

BCMS INSIGHTS:
UK LEGALTECH
M&A ACTIVITY 2020

Report date: 01 October 2020

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INTRODUCTION: SIGNIFICANT ACTIVITY IN M&A

The UK LegalTech sector continues to experience significant dealflow. 2020 to date has already seen 12 LegalTech transactions¹ completed, ranging in size from Clarivate's transformative near-\$7bn acquisition of CPA Global, to much smaller 'bolt-on' deals in the sub-£10m valuation range.

Legal Technology ('LegalTech') addresses a substantial legal services market in the UK, estimated to be worth £37bn in 2019². Despite the size of the legal services market, LegalTech adoption within this market has generally been slower than other verticals. However there is clear evidence that the pace of LegalTech adoption has been accelerating in recent times, as a result of several factors.

1 PARTNER DEMOGRAPHICS:

Traditionally, the typical profile and age of partners at law firms led to an inbuilt reluctance to embrace new technology. The arrival of digital natives in the ranks of law firm partners means that more tech-savvy lawyers are now having greater input into IT spend, bringing with them a much deeper understanding of the benefits that technology can bring.

2 CLIENT DEMANDS:

Law firms in the UK operate in a highly competitive and sophisticated market, where there is an ongoing demand for increased efficiency and consequent cost reductions. LegalTech can play a crucial role in fulfilling this demand, and ensuring that law firms' offerings to their own clients don't fall behind those of their competitors.

3 FLEXIBLE, AGILE SOLUTIONS:

Up until March 2020, the legal sector had seen steady growth in the demand for mobile and remote-working solutions. However the advent of the COVID-19 pandemic meant that such solutions were no longer a 'nice-to-have', they were in fact critical for the day-to-day functioning of a law firm or in-house legal department.

4 PROVEN TECHNOLOGY:

In a traditionally conservative professional environment, key LegalTech components (e.g. hosted solutions) have raised concerns for law firms in areas such as security and compliance. However with these technology components now having proved their reliability, law firm clients have been persuaded to move away from the use of traditional IT infrastructure, such as information stored on servers owned by the law firm, at its own offices.

¹ Transactions featuring a UK LegalTech target

² ResearchAndMarkets.com, The UK Legal Services Market Report 2020

DEAL GALLERY (1 OF 2): UK LEGALTECH TRANSACTIONS IN 2020

UK LEGALTECH 2020 AT-A-GLANCE

- 12 deals in 9 months (featuring a UK target)
- 7 cross-border deals (overseas acquirer)
- PE firms and their portfolio companies feature heavily as acquirers
- Largest transaction size was \$6.8bn



ACQUIRED BY



LEGALTECH SUB-SECTOR:
SEARCH-RELATED SOFTWARE
& SERVICES

SEPTEMBER 2020



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LEGALTECH SUB-SECTOR:
EVIDENCE MANAGEMENT PLATFORM

AUGUST 2020



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LEGALTECH SUB-SECTOR:
WORKFLOW & PRODUCTIVITY
SOFTWARE

AUGUST 2020



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LEGALTECH SUB-SECTOR:
DIGITAL FORENSICS & E-DISCLOSURE
SERVICES

AUGUST 2020



ACQUIRED BY



LEGALTECH SUB-SECTOR:
INTELLECTUAL PROPERTY SOFTWARE

JULY 2020



ACQUIRED BY



LEGALTECH SUB-SECTOR:
PRACTICE MANAGEMENT SOFTWARE

JULY 2020

DEAL GALLERY (2 OF 2): UK LEGALTECH TRANSACTIONS IN 2020



ACQUIRED BY



LEGALTECH SUB-SECTOR:
DOCUMENT MANAGEMENT
SOFTWARE

JULY 2020



ACQUIRED BY



LEGALTECH SUB-SECTOR:
CASE MANAGEMENT SOFTWARE

JUNE 2020



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LEGALTECH SUB-SECTOR:
LEGAL RESOURCE MANAGEMENT
PLATFORM

JUNE 2020



ACQUIRED BY



LEGALTECH SUB-SECTOR:
MANAGED IT SERVICES

MARCH 2020



ACQUIRED BY



LEGALTECH SUB-SECTOR:
PRACTICE MANAGEMENT SOFTWARE

MARCH 2020



ACQUIRED BY



LEGALTECH SUB-SECTOR:
PRACTICE MANAGEMENT SOFTWARE

FEBRUARY 2020



KEY THEMES IN M&A TRANSACTIONS: **BOLT-ON ACQUISITIONS**

Serial Private Equity-backed trade acquirers continue to seek complementary bolt-ons, including targets within large, listed corporate entities.



