AAB Professional Practices Benchmark Report 2025

2024/2025

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Introduction

Welcome to the **2nd AAB Benchmarking Survey for Law Firms**!

In the fast moving economy that is the legal sector, accurate and relevant data for your decision making is key. This report brings together data from key law firms within the legal sector of all structures and sizes in order to identify the trends that are driving profitability within the legal sector and within your firm.

The “current” data within this report is our 24/25 data and refers to year ends between 15th April 2024 and 15th April 2025 so includes this year’s March 2025 year end trends.

Throughout the report we draw on market insight, law firm data and decades of experience advising law firms on how to navigate the changing economic cycles and market conditions, to extract both good and bad behaviours that law firms display, in order to share them with you.

We will show you exactly where you rank within the data, which will help you identify the areas for improvement that will have the most impact on the profitability of your law firm. Our report identifies key financial drivers of performance across the profit & loss account and balance sheet, that profitable law firms are using to manage and measure their firm’s performance.

Despite operating in an economic and regulatory environment of constant change, law firms continued to demonstrate resilience to beat inflation in terms of fee growth (10.56%) and profit growth (15.65%) in 24/25. Both measurements indicate greater growth than in the previous 4 years.

The increased profit growth shown by law firms is indicative of stronger cost control and more efficient use of resources than in previous years. Although client account interest receipts continue to provide welcome additional investment income for law firms, they are no longer a driver in the rate of profit growth among law firms.

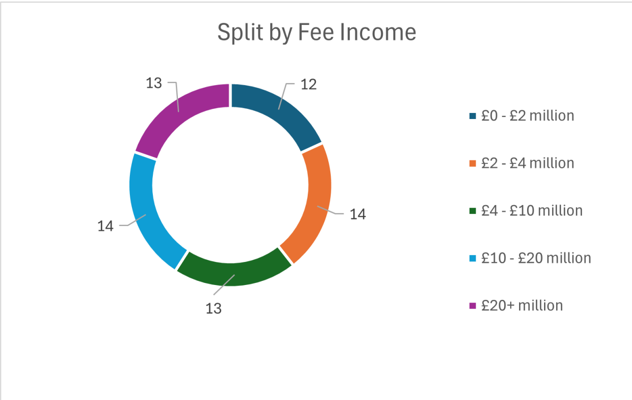
Our data shows an increase in the number of firms where net interest is now a contributor to profit rather than a cost (50/60 vs 39/60). This is a result of reduced borrowing across the sector, combined with firms holding larger client account balances in line with their growth in activity.

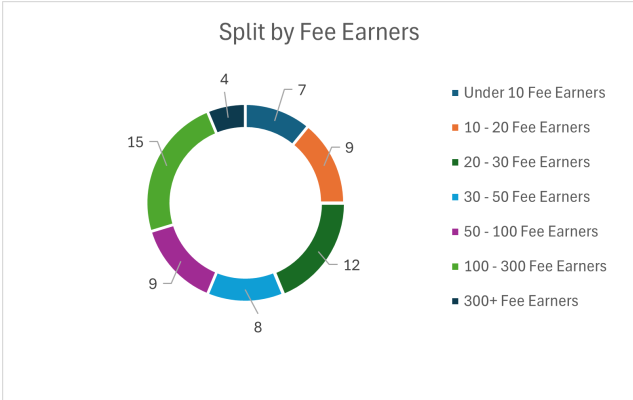
Beyond the profit & loss account the data shows that the most profitable law firms have consistently converted that profit into growth in equity over the past 5 years to reinvest into the future growth of the firm. Coupled with good lockup management, this is driving the reduction in borrowing across the sector.

More detail and deeper insight can be found within the report, along with questions that you as a law firm owner should be asking yourselves, your partners and your management board in order to drive out additional profit next year. We hope you find this report insightful and encouraging and if you would like to discuss any aspect of your performance, or the report please get in touch with your usual contacts at AAB.

Parameters of the report (skip this bit if you're too excited to see the results)

This report contains data from sole traders, partnerships, LLPs and Limited Companies. It also covers a range of fee incomes which have been segmented into 5 categories. Below is a breakdown of the segmentation of the law firms included within the data.





In bringing together this data we have done our best to moderate the results across different law firm structures, so we are not comparing apples with oranges. This means in some circumstances adjusting the data accordingly.

In order to strip out the impact of different tax structures between Companies and Partnerships we have removed all equity owner income from Company results. This includes salary, employers NI and pension contributions, to give us the closest comparison to partnership profits.

The results are taken from full financial years that completed between 15th April 2024 and 15th April 2025, and while there are a number of different year ends included within the data 46% of the results are based on 31st March 2025 year ends.

Throughout the report we refer to Equity owners of law firms as "Partners". This includes Sole Traders, Partners, LLP Members, Directors and Shareholders.

The results also cover law firms from all across England but the majority of law firms are headquartered in the Yorkshire Region.

The Legal Sector Today

The legal sector is a constantly evolving and changing environment within which law firms try to operate successfully and profitably. Our data shows that our clients do this very well.

This constantly changing environment creates both challenges and opportunities for law firms alike. Before we can review the results of the data it is important to understand the environment in which they were obtained.

Challenges in the Legal Sector today:

According to the SRA the number of firms being regulated by them dropped below 9,000 for the first time in October 2025. This is 2% lower than at the same point last year and continues the trend for there to be fewer law firms but more solicitors. The number of solicitors increased to 176,972.

The divergence in these numbers alludes to a significant change in the landscape of law firm ownership.

58% of law firms are now operating through Limited Companies and 16% through LLPs, meaning almost three quarters of law firms look to limit their liability through their corporate structure. 10 years ago only 34%of law firms operated through a limited company and 15% through an LLP.

These changes are not only being driven by attitude towards risk but also by tax considerations.

Increasingly this is leading to more complex structures for law firms which adds an additional layer of complexity for the next generation transitioning to ownership. In addition we are also seeing a different approach being taken to risk by future law firm owners, which has led to an increase in consolidator platforms having success in gaining market share.

In the last 12 months there were more than 100 corporate transactions involving law firms. This is above the average for the previous 5 years which was 77 transactions per annum. The reason for the transactions vary from high profile acquisitions backed by private equity, to mid-tier mergers, to succession driven consolidation among smaller firms.

Of those 100 transactions more than a third involved a law firm backed by Private Equity funding, emphasising the growing movement of PE houses investing in the legal sector.

Consolidation can be a good way to combat wage pressures and rising overhead costs by utilising economies of scale, but can also squeeze margins for those firms who choose to remain independent.

There have also been practical changes in how a law firm operates. The increasing demand for hybrid and remote working following the COVID pandemic has forced firms to interact differently with their clients in order to maintain service levels.

This has necessitated an increased reliance on technology but with the rise in the use of AI there is now an additional threat to those firms who do not have the available funds or capacity to invest in AI driven efficiencies.

Finally there is an increasing tax burden on law firms, whether through tax rises (corporation tax / Employers NI), stealth taxes (income tax bands not rising) or tax reform (basis period reform).

All of these factors combine to make trading conditions difficult for law firms, but there are also opportunities...

Opportunities in the Legal Sector today:

Although there are fewer law firms operating today than in previous years, there are more clients out there to look after. With a new generation of homeowners coming through, a new wave of entrepreneurs and business start ups innovating, and family relationships and individual's estates becoming more complex, there is a greater need than ever before for sound legal advice, planning and guidance.

The move toward Limited Company structures for law firms has also opened up a diversity of opportunities for law firm ownership. We are now seeing Employee Owned Trusts (EOTs) enter the legal landscape, Private Equity platforms investing into the sector and group structures bringing cross selling opportunities and new forms of investment into the sector.

Law firms now have more routes to exit for retiring partners as well as new investment and ways of de-risking succession plans, which is positive fuel for the number of transactions completing in the market place.

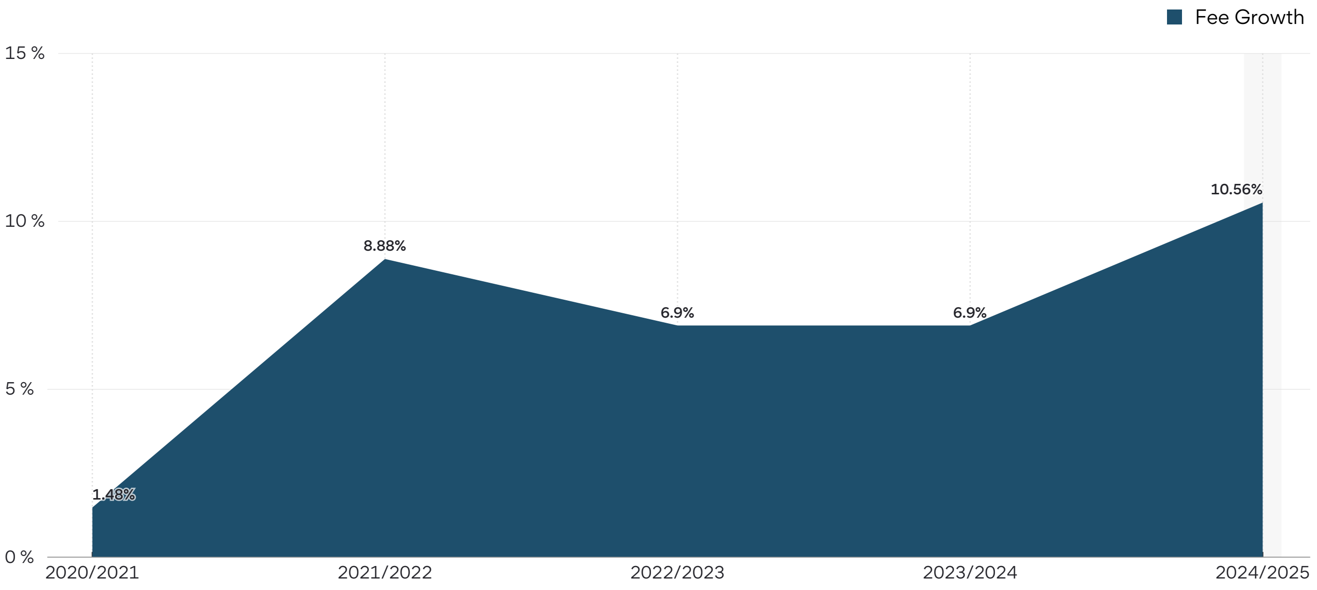
Law firms who embrace technology and AI have been able to drive new opportunities and efficiencies into their existing working pattern, bringing better service to clients, better work/life balance for employees and driving super profits into the firm to reinvest for the future.

There is also hope within the regulatory landscape as the SRA start to place more scrutiny on the profession so that the minority of firms who don't have the client's best interests at heart can be removed from the profession.

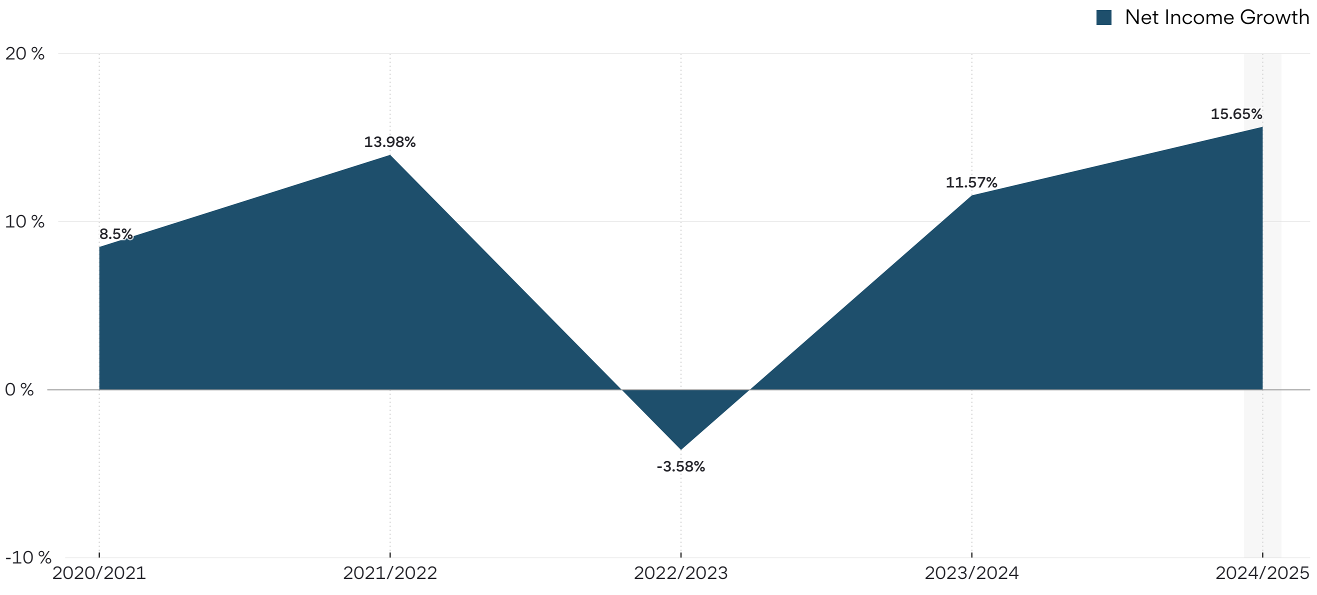
One thing remains true in that people buy from people, so strong relationships with both clients and referral partners will continue to be key to the long term success of law firms.

