

Latest Law Firm Combinations Show Method to Merger Madness

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When Philadelphia-based Ballard Spahr and Saul Ewing (now Saul Ewing Arnstein & Lehr) both announced significant mergers Tuesday with Midwestern firms of about 150 lawyers, the deals had more in common than timing and geography. Both highlight themes that have been propelling widespread consolidation in the industry, observers said.

Ballard Spahr is acquiring Lindquist & Vennum, a Minneapolis-based firm with offices in Denver and Sioux Falls, South Dakota. Saul Ewing looked west as well, in merging with Chicago-based Arnstein & Lehr, but also south, where Arnstein & Lehr had built a notable Florida presence. Midsize firms like Lindquist & Vennum and Arnstein & Lehr have faced a particular pressure to combine, consultant Brad Hildebrandt said, amid mounting expenses that include associate compensation, cybersecurity and capital costs. A merger can spread out those costs while growing the partnership's client base.

"This is part of a general consolidation that's going on," Hildebrandt said. The trend has involved "firms that find themselves in markets where they're not growing very well or very fast, and that might be true of all the merger partners in these two situations."

Ballard Spahr and Saul Ewing each saw revenue per lawyer drop in 2016, though leaders of both firms said they were pleased with their overall performances.

At Ballard Spahr, where profits per partner barely grew, chairman Mark Stewart said earlier this year that he had expected a flat 2016, after two major fees gave 2015 a big boost. Saul Ewing had a "repositioning" year in 2016, managing partner Barry Levin said earlier this year, and experienced the effects of tightness in the legal industry.

Lindquist & Vennum had suffered a number of defections leading up to its merger with Ballard Spahr. It lost about 18 percent of its head count from 2015 to 2016, according to The National Law Journal. Arnstein & Lehr's head count shrunk by a smaller fraction during that time, decreasing by 7 percent.

Kent Zimmermann of Zeughauser Group agreed that this week's mergers point to larger pressures on the industry. He pointed to Altman Weil's MergerLine, which tracked 52 combinations in the first two quarters of 2017, a record-breaking number for midyear.

"It's challenging to stand out in all the noise in the market for many firms, and there's a perception that size drives brand strength," Zimmermann said. "The firms involved in these deals, it's going to increase their size, and they are hoping to benefit by being higher profile and having more resources."

Common Pressures, Different Paths

The combinations leave Ballard Spahr with 650 lawyers, making it one of the five largest Philadelphia firms by head count. Saul Ewing Arnstein & Lehr now has more than 400 lawyers. And while Saul Ewing has gained direct access to an established, high-rate market, Chicago, Ballard Spahr created a foothold in Minneapolis, which is active, but with plenty of room to grow.

"Minneapolis is perceived as having a good corporate base, and it's not as picked over as some other corporate markets," Zimmermann said.

Chicago makes sense as a place where Philadelphia firms should expand, Zimmermann said, because its rate structure is closer to Philadelphia's.

Hildebrandt said all three legal markets—Philadelphia, Chicago and Minneapolis—are experiencing intense competition.

For Ballard Spahr, which already had offices in Colorado and Utah, the move wasn't all about geographic expansion. It also presented a chance to create a more formidable corporate transactional practice overnight. Stewart said that would allow the firm to create a more balanced practice and capitalize on dealmaking activity.

"They're in good company in that many, if not most firms are prioritizing growth on the transactional side," Zimmermann said. "Demand for litigation broadly is not growing."

Fox Rothschild also found an entry into the Minneapolis market through a merger, when it acquired Oppenheimer Wolff & Donnelly at the end of 2015. The Philadelphia firm was attracted to Minneapolis' mix of clients from traditional industries and newer sectors. Cozen O'Connor launched an office there in 2013 with a group laterals, after opening in Chicago. Saul Ewing and Arnstein & Lehr did not deny that geography was a driver in their merger. The two legacy firms had been referring work to each other in their respective jurisdictions. And Arnstein & Lehr had long sought a presence in the Northeast, the firm said, particularly in Delaware.

Still, complementary practice areas were a consideration. The combined firm singled out four core industries it plans to emphasize—energy, higher education, insurance and life sciences.

"That for me was confidence-inspiring," Zimmermann said. "They're not trying to be all things to all people. They're not trying to please everyone externally or internally."

Whether the two newly combined firms continue to grow is difficult to predict for now, Hildebrandt said, and will depend on how they've mapped out their post-merger plans. Both firms said integration is their first priority, as each of the Philadelphia-based firms takes on more than 100 additional lawyers.

Stewart said his firm has no particular target in mind for head count—it had stayed at around 500 lawyers for several years before this week's deal.

Saul Ewing Arnstein & Lehr is now "in the bullseye" in terms of target size, Levin said. He said his firm will likely aim to grow in its existing markets, but will not become "an intergalactic multi-thousand lawyer firm."

"We're not in the business of doing mergers every other week," Levin said.