



HILDEBRANDT
INTERNATIONAL

Association of General Counsel

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Today's Discussion

- The Picture for 2002 and Beyond
- Consolidation Through Merger
- The Changing Face of Law Firms
- Common Characteristics of Leading International Firms
- What This All Means for In-House Counsel



The Picture for 2002 and Beyond

- Consolidation will continue
- Stratification will continue
 - As firms continue to stake out a market position
 - And clients become increasingly sophisticated
- Business will continue to move to larger law firms, boutiques with a niche, or other service providers
- Law firms will continue to feel the effects of higher costs



Managing in a Mixed Economy

- Competing interests present a dilemma for managing partners ... most of whom have not managed through a slowdown before
 - Strong leadership will be essential to contend with a flat year in 2002
 - Requires striking a balance between hunkering down and capitalizing on opportunities
 - Need to meet short-term goals without abandoning long-term strategy
- From all indications, firms should expect increasing pressures on profit margins



US Patterns: Geographic Issues

- Split at Wall Street level – a ‘Charmed Circle’ emerging
- Leading firms in regions now seeking national/international positions
- National/international specialist positions now emerging



Segmentation in the US Market is Well Underway

- To date, primarily on three criteria
 - Major ‘transactions’ – Wall Street leaders
 - Regional centers – ‘top 5’ emerging
 - Specialists emerging nationally
- Some full-service focused firms becoming apparent
 - Latham & Watkins
 - Weil, Gotshal & Manges
 - Orrick, Herrington & Sutcliffe
- Specialist firms developing towards a national focus
 - Wachtell Lipton
 - IP disappearing
 - e.g., Howrey Simon Arnold & White (combined with Competition/Antitrust)
 - Littler Mendelson
 - Robins Kaplan Miller & Ciresi (highest PPP in 2001)
 - High tech firms had right idea – but focused too narrowly on one sector
 - Cooley Godward
 - Wilson Sonsini Goodrich & Rosati



Focused Full-Service Firms are Emerging Outside of Top Wall Street Practices

- 31 of 47 AmLaw 100 firms with PPP in excess of \$750k were outside the ‘Charmed Circle’ / First Tier
 - 19 display characteristics consistent with a FHV positioning
 - 6 others are in the process of reshaping
- Some lack of clarity about a number of others outside this group
 - But again a trend is evident
- 9 of the 31 firms score strongly in 3 or more practice areas
 - Are leaders / highly recommended in their home market in at least 3 practice areas

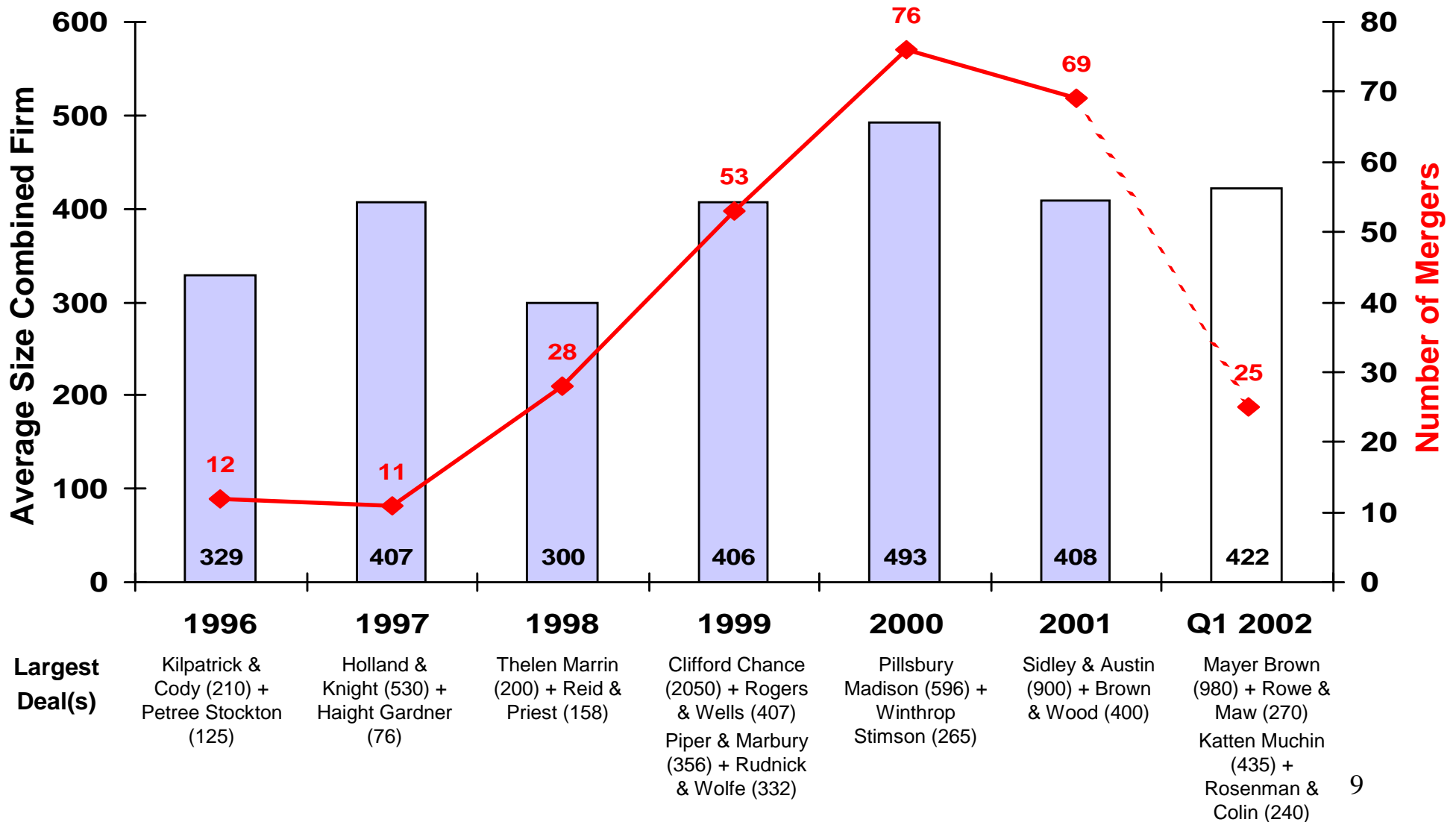


Consolidation Through Merger



Consolidation in the US Legal Industry

1996 – Q1 2002 Average Size of Combined Firm



Source: Hildebrandt International tracking of announced mergers



Why Do Firms Merge?

