



Houlihan
Lokey

Specialty Consulting & Risk Market Highlights

Q2 2024



SC&R Spotlight: Investing in Law Firms

01

Law Firms Represent an Attractive, Untapped Sector...

Why Invest in Law Firms?



Large, highly fragmented industry



Strong, stable, acyclical underlying demand drivers



Mission-critical services with high cost of failure and inelastic demand/pricing



Significant opportunities to professionalize existing business practices



Early innings of technology and data adoption/implementation

Source: IBISWorld.

Market Overview

The U.S. Legal Professional Corporation Market

~\$380B	~425,000	~1M
Annual Revenue	Total Corporations	Employees

Subsectors With Massive Opportunities for Consolidation and Value Creation



Personal Injury/Medical Malpractice

Annual Fees:	~\$60B
No. of Firms:	~51,000



Real Estate

Annual Fees:	~\$26B
No. of Firms:	~51,000



Worker Compensation/Employment

Annual Fees:	~\$26B
No. of Firms:	~29,000



Probate/Estate

Annual Fees:	~\$18B
No. of Firms:	~201,000



...Where Third-Party Investments Have Numerous Levers to Drive Value

Value Drivers



First mover in a largely untapped industry across all subsectors



First capital in transactions with meaningful multiple expansion potential



Ability to facilitate capital investments to drive scalability and organic growth



Opportunities to strengthen attorney compensation and align incentives with long-term value creation



Massive M&A consolidation opportunity

The Secret Is Starting to Come Out



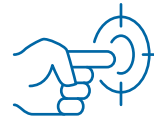
Law Firm Value Realization and Enhancement

Law firms have long sought third-party capital to realize the value of their companies, modernize their operations, and delegate certain business responsibilities to focus more on the practice of law itself.



Value and Liquidity for Founders

- A reset of capital structure and incentives at law firms is long overdue—until recently, the only way for partners to realize economic value from their ownership in law firms was to (a) sell their stake to junior partners or (b) sell the firm itself to another law firm (these approaches do not generate much of a sale premium).
- Private equity can offer consideration at market rates for the value of the underlying business and, in return, receive ownership in a fundamentally attractive business.



Optimize Business Practices

- Law firms today are thought of as stodgy, “brick-and-mortar” businesses because their owners (the law partners themselves) generally lack business backgrounds and do not prioritize business matters.
- There is a ripe opportunity for private equity business acumen to streamline and operationalize everyday practices at these law firms.



The Power of Focus

- One of the chief complaints of law partners (and reasons why many either fail or leave the industry) is that they spend most of their time not with clients or cases but rather with business matters.
- A private equity investor could add value around business matters (finance and accounting, business development, M&A, etc.), allowing the law firm partners to focus solely on their trade—this would likely lead to happier attorneys and clients.



Similar factors have recently caused numerous CPA partnerships to seek institutional investment.



Preparing for a Law Firm Transaction

Key Action Items

Investors and law firms can take immediate steps to prepare for potential future transactions in the space.



Investor



Reach out to Houlihan Lokey for a deep dive into the sector, potential investment strategies, relevant KPIs, and valuation considerations.



Enlist regulatory consultants to research MSO/PC and Arizona ABS structures.



Interview and assemble a legal team (ethics and M&A counsel) that is well-versed in and supportive of law firm deals.



Form a thematic view on which law firm categories (e.g., personal injury) align best with fund investment tenets.



Brief your committee on the merits of investing in law firms.



Make introductions and form relationships with law firms and owners/operators.



Law Firm



Establish a support services agreement (SSA) governing the economic and operating relationship between the MSO and PC, understanding that an investor will require this.



Interview and assemble a transaction advisory team: an M&A advisor, ethics counsel, and M&A counsel who are well-versed and supportive of law firm deals.



Consider pro forma compensation adjustments required to demonstrate a marketable EBITDA (and prepare for third-party distributions).



Implement appropriate retention tools to lock down key producers and sustain lead generation post-close.



