CATCHING THE WAVE:
LEGAL TECHNOLOGY SPEND AT $3 BILLION AND GROWING

This fall, Mitratech commissioned a comprehensive third-party survey of the domestic legal technology landscape. Our goals? To understand the trends impacting the legal technology landscape, the size of the legal technology market, and the growth rates across each segment of that market. Specifically, we wanted to answer:

- What are the **trends** impacting the legal landscape and how are they impacting **demand** for 3rd party legal software?
- What is the **structure** of the buyer landscape (i.e., corporate law departments and law firms) and how does it segment by size?
  - How many **buying entities** are in these segments?
  - What is the **spend potential** within these segments (i.e., how big is the TAM)?
- How **much** is currently spent on software by legal departments and law firms today?
  - How does this break down by **solution type** (e.g., matter management, e-Billing, GRC, contract management, legal hold, calendaring, information services, etc.)?
  - How does this break down by **segment** (e.g., department size, etc.)
  - What are current **penetration levels**?
- What is the **market potential** and **expected growth rate**, by segment?

At Mitratech, our mission is to make legal the best-run function in the organization, and this information is critical to enabling us to succeed in that goal. However, this is just as useful for the market at large. As you delve into the findings, you'll see that investment in legal technology is going to continue growing exponentially. Utilizing technology is no longer optional if you want to stay competitive with your peers. If you haven't, you need to think about how to wisely use your investment to support your legal department's needs and priorities.

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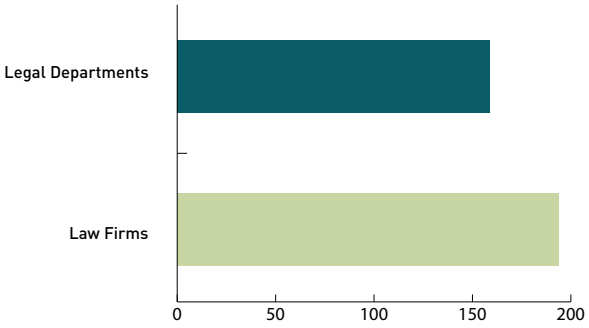
MARKET RESEARCH OVERVIEW

In order to provide ourselves with the most accurate view of the Legal technology landscape, we approached the market through three different research methods that allowed us to triangulate our results. These methods included:

- Fielding a survey of 353 law firm and legal department decision makers to evaluate current and future usage / spend; this broke down into **194 law firm responses** and **159 legal department responses**
- Interviewing **15 leading industry experts** to assess spend dynamics and pressure test survey insights
- Conducting **overview secondary research** to identify any trends of interest to the software landscape in the legal industry

At the highest level, the biggest drivers of differences in survey results across the board were due to the overall size of the organization. **Of the 10,000 legal departments in the U.S., 31% have less than 10 attorneys, 59% have between 10 and 39 attorneys, and 10% have more than 40 attorneys on staff. Of the nearly 50,000 law firms in the U.S., 48% are solo practitioners, 49% have between 2 and 39 attorneys, 2% have between 40 and 99 attorneys, and 1% have more than 100 attorneys on staff.** The technology spending patterns of these organizations varies widely by size segment.

350+ Survey Responses



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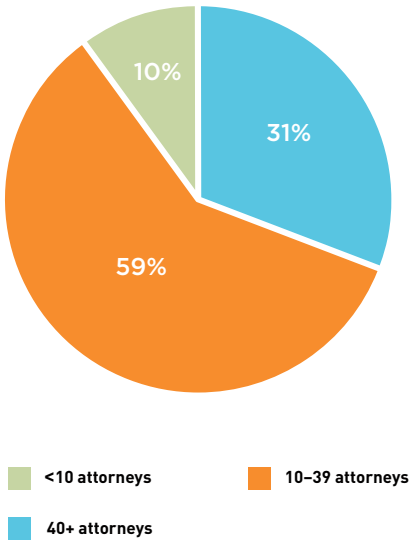
U.S. Legal Departments by # of Attorneys on Staff



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The results that we dive into will focus primarily on the corporate legal market, and the rest of this paper will detail 5 key findings from our third-party research.

