



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

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11/2/2023

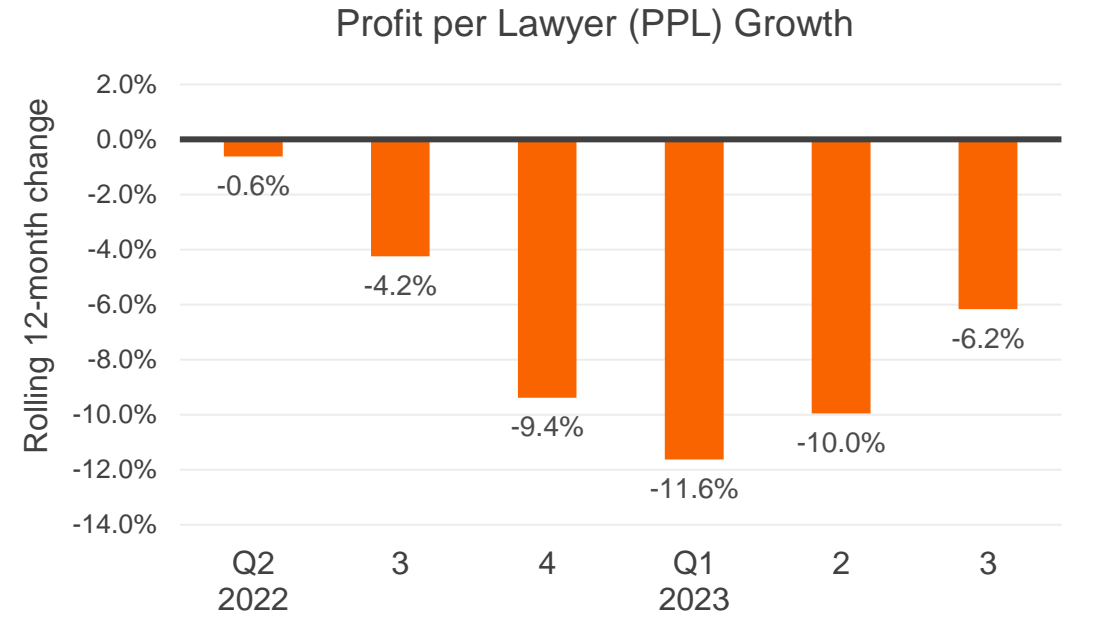
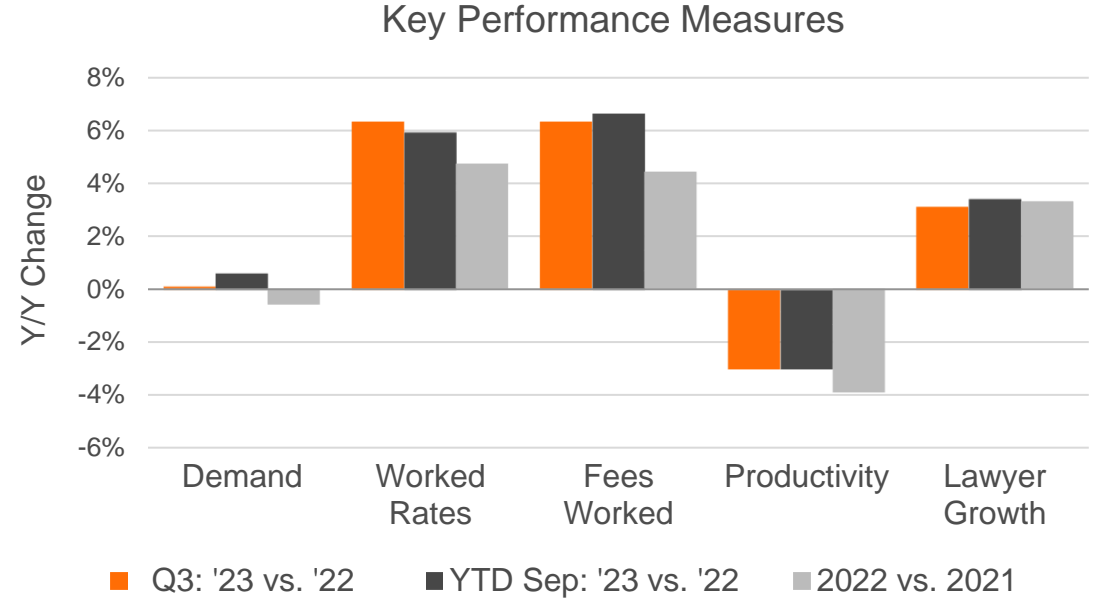
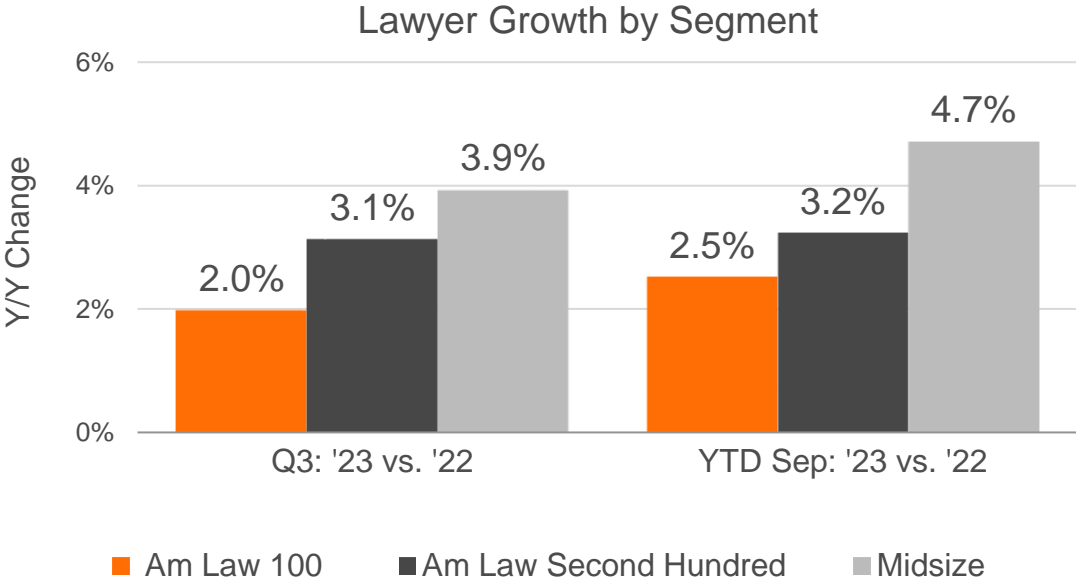
Client Confidential

