

Legal Sector Pulse Survey Results

August 2022

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Accountants, Business & Financial Advisers

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Introduction

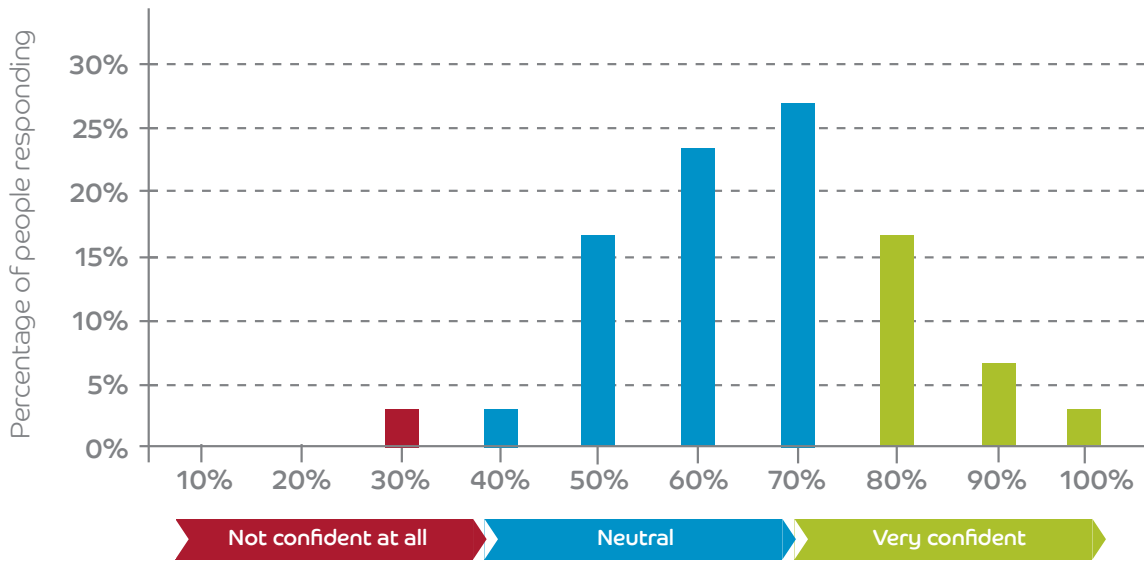
The legal profession remains in a period of change, in many ways accelerated by the Covid pandemic. There are uncertainties as to the impact of the changes within the sector, and also the influences from the wider economy.

With that in mind, we are continuing our legal sector confidence pulse surveys, with our August survey being the fourth in our quarterly series.

Executive Summary

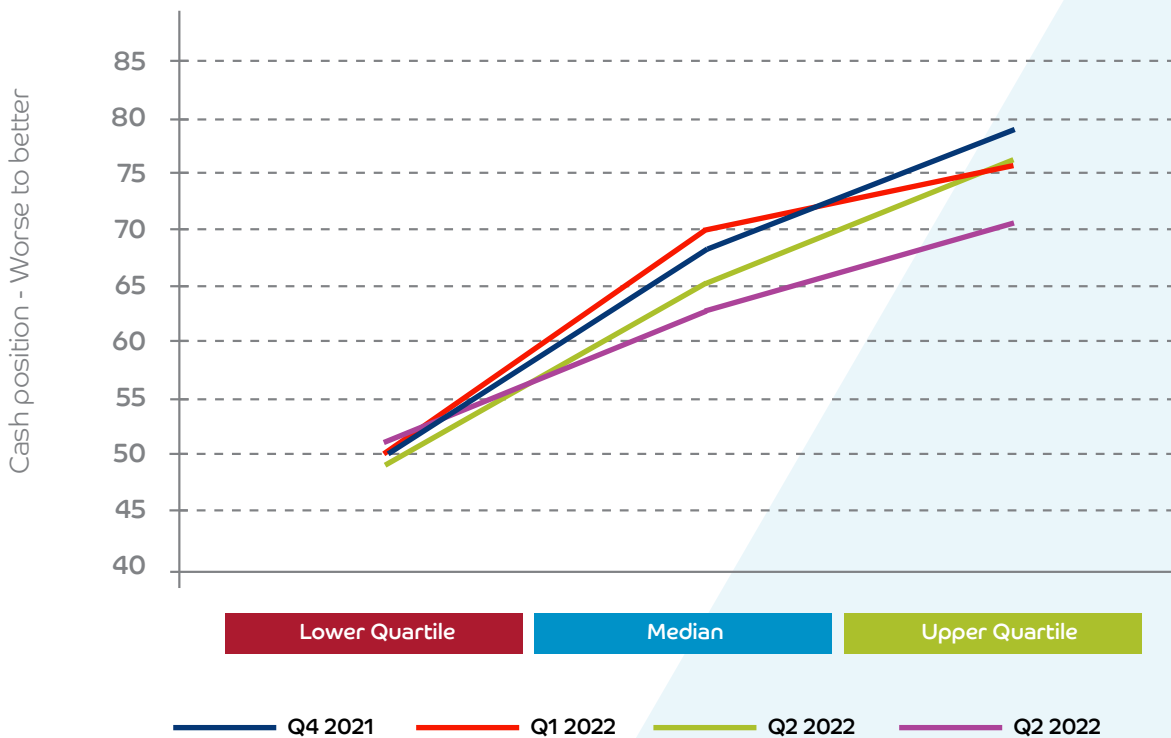
The UK economy faces new challenges. The worst of the Covid pandemic may be behind us but now we face a period of high inflation, caused in part by the war in the Ukraine. Overall confidence levels in the performance of law firms is holding up. However, looking to the future law firms are concentrating on maintaining current performance. Generally there is less of an appetite to use managerial resources to sell their business or merge with another firm.

