

LEGALTECH STARTUP REPORT 2019

A MATURING MARKET



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Executive summary

In 2017, in collaboration with Legal Geek, we produced our first report on startups aiming to modernise the UK legal services sector, *Movers & Shakers: UK Lawtech Startups*¹. The report highlighted how active innovation was taking place in the sector, with a diverse community of startups offering solutions for law firms, corporate counsel, and the access-to-justice market.

The report also explained the underlying drivers that make the UK legal sector an attractive market in which startups can thrive. As well as being a world-class centre for legal services, the UK has:

- a progressive regulator that has opened up the practice of law market to alternative business structures (ABSs), allowing external investment in law firms and enabling alternative legal service providers (ALSPs) to operate more easily;
- a highly competitive legal market, requiring service providers to seek efficiencies and enhanced value-add to maintain or grow market share and profits;
- a flourishing financial services industry with relatively easy access to debt and capital, and tax incentives for angel investors; and,
- a thriving tech and data science talent pool, with world-class universities and artificial intelligence (AI) leaders such as DeepMind leading the charge.

During 2019 these market drivers continued to hold true, as did the pressure the industry faced to deliver more for less within an increasingly volatile and complex regulatory environment. Different, however, is the rapid advance in maturity of certain legaltech solutions that have emerged in the relatively recent past. Users are now turning with increasing confidence to these solutions to address problems, often of a time or business-critical nature. The investment that legaltech attracted in 2018 and 2019 is evidence of this maturity.²

Much acclaim for the rapid development of the sector must go to the incubators, labs and innovation teams established by corporates, academic institutions, and a number of the UK's largest law firms providing structured environments in which to test and provide the crucial feedback needed to evolve beyond the minimum viable product (MVP). Some of the most successful legaltech startups have their roots in an incubator or have benefited from the collaborative working spaces, in-firm prototype testing, expert advice, mentorship or investment opportunities on offer.

However, while the appetite for innovation and change now seems well-established, adoption of new technology solutions has not yet become the default way to work. This may be, in part, because of the many stakeholders within and outside an organisation that are needed to bring about a truly transformational change in the way a legal process operates.

The need to deliver lasting change seems to be the challenge the industry now faces, and the toolkit to achieve this transformation is out there. In the Government space, HM Courts & Tribunals Service in the UK is engaged in a reform programme that will digitise the justice system in England and Wales. These changes will eventually become mandatory for the legal community to work within. However, until more areas of the law have this top down enforcement of digital change, it will take collaboration between law firms, corporate counsel, and governments to bring about change in other areas of legal practice.

The purpose of this report is to provide insight into the legaltech startup market for buyers and investors, as well as for startups themselves. In this year's report we will also introduce our new approach to defining and categorising legaltech, analyse the startups on our radar, and highlight some of the opportunities and difficulties of operating in the industry.



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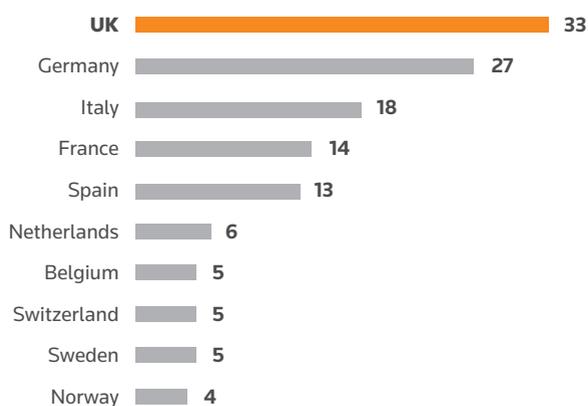
¹ info.legalsolutions.thomsonreuters.co.uk/legalgeek

² info.kirasystems.com/news/kira-systems-receives-50-million-investment-insight-venture-partners

Legal services market

The western European legal services market is estimated to be worth approximately £145bn per year³, with the UK at around £33bn⁴ in total annual turnover, as the largest market within the region. Around 75 percent of all UK legal services revenue is concentrated in the largest 200 law firms, which have shown steady high single digit growth year on year⁵ despite increasing pressure on fees and margins.

Size of European legal services markets (£bn)



Although law firms make up the largest segment of the legal services market, alternative providers in the market are continuing to gather momentum. The 'Big 4' accounting firms, rising numbers of firms supplying legal services as ABSs, and ALSPs are carving out an ever-increasing share of available revenue⁶.

In a market with slow growth, rising costs and significant threats of disruption from non-traditional operational options, established legal services providers must transform their business models to maintain profits, either through developing new lines of business, or through seeking efficiencies in their delivery model. With an increasingly diverse pool of dedicated legal technology solutions, there has never been a better time to rethink the traditional model, transform old ways of working and deliver new value propositions to stay ahead of the curve and take market share.

The maturing solutions in the market are beginning to open up legaltech to the mid and smaller ends of the market, as well as in the larger firms which are more able to invest in transformation.

Investing in technology appears to be a strategic move for those law firms looking to grow. Law firms within the £700m to £1bn revenue bracket are investing a greater proportion of revenue in technology and seeing higher growth and performance compared to the other top 200 firms.⁷ Average tech spend in the top 100 law firms is most commonly between two and five percent of revenue, with a reducing but still strong proportion (approximately 40 percent on average) being allocated to 'new innovative technology' as opposed to business as usual⁸.

Funding for the UK technology sector is booming. In the first half of 2019, investment into UK fintech nearly doubled (vs. H1 2018) to approximately £2.1bn⁹. While UK legaltech funding lags far behind with a comparatively small estimate of approximately £260m invested into the industry in total (startups and scaleups), there are signs of growth with deal numbers and sums invested being up in recent years¹⁰.

In April 2018, the UK government announced a £20m 'pioneer fund' to encourage collaboration between businesses and researchers, and help the service industry (the legal sector included) to take advantage of new technologies¹¹. In addition, the Home Office launched a startup visa scheme to attract entrepreneurs to the UK¹² and the government is funding 1,000 AI-based PhDs to keep the UK at the forefront of innovation¹³. Recently, the University of Oxford launched a government-funded research programme to explore the potential and limitations of using AI in support of legal services¹⁴. The launch conference took place in March of this year and will conclude in two years' time.

The structure and strength of the UK legal services market lends itself to innovation due to deregulation, good financing availability for those with a strong proposition, and access to some of the world's best legaltech innovation hubs and labs. Recent and rapid funding growth, accompanied by slow but consistent change within the legal services industry itself suggests that these trends are set to continue.

³ www.marketresearch.com/MarketLine-v3883/Legal-Services-Europe-11659082/

⁴ www.ons.gov.uk/businessindustryandtrade/business/businessservices/bulletins/uknonfinancialbusinesseconomy/2017provisionalresults

⁵ www.thelawyer.com/market-reports/

⁶ <https://legal.thomsonreuters.com/en/insights/reports/alternative-legal-service-provider-study-2019>

⁷ www.intapp.com/wp-content/uploads/2018/09/The-Lawyer-Global-Report.pdf

⁸ www.business.hsbc.uk/corporate/-/media/library/business-uk/pdfs/financing-investments-in-legal-tech-2018.pdf

⁹ <https://newsroom.accenture.com/news/global-fintech-fundraising-fell-in-first-half-of-2019-with-decline-in-china-offsetting-gains-in-the-us-and-europe-accenture-analysis-finds.htm>

¹⁰ Various sources, including: www.beauhurst.com; www.ft.com; www.crunchbase.com

¹¹ www.gov.uk/government/news/next-generation-services-new-fund-for-industry-and-research

¹² www.gov.uk/government/news/new-start-up-visa-route-announced-by-the-home-secretary

¹³ www.gov.uk/government/publications/artificial-intelligence-sector-deal

¹⁴ www.law.ox.ac.uk/events/unlocking-potential-ai-english-law-launch-conference-18-19-march-2019

Legaltech startup market

In collaboration with Legal Geek, we are in the second iteration of our legaltech startup report. The startups covered by this report were identified from significant market research, with a number reaching out proactively to Legal Geek to request to be included in the startup map. In 2018, Legal Geek opened up to startups operating in Europe as well as the UK. Where we are able, we have attempted to draw trends and insights from the data we have gathered.

We readily acknowledge that at this stage our view is very high-level, covering the entire breadth of the European legaltech market is a colossal task, albeit worthy of a thorough review. Many exciting new technology applications appearing on the scene have their genesis in Europe and our intention is to continue developing our coverage of the EU over time.

In our previous report we defined a startup as a company under seven years old, generating under £5m in revenue, with fewer than 100 employees. In 2019, for the second iteration of our report, we have extended our definition of startups to increase the age limit to 10 years.

Being so much more nascent in its development than, for example, the fintech or regtech industries, we feel that the nature of the legaltech space itself dictates the terms of a startup. Some companies, even though they may have existed for more than seven years, are only now finding themselves able to engage fully as players on the field as the market takes off more strongly.

The new startup map which accompanies our report includes also a number of scaleups which have in recent years 'graduated' from startup territory, demonstrating that the industry is maturing. The scaleups featured are still within the 10-year age limit, but are fast-growing, established companies, with over 50 employees, which have attracted significant funding, offer a well-established solution and have developed a strong customer base.

Only one unicorn, LegalZoom (based in the US), has emerged from the legaltech startup space according to The Global Unicorn Club¹⁵. However, the rise of several significant players evidences the fact that the market continues to hold great potential over time.

A new approach to categorising legal technology

In our previous report, the startup map categorised legaltech along the following lines:

CATEGORY	SUB-CATEGORY
Marketplaces	Legal Docs as a Service
Law for Good	
Practice Management	
Contracts	Contract Management, Contract Analysis, Legal Docs as a Service
Risk and Compliance	Cybersecurity
Analytics and Search	

The increasing diversification of legal technology led us to determine that a more scalable approach to categorisation was needed. This change would allow us to more easily add categories and sub-categories in the future in a logical way

that would make sense to different users including investors, users, and buyers, for example.