2023 State of the Legal Market

A Bifurcated Recovery

Key takeaways:

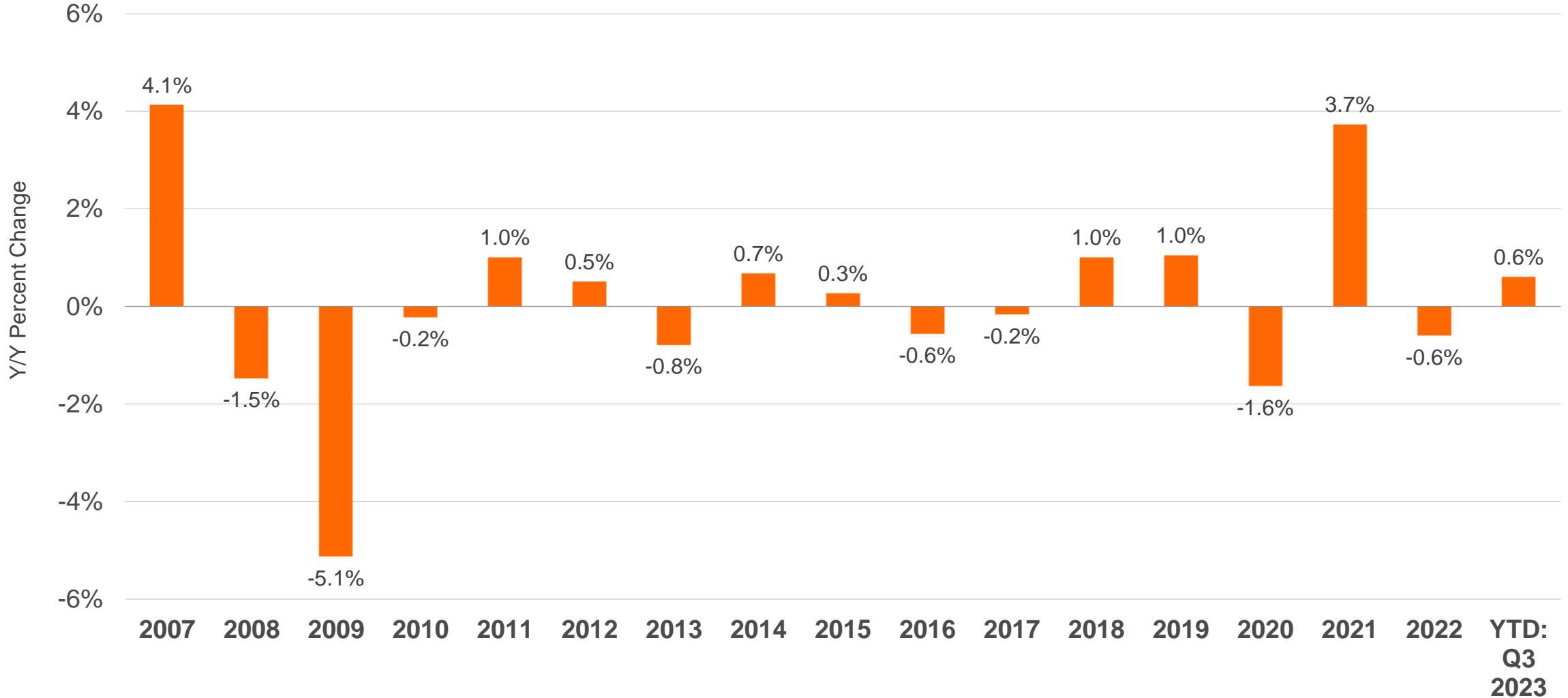
- Overall demand has grown by 0.6% YTD, driven by significant growth in counter-cyclical practices
- It appears this environment has driven different law firm staffing strategies throughout 2023
- Worked rate growth has hit post GFC highs, while inflation has thus far continued to slow
- Taken all together,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



