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Technology and Innovation in Legal Services

Final Report for the Solicitors Regulation Authority

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CHAPTER 5

Lawtech Ecosystems: Funding, Scaleup, and Policies

INTERACTIVE CONTENT LINKS

This chapter turns to the question of how lawtech adoption and innovation are funded in the UK. We take an ecosystem approach. The lawtech startup ecosystem consists of key stakeholders, and our aim is to study how they are linked via funding flows, movement of people, and policy and regulatory coordination.

In particular, we examine this phenomenon from three perspectives within the ecosystem: lawtech startups and their founders; investors, including venture capital and law firm accelerators; and policy-makers and regulators. Throughout, we make comparisons with the US. Also, we highlight issues surrounding diversity and inclusion, and contrast the PeopleLaw and BigLaw market segments wherever appropriate.

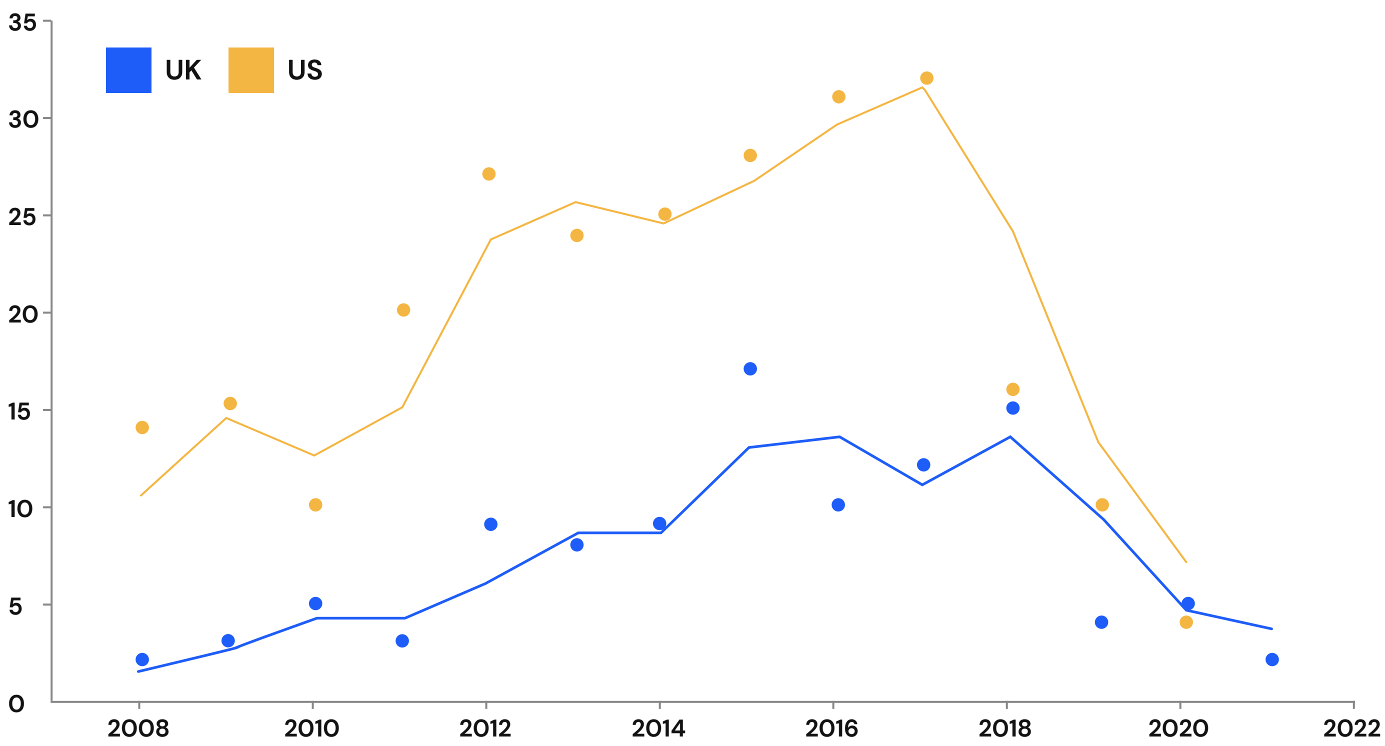
5.1

Lawtech startup trends in UK and US

What is the size and shape of the lawtech startup community in the UK? We use two data sources, Crunchbase and Legal Technology Hub, to identify 104 lawtech startups in the UK and 256 startups in the US which were founded in or after 2008 (see Chapter Appendix for details on methodology).

Figure 5.1 shows the time trend in the number of lawtech startups founded each year during 2008-2021. In both the UK and the US, the numbers increased during the first decade, with the annual UK startup numbers peaking at 15 in 2018 and US numbers peaking at 32 in 2017. Thereafter, both countries experienced a decline in growth rate predating the COVID-19 pandemic. By 2020, the UK and US numbers are equally quite low. It is possible that part of the slowdown in lawtech founding activity is due to a data issue.

Figure 5.1: Time trend in founding lawtech startups



Next, we classify the venture population into PeopleLaw or BigLaw, depending on each venture's client base. In a minority of cases, such classification was not possible owing to a lack of information, or because the client base straddled the two segments or included others such as the public sector. Removing these hybrids, we end up with 59 BigLaw ventures and 49 PeopleLaw ventures in the UK, and 282 BigLaw and 161 PeopleLaw ventures in the US.[1] There are therefore more BigLaw than PeopleLaw ventures in both countries (see Figure 5.2). Figure 5.3 shows time trends in the two market segments in the UK.

Figure 5.2: Lawtech startups classified into PeopleLaw vs BigLaw

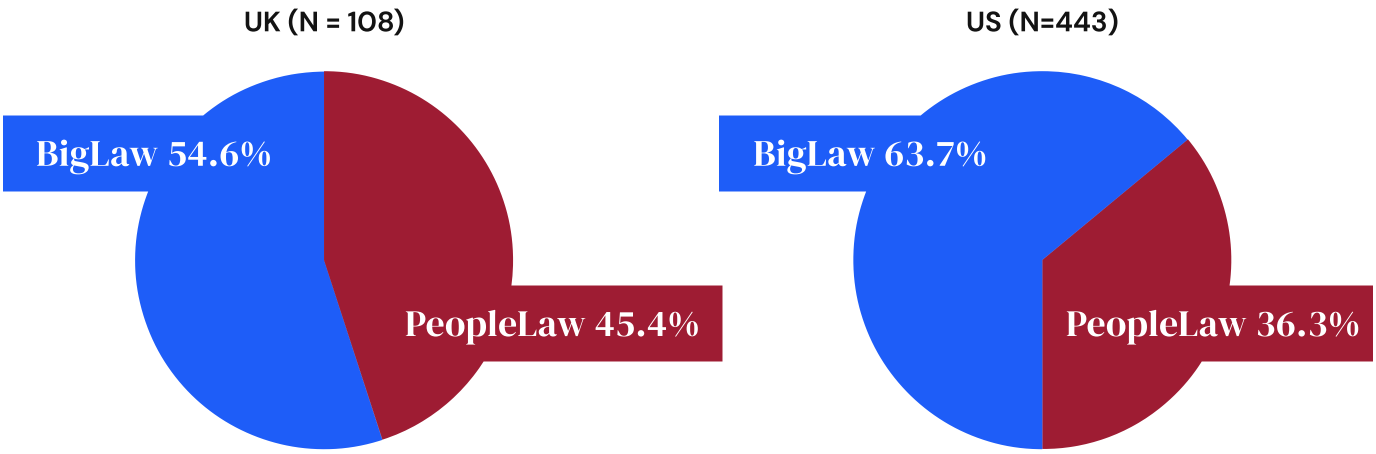
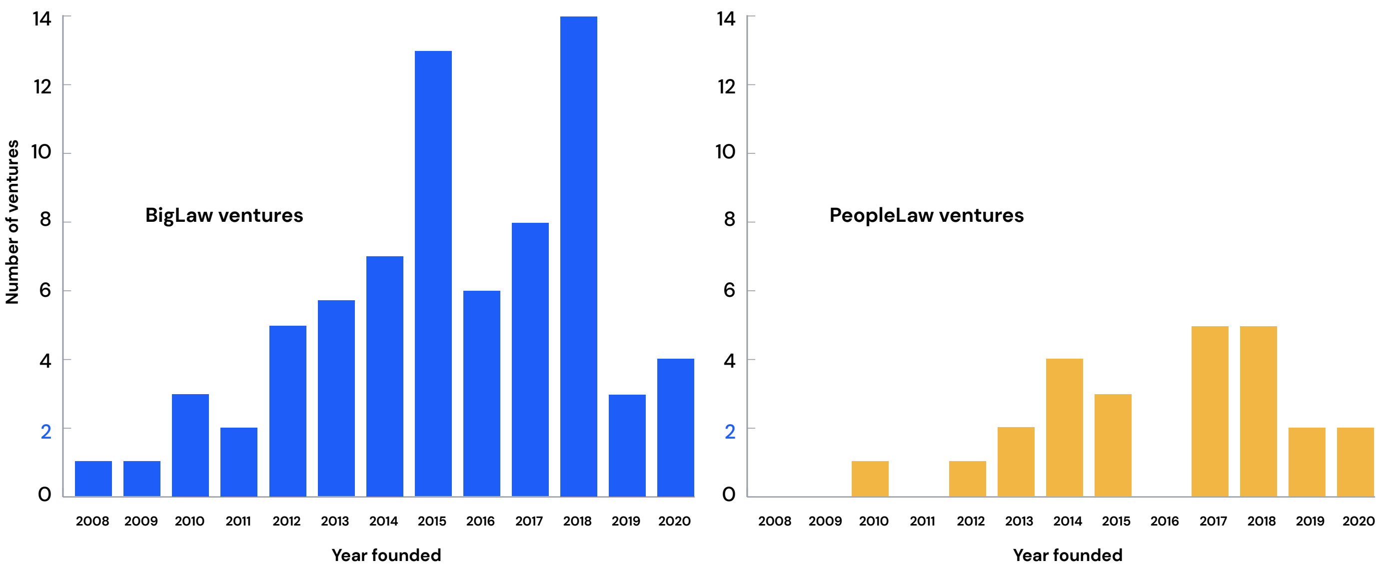


