





The popularity of speed dating in the City continues its inexorable rise. It's less taboo now, and no longer considered the preserve of the romantically desperate. Single professionals are too busy trying to keep their careers on track to waste endless evenings with unsuitable dates, so the idea of quickly vetting a number of potential partners in one evening seems to be time well spent. After all, for many, the conventional route to dating just means it takes longer to get your heart broken.

This fast-track approach to relationships has even spilled over into the business world. According to an article in *The Wall Street Journal* in May, headed 'AIG: "speed dating" for directors', American International Group's quest to solve a big problem – finding new directors for its board – led to three of its trustees, several board members and Treasury officials interviewing prospective directors in quick succession. And with mid-market law firms Speechly Bircham and Campbell Hooper finalising a relationship in June that went from footsie under the table in March to full marriage three months later, it seems that speed is now of the essence for law firms under pressure to adapt to the market.

As one partner told *LB*: 'A client actually said to me: "It's funny how when lawyers have to do it for themselves and aren't charging they can move a lot quicker."'

The merged firm will remain Speechly Bircham, with 88 partners and 250 lawyers. Combined turnover will reach around £60m, putting it near the top 50 of the *LB100*, and the management of both firms have their sights firmly (some might say over-ambitiously) set on trying to compete with the likes of Field Fisher Waterhouse, LG and Stephenson Harwood.

'If you're a £60m firm, then you're more able to compete against the nationals, for example,' says Speechly Bircham managing partner Michael Lingen.

For years it has been fashionable for smaller practices of around 30 partners or less, either in the City or the West End, to remain resolutely single. Buoyant property and mid-cap corporate and AIM work, mixed in with a little media, private client or employment work, kept the likes of Campbell Hooper ticking along. Low costs and low leverage meant that profitability levels ensured any ideas of being swallowed up by a larger firm stayed firmly in the background. As Martin Wright, chairman of

Speechly Bircham's swift acquisition of Campbell Hooper last month is set to kick-start a wave of mid-market consolidation. With firms' profits plummeting, it's time to forget organic growth and get hitched while you still can

MARK McATEER

Only the lonely

► Campbell Hooper, recalls: 'I remember that we tried to speak to a couple of property boutiques about a year ago, but they said: "You can't afford us because we're earning between £600,000 and £800,000." That was during the property boom.'

How things change. Firms that may have given suitors the brush-off a couple of years ago would now bite their hands off. The question is whether anyone would want them. In last year's *LB100* survey, the likes of Forsters, Howard Kennedy, Russell-Cooke and Wedlake Bell showed alarming dips in PEP, while revenues remained fairly static, or at best average. There is unlikely to be better news in our 2009 survey in September. For property-heavy firms outside the *LB100*, the situation is likely to be significantly worse. This is why, after a good year of talking about anticipated consolidation in the lower mid-market, we're finally here. Those with something to offer need to move quickly to find their soulmate before the best matches have gone off with someone else.

HOLE IN ONE

Wright, in the gushing first blush of law firm love, describes the link-up between Campbell Hooper and Speechlys as sounding 'too good to be true'. In truth, there is something Jackanory about the three-month courtship of the two firms. Inevitably, the fairy godfather in this story was H4 Partners' Alan Hodgart, who brokered arguably the most successful law firm tie-up of all time, the merger of Freshfields with Deringer Tessin Herrmann & Sedemund and Bruckhaus Westrick Heller Löber in 2000. He knows a thing or two about finding the right match.

Lingens says that one of his partners described the merger as a 'hole in one' for Speechlys. Working to three-year planning cycles, the firm was mid-cycle when talk of the merger came up. 'As a small mid-market firm, we decided that we needed to grow even more rapidly than we had done before,' Lingens says. 'Up until last year, we'd been growing at a rate of about 17% year-on-year for three or four years in a row. Most of this has been fine, but such a strategy takes quite a long time to execute. In good times 17% is good, but not that remarkable given what other law firms have been doing as well.'