- More efficient than lateral hiring
 - May also improve recruiting ability
- Serve expanding client needs
 - Less risk of losing a client that outgrows the firm
- Build niche practice areas
- Build geographic presence
- Resolve internal issues (succession, client development)
- Gain access to a larger capital base
- Position to compete with unconventional competitors
... benefits consultants, environmental consultants, investment advisors, financial planners



Merger Activity

- Firms are following one of four basic strategies:
 - National/International – usually one major deal per year
 - Regional/Super-Regional – a common approach
 - NYC Mid-Sized – a market that has been drastically reduced through merger
 - Same City – presents unique challenges, but followed a number of times in 2001
- Primary reasons for merging:
 - Depth/Breadth
 - Competition
 - Recruiting
 - Reduced Risk (internal and for client)

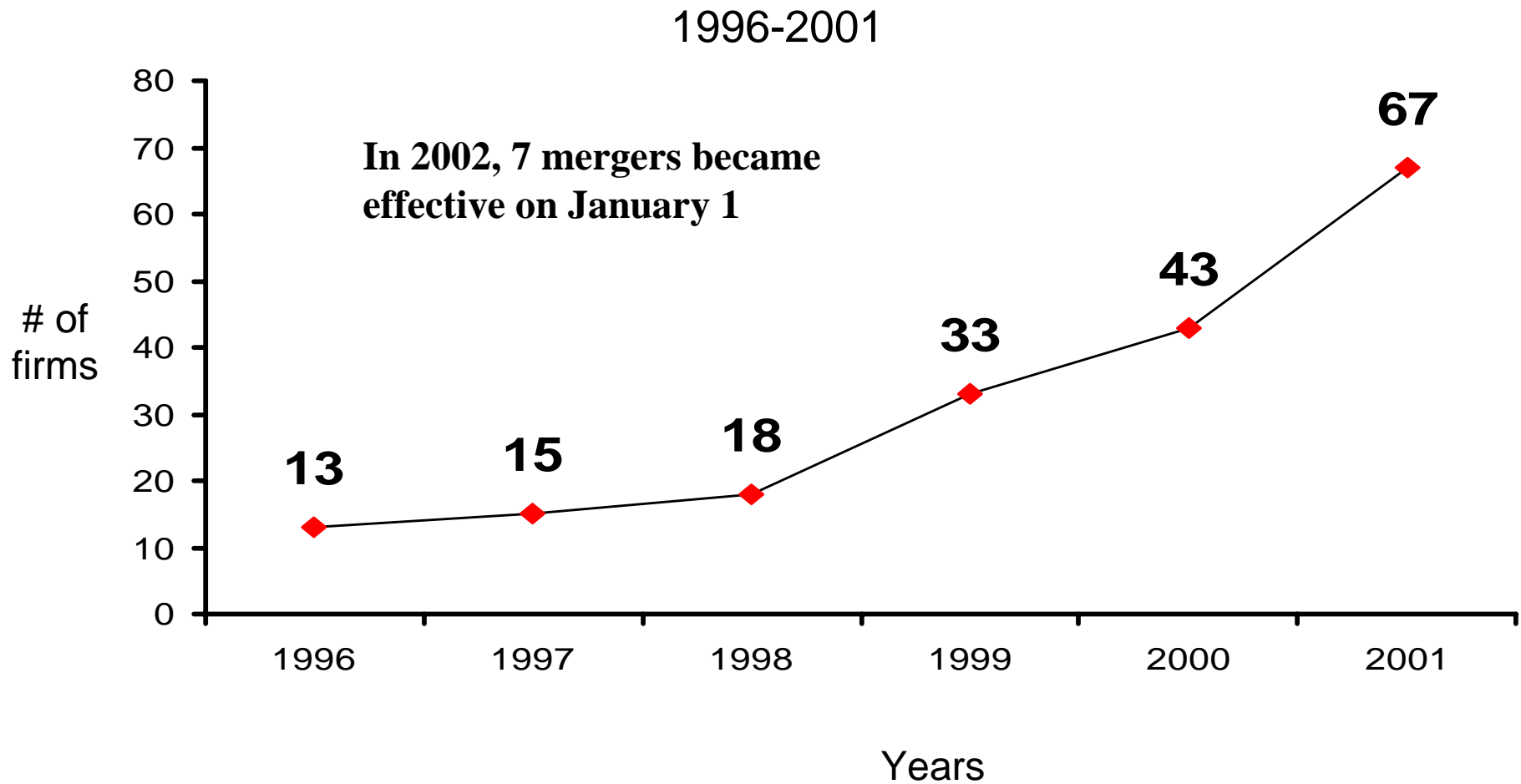


In 2001, there were 69 domestic law firm combinations

In 59 of these combinations, the smaller firm had fewer than 50 lawyers



International Mergers



Source: Hildebrandt International tracking of announced mergers



For Many, Recent Growth Has Come Through Merger

- Mergers/Acquisitions in 2001:
 - *Sidley & Austin (900L)/Brown & Wood (400L)*
 - *Foley & Lardner (749L)/Hopkins Sutter (130L)*
 - *Foley & Lardner (749L)/Freedman Levy (20L)*
 - *Andrews & Kurth (235L)/Mayor Day (105L)*
 - *Nixon Peabody (510L)/Lillick & Charles (70L)*
 - *Bingham Dana (425L)/Richards & O'Neil (75L)*
 - *Stoel Rives (330L)/Washburn Briscoe (34L)*



Merger Activity is at an All-Time High

- Mergers/Acquisitions in 2002:
 - *Mayer, Brown & Platt (980L)/Rowe & Maw (270L)*
 - *Katten Muchin (435L)/Rosenman & Colin (240L)*
 - *Hunton & Williams (729L)/Worsham Forsythe (86L)*
 - *Brown Raysman (179L)/Baer Marks (46L)*
 - *Bingham Summers (73L)/McHale Cook (40L)*
 - *Morgan Lewis (1,111L)/Hopgood Calimafde (35L)*



