

The 20th Annual Law Firm COO & CFO Forum

A Brief Interregnum: The State of the US Legal Market

James Jones

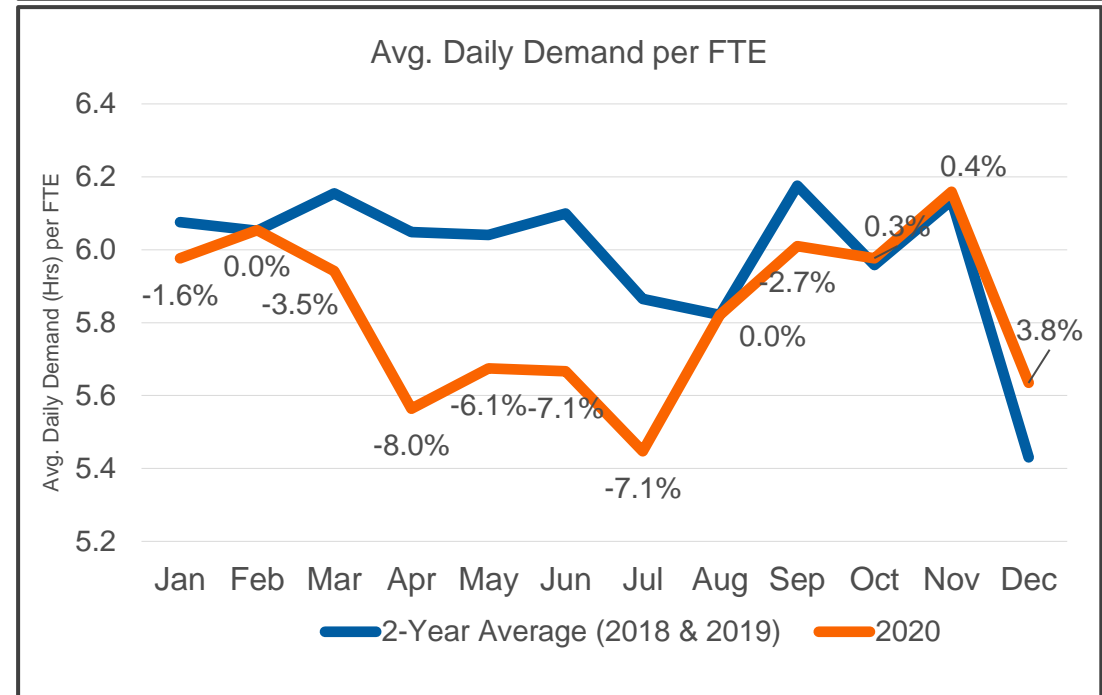
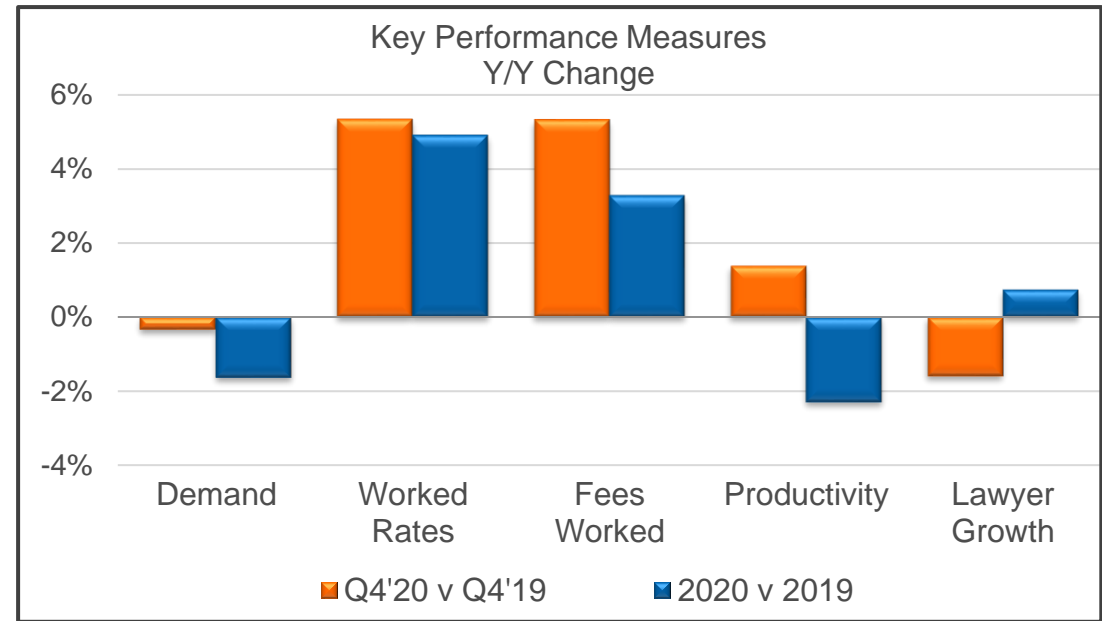
Senior Fellow, Center on Ethics and the Legal Profession,
Georgetown University Law Center

Gretta Rusanow

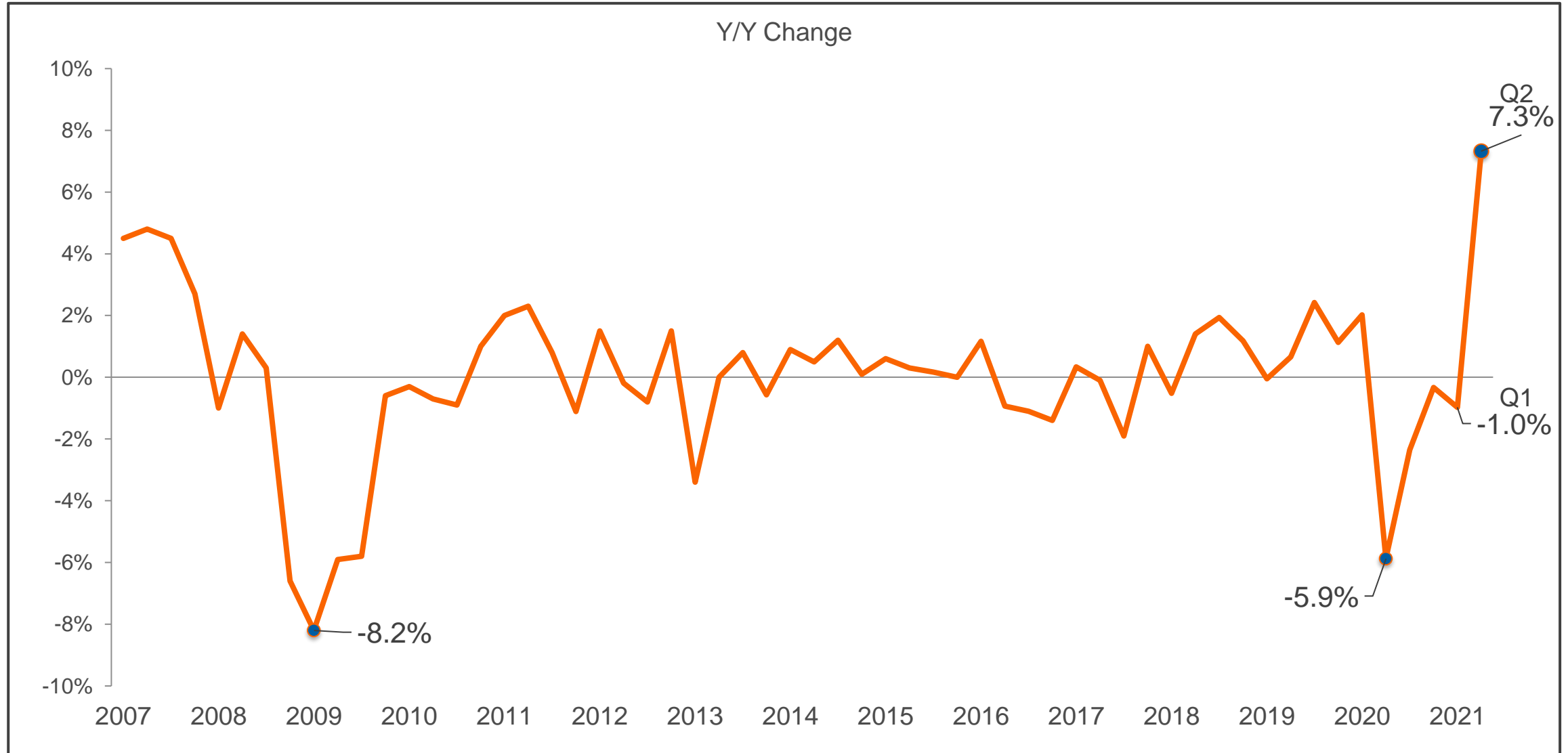
Head of Advisory Services, Law Firm Group, Citi Private Bank

