

Hi to everyone.

Thank you for joining the first session of the Verbit Virtual Summit.

This session is a status update on the court reporting market and existing gaps.

We're actually very excited to hear from Strategy& the division of PwC.

I'm sure that everyone knows it, and they're going to share their analysis and overview of the court reporting market and current processes.

You can submit your questions live through the Q&A feature here within Zoom in the bottom down.

We will be taking questions and addressing them during the last 10 minutes of the session.

It will really depend on when do we finish, how many questions we will take.

With that, I would like to begin this session that we have with us

Tal Fisch for Strategy& from PwC, as well as Amit,

two of the smartest people probably in the market, and they did a very smart analysis on the court reporting markets.

Tal, would you like to introduce

yourself and the team and then take it from there?

Yes, sure. Thank you Jacques, and hello everyone.

I'm very excited to be here and

take part in our virtual summit.

As Jacques mentioned, my name is Tal Fisch.

I'm a director in Strategy&.

Together with me here is Amit Zaidenberg,

a consultant in our team.

For those of you who maybe are

not familiar with Strategy&,

Strategy& is a leading global consulting firm.

It's actually the strategic arm of PwC.

Together, PwC and Strategy& are

one of the leading professional

services firm in the world.

More than 220,000 consultants,

professionals across over 160 states.

As for myself, just to give some more introduction,

I'm a strategy director in Strategy& located in Israel.

I'm leading the local deals and M&A practice and

specialize in commercial due diligence, market studies,

I'm also supporting companies in

growth strategy and go to market strategy.

Maybe before we start going over the market analysis,

I was invited today to speak about the overall market.

We will see in a second how the market looks like.

I just want to give everyone

some context about our starting point in this study.

PwC actually conducted a very comprehensive market study which was focused on the court reporting market in the US.

PwC globally, and specifically in the US,

was actually highly

involved in many M&A transactions,

where we actually supported both bidders

and target companies within the court reporting market.

We were able to gain

very significant knowledge of the industry,

very intimate knowledge of the different bidders,

the different players in the market.

We know the customers,

we know their needs, we know their pain points,

and all of this really help

us to lay out a very solid market view.

You know it's quite funny because when you speak

about the court reporting market,

when we entered this exercise,

we tried to use some public available data,

and it was like if you ask

10 different research companies how

the market looks like and what the market size is,

then you get 10 different complete answers

with a massive range.

I hope that this overview will make

sense to everyone and I hope

you will find it very useful.

Let me share my screen.

Jacques, can everyone see my screen?

Yes, we can.

Great, let's get into the details.

Like I said before, the baseline for

this study was based

mostly about our experience in the market,

supporting all kinds of

agencies in their consolidation and roll out strategy.

This is actually one of the

trends that we see in the market.

What you can see here is actually

our interview type, our interviews list.

I need to see who we spoke with.

We spoke with large,

the national, the regional CRAs.

We spoke with the small ones,

we spoke with transcription vendors,

stenographers, legal transcriptionists, law firms,

corporate legal departments, including

insurance departments, court administrators,

and all kinds of associations and

people on the board of those organizations,

and many other suppliers,

whether it's from stenographers or

any other digital suppliers in the market.

All of this really helps us to shape our market view and come out with a great view on the market. Let's start.

Before we speak about the market, we need really to define how the market looks like, and I think this is already very different between all kind of public data, which is available out there.

But here you can see our methodology to define the total addressable markets attempt.

The court reporting market, from our point of view, is built based on three key use cases.

The first one is what we call the depositions.

This is court admissible transcript of witnesses testimony outside of court.

I'm sure you're all familiar very well with this.

The second use case is the court.

Everything that's going on in the courts, whether it's on federal, or state, or local level within courts in the US.

The third use case is what we call the EUOs, the examinations under oath, specifically for insurance.

Now, I need one caveat on this one.

When we spoke to the market, many companies sometimes call depositions EUOs.

Here we try to do the split and not do double counting,

the regular EUOs, which you're probably familiar with are part of the deposition.

When we say EUOs in these presentations, we mean EUOs coming from insurance companies only.

Then there are other very small use cases which related to documentation of legal works.

This is also part of the market,

but you will see in a second,

this is a very small part of it.

In the second way, we can also see

the end-users of those use cases.

In depositions eventually, who's

acquiring or purchasing the service

are mostly the law firms.

