BY DAN PACKEL

THE CLIMB CONTINUES

The Am Law 100 reaches new heights, driven by a year of nearly universal growth.

IF 2017 WAS A GOOD YEAR FOR LAW FIRMS, 2018 was better. On the heels of a year considered to be the strongest for the Am Law 100 since the Great Recession, the nation's top law firms took their performance a step further. On aggregate, revenue grew at a muscular 8 percent clip over the last year, hitting a record $98.7 billion. That's well past the 5.5 percent growth rate from 2017, the previous high-water mark in the post-recession new normal.

Beyond gross revenue, the Am Law 100 also saw a jump in revenue per lawyer. When growth in RPL, often considered the best barometer of law firm financial health, slowed to 1.5 percent in 2016, it sowed concern that a slump was brewing. But the overall figure accelerated first by 3.2 percent in 2017 and now by 4.2 percent in 2018, the highest growth since 2010. The average for the Am Law 100 is now at $975,982.

Profits per equity partner haven't been left out of the fun. The average equity partner in an Am Law 100 firm brought in $1.88 million in profits in 2018, a figure that grew 6.5 percent from the previous year.

These results have served to lighten the mood in the country's biggest law firms, where leaders weren't all ready to celebrate, even after a robust industry-wide performance in 2017.

"There's going to be a lot of confidence anytime you string some positive years together," says Eric Seeger, a principal at law firm consultancy Altman Weil. "There is always a degree of skepticism, because the bottom can always fall out. But the people leading large law firms have been through that a time or two."

Illustration by Egle Plytnikaite

BALANCED GROWTH ... TO A DEGREE

For an industry increasingly marked by stratification, a pattern of more balanced growth returned in the last year. While in 2017, the trend of the biggest, richest firms outperforming their smaller peers accelerated, 2018 brought good news across the board.

Robust deal work kept the largest firms busy in 2018, while countercyclical practices, like litigation, helped bolster firms farther down the list. That more universal demand growth coupled with a strong average rate increase of 4.3 percent spurred 2018's success.

One useful way to demonstrate the recent divergence between the giants at the top of the Am Law 100 and their counterparts that haven't scaled up quite as vigorously is to group the firms roughly by quartiles of revenue. For 2018, the top 10 firms accounted for 26 percent of the Am Law 100's revenue. The next 17 firms accounted for the next 25 percent of revenue. Firms No. 28 thru 53 accounted for another quarter of the revenue. And the final 47 firms generated the final 24 percent of the Am Law 100 pie.

In 2017, the top 10 firms fueled the overall growth of the Am Law 100, with their collective success amounting to 38 percent of that year's aggregate revenue increase. While the next quartile contributed exactly one-quarter of the year's growth, the firms ranked 28th and below lagged, particularly the final 47, which only added 17 percent of the total increase.

Last year, by contrast, growth was much more equitable. Sure, the top 10 grew more than any other segment. But their contribution only accounted for slightly over 27 percent of the growth this time around. Firms No. 11 through 27 accounted for 24 percent of the growth, while firms No. 28 through 53 nearly matched the top quartile, at just under 27 percent. For the third straight year, the bottom quartile provided the smallest share of growth, this time at 23 percent.

Gretta Rusanow, head of advisory services for the law firm group at Citi Private Bank, says Citi's numbers from a survey of Am Law 100 firms reflected a similar trend. In 2017, 58 percent of these firms reported growth; in 2018, 74 percent did so.

But the quartile numbers also show that the firms higher up on the list continued to do more with the lawyers that they have on board. Take RPL, for example. The four quartiles delivered RPL growth of 5.5 percent, 5.7 percent, -0.7 percent and -1.9 percent, respectively. In 2017, those numbers were 4.2 percent, 2.8 percent, 2.3 percent and 2.7 percent.

Or look at profitability. While average PEP rose 6.5 percent among the 100 firms, the top 10 firms grew PEP at over 9 percent, and firms No. 11 through 27 grew the figure at 8.5 percent. Gains were significantly smaller in the bottom half: close to 4.5 percent in the third quartile and less than 2 percent in the final quartile.

HOW THE AM LAW 100'S HEAD COUNT CHANGED

Comparison	2018	2017	% Change	Actual Change
Head Count	101,178	97,627	3.6%	3,551
Equity Partners	20,954	20,713	1.2%	241
Nonequity Partners	16,453	15,478	6.3%	975
Percent of partners who are nonequity	44.0%	43.2%	0.8%	—
Percent of lawyers who are partners	37.0%	37.3%	-0.3%	—

FEW LOSERS

Another indicator of the overall health of the industry is the shrinking number of firms posting declines in 2018. While 12 Am Law 100 firms saw their revenues dip in 2017 and two saw double-digit drops, only seven firms on the 2018 list had top-line setbacks, the steepest of which was Baker Botts' 7.3 percent decline.

Baker Botts and Morrison & Foerster were the only two firms in the top 60 to show sagging revenues. The other five faltering firms—Drinker Biddle & Reath; Jenner & Block; Crowell & Moring; Baker, Donelson, Bearman, Caldwell & Berkowitz; and Cahill Gordon & Reindel—were ranked below No. 75.

Meanwhile, two firms—both coincidentally based in Missouri—bounced out of the Am Law 100, although it won't be clear until the release of the Am Law 200 figures whether St. Louis' Husch Blackwell and Kansas City's Shook, Hardy & Bacon exited because their revenue declined or simply did not rise enough to keep pace.

Two new firms nudged their way into the Am Law 100 in 2018. Womble Bond Dickinson arrived via the trans-Atlantic merger between Womble Carlyle Sandridge Rice (ranked 111th in 2017) and the U.K.'s Bond Dickinson, which closed in November 2017. Dorsey & Whitney returned to the list in the 99th spot after a one-year hiatus, fueled by a 9.2 percent rise in revenue.

THE BIG TWO

For the second year in a row, the two firms at the top of the list—Kirkland & Ellis and Latham & Watkins—deserve special notice.

For the second straight year, Kirkland grew its revenue by more than 15 percent, hitting a torrid 18.7 percent in 2018. That produced a top-line figure of $3.757 billion, a new record. The $592 million in revenue added last year equals that of the 64th firm on our list. Kirkland's revenue growth was greater than the total revenue posted by 37 of the Am Law 100. Still, the vigorous growth across the board ensured that Kirkland's success accounted for a smaller share of the list's total growth: 8.1 percent compared with 11.6 percent in 2017.

Latham posted a double-digit top-line increase of its own in 2018, with a 10.5 percent rise bringing total revenue to $3.386 billion. That accounted for 4.4 percent of the total growth among firms in the survey. In 2017, that figure was 5.5 percent.

Dealmaking prowess explains much of this success. According to data from Mergermarket, the two firms ranked first and second for global deals by volume, with Kirkland at 568 and Latham at 360. And in the private equity arena, the two firms were first and second for global deals by value. (Goodwin Procter and DLA Piper handled slightly more of these transactions than Latham, but Kirkland still did more than twice as many as second-place Goodwin.)

ANOTHER RECORD FOR REVENUE

Comparison	2018	2017	% Change	Actual Change
Gross Revenue	$98,748,110,245	$91,442,922,850	8.0%	$7,305,187,395
Revenue per Lawyer	$975,982	$936,655	4.2%	$39,327
Profits per Equity Partner	$1,882,383	$1,767,054	6.5%	$115,329
Compensation–All Partners	$1,283,132	$1,220,485	5.1%	$62,647

PROFITS KEEP CLIMBING

Comparison	2018	2017	% Change	Actual Change
Value per Lawyer	$474,396	$455,820	4.1%	$18,576
Profits per Lawyer	$389,846.12	$374,914	4.0%	$14,932
Leverage	3.83	3.71	3.2%	0.12
Profit Margin	40	40	0	0
Net Income	$39,443,927,642	$36,601,737,380	7.8%	$2,842,190,262
Profits per Nonequity Partner	$519,941	$501,572	3.7%	$18,369

LOOKING FORWARD

The pace of mergers slowed as 2018 drew to a close, a development some analysts say portends a wider slowdown in the global economy. Uncertainties associated with Brexit, the United States' ongoing trade fight with China, and increased activity by regulators are prompting a growing number of experts to predict a recession is likely to begin in 2020.

"Firms are not thinking so much that there won't be another downturn, but that it won't be as severe as the last one, and they have the feeling that they've managed their way through it before," Seeger says.

Rusanow, meanwhile, just finished a set of 83 early peer reviews with Citi's law firm clients.

"The mood is pretty positive. I wouldn't say it's bullish," she says. "The overall feel is that there's not going to be a recession this year."

But with the prospect looming in the not-so-distant future, ALM Intelligence analyst Nicholas Bruch sees a distinction between the present moment and the years prior to the Great Recession. While the recent strong run has put firms on more solid footing to address whatever does happen next, it hasn't been as impressive as the sustained period of double-digit growth firms experienced in the middle of the last decade. At the same time, leaders have done a better job of making difficult decisions to help them weather the storm.

"'We'd love it if we could have another year before the next one wallops us,'" Bruch says, describing what he hears from law firm leaders. One or two more good years means they could handle what's ahead.

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BY BEN SEAL

STATUS SYMBOL

Five years later, the Super Rich list has a familiar look. What helps the elite stay elite?

FOR LAW FIRMS, JUST LIKE THE REST OF AMERica, there's no better path to amassing wealth than to already have a healthy share.

Of the 20 firms that comprised The American Lawyer's first Super Rich class in 2014, all but two have carried their status forward through the years to maintain a spot on our 2019 list, which has since expanded to include 31 firms. Together, they represent the richest of the rich. The way we define this elite group has changed over the years (firms must now post revenue per lawyer of at least $1.1 million and profits per lawyer of at least $500,000), but its founding members have largely held their places. Gretta Rusanow, head of advisory services for Citi Private Bank's Law Firm Group, says it's a sign of the "stickiness" the wealthiest firms experience at the top end of the law firm class structure, even in a year when nearly everyone took a step forward.

"They have the financial resources to be making different decisions and investments than firms not performing at that level," Marcie Borgal Shunk, president and founder of the Tilt Institute, says. "So where an Am Law 200 firm may have to selectively choose among different priorities, the benefit of having deeper pockets is that you can be more exploratory, invest in different options and try more innovation."