Trends in the legal market over the last 5 years

Fee Growth



Net Income Growth



Benchmark Tables

Where you sit amongst the market

	RESULT		TREND	vs AAB Benchmark Solicitors	
A PROFITABILITY	2024/2025	2023/2024	vs 2023/2024	MEDIAN	PERCENTILE
Net fees	£2,816,135	£2,644,258	▲ 6.5%	£6,145,966	1
Fee growth	6.5%	-3.79%	▲ 10.29%	9.79%	2
Fee earners	12	12	0	39	1
Fee Income per fee earner	£234,678	£220,355	▲ 6.5%	£156,332	5
Fees per employee	£100,576	£97,935	▲ 2.7%	£81,542	4
Wages to Fee Income *	52%	50%	▲ 3%	49%	2
Admin Costs (exc staff costs) as a % of F... *	16.02%	17.49%	▼ -1.47%	27.61%	5
Fee Earner Break-Even *	£159,846	£147,703	▲ 8.2%	£121,474	1
EBIT Margin	32%	33%	▼ -1%	23%	4
Net Income Margin	32%	33%	▼ -1%	26%	4
Interest Dependency *	0%	0%	0%	10%	5
Wages Growth *	12%	-11.48%	▲ 23.48%	9.09%	2
Wage Increase per Employee *	£5,614	-£6,292	▲ £11,906	£3,271	2
B BALANCE SHEET					
WIP Days *	53 days	51 days	▲ 2 days	55 days	3
Debtors days *	38 days	36 days	▲ 1 days	53 days	4
Current Liquidity	–	–	–	2.04	–
Cash Liquidity	–	–	–	0.13	–
Borrowing to Revenue *	0%	0%	0%	5%	4

* For this metric, a result below target is favourable

Where you sit amongst your direct competitors

	RESULT		TREND	vs AAB Benchmark Solicitors - £2 to £4 million	
A PROFITABILITY	2024/2025	2023/2024	vs 2023/2024	MEDIAN	PERCENTILE
Net fees	£2,816,135	£2,644,258	▲ 6.5%	£3,108,064	**1** 2 3 4 5
Fee growth	6.5%	-3.79%	▲ 10.29%	2.9%	1 2 3 **4** 5
Fee earners	12	12	0	23	**1** 2 3 4 5
Fee Income per fee earner	£234,678	£220,355	▲ 6.5%	£136,785	1 2 3 4 **5**
Fees per employee	£100,576	£97,935	▲ 2.7%	£67,476	1 2 3 4 **5**
Wages to Fee Income *	52%	50%	▲ 3%	51%	1 **2** 3 4 5
Admin Costs (exc staff costs) as a % of F... *	16.02%	17.49%	▼ -1.47%	29.8%	1 2 3 4 **5**
Fee Earner Break-Even *	£159,846	£147,703	▲ 8.2%	£114,956	**1** 2 3 4 5
EBIT Margin	32%	33%	▼ -1%	22%	1 2 3 4 **5**
Net Income Margin	32%	33%	▼ -1%	21%	1 2 3 4 **5**
Interest Dependency *	0%	0%	0%	13%	1 2 3 **4** 5
Wages Growth *	12%	-11.48%	▲ 23.48%	2.64%	**1** 2 3 4 5
Wage Increase per Employee *	£5,614	-£6,292	▲ £11,906	£1,872	**1** 2 3 4 5
B BALANCE SHEET					
WIP Days *	53 days	51 days	▲ 2 days	54 days	1 2 **3** 4 5
Debtors days *	38 days	36 days	▲ 1 days	51 days	1 2 3 **4** 5
Current Liquidity	-	-	-	2.02	-
Cash Liquidity	-	-	-	0.15	-
Borrowing to Revenue *	0%	0%	0%	6%	1 2 3 **4** 5

* For this metric, a result below target is favourable

How do we measure profitability?

At the heart of this benchmarking report is the aim to identify key characteristics of profitable law firms and where you as a law firm can make quick and impactful improvements in your own performance.

Before we get into the data we must first define how we calculate profit.

We define profit as…

Fee income + other income

- wage costs
- overheads (both fixed and variable)
- financial costs and depreciation
- tax

= profit

As we move through the report we are going to look into the individual elements of this definition and then look beyond profit into the balance sheet.

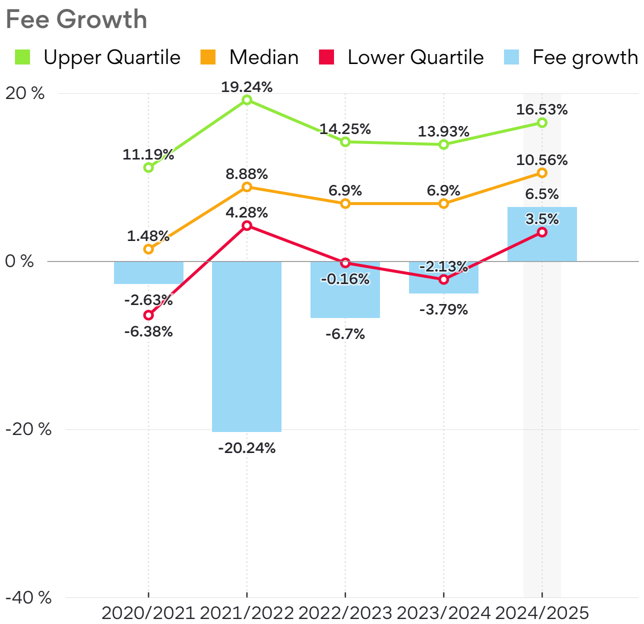
We will review both 5 year trends and the last year's performance through this process, while challenging you to consider your own performance and profitability in each aspect.

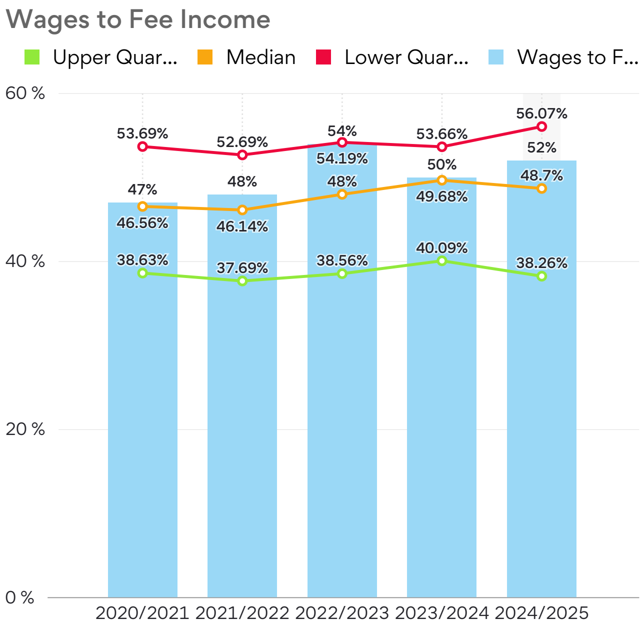
5 Year Trends in the Legal Sector - Profit & Loss

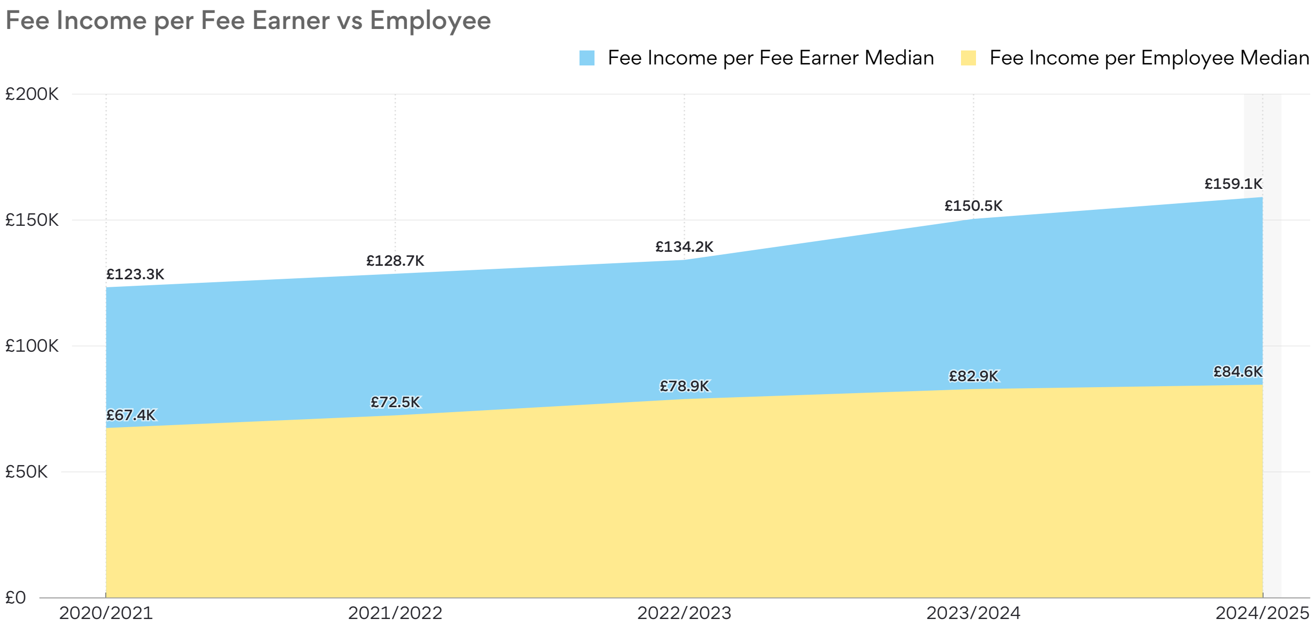
In the graphs below we have reviewed the 5 year trends in the legal sector. These are represented by the line graphs, which demonstrate both the upper and lower quartile lines, as well as the median line for the report.

The bar chart under the lines represents your results in these categories over the past 5 years.

