

Weighing Opportunities, Risks Of PE Investment In Law Firms

By **Brian Salsberg and Puja Sood** (November 13, 2025)

The pursuit of value can lead to strange bedfellows, particularly in these uncertain times.

A little over a year ago, after much back and forth, NFL owners approved the participation of private equity firms in NFL franchises as nonvoting shareholders with a minimum stake of 3% and a maximum stake of 10%, becoming the last of the major U.S. sports leagues to do so.[1]

Notwithstanding some owners' fears that participation by private equity firms would expose these traditionally family-run businesses to investors commonly focused more on short-term returns than on long-term football success or preservation of sports team culture, the consensus was that the influx of private capital would open up more opportunities for both the teams and the private equity firms, and provide support for teams' ongoing capital expenses.[2]

Similar discussions continue to revolve around pairings of private capital and law firms, primarily in the large and fragmented U.S. law firm industry. On the face of it, such a combination would seem to make little sense. And, outside of Arizona and Utah — the only states where nonlawyers can own law firms — such a combination would face legal and professional roadblocks.[3]

Even if it were possible, how would you balance the near-term, outcome-driven world of private equity against the deep-rooted cultural norms of the legal profession, and the importance of deep and nurtured client relationships?

As with the NFL, when you add a dash of current deregulatory sentiment at the federal level and look at the issue more closely, a compelling logic emerges.

Current data pegs the size of the U.S. legal services market at nearly \$350 billion, and the number of law firms at 463,590. Carving out the 100 highest grossing firms, with an aggregate \$158 billion in revenues, still leaves an attractive market arena.[4] Add in recurring revenue, high profitability, operational inefficiencies ripe for improvement, and the potential for rapid growth, and consolidation provides a ready market in which a private capital industry with pent-up dry powder can invest.

Market dynamics bear this out. Merger and acquisition activity within the legal industry demonstrates a willingness to look for solutions to the talent and capital challenges many firms now face, particularly middle-tier firms. Overall, M&A activity was up 21% in the first half of 2025, with The American Lawyer reporting that most combinations involved midsize and boutique firms.[5] The 47 law firm mergers finalized by the end of the third quarter in 2025 are more than the 43 mergers during the same period in 2024.[6]

But, M&A among law firms is far from straightforward — further impetus to look for solutions outside the industry.[7]



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Add to this broader dynamic some private equity-specific elements. Since 2020, private equity deals have been moving from their traditional home in technology and healthcare toward financial and professional services in a search for greater returns.[8] The opportunities to buy "undervalued" businesses at a low multiple, lever them up and sell them at higher multiples, are few and far between.

With companies in technology and healthcare, for example, commanding very high valuations, private equity firms are, not surprisingly, looking at undertapped industries with opportunities to provide high returns. This quest explains investments in accounting firms, and the continued attention of private equity firms to managed services and law firms.

Artificial Intelligence is also expected to have a material impact on the legal industry. Much of the work done today by young associates in both in-house legal departments and law firms — e.g., first drafts of commercial contracts, acquisition and financing agreements, and briefs for litigation — may eventually be handled through use of AI. The impact this will have on productivity, leverage models and the fees clients are willing to pay remains to be seen.

While the extent of the disruption to the traditional law firm business model is still unknown, it is likely to be comparable to, or even greater than, the disruption caused with the initial wave of digital innovations that allowed research to move from the law library to the desktop, and digital document editing to supplant the financial printer.

Overall, then, the legal industry has the right mix of steady revenue, competitive vulnerability and openness to opportunity that is attractive to private capital. So, what next?

First, there are regulatory hurdles to overcome. Then, even if those regulatory hurdles are removed, there are important tangible and intangible issues on both sides of the equation that make this match tricky, at best, including organizational and cultural issues that make law firms distinctive entities.

As they consider possible relationships, how should law firms and private capital weigh the opportunities and calculate the risks, and what are some key things they should keep in mind?

Change will likely come, but not for all.

