Private capital in UK professional services firms

The factors shaping attitudes towards investment

MACFARLANES

Who we are

97	522	916
Partners	Other fee earners	Total staff

Macfarlanes is a pre-eminent law firm that serves a global client base in private capital, private wealth, M&A and disputes. Personal connection, an entrepreneurial spirit and a commitment to excellence are at the heart of our firm, values which drive our ability to deliver exceptional outcomes for our clients.

Our approach is shaped by a sense of genuine partnership and independence. We are big enough to undertake the most complex and demanding mandates yet small enough to know each other well, to adapt to the needs of our clients and work seamlessly across teams.

Global approach

Our work is global, often spanning multiple jurisdictions and markets.

Where overseas advice is required, we work with leading independent firms best suited to the matter and, unless clients prefer otherwise, act as a single point of contact to deliver seamless, coordinated advice.

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Methodology and respondent profile

Macfarlanes commissioned a leading independent research firm to survey 150 senior decision-makers across legal, accounting and consulting firms in the UK. Survey respondents were equity partners including senior and managing partners and others in senior leadership positions across a range of regional, national and international firms.

- Legal 58%; Accounting & audit 34%; Consulting 8%.
- Equity partners 51%; other senior leadership with equity 31%; managing partners with equity 18%.
- Firm size:
  - under £25m in annual revenue (small) 31.3%;
  - £25m-£50m annual revenue (lower-mid) 18.0%;
  - £50m-£100m in annual revenue (mid) 16.0%;
  - £100m-£300m in annual revenue (upper-mid) 18.0%;
  - £300m-£500m in annual revenue (upper-mid) 7.4%; and
  - £500m+ in annual revenue (large) 9.3%.

Introduction

2025 saw a surge of private capital interest in professional services firms. Will we see that trend continuing through 2026 and beyond?

Consolidation opportunities in fragmented markets, the push to grow non-audit businesses and demand for technology and gen-AI investment are all driving investment activity in the professional services sector.

To get a better insight into what firms really think about external investment, we commissioned an independent survey of 150 equity partners from legal, accounting and consulting firms across the UK.

The results of that survey suggest there is significant interest in external investment amongst professional services firms.

In this report, we take a closer look at:

- the drivers for seeking external investment and how that differs across sectors and size of firm;
- generational differences in attitudes towards private capital; and
- how to navigate some of the unique features of transactions involving professional services firms.

75%

of respondents very likely to consider (or already have) external private capital

67%

of respondents believe external capital is critical or important for competitiveness

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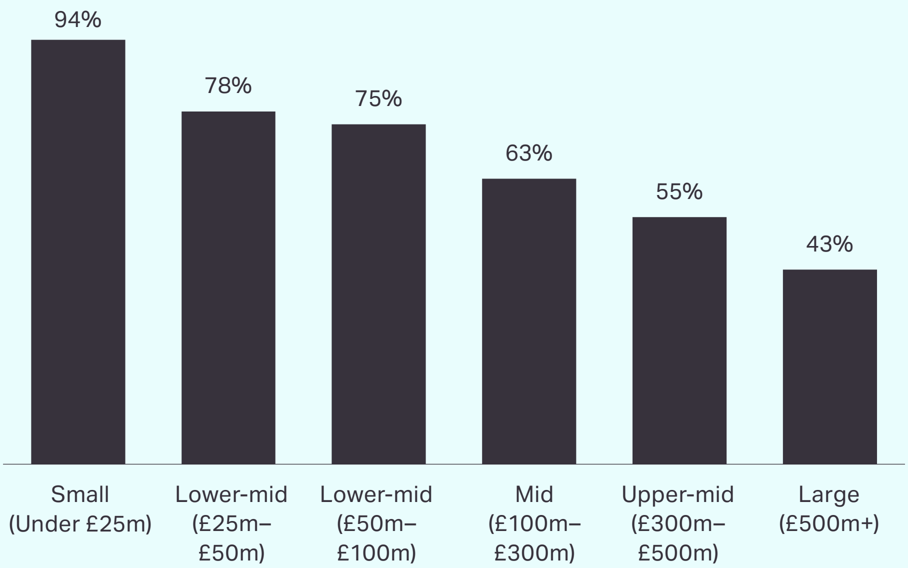
01

The size and sector effect

Investment into the professional services sector has been steadily increasing over recent years. We wanted to understand if firm size and sector impact partner attitudes towards external investment.