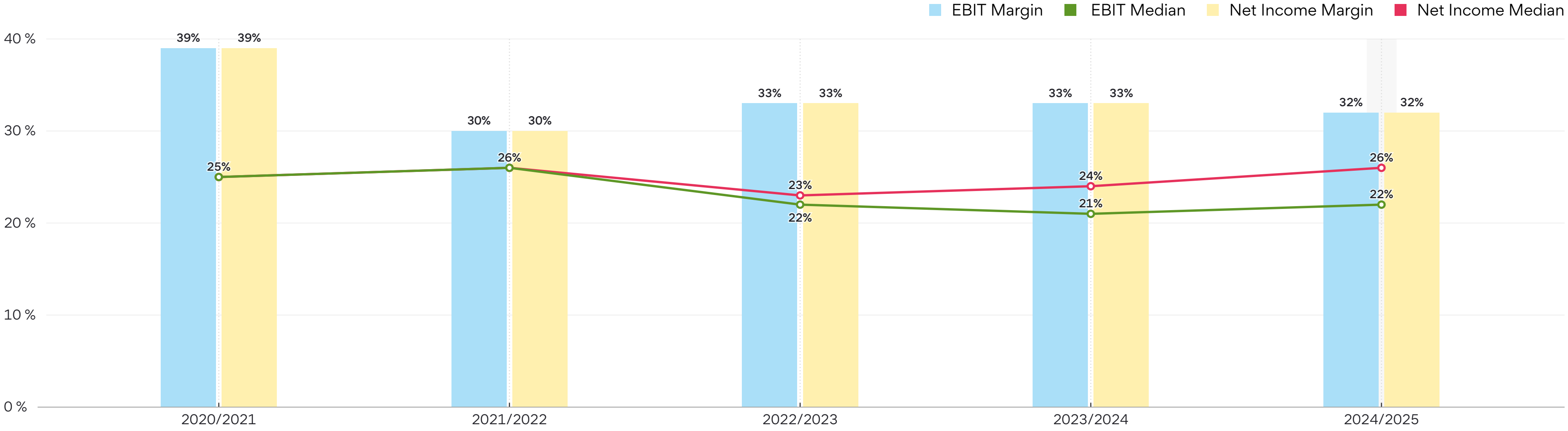
Further below we have broken the current year's data into the turnover groups noted above and highlighted your position within your turnover band and across the sector as a whole.



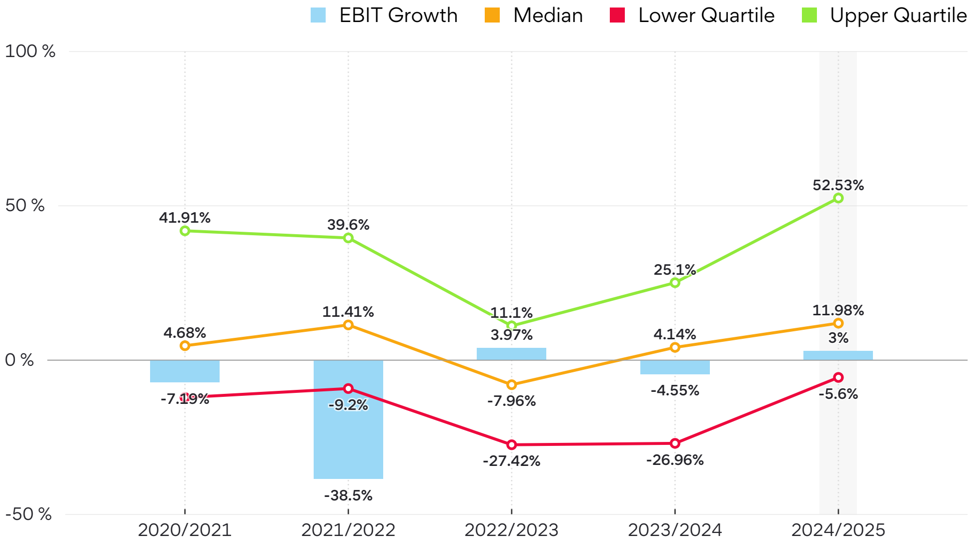




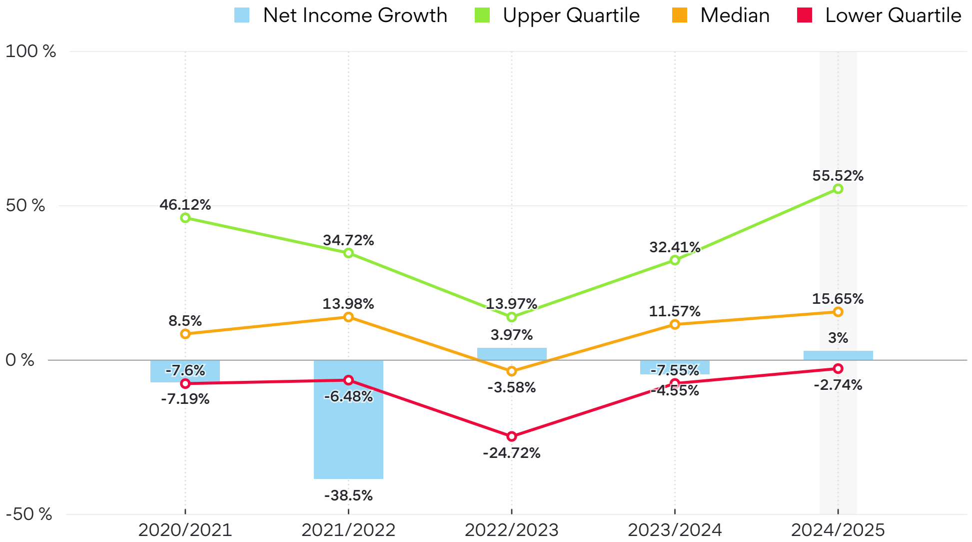
Profit Margins



EBIT Growth

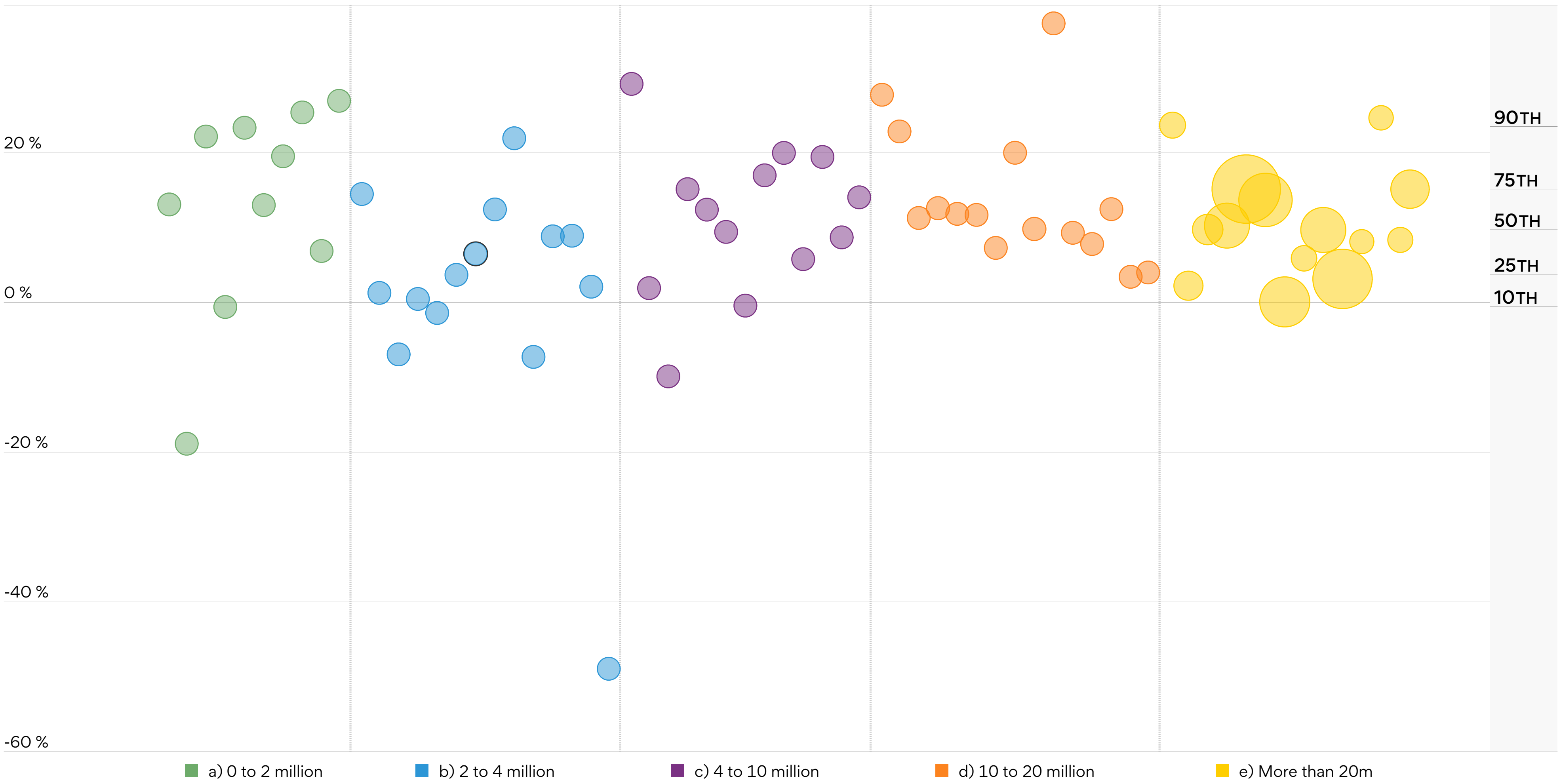


Net Income Growth



Current Year Data - Profit & Loss

Fee growth AAB Benchmark Solicitors Group



	2024/2025	Median	Rank	Percentile
	6.5%	9.79%	46/66	30%

Insights - Fee Income

Fee income is more than just bills, it is made up of **four** components.

1. Headcount
2. Hours recorded
3. Charge out rate
4. Recovery rate / realisation

Each element plays an important role in generating the maximum amount of fee income for a law firm.

What does a profitable law firm do?

Profitable law firms will monitor the performance of their fee earners across each metric and ensure that ALL departments time record.

Profitable law firms will also invest in training their fee earners around pricing and how to scope work effectively.

Profitable law firms also regularly review their charge out rates and fixed prices against their competitors.

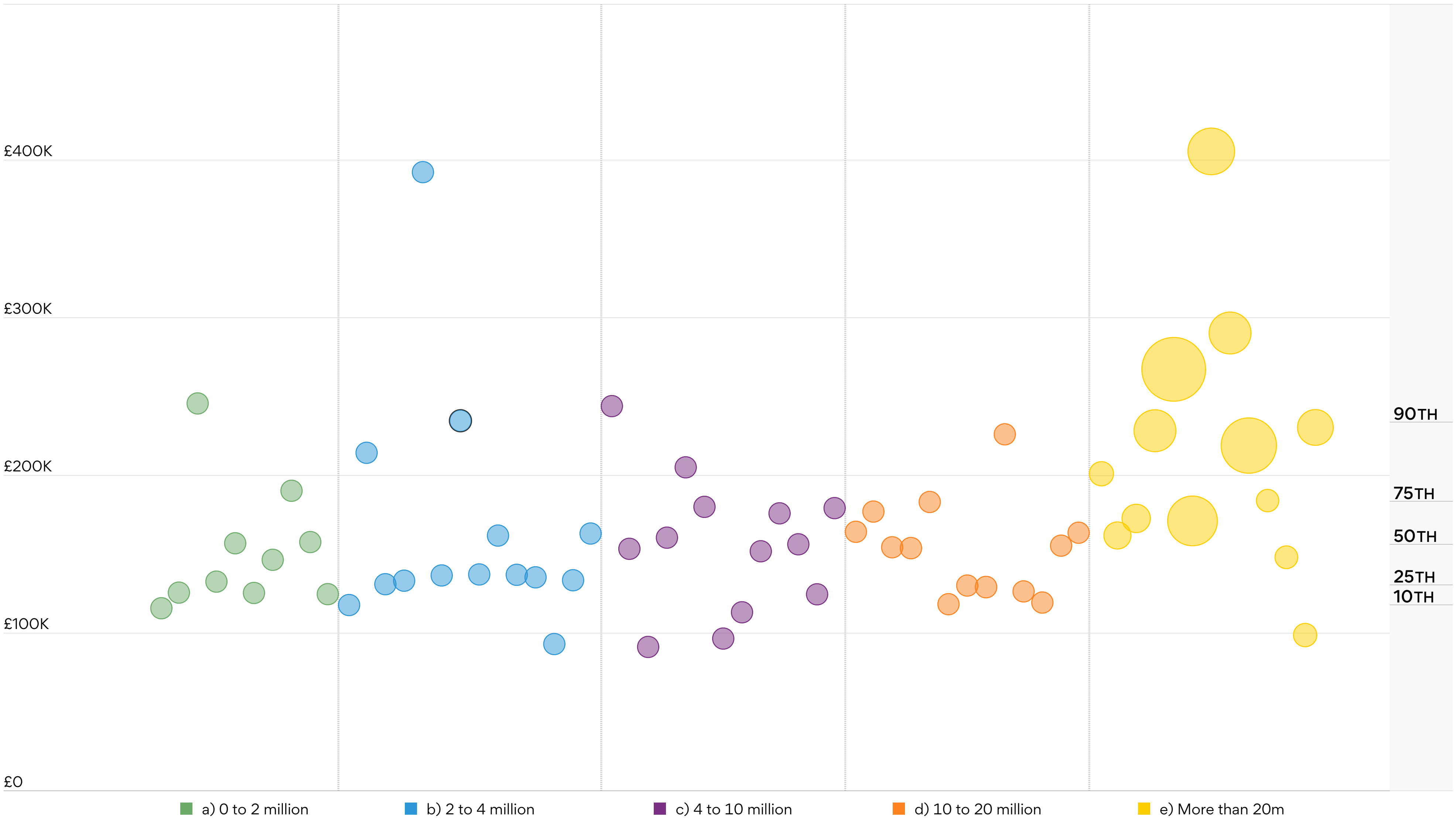
But it's important to note that while changes to your fee income will have a significant impact on profitability, a profitable law firm will not just chase turnover.

