WHITE PAPER

Today's mergers and acquisitions industry:

Prepare your firm to take on and win more M&A business

Thomson Reuters™

"Although revenue is still important and is the key driver of valuations, buyers are now looking closer at profitability and the synergies that they can build as a result of a transaction."

- Raees Nakhuda, Senior Counsel for M&A, Thomson Reuters

A law firm is nearly as central to a merger as the buyer and seller. Pulling off successful deals remains a challenge due to still-historically-high interest rates that affect deal financing, among other factors. More than ever, having a law firm that is equipped to execute its responsibilities skillfully is key to getting the deal done.

If the firm is working for the buyer, lawyers run due diligence on the potential acquisition, looking for such red flags as ongoing/potential litigation or unforeseen debt obligations on the seller's balance sheet. Lawyers advise on how best to structure the deal, how best to minimise tax exposures, how to comply with the various applicable regulations, or how to secure valuable assets like the seller's intellectual property.

As for sellers, their law firms work to ensure that the company sells at the highest multiple that it can get, given market conditions. They look to protect their client from onerous or too-stringent deal terms, minimise post-closing liabilities, and, if it's of importance to seller ownership, ensure that seller employees will be protected or at least guaranteed a measure of stability post-merger.

Today's climate

Stability has been elusive for much of this decade. 2023 was a rollercoaster year for M&A, starting in turbulence and ending in promise. According to the 2024 State of the UK Legal Market report, in-house legal departments' net spend anticipation (NSA) for M&A work ended last year on a high, suggesting an uptick in activity on the horizon.

And so far in 2024, it appears that the global M&A market's health is returning. There were 14 "mega deals" (deals over £8 billion) posted in the first quarter of 2024, compared with only five in first-quarter 2023, according to data from the London Stock Exchange Group. While big U.S. deals accounted for a large proportion, European dealmaking was also strong, up 60% on the previous year. That said, some buyers remain wary of committing to a deal, a hesitancy which has led to a new level of reality in terms of company valuations.

"Valuations are becoming more reasonable," says Raees Nakhuda, Senior Counsel for M&A at Thomson Reuters. "Obviously, debt is more expensive now, but at the same time, [in the 2021 period] valuations for companies were through the roof. Buyers were often paying multiples of 10 times or more for business; in today's environment, a lot of those historical multiples and valuations are viewed as significant overpays. Due to the higher cost of debt and other macro-economic factors, buyers are valuing businesses based on more than just revenue — the growth at all cost mentality is no longer the sole value driver. Although revenue is still important and is the key driver of valuations, buyers are now looking closer at profitability and the synergies that they can build as a result of a transaction."

The M&A triarchy for success

When searching for a target, many potential buyers want a company with a distinct brand and an enviable public reputation.

A survey of over 1,200 business leaders by Eversheds Sutherland found that more than seven of ten business leaders surveyed were focused on a new “M&A triarchy” — talent, tech, and trade.

When searching for a target, many potential buyers want a company with a distinct brand and an enviable public reputation, “perhaps showing the extent to which dealmakers recognise the impact of transparency and the value of positive brand advocacy,” as Eversheds Sutherland notes.

This new M&A triarchy also presents a host of opportunities for law firms.

Talent

According to Eversheds Sutherland, 72% of business leaders see talent retention and acquisition as being critical to their business strategy. Hence the growth of “acquihiring,” in which buyers acquire a company to bring the seller’s employees on board. Talent poaches are particularly appealing in such sectors as life sciences and energy, when a company wants to buy its way into the sector via a merger.

How law firms can add value

If talent is at the heart of the deal, holding on to it post-merger is obviously essential. Both buyers and sellers could fear a mass exodus of employees after the deal, especially if there’s a time gap due to a slowdown in negotiations or a rival bid for the seller.
So, lawyers could push for such closing conditions as an agreed-upon staff retention percentage. If, for example, a majority of seller staff are no longer in place at closing, the deal could be terminated, or other options invoked, such as a lesser earn-out or a lower purchase price.

Trade

Supply chain disruption and trade sanctions during and post-COVID have made globalisation less appealing. Achieving greater supply chain resilience is becoming a strategic M&A priority, as supply chain dislocation makes vertical integration more critical for many companies.

How law firms can add value

If vertical integration is foundational to the buyer's plans, the seller needs to be in shape, ready to be thoroughly absorbed. Lawyers must perform vigorous due diligence to ensure that this will happen, and on a fast timescale. What are the potential obstacles that could prevent this? Are there real estate issues? Tax obligations? Could regulators object? These scenarios should be gamed out as soon as possible during the deal process, and hopefully addressed before closing.