This year's list is led by Wachtell, Lipton, Rosen & Katz, whose profits per lawyer ($1.957 million) are more than double the closest firm, even among an exclusive club, and whose revenue per lawyer ($3.207 million) nearly matches the feat. Cooley and Fish & Richardson represent the newest additions to the club. (The only firms from the 2014 list that failed to

Illustration by Egle Plytnikaite

make it this year are Cadwalader, Wickersham & Taft and Cleary, Gottlieb, Steen & Hamilton.)

In the past five years, the 31 Super Rich firms grew RPL an average of 20 percent (compared with 14.6 percent for the rest of this year's Am Law 100), and their PPL grew an average of 26.2 percent (compared with, again, 14.6 percent). Even during a period of strong growth for the industry as a whole, these firms are outpacing the competition.

In some ways, these firms are immune to challenges others face. A lengthening collection cycle was one of the few negative markers for law firms in a successful 2018, Rusanow notes, but the most profitable firms managed to shorten their own collection cycles.

The Super Rich are able to differentiate their brands, she says, by offering clients something different from the bevy of multidisciplinary, large-scale firms that dot the landscape.

"They tend to be focused on a handful of practices that they're extremely strong at," Rusanow says.

Fish & Richardson, for example, managed to join the list this year on the back of its focused intellectual property practice, proving that to gain entry to this select group, less is often more.

"We're well known as an IP specialty firm and as a very good one, and it's a field that is highly valued by our clients," says Peter Devlin, the firm's president and CEO. "They send us their toughest, most complex and highest-stakes work, and that has driven our financial success."

And for firms that have made it into the upper tier financially, that status means they are well-positioned to leverage their financial success to grow in the future.

"As in any industry, the more cash that you have, the more options you have," Shunk says. "And if you're making the right decisions, it can work to your benefit."

There might be something else working in favor of the elite staying elite, some who follow the industry closely say: culture. It may not be the defining reason that the list looks so familiar five years later, but Deborah Farone, a consultant who served as chief marketing officer at Debevoise & Plimpton and Cravath, Swaine & Moore, both of which have been among the Super Rich from the beginning, thinks it plays a bigger role than is often credited.

"Culture has a huge implication for why firms stay successful, and if I were a managing partner I would be focusing not just on strategic planning and practice planning, but also how do I keep a strong culture where people feel supported and feel like they're growing, and partners feel like they're treated well and appreciated for their work," Farone says. "Those things are sometimes undervalued, but we're seeing that they're so vital."

THE RICHEST LAW FIRMS IN AMERICA

Firm	Profits Per Lawyer	Revenue Per Lawyer
Wachtell*	$ 1,957,000	$ 3,207,000
Kirkland*	$ 939,000	$ 1,629,000
Quinn Emanuel*	$ 919,000	$ 1,509,000
Sullivan & Cromwell*	$ 896,000	$ 1,739,000
Gibson Dunn*	$ 826,000	$ 1,392,000
Simpson Thacher*	$ 805,000	$ 1,580,000
Milbank*	$ 786,000	$ 1,420,000
Skadden*	$ 743,000	$ 1,533,000
Cravath*	$ 739,000	$ 1,572,000
Cahill*	$ 732,000	$ 1,240,000
Paul Weiss*	$ 711,000	$ 1,409,000
Davis Polk*	$ 703,000	$ 1,414,000
Willkie*	$ 685,000	$ 1,242,000
Debevoise*	$ 678,000	$ 1,419,000
Latham*	$ 663,000	$ 1,333,000
Fried Frank	$ 662,000	$ 1,333,000
Paul Hastings*	$ 642,000	$ 1,287,000
Proskauer	$ 634,000	$ 1,347,000
Wilmer	$ 632,000	$ 1,337,000
Schulte Roth*	$ 614,000	$ 1,236,000
Weil	$ 580,000	$ 1,307,000
Williams & Connolly	$ 567,000	$ 1,323,000
Cooley**	$ 566,000	$ 1,296,000
Goodwin Procter	$ 566,000	$ 1,255,000
Boies Schiller*	$ 563,000	$ 1,313,000
O'Melveny	$ 561,000	$ 1,190,000
Ropes & Gray	$ 527,000	$ 1,445,000
Fish**	$ 516,000	$ 1,210,000
King & Spalding	$ 510,000	$ 1,167,000
Vinson & Elkins	$ 507,000	$ 1,202,000
Akin Gump	$ 503,000	$ 1,211,000

* Original Super Rich firms. ** New to this year's list.

MARCIE BORGAL SHUNK, PRESIDENT OF THE TILT INSTITUTE, SAYS DEEP POCKETS OFFER FIRMS OPTIONS.

In an era of seemingly constant lateral movement, maybe the key to staying exceedingly profitable as a firm is to develop a culture that keeps exceedingly profitable partners in place.

"While we think and read a lot about the headline lateral moves, firms will also tell us that 30 to 40 other partners may have been approached and made the decision not to go," Rusanow says. "When you ask those firms why that's the case, they talk about their strong culture."

Some of the 31 Super Rich firms have contracted their partnerships in recent years, but on average they added 20 partners in the past five years, including six equity partners. The most profitable firms have a better success rate in hiring laterals, Rusanow says, largely because they add lawyers who enhance the well-defined brands they've already built.

Those brands have been developed carefully over a period of years, but there may be change on the horizon that could unseat some of the country's most profitable firms if they aren't adequately prepared. As Shunk sees it, the generational shift that will see millennials take over the decision-making reins could pose a threat to the assumed status of the industry's elite, who have long been on the receiving end of high-value business brought in, in part, by that status.

"There's a time stamp on it, an expiration date on how valuable that brand is going to be," Shunk says. "Are they offering some authenticity? Are they giving back to the community? Do they have a mission?"

Maybe in another five years we'll have a better sense of whether culture begets profits or the other way around.

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BY MEGHAN TRIBE

CRASH COURSE

How a small group of firms used the recession to chart a new path to success.

BEFORE 2008, MOST LAW FIRMS COULD GET A piece of the pie without much strategy guiding how they got it. And then the pie was gone.

The Great Recession changed the global economy and the legal industry as we knew it. In the decade since, very few firms have had a solid stream of revenue increases, Bruce MacEwen and Janet Stanton of law firm consultancy Adam Smith, Esq. say.

Since fiscal year 2009, only 27 of the 100 firms on the Am Law rankings have had year-over-year growth in revenue, according to ALM Intelligence data.

The firms that are pulling away share some characteristics, Stanton says. They tend to operate in a more business-like way, which means a focus on profitability, intentional planning, strategic intake and succession planning for leadership roles and client management, she says.

"From the 1980s to 2008, law land didn't have to do any of these things, so these firms that are pulling away changed their strategy," Stanton says.

These firms have been able to get it right for nearly a decade, and each had to develop a unique strategy to make it happen. To understand how a select group of firms turned the recession into an opportunity to thrive, not just survive, The American Lawyer spoke with a group of leaders who played a pivotal role in reimagining their firms' trajectories.

CALIFORNIA HUSTLE

Joe Conroy became CEO of Cooley in January 2008. In his first address at a partner meeting, he laid out his plans for the Silicon Valley firm's aggressive growth strategy that included a global footprint and other truisms—or at least what he thought were truisms.

Illustration by Eglė Plytnikaitė

"They didn't throw rotten fruit at me, but it's because they didn't have rotten fruit," Conroy says. "They weren't really buying it."

But he had a fundamental concept he wanted to instill in the minds of the firm's partners: The recession, for however long it would last, presented an opportunity.

Conroy joined the firm in 1999, immediately ahead of the dot-com crash that "should've, candidly, killed a firm that was configured the way our firm was configured," he recalls.

But after the crash, Cooley began rebuilding, trying to dispel the notion that it was simply a West Coast firm. Its strategy—if it had one back then—was to be a better tech firm, Conroy says. It invested in its vibrant emerging companies and life sciences practices and worked with venture capital funds, including fund formation and investment deals. It also looked to invest in its East Coast operations, leading to a 2006 merger with New York litigation boutique Kronish Lieb Weiner & Hellman that created Cooley Godward Kronish, a 550-lawyer national firm.

The firm was cruising along, with its revenue jumping over 44 percent from 2006 to 2007. But when the recession hit, it hit Cooley, like most other firms, hard. Revenue fell 8.2 percent and profits per partner tumbled 11.4 percent from 2008 to 2009. But as Conroy assumed leadership of the firm, he remained steadfast in his conviction that the firm needed to use the recession to separate itself from the pack.

"For us to succeed, we didn't need to outrun the bear," Conroy says. Cooley just needed to outrun its competition.

The recession was the tipping point for bifurcation in the legal industry, and the number of firms that could ably compete for the best business was about to shrink, Conroy says. Cooley developed a strategy of becoming "elite and distinctive"—elite in its finances, branding, clients and geographical coverage, and distinctive in its focus on tech, life sciences and venture capital. And, more important, Conroy adds, it would set itself apart in its representation of high-growth, innovative companies, safe in the knowledge that partnering with the biggest and most powerful companies in the world would allow the firm not only to stay at the forefront of growing fields, but to pedal back as the point of entry into big-ticket work, Conroy says.

That strategy has paid dividends. Since 2009, gross revenue at Cooley has grown nearly 142 percent. Net income has ballooned 168 percent. Revenue per lawyer is up 61 percent. The firm has grown its partnership ranks by nearly half, and still more than doubled its profits per partner in the process.

"This firm is based on hustle," Conroy says. "We've got this business development gene in our DNA and there's this real affinity for the collective rather than the individual."

COOLEY

	2009	2018	Change
Gross Revenue	$507,000,000	$1,226,149,000	141.8%
RPL	$805,000	$1,296,000	61.0%
PEP	$1,170,000	$2,382,000	103.6%
Head Count	628	946	50.6%
Equity Partners	152	225	48.0%
Nonequity Partners	84	94	11.9%

THE WALL STREET WARRIOR

Like Conroy, Brad Karp stepped into his role as chairman of New York City-based Paul, Weiss, Rifkind, Wharton & Garrison just a few months before Lehman Brothers filed for bankruptcy in September 2008. But Karp was in a much different position.