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FIVE KEY LEGAL TECHNOLOGY SPEND FINDINGS

1 The trends in the broader legal industry all play favorably for increasing spend on software solutions, especially in corporate legal departments

In the last two years, matters have been increasing after a period of stagnation. After experiencing a period of stagnation, matters have increased from 250 million in 2013 to 300 million in 2014 — with expectations to rise even further in 2015. Along with relatively slow growth in attorneys, this suggests that the workload per attorney has grown significantly. From 2009 to 2013, law departments reduced their spend on outside counsel from 66% to 59% of total spend. During that same period, law firm rates increased an average of 3.3% per year. Combined with the rising number of matters and lack of growth of many law departments, we're effectively seeing a shift of 15–20% of work in-house.

Market trend	Description	Impact on Corporate Depts.	Impact on Law Firms
Increasing number of attorneys	• In the last 5 years nearly 75k new lawyers have joined the profession, a 1.5% annual increase in the workforce • While enrollment has slowed in the last year, law degrees awarded rose from 2011 to 2012 (the last available recorded count of law degrees)		
Increasing matters volume	• In the last two years, matters have been increasing after a period of stagnation; ~250M matters in 2013 rose to ~300m in 2014 and projected to rise further in 2015 • This growth suggests each lawyer is taking on a greater workload (not accounting for paralegals)		
Margin compression (for law firms)	• From 2009–14, law firm billings increased 3.3% per year; the forecast for 2014–2018F is a slowdown to 1.4% per year • Both Alternative Fee Arrangements (AFA) and pre-negotiated discounts are increasing as a percent of revenue		
Move from outside counsel to in-house counsel for corporations	• In 2009, companies spent 66% of legal spend on outside counsel; by 2013, it was down to 59% • A recent survey found that 54% of Chief Legal Officers said moving legal work in-house would be the primary method for reducing spend in the upcoming year • Today, more than 50% of companies have 10 or fewer firms that account for 80% of their outside counsel fees (the highest number ever reported)		

BTI Consulting, Altman Weil 2014 Survey, U.S. Census, Statista, Citi 2014 Law Firms Survey, Lexis Nexis, American Bar Association

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2 Today, U.S. law departments spend almost $1.5B annually on legal software, with a total addressable market potential of $6.5B

While $1.5B is a large number, no single type of legal software is used by more than 40 percent of the potential buyers, indicating tremendous room for growth in the market that is under-penetrated. Currently, e-Billing and matter management comprise the largest percentage of spend on corporate legal software, although growth rates in other segments are higher, indicating that spend in areas like contracts management and governance & compliance will likely overtake matter management and e-Billing in the next five years.

Corporate Legal Software	2015	2019	CAGR	Total Addressable Market (with 100% penetration)	2015 Penetration
e-Billing	$202m	$235m	4%	$524m	39%
Matter management	$195m	$279m	9%	$611m	32%
Contracts management	$187m	$346m	17%	$769m	24%
Governance & compliance	$147m	$270m	16%	$825m	18%
IP management	$140m	$194m	8%	$768m	18%
Legal hold	$129m	$158m	5%	$465m	28%
Document management	$127m	$183m	10%	$437m	29%
Legal project management	$102m	$198m	18%	$649m	16%
Knowledge management	$99m	$259m	27%	$657m	15%
Legal analytics	$73m	$145m	19%	$488m	15%
Collaboration tools	$61m	$92m	11%	$366m	18%