Acquired by >



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In June 2020, London-listed BPO specialist Capita sold its Eclipse Legal Systems business to The Access Group, a portfolio company of HgCapital and TA Associates.

Eclipse principally provides Case and Practice Management software to the Legal sector in the UK, with >25,000 users across >900 companies and organisations. For Access, the purchase of Eclipse provides the opportunity to broaden its software offering to the Legal sector, to include Case and Practice Management.

Access, which is currently in its third generation of Private Equity ownership, is one of the UK's most prolific acquirers of software businesses. This, combined with strong organic revenue growth, has seen revenues rise from £28m in 2011 to £190m in 2019.

In March 2020, UK telecoms giant BT sold its Professional Services software business Tikit, which it acquired back in 2013, to Advanced Computer Software, one of the UK's largest providers of business software and services. The divestment was in line with BT's stated strategy 'to focus on converged connectivity and services'.

Tikit's software is used by law firms and accountancy practices to cover areas such as Practice Management, Case Management, Time & Billing, Document Lifecycle and Marketing & Business Development. Of particular importance was the complementary nature of Advanced and Tikit's client bases; the former serves mainly small to medium-sized law firms, whereas the latter targets Top 200 law firms.

Advanced is in its second generation of Private Equity ownership, jointly invested by Vista Equity and BC Partners, and is another example of a serial PE-backed acquirer. The Tikit deal represented Advanced's fifth acquisition over a 12 month period.

KEY THEMES IN M&A TRANSACTIONS: INBOUND ACQUIRERS

Australian corporates have invested significantly in the UK market, with access to customers a major motivator.



Acquired by >



In July 2020, Maidstone-based Verowave Technologies was acquired by Australian Document Management software specialist DocsCorp. Verowave's offering is centred around a Windows-based platform which provides document production and assembly services to the Microsoft Office 365 product suite. The company has a growing presence serving law firms in the UK.

Whilst Verowave had only been in existence for three years, for DocsCorp it was the company's product offering that made Verowave a compelling acquisition target, bringing with it the opportunity to build additional functionality into DocsCorp's proprietary platform, in the form of document assembly and template management features.

DocsCorp was founded in Sydney in 2003. Today the company has offices in Australia, the USA and the UK, and counts two thirds of the Top 20 European law firms as clients.



Acquired by >



February 2020 saw another Australian acquirer conclude a deal for a privately-held UK LegalTech business when PracticeEvolve acquired Leeds-based Linetime, a provider of Practice Management software to Top 200 law firms in the UK.

For the acquirer, a key driver for the deal was the complementary fit between the client bases of the two firms; PracticeEvolve serves mainly mid-tier law firms, whereas Linetime has a strong presence among Top 200 law firms.

PracticeEvolve is one of several LegalTech businesses owned by ATI (Australian Technology Innovators), a leading international LegalTech investor. Other businesses in the ATI group of companies include LEAP (Practice Management software), InfoTrack (Information Search software) and Perfect Portal (an e-conveyancing platform).

KEY THEMES IN M&A TRANSACTIONS: COMPETITIVE PROCESSES

Competitive tension drives value, as the BCMS-led sale of DPS Software to The Access Group demonstrates.



Acquired by >



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Recognising that it's time for others to come in to help take your business to another level is a very difficult decision. We chose BCMS to guide us on that journey. At the time, we didn't realise how good a choice that was. The BCMS team were supremely professional throughout, and very hands-on – they were always clear about the best way forward and took as much of the weight as they could off of us so that we could continue to drive the growth of the business.”

Osman Ismail – Chairman, Founder & Majority Shareholder of DPS Software Ltd

DPS Software provides Practice Management software to legal practices and in-house legal departments, with a focus on small-to-medium sized practices with between 10 - 200 users. DPS had been an early mover in offering its software to clients as a SaaS (Software as a Service) solution, resulting in the business having high levels of ARR (Annually Recurring Revenue).

However the key component in unlocking value at DPS was the company's cutting edge, browser-based product, Spitfire. Developed wholly in-house over a four year period, Spitfire brings together Practice Management, Case Management, Document Management and email in a single solution accessed via a web browser from a PC, tablet or smartphone. Crucially, as a web-based solution, Spitfire is highly scalable and ideally suited to handle the surge in demand for remote working as a result of the COVID-19 pandemic.