Questions for you:

How many of the above metrics do you measure?

Which of the above behaviours do you do the least of?

Fee Income per fee earner AAB Benchmark Solicitors Group



	2024/2025	Median	Rank	Percentile
	£234,678	£156,332	7/63	90%

Insights - Fee Income per Fee Earner

We measure fee income per fee earner as it is the most common measurement of performance used by law firms, but usually without reference to cost.

Fee income per fee earner is most commonly used to drive incentive structures too.

We have noted through the data that fee income per fee earner has increased at a slower rate (4%) than fee income for law firms has (9.75%). This indicates that law firms have focused on growing headcount during the past year. This is despite many law firm owners identifying recruitment as a key challenge for their business.

It is also noticeable that there is an uptick in fee income per fee earner in the larger firms. This is both out of necessity and capacity as fee earners in larger firms take advantage of investment in infrastructure and technology to enable them to scale.

What does a profitable law firm do?

Profitable law firms measure fee earners on contribution not fee income (including full employment costs and direct support costs). This leads to better behaviours from fee earners.

Profitable law firms who use fee income as the base for their incentive structures, base targets on 4.5 or 5x salary, not the traditional 3x salary.

Profitable law firms do not set incentive structures solely based on individual performance, they set incentives that align with their culture and strategy and therefore include non financial KPIs.

Profitable law firms manage both performance and underperformance of fee earners promptly.

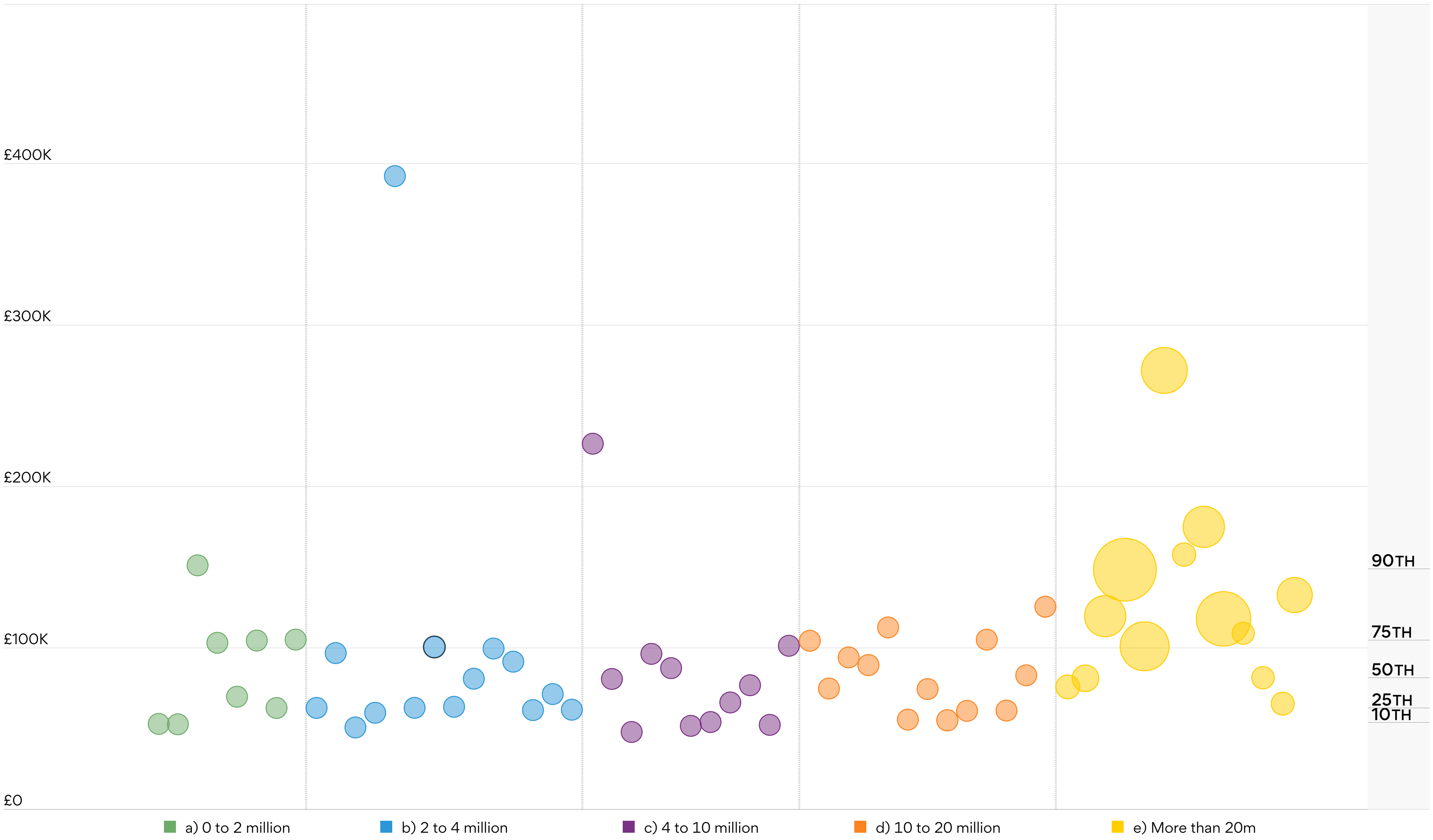
Questions for you:

Do you measure fee earners on fee income or contribution?

What culture / behaviours do you want to drive from your team?

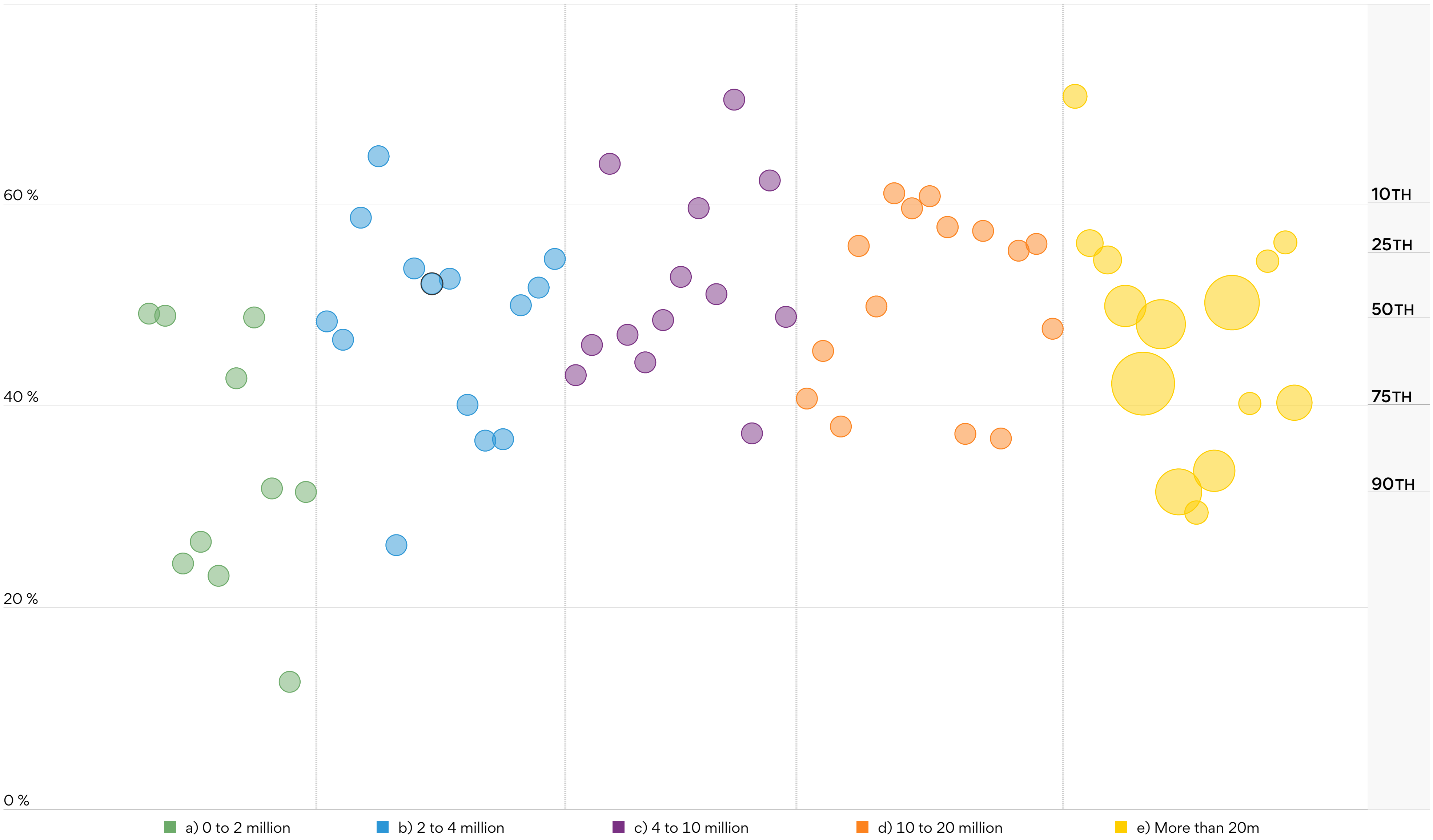
Do your management focus and incentive structure support these?

Fees per employee AAB Benchmark Solicitors Group



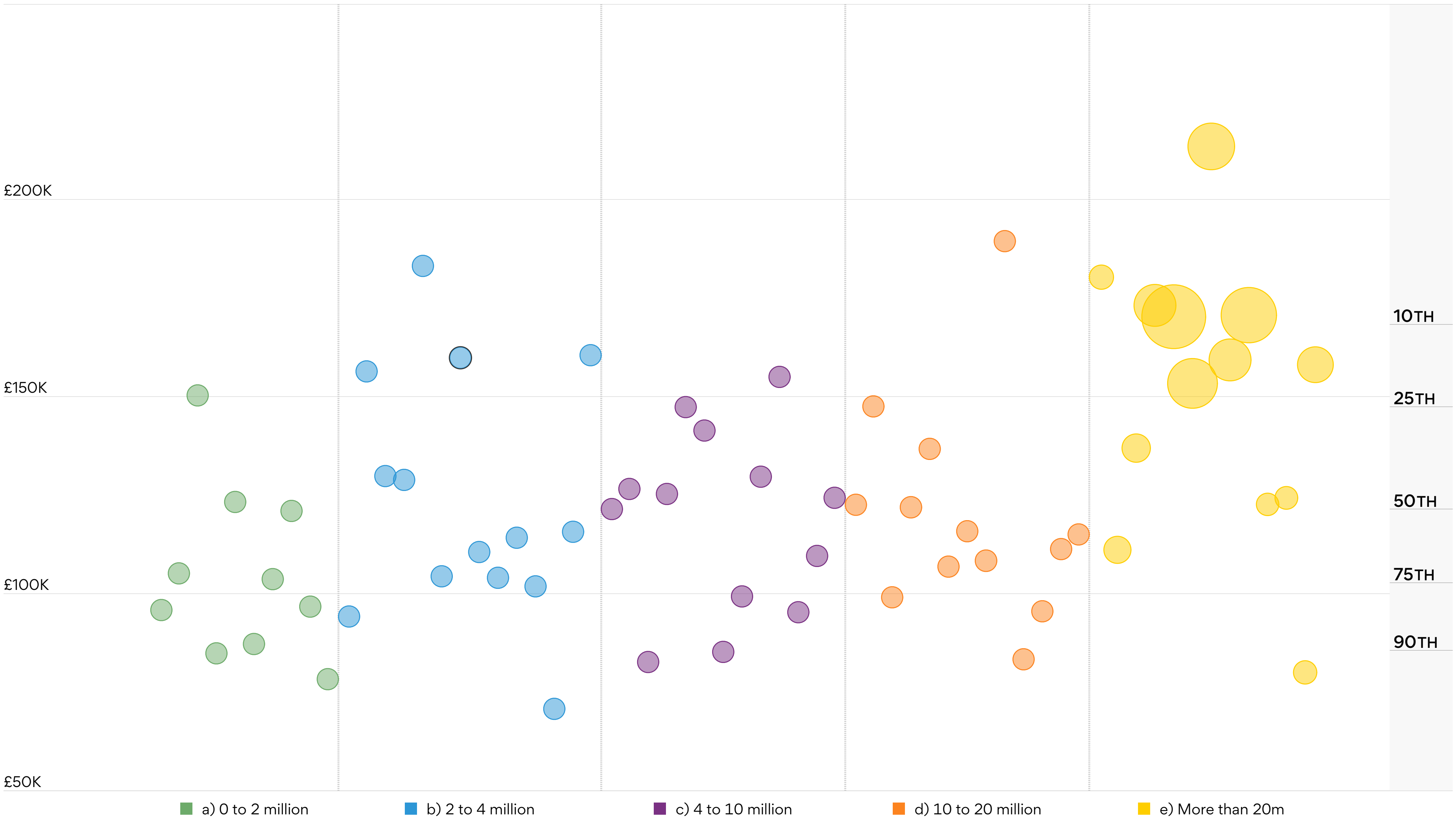
2024/2025	Median	Rank	Percentile
£100,576	£81,542	21/59	65%