2023 State of the Legal Market

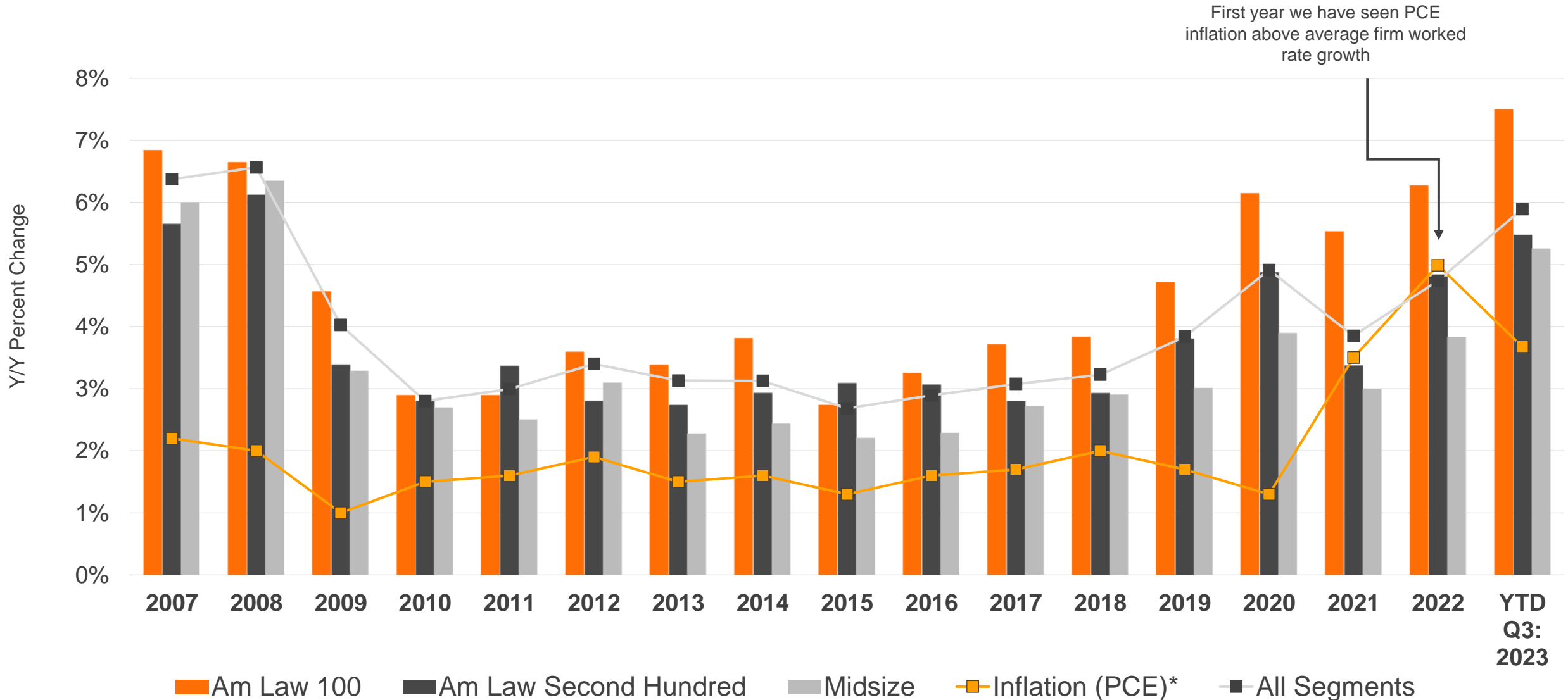
Historical Demand Growth

Demand Growth by Segment	YTD Q3 2023
Am Law 100	-0.6%
Am Law Second Hundred	-0.1%
Midsize	2.1%



2023 State of the Legal Market

Worked Rate Growth



* Updated through Aug 2023

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

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2023 State of the Legal Market

Practice Demand

Demand Growth	YTD Sep
Am Law 100	-0.6%
Am Law Second Hundred	-0.1%
Midsize	2.1%

Rise of Counter-cyclicals

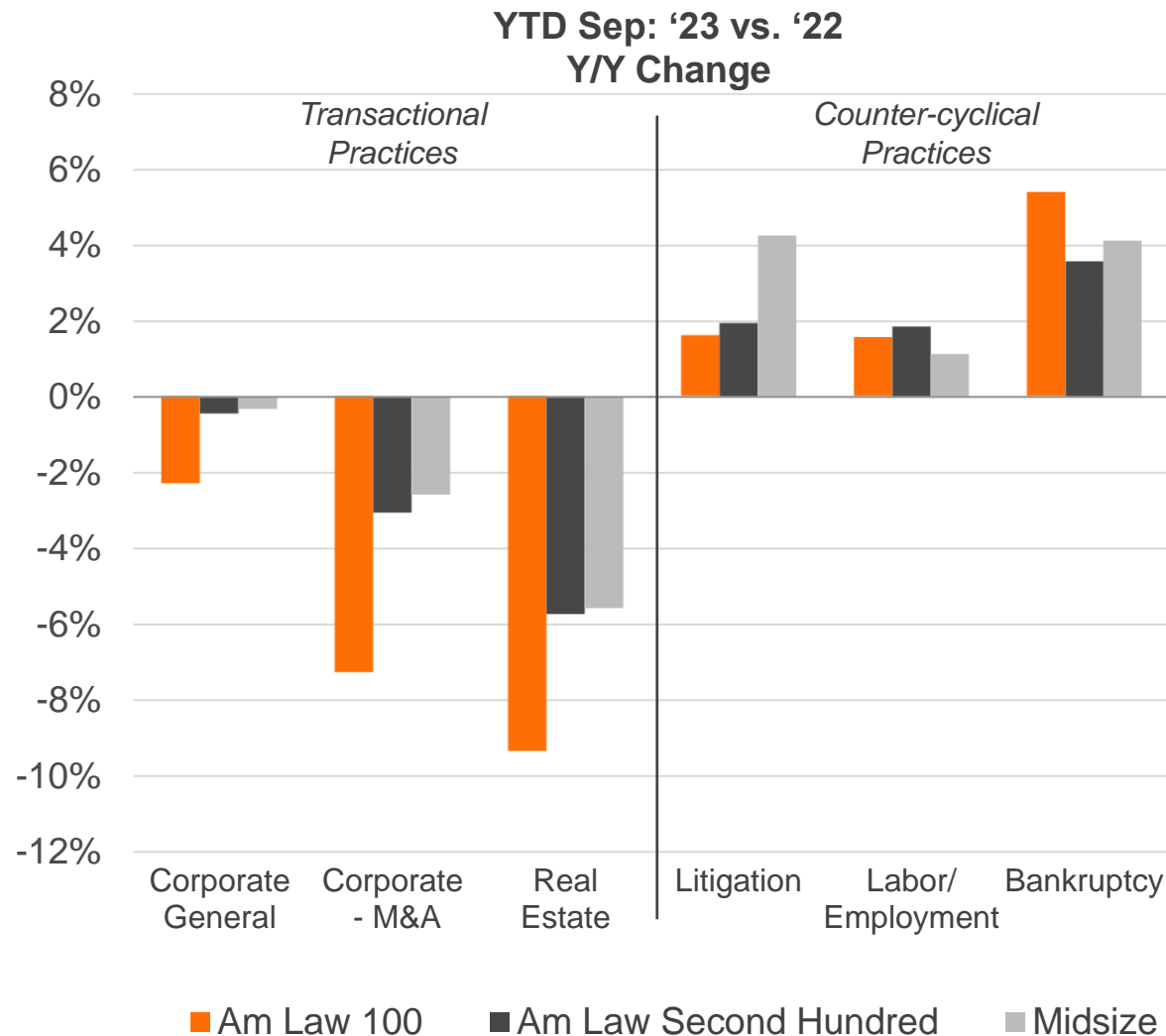
- Litigation's ascent continues to be the most impactful development in 2023. Midsize firms are capitalizing the most, with mobile demand appearing to be a notable factor for this practice, but all segments are benefiting.
- Bankruptcy work continues to accelerate. Am Law 100 firms have been the market 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

