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THE AMLAW 100: SIGNS OF A SLOWDOWN

by

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The country's 100 largest law firms by revenue recorded a sixth consecutive year of aggregate growth across all key metrics in 2015, according to our exclusive Am Law 100 financial survey. But despite a record year for U.S. mergers and acquisitions, the continued flattening of demand for legal services and patchy conditions in core markets, particularly in Europe, saw growth slow to its lowest level since the Great Recession seven years ago.

Indeed, it was a middling year for much of this group in 2015, and signposts aren't necessarily pointing to dazzling days ahead. Here are the details:

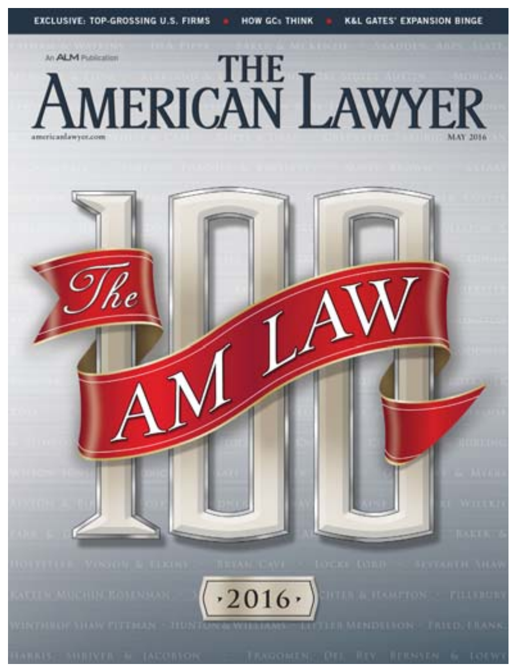
• In general, firms gained slightly in gross revenue, revenue per lawyer (RPL) and profits per equity partner, though PPP improved in part because there were fewer equity partners.

• Despite mediocre growth overall, several firms had a stunning year. And the gap between firms at the top of The Am Law 100 and the bottom grows ever wider.

• West Coast beats East: Elite New York firms struggled for growth despite a bumper year for high-end M&A, while those in Silicon Valley feasted on a frothy tech market.

• Consolidation continued to reshape The Am Law 100, with major law firm mergers and acquisitions helping two firms charge up the rankings.

• The makeup of The Am Law 100 changed little from last year. (Yes, Latham, you're still No. 1.) Three new firms joined the list; three dropped off. A noticeable absence: Dentons, which no longer qualifies as a U.S. firm, which we define as having a plurality of lawyers in the U.S., after its merger last year with China's Dacheng.



A So-So Picture

Total gross revenue for The Am Law 100 inched up 2.7 percent in 2015, to $83.1 billion, while net income increased 3.3 percent, to $328.1 million. That represents a significant slowing across the market compared with the previous year, when revenue grew 4.6 percent and net income 7.4 percent.

In fact, excluding the financial crisis in 2008 and 2009, when The Am Law 100 contracted across most metrics, you'd have to go back more than two decades, to 1993, when the U.S. was still recovering from another recession, to find lower year-over-year increases in collective top and bottom lines. Average RPL and PPP also saw significant reductions in growth compared with the previous year, dropping from 3.7 percent to 2.6 percent, and from 5.3 percent to 4 percent, respectively. Average profits per lawyer, a metric that arguably provides a more accurate representation of relative profitability than PPP and that we introduced last year, rose 3 percent, to $352,000.

The total number of attorneys at Am Law 100 firms remained broadly flat in 2015, at just under 93,000, while total equity partner numbers actually fell slightly, dropping 0.6 percent, to 20,337—the first annual decline since 2009. Not for the first time in our survey, this contraction helped artificially inflate partner profit figures. Almost half of the 77 firms that recorded increases in PPP in 2015 saw a slimming of equity partner numbers. Ten of those firms would otherwise have suffered declines in PPP.

The Super Rich

In 2014, The American Lawyer introduced a new classification within The Am Law 100: the Super Rich. Already at the head of the pack in terms of both profitability and efficiency, this group of elite firms—classified as those with an average RPL of at least $1 million and PPP of at least $2 million—have in recent years consistently outperformed the rest of the market across all key metrics.