Largest M&As in Major Cities

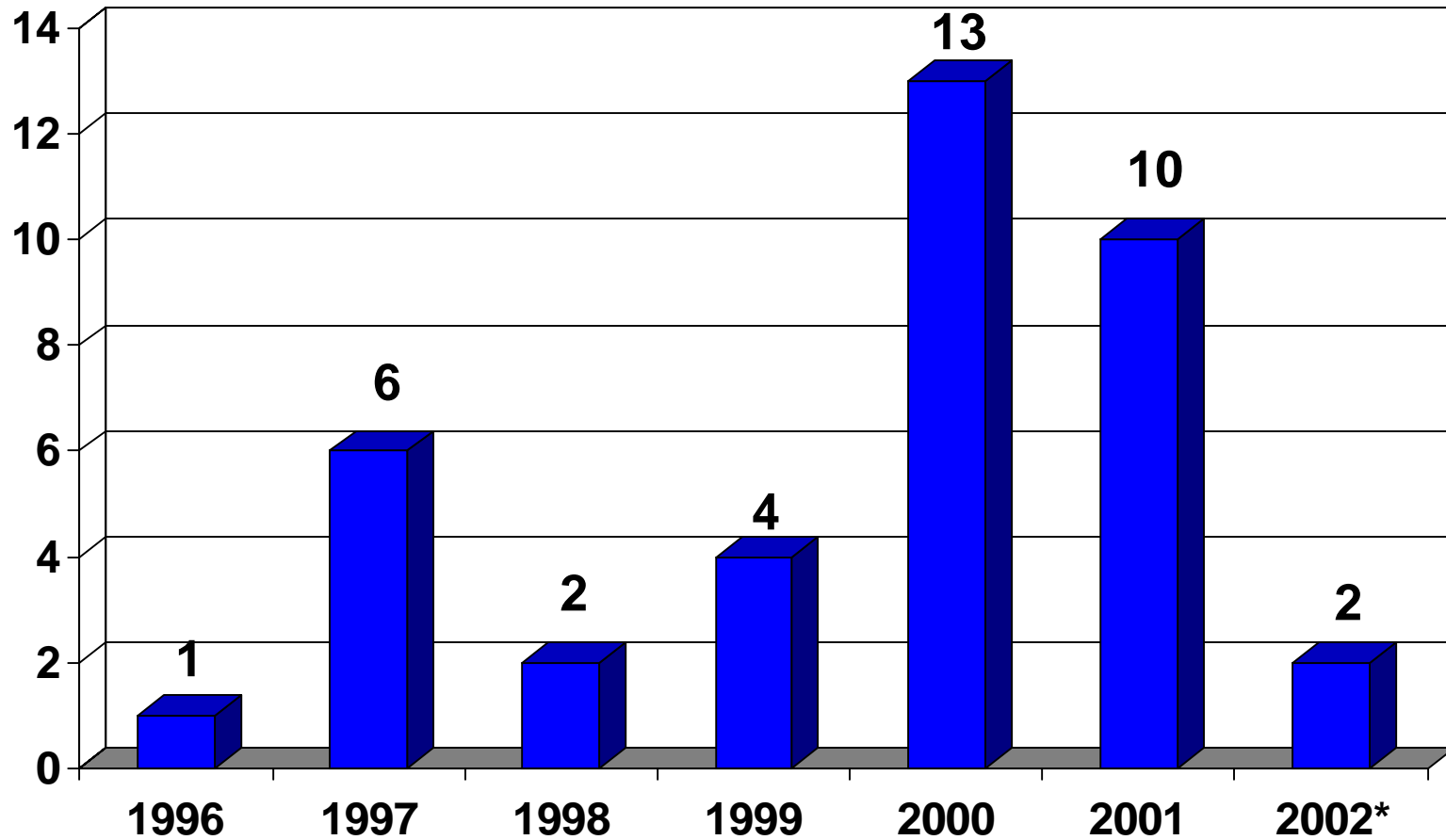
1996 – Q1 2002

| London | New York | Washington, DC | Boston | Chicago | Los Angeles | San Francisco | Dallas | Houston |
|---------------------------------|---|---|--|--|---|--------------------------------------|---|---|
| 1. Mayer Brown + Rowe & Maw | 1. Clifford Chance + Rogers & Wells | 1. Pillsbury Madison + Cushman Darby | 1. Nixon Hargrave + Peabody & Brown | 1. Piper & Marbury + Rudnick & Wolfe | 1. Foley & Lardner + Weissberg & Aronson | 1. Squire Sanders + Graham & James | 1. Hunton & Williams + Worsham Forsythe | 1. Howrey & Simon + Arnold White |
| 2. Dechert + Titmuss Sainer | 2. Sidley & Austin + Brown & Wood | 2. Venable + Tucker Flyer | 2. Holland & Knight + Sherburne Powers | 2. Foley & Lardner + Hopkins & Sutter | 2. Akin Gump + Troop Steuber | 2. Nixon Peabody + Lillick & Charles | 2. Winstead Secrest + Donohue Jameson | 2. Locke Purnell + Liddell Sapp |
| 3. Reed Smith + Warner Cranston | 3. Pillsbury Madison + Winthrop Stimson | 3. Shaw Pittman + Fisher Wayland | 3. Schnader Harrison + Goldstein & Manello | 3. Michael Best + Schwartz & Freeman | 3. Oppenheimer Wolff + Poms Smith | 3. Stoel Rives + Washburn Briscoe | 3. Sidley & Austin + Richards Medlock | 3. Andrews & Kurth + Mayor Day |
| 4. Steptoe & Johnson + Rakisons | 4. Katten Muchin + Rosenman & Colin | 4. Baker Botts + Miller Cassidy | 4. Kirkpatrick & Lockhart + Warner & Stackpole | 4. Holland & Knight + Burke Weaver & Prell | 4. Arnold & Porter + Quinn Kully & Morrow | 4. Drinker Biddle + Preuss Shanagher | | 4. Thompson & Knight + Brown Parker & Leahy |
| | 5. Thelen Marrin + Reid & Priest | 5. Buchanan Ingersoll + Silverstein & Mullens | | 5. Cozen & O'Connor + Blatt Hammesfahr | | | | |
| | 6. Jenkens & Gilchrist + Parker Chapin | | | | | | | |
| | 7. Paul Hastings + Battle Fowler | | | | | | | |
| | 8. Hogan & Hartson + Squadron Ellenoff | | | | | | | |
| | 9. Winston & Strawn + Whitman Breed | | | | | | | |
| | 10. Blank Rome + Tenzer Greenblatt | | | | | | | |

Firms in red indicate the largest law firm M&A in the year the deal closed.



IP is a Highly Desired Target For Expansion ...38 IP Mergers in the Last 6+ Years



* Through 4/1/02. See appendix for more detail.



38 IP Boutique/General Practice Mergers Since 1996

2002

- Gibbons Del Deo + Cobrin & Gittes
- Morgan Lewis & Bockius + Hopgood Calimafde Judlowe & Mondolino

2001

- Christie Parker & Hale + Pretty Schroeder
- Bracewell & Patterson + Felsman Bradley Vaden Gunter & Dillon
- Drinker Biddle & Reath + Seidel Gonda Lavorgna and Monaco
- Crowell & Moring + Evenson McKeown Edwards & Lenahan
- Michael Best & Friedrich + Laff Whitesall & Saret
- Thompson Coburn + Howell & Haferkamp
- Hahn Loeser & Parks + Oldham & Oldham
- Long Aldridge & Norman + Red Hot Law Group
- Andrews & Kurth + Cavazos Morin Langenkamp & Ferraro
- Patton Boggs + Duft Graziano & Forest



38 IP Boutique/General Practice Mergers Since 1996 (cont'd)

2000

- Howrey & Simon + Arnold White & Durkee
- Arent Fox + Nikaido Marmelstein
- Stites & Harbison + Wheat Smith & Beres
- Nixon Peabody + Sixbey Friedman Leedom & Ferguson
- Venable + Lane Aitken & McCann
- Edwards & Angell + Dike Bronstein Roberts & Cushman
- Dykema Gossett + Watson Cole Grindle Watson
- Reed Smith + McAulay Nissen Goldberg & Kiel
- Arnold & Porter + Blanc Williams Johnston & Kronstadt
- McGuire Woods + Whitham Curtis & Whitham
- Hill & Simpson dissolved with attorneys joining Schiff Hardin & Waite, Bell Boyd & Lloyd and Sonnenschein
- Kilpatrick Stockton + Jones Askew
- Baker Donelson + Kennedy Davis Hodge



38 IP Boutique/General Practice Mergers Since 1996 (cont'd)

1999

- Smith Gambrell + Beveridge DeGrandi Weilacher & Young
- Akin Gump + Pravel Hewitt
- Akin Gump + Panitch Schwarze Jacobs & Nadel
- Pitney Hardin Kipp & Szuch + Kane Dalsimer Sullivan & Levy

1998

- Fulbright & Jaworski + Felfe & Lynch
- Perkins Coie + Hosie Wes Sacks & Brelsford

