

# LISBON ANNUAL REPORT 2017: LOOKING BRIGHTER

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## **Portuguese law firms are reporting growth in revenue as transactional work increases – however, with some of the country’s major assets being acquired by foreign investors, the long-term outlook for Lisbon lawyers is uncertain**

Workflow has increased for law firms in Portugal partly due to increases in M&A activity driven by foreign investors targeting the country’s real estate and banking sectors. The financial results of the top firms in Portugal give reasons for optimism – the three biggest firms in the country (MLGTS, PLMJ and Vieira de Almeida) all reported double-digit increases in revenue in 2016. However, there are also causes for concern among lawyers – there is a view that with significant portions of the nation’s banking sector falling under foreign ownership, Lisbon firms could start losing potential instructions to international firms. Yet, some lawyers argue that this fear is unfounded and that Portuguese law firms will have no trouble in successfully competing with foreign law firms.

### **Economic recovery**

The good news for law firms in Portugal is their workload is increasing, according to Duarte Athayde, managing partner at Abreu Advogados. “There has been an economic recovery, real estate is strong, particularly commercial real estate, there has been an increase in M&A, and there has also been significant private client activity,” he adds. Athayde says high-net-worth individuals from Brazil have been purchasing assets, while compliance and data protection are two areas offering significant opportunities for law firms.

During the period 2008 to 2015, Portugal was a bridge to other markets like Africa and Brazil, but now foreign investors are targeting opportunities in Portugal itself, according to Domingos Cruz,

partner at CCA Ontier. He adds that there are opportunities to acquire distressed assets in the banking sector as well as real estate assets. "Pension funds and international funds find such assets very attractive," Cruz says.

Law firms in Portugal have adapted well to changes in the economy and benefitted from new sources of work, according to Nuno Azevedo Neves, partner at DLA Piper in Lisbon. "Banks continue deleveraging assets and there are new sources of finance, such as fintech."

Filipe Lowndes Marques, partner at MLGTS, rejects any suggestions that, with an increasing number of Portuguese banks becoming foreign-owned, law firms in Portugal could start losing banking work to foreign law firms. "Foreign-owned banks are here, but they are supervised by the Bank of Portugal, and law firms in Portugal are in no way inferior. Often the services they offer are superior to the services offered by international firms and there is no loss of quality."



“ Real estate is strong, particularly commercial real estate, and there has been an increase in M&A.”

Duarte Athayde  
Abreu Advogados

### Spanish advantage

However, increased Spanish ownership of Portuguese banks is an advantage for Spanish law firms, says Gonçalo Anastácio, partner at SRS Advogados. "Spanish firms have strong finance practices," he adds. Advice to Chinese investors is an important source of work, says Anastácio, as well as matters related to data protection. He

adds that competition law is another area of opportunity in that US law firms, for example, need advice from Portuguese law firms in relation to the issue of cartels.

The Portuguese economy has been boosted by the fact that the cost of borrowing has reduced, says Jorge Brito Pereira, partner at Uría Menéndez-Proença de Carvalho. "Five years ago, the cost of debt for large companies was at 6 or 7 per cent, but now it is between 2 and 3 per cent," he says.

"Consequently, the value of assets and the attractiveness of investments is now very different." Brito Pereira says there has been a lot of activity in regulated sectors, such as energy and telecoms, as well as real estate. He continues: "There has been consolidation in the banking industry and there has been a second wave of Spanish investment in agriculture."

The banking sector has been one of the main sources of work for law firms in Portugal, according to Vieira de Almeida partner Paula Gomes Freire, who adds that the European Union Payment Services Directive 2 – which comes into force in next year – will create opportunities for new players in the market. She also says that the deleveraging of banks as well as financial sector-related M&A has generated a significant number of instructions for law firms.

Litigation and arbitration are growing areas of work for law firms, according to PLMJ managing partner Luís Pais Antunes. He adds that tax planning advice is another major opportunity, while the Portuguese banking sector as well as real estate and tourism will generate "a lot of work for the next decade".

### High risk of failure

Meanwhile, the start-up sector has significant potential for law firms, according to Cruz. "Start-ups have a high risk of failure, but there is an incredible number of them in Portugal and they have the potential to be global and they are interesting US and UK investors." One managing partner adds that his firm offers reduced fees for start-ups. Pais Antunes says that start-ups are often looking for different legal services in that they need "start-up law firms". He adds: "It is not a question of great income from start-ups, though they do have the effect of re-shaping the way law firms provide legal

services."