1 | How confident are you of the performance level of law firms over the next 12 months?

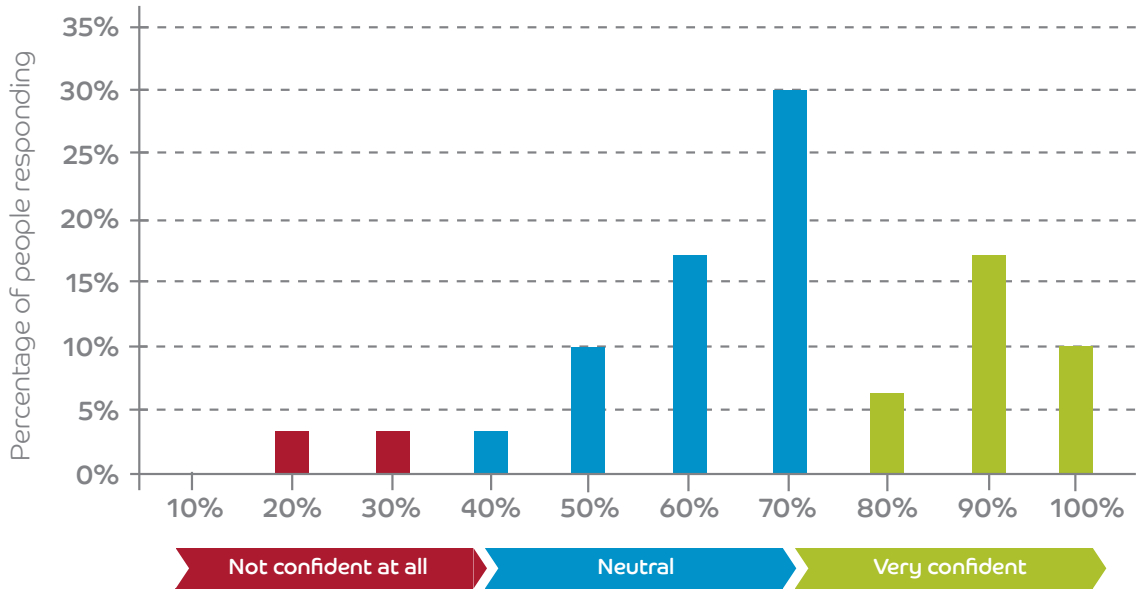


The number of firms who are very confident about the performance of law firms in the next 12 months continues to decline. This is probably because of forecasts of a longer than expected period of inflation. The performance confidence trend tracker is at the lowest level since we started doing this survey. This is likely to be because of inflationary pressure causing running costs to increase and potentially adversely affecting profitability.