To help with the design of the new categorisation, we engaged with an advisory panel, representing different users:

- **Jimmy Vestbirk**, Legal Geek Founder
- **Jonathan Patterson**, MD and Head of Development, DWF Ventures
- **Jules Miller**, Venture Partner, LunaCap Ventures, and Partner, IBM Blockchain Accelerator
- **Dr Anna Donovan**, Vice Dean (Innovation) UCL Faculty of Law, and member of the UK LawTech Delivery Panel
- **Carlos Gamez**, Director, Innovation, Thomson Reuters Labs

After debating existing approaches to categorisation in the market¹⁶, it was clear that there was still no common standard emerging with the potential to cover the entire operating environment.

The advisory panel agreed that a map based around the type of legal work that a tech solution can be applied to would be a more effective approach. With an increasing focus on legal service design and 'jobs to be done', we hope this more user-centric approach is welcome. It is acknowledged to be a

¹⁵ www.cbinsights.com/research-unicorn-companies

¹⁶ Including Stanford Law School CODEX Tech Index, LegalGeek Legal Tech Buyer's Guide, CB Insights Legal Tech Market Map, Tracxn Legal Tech Sector Report, Evolve the Law – ATL's Legal Innovation Center.

starting point. We will seek to enhance the categorisations, particularly the sub-tasks within the bigger tasks, as the market evolves and provides feedback.

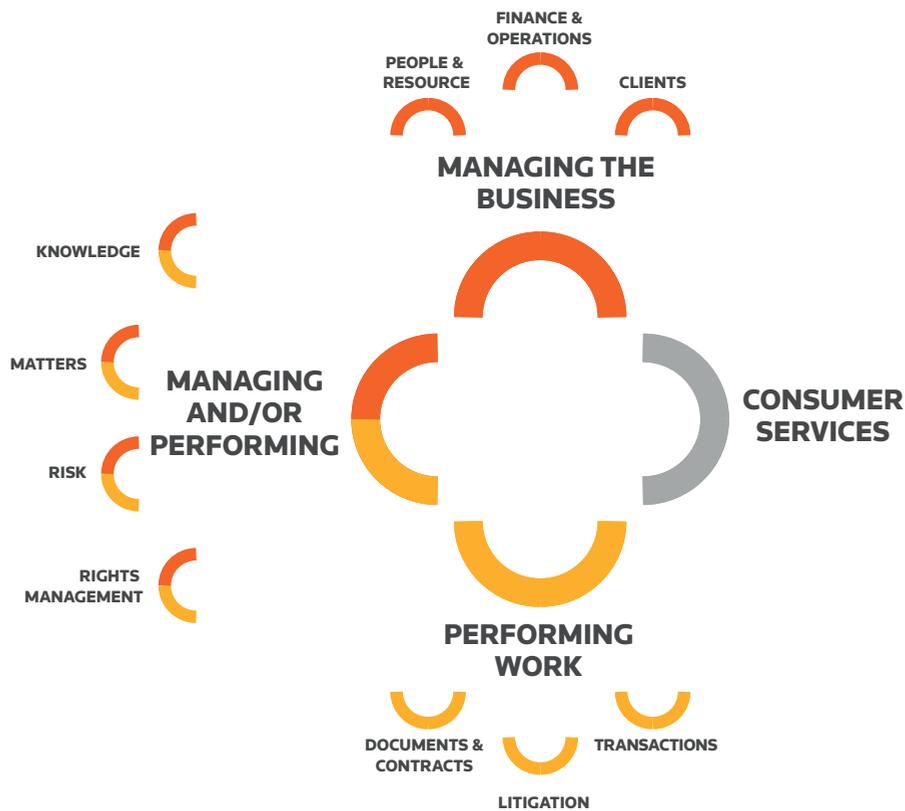
At the very highest level in an organisation, we believe legal technology fits into two broad categories:

- **Managing the Business:** by which we mean all activities required to operate an organisation, a department, or a team of professional users; and
- **Performing the Work:** by which we mean all activities required to undertake legal work for clients.

We recognise that this binary approach ignores the fact that there is a large area where the two areas intersect, representing the 'middle-office' function in an organisation—

covering areas such as knowledge, legal operations, and innovation. For the current iteration of the map, we have not defined this third class, other than being a mix of the two categories 'Managing the Business' and 'Performing Work'. We will wait to see if a third function truly emerges served by its own class of legal technology.

We also acknowledge that there is a growing third category of startups disrupting the legal profession by creating solutions for those who need legal advice directly, or who want to complete a standardised legal transaction without having to engage a lawyer, which we have referred to as 'Consumer Services'. We will see how this category develops for future reports, specifically whether it sub-segments into services that serve the needs of individuals, and services that serve the needs of commercial or other organisations.



Managing the Business

Within the grouping of Managing the Business, there are several core functions:

- **Managing People & Resources**

Previously, managing human resources in the legal sector was primarily about head-hunting and recruitment to bring talent into a law firm or legal department. However, due to the maturing outsourced support services, ALSPs and the emerging gig economy, far more choice is now available for resourcing work, whether outsourcing wholesale functions or buying in flexible resources to augment internal teams. Law firms and legal departments no longer need operate with a fixed resource pool and limited ability to scale up or down to meet demand. A rapidly expanding market of providers and platforms exists to help law firms and departments manage their resources more efficiently.

- **Managing Finance & Operations**

At the heart of every law firm or legal department is a finance team or business partner supporting the financial management of the operation—whether by understanding how resources are being deployed; analysing profitability or value created by a firm or department; or, supporting future planning and managing clients' funds. The law firm and bar practice management market is mature, primarily supported by installed software solutions. Although adoption of cloud solutions is growing in popularity, particularly at the smaller end of the market. In corporate legal departments there is a relatively mature market of tools that manage legal spend, which are expanding to manage other aspects of a legal department's operations. All these solutions process vast quantities of data and increasing attention is being focused on driving analytics on the data. We are also seeing some hybrid solutions that sit between corporate legal departments and law firms, recognising that often the same data can be used in different ways to provide insight to law firms and their clients.

- **Managing Clients**

Managing clients and using technology to provide a great customer experience is clearly key to winning and retaining business, as is making use of digital marketing techniques and accessing digital marketplaces to gain new clients. The complexity of the regulatory environment does not abate for the relationships that law firms have with their clients, with General Data Protection Regulations (GDPR) adding to the demands of 'Know Your Customer' compliance obligations. As already stated, the regtech market is maturing with a growing list of generic compliance tools that can be used within a legal business environment, and there are also tools specifically designed for law firms and legal departments to meet their specific compliance needs. Within this category we see solutions that enable the firm or law departments to manage their client relationships, from onboarding through to ongoing client care alongside solutions that support business development and client retention activities.

Managing the Business and/or Performing the Work

In the intersection between these two areas, solutions are emerging in the following functional areas:

- **Managing Knowledge**

Knowledge management is a well-established function within the legal sector. Within this category we see solutions addressing the need to unlock the inherent value stored in work product or third-party content sources. Encompassed is a broad range of functions. From correctly identifying the experts best placed to advise on particular matters in a firm or department, to extracting information from emails, contracts or other documents, solutions in this area focus on solving the need to identify, create, curate, search and share knowledge.

- **Managing Matters**

Within this category we see solutions aiming to manage or organise a firm's or department's client work and work product associated with a matter from inception through to completion. Management information reporting capabilities are increasingly important in this area to support reporting progress on a matter back to clients, and increasingly collaboration tools to enable clients and other parties on a matter to interact directly with work product or to communicate asynchronously.

- **Managing Risk**

Earlier in the report it was noted that the regulatory landscape is complex, shows no signs of abating and impacts many aspects of life and running a business. Lawyers and risk and compliance professionals play a critical role in managing these risks, both for their own businesses or departments and also for their customers. In some cases, regulatory obligations give rise to hefty fines if breaches occur, therefore it is understandable that the startup market has been active in coming forward with solutions to meet this demand. This category overlaps with the regtech sector, though we are primarily focused on startups specifically solving problems for law firms and/or supporting lawyers in advising or managing on governance, risk and compliances issues for clients.

- **Managing Intellectual Property Rights**

As with the risk category, the intellectual property (IP) rights world is one where lawyers, and patent and trade mark lawyers play a role in supporting their clients with acquiring/registering, managing and prosecuting or defending IP rights. However, as with any business, law firms will have intellectual property portfolios and the need to manage those portfolios. Within this category are solutions aimed at individual aspects or full end-to-end management of IP rights.

Performing the Work

In this group emerge solutions helping lawyers undertake the tasks of legal work:

- **Documents and Contracts**

While printing information on paper is a habit which the legal industry is yet to break, the market has been slow to move to data-driven digital platforms to conclude work for clients. Justice departments, including HM Courts and Tribunals Service in the UK, are working to digitise processes and implement platform solutions, but often the journey from document creation to execution continues to be one that exists within word processing applications. Although a number of startups are starting to encourage a shift to the platform experience, innovation for the most part has simply moved paper to PDFs and traditional post to email and e-filing.

A broad range of solutions exists to address the equally broad range of documents/contracts-related tasks. Among them is helping lawyers create and manage first drafts, and supporting the review and negotiation of contracts and contractual obligations. As with other categories there is also a move to combine one or more of the capabilities to provide a complete contract management solution.

The focus on data science and AI such as machine learning and natural language processing continues to intensify. Consequently, the number of startups providing tools to automate the extraction of data, analyse paragraphs and clauses, and generate insight from information is exploding. Some examples are reviewing and processing documents for large discovery, due diligence projects, or contract negotiations. And yet we are still at the foothills of what could be possible with these technologies.

- **Litigation**

As noted above, justice systems around the world are quickly adopting digital ways of working—whether in driving online experiences for helping self-represented litigants, submitting and managing claims, resolving disputes, or gathering and presenting evidence. The need to physically attend court is being eroded rapidly by the availability of video conferencing and digital presentation facilities to hold virtual hearings. With the maturation of speech recognition technology, solutions are emerging to support the recording of witness statements, depositions and cross-examination. There is a mature industry of e-discovery tools that can locate and process vast quantities of documents and data in litigation or investigations to uncover facts and relevant evidence. The availability of data in the justice system is also providing opportunities, where the data is publicly accessible, to drive new insights from analysing court data, for instance, to support outcome prediction, case preparation and decisions on dispute venue. As with other categories, there is also the rise of platforms providing end-to-end online dispute resolution.

