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M&A in Legal Tech

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HAYSTACK

Agenda

- Why the interest in legal tech and legal services by the investment community?
- M&A during and post pandemic
- IT/Security/Data Privacy/Insurance Fallout
- What's next with AI and GAI?
- M&A is like constructing a puzzle

Why invest in legal?



Enterprise Legal Management Software

Thomson Reuters

LexisNexis

iManage

Mitratech

ONIT

Net Documents

Wolters Kluwer

Why invest in legal?



Legal Practice Management Software

Aderant

Intapp

Litify

Litera

Clio

LexisNexis

Wolters Kluwer

Why invest in legal?



Attorney/Legal Workflow Solutions

Relativity

Reveal

Casepoint

DocuSign

CS Disco

Proofpoint

Casetext

Why invest in legal?



Alternative Legal Services Providers

Consilio

HaystackID

UnitedLex

Lighthouse

US Legal Support

Elevate

Clarivate

Magna Legal

Why invest in legal?



The global Legal Tech/Services market is estimated to have generated \$27.6 billion in 2021 and is forecasted to be over \$35.5 billion by 2027.

During every economic upturn/downturn the legal industry has been resilient.

Why invest in legal?



During COVID the unique economic actions by the administration and the federal reserve led to historically low interest rates which created an M&A appetite for the investment community.

Why invest in legal?



Transaction by Vertical Since 2021

- ELM and Practice Management: 108
- Attorney/Legal Workflow Solutions: 32
- ALSPs: 90

Why invest in legal?



Rapid Reset to the Markets in 2022

War in Ukraine, the broad-based rise in inflation, and significant monetary policy tightening all caused market sentiment to drastically change in 2022.

Deal activity experienced one of the most profound sequential changes in recent history. A continuation of record M&A levels in 2021 resulted in 1H 2022 remaining strong, however, 2H 2022 saw more than a 50% global decline in deal activity as fewer assets came to market or were able to agree on deal or financing terms.

Why invest in legal?



Rapid Reset to the Markets in 2022

Public markets were even faster to react—the Nasdaq was down 20% by the end of the Q1 and 30% by the end of Q2—the IPO market has been effectively closed for months. “Growth at all costs” fell out of favor as investors reprioritized profitability (or clear near-term profitability) over absolute growth.

Potential recession concerns coupled with the higher cash interest cost decreased lender appetite to fund negative cash flow businesses.

Why invest in legal?



Rapid Reset to the Markets in 2022

Add-on acquisitions increased as a percentage of total deals, as private equity investors focused on driving growth through synergies, new offerings, and new geographies. ALSPs, which typically have greater EBITDA, saw solid M&A activity throughout 2022 compared to Legal Tech software companies.

State of the Business - Industry



2023 + Beyond: What do we see coming?

Stabilizing debt financing market—banks digesting overhang of mega-buyouts and debt fund inflows returning—will support a greater share of private equity platform investments (add-ons will continue to be strong but will decrease as a percentage compared to 2022).

State of the Business - Industry



2023 + Beyond: What do we see coming?

Non-bank direct lenders will be especially important in 2023. Financial sponsors will return to more normalized deal activity level (not 2021's frenetic pace and not 2022's "wait and see" pace) as dry powder remains at all-time highs.

Middle-market (less than \$1 billion TEV) take-privates will increase—the 443 non-SPAC IPOs since 2020 have declined 73% in market cap relative to IPO opening.

PE-backed software companies that were expected to IPO in 2022 or 2023 may turn to M&A given continued equity capital market dislocation.

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2023 + Beyond: What do we see coming?

Extended due diligence processes by financial and corporate buyers are expected to continue in 2023, resulting in time to close reverting to longer-term norms.

Technology due diligence—code reviews, completeness of prior M&A integration, new product, and enhancement roadmaps—will receive heightened scrutiny.

Cyber insurance requirements have weighed on smaller service providers cost of doing business and in the vendor selection process by clients. Scale does matter now for enterprise level matters/clients.

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2023 + Beyond: What do we see coming?

KEY TAKEAWAYS

- The consolidation phase is a key part of the industry lifecycle when companies in the same sector begin to acquire and merge with one another.
- This is done after growth opportunities for individual companies become sparse, and financial standing can only be improved through combination.
- The phases of the industry life cycle are the introduction, growth, maturity, consolidation, and decline.
- The legal space is a “take away” play

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And the number one question to be addressed in any deal will be:

“HOW DOES/WILL GAI/AI IMPACT THE CURRENT MONETIZATION MODEL OF THE BUSINESS/INDUSTRY?”

Common Themes in M&A for Legal Collaboration



While non-legal professionals may not appreciate the significant variability across what is considered a legal matter, the multitude of use cases will favor software providers embracing integration and collaboration.

Common for vertical software market evolution, the vision to build a singular software solution addressing every user need eventually gives rise to the practicality of easily integrated best-in class point solutions that allow a customer to align their software investment with their unique workflow.

Usage metrics and satisfaction will lag as organizations do not mature in technology usage as quickly as tech is deployed

Common Themes in M&A for Legal Collaboration

“Human in the loop” will remain pivotal part of Legal Tech.