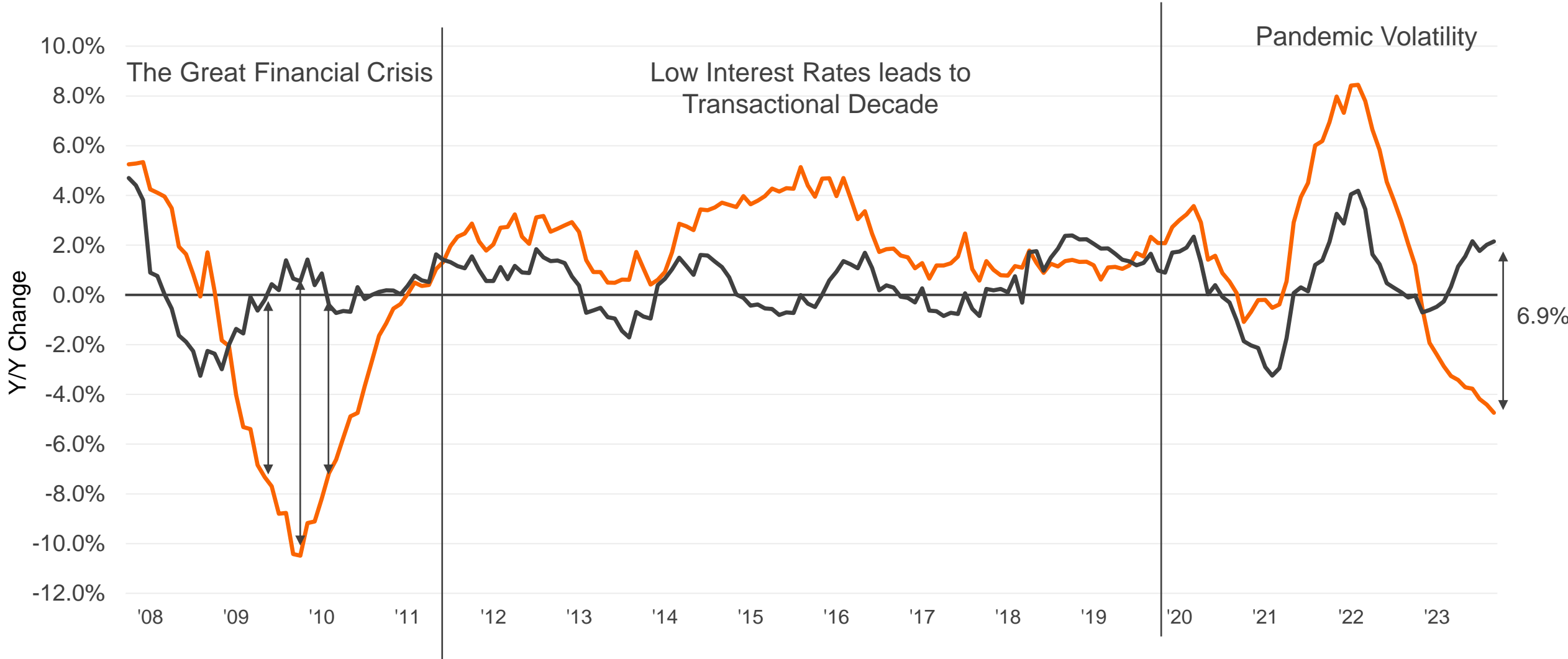
- Tax, M&A, and Real Estate continue to be the primary drivers of 2023's transactional contraction and haven't shown much improvement even as baselines become more favorable.
- While Corporate General has outperformed all other transactional practices all year from an all-firm perspective, smaller firms 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.