- **Transactions**

In this category we see both point solutions to manage specific aspects of transactions, such as the completion of conditions precedent, and platform solutions which manage the end-to-end experience of completing a transaction—such as with a real-estate conveyance.

The transactional world of law is, however, dominated by the creation and management of documents. Therefore, significant overlap with the document/contract category exists—in particular supporting due diligence activities. It will be interesting to see how the two categories develop alongside one another, specifically regarding the shift to a platform experience for the creation, negotiation and conclusion of contracts. Even if convergence is the case, there will continue to be an interim need to manage past due diligence document reviews in order to understand risk management requirements for current transactions.

- **Consumer Services**

These services fall into a broad category serving the needs of individuals and/or businesses and other organisations, often where the aim is to provide a guided workflow to solve specific legal needs direct to the consumer, primarily without input from a lawyer. In some cases these services are provided by law firms and the Bar, but increasingly ALSPs are entering the market to compete head on with traditional vendors, or to provide a lead referral services if the specific circumstances are more complex than the standard solution offers.

In collaboration with Legal Geek, and using a variety of research tools and information sources, we collected data on 260 UK and European startups, which we categorised according to the new taxonomy. This is not an exact science. In some cases, a startup cuts across more than one sub-category within a category, and/or sits across more than one category. For future updates, we anticipate there being more movement of startups between categories as we receive feedback on the initial categorisation.

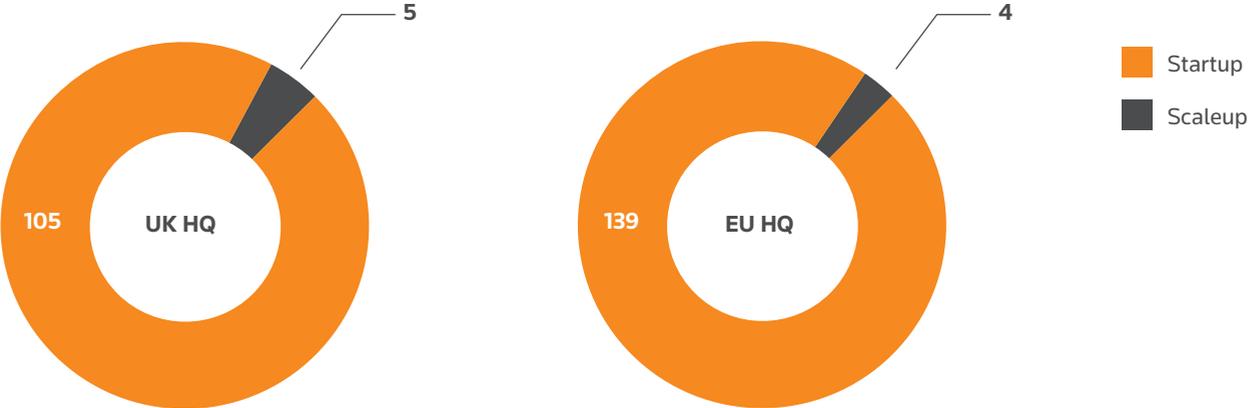
The updated startup map design takes a new approach to the presentation of the startups in the Legal Geek community. The map is intended to be a dynamic representation that can respond flexibly to the rapid evolution of the market. As new startups appear and new capabilities emerge, both the taxonomy and startup map will grow and adapt to these changes (see appendix).

Analysis of the UK and EU legaltech startups

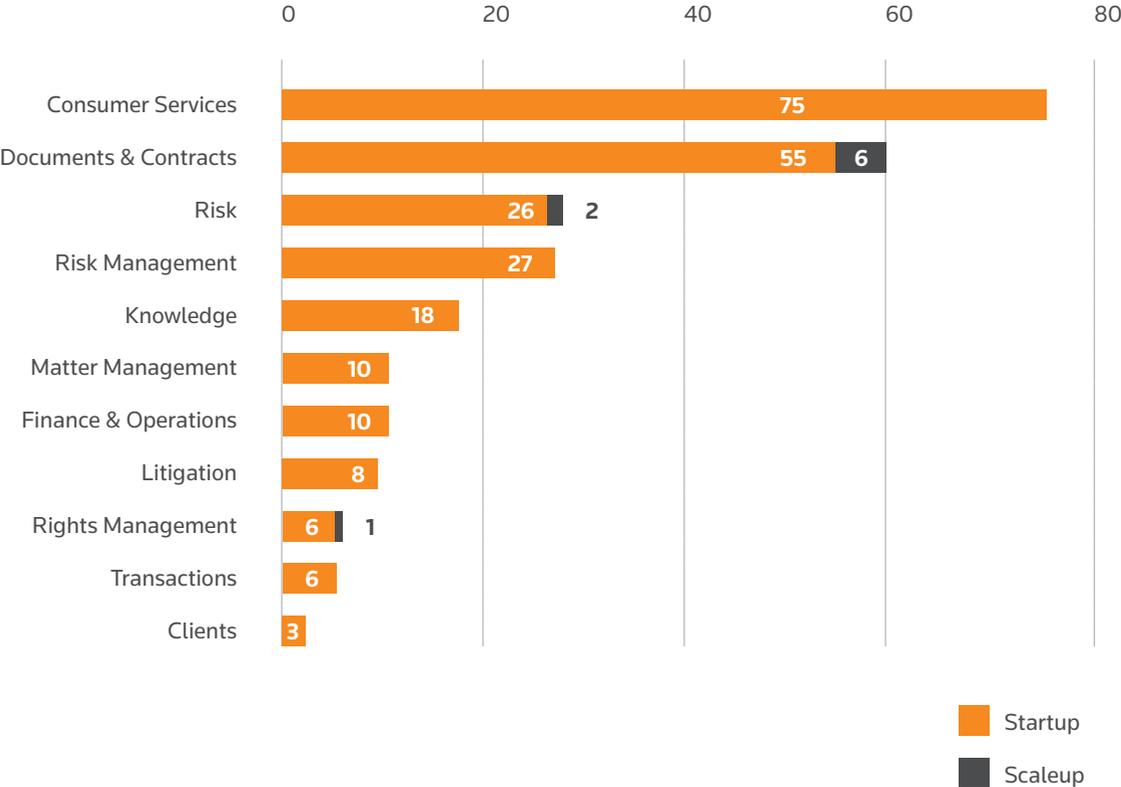
In 2017, 70 UK legaltech companies were featured on the map. This year the number has grown exponentially to include over 250 legaltech companies. Our coverage includes 110 UK startups and scaleups, and looks further afield to include 143 organisations in Europe. The reimagined startup map shows

the distribution of startups by category and task area—and can be viewed in the appendix to this report. It should be noted that the startups featured are a non-exhaustive cohort. We acknowledge that our coverage of data on the UK market is much stronger than for Europe.

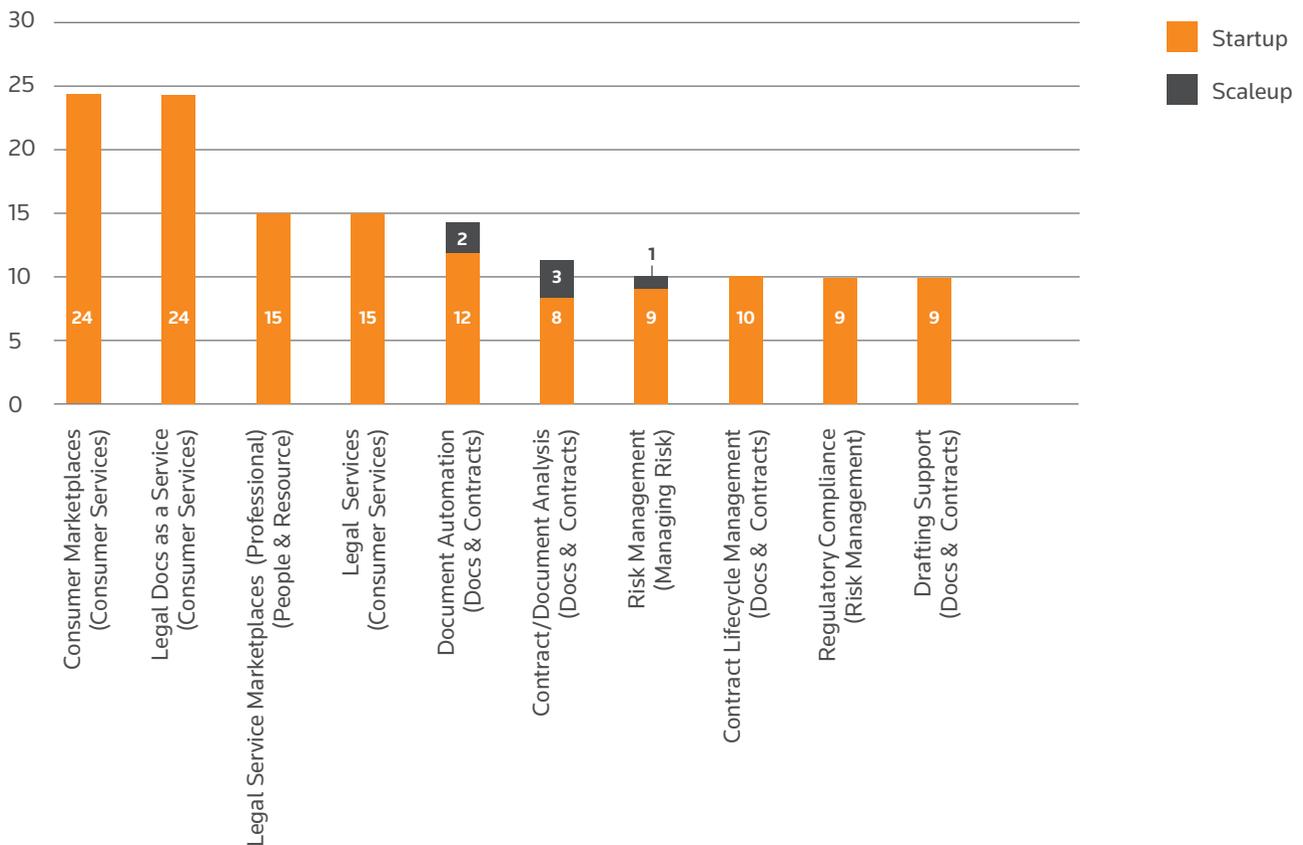
Breakdown between UK and EU



Distribution of startups and scaleups by area of legal work



Top 10 subtask areas of focus



The high concentration of startups offering ‘consumer services’ is expected, given the difficulty many consumers face in accessing reasonably priced and adequate legal support. Providing legal technology to the consumer market has a relatively low barrier to entry, with limited tech development required to reach what continues to be an underserved population. Solutions focus primarily around providing legal document templates or matching consumers to legal service providers through online marketplaces.¹⁷