That was not the case in 2015, however. Firms that met that criteria did see more substantial gains in RPL—their average increase of 3.3 percent is somewhat higher than the average increase for the rest of The Am Law 100—but the group lagged behind slightly in both revenue and PPP growth. In 2014, 14 of those firms recorded increases of at least 5 percent in both revenue and net income. Last year, just eight managed the same feat. Four suffered decreases in revenue, net income and PPP: Cadwalader, Wickersham & Taft; Cahill Gordon & Reindel; Cleary Gottlieb Steen & Hamilton; and Quinn Emanuel Urquhart & Sullivan.

The Super Rich included 20 firms two years ago. Today, 28 Am Law 100 firms have RPLs and PPPs of $1 million and $2 million, respectively—nearly a third of the entire list. (This year's new members: Dechert; Fried, Frank, Harris, Shriver & Jacobson; Ropes & Gray; Sidley Austin; and Wilson Sonsini Goodrich & Rosati.) The limiting factor is RPL, which for many of those firms hovers around $1 million. If we raised the bar by just 10 percent—setting RPL at $1.1 million and a PPP of at least $2.2 million, nine firms would drop out, with seven exiting on the basis of RPL.

A recent study by Citi Private Bank showed that the total number of hours billed by the 15 firms with the highest PPP in its survey—a list that overlaps with The American Lawyer's Super Rich category—declined by 0.4 percent in 2015, compared with an increase in the overall industry of 0.9 percent.

This is particularly surprising given that 2015 was a record year for global M&A—a market dominated by the Super Rich firms. Of the 15 U.S. firms that feature in Mergermarket's ranking of the 20 law firms with the highest aggregate global M&A deal value in 2015, 13 are Super Rich. (The two exceptions: White & Case and Shearman & Sterling.) But several Super Rich law firm leaders told The American Lawyer that their performance was hampered by significant declines in capital markets work and financial crisis-related banking litigation, and a lengthening wait for fees.

Hughes Hubbard & Reed loses its place in the group after its PPP dropped below $2 million following an 11 percent decline. It was also one of only five Am Law 100 firms to see revenue fall by more than 5 percent, and one of just three to record double-digit decreases in both net income and PPP.

East Versus West

While the Super Rich New York firms found 2015 a relative struggle, those based on the West Coast continued to benefit from a buoyant technology sector. Three native Silicon Valley firms had particularly strong

years, with Cooley; Fenwick & West; and Wilson Sonsini each recording double-digit gains in revenue in the last fiscal year, putting them each in the top 10 firms for top-line growth without a merger or large acquisition.

Wilson Sonsini and Cooley posted revenue increases of almost 14 percent—the fourth- and fifth-highest such gains among The Am Law 100, respectively. The pair were also among just seven firms to increase net income by more than 20 percent, while Wilson Sonsini's RPL passed $1 million for the first time following a 9.3 percent rise from 2014. And having broken back into The Am Law 100 in 2014 after more than a decade in the Second Hundred, Fenwick cemented its position with an 11 percent increase in revenue, to $363.5 million.

The Silicon Valley trio acted on a slew of technology-related transactions in 2015. Wilson Sonsini handled 132 M&A deals last year, worth an aggregate $109 billion, representing KLA-Tencor in its $10.6 billion sale to Lam Research Corp., and Altera Corp. in its $16.7 billion sale to Intel Corp. Cooley, meanwhile, scored roles on more than 32 initial public offerings and 190 M&A deals, advising Cisco Systems Inc. on its $635 million acquisition of OpenDNS Inc., and Mountain View-based Pure Storage Inc. on its $425 million IPO. Fenwick, which crossed the 300-lawyer threshold in 2015, represented King Digital Entertainment PLC—maker of the Candy Crush Saga game—in its $5.9 billion sale to Activision Blizzard Inc.; and Symantec Corp. in the sale of its data storage business for more than $7 billion.

Wachtell and Quinn Emanuel

The Am Law 100's two most profitable firms had contrasting fortunes last year. Wachtell, Lipton, Rosen & Katz had a spectacular 12 months, breaking its own Am Law 100 profit records, while Quinn Emanuel's relentless rise was stunted by a rare off year.

By almost any measure of The Am Law 100, Wachtell stands out. The M&A powerhouse's 18 percent increase in revenue was comfortably the highest of any Am Law 100 firm that didn't merge during the 2015 fiscal year—more than 4 percentage points above the next-placed firm, Jenner & Block, which achieved a 14 percent top-line gain. Even more impressive, Wachtell increased its net income, RPL and PPP by at least 20 percent each—the only Am Law 100 firm to do so.