1997

- Fulbright & Jaworski + Robbins Berliner & Carson
- McDermott Will & Emery + Lowe Price LeBlanc & Becker
- Alston & Bird + Bell Seltzer Park & Gibson
- Oppenheimer Wolff & Donnelly + Poms Smith Lande & Rose
- Baker & Botts + Brumbaugh Graves Donohue & Raymond
- Kennedy Covington Lobdell & Hickman + Shefte Pinckney & Sawyer

1996

- Pillsbury Madison & Sutro + Cushman Darby & Cushman

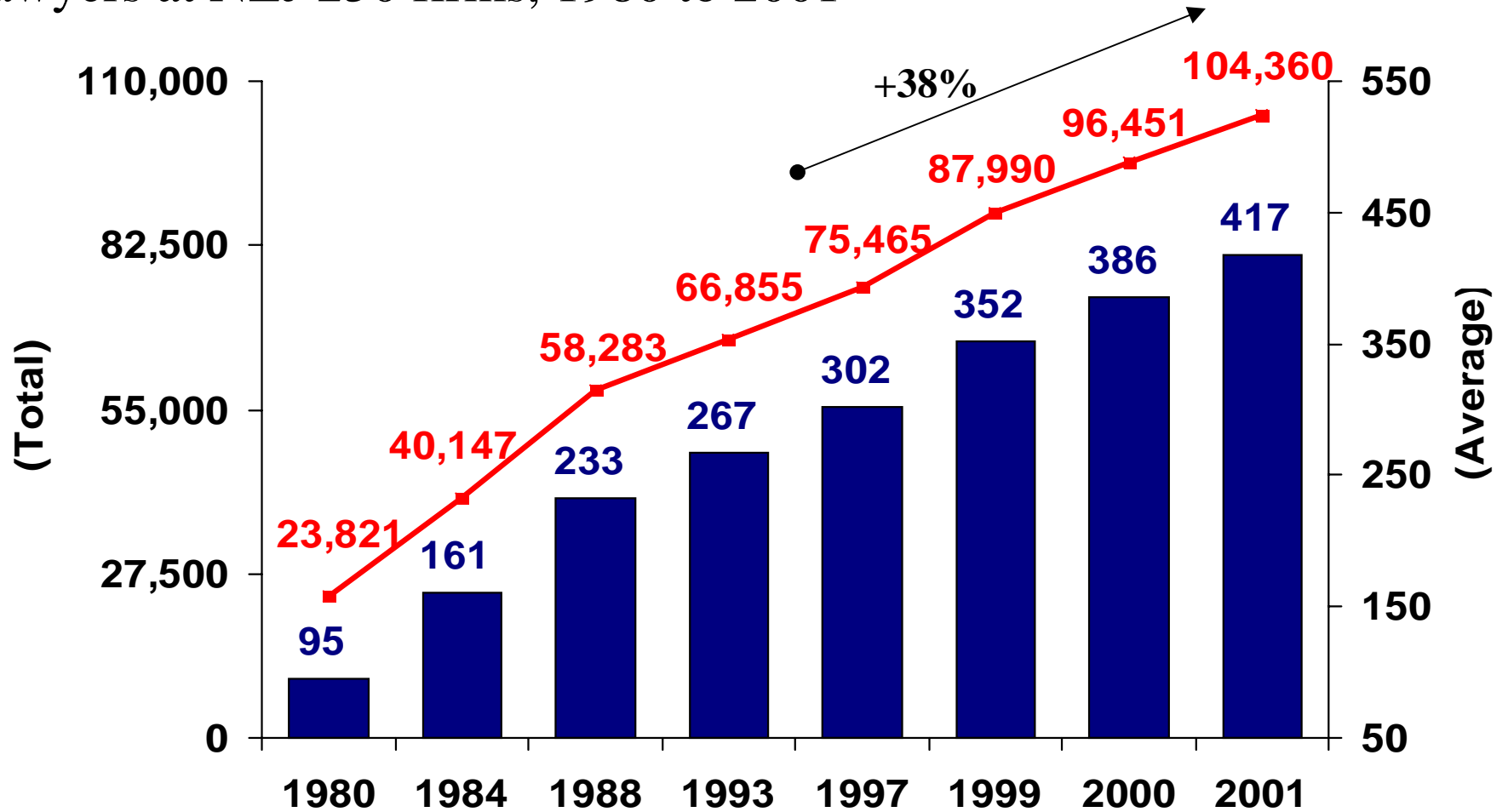


