

THE DEALMAKERS - PWC TAX & LEGAL

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With PwC Tax & Legal having been ranked the fourth most active law firm in the Spanish M&A market in 2016, Madrid-based managing partner Joaquín Latorre says the firm is benefiting from its global reach and its ability to attract the best talent

While there may be a perception that PwC Tax & Legal primarily handles tax-related legal matters, it's worth noting that only three law firms in Spain advised on more M&A deals in 2016. Research by Mergermarket shows that PwC Tax & Legal's Spanish operation advised on 42 deals (with a combined value of \$4 billion) last year, a total bettered only by Spain's traditional 'Big Three' firms: Cuatrecasas, Gonçalves Pereira (64 deals with a total value of \$6.4 billion), Garrigues (63 deals with a total value of \$19.6 billion) and Uría Menéndez (46 deals with a total value of \$20 billion). Why has the firm been so successful? PwC Tax & Legal's Spain managing partner Joaquín Latorre attributes it to a number of factors, one of which is the firm's global reach. "Spanish companies are expanding abroad, therefore it's important that they have a law firm that will accompany them in new jurisdictions," he says. "Also, we offer clients a single solution – the risk advice and consulting

services we provide to clients complements our legal advice – clients want a one-stop-shop.” PwC Tax & Legal also has other advantages that set it apart from some of its more traditional competitors, particularly when it comes to business development, according to some observers, who say that having an audit operation makes it easier to win clients for its legal services operation. Meanwhile, Latorre argues that PwC offers potential recruits not only a more attractive career proposition, but also, in some cases, bigger financial rewards, and as a result, the firm is successfully luring the most talented people.

“Young graduates prefer a career with us and, at some levels, we are paying more than traditional law firms,” he adds. “When good professionals come to the market, they like our model, we offer a wider vision of the business world and we are better able to foresee future business trends as we are international and we share knowledge.”



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Competing with the best

Latorre rejects suggestions that PwC Tax & Legal is still largely perceived as an auditing company rather than a law firm. “The situation has changed in the Spanish market, there is no confusion,” he argues. “In most tenders, we’re competing with local and international law firms.”

The 2016 revenue for PwC Tax & Legal Spain stood at €150.7 million (the organisation’s financial year end in June), which makes it the fourth-largest firm in Spain by revenue. This is still some way short of the revenue of the third-biggest firm in Spain, Uría Menéndez, which billed €169 million in 2015. Is there any prospect of PwC Tax & Legal overtaking Uría in terms of total revenue? Latorre responds by saying that the revenue figures quoted for the three biggest firms may include revenue generated in Portugal, or Latin America, for example, and that consequently, the gap between them and PwC is probably not as big as it appears because PwC Tax & Legal’s revenue figure represents purely Spanish billing.

“The focus is to continue growing,” says Latorre. “But it’s difficult in Spain, it’s a very competitive market, there are Magic Circle firms here, local firms and boutiques.” He adds that 50 per cent of the firm’s business is tax-related legal work, including litigation and M&A-related tax issues, with 40 per cent being other legal matters, including labour and other litigation – the remaining 10 per cent is compliance work. Growth at the firm is being driven by work in a number of different areas, including: M&A, litigation (particularly civil litigation and tax litigation), transfer pricing, individual tax matters, incentive plans and compensation plans, according to Latorre.

It’s worth noting that PwC Tax & Legal Spain is the third-biggest PwC legal practice in the world, after Germany and the UK. However, Latorre adds that growth is not being generated by increases in fees, adding that legal fees in Spain are lower than those in other European countries. “The size of fees in Spain are at a different standard to the rest of Europe – fees are not increasing, clients have learnt a lot and law firms have to be more efficient,” Latorre says.

That said, PwC Tax & Legal does not, in general, charge lower fees than any of its competitors in Spain, according to Latorre. “We don’t have lower fees, sometimes we are lower on price, but sometimes we are at the same level.”

In comparison to the legal arms of the other ‘Big Four’ auditing companies in Spain, PwC Tax & Legal has the biggest annual revenue, and by a considerable margin (figures for 2015 showed KPMG Abogados billed €100 million, EY Abogados earned €91 million, while Deloitte’s revenue stood at

€90 million).

Latorre says PwC Tax & Legal earns the most revenue because it has the best non-tax legal practice of all the 'Big Four'. He adds: "Forty per cent of our revenue is pure legal, that is, M&A and real estate, for example."

Difficult future

With regard to the outlook for the Spanish legal market as a whole, Latorre says that, for some smaller mid-sized law firms, the coming years will be shrouded in uncertainty. "If they are not prepared, some mid-sized firms, which may be based on the personality of one or two founding

partners, could have a difficult future – some mid-sized firms are experiencing problems," he says. "I am optimistic about the future, but I have some concerns; we have to consolidate our position in tax, tax is now in the public eye, so companies want advice on tax strategy from the very beginning of any operation." Latorre also says that political issues in Spain are a concern as they could impact on investment in the country. He adds: "Uncertainty, like Brexit for example, is not good for investment." There are currently rumours in Portugal that PwC will shortly be making a significant step into the Portuguese legal market. Deloitte and EY have recently added Lisbon law firms to their legal networks – in the case of Deloitte, the firm's Spanish legal arm, Deloitte Abogados, took a financial stake in the Portuguese law firm CTSU Sociedade de Advogados. However, Latorre says: "With regard to Portugal, that will be a decision for our colleagues in Portugal." It is understood that PwC Tax & Legal Spain will not be providing financial support to any prospective Portuguese operation. One of the major challenges facing a managing partner is ensuring you listen to your clients and your people, according to Latorre. He says: "You have to identify future trends, and you are always in the process of trying to retain the best people – our people are very talented, very competitive and they have high expectations; we have to convince them to be part of the project."

| PwC Tax and Legal Spain fact file | |
|-----------------------------------|----------------|
| Lawyers/tax advisers: | 1,011 |
| Partners: | 68 |
| 2016 Revenue | €150.7 million |