Despite having just 261 lawyers, it now generates more net profit than 3,371-lawyer Norton Rose Fulbright. In 2014, it became the first firm in Am Law 100 history to cross the $5 million threshold for PPP. In 2015, it increased average partner profits by a staggering $1.1 million, to $6.6 million. Wachtell's PPP is now more than $2 million greater than any other Am Law 100 firm, with second-place Quinn Emanuel at $4.4 million.

Quinn Emanuel's rise over the past decade has been nothing short of meteoric. Between 2009 and 2014, the Los Angeles-based business litigation specialist increased its revenue by 163 percent, its net income by 200 percent, its RPL by 47 percent and its PPP by 57 percent. But a dramatic slowdown in the litigation market saw Quinn's seemingly endless run finally come to an end in 2015. It was one of only four Am Law 100 firms to suffer a double-digit decline in PPP (10.3 percent), while it also saw reductions in revenue (5.5 percent), net income (4.7 percent) and RPL (0.6 percent).

Other Standouts

The continued consolidation of the legal market once again drove dramatic movement in The Am Law 100 in 2015. Morgan, Lewis & Bockius and Locke Lord both posted 40 percent increases in revenue thanks to significant acquisitions. (Wachtell was the only other firm to boost revenue by more than 15 percent.)

Morgan Lewis is now one of the 10 largest U.S. firms by revenue following its acquisition of more than 750 lawyers from the now defunct Bingham McCutchen. The deal helped Morgan Lewis add more than half a billion dollars to its top line in the last fiscal year, to $1.84 billion. Locke Lord's revenue rose to $597 million, meanwhile, because of its merger with Edwards Wildman Palmer. Just three firms in The Am Law 100 managed a double-digit increase in

SOME FIRMS' RANKINGS.

RPL: Fish & Richardson, Fried Frank and Wachtell. Fish's revenue also grew by over 10 percent, while its net income and PPP both leaped over 20 percent. Those results mark a strong recovery for the Boston-based firm, after revenue fell 1.4 percent in 2014. CEO Peter Devlin says that much of the growth could be traced to the firm's 200-lawyer IP litigation practice, which accounts for almost two-thirds of its total revenue. Its huge rise in profits came despite investing $4 million in 2015 to consolidate back-office functions in Minneapolis, a move that the firm expects will deliver cost savings of $3 million per year. "If ever there was a year that we could afford that investment, it was last year," Devlin adds.

Fried Frank chairman David Greenwald says that his firm's positive results—which included record highs in RPL and PPP—were spurred by a "realignment" of the firm's strategy and a greater focus on costs and efficiency. Having taken over as Fried Frank chairman in March 2014, Greenwald, a former deputy general counsel at Goldman Sachs, carried out a "rigorous" assessment of the firm's operations, practices and offices. In early 2015 this led to a bold decision to pull out of Asia by effectively closing the firm's loss-making Hong Kong and Shanghai offices, and the implementation of a new strategy targeting high-end work in the United States and Europe across six core practice areas: M&A, private equity, real estate, finance, capital markets and asset management. Greenwald also set about improving the firm's efficiency and productivity, introducing a partner self-assessment process and a new timekeeping policy that sees partners fined $100 per day if they are late to record their weekly billable hours.

At the other end of the spectrum, some of the sharpest declines in our metrics were seen at Arnold & Porter, Baker & McKenzie, Hunton & Williams and K&L Gates.

Baker & McKenzie suffered contractions across all metrics last year—its 7.5 percent fall in RPL was the biggest drop among The Am Law 100, while its net income and PPP both fell by more than 11 percent. Speaking to The American Lawyer in August—Baker & McKenzie operates on a June 30 fiscal year-end—firm chairman Eduardo Leite blamed the results on the "exceptional appreciation" of the U.S. dollar. The firm collects revenues in more than 35 different currencies and then converts to U.S. dollars for reporting purposes, Leite said, adding that its revenue actually rose 2.2 percent on a "like-for-like" basis and that total productivity of the firm's more than 11,000 staff was up 5 percent to an all-time high during the last fiscal year. "It was actually a strong year in many respects, but we suffered a lot because of currency fluctuations," he says. "Some currencies devalued over the year by 50 percent—that had a tremendous impact."

Hunton & Williams was the only other Am Law 100 firm to see a reduction in RPL of more than 5 percent. Its RPL dipped 5.6 percent, while its 25 percent crash in net income was the worst among all the surveyed firms. (The numbers are firm-provided estimates as of mid March.)