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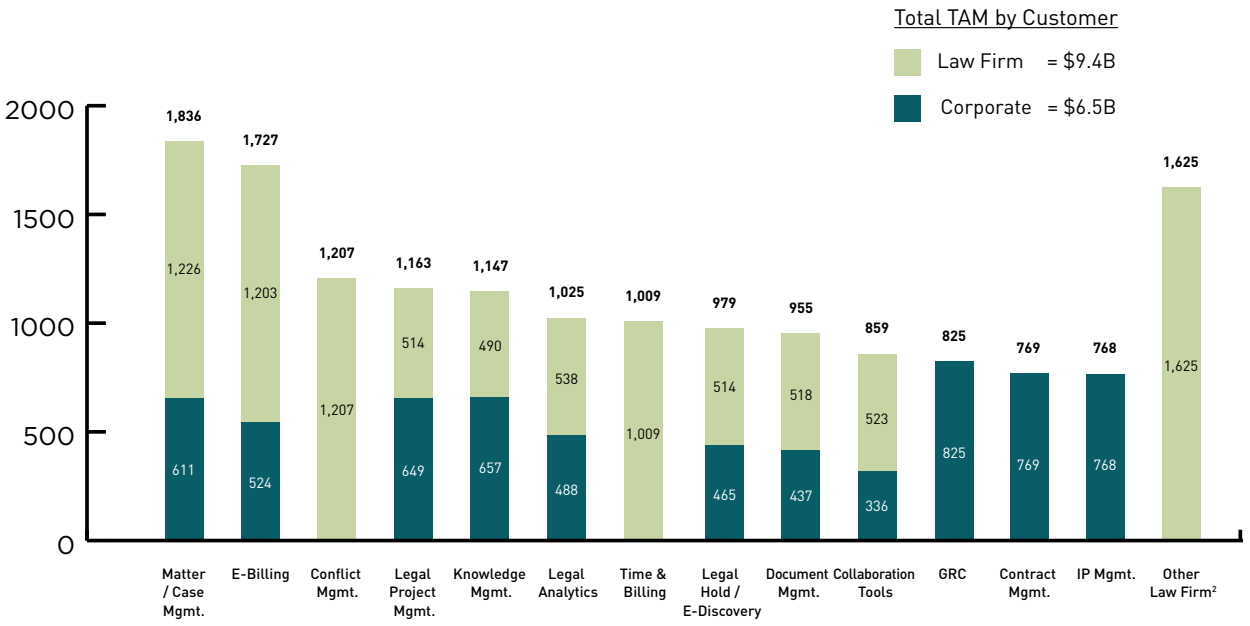
3 Taking law firm software into consideration, $3B annually is spent on legal software and the entire legal software total addressable market is $15.9B

Of that $15.9B, $6.5B in total addressable market (TAM) is found in the corporate legal department market and $9.4B of TAM is found in the law firm market. TAM is calculated based on the amount of actual spend legal departments and law firms spend today on these technologies **if** all eligible companies were to invest in the product.

Full Target Addressable Market (TAM)[1] by Product Type
$ (millions)



Note: [1]Assumes all potential accounts are penetrated (100%) and product spend is the higher end of the range;
[2]Includes calendering/docketing ($574m), legal financial management ($556m), and legal process automation ($23m)

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4 There is a clear distinction in the spend penetration rates of software purchased by corporate legal departments based on the size of the department

Large legal departments are most likely to invest in e-Billing, matter management, document management software, and legal hold software (all of which saw more than 65% spend penetration) while small legal departments are most likely to invest in document management and contract management software, reflecting the fact that smaller legal departments have lower outside counsel spend and are generally handling a high proportion of transactional to litigation matters.

Interestingly, the percentage of legal departments investing in each software segment increases by size of department with the exception of contract management software, which stays steady regardless of the size of the department.

Total usage (third-party + homegrown) of software solution

Product	Large departments (40+ attorneys)	Mid-sized departments (10-39 attorneys)	Small departments (1-9 attorneys)
Number of departments	963	5,778	3,020
e-billing software	80%	48%	25%
Matter management software	79%	46%	20%
Contracts management software	42%	52%	43%
Governance & compliance software	48%	30%	27%
IP management software	42%	17%	16%
Legal hold software	65%	43%	16%
Document management software	74%	48%	52%
Legal project management software	51%	24%	11%
Knowledge management software	35%	22%	0%
Legal analytics	36%	22%	5%
Collaboration tools	58%	24%	34%

Q6. Which of the following software solutions are you familiar with? "Legal department currently uses this software"