In some cases, it could be also

the corporate legal departments of many organizations.

In courts is obviously the court,

but it can be also public defenders of the law firms,

in insurance it's obviously the insurance companies,

and in the other use cases,

you can see below who's relevant.

What's also important to note when we speak about

the market is what's the solution

type that there is out there in the market so that for

deposition we have

real-time solutions and post-production.

Same goes to court.

In EUOs, we see mostly post-production, although real-time, it's kind of a new pilot going out there, and in others can be also both real-time and post-production.

Also important to note, and you can see it at the bottom of my screen, that we're not speaking about other verticals like law enforcement federal investigation, sometimes they get mixed within the legal space.

From our point of view, we're speaking solely about the court reporting market and about those use cases that you see here.

Now that we define the market, let's see the size of it.

PwC estimates the inclusive court reporting market to be between \$4-5 billion.

This is the black column here you see on the left.

When we separate the different elements, we see two key buckets.

One is the supplementary added value services. These are services that usually court reporting agencies provide, such as scheduling, videography, and other functionalities that are provided.

The second part, which you see on the right column,

is what we call the court reporting itself.

This includes all the court reporting work,

and we estimate this to be between \$2.8-3.5 billion.

This is the market of the court reporting in the US.

Now, let's look on the market from different angles.

The first angle is split

the market by key players in the market.

As you can see on the big pie chart on the left,

the court reporting agencies,

they make roughly 90 percent of the market between 85-95.

This means that most of

the money in this industry flow through the CRA.

What else you can see is that there are also

transcription vendors and digital recording providers,

some of them get directly paid by others.

Now, the pie chart that you see on

the right side shows you how the money that

comes to those agencies split

between the agencies themselves and others.

As you can see that the CRAs are

left with \$1-1.4 billion,

which makes between 35-55 percent,

and the court reporters themselves,

they get the bigger chunk of this one.

They get between 45-65 percent of the market.

Overall, you see it's a \$2.8-3.5 billion market.

With the CRAs, they left with \$2.6-2.9 billion.

This is the market when we speak about key players in this one.

Moving on to the next one, now we can see the market from different use cases.

We spoke about the three key use cases as you can see.

Depositions are the biggest use case out there in the market.

It's almost 85 percent of the market goes to depositions.

The other big part of it is the court between \$0.4-0.7 billion, and then the EUOs, like I said before, the EUOs that's relevant only for those insurance cases, which are mostly shorter, smaller, priced also different from the usual depositions that makes the small part of this industry between 3-7 percent of the total market.

Then another look on the market, this time from solution types.

Here you can see that and surprisingly, stenography actually makes it the biggest solution type out there between 75-85 percent of the total addressable market goes to stenography solutions.

Then a smaller part of
the market goes to digital reporting,
and we also see
some voice writing also in this industry.

This makes a very small part of the market,
between 3-7 percent of the market.

So like we said before,
CRA is the court reporting agencies.

They are the biggest part of this market and
most of the money in the industry flow through them.

So in a way they are like a middleman in
most cases and specifically in depositions.

You can see unsurprisingly the depositions makes
between 75-85 percent of the work in legal.

Then you see the courts in EUO.

This is quite similar to how
the market looks like so it's not really surprising.

Then on the right side, you can
see that like I said before,
this market is quite fragmented.

More than 4,000 players across the US.

They had a great relationship both with the clients,
also with the freelancers.

So they worked with both sides
and they are doing a good job at it.

What's also very noticing in this market about
the CRAs is that they had

a dependency on the freelancers.

So many CRAs use stenographers mostly,
or in some cases could be digital transcribers.

In most cases, these are not
employees of the CRA of the agency,
and then this is why they have
strong connections with those freelancers.

Let's also speak about the different types
of players and their key pain points because that's also
part of the market and very important to understand
because the market dynamics
really flows from those pain points.

So we see the different type of
players that we listed on the left side.

Let's start with the law firms, and like we said,
this is the end customer,
mostly in the use cases like depositions.

So law firms actually became
quite price sensitive over the years.

So one of the key pain points for them is high pricing of
the transcript or maybe the deposition itself.

Since the crisis in 2008,
we see that more and more law firms,
both small and big.

So also like law firms from New York,
which used to be less price sensitive,
now they are more price

sensitive and sometimes they don't purchase extra features that are provided by the agencies.

So pricing is also very important to them.

They are also in many times are concerned with the quality or with the lack of Live/rough draft availability.

