

Q2's REBOUND TO "NORMAL" NEEDS PROPER CONTEXT

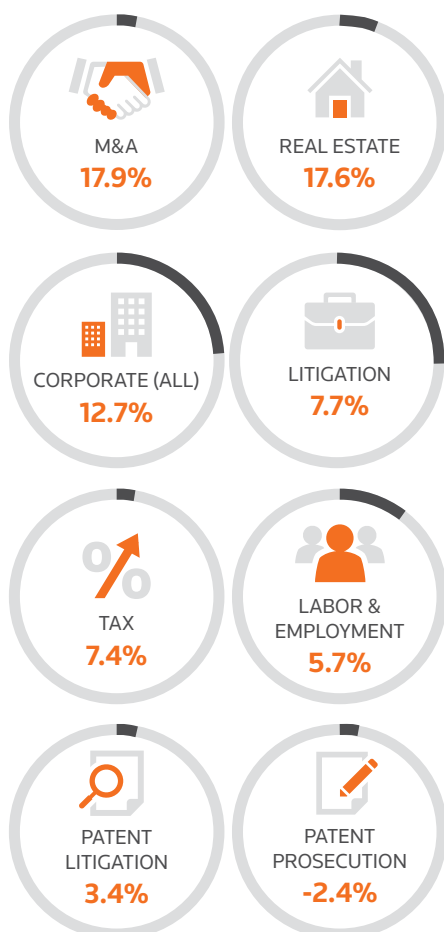
The second quarter of 2021 saw the large law firm market set tremendous marks for growth in legal demand and productivity, while overhead expenses continued to shrink and worked rate growth cooled from the blistering pace set over the course of several consecutive quarters. These trends, taken in combination, catapulted the Thomson Reuters® Peer Monitor Index (PMI)¹ forward by 22 points, setting an all-time high-water mark for the index. In Q2 2021, key practice areas posted positive year-over-year (YOY) results for the quarter, showing a marked difference from this same time last year. Given the pandemic and economic crisis last year, the second quarter of 2020, not surprisingly, set a relatively low benchmark in many metrics. As a result, Q2 2021 had a relatively low bar to clear in nearly every metric, save worked rates. Yet the actual figures posted, in many cases, outperformed what could be considered a return to prior.

Corporate work extended an emerging trend of increases, posting a third consecutive quarter of growth. This was driven in no small measure by another strong performance for M&A work for Am Law 100 law firms. Litigation posted gains this quarter as well, although the practice was still down nearly a full point compared to the same time in 2019. Real estate, antitrust, tax, and labor & employment work were among other notable practices posting gains for the quarter.

Expenses remain an area of much curiosity for many firms. Spending is starting to show some signs of recovering as the rolling 12-month average for overhead expenses showed only a 4.1% reduction compared to the same time last year. This was up from the 8.5% contraction noted at the end of Q1, but still demonstrating some lingering conservatism around spending and investment on the part of law firm leaders.

