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PERSPECTIVE

How COVID-19 will impact the legal profession

By Sandy Lechtick

In the land of blind, one eye is king. But, in this extraordinarily challenging environment, one may ask, "are the blind leading the blind?" Until the real COVID-19 impact is known, clear-eyed 20:20 analysis will remain clouded as a Christmas crystal ball turned upside down. Yet, lessons can be learned from the past.

Many law firms started this year with a bang and the revenue will help mitigate economic hardship in the second quarter. Law firm leaders will evaluate trend-line numbers closely. Some firms have been unbelievably busy, but revenue has slowed down, billable hours lower, slower paying clients, some in "distressed- mode".

Law firms hate to make and announce layoffs, cuts to compensation, deferred partner payments, furloughs, forced sabbaticals and the like. Some are "stealth-mode" executed. Recently, Arent Fox LLP, Reed Smith LLP, Blank Rome LLP, Womble Bond Dickinson, Venable LLP, Loeb & Loeb LLP, Orrick Herrington & Sutcliffe LLP and Bryan Cave Leighton Paisner LLP made announcements. More firms will follow. In 2008-2009, the cuts were far deeper and more widespread. As Al Jolson sung, "You ain't seen nothin' yet," and I see more carnage ahead.

Pepper Hamilton LLP and Troutman Sanders LLP delayed their merger. One of our law firm merger transactions was put on hold. With courthouses closed, litigation has stalled and many parties may settle. Some clients are hoarding cash. Citi Private Bank concluded that the confidence of managing partners has dipped to levels not seen since 2012. The million dollar question, how long will COVID-19 impact continue, and even more daunting, how what will the landscape look like when things get back to normal? Does anyone know the "new normal"?

Having partnered with many law firms over the last three decades during peaks and valleys, most notably, the dot-com bubble burst, September 11 and the Great Recession, I looked closely at then and now. Last month I looked at my firm's deal flow and assumed all could crater. Yet, interviews moved forward, two partners accepted and started (Norton Rose Fulbright and Greenberg Traurig LLP), two offers were put on hold and three LPQ's were sent. The question remains, what's next? If things worsen, all bets are off the table.

(1)Today's new normal, working remote, is a trend that has been accelerating the last several years. This trend will increase and may represent an inflection point — remote versus law firm culture, partner collaboration and personal interaction. Partners who in the past preferred coming to the office may now find the "no-commute" option more attractive. In addition, law firms who in the past resisted a "work-at-home" culture may now be unable to put the horse back in the barn!

(2)Law firm winners and losers. Those with stronger balance sheets, lack of debt, access to excellent credit lines, deeper and wider client relationships, strong brand, and outstanding leadership will not only survive but come out stronger. Those with weak, overly risk-averse management teams, unwieldly overheads, expensive leases, will have challenges. Law firms with tiny cracks in the damn may start taking on water. Recessions and major disruptions have a way of enlarging cracks. Some firms will dissolve.

(3) Greater demand for lateral partners with practices. Partners with outstanding reputations, portable books and strong client relationships will find themselves more in demand. The current environment gives rainmakers and in some cases "mist-makers" more options and bargaining power. Those who can "move the needle" will command top dollar.

(4) Income partners may get hurt. In the midst of major disruption, the "in-crowd" — rainmakers and top equity partners — get the love. Chips get taken off the table of income partners and put into the pile of top revenue-producers. If business conditions deteriorate further, this trend will pick up steam. In 2007-2009, most of our placements were income partners with practices who had their compensation cut. In addition, service partners, counsel and some associates could be on the chopping block, deemed non-essential, redundant or overpaid.

(5) Perception can become reality. Talent retention is extremely important. If the firm is perceived to have financial issues, distressed, or is a "wounded animal," partners will vote with their feet. If cuts are made, or compensation delayed, it must be done carefully. As in any major disruption, lawyers will evaluate their firm's financial health and growth prospects.

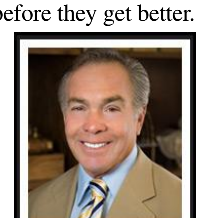
(6). Cuts, deferred compensation, lay-offs etc. Law firm leaders will sharpen their bottom-line pencils depending on how things play out and if business deteriorates further, cut further. I expect this to happen. Presently, major law firms including Reed Smith, Arent Fox, Loeb & Loeb, Orrick, Womble Bond and Blank Rome have announced delays in partner compensation, layoffs, furloughs, or/and pay cuts to employees. I expect other firms to make similar announcements.

The "stealth layoffs" will become more public. Small offices could close.

(7). Post COVID-19 law firm winners. At some point, business will get reasonably back to normal. Business will pick up. Courtrooms will open. The deal flow will increase. Law firms perceived to have weathered the storm more effectively will be the winners, in both talent retention and acquisition. Increased emphasis is given to firms with strong balance sheets, lack of debt, strong brand and stability. Historically, the firms that have survived an economic crisis and prospered afterwards are those with a strong, cohesive groups of lawyers at the top of the food chain who don't get greedy during tough times, and allow dollars to flow downhill. The esprit de corps created is invaluable. Those that don't, don't.

(8) WHAT'S HOT, WHAT'S NOT. Clearly some practices will be short-term and possibly long-term winners. Litigation, will continue to be a robust engine of law firm's revenue, although in the short term, billable hours are sure to decrease substantially and some collections delayed. Other practice areas will benefit: Bankruptcy and workout, labor and employment/ counseling, cyber-security and data breach, health care/ regulatory and fraud, life sciences and medical devices/pharma, trusts and estates. Private equity will remain hot. However, the deal flow has softened, transactional work is down- especially in M&A, real estate/ finance. We expect M&A and real estate to bounce back, but will take longer. Collateral damage will be senior associates and counsel if things worsen.

In short, the impact of COVID-19 to the economy, the business and law firm environment remains to be seen, but is potentially much more disruptive than the Great Recession of 2008-2009. The next month or two will determine which firms may not survive, whether partner compensation will be cut further, more layoffs and employee cuts. Partner de-equitization and deeper cuts are not off the table. Law firms, historically reactive may be forced to become more pro-active. The intended and untended consequences may not be quantifiable for several months, but from my vantage point, things will worsen before they get better. ■



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