The firm represented—and continues to represent—several of the largest financial institutions that in 2008 were under siege as a result of the global financial collapse. Its litigation team served as lead counsel to JPMorgan Chase/Bear Stearns in lawsuits stemming from the global investment bank's collapse. It defended Bank of America in litigation surrounding its $50 billion merger with Merrill Lynch in 2008. And it also represented Citigroup Inc. in subprime- and credit-related cases, as well as the investment bank's involvement in the Enron and Parmalat fraud cases.

JOE CONROY, COOLEY'S CEO, TOOK OVER IN 2008.

DIEGO M. RADZINSCHI/ALM

"Our firm had record-breaking levels of activity during the financial crisis," Karp says. "Our litigators and white-collar defense lawyers, in particular, worked around the clock for years, handling massive investigative matters and litigations for our Wall Street bank clients."

All that work generated a lot of revenue. The firm took the capital and invested it in its five core practice areas.

"Our goal was to develop market-leading practices in litigation, white-collar defense, public M&A, private equity and restructuring. To achieve this, we needed to make some bold strategic investments and wisely deploy some of the capital we had created," Karp says.

The investment reflected a larger plan implemented by Karp at the beginning of his tenure.

"One of my first actions as chair, back in 2008 and 2009, was to shift resources away from certain niche practices and geographic regions that were peripheral to our strategy and to focus our energies on mission-critical, client-centric practices for a firm centered in New York and Washington," he says.

The firm was able to do it, he says, because "our profitability was soaring at a time when industry profits were plummeting."

Growing client demand also allowed Paul Weiss to make strategic investments in its partnership ranks at a time when most other firms were shrinking ranks. Since 2009, the firm has grown its partnership by 25 percent. Over the same time period, its Wall Street peers—Cravath, Swaine & Moore; Cadwalader, Wickersham & Taft; Davis Polk & Wardwell; Sullivan & Cromwell; and Wachtell, Lipton, Rosen & Katz—have all decreased their partnerships.

"We needed to be certain that we had the necessary resources, especially at the partner level, to handle the work at the highest possible level and impress our clients. This required us to bring in additional talent and invest in the partnership," Karp says. "Pursuing this strategy, at that time, was unconventional."

And adding to the partnership in the firm's core areas has been critical ever since, Karp notes. In the years following the recession, the firm made high-profile additions like top Cravath dealmaker Scott Barshay and Kirkland & Ellis bankruptcy star Paul Basta.

"Our goal is to be the go-to firm, the safe choice, for the most important companies in the world, on their most important matters, where the stakes are highest," Karp says.

PAUL WEISS

	2009	2018	Change
Gross Revenue	$655,500,000	$1,439,775,000	119.5%
RPL	$1,020,000	$1,409,000	38.1%
PEP	$2,690,000	$5,020,000	86.6%
Head Count	653	1,022	56.5%
Equity Partners	116	145	25.0%
Nonequity Partners	0	0	—

A SOUTHERN SUCCESS

King & Spalding chairman Robert Hays led off the firm's year-end partnership meeting reading from a memorandum sent 10 years ago announcing personnel moves made because of the global financial crisis.

"I used that as a caution to say that's something we don't want to do again, and we don't want to be in a position to do again," says Hays, who took over leadership of the firm in 2006.

Historically tied to Atlanta, King & Spalding was in the midst of transforming into a major national and international firm. Then the recession hit.

The firm's relatively thin capital compared with debt at that time was a challenge, Hays says. Strapped with $100 million in debt accrued before Hays became chair, the total quickly ballooned as clients struggled to pay their bills.

"You are so closely tied—and should be—to your clients, and that was an absolute nuclear winter for the industry and the whole economy," Hays says.

Like many other firms staring down the barrel of the recession, King & Spalding was pushed toward layoffs: 37 attorneys and 85 staff. But where conditions may have created mercenary behavior at other firms, King & Spalding's attorneys and staff rallied behind a common mission, committed to a sense of purpose and direction, Hays

DAVID HANDSCHUH/ALM

BRAD KARP BECAME CHAIRMAN OF PAUL WEISS JUST AS THE RECESSION HIT.

says. The firm doubled down on its strengths and tried to be honest and objective about what they were and were not. It resulted in some people self-selecting out of the firm and a portfolio readjustment, he adds.

As industry demand stayed flat for years after the recession, growth became a zero-sum game.

"You had to take market share from other people to grow," Hays says. "It makes people more entrepreneurial than they were, and it makes you feel like you need to bring in people who are more entrepreneurial. And you need to get with your clients and understand the client opportunities at a level that I don't think was done previously."

That planning has launched King & Spalding into the top 25 of the Am Law 100. Since 2009, the firm's gross revenue has grown 86 percent to $1.261 billion, and its profits per partner have grown 97 percent to nearly $3 million.

Perhaps the most important lesson the firm learned was not to take the business climate for granted and to constantly think for the future, Hays says.

"You say to the people all the time, 'You're going to be planting trees but never able to sit under the shade of those trees,'" Hays says. "You've got to have a longer-term perspective."

CREATING THE 'NEW NORM'

As the recession hit, many clients sent letters to their outside law firms.

The letters would typically read, "Dear Mr. Outside Counsel. No increases in any rates for the year 2009—and don't even ask," recalls McGuireWoods executive director Robert Couture, who joined the firm in 2005 after serving as vice president at IBM, Xerox Corp. and Novell Inc.

"We realized our clients were probably more financially stressed by the recession than we were," Couture says. "And I know it's hard to convince a bunch of partners that that's true, but it actually was true."

So McGuireWoods went on the offensive. Its attorneys and leadership met with clients to talk specifically about what the firm could do differently. It even built a marketing strategy with various data points about how it could help its clients.

"We thought we had a pretty unique value proposition," Couture says. "So we used it as an opportunity to expand our market share."

From those conversations, McGuireWoods saw the need for a slew of alternative financial arrangements, Couture says. The majority were fixed-price deals; some were a bit more creative. More than anything else, the recession motivated the firm's shift away from strict hourly billing, he says.

"A pretty high percentage of our work today is alternative fee arrangements," he says. "It was born out of necessity. Our clients needed some assurances and we had the flexibility to do that for them and with them. We knew in the long run that the relationships would endure if we worked with these clients throughout the difficult times, and we did."

The second thing McGuireWoods did was make management changes. In 2006, ahead of the market crash, the firm set out to inject more management into the firm, more than doubling the number of partners engaged in the business. It went from eight to 17 department chair heads, then added two deputy managing partners.

The plan was met with some resistance and concern that the firm was dedicating too much to overhead, but the firm took the longer view, Couture says. The strategic changes allowed McGuireWoods to maintain year-over-year revenue growth since 2009 at a rate near 14 percent.

"The changes we made stuck," Couture says, "and that became the new norm."

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KING & SPALDING

	2009	2018	Change
Gross Revenue	$677,500,000	$1,261,723,000	86.0%
RPL	$850,000	$1,167,000	37.3%
PEP	$1,445,000	$2,847,000	97.0%
Head Count	796	1,081	35.8%
Equity Partners	151	194	28.5%
Nonequity Partners	145	218	50.3%

CHAIRMAN ROBERT HAYS HAS LED KING & SPALDING INTO THE AM LAW 25.

JOHN DISNEY/ALM

BY ROY STROM

THE RATE OF CHANGE

As billing rates rise, clients are demanding discounts and leaving law firms at a loss.

MARCI EISENSTEIN, THE MANAGING PARTNER of Schiff Hardin, is among the few law firm leaders willing to be candid about an issue that affected as much as 45 percent of all Big Law revenue last year.

"There is no one in this business who doesn't provide discounts. No one," Eisenstein says.

Law firms' standard rates are something akin to the prices at a discount jewelry shop, she adds.

"Have you ever seen something not on sale?" Eisenstein asks. "It makes you wonder what's going on."

What is going on might be described as Big Law's discount culture. And it could be considered something of a slow-motion crisis, because it is far more complex, controversial and costly for the nation's biggest firms than what might be expected from a simple request: "Can you knock 10 percent off your rates?"

Sure, that question is nothing new for most Big Law partners. Discounts have been en vogue since the Great Recession, and there is no reason to think they are on the retreat. While discounted rates may feel like a necessary evil in order to win matters, an approach to work that ignores the price can be pernicious. Discounts have led to billions in lost potential profits, made a mockery out of what were once known as standard rates, and contributed to a new level of distrust among clients and law firms.

Start with the lost profits. Altman Weil last year asked firms what percent of their fees were generated under a discount, and the median response among firms with more than 250 lawyers was between 40 and 50 percent. In a separate survey, chief legal officers outlined a similar rebate frenzy. Roughly half received price cuts averaging between 6 and 10 percent.

Illustration by Eglė Plytnikaitė

If 45 percent of the Am Law 100's $98.8 billion in revenue last year was brought in at a 10 percent discount, the nation's largest law firms gave away about $4.4 billion in revenue. To make matters worse, that lost revenue cuts from firms' bottom lines, since law firm costs are fixed. Factoring in that lost income, profits per equity partner in the Am Law 100 would have been $2.1 million last year instead of $1.9 million. To think, some people consider couponing a hobby. It cost the average Am Law 100 partner more than $200,000 last year.

As for the standard rate itself, matters have become more confusing thanks to a chicken-or-egg dynamic: Are rates increasing to counteract discounts? Or are discounts a necessary response to an off-the-rails pricing strategy by law firms?

Data from Thomson Reuters shows standard rates have risen by nearly 40 percent since 2007, which is nearly twice the rate of inflation during that period. But that doesn't mean much on its own, considering there has been a corresponding fall in the portion of that rate that actually gets paid. Realization rates have fallen from 92 percent in 2007 to a record-low 81 percent in 2018, Thomson Reuters reports.

The math works out like this: A $380 standard rate in 2007 turned into $350 in revenue that year, while a $525 standard rate in 2018 equated to $425 in revenue, according to Thomson Reuters data. That 21 percent rise in the actual cost-per-hour of legal work is almost perfectly in line with 11 years of inflation.

If clients and law firms have been finding a relatively reasonable price for Big Law services, the process to get to that point has become increasingly frustrating and burdensome, according to conversations with law firm leaders, pricing professionals, client-side purchasers and consultants.

