

A MARRIAGE OF CONVENIENCE: HOGAN LOVELLS

Posted on 25/02/2010

ECIJA





The start of May will see UK-based Lovells and Hogan & Hartson of the US merge to create Hogan Lovells, one of the top ten largest law firms in the world by both size and revenue. The tie-up, perceived widely in the legal sector as the first transatlantic "merger of equals" rather than a merger of necessity is, say both firms, a progressive response to the changing market and needs of multinational clients.

Combined, the new firm will have total revenues of approximately \$1.8bn (€1.29bn) and 2,500 lawyers in more than 40 offices throughout the US, Europe, Asia, the Middle East, and Latin America.

Reacting

In Spain, the immediate impact of the merger will be to significantly enhance Lovells appeal to US businesses, and help further open up Latin America, says José María Balaña, the Managing Partner of the firm's Madrid office.

'The merger helps to take the focus away from what has clearly been a challenging year with transactional activity down across all sectors, and presents a new window of opportunity for Lovells, Hogan & Hartson and our clients.'

Since the onset of the financial crisis law firms, including those in Spain, have obviously had to react to a changing economic environment and work flow. Lovells response, says Balaña, has been to place a greater focus on the firm's core client sectors: energy, infrastructure, financial institutions and real estate.

As demonstrations of this, he cites the office's involvement in the acquisition by ABN Amro Infrastructure of Belfast Airport from Ferrovial, Metrovacesa's sale of Metropark Aparcamientos to Interparking, as well as Reale Seguros Generales partial acquisition of the non-life insurance division of Caixa Terrassa, and Corio's acquisition of the Príncipe Pio Shopping Centre in Madrid from Riofisa. More recently it has also advised Gas Natural on the refinancing and reconstruction of its Moldavian distribution network.

'The issue for the coming year will be the ability to continue to react to the creative challenge in being able to present alternative fee and billing arrangements to clients, and to the increasing competitive challenge as firms look to maintain both market share and work levels.'

The question of fees remains a tricky issue for many firms but it is an issue that Lovells in Spain, he believes, has already confronted. As a relatively late arrival (2004) to what was already a highly sophisticated and competitive market in Madrid, the firm has had to offer more, and be more flexible than the established competition to stand out, he says.

'Firms have to take a combined offering in the form of a 'package' approach of which pricing is only one element. For us, the financial crisis has not so much meant revising our pricing structure but instead having a firmer focus on more efficient cost management.'

Established

Balaña accepts however that beyond the evident external challenges, the past year has not been without its internal difficulties either. In a depressed economic environment with lower work levels, emphasis has also had to be placed on maintaining cohesion within the office, and going out to find new work.

'A very important responsibility for partners currently is to continue to motivate their teams. For junior lawyers we have put more focus on skills and expanding our know how systems. The way to get out of the current difficulties is to be optimistic.

You cannot hide reality – times are tough – but you also cannot be too negative.' Nonetheless, echoing the earlier departure of energy partner Antonio Morales to help launch Latham & Watkins in 2007, the end of 2009 saw the departure of renewable and project finance focused partner Joaquín Sales and María Pilar García to launch Watson Farley & Williams Madrid office.

Balaña takes a pragmatic view of such developments. 'There are no bad feelings. We do not have mechanisms nor is it in our culture to "force" people to stay. If someone wants to leave we respect that decision. The major issue is how you deal with it but ultimately nobody is irreplaceable.' In any event, he believes that movement is good for firms as it creates a healthy and competitive working environment. 'Our clients are not complacent about their positions, so why should we be?'

Lovells in Madrid has been careful to play to its strengths, he says, and accepts that the firm cannot expect to always have the brand recognition of some of its larger domestic rivals. But after five years Lovells is now an established feature of the Madrid legal landscape although this does not mean that it has achieved all its goals, says Balaña.

'The market has been good to us, or perhaps this merely reflects the business drivers behind why we opened. We are clearly now recognised in the market but we're not yet where we want to be. Past performance is no guarantee of future success. But the best is yet to come.'