A Quick Lookback to 2020

- Key takeaways: 2020 financial success was attributable primarily to:
 - Substantial rate increases
 - A dramatic rebound in demand after mid-year
 - Cutbacks (or delays) in non-partner hiring
 - Aggressive cost controls
- PPEP ended 2020:
 - Up almost 15% for Am Law 100 firms
 - Up about 13% for Am Law Second 100 firms
 - Up about 6% for Midsize firms

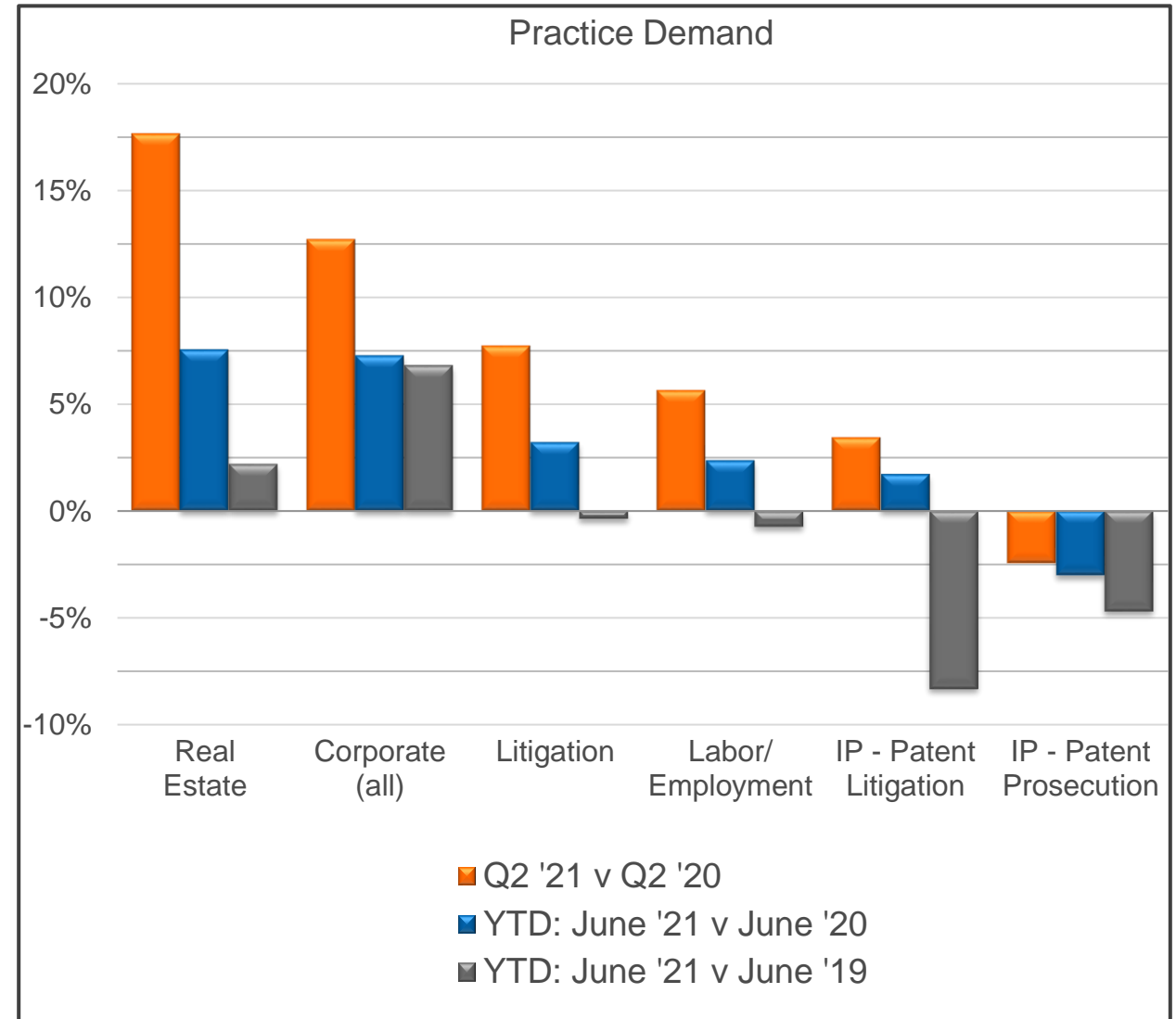
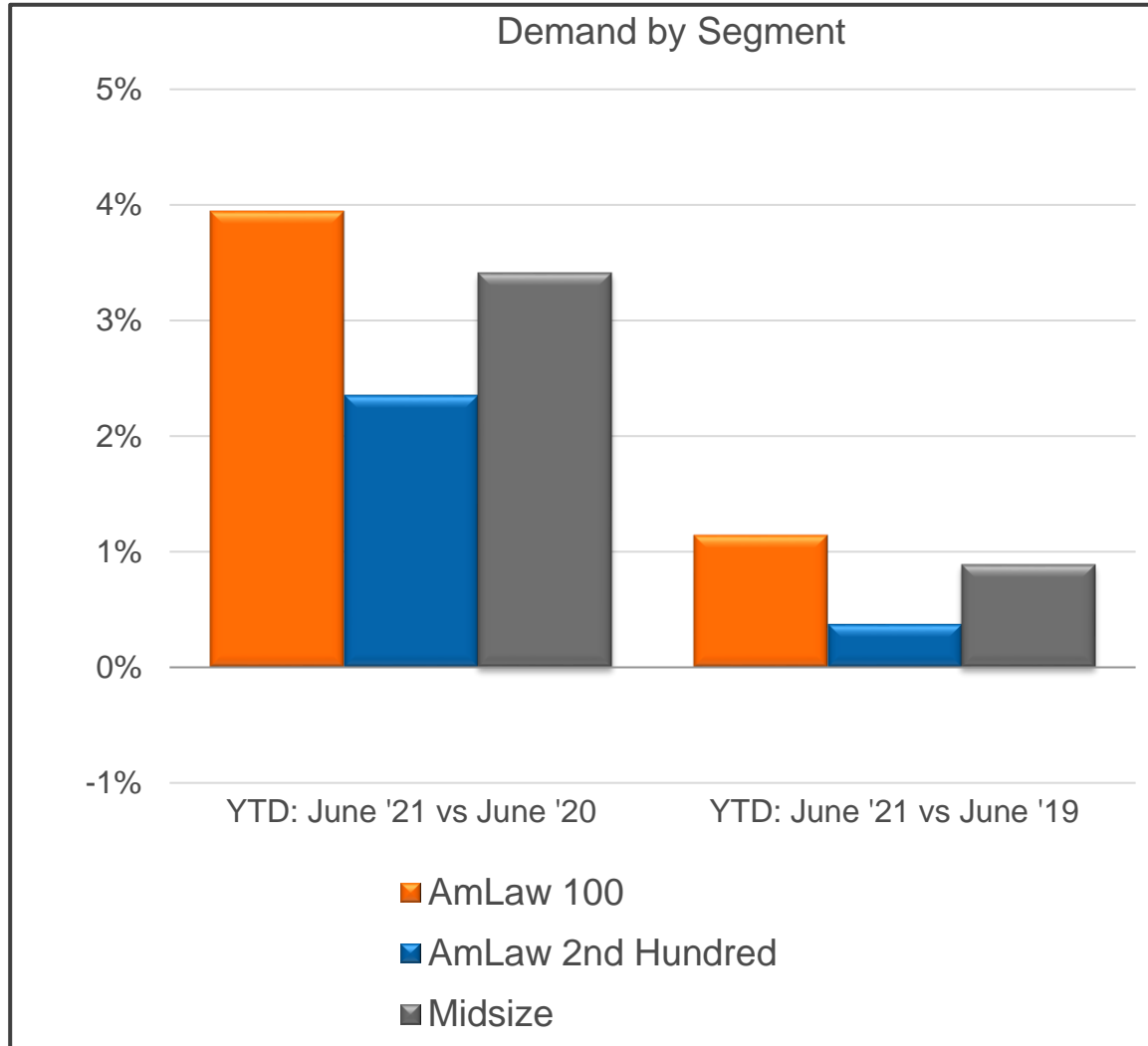