There is a movement afoot within companies and firms alike to move beyond discounts. Most everyone agrees they largely fail to achieve even what clients are hoping for: price reductions or cost certainty.

"As I tell my clients who are proud of getting a 15 percent discount from their firms: 15 percent of infinity is still infinity," says Ken Callander, a consultant to in-house legal departments who advocates value-based pricing structures. "Discounted rates don't stop firms from billing more hours."

EDDIE RAYCHAUDHURI SAYS DISCOUNT REQUESTS ARE NOW A 'KNEE-JERK REACTION.'

Discounts are a relatively new phenomenon in Big Law. In 2007, law firms received nearly 95 percent of the billing rate their clients agreed to pay, according to Thomson Reuters. That number has been below 90 percent since 2010. It actually rose 0.1 percent last year—the first increase since 2007. For GCs, discounts were seen as an easy way to assuage newfound C-suite level sensitivity to legal costs.

"It's a knee-jerk reaction now to ask for a discount," says Eddie Raychaudhuri, a 10-year veteran of Big Law pricing roles and current chief pricing and legal project management officer at Berger Singerman. "It's kind of like the Groupon mentality: Everybody is asking for discounts on everything they can."

Law firms have been struggling to react ever since the shift kicked in. A couple of years ago, a then-chairman of an Am Law 200 firm received a phone call from a friend who consults for legal departments. The consultant had a client, a Fortune 100 company's general counsel, who wanted to speak with the chairman about some potential matters.

So the chairman, who shared the story under the condition of anonymity to protect client relationships, took the call. The general counsel's first request: "I want to know how you can help me save 30 percent off my legal bills." The chairman felt "sandbagged," but nevertheless began discussing how his firm was working hard to lower its costs. The general counsel redirected the conversation: "No, I want to know how you can lower my costs by 30 percent."

"I suppose I should have just said, 'What's the number and I'll do it for 30 percent less,'" the chairman says, half-joking.

Conversations with clients that explicitly seek discounts on billable rates are not rare, according to law firm pricing professionals. One pricing officer of an Am Law 100 firm estimates that at least one-quarter of the firm's clients express a "need" for a discount.

Another pricing director at an Am Law 100 firm says a client mentioning a discount to a partner in a casual conversation is "the classic example" of how price sensitivity is communicated. Nowadays, the discount discussion has been formalized—and in a way that many pricing directors find stilted. "It has become a game," one Am Law 200 pricing director says.

Some clients have written in 15 percent across-the-board rate discounts in outside counsel guidelines, pricing directors say. Clients ask for "early-pay discounts," where a firm agrees to waive a percentage of a fee if it is timely paid. Often, discounts are baked into formal bids for work. Clients ask firms for detailed lists of their rates by practice group, attorney type and more. RFPs can simply be a fishing exercise meant to extract concessions from an incumbent firm.

"You read between the lines or you hear from a back channel that says, 'We have incumbents and we are just trying to keep them honest.' Or they might say, 'These incumbents are actually in danger of being unseated,'" one pricing director says.

LAW FIRMS IN 2018 RECEIVED ONLY

81%

OF THEIR STANDARD HOURLY BILLING RATES, ON AVERAGE.

Source: Thomson Reuters

Pricing directors are fond of the volume-based discount. If a client agrees to provide a firm with a certain amount and type of work, the firm will agree to a discount. Even though those deals are presumably reached through negotiation, they can nevertheless lead to resentment between a firm and a client.

One high-profile example of that occurred in 2016, when Quinn Emanuel Urquhart & Sullivan ceased participating in ride-share giant Uber's preferred outside counsel provider program, according to court documents unearthed in litigation.

In a letter to Uber's GC, Quinn Emanuel partner Stephen Swedlow wrote that the work the firm was given by Uber was at rates that were not "financially viable" for the firm unless it was also involved in high-value cases. Quinn Emanuel's decision was rare in that it became public, and because most firms would be reluctant to fire a company as large as Uber. But firms are increasingly rebuffing client demands for blanket discounts, according to law firm pricing professionals. Among legal departments with 51 or more lawyers, 65 percent of respondents to an Altman Weil survey said firms are pushing back.

Law firms are reluctant to discuss pricing strategies on the record, wary of creating conflict with clients. But among some pricing directors, there is pent-up frustration not only with clients that ask for discounts, but also other law firms that inflate their rates.

"If we, as an industry, condition our clients to expect a discount on rates, we're conditioning our clients to think of our rates as inflated," says a chief strategic pricing officer who spoke under the condition of anonymity due to sensitivity inside his firm on the topic. Their firm has taken measures to combat discount culture, including requiring that a panel of partners reviews discount requests as low as 1 percent off the firm's standard rate.

Many firms have committees that green-light alternative fee arrangements and discounts. But they vary, and a 1 percent threshold is rare. Some firms, according to interviews with pricing directors, will allow partners to offer discounts as high as 15 percent without consulting the firm.

Timothy Corcoran, a consultant to law firms and legal departments, says clients asking for discounts on certain types of work represent a market signal that the standard rates no longer work. Law firms can respond by better managing costs and deciding what clients still want them to provide, he says.

"Discounting isn't necessarily bad for the firm, particularly if it is a reaction to the market's price pressure," he says. "And in a price-sensitive market, if the client says, 'If you charge me less I will buy more,' then by discounting we might increase our profits."

Still, most law firms are not expecting the billable hour to recede. They are bulking up their pricing professional ranks in an effort to shift conversations with clients beyond the discount and toward shared-risk model, asking pricing officers to broker agreements among partners and clients—a role they might not relish but may need to get used to.

"Part of my job is rate conservation," one pricing officer says. "My theory is once you give out that discount, you're never getting it back."

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BY HUGH A. SIMONS AND NICHOLAS BRUCH

OUT OF BALANCE

Big Law's international tilt has gone too far. A restructuring beckons.

WHILE THE AM LAW 100 RANKING TELLS US about the comparative financial strength of individual firms, a look inside the firms—specifically at the number of lawyers by office—reveals an important dynamic affecting the financial outlook of the industry: Since the last market peak, in 2008, the 50 largest U.S. firms contracted by 3,000 lawyers in the United States while growing by 8,700 lawyers abroad. As a result, international lawyers now comprise 35 percent of total Am Law 50 lawyers, up from 24 percent a decade ago.

This tilt toward overseas markets puts a drag on firm-average profitability. The drag caused by the lower price point and billed hours of international markets is well known, but it has been compounded over the past decade by so many of the Am Law 50 growing internationally at once, thereby increasing competitive intensity and dramatically shifting market power to clients. The lower profitability of international markets is an issue for partnerships with firmwide lockstep compensation because it leads to U.S. partners effectively subsidizing the compensation of their overseas brethren. As firms shift lawyers to international markets, these subsidies have grown. The growth can be overlooked in the froth of today's market, but it will cause severe tension when the economy turns. This is more than a matter of fairness among partners; it's a matter of strategy. Substantial, sustained subsidies augment the risk of the highest-value U.S. partners being lured away by domestic rivals. Wise firm leaders are getting out in front of these issues now.

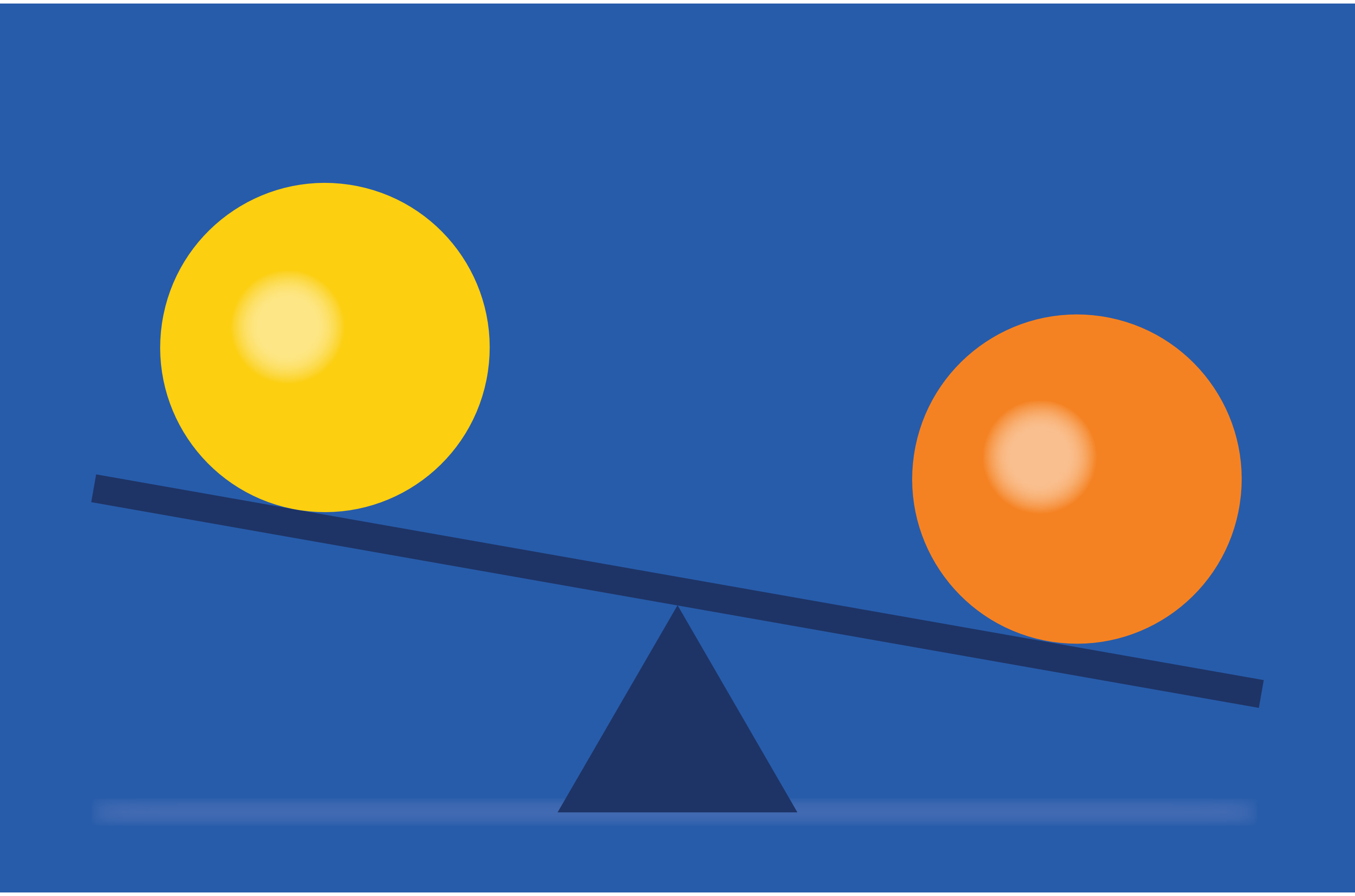


Illustration by Roberto Jiménez

BIG LAW'S INTERNATIONAL TILT

The major U.S. markets have all lost head count among the Am Law 50. Chicago is down 890 lawyers; Los Angeles is down 540; Washington, D.C., is down 300; and New York is down 260.

