The State of the US Legal Market

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

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Head of Advisory Services, Law Firm Group, Citi Private Bank
The 21st Annual Law Firm COO & CFO Forum

State of the US Legal Market: Navigating in Uncertain Times

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A Quick Lookback to 2021 – Best Financial Year since the GFC

Key takeaways:
- Unprecedented growth in transactional practices, esp. in Q4
- Mental health, burnout, & turnover concerns were rampant
- Headcount and expenses surged in the second half of the year

PPEP ended 2021:
- Up almost 16.4% for Am Law 100 firms
- Up about 15.9% for Am Law Second Hundred firms
- Up about 20.7% for Midsize firms

Key Performance Measures

Demand Growth

<table>
<thead>
<tr>
<th>Overall Demand</th>
<th>Transactional</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021 vs. 2020</td>
<td>2021 vs. 2019</td>
</tr>
<tr>
<td>3.7%</td>
<td>7.8%</td>
</tr>
<tr>
<td>1.4%</td>
<td>6.6%</td>
</tr>
</tbody>
</table>

Demand

<table>
<thead>
<tr>
<th>Demand</th>
<th>Worked Rates</th>
<th>Fees Worked</th>
<th>Productivity</th>
<th>Lawyer Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.2%</td>
<td>3.7%</td>
<td>3.6% 3.9%</td>
<td>0.6%</td>
<td>2.3% 1.7%</td>
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2021 vs. 2020 vs. 2019

Headcount, Turnover & Expenses Surge

<table>
<thead>
<tr>
<th>Turnover</th>
<th>Direct</th>
<th>Overhead</th>
<th>Lawyer Headcount</th>
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<tr>
<td>12.3% 3.8% 4.8% 2.4% 1.3%</td>
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<td>8.4% 5.8% 3.8%</td>
<td>2019 2020 2021</td>
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<table>
<thead>
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<th>Overall Demand</th>
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<td>15.0% 10.1% 14.2%</td>
<td>12.0% 6.6% 10.1%</td>
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Headcount, Turnover & Expenses Surge

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Headcount, Turnover & Expenses Surge
Key takeaways:

- Slowing demand due to political and economic uncertainty has reduced appetite for transactional work, especially within the Am Law 100.
- Over the summer, IP, labor & employment, and litigation saw some modest strength, particularly down market.
- Trending below inflation, worked rate growth remains historically robust.
- Headcount and turnover remain elevated since the second half of last year. Combined with returning to office plans, this has kept expense growth stubbornly high.
- With slowing revenue and elevated expense growth, profitability in 2022 looks to contract year-over-year.
- However, the big picture currently remains strong as firms are still 20% more profitable in Q2 2022 than before the pandemic began in Q1 2020. Profit margins remain above historical levels as well.
Historical Demand Growth

YTD 2022: Mixed Results and Growing Uncertainty

Y/Y Change

-6%  -4%  -2%  0%  2%  4%  6%


-5.1% -1.5% -0.2% 1.0% 0.5% 0.7% 0.3% 1.0% 1.0% -0.2% -0.6% 0.3% 1.0% 1.1% 3.7%
Transactional vs Non-Transactional Demand Growth
YTD 2022: Mixed Results and Growing Uncertainty

Y/Y Change

- **Transactional**
- **Overall Demand**
- **All Non-Transactional**

### Table

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>All Practices</td>
<td>0.8%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Transactional</td>
<td>4.9%</td>
<td>8.1%</td>
</tr>
<tr>
<td>Non-Transactional</td>
<td>-1.0%</td>
<td>-0.8%</td>
</tr>
</tbody>
</table>

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All timekeepers
Billable time type; non-contingent matters
YTD 2022: Mixed Results and Growing Uncertainty

Practice Demand’s Influence on Overall Demand in Each Segment

<table>
<thead>
<tr>
<th>Demand Growth by Segment</th>
<th>Q2 ’22 vs. Q2 ’21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Am Law 100</td>
<td>-2.4%</td>
</tr>
<tr>
<td>Am Law Second Hundred</td>
<td>0.7%</td>
</tr>
<tr>
<td>Midsize</td>
<td>0.1%</td>
</tr>
</tbody>
</table>

Q2 ‘22 vs. Q2 ‘21
Y/Y Change

Key Transactional Practices

Corporate (all)
Corporate - M&A
Real Estate

Key Non-Transactional Practices

Labor/Employment
Litigation
Intellectual Property

Am Law 100
Am Law Second Hundred
Midsize

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All timekeepers
Billable time type; non-contingent matters
Overall Demand Growth by Segment

YTD 2022: Mixed Results and Growing Uncertainty
Worked Rate Growth by Segment

YTD 2022: Mixed Results and Growing Uncertainty

All timekeepers
Billable time type; non-contingent matters
PCE Inflation measure = Personal Consumption Expenditures Excluding Food and Energy

Y/Y % Change


Am Law 100 Am Law Second Hundred Midsize Inflation (PCE) All Segments
Collection Realization against Worked (Agreed) Rates

YTD 2022: Mixed Results and Growing Uncertainty

Quarterly Reporting
Lawyers only, billable time type

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Collected Realization against Worked (Negotiated)

YTD 2022: Mixed Results and Growing Uncertainty

<table>
<thead>
<tr>
<th>Segment</th>
<th>Q2 2022 Realization (percentage point improvement compared to Q2 2019)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Am Law 100</td>
<td>+1.4</td>
</tr>
<tr>
<td>Am Law Second Hundred</td>
<td>+2.3</td>
</tr>
<tr>
<td>Midsize</td>
<td>+1.8</td>
</tr>
</tbody>
</table>