The Changing Face of Law Firms



The Number of Lawyers Practicing in Large Firms Continues to Increase

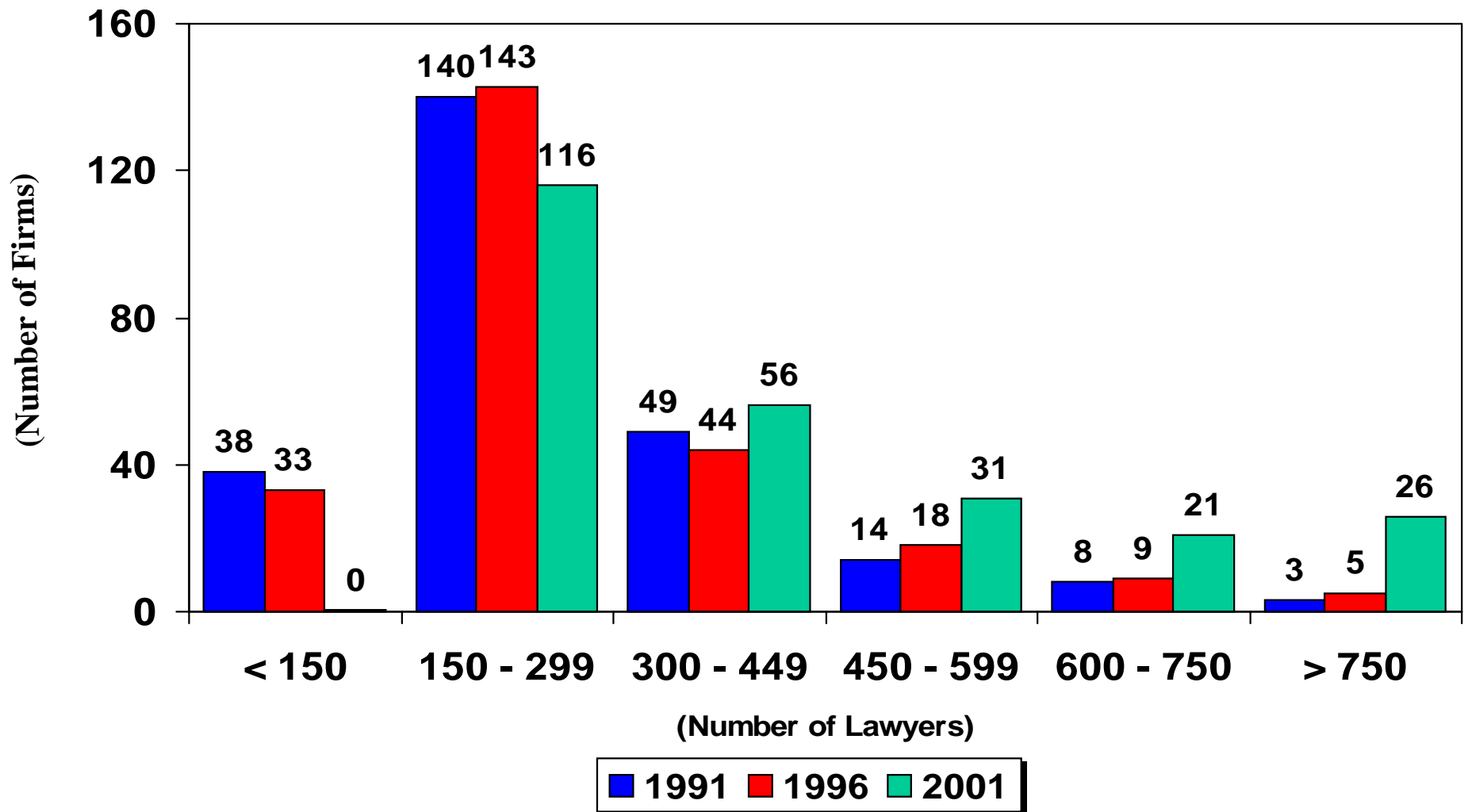
Lawyers at NLJ 250 firms, 1980 to 2001



Source: National Law Journal



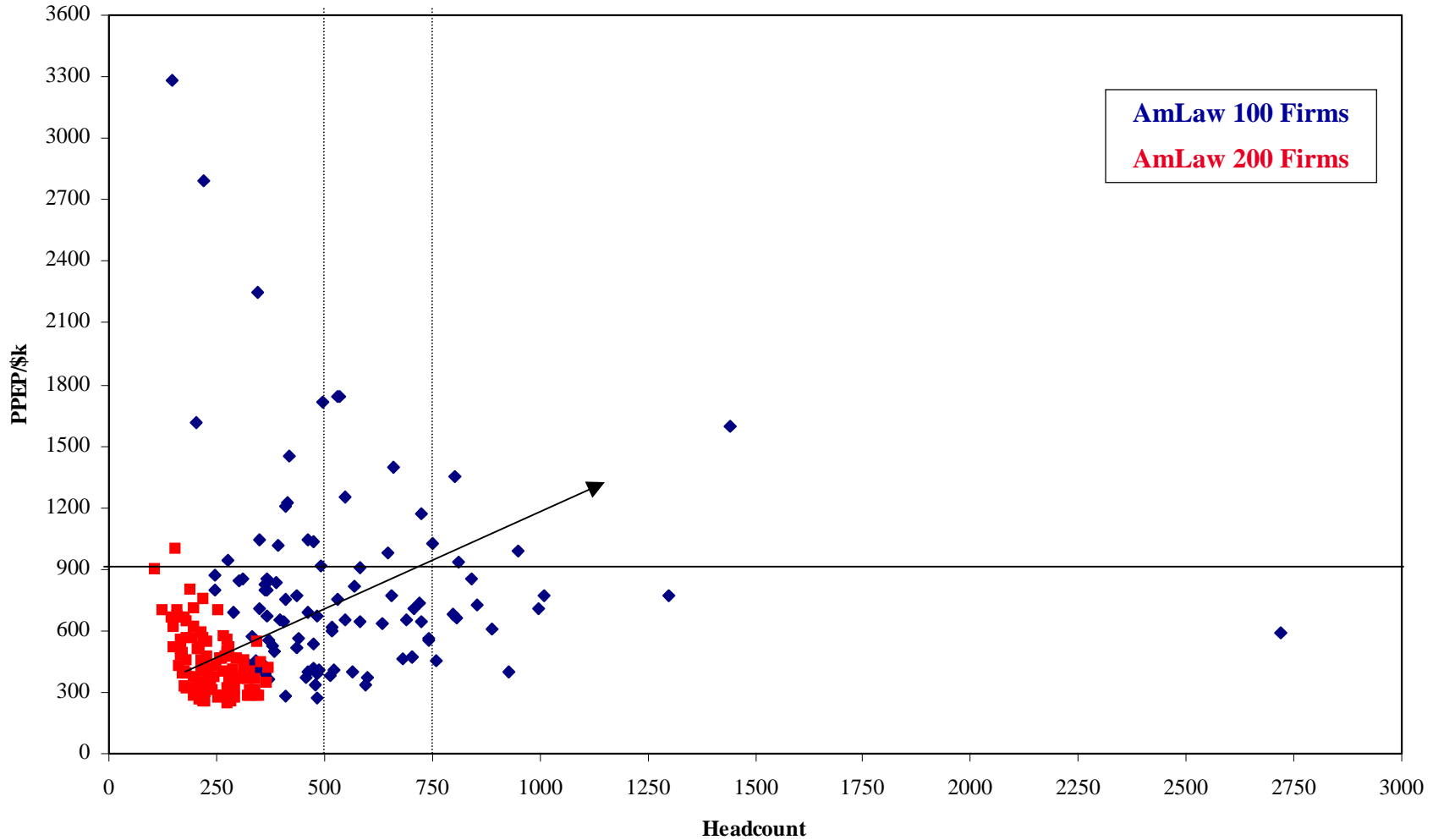
Which is Changing Make-Up of the NLJ 250





Through 2000, While Market Leaders Grew in Size and Profitability, Full-Service Firms Experienced More Dramatic Increase in Size

