

## Magic circle UK law firms go east

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By Caroline Binham

There was a time in the not-too-distant past when law firms were posting profit rises of more than 30 per cent year after year. That would make this year's results – where the highest growth in profit among the four magic circle firms was 10 per cent at Clifford Chance – look lacklustre.

The four firms – Clifford Chance, Linklaters, Freshfields Bruckhaus Deringer and Allen & Overy – all published their headline financial numbers for the year to April this week. Their performance, even where profit is down – as is the case at Freshfields Bruckhaus Deringer – is “explainable”, according to legal market observers. Single-digit growth is the best that can be hoped for while the UK, US and European economies, which still account for the bulk of the firms' revenues, remain sluggish.

But all four firms now have activities in the Asia-Pacific region to mitigate turgid home markets. They all reported that revenue from Asia, and China in particular, had been strong. In the case of Clifford Chance and Linklaters, growth in Asia was above 10 per cent year-on-year, and the region was contributing more than 10 per cent to firm-wide billing.

“In terms of market growth and legal spend, all the growth is in international work flows and that would give a natural advantage to the magic circle firms,” said Lisa Hart, chief executive of Acritas, which surveys legal directors at multinationals on their needs and spending habits. “Where it is negative for them is that the market is becoming more focused on cost-cutting, and with their prices that could be an issue.”

But while Asia can provide growth, the overall contribution to UK firms' revenues is not yet enough to make a big difference, according to Tony Williams, a former managing partner at Clifford Chance who now heads Jomati, a consultancy. To do so, the magic circle should hope to grow Asian revenue to about 15 per cent to 20 per cent of firm-wide billings, he said.

Allen & Overy attributed its 7 per cent growth in revenues, coupled with a static average profit-per-equity-partner figure to the inclusion of its Australian office, the result of a merger, for the first time.

“The message on revenue seems to be: go east,” said Mr Williams. “In profit terms, we're not seeing the bounce of last year, but that was due to cost-cutting and chucking people out of the partnerships.”

Freshfields Bruckhaus Deringer produced the highest headline profit of the quartet (although each firm calculates the figure in a different way) with £550m (\$879m), followed by Linklaters with £515m, Allen & Overy with £456m and Clifford Chance with £381m. Firms' financials are under scrutiny as the UK's £23bn legal market prepares for liberalisation in October. The Legal Services Act, nicknamed “Tesco Law” because it aims to improve access to justice by allowing companies other than law firms to offer legal advice, will allow firms to float and have external shareholders.

Management at all four magic circle firms confirmed this week that they would not seek external capital or a stock-market flotation in the medium term.

Profit per equity partner between the four firms is getting closer, ranging between slightly more than £1m and £1.3m after two years of Clifford Chance lagging behind its rivals. The firm is now back above the £1m mark, reporting a PEP of £1.05m, an 8 per cent increase on last year. Even with Freshfields' drop in profit, the firm has the highest PEP of the four, at £1.3m. While PEP is a headline figure, it is also malleable and can vary depending on how the firms define an equity partner. Moreover, for firms that operate a lockstep – where partners retain more profits the longer they stay with the firm – there is an imperative to grow at roughly 5 per cent each year in order to not dilute the equity.

Source: [www.ft.com](http://www.ft.com)