By a significant margin, ‘documents & contracts’ is the second most concentrated area of focus among the companies within the startup map cohort, with solutions centred around document automation, document analysis, and contract lifecycle management. The legal industry sits on a legacy of contracts that were printed, signed and scanned as PDFs. However, in recent years document automation and e-signature tools have removed the need to print documents before executing them. For the most part, the obligations and commercial details that are held in these contract documents are largely unrecorded. With advances in AI to search and review document text and extract data from within, it is unsurprising that the most activity by startups in the legal sector is in document-related areas.

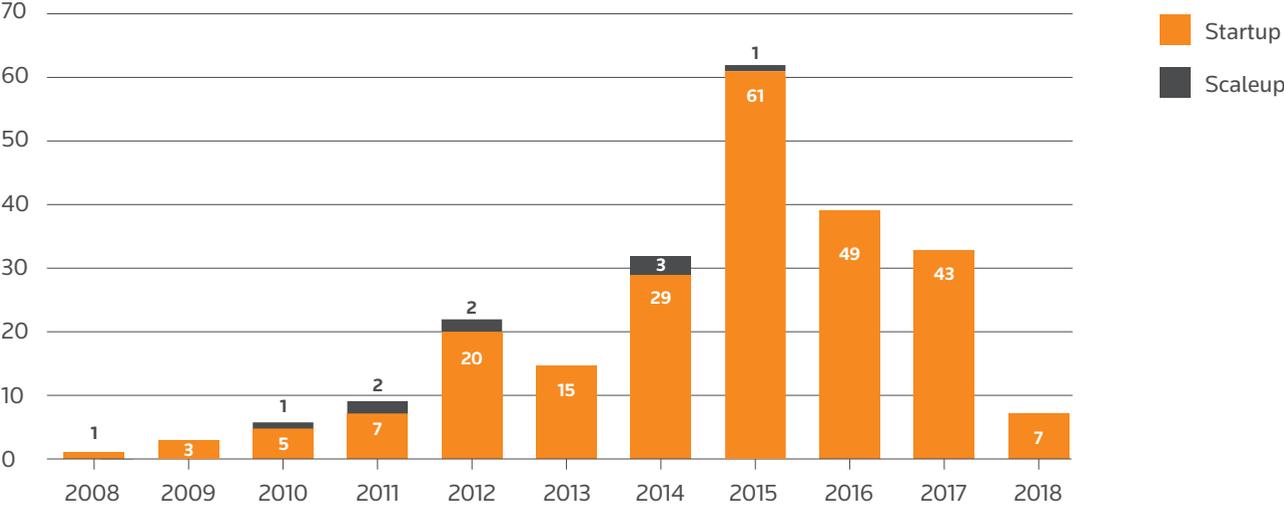
Risk management is a further area of focus for startups appealing to law firms and legal departments. During the past year, merger and acquisition deal volumes have reached highs not seen since before the 2008 global financial crash, and significant regulatory changes (MIFID II and GDPR) have forced organisations to review their legacy contracts and issue updated contract terms to comply with the new regulations. Understanding contract and compliance obligations, and dealing efficiently with contract amendments has become an increasing pain point. Therefore, it is logical that we now see a concentration of startups operating in this area.

Growth

The number of startups on the map has more than tripled since the previous iteration developed for the 2017 Legal Geek conference. Although in part driven by the emergence of new legaltech startups since that time, this rapid expansion reflects the increasing popularity of Legal Geek. The map includes a significant number of startups that reached out to Legal Geek for inclusion. Legal Geek has established itself as the go-to source for legaltech in the UK, with an increasing view on developing capabilities in both the EU and now also the US.

¹⁷ See the appendix for descriptions of sub-tasks covered by broad-level categorisations

Number of startups and scaleups founded by year



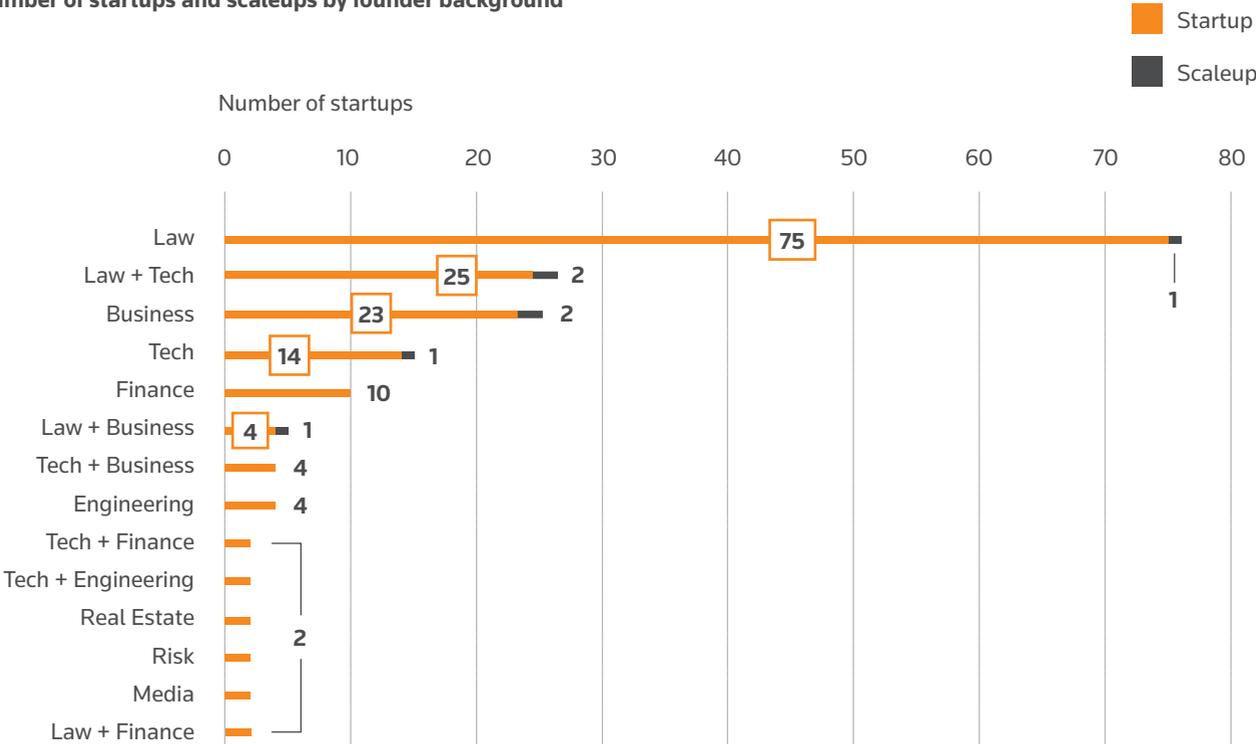
A notable peak can be seen in the number of startups founded in 2015, with new startups emerging at a reducing rate since. This pattern of startup growth is similar across other tech industries, suggesting that prohibitive factors stemming from the ongoing economic climate may be a common barrier to entry in recent years.

The majority of the scaleups have been established for at least six years, with Eigen Technologies (2014) and Luminance (2015) having reached scaleup level in slightly less time.