The Chicago number represents an aggregate 20 percent contraction, led by 100-plus lawyer declines at DLA Piper, K&L Gates, Mayer Brown, Sidley Austin, Winston & Strawn, and McDermott, Will & Emery. Likewise, the LA contraction equates to almost 20 percent, and is led by a 100-lawyer decline at Latham & Watkins; an 80-lawyer decline at Paul Hastings; and 50-plus lawyer declines at Arnold & Porter Kaye Scholer (based on the sum of the predecessor firms' lawyer numbers), Jones Day, and Skadden, Arps, Slate, Meagher & Flom.

The Washington and New York dynamics are different. Unlike the largely across-the-board declines in Chicago and Los Angeles, some firms there grew while others shrank. In Washington, for example, while Wilmer Cutler Pickering Hale and Dorr contracted by over 200 lawyers, Squire Patton Boggs by 170, and Akin Gump Strauss Hauer & Feld by 100, others grew. Cooley; Gibson, Dunn & Crutcher; Paul, Weiss, Rifkind, Wharton & Garrison; and Quinn Emanuel Urquhart & Sullivan each added 60-plus lawyers.

In New York, the numbers show the major inroads made by non-native firms. Kirkland & Ellis grew by 175 lawyers, Gibson Dunn by 140, and Quinn Emanuel by 110, while many indigenous firms saw large declines, including Skadden by 220 lawyers, legacy Kaye Scholer (now combined with Arnold & Porter) by 170, Weil, Gotshal & Manges by 160, Debevoise & Plimpton by 100, Proskauer Rose by 90 and Willkie Farr & Gallagher by 80. Paul Weiss and Davis Polk & Wardwell are notable exceptions among the indigenous firms in that they grew, adding 160 and 75 lawyers, respectively.

London stands out among the international markets. Forty-six of the Am Law 50 now have offices there, an increase of six since 2008. These offices are home to 6,300 lawyers, making London the third-largest market (just 1,000 behind second-ranked Washington, and 2,400 ahead of fourth-ranked Chicago) by lawyer head count. London has 2,350 more Am Law 50 lawyers than a decade ago, or 1,300 more if one chooses to exclude Hogan Lovells and Norton Rose Fulbright from the increase. After London, there is a long tail of markets with sizable increases: Paris, Hong Kong and Sydney each added 500 lawyers; Singapore increased by 370; Mexico City and Munich each grew by 270; and Melbourne, Frankfurt, Sao Paulo, Milan, Toronto, Dubai and Madrid all added more than 200.

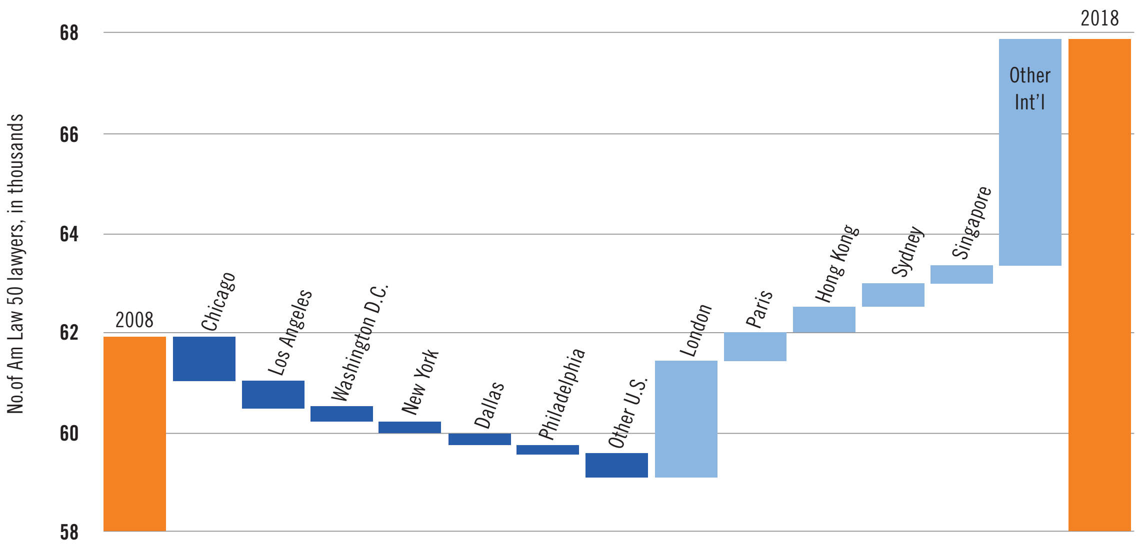
It is noteworthy that Am Law firms grew differently in international markets than in domestic markets. Unlike the more mixed results in New York or Washington, growth in international markets is consistent across nearly all firms. For example, 38 of the 40 Am Law 50 firms with offices in London in 2008 added lawyers. The enabler of such consistent growth is, of course, intensive lateral hiring from indigenous firms.

In total, 22 of the Am Law 50 shrank at home while growing abroad. A further 16 firms, for a total of 38, added fewer lawyers at home than they did overseas.

In total, 22 of the Am Law 50 shrank at home while growing abroad. A further 16 firms, for a total of 38, added fewer lawyers at home than they did overseas, thus increasing international operations as a portion of the total business. Big Law's international shift is broad-based, and not driven by just a few firms.

To interpret the data, it's worth looking at how firms cluster when placed on a graph (p. 44) showing both domestic and international head count change since 2008. Group 1 includes the firms that come to mind when one thinks of fervent international growth: Hogan Lovells is the product of the 2010 combination of Washington-based Hogan & Hartson with London-based Lovells; Squire Patton Boggs merged in 2011 with Hammonds, a

DOMESTIC CONTRACTION AND INTERNATIONAL EXPANSION



Data is based on 2018 Am Law 50 firms. Columns at left and right are total Am Law 50 lawyers in 2008 and 2018, respectively; floating bars in between show cumulative changes from 2008 to 2018 by city. Data source: ALM Intelligence.

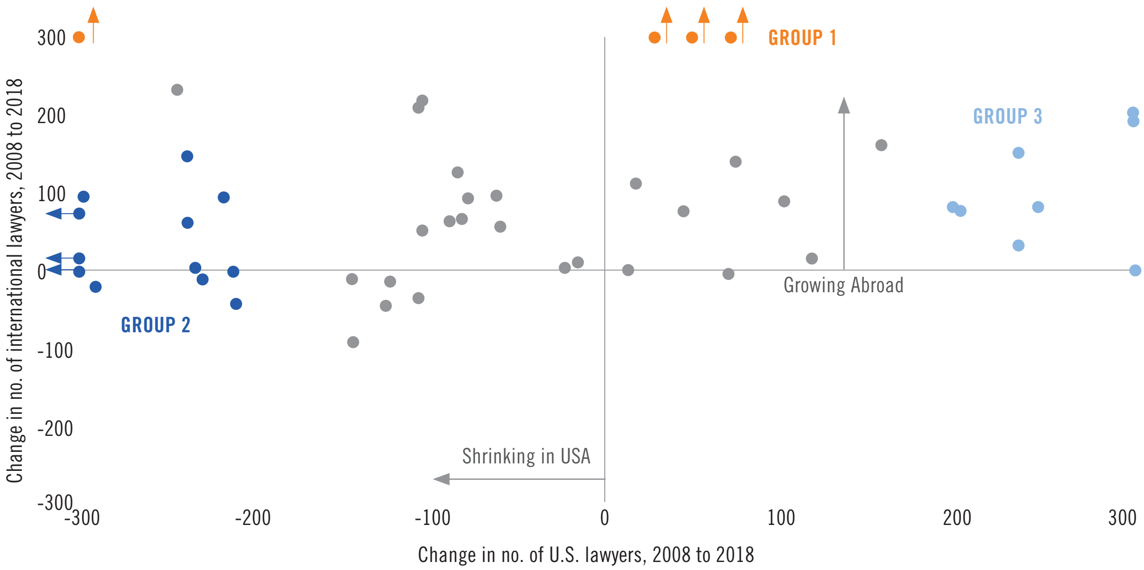
Leeds-based U.K. firm with a broad European presence; K&L Gates combined with Australian firm Middletons in 2013; Fulbright & Jaworski joined U.K.-based Norton Rose in 2013 to form Norton Rose Fulbright. These combinations produced international growth of 300-plus lawyers at each firm. However, for four of the five firms, this growth doesn't create partner subsidy issues because they are structured as vereins, thus sequestering each entity's profit pool for local distribution.

Group 2 includes firms that that would face more keenly the issue of growing cross-subsidies, to the extent that they operate with vestigial lockstep compensation systems. They all shrank by over 200 lawyers in the U.S. since 2008—Skadden by 460, and each of McDermott, Weil Gotshal, and Wilmer by about 300. While U.S. contraction alone would decrease high-profit U.S. operations as a share of total business, for five of the group—Dechert, McDermott, Akin Gump, Weil Gotshal and DLA Piper—this dilution has been deepened by the addition of 50-plus international lawyers.

Group 3 includes firms that are bucking the trend. With 200-plus lawyer growth in the U.S., these firms have all added more lawyers domestically than internationally. It's perhaps not surprising to find among this group the perennial strong financial performers of Kirkland & Ellis, Gibson Dunn, Quinn Emanuel and Paul Weiss. In this group, too, are Covington & Burling, Cooley and Perkins Coie. This troika share the distinction of each recording their strongest lawyer growth in their Washington, D.C., offices.

