

The 2010 Global 100

U.S. Firms Dominate the Global Market for Legal Services; Currency Fluctuations Create an Attractive Cross-Pond Merger Environment

When *The American Lawyer* published the 2009 Global 100 list on October 1, 2010, at first blush American firms appeared to have fared much better than non-U.S. firms. However, after adjustment for fluctuations in exchange rates, performance among the Global 100 firms was roughly even. As we note below, the exchange rate fluctuations of the past year have created a friendly economic environment for U.S. firms interested in cross-pond mergers. For British firms with international footprints outside of the United States, the downturn in the global economy has underscored the desirability of a U.S. litigation practice. We posit that this inexorably will drive more trans-Atlantic deal-making.

In 2009 U.S. firms increased their domination of the Global 100, capturing 2.3 percentage points more of the Global 100 gross revenues (GR)¹ of \$76 billion dollars, and gaining four additional slots on the list. U.S. firms now comprise 79 of the world's top-grossing 100 firms. The other 21 are comprised of 12 U.K. firms, five Australian firms, three European firms, and one Canadian firm. Moreover, only five non-U.S. firms are among the 19 mega-firms with revenues of over \$1 billion; one was Lovells, which combined with Hogan & Hartson earlier this year. Here's how 2009 market share, as measured by percentage of GR, breaks out:

- ▶ 79 U.S. firms captured 76.4 percent, up from 74.1 percent in 2008;
- ▶ 12 U.K. firms captured 18.7 percent;
- ▶ five Australian firms captured 2.7 percent, the same share as in 2008; and
- ▶ three Eurozone firms captured 1.8 percent, down from 2.6 percent in 2008.

These figures indicate that the United States remains, by far, the largest legal market in the world with a combination of robust corporate practices and the lion's share of the world's litigation. In this *ZG Alert*, we share our thoughts on the implications and opportunities we believe are worth noting in light of our analysis.

How the Global 100 Performed, by Region and on a Currency-Adjusted Basis: PPEP, Gross Revenue, and Market Share

The American Lawyer's analysis of the Global 100 highlighted the fall of the largest U.K. firms in the GR rankings. We recognize, as did *The American Lawyer*, that the 15.6 percent year-to-year decline in the average value of the British Pound Sterling (GBP) versus the U.S. Dollar had a material effect on how the 2009 GR rankings compared to 2008. Without accounting for the decline of the GBP, the 12 U.K. firms in the Global 100 appeared to experience a revenue decline of 20.5 percent, and a profit per equity partner (PPEP) decline of 14.1 percent in 2009 over 2008, while the American firms experienced a revenue decline of only 3.7 percent, and enjoyed a slight increase in PPEP of 0.4 percent. However, if the decline in the value of the GBP is accounted for, the U.K. firms were up 1.3 percent in profit, which is slightly better than the U.S. firms. The U.K. firms were down 6.0 percent in revenues, a few points worse than the U.S. results. (See Tables 2 and 3 on Pages 3 and 4.)

In addition to dominating the Global 100, U.S. firms similarly dominate the Global 25, occupying 21 of the 25 slots when ranked by GR. The other four are U.K. firms: Clifford Chance, Freshfields, Linklaters, and Allen & Overy. Together, these four

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firms control 59 percent of the revenues of the 12 highest-grossing U.K. firms. Moreover, the latter three, plus the smaller but elite firm Slaughter & May, occupy the other four of the top 25 slots when the Global 100 are ranked by PPEP. Table 1 (see Page 3) shows a list of the 25 most profitable Global 100 firms in 2009 (currency adjusted) and 2008.

The Global 100 data also indicate that non-U.S. firms pared their lawyer ranks more severely than the U.S. firms, which helped them achieve small profit gains in spite of revenue declines. Table 4 (see Page 4) shows the details. The 79 U.S. firms in the Global 100 reduced lawyer ranks by 1.9 percent, while all of the non-U.S. firms combined reduced lawyers by 3.9 percent, with the U.K. firms paring down by 5.7 percent. U.S. firms grew their equity partner ranks by 2 percent, while non-U.S. firms decreased partner headcount by 2.7 percent. This suggests that the non-U.S. firms would have been harder hit in PPEP than the U.S. firms if they had not reduced lawyer ranks more drastically, perhaps because they do not enjoy the counter-cyclicalities provided by the robust litigation practices that many of the top-performing U.S. firms enjoy.

Implications

The relative strength of the dollar versus the GBP presents what may be a short-lived opportunity for U.S. firms with the right client base and platform to jump-start or significantly grow their presence in the United Kingdom, Europe, and Asia by combining with a British firm. Many more Am Law 100 firms shopping for a cross-pond merger now find that they are within what deal-makers like to call “spitting distance” of a potential British merger partner. The opportunity is not just to capture London or even British market share. All but two of the 12 U.K. firms in the Global 100 in 2010 are defined as “international” by *The American Lawyer* because more than 40 percent of their lawyers are located outside of their home country. For example, Simmons & Simmons, the smallest British firm in the Global 100, ranked 88th, has 12 offices outside the United Kingdom—four in Asia—and 68 percent of its lawyers are in offices outside of the United Kingdom.

We see advantages in these combinations for U.K. firms as well. In short, a combination with a U.S. firm provides entrée to the most important legal market in the world. With the United States generating three-quarters of the GR, and U.S. litigation comprising a greater share of the GR than the entire gross revenue of the non-U.S. litigation market, we posit that it is implausible for any firm, over the long haul, to be among the preeminent global law firms without having a robust U.S. litigation practice and breadth and depth in at least two or three strategic U.S. geographic markets.

