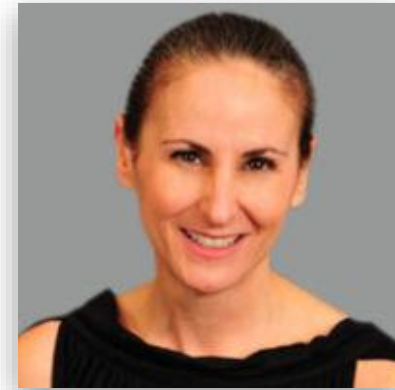


The 21st Annual Law Firm COO & CFO FORUM

The State of the US Legal Market



James Jones
*Senior Fellow, Center
on Ethics and the Legal
Profession, Georgetown
University Law Center*



Gretta Rusanow
*Head of Advisory Services,
Law Firm Group,
Citi Private Bank*

The 21st Annual Law Firm COO & CFO Forum

State of the US Legal Market: Navigating in Uncertain Times

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A Quick Lookback to 2021 – Best Financial Year since the GFC

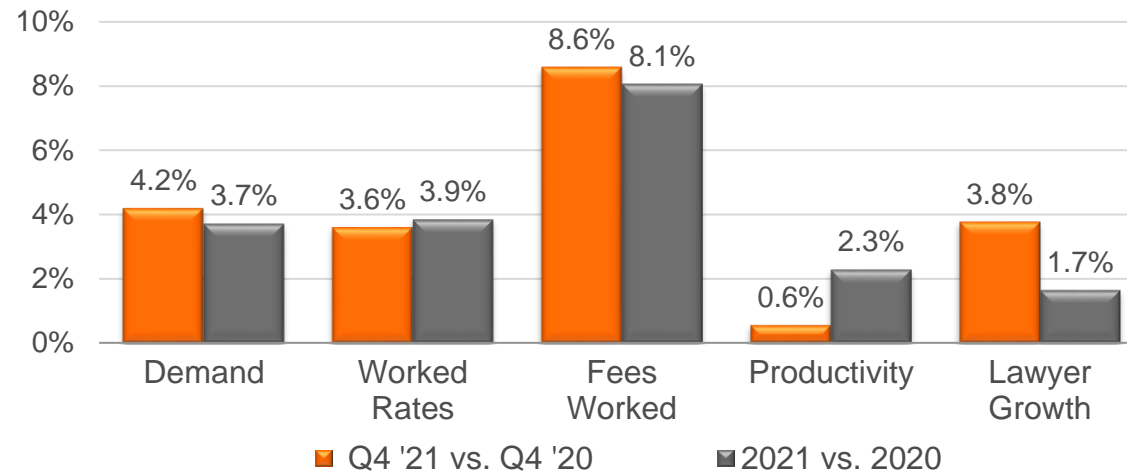
Key takeaways:

- Unprecedented growth in transactional practices, esp. in Q4
- Mental health, burnout, & turnover concerns were rampant
- Headcount and expenses surged in the second half of the year

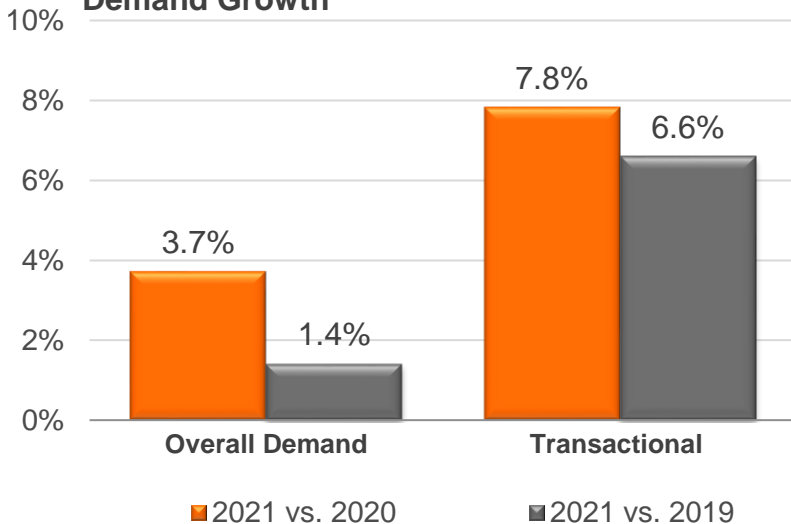
PPEP ended 2021:

- Up almost 16.4% for Am Law 100 firms
- Up about 15.9% for Am Law Second Hundred firms
- Up about 20.7% for Midsize firms

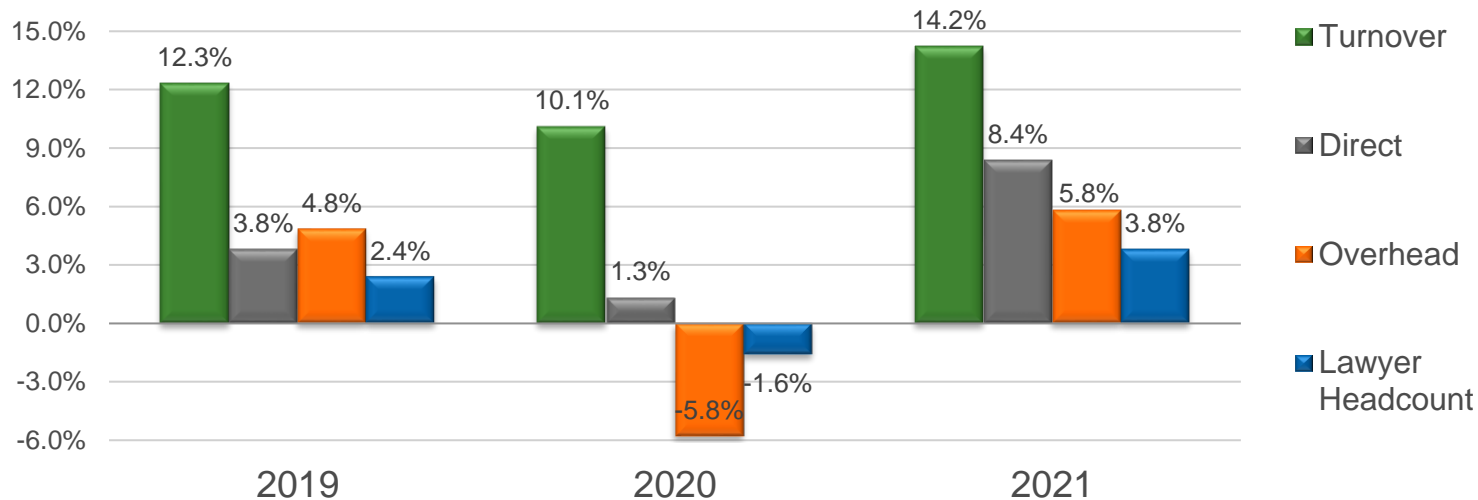
Key Performance Measures



Demand Growth



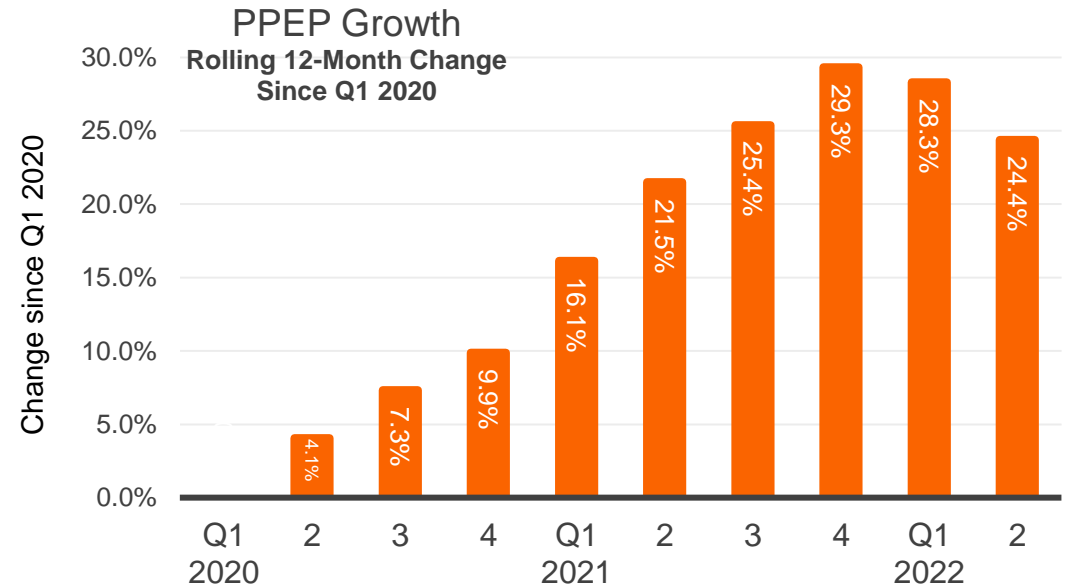
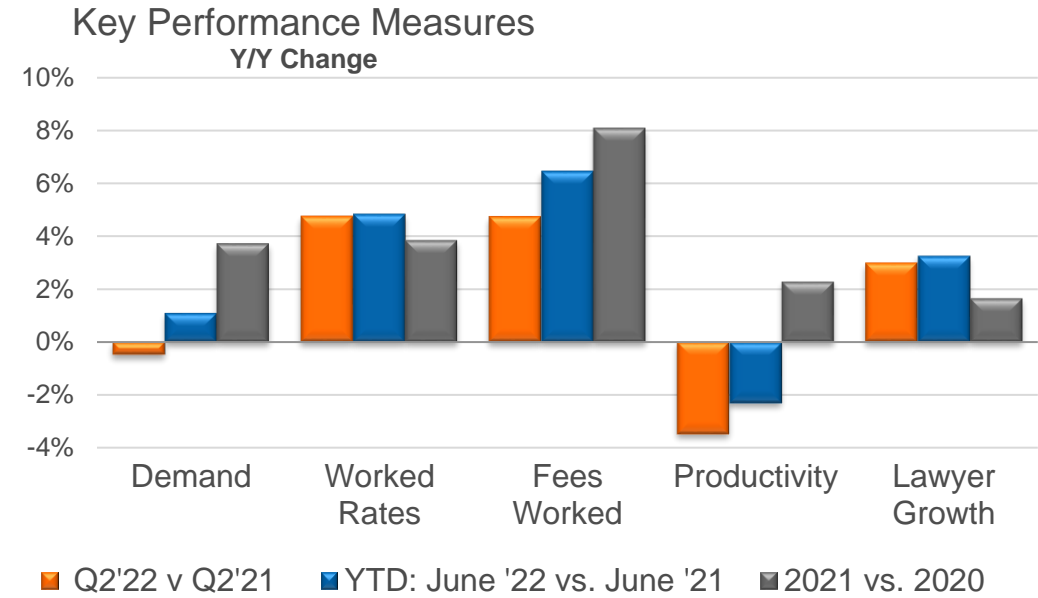
Headcount, Turnover & Expenses Surge



