

The World's Top-Grossing Law Firms are No Longer London-Based

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The U.K.'s Magic Circle law firms are falling behind their U.S. competitors, according to a ranking of the global 100 law firms released by the American Lawyer this week. Looking specifically at the Magic Circle — Allen & Overy, Clifford Chance, Freshfields, Linklaters, and Slaughter & May — four of the five law firms reportedly experienced declines in gross revenue.

Only Allen & Overy posted positive revenue growth, even beating the overall average growth rate among the Global 100 of 2.8 percent with a 2.84 percent growth. Its revenue of \$2.0595 billion increased from \$2.0025 billion last year. The firms did not provide comment by the time of publication.

So what was behind the drop off in revenue? “Those firms rely on big transactions to fuel a lot of demand, whether it’s M&A, private equity or disputes about transactions,” said Kent Zimmermann, of the Zeughauser Group. “And my take is that the uncertainty due to what Brexit will look like and its impact, caused those transactions to be paused, and caused deal flows to slow.”

That would jibe with what Ropes & Gray’s London managing partner Mike Goetz told Big Law Business in an interview earlier this month: “Brexit didn’t help anybody in London,” he said, noting he believes a slowdown in transactional activity prompted attorneys at firms in the U.K. to explore other job opportunities.

“Investors don’t like surprises and uncertainty,” Goetz added. “A lot of the investment community took the rest of the summer off because they had no idea what was going to happen or what they were going to do. There was a slowdown in legal and transactional work into the summer and into September last year.”

Michael Wagner, a Baker McKenzie management committee member, acknowledged that London revenue growth is “not as robust as the U.K. market historically has been,” but said that isn’t enough to affect the firm’s business strategy. Baker McKenzie has a roughly 450-lawyer London office — the firm’s largest outpost worldwide. “There may be areas where there are bumps in the road and volatility, but we take the long view,” said Wagner.

Elliot Portnoy, global CEO of Dentons, said there’s been opportunities to advise U.K. companies reevaluating whether to stay in the country or move personnel to new locations in the European Union, but he acknowledged these were advisory projects — as opposed to transactions, which can create better leverage. He added that law firms lacking offices outside

the U.K. could have found the environment challenging because there might not be as many opportunities to advise clients who are reevaluating their strategy.

Zimmermann, the law firm consultant, allowed that there could be some distortion, too, because of currency fluctuations: The British Pound has been down against the dollar for most of 2017 as compared to where it was in 2016 as illustrated in the chart below. The American Lawyer used average currency rates, which means this low conversation rate would factor in to its calculations. "I'd be interested to look at how much the currency exchange changes the performance," he added.

Gina Passarella, editor of *The American Lawyer*, said that the U.S. law firms show "the most financial promise" in the latest Global 100 ranking. "If you go back to the 2000s... a U.K. firm was either at the top or among the top five," said Passarella. "Now we rarely see that. There are few U.K. firms in the top 10." Passarella said that U.S. firms are increasingly dominating the market for legal services in the U.K.

The trend has been taking place over the past decade, according to archived ALM records at Bloomberg BNA. In 2008, the world's three largest law firms by revenue were Magic Circle firms. Clifford Chance ranked No. 1 as the top-grossing global firm, with \$2.66 billion; Linklaters ranked No. 2 with \$2.58 billion; and Freshfields came in third with \$2.35 billion.

In the latest ranking, released this week, the three largest law firms by revenue were two U.S. based law firms and one global firm: Latham & Watkins ranked No. 1, with \$2.82 billion; Baker McKenzie ranked No. 2 with \$2.67 billion; and Kirkland & Ellis ranked No. 3, with \$2.65 billion. The first Magic Circle firm to appear on the ranking was Clifford Chance, which ranked No. 6 with \$2.08 billion.

One reason that hasn't gone unnoticed is U.S. firms' ability to compensate their attorneys on a merit-based pay scale. One U.S. law firm leader who spoke on the condition of anonymity to preserve business relationships attributed Magic Circle firms' lockstep pay scales as the biggest factor for the shift in rankings. "If you're the top guys who run a business or run a city, you don't want to change it," said this person, referring to lockstep, a pay system that compensates lawyers purely or in large part based on seniority.

In recent years, U.S. firms such as Quinn Emanuel Urquhart & Sullivan, Kirkland & Ellis and Latham & Watkins have hired top partners in the U.K. market, often times offering favorable compensation. A number of Magic Circle firms have responded by modifying their lockstep model to compensate some top attorneys, Scott Zemser, a lawyer at Allen & Overy, told *Big Law Business* in an interview this March. "All the lockstep firms are in similar positions," said Zemser. "I think most have made that correct conclusion: you need to pay what the market demands to get what you need. There is no way around that."

Gretta Rusanow, the advisor in Citibank's law firm lending group, wrote *Big Law Business* that the Global 100 ranking should be taken in proper context: those that have ranked further down

on the list may have lost their spot because of the growth strategy of other firms, rather than their own poor performance. “Given that the ranking measure is total revenue, part of it is the entry of firms who have combined over the past year – both domestically and cross border – growing their total revenue as a result – and pushing out some of the firms at the bottom,” said Rusnaow, in an email.

For instance, Blank Rome and Fox Rothschild both appeared on the Global 100 for the first time because of mergers or acquisitions, according to Passarella. Rusanow also noted that the falling pound has had both a positive and negative impact on law firms, depending on the currency of fees received. “Where U.K. firms receive a large segment of revenue in non-pound currency, you would have seen that revenue results were strong last year, as the conversion back to sterling worked in their favor,” said Rusanow.

Below is a graph with the firm’s performances:

Firm	2016 Revenue	2017 Revenue	Change
Allen & Overy	\$ 2,002,500,000	\$ 2,059,500,000	2.8%
Clifford Chance	\$ 2,118,500,000	\$ 2,087,500,000	-1.5%
Freshfields	\$ 2,028,000,000	\$ 1,803,000,000	-11.1%
Linklaters	\$ 2,002,500,000	\$ 1,950,000,000	-2.6%
Slaughter and May	\$ 756,500,000	\$ 691,000,000	-8.7%

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