'The premise was that we wanted to remain independent,' he explains. 'We have been approached more times than I care to remember by UK firms, national firms, US firms – all



McEwen: mid-tier firms are vulnerable

sorts of people. For a whole variety of reasons, both cultural and the sense that we were making quite a good job of things ourselves, we wanted to remain independent.'

But the firm realised that organic growth was too slow to keep pace with the market. This need to get bigger faster was catalysed by Speechlys' move in March 2008 into state-of-the-art offices in New Street Square. The firm occupies seven floors, or 77,126 sq ft, of the 17-floor building. When he announced the move, Lingens said that having grown the firm by 50% in turnover and fee-earners in the

previous three years, the new premises would allow it to do the same again.

A bold ambition, and one Speechlys realised a year later would require a bolder approach. 'We wanted to get bigger to move all our main practice areas up the food chain,' Lingens explains. 'Chasing laterals was a slow process; the alternative was a bolt-on or a mini-merger with somebody who was compatible.'

Hodgart suggested that another of his clients, Campbell Hooper, would fit the bill, and his eye for matchmaking proved to be spot on again. 'It fitted us strategically and financially,' Lingens says. 'In the year that has just finished, growth stalled because of everything going on in key markets, and in the meantime we had just moved into these palatial new offices. We had a bit of headroom for growth and size-wise Campbell Hooper fitted the bill pretty well. If we were forced to take more space, then it would have made the deal much more complicated. We've consolidated our three-year plan into three months.'

SUM OF PARTS

Given the relative size of the two firms, the dynamic of the so-called 'merger' has been questioned. As Martin Piers, global head of legal at Hudson Legal, says: 'The fact that the merged firm will be called Speechly Bircham speaks volumes for the subtext of the merger.'

Legal recruitment specialist Clio Demetriades says: 'It surprised me. Campbell Hooper is the more acceptable side of London legal practice. This made it attractive to laterals from City firms, which is why Speechlys chose

ANOTHER WAY

Pinsent Masons last month announced plans to enhance its geographical diversity as a means of gaining competitive advantage. It announced a non-exclusive strategic alliance with Salans, the 21-office firm with a significant footprint in Russia and the CEE, to position both firms to advise on international projects (see news, page 15).

Chris Mullen, senior partner at Pinsent Masons, says that while the link-up was a strategic move that had been planned for some time, it is opportune in helping to boost the firm's market position.

'It's relatively low risk when you compare it to the alternatives,' he says. 'Costs are a huge factor for law firms right now. While the alliance will cost in terms of time in building relationships and bedding the relationship down, it doesn't carry the huge costs and disruption of some of the alternatives. For example, we're not proposing we change our brands and go through a whole re-branding exercise. Although it's not designed specifically for the current climate, we think it will help us to bring in new clients, which is key, without also putting pressure on the bottom line.'

them. The price you pay, however, is that they're not as profitable as others. Presumably, the quest for stronger financials has led Campbell Hooper into a change of approach.'

Wright says the name of the new firm hadn't been on the radar during discussions, but does not dispute that what has been billed as a merger is in fact a takeover. Moreover, the Campbell Hooper partnership is more than comfortable with it. 'Speechlys is a firm with £46m turnover. Campbell Hooper is a firm with £14m turnover, so if you look at it from the point of view of size, then we've been taken over,' Wright says. 'However, if you look at it from the way it's been managed culturally, we have been brought in as equals building the team. We have to be realistic. Campbell Hooper has a great reputation in the regeneration market. Otherwise, although we're very well known to our client base, we're not particularly well known outside of it. It just would have been unrealistic to talk about becoming Speechly Bircham Campbell Hooper.'

Effectively, the merger is an asset transfer, or even a lateral hire on a huge scale. There will be no changing of the partnership structure: Speechlys will keep its modified lockstep and Campbell Hooper partners will slide into it at a level commensurate with their experience.

For Wright, the dynamic from Campbell Hooper's perspective was the need to move forward, and quickly. 'We were conscious that we didn't have a high enough profile as a firm generally. In order to win what for us would be big-ticket work, we needed to move more towards the top of that third tier of firms,' Wright says. 'We had been fiercely protective of our independence over the years, but looked at the magnitude of the task to move forward and realised we needed to think once again

about achieving this through a merger. Clinging onto our independence just because we felt it was the right thing to do was not a terribly intelligent way of approaching it.'