YTD 2022: Mixed Results and Growing Uncertainty

- **Am Law 100**: +1.4 percentage point improvement compared to Q2 2019
- **Am Law Second Hundred**: +2.3 percentage point improvement compared to Q2 2019
- **Midsize**: +1.8 percentage point improvement compared to Q2 2019

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Productivity by Practice – Hours per Lawyer per Month

YTD 2022: Mixed Results and Growing Uncertainty

- Corporate - General
- Corporate - M&A
- Litigation
- Labor & Employment
- Real Estate

Q2 2019: 138, 127
Q2 2020: 140, 123
Q2 2021: 143, 137
Q2 2022: 138, 134

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Lawyers
Billable time type; non-contingent matters
Lawyer Headcount Growth

YTD 2022: Mixed Results and Growing Uncertainty

Lawyers (contractors excluded)
Turnover Analysis

YTD 2022: Mixed Results and Growing Uncertainty

Rolling 12 Month Values

Turnover = Lawyers who left the firm divided by Lawyers at beginning of the time period
Lawyer (FTE) Growth – Change Since January 2021

YTD 2022: Mixed Results and Growing Uncertainty

*Percentages measures change from each point against Jan 2021 headcount to show change while ignoring baseline effects*
Support Staff FTEs, Compensation, and Compensation Per Role Growth

YTD 2022: Mixed Results and Growing Uncertainty

![Bar chart showing growth rates for Total FTEs, Total Compensation, and Compensation per Role from 2017 to 2021. The chart indicates varying growth rates across the years, with some showing negative growth, especially in 2017 and 2020.](image)

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Cost per Lawyer & FTEs per 100 Lawyers Growth by Function Area

FTE Ratio, on average has shrunk while CPL has grown. This is being caused by consistent sharp reductions of lower cost FTEs in the largest departments and extensive cost increases in smaller, more specialized function areas.

Average Annual Growth (2017 – 2021)

<table>
<thead>
<tr>
<th>Function Area</th>
<th>Ratio (FTE per 100 Lawyers)</th>
<th>Cost per Lawyer</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL Support Staff</td>
<td>-2.2%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Recruiting &amp; Talent</td>
<td>4.6%</td>
<td>8.3%</td>
</tr>
<tr>
<td>Practice Group Operations</td>
<td>3.9%</td>
<td>8.7%</td>
</tr>
<tr>
<td>Executive Management</td>
<td>2.9%</td>
<td>6.6%</td>
</tr>
<tr>
<td>Finance</td>
<td>1.3%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Marketing / Business Development</td>
<td>1.1%</td>
<td>4.6%</td>
</tr>
<tr>
<td>IT/Technology</td>
<td>0.2%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Human Resources</td>
<td>-0.1%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Library &amp; Research</td>
<td>-2.5%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Administrative</td>
<td>-2.8%</td>
<td>1.4%</td>
</tr>
<tr>
<td>Secretarial and Word Processing</td>
<td>-4.8%</td>
<td></td>
</tr>
<tr>
<td>Operations</td>
<td>-5.7%</td>
<td></td>
</tr>
</tbody>
</table>

% Change

Powered by Peer Monitor® / Financial Insights® - Staffing Ratio Survey
Expense Growth

YTD 2022: Mixed Results and Growing Uncertainty

Rolling 12-Month Y/Y Change

Expectations:
Unless drastic action is taken to slow headcount growth or full return to office, it appears expense growth will slow but not by much and stay historically elevated through the end of the year.

Aftermath of GFC

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

YTD 2022: Mixed Results and Growing Uncertainty

Rolling 12-Month Change

-2.0%  0.0%  2.0%  4.0%  6.0%  8.0%  10.0%  12.0%  14.0%  16.0%  18.0%

Q3 '19  4  Q1 '20  2  3  4  Q1 '21  2  3  4  Q1 '22  2

Am Law 100  Am Law Second Hundred  Midsize  All Segments

Associate Compensation: Total Associate Compensation (GL) divided by Associate FTEs (Timekeepers)
Expenses per Lawyer (FTE) Growth – Change Since Q1 2020

YTD 2022: Mixed Results and Growing Uncertainty

Rolling 12-Month Change Since Q1 2020

- Direct Expenses
- Overhead Expenses

Average Percent of Expense per lawyer:
- Overhead = 47%
- Direct = 53%

*Percentages measures change from Q1 2020 values to show change compared to the last 12-month period preceding the pandemic.
Revenue & Cash Collection Growth

YTD 2022: Mixed Results and Growing Uncertainty

Rolling 12-Month Y/Y Change

Revenue & Cash Collection Growth

YTD: June ’22 vs June ’21

Revenue

Cash Collections

- All Segments
- Am Law 100
- Am Law Second Hundred
- Midsize

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

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Profit per Equity Partner (PPEP) – Change Since Q1 2020

YTD 2022: Mixed Results and Growing Uncertainty

Rolling 12-Month Change Since Q1 2020

- All Firms

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 2020</td>
<td>0.0%</td>
</tr>
<tr>
<td>2</td>
<td>4.1%</td>
</tr>
<tr>
<td>3</td>
<td>7.3%</td>
</tr>
<tr>
<td>4</td>
<td>8.9%</td>
</tr>
<tr>
<td>Q1 2021</td>
<td>16.1%</td>
</tr>
<tr>
<td>2</td>
<td>21.5%</td>
</tr>
<tr>
<td>3</td>
<td>25.4%</td>
</tr>
<tr>
<td>4</td>
<td>28.3%</td>
</tr>
<tr>
<td>Q1 2022</td>
<td>24.4%</td>
</tr>
<tr>
<td>2</td>
<td>28.3%</td>
</tr>
</tbody>
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