Formalize key practice of law policies and procedures (including attorney hiring/firing and client selection).



Prepare a draft SSA and stock purchase agreement (SPA) to deliver to buyers, potentially as early as day one of a sale process.

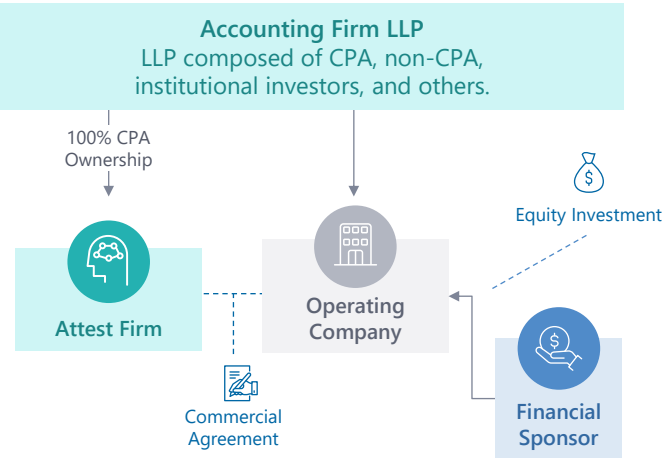


Preparing for a Law Firm Transaction

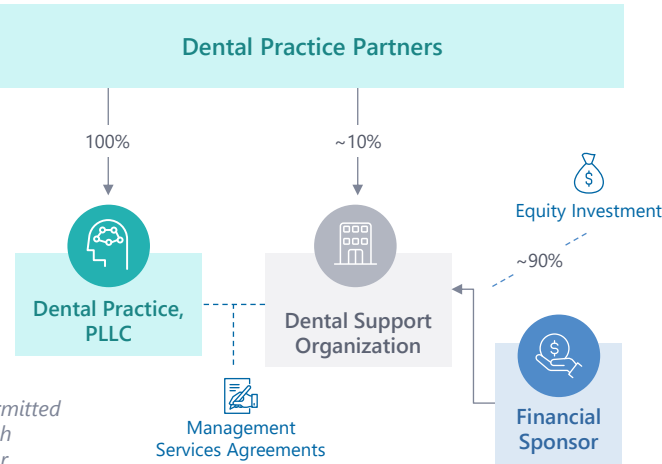
Potential Structures

Like an alternative practice structure for CPA firms and a dental support organization for dental practices, a lawyer support organization (LSO) is a business that supports lawyers with marketing, middle-, and back-office services.

Accounting Firm Structure



Dental Practice Structure



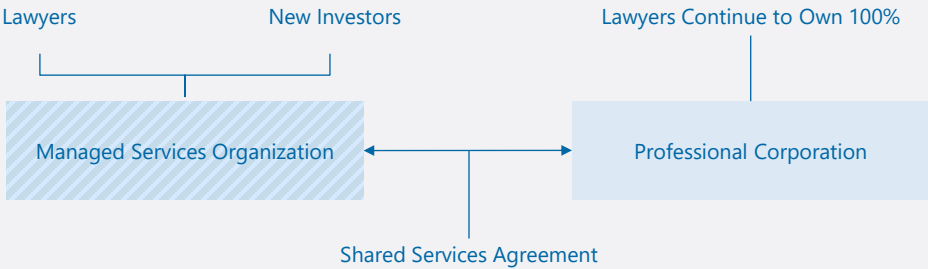
Note: In addition to the investment structures outlined above and to the right, Arizona-based law firms are permitted to share fees with and pay referrals to nonlawyers, which represents an additional path to participate in the sector.

Representative Investment Structures

1 Managed Services Organization/Professional Corporation (MSO/PC)

Investor takes controlling interest in an MSO and controls/manages all business operations except the practice of law, executing a shared services agreement with a PC.