Hodgart says that Campbell Hooper was realistic about achieving its aims. 'When you look at a firm like Campbell Hooper, trying to be full service, the whole thing lacks depth in the core practice areas compared to the firms they are used to seeing as their competitors,' he says. 'We looked at them and said: "Look guys, if you want to get the work you're aiming to do, or even the work you used to do, you're competing against firms that have a couple of hundred lawyers and you're only at 60 or 70."'

The pull of Speechlys, according to Wright, was not just Hodgart's recommendation but the fact that it didn't want to asset-strip its target. 'We had conversations with about ten firms of different shapes, sizes and attractions, and

Alan told us to talk to Speechlys because the firm still had a kind of partnership culture. It felt very much like a firm that we would fit into, whereas others that we spoke to were enthusiastic but said "we love your corporate team" or "we love your property team" but "the rest you'll have to get rid of". That isn't the kind of firm that we have been.'

Despite the semantics of the merger structure, reaction to the two firms joining forces has been positive. Hudson's Piers says: 'I think it's a very good merger for Speechlys and puts them as one of the top firms in their segment of the market. It's advanced their plans by a couple of years and it's probably because Campbell Hooper had tried the organic route with bolt-ons and were finding it too difficult, so decided to throw their lot in with somebody that's moving in the right direction.'

NEED FOR SPEED

Speechlys, Campbell Hooper and Hodgart were all clear on one thing: the merger had to happen quickly. The consolidation of the mid-market has been talked about for some time and really came into focus during the past six months. This year's poor financials would make this an even starker reality. Although both parties understood the need for speed, Hodgart told them to pull their fingers out regardless.

'We decided that if consolidation was about to take place, we wanted to find the right firm now,' Wright says. 'We could see that if the consolidation gained the pace that people were indicating, then the very firms that would ideally suit us would be suffering digestion problems with other link-ups that they had already made.'

Selling what Lingers describes as a 'no-brainer' to the partners was a cinch. 'We had a formal meeting on 21 May where the actual votes that we needed under the members' agreement to

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Martin Wright, Campbell Hooper



► take the new partners into the equity went through in 20 minutes,' he says. 'I was shocked to get the call that it had gone through so quickly.'

In the eyes of many, these two firms were right to move quickly, as there's more coming. According to Adrian Fox, director of Fox Rodney Search, ever since the credit crunch started to bite 12 months ago, a large number of firms in the mid-market 'are now actively seeking a merger rather than just thinking about it'.

'There are too many firms in the mid-market, and the market isn't big enough,' Hodgart says. 'If you take the 30 or 40 business law firms behind the Magic Circle, that's going to shrink down to eight or ten firms that will be really successful. Then we'll have a mid-tier grouping that is lower down the value chain. And somewhere further down, there's a third tier dealing with owner-managed businesses and more specialist type of work.'

'We're in the process now of that group of 30 or 40 firms sorting itself out one way or the other. There's no shame in being in any of those positions, provided you structure your business accordingly so you can make money.'

TARGET PRACTICE

In the mid-market, there is one specific group of firms that is considered ripe for takeover: full-service West End firms that are heavily dependent on property or corporate transactional work. These include firms such as Forsters (although its strong private client practice is expected to offset some losses in property work and its profitability has traditionally been good); Howard Kennedy; Wedlake Bell and a legion of others.

'It is those firms in the West End and Midtown that are feeling the pain,' says Nigel McEwen, partner of consultancy SSG Legal. He should know: he was managing partner of Tarlo Lyons, a West End

firm that flourished before finally being absorbed by south-east firm Blake Laphorn in 2006. 'You only need a 10% drop in revenue and your profit goes down 50%; it is quite challenging,' he says. 'The firms in the mid-market are not operating at the same margins as the bigger firms; they were operating at 20% to 25% margins when times were good. A drop in revenue really dramatically eats into that margin.'