Demand for Law Firm Services (through Q2 2021)



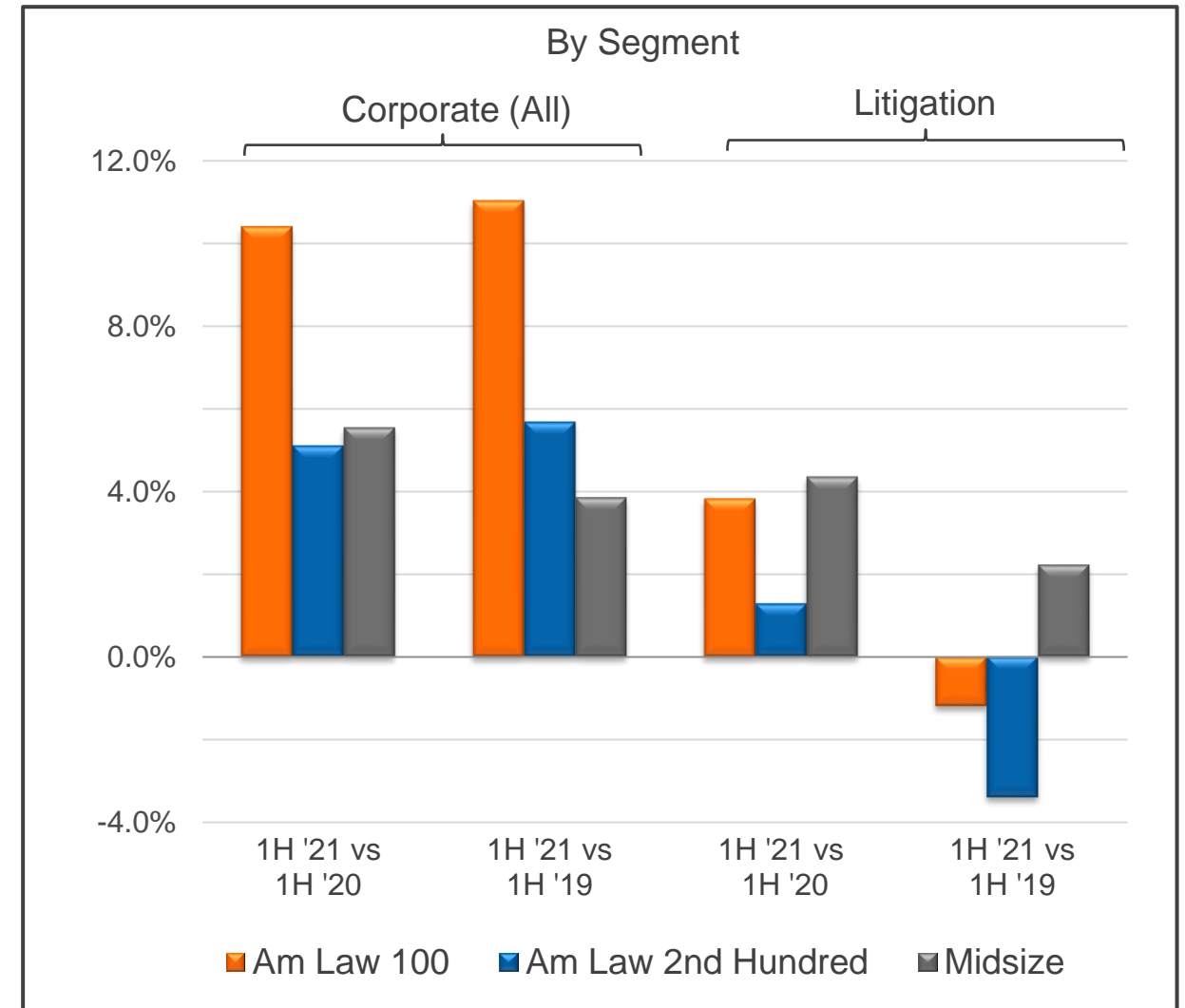
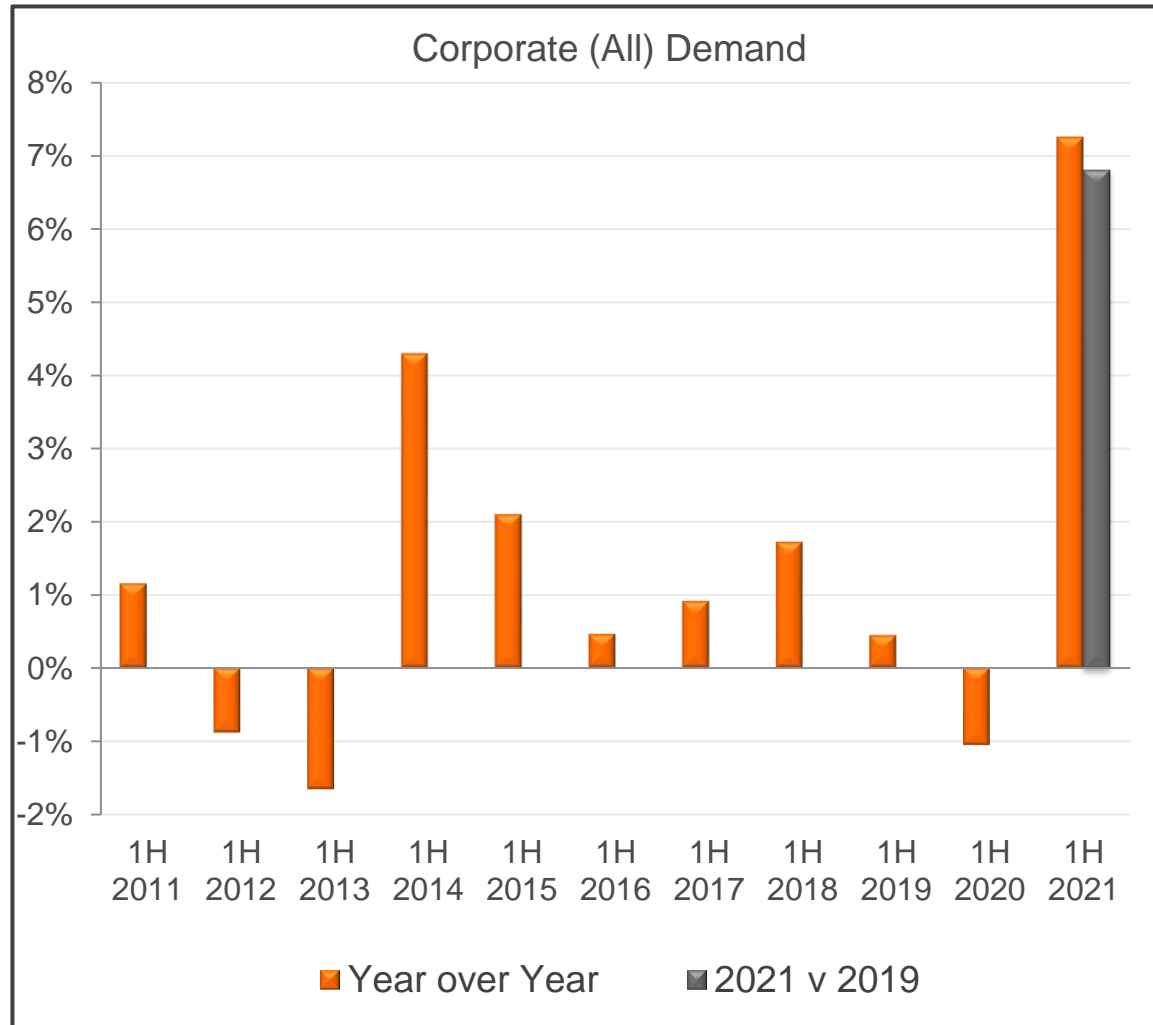
Quarter over Quarter Reporting
All timekeepers
Billable time type; non-contingent matters

