

Burford Capital Ltd

Burford Capital seeks to buy equity stakes in US law firms

New corporate structures could get around long-standing restrictions against non-lawyer ownership of firms

STEPHEN FOLEY AND KAY WIGGINS — NEW YORK



Burford co-founder Jonathan Molot: 'It's a crazy thing that the capital markets and the market for legal services have had no interaction historically' © Burford Capital

Burford Capital, the pioneer of litigation finance, is seeking to buy stakes in US law firms in a bet that the world's largest legal market is on the cusp of an ownership revolution.

In an interview with the Financial Times, Burford co-founder Jonathan Molot said it was in talks with several US law firms about buying minority stakes in them.

American law firms have long been off-limits to potential investors, including corporations and private equity groups, because most US states ban non-lawyers from owning firms under ethics rules designed to insulate legal advice from profit considerations.

But Burford, one of the biggest players in litigation finance globally with a market capitalisation of \$3bn, is betting a new structure could change that.

A version of the model, which splits firms into two legal entities, has already been used to allow outside investors into accounting and medical practices.

"It's a crazy thing that the capital markets and the market for legal services have had no interaction historically, when law has grown up to be a multi-trillion-dollar industry and there are US firms that are multibillion-dollar revenue businesses," Molot said.

"We have talked to boutique firms that broke off [from] other firms, and we have talked to some of the largest firms in the US," he said, though he declined to name the firms. He said he was "confident that in the years ahead this will become a bigger part of our business and of the market".

Burford has not allocated a specific amount to invest in the deals, Molot said, and the

amount deployed would depend on the opportunities available.

Molot founded Burford with chief executive Christopher Bogart in 2009 to provide financing for complex or risky lawsuits, in return for a share of any successful award.

Five years ago, it bought a stake in London-based law firm PCB Litigation. Law firm ownership rules were liberalised in the UK more than 15 years ago.

Last month, Burford hosted a webinar on the benefits of potential new legal structures for law firms in the US, including setting up "managed service organisations" that can take outside capital.

The only state so far to allow direct non-lawyer ownership of law firms is Arizona, but the MSO model can operate as a workaround across the rest of the US, its proponents say.

"Properly structured, MSOs can assist law firms in innovating and professionalising their operations," attorneys at Holland & Knight wrote in a client note, pointing to a Texas ethics ruling in February that indicated support for the structure.

Under the model, a law firm splits its operations between a lawyer-owned business that does client work and an MSO that owns firm assets and sells back-office services to the law firm in return for a fee, extracting a chunk of the law firm's profits in the process.

It is the same model used by

private equity groups to buy medical practices and, more recently, accounting firms. More than one-third of the largest US accountancy groups were sold to private equity in the space of three years.

There has been growing interest in the MSO structure in the US legal market. The founders of consulting firm Alvarez & Marsal used it last year to establish Broadfield, a law firm with offices in the US, UK and Hong Kong that is targeting mid-market corporate clients.

The private equity group AlpineX has used the model to gain exposure to a portfolio of law firms in the US and Canada.

Molot is pitching Burford to law firms as a company with "a lawyer's orientation and mentality", and a more palatable alternative to a private equity group.

Burford would expect to take a board seat to monitor the financial relationship between the two sides of the firm, he said.

Molot said selling a stake to Burford would enable US firms to invest in artificial intelligence and give them the financial flexibility to move away from hourly billing, as well as put a value on the law firm for the first time.

"The introduction of that AI is going to require capital. It's going to require some revamping and it's going to require an adjustment in the business model," he said.