Performance confidence trend tracker

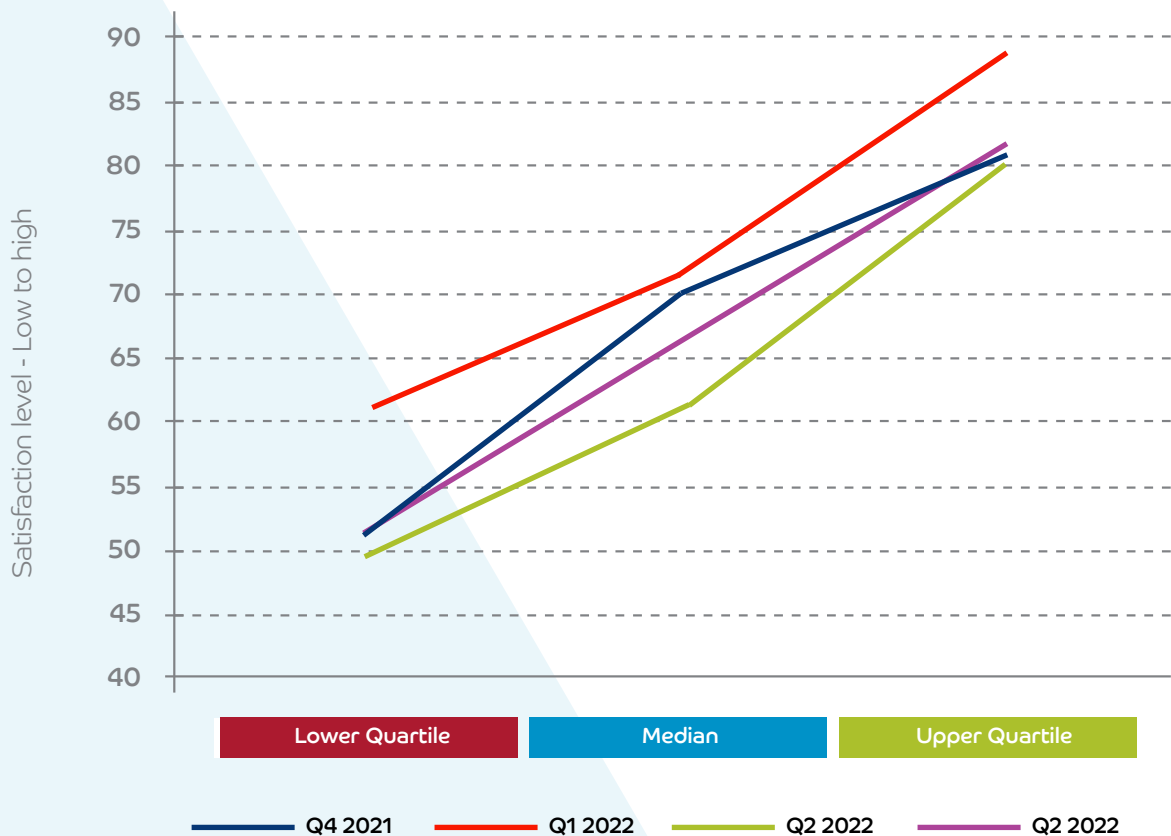


2 | How satisfied are you with the current results of your law firm?