Demand by Segment and Practice (YTD 2021 vs. 2020/2019)

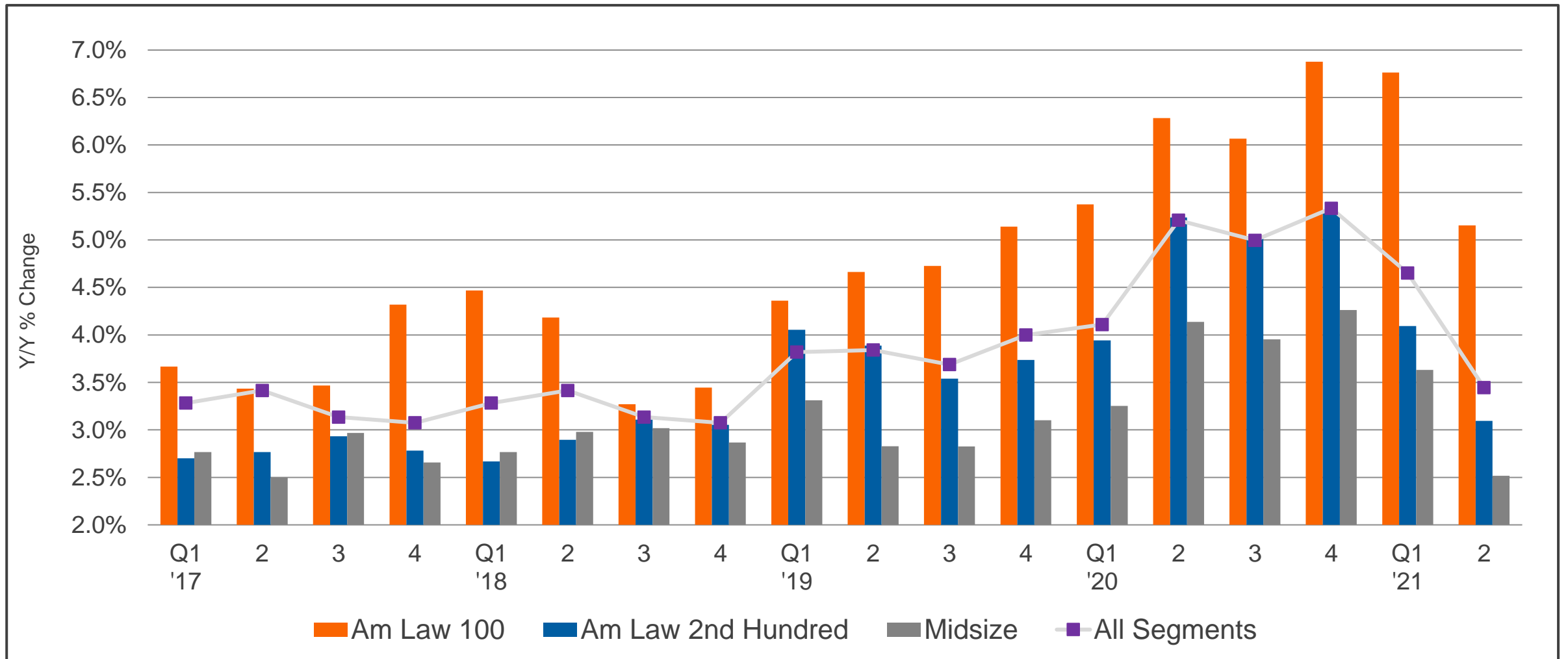


All timekeepers
Billable time type; non-contingent matters

Corporate and Litigation Growth (YTD 2021 vs. 2020/2019)