2000

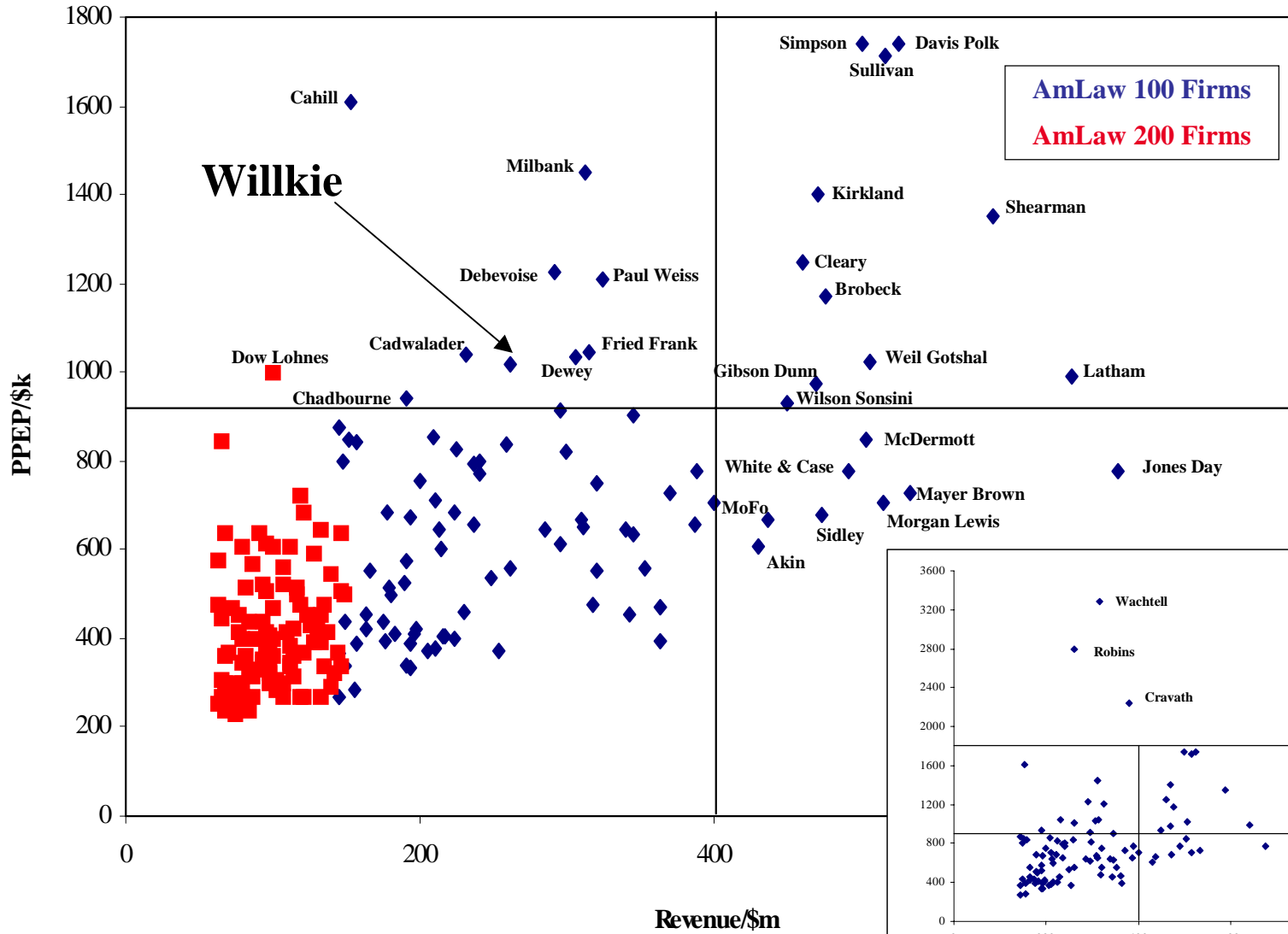


Source: AmLaw 100 (July 2001)

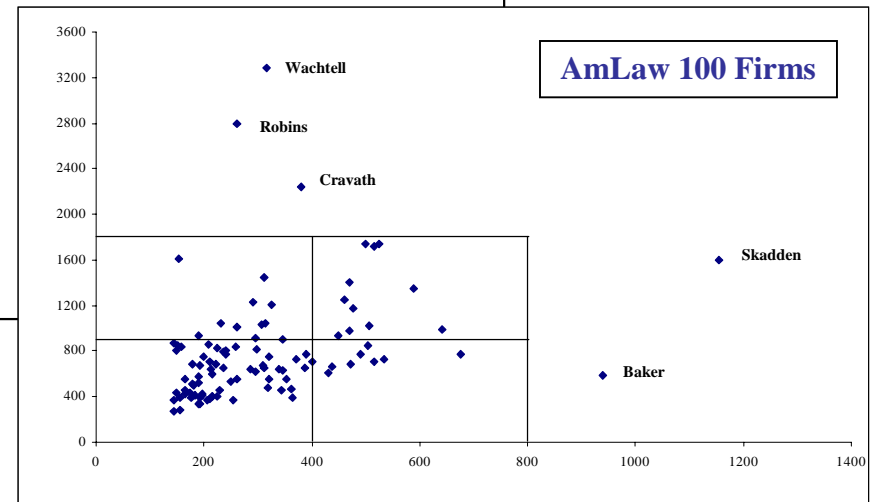


Economic Segmentation of the AmLaw 200

2000



| Outliers | | |
|------------------|-------|-------|
| Firm | Rev | PPEP |
| Baker & McKenzie | 940 | 590 |
| Skadden | 1,154 | 1,600 |
| Cravath | 380 | 2,245 |
| Robins Kaplan | 261 | 2,790 |
| Wachtell Lipton | 317 | 3,285 |



Source: AmLaw 200 (July/August 2001)



Comparable Competitive Trends Are Evident Across US and Europe

- Intense competitive forces on both demand and supply side
- Increasing consolidation among law firms
- Increasing concentration within practice areas / client segments
- Increasing geographic competition



- Greater intensity of competition



The Market for Legal Services is Segmenting by the Perceived Value of Services

- Buyers associate value of service with ‘value’ of the problem/issue
 - sometimes these are decoupled
- Different buyers place differing values on same services
 - although general consistency within ‘clusters’
- Different buying criteria apply to differing values of services
 - with price being inverse to value (generally)
- Consumers segment law firms by their perceived client: practice area focus
 - and by their value focus
- Critical to have agreement about overall strategic positioning



Market Research Indicates Growing Consistency in the Buying Criteria of 'Sophisticated' Consumers

- High-value work bought on the basis of:
 - strength in depth in leading technical expertise
 - ability to deliver complex technical solutions in a commercial way
 - deep knowledge and experience with the problem / issue
 - high calibre back-up / support / delivery systems
 - delivery system that integrates / synthesizes advice within the firm
- Low-value work is driven primarily by price, competence and delivery reputation
- Mid-value work incorporates elements of both
 - with price being set alongside the importance of the issue



There is a Growing Market Demand for Firms With a Cross-Border Capability

- A majority of ‘sophisticated’ consumers see potential value in a cross-border capability
 - With investment banks particularly strong for transactions over a specific size (c\$250m)
- One group of in-house counsel is very supportive
 - Others are waiting – not convinced anyone can ‘deliver’ as yet
- Another group of in-house counsel is implacably opposed
 - See the ‘one-firm cross-border’ approach undermining their role
- Litigation and other specialist services also expanding internationally

