

Elite UK law firms outpace rest of legal market

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By Caroline Binham, Legal Correspondent

The “magic circle”, the elite cadre of firms with headquarters in London and a large international client base, have reported record rises in revenue for the 2013-14 financial year, with profitability up at least 6 per cent across the board.

The return of high-value mergers and acquisitions, an uptick of work in the capital markets and banks’ legal dilemmas have all boosted their bottom lines, as they have pulled away from the rest of the legal market.

Partners from the four “magic circle” firms can, on average, expect to take home at least £1.12m, while revenue at all firms is well above £1bn.

“The magic circle have used the downturn well. They have really turned the screws on the rest of the market, and it is the biggest clear-blue water we have ever seen between the magic circle and other firms,” said Tony Williams, the founder of Jomati, a legal consultancy.

Among the magic circle, Clifford Chance had the strongest year, boosting its revenue 7 per cent to £1.36bn, the largest in the UK. Net profit increased at the firm by 14 per cent; a reversal of poor results last year that led to a slide in revenue and profits.

Freshfields Bruckhaus Deringer retained its crown reporting the highest average profit-per-equity-partner figure, with partners at the firm taking home £1.48m on average after a 6 per cent rise on last year.

The figure, known as PEP, is a keenly watched metric of a firm’s financial health, both inside a law firm and for its rivals and recruiters.

Linklaters, Freshfields’ old rival, reported a similar rise in its PEP to £1.39m. The firm attributed a particular uptick in work from its clients in the banking and financial services sector, with teams across the firm’s transactional and litigation departments benefiting.

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Clifford Chance and Allen & Overy reported similar PEP figures, at £1.12m and £1.14m respectively. While Clifford Chance’s PEP increased 16 per cent compared with A&O’s 7 per cent increase, the number of equity partners decreased at Clifford Chance from 411 to 401 while they rose slightly at A & O.

The appreciation of sterling against the dollar – which touched a six-year high last week – means that all of the magic circle firms can now boast average PEP of almost \$2m, which could assist their hiring in the US; a marketplace that they are yet to truly break, according to Mr Williams at Jomati.

“Given that only around 40 per cent of the magic circle’s revenues now come from the UK, any growth is actually pretty significant given the strength of the pound,” Mr Williams added.

Beyond the magic circle, Ashurst and Herbert Smith Freehills – two recent combinations of UK and Australian firms – reported increases in revenue of 6 per cent and 5 per cent to £586m and £800m respectively.

Ashurst’s results are the first since its merger with Blake Dawson was completed. Its PEP, which rose 22 per cent, now stands at £801,000. The legacy UK part of the firm, which was traditionally strong in private equity and corporate work, saw its PEP plummet during the financial crisis.

The downturn generally hit law firms hard as the pipeline of deals and lucrative banking work dried up. Unprecedented job cuts followed, even at the magic circle.

“It’s the first year that things seem to have really turned for the law firms and improved across the board,” said Jeremy Black, a partner at Deloitte who advises law firms on their strategy.

“It’s fair to say that firms at the top end have performed well partly because of an increase in corporate activity but firms not operating at the top end have found things more difficult.”