'What you tend to find is that you'll get more and more of those types of mergers when the market is difficult because firms are driven into a merger by necessity,' Fox says. 'Very few mergers come from a position of strength; there is normally a weaker party that is taken over.'



But Forsters' managing partner Paul Roberts argues that some firms will be more susceptible to predators than others and his firm isn't one of them. 'To some extent we are all vulnerable,' he says. 'The real question is what are firms' strategic objectives, and do they have the financial stability to sustain the firm through a period of downturn?'

'We're lucky, we've got ourselves in a position where we have a very strong balance sheet, a good core business and costs compared to our turnover that are relatively low,' he continues. 'Firms that have over-extended, never really had a core business or are exposed to those parts of the property sector that are extremely quiet are particularly vulnerable.'

The Addleshaws/Theodore Goddard tie-up – another Hodgart creation – is often seen as the model merger between a national powerhouse and an ailing City firm. A template perhaps for national firms looking to establish a stronger presence in the City, or even for the likes of *LB100* stalwarts Pannone and Walker Morris to dip their toes in the London market for the first time. McEwen, however, warns that the Addleshaw Goddard merger was in many ways unique. 'Although Theodore Goddard was fading in the City, it was nonetheless full of very good-quality lawyers,' he observes. However, some of the teams at more diverse, smaller firms, while good, are not spectacular. This may mean that they will be the target of regional firms who are looking to build up presence in the City rather than a mid-sized London firm looking to enhance quality.

'It's an opportunity for US firms, but also firms based outside London, for example Wragges, which is growing but could be bigger in London,' Hodgart says. 'There could be some

SPEECHLYS' MERGER FINANCIALS 2008/09

	Turnover	PEP	RPL
Speechly Bircham	£46m	£526,000	£259,000
Campbell Hooper*	£14m	£280,000	£248,000
Combined†	£57m	£456,000	£240,000
London midsizers average LB100 2008	£42.8m	£437,000	£247,000

*Campbell Hooper refused to supply 2008/09 financials, so these figures may flatter a bad year. Merger is a good way of sweeping a terrible year under the rug, after all.

†Based on projected revenues for 2009/10

Source: *Legal Business*

SPEECHLYS' KEY CLIENTS

- Barnardo's
- Barratts
- Bellway Homes
- Berkeley Homes
- Cable and Wireless
- Countryside Properties
- Game Group
- Legal & General
- NSPCC
- PA Consulting Group
- ThyssenKrupp

good smaller firms that someone like Wragges may think would be worth taking a chance on. Halliwells is another one that has grown enormously in the North but hasn't been going too well in London.'

Wragges, however, has its sights set on bolder ambitions, confirming that it would be interested in a tie-up with a significant firm in London. Senior partner Quentin Poole has told *LB* that he would consider a merger to enhance the firm's footprint nationally, or even internationally (see news story on page 18), but rules out a merger for size's sake: a step change in market position is a prerequisite.

So any firm needing a bailout, or a midsize looking to join forces with a rival to create a powerhouse, needs to have some underlying quality to offer. 'I think that there will be some predators out there that have done well,' McEwen says. 'However, they won't want to bail out a whole firm that is underperforming. So we may well see splits in firms, with one team breaking away and going to one firm, and the rest of them having to find their own way. That's a model used quite a lot in America, where you see firms splitting up and a large proportion going off to another firm.'

SPEECHLY BIRCHAM: RECENT HIGHLIGHTS

- Advising the management and the administrators MCR on attempts to prevent MFI from administration.
- Advising model Elle Macpherson on her deal to become the face of cosmetics giant Revlon.
- Advising WH Ireland on the £73.4m AIM listing of commercial jet hire company Capital Lease Aviation.
- Advising Coolabi on the acquisition of Licensing by Design, which holds the rights to children's television characters Bagpuss, the Clangers and Ivor the Engine.
- Advising food manufacturer GO3 on the launch of a healthy-eating range endorsed by David Beckham.