Banking and finance, M&A, real estate and tax have been the most active areas of practice for law firms in Lisbon, according to Cuatrecasas' Portugal managing partner Maria João Ricou. She anticipates that this trend will continue and, with reference to banking and finance matters, she says the activity has been very diverse, including the sale of assets and non-core businesses, business restructuring, debt restructurings and regulatory matters. Ricou adds: "Both on the M&A and real estate side the market has been very active, as a consequence of the improving economy and the increasing interest of international investors in Portuguese assets."

Greater stability in the Portuguese economy has generated interest among both foreign and domestic investors in the real estate, tourism and finance sectors, says Garrigues' Portugal managing partner João Miranda de Sousa. He adds: "We have also witnessed increasing interest in the digital business sector – related to the internet and to information technology in general – which is experiencing increased momentum due to, among other reasons, the Web Summit and the entrepreneurial ecosystem built in Portugal."

João Caiado Guerreiro, managing partner at Caiado Guerreiro, highlights real estate, tax, energy and pharmaceuticals as sectors offering significant opportunities for law firms. He adds that the increase in real estate activity has been driven by the Golden Visa and non-habitual residence (NHR) tax regime, as well as the emergence of property rental companies such as Airbnb and Homeaway. Guerreiro adds that data protection and the TMT (telecommunications, media and technology) sector will "surely generate big opportunities, partly due to the new data protection regulation and Lisbon's hosting of the Web Summit."

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Jorge Brito Pereira  
Uría Menéndez-Proença de  
Carvalho



“ Often the services law firms in Portugal offer are superior to the services offered by international firms. ”  
Filipe Lowndes Marques  
MLGTS

### Falling unemployment

In the view of Antas da Cunha Ecija managing partner Fernando Antas da Cunha, there are three indicators that the Portuguese economy is recovering: GDP is growing; the government deficit has been reduced; and the unemployment rate has been gradually falling. He adds: "During the last 12 months we have seen rapid growth in

the tourism sector, a huge surge in real estate work and an increase in international private equity firms investing in the country." Antas da Cunha says the biggest opportunity for law firms in the near future will be the General Data Protection Regulation (GDPR) as companies will need advice on how to comply with the new regulation, which will come into force in May 2018.

Firms in Portugal are investing considerable amounts in artificial intelligence, says one managing partner. However, another partner at a leading law firm in Lisbon says: "It is costly, it is easier for the bigger law firms to make such investments, but firms in Portugal are facing other challenges, such as keeping their talent. Fifteen to 20 years ago, it was wonderful to be a trainee, it was my idea to be at the firm forever, but now keeping the best lawyers is difficult - 20 years ago, partners wouldn't move between firms. One of the obstacles facing Portuguese law firms in relation to using artificial intelligence is that "98 per cent of AI products are in English", one managing partner points out. Lowndes Marques says artificial intelligence (AI) is "a little bit 'the flavour of the month'", but it will not be replacing lawyers in Portugal anytime soon. He adds: "In Portugal, AI will take longer to replace lawyers than it will in other jurisdictions, which does not mean that we do not have to keep up with the latest developments in this field in order to enable us to be more efficient."

### Driving down fees

Decreasing fees is another major problem facing Portuguese law firms, according to one partner.

“Companies on the Portuguese stock exchange are not comparable to those on the Spanish stock exchange, for example,” the partner says. “Also, competition between law firms in Portugal is fierce and this is driving fees down – legal fees in Portugal are half what they are on Spain and a third of what they are in the UK.” Azevedo Neves says that firms are increasingly having to adopt a sector-based approach to providing legal services. Meanwhile, one managing partner points out that there is already competition from companies providing services to banks that were previously done by law firms.

With regard to the issue of talent retention, one partner at a leading Lisbon law firm comments that one of the key issues is that young lawyers today “don’t want to stay in the same place for 20 years”. Another partner adds that firms choose the best trainees, but “when they get €200,000 or €300,000 in the bank, they say ‘I’m going to India’ – in Portugal 30 years ago, being a lawyer meant status, but in those 30 years everything has changed, our work is now much more commoditised”. However, other partners argue that though the new generation of lawyers has “a different mindset, it is not a problem”. One managing partner argues that members of the ‘millennial’ generation, as it is known, are actually more dedicated when they are working at a law firm because they know they are not planning to stay there for very long. However, he adds that having lawyers with this mindset does create a problem for law firms in that they have to “invest a bigger amount of money in a lawyer now than they did in the past”. Another managing partner laments the fact that he “still does not know what makes the new generation tick”.