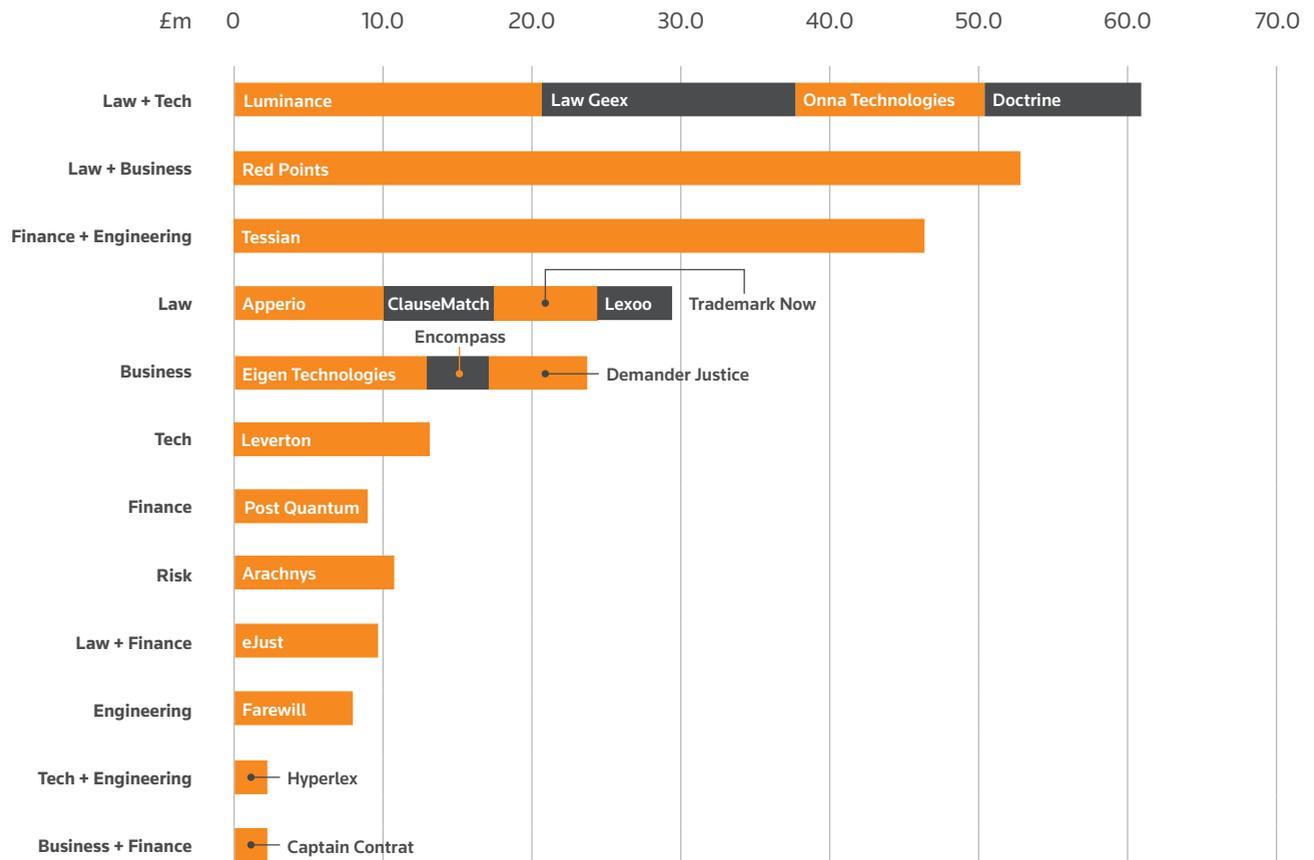
Founder background

It should come as little surprise that the majority of legaltech startup founders and co-founders have a background in law, technology such as computer science and software development, or business. It is self-evident that a deep understanding of the pain points in providing legal services, as well as knowledge of risks and regulations surrounding the legal industry is beneficial in the area of startups.

Number of startups and scaleups by founder background



Top 20 funding by Founder Background



Anecdotal evidence suggests that the law firm budget holders and decision-makers often prefer the founder of a startup offering a tech solution to their legal problem have a background in law, thereby offering a hands-on knowledge of the ‘way the legal world works’.

If funding is a measure of success, it pays to be a lawyer when founding a legaltech business. Over half of the top 20 startups and scaleups, by total funding, have at least one founder with a legal background. Founders who are better able to understand and relate to their target audience are more likely to create a strong value proposition—a commonality that spans the majority of tech startup industries.

Customer base

The largest single group, comprising 36 percent of legal solutions, is formed from startups with a consumer focus. As previously discussed, the relatively low barriers to entry within this market are likely to be driving this proportion.

Closely following are the 25 percent of startups aiming at the corporate market only, with solutions that focus on legal-related issues, such as IP and rights management, but not the practice of law itself.

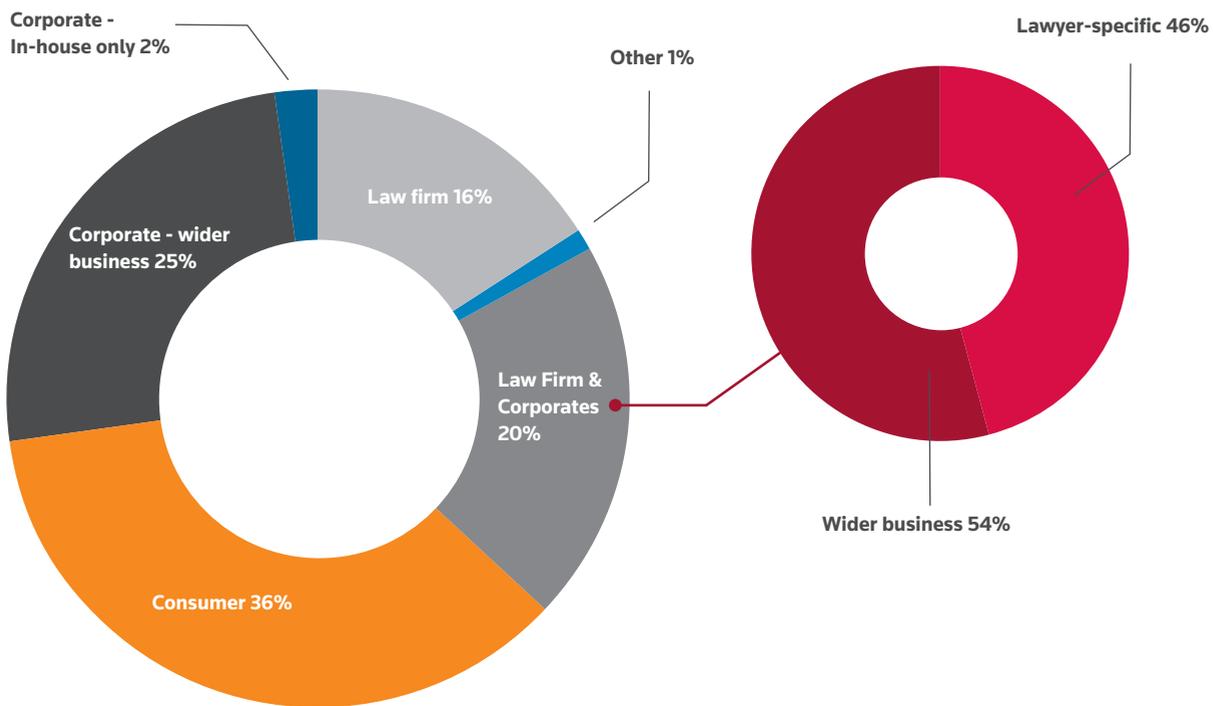
Sixteen percent of our cohort market themselves to law firms only with solutions that relate directly to the practice of law. We have also identified a category of legaltech startups that appeal to both law firms and corporates (totalling 20 percent). This can be further sub-divided into those that appeal to lawyers in relation to the practice of law – “lawyer-specific” – and those with a wider scope which aim to solve general business needs such as compliance or contract management across a range of departments – “non-lawyer-specific”.

An interesting takeaway point from the analysis of how customer focus breaks down is the relatively low number of solutions (only two percent) which target the in-house lawyer population specifically. The corporate market has no shortage of demand. In-house legal teams are looking to innovate, adopt technology and take an operationally focused approach to optimise their work and reduce outside counsel spend¹⁸. The fact that the number of solicitors working in-house is growing at a faster rate than those working in private practice¹⁹ may indicate that untapped potential for the application of legaltech exists in this market.

¹⁸ <https://bit.ly/legal-tracker-LDO-index>

¹⁹ www.lawsociety.org.uk/law-careers/features/should-i-work-in-house/

Customer focus of startups & scaleups



UK and EU legaltech startups—an overview

The split in areas of legal work addressed by the startups in our cohort raises the question of whether the solutions already in existence are representative of the opportunity in the market. Can automation capabilities be applied in areas that have not yet been tackled? Is the theoretical size of the consumer market driving overrepresentation of solutions for a population lacking enough trust in the legal sector to fully engage? How can startups better capture the untapped

opportunity in the corporate market despite the lower awareness of tech in comparison to law firms?

A significant barrier to entry into the market may be financial, with startups being more likely to innovate in areas which require low capital investment upfront. However, some responsibility rests on legal professionals to articulate their needs in more challenging areas in order that would-be startups can create technology propositions which prove valuable.

Legaltech startup financing—overview and key highlights

Data on total investment funding into the UK and EU legaltech market are relatively limited. For the entire cohort present on the startup map, there has been less than £350m external funding invested in total across the UK and EU, mainly concentrated among startups operating in documents & contracts, consumer services, and risk services.

Globally, interest in the sector is booming. In 2018, investment of \$500m into LegalZoom, a US-based company offering document templates and legal advice, valued the company at \$2bn²⁰ making it the first legaltech/regtech unicorn²¹. Also in 2018, Kira Systems raised \$50m in Series A funding from Insight Venture Partners²² and more recently in Jan 2019, DISCO, a US firm applying AI and cloud technology to eDiscovery, raised \$83m in Series E funding²³.

²⁰ <https://www.bloomberg.com/news/articles/2018-07-31/legalzoom-gains-2-billion-valuation-in-latest-funding-round>

²¹ www.cbinsights.com/research-unicorn-companies

²² <https://info.kirasystems.com/news/kira-systems-receives-50-million-investment-insight-venture-partners>

²³ <https://www.cdisco.com/pressrelease/disco-raises-83-million-bringing-total-investment-to-135-million>

According to our research advisory panel member Jules Miller, Co-Founder of Prose Ventures, the first independent VC fund specialising in investments in legal and compliance tech companies:

“The future of investment in legal tech is exciting. We’re still at the very beginning of the industry’s maturation curve; you see this with the erratic quarterly investment numbers driven by a few large deals and a bunch of smaller ones, and very few major exits. This will smooth out as the industry matures over the next few years and it will be an interesting ride.

For so long mainstream VCs have stayed far away from legal tech, now we’re seeing them dip their toe in the water with investments such as Kira, Atrium, and Ping. It’s hard to deny the potential of an industry that is nearly half a trillion-market size and still at the beginning stages of modernising with technology, but the sales cycle is slow, acquisitions have been small and there have been no notable IPOs. If this new wave of venture-backed companies manages to achieve successful exits, there will be a lot more investment in the space from traditional investors.

In the meantime, we think there is a huge opportunity for industry specialist investors, which is why we launched Prose Ventures. We focus on leading Series A rounds and are investing mainly in North American and European companies. Our ‘secret sauce’ is that we invest in companies we think can achieve a 10-times return and have demonstrated some product market fit and some ability to onboard paying customers—then help them scale rapidly by an intense focus on sales and marketing support. This includes introducing them to scores of potential customers, many of whom are our limited partners (LPs) or people we’ve had relationships with for many years and have told us that they are looking to partner with innovative startups. Once the startups are able to demonstrate scale, we’ll help them raise the next round of funding from more generalist investors.