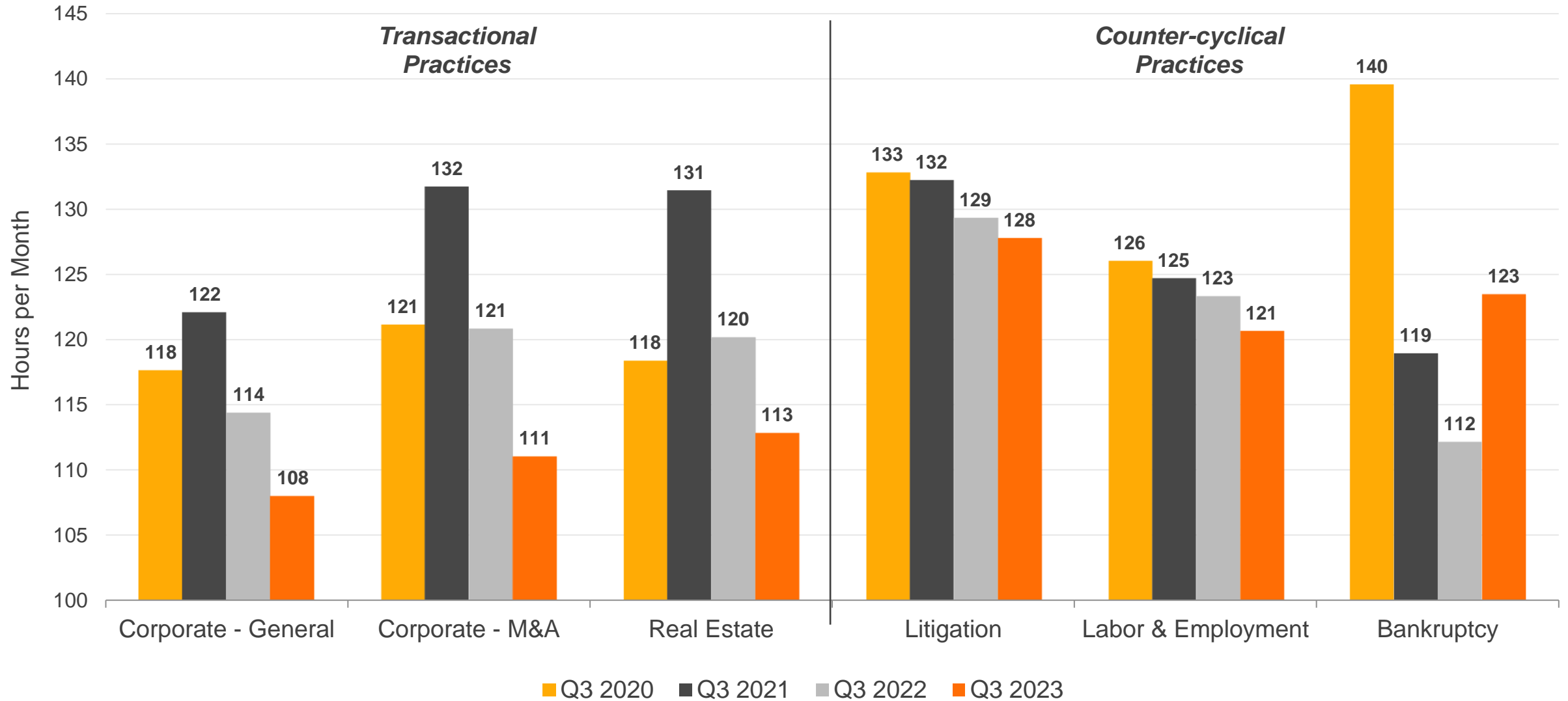


Transactional vs Counter-Cyclical Growth – R12M



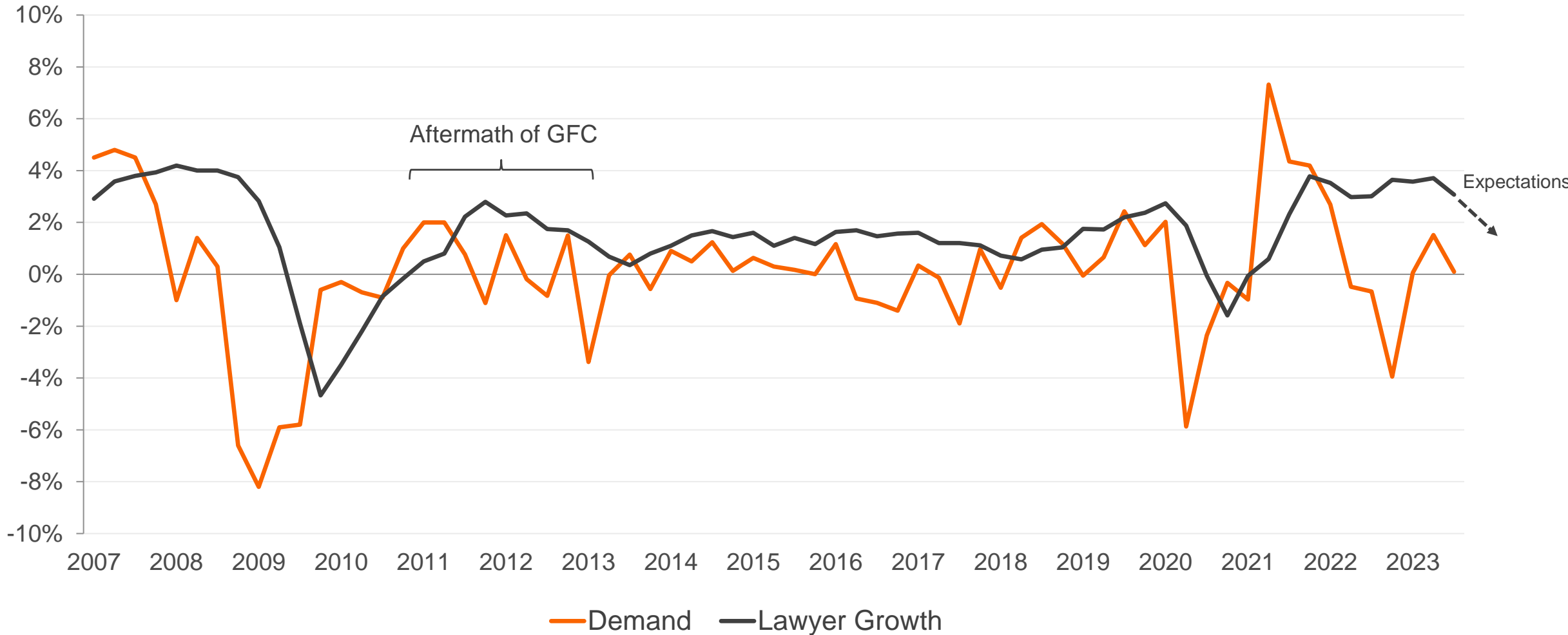
— Transactional (Corporate General, M&A, Real Estate, Tax)
— Counter-Cyclical (Litigation, Labor & Employment, Bankruptcy)