Wages to Fee Income AAB Benchmark Solicitors Group



2024/2025	Median	Rank	Percentile
52%	49%	43/66	35%

Fee Earner Break-Even AAB Benchmark Solicitors Group



2024/2025	Median	Rank	Percentile
£159,846	£121,474	55/63	12%

Insights - Wages to Fee Income

Wages to fee income measures the return on investment a law firm gets from its main asset, its people.

Wage pressure and the associated recruitment cost has been one of the most significant challenges faced by law firms in recent years.

The Bank of England state that wage inflation in service sectors are higher than the actual inflation figure in the UK economy.

With costs rising further next year due to the increase in Employers NI costs, and the increase in the national minimum wage, law firms are being forced to seek greater returns from their people in order to maintain profitability, leading to increased scaling and leveraging of fee earners and support teams.

What does a profitable law firm do?

Profitable law firms track wages to fee income as a key metric.

Profitable firms target a wages to fee income ratio of 40% or lower and measure this against the full cost of employing an individual including NI & Pensions.

Profitable firms also use this measurement at a departmental and individual level as well as a global level.

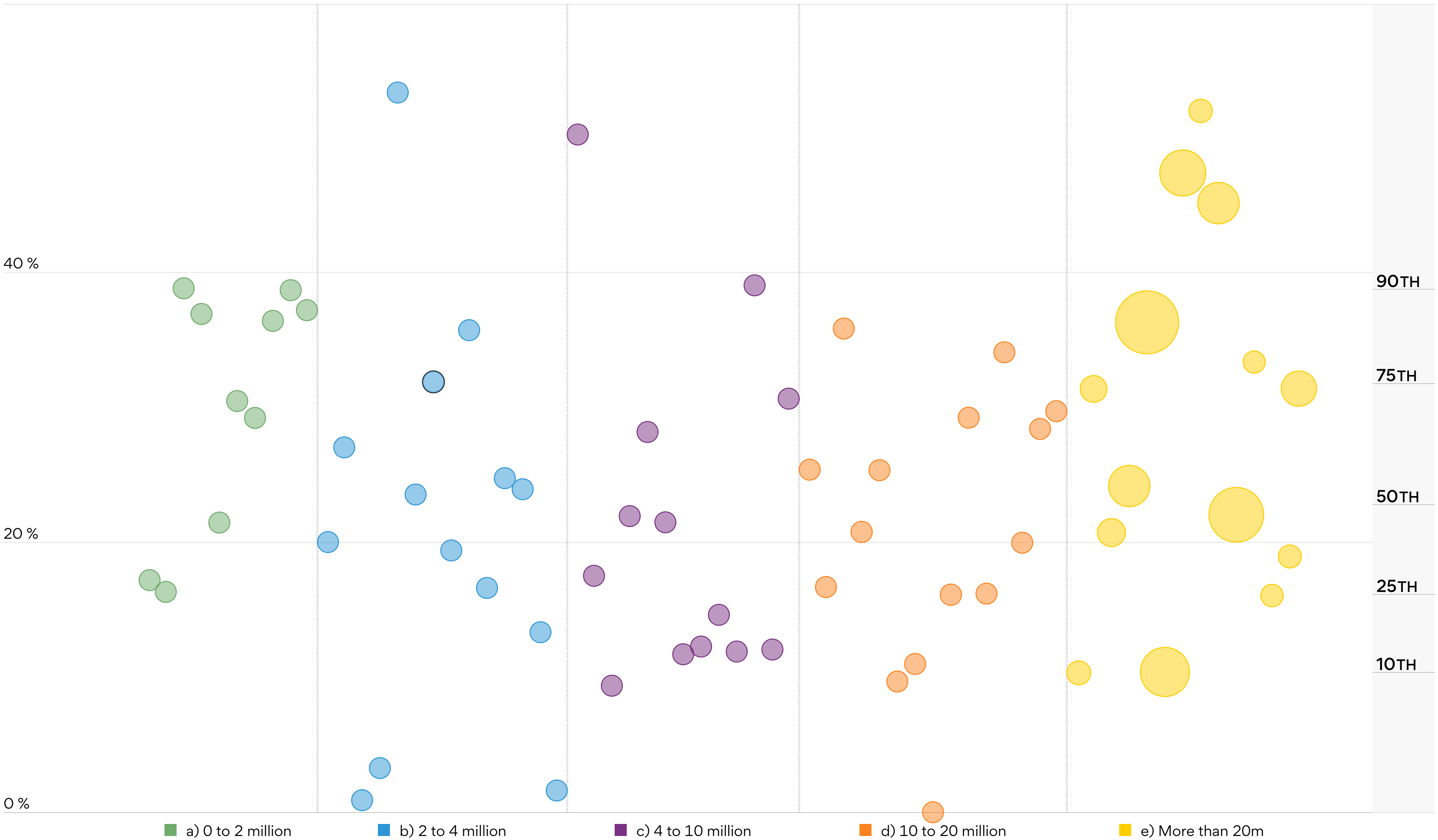
Profitable firms know what their fee earner break even point is.

Questions for you:

How do you measure the return on investment of your team?

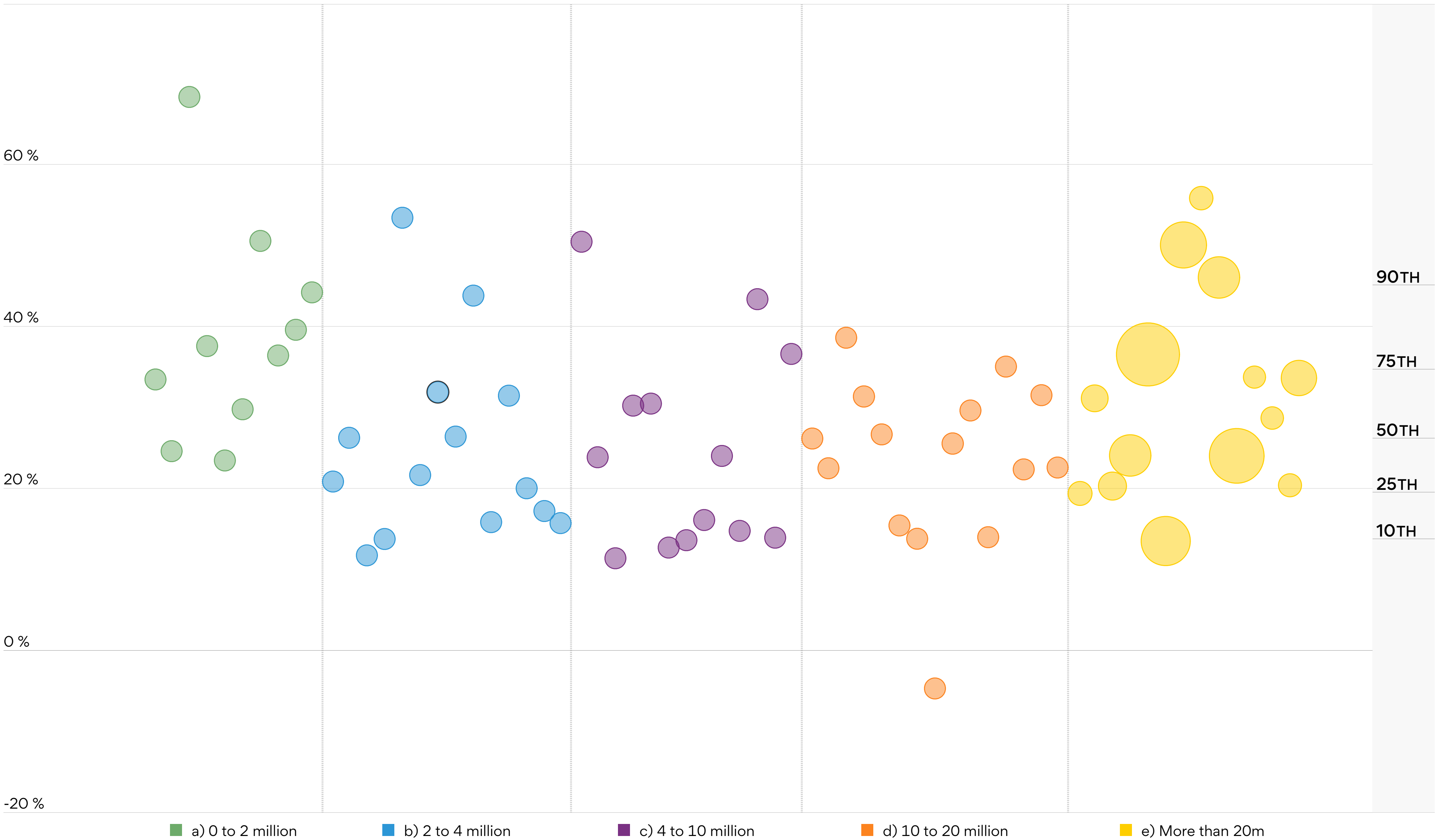
How much revenue would you generate if your total wage bill was only 40% of your turnover?