Figure 5.3: PeopleLaw and BigLaw startups established over time in the UK



1 In this analysis, we include 171 US ventures which were founded before 2008.

Where are these lawtech startups located? Figure 5.4 shows the venture locations in the UK and Figure 5.5, in the US. The maps show not only the geographic concentration of venture firms but also the ratio of BigLaw to PeopleLaw ventures in each cluster with a colour code. In the UK, lawtech startup activity is highly concentrated in London, as indicated by the large bubble size. Also, London is tilted towards BigLaw ventures, as shown by the green colour. The yellow bubbles also exist with one BigLaw venture each in Haslemere, Teddington, Brighton, Birmingham and Farnborough. In other regions, lawtech startups tend to be in the PeopleLaw market segment.

In the US, large BigLaw startups cluster in large cities with financial and legal services such as New York, San Francisco, Chicago and Los Angeles (see the large green bubbles in Figure 5.5). Other BigLaw startups are located in the cities of Washington, San Mateo, and Berkeley (see the smaller yellow bubbles). Unlike in the UK, however, there are a large number of other locations for lawtech startups indicating in part the importance of the state-level structure of legal regulation in the US.

Figure 5.4: Geographic locations of lawtech startups in the UK

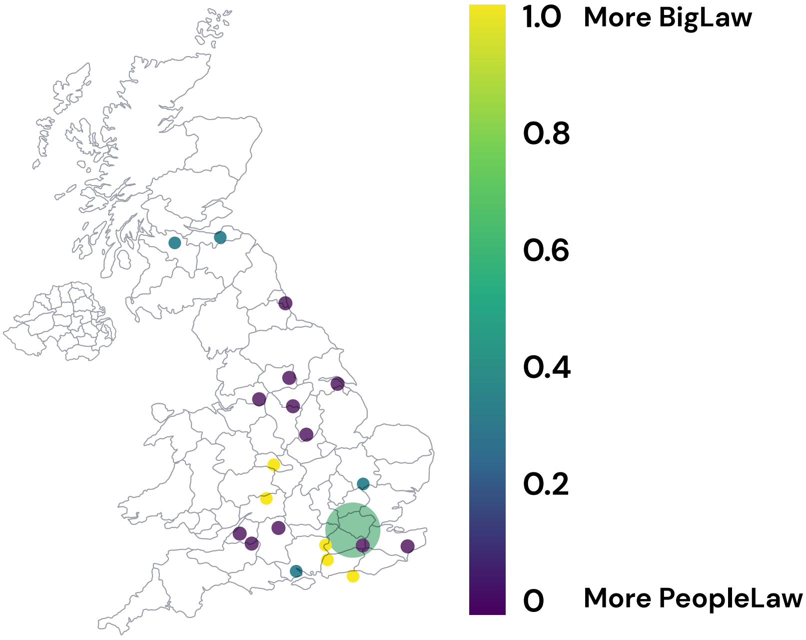
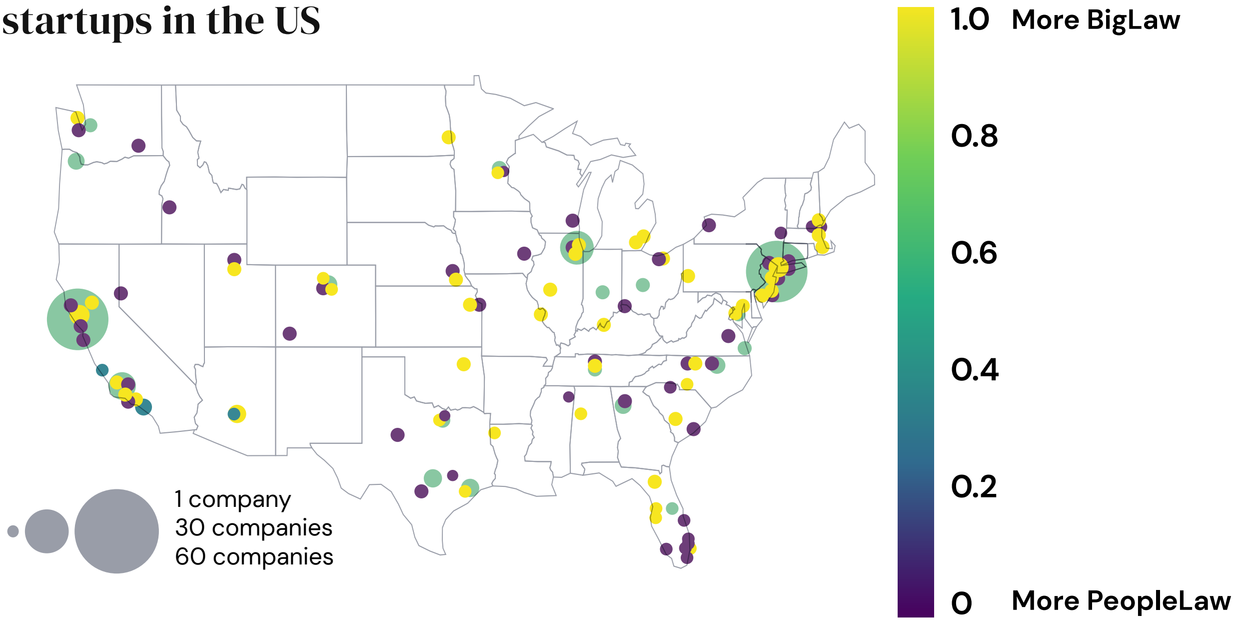


Figure 5.5: Geographic locations of lawtech startups in the US



5.2

Funding for lawtech startups in UK and US

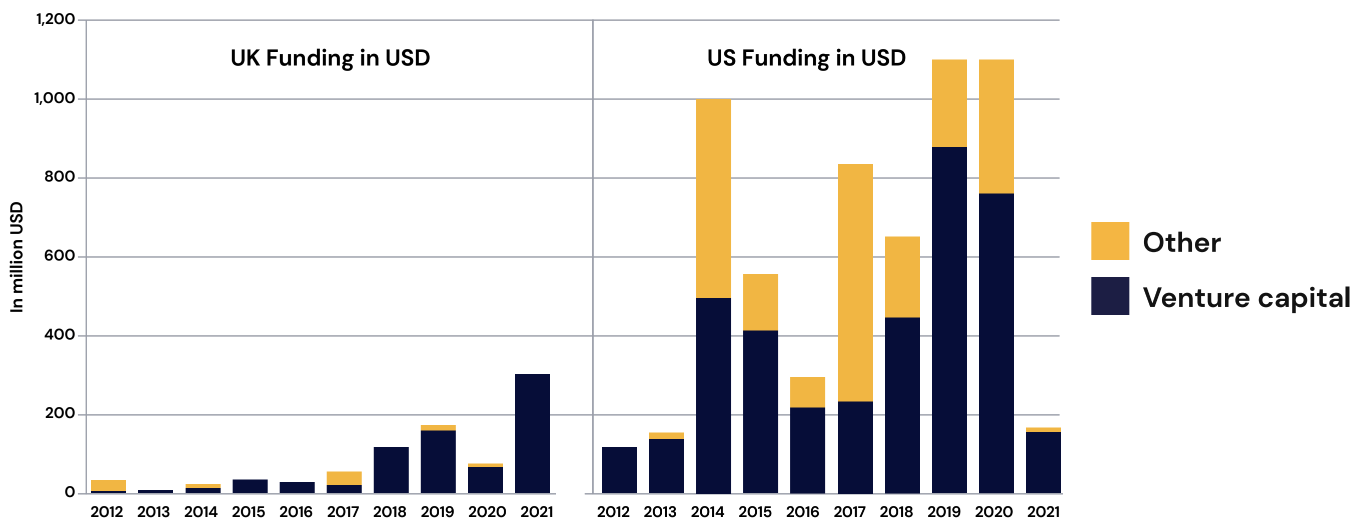
In order to start and grow young ventures, founders look for funding from various sources, which is disbursed in 'stages' of increasing value, known as funding rounds. This section explores funding patterns by source, market segment, and venture type.

Venture capital is the predominant source of funding for lawtech companies (see Figure 5.6). The US raised over a billion USD per annum in 2019 and 2020, compared to less than 200 million USD in the UK except in 2021. Cumulatively, US lawtech startups raised a total of 5.98 billion USD, and UK lawtech startups a total of 853 million USD. This funding gap is in part due to the Silicon Valley phenomenon in the US, with a large pool of venture capital funding available for technology startups. It is reflected in a sizeable difference in average funding per venture, at 9 million USD in the UK compared to 28 million USD in the US.