The top 100 U.S. law firms are unlikely targets for private equity. Nor will thriving boutique firms likely attract much attention. Those law firms that look more like accounting firms, or that are plagued by falling revenues and departing rainmakers, may prove the most attractive to private equity, as they are under the greatest competitive pressure to differentiate themselves and are likely in search of capital to do so.

Within those firms, repetitive, commodity-like tasks will benefit most from AI transformation, which will require an infusion of capital and transformative expertise that private equity firms can provide.

In addition, another path forward is a model in which these service-focused elements of a firm are carved out as separate entities, known as managed services organizations. This leaves the more traditional, client-intensive elements of the firm untouched by nonlawyer investors — and avoids the current legal impediments to outside investment.[9]

This path may prove more attractive for successful firms. The Financial Times reported this

week that one of the largest law firms by revenue, McDermott Will & Schulte, had taken restructuring along these lines, including outside investment, under consideration.[10]

Further, the formation of the Private Equity Legal Alliance — a partnership among consultancies, investors and law firms that includes participation by Am Law 50 member Holland & Knight LLP — to "provide end-to-end support to law firm founders to help prepare the way for outside capital," as reported in *The American Lawyer*, was announced last week.[11] This offers further evidence that there's gathering momentum around connecting private capital and law firms.

Private equity offers a way to break a downward spiral.

No healthy law firm needs capital. Unhealthy law firms, however, face a vicious downward spiral: They experience talent loss, which in turn leads to loss of the very fuel — capital — that would help them move forward and grow, and in turn attract new talent.

First, private equity would bring a new source of fuel for M&A and growth, following a buy-and-build strategy to consolidate the highly fragmented law firms in the middle, while at the same time using that capital to invest in AI-driven innovation that would then take costs out of the equation.

Second, that capital would aid in retaining and rewarding the law firms' partners. Equity partners may be happy to trade some of their future earnings for current dollars.

Finally, private equity would offer alternate equity opportunities to attract partners, particularly if they explore the option of carving out the more commoditized elements of the firms.

These opportunities should not make private equity and law firms forget some obvious risks.

Cultural Risks

The primary assets of law firms are their people. Professional services in general, and law firms in particular, have a unique culture with the equity holders — the partners — at the center of the tactical decision-making around acquiring, serving and growing their client relationships.[12] And, most law firm partners became and remain partners because they are happiest when they are their own bosses.

If they don't like something — say, the entrance of a nonlawyer shareholder with new management ideas and approaches to growth and commercialization — they can walk away from the firm and take their clients with them.

Brand Risks

The risks from commoditization loom large, particularly for midsize law firms, as they have in other professional services realms, e.g., accounting and consulting. Adoption of AI and a managed services organization strategy could threaten the premier pricing and positioning of law firms as repositories of specialized professional practice — replacing nurtured and bespoke client relationships with more transactional ones, and opening the door to new competitive pressure from adjacent technical services providers.

Similar to finance technology and insurance technology, law technology could and probably

will bring real disruption.

Growth Risks

Law firms grow primarily by either attracting key partners and rainmakers, or acquiring other firms. The cultural and brand risks act as multipliers in making M&A in the legal world especially complex. Combining law firms requires careful cultural diligence, a grasp of the distinctive economics of each firm, and a keen sense of areas of alignment and misalignment between the acquiror and the target.

In addition, private equity would need to adjust to the distinct timelines of the law firm world — the current picture of steady returns and high revenue that firms appear to offer may mask variability and the complexity of the legal sales pipeline. Those factors would need to be weighed against the investment thesis and project exit strategy.

Conclusion

Clearly, a lot has to fall into place for the equation to work for private equity and law firms open to collaboration. The cultures seem ill-suited, the business models are varied, the brand attributes are misaligned and the horizons for return are mismatched.

The combination of private equity and law firms seems like one of those ideas that might cause an observer to say, "It'll never fly." But, people said that about the airplane, too, and both sides would be remiss in not preparing themselves for the possibility, given the advantages the combination could offer.

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