Does firm size change perceptions?

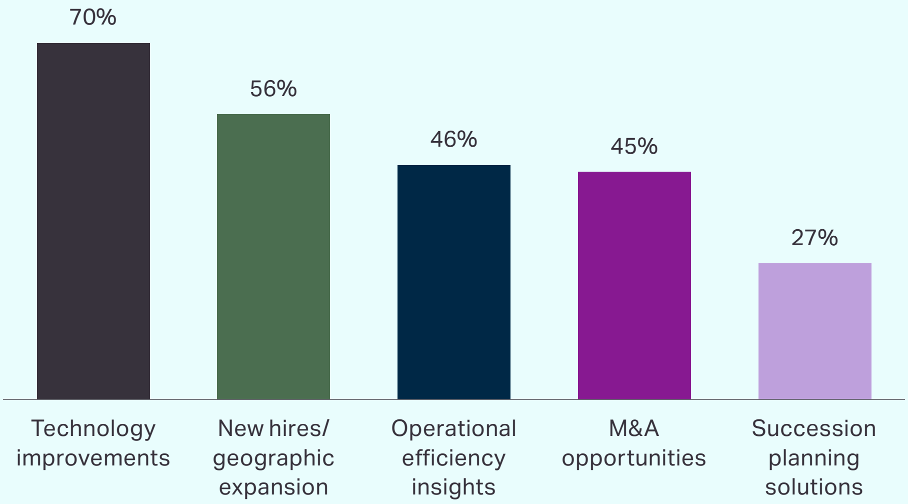
Figure 1 – How likely would your firm be to consider external private capital investment in the next five years (by firm size)?



Our survey results suggest there is an inverse correlation between size of firm and interest in external private capital investment. Firms with revenues below £25m show the strongest interest, which may reflect tighter resource constraints and more pressing growth priorities. But it is worth noting that of the larger firms (revenues over £500m) who responded to the survey, almost half would consider external investment in the next five years. That suggests significant appetite right across the sector.

As well as providing funding for investment in technology, expansion plans and M&A, a number of respondents cited the insights that institutional investors can bring to delivering M&A strategies and operational efficiency programmes as further benefits of external capital. Just over a quarter of firms would look to private capital to help provide succession planning solutions.

Figure 2 – What are the primary benefits of private capital in professional services?



Most of the partners we surveyed recognised the potential value that external investment could unlock with 67% of partners believing that external capital is critical or important for competitiveness.

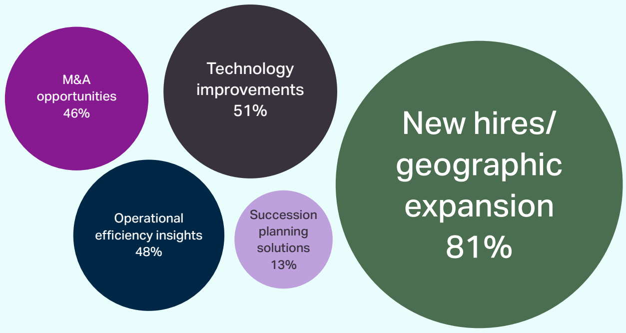
The perceived benefits of external capital also vary by firm size. Technology investment remains the top priority for smaller firms. Larger firms cited funding for acquisition of talent and pursuing M&A and expansion opportunities as the key reasons they might look to external investment.

> **Technology is clearly a rapidly evolving and developing area which can be difficult to keep pace with, especially for smaller firms as it requires significant investment.**
>
> **For many larger firms, building scale – particularly international – remains a key driver for growth. Being able to access external capital provides firms with another source of funding to help them deliver those expansion plans.**

Figure 3 – What are the three primary benefits of private capital investment?