YTD 2022 – Mixed Results and Growing Uncertainty

Key takeaways:

- Slowing demand due to political and economic uncertainty has reduced appetite for transactional work, especially within the Am Law 100.
- Over the summer, IP, labor & employment, and litigation saw some modest strength, particularly down market.
- Trending below inflation, worked rate growth remains historically robust.
- Headcount and turnover remain elevated since the second half of last year. Combined with returning to office plans, this has kept expense growth stubbornly high.
- With slowing revenue and elevated expense growth, profitability in 2022 looks to contract year-over-year.
- However, the big picture currently remains strong as firms are still 20% more profitable in Q2 2022 than before the pandemic began in Q1 2020. Profit margins remain above historical levels as well.



KPM:

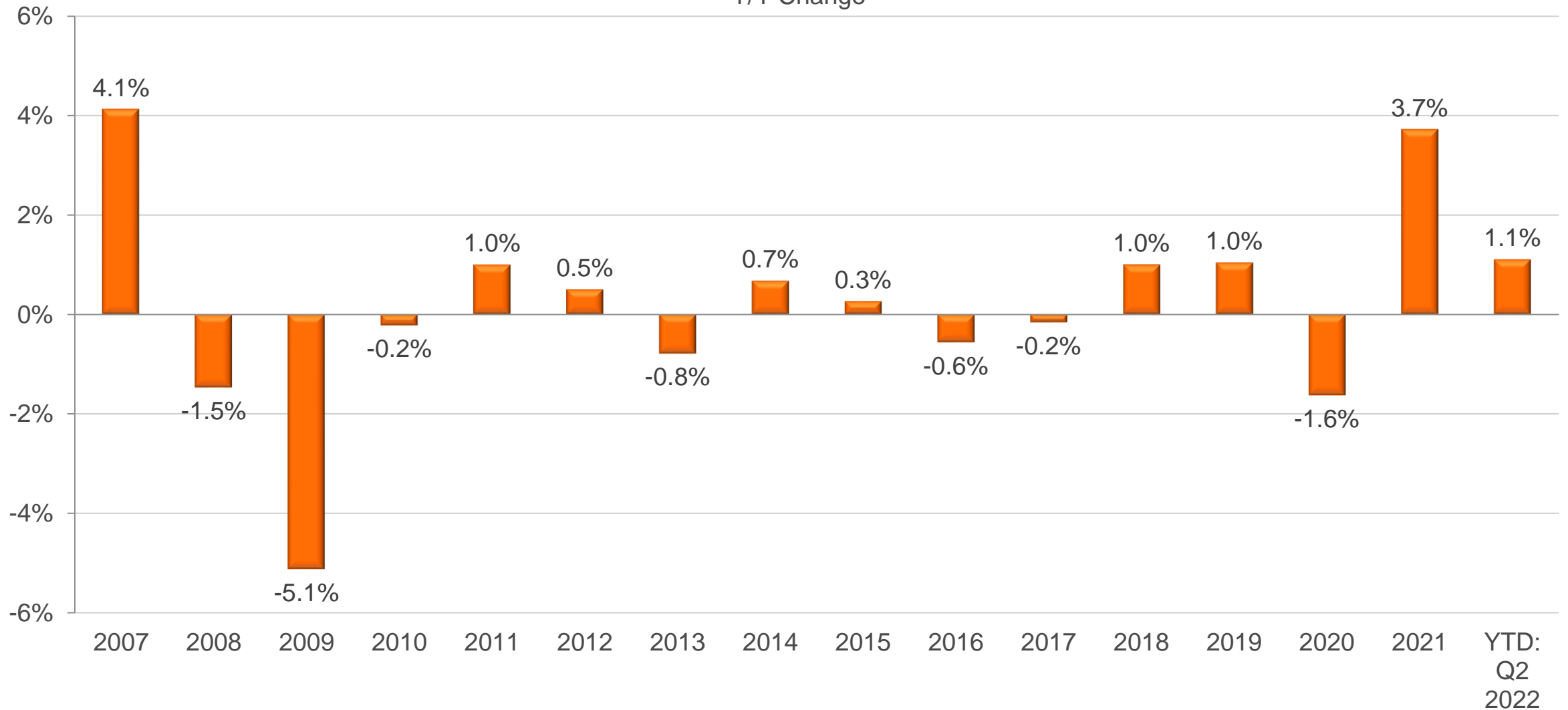
All timekeepers

Billable time type; non-contingent matters

Historical Demand Growth

YTD 2022: Mixed Results and Growing Uncertainty

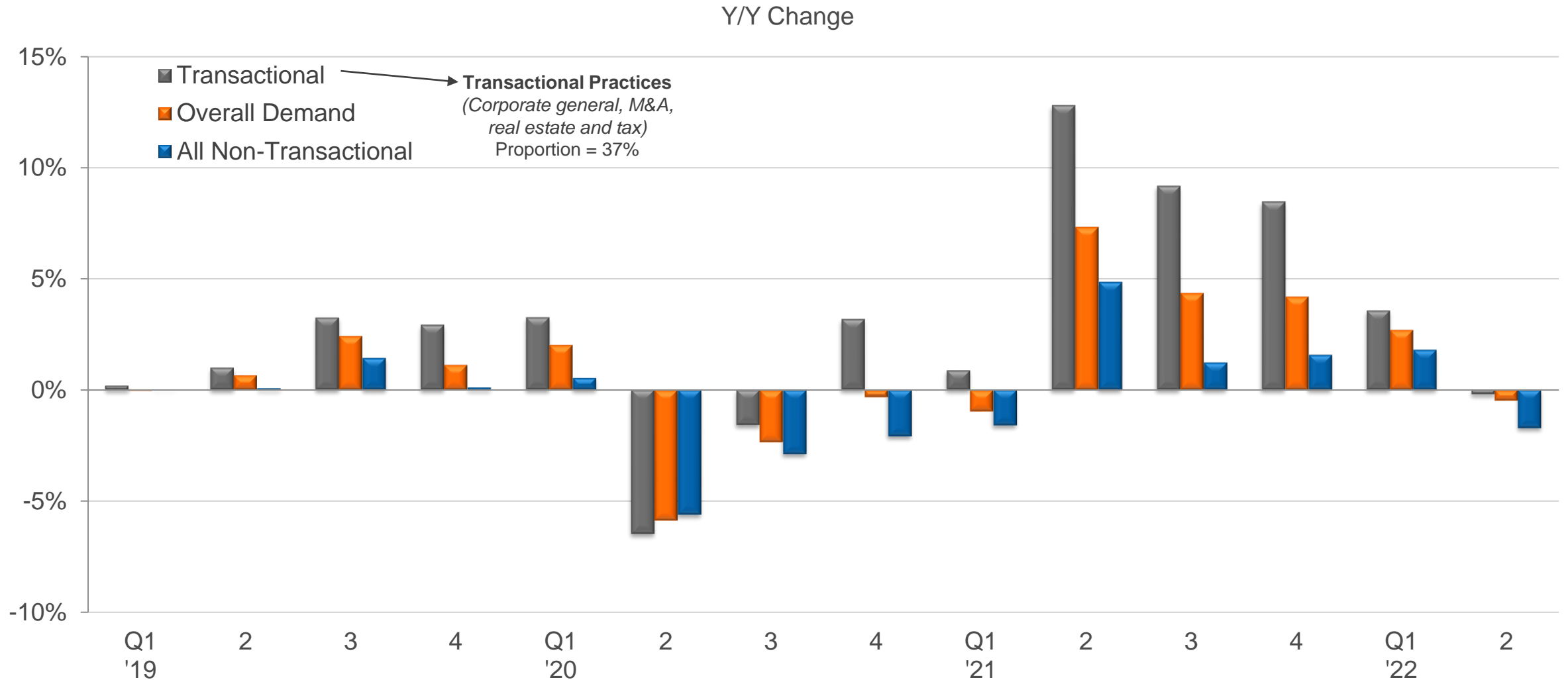
Y/Y Change



Transactional vs Non-Transactional Demand Growth

YTD 2022: Mixed Results and Growing Uncertainty

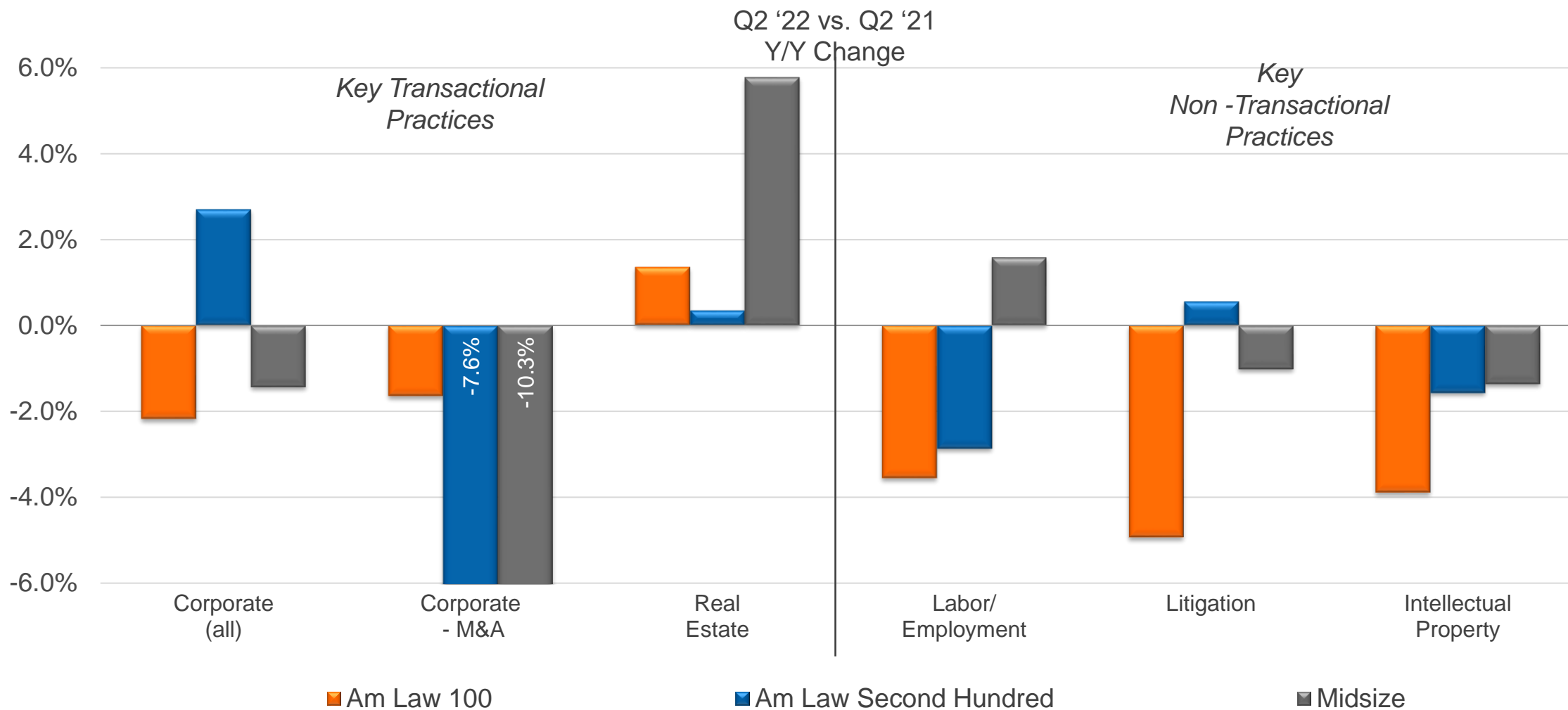
Practices	1H (2021 vs. 2019)	2H (2021 vs. 2019)
All Practices	0.8%	2.3%
Transactional	4.9%	8.1%
Non-Transactional	-1.0%	-0.8%



Practice Demand's Influence on Overall Demand in Each Segment

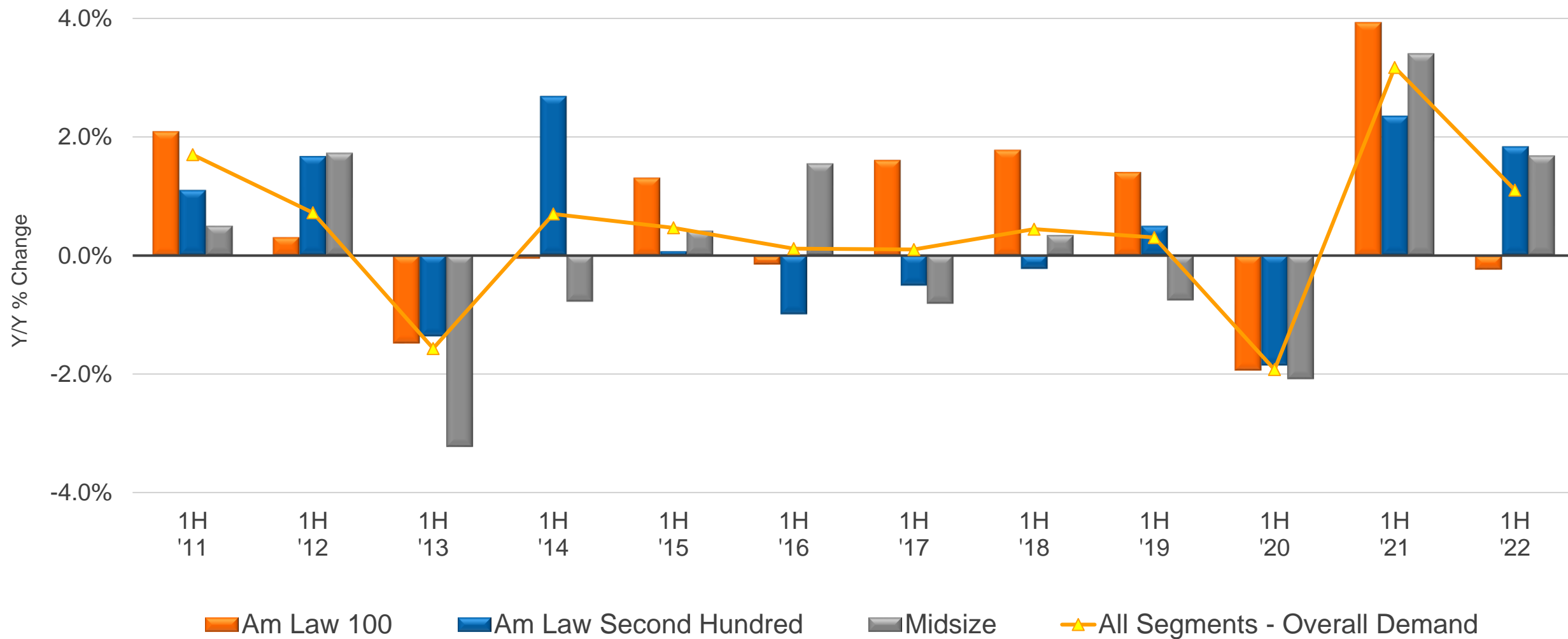
YTD 2022: Mixed Results and Growing Uncertainty

Demand Growth by Segment	Q2 '22 vs. Q2 '21
Am Law 100	-2.4%
Am Law Second Hundred	0.7%
Midsized	0.1%