Note: *Includes corporate and government legal departments

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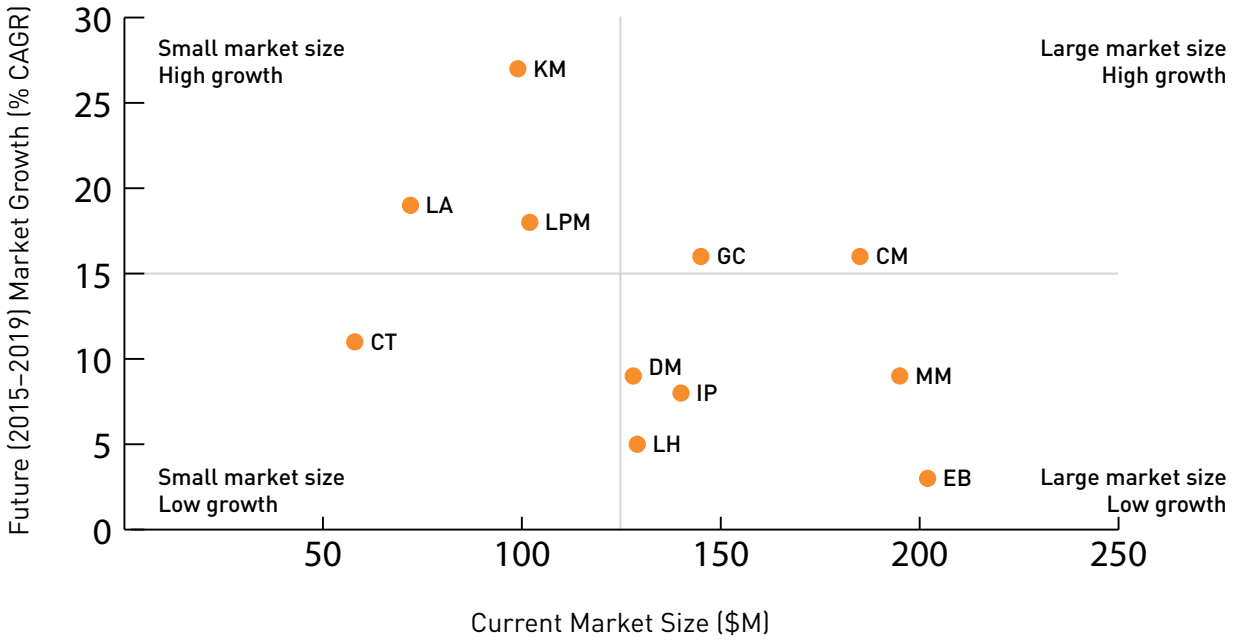
5 The fastest growing corporate legal technology segments are Knowledge Management, Legal Analytics, Legal Project Management, Contracts Management, and Governance & Compliance software

While all of the technology segments are growing, Governance & Compliance and Contracts Management represent the markets with both large market size and high growth rates. We expect these two segments to represent an increasingly large percentage of the General Counsel's budget and attention over the next five years.

Current market size and future growth



KEY

E-**B**illings
Contract **M**gmt.
Matter **M**gmt.
Governance & **C**omp.

IP **M**gmt.
Legal **H**old
Document **M**gmt.
Legal **P**roject **M**gmt.

Knowledge **M**gmt.
Legal **A**nalytics
Collaboration **T**ools

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CONCLUSION

So, what do all of these statistics mean? They clearly show that:

1. *The legal technology market is burgeoning and just at the tip of its growth over the next five years*
2. *Adoption of various legal technology solutions is still minimal, especially in smaller and mid-sized legal departments and law firms*
3. *The forces impacting the market will require that both law firms and legal departments leverage technology in frequent and innovative ways in order to manage their increasing workload*

So what does this mean for you? It means that now is the time to step back, look at your legal department, and analyze what your true needs are. For legal departments to effectively manage outside counsel, to efficiently manage workloads, and to better collaborate with business partners, smart investments in technology are critical. As we enter 2016, this might be the right time for your department to embark on developing a true legal technology roadmap.

ABOUT MITRATECH

Mitratech is the leading provider of fully integrated enterprise legal management solutions for global legal departments of all sizes, including almost 40% of the Fortune 500. Mitratech's offerings include the proven TeamConnect, eCounsel, Lawtrac, LawManager, Secretariat, and GettingContractsDone product platforms, which offer integrated matter management, e-Billing, legal hold, contract management, entity management, and GRC solutions. Mitratech clients are able to prove demonstrable value creation for their organization by automating legal workflows, improving business outcomes through actionable data and insight, increasing collaboration with external partners, and reducing overall legal spend. For nearly 30 years, Mitratech has been focused on a singular mission: to make the legal department the best-run function in the corporation.

CONTACT MITRATECH

Mitratech Holdings Inc.
5001 Plaza on the Lake
Suite 111
Austin, TX 78746
512-382-7322
www.mitratech.com
info@mitratech.com

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