Notwithstanding this gap, lawtech startups in the two countries have received funding from a variety of sources (angel, venture capital, grant, etc.) at different stages of growth (from pre-seed, seed, Series A, to later Series before 'exit' by being acquired or other means). Table 5.1 shows that, while the variety is high and information incomplete (with unknown and undisclosed information), seed funding at early stage (typically valued between 10,000 and 2 million USD) is the most common in both countries.

Turning to investment funding by market segment, Figure 5.7 reveals a striking contrast between PeopleLaw and BigLaw. In fact, most of the funding in the UK went to BigLaw startups, with PeopleLaw ventures being a small niche investment category. Only 3.2% of the total funding flows into the PeopleLaw sector in the UK. Moreover, with a total of 75 BigLaw funding rounds and 23 PeopleLaw funding rounds, the average funding size in PeopleLaw is smaller than in BigLaw.

Figure 5.6: Funding for lawtech startups, by type of funding



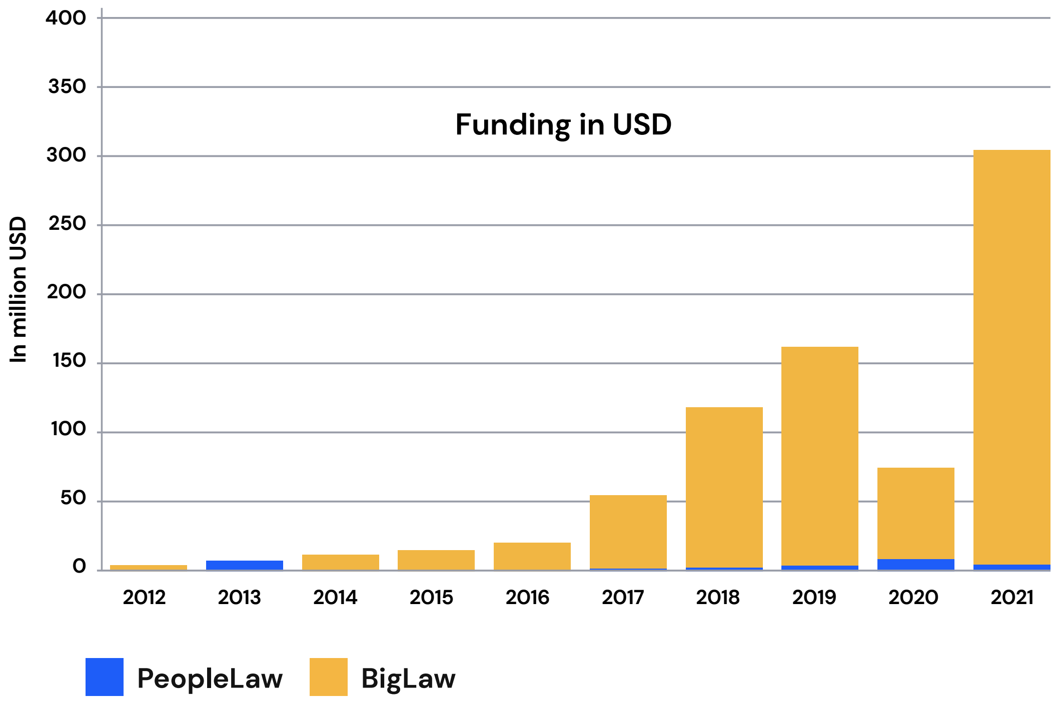
2 Our figures based on Crunchbase and Legal Tech Hub are therefore larger than the £290 million 'total raised by UK lawtech to date' (see Tech Nation (2020)) Lawtech: a shared opportunity, Global LawTech Summit, 7 December.

Table 5.1: Number of funding rounds by stage, in UK and US

Investment type	Summary	UK	US
Angel	Launch funding, often provided by friends and family.	7	13
Grant	Non-equity investment in company, from investors, companies, governments etc.	6	11
Non-equity assistance	Support can include office space or mentorship.	0	1
Equity crowdfunding	Company typically offers equity stakes to public, using a public platform to do so.	6	0
Initial coin offering	Crowdsourced fundraising using cryptocurrency as capital.	1	0
Pre-seed	Investments are typically worth less than USD 150,000.	12	13
Seed	A common form of investment, typically valued between US$ 10 thousand and 2 million.	46	115
Debt financing	Investors lend money to company, rather than acquiring shares in it. The loan is repayable.	4	22
Corporate round	When another company, rather than a venture capital firm, takes a stake in a company.	3	3
Secondary market	Fundraiser when one investor acquires shares from another investor, rather than from the company directly.	0	1
Series A	Investments typically valued between USD 1 - 30 million. Values can merge into series B funding.	14	60
Convertible note	‘Between rounds’ funding, which converts to a discount price at the next round. Typically issued between series A and B.	2	19
Series B	Investments typically valued between USD 1 - 30 million. Values can merge into series A funding.	8	44
Series C	This funding round typically starts at USD 10 million.	0	18
Series D - G	Lawtech specific examples within our cohort include investments worth between USD 100 and 250 million.	2	19
Private equity	Late stage funding for mature companies - typically USD 50 million or more.	1	7
Post initial public offering equity	Fundraising after company has already gone public.	0	6
Series unknown	Investment series type is not disclosed.	11	63
Undisclosed	Value of the investment is not announced.	1	3
Total		124	418

Source: Crunchbase

Figure 5.7: Funding for lawtech startups in the UK, by PeopleLaw vs BigLaw market segment



To draw more granular insights into these funding patterns, we interviewed several lawtech venture founders and investors. The ventures we interviewed are at different stages in the funding journey, ranging from seed funding to Series B. These companies therefore broadly reflected the lawtech funding market, shown in table 5.1 above. We also interviewed both seed investors and professional investors with their own investment houses.

Describing their investment journey to date, all of our lawtech founder interviewees said they initially relied on angel investors to support their business, although one confirmed that they had also secured grant funding. Angel investors were typically drawn from founders' personal networks, including friends, families, and former work colleagues. For those slightly along the investment journey, proactive networking with new contacts also helped secure funding. Sometimes funding was secured by targeting specific individuals, who are known to be early stage lawtech investors.

However, on other occasions, luck also played its part: one PeopleLaw founder initially met their seed funders after sitting next to them and sparking a conversation.

'To start with, it was founder funded. I had to get a certain level of traction, and then I was able to raise angel funding from a small group of high-net-worth people – not exclusively lawyers, but they were the first people who invested into the business. After that I looked for institutional investors.' – Founder of a legal sector-specific digital communication platform startup.

'One of our main missions was to get [funding] from people we didn't know because I wanted to prove the idea.' – Founder of legal resourcing startup.

'We were based in [location] next to a seed fund – literally just sitting next to... people who were starting a seed fund, and they ended up leading our seed round.' – Founder of a PeopleLaw service startup.

Networking is also important to startup funders to identify investment targets.

'I get the bulk of my deal flow from networking – knowing VCs [venture capital companies], having been part of syndicates and informal networks. I can get as many as ten inbound requests a week – including people reaching out on LinkedIn. The advantage is that the VC company that started the round has done the due diligence and scrutinised everything before creating a small allocation for value-add angels. I get deals from a mixture of VCs and angels.' – Serial entrepreneur, investor, and mentor.

'I left [legal publishing company] in [year], and started getting calls from private equity firms about helping with deals. So I did that just out of the kindness of my heart, because I was told I [was] supposed to network… And then at the same time, I have some former [legal publishing company] employees who wanted to go out and start their own company; they asked me to invest in it, which I did.' – Angel and institutional lawtech investor.

Besides obtaining direct funding, some of our lawtech founder interviewees also obtained benefits in-kind that aided their business.

'Initial funding was from angels and government grants. We also had funding equivalents in in-kind services: AWS [Amazon Web Services] credits covered our technology costs for about two years; we had pro bono input from law firms and one investor who is a solicitor. We got mentorship from accelerator programmes and incubators and input from regulators. It is services in kind, and we definitely couldn't have done it without them.' – Founder of startup providing SME access to legal information and advice.

For angel investors, one of the fringe benefits of investing in lawtech startups is that tax breaks allow them to mitigate their losses, should the company they invest in fail. In the UK, the government's Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS) were mentioned by investor interviews as an incentive for not only investing (at all), but also investing to a particular financial value and for a particular period of time specified in EIS or SEIS.

To understand why PeopleLaw lawtech startups, in particular, tended to attract less funding, we actively biased our lawtech interview sampling towards PeopleLaw ventures. We also asked investors for their views on both PeopleLaw and BigLaw investments. In theory, the existence of unmet legal need, discussed previously in Chapter 4, means that PeopleLaw segment represents a huge untapped market, with significant potential for growth. However, several of the investors we interviewed appeared to be wary of this market segment, compared with its BigLaw equivalent. Here, they raised doubts regarding the ability of PeopleLaw startups to scale their businesses in a cost-effective manner.

'The issue with B2C is the cost of customer acquisition. [founders] may have developed an app that serves the consumer area…the issue is they don't have great business training and they don't know the best way to leverage social media, sales and marketing. They don't understand channels that have to be extended and efficient. Often, what they end up doing is having business that simply can't scale.' – Angel/institutional investor focusing on lawtech.

'I'm slightly old school in that I think a business's value should have some linkage to what it's going to earn in the future. The big challenge for any consumer model is to explain their route to market. You may have a great legal services product, but how are you going to promote it?' – Angel investor backing several early-stage lawtech startups.