EBIT Margin AAB Benchmark Solicitors Group



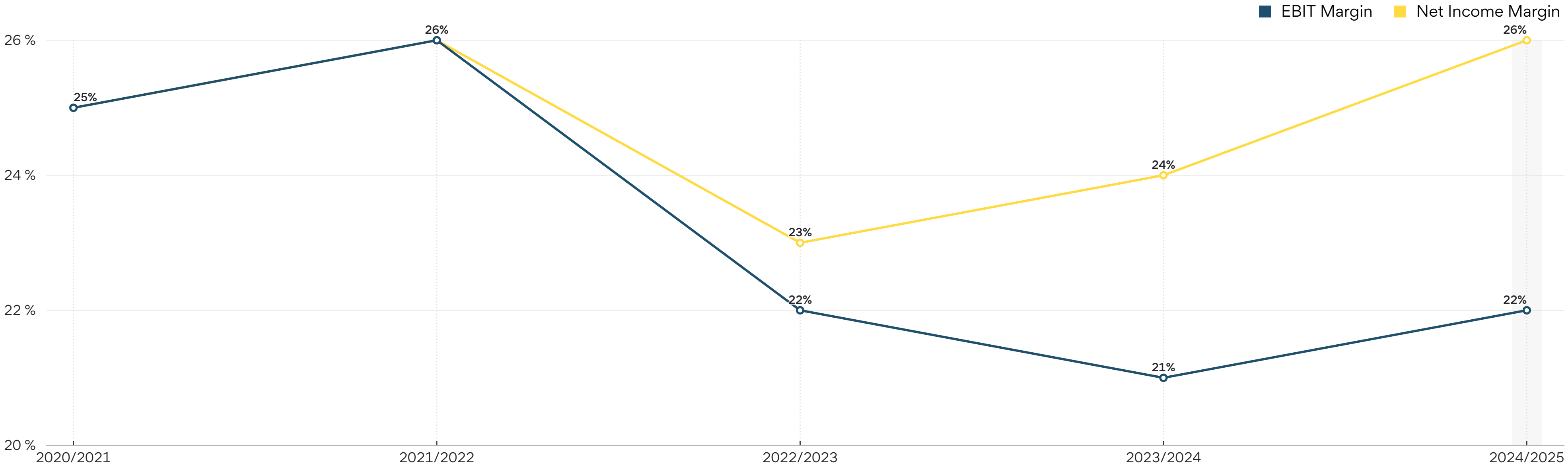
2024/2025	Median	Rank	Percentile
32%	23%	17/66	75%

Net Income Margin AAB Benchmark Solicitors Group

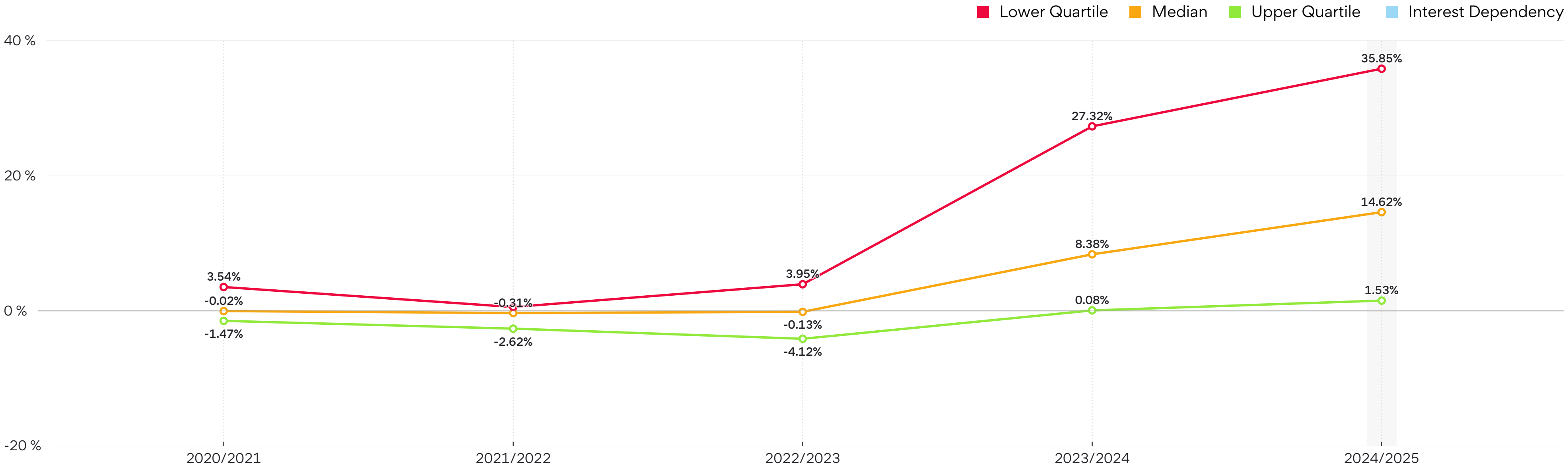


2024/2025	Median	Rank	Percentile
32%	26%	21/66	69%

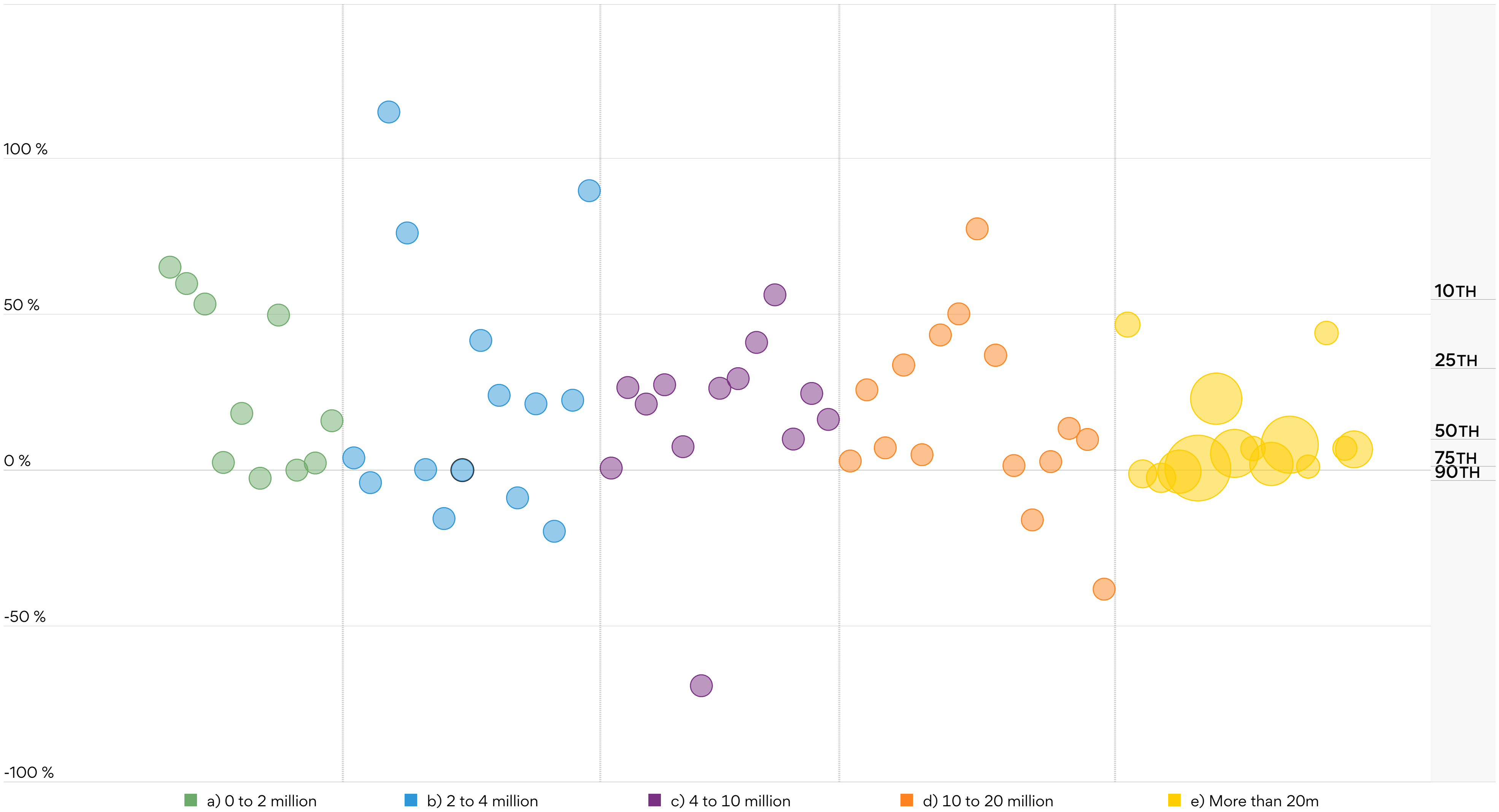
Profit Margin Trends - Median



Interest Dependency



Interest Dependency AAB Benchmark Solicitors Group



	2024/2025	Median	Rank	Percentile
	0%	10%	12/66	81%

Insights - Profitability

We're measuring profitability by reference to the margin generated by firms rather than by absolute profit to avoid distortions created by the size of the firm.

Margin is about more than just turnover and wages, cost control (overheads) plays a key part of protecting and increasing profit.

We measure both EBIT and Net income in our report to highlight the impact that interest rates are having on profits.

Hybrid working and remote working have allowed law firms to reduce large overheads in terms of office space and associated costs, although this has been counterbalanced by spikes in energy prices.

Most law firms are currently in a position where net interest is a contributor to profit, rather than a cost of the business.

What does a profitable law firm do?

Profitable law firms focus on maintaining margin to ensure their hard work is not wasted.

Profitable law firms ensure that their overhead spend is managed in the same way as their staff cost is.

Profitable law firms have an interest dependency of less than 20% and do not use net interest to cover dividends/drawings.

Questions for you:

How much time do you devote to managing your overhead spend?

Do you consider the return on investment of an overhead before you approve the spend?

Do you factor an overhead allocation into your fee earner contribution analysis?

When measuring performance do you include or exclude interest received in your assessment?

Do you hive off net interest receipts into a separate investment pot?

5 Year Trends in the Legal Sector - Beyond Profit

A key aspect of running a profitable law firm is also to look beyond profit, at what we use our profit for, and how we manage our cash position also.

We use our profit for 4 things:

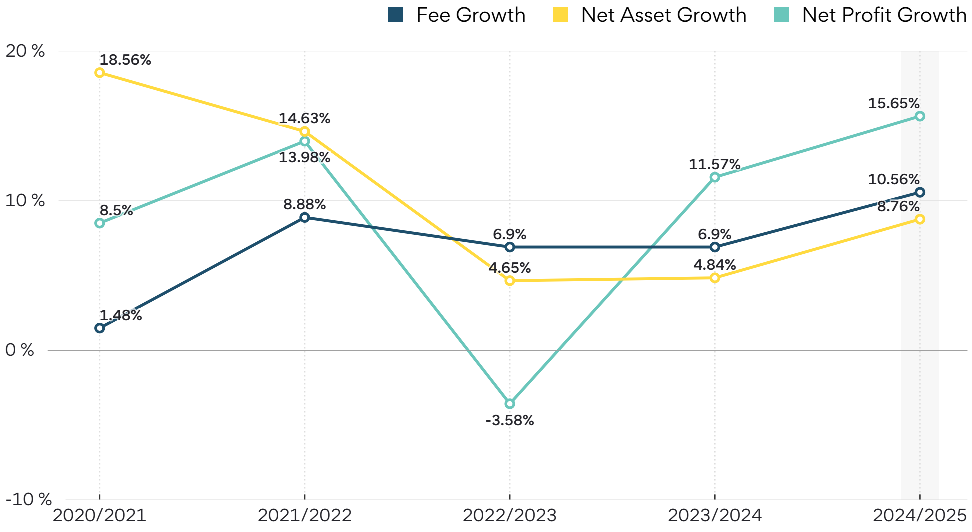
Paying tax, Repaying debt, Capital investment and Remunerating Partners.

In this next section we will focus on balance sheet elements that are also key to driving profitability in a law firm and ensuring our profit is enough to adequately cover all four of the above.

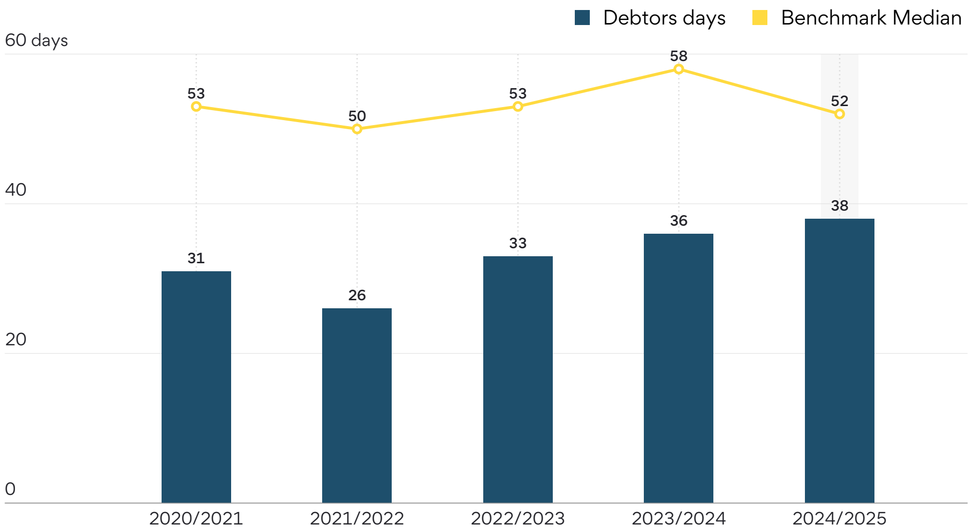
Balance sheet measurements are not always reflective of the true underlying performance of a law firm, because they are taken as a snapshot in time, therefore can be thrown out by timing.