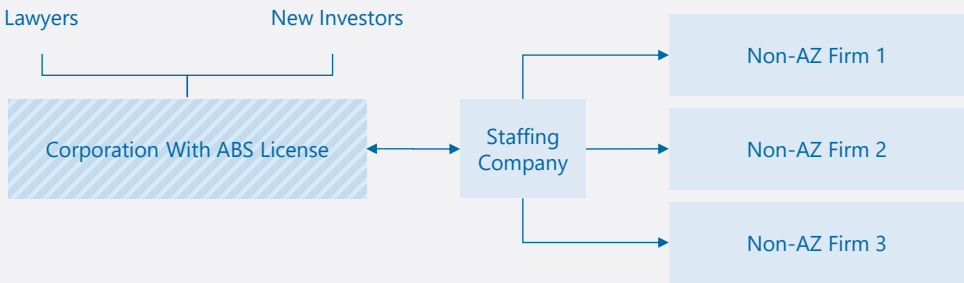
Illustrative Structure



2 Arizona-Based Alternative Business Structure (ABS)

ABS-licensed company is based in Arizona, where nonlawyers can directly own law firms and nonlegal organizations can provide legal counsel.

Illustrative Structure



Relevant Transaction Example of Selling a Law Firm MSO/PC Structure to PE Funds

Novalaw Sale to Alpine Investors

A unique structure for Novalaw (an MSO of Rimon Law) delivered an exceptional outcome for the company’s founders.



The transaction was a highly targeted preemptive process, coordinating comprehensive and multifaceted due diligence and advising on strategy and tactics to maintain tension and drive an outstanding outcome for the founders.

Novalaw Overview and Key Positioning Themes

Novalaw is a managed services organization providing critical business support functions and infrastructure to a global law firm, Rimon Law.

Unique entry point to invest in a disruptive force in the highly attractive legal services sector.

Exceptional organic growth profile with a clear path to accelerate hiring and drive outlier organic growth going forward.

Highly diversified revenue base across attorneys, end clients, cases, practice areas, and geographies.

Solid financial performance with a scalable business model.

Strong and highly respected founding partners.

Novalaw Services

	Sales and Marketing
	Accounting and Finance
	Billings and Collections
	Cash Management
	Legal Support
	Admin Support
	Attorney Recruiting
	Benefits Management
	General HR Support
	IT Support
	Facility Services
	Insurance Management

Process Takeaways and Alpine Investors’ Strategic Rationale

- Alpine’s investment thesis centered around continuing and accelerating organic growth trajectory by providing infrastructure, tools, and resources to hire more attorneys and allow existing attorneys to operate more efficiently.
- Opportunity to professionalize the platform across a number of different functional areas.
- Potential to diversify the platform via inorganic growth and add value through additional law firm relationships.
- The new CEO was appointed when the deal closed, consistent with Alpine’s playbook.
- Liquidity event for founders with a path to reduce day-to-day responsibilities and increase the upside from continued investment.



SC&R Market Highlights

02

Dedicated Specialty Consulting & Risk Team

Houlihan Lokey has a dedicated team within its Business Services Group focused exclusively on the specialty consulting and risk (SC&R) sector.

Specialty Consulting & Risk Team Leaders



Ranon Kent
Managing Director, Global Head of Business Services
Los Angeles



James Rekas
Managing Director, SC&R
Washington, D.C.



Ollie Vaughan
Managing Director, SC&R Europe
London



Kyle McNaught
Director, Legal Services
Chicago



Patrick J. Hughes
Director, SC&R, LLP Transactions
New York



Elena Stratigakes
Senior Vice President, SC&R
Los Angeles

Firm-Wide Support

Financial Sponsors



Kevin Salmini
Managing Director, Global Head of Financial Sponsors Coverage
New York