For Covington, this suggests a doubling down on its existing practice strengths in life sciences, financial services regulation and government. For Cooley, it's perhaps a regulatory tie-in to its life sciences practice. Similarly for Perkins Coie, D.C. growth may reflect the growing importance of International Trade Commission litigation and Patent Trial and Appeal Board proceedings to its technology and startup clients, and was accompanied by a doubling down on its strength in the West, with growth in Denver, San Diego, San Francisco and Seattle. Morgan, Lewis & Bockius is

HEAD COUNT TRENDS FOR INDIVIDUAL AM LAW 50 FIRMS



Group 1 includes K&L Gates, Hogan Lovells, Baker McKenzie and Norton Rose Fulbright. Group 2 includes Dechert, McDermott, Akin Gump, Weil, DLA Piper, Skadden, Arnold & Porter, Wilmer, Foley & Lardner, Paul Hastings and Morrison & Foerster. Group 3 includes Kirkland, Morgan Lewis, Quinn Emanuel, Covington, Cooley, Gibson Dunn, Paul Weiss and Perkins Coie. Data source: ALM Intelligence.

perhaps an anomaly in this group—much of its domestic growth came from the remnants of Bingham McCutchen; quizzically, Bingham's strong Chambers rankings in banking and finance, financial services regulation and bankruptcy/restructuring did not make the transition.

THE CHALLENGES AHEAD

Legal market commentators have been pushing the need for firms to become more global for years. The logic seems to be that the business world is getting more global, so U.S. law firms should, too. This is dangerously simplistic, and worth unpacking.

First, this logic rests on the premise that clients prefer to source from one firm globally rather than to source from separate firms locally (which may be stronger in particular areas) and then integrate their services themselves. In business school parlance, this is referred to as preferring the "one-stop-shop" to the "best-of-breed" solution. The reality is that there are situations where each is the preferred client approach.

Importantly, however, the one-stop-shop is preferred when a client feels no particular need to use local best-of-breed providers. This is the case for relatively routine work where many providers are considered capable, such as commodity work. For the differentiated work that elite firms seek to provide, it is neither logical nor commonplace for clients to choose the one-stop-shop approach.

There's also an underappreciated human element. Clients had well-established local counsel relationships in international markets before the U.S. firms arrived and grew. At many clients, local personnel get to decide which law firms to use. They have no particular incentive to use a newly grown U.S. firm whose name has no brand resonance and whose close ties to U.S. corporate personnel may be perceived as a way for "corporate" to impinge on their autonomy.

This leads the U.S. firms to focus their lateral hiring on partners perceived as having local client relationships that can be ported to their new firm. It's a small target group, creating aggressive competition.

As a result, the business case for hiring the lateral isn't always fully tested and the compensation offered is often pushed beyond what's justified. Dicey business cases and exuberant compensation create poignant examples of the broader trend toward U.S. partners subsidizing the compensation of their international brethren.

Beyond lateral hiring, competitive intensity between U.S. firms is a major determinant of the financial performance of investments in international markets. More competition translates to lower volume (as the fixed pie of client mandates is split into more pieces) and softer price realization. The simultaneous international growth by so many firms has intensified competition overseas. To quantify by how much, we calculated a concentration index for Am Law 50 lawyers by city, akin to the Herfindahl-Hirschman Index (HHI) from antitrust law (it is the sum of the square of each firm's share of the total number of Am Law 50 lawyers in the city multiplied by 10,000). As expected, the index shows that concentration fell for 23 of the 25 largest international markets; for 14 of these 23, the reduction was by more than 200 HHI points, which is the benchmark level by which the Federal Trade Commission considers an increase to show enhanced market power. A decrease of the same magnitude thus represents a significant loss of market power. In short, there is clear evidence that the Am Law 50's simultaneous international growth has disadvantaged firms economically by ceding bargaining power to clients.

Perhaps counterintuitively, the same intensification of competition—and hence ceding of market power to clients—has happened domestically. How can this be if the overall U.S. market has shrunk in terms of number of lawyers? Simply put, while the total number of Am Law 50 lawyers in all the major U.S. markets has gone down, those lawyers are now distributed across more firms. The effect on domestic competitive intensity and bargaining power is surprisingly close to that of its international counterpart: 21 of the top 25 domestic markets are now less concentrated than they were a decade ago. For 14 of these 21, the reduction is greater than 200 HHI points.

This analysis has two important corollaries. First, it debunks the widespread perception that the market is consolidating. The very opposite is true. At the individual city level—where rivals actually duke it out—the market is fragmenting. It also highlights a flaw in the strategy understanding of some market commentators. The essence of a successful strategy is to get away from competition as much as possible, because competition decreases volume and erodes pricing; the exhortation to individual law firms to look like other firms by adding offices and practices is the perfect obverse of sound strategy.

21 of the top 25 domestic markets are now less concentrated than they were a decade ago. For 14 of these 21, the reduction is greater than 200 HHI points.

THE RECKONING

It's going to happen. The business cycle will turn and profit pools will contract. Partner attention will be drawn to the lack of balance between partner compensation and economic contribution, and hence to international offices. Emotions will run high. Changes will be sought by U.S. partners on two dimensions: paring back offices internationally and aligning compensation systems more closely with economic contribution. There will be an intense questioning of firm leadership on these issues. Wise leaders are getting their responses, and their action plans, ready.

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BY CHRISTINE SIMMONS

MODEL BEHAVIOR

Despite mounting challenges, Cravath and Wachtell's lockstep approach still delivers.

GLOBAL M&A DEAL VOLUME REACHED NEARLY $4 trillion in 2018—a hot year for the most lucrative practice at elite law firms. For two of those firms, Wachtell, Lipton, Rosen & Katz and Cravath, Swaine & Moore, the boom pushed profits per equity partner to new heights—$6.53 million at Wachtell and $4.62 million at Cravath.

Wachtell and Cravath remain small compared with their mega firm competitors, helping them boost profits even more. Wachtell, with 267 attorneys last year, and Cravath, with 519, each operate largely from a single office, setting them apart from the other Am Law 100 regulars in the M&A league tables.

Other key traits have become part of their legacies, defined their brands and perhaps fed into their success: They each have a one-tier partnership; they rarely hire laterals (and when they do, it's not to gain a book of business); and they utilize a traditional lockstep compensation model to pay partners by seniority.

Wachtell and Cravath have retained their twinned models amid increasing competition with global firms, which are betting on scale and lateral hires to gain more market share—often with stunning success. In the last decade, firms with competing M&A practices have approached or sailed past 2,000 attorneys. Several of these competitors are growing their presence outside the United States, offering a one-stop-shop model for global clients.

Meanwhile, Cravath and Wachtell still have their usual competitors on Wall Street. Sullivan & Cromwell, for example, has more than 800 attorneys and 13 offices and continues to rank high in deal volume, proving that a moderate growth strategy on Wall Street—without lockstep—can be just as successful.

vectorfusionart/Shutterstock.com

Even with just one office, the bulk of Wachtell's M&A practice consists of representing principals in deals, as it doesn't seek out representing banks in transactions—typically a plum spot for a firm. Wachtell ranks first in Bloomberg's 2018 league tables in representing principals in global announced deal volume. (As a comparison, law firms representing financial advisers in a deal earn a fraction of the legal fees.)

With their relatively small footprints and their lack of lateral hires, both Cravath and Wachtell have traditions of deep investment in associate training. (They compensate associates similarly, though Wachtell is slightly above the market set by Cravath, paying first-year associates $195,000 to Cravath's $190,000.)

"Our whole model is built on the importance of the entire platform," Cravath's presiding partner, Faiza Saeed, says. "You can always have some high-quality individuals, but consistency across a platform requires an incredible amount of effort and investment, and that's what we think of as our brand value."

"You sacrifice consistency across the platform if you grow too fast, and it's very difficult to do that kind of investment at a large scale," she adds.

"Being a smaller, collegial group of partners, not competing with each other, is a benefit to our clients." —Adam Emmerich

Over time, the firms have doubled down on their single-office strategy. While Cravath has a few partners in a London office, it closed its Paris and Hong Kong offices years ago. Cravath previously had a Washington, D.C., outpost, which spun off to become a predecessor firm of Wilmer Cutler Pickering Hale and Dorr.

Wachtell has previously considered other locations, including London. It had a small office in Chicago, but closed it about two decades ago, according to John Coates, a former Wachtell partner who teaches corporate law and M&A at Harvard Law School.

Saeed says she doesn't ever see Cravath, which is celebrating its 200th anniversary this year, practicing anything other than U.S. law. But legal market observers continue to question the firm's plans on the West Coast, where significant work has emerged, including deals involving Disney, Dreamworks and Starbucks, and litigation for PG&E and Qualcomm.

"We're very, very present there, without being physically present there with an office," Saeed says. But she won't comment on whether the firm will open a California office in the near future.

Cravath and Wachtell's ability to remain prosperous in an industry shifting in other directions is a testament to the models they've built, but as the challenges before them mount, their continued success, once as certain as their clearly defined structures, is no longer guaranteed.

ASK CRAVATH OR WACHTELL WHY THEY CHOSE THEIR lean strategy and the key word is quality—implicitly suggesting their larger competitors are at a disadvantage.

"Our approach works for us and our clients, and it hasn't held us back," Wachtell partner Edward Lee says. "If you look at our experience, you will see a very significant portion of our business is cross-border. We have a truly global practice and we think New York is the ideal center from which to operate across the world."

Adam Emmerich, another Wachtell partner, says the firm believes its "one-office, one-team, collaborative approach," working with other lawyers around the world, "has been a tremendous advantage" for clients.

WITHOUT A FAR-FLUNG PARTNERSHIP, CRAVATH and Wachtell grab cross-border deals by leaning on long-standing networks with local counsel in other jurisdictions.

When Cravath advised Disney on its acquisition of Twenty-First Century Fox, including the battle over British broadcaster Sky, the firm worked closely with Slaughter and May in the U.K.

