The 22nd Annual Law Firm COO & CFO Forum
State of the Legal Market
From Financial Insights

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11/2/2023
**2023 State of the Legal Market**

**A Bifurcated Recovery**

**Key takeaways:**

- Overall demand has grown by 0.6% YTD, driven by significant growth in counter-cyclical practices
- It appears this environment has driven different law firm staffing strategies throughout 2023
- Worked rate growth has hit post GFC highs, while inflation has thus far continued to slow
- Taken all together, firm revenues have improved, while expenses have slowed, resulting in profit losses being reduced

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**Lawyer Growth by Segment**

<table>
<thead>
<tr>
<th>Segment</th>
<th>Q3: ‘23 vs. ‘22</th>
<th>YTD Sep: ‘23 vs. ‘22</th>
</tr>
</thead>
<tbody>
<tr>
<td>Am Law 100</td>
<td>2.0%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Am Law Second Hundred</td>
<td>3.9%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Midsize</td>
<td>4.7%</td>
<td>4.7%</td>
</tr>
</tbody>
</table>

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**Key Performance Measures**

- **Demand**
  - Q3: ‘23 vs. ‘22
  - YTD Sep: ‘23 vs. ‘22
  - 2022 vs. 2021

- **Worked Rates**
  - Q3: ‘23 vs. ‘22
  - YTD Sep: ‘23 vs. ‘22
  - 2022 vs. 2021

- **Fees**
  - Q3: ‘23 vs. ‘22
  - YTD Sep: ‘23 vs. ‘22
  - 2022 vs. 2021

- **Productivity**
  - Q3: ‘23 vs. ‘22
  - YTD Sep: ‘23 vs. ‘22
  - 2022 vs. 2021

- **Lawyer Growth**
  - Q3: ‘23 vs. ‘22
  - YTD Sep: ‘23 vs. ‘22
  - 2022 vs. 2021

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**Profit per Lawyer (PPL) Growth**

- **Q2 2022**
  - -0.6%

- **Q3 2023**
  - -4.2%
  - -9.4%
  - -11.6%
  - -10.0%
  - -6.2%
2023 State of the Legal Market

Historical Demand Growth

<table>
<thead>
<tr>
<th>Demand Growth by Segment</th>
<th>YTD Q3 2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Am Law 100</td>
<td>-0.6%</td>
</tr>
<tr>
<td>Am Law Second Hundred</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Midsize</td>
<td>2.1%</td>
</tr>
</tbody>
</table>

- YTD: Q3 2023
- Am Law 100
- Am Law Second Hundred
- Midsize

Demand Growth by Segment

<table>
<thead>
<tr>
<th>Year</th>
<th>Y/Y Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>4.1%</td>
</tr>
<tr>
<td>2008</td>
<td>-1.5%</td>
</tr>
<tr>
<td>2009</td>
<td>-5.1%</td>
</tr>
<tr>
<td>2010</td>
<td>-0.2%</td>
</tr>
<tr>
<td>2011</td>
<td>1.0%</td>
</tr>
<tr>
<td>2012</td>
<td>0.5%</td>
</tr>
<tr>
<td>2013</td>
<td>0.7%</td>
</tr>
<tr>
<td>2014</td>
<td>0.3%</td>
</tr>
<tr>
<td>2015</td>
<td>-0.6%</td>
</tr>
<tr>
<td>2016</td>
<td>-0.2%</td>
</tr>
<tr>
<td>2017</td>
<td>1.0%</td>
</tr>
<tr>
<td>2018</td>
<td>1.0%</td>
</tr>
<tr>
<td>2019</td>
<td>-1.6%</td>
</tr>
<tr>
<td>2020</td>
<td>-0.6%</td>
</tr>
<tr>
<td>2021</td>
<td>3.7%</td>
</tr>
<tr>
<td>2022</td>
<td>0.6%</td>
</tr>
<tr>
<td>2023</td>
<td></td>
</tr>
</tbody>
</table>

YTD: Q3 2023

All timekeepers
Billable time type; non-contingent matters

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First year we have seen PCE inflation above average firm worked rate growth.
**2023 State of the Legal Market**

**Practice Demand**

**Rise of Counter-cyclicals**
- Litigation’s ascent continues to be the most impactful development in 2023. Midsize firms are capitalizing the most, with mobile demand appearing to be a notable factor for this practice, but all segments are benefiting.
- Bankruptcy work continues to accelerate. Am Law 100 firms have been the market leaders this year.
- Labor & Employment, has shown similar strength with Litigation’s surge, just to a lesser degree. This is a rare practice where the Am Law Second Hundred are leading in growth.

**Contracting Transactional Practices**
- Tax, M&A, and Real Estate continue to be the primary drivers of 2023’s transactional contraction and haven’t shown much improvement even as baselines become more favorable.
- While Corporate General has outperformed all other transactional practices all year from an all-firm perspective, smaller firms have been closer to flat while Am Law 100 firms have been in deeper contraction.

