

# Law Firms: The Next Frontier for Private Equity in Professional Services?



MARCH 19, 2026

## WHY LAW FIRMS ATTRACT PE ATTENTION

Law firms are one of the last major professional services segments without meaningful private equity (PE) penetration. The core investment attributes are familiar:

- Predictable, recurring revenue with sticky client relationships
- High margins, low capital expenditure relative to revenue
- Significant operational improvement opportunity
- Fragmented market ripe for platform-building and roll-ups

But raw appeal obscures a complex economic picture. The partnership model is, from a PE perspective, a deeply inefficient capital structure.

## THE CORE TENSION OF LAW FIRM ECONOMICS

Partnership Model	PE Financial Engineering
Distributes substantially all net income annually	Reinvests cash flow to drive growth and fund acquisitions
“Eat-what-you-kill” compensation incentivizes individual billing over firm-level investment	EBITDA optimization requires enterprise-level cost discipline and scale

Partner capital contributions function as quasi-equity with no growth upside	Equity positions must carry growth upside and exit value
Retained earnings minimal by design	Leverage and retained earnings service debt and fund bolt-ons

**The Management Services Organization (MSO) solves this tension** by separating the “business of law” (operational infrastructure, technology, HR, marketing, finance, real estate) from the “practice of law” (legal judgment, client relationships, attorney employment). The business side, once isolated, looks like a conventional services business that can be professionalized, scaled, and benchmarked.

### KEY METRICS FOR EVALUATING LAW FIRM MSO TARGETS

Metric	What It Signals for PE	MSO-Favorable Profile
<b>Revenue Per Lawyer (RPL)</b>	Productivity and pricing power Am Law 100 range: ~\$700K to \$2M+	Moderate RPL with high leverage and significant nonlawyer headcount  The MSO revenue base is proportionally larger
<b>Profits Per Equity Partner (PPEP)</b>	Conflates partner compensation with firm profitability  Can be misleading for PE purposes	\$1.5M–\$3M range  High enough to signal a quality firm, not so high that management fee extraction triggers partner attrition
<b>Leverage Ratio (associates and non-equity partners to equity partners)</b>	Determines how large the operational footprint is that the MSO can capture	4:1 or higher  A 5:1 or 6:1 firm has a fundamentally different, more MSO-friendly operational profile than a 2:1 firm
<b>Realization Rate</b>	Indicator of operational efficiency or, more importantly, improvement potential	Below 85% presents a clear opportunity for PE-backed process optimization

<b>Overhead Percentage of Revenue</b>	Back-office optimization potential	Above 55% indicates significant room for procurement discipline, real estate rationalization, and technology investment
---------------------------------------	------------------------------------	---

**LESSONS FROM ADJACENT SECTORS**

***Health Care as the Foundational Playbook***

Hundreds of billions have been invested over 15 years in physician practices and dental, dermatology, ophthalmology, veterinary, and behavioral health, substantially all via MSO structures to comply with restrictions on corporate practice of medicine.

- **What translates:** The structural parallels (licensed profession, corporate practice prohibitions, labor-intensive, professionals as revenue-generating assets) are direct. The MSO’s legal and regulatory foundations have been validated through over a decade of transactions.
- **What cautions:** High-profile PE-backed health care bankruptcies (e.g., Envision Healthcare, Steward Health Care, GenesisCare, Cano Health, SmileDirectClub) illustrate what happens when financial engineering overwhelms operational sustainability. Law firm partners are sophisticated economic actors who will scrutinize this precedent.

***Accounting as the Closest Analogue and Strongest Signal***

Transaction	Significance
<b>New Mountain Capital / Grant Thornton (2024)</b>	First major PE investment in a top-tier accounting partnership
<b>Apax / CohnReznick (2025)</b>	Rapid follow-on confirmed market appetite
<b>Blackstone / Citrin Cooperman (2025)</b>	Mega-fund entry validated scale opportunity

**Key Takeaways for Law Firms**

- Initial targets were not the Big Four but the tier just below, with firms sophisticated enough to understand the value proposition and pragmatic enough to accept outside capital
- Deal structures preserved partner governance over professional matters while giving PE meaningful influence over business strategy
- Catalyzed by competitive pressures (talent wars, technology needs, geographic expansion) that the partnership model could not fund; each of these dynamics exists in the Am Law 200 today

***The Cautionary Tale of UK Alternative Business Structures***

The Legal Services Act 2007 permitted full nonlawyer ownership in England and Wales starting in 2012. Results have been sobering:

- **Slater and Gordon** (Australian-listed) acquired UK personal-injury firms at aggressive multiples, grew to become one of the UK's largest consumer law firms, then wrote off over AUD \$1B in goodwill and saw its share price collapse by more than 90% after regulatory changes reduced whiplash claim profitability.
- **Co-operative Legal Services** entered with significant capital and brand recognition but struggled to build a profitable operation and has since scaled back substantially.

### Five Lessons for U.S. PE Investors

1. Outside capital alone does not solve law firm management challenges.
2. UK targets were disproportionately consumer-focused, with thin margins and high regulatory sensitivity.
3. Acquisition multiples predicated on revenue growth in a regulated industry are dangerous when government policy can alter the economics overnight.
4. The U.S. MSO model is structurally distinct from the UK ABS framework.
5. The MSO involves ownership of operational infrastructure, not the law firm itself, with profound implications for risk allocation, governance, and incentive alignment.

