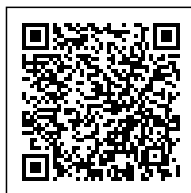


# MADRID REPORT 2008: BACK TO BASICS: SHORT-TERM CHALLENGES, LONG-TERM GOALS

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**Iberian Lawyer's Madrid Annual finds that despite the economic and financial uncertainty that currently characterises many of Europe's commercial and legal centres, a sense of pragmatism nonetheless prevails among law firms within the Spanish capital.**

✖ Although the full impact of the recent events affecting the banks on Wall Street and now across Europe have yet to be felt fully in Spain, lawyers in Madrid say that they are already adapting to the challenges presented by a declining domestic, and uncertain international, economic situation. Iberian Lawyer's Madrid Annual Report reports that while the coming months may very likely prove challenging both for law firms and their clients, perhaps surprisingly, the majority of those surveyed nonetheless continue to predict some growth over the coming year.

El reportaje anual sobre el mercado jurídico en Madrid refleja que aunque la capital sigue siendo el mercado más rentable del país, éste no es inmune a los acontecimientos que golpean a las

economías española y a la europea. Los despachos están siendo testigos de un cambio dramático en las necesidades de los clientes, y buscan adaptarse en consecuencia. Lo que permanece, sin embargo, aseguran muchos de los directores de los bufetes líderes de la capital, es que a pesar de los desafíos a los que se enfrentan, deben continuar centrados en los objetivos fijados a largo plazo. Lawyers in the capital are looking therefore to adapt their practice lines in order to, at worse, cope with the current economic situation, and at best capitalise on it – all the while continuing to look ahead to best position their firms for when full confidence returns to the Spanish economy and international investors.

For some this means placing increased emphasis on “in-demand” and “anti-cyclical” practice areas and tighter financial control, while for others it may also imply renewed emphasis on building referral links, both nationally and internationally.

## **Change of emphasis**

There is no denying that Madrid's law firms are clearly experiencing a change in the emphasis of the work they are undertaking. The boom in M&A and private equity transactions has clearly gone, say lawyers.

A number of major M&A deals remain, notably Gas Natural's €17bn acquisition of Union Fenòsa (with Freshfields advising Gas Natural and Allen & Overy the underwriting banks), and British Airways' €5.2bn acquisition of Iberia (which sees Uría Menéndez and Slaughter and May opposite Allen & Overy), and further deals are expected within the energy, aviation and banking sectors. But while many of Madrid's M&A lawyers may have been happy to take their first long summer holiday in a number of years the emphasis now, say many, is on reassessing the overall strategic direction of their firms.

“There are still transactions but they are taking longer to complete, and perhaps are earning firms less than they might otherwise have done. There is clearly now much greater competition for what high profile work there is,” says Juan Aguayo, corporate partner at Cuatrecasas in Madrid.

“It is clear that the outlook is more problematic than it perhaps may have seemed only one or two months ago. Events internationally clearly have an impact here, but I don't think that law firms will really feel them until maybe the end of the year.”

✖ Alongside an already apparent decline in capital markets and acquisition finance, Madrid's lawyers also predict a further drop in real estate and construction projects. Unlike elsewhere in Europe, Spain's economic troubles have resulted primarily from the bursting of the country's real estate bubble, but the continuing credit crunch and the recent turmoil in the US are predicted to push the country into recession more quickly.

The focus of law firms is however already turning to refinancing, corporate restructuring and insolvency issues, alongside an upturn in demand for labour and employment, regulatory and project finance expertise (see chart Predicted Practice Growth / Decline 2008-09).

## **Foreign law firm arrivals**

### **none but the brave**

The US investor Warren Buffet famously said, “The time for being brave is when everybody else is being cautious,” but few within the Madrid legal community perceive the current economic climate as likely to attract many brave new international law firms to the Spanish capital.

The city is in any event already home to most of the major international UK firms. But, as some note,

there is a relative lack of US firm representation compared to many other European jurisdictions.