We further posit that it is equally implausible that any non-U.S. firm possesses the resources, much less an attractive enough platform, to build a robust U.S. litigation practice by recruiting laterals one or two at a time or even in groups, especially in a global legal market with rapidly escalating competition. With economists predicting another year or more of slow growth for the global economy (except Asia), these combinations represent an opportunity for firms to grow and strengthen in an otherwise slow growth period and to marshal their resources for penetrating the increasingly important Asian market. The golden age of double-digit law firm profit growth may be over for the time being, but all indications are that this may be the start of a run of trans-Atlantic mergers.

1 All 2009 figures in this *ZG Alert* are adjusted for fluctuations in exchange rates, except in Table 2, where both adjusted and non-adjusted figures are provided. Currency-adjusted numbers were calculated using figures published by *The American Lawyer* in 2009 and 2010, and by converting the non-U.S. 2009 results into dollars using the average exchange rate for 2008.

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Table 1
Top 25 Global 100 Firms Ranked by PPEP
U.K. firms appear in bold typeface

Firm Name	PPEP 2009	Firm Name	PPEP 2008
Wachtell, Lipton	\$4,300,000	Wachtell, Lipton	\$4,010,000
Quinn Emanuel	\$3,130,000	Quinn Emanuel	\$3,335,000
Sullivan & Cromwell	\$2,965,000	Sullivan & Cromwell	\$2,940,000
Slaughter & May	\$2,839,809	Slaughter & May	\$2,855,000
Cravath	\$2,715,000	Freshfields	\$2,675,000
Paul, Weiss	\$2,690,000	Paul, Weiss	\$2,655,000
Freshfields	\$2,592,357	Cravath	\$2,520,000
Kirkland & Ellis	\$2,495,000	Simpson Thacher	\$2,475,000
Simpson Thacher	\$2,415,000	Kirkland & Ellis	\$2,470,000
Cadwalader	\$2,410,000	Linklaters	\$2,415,000
Cleary	\$2,385,000	Cleary	\$2,400,000
Weil, Gotshal	\$2,315,000	Schulte Roth & Zabel	\$2,290,000
Linklaters	\$2,238,854	Weil, Gotshal	\$2,270,000
Milbank	\$2,230,000	Debevoise & Plimpton	\$2,225,000
Skadden	\$2,160,000	Dechert	\$2,145,000
Schulte Roth & Zabel	\$2,130,000	Milbank	\$2,115,000
Davis Polk & Wardwell	\$2,090,000	Wilkie Farr	\$2,115,000
Allen & Overy	\$2,032,643	Skadden	\$2,065,000
Willkie Farr	\$2,005,000	Davis Polk & Wardwell	\$1,905,000
Dechert	\$1,960,000	Paul, Hastings	\$1,900,000
Gibson, Dunn	\$1,910,000	Cadwalader	\$1,885,000
Latham & Watkins	\$1,900,000	Gibson, Dunn	\$1,875,000
Paul, Hastings	\$1,875,000	Allen & Overy	\$1,855,000
Debevoise & Plimpton	\$1,870,000	Latham & Watkins	\$1,805,000
Shearman & Sterling	\$1,735,000	Shearman & Sterling	\$1,665,000

Table 2
PPEP and GR Changes 2009 vs. 2008, with and without currency adjustments

Country/Region of Firm	PPEP % change 2009 vs. 2008	PPEP % change 2009 vs. 2008, currency-adjusted	GR % change 2009 vs. 2008	GR % change 2009 vs. 2008, currency-adjusted
U.S.	0.4%	0.4%	-3.7%	-3.7
U.K.	-14.1%	1.3%	-20.5%	-6.0%
Eurozone	NA	NA	-4.5%	1.0%
Australia	1.5%	9.3%	-11.0%	-4.2%
Total	-1.5%	0.9%	-7.0%	-4.0%

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Table 3
GR and Market Share by Region

Region	Number of Firms		GR		Share of GR	
	2009	2008	2009	2008	2009	2008
Total	100	100	\$76,520,344	\$79,917,500	100.0%	100.0%
U.S.	79	75	\$58,453,500	\$59,217,500	76.4%	74.1%
U.K.	12	14	\$14,303,328	\$16,053,500	18.7%	20.1%
Eurozone	3	5	\$1,346,266	\$2,067,500	1.8%	2.6%
Australia	5	5	\$2,044,627	\$2,134,000	2.7%	2.7%
Canada	1	1	\$372,623	\$445,000	0.5%	0.5%

Table 4
Change in Partner Headcount

Country/Region of Firm	% Change in Lawyers 2009 vs. 2008	% Change in Equity Partners 2009 vs. 2008
	U.S.	-1.9%
U.K.	-5.7%	-2.1%
Eurozone	-7.1%	NA
Australia	6.1%	-5.6%
Total Non-U.S.	-3.9%	-2.7%
Total	-2.5%	1.0%



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Ron Beard
beard@consultzg.com
949.360.0122

Norm Rubenstein
rubenstein@consultzg.com
202.483.7089

Peter Zeughauser
zeughauser@consultzg.com
949.760.6800

Jerome L. Coben
coben@consultzg.com
323.937.8195

Jack Walker
walker@consultzg.com
323.664.2881

Kent Zimmermann
zimmermann@consultzg.com
312.810.8008

Mozhgan Mizban
mizban@consultzg.com
415.868.0100

Mary K Young
young@consultzg.com
301.320.1518

Lonnie Zwerin
zwerin@consultzg.com
415.387.4623

consultzg.com

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