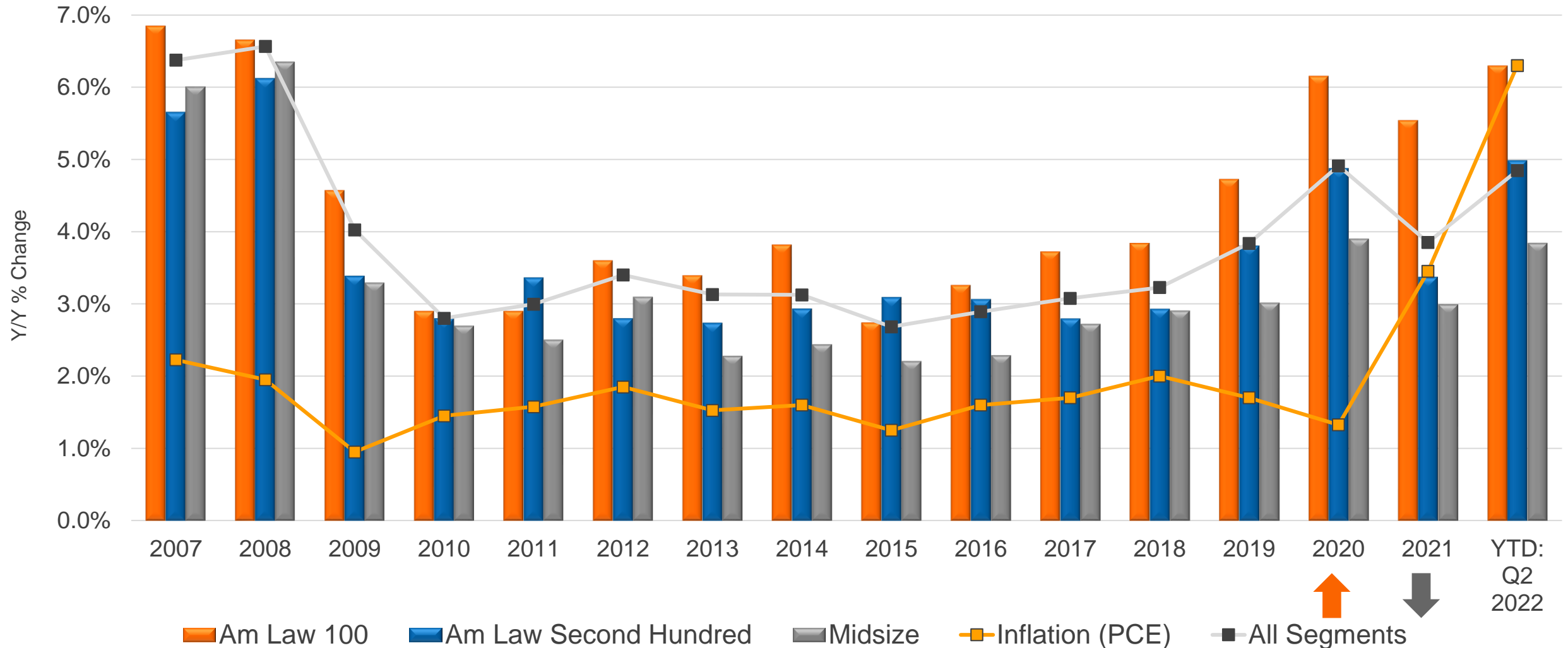
Overall Demand Growth by Segment

YTD 2022: Mixed Results and Growing Uncertainty



Worked Rate Growth by Segment

YTD 2022: Mixed Results and Growing Uncertainty

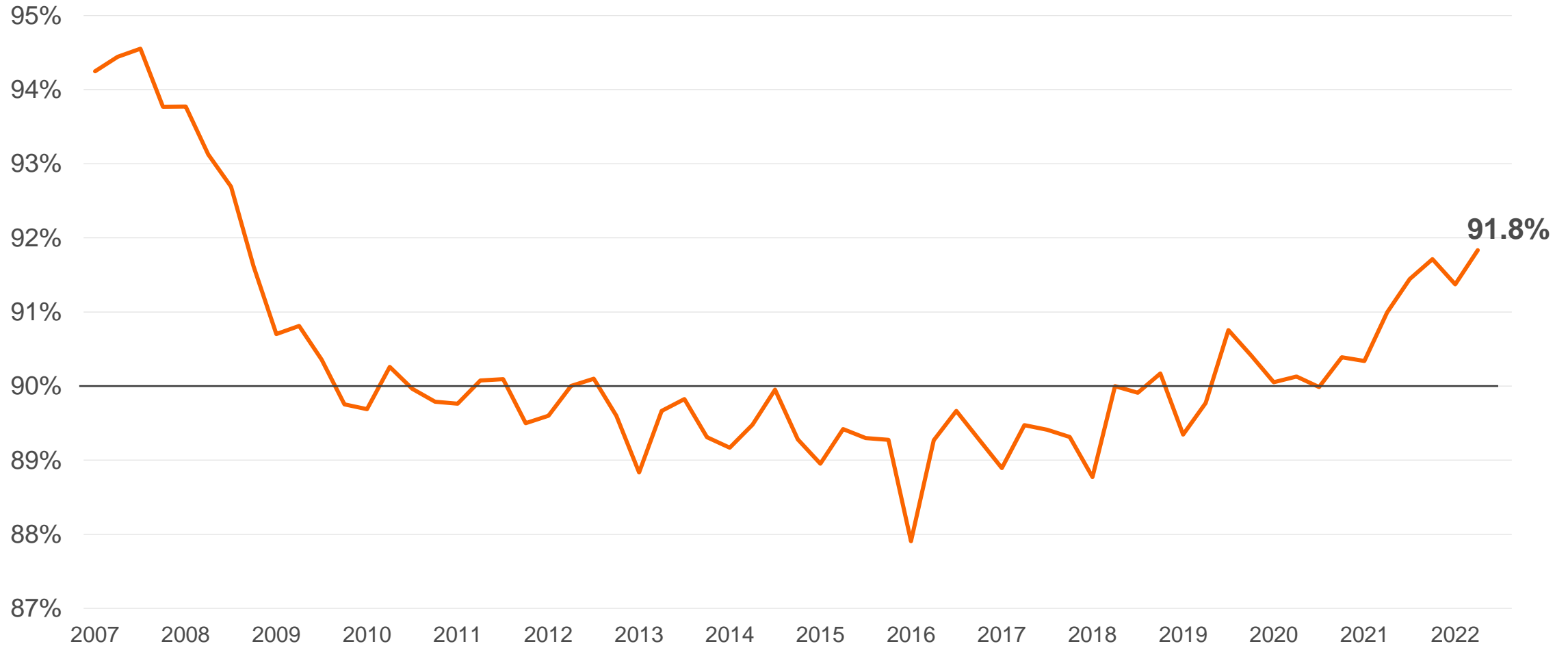


All timekeepers
 Billable time type; non-contingent matters
 PCE Inflation measure = Personal Consumption Expenditures Excluding Food and Energy

Collection Realization against Worked (Agreed) Rates

Collection Realization against Worked
2019 = 89.8%

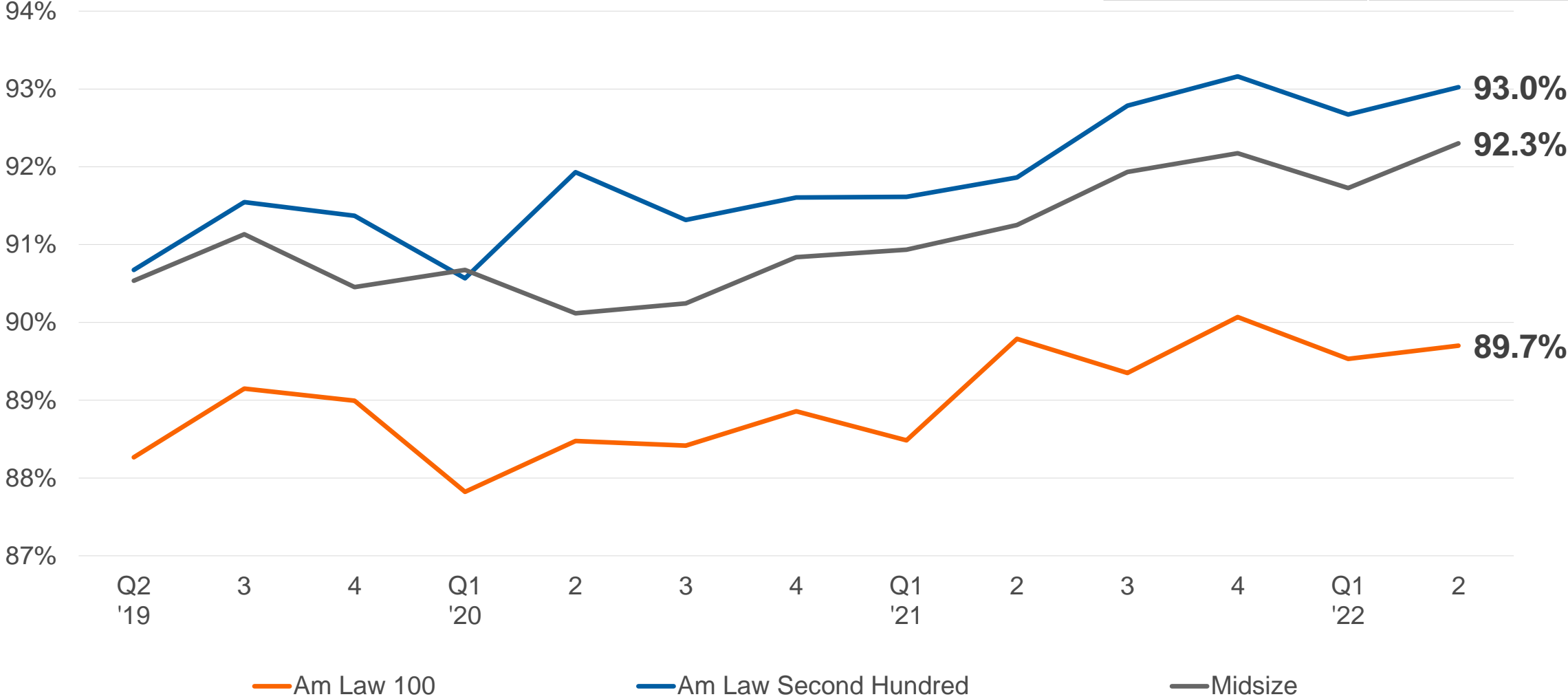
YTD 2022: Mixed Results and Growing Uncertainty



Collected Realization against Worked (Negotiated)

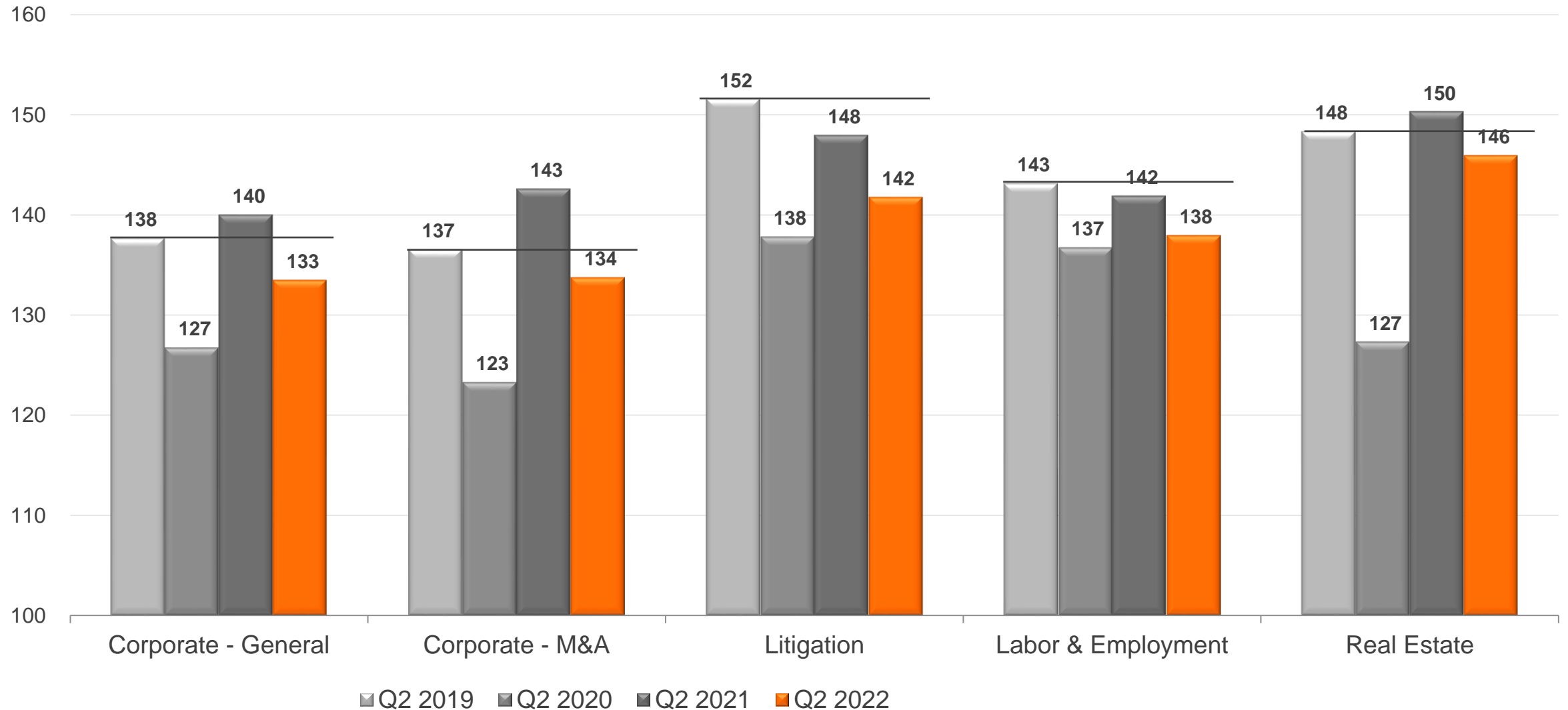
YTD 2022: Mixed Results and Growing Uncertainty