The other thing that makes Prose unique is that our LPs—who are invested in the fund—are mainly strategic investors. They’re law firms and legal services firms who we believe are the best in breed around innovation and adoption of technology. We meet with them regularly and co-develop an investment thesis that is informed by what they are looking to incorporate into their practice. This alignment is a win-win for our LPs, for us as financial investors and for the startups we invest in who can scale quickly with these early adopters behind them.

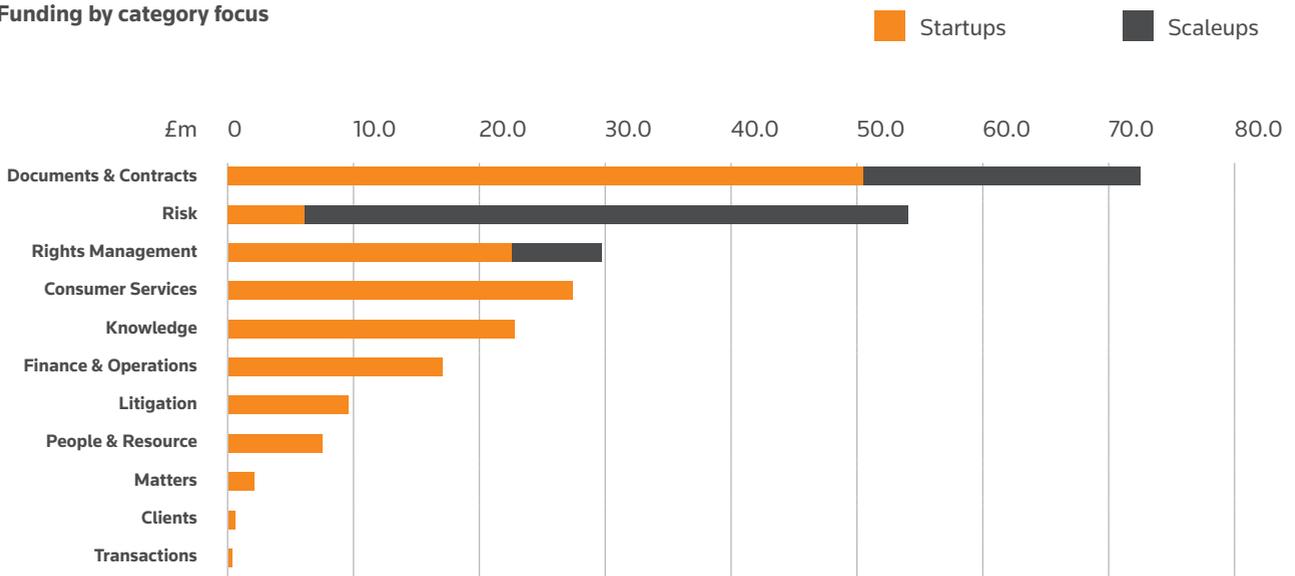
For those who believe that a global financial downturn is on its way, it’s a great time to be investing in legal tech. Many legal tech companies are counter-cyclical and thrive in this environment. When in-house council are under additional cost pressures, they either look to take more legal work in-house, where they can manage the work more efficiently, or they pass the pressure on to their outside counsel and squeeze the costs. The same work still needs to be done, which is a major driver of increased adoption of tech and process improvements. Overall the future is bright for legal tech.

Startups & Scaleups: Funding Analysis

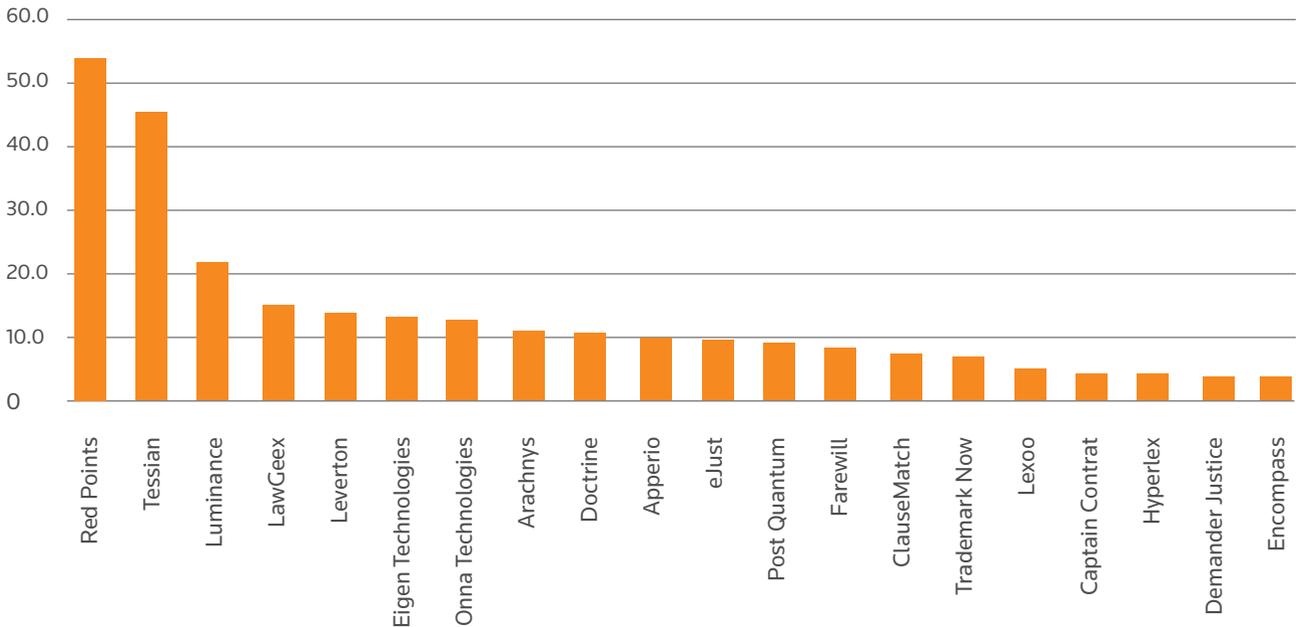
From the 94 startups and scaleups in our cohort where funding data is available, the total raised is around £350m, of which over 80 percent is contributed by the top 20. The trajectory appears positive, however the fact that funding is so highly concentrated suggests that securing investment and growing revenue may prove challenging for the majority.

Startups and scaleups providing documents & contracts and risk-related solutions have secured the majority of funding by a significant margin. Scaleups contribute over 50 percent of total funding across all categories.

Funding by category focus



Funding & Investment: Top 20



The growing importance of the UK and European legaltech sector is evidenced by the significant rise in value of investments in recent years. In early 2019, Tessian raised \$42m in Series B funding from Sequoia on the back of their successful expansion into the US²⁴. In addition, Luminance received further backing of \$10m from existing investors Talis Capital, Invoke Capital and Slaughter & May, to continue with the company’s global expansion plans and building expertise in machine learning technology²⁵. Red Points, based in Barcelona, raised \$38m in a funding round led by

Summit Partners, with the intention of further expanding the company’s technology capabilities and global footprint²⁶. In the consumer space, a notable investment was the £7.5m raised by Farewill, in a round led by Augustum Capital²⁷, to enable the business to double its workforce and triple its market share by the end of 2019²⁸. We hope the remainder of 2019 and the coming years see this trend persist. Our aim is to continue developing a full picture of legaltech funding in these markets over time.

Incubators and labs

Almost every major financial institution boasts its own incubator, enabling fintech companies to carry out research and development (R&D) with direct access to expert advice, knowledge and often regulatory sandboxes for thorough testing. The legal services industry is catching up with the concept, albeit slowly. Several large law firms have created incubators—some with corresponding investment arms, although most have only been established for one or two years.

Benefits presented by an incubator or lab vary across the market, including anything from working space to equity stakes. Perhaps the most valuable aspect to a startup is the expert insight and mentorship on offer, not to mention the opportunity to develop, test and refine technologies at the coalface of legal service provision. As such, it is reasonable that the startups which have previously been or are currently being nurtured through incubator and lab schemes have been some of the most successful in the market.

²⁴ www.tessian.com/media/journal/announcing-our-partnership-with-sequoia

²⁵ www.legaltechnology.com/latest-news/luminance-completes-funding-round-at-100m-valuation/

²⁶ www.redpoints.com/press/38-million-in-new-funding/

²⁷ <https://augmentum.vc/our-portfolio/farewill/>

²⁸ www.growthbusiness.co.uk/will-writing-disruptor-farewill-raises-8m-in-funding-2555805/

Incubators and labs operating at present within the UK/Europe include:

Thomson Reuters Labs—the Incubator programme

Launched in 2017, the Thomson Reuters Labs™ Incubator provides startups with free access to a selection of their proprietary datasets and technology tools, mentoring from technology and industry experts, marketing support, and facilitated workshops to explore co-development and co-selling opportunities. In January 2019, Singapore-based INTELLLEX won a pitching competition to enter the incubator programme. INTELLLEX uses natural language processing and neural network technology to categorise prior work product by concept and document type, providing a cloud-based knowledge library. “The drive to push for innovation within a particular industry must involve an entire ecosystem. The partnership with Thomson Reuters is a strong validation of the potential of our technology”, said Chang Zi Qian, Co-founder and CEO, INTELLLEX.

INTELLLEX joined the existing Thomson Reuters Labs™ startup companies of Digital Claim, which uses machine learning technology to support insurance companies in claim recovery, and Kleros, which employs game theory, crowd-sourcing, and blockchain technology to provide a dispute resolution system that renders ultimate judgments enforced by smart contracts.

MDR LABS

Launched in January 2017 in conjunction with tech investment fund L Marks, MDR LABS, Mischcon de Reya’s incubator programme, provides early stage investment into legaltech startups through a 10-week programme. Startups are given the opportunity to pilot their solutions within the firm, work with Mischcon de Reya lawyers and business experts—and pilot their product within the firm, gaining advice, mentorship and a better understanding of how legal services are provided by their target market. Edmond Boulle, Founder of Orbital Witness, and MDR LABS member, comments that “a programme like MDR LABS is helpful in that it provides a ‘safe space’ to test out new ideas and learn from mistakes”. Other companies also currently in the MDR LABS include Thirdfort, LawPanel and synergist.io.

