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'I want to invest a billion dollars in a UK law firm' – has private equity and law's big moment arrived?



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Corporate and M&A

Deals

'A few weeks ago, a former lawyer who is now an investor at a well-known large-cap private equity firm called me up. He'd been looking at investing in law firms

and said: "David, I want to invest a billion dollars in a UK law firm, and you're going to help."

David Morley, former senior partner of Allen & Overy and co-founder of strategic advisory firm Dejonghe & Morley, is better placed than most to know just how seriously private equity is looking at the legal sector.

And while PE's interest in the legal sector has been much-hyped for many years, a flurry of investment in the past year has added to a growing sense that a tipping point is approaching.

Notable recent deals have included CBPE investing in national firm HF, August Capital investing in Midlands firm Higgs, LDC taking a stake in virtual firm Harper James, and PE-backed consolidator Lawfront snapping up Trethowans on the back of five other law firm acquisitions since 2021.

Further afield, Dejonghe & Morley took an advisory role on a major deal in Sweden that saw PE fund Axcel combine six firms into AGRD Partners, creating a top-ten Swedish law firm by revenue. Axcel has made no secret of its plans to expand internationally, with the UK an obvious next step given the size of the market and the friendly regulatory environment.



'There's no question that there's a very significant investor interest in the legal sector now, in a way that didn't exist 12 months ago,' says Morley (pictured). 'Over

the next 12 to 24 months, I think you'll see a steady uptick in deals, and likely some larger £100m-plus firms coming to market.'

This view is echoed by Lee Minkoff, who heads up the professional services vertical at mid-market US private equity firm Renovus. 'A few years ago there was a lot of talk about this happening, but not many deals were actually coming to market. Now, investment bankers are actively pitching law firms, and being retained to sell them to private equity investors like myself.'

Minkoff says he has discussed deals involving firms valued at more than £100m, rising to as much as £300m, while also acknowledging the likelihood that even bigger transactions are in the works beyond his lower mid-market segment.

Others also have first-hand experience of how interest is ramping up. Gareth Hunt, who played a lead role on the Stifel team which served as underwriters to DWF's £366m float in 2019, says that discussions are 'happening inside some pretty big law firms with \$1bn-plus revenue bases.'

Liam Brown, CEO of 'new law' pioneer Elevate – which itself has taken \$60m in investment from venture capital firm Runway Growth Capital – says: 'There's real money going in – hundreds of millions of dollars in some cases.'

The \$1bn dollar question

Outside of the UK, momentum is also gathering in the US, despite regulatory restrictions on external funding.

Arizona has allowed external investment via alternative business structures (ABS) since 2021, and KPMG is the most high-profile firm to have taken advantage of this, receiving approval February this year to launch its subsidiary KPMG Law US as an ABS; the first law firm owned by a Big Four firm to serve the US market.

Despite being restrained by the regulatory regime in the States, US law firms and lawyers are generally viewed as more entrepreneurial than their UK counterparts, leading to an expectation that the market will find a way to open up. As Natasha Harrison, managing director of Pallas Partners, which launched in 2022 with the backing of a litigation funder, puts it: 'There's a hunger and creativity – they are a different breed of lawyer for the most part.'

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Faced with the limitations on US law firms taking external capital, enterprising PE investors in the States are increasingly turning to a structure known as management service organisations (MSO), a corporate structure which separates the business and administrative functions of a law firm from its legal practice.

Crispin Passmore, former executive director at the Solicitors Regulation Authority and co-founder of Kingsley Napley’s strategic regulatory consultancy Stratify, explains a simplified version of the concept:

‘You take a law firm and, in effect, split it in two: the firm that practises law, and a back-office entity that provides services to it. The investment then goes into the service company, which then invests in delivering the back office that powers the law firm.’

This concept has been widely utilised in the healthcare and accounting industries, and while its use in the legal sector is still relatively rare, that is changing, according to lawyers advising on such structures.

‘Everything has changed this calendar year,’ says Nashville-based Holland & Knight corporate partner Josh Porte of the rise in popularity of the legal MSO.

Porte, who is leading on a number of MSO transactions for regional US law firms, says: ‘Some of these deals are really solid middle-market transactions. Significant equity and debt checks are being written.’