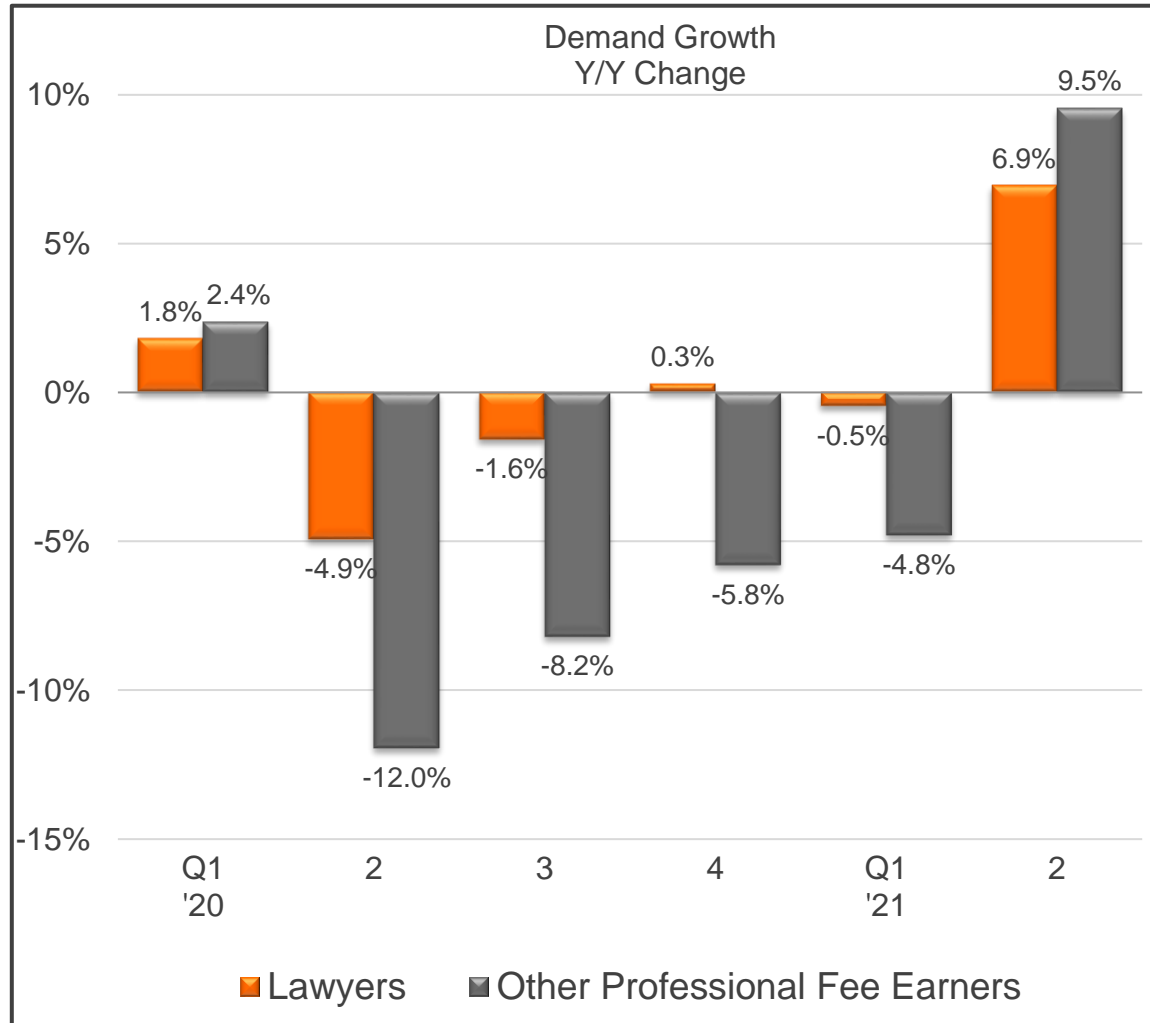


Worked (Agreed) Rate Growth



Quarter over Quarter Reporting
 All timekeepers
 Billable time type; non-contingent matters

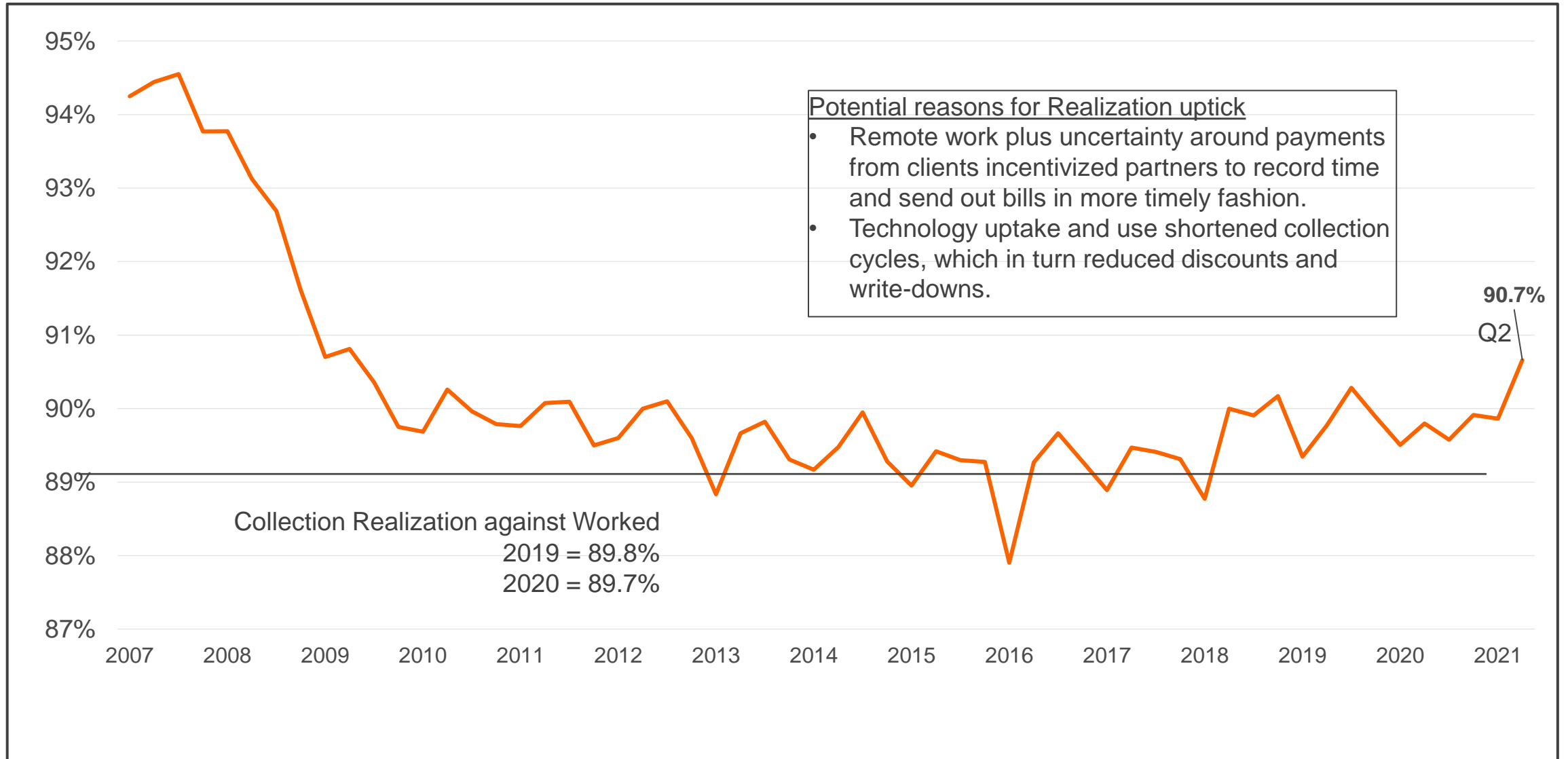
Timekeeper Shifts influencing Worked (Agreed) Rates



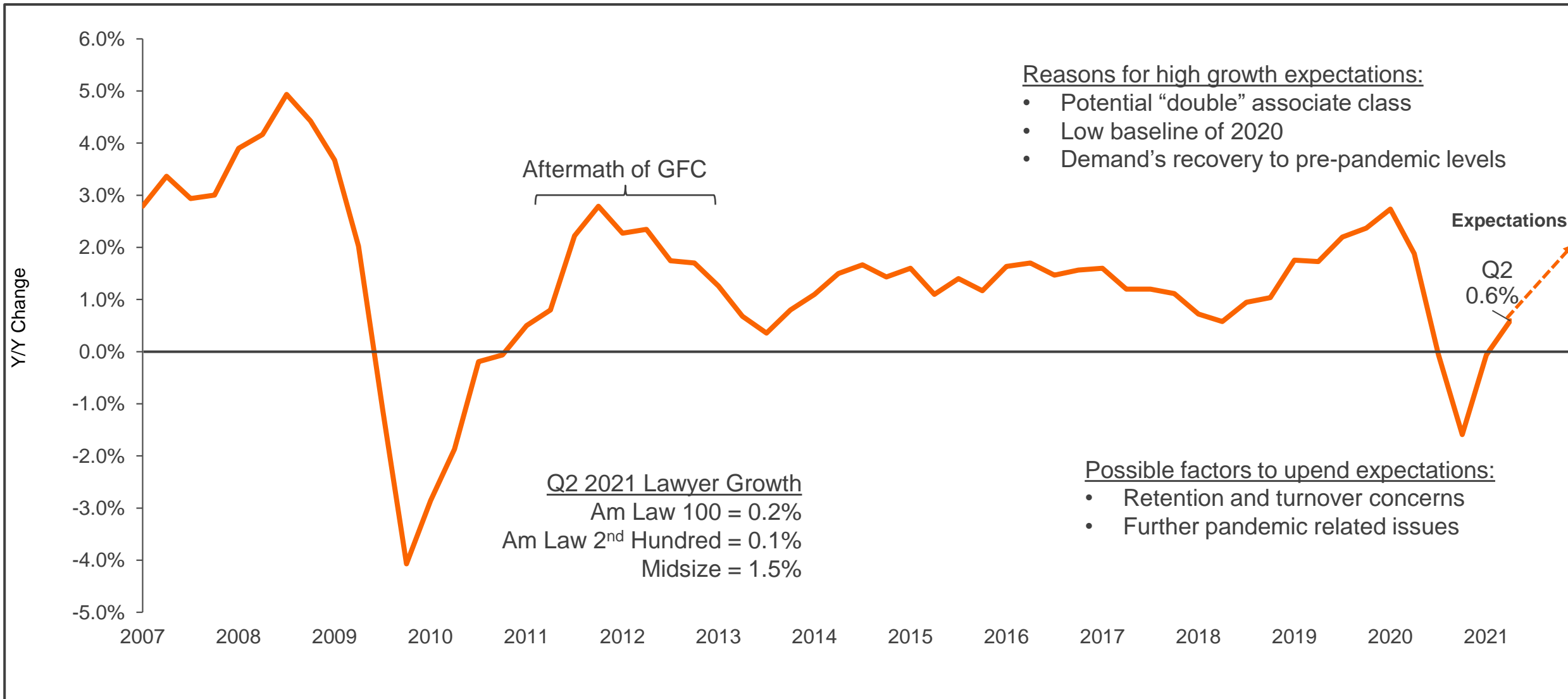
The mix of timekeepers was somewhat different than in 2020.