In essence, one of the structural problems with PeopleLaw ventures is that some of them deal with one-off and discrete events - property transactions, divorce, will-writing, etc. Yet, because these solutions vendors are also often startups, intent on competing with market incumbents, they also need to build a large customer base. The need to build a large customer base, who tend not to be repeat customers, appears to make potential PeopleLaw investors nervous. Indeed, one lawtech investor estimated that, based on their understanding of other sectors, building a popular consumer brand could cost 'in the hundreds of millions of pounds, if not billions' over a timeframe lasting decades. Perhaps not surprisingly, this investor had opted to concentrate his investments in the BigLaw lawtech market.

By contrast, lawtech companies who target BigLaw clients have a far smaller potential client base - typically law firms or in-house teams. However, because they use BigLaw solutions on an ongoing basis, BigLaw clients are likely to be repeat customers, who buy services on subscription. This long-term, subscription-based business model makes it relatively easy for would-be investors to evaluate a BigLaw-focused lawtech startup's value. Other, more professional, investors have reached broadly similar conclusions as to which type of lawtech companies are most attractive to investors - ie 'structurally repeating revenues' and 'a sticky, blue chip customer base'.[3]

To address these investor concerns, one PeopleLaw interviewee in family law told us that they were attempting to expand their core business proposition by bundling core one-off legal transactions with multi-year subscription-based support services based around co-parenting issues. Another described their suite of services, which, although based around one-off transactions, also complemented each other - thereby lending themselves to service bundling and cross-selling, and reduced customer acquisition costs as a result. Indeed, this interviewee was able to put a precise percentage of services cross-sold in total revenue: 66%.

Another way in which one of our PeopleLaw interviewees had attempted to overcome the negative perception by investors of their sector was not to position their offering as being a lawtech solution, still less a PeopleLaw tech solution. The interviewee's preferred approach of projecting their company as a fintech rather than legaltech startup is arguably understandable.

'I would never position what we do as legal tech. [I would] position it as fintech... because I'll get a five times higher multiple if I'm in fintech versus legal tech.' - Founder of digital will-writing and probate startup.

That said, a failure by PeopleLaw lawtech ventures to seek ever greater levels of external funding was not always a sign of failure. Rather, it was because additional funding was not needed.

'We did another funding round... but we haven't spent a penny of it because we've been profitable.' - Founder of flexible legal resourcing venture.

In terms of the relationship between geography and investments made, perceptions were mixed. One of our more established, regionally based lawtech company interviewees recalled having to travel to London to secure funding, which was not available locally. By contrast, among other interviewees, access to funding by reference to geography barely registered as a consideration - especially in light of the pandemic. 'We're all Zooming now,' they said. Another interviewee commented that COVID-19 related travel restrictions had helped level the funding playing field, in terms of securing face time with would-be investors - including those based in the US.

3 Investec (2019) LegalTech & NewLaw Q219 update, July.
4 There is evidence that a greater proportion of fintech startups obtain funding than lawtech counterparts, and that the time elapsed from startup founding to first funding is shorter for fintech than for lawtech startups. M. Sako, M. Qian, et al. (2020) *Scaling up firms in entrepreneurial ecosystems: fintech and lawtech ecosystems compared* (available from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3520533)

'We had flights booked to go and meet different investors, and then I ended up spending three weeks sitting in my bedroom talking to investors all around the world, which actually… was pretty effective because I probably could meet five times more funds.' – Founder of digital will-writing and probate startup.

On the funders' side, one of our lawtech investor interviewees stated they were happy to invest in companies based anywhere in the world, so long as the business case was sound. By contrast, another of our interviewees – a US-based institutional investor – said they preferred to invest in their local market. This was not because of any overt preference for supporting local companies, more because competition for deals among investors was so much more intense elsewhere in the country, especially in Silicon Valley. *'We frequently lose deals to Silicon Valley because they don't do as much due diligence as we do, and they'll offer a higher price. So we tend to focus on [local location] to source deals.'* It is possible that these two considerations – investor competition and a culture of cursory due diligence – may partially explain why lawtech companies receive more funding in the US, compared with the UK.

Irrespective of which legaltech startup market segment they invest in, what makes an investor select one opportunity in preference for another – especially given that multiple competing investment opportunities are often available?

Across all investors we interviewed, was a need to understand the product/service being pitched to them before making an investment decision.

'I try to get realistic assumptions around revenue and profitability. Then I apply three criteria. First, do I get what they are trying to do? If they can't explain the product to me, their chances of selling it are pretty slim. Secondly, do I have confidence in the team, and thirdly, is this an important enough issue for a law firm IT director to prioritise?' – Angel investor backing several early-stage lawtech startups.

'I am interested in what I understand. Some can't explain their product well; I'm a networker and I've never been a lawyer. Being an outsider looking in, you can see the businesses that solve a problem; it's common sense why they are solving it and the market is scalable.' – Startup community and events organiser, founder and investor.

Beyond that, evaluation approaches varied. Some investors focused on less tangible qualities of the leadership teams, including their 'integrity' and 'resilience', while others took a more 'scorecard' based approach to their evaluation. Notably, this latter approach was taken both by a public sector investor making low-value seed investments and also a private sector investor making much higher-value investments. Among those investors we interviewed it was not, therefore, a case of 'small investments – informal appraisal, large investments – formal appraisal.' Rather, investor evaluation approaches varied by investor preference, not just by investment value.

'Number one is the management team. That can be integrity, credibility, style, and culture fit. Number two is the financial performance of the business. We do due diligence on the numbers, [we look at] their claimed performance versus their actual performance. Number three is industry knowledge.' – Partner in VC fund specialising in lawtech.

'You're backing people first. Do the founders have the skills to solve the problem they have identified? Is there or is there about to be a market opportunity for their idea? And do the founders have the fortitude and resilience that goes into building a business?' – Serial entrepreneur, investor, and mentor.

'We evaluate a company on 16 criteria. Each category has a rating from one to five, and we have a weighting on that rating, and then we end up with a score … the top three make up about half the score.' - Partner in VC fund specialising in lawtech.

'We have a set of 10 questions that we use, and then our assessment process is one where we get in experts from the field. So, in this case, it would be accountancy, insurance, and legal services professionals, as well as technology professionals in the area of digital to assess those... applications against those questions and make a judgement as to the rank order of them.' – Public sector investor.

For some investors, legal sector domain knowledge is important – and could be a deal-breaker.

'I say no to lawtech investments unless one of the founders is a lawyer. You have to understand the weirdness of law firms. Lawyers are difficult customers because their job is fundamentally mitigating risk not embracing it.' – Serial entrepreneur, investor, and mentor.

The ability for a lawtech software solution to integrate with others is also a 'huge theme', according to some, because they enable scaling via expanding the client base. The issue of solutions integration with other IT systems was also raised by our law firm interviewees in Chapter 4, and by 8% of survey respondents as a purpose of technology adoption (see Chapter 2 Table 2.7). The interviewees also highlighted software integration challenges as a possible barrier to lawtech adoption.

'Startups almost always start out as point solutions because they have to find some discontinuity that they can take advantage of in order to go to market. But [customers] will always choose a lower cost one-stop-shop over a disorganised set of point solutions. So, when we're [considering investing in] a new point solution, we look at whether it integrates with existing platforms and solutions.' – Partner in VC fund specialising in lawtech.

Support mechanisms for lawtech companies can take many forms - lawtech-focused incubators and accelerators (of which there are at least six in the UK), incubators and accelerators in related sectors, regulatory sandboxes, and government-backed support programmes.

Overall, law-firm backed incubators and accelerators tended to focus on products and services that add value to their practice, may bring the firm a competitive advantage – or at least allow the firm to position itself as being 'innovative'. By contrast, government and publicly funded initiatives were more open to supporting PeopleLaw ventures, targeting consumers. Not all of these schemes provide funding, however.

'There is a clear value exchange: they are building something that can address our pain points, and we can help them build better products. We look at the business of law and the practice of law... we also consider the trajectory of those businesses and whether, once they exit the [accelerator] they are likely to be adopted across the market.' – Head of law firm startup incubator/accelerator.

'Nobody got funding. But they got services. We helped distil [participants' objectives] into a three-month roadmap, and then we ran workshops, made introductions, provided data access. Each participant was allocated a ... manager, and they had 30-minute check-ins once a week.' – Head of publicly funded lawtech programme.

While some incubators provide a dedicated physical space, all those we spoke to had moved online during the COVID-19 pandemic. This arguably enhanced the international reach of such schemes:

'You can be based in Singapore and build technology that solves problems in the UK and other markets too. Our cohorts have included startups based in the US and in Dubai who participate online. We don't ask anyone to relocate. The pandemic has made the world flatter and more connected.' – Head of law firm startup incubator/accelerator

Not all lawtech founders took part in lawtech focused incubators or accelerators. Reasons varied, and included diversity concerns, equity stake expectations, or that non-legal accelerators were deemed to be a better fit.

'We looked at a few, but they are not right for what we are trying to do, and they are not set up for women of our age group who have run businesses before, so these programmes have never appealed to us.' – Female founder, PeopleLaw startup.

'I applied for a government scheme for women founders, but I didn't get in. I have not considered an incubator or accelerator, because they often want equity options, and to be honest, I don't know what value they would add to the business.' – Founder, legal resourcing business.

'We were part of Women's Startup Lab, a Silicon Valley accelerator for female founders. It gave me access to mentors from tech giants like LinkedIn and SalesForce on how to scale up businesses. It is the sort of thing you probably have to go to America for.' – Founder, tech product targeting law firms.