Justin Abelow
Managing Director
New York



Kevin Stephens
Managing Director
Los Angeles



Leon Gillespie
Managing Director, Co-Head of European Sponsor Coverage
London

Capital Markets



Chris Hebble
Managing Director, Debt Capital Markets
Los Angeles



Sean Fitzgerald
Managing Director, Equity Capital Markets
New York



Specialty Consulting and Risk Ecosystem

Dispute Advisory and Economic Consulting



Forensics and Investigations



Law Firm and Related Legal Subsectors



Accounting and Office of the CFO



Diversified Consulting Platforms



Corporate Compliance



Financial Compliance Services



Cost Recovery and Pricing Consulting



Operational Consulting



Significant Specialty Consulting and Risk Sector Expertise

Expansive Experience Selling Specialty Consulting and Risk Businesses

INTENSITY
a portfolio company of
TIDEROCK
has been acquired by
Secretariat
a portfolio company of
JLL Partners

Sellside Advisor

outsolve
BEYOND COMPLIANCE
a portfolio company of
LNC
PARTNERS
has been acquired by
Riverside

Sellside Advisor

WILLIAMS
MARSTON
a portfolio company of
ALIGN
CAPITAL
PARTNERS
has been acquired by
KELSO
PRIVATE EQUITY

Sellside Advisor

INVESTCORP
has acquired
CROSSCOUNTRY
CONSULTING

Buyside Advisor

OCEAN TOMO
a portfolio company of
BOWLER
CAPITAL
has been acquired by
JSHELD
a portfolio company of
KELSO
PRIVATE EQUITY

Sellside Advisor

MARSHBERRY
has received a growth capital
investment from
ATLAS MERCHANT CAPITAL

Sellside Advisor

E78
PARTNERS
has been acquired by
Further Global

Sellside Advisor

MSD
has completed a
strategic investment in
westMONROE

Buyside Advisor

BLACKROCK
EXPERT SERVICES GROUP
has been acquired by
DUFF & PHELPS

Sellside Advisor

RASI REGISTERED AGENT
SOLUTIONS INC.
has been acquired by
LEXITAS
a portfolio company of
Apax
PARTNERS

Sellside Advisor

resolution economics LLC
has been acquired by
Latter Investments
Current Partners
and existing management team
members

Sellside Advisor

KLEINFELDER
Bright People. Right Solutions.
has been acquired by
WIND POINT PARTNERS
and Kleinfelder management

Sellside Advisor

VIDARIS
a portfolio company of
CORTEC Group
has been acquired by
SOCOTEC
a portfolio company of
COBEPA

Sellside Advisor

Kroll Ontrack
a subsidiary of
CORPORATE
BUILDINGS
has been acquired by
Discover
a portfolio company of
THE CARLEY GROUP
revolution

Sellside Advisor

Note: Tombstones included herein represent transactions closed from 2016 forward.

Houlihan Lokey Business Services Conferences

Spring 2024 Conference Stats

45
Presenting Companies
~700
Conference Attendees
Targeted
1x1 Meetings

Prior SC&R Presenters



Fall 2024 Conference
October 10, 2024
(In Person)

Featured Sector News

Selected M&A Highlights

July 2024: Charlesbank Capital Partners, a middle-market private equity firm, invested in **Aprio**, a CPA professional services firm, alongside an existing partnership and executive team. Read more [here](#).

July 2024: Source Advisors, a premier specialty tax advisory firm, acquired **United Paramount Tax Group**, a property tax consulting firm. Read more [here](#).

July 2024: Strategic Resource Management, a financial services consulting firm, acquired **Kenneth J. Sole & Associates**, a banking technology consulting firm. Read more [here](#).

July 2024: Stout, a global financial advisory firm, completed its acquisition of **Financial Research Associates**, a nationally recognized financial consulting firm. Read more [here](#).

June 2024: Pearl Meyer, an executive compensation and leadership consulting firm, acquired **Blake Street Group**, a boutique consulting firm providing human capital due diligence, organizational readiness, and leadership development to private equity firms and their portfolio companies. Read more [here](#).

April 2024: Callahan & Associates, a research and consulting firm specializing in credit unions, acquired **CU Strategic Planning**, a business advisory firm serving credit unions. Read more [here](#).

