

Pound's Brexit Slump Boosts Earnings at Big London Law Firms

By Helen Chandler-Wilde

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- Earnings benefit from foreign exchange changes after vote
- Brexit uncertainty still affecting London legal profession

A year after the U.K. voted to leave the European Union, London's biggest law firms are benefiting from the weaker pound as they hunt for growth overseas.

While lawyers are finding it hard to raise hourly rates, they're getting a boost from the 15 percent decline in the U.K. currency after the Brexit referendum in June 2016. Allen & Overy said almost three-quarters of its revenue came from issues involving two or more countries, while a 23 percent increase in Asian sales made the region Clifford Chance's fastest-growing area.

The British market is facing uncertainty because of the Brexit vote, and legal firms have faced a slowdown in some practice areas as clients put off spending until negotiations reveal clearer outcomes. Tony Williams at legal consultant Jomati said non-U.K. work and cost cutting is helping keep profits improving in "broadly flat" markets in the West.

"We live in uncertain times but that is exactly when the best lawyers show their worth," Williams said. "While Brexit has caused uncertainty the fall of sterling will produce plenty of opportunities."

The pound helped boost profit at Allen & Overy, which benefited from a one-time foreign exchange gain of 48.2 million pounds (\$62.4 million), and revenue rose to 1.52 billion pounds. At Linklaters, foreign exchange effects pushed the firm to 1.44 billion pounds, an increase of 9.8 percent with the currency moves. The figure was 1.7 percent once exchange rate effects are removed.

Freshfields Bruckhaus Deringer said revenue rose to 1.33 billion pounds, and Clifford Chance posted the highest sales of the four, with 1.54 billion pounds for the year.

The U.K.'s largest law firms set out an internationalist agenda from the 1990s as their client base shifted from traditional U.K. blue-chip companies to foreign investment banks and emerging markets. Allen & Overy currently have 44 offices in 31 countries while Clifford Chance has 33 in 23 different countries.

Brexit Questions

Firms are using overseas work to hedge some of the uncertainty surrounding Brexit.

"Our international network is in 31 countries and gives us a certain resilience to business cycles in different markets," said Andrew Ballheimer, global managing partner at Allen & Overy, said.

Law firms got used to double-digit revenue and profit growth in the 1980s and 1990s, Williams said, rates that aren't sustainable in the current "much more mature, much more competitive market." Allen & Overy say its hourly rates have "not materially increased" so profit is growing through cost controls.

Focusing outside of Europe and cutting costs are a way for London-based firms to continue increasing profit per equity partner. Freshfields's PEP increased 5 percent to 1.55 million pounds, while Linklaters' figure rose 7.8 percent to 1.57 million pounds. Clifford Chance saw its PEP rise to 1.38

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million pounds, and Allen & Overy said its profit per equity partner increased by 26 percent to 1.51 million pounds.

Opportunities

The firms' advisory businesses have picked up as clients prepare for multiple Brexit scenarios. Gideon Moore, managing partner of Linklaters, said its regulatory group is "busy, not just giving advice around Brexit, but the whole world is becoming more regulated." Andrew Ballheimer said Allen & Overy clients are "increasingly looking for guidance on how best to prepare for Brexit."

After some initial hiccups, merger and acquisitions activity still looks positive. Allen and Overy reported a nine-year high for western Europe in the first half of the year. Business was "pretty much back to normal in September after two dud months" following June 2016's referendum, according to Williams.

However, Williams said that having two months with little activity still makes it difficult to catch up on annual targets, however well a firm does in the rest of the year. He said that business from abroad was lured by lower exchange rates, which meant that "quality British assets could be purchased for 15 percent less than a few months before".

Law firms may suffer if Brexit draws some international clients away from London, but U.K. businesses are waiting for negotiations to yield more details on how businesses will interact with the EU before deciding on spending.

Britain is "second guessing as to the implications it will have for businesses in and around the U.K. and Europe," Linklaters's Gideon Moore said.

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