Segment - (Collected/Worked)	Q2 2022 Realization (percentage point improvement compared to Q2 2019)
Am Law 100	+1.4
Am Law Second Hundred	+2.3
Midsized	+1.8



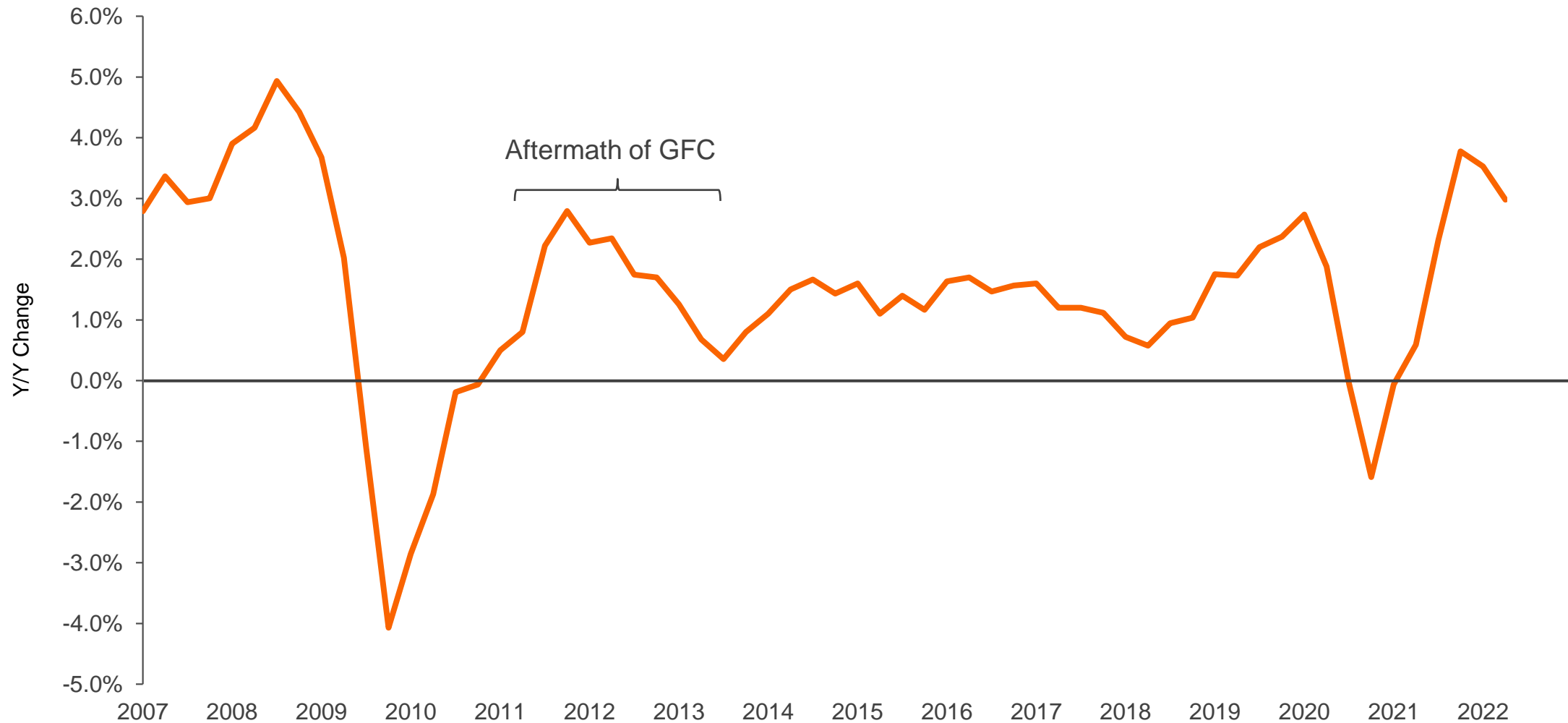
Productivity by Practice – Hours per Lawyer per Month

YTD 2022: Mixed Results and Growing Uncertainty



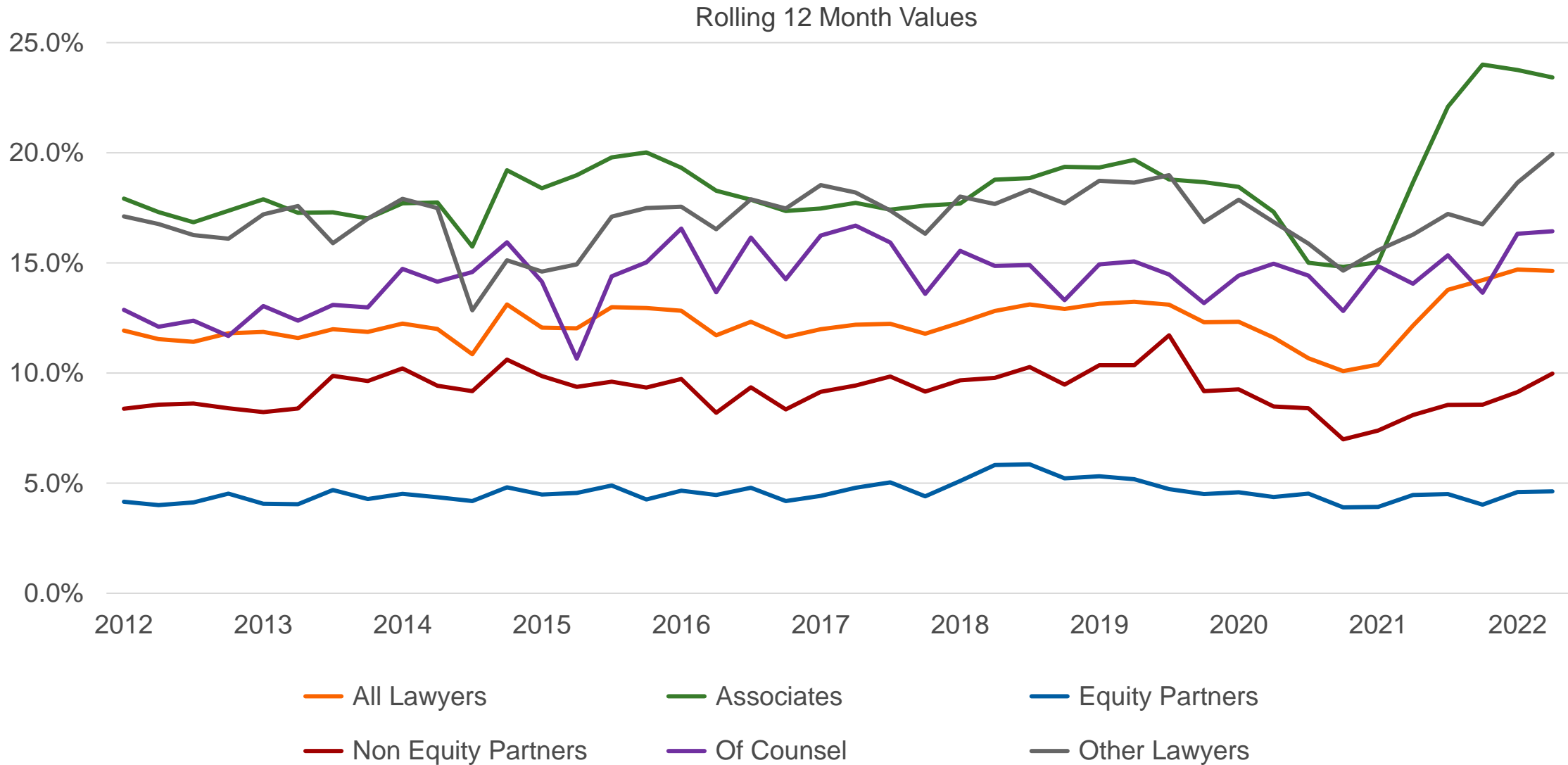
Lawyer Headcount Growth

YTD 2022: Mixed Results and Growing Uncertainty



Turnover Analysis

YTD 2022: Mixed Results and Growing Uncertainty



- All Lawyers
- Associates
- Equity Partners
- Non Equity Partners
- Of Counsel
- Other Lawyers