As we know in digital today,

there's still not a good solid solution for

Live/rough draft and this is why

law firms actually prefer the traditional stenographers, the agency that work with stenography, and this is currently the preferred solution.

Let's move on to the insurance legal departments.

Like we said in EUOs,

they are the end customer.

So similar to the law firms,

they are very price sensitive.

They work in large-scale

contracts and this is why they want to

get it right with the contract connected to scale.

They're also suffering from lack of reliability.

One typical thing that you can say about

the markets specifically in EUOs is the no-shows.

This happens from time to time,

and those insurance legal departments

really want to know that they

get the comfort that they need in EUOs.

In courts, so we see mostly vendors not meeting [inaudible 00:15:15] ,

so this is one pain point that courts suffer from,

which sometimes we see in the market

led to a 1-strike rule.

So if you didn't meet the SLA in your contracts,

sometimes the court can even

take you off of his approved list.

So this is also something that you need to

be aware of and keep in mind.

Let's finish with the CRAs again.

So with CRAs, we see decreasing margins actually.

So CRAs have decreased

margin following the stenographer's shortage,

which we will discuss more deeply in a second,

and increasing costs for the agency itself,

and also quality control difficulty.

So they have also some difficulty of quality control

when they work with freelancers in some cases,

and they really cherry pick

the ones that they want to work with.

So this is an overview

of the key pain points of the market which

are very relevant to the market and

really set the tone for the market dynamics.

So we covered the overview of the market.

We discussed the size and

the different types of players and their key pain points.

Now what I want to speak to you is what we call the digital adoption within the court reporting market.

So what we see in the market is that digital recording is actually on the rise.

You can see that across the different use cases, whether it's depositions, courts or EUOs, we see a trend of going into digital.

Let me explain the chart that you see here in some words.

So what you see here is a total market and the different use cases, split by the solution type.

So steno, you can see it in red, digital in pink, and voice writing in black.

What you see here is the current volume estimate of each of the solutions across the different use cases.

So for example, in depositions you can see that almost 95 percent of the market works with stenography.

So digital makes only between 5-10 percent.

On the other hand, you can see that in court, there is already a big penetration of digital.

It makes between 65-75 percent of the volume and actually steno is the smaller part of the market.

In EUOs, we see kind of a mixed picture here.

We see the stenography makes between 50-70 percent and actually digital makes 30-50 percent.

What's also important to note that this chart is in terms of volume.

As you probably know, the pricing of digital recording and digital transcription is less expensive than stenography.

So if we would have done the exercise and switch this chart into value, so of course, the part of digital would be smaller.

So this is in terms of volume that we see in the industry.

As you can see below, we see the digital trend, it's all green.

So we see more and more penetration of digital as we go.

I want to double-click on court specifically where it said that digital actually has a much higher penetration rate.

What you can see here that out of the 100 percent court volume on the left, this is the black column on the left.

You can see that 10 percent of it is not digitally recorded at all.

This is served by traditional stenographers and not by any digital solution.

There we are left with the 90 percent

that is digitally recorded.

As you can see, out of it,

between 30-45 percent is

recorded but not being transcribed.

Then another chunk is 10-20 percent that is recorded

but still using stenography

as the preferred solution for transcription.

Then eventually, we get to the part that is recorded

and digitally using digital transcription.

This is only a smaller part of the market,

it's only between 25-35 percent.

So if I'm going to go back for a second for this slide.

So you can see the court,

we said digital is between 65-75 percent,

but the part that is digitally

transcribed is much smaller,

and it's actually only between 25-35 percent.

Now let's speak about the pace of change,

which we see three key factors that will ultimately

change the world of

court reporting and the pace

of change going into digital.

You can see the three red boxes on the left,

the stenography shortage, the price sensitivity,

and the technology availability.

Let me go one by one.

Stenography is still considered

today no doubt the higher quality service,
but at the same time,
it costs more than digital solutions.

This is because they are able to produce
higher accuracy and a faster turnaround time.

For example, they can provide
Live and rough draft in seconds,
which digital is still not there today.

But despite the high demand,
we see obviously decline in the workforce.

We see retiring workforce,
we estimate it to be between
10-15 percent in the next three years.

There are many actually public data about this one,
and if you ask other people in
the industry they might say it's a bit higher,
it's a bit maybe even two times higher or
less but we view those claims from year to year,
and we feel quite strong with our estimates here.