Tech

Much like talent, acquiring technology is driving deals. For companies that have been lagging in terms of recent tech developments, they may acquire a start-up to get up to speed. Eversheds Sutherland found that 74% of surveyed business leaders say M&A is important in terms of bridging technology gaps in their organisation. Many also said that acquiring a new technology could increase their purchase price.

How law firms can add value

If technology is driving a deal, what is the state of that technology? Is all of its related intellectual property secured? Are vendor contracts up to date? What are its maintenance costs and procedures? Are specific seller departments necessary to keep the technology running smoothly? Lawyers need to spearhead efforts to get answers to these questions, and get solutions in place if there are any concerns about how the tech will perform post-merger.

How can a law firm use this blueprint to structure their own deal advisory to a client?

The M&A blueprint framework

Law firms can research, draft, and implement an "M&A blueprint" for their clients. This gives clients a strategic plan to determine whether doing a deal is in the buyer or seller's fundamental interest. It's meant to ensure that the potential deal isn't just an opportunistic lunge at a low-hanging asset, one which could present integration troubles down the road for a buyer.

The aim is for a client to feel confident that they know how to best proceed, whether with a specific company or with a specific sector they're exploring. How can a law firm use this blueprint to structure their own deal advisory to a client? Here are some ways:

WHAT ARE THE DEAL LIMITS?

Lawyers help define a client's boundaries. This could be setting limits as to how much the client is willing to pay, or, if they're a seller, how low of an offer they will accept. It could be setting limits as to the potential acquisition's operations, such as a bottom or top number for employees, offices, or products/services. Or a cut-off point for seller debt obligations.

WHAT ARE THE STRATEGIC GOALS?

What in your client's current operation does the potential deal improve or augment? A particular market sector? A product line? A specific type of hire, for example, if the buyer is looking for quality tech talent in an area it's not involved at present?

WHAT'S THE BUDGET?

What's the client expectation for costs needed to assess, purchase, and integrate the seller's operations?

WHAT'S THE TIMEFRAME?

What types of operational changes and capabilities are needed to integrate the new assets? This is particularly important in a deal done to acquire a particular type of technology that the buyer lacks. When can they expect to put it to work?

"This is more than a need to simply improve technology, it is about enhancing the client experience and letting lawyers be lawyers.

Transaction management is a battleground where we see firms poised to anticipate what the future of professionals means in practice and to stay ahead of their peers.

Corporates are seeking strategic partners that can move beyond transactional legal advice — how deal teams adapt and unlock market opportunities to serve clients more efficiently and effectively is key."

- Elena Folkes, Market Development Director, Thomson Reuters

Tech: How law firms can win more M&A business

The cost of doing a merger has risen so sharply that clients are looking for lower-cost legal alternatives. "Internal budgets are getting tighter and tighter on M&A deals because external law firm fees go towards transaction costs for a deal, which gets folded into the integration cost for the business," Thomson Reuters' Nakhuda says. "So, if we're spending £1 million or £1.5 million on legal fees, that's a big hit in terms of transaction expenses and ultimately return on investment. And of course, legal fees don't fluctuate based on transaction value because the amount of legal work involved in an M&A deal is often the same regardless of transaction size. So, you could get a £50 million transaction or £100 million transaction where legal fees are £1.5 million, which again, if you're looking at it as a proportion of deal value, it's way too high."

Winning more business in a challenging deal environment, in the face of greater amounts of low-cost competition, will take more than your firm's prior reputation and its long-standing client relationships. It's now about what value a law firm adds to the merger process. What can lawyers do to make a deal go more smoothly? What advice can they provide before the deal negotiation even begins?

That's why it's important to offer sound, thorough processes for clients when it comes to potential mergers. Well before clients make first contact with a potential buyer or target, they should know the why's and how's of the potential transaction. That is — why am I pursuing this acquisition? And how can it be done efficiently, quickly, and at as low a cost as possible?

Investment in technology that can change operations and workloads is the answer. By using technology to winnow down the "paperwork" side of their business, law firms can choose different priorities. They may try more experimentation or go more head-to-head with lower-cost competitors. They work to become more nimble and flexible, rather than just hoping to ride out the storm.