The judgment inherent in legal workflows will limit the ability for AI to fully automate legal departments.

However, AI will create efficiency and job satisfaction increases across almost all legal workflows by reducing the significant time spent on repetitive or low value-add tasks.

For example, eDiscovery software has shown the most significant advances with AI automating a workflow but taking those discovery findings into a court filing will always require legal professional experience and insight.

IP search remains an area in which significant human input is often required but is increasingly being supported with AI tools; whereas patent drafting currently remains hard to automate, with AI advances like ChatGPT, it is important to monitor development.



Common Themes for M&A in Legal



Corporates continue to under utilize proven LegalTech solutions.

ALSPs provide the “glue” for legal departments.

Spend on LegalTech by law departments is expected to triple by 2025.

Successful M&A is Like Constructing a Puzzle



You must have a vision of the picture on the box.

You buy it and take it home, open the box and sit the box top where you can constantly envision it.

Pour out the pieces and then turn them over to begin to find the corners and the outlining pieces which will become your foundation.

As each piece is added the vision becomes more apparent.

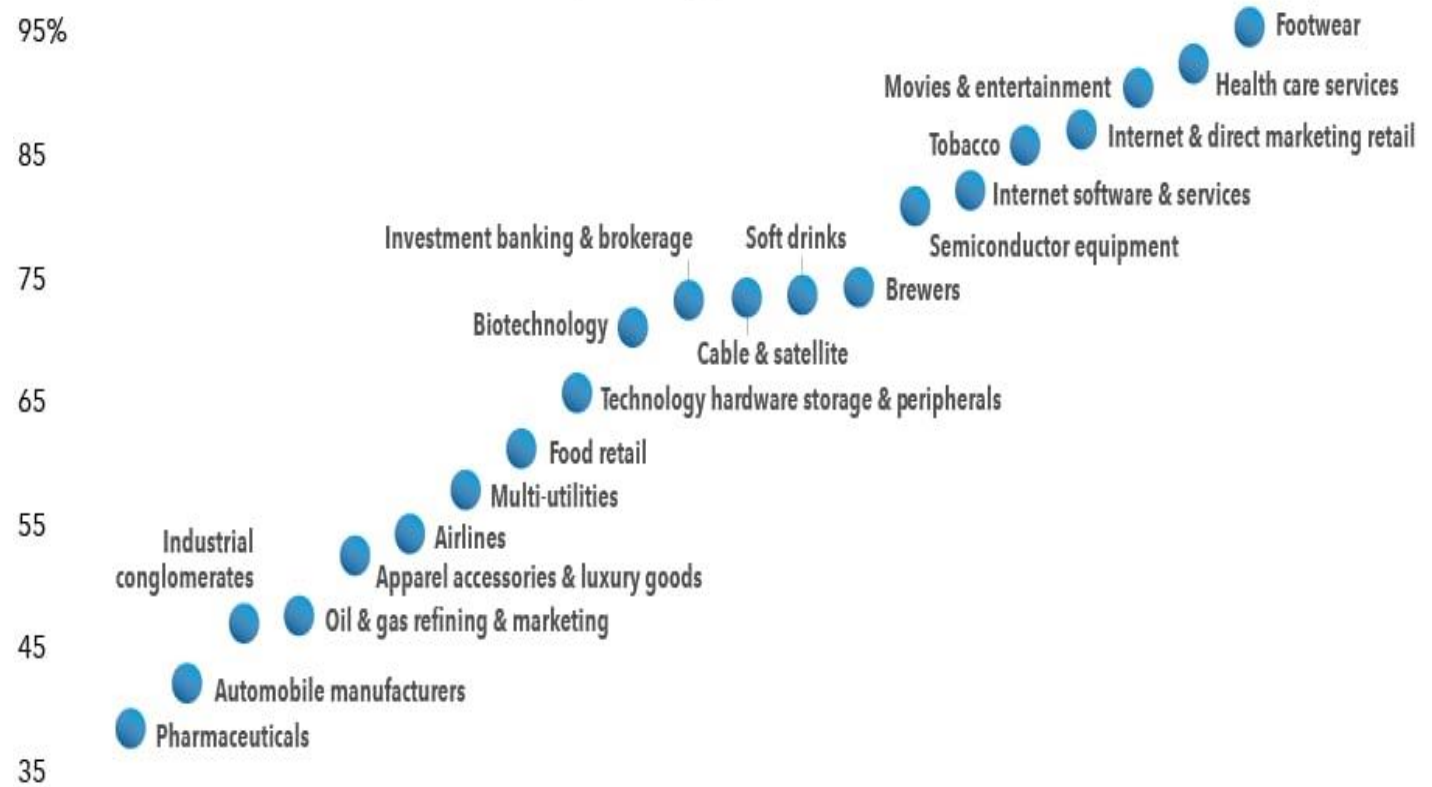
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Comments, Questions, and Considerations

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Global market share of each industry's 5 largest firms



Sources: Capital Group, MSCI. Shows combined global market share of the top five firms (by revenue) in each industry in the MSCI ACWI. As of 8/13/18.