Hours per Lawyer: Q3 of previous years



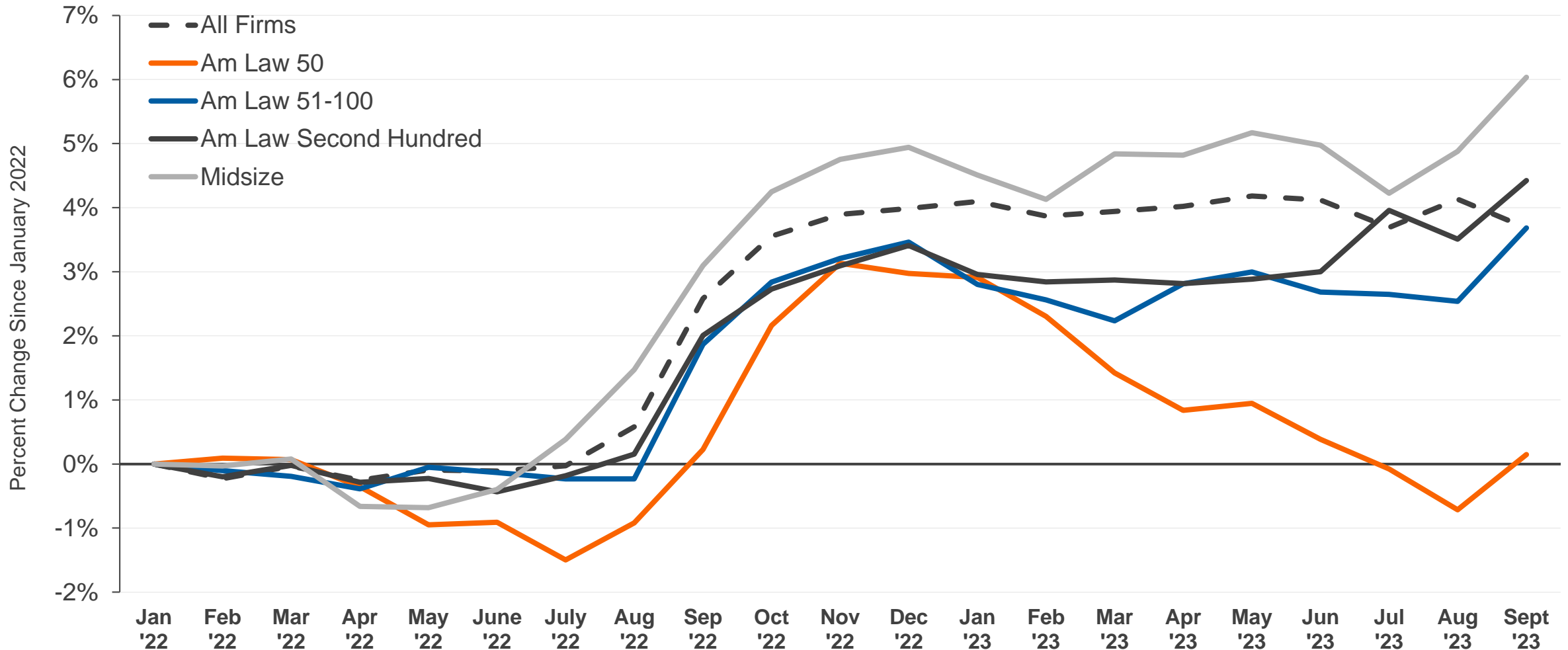
Demand vs. Lawyer (FTE) Growth

Y/Y Change



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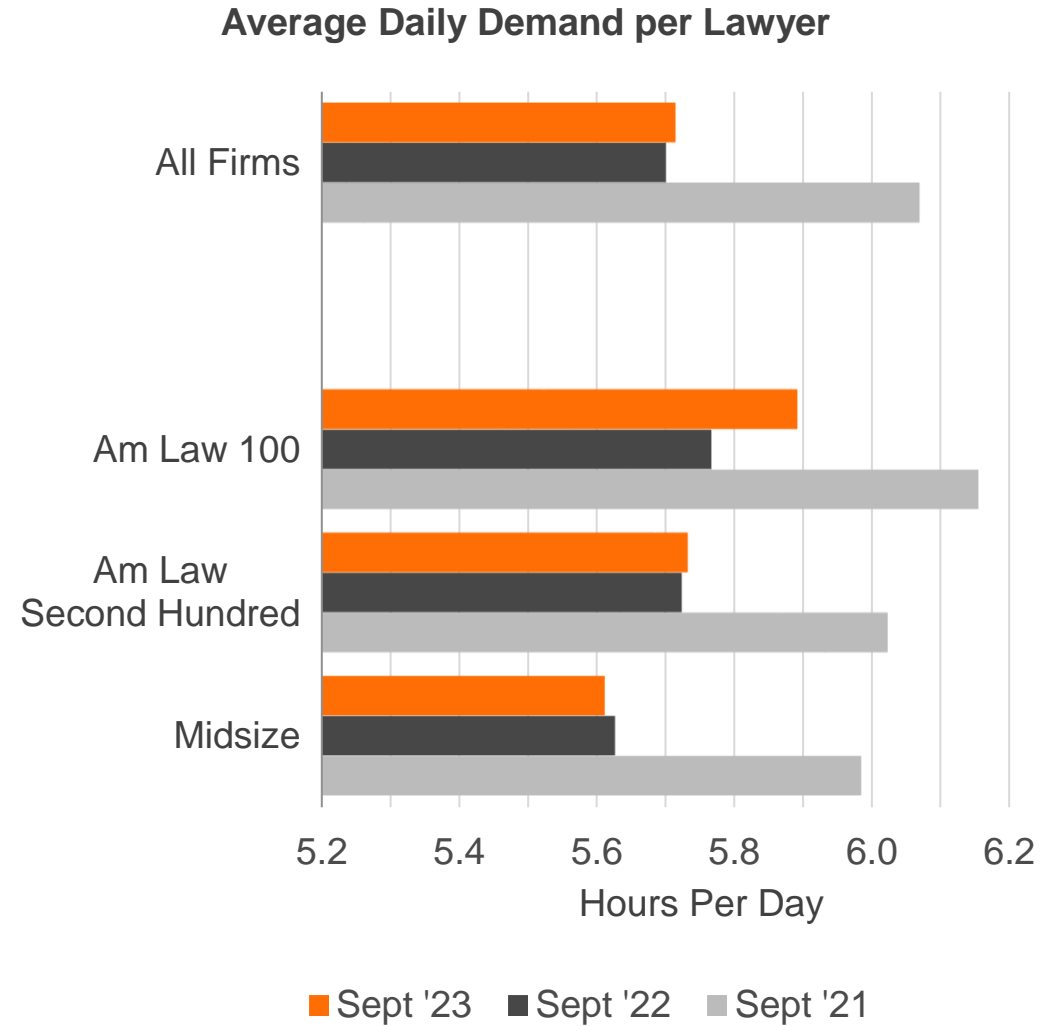
Lawyer FTE Growth – Change Since January 2022