"The current and foreseeable economic crisis does not make an entry at this moment too attractive but there has been talk for a while of big US law firms coming in. Certainly, there is an absence of US law firms in Madrid, particularly amongst the top tier US firms," says Pedro Callol at Roca Junyent.

Among the major US firms currently only Latham & Watkins and Davis Polk & Wardwell are present – the latter's practice remains restricted to US law advice – while the rumoured interest of firms such as White & Case and Dewey Ballantine appears to have now gone cold.

Madrid's position as a major European entry point into Latin America would certainly fit well with many US firms' strategic global operations, say some. In addition the increasing desire of Iberian companies to expand into the US would also seem to present clear opportunities. But even if there are brave firms, they are likely to be few in number, suggests Rafael Montejo at Legalia. "Maybe, there still will be new foreign law firm arrivals, especially from the US legal market, although we guess it will not be a massive arrival as in previous years."

What may be more likely, at least in the short term, is increasing interaction between Iberia's major business centres, and of firms looking to create stronger referral relationships. Recent months have undoubtedly seen an increased flow of US lawyers on fact-finding missions to Madrid.

"Iberia is viewed as a single market by many international players. This can only mean closer relations between these major business centres," believes Manuel Martín, managing partner at Gómez-Acebo & Pombo. "Anglo-Saxon firms will continue to enter on an ad-hoc basis. The result of closer relations between the major Iberian business centres may be the presence of more Spanish firms in Portugal and more Portuguese firms in Spain."

Francisco Guijarro Zubizarreta at Hammonds agrees. "I do not think that new UK law firms will be looking at Madrid as a target. It is more likely that some North American law firms will come into Madrid in the short term. It is however more realistic to think of closer relationships between Madrid, Barcelona and other regional firms."

"I think that there are already a significant number of foreign law firms in Spain and the Spanish market is not going to be extremely attractive for a while," agrees Francisco Prol at Prol & Asociados. "Foreign law firms might prefer to develop closer relationships with correspondents in Spain or Portugal (who are prepared to pay special attention to any work referred) rather than to spend a substantial amount of money in developing their own branches in these countries."

Such an approach is certainly already favoured by a number of UK firms, notably Norton Rose which has a strong relationship with Garrigues, among others, and of Nabarro, which this past year welcomed Rodés & Sala into its European alliance.

Mayer Brown's relationship with Ramon y Cajal, and Howrey's with Martínez-Lage, may provide more likely models for US-Iberian tie ups, some suggest. Particularly as the economic situation still unfolding in the US may well permit economic overheads to overrule brave hearts.

In addition, the increasing tendency of Spanish company executives to seek risk assessment of operational issues, say many in-house lawyers, is prompting greater emphasis on external law firms' ability to offer up-to-date and relevant competition, regulatory and compliance expertise.

✖ Gómez-Acebo & Pombo is notably now advising Martinsa-Fadesa through Spain's first-ever listed company insolvency (owing €5.2bn). Other real estate groups hoping to avoid a similar fate include Metrovacesa, Colonial and Reyál Urbis, while rumours persist also of law firms exploring increasingly desperate refinancings in the media, tourism and even sports sectors.

Indicative perhaps of the wider economic malaise was the announcement at the end of the summer that Ford and General Motors were between them to make 1,900 redundancies at their Spanish

production plants, as part of their ongoing global restructuring programmes.

## **Renewed emphasis**

Madrid's law firms are clearly now expecting greater emphasis on their anti-cyclical practices and, for many, the practice development focus has already shifted away from corporate teams to expanding their refinancing, insolvency, litigation and employment expertise.

"We are confident in our levels of work for the coming months, but it is fair to say that we will probably see a change in the type of work some practice areas do," says José María Balaña, managing partner of Lovells in Madrid.

Important, say many, is to ensure that firms' lawyers are able to adapt to what remains a very fluid economic situation. Those firms that have expanded quickly in recent years, some suggest, may now have the most trouble ensuring that their lawyers remain active and focused on the best quality (and most profitable) matters as competition intensifies.

"Clients in crisis will inevitably seek the most experienced lawyers for the 'break the bank' deals," says a partner at a top tier Madrid firm. "There will inevitably be a flight to quality."

