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UK legal megamerger highlights drive for consolidation

By Barney Thompson
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Three London law firms are combining on Monday to create a behemoth expected to pull in £1bn in annual revenues, as the legal sector consolidates to deal with increasing globalisation and pressure from new entrants.

The union of CMS UK, Nabarro and Olswang is the largest ever in the UK legal market. It is also one of more than 35 deals involving US and UK law firms announced in the first four months of this year, according to the consultancies Altman Weil and Jomati, which track legal mergers.

Senior partners and analysts say the combined firm will be the world's sixth-largest by headcount, with about 3,400 full-time lawyers and a presence in 39 countries, and is evidence that the drive to merge shows little sign of slackening.

Law firm mergers started to gather pace in 2013, when the number of US deals shot up by nearly half to 88, and has continued at that level ever since.

The trend has caught on in the UK as leading firms seek to avoid being squeezed between bigger and more powerful players and smaller, technology-focused innovators.

"The winds of change are blowing strongly" through the sector, says Peter Martyr, global chief executive of Norton Rose Fulbright. "The legal profession has been very slow to consolidate in the way predicted for a long time but in the last few years it has really taken off."

Not only is competition from outsourcing and accounting groups increasing, but law firms are also feeling fee pressure from corporate clients, who are increasingly sending more of their legal work to fewer law firms in exchange for lower prices.

But the sector remains far less consolidated than other professional services providers, such as auditors and consultants.

"When you look at the £2bn to £2.5bn turnover of law firms and compare them to the Big Four accountancy firms, it's clear there is a long way to go before we reach an end to consolidation," said Crispin Passmore, executive director of policy at the UK Solicitors Regulation Authority.

These days the world's largest law firms are almost always involved in planning, announcing or finalising some sort of deal, whether a fully fledged integration or a looser deal whereby firms share branding and strategy but keep profit pools separate.

Already in 2017, world leader Dentons, with more than 7,800 lawyers and counting, has snapped up firms in the Netherlands and Mexico; DLA Piper has acquired Danish and Portuguese outfits; while Norton Rose Fulbright is proposing to absorb New York-based Chadbourne & Parke. On February 1, UK-based Eversheds completed its merger with US firm Sutherland Asbill & Brennan less than two months after the deal was revealed.

"Traditional law firms are engaged in a battle for market share that we expect to grow in pace and intensity," said Altman Weil in a report published this year. "The winners will be those firms with a clear and credible strategy to attract the most desirable candidates and make deals that have staying power."

Penelope Warne, senior partner for CMS UK and a member of the integration team overseeing the merger with Nabarro and Olswang, said most big law firms were "very conservative, slightly old-fashioned organisations", adding: "I think that clients demand that we change, and if we don't we're going to lose our competitive position."

Combining the three firms' traditional sectoral strengths — CMS for financial services and energy, Olswang in technology and media, and Nabarro in real estate — created "a powerful offering for clients", she said. "Some firms will remain niche but all firms have to wake up to the technology issue."

Tony Williams, head of Jomati, believes too many UK mergers have been the result of one side getting into financial trouble and needing a rescuer. "The legal sector is still very profitable despite 10 years of fairly anaemic growth [in the UK], so even when firms are not doing particularly well, if they still like their independence they don't see the need for a merger," he said.

"We're not seeing enough mergers where both firms are doing it from a position of strength."

But the 2013 merger of UK firm SJ Berwin with Australian-Chinese giant King & Wood Mallesons provides a cautionary tale. The firm created by that deal died last January when KWM's European arm went into administration amid reports of huge debts, factionalism and a fatal exodus of top billing partners.

It was a stark reminder that mergers can carry financial and cultural risks.

"You've got to really understand the financials and do your due diligence," said Mr Williams. "Are there practice synergies? Do [the firms] play in the same part of the market? Are the cultures compatible — are [they] going to work well, refer work to each other, present a united front to clients?"

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