

LexShares sees consolidation coming to the increasingly crowded litigation finance space — CEO

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by Jeff Sheban | **Mergermarket**

LexShares, a Boston-based commercial litigation finance company, expects to see consolidation in the space, which has attracted multiple new entrants in recent years, said co-founder and CEO Jay Greenberg.

LexShares gives wealthy individuals and institutional investors the chance to invest in litigation outcomes. Greenberg said there were roughly eight similar companies when he co-founded the business in 2014 with Chief Investment Officer Max Volsky, and that number has swelled to more than 40.

There already has been consolidation at the top. In 2016, Burford Capital Limited [LON:BUR] acquired Chicago-based Gerchen Keller Capital for approximately USD 175m. At the time, the firms were the first and second largest players, respectively. In 2019, Australia-based IMF Bentham merged with Netherlands-based Omni Bridgeway [ASX:OBL] in a USD 61m deal to form a global giant with 18 offices in 10 countries. The combined company has taken the Omni name.

Greenberg said he anticipates consolidation among smaller players within the next five years, adding that it is too early to tell whether LexShares will seek to acquire competing firms.

LexShares is an online marketplace connecting plaintiffs in commercial legal disputes with investors to fund their cases. Investors – including family offices, hedge funds and endowments – can select individual lawsuits to invest in or buy shares of a broad portfolio of legal claim assets. Plaintiffs and law firms use the investment funds to finance legal disputes that can drag on for years.

LexShares generates revenue through a combination of annual management fees on its funds and a 20% cut of profits from successful lawsuit outcomes, with 80% going to investors, he said. LexShares has invested in 103 lawsuits since inception, with 43 of the cases resolved. The “win rate” on resolved cases has been 70%, he noted.

The company’s second pooled fund – LexShares Marketplace Fund II – was launched in June with a USD 100m target fund size. It has received USD 40m in commitments to date, the CEO said, and will invest in “middle market” sized cases of between USD 250,000 and USD 4m, primarily in US federal and state courts. The range represents the amount of capital LexShares or other funders would provide through a single investment. In 2019, LexShares’ average investment in a case was USD 1.2m, up from USD 630,000 in 2018.

The CEO said his co-founder has been active in the space since the 1990s and referred to him as “the godfather of litigation finance in the US.” Greenberg said he discovered litigation finance while working for Deutsche Bank and subsequently approached Volsky, who had authored a book on the subject, about forming a company. “I met him, read his book, and was fascinated by the industry,” Greenberg said.

The founders raised a seed round of undisclosed size in 2014 led by Atlas Ventures (now called Accomplice), and in 2016 raised additional funding led by an undisclosed hedge fund, the CEO said. The company has been profitable since 2017 and is majority owned by the founders, he said, and has no plans to raise additional capital.