The sale price achieved for DPS was very significantly higher than the value of an unsolicited offer received by the shareholders, which ultimately prompted the appointment of BCMS. Key factors contributing to this significant uplift in value included:

- Taking the time to fully prepare the business for sale, whilst also generating significant strategic interest from a broad range of potential acquirers in the UK and internationally.
- Focusing interested parties on the key drivers of value inherent in the business and its growth potential, including under their ownership. Examples of such drivers include considerable investment in first-to-market, next generation software, high levels of annually recurring revenue, exceptional customer retention and an impressive track record of growth in average revenue per customer and upselling.
- Commissioning Vendor Due Diligence to underpin the process and enhance certainty, which helped to further drive momentum and competitive tension.

KEY THEMES IN M&A TRANSACTIONS: LANDMARK DEALS

In 2020's biggest LegalTech deal by some margin, NYSE-listed IP specialist Clarivate acquired CPA Global in an all-stock transaction which saw CPA valued at c. \$6.8bn.

CPA GLOBAL

Acquired by >

Clarivate™

CPA, which has 3,000+ staff across 12 countries, provides Intellectual Property software and associated tech-enabled services to law firms and corporates, with over 12,000 clients worldwide. In full year 2019, the business had pro forma revenue of \$564m, generating \$262m of pro forma adjusted EBITDA. Prior to July's deal, CPA had itself been regularly acquisitive, with previous acquisitions including Innography, Filing Analytics and Citation Eagle.

The motives behind the tie-up include:

- Product/service fit: Clarivate's presence in content, trademarks and domains complements what CPA brings in the areas of IP software and tech-enabled services.
- Geographic fit: CPA's strength in Europe is highly complementary to that of Clarivate in North America and Asia.

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This is a transformative combination with a strong strategic fit between the two companies. It will create a full-service IP organization which will provide customers with a wide range of products and services to help them make faster and smarter critical decisions. The many strategic and financial benefits are expected to enhance our growth and drive value for shareholders

Jerre Stead – Executive Chairman and CEO of Clarivate plc

- Cross-selling opportunities: access to a more comprehensive suite of products resulting from the combination presents significant opportunities for accelerating revenue growth through deeper market penetration.
- Cost savings: cost synergies of c. \$75m are expected to be realised within the first 18 months of the transaction closing.

At first glance the price paid by Clarivate for CPA appears eye-watering, at c. 26 x full year 2019's pro forma adjusted EBITDA. However the inclusion of favourable tax assets worth \$900m effectively reduces the price paid to \$5.9bn, bringing the multiple down to 22.5. Consider also that buyer risk is mitigated by this being an all-stock transaction, and assuming that the stated cost synergies of c. \$75m are on a per annum basis then the EBITDA multiple falls to a much more palatable 17.5 x EBITDA, not including any future benefits resulting from cross-selling opportunities.

WHERE NEXT? CHARTING DEAL ACTIVITY FOR 2021

Activity in sub-sectors

2020's deals to date have illustrated that M&A appetite remains strong for target companies providing applications that are fundamental to the day-to-day operation of a law firm or legal department, and we anticipate other LegalTech sub-sectors will see further M&A activity in the short-to-medium term, including:



ARTIFICIAL INTELLIGENCE

The deployment of AI in the Legal sector presents the opportunity to do certain tasks more quickly and more cheaply, freeing up time for highly paid lawyers to focus on issues that require human logic. Examples of 'real life' AI usage might include using machine learning to predict which documents a lawyer is next going to need in progressing a case, or automatically identifying historic legal precedents and flagging this to legal teams.



VIRTUAL LAW OFFICE

The growth in virtual law offices was already prevalent prior to the COVID-19 pandemic. Removing costly overheads (most notably, high end office facilities in city centre locations) will enable virtual law firms to be more competitive on price. The flexibility of a virtual law office also frees lawyers from the constraints of office hours, giving them the option of working hours which are suited to their individual circumstances and enhancing productivity.



ROBOTIC PROCESS AUTOMATION

Some estimates suggest Robotic Process Automation (RPA) can not only reduce costs by up to 40% but also reduce human error and increase compliance. At BCMS, we anticipate that RPA's reach will extend even further in the coming years. In the LegalTech space, possible examples include the automation of standard, repetitive tasks such as compliance with Anti-Money Laundering (AML) procedures and other elements of client onboarding such as Know Your Client (KYC) compliance.

For further insights into deal activity in the LegalTech sector in detail, or to speak to the BCMS team responsible for the DPS/Access transaction, email the report's author, simon.glover@bcms.com

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