It is the biggest local firms, some say however, who will feel the most pressure over the coming months. The wider geographic spread of the many international firms in the capital will provide protection against any localised downturns. "We feel that the increasing competition affects mainly the big local firms, the international firms like us just need a relatively small but profitable piece of the cake, and it is much easier to get that than to maintain the big market share that the local firms need to have," says Luis Riesgo, managing partner at Jones Day.

Not so say partners at one leading national firm, where referrals from its domestic offices account for an increasing amount of the Madrid office's total workload.

But should the Spanish economy suffer a dramatic and continued downturn then it will likely impact firms at all levels, further increasing competition and fee pressures. In any event there is inevitably already increased emphasis within the Madrid offices of the London-based global law firms to go deeper into the local market, in light of the dramatic changes affecting the Wall Street investment banks which have helped to underpin their international strategies.

✖ "Following the recent events in New York, but also the ongoing situation here in Spain, nothing can be taken for granted," says one magic circle partner in Madrid. "We may have to reassess our size, focus and structure. Partner remuneration is clearly now open to scrutiny, but so also will be partner numbers – junior lawyers are relatively cheap and so safe – it is not an easy situation to have to manage."

## **Managing expectations**

Competition for work is already becoming more intense, say some. Across Madrid new emphasis is being placed on firms' lawyers to work more efficiently, and for law firm managers to better manage costs in the face of declining work volumes and inevitably lower profitability.

Retaining talent remains a key issue though with a changing emphasis, say many. Firms must manage current work levels and changing client needs but also remain focused on their long-term strategic goals.

"Recruitment, retention and quality-of-life issues are still among the key management issues for Madrid firms," says Cliff Hendel, partner at Araoz & Rueda. "At the graduate level there is ever more competition for what seems to be a fixed or even declining pool of applicants who are willing and

able to commit the time and energy to a practice that the older generation think to be right and appropriate." Javier López Antón at DLA Piper agrees, "graduate recruitment will continue and is the basis for the sustainability of our practice going forward."

At a more senior level, firms may be looking to expand their capabilities in key areas but the wider situation seems to be a reduction in the number of lateral hires. "The current economic situation is of course having a certain impact on firms' recruitment efforts, in the sense that they are being more cautious and perhaps less ambitious regarding the number of lawyers to be hired," says Pedro Pérez-Llorca, managing partner at Pérez-Llorca.

The lateral recruitment market has already slowed considerably, say some. "All legal firms will be cautious in future recruitment. We don't see a lot of lateral movements although in some specific areas with growing activity such as litigation or insolvency movements are expected and will take place for sure," says Gonzalo Jiménez-Blanco, managing partner at Ashurst in Madrid.

There will be less movement of lawyers between firms except in key areas such as litigation, insolvency and tax, says Luis Crespo, managing partner of Deloitte in Spain.

Francisco García Gómez de Mercado at EJ Gómez de Mercado (EJGDM) agrees but says movement may be restricted by level. "Probably, firms whose main practices are down will reduce their recruitment. Lateral movements in the partner level are difficult (but possible), but lateral movements for junior and associate lawyers are highly probable."

Nonetheless some lawyers sense a degree of anxiety among those that might be considering a change of firm. "Any lawyer with a good position will not likely move to a new firm," says Riesgo at Jones Day.

Such a belief is reinforced by a lawyer at the Madrid office of a UK law firm. "In previous years, once the bonuses had been awarded it was inevitable that there would be a rush of exits. This year we have had only one person leave in the past few months."

But while firms may be eager to expand their refinancing, restructuring and employment practices, there is however a more measured pace to both partner and associate recruitment, believes Pedro Callol at Roca Junyent – who himself recently arrived from Allen & Overy. "There is less aggression in the market and that is likely to remain so going forward, at least in comparison with previous years."

With less available hires the response of the capital's law firms is inevitably to place greater emphasis on their own lawyers' abilities to adapt to changing circumstances. Those firms that encourage their lawyers to take a more generalist approach may actually benefit from the current situation, say some.