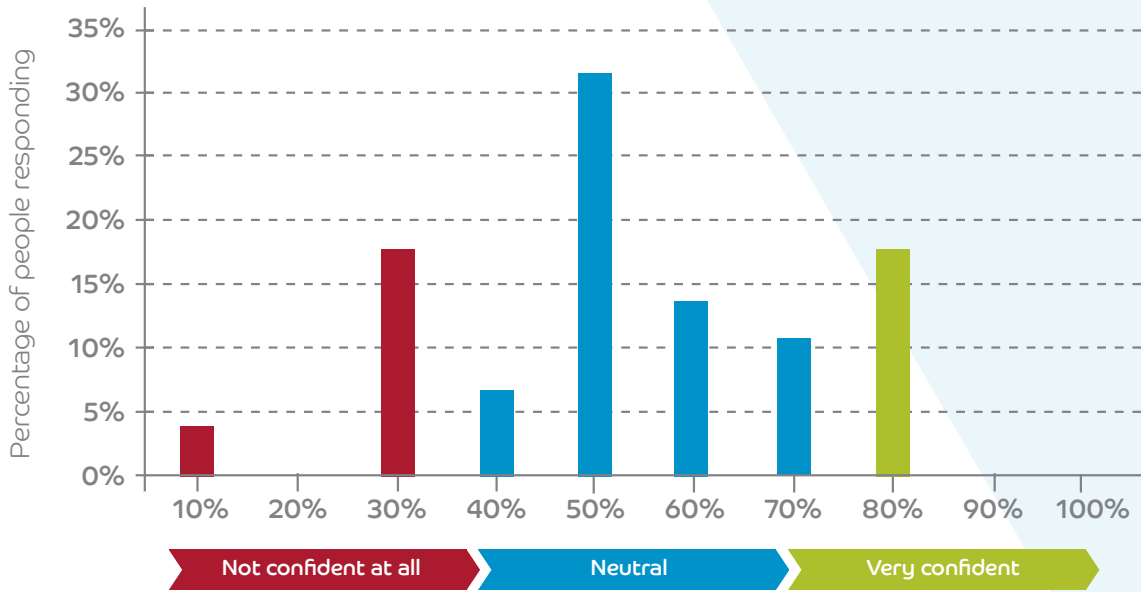


The number of firms who are very satisfied with the current results of their law firm remains static compared to the previous quarter. This suggests that firms are aware of the current economic challenges and are adapting their financial model accordingly.

Results satisfaction trend tracker

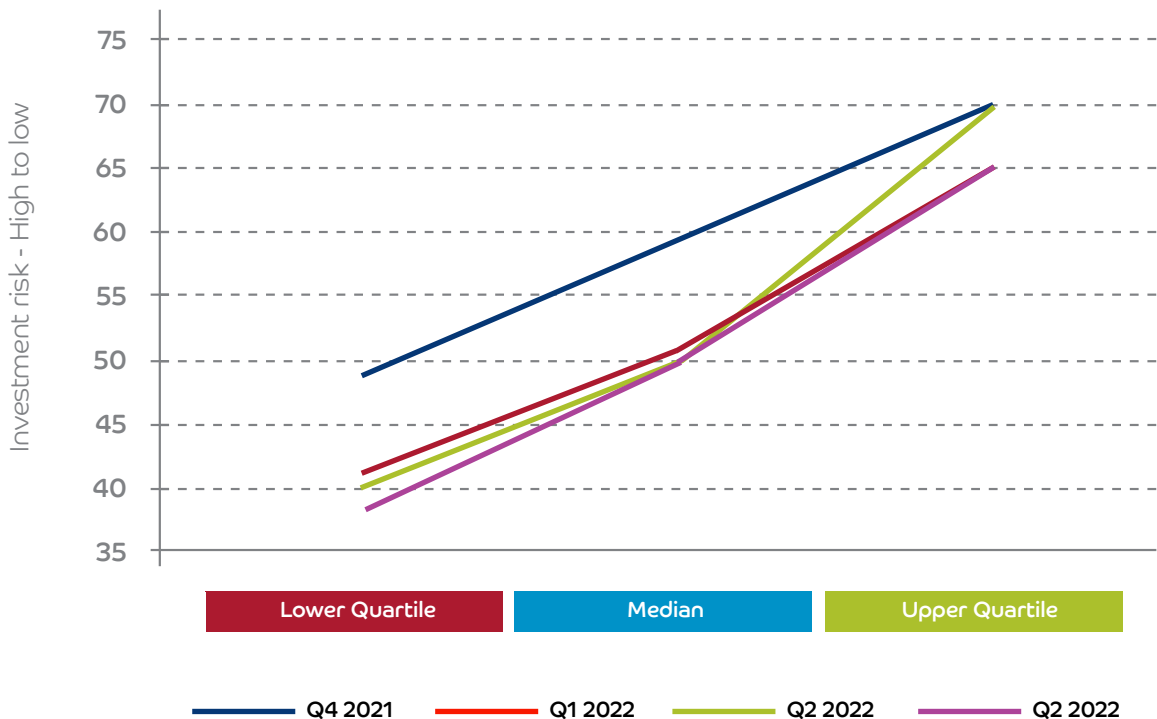


3 | How risky would you currently rate an investment as an owner in a law firm?