In this report all measurements are taken at the year end but the results if measured mid-year can be vastly different.

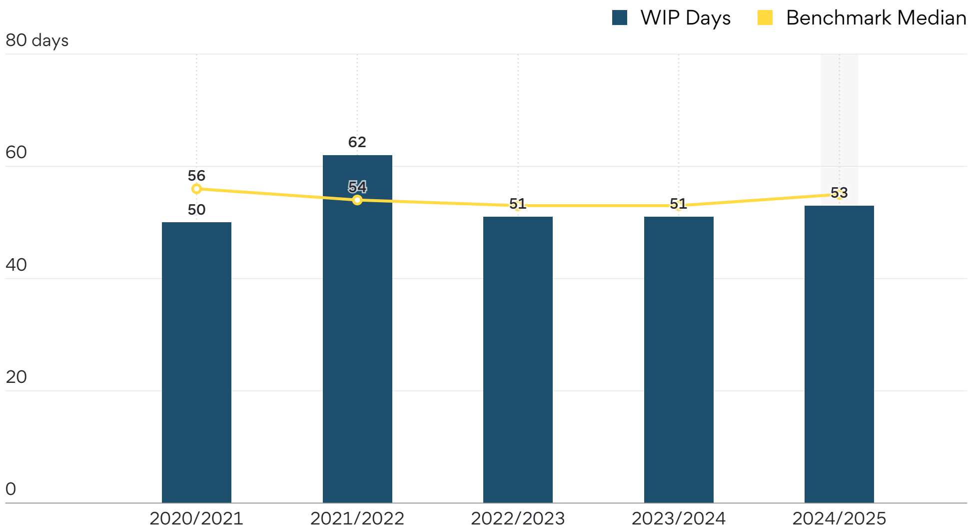
Fee Growth v Growth in Net Assets v Growth in net income - Median