Minkoff adds that there are ‘eight and nine-figure MSO opportunities out there. One minority deal got done at a valuation that was rumored to be \$1bn or higher.’

Minkoff adds that the use of MSO structures is more widespread than is publicly known, with some external investment in such structures taking place without the lawyers within those firms even being aware.

'Some conversations I've had with law firm executives are along the lines of: if we do this, how confidential can it be? Does the market need to know? Do the attorneys even need to know?' he says. 'The answer is no – they don't need to know. There have been multiple deals completed where public disclosure is very limited.'

The inevitable follow-up question is whether such structures will have relevance for the UK legal market. One comparable arrangement is Broadfield, a platform backed by US turnaround firm Alvarez & Marsal (A&M), which acquired the UK's BDB Pitmans as the first member firm of a network of mid-market firms that is set to draw on back-office support from an A&M subsidiary, SHP Legal Services, in areas such as tech, operations and recruitment.

And it is a safe bet that any gathering momentum in the US will have a ripple effect on the UK. 'The US will likely lead the charge,' says Ellora MacPherson, chief investment officer at Harbour Litigation Funding. 'When something happens in one jurisdiction, it's usually only a matter of time before it spreads to another.'



MacPherson (pictured) draws parallels with accountancy, which has seen private equity interest rapidly gather pace over recent years. 'That's exactly what we've seen in the accountancy sector – private equity activity started in the US and then moved into Europe.'

Analysis from Accountancy Europe underlines the speed at which PE moved in on the accountancy market, with transactions involving accountancy firms in Europe surging from around 10–20 deals a year from 2015–20 to 112 in 2023 and 192 in 2024.

One investor told *LB* that TowerBrook's investment in US accountancy firm EisnerAmper in 2021 'opened the floodgates', and since then, PE investment in accountancy has continued to grow in significance, with Cinven's 2024 majority acquisition of Grant Thornton – reportedly valued at £1.5bn – a bellwether for the sector's progress.

'Investors are from Mars and law firms from Venus'

While there is plenty of evidence that PE is taking the legal sector seriously, one managing partner at an LB100 firm neatly crystallises one of the factors still holding investment in law back – a communication problem.

'I spoke to someone from PE the other day just to see what they had to say. Their line to me was that people of your generation aren't interested in the future just the here and now. It was fundamentally insulting.'

This is an issue Morley is familiar with. 'Investors sometimes struggle to understand the dynamics of law firms – why decisions take so long, who's really making them, and so on,' he says. 'They tend to favour spreadsheets and data, but put a spreadsheet in front of most lawyers and their eyes glaze over. It is often a case of investors being from Mars and law firms being from Venus.'

'Sometimes I joke with my PE investors that they hold 15%, not 51%, of the company'

Major, Lindsey & Africa managing director Maurice Allen, a City law veteran of firms including Ropes & Gray, Clifford Chance and White & Case, also points to a clash of cultures.

'Private equity is hands on. They tend to look at management and cutting costs they are going to be all over the business side.'

As Elevate's Brown jokes: 'Sometimes I joke with my PE investors that they hold 15%, not 51%, of the company.'

For those who are evangelists for the value of PE, one of the key attractions to bringing in external investors is their business expertise. As James O'Dowd, founder of professional services recruitment firm Patrick Morgan, puts it: 'Many mid-sized firms are still run like partnerships of the 1990s. Investors see the opportunity to better manage cost, upgrade technology, and run the business with the same rigour as a consulting or accounting platform.'

MacPherson cautions, however, that the fear of being left behind might cause managing partners to make decisions in haste.

'One managing partner has described this to me as "eat or be eaten". While it may feel like that at times, the reality is the market cannot support that many buy-and-build strategies. Well-managed law firms with strong cultures focused on client service and delivery will continue to grow and thrive.'

Morley believes, however, that for the right law firm, private equity can be a perfect match.

'Private equity brings expertise to the table. They bring insight, they bring pattern recognition – because they've seen this in other sectors – so they tend to have a good idea of what's worth pursuing. They also bring focus and discipline. Some firms, when they hear what private equity does, say, "well we could do that ourselves." Yes, but you haven't. And realistically, you're probably not going to.'