

# Putting law in public hands

The first law firm float on a public market, in Australia, is being closely observed for its implications in this hemisphere – where the UK, for one, is shortly to liberalise ownership rules. JEREMY BLACK analyses the likely impact

12

**A**ustralian litigators Slater & Gordon made legal history in May this year by taking advantage of new rules and becoming the first law firm in the world to float on a public market. The listing was monitored with great interest, not only in Australia where the share price gained 40 per cent in its first day, but also in the UK where the legal sector is preparing itself for changes to ownership rules under the Legal Services Bill.

The firm is a consumer law practice operating in most states and territories in Australia and, while its main focus is on personal injury, over the last few years it has followed a strategy of diversification – in particular growing its commercial litigation practice. Slater & Gordon sought to raise approximately A\$35m (£14.58m) in the float of which around half was paid to existing shareholders with the balance initially being used to pay down the company's borrowings. The capital raised will allow the firm to further pursue its expansion strategy.

Set to follow Slater & Gordon to the market is Integrated Legal Holdings (ILH), which is utilising a somewhat different model – allowing the ownership of several independent law firms to be consolidated under one legal services entity that focuses on ensuring individual outfits gain maximum benefit from client relationships. Specifically, this 'consolidator' model will

ensure that income from cross referrals is maximised and economies of scale are achieved in terms of systems, purchasing and management.

The Australian experience has raised inevitable questions about whether, or indeed when, the UK might witness a similar example. The Legal Services Bill, currently before the House of Commons and expected to receive Royal Assent later this year, will result in the UK having one of the most open legal markets in the world. The removal of restrictions will have wide-ranging implications, including: law firms could raise funds in exchange for equity; law firms may float on public exchanges; non-lawyers could become partners in law firms; Multi Disciplinary Partnerships (MDPs) could be set up; and corporate entities (banks, insurance companies, supermarkets, etc) will be able to provide legal services.

The impact will vary greatly between the City and national firms serving the business community, and high street or sole practitioners providing high volume less complex services. At the upper end of the market, larger firms might want to raise funds in exchange for outside ownership to aid domestic and international expansion plans or to invest in new IT systems. Firms could also take on riskier projects – as portfolio investors have a greater capacity for higher risk – and a flotation could

act as an attractive recruitment tool, via share option schemes and enhanced employment opportunities.

Finally, it could allow owners to realise a portion of the firm's value. However, this would only be possible with certain restrictions in place. Where it is likely that clients, and fees, would be lost if a partner walked away, potential investors would undoubtedly want assurances that such individuals would be incentivised to stay and continue to perform at a high level.

However, the availability of external capital also poses a threat to major law firms, as individual teams may increasingly be encouraged to break away to form their own company with the backing of external investors.

A number of arguments have been put forward as to why outside ownership would not be desirable. In terms of a source of funds it is argued that law firms are not the type of businesses that require large amounts of capital. While there is some merit in this (especially for the large global entities) many firms have been constrained by a lack of funds from pursuing goals. In terms of realisation of value it is often argued that this is detrimental to future generations and not in the interest of 'the firm'. This may well be true, but this doesn't mean it won't happen.

Firms might also be deterred by the changes a flotation would bring to the organisation. They would need to justify their strategy

and actions to shareholders, and there would be greater disclosure requirements, pressure to take a shorter-term view and more focus on the firm and its employees as a result of being in the public domain.

While there are other obstacles such as confidentiality and legislation in other jurisdictions, there is significant evidence from other industries and from the recent experience in Australia that some firms will indeed raise capital in exchange for outside ownership.

I anticipate that a small number of firms will float in the UK, most probably on AIM – (while a full listing is possible AIM would seem the more likely market given the anticipated capitalisation of possible flotation candidates). We have seen accountants, management consultants, patent attorneys, architects and chartered surveyors float, and there is no reason why law firms should be so different from these organisations.

The two differing Australian examples also imply there isn't only one model that might be pursued in the UK. Indeed, the myriad of different kinds of legal services provided suggests that we will see a number of varying types of firm floating. Interestingly, one of the things suggested by the Australian experience is that there may be a 'first mover advantage' and so some businesses could be quicker off the blocks than is currently anticipated. ■