5.3

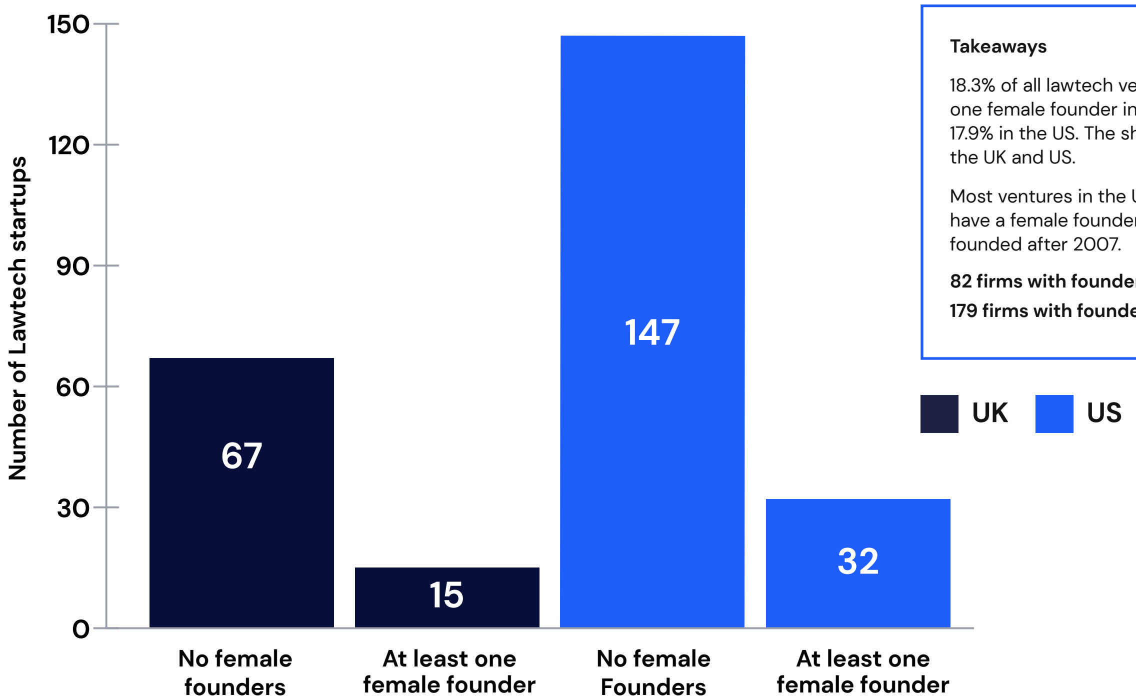
Gender diversity and inclusion in lawtech founding and funding

We now turn briefly to the issue of diversity and inclusion in lawtech founding and funding. This issue is of broad concern for the entrepreneurial ecosystem well beyond lawtech startups,[5] and also for the legal profession.

Our aim is to draw on the Crunchbase database to reveal the gendered nature of both founding and funding. We are not able to extend our analysis to investigate whether or not this gender bias in lawtech startups is better or worse than in other tech startup sectors.

There are 90 lawtech venture firms in the UK and 189 firms in the US with information about the gender of founders. Of those, 18.3% of all lawtech ventures have at least one female founder in the UK, compared to 17.9% in the US (see Figure 5.8). The share is therefore very similar in the two countries. However, within the UK, there is a striking concentration of female founders in the PeopleLaw market segment. As shown in Figure 5.9, 8% of BigLaw startups have at least one female founder, while 63 % of PeopleLaw startups have.

Figure 5.8: Gender composition of lawtech venture founders in UK and US



Takeaways

18.3% of all lawtech ventures have at least one female founder in the UK, compared to 17.9% in the US. The share is very similar in the UK and US.

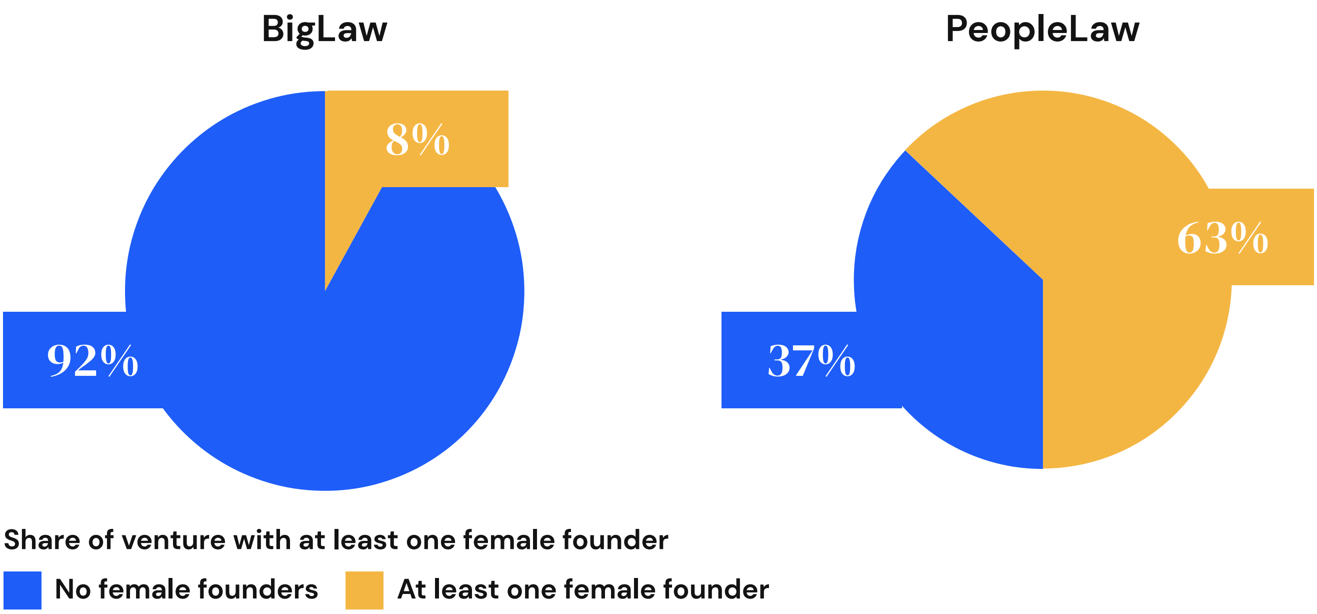
Most ventures in the UK and US do not have a female founder. We consider firms founded after 2007.

82 firms with founder information in UK

179 firms with founder information in US

5 See, for example, Pitchbook and NVCA (2020) *Venture Monitor Q4 2020: the Definitive Review of the US Venture Capital Ecosystem.*

Figure 5.9: Gender representation of founders in UK BigLaw and PeopleLaw ventures



This project was not intended to explore the issue of diversity and inclusion fully, and further research is required. Our interviews therefore did not uncover why female founders tend to congregate in the PeopleLaw segment of the lawtech market. However, our interviews with lawtech founders revealed an apparent path dependency between their life experiences to date and the lawtech companies they created. Examples included:

- A lawtech venture founder directly inspired by a business they grew up living next door to
- A founder, who had had initially found it difficult to secure a career in the legal sector, who later created a law-related recruitment solution
- A founder who had experienced difficulties in their personal life, who went on to create an online legal service to address that same issue
- A founder who had created a service aimed at small law firms, who had previously worked for a small law firm.

It is possible that investors' general aversion to funding PeopleLaw ventures, coupled with founders' tendency to develop companies based on their life experiences, may partially explain the resulting gender differences in lawtech funding.

If so, one way to counterbalance the lawtech funding gender gap might be to support female founders with BigLaw experience to establish lawtech ventures in BigLaw, a market segment apparently more appealing to investors than PeopleLaw.

Moving on now to gender differences in funding: we first investigate the pattern from the perspective of ventures (Figure 5.10), followed by the perspective of investors (Figure 5.11), then of individual founders (Figure 5.12).

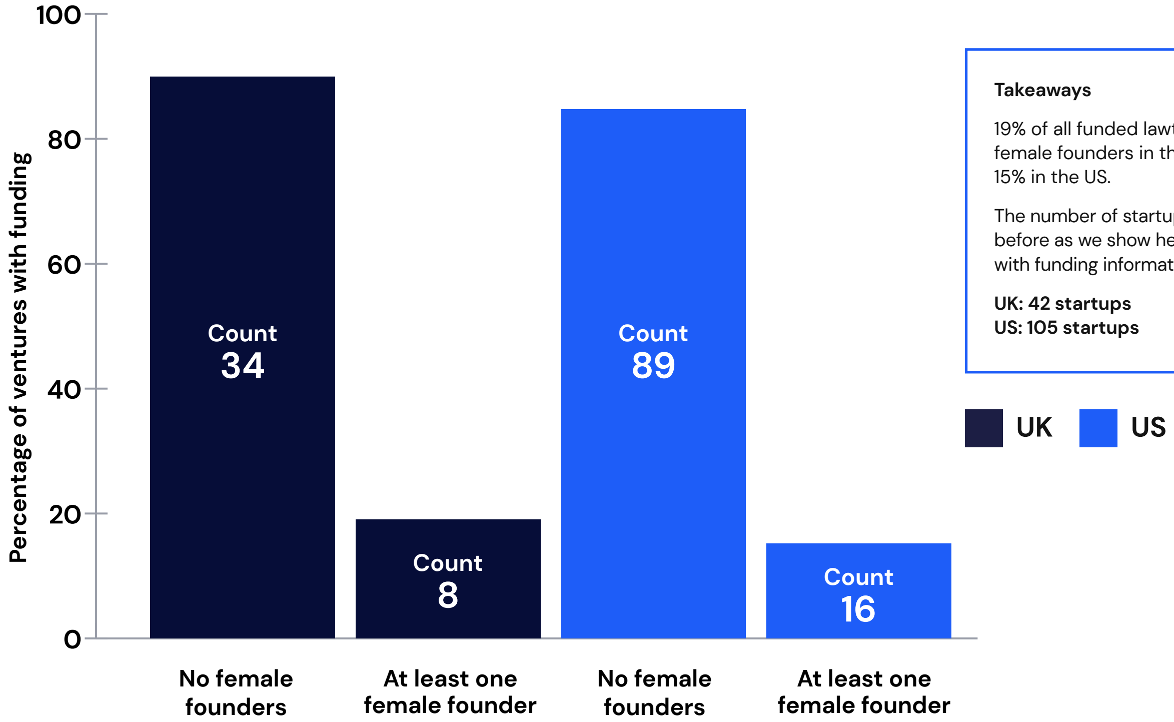
From a venture perspective, 19% of all funded lawtech ventures have female founders in the UK, compared to 15% in the US (see Figure 5.10). The number of startups in this Figure is lower than that previously shown in Figure 5.1, because not all legaltech startups have information on funding in Crunchbase.