Diverging Strategies – September’s Staffing Decisions

Year Long Actions + Short Term Actions + Demand = Results

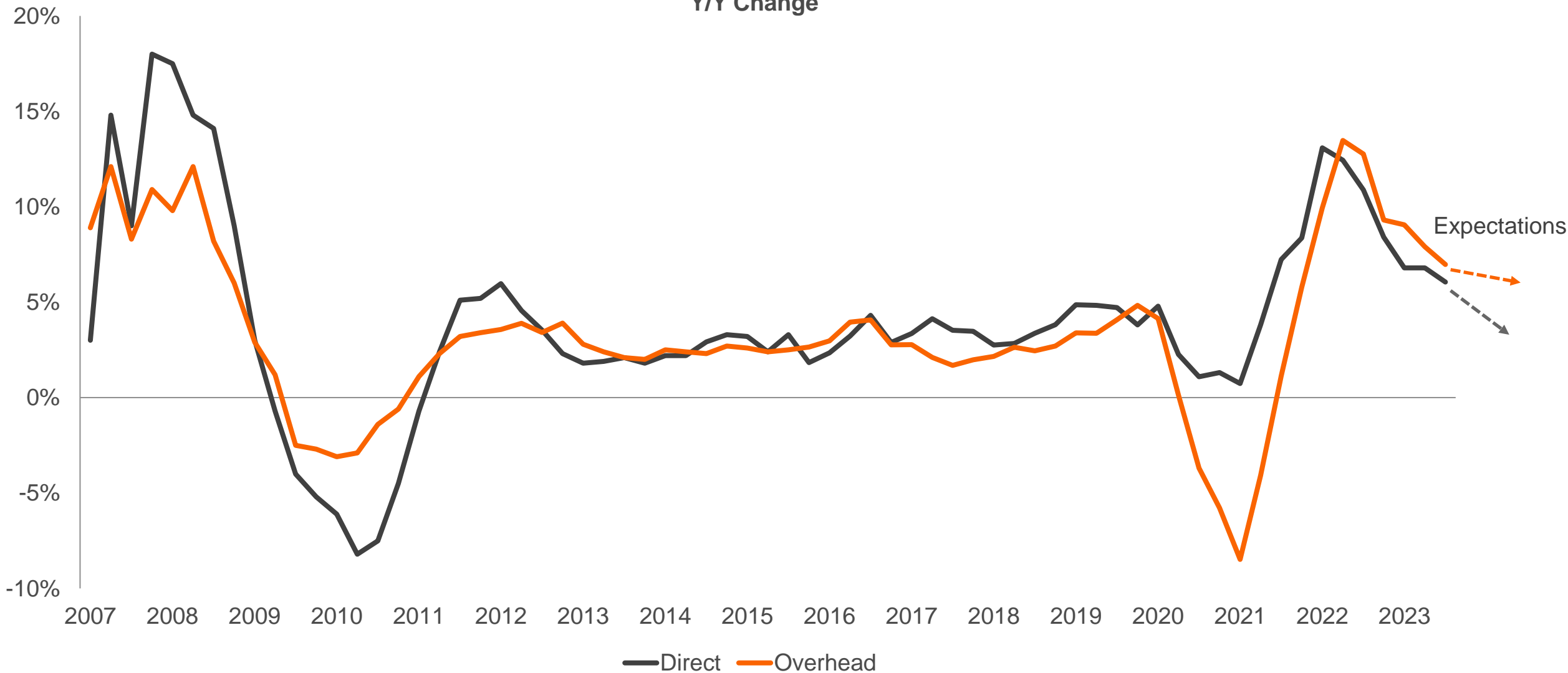
Segment	Associate Headcount Change since Jan '23	First Year Associate Headcount Change Sept '23 vs. Sept '22 & '21 Average
Am Law 100	-1.3%	-16.5%
Am Law Second Hundred	+3.7%	-24.8%
Midsize	+8.2%	-8.8%