Other partners argue that, even given the advent of the millennial generation, there is “no shortage of people in law firms that want to be partners”. However, another partner counters that those that want to be partners are “not necessarily the best lawyers”.

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Fernando Antas da Cunha  
Antas da Cunha Ecija



“There is increasing interest in the digital business sector due to the Web Summit and the entrepreneurial ecosystem in Portugal.”

João Miranda de Sousa  
Garrigues

### Game-changer?

Recent changes in the Lisbon market included the arrival of international firm DLA Piper. With regard to the future, there is speculation that there could be more alliances between Portuguese firms and international firms, perhaps in the form of the Swiss Verein structure used by some firms. “We could see more soft alignments in the Portuguese

market,” says one partner. Gomes Freire says there is growing competition from the legal arms of the ‘Big Four’ auditing companies in Portugal, though she says it is unlikely that other ‘Magic Circle’ firms will open in Portugal because they do not find the market attractive enough.

The possible entry of new players into the Portuguese legal market – whether that be foreign law firms or the legal arms of the auditing firms – may be a “game-changer” for Portuguese law firms, says Lisbon-based Gómez-Acebo & Pombo partner Mafalda Barreto. In such a scenario, Portuguese law firms will have to compete with “truly global entities that in some cases may offer multidisciplinary services,” she adds.

One managing partner at a Lisbon firm says the fact that the shareholder structure at a number of Portuguese companies is changing – in the sense that the number of international shareholders is increasing – could provide an incentive for more international firms to open in Lisbon. Another managing partner adds that “brand awareness is crucial as a way of getting new clients”. Meanwhile, partners at Lisbon law firms are continuing to call for a change to Portugal’s tax laws in order to enable law firms to be subject to the general tax regime, which would enable them to be taxed like a corporation and therefore build up reserves to invest in their infrastructure.

## **What are currently the biggest challenges faced by law firms operating in the Lisbon market?**

“One of the main challenges relates to the globalisation of business and the increasing multijurisdictional profile of most of the major deals. International clients (and deals) require a truly international and full practice network that guarantees efficient advice. On the other hand, we are witnessing increasing pressure on prices. The economic downturn left companies with cost control concerns that, combined with the wide availability of legal services, have created high pressure on prices. It means law firms have to change the way they calculate their fees.” **João Miranda de Sousa, Portugal managing partner, Garrigues**

“We have to be able to address clients’ demands in terms of price efficiency and top quality service and at the same time make sure that we get an adequate level of profitability in an increasingly competitive legal market.” **Maria João Ricou, Portugal managing partner, Cuatrecasas**

“Competing in a world which is becoming more globalised each day is, and will continue to be, the main challenge. The pressure to deliver more value for money will continue to increase. Also keeping up with IT and innovation tools is key if law firms are to succeed. Finally, retaining talent and developing the work/life balance is a daily challenge for management.” **Mafalda Barreto, partner, Gómez-Acebo & Pombo**

“Adaptation to new technologies, the demand for a strong social media presence and the opportunities afforded by the rise of artificial intelligence, which will, in time, bring significant changes to the way law firms work. Meanwhile, law firms in Portugal tend to have a strong focus on foreign investment, so it is essential to build strong support structures for investment and transactions in order to optimise the process and value of the investment. In addition, the recruitment of good young lawyers and their retention is always a challenge.” **João Caiado Guerreiro, managing partner, Caiado Guerreiro**

“Some international law firms have shown interest in investing in Portugal, which, for better or worse – as there would be pros and cons – may lead to a gradual concentration of service providers. Portuguese clients, in part due to the economy, tend to undervalue or use fewer legal services vis-à-vis foreign clients, which often leads to different arrangements depending on the client’s place of origin.” **Rogério Fernandes Ferreira, founding partner, RFF Lawyers**

“New trends in the labour market are one of the challenges. Additionally, the General Data Protection Regulation that will be enforced in May 2018 is also demanding much of the law firm’s attention.” **Jane Kirkby, partner, BAS Sociedade de Advogados**

“The biggest challenge faced by Portuguese law firms is the need for lawyers to adjust to working on matters in non-traditional work areas of business. This will lead to the diversification of work done by lawyers.” **Carla Azevedo Gomes, partner, SPS**