Turning to the investor's perspective in Figure 5.11, lawtech ventures with at least one female founder, on average, obtain 38% of funding received by ventures with no female founder in the UK, compared to 29% in the US.[6] Ventures with at least one female founder therefore raise only a fraction of the money raised by ventures with all-male founding teams.

6 This compares with nearly a quarter (24%) of all US VC deals (number of deals across all sectors) going to ventures with at least one female founder, and 16% of the total VC value going to ventures with at least female founder. See Pitchbook and NVCA (2020) *Venture Monitor Q4 2020: the Definitive Review of the US Venture Capital Ecosystem*, page 22.

Lastly, by counting founders individually in Figure 5.12, 8% of total funding goes to female founders in UK, compared to 5% in US. Therefore, the UK has seen a slightly better gender balance than in the US, but in the context of the US lawtech sector obtaining 7.8 times more funding in absolute terms than the UK sector.

Figure 5.10: Gender composition of funded ventures in UK and US



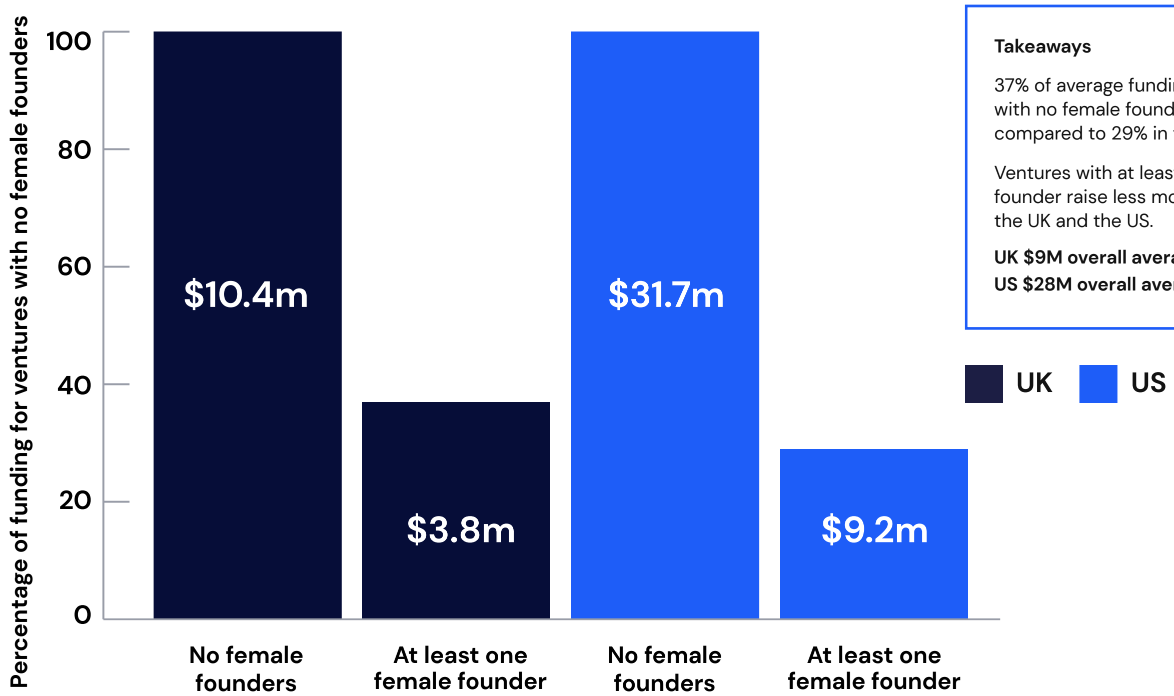
Takeaways

19% of all funded lawtech ventures have female founders in the UK, compared to 15% in the US.

The number of startups is lower than before as we show here only startups with funding information in Crunchbase.

UK: 42 startups
US: 105 startups

Figure 5.11: Relative distribution of funding by gender of lawtech founders



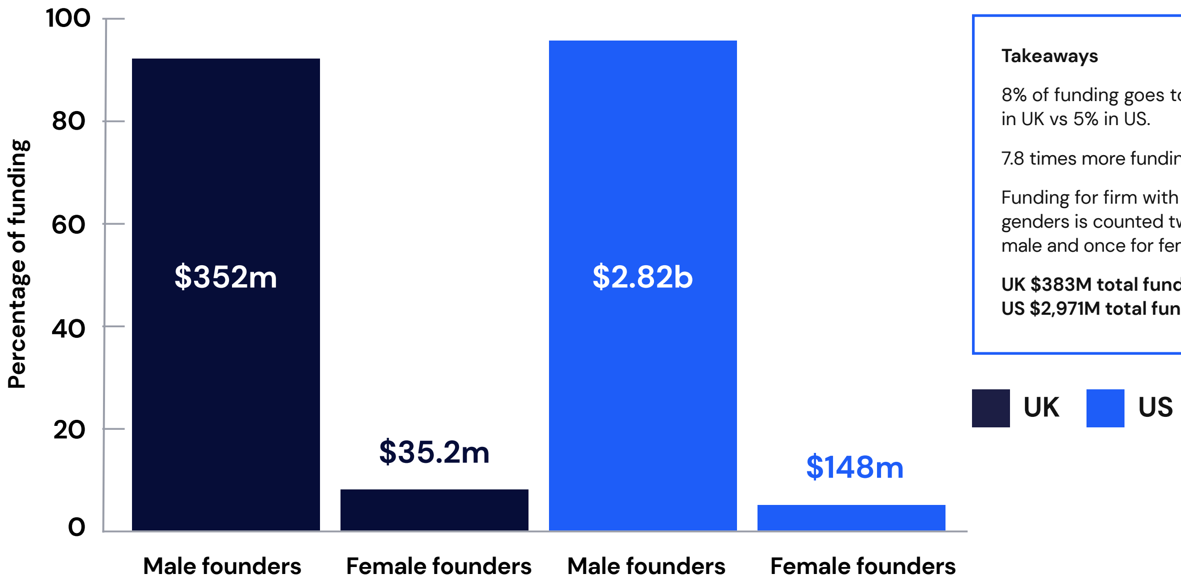
Takeaways

37% of average funding for ventures with no female founder in the UK, compared to 29% in the US.

Ventures with at least one female founder raise less money per venture in the UK and the US.

UK $9M overall average funding
US $28M overall average funding

Figure 5.12: Distribution of funding in lawtech by gender of founders



Takeaways

8% of funding goes to female founders in UK vs 5% in US.

7.8 times more funding in US than in UK.

Funding for firm with founders of two genders is counted twice, once for male and once for female.

UK $383M total funding
US $2,971M total funding

All of the lawtech venture founders we interviewed, male and female alike, had secured third-party funding. Indeed, one female founder interviewee had secured funding worth millions of pounds. Funding sources included grants, seed funding, angel investments and – in some cases – funding by institutional investors. On the basis of these interviews alone, we are therefore unable to determine whether gender played any overt role in the funding levels received by our interviewees. That said, some of the funders we spoke to were acutely aware of – and annoyed about – the overall mismatch in funding between male and female-led lawtech companies. To mitigate the risk of gender bias in early-stage funding, one of our female lawtech founder interviewees said they had deliberately sought debt funding from a bank that uses an algorithm rather than a human to make funding decisions – because the upshot of that process was that 'they fund way more women than anybody else, just based on the numbers'.

5.4

Acquisitions and exits of lawtech startups

Lawtech startups, just like other tech startups, consider exit options including being acquired by other firms. We capture all acquisitions in the lawtech sector in the UK and the USA reported in the Crunchbase database.

Reflecting the highly fragmented nature of the global lawtech market, Figures 5.13 and 5.14 indicate a wide range of industry acquires, many only making singular acquisitions. In legal technology, Fastcase, Litera and Mitratech are some of the few companies to have made multiple lawtech company acquisitions across the US and UK. The acquired firms include: Docket Alarm (2018), NextChapter and Judicata (both 2020) – acquired by Fastcase; Workshare (2019) Allegory Law (2020) and Foundation Software Group (2021) – acquired by Litera; and Viewabill (2016) and Contract Room (2021) – acquired by Mitratech. Other notable industry players include Elevate and Thompson Reuters for their acquisitions of LexPredict (2018) and CaseLines (2020), respectively.