Most of all, investing in technology allows law firms to offer clients a seamless transaction management experience from start to finish and beyond:

- **The preliminaries –** Offer clients more standardised processes to speed up project workflow. Where preliminary agreements once required junior lawyers to print out documents and email or fax them to clients, these are now generated with a few mouse clicks, then e-signed by all relevant parties.
- **Due diligence –** AI systems can vastly enhance due diligence efforts. Clients gain both time and accuracy via automated document identification and classification programs, in which lawyers can easily extract essential clauses from a data room and organise them for review.
- **Transaction documents –** A once-laborious, paper-heavy process becomes far less of a workload for lawyers. Automated templates can generate a variety of standard documents, which lawyers tweak to suit a client's particular needs.
- **Regulatory issues –** Keeping up to date on all pertinent regulatory changes, from the local to the federal and global level, is no longer a time-consuming task for lawyers. If a new regulation means that a client needs to file updated paperwork, this can be easily generated, signed, and filed.
- **The closing –** Here's where many deals still get mired down: lawyers having to chase down parties to ensure all documents were signed, and other last-minute hurdles that could stall a closing. Automating most of this process, such as providing real-time updates of the sign-off status of a vital document, reduces the chances of an important piece of the puzzle being overlooked.
- **Post-closing –** The deal is finalized — but is it truly complete? Lawyers play a pivotal role in supporting their clients throughout the post-closing phase of a transaction. It is imperative to provide ongoing guidance to clients as the integration of the two entities commences. This can be achieved through visibility to management guidelines with dashboard visualisations of a project's status, as well as automated alerts ensuring ongoing compliance with post-closing obligations and commitments.

To get there, law firms should consider implementing a complete transaction management solution.

It's a compelling vision to present clients: being able to run the entire deal lifecycle on one platform. Setting up secure virtual deal rooms to manage documents. Having intuitive collaboration options for clients and counterparties. Turning document verification into a faster and more thorough process. Using automation and AI-powered functions in everything from monitoring regulatory changes to assigning tasks to lawyers.

Everyone benefits. M&A teams work smarter, and no longer have to navigate multiple systems for a single transaction. Firms can provide a superior client experience while boosting profitability, "If law firms are able to use technology to reduce those costs, it's going to be beneficial in the long run for their relationship with their client and their ability to get new business," Nakhuda says.

The end goal: Seamless transaction management workflow

To empower law firms in the dynamic world of mergers and acquisitions, Thomson Reuters® has developed an end-to-end transaction management solution designed to streamline the entire deal lifecycle.

"This end-to-end solution connects HighQ, Contract Express, AI-powered capabilities, and content from Practical Law into a seamless transaction management platform. Plus, when deal teams require more complex closing assistance, the integration with Dealcloser meets that need. We're thrilled to offer lawyers best-in-class capabilities accessible from a single platform, eliminating the need to navigate between systems."

Sebastiaan Bos
Thomson Reuters Senior Director of Product Management

According to a recent customer survey by Thomson Reuters, some firms will juggle between five to 10 technology systems to manage a single deal. Hopping between programmes can cause disruptions to your workflow and can jeopardise the security of sensitive client information. Now, with the Thomson Reuters transaction management solution, M&A teams can work smarter, shedding the burden of administrative tasks and mitigating risks, as they bid farewell to the complexities of juggling multiple systems.

Additionally, transitioning from multiple, disparate transaction tools to a unified solution eliminates the cost and overhead of managing multiple tools. By streamlining and automating your entire transactional workflow, your legal team can spend less time navigating technological hurdles, and more time practising law.

Efficiency and visibility at every stage

The Thomson Reuters transaction management solution revolutionises the way you handle your transactional work, from start to finish. With its comprehensive features, you can effortlessly automate and oversee every aspect of your transactions, from initial setup and planning to due diligence, closing, and beyond.

By leveraging pre-built templates and cutting-edge AI-powered data extraction, the platform streamlines document drafting and review, saving valuable time and effort.

Additionally, critical tasks and alerts are automatically triaged and assigned, guaranteeing that no important details slip through the cracks. To ensure you stay on top of your projects, real-time dashboards and reporting are available, enabling you to track progress and automate the closing stages of even the most complex transactions. By maintaining a single source of truth throughout the entire deal lifecycle, this solution ensures an unparalleled client experience, while simultaneously reducing costs, mitigating risks, and expediting deal closures.

Another benefit:

An end-to-end transaction management solution also stands to reduce what's become a serious issue for the legal industry — junior lawyer burnout.

Junior lawyers can become so consumed by diligence — needing to spend weeks going through a document pile, for instance — that they have no time to provide valuable insight into how to make the deal work for the client.

By making their workload less burdensome through technology, junior lawyers have more time to deploy their talents, offering innovative solutions to clients.

Ready to close deals faster?

If you're looking to streamline your transactional workflow, reduce costs, and mitigate risks, the end-to-end transaction management solution from Thomson Reuters is the answer.

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