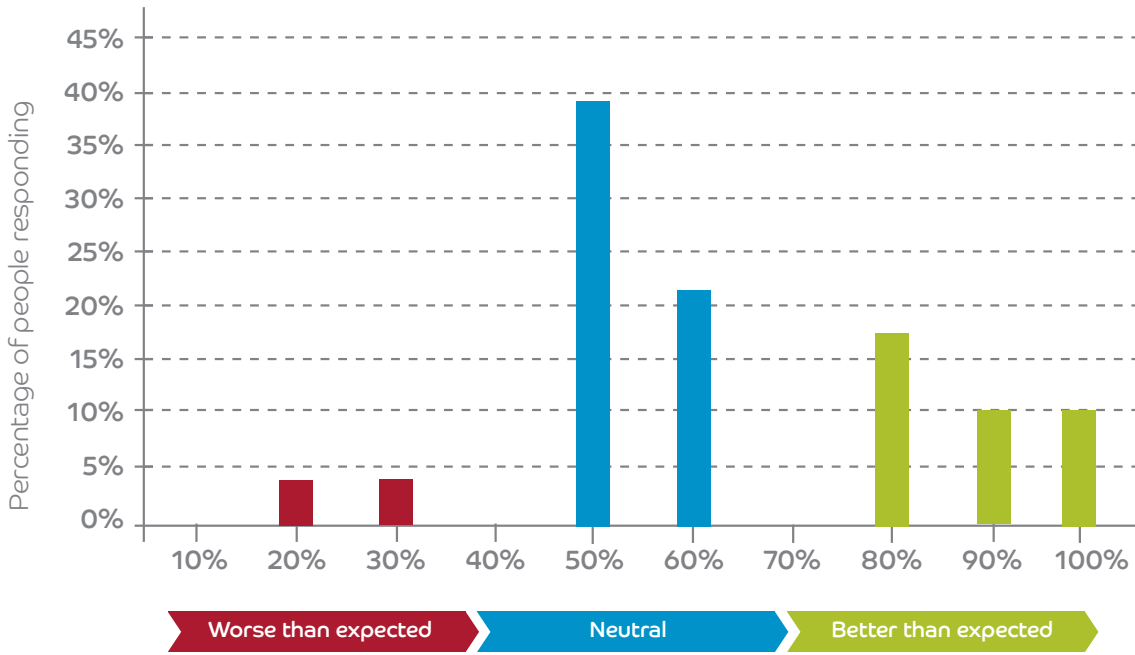


Owners consider that over the last quarter it has become more risky to have an investment in a law firm. Inflation is predicted to top 13% and the Bank of England are forecasting that this period of inflation will continue for another 18 months. Interest rates have recently been increased 6 times in an attempt to bring inflation under control. If a law firm has substantial bank borrowings then the increase in interest rates will represent another cost that will impact on profitability.

Investment risk trend tracker

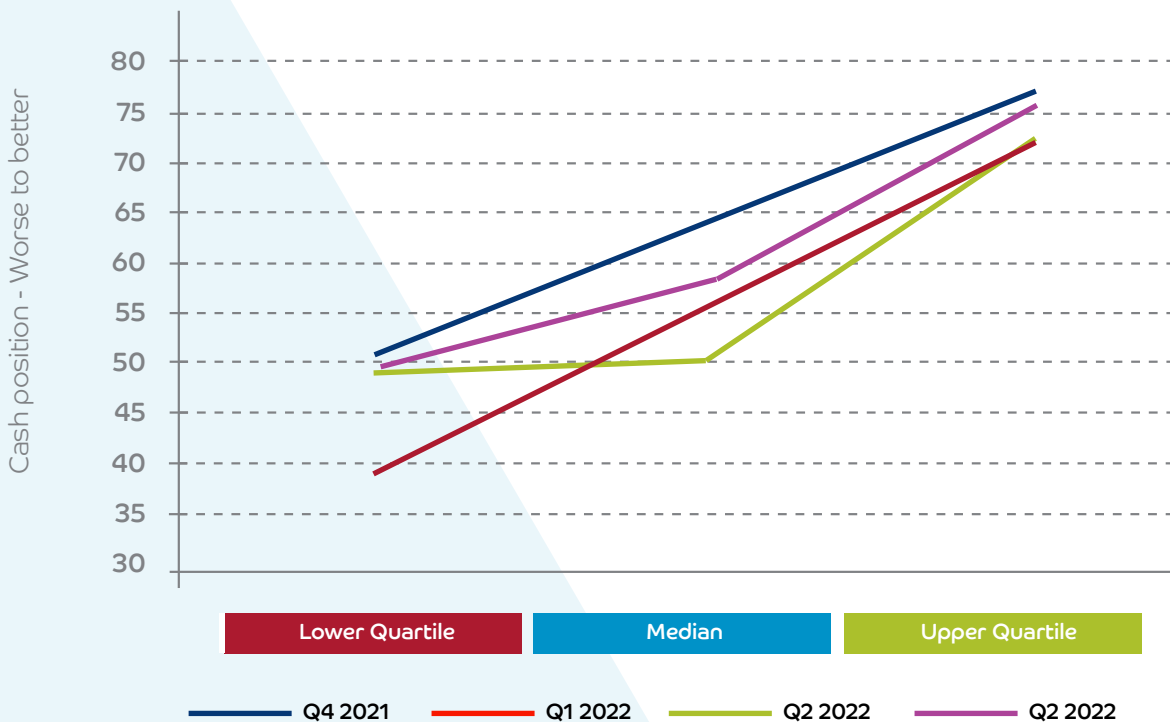


4 | How would you describe your firm's current cash position?