Among investors, views on the sector's consolidations to date are mixed. On the one hand, one early-stage investor lamented that the tendency for startups to be acquired by much larger players led to the absence of a 'vibrant' market for middle-sized lawtech companies. On the other hand, another investor welcomed consolidation of what were essentially multiple point solutions into more coherent single products. Here, they cited document management, contract automation, contract lifecycle management and contracts analytics as being one obvious candidate for sector consolidation, and eDiscovery data collection and review as another. 'The providers that ultimately end up winning that game will be those who can consolidate those functions and offer them as a one-stop-shop.'

Figure 5.13 Acquisition of lawtech companies in the UK

Year	Acquisition target and acquirer
2012	Workshare by SkyDox Tikit by BT
2013	LawLogix Group, Inc. by Akoya Capital Partners Civica by OMERS Private Equity
2014	Eclipse Legal Systems by Capita
2015	LawLogix Group, Inc. by Hyland Software
2016	Sibyl Groupe Conseil by PiiComm
2017	Civica by Partners Group
2018	LVP by Shoppable Riverview Law by Ernst & Young Miles 33 by Ethos Partners

Year	Acquisition target and acquirer
2019	IntaForensics by CYBER1 Workshare by Litera BrightOffice Limited by ClearCourse Partnership
2020	Linetime Ltd by Practice Evolve Tikit by Advanced Anexsys by Xact Data Discovery CaseLines by Thomson Reuters SDL plc by RWS Group
2021	IntaForensics by Forensic Access Miles 33 by Naviga Arachnys by AML RightSource Opus 2 International by Astorg Hubshare by M-Files Repstor by Intapp

Figure 5.14. Acquisition of lawtech companies in the US

Year	Acquisition target and acquirer
2012	Modus LLC by Azalea Capital Deltek by Thoma Bravo Digital Reef by TransPerfect
2013	StoredIQ by IBM
2014	FRONTEO Government Services by FRONTEO Equivio by Microsoft
2015	ARX by DocuSign Consilio by Shamrock Capital Advisors PGi (Premiere Global Services) by Siris Capital Group Ngage Live Chat by Internet Brands ArcMail by iGambit Innography by CPA Global AbacusNext by Providence Equity Partners
2016	Nexidia by NICE Systems Diligent by Insight Partners Atlantic Associates by Trillium Staffing Solutions Viewabill by Mitratech Quick Base by Welsh, Carson, Anderson & Stowe Gavel & Gown Software by AbacusNext AppealTrack by Tax Compliance EPIQ by OMERS Private Equity Integreon by NewQuest Capital Partners Clarivate Analytics by Onex Deltek by Roper Technologies
2017	Software Technology, Inc. by Thompson Street Capital Partners TrialWorks by Ridge Road Partners NetDocuments by Clearlake Capital Group Brainspace by Cyxtera Technologies Bill4Time by ASG HotDocs by AbacusNext Allegory Law by Integreon
2018	Docket Alarm by Fastcase Kroll by Duff & Phelps Consilio by GI Partners Apttus by Thoma Bravo UnitedLex by CVC Capital Partners CosmoLex by Software Technology, Inc. LexPredict by Elevate Services Wrike by Vista Equity Partners eBrevia by Donnelley Financial Solutions
2019	Quick Base by Vista Equity Partners HelloSign by Dropbox Merus by ASG Justis by vLex SimpleLegal by Onit KLDiscovery by Pivotal Acquisition NextChapter by Fastcase Lexitas by Apax Partners
2020	Harbor by BitGo Seal Software by DocuSign One Legal by InfoTrack UpCounsel by Enduring Ventures ClearAccessIP by IPwe UpCounsel by LinkedIn O P Solutions by Anaqua NexLP by Reveal Venio Systems by Software Growth Partners Allegory Law by Litera Judicata by Fastcase MyCase by Apax Partners Headnote by ASG LegalTech TimeSolv by ProfitSolv Rocket Matter by ProfitSolv Globanet by Veritas Technologies Datasite by CapVest Associates Cicayda by TCDI
2021	Foundation Software Group by Litera Wrike by Citrix Systems Brainspace by Reveal ClientPay by AffiniPay Planet Data by Veristar ArcMail by Data443 Risk Mitigation Docuvision by OneTrust AbacusNext by Thomas H. Lee Partners PactSafe by Ironclad Consilio by Stone Point Capital ContractRoom by Mitratech

5.5

Government and regulators' approaches to promoting lawtech startups

Earlier in this chapter, the main focus of our analysis was on how the private sector is supporting the development of the lawtech sector, including investment in startups. Here, our focus shifts to government support for the sector.

In recent years, the UK government - in various guises - has actively supported the growth of the lawtech sector. Government departments and regulators directly involved have included the Department for Business, Energy and Industrial Strategy (BEIS), Ministry of Justice (MOJ), Competition and Markets Authority (CMA), Legal Services Board (LSB) and Solicitors Regulation Authority (SRA). As part of our research into the lawtech ecosystem, we interviewed representatives from several of the above-mentioned organisations. Our interviews had three main objectives: to better understand the support already given to the lawtech sector; to learn about the tangible outcomes and legacies of various lawtech support schemes; and to enquire about future support activities.

The support given by these various bodies extends beyond financial support alone - although funding has been offered - to also include policy and regulatory support and guidance. Because the nature of this support varies, our analysis will do likewise. And, because some support schemes involved multiple stakeholders, our unit of analysis is the support schemes themselves, rather than the organisation(s) involved in them.

Direct funding of lawtech startups

In recent years, direct financial support from various sources has been made available to lawtech startups via government grants. The originator for many of these grants is BEIS, with funding administered by UKRI / Innovate UK.

In one funding stream, the SRA - together with its project partner NESTA - successfully bid for funding from the Regulators' Pioneer Fund (RPF), a scheme which encouraged regulators to support innovative activities within their sector. Having secured approximately £950,000 of funding, the SRA and NESTA then operated an 18-month support programme for lawtech startups, known as the Legal Access Challenge (LAC), between 2019 and 2020. Bidding for the LAC was competitive, and eligibility limited to lawtech companies that aimed to improve access to justice in the consumer and small and medium-sized enterprises (SME) markets. A total of eight companies were selected to take part in the LAC, securing a no-strings development grant of £50,000, plus associated support. Two of the most promising cohort companies each received an additional £50,000 in prize money to further develop their tech solutions, which are assisting access to legal support.

In a second UKRI-originated funding stream, 23 projects shared £12.4 million of funding from the Next Generation Services Industrial Strategy Fund, to undertake legal AI and data analytics-related research. Each funded scheme involved a consortium of organisations, including law firms, universities, citizens advice services, lawyers' groups and the Royal Courts of Justice. Some of the technology partners on the projects were generic in their focus, but others might be regarded as specialist lawtech companies.

In a third funding stream in 2019, a small number of lawtech startups received funding from Innovate UK's Smart Grants programme, a sector-agnostic scheme that aimed to encourage research and development by UK-based SMEs. Financial support offered to lawtech companies to date includes a £46,000 grant to develop an app aimed at lower-means consumers in need of legal support, and a £237,000 grant to prevent money laundering in the UK property market.

A fourth funding stream for lawtech companies was explicitly pandemic-related. In December 2020, one law firm and five lawtech companies each received £100,000 from the sector-agnostic Sustainable Innovation Fund. The fund was open to businesses that had suffered as direct result of COVID-19, with the aim of keeping 'ideas alive during a climate of uncertainty'.

According to those involved in co-funding these various lawtech companies, the principal reasons for doing so was to support the greater use of digital technology, including in the legal sector. Historically, the legal sector has undertaken little in the way of research and development (R&D), particularly in relation to the development of new technology-enabled services. The pioneer funding provided was therefore mainly intended to facilitate R&D that would either not happen at all without such funding, or only happen at a slow pace. The funding provided reflected the exploratory nature of the projects supported, with awards typically worth between £138,000 and £309,000. And, while the funding was not intended to support the rapid scale-up of lawtech companies, this has nevertheless occurred in some cases. Reflecting on this outcome for the supported lawtech companies, a spokesperson for UKRI observes that: 'There's a couple that were barely founded before they applied to us, and now have 20+ employees. There's one that, following its more recent investment round, is now valued at £13 million after the year's activity. That's quite a nice legacy.'

Looking forward the Government, via HM Treasury, has recently published *Build Back Better*,[7] a high-level strategy document. This document includes a specific commitment to encourage the development of regtech apps; regtech is arguably a companion sector to lawtech. To aid this specific development, *Build Back Better* talks of converting 'UK business legislation into machine-readable data'. In the meantime, ongoing lawtech support is more likely to come from more generic government funding sources. These might include the ongoing UKRI Smart Grants programme, or the latest round of the Regulators' Pioneer Fund. The SRA and other regulators are able to make lawtech-related proposals for this fund, which was announced in May 2021.

Lawtech sub-market support – digital comparison tools

In recent years, the Competition and Markets Authority (CMA) has attempted to encourage consumers to shop around for legal services far more than they currently do – including via the use of digital comparison tools (DCTs) and websites.[8] In a legal services setting, the CMA's definition of a DCT is a service that helps 'consumers compare providers of legal services'. And, in terms of the functionality of such services, the CMA's previous research has highlighted the importance of a) price comparison capabilities and b) capability to allow consumers to select providers directly.[9]

7 HM Treasury (2021) Build Back Better: our plan for growth, 3 March 2021.
8 Competition and Markets Authority (2020) Review of the Legal Services Study in England and Wales, 17 December 2020
9 Competition and Markets Authority (2016) Legal services market study: Final report, 15 December 2016.