**This has led to Divergent Strategies**
- Midsize and to a lesser extent Second Hundred firms are scaling up in this environment, while Am Law 100 firms have been trimming headcount over the last 9 months.
2023 State of the Legal Market

Transactional vs Counter-Cyclical Growth – R12M

The Great Financial Crisis
Low Interest Rates leads to Transactional Decade

Pandemic Volatility

Y/Y Change

'08 '09 '10 '11 '12 '13 '14 '15 '16 '17 '18 '19 '20 '21 '22 '23

6.9%

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All timekeepers
Billable time type; non-contingent matters

Transactional
(Corporate General, M&A, Real Estate, Tax)

Counter-Cyclical
(Litigation, Labor & Employment, Bankruptcy)
2023 State of the Legal Market

Hours per Lawyer: Q3 of previous years

<table>
<thead>
<tr>
<th>Transactions</th>
<th>Q3 2020</th>
<th>Q3 2021</th>
<th>Q3 2022</th>
<th>Q3 2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate - General</td>
<td>118</td>
<td>122</td>
<td>114</td>
<td>108</td>
</tr>
<tr>
<td>Corporate - M&amp;A</td>
<td>121</td>
<td>132</td>
<td>121</td>
<td>111</td>
</tr>
<tr>
<td>Real Estate</td>
<td>118</td>
<td>131</td>
<td>120</td>
<td>113</td>
</tr>
<tr>
<td>Litigation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labor &amp; Employment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bankruptcy</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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Demand vs. Lawyer (FTE) Growth

Y/Y Change

Expectations

Lawyers (contractors excluded)
Lawyer FTE Growth – Change Since January 2022

<table>
<thead>
<tr>
<th>Month</th>
<th>Jan '22</th>
<th>Feb '22</th>
<th>Mar '22</th>
<th>Apr '22</th>
<th>May '22</th>
<th>June '22</th>
<th>Jul '22</th>
<th>Aug '22</th>
<th>Sep '22</th>
<th>Oct '22</th>
<th>Nov '22</th>
<th>Dec '22</th>
<th>Jan '23</th>
<th>Feb '23</th>
<th>Mar '23</th>
<th>Apr '23</th>
<th>May '23</th>
<th>Jun '23</th>
<th>Jul '23</th>
<th>Aug '23</th>
<th>Sep '23</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change</td>
<td>-2%</td>
<td>-1%</td>
<td>0%</td>
<td>1%</td>
<td>2%</td>
<td>3%</td>
<td>4%</td>
<td>5%</td>
<td>6%</td>
<td>7%</td>
<td>6%</td>
<td>5%</td>
<td>4%</td>
<td>3%</td>
<td>2%</td>
<td>1%</td>
<td>0%</td>
<td>-1%</td>
<td>-2%</td>
<td>-2%</td>
<td>-2%</td>
</tr>
</tbody>
</table>

- **All Firms**
- **Am Law 50**
- **Am Law 51-100**
- **Am Law Second Hundred**
- **Midsize**

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Diverging Strategies – September’s Staffing Decisions

<table>
<thead>
<tr>
<th>Segment</th>
<th>Associate Headcount Change since Jan ’23</th>
<th>First Year Associate Headcount Change Sept ’23 vs. Sept ’22 &amp; ’21 Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Am Law 100</td>
<td>-1.3%</td>
<td>-16.5%</td>
</tr>
<tr>
<td>Am Law Second Hundred</td>
<td>+3.7%</td>
<td>-24.8%</td>
</tr>
<tr>
<td>Midsize</td>
<td>+8.2%</td>
<td>-8.8%</td>
</tr>
</tbody>
</table>

Average Daily Demand per Lawyer

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

Results: Year Long Actions + Short Term Actions + Demand = Results

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Expense Growth

Rolling 12-Month
Y/Y Change

Expectations

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Direct Expense per Lawyer (FTE) Growth

Rolling 12 Month Change

<table>
<thead>
<tr>
<th>Year</th>
<th>Am Law 100</th>
<th>Am Law Second Hundred</th>
<th>Midsize</th>
<th>All Segments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>2021</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>2022</td>
<td>6%</td>
<td>6%</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>Q1 '23</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Q2</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Q3</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>
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Profit per Equity Partner Growth

Rolling 12 Month Change

Y/Y Percent Change

2020 2021 2022 Q1 '23 Q2 Q3

Am Law 100 Am Law Second Hundred Midsize All Segments

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2023 State of the Legal Market

Profit per Equity Partner Growth

Rolling 12 Month Change

Y/Y Percent Change

2020 2021 2022 Q1 '23 Q2 Q3

-15% -10% -5% 0% 5% 10% 15% 20% 25%

Am Law 100  Am Law Second Hundred  Midsize

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2023 State of the Legal Market

Where are we headed?

Economic Factors:
Economic uncertainty continues to dominate law firm decision making.
- Despite relatively strong performance figures, faith in the long-term health of the economy appears to be declining.
- Q3 GDP was expected to grow 4.5% but came in at 4.9%, showing the continued resilience of the economy even in the face of elevated interest rates.

Interest rates may well remain at higher levels for longer than expected, dampening the prospects for transactional practices.
- The FOMC is likely to keep the 22-year high benchmark rate of 5.25% to 5.50% in place at their November 1st meeting; analysts don’t expect a drop until at least May.

Generative AI:
The wildcard in future market changes is generative AI.
- It may not have a visible impact on financial performance in the next few quarters as firms make technology investments and implement new platforms.
- But, over time generative AI will emerge as a game changer in the legal market.

What Firms Are Best Positioned for the Future:
Learnings from a 10-year lookback at the most successful firms
- During the 10 years of low interest rates, firms of all sizes shifted their practice mix toward transactional practices leaving some flat footed in the current environment.
- Successful firms showed aggressive rate strategies and strong efforts to protect lawyer productivity.
- Successful firms also invested more in technology, marketing & business development, and support staff compensation.

Predictions for 2024
- Continued high interest rate, counter-cyclical environment that favors smaller firms and further consolidation.
- Am Law 100 firms continuing to bide their time, waiting for transactional activity to accelerate and focusing until then on improving efficiencies (including through more creative use of generative AI).
- Expenses continuing to cool slowly, productivity continuing to contract (at a slower pace), continuing aggressive rate growth to offset expense and productivity performance, all leading to modest profit growth in 2024.
- Some firms may perform significantly better, however, as the effectiveness of strategic changes made in 2023 become more apparent.