Arnold & Porter and Hughes Hubbard, meanwhile, were the only two Am Law 100 firms to combine double-digit falls in both net income and PPP with declines in gross revenue of more than 5 percent. Arnold & Porter chairman Richard Alexander told The American Lawyer sibling publication The National Law Journal that the firm's 6 percent drop in gross revenue, to $650 million, was caused by its failure to replace two major matters that had ended. Alexander declined to name the specific matters that caused the shortfall, although the firm had been representing BP PLC in environmental claims related to the Deepwater Horizon oil spill, which reached an $18.7 billion settlement in July. Arnold & Porter, which is best known for litigation and regulatory work, also incurred a one-off cost of $15 million as a result of the relocation of its Washington, D.C., headquarters to new premises.

THE AM LAW 100 IS A REMARKABLY STABLE LIST. JUST THREE NEW FIRMS JOINED THIS YEAR OVER LAST YEAR.

Comings and Goings

Three firms return to The Am Law 100 this year. They are Ballard Spahr, Cozen O'Connor and Mintz, Levin, Cohn, Ferris, Glovsky and Popeo.

Boston-based Mintz Levin had its most profitable year ever in 2015, with PPP hitting a new high of $1.065 million. The firm's revenue climbed almost 14 percent, to $360 million, while RPL rose 6 percent, to $805,000. Mintz Levin managing partner Robert Bodian says the firm's

big gamble on lateral hires—including an 18-lawyer IP group from Edwards Wildman Palmer and a further 11 partners from other firms—is paying off. Much of the growth was driven by the corporate department, with the firm acting on a series of midmarket biotech deals, including advising Cambridge, Massachusetts-based drug company Naurex Inc. on its $560 million acquisition by Allergan. Mintz Levin's willingness to engage in alternative fee arrangements fueled much of its success, Bodian adds, with at least 30 percent of its fees subject to such arrangements.

Philadelphia-based Cozen returns to the rankings following a 9 percent bump in gross revenue, to $341.5 million, thanks in part to its midyear addition of 60-lawyer Chicago litigation boutique Meckler Bulger Tilson Marick & Pearson. The firm billed around 60,000 more hours in 2015 than the previous year and increased its charge-out rates by an average of 3-4 percent, according to CEO Michael Heller, although RPL only rose 2.4 percent, to $640,000. Cozen's PPP remained essentially flat, at $745,000, after its 7.4 percent increase in net income was offset by a 7 percent swelling in its equity partner numbers.

Ballard Spahr hasn't featured in the top 100 since 2008, but rejoins thanks to an 8.2 percent increase in revenue, to $337.5 million—mainly due to two large contingency fees collected in an antitrust matter and a real estate matter. Chairman Mark Stewart said that demand for the firm, which has over the past two years focused increasingly on alternative pricing mechanisms, was actually down slightly in 2015, and that without the contingency fees, its revenue would have increased by just 2 percent. Had that been the case, the firm would have remained outside The Am Law 100.

The trio of returning firms gains entry at the expense of Bracewell & Giuliani; Dentons; and the now defunct Bingham. In what was a generally poor year for Texas-based firms, Bracewell's revenue dropped below $300 million in 2015, slumping 12 percent, to $296.5 million, while its net income fell by almost a fifth, to $86 million. Bracewell managing partner Mark Evans insists that work for energy industry clients, which accounts for as much as 60 percent of the firm's total revenue, remains robust, despite the depressed price of oil. He instead attributes the results to the loss of a number of equity partners and big investments in contingency fee lawsuits.

It's not poor financials that caused Dentons to lose its place in The Am Law 100. Following the firm's tie-up in November 2015 with 4,000-lawyer Chinese giant Dacheng, more of the firm's lawyers are now based in China than the U.S., meaning that it is no longer eligible for inclusion in The Am Law 100. It is still a candidate for our Global 100 list.

An Uncertain Future

For many Am Law 100 firms, the last fiscal year was a challenge. The bad news is that this performance is unlikely to be a one-off blip. U.S. economic growth slowed in the first quarter of 2016, raising fears of another recession. The continued slump in global oil prices and instability in Europe—a region to which many of the larger Am Law 100 firms are heavily exposed—are also contributing to widespread market uncertainty. Mergermarket data shows a 24 percent reduction in M&A deal activity in the first three months of the year, while there was not a single U.S. IPO in January—the first monthlong hiatus in over four years. The Am Law 100 faces a daunting year ahead.