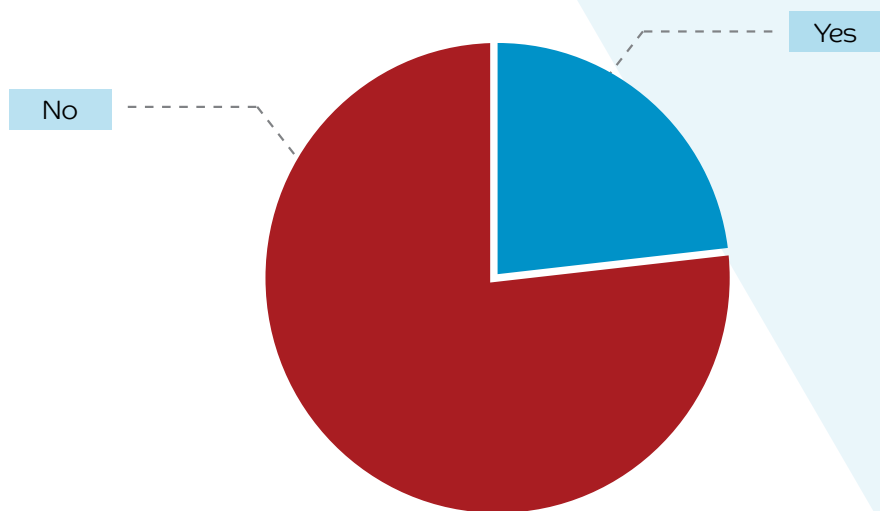


Unsurprisingly the number of law firms with a better than expected current cash position has reduced. As inflation continues to increase all costs are on the rise. The biggest challenge is to manage staff costs. To maintain their standard of living in a period of escalating inflation staff expect substantial salary increases. In an environment of skill shortages a law firm has to react or there will be another firm who will offer a better salary package. Higher staff costs can eat away at cash balances unless owners find a way to increase turnover either by increasing charge out rates and/or increasing volume.