PRACTICE DEMAND GROWTH

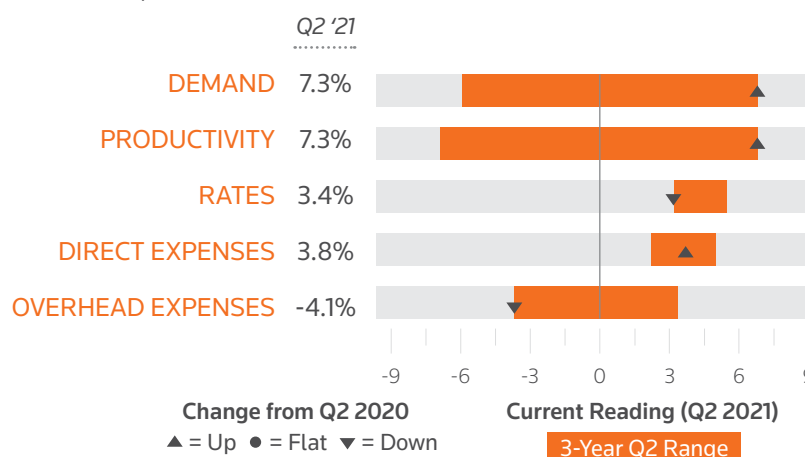
Y/Y Change | Q2 '21 vs. Q2 '20



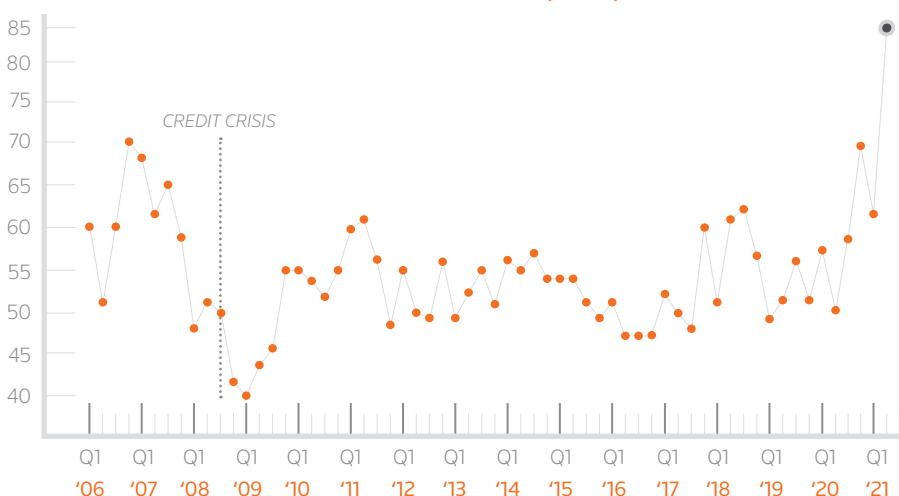
KEY FACTOR ANALYSIS

Year-Over-Year | Q2 '21 vs. Q2 '20

PMI SCORE: 84 ↑ 22



PEER MONITOR ECONOMIC INDEX (PMI)



*Circular band surrounding practice is equal to Proportion of Hours Worked in 2020.

¹ The PMI is a composite score, representing the quarter-over-quarter change in drivers of law firm profitability, including rates, demand, productivity, and expenses. Positive factors driving firm profitability will produce a higher score.

Investment in technology remained solid with 3.3% YOY growth, outpaced only by investment in knowledge management, which grew by 5.1%. Office expenditures continued to see reductions, falling off 27.3% in Q2 this year, on top of the 5.5% reduction seen in Q2 of last year, even as many firms looked to implement return-to-office plans. In contrast, direct expenses for attorney compensation posted a 3.8% increase for the quarter, driven at least partially by the recent surge in associate compensation.

Analyzing 2021 is going to be all about that base(line)

Many of the figures in this report may be eye popping at first blush, including the PMI score itself — they certainly were for the team working on this report. However, it is important to keep the historical context in mind.

The figures here are reported in terms of YOY change. We have now hit a point where the impact of 2020 was being fully felt a year ago; accordingly, the baselines set must be understood in their historical context. In effect, many of the numbers we are seeing as part of the Q2 result could be viewed with an asterisk, of sorts.

This is not to say, however, that there are not plenty of positives to take away from this quarter's results. One way to highlight this is to compare them to a "normal" Q2, rather than Q2 2020, which was anything but normal.

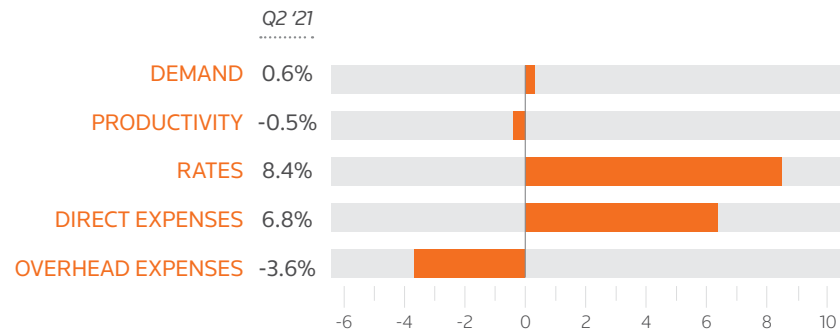
To that end, we examined many of our typical metrics in comparison to those same figures in Q2 2019 to see how they would compare. Demand in Q2 this year was up 0.6% compared to Q2 2019, demonstrating how far we've come in the recovery of demand for law firm services since the 5.9% YOY drop in Q2 last year. Likewise, productivity is showing that things are not as bad as they once appeared, with that metric falling only 0.5% short of the mark set in Q2 2019.