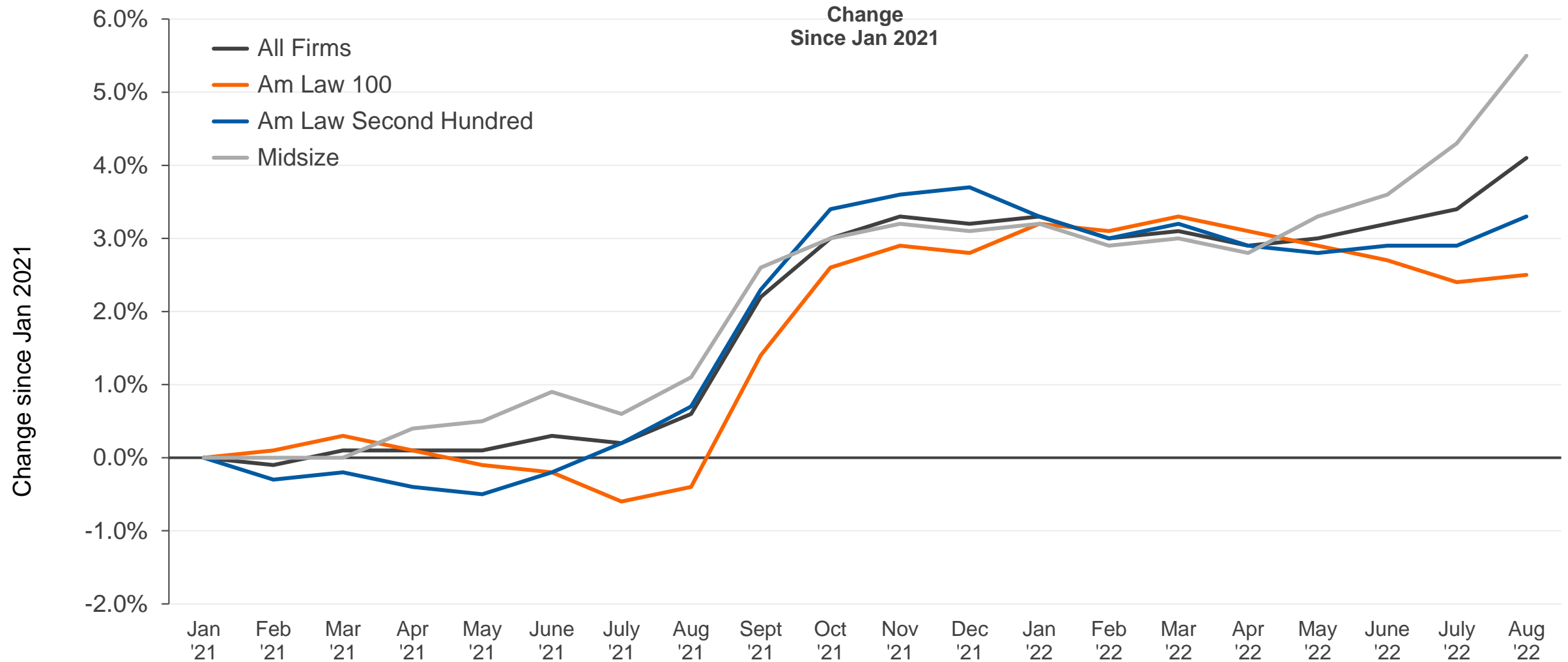
Turnover = Lawyers who left the firm divided by Lawyers at beginning of the time period

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Lawyer (FTE) Growth – Change Since January 2021

YTD 2022: Mixed Results and Growing Uncertainty

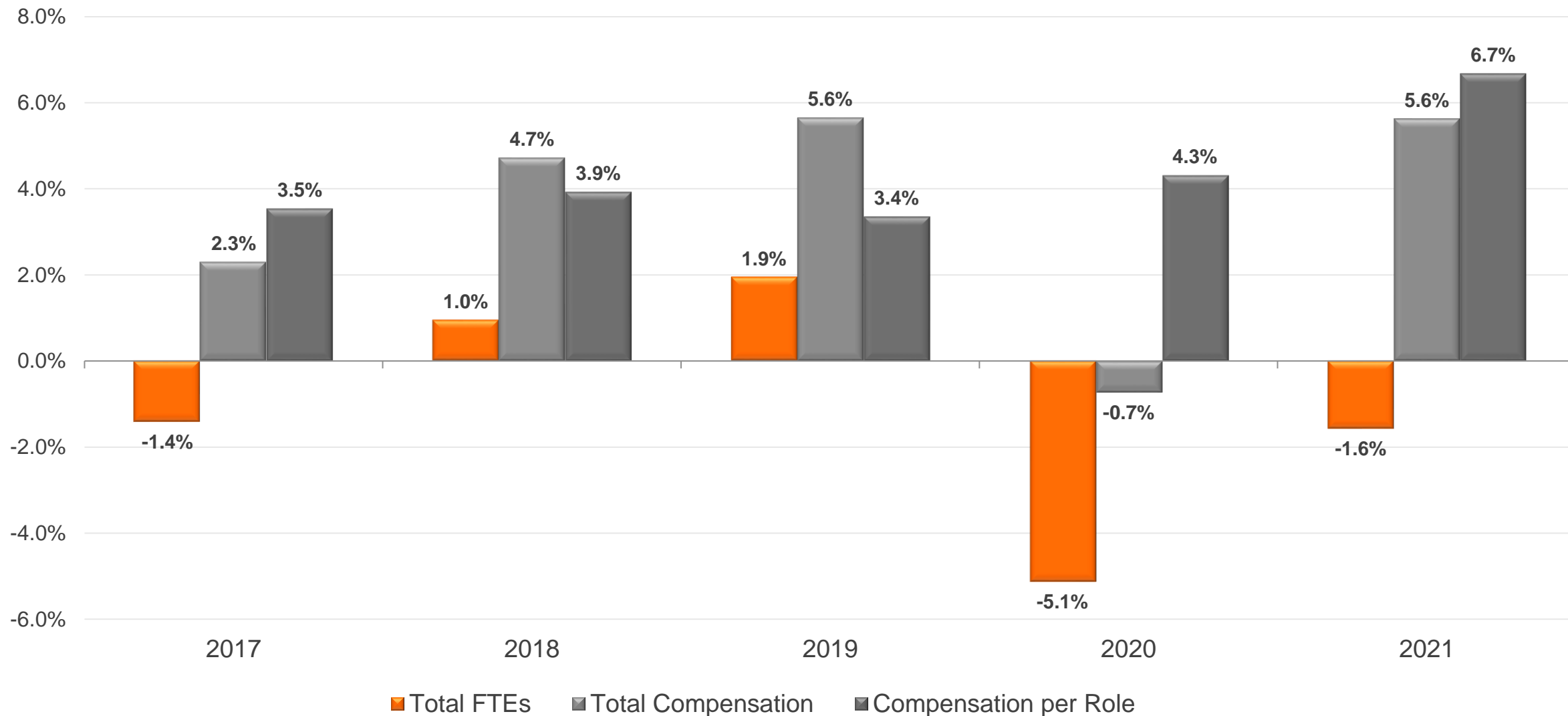


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*Percentages measures change from each point against Jan 2021 headcount to show change while ignoring baseline effects

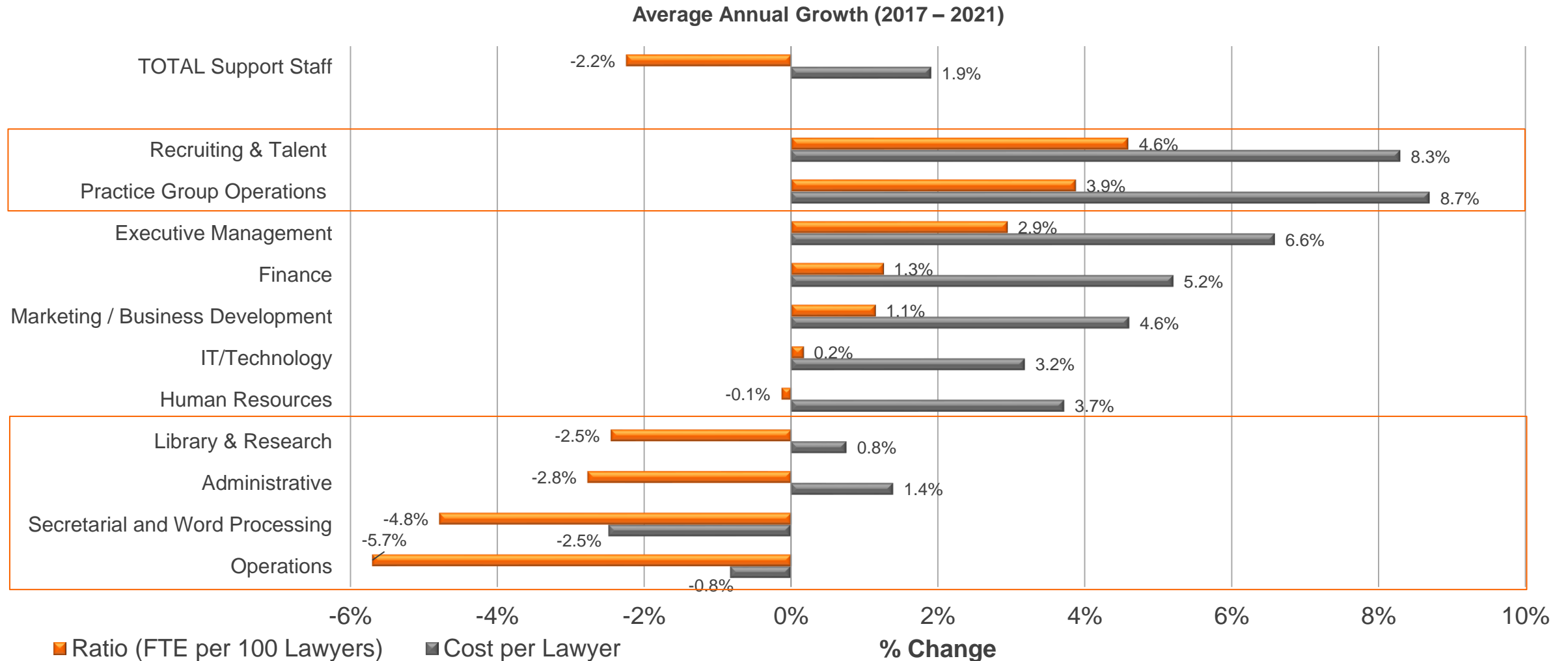
Support Staff FTEs, Compensation, and Compensation Per Role Growth