✖ "The training model we believe in, and that we want to maintain, is based on the concept of flexibility. We train our lawyers in different areas so that they will be qualified to cover the market's requirements in any specific moment no matter the circumstances," says Luis de Carlos, managing partner at Uría Menéndez.

## **Graduate recruitment**

### **investing in the future**

An issue on which many Madrid firms agree is that despite the current economic difficulties facing them and their clients it nonetheless remains important to take a long-term strategic view to growth.

Having learned the lessons of the last major downturn to affect firms, say some, it remains

particularly important to continue to focus on graduate recruitment.

"It is crucial to keep attracting talent in order to maintain our standards, and more so in difficult situations. We will continue our same recruitment policy regardless of the economic scenario as it is one of our main priorities," says Luis de Carlos, managing partner at Uría Menéndez.

The same belief can also be found at Allen & Overy, "We will continue to follow our business plan and continue to grow in headcount," says managing partner Iñigo Gómez- Jordana; and at Garrigues, undoubtedly Iberia's largest law graduate recruiter: "We will continue to hire, around 300 new lawyers," says José Ramón Martínez.

A reduction in junior lawyers, say many, would leave firms short of people when business confidence returns and the transactional markets again come to life.

"We will continue to hire. Failure to do so now would affect the structure of the firm in the future and likely require costly lateral hires at some point," says Manuel Martín, managing partner at Gómez-Acebo & Pombo.

Speaking off the record, one partner at a mid-size firm stated how a moratorium of graduate recruitment had prompted the departure of a senior associate. "The perception we unfortunately gave was that careers would begin to stagnate here, and we are now paying the price."


Indeed, some suggest that the prevailing economic practicalities should prompt firms to increase their ratio of graduate and junior lawyers they look to hire. "The economic downturn will force law firms to hire young lawyers rather than hiring laterals or partners. Recruitment of talented and motivated juniors will be a big challenge for law firms in the near future," says Hugo Écija, founding partner at Écija.

The issue remains however how to make sure that the junior lawyers recruited are suited to a particular firm.

"The very concept of not hiring lawyers is not something that we contemplate, our initial recruitment plan for this year is therefore taking place as expected. Partners, not first year associates, should take most of the hit in the sense of perhaps lower profits, says Pedro Pérez-Llorca at Pérez-Llorca.

## **Time for a change**

There remains debate though whether the declining economic situation may yet force further consolidation within the capital's legal market, and perhaps prompt firms to reassess their options internationally.

 Indicative perhaps was the decision of 26 lawyer corporate and commercial firm Dutilh Abogados to merge with labour specialists Bufete Caldevilla in May.

"I believe that there are a number of firms (medium and small) which are studying different alternatives in order to grow. One of those alternatives is to merge with firms of similar size or with firms (either of their size or of smaller) that may help the two of them to add additional practices," says Julio Veloso at Rodés & Sala.

Others suggest that as many firms have built a substantial financial cushion following the economic boom of previous years, they as yet have little desire to lose their autonomy or independence. In any event the rumoured arrival of new international firms, such as White & Case or Dewey Ballantine, has yet to materialise.

"There is no clear urge to merge," says Cliff Hendel at Araoz & Rueda. "Culturally, most firms have (or believe themselves to have) special traits and business models which any merger could put at risk.



And psychologically, Spanish lawyers tend to be a cautious, conservative group."

The sentiment among many is that so long as the current economic situation continues few dramatic events are expected. "I am not sure this is a year for changes," says Luis Riesgo at Jones Day.

Nonetheless some believe that even in the current situation the right offer could prove attractive. "I believe some firms will be tempted to merge with each other or expand internationally, although not across Iberia," says Pedro Pérez-Llorca, managing partner at Pérez- Llorca.

José Ramón Martínez at Garrigues agrees: "Mergers between Madrid law firms are not expected. The largest Spanish law firms have expanded, and begun to consolidate their presence in Portugal and are also looking to Eastern Europe and, in some cases, to Asia. It doesn't appear that other smaller firms will face a similar approach, except perhaps for boutiques or highly specialized firms or those operating in very specific markets."