- In 2020, the number of other professional fee earners (OPFE) hours dropped dramatically (hitting a low point in growth rate of -12.0% in Q2 2020). At the same time, clients demanded senior advice which shifted hours more toward partners, further driving rate growth to post GFC highs.
- By Q2 of 2021, lawyer only demand hit a growth rate of 6.9%, while OPFE saw a 9.5% growth rate.
- This reversal in the mix of timekeepers obviously changed the average worked rate in 2021, actually reducing it somewhat and reflecting slower growth for firms in Q2. Same can be said with lawyer ranks as partners' elevated workloads started to wane in Q2.

Collection Realization against Worked (Agreed) Rates

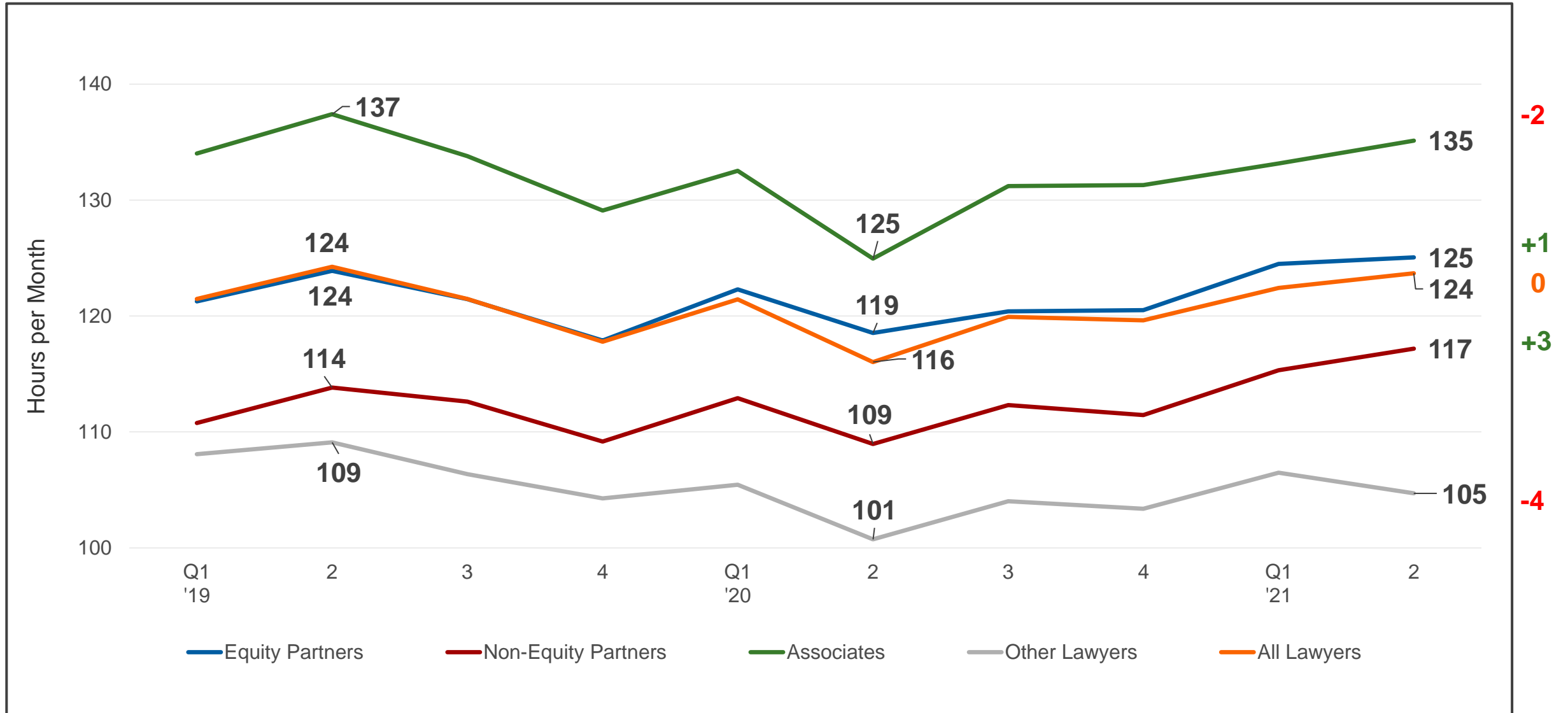


Lawyer Headcount Growth



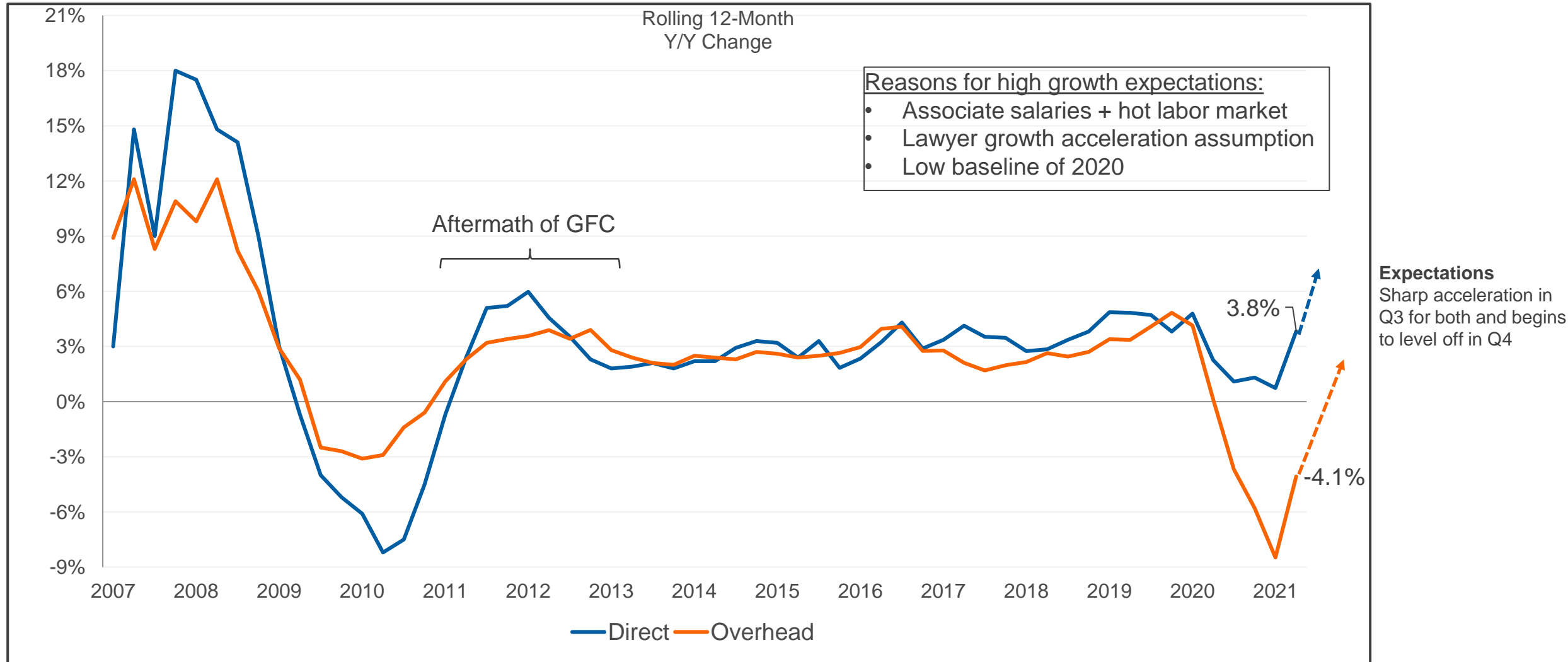
Productivity – Hours per Lawyer per Month

