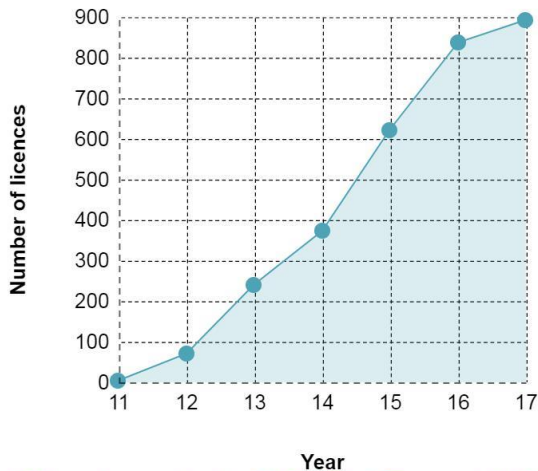


ABS and investment in legal services

Alternative business structures (ABS) were introduced to enable:

- Non-lawyer ownership and management of law firms
- Increased scale through less reliance on debt capital and better access to external investment
- New ideas about how to deliver legal services, increasing variety, and improving access to services

In March 2017 there were 892 active ABS licences. Licensing began in October 2011



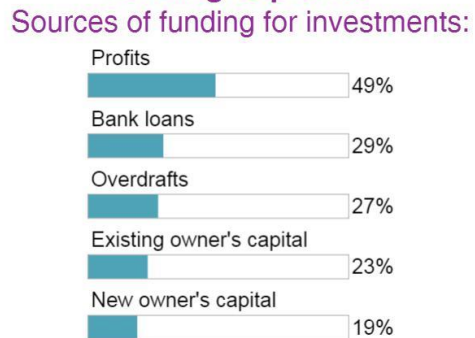
ABS are licensed by the CLC, SRA, IPReg, and ICAEW. The BSB began accepting licensing applications from April 2017, outside the time frame of this study.

66% of ABS have invested or plan to do so



There are links between the level of non-lawyer ownership and investment activity. 68% of ABS with 75% or more non-lawyer ownership have made an investment. This compares to just 32% for those ABS with between 25% and 49% non-lawyer ownership.

The main source of investment funding is profits



41% of ABS agree that short term sources of finance are reliable sources of investment funding, 20% disagree.

Overdrafts were the sole source of funding for 24% of investments made.

What do investors think of the legal services market?



There is an impression that legal services is a 'sleepy' market and inefficient. This makes it attractive for outside investment that can achieve growth and deliver cost savings.

Investors believe law firms have impressive profit margins but are not run well.



Challenges for investors include:

"...keeping people committed and enabling the share price to continue to grow. There is also a reliance on keeping and motivating the partners and keeping them involved with the clients."

Are there barriers to investment?



Legal services regulation? Only 6% of ABS said legal services regulation was acting as a barrier to them accessing long term sources of finance.



Cultural barriers? 42% of ABS agree that keeping control is more important than growth, illustrating a reluctance to seek external investment. 17% disagree.



Wider regulation? Instability in the personal injury market has made some investors wary of further investment. Only 1.5% of ABS said wider regulation was acting as a barrier to them accessing long term sources of finance.



Market structure? Investor concerns about exit routes.

A full copy of the research report can be found here:

<https://research.legalservicesboard.org.uk/reports/measuring-the-impacts-of-reform/>