April 2024: Crowe, an accounting, consulting, and technology firm, agreed to acquire **ITR Economics**, an economic research and consulting firm. Read more [here](#).

Relevant Themes and Headlines

June 2024: Private equity interest in investing in consulting firms has been growing over the past few years. There is continued evidence of this interest and growth in 2024, and a strong pipeline of opportunities remains for the rest of 2024 and into 2025. Read more [here](#).

June 2024: The U.S. Department of the Treasury's Financial Crimes Enforcement Network issued a proposed rule to strengthen and modernize financial institutions' anti-money laundering and countering the financing of terrorism programs—this proposed rule would amend those regulations to explicitly require programs to be effective, risk-based, and reasonably designed. Read more [here](#).

May 2024: Middle-market accounting firms are embracing private equity investment and increasingly seeking capital partners/strategic partnerships to help fuel their growth and innovation. Read more [here](#).

May 2024: MSOs that run the back office of many private equity-backed medical and dental practices have already gained prominence as the structure of choice for investing in the healthcare sector; private equity investors are eyeing similar opportunities in the legal industry. Read more [here](#).

April 2024: The EEOC published a final guidance on harassment in the workplace called "Enforcement Guidance on Harassment in the Workplace" (a resource on the legal standards and employer liability applicable to harassment claims under federal employment discrimination laws enforced by the EEOC). This guidance will help people feel safer on the job and assist employers in creating more respectful workplaces. Read more [here](#).

Sources: Charlesbank.com, SourceAdvisors.com, CUTimes.com, PRNewswire.com, ConsultingMag.com, CUToday.info, Crowe.com, EisnerAmper.com, RopesGray.com, FinCEN.gov, ICAEW.com, Law.com, EEOC.gov.



Specialty Consulting and Risk vs. Broader Market Trends

Public Markets

EV/Forward EBITDA
(Jan 1, 2007 – September 9, 2024)



“ So far this year, we’ve been cycling a very weak prior year, the first half of the year. For the rest of this year, though we’re forecasting our business will continue to be strong. We are setting a much stronger set of comparables from last year. It does not mean we expect the business to be weak in the second half. ”

FTI Consulting

Source: Trading multiples are based on share price, other market data, and broker consensus future revenue and earnings estimates from S&P Capital IQ as of September 9, 2024.

Note: Indices are equal-weighted (not weighted by market cap).

(1) Specialty Consulting index includes CRA International, FTI Consulting, Huron Consulting Group, and ICF International.

(2) Corporate Compliance Index includes Computershare, JTC, SS&C Technologies, and Wolters Kluwer.

(3) Average revenue growth estimates for Specialty Consulting Index excludes Exponent.

“ We have seen high retention rates within our consulting staff that have led to persistent pockets of overcapacity. Normal operations and natural attrition rates helped to bring our delivery resources into better alignment with the demand for our services, but excess capacity remained in select practices. ”

CRA International

“ Last year, in the second quarter, headcount growth year over year in Q2 of 2023 was 15%. And yes, that came from low turnover and high acceptance rates and lots of other things, but we were there. We did need to gradually make an adjustment to that. ”

Exponent

Consensus 2024E Revenue Growth Estimates (as of September 2024)

Specialty Consulting	% Growth
FTI Consulting	6.5%
ICF International	7.0%
Huron Consulting Group	9.0%
CRA International	3.8%
Exponent	6.0%
Average ⁽³⁾	6.6%
Corporate Compliance	% Growth
Wolters Kluwer	6.5%
SS&C Technologies	4.6%
Computershare	(4.2)%
JTC	14.8%
Average	5.4%
Average (All)	6.0%