Compared to
Pre-Pandemic Q2 2019:



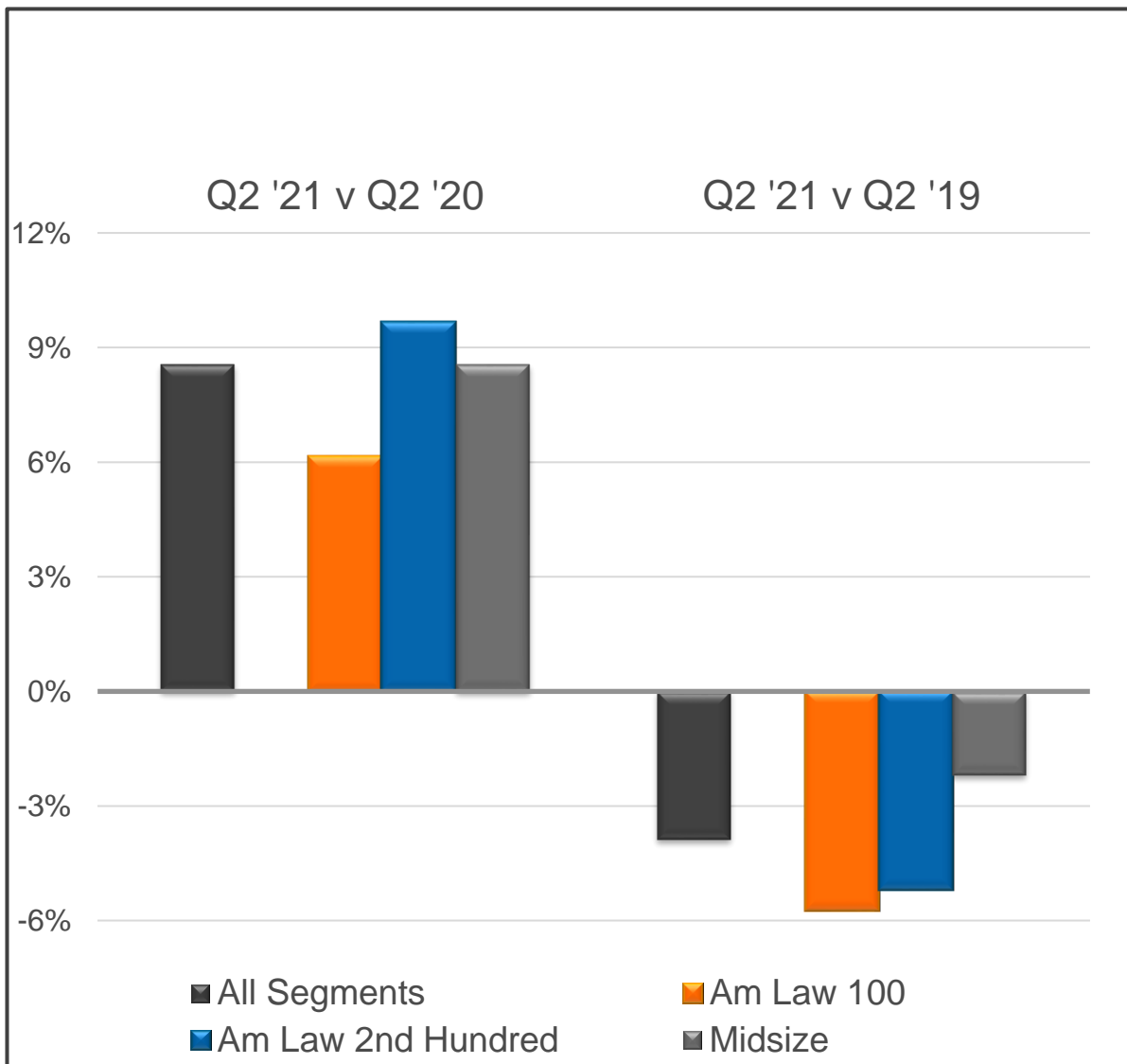
Lawyers
Billable time type; non-contingent matters

Expense Growth



G/L Data – Direct = Lawyer compensation and Benefits; Overhead = All other expenditure, includes support staff compensation