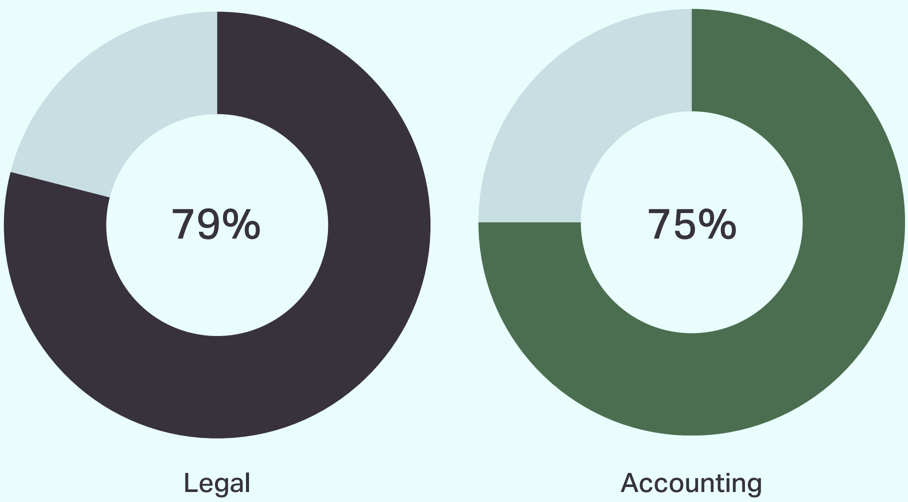
Smaller firms (Under £100m)

Larger firms (£300m+)



Does sector change perceptions?

Figure 4 – Likelihood of considering external private capital in the next five years



Across legal, accounting and management consulting we are seeing varying levels of investment activity in the market. We wanted to understand from our respondents whether attitudes toward investment vary across each sector.

The UK legal market opened to external investment in 2012, but private equity activity has largely been focused in the small to lower mid-market to date. It appears that may be changing. Law firm partners surveyed showed the highest interest in private capital of any professional services segment we surveyed.

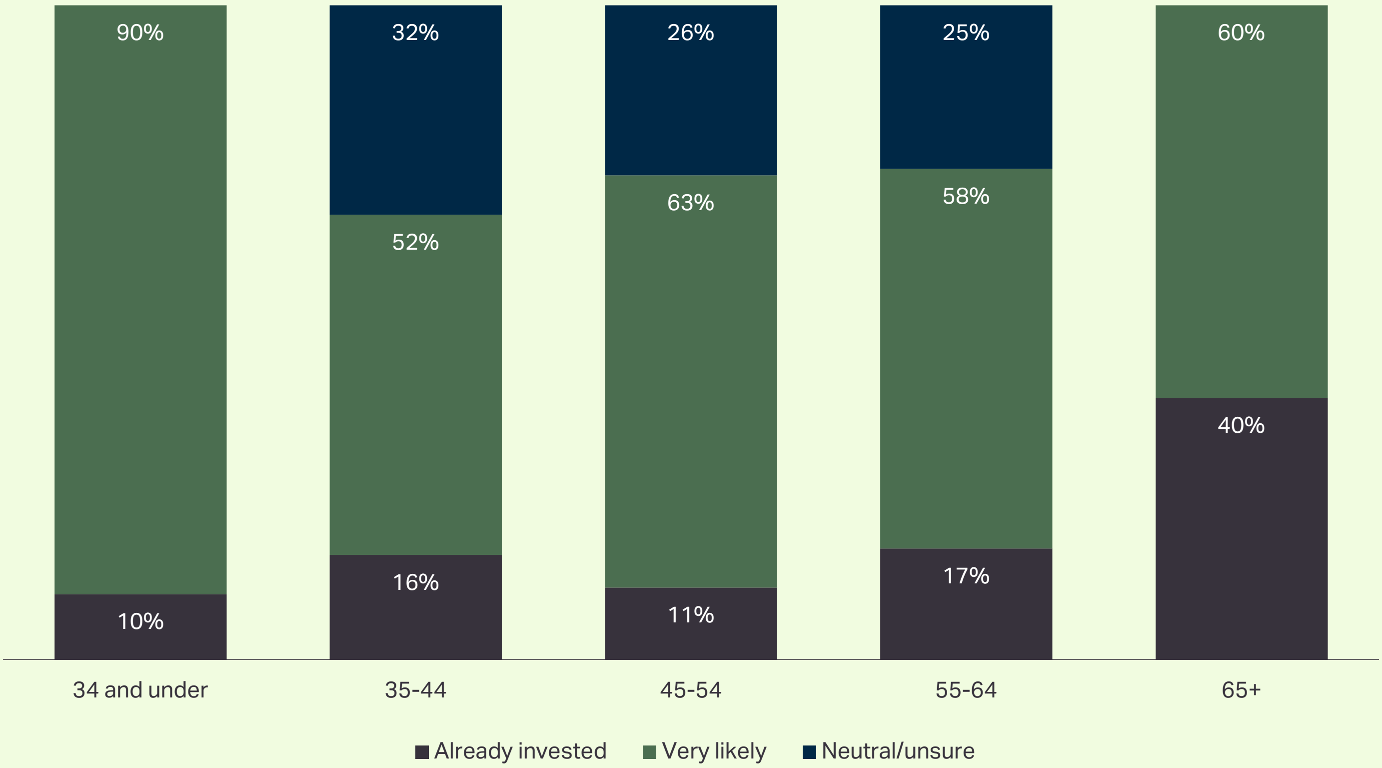
Appetite also polled strongly in the accounting sector, which to date has seen a number of high-profile deals amongst larger accountancy firms including Grant Thornton, Azets and S&W alongside consolidation of smaller firms.