So those midsize firms looking for a big powerful firm to sweep them up into their arms need to be wary of being chased just for one thing: a strong specific practice area, while the rest gets dumped. Would-be suitors may, for example, like to get their hands on, say, Forsters' stellar private client team, but wouldn't touch its property lawyers with a bargepole. Graham Shear's sports and media practice at Teacher Stern would obviously be a target asset for a

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London midsize or national firm looking to enhance its offering in the capital. It is this perceived stripping of the strongest elements that will lead to firms going under, and the long-overdue contraction of the market will occur.

'Small, broad-service firms are in an unenviable position as there's not really anything they do that's different from everyone else,' one recruitment special-

ist says. 'There are a lot of firms in that category. They claw in revenue from partners without much care taken to properly integrate those new practice areas and new clients. Campbell Hooper wasn't guilty of that, but I'm sure that it will happen with other firms. If there are going to be more mid-market mergers, then it will highlight the pedestrian firms even more as this market really shows up the cracks.'

Boutiques that have put all their eggs into one very vulnerable basket are also ripe for absorption. While true niche firms in flourishing areas will continue to do well, such as Sacker & Partners or Powell Gilbert, questions will be asked about AIM specialists such as ▶

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► Memery Crystal or Marriott Harrison. The convergence of the shipping market, with many boutiques being snapped up by larger players, is evidence of this. The most recent example is Middleton Potts, which rather astutely fell to Liverpool giant Hill Dickinson in April. Speaking to *Legal Business* at the time, Hill Dickinson managing partner Peter Jackson said: 'There is less money available for investing in talent, and [niche firms] may find it difficult to retain key names.'

Hodgart says: 'Firms like Kemp Little or Sacker & Partners are the other option, and I told Campbell Hooper it had the option of cutting down, becoming a specialist regeneration firm and being as big as anyone else in that area.' He adds: 'But it's quite a tough call to trim down by such a huge amount. Most of the niche firms started life small, they didn't need to trim down.'

Regardless of size, everyone seems to be looking to get bigger, and mergers and acquisitions are clearly the way to go. 'All firms are looking at themselves and want to get larger, whether they're a four-partner firm or a 40-partner firm,' McEwen says. 'There are two basic reasons for this: the first is the idea that the smaller we are, the more vulnerable we are, and, secondly, a bigger firm will attract better-quality clients.'

But not everyone is buying it. Forsters' Roberts says his firm has 'a natural disposition against mergers', and his own experience of the mediocre merger of Frere Cholmeley and Bischoff & Co in 1992 has put him off. 'We don't think [merger] is something we need to do to achieve our strategic goals,' he says.

'My guess is that there will be consolidation, but the people most likely to be making money out of it, the consultants and advisers, will always see more than there actually is,' he adds. 'I think the things that were driving consolidation the last time round aren't so important now. For example,



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Michael Lingens, Speechly Bircham

I don't really see the point in a London firm linking up with one of the big nationals. I'm not sure which of the nationals would want to come and take on a London practice. I don't think size for size's sake achieves anything. As bad as times are, good strong firms will emerge well because there are opportunities out there. You've got to hold your nerve and be confident in what your business is going to achieve.'

But James Tsolakis, who in his role as head of legal practices for The Royal Bank of Scotland talks to many firms about their strategies, says consolidation is really happening now. 'I've had many conversations with firms looking to acquire teams, in some cases acquire whole firms, and we're working on three transactions

at the moment that are illustrative of that,' he says. 'We're supporting clients with their ambitions and providing funding to support that activity.'

The final word on this should go to Hodgart, who has seen a merger or two in his time. 'All the way up the food chain what we're finding is firms are sitting back and saying: "Maybe we need to have more depth in our core practice areas, which means we need to be bigger";' he says. 'So I think the Speechly Bircham-Campbell Hooper tie-up is a call to arms to firms who will say: "Hang on, it's happening below us. We'd better get moving." I think there will be quite a reaction. I've been saying for the past six weeks or so that there's been a lot of thinking about mergers and a lot of general talk between people. The financial results will come trickling out, and depending on how good or bad they are, there will be a few more chats. So I think the second half of this year we could see four or five mergers quite easily.'

No one likes to be left on the shelf though, so move quickly. Those who have been speed-dating will know the general rule: unless you approach the right partner swiftly, you risk being left with the worst choices. **LB**

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