"It's just one example how on really critical, bet-the-company-type matters, we feel as comfortable with those relationships as we do with our partners," Saeed says. "There's probably no jurisdiction in the world where we don't have a very good relationship—that is a lawyer we actually work with and know very well.

"We think we deliver the best value to our clients when we can say, 'We're not trying to get you to use our partner in London or Paris because it's someone we acquired when we were growing the firm's footprint, but, rather, we're going to get somebody like us in that country," she adds.

Similarly, Emmerich says Wachtell works with firms it has "long-standing relationships with," as the need arises. "We think that working in partnership with the best firms around the world, when transactions demand that, is the best solution for our clients. We are able to assemble the best team, with the most relevant experience," he says.

DAVID HANDSCHUH/ALM

"Whatever behavior you incentivize, you get more of. We want people to focus on the work product." —Faiza Saeed

Wachtell's connections with overseas firms remain strong partly because those firms don't consider it to be a business threat on other matters. Coates, at Harvard, says he sometimes poses a question to law firm partners who attend his seminars: If their own firm had a conflict on a client matter and had to refer it to a global firm or Wachtell, which would they choose? "They always pick Wachtell," he says, because they believe the firm won't try to take the whole client relationship.

PARTNERS AT CRAVATH AND WACHTELL BELIEVE A key part of their firms' success is their lockstep system, which doesn't factor in business generation.

"Being a smaller, collegial group of partners, not competing with each other, is a benefit to our clients," Emmerich says.

"We're all rowing in the same direction," Lee adds. "There's no internal conflict around credit."

To Saeed, Cravath's system is results-oriented. "Incentives work, so whatever behavior you incentivize, you get more of," she says. "We want people to focus on the work product."

But even these elite firms face pressure to tweak the model. The way Saeed explains it, competition for client relationships and high-value work has led to more lateral hiring, leading to more pressure on lockstep firms.

"That has created a bit of an arms race in terms of partner comp," she says. "What used to be a focus on rainmaker comp associated with an actual book of business has turned into comp for journeymen partners."

After longtime Cravath partner Scott Barshay left in 2016 for Paul, Weiss, Rifkind, Wharton & Garrison, his new firm, which paid him ast least $10 million last year, handled one of 2018's largest announced deals, IBM's acquisition of software firm Red Hat. IBM has long been a Cravath client.

When asked about these circumstances, Saeed says, "Any time a partner leaves, there's always going to be the potential that a relationship that they were

"Nobody survives here for a minute thinking some client is their client and not S&C's client." —Joseph Frumkin

given while they worked here is also going to be a personal relationship. We aim to help our young partners build those relationships."

Don't expect Cravath to change its practices as a result of the Barshay move or others.

"As a business," she says, "you can't alter the way you do the things that have been a reason for your sustained success in response to an incident here or there."

Saeed says the firm's partners during her time as presiding partner have never considered modifying the lockstep model. But it has been evaluated.

"What are the behaviors we want to incentivize and do we have the right model in place to incentivize those behaviors?" she says, explaining the firm's thinking.

In her own work as an M&A lawyer, the complicated deals she handles rely on the firm's platform. "I don't think we would have a fraction of the quality or the work product we deliver" under another system, she says.

Saeed says she isn't aware of any upcoming partner exits, but she doesn't lose sleep over it either. When a partner doesn't share the firm's values, it's better for both sides to move on, she says.

In the last decade, compared with its lockstep peers, Wachtell has seen exceedingly few partner exits. One factor—besides the high profits—may be the firm's very narrow focus on M&A. The wider variety of practices at other lockstep firms exposes them to partners whose ambitions and specialties lead to opportunities elsewhere, Coates says.

TO FIRMS ON THE OUTSIDE OF THE LOCKSTEP SYS-tem, its benefits are exaggerated, and can, in fact, be weaknesses. Sullivan & Cromwell partners, in particular, attribute some of their success in retaining partners to their merit-based, black-box pay model.

"The perception among partners is that it's a broadly equitable pay system, and it provides the flexibility to pay people consistent with the effort they're putting out and the contribution they're making to the firm's practice and to the client," Joseph Frumkin, managing partner of Sullivan & Cromwell's M&A group, says.

"Clearly they are not leaving for monetary reasons," M&A partner Francis Aquila says of departing partners. Partners leave for great opportunities, he says, noting Jay Clayton's exit to lead the U.S. Securities and Exchange Commission and Karen Seymour's exit to become general counsel at Goldman Sachs.

Sullivan & Cromwell is an instructive counterpoint to Wachtell and Cravath's arguments. Its most recent office opening was Brussels, in 2017, when it hired Michael Rosenthal from Wilson Sonsini Goodrich & Rosati. Rosenthal was brought in to meet demand for merger clearance expertise post-Brexit.

The firm's strategy appears to be working: It was ranked among the top five M&A advisers in several league tables in the last two years, and its revenue and profits continue to climb. Its middle-ground growth strategy, Frumkin says, "was chosen as a way to maintain quality and focus in a way that becomes harder as you get bigger." It also allows the firm to have the geographic and practice area breadth that clients want—and that the firm finds helpful in executing transactions.

While Sullivan & Cromwell is growing outside the U.S., it also maintains a close equity partnership, bringing in few laterals.

"Could we make money by bringing in some high-profile lateral? Yes, we probably could, you attach the Sullivan & Cromwell brand to talent and you could figure out a way to make money on it, but it's not what we're about," Frumkin says.

The firm's partners point to their close collaboration on deal work to reject the notion that lockstep produces better results.

"Nobody survives here for a minute," Frumkin says, "thinking some client is their client and not S&C's client. No matter how big your ego is, if you can't figure that S&C is more important than any of us individually, you're not going to last here."

Aquila says one client recently told him she felt fine calling up any one of his partners in other practices.

"There was no perception that everything had to go through me or anyone else," he says.

M&A work is multidisciplinary, Aquila says, bringing in attorneys who handle intellectual property, litigation, antitrust, tax and more. Kim Rucker, a former general counsel of Andeavor, Kraft and Avon who sits on the board of three public companies, worked with Sullivan & Cromwell on two large transactions. She's relied on her relationships with other large firms, too. She seeks outside counsel that can pull together a high-quality team involving lawyers from multiple practices. In this respect, she says Sullivan & Cromwell is "incredibly collaborative."

WACHTELL AND CRAVATH RODE THE M&A BOOM TO NEW HEIGHTS IN PROFITS PER PARTNER: $6.53 MILLION AND $4.62 MILLION, RESPECTIVELY.

A SENIOR IN-HOUSE LAWYER WHO RECENTLY worked with Cravath on a large deal and who spoke anonymously because he couldn't speak for the company says the primary factor in retaining Cravath was its long-standing relationships with senior partners.

"That's really what drives things, rather than the size of their offices and how many offices they have. People can get on airplanes," the in-house counsel says. "It really is about the quality of the general, rather than the size of the army."

There are some exceptions to that rule, he says. For example, when choosing between two firms in a beauty contest in which the company has no prior relationship with either firm, offices in local jurisdictions for due diligence would be an advantage, to save time and resources. That's not the only potential disadvantage for leaner firms.

One of the biggest challenges that single-office law firms face, Coates says, is getting a share of the increasing amount of M&A originating from growing economies in Brazil, Russia, India, China and South Africa. Those countries are becoming increasingly important to the global economy, and thus more important to the legal market, he says.

"If the client is based in that jurisdiction, having a local office is a huge advantage," he says.

Top M&A firms—including Skadden, Arps, Slate, Meagher & Flom; Kirkland & Ellis; Latham & Watkins; Davis Polk & Wardwell; Simpson Thacher & Bartlett; and Sullivan & Cromwell—have invested in offices in one or more of these areas.

Meanwhile, as the Barshay move demonstrated, business can also peel away as a result of the lockstep model. That's because corporate counsel are guided by personal relationships.

Rucker, the former GC, says if a trusted adviser changes firms, moving work to the new firm would be a consideration, as would the quality of its team.

M&A is a small world, Coates says, noting that law firm partners often work with professional bankers who are sources of secondhand referrals. And board members at public companies often lead their own companies.

"The brand helps—it's easy to explain to boards of directors," he says, but "the principal driver of all legal engagements is personal or secondary relationships."

The in-house lawyer who recently worked with Cravath says if the company's relationship partner moved to a competitor, the company would likely go with the partner. "Our relationship is with him, not the institution," he says. "We hire lawyers, not the firm."

As long as clients think that way, losing an important partner in a lateral move will quickly translate to a loss of business. But Wachtell and Cravath's continued success suggests another lesson: A client's deep personal ties to a senior partner can allow lean lockstep firms to hold their own against global heavyweights—and they intend to keep doing so, even as the landscape changes underfoot.

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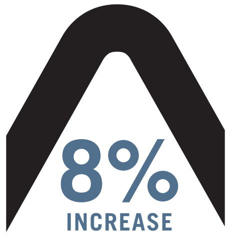
BY THE NUMBERS

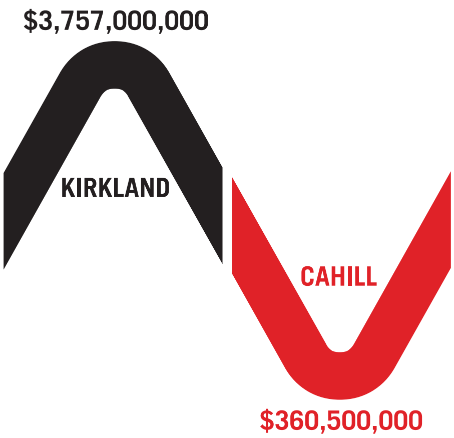
The Am Law 100's financial results painted a complex picture of success and some disappointment, one that becomes more clear in visual form.