02

The generation gap

When considering external investment, both investors and firm leadership need to understand what motivates partners at different career stages. Our survey explored these generational differences.

Figure 5 – How likely would your firm be to consider private capital investment in the next five years (by age)?

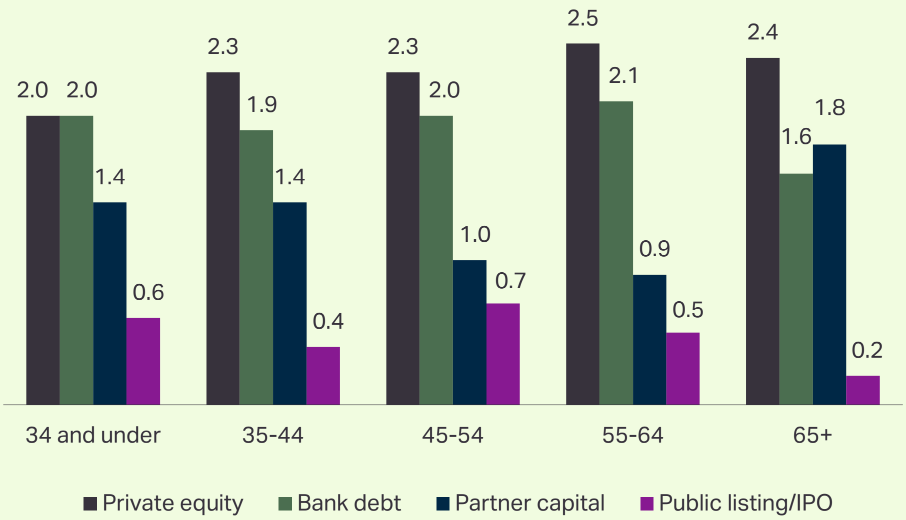


The data in Figure 5 reveals that both senior partners (65+) and younger partners (under 35) show an overwhelmingly positive appetite for external capital.

Those in the 35–64 age bracket show significant appetite for private capital, albeit tempered with around a quarter of those in the 45–64 age bracket saying they were neutral or unsure whether their firm would consider private equity in the next five years, with this rising to one third for the 35–44 age bracket.