FUSE

Launched in Sept 2017, by Allen & Overy, Fuse is a collaborative tech innovation space giving startups the opportunity to explore, develop and test legal, regulatory and deal-related solutions in collaboration with the firm’s lawyers, technologists and clients.

The first cohort of startups (2017) included iManage, Vable, Avvoka, Legatics and Nivaura. The final three have remained in Fuse, and were joined in 2018 by companies including Kira, Signal Media, Neota Logic and Bloomsbury AI, which was acquired by Facebook only two months after joining Fuse²⁹. The 2019 cohort members joining Fuse have been announced as Apiax, Define, HighQ³⁰ and Scissero³¹.

Nextlaw Lab

In 2015, Dentons launched Nextlaw Labs, a legaltech virtual accelerator, and Nextlaw Ventures, a global legal technology-focused venture capital fund, which together focus on investing in early-stage legaltech companies and deploying resources to help them grow and scale. The portfolio includes ROSS Intelligence, Apperio, Clause and Libryo³².

ColLABorate

In February of this year, Slaughter and May launched ‘Collaborate’, which is their first legaltech incubator programme³³. The first cohort, comprising Tabled, StructureFlow, Clarilis, JUST:Access, Logiak and LitiGate ran from April to July 2019. The firm has shown previous interest in fostering the development of legaltech, in 2016 giving Luminance the opportunity to test and pilot its software pre-launch and gain valuable insight and advice from the firm’s lawyers. Slaughter & May went on to invest financially in Luminance earlier this year and now owns a five percent equity stake.

Eagle Labs

Launched June 2018 to utilise redundant high street bank branches across the UK, Barclay’s Eagle Labs, in partnership with the Law Society of England and Wales, fosters the development of tech startups across a range of industries. Their flagship centre is the Notting Hill Gate lab based in London and is intended to enable legal and regtech startups grow their businesses and develop new products, and to foster collaboration with other entrepreneurs and innovators working in the same space. As of April 2019, there are 20 Eagles Lab locations. Some of the announced legaltech companies working in the Eagle Labs are Annotate, Ayfie, Ginie AI and Legatics³⁴.

²⁹ www.crunchbase.com/acquisition/facebook-acquires-bloomsbury-ai--9d42353d

³⁰ In July 2019, Thomson Reuters acquired HighQ. <https://www.thomsonreuters.com/en/press-releases/2019/july/thomson-reuters-acquires-highq.html>

³¹ www.allenoverly.com/advanceddelivery/fuse/Pages/default.aspx

³² www.nextlawlabs.com/portfolio/

³³ www.slaughterandmay.com/what-we-do/approach/innovation/slaughter-and-may-collaborate/#

³⁴ <https://labs.uk.barclays/community/>

Competition from the customers?

Legaltech startups may well find themselves at risk of competition from the very organisations at which their solutions are aimed. Some law firms and corporates have opted to 'build' instead of 'buy', and have invested capital into R&D for creating their own bespoke technology solutions.

JP Morgan, for example, developed AI-based tool COIN (Contract Intelligence) after it was noticed that thousands of manually produced new wholesale contracts and credit agreements contained errors. COIN provided an automated clause extraction and analysis solution, which eliminated error and saved roughly 360,000 hours of lawyers' time annually³⁵.

A further risk exists from cloud and enterprise platforms such as Microsoft SharePoint, which enable businesses and law firms to build their own solutions with much greater ease than starting a tech build from scratch. BT's automated triage and document assembly system³⁶, and Orrick Herrington & Sutcliffe LLP's CaseStream litigation management technology were both built on SharePoint³⁷.

For the majority of large law firms and corporates, however, diverting capital and resource away from core revenue-generating business in order to develop technology will not deliver enough of a competitive advantage to be worthwhile. A more valuable approach may be the formation of strategic partnerships.

One such example is the partnership between Kira Systems, Weightmans, and the University of Liverpool, which collaborated to develop software capable of extracting data to power a decision engine capable of carrying out legal reasoning. Cutting edge AI research from the University of Liverpool was used to build out Kira's existing technology, and Weightman's legal experts used the firm's wealth of data to beta test the software³⁸.

A bright future

All signs point to a thriving legaltech startup scene in both the UK and Europe. Despite pessimistic market indicators, legal services revenue demonstrates consistent growth. As percentage-of-revenue spend on technology and innovation continues to hold firm, absolute spend on legaltech is also likely to increase.

Significant external investment into legaltech continues, with some major deals occurring in 2018 and 19. Labs and incubators are increasing in quantity and supporting a growing number of successful new companies, and the paradigm appears set to continue along this path. The partnership model may also increase in popularity as startups and larger law firms, corporates, and academic institutions take advantage of mutually beneficial working relationships.

However, the updated legaltech startup map and associated analysis for the UK and Europe suggests that certain pain points are not being fully addressed. The significant number of consumer and SME-focussed solutions might indicate that market needs are not being adequately or fully met. The relative paucity of in-house corporate focussed solutions suggests that significant opportunity still exists here, supported by anecdotal feedback in our research that there is strong need in this market for understanding and adopting legaltech.

The legaltech startups in the UK and Europe have already made a strong impact on shaping the future of legal services delivery. We hope that the market will weather any economic storms on the horizon, and this exciting trajectory of change will continue with as much impetus as has been seen to date.

³⁵ www.independent.co.uk/news/business/news/jp-morgan-software-lawyers-coin-contract-intelligence-parsing-financial-deals-seconds-legal-working-a7603256.html

³⁶ www.legaltechnology.com/latest-news/bt-automated-triage-and-sharepoint-document-assembly/

³⁷ s3.amazonaws.com/cdn.orrick.com/files/Build-Versus-Buy-5-Ways-BigLaw-Is-Tackling-Legal-Tech.pdf

³⁸ www.weightmans.com/media-centre/news/weightmans-partners-with-university-of-liverpool-and-kira-systems-to-develop-ai-capable-of-legal-reasoning/

Appendix

Here we provide a more detailed explanation of the subcategories which fall under the 10 pillars of legal work.

Managing the business

• Managing People & Resources

- **Recruitment:** with services making it easier for candidates and employers to post jobs and/or pitch their CVs
- **Education & Training:** with services providing online learning and training, increasingly using techniques such as gamification
- **Alternative Resourcing:** with services providing marketplaces for matching qualified legal staff and other roles to fulfil short-time roles within a law firm or legal department
- **Legal Services Marketplaces:** with services providing marketplaces for matching lawyers to provide outsourced legal services in the gig economy. We acknowledge that for law firms serving law departments, this sub-category is likely to be considered a solution for Managing Clients

• Managing Finance & Operations

- **Accounting & Billing:** with services undertaking book-keeping, trust accounting, client billing, bank reconciliation, bill payment and expense management
- **Pricing and Profitability Analysis:** with services undertaking increasing analysis of billing recovery and profitability in delivering legal services
- **Time/Task Recording & Analysis:** with services looking at enhanced experiences and methods to capture time/activity recording for billing and analysis
- **Legal Spend Management:** with services looking to support corporate legal departments with understanding how their legal budgets and staff are being utilised
- **Legal Practice Management:** with services looking to provide a full suite of accounting, billing, time/task capture etc. for a law firm

• Managing Clients

- **Business Development:** with services that support lead referral, the compliance with new rules on pricing transparency and providing matter quote engines, and other general marketing tools
- **Client Bulletins:** with services that are automating the provision of newsletters and client updates

- **Client Onboarding:** with services managing the workflow of onboarding new clients, often in a more digital end-to-end way
- **CRM:** with services providing a single view of the relationships that exist between members of a firm or department and organisations or individuals outside the firm or department
- **Conflicts Management:** with services managing professional conflicts of interest with new clients and matters

Managing and/or performing the work

• Managing Knowledge

- **Finding Experts:** services helping a firm or department keep track or uncover which professionals have expertise in specific matters; increasingly important to promote diversity by overcoming unconscious bias in decision-making and/or uncovering hidden talent
- **Horizon Scanning:** services helping lawyers to look ahead, beyond the stage of pending legal change, at how law, regulations and business practices are likely to change in the future
- **News & Current Awareness:** services helping lawyers stay on top of legal and regulatory changes, and changes in business practices as they happen
- **Knowledge Search:** services helping lawyers find and uncover know-how and knowledge embedded in work product sitting within a firm's or department's enterprise systems
- **Legal Analytics:** services that help lawyers analyse data (often large data sets) to uncover insights and trends to inform their understanding of the market or how particular cases are likely to result
- **Legal Research:** services that help lawyers research the known body of law in a jurisdiction, usually covering case law, legislation and regulations, and legal texts, and/or search practical guidance, checklists and precedents to support the practical application of law and regulation
- **Technology Know-how:** services that help lawyers understand technologies and undertake legal coding

• Managing Matters

- **Case/Records Management:** services that provide a method for capturing relevant data, information and documents associated with a matter, often linked with the firm's or department's financial and client management system

