

Professional Practice Solutions

Insights and enablers

Got big plans for your future? How about gigantic ones.

Growth strategies – May 2016

KPMG's Professional Practice Solutions team were again proud to host 15 law firms at another successful and well received dinner on Tuesday 10 May at our prestigious new meeting and engagement space based at Number Twenty Grosvenor Street, London. The event was hosted by Jane Crotty of KPMG's Professional Practice Solutions alongside Khush Purewal and Gary Hinton who shared insights and facilitated healthy discussion and debate around the highly topical area of 'Growth Strategies' and the issues and challenges that Chief Financial Officers in the legal sector find themselves faced with. Below is the first in a series of thought provoking pieces by Gary Hinton.

Spot the difference?

Let's kick off with a quick game of 'spot the difference'. Everybody ready? OK, let's go. Print off a copy of the top 25 law firms in the UK and the US in 2008 and the top 25 law firms in the UK and the US in 2015. Now cover up the revenue numbers and see if you can tell which year was which ... You're struggling? Me too.

I once wrote an article about M&A activity in the legal sector around mergers being the 'Tsunami that never hit', and I am going to unashamedly carry on the theme and talk a little bit more about waves.

The UK landscape ... has the tide gone out?

Most merger activity in the UK came in a wave in the three-four years following the start of the downturn, driven principally by the bigger firms. There were some high profile tie-ups, the loss of some long-standing brands in the sector and a few casualties along the way.

Activity has slowed in the last two years. There were only 14 mergers announced by UK based firms in 2015 and of these, only nine involved UK-based firms on either side of the deal.

The average size of mergers has also fallen. If we exclude the volume players, only one 2015 merger had more than 100 lawyers on either side of the deal. With lawyer mobility on the rise, why merge when you can poach, tempt and lateral hire?

The perception is that most firms have weathered the storm. Undoubtedly distress was a key driver of activity levels in the early recession years. Nevertheless we have had an even more pedestrian start to 2016 ... merger activity in the UK is slowing down.

International expansion is still on the agenda, though. Those Managing Partners who have been making use of their passports seem to be creating an East/West divide in terms of focus.

As larger law firms look west towards North America, together with trying to find the missing pieces of their global jigsaws in South America and (to the south) in Africa, firms in the mid-tier are looking towards the east, to increase their presence in Europe and Asia. 'Been there, done that', say the Managing Partners boarding their planes to New York.

The US perspective ... merger mania! ... really?

In the US, the merger wave hit slightly later. Marginally better economic conditions and higher profitability of US firms enabled the average firm to come through the early years with far less damage.

'Merger Mania' as it was constantly termed in the US peaked during 2013 and 2014, with 98 announced mergers involving US-based law firms in 2014. But let's look a bit closer at the numbers behind this ...

The average merger size has actually been much smaller than Europe, with an average of only 21 lawyers (not Partners, folks ... lawyers) in the smaller party to the merger in 2014. If you delve even deeper, almost half of the so-called mergers involved one firm of five lawyers or less. UK firms are lifting larger teams than this on a weekly basis, can we really call these US deals mergers?

2016 activity levels have started strongly but US firms continue to focus on a US-centric strategy, only five mergers (out of 91 announced) in 2015 involved non-US firms. And three of those were the same firm.

The UK and Europe was fairly toxic to US firms up until a few months ago, but I sense that the tide is turning on this with a number of high profile UK/US tie-ups being discussed in the press and demand for airline seats to New York seems to be on the rise again.

But the US firms have been creeping up on the UK for years. It is widely reported that US based firms have more than doubled the number of lawyers they have operating in London over the last 10 years, simply through organic growth and lateral hires. But US firms have a long way to go, as only around 50% of the AMLaw 200 have a current London presence ... the UK is firmly back on the agenda.

[Read more](#) ...

Grab your boards and get paddling!

Some suggest that we are closer to the next downturn than we are away from the last one. Most UK law firms made it through although not many could describe themselves as 'unscathed'. Combine this with more recent new business models, the threat of new entrants and corporate DIYers. Have they had time to fully recover?

The key question for UK firms around mergers and acquisitions is whether there is another M&A wave coming, this time potentially from across the Atlantic, and what, if anything, their firm is going to do about it.

To quote a famous mindfulness professor, Jon Kabat-Zinn: "You can't stop the waves, but you can learn to surf..."

If you'd like to discuss with Gary how KPMG can help you get on the front foot when it comes to merger activity, please contact him [here](#).



Gary Hinton

Advisory Director

Our events in the Legal Sector

We hold a series of Legal Sector events at Number Twenty, Grosvenor Street addressing CFOs; CIOs; HRDs and NEDs' challenges so if you would like your colleagues to be invited to future events, do get in touch.

If there are any subjects you would like to see covered at a future event, [please let us know](#).

KPMG in the Legal Sector

We have brought together the best professionals from across our firm with relevant insight and experience in the legal sector. We co-ordinate and deliver a collaborative solution to your business whatever challenge you encounter – looking to the future and the bigger picture with you. Our [service offering](#) gives an overview of our specialists. Please [get in touch](#) if you would like to speak to our specialists.

NB. UK data sources taken from Jomati Consultants LLP and US data sources taken from Altman Weil, Inc.

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