

Merger activity doubles in last six months

Overview

Our second six monthly survey of law firms has indicated a doubling of merger activity with a 69% increase in the number of approaches made by or to the participant firms. Activity in the previous six months had increased by 34%.

Over 80% of firms have considered the possibility of merger, takeover or amalgamation, and whilst few have actually achieved a merger in the last year, more consider a merger might take place in the coming year.

Once again the survey indicates a very different view depending on size of firm. Of the firms with more than 10 partners 41% considered there was either a good chance of a merger or that one was almost definite. By contrast just 18% of the firms with under 10 partners rated the possibility of a merger that high. Most of the firms that had merged in the last six months were larger firms with 10 or more partners.

The survey, undertaken by Andrew Otterburn on behalf of the Law Consultancy Network, and in association with the Law Society Gazette was based on questionnaires from 55 firms. The median firm size was 8 partners/members and most were based outside London.

Commenting on the results, Andrew Otterburn said “the survey confirms what I have seen in the market in recent months, that there has been a huge increase in activity, with relatively few mergers actually taking place. The next two years by contrast will see an increase in the numbers of mergers and acquisitions actually taking place as the market consolidates following the Legal services Act. The key issues for all firms will be to:

- Prepare a business strategy that includes the possibility of merger or takeover of either whole firms or teams and individuals;
- Carefully analyse their competitors and identify those that would fit well;
- To ensure that any acquisitions make sense from a client perspective and that they improve your financial structure;
- To develop your own management team as the firm increases in size and becomes more complex.”

Detailed findings

82% of respondents 75% of respondents indicated that the possibility of a merger was something their firm had considered in recent months – up from 75% six months ago:

		Number	%
Is the possibility of a merger, takeover or amalgamation something your firm has considered in recent months?	Yes	45	82
	No	10	18
		55	100

They indicated a 69% increase in the number of approaches made by them or to them in the last six months – up from a 34% increase in the previous six months

		Number
Has your firm been approached by, or has it approached another firm with regard to a possible merger over the last six months? Could you indicate how many approaches you have made/received:	January - June 2010	76
	July - December 2009	45
	% change	69

More firms thought that a merger might happen this year. Just 35% thought there was little likelihood compared to nearly half six months ago:

		Number	%
Do you anticipate your firm might merge or take over another firm during 2011? How likely is this?	Little likelihood	19	35
	Possible	20	37
	Good chance	9	17
	Almost definitely	6	11
		54	100

Once again firms with 10 or more partners/members thought that a merger was more likely to happen with 41% considering that there was a good or almost definite chance of a merger, compared to just 18% of those with under 10 partners. (40% and 11% respectively in previous survey)

The main reasons for a merger continue to be improved size or structure and being better prepared for the Legal Services Act:

		Number	%
What are the main reasons why you might merge or acquire another firm?	Improved size or structure	42	48
	Better opportunities post LSA	27	31
	Helps solve succession issues	18	21
		87	100

The number of firms that had actually completed a merger in the previous six months increased from 13% to 20% but most had not merged with another firm yet:

		Number	%
Has your firm already undertaken a merger or acquisition in the last 12 months?	Yes	11	20
	No	44	80
		55	100

Of the 11 firms that had merged in the last six months, 8 of these had 10 or more partners.

As in our previous survey, most firms regarded themselves as “general practices”:

		Number
How would you describe your firm?	Commercial	12
	General Practice	35
	Legal Aid	8
	Private Client	6
	Litigation (niche)	5
	Commoditised	1

Once again some interesting comments were made on the current position regarding mergers:

They need to be managed well!

Likely to be a number of mergers for a variety of reasons- heavy liabilities, reduced profits, a sense of panic about the future- some more astute firms probably taking advantage of other smaller firms, particularly where there are succession issues for the smaller firm.

Still very wary of their value

Don't really believe in mergers for it to work for us it would have to be a takeover

Financially weak firms are being exposed and are looking to more secure firms to bail them out. Obviously, these are not mergers in the strict sense, if there is such a thing anyway: but the process does result in fewer firms providing legal services. This process will continue. The other process that has become common is for stronger firms to poach the best staff and teams from other weaker ones. While this has always happened, this will weaken the weaker firms in the current markets, so as to force them into seeking merger partners. More far-sighted firms are joining forces to reduce the threat from ABSs, even if they are not currently driven to do so financially. Those firms can currently enter into discussions on a firm financial basis. The small niche firm may well survive, as may the excellently run mid-size regional general practice that mines its database and local goodwill: but the firm that is poorly or even averagely run will suffer a slow death. Merging may put off the fateful day but unless high quality management is in place and manages the firm effectively, the firm's death is almost certain sometime over the next few years.

It's inevitable that there will be a significant increase in the number of mergers this year as a result of the legal aid cuts, the recession generally, and the LSA.

We would only be interested in taking on a smaller firm into our firm; not in a merger of equals, still less being taken over

Merger targets often have an over-exaggerated opinion of their value. Some need to realise just how precarious a position they are in.

The biggest single obstacle is still unrealistic expectations of people who think there is real value in goodwill instead of considering how a merged enterprise could boost turnover, leverage and control of overheads.

Most firms ought to be looking at it.

Just talking of straight mergers is limiting. There are other options such as setting up new

focused joint enterprises or entering into legally binding consortia.

It is a surprise that not more firms are actively pursuing a merger. The weakness of some firms' accounts is very worrying.

They are going to increase in number in the current financial climate.

The profession is far too fragmented so there needs to be a considerable amount of consolidation. Many firms are well behind where they should be in terms of their development, strategy, systems, management and most importantly leadership. Such firms are likely to find life increasingly difficult especially from October 2011. This will no doubt drive an increase in mergers. However well managed firms may be reluctant to take on the legacy of such practices, so we will see more firms fold with the more successful practitioners/teams joining better organised rivals.

In our particular circumstances we do not think there is any real advantage to be gained by merger, since size is not a significant issue, and there are no obvious candidates. We consider that merger merely to defend against an outside threat is unwise, and merger should only be considered if there is real similarity of approach between the firms concerned.

They are inevitable in the current market and climate with concerns about insurance availability, retirements, commoditisation of legal services, continued restrictions on public funding and lack of dynamic and strong representation by the Law Society.

There has been a lot of talk but little appears to be happening domestically in the top 100.

In difficult times bigger seems to be better

We hope to move on this in the next few months when we have finalised the business planning process for 2011/2013, which is our current focus for the next 3 to 4 weeks.

It's going to be a tsunami....

Note for editors

The Law Consultancy Network comprises some of the leading UK law firm consultants – Vicky Ling, Andrew Otterburn, Margaret Peasegood, Heather Stewart, Fiona Westwood, Colin FitzPatrick and Lis Hughes.

www.lawconsultancynetwork.co.uk

www.otterburn.co.uk