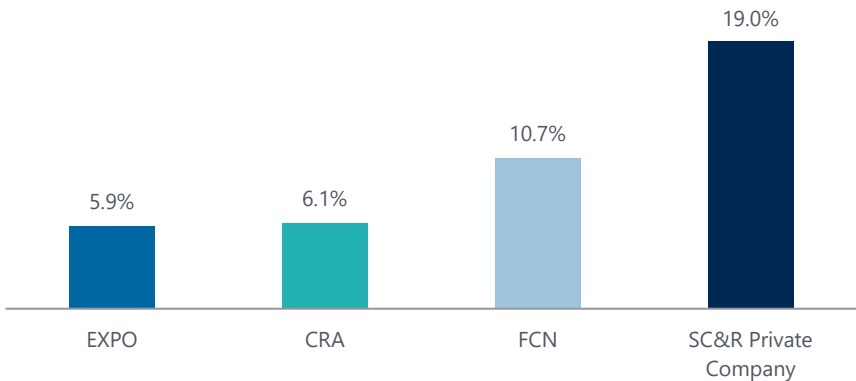
Specialty Consulting High-Level Benchmarking

Overview

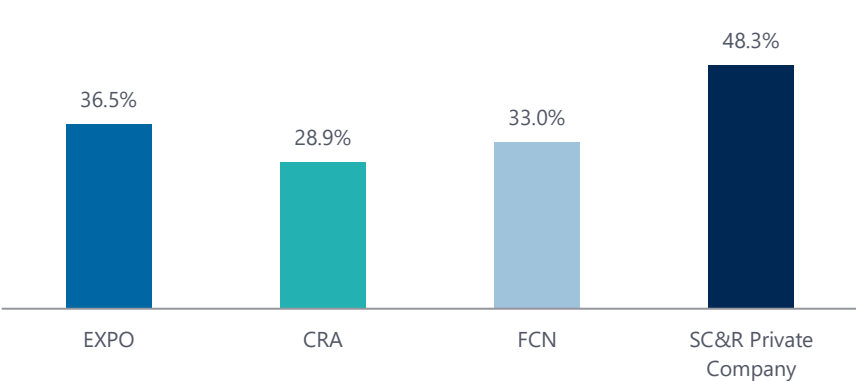
- Private SC&R platforms have generated significantly more growth than public peers over the past few years.
- Private SC&R platforms are also more efficiently run than public peers over the past few years, as measured by margins.
- Yet, public peers continue to trade at a premium to private market multiples.
 - Scarcity of public companies in the sector.
 - Different return profiles between public investors and private investors.
 - Better understanding of return on reinvested capital for public vs. private peers.
 - Long-term performance more visible for public peers.