### The Regulatory Landscape Is Navigable under Current Rules

Jurisdiction	Status
<b>ABA Rule 5.4</b>	Prohibits fee-sharing with nonlawyers and restricts nonlawyer ownership  Remains the principal barrier
<b>Arizona</b>	Eliminated Rule 5.4 effective January 1, 2021  ABS licenses available (KPMG Law has obtained one)
<b>Utah</b>	Regulatory sandbox launched August 2020  Dozens of nonlawyer-owned entities participating
<b>Washington, D.C.</b>	Long-standing permission for nonlawyer ownership if entity's sole purpose is legal services
<b>California, New York, Florida</b>	Bar task forces actively examining nonlawyer investment

### Critical Point

The MSO model does not require Rule 5.4 reform, as PE investment flows into the MSO, not the law firm. The MSO does not practice law or share in legal fees, instead receiving fair market value management fees for administrative

and operational services. This is exactly how the model has operated in health care for over a decade under corporate-practice-of-medicine prohibitions that are, in many cases, more restrictive.

## How the MSO Works

The law firm restructures into two entities:

	Law Firm (LLP/PC/PLLC)	MSO (Corporation/LLC)
<b>Ownership</b>	Licensed attorneys	PE investor + partner co-investment
<b>Employees</b>	Attorneys	Non-attorney staff
<b>Functions</b>	Legal judgment, client relationships, ethical compliance	Technology, HR, marketing, finance, real estate, administration
<b>Revenue</b>	Client billings	Management fees (% of firm revenue or fixed fee with performance adjustments)
<b>Governance</b>	Attorneys retain exclusive control over legal matters	MSO has authority over operational decisions

## Four Pillars of Value Creation

- Operational professionalization:** Professional management, procurement discipline, real estate optimization replacing the chronic underinvestment inherent in partnership governance
- Talent acquisition and retention:** Funding lateral recruiting, associate compensation, and professional development without partner capital calls
- Technology and AI investment:** For firms at an inflection point in legal tech adoption, underinvestment means falling behind competitors with growth capital access
- Geographic and practice area expansion:** Funding new offices and markets without years-long internal budget debates

## EARLY MOVERS: WHO GOES FIRST AND WHY?

### *Consolidation as a Catalyst*

An unprecedented combination wave, including our own intended combination with Taylor Wessing UK along with Hogan Lovells/Cadwalader, Wickersham & Taft, is reshaping the Am Law 200 and follows other recent combinations, including:

- Taft/Morris Manning & Martin (2026)

- Perkins Coie/Ashurst (2025)
- Herbert Smith Freehills/Kramer Levin (2025)
- McDermott Will & Emery/Schulte Roth & Zabel (2025)
- Ballard Spahr/Lane Powell (2025)
- Allen & Overy/Shearman & Sterling (2024)

For many firms that choose to remain independent, the competitive calculus is stark. Firms either merge, find growth capital, or accept a gradual slide in market position due to the inability for organic growth alone to sustain the firm relative to its peer firms. PE investment via an MSO offers an alternative to a combination, enabling investment in talent, technology, and expansion without integration risk, cultural upheaval, or governance complexity.

### ***Market Triggers That Could Precipitate the First Transaction***

- **Lateral partner exodus** creating a vicious cycle of declining revenue and further departures. MSO capital stabilizes compensation and signals market credibility.
- **Failed combination** leaving a firm without a strategic plan in an era of accelerating consolidation.
- **Rainmaker departure or succession crisis** exposing concentrated revenue risk.
- **Economic downturn** compressing revenues while fixed costs (leases, associate salaries, technology) remain sticky. The 2008–2009 crisis drove Dewey LeBoeuf, Howrey, and Heller Ehrman into dissolution. A future downturn could push others toward MSOs as the alternative to collapse.

### ***Three Firm Archetypes Most Likely to Move First***

1. **Health care-and-PE-fluent Am Law 50–100 firms.** Firms whose partners have structured hundreds of MSO deals for clients and understand the model from the inside. Cultural and intellectual barriers are lowest here.
2. **Mid-Am Law 200 firms facing a succession crisis.** A generation of building partners approaching retirement, struggling to attract laterals due to limited capital, technology investment lagging peers. For these firms, an MSO transaction is a survival strategy.
3. **Litigation-light, process-heavy national firms.** Heavy concentrations in regulatory compliance, government contracts, immigration, insurance, real estate, or financial services. Workflows lend themselves to standardization, technology augmentation, and geographic scaling.

## **CONCLUSION**

Given the current business trajectory, the question is when, not if, the first major PE investment in an Am Law 200 firm will close. PE investment in law firms to date has been concentrated in smaller firms and legal services platforms, consistent with the typical PE entry strategy of proving the model before scaling. When a prominent Am Law 200 firm makes the first move, a follow-on effect across the industry is expected, as competitors evaluate whether they need outside capital to remain competitive.

The firms that will define this chapter are not theoretical. Their managing partners are studying the Grant Thornton and CohnReznick transactions today, taking calls from PE sponsors, and asking their corporate and health care partners to explain how the MSO model works. What has been missing is not capital, not a willing seller, and not a viable structure. But the first firm with the institutional will to move and the right advisory team to structure the transaction.

The first major law firm MSO transaction will be a structural inflection point for the American legal industry, comparable to the introduction of the two-tier partnership in the 1980s or the rise of the global law firm in the 2000s. The firms and investors that move first, with the right structure, governance, and advisory support, will set the market expectations for everything that follows.

7 Min Read

---

## Authors

[Eric J. Knickrehm](#)

[Matthew J. Schlosser](#)

[Charles Vargo](#)

---

## Related Topics

Private Equity

Law Firm

AmLaw

## Related Capabilities

Mergers & Acquisitions

Private Equity

## Related Professionals

---



[Eric J. Knickrehm](#)



[Matthew J. Schlosser](#)



Charles Vargo