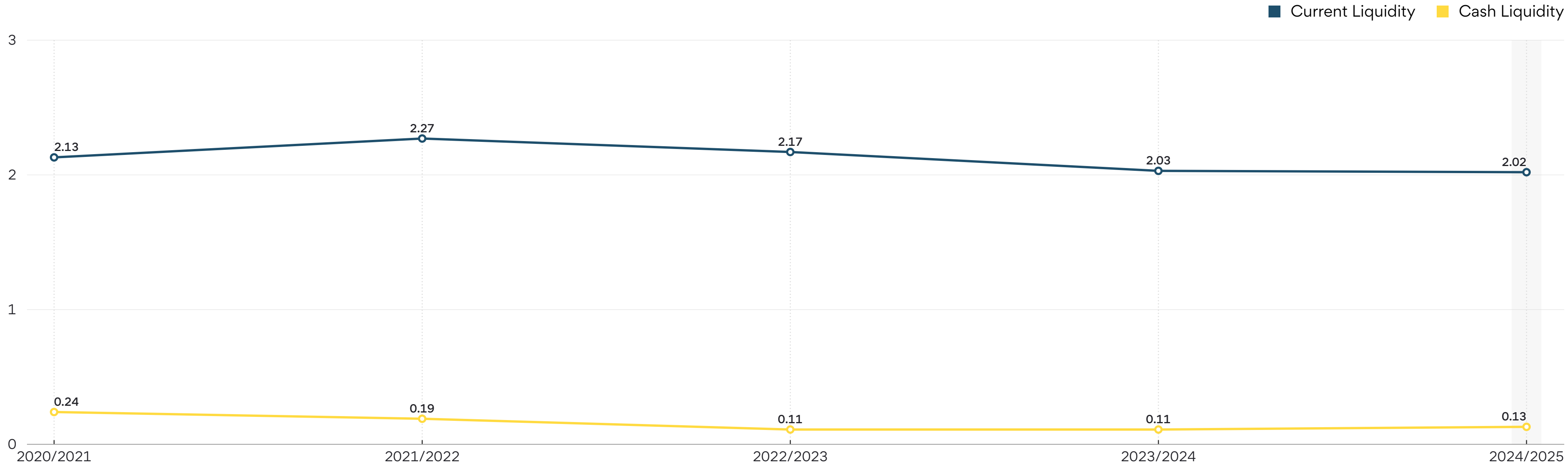
Debtors Days vs Benchmark Median



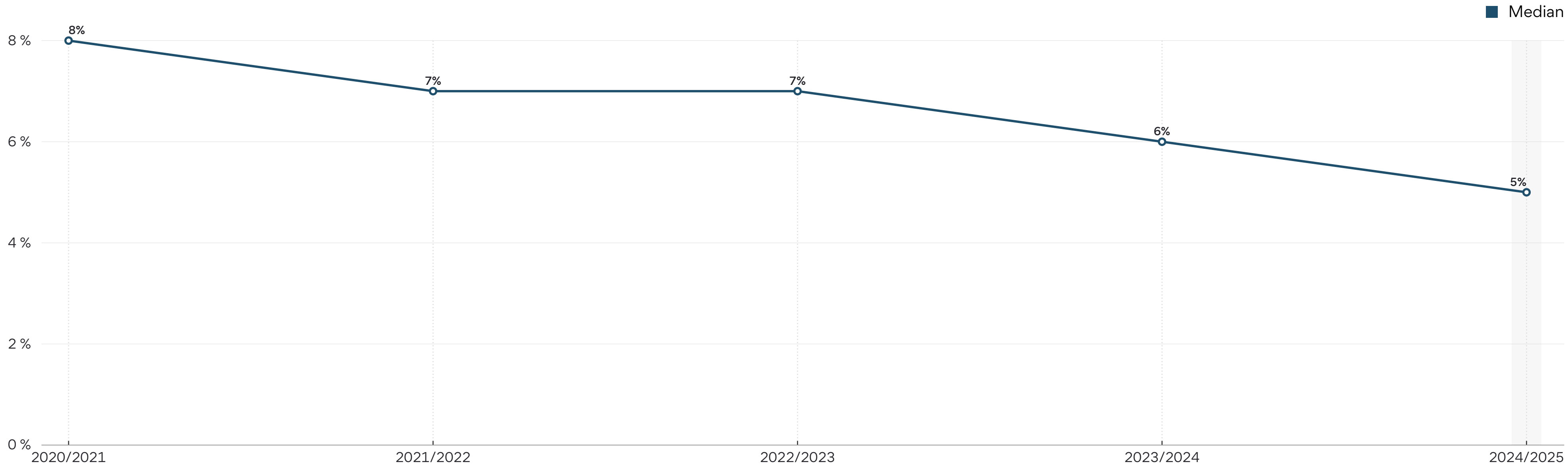
WIP Days vs Benchmark Median



Liquidity Medians

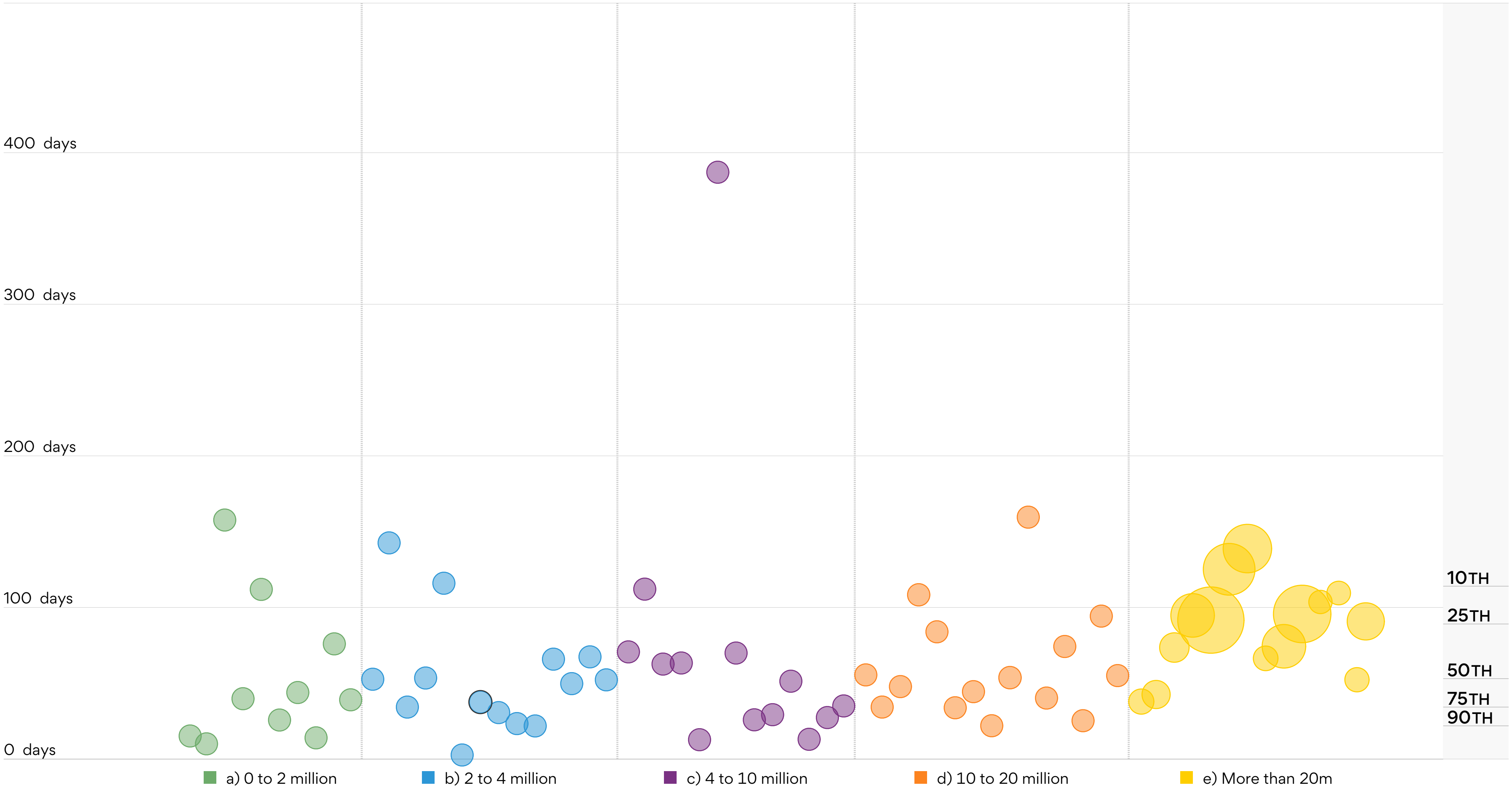


Borrowing to revenue



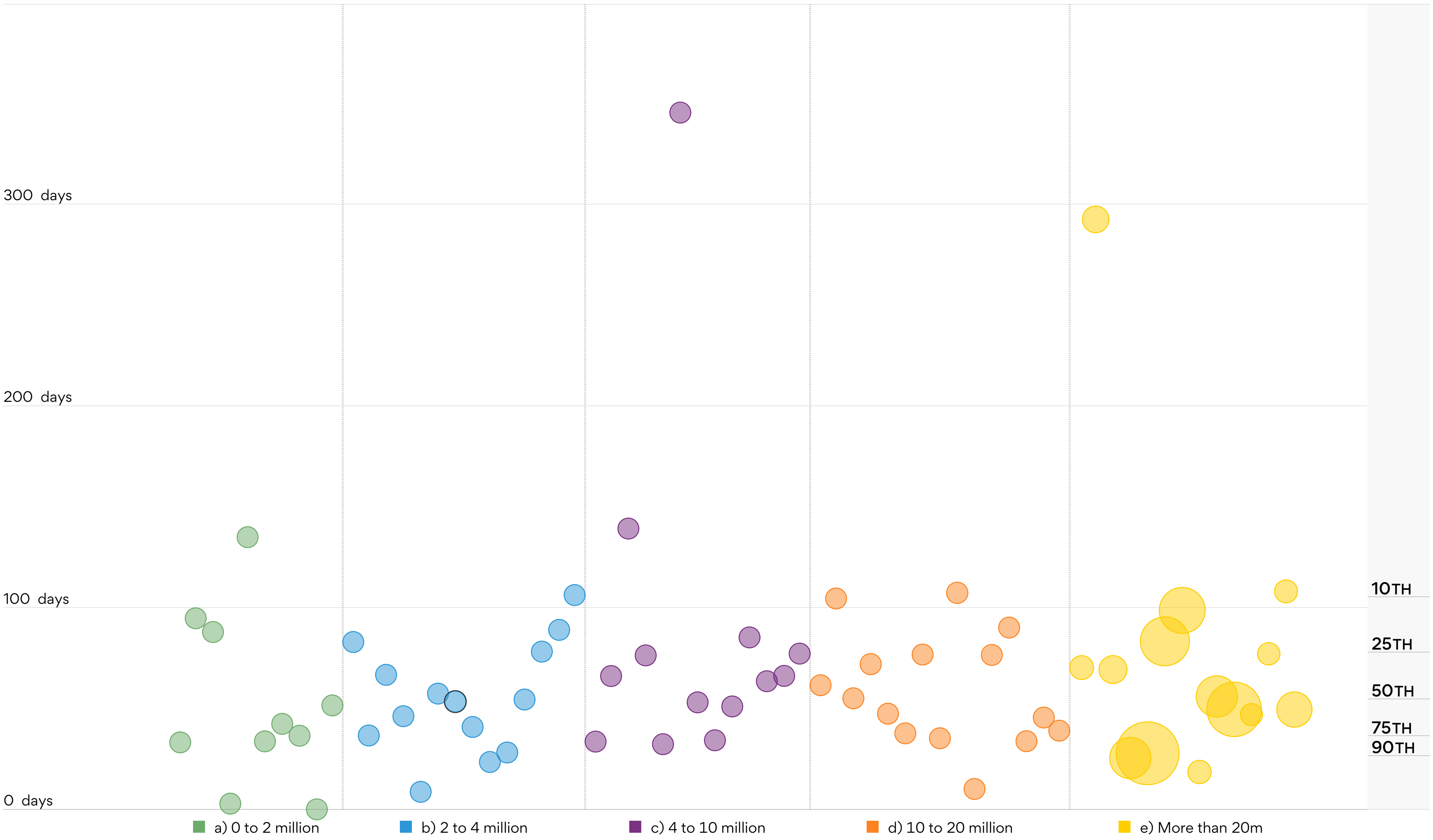
Current Year Data - Balance Sheet

Debtors days AAB Benchmark Solicitors Group



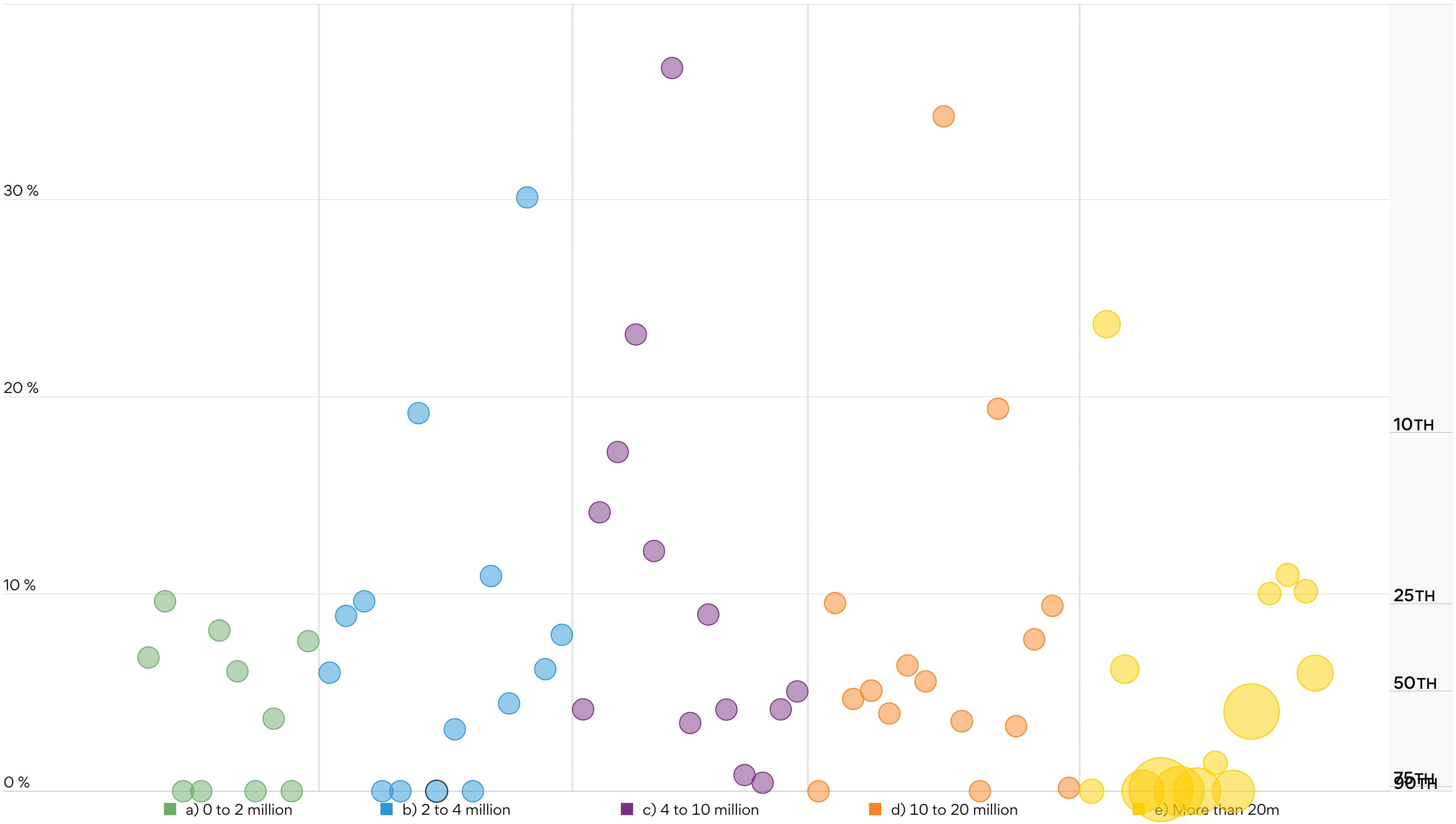
	2024/2025	Median	Rank	Percentile
	38 days	53 days	20/66	70%

WIP Days AAB Benchmark Solicitors Group



2024/2025	Median	Rank	Percentile
53 days	55 days	32/66	52%

Borrowing to Revenue AAB Benchmark Solicitors Group



2024/2025	Median	Rank	Percentile
0%	5%	1/66	78%

Insights - Beyond Profit

Cash is still King!

Working capital management is a key component of maintaining and managing a law firm's cash flow. It has a direct impact on the level of borrowing and/or the level of equity needed by a law firm. Working capital management is difficult to compare directly as it is heavily dependant on the nature of the work being done. Conveyancing matters have a significantly shorter lifecycle than a clinical negligence matter for example so the targeted working capital cycle must also be different. That being said, it is important for all law firms to understand the implications of lengthening or shortening the working capital cycle. 1 day either way for a law firm with turnover of £4m is worth £10,959. For a law firm with turnover of £10m this number is £27,397.

Liquidity is the measurement of how many times over your cash or your working capital can pay your liabilities due within one year.

Cash liquidity, and its appropriate target will depend on the nature of the work being done. It is common for law firms to have a cash liquidity of less than 1 (meaning they cannot pay their liabilities for the next year out of cash alone).

Current liquidity is a much more equitable measure across law firms as it takes into account working capital. Any law firm with a current liquidity of less than 1 is at risk of (or in) financial distress.

Borrowing to revenue continues to fall in the sector. As we return back to a world where COVID loans have been repaid the current picture is a more relevant indicator of sector borrowing needs.

What does a profitable law firm do?

Profitable law firms use their profit in the order of paying tax, paying debt, capital investment, remuneration of business owners

Profitable law firms retain profits to invest in the future

Profitable law firms have strong controls over their working capital cycle. The working capital cycle is driven directly by the actions of the fee earners.

Profitable law firms have a current liquidity of more than 2, which is where the median line sits in 2024.

Profitable law firms borrow to invest in growth, not to fund short term cashflow requirements or tax.

Questions for you:

How much of your performance management is focused on your working capital cycle?

Do you know what your current or cash liquidity score is right now?

How much of your profit was reinvested into your law firm in 24/25? Did you plan to do this?

What do you borrow for – investment or paying liabilities?

What does the future hold?

When looking ahead for the legal sector, one thing is certain, that there will be more change. The questions are what? Where? When? And, most importantly, how will we remain profitable through this?

The one thing a law firm cannot do is stand still.

While we don't have a crystal ball to work with there are some changes coming that are already in motion.

The SRA has released it's first updates as part of the Consumer Protection Review by announcing some proposed changes to the rules on accountants' reports, which is in effect a return back to where we were in 2014. But as yet there are no changes to the Accounts Rules themselves and no further mention of preventing Solicitors from holding client money or retaining client account interest (key emphasis on the word "yet").

We expect to see further consolidation of law firms within the sector. This will be fuelled in the mid to large firm market by Private Equity investment as more and more investment platforms follow the likes of Blixt (Law Front), August Equity (Higgs) and Sun Capital (Fletchers) into the market. This will also lead to fewer solicitors running and owning law firms in the future.

We also expect continued consolidation among small law firms as they seek to minimise costs and facilitate succession.

Changes to accounting regulations will come in for financial years ending 31st December 2026 and beyond which will have an impact on law firms. The main change to be aware of is around revenue recognition rules. This could have a large impact on the valuation of work in progress, especially for law firms with large sums of contingent WIP which is held off balance sheet. We will be discussing this individually with all firms affected in the next few months.

Technology and AI will undoubtedly play a big part in the future of the legal sector and while we can see a place for both firms who embrace technology and those who don't, we expect to see a divergence in performance between those who use technology and AI well and those who don't, or those who ignore it altogether.

Alongside this there is also a growing consolidation in the legal software market. The owners of the new cloud based softwares are consolidating all the long standing CRM and accounts software packages and then forcing law firms to move onto their cloud packages.

The new cloud packages have some advantages but also some significant issues to manage and law firms need to know what they are going to be faced with. We have seen many of these packages so can provide insight as to the positives and negatives of each software if you are looking at changing software.

Other growing trends affecting law firms are an increasing trend towards outsourcing of support services, such as marketing, HR and cashiering. This can result in cost savings but often also involve more management from law firm owners.

Each of the above represents a threat to law firms if ignored, but also an opportunity if they are embraced and adopted early. If you would to speak to us about how any of the above will impact your law firm please get in touch.

Appendix

❌ Fee Income

Net fees £2,816,135 (This year target £5,274,693)

Net fees are fees after the deduction of WIP movement.

✅ Fees per fee earner

Fee Income per fee earner £234,678 (This year target £159,142)

Fees per fee earner is calculated by dividing total fee income by average fee earner numbers to identify the average fees generated. Total fee earners were 12 in 2024 (12 in 2023).

❌ Wages to Fee Income

Wages to Fee Income 52% (This year target 49%)

Total wages cost (including pensions and social security) divided by fee income.

✅ EBIT Margin

EBIT Margin 32% (This year target 22%)

EBIT margin is calculated as operating profit margin on the face of the accounts plus directors remuneration.

✅ Net Income Margin

Net Income Margin 32% (This year target 26%)

This is net profit before tax to allow comparability between LLPs, Companies and Partnerships.

✅ WIP Days

WIP Days 53 days (This year target 55 days)

How long does it take you to bill your WIP?

✅ Debtors Days

Debtors days 38 days (This year target 52 days)

How long does it take for you to convert bills into cash?

✅ Borrowing to Revenue

Borrowing to Revenue 0% (This year target 5%)

Total borrowing includes bank overdrafts if applicable.

N.B. The targets noted above are the overall benchmark group medians. Due to the timings of accounts submissions, the numbers may change slightly from the presentation