GROSS REVENUE

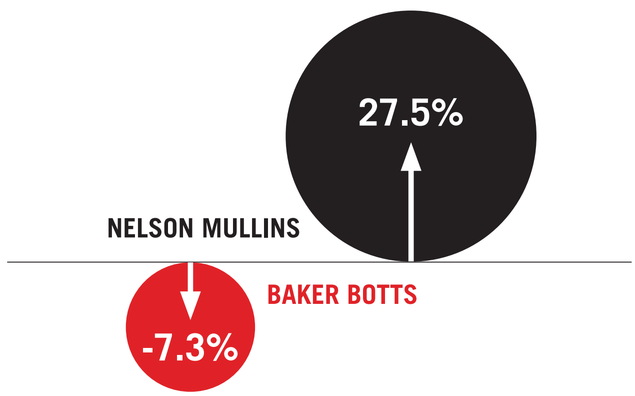
2018 TOTAL $98,748,110,245
2017 $91,442,922,850
2016 $86,704,757,009

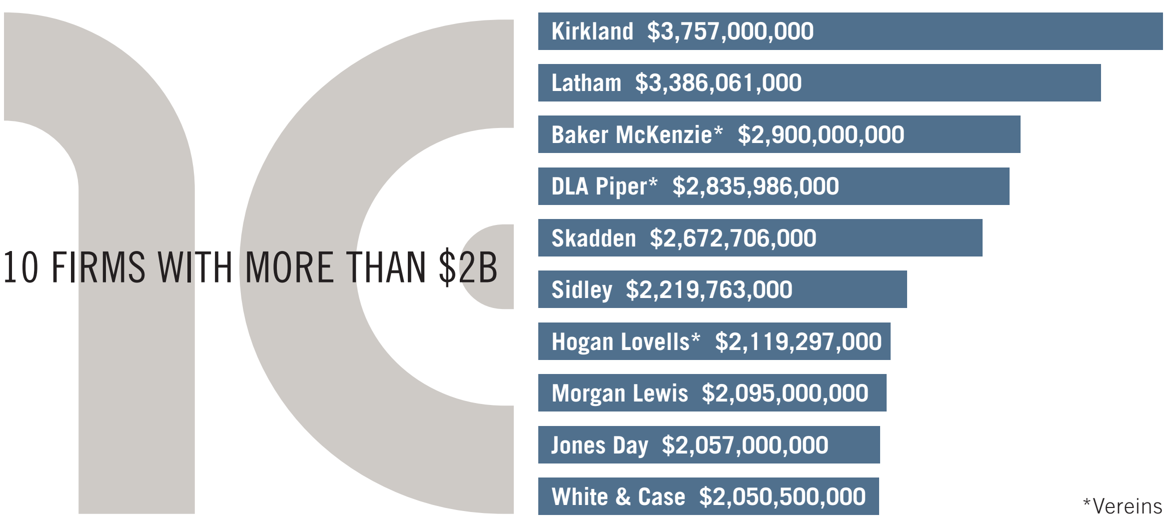


HIGHEST & LOWEST



BIGGEST INCREASE & DECREASE





*Vereins

The AM LAW 100

REVENUE PER LAWYER

AVERAGE $975,982

4.2% INCREASE

WACHTELL: $3,207,000

HIGHEST & LOWEST

LEWIS BRISBOIS: $422,000

BIGGEST INCREASE & DECREASE

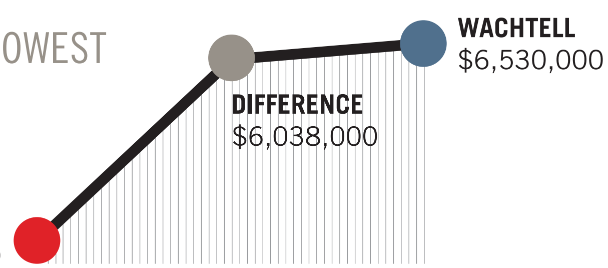
MCGUIRE WOODS 14%

CROWELL & MORING -10.4%

PROFITS PER PARTNER

AVERAGE $1,882,383 6.5% INCREASE

HIGHEST & LOWEST



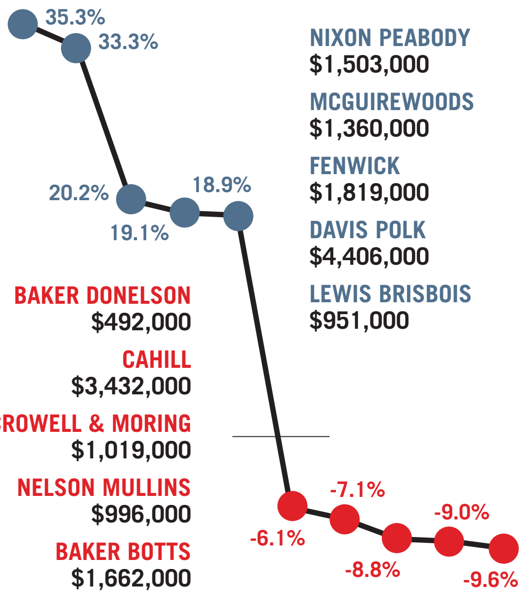
REVENUE PER LAWYER

THIS CHART SHOWS THE 25 AM LAW 100 FIRMS WITH THE HIGHEST REVENUE PER LAWYER AND THE 25 FIRMS WITH THE LOWEST, AND THE PERCENTAGE CHANGE IN EACH FIRM'S RPL FROM 2017 TO 2018.

1	Wachtell	2.3%
2	Sullivan & Cromwell	0.8%
3	Kirkland	2.8%
4	Simpson Thacher	13.4%
5	Cravath	12.1%
6	Skadden	5.9%
7	Quinn Emanuel	-5.5%
8	Ropes & Gray	5.2%
9	Milbank	6.9%
10	Debevoise	8.8%
11	Davis Polk	10.2%
12	Paul Weiss	8.2%
13	Gibson Dunn	8.1%
14	Proskauer	10.4%
15	Wilmer	2.1%
16	Latham	6.0%
17	Fried Frank	3.1%
18	Williams & Connolly	2.9%
19	Boies Schiller	2.5%
20	Weil	5.1%
21	Cooley	8.5%
22	Paul Hastings	6.0%
23	Fenwick	9.8%
24	Kramer Levin	7.0%
25	Goodwin Procter	10.5%
76	DLA Piper*	4.9%
77	Reed Smith	5.4%
78	Haynes and Boone	4.1%
79	Duane Morris	3.7%
80	Nelson Mullins	-3.6%
81	Barnes & Thornburg	-2.4%
82	Davis Wright	5.8%
83	Dorsey	5.2%
84	Cozen O'Connor	4.4%
85	Baker & Hostetler	-0.8%
86	Squire Patton*	3.4%
87	Ballard Spahr	0.6%
88	Polsinelli	4.4%
89	Fox Rothschild	3.8%
90	Bryan Cave	N/A
91	Akerman	1.8%
92	Baker McKenzie*	8.5%
93	Ogletree Deakins	5.4%
94	Norton Rose*	-0.5%
95	K&L Gates	4.0%
96	Baker Donelson	3.2%
97	Littler	6.0%
98	Jackson Lewis	-2.0%
99	Womble Bond	N/A
100	Lewis Brisbois	7.7%

PROFITS PER PARTNER

BIGGEST INCREASE & DECREASE



NIXON PEABODY
$1,503,000

MCGUIREWOODS
$1,360,000

FENWICK
$1,819,000

DAVIS POLK
$4,406,000

LEWIS BRISBOIS
$951,000

BAKER DONELSON
$492,000

CAHILL
$3,432,000

CROWELL & MORING
$1,019,000

NELSON MULLINS
$996,000

BAKER BOTTS
$1,662,000

85 FIRMS THAT INCREASED THEIR PEP

BIGGEST SPREAD BETWEEN PEP & PPL

WACHTELL

PPL $1,957,000

PEP $6,530,000

SPREAD: $4,573,000

PROFITS

AVERAGE $519,941 NONEQUITY PARTNER

18 EXCEEDED 1B

TOTAL PROFITS (NET INCOME)

KIRKLAND
$2,165,911,000

LATHAM
$1,684,640,000

SKADDEN
$1,296,263,000

GIBSON DUNN
$1,078,952,000

JONES DAY
$1,004,000,000

PROFITS PER LAWYER

AVERAGE $389,846

HIGHEST & LOWEST

Lowest		Highest	
WOMBLE BOND	$140,000	WACHTELL	$1,957,000
SQUIRE PATTON*	$116,000	KIRKLAND	$939,000
POLSINELLI	$111,000	QUINN EMANUEL	$919,000
K&L GATES	$101,000	SULLIVAN & CROMWELL	$896,000
LEWIS BRISBOIS	$89,000	GIBSON DUNN	$826,000

*Vereins

PROFIT MARGIN

AVERAGE 40

HIGHEST & LOWEST

61 QUINN EMANUEL AND WACHTELL

17 POLSINELLI AND SQUIRE PATTON

The AM LAW 100

LAWYERS

TOTAL 101,178

3.6% INCREASE

MOST & FEWEST

WACHTELL < 267

BAKER MCKENZIE* > 4,720

MOST & FEWEST PER EQUITY PARTNER

LEWIS BRISBOIS > 9.72 LEVERAGE

BALLARD SPAHR < 1.29 LEVERAGE

EQUITY AND NON-EQUITY PARTNERS

AVERAGE NONEQUITY 44%

HIGHEST NONEQUITY

LEWIS BRISBOIS

83.5%

FIRMS WITH ONLY EQUITY PARTNERS

• ARNOLD & PORTER • BALLARD SPAHR • CLEARY GOTTLIEB • COVINGTON • CRAVATH • DAVIS POLK • DEBEVOISE • JONES DAY • PAUL WEISS • ROPES & GRAY • SCHULTE ROTH • SKADDEN • SULLIVAN & CROMWELL • WACHTELL • WILLIAMS & CONNOLLY • WILMER

COMPENSATION ALL PARTNERS

AVERAGE $1,283,132

HIGHEST & LOWEST

WACHTELL $6,530,000

LEWIS BRISBOIS $397,000

BIGGEST INCREASE & DECREASE IN RANKING

69 NELSON MULLINS 82

87 CROWELL & MORING 95

MOST BILLABLE HOURS

DLA PIPER	6,641,414
WHITE & CASE	4,095,000
HOGAN LOVELLS	4,047,945
GREENBERG TRAURIG	3,599,000
SIDLEY AUSTIN	3,374,000

HIGHEST BILLABLE HOURS PER LAWYER

FISH & RICHARDSON

1,916

FIRM WITH THE LAWYER WITH THE MOST BILLABLE HOURS

FOX ROTHSCHILD

4,200