Senior partners may be looking to crystallise decades of partnership value ahead of retirement, while younger partners are more likely to prioritise external capital for technology transformation and investment for longer term growth.

Figure 6 – Capital source preferences by age group
(Average ranking: 1=least preferred, 4=most preferred)



We also asked our respondents to provide their views on alternative funding sources (Figure 6).

Partners aged 55–64 showed the strongest preference for private equity, which may reflect the fact that private equity can unlock immediate value while providing ongoing equity incentives for future growth.

Younger partners were equally open to bank debt as a source of funding, suggesting a greater willingness to leverage borrowed capital for expansion while retaining control and profits.

Partners aged 45–54 may face the greatest tension: they hold significant equity and face the highest dilution risk. They favour private equity over capital calls suggesting they may be looking to fund growth without personal financial burden.

Clearly when taking private capital investment there is a financial trade-off. Partners will give up some of their current economics in return for equity interests and the opportunity to crystallise further value at a future exit or liquidity event.

While in the short-term partners will give up some of their profit share, in the longer term, the access to external capital will allow the firm to drive growth and deliver equity value in which partners will participate.

New hires/ geographic expansion

consistently ranked as a top three priority for all age groups.

Technology improvements

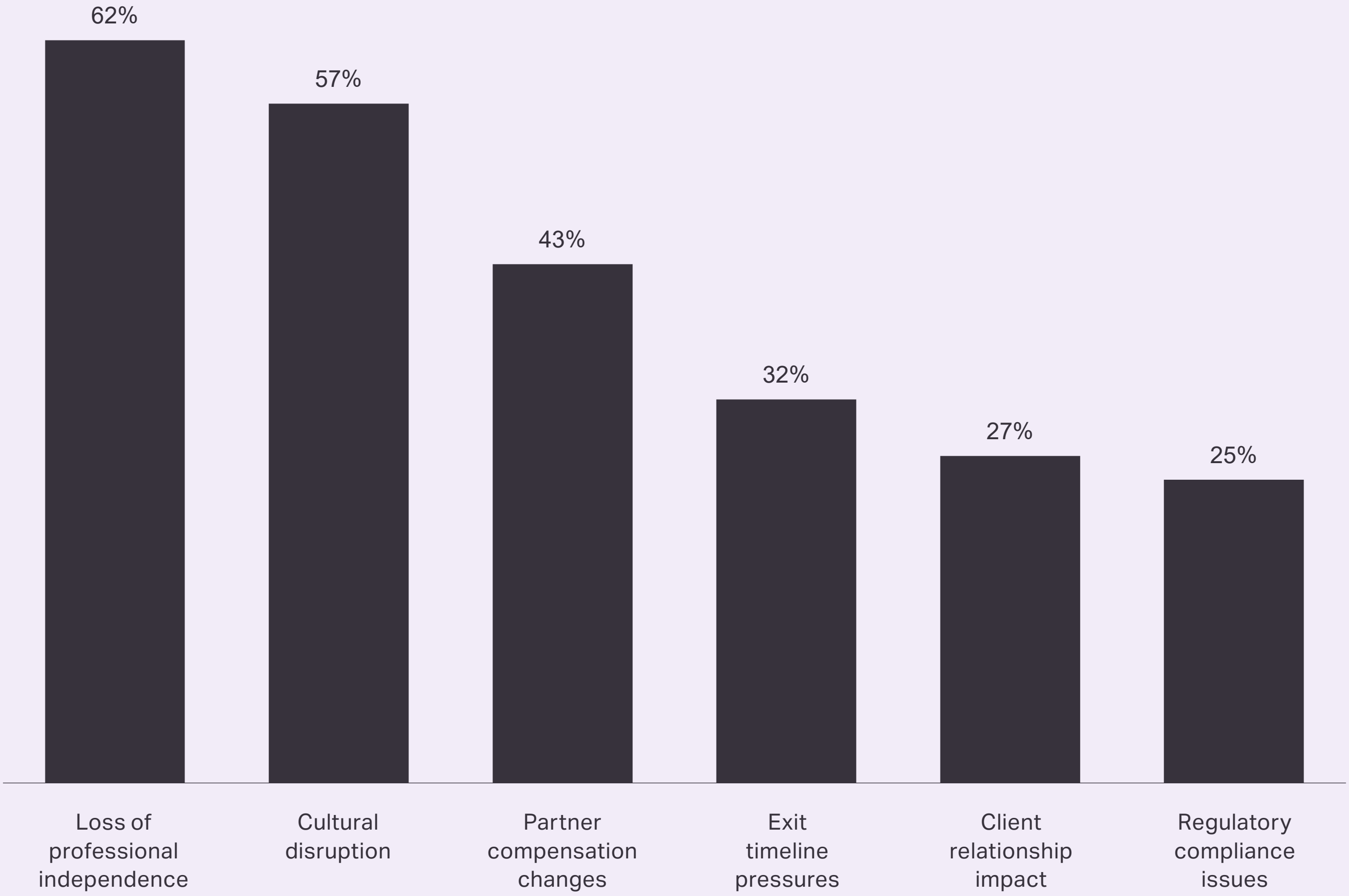
recognised as primary benefit for all age groups except 65+.