YTD 2022: Mixed Results and Growing Uncertainty



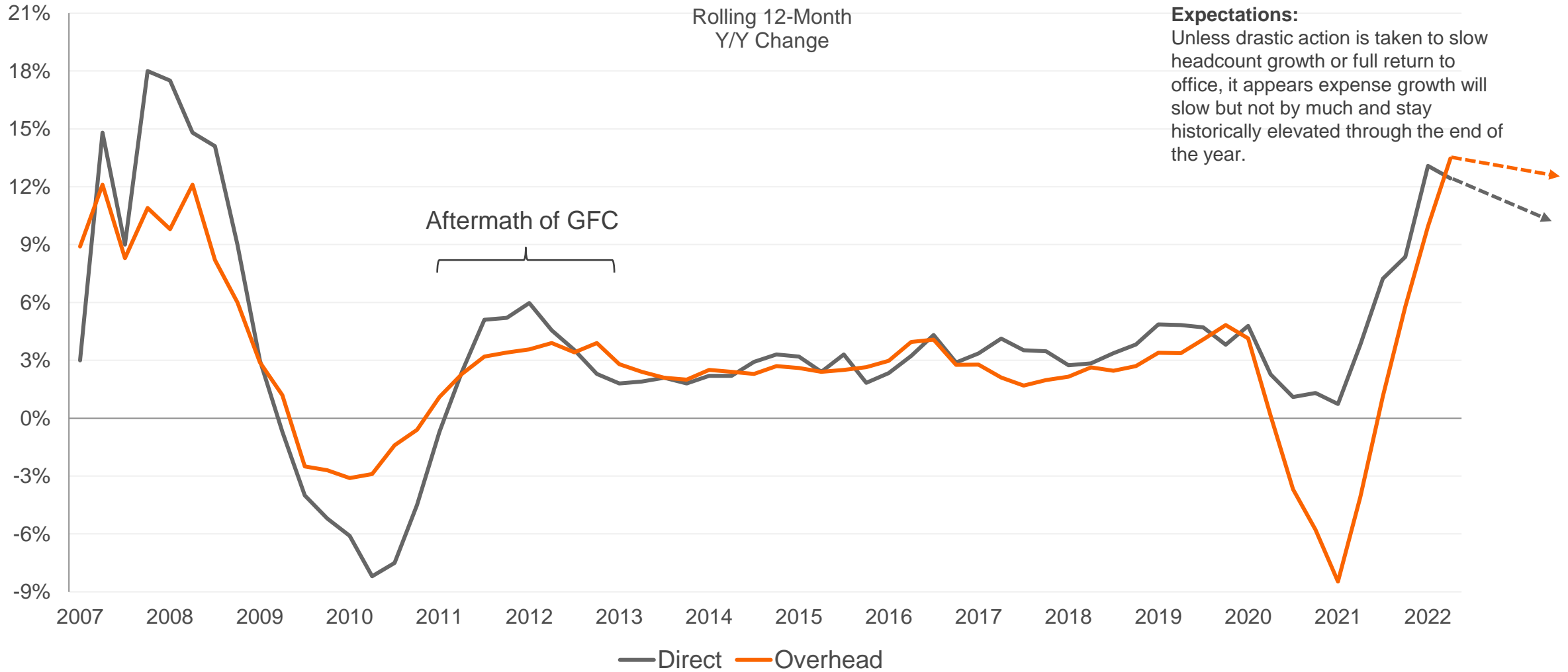
Cost per Lawyer & FTEs per 100 Lawyers Growth by Function Area

FTE Ratio, on average has shrunk while CPL has grown. This is being caused by consistent sharp reductions of lower cost FTEs in the largest departments and extensive cost increases in smaller, more specialized function areas.



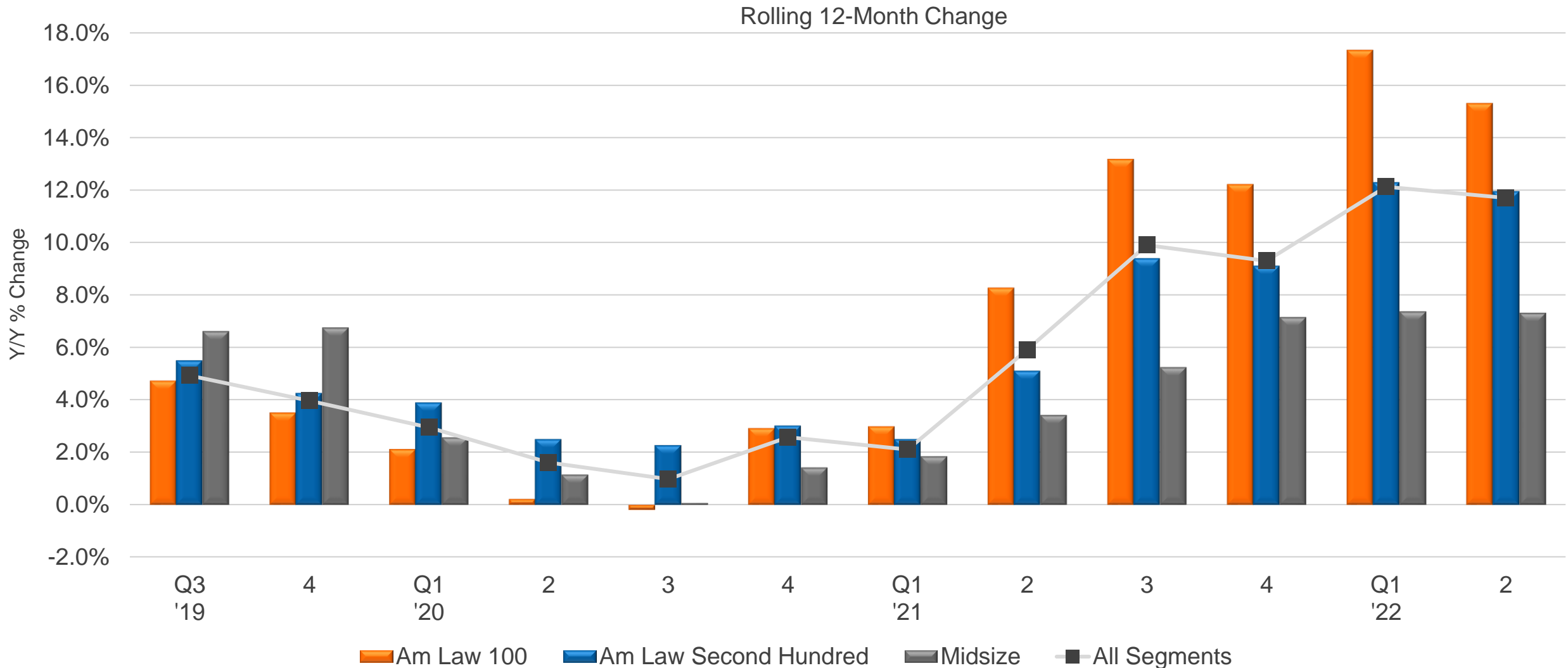
Expense Growth

YTD 2022: Mixed Results and Growing Uncertainty



Associate Compensation Growth

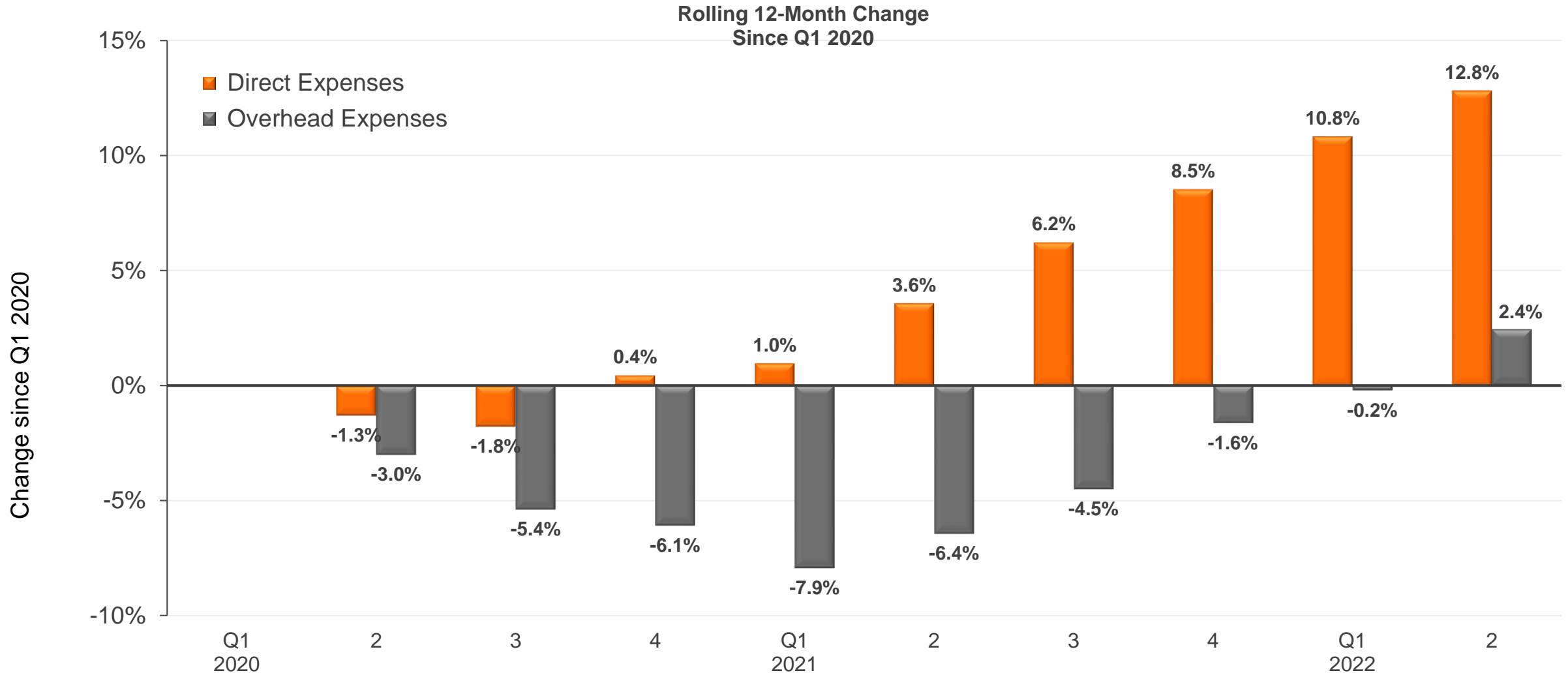
YTD 2022: Mixed Results and Growing Uncertainty