Cash position trend tracker

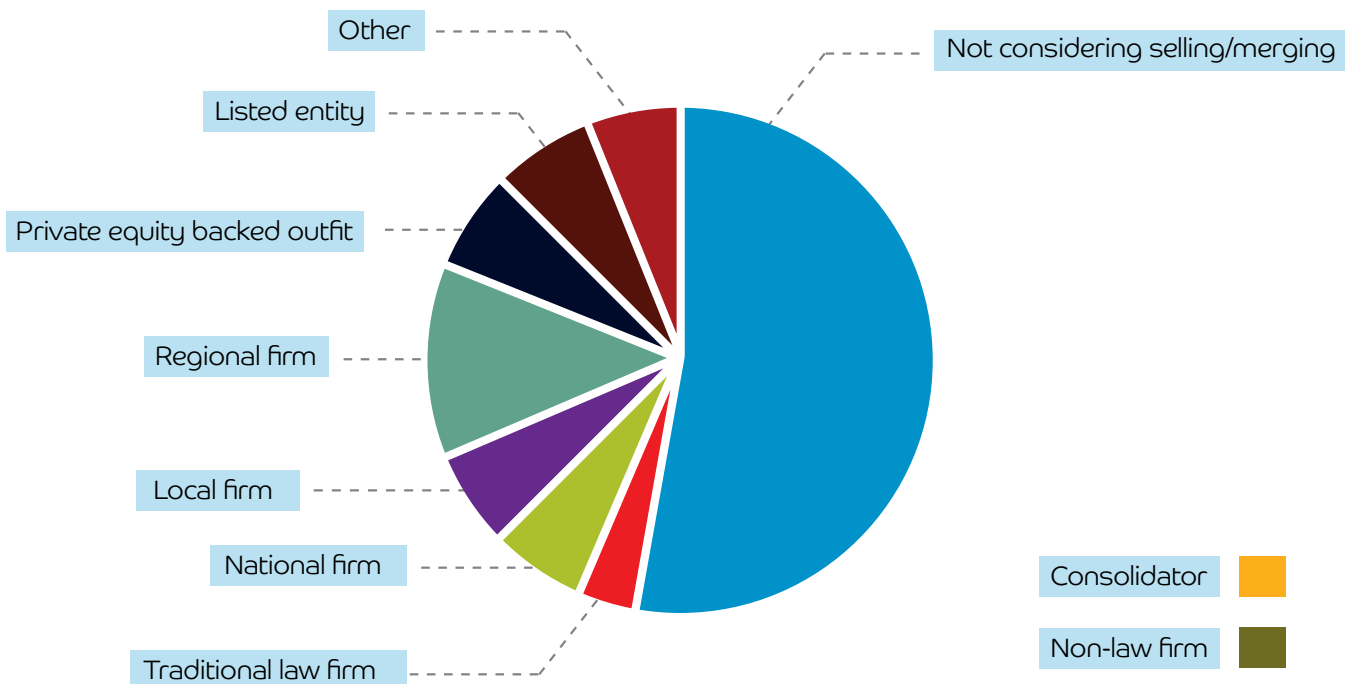


5 | Are you actively considering acquisitions as a strategy?

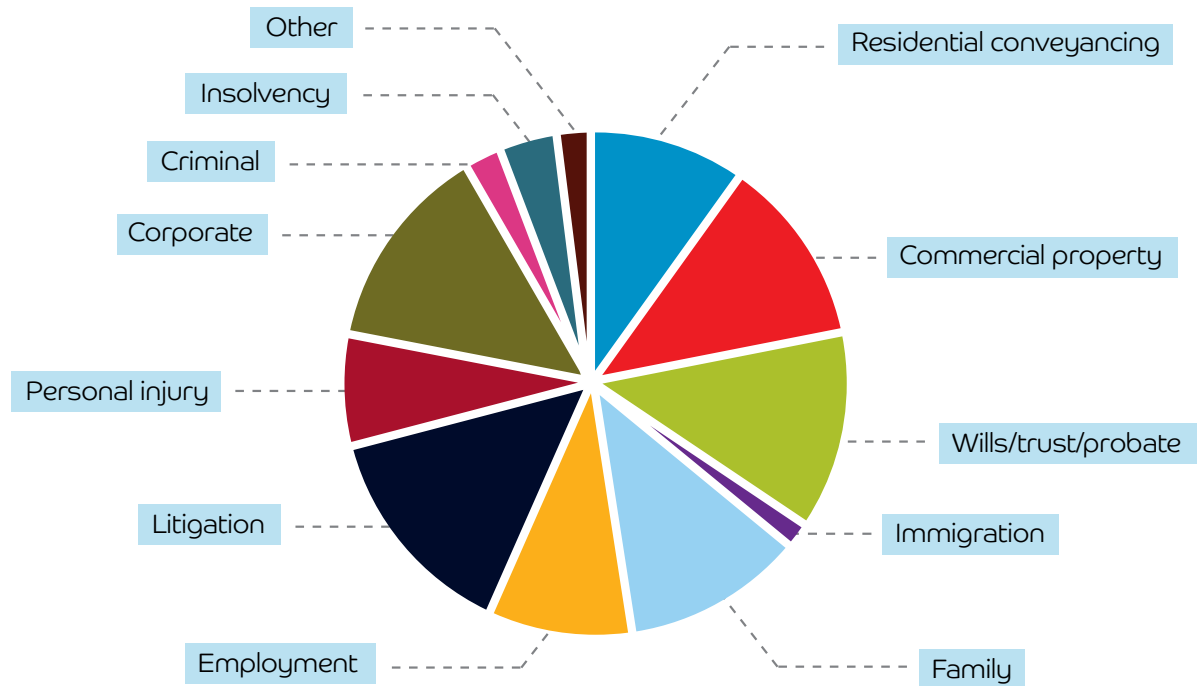


This quarter's focus is on the sale of your business or merging it with another firm. The majority are not considering this strategy. This may be because over 60% of the firms participating in this survey are very satisfied with their performance. Their efforts are being directed at maintaining this position rather than using management resource in finding a buyer. Interestingly for those who are considering a sale or a merger there is a wide variety of acceptable purchasers. The most popular is a regional firm which is not surprising when one considers the number of staff the participating firms employ.