The issues involved in establishing international capability, as well as the costs, may in any event prove prohibitive to most, believes Francisco Guijarro Zubizarreta at Hammonds. "I do not think we are going to face an increase in Spanish firms expanding internationally, except through 'best friends' agreements."

It is a view that finds support at Uría Menéndez, which has recently announced its intention to open in Beijing in a joint operation with its international best friend referral firms UK-based Slaughter and May and Dutch firm De Brauw Blackstone Westbroek.

"The major Spanish and Portuguese law firms still enjoy a solid position in the market and we do not forecast any significant mergers for the moment. If it were the case the prevailing destinations for expansion would be Latin America, Eastern Europe and Asia," says Luis de Carlos at Uría Menéndez.

Some firms however remain committed to expansion under their own terms even in the current economic situation. "Madrid firms will no doubt merge, with some expanding across Iberia and others internationally depending on the business model and expertise of each firm," says Manuel Martín, managing partner at Gómez- Acebo & Pombo. "Recruitment efforts continue at all levels in the specific areas where we seek strategic growth or require immediate help."

In September his firm announced a merger with niche Barcelona employment boutique Bufete Nieto Abogados, and has publicly declared an intention to open in Lisbon – albeit where informal talks with Barrocas Sarmento & Neves were recently abandoned.

In addition, some lawyers also clearly believe that fortune favours the brave and that the current market presents new opportunities, with a number of established firms having seen lawyers depart to launch their own practices.

Newly formed Mavens is the result of the departure of partners Teresa Martín, Fernando Marín and Juan Milagro, and seven other lawyers, from the Madrid office of Rodés & Sala. "With the support of the right clients and the right team, this is very definitely a good time to start something new," says Martín.

Also new is Hamilton Abogados, established by former MMMM partner, Calvin Hamilton, where the focus is now on commercial, litigation and arbitration issues.

## **At the centre of things**

In order for Spanish law firms to maintain a high profile within the market, profitability, and access to many of the best work opportunities, a Madrid presence remains of vital importance, say lawyers. But if a Madrid office is a must, the debate surrounds the extent in which firms can additionally benefit also from having a regional Spanish profile.

"I would not expect to see an increase in the relevance of the regional offices. The current crisis will only increase the relevance of Madrid economically in Spain," believes Cliff Hendel at Araoz & Rueda.

Iñigo Gómez-Jordana, managing partner at Allen & Overy agrees. "I don't think that regional offices can balance the results of the Spanish law firms. Madrid is a must and will reflect how good or bad the situation affecting the sector is in general."

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Inevitably a contrary opinion can be found within the major national firms. "The leading domestic Spanish law firms, especially the largest one, are very deeply connected to clients not only in Madrid but across the country. Their ability to reach out and to make a real connection, across Spain, may be decisive in providing a continuing practice and revenue balance," says Juan Aguayo at Cuatrecasas.

"Madrid is Spain's business decision-making hub and therefore a presence here has always been crucial. Nevertheless, having offices also within Spain's key cities allows us to provide a wider range of services regardless of the financial situation," says Luis de Carlos at Uria Menéndez.

Rafael Montejo at mid-size national firm Legalia believes however that the current economic climate is reinforcing the importance of his firm's Madrid presence. "We believe that the worsening economic situation is more evident in the regions outside of Madrid."

It is a sentiment with which Francisco Guijarro Zubizarreta at Hammonds also agrees. "Obviously to be in Madrid is necessary in this economic situation, because the weaker business scenario makes it one of the places where law firms have the most opportunities."

For some however, the capital will always offer more than just local opportunities. "Madrid continues to be the financial and services centre of Spain and therefore an office in this city is required to provide services across all of the country," says Pedro Callol at Premier Catalan firm Roca Junyent.

Francisco Prol at Prol & Asociados goes even further. "I think that Madrid is, and will remain, the place where you have to be in the Iberian peninsula."

The issue for firms currently therefore is to ensure that they continue to be able to enjoy the benefits that a significant presence in Madrid offers. Not only must they adapt to the prevailing economic and commercial environment, and the changing demands being placed on the legal market, but also to ensure that when market confidence does return they remain on track to achieve their long-term and strategic objectives.