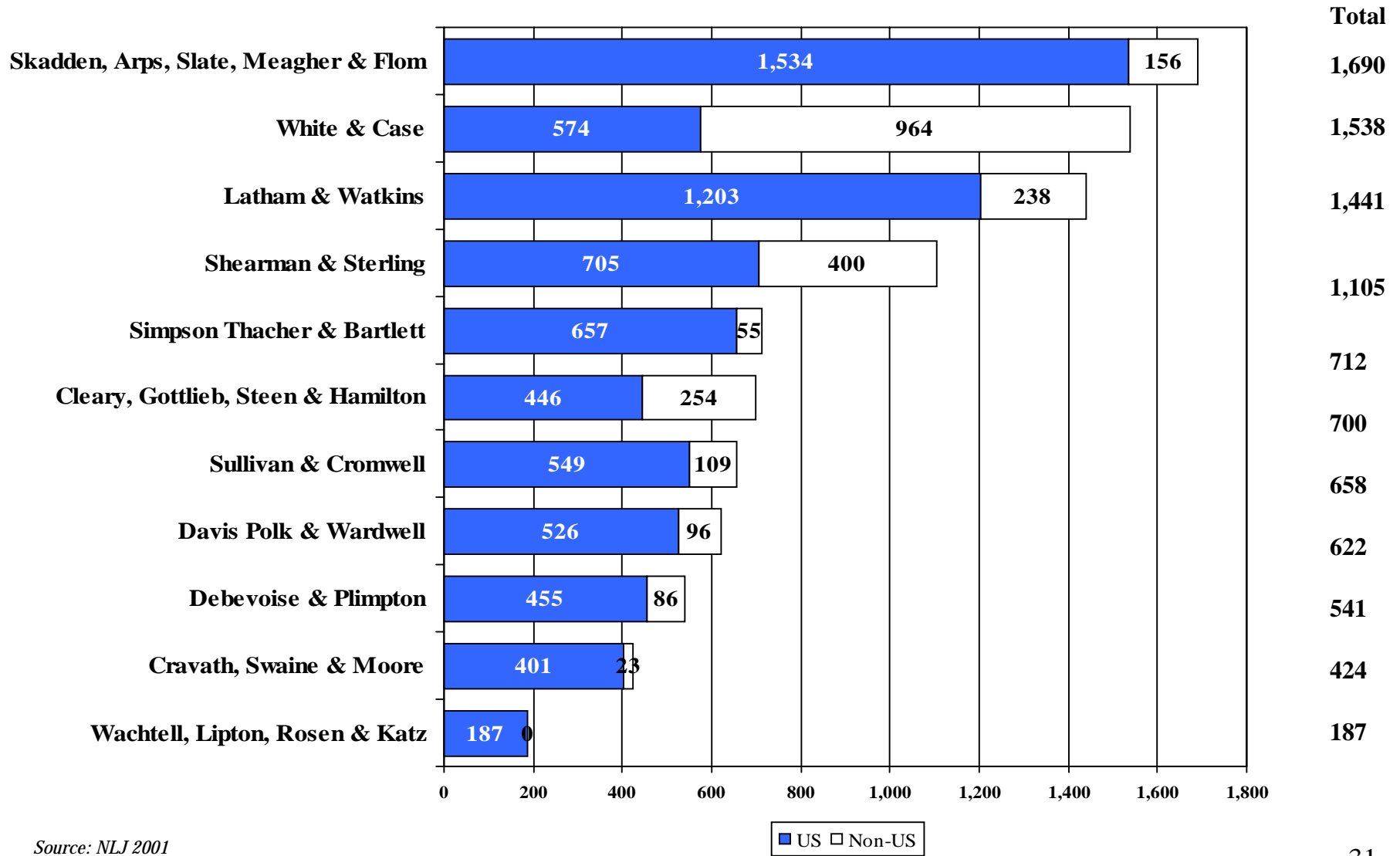


'Globalization' Has Been (Largely) a Competitive Initiative Related to Client Buying Patterns

- London and New York's position in Capital Markets
 - An increasing number of deals with an element in three locations
- Role of investment banks in the transactions process
 - And their preference for common law and a small group of law firms
- The growing internationalization of European business
 - Using takeovers, mergers and refinancing as a strategic move
- A perceived greater commerciality among leading US/UK firms
 - Focused on the outcome, not just the documentation



Leading US Firms Are Less International – But This is Changing



Source: NLJ 2001



The Strategic Options For US Firms That Seek a Leadership Position Are Narrowing

- Full-service firms must develop a focus
 - within a core client base
 - a group of practice areas that can ‘drive the firm’
 - move away from presenting a generalist position
 - ‘do everything for everybody but not known for anything in particular’
- Full-service regional leaders have several options
 - pursue a national position within selected regions and move internationally subsequently
 - pursue more of a specialist position nationally / internationally
 - likely to lead, long term, to a scaling down in the home region
 - remaining regional will not be a competitive position when other national firms / regional leaders enter the market



The Strategic Options For US Firms That Seek a Leadership Position Are Narrowing (cont'd)

- Firms below a leading regional position have several options
 - seek to move into the leading group, independently or by merger
 - merger could be with a leader or a similar firm in or outside the home region
 - adopt a second tier / mid-market regional focus and accept implications
 - slim down to a specialist firm and decide on regional, national or international focus
 - a difficult option for a firm that is presently full service



There is a Growing Market Demand For Firms With a Cross-Border Capability

- A majority of ‘sophisticated’ consumers see potential value in a cross-border capability
 - with investment banks particularly strong for transactions over a specific size (c\$250m)
- One group of in-house counsel are very supportive
 - others are waiting – not convinced anyone can ‘deliver’ as yet
- Board-level directors tend to be supportive
 - over-ridden in-house counsel’s desire to use ‘best firm in each location’
- Another group of in-house counsel are implacably opposed
 - see the ‘one-firm cross-border’ approach undermining their role
- Demand now much wider than transactions
 - Litigation and other specialist services



Firms Are Reshaping Their Client Focus/Practice Area Mix

- Compete by creating greater “value for money” for clients than competitors
- Requires a firm to choose a specific market position
 - Core client
 - Core service
 - Value position
- Reshape the firm to compete effectively in that position
 - Will reduce its ability to compete effectively elsewhere
- Requires a change of behavior from partners down
 - The role of a partner is changing significantly
- Demands a strong management focus on performance



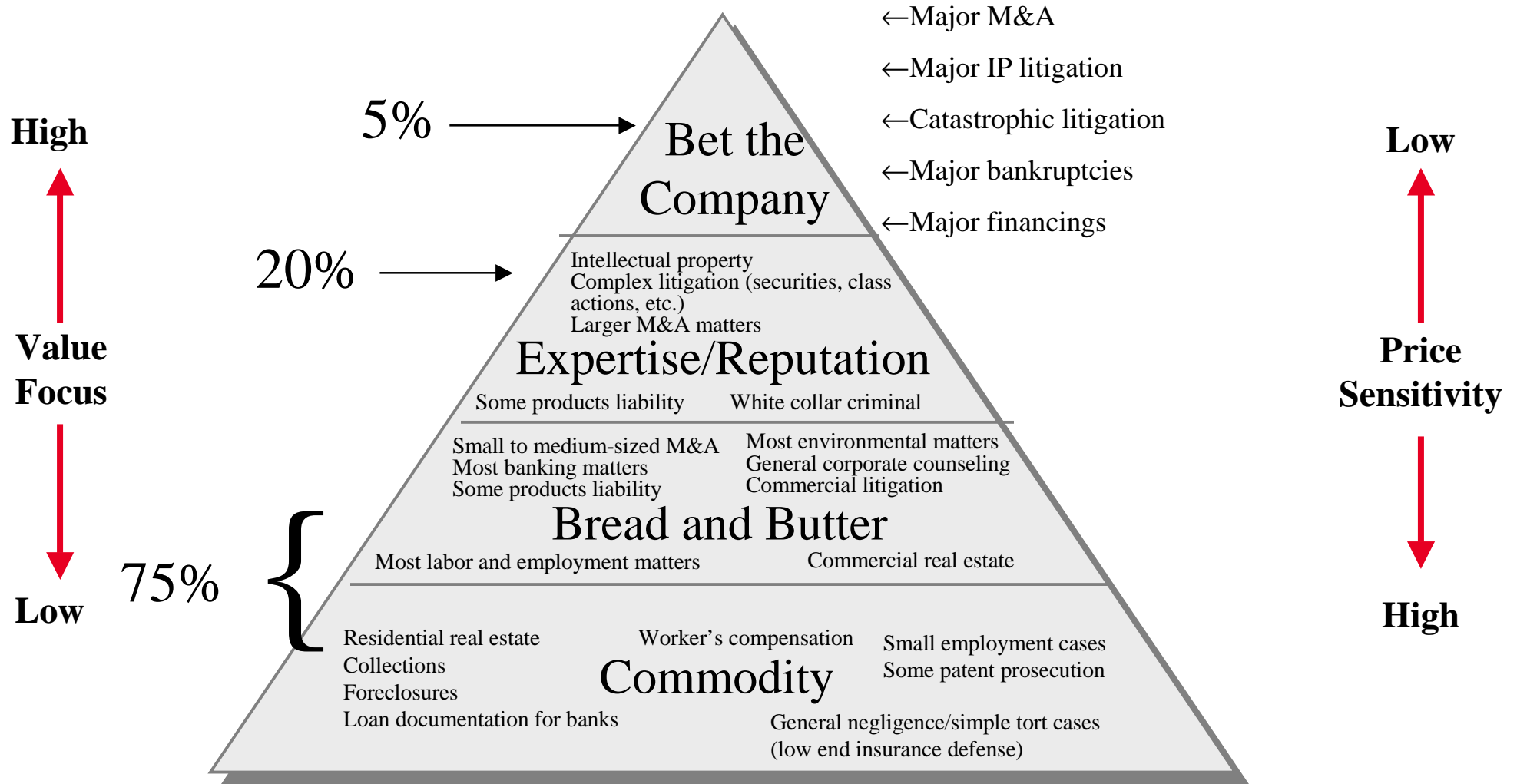
Competitive Pressures Are Forcing a Change of Behavior Inside Law Firms...the Role of a Partner Will Change