A principios de Mayo veremos a la firma inglesa Lovells y la estadounidense Hogan & Hartson fusionarse para crea Hogan Lovells que será una de los 10 despachos más grandes del mundo en lo que a tamaño y facturación se refiere. La unión, que es vista en el sector como la primera fusión transatlántica entre iguales y no como una fusión por necesidad, es, según ambas firmas, una respuesta al mercado cambiante y la necesidad de los clientes con negocios multinacionales. Pero el desafío permanece, incluyendo el convencer a los clientes de los dos despachos a aceptar y valorar la nueva situación.

Opportunities

The effect of the merger with Hogan & Hartson will be significant but the real benefits will not be felt by partners such as himself but the younger lawyers within the firm, believes Balaña. He may have been elevated to the merged firm's Board, but it is clearly up to the new generation to grasp the scale of opportunities now being presented.

The firm has been careful to explain the rationale behind the merger to both its lawyers and clients, he says. Lovells is currently around 24th in the world in terms of law firm size and revenue, and there had been acceptance at a senior level that in order to propel itself higher something transformational was required.

'The idea of a merger works well, both as a way to rapidly increase our size and capabilities, and to make more of an impact on the US, which remains the world's largest legal market.

Lovells has maintained a Chicago insurance-led presence since 1995, and a finance led New York office, and, he says, had been exploring its options to expand in the US for some time.

'We are not marrying the first girl that has come along. This is the result of three years work. But Hogan & Hartson clearly offers the ability to mirror in the US our own sector-led practices, while the firm's Washington DC base fits well with the increasing regulatory influence on businesses around the world.'

In addition, the two firms are a comparable size and have similar levels of profitability, but equally important, says Balaña, was that Hogan & Hartson also has a global vision.

'Our perception is that Hogan & Hartson has a culture very similar to ours where partners work well as a package. We believe that combined, we offer our clients much more than the sum of our parts.'

New world order

This is the second merger Balaña has experienced, and so he is aware of the integration issues involved, but for him the Hogan Lovells union may require less effort than some of his fellow Lovells country heads, he says.

'Hogan & Hartson does not have a Spanish office, and so there are no issues of overlap. For us any change will be entirely client-driven and what is particularly exciting are the opportunities we can now present to clients with operations across Europe, the US and Latin America.'



“ We embrace the idea of commoditisation because our strategy is not built on presuming we know all the answers. ”

Hugo Écija

An important element of Balaña's work ahead will be to leverage Lovells Iberian expertise into the US, and to unite the firms Central and Latin American practices. But although Lovells has no regional presence, Hogan & Hartson does. The firm is already established in Caracas, Venezuela, and the belief now is that the combined entity may look to expand further within the region, first to Brazil and perhaps later to Mexico.

Hogan & Hartson's 60-lawyer Latin American practice is currently led out of New York and Miami, and Balaña sees opportunities to work particularly with the firm's Miami Managing Partner (and former President of the US-Spanish Chamber of Commerce) Luis Perez. Significant, he believes, will be the ability to leverage the firms combined expertise in transaction management and coordination further across the region.

'I see a clear operational triangle connecting Miami, Madrid and New York that will produce a flow of work that will naturally extend into Latin America. What is important though is that even with such an opportunity, we are not looking to compete directly with the leading firms in the region but to work with them.'

But this is not to say that the merger does not still present challenges. A significant number of Lovells European clients do not use Hogan & Hartson in the US, while lawyers at Hogan & Hartson admit to having had little prior contact with Lovells. Indeed, the fact that the firm has no permanent Spanish presence may have helped to broaden its appeal – to both clients and referral law firms across Iberia.

Balaña is clearly optimistic however and believes the merger is in any event symptomatic of the increasing interconnection of the Spanish and global economies. What has changed in recent years is that law firms rarely now work on any purely 'domestic' matters. The world has changed. If the buyer or seller in a transaction is not foreign, then the finance or underwriting bank usually is.

He is keen to emphasise therefore that this is no 'shotgun' wedding or a reaction to the short-term

impact of the global financial crisis, but rather, after years of searching Lovells has finally found its perfect match.

'In Madrid, the merger will enable us to say, without contradiction, that we are also a top US firm. The depth and strength of our global reach will be unrivalled, and that after all has been our long-term goal.'