- **Collaboration:** services that provide methods for exchanging documents and information and communicating with clients and or counterparties
- **Matter Intake/Triage:** services that aid the capture of information about a potential new matter to support downstream processes such as client onboarding, case management, matter planning and resource allocation to the matter
- **Project Management & Planning:** services that support matter planning and project management through the lifecycle of a matter
- **Managing Risk**
 - **Board Governance:** services that support governance processes for teams or boards, including online approvals, and information distribution
 - **Cybersecurity:** services providing enhanced security solutions to reduce the risk of information or data leakage as data sits at rest in systems, or is transmitted between systems
 - **Data Privacy Compliance:** services specifically tackling the increasing burden of data privacy compliance
 - **Expert Systems:** services automating the provision of guidance and risk analysis
 - **Internal Audit:** services providing a method of auditing the compliance of an organisation or department with a specific policy or standard
 - **Regulatory Compliance:** services providing a range of compliance solutions, including policy management and risk screening and monitoring
 - **Risk Management:** services providing a range of risk management solutions
- **Managing Intellectual Property Rights**
 - **IP Filing:** services enabling the filing of applications for intellectual property rights into intellectual property offices and registries
 - **IP Search and Monitoring:** services enabling the search of existing IP rights and the search or monitoring of potentially infringing uses of intellectual property rights
 - **IP Rights Management:** services enabling the management of intellectual property rights portfolios, including the management of renewals
- **Contract Negotiation:** services that provide a workflow for guiding contract negotiation, often within the guiderails of a pre-define playbook of acceptable terms
- **Contract Completion:** services that support the signing and completion mechanics for concluding contracts, including co-ordinating pre-completion conditions
- **Document Automation:** services that automate the generation of first drafts, often contracts, and increasingly overlapping with expert systems
- **Document Management:** services that organise and store documents, including different versions of documents, and allow the sharing and collaboration on documents across an organisation
- **Document Review:** services that support the workflow of reviewing documents to accelerate the identification of specific facts in the document
- **Drafting Support:** services which support contract drafting with proof-reading capabilities, redline comparisons, and citation verification
- **Obligations Management:** services that track contract obligations data, usually across a portfolio of contracts, to provide alerting of key dates, and to provide risk analysis in a contract and across a portfolio
- **Contract Lifecycle Management:** services providing a combination of the above tasks, solving substantially an end-to-end contract management capability
- **Litigation:**
 - **eDiscovery:** services that analyse large volumes of documents or data to uncover relevant facts associated with a particular theme or issue
 - **eFiling:** services that facilitate the electronic transmission of documents between lawyers, courts and other users
 - **Evidence Management:** services that support the administration, storage and management of case information and documents
 - **Litigation Analytics:** services that analyse the historical results of judgments to make predictions about future outcomes
 - **Online Dispute Resolution:** services that provide a platform for mediation between two parties
- **Transactions**
 - **Due Diligence:** services that support the due diligence process, often providing a virtual space for sharing due diligence documents to enable document review
 - **Transaction Platforms:** services that manage a transaction from end to end, usually focused on a specific transaction type

Performing the work

- **Documents & Contracts**
 - **Contract/Document Analysis:** services that apply artificial intelligence to automate the extraction of data into a structured format that can be analysed

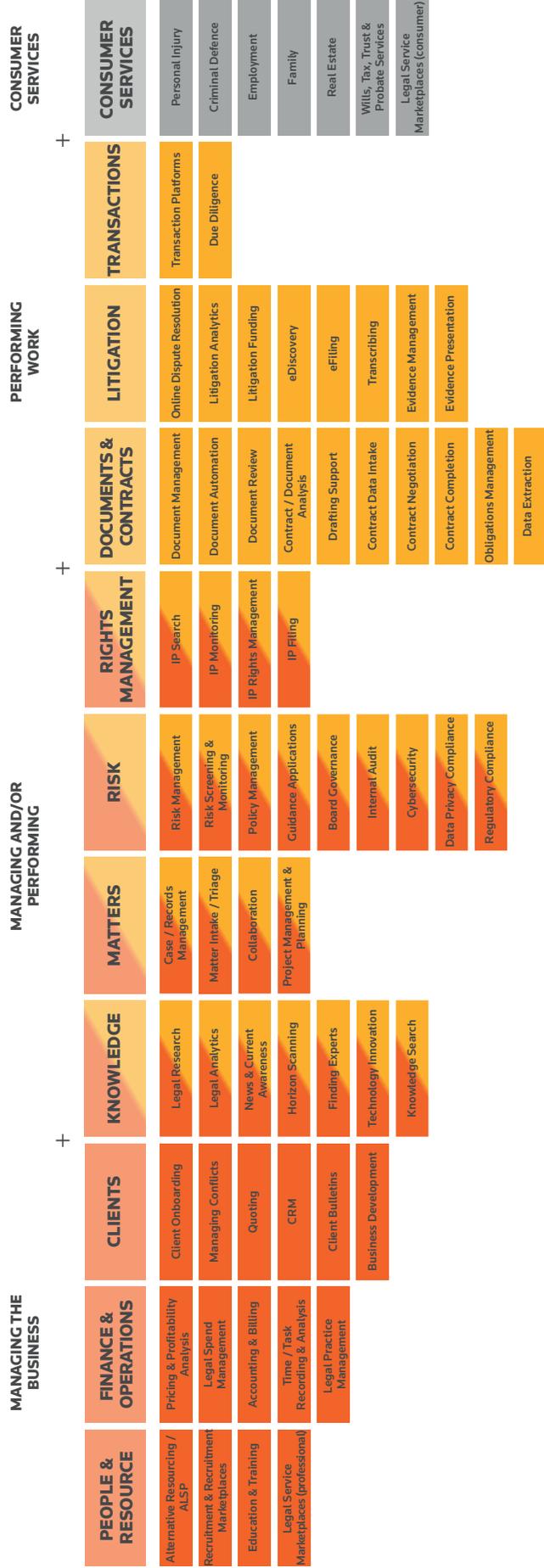
Consumer services

- **Consumer Marketplaces:** online portal or platform for finding and engaging a lawyer or legal firm for a variety of services
- **Criminal Defence:** providing legal defence, including also crowdsourced or free legal advice for those without 'access to justice'
- **Employment:** providing employment-related legal services, often around unfair dismissal and other contentious matters
- **Family:** providing family-related legal services
- **Legal Docs as a Service:** providing templates for document and contracts, often relating to business legal requirements
- **Legal Service:** providing a range of general legal services to consumers
- **Real Estate:** providing legal advice and services relating to purchase and sale of property or other property-based transactions and issues
- **Dispute Resolution:** providing an online platform or alternative means to settle disputes between consumers and other parties (whether another consumer or a business), usually through arbitration or mediation
- **Wills, Tax, Trusts & Probate Services:** services providing advice, guidance, documents and other requirements relating to wills, tax etc.



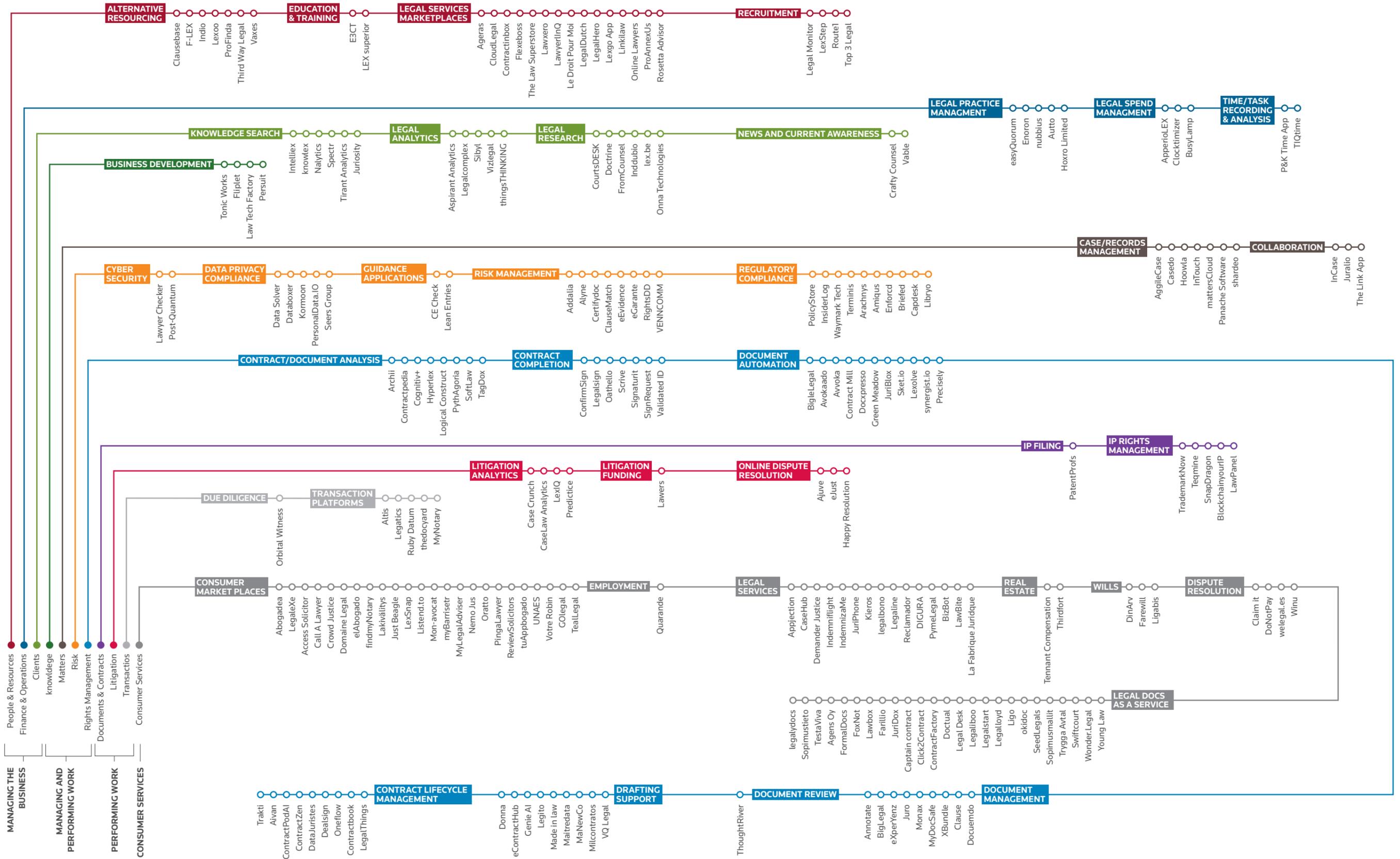
Legal work taxonomy

A comprehensive structure to classify distinct areas of legal work.



Legal Geek Start-up map

The Scale Ups



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