

BATTEN DOWN THE HATCHES

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But Spain's economic problems are not just affecting the stability of the single currency – they are also having a lasting impact on the country's legal services market. Where five years ago domestic law firms saw the kind of double-digit growth that other European markets could only marvel at, the wheels have since come off: those same firms would now be lucky to break even. For example, Cuatrecasas Goncalves Pereira – one of the country's biggest domestic law firms with over 1,000 lawyers – only managed to record 0.4% growth in 2011 with a turnover of €242.6m (£194m).

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Spanish market for legal services is going through a difficult time at the moment. "The impression most law firms have is that the economy is stagnant at the moment which is bad news," he says. "The client base for legal services is seriously damaged and we can't expect that all our clients will stay in business for the long term. I don't really see any signs of this changing in 2013," he says.

Hernandez adds that his financial projections are becoming much more short term. "If you asked me how you think we are going to do in 2013, then I would have to say that I have no idea. We are now looking at monthly planning, rather than budgeting for every quarter."

Challenging market

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Lawyers complain that there is now more pressure on fees. "We have not increased our rates since 2007," adds Perez-Llorca. "We are trying to be flexible and to provide more value for money. Clients are very fee conscious and we are working with them to deliver top quality work at the best possible price."

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But some lawyers believe that the market can only improve, and that there are already some signs of recovery. "We don't think that 2013 will be a good year but we do expect the landscape to change," says Perez-Llorca. Others share the

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Source: Mergermarket

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sentiment that 2013 is likely to see a change in fortunes. Fernando Vives, managing partner at Garrigues, believes that "the legal industry has hit bottom and in 2013 it will remain stable or make a slight recovery."

Luis de Carlos, managing partner at Uria Menendez, is more optimistic than most. He believes that the country's legal services market is more resilient than other sectors, and that in 2013 it will see an improvement. "I believe that the situation in 2013 will be better, as the market

has already improved in the last quarter, though it will be far from a record year for anybody. There will be greater economic stability – the European Union, European Central Bank and the Spanish government are working hard to make sure that the country meets its commitments and that its recovery is on track, and so far the signs are good."

Indeed, lawyers agree that there are areas of growth and that particular market segments are seeing an increase in activity – even if they are stymied by fierce competition. Hernandez believes

that the financial services sector is still attracting a lot of legal advisory work as a result of the restructuring that the industry is going through to refinance itself after being heavily exposed to toxic real estate assets from the housing crisis. "This isn't enough to keep everyone busy but it is enough to keep the market moving," he says.

Lawyers also agree that M&A activity is likely to pick up in the following 12 months as the economy looks set to improve, which should result in a boost for legal advice. "In areas like M&A or financing, any recovery will follow the trend in the overall economy," says Vives. And there have already been some major deals done in the past year – despite MergerMarket's findings that the Spanish M&A market was down by 73.3% in the first quarter of this year compared to the same period in 2011.

Key deals

Among some of the key deals, Perez-Llorca advised financial services provider Banco Pastor in its €1.5bn (£1.2bn) takeover by Banco Popular, while Garrigues advised insurer Groupama Group in the sale of its Spanish subsidiaries Seguros Groupama to Catalana Occidente Group and ClickSeguros – the only sale and purchase operation to take place in 2012 in the Spanish insurance sector. Uria Menendez advised Brazilian conglomerate Camargo Correa on its €2.5bn (£2bn) public tender offer for Portuguese cement company CIMPOR, one of the world's top ten cement groups. The transaction is considered to be one of the most important deals of the year in Portugal, and one of the world's largest in the first quarter of 2012.

While law firms may be rubbing their hands at the thought of big ticket M&A deals, they *Continued on page 34*

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Continued from page 33
also point out that there are new growth areas that Spanish firms are able to steal a march on over their international rivals. For example, with recession comes an increase in demand for legal advice in litigation, labour law and insolvency practice. "We have the local expertise, whereas the global firms are looking to carry out work for international clients and usually pass off the work regarding local legislative issues to local firms, so the way is clear for Spanish firms to pick up this work," says De Carlos.

Taking stock

The recession has also afforded law firms other opportunities. For example, some lawyers say that they have now taken the time to review their practices – and whether changes should be made. Perez-Llorca, for example, has spent a lot of time reviewing the way it has been operating and has found that it has benefitted from its strategy of establishing a balanced practice providing a wide range of services rather than having a niche, specialist practice. It has also had to look more closely at costs and budgeting – "something we never really did before," says the firm's managing partner.

"Five years ago we had a more specialised focus on corporate and litigation work, but we have rebalanced this and have developed a solid practice in employment law, tax, and white collar crime, and all three of these areas have grown," says Perez-Llorca.

"I don't think you can operate in the long term as a specialist finance boutique or a corporate boutique as there is no protection in the event of a downturn," he adds. "To survive, you need to offer a range of corporate legal services – litigation, employment law, M&A, regulatory and compliance, government contracts – as you have no safety net otherwise. We have found that there has been an increase in demand for these latter services," he says.

Other firms have also benefitted from taking a generalist approach. "Being a full service firm has certainly helped prepare us for the crisis," says De Carlos. "Those firms that specialise in areas such as M&A have found it to be a hard market, as there is a lot of competition out there to do corporate legal work," he adds. Vives agrees. "For us it is evident that the successful firms will be those capable of providing a

broader range of services provided that they have departments capable of having their own presence in the market and are not mere 'support' departments. Specialties by industry will also be very relevant," he says.

The economic slowdown has prompted some firms to review their partnership structures as a way of cutting costs, improving pay transparency, and incentivising partners to pull in more clients. Cuatrecasas has recently changed its partnership structure in response to the situation, creating a single class of equity partner. The intention, says Hernandez, is to bring greater equality regarding remuneration structures.

Garrigues has also changed its partnership structure. "We have restructured the firm's governance system and converted all the 'half equity' partners into full equity," says Vives. "We are controlling costs and trying to maintain and expand our client base. In addition, we are making lateral hires in areas that especially interest us, like litigation and insolvency," he adds.

Bullish job market

Despite the crisis, recruitment has not been adversely affected, say lawyers, who point out that their annual intakes of newly qualified lawyers are in line with pre-2007 figures when the going was good. For example, Perez-Llorca has continued to grow despite the financial crisis, and is preparing to move to bigger head offices in Madrid. In 2007 the firm had around 75 lawyers: today it is 112.

"We have continued to grow the number of lawyers in the firm and we have also managed to increase salaries year-on-year," says Perez-Llorca. "While this may affect profitability, we believe that retention and recruitment are key long-term benefits for the firm. We want to continue to attract bright new lawyers year-on-year and we think the best way of doing this is to constantly grow and to diversify the practice," he adds.

While views about Spain's economic outlook – as well as its impact on the legal services market – may be mixed, domestic law firms are agreed that it pays to be pragmatic, flexible, and to take a generalist approach. "We have benefitted from being able to switch quickly to meet client needs and to respond to where the demand for services is coming from. Going forward, we see no need to change that strategy," says Hernandez.

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