What else? We also figures of limited new entrants.

As you know, the training is very long,
it's around three years training
and the attrition is very high,
so the shortage is getting deeper and deeper.

The second factor that will
affect the pace of change
is obviously the price sensitivity.

I touched it before with the law firms,
but also what we see in the US,
the government budget cuts which led
actually many courts to seek alternative solutions.

We see them switching from stenography
to cheaper solutions like digital recording.

Of course, law firms are
becoming increasingly price sensitive.

This one we discussed before.

This is also affecting the market and affecting
their choice for transcription.

The third factor that really changed
the market is the availability of technology.

As quality of digital recording is improving,
and we see more and more ASR solutions
or any other digital or technical solutions,
this product is becoming more common in the industry and
more and more agencies and customers prefer to use it.

A deeper look on the first one,
which is a stenographer shortage,
you can see here very clearly that the demand for
court reporting stays quite stable in the US market.

On the other hand, you can see the charge,
you can see the trend of the supply of stenographers.

We estimate that the number of
stenographers in the US is around 30K.

Again, there are different numbers

out there in the market.

This is an average.

You can see the shortage,

and you can see the gap between the supply and demand.

This gap is exactly the place where

we believe that digital recording can take place,

and can take over,

and can take some places.

Now we say that

digital solutions are growing, but how fast?

Based on our estimations when we analyze the market,

you can see that we split

the market into the three use cases.

In depositions where, if you remember,

the penetration of digital was the lowest one,

we see actually the fastest pace of change.

From a volume of

around 5-10 percent of the entire deposition market,

we see it growing actually to 15-20 percent.

This is more than two times,

almost triple the market.

Then on courts where we

see higher digital penetration today,

so the pace of change will be a bit slower,

from 65 to around 70-80 percent.

In EUOs we go from 30-50 percent to 50-70 percent.

If I had to summarize,

you can see that deposition is the one that is growing the fastest and obviously is starting from a lower starting point unlike courts which starts already from a higher digital penetration rate, and obviously the pace of change will be a bit slower. When we say digital deposition solutions, now we can say who can find it very relevant in the market. We spoke with the different players in the market and asked them, "How can you use digital deposition products?" When we spoke with national and medium regional series, what we see is the following. First, they suffer from stenography shortage and last-minute cancellations. This is one of the pinpoints that we mentioned before. Secondly, Live and Rough are highly relevant to them . Due to increased presence of the complex litigation cases, digital solutions, as they get more real and more advancing technology, they can be very, very relevant to them. On the other hand, we see that some CRAs are actually developing their own solutions, whether it's in-house or remote stenography,

and those can be alternative solution to digital recording.

Then let's go to the small CRAs.

The small CRAs, they care most about scaling and flexibility.

Providing them with digital solution really can create great benefit to them where they can use proofed digital transcripts and gain more scale and have better flexibility.

It can also enable them to add more products to their arsenal.

They can provide both steno and both digital solution and can have their choice whenever they need.

On the other hand, we see some resistance in the market from many CRAs.

Many CRAs are still steno or stenography based.

They resist the change, some of them resist to use digital products across many different states.

Actually many of them are, from our discussion, are willing to use digital solutions.

Another point where digital products can be useful is actually serving the digital or the electronic court reporters.

Those DCR/ECR, they're out there,

they're working together with the agencies, in some cases they get the mandate also from the agency to do the transcript.

Enabling them to have digital transcript can be a great benefit to them.

On the other hand, in many cases like we said, they're not the decision maker and this will fall within CRA.

Like I said before, we see different agencies are switching slowly into digital solutions.

We see CRAs of all sizes or whether the big, national regional players, or small ones using other solutions.

We can see that CRAs are providing both recording and transcription services.

We can see also that agencies are recruiting actually new workforce to support this revolution.

Lastly, what I want to discuss is the different types of products that are out there and how can they change over time.

What you can see here are the three different products that we see both on stenography and some of them are also relevant to digital.

We have the Live product, we have the rough draft, and we have the proofed and signed transcript.

Today, as you know,
there is very limited demand for
a digital Live or digital rough drafts,
mostly because the technology is still not there.

As we said before,
only between 5-10 percent of
the digital transcription for deposition are out there.
In the future, if we take three years time from now,
and if assuming that the technology will be available,
then we see a higher increase in
the use of Live digital solutions.

