IGS | INVESTOR GROUP SERVICES

CASE STUDY

AI Due Diligence for a Law Firm MSO Investment

Sizing AI risk and upside ahead of a legal services deal

SITUATION

- The investment on the table was a plaintiff-side law firm specializing in a high-value litigation niche, generating recovery-based fees on a 100% contingency model.
- A PE sponsor evaluating the investment needed to understand AI's implications across the deal thesis: as a potential threat to the firm's fee model, a source of competitive disruption, and a value-creation lever post-close.
- Diligence had to answer three questions the sponsor's investment committee needed before signing off:
    1. Does AI compress this firm's fee base?
    2. Could a smaller competitor or General Counsel firm leverage AI to disintermediate?
    3. How much value could AI create during the hold period?

APPROACH

IGS ran a structured AI diligence inside a broader commercial due diligence engagement, combining primary research (management interviews, workflow time studies, and interviews with competitors and referral-channel stakeholders) with hands-on technical assessment of the firm's existing tools.

AI Risk & Defensibility See Exhibit A
Assessed exposure across key risks (e.g., business model, substitution, competitive) and structural moats (e.g., regulatory, workflows, expertise) by mapping the firm's fee model and case lifecycle stage-by-stage against what AI can and cannot automate today. Interviewed direct competitors and adjacent players (general counsel firms, management companies) to pressure-test whether insourcing or AI-native entrants were realistic threats.

Value Creation Potential See Exhibit B
Built a bottoms-up ROI model, breaking a representative case into its component tasks and applying automation rates by task to size firm-wide hours and dollars freed.

Readiness Assessment
Scored the firm across People, Process, Technology, and Data, identifying the specific gaps (data rights, ownership, case-management infrastructure, governance, frontline adoption) that would gate any value-creation roadmap regardless of use-case ROI.

AI Roadmap
Sequenced findings into a phased, 12-month roadmap and a 90-day action plan, distinguishing near-term "quick win" automations from the mid- and long-term builds that depend on a shared knowledge foundation, giving the sponsor both a go/no-go read and a post-close execution plan.

SOLUTION

10,000-11,000 hours in freed capacity (~10-12% reduction in total case hrs.)

Identified opportunities that unlock 10,000-11,000 hours in freed capacity (~10-12% reduction in total case hours) which translates to $2.5M-$3M in cost savings.

$4M-$8M in potential revenue

The cost savings translate to $4M-$8M in potential revenue from capacity reinvested (new-client origination and geographic expansion from freed founder time are upside beyond this figure).

6 critical gaps identified

Identified six critical gaps to address prior to executing on priority use cases, across data rights, ownership, case management, knowledge architecture, governance, and adoption.

OUTCOME

- Delivered a clear, evidence-based verdict: overall AI threat to the business was low. The firm's contingency fee model, referral relationships, and case-specific expertise are structurally resistant to both AI-driven fee compression and AI-native competition.
- Surfaced that the single highest-value use case accounted for over half of the identified savings, redirecting the sponsor's post-close prioritization.
- Delivered a phased 12-month AI roadmap across the seven priority use cases, sequenced by build complexity and business impact, with the foundational data and knowledge work each use case depends on called out as prerequisites rather than assumed.

IGS delivered build-ready solutions charters to the client. The build is in progress and the client has seen quick wins with positive ROI.

EXHIBITS

Exhibit A: AI Risk & Defensibility Assessment

Risk Lens	Rating	Key Finding
Business Model Risk	Low	Contingency fees are set by recovery value, not billable hours; AI efficiency gains accrue to the firm as margin, not passed to clients as price cuts
Substitution Risk	Medium	Document- and process-heavy case stages automate well; judgment, relationship, and capital-intensive stages resist substitution
Competitive Risk	Medium	Legacy competitors are converging on the same commodity AI stack; no AI-native entrant has emerged given capital, referral, and expertise barriers to entry
Regulatory Moat	High	State bar and court rules require attorney supervision of all AI-assisted work, which forces any AI-native entrant to operate as a conventionally supervised firm anyway
Overall Threat	Low	Durable moats (reputation, referral relationships, proprietary case history, and capital-backed contingency underwriting) are not reproducible by AI alone

Exhibit B: Value Creation Levers

Lever	Description	Example Use Case
Close more deals	Surface more high-quality opportunities and improve conversion	Automated intake scoring against firm history
Free up capacity	Automate manual, document-heavy work within each matter	Financial record reconstruction, collections tracking
Win & recover more	Use historical outcome data to support higher-value settlements	Settlement modeling from firm case history

Case details, figures, and firm identity have been anonymized and adjusted to protect client confidentiality.