

American law firms: overpaid, over here and taking over

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Among her 300 million citizens, America finds room for 2.2 million prisoners, half a million soldiers — and 1.1 million lawyers, increasing numbers of whom find their way across the Atlantic. From Park Lane to Mincing Lane, US law firms now deploy 3,900 lawyers in London. While one Washington wag labels them “our most ominous export”, some predict that, short of full-blown recession, their number may double within five years.

Wartime GIs in Britain, often caricatured as “overpaid, oversexed and over here”, have a contemporary equivalent: the London managing partners of US law firms, who entice elite City lawyers with seven-figure packages.

Rainmakers in finance, tax and mergers and acquisitions (M&A) have been charmed away by Cadwalader, Kirkland & Ellis, Skadden, Arps and Simpson Thacher. The result? US firms’ annual London billings comfortably exceed £1.2 billion, while 100 or more of their local partners are in the £1 million-a-year club.

“Our strategy has been to recruit well-known partners from well-known firms,” Mike Francies, London head at Weil, Gotshal & Manges, says. The former Clifford Chance M&A lawyer, a Watford FC and Zutons fan, is “an incredibly hard worker, who runs a very tight ship”, says one admirer. As relative latecomers, Weil, Gotshal has rapidly grown to 120 lawyers, fuelling its drive to become a world leader in private equity. “We already compete with the UK market leaders: Ashurst, Clifford Chance and Freshfields,” Francies says.

His most prominent recruit, Marco Compagnoni, the former Lovells’ private equity head, is on a £1.3 million annual deal, fixed for two years. “We looked at Marco’s seniority, experience and clients when deciding to hire him,” Francies says. “There have been people we would have liked where other firms paid more. If you start

paying too much, you're building problems for the future.”

He points to Kirkland & Ellis hiring the private equity stars Graham White and Raymond McKeeve — both from Linklaters — for packages of £3.5 million and £1.5 million respectively, guaranteed for three years. Kirkland also hired Stephen Gillespie, an Allen & Overy partner, in a reported £1.8 million annual deal. “I can't see how it works. I'll be interested to see if they're all there in three years' time,” Francies says.

A byword for prestige, pre-eminence and very strong profitability, Sullivan & Cromwell came to London in 1972. But when Bill Plapinger, the London managing partner, arrived from New York in 1987, it still had only five lawyers. Today, it has seventy. Fifteen are UK qualified, of whom five are partners. These include some big lateral hires: English corporate star Vanessa Blackmore, ex-Allen & Overy, and M&A heavyweight Tim Emmerson, formerly at Milbank Tweed, London.

“We have no interest in growth for growth's sake. Critical mass does not mean having armies of lawyers,” Plapinger says. “We've grown almost exclusively in response to client demand. Competing against firms several times our size, we use relatively small, focused, highly integrated teams.” He adds unapologetically: “We work our lawyers very hard.” The strategy pays off. As advisers to 40 of Europe's 300 largest companies, S&C dominates the capital markets and M&A league tables.

“Most clients are European rather than US-based,” Plapinger says. “Outside the 'magic circle', our competition is Cleary Gottlieb, Shearman & Sterling, Skadden, Arps, Davis Polk and Cravath. We want to be chosen for our experience and understanding of the deal technology. The legal world can be seen as a pyramid: the most desirable work is at the very top. Lots of firms want to be there; very few succeed.”

Several large London offices have evolved from transatlantic mergers: Mayer Brown, Jones Day, DLA Piper and Dechert. Last January, Reed Smith tied up with Richards Butler. Although the Clifford Chance-Rogers & Wells marriage is eight years old, no top-flight New York firm has yet been seduced by the overtures of Freshfields or Allen & Overy — both keen to find a suitable partner. “I can't see it happening. The economics make it unattractive,” Plapinger says.

White & Case has grown exponentially since 2002, giving it the largest London office of any non-merged US firm: 346 lawyers, 80 per cent of them UK qualified. Deutsche Bank and Morgan Stanley are typical clients. Peter Finlay, the London managing partner, explains: “We've established a broad-based, local firm with disputes, pensions, IP, construction and employment capacity. Very few US firms have that.

“One key objective was to build the leading finance practice of a US-headquartered firm in London, to get on the panels of major companies. We now have the largest acquisition finance team. We also have 53 trainees, more than any other US firm.

“Our billable hours per lawyer are less than some. We don't have the reputation of being a sweatshop. We have flexible and part-time working to attract and retain staff. Finlay has discussed merger with London firms, but none recently. “It's not part of our plan,” he says. So who does he benchmark? “Shearman & Sterling and Latham & Watkins.”

A bellwether for many US firms in London, Shearman & Sterling has been managed locally since 2003 by Kenneth MacRitchie: “Working for a US law firm is very liberating,” the former Clifford Chance project finance partner says. “The culture is very

entrepreneurial. We've tried to develop an English law practice that competes with the magic circle. We took some leverage finance partners from Ashursts. We saw that the combination of English law debt finance and New York high yield would be a winner. Our English corporate law practice took off when we hired Peter King from Linklaters."

Last month, he lured high-yield partner Jacques McChesney from Latham. "The prize," he believes, "is to create a firm that combines top-end New York law and English law capability in a global network. US firms have taken a significant share of London work. It will only increase.

"New York firms are much more successful here than London firms have been in New York." Strong in banking and finance, Shearman now has 158 London lawyers — approximately 70 per cent practise English law. "We want to have a much bigger European footprint in M&A," MacRitchie says. Although London has been among the most profitable of the firm's 20 offices, he is quick to highlight that "New York supports a significant amount of overhead. We have not grown as fast as some because we won't compromise on quality. We're not at optimum size yet — we will grow substantially."

Latham & Watkins wins many plaudits. Having built a strong European presence within a decade, it is the only US firm to join Skadden in the global Top Five. "Taking growth, the quality of their people and how far they've come, they really stand out," one prominent City observer says. Latham came to London in 1990. Most of its 170 lawyers are more recent arrivals, including tax partners Sean Finn and Daniel Friel, hired from Lovells in 2006.

Andrew Moyle, the managing partner, joined in 2003 as an IT and outsourcing specialist from Shaw Pittman. Grown from an LA base, "Latham has no head office," Moyle says. "In London, we're full service. Disputes, private equity, M&A and finance have been the big growth areas."

Moyle highlights a different culture from traditional Wall Street firms: "We never thought we could come in and dominate from Day One, a mistake that several firms made.

"We totally reject a star culture and pride ourselves on a consensus-driven model. We want team players, not prima donnas. You can't become a partner here without the blessing of the associates committee. We don't do special deals for laterals. How can a successful US law firm be so considerate and so profitable? Many people are sceptical. Somehow we manage both."