03

Maintaining independence, culture and governance

Alongside the benefits that external investment can bring, addressing how firm culture, governance and independence are maintained is critical.

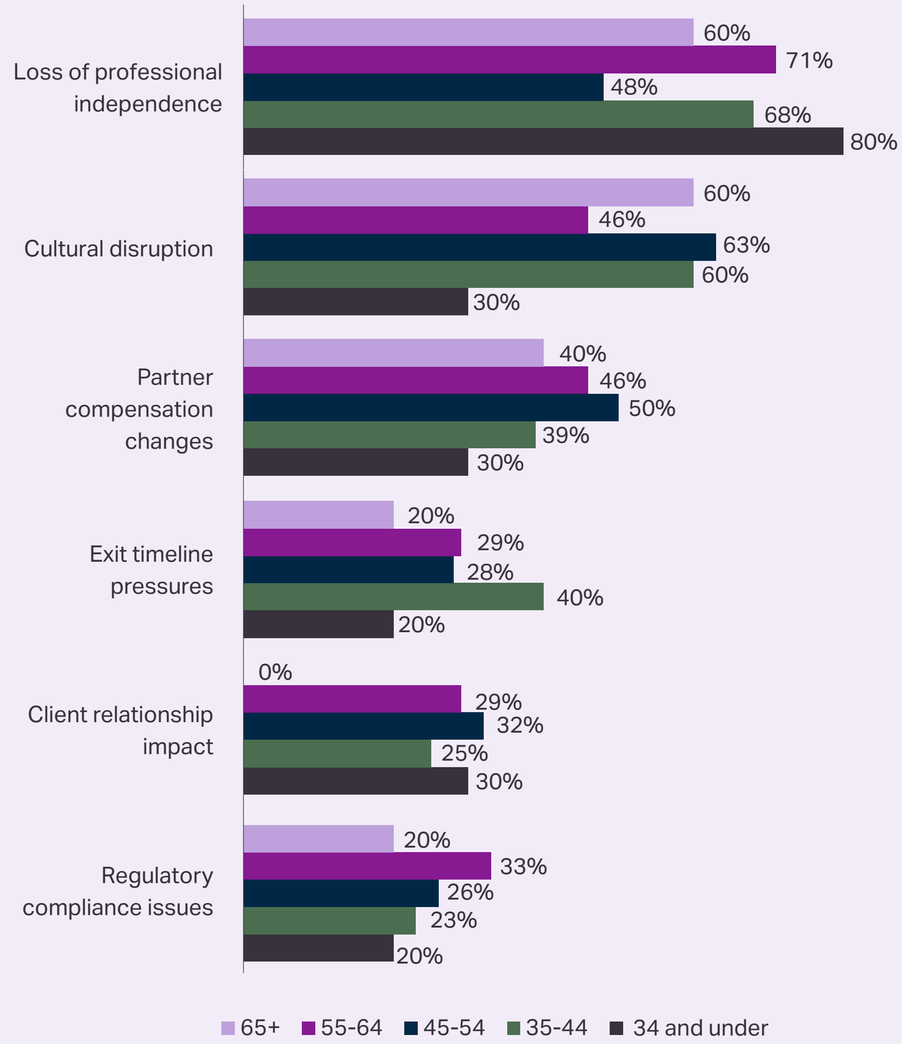
Figure 7 – What are your main concerns about private capital investment in professional services?