In order to facilitate access to such information by DCT operators, the CMA has taken an activist stance in relation to the publication of relevant data. Firstly, the CMA has required frontline legal regulators to impose a mandatory price transparency regime on legal service providers for specific types of legal work, thereby allowing consumers to compare prices for such services. In addition, the CMA has also encouraged the creation and dissemination of standardised quality metrics. Here, the aim of these quality metrics is to enable consumers to make informed choices about the quality of their legal advisors.

Possibly because much of this regulatory activity has only occurred in the past three years, not all DTCs currently make use of the data that is now available to them. In terms of vendor provision, Moneysupermarket.com permits price comparison between legal service providers, but only in relation to conveyancing. By contrast, Trustpilot covers a broader range of legal services, but does not include any price transparency functionality. Moneysupermarket.com does not include quality metrics, whereas Trustpilot has quality metrics based on individual and aggregate consumer reviews. Alongside these mainstream DCTs, there are a number of DCT providers specialising in the legal services market. Some, such as The Law Superstore, provide price comparison for a range of legal services, while Review Solicitors provides quality metrics for all providers regulated by the SRA.

In terms of future regulatory activity in relation to DCTs, our impression is that the main driver of future activity is likely to come from the frontline regulators, including the SRA. Indeed, a pilot scheme on improving public access to information when choosing a legal service provider has already begun. This initiative is being operated jointly by the SRA, Council for Licenced Conveyancers, Bar Standards Board and CILEx Regulation.[10] A total of 9 DCTs, mostly legal sector-focused, with a small number of more generic DCTs, are currently taking part in this pilot. There are early signs that this pilot could make a real difference to the engagement of law firms with DCTs: two of the DCTs taking part in the pilot have reported a significant increase in regulated firms engaging with their platforms since the pilot began.[11]

General sector support - guidance, access to proprietary data, and sector awareness-raising

Here, we outline a Ministry of Justice-funded scheme, which offered four strands of assistance for supported lawtech companies: advice on regulatory compliance and (separately) ethics, networking and collaboration support, and access to data. The vehicle for this support was LawtechUK's sandbox pilot hosted by Tech Nation. A total of five startups have taken part in the sandbox pilot to date, with more to follow later this year. These companies do not receive direct financial support for taking part in the sandbox. They do, however, benefit from access to the above-mentioned support schemes. Of these support schemes, regulatory compliance support and access to data arguably have the widest potential for scale-up.

Starting first with regulatory compliance support: LawtechUK sandbox participants are able to obtain the assistance of the Regulatory Response Unit (RRU) - a grouping of 13 regulators, including the SRA and the other legal regulators from across the UK, plus the FCA and ICO. The aim of the RRU is to provide a mechanism by which lawtech ventures can quickly obtain regulatory advice on nascent or challenging questions and issues that cross regulatory boundaries: one of those involved in developing the scheme likened it to a 'bat phone'-style resource. At present, access to the RRU is limited to sandbox participants, limiting its market impact. However, those involved in the scheme are considering how to extend access to the RRU to include non-sandbox lawtech companies. As we have noted elsewhere in this report, including Chapter 2, which reports on survey evidence, innovators and technology adopters regard advice on what is permitted from regulators as a highly valued resource.

10 SRA (2021). *Improving comparison information for consumers - take part in our pilot*, 21 January 2021
11 SRA (2021). *Firms invited to join customer review pilot*, 21 June 2021

In the meantime, the RRU initiative also resulted in launching the Regulatory Navigation Tool (RNT). The RNT offers two main areas of guidance for lawtech companies. Firstly, it identifies which areas of legal work sit inside - and outside - those reserved exclusively for authorised legal practitioners. That is, the RNT indicates where lawtech startups may usefully focus their activities, without undertaking work that is reserved exclusively for lawyers. Secondly, the RNT also provides guidance on where lawyer-specific regulations, and regulators, are likely to impact on the way that lawtech companies operate. For example, the RNT offers insights into the rules and regulators that play an oversight role in the preparation of court documents, probate and oaths, to make it easy for lawtech companies to navigate who to speak to and when. The RNT also clarifies the regulations and regulators that might impact on lawtech startups' revenue models. For example, it briefly sets out the various legal regulators' current positions on matters such as contingency and referral fees. Feedback is sought to ensure the RNT is as useful as possible for lawtech companies.

In relation to data, sandbox participants have access to a 'data matchmaking' service from LawtechUK when seeking access to propriety data from private organisations. This type of data is often required by AI-driven lawtech companies, in particular, to train the models that underly their service offering. As with access to the RRU, LawtechUK's data matchmaking service is currently only open to sandbox participants, limiting its scalability. However, LawtechUK has also produced open access tools to support access to data, including a checklist for lawtech companies that wish to approach third parties on their own account, with a view to sharing their data. Also included in this package of materials is a data sharing agreement template which can be used by two or more parties. We understand that a multiparty data sharing proof of concept is currently being developed by LawtechUK.

This work is being undertaken in association with the AIR Platform, a UKRI-funded 'pioneering data platform for privacy-preserving data collaboration between regulators, regulated industries and their professional services providers such as lawyers and accountants'. The aim of this proof of concept is to demonstrate the opportunities of compliant sharing of data insights using privacy enhancing techniques. LawtechUK calls this approach 'open legal'. In the long-term, data sharing may see a step change if the open legal initiative can be implemented and scaled.

Additionally, and more focused on the wider legal technology market, LawtechUK has also recently launched the LawtechUK Hub. Among the services offered on the Hub is an interactive database of lawtech startups and scaleups, and a series of lawtech-related 'bitesize' courses. The database of lawtech startups and scaleups includes numerous insights into each company listed, including funding received, estimated company valuations, headcount trends and current vacancies.
The courses, meanwhile, cover topics such as AI, cloud computing, data science, distributed ledger technology, legal process automation and smart contracts. There are also resources relating to the applications of these technologies.

Finally, the ongoing LawtechUK work programme also includes:

- an authoritative legal statement on the law relating to crypto assets and smart contracts
- a set of digital dispute resolution rules for disputes arising in connection with such technologies
- a further workstream on smart contract use cases
- a feasibility study and proof of concept for a technology-enabled dispute resolution platform for SMEs
- a website for the global justice community deploying technology solutions post COVID-19, known as remotecourts.org.

A register of unregulated legal service providers?

The issue of whether a register of unregulated legal service providers (RULSP) should be created has been debated extensively by government officials, regulators and other interested parties in recent years.[12] Our online survey also saw some respondents requesting such a register (see Chapter 2). This scheme has the potential to affect lawtech companies, should they be deemed to fall within the scope of such a register.

After speaking to stakeholders across government, our principal impression is that those involved in such discussions about RULSP are acutely aware of the potential complexities of such a scheme. Complexities derive in part from scoping out the legal services sector with competing criteria along demand, supply, and technological dimensions (see Chapter 3). Moreover, section 12 of the Legal Services Act 2007 is ambiguous on what precisely is 'legal activity': it does not appear to provide clarity as to whether technologies that support the provision of 'legal advice' or 'assistance' might fall in scope, or out of scope, of a 'legal activity'.

Another issue that appears to be entwined with the RULSP concept is whether such a register would effectively become an accreditation scheme for those providers who join it. Here, a precedent for the difficulty in straggling the line between providing useful information about lawtech solutions (in general), and the possible perception of endorsement of specific companies, is the Singaporean Ministry of Justice report: *The Road to 2030: Legal Industry Technology & Innovation Roadmap report*.[13] This report explains lawtech solutions by use case, and then offers illustrative examples of individual providers. Should it be desired that this outcome is avoided, an alternative approach might be the creation of a lawtech 'standards list' – ie a guide to the legal, regulatory and industry accreditations that lawtech companies should comply with. The aim of such a standards list would be to help law firms purchase services from lawtech startups that complied with such standards. However, this list would not require the endorsement of specific lawtech companies, just the standards they adhered to.

12 Competition and Markets Authority (2020) Review of the Legal Services Study in England and Wales, December. Legal Services Board (2021) Reshaping Legal Services: A Sector-wide Strategy, March 2021; Stephen Mayson (2020) Reforming Legal Services: Regulation Beyond the Eco Chambers, London: Centre for Ethics and Law, University College London.
13 See www.mlaw.gov.sg/files/news/press-releases/2020/10/Minlaw_Tech_and_innovation_Roadmap_Report.pdf

Chapter Summary

In terms of the total number of lawtech startups, the UK lawtech ecosystem is fairly well balanced, with BigLaw ventures only slightly outnumbering PeopleLaw ventures. However, beyond that superficial similarity, large differences exist.

BigLaw lawtech startup founders tend to be male, while PeopleLaw startup founders tend to be female. BigLaw lawtech startups may be supported by BigLaw firms in law firm incubators and accelerators. By contrast, PeopleLaw lawtech ventures tend to be supported by governments in more ad hoc schemes. BigLaw lawtech companies receive nearly all of venture capital funding at the expense of PeopleLaw lawtech ventures. For more information on public and private funding of lawtech startups, please see the Annex Report Chapter 3 on the legal technology ecosystem: funding, scaleup and policies.

It will be interesting to see how the UK government's new focus on supporting regtech, as announced in its recent *Build Back Better* document, will impact on future lawtech funding support. Given the funding in favour of startups serving the BigLaw market segment, it remains to be seen if any future regtech funding might be directed towards the currently underserved PeopleLaw market. The onus for future development in lawtech ventures, particularly in the PeopleLaw space, would otherwise be very much on the company founders themselves.