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Expense Growth

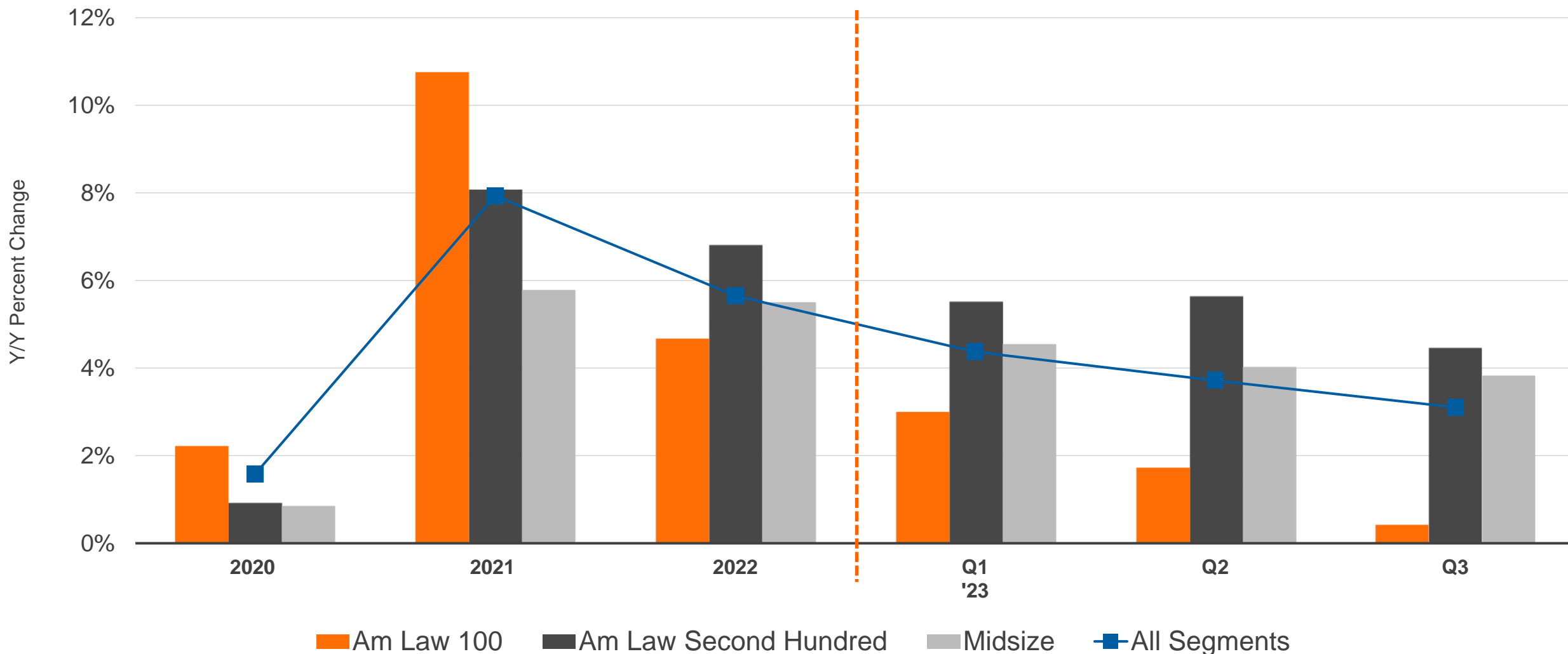
Rolling 12-Month
Y/Y Change



2023 State of the Legal Market

Direct Expense per Lawyer (FTE) Growth

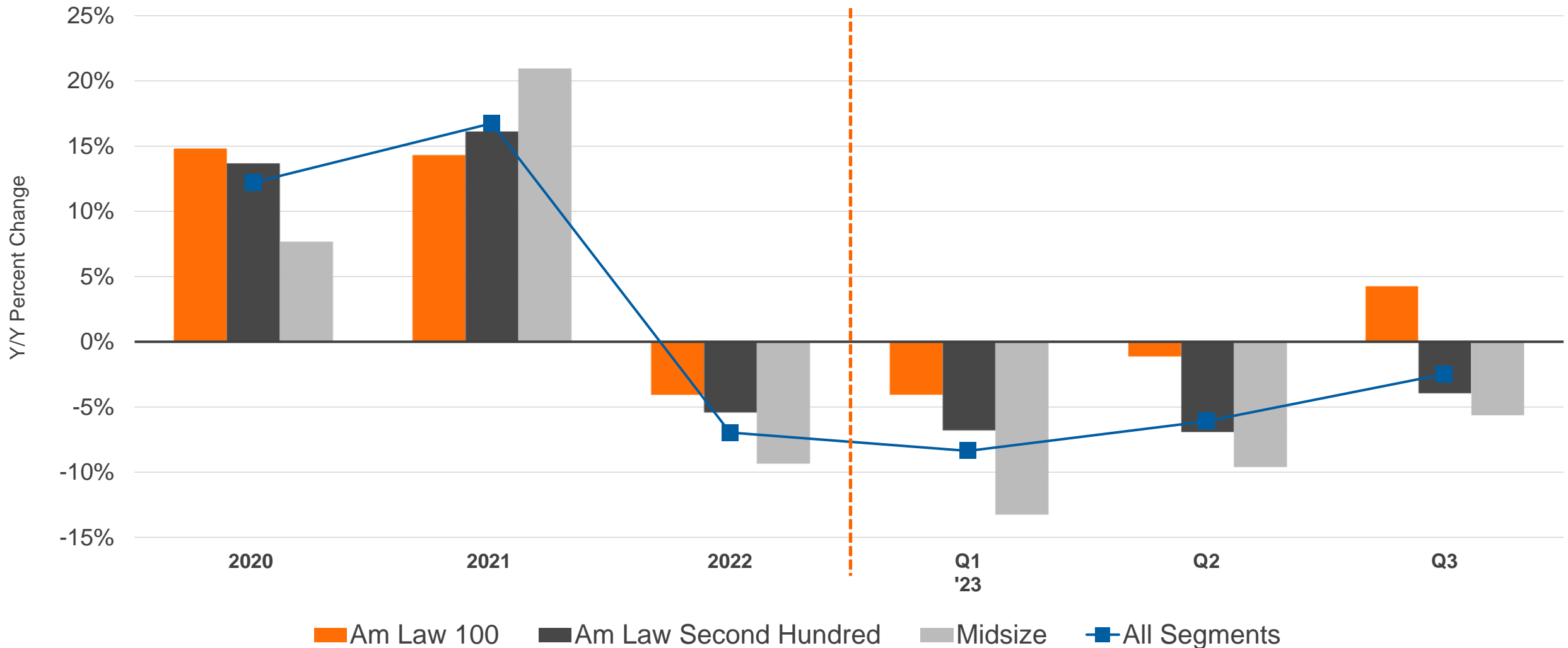
Rolling 12 Month Change



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Profit per Equity Partner Growth

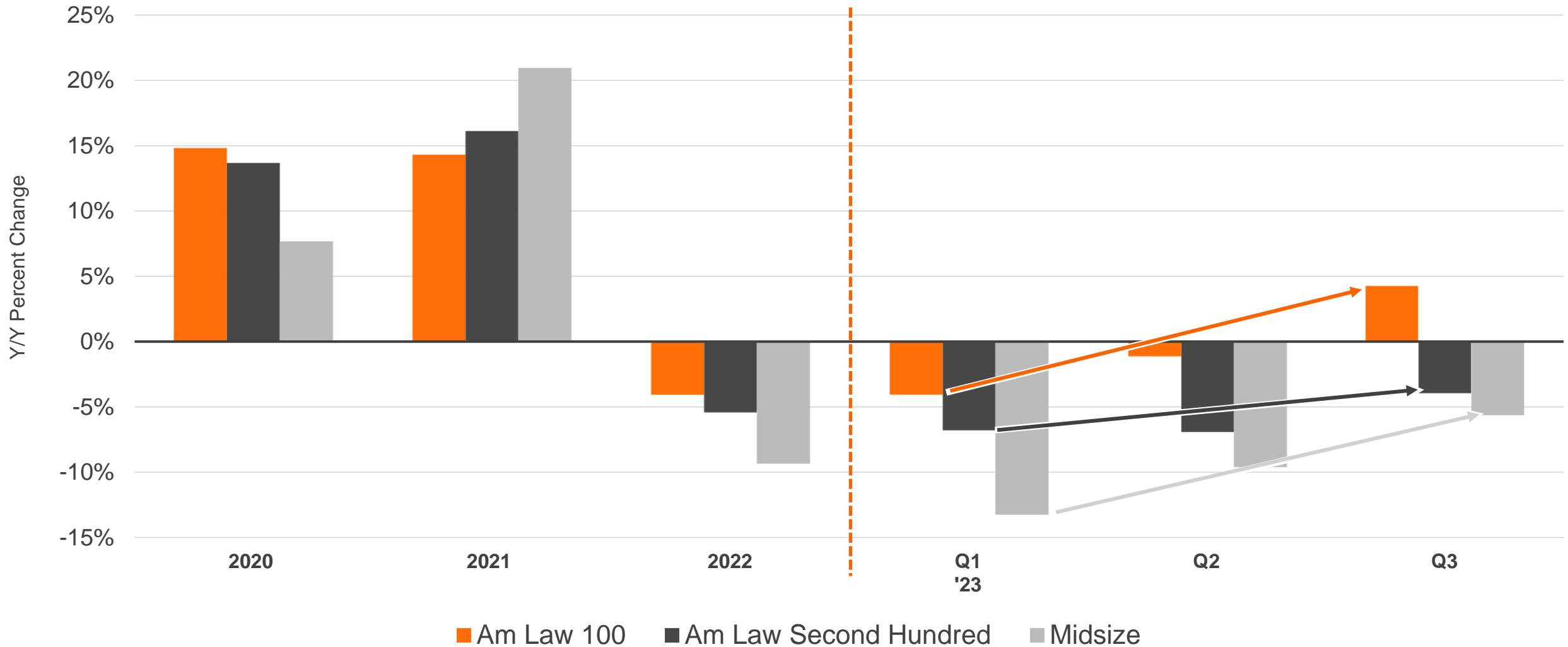
Rolling 12 Month Change



2023 State of the Legal Market

Profit per Equity Partner Growth

Rolling 12 Month Change



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.



Q&A