Expenses per Lawyer (FTE) Growth – Change Since Q1 2020

Average Percent of Expense per lawyer:
Overhead = 47%
Direct = 53%

YTD 2022: Mixed Results and Growing Uncertainty

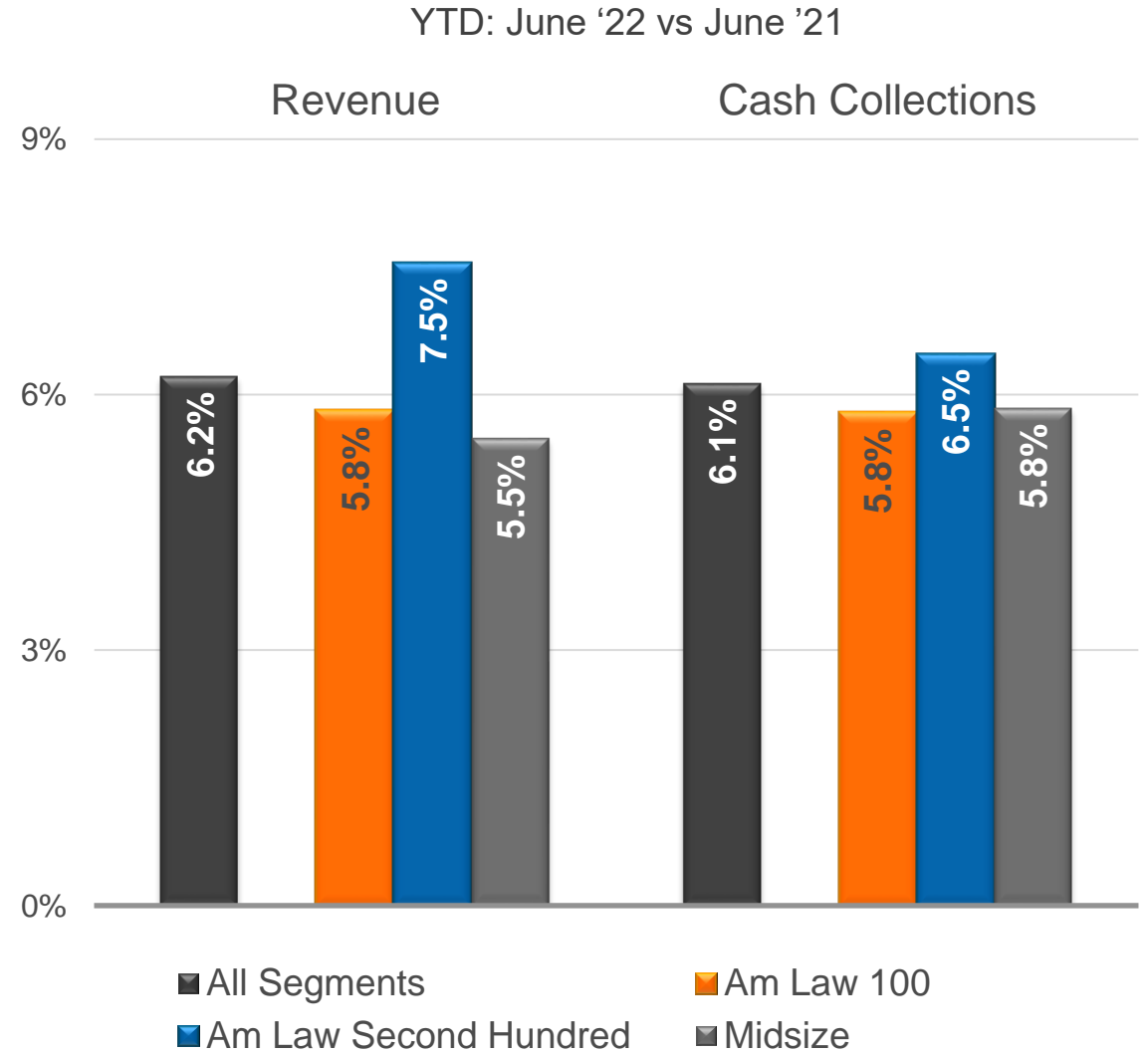
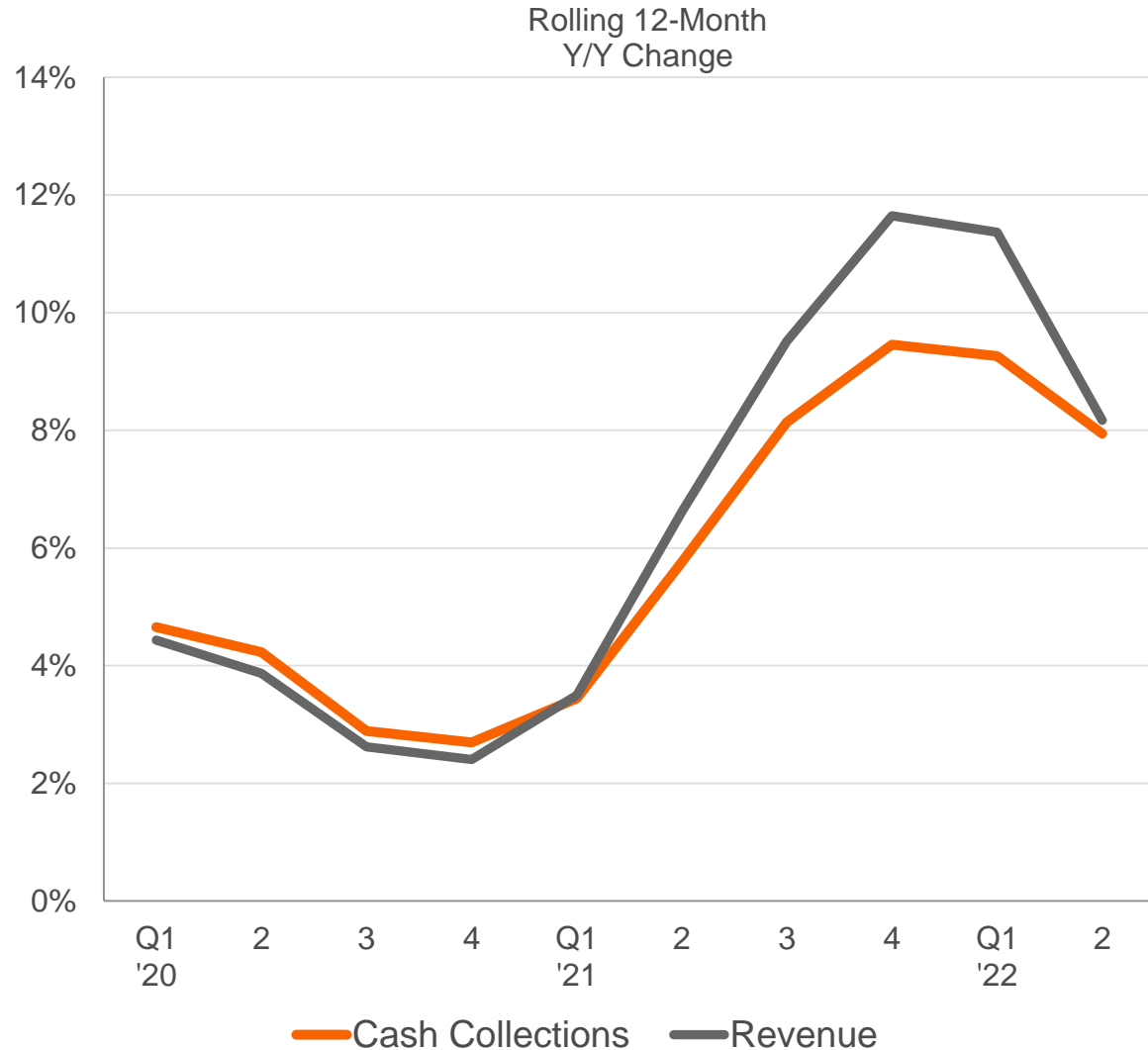


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*Percentages measures change from Q1 2020 values to show change compared to the last 12-month period preceding the pandemic.

Revenue & Cash Collection Growth

YTD 2022: Mixed Results and Growing Uncertainty



Revenue = G/L Data
 Cash Collections = Timekeeper Data – Billable time type; non-contingent matters

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Profit per Equity Partner (PPEP) – Change Since Q1 2020

YTD 2022: Mixed Results and Growing Uncertainty

