategies. Many already have strategies, including Shakespeare Martineau, who recently revealed plans to be a top 30 law firm by 2025. Being dubbed the ‘Unilever of law’, the firm has plans to double turnover by 2023 and build a conglomerate of ‘brands’.

Non-traditional challengers and operating models also continue to gain market acceptance, as *Keystone Law* was named *Law Firm of the Year* at The Lawyer Awards in 2020. Keystone is recognised as a pioneer, thanks to its innovative use of technology and game changing working practices.

Azets, the accounting and professional services group backed by Hg Capital, have continued to grow with the CogitalGroup unified under the Azets brand across Europe. They were named *Best Accountancy Firm at the Financial Directors Excellence Survey*, in recognition of commitment to clients and investment in technology.

Overall, there is growing momentum for strategies that put customers first.

Deals of interest

Making the headlines on a number of occasions this year has been the multi-disciplinary Marlowe plc, whose 2020 acquisitive streak was perhaps defined by their foray into specialist legal services through the £59m acquisition of *Ellis Whittam* at a 3.7x EV/Revenue multiple.

The specialist theme continued with international asset management consultancy MJ Hudson, who acquired Irish fund services provider Bridge Group for a 4.0x EV/EBITDA multiple. Critically, the business now offers clients representation in each of the principal UK and European fund centres as Brexit approaches.

Private Equity renewed their interest in the sector demonstrated by the recent acquisition of a strategic stake in *Anexo* by *DBay*. This highlights the potential for continued value growth within the listed sector, particularly where business models are not fully understood or appreciated by public market investors.

In the legal sector, there has been a continued emphasis amongst consumer and regional specialists with UK focused acquisitions by regional consolidator Knights Group. The acquisitions of conveyancing services platform *CAL* by *Inflexion* backed *O’Neill Patient* (at 10.9x EV/EBITDA) and *CTW* by *Simplify* also demonstrate a consolidation of the conveyancing sector, which is particularly interesting given the potential bursting of the SDLT holiday fuelled conveyancing bubble in 2021. However, the sector remains highly fragmented.

Multi-disciplinary buyers are emerging, including Bolton-based *K3 Capital*, which is building a growing group of complementary professional services businesses. In August, *K3 Capital* announced their first major acquisition, acquiring insolvency specialist *Quantuma LLP* valuing the practice at 1.2x EV/Revenue. With H120 performance anticipated to beat expectations, is the acquisition of a law firm on the horizon?

The acquisitive Taylor Rose also had a standout year, and completed the major acquisition and integration of *McMillan Williams*, to create a top 75 law firm and consumer advocate.

A final note is the continued legal growth among the Big 4 as they break cover, with [Deloitte acquiring Kemp Little](#) and [KPMG engaging in a strategic partnership with Thomson Reuters](#).

IPO Watch

The deal that never was...[HBL Ebsworth's aborted attempt to IPO](#) was reported globally, after the law firm failed to pique interest from institutional shareholders. Initially seeking to raise approximately £143m, the raise would have valued the law firm at just shy of £300m. In November the raise was cut by over 35 per cent., before being called off altogether as Australia's asset managers lost interest after a heavy period of equity capital raising.

One firm that will be interesting to follow is InTapp, a software provider to major law firms, accountants and investment banks. [InTapp's listing is expected in Q1 2021](#), so watch this space...!

Another potential transaction worth mentioning is the [equity investment in property portal Boomin](#). Led by the former CEO of Purplebricks, Boomin is seeking £25m and is in advanced talks with DN Capital, itself an early Purplebricks investor, ahead of a launch next year. Whether that is the start of a road to IPO or not is yet to be divulged, but it has definitely caught the attention of key financial and industry players.