Law and accountancy firms are regulated businesses and therefore maintaining professional independence and acting in the best interest of clients must remain paramount. Any governance structure with a new investor should maintain a firm's independence and keep client interests and client service at the core of the firm's culture.

Transitioning from a traditional partnership to a more corporatised structure with external investors will involve firms making significant changes to areas such as governance, partner compensation and ongoing incentivisation. Understanding partners' concerns and addressing those early on in the process will put both firm management and investors in a better position to deliver a successful transaction.

Figure 8 – What are your main concerns about private capital investment in professional services (by age)?



Loss of professional independence was cited as a key concern by partners of all generations including 80% of younger partners (under 35). This may reflect a perception amongst younger partners that bringing in a majority investor could adversely impact the entrepreneurial nature of partnership that they have spent their careers to date working to attain.

Mid-career partners (ages 45–54) flagged concerns around cultural disruption and compensation changes. This cohort will often represent the core of the partnership. They will have established practices and client relationships, often built up over many years. They may have the most to lose in terms of changes to the partnership model and are potentially the most vulnerable to profit sharing changes.

Senior partners (55 and over) also raised independence and cultural disruption as key themes.

Figure 9 – What are your main concerns about private capital investment in professional services (by sector)?

The top concerns expressed by the partners surveyed were largely consistent across law, accountancy and consulting firms.

Legal

- Loss of professional independence
- Cultural disruption
- Partner compensation changes
- Exit timeline pressures
- Client relationship impact
- Regulatory compliance issues

Accounting

- Loss of professional independence
- Cultural disruption
- Partner compensation changes
- Regulatory compliance issues
- Exit timeline pressures
- Client relationship impact

Consulting

- Exit timeline pressures
- Cultural disruption
- Loss of professional independence
- Partner compensation changes
- Client relationship impact
- Regulatory compliance issues

04

The key to success

Practical takeaways for successful deal execution

Successful professional services deals require careful planning and thoughtful structuring to address the sector's unique features. The following areas are key:

Strategy and investment thesis

- There should be a clear investment thesis and strategic plan. External capital is a source of funding that can help to deliver a business plan. But the starting point should always be the plan itself.
- Planning for a future exit should begin at the outset. Thought should be given to the timeline required for value creation under the plan, succession planning and likely exit strategy.

Preserving culture and retaining talent

- Professional services firms are people businesses and therefore incentivising and retaining talent will be critical to the success of any deal.
- Developing innovative incentive structures that create compelling opportunities for high-performing professionals and sufficiently incentivise the next generation who are not yet stakeholders will be important.
- Experienced investors will seek to work with firms to preserve those cultural elements that drive professional motivation and client trust, recognising that disrupting these intangible assets can rapidly destroy firm value.

Governance

- Bringing in an external investor will often result in partnerships transitioning to a more corporate style of decision making and governance. Existing management may welcome this, but the broader partnership may feel differently.
- An investor's desire for strategic control will need to be balanced with regulatory requirements and the need to maintain professional independence.

Looking ahead

As firms face pressure to implement new technologies, remain competitive and retain the best talent, private capital offers an attractive proposition to support a strategy without increasing partner capital calls or taking significant bank debt.

Professional services firms are first and foremost people businesses. It is therefore critical to balance the different goals, ambitions and concerns of the various stakeholders to achieve a successful outcome.

Experienced advisers can help both firms and investors navigate the different dynamics and complexities involved in professional services transactions.

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