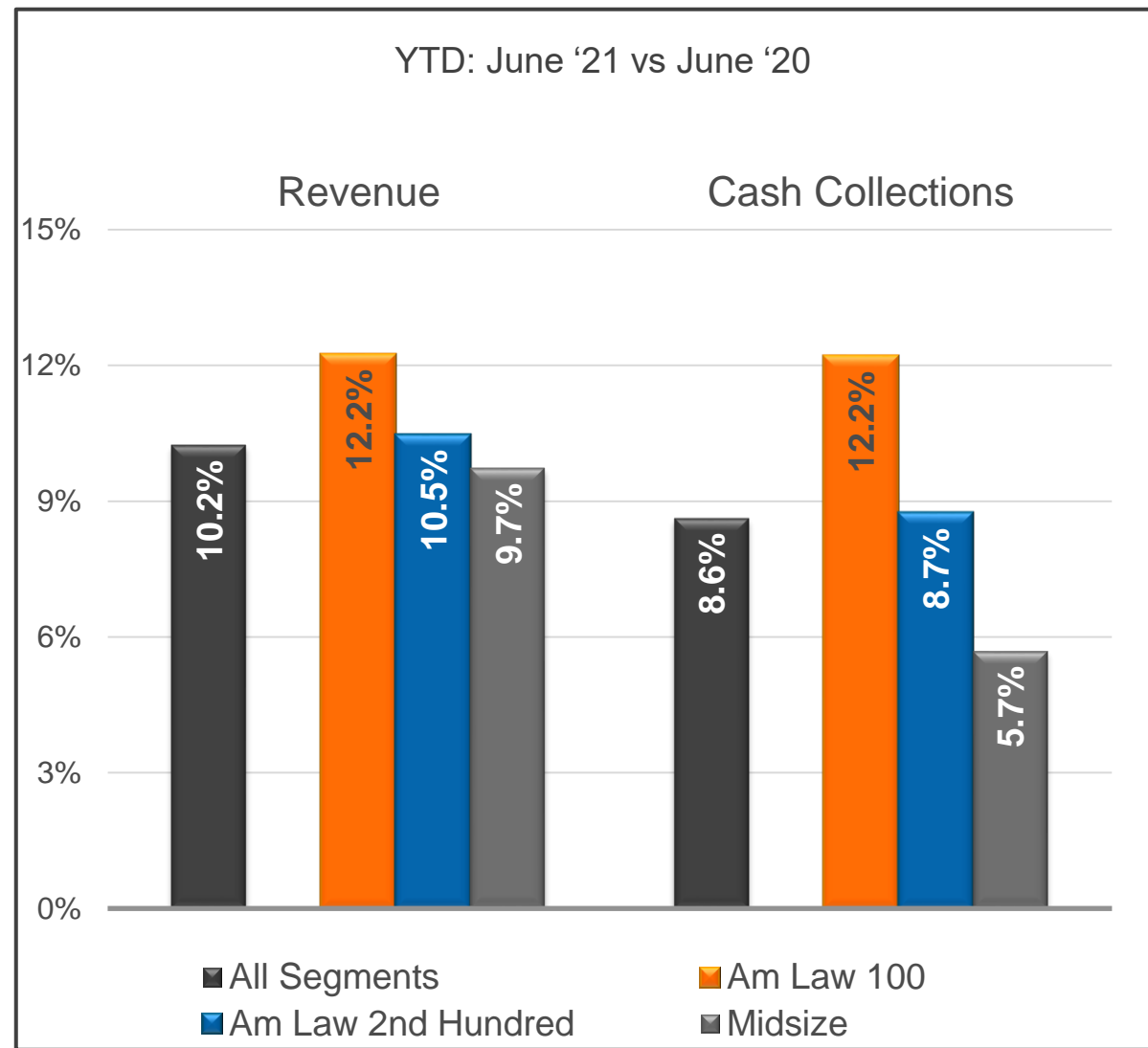
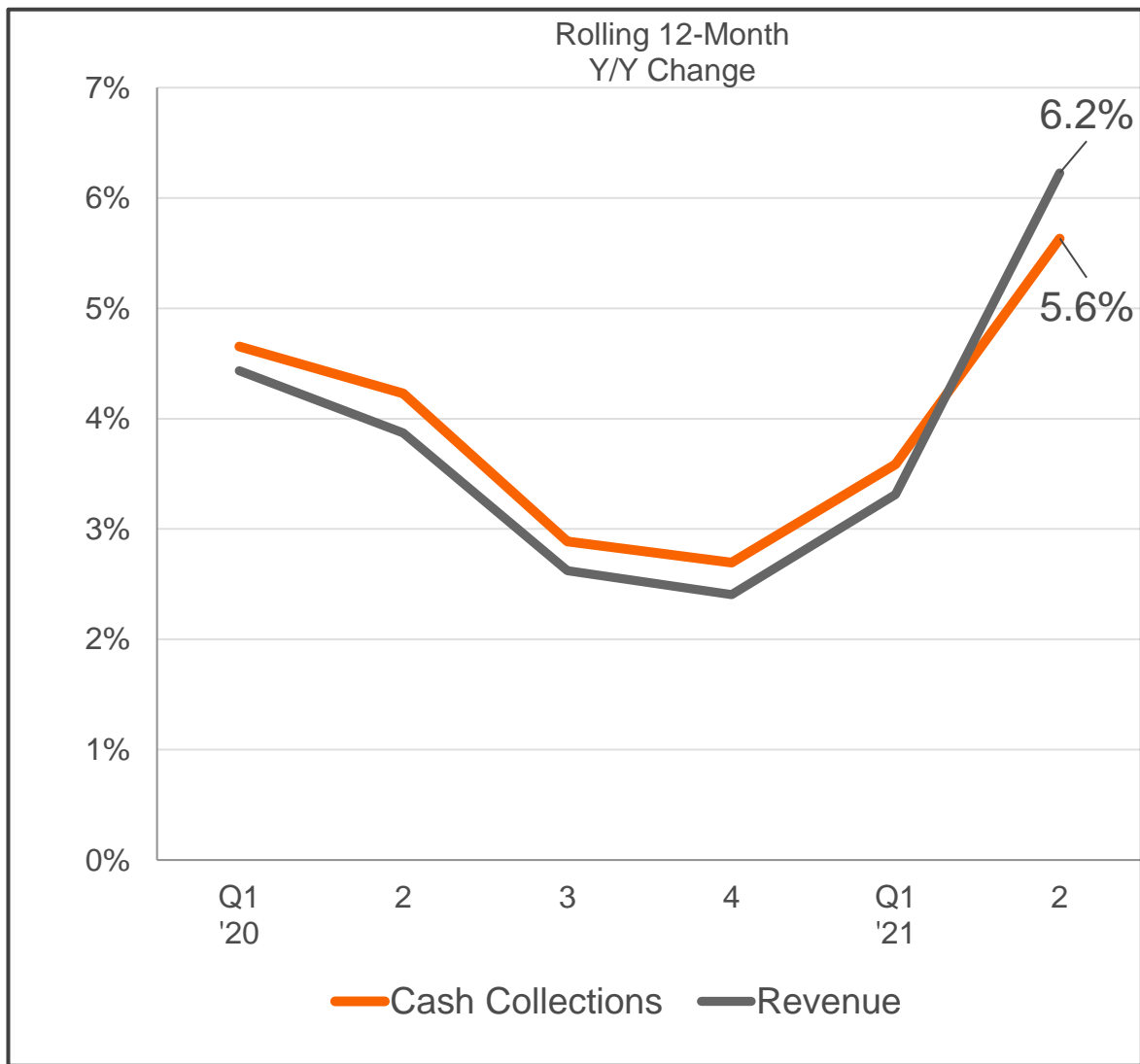
Overhead Expense Growth



Overhead Detail	2020 Proportion of Overhead	Q2 '21 vs Q2 '20	Q2 '21 vs Q2 '19
Support Staff Compensation	34.5%	5.5%	<u>1.5%</u>
Occupancy	25%	0.5%	<u>1.0%</u>
Technology	11%	4.5%	<u>4.3%</u>
★ Office	6%	13.6%	<u>-28.9%</u>
Knowledge Management	5%	9.0%	<u>3.7%</u>
★ Marketing & Business Development	3%	100.9%	<u>-49.3%</u>

G/L Data
 *NOT Rolling 12-Month Change, just the quarter

Revenue & Cash Collection Growth



Revenue = G/L Data
 Cash Collections = Timekeeper Data – Billable time type; non-contingent matters

Looking Forward:

- What were our key takeaways from the pandemic and how firms managed through it?
- What lasting effects do we think the pandemic might have on the legal market moving forward?

2021: Law Firm Business Leaders Report

#1 Risk Lawyer recruitment and retention

- 29 percentage point increase over 2020's survey results
- 41% consider this a high risk to their firm's profitability and 31% consider it a moderate risk.
- Underperforming lawyers (2020's #1 high risk) ranked 4th this year.

#2 Risk Poaching of staff by competitors

- 24 percentage point increase over 2020's survey, previously the 20th highest concern.
- 7 of the top 10 concerns center on staffing and talent development.

#3 Risk Associate salary increases

- 75% of firms consider this to be at least a moderate risk.
- Firms also reported worries about productivity and talent development as high concerns.

Law firms' top 3 concerns all revolve around talent yet when ranking the top reasons for adopting new technology, 'Attracting Talent' was the least likely reason to be given.

Demand Optimism

- Nearly 70% of respondents predict moderate or high growth in demand during the next year. Areas singled out included bankruptcy, family law, employment, insurance, and banking law and finance.

Expanding Technology

- 78% of firms are looking to a greater use of technology to cut costs and 91% are also planning a greater use for purposes other than cost cutting.