The Arden Legal / Services Index



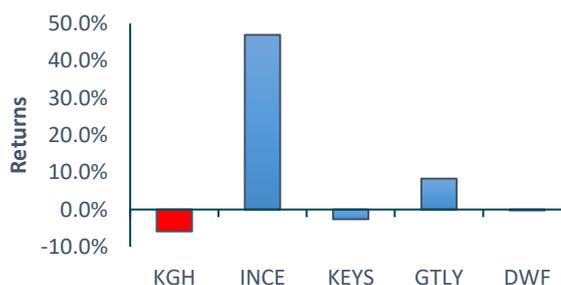
The share price performance of our legal services composite index has underperformed the market YTD relative to its broader equity benchmarks. November saw a sustained rally across UK equities. The index outperformed its benchmarks, posting a 14.03% return for the month, compared to 12.7% on the All-Share index and 12.5% on AIM, with prices nearing pre-COVID levels.

Legal Services Valuations

For this month's focus, we have decided to take a closer look at the performance of listed law firm Knights plc. YTD Knights performance has deviated from that of its peers, with its share price posting strong gains in what has been a very distressed market. Their performance reflects the firms agile operating model and efficient M&A strategy, driving industry growth at good margins. It's worth noting that more recently we have started to see a rotation out of Knights and into other listed law firms more broadly.

Name	Ticker	YTD	1m	3m	6m	12m
Knights	KGH	17.3%	-5.9%	-18.4%	5.8%	8.4%
The Ince Group	INCE	-7.7%	46.9%	50.6%	4.3%	-69.4%
Keystone	KEYS	-12.1%	-2.6%	-2.1%	-0.5%	-11.0%
Gateley	GTLY	-24.4%	8.3%	17.2%	16.3%	-22.5%
DWF	DWF	-31.7%	-0.2%	16.2%	44.8%	-33.9%

1 Month Performance



Looking at the legal services valuation metrics, positive trading updates from Ince, Knights & DWF have led to improved prospects, with law firms trading at higher multiples compared to the other segments in the index. Valuations have since recovered, with the broader peer group trading at close to 14x P/E.

As markets settle, recent trading updates indicate that the broader listed legal sector has weathered the COVID storm well and is resuming growth.

If you would like to discuss potential opportunities, or would like any further information, please contact the Arden Professional Services Team:

John Llewellyn-Lloyd, Head of Professional Services
john.llewellyn-lloyd@arden-partners.com

Benjamin Cryer, Corporate Finance Director
benjamin.cryer@arden-partners.com

Arden Partners Legal / Services Index

Ticker	Name	Business description
ANX	Anexo Group	A specialist integrated credit hire and legal services group
BEG	Begbies Traynor Group	Corporate rescue and recovery specialists
BMS	Braemar Shipping Services	Provider of knowledge and skills to the shipping, marine and energy industries
BUR	Burford Capital	Litigation finance specialists
DWF	DWF Group	Global law firm
ERGO	Ergomed	Provider of specialist services to the global pharmaceutical industry
FEN	Frenkel Topping Group	Professional services firm offering accounting and full financial planning
FOX	Foxtons Group	National estate agent
FRP	FRP Advisory	Business advisory firm specialising in corporate advisory and restructurings
GTLY	Gateley	A legal and professional services group
HUNT	Hunters Property	National network of estate agents
INCE	Ince Group	An integrated legal and professional services firm
K3C	K3 Capital Group	UK professional services firm and advisory group
KEYS	Keystone Law Group	Technology driven law firm
KGH	Knights Group	UK legal and professional services group
LIT	Litigation Capital Management	Litigation finance specialists
LSL	LSL Property Services	Residential property services group that operate through the value chain
MAB1	Mortgage Advice Bureau Holdings	Providers of mortgage advice throughout the UK
MANO	Manolete Partners	Specialist insolvency litigation financing company
MJH	MJ Hudson Group	Professional services firm focused on asset management
MRL	Marlowe	UK based provider of specialist safety and regulatory compliance services
NAH	NAHL Group	UK consumer marketing business focused on the legal services market
ORPH	Open Orphan	Clinical research pharmaceutical services company
RBGP	RBG Holdings	Professional services firm focused on legal and corporate finance services
REDD	Redde Northgate	Light commercial vehicle hire business in the UK, Spain and Ireland
ULS	ULS Technology	Provider of online conveyancing and property services