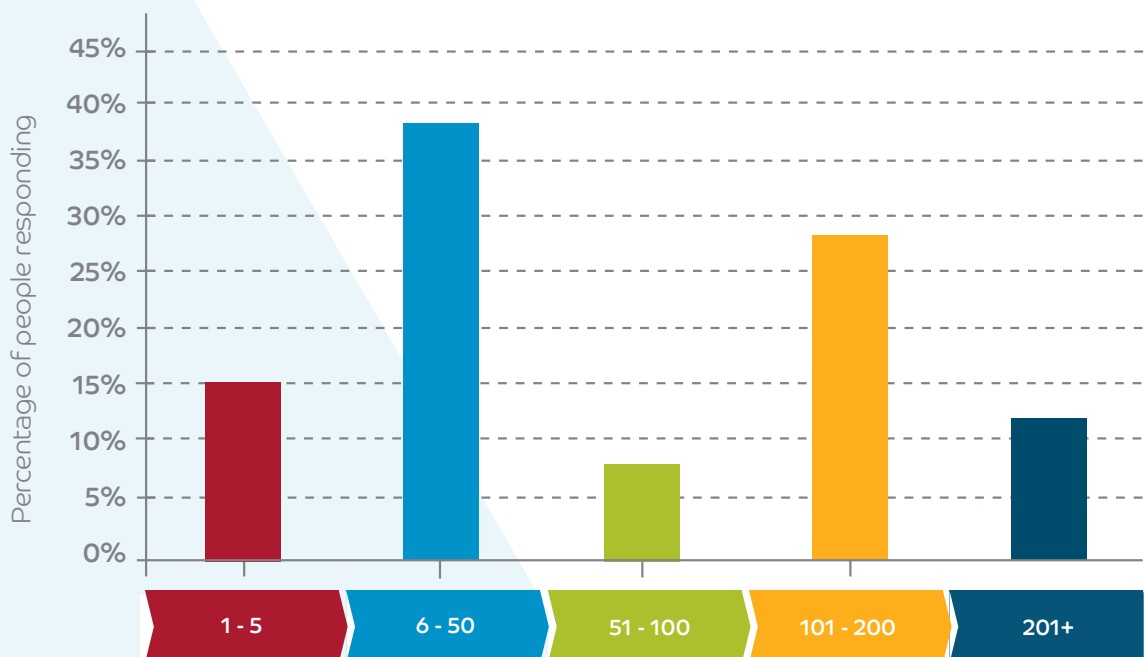
6 | If you are considering selling/merging your law firm, what type of business would you consider selling to?



7 | Which service types does your firm provide?



8 | How many people does your firm employ?



Armstrong Watson Legal Sector Services

We have a team that focus exclusively in acting for lawyers. That knowledge allows us to concentrate on improving the business of law and efficiently complete compliance requirements.

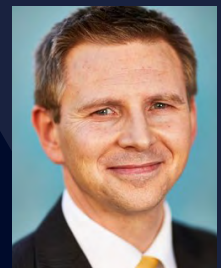
We help lawyers in a way that others don't, providing a range of bespoke services alongside the typical accountancy services like audit, tax and Solicitors Regulation Authority (SRA) Accounts Rules, these include:

- alternative business structure applications
- benchmarking
- strategic business advice
- incorporations and LLP conversions
- outsourced financial director services
- law firm mergers and acquisitions

We are proud to be the Law Society's preferred provider of accountancy services and founder members of Law Firm Ambition, a resource for law firms, featuring advice and insights from the industry's foremost experts.

Our pro-activity stands us apart from other accountancy firms, generating our track record of providing solutions to law firms.

Find the full list of specialist services on our Armstrong Watson website.



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Armstrong Watson Restructuring and Insolvency Services

Identifying issues and taking appropriate action at the earliest opportunity can make a significant difference to the longevity of your business. The Restructuring & Insolvency team work with clients and stakeholders to understand and overcome those challenges. All the partners are Licensed Insolvency Practitioners, however our view is that a formal insolvency process is just one of the potential solutions and we will look at all the options with the client to identify what is most suitable in the circumstances.

With regards to the legal sector, we have experience in dealing with the Legal Aid Agency and the SRA (both without the need for an intervention and after one) and we are able to utilise our colleagues in the Legal Sector team to ensure that any merger/acquisition, or managed wind-down, is carried out in line with the requirements for the SRA.



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