Public Company Benchmarking With SC&R Private Company Median

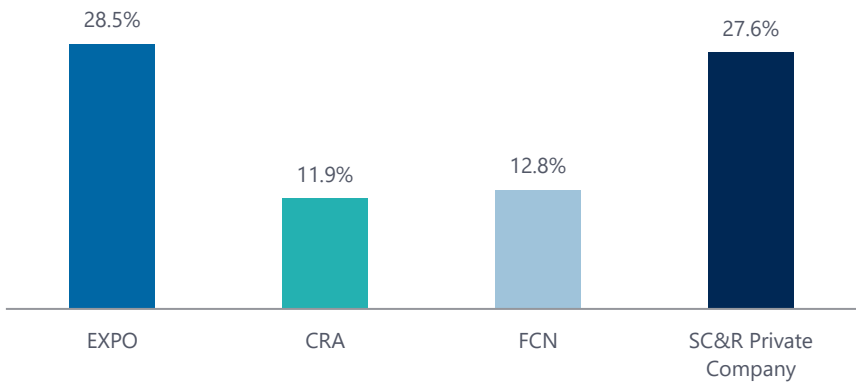
Three-Year Revenue CAGR



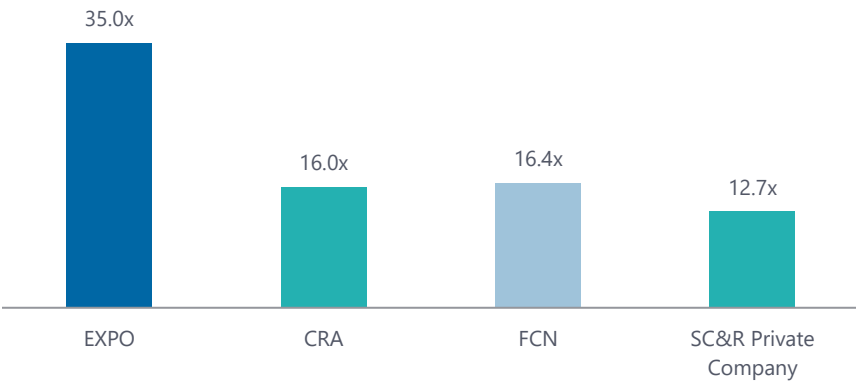
LTM Gross Margin



LTM EBITDA Margin



EV/LTM EBITDA



Sources: S&P Capital IQ (as of September 9, 2024) and Houlihan Lokey SC&R Proprietary M&A Database.



Specialty Consulting and Risk Precedent Transactions

Select Precedent Transactions: Specialty Consulting and Corporate Compliance

AVERAGE EV/LTM EBITDA: 12.9x

SPECIALTY CONSULTING AVERAGE EV/LTM EBITDA: 12.3x

CORPORATE COMPLIANCE AVERAGE EV/LTM EBITDA: 16.3x

	CONF	CONF	CONF	CONF	CONF	CONF	CONF	CONF	CONF	CONF	CONF	CONF	CONF	CONF
Target	Aprio	NAM	Grant Thornton	RIMKUS	YOUNG PART-TIME CONTROLLER	Guidehouse	RIVERON	CONFIDENTIAL	INTENSITY	outsolve	ACCORDION	WILLIAMS MARSTON	HK&A	Cherry Bekaert
Buyer	Charlesbank	THOMPSON STREET CAPITAL PARTNERS	NMC NEW MONTREAL CAPITAL	HGGC	Pamlico CAPITAL	BainCapital	KOHLBERG & COMPANY	RLH CAPITAL	Secretariat	Riverside	Charlesbank	KELSO PRIVATE EQUITY	PAI PARTNERS	PARTHENON CAPITAL
Date	Jul. '24	Jul. '24	Mar. '24	Feb. '24	Nov. '23	Oct. '23	Jun. '23	Feb. '23	Jan. '23	Oct. '22	Sep. '22	Aug. '22	Aug. '22	Jun. '22
TEV (\$ in M)	--	--	--	--	--	\$5,300	--	--	CONF	CONF	--	CONF	CONF	--

	CONF	CONF	CONF	CONF	CONF		CONF	CONF	CONF	CONF	CONF	CONF	CONF	CONF
Target	CrossCountry CONSULTING	CITRINCOOPERMAN	ISOURCE ANALYTICS	OCEAN TOMO	WELCH CONSULTING	COGENCYGLOBAL	E78 PARTNERS	ACA	8020 CONSULTING	STOUT	westMONROE	CFGI	EISNER&ER	RASI
Buyer	INVESTCORP	NMC New Montreal Capital	bv	KELSO PRIVATE EQUITY	CRA Charles River Associates	BERTRAM CAPITAL	Further Global	GENSTAR	SHOREVIEW	Audax Group	MED	CARLYLE	TOWERBROOK	LEXITAS
Date	May '22	Apr. '22	Apr. '22	Mar. '22	Mar. '22	Feb. '22	Dec. '21	Nov. '21	Oct. '21	Oct. '21	Oct. '21	Sep. '21	Aug. '21	Oct. '20
TEV (\$ in M)	CONF	--	\$234	CONF	--	--	CONF	\$1,000	--	CONF	\$2,500	\$1,850	--	CONF

Specialty Consulting Corporate Compliance

Sources: Houlihan Lokey SC&R Proprietary M&A Database, S&P Capital IQ, MergerMarket, and press releases.

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Financial and Valuation Advisory

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