- Putting in place clear management structures / business units
 - With business plans and targets
- Developing performance management programs
 - Requiring partners to meet agreed levels of performance
- Implementing a more demanding environment for all lawyers
 - Career progression clear with threshold points
 - Clarifying what is required to become a partner
- Clarifying the role of a partner – at different levels
 - Fee earning being only one of a number of key activities
 - Moving more to managing a team than doing work oneself
- Changing the number of partners required to generate income
 - Focusing on importance of leverage





Examples of Current “Valuing” of Types of Work





Different Levels of Work Require Different Competitive Capabilities

| High Value | Low Value |
|--|---|
| <ul style="list-style-type: none">• Partner intensive• Relationship focused• High quality service delivery• Team-based• Expensive backup/ support cost | <ul style="list-style-type: none">• Junior lawyer/paralegal/technology - driven• Interface management – low involvement• Deliver on time• Process-driven• Technology-driven support |

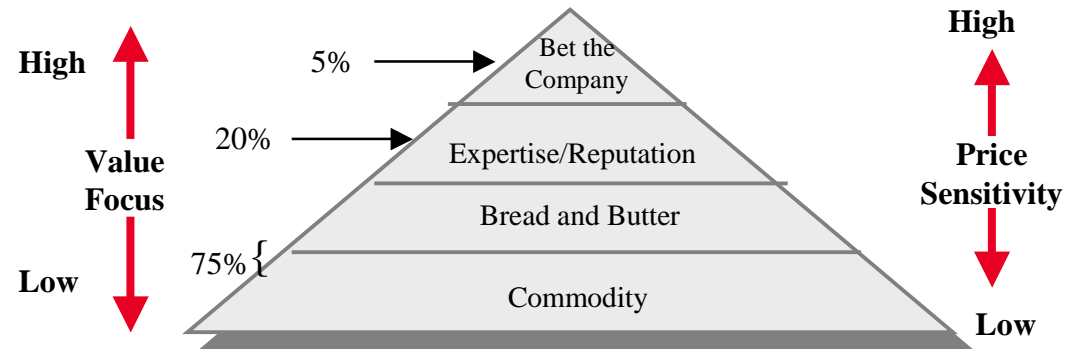


Factors Influencing the Hiring Decision Vary Down the Value Pyramid

| High Value | Low Value |
|---|--|
| <ul style="list-style-type: none">• Reputation and “IBM” factor• Expertise & depth• ‘Experience curve’• Competitive critical mass• Deliver “solutions”• Service delivery• Trust/relationship• Team-based (where appropriate) | <ul style="list-style-type: none">• Price• Competence and depth• Deliver on time• Reputation – for cost-effective and dependable delivery |



Devaluing -- Impact on Firms



Key Points

- Being “all things to all people” often results in a commoditization of the firm and the practice area
- Marketing lower cost/price is not a selling point for the top levels of work
- Firms with strong management at the practice group level attract more high-value work and greater volumes of work from clients
- Don’t take “loss leader” matters -- attracting lower level work to obtain higher level work rarely works



Building a 'Global' Position is Far From Easy, As Many Are Learning

- Value is in a one-firm approach
 - The means by which value is added over 'best in each location'
 - Consistency across offices, not just having offices
- Clients specify the need for:
 - Consistent core practice strengths and service delivery (international and local)
 - One 'account partner' with others following a client service protocol
 - Shared client knowledge across firm
 - 'A core client anywhere is a core client everywhere'
 - High levels of cohesion throughout the firm
 - A blend of local / international outlook / culture
 - Flexibility, adaptability, client-driven approach



A European/US Mid-Market Position is Developing

- Focused mid-market UK firms spreading across Europe
 - Following mid-market work
 - Large and mid-size clients
 - Venture Capital, Private Equity, IP / IT, Antitrust, Labor Law
 - Litigation is also developing as a cross-border service
- Major firms in mainland Europe re-shaping around this model
 - Seeking mid-market mergers
- Significant upturn of US interest
 - Number of firms developing strategies
- Critical mass in focus areas is crucial
 - Cannot succeed with a small team



Law Firms Are Responding By Restructuring Their Businesses

- Seeking focused or specialist positions
 - Full-service generalists less competitive – bleak future
- Concentration of high-value legal work around a few firms
 - Work moving to those who truly provide value
- Others require a restructuring of their cost base, work processes to survive
 - Need to compete in lower profit margin segments
- Increase in merger activity in order to compete as full-service
 - Some of which is misdirected
- Inherent strategic tension in many firms
 - Due to conflicting ambitions / goals of partners



Strategic Focus Increases As a Priority as Competition Becomes More Intense

- Difficult to compete in each practice area on a ‘stand alone’ basis
 - Diverse competitive capabilities and client segmentation create tensions
- Full-service firms need to develop a coherent focus or ‘trim down’ to a specialist position
 - With the former being the more realistic option
- Full-service focused firms rely on an ‘engine of growth’ for success
 - Focus on specific core clients and specific core practice area ‘packages’
 - Have synergy and coherence within the core
 - Commonality on ‘value’ positioning
 - Draws in other practice areas / clients on reputation



Some Common Characteristics of Leading International Firms

- Strong and effective client management systems
 - Client partner plus cross-border team
- Distinctive firmwide style and approach
 - Clients see one firm in action
- High levels of people interchange – secondments
 - Builds cohesiveness across borders
- Mix of international and local knowledge
 - Imports / exports knowledge
- Highly effective and integrated back-up/support systems
 - Concept of a Formula 1 pit crew



What This Means for In-House Counsel



1. Fewer buying options
2. Large firms buying depth and expertise
3. Quality issues
4. Understanding structure of firm you are hiring
5. Driving up costs → higher fees
6. Creating segmentation, even in secondary cities
7. Increase ability to use fewer firms
8. Uniform geographic coverage
9. More conflict issues
 - Potential need to waive conflicts more regularly