Further, the tremendous growth in rates seen throughout much of the second quarter, plus the continued growth of worked rates on top of last year's gains contributed to the 8.4% growth in worked rates in Q2 2021 compared to Q2 2019. Even as the pace of worked rate increases begins to cool as the proportional shifts seen in 2020 continue to reverse, it is important to note that positivity in worked rates in 2021 stacks upon the rate growth seen in 2020. And while cooling rate growth may be a sign of potentially troubled waters ahead for some, they will likely still result in improving revenue performance for law firms.

For more information on the PMI, and how the Peer Monitor platform can provide you more granular, timely, and narrowly tailored competitive intelligence, please contact Brent Turner at 763-326-6625 or brent.turner@thomsonreuters.com, or visit the Peer Monitor website [here](https://www.thomsonreuters.com/peer-monitor).

KEY FACTOR ANALYSIS

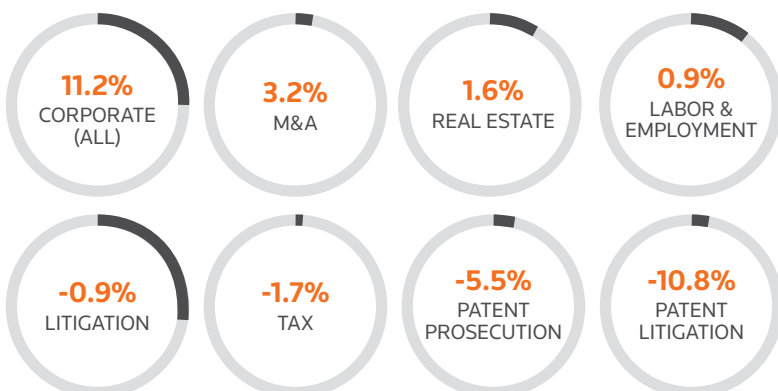
All Segments | Q2 '21 vs. Q2 '19



Expense change above is on a (Q2 '21 - Q3 '20) vs. (Q2 '19 - Q3 '18) basis to annualize heavy expense quarters and reflect change versus a normal year.

PRACTICE DEMAND

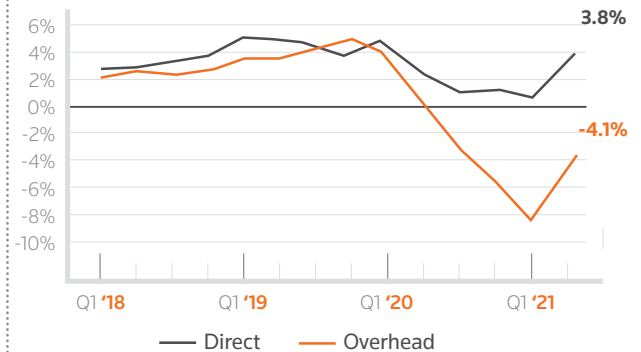
All Segments | Q2 '21 vs. Q2 '19



*Circular band surrounding practice is equal to Proportion of Hours Worked in 2020.

EXPENSE GROWTH

Rolling 12-Month Y/Y Change



OVERHEAD HIGHLIGHTS

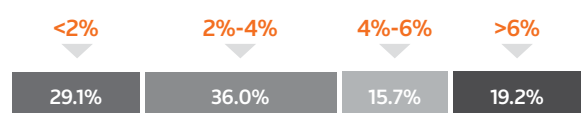
Rolling 12-Month Y/Y Change | Q2 '21



*Circular band surrounding expense is equal to Proportion of Overhead Spend in 2020.

WORKED RATE GROWTH

Proportion of Firms | Q2 '21 vs. Q2 '20



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