We also see that across rough draft as well.

Below, you can see the key prerequisites for this change.

Did our direct prerequisite that had to be
there in order to have a solid digital product?

So for Live product we see,
obviously had to have
less than one second turnaround time.

You need to have around 97 percent accuracy
and of course all the formatting requirements.

For rough draft ,so it's a similar picture,
you need to have a very quick turnaround time,
usually it's less than two hours.

You need to have high accuracy,
around 97 percent and of course,
again, you need to have
the right formatting and editing requirements.

Then for the proofed and signed transcript,
you need to have plus 99 percent accuracy,
fully proofed transcript,
including all the administrative pages and everything.

So this has to be sealed and complete.

That's it from my side,

I hope it was very benefit from you and I
will open now to discussion for some Q&A.

Thank you Tal. As always,
it was a great session.

We'll be taking some questions from the audience now.

I have two questions already that were sent.

So first of all, you are getting
a very good feedback from everyone.

Everyone is saying some fantastic presentation,
etc. So it's very good.

The first question that I saw
that they asked and I think it's important is,
what is the effect of
COVID-19 for digital court reporting market?

Do you think it will push it forward?

What do you guys have found about it?

So actually a great question and
obviously something that everyone
is talking about right now.

Just to be clear,

our market research was conducted before the COVID-19,

but we did get back to the market,
spoke again with the agencies,
with stenographers,
with different transcriptionists that
work in this industry.

What we see actually, first of all,
we see there is obviously a decrease in volume.
Obviously less depositions, less court transcripts, etc.
Then we see also actually a switch from
stenography to remote stenography.

This is also something we see
and what we hear from the customers is that
they're starting to realize that you
can also have a deposition without
the stenographer in the room and they're
becoming more openly to have
digital solutions in the room
and therefore work with digital transcription.

Obviously I would say that this switch to the new normal,
the new COVID-19 reality,
which probably going to last a while as we all know,
this actually could be
a positive trend on digital transcription.

Another question is, you
mentioned a little bit about the ASR pushing
the market so someone here is asking,
how is artificial intelligence

going to change the markets?

AI. It's a good question.

I think just go back to

my point about the availability of technology.

So if you remember,

we discussed three factors that

will actually affect the pace of change going digital,

I think AI and also other technologies that will

help creating real time digital solutions,

but also post-production digital solutions

that are better in quality have faster turnaround time.

This will obviously can change the picture and provide

better and more tight and solid solutions

for the agencies to use.

Great. Following that, there was

a question which you will answer better than me.

But will the stenographer profession disappear?

No, no way. Again, I know who raised this question,

but stenography is obviously still

the most common solution in the market and it's

still preferred by most of the customers.

So when we look into the future,

we see digital goes side-by-side with stenography.

Still in the short-term,

we see stenography being the most common solution.

Although we think that digital will

gain some momentum over time.

So definitely stenography is here to stay.

Okay. Last question,

because we don't have a lot of times,

there were a couple of questions

about some of the lobbies in the market,

usually steno-oriented, to try to

block non-steno depositions.

Do you see that as a blocker

or I know that you guys

did a lot of interviews according to that.

Do you see that will delay?

What is your opinion on that?

Well, we do see it in the market.

I think I also mentioned that when we spoke to agencies,

specifically with the smaller agencies in the market,

we saw some resistance to digital solutions.

I think this will remain in the market.

There will always be different opinions and

different parties and lobbies

and guilds out there in the market.

But I think if you asked for my personal opinion,

then I think that over

time when technology is going to be

better and digital solutions would be

almost as good as

stenography or even as good as stenography,

this would be a trend that would be hard to

stop since it brings also other benefits.

I think eventually like I answered in

the previous questions,

stenography and digital solutions will live

side-by-side whether they like it or not.

Okay perfect.

So I think with that I know there are a lot of

questions but we will answer to it.

Tal will probably send you some of the questions.

We can answer it offline.

We are going to finish the session here.

We have another session,

super interesting session that

follows what Tal has been explaining.

We're releasing a technology that what Tal is saying in

three years we broadly are taking the markets for now.

Hopefully that will help the legal market go forward.

So I invite you to assist

it in a couple of minutes from now.

Tal, thank you so much.

Broadly, I love the presentations that you guys do,

and it was an amazing pleasure

to hear your findings on the market,

so thank you so much. Nothing else.

Thank you. Thank you for having me.